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How Volcker has looted America's trading partners

by Vin Berg

"The U.S. economy has been living as a parasite, on the rest of the world, and on the economic infrastructure produced in the United States itself in past periods. It currently functions through both cannibalization and self-cannibalization. When one deducts the subsidy to the United States stemming from extremely distorted, favorable terms of trade and the unpaid costs of amortization of basic domestic infrastructure, the U.S. economy . . . is seen to be on the verge of a *physical* breakdown crisis."

That is the prognosis of the latest *Quarterly Economic Report* prepared by *EIR*, at the direction of world renowned economist Lyndon H. LaRouche. The 265-page report is available at $1,000; $500 to *EIR* subscribers.

The report concludes: "The parasite is about to lose its host."

The U.S. economy no longer produces anywhere near enough to enable the economy to continue to produce. Over the last three years, in particular, the margin for continued economic activity in the United States has been provided by tribute stripped out of especially the underdeveloped sector and, increasingly, from Western Europe, under the supervision of the usurious policies of Federal Reserve chairman Paul Volcker.

The *EIR* study made conservative calculations of the cash amounts of the subsidy over the 1982-84 period, adding the amount the U.S. government considers the dollar to be overvalued internationally—the amount by which imports into the United States are undervalued—to the growing official U.S. trade deficit (approximately $40 billion for 1982, $75 billion for 1983). The conclusion: The amount of the raw subsidy from debt-burdened developing-sector nations has risen from $90 billion in 1982, to $120 billion in 1983, to an estimated $230 billion in 1984.

Recently, Volcker has gone on an alcoholic-like binge of dollar appreciation and interest-rate hikes, to thereby accelerate the tribute exacted for otherwise bankrupt American private banking institutions from U.S. trading partners and other victims. The suicidal lunacy this represents is clear: Volcker is adding to a subsidized economy's accumulated vulnerabilities to a terrible crash, a crash which can be prompted by any agency desirous of a U.S. economic catastrophe at this time—British, Swiss, Soviet—or by the sheer physical impossibility of America's neighbors continuing to subsidize the United States to the degree now required.

While the United States has remained a net exporter of agricultural products, it is now a net importer of semi-manufactured and manufactured goods overall. For example, in 1982, exports and imports of capital goods were in balance, but by 1984, capital goods of all sorts were being imported by the United States at a net rate of $30 billion—a capital goods trade deficit amounting to a gift to those portions of U.S. industry (purchasers of capital goods) which Volcker's policies have not yet destroyed. Given the extreme overvaluation of the U.S. dollar, and the bargain-basement prices at which those and other goods can therefore be purchased, this amounts to stealing from your neighbor to acquire what you no longer have at home.

The U.S. trade profile might best be described as that of a colonial country, exporting raw materials and importing consumer goods, semi-manufactured goods for assembly here,

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and high-technology capital goods. For example, the United States imported machine tools worth $2 billion while exporting only $1 billion worth; cotton grown in the United States is exported to Japan for expert milling and weaving, and then reimported for labor-intensive garment manufacture. The effects of this shift are in fact catastrophic, but have been masked by the advantages in currency and terms of trade which have resulted in the increase in the net inflow of goods.

Employing the LaRouche-Riemann model, which, unlike any other "econometric" model, subjects the *physical* economy to *causal* analysis, *EIR* graphically represented the growth of the foreign subsidy to the United States by taking the change in the balance of trade (the growth in the deficit) and adding that change to calculations of "overhead" expense in the economy as a whole. In this way, comparisons were made between the *observed* course of the economy, and the actual output capabilities of the economy. In other words, total tangible output of the economy is portrayed with and without the subsidy.

The conclusion: Without the subsidy from America's neighbors through terms of trade essentially representing theft, recorded tangible output of the U.S. economy would have been 7% lower. The trade deficit is thus seen to function as a source of unpaid *production inputs*—imports substituted for essential manufacturing and semi-manufacturing output the U.S. economy no longer invests in producing—permitting a level of final output not merited by the underlying physical conditions of the U.S. economy itself.

Accordingly, *apparent* net reinvestment in 1983 and the first part of 1984 was purely a result of the trade imbalance. In 1982, the U.S. economy itself produced barely enough tangible profit to meet overhead requirements. In 1983, it produced significantly too little. The difference, experienced as net investments in the following period, the first half of 1984, was made up through the trade deficit.

But worse, to the 7% of total output accounted for by looting through terms of trade, must be added another 9% to reflect the unpaid costs of maintaining America's decaying infrastructure; that is, the cost of maintaining our land, transportation infrastructure, energy production capabilities, water supplies, and urban infrastructure. This hoarding of monies that should have been spent also results in a healthier accounting appearance for a physical economy afflicted by dilapidation. Infrastructure is the essential investment a society must make, on penalty of watching its economy as a whole grind to a halt despite even the most judicious economic policies otherwise. It constitutes the "potential function" for economic and population growth—or collapse. If America's infrastructure is not even being repaired and replaced, as it is not, this unpaid cost of amortization is also properly treated as an overhead deduction from the putative industrial output of the U.S. economy during 1983 and 1984.

"Indeed," reports *EIR*'s quarterly study, "it can be categorically stated that only the steep decline of industrial and agricultural activity imposed by the post-1979 double-digit interest rate policy of the Federal Reserve has prevented infrastructure's deterioration from resulting in huge congestion, even catastrophe. The collapse in physical-goods output since 1979 'saved' America from experiencing the effects of infrastructure's demise."

Measured in lives

The world debt crisis about to come down most severely on the American banking system, Ibero-American nations' inability to pay their U.S. creditors, in particular, is nothing but the manifest exhaustion of sources for further subsidy of the United States by its neighbors. The leading factors in the accumulation of unpayable debt by the developing nations of Ibero-America, for example, have been precisely declining terms of trade and worsening terms of financing that trade. Both resulted from manipulation of commodity-pricing and credit structures by the U.S. Federal Reserve, the International Monetary Fund, and the OECD nations' private banking institutions.

Volcker is adding to a subsidized economy's accumulated vulnerabilities to a terrible crash, a crash which can be prompted by any agency desirous of a U.S. economic catastrophe at this time—British, Swiss, Soviet . . .

This has constituted one of the most outrageous injustices committed in the course of human history. Compare the peggings of selected Ibero-American currencies—such as the Mexican peso, the Peruvian sol, and the Brazilian cruzeiro—to the U.S. dollar since 1982. The Mexican peso was at 25 to the dollar in early 1982; it is now at about 190. The Peruvian sol was at 2,000 to the dollar one year ago, it is now at 3,500. These countries have been stripped out to supply a U.S. economy which Volcker's policy otherwise no longer permits to produce for itself. In Ibero-America, the appreciation in the value of the U.S. dollar is measured in human lives.

That the developing sector has been "supporting" the traditionally industrialized sector with cheap export products has been obvious for a long time. It began to become severe in 1971, when Paul Volcker as Assistant Treasury Secretary convinced John Connally, then Treasury Secretary, to convince President Nixon to float the dollar, and thus created the unregulated Eurodollar market; it accelerated in 1979 with the new Fed chairman Volcker's formal introduction of usury as U.S. government policy; it became a stampede for loot after the mid-1982 Mexican payments crisis. The looting mechanisms came to include:

- accelerated inflation in prices of developing-sector imports compared to accelerated deflation in the price of their exports;
- the artificially high value of the dollar due to interest-rate policies, drawing investment funds into the money-markets of the North;
- usurious methods of pyramiding previous debt obligations;
- organized flight-capital expeditions against nations of the developing sector.

When the world debt crisis is examined from this standpoint, the real bankruptcy at issue in today's debt crisis is clearly not the bankruptcy of the nations of the South, who can no longer pay the pyramided tribute lunatic New York bankers call "debt service," but the bankruptcy of the financial institutions headed by those lunatic bankers. The problem is not that debtor-nations of the developing sector have proven to be "non-performing" clients, but that the banking systems of the industrial nations, the United States in particular, are wholly lacking in financial integrity. Over the past decade, they have masked their own insolvency by manipulation of world commodity prices and the world credit system to impose concealed taxation on the developing sector. By the indicated usurious measures, they have piled debt onto the developing nations, which have thus been paying a subsidy to the depression-ridden industrial nations, a subsidy which, having now reached its limits, reveals the true financial condition of those honored institutions of New York, London, and Zürich, and is about to reveal the true, catastrophic condition of the U.S. physical economy.

The subsidy alone maintained the slim appearance of "recovery" in 1983-84, while the productive capability of the United States slipped further into decay. It will be the removal of this subsidy, a foregone conclusion of the ongoing financial crisis, which will reveal the underlying physical-breakdown condition of the U.S. economy.

The distortion in world trading relationships which has permitted the United States to impose concealed taxation on the developing sector applies in only less exaggerated form to trade *within* the industrial sector. For example, during the 1970s, both Western Europe and Japan expanded exports to maintain employment levels, but on terms of trade that did not permit them to maintain necessary levels of capital formation in high-technology industries. The 1970s collapse of West Germany's capital investment to below-replacement levels was hidden only because the export-dependency of its manufacturing sector rose to over 50%. The first indication that West Germany's export markets were shrinking—as IMF conditionalities and the harsh reality of exchange rates forced cutbacks on imports by developing-sector nations—triggered bankruptcies, including that of AEG-Telefunken, West Germany's seventh largest firm. The rapidity with which German employment levels collapsed thereafter resulted from the fact that, unlike Japan, Germany has been locked into an arrangement whereby its cheap exports have undermined its capacity for regenerating investment in its capital goods industries, eroding its industrial potential.

It was into this situation that Paul Volcker introduced record-high interest rates and dollar valuations after 1979; introduced, in short, a massive new erosion of Europe's industrial potential and payments base. After 1982, the same process was accelerated, bringing Western Europe to a far-advanced stage of the same general-breakdown condition described for the United States. And, over the past month, yet another round of this insanity has pushed not only developing nations, but America's European allies to the wall.

Financial chicken game

At the point that Volcker's sources of loot are dried up and the subsidy removed, the combined deficit will be asserted as the reality principle fueling the breakdown collapse. Conventional wisdom in Washington trusts that the illusion of "recovery" can be kept going until after the November elections. Reality dictates otherwise. As long as present policies, particularly Volcker's insane defense of the bankrupt monetary and banking system, are continued, the United States is playing a chicken game with the very existence of the United States itself.

The subsidy will be ended when the dollar is devalued to reflect the actual potentials of the internal U.S. economy. The dollar will be devalued at the point that Ibero-America and Europe, in particular, decide to get out from under Volcker's collapse, whatever the cost to themselves in doing so. Volcker's behavior over the last month, lunacy by any standard, is bringing that moment of truth closer. He is yet again increasing interest rates, and permitting the dollar to appreciate to 10-year highs against the deutschemark and other currencies, to keep up the rate of increase in the subsidy.

There is no telling when, or under what conditions, such a collapse would occur. But every ¼- or ½-point rise in interest rates, or increase in the exchange rate of the dollar, brings that moment closer.

Those who argue that Volcker can control this are fools. For nearly a year now, the United States has been a net debtor, depending on foreign sources of credit, not only the subsidy identified here, but also net inflows of funds to keep up the appearance of bankrupt banking institutions' solvency. As the first two quarterly reports of the Basel, Switzerland, Bank for International Settlements affirm, it was Volcker who handed the United States over to central-bank creditors in Switzerland, London, and Germany, but it is not Volcker who can now call the tune. The Swiss, British, and German creditors can. If present policies are left unchanged, it is those foreign creditors of the United States—and the Soviet Union, with reported enormous concealed leverage on world financial markets—who will arrogate to themselves the decisions which mean life or death for the U.S. economy, and the world's.