

Sizing Up China

“Does China Matter?” by Gerald Segal, in *Foreign Affairs* (Sept.–Oct. 1999), 58 E. 68th St., New York, N.Y. 10021.

In the continuing debate over China’s significance for the West today, Segal, director of studies at London’s International Institute for Strategic Studies, weighs in with a dismissive appraisal. “Odd as it may seem, the country that is home to a fifth of humankind is overrated” as an economic market and a military power, he says. “At best, China is a second-rank middle power that has mastered the art of diplomatic theater.”

Economically, China is of little importance, particularly outside Asia, Segal maintains. In 1997, it accounted for only 3.5 percent of world gross national product, compared with the United States’ 25.6 percent, and for only three percent of world trade—less than the Netherlands’ share. Even China’s portion of Asian trade is only 11 percent. “Despite the hype about the importance of the China market, exports to China are tiny,” he says. Of U.S. exports, less than two percent go to China—about a third less than go to Taiwan. And, at the moment, China’s economy “is effectively in recession,” Segal observes. It is doubtful that it has had, or will have anytime soon, a double-digit rate of growth, despite the limited reforms of the last 20 years and exaggerated claims based on questionable data. He sees all this as part of the overblown view of Asia generally. Fears that the Asian financial crisis would cripple Western economies have proved groundless, but the lesson has yet to be learned about China.

Militarily, China is a “second-rate” power—stronger than most of its Asian neighbors but unable to take on the United States, Segal writes. True, it may pose a threat to the Philippines. “But sell the Philippines a couple of cruise missiles and the much-discussed Chinese threat will be easily erased. . . . Even Taiwanese defense planners do not believe China can successfully invade.”

It does matter that Beijing has nuclear weapons targeted at the United States, Segal notes, and that it steals U.S. nuclear secrets. But China still is, like Iraq, only “a regional threat to Western interests, not a global ideological rival” such as the Soviet Union was. “Such regional threats can be constrained. China, like Iraq, does not matter so much that the United States needs to suspend its normal strategies for dealing with unfriendly powers.”

In light of China’s strategic threat, limited though it is, “it is ludicrous to claim, as Western and especially American officials constantly do,” Segal says, “that China matters because the West needs it as a strategic partner. The discourse of ‘strategic partnership’ really means that China is an adversary that could become a serious nuisance. Still, many in the Clinton administration and elsewhere do not want to call a spade a spade and admit that China is a strategic foe.” Yet to exaggerate the threat is alarmism. “Only when we finally understand how little China matters,” he says, “will we be able to craft a sensible policy toward it.”

ECONOMICS, LABOR & BUSINESS

Overlooked Success Story

“U.S. Wage-Inequality Trends and Recent Immigration” by Robert I. Lerman, in *The American Economic Review* (May 1999), American Economic Assn., 2014 Broadway, Ste. 305, Nashville, Tenn. 37203.

Economists have been sounding the alarm in recent years about a broad increase in earnings inequality. Though Lerman, an American University economist, has argued that no such increase took place after 1986 (see *WQ*, Summer 1998, p. 126), there has been little, if any, disagreement that wage

inequality increased between 1979 and the mid-1980s. Until now.

Lerman insists that something important has been left out of earlier assessments: the impact of immigration. In 1996, about seven percent of the U.S. labor force consisted of immigrants who had arrived during the pre-

vious 16 years, mostly from low-wage countries. To economists gauging income inequality, Lerman argues, things look worse than they should, because these low-income folk don't show up in their 1979 base year measurements. But they do appear in later measurements, dragging the averages down.

Lerman's solution is to estimate the immigrants' wages in their home countries, then add them into the base year (1979) calculations. Instead of falling by 1.4 percent between 1979 and 1996, he finds, the median wage rate for all workers *increased* by 5.6 percent. And instead of the huge 16.6 percent growth in "inequality," there was a 4.7 percent *decrease*. (In this measure of inequality, the wage rate for the top 10 percent of earners is compared with the wage rate for the bottom 10 percent.)

Among nonelderly *male* workers, however, the median wage rate (\$16 an hour in 1979) still declined, albeit by a lesser amount (5.4 percent, instead of 10.4 percent). Even so, the "inequality" ratio for the male workers, rather than increasing by 22.2 percent, dropped by 1.6 percent. According to a 1997 analysis, immigration was responsible for as much as 55 percent of the relative wage decline experienced by high school dropouts and other low-wage workers.

But immigrants' own wages have more than doubled—"more than enough," Lerman says, "to offset relative wage losses of other workers at the low end of the wage spectrum." And when the immigrants' "rapid wage gains" are taken into account, he concludes, "most of the estimated rise in wage inequality disappears."

A New Adam

"Adam Smith: Critical Theorist?" by Keith Tribe, in *Journal of Economic Literature* (June 1999), American Economic Assn., 2014 Broadway, Ste. 305, Nashville, Tenn. 37203.



Adam Smith emerges from recent historical scholarship as a moral philosopher and a cultural critic.

Adam Smith (1723–90), the father of modern economics, has long been seen as a prophet of free markets and free trade. In recent decades, a new "historical" Smith has emerged, writes Tribe, an economist at Keele University, in the United Kingdom. But when revisionists turn Smith into a moral critic of modern capitalism, he contends, they go too far.

"Adam Smith is conventionally thought to have provided an account of the economic path to human progress by demonstrating how market rationality arises out of the impulses of individuals driven by their own passions," Tribe says. Neglected, however, was Smith's role "as an analyst of commercial society, ethics, and social progress." Now, thanks to Donald Winch's *Adam Smith's Politics* (1978), Vivienne Brown's *Adam Smith's Discourse* (1994), and other recent studies, Smith's place in the Scottish and European Enlightenment has been emphasized. His arguments in *The Wealth of Nations* (1776) have come to be viewed in the context of an 18th-