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It's the Economy

Come On, China, Buy Our Stuff!

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The first time I visited China, in 2005, an American businessman living there told me that the country was so huge and was changing so fast that everything you heard about it was true, and so was the opposite. That still seems to be the case. China is the fastest-growing consumer market in the world, and American companies have made billions there. At the same time, Chinese consumers aren't spending nearly as much as American companies had hoped. China has simultaneously become the greatest boon and the biggest disappointment.

It wasn't supposed to be this way. In 2000, the United States forged its current economic relationship with China by permanently granting it most-favored-nation trade status and, eventually, helping the country enter the World Trade Organization. The unspoken deal, though, went something like this: China could make a lot of cheap goods, which would benefit U.S. consumers, even if it cost the country countless low-end manufacturing jobs. And rather than, say, fight for an extra bit of market share in Chicago, American multinationals could offset any losses because of competition by entering a country with more than a billion people — including the fastest-growing middle class in history — just about to buy their first refrigerators, TVs and cars. It was as if the United States added a magical 51st state, one that was bigger and grew faster than all the others. We would all be better off.

More than a decade later, many are waiting for the payoff. Certainly, lots of American companies have made money, but many actual workers have paid a real price. What went wrong? In part, American businesses assumed that a wealthier China would look like, well, America, says Paul French, a longtime Shanghai-based analyst with Access Asia-Mintel. He notes that Chinese consumers have spent far less than expected, and the money they do spend is less likely to be spent on American goods.

There is a long list of missteps, French says. Home Depot, for example, overestimated the desire for D.I.Y. home projects and high-end materials in a country with an unbelievably cheap labor force and a thriving black market. Kodak learned it couldn't forever dump its unsold film on a consumer base looking to make their first cameras digital ones. The Gap had to learn that a thriving middle class does not want to dress shabby-chic. In general, French says, European companies have done much better than American ones because they've had to practice selling across borders and cultures for decades.

Many U.S. executives also assumed that as China got richer, its citizens would spend more of their income. But the opposite has happened: the country's savings rate is now climbing faster than its spending. China's households save more than a quarter of their money, while Americans save less than 4 percent.

Some argue that this is because of millenniums-old Confucian frugality. Others say it's more prosaic. When China joined the W.T.O. in 2001, it famously conceded that it would break "the iron rice bowl" — to get rid of the millions of decent-paying (for China) government jobs with fairly generous (for China) benefits. Partly as a result, a successful professional in Shanghai knows that she will have to bear any future health care or retirement costs for herself and, because of the one-child policy, for her parents and grandparents too.

Yet probably the greatest barrier to Chinese consumption is the policy of China's Central Bank. Every month, the United States buys around $35 billion in goods and services from China and sells around $11 billion back. That, of course, leaves a $24 billion trade deficit. Currencies work like any other salable good in that they adjust based on supply and demand. Every month, the United States is demanding a lot of renminbi and China is demanding few U.S. dollars. The natural result should be for the dollar to get weaker as the renminbi gets stronger.

But China's government prevents that adjustment by artificially increasing the demand for dollars, spending much of that $24 billion surplus on U.S. Treasury bonds. This sounds boring, but it effectively makes all Chinese exports somewhere around 25 percent cheaper and all U.S. imports to China, effectively, about 25 percent more expensive. Sure, we get to buy cheap stuff made in China, and by selling so many Treasury bonds, our interest rates — like those for credit cards or mortgages — are lower. But the long-term impact is disastrous. Many economic analysts, from Dean Baker on the left to David Boaz on the right, argue that all that easy money from China helped make the housing bubble much bigger and last longer, which created a far bigger crisis when the bubble finally burst.

The currency intervention also functions as a massive inequality-creation machine. U.S.-based behemoths, which own or use many of those exporting Chinese factories, benefit, as do their shareholders. And because more than 90 percent of U. S. stocks are owned by the wealthiest 20 percent, the spoils are disproportionately concentrated at the top. Meanwhile, lower wages, lost jobs and crippled manufacturing employment fall on the less wealthy. The economists that I spoke to estimated that China's currency policy has cost the U.S. between 200,000 and 3 million jobs. Of course, the wide range suggests that these are little more than educated guesses. But a broad picture does emerge. U.S. manufacturing employment has fallen by around 6 million over the last decade. If China had allowed its currency to adjust naturally, life might be much better for many former American factory workers.

Now is a particularly good time to put pressure on China's economic planners. Many market analysts fear that China's economy is slowing down considerably, a prospect that suggests the country will keep the renminbi weak for years to come. Given this, it may seem odd that China's currency policy isn't the beginning and end of every single political stump speech. After all, it's probably the one thing that, if changed, could instantly bring both jobs and more equality to this country. I can't think of any other economic agenda that would receive the support of unions and big business, free traders and protectionists, Wall Street Occupiers and Tea Partiers.

Every president since Clinton has been trying to persuade China to float its currency. A number of Republican presidential candidates, including Mitt Romney, support pressuring China. But candidates always talk tough. Presidents opt for a gentle, nudging approach. They know that China, alone, gets to decide.

Adam Davidson is the co-founder of NPR's Planet Money, a podcast, blog, and radio series heard on "Morning Edition," "All Things Considered" and "This American Life."