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## Schumer vs. Bernanke on China's Yuan

If nothing else, China's currency policy provokes strong opinions. For an illuminating example of how politicians and economists think about this hot issue, take a look at the exchange between Sen. Charles Schumer (D., N.Y.) and Federal Reserve Board Chairman Ben Bernanke at Wednesday's session of the [Joint Economic Committee](#) of the U.S. Congress. Below is an excerpt of the relevant portion ([transcript](#) courtesy of Federal News Service):

**SEN. CHARLES SCHUMER (D-NY):** Thank you, Mr. Chairman. I very much appreciate your being here.

You have often spoken about imbalances in the global economy and the role that they played leading up to the financial crisis. Vice Chairman Kohn noted in a speech last week that deficit countries like the U.S. need to rely less on consumption, but surplus countries like China must increase their domestic demand if the global economy is going to thrive, which brings me to my first question:

It's clear to me, and many experts agree, that China's policy of keeping its currency pegged to the U.S. dollar helps to perpetrate the imbalances in the global economy by subsidizing even more Chinese exports at the cost of increasing American — increasing American exports. It makes us too much of a consumption country, and China too much of an exporting country and not enough of a consumption country.

This has a direct impact on American jobs now. Just about everyone I speak to admits that that's the case. When Lindsey Graham and I started out on this five years ago, everyone was saying, 'Oh, please, just go away.' We're not.

So if China appreciated its currency and moved to the free-floating exchange rate, it would do more for jobs here in the U.S. than any single stimulus program we could pass into law. And now Senator Stabenow and I have combined our currency reform bills into one. We intend to push for action on it in Congress.

First question: Do you agree that China's currency policies contribute to harmful global imbalances and was one of the causes of the world-wide recession?

**MR. BERNANKE:** Yes, I broadly agree with that. I think the — most economists agree that their currency is undervalued and has been used to promote a more export-oriented economy.

I think it would be good for the Chinese to allow more flexibility in their exchange rate. It would give them more autonomy in their monetary policy so they could address inflation and bubbles within their own economy. And I think that they should combine — it would be in their interests also to combine a more flexible exchange rate with other efforts to increase domestic demand, domestic consumption and achieve a more balanced economy.

So I don't think the exchange rate is the only factor, but it is a contributing factor to these —

**SEN. SCHUMER:** Isn't it a large contributing factor? 30 percent —

**MR. BERNANKE:** I don't know what —

**SEN. SCHUMER:** — 30 percent. Let's just assume that for the sake of argument right now. That's huge.

**MR. BERNANKE:** I don't know what — I don't know what share of the imbalances can be attributed to the exchange rate and how much to just the other policies that lead to an imbalance of domestic versus foreign demand, but it clearly is a contributing factor.

**SEN. SCHUMER:** Okay, now why do you think — if it's in China's interests to do it, why don't they do it?

**MR. BERNANKE:** Well, because like us they have a variety of political considerations and concerns.

They are being conservative, first of all, because I think they're concerned about the effects of any large changes given the — what they still perceive as the fragile state of the global economy.

I think that they are — like we do — they have political factors such as the influence of exporters, you know, who are interested in maintaining that strong export orientation. And so they have a variety of both intellectual, if you will, and political rationales.

**SEN. SCHUMER:** Okay. And don't we lose thousands and thousands of jobs because of this and don't billions and billions of dollars flow out of the American economy that wouldn't if just arguendo, their economy floated?

**MR. BERNANKE:** I would like to qualify that and say that besides the floating the exchange rate, they would also need to take actions such as creating a stronger safety net that would increase consumption and create a more domestic orientation towards spending.

I don't think the exchange rate by itself, in the short term, would have a major impact, but over time it would have an impact.

**SEN. SCHUMER:** Of course it would. Okay.

**MR. BERNANKE:** Yeah.

**SEN. SCHUMER:** Why don't they — you mentioned political forces.

So you're me or one of us here. And we hear of our manufacturers, for instance, saying they cannot compete. I've been to manufacturers in Upstate New York that make great products. They're selling them in China. The Chinese are now copying their products, not letting them sell them in China anymore for all kinds of — but then are going to sell them here. And this firm is worried it's going to go out of business.

I hear this story over and over again. It's a high-end product. It's a ceramic that deals with pollution in coal-producing electricity plants.

What do you do if you're us? I've been talking about this for five years. Talking gets you nowhere. And we're ready to act.

What do you suggest I do? What do I tell all those workers who have lost their jobs? What do I tell good New York manufacturers who are being put out of business, they believe, by unfair competition?

**MR. BERNANKE:** Senator, it's an important issue and I think we should continue to press for a more flexible —

**SEN. SCHUMER:** Don't you think stronger — we should take strong action than we have so far? It's produced virtually nothing.

**MR. BERNANKE:** Well, there has been some appreciation, as you know.

**SEN. SCHUMER:** I know, but that was made up for. We're still about 30 percent out of balance, which we were five years ago.

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**MR. BERNANKE:** Senator, I'm not disagreeing with your economic premise at all. But of course, the relationship between the United States and China is very complex one and covers many, many different issues.

**SEN. SCHUMER:** Well, you know, it's about time we put jobs and American wealth first and we're not and I worry about the future of the country for that reason.

– *Andrew Batson*

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