US House passes anti-China trade war bill

Barry Grey
30 September 2010

The House of Representatives on Wednesday passed a bill giving the executive branch the power to impose punitive duties on exports to the US of any country whose currency is labeled “fundamentally undervalued.” The measure was pushed by the Democratic leadership and supported overwhelmingly by Democratic congressmen, with substantial Republican support.

The vote was 348 to 79, with 99 Republicans joining 249 Democrats voting in favor, and 74 Republicans voting “no” alongside five Democrats.

The bill was openly directed against China, which has come under mounting pressure from the Obama administration to more rapidly raise the exchange rate of its currency, the renminbi, so as to make Chinese exports to the US more expensive and US exports to China cheaper.

The White House has not taken a position on the House bill, whose prospects for passage by the Senate after the November midterm elections are uncertain, but Obama and Treasury Secretary Timothy Geithner gave a tacit go-ahead for Democratic House leaders to push the measure.

Testifying before Congress on September 16, Geithner declared the renminbi to be undervalued and demanded that the Chinese move more rapidly to increase its exchange rate. He indicated that if China refused to revalue its currency far more than its 2 percent increase since June, the US would take measures to restrict China's access to American markets.

On Wednesday, the day of the House vote, Obama, speaking at a town hall event in Iowa, said the Chinese currency was undervalued and added that “people generally think they are managing their currency in a way that makes our goods more expensive to sell there and their goods cheaper to sell here.”

Obama, who met with Chinese Premier Wen Jiabao September 24th during the United Nations General Assembly session in New York and pressed him on the currency issue, plans to use the House measure to bolster the US government's leverage against Beijing. Washington is seeking to line up international support to force China to revalue its currency at the G20 summit to be held November 10-11 in Seoul, South Korea.

If passed by the Senate and signed into law, the House bill would have little direct impact on US-Chinese trade. A provision requiring the government to impose countervailing duties against any country deemed to be undervaluing its currency was stripped from the bill in the House Ways and Means Committee before it was brought to the floor of the House for a vote. Instead, the bill allows the Commerce Department to define the undervaluation of a currency as an illegal trade subsidy and enables US companies that produce the imported goods to petition the government for relief, in the form of punitive damages on the allegedly offending country.

The Congressional Budget Office estimated that the bill would raise no more than $20 million a year in duties, as compared to $1 billion in daily imports from China, because so many of the goods imported from China are no longer made in the US.

Nevertheless, the bill represents a major step toward open trade war with China and will intensify the spread of competitive devaluations and protectionist measures internationally. It is in flagrant violation of international trading rules and the provisions of the World Trade Organization.

Nobel Prize winning economist Robert Mundell told Bloomberg Television that the bill “would create a very damaging thing to the world economy and the stability of Asia.” He added, “There’s never been any precedent in economic history where a country through any legal system was forced to appreciate its currency relative to another country.”

The timing of the bill, a month before the November 2 congressional elections, reflects the short-term political calculations of its congressional supporters. The Democrats in particular, but also Republicans in industrial regions, seized on the measure to demagogically pose as defenders of American jobs and blame mass unemployment on China.

Speaking from the floor of the House, Speaker Nancy

© World Socialist Web Site

Pelosi said, “We do this because 1 million American jobs could be created if the Chinese government took its thumb off the scale and allowed its currency to respond to market forces.”

This is an attempt to divert public anger over the refusal of the government to provide jobs or serious relief for the unemployed away from the American ruling class and the US government and direct it against a foreign bogey man. These are the same politicians, financed by corporate campaign donations and other forms of bribery, who have funneled trillions of dollars of taxpayer funds to Wall Street and now claim “there is no money” for jobs or schools and that nothing can be done to stop the banks from foreclosing on financially distressed homeowners.

The Democrats pushed the bill as part of their “Make it in America” agenda to revive US manufacturing. At the center of this policy is a doubling of US exports in five years to be achieved by drastically cutting the wages of US workers and increasing their exploitation, so as to narrow the labor cost differential between the US and the so-called emerging economies of Asia.

This promotion of economic nationalism and chauvinism has the full support of the trade unions. On Tuesday, 181 House members sent a letter urging Obama to back a complaint filed by the United Steelworkers union charging China with discriminating against US firms in relation to clean energy technologies.

The House bill is the latest in a series of developments reflecting a descent into international trade and currency warfare. On Monday, Guido Mantega, Brazil’s finance minister, said, “We’re in the midst of an international currency war, a general weakening of currency. This threatens us because it takes away our competitiveness.”

As a result of the cheap currency policy of the US, Europe and China, Brazil has seen its currency, the real, rise sharply against the major world currencies, including an increase of 30 percent versus the dollar over the past year. As a result, Brazil’s exports are threatened with being priced out of world markets.

Mantega said openly what is becoming increasingly obvious. The major economies are all seeking to drive down the exchange rate of their currency in order to gain a competitive trade advantage under conditions of stagnant growth and stagnant markets. The United States is leading the way, pursuing a cheap dollar policy. The dollar has declined by 11 percent since June against a basket of currencies and is now at its lowest level since February.

Europe, led by export-dependent Germany, is doing the same for the euro. Two weeks ago, Japan, whose currency had risen by more than 10 percent in relation to the dollar since May, unilaterally intervened in the currency markets, selling 1 trillion yen to force down its exchange rate.

Six days later, the Federal Reserve Board met and issued a statement signaling a more stimulative monetary policy aimed, in part, at raising the US inflation rate. This had the intended effect of sparking a new sell off of dollars, quickly reversing the 3 percent decline in the yen resulting from Japan’s currency market intervention.

With the passage of the House bill, the stage is set for retaliatory currency and trade measures not only between the US and China, but between all of the major economic powers.

The international currency system is breaking down under the weight of the mounting contradictions and systemic crisis of world capitalism. One stark expression of this process is the staggering rise in the price of gold, now above $1,300 per troy ounce and setting new records almost daily.

As the *Wall Street Journal* commented Monday: “Many investors are convinced the only truly reliable sanctuary is gold, leading analysts to believe it will continue its climb to record-breaking highs in the coming sessions.

“The unprecedented strength of the ultimate safe haven is a testament to investors’ uncertainty as monetary authorities around the world move into uncharted territory in their efforts to bolster struggling economies. The only certainty is that central banks and other decision makers appear to be united in pursuing strategies that will devalue their currencies, however diverse those strategies might be.

“‘We’re obviously in a competitive devaluation,’” said Drummond Brodeur, vice president for portfolio management at Signature Global Advisors in Toronto.”

The last time the world currency system collapsed was the 1930s, when competitive devaluations and “beggar-thy-neighbor” policies led to a fracturing of the world market into rival currency and trading blocs. The result was not only a deepening of the Great Depression, but the stoking up of international tensions that ultimately erupted in World War II.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site