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'No Solution Within Present Monetary System'

The situation of the European economy has been best summarized in the following statement from a leading West German industrialist: "There is absolutely no solution to our problems within the present monetary system." Figures just released by the West German Economics Ministry substantiate in the more striking form this blunt assessment: export orders — reflecting deliveries for the next six months — to the whole of West German industry collapsed by 10 percent in January, while its total foreign and domestic orders fell by 6 percent. This is a clear sign that Europe's vital engine is now badly crippled. The 1975-1976 "European recovery," artificially based on consumer credit, is definitely over.

The fourth quarter of 1976 was the turning point. No new productive capacity having been built during the paper-based upswing, inflation was rapidly spurred by worthless credit-issuance and the sharp increase in commodity prices, netting heavy balance of payments deficits in France, Great Britain and Italy. Europe, unable to organize a new monetary and credit system oriented toward capital-intensive development projects, was compelled to apply the traditional monetarist medicine to its situation: currency-stabilization based upon cuts in domestic demand and stimulation of exports. But all European countries having followed and furthered a similar austerity drive at the same time, they are now engaged in a process of destroying the whole international market altogether. Facing a general contraction of their foreign trade if they accept the dictates of the dollar-denominated monetary system, they have no other choice then to slice each others' throats. The stalling European governments are thus inevitably propelling their countries to economic disaster and "unselective" deindustrialization.

The vital problem facing the European economies cannot be understood even from a European-wide standpoint. It is only part of the more general problem of debt repayments to the New York-based international banks. After having milked dry the less-developed Third World countries, those Wall Street institutions have engineered an increase in commodity prices to tax the consuming industries in the advanced sector in favor of Third World debt repayment. This fact is well reflected in last year's $7.5 billion money-growth in Third World exports, while Third World imports were stagnant in value — a more than 12 percent decrease in real terms. This is no magic: the $7.5 billion represents the approximate amount collected by the Third World upon mainly European industry on the account of the New York banks.

Between 1970 and today, the cost of basic materials for the European economy has been multiplied by about three. Worse, the per unit value of fuel imports has increased between seven and eight times. Finally, during 1976, the near-bankrupt New York banks had to brutally aggravate their pace of taxation up to unbearable levels for any viable European industry. The French index for commodities imports went up to 84 percent since February 1976, and skyrocketed by nine percent in February 1977. Overall, the latest oil price increase alone adds no less than $3 billion to the European Economic Community's (EEC) 1977 import bill.

This is the real cause of the production crisis in Europe and worldwide trade collapse.

Trade Collapse

European trade figures for January and February reflect a global and sharp decline in value (see Table No. 1). West Germany, the leading component of the group, is also the more deeply affected, while the artifically inflated increase in the British January imports was wiped out by an equal setback in February. In real terms and in volume of basic imports, the situation is much worse: the British and French zero-growth in import values over the two months amounts to a sharp decrease in purchases of raw materials and energy, and the unability to significantly build up inventories for a recovery.

European countries, which depend upon foreign trade for 20 to 30 percent of their Gross Domestic Product, are hard hit by the trade contraction, but this is by no means a fact limited to Europe. In particular, the CMEA will not be able to meet its debt payments without restricting its own imports and cutting its rate of growth. The New York Times is already mooting that the Soviets will have to cut

Table 1

Percent Change In Trade

(in current dollars)

	From Dec. 1976 to Jan. 1977		From Jan. 1977 to Feb. 1977	
	EXPORTS	IMPORTS	EXPORTS	IMPORTS
FRANCE	+ 1.4	+ 5.2	+ 0.08	- 2.2
WEST GERMANY	-18.0	-15.7	NOT AVAILABLE	
UNITED KINGDOM	+ 0.02	+14.2	- 0.01	-14.1

SOURCE: NATIONAL STATISTICS

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Table 2

Production Trends — Whole Industry

(1970=100, SEASONALLY ADJUSTED)

	1965	1970	1971	1972	1973	1974	1975	1976	1977
FRANCE	76	100	106	112	120	123	112	126 (NOV)	130 (FEB)
WEST GERMANY	77.7	100	101.5	105.9	113.1	111.5	104.5	123.9* (NOV)	
ITALY	---	100	100	104	114	119	109	119 (AUG)	
UNITED KINGDOM	89.1	100	100.4	102.6	110.3	106.3	101	103 (NOV)	103.9 (JAN)

SOURCE: OECD

*In Dec. 1976, the West German production index is 111.8, note the severe drop from Nov. 1976.

Table 3

Capacity Utilization In The European Steel Industry

(% of total capacity utilization)

	1974	FOURTH QUARTER 1976
WEST GERMANY	84.3	55.9
FRANCE	84.2	69.0
ITALY	74.3	68.5
NETHERLANDS-LUXEMBURG	90.4	61.4
BELGIUM	80.1	56.3
UNITED KINGDOM	84.6	75.0
EUROPEAN AVERAGE	82.6	63.7

SOURCE: EUROPEAN ECONOMIC COMMUNITIES

their imports and reduce their trade deficit to $3 billion in 1977 (versus $6.4 and $5 billion in the last two years) in order to meet their payments, thus in turn hitting the Italian and West German industrialists committed to a broad Ostpolitik. As for the U.S., its all times record trade deficits of January and February — $1.67 billion and $1.85 billion respectively — will not help the European exporters, being mainly based in an export setback and not in imports growth.

This is to say that the trade-dependent European economies are basically confronted with the same situation despite individual dissimilarities in various predicates. For example, if the British economy seems more "stabilized," it is only because its industrial output has practically not been developed since 1970 (see Table 2).

Industrial Crisis

Both France, West Germany, Great Britain and Italy are following a script imposed by Wall Street — a downward spiral of import-cuts to balance out export collapse. In other terms, this means industrial triage, as best exemplified by last week's acceptance of the Davignon plan to eliminate "excess capacity" in the European steel industry by the EEC Council at the Rome summit. For this sector, which is at present working at about 60 percent capacity (see Table 3), with a total debt equal to one year of sales, the EEC has created a special fund to finance "voluntary" production cuts and is proposing minimum prices and import licenses against foreign competition. The EEC plan to "solve the problem" of the oil refining sector, which is working at 62 percent of its capacity, follows the same model of auto-cannibalization: cut it by 16.5 percent and stop all new construction.

Presently, the only strategy of the Western European governments is to attempt to isolate some sectors from the general crisis, letting the others go. Table 4 gives a fairly accurate image of how metallurgical production has actually decreased in all European countries since 1970, except in Italy. Similarily, the capital-goods industries and machine-tool production are stagnating or declining. This is the reflection of a deliberate policy to sacrifice "basic industries" requiring a high and per-

Table 4

Production Trends — Metal or Iron and Steel

(1970=100, SEASONALLY ADJUSTED)

	1965	1970	1971	1972	1973	1974	1975	1976	1977 (TREND)
FRANCE IRON AND STEEL	84	100	97	102	106	114	91	99 (NOV)	DEC.*
GERMANY IRON AND STEEL	77	100	90	97	112	121	93	93 (DEC)	DEC.*
ITALY METAL PRODUCTS	---	100	98	98	105	114	101	110 (AUG)	DEC.*
UNITED KINGDOM METAL	103.5	100	91.3	91.4	100	91.7	78.6	82 (NOV)	SAME

*INDICATES DECREASE

SOURCE: OECD

Table 5

Production Trends — Vehicles

(1970=100, SEASONALLY ADJUSTED)

	1965	1970	1971	1972	1973	1974	1975	1976	1977
FRANCE	59	100	114	124	134	126	126	172 (NOV)	DEC.*
WEST GERMANY	68	100	100	99	107	97	100	127 (DEC)	DEC.*
ITALY		100	NOT AVAILABLE						
UNITED KINGDOM	97.3	100	99.3	103.7	105.1	101.3	94.7	99 (NOV)	DEC.*

* INDICATES DECREASE

SOURCE: OECD

manent level of capital-investment that the diverse countries are unable to make. Since 1974, European machinery on an average has grown old by approximately two years. In the key West German economy, the effective investment in industrial installations declined 43 percent.

But even in view of its own objectives, this desperate industrial triage is doomed to fail in the coming period within a *general process of decapitalization*. Recent Central Banks' surveys show that both in 1975 and 1976, industrial investment was overwhelmingly oriented toward "rationalization" and "replacement" of already existing units. The spectacular collapse of the huge steel and chemical complex of Fos (France) exemplifies the problem. Italy (see Table 4) has been the only country to develop the productive potential of its basic industry in 1976, but only within a situation of uncontrolled paper-printing, and dumping combined with anti-working class austerity. Moreover, the 1976 12.3 percent volume increase in the Italian industrial production will be at best reduced to zero-growth in 1977 if the International Monetary Fund conditions are imposed, forcing a drastic cutback in the distribution of internal credit.

Consumer-oriented industrial production, and notably

Table 6

Unemployment (official figures)

(% of labor force or of registered employees seasonally adjusted)

	1973	1975	END OF 1976	TREND IN 1977
WEST GERMANY	1.3	4.7	4.4	INC.*
FRANCE	1.8	3.8	4.5	INC.*
ITALY	3.4	3.4	3.7	INC.*
UNITED KINGDOM	2.6	3.9	5.6	INC.*
BELGIUM	2.3	4.5	6.1	INC.*

*INDICATES INCREASE

SOURCE: NATIONAL STATISTICS

the automotive industry, upon which the 1975-1976 "recovery" was built (see in Table 5 the cases of France and West Germany), is now itself directly in jeopardy. The first sign has been given by Britain's 10 percent volume-decline in exports of motor vehicles and other transport equipment in the last quarter compared to the previous one. The Leyland strike could be cited of course, but the answer is that the British setback was not followed by a similar increase in West German or French exports, which would have happened under normal circumstances. Auto experts in Europe are pessimistic for the coming months, correctly fearing the consequences of austerity on consumer demand. A significant crisis in the auto industry would trigger a general collapse in Europe, giving the *coup de grace* to the steel industry the survival of which presently depends upon vehicle production.

At the level of the industrial firms, the global crisis is ironically reflected in a relatively good liquidity situation — only due to paralysis: there is less and less capital spending, no inventory buildup and therefore little bank borrowing. The European bond and stock markets are in a state of collapse, except for speculation around the bailing out of England based upon the miracle of the North Sea. But within the dollar system, such a miracle is nothing but a hoax. The North Sea "surpluses" may very well be absorbed by debt repayments, which will represent $800 million in 1978 and above $2 billion per year from 1979 to 1983, more than all the treasures of the North Sea could cover in a situation of trade and production breakdown.

Similarily, the French government and public sector have heavily borrowed aborad and keep borrowing to finance the continuing current account deficit, only postponing crucial decisions.

But the worst aspect of the present industrial crisis is, together with the triage of the basic industries, the no less deliberate destruction of the cognitive powers of the working class. This directly endangers the prospect of a future recovery based on advanced equipment and technologies. Table 6 shows the official unemployment figures, reflecting a permanent increase in all countries since 1973, except for a relative stabilization in Germany between 1975 and 1976. But more recently, Germany has not been able to escape the common law, and the January 1977 figure is already 15 percent above the 1976 year-end levels. Worse, under-employment and degradation of the working conditions are even more general than unemployment. Broadly, if the total European (EEC) unemployment could be officially estimated to about 5 percent of the active population, the wasted labor-force in purely quantitative terms reaches more than 15 percent. The youth is more directly hit (between 15 and 45 percent of the total unemployed) together with foreign laborers, for which, officially or not, recruitment is practically banned.

The living standards of the workers — even the employed with nominally maintained wages in real terms — are cut by the rise in foodstuff imports and elimination of municipal, urban and state services, such as health care.

Both in terms of basic industries and labor power, the situation is such that the conditions for a recovery could not be met without a new monetary and credit system — and the European governments know it.

Capital Goods Order Collapse Is A Warning Signal

WEST GERMANY

In January 1977, manufacturing orders to West German firms registered an overall decline of 6 percent, including an even more dramatic drop of 14.5 percent in orders to capital goods producers. The foreboding lack of new orders to the capital equipment sector, the hub of the country's economy, signals that West German manufacturers are only months away from a 1930s style depression collapse unless a European recovery program based on massive industrial investment is put into effect.

The final draft of the 1977 West German federal budget reveals that leading political and industrial figures are unprepared to meet this looming crisis. The terms of the budget are a patchwork of penny-pinching trade-offs between "stability minded" members of Chancellor Sch-