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Domestic Credit by David Goldman

Commerce Dept. has it backwards

The country's foreign dependence means that the shrinking real trade deficit is what caused the economic downturn.

For the past eight months, *EIR* has warned that the fall of the U.S. dollar would shut down U.S. physical output. Now the Commerce Department has revised its second-quarter "real" GNP growth rate data to only 0.6%, and blamed it on the trade deficit.

That is true, but not in the way the Commerce Department argues. National-income bookkeeping deducts net imports from domestic product, and the trade deficit has increased to a $170 billion annual rate.

But the real volume of imports has shrunk by perhaps 10%, since a dollar worth 40% less than last year's against the German mark and Japanese yen buys fewer goods. Since U.S. industry depends on imports for a quarter of its capital goods and almost as much of its industrial components and supplies, the dollar's fall has drastically increased the cost of operating of numerous industries. Auto making is a case in point.

There is no reason whatever to suspect that the Commerce Department's report that GNP—i.e., the inflation-adjusted value of all sales in the nation's economy—is accurate. With automobile output in the most recent reporting week down a full one-third from last year's levels, and aluminum and steel output down by about 15%, America's physical economy is shrinking, probably at a 15% to 25% annual rate as of the present quarter.

McDonald's is still selling hamburgers, so the value of all sales may not fall as fast as physical production.

Since inflation is normally five points or more higher than the government reports it to be, an accurate inflation adjustment would undoubtedly show a decline of Gross National Product by several percentage points.

In the U.S. Treasury Department's odd view of the world, the failure of West Germany and Japan to stimulate their own economies has led them to buy less from us than we buy from them.

America supposedly buys foreign products, and displaces its own manufacturing and employment with imports, because of the stinginess of foreign central banks.

If only Japan, Germany, and others would agree to stimulate their economies, the Treasury argues, the American economy would start to grow again.

The first fraudulent assumption in the Treasury's claim that weak foreign trade caused the present downturn, is that the United States economy had experienced anything but a downturn since 1979.

True, Americans sold and consumed more, but the net subsidy to the United States by our trading partners more than accounts for any increase.

In 1979, when the dollar was priced reasonably against other leading currencies, the United States ran a trade deficit of only $27 billion, against last year's $150 billion.

But last year's $150 billion deficit represented goods which would have cost about $300 billion to produce at home, because American importers paid 25% to 40% less than home prices for European or Japanese goods, and 60% to 80% less than home prices for South American goods.

That $300 billion trade deficit represented just under 20% of America's total consumption of physical goods. Stripped of the trade deficit, the U.S. economy would have declined by somewhat less than 20%; some, but not most, of the goods we import might have found domestic substitutes.

In fact, America's capacity to produce declined continuously throughout the period. Most production increases since 1979 are deceptive.

For example, America produced over 9 million automobiles in 1978, and 8.4 million automobiles in 1979; the total fell to barely 6 million during the early 1980s, before rising to 8 million cars in 1985. But the American-made automobile of 1979 gave way to an American-assembled vehicle, 25% of the components of which were imported from abroad.

In addition, virtually all of America's refined copper and aluminum, major components of automobile production, and a large proportion of America's sheet steel, were imported as well.

In short, automobile production remains well below its peak of output, and the relative improvement since 1980-82 disguises a changeover from American manufacturing to mere domestic assembly.

Now that the dollar has dropped by more than 40% against the Japanese yen and the West German mark, foreign components for the auto industry have risen in cost, even though the growing proportion of imported components from developing nations remains relatively cheap.

The subsidy is shrinking, and the American economy cannot make it on its own strength.

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