

CHINA – Another View -

I agree that wage arbitrage as described so eloquently by Henry Liu, is pushing wages down, and consumer purchasing power with it.

This was the specific goal of US businessmen 100 years ago. Hoover was part and parcel of this, via his recruitment of Chinese labor for the SouthAfrican gold fields.

Note, if you will that the Republicans have worked since 32 to dismantle each and every feature of the "New Deal" until only Social Security is left. Note the consequences of this, in ASCP, CDOs, SIVs, and other banking legerdemain.

Blaming the Chinese for policies made in New York and approved in DC, seems a bit much. I know, I lived in China for 3 years, where I was Dean of International Programs at Shenzhen University. A few corrections to an outside view of Chinese savers is in order.

Asians, and most others in the world save because there is no safety net.... period.

The Chinese socialist system doesn't extend to old age pensions. Old age security is provided by dutiful daughters.

Or to free medical care. All medicines and procedures must be paid for... cheap by our standards...affordable by theirs...

The Chinese government is backward looking in many areas, macroeconomic policy is one of them. From their point of view, the 97 banking crisis was born and bred in Washington, financed by the Treasury, and executed in NYC. Once was enough...

They'll adjust slowly, thank you very much.

Mao is often criticized by outsiders, who marvel that the Chinese honored him so... But often forgotten are Mao's real contributions to China....

1. Elimination of Opium Use
2. Elimination of Shistosomiasis and four other major diseases.
3. Elimination of foreign intervention within China.
4. Launch of China's petroleum industry
5. Defeat of the Japanese

Most outsiders have visions of coolies working the rice fields with straw hats. Not considered, is their daily bare foot toil in what is basically a swamp, and a prime breeding ground for shistosomiasis. By conquering this disease, the Chinese government made big health improvements to the lives of the agricultural poor. In doing so China did what Britain could not in Egypt.

Elimination of Opium use freed China from the drug trade imposed upon it by the Europeans, vastly improving the lives of all Chinese.

Elimination of all foreign intervention, was a milestone for China.

It was China under Mao who launched the petroleum industry. It was China under Mao who opted for economic independence, including the much maligned bicycle commuters. (who are carbon friendly by the way)

Mao, not Chaing Kai Shek, is credited with defeating the Japanese.

Much ado has been written about Tinamen Square... very little about Kent State. The real importance of Tinamen Square is oft overlooked. I walked it... watched Chinese citizens fly kites on it. It's big. Little considered is the protesters were students from Beijing University. Only the best and brightest go there, including the children of the Politburo. No one, especially the Chinese, wants to kill their own children.

Tinamen Square was a faceoff between two generations..... that of the long march, who had power... and their children...

This conflict was resolved by Deng Zhiao Peng, who resolved to remake China and announced this in his famous speech "We will cross the river, knowing only the placement of the first stone... The others we will discover later".

Regardless of what the FT wants or desires, China is a socialist country. Each and every firm must have a Labor Union. Up to now, they have been quiescent. What we see now, is their restraints relaxed.

I personally, see something very wrong with export firms relying on casual labor for 80% of their workforce, and with the likes of WalMart refusing to operate in accordance with Chinese labor laws which require them to have unions.

Every Chinese has 8 weeks of holiday. Everyone takes a 2 hour lunch. Yes, factory workers work 6 day weeks, but each and everyone has regular hours.

Chinese banks offer savings accounts that pay interest. They don't charge fees. They make auto loans, realstate loans, and business loans. Some good, others bad.

From the point of view of an expat who left the USA in 95.... me thinks the lady doth protest too much.... ie: this off balance sheet SIV boondoggle didn't just appear overnight... The FED and Treasury knew about it. They could have, and should have, enforced accounting procedures which would have nipped it in the bud.

They could have and should have raised reserve ratios... you can't do much now.... a reserve requirement of zero is as low as you can go.... an interest rate of zero ditto.... BTW the reserve requirement in China is now > 14.5% and prime is > 7%

I think Mish Shedlock is right. There is no possible way all this pyramid of credit can unwind without a deflationary depression ensuing. I agree with Jerome that the little guy is going to take this on the chin.... for a while...

I'd like to remind all of the consequences of this sort of thing last time..... Facism, War, Bolshevism, revolution.....

Tis not a calm time we live in....

Regards,,

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