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The U.S. trade deficit means American banks loot Third World

by Richard Freeman

Recently reported trade figures for the United States show the effects of America's vastly overvalued dollar: the biggest trade deficit in history. They thereby show the principal underpinning of America's so-called economic recovery: buying from the world at prices so low it amounts to thievery.

October did show a drop in U.S. import of manufactured goods, but the U.S. deficit in merchandise trade (real physical goods) became $9.18 billion. The U.S. trade deficit for the first ten months of the year is $105.5 billion. Moreover, Commerce Secretary Baldrige predicts a deficit for the entire year of $130 billion.

Perhaps the enormity of this figure doesn't register. Never in its history has the United States had a $100 billion trade deficit. The previous highest amount ever registered was $69.4 billion for 1983. Before that the deficit never exceeded $43 billion.

The United States, the mightiest industrial power on earth, should be shipping floating nuclear power plants, dredging equipment, electricity grids, tractors, rail locomotives and tracks, construction equipment, to the rest of the world to industrialize it—it should, in short, be running $100 billion per year trade *surpluses*. But the United States achieved its current status not through chance, but deliberate policy design. It reversed the role of an industrial power—supplying capital goods to the Third World and running huge trade surpluses on this account.

The ten-year Dollar Reich

To understand the dilemma of the United States as a net manufactured-goods importer, one must start with the genesis of this admittedly perverse policy.

"It is very probable that the dollar will remain strong through the end of the rest of the decade." So proclaimed U.S. Treasury Secretary Donald Regan in an interview with *BusinessWeek* in October. Regan had the misfortune to have been proven right over the last few months, as the dollar has risen against all other currencies, and the once haughty pound sterling, worth $2.40 a few years ago, is now worth $1.17 and likely will soon be on a one-to-one parity with the dollar.

Regan's reason for proclaiming a strong dollar had less to do with economic predictions, than an attempt to make the case that the United States should model itself on the 19th-century British Empire. Long past its industrial prime, that Empire used a strong currency to loot the world. Don Regan and his colleagues from the Council on Foreign Relations, like Paul Volcker, designed a foreign and economic policy that makes America a fortress which, instead of developing the world and acting as a "beacon of hope," cheaply picks up those manufactured and capital goods which cannot be produced domestically. To do this, Regan and company used high interest rates to drive a strong dollar.

The Council of Economic Advisers (CEA), in its February 1984 yearly economic review, "The President's Economic Report to the Congress," also predicted that the United States could finance its gigantic federal budget deficit for the next ten years by having the strong dollar attract foreign investors to buy 40% of all U.S. Treasury debt, which is the rate at which foreigners bought in 1983.

This is the generalized economic policy that the Volcker-Regan-Stockman-CEA team foisted on President Reagan. Use a strong dollar, which will allegedly be strong through the end of the decade, to attract capital flows from abroad with high dollar yields, to finance simultaneously a trade and budget deficit, and to buy goods cheap from the rest of the world.

Otherwise the economic recovery was a fragile hoax recently disproven by the three-month fall in housing starts, the plunge in capital spending, and the bankruptcy of farming. Apart from falsification of figures and an excessive generation of consumer credit, the "recovery" depended upon the overvalued dollar looting the world.

The pillage and tithes that are being extracted from abroad can be tangibly seen in the case of Mexico. Under International Monetary Fund "conditionality" policies, Mexico cut its imports from $24 billion in 1981 to $10 billion in 1983, a drop of two-thirds. Since many of Mexico's imports were of American capital goods—oil-drilling equipment, construction tools, etc.—America's exports began to fall. Likewise, the IMF told Mexico to export everything that was not nailed down. Mexico had been forced to devalue its peso from 40 to the dollar in 1982 to 200 to the dollar today. Thus, a Mexican product that cost $1 in 1982 costs only 20 cents today, because of Mexico's devaluation.

So now Latin America is dutifully paying its tithe to the New Imperial Dollar and the IMF. According to a Commerce Department report, for the first nine months of the year, Latin American exports to the U.S. rose to $15.8 billion, a 34% increase over the $11.8 billion level for first nine months of last year. If one figures that the U.S. dollar has appreciated by about 30-35% this year alone against a basket of Latin

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American currencies, then Ibero-America exported the real equivalent of $21 billion in hard physical goods as against $11.8 billion for the same period last year, *actually a doubling of exports*.

Paul Levy, a vice-president for Latin American research at Merrill Lynch (Donald Regan's former firm) boasted, "One very basic reason for the growth in exports is the drop in real wages and the devaluation of currencies. These are at the heart of the adjustments that governments made in response to their external debt crisis."

The United States got the goods it could not produce at home because of Paul Volcker's high interest rates. Ironically, once these foreign manufactured goods, stolen at two-thirds to one-half the cost because of the strong dollar, came in, they in turn stimulated a modest upturn in a few selected categories of U.S. production.

For the first three quarters of 1984, U.S. exports of manufactured goods, excluding autos, totaled $95.2 billion. For the same three quarters, the United States imported $117.6 billion worth of manufactured goods, excluding autos. The United States thus ran a $22.4 billion deficit on manufactured goods. Even in 1983, the United States still ran a manufactured goods trade surplus.

U.S. imports of both cheap goods and foreign capital flows showed up in the current account, which for the first three quarters of the year is $77.3 billion in deficit. The current account includes the trade balance, plus services, plus "invisibles," plus capital flows. The United States, even during the most recent trade deficit years, still managed to normally run a positive current account. But the "invisibles," which include earnings from U.S. foreign investments, are not big enough to offset the trade deficit plus the borrowing of the United States abroad, which counts as a deduction from the current account.

At the beginning of December, Paul Volcker told a meeting: "When we import more goods and services than we export, we must pay for it in the only way we can, by borrowing capital from abroad." The result is that "The United States is borrowing so fast that the largest and richest country in the world is well on its way to becoming the largest international debtor as well." Volcker should know: he helped create the mess.

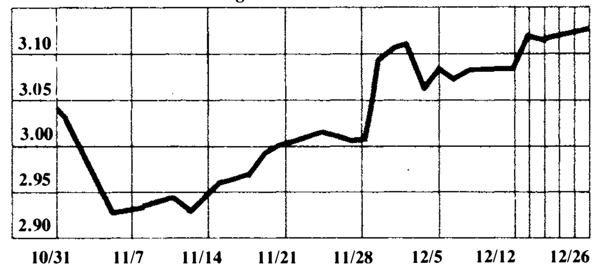
But the warning he delivers is accurate. The U.S. trade and budget deficit, both the results of an unhealthy physical economy, total $350 billion. They depend on buying cheaply abroad with financing from abroad, which depends on the strong dollar, which created this mess.

It can't go on. In October, the steady line of monthly increases in U.S. imports of manufactured goods halted, the Commerce Department reported. Non-petroleum imports dropped 14.4% in October to $22.48 billion from $26.25 billion the previous month. Among the declining imported items were communications equipment and electrical machinery. Imports of capital equipment dropped 14.7%.

Currency Rates

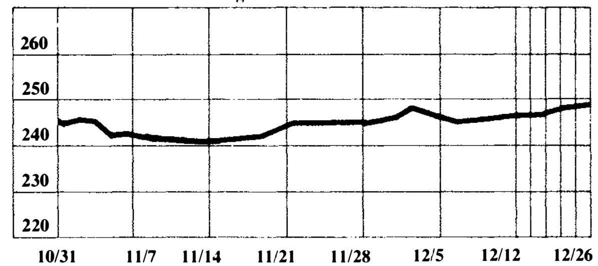
The dollar in deutschemarks

New York late afternoon fixing



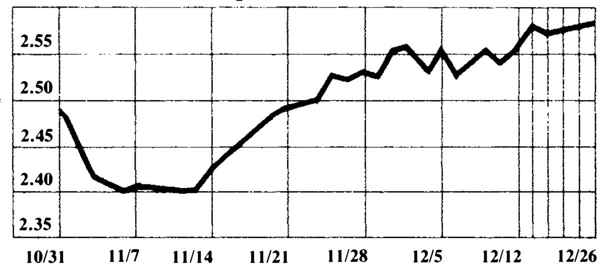
The dollar in yen

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