

What LaRouche's oil import tariff would do

by Chris White

Presidential candidate, and economist, Lyndon LaRouche, Jr. has been campaigning for a trigger price tariff on imported oil since his February 1986 review of the State of the Union. LaRouche has called for a trigger price to be established, at around \$26 per barrel—the tariff to be put into effect whenever the world price falls below that level.

The deepening crisis that we are now facing was exacerbated, during the early months of 1986, by the refusal then of the self-styled “powers-that-be” to even consider such measures. Some in and around the Reagan administration took the usual tack, arguing that such a tariff would violate the purity of their commitment to free enterprise, and the untrammelled exercise of the “magic of the market.”

This approach was reiterated most emphatically in George Bush's “Dole Straddles” campaign ads. Since Bush opposes taxes on imported oil, the ads ran in the Northeast, which is dependent on imported oil. It would have played differently in Texas.

Others, like Sen. Lloyd Bentsen (D-Tex.), have argued for the imposition of an excise tax on imports of oil. Their argument, against those of Bush et al., being that such taxes would help domestic production, and provide new revenue for the Treasury to combat the spiraling growth of the budget deficit.

Now that the world “spot market” price for crude has breached the \$16 per barrel level, again, the question of an import tariff has, again, become a matter of burning national importance. It is therefore crucial to step away from the ideological bugaboos, and the pandering to popular opinion on what supposedly constitute pocketbook issues—i.e., how cheap or dear the price of oil is—to look at what's involved economically.

The urgency of this is impelled from two directions.

On the one side, the United States is richly endowed with such resources as oil, and it is plain stupidity, or worse, for the country to be dependent on foreign oil, to the tune of almost 40% of its consumption. There are many countries around the world, including in the relatively developed economies of Western Europe and Northeast Asia, which need the oil a lot more than the United States does, and do not have the option of accessing domestic sources. Then, what we did import needn't originate primarily from the Persian Gulf states. If we insisted on importing, we could do so from our neighbors, like Mexico, to the south.

The approximately 40% of total oil consumption requirements that is imported, accounts for approximately \$40 billion of the \$160-170 billion trade deficit. If imports of refined petroleum products are added to the crude imports, the share of oil in the trade deficit goes up by another \$30 billion or so. Autos and auto parts bring the total to nearly \$120 billion of the total deficit. Clearly, if the trade deficit, which all the pundits keep complaining about, is going to be reduced, it will be because the level of oil imports has been reduced. Or, it will not be.

Thus, nationally the resources exist to produce a significant chunk of what is now imported, and by fostering domestic production, the trade deficit would be on its way to coming under control.

That's part of the accountant's balance sheet side of the matter. There is more to it than that, but on this basis alone, one can conclude that anyone who opposes a tariff on imported oil, isn't serious about reducing the trade deficit, and doesn't give a hoot about the domestic economy. No one should think George Bush “straddles” on that question.

The other side of the matter is shown by the state of the financial system. Federal Deposit Insurance Corporation (FDIC) chairman William Seidman's preliminary report on the performance of the U.S. banking system during 1987, delivered recently in a speech to the Conference Board, shows why. The earnings of the banking system as a whole fell to 0.13% of the system's assets. Profits were roughly \$3 billion, out of roughly \$3 trillion in assets. This can be gussied up with all kinds of trimmings, to the effect that it was the worst year for U.S. banks since the depths of the last Great Depression. It's all true. But the plain fact is, on that performance level—a five-fold decline in profitability from the year before—that the banking system, as a whole, is bankrupt.

Impact on the financial system

Now, no one in their right mind would let the insane incompetents who created that bankruptcy, in successive phases since the mid- to late-1960s, off the hook, by arguing that it's all caused by falling oil prices. It isn't. It has been caused by a spreading cancer of a financial bubble, swelling out of usury and speculation at the expense of the economy and production. The oil price has been a key part of it, because expected earnings from oil are parlayed into real estate valuations, and into collateral on the floating of various types of speculative paper. The 1986 fall in the oil price wiped out one tier of that paper. The 1988 fall in the oil price is pulling down another.

And with it, could come down whole chunks of the banking system, held up until now by inflated real estate and other paper, collateralized against non-existent oil revenues. It is easily seen, given the way credit has been spawned over the recent years, that a \$1 fall in the price of oil pulls the plug on somewhere between 10 and 20 times the discounted value of the expected earnings on the oil. To the extent the real estate titles and other paper are discounted, out of the so-called oil sector in the Southwest, and into the banking system as a whole, the collapse of the collateral underlying the paper threatens to pull down the banking system.

Those, like George Bush, who insist that there be no such tariff on imported oil, are effectively arguing for precisely such a collapse of the national banking system, through the collapse of the collateral which underlies speculatively pyramided real estate values. That is the truth of it, whether they know it or not. And if they don't know it, where do they get off with such strong opinions on things which are really matters of national life or death?

Last year, according to Seidman, 36% of the banks in the Southwest that are part of the system administered by the FDIC were operated at a net loss. That number compares with 8% of the banks east of the Mississippi and 24% of those west of the Mississippi. It's all hokey, because in reality, the money-center mega-banks of especially New York, are in the worst shape of any. But they own the politicians and bureaucrats, so no one talks about it.

The new collapse in the oil price ought to be just about enough to drag Southwestern banking down, and suck a sizeable chunk of the rest of the national banking system into the vortex with it. That may well be what is now afoot with the depositors' pullout from First Republic Bank in Dallas. Shut out of money-market centers, the Dallas bank has spread its paper generously around the whole region. Tremors from that quarter could help pull the whole thing down (see *Business Briefs*, pages 18-19).

The oil import tariff would help prevent the worst of that.

Benefits of the tariff policy

Some ask, how much revenue would such a measure generate? Directly, it wouldn't. Indirectly, it would, and would further give us options that we don't now have. The trigger price tariff would not directly raise revenue. What it would do, is set a base price for oil on world markets. Since the trigger price would be the base price, the industry's production would merit credit to that level. Then exploration and capital equipment purchases could begin again, in the knowledge that the price will hold, such that credit extended can be honored. Employment opportunities would be created in the oil and oil services industries. These indirect benefits of the tariff would send monies into the Treasury's revenue stream, by way of the overall growth of the tax base.

Then, too, the renewal earnings in the oil and related industries would help shore up the banks and financial institutions which are now threatened by inflation in real estate values, and find themselves out of the collateral which was supposed to shore up such holdings. Keeping banks open also does wonders for the Treasury's revenue stream, and for local communities, too.

Here, the increase in the price of oil to parity levels is offset in its impact on consumption by the overall growth in wages, and by the reduction of usury, speculation, and ground-rent's share of business and household income.

It could all be done so rationally, and without any of the "pain" that the partisans of witch-doctor economics insist is necessary to get out of the crisis. The financial powers that caused the mess would have to change their ways, but everyone else would be better off.

Those, like Ayatollah Alan Greenspan, who, from his position as chairman of the Federal Reserve, retails the line that the crisis can be delayed until next year, after the elections, actually turn out to be blind to the kind of process that's under way. The collapse of earnings of the oil sector typifies the collapse in real earnings for the economy as a whole. The collapse in the economy undermines the bankrupt financial system, even as Greenspan and his friends insist that they have everything under control. The reversed leverage of the loss of oil earnings, as collateral on supposedly secured financial paper, is again typical. To the extent that this crowd insists on opposing the oil tariff, they are participating in the collapse of the very system they purport to defend.