‘Will a wait-and-see policy help overcome France and Germany’s economic and monetary differences?’, from Le Figaro

Caption: On 27 October 1971, the French daily newspaper Le Figaro describes the increasing differences of opinion between France and the Federal Republic of Germany (FRG) with regard to economic and monetary policy.

Source: Le Figaro. 27.10.1971, n° 8.434; 145e année. Paris: Le Figaro. "L'attentisme aidera-t-il à surmonter les divergences monétaires et économiques entre la France et l'Allemagne?", auteur:Vernay, Alain , p. 8.

URL:
http://www.cvce.eu/obj/will_a_wait_and_see_policy_help_overcome_france_and_germany_s_economic_and_monetary_differences_from_le_figaro-en-b38804cf-0220-40e0-8e3a-1f8b6ad7e8bb.html

Last updated: 06/07/2016

Will a wait-and-see policy help overcome France and Germany’s economic and monetary differences?

Underlying the economic and monetary crisis between the United States and its main trading partners, there is a second, less visible crisis between France and Germany that, although latent, is at least as dangerous as the transatlantic divergences.

It is regrettable that public opinion and many leading experts are underestimating the importance of the crisis. Public opinion is being misled by the politeness of the governments. In Paris, it is bad form to report each outburst by Karl Schiller, the German Economy Minister, and in Bonn it is considered impolite to deplore the fact that the French President has not yet found the time to send his evasive response to Willy Brandt’s letter asking him to set an early date for a Franco-German summit meeting, feeling that January was too far away.

No regret is being expressed openly in any European capital city at the US Treasury Secretary, John Connally, postponing — probably until 22 November — the meeting of the ten Member States’ Finance Ministers, originally scheduled for the beginning of November.

In the same way, all the officials involved in the high-level negotiations would have their colleagues believe that time is on their side. Whereas, in fact, the monetary situation is bogged down by uncertainty, trade has started to deteriorate apace.

On Monday, Mr Schiller reiterated that the German economy did not need a foot either on the brake or on the accelerator, despite the fact that it is suffering from painful stagnation and despite the steadily growing resentment in German industrial circles.

German exports are reeling from the side effects of a 6.5 % global appreciation of the mark, adding to the impact of the US surcharge on imports. The overall 6.5 % appreciation will mean a 9.8 % appreciation of the mark in relation to the dollar. If the volume of trade with the various countries is factored in, the appreciation of the mark in fact amounts to an appreciation of 9.1 %–9.2 % in relation to the French franc, 7.4 %–7.5 % in relation to the Italian lire, 2.5 %–2.6 % in relation to the Belgian franc, 5.7 % to the pound sterling, to say nothing of the oddity of a 0.4 %–0.5 % appreciation against the yen.

On the other side of the coin, the commercial franc, in which 80 % of our trade is conducted, is still pegged to the dollar, the result being that French exports are enjoying the benefit of an overall devaluation of 4.5 %.

France’s model is loosely based on US policy, in the sense that France has also decided to wait and see. The United States is shielded by its power and is the only major world market for high technology industries and foreign luxury goods. Its external trade is insignificant, less than 5 % of gross national product, which renders any retaliatory measures meaningless. France, however, is sheltered by it relative weakness. The volume of France’s trade in proportion to world trade is small, but the Paris market, braced by its two-tier foreign exchange market, has unfortunately failed to play a role in Europe.

The French Government sees it as useless to make any concessions now because it is convinced that, at all events, the United States wants to continue to apply the 10 % surcharge on imports until the US elections in late 1972. In addition, France’s waiting game appears to be politically profitable, making it possible to prolong the period of moderate price increases of French products abroad, with the result that French exports will suffer less from economic difficulties than those of our partners.

It is likely that the French President, who always looks before he leaps, will want to focus his attention on the real options for Germany before he considers any change in the principles he outlined on 18 August. The options of choice are unknown, as the Government is hesitating between two possibilities. The first is a policy of rapid European entente, starting with an agreement with France under which Germany would accept a very modest indirect 2 %–3 % appreciation of the franc without any change in parity. That would be achieved by widening the franc’s margin of fluctuation limits and by pursuing a single EEC strategy vis-à-vis the United States.

The second possibility would be to pursue a vigorous EEC policy to bring about an adjustment in the EEC parities before an agreement is struck with the United States. Failing agreement, the idea might be to place levies on industrial products entering Germany, similar to the one now being collected on farm produce.

That would be a heavy blow to the European Economic Community, whose foundations are not so sturdy that it can withstand further deterioration unscathed. It would be too serious for Germany to contemplate, but it is also risky to trust to the wisdom of others.

It would therefore be a good thing if the real negotiations could begin without delay. In September, everyone had hoped they would take place in October at the General Assembly of the International Monetary Fund, and, now that those hopes have been dashed, in November or December 1972.

Alain Vernay