The debt blow-out of the 1980s: Western Europe

by George Gregory and Laurent Murawiec

Western Europe's central banks have already decided that the present collapse of their currencies will provide the occasion for a general "purging" of the debt-loaded European economies. The model for both West Germany and France is already visible in Bettino Craxi's Italy, where the makework employment methods of Mussolini have been installed under the Venetian finance minister, Bruno Visentini.

The currency crisis, which will ruin the European Monetary System—since 1978 the last prop of internal European trade—will plunge Europe into a general depression crisis, coincident with the disintegration of the spurious American recovery during the September-October period. In particular, the collapse of the French franc and the expected institution of additional exchange controls and a protectionist trade policy will ruin West Germany's exports, shattering the core of Europe's economy.

At least five Western European countries are *already* on the verge of turning over their economic policy-making powers to the same teams of the International Monetary Fund that have wreaked havoc with Third World economies. The combined foreign debt of Belgium, France, Denmark, Spain, and Italy, the "Most Affected Countries" of Europe, tops $320 billion, a shade more than Latin America as a whole. These economies are stronger? They represent a greater debt-carrying capacity? The reader will see for himself that they do not—unless they agree to bleed investment, social services, and living standards in the way Nazi Germany stabilized its own debt in the 1930s.

The long-term deterioration of Europe's state finances is the product of 20 years' deterioration of the Bretton Woods system. *EIR* showed in a study published Sept. 15, 1982, that the collapse of investment in the West German economy and the decline of Europe's industrial productivity in general is attributable to the vicious circle of European terms of trade: the more West Germany exported, the less social surplus it had available for capital investment in domestic industry. The long-term undervaluation of the German mark during the 1960s was followed by, in quick succession, two devastating increases in the price of imported oil, and an

Women selling tin cans to feed their families in Weimar Germany: just the first effects of the last European debt crisis.

increase in the dollar-financing cost of West German interest rates through the Paul Volcker monetary régime.

Now the last phase of what is, fundamentally, a dollar crisis has brought Europe to the final economic extremity. The rapid decline of European currencies will undermine the continent's capacity to manage a dollar debt burden in excess of $300 billion, forcing its economies into the most brutal form of bankruptcy reorganization; the ultimate consequence envisioned not only by Italy's Craxi, but by the German-speaking central banks as well, is an immiserated, fascist Europe under the economic wing of the Soviet Union.

Not only France and Italy, but also the apparently more favored Europeans, namely, West Germany and the Netherlands, have *already* mortgaged their productive capacity in the last decade for the purpose of settling debt—be that in the form of public debt, corporate debt, or household debt. Contrary to the doctrinaires of economic faculties, it makes no difference whether it is the state, the corporate sector, or individuals that incur debt: *what matters is whether debt is incurred to invest productively or not*. European nations have incurred enormous amounts of debt for unproductive purposes.

The insurance giants, those game-masters of international finance, generally classify countries (and other entities) according to degrees of indebtedness: degree one is debt on projects; degree two is debt incurred to repay project loans; degree three, debt to repay debt incurred to repay debt, and so forth. In their current calculations, France is at the third degree, Italy at the fifth to sixth degree, Spain at the sixth degree, Britain at the fourth, Belgium is beyond calculation, and Switzerland is covered, "since everybody owes *them* money." The short-sightedness of monetarist financiers: when all the debtors collapse into default, what are the creditors' claims worth?

Let us take a bird's-eye view of the main categories of debt over the recent period (see **Figure 1**).

How did such an immense burden of debt accumulate in the stagnant economies of the past decade? Not because "consumption" was favored to the detriment of "investment." Both have fallen victim to the Moloch of debt. Evidence for this is provided by the fact that *both* the "hard currency" countries that led the proverbial policy of stability, such as Germany and the natural-gas-rich Netherlands, and the "soft currency" countries with their burdens of inflation, have slid down the same path.

In themselves, the statistics in Figure 1 could be misleading—it is not the magnitudes per se that matter, but their reciprocal correlations: France's or Spain's domestic debts are fairly small, but the counterpart is massive foreign indebtedness. Corporations in both countries have tapped the Euromarkets in huge proportions to escape credit controls. Similarly, the rate of growth of German or British state indebtedness appears to have been kept within reasonable bounds—but it started from very high levels. And, in all cases, as the country studies below show, the 1978-80 period witnessed an extraordinary acceleration of all debt ratios for all nations concerned, an acceleration which has essentially abolished differences in historical patterns.

Could economic recovery flatten the debt-to-output ratios in such a way as to increase the debt-carrying capacity of the

Figure 1
Debt expansion in European Community nations

	Increase of public debt 1975-82 in %	Increase of foreign debt in national currency in % 1975-82	Government debt per capita in 1982 dollars	Debt to GNP in %
West Germany	119	189	4,048	39
France	450	7,900	1,210	13
Italy	353	219	4,263	61
Spain	253	240	588	23.9
Holland	168	0	6,808	73
Belgium	245	9,560	10,204	107
Sweden	413	802	6,385	61
Denmark	300	900	6,078	47
U.K.	113	n.a.	10,357	111

European economies? It certainly could, *if* the recovery were based on unprecedented levels of high-productivity capital formation in infrastructure, energy, and plant and machinery. Any "countercyclical" patchworks like the programs of the mid- to late-1970s, would make things much worse. For it was precisely these programs, as introduced under Helmut Schmidt in West Germany or James Callaghan in Britain, that are to blame for the present debt heap. Schmidt's deliberate policy of loading the government accounts with debt incurred to fund investment incentives and related programs—a "pro-business" Keynesian policy—held things up for a few years. But the equally deliberate refusal to commit the Federal Republic to crash development of nuclear energy was a suspended death sentence for the West German economy, which is now paying the price in the form of interest. The supposedly pro-labor policies of James Callaghan in Britain (1973-78) fared no better. And the French imitator of Mrs. Thatcher, former Prime Minister Raymond Barre, presided over the most formidable explosion of public and foreign debt seen in recent French history during his 1976-81 tenure.

The fundamentals

The common feature of European nations' economic policies of the last decade is the fact that each unit of output, of capital formation, has been paid for, first, by an ever-increasing amount of debt, and, in a next phase, the hard-commodity impact of every additional unit of debt has decreased exponentially. In short, an immense amount of powder has been accumulating for the inflationary bomb of debt.

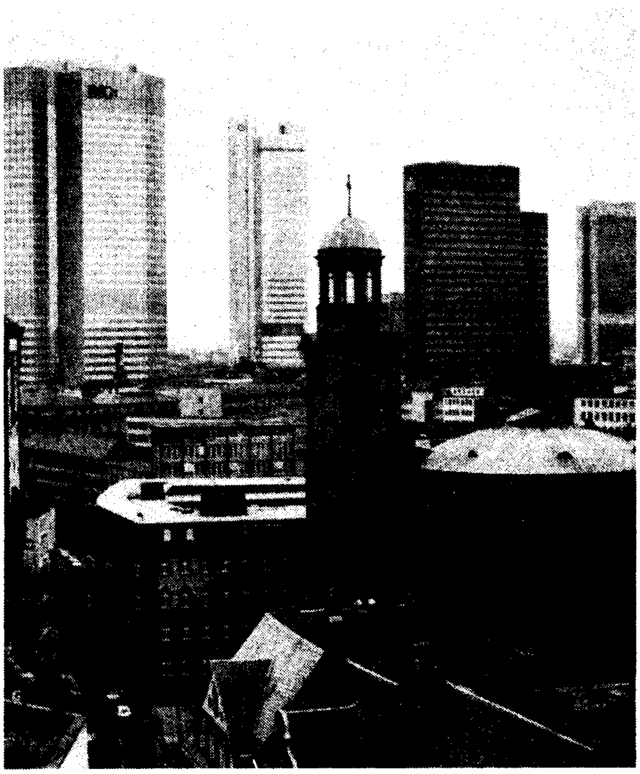
Policy makers have refused to tackle the fundamental problem: the stagnation and shrinkage of world trade due to the consciously Malthusian policies of the International Monetary Fund, the Bank for International Settlements, and the international merchant banking establishment, with commercial bankers trotting ignorantly behind. The policies of deflationary austerity which have destroyed the gigantic potential export markets in the Third World, and choked NASA-like "Great Enterprises" in Western nations, found their consummate expression in the insane usury of the U.S. Federal Reserve. The amount of fictitious financial paper has multiplied many times over the growth of production. The tax imposed by debt on the proceeds of real output has grown while the productive basis shrank: the stage was set for an *exponential* growth of debt. The weakest link in the world economy, the Third World, broke first. The turn of Western Europe is nigh.

The Eurocurrency markets presently amount to about $1.7 trillion dollars. Given the interest rate structures of the last few years, it has been estimated that $210 billion per annum in interest had to be generated simply in order to maintain the breakeven functioning of the market by means of regular interest payments! And this, while the deposit base of the market is contracting (OPEC is now in deficit and is withdrawing deposits; multinational corporations have less liquidity at hand; large amounts of Euro-liquidity are frozen by moratoria or defaults). Interest rates, powered in an earlier phase by the demand for rollover funds, are sent up also by this relative scarcity. The debt burden is self-feeding.

Where can the money come from to feed this monstrous accumulation of fictitious values? From looting the existing wealth of economies, which cease to invest to pay replacement cost of labor and society. The more debt service a country pays, without investing in return, the more it will have to devalue its currency and the greater the quantity of domestic currency will be required to purchase the means of debt payment. The country will have to export real wealth to purchase the repayment of a fictitious debt. The terms of trade will collapse.

This is not, or not only, the portrait of a developing nation. In fact, the domestic debt structure of, say, Brazil, is far healthier than that of many European countries described in this study. European countries whose debt mortgaged one year or more of GNP (Belgium, Britain); 20 months of taxes (Germany) or 34 months (Holland); 10 months of exports (France); or represents three times the value of capital formation, compared to only 86 percent less than a decade ago, as in the case of Sweden, are far advanced down the road of economic disintegration, and are well on the way to either Weimar's hyperinflation or the post-Weimar Hitler-Schacht policy of cannibalization of capital and labor. The appeal to the IMF might be the first step in this direction, but since the five "Most Affected Countries" of Europe together could claim upward of $30 billion from the IMF's empty treasury, the exercise might first lead to amusing situations of the IMF's broke creditors begging for undisbursable loans.

In each of the four most vulnerable countries (Spain, Italy, France, Denmark), currency devaluations, either self-imposed or enforced from the outside, have played a major role in increasing the real economic price of foreign debt. In



West Germany's financial sector in Frankfurt: "investor confidence" is evaporating.

any developing country, the vicious inflationary circle of devaluation of the domestic currency in the attempt to earn the foreign exchange to pay debt-service is a hell suffered daily. If, for example, Brazil has $90 billion in foreign debt, but devalues the cruzeiro 30 percent, overnight 30 percent more real goods will have to be sold to pay the same debt service.

Capital outflows

Is Europe "finished"? This is certainly what the learned geopoliticians of the Central European school, including Henry Kissinger, would have us believe—the better, it seems, to farm it out to Yuri Andropov's regenerative efforts. At present, immense flows of capital are leaving Europe to seek more remunerative short-term dollar investments, or long-term shelter investment in the Western hemisphere or to settle in the Pacific Basin. To the fairy tales of "recovery," investors—starting with the giant insurance companies mentioned above—are voting with their investment portfolios. Indeed, they are deliberately planning the collapse of Europe.

Johann Philip Freiherr von Bethmann, until recently family owner of the 235-year-old Bankhaus Bethmann in Frankfurt, West Germany, recently sold his last remaining 10 percent share in the bank, and gave up banking totally. Asked by *Der Spiegel* magazine why such a renowned family bank, which financed the Hapsburgs and survived two world wars, should have any fear about high interest rates and the pyramid of world debt, the old aristocat answered, "Because I fear we are going to see an immense world economic crisis. . . . I am convinced it will be far worse than the 1930s." He proceeded to explain that the crisis was of such dimensions that he simply no longer wanted to be a banker, even if his own bank would not necessarily be wiped out of existence. Carlo De Benedetti of Olivetti, an Italian spokesman for the old Venetian finance which embodies the insurance companies that dominate the world market, makes no mystery that "a gigantic crash is coming which will wipe out a thousand billion dollars worth of financial claims—we need such a crash for a New Order to emerge."

Another remarkable feature of the present situation is the coincidence of the predicted late-1984, early-1985 crash of the debt of developed nations with the time scale of the evaporation of the "recovery" ghost sold to President Reagan by crafty statisticians and their political controllers. The funny-money-generated mirage is slated to last "until the markets realize what extraordinary hyperinflation has been generated to refinance the Latin American debt, and then horribly panic," as a London merchant banker said.

This is the print-out, the "scenario" that nation-states and populations are supposed to follow, to their own self-destruction. The idea that "debtors of the world should unite," and that there is a fundamental *industrial* community of interest between the emerging Ibero-American debtors' cartel, certain Eastern European nations that might be able to join it, and the industrial nations of the West, can turn around an otherwise desperate situation. Otherwise, the bankruptcy of the Lombard bankers in the 13th century, the South Sea Bubble, the New York Stock Exchange crash of 1929, the Austro-German banking crisis of 1931, will be dwarfed by the blow-out of the European debt.

West German 'redemption capacity' fades

West German economic propaganda is a parody of the United States' non-existent recovery. The depth of industrial capacity built up in the Federal Republic up to the end of the 1960s has indeed given the country a greater resilience, but that resilience is about to collapse, by the end of 1983 if not sooner.

There are words to describe the process of cutting the throats of West German export-oriented industries, the financial misery of corporations, and the anti-labor recipes recommended which are censored beause of their open resemblance to Nazi economic policies. When the WSI economic institute of the German labor federation predicts 25 percent losses of jobs in productive sectors of the economy in the main industrial cities of the Ruhr, due to "changed conditions on foreign markets," the proper word for the policy of "adjusting" to the collapse of export markets is "autarky." When environmentalist leader Carl Amery calls for "lifting the taboo on the word *Arbeitsdienst*" (Labor Service), the policy is called "Labor Front." When government advisers privately confess that they believe "emergency measures" will be required by the end of the year, the message is just as blunt.

As for the renowned "confidence" of investors in the West German economy: At the end of the 1960s, that economy urgently needed a nuclear-energy-based investment drive. In its place, consumerism and long-term deindustrialization took over. There was, however, talk in business circles up to the end of the Schmidt government in October 1982 that at least 100 billion marks in investments could be immediately launched if only political conditions permitted.

In truth, the funds that might have been invested in such "blockaded" projects are no longer in the West German economy. Nearly 60 billion marks have left the country in the form of long-term private capital outflows since the end of 1979. Last year, even with a DM 8.5 billion current-account surplus, over 21 billion marks dribbled out of the economy in private capital outflows.

That is not exactly evidence of long-term confidence, nor is the continued net private capital outflow of DM 12.7 billion through June of this year exactly a show of confidence in the new government.

Such unpleasant facts are related to the debt-carrying power of the West German economy in the following way. Corporate interest payments jumped from 35.5 billion marks in 1979 to 48.5 billion in 1980, at which point interest payments presumably peaked (more recent data is unavailable). Corporations then began using depreciation funds and funds not spent on maintaining stocks for financial investments to earn enough interest themselves to knock down their net interest payments bill. In 1982, the increase of such use of funds was 21 billion marks, 8.5 billion more than the 1981 increase. The corporate sector itself directly bought 7.5 billion in foreign securities. At the same time, corporations took DM 69 billion in bond issues in 1982, 30 percent less than 1981, and took DM 45 billion, or 7 percent less long-term credit than in 1981. Corporate capital formation dropped from 70.7 billion marks in 1980 to 37.4 billion in 1982.

From 1975 to the end of 1982, net corporate debt (not including trade and other short-term credit) increased 66 percent to 1.29 trillion marks. We estimate that net interest on corporate debt increased by 50 percent and would have grown faster had not the above "debt containment" financial strategy been implemented at the expense of the economy's capital base.

By May 1983, the German Bundesbank was recommending in its monthly bulletin that the chief means of making non-interest-sensitive funds available to corporations would be to reduce taxes on share capital (a move precluded by the government debt burden, at 629 billion DM, and 1982 interest payments on government debt of over 45 billion marks) and increasing "capital-participation" schemes for workers. For Germans, of course, the latter strategy—giving workers shares in their own factories as compensation for shrinking real standards of living—retains the aftertaste of the "forced savings" plans of Hermann Goering (the Volkswagen "people's car" swindle).

The total net debt of the West German economy increased over the same period by 84 percent to just over 2 trillion marks, the major increase beginning in 1978, even before the U.S. Federal Reserve threw the oil of Volcker's high interest rate policy on the flames. At that point, debt was growing at rates of 10-11 percent per year. Foreign debt climbed over the same period from 49.5 billion marks to 143.1 billion (long and medium term).

Even in nominal terms, corporate debt grew 20 percent faster than the value of production. The ratio of the current stock of net debt to the value of production in current prices grew from 0.5 to 0.6 by the end of 1982. The accompanying table shows comparable figures provided by the German Bundesbank's November 1982 monthly report for "debt redemption capacity," which measures the ratio of earned funds (profits plus depreciation allowances) as a percentage of liabilities (see **Figure 2**).

Thus, in the Bundesbank measure, "debt redemption capacity" signifies that portion of outstanding liabilities that can be paid off with earned liquid funds available. The detailed breakdown is not available past 1980, but the deterioration for total manufacturing from 1975 through 1981 of 18.4 percent is in line with *EIR*'s calculation of a 20 percent deterioration of the ratio of debt to value of current production. There has been a 33 percent deterioration since 1970.

The relevant ratios for steel, construction, and machinery within the manufacturing sector are evidence of a debt vulnerability which will mean bankruptcies through the corporate sector.

Figure 2
West Germany: Earned funds as percent of liabilities

	1970	1975	1979	1980	1981
Corporate sector	22.5	18.4	19.1	17.4	15
Manufacturing	25.3	20.0	21.9	20.0	17
Chemicals	29.8	29.1	34.5	31.0	n.a.
Steel	32.0	20.0	16.5	15.3	n.a.
Construction	16.1	8.4	12.9	12.8	n.a.
Machinery	16.1	13.5	14.6	15.4	n.a.

Investment overview

Those ratios, however, only express the relative failure of corporate financial gimmicks. Far more significant is the ratio of net corporate debt to deflated real capital formation, which deteriorated by 45 percent from 1975 to 1982 (see **Figure 3** for the trends in the rate of growth of each). *EIR*'s calculations show the same 45 percent deterioration of the ratio of total net West German debt to real investment in plant and equipment (see **Figure 4**).

The increase in the ratio of the net corporate debt burden to real capital investments expresses the real widening gap between the growth of debt and the expenditure on the indus-

Figure 3
West Germany: Growth of total debt as percentage of growth of gross fixed capital investment
(1976 prices)

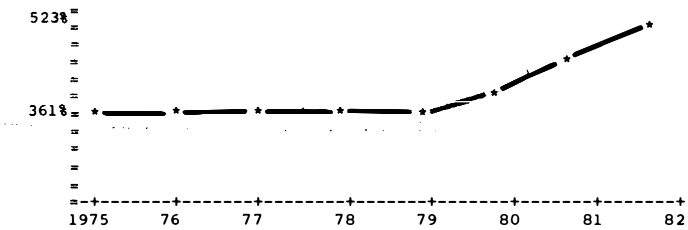


Figure 4
West Germany: Ratio of total net debt to real investment in plant and equipment

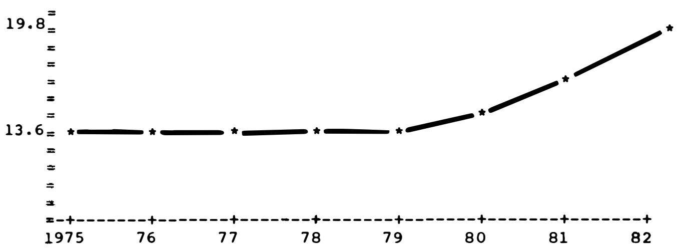
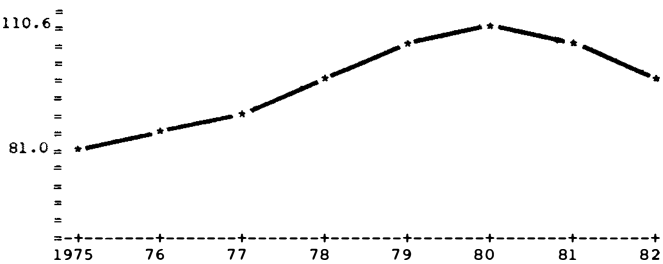


Figure 5
West Germany: Investment in machinery and equipment
(billions of 1976 marks)



trial capacity which is supposed to produce to pay the debt.

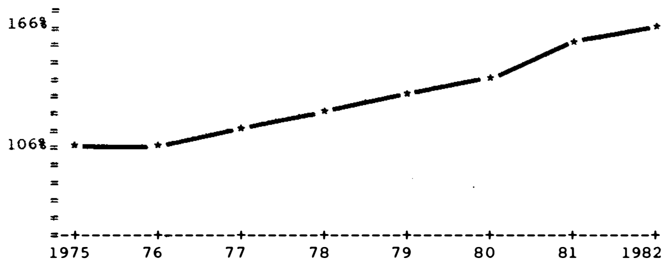
The decline of real investment in 1981 by 3.2 percent, and by 7.2 percent in 1982 (see **Figure 5**), was the price of "debt containment," and the decline cannot be halted under any of the policy options presently entertained by the West German government or financial decision makers.

It stands to reason that the relationship of government debt, currently at 706.2 billion marks (or, minus railway and postal service, 629.5 billion) to tax income has deteriorated (see **Figure 6**) and will continue to do so, in pace with the unsustainable debt in the private economy.

Failure of Friedman and Keynes in France

France started, in the 1970s, from an extremely low level of indebtedness, be it that of the government, households, or, for the corporate sector, a reasonable level of net indebtedness (once intracorporate sector debt is deducted). The increases have been all the more remarkable. The external debt represented 3.8 percent of exports in 1972, and 39.9 percent at the end of 1981 and probably close to 60 percent

Figure 6
West Germany: Public debt as percentage of tax income

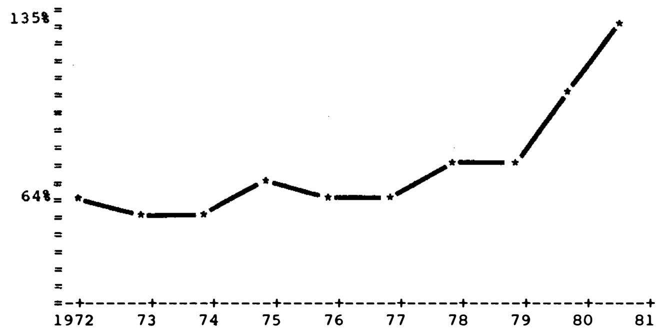


today! The foreign debt has grown exponentially, from irrelevant quantities at the beginning of the 1970s to about 400 billion francs at the end of this year, with an ever-accelerating curve—75 percent of that has been borrowed since 1979. In the same period, corporate debt increased by 40 percent and household debt by 50 percent. The domestic public debt increased almost 50 percent. In sum, the French economy has undergone a profound transformation which makes it one of the most affected of the "debt economies" of Europe (see **Figure 7**).

The foreign debt is rapidly approaching a breaking point where France's international credit will not prevent the humiliation of paying higher and higher spreads to bankers adventurous enough to lend. That phase will be quickly ended by a refusal to lend on the part of international banks. The country, which is presently tapping the markets through intermediaries—the large public sector corporations (with a state guarantee) and European Community facilities—will not be able to do so much longer. The spectre of the IMF is already looming. But problems get compounded: very conservative estimates foresee that by 1986, the country will have to pay, in interest on debt alone, the equivalent of last year's enormous trade deficit!

The Socialist regime has certainly aggravated the situation with its recklessly unproductive spending. No illusions, however, should be entertained about its predecessors and putative successors: all available figures demonstrate that the

Figure 7
France: Public debt as percentage of gross fixed capital formation



trend towards exponential indebtedness was either fueling a regular increase since the beginning of the 1970s, or that an inflection point was reached in 1976-77, which marks the beginning of the soaring of most categories of indebtedness. The 1976-81 period is that of the premiership of Raymond Barre, a notorious orthodox monetarist doctrinaire, and that which saw a collapse of private sector fixed capital formation. What has "held up" the country from even steeper declines is the huge nuclear energy investment program—a decision from the early 1970s continued through the early 1980s and persisting inertially even today—which has provided Europe's cheapest electricity generation as well as constitued a dense industrial fabric of high-productivity corporations.

While a limited number of industrial "pockets" representing relatively isolated areas of in-depth industrialization have similarly held up the country's productive apparatus (aerospace/defense, energy, transportation), the sleepy, backward other half of the country, which has come to power with the Mitterrand government, has merely given a new, powerful impulse to the degenerative trends at work during the last years of the Giscard-Barre regime. While more recent figures are not available as of this writing, it is clear that the 450 percent increase of public domestic debt over the 1972-82 period and the cool 7,900 percent increase in foreign debt will further accelerate. With domestic interest rates in the 15-20 percent bracket over the last few years and the deflationary policies applied by Swiss-inspired Finance Minister Jacques Delors, an explosion can be expected in the fairly short term. A fourth devaluation of the French franc is in the cards for October.

Authoritarian looting ahead in Italy

The data on Italian debt must be placed in the context of the disastrous decline in production in the range of 13-14 percent on average, 20 percent in the basic industrial sectors, for 1983.

The Mussolini-style solution to the Italian debt explosion is being actively pursued by the new government of Socialist chief Bettino Craxi. The Mussolini-style solution proposed for the cost of living escalator (*scala mobile*) is to freeze nominal wages; while the reduction in real living standards will be brutal, workers are to be compensated with shares in enterprises where the government has the controlling position. The pool of shares thus created is to be called the "solidarity fund."

Simultaneously, plans are being designed by Craxi's controllers to "consolidate" short-term public and private debt by the same mechanism designed by Felix Rohatyn of Lazard Frères investment bank and applied in New York City in the second half of the 1970s. The "consolidated" debt is transformed into a pool of longer-term bonds, and administered by an authority which has the power to seize a certain proportion of the tax earnings, for example, of a city or state to pay the interest and principal on the bonds.

In both cases, as IMF programs for underdeveloped nations show, debt-paying capacity is not enhanced—quite the contrary—while authoritarian measures are enforced to divert real capital and human resources into servicing debt and debt service.

Of the 325 percent increase of total Italian debt from 1975 to the end of 1982 up to 577.7 trillion lira, 219 percentage points was accounted for by the growth of foreign debt. Of course, the lira exchange rate was 1,200 to the dollar on average in 1982, and is now around 1,600 to the dollar. The difference in the lira equivalent of Italian debt in dollars is 9,223 billion lira, or about $5 billion at the 1982 exchange rates. In effect, Italian foreign debt increased $5 billion without Italy borrowing a penny, or rather, that is the increase of debt felt by the domestic Italian economy. The domestic programs of the Craxi government are designed to try to pay for that increased debt.

But how high is the total debt burden of 577 trillion lira (or about 500 billion dollars at 1980 exchange rates)? Since 1980, debt has gone completely out of control in relation to investment (see **Figure 8**).

Compare this ratio for Italy with that of Spain (see **Figure 9**). For Spain, the sum of debt in 1975 was only 78 percent of the capital deployed into investments; in Italy one begins with 534 percent, only to climb over 600 percent at the end of 1982.

Given the production declines indicated above, it is clear that the debt overhang in relation to output and investment in 1983 will reach impossible and astronomic proportions. The austerity measures planned by the Craxi government will merely finish off the economy.

Figure 8
Italy: Debt as percentage of fixed capital formation

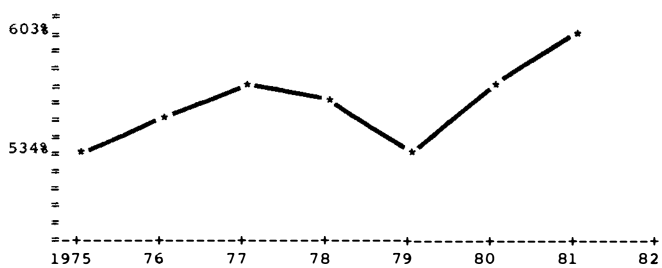


Figure 9
Spain: Total debt as percentage of gross fixed capital formation

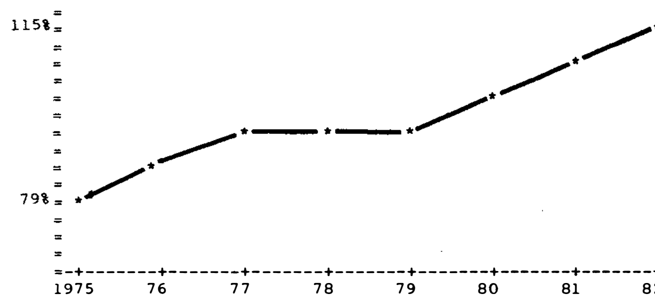
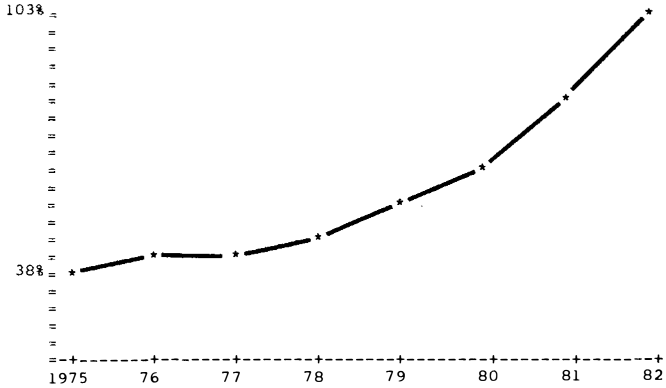


Figure 10
Denmark: Growth of total debt as percentage of growth of gross fixed capital formation



Spanish development gains reversed

The Spanish peseta has been devalued 120 percent since the end of 1979. Foreign debt, public and private, increased in dollar terms 240 percent since 1975. At the end of 1982, dollar denominated debt was reported as $28.7 billion, or 3,158.5 billion pesetas at the exchange rate at that time. In July 1983, however, after a further 35 percent devaluation of the peseta, that same $28.7 billion is equivalent to 4,229.5 billion pesetas. Spanish debt increased 1,071.0 billion pesetas without Spain borrowing a penny.

That is inflation of debt, while the economy is depressed to pay it.

Spain ceased being a developing country following its massive development of manufacturing, energy, and infrastructure capacities over the 1960s and 1970s. Spain indebted itself to industrialize, and was doing quite well with this policy until the mid-1970s. Thus, even with an explosion of total debt (public and private, domestic and foreign) of 395 percent from 1975 to the end of 1982, the ratio of total debt to gross national product grew from 1975, when debt represented 17.2 percent of GNP, to only 23.9 percent of GNP in 1982, or a deterioration of 46.7 percent. As the comparison with Sweden, Denmark, or Belgium in Figure 1 shows, this is indeed a praiseworthy accomplishment.

Spain in fact maintained rates of investment equivalent to 24 percent of GNP up to 1979, when the rate fell to 20 percent by the end of 1982. That is, the ability of the economy to "carry" the weight of increased foreign debt and debt service payments was also maintained.

Now, Spain is one of the European countries receiving the "Latin America treatment" from international banks, and is being drained of resources to pay debt at such a rate that official reserves would now only be sufficient to pay for two months of imports.

Denmark's agricultural debt burden

With over $48 billion in foreign debt and a population of only 5 million, Denmark is one of the most highly indebted countries in the world. The tragedy here is that the Danish agricultural sector is both one of the most productive and one of the most highly mortgaged in the world. Danish agricultural debt has reached a level over 200 percent of the value of annual production, whereas even in Spain—where farmers are demanding a moratorium on agricultual debt—this rate is only 85 percent.

Total Danish debt has grown by 715 percent since 1975. Foreign debt has exploded by 900 percent. If such data alone did not put Denmark into the same plight as a Third World nation, the fact that the interest paid on foreign debt grew between 1975 and 1982 from 5 percent of exports to over 20 percent would justify that categorization. In addition to the burden of indebtedness to pay for oil and industrial goods, Danish economic policy has, if anything, contributed to a more adverse relationship between debt and investment than in any developing country—because developing countries initially indebted themselves by and large for industrialization purposes. This relationship deteriorated by 325 percent since 1975: i.e., the rate of growth of debt was that much above the rate of growth of gross fixed capital investment, even in current prices (see **Figure 10**).

Since the rate of growth of net fixed capital formation *has fallen* by 30 percent since 1979, the actual relationship is far worse. No IMF-style austerity policy will be able to maintain the illusion that Danish debt, at 485.5 billion kroner, is controllable under such conditions. By the end of this year, it can be expected that the collapse of agriculture will bring this country to a full financial and political crisis.

Swedish investment begins to crack

Industry in Sweden is waging a gallant but losing battle. Corporate debt has indeed grown by approximately 90 percent since 1975, but Swedish industry has at least kept real fixed capital formation from declining; the deterioration in the ratio of total domestic debt/business fixed capital formation has been 65 percent over that period. In the past two years, investment has begun to suffer, creating crisis conditions particularly in shipbuilding, steel, and machinery, so that Sweden is being driven back to the status of a pulp and wood exporter. Olof Palme's attempt to outdo export competition in shrinking markets with "maxi-devaluations" of the Swedish kroner has acclerated the decline in Swedish industry.

Investment in Sweden was running at an index value of 60 at the end of 1982 relative to 1975/100. Out of 29.8 billion kroner in after-tax profits, Swedish corporations quoted on the stock market (including the "invulnerables" like Volvo) spent 52 percent of that amount, or 15.6 billion kroner, on interest alone. That ratio also underestimates the debt actually being carried, because the Swedish government has incurred a significant volume of debt itself to brake the effects of the collapse of steel, shipping, and so forth. One leading steel firm, Sandvik, spent 70 percent of its profits for 1982 on interest payments!

Worse for a country where every squirrel is taxed for wearing a fur coat, the debt crisis is underlined by the wid-

Figure 11
Sweden: Growth of public debt as percentage of growth of tax income

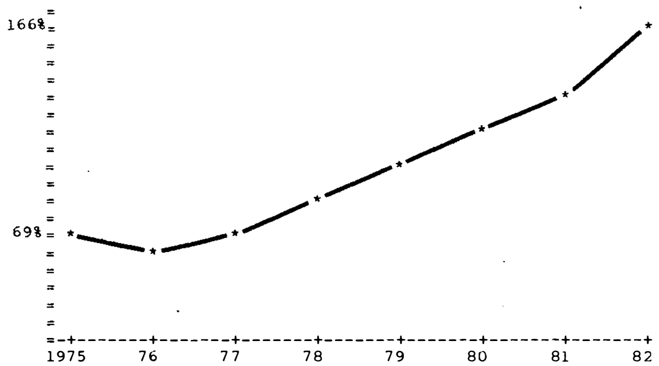
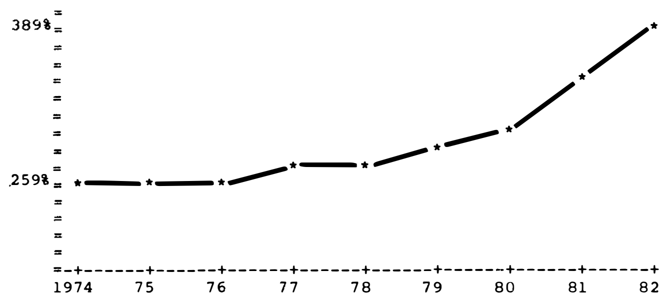


Figure 12
Belgium: Public debt as percentage of tax income



ening gap between government debt and tax revenues (see **Figure 11**); this ratio has deteriorated by 140 percent since 1975.

Belgium can't produce to pay

First, the old industries of the southern region of Wallonia, coal, steel, and textiles, went down the drain; next, those industries established in the postwar period in Flanders, including auto and chemicals, shrank under the effects of world depression. Since foreign trade represents over two-thirds of Belgium's GNP, the country being a half-way station for European manufacturing, the stagnation and then shrinkage of world trade has been a catastrophe. The state shouldered much of the industrial collapse and its consequences, and passed the cost in part onto today's brutally squeezed taxpayers, and in part onto future taxpayers. Belgium is mortgaged as is no other European country.

Total public debt, in trillion Belgian francs, soared from 1.42 to 4.9 in the 1974-82 period. Debt represented 259 percent of tax income then, now 389 percent (see **Figure 12**). Two years of tax revenue was necessary to cover debt—and now the proceeds of nearly four years would be needed! For every unit of capital formation in the Belgian economy, seven units of debt were being incurred simultaneously in 1974. By 1981, the ratio had more than doubled to 15.1.

The foreign currency component of public debt soared from a tiny 10 billion francs in 1974 to 966 billion in 1982. Belgium's international credit is nearing extinction.

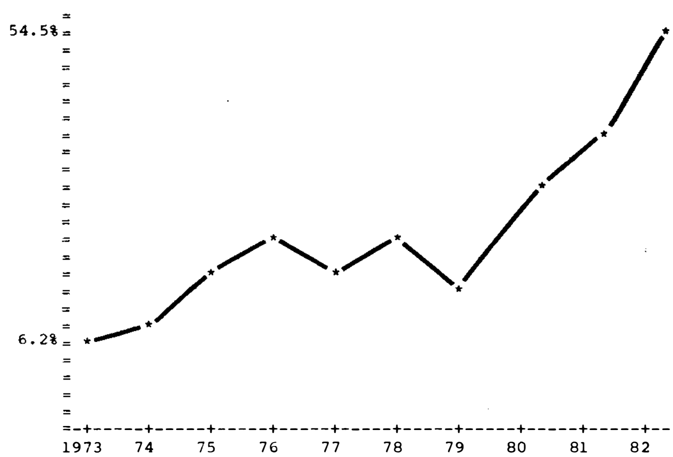
The Netherlands isn't immune

The lesson to be drawn from the case of the Netherlands is that neither the most "orthodox" monetary and credit policy in the world nor the bounty of nature in the form of natural gas exports have ultimately been able to protect the country from the effects of world depression: while levels of indebtedness were kept in check throughout the 1970s, world trade contraction and monetary problems ultimately broke into the dikes and have started to submerge the Dutch economy—singular among European nations by the absence of any foreign debt.

The ratio of debt to gross domestic product exhibited a unique tendency to drop throughout the 1970s, from a starting-point of 58.6 percent in 1973 to a trough of 51.9 in 1977. By 1982, the ratio had jumped to 72.8 percent, a trend accompanied by the debt-to-productive sector output ratio, which remained around the 135 percent margin until 1978 but soared to 204.9 percent in 1982. Aggregate public debt grew by 168 percent in 1973-82 while gross fixed capital formation in the corporate sector increased only 102 percent (all in nominal terms) (see **Figure 13**). Debt service on public debt was 2 billion gulden in 1973; it was 30 billion in 1982. Debt-service represented one-sixteenth of productive investment in 1973, and one-half in 1982.

Just as compound interest generates exponential growth rates, the incurrence of debt by economies crushed under the monetarist dogmas entails an exponential mortgaging of real wealth produced and of *the ability to produce real wealth in the future,* as payments are diverted—for purposes of debt settlements—from investment in infrastructure, capital equipment, and necessary social outlays. The exponential growth of debt in Europe since the 1978-79 shocks of Khomeini and Paul Volcker now threatens the very survival of the economies of the continent.

Figure 13
Netherlands: Public debt as percentage of gross fixed capital formation



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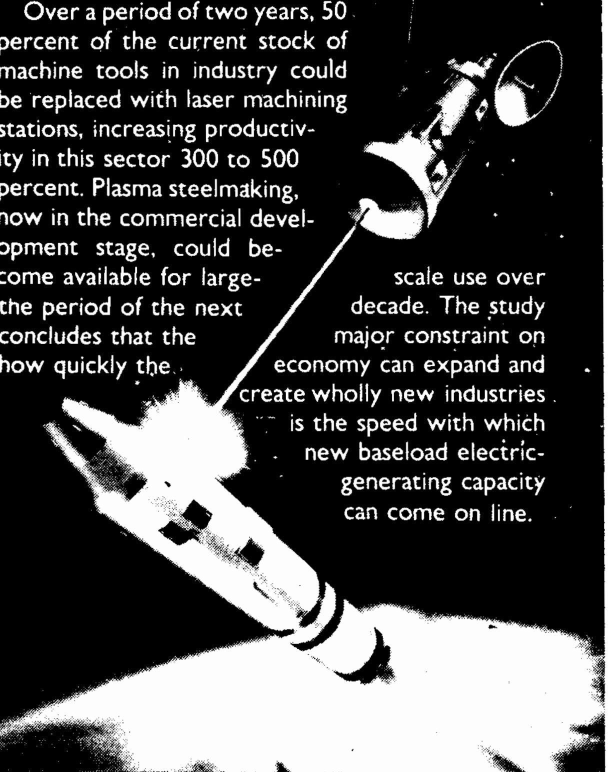
The study reveals that with rapid introduction of new laser and related technologies into the civilian economy, the growth of the economy would be so rapid that:

- an estimated 4 million highly skilled industrial jobs could be added to the economy per year;
- the U.S. trade deficit could be eliminated in two years; and
- the rate of growth of real GNP could approach 25 percent per annum.

Over a period of two years, 50 percent of the current stock of machine tools in industry could be replaced with laser machining stations, increasing productivity in this sector 300 to 500 percent. Plasma steelmaking, now in the commercial development stage, could become available for large-scale use over the period of the next decade. The study concludes that the major constraint on how quickly the economy can expand and create wholly new industries is the speed with which new baseload electric-generating capacity can come on line.



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