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EIR Economics

Gold: weapon for Japanese economic self-defense?

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The price of gold has soared back above the $400 an ounce level, the rise accelerating as the bouncy U.S. stock market once more retreated dramatically from the near 1900 level. The gold price increase has been accompanied by an even faster rise in the price of platinum.

Some attribute the price rise to the escalating campaign for the imposition of sanctions against the Republic of South Africa, the Free World's largest producer of the precious metal, and much else besides, including a comprehensive selection of the strategic raw materials on which the economies of the industrialized world depend. Others, in London, and Swiss banking circles, fearing a resurgence of what they call "inflation" inside the United States, have begun to recommend that their clients increase the proportion of their portfolios devoted to the precious metal.

Behind such credible accounts and explanations, aimed at encouraging the speculative creeps and parasites to begin to move out of the dollar, there may well be something much more significant brewing. The rise in the price of gold has been accompanied by the spouting of unusual complaints against Japan in the cartoons and columns of especially the *New York Times* and the *Washington Post*. Most significant in this respect was the *New York Times* expressed fear that the Japanese, finding yields on U.S. government securities declining, were beginning to shift, out of such investment patterns, and into gold.

Unstated in the expression of such fears is the extent to which U.S. capital markets have become dependent on the continuing increase of Japanese investment into U.S. government and corporate securities markets. After the capital inflow which can be attributed to the activities of the leading financial institutions, like Crédit Suisse and Merrill Lynch, which organize the flow of funds associated with the $500 billion per year narcotics business, accounting for $80-100 billion into the United States, it is the $60-70 billion annual investment inflow from Japan on which the insolvent United States and its banking institutions, depend. These levels of financial dependency, greater by far than the recycled OPEC petro-dollars of the 1970s, are what keep the United States afloat.

Why would the Japanese begin to opt for gold, to send a forceful signal to the United States that such is indeed the case? Because anybody in his right mind can figure out that Federal Reserve chairman Paul Volcker's current campaign, conducted with full backing from the dupes in the White House, and the stooges in the Treasury Department, to force Germany and Japan to lower their interest rates, threatens to push the world financial system over the cliff.

Lessons of the July trade deficit

There are two aspects to this, which would perhaps have encouraged such a shift into gold. One is the staggering $18 billion trade deficit the United States racked up for the month of July. Administration pundits, like Special Trade Representative Clayton Yuetter, reckon the U.S. deficit for the year will be in the order of $200 billion. July's figures showed a staggering collapse of U.S. exports, and an equally staggering increase of imports. The other, is the staggering, continued increase in overall levels of U.S. indebtedness.

The July deficit should finally nail the delusion of assuming that a lower dollar will increase U.S. exports and reduce imports. *EIR* said more than a year ago that the reverse would occur, because the U.S. can no longer produce what it imports. And over the year, as the dollar has fallen by more

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than 30% against the deutschemark and yen, the trade deficit widened. Economically Volcker's demand that Japan and West Germany cut their domestic interest rates translates into the ultimatum that they eliminate a certain portion of that part of their domestic production capacity which is devoted to exporting to the United States, so that the United States will not be able to import it, and so that payment demands against the United States will not continue to increase. They either accept internal economic contraction, and inflation, or face a further decline in the dollar from its present lows against the deutschemark and yen.

This is tantamount to demanding that Japan and Germany commit suicide on behalf of what Volcker considers the higher purpose of attempting to keep the bankrupt U.S. banking system afloat, perhaps until early next year, after the elections in United States. But by that time such policies may well have helped secure the defeat of the Kohl government in the Federal Republic of Germany.

It also constitutes an admission of a certain sort, that Volcker and his accomplices at the Federal Reserve, and in the Treasury Department, do not believe their own eyewash that the fall in the dollar will increase U.S. exports. Their primary concern is not reducing the U.S. trade deficit as U.S. exports increase, but cutting especially Japanese and German exports, to force those economies into more internal depressionary contraction along with the United States.

There are conclusions that ought to be drawn from such a policy on its own, which would include, in a sane world, a reassertion of gold-reserve backing for currencies. When such a policy, which demands the collapse of economic capabilities, is accompanied by ultimatum-like threats, that if it is not implemented, then the dollar will be collapsed, and bring everything down, there is all the more reason to draw such conclusions.

The system Volcker claims he is protecting is doomed. *EIR* now conservatively estimates U.S. total indebtedness, including household debt, corporate debt, government debt, and debt owned by foreigners, at about $12 trillion. The government's on- and off-budget deficit of about $400 billion, and the trade deficit of near $600 billion, pale into insignficance beside the indebtedness of the corporate sector, running between $4.6 and $5 trillion, almost an order of magnitude greater. This overall indebtedness has almost tripled since 1980-81. The fastest growing portion is the corporate sector's debt, fueled by the growth since 1983, of that utmost expression of financial insanity, the off-balance-sheet liability chain letter swindle, conservatively estimated at $3-4 trillion for the corporate sector as a whole. This portion of U.S. indebtedness has grown from non-existence to the same magnitude as the growth of the rest of the total indebtedness in the period since 1980-81. It is now, on its own, approximately the same magnitude as the total U.S. Gross National Product.

A more revealing ratio is obtained by simply dividing the total indebtedness by that part of the GNP which is accounted for by productive industries investment, inventories and supplies, and productive wage bill. The result is about $17 of debt chasing every dollar productively invested in the U.S. economy. In a bankruptcy fire-sale organized relative to these ratios, the best assets in the economy would only command a dime on the dollar, everything else would be in the range of a nickel on the dollar, or even less.

With the financial institutional basis of the dollar monetary system rotten to the degree the U.S. trade deficit and total indebtedness pictures imply, the wonder is not so much that there is now a move back to gold underway, but that such a move was not organized before. Such a move would in any case be in the fundamental interests of the United States, and would help create the conditions in which the nation's debt-sodden insolvent financial institutions were cleaned up.

Gold only one option

Whether or not Volcker and his friends realize it, Japan, and West Germany do have options available to change the terms under which he is attempting to dictate policy. The move into gold is merely one of them. Through such means, perhaps in cooperation with South Africa, the yen and the deutschemark could be partially stabilized against the dollar, at present levels for example, which is where both the Japanese and the Bundesbank have have drawn a line. Shifts of investment margins, from U.S. securities into gold, would then result in a devaluation of the dollar against gold even as the respective currencies remained relatively stable. Then, to continue to raise foreign funds for government and current account deficits, the United States would have to face the question of either returning its currency and credit to gold, or seeing the financial bubble, represented by the $12 trillion of total indebtedness, reduced to a value of approximately nothing.

The gold-based weapon of self defense, is not based so much on the strength of him who threatens to deploy it, but on the bloated weakness of the force against which it would be applied. The threat to employ that force, manifest in the rise of the price of gold above the $400 an ounce range, implicitly raises the question that the continued existence of the dollar debt bubble is above all a political question, and it is a political question, because that bubble is more than ready to collapse.

It's probable that what the *New York Times* and *Washington Post* chose to interpret as a warning shot by the Japanese, will not, in and of itself, be sufficient to encourage any fundamental shift in the insane way the United States choses to think about and act on these questions. It does however signal that the collapse of the Bretton Woods system is politically entering a new phase in which the characteristic will no longer be how to continue to support that which is intrinsically unsupportable, but how to get out from under its collapse, and survive.