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# Bankers refuse to defend dollar—and save selves

by Chris White

If their mouthpiece at the Treasury Department, James Baker, is any guide, the idiots in the financial community are at it again. Treasury Secretary Baker told the press that "preventing a domestic recession" is a more important objective of U.S. economic policy, than defending the dollar on foreign exchange markets.

As he was speaking, the dollar fell to new postwar lows against both the West German deutschemark and the Japanese yen.

Translated into some semblance of English, what Baker meant to say was, permitting the dollar to fall to some new, as-yet-unspecified level against the yen and the deutschemark, is this administration's adopted means of preventing a domestic recession.

The further question implied is, what exactly do these loonies mean by "domestic recession"? Since the physical goods output of U.S. industry and agriculture remains below the levels of 1980-81, in per capita terms, and way below the levels of the late 1960s, Baker and company are clearly not talking about protecting industry and consumption from further decline. That, they don't object to.

On the other side, since the accountants' measures of profitability applied to the banking system, tend to demonstrate that the entries, known these days as bank profits, are based; in large part, on banks' foreign exchange transactions, a falling dollar, supposedly, will permit banks to maintain those nominal, if actually non-existent earnings. One might thus conclude that what Baker means by "domestic recession," can actually be translated into "wave of banking collapses."

Thus, what Baker is actually saying is "maintaining the apparent book-value profits of the large commercial banks is a more important objective of U.S. economic policy than either defending the value of the dollar or restoring the functioning of the U.S. economy."

It can be assumed that the banks Baker is committed to defend are also the ones that told him to say what he said. Beyond that, it can also be concluded that those banks are crazy enough, and incompetent enough, not to realize that what they need right now is not some loyal flunkey mouthpiece, but someone with the courage to save them from the consequences of their own stupidity and insanity.

This is simply because devaluing the dollar on international exchanges is actually the fastest way to wipe out the trillions of dollars of bookkeepers' assets and liabilities held by the banks offshore, and to set off the kind of chain reaction, in offshore capital markets, which will rapidly spill over into the internal credit and financial system of the United States. The bankers' policy, mouthed by Baker, is the fastest route to the uncontrolled collapse into chaos of the financial markets. Or, out of the frying pan of internal stock market collapse, and into the fire of international banking collapse. That's what the banks are demanding, by insisting that the U.S. government do what they insist, and believe it or not, that's exactly what they are going to get.

For the last couple of years or so, it has been popular in some quarters to be heard mouthing the nonsense that the decline of the dollar is necessary to correct the monstrous U.S. trade deficit. Over the same period, the trade deficit has actually increased, in dollar terms, even as the dollar has fallen to almost half its previous value against the deutschemark and the yen.

Reducing the trade deficit clearly would be an intergral part of any policy to turn the U.S. economy around. Equally clear, a weaker dollar is not the way to accomplish that objective. The trade deficit is by and large made up of items



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which, over the last 25 years or so, successive U.S. governments decided it was no longer necessary to produce inside the United States. Since we can't produce the goods to replace such imports any more, because we won't, it stands to reason that we will continue to import them, for as long as the exporters are prepared to extend us the credit to do so.

The dollar can go as low Baker's bosses will tolerate, as low as blowing out the economies of West Germany, Japan, and those Western European nations, in and out of the European Community, whose credit systems are tied to the deutschemark. It won't make any difference to the trade deficit.

On the other hand, to adopt policies which would actually begin to reduce the trade deficit, would also contribute to turning the economy around, and to stabilizing the financial system. There's no mystery about how to do it. The United States should start to produce the things it no longer produces. That can be done by employing the constitutional powers of government to regulate trade and commerce through a system of protective tariffs and import licenses.

Economist and presidential candidate Lyndon LaRouche has proposed how to do this. His proposals provide a yardstick against which to judge what Baker and his financial community bosses and controllers, are both doing and saying.

## What kinds of tariffs?

This administration has adopted the pathetic course of imposing so-called "nuisance tariffs" on imports of items such as cheese, wine, and spaghetti, from the economies of allies. The value of the goods affected amounts to a few million dollars, out of a total trade deficit of about $170-180 billion. Even if we were a nation of winos, the amounts involved would never contribute to doing what has been claimed.

The alternative approach is to focus on the big-ticket items. For example, in 1985, the total import bill was about $360 billion, and the deficit about $150 billion. The top 10 or so items on the import list, in dollar terms, account for more than the trade deficit. If exports of the same items are netted out, the details change, but not the picture as a whole. The top items were:

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| Petroleum and petroleum products | $50 billion |
| Autos and auto parts | $49 billion |
| Clothing | $16 billion |
| Special purpose vehicles | $8 billion |

The top four on the list account for over 80% of the trade deficit. Then follow telecommunications equipment, electrical components and parts, footwear, televisions and VCRs, and paper and paper-board, with the first of those accounting for $7 billion, and the others $6 billion each.

Two kinds of questions present themselves: What kind of tariffs, and how ought they to be implemented? The adopted tariffs ought to be based on parity pricing of the product involved, that is, cost of production plus a reasonable profit for reinvestment. The parity price range would function as a trigger price. When prices fall below that level, the tariff is triggered. The tariff structure adopted ought to be combined with a parallel system of import licensing. The two together would provide the basis for real negotiations with allied nations, including Germany and Japan, on what to do about the world economy. Compliance with the tariff policy in some areas could be offset with tariff-free trade in others.

Against those who say that such an approach would set off a protectionist trade war, it should be demanded just what do they think the adopted policy of a continually declining dollar is? Competitive or political manipulations of currencies are actual trade war in effect. Since the proposed approach would actually translate into stability for the dollar, protective tariffs would end the ongoing war between the United States and its allies.

The oil case is typical. The United States does not need the oil of the Gulf; Europe and Japan do. The United States needs a pricing structure such that its own producers can go back to work to drill for and pump the oil we do have. Further, purchases ought to be restricted to the Western Hemisphere, at parity prices for the producers.

With automobiles, the problem is different. Here a common effort could be defined, among the leading producer nations, to free up automobile capacity, as the mass base for the development of the capital goods industries which would assimilate space science and technology into the civilian economy, and permit the development of the Third World.

About one-third of the 7 to 8 million autos purchased in the United States are imported. The bulk of the imports are in the ranges that are now known as "starter cars," say, under $8,000, or in the upmarket luxury ranges, the Mercedes and the BMW. What is needed is a good quality, durable family-size sedan, combining the best features of the old-style American auto engineering school with the technological improvements made especially in Germany over the recent period. If such cars were built to last, perhaps twice as long as the current models, then the import dependency could be reduced, and capacity in the United States, Germany, and Japan could be freed up for other purposes.

Governments would organize such a consensus just as they organized the consensus to degrade the auto over the last decade. Similar approaches could be defined for countries whose economies have been distorted through the predominance of one or another export to the United States, such as clothing or consumer electronics. "Cooperate to develop new markets, to offset the costs of shifting out of the United States, and we'll work with you for mutual benefit."

The consequent return of stability and relative certainty to international currencies would help make such an approach the offer that couldn't be refused. By contrast, if that kind of approach isn't adopted, it ought to be clear that the trade deficit will not be reduced, and the economy as a whole will suffer the consequences the bankers insist Baker prepare for them.