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War and the Global Economic Crisis: Blame America's War Economy rather than China

There is a growing chorus of voices in the media and the academy singling out the actions of the Chinese state as central to the dilemmas of the world economy. This focus finds its most articulate presentations, not in the xenophobia of the right, but in the polite analysis of many left-liberals.

Nobel Laureate economist Paul Krugman , for instance, writing in the run-up to November's G20 summit in South Korea, praised the United States' approach of creating money out of nothing ("quantitative easing") as being helpful to the world economy, and criticized the Chinese state's attempts to keep its currency weak as being harmful. "The policies of these two nations are not at all equivalent," he argues, adding his influential voice to the chorus which is increasingly targeting China for the world's woes. [1] Krugman's, however, is a simplistic analysis which overlooks the role of the U.S. over decades in creating huge imbalances in the world economy, and has the dangerous effect of scapegoating one of the poorest nations of the world (China) for the problems created by the world's richest.

Krugman's argument proceeds through a sleight of hand. He objects to the attempts by the Chinese state to keep down the value of its currency – the yuan – as a series of policies whose "overall effect...on foreign economies is clearly negative." This is a common theme – China's "weak-yuan" currency being good for China (making its exports cheaper in world markets) and bad for the rest of the world.

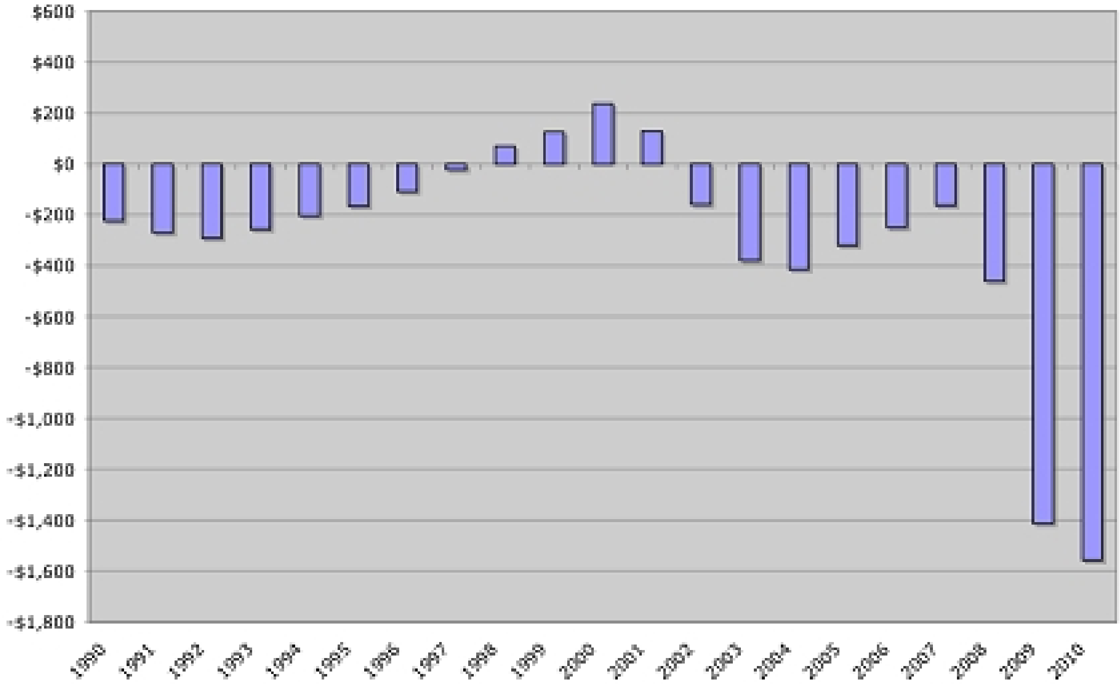
Intents and Effects

But there is a problem. By Krugman's own admission, the U.S. policy of creating money out of nothing will result in a "weaker American dollar." What he doesn't say, but what is implicit in his analysis, is that this U.S. policy is identical to China's – a “weak-yuan” policy in the latter, matched by a weak-dollar policy in the former. Krugman nonetheless lets the U.S. off the hook because, he argues, even though the U.S. dollar is certain to fall in value as a result of the new trillions being created, “that is not the ultimate goal.”

Judging a policy on its intent rather than its effect is disingenuous. Brian Burke's intent as general manager of the Toronto Maple Leafs has been to deliver a Stanley Cup to Toronto. Hockey fans are unlikely to forgive him, though, for the fact that his policies see the Leafs sitting, again, near the basement of their conference.

However, let's take Krugman at face value. Why does he see the U.S. policy as good for the world? Because, he argues, “basically, the United States is pursuing a policy that increases overall world demand” and China “is pursuing a contractionary domestic monetary policy, reducing overall world demand.”

Let's begin with some of the key facts. At the peak of the economic crisis, the United States, Canada and the European Union had to borrow hundreds of billions of dollars from the rest of the world to finance stimulus programs to stabilize their economies. China also engaged in serious fiscal stimulus (relative to GDP, virtually on the same scale as the United States) [2] , but unlike the North American and European powers, it was able to do so without borrowing a penny from the rest of the world.
[3]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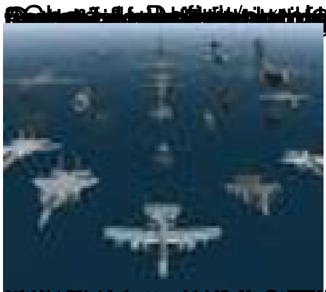

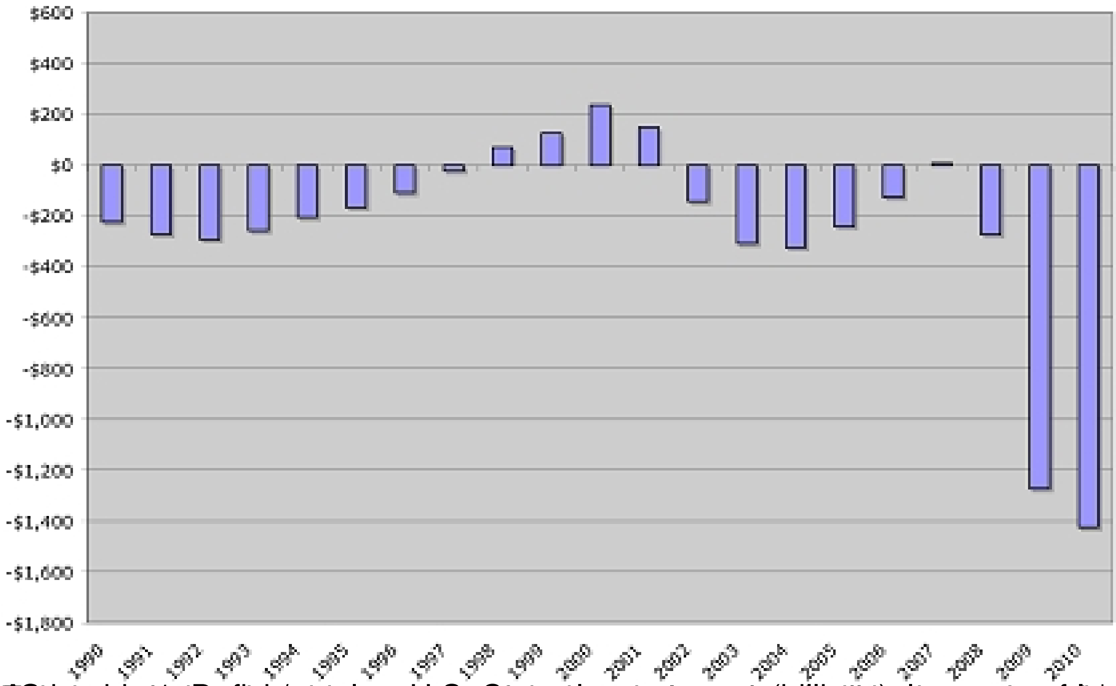
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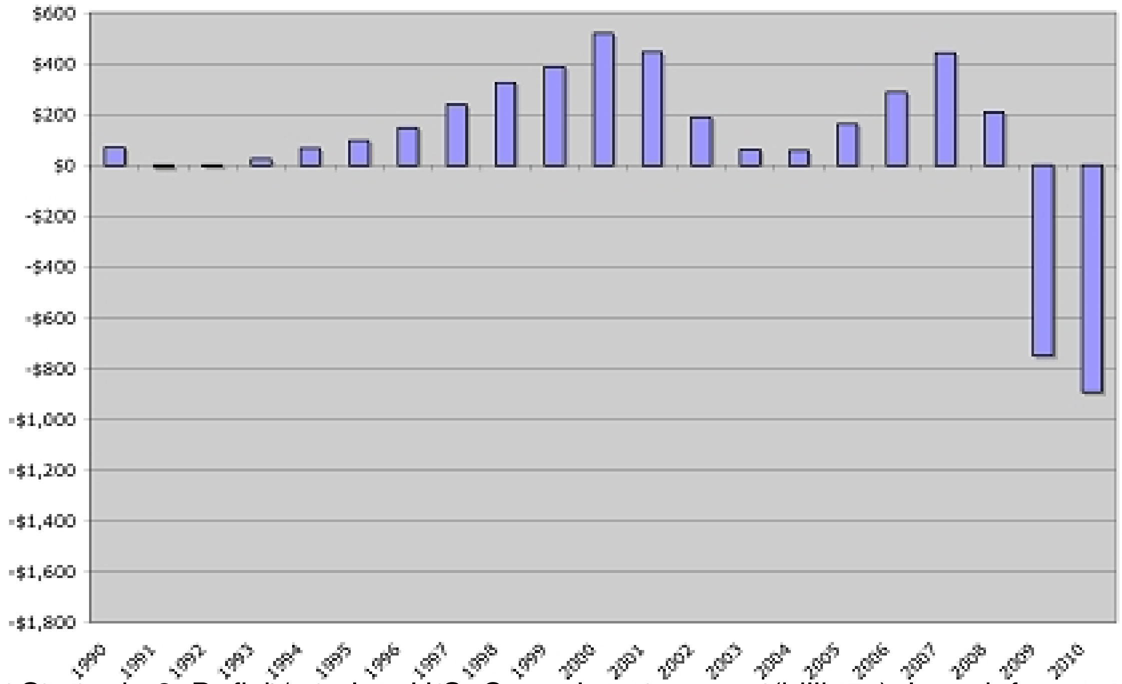
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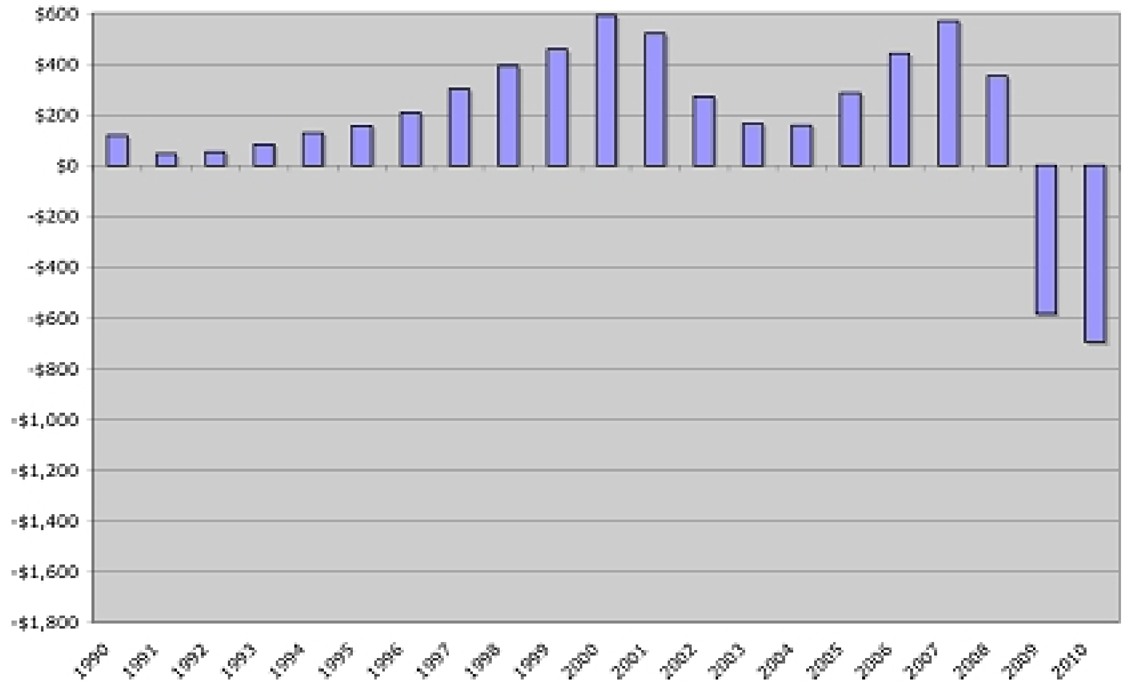
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