

'Europe after devaluation', from 30 jours d'Europe

Caption: In September 1969, the monthly publication 30 jours d'Europe outlines the reaction of the Six following the devaluation of their national currencies.

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Europe after devaluation

Crucial weeks ahead for the economy of the Six

The French franc has been devalued just when a number of delicate economic problems were being tackled in all the EEC Member States. Today, more than ever, the six Member States will have to come together and coordinate their action as much as possible. At all events, over the coming months, the economic and monetary climate will be the focal point of European concerns.

In France, the devaluation itself has solved nothing. It amounts to a recognition of the de facto situation and is an attempt to bring about a recovery. Now the goal will be to restabilise the balance of trade. To achieve this, exports will have to be stepped up or imports slowed down by restricting domestic consumption. Either way, attention should be paid to what is happening in the other EEC Member States, as they take up more than half, 54.4 % to be exact, of all French sales outside the franc zone.

That is why the French Finance Minister wants to act quickly. He knows that, some time around the spring of 1970, the economy may well slacken in the other Member States, and the opportunity should be grasped before then. There are a few clouds on the horizon, though. During the first half of 1969, French exports rose at a record pace: +34 % to Germany, +41 % to the Netherlands, +24 % to Italy and +23 % to Belgium and Luxembourg. It is difficult to see how French exporters could step up the pace even more.

The alternative, then, is to focus on reducing imports, which, since the start of the year, have risen a good deal faster than exports (by 26 % compared to 20 %). In this field, Germany is France's largest supplier. Naturally, the devaluation of the franc will, in theory, increase the price of German goods in France by 12.5 % but, given Germany's extraordinary productivity, it is not certain that such a handicap will achieve the desired results. Germany's 4 % tax on exports, introduced in November 1968, has done nothing to dent sales and over the past 12 months German consumer prices have risen by only 2.7 %, compared to around 6.5 % in France and 8 % in the Netherlands.

Belgium and the Netherlands try to curb inflation

For several days in Belgium it was feared that the Belgian franc would have to follow in the footsteps of the French franc. But Belgium had already set in motion a whole range of measures to keep inflation in check, such as flexible price controls, limits on credit sales, controls on bank loans, a new increase on 30 July last in the discount rate from 6 % to 7 %, the fifth in eight months, and a scaling down of the budget. The next few months will be decisive because prices have increased by 4 % and imports have accelerated over the past year, although the balance of trade in the first half of the year remained stable. Now that the summer break is over, however, new wage increases are expected in the metallurgy and coal mining sectors. The situation should return to normal by the end of the year, but, in the meantime, the Belgian Government will have to remain very vigilant.

In the Netherlands, too, there is a great deal of concern over inflation. In the first half of the year, prices rose at an annual rate of 5.9 %, mainly due to wage increases, but also to the introduction of VAT on 1 January last. Prices had to be kept under close supervision and, on 4 August, the discount rate was increased. While things seemed to have settled down, the economy will continue to be a source of concern.

Italy grapples with a capital problem

In Italy, the problem is not inflation. Business is thriving and prices are not rising too fast. But the political and social climate has accelerated the flight of capital. In June 1969, for instance, 634 million dollars left Italy. As a result, in a bid to staunch the flow, the discount rate was increased on 13 August. International financiers thought until now that, with the buoyancy of Italy's trade, the lira should be revalued, but they are starting to ask whether it should not be devalued.

Germany and the controversial revaluation of the mark

In Germany, controversy over the appreciation of the mark dominates the electoral campaign.

On the one side, the Minister of the Economy, Karl Schiller, and the SPD Party consider that the mark should be revalued. Otherwise, they say, prices will rise, and if that happens, such forceful action would be required to curb the economy that it might cause a recession similar to that of 1966–1967. On the other side, Chancellor Kiesinger, the Finance Minister, Franz Josef Strauss, and the Christian Democrats point out that, for the time being, prices are not on the rise and that a revaluation would deal such a heavy blow to exports that a recession might ensue in this case, too.

The experts, caught in the middle, are trying to remain objective, but they warn that Germany's trade surplus appears to be a permanent feature of the economy. At all events, the problem will remain at centre stage for the next few weeks.

The Community paradox

The paradox of the EEC is that all its Member States are grappling with the same problems of trade surpluses or deficits, the outflow or inflow of capital, increases in the discount rate, etc. Of course, the Ministers meet regularly in Brussels, but the remedies and solutions continue to be applied in a haphazard manner, as evidenced by the discount rate movements.

On the positive side is the fact that the EEC was keen on giving monetary support to France in the form of a US \$400 million loan granted by its EEC partners. But more will have to be done, in particular because the General Assembly of the International Monetary Fund starts in Washington at the end of September. On the agenda will be an increase in quotas, the activation of Special Drawing Rights and possibly the greater flexibility of parity adjustments. The success of the international monetary system is so vital to the future of the EEC that it must make sure it presents a united front in Washington.