

Don't Fear the Chinese, Sell to Them

As China's economy surges and the Great Recession hammers American confidence, frictions between the two countries rise. Americans worry about what this changing relationship means for their pocketbooks and their country's political objectives—worries the media are only too happy to encourage. Daniel Ikenson, associate director of the Cato Institute's Center for Trade Policy Studies, examines the economic relationship between China and the United States in **"Manufacturing Discord: Growing Tensions Threaten the U.S.-China Economic Relationship"** (Trade Briefing Paper no. 29) and finds more to be excited about than to be apprehensive about. He addresses the major points of concern, from China's growing manufacturing sector ("The fact that China surpassed Germany to become the world's largest exporter last year . . . says less about Chinese economic might than it does about the extent of global economic integration") to currency manipulation ("Compelling China to revalue under threat of sanction could produce

adverse consequences . . . without achieving the underlying policy objective"). Ikenson debunks the myth of harmful dumping, and argues that "an uncharacteristic paranoia or lack of confidence among U.S. opinion leaders seems to be driving the discussion about U.S.-China relations." He warns against a more aggressive U.S. trade policy, calling it unnecessary and unwanted. The "use of carrots," he writes, is far better than "reaching for sticks."

Africa's Struggle for Freedom

It is difficult not to feel that the march of global progress has left Africa behind. In **"The State of Liberal Democracy in Africa: Resurgence or Retreat?"** (Development Policy Analysis no. 12), Tony Leon, a leader of the liberal opposition to both the National Party and ANC governments in the South African Parliament between 1989 and 2009, tries to counter this gloomy assessment, painting Africa as a continent successfully struggling toward true democracy. "Africa," he writes, "is no longer synonymous with

rigged elections, rapacious and unaccountable big-man rules, and the accretions of predatory and vampiric states." This has led to a "democratic picture in 48 African countries that are home to some 800 million people [that] is better than at any time



since African nations gained independence." Leon urges reformers to focus on the promotion of strong institutions supporting the "separation of powers, checks and balances, an independent media and judiciary, restriction on presidential power," and other key elements of free societies. Leon uses the stories of four African nations—Botswana, Kenya, South Africa, and Zimbabwe—to explore the range of the African experience with democracy, economic growth, and the kleptocratic temptation. He remains realistic about Africa's future, giving cause

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for hope but also warning of threats to the continued growth of liberal democracy on the world's poorest continent.

Pulling Back the Curtain on the Federal Reserve

The Federal Reserve was at the center of the financial crisis and continues to play a significant role in the government's response. Yet the institution's inner workings remain hidden from the public. In **"The Case for Auditing the Fed Is Obvious"** (Briefing Papers no. 118), Cato Institute adjunct scholar Arnold Kling looks at the debate surrounding calls to audit the Fed and offers a plan for what an audit should look for. "What is presented as concern about threats to the political independence of the Fed," he writes, "is in fact a concern about a threat to the myth of the Fed's technocratic competence." This concern has led to a showdown between progressives—who want to maintain the Fed's air of infallibility—and libertarians and conservatives. Kling says maintaining this myth must not stand in the way of an audit. If the audit occurs, he writes, it should focus on two aspects of the Fed's behavior: the process by which it makes its decisions and the profits and losses of its investments. Having this information would better enable us to address future crises effectively. "How can anyone be so certain of their views on these

matters," Kling asks, "that they would not like to see the facts brought to light?"

Don't Miss the Cato Institute's Policy Bulletins

Every month, the Cato Institute publishes short policy studies called bulletins. In May, Václav Klaus, president of the Czech Republic, wrote an Economic Development Bulletin, **"When Will the Eurozone Collapse?"**



He argues that "the European monetary union is not at risk of being abolished. The price of maintaining it will, however, continue to grow."

Jorge Castañeda, foreign minister of Mexico during the administration of President Vicente Fox, wrote **"Mexico's Failed Drug War,"** another Economic Development Bulletin. He looks at the War on Drugs from Mexico's perspective, writing, "We are in this mess today, as opposed to over the last 40 or 50 years, because when the current president, Felipe Calderón, took office over three years ago, he felt that he had no choice but to declare a full-fledged, no-holds-barred war on drugs."

Duanjie Chen and Jack Mintz, of the

University of Calgary, wrote **"U.S. Effective Corporate Tax Rate on New Investments: Highest in the OECD,"** a Tax and Budget Bulletin. Their paper "presents estimates of effective corporate tax rates on new capital investments in 80 nations for 2009" and finds "that the U.S. effective corporate rate is 35.0 percent, which is much higher than the 80-nation average of just 18.2 percent."

Cato recently launched two new bulletins. The Nuclear Proliferation Update is dedicated to promoting peaceful resolutions to the nuclear crises in North Korea and Iran. It aims to provide policymakers with analysis on the latest developments in both nations and options for formulating coherent U.S. responses. In highlighting the importance of achieving diplomatic solutions, the goal is to avoid armed conflict and its attendant consequences.

The Immigration Reform Bulletin provides timely information, insight, and analysis about efforts to expand opportunities for legal immigration to the United States. The bulletin focuses on immigration policies that promote economic growth, national security, and individual liberty.

These bulletins, along with all of Cato's publications and e-mail lists to stay abreast of new releases, can be found at www.cato.org.

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the bridge since those days. Greece experienced wars, revolutions, occupations, bankruptcies, dictatorship, and earthquakes. If there was one thing that remained constant throughout this period, it was the system of political clientelism as the central organizing principle of Greek society. Of course, some things have changed. From the middle of the 1930s onwards, political parties have become more centralized than the loose coteries of personalities heading extended patronage networks they used to be. The clientelistic orientation remained intact.

Another thing that changed, of course, was the rhetoric that justified the distribu-

tion of benefits. Client groups today receive benefits in the name of social justice, national necessity, or acquired rights. Those three concepts are extremely prominent in the political discourse of Greece and, I expect, elsewhere.

Clientelism in Greece has gone hand in hand with the development of an oversized state apparatus where social groups competed not to enforce different policies but to reap personal gains. "The Greek state is huge yet hollow," write two academics in a recent book, "It intervenes in all aspects of social and economic activity, yet, at the same time, it has been taken over from within by groups that prey on the national welfare in the same way the Vikings preyed on

European societies a few centuries ago."

One of the main criticisms that the left has been directing all of these years against capitalism is that capitalism puts markets above people. At the same time, the left believes that political intervention is needed to restore the people to their rightful place. Lifting them, that is, from the tragic position as slaves of the market to the glorified position of lords and masters of the market. What makes the case of Greece interesting is that Greece can be said, in a certain sense, to provide the perfect realization of the left's vision of putting people above markets. Greek politicians have always placed people (their clients) above markets, with results we can all see today.