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EIR Economics

Sharp American Import Drop Accelerates Global Breakdown

by Richard Freeman

During the last several months, there has been an accelerated disintegration of the internal workings of the United States' role as the world's "importer of last resort." The unfolding of this process will shatter the U.S. dollar, and thus, the last vestiges of the dollar-centered world financial system, providing the trigger for the biggest financial-economic breakdown in 500 years.

The world monetary system is now in convulsion, marked by debt and financial crises that spread from Poland to Turkey to the European economies, and punctuated by the Dec. 23 decision by Argentina's then-President Adolfo Rodriguez Saá to declare a debt moratorium on Argentina's foreign debt and other obligations of $228 billion. The bankrupt Japanese banking system, the second largest in the world, with over $1.5 trillion in non-performing loans, teeters on the edge. This has intersected the November 2001 collapse in Japanese industrial production, bringing it to the lowest level of output since 1977.

Each of these crises is a subsumed feature of the world financial system's disintegration. Yet as powerful as each of these incidents is, they cannot match the explosive force of the breakdown of the completely speculative U.S. financial bubble. The unravelling of the "importer of last resort" role of the United States, is a prime trigger for this imminent explosion.

Double Dependence On The Import Cancer

The relationship is two-sided. On the physical side, the United States has consumed ever more gargantuan amounts of physical goods imports, as its physical economy could no longer produce these goods itself, and it used the imports to survive. This reached the point in 2001, that the United States now imports between 20 and 75% of the consumer- and producer-goods that it consumes for its existence. Simultaneously, leading industrial and Third World exporting economies became highly dependent on the U.S. market, exporting between 20% and 90% of their annual physical goods exports to the United States. Since many of these nations' economies are geared toward producing exports, they cannot function if their level of exports falls, which is, however, exactly what is happening.

But there is a second, financial side to this relationship. The United States imports far more than it exports, which has built up a monstrous trade deficit; in turn, the trade deficit has driven up a huge current account deficit (85% of which is the trade deficit). To cover the current account deficit, Wall Street and the City of London have rigged the world financial system so that large flows of foreign-held dollars are attracted back into paper investment inside the United States. What the United States pays out in dollars for its physical goods and other items that make up the current account deficit, and more, is brought back into the United States.

This process depends on the U.S. speculative financial bubble. Foreigners will only bring their dollars into the United States to invest in U.S. financial instruments—such as Treasury bonds, stocks, corporate bonds, derivatives—if the rate of return on these instruments is higher than that on financial instruments in other countries. Thus, the existing U.S. speculative bubble was inflated higher and higher, in part, to keep an increasing flow of foreign money coming in.

This entire unstable process is not sustainable. Already, in the third quarter of 2001, there was a noticeable fall-off in the level of foreign funds invested in the United States. This could lead to an actual disinvestment, where investors yank their money out of the United States and dollar-denominated investments.

This withdrawal of funds would kick the prop out from under the dollar bubble, which would send the value of the over-valued U.S. dollar—which is dependent on that bubble—down by 40 to 60%. Immediately, that would cause a

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de-leveraging and shattering of the U.S. financial system.

In parallel, the effect of the deepening contraction of physical goods trade between the United States and the rest of the world, will be non-linear. In the midst of the financial disintegration of the past decade, for many nations in Asia and Ibero-America, exports to the U.S. represent all that allows them to keep certain factories open. The removal of this trade forces shutdowns of large chunks of manufacturing in their economies, impacting their non-export domestic economies. The sharp contraction of goods trade between the United States and the rest of the world will accelerate a production collapse, creating a worldwide interacting downward spiral, also affecting Europe. A U.S. production collapse has occurred in the second half of 2001 in particular, and led to a cutback in imports and thus trade between America and other nations, a further cutback in production, and in turn, a further cutback in trade, etc.

Let us look first at the origin and relentless buildup of the "importer of last resort" relationship since the mid-1970s, to the point that this governs the relationships of world trade and financial flows. This will provide the backdrop so that when the evidence is presented, of the steep drop-off in trade between the United States and most of the world's nations, it can be seen why this will lead to a sudden unravelling of the world economic-financial system.

Back To A 1960s Policy-Shift

In the aftermath of World War II, the U.S. exported a significant portion of the world's physical goods. In particular, it exported technologically-advanced capital goods, such as machine tools, electrical generating equipment, tractors, cranes, etc. The purpose of this emission of exports was to reconstruct war-torn Europe, and to develop the Third World economically, bringing it out of backwardness. With capital goods exports leading the way, the United States ran trade surpluses.

Both to stop America's positive role of capital goods exportation, and to destroy its agricultural, manufacturing, and infrastructure base—upon which the production of the export flow depended—the Anglo-American financiers imposed in the mid-1960s, a "post-industrial society" policy, which effected a decisive, negative paradigm shift.

From this shift arose most of the glaring problems of today. Under this policy, the financiers closed down manufacturing, agriculture, and infrastructure, and built up non-productive services and a large speculative bubble, which sucked the underlying economy dry. Over the years, successive phases of this policy were instituted, each more ruinous than the preceding one.

In 1971, then-President Richard Nixon took the U.S. dollar off the gold reserve standard. This divorced financial flows from productive flows, and set the basis for the buildup of the speculative Eurodollar market.

In October 1979, under the Administration of Jimmy Carter, then-Federal Reserve Board Chairman Paul Volcker instituted a policy that he explicitly called "the controlled disintegration of the economy," as an extreme variant of the post-industrial society. Volcker sent interest rates charged by commercial banks to 21.5% by November 1980; and for the five years through the end of 1984, interest rates were held at double-digit rates. A large layer of the U.S. manufacturing base was killed off, shutting companies partially or completely by the thousands. In order to replace the manufacturing capacity America had lost, U.S. imports surged, laying the basis for the world's "importer of last resort."

During the decade of the 1990s, one version of the post-industrial society which was heavily pushed, was that of "globalization," one of whose key features is that manufacturing reduces its production of goods and outsources that production to some of the poorest countries. Goods are produced where workers—frequently children—are paid from 10 cents up to $2 per hour. The 1993 passage of the North American Free Trade Agreement (NAFTA), with its slave-labor *maquiladora* system, was an intended impetus to that system, not only in Mexico and Canada, but throughout the world. During the 1990s, this resulted in a second surge of American imports.

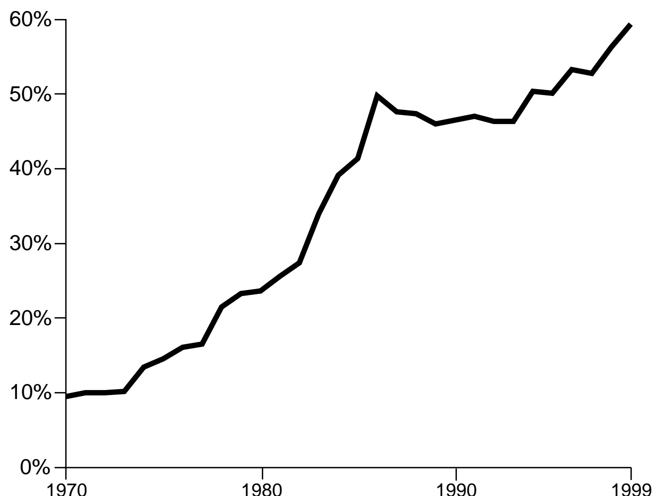
Production Collapses Preceded Import Surges

How this process produced an import dependency can be seen most clearly in the case of the machine-tool industry, which forcefully proves a general point that applies to most industries: The primary reason that America imports most goods, including machine tools, is that the corrosive post-industrial-society policy had destroyed America's internal production capacity first. The flood of imports only came second.

Machine tools are machines that incorporate, physically impress, and transmit the most advanced scientific ideas throughout the economy. Volcker's "controlled disintegration" interest-rate policy crushed all manufacturing, but is best exemplified by machine-tool production. The Midwest and New England are America's two main regions for machine-tool production. Between 1977 and 1992, the number of operating machine-tool plants in the Midwest fell 44%, from 567 to 317; the number of machine-tool plants in New England fell 58%, from 275 to 155. Most of these closings occurred by 1984, and most of those plants remain closed. Today, America enjoys only half the machine-tool production of 1979, both in number of units produced and in dollar value.

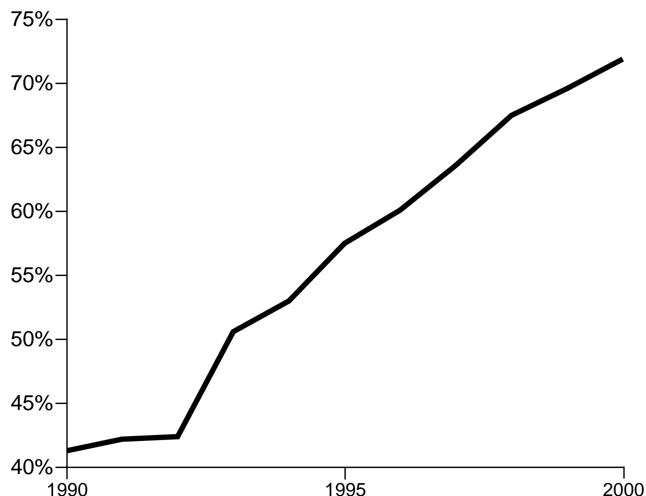
America compensated for the loss of productive capacity by importing; it was not the level of imports that caused the loss of production. **Figure 1** shows that in 1970, some 9.5% of all machine tools that America consumed, was imported. Even by 1979, the year that Volcker imposed his interest-rate action, only 23.3% of all machine tools consumed were imported. But by 1986, as a consequence of Volcker's action, the imported portion of all machine tools consumed shot up to 49.8%. Today's import figure is 59.4% of all machine tools used.

FIGURE 1
Machine Tools: Imports As A Percent Of Total U.S. Consumption



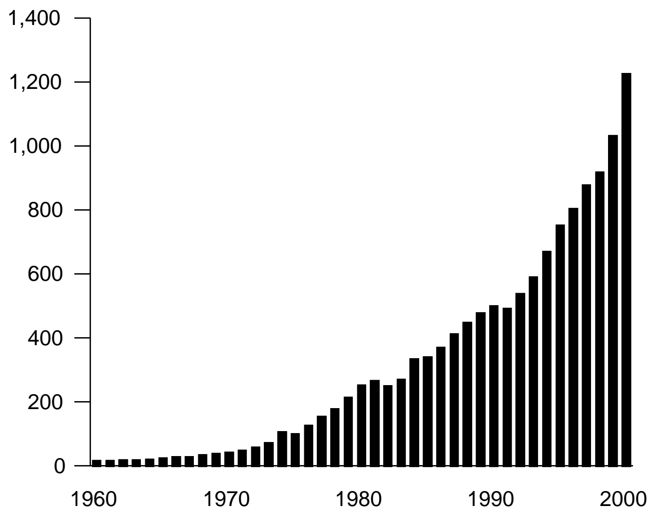
Source: U.S. Department of Commerce; World Trade Organization; *EIR*.

FIGURE 2
Men's/Boys' Shirts: Imports As A Percent Of Total U.S. Consumption



Source: U.S. Department of Commerce; World Trade Organization; *EIR*.

FIGURE 3
U.S. Physical Goods Imports, 1960-2000
(Billions $)



Source: U.S. Department of Commerce.

America's dependence on physical goods imports extends to a wide array of goods. Some examples make the case; of the total American consumption of these goods, the following percentage is supplied by imports:

Consumer goods: 71.9% of all men's and boys' shirts (see **Figure 2**); 52.5% of all women's and girls' outerwear garments; 35.3% of all household cooking equipment; 44.5% of all electric housewares and fans; 34.2% of all cars.

Intermediate goods: 61.8% of all ceramic tiles; 22.5% of all steel; 22.2% of all industrial fasteners.

Capital goods: 25.1% of all electrical equipment (which includes specialty transformers; steam, gas and hydraulic turbines; etc.); 59.4% of all machine tools.

Only through the rigged arrangement of importing vast quantities of goods from around the world, has the U.S. economy been able to avoid total collapse, although it has functioned at progressively reduced rates of production, and lower living standards over a three-decade period.

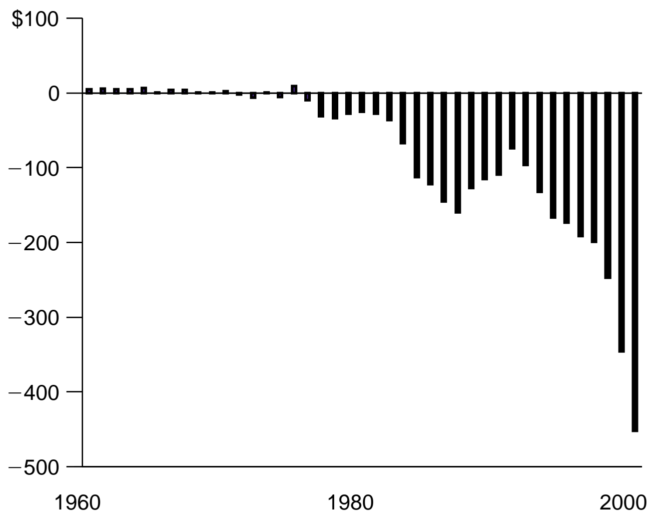
Figure 3 shows the effect of this heavy level of importation, as total U.S. physical goods imports leapt from $498 billion in 1990, to $1.224 trillion in 2000.

Figure 4 shows that the surge in imports pushed forward the U.S. trade deficit in physical goods. In 1995, the U.S. physical-goods trade deficit had already reached a record $173.6 billion, but by 2000, it had skyrocketed to $452.2 billion, growing more than 2.5 times in only five years. (The physical-goods trade deficit pushed the U.S. current account deficit to $444.7 billion in 2000. The current account deficit consists of three elements, of which the trade deficit is, by far, the largest.)

Dependence On U.S.

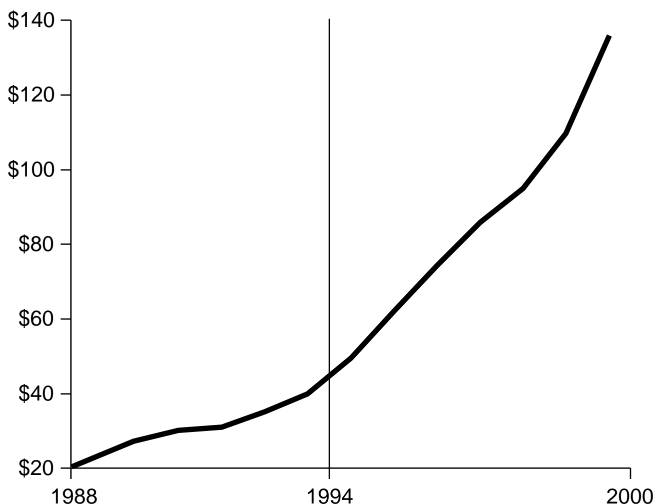
During the same period, many of the major exporting nations in the world built up a tremendous dependence upon the U.S. market as the destination for their exports; this makes them very vulnerable. Many Third World countries restructured their internal economies to shift a greater percentage of

FIGURE 4
U.S. Physical Goods Trade Deficit, 1960-2000
(Billions $)



Source: U.S. Department of Commerce.

FIGURE 5
Flow Of Mexico's Physical Goods To United States Explodes, Following Adoption Of NAFTA
(Billions $)



Source: U.S. Department of Commerce.

their total internal production to the production of exports, and within that, to explicitly target their exports to the United States.

The restructuring can be seen in the case of Mexico. For the whole of the 20th Century, Mexico always sent a significant amount of its exports to the United States. But even within that relationship, there was a profound change following the 1993 adoption of NAFTA. That agreement sanctioned and expanded the existence of an arrangement by which goods could be partially assembled in the United States, shipped across the border to Mexico for final assembly, then shipped back to the United States, with no duties or taxes to be paid when the goods entered or left either of the two countries. Thus the *maquiladora* system was established, whereby assembly plants were set up in Mexico, mostly along its northern border, and Mexicans worked under slave-labor conditions. Wages were one-fifteenth those that would have been paid to American workers in American factories doing virtually the same work; plus, many Mexican *maquiladora* workers were housed in shacks, with little or no plumbing, etc.

Figure 5 shows Mexican exports to the United States in dollar terms. Between 1988 and 1993, Mexico's annual export of physical goods to the United States rose from $23.2 billion to $39.9 billion, a rate of increase of only $3 billion per year. But following passage of NAFTA, between 1993 and 2000, Mexico's physical-goods exports to the United States erupted, from $39.9 billion to $135.9 billion, an annual rate of increase more than four times that of the 1988-93 interval. Figures supplied by the U.S. Department of Commerce state that Mexico now ships 81.7% of its physical goods exports to the United States; official Mexican figures say 90% of its physical-goods exports go to America.

NAFTA set a ceiling: Other nations in Ibero-America had to pay wages no more than, and in most cases, considerably less than, those paid in Mexico's *maquiladoras,* in order to compete with the *maquiladora* export system. Others followed the Mexican precedent and increased their American exports. **Figure 6** documents a rising trajectory, so that by 2000, the rest of Ibero-America, excluding Mexico, was sending the United States 38.1% of its physical-goods exports.

Tables 1 and 2 show, for selected exporting nations which have not already been discussed, the percentage of their total physical-goods exports shipped to the United States. For those nations listed in Table 1, the portion of their total physical-goods exports to the United States fell, between 1990 and 2000. For those nations listed in Table 2, as for most nations in the world, the percentage rose between 1990 and 2000. However, any time a nation sends 20% or more of its exports to any other nation, as all the nations shown do to the United States, that is a very significant relationship. Any time that a nation sends 30% of its exports to another nation, as do several of the nations in the Tables, that is a highly concentrated dependency relationship.

Table 3 shows that both Mexico and Canada ship more than four-fifths of their total exports to the United States, as part of the NAFTA agreement.

Thus, the Tables give evidence that individually, many nations are vulnerable, and the sudden collapse of the "im-

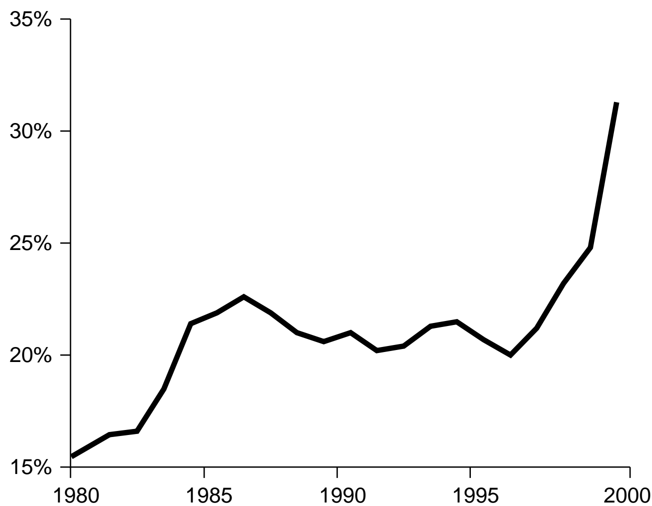
FIGURE 6

Percent Of Ibero-American Physical Goods Exports, Exclusive Of Mexican Trade, That Go To United States

Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

FIGURE 7

Percent Of World Physical Goods Exports, Exclusive Of Intra-European Trade, That Go To United States



Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

porter of last resort" hits many individual nations. However, the process should also be looked at as a whole. Keep in mind that for the major nations of Europe, approximately 50% of their trade stays within Europe, since Europe has fostered a

TABLE 1

Percentage Of Total Physical Goods Exports That Go To The United States

	Philippines	S. Korea	Taiwan	Japan
1990	41.9	28.4	33.8	34.2
1995	40.0	19.3	25.9	27.9
2000	35.0	23.4	27.3	30.6

Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

TABLE 2

Percentage Of Total Physical Goods Exports That Go To The United States

	China	Indonesia	Thailand	Malaysia	Nigeria
1990	24.2	13.0	22.9	17.9	43.8
1995	30.6	16.4	20.1	23.8	42.0
2000	40.1	16.7	23.7	26.0	52.4

Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

TABLE 3

Percentage Of Total Physical Goods Exports That Go To The United States

	Canada	Mexico
1990	71.6	74.1
1995	75.1	78.1
2000	83.4	81.7

Sources: U.S. Department of Commerce; World Trade Organization; *EIR.*

significant degree of trade integration. **Figure 7** depicts the fact that whereas in 1980, 15.8% of all the world's physical-goods trade, excluding only intra-European trade, was exported to the United States, today that has risen to 31.6%. This is a doubling in 20 years. Setting aside intra-European trade, one out of every three dollars' worth of goods exports anywhere in the world is sucked into America.

A Deepening Crash

Propelled by the strong dollar, the "importer of last resort" relationship reached untenable heights.

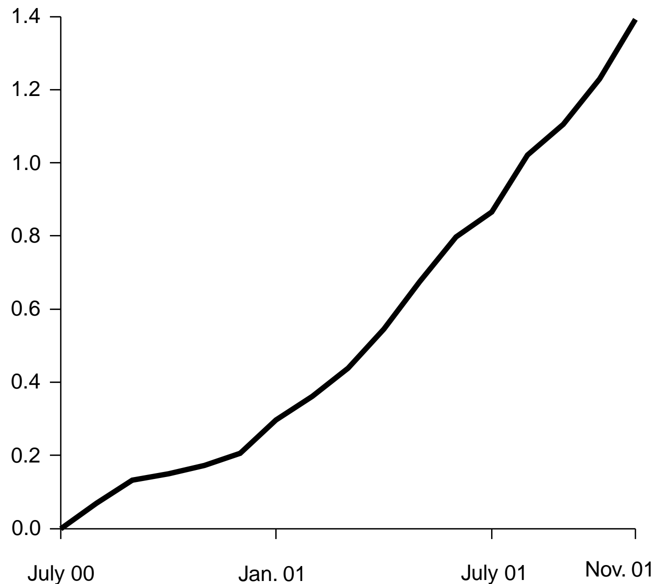
The U.S. physical economy entered a further serious downturn starting the Summer of 2000. This can be seen in manufacturing worker unemployment, which started growing in July 2000 (**Figure 8**). The imports had kept the U.S. economy from plunging straight downward, as they substituted for the goods America could no longer produce. However, once the level of contraction increased, the U.S. economy could no longer absorb and process—nor thus import—as many physical goods.

Already, as **Figure 9** shows, by September 2000, the level

FIGURE 8

Cumulative Elimination Of U.S. Manufacturing Workers' Jobs Since July 2001

(Millions)

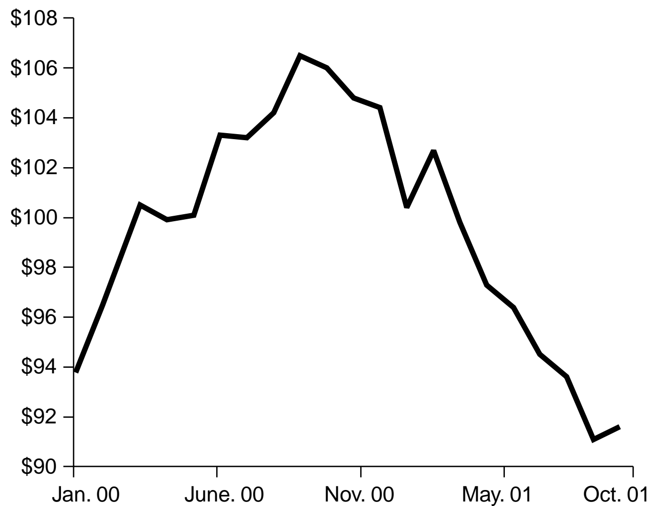


Source: Department of Labor, Bureau of Labor.

FIGURE 9

United States Is No Longer Able To Take In World's Goods: Monthly Level Of U.S. Physical Goods Imports

(Billions $)

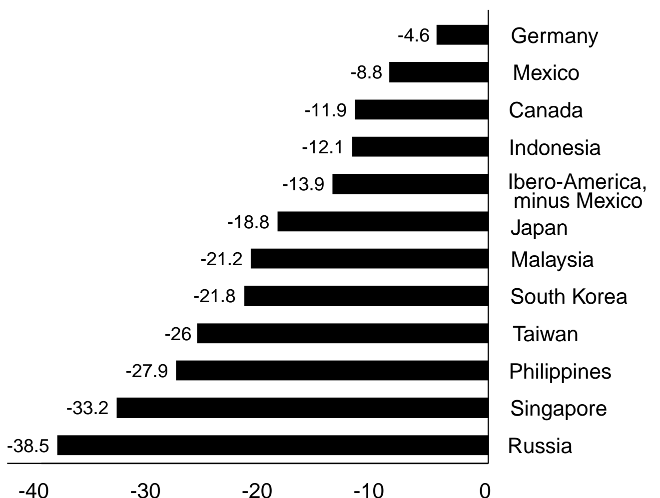


Source: U.S. Department of Commerce.

FIGURE 10

Leading Nations' Physical Goods Exports To United States Plunge

(Aug-Oct, 2001 Compared to Aug-Oct, 2000)



Sources: U.S. Department of Commerce; *EIR*.

of U.S. physical-goods imports—reciprocally, other nations' exports to the U.S.—had peaked at $106.5 billion. Over the next months, the level fell somewhat, but was still at $103.9 billion in December 2000. Then, during 2001, the monthly level of physical-goods exports started to crater. This fall was deepened by the fact the U.S. physical economy entered a sharp phase-shift downward in the period between August and November 2001, dramatically lowering the level of functioning of the economy. By October 2001 (the last month for which data are available), physical-goods imports had fallen to $91.6 billion, a plunge of 14% from the September 2000 level.

Figure 10 documents that the downturn in U.S. imports struck hardest many of those nations that have the largest percentage of exports to the United States. For select countries, it shows the level of their physical-goods exports to the United States for the period August through October 2001 (the latest three-month period for which data are available), compared to the same period of 2000. According to official U.S. government figures, comparing the period of August-October 2001 to the same period of 2000, Mexico's physical goods exports to the United States fell by 8.8%. *EIR* considers the official U.S. government data to understate the real level of fall; nonetheless, given Mexico's overwhelming dependence on these exports, that is already a considerable downturn. For countries such as Japan, South Korea, and Taiwan, during this period, the fall of their physical-goods exports to the United States has been 18.8%, 21.8%, and 26.0%, respectively, which is driving forward these three nations' physical-economic contraction.

But, the unstable financial foundation upon which the

"importer of last resort" arrangement rests—depending upon foreign-held dollars being invested in the U.S. financial bubble and used to pay for imported goods—also appears to be blowing up. The U.S. Department of Commerce reports on a quarterly basis, the level of net foreign funds that flow into the United States, called the "financial account." The Commerce Department data may grossly understate the level of foreign inflows. Still, even the limited Commerce Department data indicate something very dramatic happened during the third quarter of 2001.

According to those data, during the first quarter of 2001, foreign-owned assets in the United States increased by a net of $346.6 billion (the term "net" means that the amount of American stocks, bonds, derivatives, and companies that foreigners bought, relative to the amount that they sold, during the first quarter, increased by $346.6 billion). During the second quarter of 2001, foreign-owned assets in the U.S. increased by $226.6 billion, a fall-off of $100 billion from the first quarter's level. But in the third quarter (the latest for which information is available), foreign-owned assets in the United States increased by only $52.1 billion, not much above zero growth.

A net level of $52.1 billion of foreign purchases in the United States cannot finance the level of imports of physical goods from abroad, that America was taking in, in the past. Further, in the current circumstances, Japan cannot continue sending volumes of funds into the U.S. financial bubble, propping it up. Japan has been disinvesting from investments inside the United States, and various European nations may soon do the same.

SE Asia: Deportation Is The End Of Globalization

by Martin Chew Wooi Keat

In early December 2001, more than 2,000 illegal immigrants at a temporary detention center in Malaysia rioted, and four buildings that were being used to house them were set on fire and completely destroyed. The illegal immigrants were mostly Indonesians, who were about to be sent home before the end of the Muslim holy month of Ramadan in mid-December. Many of those being detained, feared deportation primarily because they face an even bleaker prospect at home. The day after the riot, they were sent home.

Extrapolating from the old Marxist saw, that imperialism is the highest stage of capitalism, we may truthfully say that mass deportation is the highest stage of globalization, the New Economy's model of the international division of labor. During the 1997-98 Anglo-American financial oligarchy-induced economic collapse in the Far East, at least *3 million* foreign workers were deported across the region. Now, with the bursting of the "New Economy" bubble, the pattern has returned.

After the Second World War, the only viable major economy left in the world was the U.S. economy. The Bretton Woods system was created to facilitate long-term economic relations. Basically, all currencies were to be fixed in value with respect to the U.S. dollar, which was convertible to gold. The U.S. dollar was considered "as good as gold," not because the United States had two-thirds of the world's supply of gold, but because of the strength of the American *physical economy* at that time. Following the assassination of President John F. Kennedy in 1963, the development orientation of the Bretton Woods system was increasingly undermined, leading to the disastrous decision by President Richard Nixon in 1971 to take the dollar off the gold-reserve standard, allowing the free float of most of the world's currencies.

The Anglo-American financial oligarchy then engineered an "oil shock." This created a vast outflow of dollars from countries that previously held substantial amounts of the currency, such as France, Germany, and Japan. As the physical economy of the developed countries contracted, demand for the raw materials of the Third World contracted as well. This, coupled with the artificial increase in the price of oil, drove many Third World nations into bankruptcy. Unable to repay their debts, Third World nations were forced to go to the International Monetary Fund.

To enable Third World countries to acquire U.S. dollars—to be used to pay debts, etc.—a so-called "new international division of labor" was formulated, to artificially prop up the global financial bubble (as well as the living standards of the United States, although its physical economy continued to contract).

Exporting Electronics vs. Selling People

The key invention behind the New Economy model of an international division of labor is the specially designated export zones scattered throughout Southeast Asia, with their own special set of preferential labor and taxation laws. Similar to the *maquiladoras*—cheap-labor assembly plants—along the U.S. border in Mexico, these Asian zones have been called Free Industrial Parks, Free Industrial Zones, Free Trade Zones, Export Processing Zones, or Special Economic Zones, depending on the country in which they are located. However, they all have the same nature: They function as marketplaces, the product they market being people—or more specifically, cheap labor, preferably cheap *female* labor.

For example, Malaysia: In 1970, there were only 41 firms in "export zones," employing 3,200 workers, of whom 99% of the production workforce was female. In 1985, the electronics and electrical assembly sector was the largest employer of