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U.S. economy to go down with the dollar

by David Goldman

America's supposed economic recovery during 1983 was based on a $134-billion subsidy extracted mainly from developing nations in the form of hard goods imports fed into the U.S. economy. The United States purchased raw materials, semi-manufactured goods, and capital goods from the rest of the world at bargain-basement prices, and paid for them with flight capital extracted from the developing world and Western Europe. Overvaluation of the dollar with respect to Third World and European currencies has allowed the situation to persist—but it won't last much longer.

This conclusion is exhaustively documented in *EIR*'s newly prepared Quarterly Economic Report on the United States economy, previewed here.

The implications of this analysis for America's economic and strategic situation are grim. As the value of the dollar collapses, the elimination of this subsidy will collapse domestic production levels and force prices up across the board. There will no longer be any room for doubt—the U.S. economy will be in full-scale depression.

In fact, the U.S. economy has been in continuous depression since Federal Reserve chairman Paul Volcker sent interest rates into the double digits in 1979. The rate of decline merely slowed during 1983 due to a colonial looting operation reminiscent of the British Empire. Britain managed to sustain a trade deficit for half a century on the proceeds of the Far East opium traffic, but at least Great Britain produced its own capital goods. For the first time in this century, the United States imported more machinery than it exported during 1983.

Dollar continues to fall

The dollar, in fact, has already dropped by 10% against the West German mark since January, from DM 2.85 to 2.55 at the end of the first week in March, and by slightly less against other currencies. The dollar crisis has already hit Wall Street hard and produced a sharp rise in long-term interest rates. As it continues, it will create economic conditions *worse* than those of 1982, supposedly the depth of the "recession."

With an op-ed entitled "When the Dollar Loses its Shine," the London *Financial Times* of March 5 pointed out what insiders in the City of London told *EIR* a month ago: The dollar is being "talked down" for political reasons by the City and others who want to pull the rug from Ronald Reagan's reelection campaign. A huge crack in the U.S. economy would make even worse mincemeat of Reagan's promotional strategy.

Such a financial-economic crisis could "hand the presidency to a Democratic candidate," the *Financial Times* proclaims. One of Europe's leading financial "insiders," reached in Hamburg, West Germany, commented tersely "I see Gary Hart coming up because Wall Street and the dollar are going to collapse, inevitably. Reagan will find himself in the position of Herbert Hoover. Then Hart will go for an 'FDR effect.' "

"The dollar has been ambushed," the *Financial Times* states bluntly. "The real fear is that, instead of a gradual 'soft landing,' the dollar could all too easily suffer a rout, with possibly disastrous consequences for interest rates, inflation

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and growth in the U.S., which could spill over the rest of the world as happened after the dollar's 21% fall against the D-Mark in 1978-79."

The *Neue Zürcher Zeitung*, speaking for the Swiss financial elite, is also projecting a further dollar decline. "In Zürich foreign-exchange-market circles, a retreat of the dollar to two Swiss francs is far from excluded," compared with the current dollar level of 2.14 francs, they wrote March 8.

"A fundamentally new evaluation of the entire circumstances of the American currency . . . now appears to persuade investors to conduct a portfolio shift into yen, deutschemarks, Swiss francs, and partly gold as well," the Swiss continue. Under the subhead "Possibility of a Chain Reaction," they note that unless the Federal Reserve tightens credit furiously, "a trend turn of the dollar could lead to a chain reaction and a rapid collapse."

The London *Financial Times* also points out what *EIR* readers knew weeks ago—that at this point, rising U.S. rates will simply signal investors that the United States is desperate for foreign capital and will frighten them out of the dollar. "Perhaps the single most unsettling development of the past few weeks has been that the dollar has fallen as U.S. interest rates have *risen* and fears about the deficit have *grown*. . . . The Fed and the markets will reach a moment of truth. If the Fed fails to tighten the monetary screws sufficiently, it will lose its credibility as the sole bulwark of the U.S. economy against inflation and the fall in the dollar could turn into a collapse."

6% of economy subsidized

Already, the modest pull-out of funds from the dollar has hit the stock market. If a dollar rout occurs, the very basis of the current U.S. economic structure will be pulled out: a massive foreign trade subsidy.

The trade subsidy to the United States rose from about 3% to about 5.5% of total industrial output of the U.S. economy between 1982 and 1983, or a margin of increase of 2.5%. The total amount of the subsidy was $65 billion in 1982 and $114 billion in 1983. Net imports were adjusted for the improvement in U.S. terms of trade since 1981, that is, converted into the equivalent price of goods produced in the United States.

The January 1984 trade deficit was $9.2 billion, much larger than 1983's average monthly deficit. Considering only non-agricultural goods, that represents an annual deficit of $157 billion—that is, the excess of goods imported into the United States over goods exported. Adjusted for the bargain-basement price of imports, this 1984 deficit will come to the equivalent of $235 billion of U.S. goods, or about 11% of all industrial goods consumed in the American economy!

Third World pays most

Of the $114 billion net subsidy for 1983, the following geographic areas contributed the most:

'Possible chain reaction'

From the Neue Zürcher Zeitung *of March 8, under the title "Continuing Exchange-Rate Correction of the Dollar":*

The dollar lost additional ground on the foreign exchange markets Tuesday. In monetary circles there is talk of a correction of the previous over-shooting and a turnabout which had been expected. . . .

In the judgment of private and official monetary circles, this correction is far from over. While American market observers, for example, speak of a dollar rate against the yen of 200 (against 223.15 on March 6) as entirely possible, Zürich foreign exchange market circles will not even exclude a retreat of the dollar to 2 Swiss francs.

The opinion underlying this judgment is that the present correction of the dollar is not a trader's bear market, but a fundamentally new evaluation of the entire circumstances of the American currency. . . . The dollar rose against the Swiss franc from the beginning of January 1983 from 1.85 to 2.85 despite the halving of American interest rates . . . in the context of the return of the U.S. to economic stability and a return to the United States to a decisive world political role.

Against these positive factors, the negative influences . . . are the marked increase of the American trade and current account deficits. These fundamental factors, paired with the grave American budget situation, now appear to have won the upper hand. . . .

There was always a certain worry that a trend turn of the dollar could lead to a chain reaction and a rapid collapse. . . .

Above all, it is not excluded that the dollar could continue to fall despite the rising interest rates. . . . A notable loss in the dollar exchange rate in the context of an outflow of foreign capital urgently needed for the financing of the current account deficit could exercise pressure on American interest rates. . . . Martin Feldstein, President Reagan's chief economist and a voice crying alone in Washington's budgetary desert, has recently signaled that a tightening of the monetary reins as a defense against an otherwise unavoidable dollar correction is unwanted. The pressure on the Federal Reserve to counter a rise in interest rates with a loosening of monetary policy should be considerable in an election year.

Region	Amount
Latin America	$29.6 billion
Asia other than Japan	$23.7 billion
Japan	$22.3 billion
Canada	$14.9 billion
Western Europe	$10.2 billion
Africa	$9.2 billion

The United States subsidized the East Bloc by $1.1 billion, and the Mideast by $5.3 billion.

The subsidies listed above are calculated by taking the reported imports of the United States from the relevant areas, adjusting them to the price that they would bring if produced in the United States, and deducting U.S. exports to each region.

The two largest areas of subsidy are Latin America, with a nearly $30 billion subsidy to the United States economy last year, and the developing nations of Asia, with about $24 billion. Considering that the currencies of Latin America collapsed to less than half of their worth (as measured by the price of equivalent baskets of agricultural and manufactured goods), this is not surprising, merely disgusting—the cost is measured in starvation and death.

Biggest swing in capital goods

The breakdown of the subsidy by industrial sector is as follows:

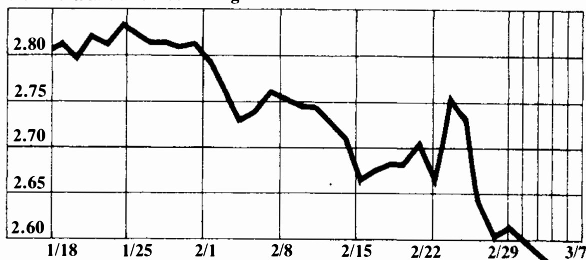
Semi-manufactures	**$27.6 billion**
tires	$1.3 billion
paper	$2.5 billion
textiles	$1.5 billion
cement etc.	$0.2 billion
steel	$6.6 billion
non-ferrous	$7.6 billion
fabricated	$2.0 billion
Machinery	**$2.5 billion**
Transportation	**$18.9 billion**
autos	$19.7 billion
parts	$4.4 billion
Miscellaneous manufactures	**$23.6 billion**

The increase in the subsidy between 1982 and 1983 is most striking in the machinery sector. In 1982, the United States still showed an export surplus (including the terms-of-trade adjustment) of $14.8 billion. As noted above, this turned into a deficit of $2.5 billion by 1983, or a net swing into deficit of $17.3 billion. That is roughly 9% of the total activity of the machinery sector!

Currency Rates

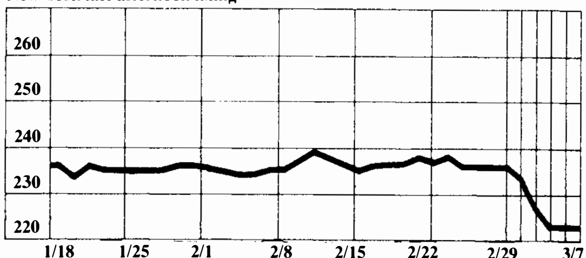
The dollar in deutschemarks

New York late afternoon fixing



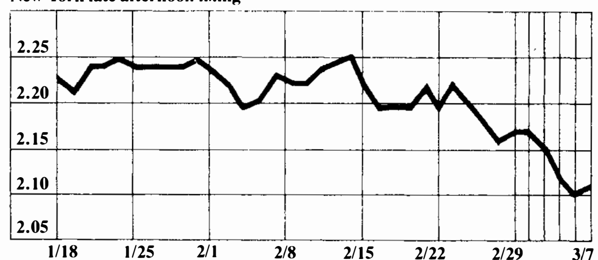
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing