

A Toxic Mix

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Probably no greater concern faces the United States than the possibility of protectionism. It has never protected anything other than companies and workers who are weak and inefficient, but even for them not for long. History is replete with illustrations that protectionism is the death knell to economic growth. The greatest example was the Smoot Hawley Tariff Act of 1930. It is our view of history that the excess money growths of the 1920's, plus this tariff act, were the primary causes of the great depression. The U.S., of course, is not the only country leaning in this "circle the wagon's" mentality. Our friends the French have always been big on protectionism. For the life of us we don't see how they ever get anything done in that country. History has been lost on these folks.

China bashing has become popular again and there is a pending bill in Congress to slap a 25% tariff on their exports to U.S. "Portgate" was the poster boy for stupidity on the part of politicians. The unfortunate complexion of the movement to restrict trade has bipartisan appeal. Isn't it amazing that about the only thing the parties can agree on is such disastrous economic policy. We certainly hope better counsel will prevail, but we are not optimistic.

On another matter it appears as if we are coming to the close of the rate hikes, which began several years ago. We believe the Federal Reserve has already raised rates too much as the economic effects lag the increase in rates by up to 12 to 18 months. Of the 12 periods in the last 53 years that the Fed has initiated a series of rate increases, 10 times the stock market declined on average 22%. In 9 of the 12 series a recession has occurred. The average timing was 4 months after the last rate increase. It is our belief that not only will the stock market decline, but also interest rate spreads will widen and treasuries are destined to become the asset of choice. Protectionism and recession is a toxic mix.