HOW THE U.S. WENT BANKRUPT

There was panic on Main Street as meat prices skyrocketed and the specter of hunger—if not famine—began to loom large: "Why?" people asked. "Acts of God," came the official reply. Now it is safe to bet that whenever God gets the blame, the real culprit must be close at hand.

The United States is bankrupt. It has committed the classic error of borrowing short and lending (or investing) long, the absolute precursor to bankruptcy, for short-term debts can not be paid out of long-term assets, as every bankrupt knows. America has $60 billion in net overseas long-term investment, largely financed out of a net favorable balance of some $90 billion on international trade accounts since World War II. The best estimate I can make of U.S. liabilities to foreign banks and treasuries in March 1973, is some $65 billion, principally short-term debt. (Rep. Henry Reuss of the Joint Economic Committee estimates them at $90+ billion.) In addition there is an unknown amount rumored in the range of $70-80 billion, of Eurodollars and Asiadollars (including pyramiding of short-term, international, private, bank-to-bank loans) floating around the word as brigand money, raiding currency after currency and driving the dollar into two devaluations within 14 months.

The amount of U.S. bankruptcy no longer matters; whether the foreign official debt is $65 billion or $90+ billion is simply a numbers game. America cannot meet its overseas debts—except by new debt and so ad infinitum—whatever their real amount.

The reason for American bankruptcy, however, matters very much. For since the end of World War II the United States has spent $77 billion in direct overseas military expenditures over and above the cost of the wars in Korea and Indo-China. Most of this $77 billion—unlike the money spent in actual warfare—has translated into all sorts of short-term debts and obligations upon the U.S., debts which cannot be paid out of long term assets. Moreover, since the end of 1970 and for the first time in this century, the U.S. has fallen into deficit in her international trade accounts. This is why the United States is bankrupt. She cannot pay her official overseas debts out of her private long term overseas assets. And it is this bankruptcy which has provoked the inflation now wracking the country.

The inflation is a long-delayed effect of the progressive mistrust by foreigners of the value of the dollar—caused by U.S. military spending overseas and at home. With its international credit impaired, the government must seek to strengthen the dollar overseas by a conservative, deflationary reduction in federal domestic spending. But deflation brings with it poverty and unemployment, and the government is then forced by the domestic situation to increase federal spending to alleviate public distress. A deflationary policy is thus self-contradictory in the eyes of foreign central banks unless the dollar is already of unassailable integrity in foreign exchange markets. This in turn requires full convertibility of the dollar into gold among central banks, a situation ruled out by the circumstances. The Nixon Administration has declared an embargo on gold payments.

The gold embargo happened this way. International gold speculation accelerated in 1964 when the value of the U.S. gold stock, at $35 per ounce, fell below foreign official short-term claims upon it. The United States thereupon induced the six active European members of the London gold pool not to buy or sell gold at other than $35 an ounce, and not to purchase or sell gold except among central banks. The immediate effect was to establish two prices for gold: $35 per ounce at the official rate and an unknown price, above $35 per ounce, in the private, unofficial markets outside the United States.

This was mere whistling up the wind. The actual (unofficial) price of gold continued to rise above $35 an ounce, and drainage of the U.S. gold stock compelled the United States in 1971 to embargo all further payments in gold, even to central banks. At last the dollar had become a paper currency backed by paper, with no gold cover at home, and repudiation of gold indebtedness abroad. The stage was fully set for a major inflation.

Two points must be made. First, that evolution of the dollar towards a paper currency backed by paper was long predictable, and was predicted.* Second, acknowledged international bankruptcy by the United States—de facto repudiation of her foreign obligations—made devaluation of the dollar inevitable. Two devaluations followed, and we are far from the end of devaluation of the dollar. What the dollar is

Terence McCarthy is a consulting economist who was, until recently, Adjunct Professor of Economics at Columbia University. He now lives in the Catskill Mountains, where he continues his study of the economics of war, a subject he has been investigating for nearly 45 years.

*** By me, for example, in *American Dollar in Jeopardy: Can Flight of Gold Be Halted?* originally in *A Strategy for American Security*, New York, 1963. Reprinted in *The War Economy of the United States*, Seymour Melman (ed.), St. Martins Press, New York, 1971.**

by Terence McCarthy

really worth is anybody's guess but it is certainly not worth 1/42 ounces of gold. The best measure we have is that public sales of gold in Europe and Asia are now at prices of $90 an ounce or more. Japan has removed prohibition of non-official gold imports and has issued licenses to industrial users of gold to report an initial 40-50 tons at the open market price, i.e., $100,000,000 or more. Gold bars can now be purchased in Japan's department stores.

We are thus witnessing a flight from the dollar abroad. Even after the recent 10 percent devaluation of the dollar, more than $2.7 billion was flung on the German foreign exchange market on the single day of March 1, 1973. The size of this inflow, even after the dollar had been devalued, convinced the Bundesbank that it was no longer possible for Germany to support the dollar. Germany had given such support zealously in all past times of need.

Thereupon all foreign exchange markets were closed and remained closed for 17 days. During this period the leading banks of Europe erected barriers against further unwanted inflows of hot dollars.

This was an epochal event. It was the first time in modern history in which virtually all foreign exchange transactions were suspended, except during wartime. Moreover, it spelled the end of U.S. monetary hegemony over Europe and Asia. Henceforth, the United States must conduct itself as a bankrupt, not as the world's monetary dictator.

When the foreign exchange market reopened, with temporary stability, raiding the dollar took on the form of commodity speculation in the United States. The multinational corporations, the private international banks, and the personal speculators in foreign exchange had had their profit opportunities from raiding currencies closed down overseas. Even though they act separately, the speculators constitute, in reality, a single force in the world—and they had already begun to turn their attention from currency raids abroad to profit opportunities in commodities futures in U.S. markets. They began to reap their profits not by driving upwards the exchange values of foreign currencies but the future values of U.S. products. It was not from foreign central banks that they now profited but from American consumers and industry. In this country, prices of raw materials and produce began to soar. The profits of the international speculators were now filched from the shopping baskets of the American people.

With controls removed from prices under Phase 3 of the Nixon program, this process accelerated. The international speculators' profits in U.S. commodities became as assured as had been their profits in foreign currencies. The raids on commodities proved enormously profitable. The spot price of the Dow-Jones Index of 12 commodities on March 19, 1973, was 204.21 compared with 153.71 a year earlier, an advance of about 33 percent per year. Cocoa, on a year-to-year basis, had advanced 64 percent by March 23, 1973; coffee, 37 percent; copper 14 percent; corn, 30 percent; cottonseed meal, 47 percent; large eggs, 51 percent; rubber, 76 percent; soybeans, 78 percent; and so on. These price increases are, as Pierre Rinfret has insisted, outright gouging. In Japan, be it noted, the government is now investigating Mitsubishi and other giant multinational Japanese corporations for cornering the markets in lumber, copper, grains, etc. through their trading in commodity futures.

Ominously, recent price increases reflect, by and large, not so much shortages as the expectation by businessmen that the dollars they get today from the sale of products will represent smaller purchasing power six months hence, and still less a year from now. The businessman is trying to compensate himself today for the inflation he foresees tomorrow. In so doing, he is himself creating and accelerating inflation because he has as little faith in the dollar as have foreigners.

Federal statistics as to the cost-of-living index no longer have meaning. Buying patterns have changed so profoundly in recent months that the weightings employed, item by item in the index, no longer approximate costs of consumer purchases. Two months ago, in retail stores, the price of boned chicken breasts was 99 cents a pound, and then, in one week, rose to $1.99 a pound. The largest proportionate price increases at retail have been in the low-priced, high-protein substitutes for meat. It is pointless to cite statistics; they are out of date as soon as written. The housewife knows far better than I how, as price patterns changed, her buying patterns have been compelled to be erratic, unfamiliar, and frightening.

What she does not know, however, is that her interests and those of the farmer are absolutely identical in this inflation, and the antagonism which has grown up between them is politically disastrous. It is in the trading in futures and in the processing, packing, transportation, wholesaling, and retailing of provisions that price gouging has occurred—not at the farm level.

However a series of natural events combined with bureaucratic stupidity had already created conditions which made meat price increases inescapable. These natural increases could not benefit the farmer and must injure the consumer. The facts—heretofore somewhat obscure—must be known if a rallying of political forces to damp down the inflation and to stamp out the profiteer is to take place. First there was an unforgiveable error by the Department of Agriculture some three to five years ago. A new variety of corn of exceptional yield was permitted to be sown. But this new corn was not blight resistant, a fact which could and should have been established before its marketing for seed purposes was allowed. There followed, in 1970, blighting of the corn crop in this country.

Simultaneously, because of weather conditions, the North African peanut crop failed, as did the sunflower crop of Eastern Europe, and the maize and wheat crops in parts of the Soviet Union. Nature conspired with human stupidity to spread throughout the world a dire shortage of vegetable oils essential to human survival and to the feeding of livestock. The effects upon the American farmer were immediate. Hogs were slaughtered as the price of corn increased, reducing pork production by 1972 year-end more than 20 percent below its mid-1971 amount. Hog farmers dared not keep their animals as corn prices rose. The first phase of a natural cycle of meat price increases had set in.

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A VEGETARIAN MANIFESTO

Tonight on the evening news I heard a cattle raiser explain the high price of meat as the result of a "protein shortage." By the same sort of reasoning one might attribute the sinking of the Titanic to a super-abundance of water.

Perhaps, in these times, we ought to expect a certain amount of fuzzy thinking about meat prices, and certainly the spokesmen for agribusiness have good reason to confuse what dollars can command with what bodies need to function. The truth, however, is another matter. America faces no "protein shortage." On the contrary, we are a nation consuming well beyond our protein needs with a diet geared to a protein source that is the most protein-costly of all to produce–namely beef.

Currently most Americans eat two times their recommended daily protein allowance. In fact, we could *reduce* our livestock population by one-quarter and still provide every single American with one-half pound of meat and poultry every day of the year. This is enough to supply every person's recommended protein allowance in meat and poultry alone–with no help at all from milk products, eggs, cereal products, nuts and beans, which presently provide more than half of our daily protein. But perhaps most surprisingly, *we could completely eliminate meat, fish, and poultry from our national diet and still ingest our recommended daily protein in all the other high protein foods we eat regularly.*

Heavy meat consumption is presently common to all but the poorest fifth of the American population. On the average, Americans in the lower 50 percent of family levels eat more than a half pound of meat and poultry each day. This is enough protein to supply an adult's daily allowance entirely by itself. Individuals in families with incomes in the upper 50 percent eat on the average a *whole pound* of meat and poultry daily.

Since protein cannot be stored in the body and since we can only use a limited amount to replace the small amount that is broken down and excreted every day, what happens to all this extra protein? It is, quite simply, wasted. Our bodies cannot use the excess as protein but instead convert it into energy-giving fuel as if it were carbohydrate. For many Americans the last vestige of our Puritan heritage is the belief that throwing away food is a sin; yet few realize that our very consumption pattern means we are "throwing away" that most precious of all human nutrients–protein.

For most of us meat is no longer a luxury but a staple we demand and expect. Steak on a week-day night is part of the American dream. Yet throughout man's history a carbohydrate has been the "staff of life" (be it bread or rice) and animal protein (be it fish or meat) has played a purely supplementary role. This is the pattern that correctly reflects the body's nutritional needs as well as the earth's capacity to support Man as an ecological dominant.

Well over a hundred years ago, the earth's population increased beyond the point at which it could conceivably be supported by a meat-centered diet. Such a diet requires three and one-half acres of arable land per person. But according to most estimates, the earth now offers only *one* acre of agricultural land per person. One acre per person is not enough for meat in the volume to which we are accustomed, but it is adequate to provide a fully nutritious plant-centered diet–*if the land is shared equally.*

As it happens, however, we Americans do not have to face up to this reality. To us, plant-centered diets are what "yet to be developed" peasants or young "food freaks" deserve to eat. We are permitted this myopia partly because our soils and climate produce an unparalled agricultural wealth. More important, American economic, military and political power prevents other peoples with real food needs from making effective demands on our protein wealth and at the same time allows us to make demands on *their* resources to inflate our own bloated diet.

This we do, for example, by importing almost 40 percent of all beef in world trade. Although the amount of meat we import seems small (8 pounds per capita annually), this portion would represent a 50 percent increase in present meat consumption in the poor nations of the world. It would, moreover, provide an appreciable portion of the minimum daily protein allowance for many of the world's hungry.

Ironically, much of the meat we import comes from the poorest countries in Central America, which do, in fact, face a "protein shortage." The U.S. government, for its part, controls the influx of meat as a safety valve against rising prices. Beyond these tragic absurdities, the trade has a devastating effect on the land economy of food production in the poor nations. Tom Bodenheimer has reported, for example, that Costa Rica once had a "relatively well-developed milk industry with a per capita consumption of 0.85 pounds per day . . . but because of the recent U.S. policy to import beef from Central America, Costa Rican milk farmers are leaving the dairy industry in order to raise more profitable beef cattle. Thus Costa Rica's milk produc-

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France Moore Lappé is the author of Diet for a Small Planet *(Ballantine Books, 1971).*

ILLUSTRATIONS BY BRUCE WOLFE

by Frances Moore Lappé