

## The Economy: Is China Better Than the United States?

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In addition to a fall in profits and a rise in unemployment, the Great Recession of 2008 brought with it a fall in American self-esteem and a rise in anxiety about the country losing its title as the world's top economic power.

Beijing has seemingly withstood the capitalist financial crisis of 2008 far better than the Land of the Free. So could it be that China is better at capitalism than the United States? Even then presidential candidate Barack Obama [had asked Americans](#) why the United States wasn't emulating Beijing's policies.

A Reuters economic specialist and blogger, Derek Scissors, believes that this fear of China surpassing the United States as the world's leading economy is "patently absurd."

"America should not lose track of its advantages over China – in wealth but also in natural resources, and in surprising areas such as employment. Most important, the U.S. should not make the error of mimicking unwise Chinese policies, and should instead focus on getting the American house in order," Scissors, who is also a research fellow at The Heritage Foundation, advised.

Philip Levy, resident scholar at American Enterprise Institute (AEI), agrees that while China is to be taken seriously, it may be too early to have a panic attack about losing the economic superpower title.

"It is very tempting to look at China's tremendous economic growth of recent decades and project it out into the decades to come," said Levy.

"There are, however, some very good reasons not to do this – China's demographics are undergoing a major shift and its developmental model is running up against serious economic and political obstacles."

However, China's obstacles are not important to many hurting Americans who struggle to pay the three dollars and change at the pump. If citizens are so focused on the economic woes here at home, it is easy to see why China's growth strikes such an anxious chord in most Americans.

The symptom of a weak economy that perhaps scares Americans the most is unemployment. In the past two years, U.S. unemployment numbers have been hovering around the 9 percent mark. This number is perhaps higher as it does not include those who have given up looking for jobs, but would work if they found one. Meanwhile, Beijing touts an unemployment average of below 4.5 percent.

However, is that number accurate? According to economic specialist Scissors, no one, including officials at the Ministry of Human Resources and Social Security, believes it is.

The CIA Factbook records the unemployment figure for China as being under 4 percent, but this per cent includes an asterisk that reads: "the data is for urban areas only; including migrants may boost total unemployment to 9."

Also, many people who live in urban China are "off the books," so they are not counted in official numbers. When these factors are taken into consideration, the United States doesn't have much to envy in the way of employment. In fact, Reuters blogs that the state-controlled Chinese Academy of Social Sciences "placed urban unemployment at 9.4 percent before the full impact of the financial crisis was felt. [China's] rural unemployment has long exceeded 20 percent."

"China now makes the stuff we used to make. But what they are really exporting to us is unemployment," said Joseph Gagnon, an economist at the Peterson Institute for International Economics, who previously worked for the Federal Reserve Board, according to the Fiscal Times.

Another area of concern for most Americans is the Gross Domestic Product (GDP). This refers to the market value of all final goods and services produced in a country in a certain period of time. Despite having a population four times as large as the United States, in 2009, China's GDP was \$5 trillion. America had three times that much, \$15 trillion. The average American had \$48,000 in annual income, whereas the average Chinese had less than \$4,000. This is a pretty big deficit for a country that is feared to become the world's next top economic power.

Furthermore, China SignPost did an analysis that compared the top eight cities of China to the top eight U.S. cities based on economic output. The study finds that China's eight largest cities still trail the eight largest U.S. cities substantially in terms of economic output. For instance, Shanghai, the largest Chinese city with the highest economic production, was trailing the 8th-largest U.S. city, San Francisco, by nearly 50 percent in 2009.

Shanghai was worth about \$400 billion – roughly equivalent to Washington, D.C. and greater than Dallas or Houston.

However, the growth rates do not bode well for the United States. In fact, China's growth rate has been outdoing the United States for the past 30 years. Financial expert Scissors predicts that due to the growth rate, China is on target to surpass America in the next 30 years, if not sooner, in raw economic size.

"The bottom line is that at current relative growth rates, China's economy will exceed that of the U.S. in the next 5 years in real terms. China's long-term growth has averaged nearly 10 percent per year, while the U.S. has slowed to about 2 percent. This year, it is even slower," remarked Jim Dorn, China analyst at the CATO Institute.

"The U.S. demise is due primarily to policies that have increased the size and scope of government and decreased private saving and investment. The power of public-sector unions has helped fuel this crisis in government."

"China, in the meantime, has liberalized its economy and attracted massive foreign investment."

However, raw economic size is just one of many factors when determining economic power.

"China is still far from a free society and thus far from meeting the true criterion of development –namely, personal and economic freedom. Its real income per capita will not be on par with the U.S. for many decades," predicted Dorn.

Scissors explained that when China surpasses the United States in raw economic size, "the average American's income will still be more than four times greater than that of the average Chinese. Despite polls describing China as the economic leader, no one in the U.S. would trade the number-one ranking in GDP for a 75 percent cut in salary."

China will be "bigger than the U.S. in less than a generation, but America will remain much richer, indefinitely."

Technology is another measurement of economic power. Scissors' analysis states that "annual Chinese sales will shortly pass American sales, but on a per capita basis, the U.S. is far ahead."

"This suggests that (China) as a nation will be increasingly capable while individual Americans will remain more productive."

So although China has been economically gaining on the United States, there are many factors to weigh. While there are real concerns to be had about America's economic situation, the United States still has multiple advantages over China.

Levy lists the top 5 U.S. economic advantages compared to China:

1. United States firms are more responsive to market forces and consumer desires, thereby putting them at the forefront of lucrative industries like technology, sophisticated capital goods, and consumer entertainment (books, movies, music).
2. The United States has done a better job at creating an environment that fosters innovation and creativity. It is a feature of the American economy that China is desperately trying to replicate.
3. The United States has a stronger financial system than China. This may sound perverse, in the wake of recent crises, but the financial system includes angel investors and venture capitalists and all those funders who make loans to move resources from less productive to more productive pursuits.
4. The United States' political system gives it economic advantages. When there are difficult economic choices to be made, U.S. policies have a legitimacy that can only come from democratic decision-making. Thus, shocks in the United States are less likely to threaten the entire system.
5. Free and open discourse in the United States, along with an independent court system, helps to ensure product quality for U.S. manufactures and produce. Anyone attempting to skirt the rules is far more likely to be caught. China has had serious and growing problems with this, from tainted food, to suspicious of sub-standard workmanship on high-speed railroads.

In order for the United States to regain complete control of the economic crisis that has hit hard in the past few years, it needs to "put itself on a sustainable fiscal path, provide a sound business climate, and focus on long-term investments, such as in the education of young people," advised Levy

"If we do those things, the country's other strengths will keep us in a position of global economic leadership."

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