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Richard J. Grant: U.S. economic freedom falls as China rises

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Since June 2010, the Chinese currency has risen in value by about 7 percent compared with the U.S. dollar. This has not stopped accusations of “currency manipulation” from the U.S. and elsewhere. Such accusations are politically useful since not one person in a hundred understands what the charge means and it vaguely sounds as though the accuser has the best interests of U.S. workers at heart.

The U.S. Senate has just passed a bill that would require the U.S. to impose tariffs on goods imported from selected countries in order to punish currency manipulators and to counteract perceived underpricing. House Speaker John Boehner has already indicated that the bill will not proceed in the House. He sees punitive tariffs as harmful to trade relations. But few dispute the charges of currency manipulation.

This is interesting because, of all the problems that Chinese actions might present us with, currency manipulation is the least of them. Of far greater importance, and a prerequisite for civil relations between individuals and nations, is respect for individual property rights. Governments that never come to terms with such basics will always present a threat to their citizens and to international peace.

China is not a free country and, although it is opening up, its people have paid a high price for past repression. According to the Economic Freedom of the World: 2011 Annual Report recently published by the Fraser Institute and the Cato Institute, China now ranks 92nd out of 141 countries studied in terms of economic freedom.

To the extent that economic freedom is a predictor of economic progress, China has a long way to go in relative terms. But in absolute terms, its score on the freedom index has improved greatly over the past 30 years. This freeing up of economic relations explains the tremendous increase in China's productivity and standard of living.

Any neighborhood is made better by the presence of neighbors who are self-supporting and respectful toward other people and their property. It is in the interests of the Chinese people themselves to become such neighbors. To the extent that they retain state ownership of their enterprises, they hurt themselves more than they hurt us. When they subsidize their industries, they hurt their own potential domestic production more than they hurt ours.

Most people can't figure this out for themselves; they must be shown. But what kind of example is it to the world, and to ourselves, if we reject our own economic freedom?

Over the past 15 years, the United States has fallen to 10th place on the Economic Freedom of the World index; and in absolute terms, we have shown one of the most significant decreases in economic freedom.

After years of single-digit growth, since 2008 the Federal Reserve has tripled the quantity of base money. It has also pushed its target interest rates to record lows. Does this qualify as currency manipulation? Is not currency manipulation the purpose of all central banks that manage a fiat currency?

After its 20 percent inflation in 1994, China adopted our monetary policy by periodically fixing its currency to ours. But as we expanded our money supply, China had to do the same and suffer price inflation. To avoid this inflation, it was in China's own interest to allow its currency to rise relative to the dollar.

Richard J. Grant (Lipscomb University and the Beacon Center of Tennessee) appears each Sunday. Email: rjg@richardjgrant.com