EIR Economics

Record trade deficit is #1 national security threat

by Warren J. Hamerman

The record 1984 U.S. trade deficit of $123.3 billion—nearly double the previous 1983 record of $69.4 billion and almost three times greater than 1982's $42.7 billion—dramatically underscores that the accelerating collapse of the world and domestic *real economy* is the number-one national security threat to the United States. The trade deficit with Japan alone, $36.8 billion, was greater than the United States' entire trade deficit as recently as 1980.

Construction machinery exports are down 41% since 1982. Fuel exports have dropped 28.7%. Exports of industrial supplies are off 14%. For manufactured goods as a whole, the trade deficit more than doubled to $88.5 billion from 1983's $38.2 billion. Commerce Secretary Malcolm Baldrige predicted that this year the trade deficit will get even worse.

As part of its "budget-deficit-reduction" program, the Reagan administration is fully backing a David Stockman proposal to further downgrade the Export-Import Bank, which among other things, helps to finance the purchase of Caterpillar tractors, Boeing aircraft, General Electric turbines, and other heavy-duty American products abroad. Willard Berry, executive director of the Coalition for Employment through Exports representing such companies, predicts that each $1 billion of export supports cut will cost about 40,000 jobs.

The administration has been lured into this economic trap by opponents of the Strategic Defense Initiative such as Henry Kissinger, Paul Volcker, Don Regan, James Baker III, and Marshal Ogarkov who know that if the economy crashes, the SDI is finished.

The Soviets are thus not merely relying upon the noisy opposition to the defense budget on Capitol Hill, but the underlying objective crisis in the economy. The opponents of the U.S. defense program may now resort to their fallback option of "detonating" the economic crisis, taking advantage of the Reagan administration's ideological "blind spot." The crisis lays the basis for the United States to surrender to "IMF management" by the time of the IMF's April 16-19 Interim Committee meeting in Washington. The objective of the meeting is to impose IMF "conditionalities" on the United States, subjecting the economic and fiscal policies of the second Reagan administration to "outside" management takeover.

The impending threat to U.S. national economic sovereignty has not registered in Washington, yet. Virtually the entirety of the Reagan cabinet, from the President himself on down, is talking of how the 1984 GNP increase is the largest since 1951.

The GNP increase is a fraud manufactured by statistical fakery at Paul Volcker's Federal Reserve and Don Regan's Treasury. GNP reportedly rose by 6.8% over 1983 when adjusted for inflation.

There exists a straightforward way to see through the manipulated statistics. Personal Income (PI), which is just a little smaller than GNP (but of the same approximate dimension), rose $269 billion over 1983 levels. Of this amount, $56 billion was due to an increase in interest income, $7 billion dividend income, and $40 billion service industry income. Thus, $103 billion, or 40% of PI, was waste—equal to one-third of the increase in GNP. Plus, the GNP numbers have the trade deficit at only $66 billion, when it is really $125 billion. The extra $60 billion must be deducted from GNP.

Finally, whereas GNP has farm income down $10.4 billion in 1983, it has farm income up $8.5 billion in 1984, an unbelievable swing of $20 billion while farmers were going out of business faster than ever.

Thus, as the record 1984 trade deficit underscores, the fraudulent recovery is composed of three "components": 1) statistical manipulations and lies; 2) an artificially strong dollar; 3) liberal use of consumer credit to "boost" service sectors of the economy at the expense of basic industry.

The artificially strong dollar means that the United States has been transformed into a net importer of manufactured goods; in other words, we have suffered from a massive trade deficit in the range of $125 billion on top of the domestic budget deficit in the range of $250 billion. The dollar's value has gone up 60% over the last five years compared with most other currencies. With basic industrial and agricultural production falling into technological obsolescence and a simultaneous, mammouth trade deficit, it is no wonder that the overall U.S. national debt is soaring over $1.82 trillion. As purely speculative means are used to suck in capital from abroad to "pay for" the deficits, the problem can only get worse.

Real economic disaster

As any look at the real economic performance of the U.S. economy proves, the only boom is in the Gross National Waste Product of the government statisticians. From 8% to 15% or more of farmers nationally won't qualify for spring planting loans. Lenders have run out of collateral to lend against, explained Neil Hart, a professor of economics at Iowa State University. "The scope of the present [farm] crisis is unparalleled, even in the 1930s. We're astounded at the rapidly escalating nature of the crisis," stated a clergyman from Des Moines.

The situation in industry is no better. Nationwide initial unemployment claims rose for the fifth time in six weeks to 437,000, up from 380,000 six weeks ago.

Through most of 1984's fourth quarter, orders for domestic steel remained at an anemic 50-60% of capacity. Prices collapsed as producers fought one another for dwindling business. "I've never seen a worse pricing battle," declared R. Milton Dean, the President of McLouth Steel Products Corporation. "I don't see things improving much in this quarter."

Caterpillar Tractor's loss for the fourth quarter widened to $251 million, bringing its loss for the year to $458 million. In Rock Island, Illinois, International Harvester is closing its huge tractor plant, where 3,600 once worked. "I'm telling you the Lord is testing us," said town mayor James Davis, who like his father, two uncles and two sisters, has worked in the plants.

Aluminum production fell for the seventh consecutive month to 4,375,530 tons in November. In 1984, the average labor contract settlement called for only a 2.4% wage increase in the first year and a 2.3% increase over the life of the contract, the smallest since the Labor Department started keeping records on this subject in 1968, and more than 1.5% below inflation. If white-collar pay increases are deducted, the level of goods-producing workers' increase was probably zero, and when inflation is taken into account, 4% negative, at least.

In short, the entire so-called economic "boomlet" is nothing but a fraud extravagantly promoted by Paul Volcker's Federal Reserve. For example, Fed Gov. Lyle E. Gramley addressing a conference in Denver, Colorado on Jan. 25 claimed that the nation's "long-run growth potential is probably around 3% or a little less."

Other Fed officials claim that Gramley is too conservative in his projections, because there is no "speed limit" on growth. Even Gramley predicted "added momentum" above 3% in 1985. Why? In 1985, he intoned in a marvel of statistical doublespeak, the economy would expand at a rate above previous levels *because* it is not operating at full-employment levels. In other words, lower production levels translate into higher output "percentages" in a rapidly shrinking economy.

This is like claiming that the more rapidly Hitler expanded "production" at the gas chambers and ovens, the more he succeeded in wiping out unemployment!

While it is certainly welcome that the White House Palace Guard of Mike Deaver, James Baker III, and Richard Darman has been toppled, Volcker remains firmly in the saddle at the Fed while the economic time bomb ticks away.

The new White House chief of staff is the administration's most outspoken advocate for the IMF and Paul Volcker, Wall Street's Don Regan. With the IMF intending to "take over" U.S. fiscal management at its Interim Committee meeting in April, the combination of Regan and Baker III at Treasury could prove fatal for U.S. national security and national sovereignty.

The President must act

Only if the President were to use his powers to declare a National Emergency Defense Mobilization and embark on an FDR-style crash program for the development and deployment of a laser and particle-beam shield, can the real economy enjoy an actual economic boom.

Defense Secretary Weinberger was correct, as far as he went, on the Jan. 28 ABC-TV "Good Morning America" show: "You can't make a major impact on the deficit by cutting defense spending. Because when you do, you lose all the taxes generated by the people who are employed in defense industries and you incur some unemployment costs because a lot don't have jobs. So this idea if we cut the defense budget $10 billion, $15 billion, or $30 billion we certainly are going to take care of the deficit problem, I'm sorry to say it's just wrong."

The liberal Democrats and the Kissinger Republicans, doing Moscow's dirty work, have the knives out for the SDI. The only way for the President and Secretary Weinberger to mount a defense of the SDI is to follow Roosevelt's example from 1939-1944, when he waged an all out war to expand the real economy through the declaration of a defense emergency.

Exposing the fraudulent GNP increase, ferreting out those who perpetuated it, defeating the IMF's plot to usurp U.S. national sovereignty, and launching a real emergency economic mobilization for the defense of the Western Alliance is nothing less than the number-one issue of U.S. national security.