

R Is For Responsibility – US Blames China As It Leads The World Into The Next Depression

“the notorious Smoot-Hawley Tariff Act of 1930 – a policy blunder of monumental proportions that played a key role in sparking a global trade war and the Great Depression.”

Stephen Roach, Managing Director Morgan Stanley Investment Bank March 30, 2007

When the US economy contracted after the collapse of the 1929 stock market bubble, the US Congress acted. And as it often happens in history, the action backfired. Instead of protecting the US economy and US markets, the Smoot-Hawley Tariff Act of 1930 plunged the US and the world into the Great Depression of the 1930s.

The road to hell is paved with good intentions. That was true in 1930 and is true today in 2007. The US Congress, looking for someone to blame for America’s mounting economic problems—increasing trade deficits, loss of jobs, declining competitiveness, etc.—is now blaming China. And, once again, instead of protecting America’s economy, the US Congress is about to pull the lynchpin on the global economy.

Accusing China of currency manipulation is more self-serving than blaming nature for global warming—and that’s pretty damn self-serving. Currency manipulation is, in fact, the domain of the US. Without the US, currency manipulation would not even be possible.

After WWII, the US dollar was the foundation of the global financial system. America owned 75% of the world’s monetary gold and that gold backed the US dollar. Currency manipulation was impossible because the US dollar was tied to gold and all currencies were tied to the US dollar.

Between 1949 and 1971, because the US had a positive balance of trade its gold supplies should have increased. Instead, they disappeared. In two decades, the US overspent its entire hoard of gold and in 1971 announced that the US dollar was no longer convertible to gold and that it would keep what gold it had instead of paying what it owed.

In 1973, the US officially went off the gold standard and plunged the world into monetary chaos. For the first time in history, the world’s reserve currency, the basis of world trade, was not backed by gold or silver. Money was no longer intrinsically valuable. Money now was only a piece of paper, an IOU.

The next year the foreign exchange markets began to grow exponentially as speculators now determined the relative value of currencies. No longer needing to transfer gold (which it no longer had) to balance its trade deficits, the last positive US trade balance was in 1975. In 2007, the US trade deficit is heading for \$700 billion as the US can now pay its creditors—mainly China—with paper money instead of gold.

The US has now chosen China to be its whipping boy, the reason for America's economic troubles. So be it. Blaming China will play well in the US where R no longer stands for responsibility. It will also lead the world into economic chaos.

The Smoot-Hawley Tariff Act of 1930 played a critical role in causing the Great Depression in the 1930s; and, whatever Congressional action is enacted to "protect" American markets in 2007 will do the same.

America is in trouble and it's looking for someone to blame. Last year it was illegal immigrants crossing its borders from Mexico. This year it's China. But if America wants to know who's responsible, it need look no further than into a mirror.

But America doesn't want to know who is responsible. America wants someone to blame—and it wants to blame someone else.

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