GlobalResearch
Center for Research on Globalization

China Is Not The Problem

By Dr. Paul Craig Roberts
Global Research, August 19, 2007
Information Clearing House 19 August 2007

Region: USA
Theme: Global Economy, Media Disinformation

At a time when even the Wall Street Journal has disappeared into the maw of a huge media conglomerate, the New York Times remains an independent newspaper. But it doesn't show any independence in reporting or in thought.

The Times issued a mea culpa for letting its reporter, Judith Miller, misinform readers about Iraq, thus helping the neoconservatives set the stage for their invasion. Now the Times' reporting on Iran seems to be repeating the mistake. After the US commits another senseless act of naked aggression by bombing Iran, will the Times publish another mea culpa?

The Times editorials also serve as conduits for propaganda. On August 13, a Times editorial jumped on China for "irresponsible threats" that threaten free trade. The Times' editorialists do not understand that the offshoring of American jobs, which the Times mistakenly thinks is free trade, is a far greater threat to America than a reminder from the Chinese, who are tired of US bullying, that China is America's banker.

Let's briefly review the "China threat" and then turn to the real problem.

Members of the US government believe, as do many Americans, that the Chinese currency is undervalued relative to the US dollar and that this is the reason for America's large trade deficit with China. Pressure continues to be applied to China to revalue its currency in order to reduce its trade advantage over goods made in the US.

The pressure put on China is misdirected. The exchange rate is not the main cause of the US trade deficit with China. The costs of labor, regulation and harassment are far lower in China, and US corporations have offshored their production to China in order to benefit from these lower costs. When a company shifts its production from the US to a foreign country, it transforms US GDP into imports. Every time a US company offshores goods and services, it adds to the US trade deficit.

Clearly, it is a mistake for the US government and economists to think of the imbalance as if it were produced by Chinese companies underselling goods produced by US companies in America. The imbalance is the result of US companies producing their goods in China and selling them in America.

Many believe the solution is to force China to revalue its currency, thereby driving up the prices of 70% of the goods on Wal-Mart shelves. Mysteriously, members of the US government believe that it would help the US consumer, who is as dependent on imported manufactured goods as he is on imported energy, to be charged higher prices.

China believes that the exchange rate is not the cause of US offshoring and opposes any rapid change in its currency's value. In a message issued in order to tell the US to ease off the public bullying, China reminded Washington that the US doesn't hold all the cards.

The NYT editorial expresses the concern that China's "threat" will cause protectionist US lawmakers to stick on tariffs and start a trade war. "Free trade, free market" economists rush to tell us how bad this would be for US consumers: A tariff would raise the price of consumer goods.

The free market economists don't tell us that dollar depreciation would have the same effect. Goods made in China would go up 30 percent in price if a 30 percent tariff was placed on them, and the goods would go up 30 percent in price if the value of the Chinese currency rises 30 percent against the dollar.

So, why all the fuss about tariffs?

The fuss about tariffs makes even less sense once one realizes that the purpose of tariffs is to protect domestically produced goods from cheaper imports. However, US tariffs today would be imposed on the offshored production of US firms. In the era of offshoring, corporations are not a constituency for tariffs.

Tariffs would benefit American labor, something that the US Chamber of Commerce, the National Association of Manufacturers, and the Republican Party would strongly oppose. A wage equalization tariff would wipe out much of the advantage of offshoring. Profits would come down, and with lower profits would come lower CEO compensation and shareholder returns.

Obviously, the corporate interests and Wall Street do not want any tariffs.

The NYT and "free trade" economists haven't caught on, because they mistakenly think that offshoring is trade. In fact, offshoring is labor arbitrage. US labor is simply removed from production functions that produce goods and services for US markets and replaced with foreign labor. No trade is involved. Instead of being produced in America, US brand names sold in America are produced in China.

It is not China's fault that American corporations have so little regard for their employees and fellow citizens that they destroy their economic opportunities and give them to foreigners instead.

It is paradoxical that everyone is blaming China for the behavior of American firms. What is China supposed to do, close its borders to foreign capital?

When free market economists align, as they have done, with foreigners against American citizens, they destroy their credibility and the future of economic freedom. Recently the Independent Institute, with which I am associated, stressed that free market associations "have defended completely open immigration and free markets in labor," emphasizing that 500 economists signed the Independent Institute's Open Letter on Immigration in behalf of open immigration.

Such a policy is satisfying to some in its ideological purity. But what it means in practice is that the Americans, who are displaced in their professional and manufacturing jobs by offshoring and work visas for foreigners, also cannot find work in the unskilled and semi-skilled jobs taken over by illegal immigrants. A free market policy that gives the bird to American labor is not going to win acceptance by the population. Such a policy serves only the owners of capital and its senior managers.

Free market economists will dispute this conclusion. They claim that offshoring and unrestricted immigration provide consumers with cheaper prices in the market place. What the free market economists do not say is that offshoring and unrestricted immigration also provide US citizens with lower incomes, fewer job opportunities, and less satisfying jobs. There is no evidence that consumer prices fall by more than incomes so that US citizens can be said to benefit materially. The psychological experience of a citizen losing his career to a foreigner is alienating.

The free market economists ignore that a country that offshores its production also offshores its jobs. It becomes dependent on goods and services made in foreign countries, but lacks sufficient export earnings with which to pay for them. A country whose workforce is being reallocated, under pressure of offshoring, to domestic services has nothing to trade for its imports. That is why the US trade deficit has exploded to over $800 billion annually.

Among all the countries of the world, only the US can get away with exploding trade deficits. The reason is that the US inherited from Great Britain, exhausted by two world wars, the reserve currency role. To be the reserve currency country means that your currency is the accepted means of payment to settle international accounts. Countries pay their oil import bills in dollars and settle the deficits in their trade accounts in dollars.

The enormous and continuing US deficits are wearing out the US dollar as reserve currency. A time will come when the US cannot pay for the imports, on which it has become ever more dependent, by flooding the world with ever more dollars.

Offshoring and free market ideology are turning the US into a third world country. According to the Bureau of Labor Statistics, one-quarter of all new US jobs created between June 2006 and June 2007 were for waitresses and bartenders. Almost all of the net new US jobs in the 21st century have been in domestic services.

Free market economists simply ignore the facts and proceed with their ideological justifications of open borders, a policy that is rapidly destroying the ladders of upward mobility for the US population.

About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at http://paulcraigroberts.org