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The Squeeze Is On In Southern Europe

Although Turkey and Portugal, in particular, are now in financial emergencies, it is as a whole that the six Mediterranean countries of southern Europe, including Spain, Greece, France, and Italy, face a desperate economic situation marked by trade contraction and balance of payments deficits. To enforce debt payment from these economically weak nations, destabilization operations have been launched from New York and Washington, D.C. against the individual governments and the whole area, by the more desperate element in the New York banking community whom an insider has identified as "David Rockefeller's court at Chase Manhattan."

Despite the sizable differences in these nations' levels of development, resource bases, political institutions, and so forth, they count as a potential bloc of no small significance for the projected new world economic order. This is reflected in their own notion of a "Mediterranean peace and development zone," and in the related common specific orientation of their governments toward closer Arab cooperation for bilateral and trilateral trade-based development programs.

By the same token, an abortion of this collective potentiality is a necessity for David Rockefeller's definition of the area to hold good: "NATO's southern flank."

It is no secret on Wall Street that as early as the end of this spring, currency devaluations ranging from 75 percent (Turkey) to 20 percent (Portugal) are to be imposed on these countries by those extensions of Rockefeller private networks known as the World Bank and International Monetary Fund (IMF). This intended new round of looting is put at such an extreme level that part of lower Manhattan and most European bankers are already publicly attacking the "excesses" of their colleagues. Their standpoint, as expressed by a French banker associated with a leading Wall Street institution, is "that if you want to milk a cow, you better try not to kill the poor beast."

What is at stake is very much the economic survival of the Mediterranean countries, which depends upon the development of their public sectors, the vital engine of their industry whole. It is precisely the state enterprises that both the World Bank and the IMF are now attacking, describing all capital-intensive projects as "industrial waste," and all management as "uneconomic" and "burdened by social goals." Politically, the targets of this offensive are the civil servants and related layers which inherently constitute "resistance" to the operations of the IMF and World Bank because of their sense of an overall national interest and its identification with industrial progress.

The Developing Mediterranean Nations

Turkey, Portugal, Spain and Greece are each caught in the same type of downward spiral, except that they are each at different phases of collapse. In the process of relative industrial development normal to these countries, they each traditionally run a trade deficit — their imports of capital goods exceeding their exports of agricultural products and raw materials — somewhat offset by a surplus of "invisibles," mainly tourism and money sent back to their home-countries by guestworkers in Western Europe. With the collapse of their markets in Western Europe, not only have their exports fallen in the last six months, but an important portion of their "exported" labor force lost its jobs. Those guest-workers must return home or significantly cut their remittances. At the same time, with the drop in the living standards in Western Europe, tourist expenditures abroad have been significantly reduced, contributing to the financial deterioration of these Mediterranean countries.

The result has been an accelerating degradation of the trade balances and balance of payments deficits of these countries, with the World Bank and IMF calling for drastic cuts in imports to "compensate" for the losses in exports and "invisibles." Such import-cuts would mean the elimination of much needed industrial supplies, the final result being accelerated deindustrialization and a corresponding phasal financial collapse.

Turkey

Turkey is an immediate case in point. Its trade deficit reached about $3 billion for 1976, and it was close to $1 billion for the first quarter of 1977. Export earnings are down 38 percent, while reserves plunged last week to an all-time low of $490 million, with only $192 million remaining in liquid holdings — not even enough for two weeks worth of imports. Turkey's foreign debt is over $4 billion, with $2 billion more representing short-term debt obligations from "quick cash" convertible lira deposits extended to the Turks over the past two years and now falling due.

Under such desperate circumstances, the IMF and the World Bank want to impose an austerity package mainly embodied in a 75 percent devaluation of the Turkish lira and a halt to all imports. This would be equivalent to the end of Turkey as a nation, since its development strategy is based upon rapid state sector industrialization linked to capital goods imports.

The Turkish government having rejected the infamous clause, the World Bank and the IMF decided to cut off all funding for projects in Turkey; the New York banks have done the same. General elections scheduled in the country for June 5 are under the immediate threat of a fascist military coup, accelerated by such provocations as the May 1 riots and massacre in Istanbul.

Portugal

The situation of *Portugal* is similar to that of Turkey.

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Portuguese Prime Minister Mario Soares recently came to the U.S. to beg for a $1.5 billion consortium loan necessary to keep his country financially afloat. Having met with a refusal, he delivered a dramatic speech last week in Strassburg (France), saying that without the $1. billion the "Portuguese democracy would not survive." The European press commented that the "parliamentarian" government of Soares would not be able to enforce the "levels of austerity" required if fresh money in "substantial amounts" is not allowed into Portugal.

According to semi-official U.S. sources, the loan fell through due to Japanese and West German reluctance to participate in a consortiu put together by American financial institutions. *Reuters* reported that Deputy Secretary of State for Economic and Commercial Affairs Paul Boeker "exposed" the Japanese and West Germans' negative approach at a House of Representatives International Relations Sub-Committee hearing. But according to Citibank, Reuters' report is not correct. In fact, the West German government was willing to go along with the loan, "to avoid a right-wing destabilization in Portugal" which could trigger a set of "right-left" confrontations throughout Europe (and put an end to Chancellor Schmidt's plans for a pro-development Socialist-Christian Democrat coalition). Citibank revealed that "other" financial institutions — Chase Manhattan — killed the loan: "We would invest in Portugal according to our economic rules, but other U.S. interests see the situation from a different angle."

The true "negative" element in the attitude of the Europeans is that they don't want to be a part of a consortium led by Chase Manhattan. The EEC Foreign Affairs Ministers meeting decided to reject a participation in the $1.5 billion consortium and instead emphasized the need to maintain EEC-Portugal relations at a "bilateral level" — "without U.S. interference."

Various sources in Washington connect the U.S. visit of Portuguese right-wing politician Sa Carneiro, leader of the Popular Democratic Party (PPD), to Chase Manhattan-led interests refusal of the Soares loan. An over 20 percent devaluation of the Portuguese escudo is now demanded as a precondition, over and above the 15 percent devaluation which occured some weeks ago. It is well-known that such levels of "austerity" can only be enforced under "military pressures."

Greece

The short-term situation of *Greece* is better than the Portuguese: this country's $4 to $5 billion foreign debt is quite solid (medium 5 to 7 year commercial credit) and its currency reserves have stabilized since 1974 at around $800 million. Given the relatively stable political situation, one New York banker goes as far as to describe Greece as an "attractive lending prospect."

But the figures, if financially correct, are misleading. Greece's industrialization is based upon labor-intensive investments in the foodstuff and textile sectors; a major part of investment is pure real estate speculation. To build up a sounder, capital-intensive oriented heavy industry, the country must rapidly expand its imports of capital goods. Hence, a $3 billion trade deficit in 1976. But with the drastic fall in exports of "Mediterranean products" to Western Europe and a collapse of "invisibles" — again, guestworkers' receipts, tourism and shipping — Greece is near a potential squeeze. Its balance of payments' deficit reached about $1 billion in 1976 and is progressively worsening. This heads the Karamanlis government toward a situation comparable to that tof Turkey within a relatively short period of time.

Spain

Spain has a much stronger economic base than the preceeding three countries, backed up by a pro-development banking-industrial sector controlled by the state. Spain's total debt as of December 1976 is around $10 billion, while its foreign reserves reach about $5 billion (including $600 million in gold still valued at a $42 per ounce). But here again, the financial picture is misleading.

Precisely because Spain has reached a higher industrial level, it needs to import more capital goods for its new development projects. Its balance of payments is therefore well in the red: the 1976 deficit was over $4.5 billion, and the inflation rate is now around 20 percent, a figure close to that for Portugal (30 percent).

The New York bankers estimate short-term Spanish borrowing needs at $1 billion, to be negotiated after the June 15 elections. The Suarez government seems in control of the situation, and its Fiance Minister, Satrustequi, has declared that more austerity is unacceptable, a "devaluation being out of the question, at least for the time being." But the British *Guardian* makes the point of the international bankers in its May 3 issue: "Unless there is a substantial recovery in the trade balances, the Spanish government will have to go to the IMF for a — and submit itself to IMF conditions. The Belgian daily *Le Soir* May 3, after describing Spain as in a "crippled economic situation," makes explicit for the first time the demands of the international banks: a 20 to 40 percent devaluation of the peseta.

The strategy of the Suarez government is to resist the IMF-World Bank-Chase Manhattan demands, looking for European and Arab support. Suarez is determined to integrate the Spanish economy into the European Economic Community that he sees as a "shelter," and to obtain the financial support of the Saudis. The Saudis, who have already made a $150 million loan to Spain are expected to intervene with more substantial amounts — $2 billion is rumored in Madrid — if Suarez manages to control the political situation after the elections. It is also said in the Spanish press that the West German nuclear reactors to be built in Spain could be financed with Arab money.

Italy

The case of the relatively more advanced *French* and *Italian* economies is still not so different. Both have a sound industrial base backed up by a powerful public sector and state-controlled credit issuance (see European Economic Survey, Executive Intelligence Review, April 5, 1977; Vol. IV, No 14). Their basic problem is that their industrial development is no more possible within the framework of the present international monetary system than that of the Third World. Both are now evolving under either self-imposed

(France) or IMF-imposed (Italy) austerity conditions.

True, according to the latest financial figures, *Italy* seems to be in a relatively stable situation: during the last month, currency-reserves increased, the foreign trade deficit declined and Treasury bonds sold well. But this is the calm before the storm. The effect of the IMF austerity conditions is not yet reflected in the available figures, and according to a Citibank estimation, Italy's medium and long term foreign debt is around $20 billion. According to other banking sources, if the short-term debt were to be added to the figures, the result would be a $40 billion total foreign debt.

On top of this, Italy's financial needs will be "enormous" this year if the government wants to maintain investments at a satisfactory level, develop nuclear energy according to plans and yet pay its foreign debt. Chase Manhattan and Citibank refuse to give precise figures, but they say that the Italians are trying to replace the money they have pledged not to print by various foreign loans for their public sector.

According to Citibank, the nuclear program of the Italians represents an additional $15 billion over the next few years. Sources in Washington mention $10 billion as the Italian need for foreign financial resources this year. Citibank commented that "this figure seems to make a lot of sense" if you add debt payments, maintenance of public and private investment and Italy's nuclear program.

But within the present monetary order, the snowball effect of all these expenses cannot be maintained indefinitely. As Chase Manhattan put it, "something has to go." Of course, Chase and the IMF target the public sector, Italy's base for industrial development, as the portion to be triaged, and gloat about its "inefficiency, inadequate social goals," and so forth. Their weapon is the destabilization operation unleashed against the Andreotti government to pit the pro-development forces in the Christian Democracy and those of the Italian Communist Party linked to the public sector against each other.

France

France's economic situation is "objectively" not so bad. This country's foreign debt is estimated by New York at around $15 billion, a relatively "tolerable" amount compared to the total French foreign reserves of about $18 billion ($4 billion in foreign currencies and $14 billion in gold at market value).

But the French situation looks much worse in terms of recent indebtedness: the French foreign debt increased at three times the pace of its foreign reserves during the last available six-month period according to the last report published by the Banque de France. That's twice as fast as during the same period last year. Citibank estimates that France is borrowing much more on various off-shore markets than appears in officical statistics, and that this country is not far from the situation of Italy. Basically, the Barre government is feeding the public sector with foreign loans and thus trying to maintain the economy afloat, but the limits of such a policy are "about to be reached," according to a French banker in New York.

Politically, the Barre-Giscard regime is not in control of the situation, and France seems ripe for a "Union of the Left" confrontation with Giscard's "presidential majority", provoked by the New York banks. French bankers expect a "run against the franc" and capital outflow in preparation for this "left-right" confrontation.

Algerian Economy Recovering From Hudson Institute Plan

ALGERIA

The failure of the Algerian economy to feed its growing population of 16 million people is the direct result of incompetent planning by the Hudson Institute. The decision to embark upon an ambitious industrialization program without integrating agriculture into the overall schema has led to increased indebtedness, a critical shortage of labor power and the traditional bottlenecks in services and distribution due to overcrowded cities and high rates of unemployment. Lacking in 1970, the beginning of the first development plan, was a national policy toward agriculture which would provide the necessary credits and technological incentives for the integration of the traditional or peasant sector into the state sector.

Instead, Algeria took the advice of Hudson Institute "advisers" and implemented a short-sighted crash plan for heavy industry, including unusable amounts of capital goods imports, without agricultural back-up. This stratification in the economy has begun to take its toll on the pursestrings of the government. Declining productivity in the late 1960s and early 1970s led to the disastrous crop failure in 1975, when a full $1.5 billion or 33 percent of oil revenues were eaten up in wheat imports. Although 1976 produced a record crop of 2.2 million metric tons, this year's wheat importation will exceed 1975 figures mainly because of the nutritional needs of an expanding and increasingly youthful population, and secondarily because of the deleterious although secondary effects of the current drought. Wheat imports for 1977-78 will reach approx. 2.0 million metric tons.

The Algerian government, acutely aware of this dichotomy has taken measures to eradicate stagnation by launching the Agrarian Revolution. Although initiated in 1971, its take-off only began late last year. At last, agriculture will be one of the main areas of concentration in the upcoming four year plan of 1978-81. The recent gov-