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'Free trade': worst threat to U.S.A. since Confederacy

by the EIR Economics Staff

The proposed North American Free Trade Agreement (NAFTA) represents the gravest threat to the existence of the United States since the pro-free trade insurrection of the Confederate slave states in 1859-60. Posed again is the issue that freely associated labor, cooperating under conditions of political self-government, is incompatible with the despotism which spreads, like a cancer, with the usury practiced in the name of "free trade."

Accept, or tolerate, the proposed North American Free Trade Agreement, and the proposed content of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), and it will not be too long before the slavery and genocide imposed as a consequence on Third World countries, will be brought back to the United States itself.

The agreement is presented by its proponents as largely a matter of foreign policy. President Bush has argued, for example, that the free trade agreement with Mexico will actually benefit the United States, since increased exports from the United States will create more jobs internally. Similarly, he and the economic and trade officials in his cabinet, like Commerce Secretary Robert Mosbacher and Trade Representative Carla Hills, insist that successful completion of the GATT round will bring nothing but benefits to the United States, and will do so by restoring equality of competition against trading partners, like Germany and Japan, which erect unfair "barriers" against the United States. This is what Ronald Reagan used to refer to as "leveling the playing field," and what lies behind the constant propaganda theme of restoring America's so-called "competitiveness."

Both pacts do indeed have foreign policy consequences. But the focus is intentionally misleading, and deceitful. The policies are, of course, of foreign concern. However, the benefits which will purportedly accrue to the United States are disinformation, intended to disarm and neutralize those who would find themselves opposed, if they knew what was going on. The rhetoric employed is designed to obscure the reality that the same methods directed against "foreign

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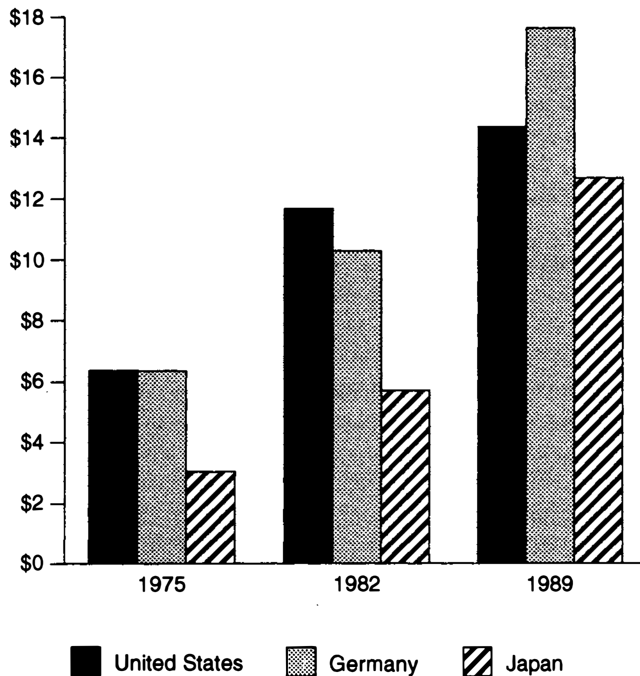
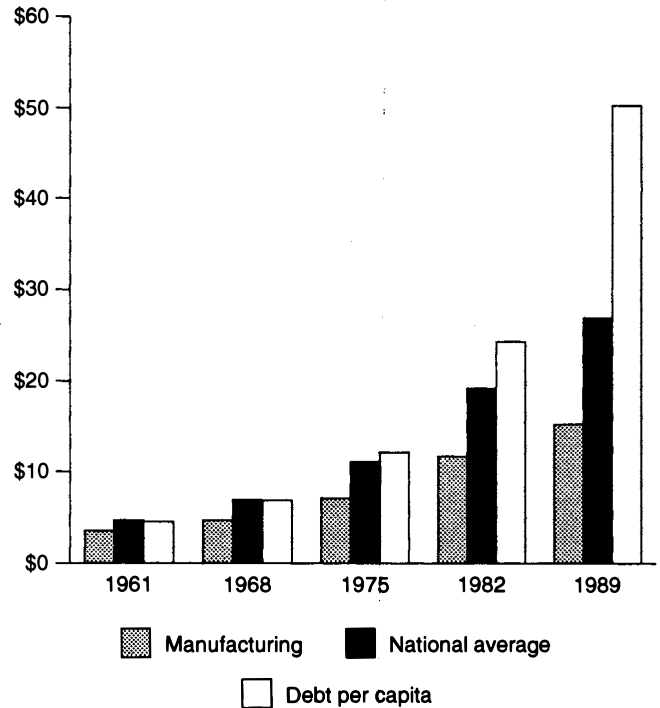
FIGURE 1
Hourly compensation for production workers in manufacturing industries



Source: Bureau of Labor Statistics, unpublished data, September 1990.

FIGURE 2
Average wages versus debt outstanding
(thousands U.S. $)



Source: Bureau of Labor Statistics; *Flow of Funds*, Federal Reserve System.

competitors" of the United States, are also directed against the population of the United States itself, and will have the same intended results, namely, the enforcement of brutal austerity against living standards and remaining productive capacity, accelerating tendencies toward genocide against the poor and disadvantaged, and toward slave labor, such as the expansion of prison system work programs, the revival of workfare-type programs for welfare recipients, and then, "make work" efforts, along the lines of the 1930s Works Progress Administration (WPA) for the so-called "chronically unemployed."

Anyone old enough to have lived through the 1930s would recognize what such a policy package involves. These are the kinds of policies adopted, under the insistence of financial creditors, to deal with depression economic conditions and bankruptcy. So it is with the proposed NAFTA and the GATT round. Just like the policy for Mexico, it is not a trade package, nor an export promotion package, nor an employment package, but wage-gouging to generate the new margin of loot required to shore up a bankrupt financial system. Mexican slave labor is to be set into competition with cheap U.S. labor, which is to be used as a battering ram against, particularly, Germany and Japan, to prop up the usury system of British and American banks.

What NAFTA will do

Within the U.S., the targets of the proposed NAFTA agreement are threefold: there is, firstly, the remnants of the unionized labor force in especially the manufacturing and construction industries; secondly, there will be the effect on the employed population as a whole of both another round of austerity against productive capacities, combined with an overall lowering of wage-levels throughout the economy; third, there will be a tremendous increase in the tens of millions of Americans, 30% and more, who have effectively been thrown on to the scrap heap, deprived of any future, as a consequence of policies already in force.

It is not possible to forecast with any precision exactly what havoc the agreement to be negotiated with Mexico will wreak, if the "fast track" procedures are extended, as per Bush's demands. It is possible to identify the general process which will be set off, because it is already in the works.

Confederacy was based on free trade

The Constitution of the Confederate States of America, which was adopted March 11, 1861, contained free trade articles. Its Congress had no power to impose tariffs, nor did it have power to appropriate money for internal improvements intended to help commerce. Its Constitution was written with the intent of establishing an empire based on a slave economy, and free trade was at the centerpiece of the confederacy. Excerpts follow:

Sec 8: The Congress shall have power—

1) To lay and collect taxes, duties, imposts, and excises, for revenue necessary to pay the debts, provide for the common defense, and carry on the government of the Confederate States; but no bounties shall be granted from the treasury; nor shall any duties or taxes on importations from foreign nations be laid to promote or foster any branch of industry; and all duties imposed and excises shall be uniform throughout the Confederate States.

2) To borrow money on the credit of the Confederate States.

3) To regulate commerce with foreign nations, and among the several States, and with the Indian tribes; but neither this, nor any other clause contained in the Constitution shall be construed to delegate the power to Congress to appropriate money for any internal improvement intended to facilitate commerce; except for the purpose of furnishing lights, beacons, and buoys, and other aids to navigation upon the coasts and the improvement of harbors, and removing of obstructions in river navigation, and in all which cases, such duties shall be laid on the navigation facilitated thereby, as may be necessary to pay the costs and expenses thereof. . . .

Overall U.S. capital investment is in the range of $200 billion per annum. Of this it can be assumed that about half is actually for investment in plant and equipment. The proponents of the Free Trade Agreement start from the assumption that under the first year of an agreement going into effect, 10%, or up to $10 billion could be pulled out of the U.S., and in the name of investing in Mexico, be diverted to the account of bankrupt U.S. banks. One such advocate put it this way: "Let's say we now make about $100 billion in real capital investment in the U.S., in plant and equipment annually. Mexico, under NAFTA, could easily get 10% of that. That's $10 billion the first year; if it looks successful, say even $15 billion the second year. Then who knows, the third year. . . ."

The sectors which would be affected by such runaway shops are known. Top on the list is the automobile industry, second is the textile and apparel industry, and third, what comes under the heading of electronics and household appliances. Then, fourth, in a slightly different way, the domestic U.S. construction industry.

As so often in the postwar period, the auto industry is the pace-setter. About to announce, at this writing, net losses of $3 billion worldwide for the first quarter of 1991, General Motors (GM), Chrysler, and Ford, working with the banks, were in the initial steps of reopening their new three-year contract with the United Auto Workers (UAW) union. The threat is clear. The unions are to give up the income security and health insurance components of the contract, and accept wage cuts, or face the flight of investment and employment to Mexico. The textile and apparel industry is next for the firing line. This is what happened during 1981 and 1982, at the height of the Federal Reserve Chairman Volcker high interest rate atrocity. Then, the industry reopened contracts in order to lay off workers and cut back its wage bill.

Reopening wage contracts

GM's president, Lloyd Reuss, alluded to this in a press conference April 15 in Detroit, when in response to press prompting, he let slip that GM may reopen its contract with the UAW. GM spokesmen off the record are less bashful. With $5 billion in losses over the last nine months, the company cannot, it is said, afford the more than $4 billion per annum job security and health package it is committed to. They point to the following: GM production worker wages run at $31.30 per hour. After the government and insurance companies take their cut, the workers are left with $16.50 per hour. GM has 42,000 workers employed in Mexican *maquiladoras*. They average $1.10 per hour. As they say: "The discrepancies are huge. Even with this subsidy from Mexico, if auto sales in the U.S. keep collapsing, we will not be able to produce cars in the United States."

Chrysler is perhaps in worse financial shape. Now, the company is under pressure from the government's Pension Benefit Guaranty Corp. Chrysler has $3.62 billion in unfunded pension liabilities, which are due, but cannot be paid. Chrysler, like GM, is beginning the process of reopening its contract.

The textile industry, for its part, fears that with the elimination of remaining import tariffs on certain classes of goods produced in Mexico, the industry in the U.S. will be wiped out, perhaps in its entirety.

Auto and textiles, along with electronics, are threatened

TABLE 1
Employment and wages of targeted sectors in 1990

	Workers (1,000s)	Weekly wage	Wage bill (billions)
Total private	74,563	$346.04	$1,341.51
Blast furnace/basic steel	208	645.98	6.98
Fabricated metal products	1,039	447.28	24.17
Motor vehicles/equipment	611	619.46	19.68
Textile mill products	601	320.80	10.03
Apparel/other textile products	863	239.88	10.76
Rubber/miscellaneous plastics	671	402.37	14.04

Source: *Employment and Earnings*, January 1991, p. 238-9.

by the banks with elimination through substitution of slave-labor in Mexico. With the construction industry, it is different. The bankers have Mexico demanding the right to freely export "services," as part of their "free trade" looting. In this case, "services" means labor. Although at this point the Bush administration is insisting that there will be no opening to Mexican migrant labor under NAFTA, the construction industry is planning to replace labor in the U.S. with imported slave, or cheap labor from Mexico, in the name of "free trade in services." On April 15, one hundred leaders of the Association of General Contractors met with Bush to endorse the "fast track." Their leader, Marvin Black, said on that occasion: "Banks are in the grip of fear that stops them from making loans for construction projects. The message is clear. . . . The Age of Abundance is over." Black went on to discuss the importance of "discipline," and ending "confrontation," like those between management and labor, in the coming "Age of Scarcity."

Where does this leave the United States? **Table 1** summarizes the employment and wages of targeted sectors. The construction industry adds another 4 million workers to this list, should massive migrant labor flows occur under NAFTA, and another $100 billion in annual wages.

Shifts in investment

Let's assume that there is intended to be a shift of 10% of the investment budget to Mexico in the first year of an agreement, and a 15% shift in the second. Then, in year one, approximately $10 billion would be looted from what is called the U.S. capital investment budget. In year two, this would rise to 15%, or about $13.5 billion, of the remaining $90 billion.

Although again no precise forecasts are possible on the employment side, for the purposes of argument, let's apply the same ratios of contraction being promoted regarding capital investment. The textile industry would lose 140,000 of its 1.4 million jobs in year one, and about 190,000 in year two. The automobile and related rubber and plastics industries would lose 120,000 jobs in the first year and 170,000 in the second.

Construction would shed, or replace, about 400,000 workers in the first year, and another 540,000 in the second.

This gives the total job losses for just those three industries, if one makes the same assumptions that the Bush crowd does, at 660,000 and 1 million in the first two years, respectively.

This is the agreement which the same people publicly insist will not result in job losses in the United States.

Let's assume, for the moment, that the Bush administration is right on this point, that no jobs will actually be lost. This could only occur if U.S. wages were drastically reduced towards Mexican levels. (The political reality will probably be some combination of dramatic job loss and wage gouging.) As one NAFTA ideologue succinctly put it, U.S. companies will tell their unions: "We don't want to move to Mexico. But in Mexico they want 57¢ an hour and you guys want $15. Now you're going to have to meet us half way, or at least part of the way."

In this fashion, wage reduction on the order of one-third to one-half could occur under NAFTA. If such a reduction occurred at about the same rate as the mentioned capital shifts, i.e., about 10% in year one and 15% of the reduced amount in year two, this gives an overall reduction in manufacturing-sector wages of goods producers of about $30 billion in year one and $40.5 billion in year two.

For the targeted sectors, it would look as seen in **Table 2,** and overall estimates of cumulative looting are seen in **Table 3.**

TABLE 2
Projected reduction in U.S. wages under NAFTA
(billions U.S. $)

	Year 1	Year 2
Auto	1.9	2.7
Textiles, etc.	2.0	2.7
Construction	10.0	13.0

Sources: *Employment and Earnings;* own elaborations.

Goods producers in the manufacturing sector only make up 11% of the entire labor force. The 1.4 million workers in the textile industry make up more than 10% of the manufacturing total. The workers in the auto and rubber and plastics

TABLE 3
Projected cumulative looting of U.S. sectors under NAFTA
(billions U.S. $)

	Year 1	Year 2
Investment	10.0	23.5
Manufacturing wages	30.0	40.5
Construction wages	10.0	13.0
Total	50.0	77.0

Sources: *Employment and Earnings;* own elaborations.

industries also make up more than 10% of the total. This estimate assumes that almost one-fifth of manufacturing workers in auto and textiles will lose their jobs in the next two years, and almost one-quarter of the workers in the construction industry. This is almost 10% of the remaining productive workers in those three sectors alone; 940,000 of the 4 million construction workers, 330,000 of the 1.4 million textile workers, and 290,000 of the 1.3 million workers in the automobile and related industrial employment in the country are targeted.

This is a recipe for upheaval and chaos inside the United States. The spill-over effects, into the work force as a whole, and through the increase of the immiserated millions who have been thrown out of the work force, will be the combination which pushes the U.S. over the edge.

Wages and debt

U.S. wages used to be the highest in the world. The wages paid used to buy the world's most technologically cultured and productive labor. This is no longer the case. Subject to forced reduction through brutal austerity for years, by the end of 1989, U.S. hourly wages in manufacturing were lower than the rates which prevail in Germany, with Japanese workers catching up fast. By the end of 1990, U.S. manufacturing wages were, on average, 10-15% lower than those in either Germany or Japan.

Figure 1 on p. 29 compares hourly compensation for goods-producing workers in the manufacturing industries of the United States, Germany, and Japan. The data are taken from an unpublished series collected by the U.S. Bureau of Labor Statistics. Germany, at rough equality, at least in terms of dollar equivalent wages in 1975, catches up, and then exceeds U.S. hourly rates. Japan is gaining in the same way.

This is a shift of historic proportions, since, in the totality of the postwar period, U.S. labor was supposed to be the best paid, because it was the most technologically cultured and equipped, and therefore the most productive. Now, as it was stated in the *New York Times* of April 13, 1991, it is the relative cheapness of U.S. labor, in dollar terms, which is put forward as the principal advantage for investing inside the United States. Gone are the days when it was skill levels and productivity which were paid a relatively fair price. Now cheap U.S. labor is being set into competition against Germany and Japan, just as Mexican slave labor is set against U.S. workers.

The U.S. abandoned the policy of high-paid labor in favor of maintaining the claims of usury. Investment in technological advance and maintenance of infrastructure was cut back, and productive capacity was shed. Germany and Japan, as the wage differentials attest, maintaining a premium on wage-earners' income, did not follow the same path. Now we say, they refuse to play on a level playing field, because they refuse to follow our destructive course. The policy difference between the economies of the United States and Germany and Japan can be summed up in one four-letter word: debt. Usury has wrecked the United States.

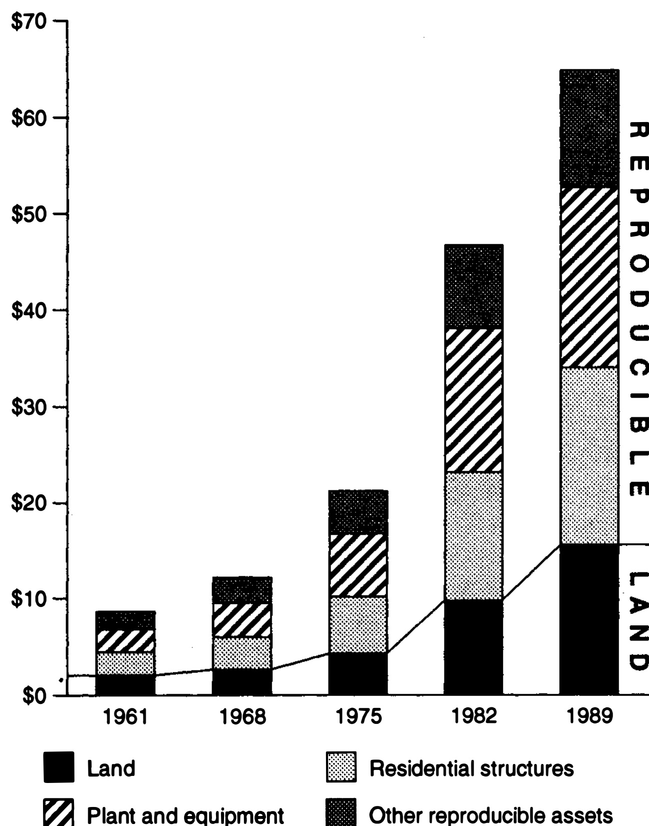
By the end of 1990, the sum of credit market borrowings, or the total indebtedness of the U.S. economy, for all borrowers, could be estimated at $14 trillion. The basis for the estimate is provided by the Federal Reserve's "Flow of Funds" data series. Out of this total, federal, state, and local governments account for more than $5 trillion; business, both financial and non-financial, accounts for another $5 trillion; and household borrowings for $3.8 trillion. The U.S. population and economy have been sacrificed on the pagan altar of maintaining the claims of that mountain of debt.

Figure 2 on p. 29 compares the average wage of goods-producing workers in manufacturing, the average salaries and earnings of all employed workers, and the debt of the United States, expressed as a per capita figure. Through 1975, it will be seen, the level of indebtedness and the level of the average wage packet were roughly identical. Since 1975, and especially since the Volcker rampage which began in 1979, that pattern has been broken. The indebtedness of the country, in per capita terms, has doubled twice since 1975. That, of course, would mean, interest rates staying the same, that the claims of debt against the population and economy doubled twice as well. But interest rates did not stay the same. Thanks to Volcker, the deregulators, and the elimination of state and local anti-usury laws, the claims of interest were permitted to grow faster than the total mass of debt was growing.

What happened to the economy is no different than what happens to an individual or a company when interest charges are permitted to increase beyond the capacity of earnings generated to maintain the debt service. The economy was bankrupted, driven into the ground, as capital assets and labor productivity, developed over centuries, were "asset-stripped" to service the growing mass of debt.

The debt, like a cancer, wasn't supported by any net new creation of wealth inside the United States. It was supported by looting of tribute from captive trading partners and economies overseas, by looting against the U.S. population and economy, and by the creation of an artificial asset base

FIGURE 3
Total net tangible assets per capita in the U.S. economy
(thousands U.S. $)



Source: *Balance Sheet of the U.S. Economy*, Federal Reserve.

against which the mass of debt could be secured.

The growth of this artificial asset base is depicted in **Figure 3.** This is a representation of the official version of the net worth of the tangible assets of the United States, again expressed in per capita terms. That is to say, if the net worth of these tangible assets were divided among all citizens, everyone would have a nest egg greater than $60,000 to their names. The market value of land comprises about one-quarter of the total; the market value of residential properties another quarter; and the market value of all non-residential plant and equipment another quarter and more. It is not necessary to count how many people you know with $60,000 in assets to their names, to know that the whole thing is a hoax.

But there has been no real increase in the net worth of such assets. Rather, what has been done to the economy as a whole is what was done to the farmers between 1970 and 1980, when the value of their land was increased about sevenfold, and they were encouraged to borrow on the basis of that magically created collateral, only to find, between 1980 and 1983, that half or more of the increased valuation of their land had evaporated as suddenly as it appeared, and that their accumulated debts could not be serviced. The same pattern was then repeated with the savings and loan institutions, between 1982 and 1986, with their "Sun Belt" states' real estate and construction lending, and then for a third time with the so-called corporate sector, during the takeover binge of 1985-89. Those chickens are now coming home to roost. Through usury's wreckage of particular sectors, the whole mass of the faked assets against which the debt mass was secured has continued to grow.

Composition of the work force

Figures 4 and **5** depict certain of the consequences of this pattern, where it affects employment and earnings. Figure 4 shows a more detailed account of the evolution of employment over the period since 1961, dividing the labor force into goods-producing workers—that is, operative and related employment in farming, manufacture, construction, and transportation—and comparing such employment with non-productive employment as a whole. So, goods producers decline overall from rather more than 30% of the work force to about 20%; goods producers in the manufacturing sector decline from about 17% of total employment to about 11%; and the farmers almost disappear entirely. That can be contrasted with the growth of nonproductive employment.

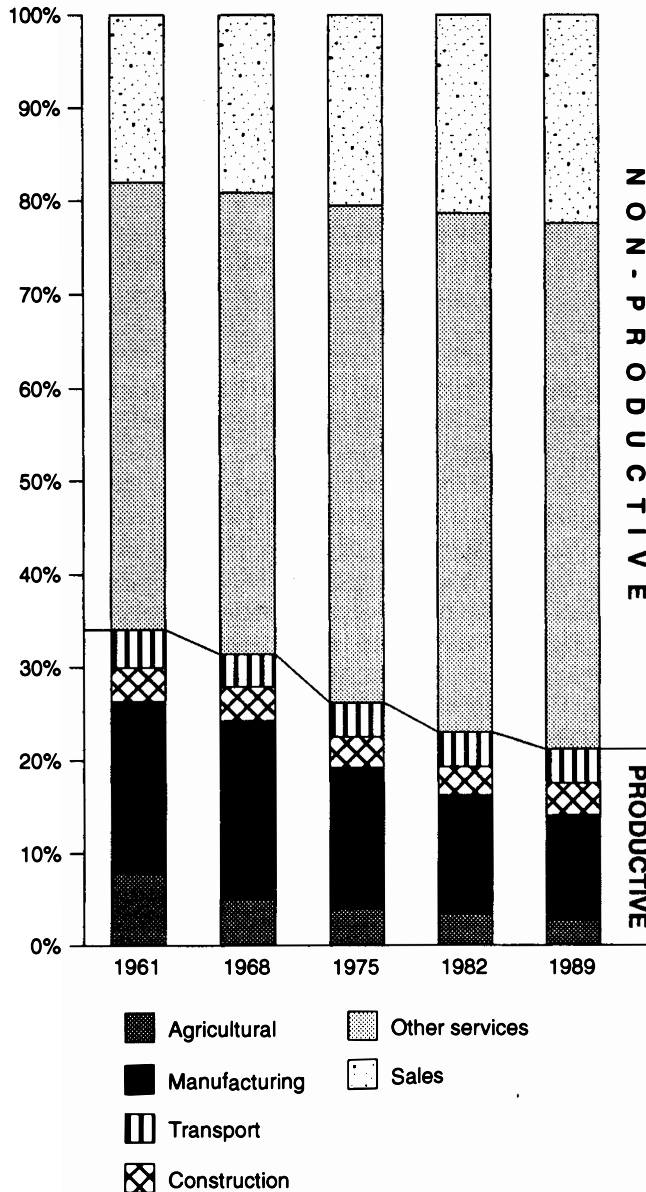
Figure 5 applies the same breakdown to the country's wage bill, such that, in the comparison between the two, what is identified is which portion of the labor force receives what portion of the nation's total wage packet.

In gross, at this level, it appears that the service sector and the producers are allotted dollar for dollar compensation, though the service sector portion has been increasing. The composition of the wage earnings appears to follow the shift in employment closely. But something else has been going on.

Figures 6 and **7** restate this in another way. In Figure 6, the division of the employed work force is organized such that the non-supervisory and government employees in the service and productive sector are separated out. Thus here, productive and services indicate all non-supervisory employment, whether in actual production, or in overhead functions in those sectors. Thus, of the employed labor force, rather more than 20% are now seen to be in supervisory functions in the private sector, and more than 10% in government employment.

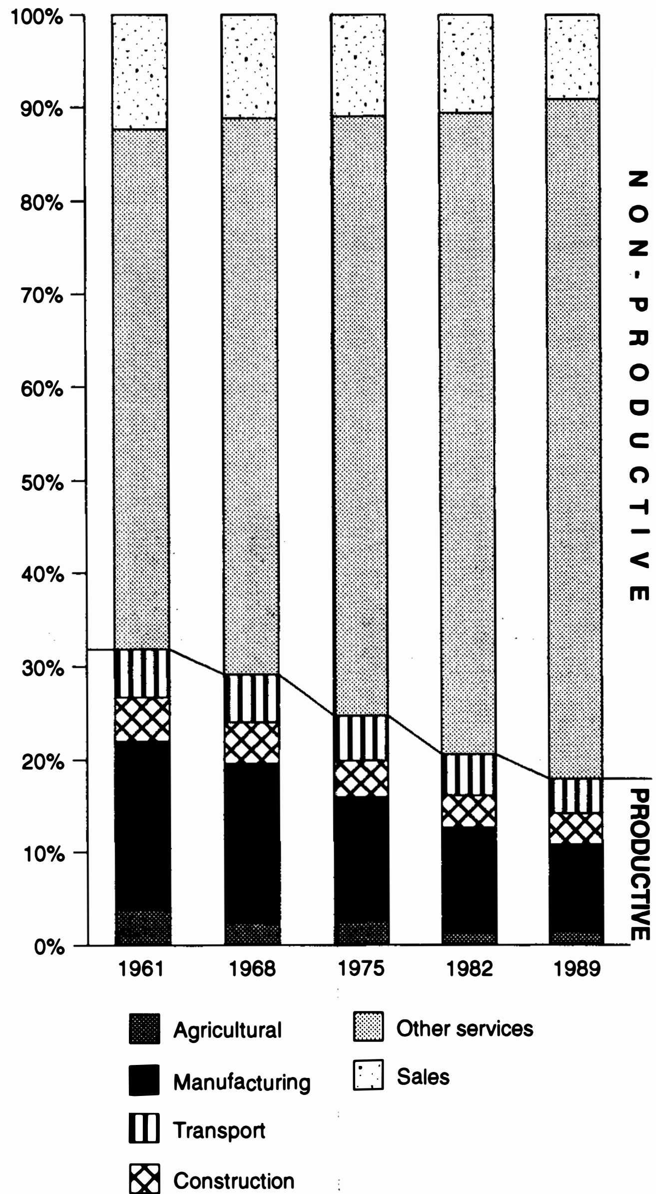
This breakdown can be compared then with **Figure 7,** which identifies more precisely where the wage and salary packet ends up. Thus, the rather more than 20% of the employed work force who are identified as in supervisory functions, average $80,000 per year in earnings. None of the remaining 80% of the employed work force make more than $30,000, when earnings by sector are divided by employ-

FIGURE 4
Composition of the U.S. work force: productive operatives versus non-productive employment
(percent of total work force)



Source: *Employment and Earnings*, Bureau of Labor Statistics.

FIGURE 5
Share of the total national wage bill
(percent of total work force)



Source: *Employment and Earnings*, Bureau of Labor Statistics.

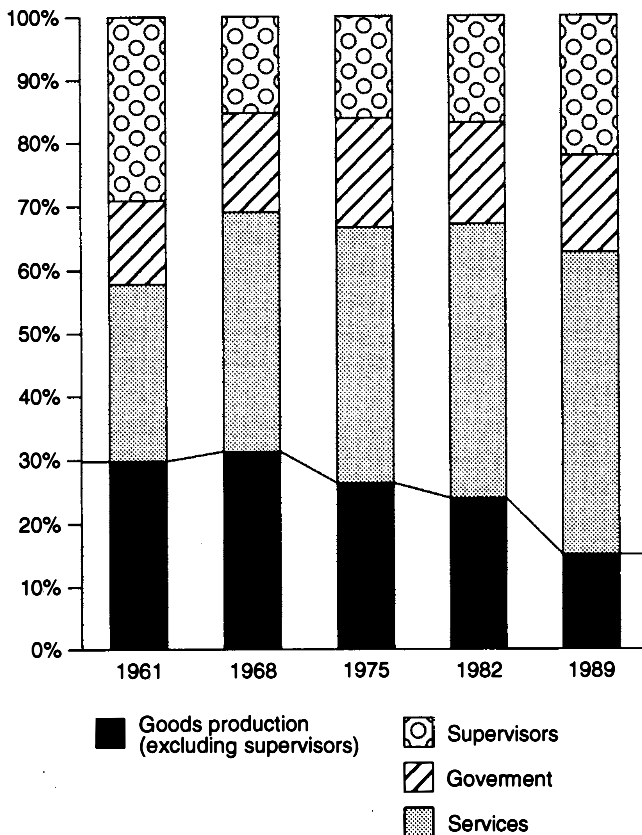
ment. Manufacturing employees are reported to average just over $20,000 per year, while retail clerks are allotted an average of $10,000 per year. Average wages, which reflect the influence of the 20% who are paid about $80,000, just exceed the wage for manufacturing workers. These mislocated priorities are further reflected in a series not shown here. In 1961, 1968, and 1975, average earnings of retail clerks exceeded those of farmers.

These days, the level of $15-20,000 per annum is roughly the poverty line. It is the level of income which has compelled 90% of the married couples who are in the labor force to both work. One wage packet at these levels is not enough to

FIGURE 6

Composition of the U.S. work force, by area of employment

(percent of total work force)

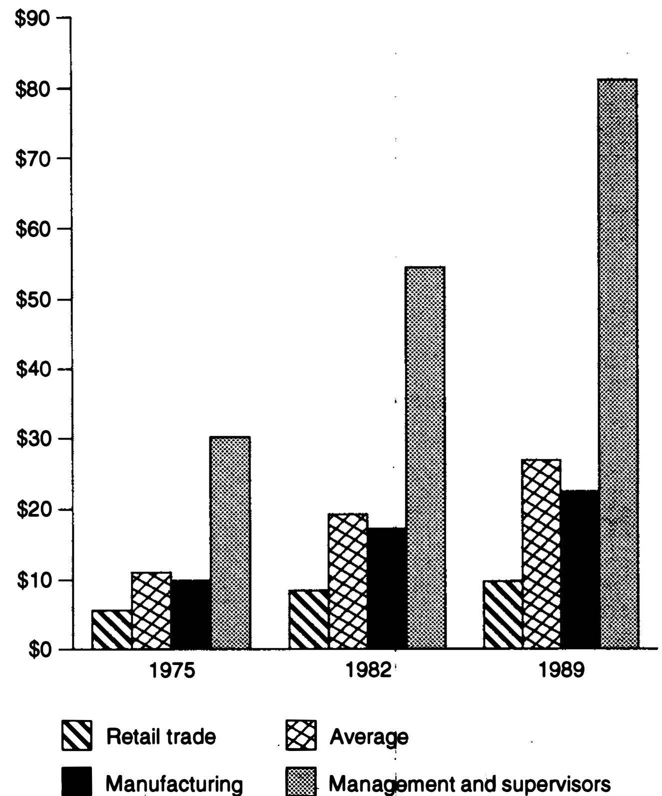


Source: *Employment and Earnings*, Bureau of Labor Statistics.

FIGURE 7

Average annual earnings of U.S. workers, by occupation

(thousands U.S. $)



Source: *Employment and Earnings*, Bureau of Labor Statistics.

support a family, or even two people. The bulk of the employed work force is thus on the edge of joining those whom this rapacious usury system has thrown on to the scrapheap. The proposed NAFTA agreements will push those workers over the edge, for they are the ones targeted for wage cuts in the region of 30-50%.

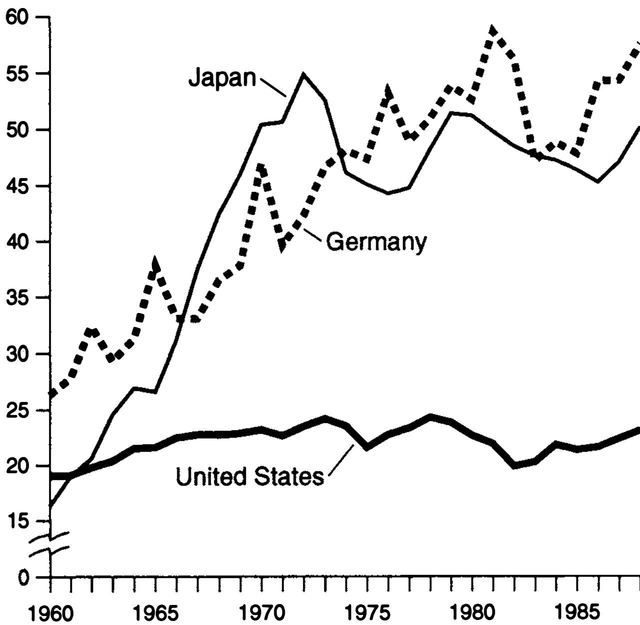
None of this includes the uncounted unemployed, estimated at some 17-18% of the labor force in *EIR* studies, when what the government calls "discouraged" workers and those no longer looking for work are included. Recent studies show that only 37% of the nation's unemployed qualify for unemployment benefits, given changes in qualification procedures which were put into effect in the Reagan years.

Reduce these wage-levels even slightly, add even slightly to the actual numbers of unemployed, and a kind of chain reaction will be set into motion, as the millions who have been pushed to the edge, under the usury regime of the last years, are pushed over. That is exactly what George Bush's "fast track" North America Free Trade Agreement will accomplish.

The U.S. depression

For the past generation or so, the U.S. has insisted on following policies which have, cumulatively, pushed it over the edge, in the sense that the U.S. is no longer capable of producing, out of its own resources of qualified labor, stocks of plant and equipment, i.e., the means which would enable the country to recover and grow. Germany and Japan have not been so insane as to impose this course on themselves. Now, Germany, as the center of the still-functioning economy of Europe, represents the primary, and Japan, the secondary, remaining islands of productive potential in the world economy as a whole. Their capabilities are what remains after the destruction of the developing sector, through International Monetary Fund (IMF) conditionalities policies, the breakdown collapse of Marxist collectivism in Eastern Eu-

FIGURE 8
Freight moved per capita
(tons)



Sources: Eno Foundation for Transportation, *Japan Statistical Yearbook*; International Road Federation; own elaborations.

rope, the Soviet Union, and China, and the depression bankruptcy of the English-speaking part of the advanced sector.

What is the difference between the U.S. and the other two? Over the last 25 years, the United States, in the name of the post-industrial society—the crazed idea that our society has moved beyond the need to actually produce the improvements which permit continued human existence—has stopped being a front-rank producing nation. Germany and Japan have not. The U.S. is locked into depression. Germany and Japan are not.

Figure 8 compares the total freight tonnage moved, in all modes, per capita, in the three countries. The idea here is that the total freight moved represents a useful approximation of the total throughput of goods in the economy as a whole. The total freight tonnage includes the imported raw materials which, in both Germany and Japan, are necessary for the production process, and the exports which are shipped out to generate earnings to pay for imports and improvements.

It could be assumed, for example, leaving aside the numbers of people in each economy (the U.S., at about 250 million, is more than twice the size of Japan at 120 million, which, in turn, is about twice the size of the population of the area of the former West Germany), that the plateau reached by both economies in the first half of the 1970s does represent the level of throughput of goods required to qualify as a leading developed economy. It is notable that this level of throughput is more than double that maintained in the U.S., under stagnating conditions, from the mid-1960s on.

U.S. reality: declining production

The totals are, of course, misleading in certain respects. The composition of the goods moved through the economy doesn't remain constant as the stagnating U.S. value might imply. Indeed, the composition of the tonnage shipped inside the U.S. has changed dramatically over the past 30 years, favoring an increased share for heavy, bulk goods, such as fuels, whether oil or coal, and grains intended for the export market. Manufactures and semi-finished goods have declined relative to the increasing shipment of bulk goods. So, while the appearance is one of stagnation, the reality is of decline and decreasing quality of goods moved through the system. Proportionally, manufactures and semi-finished goods count for more in the freight moved through Germany and Japan.

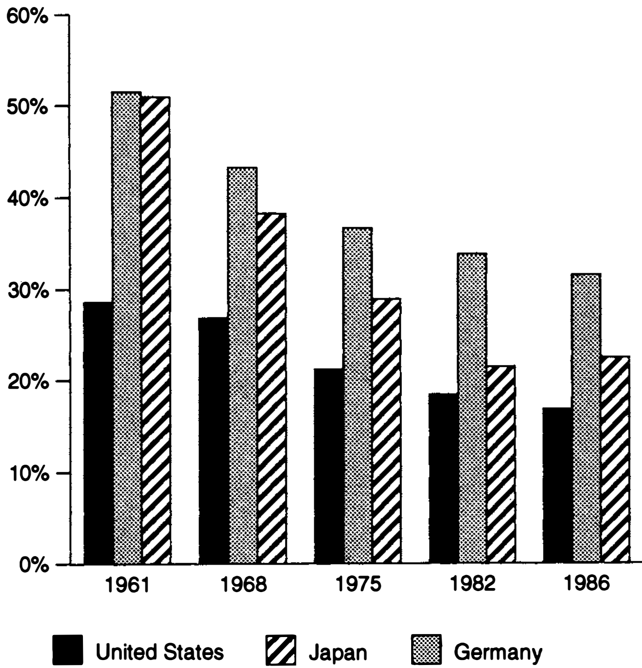
On the other side, however, opposite to the United States, which has become import dependent in multiple different sectors of the economy, Germany and Japan are organized to export. They have to, to survive. In both cases, exports of about 30-40% of total finished and semi-finished goods are required to generate the wealth needed to pay for the raw materials and other inputs which keep their economies functioning. The impulse for technological advance is maintained under the pressure of continually improving production technology and productivity to lower the economic cost of raw material and semi-finished input requirements, relative to the necessity of continuing to export. That is what the United States should have been doing too, instead of fastening, as a parasite, on to the rest of the world.

Figure 9 looks at the labor forces of the three countries and shows that part which is employed in goods production, i.e., involved in production and ancillary services, such as transportation.

In each of the three economies, the productive share of the total labor force has declined. In each also, the larger part of the decline can be accounted for by a combination of shrinkage of the agricultural sector, and the policy of allowing employment as a whole to grow faster than employment in productive activity. That notwithstanding, the level of productive employment maintained in Germany and Japan till now, is comparable to what obtained in the U.S. 25 years ago, with the U.S. permitting about half of the proportion of the work force of a generation or so ago, to be so employed.

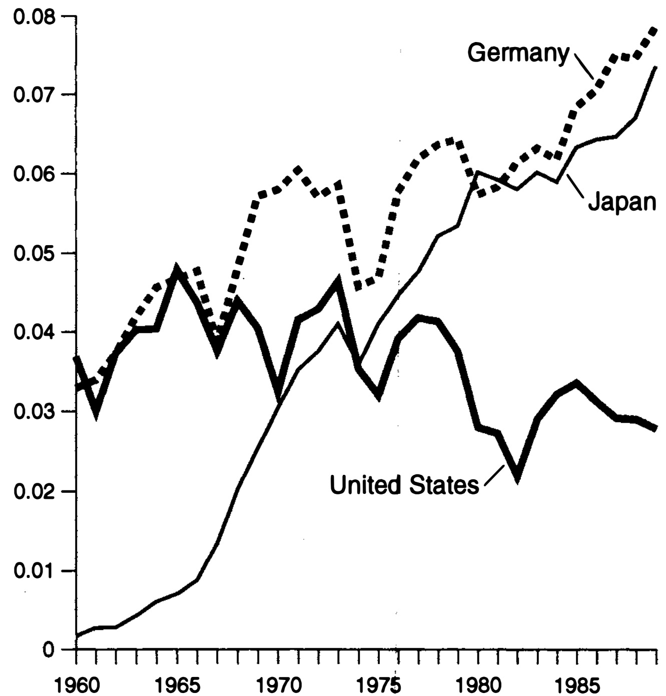
If you double the proportion of the work force to be productively employed in the United States back to the level of 30% or so, lo and behold, most of the inputs required to support production would also be doubled. Add a proportion of production for net exports. Then, for example, it would also be possible to argue that the throughput of goods in the U.S. economy ought to be about where it is for Germany and

FIGURE 9
Workers employed in goods production as a percentage of total employment
(% of total)



Source: United Nations Organization.

FIGURE 10
Automobiles produced per capita
(number of automobiles)



Source: *Japan 1991: An International Comparison,* Keizai Koho Center, Japan.

Japan. The U.S. ought to be adopting policies which make that type of approach possible, policies which are diametrically opposite to everything represented by the proposed NAFTA agreements.

Heavy industry on the wane

The same case applies to particular industries. Both U.S. auto and steel are prominent among those which have demanded protection from imports of competitor nations, whether in the form of import quotas, or tariffs on the imports. Auto and its suppliers now lead among those threatening to pull out for Mexican slave-labor camps. **Figures 10** and **11** compare production of automobiles and steel, per capita, in the U.S., Germany, and Japan. They tell the same story as that shown in Figures 8 and 9.

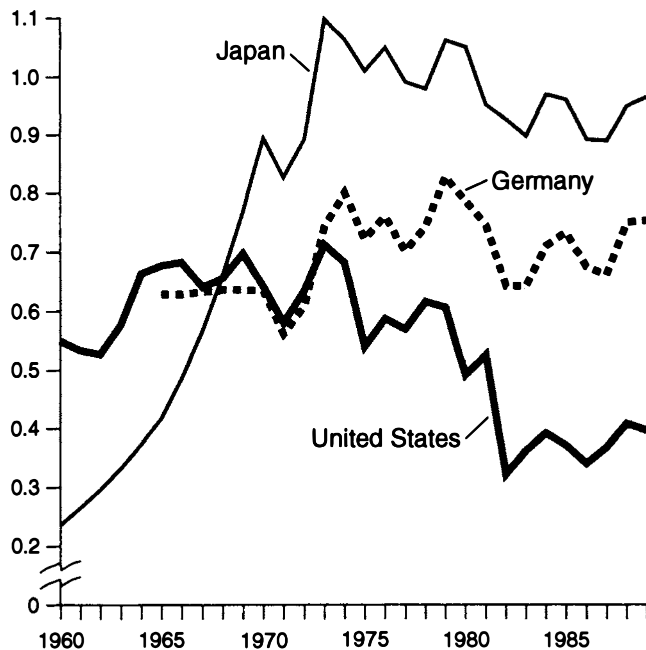
Apart from the recovery from the recession of the late 1950s, which was launched by President Kennedy in 1961, and the brief continuing effects of that recovery through the mid-1960s, the United States has either been stagnating or in a process of decline ever since. The automobile industry is indicative of some 20% of the totality of the U.S. economy, once the feeder industries, like rubber, glass, plastics, textiles, as well as steel, are taken into account. Both figures reflect the successive phases of the collapse of the U.S. economy: from the shift which began in 1965-67 out of production and toward the post-industrial utopia, through the economic effects of the monetary chaos of the late-1960s which led into President Nixon's Aug. 15, 1971 decision to remove the dollar from the gold standard, through the effects of the first oil hoax of 1973-74, and into the brutality of Paul Volcker's high interest rate austerity policy of 1979-82.

It will be seen from both charts that, talk of any sustained period of economic growth over the last 10 years notwithstanding, the U.S. never recovered the levels of functioning which characterized the period before Volcker, and that those years represented nothing but stagnation and decline from the levels of the early to mid-1960s.

Protection from whom?

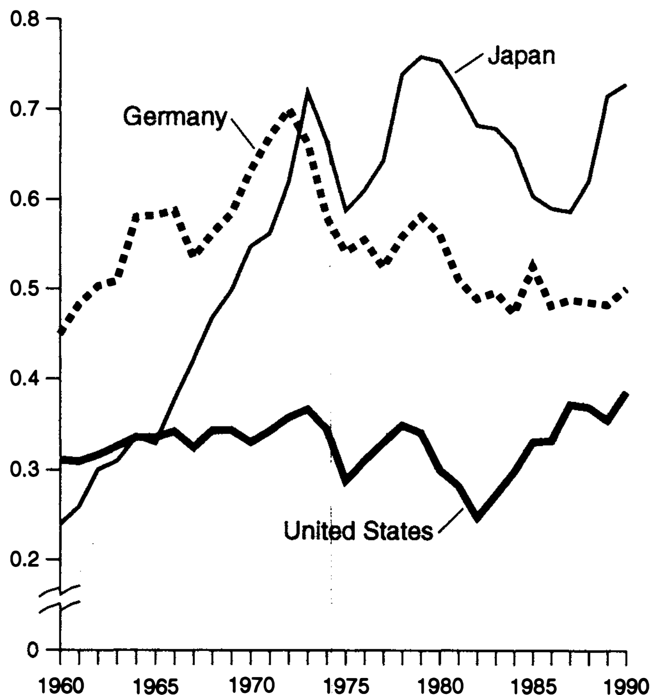
Just whom the automobile and steel industries supposedly ought to be protected from, then, becomes a peculiar question. Figure 10 shows, in the case of the automobile industry, that the United States had begun the long slide into depression well before Japanese production began to match that of the

FIGURE 11
Steel produced per capita
(tons)



Source: American Iron and Steel Institute.

FIGURE 12
Cement produced per capita
(tons)



Sources: *Japan Statistical Yearbook*; U.S. Bureau of Mines.

U.S. industry.

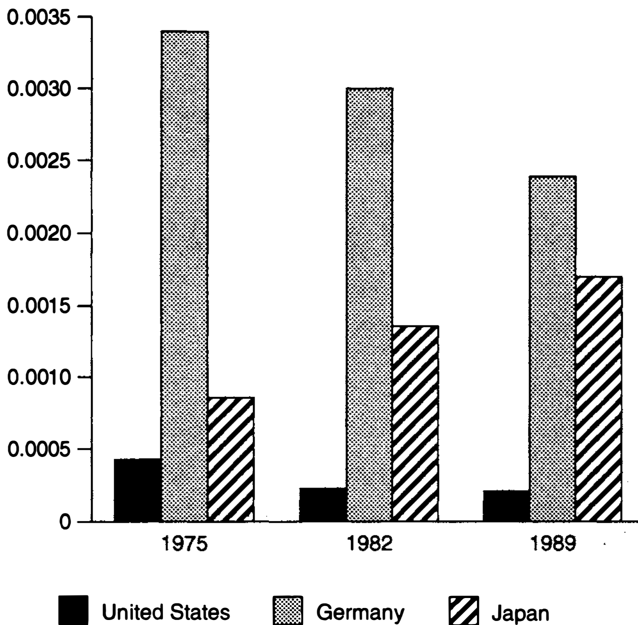
In design, engineering, and product development, the auto industry of the United States is left flat-footed by both the others. The depth of engineering excellence which goes into the production of Mercedes and BMW products can no longer be matched in the United States, and has not been matched for a long time. Japanese industry takes two years to break even on a product; U.S. industry, ten. Japan can redesign 80% of its models every five years; the U.S., only 40% in the same period. Japanese autos are produced with about 20% less labor than their U.S. counterparts, because the quality of the production machinery is continually improved. This is reflected in the new generation of multivalve, four-cylinder engines, which deliver more horsepower than the now-standard, U.S. six-cylinder version. The U.S. industry lacks the capital to retool for such products, or the engineering and production base to adopt them.

In the case of the steel industry, Japan's takeoff seems to precede the onset of the decline of the United States. The question remains, can Germany or Japan be held responsible, over the span of about 20 years, for the collapse of the United States? Steel reflects the same incapacities demonstrated in the auto industry: lack of capital investment, shortage of engineering skills, and dependence on innovation originating abroad, for the maintenance of sections of the industry. The industry has been spending less than half the $3 billion the American Iron and Steel Institute estimates would be required to maintain U.S. capital plant and equipment. Improvements in the industry's operating technology have been developed in primarily Germany and Japan, and adopted in the United States on a delayed basis.

The thesis that foreign competition destroyed these industries is absurd. No one is to blame but the Americans themselves. Did the Japanese or Germans insist that U.S. research or capital improvement budgets be slashed to maintain debt service? Do Japan and Germany control the policy of the London and New York banks which insist that usury comes first?

Figure 12 highlights this absurdity. No one hears about unfair competition in the production of cement, nor does anyone charge that cement is being dumped in U.S. markets. However, cement, a basic material for many industries, shows the same pattern as the automobile and steel industries. Japan is producing 30% more per capita of the material than is the U.S.; Germany is producing over 20% more. In the U.S., the industry never recovered from the oil shock of 1973-74. Overnight, the energy cost of production tripled, forcing a slew of producers out of business.

FIGURE 13
Machine tool production per capita
(units per capita)



Sources: Association for Manufacturing Technology; *Japan Statistical Yearbook.*

Machine tools and infrastructure

The machine tool industry produces the machines which make the machines that the economy depends on to function. Once number-one, and undisputedly so, both in volume and quality of production, and also the source for production technology innovations in the industry, the United States, since 1989, has been the world's number-five machine tool producer, ranking below Italy in volume of production. The present relative decline of the industry since 1975, again compared with Germany and Japan, is shown in **Figure 13.** The differences: Germany and Japan produce for export markets, whereas the U.S. does not, and imports more than 50% of its annual consumption. Germany, with its tradition of engineering excellence, is the manufacturer of the machines which make the machines for the European economy. The U.S. numbers are significantly lower than what is usually reported, because hand tools, electric drills, and so forth, which are often included in total production figures, have been removed, to produce comparability in the series. If the U.S. series were extended back in time to 1960, it would show the same pattern as was seen in the steel and auto charts: an increase through 1967, followed by a decline through 1972, followed by a bounce-back, with the precipitous decline developing between 1978 and 1982.

Again, lack of investment, destruction of engineering skills, and dependence on foreign innovation, are what characterize the industry. Two-thirds, and more, of the country's market will be dominated by imported tools and foreign transplanted producers in the 1990s, in the industry's own estimate. And again, it is worse than that. The German toolmaker Bihler designs tools at a plant in New Jersey. It cannot find enough skilled workers to build its designs in the U.S. The designs are thus built abroad and imported. When the machines arrive, the company's customers often cannot find workers with the skills to operate the equipment, not even among management personnel. In this company's view, "U.S. manufacturing is absolutely retarded."

The same profile is found in the public investment policies of the three countries. Public investment is made up of government-backed investment in such functions as road and highway construction, water supply and purification, sewage disposal, airports, and sometimes power supply and railroad transportation. These are the components of the infrastructure of the economy, elements which in the main are too large and costly to be funded from private investment, but without which no private investment can function.

This report was prepared by Chris White, Laurence Hecht, John Hoefle, Steve Parsons, and Anthony Wikrent.

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