

# The Washington Times

[www.washingtontimes.com](http://www.washingtontimes.com)

---

## Dumb and dangerous

By Richard W. Rahn

Published April 7, 2006

---

It is no secret that politicians frequently put all of us at risk because of their real or willful ignorance. Most wars are a result of political miscalculations, but so are many recessions, depressions and other economic calamities. What follows are three examples where the political class is putting us in danger because of economic ignorance or worse.

U.S. Sens. Charles Schumer, New York Democrat, and Lindsey Graham, South Carolina Republican, have come up with a particularly dumb and dangerous proposal, and that is to place a 27.5 percent tariff on Chinese goods if China does not increase the value of its currency. They claim that this is necessary because the Chinese have a big trade surplus with the U.S. Contrary to what the senators believe, our trade deficit is a sign of strength. Individuals, businesses and countries want to invest in the U.S. because they can obtain a higher rate of return here than they can in their home market, and they believe their money is safer in the U.S. To invest in this country requires having U.S. dollars, and the way to get U.S. dollars is by selling some goods or service that Americans want.

The huge foreign investment in the U.S. enables Americans and the American government to consume more and have lower real interest rates they would otherwise have. Americans are able to buy goods from China at lower cost, which particularly benefits low-income people. If a tariff were put on Chinese goods, other countries, such as India, Mexico, etc., would likely provide higher cost substitutes, making Americans a bit poorer. (It is unlikely that many of the labor-intensive goods that Americans buy from China would be produced in the U.S.) With higher cost Chinese goods, Americans would have less money to spend on domestic goods and services, thus hurting those industries and reducing employment in them.

The Chinese would likely retaliate, which could cause a recession or even a depression, much like the Smoot-Hawley Tariff did in 1929, when countries engaged in successive rounds of tariff retaliation. Realistically, the Chinese cannot increase the value of their currency very much, for if they were to do so, it would in effect reduce the value of all their dollar holdings, including the value of the U.S. bills and bonds they hold, which back up much of the Chinese banking system.

Another bad idea being pushed by some state legislators (in Washington state and elsewhere) is to put price caps on what credit card companies can charge merchants (i.e., price controls). The credit card industry is highly competitive, with four major competitors and many small ones. Merchants can select which credit cards they wish to

accept and they can negotiate fees. Those demanding price controls (which includes some merchants who would be outraged if anyone suggested controlling the prices they charge) fail to understand that prices are information. Prices motivate future production and allocate scarce resources. As the communist countries showed, ultimately an economy cannot successfully function without market-determined prices. Every experiment with price controls for 2,000 years has failed, often with disastrous consequences because the controls cause goods and services not to be produced in the quantities that the consumers want. Yet politicians the world over continue with the hubris that they know the "correct price" better than the market.

Another bad idea being pushed by certain international organizations and governments is to give sovereign debt relief to indebted countries that have failed to get rid of corruption. Both corrupt officials of debtor countries and certain international bureaucrats often call financial groups who have bought sovereign debt in an attempt to reach a negotiated settlement, "vulture funds." In fact, these funds should be referred to as "credit recovery funds," because once a debtor has negotiated a settlement with a fund and starts paying its debts on time, its credit is re-established. This is no different from when an individual or business goes into bankruptcy, and as part of the agreement to come out of bankruptcy, a schedule of at least partial repayment of debt is set in order to re-establish credit worthiness. The debt holders who are trying to negotiate a settlement to get paid and to re-establish credit are the good-guys who are trying to bring the carcass back to life. Those government officials and international bureaucrats who continue to protect the corrupt or irresponsible at the expense of those who have loaned or invested their hard-earned monies are the true vultures. The tragedy of coddling corrupt government officials is that the poor people in these countries will continue to live without hope or opportunity, because economic growth is strangled without the rule of law.

Unfortunately, the above is only a tiny sample of literally dozens of other bad ideas making their way through the policy process. Increasing economic literacy in the press and public is our hope of protecting ourselves against the dumb and dangerous.

*Richard W. Rahn is director general of the Center for Global Economic Growth, a project of the FreedomWorks Foundation.*