

The situation is all the more dangerous in that within the confines of the dollar system, the Third World will drastically reduce its imports in volume, while the East Bloc has already started to implement import cutbacks up to 10 percent to "improve its trade balance with the West and stop its descent into debt." The CMEA's purchases in the West last year rose by only 4 percent, this mainly due to grain imports from the U.S.

If this trend is allowed to continue, not only will West European industry lose its best long-term market but it will be "attacked" at home by other products, and feel the need to defend itself with protectionism. This danger

is already apparent with the restrictive measures imposed by various European countries against Spanish steel and textiles, Japanese steel and industrial consumer products and East Bloc shoes, clothing and vehicles.

The only possible "protection" for an economy is that granted by high levels of capital formation. In turn, this requires the creation of viable markets in the Third World and East Bloc, which can only be brought into being through the proper issuance of hard-commodity-only credit by an International Development Bank-type institution.

East Bloc Cooperation Needed To Consolidate Italy's Economic Recovery

ITALY

Italian exporting producers, operating under the illusion of an "economic recovery" in 1976, borrowed massively on the short-term domestic market in order to purchase high-priced raw materials to maintain current high levels of industrial production. As of April 30, 1977 this short-term indebtedness figure reached \$5 billion — a spectacular jump in domestic lending — despite the International Monetary Fund's demand that domestic lending be frozen (see table 1).

The only way these borrowers will be able to repay these short-term debts is if the Italian government signs pending credit agreements with the East Bloc, in particular, to facilitate massive exporting. Without the realization of these credit lines, these exporter-producers will be faced with massive debts, full inventories and no outlets for their products. Already, the momentum of Italian export is waning. Major importers of Italian products are closing the Italians out (see table 2).

A key example is trade with the East Bloc, from December 1975 to December 1976. Foreign Trade Minister Rinaldo Ossola is expected in Moscow in early June to finalize a three-year \$650 million credit line to the Soviet Union. Presently, the Soviet Union has gone to the French for products it would have been purchasing from the Italians, had credit been available.

The so-called economic recovery in 1976 was, on one level, a fraud, premised on dumping of crude steel on the European Economic Community (EEC), as well as the January 1976 lira devaluation which favored exports (see graph 2). Export figures showed a 35.5 percent increase in 1976; but the devaluation contributed to a 46 percent increase of the cost of imports as producers were forced to pay higher prices for raw materials (see graph 1). The actual volume of exports nowhere near compensated for the rate of increase in the cost of raw materials. (see graph 2).

In fact, the May 1977 newsletter of the Banca Nazionale del Lavoro (BNL), while predicting that in the immediate period ahead there would be a slight expansion of imports and a surge in exports, concluded that this trend won't continue for long, and could be easily

Table 1
Short-Term Indebtedness,
Domestic Market

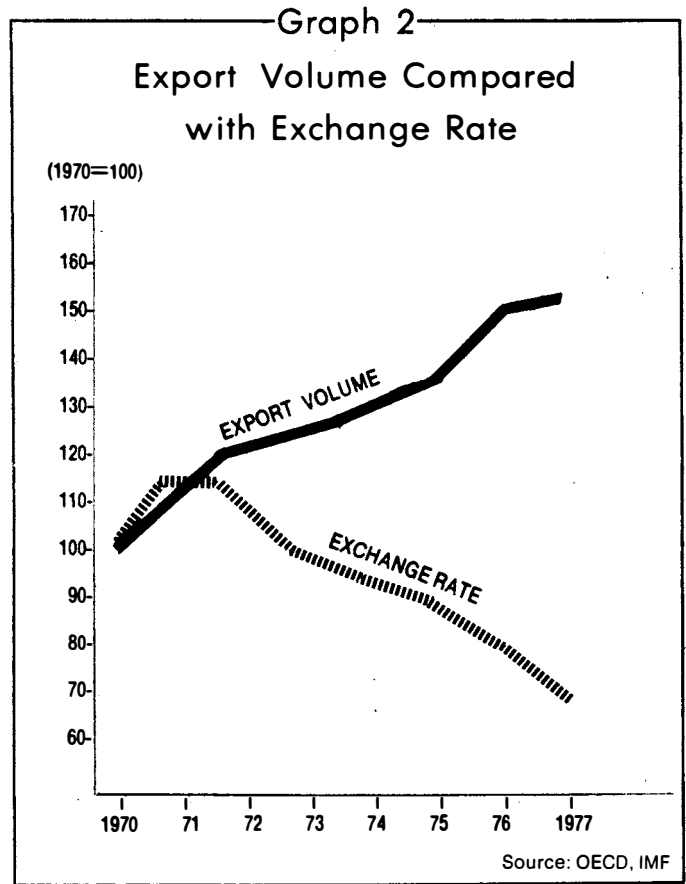
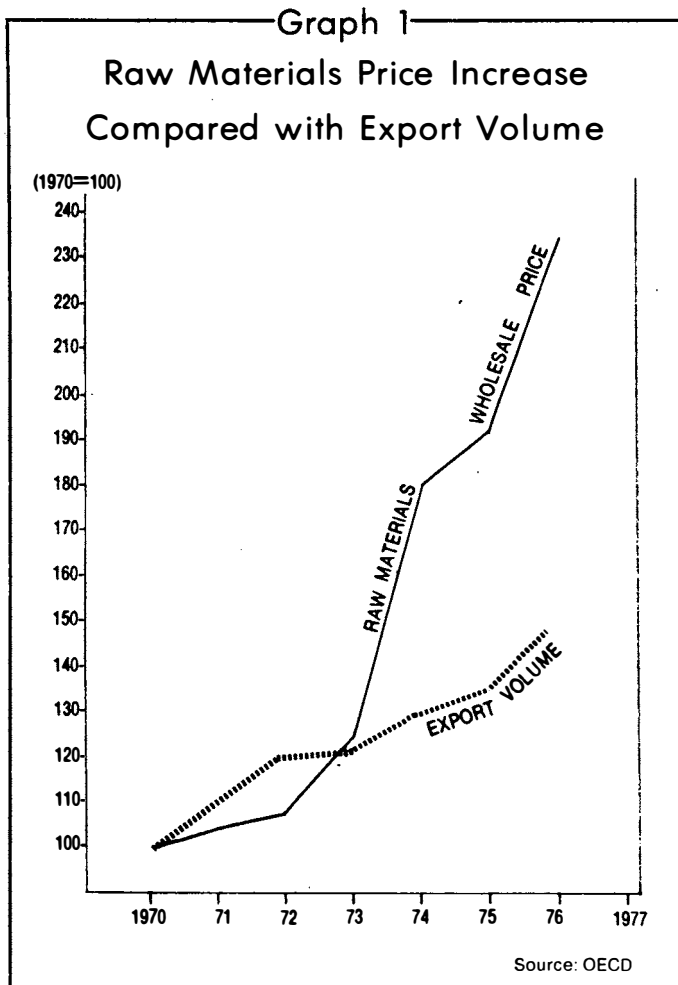
(IN MILLIONS OF U.S. DOLLARS)						
	1972	1973	1974	1975	1976	JAN-APRIL 1977
SHORT-TERM DEBT *	-1232	-961	- 54	-2052	-3015	-5000

SOURCE: IMF *MINUS SIGN (-) INDICATES DEBIT

Table 2

Italian Exports (millions of U.S. dollars)				
ITALIAN EXPORTS TO:	1974	1975	JAN-SEPT 1976	1976(E)
EAST BLOC	1486.1	1975.7	1277.9	1845.0
OIL EXPORTING COUNTRIES	2264.6	3766.1	2851.7	3700.0
U.S.	2299.6	2270.4	1721.5	2270.0
JAPAN	323.0	298.3	224.3	270.0
E.E.C.	13,714.7	15,676.4	12,731.3	16,000.0

SOURCE: IMF "DIRECTION OF TRADE" DEC. 1976



reversed. BNL said in part: "The Italian economy is in a very delicate balance and it could be upset at any time by unpredictable political or economic events, such as an unexpected exchange market turmoil." This statement basically concurs with the position that unless major credit lines are opened there will be a collapse of the Italian economy.

However, the economic recovery did have some basis in reality, since part of the export increases resulted from the initial deliveries of large trade deals to the Soviet Union. Italian bankers — despite the IMF's pressure — have extended short-term credit to their producers in anticipation of continued massive trade as sane political forces have come to realize that the IMF's imposition of zero-growth economy would necessarily worsen the Italian situation. Realizing that the triage of the state's productive base would be suicidal, the Italians have decided to maintain capital investment as a means to continue development.

Sane bankers and industrialists have an ally in ruling Christian Democratic Prime Minister Giulio Andreotti who declared at the May London Summit that Italy would use any future loans for increasing the productive

base and not for debt service. Said Andreotti, "The need for financial aid would come up only around specific projects like Italy's great nuclear power program... We will not ask for aid to cover the balance of payments deficit but only for financing big projects."

The ability to pay back debts is actually premised on the increased expansion of the economy. The expansion of trade through additional credit lines is the only answer to Italy's short-term credit situation now. The Italian banking system otherwise will face an incredible bind.

To generate the necessary short-term domestic credits, the banking system borrowed massively from the international markets. From October 1976 to May 1977 the indebtedness to the Eurodollar market rose by \$4 billion. Total Italian foreign indebtedness is officially listed at \$13.5 billion but is actually closer to \$18 billion when other government foreign debt and that of agencies guaranteed by the government are added. (Taking into account the large amount of short-term foreign debt, the final figure is said to be over \$25 billion and is probably in the vicinity of \$30 billion.) Non-banking debt includes \$2.5 billion to the IMF; \$2.4 to the EEC and \$1.5 billion to the Bundesbank. If credit negotiations fall through, however, the subsequent heavy pressure on Italian producers to pay back their short-term debt will have major repercussions on the foreign market.