



Viral Misconceptions and Weekend Links

The consensus narrative on the coronavirus seems to be that it's a temporary hit to growth, much of which will be made up for in a post-crisis "catch-up" phase. Hence, markets are trying to "look past" the virus risk. There are problems with this narrative:

- Several hundred million people who are ordinarily hard at work currently are not. There is a limit to the overtime that can be put in post-crisis. As the crisis wears on, China will be accumulating some volume of **permanently lost production**.
- Its an open question as to whether China's debt-carrying capacity would have allowed for one more major stimulus program. Recent policy actions suggest a high degree of doubt even among China's senior leaders. Now they're being forced into **a major stimulus program that isn't even going to stimulate anything** – its merely going to try to fill the hole of output lost to virus-containment measures.
- This implies a **step-deterioration in debt/equity and debt/gdp ratios** across the system. (Remember: there is no "fiscal policy" in the Keynesian sense in China. Any increased expenditure or tax cuts will be money-financed).
- We don't know where China's **debt capacity limit** is until they hit it, but we can presume it **moves inversely to political risk**, which is rising sharply.

(In Wednesday's "[The RMB is Infected](#)" I detailed why this is a virulently bearish cocktail for the RMB). In this space last week I illustrated a possible step-deterioration in credit metrics:





To recap:

- If credit growth rises from 11.6% in 2019 to 20% in 2020
- and nominal growth falls from 7.4% to 6.0%
- the debt-to-GDP ratio increases 36 percentage points from 2.60% to 2.96%.

For reference, in 2009 China's debt-to-GDP ratio rose by 33 percentage points. In other words, even a moderately bearish outcome in terms of virus progression could necessitate the equivalent of another post-GFC stimulus program in terms of debt-capacity usage.

Let's say they can pull that off without triggering a panic in some form. Then what? Then we're back to an economy struggling with economic headwinds both internal and external, only now without any credible policy backstop. That's not a happy thought. And if the best-case destination is a place that no one wants to be, how do we actually get there?

We all knew Phase One would temporarily remove China tail risk. We had no idea how temporary that respite would prove.

There is a non-negligible risk that this is the event that drives China's finances pear-shaped.

(I know I'm prone to bouts of extreme RMB-bearishness, but it can actually prove extraordinarily lucrative at times).

On to the links...

The calls for massive stimulus have just begun. For the non-China watchers, Yu Yongding is a real heavyweight in Chinese economics...

[China Must Use Policy Might Against Virus, Former Adviser Says](#)

China should shelve its "critical battle" against financial risks and consider absorbing the losses of small enterprises hit by the new coronavirus, said a former central bank adviser.

The government should cut interest rates, rethink its growth target for this year and use an even more expansionary fiscal and monetary policy than ordinarily needed to reach 6% annual growth, said Yu Yongding. Banks should roll over loans and postpone repayments if necessary to allow enterprises to survive this crisis, he said.

"Debt, inflation, bubbles -- those are secondary" problems, said Yu, 72, a member of the government's elite Chinese Academy of Social Sciences think tank in Beijing. "We can worry about this later when everything has calmed down."



While acknowledging that absorbing such losses would be very costly and that efforts should be made to avoid moral hazard, Yu said, "I don't think there is any better way."

*He rejected the argument that China is constrained in its ability to respond to the crisis following one of the most rapid buildups of debt in history after the global financial crisis. Should the battle to contain the virus be protracted, **interest rates can even be cut to zero** if necessary, he said.*

Virus Metrics and Impact

I understand that the market might obsess over the infection-rate numbers on a daily basis (and here is [an awesome resource for doing so](#)), but the easiest way to cut through the noise is to simply **watch what the Chinese government is doing**. And what they're doing is indicative of either an extreme over-abundance of caution, or a fear that things are at risk of getting out of control. Because **what they are doing is really expensive**.

[Guangzhou city](#) (pop. 13m), [Chengdu](#) (14m), and [Hangzhou](#) (9m) are all under some form of lockdown, while Shenzhen (13m) - "China's silicon valley" - is requiring online pre-registration of any vehicle wishing to enter the city. While there has been no firm nationwide announcement regarding the degree to which China will return to work on Monday, **activity is likely to continue to run well below a capacity for at least several more weeks**.

[Foxconn May Not Resume Full China Production Until Month-End Amid Epidemic: Reuters](#)

Foxconn may not resume full production at its China factories for several more weeks, in the latest signal that China's travel restrictions implemented to combat the worsening novel coronavirus epidemic could disrupt global tech supply chains.

While businesses were set to resume work Feb. 10 following an extended Lunar New Year holiday, various levels of inter- and intra-city lockdowns, including closed borders, shut public transport and dwindling flights into China, still loom over the economy.

"Nobody knows for sure if some workers could get back in time," a source familiar with Foxconn's current situation [told Reuters](#).

The source added that the company's management has applied to reopen factories and is scrambling to meet requirements by local governments, but things were "chaotic," according to Reuters.



"We will be very glad if the return rate could hit 30% (on Feb. 10)," the source told Reuters.

[iPhone Maker Foxconn Warns Staff to Keep Away From Shenzhen Base](#)

Hon Hai Precision Industry Co. told employees at its Shenzhen facility not to return to work when the extended Lunar New Year break ends Feb. 10, according to a memo obtained by Bloomberg News.

"To safeguard everyone's health and safety and comply with government virus prevention measures, we urge you not to return to Shenzhen," Foxconn wrote in a text message sent to employees. "We'll update you on the situation in the city. The company will protect everyone's work-related rights and interests in the duration. As for the happy reunion date in Shenzhen, please wait for further notice."

[Coronavirus could be 'death blow' for small Chinese manufacturers](#)

Concerns among small and medium-sized manufacturers in China over the impact of the coronavirus outbreak have risen sharply, with many worrying about going bust if the situation is not brought under control soon.

Anxiety is most acute among labor-intensive manufacturing firms, as local governments have restricted business where numerous people congregate in an effort to contain the deadly virus.

If the outbreak is not brought under control by March or April, when many foreign customers place orders for the rest of the year, some Chinese companies fret business will shift to suppliers outside China, accelerating a move to alternative manufacturing bases, especially in Southeast Asia.

Migrants failing to return to work is a natural problem when the economy slows, badly exacerbated this year of course. Many of these workers may not return at all...

[Coronavirus outbreak dries up major Chinese cities' labor pools](#)

A migrant worker surnamed Chen in Zhumadian, Central China's Henan Province, who makes a living by serving as a porter at a construction site in Guangzhou, South China's Guangdong Province, told the Global Times on Wednesday that he had planned to return to work in mid-



February but now has to give up his plans as the village head will not allow him to return until the coronavirus is under control.

"My backup plan is to work on nearby local sites, or start farming again," Chen said.

Chen is not alone. Large legions of migrant workers, as well as white-collar employees that work in China's first-tier cities who went back to hometown for the Spring Festival break, are trapped in their hometowns because of the sweeping quarantine measures. Also, some people told the Global Times that worries over infection during trips also prompted them to halt their plans to go back to work.

It is not exactly clear how much of the country's 288 million migrant workers, which account for one third of China's total labor force, remain stuck. But a labor shortage issue seems to be haunting major Chinese cities including Beijing, Shanghai, Guangzhou and Shenzhen, where demands for workers have been climbing in recent years amid boom of manufacturing and service sectors.

According to data released by Beijing's transportation authority on Tuesday, among the 10 million people that left the capital ahead of the Spring Festival holidays, 8 million still have not returned.

企业面临复工与抗疫两难，专家建议继续延假，慎用2倍工资

Nearly 60% of the enterprises are or are expected to start business on February 14th. Survival pressure is the main driving force. For the other 40% of enterprises, they are not expected to start construction normally due to concerns about the epidemic and restrictions on the return of personnel.

Zhang Chenggang, director of the China New Employment Patterns Research Center of Capital University of Economics and Business, told First Financial News that SMEs have taken over 80% of China's employment, and the epidemic cannot be controlled in the short term, and enterprises will not be able to start work for a long time, and SME jobs will be significantly reduced.

*Zhang Chenggang said that even if the company resumes work recently, the company still faces the risk of employees being infected with the virus. Once an epidemic occurs in the workforce, especially companies that provide employee dormitories or labor-intensive companies, it may lead to the risk of closing the company again. But if there is no resumption of work, the company will be under pressure to complete the order. **Enterprises face the dilemma of resumption of work and prevention and control of the epidemic.***



From an economic perspective, the rate of communicability is the critical metric. If the virus is highly communicable, massive shutdowns will be required whether the fatality rate is 1% or 10%.

Researchers say the coronavirus may be more contagious than current data shows

Chinese scientists worry the respiratory illness, which world health officials say likely came from a fish market, has mutated to adapt to its new human hosts far more quickly than SARS. Data on the virus is changing by the day, and some infectious disease specialists say it will take weeks before they can see just how contagious it is. What they're seeing so far is concerning and leading U.S. and international scientists to believe the virus is more contagious than the current data shows, according to interviews with epidemiologists, scientists and infectious disease specialists.

Wuhan

They're increasing clamping down on the flow of news and photos, but the depictions that are leaking suggest that Wuhan is turning into an apocalyptic hellscape.

Wuhan Rounds Up the Infected as Death Toll in China Jumps

*A senior Chinese official has ordered the authorities in the city of Wuhan to **immediately round up all residents who have been infected with the coronavirus and place them in isolation, quarantine or designated hospitals.***

Sun Chunlan, a vice premier tasked with leading the central government's response to the outbreak that is centered in Wuhan, said city investigators should go to each home to check the temperatures of every resident and interview infected patients' close contacts.

"Set up a 24-hour duty system. During these wartime conditions, there must be no deserters, or they will be nailed to the pillar of historical shame forever," Ms. Sun said.

*The city's authorities have raced to meet these instructions by setting up makeshift mass quarantine shelters this week. The shelters are meant for coronavirus patients with milder symptoms, the government has said. But **concerns are growing about whether the centers, which will house thousands of people in large spaces, will be able to provide even basic care to patients and protect against the risk of further infection.***



According to a widely shared post on Weibo, a popular social media site, “conditions were very poor” at an exhibition center that had been converted into a quarantine facility. There were power failures and electric blankets could not be turned on, the user wrote, citing a relative who had been taken there, saying that people had to “shiver in their sleep.”

There was also a staff shortage, the post said, where “doctors and nurses were not seen to be taking note of symptoms and distributing medicine,” and oxygen devices were “seriously lacking.”

This week’s plateau in the rate of new case diagnoses could have been the result of limited testing capacity...

[Virus-hit Wuhan speeds up diagnosis of patients - Xinhua | English.news.cn](#)

*WUHAN, Feb. 6 (Xinhua) -- As more hospitals and qualified third-party institutions join in, Wuhan, the epicenter of the novel coronavirus outbreak, is **now able to test nearly 4,200 nucleic acid samples per day**, local authorities said.*

Computed tomography (CT) imaging has also been added as an auxiliary testing method in Hubei, according to the latest diagnosis and treatment plan by the National Health Commission released Wednesday.

[Translation: “Wuhan Police Said Don’t Post, I Laughed With Tears in My Eyes”](#)

Just now, at 17:30, there was a man who jumped off the Simen Gate bridge, crying incessantly before he did. His tears were laden with grief and despair... On that quiet street his cries and shouts rang out, stabbing the hearts of all passersby.

The main theme of his laments was that he had been infected with coronavirus, that he couldn’t stay at home as he was afraid of infecting his wife and child. Hospitals have run out of empty beds, so he was staying in a rented flat. He needed to visit the doctor but there is no public transit. He had to walk for a long long time. His strength was failing, and now he didn’t even have food to eat, it is better to die than to live.

With that jump, he left behind all his grievances with the world. Blood obscured his face and made me tear up... As I was preparing to call the police a police car came from nearby. I bowed to the deceased three times.



As I was leaving, the police repeatedly urged me “not to share this information online.” I laughed with tears in my eyes...

Internet Giants Warned Amid Coronavirus Crackdown

A notice issued yesterday by the Cyberspace Administration of China, the central agency for control of the internet and social media, provides a glimpse not just of the actions being taken now by the authorities to control information about the coronavirus epidemic, but also of the platforms and activities that have threatened the Party’s dominance of information in recent days.

The notice, for example, singles out a number of WeChat public accounts alleged to have “illegally carried out reporting activities,” meaning that they are accused of acting journalistically, pursuing their own information on the epidemic.

*The notice also says that **Sina Weibo, Tencent, ByteDance and other internet companies will now be under “special supervision”** (专项督导), which means essentially that the companies operating many of the country’s biggest and most popular internet platforms and services have been put on notice and are subject to much more active supervision and management by the CAC.*

Chinese Banks: Bad News / Good News

Chinese banks will be expected to do their national duty, which is unlikely to align with the financial interest of shareholders. Of course, capitalization requirements will limit the degree of forbearance they can provide...

Coronavirus Could Be Worse for Chinese Banks than SARS: S&P

Tan expects Beijing to request that Chinese banks contribute to efforts to preserve social stability...

On the other hand, regulators are extending forbearance to the banks, so that should help...

Caixin here suggests the virus might just be an excuse for the delay, as banks weren’t making much progress in winding down or the large pools of “non-standard assets” residing in off-balance sheet vehicles anyway. (The term “non-standard assets” refers to non-market traded assets – essentially loans. And we can presume they’re not the pick of the litter).



[Exclusive: China's Banks May Get Another Year on Asset Management Rules](#)

*China's banking regulator may give financial institutions another year to comply with **sweeping new asset management rules** issued in 2018 and set to take effect in December 2020, Caixin learned from several sources close to the regulatory commission.*

With little progress by banks in overhauling their wealth management products (WMPs), regulators have solicited opinions from several big state-owned banks and probed extending a transition period for compliance with the new rules to the end of 2021.

*Financial institutions that find it hard to bring their large volume of asset management products into compliance by the original date may receive "appropriate" grace periods, **Cao Yu**, vice chairman of the CBIRC said Saturday. He made the comments at a briefing where financial regulators **announced steps** to support the economy in the face of the coronavirus outbreak. China's overhaul of its \$16 trillion asset management industry is part of a broader Beijing-led campaign to rein in financial risks and control leverage in the financial system that many warned was at dangerous levels. The revamped asset management rules were particularly aimed at curbing off-balance sheet "shadow banking" activities that were increasingly seen as a threat to financial stability.*

Banks find it difficult to deal with their massive nonstandard credit assets with long maturities. Under the new framework, financial institutions need to offload such nonstandard assets or return them to their balance sheets by reasonably adjusting certain measurements

Commodities

The effects of China's collapsing demand for commodities is starting to ripple...

[CNOOC refuses LNG cargoes, declaring force majeure over coronavirus](#)

The turmoil engulfing global commodity markets deepened as China's biggest buyer of liquefied natural gas told suppliers it won't honor some contracts because of the coronavirus.

In a dramatic and rare step, China National Offshore Oil Corp. declared what's known as force majeure, meaning it won't take delivery of some LNG cargoes, because the virus is constraining its ability to import the fuel. It's among the first known cases of the legal clause being invoked in commodity contracts as a result of the epidemic.



While global markets bounce back from initial fears over the impact of the virus, CNOOC's move shows the fallout is only deepening in the world of raw materials, which is dominated by China's enormous appetite. Beijing's efforts to contain the disease by shutting down swathes of the country and restricting travel are disrupting supply chains and hammering demand in the world's biggest consumer.

Commodity Colossus: The impact is reverberating around the world. Copper buyers are requesting Chilean miners postpone shipments because of port shutdowns while China's biggest oil refiner, Sinopec Group, is likely to ask Saudi Arabia to reduce supplies of crude oil next month. Soybeans from Brazil and the U.S. are being held up on arrival in eastern China and Indonesian palm oil shipments are also being delayed.

Political Pressure is Rising

[As New Virus Spread, China's Old Habits Delayed Fight](#)

A reconstruction of the crucial seven weeks between the appearance of the first symptoms in early December and the government's decision to lock down the city, based on two dozen interviews with Wuhan residents, doctors and officials, on government statements and on Chinese media reports, points to decisions that delayed a concerted public health offensive.

*In those weeks, **the authorities silenced doctors** and others for raising red flags. They played down the dangers to the public, leaving the city's 11 million residents unaware they should protect themselves. They closed a food market where the virus was believed to have started, but told the public it was for renovations.*

Their reluctance to go public, in part, played to political motivations as local officials prepared for their annual congresses in January. Even as cases climbed, officials declared repeatedly that there had likely been no more infections.

By not moving aggressively to warn the public and medical professionals, public health experts say, the Chinese government lost one of its best chances to keep the disease from becoming an epidemic.

[Fury in China as footage appears to show officials taking doctors' face masks](#)



Footage of government officials in Wuhan appearing to take face masks intended for health workers battling the highly infectious coronavirus has fueled a growing wave of anger over how Chinese authorities have handled the outbreak.

Images of medical staff making protective equipment out of rubbish bags, sleeping in hospitals, and crying in frustration and exhaustion have dominated Chinese social media over the last two weeks, inspiring an outpouring of sympathy and donations of supplies.

Other photos showed officials wearing specialized N95 respirator masks in a meeting with doctors who wore surgical masks.

[Death of coronavirus doctor sparks anguish and anger in China](#)

Chinese citizens commemorated the death of whistleblower Li Wenliang on social media in a nationwide online vigil on Friday, posting photos of candles and the phrase “never forget” in a co-ordinated act of remembrance.

*The death of the 34-year-old doctor marked a pivotal moment in the coronavirus outbreak, as its rapid spread presents President Xi Jinping with his **gravest political and economic challenge since assuming power in 2012.***

Authorities are struggling to contain public anger over the official mishandling of the outbreak that has killed more than 600 people. The crisis also threatens to undermine the central government’s narrative that it is in control of the rapidly evolving situation.

Tariffs

China’s tariff cuts were a Phase One commitment – the market made way to much of this....

[China fulfills trade commitment with tariff cuts on \\$75b of US goods despite virus outbreak](#)

China announced Thursday that it would cut tariffs by half on \$75 billion worth of US products in a response to Washington's decision to halve duties on Chinese goods, highlighting Beijing's willingness to fulfill commitment made in the phase one trade talks even as it faces tremendous challenges due to a fast-spreading epidemic.

While the impact of the outbreak of the novel coronavirus on China's ability to carry out the phase one trade agreement remains to be assessed, Chinese officials are likely considering using a



term in the deal about "natural disaster and other unforeseeable events" to consult with US officials for a resolution, Chinese experts close to the government said.

Huawei

The Pound Sterling may have jumped **out of the Brexit pot and into the Huawei fire**. It increasingly appears unavoidable that BoJo can thread the needle and avoid really pissing off one of the two largest economies on the planet...

[Donald Trump 'apoplectic' in call with Boris Johnson over Huawei](#)

The UK prime minister spoke to the US president last week soon after he [announced](#) his decision to allow the Chinese manufacturer to participate in the UK's next-generation cellular network.

Following the decision, the UK and US tried to [gloss over their differences](#) with muted public statements. But one individual briefed on the contents of the call said Mr Trump was "apoplectic" with Mr Johnson for his Huawei decision and expressed his views in vivid terms.

A second official confirmed that the Trump-Johnson call was "very difficult". British officials with knowledge of the exchange said they were taken aback by the force of the president's language towards Mr Johnson.

[Australian MP delivers stunning rebuke to UK's Dominic Raab on Huawei](#)

A key member of Australia's Parliamentary intelligence committee has strongly criticised British Foreign Secretary Dominic Raab in a private meeting over British intelligence claims they can safely allow Chinese telco Huawei to build the country's 5G mobile network.

Labor MP Anthony Byrne delivered the rebuke during a 25-minute meeting on Thursday in Canberra between Mr Raab and some members of the intelligence committee, underlining tensions between the UK and its allies over Huawei.

"How would you feel if the Russians laid down infrastructure in your own networks? That's how we feel about Huawei," Mr Byrne told Raab, according to sources in the room. Mr Byrne became frustrated when Mr Raab said the decision to approve Huawei was "difficult" but "technical" and "not political."



Mr Byrne, who has a long-standing relationship with Australia's intelligence agencies, responded by telling Mr Raab that British spies were "flat-out wrong" to say Huawei can supply 5G equipment and not pose a threat to national security, according to the sources. Mr Byrne added that this determination went against the assessments of Australian and US agencies.

Byrne described the issue of China as an "existential" one for Australia, according to a source. He argued Australia had never before been in the position where its largest trading partner was also its biggest "security threat".

WSJ Op-ed from Rep. Mike Gallagher (R, WI)...

[Opinion | Let the Trans-Atlantic Trading Begin](#)

With Brexit done, the U.K. and U.S. have an opportunity to create a model bilateral trade agreement, and with it revitalize their special relationship. Both President Donald Trump and Prime Minister Boris Johnson have expressed interest in such a deal.

Unfortunately, this early optimism has been tempered by the U.K.'s recent decision, currently pending approval in Parliament, to allow Huawei into its future 5G network. The decision comes despite lobbying from its Five Eyes intelligence allies, including the U.S. and Australia, which argued that threats from Huawei and its links to the Chinese Communist Party can't be mitigated.

***The fallout from the U.K. decision threatens to erode the special relationship** and has even called into question whether the U.S. and Australia can safely share intelligence with Britain going forward.*

Fortunately, there is still time for Parliament to reverse the U.K.'s course and apply a simple, universal standard for companies that seek to participate in its 5G network: They must not be subject to the extrajudicial direction of foreign governments.

*The U.S. should get to work offering its ally a clear incentive to apply this standard. **If the U.K. is willing to exclude vendors that can't meet that standard of independence, then the U.S. should make clear we will proceed quickly on planning a bilateral trade agreement.***

I like that AG Barr is fired up, but this is crazy talk...

[To counter Huawei, U.S. could take 'controlling stake' in Ericsson, Nokia: attorney general](#)



Calling China the biggest threat to America, U.S. Attorney General William Barr said on Thursday the United States should actively consider putting its "financial muscle" behind Finland's Nokia (NOKIA.HE) and Sweden's Ericsson (ERICB.ST) to counter Huawei's dominance in next-generation 5G telecoms technology.

In a remarkable statement underscoring how far the United States may be willing to go to counter Huawei, Barr said in a speech to a Washington think-tank conference on Chinese economic espionage there had been proposals to meet the concerns "by the United States aligning itself with Nokia and/or Ericsson."

He said this was envisaged "through American ownership of a controlling stake, either directly or through a consortium of private American and allied companies."

"Putting our large market and financial muscle behind one or both of these firms would make it a far more formidable competitor and eliminate concerns over its staying power, or their staying power," Barr said.

[WSJ News Exclusive | U.S. Pushing Effort to Develop 5G Alternative to Huawei](#)

Seeking to blunt the dominance of China's Huawei Technologies Co., the White House is working with U.S. technology companies to create advanced software for next-generation 5G telecommunications networks.

The plan would build on efforts by some U.S. telecom and technology companies to agree on common engineering standards that would allow 5G software developers to run code on machines that come from nearly any hardware manufacturer. That would reduce, if not eliminate, reliance on Huawei equipment.

Companies including Microsoft Corp., Dell Inc. and AT&T Inc. are part of the effort, White House economic adviser Larry Kudlow said.

"The big-picture concept is to have all of the U.S. 5G architecture and infrastructure done by American firms, principally," Mr. Kudlow said in an interview. "That also could include Nokia and Ericsson because they have big U.S. presences."

Big decision set for Feb 28...

[Trump administration to meet on Huawei export curbs after Pentagon pushback: sources](#)



The Trump administration plans to meet this month to discuss further curbing technology exports to China and its flagship telecoms company Huawei, two sources said, in a bid to resolve differences within the government over the possible crackdown.

The gathering, currently scheduled for Feb. 28, will bring together high-level officials for talks after the U.S. Commerce Department withdrew a rule aimed at further reducing foreign shipments to Huawei Technologies amid pushback from the Defense Department, one of the people said.

a draft rule by the Commerce Department to expand its authority to block more shipments to Huawei - first reported by Reuters in November - was stymied by opposition from the Pentagon last month over concerns about harm to U.S. interests. The Treasury Department also pushed back against the measure, sources said.

In an unusual move, Commerce withdrew the rule from the inter-agency review process, pending a meeting of principals to resolve differences.

[Merkel plan for Huawei gets pushback from within her own ranks](#)

German Chancellor Angela Merkel's efforts to rule out a ban on Chinese telecommunications giant Huawei Technologies have hit a wall of resistance in parliament.

While Britain and the European Union introduced policies that allow Huawei's partial participation in 5G mobile networks, Merkel has failed to forge a compromise with lawmakers in her Christian Democratic-led bloc who want to ban the world's biggest telecoms gear supplier, according to three officials familiar with the process.

Attempts to reach an agreement last week failed and will be resumed later in February.

[U.S. Election](#)

Biden's all-too predictable implosion reveals a rift in the Democrat Party that may prove irreparable. A good portion of the Sanders base will choose to stay home or perhaps even – gasp – vote for Trump if the Party Establishment tries to stuff a moderate nominee down their throats...

[Opinion | The Center Cannot Hold](#)

Part of Mr. Sanders's resilience against centrist attacks stems from his grass-roots movement



*of small donors, organizers and vocal supporters. If party leaders openly assail him, **they risk alienating Sanders loyalists, only 53% of whom say they will certainly support the Democratic nominee if it isn't him.** The problems at the Iowa caucus have instilled even more rancor and suspicion regarding Democratic institutions among his base. Establishment attacks on Sanders — especially if effective — could result in Mr. Sanders's base simply staying home in the general election.*

Yet if Mr. Sanders's rise continues unimpeded, the party may risk demoralizing fiscally conservative Democrats, though those voters may be more likely to support a Democrat in the general election no matter what than Mr. Sanders's passionate backers.

If they attack Mr. Sanders, "they're going to get a massive backlash, but if they don't, then they're going to lose the center of the party," Jefferson Cowie, a historian of American class politics at Vanderbilt University, told me recently. "It's a very volatile moment, I think, in the party's history."