Record US trade deficit evokes warnings

Our reporter
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The record $19.44 billion US trade deficit in February points to the increasingly shaky underpinnings of the Wall Street financial bubble. The trade figures set off worried talk of a fall in the US dollar and a possible slowdown in the US economy.

The February figure follows a $16.8 billion shortfall in January, also a record, and puts the US on track to far surpass last year's record $167 billion deficit. The trade imbalance reflects the contradictions contained in the current US expansion. With virtually every other part of the world mired in economic stagnation or outright slump, demand for US products abroad is declining while American demand for goods from Asia, Western Europe and other parts of the world is steady or rising.

Financial analysts had predicted a trade deficit for February of $16.7 billion. In light of the larger than forecast shortfall, economists predicted a slowing of US growth in the first quarter from 4 percent to 3 percent. Some predicted growth as low as 2.5 percent. This compares to a 6.1 percent annual growth rate in the fourth quarter of 1998.

February was the fourth straight month in which US exports declined, reflecting increasing economic weakness among its major trading partners. The deficit of trade in goods to Mexico increased from $1.4 billion to $1.8 billion, while the goods deficit with Japan increased from $4.7 billion to $5.3 billion. Falling demand pushed the goods deficit with Western Europe to $2.2 billion from $1.4 billion. Export declines were largest in aviation and agricultural products.

Total imports in February rose to $96 billion, up $2.1 billion. Americans spent $14.6 billion on imported cars and car parts. Purchases of imported computer software and hardware, clothes, toys and home electronic products also increased.

The February deficit figures do not reflect the impact of rising oil prices. Some experts predict that the March and April trade deficit could exceed $20 billion.

Financial analysts pointed to the widening trade deficit as a sign of the serious dangers facing the US economy. Fred Bergsten, director of the Institute for International Economics, said, "To me this is the single biggest threat to the continued performance of the US economy. We know that at some point the dollar will fall considerably," warning that such a development could lead to a sell-off on Wall Street. "I use the word 'know' because every time in history there have been big imbalances of this type--whether it's England , or Germany, or Mexico, or Thailand--the long-term fundamentals always prevail."

One of the main effects of the US trade deficit is to put large amounts of dollars in the hands of overseas investors. In the past, substantial quantities of those dollars have found their way back to the US through the purchase of government securities or stocks. Should confidence in the US dollar falter, it could spark a large exodus of foreign investment, threatening Wall Street share prices, the main basis of the current US expansion. A large fall in the value of the dollar would also put pressure on the US Federal Reserve to raise interest rates.

The growth of the US trade deficit has already led to pressure from steel producers and other manufacturers, backed by the American trade union bureaucracy, for protectionist measures. The Clinton administration recently imposed import restrictions on Brazilian and Japanese steel and is currently engaged in a tariff battle with Europe over banana exports.

Taking note of the record February trade deficit, Clinton said in a White House speech April 20, "This is not a moment for complacency." However the measures contemplated by the US government to deal with world economic problems amount to an attempt to shift the problems of the economy onto the backs of America's rivals overseas.

In addition to further import restrictions, another measure being considered by Clinton is the tightening of lending restrictions on loans to Third World countries by US banks.

The United States is currently in trade negotiations with China over a proposed package that would provide billions of dollars in trade and investment opportunities for US business. The concessions were extracted from the Chinese Stalinists under conditions of mounting US provocations, including the recent scare over alleged Chinese nuclear espionage.