

Krugman Declares Economic Warfare Against China

Jan. 1—In his New Year's Day *New York Times* op-ed, Paul Krugman wrote: "I predict that 2010 will be the year of China. And not in a good way. Actually, the biggest problems with China involve climate change. But today I want to focus on currency policy.... Instead, it follows a mercantilist policy, keeping its trade surplus artificially high. And in today's depressed world, that policy is, to put it bluntly, predatory...."

"My back-of-the-envelope calculations suggest that for the next couple of years Chinese mercantilism may end up reducing U.S. employment by around 1.4 million jobs...."

"The larger point is that the same forces that make Chinese mercantilism so damaging right now also mean that China has little or no financial leverage. Again, right now the world is awash in cheap money. So if China were to start selling dollars, there's no reason to think it would significantly raise U.S. interest rates. It would probably weaken the dollar against other currencies, but that would be good, not bad, for U.S. competitiveness and employment. So if the Chinese do dump dollars, we should send them a thank-you note...."

"The bottom line is that Chinese mercantilism is a growing problem, and the victims of that mercantilism have little to lose from a trade confrontation. So I'd urge China's government to reconsider its stubbornness. Otherwise, the very mild protectionism it's currently complaining about will be the start of something much bigger."