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Economic collapse thwarts financial power plays

by Chris White

Three economic reports issued in mid-January exemplify why none of the political power plays now wracking the world of high finance will ultimately mean a thing.

These reports include: preliminaries on U.S. oil production and consumption in 1988; the latest data on housing starts; and a report issued Jan. 13 by the U.S. Department of Agriculture on the state of the winter crops.

On oil: Production of the fuel resource within the United States over the last year was reported to be at its lowest level in 24 years, averaging about 8.2 million barrels per day. At the same time, oil imports were running at the highest levels since about 1978, averaging about 7.1 million barrels a day. The count of producing rigs is down by about half from the levels of two years ago.

On housing: Latest numbers for housing starts show the worst performance since the last so-called "recession trough" in 1982.

On winter crops: The USDA report highlighted the continuing effects of aberrant weather conditions. First, farmers did not plant as much, by way of winter wheat and so forth, as the Department had anticipated. Second, the mild winter so far has not produced the snow cover necessary to replenish ground water lost during the drought, while the quality of the land has deteriorated such that water is not retained, but is running off. Winter crops are vulnerable to killing frosts because of the lack of cover. The aberrant weather portends ill for next year's food production (see article, page 6).

The mild weather in the American northern hemisphere is mirrored by continuing drought and excessive heat in the southern hemisphere, affecting Brazil, Argentina, Australia, and New Zealand. There are similar reports of unseasonably mild weather on the Eurasian land mass, where Russia is having its mildest winter in years.

Globally, of course, the food production report is the most ominous. The winter patterns from the northern hemisphere do indicate a continuation of northern hemisphere drought patterns into the next year. Combined with the continuation of heavy rains and drought in parts of Southeast Asia, like Malaysia, and the People's Republic of China, the effects mean that perhaps for hundreds of millions of people, who already face food shortages, food is simply not going to be available, without emergency action.

Further, if the attack now mounted against so-called overproduction of world petrochemicals, conducted in the name of stopping, or controlling, the proliferation of chemical warfare capabilities, is allowed to proceed, food production at the levels of the last decades will become insupportable in whole areas of the globe. Brazilian press accounts have featured scare stories of 20-25% excess capacity globally in this line of industry, while fertilizer and pesticide production could easily be slammed by the kind of criteria employed to drum up the recent scare stories around Libya's Rabta chemical facility.

Each of the cited cases demonstrates that the collapsing world economy is not going to wait for the idiots who insist that they need more time to put their policies in place. The more so, since the policies that are already in place are precisely those which ensure that the collapse under way will continue and accelerate.

Take the case of oil. Oil and oil-related products account for $40-50 billion of the U.S. annual import bill of more than $400 billion. This is 25-30% of the total trade deficit. Thus, the continuing destruction of domestic production capacity ensures that there will be no solution to the trade deficit crisis that all pundits point to. At the same time, if pricing agreements which were set to go into effect at the beginning of this

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year hold, and the price of oil remains up around $19 per barrel, then the U.S. oil bill for the months ahead will gravitate up to and beyond the higher end of its range for the past couple of years, and the trade deficit will increase, back above the $150 billion level. Then, if the case of oil is any guide, the U.S. requirement for foreign funding to cover the deficit will increase.

Another recent report highlighted a different aspect of the same matter. A comparison of hourly wage rates of production workers in the United States, Federal Republic of Germany, Japan, France, and Britain showed that while the United States had been ahead of the pack in 1985, hourly wage rates in Germany and Japan had far surpassed the U.S. by 1988, with only Britain remaining lower. The study highlighted the dilemma that while the tax burden for individuals was growing, the overall level of revenue available to the Treasury, as reflected in declining wage rates, was declining.

The point here, as the case of the destruction of oil production ensures increases in the trade deficit, so destruction of the wage packet guts the tax base, and ensures that the federal government's budget deficit continues to increase.

LaRouche proposal was rejected

And meanwhile the cry goes up from the incoming Bush administration, "We need time, in order to get our policies in place." Yet, so far, the kind of policies available to transform this collapse are rejected. Again, the case of oil is typical. There is a rational way, put forward in early 1986 by economist Lyndon LaRouche during the course of a State of the Union speech delivered in Northern Virginia; it involves setting a trigger price for the imposition of protective tariffs on imports of oil. The trigger price would be set in the estimated range of $25-28 a barrel, or the range required to set a parity level at which domestic producers recover costs and are guaranteed a fair profit. When the world price falls below the trigger price, the tariff is put into effect.

The proposal is a good deal for U.S. producers, and given the remaining power of the United States, it would be a good deal for all other oil producers, because it would set a world pricing level, which would begin to permit not only an expansion of oil production, but also the revival of the feeder industries which supply the oil producers, from steel makers to machine shops and equipment manufacturers and so on.

The free market ideologists rejected, and continue to reject, the proposal, because they say it interferes with the working of a free market. Others reject the proposal because it is premised on the revival of the institution of the nation-state, as equal among other nation-states, as the arbiter of economic and financial policy. They insist that the world is now so "interdependent" financially and economically that national solutions are no longer appropriate or effective.

This is the kind of view that underlies the repeated insistence that nothing can be done for the world economy unless it is coordinated through the Group of Seven industrial nations, and approved by multilateral agencies such as the Bank for International Settlements, the International Monetary Fund, and the World Bank.

The argument is a fraud and a cover to protect the position of the financial power centers that consider themselves the arbiters of the destiny of countries, like the United States, which are their debtors. Since the U.S. current account deficit—the net amount that the United States owes the rest of the world—is the means by which such power centers exert control over the United States, measures which would reverse the trade deficit component of the deficit on current account are actually ruled out, because they would threaten the power of the creditors.

And thus, those who scream loudest that the U.S. must get its financial house in order, reduce its trade deficit, reduce its budget deficit, also happen to be the ones who insist that the United States do nothing which would actually permit such problems to be readily solved.

Realignments of power

These matters are now set to be on the agenda of a meeting of the Group of Seven which has been set for Feb. 2-3 in Washington, D.C. Billed as a "getting to know you" session with new U.S. Treasury Secretary Nicholas Brady, the meeting is supposed to discuss the dollar and exchange rate policy, the U.S. budget deficit, and Third World debt. Prior to the meeting, a financial power bloc has emerged in which Japanese funding is committed to the support of the policy thrust of Anglo-American financial interests, against especially the central European core around the Swiss National Bank and the West German Bundesbank.

While the Europeans have insisted that the dollar fall, the Japanese have dug in their heels and are said to be buying the dollars that the Europeans dump. Under such a power conjuncture, leading sources in Europe now estimate that the timetable for the next phase of dollar collapse may have been set back for six months or so, to the end of the second quarter of this year.

And there again, it may not work. For the explosive charge of Ibero-American debt is being leveled against especially the United States, in order to win government guarantees—i.e., promises of taxpayers' money—for the larger commercial banks.

Whichever way the financial power plays ultimately turn out, will not necessarily have too much to do with what the protagonists have convinced themselves they are doing. For while the giants square off to impose terms on each other, the ground on which they stand, namely, the world economy, is heading fast into a new ratchet of collapse. To the extent that rational solutions, like LaRouche's measures to foster recovery in the oil sector, premised on national sovereignty, are rejected in favor of the creditors' one-worldist blackmail and nonsense, events will soon overtake the players and their power games.