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U.S. Current Account Deficit Drives New Dollar Fall

by Richard Freeman

The dollar plunged to record lows against the European euro in early December, and new recent lows against the world's other major currencies. Unless U.S. economic policy is changed, the dollar fall could accelerate to a cumulative 40-50%, shattering the world financial system.

The decisive issue is the United States' Current Account Deficit. Accounting for 85% of it is the swelling trade deficit. 2004 Presidential pre-candidate Lyndon LaRouche alone has identified the source of the problem: The trade deficit has grown as a direct result of a "Roman Empire" policy by which the United States, unable to manufacture to maintain its own physical existence, depends on importing from around the world in enormous quantities, and long since shifted from a producer to a consumer society. The mounting trade deficit has driven the Current Account Deficit—using the most minimal projection from Commerce Department data—to $554.8 billion in 2003; it will actually be much larger.

Threat of Foreign Flows Disinvestment

A new shift has emerged since the end of the Summer: The mechanism that has been financing this current account deficit and propping up the U.S. dollar—luring or compelling foreign investors to bring large amounts of foreign capital into the United States—has begun to fail. For this foreign inflow to allow America to pay off its trade deficit and other international obligations, has come to require $50 billion of foreign investment monthly.

But the U.S. Treasury Department reported that net foreign capital inflows into the United States—foreign purchases of U.S. Treasuries, stocks, etc.—fell from $49.9 billion in August of this year, to a minuscule $4.19 billion in September. And this past week, the Bank of New York's "Portfolio Flow Monitor" reported that during November, foreign investors *withdrew,* or disinvested, a net $2.3 billion from their equity and bond investments in the United States. That preliminary report suggests the U.S. was unable to fund any of its current account deficit. This accelerated the dollar collapse. As a result, by Dec. 2, the U.S. dollar had plunged to one euro equals $1.2080. This is the dollar's lowest level since the euro currency was begun in 1999. At the same time, the dollar declined to one British pound equals $1.72, within a few pennies of being the lowest dollar exchange value since the pound left the European Rate Mechanism back in 1992.

Meanwhile, the price of a troy ounce of gold surged to $404, marking the first time it had gone that high in seven and one half years.

But there is also a strategic force that would exacerbate the primary crisis: Europe and Asia's hatred of the United States, its insane strategic policies, and the neo-conservative utopians in particular. LaRouche notes that this hatred means that, unless Vice President Dick Cheney is ousted, and Bush gets rid of the neo-cons, there is no reason for him to expect any assistance from the Europeans in dealing with the dollar collapse and the looming problem of capital disinvestment. Were the Europeans, who own trillions of dollars of American investments, to act strategically to disinvest, and were they joined in this by the Chinese government—which alone holds over $200 billion in U.S. Treasury securities—the disinvestment would be gigantic and the dollar doomed.

America's insane economic policies are adding to the problem, including the policies of free trade, speculation, and unrestrained dollar-printing by Federal Reserve Board chairman Alan Greenspan. During the past two weeks, the U.S. government tried to assure the world that the U.S. economy is fine, with a flurry of faked economic statistics, including the claim that America's Gross Domestic Product grew by 8.2% and productivity by 9.4% in the third quarter. But the so-called GDP growth was largely a result of widespread borrowing by overindebted households, and the govern-

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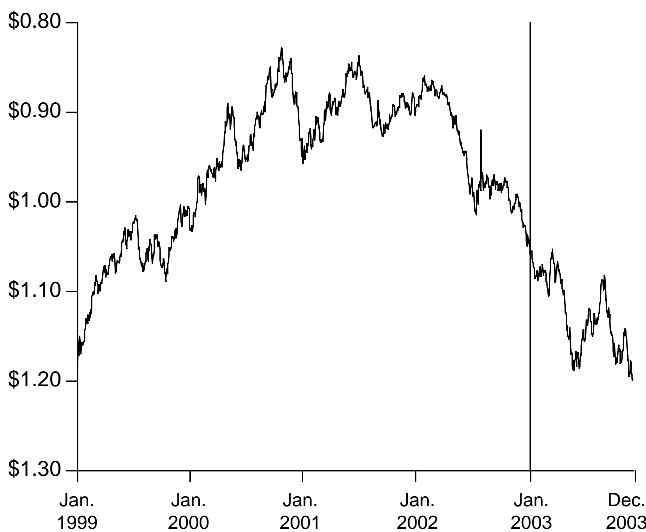
FIGURE 1

Dollar Fall Against Euro Has Accelerated Since January 2003

(Euro Value in Dollars)

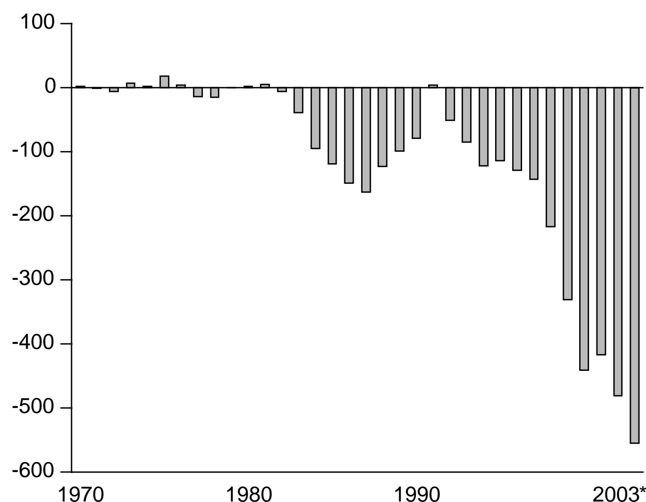


Source: *Wall Street Journal.*

FIGURE 2

U.S. Current Account Deficit Swells, 1970–2003

($ Billions)



* Projection of Commerce data, based on the first half of 2003.

Source: U.S. Department of Commerce.

ment's liberal application of the fraudulent hedonic index, neither of which indicates of economic health.

"We have entered a super-critical phase at the fag-end of the existence of the present world monetary-financial system," says LaRouche. "The accelerating collapse of the U.S. economy, as merely echoed by the collapse of the U.S. dollar by about 20% relative to the launching of the euro, reflects, as I warned . . . shortly before Bush's inauguration, that Bush's stubborn stupidity on economic matters would mean that the terminal collapse of the present world system, already in full swing since Spring 2000, would lead the U.S. deeper, at an accelerating rate, toward the breakdown of the collapsing world system. . . . Getting to the beginning of the second quarter of 2004 would be a virtual miracle, but still not an impossibility. Presently, the rate of collapse of the dollar is already accelerating ominously; we are presently teetering on a collapse which could explode at any moment."

The Anti-Maastricht Factor

Adding to the dollar's troubles is the fact that on Nov. 25, the Maastricht Stability Pact, which was signed by European nations in 1992, was effectively canceled. This is an excellent development for 15 European member nations. The Pact has enforced austerity and restricted investments in Europe's real economy, particularly infrastructure, and shifted capital flows into speculative investment in the U.S. bubble. The Pact's rejection makes it likely that more investment will occur in Europe, and therefore fewer funds will flow into the United States.

In addition to financing its huge current account deficit, the United States will require further funding—some of it from overseas—to finance its Federal budget deficit, which is expected to officially exceed $500 billion in Fiscal Year 2004 (and in actuality, will be much larger).

LaRouche has stressed that America must shift back from a consumer to a producer nation, and scrap the bankrupt world financial system, replacing it with a New Bretton Woods monetary system vectored around building great infrastructure projects and development corridors through the Eurasian Land-Bridge and the Great American Desert Development project. The necessity of that approach is manifest. **Figure 1** shows the trajectory of the U.S. dollar-euro relationship. Since the start of 2002, the dollar has tumbled by 25.2%, and since the start of 2003, by 14.2%. Most remarkably, since Aug. 22 of this year, it has fallen by nearly 10%—*as foreign investors apparently began sharply reducing their American investments.*

Figure 2 shows America's dependency on tribute/imports from the rest of the world. The current account consists of three balances: on trade (which is 85% of the total); on investment income; and on unilateral transfers. In 1990, the U.S. current account balance stood at positive $4.3 billion; it rose to negative $113.6 billion in 1995, and then rose hyperbolically: Based on minimal Commerce Department projections, it is projected to reach $554.8 billion this year. Short-term fixes are futile. To solve the dollar's underlying problem, the United States must scrap altogether the "Roman" policy, and its related monetarist practices.