

'The franc and the consequences', from Süddeutsche Zeitung (11 August 1969)

Caption: On 8 August 1969, France devalues its currency. The following day, the German daily newspaper Süddeutsche Zeitung considers the repercussions of this decision for a Europe in the throes of serious monetary difficulties.

Source: Süddeutsche Zeitung. Münchner Neueste Nachrichten aus Politik, Kultur, Wirtschaft und Sport. Hrsg. DÜRRMEIER, Hans ; Herausgeber PROEBST, Hermann. 11.08.1969, n° 191; 25. Jg. München: Süddeutscher Verlag. "Der Franc und die Folgen", auteur:Slotosch, Walter , p. 4.

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The franc and the consequences

By Walter Slotosch

To a certain extent, the operation was performed under anaesthetic: the eighth devaluation of the French franc since the Second World War and the thirteenth since the First World War. While Paris had been largely deserted by the Parisians and France was slumbering under the effects of high summer and holidays, the decisions were being taken. The surprise was complete. Pompidou and Giscard d'Estaing are experienced bankers and financiers, so they know how to do that kind of thing. It turned out once again that the path to monetary policy measures is paved with official denials. De Gaulle's categorical assurance that a devaluation of the franc was quite out of the question was also on the official government agenda of the Pompidou cabinet. However, to an observer with no illusions, it must have long been clear that French monetary policy was heading for the abyss. As now admitted by Giscard d'Estaing, the pace of the currency losses suffered by the Bank of France had accelerated to such a degree that the country would probably have had to report the total loss of its entire currency reserves in the late autumn.

All imports from abroad into France will now become about 11 % more expensive. That is the dark side of a devaluation. On the other hand, the French export industry becomes quite considerably more competitive as a result of the cheaper price of the French franc. How long this effect will endure depends on the extent to which the French Government is successful in bringing the alarming upward trend in prices to a halt by means of the consolidation programme that has now been started. The most difficult chapter in this programme is likely to be the wages policy. The initial reactions of the French trade unions to the devaluation were sceptical and negative. After all, new wage rounds are looming on the horizon. All current attempts by the government to hold wages down are already being branded by the unions as a new 'offensive against workers' rights'.

France is the largest trading partner of the Federal Republic. The slow down in German exports to France that is to be expected following the devaluation of the franc and the increased import of French products into the Federal Republic will, admittedly, tend to lead to an improved trade balance and to a slowing down of the German export boom that is at present as fierce as ever. Whether this dampening effect will, however, be sufficient to compensate for the continuing, excessive demand from the other countries affected by inflation is most certainly questionable.

Illusion without end

Only those who harbour illusions were able to believe that everything within the world monetary order would continue in the same way, that corrections to the international exchange rates were superfluous, that everything would be straightened out and that it was only a matter of the governments of countries in deficit finding their way back to a solid financial policy. We are now facing the question as to whether the distortion of the international exchange rates has essentially been removed by the devaluation of the franc, or whether this measure was merely the signal for a new period of uncertainty and unrest and for a series of subsequent exchange rate adjustments by other countries.

While Franz Joseph Strauß is behaving as if the greatest difficulties have now been removed, Karl Schiller is expressly turning against the view that everything is now in order as a result of the decision taken by the French. The Federal Minister for Economic Affairs believes that there is now an opportunity to overcome stagnation in international monetary policy and to give consideration to a general realignment of exchange rates that have now become unrealistic. Strauß, as was never to be expected otherwise, also declared in an initial statement that we were now seeing how right it had been not to revalue the German mark.

However, we believe, on the contrary, that it is only now that we are really seeing how wrong it was not to revalue the German mark. The devaluation of the franc has created faits accomplis that reduce even further our own freedom of decision-making in monetary policy. In trade with France, if we include the quasi revaluation determined by the Federal Government in November of last year, we now have a de facto revaluation of the German mark by 16.5 %. No one will seriously be willing to believe that the Federal

Government is perhaps in a position to take the opportunity that Mr Strauß is so keen to emphasise and now reverse the 4 % quasi revaluation. This is a totally illusory view of things. It is particularly evident, following the devaluation of the franc, that we cannot simply agree to go along with a global DM revaluation, without seriously jeopardising our trade with France, our most important trading partner.

At the mercy of global inflation

However, there were, and there still continue to be, price rises in an inflationary tempo, even in other, not unimportant countries — not least in the United States of America. It is, as it always was, undisputed that we could have best defended ourselves against imported inflation if our government had summoned up the insight and the decisiveness to revalue the German mark upwards in the autumn of last year. An incorrect assessment of the economic trends in the global economy and misguided consideration of national prestige have resulted in our missing the right moment, and therefore our best chance. Now we are even more at the mercy of the inflationary policies of countries in deficit than before, especially if a liberal approach to the imminent granting of special drawing rights by the International Monetary Fund makes it possible for the debtor countries to continue their deficit budget policies.

In rejecting German revaluation, we have added considerable uncertainty to the state of our own economy. There can be no doubt that the devaluation of the franc has certainly not — within the meaning of the statements by Mr Strauß — drawn a line under a series of currency crises but has, instead, been the signal for further uncertainty. Immediately after the Paris measures became known, there was a renewed air of nervousness in the international currency markets, creating doubts about numerous currencies. The pound is now seen to be dropping into the danger zone, the Belgian franc, the Danish krone and the previously hard Italian lira are suspect, and there is no longer any confidence in the South African rand. Issuing banks from Algiers to Japan have felt obliged to make statements in an attempt to calm the situation. On the New York Stock Exchange, which was still open at the time of the announcements from the Paris Bourse, a new run on the German mark began. Great Britain now really does want a revaluation of the German mark, in order to provide it with a better cushion against the impact of the devaluation of the franc. These are not exactly signs of reassurance in the international currency situation.