THE U.S. AS IMPORTER

The Demise of an Importer of Last Resort

On Jan. 29, 2001, EIR *published a feature package commissioned by Lyndon LaRouche under the headline, "The Demise of an Importer of Last Resort." We reproduce here key excerpts from that set of articles.*

Lyndon LaRouche

In his opening essay, LaRouche specified the nature of the collapse.

What is collapsing today, is not an economy, but a vast financial bubble, a bubble whose chief economic expression is the U.S. financial system's role as "The Importer of Last Resort" for the world at large.

Look at what is called U.S. production. How much of the nominal U.S. production output's content is the resale of imported components, assemblies, and even entire products? Compare the country of origin of your clothing, and nearly everything else, by type, which you wore or used otherwise two decades ago, and the country of origin of the same or a similar product today. Look at the resort to virtual slave-labor operations, abroad, to export productive employment from the United States (and also western Europe) into regions where the price of labor is relatively the cheapest, and relative skills most marginal. Look at the U.S. industrial corporations, so-called; what portion of the total income of those entities has been a reflection of pure financial speculation, such as that associated with City of London-pivoted mergers and acquisitions?

In effect, the world has been supporting, until about now, a vast U.S. dollar-denominated financial bubble, all largely for the purpose of propping up an inflated, intrinsically bankrupt U.S. economy's role as "importer of last resort" for much of the world.

What happens, when that financial bubble moves into its inevitable chain-reaction-collapse phase? That is what is happening now.

Richard Freeman

In a second article, "The Bursting of the U.S. Import Bubble," EIR*'s Richard Freeman highlighted the internal destruction of the U.S. economy.*

During the past few decades, but especially the past five years, the United States has attempted to disguise and override a physical economy that is contracting at the rate of 1 to 2% per annum, and producing a falling living standard, by a simple expedient: using its overvalued dollar to import—suck in—goods from other countries. What the U.S. does not produce, and in many crucial instances, is no longer capable of producing, it imports from abroad. As a result, imports have soared far above exports, leading to record trade deficits, with each year's deficit successively dwarfing the previous year's. In turn, the rising trade deficit is the leading element that swells the current account deficit.

To cover the current account deficit, Wall Street and the City of London have rigged the world financial system so that large flows of foreign-held dollars are attracted back into investment in the United States. What the United States pays in dollars for its physical goods and other items that make up the current account deficit, and more, is brought back into the United States.

This entire system of foreign goods flowing out of other countries and into the United States is held aloft by the U.S. financial bubble. Foreigners will bring dollars across the Atlantic and Pacific Oceans into the United States, for investment in the U.S., only as long as the dollar is seen as a sound currency, and as long as dollar-denominated investment instruments—such as U.S. Treasury bonds, corporate bonds, stocks, derivatives—pay a relatively higher rate of return than the comparable instruments of other nations in the world. Thus, the bubble of the U.S. investment market *has* to be maintained, in order for the Anglo-American financier oligarchy to keep its grip on power.

This is not a healthy arrangement for any of the nations concerned. The United States is importing such a huge amount of physical goods, mostly, not because its economy is expanding, but because it has impaired or permanently destroyed the capacity to produce these goods by its own productive facilities.

Dennis Small

A third article, by Dennis Small, "Mexico Is Exporting Its Heart Out," is excerpted here.

Mexico's foreign trade has, in fact, grown phenomenally over the last 20 years, led by total exports to the United States, and in particular by exports from the *maquiladoras* (which go almost exclusively to the United States). Trade is now more than one-third of Mexico's Gross National Product.... There is an *inverse* relationship between this globalized trade boom and the real physical economy. In the case of Mexico, while *maquiladora* foreign trade barreled ahead by more than 19% per year on average over the last two decades, and total trade grew by more than 12% per annum, the country's physical economy (as measured by *EIR*'s market-basket studies *collapsed* by more than 2% yearly over the same time period.

Empleos Maquiladoras Matamoros Public Group

Thirty-five percent of Mexico's imports are semi-finished products for the maquiladora *sector, which are then simply re-exported as assembled consumer goods.*

In a healthy developing economy, about half its imports would be capital goods and other technology-bearing products, to speed its industrialization process. In Mexico, however, only 14% of total imports are capital goods, and about one-third of these go for the *maquiladora* sector, which in no way benefits Mexico's national development. Thus, less than 10% of Mexican imports are usable capital goods. On the other hand, a shocking 35% of its imports are semi-finished products for the *maquiladora* sector, which are then simply re-exported as assembled consumer goods....

It must here be underscored that the *maquiladoras* are, properly speaking, not part of the Mexican economy: They are a foreign enclave on Mexican territory, which grind up Mexican slave labor, and spread Auschwitz-like conditions, especially in the north of Mexico.... *Maquiladora* employment has skyrocketed by an order of magnitude, from a mere 120,000 twenty years ago, to about 1.4 million today—an average annual rate of increase of 13%. At the same time, actual employment in the manufacturing sector of Mexico proper, has dropped by about one-third, from 2.2 million to about 1.5 million—an average annual *decline* of 2%. In other words, about the same number of workers are now employed in these *maquiladora* slave-labor shops, as are actually employed in the entire manufacturing sector of Mexico proper.

Consider the insanity of it all:

• U.S. manufacturing jobs are fleeing to Mexico's *maquiladoras*;

• the *maquiladoras*, in turn, are exporting cheap products to the U.S. consumer bubble;

• that bubble, in turn, is kept going by a speculative financial bubble maintained, in part, by massive Mexican debt payments to Wall Street;

• and those flows, in turn, are premised on the *maquiladora* export binge.

The result: U.S. industry and jobs are collapsing; Mexico's physical economy and labor force are being ground up; trade is booming; the foreign debt is being paid punctually; and Wall Streeters are laughing all the way to their own banks.

Ah, the wonders of free trade and globalization!