Re: What could China do to the American economy if they traded their dollars for Euros?

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On Fri, 20 Oct 2006 22:11:20 −0600, "Robert Miller"
<stargazzr@xxxxxxxxxxxxx> wrote:

> China has a Trillion dollar balance. What could they do if they wanted to hurt us or get Taiwan?

"Get Taiwan" with dollars? What, buy it?

> If they dump their dollars and buy Euros. It seems to me the dollar would be in for a very bad time,devalued by how much?

Well, let's start from the beginning:

The Chinese gov't got that money to invest in US dollars by borrowing it from the Chinese people's savings −− *poor* people, overwhelmingly, who have no social security system or western style pensions to carry them in their old age, and who thus have a very high personal savings rate to provide for themselves, with their savings kept in banks that collect the money the gov't invests.

OK, so the Chinese gov't borrows this money from its people, then it invests this money in a trillion $US.

Then the Chinese gov't decides to drive down the value of the US dollar by dumping it.

Let's say the dollar drops in value by fully half, a good 50%.

Now the Chinese people have had the value of their savings halved, and their retirement wealth such as it was is gone, because the gov't can't repay them. Now how happy are they with their gov't?

Can you say "Tiananmen Square times one billion"?

Smart Chinese govt! They sure taught the Americans a lesson!

> How much would the Euro go up against the dollar?
> That would likely cause OPEC to switch from trading oil with dollars and switch to Euros.
>
> Another Trillion or more dollars flooding the market might do what to the American economy?

Well let's see. The dollar actually *did* drop in value by nealy half back in the period around 1990 −− I'm sure you remember that, due to all the public trauma it caused here in the US. Who could forget?

America's international debts are denominated in dollars, so a decline in the dollar's value by 50% increases US debt by $0 −− now as then.

The fall in value makes imports more costly, which is bad for importers, so the prices at Wal−Mart go up a bit.

OTOH, the fall in value helps exporters by exactly as much, so exports increase and jobs in export industries grow.

But anyone can remember all that from the last time the dollar fell about this much.

Of course, the US economy has the smallest international sector of any developed economy in the world, only about 20% import/export, so we'd feel a swing in the dollar's value less than anyone else right there −− even disregarding the fact that we denominate our debts in our own money.

Other nations would feel the change a lot more than we would.

Imagine a much smaller economy that had borrowed its local currency to invest in dollars in a big way −− and that after the dollar slide then had to pay back *twice* as much local currency. Like, say, China. Ouch for them!!

> For years the Treasury has been printing $100 Federal Reserve Notes at cost 3.4 cents each
> and exporting them overseas for $100 worth of goods.
>
> Should we even be considering the possibilities?

I dunno. Getting $100 of real goods for every 3.4 cents worth of paper sounds OK to me.

If I could make that deal I sure would!

I'd like to have my credit card bills denominated in money I print
myself too. ;−)

Robert Miller
Proud member of www.libertydollar.org since 1999

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