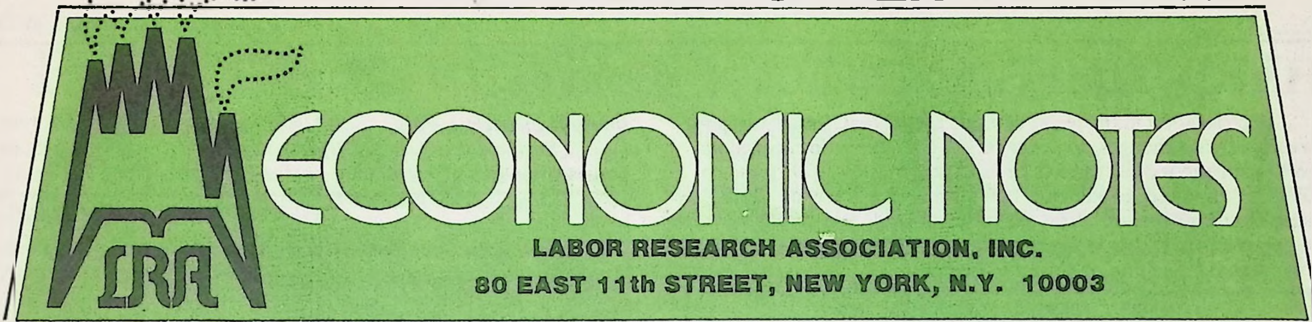
FOREIGN INVESTMENTS

June 1979



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HARD TIMES AND OIL

Hard times are indeed upon us! The gross national product declined at an annual rate of 2.4% in the three month period ending with June. Real spendable earnings were down 3.0% in May from January, an annual earnings loss rate of 7.2%. And prices are rising at an annual rate of more than 14%.

Worse times are ahead, according to almost every forecast! The Administration now predicts that the economy is likely to have a zero growth rate for the rest of the year. Private economists are far more pessimistic, most predicting that the current downturn is really the beginning of a recession.

Carter Passes Buck to OPEC

Who is to blame? President Carter blames the Organization of Petroleum Exporting Countries' (OPEC) price increases, saying that they will cost up to 800,000 jobs, could cut economic growth by 2½%, and will add perhaps 2½% to the inflation rate. Carter says that the oil price increases are *"unnecessarily high and unwarranted." (NY Times* 7/2/79)

Blame the Oil Companies!

Most Americans do not accept the Administration's argument, according to recent polls. They blame the petroleum companies for the alleged gasoline shortage and feel that when prices reach levels desired by the oil companies, the "shortages" will disappear overnight.

Evidence of a conspiracy by the oil companies is accumulating. For example, in early May, while California was desperate for gasoline, *"the tanker Mobil Aero sailed from Beaumont, Texas, with a load of gasoline for storage tanks in three cities in Florida. But she was not able to unload all of her cargo because the storage tanks were full, so she returned to Texas with 132,000 gallons still in her hold." (NY Times,* 7/3/79)

Truth About OPEC Prices

To gain some perspective on the oil price increases, slated to reach 50% by the end of 1979, it is useful to look at how oil prices have behaved since 1974—and to compare their increases with price increases of goods imported by the OPEC nations.

Oil prices, at the end of 1978, were 17% above their 1974 averages. On the other hand, prices of non-food manufactured goods imported by the OPEC nations rose 53% in the same period. This meant a terrific loss in purchasing power for the OPEC nations, a deterioration of 23% in their *terms of trade* (export prices/import prices).

(continued on page 2)

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AUTO, AUTO, AUTO

The next issue of *Economic Notes* will deal with the auto industry—of critical importance since contracts with the Big Three are up in mid-September. Place advance orders now for your Executive Boards, shop stewards, and co-workers. *As Auto goes, so goes the nation.*

Place your bulk orders for this current issue on *Foreign Investment* today, too. (Bulk rate for 50 or more copies is 10 cents per copy, plus $1.50 postage.) You need *Economic Notes* more than ever now, to get the truth about "shortages," US "aid" to developing nations, and much more.

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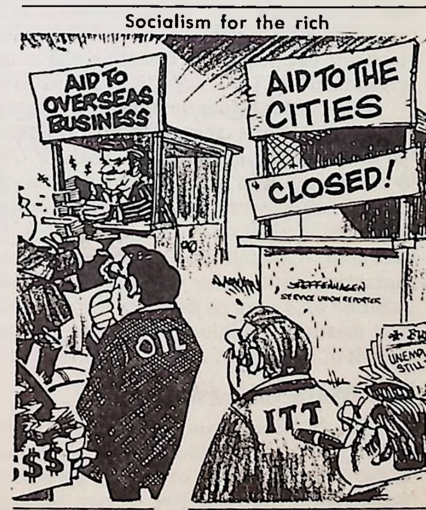
Socialism for the rich



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HARD TIMES AND OIL . . . (Cont'd)

Deterioration in the terms of trade means that, because of unfavorable price changes, a country is less able to pay for needed imports with the money earned from exports. If in 1979, prices of OPEC's imported goods rise 15%, while the price of OPEC's petroleum exports rises 50%, the terms of trade will simply revert to approximately their 1974 rates. Clearly, this is fairness; it is even "warranted," in spite of Carter's rhetoric.

OPEC TERMS OF TRADE
(Indexes)
(Base Year 1974 = 100)

YEAR	EXPORT (OIL) PRICES	IMPORT PRICES	TERMS OF TRADE (EXPORT (OIL) PRICES/ IMPORT PRICES)
1970-72	19	66	28
1973	31	84	37
1974	100	100	100
1975	98	111	89
1976	106	113	94
1977	114	124	92
1978 (4 Q.)	117	153	77 (23 decline from '74)
1979 (end)	176*	166*	106*

*Estimated on the basis of oil price increases of 50% and import price increases of 15% above 1978 average prices (Source: "World Financial Markets," May 1979, published by Morgan Guaranty Trust Co. of New York.)

For American consumers, hit by skyrocketing prices —including fuel prices—no price increases are warranted. The government must institute price controls (*not* on wages!) that are meaningful. ***The oil companies, the greatest bunch of price gougers in the history of the world, should be expropriated.*** They are a menace to the health and security of the nation.

Oil Profits Soar

Are the oil companies hurt by the rising prices of fuel? NO! *"In the face of escalating oil prices, petroleum company profits (in the first quarter) were up . . . 54% over the same period a year ago." (Business Week, 5/21/79)* The increases for individual companies—as well as their overall profits—are incredible:

	PROFITS DURING JAN-MAR, 1979		% CHANGE FROM 1978
Exxon	$955 million		37%
Mobil	437	"	81%
Standard Oil (Ind.)	349	"	28%
Standard Oil (Calif.)	347	"	43%
Texaco	307	"	81%
Gulf	249	"	61%
Atlantic Richfield	242	"	61%
Shell	224	"	16%
Standard Oil (Ohio)	168	"	309%
Continental	162	"	343%
Total Profits from 43 Energy Companies	4,716	"	54%

(Source: *Business Week*, 5/21/79)

Only Solution—Nationalize the Industry

It is not surprising that the oil companies have been able to make such large profits. Economist Victor Perlo, a member of the LRA Board of Directors, estimates that the cost of refining crude oil is only 3 cents per gallon. Transportation adds another 17 cents to the price of gasoline. With the new average price of OPEC oil at $20 per barrel of petroleum (42 gallons per barrel), the cost of OPEC crude for the oil companies will be 48¢ per gallon. With the three costs added together, the total cost per gallon of OPEC gasoline will amount to 68¢. But prices at the pump, by the end of 1979, will likely be $1.50 per gallon, at least! **This gives Exxon and the other profiteers a profit of about 82¢ per gallon.** In other words, there is no good reason why gasoline prices, even with the OPEC increases, should be more than 75¢ per gallon. If the oil companies were nationalized, this possibility could become a reality.

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TAX PRIVILEGES

The growth of US investments in foreign countries is primarily a result of the search by US corporations for maximum profits on their investments. One important factor in profit calculation is the taxes that must be paid on corporate earnings. Hence, a country's corporate tax policy can be influential in determining the flow of investment.

It is a sad fact that the *US tax structure actually encourages investment abroad* at the expense of domestic investment. In fact, *"at least three-quarters of all exports of US capital are subsidized by our government, indirectly by the loss of tax revenues, directly through low interest rates, or through outright government gifts or guarantees."* (Wilson E. Schmidt, "U.S. Capital Export Policy: Backdoor Mercantilism," printed by the right-wing American Enterprise Institute for Public Policy Research in its book *U.S. Taxation of American Business Abroad,* Washington, D.C., 1975) That means, in addition, that *the tax burden on labor increases* as a result of the flow of capital out of the US.

The Main Giveaway

The first important principle of the tax law concerns profits earned abroad by 1) US-based corporations (registered in the US, acting under US laws), or 2) their foreign-based legal subsidiaries (registered in the respective foreign countries, acting under their laws—but still owned by the US based corporations). Income taxes paid to foreign governments by either type of corporation are *credited to their US income taxes.* Taxes owed to the US government go down by exactly the amounts paid to other governments.

The following example illustrates this point. Suppose Corporation A, a U.S.-based corporation, owns all of the stock of a foreign corporation Z (its subsidiary). Corporation Z makes $1 million profit in 1978 and pays $250,000 in income taxes (a 25% rate) to the country in which it is located. The remaining $750,000 is given to Corporation A as dividends. Since Corporation A is a US-based corporation, it would ordinarily be subject to the US corporate income tax of 46%, as shown below:

Profit of Corporation A	$750,000
US Income Tax (46% of above)	345,000
After-Tax Profit	$405,000

If however, the tax credit approach is used:

Taxable Profit of Corporation A ($750,000 dividends plus $250,000 paid in taxes abroad)	$1,000,000
US Tax, if paid at normal rate (46% of $1,000,000)	$460,000
Tax Credit ($250,000 in foreign taxes)	250,000
	$210,000

(continued on page 8)

FOREIGN INVESTMENT: AN OVERVIEW

The years since World War II have witnessed the spectacular rise of the United States as the world's major imperialist power. Although never a major colonial power, the US capitalized upon the devastation and decolonization of Europe during and after World Wars I and II, along with its superior resource endowments and technology to engineer an unprecedented world expansion. Not only have US multinationals seized control of the lion's share of the Third World's resources, they have also utilized the power of the US government to force Western Europe to allow them to establish manufacturing facilities in the advanced capitalist countries (thus avoiding tariff barriers).

By the mid-1960's, US firms had control of *"over half of the automobile industry in Britain, close to 40 percent of the telegraphic, telephone, electronic, and statistical equipment business in France. . . "* (H. Magdoff, *The Age of Imperialism).*

More recently, US corporations have been attracted by the growing markets for manufactured goods in developing nations such as Brazil and Mexico and have established manufacturing subsidiaries in them as well. Today, according to Celso Furtado, *"more than half the capital invested in Brazilian industry is held by foreign groups [mostly US] and foreign control increases as we move from the consumer non-durable goods industries to the consumer durables and capital goods industries, which are precisely those undergoing the most rapid expansion." (Economic Development of Latin America).*

Facts and Trends

A more detailed view of US business interests abroad reveals several interesting facts and trends:

(1) The value of the assets which have resulted from direct US private foreign investment (equity capital invested in enterprises located outside of the US) has increased more than tenfold since 1950, from $11.8 billion to $118.6 billion in 1974. If we include indirect investments (purchases of short and long-term foreign corporate bonds) the value of assets rose from $19 to $196.6 billion during this period.

(2) To put these numbers into perspective, it should be noted that foreign operations constitute a significant share of the sales, assets, earnings and employment of the largest industrial corporations in the US (see Table I). In addition these foreign operations are growing faster than those in the US. The share of US direct private foreign investment in total US private investment rose from 5% in 1950 to 9.8% in 1972; the ratio of domestic to foreign expenditures on new plant and equipment fell from 7.4 to 1 in 1966 to 4.6 to 1 in 1976; and the proportion of after-tax profits of US corporations derived from foreign operations increased from 7.3% in 1950 to 24.4% in 1972. (Sources: *Survey of Current Business* and *Economic Report of the President,* various years.

TABLE I

FOREIGN OPERATIONS OF THE TOP 10 US INDUSTRIAL CORPORATIONS: 1971

		FOREIGN CONTENT AS % OF		
CORPORATION	*SALES*	*ASSETS*	*EARNINGS*	*EMPLOY.*
General Motors	14	15	19	27
Standard Oil (NJ)	68	56	52	
Ford Motor	36	40	24	48
General Electric	16	15	20	
IBM	30	34	54	36
Mobil Oil	45	46	51	51
Chrysler	21	31		24
Texaco	40		25	
Unilever	80	60		70
ITT	47	47	35	72

(Source: Edwards, Reich, Weisskopf, *The Capitalist System)*

More Facts and Trends

(3) Sales by US plants located abroad have for many years greatly exceeded exports of goods and services from the US, and such sales are growing faster than exports (see Table II).

TABLE II

SALES BY MAJORITY-OWNED AFFILIATES OF US COMPANIES AND US EXPORTS (in billions)

YEAR	*SALES*	*EXPORTS*
1966	$ 97.8	$ 29.3
1967	108.5	30.7
1968	120.8	33.6
1969	134.3	36.4
1970	155.9	42.5
1971	184.9	43.3
1972	211.9	49.4
1973	291.4	71.4
1974	437.7	98.3
1975	463.1	107.1
1976	514.7	114.7

(Source: Sales: *Survey of Current Business*, Various Years; Exports: *EROP*, 1978.)

(4) A significant volume of the products produced by the foreign subsidiaries of US companies is exported to the US (see Table III). Sometimes these are finished goods, but often they are parts shipped back to the US for final assembly. Items 806.30 and 807.00 of the US Tariff Schedule encourage the latter by charging a tariff only upon the value added to the products by the foreign subsidiary rather than upon the total price of the product when it enters the US. In 1975, $1.2 billion of electronic products entered the US under these two items. Most such imports represent production by "runaway shops," former domestic manufacturers which have moved their plants abroad in search of low wages and a union-free environment. Of course, the lower the wages, the less is the value-added and therefore the tariff paid.

TABLE III

US IMPORTS PRODUCED BY MAJORITY-OWNED FOREIGN AFFILIATES OF US COMPANIES (in billions)

YEAR	*VALUE*	*% Total US Imports*
1966	$ 6.3	25%
1967	7.2	27
1968	8.6	26
1969	9.5	27
1970	9.9	25
1971	12.8	28
1972	14.1	25
1973	19.6	28
1974	31.8	31
1975	31.6	32

(Source: *Survey of Current Business)*

(continued on page 4)

FOREIGN INVESTMENT (Cont'd)

The North American Congress on Latin America estimates that *there are currently more than 700 runaway shops in the US electronics industry alone, employing at least 500,000 persons.* Similar facts could be marshalled for other industries such as shoe and textile manufacturing. Many textile companies, for example, have cloth cut in the US, then sent to Mexican border towns to be sewn, and then shipped back to the US to be sold. Not coincidentally, *many of the runaways are located in countries controlled by repressive military regimes propped up by US military and economic aid.* Since 1946, more than $13 billion have been given in military aid to Taiwan and South Korea, two havens for US business in which strikes are illegal and unskilled wages in 1976 were 37 and 52 cents per hour respectively.

Impact on US Workers

What do these facts mean to workers? In a word: *trouble.*

First, ***the enormous expansion in the foreign operations of US corporations reduces US exports and increases US imports, helping to put the US trade balance into deficit.*** This trade deficit (over $25 billion in 1977) and the multi-billion dollar outflow of military aid necessary to protect US business investments, put the US balance of payments into deficit. These deficits, in turn, cause a decline in the international value of the dollar, which worsens domestic inflation by making imports more expensive. Since 1967 import prices have risen 2½ times, more than the rise in domestic prices. Many of these imports are necessities for consumers and businesses, as witnessed by the doubling of the quantity of imports despite the price increases.

Second, ***the relatively greater emphasis upon capital expenditures in foreign affiliates spells more unemployment and a loss of corporate tax revenues at home.*** This is most obvious in the case of runaway shops which, according to the AFL-CIO, had cost US workers 700,000 jobs by 1971. Worse yet, this job loss is concentrated among the already much oppressed Blacks, Hispanics and women who comprise the bulk of the workforce in the labor-intensive industries running away. And, those workers who remain employed are also affected by the runaways; employers use the threat of relocation to force workers to accept lower wages and work harder and to break strikes.

Increased Need for Conversion

Third, *the military expenditures necessitated by massive foreign investments generate inflation, increase unemployment* (since they are less labor-intensive than alternative public expenditures) *and enhance the risk of war.* As US capitalists find their world dominance threatened by Japanese and West German competitors and as liberation struggles in the Third World reduce the size of the capitalist world, the *US military machine will continue to grow unless that is reversed by the struggle for disarmamemt and economic conversion on the part of labor and the American people generally.*

Impact on Foreign Workers

Foreign workers also suffer acutely at the hands of US imperialism, especially those in the Third World. Runaway shops move to the Dominican Republic, South Africa, South Korea and Taiwan *because* wages are kept low by fascist regimes, and they stay only so long as this is the case. And regardless of whether US companies are running away or simply seeking raw materials or access to foreign markets, they (and the US government) put very heavy pressure upon host governments to create and maintain a favorable business climate, which always means keeping workers in line. Therefore, **it is not and cannot be the case that foreign capital helps to improve the standard of living of foreign workers. Instead, it strengthens apartheid; it strengthens fascism; it strengthens the forces of reaction throughout the world.**

It is doubtful that US foreign investment helps the economies of other countries in any way. US multinationals use their superior finances and control of patents and technology to eliminate local enterprises. Their control of land and minerals make it impossible for countries to plan the rational use of their own resources. Puerto Rico cannot raise its minimum wage because US corporations will move to the Dominican Republic where wages are still lower. Senegal cannot reorganize its agriculture and possibly feed its people because land is owned by US agribusiness producing vegetables for export to Europe.

Ironically, US firms are able to retain such power without even exporting much new money capital. Over 2/3 of the money capital which finances additional foreign investments is raised right in the host country. And, the return flow of profits and interest on foreign investments to the US greatly exceeds the money actually exported from the US, making Third World countries net exporters of capital to the US!

"Buy American" Campaign

To combat the effects of foreign investment on US workers, the AFL-CIO has, among other things, urged the government to impose tariffs and quotas upon foreign imports and has promoted a "Buy American" campaign. This is a dubious strategy for many reasons, but mostly because it blames foreign workers (and their low wages) for the sins of US capital and the US government.

Capital will not stop moving outside of the US simply because of a few tariffs, and if other capitalist nations retaliate with tariffs on US products, the result will be more unemployment in the US. Also, those industries protected by tariffs will use this protection as an excuse to raise their prices but it is doubtful that they will use the extra profits to modernize their plants and create more jobs. Instead they will do what the steel industry has done: shut down marginal plants and use profits to diversify their product mixes, often through foreign investment. Finally, it is not possible to really "Buy American" since so many "American" products are, in fact, made, wholly or in part, outside of the US (Dole pineapples, Dodge colts, Zenith TV's).

Fightback!

A more promising strategy would feature a two-pronged attack upon the multinationals. First, a political campaign, relying ipon mass mobilization of rank-and-file workes and political progressives, that would lobby Congress: to repeal Items 806.30 and 807.00 of the US Tariff Schedule; to stop allowing multinationals to deduct taxes paid to host countries from their US tax liabilities; to pass legislation restricting the freedom of corporations to move their US plants (such legislation exists now in some countries in Scandinavia and Western Europe); to prohibit military aid to countries which deny their workers basic freedoms.

Second, and just as important is the direct challenging of the power of capital through collective bargaining: to obtain contract provisions which prohibit employers from moving their plants or make it very costly for them to do so. In addition, boycotts and other actions, e.g., refusal to load or ship armaments, against repressive governments which attract capital, are necessary. Only the forging of these links of solidarity with workers and liberation movements around the world, supporting their strikes and political struggles, offers the long run hope of countering capital with a strong, united world working class. -- by Michael Yates

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A STALE JOKE?

Q. What is the difference between a recession and a depression?
A. A recession is when you are out of work; a depression is when I am out of work.

JOB HEALTH

The rising tide of workers' demands for increased protection from job hazards is being met with a hysterical reaction from big business with its White House and Congressional supporters. For example, four separate bills before Congress call for the repeal of the Occupational Safety and Health Act (OSHA). And White House economists repeatedly call for *decreased* OSHA rules and enforcement, claiming that they are inflationary.

The OSHA Administration's attempt to establish a cancer policy which would hasten the establishment of "safe" levels of cancer substances/hazards has been crippled. The federal courts have joined in the well orchestrated attack by allowing companies to appeal each and every OSHA proposed rule. In one case, benzene, the courts threw out the standard as being too expensive to the companies. The benzene ruling is being appealed to the Supreme Court.

Labor Offensives for Health and Safety

Reacting to the attack of big business and responding to the appeals of its membership, the labor movement has beefed up its safety and health staffs. This in-house labor capacity has been significantly helped by the OSHA Administration's "New Directions" program which has pumped many thousands of dollars into unions, universities, and trade associations. These moneys have been a union demand since the enactment of OSHA in 1970, but no money had been forthcoming.

Labor's activity for health and safety accelerated with OSHA's enactment. A comparison of action and commitment by the labor movement to job safety and health between 1970 and 1975, and then 1979, clearly shows a qualitative change. Prior to 1970, safety and health were significant rank and file demands which often took the form of hazard pay and work actions, but they usually did not reflect themselves in special union safety and health representatives or staff. Today they often do! And it is therefore no wonder that OSHA faces the concerted opposition of the American Conservative Union and the John Birch Society—and their miserable creations: first "Abolition OSHA," and now, "Stop OSHA."

Industry Arguments

The attacks from industry take many paths. They attack on the *medical* front: *"The chemical does not have any really dangerous health effects."* They attack on the *scientific* front: *"We've tested the air in our shops and the chemicals are all within the OSHA rules."* They attack on the *engineering* front: *"The engineering does not exist to bring the hazard within the OSHA rule."* They attack on the *economic* front: *"If we are forced to comply with the OSHA rule, we'll have to close down."* They attack on the *political* front: *"OSHA is robbing us of our Constitutional rights. We want inspectors to get pre-inspection search warrants which prove there is a danger."*

Union Reaction

Each and every one of the above arguments is used by industry to stop safety and health rules from being forced upon them. In response, union national offices have begun to employ full-time professional staff to counter these arguments in OSHA hearings, the federal courts, and in collective bargaining. All international unions now employ professional safety and health experts to help set union policy and fight the companies. These union professionals spend many hours:

(a) Reviewing proposed OSHA rules and enforcement procedures;

(b) Studying company reports on medical surveillance, industrial hygiene and OSHA testimony;

(c) Developing coalition efforts with other unions seeking the broadest front to convince OSHA of their views on OSHA rules and enforcement programs;

(d) Seeking out their own medical, scientific, engineering, and legal information;

(e) Developing and teaching educational programs for union shop stewards and workers;

(f) Developing working relationships with the union's own business agents, international representatives, officers, full-time safety representatives and committeepeople, and other union staff. The goal of full-time union safety and health staff is to bring the issue of safety and health to the entire union.

The infusion of OSHA money and increased union in-house money have brought many new safety and health professionals into the labor movement who have no previous labor experience. This has required unions to institute on-the-job education programs to make the new union staff members aware of their own particular unions, as well as the general labor movement's histories.

On the Shop Floor: Full-Timers Needed

Full-time safety and health representatives are now being demanded on the shop floor. But, the expertise necessary on the shop floor is different from that in the union offices. Quick action is needed to force the supervisor and plant management to:

- Mend a broken pipe used to transport a chemical;
- Unclog a plugged ventilation duct needed to get rid of dangerous solvent fumes;
- Fix or replace a broken machine guard on a radial saw;
- Provide safe and useful eye protection from flying dust;
- Shut down a construction job during windy days; . . .

In addition, shop floor expertise is needed to help develop occupational safety and health contract language for national bargaining and for local amendments to national agreements. And such expertise is absolutely necessary to teach shop stewards the art of hazard detection!

Long Road Ahead

For a decisive improvement in worker safety and health conditions, the right must be won to shut down operations in any shop or section where union health and safety representatives (reps) consider that unduly dangerous conditions exist. This right will have to be established through struggle, and protected through contract language.

Few unions have local full-time safety and health representatives. Most unions now encourage the appointment or election of safety and health reps in departments or for the full plant. This is especially true in the industrial unions, on construction sites and in the longshore and maritime industries. In other unions, safety and health duties often fall to local union officials who also have many other responsibilities.

(NEXT MONTH: THE UNITED AUTO WORKERS' SYSTEM PF SAFETY AND HEALTH REPRESENTATIVES)

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QUESTIONS???

Do you have a question about job safety or health? If you need help, write to the experts at Labor Research Association. They are helping others; and they will be happy to help you!

EXPOSURE LIMITS

(Many readers have expressed their need to learn more about the technical side of occupational safety and health questions. In response, Economic Notes will present a series of articles aimed at providing basic information for OSHA activists and would-be activists. The article below introduces the subject of "Exposure Limits," a key subject in the fight to protect workers and their families from chemical and physical stresses.)

Physical injuries at work may result in permanent damage (and on occasion, death) from mechanical accidents and unsafe conditions.

But just as serious harm can occur to workers from short or long term exposure to chemicals or physical stress like excess heat, noise, radiation, repetitive motion, etc.

The health goal to be aimed for is one where exposures to chemical and physical stresses do not result in harmful disturbance to the body over a lifetime of work; *not only to the workers, but to his or her family and children.* This last aspect of industrial conditions affecting the rest of the family must not be ignored!

Effects on Workers' Families

For example, asbestos dust brought home on work clothes has caused members of the family, especially wives who usually washed the clothes, to develop mesothelioma (a certain type of cancer). Other examples of harm to wives and children are lead dust exposures, highly toxic beryllium (which may cause fatal respiratory diseases), polychlorinated biphenyls (which affects the central nervous system) and stilbestrol (which is related to sex changes).

A recent study showed that the wives of operating personnel exposed to anesthetic gases had significantly increased rates of spontaneous abortions, and the births had more congenital defects than offspring of unexposed men. (*Science,* 11/17/78).

Sterility of workers, as well as thalidomide type effects on newly born children (birth defects due to what the father or mother may be exposed to at work), is caused by certain insecticides. Men working in the chemical plants which manufacture these insecticides find that their sperm counts are seriously reduced.

An indication of the morality, ethics and arrogance of some of the manufacturers of such insecticides was the statement by one executive that exposure to this chemical (also a cancer producer) was one way of effective birth control!

The above not only points to the need for effective control of potential health hazards at the work place, but also adequate sanitation facilities and laundry of workers' clothes at the work place. The latter subject will be taken up in a separate article.

Worker Variability

There are values of exposure—called threshold limits—for both chemical contaminants and physical stresses under which practically all workers repeatedly exposed day after day should have no adverse effects. Because of wide variation in individual susceptibility, a small percentage of persons may be affected seriously by aggravation of a pre-existing condition. This must also be taken into consideration in evaluating working conditions.

For example, a person with asthma or bronchitis would be adversely affected by concentrations of sulfur dioxide or ammonia which would not harm a healthy young person. Such increased sensitivity would be even more true of workers exposed to epoxy resins or urethanes (used in coatings, repair work insulation, etc.) where the highly toxic ingredient is "isocyanates."

A person with an existing heart condition and doing hard physical work could come down with a serious heart attack breathing carbon monoxide or carbon dioxide in concentrations that would not affect a healthy person.

Threshold Limits

Toxic air contaminants (like benzol, trichloroethylene, carbon monoxide) in vapor or gas form are measured and designated in parts per million (one percent = 10,000 parts per million; 0.01 percent = 100 parts per million or ppm).

Solid or liquid contaminants in the air are sampled, analyzed and designated *only* by weight per unit volume of air. These include silica dust to which miners are exposed and which leads to TB and heart disease; lead; arsenic; cadmium; flourides (used in some welding rods); mercury dust and vapors (in dental laboratories). Sulfuric acid or sodium hydroxide mists are examples of toxic liquid airborne contaminants.

Mineral dusts (silica, asbestos) in addition to weight evaluation may also be evaluated by *number* of dust particles per unit volume of air.

Exposure to heat stress from a combination of high air temperature, humidity, and infra-red rays (such as occurs in steel mills, mines, glass plants, auto factories); noise; radiation (such as ultra-violet rays, which are emitted in welding; laser beams, etc.); microwave ovens in hospitals require more complex methods of evaluation—these physical hazards to health will be discussed in separate articles at a later date, unless information is asked on specific work place problems before then.

(The next issue of Economic Notes will carry Part II of the discussion on "Exposure Limits." It will focus on "Threshold Limit Values.")

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OSHA INSPECTIONS UP; PENALTIES DOWN

The OSHA Administration reports that between 10/1/77 and 10/1/78 it carried out 57,242 inspections as compared to 59,932 inspections in the same previous year. They breakdown this way:

The total proposed penalties in 1978 were $19,839,467, but only $8,085,291 was paid to OSHA; the rest is being contested by the employers. In 1977, total proposed penalties were $11,601,062 with $7,083,475 paid into OSHA, the rest contested.

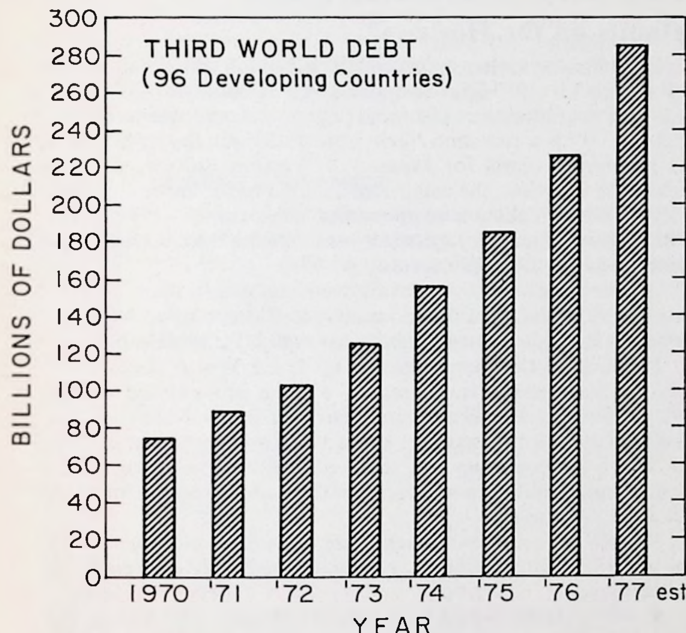
An interesting figure is the amount of time devoted to an OSHA inspection. The average safety inspection took 15 hours with 36 hours for a health inspection. These figures didn't change between 1977 and 1978 periods.

What is obviously needed is more federal OSHA inspectors to increase the number of inspections, especially health inspections—and more justice department types to get the companies to start paying their fines.

	SAFETY INSPECTIONS	HEALTH INSPECTIONS	VIOLATIONS	SERIOUS VIOLATIONS
'76-'77	51,091	8,841	181,942	20,914
'77-'78	46,625	10,617	134,484	33,155

LOANS TO THIRD WORLD

Loans to Third World governments have long been a favorite form of investment for the governments of the United States, Japan, and Western Europe; for capitalist-run international banks (World Bank, International Monetary Fund); and for privately owned banks. In the 1970's, however, the trend of loans has speeded up, to an annual (compound) rate of 21%.



In addition to loans to Third World (or "less developed" or "developing" or "ex-colonial") *governments*, loans are also made to *firms* operating in these countries. In either case, high interest payments must be made to the creditor in the "West," imposing big strains on Third World nations' economies.

How Did the Third World Get into Debt?

Most Third World nations, while they have gained their political independence, are still strongly tied economically to the multinational corporations and capitalist governments. When the US, Japan, and Western Europe undergo economic crises, these Third World countries are the hardest hit by the resultant misery. Why? Because the monopolists are able to continually raise the prices of their manufactured goods, but the Third World countries' raw materials prices fall during the recessions (depressions).

Third World countries typically export raw commodities such as copper, rubber, jute, zinc, bananas, cocoa, palm oil, cotton, etc. With the export revenues thus earned, Third World countries pay for imports of goods manufactured in the developed capitalist countries, goods essential for Third World development, e.g., machinery, factories, and technology.

A deep depression hit the developed capitalist countries in 1973-75. Demand and price for raw materials (except oil) fell sharply. As a result, the export revenues of Third World countries fell. At the same time, inflation in the developed capitalist countries accelerated; consumer prices rose 21% in the US, 13% in West Germany, 39% in Japan, and 44% in Britain in the 1973-75 period. Thus, the prices of goods manufactured in the West and imported by Third World countries rose dramatically.

Petroleum Price Increases

Oil price rises in late 1973 and 1974 also forced the Third World to pay more for its oil imports. The costlier oil imports, however, were but a minor factor in the worsening position of the oil-importing developing countries. *Oil imports for these countries were only 14.4% of total import costs in 1975—and this percentage is expected to decline to 12.5% by 1980.* It is the rising price of *the other imports* that is the key problem. ("Finance & Development," *World Bank and IMF,* June 1979, p. 8)

The upshot of the world depression of 1973-75 was that the value of Third World exports shrank, and the cost of the products Third World nations imported skyrocketed. In other words, huge balance of trade deficits developed (imports exceeded exports).

IMPORTS EXCEED EXPORTS
(Non-OPEC Third World Countries)
(billions of $)

1973	$12.3	1976	$29.9
1974	33.6	1977	25.9
1975	44.6	1978	36.1

(Source: *Economic Report of the President,* 1978, 1979)

Western Banks to the "Rescue"

To pay for their imports, Third World nations sought foreign loans. As in the past, they got increased loans from capitalist governments and their international banking institutions, but the new element was the willingness of the huge private Western banks (Citibank, Chase Manhattan, Morgan, etc.) to lend.

> ***"In the period 1971-73 the commercial banks provided only 20% of the less developed countries' total financing needs. But in the period 1974-76 . . . the commercial banks provided more than 40% of the less developed countries' net new international borrowing, according to a Morgan Guaranty estimate."*** (*International Debt, the Banks, and US Foreign Policy, August 1977,* prepared for the Senate Foreign Relations Committee).

Greed for Profits

Greed for profits, not a desire for "global development," motivated the lending binge by private bankers. In 1974-76 when demand for bank loans declined in developed capitalist countries because of the recession , the bankers lent huge sums at usurious rates of interest to Third World countries. Bank profits soon reflected the trend toward increased overseas loans:

BANK PROFITS ON FOREIGN OPERATIONS AS % OF TOTAL BANK PROFITS

	1972	1976
Bank of America	21%	40%
Citicorp	54%	72%
Chase Manhattan	34%	78%
Manufacturers Hanover Trust	29%	56%
Morgan Guaranty	35%	53%
Bankers Trust	31%	64%
Chemical	14%	44%
First Chicago	11%	17%
Continental Illinois	17%	23%
Charter New York	28%	58%
First National of Boston	12%	65%

(Source: *International Debt, the Banks, and US Foreign Policy,* August 1977, prepared for the Senate Foreign Relations Committee)

(continued on page 8)

LOANS TO THIRD WORLD (Cont'd)

These astonishing profit trends indicate that for the biggest US banks, the very nerve centers of the US economy, *foreign lending is becoming (or is already) more important than domestic lending.*

The terms on which loans are made to the Third World have become much more burdensome. For example, the average maturity of World Bank loans fell from 19.3 years in 1970 to 14.5 years in 1976; the payback period is shorter for loans made by private banks. *Interest on foreign private bank loans is much higher than on domestic loans.*

Turkey: At the Mercy of the Banks

Turkey is a good example of a less developed country forced to compromise its national independence in return for loans.

> *"Turkey's deepening financial problems and the political strains that accompany them led to a warning by Joseph Luns, Secretary General of NATO, that Turkey might pull out of the Atlantic Alliance unless other Western countries came to its aid. However, aid is conditional on the Turkish government's agreeing to put its economic house in order by imposing difficult new austerity measures approved by the IMF."* (*NY Times* 5/31/79)

The Turkish Prime Minister, Bulent Ecevit, was *"resisting the kind of economic reforms the IMF wants and which could cause him further embarrassment."*

What Turkey Will Receive

1. $661 million in emergency loans from the US and West German governments;
2. $245 million in special trade credits from Japan and four other governments;
3. $150 million loan from the World Bank;
4. $400 million in loans from private banks, including Citibank;
5. Possibly several hundred million dollars more in loans from the World Bank, the IMF, and the Common Market if Turkey agrees to their conditions.

What Turkey Must Agree To

1. Devaluation of its currency (i.e., raising the prices of its imports);
2. Cutting government spending, especially for social welfare;
3. Allowing the IMF to suprevise the setting of strict credit controls which will make it more difficult for Turks to borrow money).

Real Reasons for Loans

The emergency loans to Turkey have four purposes: 1: to shore up a strategically located NATO country situated between the socialist countries and the Mideast oilfields; 2) to strengthen pro-capitalist elements in a country wracked by class conflict (martial law exists over much of Turkey); 3) to prevent another Iran; and 4) to make profits off of Turkey's plight.

Defaults on the Horizon?

Default occurs when a debtor falls behind in scheduled repayment of debt. In 1973-75, some Third World countries defaulted, but the international capitalist monetary system was able to absorb the shock. With a recession likely now underway in the US, and with gloomy forecasts for Japan and Western Europe, plus re-accelerating inflation, the conditions that led to the earlier upsurge in Third World debt are re-appearing. This time, however, the capitalist world monetary system is more fragile than it was at the beginning of the 1973-75 depression:

1) The biggest banks have not been cautious in their lending. For example, in its haste to lend money to Zaire, Citibank grossly misjudged that government's ability to repay. Zaire defaulted.

2) Much of the money loaned to Third World countries is raised in the Eurocurrency market, a huge unregulated money market. (Eurocurrencies are currencies that are outside their national boundaries; for example, when a dollar is deposited in London, it is a Eurocurrency.) A series of defaults by Third World countries might have grave effects on the stability of this market, with a big domino effect.

3. Third World governments are formally sovereign. They can, in extreme circumstances, repudiate debt to private creditors like banks.

4. Many Third World countries are already stretched to the limit—before the recession gathers steam. Brazil and Mexico, for example, now spend 30 to 40% of their export revenues just to repay old loans. Another serious world recession could easily force them into default.

5) Loans are concentrated in certain developing nations. Fully 13% of Citibank's worldwide profits come from its dealings with Brazil.

International Financial Crash Looming?

Conclusion: **the danger of a chain-reaction international financial crash is very real—and is growing.** If a crash does occur, the blame must be laid upon the governments and multinational corporations of the US, Japan, and Western Europe. It is their policies and power which will have created the situation.

-- by Thomas Kenny

TAX PRIVILEGES (Cont'd)

Actual US Tax Paid	210,000
Foreign Taxes	250,000
After-Tax Profit	$ 540,000

Thus, Corporation A pays only $210,000 to the US government instead of $345,000. Its after-tax profit is $540,000, compared with $405,000 if the tax credit did not exist. *The US loses $135,000 in tax revenue while the corporation adds $135,000 to its profit.*

Tax Deferral

A second important principle of the US corporate tax system is that US-based corporations and their foreign-based subsidiaries may escape US taxation of their "foreign-source" profits by leaving those profits outside the boundaries of the US. If a foreign subsidiary, like Corporation Z in the example given above, does not pay out its profits in the form of dividends to its US corporate owner, but instead *re-invests them abroad,* it pays *no taxes* to the US government. This is known as **deferral.**

This deferral *"constitutes an interest-free government loan to the corporation until the earnings are repatriated (returned to the US)."* (Schmidt, ibid.) It provides a clear incentive for the US-based corporation to *expand abroad* rather than at home. Again, there is a loss of both tax revenue and domestic capital.

The Tax Impact

The overall impact is obvious. The tax system, by its favorable treatment of foreign investment, provides incentives for capital investment abraod compared to capital investment in the US. And it also *lowers corporate tax revenues* to the federal government, *raising the tax burden on workers.*

-- by Mark Obrinsky

FOREIGN INVESTMENT IN US

Foreign investment in the US, i.e., the *import of capital* into the US, has especially accelerated in the 1970's. Foreign investment in the US assumes many forms: the purchase of a controlling block of shares in a US industrial corporation; the purchase of such shares, but in amounts insufficient to control the given corporation; the purchase of real estate (land for commercial and industrial use, office buildings, apartment houses, farmland); the outright acquisition of a US bank by foreign investors, or the opening of a US branch of a foreign bank; the purchase of US Treasury securities, both short-term and long-term (in effect, loans to the US government); the placing of large sums of money in interest-bearing accounts in big private banks; the purchase of corporate bonds; etc., etc.

US Top "Foreign Investor"

By all measures, private foreign investment in the US has been rising rapidly. In US government statistics, private "foreign direct investment in the U.S.," defined as ownership by a non-resident of more than 10% of the voting stock of a corporation operating in the US, has burgeoned. Nevertheless, *it is still not nearly as large as the amount of direct US investment overseas* although it is growing faster.

STOCK OF FOREIGN DIRECT INVESTMENT IN THE US		STOCK OF US DIRECT INVESTMENT ABROAD	
	($bil.)		($bil.)
1972	$14.9	1972	$ 89.9
1973	20.6	1973	101.3
1974	25.1	1974	110.1
1975	27.7	1975	124.1
1976	30.8	1976	136.4
1977	34.1	1977	148.8
1978	39.8	1978	165.0
(Growth:'72-'78=+167%)		(Growth:'72-'78=+84%)	

(Source: U.S. Dept. of Commerce)

In other words, in 1972 the amount of private foreign capital in the US was 1/6 the size of US private capital in foreign countries. By 1978, private foreign capital was about 1/4 the size of US private capital in foreign countries.

In 1978, the leaders in new investment in the US were Britain, Japan, Canada, West Germany, Switzerland, the Netherlands and France. Manufacturing (especially chemical, metals, and machinery production) received the heaviest foreign investment. In the financial sector, foreign investment has been especially rapid with foreign banking assets in the US growing from $18.1 billion in 1972 to $65 billion in 1978. (*NY Times*, 6/21/78)
6/21/78)

What's behind the import of capital into the US?

Uneven Development

1. Fundamentally, the stepped-up investment in the US is the inevitable result of the *uneven growth* of various sectors of the capitalist world. In the first two decades after World War II, US supremacy among capitalist nations was unchallenged. US capital flowed abundantly into war-devastated Western Europe, Japan, as well as the still weak Third World countries. Over the last 10 to 15 years, however, the relative preformance of the US economy has been poor. Great wealth has accumulated in Western Europe, Japan, and recently some less developed countries, OPEC in particular. With the relative decline in US economic power, more capital than before is flowing in the opposite direction, i.e., into the US.

2. The US is seen by many as the last bastion of capitalism. In Western Europe and Japan, capitalists face powerful Socialist and Communist trade unions and political parties. The wealthy in many developing countries are even less certain of the viability of capitalism. Hedging their bets, they want at least some investments in the US.

3. The US market is still the largest in the world. As the US increasingly raises trade barriers to foreign imports, those companies with production facilities inside the US are less vulnerable.

4. Huge accumulations of dollars in foreign banks, accumulations which owe their existence to the long string of balance of payments deficits run by the US, as well as to US payments to OPEC for oil, serve to facilitate the purchase of US securities and other investments in the US.

5. With recent changes in exchange rates of the world's currencies, and with the large gains won by militant Western European and Japanese trade unions, in some industries, wages and benefits are lower in the US (especially the unorganized South) than in some other countries. Much foreign investment has been concentrated in the South, for example.

Growing "Anti-Foreigner" Campaign

A campaign is under way to whip up irrational, nationalist opposition to increased foreign investment in the US. Some recent headlines are revealing: "Foreign Firms Step Up Takeovers in US and Worry Is Rising" (*Wall Street Journal*, 4/20/79); "Foreigners' Takeover Irks Banks" (*NY Times*, 3/12/79); "Taking Over America" (*NY Times*, Op-Ed page, 6/1/79); "The Arab Stake in America," subheading: "Worried experts fear that as a result Arabs may soon be able to exert undue influence on American policies." (*NY Times*, 6/22/79).

What Are the Facts?

There is *no danger* that foreign countries will take over key US industries. The US with its massive stock of capital, is simply not in the same position as a Third World country that *would* be threatened by an influx of foreign capital. For example:

1. In the US auto industry there are rumors of the purchase of Chrysler by Volkswagen of West Germany. Even if the deal goes through, Chrysler accounts for only about 11% of US domestic auto sales.

2. Foreign investments only provide about 4% of US manufacturing employment (*NY Times*, 7/21/78). According to the US-Japanese Trade Council there are a little over 200 Japanese-owned factories in the US, out of a total of more than 320,000 manufacturing establishments in the US (less than 1/10 of 1%!).

3. According to US Treasury estimates Arab direct investment in the US (10% plus of the voting stock) is *only $1 billion.* (*NY Times*, 6/24/79) Much larger sums, of course, are in interest-bearing deposits in big US banks and in short-term Treasury bills, but much of this investment is temporary in nature and does not provide control of any company. As noted, in 1978 foreign banks had $65 billion in loans and investments, ie., assets, in the US, but US bank loans and investments overseas were over $200 billion (*NY Times*, 6/21/79)

Racism at Work

Anti-foreigner hysteria is a well-tested weapon of US employers, a useful weapon for confusing American workers as to who is the main enemy. Anti-foreigner hysteria has an especially ugly racist edge when it is directed against Japanese and Arabs. Despite increased foreign investment, ***the main enemy of US workers is and will remain big US-based corporations.***

-- by Thomas Kenny

HANDY REFERENCE FIGURES

	May 1979	Jan.-Mar 1979 %	Jan.-Mar 1979 (thous)
UNEMPLOYMENT [a, b]	5.8%	6.3%	6,360
Total (Labor Dept.)	--	12.4	13,253
Total (Urban League)[c]	11.6	11.9	1,425
Minorities (Labor Dept.) ..	--	22.3	2,973
Minorities (Urban League)	5.0	5.5	4,935
Whites[d] (Labor Dept.)	--	11.0	10,277
Whites (Urban League) ..	36.9	31.7	313
Minority youth (16-19 yrs.)	14.3	14.5	1,180
White youth (16-19 yrs.) ..	5.8	5.9	2,279
Women, 20 yrs. and older	3.9	4.7	2,587
Men, 20 yrs. and older ...			

	May 1979	Jan.-Mar. 1979
PRICES (1967-100)		
Consumer Price Index ...	214.3	207.0
% change from 1 yr. ago ..	10.9%	9.9%
TAKE-HOME WAGES AND SALARIES[a,e]		
Weekly take-home (Labor Dept., Current $)[f]	$192.13	$190.69
Real weekly take-home (Labor Dept., 1967 $)[f]	$ 89.61	$ 91.86
% change from 1 yr. ago	-3.3%	-1.0%
LRA real weekly take-home[g] (1967 $)	---	$ 80.39
% change from 1 yr. ago	---	-1.1%

a. Monthly data are seasonally adjusted.
b. Quarterly data are not seasonally adjusted.
c. Based upon Urban League methodology which includes, in addition to Labor Dept. figures, all workers who "want a job now" but are not actively seeking work and also 46% of all part-time workers who want full-time jobs.
d. Labor Dept. statistics include Spanish-surname people with whites.
e. Private nonagricultural workers with three dependents.
f. Only federal income and social security taxes are deducted.
g. LRA series on real wages corrects the Labor Dept. handling of federal income taxes to show the true deductions from wages; it also deducts state and local income and social insurance taxes from wages. For details, write to LRA.

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