

'An inevitable solution', from Corriere della Sera (9 August 1969)


Caption: On 9 August 1969, the Italian daily newspaper Corriere della Sera reviews the reasons for and the repercussions of the 11.1 % devaluation of the French franc the previous day.

Source: Corriere della Sera. dir. de publ. Spadolini, Giovanni. 09.08.1969, n° 184; anno 94. Milano: Corriere della Sera. "Soluzione inevitabile", auteur:Zappulli, Cesare , p. 1.

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An inevitable solution

After the surprise in November when President Charles de Gaulle confounded unanimous international expectations by announcing that the French franc would not be devalued, here we are once again with another surprise in August: the franc has been devalued by 12.5 %. Nine months ago, the irrational factor of prestige played a part. The General, realising that his time was coming to an end, did not wish to conclude his own political regime, which had begun ten years earlier with a currency depreciation, with another depreciation. This time, however, it was reason that guided the decision. The measure may also be reasonably interpreted as a foretaste of the 'cool-headed' political style that the team led by the new President, Georges Pompidou, with all its good technocrats, intends to adopt. The aim is to put the French economy on a stable footing again. To do so, however, it will be necessary to break with the past and liquidate the inflationary backlog, which the system is no longer able to reabsorb.

This, and only this, can explain the devaluation of the franc, announced by the French Government after consultations with the international monetary authorities had led to the approval of the operation. In spite of generous outside help, it was proving difficult to maintain the parity of the French currency. It had revealed its inherent weakness, which may be blamed on a multitude of factors: first and foremost that, by common admission, the burdens of foreign and military policies are disproportionate to the country's means, and then that the wave of pay claims bears no relation whatsoever to productivity. After several troubled months, spent in close examination of the financial and economic conditions and in seeking a policy that might succeed in restoring to the franc its former purchasing power, Premier Jacques Chaban-Delmas's government, reflecting Pompidou's realism and practicality, has opted for a surgical solution and has amputated an eighth of the currency's value.

Will the measure prove beneficial? With this devaluation, as with all devaluations, it depends on how it is understood. There is no doubt that, initially, the French economy will be reinvigorated. It will be easier to export goods and services because they will be 12.5 % cheaper; imports, in the same proportion, will be more difficult, so the balance of payments will immediately feel the benefit. All of this, however, depends on whether domestic prices remain stable and, behind those prices, whether pay levels are contained, to avoid squandering the breathing space provided by the measure and to put it to good use — like a kind of armistice — in order to gather strength and set things in motion again.

Here is the crux of the matter: devaluation is not a disgrace. It is not like bankruptcy. It is merely a confession that an economic system, practising exchange freedom and free trade, has 'fallen behind' other competitive systems.

The fact that monetary events such as these occur should come as no great surprise. On the contrary, the opposite case should be more surprising, in other words that the western economy has up to now managed to defend the difficult fixed rate system, in spite of the many national differences in production levels, technological development, the productivity of human resources and workers' ability to influence government policy, or 'social peace' as it is called.

But let us ask the question once more. Will the devaluation prove beneficial? The answer is yes if, as we were led to understand from the official statements from French sources, it reveals a determination to make a fresh start. In itself, devaluation is not a remedy for every ill. It could, nevertheless, be the turning point needed to start off in a new economic direction, with the aim of ridding the system of its weaknesses.

Everything will depend on how vigorously the government can implement the new policy, involve the whole community and win the consensus of businesses, trade unions and families. France needs to consume less and invest more. This formula has nothing flashy about it, but it is the only way of giving a kick-start to a sluggish economy.

Austerity is not generally popular. The difficulty lies in knowing whether or not the politicians, who backed Pompidou with a large majority, will be willing to vote for him again in a *practical* way, reaffirming their faith in him when it comes to a policy that will entail sacrifices for everyone. The French Government is

presumably relying on this support, as otherwise it would not have been inclined to adopt a policy whose effects, without a 'follow up' such as that briefly described, would be only short-lived.

Two issues remain and deserve a brief mention. The first concerns the repercussions of the French devaluation on our domestic affairs in Italy. There is no need to dramatise here, but nor should we ignore the real nature of the situation. It is inevitable that we shall feel certain consequences. France has a great influence on our foreign trade and it also competes with Italy for a good deal of trade with third countries.

The second issue concerns the western monetary order. From this perspective, there seems to be no doubt that, with the approach of the Fund conference and the forthcoming 'launch' of the new Special Drawing Rights mechanism, designed to increase international liquidity, the devaluation of the franc should be seen as a necessary act of monetary hygiene that will serve to remove yet another reason for hesitation over the agreements that are currently being prepared.

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