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Posted on March 1, 2009 by Editor

Editorial by Jeffrey Barlow

At the Berglund Center we continue to follow the most recent catastrophic impact of the Internet, the decline of the world economy. [1] This generation of college seniors will graduate in challenging times. For the first time in many decades, frightening terms are stalking the land: bank nationalization, deflation, default, depression, global collapse, to name but a few. Fundamental decisions are before us, even if the decision is simply to follow the middle-of-the-road shibboleth to remain comfortably in the middle of the welter of policy choices confronting U.S. policy makers.

The United States is in a struggle between disorganized reformers, influenced by their own pressure groups, and discredited but entrenched financial interests over the appropriate model for future national economic policy. Each time that Obama sets or even implies standards for bank management, executive bonuses, public shares or proposes additional governmental controls, the stock market dives and he has to send in a spokesman to qualify the initiative to the point where no clear policy direction is discernable.

The issues are numerous and broad, but taken together require a reassessment of the basic American model of free-market capitalism. Many in the Obama administration believe that capitalism—as we chose to view it in the late twentieth and early twenty-first centuries at least—is at the end of its utility. The proponents of the Old Time Religion, however, are backpedaling desperately to reaffirm the classical model, or at least to protect those aspects of it which they deem critical, i.e., important to them.

Regardless of the outcome of the back-and-forth between the administration and the Malefactors of Rapidly Diminishing Wealth, to update Theodore Roosevelt’s phrase, the traditional model—which I understand to be a fundamentally market-based economy with a minimum of governmental regulation or “interference,” is about to be tested in quite a different manner. The Chinese are coming to shop.
China will be shopping in a really big way—possibly a spree as epochal as has been their economic growth—and will seek to purchase, directly and indirectly, a significantly greater share of the world’s resources and productive facilities. This reality will challenge free market fundamentalism and American political processes as much as does the specter of bank nationalization.

Not all, or even a majority of items apparently on the Chinese shopping list are U.S. owned. Nonetheless, Americans will face the issue of their commitment to a market economic model. What, precisely, is for sale, and to whom?

There are those who argue that a sale to the Chinese of American real assets is precisely the answer to the Sino-American dilemma in which these two dominant economies are locked in an ultimately destructive relationship. In this relationship, the U.S. borrows from China to keep consuming well beyond its ability to do so; China then in turn continues exporting more than it can without contributing markedly to continued global instability. [2]

There is now an additional problem: the world is increasingly uncertain that American financial instruments are safe, given the precarious condition of the underlying banking structure. [3] This means that even if the U.S. wished to continue to borrow in order to keep the consumption engine turning over, its ability to do so is declining. Or perhaps, equally threatening, it will have to pay far more for the privilege of printing money.

The loss of confidence in financial instruments means that foreigners are going to be much more interested in American real assets, factories, farms, corporations, natural resources, patents, etc., than in promises-to-pay treasury devices. The Chinese, at least, can well afford to buy such assets because the U.S. has paid for its imports with incredible numbers of dollars. And, of course, the current continuing decline in American asset prices, when coupled with a strengthening dollar, increases Chinese purchasing power.

It might well be that the U.S., for the first time in a very long period, could balance its books with the Chinese while bringing in large amounts of dollars that would then re-enter the American economy, priming the pump. Troubled firms, spinning off weaker units, nonetheless desirable to the Chinese, would re-achieve stability and have increased resources for expansion or consolidation.

However, such sales, of course, can be wildly problematic. The one point where values most often intrude openly into economic activity is national security. The profit of individuals and corporations is sometimes, if not often, overridden by national interest.

But national interest arguments are so powerful that national security is continuously trotted out for limited partisan purposes, or to give one firm a political advantage over another. The possibility of selling the American oil firm Unocal to Chinese interests in 2005, for example, was stopped on national security grounds. [4] But many analysts felt that the real issue was Chevron’s desire to
keep the price of Unocal down for their own competitive purposes. [5]

The issue of Chinese purchases of assets perceived as affecting the national interest hit Australia in 2008. Chinese firms purchased a significant interest in Rio Tinto, the world’s third largest mining firm. [6] Currently the Chinese are seeking to increase their share, which the firm has agreed to, but stockholders, national security wonks in much of the Commonwealth, and various other groups are objecting strenuously.

These deals point to a disconnect between classical economic assumptions and the bold new world. The business press niggles endlessly about the soundness of the Rio Tinto deal from a business perspective: was it justified, would the BHP Billiton (the world’s largest mining company) take-over attempt have been better for the stockholders, etc. But from the Chinese perspective, national policy and national interests naturally guide financial activities. No firm is truly private. Chinese banks are guided by state policy and if it is in the national interests for a firm like the Aluminum Corp. of China to purchase a larger portion of its current partner Rio Tinto, then the money—probably American dollars—is found.

Regardless of the underlying assumptions of the free-market model, it is obvious that some entire industries and many firms are too important for any nation to alienate. These would be protected for reasons of national defense, relative self-sufficiency, because they employ too many people as perhaps does General Motors or Ford, or even out of simple national self-regard. This leaves, however an enormous grey area. Even if we wish to protect “national defense” we still must decide what is truly critical.

The notion of the government selecting “winners” and “losers” has always been abhorrent to free-market economists, and some assets must be protected in the national interest. But to do so safely and effectively requires a systematic policy. This policy should be public and open, unlike today’s congeries of public protests and private deals arbitrated by secretive federal panels such as the Committee on Foreign Investment in the United States. [7]

However, if policy follows the usual American political model in which the special interests duke it out, using campaign contributions and various other sordid stimuli for congressional support, nothing good can follow. Moreover, ideological appeals are unlikely to have much success in the environment in which we find ourselves. Foreigners are not going to rush to purchase debt instruments simply because we promise to be well-armed and bridged-to-nowhere, no matter how much the Secretary of State entreats them to do so, as she did in Beijing on February 22, 2009. [8]

There is another reason for considering Chinese purchases of U. S. resources as a broad policy and not as a series of incidents such as the Unocal case, the Rio Tinto case, and many others that could be discussed. Not to do so is to invite a wide variety of interest groups to intervene in each case with maximum impact. Such interests might include religious groups such as Fa Lung Gong and some evangelical Christian churches, human rights groups focused around issues from
Tibetan independence to Chinese women’s rights, and animal rights groups concerned with everything from dolphins to domestic dogs. Throw into the mix U.S. businessmen and their workers—both groups threatened by either Asian immigration or competition—and the result is a stew from which no policy at all can develop, but rather a series of events which will continuously inflame Sino-American cooperation. And such cooperation is necessary to deal with the world economy, not to mention other stresses stemming from China’s rapid and continuing rise as an international power.

For all these reasons, then, we have every reason to expect that we will be hearing more and more the question: “Mai Duoshao Qian—How much is that (mine, mill, refinery, factory)????” But without a foundation laid by systematic policy, all possible answers will be divisive, both nationally and internationally.

We must, I think, add yet another to the emerging lexicon of threatening terms such as those with which we began this editorial. To the list of bank nationalization, deflation, default, depression, global collapse, and terrifying others, we must add the grandmother of all scary terms: industrial policy. This suggestion, of course, would cause apoplexy in any number of boardrooms, but to continue to prop up the current system by ad hoc incremental decisions is to risk totally discrediting the capitalist system, particularly if we begin to try to manipulate, once again, public fears for the selfish needs of special interest groups.

Endnotes


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ONE THOUGHT ON “MAI DUOSHAO QIAN-HOW MUCH IS THAT (MINE, MILL, REFINERY, FACTORY)????”

turbotax free
on October 5, 2013 at 7:57 PM said:

My husband and i got really glad when Edward managed to finish off his studies because of the ideas he discovered out of your site. It’s not at all simplistic to just be giving away strategies which often some others could have been selling. And we also fully understand we have got the website owner to thank for that. The specific illustrations you made, the straightforward web site navigation, the relationships your site make it possible to instill – it’s got many exceptional, and it is making our son in addition to the family consider that that situation is thrilling, and that’s wonderfully serious. Thanks for all the pieces!