U.S. trade figures show a depression in progress

by Joyce Fredman

On June 14, the U.S. Commerce Department announced that the U.S. trade deficit had fallen dramatically to the lowest level in three years. The 15.5% drop brought the official figure to a seasonally adjusted $9.89 billion.

Newspapers and government officials manically applauded the news that the trade deficit was under $10 billion. After all, last year's figures included the record $15 billion and up. This was enough to cause investors to happily buy, sending stocks, bonds, and the dollar up. The 25.07 point jump on Wall Street's Dow Jones brought the index to 2124.47, its highest since the October crash. A suckers' rally began.

The ink had barely dried on the euphoric headlines, however, when a different set of statistics forced a more somber view. On June 15, the same Commerce Department revealed that the current account deficit had risen $6 billion, to $39.75 billion, an increase of 18.6% from last year's fourth quarter. For the first time in 30 years, the country had a deficit in investment earnings, enough of a deficit to offset any supposed increase in merchandise trade.

On June 16, the Dow Jones plummeted 37 points. So much for the suckers.

What the figures mean

For those who have grown wary of government statistics and their vicissitudes, a closer look at what these figures presumably represent is useful. The trade figures, released monthly (seasonally adjusted on a quarterly basis), show the net result of the total imports and exports. This includes broad "end-use" commodity categories: 1) food, feeds, and beverages, 2) industrial supplies and materials, 3) capital goods, except automotive, 4) automotive vehicles, parts, and engines, 5) consumer goods (non-food), and 6) other merchandise (military goods, estimates of low-valued shipments, etc.).

Hence, on a not seasonally adjusted basis, April imports of $36.3 billion and exports of $26.5 billion resulted in a merchandise deficit of $9.8 billion. April imports were $2.3 billion less than in March, and exports were $2.6 billion less than in March.

In fact, the drop in exports would have been even greater had not Taiwan purchased $600 million in gold from the United States. This purchase's inclusion is itself a new accounting procedure, set up to artificially influence the results; historically, gold purchases would have been counted as adjustments between central banks.

When an *EIR* reporter asked Treasury Secretary James Baker III, if this, then, did not represent a contraction, Baker choked on the magic word. Definitely not, he explained. Although certainly imports are down, exports are down, investment earnings are down, and debt service is up (all of which describe a contraction to the satisfaction of normal people), the "66 months of Great Recovery" spokesman was adamant. This simply presages a contraction, he informed the press.

Faced with the reality of the economy grinding to a halt, even some on Capitol Hill were not prepared to celebrate these ominous figures. Sen. Robert Byrd (D-W.Va.), in responding to the trade deficit, admitted, "it may simply mean that American business is slowing the pace of investments in America's future." As to the burgeoning debt situation, he pointed out, "By the end of last year, we were about $420 billion in debt to the rest of the world. At the current pace, we are on our way to reaching the $600 billion level by the end of next year" (see *Congressional Closeup,* page 68).

Already a new record deficit

In fact, the current account deficit of $39.75 billion for the first quarter translates into an annual deficit figure of close to $160 billion, topping last year's record of $153.96 billion. These figures add to the overall indebtedness of the United States and become good reason for analysts to project the total debt picture to approach the $500-600 billion range. The United States now has the dubious distinction of being the world's single largest debtor, shouldering more than five times the amount of Brazil, the country previously in that position.

The current account deficit is a more broad-reaching criterion for the country's actual financial situation than simply the trade deficit. It includes trade in merchandise and services as well as financial transactions. The services category had gone from a fourth-quarter surplus of $12 billion to a first-quarter deficit of $655 million, the first such deficit in that category since 1958.

Included in this calculation was a correction, typical of this administration's proclivity for varying the statistics to suit the stars. Last December, the Commerce Department had said that in the third quarter, for the first time in 50 years, foreigners earned more on their investments in the United States than vice versa. On June 16, the department revised its third quarter statistics. Now the numbers read that the United States investors' earnings were the greater in that quarter.

But for the first quarter of 1988, foreign investments in the United States had the upper hand, at least until someone decides to revamp the data. While U.S. investors earned little more than $25 billion in interest and dividends on holdings abroad, foreign investors here earned close to $26 billion. Add to this $3.15 billion that the United States paid in foreign aid and Social Security benefits for retired Americans who live overseas, and the deficit gets larger. Such statistics dealt a blow to the shortlived, cockeyed optimism of the financial community.

"This means that we're going to be paying more interest and more dividends to foreigners and that's going to cause our current accounts deficit to continue to deteriorate," said Bank of America's senior economist Frank McCormick.

"It reflects what's been happening in the long run—that we've become a debtor country," said the chief financial economist at Data Resources.

The real joke is that what it in fact reflects, is that these clowns don't have an overview that extends to next week. The U.S. government and financial community have been following the dictates of their creditors, so anxious to please the likes of Dutch Finance Minister Onno Ruding (chairman of the Interim Committee of the International Monetary Fund), Nigel Lawson (Great Britain's Chancellor of the Exchequer) and Hans-Jörg Rudloff (member of the executive board of Crédit Suisse) that the irony of the demands of this crew of banking hotshots has escaped them.

The United States was told to cut imports and to keep domestic consumption to a minimum, otherwise the financial stability of the United States would be severely jeopardized. Imports have been cut, and the trade bill calling for such restriction was received as the greatest thing since sliced bread. Never mind that 20% of total U.S. consumption is imports, and cuts in such imports would have drastic consequences for every household. Austerity is the word of the day, from the federal government to every state and local budget. The result—not only is there no financial stability, there is no real economy left.

The reason foreigners have been making more money, is that the United States doesn't have any money to invest. The country is bankrupt, and has only been kept together through the generosity (shrewd as they may think it) of our allies. The Japanese are called the "Arabs of the '80s," because of their increasing purchases of real estate. The truth is, Americans are lining up in droves to sell it to them. From 1984 through 1986, the Japanese have more than tripled their U.S. real-estate investments.

This paucity of capital is not only restricted to real estate. Financial wizards advise keeping consumer spending to a minimum, because factories are overburdened and already operating at full steam. They are overburdened because the total number in existence has been drastically slashed. Steel and auto output have been decimated. Steel mills have not just been shut down, they've been destroyed and replaced with health spas. Shipyards are at one-third of their capacity. Though agriculture is supposed to have stabilized, beef herds are the lowest they have been in 20 years. Whether or not consumers had the means by which to purchase becomes secondary at a certain point. The question becomes, where are the goods?

These are the realities of which trade deficits and current account deficits are only a meager reflection. Yet the figures are paraded and adjusted to goad a gullible population into accepting the policies of austerity that have already been decided upon.

The *Washington Post* editorial of June 16 cheered the latest trade figures as proof that exchange rates work: "This latest report comes at a fortunate moment for President Reagan, who will be off next weekend to the annual meeting in Toronto of the seven big industrial democracies. He will be able to say, quite correctly, that although U.S. policy isn't likely to change over the next seven months, the delayed effects of the present exchange rates are going to keep producing improvements, automatically, in that ominously large trade deficit."

That is what the figures are for, to reaffirm a policy of a weak dollar and constricted consumption for the United States. This country is indeed in a contraction. It is only a matter of time and patience before those who have shielded us from the most extreme consequences of such actions, by their bailouts, decide to cut their losses and run.