'In Paris, the brakes are taken off inflation', from Frankfurter Allgemeine Zeitung (21 January 1974)

Caption: On 21 January 1974, the German daily newspaper Frankfurter Allgemeine Zeitung comments on France’s decision to withdraw from the European currency snake and considers the economic and monetary crisis currently affecting the countries of Western Europe.

Source: Frankfurter Allgemeine Zeitung. Zeitung für Deutschland. Hrsg. BENCKISER, Nikolas; DESCHAMPS, Bruno; EICK, Jürgen; FACK, Fritz Ullrich; FEST, Joachim; WELTER, Erich. 21.01.1974, n° 17. Frankfurt/Main: FAZ Verlag GmbH. "In Paris werden die Inflationsbremsen gelöst", auteur:Jetter, Karl , p. 2.

URL:
http://www.cvce.eu/obj/in_paris_the_brakes_are_taken_off_inflation_from_frankfurter_allgemeine_zeitung_21_january_1974-en-bac70874-4b28-4c9e-b5c3-f188bb8e1530.html

Last updated: 24/05/2017

In Paris, the brakes are taken off inflation

‘Dirty’ floating takes the franc on its way to sliding devaluation

By Karl Jetter

Paris, January

The withdrawal of France from the European monetary bloc has been described by Finance Minister Giscard d’Estaing as ‘the most suitable measure to protect the French economy and the interests of the French people.’ The move to abandon ‘fixed, but adjustable’ exchange rates in trade relations with the countries of the European Community would [he claimed] give complete freedom of action to French economic policy in these difficult times, freedom to encourage exports, to revive internal economic activity and to guarantee jobs. This is a truly elegant paraphrase for the fact that, in the national interest, Paris now intends to open up ‘dirty’ export competition, using monetary policy, and is thus throwing everything overboard that had previously been solemnly announced at summit conferences on the establishment of a European economic and monetary union. On the subject of restricting the measures to six months, there is an old French saying: ‘Le provisoire c’est le définitif’, ‘There is nothing more permanent than that which is temporary.’

This is a severe blow for Europe, say many French people. And this is only the beginning. As early as this coming Monday, Paris expects the first wave in a flood of restrictions that will also apply to internal European money and capital transactions. Foreign currency will gradually become prohibitively expensive and, probably, also subject to severe quotas. The path to European economic and monetary union or even to a political union by 1980 seems to be more difficult, and more infinite than ever.

Paris has taken the liberty of brushing aside appeals for European solidarity with Holland in the oil crisis. What is more, hardly had the objections to a ‘devaluation race’ in the industrial countries been voiced at the OECD in Paris by the Western industrialised nations and by the Finance Ministers of the Club of Twenty in Rome than France became the first country to take this step and to begin the unfair encouragement of export. In the countries of the European Community, this action is all the more surprising, because Paris, above all, had repeatedly made itself out to be the inexorable advocate of fixed exchange rates, the opponent of any floating, and the spearhead of a European currency bloc. It is also incomprehensible, because Paris has huge currency reserves at its disposal and there is no compelling reason to destroy the very core of the planned European monetary union.

What London and Rome had to do under the pressure of very serious political difficulties at home and a balance of payments crisis, Paris has now decided to do quite ‘calmly, coolly and without any pressure from outside’, said Mr Giscard d’Estaing. The currency reserves of around 25 000 million marks — and, if the large gold stocks are realistically valued, it amounts to a great deal more — will be allowed to go into a so-called ‘dirty’ float by the French Government. Paris can intervene in support if the exchange rate of the franc were to slide more pronouncedly than seems necessary to secure the French objectives for exports and full employment.

For the French, as for the countries of the franc area (which have to deposit their foreign currency to Paris), this is again proof of the rule that the franc is only ever devalued and the mark is only ever revalued upwards). On the free market for the financial franc, which will in future be merged with the market for the commercial franc, French people who wanted to travel to Germany had to spend around 50 % more francs per mark last weekend than they did in 1969 when Mr Pompidou came to power (184 instead of 122 francs per hundred marks). And, in the next few weeks, everything imported from abroad will also become more expensive. Under the rules of the common market for agriculture, the prices for food also have to be increased automatically by the current devaluation rate of the franc.

This additional inflationary boost simultaneously removes the last brake to stop unrestricted increases in the money supply in France. Paris is no longer obliged not to exceed the inflation rate of the other European countries. To date, this would have meant trade deficits, foreign currency losses and, ultimately, exchange rate alterations. The transition to floating the franc means that now the free currency market is responsible for a sliding franc devaluation. In the opinion of many currency experts, it threatens to be quite a considerable one.

The French Government is expecting a trade deficit to the order of 20 000 million francs for 1974, as a consequence of the increase in oil prices. In spite of very good friendly relations with the Arabs, French currency reserves would then shrink by half. By using strict management of foreign currencies, Paris will now attempt to protect its currency reserves. The floating devaluation is intended to increase exports and to bring more foreign currency into the country. According to ancient mercantile tradition, the French Government is again running the risk of seeing only one side of the problem, that is, the export side. However, the more the franc is devalued, the more expensive imports will become at the same time. In addition to the increase in oil prices, the price of hard currencies will also increase, since the Arabs do not want to be paid in francs. Although the mark has become more than 40 % more expensive for the French in trading since 1969, there has been no change in the French trade deficit with Germany. Why is this? Because France is just as dependent on the import of German machinery and other goods as it is on the import of oil. And that is, literally, at any price.

The deficit of billions in trading with the oil-producing countries cannot be paid off by using devaluation rates but only by using foreign currency. But this has to be earned, bought or borrowed, and there is then a great risk that the oil-producing countries will invest their foreign currency surpluses (50 000 to 60 000 million dollars in 1974) primarily in countries with reliable currencies (dollars, marks, Swiss francs) and also make their purchases of consumer goods and investment products in those places where the best quality and the best performance can be found. Using devaluation as a means of ensuring national full employment has, to date, been more convincing in the textbooks than in actual practice. The permanent devaluation of the franc since 1969 has had the same effect on France as a closing down sale at rock-bottom prices. This does not generally make you richer, but usually poorer. However, one point should give some pause for thought. In spite of the permanent devaluation of the franc since 1969, France has not yet earned one single dollar of export surplus in foreign trade.