New Davignon plan in works for world industry

by Christopher White

There's a new Davignon Plan in the works for the world's manufacturing industry. The plan's outline involves the coordinated shutdown of industrial production capabilities in the United States, Western Europe, and, perhaps Japan.

The slogan under which the shutdown of industry is being orchestrated, is that familiar to every undergraduate student of economics, and it still means what they were taught it means: economic depression. The slogan, increasingly heard since the end of the Nov. 4 elections in the United States, is "overproduction." Too much, it is said, is being produced. The surplus production cannot be absorbed by the markets' end consumers. Therefore, production must be cut back to the point that the surplus is removed.

Isn't it ridiculous that the same people, who in the United States argue that the economy is, and has been, in its strongest, most sustained, surge of growth since the end of the Second World War, should also be the ones who are planning depression-style cutbacks? They claim this will eliminate the economy's principal problem, that too much is being produced.

There is a cabinet-level committee examining how to reduce the overproduction in the U.S. steel industry, by eliminating about 30% of "surplus" production capacity. There is an inter-agency task force examining how to deal with the overproduction of oil. There is an ongoing commitment, by these same agencies, to eliminate the "surplus production" of agriculture.

But it's worse. The U.S. wreckers of industry and industrial output, are part of a worldwide commitment to cut back and eliminate so-called surplus industrial output and capacity within the advanced-sector economies. The model adopted, and puffed by U.S. news media, such as Cable News Network, is the infamous Davignon Plan of the 1970s.

The Comte Davignon was the Belgian bureaucrat emplaced in the European Economic Commission during the 1970s, with the mission of cutting back steel output. His plan was not confined to Europe, and under its auspices steel capacity was shut back in the United States as well. Now there are similar, large-scale cutbacks in the works, for the same reasons.

Those reasons, of course, do not include any such thing as "overproduction." Such a crisis does not exist. Africa and large parts of Asia are reduced to genocidal levels of starvation, because they do not have access to the capital goods supplies which can deal with their lack of development. Ibero-America, once an importer of U.S. manufactured goods output, is now the looted exporter of semi-manufactured products and foodstuffs which the United States can no longer produce for itself. The economies of Western Europe are, and have been, suffering from the highest levels of unemployment since the depression of the 1930s. So it is also in the United States, if the statistical frauds of government agencies are set aside.

The world economy is in a depression. Those who now intend to cut back what they call surplus production capacity, in the present depression, are therefore simply going to make matters worse.

Yet, that is exactly what they are doing. Now as before, the steel industry, on which manufactured goods output depends, under present dominant technologies, is scheduled for slashing reductions worldwide. In the advanced sector, that means more unemployed, more poverty, fewer people able to buy, and therefore, ridiculously, more surplus production capacity, for the cutters to eliminate. In the developing world, it means genocide. Strategically it means disaster, since the capabilities which have to be mobilized to defeat Russian expansionism will, pretty soon, not exist.

A package deal

From Europe, it is reported that plans are now being drawn up within the European steel agency, Eurofer, to reduce production capacity by between 20 and 30%, beginning after the completion of Germany's upcoming federal elections. The cutback plans in Europe are accompanied by a similar effort under way in the United States, sponsored by the investment banks Goldman-Sachs and First Boston, and by Donald Regan's friends in the government. Here, USX corporation is expected to begin to shut down up to 20% of its own capacity, through one means or another, and to unleash a price-cutting war designed to drive the rest of the industry into bankruptcy court. Financial vultures do not exlude the bankruptcy of the industry as a whole, Penn Central-style, by early next spring. In Japan, the steel industry has moved into the red, and is now facing cutbacks and layoffs, for the first time since World War II.

The planned cutbacks in steel production will be accompanied by a similar redivision of world automobile production, foreshadowed in the retrenchment now occurring in the United States.

The model seems to be a package that has been worked out for international machine-tool producers in nearly completed trade negotiations with the United States. In those negotiations, Japan, West Germany, and Switzerland, the largest machine-tool exporters to the United States, are being pressed to limit the volume of their exports to the market share they had established by 1981. Japan, it is reported, has agreed to accept this package.

By the end of the second quarter of 1986, consumption of machine tools within the United States, which, like many other branches of U.S. industry, was never affected by Donald Regan's recovery, had shrunk by about 40% from the levels of 1981. By that same quarter, imports accounted for over 56% of all consumption, up from about 25% in 1981. Japan accounts for about 45% of the total imported product. Thus, the United States is demanding that Japan, Germany, and Switzerland cut their exports by approximately half. This would leave production and imports sufficient to cover about 30% of the consumption level of 1981.

The machine-tool agreement, scheduled for conclusion by the end of the third week in November, conforms to the campaign that Paul Volcker and James Baker have been waging against Germany and Japan since the period of July and August, under the cover of their demands that those two allies cut their internal interest rates. What Volcker and Baker were actually demanding is that Germany and Japan cutback on their exports to the United States, and reduce their internal production proportionately. If the machine-tool agreement is a model of what is to come, then those nations which produce the approximately 30% of world trade that is imported into the United States on an annual basis, can be expected to cut back their domestic production by the proportion in which their exports to the United States are reduced.

There might still be those who claim that such an approach is a contribution to the growth of the world economy, and to strengthening the robustness of the recovery. Normal, sane people, would rightly consider that such people should be locked up in a lunatic asylum. This is a recipe for exporting worldwide the disaster that the U.S. economy has become.

Depressions are not caused by too much production. Depressions are caused because the productive economy is subordinated politically to insane financial and credit policies. To reverse a depression, it is not necessary to cut anything that can contribute potentially to the generation of wealth. All that's necessary, is to change the financial and credit policies under which the growth of the usurious claims of debt and speculation have suppressed the production on which society depends.

The defense issue

On the machine-tool deal now heading toward finalization, the United States, for example, did have a choice. The machine-tool builders had demanded that the government extend protection to the industry for national security reasons. Without a machine-tool industry, it is impossible to provide for U.S. defense and security requirements. How can the nation defend itself, if the capability to make the machines which make the machines on which everything depends, is not subject to national control?

The administration, in the infinite wisdom of its obsession with free-market ideology, rejected that approach. It was feared that to put the crucial machine-tool industry under national security protection, would be to establish an undesirable precedent for other branches of industry. They therefore opted to continue their flight from reality and go with the new global version of the Davignon Plan instead.

In reality, the credit and monetary systems are bankrupt because of the growth of unsecured debt and speculation. Cutting back production capabilities inside and outside the United States will only make that bankruptcy worse, bringing the day of reckoning for that system closer. In the meantime, only the Soviet Union will benefit from the destruction of productive capacity and the increase of unemployment that is now being set into motion, as part of the accelerating slide into a new depression.

But that simple reality, in the domain of economic policy, no longer qualifies as a national security interest of the United States. Unless this kind of thinking is changed, and rapidly so, the United States will cease to be of any account in world affairs at all, and will have handed its allies over to Soviet rule.