Cunhal's call to "mobilize the entire people to fulfill the task of expanding production."

It appears that violent confrontations will be inevitable in Portugal. Clashes have already occurred between farm workers and police in the CP stronghold of Alentejo. Yugoslav press reports of stepped-up activity by fascist bands — including the "Portuguese Freedom Army" of intelligence operative General Spinola, which has begun issuing its own "new escudo" notes — indicate that those clashes will not be the last incidents in Portugal caused by IMF debt collection.

Britain: Can Pound Boom Be Turned Into Industrial Recovery

The much-heralded "recovery" of the pound sterling and capital markets has placed Britain's Labour Party government in the midst of one of the most hotly contested economic debates in recent history. Prime Minister James Callaghan is being pushed by the trade

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unions and left wing of his own party to undertake a domestic reflation program to spur Britain's lagging economy, and simultaneously by conservative elements in industry and banking to retain tight monetary controls. However, any solution to Britain's economic problems which does not include primary emphasis on a general strategy for boosting world trade is inherently incompetent. Attempts to locate the debate in terms of a reflation-austerity framework will only trap the government, and the country, in a traditional "stop-go" syndrome.

The Economic Paradox

The paradox facing the government can be seen clearly in the discrepancy between the capital markets and the real economy. To borrow former Prime Minister Macmillan's phrase, the City of London financiers have "never had it so good." Since its break with the dollar at the beginning of August, the pound has continued to gain strength, reaching a yearly high on Sept. 1 of $1.7429. The country's reserves have shown an astronomical recovery as a result of steady inflows of money from abroad. At the end of July, Britain had a total of $13.4 billion in reserves as compared to $4.1 billion at the beginning of this year.

So far, this huge influx of money has not inflated the money supply but has been sopped up by the stock exchange and gilt markets. Stock prices on the London Stock Exchange, in exception to virtually every other market in the world, are now at their highest point since January 1973, breaking the 500 mark on Aug. 31. Demand for gilt-edged stock has also remained very strong: the government had already financed over two-thirds of this year's Public Sector Borrowing Requirement at the end of the first half of this year, and the Treasury had no trouble in finding buyers for two new issues last week, despite the fact that interest rates continue to fall.

In the real economy, as the trade unions and Labour Party are all-too-willing to remind the government, the situation is disaster. Unemployment hit a post-war high of 1.4 million in July, or about 6 percent of the total workforce. Industrial production in manufacturing industries

Exports: volume indices Overseas Trade Statistics basis

Seasonally adjusted — Indices 1970 = 100

					Manufactures							
						Machinery and transport equipment†						
	Total	Food, beverages and tobacco	Basic materials	Fuels	Total	Total	Machinery†	Road motor vehicles and other transport equipment	Chemicals	Metals and miscellaneous metal manufactures	Textiles	Other manufactures
Weights	1 000	64	34	26	844	410	276	134	97	119	49	169
1976	139.4	156	122	108	140	133	135	130	171	108	124	168
1976 3rd quarter	137.3	152	118	115	139	130	132	124	171	114	126	161
4th quarter	144.6	161	131	122	144	134	134	136	180	111	130	176
1977 1st quarter	144.3	165	138	134	144	129	131	126	176	118	132	184
2nd quarter r	155.0	164	122	144	154	139	138	137	185	131	129	204
1977 May	150.8	165	111	125	152	139	137	154	179	125	124	205
June p	158.7	176	126	168	156	140	143	130	192	135	132	195
July	161.5	167	128	153	165	156	167	138	208	126	127	199
1977 February-April	147.8	160	134	136	147	132	131	130	179	123	131	191
May-July	157.0	170	122	149	158	145	149	140	193	129	128	200
Percentage change	+6	+6½	9½	+9½	+7	+10	+14	+8	+7½	+4½	-2½	+5

p Provisional estimates. r Revised estimates. † Includes North Sea production installations.

Source: *Trade and Industry*

Imports: volume indices Overseas Trade Statistics basis

Seasonally adjusted — Indices 1970 = 100

	Total	Food, beverages and tobacco	Fuels	Industrial materials: Total	Industrial materials: Basic materials	Industrial materials: Chemicals	Industrial materials: Other semi-manufactures	Finished manufactures: Total	Machinery and transport equipment†: Total	Machinery and transport equipment†: Machinery†	Machinery and transport equipment†: Road motor vehicles and other transport equipment	Finished manufactures: Other
Weights	1 000	227	105	427	151	60	216	229	166	133	33	63
1976	133.5	101	87	127	93	150	145	196	197	186	241	193
1976 3rd quarter	135.8	103	88	127	95	153	142	202	206	194	251	193
4th quarter	137.8	104	85	132	94	157	151	206	210	196	247	197
1977 1st quarter	139.6	107	76	135	97	170	152	213	213	194	283	215
2nd quarter r	145.2	107	73	135	84	166	162	226	234	219	320	203
1977 May	143.2	109	79	134	85	158	161	212	216	199	320	200
June r	153.3	103	73	137	85	169	164	267	288	267	385	211
July p	146.2	101	71	143	93	173	169	225	233	205	362	204
1977 February-April	135.5	106	67	129	88	166	148	203	204	189	276	202
May-July	147.6	104	74	138	88	167	165	235	246	224	356	205
Percentage change	+9	−2	+10	+6½	−1	+½	+11	+15	+21	+18	+29	+1½

p Provisional estimates. r Revised estimates. † Includes North Sea production installations.

Source: *Trade and Industry*

collapsed from 106.3 to 100.9 between May and June — a drop of 1.6 percent from the first to second quarters. Inflation is showing signs of abatement and holds out some hope for dropping further, especially following reports of lower wholesale and raw materials prices. But, inflation rates are still running around 17-18 percent, while wage increases have amounted to only 11.8 percent in the last year.

The Bank of England estimates that the 3 percent drop in personal disposable income in the last quarter of 1976 was followed by a further 1.5 percent fall in the first quarter of 1977 — adding fuel to trade union demands for cost-of-living wage increases this year.

The recent favorable balance of payments figures, substantially improved by North Sea oil production, have masked the collapse of the Callaghan government's "export or die" strategy. While the balance of trade remained virtually in equilibrium during the first part of 1977, the non-oil balance showed a disastrous slide from a $700 million surplus in January-July 1976 to a $300 million deficit during the same period in 1977. Further, the "skew" in Britain's overall trade pattern towards increased imports of machinery, vehicles, and other key sector categories, holds little encouragement for increases in domestic production in these depressed sectors.

As the chart shows, exports of British vehicles, chemicals, and metal manufactures have shown some improvement through July 1977, but British imports of these goods are increasing at *two to three* times this rate. At the same time, imports of fuels and raw materials are *declining*, indicating industry's intention to radically decrease production. Figures for home orders in the engineering and vehicle-manufacturing sectors helps to explain why British companies are not falling over themselves to boost output.

To Reflate or Not?

Not surprisingly, the government is under intense pressure from its immediate political base in the party and trade unions to undertake a substantial reflationary effort to boost industrial production and employment. Based on the argument that low consumer and domestic demand are the cause of poor industrial production and investment intentions, the unions in particular are calling on Callaghan to use the boost from North Sea oil revenues and increased reserves to reflate the economy through selective investments, massive training, and government-sponsored employment projects and personal tax cuts. Best exemplified by the report of the National Institute for Economic and Social Research (NIESR) released last week, this viewpoint calls on the government to break off the IMF agreements on money and credit controls now depressing industrial investment by paying off the accumulated IMF debts. This, they argue, would leave Britain free to promote an expansionary policy at home.

Trade union leaders, under strong pressure from their members to ignore the government's tough pay code strictures, are expected to call on Callaghan to pursue such a policy during the Trades Union Congress's annual conference next week as the only alternative to a wages free-for-all this fall and winter — a conflict which would most likely lead to the collapse of the Callaghan government.

On the other side, leading spokesmen for the City of London and related political interests are (correctly) warning that such a policy could lead to only a short-term boom. This would be enough, perhaps, to get the Callaghan government reelected in a fall or spring election, but would cause a return to the hyperinflation days of two years ago. Promoting, at best, a "renegotiation" of IMF terms when the Fund's team visits Britain this fall, this viewpoint warns that a total rejection of the IMF, and the return to profligate government spending it would entail, could be enough to reverse the government's tough economic policy which has contributed to the pound's strength, and send the country into a hyperinflationary spiral. To spur industrial production, conservative city analysts are calling on the government to remove current currency controls to allow for export of sterling and replenishment of the country's foreign investment portfolios, and generating production at home by thus increasing foreign demand.

The conservative approach is inherently more sound, simply because of its emphasis on world trade revival through expanded use of the pound for international trading. This is the subject of the debate in the City over the future of the dollar premium and other currency controls which the Labour government has imposed as a way of curbing sterling's use as an international trading currency. While there is significant support in the City and industry for promoting expanded Third World trade (evidence the group of leading businessmen that accompanied Trade Minister Edmund Dell to Latin America in his just-concluded trip to set up energy and high-technology related projects), the danger is that competing financial interests in the City, notably those around and including the Rothschild and Rockefeller-allied interests, are backing the expanded use of sterling as part of a purely speculative swindle to keep their bad debts afloat. To the extent that no distinction is made in financial circles between productive investment projects and pure property and raw material "looting" operations, the otherwise positive standpoint of the conservative interests in Britain can be sabotaged.

The failure of the Callaghan industrial strategy has already proved that no matter how sound a government's program to foster investment and production, without a favorable international climate for world trade, no amount of domestic pump-priming can spur the needed recovery. As described repeatedly in this publication, the soundest way of providing such an economic boost worldwide is through issuing of substantial gold-backed transfer-ruble investment credits to the Third World for goods from the developed countries through an agency such as the proposed Private International Development Bank. Without such a mechanism the otherwise sound demands from Britain's trade unions for funds for industrial investment would be nothing more than printing money.

— Pam Goldman

Engineering Industries: Index Nos., Orders and Sales

Orders-on-hand, 12/70=100;
Net New Orders and Sales, 1970 Avg. Monthly Sales=100
(Seasonally Adjusted)

	HOME			EXPORT		
	Orders-On-Hand (end of period)	Net New Orders	Sales	Orders-on-Hand (end of period)	Net New Orders	Sales
1975	91.0	87.0	105.0	113.0	98.0	115.0
1976	78.0	92.0	100.0	117.0	119.0	117.0
1977 Jan.	77.0	102.0	100.0	116.0	129.0	118.0
Feb.	78.0	108.0	101.0	116.0	116.0	116.0
Mar.	77.0	97.0	100.0	117.0	128.0	118.0
Apr.	77.0	96.0	96.0	117.0	119.0	120.0
May	77.0	89.0	94.0	122.0	154.0	119.0
12/76-2/77 (av.)	78.0	99.0	100.0	116.0	124.0	117.0
3/77-5/77 (av.)	77.0	94.0	97.0	122.0	134.0	119.0
% change	-1.5	-4.5	-3.0	+4.5	+8.0	+2.0

Source: *Trade and Industry*