Enforcing Dollar Hegemony: Only Thing New About Trump's Economic Wars Are Tweets

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The only new part of the ongoing Trump Administration economic warfare, a calculated assault on friend and foe alike from Russia to China to Iran to Venezuela and the EU, via so-called tariff war, is a President who uses Tweets as a weapon to throw opponents off balance. Since at least the beginning of the 1970's Washington has deployed similar tactics of economic blackmail and destabilization to force what has become a global domination not of US manufactured goods, but rather of the dollar as a world reserve currency. For almost five decades, since August 15, 1971, Washington and Wall Street have used their dominant position to force inflated paper dollars on the world, cause financial bubbles and subsequently debt buildup to impossible levels, then collapse.

The most essential point to understand about the so-called Trump "trade wars" is that they are not at all about trade or correcting trade or currency imbalances with America's export partners. That world was largely left behind in 1971 by Nixon and the advisers.

The US economy since 1971 has been turned into a financial revenue source, in effect turning the United States from a nation primarily producing industrial goods to one in which the sole aim of all investment is to make money from money. Companies such as General Motors which at the end of the 1960's was the largest maker of cars and trucks in the world, the heart of the American economy, got lured into speculation using its GMAC auto loan financial arm to make bets in the world economic casino, bets which went badly wrong when the US real estate bubble burst in March 2007 and GM was nationalized while the Wall Street mega banks were bailed out by taxpayers and the Fed.

The process, which I describe in detail in my book *Gods of Money*, took place over decades. By 2000, Wall Street banks and investment funds essentially dominated the entirety of the US economy. Manufacturing jobs had been pushed offshore, "outsourced," not by Chinese or German or other "greedy thieves" as charged, but by pressure from those same Wall Street banks that since the 1980's had driven corporations to focus only on the value of their stock shares and not on the soundness of their products. Leveraged Buyouts, Shareholder Value became bywords. Corporate heads perished if Wall Street banks did not approve their financial profit returns. What that has left today is a United States that is primarily a services economy, a debt-bloated consumer economy and no longer a great industrial leader. The so-called upper 1% of US oligarchs are demanding similar tribute from the rest of the world to sustain the unsustainable. The Trump trade and economic war is a desperation ploy to try to repeat half a century later what worked in the 1970's.

'Second American Revolution'

The economically destructive transformation in America's once great industrial economy had its roots in the transformations of the 1970's. The post 1930's domination of Keynesian economics which argued that deficit spending by the state could mitigate the negative effects of recessions or depressions, gave way to what John D. Rockefeller III in a book titled The Second American Revolution, argued should be a regime of deregulation, privatization of state enterprises such as electric utilities, water systems and highways. At the same time the free market Mt. Pelerin ideologues around University of Chicago economist Milton Friedman, were promoted by Wall Street and the US financial establishment around Rockefeller. Friedman became the guru of free market economics, advising both Ronald Reagan and Margaret Thatcher during the 1980's. His free market dogma became entrenched at the International Monetary Fund and was used to argue economic shock therapy and deregulation across Latin America and in the former communist economies of the Soviet Union and Eastern Europe.

The key event as regards today's Washington tariff and economic warfare goes back to the events around the August 15, 1971 decision by President Nixon to unilaterally decouple gold from the US dollar.

Nixon's Trade War Game

The decision by president Nixon in August 1971, to decouple the dollar from redemption into US gold, was only a crucial part of what became a far larger transformation, one which created the gigantic global debt overhang today of an estimated 233 trillion dollars. Much of that debt is denominated in dollars and held by central banks such as China or Japan or the EU states.

Well before summer of 1971 the US Administration had given the green light to Congress to pass punitive de facto trade restrictions on its major trade partners, Japan and the European allies of the European Economic Community (EEC), most especially Germany and France. Towards the end of the 1960's the economies of Japan and the EEC had significantly emerged from the destruction of the war with an economy rebuilt on the then-state-of-the-art industrial technology. American steel mills and car factories by comparison were products of the wartime and immediate postwar investments. German and French exports were in demand not only in the USA.

The result was that those economies began to accumulate relatively huge amounts of dollars in their central bank accounts, some $61 billion of dollar debts held abroad by 1971. Under the 1944 treaty obligations of the United States at any time the central banks could demand US gold from the Federal Reserve for those dollars. The Federal Reserve official gold stock had plunged from $25 billion to only $12 billion at the beginning of 1971, and the trend was snowballing as more central banks worried about the value of their inflated dollars. Washington and Wall Street were viewing the gold exchange clause of Bretton Woods as an albatross that could dramatically cut the global power of America.

Gold and dollars

The gold decoupling was preceded by essentially Washington blackmail using a new Congressional law imposing import quotas initially on textiles and shoes from Europe and elsewhere. The threat was made to extend the quotas to European cars and other products.

In 1970 US trade politics were in effect similar to those of the Trump Administration almost half a century later. In May 1970 US Treasury Secretary David Kennedy threatened that if

US trade partners did not take steps to allow the US to raise exports, the Congress would take steps to restrict imports into the United States. “Is it not the surplus countries that have a special responsibility to take positive action towards their elimination?,” Kennedy asked, knowing well that a major reason for trade imbalances were the fact that US corporations were buying up European and Asian companies forcing a balance of payments surplus in those countries, and that US exports were no longer as competitive against European and Japanese products.

Washington used a policy of what the Europeans termed “benign neglect” to let private capital to flow freely into especially Germany, to disrupt currency relations among the EEC. German dollar surpluses soared. Rather than devalue the vastly inflated dollar, a move which could have boosted US exports and eased the crisis, Washington demanded that the EEC countries, above all Germany, revalue upward their currencies, making their exports uncompetitive at a vulnerable time. In the case of Japan, Washington demanded that they revalue the Yen by perhaps 20% or face a tariff restricting certain categories of Japanese exports to the United States.

Nixon Secretary of Commerce, Maurice Stans, set an aggressive line against Europe. He declared,

> “in many respects we have been Uncle Sucker to the rest of the world.”

US economist Michael Hudson characterized it:

> “The United States had thrown down the gauntlet to Europe and Asia: Either submit, or retaliate under conditions where the appropriate tactical maxim is ‘Don’t hit the leader unless you can kill him.’”

Instead they cratered and obeyed. The US trade bill was a declaration that the USA and only the USA was exempt, as the dominant world power, from GATT or from any legal agreements it had with other partners.

At that point led by France, the EEC central banks–except for Germany where Washington put enormous pressure on Bundesbank President Karl Blessing–began to resume gold redemptions for their dollar surpluses. When German officials suggested already in 1966 that they were considering redeeming their rising dollar surpluses for US gold, Washington threatened the Bundesbank chief Karl Blessing to withdraw US troops from Germany, were Germany to no longer “support” the dollar.

To remove the threat of any further allied gold redemptions, on August 15, 1971 Richard Nixon, flanked by then Treasury Assistant Secretary Paul Volcker, a former executive of Rockefeller’s Chase Bank, announced the permanent closing of the Fed Gold Discount window. At the same time Nixon imposed a 10% import tariff on most US imports as a blackmail lever to force the EEC and Japan to accept unlimited dollars no longer backed by gold, dollars whose paper nominal value has inflated at a staggering rate. Even using the US government inflation measure what a US citizen could buy in 1970 for $385 in terms of food, clothing and other necessities, a person would need $2,529 today. That is a direct consequence of the Nixon gold decoupling.

In a stroke of the pen, Nixon and Wall Street had removed the threat of a gold cap on foreign dollar debts. The debts soared and Washington and Wall Street today have a dollarized world trade system where US Treasury sanctions are becoming commonplace as weapons of war to force friend and foe alike to join lock step behind Washington demands. Is China ready to challenge that dollar system with much of its high-tech production still dependent on US chips and processors and other sophisticated technologies? That dependency is what Xo Jinping's Made in China 2025 economic strategy aims to eliminate. Similarly, EU corporations with major sales in the US are leery to risk secondary sanctions for continuing trade in oil and other investments with Iran.

Today a US President Trump tweets threats against Germany or China for being "currency manipulators" without basis in fact and demands NATO allies vastly increase their defense spending for the privilege of being under the military domination of the Pentagon. The style has changed in US economic blackmail since the 1970's, but not the content.

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story, that should come as no surprise. For that is what it is.