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Money, money, money...deficit, deficit, deficit.

Sept 19 , 2003 1800 PDT (FTW) -- Two stories warn of impending financial crisis generated by U.S. government spending and trade imbalances.

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<http://www.guardian.co.uk/print/0,3858,4756685-110878,00.html>

IMF warns trade gap could bring down dollar

Charlotte Denny and Larry Elliott
Friday September 19, 2003
The Guardian

The International Monetary Fund yesterday warned that the colossal United States trade deficit was a noose around the neck of the economy, emphasising that the once mighty dollar could collapse at any moment.

Arguing that the world's big economies were already too dependent on the willingness of American consumers to live beyond their means, the IMF said the US could not continue to run a current account deficit of 5% of GDP.

The IMF's chief economist Kenneth Rogoff said that it was just a matter of time before the gap closed, tipping the dollar into a potentially steep fall.

"If we were looking at a poor developing country, the world gives them just enough rope to hang themselves. A country like the United States, they give them enough rope to tie the noose around their neck several times. But it does happen in the end," he said.

In its twice yearly report on the world economy, the Fund warns that even a controlled slide in the dollar's value is likely to slow US growth and unless other countries picked up the slack, the global economy would suffer.

Mr Rogoff said the collapse of world trade talks last weekend in Cancun could spell disaster for a global economy already too dependent on unbalanced growth in the US. Describing the breakdown as a "tragedy", he said global poverty would rise if protectionism took root in the world's biggest economies.

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Wars in Iraq and Afghanistan and heightened geopolitical tensions worldwide after the September 11 attacks on the US would "unquestionably" hold back growth in the decades ahead, Mr Rogoff told reporters.

The report was highly critical of Europe's stagnating economies, blaming governments for failing to embrace deep structural reforms of their labour markets and welfare states.

"Reforms to improve the competitiveness of European labour and product markets could yield significant dividends in terms of regional output," the report said.

It also warned that an overrigid application of Europe's fiscal rulebook could push the eurozone deeper into trouble.

Chancellor Gordon Brown echoed the IMF's criticisms of the eurozone in an article in yesterday's Wall Street Journal, arguing that the credibility of Europe was at stake.

Demanding wide-ranging change to policies "that have held back our continent for too long", Mr Brown added: "Reform is not just desirable, it is an urgent necessity."

The chancellor said: "Having created a single market in theory, we should make it work in reality - and help it spread competition, cut prices, increase consumer choice and deliver higher productivity."

The impact of the stalled trade talks in Mexico on the fragile global recovery will dominate this weekend's annual meeting of the IMF and the World Bank in Dubai.

Mervyn King, the governor of the Bank of England, said yesterday: "The failure of the talks in Cancun will cast something of a cloud over the meeting.

"That is not a happy background in which to assess the durability of the recovery."

Misalignments between the world's biggest currencies are also likely to feature on the agenda, with the US hoping other countries will support its campaign to get China to strengthen its currency, the yuan.

Following an upgrading of its growth prospects by the fund, the US is expected to expand by 2.6% this year, the fastest of the big seven economies.

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[The Atlanta Journal-Constitution: 9/18/03]

GAO grim on deficit outlook

By [MARILYN GEEWAX](#)

The Atlanta Journal-Constitution

WASHINGTON -- The federal government's budget is in far worse shape than most Americans realize, and the fiscal hole is deepening, the head of Congress' nonpartisan watchdog agency said Wednesday.

"Our projected budget deficits are not manageable without significant changes" in taxes or spending, U.S. Comptroller General David Walker said in a speech to the National Press Club. "We cannot simply grow our way out of this problem."

Walker, who heads the General Accounting Office, said he is a nonpartisan auditor whose job is to "state the facts and speak truth" about the nation's bookkeeping. Current accounting systems fail to adequately reflect just how severe the government's fiscal problems are, he said.

"The time has come for all responsible parties to recognize reality," Walker said. "Our nation has a major long-term fiscal challenge that is not going away."

Walker's assessment of the budget deficit is far grimmer than the Bush administration's. White House officials have stressed the importance of cutting taxes while calling the deficit a manageable and relatively minor problem.

Walker vigorously disagreed.

"The bottom line is, there is little question that deficits do matter, especially if they are large, structural and recurring in nature," he said. "The days of surpluses are gone, and our current and projected budget situation has worsened significantly."

His comments came as the Treasury Department on Wednesday reported the deficit had reached \$400.5 billion for the first 11 months of the 2003 budget year -- twice as much as for the same period a year earlier.

Bush stance challenged

President Bush has blamed the rise of deficits during his term on the economic recession, the wars in Afghanistan and Iraq and higher spending on domestic security -- not on the tax reductions he championed.

Walker, a former Reagan administration official, said Bush's explanations don't add up.

"It's true that deficits are understandable and sometimes necessary in times of recession and/or war," Walker said. "However, while it may not seem like it to those who are out of work or underemployed, we have not been in a recession for almost two years."

Moreover, projected deficits "far exceed the costs associated with Iraq, the global war against terrorism and any incremental homeland security costs," Walker said. "It is time to admit we are in a fiscal hole and to stop digging."

Contacted after Walker's speech, White House spokeswoman Claire Buchan, said Bush "believes that returning the budget to balance is an important priority."

However, he must focus right now on "economic security and waging the war on terrorism," she said. "Those priorities are more important at this point."

She said tax cuts were needed because "it's important that we make every effort to grow the economy, because a growing economy will help reduce the budget deficit."

Stephen Moore, president of the powerful tax-cut advocacy group Club for Growth, said Congress' focus should be on reducing spending. Economic growth will boost government revenues and "tax cuts are an important part of getting the economy going again," he said. At the same time, "we need to do something about this stampeding growth in spending."

A daunting reversal

After four straight years of budget surpluses through 2001, the government returned to deficit spending in 2002. The Congressional Budget Office said last month that the federal deficit would hit \$480 billion next year, far exceeding the previous record of \$290 billion in 1992.

The CBO also predicted annual budget shortfalls would total nearly \$1.4 trillion over the next decade, a stunning reversal from the 10-year, \$5.6 trillion surplus it forecast in 2001.

Walker said even those daunting figures do not convey the scope of the problem, because conventional government accounting leaves out the impact of benefits promised to Americans under veterans' health programs, Social Security, Medicare and others.

"These additional amounts total tens of trillions of dollars," he said. "They are likely to exceed \$100,000 in additional burden for every man, woman and child in America today, and these amounts are growing every day."

Walker said Congress must make tough choices about both taxes and spending.

On Capitol Hill and on the campaign trail, Democrats have seized upon the rising deficit to criticize Bush for his support for massive tax cuts in 2001 and 2003.

Members of both major political parties are expected to focus on the deficit in the coming week as Congress considers the president's request, made formally Wednesday, for an additional \$87 billion for military operations and rebuilding in Iraq and Afghanistan.

Before becoming comptroller general in 1998, Walker was a partner and managing director in the Atlanta office of Arthur Andersen LLP. The accounting firm unraveled in 2002 in the wake of auditing scandals involving its clients Enron Corp. and WorldCom.

Walker, in his speech, drew parallels between the federal government's accounting problems and those that engulfed a number of American companies in recent years.

"The recent accountability failures in the private sector serve to reinforce the

importance of proper accounting and reporting practices," he said. "It is critically important that such failures not be allowed to occur in the public sector."

Walker was appointed comptroller general by President Clinton and approved by the Republican-controlled Senate.

During the Reagan administration, he was an assistant secretary of labor. He said currently he is neither a Democrat nor a Republican.

The comptroller general serves a 15-year term and enjoys an exceptional degree of independence.

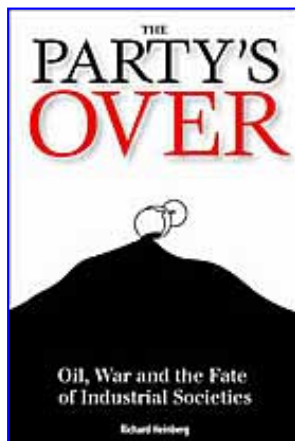
Thomas Mann, a senior fellow at the Brookings Institution, a left-leaning think tank, said it is "perfectly appropriate" for the comptroller to speak out about the deficit.

"Every serious policy person recognizes we now face very serious medium- and long-term deficit problems."

The Associated Press contributed to this article.

Find this article at:

<http://www.ajc.com/news/content/news/0903/18deficit.html?urac=n&urvf=10640142523910.09607210104797492>



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