


Start with #1:
Like **BUICK DRIVING GOOD**  and we will donate \$1* to  
*up to \$40,000 | Click for Terms & Conditions
The nation's largest domestic hunger relief organization
BUICK REGAL

 [Back to Article](#)  [Click to Print](#)



Saturday, Oct. 30, 2010

Blaming China Won't Solve the U.S.'s Economic Woes

By Zachary Karabell

With economic activity in the U.S. flatlining and the creditworthiness of European nations still at issue, you'd expect that the annual meeting of the International Monetary Fund would focus on joint policies to address these concerns. But no. Instead, at the insistence of the U.S., the meeting focused on China and its currency.

Picking up the baton from the U.S. House of Representatives — which, in one of its last acts before adjourning for the midterm elections, passed a bipartisan bill aimed at retaliatory action against China for its "significantly undervalued" currency — Treasury Secretary Timothy Geithner urged the IMF to pressure China to adopt "more flexible, more market-oriented exchange-rate management." This is a technocratic coded message to China: You're rigging your currency to keep it cheap, and the U.S. economy is paying the price. So cut it out — or else. The normally stodgy IMF meeting became the latest battleground pitting the U.S. against a surging China. ([See pictures of the global financial crisis.](#))

The U.S., leading the charge for developed nations, has convinced itself that China has purposely kept its currency undervalued to make its exports more attractive. Our new conventional wisdom is that China's policy leads to escalating trade deficits and the loss of American manufacturing jobs. It has also allowed China to accumulate \$2.5 trillion in foreign reserves — and become the most significant foreign creditor for the U.S. and its ballooning debts. We're even irked because the Chinese are saving way more than they consume, worsening the global imbalances that are supposedly imperiling the tenuous recovery from the financial turmoil that shook the world. To rectify these problems, China must allow its currency to appreciate dramatically — 20% to 40% — quickly.

This thesis is animating both global economics and domestic politics. Dozens of candidates have run ads assailing an opponent for coddling China and allowing it to take advantage of us. In the election-year view, China grew 10% annually for the past decade while maintaining low inflation only by taking advantage of its artificially low currency. ([See pictures of the best-selling cars in](#)

[China.\)](#)

When did we collectively go through the looking glass and end up in this distorted economic universe? The idea that the U.S. is not responsible for its own economic stagnation, housing bubble and unemployment is a black-is-white, up-is-down view that only insecurity can breed. It's not us; it's them and their cheap goods. It's not that American consumers have demanded cheaper stuff for decades and that companies have sated this demand by sourcing in low-cost labor markets in Japan and Taiwan in the 1970s, Mexico in the 1990s and China in the 2000s. It couldn't be that companies have gone where the growth is and invested overseas rather than at home. It couldn't be that the U.S. and European countries have become highly efficient and productive manufacturing zones that require fewer workers because of IT, robotics and just-in-time inventory systems. No, it's China and its currency that are causing the lion's share of harm.

This is an argument born of fear and fueled by paranoia. It obscures the degree to which the economies of China and the U.S. have become symbiotic. Those trillions in reserves that China accumulates: Where do they go? Back to the U.S. in the form of loans to the federal government. Those made-in-China goods that account for the trade deficit: Whom do they benefit? China, yes, but also American consumers and companies. Without China, American companies could not have maintained their profitability in recent years. Take two marquee names, Caterpillar and Nike. Both manufacture in China, but both also view China as a fast-growing market for their products. ([See "China at 60: The Road to Prosperity."](#))

George Soros warned recently that a currency war could plunge the world into turmoil more damaging than anything wrought by the financial crisis of the 1930s. He's right. Whether we like it or not, we live in a global system. The zero-sum attitude toward China and its currency is a relic, the legacy of an earlier era when nations defined economic life.

China is far from perfect and seeks its own advantage, but holding it accountable for our domestic problems is beyond anachronistic. It reflects a dangerous refusal to deal with the world as it is. Retaliating against China over currency will not restore high-end manufacturing jobs in the U.S., which needs more domestic demand, not more bodies. It will not revive construction or retool the American labor force. It will not rebuild rotting bridges or create a next-generation energy grid.

The U.S. cannot force China to bend, but it can cause serious disruptions to the global economy. We can take the cue from our fears and plunge the world into chaos. Or we can act like the great nation that we profess to be and tend zealously to our own problems rather than looking abroad for dragons to slay.

This article originally appeared in the October 25, 2010 issue of TIME.

[See pictures of China's electronic waste village.](#)

[See TIME's Pictures of the Week.](#)

 [Click to Print](#)

Find this article at:

<http://www.time.com/time/magazine/article/0,9171,2025568,00.html>

Copyright © 2010 Time Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited.

[Privacy Policy](#) | [Add TIME Headlines to your Site](#) | [Contact Us](#) | [Customer Service](#)