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France's Antidirigist 'Revolution'

Sacrificing international development for a stock market spree

Under the leadership of Prime Minister Raymond Barre and Economics Minister René Monory, France's government has embarked on an anti-dirigist economic "revolution" which threatens to sacrifice France's

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leading role as a proponent of capital-intensive international development policies for the sake of a short-term run-up in industrial profits and a Wall Street-modeled stock market boom.

The major features of the program Barre has released piecemeal to the public over the past few months aim at the heart of the system of centralized industrial planning founded by Charles de Gaulle. It includes a rapid phase-out of the price-control mechanism in existence since 1945, sharp reductions in spending by public-sector industry, and drastic curtailments in state aid to ailing private industry. The government will, in the eloquent words of the French press, "let the lame ducks die."

Besides decontrol, the government threw in another sweetener for private industry this week by proposing to create several new tax incentives for investors in corporate shares. For example, an individual would be able to invest up to 5,000 francs in equities without being subject to taxes. Barre and Monory hope to channel 5 to 6 billion francs in additional liquidity into the Paris Bourse through such measures, ostensibly to allow industry to raise more capital needed for new investment.

In reality, the "liberalization" measures will at best extend the French stock market recovery (which began immediately after the center-right electoral victory last March). Public utility rate hikes and price decontrol are expected to set off raging inflation—with consumer prices rising as much as 15 percent this year. In April, even before the first phase of decontrol went into effect, retail prices shot up by 1.1 percent. Like the Carter Administration, the French government has set itself up for a brief stock-market "bubble," which will turn into a panic as inflation accelerates, as the French franc crumbles on international currency markets, and as wage austerity provokes ugly confrontations with labor unions.

"Cheap" in 1968

The British merchant banks are already rubbing their hands with glee. The May 31 meeting of the New York Association of Foreign Analysts featured a French stock broker, Jacques Sigalla, who attempted to pitch the assembled New York investment bank and brokerage firm analysts on the great new opportunities awaiting them in the French stock market. Significantly, Sigalla was introduced to the gathering by Francis Finlay, a representative of London's Lazard Frères, and a former colleague of Sigalla's at the Paris-based Euro-Finance think tank. Following Sigalla's talk, questions centered around the possibility of another collapse of the franc or even the recurrence of a social upheaval like that of May 1968. "Oh, we bought into France cheap in 1968!" Finlay chuckled.

Barre's flagrant disregard for the maintenance of working-class living standards—under the guise of a proindustrial policy—could set in motion such a destabilization. Despite high inflation and rising unemployment due to the phase-out of industrial "lame ducks," Barre intends to strictly limit wage increases for all but the lowest-paid workers. Middle- and working-class households will also suffer as a result of elimination of tax breaks for homeowners.

A dramatic example of the new *laissez-faire* approach came at the end of May when a major textile firm, Boussac, was forced into bankruptcy court following the refusal of government aid. The Boussac management, which had run up s $100 million debt, attempted to salvage itself through a plan which would cut 1,400 jobs, sell off many nontextile assets, and close several textile installations in return for $40 million in state aid. Even this plan was rejected by the government as not austere enough.

Meanwhile, the high growth- and investment-oriented public sector industry—de Gaulle's legacy—is to be deemphasized in favor of "free enterprise." Public firms will be allowed to borrow only 15 billion francs abroad this year compared to 22 billion negotiated in 1977. Yet the French electrical concern, Electricité de France (EDF), alone borrowed 7.7 billion francs last year, which only covered half of its financial needs. At the same time, the nationalized banking system—and particularly Crédit Agricole, Europe's largest single bank—have come under increasing attack from the private banking sector for their alleged unfair bank competition. The Barre administration has prevented Crédit Agricole, from investing 1 billion francs in additional liquidity available to the bank in loans to needy French farmers. Rumors abound of a sweeping "reform" of the banking system which will greatly reduce the power of the public banks.

French policymakers have apparently learned nothing since Adam Smith peddled the "free market" mythology of *Wealth of Nations* to credulous French intellectuals in the 1770s. Monory recently proclaimed, "I shall spread the gospel of liberty and competition. The more you assist the economy, the more you progressively destroy imagination, pugnacity and creativity, and less less competitive you ultimately become."

Barre has stressed that there "are no condemned sectors. But we must recognize that there are methods of

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production calling for a large, low-paid workforce which are no longer appropriate to this country. You cannot pretend that the future of France depends on the number of ships we sell at a loss or the volume of steel we make and cannot sell."

Perhaps. Yet the creation of those high-technology, high-paid jobs of the future depends on the creation of *new* markets in the East bloc and developing economies, markets which can only be created through centrally directed state-to-state deals. President Valéry Giscard d'Estaing understands this but has allowed his domestic economic policy to be governed by short-term "pragmatic" considerations which could ultimately prove his undoing.

Future Growth Is Dependent On Rewards For Risk-Taking Venture Capital

Increased research and development is needed on a large scale if the United States is to continue its traditional industrial world leadership with adequate export sales and a high standard of living for its workers.

GUEST COLUMN

Several built-in factors of the U.S. economy as it is today work against this. These factors need to be changed, so that the U.S. will again become a healthy forward moving economy. The needed changes are:

1. Reward venture capital risk takers by lowering the capital gains tax. The current high capital gains tax which makes no allowance for fictitious capital gains based on inflated prices has the effect of freezing people into what they have previously invested in. To sell the old investment is to be subject to a confiscation of capital. As a consequence, there is an inertia to investment change which results in much needed research and development not being financed.
2. Research and Development rarely is profitable in less than half a dozen years. This is especially so for advanced technology

   As a consequence the U.S. Internal Revenue Service and Securities and Exchange Commission requirements for companies' expense in Research and Development costs mean that even the Research and Development that later becomes profitable does so after carry forward losses cannot be balanced against current profits. This does not bother the industrial giants which are able to reduce their current taxes by funding Research and Development from part of their other earnings. Most real research is done by small entrepreneurial companies. The industrial giants are not strong in research but in development, production, and marketing.

Venture capital is now unwilling to finance the small Research and Development company, for it sees its capital being confiscated by current accounting and taxation processes. What happens is that the "start up" Research and Development company must usually pay all of its costs while the industrial giants pay only about half of their Research and Development costs. This needs to be changed.

3. Further, the industrial giants with a resident vice-president in Washington — who is an expert on bureaucratic paper work and is friendly with all the officials who process government research grants — get nearly all the government funded research. The industrial giants have less talent for the research than do the imaginative and dedicated entrepreneurs who rarely receive any consideration for grants. Yes, many college professors do, but they usually have an assured professional income, spare time and a university laboratory. The technological entrepreneur is usually short of money, time and much else. This too needs to be changed.

In summary, it is the Benjamin Franklins, the Thomas A. Edisons, the Nickolai Teslas and Edwin H. Lands who produce the new technologies, not the giant industrial companies. The U.S., by having a taxation and accounting system such as it now has, is retarding its own forward progress. As a consequence, U.S. workers are destined to have smaller real incomes and longer unemployment than would be true if these discouragements to venture capital investment in small advanced technological companies were changed. Why have the U.S. wilt on the vine? Let's change it.

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