# Record U.S. trade deficit shows economy is crumbling

by Richard Freeman

In 1998, the United States recorded the largest trade deficit in American history, which exposed two ugly realities: First, the world financial-economic disintegration which has ravaged Asia, Russia, eastern Europe, Brazil, and Ibero-America, has inflicted serious damage on the United States, with the prospects for the future of the U.S. economy bleak. Second, the United States has become dependent for its very existence on an enormous volume of imports, especially cheap imports, because of the effect of the devaluation of Third World nations' currencies. The moment that this crippling dependency is severed—absent a New Bretton Woods global financial system to restart trade and production—the breakdown of the U.S. economy, whose rate of collapse is accelerating (see p. 11), will be bottomless.

Looking at the United States economy through the prism of trade, one gains a penetrating insight which cannot be hidden by the smoke and mirrors that daily produce the ephemeral performance of the inflated U.S. stock and bond markets. The United States must either change the underlying economic policies which have given it such a trade policy, or anticipate serious consequences.

For 1998, the U.S. trade deficit in goods and services rose to $168.6 billion, the highest level in U.S. history. The previous highest U.S. deficit in goods and services had been $153.3 billion, registered in 1987. For 1998, total exports of goods and services were $913.8 billion, which was a decline from 1997 of $8.3 billion, or 1%, the first time in more than a decade that U.S. exports of goods and services had declined.

Restricting one's attention to the deficit in merchandise goods alone, the picture is even more desolate. In 1998, the United States ran a trade deficit on physical goods of $247.98 billion, up $50.02 billion from $197.96 billion in 1997, which had been the previous record, bespeaking the impact of the world financial disintegration on the Asian economies. As these nations' economies contracted, which process was intensified further by International Monetary Fund conditionalities, they cut back on their intake of U.S. goods. Of the $50.02 billion increase in the U.S. physical trade deficit, 82% is attributable to the deterioration of U.S. trade with ten nations in Asia. Professional economists said that the Asian phase of the world financial disintegration would not affect the United States, but they were absolutely wrong.

**Table 1** shows the level of U.S. exports to ten leading Asian trading nations, including Japan and China, for 1997 and 1998. It also shows the percentage of change in the volume of exports between 1997 and 1998.

Between 1997 and 1998, U.S. exports to Hong Kong fell 14.5%; to Malaysia, 17.3%; to Thailand, 28.9%; to South Korea, 34.0%; and to Indonesia, 49.4%. U.S. exports to Japan tumbled 11.9%; U.S. exports to China rose 11.3% (although much of that increase was registered in the first half of 1998).

U.S. physical goods exports to ten major nations in Asia fell from $186.92 billion in 1997, to $158.65 billion in 1998, a fall of $28.27 billion. The total increase in the U.S. physical goods trade deficit in 1998 was $50.02 billion. Thus, the fall in U.S. physical goods exports to these ten Asian nations, constituted 56.5% of the total increase of the U.S. physical goods trade deficit.

But that is only part of the picture. U.S. imports from these ten Asian nations increased in 1998 over 1997 (**Table 2**). Thus, U.S. physical goods imports from these ten Asian nations rose, between 1997 and 1998, by $12.53 billion.

The fall in U.S. exports to, and the increase in imports from the ten Asian nations, each in its own way, contributed to widening the U.S. physical goods trade deficit in 1998. This can be seen in **Table 3,** which shows the U.S. physical

TABLE 1
**U.S. exports to major Asian nations**
(millions $)

| | 1997 | 1998 | Percent change |
|---|---|---|---|
| South Korea | $25,067 | $16,538 | –34.0% |
| Taiwan | 20,388 | 18,157 | –10.9 |
| Singapore | 17,727 | 15,674 | –11.6 |
| Hong Kong | 15,115 | 12,923 | –14.5 |
| Malaysia | 10,828 | 8,953 | –17.3 |
| Philippines | 7,427 | 6,736 | –9.3 |
| Thailand | 7,357 | 5,233 | –28.9 |
| Indonesia | 4,532 | 2,291 | –49.4 |
| Subtotal | 108,441 | 86,505 | –20.2 |
| Japan | 65,672 | 57,888 | –11.9 |
| China | 12,805 | 14,258 | +11.3 |
| Total | 186,918 | 158,651 | –15.1 |

Source: U.S. Department of Commerce, Bureau of the Census.

TABLE 2
**U.S. imports from major Asian nations**
(millions $)

| | 1997 | 1998 | Percent change |
|---|---|---|---|
| South Korea | $23,159 | $23,937 | +3.4% |
| Taiwan | 32,264 | 33,123 | +1.5 |
| Singapore | 20,067 | 18,357 | –8.5 |
| Hong Kong | 10,297 | 10,538 | +2.3 |
| Malaysia | 18,017 | 19,001 | +5.5 |
| Philippines | 10,436 | 11,949 | +14.5 |
| Thailand | 12,595 | 13,434 | +6.7 |
| Indonesia | 9,174 | 9,338 | +1.8 |
| Subtotal | 136,369 | 139,677 | +2.4 |
| Japan | 121,359 | 121,982 | +0.5 |
| China | 62,552 | 71,156 | +13.8 |
| Total | 320,280 | 332,815 | +3.9 |

Source: U.S. Department of Commerce, Bureau of the Census.

goods trade balance with these ten Asian nations, which is affected by the simultaneous fall in exports and rise in imports.

The U.S. combined physical goods trade deficit with these ten Asian countries increased by $40.90 billion, representing 82% of the increase in the U.S. physical goods trade deficit of $50.02 billion in 1998. More than four-fifths of the increase of the U.S. physical goods trade deficit in 1998 resulted from the deterioration in terms of trade with ten Asian nations. The breakdown of the world financial-economic system indeed hit the United States. Deteriorating terms of trade with other parts of the world also hit the United States.

## The effect of pernicious policy

The current phase of world financial-economic disintegration worsened a U.S. trade profile that had been bad for a long time, and revealed deep problems in the U.S. economy. For decades, the London financier-oligarchy has imposed upon the United States the twin policies of the "post-industrial society" and "free trade and globalization." Under the post-industrial society, the United States took down its manufacturing, agriculture, and infrastructure, and concentrated on building up speculative financial services. Under free trade and globalization, the United States participated in internationalizing speculation, and attempted to offset falling domestic production of goods essential for human survival by using the paper wealth from speculation to purchase the needed goods on the international market. We look at the exports and imports of the United States.

On the side of exports, an important trend was noticeable. **Table 4** shows, comparing 1998 to 1997, that the United States suffered important drops in exports in key categories of agricultural and capital goods, because of the world economic contraction.

In 1998, the export of many agricultural goods fell by 6.5 to 34%, while many capital goods exports fell by 2.0 to 8.6%. The repercussions on the U.S. physical economy, including manufacturing layoffs and farm shutdowns, were great.

TABLE 3
**U.S. trade balance with major Asian nations**
(millions $)

| | 1997 | 1998 |
|---|---|---|
| South Korea | +$1,980 | –$ 7,398 |
| Taiwan | –12,236 | –14,966 |
| Singapore | –2,340 | –2,684 |
| Hong Kong | +4,818 | +2,385 |
| Malaysia | –7,189 | –10,049 |
| Philippines | –3,008 | –5,213 |
| Thailand | –5,238 | –8,201 |
| Indonesia | –4,642 | –7,047 |
| Subtotal | –27,928 | –53,172 |
| Japan | –55,687 | –64,094 |
| China | –49,747 | –56,989 |
| Total | –133,362 | –174,164 |

+ represents U.S. surplus.
– represents U.S. deficit.
Source: U.S. Department of Commerce, Bureau of the Census.

## 'The Wal-Mart effect'

In 1998, on the import side, the United States took in a far greater physical volume of goods than the nominal dollar

TABLE 4

## Export of U.S. goods, 1997-98

(millions $)

| Agricultural goods | 1997 | 1998 | Change 1997-98 | % change |
|---|---|---|---|---|
| Soybeans | $7,506 | $4,947 | –$2,559 | –34.0% |
| Corn | 5,682 | 4,805 | –877 | –15.4 |
| Wheat | 4,329 | 3,817 | –512 | –11.8 |
| Meat, poultry | 7,244 | 6,743 | –501 | –6.9 |
| Animal feeds | 4,312 | 3,855 | –457 | –10.6 |
| Fish, shellfish | 2,790 | 2,348 | –442 | –15.8 |
| Fruits, frozen juices | 3,957 | 3,697 | –260 | –6.6 |
| Sorghum, barley, oats | 831 | 632 | –199 | –23.9 |
| **Capital goods** | **1997** | **1998** | **Change 1997-98** | **% change** |
| Industrial machines | $20,715 | $18,924 | –$1,791 | –8.6% |
| Semiconductors | 38,861 | 37,642 | –1,291 | –3.3 |
| Industrial engines | 12,615 | 11,608 | –1,007 | –8.0 |
| Electrical apparatus | 21,162 | 20,738 | –424 | –2.0 |
| Agricultural equipment | 4,465 | 4,185 | –279 | –6.2 |
| Generators | 6,816 | 6,542 | –274 | –4.0 |
| Excavating machinery | 5,841 | 5,614 | –227 | –3.9 |

Source: U.S. Department of Commerce, Bureau of the Census.

TABLE 5

## U.S. energy-related petroleum product imports

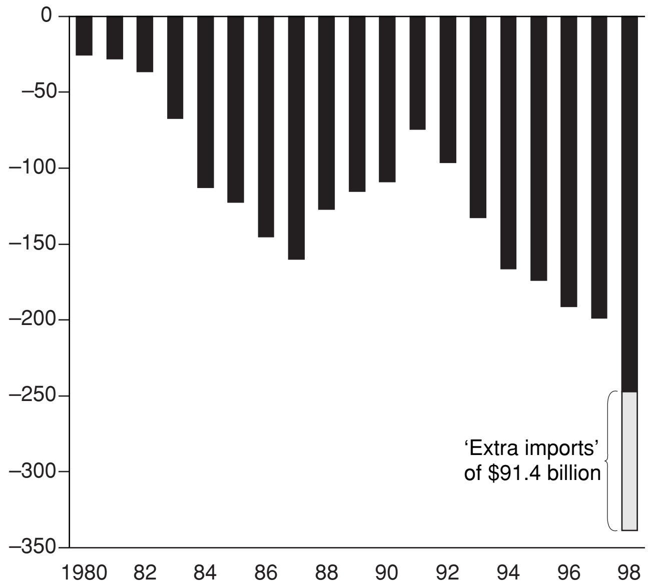
| | Millions of barrels | Millions of dollars |
|---|---|---|
| 1997 | 3,803 | $69,288 |
| 1998 | 4,102 | $49,411 |

Source: U.S. Department of Commerce, Bureau of the Census.

FIGURE 1

## U.S. physical goods trade deficit, 1980-98

(billions $)




Source: U.S. Department of Commerce

value of imports would indicate. This can be described as the "Wal-Mart effect." In the United States, the Wal-Mart department store buys many goods from abroad (despite its claims that it buys only American-made goods). It may buy a man's shirt for $2 from an Ibero-American country, and sell it for $10. (Wal-Mart doesn't lower the selling price of the shirt, even if, had it bought the shirt in the United States, it might have to pay more for it from an American producer.) So, Wal-Mart gets an $8 mark-up. Americans get some consumer goods, like shirts, for $10, rather than paying $15-20. In the short run, Americans are able to stretch their falling household income a little further by buying from Wal-Mart. However, the fact is, that the United States is taking advantage of the stronger dollar against the currencies of other countries which were forced by the International Monetary Fund to devalue. Through the stronger dollar, and the acceptance of the dollar as an IOU, the United States is able, in part, to loot the rest of the world.

To give an example of how this works, take the case of "energy-related petroleum products," which includes crude petroleum and petroleum products. **Table 5** shows U.S. imports of "energy-related petroleum products," in physical and in dollar terms, for 1997 and 1998.

In 1997, the average price of a barrel of oil was $17.67, and in 1998, it was $11.52. In 1998, the United States imported 4.102 billion barrels of oil, compared to 3.803 billion barrels in 1997, an increase in physical import volume of 7.9%. Yet, in 1998, the United States paid $49.4 billion for its oil imports of all kinds, compared to $69.3 billion in 1997, that is, the nominal dollar value of imports fell 28.8%. So, in 1998, compared to 1997, the United States imported 7.9% more energy-related petroleum products, but paid 28.8% less for them.

This U.S. practice extended to all products, from raw materials and foods, to clothing and consumer goods, to capital goods. Not all goods saw their price fall as much as petroleum's did between 1997 and 1998, but many goods saw sizable drops in price, in the range of 5-20%. In 1998, the United States imported $913.8 billion worth of physical goods. Assume that during 1998, on average, the price of all imported items was 10% lower than in 1997, due to currency devaluations, principally in Third World countries. There-

## Russia shapes new industrial policy

By government decree issued Jan. 22, Russian Prime Minister Yevgeni Primakov named First Deputy Prime Minister Yuri Maslyukov as chairman of a new body, the "Council for Problems of the Restructuring and Development of Industry." Maslyukov was already in charge of a group of experts, including Academician Leonid Abalkin and Dr. Sergei Glazyev, working on medium-term economic policy; both are familiar with the economic policy ideas of Lyndon LaRouche.

The new Council may be connected with the project to launch a new state-sponsored Russian Development Bank, which is planned to be set up this year. Primakov's appointment of Maslyukov to head the Council contradicts a recent barrage of press reports, including a nasty article inthe Feb. 18 London *Financial Times,* which wishfully claimed that Maslyukov was about to be fired from the government.

The new council is assigned to "elaborate proposals for restructuring domestic industry and forming priority directions in its development," including in such specific areas as "the formation of a state industrial policy and a strategy of industrial development." The body is to define state support measures "for the creation and production of high-tech and competitive machine building products, as well as for the development of new equipment and technology; application in the civilian sector of the economy of the results of scientific-technical and technological activity of defense industry organizations; . . . preservation and development of the scientific-technical and production potential of industry; . . . retention and retraining of personnel and their social protection; . . . stimulation of demand for industrial . . . products by ensuring the financing of earmarked purchases, including on the basis of leasing contracts and investment tax credits; [and] granting of state guarantees for borrowed funds (in the form of credits and funded loans) attracted for investment in industry."

fore, the United States imported an additional 10% of physical goods, that is, instead of importing $913.8 billion worth of goods, the United States imported, effectively, an additional $91.38 billion worth of physical goods.

America's physical goods trade deficit in 1998 was officially $247.98 billion, but if one adds on the $91.38 billion arising from the effect of the devaluation of other currencies, then the U.S. trade deficit on physical goods was $340 billion. This is represented in **Figure 1.** What this means in physical terms, is that the United States is sucking added quantities of goods from the world each year. This is transferred to the U.S. economy, increasing a margin which the U.S. economy is then able to process through its consumer and capital goods market-baskets. Aside from the increased effect of capital gains from the stock market, which is, after all, only a monetary effect, this import flow is one of the principal *physical* ways that the U.S. economy, and the standard of living of its increasingly impoverished population, is nonetheless propped up, to an extent. Due to currency manipulations, the Third World nations must suffer the effect of shipping out goods below the cost of production.

This $340 billion is rarely spoken of, but it one of the major props of the vitiating globalization operation. When the United States becomes no longer able to carry out this operation, because the dollar is no longer acceptable as an IOU, then one of the darkest secrets of globalization will come to the fore. What would then ensue, is that the contraction of the economy would be unstoppable.