The Demise of An Importer Of Last Resort

by Lyndon H. LaRouche, Jr.

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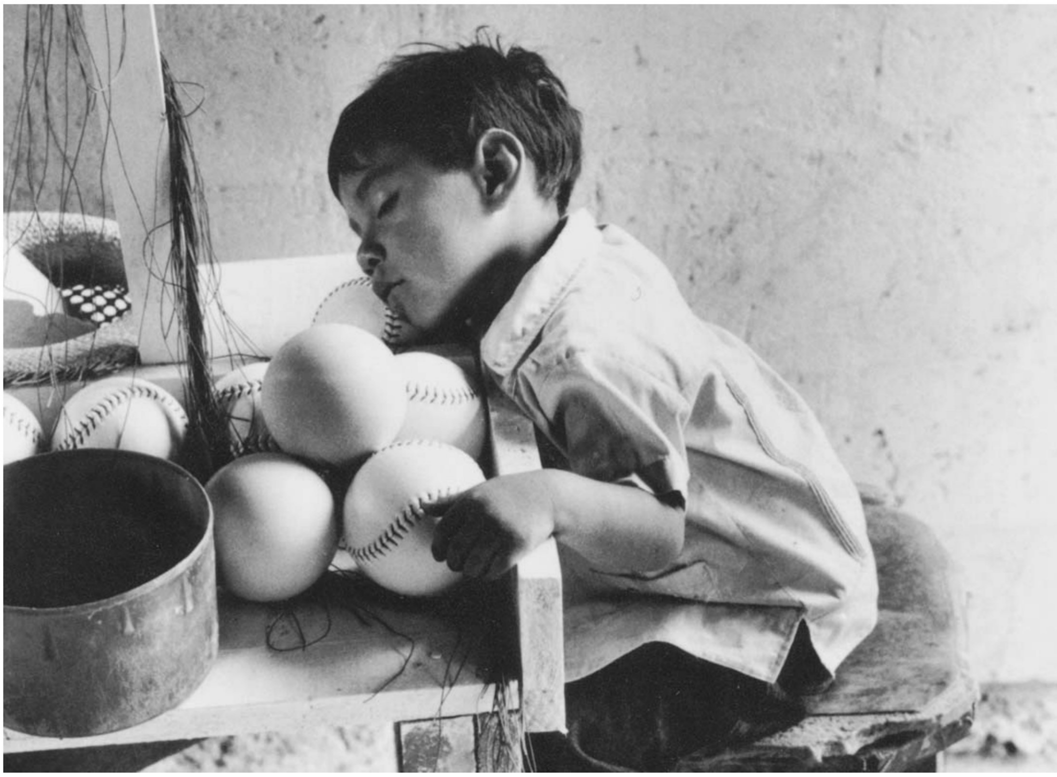
Amidst events coinciding with the burking of the Presidential candidacy of Vice-President Al Gore, by the hands of the U.S. Supreme Court majority, the U.S. economy promptly entered a phase of political and economic collapse comparable to, as I have said earlier, that experienced by the East Germany regime of Honecker and Mielke, during November 1989.[1] It were likely that another, more ancient historic event will also soon be noted, the fall of Federal Reserve Chairman Alan Greenspan, as a reenactment of the flight from the pages of history, in his nightshirt, of the formerly all-powerful, terrifying Chief Justice of England, Lord Sir George Jeffreys.

The U.S. economy has not yet lost its nightshirt, but, it must be noted that the presently ongoing financial collapse appears to be bottomless. If things continue as they are going on world markets right now, the last glimpse of the Greenspan bubble will be that of a disembodied, flapping nightshirt, minus the Greenspan mislain along the way, in its wildest contortions of all, vanishing over the brink of the horizon. On the pages of future, not-so-distant history, this presently ongoing collapse of the overblown U.S. financial bubble, will be known as "The Demise of the Great Importer of Last Resort."

Future historians will shake their heads slowly, and grimly, when they read that the leading U.S. press and elected political officials of this moment, were talking about the continued performance of "the economy," arguing about what will be "good for the economy," an economy which they themselves had already killed and buried by night, with the incumbency of Greenspan's immediate predecessor, Fed Chairman Paul Volcker, decades earlier. What is collapsing today, is not an economy, but a vast financial bubble, a bubble whose chief economic expres-

1. See Lyndon H. LaRouche, Jr., "Lesson of the Cole Incident: Stop Privatizing Our Generals," ***EIR,*** Nov. 10, 2000.



A Honduran child produces for the U.S. market. Nobody is going to be buying baseballs, when Alan Greenspan's Depression hits full-force.

sion 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.

The Year-End Open-to-Buy Crisis

Examine the effects of such a shift upon the purchasing power, and purchases among a large portion of the upper 40% of U.S. family-income brackets. This includes the upper 20% of those family-income brackets, and the lower half of that upper 40%, the latter being the most significant concentration of purchasing-power among the lower 80% of family-income brackets. What has happened, just recently, to a lot of people in the upper 40%; focus upon the special impact upon the lower half of that 40%, the leading element of purchasing-power among the lower 80% of the population as a whole.

Now, look at this from the standpoint of what the purchasing agents of the U.S. have faced, in managing what are called their open-to-buy accounts, during the August-December 2000 interval of pre-Christmas sales-planning. Look at the relationship between the collapse of the so-called "New Economy" and the present predicament of the manager of the open-to-buy accounts of retailer, wholesaler, and whatever passes today for a so-called manufacturer. Look at the special way in which this will impact the lower half of that upper 40%. Look at this in terms of the magnitude of the capital financial losses suffered by so-called investors and shareholders through the collapse of the "New Economy" bubble worldwide.

Look at the prospective hang-over of unsold inventory of all kinds of enterprises on the day after Christmas. Who is hanging among the needles dropping from that poor Christmas tree? Then, look ahead to the end of January, and, then, to February, and then to Spring. What is that fading unsold inventory's effect on the level of purchase orders issued to the entire world by what had been formerly the world's importer of last resort? What is the effect on China, for example?

On Mexico, for example? All around the world?

With the collapse of the relative value of the U.S. dollar, perhaps by more than 10%, ultimately to perhaps as little as 60% of its present exchange-rate, what happens to the world market serviced by the United States as importer of last resort for the world as a whole?

Something analogous, but far, far less severe happened in the U.S. during 1929-1932. What we faced then, was a world-wide financial and economic crisis. What threatens the world immediately today, is a global economic-breakdown crisis.

Now, taking such facts as the impact of a collapse of the purchasing-power of the importer of last resort, upon the U.S. and world economy as a whole, we have a situation in which none of the measures even conceived to be politically feasible by either the outgoing Clinton Administration or incoming Bush Administration, have any relevance for the realities of 2001. What must then be said of wishfully self-deluded fools, who are thinking in terms of "How do we adapt to the realities of the incoming new administration?" Since I am the only international figure who has a competent grip on the realities of this situation, where does the tactical, as well as the strategic center of world politics lie at this moment?

Time to leave wishful dream-land, and come back to reality.

The Bursting of the U.S. Import Bubble

by Richard Freeman

During the past few decades, but especially the past five years, the United States has attempted to disguise and compensate for 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. The exception is the increase of imports of luxury goods, in particular cars, by the upper 20% of the population by income rank, whose income has come in significant measure from the financial bubble.

De-Leveraging Is Imminent

This bubble's imminent explosion, in the worst breakdown crisis in 300 years, ends this system. The recent halving