

United Liberty

Expect plenty of China bashing this week

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While President Barack Obama and House Republicans have emphasized the importance of pending free trade agreements as a method to create jobs — and they're right, Senate Democrats are [playing politics with China](#):

Senate Democrats now believe a measure targeting China's currency practices will win broad support, leading some to question whether that undercuts the issue's ability to rally voters for next year's elections.

Generally speaking, targeting China on trade has garnered support from members of both parties, especially in Rust Belt states that have lost manufacturing jobs.

[...]

[C]andidates from both parties have tried to tar their opponents as not tough enough on China in recent election cycles, including in last year's midterms.

Democratic officials, currently trying to defend a narrow majority in the Senate, contend that the issue could give them a boost in manufacturing states like Michigan, Ohio and Pennsylvania.

Sens. Sherrod Brown (D-Ohio), Bob Casey (D-Pa.) and Debbie Stabenow (D-Mich.) have all been prominent supporters of the China measure, which looks to pressure Beijing into letting the value of its currency rise.

In a sign of how important the China bill is to Senate Democrats, the chamber is proceeding with the measure before dealing with President Obama's \$447 billion jobs package. In advance of the vote, Schumer and Senate Majority Leader Harry Reid (D-Nev.) have said that policymakers' best option for creating jobs is to level the U.S. trade deficit with China.

This bill is a bad idea and it also just passes blame for many of our self-inflicted economic problems, mostly a result of bad policies pushed by Congress (both parties deserve blame there) and the Bush and Obama administrations. Daniel Ikenson [explains](#):

China currency legislation is a diversion – a shell game. Despite the opinions of [Harold Meyerson](#) and [Fred Bergsten](#), there simply isn't any evidence that a stronger Yuan will produce a smaller bilateral trade deficit or that a smaller trade deficit will boost employment. Indeed, [policymakers shouldn't be targeting trade](#)

deficit reduction in the first place—let alone a bilateral trade deficit, which is meaningless in a world dominated by trade in intermediate goods.

As explained [here](#) and [here](#), globalization with its transnational production sharing and cross-border investment has mitigated the impact of currency values on trade flows. Because the value of imported inputs accounts for about half of the value of Chinese exports, a stronger Yuan reduces the prices of imported inputs used to manufacture and assemble products in China for export to the United States and elsewhere. This dampens any expected impact of a rising currency. In fact, between July 2005 and July 2008 the renminbi rose 21% against the dollar, to \$.1464 from \$.1208, where it had been pegged since 1997. But the U.S. bilateral trade deficit increased from \$202 billion to \$268 billion over that period. Since June 2010, the Yuan has appreciated by 7 percent against the dollar, but the bilateral trade deficit is on target to be 34% larger in 2011 than it was last year. And (as described [here](#) and [here](#)) there is no discernible relationship between trade deficits and employment.

Broader support on Capitol Hill for currency legislation boils down to this: with public approval ratings hovering in the low-to-mid teens, an embattled Congress is looking for plausible scapegoats for the dismal state of U.S. economic affairs. Thanks to a lot of [media-driven hype](#) about China's inexorable rise at U.S. expense, Americans fear China almost as much as they loathe Congress. A vote to reclaim American jobs stolen by China—as the currency legislation is so disingenuously characterized by some of its supporters—enables politicians to return to their states and districts with concrete evidence of the seriousness of their efforts.

Only it's not serious. It's deeply dismaying. Instead of working hard to change homegrown U.S. policies that inhibit investment, job creation, and growth, our elected officials would choose to lay the blame for our woes at China's feet, then cross their fingers and hope that their provocative, unilateralist legislation doesn't unleash a torrent of adverse consequences that would make economic matters even worse. Can there be a stronger admission of failure than to launch such a desperate Hail Mary?

Sadly, Mitt Romney has made China-bashing part of his economic plan, both in terms of [protectionist rhetoric](#) and on the currency issue. The Club for Growth [explained the problems with Romney on China](#) last month:

We are somewhat concerned by the protectionist language used by Governor Romney in his plan regarding trade with China. A President Romney would be wise to avoid starting a trade war with China and punitive duties like the ones proposed by Romney are the first step in that direction," added [Club for Growth President Chis] Chocola.

China isn't going to be an issue for voters, that is unless the Congress passes a modern day equivalent of the Smoot-Hawley Tariff Act, which would raise prices on cheap goods and likely exacerbate our economic problems. No doubt, voters wouldn't smile on that.