Statement made by Valery Giscard d'Estaing to the French National Assembly (12 May 1971)

Caption: On 12 May 1971, in a statement to the French National Assembly, the French Economy and Finance Minister and President-in-Office of the Ecofin Council, Valéry Giscard d'Estaing, reveals the measures proposed by France to combat the European monetary crisis.

Source: La politique étrangère de la France. Textes et documents. dir. de publ. Ministère des Affaires Etrangeres. 1er semestre, octobre 1971. Paris: La Documentation Française. "Déclaration de Valéry Giscard d'Estaing à l'Assemblée nationale (12 mai 1971)", p. 162-167.

URL:
http://www.cvce.eu/obj/statement_made_by_valery_giscard_d_estaing_to_the_french_national_assembly_12_may_1971-en-6d5274e2-74c4-4b28-85fa-5ae805158dac.html

Last updated: 05/07/2016

Statement by Mr Giscard d'Estaing, Minister for Economic Affairs and Finance, to the French National Assembly on the international monetary crisis

12 May 1971

We are at this moment engaged in a number of negotiations and discussions on monetary questions and questions relating to the functioning or expansion of the European Economic Community. The government will be holding an early debate on these matters.

Nevertheless, it is important and indeed significant to provide your Assembly, as of today, with the first details about the monetary situation. Over the past few days, we have undergone another monetary crisis. I am deliberately saying another monetary crisis, because this is not the first one; we have faced similar circumstances over the past few years. This monetary crisis was triggered by massive inflows of hot money in a number of countries, especially in Western Europe, first and foremost in the Federal Republic of Germany. On Monday, these inflows were moderate. On Tuesday, they reached $800 million, and on Wednesday, in the first 40 minutes after the foreign exchange market opened in Frankfurt, they reached $1 000 million. This influx of hot money led several countries to decide one after the other to close their foreign exchange markets. The Federal Republic of Germany, Switzerland, the Netherlands and Belgium closed their foreign exchange markets last Wednesday morning. This created a problem for the international monetary community as also for the French Government.

The French Government's approach to this crisis has been shaped by three concerns. The first concern is to protect the French economy from this upheaval; the second is to look at the roots of the international monetary problem and not just at its visible consequences; the third is to ensure as far as possible that any measures that are taken do not compromise the endeavour to establish economic and monetary union in Europe. This line of action and the response to these concerns required certain steps to be taken and came up against certain limits.

A 'safety net' for the economy

The first concern is to protect the French economy from this upheaval. On the Wednesday morning, when all our partners closed their foreign exchange markets, we decided to keep the Paris market open. It has remained open throughout the monetary crisis. We recorded a number of inward movements, totalling about $160 million, but they were not of a kind to upset our monetary equilibrium to any serious extent.

We kept our foreign exchange market open for a number of reasons and on a precautionary basis.

We have pointed out to the National Assembly on several occasions, and recently, too, in response to a topical and urgent question, that we want to keep the French economy protected against the vagaries of the international monetary system. When we pointed this out, people may not have understood the real reason for our action; in fact, the recent crisis was to some extent predictable. It was, therefore, wise to maintain a kind of safety net beneath the French economy.

This safety net consists, first of all, in continuing to regulate exchanges to some extent, in particular by a provision restricting French residents' entitlement to take out currency loans abroad, i.e. forbidding the use of the specific mechanism that, over the last few months, led to the capital inflow in the Federal Republic of Germany. The second form of protection is our intervention technique on the monetary market. Today, for example, the one-month eurodollar rate is 7.5 %, while the Banque de France's one-month intervention rate in the monetary market is 5 3/8 %. There is, therefore, little reason for hot money to come onto the French market, a situation we have arranged deliberately.

From the outset, we have said that we are determined not to change the existing parity of the franc and therefore to leave speculators under no illusion and with no hope in this regard. I can confirm to the National Assembly that there is plainly no question of changing the current parity of the franc.

The fundamental problem: abundance of international liquidity

Our second concern is to look at the roots of the problem and not just at its visible consequences. We shall, therefore, inquire into the origins of this monetary crisis.

They lie primarily in the considerable increase in what is called international liquidity over the past few years. International liquidity increased by some $17 000 million in 1970 alone, whether because of the United States' balance of payments deficit, the creation of special drawing rights or the various credit facilities which the central banks offer one another. This increase has resulted in short-term capital being added to the considerable amount of hot money, since we know that some $50 000 million of capital circulates in what is known as the eurodollar system, i.e. dollars held by banks outside the geographical borders of the United States. To put these figures into perspective, we may say that that amount of $50 000 million compares with American reserves of about $15 000 million. As a result of the abundance of this liquidity and its faster rate of growth in 1970, a kind of massive monetary overhang is threatening the Western economy, one which may remain consolidated for some time. The impact of speculation produces the same phenomenon that would affect any overhanging mass, i.e. it turns it into an avalanche. That is the true cause of the monetary crisis that we have witnessed. Sooner or later we shall, therefore, have to direct our attention to this situation and take the necessary initiatives.

Community solutions

Our third concern is to ensure that any measures taken to tackle this exceptional situation compromise as little as possible the endeavour to establish economic and monetary union in Europe. The principle of monetary union was accepted in The Hague just over a year ago. You will remember with some surprise the difficulties we encountered on 14 December last year, when some people tried to lay the blame on the French delegation for the rather sluggish establishment of economic and monetary union; you will also remember that, last February, we agreed among ourselves that this union would be achieved in a number of phases, the first of which began there and then. Could this crisis be resolved by resorting to Community measures? What kind of Community solutions could in fact have resolved this difficulty?

The first solution that the Federal German Government quite certainly envisaged was the joint floating of all the currencies of the Six. We must take a careful look at the consequences of this solution, which would indeed have been a Community one. There is no doubt that the joint floating of the currencies with the aim of restoring the previous rates would have proved ineffectual as a measure. If, on the contrary, this concerted floating had been aimed at a change of parity, it would have been a disguised means of collectively revaluing the currencies of the Six.

Under present circumstances, could we have deemed it a good idea collectively to revalue the currencies of the Six? We discussed this, and several delegations — France was not alone here, even among the large Community countries — said they were against this solution. This was not only for reasons of circumstance linked to the fact that the current monetary difficulties do not result from the surpluses in Western Europe's balance of payments but for reasons both political and philosophical.

If we accepted the collective revaluation of the currencies of the Six, that would mean we were agreeing to compensate periodically for the United States' monetary inflation by economic deflation in Europe, a deflation we would pay for in terms of expansion and jobs. That is the real reason why we — and I am saying 'we' in the plural — rejected the idea of joint floating.

To tell the truth, a second Community solution was to take concerted action to restrict the inflows of hot money into the European Economic Community. Following the example of the measures we are taking now, we could have implemented a number of provisions to limit these inflows of hot money and, by that token, indirectly to identify the real problem, the creation of this f hot money. We debated this. Some of our partners, especially the Federal German representatives, declared that they were not willing to adopt such measures in the present circumstances.

Disadvantages and limitations of the chosen system

Since it proved impossible to find a Community solution, we had to decide what to do. We were told that our German partners intended to float their currency and that it was likely that some other countries whose economy was fairly closely interlinked with theirs would do the same. However, floating some Community currencies is not a Community solution.

Let me remind you, in this regard, of the second paragraph of the document concluding the deliberations of the Council of Ministers of the Six, dated 6 October 1969, in which the Council said that it considered a floating exchange rate system to be incompatible as such with the common market. So we discussed this problem. It was clear that this was not a Community solution.

The French delegation tried to tackle two of the main disadvantages of this kind of system, firstly, by limiting the period of time during which currencies were floated and, secondly, by forbidding unilateral measures at the borders.

— Firstly, limitation in time.

Although we understood our partners' arguments to the effect that we would not set a time limit without giving as it were a date for taking action, we replaced the fixing of a time limit in that same document with a condemnation of the principle of floating exchange rates. After lengthy deliberations, we managed to incorporate in the text that was adopted a reminder that floating exchange rates are incompatible with the smooth functioning of the common market. That means that our partners are committed to reverting to a fixed parity system after the period of floating currencies.

— Our second endeavour was, as I said, to avoid unilateral measures being taken at borders. In the specific case of agricultural products, it was virtually certain that our partners were prepared, as from the Monday morning, to take a number of corrective measures at the borders and that these measures would have been decided unilaterally.

After lengthy debates, we managed to ensure that these unilateral measures would not be taken and that, instead, Community measures would be taken by decision of the Council of Ministers on a proposal from the Commission. As you know, yesterday's Council of Ministers for Agriculture adopted these latest measures.

Finally, we did not want this to be just a rubber-stamp document, we wanted it to mark what we called an understanding of our partners' particular situation in the difficult circumstances they were going through.

Still in the context of these topical questions, I shall conclude by reflecting on the lessons which we should learn from this situation.

In my view, there are three such lessons.

The international dimension

Firstly, the roots of the problem have not been tackled. Everything that has been said, everything that has been decided has concerned the currencies of Western Europe, which, as we know, were not the cause of this situation. So it remains up to us, up to the international community, to tackle the roots of the problem. We must tackle them in two ways, and first of all at Community level.

In our joint declaration, we stated that we had to adopt measures to control hot money movements before 1 July this year. The Community's capacity effectively to adopt these measures will be a real test of Europe's determination to tackle the roots of the problem.

But, of course, we shall still be faced with the international dimension of the problem, and here I want to remind you — and this is also a chance for me to reply indirectly to Mr Bignon — of the fundamental principles underlying the French position.

— The first principle is that we believe that it is up to the countries with a balance of payments deficit, and not those whose balance of payments is in surplus, to take on the burden of the adjustment process. In that way, we shall remain faithful to the spirit and the letter of the Bretton Woods Agreement, which provides for fixed exchange rate parities, which can be changed only in the event of a fundamental imbalance and on the initiative of the country in deficit.

— Second principle: we accepted the creation of special drawing rights, but only subject to certain conditions, which were, in fact, specified at the time and were based on establishing that there was a need for international liquidity. In fact, we find that, in 1970, there was no need for additional international liquidity and that, nonetheless, additional special drawing rights of $3 500 million were created.

— Finally, the third principle: on several occasions we proposed — in line, it seems, with the views of the National Assembly — that international surveillance of the huge eurodollar market be arranged.

Need to return to the fixed parities system

That brings me to the second lesson.

The completion of economic and monetary union was interrupted, not because, in this case, four countries chose to abide by the principle of fixed exchange rate parities but because of the measures taken by the countries that felt it was essential to agree to float their currencies, in response, no doubt, to their specific situation.

In fact, the very principle of economic and monetary union, which involves convergence towards a single currency system, consists in tightening up fluctuation margins and bringing the various currencies closer together. The French Government, noting that the trend was going in the opposite direction, pointed out that it did not consider it advisable for its experts to continue fine-tuning the mechanisms of economic and monetary union while the currencies of the Six were floating among themselves. Some people saw this, by analogy, as a return to what is known as the ‘empty chair’ policy that France was prompted to pursue in different circumstances. In fact, our country continues to take part in the activities of the various Community bodies: it attended yesterday’s meeting of the Council of Ministers, as it attended the one this afternoon. It will, however, ensure that we do not end up in an unrealistic situation in which we convene experts to discuss among themselves how to organise intervention solely by the issuing institutions of the Six or how to tighten up fluctuation margins as from 15 June this year, now that we have entered, briefly, we hope, a period during which some of the currencies of the Six are floating. On this point, the French Government hopes we are seeing only an interruption, one which will have to come to an end as soon as possible with the return to fixed parities.

Our determination and capacity to fight inflation

The third and final lesson concerns the French economy.

We have two duties in this respect.

— Firstly, we must protect the French economy from the wave of inflation against which other countries are trying to defend themselves by fluctuations in their currency rates. Since we have chosen to abide by the fixed parity, we have to focus our endeavours to fight inflation on other sectors. We believe, entirely seriously, that it is the duty of the government to protect the French economy against inflation at this moment, as it will be the duty of every Frenchman and woman in the aftermath of this monetary upheaval.

— Secondly, we must use the upward floating of some of our neighbouring countries’ currencies as an opportunity to try to boost exports and penetrate external markets. If France had both the determination and the capacity to fight inflation collectively, and if at the same time it grasped the opportunity of its prices acquiring a new margin of competitiveness on the large neighbouring markets, the present circumstances would be good for the French economy. That is why the government hopes that the National Assembly will join it in drawing from these circumstances a new determination to pursue the French policy of economic expansion, as well as of stability.