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U.S. TRADE

Dollar drop will end import boom

by Peter Rush

The U.S. merchandise-trade deficit continued to widen in the fourth quarter of 1981, as shown by the latest Commerce Department statistics. Behind the overall 1981 increase in that deficit from $26.4 billion to $32.6 billion is an unhealthy composition of exports and imports which prompts two conclusions.

First, as *EIR* predicted more than a year ago, U.S. industry—not least because of the Federal Reserve's high interest rates—is excessively dependent on imports of manufactured goods.

Second, the trade deficit will undermine the current-account surplus, and the dollar's parities will tumble for this and related reasons, unless national policy is drastically changed.

The textbook result of export expansion due to greater price competitiveness will be canceled in most sectors by a lack of international demand, a loss of America's technological edge, and the exporters' burden of interest-rate-led overhead costs. The current-account balance will be further sliced by a decline in revenue from an item that represents from 30 to 50 percent of the invisible account: repatriation of oil-company profits. And the dollar drop will mean an inability to finance imports that would be even more destructive than import dependence.

In current-dollar terms, imports of manufactured goods accounted for some 89 percent of the overall rise in imports from 1980 to 1981:

Imports (millions)	**1980**	**1981**
Food and crude materials	$ 29,091	$ 29,610
Mineral fuels, oils, chemicals	89,897	91,380
Manufactured goods	124,207	140,481
Total	$243,195	$261,471

Exports (millions)	**1980**	**1981**
Food and crude materials	$ 54,222	$ 54,108
Mineral oils, fuels, chemicals	30,711	33,285
Manufactured goods	131,850	141,444
Total	**$216,783**	**$228,837**

The dollar's appreciation may explain some of this increase of manufactured-goods imports, but the largest jump came in the second half of 1981, with no corresponding jump in the dollar's value, and with the recession accelerating.

The only explanation is that the high interest-rate squeeze on U.S. business has transformed marginally cheaper, and, in truth, artificially undervalued, imported goods into a significant factor in companies' balance sheets. Imports of capital goods (excluding automotive) rose by 18.1 percent between 1980 and 1981, and even in the fourth quarter of 1981 showed continued strong growth. This, of course, is an area in which the United States has traditionally acted as a world export leader, importing relatively little; it is an area essential to both military and civilian strength.

As for exports, they grew in 1981 by 4.6 percent over 1980, a rate below the 9.1 percent inflation level. Agriculture was strong, but crude materials declined; manufactured goods showed a steady rise through the second quarter, before falling off sharply in the fourth quarter to the level of late 1980. This 9 percent drop from the second quarter to the fourth was the leading element in the overall export decline during that period of 2 percent.

The dollar prospect

In view of the depth of the U.S. industrial depression, it may seem surprising that imports are as strong as they remained at the end of 1981.

Consider, however, how artificially high U.S. interest rates have not only drained capital from Europe, but propped up the dollar. At a certain point, that process will be superseded by the crash-points inherent in the U.S. industrial decline.

Even apart from a trade-deficit panic, the dollar can soon be shaken by the effects of any number of bankruptcies, market crashes, and policy debacles.

The dollar is at present something like 35 percent above its 1979 international value, even though the economy of the United States has had its industrial underpinnings taken out from under it.

For obvious reasons, this overvaluation exacerbates the trade deficit, and the Reagan administration has shown no signs of promoting the kind of export drive necessary to remedy the situation.

If, however, the dollar weakens, as it could, anywhere from 15 to 40 percent, the most palpable consequence in industrial terms will be a decline in all categories of imports, because so many corporate purchasers will be unable to finance the increased import prices, or to pass them along. The result will not be a wholesome correction in the U.S. trade balance—it will be a further wrenching contraction in world trade as a whole.

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