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After the hectic shore-up against an uncontrolled dollar drop June 29, in which the yen broke the "psychological barrier" of 270 to the dollar, the yen continued to appreciate, reaching 267 on July 2, when the dollar also weakened in slow pre-holiday trading vis-á-vis other currencies. Lloyds predicted that the dollar would continue to fall in the coming week — "it's probably one of the worst currencies around" — and the Federal Reserve (which rarely intervenes itself, preferring the other central banks to do so) may have to step in again to support the dollar. Other New York traders agreed, though noting that profit-taking and other technical reactions will probably brake the slide.

The dollar's weakness is scant comfort to "weak" countries under heightened pressure for devaluation and deflations. Though dealers say they are getting tired of holding expensive "short" positions in Swedish krona, an eventual devaluation is still predicted — not least by Milton Friedman, currently on an arm-twisting tour of Scandinavia, and by Citibank economist Irving Friedman, just back from a visit to northern Europe. "The trouble is that the members of the European snake maintain close relationships to one another," said Friedman, referring no doubt to West German aversion to seeing key trading partners' import potential crushed. Danish economics minister Hakkerup last week criticized France and Britain for insisting that their economic problems can be solved outside the snake, adding that French and British undervaluation of their currencies only works in the short term, and hoping that other European countries will join Denmark in seeking broad-scale trade expansion.

The southern European countries are also on the line as Spain's Suarez government is beseiged to institute up to a 15 percent devaluation of the peseta, along with wage controls, credit restrictions, and other austerity measures. Portugal's difficulties, according to the July 1 London *Financial Times*, will by no means end with its new borrowings; according to Finance Minister Carreira, the $750 million international loan will only briefly "attenuate the crisis...a very delicate foreign exchange situation and balance of payments deficit." The lira, which has kept steady for months, may come under pressure due to the growing balance of payments deficit and a drastic credit crunch for industry. *Business International* pooh-poohs the foreign debt situation, since most of these obligations are "of a self-liquidating nature," and stresses the Bank of Italy's reserve capability to fend off speculative attacks, but nevertheless predicts eventual 10 percent depreciation of the lira owing to inflation.

U.S. Trade Deficit: The End Of American Industrial Superiority

WORLD TRADE

The current U.S. hard commodity trade deficit — which reached some $10 billion for this year during May and will top $25 billion by this month — shows neither the "great strength of the U.S. economy" nor its "help for world recovery" as Jimmy Carter's Treasury Secretary Michael Blumenthal, the Brookings Institution, and the *New York Times* have all proclaimed.

Instead, it shows the breakdown of the high-technology U.S. economy from its proper role as the engine of world development. The truth behind the deficit is that net U.S. industrial and industrialized agricultural *exports* have fallen by 50 percent since 1975. As a result, the U.S. will run a $27 billion deficit with the Third World alone this year. That is, the Third World will sell us $27 billion worth of oil and commodities and, rather than ordering U.S. exports, will use the cash to pay its debts.

Blumenthal and the rest of David Rockefeller's Carter Administration, whose job it is to see the Third World pay those debts, have praised the deficit, lying that the U.S. "is recovering faster," thus "importing more," and "helping its trading partners." It follows, they demand, that Japan and West Germany who together have a trade surplus of some $15 billion, run a similar-sized deficit like the U.S. — a swing of $30 billion to be transferred to the Third World for debt payment.

The U.S. deficit has nothing to do with imports, nothing to do with helping our trading partners, and not anything to do with "those nasty Arabs" and high oil prices. It fundamentally results from the constriction of world purchasing power and consumption of U.S. exports caused by the current annual payment of over $35 billion in interest and principle on international debt.

The higher prices since 1973 of oil and some commodities in reality represent little or no problem whatsoever for the U.S. *had the money gone where it belongs* — for purchases of U.S. industrial and agricultural exports. True, the U.S. deficit on oil and coal — net imports — did rise (see Table, Grand Total) from $21.9 billion in 1975 to $41.1 billion estimated in 1977. But, even considering the 15 percent rise in oil prices during the period, the U.S. as an industrial power properly needs a logarithmic rate of increase in energy consumption for industrial progress.

The problem is that the (Grand Total) U.S. balance on industrial goods and agricultural products — net exports — fell from $16.8 billion and $14.0 billion in 1975 to $6.3 billion and $9.9 billion for 1977. Our world markets have been sliced in half.

The U.S. Engine

The proper historical role of the U.S. economy as the leading technological edge of the world productive machine would in fact be to run a *$100 billion surplus* in hard commodity trade with the rest of the world, principally the unindustrialized Third World and the Soviet

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U.S. INDUSTRIAL DECAY AND THE BALANCE OF TRADE

$ U.S. BILLIONS

TRADE WITH:		THIRD WORLD COUNTRIES TOTAL	America	Asia, Africa	Middle East	INDUSTRIAL COUNTRIES TOTAL	GRAND TOTAL
Total U.S. Trade Balance	75	1.4	1.1	-2.6	2.9	7.5	8.9
	76	-10.8	-0.1	-10.9	0.2	2.2	-8.6
	77	-26.4	-7.2	-16.5	-2.7	1.5	-24.9
Industrial Goods Balance	75	18.7	10.0	3.6	5.1	-1.9	16.8
	76	17.1	10.2	0.7	6.2	-7.2	9.9
	77	15.0	8.7	0.3	6.0	-8.7	6.3
Agricultural and Raw Materials Balance	75	3.0	-1.7	2.0	2.7	11.0	14.0
	76	-0.1	-3.5	1.0	2.4	11.2	11.1
	77	-4.2	-7.8	0.6	3.0	14.1	9.9
Oil and Coal Balance	75	-20.3	-7.2	-8.2	-4.9	-1.6	21.9
	76	-27.8	-6.8	-12.6	-8.4	-1.8	29.6
	77	-37.2	-8.1	-17.4	-11.7	-3.9	41.1

The above chart shows how the U.S. balance of trade shifted from a surplus in 1975 (exports minus imports) to a deficit in 1977. Figures for 1975 and 1976 given on annual basis, with 1977 figures given to date.

Bloc. U.S. Labor Party Chairman Lyndon H. LaRouche's proposed private International Development Bank would finance at least that much in net U.S. exports. As one of the leading concentrations of high-technology industry and research and development facilities in the world, the U.S. economy is, along with Europe and Japan, the only world industrial center which can produce, if so financed, that magnitude of absolute social surplus beyond its own needs.

The last time the actual U.S. trade balance figures resembled anything like the U.S. engine was in 1975 (see Table), the last time the U.S. had a trade surplus of $8.9 billion. Although by 1975, most of the post-October 1973 increase in oil prices was in effect, the U.S. was able to exceed oil imports with a combination of $16.8 billion in industrial and $14.0 billion agricultural exports.

On closer examination, the decay had pretty well set in, with the U.S. surplus with the Third World (total) only around $1.4 billion compared to $7.5 billion with the industrial nations. Still, we were shipping a record $18.7 billion net industrial goods exports to the Third World.

Third World Shuts Down

The crucial blow to the U.S. was the end of purchasing power in the Third World, where most of the $100 billion ought to go, as total Third World debt and annual payments due on debt largely to the Rockefeller interests more than doubled from 1975 to this year. By April 1977, the U.S. 1975 total trade balance surplus with the Third World had become a $26.4 billion deficit at annual rate — far and away the bulk of the U.S. total deficit. A surplus through April with the industrial countries of Canada, Western Europe, and Japan of $1.5 billion hardly dents it. That $26.4 billion, which never found its way back to U.S. corporations and farmers but ended up at One Chase Manhattan Plaza, breaks down as follows:

Asia and Africa: So far in 1977 the U.S. has a $16.5 billion deficit in total trade with Asia and Africa. In other words, the poorest area of the world where two-thirds of the human race lives is shipping a whopping $16.5 billion worth of hard goods, net, to the USA. The oil and coal balance line for Asia and Africa shows where most of the cash is going: in 1977 the U.S. is paying $17.4 billion net to the poorer oil producing countries of the region — Indonesia, Algeria, Nigeria, and Libya. While Libya does not spend the cash for U.S. machinery mainly due to its tiny population, Indonesia and Algeria, are well-known bankrupts who have drastically curtailed domestic development programs to pay off their combined $20 billion foreign debt.

Latin America: Total U.S. trade balance with Latin America has swung from a $1.1 billion surplus in 1975 to a $7.2 billion deficit this year. The oil and coal balances account for much of this, but have been relatively stable since 1975. The real shift has been the rise in Latin American commodity prices, which brought the U.S. agricultural and raw materials balance from a nominal deficit of $1.7 billion in 1975 to a $7.8 billion annual rate of deficit this year — coffee, tea, cocoa and tin prices

speculated by Latin America's New York bankers straight out of U.S. consumers' pockets. To prove that this cash has paid installments on the combined $70 billion debts of Brazil, Mexico and the rest of the continent, Latin net purchases of U.S. industrial goods have fallen off by 13 percent since 1975.

Middle East: The "evil sheiks" often blamed for the U.S. deficit in fact have been the biggest purchasers of U.S. industrial and agricultural goods in the Third World. Since their populations are so small relative to income they have run up no debts to speak of. Even so, Arab purchases of U.S. goods have stagnated, relative to U.S. energy consumption, leaving the U.S. with a net deficit with the Middle East of $2.7 billion.

Deflating The Reflation Myth

Ironically, it is only with the industrialized West — Canada, Western Europe, and Japan — that the U.S. has run a trade surplus. This is the same area which Blumenthal et. al. claim they are rescuing from recession with "surplus U.S. imports" of their goods. Rather, the U.S. is being rescued.

Even here, U.S. surplus doesn't stand up to examination. First of all, the entire surplus with the industrial countries is accounted for by — food, not industrial products. Most of this is due to the disastrous European drought of last year and will evaporate in September when Europe brings in its harvest. The U.S. is in deficit with the industrial countries on industrial goods. But that doesn't mean U.S. imports of European machinery are stimulating a recovery there. The projected 1977 U.S. deficit on industrial goods with the industrial nations of $8.7 billion is entirely a deficit with — Japan, the country who least needs reflating.

The June 28 announcement of yet another $1 billion deficit, this time for May, seems to have frightened even Treasury Secretary Blumenthal. In an about-face he told the bemused Wall Street Journal the same day that the deficit really is "too large" — mostly, the Journal notes, because the Carter Administration has become terrified that the deficit is "undermining confidence in the soundness of the U.S. dollar." But Blumenthal has learned little; while paying lip-service to increased exports, he insisted that "one of the principal answers" to the deficit is "President Carter's energy conservation program:" a slashing of U.S. energy consumption.

The Real Economic Costs Of A Gold-Based Monetary System

GOLD

The real economic cost of gold under the proposed gold-based international monetary system would be at least $250 to $350 per ounce, compared with today's market price of $140.

This is the conclusion of a study of the real costs of mining gold in South Africa carried out by the U.S. Labor Party in conjunction with the private International Development Bank proposal issued recently by party chairman Lyndon H. LaRouche, Jr. South Africa now produces about 60 percent of the world's gold and accounts for about the same percentage of world gold stocks left below ground.

Real economic costs are defined in terms of the necessary capital inputs and human educational development programs, required to bring South African production up to the North American standards of capital-intensive mining. Specifically this includes raising the abysmal wage of South African miners to $18,000 a year.

The future existence of the world gold market as an integrated part of a technologically advancing world trade system depends upon a crash program of capitalization in the South African mines. To put in new mechanization and train the entire 400,000-man workforce involved in South Africa's gold production will require a one-time international development loan of $39 billion. As an interim program, the Labor Party proposes that the seven major finance houses managing South Africa's mines concentrate an initial $13 billion mechanization program on their most productive mines, shut down one-third of their production — the most labor-intensive mines — and leave one-third in operation at current production.

Capital Versus Labor Intensive

A comparison of South African mining methods with those in the U.S., Canada, and the USSR graphically illustrates the problem and the solution. With high standards of miner wages and a tradition of capital-intensive methods, production in North America and the USSR from the beginning has been able to exploit gold deposits on an economically feasible basis at past and current gold prices of $35 per ounce. The key has been to make the mines as capital-intensive as possible to increase productivity.

South Africa has relied on an opposite ratio of capital to labor and very low wages although it should be noted that the foreign capital for mechanization was nearly impossible to obtain during South Africa's development.

Those responsible for South Africa's labor-intensive practice are Lehman Brothers, Kuhn Loeb, Lazard Freres, Morgan Guaranty, and the Rockefellers' Standard Oil. These five make up the "American" in the Anglo-American Corporation which controls 85 percent of the capital in the South African gold mining industry.

The average U.S.-Canadian gold mine today has 500 to 1,000 workers and mines and mills, a minimum of 1,500 to