Trade deficit alone not the key

Labor should look at the overall economy, and at policies like those that made America a net steel importer.

Stopping foreign imports has long been a concern of organized labor. Union leaders will not endorse political candidates who drive foreign cars. The AFL-CIO has just begun *The Union Label Shopper,* an all-union catalogue to tap into the gigantic U.S. mail order business.

AFL-CIO economist Mark Anderson says the federation's first priority in January, when the 100th Congress convenes, will be to pass trade legislation that will rescue American workers, industries, and communities from disaster. Indeed Democratic Sen. Robert Byrd, the man who will take over from Bob Dole as Senate Majority Leader, has indicated that trade legislation will be among the top three priorities of the Democrats when the Senate opens for business.

The AFL-CIO's concern with the federal trade deficit is not totally unjustified, but dealing with the trade deficit without addressing the more fundamental barriers to real recovery is just re-dividing a shrinking pie. The U.S. trade deficit is a reflection of a collapsing world economy, not its cause.

Still, the U.S. trade deficit, which reached $127.9 billion for the first three quarters of this year, is one of the truest readings of how shaky the world economy is. The shortfall between imports and exports, at this rate, will reach $170.5 billion, nearly 15% ahead of 1985, the previous high.

The AFL-CIO is quick to point out that every $1 billion in trade wipes out more than 22,000 American jobs and that there was a trade surplus in January 1981 when Reagan took office. Since then, the cumulative trade deficit has grown to more than $500 billion, much of this hitting the American manufacturing sector hardest. More importantly, the position of manufacturing is getting worse.

In the first nine months of 1986 manufacturing imports topped exports by $107.5 billion, one-third higher than 1985, when the differential between imports and exports represented an $80.9 billion manufacturing trade loss. September's deficit stood at $1.8 billion with Western Europe, $4.1 billion with Japan, $1.5 billion with Canada, and $1.5 billion with Taiwan. Only America's farmers in September ran up a farm trade surplus of $138 million, after three months of agricultural trade deficits.

In the 1986 general elections, it was well recognized that the vote was a vote *against* the way the Republicans have dealt with the economy, not a vote *for* the way the Democrats have handled things.

In 1984 the United States consumed 98 million tons of steel, an extraordinary drop compared to 1973 when the U.S. consumed almost 151 million tons of steel. In 1984, 48 million tons of steel came from new production, 26 million from imports, and 24 million from recycled scrap. While it is true that imports of raw steel have increased tenfold since 1980, this comes as a result of a conscious policy to shut down domestic steel.

The raw steel imports are from Brazil, Venezuela, and other developing nations that are being forced to export the steel they need themselves, in order to pay off their foreign debts. How can American exports be promoted when the developing sector, through International Monetary Fund-dictated loan conditions, is forced to slash American imports and export everything that is not nailed down?

First Boston Corporation is doing its all to shut down U.S. blast furnaces and integrated steel-mills, the guts of the new steel making capacity, while other financial interests, like the Swiss grain giant Cargill, promote the recycled scrap industry by buying up electric-arc furnace capacities.

America, once the engine of world production, is becoming an aging industrial giant that is cannibalizing itself and its neighbors to get the steel it needs for consumption. World production overall is dramatically collapsing, in terms of basic manufacturing.

In *EIR*'s June 1985 Quarterly Economic Report, it was shown that just to meet the defense requirements to keep up with the Soviets requires revitalizing the U.S. machine-tool industry to the order of $600 billion. This points to the dangerous collapse of the U.S. machine-tool industry caused by the 28% drop in the number of machine tools used in the U.S. from 1973 to 1983, and the fact that more than two-thirds of the existing stock of machine tools are "over-age." A machine-tool investment program of this sort needs 44 million tons of iron and steel to begin with, and 4.4 million tons per year to rejuvenate existing stocks, once the deficit is made up.

American industry can flourish if, and only if, world trade increases in the context of world production increasing. Any other context may give short-term gains that will soon be wiped out.