De Gaulle's Economic Legacy Going Down The Drain

FRANCE

The recession which erupted in 1974 in all the OECD countries has been met by the French government with an absurd and particularly vicious monetarist approach. Under conditions of a vivid contraction of world trade, the French authorities have resorted to traditional disciplines in order to "solve" the balance of payments deficit and restore the value of the currency: cuts in domestic demand and stimulation of exports. This has implied a triage of basic industries (iron and steel, machine tool and others) in order to promote a few export-oriented branches; and the slashing of working-class comsumption and gutting of municipal and urban services. This is what Prime Minister Raymond Barre's ever-recurrent call for a "return to the great equilibriums" boils down to, the gist of the deflationary plan he introduced Sept. 22, 1976.

Immediate Cost of Austerity

The primary problem with the so-called "Barre plan" is that it does not address the reality of industrial expansion; instead it substitutes the "stability at all costs of the French franc." Given this initial fallacy, the relative progress made in the direction of currency stabilization during the last six months is already crumbling under the too heavy short-term costs of austerity.

True, the franc, which had previously fallen by 9 percent against the dollar in the first seven months of 1976, is now more or less stable on the foreign exchange markets and price inflation, which was running high at 1 percent monthly last fall, has been contained to a 0.3 percent rate in January. True also, the foreign trade deficit has been brought down from 12 percent in September to 7 percent in January-February and since December 1976, the monthly average deficit has been F. 1.7 billion as compared with F. 3.3 billion between August and November 1976. But in presenting such results as "positive," the French government behaves like a sick man happily exhibiting a well-amputated leg just before going back to undergo further surgery.

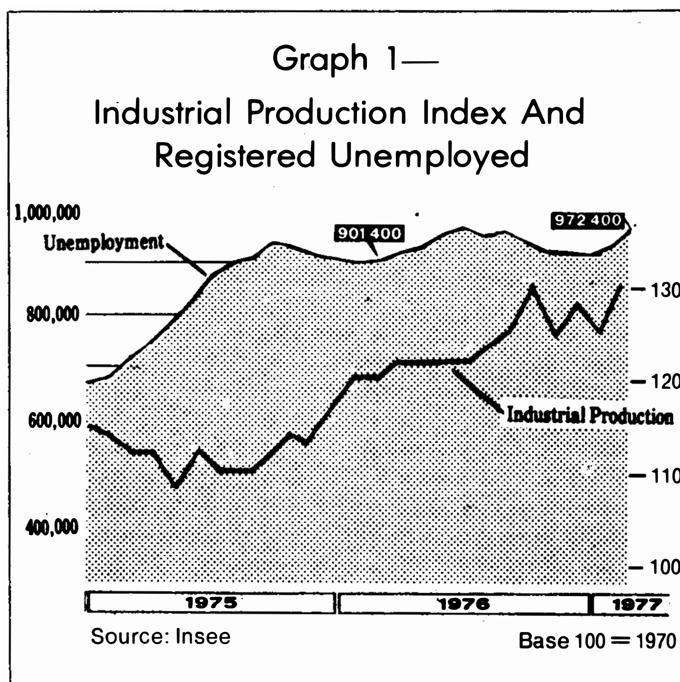
First, the relative improvement in foreign trade has been only due to a near stagnation of imports in value, corresponding to an actual drop in volume at an annual rate of 10 percent. This is reflected in the fact that industrial output, which had increased by 15 percent in 14 months during the 1975-76 consumer-credit based "recovery," grew by only 3 percent in the last 6 months (see Graph 1).

Inflationary pressures are nonetheless already building up — as reflected in the 0.7 percent rise of the February price index, a 9 percent yearly pace — mainly due to the growing costs in imports of commodities, industrial raw materials and food-stuffs. The prices of imported industrial raw materials shot up by 34.2 percent in one year and by 3.3 percent from January to February 1977. Much worse, the index of imported commodity prices went up by more that 80 percent in one year, and skyrocketed by 9 percent in February alone. This is the real problem of French industry and the whole advanced sector: it amounts to a commodity-taxation imposed by the New York banks and collected by the Third World to be re-channeled as debt payment. Needless to say, this issue is not addressed by the Barre plan, but only aggravated.

Export growth, supposed to be the goal of French industry, cannot occur under the present collapse of the credit-monetary system. France's EEC trading partners, which are absorbing more than 45 percent of its exports, are pursuing parallel austerity policies, and each has pinned its survival on the deadly game of trying to carve a bigger share of a dwindling volume of international trade. East-West trade has markedly slowed down in 1976 — for example, French credit-lines to Poland are said to be nearly exhausted — whereas the direct barter deals with the oil producing countries have already reached their limitation in scope, representing 6 to 9 percent of total French exports. With Third World countries too deep in the red to get credit and the U.S. economy stalled, there are simply no openings for French industry.

The only real achievement of Barre's program is to have triaged basic French industries and fostered unemployement.

The steel industry is typical of the sectors that have been deliberately gutted. Its production has already fallen to the very low level of January 1976, slightly under the level of 1970. Orders are down by 30 to 50 percent. The



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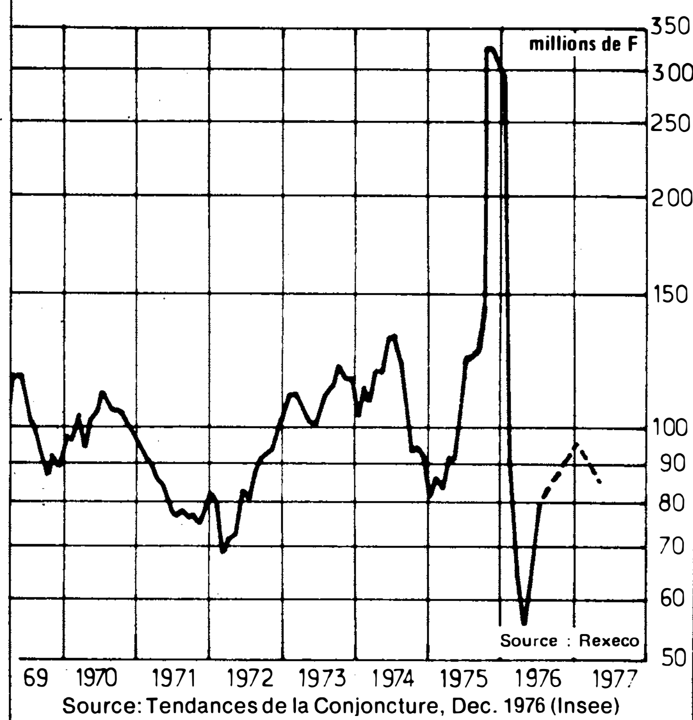

Table 1—
Machine Tools — Internal Orders
(in millions of francs)

Source: Tendances de la Conjoncture, Dec. 1976 (Insee)

rate of capacity utilization is just above 60 percent. Total indebtedness is larger than one year of sales.

Barre's solution is to progressively shut down the relatively old Lorraine units and to paralyze the development of the new steel-based Fos industrial complex!

The machine-tool sector has been abandoned by the government (see Table 1, Evolution of French orders) after the total failure of a minor restructuring plan.

Otherwise, the desperate "strategy" of the French government is to salvage the last industries doing well on the foreign markets, exemplified by the automotive industry. The auto production-index rose from 126 in 1975 to 172 in November 1976 (1970=100). But after the speculative purchases of January and February as a hedge against inflation, European-wide austerity will hit this sector hard from April onward, fostering a new round of decline in the whole French industrial apparatus.

The total number of unemployed has reached the million mark in the official statistics (more than 4.5 percent of the active population) but this is still a sharp underestimation. According to the criteria of the International Labor Organization, there are in fact more than 1.5 million unemployed, of whom about 45 percent are young people, the highest proportion of unemployed youth in industrial Europe. Given the large amounts of temporary lay-offs and under-employment, the wasted labor power is estimated at 15-20 percent. Officially, real wage levels are still being maintained but in fact the living standards of even employed workers are declining due to the rise of the import prices of foodstuffs.

Industry is still afloat only because of the impulse provided by the spectacular development achieved under the Presidencies of De Gaulle and Pompidou, when French rates of capital-investment were the highest in the Western world except for Japan. What industrial investment is occurring is being financed in effect only by borrowing. A huge increase in France's foreign indebtedness will represent a crippling burden for the French economy in the coming period. Recent figures released by the French finance ministry show that for the last six months, borrowing abroad amounted to $2.4 billion or F. 12.2 billion, a F. 5.8 billion increase over the same period last year — three times that of the public currency reserves. This situation cannot last very long, given that French currency reserves amount to a mere F. 22 billion, as compared to a total debt reaching F. 45 to 50 billion.

If such an infusion of oxygen is stopped, or if it is continued at present levels, the French public sector — by far the largest borrower — will see its investment capacity practically blocked. This is aggravated by the reduction of the State budget deficit to F. 10 billion in 1977, and Barre's proclaimed intention to "reduce the deficit of the public sector," meaning "structural reforms" to cut "unnecessary services." In a national economy where the public sector accounts now for two-thirds of all investments and plans a 10 percent increase in gross fixed asset formation this year to maintain the rest of the industry, notably through developments in the nuclear, telecommunications and transportation branches, the Barre plan leads directly toward a catastrophe.

The impending collapse of the public sector is occurring in the context of a *general process of*

Table 2 —
Trend Of Housing Starts
(IN THOUSANDS)

	1972	1973	1974	1975	1976*
HLM SECTOR**	165	187	173	166	155
STATE-AIDED AND SUBSIDIZED SECTOR	159	125	117	115	125
FREE SECTOR	231	244	259	235	220
TOTAL	555	556	549	516	500

* OECD SECRETARIAT ESTIMATES

** THE HLM SECTOR (LOW-RENT HOUSING) IS FINANCED FROM PUBLIC FUNDS

SOURCE: OECD REPORT ON FRANCE, FEB. 1977

decapitalization which is destroying the legacy of the Gaullist period. Productive investments remained negative during the last three year period: after falling by 10 percent in volume terms in 1975, private non-residential investments did not pick up significantly in 1976, and their growth — achieved only in the first half of the year — was limited to about 3 percent in volume terms for the whole year. Latest estimates are that private industrial investment will drop by 2 percent in 1977.

A recent survey conducted by the Credit National on the financial situation of a representative sample of industrial firms leads toward even more pessimistic forecasts. More than 40 percent of the firms ran into losses in 1975 and 60 percent did not give any dividends. Their total indebtedness has sharply increased up to over 100 percent of their equity and their self-financing capacity has fallen down to 34 percent of their resources, against figures superior to 70 percent in the early seventies.

In terms of financial resources, the firms are also completely squeezed. First, the current, prohibitive bank interest rates required to keep the franc stable (13 percent for creditworthy corporate users) exclude any substantial increase in investments whatever the (minor) financial assistance given by the state to small and medium sized companies. Rates on the bond market are around 11 percent, which represents around 12 percent in financial cost. A recent survey of the Commission des Opérations de Bourse — the French SEC — reveals that the share of the financial market in the financing of fixed asset formation fell from 12.5 percent in 1975 to 10 percent in 1976.

Finally, the long-term sacrifice of the scientific potential of the French industry is reflected by the collapse of investment in R and D in the most advanced sectors — atomic research, energy, computers, etc. — while the fall in housing (see Table 2) shows the long-term reduction in the living standards of workers.

The French stock market, after a 5 percent fall in two sessions following the results of the recent municipal elections, has fallen an additional 5 to 10 percent in the two sessions after the announcement of the new Barre government and its follow up 12 month program to the first "Barre plan."

IMF Loan Conditions Spell Economic Suicide

ITALY

Contrary to what the International Monetary Fund (IMF) laid out in its official "Letter of Intent" to be signed by the Italian government, the conditions accompanying the pending $530 million IMF loan to Italy will drastically cut output potential.

There can be no illusions about the "recovery" which Italy experienced in 1976. The outstanding elements of this "recovery" — the approximate 40 percent yearly increase in exports, and the 12.3 percent volume-increase in industrial production — were based firmly on the austerity policy carried out by the government and dumping on the international markets facilitated by the devaluation of the Italian currency. The IMF conditions, as officials in the IMF privately admit, will greatly reduce Italy's output for 1977. 1977 will not turn out as the IMF envisions, as a "year of Zero Growth" for the Italian economy; it will be a year of "negative growth" — the collapse of the country's industrial potential in short-term.

In Italy nearly 50 percent of all industry is nationalized. One of the IMF's major conditions, that the Treasury deficit be contained at 9,800 billion lire will nearly dismantle the massive state industrial sector. This cutback in the Treasury deficit from the original 1977 state budget projection of 13,800 billion lire forces a drastic curtailment of internal credit. This, in turn, will be immediately felt in the rate of capital investment.

As seen in Graph A, there is a direct correlation between the state deficit and industrial output. Italy, being a

Graph A — State Budget and Industrial Production Projected According to the IMF Letter of Intent