

Smoot-Hawley revival is near to passage

by Chris White

The monstrous trade bill, under discussion in House and Senate for the best part of two years now, is moving into its final stages in the U.S. legislature. The bill, another one of the 1,000-page mammoth offerings of those who believe in setting traps in the fine print which no one else is expected to read, is being worked on by a series of conference committees, involving nearly 200 representatives and senators. The final version of the bill is expected to be ready for submission to President Reagan, to be signed into law, in the early days of April.

This is the bill which provided the platform for the now-ended presidential election campaign of Congressman Richard Gephardt of Missouri. His campaign demagoguery, on the subject of Korea's supposed tariff restraints on U.S. automobile exports, job loss, and the plethora of "issues" that are subsumed under the label "competitiveness," apart from being aimed at the empty-headed, have helped create the environment in which the monster soon to see the light of day, has helped shape the deterioration of U.S. relations with especially the allied nations of Asia—Japan, and the group known as the "Four Tigers," Taiwan, the Republic of Korea, Singapore, and Hong Kong.

The bill is eerily reminiscent of a similar legislative effort during the late 1920s, which in the name of Smoot-Hawley, after the senators who sponsored it, became law in the spring of 1930, approximately six months after the stock market collapse of October 1929. On the account of both content, and timing, the present trade bill has also been compared to its predecessor.

The passage of Smoot-Hawley in the spring of 1930 is considered to be the trigger which ensured that the market collapse of the late 1920s became the full-blown depression

of the 1930s.

Leading features of the bill now nearing the final phases of the legislative process pretty much ensure that it will also be allotted the same dubious historical distinction as its predecessor. On the trade question itself the bill would require that investigations be opened on countries maintaining "numerous and pervasive" unfair restrictions on trade.

The bill transfers authority to order such investigations from the President to the Special Trade Representative. The transfer of authority is one item of the bill which, in the view of some, may attract a presidential veto.

Gephardt's failed presidential campaign had been hung on an aspect of this provision which mandated retaliatory action against the alleged perpetrators of such "numerous and pervasive" practices. Gephardt's provision, during the conference proceedings, went the way of his campaign.

The damage the bill does is not likely to be felt in the area of trading relations as such, if that is understood to mean what most people understand by the noun "trade," that is, the shipment abroad of manufactures, semi-manufactures, and primary products to secure imports of such categories of output from partner nations to strengthen the mutual interests of each and all.

Financial warfare measures

The key provisions of the bill, to the extent they can be determined so far, given the proclivity of Kennedy Democrats to sneak in "special interest" pleadings, don't have too much to do with trade in that sense at all. They encompass a series of, especially, financial warfare measures, which are actually directed against the United States as much as its allies.

These measures make no sense from the standpoint of the adopted purpose of the bill, but do if seen in the context of the vicious war going on between various financial interest groups, fighting it out to determine who is going to survive the ongoing financial crash of 1987-88.

To the extent the legislature was induced to shape the bill to reflect the financial interests of protagonists in that fight, the bill is going to become the 1988 equivalent of Smoot-Hawley in 1930.

Chief among these provisions are:

- A selective prohibition on foreign companies serving as primary dealers in U.S. government securities, unless the foreign government reciprocates.

- A revival of the kind of proposal on Third World debt, which, when presented back in December as the "Morgan Plan" for Mexico, signaled that the bankers' fight was on.

- Legislation on exchange rate policy, requiring "negotiations" on such rates with countries which not only run surpluses with the United States, but with the world economy as a whole, and which are alleged to manipulate their currency exchanges.

- Specific action against the European aerospace industry, as represented by the Airbus Industrie consortium, and against the Japanese machine tool industry. The latter for national security, the former for "competitive" reasons, are intended to be direct blows against the remaining technological capabilities of the Western alliance.

The first cited measure specifically targets a group of Japanese securities dealers, which operates in the U.S. government debt market, but does not do so through the mediation of U.S. companies, owned by the Japanese parent. What difference this is supposed to make is unclear.

The companies which will be banned, if within a year, the Japanese have not permitted U.S. securities dealers "the same competitive advantages" the Japanese enjoy in the United States, are Nomura Securities International, Inc., Nikko Securities Co. International, Inc., and Daiwa Securities America, Inc. Crédit Suisse, part owner of First Boston Corp., is excluded, through that part-ownership, along with three other Japanese companies.

Since U.S. securities dealers do operate in Japan, this measure is an outright provocation against the nation which has provided the principal source of finance to cover U.S. deficits over the last years.

Crédit Suisse in Europe, however, is the nesting ground for the gnomish Hans-Jörg Rudloff, who has recently taken the point in opposing further efforts to postpone the looming financial collapse into next year. Rudloff has warned that foreign central banks will cease funding U.S. debt until what he calls an "adjustment" is implemented here.

Inside the United States, Crédit Suisse is working quite closely, as in the ongoing Texas banking crisis, with the Morgan interests, to position itself for the aftermath of the crash. In Texas, the arrangement is typified by the activities of Republic Financial Services and Lomas & Nettleton, scav-

enging to accumulate holdings of defaulted real estate at rock-bottom prices.

The debt bomb

On the Third World debt, the bill instructs the Treasury Secretary to negotiate with other countries to set up a facility that could buy out countries' debt, convert it into securities, and so on. The proposal is a generalized version of the trial balloon, floated in December as the Morgan Guaranty Mexico Plan. That plan wasn't too successful, to put it mildly. This one is designed with the same object, to force Morgan's rivals to eat their losses, while Morgan eats them.

This isn't so different than the 1920s and 1930s, either. Perhaps Morgan's current debt schemes could be compared with the so-called "Hoover Moratorium" on German reparations payments of the early 1930s. More broadly, the House of Morgan played the same part during the 1920s and 30s that the accumulating evidence indicates it is playing once again today, as this so-called "trade bill" exemplifies.

Then, it was the Morgan interests which rode the bear market down, ahead of their competitors, picking up the pieces as the "winners" of the Roaring Twenties bull markets and speculation were crushed.

The third proposal mentioned is of the same class as the first, part of the effort to conduct financial war against U.S. creditors. The conference version of the bill has removed language requiring the U.S. Treasury Secretary to define a "competitive" exchange rate for the dollar, and back it with foreign exchange intervention.

This is perhaps intended to free James Baker's hands for another round of Treasury-promoted dollar collapse to supposedly improve the U.S.'s competitive position.

Then also, perhaps the Secretary's opposition to the "debt facility" has been overcome by the usual kind of horse trade, in which he is freed for a new round of dollar bashing. Either way under this arrangement, the United States loses.

That doesn't make the House of Morgan the winner, now, any more than it did in the 1930s. The attacks on European aerospace and Japanese machine tool industries demonstrate why. European aerospace is a key component of present alliance security capacity, and represents a significant chunk of the potential available internationally to reverse the deepening economic mess.

The world needs both Boeing and Airbus, not one or the other, for scientific reasons as well as military ones. Similarly with the Japanese machine tool industry. Toshiba is penalized for trading with the Russians. Whatever the wrongs or rights of this, the fact of the matter is that the United States is almost 60% dependent on imported machine tool capacity, at levels of consumption half what they were a decade ago. The Japanese provide half of the imported capacity. Thus, the Japanese industry would be an essential component of a recovery policy, too.

It does help ensure that the new trade bill will be for 1988 what Smoot-Hawley was for 1930.