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World Trade by Leif Johnson

Hidden U.S. industrial imports

The "strong dollar" helps manufacturers loot parts from abroad. Protectionism isn't the remedy.

It used to be that Mexico, Malaysia, and other developing nations would import American (or Japanese) components and assemble manufactured goods. Now the United States is importing semi-manufactures from the Third World at a fraction of their production cost.

In the few sectors where industrial output has increased since the winter 1982 trough, a major part of the supposed rise is not American production at all, but recycling of *imported* manufactured goods. The Fed has hidden the fact that America is sponging semi-manufactures and parts from the rest of the world.

This *EIR* survey found that 5.2 percent fewer "American-built cars" were actually built in June 1983, against October 1982. That is, 5.2 percent of total auto production since the "recovery" supposedly began last October represents a flood of imported auto parts. As the semi-manufactured goods, ranging from spark plugs and wiring harnesses to chemicals, tires, and electronic parts, are incorporated into final products, the imports inflate the output statistics.

According to an economist for the United Auto Workers (UAW), the surge in auto parts is accounted for by three principal types of imports:

- replacement parts for three- and four-year-old imported cars;
- a continued increase in "out-sourcing" by manufacturers of large parts like transmissions; and
- an "explosion" in small-parts imports, including clutch assemblies, alternators, starters, pumps, and motors.

The key is the high interest rate policy of the Federal Reserve. While four years of double-digit rates have made it nearly impossible for U.S. producers to invest in modernizing their plant and equipment, the "strong dollar" resulting from Fed usury has made it cheaper for auto producers to buy foreign parts abroad than to make them or buy them locally.

The dollar now buys about 40 percent more in foreign currencies than at the beginning of the Volcker depression. That means that the present U.S. $70 billion trade deficit translates into $100 billion of net imports in 1979 dollars! The United States is absorbing a $100 billion subsidy in hard goods from the rest of the world, and from the developing countries in particular.

Copper production provides a very clear example. Imports for the first half of 1983 equaled 290,000 tons, compared to the 285,000 tons imported in all of 1982. Since the price of copper is currently at a very depressed $0.71 per pound, the dollar value of the copper imports rose by only 42 percent. The cost of production in a new copper mine is about $1.20. Developing nations are selling copper at barely over half production cost!

"Copper producers are shipping everything they can, regardless of price, and completely destabilizing the world market," complained one industry analyst, adding, "They are doing it to meet IMF demands that they cut their own imports and raise exports."

The massive importation of copper is ruining U.S. production—exactly as Sen. John Melcher of Montana warned in a statement against the IMF last year. Although industrial consumption of copper is up 17 percent this year from last, U.S. domestic output is up only 2 percent.

Chemicals, office and data processing machines, electronic parts, footwear, clothing, diamonds, and precious metals have also shown very large increases in imports, offset in dollar terms by a huge loss in imported crude petroleum, which fell 21.6 percent from an average import of 118,000 barrels a month in 1982 to 93,000 barrels a month for the first half of 1983.

Commerce Secretary Malcolm Baldrige argues that the dollar has to fall to permit U.S. companies to export more. Baldrige merits the Jimmy Carter memorial award for economic brilliance: U.S. companies cannot export because Volcker and the IMF have bankrupted most of our trading partners. But if the dollar fell, the $100 billion subsidy to the United States would disappear; without a top-down industrial mobilization plan, the economy would collapse.

The UAW has been pushing the "Domestic Content" bill in Congress which would force foreign auto companies to produce their parts in the United States. The measure would tend to wreck industries in such countries as Brazil, Singapore, South Korea, and Mexico, while if the domestic auto industry continues to produce at less than two-thirds its 1979 level, U.S. auto workers will find no relief. When the major auto companies have decided not to invest in production capacity, a shutoff of super-cheap auto parts imports would force massive layoffs of UAW members, rather than more jobs in domestic industry.

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