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China is behind our economic ills, but not because of trade

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According to the Trump campaign, trade -- especially with China -- is the reason for US economic ills. They are wrong: Chinese central planning of an entire economy like a single company has been a big reason for those problems. Barrons has calculated that, not counting jobs gained because of trade and incoming foreign investment, annual job loss due to the US trade deficit (in goods) this century has been the equivalent of 10-days' worth of the annual loss of jobs in the US. Eighty percent of the trade deficit (in goods) is attributable to China.

China Shock has instead manifested itself in the 2008 financial crisis and the global economy's subsequent low-growth funk. The 2008 crisis reflected a policy that, according to former Asian Development Bank Vice President Larry Greenberg, China implemented to get out of the 1997 Asian financial crisis: subsidizing (most notably energy) resource inputs to manufacturing and transportation by setting artificially low prices for those inputs.

Beijing did this to a point where excessive Chinese demand created by the artificially low price of oil products in China contributed half the new oil consumption on the world market, and that then drove the world price of oil to $149 per barrel by 2008, triggering enough inflation fear to prompt the US Fed to raise interest rates. That interest rate increase overwhelmed maxed-out sub-prime US borrowers, most of whom had to reset their mortgage interest rate every two years. Nobel economics laureate Sir James Mirrlees claimed at the time that (rising price) commodity markets drove the 2008 financial crisis.

If China hadn't subsidized its own energy (over)consumption, I estimate the world oil price would have peaked at $100 per barrel and there would have been no 2008 financial crisis. The production capacity China built because resources were subsidized became over-capacity that has fed global deflation and low economic growth. In other words, by centrally directing an entire economy along a singular strategic outlook, China continues to damage the global economy by now operating overcapacity that employs Chinese labor and floods the world market with excess exports.

Chinese officials have not been unaware of the perverse consequences of these policies. I repeatedly criticized China's energy price subsidization in China's English-language media since my arrival in China in 2006, supported by and fronting for marketizers highly-placed in the Chinese government but no longer heeded by the Hu Jintao administration. I was never allowed to do it in Chinese-language media, however: discussion there of the topic was forbidden by Party elders who saw energy-price subsidies as critical to maintenance of the Party's monopoly on power by keeping the job machine humming and placating low-wage consumers.

Thus, the Chinese Communist Party's obsession with a monopoly on political power is a, if not the, driver of the world's economic ills, not just those of the US. China too is negatively affected: the hidden share of government expenditure in a GDP measure broken down only into consumption and investment (and net exports) misleadingly suggests that merely boosting the share of consumption, rather than reducing that of government, is the solution to those ills.

The 2009 G-20 Pittsburgh Summit singled out China for being the world's only net importer of oil that subsidized rather than taxed oil product prices, and identified this as a prime factor in the world economic crisis, and called on China to stop.

Donald Trump doesn't understand this. He makes the same mistake as the Chinese leadership. He regards a nation as a company with a profit-and-loss statement that he confuses with a country's external-trade account. Company profits and losses do not sum to zero across an entire economy, national or global, but countries' trade deficits and surpluses do sum to zero across the entire global economy.

As a result, it's no surprise that Trump supporters use external trade to diagnose an economy's malaise while ignoring the impact of "cybernetics" (identified mid-century as computerization-plus-machines, aka "robotics") in driving employment loss and productivity gain.

The first Nixon administration, in a last bout of idealism under the guidance of domestic affairs advisor Daniel Patrick Moynihan, was the last to address this in its failed legislative attempt to enact a guaranteed-annual-income substitute for welfare, which conservative economist Milton Friedman proposed in the form of a negative income tax.

This is the "new" kind of thinking expected of conservative Republican domestic policy-making in the wake of the Trump candidacy, and suggests more a future society of leisure than one of labor anchored in the labor-theory-of-value that's the bedrock of China's official Marxism, and not far from the Luddite machine-bashing anachronism embedded in Trumpism.

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