

Note on the advantages of the Franco-Saar Economic Union (August 1952)

Caption: In August 1952, the French Ministry of Foreign Affairs draws up a memorandum which sets out why it is in the interest of both France and the Saar to maintain their economic and monetary union.

Source: WILKENS, Andreas. Die Bundesrepublik Deutschland und Frankreich: Dokumente 1949-1963 [Hrsg. von der Historischen Kommission bei der Bayerischen Akademie der Wissenschaften und dem Institut für Zeitgeschichte]. MÖLLER, Horst; HILDEBRAND, Klaus (Hrsg.). Band II: Wirtschaft. München: Saur, 1997. 1095 S. ISBN 3-598-23682-4. p. 231-240.

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Last updated: 06/07/2016

The advantages of the Franco-Saar Economic Union for France and the Saar

After detailed consideration of all aspects of the question, in the light of more than five years' experience, we are justified in saying that the Franco-Saar Economic and Monetary Union is indisputably advantageous to both partners.

I.

Advantages for France

France derives substantial economic advantages from the Union at relatively modest financial cost.

- A -

France benefits from the incorporation of the Saar into the French economic area both from Saar contributions and from purchases by the Saar from various French trading interests.

a) Contributions from the Saar are in the form of deliveries of staple commodities, foreign exchange supplies or indirect advantages in the negotiating of trade agreements.

1) With sales to France worth a total of 104 billion francs in 1951, the Saar is one of France's best worldwide suppliers, second only to the United States (182 billion), and ahead of Germany (99 billion). As for France, it is by far the Saar's best customer, buying 65 % of its external supplies from it.

We would note in passing that competition with French industry from that of the Saar — healthy competition, since the cost price elements which depend on the State (wages, taxes, social security costs) are uniform in the two countries — undoubtedly has a favourable effect on French prices.

Although Saar deliveries to the French economy are not confined to coal and steel sales, it is nevertheless useful to give some figures for these two products, which account for by far the bulk of supplies from the Saar and are just as important from the economic point of view as from that of defending French interests in the European Coal and Steel Community.

In 1951 coal production in the Saarland came to 16 275 000 tonnes and steel production to 2 582 000 tonnes, i.e. in both cases more than a quarter of French production. Deliveries to France in the same year came to 5 175 000 tonnes of coal and 845 000 tonnes of crude steel, i.e. a total value of 53 billion francs, to which should be added deliveries of primary and secondary processed steel products worth 23 billion, in other words a total of more than 75 billion francs' worth of supplies of coal and steel products to France.

In addition, France has been able, under special agreements (switches) to negotiate annual exchanges of 3 600 000 tonnes of Ruhr coke and coking smalls, which are vital to its steel industry, for the same tonnage (apart from a quota of 300 000 tonnes supplied by Lorraine) of Saar coal.

Because of these contributions of coal and steel to the French economy, it has been possible to boost French production without importing the same amounts at high foreign exchange cost, in conformity with the imperatives set out in the modernisation and equipment plan. They contribute effectively to the French rearmament effort either directly or by replacing domestic production in certain civil sectors where a stoppage would jeopardise the standard of living of the population. With the new prospects opened up by the recent entry into force of the Schuman Plan, they should go some way to mitigating the imbalance between the current French and German positions and facilitate the smooth operation of the treaty, as the table below demonstrates:

Crude steel output in the first half of 1952

In theory, of course, the High Authority will take its decisions purely on the basis of technical considerations, but the relative 'weight' of the participants will obviously be dictated by the contribution they make.

In any event, it is vital for France, in the present economic circumstances, to continue to have free access to Saar coal and steel, paying for them in francs.

It does not, therefore, on the face of it, appear in any way that the establishment of the 'community' will in itself be enough to put a question mark, economically speaking, over the merits of the economic advantages of the link.

To conclude, only the complete economic integration of Europe and a unification of the currencies, or at least convertibility between them, would destroy the case for the Franco-Saar Economic Union.

2) Apart from the products it contributes to the French economy in kind, the Saar, whose trading balance with foreign countries is in considerable surplus, makes an additional contribution to France in foreign exchange worth an estimated 10 billion francs a year net.

This is, of course, only a rough estimate, since there is no customs border between France and the Saar.

Import-export balance in 1951

It is interesting to study developments in the Saar's foreign trade and compare them with those of France's foreign trade.

From 1950 to 1951, Saar exports to all countries apart from France and Germany went from 15 billion francs to nearly 32 billion, while imports went from 1 745 million to 2 100 million. The foreign exchange balance, which showed a surplus of 13 300 million in 1950, therefore went up to 29 800 million in 1951. The Saar succeeded, for instance, in selling 440 000 tonnes of steel to the United States in 1951, as against 300 000 tonnes in 1950.

With Germany, on the other hand, the situation was the other way round in 1951. Whereas exports to Germany fell slightly between 1950 and 1951 (going from 22 800 to 20 160 million), German imports nearly doubled (from 11 000 to 20 735 million). This was because of the Saar's undeniable requirements for German products, which were at last recognised by the relevant French authorities and which relate either to the equipping of Saar industry with German machines or to the tastes and traditions of the population (especially as regards textiles). The monetary difficulties at the beginning of 1952 countered that trend. Saar exports to Germany in the first half of 1952 came to 14.2 billion, while imports from Germany were down to 9.8 billion, which means that there is a surplus again, of 4.4 billion. What makes this result all the more remarkable is that France's trade balance with Germany in the same period showed a deficit of 27 billion. Even so, a substantial effort still has to be made in the Saar's favour, by earmarking a larger share of German imports for it.

The position the Saar holds in the foreign trade of the Franco-Saar Union is an important and steadily rising one.

The percentage of French export sales represented by Saar export sales was 5.4 % in 1950, 5.7 % in 1951 and 6.6 % in the first six months of 1952 (26.9 billion as compared to 407 billion).

Comparing the export figures for the first six months of 1951 and 1952, we see that Saar sales increased by 3.5 billion while French sales decreased by more than 80 billion.

So, at a time when French exports are receding considerably, Saar foreign sales are managing to grow, thereby making a larger and larger additional foreign exchange contribution.

3. On top of this monetary gain, when trade agreements are being negotiated, Saar exports of coal and steel products supply foreign exchange which is very valuable for obtaining rare commodities.

For example, in exchange for 187 000 tonnes of steel products, it was possible to import the following products from Sweden, Norway and Finland:

- 240 000 tonnes of chemical products,
- 88 000 tonnes of textile products,
- 85 000 tonnes of mechanical engineering products.

Saar steel is also seen as having contributed 40 % of the cost of imports of maize, oil-cake, wool, leather and oilseeds from Argentina.

b) The Saar, a country with an active industrial population, offers attractive outlets for certain sectors of the French economy. This applies particularly to iron ore from Lorraine and, most of all, to agricultural production, since the Saar can only survive for 80 days a year on its own food resources, and to the semi-luxury industry, whose products would not always readily find export markets.

As there are no customs frontiers, it is not possible to draw up exact statistics for these deliveries to the Saarland; they can be evaluated at 112 billion in 1951. This makes the Saar France's third-largest customer, after Algeria and Britain. France, on its side, is by far the main supplier to the Saar, meeting 85 % of all its foreign purchase needs.

For example, the Saar imports the following quantities of food products from France each year:

wheat and rye 90 000 tonnes
coarse grains 5 000 tonnes
meat 22 000 tonnes
milk 110 000 tonnes
butter 3 000 tonnes
cheese 1 000 tonnes
oils and fats other than butter 9 500 tonnes
potatoes 75 000 tonnes
fruit 21 000 tonnes
vegetables 30 000 tonnes
sugar 25 000 tonnes
eggs 70 million
wine products 110 000 hectolitres (pure alcohol)

Thus France pays for the staple commodities which it buys from the Saar (coal and steel) by supplying it with agricultural products which are often in surplus and manufactured products which it would be difficult to sell abroad.

c) Lastly, the economic attachment of the Saar to France has opened the Saar market up to various French industries which have occupied major positions in the Saar itself.

This applies to the Régie des Mines (Mining Board), where the fact that it is run by France enables joint management of a level of production and a market which are more than 25 % larger, giving greater freedom to manoeuvre.

It applies to the steel industry, where France, thanks to reparations and on particularly advantageous terms (charging to account A), has acquired a majority holding in the largest undertakings. The Treasury holds

extremely valuable assets in the Völklingen and Neunkirchen Steelworks which are likely to produce substantial revenues. It has already been able to liquidate its interests in the Mannesmann affair on advantageous terms.

Following reorganisation in accordance with the rules on monetary conversion, the banks, as regards deposit banks, are exclusively French, and 44 out of a total of 60 insurance companies are French companies.

- B -

These advantages were secured thanks to a fairly moderate initial financial outlay. They continue to prevail at the present time without burdening France in any way.

a) To bring about the Franco-Saar Union, a large initial injection of funds, which can be put at 48 billion francs, was required. This figure breaks down as follows:

- Monetary connection in the strict sense (including 37 billion already spent and 2 billion yet to be spent): approximately 39 billion;

- Advance to the Régie des Mines: 3 billion

- Coal export subsidy (Berlin Agreement): approximately 6 billion

giving 48 billion in all.

The bulk of this financial aid has not, however, placed any burden on the currency or on the French budget. The 39 billion francs earmarked for the currency conversion were offset, and more than offset, by an increase in the economic potential of the franc bloc. The money supply created in the Saar by the exchange of banknotes and the conversion of bank accounts was smaller in proportion to the population than the money supply in France. It is in any case set to include, in the near future, certain compensatory receipts. Lastly, it should be remembered that expenditure on the currency conversion constitutes advances which could be required to be reimbursed were the present status of the Saar to be called into question.

As for the initial advance to the Régie and the coal export subsidies, they are the price paid by France for the contribution made to the franc zone by Saar coal production. In any case the advance to the Régie des Mines was consolidated by the 1951 Finance Law and treated as equivalent to a loan from the Modernisation Fund. It thereby partly replaced the share of the value in francs of the American Aid which the Saar Mines could have claimed.

b) The day-to-day running of the Economic and Monetary Union was designed in such a way that economically speaking the Saar cannot engage in unfair competition with France and financially speaking it places no burden on this country at all, either in the administrative sphere, the taxation field, the budgetary sphere, the area of credit or the field of currency.

Every precaution has been taken to ensure that the Saar economy cannot damage the French economy. Prices, wages, taxes, social security costs, economic subsidies, credit and insurance terms and, generally speaking, the whole structure of economic regulation have been harmonised with the corresponding features of the French system.

In all financial areas the Saar lives off its own resources and in principle makes no call on French assistance. In many cases, in fact, France derives substantial financial advantages from the functioning of the Franco-Saar Union. For example, official Saar funds on permanent deposit with the French Treasury, an arrangement which is remunerated at an advantageous rate to the French Treasury, have for several years now always come to more than 10 billion francs and currently exceed 20 billion.

Moreover, the Franco-Saar tax and budget convention charges the costs of French administration in the Saar,

both civilian and military, to the Saar budget, up to a ceiling of 7.5 % of expenditure from the ordinary Saar budget (the only exceptions are some items of expenditure on subsidies). Not only has the 7.5 % ceiling been sufficient to cover current expenditure by the French administration in full, it has even left the Saar budget with available appropriations which have been used to finance expenditure on the construction of facilities for use by the French services and which now enable French military spending in the Saar to be increased, on the basis of increased staffing. These arrangements, of course, help to reduce the burden on the French budget.

The tax and budget convention has also laid down rules for a sharing of certain items of expenditure and of shared revenue between the Saar and France. The revenue consists essentially of customs duties and is shared pro rata in proportion to the population of the two countries, in other words, in a ratio of 1 to 46. This method of sharing is advantageous to France if we bear in mind that the Saar contributes a larger share towards the constitution of customs revenues in relation to the size of its population. Similarly, where expenditure is concerned the Saarland pays 1/46th of the French customs' operating costs; this revenue accruing to the French budget can be regarded as a net receipt, if we consider that surveillance of the Franco-Saar border would require more or less the same number of officers as that required for the surveillance of the Saar-German border.

Furthermore, although the Saar enjoys a share of the value in francs of American aid, this share is fixed by France itself and the ways the appropriations are allocated are decided by the French Investment Commission; in almost every case, this procedure makes it possible to advance France's direct or indirect interests. Again, various Saar credit or insurance organisations invest part of their reserves in France, either voluntarily or under the rules governing them. This is the case with savings banks, credit cooperatives and insurance companies which, on 30 June 1952, held capital of more than 10 billion francs mainly in Treasury bonds or deposits with the Deposits Fund, the National Agricultural Credit Fund or the Central People's Bank Fund.

Advantages for the Saar

The advantages France derives from the Economic Union with the Saar are in no way gained at the expense of the latter country, to which the Customs and Monetary Union has brought unprecedented economic prosperity and which also, in the financial field, enjoys a freedom of action which enables it to allocate Saar resources to meeting Saar needs.

a) The prosperity enjoyed by the Saar is clearly apparent from all the statistics, the most characteristic of which make it possible to put forward the observations below:

1. The number of people in work exceeds the highest levels attained before or during the war.

270 per 1 000 inhabitants in 1936
289 per 1 000 inhabitants in October 1949
297 per 1 000 inhabitants in October 1950
308 per 1 000 inhabitants in December 1951

2. Output by the major industries also exceeds the levels achieved in the record year of 1938:

coal: 16 275 000 tonnes compared with 13 489 000
steel: 2 582 000 tonnes compared with 2 541 000

3. At the same time, the relative size of the processing industries has grown even more appreciably, reducing the disadvantages that an economy concentrating too much on heavy industry could have had for the Saar.

The number of wage-earners in this group rose by 100 per 1 000 in 1952 in comparison with 1936.

4. Reconstruction has progressed steadily since the linking of the economies, in such a way that the

construction index has become one of the highest in Europe and even the world: 9.7 new homes per 1 000 inhabitants per year in 1951, as compared with 3.7 in 1949 and 7.1 in 1950.

5. This economic prosperity has made it possible to bring the standard of living of Saar workers into line with that of French workers and to secure results in the social areas which the people of the Saar had never hitherto experienced.

The investigation carried out by the International Labour Office in June 1952 into the costs of social security in the 24 Member States of the ILO shows that the Saar comes in second, behind New Zealand, in terms of social security benefits paid per head of total population.

With 27 063 francs per inhabitant, it is ahead of countries like Canada, the United States, Sweden, Britain, France and Germany, of which the latter, with spending of 19 341 francs, comes only tenth.

This prosperity is the consequence of the union of Saar territory with the franc zone, which provides the Saar with both an outlet for its industry and resources to meet its needs.

The facts of geography have created close links between Lorraine, which lives from farming and iron ore production, and the Saar basin, a consumer of food products and a coal and steel producer. In 1937 the German Reichskommissar for the Economy, in a confidential report, himself noted the difficulties which had arisen, both for the Saar and for the Reich, from the breaking-off of relations between the Saar territory and Lorraine.

The advantageous economic situation of the Saar is also due, to some extent, to the very particular decisions France has taken in respect of it which have enabled it partly to escape the consequences of the war. France decided, for example, not to dismantle the factories allocated to it in Saar territory as reparations, while the new status of the Saar enabled it to escape from the restrictions imposed on German industry.

The Saar's economic prosperity in its turn underlies a financial prosperity which is also based on the financial autonomy which it has been possible to confer on the Saar because of its political detachment from Germany.

b) The Saar has a balanced budget.

The French Treasury, following the economic unification, granted the Saar an advance to enable it to overcome the difficulties inherent in the unification. French assistance to the Saar Treasury, which could have been a maximum of 5 billion, was in fact limited to a sum of less than 4 billion, which has since been repaid in full. The Saar's public finances are, as a result, extremely sound, since it has been able to pay off its debt to France while balancing its successive budgets.

This situation is certainly due to the fact that the Saar can now use its particularly high 'fiscal potential', whereas, before it was linked economically to France, it had to pay for a great deal of the public spending by the Reich.

That burden would be particularly heavy today given that the Federal Republic has to meet the needs of 1 500 000 unemployed people and 10 million refugees while at the same time carrying the burden of occupation costs which are still considerable. The Saar, on the other hand, has only to bear an infinitely lighter load, as it has only to refund the costs of maintaining the French services up to a limit of 7.5 % of its ordinary budget.

The advantages of budgetary autonomy are to be found in the area of credit. Under French credit policy, the Saar economy has adequate means of financing at its disposal, thanks to the almost complete earmarking of Saar resources, in the form of bank deposits and savings accounts, for the meeting of Saar needs. The new credit organisation arrangements in the Saar represent major progress in comparison with the previous German system, under which the Saar banking network was merely one sector of the German network and

three-quarters of Saar resources were transferred out of the Saar.

The fact that the Saar, whose short-term credit needs are now amply met, currently suffers from a shortage of long-term capital, is not due to the economic connection but is a local manifestation of the universal dwindling of the willingness to save.

Conclusion

1. The Saar is France's second-largest supplier (after the United States), with 104 billion worth of sales. It primarily supplies our country, to a value of 75 billion francs, with the staple commodities it most lacks, namely coal and steel, thereby enabling it to make considerable foreign exchange savings. There is also Ruhr coke, imports of which are possible thanks to Saar coal, and the value of which exceeds 10 billion francs.
2. The French coal and steel market, swelled by the Saar market, barely balances German production in the new European community. It would occupy only a very secondary position if it were deprived of the Saar market and if that market reverted to Germany.
3. Because of the surplus in its foreign trade balance, the Saar supplies France directly with a valuable top-up in foreign exchange (10 billion francs) and indirectly with major advantages when trade agreements are being negotiated. Adding together the direct top-up and the foreign exchange savings which the Saar provides, the total contribution can be evaluated at 100 billion francs per year, or the equivalent of 300 million dollars.
4. The Saar is France's third-largest customer (after Algeria and Britain), with 112 billion worth of purchases. It mainly takes agricultural products and manufactured articles which France would have great difficulty selling for export.

In other words, the supplies of these goods are what France, thanks to the Monetary and Customs Union, uses to pay for its purchases of Saar coal and steel.

5. These economic advantages were acquired with an initial injection of funds (48 billion) of which most was not borne by the currency or the budget, and they continue to exist without its costing France anything. On the contrary, France derives considerable advantages from them in many fields (e.g. investments in France worth 15 to 20 billion by the Saar Treasury, of 10 billion by the Saar savings banks and people's banks, etc.).

6. Advantages which are, pro rata, just as important accrue to the Saar from both the Union and its Autonomous Status:

- as regards the economy: record output in all fields, universal full employment, a construction index which has overtaken that of every other country;
- as regards social conditions: a standard of living similar to that of French workers, social security achievements which put the Saar in second place behind New Zealand among ILO Member States;
- as regards the financial sector: because of its detachment from Germany the Saar has avoided the burden of maintaining refugees and the unemployed and paying the costs of occupation; in particular, it has made it possible for it to enjoy the advantages, for its own exclusive benefit, of its own fiscal potential and its own capital market, both of which used to go to sustaining the Reich.

[AMAE, Europe 1944–1960, Sarre, Bd. 221, Bl. 292–302]