

DEFICIT DROPPING DOLLAR, NO REASON TO WORRY, YET

There are many possible explanations for the return of the current administration to Washington. Neither the Republicans nor Democrats have had or will have much to say in public about the larger economic issues facing our country. As we look ahead to the next four years, some investors feel that the end is near so it may be helpful to look at the circumstances that have created such anxiety.

The national debt allowance was just raised to 800 billion dollars and it will, no doubt, need to be raised further. As the costs of maintaining global political and military leadership grows, and as our productive capacity diminishes, our nation's fiscal options have become narrower. The international balance of trade, the amount we buy from other countries less what we sell to them, is going deeper and deeper. We are addicted to cheap consumer imports, and I don't think there is anyone who believes this dependence will change.

The U.S. dollar's slow but steady decline versus the other major world currencies is one sign that international confidence in our economy is waning. While there is some danger of a rapidly declining US currency, I do not believe that we are anywhere near the point where a crisis is imminent. The slow but steady way the dollar is going down is actually beneficial to U.S. companies as it makes our goods more competitive internationally. This occurs because a low US dollar effectively lowers the price to foreign consumers of purchasing US goods with their now appreciated currencies. Thus, a devalued dollar means we are able to sell more of our stuff in overseas markets. On the other hand, the weak dollar serves to raise prices for you and me, because when we buy foreign made goods, our dollars don't stretch as far. This amounts to hidden inflation.

It is pretty much acknowledged across the spectrum that running huge national deficits and a negative international balance of payments are not good things. My sense of these problems is that even as the deficits mount, there are compelling reasons as to why things are not all going to fall apart. In fact, there may actually be a greater good that is served by our mortgaging the future.

What possible good can come out of the deficits and weaker dollar? As American consumers and the government continue to borrow more and produce less, foreigners will end up calling the shots as far as domestic interest rates go. They will be telling American consumers what prices to pay for their consumer goods and they may impose financial discipline on our government. This is called a loss of autonomy.

America is too big to fail. Japan, Korea and China need us to consume so they have an incredible interest in seeing our markets stay open. The fact that we are, as a culture, locked into compulsive spending is no accident. We are playing our part on the international economic stage and our twin deficits and sick dollar are just the most visible signs of a deeper shift in the political and economic tides that will shape the global future.

Our national proclivity to spend is matched by the Chinese impetus to save so there is a balance worldwide between production and consumption. American politicians of all stripes, as well as pretty much every darned media message, encourage us to go out and buy. It is a belief that growth is good, that there is ample stuff to go around, and it is predicated on the unspoken world view that we are entitled to enjoy life. The result is that Asian governments, who want their youth to have jobs, are able to keep building more factories to absorb the millions of people streaming into urban areas from the country.

Our trading partners have and will continue to assist us in maintaining our consumptive habits by lending us their dollar reserves, now upward of 1.8 trillion dollars in Asia alone, so that we can keep on keeping on buying their goods. There are a whole bunch of very intelligent, energetic and powerful people whose job it is to keep the system rolling along.

Pundits who predict an imminent collapse of our economy are, in my opinion, wrong. Our consumer society is essential to the world's economy. This may not be helpful to the environment or other species who cohabit the planet with us. Keeping the system going may also turn out to be inimical to political liberties. By now, most voters understand that politicians have a vested interest in keeping us, their constituents, from knowing the truth.

It is important to those who prize law and order that the US's declining standard of living be kept pretty much under wraps. Confronting the reality of outsourcing our basic ability to take care of ourselves is too painful an issue for anyone to take on who is also trying to win a popularity contest. Dealing with our deficits would mean going beneath the surface of our national malaise and taking bitter medicine. Yuck!

The effect of all this is that we are not now willing to face, in the dollar's current decline and in the nation's wallowing in red ink, the truth of the matter which is that our personal and societal lifestyles are lies. Unless we are saving, personally and as a society enough to pass onto the next generation at least as much opportunity as we have enjoyed, we are using up our accumulated savings. Our nation's capital, be it financial, or be it our topsoil, is being depleted.

It is true that the party ain't over 'till its over so we are unlikely to face, anytime in the near future, cataclysmic events such as an uncontrolled run on the dollar or de-facto national bankruptcy. It is in no one's best interest for an international crisis to occur on this scale. By continuing to run large deficits and continuing to give up our native productive capacities, we are inexorably changing places with others within the web of world finance; from calling the shots to being called to order. I believe that if we continue to run increasingly expensive deficits, we stand to lose our economic autonomy. This is bad. But at the same time, it is a welcome alternative to war.

War has been the traditional way that people have dealt with economic power shifting from one type of society to another. If we can consume our way out of hegemony and into negotiations, I think it will be a good turn of events. Fighting our way out of deficits through trade wars or with troops is, in this day and age, not an effective answer, and I believe that all the major superpowers on the planet thoroughly understand this point.

To those investors who feel that the sky has got to eventually fall, I say have faith. A declining dollar is not the end of the world. So what if there is little serious public consideration given to the complex issues that underlie our deficits? We can continue to go on spending in the same way we have been for the last 50 years, perhaps even for a decade or two. Our job, as somewhat informed investors, is to find ways to navigate within this environment and find places to put our money that feed both our financial and ethical appetites. These paths may be narrow and untraditional but they do exist. Take courage as reality is still out there, somewhere.

Rob Rikoon is a Registered Investment Advisor with Rikoon Carret. He can be reached at rrikoon@aol.com or via telephone at 989-3581.