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# Holding China to Account

By PAUL KRUGMAN

The dire state of the world economy reflects destructive actions on the part of many players. Still, the fact that so many have behaved badly shouldn't stop us from holding individual bad actors to account.

And that's what Senate leaders will be doing this week, as they take up legislation that would threaten sanctions against China and other currency manipulators.

Respectable opinion is aghast. But respectable opinion has been consistently wrong lately, and the currency issue is no exception.

Ask yourself: Why is it so hard to restore full employment? It's true that the housing bubble has popped, and consumers are saving more than they did a few years ago. But once upon a time America was able to achieve full employment without a housing bubble and with savings rates even higher than we have now. What changed?

The answer is that we used to run much smaller trade deficits. A return to economic health would look much more achievable if we weren't spending \$500 billion more each year on imported goods and services than foreigners spent on our exports.

To get our trade deficit down, however, we need to make American products more competitive, which

in practice means that we need the dollar's value to fall in terms of other currencies. Yes, some people will shriek about "debasement" of the dollar. But sensible policy makers have long known that sometimes a weaker currency means a stronger economy, and have acted on that knowledge. Switzerland, for example, has intervened massively to keep the franc from getting too strong against the euro. Israel has intervened even more forcefully to weaken the shekel.

The United States, given its special global role, can't and shouldn't be equally aggressive. But given our economy's desperate need for more jobs, a weaker dollar is very much in our national interest — and we can and should take action against countries that are keeping their currencies undervalued, and thereby standing in the way of a much-needed decline in our trade deficit.

That, above all, means China. And none of the arguments against holding China accountable can stand serious scrutiny.

Some observers question whether we really know that China's currency is undervalued. But they're kidding, right? The flip side of the manipulation that keeps China's currency undervalued is the accumulation of dollar reserves — and those reserves now amount to a cool \$3.2 trillion.

Others warn of bad consequences if the Chinese stop buying United States bonds. But our problem right now is precisely that too many people want to park their money in American debt instead of buying goods and services — which is why the interest rate on long-term U.S. bonds is only 2 percent.

Yet another objection is the claim that **Chinese products don't really compete** with U.S.-produced goods. The rebuttal is fairly technical; let me just say that those making this argument both overstate the case and fail to take the indirect effects of Chinese currency policy into account.

In the last few days a new objection to action on the China issue has surfaced: right-wing pressure groups, notably the influential Club for Growth, oppose tariffs on Chinese goods because, you guessed it, they're a form of taxation — and we must never, ever raise taxes under any circumstances. All I can say is that Democrats should welcome this demonstration that antitax fanaticism has reached the point

where it trumps standing up for our national interests.

To be fair, there are some arguments against action on China that would carry some weight if the times were different. One is the undoubted fact that inflation in China, which is raising labor costs in particular, is gradually eliminating that nation's currency undervaluation. The operative word, however, is "gradually": something that brings the United States trade deficit down over four or five years isn't good enough when unemployment is at disastrous levels right now.

And the reality of the unemployment disaster is also my answer to those who warn that getting tough with China might unleash a trade war or damage world commercial diplomacy. Those are real risks, although I think they're exaggerated. But they need to be set against the fact — not the mere possibility — that high unemployment is inflicting tremendous cumulative damage as we speak.

Ben Bernanke, the chairman of the Federal Reserve, said it clearly last week: unemployment is a "national crisis," with so many workers now among the long-term unemployed that the economy is at risk of suffering long-run as well as short-run damage.

And we can't afford to neglect any important means of alleviating that national crisis. Holding China accountable won't solve our economic problems on its own, but it can contribute to a solution — and it's an action that's long overdue.



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