INTERNATIONAL MARKETS NEWSLETTER

World Trade Collapses!
U.S. Payments Deficit Bursts Recovery Bubble

With the Commerce Department's announcement yesterday that the United States ran its first balance of payments deficits in 14 months during January, the entire chain of lies and swindles behind the "economic recovery" has broken at its weakest link.

The announcement of a U.S. balance of payments deficit, combined with the collapse of Japanese and West German exports, collapses the last hopes of the Atlanticist financier faction that it can hold together the worldwide dollar empire. With the Third World on the verge of declaring a moratorium on dollar debt, with capitalist forces in France and Italy consolidating against Atlanticist dictates to wreck their economies, the conditions are now ready for the creation of a new world economic order to sweep away the shattered remains of the dollar empire.

Financial markets went into "shock," bankers reported, after the news broke on the Friday afternoon, Feb. 27, and financiers on both sides of the Atlantic dug in for a new wave of dumping of the U.S. dollar on Monday morning.

For weeks, officials of the Organization for Economic Cooperation and Development, U.S. Treasury, New York banks, and their press conduits have dinned the same lie into Europe's ears: the U.S. recovery will hold up the rest of the capitalist world. An upswing in the U.S., the lie insists, will hold up the export-based Western European economies, and increase the shattered exports of the Third World by 15 to 20 per cent.

Now the word is out that the U.S. dollar's books don't balance, and the Atlanticist swindlers will not be able to deceive a blind fool.

The façade of recovery is gone. What emerges from behind it is the conclusion of the final quarter of dollar finance-capital. The last underpinning of the U.S. dollar was the U.S. $11 billion payments surplus during 1975. January's $800 million swing into deficit demonstrates that the U.S. dollar and the dollar credit system cannot finance a recovery without collapsing itself. Europe's and the Third World's trade and payments position is unravelling directly towards a general collapse of payments by March 31.

The core of the U.S. deficit is a 7.6 per cent rise in U.S. imports between December and January; these imports enabled Western European and Japanese automakers and other consumer-goods producers to maintain production during January. In turn, Europe's auto and related consumer-durables sectors provided a shaky prop for its industrial sector, while other critical sectors of Europe's export market, principally the Third World, disintegrated. As a whole, Europe's and Japan's export order-books began shrinking three months ago.

These imports — the "evidence" that the U.S. recovery would hold up the rest of the world — were a political bribe to Western Europe from the Atlanticist financiers. The dollar credit system, as the $73 million payments deficit shows, could not afford to finance an additional $650 million in imports to the U.S. — because U.S. consumers cannot afford to buy them. Between December and January, unsold inventories of foreign cars increased from 300,000 to 440,000. The last prop of Western European and Japanese trade turns out to be a pileup in auto dealers' parking lots, financed by the New York international banks.

Hyperinflation

The end of this swindle has set in motion a chain-reaction collapse throughout the world economy. By passing bad checks against the U.S. economy, the U.S. banks enabled West Germany to raise its exports by 4 per cent during January. Volkswagen and Opel managed to keep the assembly lines rolling, while the guts of the West German economy, the heavy machinery, steel, and chemicals industries, continued their decline. But the marginal continuation of productive activity in West Germany enabled the banks to continue re-financing the debts of near-bankrupt corporations. To accomodate the huge debt rollover burden, the monetary authorities increased money supply at the "banana republic" rate of 23 per cent per year. A parallel development took place in Japan during January, the lead auto exporter to the United States, where money supply is rising at a hyperinflationary annual rate of 28 per cent.

By spinning huge amounts of new credit off a marginal increase in exports (from depression lows), West Germany was able to raise its imports during January by 14 per cent. That is, West Germany acted as a "multiplier" for the U.S. import-swindle in Western Europe, using its exports to the inventory junkheap in the U.S. as the collateral for a much larger volume of imports from France, Denmark, the Netherlands, and other European sectors. For Western Europe as a whole, the Atlanticist swindle during January momentarily slowed the process of collapse that began during the last quarter of 1975. However, even with the puffing up of the West German and U.S. markets, French exports fell by 10 per cent during January, raising the French balance-of-trade deficit to an annual rate of $5 billion — a level previously achieved by Europe's "sick men," Italy and Britain. France is West Germany's largest trading partner.

Despite the "recovery" fraud, Western Europe's trade began to collapse in November and December; West Germany's foreign orders fell from an index level of 146 in October to 134 in November and 112 in December, a drop of 30 per cent in a sector which depends on exports for 45 per cent of its output.

Third World Shutdown

As the direct result of a credit embargo by international banks, the Third World has been forced to shut off imports at an annual rate of at least 50 per cent, pulling Europe down with it. The collapse of European export orders coincides with the decision of Atlanticist financiers to stop issuing short-term trade credits to all Third World countries except a handful of big debtors such as Brazil, Mexico, and the Philippines.

At this moment, the structure of world trade and payments, held together since December with lies, swindles, and rubber checks, has come unstuck. The bulge of unsold inventories of foreign goods in the U.S. began to choke off the flow of exports to America from Europe and Japan during February, according to preliminary estimates of industrialists. Shipments of goods to the Third World from the industrial countries began a precipitous drop during February. This drop will accelerate during the next three months, since shipments of goods lag three to six months behind the extension of trade credits; banks began cutting off such credits in December.

In turn, the breakdown of Europe's production will force a geometric rate of collapse onto the Third World. For every 1 per cent drop in the output of Western Europe, Western economists estimate, the Third World loses 12 per cent of its export earnings.

Payments Collapse by March 31

In the context of a collapse of world trade, the turnaround of the U.S. payments balance from a December surplus of $725 million to a January deficit of $73 million is a red-flag signal for an international payments breakdown. The way is marked out for a general payments crisis by March 31.

Glimmers of recognition in financial circles will appear by Monday morning, when the dollar will lose at least .5 of 1 per cent of its value, according to estimates Friday. Since 1974, the dollar has only survived as a result of the collapse of world trade, and the contraction of the capitalist sector. Since World War II, the U.S. has exported money and imported foreign goods produced with cheaper labor than available at home. The accumulation of $250 billion abroad bankrupted the dollar.

But the U.S. ran a balance of payments surplus during 1975 of $12 billion, the first surplus in almost 20 years, as a direct result of the depression, which cut off U.S. imports from the rest of the world. This payments surplus corresponded to huge deficits for Western Europe and the Third World, which raised foreign demand for dollars to finance these deficits. U.S. banks shipped $26 billion abroad during 1975 to refinance other countries' payments deficits.

The game has ended for the dollar. By flooding the credit markets with funds, the U.S. monetary authorities made possible the temporary refinancing of Italy, Britain, France, and the Third World, and gave the swindle-recovery a few months' more borrowed time. The spillover of unwanted dollars onto short-term money markets throughout the world has created the conditions for a new general run against the dollar. Two weeks ago, after New York banks provoked an attack on the Italian lira and French franc, the dollar immediately came under attack.

By March 31, the conjuncture of three related developments will tear apart the international payments system:

First, the U.S. monetary authorities have reacted in panic to the threat of a collapse of the dollar, and the spectre of speculative cycle identical to the period immediately before October 1929. To avert this, the Federal Reserve tightened credit this week — virtually ensuring that the speculative "upswing" of the past weeks will lead directly to a bust in the credit markets. Worse, under conditions of credit austerity in the U.S., international banks will have to reverse the flow of funds abroad that provided $26 billion worth of refinancing during 1975.

Second, the last credits available to Third World countries before New York banks slapped down an embargo in December are now coming due. With no market for their exports and no credits available, Third World countries will begin to default by the end of March.

Last, the payments position of European countries has not yet reflected the trade collapse of the last three months. At the end of February, bankers report, the monthly settling of payments balances showed that France, Italy, Britain, and Scandinavia were receiving their last payments from the swindle-recovery. Payments in international trade normally take place a month or more after goods are shipped and delivered. All of the trade downturn since December will be concentrated into the clearing of payments at the end of March. Western Europe will have vast needs for new financing, precisely at the moment when the U.S. banks will not be able to provide it.

The Atlanticist banks are aware of this predicament, as far as the consequences for Western Europe are concerned: they project a sudden deflation of the European economies by March, a chain reaction of bankruptcies, production shutdowns—and Bruening governments throughout the continent. If the Atlanticists fail to crush Europe politically in a very few days, there will be no more dollar empire at the end of March.