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and Bayer took on sharp third quarter declines in pre-tax earnings, BASF slipping by 199 million deutschemarks and Bayer by 32.2 percent. In contrast, during 1976 chemicals exports were an important stabilizing factor throughout manufacturing. Similarly, the Hoechst chemical corporation was forced under rising deutschemark values to cease all exports of synthetic fibers to Italy, where it had previously been a major supplier. This year, in fact, Italian fiber producers entered the West German domestic market to take advantage of the lira decline.

To the extent that 1977 production and orders figures did not show how desperate West German producers really are, this is largely attributable to the low bank lending interest rates which permitted consumers to purchase automobiles and durable electrical goods on a large scale. The automobile industry produced a record 4.1 million units in 1977, with the largest producer, Volkswagen, showing a 25 percent rise in sales. However, even in this case, the weak condition of basic industry shone through in a two percent decline in truck and commercial vehicles sales for the industry; and a 7 percent drop in truck exports.

The Bundesbank's (central bank) decision in December to impose restrictions on foreign capital flows into domestic banks by cutting off interest payments on foreign deposits will have the cosmetic effect of easing money growth figures in their accounting books. However, these funds will simply shift into the Euro-deutschemark market, where, according to one New York investment source, West German banks are even marketing government debt paper. Overall, the pressure of international claims on the country's basic industry can only be eased by an aggressive exports and investments push which places real productive growth behind the currency.

—*Renee Sigerson*

France:

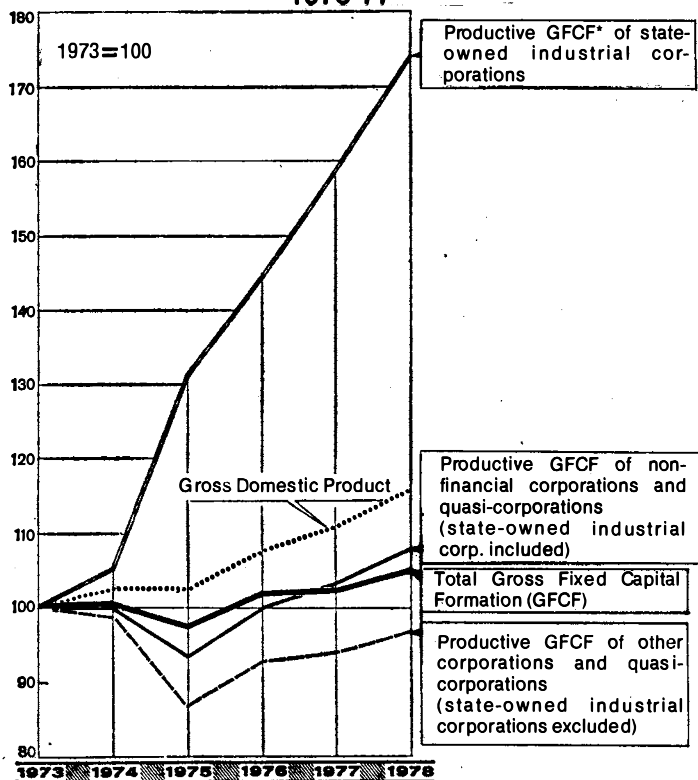
Barre Plan Austerity Self Destructs

The situation of French investment, industrial output, and employment at year's end has dissipated any pretense that the "Barre Plan," named after French Premier and Economics Minister Raymond Barre, can salvage the economy with either its basic austerity thrust or its current patchwork "stimulation" amendments. French exports have been rescued — for the time being — from acute decline by foreign borrowing to extend new trade credits, and more positively by a general development push in the Third World and Mideast. The extinction of private sector investment, and the risky basis of public sector financing, however, remain a time bomb for the franc and the economy.

The latest news is the halving of France's annual trade deficit from $4.4 billion in 1976 to $2.4 billion. This occurred partly because of oil-import cutbacks (total petroleum consumption decreased 4 percent last year) as well as the abatement of drought-induced foodstuff imports. But the drastic total December import drop of 12.2 percent ultimately expresses the decline of industrial and consumer demand. Aggressive diplomacy recouped exports from the dramatic July-September drop of 10 percent, which affected all regional customers except the U.S.

Whereas average third-quarter monthly exports had been an unadjusted 24 billion francs, in December they reached 31 billion, subsuming a capital goods trade surplus of 2.5 billion, which brought the yearly capital goods margin of exports over imports to 17.8 billion (including, however, both autos and military equipment). This partly reflected a sharp depreciation of franc parities, especially toward year's end, vis-a-vis its European trading partners — from January 1976 to January 1977, 7 percent against the deutschemark, about 4 percent against the British pound and Dutch guilder,

Graph I
France's Gross Fixed Capital Formation—1973-77



Since 1974 State-owned industrial corporations have contributed by far the largest share of investment.

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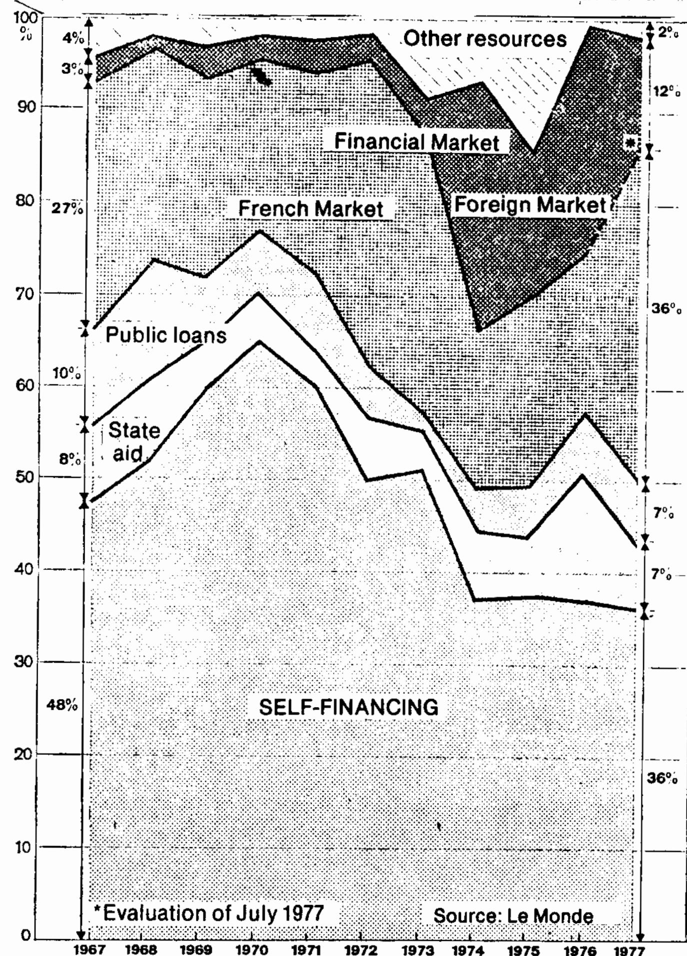
and almost 14 percent against the Swiss franc. The depreciations marginally enhanced price competitiveness and thus mitigated against a worse decline in French trade with Europe, but the situation of Franco-EEC trade as a whole remains stagnant at best.

It was a pickup in all categories of sales to the U.S. (despite a 3 percent appreciation of the franc) and, most significantly, a reversal of the 16 percent drop in third-quarter exports to OPEC plus new orders from northern and central Africa that gave trade its boost. Iran, Saudi Arabia, Nigeria, the Ivory Coast, Gabon, Pakistan and Morocco have been the key large-contract importers, along with the USSR. According to the *Moniteur du Commerce International*, 80 percent of the "big deals" as of October 1977 were for electrical construction, various infrastructural projects, chemicals, petrochemicals, and oil and gas equipment.

Skewed Investment

Unfortunately, there is another reason why France has run a capital-goods trade surplus, and that is the skewed situation of investment, which restricts French imports of specialized equipment from the U.S. and West Germany in particular. The private sector has essentially ceased to grow since the oil crisis (see Graph 1). In fact, the 6-7 percent increase in its productive investment represents, in real terms, disinvestment. And since 1976 the growth, such as it is, of the public sector has relied increasingly on loans from French and foreign banks and from the Euromarkets. (See Graph 2) The government has encouraged this reliance on foreign borrowing, which Gaullist spokesman Michel Debré recently called "a dangerous development...that could end by putting France under the rule of the International Monetary Fund" on the pretext of balance-of-payments deficits. Elder statesman Jacques Rueff elaborated disapprovingly that "foreign indebtedness is a way to try to undo what is attempted through credit restrictions." The upshot is that private firms use their borrowed funds for speculation or debt rollover, while bankruptcies mount. State-owned or large private firms maintain pinchpenny investments and relend their short-term borrowed funds at potentially dangerous longer terms to Third World, East bloc, and northern Mediterranean purchasers.

Graph 2
Investment Financing of France's State-Owned Industrial Corporations* 1967-1977



*i.e., Electricite de France (EDF); Gaz de France (GDF); Societe Nationale des Chemins de Fer Francais (SNCF); Charbonnages de France (CDF)

French industry has been forced to resort increasingly to the credit market and especially to foreign lenders to raise funds needed for capital investment.

The efforts of Premier Raymond Barre, to "save the franc" by curbing domestic credit have thus actually put the franc, and the economy, in near-term jeopardy. Interest rates have leveled off in January after sharp November-December increases to a still formidable 9-9.5 percent range, while Euromarket france rates, owing to international lack of confidence, are at 13 percent. The Banque de France sold significant amounts of foreign exchange reserves in 1977 to support the franc, but specialists say it is hard to gauge the actual reserve position because the central bank "hides" extra reserves in the semipublic commercial banking network.

Plan Barre Self-Destructs

Industrial production growth, meanwhile, has been zero or negative from month to month; the ratios of business inventories to orders are worrisome in most sectors despite the export pickup; and every indication is that despite price freezes and a November-December stabilization of food costs, underlying inflation has not been curbed. The condition of the labor force is exemplified by the Jan. 16 report that 1978 housing starts will be less 100,000 units lower than 1974, after an interval of continual decline, affecting mainly low-cost subsidized housing. A recent poll of CNPF (French industrial association-ed.) damned Barre for this zero-growth situation. Not only Debré, but the neo-Gaullist mayor of Paris, Jacques Chirac, have attacked the Premier for intensifying industrial stagnation while obstructing full nuclear-energy development. (Indeed, Barre's colleague, President Giscard d'Estaing, endorsed environmental terrorists' complaint that the public energy complex Electricité de France is "elitist" and too "independent" from their pressures.)

Despite this lapse in industry's sanction of Barre, last weekend's meeting of the CNPF by all reports produced a grotesque compromise between the development-

oriented majority and a Fabian minority which continues to exercise an unwarranted influence best seen in heavy industry's subjection to asset-stripping and cartelization in the steel sector, and increasing "rationalization" in textiles and chemicals, e.g. by Rhône-Poulenc.

The CNPF conference piously resolved to aim at a 5-6 percent growth rate — both antigrowth thinktanks like the OECD and empirical extrapolators project 3 percent at best — and endorsed high-technology investment. Yet the most concrete features of the resolution were commitments to energy conservation, and a phase-out of energy-intensive industries like aluminum.

Crash programs for fission and fusion nuclear proliferation were explicitly rejected. And instead of pursuing a labor-industry alliance for national growth, there was a call for women and youth to enter economic life more fully. Since the official decline (-15.5 percent) in unemployment during the fourth quarter of 1977 is universally acknowledged as bogus (in unadjusted terms, unemployment in fact rose 7.6 percent over the Aug.-Dec. 1977 period), this is nothing but a call for union-busting, and a sanction of the low-skilled makework programs that, along with new restrictions on unemployment claims, helped to bring down the official jobless figures.

Failure of Nerve

More courage should be expected even of an industrial constituency that has tolerated the *Plan Barre* for over a year. The plan was initially a crass austerity scheme, justified by the need to defend the franc against pressures created by the International Monetary Fund, the City of London, and the March 1978 "left threat." In the fall of 1976, French industry and labor were notified that *il faut souffrir pour être belle* — "to be attractive, one must suffer." Barre's clamps on wages, credit, and investment punished production and, thus, fundamentally undercut the franc, while, as noted above, warping financial flows.

In early September 1977, a $1 billion construction-centered reflation package was displayed. Selective industrial subsidies followed. For the first time in years, the government ran a budget deficit. The value-added tax was decreased to a magnanimous 17.6 percent level; and minimum wage and pay-hike ceilings were adjusted to boost labor-intensive sectors and refresh consumer spending — while the work force in industry as a whole has declined in 1977 by 100,000.

In sum, Barre's deprivation regime had produced political rumblings rather than demonstrable beauty, and the rescue of the franc from incipient speculative attack stemmed from London's fear of a Gaullist-labor revolt rather than from world confidence. So Barre et al decided to inject some stimulation, consulting quack economist J.M. Keynes to alleviate the damage done by quack economist Milton Friedman.

If this were all that occurred over the past year — if other French forces favoring growth had not wangled export orders and mounted a broader diplomacy showing France's potential for positive world diplomacy — the balance sheet would already be unequivocally disastrous. As it is, either a "left" government against growth or, most probably, a chaotic no-majority interregnum as of March means the delay of an outright *political* solution. The prolonged decline of investment and production not only takes its toll in the waste of lives and national potential, but it represents the threat of imminent government destabilizations, through popular unrest and financial instability, that could end the promising growth-oriented thrusts of 1977.

—Susan Johnson

Italy:

Debt Albatross Threatens Expansion Plans

The present political crisis in Italy can only be resolved in one of two ways either of which will have far-reaching implications for the health of the European economy as a whole. Taking the worst case first, Italy, throttled by an immense external and internal debt, could be forced to undergo wholesale industrial rationalization, providing the prototype for European-wide Schachtian-style "cartels" in such basic industries as steel, chemicals, and auto. Alternatively, a freeze on payment as part of the debt combined with substantial foreign credits and an improved international monetary context would allow Italy to realize its considerable potential as a capital goods-exporter to the developing sector and as a "bridge" between industrialized Europe and the Middle East.

Debt is unquestionably the key issue in the current Kissinger-inspired destabilization of the Andreotti government. Italy's medium and long-term foreign debt exceeds $20 billion, $5 billion dollars of which must be repaid or rolled over during 1978. The nation's commercial banks have racked up an additional short-term foreign debt totalling $7.1 billion as of the end of November. Moreover, the government will require a fresh inflow of foreign capital this year simply to cope with refinancing the public spending deficit, which is likely to reach $30 billion despite an IMF "limit" of $22 billion. This is not even taking fully into account the funds needed by several public and semipublic industrial companies to cover huge losses and maturing debts, nor the capital required by the state-controlled electrical utility, ENEL, to finance its ambitious nuclear construction program. The Bank of Italy's seemingly formidable $8 billion-plus in foreign currency reserves are effectively all borrowed and would be quickly run down in a crisis, although $11