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.

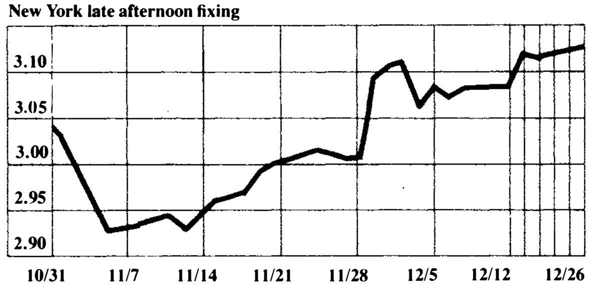
But the warning he delivers is accurate. The U.S. trade and budget deficit, both the results of an unhealthy physical economy, total $350 billion. They depend on buying cheaply abroad with financing from abroad, which depends on the strong dollar, which created this mess.

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

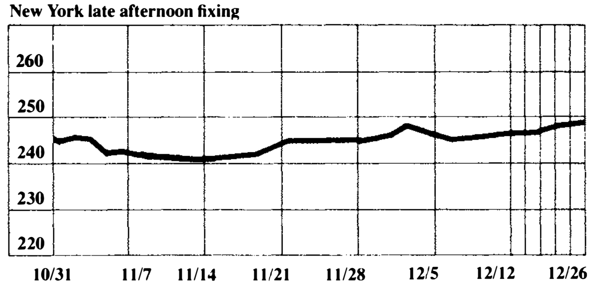
The dollar in deutschemarks

New York late afternoon fixing



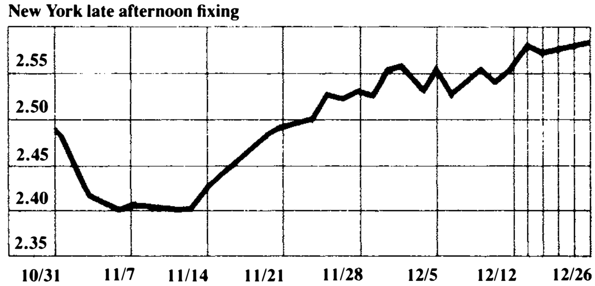
The dollar in yen

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