Foreign Exchange by Kathy Wolfe

Widening foreign deficits?

The International Monetary Fund may be toying with a "strong dollar, weak economy" option for America.

A top official of the International Monetary Fund predicted in mid-February that the U.S. foreign debt will boom over the next few years, as it has since 1983, consolidating the United States' position as a net debtor nation, vulnerable to foreign-creditor and thus IMF demands.

According to the official's story, which may or may not be the IMF's real thinking on the matter, IMF studies show that the U.S. foreign-trade and overseas current-account deficits will grow wildly. The current-account deficit, the IMF has predicted in private studies, will grow for five more years. The official stressed that this means continued U.S. importation of capital from abroad, which is the only way a foreign deficit can continue to grow.

This means that the IMF is predicting that the U.S. dollar's foreign exchange rate will continue to benefit from foreign hot money, while the U.S. economy is destroyed.

The overseas current-account deficit could "stay at this level over the next few years," he said. The United States is projecting a trade deficit this year above $150 billion. "We think that the United States will have a widening current account deficit through 1990."

He emphasized: "I mean a widening deficit. There are two reasons. First, because imports are already larger than exports. That's what the trade deficit means. If both imports and exports start at the same level, and grow at the same rate, the imports will get larger by an absolute amount and the trade deficit will grow. The U.S. economy will continue to take in imports."

He explained that this will happen partly because the United States will continue to import capital, and because the United States will increasingly pay out more in debt service to its new creditors than it used to earn from its existing debtors.

"The second reason is that the services account, the interest, and debt service earned by the United States, will become increasingly negative. The U.S. used to earn money on interest and debt service," net, paid by foreigners to U.S. creditors. "But as the U.S. runs up debt on its trade account, it will be paying out interest and debt service. The negative interest payment will become worse and worse."

If the official is telling the truth, at least about the IMF's own predictions, this means that the IMF is preparing a vicious trap.

As dozens of IMF and bank officials, from IMF Executive Director Jacques de Larosière on down, have pointed out since Mexico went bankrupt in 1982, a nation can only run a foreign deficit if its creditors are willing to finance it. Until 1982, the IMF and the banks force fed foreign credits to Mexico and other countries, allowing them to run up large foreign deficits. The Mexican peso was strong because capital flowed in each year from 1976 to 1982.

Suddenly, using the May 1982 Malvinas War as an excuse, the banks decided to pull money out of Mexico, and, since 1983, have forced Mexico to run a foreign surplus each year, with the surplus funds Mexico earns going to pay back its debt.

The IMF is saying that foreign creditors may be willing to treat the dollar as they did pre-1982 Mexico—for a while yet. They will let the United States run ever larger foreign deficits, which means borrowing and taking in higher amounts of funds into the dollar for as long as the deficits are allowed to rise by the creditors.

That means, arithmetically speaking, that the creditors would allow the dollar to maintain certain heights, in return for the much larger, more vicious process of thoroughly indebting the U.S. economy to the point of drowning it.

The IMF official ended by predicting that this would cause trade war between America and the rest of the world, working into Soviet hands by destroying relations with allies. The Senate, grouped around Club of Rome member Charles Danforth (R-Mo.), will use the trade deficit to sponsor bills that place tariffs on all imported goods, he predicted. "The sentiment to support such bills will grow as the U.S. continues to run trade deficits. If the U.S. current account worsens for one or two more years, this will be serious. The effect of Danforth's and other bills on the Third World would be devastating. It would destroy their trade.

"And just imagine what will happen with America's Japanese and European friends. Of course, they'll say, 'This legislation is wonderful, thank you so much,' and we'll have trade war. People at the Special Trade Representative's Office are worried about this. Some of the bills on tariffs before the Congress make some provisions to exempt some heavily indebted Third World nations, but it won't stop protectionist war."

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