Brazil-like crisis seen ahead for U.S.

by Leo F. Scanlon

At seminars and press conferences in early June in Washington, representatives of industrial and academic circles presented a rare (for Washington) look at the reality of the economic collapse that is soon to hit the United States. The view of the problem differs from forum to forum, and the solutions proposed are notably thin, but the picture painted is stark: The "Reagan Recovery" was financed by inflating the value of the U.S. currency, undervaluing the imports to the U.S. economy, and cheating on necessary domestic investment. The bill for this folly is now being totaled, and is soon to be presented.

"Other governments and businesses cooperate: We argue. Other nations save: We consume. Elsewhere, the cost of borrowing is low: Here our cost of borrowing is high. Our competitors honor excellence and achievement in education: We honor athletes and rock stars. It is only that we are so rich and our margin for error so large that we have remained dominant for so long."

With these words, Kodak engineer Colby Chandler opened a press conference called to present the latest in a series of reports he has produced with the aid of a group of like-minded economists. The reports describe the results of the "post-industrial" policies which have shaped investment in the United States since the 1960s. Chandler and his colleagues, economist Rudiger Dornbusch and Paul Krugman (Massachusetts Institute of Technology), and Yung Chul Park (Korea University), argue that the United States is going to be forced to settle its trade imbalances in the near future, by the only means possible in the real economy—the export of manufactured goods. The question is whether those goods will be "high-wage/high-value" products or "low-wage/low-value" cheap exports.

As Chandler points out, the United States is in the same position as Mexico and Brazil, forced to run an export surplus to generate the foreign exchange to service an immense foreign debt. His predictions indicate that if the U.S. current accounts deficit is to be eliminated over a five-year period, manufacturing output must rise more than twice as fast as the GNP. The sale of financial services and credit cards has been decisively rejected by the more sane nations of the world, and with this, the chimera of a "service economy recovery" has ended.

"A current account deficit is, by definition, only possible if a country is able to sell assets to cover the deficit, either by liquidating its own foreign assets or by inducing foreigners to invest in domestic assets" the report points out, and then warns, "a country may through changes in domestic policy or growing underlying competitiveness evolve its way smoothly out of a trade deficit, or markets can force elimination of the trade deficit by driving the country's currency down or provoking a Latin American-style debt crisis."

The problem, as Chandler poses it, is that under existing global financial arrangements, even a "best effort" by the United States can only keep existing living standards; anything less will produce social suffering. "Most Americans since the 1950s have come to expect a rising living standard as part of their birthright. Where that American dream is not shared, we already see the results in drugs, violence, and the despair of urban ghettos. Consider an America where the dream has been taken away from the majority. The divisiveness and turmoil in our society could be enormous."

The report points out the need for a tax reform which would favor investment and savings and penalize finance and speculation. "I try to be careful to talk about it in terms of tax structure. We talk an awful lot about tax reform. One of these days we ought to do it. All we've done so far is fool around with the rates."

What frightens Chandler and his colleagues most, is the belated realization that the 1960s "educational reforms" have produced an American workforce which is one of the worst educated in the world. For this reason, capital investment in the U.S. does not compete with "high- wage" Japanese and German labor, further complicating the process of manufacturing our way out of the debt mess.

The Japanese have long recognized this problem, and are calculating just how much more they can support the dollar if investments are limited by the bottleneck of an unskilled U.S. workforce. The "debt bomb" is ticking in the United States, and it is being detonated by the effects of an ongoing cultural collapse. What Chandler and his associates do not consider is the most likely eventuality; the financial structure built on this house of cards will collapse before it can be reformed.

'Decline theorists' join in the fray

Paul Kennedy, the celebrated theorist of the "decline school of history," reiterated many of the above points to a seminar audience at the University of Maryland on June 6. He pointed out, for example, that F-15 fighters built and maintained by Japanese personnel, and heavy armored equipment built and maintained by German personnel, are routinely more reliable than the same equipment in American hands.

Mr. Kennedy made the analogy to Britain of the 1930s, which had reached a similar state of decline in its industrial and military capacity. This condition, according to Kennedy, was a prime consideration in the appeasement policies pursued by Neville Chamberlain. Kennedy declined to draw the military analogy to the policies of Bush and the Joint Chiefs of Staff today.