Editorial

A Financial Blowout Scenario?

While the crisis in Iraq promises to get a whole lot worse as long as the Bush Admininistration acts as the Cheney Admnistration, only a fool would overlook the other major disaster in the offing: the danger of a systemic financial blowout. There are two major elements of such an event already visible. The first is the major decline in the value of the U.S. dollar, inextricably linked with two other rather dramatic phenomena: the indications of a collapse in the capital inflow into the United States; and the rise in the price of gold.

The second element portending a blowout danger is the rise in the Federal budget deficit, now projected to hit over $600 billion in the next fiscal year, *not counting* the hundreds of billions of dollars which have been shifted out of the Social Security Trust Fund column, and into the budget hole.

Obviously, you find both of these danger signals in a different universe than the "official" statistics on an unbelievable increase of 8.2% in the U.S. Gross Domestic Product, and the start of the mythical "recovery." Remember, when some news seems "too good to be true," it isn't. And that's the case on the U.S. economy. Look a little closer at the details.

The U.S. dollar is now trading at nearly $1.20 to one euro, and is poised to go even lower. What is worrying currency traders is not only the general lack of credibility of the Bush Administration on the Iraq crisis and other matters, but also the ballooning U.S. current account deficit, within the context of the bankrupt world financial system. The U.S. current account deficit, which has been growing almost without respite since Nixon started a floating-exchange-rate monetary system in 1971, hit a record of $138.7 billion in the second quarter, and is well on the way to reaching more than $550 billion for the year.

The only way the United States can cover such a deficit is with masses of foreign capital; but the most recent reports show that the inflow of such capital is shockingly unreliable. In fact, last week a report by the U.S. Treasury Department showed that net capital inflows into the United States—that is, foreign purchases of U.S. treasuries, stocks, etc.—fell from $49.9 billion in August 2003, to a miniscule $4.29 billion in Sepember. According to the *Financial Times,* this is the lowest level of foreign monthly capital inflow since the Long-Term Capital Management hedge fund failed in September 1998.

Undoubtedly not unrelated, is the fact that gold prices have now hit the highest level since 1996—over $400 an ounce.

It is the estimate of leading economist Lyndon LaRouche, and some well-placed European financial analysts, that this pressure on the dollar could well lead to a collapse of its value by as much as a further 50% in the near future.

Then, we have the fiscal side of the crisis, reflected in the enormous increase in the Federal budget deficit under the Bush Administration. There are several sides to this process, including military spending for a disastrous, unnecessary war; the collapse in revenues of the productive sector of the economy, which is shutting down; and the attempt to buy the 2004 election through tax cuts and payoffs, both of which increase the deficit. Deficits created in order to create productive activity are manageable, but these are not.

Which brings to mind a scenario raised by economist LaRouche last spring, which he characterized as a "financial 9-11." Could it be, LaRouche asked, that the apparent financial irresponsibility of the Bush Administration, especially with its tax cuts, is geared to *create* an unmanageable financial crisis, thus setting into motion a Financial Emergency that permits the implementation of draconian austerity measures? At that time, numerous financial professionals considered this development a distinct possibility. Now, several months later, the potential is breathing down our necks.

Add to this, the demise of the Maastricht Pact in Europe, that will tend to foster a major pickup in productive investment in Eurasian development, pulling more money out the dollar, and the picture is even more compelling.

But, we don't recommend worrying about it. The solution, in the form of LaRouche's New Bretton Woods and Land-Bridge proposals, simply needs to be moved up on the agenda, to right now.