U.S. trade deficit falls because we're not producing goods

by Anthony K. Wikrent

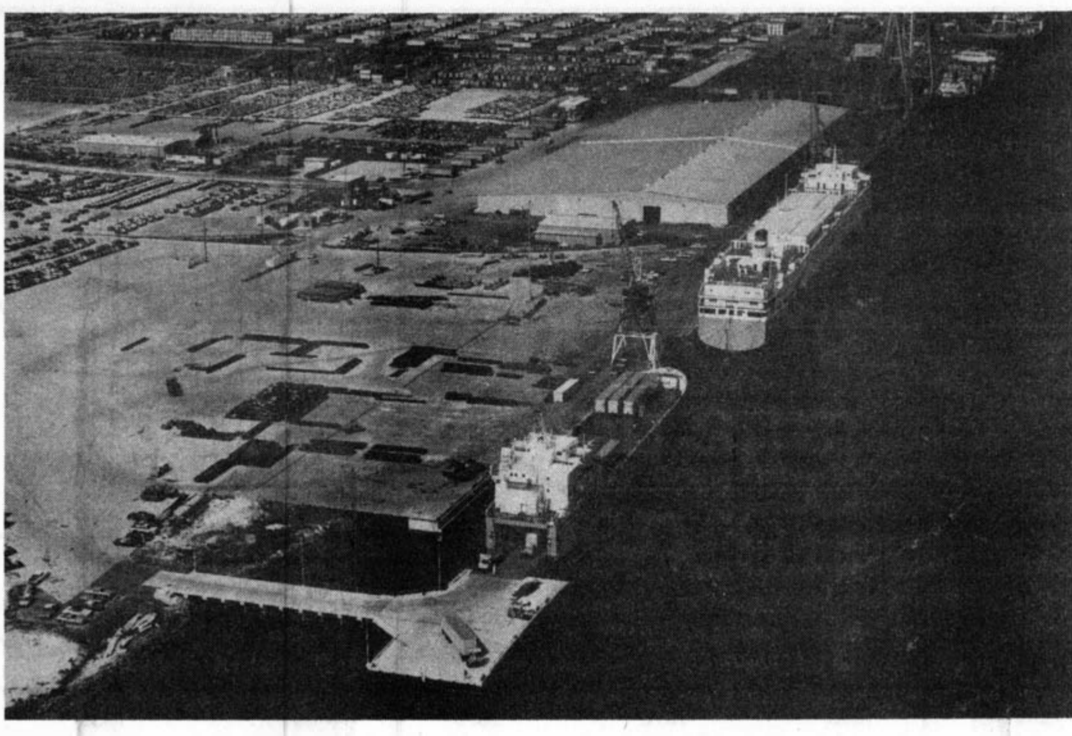
The news that the $108.6 billion U.S. trade deficit for 1989 was the smallest since 1984 was widely hailed as evidence of the growing strength of the U.S. economy. If imports are down, it means more is being produced here at home, and more jobs for Americans, right? Wrong! If you look at units of merchandise imported and consumed, rather than just the dollar figures compiled and regurgitated by the U.S. Department of Commerce, the picture that emerges is of *a drop in production and consumption,* as well as in imports.

In other words, U.S. producers and consumers cannot afford to buy the goods they were previously buying from foreign countries—goods which the United States, in many cases, can no longer produce. That brings the trade imbalance down, but it does nothing to rejuvenate the failing economy.

The U. S. trade deficit fell 30.3% in December 1989, compared to the previous December, leaving the yearly trade deficit at $108.6 billion, the smallest since the 1984 deficit of $106.7 billion. Some attributed the December figures to a healthy surge of exports of commercial aircraft after the Boeing strike, but the dramatic collapse of durable goods orders, factory output, and factory orders the following month, gives the lie to that optimistic theory. January orders of merchandise and equipment expected to last at least three years, such as industrial machinery, household appliances, transport equipment, and military equipment, fell 10.5% to $118.6 billion—the single largest drop in durable goods orders posted since the Department of Commerce first began keeping records in 1958. Figures released by the Federal Reserve Board showed output from the nation's mines, plants, and utilities in January slipped to the lowest rate in more than three years, with factories running at only 81.9% capacity, compared with 83.1% in December. Other Commerce Department figures revealed that orders received by American factories in January fell at the steepest rate in 15 years—5.4%—leaving factory orders at a seasonally adjusted $227.7 billion.

Those falling orders for goods demonstrate the falling purchasing power of American consumers and producers alike.

In January 1986, the *EIR Quarterly Economic Report* titled "Gramm-Rudman:



All that's missing, are the exports: The Blount Island terminal in Jacksonville, Florida is fitted with container berths, cargo berths, various types of cranes, and rail and highway connections.

Catalyst of a new depression in 1986?" warned of such a collapse of purchasing power and living standards: "Unless present policies are reversed, the underlying economic collapse of the United States, estimated at a rate of 2.5% per annum, will accelerate during 1986, to perhaps pass over the line into the deflationary part of the depression process. Vulnerabilities that have accumulated under the evil and misguided policies that produced the so-called 'Recovery of 1983-84' create the potential for a further 15-30% ratchet collapse in living standards, from the levels of the late 1960s and early 1970s, and for a further estimated 9-15% reduction in the physical economy."

As we will show in the present and future articles, such a 15-30% collapse in living standards is exactly what has occurred since 1986. The extent of the collapse was hidden somewhat, by Washington strongarming U.S. allies and developing sector countries to essentially *give* to the United States what it no longer could produce for itself. But the collapse of the U.S. productive economy continued, generating, among other things, the two stock market collapses of October 1987 and October 1989. The U.S. economy has now rotted to the point that it can no longer afford to import the merchandise required to hide the extent of the crisis.

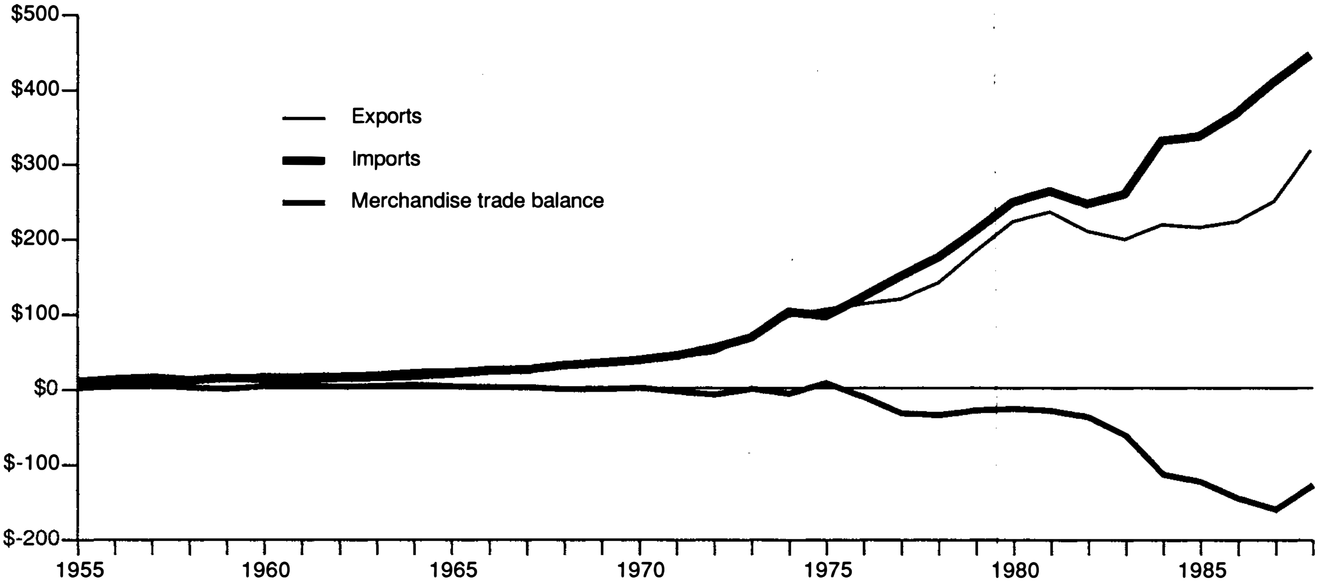
What went wrong?

The United States stopped producing for itself because of the decision of the Anglo-American elites to impose, top-down, a "post-industrial" policy designed to allow various schemes of ground rent and usury to loot the accumulated wealth represented by the nation's social and physical infrastucture, and the capital structure of its industrial and agricultural bases. The "disinvestment" in infrastructure recently discovered by many economists and politicians is actually a symptom of the problem, and not the problem itself. The hoax of environmentalism was conjured up in order to persuade people to accept or tolerate the slow collapse in living standards that this "post-industrial" policy would cause.

The Eastern Establishment was able to begin to implement this "post-industrial" policy after they cowed potential institutional opponents with the 1963 assassination of President John Kennedy, and subsequent successful coverup—an important turning point in the "cultural paradigm shift" in American life away from traditional values. By 1971, the United States suffered its first merchandise trade deficit since 1893. The trade deficits of that year, and of 1972 and 1974, should have been early warnings that prevailing economic, monetary, financial, and fiscal policies were great dangers to the continued ability of the physical economy to provide for the maintenance of the population (see **Figure 1**).

The change in status of the United States, from net exporter to net importer, was a great tragedy for the developing nations in particular, which desired and desperately required the industrial and technological capabilities the United States could uniquely supply at that time. But not only did the United States cease being a powerhouse and supplier of innovation and invention, but the export markets in developing countries were destroyed by International Monetary Fund/World Bank austerity conditionalities policies, and the Anglo-American elites' insistence that the developing countries make do with "appropriate technology." The ensuing holo-

FIGURE 1
U.S. merchandise exports, imports, and trade balance, 1955-1989
(billions $)



Source: International Monetary Fund

caust of famine and death, which has since claimed at least half a billion lives, is a grim testimonial to the success of the Establishment's "population control" policies.

The oil shock of 1973, and the acceleration of the environmentalist hoax, shut down entire chunks of the U.S. base of production. By popularizing the notion of conservation as opposed to growth, the oil shock made possible the institutionalization of the post-industrial policies within the federal government. In 1976, and every year thereafter, the United States ran trade deficits, as the country turned to foreign producers to provide what it no longer produced itself.

U.S. trading partners, especially West Germany and Japan, received almost nothing in return—except the military protection of the U.S. nuclear umbrella. U.S. trading partners have been accepting paper of increasingly questionable worth, issued by an increasingly bankrupt socio-economic system, in exchange for their merchandise. After Armand Hammer and Charles Wick were able to guide President Ronald Reagan into accepting a condominium deal with the Soviet Union, Germany and Japan became increasingly nervous about the apparent willingness of the United States to sacrifice its allies in the quest for a global *modus vivendi* with the Russian empire. Since the Malta summit of December 1989, major U.S. trading partners have apparently reached the decision to abandon the United States to its fate, and have begun positioning themselves for the massive recapitalization of a freed Eastern Europe (*EIR*, Feb. 23, 1990, "The Bush factor: International funds flee depression, pact with Gorbachov").

By 1986, the industrial base of the U.S. economy had become 10-20% dependent on imports to continue functioning. It is now 20-30% dependent on inflows of foreign capital goods and certain raw materials. In certain areas, most noticeably in machine tools and oil, the dependency is much greater, approaching levels of up to 50%.

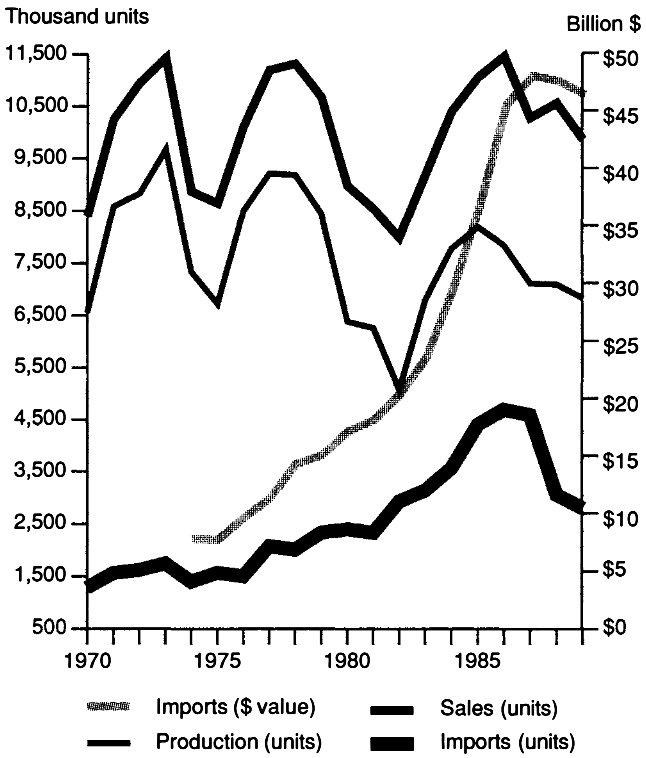
The consumer sector of the U.S. economy is now about one-half dependent on imports. That is, if the country were to cease all imports of consumer goods, such as automobiles, clothing and apparel, and consumer electronics, the apparent standard of living would collapse by a full 50%, and the true bankruptcy of the economy—its utter inability to meet its own needs—would be nakedly displayed for all to see.

There was a whopping $72.199 billion trade deficit in durable and non-durable consumer goods, not including automobiles, in 1988. If automobiles are included, the deficit in consumer goods was a staggering $127.926 billion, or slightly more than the total U.S. merchandise trade deficit. Here we clearly see the attempt to hide the collapse of U.S. manufacturing capability, by importing such a high volume of consumer goods.

Crisis in the auto industry

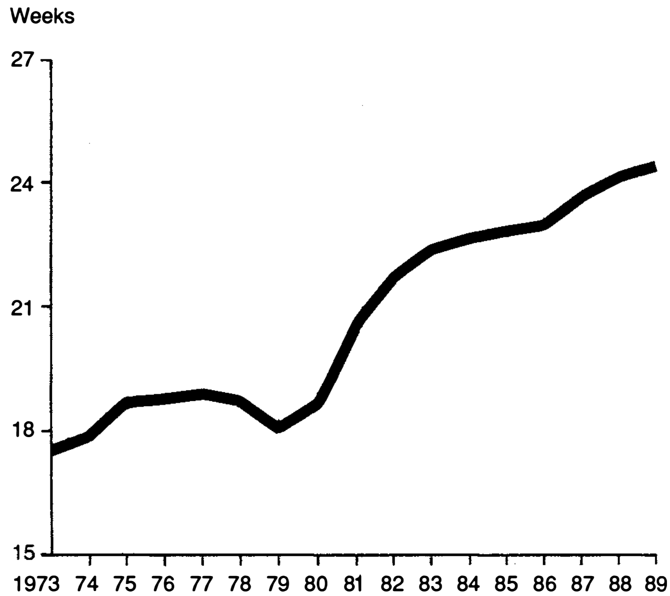
Automotive vehicles, parts, and engines comprise the largest single area of imports, as measured by dollar value. In 1988, the United States had an automotive trade deficit of $55.727 billion, from $87.941 billion of imports and $32.514 billion in exports. The trade with Canada—$29.200

FIGURE 2
Automobile production, sales, and imports



Sources: *Statistical Abstract of the United States;* Motor Vehicle Manufacturers Association, *Facts & Figures; Wall Street Journal*

FIGURE 3
Weeks of work to afford average car expense
(median family income)



Source: Manufacturers National Bank, Detroit, Michigan

billion in imports and $22.572 billion in exports—should be factored out, since Canadian manufacturing and assembly plants are part of the integrated North American operations of the U.S. Big Three (General Motors Corp., Ford Motor Co., and Chrysler Corp.). That leaves a trade deficit of $48.799 billion in the automotive area.

Figure 2, which is based on actual number of automobiles, not dollar value, shows the collapse of both imports and total retail sales, underlining the point that consumption, and hence imports, are falling absolutely. Car prices relative to family income are now at a 22-year high. According to David Litmann, an economist at Manufacturer's National Bank in Detroit, the average American must work 24.9 weeks to earn the $15,281 average price of a new car, compared to only 18.7 weeks in 1980 (**Figure 3**).

The impoverishment evident in this area of the U.S. economy was largely covered up by radically increasing the length of a car loan, to keep the monthly payment "affordable." The average length of a new car loan is now 54 months, compared to 45 months in 1980; and the 84-month (seven-year!) car loan has just been introduced. According to the Federal Reserve, the average cost of a new car in the early 1970s was $3,500, and the average loan was for $3,100, taken out for less than three years, at about $100 a month. Now, a three-year $20,000 car loan at 12% interest would cost $664 a month. Even with the seven-year alternative, the monthly payment is still $353.

Rather than attack the "post-industrial" policy—a very risky thing to do politically—the management of the Big Three auto makers have chosen instead to claim that there is excess capacity in car production, and point a blaming finger at the Japanese. Harold Poling, the incoming chairman at Ford Motor Co., told the Automotive News World Congress in January that the world automotive industry has a production "overcapacity" of 8.4 million vehicles, or 20%. Most of the alleged "overcapacity" is in North America, with the ability to produce 6 million vehicles too many. Poling was particularly upset that the Japanese auto makers had built eight new assembly plants in North America and Europe in the past 18 months. The Japanese facilities in the United States, known as transplants, have become a favorite whipping boy of auto executives, United Auto Workers labor union officials, and the media.

In fact, the Big Three have been doing well in other areas, such as Europe, while taking a beating in their core North American automobile operations, where they have resorted to massive rebates and incentives, double those of 1988, to prop up collapsing sales. Chrysler lost a record $664 million in the fourth quarter of last year, largely because of $577 million in costs related to closing down two assembly plants,

Who will make uniforms for American soldiers?

During his tenure as secretary of defense during the Reagan administration, Caspar Weinberger ordered a review of the ability of the U.S. industrial base to meet military mobilization requirements. Initial findings indicated deficiencies so serious, that a regular process of Production Base Analysis was instituted, under the direction of the Defense Logistics Agency. In response to weaknesses in the industrial base identified by this process, the DLA established a Manufacturing Technology Program, with the goal of helping develop, demonstrate, and introduce into use more efficient and productive machinery and techniques.

Thus far, the DLA has identified four major types of military supplies for which the U.S. economy appears to be ill-prepared to supply emergency levels. These areas are combat food rations, precision gears, roller bearings, and textiles and apparel. In each of these areas, the DLA has taken actions to try to remedy the situation.

In the area of textiles and apparel, the agency has undertaken three different efforts. First, it has funded a project at North Carolina State University to develop and demonstrate new machinery, such as robots able to separate and manipulate materials, aimed at introducing greater automation into the production process. Second, state-of-the art manufacturing technology demonstration and research centers have been established at Clemson University, the Southern Technical Institute (in conjunction with Georgia Tech and Georgia Tech Research Institute), and the Fashion Institute of Technology. Third, the DLA has joined with the Army to develop stitchless technology for apparel assembly. The Navy also has a program for advancing uniform-manufacturing technology.

The Department of Defense purchases about $1 billion worth of textiles and apparel each year.

laying off thousands of workers, and eliminating about one-tenth of its salaried workforce. But the most significant detail was an operating loss of $87 million, resulting from Chrysler's average rebate per vehicle sold of $1,200. It was Chrysler's first quarterly loss in seven years. Ford lost $123 million on its U.S. operations during 1989. GM does not break out separate figures for its U.S. operations, but implicitly acknowledged that it barely broke even on its domestic auto operations, and may even have lost money.

U.S. passenger car sales in February were the lowest in seven years, with an annual average selling rate of 6.8 million units. "This past Saturday we didn't sell one new car. That has never happened before," the assistant manager of a car dealership in Indianapolis told the *Wall Street Journal* the first week of March.

Officials at the Big Three whine that Japan is being unfair, but a look at the auto market in Japan does not induce much sympathy for them. U.S. auto makers sold about 20,000 cars in Japan in 1989, whereas West German car makers, chiefly BMW and Mercedes-Benz, sold about 175,000 cars. One suspects that, if they really wanted to, the U.S. auto makers could sell in Japan. But, though they were given equal status at the Tokyo Auto Show in November, the Big Three could not come up with anything as impressive as some of the new automotive technologies displayed by the Japanese auto makers.

The Japanese have insisted upon the capital reinvestment required to consistently build better cars than the United States, for most of the past decade. Automotive industry analyst Maryann Keller has estimated that, since 1986, Toyota has raised $6.2 billion at interest rates of only 1.2% to 4.0%. U.S. auto makers simply cannot come close to that, under the present U.S. financial system.

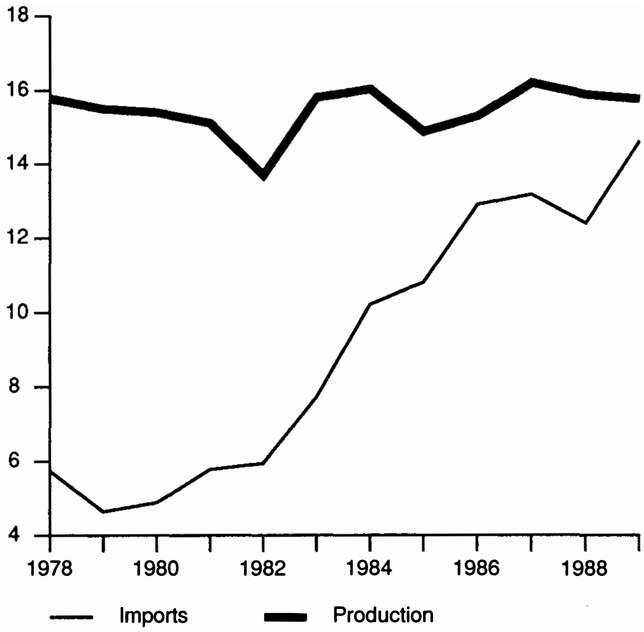
The American automotive industry clearly shows the effect of having its capital structure looted. Whereas a quarter-century ago, "Made In Japan" was something of a joke, denoting poor quality, U.S. automotive technology is now five years behind that of the Japanese. The best-selling car in the United States is now a foreign car—the Honda Accord.

The Japanese can now design, engineer, and launch a new model almost three times more quickly than their American counterparts. And the quality of the finished product will be better. In 1980, a GM car had an average of 7.4 defects, a Ford car had 6.7, and a Chrysler had 8.1; the average Japanese car had only 2.0 defects. By last year, the U.S. Big Three had closed the gap significantly: GM had 1.7 defects, Ford had 1.5, and Chrysler had 1.8; but the Japanese had not stood still, and were down to 1.2 defects.

Moreover, the Japanese have been able to invest far more in robotic manufacturing technology, and can turn out a car in about 20% less time than can the U.S. auto makers. MIT analyst John Krafcik, who has studied 40 auto assembly plants in 13 countries, estimates that the average plant in Japan needs 20.3 hours of labor to assemble a car, compared to 24.4 hours in North America.

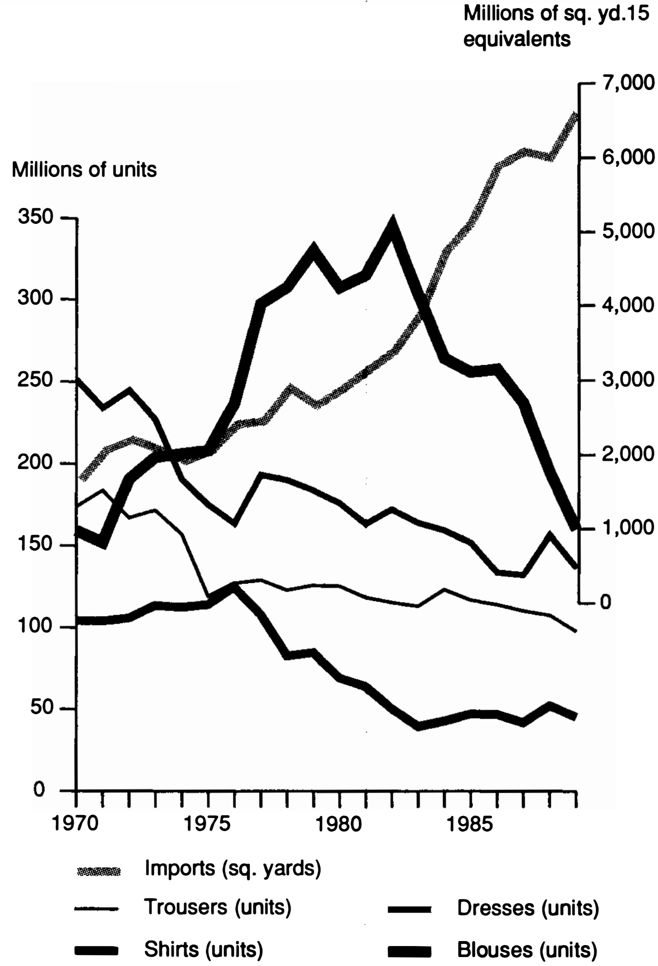
It's not that the Big Three don't have the money: Ford is sitting on $5.7 billion in cash. But, rather than invest in new technologies, Ford chose to take a loss of $424 million on the sale of its River Rouge steel-making facility. The problem is that the U.S. financial system, with supporting tax and credit laws, favors usury and speculation far more than production. The insanity of this situation is exacerbated by the legion of environmental regulations productive industries

FIGURE 4
Imports and production of textile manufactures
(billions of equivalent square yards)



Source: American Textile Manufacturers Institute, Inc., *Textile Highlights*

FIGURE 5
Production and imports of apparel



Source: American Apparel Manufacturers Association, *1989 Focus: An Economic Profile of the Apparel Industry*

must comply with.

In fact, the Big Three are hoping to use new laws mandating better fuel economy as a foil against rapidly emerging Japanese competition in the luxury car market, by far the most profitable per unit sold. The U.S. auto makers want Congress to force all auto makers in the U.S. market to raise their fleet fuel economy averages by the same amount—regardless of their starting point. Since, for example, Toyota was already at 32.6 miles per gallon in 1988, compared to Ford's 26.4 mpg, the Japanese car makers would be at a disadvantage.

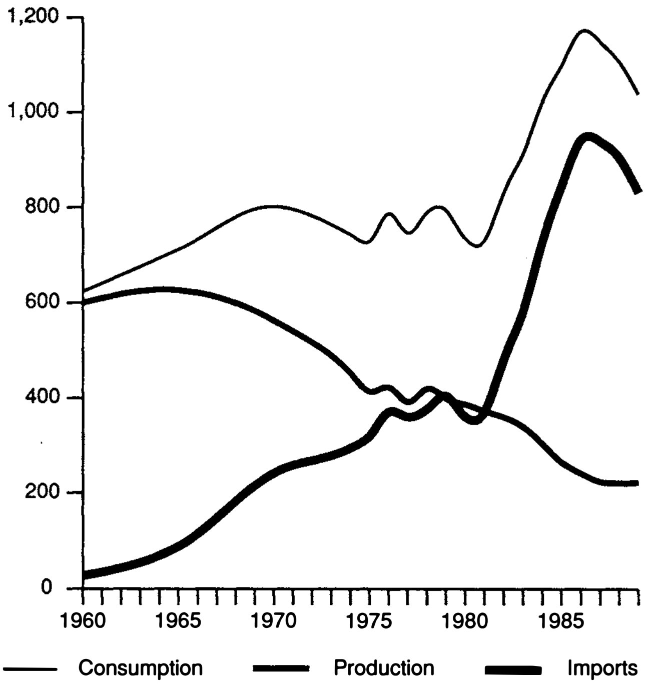
The luxury car market is crucial for the U.S. auto makers, since the Big Three have practically abandoned the field of small cars. Profit margins on small cars are excruciatingly slim, partly because technology for manufacturing and assembling them is now firmly established in many developing or newly industrialized countries, such as Mexico, India, Brazil, Taiwan, Thailand, and South Korea, which have exceptionally low costs.

This does not necessarily mean that developing countries can make money by producing small cars for the U.S. market. A case in point is the Yugo, an import from Yugoslavia that enjoyed very brief popularity some years ago. Cash-strapped American consumers were initially attracted by the Yugo's very low sticker price of just over $4,000, but once the car's horrendous quality became known, the Yugo was shunned. Yugoslavs are bitter about their experience, since it was Kissinger Associates President Lawrence Eagleburger, now deputy secretary of state, who persuaded them to attempt an export boom to the United States. Kissinger Associates made millions by advertising the car, while the Yugoslavs had nothing but losses. Yugoslav officials now privately say they were manipulated and betrayed by Eagleburger.

Textiles, clothing, and footwear

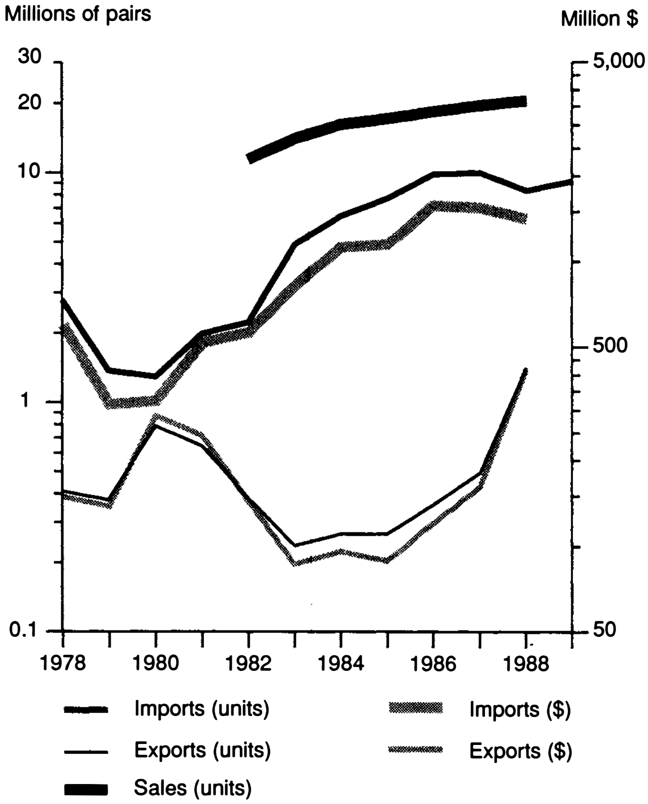
The third largest import items (in dollars) are textiles, clothing and apparel, and footwear. Fully one-third of U.S. domestic consumption is accounted for by imports, with the United States running a trade deficit in this area of about $20 billion each year. Imports of textiles and apparel soared 13% to a new record in 1989, according to the American Textile Manufacturers Institute. The United States imported the

FIGURE 6
Consumption, production, and imports of non-rubber footwear
(millions of pairs)



Sources: *Statistical Abstract of the United States;* U.S. Department of Commerce, *1990 U.S. Industrial Outlook: Prospects for Over 350 Industries,* January 1990

FIGURE 7
Imports, exports, and sales of consumer electronics
(logarithmic scale)



Source: Electronic Industries Association, *The U.S. Consumer Electronics Industry 1989 Annual Review*

equivalent of 12.19 billion square meters in 1989, compared to 10.74 in 1988, causing the trade deficit in textiles and apparel to swell 8% to $26.4 billion (**Figures 4** and **5**).

About one-quarter of this area is comprised of household furnishings (curtains, bed linens, towels) and miscellaneous items such as automotive trimmings, in which the trade deficit is rather small—only about $650 million a year. Therefore, the extent of import dependency in clothing is probably much higher than one-third, and may even be over 50%.

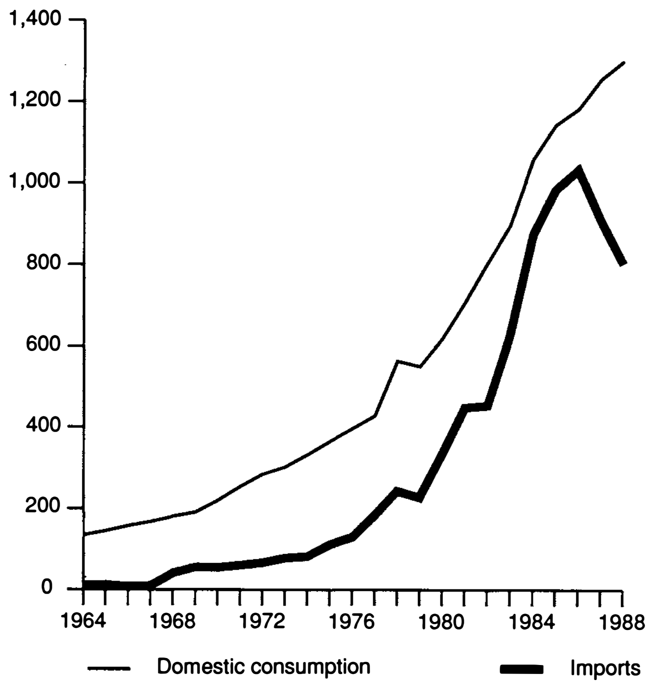
The Defense Logistics Agency has identified the textiles and apparel industry as one of several critically weak industries unable to assure the U.S. Armed Forces of an adequate supply, especially during emergencies. The DLA has established a Manufacturing Technology Program in an attempt to address the problem. (*See box.*)

Sixty percent of the fibers consumed in the United States are man-made. The domestic man-made fiber industry is 90% dominated by fewer than a dozen horizontally integrated, multinational corporations. These companies have significantly reduced production capacity in the past few years. Meanwhile, production capacity in Asian countries, particularly the People's Republic of China, increased over 50% from 1984 to 1988.

The United States now depends on foreign countries for over half of the machinery used to manufacture textiles. On a dollar value basis, imported textile machinery amounted to $1.332 billion, compared to domestic shipments of $1.472 billion in 1989. Imports in 1987 and 1988 were $1.166 billion and $1.413 billion, respectively, while domestic shipments were $1.231 billion and $1.325 billion, respectively.

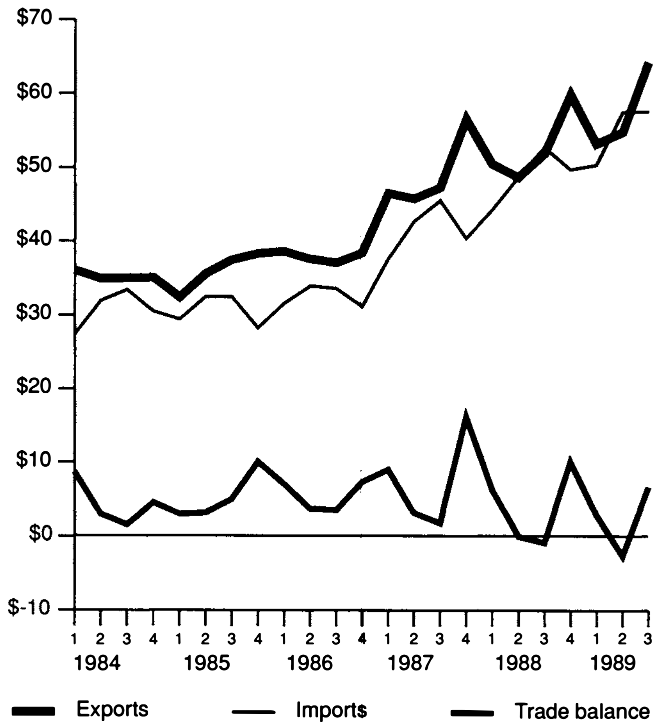
Again, the outlook for this industry is grim, not because of the industry itself, but because it must operate in the hostile environment of the U.S. financial system. Domestic apparel makers are already showing significant losses as a result of the junk bond bankruptcy of Campeau Corp.'s two U.S. branches, Allied and Federated Department Stores. Not only have apparel makers suffered by cutting back shipments to the Campeau operations, many of them have been stuck with hundreds of thousands or even millions of dollars in Allied and Federated checks that can no longer be cashed, since Allied and Federated are operating with bankruptcy protec-

FIGURE 8
Domestic consumption and imports of photocopier machines
(thousands of units)



Sources: Computer and Business Equipment Manufacturers Association, *The Information Technology Industry Data Book 1960-1989;* U.S. Department of Commerce, *U.S. Industrial Outlook: Prospects for Over 350 Industries,* January 1990.

FIGURE 9
U.S. Services exports, imports, and trade balance, by quarter, 1984-89
(billions of $)



Source: International Monetary Fund

tion from their creditors. Leslie Fay Cos., a major women's clothing manufacturer, reported that a 49% plunge in net income—including a $1.9 million addition to loss reserves—involved its accounts receivable from the Campeau operations. Bernard Chaus, another big apparel maker, suffered a $2.8 million net loss for the fourth quarter. Fourth-quarter profit at Hartmarx plunged 73%. Many manufacturers were forced to dump merchandise slated for sale to Allied and Federated at a substantial loss.

While the United States is the largest exporter of cattle hides in the world, exporting three-quarters of the 33-35 million hides produced each year, it imports two-thirds of the shoes it consumes each year. Many other countries which have not bought the tragic mythology of "post-industrialism," such as Argentina, Brazil, or India, impose strict export controls on their production of cattle hides, as an indirect means of promoting the growth of their tanning and leather products industries.

Per capita consumption of non-rubber footwear in the United States is now collapsing again, after weakly rebounding from the 1980 low of 3.3 pairs (see **Figure 6**). Apparent consumption in 1989 was 1.038 billion pairs, or 4.2 pairs per capita, compared to 4.5 pairs in 1988, and 4.9 pairs in 1986. U.S. government agencies are quick to point out that much of the decline is due to the increasing popularity of various types of "quality" sports shoes, a trend started by Adidas in the early 1980s. But, the harsh truth is that with personal disposable income of 80-90% of Americans eroding 10-15% each year, more and more people see $50 sports shoes as the only affordable alternative to $100 leather shoes for day-to-day use.

Consumer electronics

The trade deficit in consumer electronics in 1989 was a record $11.4 billion. The United States imports all its compact disc players, and all its digital audiotape players—there is simply no domestic production capability. We also import more than 90% of our VCRs, as there is no significant capability to manufacture them domestically. Virtually all camcorders are imported.

There is a clear trend of shifting from higher-cost imports from Japan, to much lower-cost imports from developing countries. Japan's share of U.S. imports dropped from 53% in 1988 to about 40% in 1989. South Korea and Mexico supplied about 13% each; Taiwan supplied about 10%. Other

Commentary by Lyndon LaRouche

U.S. seeks to impose its follies on Europe

"Contrary to what cult fanatic [Trade Negotiator] Carla Hills may argue, the present economic miseries of the United States are not due to the unfairness of Japan and West Germany, but rather, to the stupidity of the United States. It is therefore particularly obscene when the United States intervenes in the affairs of more successful managers of economies, those of Western Europe, and proposes to impose upon the bank project the same follies which have led to the ruin of the U.S. economy," jailed American political economist Lyndon LaRouche declared on March 12.

Mr. LaRouche, who was speaking from the Rochester Federal Medical Facility, in Minnesota, went on to explain his reference. "Some time ago, France's President François Mitterrand proposed the establishment of a new European bank. It was understood that this bank would steer its efforts toward financing some of the crucial elements of economic development, of the newly liberated, formerly Soviet Captive Nations of Eastern Europe.

"This was heralded by everyone except some fellows in London, and, unfortunately, Washington.

"From Washington, from the Bush administration, came recently the demand that this bank should be forbidden from making infrastructure loans in Eastern Europe, that the business of infrastructure loans should be left to the responsible international supervisory agency, the World Bank.

"The result of this is that Washington did not have its way, respecting the founding of the bank, but that it did manage to drag its feet to the point of crippling the bank, relative to what it might have been. France's Jacques Attali, the apparent preferred choice of sponsoring President François Mitterrand, has been appointed head of the bank. The bank will unfortunately be headquartered, apparently, in London, and there will be undoubtedly some restriction on its lending practices—though the Europeans will predominate, nonetheless the United States, and, presumably, some fellows in Britain, have succeeded in significantly sabotaging the bank, relative to what it might have become."

What's wrong with the World Bank

LaRouche, who has been a political prisoner in the United States since January 1989, for the "crime" of having spoken out too bluntly against the powerful financial interests who run the U.S. justice system—went on to underscore why the U.S. meddling will have nefarious effects. "The World Bank, especially since the days of the rather kookish McNamara, Robert S. McNamara—Robert Strange McNamara to be specific—has been a malthusian organization, dedicated to devolution of economies, and has promoted the cessation of infrastructural development as a way of preventing economies from developing," he pointed out. "In other words, forcing economies to cut their population through the same kind of mechanism ultimately used by Adolf Hitler to reduce the population through his concentration camp slave-labor system, the use of the pencil, or the red-line, as a way of imposing a high rate of death or increased death rate, in affected countries."

"The same kind of practice has occurred in the United States, also under malthusian influences," said LaRouche, who is running for Congress from Virginia's 10th C.D. from imprisonment, and is leading a nationwide slate of candidates

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significant suppliers include Thailand, the Philippines, Indonesia, Malaysia, and Communist China. Sixty-nine percent of VCRs came from Japan (down from 75% in 1988), while 21% came from Korea. Taiwan supplied 6%, and Thailand emerged as a new supplier, with 4%. Ninety-eight percent of camcorders were from Japan, which also supplied 75% of CD players (down from 86% in 1988), with Korea and Taiwan being the two other most significant suppliers.

While 60% of color televisions sold in the United States are produced domestically, the level of U.S. ownership of that production capability has fallen to only 11% in 1989, from 43% in 1979. The only significant U.S. television manufacturer left is Zenith, which has 12.0% of the U.S. market, placing it second after RCA (owned by Thomson S.A. of France). For years, Zenith has been seeking to sell its consumer electronics operations, since they have not been profitable since 1984. But with the domestic market squeezed by the collapse of discretionary personal income, no one could be found willing to compete with the cheap labor in the developing countries. The largest exporter of televisions to the United States in 1988 and 1989 was Mexico, while Japan was only the eighth-largest exporter. In December, Zenith sold its profitable computer business to Groupe Bull of France (**Figure 7**).

About 22% of U.S. consumer electronics exports went to Mexico, mostly parts that were then imported after assembly into final products.

The impoverishment of the American workforce was the result. Labor costs in Mexico are about $3 an hour, compared to an average hourly wage of $9.50, plus another 35% in committed to reversing the malthusian bias of so many elected officials. "Go back to the 1960s," he urged. "During the early part of the 1960s, under Kennedy, we began to achieve the highest rate of economic growth we'd known in the 20th century.

"This was a result of several things. First of all, Kennedy's sponsorship of the crash program approach to the Moon landing, the crash program approach to the aerospace task. It was also due to the Kennedy investment tax credit policy, which the Reagan and Bush administrations, especially the Bush administration, stoutly opposed. It was contributed to by lower interest rates." He added that it was "promoted by the Kennedy administration's continuation of a high rate of investment in basic economic infrastructure, water systems, development of the generation and distribution of power, transportation systems, and so forth.

"This gave the United States the highest rate of annual growth of physical productivity per capita, which continued, until the Johnson administration went into a malthusian phase, with about the 1966-67 budget."

The beginning of the end

Around 1970, LaRouche continued, large numbers of the infrastructure projects that had been under way were terminated, "to the effect that after 1970 the net growth of infrastructure in the United States, was negative. We have been going downhill in infrastructure ever since 1970. Some estimates would say that we would have to spend $4 trillion in order to put our basic economic infrastructure into the state of repair it was in 1970.

"It is this collapse of infrastructure, combined with the malthusian approach to agriculture and to manufacturing, together with a deregulation of finance and related matters, which has turned the United States into now almost a Third World condition. The United States economy is a Third World nation, in terms of the unstable character of its foreign debt."

LaRouche made some obvious points, which are further documented in the *Feature* in this issue: "We do not produce enough to meet our own needs, that is, in terms of net, after all of trading is considered. We depend upon the largesse of not only Japan and West Germany, we depend upon donations, albeit forced donations, which we steal from some of the hungriest nations of the world, including the food that we take from nations such as Brazil, Mexico, and so forth. We steal it, by rigging the terms of trade and exchange rates and that sort of thing. This is all in the name of deregulation and free trade.

"So, what they proposed to do in Washington, under the Bush administration, was to force Europe to repeat that which has caused our destruction."

German unity more crucial than ever

What this means, he concluded, is that "to the extent that the Bush administration has sabotaged what should have been the fully effective functioning of the bank proposed by France's President Mitterrand, Europe now depends absolutely upon the success of the German unification program, that is, its early completion, and its most unhindered and rapid implementation. Because the only agency left with the partial crippling of the new European bank, which can meet the needs of Eastern Europe, that can accelerate the process of integration of Eastern European economies into Western continental European prosperity, is a united Germany.

"So, anyone who's repeating or continuing the policies which the Bush administration advanced recently, in respect to the proposal to use the World Bank as the supervising agency, for loans to Eastern Europe, has to be insane.

"What we need to do is insist less that Japan and Western Europe listen to the economics advice of the United States, and we ought to insist more that for a change Japan and West Germany ought to come to Washington and give the Bush administration a lesson in at least the ABCs of sound economic policies and practice."

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benefit costs, in the United States. A representative of the Communications Workers of America told the *Journal of Commerce*, "We approached the company to ask, 'What can we do to keep the plant in the United States?' The response was, 'Nothing. . . . Even if you agreed to the minimum wage, there's nothing we can do. There's no way you can compete with the Mexicans."

In the area of electronic office equipment, a picture similar to autos and footwear emerges. Unit shipments of photocopiers slowed in 1987 and turned down in 1988. Imports of photocopiers first took half of the U. S. market in 1980, and now control almost three-quarters of the market (**Figure 8**). Imports control about 95% of the facsimile machine market. Of the 583,800 facsimile machines sold in 1986 in the United States, 554,661 were imported. Sales are now slowing, supposedly because the market has become saturated.

Services put out the warning flag

In a repudiation of the post-industrial policy that has destroyed the U. S. economy, the U. S. trade balance in services has itself shown the first quarterly deficits ever (**Figure 9**). This is truly ironic, since the concept of a post-industrial economy was based upon the shift to a "services" economy. The Department of Commerce, the Federal Reserve, and other government agencies, are now studying changes in statistical analysis of economic activity designed to reflect the greater importance of services in the economy. If the first merchandise trade deficits in the 1970s were warnings, these new service trade deficts should mark the beginning of the end of the "post-industrial" fantasy.