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The FED's response to the last year's financial collapse has drawn criticism from all fronts. We've contributed to the criticism in small ways. In particular, we don't like the idea of too-big-to-fail and were unhappy when companies were saved from the axe of failure in the marketplace.

Bernanke, though, has brought real and valuable innovations to monetary policy. For example, one aspect of the FED's response was based on a modern concept of liquidity. During his years as an academic, Ben Bernanke's research led him to the understanding that there are things the central bank can do even when interest rates are zero. The key action in this case is to pump cash into the economy. Since 2008 the FED has pumped a record amount of cash into the United States economy. They also made emergency funds available to institutions that were experiencing short-term cash-flow constrictions.

It turns out that these policy actions have had other impacts, collateral damage might be an appropriate term. They have provided safety for large institutions that were arguably mis-managed, like Fannie Mae and Freddie Mac. They have maintained low interest rates that preserve the values of existing bond-portfolios. Some say these policies have benefited foreign countries, particularly China. China's relatively large investment in dollar-denominated assets, such as U.S. Treasury bonds and Government Agency bonds, is a popular topic. The concern is that China might unwind these investments, sending the dollar sharply lower. The concern is misplaced.

The Chinese economy is intertwined with the United States economy. Millions of Americans flock to Walmart every year to purchase low-cost household items. American consumers benefit from low prices and China benefits from export-augmented economic growth. One of the oldest and most accepted of all economic theories, Ricardo's Comparative Advantage, shows that trade benefits both parties of a transaction. The size of trade between China and the United States implies that those benefits are huge for both countries. There is, therefore, no need for the United States to have any serious disagreements with China regarding economic policy. The benefits to their economy of trade with the United States are large enough that the Chinese could not quickly or massively unwind their holdings of dollar-denominated assets.

So, why are we hitting them with trade restrictions?