

America, you falter

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If you transfer economic pre-eminence to Japan and military supremacy to the Soviets, both whom thirst for it, then the world will suffer a historic seismic shift.

And so the free world yet again watches its leader, the U.S.A., afflicted by a political and economic nervous breakdown.

From 1981 to 1985, we thought that you in America had recovered your spirit of confidence, pride and responsibility. During those years you demonstrated how a democracy, based on individual freedom and enterprise, could succeed.

Your example was contagious. Throughout the world, democracy began to flower like buds in the springtime. Nations that had almost forgotten freedom, such as Argentina, Guatemala, Turkey and many others, rediscovered democracy. Everywhere local politicians campaigned to roll back the intrusion of the State; to privatize their ossified nationalized industries; to liberate the energies of their people.

Then, through global television, the world watched your democracy tear itself apart over such matters as Iran-Contra and the Bork nomination.

Assessing the Consequences

It might be useful to assess some of the consequences:

In Europe, if you carry through your proposed INF agreement, followed by the suggested 50 % cut in strategic weapons, you will have abandoned your capacity to intervene. Faced with overwhelming Soviet military supremacy, you will have become isolated in your own continent. Your friends in Europe will want you to maintain your troops there, but they will know, and so will you, that these troops represent no more than a tripwire, potential hostages, to force you into a European war that you would be ill-equipped to fight. So we all understand that in due course you will be forced to withdraw from Europe. Thereby the Soviets will have accomplished their primary objective - the decoupling of Europe and America.

The second stage of the Soviet strategy, which has already begun, is to avoid having Europe react out of fear and create a valid independent European military system. The Soviets know that without Germany, Europe is not economically able to do so. That is why they will talk of the reunification of Germany within a neutral zone. This will destabilize Germany, particularly at a time when pacifism in Germany is a strong temptation. Helmut Kohl will be unable to resist, because his foreign minister, HansDietrich Genscher, an unreliable ally, will threaten to switch allegiances by taking his FDP party into an alliance with the Socialist SDP and thereby destroying the CDU (Kohl)/FDP governing majority.

The third leg of the Soviets' strategy will be to convince Europeans that the natural market for their exports is the Eastern bloc. They will explain that whereas it is difficult for European industry to compete with the Japanese in worldwide markets, it is quite different in the Eastern bloc. There Europeans will receive preferential treatment. This part of the strategy has also begun. Communist trade-union leaders and leftist politicians throughout Europe are promoting this policy.

Then the Soviets will persuade European banks to finance exports from Europe to the U.S.S.R. and its satellites.

The result will be that Europe will have been Finlandized militarily, and will depend on the Soviets for its exports, and therefore for its industrial activity and employment. And what

is more, the development of the U.S.S.R. will be financed by European banks. Europe will have become the milk cow of the Soviet empire.

On the economy, like all nations that have lost their will to win, systematically you choose the soft option. For example:

- If your national economy is uncompetitive, you debase your currency. This solution has been tried unsuccessfully throughout history. As you devalue, you receive fewer dollars for your exports and pay more dollars for your imports. To compensate, you must sell more and more units. Like a drug, the initial effects are gratifying. Your factories produce more and, expressed in debased dollars, the earnings of your industry rise. But down the road a little, you will pay the price.

Your industry will not have to adjust to become competitive. Instead, constant devaluation will create the illusion that it is. What is more, if the strategy begins by working, you will have inflation. Increased unit production will put pressure on employment, which is already historically high; you will import inflation because, as imports become more expensive, your industry will become free to raise prices. You will re-create inflationary expectations, with the consequent profound effects on the workings of your economy. Each devaluation will lead to another.

- If one particular industry in the U.S. becomes unable to face competitive market forces, then the proposed solution is to eliminate those market forces. Congress proposes to vote for protection.

- If a particular company becomes non-competitive because of bad management, you entrench that management with special laws to protect it from its shareholders and from the marketplace. Thereby you block change, create a non-accountable, self-perpetuating oligarchy, and grant life tenure to inefficiency. The world used to mock Britain when its successive socialist governments protected lame-duck industries. Today your lawmakers wish to enshrine lame-duck management.

Unfortunately, it won't work. You need to borrow from abroad to finance your national budget. Why should anyone, here or abroad, invest in U.S. government bonds if the U.S. government is committed to a policy of debasing its currency? You will be forced to increase your interest rates, as do the issuers of junk bonds. And then you will have a crash.

In the rest of the world, the vacuum of leadership that you will have created will have profound effects everywhere. In the Middle East and in Southeast Asia others will move to fill that vacuum.

In your own hemisphere, in Latin America, emerging democracy will wither on the vine. Against the background of American abandonment, the Soviets will establish themselves as they have in Cuba and Nicaragua. Then you will have lost even your continental isolation. You will have betrayed the Monroe Doctrine.

Perhaps we live in tragic times. Perhaps this is one of those great turning points of history. It is not impossible that our civilization, the European and American civilization, is in the process of transferring world leadership to others. In the 1920's, England also lost her will and she thrust world economic leadership onto you. You did not much want it, but you shouldered the burden with courage and responsibility. This was a transfer between cousins and within a similar culture. The next transfer will not be so easy. If you transfer economic pre-eminence to Japan and military supremacy to the Soviets, both of whom thirst for it, then the world will suffer a historic seismic shift.

The economic aspects of this debacle can be largely avoided, however, if global measures are taken. That you will have a recession is now inevitable. You might be able to postpone it a bit. But then it will be all the harder when it comes.

It is a fact that you need to reduce your trade deficit and that you will find it progressively harder to finance your budget deficit. So you need to slow demand in the U.S., cut government spending and raise revenues. But at the same time there must be compensating reflation outside the U.S. in those countries that can afford it, principally Japan and Germany. Only in this way can we achieve a global zero sum, i.e., a reduction in the U.S., compensated dollar for dollar by expansion elsewhere. This will avoid a world recession and allow your industries partially to fill the slack by exporting to growing markets overseas.

At the same time:

- Japan should help the lesser-developed countries float off the rocks and return as active participants in the world economy. Japan could achieve this by lending them \$ 30 to \$ 40 billion.
- Other developed countries, each according to its circumstances, could follow the German and Japanese reflation.
- The “tigers” of the Pacific - Hong-Kong, Taiwan, Singapore and Korea - should allow their currencies to float freely with market forces.

But for this to occur the U.S. must lead. The Germans and the Japanese, not unreasonably, believe that if they reflate, then the pressure will be off and once again you will only talk cuts and not effect them. So there needs to be a firm, verifiable agreement. If such a deal is proposed by the U. S., others will want to follow, because it is in their acute self-interest to do so. A global slump would affect not only the economy of each country, it would also tear their social and political fabric.

But unfortunately all this is unlikely, because the Republican administration has lost its nerve and seeks popularity instead of respect. And the Democratic Congress is enjoying the collapse of its political opponents and hopes to benefit by peddling sweet tasting poison packaged to resemble medicine.

You Americans, and others throughout the world, deserve better.