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With EMS on the back burner:

'Free enterprise' threatens

As long as France's patrician President Giscard d'Estaing was firmly committed, as he had been since last summer, to early implementation of the European Monetary System's program of third world industrial development, many were convinced that the persisting weakness in France's domestic economy would tend to work itself out.

But, under intense pressure from London, Washington, and NATO in Brussels, Giscard and EMS cofounder Helmut Schmidt have backed off from their low-interest Third World lending program. The result: problems in France's domestic economic picture are suddenly looming large for Giscard.

The crux of the problem is the so-called Barre plan, the program advanced under the name of Prime Minister Raymond Barre, of stimulating French industry by cutting back on the nation's traditional dirigist focus on state-directed investment (epitomized by the eight, state-owned industries), in favor of indirect "stimulation" of investment in the private sector, coupled with an austerity policy aimed at holding down imports and wages.

President Giscard appears sincerely committed to industrial growth for France; to the extent that he has accepted the Barre prescriptions, he has done so under pressure from entrenched Rothschild interests in France, and apparently from the mistaken belief that the Barre program—which has been particularly promoted not so much by Barre himself but by the circle of liberal "new economists" gathered around Finance Minister René Monory—might actually improve France's industrial position.

The Barre program has had two years to work; the results are in, and, as the following survey shows, whatever it has accomplished, it has not worked to strengthen French industry. In fact, as a result of the program, Giscard is now sitting on an economic and social powder-keg. At this point it will take vigorous and prompt action to push through the EMS's Third World development program, and, domestically, to revive the dirigist economic approach of President de Gaulle (and earlier, France's great economic planner Jean-Baptiste Colbert) for Giscard to extricate himself from his domestic predicament.

The premises of Prime Minister Raymond Barre and René Monory's deflationary plan are best summed up in a little known (in the U.S.) series of articles penned by François de Combret, technical advisor to the General Secretariat of the President of the Republic, published by *Le Monde* in late March and early April 1978.

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French economy

'Industrial Redeployment'

Under the general heading of "Industrial Redeployment," de Combret argued that the 1973 oil price explosion—a "watershed in history"—necessitated the "redeployment of French industry" and, at the same time, the demise of the "Industrial Imperative" policy of the first 15 years of the French Fifth Republic. The rationale for the new policy stemmed from a "break at three levels": (1) comparative prices (the rise in raw materials prices, including energy); (2) the "new international division of labor," i.e., the growing industrialization of the Third World; and (3) the developed countries are looking forward to "a more humane, more equitable mode of growth," e.g. the "service-oriented" mushrooming of gambling casinos and hotels being encouraged these days by London. Accordingly, he argued, three new principles must govern the new industrial policy:

•**"State intervention must become the exception and respect for private initiative and the disciplines of the market the rule."** The target here is France's eight large state sector industrial firms, including Renault, the giant EDF-GDF energy monopoly (which incorporates France's nuclear program), and the SNIAS Aerospatiale aircraft concern. As the chart shows, the public sector concerns have contributed a disproportionate share of actual capital growth in the French economy since 1973. Argued de Combret: a slowdown in growth is inevitable, and "public money is becoming scarce" anyway. And he quoted Ronald Gierson, the president of Britain's General Electric, which recently reoriented its expansion program toward large-scale asset stripping: "Ministers and civil servants are playing with taxpayers' money when they think they are Rockefellers and when they too often invest in dead-end ventures." Since then, Monory has stepped up government attacks against the alleged inefficiency and waste of the public sector and sponsored a series of plans to decontrol public sector corporations.

•**"Competition must be restored in all fields**...we must fight against monopolies and oligopolistic agreements in the national market." Implementation of this second principle has meant the decontrol of industrial prices, which Monory has described as a "true revolution in the French economy," portraying himself as the first French politician in the last 30 years who "has dared to stop price controls" and wage a "pitiless" war against the "lame ducks" of industry.

•**"The new industrial policy is focused on the small and medium-size corporations."** In other words: scrap France's industrial giants.

"The three principles of the new industrial policy must be implemented without dogmatism. Empiricism...could thus be promoted to the status of 4th principle."

The other main objective of the industrial redeployment de Combret defined as the restoration of equilibrium in the balance of trade and balance of payments.

His recipes were frankly autarkical. "We must above all reduce imports through a systematic policy of reconquest of the national market (which) can mean savings in the consumption of raw materials, energy, and finished products. We must shoulder part of the burden of poverty and scarcity." Again de Combret argued that the slowdown of growth would spontaneously contribute to the reduction of "superfluous consumption," but that it was of paramount importance to "reform public mores" in the direction of greater frugality.

Elaborating, de Combret further argued that the "transformation of the production processes" will help reduce imports—the "overconsumption" of fertilizer in agriculture being targeted in particular.

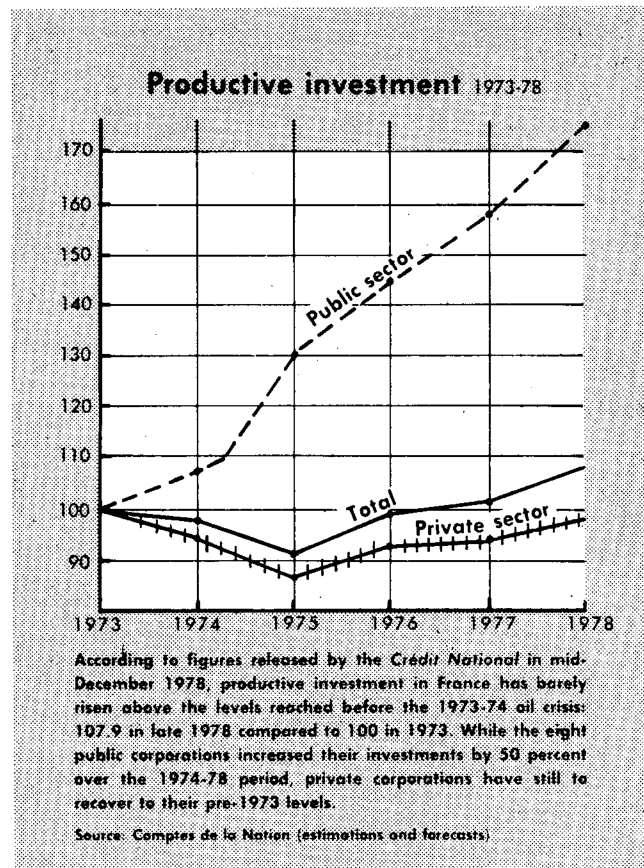
And he outlined three policy orientations aimed at restoring the much-touted "equilibriums": promoting productive activities in keeping with French tradition—the wood industry, agro-food industry, etc.; emphasizing "reciprocity" in international trade; and the

"reconquest of the national
workers must be expelled (this has become the official policy of Secretary of Manual Labor Lionel Stoleru) and the jobs thus made available be filled by French workers through a campaign in favor of manual labor, craftwork, etc.

Concerning the export drive proper, de Combret suggests that France should renew the tradition of the French India Companies, that the access of small- and medium-sized corporations to foreign markets be facilitated, and that a general policy of cooperation "without exclusiveness" be implemented in the fields of nuclear energy, computer and aerospace technologies—given France's "limited financial resources." Behind this proposal is a continuing campaign to stamp out the vestiges of de Gaulle's efforts to develop pioneering all-French technologies in these areas.

The two-and-a-half-year-old "Barre Plan" has on the whole been a faithful implementation of the monetarist policy which François de Combret, along with many other government advisors, including the new president of the French economic planning agency Michel Albert, publicly unveiled as soon as the 1978 elections, the "great scare of March 1978," had passed with a resounding victory for Giscard's forces.

Barre's "logic" can be summed up as follows: given "external constraint" (the need to export more to foot the oil bill, and keep imports at as low a level as possible)—which implies the depression of household consumption and wages—priority must be given to the recovery of the private sector's financial situation. Once achieved, the latter will trigger productive investment, which in turn will improve the employment situation. But Barre's "theorem" or "the German theorem" as it has been called by Barre's retinue of financial wizards, according to which prófits breed investment, has proved to be a disaster on all counts.



According to figures released by the *Crédit National* in mid-December 1978, productive investment in France has barely risen above the levels reached before the 1973-74 oil crisis: 107.9 in late 1978 compared to 100 in 1973. While the eight public corporations increased their investments by 50 percent over the 1974-78 period, private corporations have still to recover to their pre-1973 levels.

Source: Comptes de la Nation (estimations and forecasts)

The true extent of the 1978 corporate "financial recovery"

In its latest "note de conjoncture," the French National Statistics Institute INSEE has dispelled all the wishful thinking concerning the "German theorem." Gross profits (dividends plus interest plus taxes plus self-financing) in 1978 stood at 2 percent of total corporate added value, compared to 28.5 percent in the 1970-73 period, and 24.8 percent in 1975-76. Wage costs (wages plus social security contributions), bemoans Barre, which represented 64 percent of corporate value added in the 1970-73 period, rose to 69 percent in 1976, and dropped "only" to 67 percent last year, given the stiff resistance to austerity, did not keep up with inflation. The increase in wage costs slowed from 9.5 percent in 1977 to 7.5 percent last year, while industrial production prices rose 6.5 percent in 1977, and 8 percent in 1978. Meanwhile industrial production increased a low 2 percent in 1978, hardly better than in 1977. The situation during the last quarter 1978 and the first two months of 1979 reportedly improved, with the highly unreliable industrial output monthly index (it covers only 41 percent of industry) rising 5.5 percent on an annual basis over the indicated period. Recent business surveys point toward a leveling of industrial output, given the "uncertainties" in the energy and raw materials fields and the general international situation.

What happened? Private industry benefited from an 11 percent decrease in corporate and property taxes, from low-interest rate state grants and loans totaling some 10 billion francs, and from some 4 billion francs in savings that were reportedly channeled to equity purchases through an investment tax break (the so-called "5,000 francs Monory"). Last, but not least, the progression of the wage earners' purchasing power was kept at a low 1.5 percent in 1978, although industrial wage levels in France are still, along with the British ones, the lowest among the EEC countries (see table). Despite a savage streamlining of production capacities (Monory's notorious "degraissage"—"cutting the fat"), gross savings (self-financing) in relation to corporate value added stood at a low 11.5 percent in 1978, compared with 14 percent in the 1970-73 period.

As the April 3 issue of *Les Echos* points out, some improvement in corporate profits did take place last year, but a return to "normalcy" has yet to come. Moreover, whatever improvement took place last year—the true extent will only be known when the *Comptes de la Nation* for 1978 appears later this year—did so during the first half of 1978; since then, "general uncertainty" has prevailed.

Investment: waiting for Godot

Nothing illustrates better the coexistence in France of two widely diverging economies than the comparative evolution of productive investment (fixed gross capital formation in industry, services, commerce) since 1973 in particular (see graph). According to updated figures released late last month, productive investment over the 1973-78 period increased 75 percent in the public sector and fell 7 percent in the private sector. Overall, productive investment fell 0.5 percent in 1977 and rose 0.5 percent in 1978. Individual firms were particularly hard hit: down 12 percent in 1975, plus 6.6 percent in 1976, down 1 percent in 1977, up 1 percent in 1978.

With an average rate of productive capacity utilization in industry of 84 percent, the share of investment in capacity expansion has dropped from 30 percent in 1973 to 25 percent in 1978, while an estimated 30 percent of private capital invested would go to modernize the existing stock of capital.

Although definitive figures for last year's gross fixed capital formation in private industry are not yet available, the 1978 figures for the machine tool industry provide a fairly reliable picture of what the current situation of industry as a whole is.

While the industry achieved an unheard-of trade surplus of FF355 million in 1978, the national market has collapsed, with no pickup in sight, if we are to believe the March 1979 monthly business survey by *Les Echos*. Since 1973—1976 being an exception—national consumption has kept dwindling, by late 1978 reaching a level comparable to that of the early 1960s! National consumption in 1978 amounted to a low 62,000 tons (a drop of 16 percent compared to 1977, which itself saw a 30 percent drop compared to 1976), which can be broken down into 35,000 tons of imports and 27,000 tons produced at home. Given the notorious inadequacy of French national machine tool production to the requirements of industry as a whole (the French machine tool industry specializes heavily in a few highly sophisticated items), the sharp drop in imports (down 14 percent to 35,000 tons in 1978 compared to 1977) is another indication of the low level of capital formation in the private sector.

Machine tools

Percentage of total

less than 10 years old in 1978

Country	%
France	**33**
West Germany	37
Britain	39
Italy	42
Japan	60

Source: European Coordinating Committee of the Machine-Tool Industry

Machine tool deliveries

Percentage change, 1977-78

Country	% change
France	**−35**
West Germany	+28
USA	+34
Italy,	

Source: European Coordinating Committee of the Machine-Tool Industry

Hourly wage rate of industrial workers

mid-1978

Country	Rate
Belgium,	
The Netherlands	9.62
West Germany	9.18
USA	8.26
Canada	7.54
France	**6.90**
Italy	6.18
Japan	5.65
Britain	4.24

Source: Citibank's Monthly Economic Letter, December 1978

In comparative terms the situation is no better. Machine tool deliveries over the 1977-78 period fell 35 percent in France, while increasing 28 percent in France's main trading partner and competitor, West Germany. As a consequence, France, which was already lagging behind its main trading partners, now has the oldest set of machines in industry in Europe, with only one-third less than ten years old.

Confronted with these dismal figures Credit National president Andre de Lattre warned last January, "while favoring the financial consolidation of private corporations, (the stagnation of private investment) could entail serious drawbacks in the near future for the competitiveness of French industry, especially at a time when our competitors are increasing their investments, in the area of productivity in particular."

The figures above also call in question the widespread contention that corporations would devote some 30 percent of their investments to the modernization of the existing stock of capital. In this respect the latest INSEE "note de conjoncture" intimates that an unspecified share of the corporations' greater liquidity in 1978 went to reduce heavy corporate debts—prior to 1978, financial costs frequently amounted to over 5 percent of corporate turnovers. Quoting the April 3rd issue of *Les Echos:* "Part of the new capital generated—through the new 'Monory' equity shares scheme and improved self-financing—is used for debt retirement and debt service purposes."

Of more long-term significance, persisting stagnation of productive investment bears heavily on the competitiveness of the crucial capital goods sector of industry. Taking Britain as the epitome of industrial anemia, the drop in Britain's share of capital goods exports over the decade 1965-75 was parallel to a fall in the investment rate of manufacturing, from 13.4 percent to 12 percent. Conversely, France increased its share during that decade, with an investment rate in manufacturing rising from 16.5 percent to 19.7 percent. Britain's low level of productive investment was also linked to a decline in its share on both foreign markets and the British market—the percentage share of machine tool imports in national demand, which had stabilized at about 20 percent prior to 1970, increased sharply to 35 percent in 1973 and over 41 percent in 1974. The parallel with France today is obvious enough: France's share in capital goods exports, which has stagnated since 1975, appears bound to regress in the coming years.

A survey of the 1978 results of some of the capital goods producing branches of industry bears out the global picture emerging from the investment situation.

The MPTS equipment goods sector

Take, for example, the MPTS equipment goods sector (equipment for steel, construction, etc.). The sector's turnover in 1978 (FF8.7 billion) was down, in volume terms, 1 percent from 1977, and 17 percent from 1973. The national market has shrunk 5.3 percent compared to 1977. Twenty percent of the sector's firms have gone bankrupt since 1973, and the total labor force is down 8,000 from a 1973 total of 43,500 (minus 19 percent). Even more telling is the 50 percent collapse of national demand since 1973.

The MPTS sector has so far achieved a good score on foreign markets. Exports rose 2 percent in volume in 1978, to FF5.4 billion, thus realizing a FF3 billion surplus (62 percent of the output is exported).

The collapse of the national market, however, is threatening the very survival of the sector. Following the 1977 takeover of Poclain (number one in the field) by the U.S. giant Case-Tenneco, Ford's recently acquired French subsidiary Richier is being dismantled after years of losses, while German firms are buying up medium-sized MPTS corporations by the dozen. The crisis in this sector is such that the president of the MPTS employers association recently urged the government to float a FF10 billion loan to foster activity in the public works / construction branch (public orders represent 70 percent of the national MPTS market, both directly and indirectly). "France is still largely underequipped, contrary to certain doctrines erroneously developed by government circles," he warned, further arguing that housing construction and public works absorb some 50 percent of national steel production.

Electrical construction

Contrary to 1977 expectations of a 6.5 percent growth of the electrical construction sector, 1978 figures show an increase in volume of only 1.5 percent, compared with 4.8 percent in 1977 and 9.3 percent in 1976. One reason for the slowdown was the leveling (in constant francs) of public orders (mainly the P&T postal telecommunications state monopoly), which represent 13 percent of the professional branch turnover. Hence the layoffs by the branch's leading firms: AOIP, CIT-Alcatel, CGCT and LTT.

The 1978 turnover is expected to reach FF80 billion (up 6 percent over 1977). But the labor force is down 2 percent to 460,000, while the average working week dropped to $40\frac{1}{4}$ hours, compared to $44\frac{1}{2}$ hours in 1970. Investments stayed at the 1977 level of FF3.3 billion. Ominously, the hardest-hit component of the sector was the equipment goods branch (60 percent of

turnover), down 1 percent in volume. The figures for the consumer goods component (27 percent of turnover) were up by only 1 percent, while the intermediary goods branch (13 percent of turnover) was up sharply, with a 17 percent increase for the semiconductor industry. But this last, contrary to Barre's projections of private investment increases, was the outcome of the FF600 million, 5-year "integrated circuit plan" launched by the government in the spring of 1977, aimed at developing a competitive, French-controlled semiconductor industry in cooperation with mainly U.S. corporations. Exports rose 12 percent to 26.7 billion, with a geographical redistribution in favor of the EEC, the U.S. and the East bloc, away from the OPEC countries.

Housing and construction

Production in the housing and construction sector was down for the fifth consecutive year (see table). Less than 400,000 new housing starts are expected in 1979, while public investment (state and local entities) in the public works branch is expected to drop another 3 percent in 1979. Output in the construction is expected to fall by 3 percent in volume.

The French construction industry is, by all standards, as much a depression area as steel, shipbuilding or textile. The labor force shrank 7 percent last year (a loss of 80,000 jobs), with bankruptcies up 17 percent compared to 1977. One out of three corporations in the sector have failed since 1968, and no relief is in sight. The impact on general activity has been particularly hard since the loss of 10 jobs in the sector causes another 10 layoffs upstream or downstream.

Construction permits issued

Percentage change over three quarters, 1977-78

Private	
Housing	− 9.5
HLM* ownership	−35.0
HLM* rental	−20.0
Assisted sector (non-HLM rental and ownership	− 7.0
Private, unaided sector	− 5.0
Commercial	
Agricultural construction	+25.0
Industrial construction	− 2.0
Warehouses	− 7.0
Stores	− 6.0

Source: *Les Echos*, Jan. 25, 1979

* HLM: relatively low-cost, state-subsidized housing.

Employment: the powder keg

Unemployment—artificially contained until the March 1978 legislative elections through various gimmicks like temporary hirings of jobless high school graduates—hit the labor force savagely in the aftermath of the Giscardian electoral victory. Of the active population, 6.01 percent is now jobless, an increase of 20.4 percent over the 1977-78 period to a total registered unemployed of 1,350,000. The industrial labor force was among the hardest hit, with a net loss of 65,000 industrial jobs last year, down to 5.63 million (the total was 6 million in 1974).

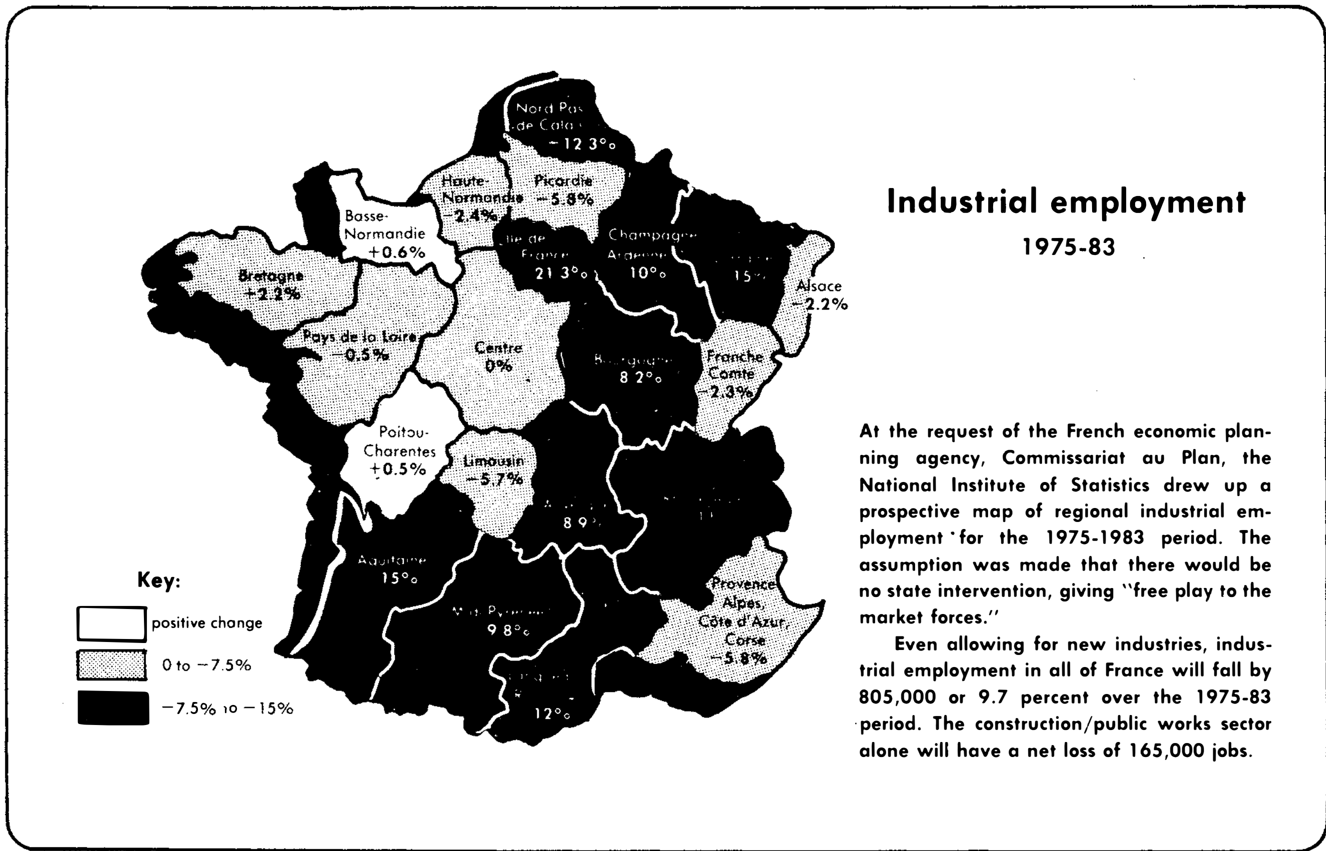
Contrary to other EEC countries, the job market shows no sign of improvement. The January 1979 unemployment index soared 2.1 percent while the OECD forecasts another 150,000 layoffs by December 1979.

Longer-term prospects are even more chilling. INSEE has just released a study showing that some 1.8 million new jobs must be created by 1986 in order to cope with the expected increase in the active population, a figure which does not take into account the expected job losses in steel, shipbuilding, textile, etc. Were the Barre policy to continue unchanged in the coming years, INSEE estimated that industrial employment will drop by 9.7 percent over the 1975-1983 period (a loss of 805,000 jobs).

Even more worrisome is the geographical distribution of unemployment. Forty-three departments have an unemployment rate higher than the national average of 6.0 percent, and of these 12 have a rate higher than 8 percent. They are concentrated in the old industrial areas in the eastern and northern part of the country; the southwest coastline (with the Loire Atlantique department in particular hard hit); and the Mediterranean coastline, with La Ciotat and Marseille the hardest hit (their respective jobless rates are 18.3 percent and 9.6 percent).

Foreign trade

One compelling argument for rapid implementation of the EMS is the continuing weakness of French foreign trade, a reflection both of the general slowdown in world trade, as well as of the weakness of French industry. Under EMS-directed industrial development, the lag in French exports, from the industrial sector in particular, could be reversed. As matters now stand, despite the Barre program, the 1978 balance of trade



Industrial employment

1975-83

At the request of the French economic planning agency, Commissariat au Plan, the National Institute of Statistics drew up a prospective map of regional industrial employment for the 1975-1983 period. The assumption was made that there would be no state intervention, giving "free play to the market forces."

Even allowing for new industries, industrial employment in all of France will fall by 805,000 or 9.7 percent over the 1975-83 period. The construction/public works sector alone will have a net loss of 165,000 jobs.

figures would be in deficit were it not for huge armaments exports, to the Mideast in particular. In CAF-FOB terms, excluding armaments exports but including insurance and shipping costs, the 1978 deficit amounted to FF23.5 billion; this despite a deep recession at home which played a role in the government's efforts to keep imports at the lowest possible level.

Exports rose 12 percent, while imports grew at a much slower pace of 6.6 percent. More disturbing is the worsening of the traditional imbalances, especially the persistent deficit of French industrial goods trade with the developed countries.

Said the report to the Parliament on the adaptation of the Seventh Plan:

> The performance of French industry on foreign markets remains fragile. Apart from our immediate neighbors (70 percent of French exports are within a 1500 kilometer radius of Paris), the share of foreign markets held by French corporations is important only in certain French-speaking African countries and a few other countries like Nigeria, Iraq and Libya...the conditions that made possible the massive French trade surplus with the non-oil-producing developing countries enhance the limitations of France's success in improving its trade balance. The current surplus chiefly rests upon the expected pickup of equipment goods sales. Now those very sales are based on a sharp increase of commercial credits...which makes France the creditor of a group of countries whose debt-incurring capacities are not boundless. But by its structural significance, it is the scope of our deficit with the OECD countries, especially the U.S., the BRD and Japan which is alarming.

In fact, the industrial goods trade deficit with the industrialized countries reached FF26 billion in 1978. The breakdown of this deficit is as follows:

• with the EEC: deficit of FF18 billion, including FF14 billion...with the BRD;

• with the non-EEC members of the OECD: FF8 billion.

Of major concern is the persisting trade deficit with West Germany, France's main trading partner—the 1978 share of the BRD in French exports was 18.4 percent: for imports, it was 17.08 percent. The overall trade deficit with the BRD amounted to FF10 billion in 1978, compared to 10.7 billion in 1977, and 13 billion in 1976, when the global deficit stood at 23 billion francs. The latter figures have prompted some commentators to argue that the Barre plan was launched primarily because of the untenable deficit with West Germany, which, they say, has turned France into an economic satellite of its neighbor across the Rhine.

EEC capital goods exports
(in percent)

	France		West Germany		Italy		Great Britain	
	Other EEC	Outside EEC	Other EEC	Outside EEC	Other EEC	Outside EEC	Other EEC	Outside EEC
1965	13.0	11.6	38.1	37.8	11.4	9.2	14.3	32.2
1970	16.2	13.3	38.6	40.1	12.5	11.8	12.4	25.0
1975	18.6	16.8	36.4	41.0	10.9	11.6	11.9	20.1
1976	17.4	17.6	38.0	42.6	10.5	10.9	11.1	18.2
1977	17.4	17.1	38.3	43.0	10.5	11.5	11.9	18.3
1978*	18.5	16.6	37.0	42.4	10.2	10.9	12.3	20.4

*1st quarter
Source: *Eurostat*, Bulletin mensuel du commerce exterieur

The ab ove chart shows the percentage share of E respectively. The figures for exports are broken down between exports to the other eight nations of the European Economic Community, and exports to nations outside the EEC.

France is, conversely, heavily dependent on its trade with the East bloc and the Third World, as the following breakdown of the 1978 industrial goods surplus shows:

- East bloc: FF7 billion
- OPEC countries: FF25 billion
- Non-oil-producing African countries: FF10 billion
- Developing Latin American countries (non-oil-producing): FF5 billion
- Non-oil-producing Asian countries: FF3 billion

The most disturbing feature of France's foreign trade last year is the regression of its industrial goods exports to the developing countries—a meager 2.5 percent increase in value—at a time when West Germany increased its exports in the same categories by 20 percent. This also accounts for the sharp drop of France's capital goods export surplus last year, down 13.6 percent.

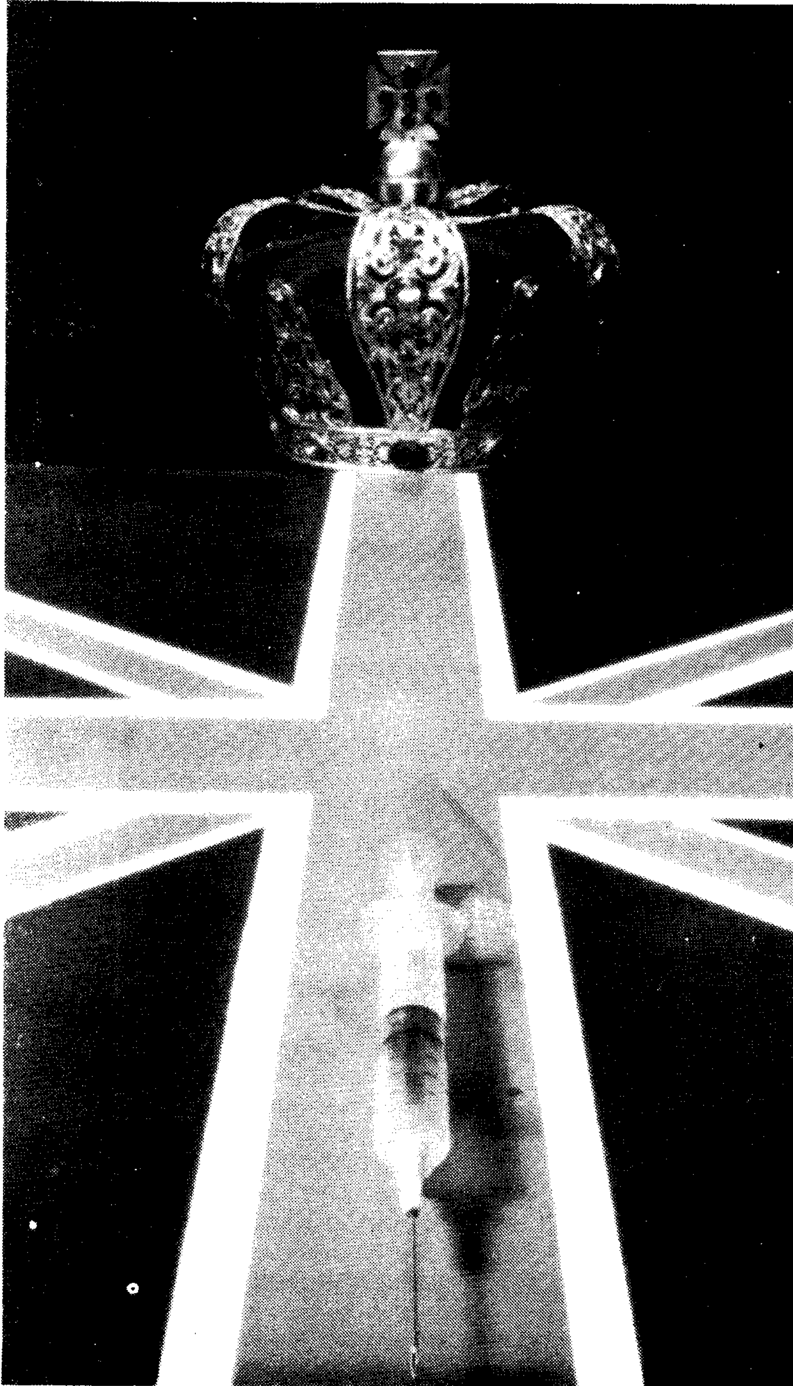
Consequently, while the average annual increase of French manufacturing products exports to the developing countries reached 20 percent for each of the years from 1974 to 1977, last year it dropped sharply to only 2.5 percent (an increase of FF1.6 billion). This corresponds to an actual reduction in volume.

Barre's plan a failure

By its own standards the Barre plan has proved to be an utter failure. Investment has been stagnating for four years, with no foreseeable prospect of recovery; inflation is still galloping at around 10 percent, unemployment is rising and the competitiveness of French exports is seriously threatened.

"One can contemplate an upturn in investment in France only if we simultaneously accept a deficit in our industrial balance. The reason is that our country does not have an industry producing certain types of equipment (and because) of the physical limitations of the productive capacities when equipment is built in our country," wrote Mr. Gerard, the former Rapporteur General of the Industry Committee at the Commissariat au Plan. There lies the crux of the problem. Only a massive, dirigist investment plan in the high-technology sectors of industry, which necessarily calls for substantial imports of capital goods, will enable French manufacturers to meet the challenge of international competition and contribute to the development of the Third World. Whatever the "imbalances" in the short term, such a plan is the only truly anti-inflationary approach to French economic recovery. In short, the very antithesis of the economic policy known as the Barre plan.

—Alain Lemal



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