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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


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billion in additional gold reserves could be mobilized, especially if gold is remonetized.

### *How Italy Survived the Last Year*

The foreign borrowing of Italy's commercial banking system has literally proved to be the main buttress of the economy since the 1976 lira crisis. To circumvent the restrictions which the Andreotti government placed on domestic credit expansion *in lire* (to meet IMF requirements), the banks simply borrowed *foreign* currency — to the tune of $7.1 billion — then issued trade credits to boost Italy's industrial exports! This highly unusual banking practice allowed Italy to survive 1977 with a $2.47 billion trade deficit for the January-November period, less than half the 1976 Jan.-Nov. deficit.

According to a report issued by Foreign Trade Minister Rinaldo Ossola, the banking system had $4 billion in export credits outstanding at the end of 1977, half of which was directed to developing countries, 45 percent of socialist (mainly East European) countries, and 5 percent to other countries. The more than 50 percent expansion in the value of exports to Organization for Petroleum Exporting Countries (OPEC) (see Table 1) during the first half of the fiscal year 1978 shows the efficacy of this policy.

**Table 1**
**Italy's Foreign Trade**
(billions of dollars)

| | Value of Exports 1-6/77 | % Change over 1-6/76 | Value of Imports 1-6/77 | % Change over 1-6/76 |
|---|---|---|---|---|
| Total* | 21.27 | 26.2 | 23.85 | 15.8 |
| Industrial Countries | 13.33 | 23.8 | 13.94 | 14.0 |
| U.S. | 1.41 | 25.5 | 1.73 | 8.9 |
| EEC | 9.98 | 23.0 | 10.30 | 13.6 |
| West Germany | 3.90 | 23.0 | 3.95 | 13.2 |
| France | 3.17 | 20.9 | 3.36 | 16.9 |
| Great Britain | 1.07 | 34.4 | 0.87 | 21.9 |
| OPEC | 2.75 | 53.3 | 4.63 | 18.7 |
| Other LDCs | 1.84 | 28.8 | 2.42 | 28.1 |
| USSR, E. Europe | 0.98 | 36.6 | 0.97 | 11.1 |

Source: IMF/Direction of Trade

*Total

| | |
|---|---|
| Value of Exports 1-11/77 | 40.30 |
| % change over 1-11/76 | 27.40 |
| Value of Imports 1-11/77 | 42.80 |
| % change over 1-11/76 | 15.40 |

After adjusting for Italian inflation rates of 20%, Italy's exports show only modest growth to other industrialized nations but substantial gains to the oil-producing countries — reflecting heavy participation in Middle East development projects. Exports to OPEC are nearing one-third the value of exports to the EEC. Sales to the East Bloc — while growing more rapidly than other sectors — are hampered by lack of credit. Meanwhile, the severe import austerity imposed on Italian industry will likely bring even this limited "export drive" to a halt.

Unfortunately, as the *Financial Times* of London emphasized in its December survey of Italian banking, it also illustrates the extreme vulnerability of the entire banking system — which the *Times*' Rothschild owners will doubtless attempt to exploit, as evidenced by their selection of the following quote from the Bank of Italy's latest annual report: "Along the path towards greater financial stability to which we are committed, the banks have built a bridge. It consists of the short-term indebtedness passing through their hands; the debts of the treasury and enterprises towards the banks; and that of the banks themselves towards creditors abroad and the public. The country's external and internal monetary situations depend upon the breadth and adequate stability of the structure. *In such circumstances the credibility of the banking system becomes a question of overriding general interest.*" (emphasis added by *Financial Times.*)

The present wave of scandals which has engulfed nearly every major bank in Italy, including a rehashing of Vatican financier Sindona's role in bankrupting the Franklin National Bank, could raise that "credibility" question, in the *Financial Times* estimation.

The present wave of scandals which has engulfed nearly every major bank in Italy, including a rehashing of Vatican financier Sindona's role in the Franklin National Bank bankruptcy, could raise that "credibility" question, in the *Financial Times* estimation. The West German *Deutsche Zeitung* recently charged that City of London bankers had deliberately rigged the outbreak of banking scandals in Italy and internationally so as to counter the development of a hard currency-based European financial market in Luxembourg.

### *Austerity Guts Production*

Despite the banks' propping efforts, the overall impact of the austerity measures imposed by Andreotti under IMF pressure has been to gut production. Industrial output plummeted 5.5 percent in October 1977 from the same month in 1976. September production was also more than 4 percent below its year-ago level, although previous increases resulted in a 3 percent rise for the Jan.-Oct. period as a whole. Unemployment shot up to 1.7 million (7.7 percent of the workforce) during 1977, with projections by the OECD that it will reach 9 percent during 1978, providing a ripe recruiting ground for the lumpenized fascist street gangs currently terrorizing Italian cities. Consumer price inflation is still running at an annual rate of 18 percent.

The shrinkage in Italy's trade deficit — which is most often cited as "proof" of the success of the austerity program — actually reflects the slashing of imports as a result of the industrial production cutback and the running down of stockpiles of materials needed to renew the production cycle. Despite the lira depreciation, the Italian export "boom" never materialized — with the exception of the above-cited exports to OPEC — due to the economic stagnation of Italy's major EEC trading partners.

Ironically, the austerity conditions have also created a shortfall in government tax revenues and aggravated the government budget deficit — a phenomenon familiar to New York City residents. The debate over the public deficit and Italian Communist Party-trade union rejection of Treasury Secretary Stammati's proposals for still greater austerity so as to meet the IMF's $22

Table 2

**ITALIAN CORPORATIONS : TRENDS IN RELEVANT BALANCE-SHEET RATIOS**

(Figures in percent)

| | 795 CORPORATIONS | | | PUBLIC SECTOR | | | PRIVATE SECTOR | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1968 | 1972 | 1976 | 1968 | 1972 | 1976 | 1968 | 1972 | 1976 |
| Owners' equity to total liabilities | 20.7 | 15.3 | 14.5 | 18.1 | 12.9 | 14.6 | 22.5 | 17.4 | 14.5 |
| Total debt to fixed assets | 75.7 | 85.5 | 102.6 | 82.5 | 92.5 | 104.9 | 70.2 | 78.9 | 100.0 |
| Funded debt to total debt | 43.8 | 44.9 | 36.1 | 52.8 | 54.9 | 43.4 | 35.2 | 33.8 | 27.5 |
| Increase in debt to assets expansion | 45.7* | 63.2 | 55.6 | 51.1* | 72.5 | 61.8 | 41.2* | 51.5 | 49.9 |
| Depreciation allowances to fixed assets | 5.8 | 6.3 | 6.8 | 5.1 | 4.3 | 6.0 | 6.4 | 8.1 | 7.6 |
| Interest charges to sales | 3.8 | 4.5 | 6.7 | 6.7 | 7.4 | 9.6 | 2.6 | 3.1 | 4.9 |
| Cash flow to owners' equity | 16.2 | 13.2 | 20.2 | 15.3 | 15.6 | 11.7 | 16.6 | 11.7 | 28.3 |
| Net margins to sales | 0.5 | -4.3 | -2.4 | -0.9 | -3.6 | -5.3 | 1.1 | -4.6 | -0.7 |
| Labor costs to sales | 22.6 | 26.7 | 21.7 | 23.8 | 28.4 | 21.5 | 22.0 | 25.9 | 21.9 |

Source: Mediobanca, Milan

* *1969*

This study of 795 Italian corporations shows how debt overhang impedes further capital formation.

billion target was the immediate trigger for this week's collapse of the Andreotti government.

*Cartelization*

The industrial depression has also deepened the financial crisis of several major public sector and private companies. A recent Bank of Italy survey of 143 firms showed that their overall indebtedness amounted to nearly $55 billion, while their combined annual interest liabilities totaled $8.6 billion. The situation is so desperate that the government just approved an emergency allocation of about $500 million to the most hard-hit companies to cover payment of back bills, delayed December wages and Christmas bonuses. Recipients reportedly included Montedison (chemicals), Italsider (steel), Alfa Romeo (auto), Unidal (foods), and Liquigas (chemicals).

Lazard Freres-linked Mediobanca chief Enrico Cuccia has meanwhile stepped into the breach with proposals to take over and rationalize the semipublic Montedison chemicals group (returning it to the "private" sector), with the help of financing provided by an international banking consortium led by the Brussels, Rothschild-associated Banque Lambert. Cuccia is further promoting the idea of a European-wide "chemical cartel" aimed at reducing output and raising prices. Recent *Journal of Commerce* coverage indicates that Cuccia's plan entails a "European minimum selling price" system — similar to that just set up for the EEC steel industry. Significantly, Etienne Davignon, the EEC commissioner for industry and the architect of the new steel cartel, met with Industry Minister Donat-Cattin last week to discuss the outlook for Italian chemicals and fibers.

A similar "restructuring" is underway at Agnelli's Fiat, which has just been decentralized into 11 separate companies. According to the company's financial director, Cesare Romiti, Fiat will de-emphasize investment in industrial vehicles in favor of passenger car production. However, Romiti's long-term perspective (as paraphrased by the *Financial Times*) is that "it would be necessary to rationalize if not to merge production among the various European car manufacturers.

*Potential for Expansion*

While the Cuccia faction maneuvers to impose its "solutions" in the government crisis, there is still a chance that a proproduction labor-industrial alliance, consisting of a coalition of Communist, Socialist, and Christian Democratic elements, might emerge in control, provided international support is forthcoming. The tremendous potential for an Italian economic expansion based on exporting capital goods in exchange for development is shown by the deals already being discussed with East European and OPEC nations. The Italian state steel company, Finsider has floated a plan to build a 750-kilometer pipeline to carry coal from Poland to northern Italy. Italy presently imports 80 percent of its energy needs, and this project would help to reduce the country's heavy import bill. The Italian government, SMI-Metalli Industriali, a leading copper fabricator, and the Pechiney group of France are also discussing developing Poland's copper fields. But trade with the East bloc has generally been hampered by the Eastern Europe's debt overhand and Italy's own capital shortage.

Italy's state electric utility, ENEL, is also one of the leading exponents of nuclear power. Although the government recently gave approval for ENEL plans to build 12-14 nuclear power plants in the next five years, the question of where to raise the necessary capital — at least $14 billion — is still unanswered. Although the Carter Administration has promised credits, from the Export-Import Bank, these loans would only cover the costs of American equipment (about $150 to $200 million for the first two reactors) and are still being negotiated. A planned $500 million loan for ENEL from a Chemical Bank-led consortium remains in limbo, possibly due to the current Italian political crisis. Nevertheless, after many delays due to "market conditions," a $200 million Eurodollar credit managed by S.G. Warburg of London was signed this week.

*Confindustria's "Program"*

In the meantime, Confindustria (employers' federation) head Carli has put forward a confused jumble of proposals ostensibly designed to promote economic growth and investment without triggering inflation. While the OECD has projected 1 percent GNP growth for Italy in 1979, Carli is calling for 4.5 percent growth through selective credits to industry ("efficient" ones only), tax breaks to encourage investment, which are to be counterbalanced by cutbacks in public spending through service rate hikes and "containment" of labor costs.

The Confindustria plan dangerously pits industrialists' concern for increased capital formation against workers' needs to recoup the decline in real wages. A recent statement by CGIL leader Marianetti indicates some trade unionists are thinking in the right direction; he called on the unions to devise an expansionist program which would enable workers to abandon their present entrenched positions where they can merely fight to maintain present income levels.

—*Alice Blythe*