America Spends, China Builds

Idea In Short

Gross domestic product breaks into four parts: consumption, investment, government and net exports. Apply that formula to the United States and China and a stark contrast appears, one economy built on spending, the other on building, each carrying its own risks.

A Formula Worth Remembering

Gross domestic product equals consumption plus investment plus government spending plus net exports, or exports minus imports.1 It is a simple identity, and it happens to be the most useful one in economics, because breaking any country's GDP into these four pieces reveals what actually drives its growth. Applied to the United States and China, the formula exposes two economies pulling in opposite directions.

America Runs on Consumption

American households are formidable spenders. The personal savings rate sat at roughly 3 percent for years before the 2008 financial crisis triggered a sharp, if temporary, rebound as households pulled back and rebuilt reserves. Consumption dominates the American GDP mix, and by one estimate Americans consume roughly 32 times more resources, food, power, water, transportation, than people in the developing world. That scale of consumption is not sustainable for the planet at large, and it leaves the household sector with thin savings cushions when downturns hit.

China Runs on Investment

China's economy runs on the opposite fuel. Investment, factories, dams, roads, airports and general construction, accounts for roughly half of Chinese output, and that capacity buildout underwrote three decades of manufacturing and export-led growth. The results are real: the Economist has calculated that China lifted 680 million people out of extreme poverty between 1981 and 2013, cutting the extreme-poverty rate from 84 percent in 1980 to about

10 percent since.2 Big numbers, and a genuine achievement.

The Question of Overcapacity

The open question is when infrastructure spending stops compounding growth and starts wasting money, bridges and airports built ahead of demand rather than to meet it. Economist Paul Krugman argued in a widely read op-ed that China's three decades of investment-led growth were approaching a wall, pointing to economist W. Arthur Lewis' theory that developing economies grow fastest while they have surplus rural labor to absorb into industry, which keeps wages low and investment attractive. Krugman's blunt framing: China has hit the Lewis point, running out of surplus peasants to fuel the old model cheaply.

Government's Uneven Footprint

Government spending as a share of GDP varies widely and is not always comparable. The United Kingdom, Brazil and Germany all report higher government spending shares than the United States, while China's reported figure is lower, partly because investment by state-owned enterprises gets counted separately rather than folded into government spending. The comparisons also miss structural differences, since countries with universal healthcare coverage report higher government spending than the United States, where healthcare spending flows disproportionately through private channels.

GDP Is an Imprecise Science

GDP measurement itself deserves skepticism. Smaller countries' statistical offices often lack the resources or the institutional will to measure economic output as rigorously as larger economies do, and governments face real incentives to shade their reported GDP up or down depending on the political moment. One striking illustration: an African country's reported GDP jumped substantially in a single day after it updated its measurement methodology, a change that affected how much foreign aid it could access.

What History Suggests About Rebalancing

Countries rarely rebalance their GDP mix gracefully or on their own preferred timeline. Japan's investment-heavy growth model, widely admired through the 1980s, eventually produced exactly the overcapacity concerns now raised about China, and the resulting adjustment cost Japan decades of sluggish growth rather than a smooth transition. The United States faces a gentler version of the same lesson: reducing consumption and rebuilding savings tends to happen abruptly, during recessions, rather than gradually through deliberate policy choices, which is part of why the post-2008 savings spike looked more like a shock response than a planned correction.

Net Exports, the Overlooked Fourth Term

The NX term, net exports, gets less attention than consumption and investment, and it deserves more, since it is the line that connects one country's imbalance directly to another's. A persistent American trade deficit and a persistent Chinese trade surplus are, arithmetically, two sides of the same relationship: American consumption absorbs goods that Chinese investment in manufacturing capacity was built to produce.3 That linkage is part of why economists frame the two economies as complementary imbalances rather than two unrelated stories, each one's excess quietly financing the other's.

Reading the Imbalance

The lopsidedness is not accidental, and it points toward where each economy needs to move. Americans arguably need to invest more and consume less, rebuilding the savings buffer that thinned out over three decades. China's leadership faces the mirror problem, since continuing to pour capital into infrastructure risks stranding assets that never generate the returns to justify their construction. Reading a country's GDP breakdown, rather than its headline growth rate, is the fastest way to understand which imbalance a given economy is actually managing.

- 1Gross domestic product
- 2Poverty in China
- 3Balance of trade

Summary

The same four-letter formula, C+I+G+NX, produces two very different economies: American consumption running on thin savings, Chinese investment running toward possible overcapacity. Both models delivered decades of growth. Both now face a reckoning about balance.