depressing economic activity in Europe. Even on Dec. 9, German Finance Minister Wolfgang Clement was still claiming that he saw no signs of negative effects of the fall of the dollar on German exports. One day later, the Federal Statistical Bureau reported a drop in exports in October of 6.6% below the previous month, the worst month-to-month export fall in more than a decade. Also on Dec. 10 appeared an interview in *Le Figaro* with Italian Deputy Finance Minister Mario Baldassarri, who warned that the appreciation of the euro threatened the entire European economy, and asked: "Why do the two leading economic regions in the world let their currencies float freely, without any attempt to defend a parity band between 0.9 and 1.1 against the dollar?" Baldassarri insisted that that was the only way "to guarantee the stability of the international system."

But how could governments carry out such a decision on today's global foreign exchange markets? With permanent mega-interventions, Japanese style?

Capital, Currency Controls Necessary

In the Bretton Woods exchange-rate system, which the 1971 decisions of U.S. President Nixon broke up, currency relationships remained stable, because international capital flows lay under rigid limits. Interestingly, the British *Daily Telegraph* reported on Dec. 4 that the European Commission had just clarified the legal basis for the reintroduction of capital controls, which have not been used by European nations since the 1970s. A team in Commissioner Pedro Solbes' department for economic and currency questions, had decided that current law allowed the Commission in Brussels to publish immediate regulations to control capital flows. And an unnamed official of the European Union had specified that a

Foreign Investment Fell Sharply

The U.S. Department of Commerce reported on Dec. 16 that the country's current account deficit registered $135 billion for the third quarter of 2003, remaining at its extraordinarily high level. The third-quarter deficit was virtually the same as the record gap in the second quarter, smaller by only a few billion dollars. A critical new feature of the picture in the third quarter, however, was the sharp drop in the amount of net investment, or net flow of capital, from foreigners into the United States. It is this vacuum-like flow, at a rate reaching nearly $2 billion per day, which has been financing the huge trade and current-account deficits by which the United States economy has been looting the rest of the world's goods—importing those goods at cheaper and cheaper prices, and paying for them, in effect, with imported capital.

The total current-account deficits for the first three quarters of the years were $138.7 billion in the first quarter, $139.4 billion in the second, and $135 billion in the third, for a total of $413 billion with three months of the year remaining.

The U.S. current account balance is driven overwhelmingly by the U.S. deficit on trade of goods and services, which accounted for 90% of the third-quarter current account deficit. (The trade balance is one element of the current account; the other two elements are the balance on investment income, and the balance on unilateral transfers). America's shift to the "Roman" imperial economic paradigm of a collapsed United States no longer capable of producing its own existence, and exacting tribute—physical goods imports from around the world—is the principal cause of the current account deficit.

During the third quarter, there was a drop of more than one-half in the net foreign investment into the United States. In the second quarter, on a gross basis, foreign investors had invested $262.8 billion into American markets; i.e., buying stocks, bonds, real estate, and so forth. However, during the third quarter, foreign investors reduced their investments into the United States to $128.2 billion, a stark drop of $134.6 billion in the investment level.

This drop was so sharp, in fact, that it produced a very unusual result: During the third quarter, the level of gross foreign investment, $128.2 billion, was not enough to cover the same quarter's current account deficit of $135.0 billion.

Preliminary reports comparing October and November, and unofficial estimates for early December, have indicated that this process is significantly worsening during the fourth quarter, threatening a systemic breakdown of the dollar-based banking system.

The German central bank, the Bundesbank, warned in its December report that "external geopolitical shocks and strong gyrations on global financial markets" are the biggest risks for the financial system, because "the extraordinary current account imbalances, in particular in the U.S." could lead to "abrupt movements on foreign exchange markets."

The Bundesbank also warned of the means of all this purchasing in the United States: The "indebtedness of private households has increased sharply in recent years, and in 2002 reached 110% of disposable incomes, an all-time high."—*Richard Freeman*

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