China's Many Impacts on the Stagnant West

Edmund Phelps[1*]

It is always an honor and a pleasure to speak at the China Development Forum. I am very sorry not to able to be there in person this year. On a personal note, I have been extremely touched by the warmth and support of my dear Chinese friends during the Pandemic.

Just in the past few years, China can point to the amazing accomplishment of lifting 80 million people from poverty, the striking success in getting control of the Covid virus, the major technological successes, and now the striking prospect of resuming 6 per cent growth per year of the GDP. In contrast, the West over that same span cannot point to any such achievements.

We see in China an economy that has shown extraordinary performance for more than forty years. In striking contrast, the West's economies – led by the American economy and American influence – have shown stagnation over almost the totality of the past fifty years.

Owing to their size and their differences, though, there may be possibilities for China to give something to America and America to give something to China.

That thought came to my mind on noticing the rising complaints in the West about the extraordinarily high current account surplus in China (which most economists in the West view as costly.) This surplus appears to be not only the result of a market outcome – the unusually high propensity of the Chinese to save or a weakness of investment demand attributable to the Covid virus – but also the result of the central bank's setting high interest rates.

[1] Some of the econometric research for this report was conducted by Professor Hian Teck Hoon, Dean of the School of Economics at Singapore Management University. I am grateful too him for lengthy discussions.

Nevertheless, it is surely possible for China and the U.S. to bargain: to find a *quid pro quo* that would make *both* countries better off – as their governments see it, at any rate. The U.S. can *compensate* China for the requested concession.

Another interaction between the Chinese economy and the U.S. economy posing some costs is the employment of Chinese workers to produce intermediate inputs in the production of desktop computers and some other electronic products. This interaction is quite different from the above interaction since it is the *market* in China that is creating the problem for the U.S., not the government in China.

The immediate result of the allocation of Chinese workers to producing the intermediate products has been to displace many, though not all, American workers in those industries. Furthermore, as labor-augmenting technological progress arose in the Chinese industries producing these intermediate products, the supply of these intermediate goods has continued to grow. As a result, the inflow of these intermediate goods to the U.S. is driving down wages in those industries.

Here too it is surely possible for China and the U.S. to find an arrangement, or bargain, that would provide a way by which the U.S. government in collaboration with China would not merely *compensate* the Chinese. The two countries might be able to find a way to make both sides better off – a *mutual gain.* Perhaps it will be difficult in practice to identify an opportunity to make both countries better off. But we can be certain that there do exist reorganizations of a country that could – on some measures, at any rate – make both countries better off.

But such improvements are not attainable if the countries do not *negotiate.* The existence of resource allocations that make both countries better of cannot be found if the two countries do not exchange ideas for resource allocations that are better – better for both.

Now, news just out suggests that both China and America do in fact desire to regain a good relationship. It has been reported that Secretary of State Anthony

J. Blinken will meet next week in Anchorage, Alaska, with China's foreign minister Wang Yi and its top diplomat, Yang Yi. In a statement last Wednesday, March 3, Mr. Blinken said the meeting would be an opportunity "to lay out in frank terms the many concerns that we have… including the effects of Chinese trade practices on U.S. workers." [2]

In another dimension, there is the subject of how China's *growth* has been impacting America. Initially, China's emergence into the world economy some 40 years ago might have been expected to divert capital investment from the West to China. There was some such diversion in micro-economic terms but, in the aggregate, China's current account was in surplus, as many firms and wealthy individuals – and the government too – sought to diversify the placement of their wealth. (Even the trade balance has been in surplus) By supplying some of its saving to the rest of the world – for its own reasons -- China has contributed to investment in the rest of the world. In this way, China has helped the rest of the world to grow.

Where, I have asked myself, are the Chinese and American heading? If both China and America operate with laissez-faire, free-market economies, the rate of return to investment in the US economy would not have sunk to the low level we found it at the end of the previous decade, 2019. A large part of American saving would have been divided between some investing in the U.S. and some in China; as a result, capital would have not fallen almost to the saturation level that we see now. But for various reasons, little of American saving has gone to China (and some Chinese saving continues to go to the U.S.)

Americans as a whole would benefit if there were sufficient cooperation and mutual confidence to encourage much more of America's saving to finance Chinese investment; and China would have benefitted too. We could all benefit from more cooperation.

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* Edmund Phelps, the 2006 Nobel Laureate in economics, is director of Columbia's

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[2] "Secretary of State and Security Set to Meet China's Foreign Minister," *New York Times*, March 11, 2021, p. A 14.

Center on Capitalism and Society, now in its 20th year. His career began at the RAND Corp. in 1959-60 and Cowles Foundation, Yale, in 1960-61.

Among his 20 or so books, he is the author of *Fiscal Neutrality toward Economic Growth* (1965), *Golden Rules of Economic Growth* (1966), coauthor and editor of *Microeconomic Foundations of Employment and Inflation Theory* (1970), author of *Inflation Policy and Unemployment Theory* (1972), author of *Political Economy: An Introductory Text* (1985), principal author of *Structural Slumps* (1994), author of *Seven Schools of Economic Thought* (1990), author of *Rewarding Work* (1997, 2007), editor of *Designing Inclusion* (2003), co-editor with H-W Sinn of *Perspectives on the Performance of the Continental Economies* (2011), author of *Mass Flourishing* (2013) and principal author of *Dynamism: The Values that Drive Innovation, Job Satisfaction and Economic Growth,* (2020) with Raicho Bojilov, Hian Teck Hoon and Gylfi Zoega.