Table 5

Decline in West German Industrial Workforce

(MILLIONS OF EMPLOYEES)

1972	1973	1974	1975	1976
8.3	8.3	8.1	7.6	7.4

SOURCE: DEUTSCHE BUNDESBANK

Table 6

West German Industrial Production to Trade

(IMPORTS AND EXPORTS IN BILLIONS DEUTSCHEMARKS)
(INDEX BASE: 1970=100)

	INDEX OF ALL INDUSTRIES	INDEX OF MECHANICAL ENGINEERING	IMPORTS	EXPORTS
1972	105.9	97.5	128.0	149.0
1973	113.1	100.8	145.0	178.0
1974	111.5	101.5	179.0	230.0
1975	104.5	95.7	184.0	221.0
1976	111.5	95.0	221.0	256.0

SOURCE: DEUTSCHE BUNDESBANK

from West Germany of 18.9 billion DM. As the result of 33 percent devaluation in the British pound against the DM since 1972, Britain has been able to double its exports to West Germany in the same period, to 8.5 billion DM.

West German steel merchants have charged that 30 percent of all steel sold in West Germany in 1976 was imported, primarily from Britain and Italy. The president of the huge West German DEMAG machine tool firm charged at the Hannover Trade Fair recently that foreign firms are underbidding West German firms by about 30 percent — the approximate amount of Italian and British devaluations.

The collapse in world markets has taken its toll of domestic West German capital formation as well. Of the 1976 export total of 256 billion DM, approximately 139 billion were in investment goods, and another 66 billion were in basic and producers' goods. Approximately 75 percent of West German exports are capital or basic goods, making it the economy most dependent on increasing sales of capital and basic goods to finance increasing capital investment. Without this trade surplus from capital and basic goods exports, West German firms no longer have the base for new investments, and it is this trade surplus that has been destroyed in the last few years through the collapse of world markets and dumping on the West German domestic market.

Table 5 shows the effect of this destruction of West German industry's ability to invest. The industrial workforce has steadily declined since 1974. In the crucial mechanical engineering subsector, which alone accounts for 20 percent of all exports, the workforce has dropped from 125,000 to 100,000 today, outpacing the drop in the industrial workforce as a whole. In this same sector, firms have only been able to spend 2.5 percent of their total sales on Research and Development, and capital equipment age has creeped up from only 32 percent of all West German machine tools being 11 years or older in 1960 to 45 percent being that age or older in 1974.

As a result of this lack of investment, West German firms have been recently losing both foreign and domestic orders to foreign firms. The Hannover Trade Fair report of the Krupp steel firm complained that 20 percent more capital goods were imported in 1976 than in 1975. It also admitted that West German firms, which were investing an average of 35 billion DM per year up to 1971, have been investing much less since then. This investment gap is now 35 billion DM, and the report indicated that it could only be closed through increased export-generated investments.

Table 6 shows the effect of this lack of investment in the mechanical engineering sector. Although general industrial production, along with imports and exports for the reasons mentioned above, were able to register some improvement after 1975, the mechanical engineering index actually showed a slight decline from 95.7 in 1975 to 95.0 in 1976. Even given the one shot giant factory contracts in 1976, mechanical engineering has not been able to compensate for contraction of world markets and lack of investment.

The Predicament Of French Foreign Trade

FRANCE

The recent evolution of French foreign trade — with a decrease in import-volume by nearly 10 percent since the beginning of the year accelerating to an 11.7 percent fall in the value of total French imports in April, and an approximate 10 percent increase in exports through the stimulation provided by a "weak" franc — reflects a temporary *financial* success of the Giscard government in cutting down an endemic deficit. But the "success" has been obtained with an incompetent strategy. The

Table 1

French Foreign Trade — Total Figures 1972–1976

(MILLIONS OF FRENCH FRANCS)

	1972	1973	PER CENT EVOLUTION 1973/1972	1974	PER CENT EVOLUTION 1974/1973
IMPORTS	126,360	155,832	+ 23.3	239,611	+ 53.8
EXPORTS	133,387	162,462	+ 21.8	222,741	+ 37.1
BALANCE	+ 7,027	+ 6,630		- 16,870	
EXPORT IMPORT RATIO (PERCENTAGE)	105.6	104.3		93.0	

	1975	PER CENT EVOLUTION 1975/1974	1976	PER CENT EVOLUTION 1976/1975	PER CENT EVOLUTION 1976/1974	TREND IN 1977
IMPORTS	220,434	- 8.0	291,590	+ 32.3	+ 21.6	FALLING
EXPORTS	227,198	+ 2.0	270,890	+ 19.2	+ 21.6	RISING
BALANCE	+ 6,754		- 20,700			
EXPORT IMPORT RATIO (PERCENTAGE)	103.1		92.9			

SOURCE: DEPARTMENT OF CUSTOMS, FRENCH FINANCE MINISTRY

export drive is based upon currency undervaluation and credit to develop sales in the East Bloc and Third World, a dead-end process in the absence of an International Development Bank, while the cuts in imports have implied a contraction of the domestic market now leading France toward *economic* collapse.

The total figures of French foreign trade (see Table 1) reflect a situation of economic stagnation from 1974 up to the end of 1976. The notable increase in imports during 1976, and the apparently satisfactory development of exports, should not misguide the reader. The key figure is that of the percentage evolution of trade figures between 1974 and 1976: both imports and exports have increased by about 21.6 percent. This is a zero-growth situation or worse when one takes into account inflation, which stood at a rate notably beyond 20 percent over the same period.

This is directly confirmed by the evolution of French imports and exports in volume as reported by the International Monetary Fund (see Table 2). The volume of French exports was, at the third quarter of 1976 (140.4), under the level of 1974 (149.4). The present level is, according to authoritative estimations, at about that of 1974, while today's index of imports (at 139) is around the figures of 1973. Such a stagnation is confirmed by the index of French industrial output (Table 2), now decreasing from its present level (127) which is comparable to that of 1974 (123).

Worse, the recent evolution of French foreign trade (see Graph 1) shows a sharp decline of French imports *in value* since the fourth quarter of 1976, while the fall is still more spectacular in volume, at a yearly pace of more than 10 percent. The subjective aspect of the situation is pathetic. The French government is posing the evolution as a success because it permits them to reduce the overall French trade deficit! True enough, exports are meanwhile increasing at a pace of about 10 percent volume, but Table 2 reveals that they are artificially spurred by the six- to nine-month delayed consequences of the devaluation of the French franc in the 1975-1976 period.

Furthermore, an in-depth analysis country by country shows that French exports *are not "conquering new markets,"* but mainly taking portions of certain already existing markets out of the hands of countries with "strong" currencies, such as West Germany. In the not so long run, such an evolution leads nowhere, because West Germany — which is also and by far France's number one customer — will be economically weakened, and in turn reduce its purchases of French goods, contributing to lead world trade toward a new round of collapse.

France's Actual Vulnerability

By accepting as a given fact of life the contraction of international trade and production, the French government only aggravates the immediate vulnerability of the country's foreign trade structure in a period of general crisis.

Table 3 shows how the French economy works on a world scale. The advanced sector — Japan, the U.S. and the European Economic Community (EEC) — represents an accelerating source of deficit: French francs 31.89 billion in 1976. This deficit is balanced, or partially balanced, by a trade surplus gained against the East Bloc and the Third World, which ran at francs 24.4 billion in 1976. A case in point is Algeria, toward which French exports reached francs 7.03 billion (916,000 metric tons) in 1976, French imports being limited at francs 3.32 billion (7,497,513 metric tons) to produce a spectacular francs 3.71 billion surplus.

There is nothing wrong per se with this development, certainly not with vital French exports of equipment goods being sustained by East Bloc and Third World imports, which as a whole absorb about 40 percent of total French exports in this sector, as much as the EEC and U.S. altogether. Moreover, if French exports of

Table 2

Comparative Trends of French Trade Volume, Industrial Output and Value of French Franc in Relation to U.S. Dollar

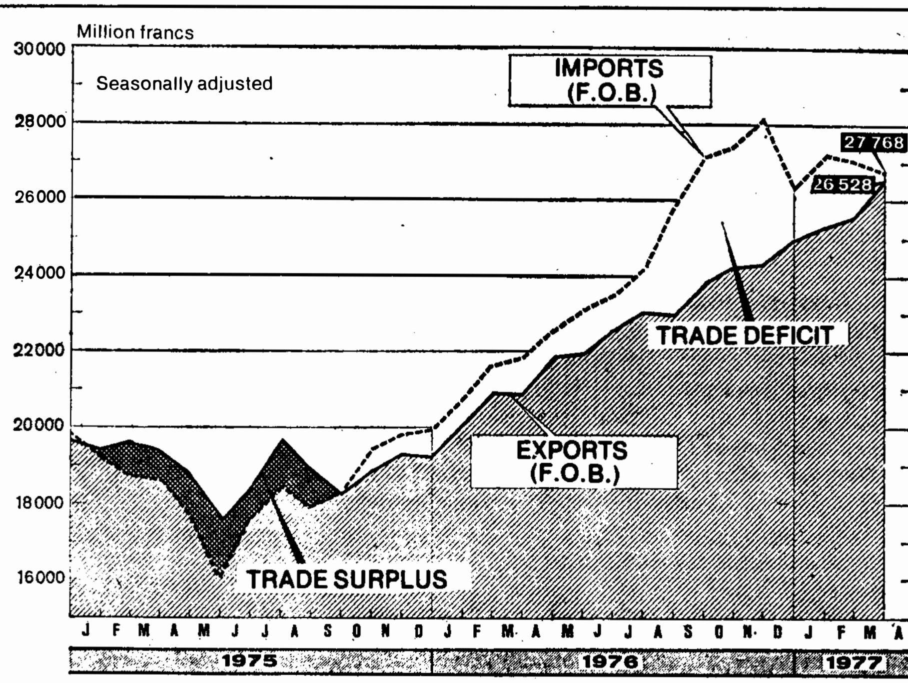
	1970	1971	1972	1973	1974	1975	1976 3RD QTR.	MARCH AND APRIL* 1977	TREND 1977
VOLUME OF EXPORTS	100.0	108.4	123.8	136.5	149.4	144.1	140.4	150.0	RISING
VOLUME OF IMPORTS	100.0	107.6	122.7	139.4	131.6	131.6	148.3	139.0	FALLING
FRENCH INDUSTRIAL OUTPUT	100.0	106.0	112.0	120.0	123.0	112.0	126.0	127.0	FALLING SLIGHTLY
VALUE OF THE FRENCH FRANC COMPARED TO THE U.S. DOLLAR AT MARKET RATES	5.5200	5.2240	5.1250	4.7080	4.4445	4.4855	4.99	4.99	FALL IN 1975-1976

SOURCE: INTERNATIONAL FINANCIAL STATISTICS, APRIL 1977
INTERNATIONAL MONETARY FUND

* ESTIMATED

Graph 1

Recent Evolution of French Exports and Imports



Source: Department of Customs, French Finance Ministry

GROSS FIGURES — FRENCH FRANCS, BILLIONS

Trade	March 1976	March 1975	%1976-1975
Exports	29.2	23.4	14.4
Imports	31.4	24.9	16
Deficit	2.2	1.5	

Table 3

French Foreign Trade Deficits and Surplus (Oil Transactions Excluded)

(MILLIONS OF FRANCS)

	EXPORTS TO THE EEC, JAPAN AND U.S.	IMPORTS FROM THE EEC, JAPAN AND U.S.	DEFICIT VIS-A-VIS EEC, JAPAN AND U.S.	EXPORTS TO THE EAST BLOC AND 3RD WLD.	IMPORTS FROM EAST BLOC AND 3RD WORLD	SURPLUS VIS-A-VIS EAST BLOC & 3RD WORLD
1973	98,340	107,546	- 9,206	31,384	26,738	+ 4,646
1974	132,036	145,372	-13,336	45,927	43,523	+ 2,404
1975	122,356	135,255	-12,899	58,842	36,609	+22,233
1976	149,200	181,090	-31,890	72,200	47,800	+24,400

SOURCE: DEPARTMENT OF CUSTOMS, FINANCE MINISTRY

Table 4

Trends of French Exports, by Key Manufacturing Sectors

(AVERAGE FOR 3 MONTH PERIOD) IN MILLIONS OF FRANCS

	1974	1975	1976	PERCENT EVOLUTION 1975/1974	PERCENT EVOLUTION 1976/1975
TOTAL EXPORTS	54,296	55,188	63,850	+ 1.7	+15.7
GOODS FOR INDUSTRIAL EQUIPMENT	11,500	14,600	17,330	+27	+18.5
TRACTORS, CARS, OR OTHER VEHICLES	5,500	6,700	8,100	+21.8	+20.9
STEEL INDUSTRY	4,800	4,300	4,500	- 1	+ 0.4
SEMI-FINISHED PRODUCTS	15,100	13,300	15,600	-11.9	+17.3

SOURCE: BULLETIN MENSUEL DE STATISTIQUE, INSEE (FRENCH NATIONAL STATISTICS)

goods for industrial equipment have still increased as a whole by 27 percent between 1974 and 1975, and 18.5 percent between 1975 and 1976 (see Table 4), despite a near-stagnation on the markets of the advanced sector, it is because of a sharp and continuous expansion of sales toward the East Bloc and Third World; exports toward the East Bloc increased by around 75 percent between 1974 and 1975, and by approximately 50 percent between 1975 and 1976. As a whole, French exports toward the USSR have increased by more than 40 percent during the first months of 1977, and they are expected to triple, with France buying more Soviet oil in counterpart arrangements.

The actual "vulnerability" of France's foreign trade structure is that it can only work under circumstances of worldwide economic development, where the Third World and the East Bloc receive an adequate amount of *credit* to buy a steadily increasing amount of equipment goods from the advanced sector. This is in direct opposition to the acceptance of world trade contraction by the French government, which is thereby ruining the basis for its own economic existence.

The recent evolution of French trade by world regions makes the point (see Table 5).

Exports Dead-end

The EEC still represents about half of French total exports, but its share is progressively declining. Although this reflects in part the opening of the French economy to extra-European trade, it is also a consequence of the decrease of the French competitive position among the EEC nations. Between 1973 and 1976, the French deficit vis-à-vis the other EEC countries increased from francs 2.5 billion to francs 17 billion. France runs a francs 13 billion deficit with West Germany and francs 5 billion with the Netherlands, while her surpluses with Great Britain (francs 2.40 billion in 1973 against francs 1.02 billion in 1976) and Italy (francs 3.76 billion in 1973 against francs 1.59 billion in 1976) are progressively shrinking. This situation is due to France's failure to improve its balance of trade with other EEC countries in the capital goods sector, where she runs a francs 11.5 billion deficit together with an export-import ratio of around 65 percent. The traditionally successful exports of French cars and trucks are themselves beginning to be impaired by the West European crisis, while sales of consumer goods to other EEC nations are also falling, with a trade war between French and Italian producers threatening to erupt in the sector of household appliances.

French exports to the rest of the developed sector are also doing very badly. The following figures show the situation with the U.S. and Japan:

French Trade in 1976 (billion francs)

	exports	imports
U.S.	12.1	22.6
Japan	2.0	5.9

The last resort for expansion of the French economy is the Third World and East Bloc. Together, they represented 26.7 percent of French total exports in 1976, against only 19.6 percent in 1973. But the debt-service situation of those sectors leads the French economy toward a dead end withing the framework of the dollar system.

Official French policy up to now has been to finance the maintenance and limited investment of the public sector and production of equipment goods through foreign borrowing. The total French foreign debt now totals $25-30 billion, and this year the government is expected to push French companies to borrow as much as $15 billion abroad, according to *Business Week* May 16. Then, to sell the products of those borrowing industries, France issues sharply increasing amounts of trade credit to the Third World and East Bloc with the guarantee of the French Eximbank, Coface. According to sources in the French administration, during the years 1975 and 1976, Coface had to guarantee an amount of credit of around francs 120 billion, the equivalent of $24 billion. This sum is roughly equal to two years of French exports toward those sectors and also to the total amount of the French foreign debt. The French government is thus trying to keep some kind of equilibrium between the French foreign debt and the total trade credits allowed to the Third World and East Bloc. This means, in terms of the dollar system, to play the role of a "connection" on behalf of the New York banks.

Table 4 shows the recent trend toward a decline in the rate of growth of French equipment goods exports, while

Table 5

French Export Value and Percentage Increases by World Sector

(IN MILLIONS OF FRENCH FRANCS)

	1974 FF MILLIONS	% 1974/1973	1975 FF MILLIONS	% 1975/1974	1976 (ESTIMATES) FF MILLIONS	% 1976/1975
E.E.C.	117,069	+31.6	109,936	- 6.1	135,020	+22.7
OTHER EUROPEAN COUNTRIES	33,016	+44.9	30,546	- 7.5	32,800	+ 7.4
NORTH AMERICA *	12,736	+43.1	10,795	-15.2	14,100	+30.6
OTHER DEVELOPED COUNTRIES	5,840	+39.1	4,944	-15.3	5,100	+ 3.0
EAST BLOC	8,978	+38.6	12,917	+43.9	14,700	+14.0
OPEC-MIDDLE EAST**	5,625	+60.7	8,299	+47.5	11,600	+39.8
OTHER DEVELOPING COUNTRIES	27,200	+56.6	34,911	+28.3	42,700	+22.9
DEVELOPING COUNTRIES OF THE "FRENCH FRANC ZONE"	9,749	+29.3	11,014	+13.0	14,800	+34.6
TOTAL	220,213	+37.9	223,362	+ 1.4	270,890	+21.3

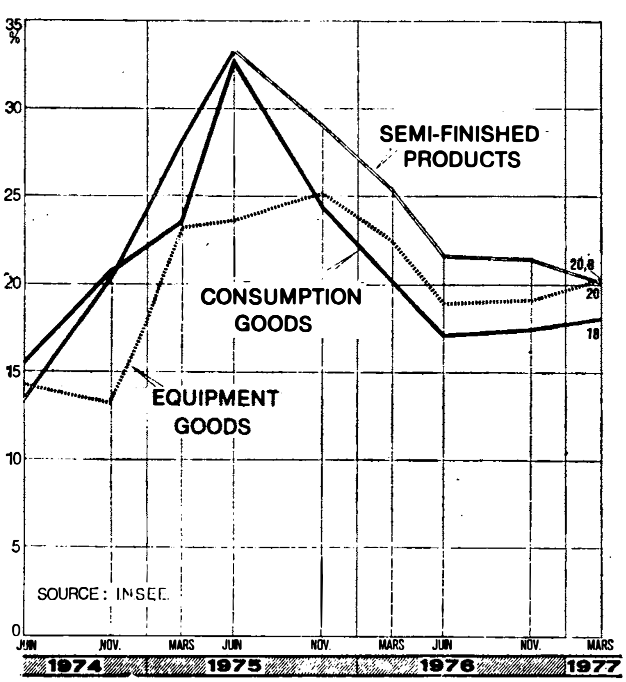
*(U.S. AND CANADA) **(ISRAEL EXCLUDED)

exports of French semi-finished products are growing again in 1976 at a pace above that of total French exports. This evolution is confirmed by the first three months of 1977: French semi-manufactures are further sustaining the relative recovery of the whole of French exports, and this in an environment of trade contraction. This means that, as in the case for Great Britain and Italy, a "weak" currency is subsidizing a type of "labor-intensive exports" which otherwise would not sell. A strategy of that sort cannot last very long without ruining all the trade partners following the rules of the game, and worse, as long as it works, it develops at the expense of domestic demand and ultimately of production for the domestic market.

As for the Third World markets, the French government is now not only limited by decreasing capacity to lend money but functions exactly like Wall Street on the issue of debt moratorium and tries to deliberately sabotage trade with the "radical" countries susceptible to take initiatives of that sort. For example, the French government has deliberately reduced its oil supplies from Algeria and Libya (20.6 million metric tons in 1972, as against 7.8 million metric tons in 1976), while increasing its purchases of Saudi Arabian and Iranian oil (24.3 million metric tons in 1972, as against 44 million metric tons in 1976). This led to a decrease in French exports toward Algeria (francs 1.1 billion in 1976), Libya and other progressive countries, which has not been balanced by a corresponding increase in Saudi or Iranian purchases. French exports toward Saudi Arabia tend to stagnate at a low francs 1.6 billion, while exports toward Iran were already tending to decrease as of the beginning of 1977.

Graph 2

Percentage of Unutilized Industrial Production Capacity



A sharp decrease in overall equipment-goods orders since mid-1976 epitomizes this recent, declining trend. Worse, while the French economy is about to run out of steam, it faces severe domestic contraction as a consequence of the austerity measures imposed.

Domestic Breakdown

The counterpart of the artificial but apparently somewhat satisfactory performance of French exports up to now — and the trend toward equilibrium of the trade balance — is, anticipating a more general crisis in Western Europe, the setback of the domestic economy. The high rates of credit imposed to defend the franc and a parallel undervaluation of the national currency stimulate exports but increase the cost of imported supplies.

Graphs 2, 3, and 4 illustrate the cost incurred by the French economy as a whole from the world trade downturn and the artificial export drive and import cuts imposed upon it.

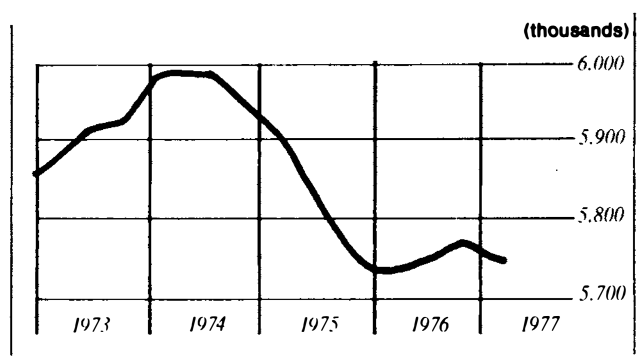
Graph 2 shows that the excess production capacity in the French industry as a whole is today at over 20 percent, far above the 5 to 10 percent rates reached during periods of normal industrial development. The equipment-goods industries are the more badly hit, indicating the limitations of the government strategy in promoting exports of those goods. Such basic sectors as steel production (stagnating in terms of exports according to Table 4) and the machine-tool industry are semi-paralyzed at rates of excess capacity around 40 and 35 percent respectively. The more advanced sectors in the French industry — aeronautics, electronics and nuclear production — have been deliberately decapitalized by the government.

Graph 3 shows the consequences of those policies on French industrial employment. Starting in mid-1974, the number of workers employed in the whole French industry has declined, a relative stabilization at the end of 1976 being followed by a further drop at the beginning of 1977.

This depressive atmosphere is directly reflected in the

Graph 3

Total Number of Workers Employed in French Industry



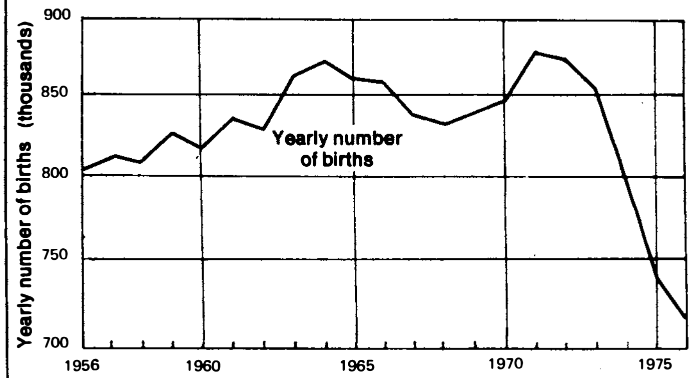
Source: I.N.S.E.E. (French official statistics) parallel decline of French births since approximately 1971 (see Graph 4), a trend aggravated since 1973-1974.

The notion of trade protectionism is a by-product of this general context of world crisis. It corresponds to the suicidal concept that in an ever-contracting world, you survive at the expense of others and by protecting your market from their interference. The French government has already shown its susceptibility to those schemes and proved it by imposing import restrictions on Spanish and Japanese goods.

An estimated $4 billion has already fled France under fears of political destabilization. An orientation of those flows toward Third World development, together with a *political* attitude of support — and not "protectionism" — would be the only way for France to stabilize herself and capitalize upon actual economic development provided by a new world monetary and credit system.

Graph 4

French Births — Last 20 Years



Source: I.N.S.E.E. (French official statistics)

Export Trends Show Skew Towards 'Third World' Model

BRITAIN

"Given an expected growth of world trade of the order of 6-7 percent it can be reasonably hoped that British exports will rise by about the same amount," the latest OECD report on the United Kingdom forecasts cheerfully, and in fact, this view coincides with the British government's belief that an "export-led" recovery will generate domestic industrial growth. Even leaving aside the clear indication that world trade will probably not even begin to grow by this rate (given the rejection of reflationary measures by the stronger developed nations and the continuing indebtedness of the Third World), the current trend of British export growth indicates a deemphasis on capital intensive, i.e., growth-inducing, sectors of the economy in favor of labor-intensive, low capital sectors.

Simply put, while rejecting a "consumer-led" boom for the British economy, the British government is basing its recovery hopes on consumer booms in *other* countries, instead of embarking on a strategy of vigorous expansion of capital-intensive machinery and other exports to the industrially starved developing and Comecon bloc nations. Such an approach is doomed to failure: firstly, because other countries have made it abundantly clear that consumer goods are not import priorities; secondly, the industries involved in such a boom, primarily textiles and chemicals for example, do not demand the kind of domestic investment in infrastructural capacity which would generate the economic recovery the country is waiting for.

Trade Trends

It cannot be denied that the overall British balance of trade position is improving. The April figures show a trade surplus of £111 million, the highest surplus in five years. Over the last three months, the overall trade surplus has risen to £126 million compared with a deficit of £565 million for the first quarter last year. At the same time, the aggregate level of imports is beginning to fall, indicating the start of a balance of trade equilibrium. Recent statements by Prime Minister Callaghan and Chancellor of the Exchequer Denis Healey indicate the government's strong belief that Britain will be confidently in the black by the end of the year.

Yet, even a preliminary breakdown of the export and import figures shows a disturbing trend in British trade patterns.

The most important contribution to the British trade balance was the effect of North Sea oil. Not only has domestic oil production allowed oil imports to fall from an oil balance of £1,004 million in the fourth quarter of 1976 to £814 million in the first quarter of 1977, but oil exports have formed one of the major import items of several European countries with whom Britain's trade deficit has been widening. In particular, the value of exports of petroleum and petroleum products to Denmark, France, West Germany, and the Irish Republic and Italy has risen sharply.

The largest increase in British exports has been to consumer nations, i.e., countries which are net exporters of capital equipment, like the U.S. and EEC countries. In all other areas, including OPEC, other Third World, centrally planned economies and "other" western countries (primarily Commonwealth), exports are still increasing but at decidedly slower rates (see table 1).

While the volume indices of exports by commodities show little change either way in most commodities, it is still clear that fuels, chemicals (linked to oil production) and textiles are on the upswing, while the critical area of machinery and transport equipment was stagnant in the