

The Bigger Threat to the West

Essay by Derek R. Bates.

All societies experience threats to their continued well-being and because mankind thrives on challenge, this can be a stimulation to progress. The fear of terrorism is the current dominant threat but there is another, more insidious hazard which has not roused as much concern but will affect every one of us more directly than terrorism. It differs from the existing and well-discussed threats because it is thought to be benign. But everything is in place for it to destroy the living standards of the Western world. A major cause of this demise is the rebirth of economic dynamism in the East and predominantly in China, a nation which is taking its role in the world stage.

The pattern of civilisations is that they flourish reach an apogee and then slowly decline. At the time when Europe was in the Dark Ages, China had been flourished for around 2000 years stimulated by a stable feudal system of wealthy landowners and subservient peasants. Even in the eleventh century AD, the Song dynasty governed a healthy economy, an expanding population, a sophisticated banking system and had invented paper money more than four hundred years before it reached the West.

During the seventeenth century, the mini ice age caused widespread famine. This together with the high government taxes needed to fight wars crippled the peasants and provoked rebellions. The nation suffered economic stagnation from which it emerged only in the late twentieth century after a disastrous period of Communist suppression.

It is undeniable that the West has been the major cultural and economic influence on the world in the last few centuries. Beginning in Britain in the 18th century, the West underwent a revolution in manufacturing. When its industries were young, its wage and productivity levels ensured that its goods could be sold to a demanding world. The wealth produced became disseminated and even now, more than two centuries later our high standards of living are supported by the dynamism and residual wealth of the Industrial Revolution.

But the momentum of the West has been growing weaker for many decades. Evidenced by unemployment, empty factories, once prosperous regions, now supported only by welfare or by public sector jobs which consume national wealth. The inertia in the monetary organism results in the disparity between the currencies of the West and the East which means that manufacturing which produces tangible wealth can only be carried out in the East.

Because of its high currency values Western industries are now stricken with a wasting disease. By its manufacturing strength, China is growing at around 9% per annum. Germany, the great manufacturing power in Europe is predicted to grow at less than 1%.

Some economists consider that the recession we are suffering is a transitory stage and we will recover, others are fearful that the indebtedness of the West is such that only by drastic reductions in living standards in an attempt to reduce crippling debt can we return to a balanced economy. This policy adopted by Britain's Chancellor suffers from the demerit that all developed nations are trying to do the same so it does not produce the hoped for competitive advantage. USA, still the world's biggest economy is trying to reduce growing national debt which reportedly increased by \$1 trillion in 2008, \$1.9 trillion in 2009, and \$1.7 trillion in 2010. By January 2012 the gross debt at \$15.356 trillion is higher than the annual gross domestic product of \$15.087 trillion.

For some of the major companies, which had undreamed of power, the death throes have already been acted out. Even big names such as Chrysler and General Motors almost a synonym for America have only survived with US Government assistance. In Britain, Corus, Jaguar Land

Rover, Invensys, Pilkington, ICI and many other once venerated companies declined and are now in foreign ownership. Selling industries brings capital into the economy to reduce the appalling balance of payments deficit Britain has. In spite of this we still need to borrow around £3 billion each week.

We were often told by the Labour Government that Britain had one of the most successful economies in the world. President Reagan showed when, during the decade he was in power, he took America from being the biggest lending nation to being the biggest borrowing nation; it is very easy to be affluent with money borrowed from others. Britain has greater personal indebtedness than any other European nation. The concern is not just for Britain it is more a concern about the future of Western World Inc.

It is a paradox that America while fighting unwinnable wars in the East has to borrow billions of dollars each year to survive. Ironically, about a quarter of this is from China, the largest investor. We thus have the anomalous situation that China, still ostensibly Communist, lends money to Capitalist USA so that it can afford to buy Chinese goods whereupon it is recycled back to China. The Chinese people save around 50% of their earning because they do not have a welfare state to fall back on. In the West savings are very low because our citizens know they have a cushion behind them.

Competition stimulates companies and nations to strive harder and grow stronger. Healthy and balanced competition result in an improvement in global standards of living. But since Western nations have to borrow heavily to survive, this is not currently the case. Wealth is hemorrhaging to the East which now has such huge capital resources that it is buying up Western businesses.

To maintain a satisfying standard of living we must develop policies capable of reversing the movement of capital and resources from the West to the East.

We labour under regimes of high taxation and stultifying regulations; these policies give companies a driving incentive to move production to the East. In the short term, consumers benefit because our inflated currencies buy more goods and a primary reason for low inflation is that China with its undervalued currency has produced most of our consumer goods.

In 2002 Britain suffered its biggest monthly trade deficit in over three hundred years. Every week industries close because they are unable to compete. Dyson moving production to the East was shattering but every week around three times the number of workers Dyson employed in manufacturing lose their jobs in UK alone and this is little publicised.

While we have buying power from our inherited wealth, we remain a soft market for goods produced in China. If our producers make more profits from moving production to the East, this short sighted process will inevitably continue. Western manufacturers move production overseas so that they can be ahead of their competitors. They conveniently ignore the fact that they are making workers redundant in their own countries who then cease to pay taxes to the nation and are unable to buy the products of the companies from whom they were made redundant.

Our only growth in Britain has been in property. Because they appear to be worth so much more than when we bought them, our homes give us the illusion that we have increased our wealth but they are the same houses in the same areas as when we bought them. All that has changed is that our currencies have been inflated and more money is needed to buy them.

We are now experiencing a reduction in property prices where, in London alone, The Telegraph reported 10million square feet of office space empty and, thousands of factories, warehouse and retail properties are surplus to demands.

Chinese workers earning a fraction of what workers in the West earn and often work in factories which would be closed down by the authorities in the West. We should be grateful that the Chinese were distracted by the promises of Communism, which delayed their industrial

progress until near the end of the 20th Century. Without the distraction of Communism they would already be the dominant power in the world and we in the West would have suffered a far greater drop in our living standards.

Even now the previously low wage economies of Korea, Japan, Taiwan etc., are losing important parts of their own industries to China. Buy an electronic Samsung item and it will be made in China as are Japanese radios, cameras, computer games consoles, virtually all children's toys and books bought in the West and even wooden toys supposedly from Poland are made more profitably in China.

Western manufacturer also ignore the fact that by manufacturing overseas, what had been their unique technology is now transferred. There is a misconception that the Chinese will be happy to remain a production chain for products retailed at ridiculously high prices in the West. This implies that they are a passive nation when the reality is that they are creative, entrepreneurial and educated. It is an illusion of politicians that the East will be a permanent and hungry market for Western knowledge. Many have studied in the West and returned with Western knowledge. Even more importantly, they will have learned from our mistakes and will not repeat them. They are designing their own vacuum cleaners, washing machines, TV sets, mobile phones, cars etc. and particularly in India, they are advancing more rapidly in software than the West. Finance with which we buy Eastern goods does not rest, it is used by them to develop infrastructures such as roads, factories, educational establishments. They thereby leapfrog the West which has an aged infrastructure.

In Britain, we cannot afford an adequate transport system. The MagLev train which runs without wheels was a British invention. Where is it being built – in the Chinese city of Shanghai. Where is the World Financial Centre being built and in the world's tallest building – Shanghai again. You want a battery for your electric car, where do you go – China. The list is endless and serves to emphasise the dramatic change in the roles of the West and the East. Could we ever have imagined a situation where our Chancellor flies to China hoping to persuade them to invest in a new airport as happened this year.

Without doubt the West could compete with China. In UK, for example, starting from green-field sites with workers, free from the entrenched attitudes of hostility which were instrumental in the decline of British industry, new companies are very successful. This was seen when Nissan set up in Sunderland which is one of the most productive plants in the world.

Unemployment in Britain at 2.5 million is about the same as it was in 1930. It may be a fact that more people are working in Britain today than at any other time but many well qualified people have had to accept menial jobs such as stacking shelves in supermarkets.

In the past it was predicted that we would be living in an age of leisure but still the working day is on average from 9am to 5pm for many people. It can surely not be the case that work is so controlled that each day is filled with eight hours of productive time. In reality, there are empty hours of time filling.

To stimulate growth, considerable changes in incentives to work are necessary with more workers co-operatives where profits are shared and more job-sharing where half day employment is common. Being unemployed is to be considered a failure. Part time working produces a sense of well-being.

The most effective tool in stimulating economic progress is taxation. A regime which favours manufacturing, which currently produces only 13% of wealth in Britain, will enhance growth in the economy. All new companies in manufacturing should not pay tax for at least five years. This would encourage new start ups and, while many may fail, some will go on to provide growing job opportunities and wealth production.

Every time we buy Chinese goods we vote with our wallets for a short term gain but a long term decline. Although the West now has frighteningly large debts, it still has resources and

resourcefulness. Where did Apple, Google, Facebook, Linked In etc., start – in the West, admittedly exclusively in USA but it demonstrates that the West still has the drive to change its destiny.

We must seriously decide if we want to accept steady decline or say to the Chinese that we are sorry, but we would prefer to make more products in the West. If we do not do this, in one or two decades, the Chinese and other Eastern nations will dominate every aspect of our lives, the West will be financially weak and it will be too late to take action.

Perhaps the biggest private employer is call centres where it is estimated that hundreds of thousands, often professionally qualified young people, toil under virtually slave conditions. This will not last for long, call centre jobs are leaving this country, initially going to India but before long they will go to China. The banks, insurance companies and other industries say they are doing this is so that they are able to give better service to their customers, hoping that we do not suspect that the major incentive is so that they can increase their bonuses and share values.

Economics is a very imprecise science. As has been said with some humour if you laid every economist in the world end to end, they still wouldn't reach a decision. But economic discipline can supply the answer to the dilemma the West faces.

In general the West has a greater ability to consume than the Chinese but they are catching up and will consume far more of their own products. Some economists and politicians argue that, if we sit back and wait, ultimately there will be an equilibrium where the productive capacity and the needs come into balance. But this may well take fifty years. The pre-eminent power in the world in terms of productiveness is no longer USA or Europe; China has taken on that role. In material wealth their success relies on a workforce willing to perform as automatons as workers did in our own Industrial Revolution.

This essay is in no way anti-Chinese; we can only be pleased at the advances they are making after so much suffering in the past. Their effect to date has increased the well-being of all of us but it is time to re-assess and take control of our future. It is self evident that we want to maintain the high standard of living we enjoy but by naiveté, we are doing nothing to get off the downward slope to poverty.

To survive and prosper, each person consumes a proportion of the world's resources termed Units of Wealth (UOW).

Go to Beijing or Shanghai and you will see affluence which equals and rivals the West. A middle class citizen of Shanghai consumes UOW roughly equal to that of a middle class citizen of a western capital such as London. Both can afford a home, food, a car, education for their children, holidays etc. but solely because of currency differences, the Asian is paying substantially less than Westerners for the same standard of living.

So what can be done? Firstly we must recognise the hypocrisy of enforcing very high health and safety standards and environmental controls on our own companies while buying from China where these are either lax or non-existent. It is claimed by some that most goods which come from China have some element of slave or near slave labour in them. At the Foxconn factory in China where Apple products are made, suicides are common, eighteen workers threw themselves from the factory roof and one hundred and fifty more threatened suicide. How can our so-called 'caring society' accept this? The main reason is that it has enabled Western companies to increase profitability in the short term. We should be saying to China, we will buy your goods if you adopt the same welfare standards, health and environmental regulations that we have in the West.

The next step should be to progressively equalise the currencies. At present the Chinese currency is fixed to the dollar. This has meant that, although the dollar has dropped relative to many currencies, the Chinese have been unaffected and the US and Western manufacturers have been unable to take advantage of the weak dollar to produce goods to compete with China.

The value of the currencies of the West should be directly related to the productive capacity of each country. This can be measured by the balance of payments; if this is in deficit, the currency should be revalued up or down.

All nations of the West should over a period of years, adopt currency devaluation which would deflate currencies, reduce costs of production and thereby return business to the West. Careful control would be necessary because it would feed inflation and reduce living standards if it is too rapidly introduced. The West is a large market with buying power sufficient for China to see the benefit of maintaining affluence in the West. This means we can still re-think our future.

If we don't positively encourage growth and thereby give our citizens the ability to be creative and support themselves, seventeenth Century China will be the example we will follow and we will face decades if not centuries of decline.

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