The dollar may fall this March

by Pravda *Wednesday, Jan 18 2006, 11:09am*
international / social/political / other press

> America's foreign debt currently standing at $8,184 trillion will hit the debt ceiling as early as February-March 2006

The United States is heading to financial crisis at top speed. That is correct, America will default on its foreign debt sooner or later if the actual trends remain unchanged. Consequently, the whole dollar-based world (including savings in U.S. currency) may crumble. In actuality, the public have grown tired of numerous forecasts regarding an imminent collapse of the U.S. economy. The picture looks pretty grim this time around. Several factors will have an extremely detrimental effect on the dollar, according to U.S. Secretary of the Treasury John Snow who forwarded a letter full of ominous predictions to 21 members of U.S. Congress. The letter was made public after the markets had been closed for Christmas and New Year's holidays - a rather appropriate precautionary move in terms of the international foreign exchange market, which is extremely sensitive to any sound produced by U.S. bureaucrats. US dollar

In his letter, Snow predicts a crisis in February this year. Citing U.S. government forecasts, Snow believes that America's foreign debt currently standing at $8,184 trillion will hit the debt ceiling as early as February-March 2006. For decades the White House has been borrowing money to cover expenditures that exceeded the real economic growth rates. As a result, the U.S. public debt currently totals to $8.1 trillion, a huge figure compared to the U.S. GDP that is slightly above $11 trillion.

U.S. Congress sets a debt ceiling which U.S. government must not exceed in borrowing. Exceeding the ceiling brings about the so-called technical default i.e. U.S. fails to pay its foreign debt in full at the right time. However, the government has been continuously raising the foreign debt limits over the last 50 years.

The United States has been on the verge of default for several times in the past. The recent pre-crisis situations occurred in 2002 and 2003. In the former case (the war in Afghanistan started in 2002), the then Secretary of the Treasury Paul O'Neil demanded to increase the limits a mere 10 days before the estimated expiry of foreign debt ceiling (about $6 trillion at the time). President George W. Bush had to step in to resolve the situation. The new Secretary of the Treasury John Snow raised the issue again in 2003, the year of U.S.-led invasion to Iraq.

The situation looks the same these days. An additional minimum amount of $171 billion in foreign loans over the limit is required to satisfy the needs of the U.S. economy (though growth rates are far from being spectacular), otherwise the U.S. will face the first foreign debt default in its history.

"We will run out of funds for financing the government operations by mid-March at the latest even if the U.S. Department of the Treasury takes all possible legal measures to keep the foreign debt ceiling from going up," says Snow. Under his scenario, the government will have to take "emergency measures" to pay the bills. The measures mostly boil down to cutting the spending in all areas from social sector to national security.

We should not forget that the United States is normally reluctant when it comes to taking steps that could lack popularity with the public and power bloc. By and large, the United States is not good at fighting its ever-growing appetites that result in technical default. The default will lead to a sharp drop of the dollar with respect to all world currencies on the international foreign exchange market. The dollar reserves and debt securities of all countries will depreciate. Time will show how bad things can get under the circumstances. The upcoming default will undoubtedly have an impact on the world economy.

Still, it is difficult to say how much damage the default will cause to the United States. Meanwhile, experts point out that America is definitely getting ready for default.

The thing is, a number of events are due take place in March. The events look very alarming to the world of the dollar.

First, Iran is to officially switch into the euro in its foreign trade operations including oil exports. Second, China is hinting at a potential increase of the euro share in its Central Bank basket of currencies. The dollar share currently holds 70% of the basket. The dollar will be severely affected should the two countries, an oil and gas producer and a manufacturer, take action in a simultaneous manner.

Besides, the U.S. Federal Reserve is going to stop publishing the so-called "M 3 aggregate" reports i.e. data on increase rates in money supply. Given the New Year's predictions by John Snow, the Fed's intentions look pretty suspicious. In other words, the international community will have no tool for measuring a real value of the dollar. Russia has no reason to panic over the coming changes since it keeps its M 3 aggregate data in the dark too.

The Fed is going to pull the plug on the data in March this year. Several events should occur in different countries more or less at the same time and thus damage credibility of the U.S. securities. Risk-averse investors get rid of speculative securities e.g. the dollar securities under the circumstances.

All in all, the situation is quite alarming though it looks like a play being staged on purpose. The currency market and the U.S. foreign policy are hard to foretell. It would be inappropriate to jump to conclusions.

http://english.pravda.ru/world/20/91/368/16741_dollar.html
