

# Is the United States economy living off import welfare?

by Richard Freeman

America has ceased being an industrial nation. It has become like Britain in the 19th century, which had the title, "workshop of the Western world." The other nations on earth did the work; Britain shopped and stole their goods. This is the conclusion of the *EIR Quarterly Economic Report*, released in the first week of April.

In the midst of the third great depression of this century, the United States is unable to produce steel, machine-tools, farm tractors, cement. It has resorted to imports. Imports are not so much the cause of the loss of U.S. production as they are the replacement for what the United States is unable to produce.

The *EIR* study shows that rather than produce goods, in 1984, 65% of all the radio and TV sets Americans bought in 1984 were imported; 27% of the new clothes people put on their backs were imported; a minimum of 27% of all the parts and components that went into American-brand cars were imported; and 26% of all steel consumed was imported (see accompanying figures).

Radios and TVs, clothing, and cars are the backbone of the consumer market-basket. This means that the United States could not produce its own consumer market-basket. Rather, it used the inflated ("strong") dollar to import these goods. It then extended record amounts of consumer credit to allow Americans to purchase this consumer market-basket, and hence supplement—through the world's goods-subsidy to the United States—a standard of living that America could not by its own efforts produce.

Likewise with the producer market-basket. The cases of steel, machine-tools, and farm tractors, to name just three producer-goods, are exemplary. America hardly produces any tractors in the 0-40 horsepower class or the 40-to-100 horsepower class anymore, they're all imported. One source said, "Turn over some of the larger horsepower J.I. Case tractors that Case says are its own and scratch on the belly, and you will find that some of these are made in Japan."

If America produces neither producer- nor consumer-goods, what, then, does it produce? A good question.

## 'American Made' autos

The biggest scandal concerning imports concerns the American car. The United States last year imported 2.3 million of the 10 million cars sold in America. That's 23% of all domestic car sales. But, the scandal just starts there. If the reader recently went through the charade of trying to choose

between buying an American or foreign car, and finally chose American—well, you really didn't. The "American" car is not made here.

While the Reagan economics staff claims that American auto production went up to 7.7 million units last year, if one reduces this amount by the content of foreign parts in supposedly American cars, one finds that American domestic car output totalled a scant 4.62 million autos, almost 1 million less than were produced in 1929!

*Between 35% and 40% of all American cars are made up of parts, accessories and components that are "sourced" from abroad and imported.* This foreign sourcing means that the number of units of cars that America claims it is producing, it really isn't.

For example: In 1973, America produced 9.7 million cars. In 1978, this level was 8.6 million. In the following year, Federal Reserve Board chairman Paul Volcker put interest rates at the double-digit level and collapsed production. Auto production fell to 6.4 million units in 1980, and to 5.1 million units in 1982.

The Commerce Department reports that American motor vehicle production recovered to 6.7 million units in 1983 and 7.7 million units last year. But: If 40% of all auto insides—the real guts of a car—are imported, then the real output figure is 7.7 million minus 40% imported content, or 4.6 million units. *Auto output did not recover from 1982 through 1984, it fell. We just imported more and called it American.*

## Foreign content

The United States imports 1.5 million engines per year; millions of transmissions; millions of wiring systems; chrome, chassies, engine blocks, etc. How does one calculate the number? One would think that this is a simple, straightforward procedure, but it's not because of something called "Foreign Trade Zones," which allow millions of parts to come into the United States from abroad, but not be counted by Customs or any other agency.

There are two steps in discovering that the Chevrolet Impala or Plymouth Volari which you believe is made in the good ole' U.S.A. isn't.

By using Commerce Department figures, *EIR* learned that one in ten transmissions, engines, electrical wirings, etc., used in American cars in 1972 were imported. This figure rises 21% on an unadjusted basis in 1984. But *EIR* found it necessary to adjust for the increased exchange-value

of the dollar which had been artificially rigged by Federal Reserve chairman Paul Volcker with the complete agreement and encouragement of the Reagan administration.

When a currency rises, it buys more of another country's goods for the same unit of currency. If the dollar were worth 40 Mexican pesos in 1981, but over 200 today, the same dollar can buy roughly five times as many Mexican goods today as it could in 1980.

On an adjusted, real basis, 27% of the car parts stuffed into American cars were imported, not built in the United States, by 1984, a near doubling since 1980.

However, there is now a "legal" way to smuggle imported auto parts into the country. These are the "Foreign Trade Zones" (FTZ).

According to a spokesman for the Commerce Department's Foreign Trade Zones Board, which "regulates" FTZs and, along with the Treasury Department, approves who qualifies for FTZ status, "America needs FTZs because industry is becoming internationalized."

Let us assume that a Mexican auto chassis with attached engine worth \$1,000 is imported into an automobile FTZ. When the car is assembled and leaves the zone, the zone will not report that the car was built with a Mexican chassis with attached engine worth \$1,000, but rather it will say, "American auto, worth \$10,000 with imported part, *unspecified*, worth \$1,000." The imported part will *eventually be added onto the dollar total of imported total cars in the United States*, but not onto the dollar total of parts and accessories. The Commerce Department does not report the parts as imported in its yearly official *Industrial Outlook* book. The parts are washed into the United States without a trace.

Since the FTZs are warehouses, ports, manufacturing plants, etc., "being recognized as outside U.S. Customs area," parts coming from abroad are only spot-checked by Customs. Crates filled with drugs labeled auto parts could come into FTZs and never be checked by customs.

A UAW spokesman said that the existence of the FTZs makes it impossible to determine how many cars of each type are entering the United States. This means that when the flow through FTZs is included, the total level of imports of the components that make up a car are *between 35% and 40% of all car parts in "American" brand cars*.

Tax rates in FTZs are lower for the auto companies. At present, 115 FTZs exist in the United States, 30 of them auto FTZs, and there may be several auto plants within each zone. GM has 13 FTZs; Ford has 7; Chrysler 4; Honda 1; AMC-Renault 2, Nissan 2, and NUMI, the joint new Toyota-GM universal car, has 1. To get into this scam, an auto company need only ask James Baker III's Treasury and Malcom Baldrige's Commerce departments, the very departments pushing the deindustrialization of America. For example, this year, GM got FTZs for its plants in Oak Creek and Janesville, Wisconsin; Kansas City, Kansas; Lordstown, Ohio; and Tarrytown, New York. These are not new, but existing plants. Soon, GM could convert all of its auto production to FTZs,

and theoretically, the United States would not be importing any parts from abroad—at least officially.

There are two steel FTZs—one in Panama City, Florida (Berg Steel) and one in Chicago (UNR Levitt)—as well as FTZs for electronics, textiles, and TV assembly.

When the number of Foreign Trade Zones is combined with the number of Urban Enterprise Zones—for modern-day, deregulated, low-wage sweatshops in American cities—plus the International Banking Facilities which brought the offshore Eurodollar market onto the shores of the United States and now total \$200 billion, one finds enclaves within the United States which are outside the authority of the sovereign government of the United States. This means America has ceased being America; it is becoming more like China which has such "free zones" as Hong Kong, Shanghai, and the New Homelands. These, not incidentally, oversee drug production and shipment.

The smokestacks of the United States are being replaced with FTZs as part of the "free-enterprise" ideology, building American products that are not American.

### **The demise of the American superpower**

Ironically, the Japanese are showing that it is possible to produce in America with American workers, but at prices far below the cost of American methods.

Honda, the Japanese automobile firm, is now building 150,000 cars in the United States. American workers in these plants get approximately \$15 per hour (combined benefits and wages), less than autoworkers at Ford or GM would get. The shops are non-union, and pay higher wages but lower benefits than are customary in this country.

The American workers are still considerably better paid than Japanese workers. Yet, the Honda car in the United States costs only a few hundred dollars more than a Honda car made in Japan with cheaper Japanese workers. Further, the Honda car made in the United States costs \$1,000-\$1,500 less than a comparable American auto.

This differential is attributed to the superiority of Japanese management. As one observer put it: "The Japanese organize their work flow better, and use the skills of their workers better, so that the workers do more work, but working at a slower pace."

One method introduced by the Japanese to improve production is to organize circular loops instead of the linear assembly line. The foreman, who supervises the line, can walk from loop to loop to see the assembly activity, rather than having to run up and down a straight assembly line. With this kind of configuration, the worker can also walk from one loop to another to do two separate jobs, rather than run along the assembly line to do one job. It is this kind of planning which allows the Japanese to produce cheaper cars with American workers.

It appears that anyone can find a way to produce in America—except, thanks to the "free-enterprise" idiocy of the Reagan administration, America itself.

# Imports as share of consumption: America's growing dependency

Table 1

## Radios and televisions

(millions of \$)

	1972	1976	1980	1981	1982	1983	1984
Shipments	4,440	5,056	6,799	7,058	6,098	6,684	7,473
Exports	216	499	1,044	988	711	596	630
Imports	1,934	2,944	4,058	5,538	5,307	6,470	9,000
Domestic consumption	6,158	7,051	9,813	11,608	10,694	12,558	15,843
Import %	31	39	41	48	50	52	57
Adjusted by Morgan-weighted \$							
Imports				6,075	6,427	8,146	12,789
Domestic consumption				12,145	11,814	14,234	19,632
Import %				50	54	52	57

Table 2

## Automotive parts and accessories

(millions of \$)

	1972	1976	1980	1981	1982	1983	1984
Shipments	19,417	30,385	35,627	40,215	35,861	43,831	50,930
Exports	2,291	4,436	5,855	7,237	6,844	7,080	8,786
Imports	1,960	3,502	4,703	5,428	6,045	8,102	10,920
Domestic consumption	19,086	29,451	34,475	38,406	35,062	44,853	53,963
Import %	10	12	14	14	50	14	17
Adjusted by Morgan-weighted \$							
Imports				5,955	7,320	10,200	15,517
Domestic consumption				38,933	36,337	46,951	57,661
Import %				15	20	22	27

Table 3

## Apparel and other mill products

(millions of \$)

	1972	1976	1980	1981	1982	1983	1984
Shipments	27,809	34,759	45,782	49,823	53,406	55,435	57,287
Exports	300	740	1,604	1,628	1,236	1,049	989
Imports	1,967	3,912	6,543	7,750	8,432	9,897	14,319
Domestic consumption	29,476	37,931	50,721	55,945	60,602	64,283	70,617
Import %	7	10	13	14	14	15	20
Adjusted by Morgan-weighted \$							
Imports				8,501	10,211	12,460	20,347
Domestic consumption				56,696	62,381	66,846	76,645
Import %				15	16	19	27

Table 4

## Steel

(millions of tons)

	1972	1976	1980	1981	1982	1983	1984
Raw	133	125	112	121	75	85	102
Finished	92	91	84	89	62	68	78
Exports	3	2	4	3	2	1	1
Imports	18	19	16	20	17	17	26
Domestic consumption	107	108	96	106	77	84	103
Import %	17	18	17	19	22	20	25