A new low for China bashing

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As America's election season nears its finish, the debate seems to have come unhinged. Nowhere is that more evident than in the fixation on China – singled out by both President Barack Obama and his Republican challenger, Mitt Romney, as a major source of pressure bearing down on American workers and their families. Get tough with China, both stressed in the presidential debates, and the pain will ease.

Nothing could be further from the truth. Consider the following charges:

Currency manipulation. Since China reformed its exchange-rate regime in July 2005, the renminbi has risen 32% relative to the dollar and about 30% in inflation-adjusted terms against a broad basket of currencies. These are hardly trivial amounts, and more renminbi appreciation can be expected in the years to come.

Unlike Japan, which was pressured by the West into a large yen revaluation in 1985 (the "Plaza Accord"), the Chinese have opted to move gradually and deliberately. American officials call this "manipulation," arguing that market forces would have resulted in a sharper renminbi appreciation than has occurred. Fixated on stability – a concept alien to US politicians and policymakers – the Chinese prefer, instead, to play a more active role in managing the adjustment of their currency. I call that prudence – perhaps even wisdom. Two lost decades later, the guinea pig, Japan, might have a view on which approach works best.

Outsourcing and intellectual property. Notwithstanding some recent modest improvements in the US labor market, America's job situation remains terrible. Private-sector employment is still down 4.1 million from its January 2008 peak.

Yet there is not a shred of evidence to support bipartisan claims that this ongoing carnage is the result of outsourcing US manufacturing jobs to China. While the manufacturing sector's share of private employment fell from 11.9% in January 2008 to 10.7% in September 2012, this is only a small portion of the enormous secular decline since the early 1970's, when manufacturing accounted for more than 30% of private-sector employment. Weak demand – especially the post-crisis collapse in consumer spending growth – is a far more likely culprit than China in explaining the recent hiring shortfall.

China, for its part, has become a major workhorse of globalization – an assembly hub for inputs produced by multi-country supply chains and an offshore efficiency solution for hard-pressed Western multinational corporations. About 50% of all exports leaving China have been processed previously by other economies, and close to 60% are shipped by Chinese subsidiaries of "foreign-invested enterprises."

While these trends benefit Chinese workers, they also support America and other countries by holding down inflation and making it possible for their companies to cope with tough competitive pressures. They allow beleaguered American families to stretch their paychecks (think Wal-Mart). And they have not stopped innovative Western companies from putting their intellectual property and new technologies on the line in China in order to deliver spectacular new products to US customers (think Apple).

The trade deficit. Yes, the US runs a massive trade deficit with China – around $295 billion in 2011, or fully 40% of America's total merchandise trade gap of $738 billion. Republicans and Democrats alike argue that this is the crux of America's jobs problem. After all, trade deficits mean job losses.

Because the biggest share of the US trade gap is with China, a country vilified as a currency-manipulating cheater, the bilateral trade deficit has become the lightening rod for China bashers. It is what has driven Obama to go to the mat with China on recent disputes within the World Trade Organization and on restrictions on Chinese investment in Oregon wind farms, and what has led to saber-rattling by Romney on currency manipulation and trade sanctions.

But neither candidate acknowledges the much bigger elephant in the room. In 2011, the US had trade deficits with 98 countries. The other 97 deficits did not magically appear. They are all part of an enormous multilateral trade deficit that stems from America's unprecedented shortfall of saving – a depreciation-adjusted "net national saving rate" (combining businesses, households, and the government sector) that has been negative since 2008. Lacking in savings and wanting to grow, the US runs massive current-account and multilateral trade deficits in order to import other countries' surplus savings.

This goes to the heart of the folly of China bashing. No leading country in world history has persistently maintained a negative saving rate. Trade deficits – with China or any other country – are part of the price that America pays for its unbridled profligacy.

Unless and until the US faces up to its chronic aversion to saving – namely, by reducing massive federal budget deficits and encouraging the rebuilding of severely depleted household saving – multilateral trade deficits will persist. Simple arithmetic and basic economics tell us that a multilateral problem cannot be addressed by a bilateral solution.

Politicians have a penchant for simple and powerful messages. Yet those messages are often more spin than substance. American families are hurting, and elected officials want to pin the blame on China, thereby deflecting attention from the difficult task of rebuilding saving, restoring competitiveness, and living within the country's means. Indeed, one could argue that it is the American public that is being manipulated by the erroneous charges leveled at China.

Fortunately, the campaign season is nearly over. Left unanswered, however, is what comes next. China bashers typically change their tune after a presidential election. But there is nothing typical about the pressures that are likely to continue squeezing American families long after November 6.

Both Obama and Romney run the risk of painting themselves into a corner when it comes to China. That could take all of us to the edge of a slippery slope. America's leaders need to come clean with the American people – before it is too late.

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