



Revaluing China's currency could boost US economic recovery, says EPI report

About one year ago, China's central bank said it would begin reforming its practice of currency manipulation and allow its national currency to float. But an assessment by the Economic Policy Institute (EPI) shows China has made little progress toward reform and the revaluation of the yuan. Just yesterday, a perturbed Congress said they would try to force a vote on a China currency bill aimed at imposing an appreciation of the yuan. Why is China's currency value of such importance? [The benefits of revaluation](#), released today by EPI, explains that if the yuan and satellite currencies, such as Hong Kong, Taiwan, Singapore, and Malaysia, were revalued to their equilibrium levels, U.S. gross domestic product would increase as much as \$285.7 billion (1.9%), creating up to 2.25 million U.S. jobs.

"It's in the interest of both the United States and China to let the yuan appreciate," said EPI's Robert Scott, author of the report. "From the U.S. point of view, it would mean increased GDP, more jobs, lower unemployment and deficit reduction. For China it will lower inflation, raise the purchasing power of Chinese workers, and help rebalance their economy. Chinese revaluation is a win-win scenario for the global economy."

Basically, an undervalued yuan (also called a Renminbi – RMB) acts as a subsidy to China's exports (and a tax on U.S. exports) making Chinese goods artificially cheap in the global marketplace. Keeping the yuan low, by buying U.S. dollars and other foreign exchange, contributes to China's trade surpluses with Western nations, particularly the United States.

The report states that the best economic research shows that China needs to increase the value of its currency by 25% to 30% against the U.S. dollar. If China and other satellite currencies were to revalue the yuan to its equilibrium level, not only would it increase U.S. GDP, it would reduce the U.S. budget deficit by up to \$71.4 billion per year. It would take 18 to 24 months to achieve these full benefits.

China's currency manipulation may bolster its exports, but it fuels inflation at home. Fully revaluing the yuan would increase the purchasing power of Chinese domestic workers, and lower domestic costs for food, oil and other commodities, thus reducing inflationary pressures, including the threat of asset price bubbles.

Key findings of this report include:

- A 28.5% revaluation of the yuan/dollar exchange rate by China alone would increase U.S. GDP by \$207 billion dollars. If other countries in Asia such as Hong Kong, Singapore,

-More-

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Taiwan, and Malaysia also revalued too, U.S. GDP would increase by \$285.7 billion, or 1.9% (including the China effect). These benefits would be achieved in 18 to 24 months.

- A full revaluation by China alone would reduce the U.S. current account deficit (the broadest measure of the U.S. trade deficit) by \$138 billion; if other Asian countries also revalued, then the U.S. current account would improve by \$190.5 billion.
- If only China revalued by 28.5%, the growth in U.S. GDP would support 1,631,000 U.S. jobs. If other Asian countries also revalued, then 2,250,000 jobs would be created, enough jobs to increase total U.S. employment by 1.6% (over the level in May 2011).
- Creation of 2,250,000 jobs would be sufficient to reduce the U.S. unemployment rate by at least one full percentage point.
- If only China revalued, then the growth in GDP (which would increase tax revenues) and the rise in employment (which would reduce federal-safety net spending) would reduce the federal budget deficit by \$51.7 billion (0.34% of GDP) per year. If other Asian countries also revalued, then the federal budget deficit would be reduced by \$71.4 billion (0.47% of GDP) per year. State budgets across the country would also be improved by the growth of tax revenues and the decline in unemployment, Medicaid, and other safety net expenditures.
- Over 10 years, if sustained, full revaluation by China and other Asian currency manipulators could reduce the cumulative U.S. budget deficit by up to \$621 to \$857 billion. These savings could be achieved at no cost to the U.S. government.
- Revaluation by China is one of the only deficit-cutting tools available that will stimulate economic growth and job creation; other proposals for deficit reduction involving spending cuts or tax increases will reduce domestic growth and employment.
- The inflation rate in China reached 5.5% in May 2011; food and oil prices, which make up a larger share of budgets in China than in the United States, have been rising at double digit rates. Full revaluation by China and other Asian countries could lower inflationary pressures and boost real wages, reducing the threat of future asset bubbles and cooling these overheated economies. It would also rebalance growth in the global economy, helping to restore demand in the United States, Europe, and other countries where growth has slowed dramatically in the past year.

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