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What's behind the protection smokescreen?

by David Goldman

Democratic Congressmen who want to reverse America's $150 billion trade deficit by erecting import barriers are not much brighter than a group of diabetics who want to protest the high price of insulin by boycotting the drug. Since the American economy now lives on a quarter-trillion dollar annual subsidy from its trading partners (that's the $150 billion trade deficit adjusted for the exaggerated purchasing power of the dollar), the blowback of American protectionism would dwarf the imagination of the trade warriors.

About one-sixth of all tangible goods consumed in the United States annually are imported, net, from other nations. Forget the higher (by 40% to 60%) cost of producing these goods at home: The collapse of American primary metals and machining capacity is so advanced, that domestic production could not readily replace the imports in any case.

Since we pay our trading partners the one thing we seem able to manufacture in quantity, that is, American IOU's, the American economy has appeared to continue functioning with only 17 million goods-producing workers in a workforce of 112 million. Remove the subsidy, and the American economy will shut down overnight.

One small example from last week's news: The steel industry put through a 5% price rise for sheet steel, the first in two years. Reuters commented, "Market sources said the move was probably encouraged by indications that foreign imports were beginning to decline in response to the Reagan administration's five-year import reduction program which began last October. Between October 1984 and July 1985 imports, captured about 26% of the U.S. market, but in July they slipped to just 21.9%."

In other words, the steel industry required only a slight margin of import reductions to push through a price increase. In recent hearings on sugar subsidies for American producers, confectioners complained of thousands of lost jobs due to high internal sugar prices, while sugar producers warned of thousands of lost jobs should more, cheaper, foreign sugar be imported. There is no major industry where the same does not apply: Import reductions would mean immediate soaring prices and shutdowns of industries dependent on the cheap imports.

These pertinent facts—exhaustively documented in *EIR*'s *Quarterly Economic Reports*—identify the entire public discussion of trade policy as a hoax. President Reagan's Sept. 22 address is a feature of this hoax. The President honestly believes in the bill of (imported) goods which was sold to him as an "economic recovery," through which he has managed to preside over the dismantling of America's basic industry. He is a convinced opponent of a self-defeating trade war. Nonetheless, the hoax has developed sufficient momentum to persuade him to offer his own "tough bargaining" profile.

The bills under debate follow the model of the broadest approach, that of Sen. Lloyd Bentson (D-Texas), who has introduced legislation, directed principally against Japan, which mandates a 25% import tariff against the goods of any country which exports to the United States over 165% more than it imports from the United States. The measure would guarantee a collapse of existing production levels by 20% or more, within months.

Compared to this, the content of President Reagan's Sept. 22 address, amounting to no more than a $300 million "warchest" (against a $150 billion deficit), the threat of shorter deadlines on trade negotiations, and additional, redundant

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bureaucratic procedures to fight "trade abuses," is empty as a trade war plan. His program, intended to cover flanks against Democratic attacks, only makes matters worse, by accepting the hoax as a legitimate subject of major national debate.

The President's exercise in public relations is supposed to draw vigor from the agreement among the five leading industrial nations, whose finance ministers and central bankers met in New York City Sept. 19, to lower the value of the dollar against the European and Japanese currencies. But even Treasury Secretary Baker does not say that the trade balance will improve sooner than 10-18 months after a suitable devaluation, which Commerce Secretary Baldrige estimates at 25%.

Since the President, apparently, stands ready to veto all of the 300 or so protectionist bills now before Congress, it is not clear whether the United States will succeed in blowing off its foot. Undoubtedly, a change in existing quotas on textile imports will prove disastrous for Thailand and other Asian exporters, among other measures that may get through Congress.

Industrial nations are losing jobs not because the International Monetary Fund has forced developing nations to sell the store in order to pay debt service, but because world trade in capital goods—which should be the core of it—has collapsed. The United Nations Commission on Trade and Development, for example, calculated in a study released in early September that nearly 8 million jobs in Western Europe, Japan, and the United States have been lost as a result of the collapse of exports to the Third World during 1982-84. In 1984 alone, the total export value of the OECD to the developing sector was $46 billion below the level of 1981; 75% of the decline, the report says, came from Western Europe, and 6.8 million jobs were lost as a result.

Some of the casualties of the adminstration's "phony war" will include the State Department's hate list of political targets. One of the first of these has already been Peru: after President García went after the IMF, the Department of Commerce slapped a 76.86% surcharge on all imports of Peruvian steel bars, which practically closes Peru out of the market.

Debt for equity

Apart from selective retaliation against the State Department's enemies' list, the principal result of this nonsense will be to pin down the President. The congressional Democrats anticipate, correctly, a major financial and economic disaster between now and the next presidential election, and they want the President to wrack up a long record of vetos against protectionist legislation. Although the economic consequences of their success would be far worse than anything President Reagan has yet come up with, they have good reason to believe they will be able to blame everything on him when the time comes.

However, the trade-war smokescreen covers more than the predictable, insipid electoral maneuvers now in progress. The Treasury and the State Department have their own agenda, and intend to use the "hard bargaining" atmosphere to push it through.

The center of this agenda is the re-treading of the international organizations, in the midst of an international revolt against the IMF. The United States is expected to raise some form of additional funding, or leverage, for the World Bank, as a seemingly more palatable alternative for debtor nations, which in any case are on the verge of turning their backs on the IMF.

Even the largest financing proposals under discussion for the World Bank are pitiful compared with the immediate requirements of the debtor nations. Like the IMF, which offers meager amounts of balance-of-payments financing in return for total control over economic policy, the World Bank program has a hook: Recipient nations will be expected to sell off major national assets, especially in the energy and raw-materials fields, in return for table crumbs. Brazil's public auction of a 25% share in its national oil company, Petrobras, at a fraction of its value, is supposed to be a precedent of a generalized equity grab in the developing sector.

October's preliminary meeting of the General Agreement on Trade and Tariffs (GATT) in Geneva, preparatory ministerial round of trade negotiations, will present the hook to the developing world. The preliminary talks were forced through over protests from Brazil, India, and other developing nations, after the American delegation to GATT obtained sufficient European and Japanese votes to call the meeting the first week of September. The brunt of the new round, the American delegation made clear, is to be "liberalizing trade in services." Under the American plan, first offered by former Treasury Secretary Donald Regan in cooperation with the IMF, all nations would be compelled to open their borders to international banks, insurance companies, and shipping companies.

Since "trade in services," to use the GATT's double-talk, impinges on sectors which decisively effect the total national economy, and therefore bear on national sovereignty, it is not surprising that the developing sector has bitterly opposed the new initiative.

From the standpoint of the State Department, the protectionist row in Congress provides a threat that might well be mightier than the execution. "We will institute a grand compromise," Shultz et al. tell governments which have been through the debt mill. "To pay your debts, you must export more to the industrial nations. We will try to prevent protectionism from shutting down your exports. The industrial nations, in return, demand the right to export 'services' to your economies."

On the eve of the IMF's annual meeting, a "senior administration official" told reporters: "It is quite clear the debtor countries cannot obtain and will not obtain the same levels of lent money, or bank financing, borrowed money, as they did in the 1970s. So they have to be seeking other resources. These countries could conduct a much more aggressive, open investment policy to attract direct investment."