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European Trade Doomed To Collapse Within The Confines Of The Dollar

The four major economies of Europe, making up one of the most export-oriented sectors in the world, are now suffering from a trade collapse and "constrained economic growth" whose chief cause is continued toleration of the bankrupt dollar monetary system presided over by the New York banks, the International Monetary Fund, and the World Bank. In lieu of a break with the bankrupt dollar, Italy, France, West Germany and Great Britain have elected tentative accomodation to the aversive monetary conditions which are crippling their industrial development and threatening the 27.2 percent of total world commodity-exports which they collectively represent.

The current trade policies of these nations therefore rest on "second best" choices of monetary measures, artificial currency under-valuations to minimize direct losses on foreign markets, but which imply domestic austerity and a correspondingly higher cost for the import supplies on which they are also heavily dependent.

The defensive tactics of the EEC countries have been coordinated, based on the notion of "share the poverty" at the least possible cost to the sector as a whole. West Germany has maintained a "strong" deutschemark and low interest rates, impairing its vital exports of capital and consumer goods, while France, Italy and Great Britain to varying extents have promoted their own exports with "weak" currencies at the expense of labor's living standards and the development of national industry.

But such tactics, based upon a conception of the world as an ever-contracting pie around which various partners are "struggling for economic life," will lead to trade war and "protectionism." This final solution would be a disaster for the export-oriented economies. European governments' fears have been exploited by the Carter Administration, which talks of free-trade, but uses protectionist threats to armtwist its potential and actual opponents.

Italy's "Weakness"

The weakest *financial* element in the EEC is Italy, the only country which has otherwise managed to maintain *high levels of industrial investment* (12.6 percent in 1976 and still 1.1 percent in January 1977). For Italy this means industrial growth without markets and, as a result, an increasing indebtedness with no related profit-generating ability.

Italian exports have increased by 35.5 percent in 1976, but with an internal rate of inflation above 20 percent. The East Bloc, EEC, and other European countries have not been able to absorb the sizeably increased quantities of Italian products, and the Italian exports have therefore been developed with the backing of OPEC and the Third World. Italy is now unable to generate of itself the required new credit toward additional trade transactions with the Third World, while the OPEC countries represent as a whole a relatively small portion of the world market.

This situation is aggravated by the domestic side of the economy. Italian exporters and industrialists have engaged in massive short-term borrowing since mid-1976 to compensate for the cited long-term credit restrictions, in order to purchase high-priced raw materials to maintain current high levels of industrial production. There is no way that these debts can be paid, with a more than 40 percent increase in the cost of import-supplies and an accelerating deterioration in Italy's balance of payments: its deficit, at lire 678 billion in February after being in balance on January, climbed to lire 839 billion in March.

Austerity conditions demanded by the International Monetary Fund, if implemented, would be the final blow to the fragile "Italian growth."

British and French "Equilibrium"

Great Britain and France have apparently improved their overall trade positions during the first months of 1977. Unfortunately, this appearance does not express a healthy economic situation.

In both cases, the gain in exports is accompanied by a notable setback in imports — the nation's industry is not being properly supplied.

The largest increases in British exports have been to consumer nations. Instead of boosting machinery and heavy-goods exports, the British government's "export drive" is cashing in on quick returns on oil exports and exports to the textile and chemical sectors to continental Europe. This indicates a de-emphasis on capital-intensive, growth-inducing sectors of the British economy in favor of labor-intensive, low capital sector. This fact is confirmed by a severe decline in fixed-capital formation in the advanced sectors of the economy.

Given the depression in Western Europe, British labor-intensive industries, stimulated by a weak pound, have taken over already existing markets on the European continent *against* continental industries belonging to strong-currency economies — for example, West Germany.

France's situation seems to be slightly better at first sight. The largest increases in French exports have been to the East Bloc, OPEC, and Third World sectors. By issuing trade credit to the Third World and Comecon, France has been able to increase substantially sales of

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Total World Exports Compared To Total Exports Of The Four Leading EEC Countries

(millions of U.S. dollars)

	1973	1974	1975	1976*	IMPORTS 1976*
WORLD TOTAL	524,400	772,400	794,700	890,000	910,000
FRANCE	36,659	46,255	53,118	57,162	64,391
WEST GERMANY	67,566	89,253	90,166	101,977	88,209
ITALY	22,224	30,240	34,815	36,958	43,322
UNITED KINGDOM	30,659	38,881	44,109	46,254	55,978
TOTAL 4 EEC COUNTRIES	157,108	204,629	222,208	242,361	252,000
PERCENT TOTAL OF WORLD TRADE	30.0	26.6	27.9	27.2	27.6

SOURCE: INTERNATIONAL FINANCIAL STATISTICS-APRIL 1977 INTERNATIONAL MONETARY FUND * ESTIMATED

equipment goods, compensating for the stagnation of its exports of those products to the EEC and North America.

But the French model is now limited by France's ability to issue credit on its own acccount. Furthermore, there is evidence that French exports have not been carried forward by new markets, but have taken over already existing ones — against industries based in strong currency economies.

Worse, during recent months French exports started switching to the "British model," as the rate of growth of capital goods exports has started to decrease and sales of semi-finished products has upsurged.

Finally, the evolution toward trade equilibrium in France has been accompanied by domestic austerity.

West Germany's False Strength

The comparative strength of West Germany in relation to Italy, France, and Great Britain is an economic myth. As shown in the included table, West Germany tradtionally enjoys a trade surplus while the three other European countries are deficit-ridden. But under present circumstances, West Germany has been forced to share the weakness of its closest partners.

West German "weakness" is partly deliberate. West Germany's maintaining a strong mark, agreeing to lose markets abroad against French and Italian capital goods, and permitting Britain and Italy (primarily) to dump semi-finished products on the West German market, is calculated to bail out the other European economies and avoid a general collapse in Western Europe — otherwise West Germany's major trading partner.

West Germany is thus progressively losing its trade surplus from capital and basic goods exports, and West German firms no longer have the base for new investments. As a consequence, the ability of West German industry to invest is crippled. The West German index of all industrial production is now at a level of about that of 1974-1973, while the industrial workforce has steadily declined since 1974. The mechanical engineering sector — vital engine of industrial development — is the most badly affected.

European Self-Interest

By now, European industry as a whole has reached the limits of the "share of poverty" schemes before entering in a phase of abrupt economic breakdown. This could be precipitated by a financial crisis in Italy or by a political-economic destabilization in a country like France, where a confidence crisis can detonate, in a very short period of time, an overall collapse — as suggested by the 25 percent drop in the French stock market since January.

The situation is all the more dangerous in that within the confines of the dollar system, the Third World will drastically reduce its imports in volume, while the East Bloc has already started to implement import cutbacks up to 10 percent to "improve its trade balance with the West and stop its descent into debt." The CMEA's purchases in the West last year rose by only 4 percent, this mainly due to grain imports from the U.S.

If this trend is allowed to continue, not only will West European industry lose its best long-term market but it will be "attacked" at home by other products, and feel the need to defend itself with protectionism. This danger is already apparent with the restrictive measures imposed by various European countries against Spanish steel and textiles, Japanese steel and industrial consumer products and East Bloc shoes, clothing and vehicles.

The only possible "protection" for an economy is that granted by high levels of capital formation. In turn, this requires the creation of viable markets in the Third World and East Bloc, which can only be brought into being through the proper issuance of hard-commodity-only credit by an International Development Bank-type institution.

East Bloc Cooperation Needed To Consolidate Italy's Economic Recovery

ITALY

Italian exporting producers, operating under the illusion of an "economic recovery" in 1976, borrowed massively on the short-term domestic market in order to purchase high-priced raw materials to maintain current high levels of industrial production. As of April 30, 1977 this short-term indebtedness figure reached $5 billion — a spectacular jump in domestic lending — despite the International Monetary Fund's demand that domestic lending be frozen (see table 1).

The only way these borrowers will be able to repay these short-term debts is if the Italian government signs pending credit agreements with the East Bloc, in particular, to facilitate massive exporting. Without the realization of these credit lines, these exporter-producers will be faced with massive debts, full inventories and no outlets for their products. Already, the momentum of Italian export is waning. Major importers of Italian products are closing the Italians out (see table 2).

A key example is trade with the East Bloc, from December 1975 to December 1976. Foreign Trade Minister Rinaldo Ossola is expected in Moscow in early June to finalize a three-year $650 million credit line to the Soviet Union. Presently, the Soviet Union has gone to the French for products it would have been purchasing from the Italians, had credit been available.

The so-called economic recovery in 1976 was, on one level, a fraud, premised on dumping of crude steel on the European Economic Community (EEC), as well as the January 1976 lira devaluation which favored exports (see graph 2). Export figures showed a 35.5 percent increase in 1976; but the devaluation contributed to a 46 percent increase of the cost of imports as producers were forced to pay higher prices for raw materials (see graph 1). The actual volume of exports nowhere near compensated for the rate of increase in the cost of raw materials. (see graph 2).

In fact, the May 1977 newsletter of the Banca Nazionale del Lavoro (BNL), while predicting that in the immediate period ahead there would be a slight expansion of imports and a surge in exports, concluded that this trend won't continue for long, and could be easily

Table 1
Short-Term Indebtedness, Domestic Market

(IN MILLIONS OF U.S. DOLLARS)

	1972	1973	1974	1975	1976	JAN-APRIL 1977
SHORT-TERM DEBT *	-1232	-961	- 54	-2052	-3015	-5000

SOURCE: IMF *MINUS SIGN (-) INDICATES DEBIT

Table 2
Italian Exports
(millions of U.S. dollars)

ITALIAN EXPORTS TO:	1974	1975	JAN-SEPT 1976	1976(E)
EAST BLOC	1486.1	1975.7	1277.9	1845.0
OIL EXPORTING COUNTRIES	2264.6	3766.1	2851.7	3700.0
U.S.	2299.6	2270.4	1721.5	2270.0
JAPAN	323.0	298.3	224.3	270.0
E.E.C.	13,714.7	15,676.4	12,731.3	16,000.0

SOURCE: IMF "DIRECTION OF TRADE" DEC. 1976