Economy again becomes national security question

by Chris White

First signs of the potentials for change, now that Donald Regan is out of his controlling White House Chief of Staff position, have begun to be issued from the administration. For the first time in recent years, officials of the U.S. government have begun to echo a refrain that has been widely propagated by this publication. It is now possible, apparently, to assert what was before too flagrant a violation of adopted ideological norms: There is a relationship between economic policy and national security.

Two proposals have now been put on the table. One is embodied in a recently published 240-page report produced by the Energy Department, called simply "Energy Security." The other is a proposal, reportedly backed at the cabinet level by Defense Secretary Caspar Weinberger and Secretary of Commerce Malcolm Baldrige, to prevent foreign companies from taking over U.S. enterprises which are key to national security.

In the latter case, the proverbial camel's back was broken by Fujitsu's efforts to move into the U.S. computer chip business, thereby giving foreigners control over the development and production of sophisticated electronics applications key to the national defense. The magnitude of the welcome turn around on this question, relative to the performance of recent years, is readily seen when it is considered that the machine tool and industrial fasteners industries have both repeatedly applied for national security protection of their industries, and have both been repeatedly turned down, by the Carter administration, as well as by the Reagan administration. Yet the plight of these two industries, without which industrial production cannot proceed, is adequately covered by the Defense Production Act of the early 1950s, and its successive amendments.

Tide turning back?

The industries were not protected for political-ideological reasons. Now the tide is beginning to turn back in the direction of what has been self-evident since the Renaissance. Since the work of Leonardo da Vinci and Niccolò Machiavelli, classical defense policy has been premised on the idea of the technological flank, innovations in war-fighting capabilities supported by the in-depth mobilization of a nation's industrial and economic logistical base.

The recent years' triumph of monetarist lunacies associated with the ideology of the "magic of the so-called marketplace" have insisted, to the contrary, that the financially determined accountants' bottom line is the unique criterion that should be applied everywhere. Using those standards, if the accountants and their bureaucratic friends said we couldn't afford something, then that was something we couldn't have, whether that was a competent defense policy, or a competent economic policy.

To assert, as is now being done, that aspects of economic policy, and implicitly, economic policy as a whole, is a matter of national security, is to assert that the bottom line is not what is found in the fictions accountants produce to prove what is affordable or not, but actually lies somewhere else.

Thus, both the Energy Department's report, and the proposal before the Cabinet on foreign takeovers, assert for the first time in a long time, that there are economic interests, in the form of production capabilities, which ought to be defended, from accountants as well as external threats, to maintain the national security. The Energy Department report aroused the ire of the liberal environmentalists, by simply asserting that more energy ought to be produced, and policy makers ought to figure out how to produce more energy. The liberals argued against this, as they did when Jimmy Carter was President, that the way to protect oil supplies, is by keeping the oil in the ground. It's been a relatively long time that anyone around the U.S. government has thought it politic to say that production of anything ought to be increased.

This shift, back in the direction of reality, ought to be a key part of making possible the kind of bi-partisan alliance on economic policy questions that would be necessary to shift everything in the direction of a real economic recovery, of the sort that's been outlined by Democratic presidential candidate, and leading economist, Lyndon LaRouche.

There is a faction of the Democratic Party, typified by House Leader Jim Wright, which has made administration support of national infrastructure, and other projects, a condition for their congressional support for administration defense goals. In a rational world, that kind of horse-trading would not only be unnecessary, it would be seen as criminally insane. But the world isn't rational. The infrastructure projects include the Water Bill which the President attempted to veto in January, and the Highway Bill, which the President is attempting to veto now. However, the assertion of irrationality from the top of the administration on these questions, also means the dominance of the same irrationality in the way defense programs are going to be supported.

Infrastructure litmus test

For some in Congress, beyond the question of the infrastructure projects, the imposition of an oil import tariff, to protect the domestic industry, has become a litmus test of the same sort.

The "Energy Security" report argues against the import tariff, for the same reasons of accountants' financial costs, that are actually rejected when the priority of national security interests in the shaping of economic policy is asserted. That aspect of the report has been attacked by Sens. Lloyd Bentsen from Texas and Bennett Johnson from Louisiana.

The report argues that an import tariff, or fee, would benefit the oil industry, and would protect employment in the oil industry, but would increase the costs for oil elsewhere in the economy, and would therefore adversely affect employment in producing sectors other than that of oil. Rather than an oil tariff, the report proposes the adoption of accelerated depletion schedules on industry taxation.

It may be that this argument is not to be taken on face value. The President views his tax reform as one of his principal accomplishments, and is said to oppose changing that in any way. Therefore, with proposed funding sources elminated, some think that the administration would find its way back to the very import tariff the report rejects, in order to protect the tax reform.

Be that as it may, the fact is that oil, at between $15 and $18 per barrel, is actually cheaper for the U.S. economy, in terms of economic rather than financial components of cost, than it was in the late 1960s, before the price hikes of 1973 and 1979. This is simply arrived at by comparing the price of oil with *EIR*'s own 1967 market-basket based inflation index. Therefore it is nonsense to argue that a tariff, which would bring the price up to say $22-25 per barrel would adversely affect other sectors.

Back in the 1960s the United States was more or less self-sufficient in oil. As of now, following last year's collapse of the price, the country is importing more than 40% of its daily requirements of the fuel source. That's a worse level of dependancy on foreign oil than prevailed before the hoax of 1973-74. The economic fact that the cost to the economy of oil at $15-18 per barrel is less than it was when sold for about $3.00 per barrel is indicative.

Relative to the requirments of investment in technology and capital goods required to keep the industry productive, there has been a massive disinvestment in the oil sector. Instead the price of the fuel has been manipulated, up or down, by those who intend to make mere money on the movement of the price up and down. Those interests are no producer interests but rather trading and speculative interests. In this respect the oil producing sector is no different than any other sector of the economy.

To protect national security, pricing and tariff policies would have to be determined, as they have been in the past, on the basis of the same kind of conception of parity as should be applied to agriculture. Such a parity price would be determined by taking the physical components of cost of production, capital goods input, raw materials throughput, maintenance and operatives' labor, and adding a margin of profit adequate to maintain forward motion in production through reinvestment in technological improvements which increase productivity and lower costs. Where imported goods are priced below that parity level, tariffs should be imposed to protect internal production capabilities and employment.

In the case of oil this could only have a beneficial effect on other sectors of the economy, because investment decisions would actually be taken out of the hands of the money interest and speculators, in favor of a reaffirmation of the primacy of reinvestment in technology-intensive, energy-intensive, capital-intensive production.

It is useful that the real relationship between national security and economic policy is at last put back on the table by the government. To make that effort work, accountants' financial criteria must be set aside, such that investment priorities can be set on the basis of physical-economic parameters of cost. To defend national security, financial investment must once again be made subordinate to the requirements to produce the physical wealth on which the existence of a nation depends.