try was a factor. National Steel reported a 5 percent drop in its second quarter earnings. And Lykes reported a net loss for the quarter, blaming the loss on its Youngstown Sheet and Tube Division, one of the plants on the Commerce Department's "next to go" list.

As expected, the copper companies are also reporting miserable earnings. Phelps Dodge's copper mining operations pulled the company's earnings down 7.3 percent in the second quarter. A spokesman for Phelps Dodge said in an interview that the company is close to settling the month-long strike and has had to abandon its original offer of ten cents over three years and a cost-of-living clause indexed to the price of copper. But the spokesman added that there could still be significant shut downs in the industry — though he denied that they would be at Phelps Dodge mines.

Summing up the situation in the copper industry, Kennecott announced early last week that it was going to use the $1.2 billion obtained from the sale of its Peabody Coal subsidiary to diversify out of the copper industry.

Europe Industrial Output In Steep Decline

"Europe is slipping back into economic recession. They haven't recovered from three years ago. Since that time Europe's economy has been turned to the financing of consumer purchases and that's now coming to an end."

SPECIAL REPORT

This declaration made to NSIPS by the unanimously respected Wall Street investment adviser Gilbert Haas proves to be exceedingly *optimistic* when compared to the actual situation of the European economies: recently released figures show a sharp fall in all industrial outputs between March and May — 5.3 percent for the Netherlands, 3.8 percent for West Germany (BRD), 3.7 percent for Great Britain, 3.4 percent for Italy, and 1.6 percent for France.

A general decapitalisation is *already* in full process.

This is an industrial collapse extended all over Europe and sparing no economic sector. The April-May monthly decline of the West German industrial output (from 122.4 to 117.9) was one of the sharpest since the Hitler period. Orders for manufactured products went down by 2 percent in only one month. France's industrial index is now back to the levels of 1974 — and France, together with debt-ridden Italy, is a country in relatively better shape. Great Britain's index is once again declining from a level already lower than in 1974, the notorious year of the three-day week then imposed upon the British working-class and industry by a desperate Heath government.

The official unemployment figures are at post-World War II lows and the latest six-monthly *Economic Outlook* published on July 20 by the 24 advanced sector nations' Organization for Economic Cooperation and Development (OECD) recognizes that there is no outlook for improvement. "There is no room for relaxation of stabilization policies in France, Great Britain and Italy," says the OECD, what the July 21 London *Financial Times* properly translates into plain English: "tougher austerity is needed." Given the high "partial employment" or "under-employment" in all Western Europe, it is estimated that about 15 to 20 percent of all potential labor-power is wasted. This figure is still less dramatic than the overall idle capacity in the West European industry, now at 25-30 percent.

Fixed capital expenditure — the measure of all economies' future — is at its lowest level ever since 1970 in England and Belgium. Italy, which has maintained a relatively satisfactory level of investment up to now, is "operating on borrowed time," according to Italian government sources. Indeed, for the first quarter of 1977 Italy's foreign trade deficit has been running at an annual level of $10 billion — which means a corresponding increase of its foreign debt. But the "Italian miracle," based upon the lira-printing machines, is now over. April's production index dropped by 11 percent against March, while Italian imports declined significantly during the past two months. The Italian economy is now shaped by International Monetary Fund austerity. In France and Great Britain, rates of industrial bankruptcies are now near or above all-times highs.

Inflation, as part of the breakdown process, has destroyed all possibilities of forceful industrial programs, as shown by the erratic pattern of West German monthly production, reflecting some huge foreign orders gained in the midst of a general fall. Inflation rates now reach "South American" levels in countries like Spain (30 percent), Italy (over 20 percent), Great Britain (18 percent), and France (around 12 percent).

Killing the Patient

Faced with such an unprecedented postwar crisis, the dollar-trapped West European governments are still trying to apply traditional medicines — austerity, export-drives, currency devaluations — which, not unlike the leech bleeding of the Middle Ages, will kill a weak patient outright.

In France, Prime Minister Raymond Barre is trying to develop some sectors of French industry, mainly related to energy production, through foreign indebtedness. Money borrowed from the international markets is used to finance investments in the public sector and to issue credit to expand French exports in the Third World and Comecon countries. Under circumstances of trade contraction, this means that the value of the French currency can only be maintained by imposing austerity to the national labor force and deliberately triaging more and more industrial sectors. This is precisely what the French government is doing.

But, such a policy is not viable. First, it antagonizes the working class and thus deprives the government of its crucial support to maintain its independence, notably in the development of its energy policy. Second, it kills the patient — i.e., the whole French economy. There is no such thing as a "selective deindustrialization:" it is impossible to proceed as the French government is doing, subsidizing its nuclear, oil, telecommunications and other sectors, while "rationalizing" (triaging) others, like the textile, machine-tool and steel sectors.

At the end of the process, the French government faces a dilemma within the dollar system: either it maintains austerity, further triages the national industry and provokes working-class upheaval — ruining France as a nation — or it relaunches the economy through paper-printing, which breaks the French franc-deutschemark axis, increases the cost of French imports, fosters international speculation against the franc — ruining France as a nation. There is no way out.

The same dilemma — at different stages — is confronting *all* West European countries. The Mediterranean countries are the most vulnerable. Spain, with a current account deficit topping $4 billion last year and threatening to reach $5 billion in 1977, has imposed a 20 percent devaluation of the peseta and a vicious austerity program. In Portugal, the Lisbon municipality is so broke that it cannot afford to replace bulbs in street lamps.

Ironically, the Western European nations, if they don't move now, would perish following a collapse of the industrial branch which formerly made their prosperity: the automotive sector. In France, commercial vehicle sales have fallen by 20-40 percent since April-May; and in West Germany, the fall is more spectacular in passenger car production because of the high level of the deutschemark. The consumer-boom bubble is pricked.

— Louis Carriègues