Yellen takes aggressive stance on China in treasury secretary confirmation hearing

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The confirmation of former Fed chair Janet Yellen as treasury secretary in the incoming Biden administration is set to go ahead with bipartisan support, following her testimony and questioning before the Senate Finance Committee on Tuesday.

A notable feature of her remarks was the aggressive stand she took on China, in which she made clear that the Biden administration will continue and even intensify the economic warfare measures initiated under Trump.

She told the committee Biden would "take on China's abusive, unfair and illegal practices," which included undercutting American companies by dumping products, erecting trade barriers, giving state subsidies to corporations and stealing intellectual property.

"These policies, including China's low labour and environmental standards, are practices that we're prepared to use the full array of tools to address," she said.

Yellen also struck an aggressive tone with regard to trade relations. She focused on the issue of the dollar in relation to other currencies, saying its value and that of other currencies should be determined by market relations.

The "intentional targeting of exchange rates to gain commercial advantage is unacceptable," she said, adding that she would "oppose any and all attempts by foreign countries to artificially manipulate currency values to gain an unfair advantage in trade."

Given that the dollar has fallen by 6 percent in currency markets since the turbulence in financial markets in March and is continuing its downward trend, Yellen's remarks constitute a warning to other countries not to counter the fall by intervening to mitigate its effects. The dollar's fall and the consequent rise in the value of the euro is a concern in Europe because of its effect in lowering the inflation rate, which the European Central Bank is trying to boost.

The main thrust of Yellen's testimony was the promotion of Biden's $1.9 trillion stimulus package, as she sought to address concerns about its impact on the growth of US government debt, now around $21.6 trillion, or more than 100 percent of gross domestic product, and the impact of the soaring debt on interest rates.

She said the stimulus measures would provide support for American workers and small businesses. In reality, as with all previous such measures, they are aimed at further enhancing the wealth of the major corporations. Wall Street has welcomed the measures and the prospect of further government support has been one of the factors behind the continued rise of the stock market this year.

Addressing concerns over the debt and the prospect that its increase will put upward pressure on interest rates, she said: "Neither the president-elect, nor I propose this relief package without an appreciation for the country's debt burden. But right now, with interest rates at historic lows, the smartest thing we can do is act big."

She said the growth of debt was a cause for concern and would eventually be addressed—a warning that at some point action will be taken to make the working class pay for the stimulus provided to the major corporations and financial markets. Interest rates may eventually rise, she said, but "right now our challenge is to get America back to work and defeat the pandemic."

The claim that the goal is to "defeat the pandemic" is belied by the fact that the incoming Biden administration is continuing the homicidal "herd immunity” policy of Trump by refusing to implement effective, meaningful measures to deal with the pandemic’s spread.

While the prevailing consensus is that interest rates will remain low, there are concerns that a sudden spike could precipitate major financial turbulence. This is because the speculation in financial markets and the rise on Wall Street to record heights have been based on ultra-low rates resulting from the injection of trillions of dollars into the financial system by the Fed.

The interest rate on 10-year US Treasury bonds has climbed to more than 1 percent for the first time in many months, and it rose again marginally on the back of Yellen’s testimony.

An article in the *Financial Times* noted that one of the most serious effects of the US stimulus measures could be their impact on the government bond market, which forms the basis for financial asset prices around the world.

Mike Stritch, chief investment officer at BMO Wealth Management, told the *Financial Times*: “A lot of assets have been built on the prospect of low interest rates for the foreseeable future. In terms of financial risks, we think that is one of the big ones.”

The rise in interest rates would not need to be large to cause problems, because it has been estimated that a rise of only 1 percent is equivalent in its effect to an increase of 3 to 4 percent 20 years ago.

The flood of money into the financial system is indicated by the 24 percent jump in a broad-based measure of its supply in 2020, the biggest annual rise in the 150 years for which there are records.

A recent article by *Financial Times* journalist Katie Martin warned that “markets have a whiff of simmering frog about them.”

She continued: “Investors are growing adept at ignoring the warning signs like the proverbial amphibian in a pot of slowly heated water, not recognising the dangers until it’s too late.”

Fund managers, she noted, are “desperate for places to park their cash,” and cited the New Year note of long-time investor Jeremy Grantham, who warned of “really crazy investor behaviour” such as the more than 700 percent rise in Tesla stock and the surge in bitcoin. These, he said, were sure signs of an unsustainable bubble.

With the support of Wall Street and the backing of key Republicans, Yellen is a virtual certainty to be confirmed.

The current Republican chairman of the Senate Finance Committee, Charles Grassley, has spoken positively of her since her nomination was announced. He says he has spoken to her, emphasising the importance of congressional oversight. This is in line with statements from Biden emphasising that he will seek collaboration with the Republicans.

However, there is one policy area in which Yellen will not be able to take part. She will have to recuse herself from Treasury deliberations involving Wall Street banks and corporations from which she received a total of more than $7 million in speaking fees in 2019 and 2020.

The Biden transition team has refused to make videos or transcripts of her remarks publicly available, saying she was participating in unscripted discussions about the economy. No doubt it had in mind that in similar circumstances, as revealed by WikiLeaks, Hillary Clinton said she had a public and a private view.