Politics et Cetera
A publication from The Political Forum LLC
Monday, April 25, 2005

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In this Issue

THEY SAID IT

"More than any other time in history, mankind faces a crossroads. One road leads to despair and utter hopelessness and the other to total extinction. Let us pray that we have the wisdom to choose correctly."

--*Without Feathers*, Woody Allen

"The word 'crisis' is overused. It has become a synonym for 'status quo,' which, as Ronald Reagan is fond of saying, is Latin for 'the mess we're in."

-- Friend of the Political Forum Robert Feinberg.

BETTING ON CHINA: THE NEXT ECONOMIC SUPERPOWER?

It seems like a very long time ago, but it's only been just over a decade since the United States was in serious and seemingly inevitable peril, about to be overtaken as the world's economic colossus by tiny Japan, with its vaunted discipline, employer-mandated calisthenics, and intense dedication to duty and hard work.

As Mark notes in his piece this week, many of the nation's foremost economic experts are rather pessimistic about the future of the United States these days. But it's hard to imagine them being any more pessimistic today than were many of their colleagues in the late 1980s and early '90s, when the end of American economic dominance and the rise of the Japanese Godzilla appeared utterly inescapable.

According to the theories propounded by the economic cognoscenti of that era, lazy, spoiled, materialistic Americans simply could not compete with more motivated Japanese workers, just as the American capitalist system was no match for the delicately and brilliantly "planned" Japanese economic policy, which relied heavily on protectionist import quotas, export cartels, and mammoth governmental subsidies to favored industries and corporations. The inexorable triumph of the Japanese economic model was, we were told, simply a matter of time.

It is worth noting, I believe, that the expectation that Japan would bury the United States was not a belief espoused and advanced by whackos and lunatics. A great many serious and well-respected academic and government economists were convinced that the Japanese economic model's superiority was abundantly evident. In order to avoid complete economic collapse, the United States would, these experts told us, have to imitate Japan, creating "America Inc." to compete with the all-powerful "Japan Inc." And America would likewise have to develop its own version of the Japanese Ministry for International Trade and Industry (MITI), the legendary "manager" of the managed economy.

Such sentiments were particularly strong among those who would form the economic brain trust of the Clinton Administration. In 1989, future Clinton Treasury Secretary (and current Harvard President) Lawrence Summers noted that "Today, Japan is the world's second largest economy" and argued that "an Asian economic bloc with Japan at its apex . . . is clearly in the making." This, he continued, "raises the possibility that the majority of American people who now feel that Japan is a greater threat to the U.S. than the Soviet Union are right." And as *National Review Online's* Jonah Goldberg noted just over five years ago:

> [In 1992,] Candidate Clinton promised to "focus like a laser" on the economy, saying that we must "copy our competitors." One of his advisors flatly said America would have a "Japan policy" of economic planning. He brought with him a slew of experts who were confident that they could predict the future success of whole industries — something Wall Street finds very difficult to do. "Now that the competition between centrally planned socialism and market capitalism is over," argued Alan Blinder, then President Clinton's chief economic adviser, "interest in Japan's alternative way of organizing a market economy should be greater than ever before." Laura Tyson, a subsequent head of the council of economic advisers, said it would be "criminal" not to follow Japan's lead; their example would provide the prescription for America's "economic revival."

I bring all of this up today not merely to heap scorn upon the purported geniuses who ran economic policy under Clinton, though given the fact that many of these same economic wizards will almost certainly be back in 2008, "advising" Miss Hillary in her run for the White House, that might not be such a bad idea. No, I mention this today because many of the same things that were said throughout the '80s and '90s about Japan are currently being said about China, the new Asian tiger, which also has a "new form" of capitalism that is, in the eyes of the experts, likely to turn the United States into an economic also-ran.

China, we are told, – just as we were told about Japan before it – is able to harness its unique cultural traits to improve upon the American "model" of capitalism, and will, as a result, draw equal with and eventually pass the United States in terms of economic power. Chalmers Johnson, the retired University of California economist who was at the forefront of the Japan hysteria two decades ago, recently summed up the statistics cited by the "experts" and the expectations that derive from those statistics. In an article in the *Asia Times*, he wrote:

> China, Japan and the United States are the three most productive economies on Earth, but China is the fastest-growing (at an average rate of 9.5% per annum for more than two decades), whereas both the US and Japan are saddled with huge and mounting debts and, in the case of Japan, stagnant growth rates. China is today the world's sixth-largest economy (the US and Japan being first and second) and America's third-largest trading partner after Canada and Mexico. According to Central Intelligence Agency (CIA) statisticians in their Factbook 2003, China is actually already the second-largest economy on Earth measured on

> a purchasing-power-parity basis - that is, in terms of what China actually produces rather than prices and exchange rates. The CIA calculates the United States' gross domestic product (GDP) - the total value of all goods and services produced within a country - for 2003 as US$10.4 trillion and China's as $5.7 trillion. This gives China's 1.3 billion people a per capita GDP of $4,385 . . .
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> The CIA's National Intelligence Council forecasts that China's GDP will equal Britain's in 2005, Germany's in 2009, Japan's in 2017, and the United States' in 2042. But Shahid Javed Burki, former vice president of the World Bank's China Department and a former finance minister of Pakistan, predicts that by 2025 China will probably have a GDP of $25 trillion in terms of purchasing power parity and will have become the world's largest economy, followed by the United States at $20 trillion and India at about $13 trillion - and Burki's analysis is based on a conservative prediction of a 6% Chinese growth rate sustained over the next two decades.

All of this speculation about China's prospects has, of course, enticed investors eager to capitalize on the rise of the new Asian tiger. One such investor, Microsoft's Bill Gates, declared his faith in the Chinese economic "miracle" in January at the World Economic Forum in Davos, where, in the words of *USA Today's* Ted Fishman, he "seemed to say" that he "is betting on America's decline and putting his money on China's rise." According to Fishman, "Gates linked his pessimism about the United States to optimism about China. He commended China as the great 'change agent' in the world over the next 20 years and praised its 'brand new form of capitalism.'"

And Gates is far from alone in hailing this "brand new" capitalism. Direct foreign investment in China last year topped $65 billion and, according to the Chinese Ministry of Commerce, foreign investment was up nearly 10% during the first quarter of this year, to an estimated $13.4 billion. Clearly, there are a number of investors who agree with Gates that the American economy cannot, over the long haul, compete with China's. Among these is Gates' good friend Warren Buffett, who is also betting on China, shorting the dollar and holding an estimated $1.2 billion stake in Chinese energy giant and genocide abettor PetroChina.

My guess is that they are wrong, just as the so-called experts were wrong about Japan – and Thailand, and South Korea, and Singapore, and all the other Asian tigers that tried to develop a "new form" of capitalism that is niftier and more capable than the American form, whatever that may be. For a variety of reasons, some economic, some demographic, some social, and some political, I strongly suspect that those who, like Gates and Buffett, have taken the advice of the Sinophiles and bet heavily on China will greatly regret their gamble.

Since I am not an economist, I will not dwell long on the uncertainties inherent in a developing economy such as China's. But some of these uncertainties are significant and thus bear at least a brief mention.

For starters, there is China's notorious and notoriously corrupt and overextended banking system. Early this month, the *Financial Times*, which has long been one of China's strongest and most outspoken backers, said of the Chinese banking system that the "scale of fraud and embezzlement is breathtaking." Last week, Bloomberg noted that "China's top four banks had $188 billion of bad loans at the end of September," an absolutely staggering total that constitutes "15.7 percent of total lending." Just last week, the Chinese government pledged a $15 billion bailout package for the Industrial and Commercial Bank of China, a figure that while seemingly staggering in its own right is less than a third of what some banking experts say is needed for ICBC and thus represents only the start of a long and likely costly process.

Less well known but also troubling is China's prolonged bear market in stocks. Last week, The *Wall Street Journal* reported that China's stock market is rapidly becoming a source of great public dissatisfaction and economic worry, as "the market plumbs six-year lows." The market, like the banking system, is rife with corruption, and the corruption coupled with correlated underperformance has begun to take a toll.

According to the *Journal,* "in a recent online survey of 200,000 people by the official Xinhua News Agency, the poor-performing stock market ranked as the biggest concern." This, the *Journal* notes, means that "China's 60 million retail investors are an embittered lot – sounding a jarring note amid the capitalist changes transforming China's economy." And given that "the tradable shares on [China's] two exchanges are collectively worth just $150 billion, about the same as Denmark's stock market," it is not too terribly difficult to understand why.

As if the underperforming and corrupt banking and stock sectors weren't bad enough, China has a handful of other very serious economic worries. Most significantly, it is rather quickly becoming a victim of its own success, suffering some of the labor market worries that it once caused other nations. As the *International Herald Tribune* reported last week, the continued flood of foreign investment into the country, while driving the economic expansion, has also created something of a labor shortage, which has driven the cost of labor up, and, in turn, forced some manufacturers to relocate, either to central China or, more harmfully, to cheaper Asian countries like Indonesia and Vietnam. The *IHT* notes that the average "worker in a sneaker factory in southern China today is paid about 30 percent more than his counterpart in Vietnam and 15 percent more than a worker in Indonesia" and that this is creating some unexpected and rather thorny problems.

Of course, China's real and potential economic worries are nothing compared to its demographic, social, and political woes.

For more than a decade now, former Harvard demographer and current holder of the Harry Wendt chair in political economy at the American Enterprise Institute, Nicholas Eberstadt, has been forecasting serious and potentially disruptive demographic trends throughout Asia, but most especially in China. Because of the "success" of its infamous "one child" policy, China has created for itself a set of demographic circumstances that are unprecedented in human history and which hold the potential to destabilize the nation over the course of the next two decades. Though these demographic problems are manifold, the most important and best understood are "sex ratio imbalances" and a rapidly, yet artificially aging population. With regard to the former, Eberstadt recently wrote the following:

> In China's 1953 and 1964 censuses, unexceptional infant sex ratios (104 [boys to girls] to 105 for babies under 1 year of age) were reported. In the 1982 census, however, a sex ratio of almost 108 was recorded — and subsequently it became clear that this apparent anomaly was not a temporary aberration. In the subsequent national population counts, China's reported sex ratio at birth rose inexorably — to almost 112 in 1990, then nearly 116 in 1995, and most recently to just under 118 in the November 2000 census . . .
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> Thanks to China's tilt below replacement fertility in the early 1990s, from about 2010 onward each cohort of women in their early 20s will be smaller than the one before. Between 2010 and 2025, this cohort will in fact shrink appreciably — by almost one-fourth, according to [United Nations Population Division] projections. (Not much guesswork is involved here, incidentally. Nearly all of the women in question have already been born.)
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> The prospect of steadily diminishing absolute numbers of women of marriageable age, in conjunction with a

> steadily increasing surfeit of young men in each new class of prospective bachelors, sets the stage for an historically unprecedented "marriage squeeze" in China in the decades immediately ahead. Simple, back-of-the-envelope arithmetic suggests that some very large proportion of tomorrow's young Chinese men — certainly over 10 percent, perhaps 15 percent or more — may find themselves essentially "unmarriageable" on the mainland in the coming decades.

On the subject of population "graying" Eberstadt's projections are even more dire. To wit:

> Between 2000 and 2025 China's median age is set to rise very substantially: from about 30 to around 39. According to [United Nations Population Division] projections for 2025, in fact, China's median age will be higher than America's. The impending tempo of population aging in China is very nearly as rapid as anything history has yet seen. It will be far faster than what was recorded in the more developed regions over the past three decades and is exceeded only by Japan. There is a crucial difference, however, between Japan's recent past and China's prospective future. To put the matter bluntly, Japan became rich before it became old; China will do things the other way around. When Japan had the same proportion of population 65 and older as does China today (2000), its level of per capita output was three times higher than China's is now. In 2025, 13.4 percent of China's population is projected to be 65-plus; when Japan crossed the 13.4 percent threshold, its per capita gdp was approaching $20,000 a year (constant 1990 ppp dollars). One need not be a "Sino-pessimist" to suggest that China will be nowhere near that same economic marker 22 years from now.

Couple all of this with the fact that China has only begun to address the idea of a public pension system over the last decade or so, and the future potential dislocation problems presented by population graying appear quite severe. Yet, as Eberstadt notes, the "economic, social, and political constraints on Chinese development" that these demographic numbers portend "have not as yet been fully appreciated in Beijing, much less overseas."

The list of China's significant social ills is far too long to address in any comprehensive way in a piece such as this. A book would likely be more appropriate. But it should suffice to say that the most publicized social problems, including a dramatic earnings gap between urban and rural areas, high levels of unemployment among rural dwellers, and the continued popularity of Falun Gong spiritual movement, are just the tip of the iceberg. Many of these problems are unfamiliar to most observers, yet some are deadly serious.

Last month, for example, the London *Times* reported that the Chinese bureaucracy has, over the past several years, grown enormously, causing no small amount of consternation among government officials. According to the *Times:*

> China now has 46 million government bureaucrats . . . a number almost as great as the entire population of England. While the country is used to outdoing the rest of the world for sheer numbers, the explosion in officialdom is alarming its ruling Communist Party.
>
> Its excessive and corrupt bureaucracy was regarded as one of the principal causes of the decline of imperial rule. Yet there are now *35 times* as many people on the government payroll, even as a proportion of the population, than at the time of the collapse of the Qing dynasty in 1911. Corruption aside, today's civil servants are also expensive, requiring official cars, holidays masquerading as training sessions and receptions.

> All in all, the cost to the nation, *before salaries*, amounted to 50 billion pounds, according to state media. (emphasis added)

A second social problem that may hold serious ramifications, but which is nevertheless rarely discussed, is the growing conflict between members of the Chinese military and the country's young, urban professionals; the former believing that they are being paid rather meagerly as compared to their private-sector cohorts, many of whom are getting rich. And while this is a problem that is hardly unique to China, it is also one that many observers believe pales in comparison to the unrest and jealousy brewing among the recently retired Chinese military personnel. According to the StrategyPage military affairs web site, the Chinese military retires more than 40,000 officers and NCOs a year. These retirees, who receive "small pensions" and are "left to fend for themselves" in a rapidly changing social structure with which they are ill prepared to deal, are, according to StrategyPage, beginning to form organized protest blocs and may pose a serious problem to the Chinese government in the very near future.

Of course, of all of China's problems, its political ones are quite likely the most serious. For while their has been considerable economic and social reform over the last couple of decades, the country is still run by a COMMUNIST DICTATORSHIP, a fact that seems completely lost on the vast majority of those who have wholeheartedly embraced China and its economic miracle.

Not long after he told the good folks at Davos that he no longer believes in the American economic system, the aforementioned Bill Gates told the National Education Summit that he also no longer believes in the American education system, calling American high schools "obsolete" and "outdated." He's right, of course. And in support of this contention, Gates himself should be Exhibit A. Anyone who still believes in the possibility of a "brand new form of capitalism" – even after the dismal failures of "crony-capitalism," "Keiretsu-capitalism," and all the other forms of hyphenated, managed capitalist economics – serves as living proof that the American education system has failed miserably.

What Gates, Buffett, and all of the rest Sino-enthusiasts prove beyond any doubt is that the American education system has failed in what should be its primary task, namely to produce informed and appreciative participants in the civil discourse. Anyone who believes, despite the mountains of evidence to the contrary, that capitalism can exist, much less thrive, in the absence of political freedom, has clearly been failed by that system. He has not been compelled to read Adam Smith, or the Federalist Papers, or Freidrich Hayek, or any of the dozens of other works in American and Western history that lay out the facts of economic progress. And he therefore has no understanding of why the phrases "Communist dictatorship" and "burgeoning capitalist economy" cannot exist side-by-side for long.

In spite of its reforms, the Chinese political system is still run by Communist Party thugs, which means that the government will still make many decisions that would be made more effectively by the market; that the government will still play an inordinate role in picking winners and losers; and that the system will foster corruption and function inefficiently, eventually reaching a point where progress will cease.

The Soviet Union was able for some seven decades to "fake it." By exploiting its population and its massive stores of natural resources, the USSR was able to simulate economic and scientific progress well enough to fool a great many of the so-called experts in the West. The Chinese Communists are, in their own way, also faking it, exploiting their massive resources, most notably their 1.3 billion people, to fudge the margins and hide the inefficiencies inherent in a closed political system. This cannot go on forever.

Somehow, though, this point escapes many of those who invest in and study the economy of China. In the aforementioned *Wall Street Journal* story on the Chinese stock market, the authors of the article, James T. Areddy and Peter Wonacott, note the fact that most of the problems in the stock market are directly related to corruption and "the state's stake in listed companies." They fail, however, to mention that these two problems are inextricably linked and derive directly from the nature of the Chinese state. In fact, later in their piece they suggest that "ultimately, fixing the market is a matter for top Communist leaders . . ." I could search for years and would never find a statement more ludicrous on its face, nor one that explains so succinctly why Bill Gates, Warren Buffett and others like them are are playing with fire. The very idea that the words "Communists" "fix" and "markets" could appear together in the same sentence is patently absurd.

It is, in my estimation, inevitable that the economic progress and the political stagnation evident in China will eventually clash. Though it is impossible even to begin to predict when or how such a clash will be precipitated or how it will play out, there is little doubt that it will happen. If I had to guess, I'd say the blisteringly rapid pace of economic development, plus the global explosion in cheap yet powerful telecommunications devices, plus the global tide of freedom movements and democratic "revolutions" that can no longer be hidden from the Chinese people because of these telecommunications devices, all point to this clash coming sooner rather than later.

Indeed, it occurs to me that the Chinese government may itself be increasingly concerned about prospective unrest and the potential for wide-scale political conflict, as evidenced by a recent passel of serious geopolitical blunders which make no logical sense and which will almost certainly cost China dearly in its bid for regional hegemony. Among these are the passage in March of a new anti-secession law aimed directly at Taiwan and the recent spate of violent and almost certainly state-sanctioned protests against Japan ostensibly in response to a new batch of Japanese history textbooks. Most importantly, such actions will accelerate the long-whispered rearmament of Japan and will force a *de facto* alliance of necessity between Japan and Taiwan. In addition, it now seems likely that this recent Chinese belligerence will also cost the government the chance to have the post-Tiananmen Square arms embargo lifted by the European Union. And this, in turn, will cost it the opportunity to purchase weapons systems from France and Germany, most notably French Mirage fighters.

Given the high, yet hardly unpredictable costs of these seemingly irrational actions on the part of the Chinese government, one might reasonably guess that the motivation for them was an attempt to diffuse domestic unrest, or at least to channel the animosity evident in the unrest to external entities. This channeling of restive sentiment is, of course, a tried-and-true approach of oppressive governments. One can only guess at how serious this unrest is. But given the sacrifices the Chinese government was willing to make to refocus its energy, I suspect it was more serious than most observers are willing to admit.

Does this mean that revolution is imminent? Of course not. But it does mean that all is not necessarily well within the confines of the Peoples' Republic of China.

As Mark notes below, the "experts" are fairly unanimous in their expectation that the United States will, over the next several years, face one crisis or another in its fiscal and economic systems. China, in contrast, faces several serious and large-scale crises related to severe irregularities with regard to its economy, its demographics, its social structures, and its political system. Yet somehow, many of these same experts think China is a good bet to become the most influential economic power in the world.

Personally, I don't think I'd take that bet.

CRISIS, CRISIS, BOIL AND BUBBLE.

In case you hadn't noticed, there is a growing consensus among those exalted Olympians who are known for their mastery of the rarified relationship between big government and big economics that the long-term financial problems facing the United States today seem destined to result in some as yet undefined economic crisis *unless Washington either dramatically raises taxes or cuts spending, or both.*

For example, the Titan, Paul Volcker, said recently that what concerns him most is that, "there seems to be so little willingness or *capacity* (emphasis added) to do much about" the fact that the economic circumstances today seem "as dangerous and intractable as any I can remember, and I can remember quite a lot." And then he added that what is required to defuse this historically unprecedented problem is a "strong sense of monetary and fiscal discipline" by the U.S. Congress, adding that "this is not the time for ideological intransigence and partisan posturing on the budget at the expense of the deficits rising still higher."

Last week the Zeus-like Alan Greenspan seconded this notion when he told the assembly of the lesser gods who make up the Senate Budget Committee that the "*unsustainable path* (emphasis added) in which large deficits result in rising interest rates and ever-growing interest payments that augment deficits in future years," must ultimately be resolved by a combination of tax increases and spending cuts or the economy is likely "to stagnate or worse."

And if further proof is needed of the economic problems that lie ahead if Congress doesn't clean up its act, one has only to read a recent report with the portentous title "Restoring Fiscal Sanity, Meeting the Long-Run Challenge" from that ancient icon of Washington-think, the Brookings Institution. According to one of the authors of this report, the only way to avoid a "crisis" is either "draconian cuts" in federal spending ("And when I say draconian, I really mean draconian.") or an increase in taxes "to what would be unprecedented levels for the United States."

Of course, none of these heroes of the economic Pantheon actually said that an economic crisis *must* occur. But there is really no other way for a mere mortal to interpret their oracles, given the absolute certainty that Republicans will not, I repeat *will not,* go along with *any* tax increases, much less any tax increases of the magnitude considered necessary by these experts to avoid a disaster, and even more certainly not *in anticipation* of an *impending* disaster rather than *in response to* such a disaster.

Furthermore, there is also no possibility that Republicans and Democrats will get together to pass *any* real cuts in federal spending, and certainly not any cuts of the magnitude considered necessary by these experts to avoid a disaster, and even more certainly not *in anticipation* of an *impending* disaster rather than *in response* to such a disaster. To think otherwise is delusional.

In fact, neither Messieurs Volcker nor Greenspan even attempted to address how such feats might be accomplished politically. And the best the Brookings could do in their "book" dedicated to "restoring fiscal sanity" was to offer the following advise to their fellow Americans: "Make hard choices about what [you] want the federal government to do and how to pay for it."

Now there is no question that this is an excellent recommendation, similar in nature to the greatest investment advice ever offered, i.e., "buy low and sell high." The problem is that the kind of folks that the American people send to Washington to make these "hard choices" on their behalf are, for the most part, not the kind of people who are inclined to make "hard choices." And even more to the point, they are operating within a system that is not equipped to adopt and implement "hard choices," in the absence of an on-going emergency of staggering proportion.

This simple fact is, of course, no secret to the above-mentioned economic *ubermenschen*. From the folks at the Brookings to their counterparts at the conservative "think tanks" to Volcker to Greenspan, no one who understands Washington is operating under any false hope that Congress is going to raise taxes or cut spending any time soon. It just isn't going to happen.

On the tax front, even if Republicans could set aside their conviction that large increases would succeed in reducing economic growth rather than the fiscal deficit, few would be willing to abandon what has become their party's mantra, namely, no tax increases. Meanwhile, very few Democrats would be politically foolish enough to push for large tax increases without support from their GOP counterparts.

As for large spending cuts, there are myriad ways of explaining why this will never happen, but the one that is rarely mentioned, yet is perhaps the most important of all, is that there is no constituency for decreased federal spending. There are many "experts" who opine about the glories of fiscal restraint. But these people have about as much clout in Washington as the neighborhood crank. They don't count. Members of Congress spend a good share of their time each day meeting with people who offer political support in exchange for federal money for some project or another. Rarely if ever do any of them meet with someone who offers political support in exchange for less spending. Indeed, I can't even imagine how such a conversation would go.

So doomsday is inevitable. Right? I mean, who can argue? These guys are smart. They aren't the kind of people who walk around Times Square wearing a sandwich board declaring "The End Is Near." They've got the facts. Right?

Well, sure. I guess so anyway. But the problem is that knowing that a crisis is coming isn't very useful if you have no idea when it will occur. And if these guys know that, they aren't saying. In fact, the nutcase with the sandwich board actually provides more useful information than they do. He says the end is *near*, and he advises everyone to "Prepare to Meet Your Maker." Greenspan, Volcker, et al. just say we're doomed unless Congress does something that they know isn't going to be done. That's it, thank you, and goodbye. No hint as to when the axe will fall, or what to do in preparation for it.

Now I am in no position to argue with them. If a great economic crisis is coming, so be it. They're the experts. In fact, I just finished Bill Bryson's wonderful book *A Short History of Nearly Everything*, which I can say without equivocation is one of the most fascinating tomes I have ever read, and I am now inclined to respond to these doomsayers in the same way that the Red Queen did when Alice said she intended to find her way to the top of the hill.

> "When you say 'hill,'" the Queen interrupted, "I could show you hills in comparison with which you'd call that a valley."

I mean, the Volcker-Greenspan-Brookings crowd says they see a crisis coming. Bryson describes coming crises in comparison with which their economic one would be as benign as a walk in the park. Check this one out.

> I asked them [the scientists] how much warning we would receive if a similar hunk of rock was coming toward us today.
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> "Oh, probably none," said Anderson breezily. "It wouldn't be visible to the naked eye until it warmed up, and that wouldn't happen until it hit the atmosphere, which would be about one second before it hit the Earth." . . .
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> An asteroid or comet traveling at cosmic velocities would enter the Earth's atmosphere at such a speed that the air beneath it couldn't get out of the way and would be compressed, as in a bicycle pump. As anyone who has used such a pump knows, compressed air

> grows swiftly hot, and the temperature below it would rise to some 60,000 Kelvin, or ten times the surface temperature of the Sun. In this instant of its arrival in our atmosphere, everything in the meteor's path – people, houses, factories, cars—would crinkle and vanish like cellophane in a flame . . . The meteorite itself would vaporize instantly, but the blast would blow out a thousand cubic kilometers of rock, earth, and superheated gases. Every living thing within 150 miles that hadn't been killed by the heat of entry would now be killed by the blast . . . No one can do more than guess what the associated damage would be, other than that it would be brisk and global. The impact would almost certainly set off a chain of devastating earthquakes. Volcanoes across the globe would begin to rumble and spew. Tsunamis would rise up and head devastatingly for distant shores. Within an hour, a cloud of blackness would cover the planet, and burning rock and other debris would be pelting down everywhere, setting much of the planet ablaze. It has been estimated that at least a billion and a half people would be dead by the end of the first day . . .

Of course, Bryson is not very informative as to when this might occur. He simply states that this has happened before so it almost certainly will happen again, which is essentially the same argument that the above-mentioned Volcker-Greenspan-Brookings trio make, except that in their case the past-is-prologue argument isn't as convincing.

In any case, while awaiting the arrival of Bryson's rock to fall from space and destroy civilization, or for any of the other similar nature catastrophes he describes, or for the crisis forecast by the Voker, Greenspan, and the Brookings crowd, I would posit the following thoughts. The idea is not to challenge their collective wisdom concerning the inevitability of these various calamities, but to do what my mother always told me to do when things looked bleak. "Stay optimistic. Keep a positive attitude. Assume the best." So here's how a positivist like me might view predictions of the coming fiscal catastrophe.

For starters, while I am firmly convinced that Congress won't raise income taxes or cut actual spending, I am equally convinced that it will, in response to the rising concerns about fiscal irresponsibility, exercise some restraint on increases in future outlays, which should help to keep the growth rate of the government somewhere in line with that of the economy and limit the risk that any big new government initiatives will be launched. It won't solve the problem, but it will help.

As for Social Security, sometime before President Bush leaves office in early 2009, I believe that Congress will tinker with the program, increasing the retirement age somewhat, cutting benefits slightly for future retirees, and probably hiking the level of income on which taxes are levied, as part of a compromise with the White House in exchange for some sort of experimental program for private investment accounts. This won't solve the problem, but it will help. Another helpful boost will occur in 2010 when the first baby boomers reach retirement age and it becomes apparent that many boomers plan to continue to work rather than draw benefits.

As everyone knows by now, health care costs are going to continue to rise rapidly, and this will pose a threat to the viability of both Medicare and Medicaid and require huge increases in federal expenditures. But my guess is that these costs to the government will be offset considerably by increases in deductibles, co-pays, and insurance premiums. At the same time, efforts to hold down utilization will be expanded.

The result will be that the elderly will take it on the chin, or more specifically, they will have to spend considerably more of their disposable income on health care than the elderly do today, which means they'll spend less on other items. They also probably won't get all the health care that they need or want, and they may see some decline in the quality of care as providers seek to stay in business despite lower reimbursements. This won't prevent significantly higher federal costs for elderly health care. But it will help.

Other help will come from many quarters and in many forms. But the most important source will be a continued healthy economy, an economy that experiences ups and downs but stays strong because it is flexible and able to adjust to change in a changing world and because it is supported by a people with a strong work ethic and an entrepreneurial spirit.

Of course, the crisis may yet come. Who am I to argue? In fact, if it is really true that the fate of the U.S. economy, and thus the fate of the global economy, rests on the adoption by the U.S. Congress of a package of huge tax increases and draconian spending cuts, then its time to cash in and head for cover. Perhaps a good strategy would be to invest heavily in China and Europe and place a big bet against the dollar. That's what the great "Oracle of Omaha" is doing. And he's the best. Right? Although it's hard to see how either Europe or China will do well in the midst of a major crisis in the U.S. of A. But then, what do I know?