EIR Economics

The oil price plunge: Will a tariff be imposed in time?

by David Goldman

On April 1, LaRouche Democrats began a nationwide campaign for an emergency oil tariff, to prevent the oil price collapse from bringing down the United States economy. At the same time, Texas Gov. Mark White fired off another letter to the White House demanding that the President take emergency action to impose an import tax, for national security reasons. White has subsequently convened a emergency governors' conference, to meet in Colorado, and take up the question.

Meanwhile, the first signs of panic emerged from official Washington, as Saudi Arabia warned March 31 of a $5 per barrel oil price, and Texas oil producers predicted $4 per barrel, as the oil price plunged below $10 per barrel for the first time since the 1973 oil embargo. But the Reagan administration remains obstinately against a tariff on cheap imported oil, the only measure capable of preventing disaster.

In a statement issued April 1, the National Democratic Policy Committee "announced its support for the implementation of an emergency oil tax package, as one step in a program to stop a financial blowout in 1986. The emergency package was proposed by Democratic presidential frontrunner Lyndon LaRouche on Jan. 29 of this year, during his State of the Union address. On that occasion LaRouche had documented the threat of a plunge into the depths of a new depression, on top of the existing depression still called the Great Recovery, during the course of 1986. He warned that if measures were not taken to correct the then accelerating slide of oil prices, that might just, together with the disaster of Gramm-Rudman, be the straw that breaks the back of the bankrupt financial system.

The NDPC's proposal is not simply for a national such tariff. The proposal also addresses the impact of the collapse in oil prices on Third World debtors dependent on oil revenues, such as, in the Western Hemisphere, Mexico and Venezuela. The proposal is for a hemispheric such tariff, which would establish a parity price for production operations throughout the Americas. This way the necessary corrective action can help buy time for the reorganization of the bankrupt monetary system.

Such an approach is traditional to the American System of economics. The oil-parity tariff would shift the weight in policy making away from usurious determinations of pricing and production levels, back to emphasis of production itself.

None of the alternatives on the table would impede the gathering momentum of the ongoing collapse in the least. Therefore, the question whether there ought to be such a tariff is not open for discussion.

What is to be discussed, is what level the parity price ought to be fixed at.

The alternatives on the table include, a) doing nothing, while leaving everything to the so-called freedom of the market; b) imposing a tax on gasoline consumption at the pump, favored by Paul Volcker and his friends; c) the LaRouche Democrats' parity-tariff proposal.

The first option is still favored among the geniuses of the Reagan administration, if one is to take the public utterances of officials such as Baker and Speakes at face value, and ignore the fact that their public espousal of an alternative might well trigger a collapse of the dollar. They continue to insist that the benefits of the oil price collapsing, primarily

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$20 billion extra in consumers' pockets, or about 1% of personal disposable income, will outweigh the disadvantages, such as the collapse of the financial system, and the damage to national security incurred as a by-product of the collapse of domestic production.

The second is simply the accountant's effort to generate extra federal revenues to apply against the burgeoning federal budget deficit. It would chisel from consumers while not reversing the slide into economic and financial collapse.

The principal question that arises concerning the third, viable option, is the level at which the tariff ought to be set. For example, the oil industry itself is known to favor a higher price, based on the consideration that the funding of exploration and recovery of new oil would require a price in the range of $28 to $32 per barrel. In *EIR*'s view, it is the impact of usurious parasitism in the form of ground-rent claims, and interest levied on productive activity, which boosts the price to such a level. Such problems could easily be taken care of, by reorganizing the credit system along the lines LaRouche has proposed, and thereby reducing the claims of ground rent and interest proportionate with principles of equity. Productive activity, after all, is not undertaken to generate wealth to be skimmed off the top in the form of money income, but to permit society to continue to develop.

By way of comparison, using *EIR*'s 1967-based price deflator, oil at $20 per barrel would actually be $4-per-barrel oil, and oil at $10 per barrel would be $2 per barrel. The next round of price collapse, if not averted by the kind of measures proposed, would bring the price of oil to its lowest real level in the entire post-war period, about $1 per barrel measured in constant '67 dollars.

Saudis predict $5 oil

The latest plunge in oil prices followed a prediction by the United Arab Emirates' oil minister that oil would fall to $5 per barrel. U.A.E. Oil Minister Oteiba, who is also chairman of OPEC, said April 1 that if Britain and other non-OPEC producers do not agree to a price-sharing agreement within two weeks, oil could fall to $5.

Texas crude dropped to $9.70 per barrel the morning of April 2, and oil market sources predicted a further fall to $8 within days. A spokesman for Texas independent oil producers, Julian Martin, told wire services that day, "We're very fearful the price of oil will continue to drop to the neighborhood of $4 or $5 per barrel because we see no political or economic roadblock to the decline of oil to that level."

Martin warned that the present oil price decline would wipe out 40% of America's oil production overnight. *EIR* released the same estimate on March 31 (see page 31). A 40% decline of oil output, and a 50% cut in oil-related capital investment, would knock out 5% of America's total physical output within weeks. The secondary explosions throughout the credit system would wipe out 20% or more of U.S. output.

Until the morning of April 1, the Reagan administration had insisted that the drop in oil prices would keep the phony "economic recovery" in place through the 1988 elections. After April 1's price collapse, the administration began howling like a sleepwalker who has just stepped on a tack.

Energy Secretary John Herrington warned of "political consequences" for Saudi Arabia if it continued pushing oil prices down. In an apparent threat, Herrington said, "There is a point where decreasing prices . . . have political ramifications. This price dislocation has created severe problems in the American oil industry."

A day later, Vice-President George Bush told reporters that he was leaving for Saudi Arabia the following day, April 3, adding, "We're not going on a price-setting mission. I think it is essential that we talk about stability, and that we not just have a continued free fall, like a parachutist jumping without a parachute."

The Reagan administration is against Saudi price pressure because it threatens a financial collapse, and is against a protective tariff to hold up oil prices because it would threaten "the recovery." Oil traders demonstrated their contempt for the administration's opinion by bidding oil prices down to an all-time low, despite the new talk about price stability.

In any case, Saudi Arabia has no intention of cutting oil production, despite the Reagan administration's warnings about "political consequences" of continued price pressure. Saudi Oil Minister Sheikh Yamani told *Middle East Economic Survey* that oil prices can only be stabilized if Britain agrees to a global pact to restrain output. Britain remains adamant against such a deal with OPEC.

Oil prices are collapsing primarily because world trade and the world economy are in a global depression, and oil consumption continues to fall. In London, a top oil analyst warned that oil prices "may stabilize around $10/barrel for the next quarter with support from the Saudis, but there is little likelihood of a return to levels of $15." He added that production cuts of some 3.5 million barrels/day would be needed to restabilize prices at $20. Saudi Arabia reportedly lowered output in March by some 400,000 barrels to 3.9 million barrels/day. He remained pessimistic of any significant production cutting agreement at the April 15 OPEC meeting.

Banking system on the brink

The oil market crash will not only wipe out 5% of U.S. industrial production immediately; it will also plunge the U.S. financial system into chaos, toppling 9 of the top 10 Texas banks within weeks. Unless the administration establishes a "parity price" for oil, no other stopgap measures will help.

The NDPC also pointed up the danger of "a deflationary collapse in real estate which could pull the entire rotten banking system down with it." The only way to avoid this disastrous outcome is "for Congress to break from the illusion that the 'free market' will save us, and to impose an oil-parity tariff."