New Twin Towers: Current Account, Budget Deficits

by Richard Freeman

The American current account deficit is a potential detonator for the U.S. and world financial system. Led by a surging trade deficit, the current account deficit leapt to $136.85 billion during the fourth quarter of 2002, the Commerce Department reported on March 14. This not only sets a record, but is a larger deficit in one quarter, than any other nation in the world has ever had in an entire year. Further, for the entire year 2002, the United States amassed a $503.43 billion deficit in its current account, which is unprecedented in the history of the United States or the world.

The radical upward trajectory of the current account deficit shows the sickness of the United States economy, both internally and externally. In 1996, the United States current account deficit reached "only" $129.3 billion; by 1999, it was $331.5 billion; by 2002, it exceeded half a trillion dollars. Unable to physically produce the means of its own existence, the United States physical economy is completely dependent on imports. The trade deficit—the accumulation of imports far in excess of exports—is the leading component of the current account deficit. The Bush Administration's Commerce Secretary, Donald Evans, was once again tight-lipped as these figures were announced; in the past, he has said, at least for public consumption, that the current account deficit "is not an issue to be worried about."

The United States current account deficit has three components. **Table 1** shows that the leading component is the United States trade deficit on goods and services, which rose by 22% from 2001 to 2002, from negative $358.3 billion to negative $435.3 billion. In 2002, the United States trade deficit on goods and services comprised 87% of the current account deficit.

An additional force played a secondary, but important role in increasing the current account deficit: the "balance on international income." This is the cumulative amount of income that Americans earn on their holdings in other nations, minus the income that foreigners earn on their holdings in the United States. There is the harsh irony of the United States current account deficit at work: In order to cover its current account deficit, the Wall Street oligarchy urged/induced foreign investors to bring their dollars into the United States. Foreign investors would do this, by buying up United States stocks, corporate bonds, Treasury securities, etc. As a result, foreign investors now have larger investments, and earn more on their investments in the United States, than the United States investors have, and earn, in other nations.

TABLE 1
U.S. Current Account (Surplus or Deficit)
($ Billions)

Balance	2001	2002
Goods and Services	–358.3	–435.5
International Income	+14.4	–11.9
Unilateral Current	–49.5	–56.0
Total Current Account	**–393.4**	**–503.5**

Source: U.S. Department of Commerce.

This transformation can be seen in Table 1, in the process whereby America's "Balance on International Income" shifted from positive $14.4 billion in 2001, to negative $11.9 billion in 2002. Thus, the more that the United States current account deficit grows, the more it sets into motion, the very processes that make it even larger.

$630 Billion Inflow in 2002

Foreign investment into the United States rose by $630 billion during 2002, the Commerce Department reported March 14. The United States has lured foreign investors to bring dollars into the United States to finance the bulging current account deficit. The $630 billion included foreign investor purchases of: $53.2 billion worth of United States Treasury securities; $55.8 billion worth of United States stocks; and $284.6 billion worth of United States securities which were not United States Treasury securities—principally United States corporate bonds, and United States agency bonds (mostly bonds issued by the huge mortgage coporations known as Fannie Mae and Freddie Mac).

But as foreign investors accelerate their pull-out from the dollar, it will fall, not by small increments, but likely by 40-50%. This will not only destroy the financing of the curfrent account deficit, but shatter the over-leveraged, cancerous financial system.

The United States now is collapsing under "twin deficits": its swelling current account deficit, and the United States Federal budget deficit. The Fiscal Year 2003 Federal General Revenue Budget is now projected to be—at minimum—$411 billion in the red. But with the steadily deteriorating revenue situation caused by the collapsing economy, it could reach $450-500 billion—a second half-trillion on top of the 2002 current account deficit of $503.43 billion. Each deficit is at a level that is unprecedented in United States history, and each is unsustainable.