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decapitalization which is destroying the legacy of the Gaullist period. Productive investments remained negative during the last three year period: after falling by 10 percent in volume terms in 1975, private non-residential investments did not pick up significantly in 1976, and their growth — achieved only in the first half of the year — was limited to about 3 percent in volume terms for the whole year. Latest estimates are that private industrial investment will drop by 2 percent in 1977.

A recent survey conducted by the Credit National on the financial situation of a representative sample of industrial firms leads toward even more pessimistic forecasts. More than 40 percent of the firms ran into losses in 1975 and 60 percent did not give any dividends. Their total indebtedness has sharply increased up to over 100 percent of their equity and their self-financing capacity has fallen down to 34 percent of their resources, against figures superior to 70 percent in the early seventies.

In terms of financial resources, the firms are also completely squeezed. First, the current, prohibitive bank interest rates required to keep the franc stable (13 percent for creditworthy corporate users) exclude any substantial increase in investments whatever the (minor) financial assistance given by the state to small and medium sized companies. Rates on the bond market are around 11 percent, which represents around 12 percent in financial cost. A recent survey of the Commission des Opérations de Bourse — the French SEC — reveals that the share of the financial market in the financing of fixed asset formation fell from 12.5 percent in 1975 to 10 percent in 1976.

Finally, the long-term sacrifice of the scientific potential of the French industry is reflected by the collapse of investment in R and D in the most advanced sectors — atomic research, energy, computers, etc. — while the fall in housing (see Table 2) shows the long-term reduction in the living standards of workers.

The French stock market, after a 5 percent fall in two sessions following the results of the recent municipal elections, has fallen an additional 5 to 10 percent in the two sessions after the announcement of the new Barre government and its follow up 12 month program to the first "Barre plan."

IMF Loan Conditions Spell Economic Suicide

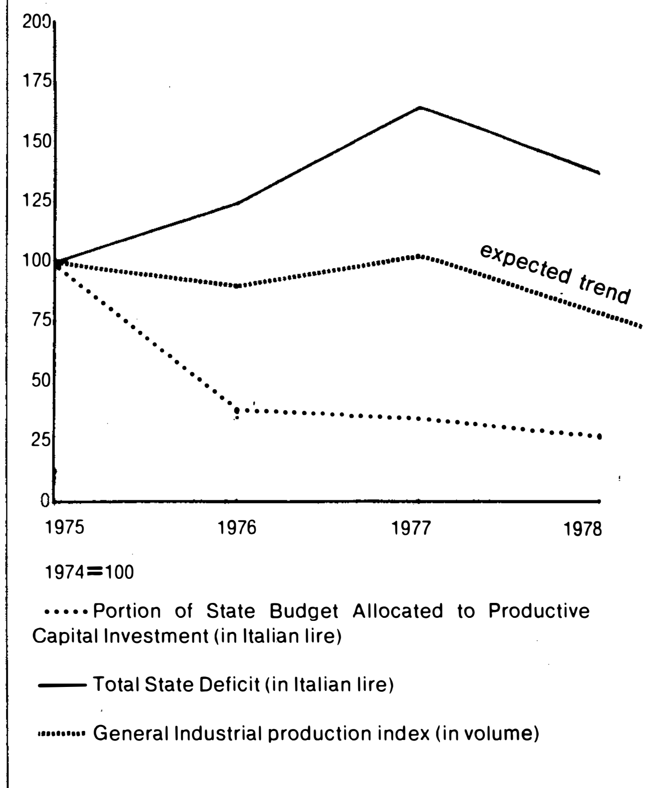
ITALY

Contrary to what the International Monetary Fund (IMF) laid out in its official "Letter of Intent" to be signed by the Italian government, the conditions accompanying the pending $530 million IMF loan to Italy will drastically cut output potential.

There can be no illusions about the "recovery" which Italy experienced in 1976. The outstanding elements of this "recovery" — the approximate 40 percent yearly increase in exports, and the 12.3 percent volume-increase in industrial production — were based firmly on the austerity policy carried out by the government and dumping on the international markets facilitated by the devaluation of the Italian currency. The IMF conditions, as officials in the IMF privately admit, will greatly reduce Italy's output for 1977. 1977 will not turn out as the IMF envisions, as a "year of Zero Growth" for the Italian economy; it will be a year of "negative growth" — the collapse of the country's industrial potential in short-term.

In Italy nearly 50 percent of all industry is nationalized. One of the IMF's major conditions, that the Treasury deficit be contained at 9,800 billion lire will nearly dismantle the massive state industrial sector. This cutback in the Treasury deficit from the original 1977 state budget projection of 13,800 billion lire forces a drastic curtailment of internal credit. This, in turn, will be immediately felt in the rate of capital investment.

As seen in Graph A, there is a direct correlation between the state deficit and industrial output. Italy, being a



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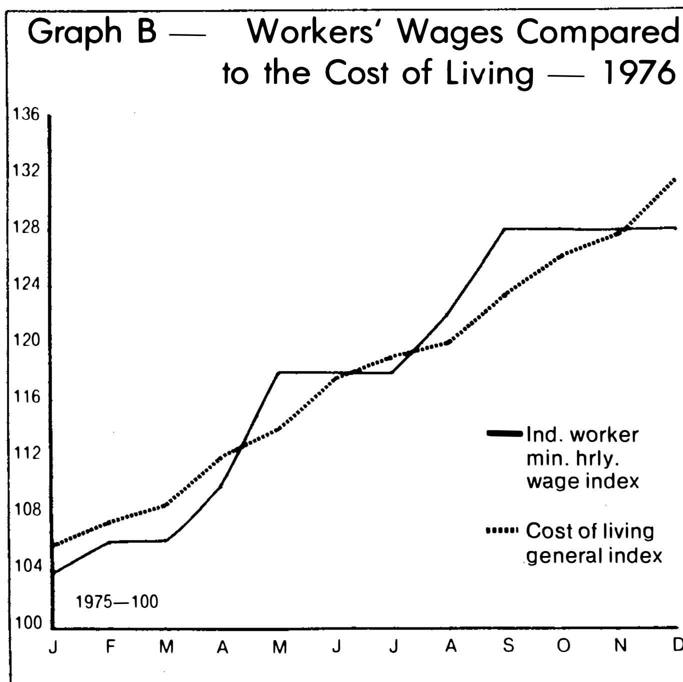
throughput economy, necessarily must increase its state deficit to import the raw materials to process for exportable goods. The IMF's condition that the state deficit be slashed from the 1976 level of 11,515 billion lire would therefore produce a corresponding drop in industrial output. Already it has been shown that a downward tendency of state budget allocations to the productive sector means a corresponding drop in output. Even prior to the time the IMF's conditions were revealed, the state budget foresaw a 25.5 percent decrease in such allocations for 1977.

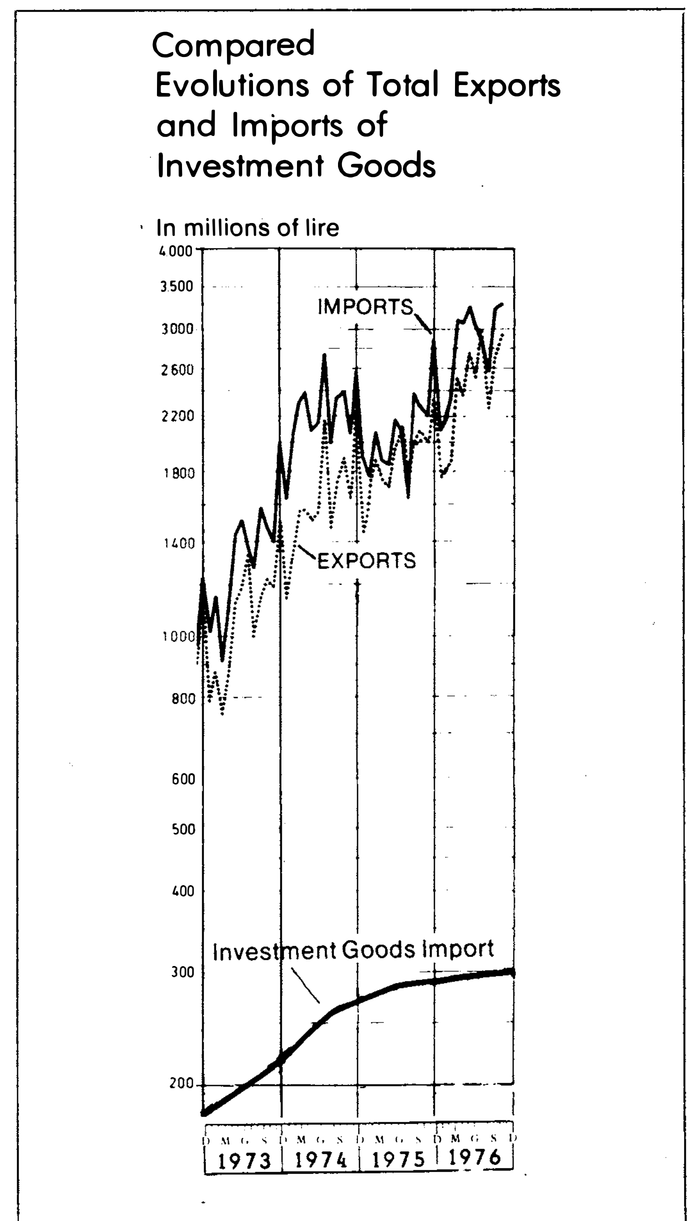
The Italian state industrial sector has been spearheading the drive for increased trade and development with the oil-producing countries and the CMEA. In order to meet commitments already made in these deals, in January 1977 Public Sector Minister Antonio Bisaglia laid out the baseline needs for the expansion of the public sector. Bisaglia asked Parliament at that time to approve a 3,800 billion lire grant. However, the government cut the amount to 1200 billion. The IMF conditions would put it at less than 700 billion. At the time Bisaglia first addressed the Parliament on the need for the 3,800 billion lire, he made clear that there was no turning back now for the public sector. The commitments to expanded trade and development had been made, the initial investments in capital expansion had already begun. Exemplary of the plans now laid aside is the massive Gioia Tauro steel complex in the South.

While the public industrial sector had begun massive capital investments, individual industrialists had been using up their inventories of raw materials to obtain 1976's 12.3 percent increase of industrial output. On March 22 *La Stampa's* regular Brussels correspondent Renato Proni revealed that the IMF had imposed new "secret" conditions on Italy as well. One of these secret conditions — the government must slash the balance of payments deficit from the 1976 level of 2,300 billion lire to 500 billion lire by March 1978 at the latest. This cutback would quickly end any possibility for rebuilding raw materials inventories. Official employers' associations estimate that the raw material prices on the world market would rise at least an additional 2.2 percent in real terms during 1977. In fact, the rise for January and February only is already superior to 5 percent in real terms due to the New York banks' speculation on commodities.

Since Italy's major import deficits were registered in oil and food, the cutbacks not only affect industry, but the living standards of the workforce as well.

Cutbacks in imports, coupled with other IMF demands, will destroy the labor power of the workforce. The IMF also plans massive cutbacks in the state-subsidized health insurance and a halt to all state aid to the cities and local administrations. As shown in Graph B, Italian wages, which are indexed to a cost-of-living escalator, are barely keeping up with the rapid rise of the cost of living. And the cost of food and clothing are much higher than the general index itself.





If Italy bows to the IMF's condition that the COL escalator be overridden by an across-the-board increase of the value-added-tax (VAT), the employed workforce would fall behind the rising cost of living rapidly. The final proposal apparently accepted by Italy's Treasury Secretary Stammati, excluding the government raise in tariffs from the COL, would promptly lead toward similar effects.

Once real wages and food imports are cut, there will be a drastic cutback in the caloric intake of the working class. Coupled with proposed reductions of 6,550 billion lire in the state health insurance fund for 1977, this makes an epidemiological disaster an immediate danger. The Italian south is already the scene of epidemics during the summer months.

The Fight

Immediately after the announcement of the IMF's conditions, stiff opposition appeared. Naturally, the most vehement reactions came from the state industrialists themselves. Cesare Merzagora, formerly of the state steel complex, Finmeccanica, stated in a guest editorial in *La Repubblica* March 20: "Zero Growth will destroy the economy...a most dangerous tendency which increases unemployment and leads to its related problems of violence in the streets and of confrontations with the police and carabinieri...Dollars which are waved under our noses like so much sausage in front of famished puppies, certainly will not improve the situation if we were to continue to remain rigidly within the sphere of the remedies prescribed by the IMF."

The four major public and private corporations — Fiat, Pirelli (both private) and Montedison and ENI (state-owned) — finding that the capital needed for investment from the state are tied up, have taken independent steps to get capital investment from other sources. Both Pirelli and Fiat have been relatively successful in getting these expansion funds. Fiat did so with its December 1976 deal with Libya. Libya's investment in Fiat raised Fiat's capital holdings from the 600 billion lire level to 850 billion lire. Pirelli, by floating of new shares increased its capital by nearly one-third. But the state-sector companies, in dire need of new capital financing, have, as in the case of Montedison, become entangled in banking deals with Mediobanca which threaten bankruptcy.

Since the immediate post-war period, the Italian Communist Party (PCI) has collaborated with state sector industrialists to build up Italy's nationalized industries; now the PCI has gone on the offensive against the IMF's demands. The presently convened provincial conferences of the PCI have become planning sessions to mobilize workers against the IMF. PCI presence in the trade unions, is a significant rearguard bulwark against the IMF demands.

But the only solution for the credit-squeezed Italian economy *now* is the actualization of a new system of credit based on a major capital-intensive policy for increased trade and development with the Third World and socialist sector.