

‘China Still not Leading Economy’: US Remains the Largest Economy in Absolute Terms

By [RT](#)

Global Research, October 10, 2014

[RT](#) 9 October 2014

Region: [Asia](#), [USA](#)

Theme: [Global Economy](#)

Even though China is stronger in terms of purchasing power parity (PPP), the US remains the largest economy in absolute terms and is likely to keep this position for at least six more years, Max Fraad Wolff, New York based economist, told RT.

RT: China’s economy now tops America’s, but only in one main index, which is purchasing power parity. How significant is this?

Max Fraad Wolff: These are much more important symbolically than there are in terms of the macroeconomics. However, it is a watershed moment. Since World War II the United States has always been the largest economy either in absolute terms – which it will likely remain for several more years, or even in purchasing power parity terms, which it is another title that we held until probably sometime in the last few months. If you adjust the Chinese GDP up meaningfully for the lower average prices in China or adjust the US GDP down for the higher average prices here, we would see that the contribution all in all with that adjustment will make China larger than the US. But China has been a larger contributor to global growth, not overall but growth for quite some time given its very high growth rates on average in the last 30 years compared with our much slower growth rates of the last 30 years. Not to mention the last several years starting in the 2008 recession.

RT: The IMF predicts China to only get stronger. Does the US have a chance to reverse this second placed trend?

MFW: Probably not in terms of purchasing power parity basis. The US will continue to be the largest economy in absolute terms probably for at least another five or six years. Although, that too will eventually end. It is also worth remembering that there are literally 1 billion more people in China than in the US. So it is sort of off and not equal distribution of global growth and global GDP that allows a country with 300 million people to be larger economically than a country with literally 1 billion 300 million people like China.

RT: Reliance and trust in the dollar continues to wane every day. Is the reserve currency torch about to be passed as well?

MFW: Eventually, that is likely to happen. The only thing that we usually like to caution people is that the US dollar has had a good rate lately, although, it has been under various forms of pressure since the 1970’s with some moments of greater or lesser pressure. It is not necessarily the case that the US dollar will succumb to another single global reserve currency; say the renminbi of China or the euro or the yen, or whatever we might discuss. It could be that the dominance of the dollar gives way to a period in which there are multiple

regionally dominant currencies, not a single replacement.

RT: *Does having the title of the world's leading purchasing power parity nation make China more attractive to investors?*

MFW: I think China was already very attractive to investors. I don't think this will hurt, it will obviously help. I think for keeping the Chinese populace and Chinese firms excited and motivated and keeping focus around the world, sort of very much bought into the idea that the destiny of China is to be the largest most powerful economy in the world. Each of these milestones is symbolically important, it gives people excitement, it gives them something to work toward, and it gives them a sense of achievement. In terms of the actual macroeconomic value of these milestones – that is harder to establish.

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