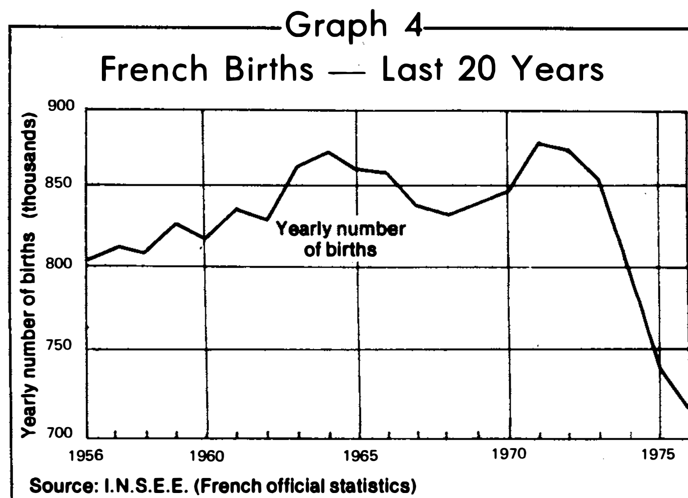
parallel decline of French births since approximately 1971 (see Graph 4), a trend aggravated since 1973-1974.

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.



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

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Table 1

Exports by Regions

(MILLIONS OF POUNDS)

	EEC	% IN-CREASE YR/YR	NORTH AME-RICA	% IN-CREASE YR/YR	OTHER DEVE-LOPED	% IN-CREASE YR/YR	OPEC	% IN-CREASE YR/YR	OTHER DEVE-LOPING	% IN-CREASE YR/YR	CEN-TRALLY PLAN-NED ECONO-MIES	% IN-CREASE YR/YR
1972	2,940		1,600		2,674		645		1,560		309	
1973	4,034	27	1,937	17	3,485	23	800	19	1,792	13	411	25
1974	5,516	27	2,263	14	4,652	25	1,210	34	2,384	25	516	20
1975	6,417	14	2,329	3	5,248	11	2,277	47	2,925	18	667	29
1976	9,174	30	3,098	25	6,218	15	3,143	27	3,362	13	727	8

SOURCE: MONTHLY DIGEST OF STATISTICS

Table 2

Exports — Volume Index

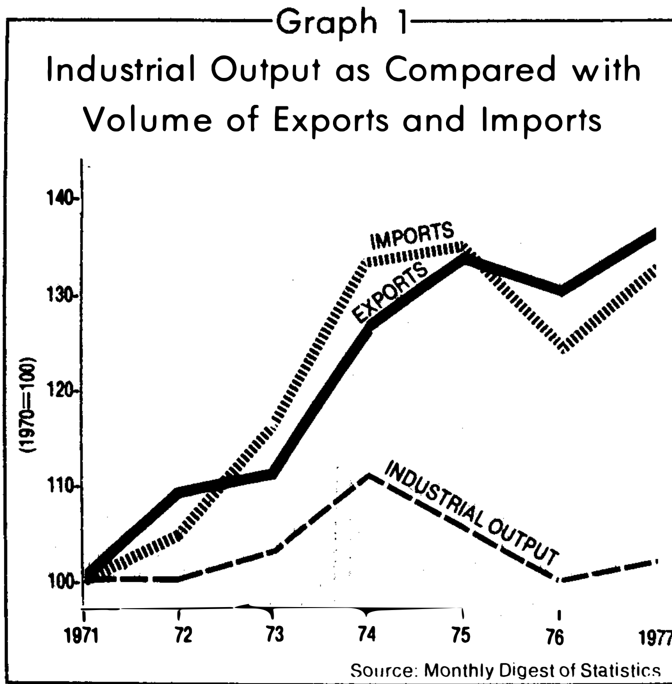
(1970=100) seasonally adjusted

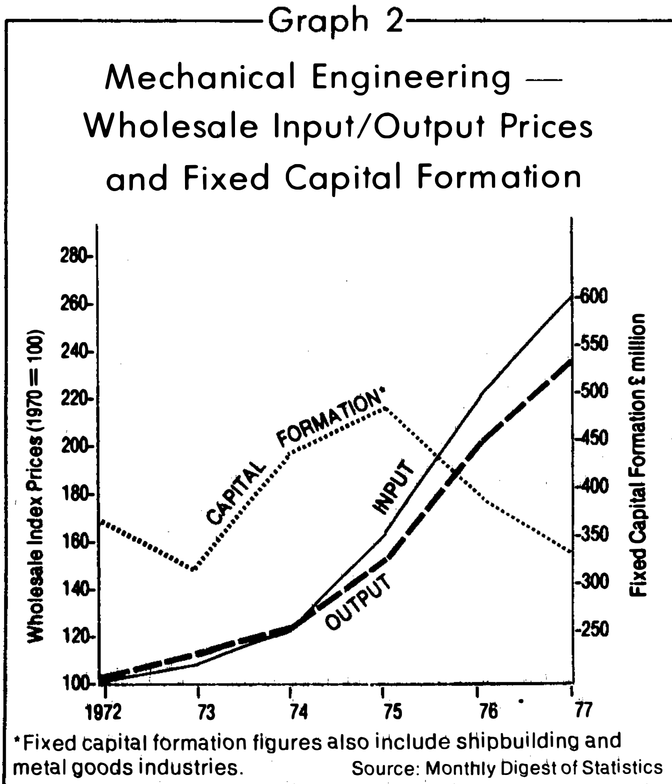
	TOTAL	FUELS	MACHINERY AND TRANSPORT EQUIPMENT	CHEMICALS	TEX-TILES
1972	111.3	102	106	118	111
1973	126.5	107	117	143	127
1974	132.9	101	125	169	125
1975	129.8	93	133	142	105
1976	139.4	108	133	171	124
I	135.4	92	134	164	116
II	140.3	104	135	167	122
III	137.3	114	130	171	126
IV	144.6	121	134	180	130
1977 JAN	144.9	133	128	174	135
FEB	143.1	133	126	175	131

SOURCE: MONTHLY DIGEST OF STATISTICS

last year, and decreased in the first two months of 1977 (see table 2). More graphically, the OECD reports that in 1976, while manufactured exports increased by 8 percent in volume and 21 percent in price, chemicals recorded a 20 and 14 percent increase respectively, textiles 18 and 14, machinery -.5 and 25, and transport equipment 1.5 and 24.

Clearly, instead of promoting a conscious effort to boost machinery and other heavy-good exports to the developing and Comecon sectors, the government's "export boom" has taken the shape of cashing in on quick returns on oil exports to Europe and textile and chemical sectors where the domestic infrastructure required to increase production is minimal. At the same time, the most basic of the country's capital goods industries continue to stagnate. Although orders for metal working machine tools in the last quarter of 1976 showed an increase of 75 percent for home and 57 percent for export orders, total sales were up only 27 percent at home and fell by 3 percent for export orders, while orders

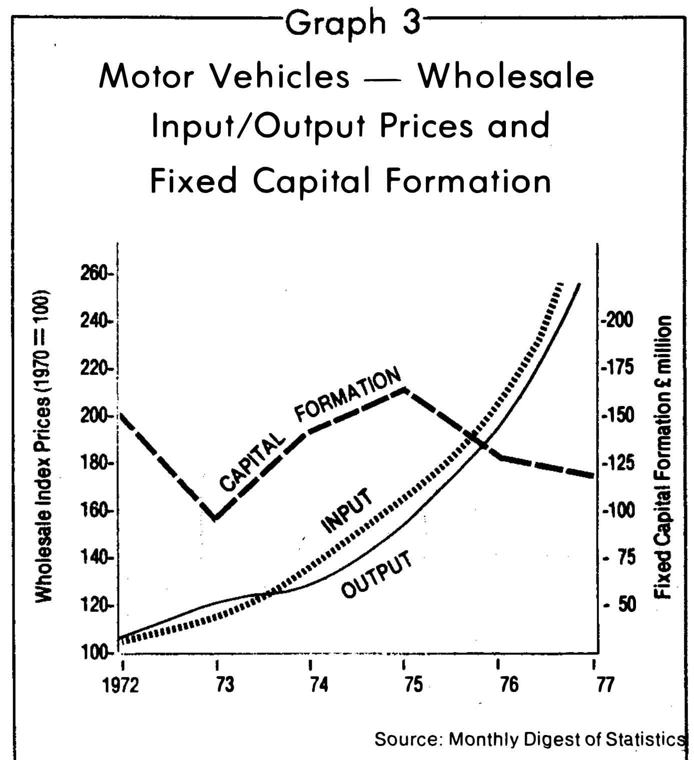




still outstanding fell by 3 percent and 22 percent respectively.

The minimal impact of the export recovery on industrial production can be seen clearly in Graph 1. While exports have risen over 1976 by 7 percent, industrial production has risen by less than half that amount.

This fundamental skew in the British economy towards labor-intensive industries is, of course, the result of a steady decline in the productivity of existing industrial equipment, which has been exacerbated by still high levels of inflation and costs of basic materials to in-



dustry. As seen in Graphs 2 and 3, the gap between wholesale prices for materials to the mechanical engineering and motor vehicle sectors, and wholesale output prices has put a squeeze on cash flow, forcing a severe decline in fixed capital formation in these sectors.

Despite continued buoyant forecasts of a recovery in industrial investment in the next year, even the OECD report suggests that there will be an overall drop in fixed capital formation of 3.5 percent. It could be much worse.

So far, the policies followed by the Callaghan government, while placing verbal emphasis on the desirability of increased investment in engineering and other capital-intensive industries, have failed to significantly lower domestic inflation, a basic hindrance to investment confidence. Wholesale prices are continuing to rise at yearly rates of close to 30 percent, while the elimination of food subsidies and the devaluation of the green pound (the EEC agricultural unit of account) will alone boost retail prices by approximately 5 percent in the next year.

Belying the theory of wage-induced inflation, the combined effects of the government's policies, including the "social contract" with the trade unions, has depressed real disposable income by 4 percent in 1976-77, and is expected to fall by at least another 1.75 percent over the next year, assuming the continuation of the income policy.

With domestic demand more than sluggish, and in fact actually falling, the government's industrial recovery goal — anticipation of only 1 percent growth in GDP (Gross Domestic Product) in 1977 — is completely dependent on the strength of export demand. Without a major push towards capital-intensive industrial demand, which would come primarily through a growth in developing and Comecon sector demand, any benefit Britain incurs from an increase in world trade will fail to spark a recovery in basic industrial health.