EIR Economics

The trade gap is matched by the truth gap

by Chris White

The long awaited release of the November trade figures came and went. Dealers and speculators were free to release the breath they had been holding in expectation of the big event. The dollar went up. Stock markets went up. The financial system's monthly nightmare was over, until its recurrence, next month. And after all the fuss, what's left?

A simple lesson: It takes at least two to fake-up trade figures.

From October's all-time record deficit of well over $17 billion, the November figures, released Jan. 15, showed that the monthly deficit had apparently been reduced to below the $14 billion level again. Discount the President, who went on record claiming that the reduction is the result of 61 months of economic recovery. The Monday of the week in which the figures were released, he had told an audience in Cleveland that the trade deficit was a "good thing," a measure of the rest of the world's confidence in the strength of the United States. He tends to gloss over the reality that it did take 60 months out of the 61 to build up the trade deficit he now claims the nonexistent recovery is reducing.

Even with the November numbers, the deficit for the year as a whole, whose numbers will be available from the Commerce Department Feb. 15, is going to be over $175 billion, an all-time record, $20 billion or so more than the all-time record $156 billion of 1986. But then we had only had 50 months of recovery.

By any standard, the numbers the market breathed a huge sigh of relief about are evidence of disaster. But the numbers are hokey, typical of the knee-jerk Reaganite commitment to lie, "put a spin on the story," to keep up the pretence that the policy is working.

In London, and other financial centers of Europe, the release was met with frank disbelief, and filed away under the heading of another U.S. effort to buy time, an effort which would sooner or later come to nought.

Jan. 20, Wednesday of that week, Japan, as per prior agreement to keep its figures back for a week after the issuance of the U.S. data, weighed in with its figures for December. Where the U.S. numbers showed that the trade deficit with Japan was declining in November, the Japanese number showed the reverse. The Japanese numbers also showed that the gap continued to widen in December.

However, both countries did end up in about the same area for November. Both come up with a gap of $4.8 billion. The United States gets there by reducing its deficit from about $5.8 billion. The Japanese by increasing their surplus from about $4.2 billion. The discrepancy in the number was mirrored by the press coverage after the release of the U.S. figures. On Saturday, Jan. 16, the *New York Times* claimed that imports of automobiles from Japan had declined in the month of November. The *Washington Post,* on the same day, reported that despite the overall improvement in the deficit, automobile imports from Japan had increased for the month. Did the Commerce Department give them each a different version of the story? Did they simply make it up?

The discrepancy helped set off a tumble for the dollar, and for stock markets on Wednesday of the week. After all, it's not too good for that intangible known as "confidence" to have to face up to the fact that the U.S. powers that be, are not only out of the real world on these questions, but determined to stay out. Otherwise, they wouldn't feel the need to keep on lying.

So now, Special Trade Representative Clayton Yeutter is running around the world telling people that the United States has "turned the corner" on the trade deficit question. He's promoting the underlying strength of export capabilities, and the claim that the dollar's devaluation has restored U.S. competitiveness. In successive speeches, he's argued that this will show up in the "volume" side of the trade figures, before it does on the "value" side. In Hong Kong, he told people, though, that a sustained change in the value numbers would not show up until the second half of 1988, or even 1989. "Volume" here supposedly means goods and products shipped, "value" means the money paid for those goods and products.

Plain fact is, the United States couldn't increase the volume of its exports, without, the way things are organized right now, also significantly increasing the volume of its imports. Unless, that is, part of domestic output, already supported by a flow of imported parts and materials, is diverted from domestic consumption, and into export. That way the trade numbers might be improved for a few months, by way of accelerating the gutting of the economy as a whole.

Capital goods uptick?

According to the Commerce Department, the improved trade numbers for November were based on an uptick of capital goods orders. Leading what is being called the export surge of newly dynamic U.S. industries are supposed to be construction equipment, electrical generating equipment, and aircraft.

Anyone who knows anything about the way in which the U.S. economy has been functioning in recent years, knows that this cannot be true, unless the administration and its financial backers have launched the industrial equivalent of the proverbial yard sale in order to raise funds to appease foreign creditors. Interestingly, the indices of industrial output, released in the same week as the trade numbers, corroborate this. Up over all, to the delight of the President, the official numbers have a decline in durable goods output being offset by an increase in non-durable goods production. The capital goods leading the export surge originate in what the government identifies as the declining durable goods sector. If the exports do exist, it will only be at the expense of the future production capabilities of the United States.

The performance of the Caterpillar Company, a major manufacturer of earth-moving and construction equipment, ought to conform to Yeutter's profile, if he is correct. It doesn't. In fact, the reverse is the case. Caterpillar, for 1987, reports surging profits, but only a moderate increase in sales volumes. According to the London *Financial Times,* "The company also admitted to suffering from product shortages which limited sales of 21 basic models. . . . It suggested that shortages of production capacity were only a marginal problem."

Maybe Caterpillar cannot maintain a supply of materials to maintain its production. Among the materials in short supply, not necessarily at Caterpillar, are semi-finished steel slabs. These semis are subject to the Commerce Department enforced Voluntary Restrictions on Imports. Under these arrangements, import levels are set at about 20% of total steel consumption. Semi-finished slabs' share in that is supposed to be limited to 1.7 million tons, while imports have actually been running at 2.5 million tons.

California Steel, a West Coast roller of imported products, is having to turn away customers, because it cannot obtain a sufficient supply. Lone Star Steel in Texas is in the same situation. The Commerce Department is slow to process applications to lift the restrictions, presumably in order to keep imports down, to help reduce the trade deficit. But if the imports are consumed to produce capital goods for export, and they aren't there, how can the capital goods for export be there either? Unless, as a simple bookkeeper's type of trick, which presumably was employed to shift sales of aircraft, booked to Japan, into the month of November's figures, as part of the accounting effort at producing a set of numbers that would please the markets.

As for makers of electrical generating equipment, *EIR* surveys in 1985 and 1986 showed that capacity was, in the earlier year, at 50% of the level that had existed in the late 1970s, and was slated to be reduced by another 25% between 1986 and 1987. An industry which is probably one-quarter the size it was less than a decade ago, can hardly be put into the class of the newly competitive, hungry seekers after export markets. But there again, thanks to Governors Dukakis and Cuomo, internal demand for electricity generating equipment has also been reduced to below the levels at which supply can safely be maintained.

The alternative cases, that either the numbers are faked, or that the administration and its financial backers are organizing a yard sale of U.S. assets, running down remaining productive potential for immediate quick cash returns—with the truth actually made up of both—show how crazy the markets have become. For either case, on its own merits, in a sane world, would have produced the kind of healthy hoots of derision that, these days, seem to be only heard in sports stadiums.

Instead, the faked numbers and depletion of assets apparently serve to take the pressure off the dollar, and off the markets, for a short while at least.

This is evidently among the reasons why Swiss banking is said to be split into three factions right now. One which expects the next round of collapse in February, a second which thinks March is the mopst likely timeframe, and a third which considers that things can be held together until April. Not surprisingly, all are agreed that the next phase is coming.

But not in the United States. Here, the marching orders remain to protect the illusions of stability at all costs by doing the very things which will both ensure that the next phase of collapse does come, and that when it does, it will be much worse than it otherwise might have been. The continuing fable of the trade figures is merely part of that effort. The longer the liars and fakers play these kind of games, the bigger will be the reckoning when that day does arrive.