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The Value of the French Franc
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The Value of the French Franc

The disparity between French and foreign prices, and its relation to the problem of franc devaluation, has recently received considerable attention. On the average, French prices appear to be 15-20 per cent higher than those in competing nations, but price discrepancies are not uniform. For example, French Diesel motors are 30 to 40 per cent more expensive than similar English or German products, but many other French capital goods can easily meet foreign competition, and household articles of aluminum and popular-size tires are slightly cheaper in France than in Germany, Italy, or the Netherlands.

Many reasons are given for the alleged French inability to compete effectively abroad. French management cites the problem of high taxes and social charges, while French labor points to excessive corporate and middle-man's profits. The existence of numerous "protected" interests, who staunchly oppose reform; the rigidities of the French economy; an outdated system of distribution; and the waste of productive factors by inefficient and dispersed enterprises are commonly mentioned.

It is less easy to assess the prospects of remedial measures than to point out causes of the evil. Extensive readjustment of the internal cost-price structure is a difficult, long-range process, especially in view of the perennial weakness of French Governments and of the political pressures in favor of the vested interests of the farmer and small retailer. Uniform devaluation of the French franc would tend to eliminate at least part of the differential; while the present system of export subsidies and tax and social security rebates -- which constitutes, in effect, a differential devaluation on the export side -- attempts to accomplish the same end through selective (and discriminatory) application. In April the Government announced the imposition by decree of a provisional exchange purchase tax ranging from 10 to 15 per cent on selected imports; this tax appears to constitute differential devaluation on the import side. The tax is designed to help French industries which may be hurt by the increased liberalization of imports from other OEEC nations, announced simultaneously.

In view of the recent marked improvement in the Paris prices of gold and black-market dollars, it might be argued, however, that the "market" rate of the franc now was close to the official rate and that further official exchange rate adjustment would be unnecessary and, in fact, undesirable. Proponents of this view suggest that exchange rate adjustments (either uniform or discriminatory) might divert attention from the fundamental internal reforms which would be required to stabilize the French international economic position.

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The existing differential between French and foreign prices

The French Government in January 1954 set up a special commission to study the problem of French and foreign price disparities. M. Roger Nathan, Finance Inspector and former Director of External Economic Relations in the Ministry of National Economy, was named to head this commission, the membership of which was drawn from the upper ranks of government service and business.

The Nathan Report is not yet available in this country in its entirety; however, its conclusions as well as those of preliminary reports submitted to the Commission have been widely discussed in the Paris press. According to these studies, prices in France appear to be roughly 15 to 20 per cent higher than in most countries of Europe; in contrast, these same prices were probably in line with the general European level at the beginning of 1950, following the devaluations of September 1949 1/.

The extent of price discrepancy appears to vary greatly among different classes of French industrial products, according to marketing studies of La Vie Francaise. For instance, in the case of textile products, the approximate differential between actual French and European prices quoted in selected foreign markets seems to be between 10 and 25 per cent, while in the case of construction of ships and military airplanes it appears to be as great as 30 to 40 per cent. Prices of French automobiles appear to be a little over 10 per cent higher than those of her competitors, and French price quotations for household and hardware articles (with some exceptions) seem to be 20 to 30 per cent higher than those of similar German products.

Discrepancies in the case of building materials and capital equipment are even more variable. The average differential for construction materials (without subsidy) seems to be about 15 per cent but the range may be as great as 3 to 40 per cent. In certain cases of capital equipment (for instance, for sugar-refineries and hydro-electric installations) French industry can make competitive offers, although aided by Government subsidies of 15 to 20 per cent. In the case of other types of equipment (Diesel motors and steam locomotives), French prices are 30 to 40 per cent higher than British and German prices and are non-competitive despite the existing subsidies.

1/ It must be remembered that statistical price indices give only vague indications of actual trends. For instance, wholesale price indices represent aggregate changes not only in industrial prices, which are of the greatest interest for the problem of foreign competition, but also in agricultural and imported raw materials prices, which are often subject to speculative fluctuations; moreover, the weights assigned to these commodity groups vary widely in different countries. Retail price or cost of living indices, the composition and significance of which tend to be more comparable among different countries, do not adequately measure changes in the prices of industrial producer goods. See "Nos Prix Sont Trop Chers de Combien? Pourquoi?", La Vie Francaise, February 5, 1954; "Peut-on Liberer les Echanges sans Protection Douaniere?" L'Economie, March 1954.

Relative costs in France and abroad

The French competitive disadvantage has developed, for one thing, because France suffered between mid-1950 and early 1952 from substantially greater inflationary pressures and price increases than most other nations. In addition, it reflects certain basic handicaps of French producers with respect to equipment, tax, and wage costs, and industrial and retailing organization. These internal handicaps do not necessarily prevent maintenance of external equilibrium if the franc exchange rate is favorable, as it was in the first half of 1950, but they may instead be reflected in lower real incomes. In any case, however, internal maladjustments and inflexibility tend to aggravate external imbalance when the exchange rate fails to be adjusted to the lower level of domestic productivity.

Inefficient organization of French industry -- According to the Ministry of Commerce, the allegedly excessive dispersion and fragmentation of French industry raises French production costs relative to those in other European countries where greater concentration and specialization of industry appears to be the rule. The French mechanical and electrical industries, for example, employ an average of only 45 workers per enterprise, while the average in the chemical industry is 48 workers and in the spinning and weaving industries 91 workers per firm. In contrast, in the United States the average number of employees in 1947 was 202 in electrical machinery, 63 in chemical, and 151 in textile mill establishments.

Insufficient and obsolescent industrial equipment -- According to this same study, France is reported to possess 500,000 to 600,000 machine tools, and the average age of these tools is more than twenty years; in contrast, Germany is estimated to have one and one-half million machine tools, the average age of which is less than fifteen years. Moreover, France produces annually 20-25,000 machine tools (of which one-quarter are exported), while Germany produces over 50,000.

High nominal wage rates -- The National Statistical Institute has studied comparative average hourly wage rates in leading industries in France, Western Germany, Great Britain, and Italy, all of them expressed in French francs at the official exchange rates. According to this study, average hourly wage rates for these industry groups in France (excluding social charges) amount to about 133 francs, somewhat lower than the British rate of 150, but higher than the rates in Western Germany (124) and Italy (92). Moreover, the French legal work week is only 40 hours, as compared with 45 hours in England and 48 hours in most other European countries. Thus, the average hourly wage rate for work-weeks over 40 hours rises much more steeply in France than elsewhere in Europe.

When the industry-by-industry breakdown is considered, wage rates in Italy are still uniformly the lowest of the four nations. As compared with Great Britain and Western Germany alone, France has the lowest wage rates in the metal production, construction and public works, hides and

leather, and wood products industries; and the highest wage rates in the mechanical and electrical, glass, food, printing and publishing, and chemical industries, with rates in these industries always exceeding those of Western Germany and sometimes also those of Great Britain 1/.

These comparative data do not conclusively show comparative wage costs because they fail to consider labor productivity; however, the presumption is that French productivity in most of these industry groups is no higher, and probably lower, than that in the United Kingdom and Germany. In terms of "real" wage income, the higher price level in France makes money wage rates appear too high in comparison with those of other countries whose wage rates have been converted into French francs at the official exchange rate.

Social charges --- The addition of "social charges" to nominal wage rates increases significantly the differential between total labor costs in France and in the other European countries considered in these studies (see, Table 1 below). The relatively lighter French burden of direct corporate taxes and of private pension fund and similar costs offset only in part the weight of these "social charges."

Table 1

Average Total Costs of One Hour of Labor
(all categories)

<u>Country</u>	<u>Ministry of Commerce</u>		<u>National Statistical Institute</u>	
	<u>French francs</u>	<u>Per cent</u>	<u>French francs</u>	<u>Per cent</u>
France	206	100	186	100
Germany	179	87	169	91
Britain	170	82	164	88
Italy	156	75	147	79

Source: --- U. S. Embassy, Paris, February 18, 1954.

The so-called "social charges" (which include paid vacations, corporate assessments for family allowances, social insurance, etc.) amount to 41 per cent of the average gross wage in France, 36 per cent in Germany, 27 per cent each in Belgium and Holland, 62 per cent in Italy, but only 9 per cent in Great Britain. The main charges borne by the French employer

1/ Study of the National Statistical Institute, as summarized in Le Figaro, February 12, 1954. The Ministry of Industry and Commerce has studied average hourly wage rates in the mechanical and electrical industries in various countries and arrived at similar conclusions.

include a withholding tax (comprising 5 per cent of the average gross wage), family allowances (about 15 per cent), social insurance (9 per cent), and workmen's compensation and paid vacations (12 per cent) 1/.

These statistics prepared by French Bureaus tend to overemphasize the French disadvantage, however, since many of these French charges are a substitute for certain other industrial costs borne privately in other countries. The 5 per cent corporate withholding tax (previously paid by the employee), for instance, may be considered to be a substitute for a higher corporate income tax. Heavy public social insurance costs compensate for private retirement and welfare payments, which might otherwise have to be borne by the industrial firm and/or the employee. Similarly, liberal family allowances have tended to mitigate pressure of French unions for higher nominal wage rates.

Taxation -- The aggregate tax burden, measured in terms of gross national product, appears to be no heavier in France than in other European countries; nevertheless its distribution is such as to weigh most heavily upon the price of the final product. The French fiscal system lays particular emphasis upon indirect taxation, such as excise, turnover, and production taxes, which directly affect prices. Indirect taxes constitute 60 per cent of the total revenue of the French Central Government, compared with 55 per cent for Germany and only 28 per cent for Britain.

Moreover, prior to the inauguration of the recent tax relief on investments, the total incidence on capital goods of the various cumulative taxes such as the production tax was an estimated 18 to 23 per cent in France, compared to an estimated 1 to 9 per cent in Italy, and 1 to 12 per cent in Germany. Investment may be penalized further by bank credit in France being more costly and less readily available than in competing European countries (with the exception of Italy).

Tax experts have therefore suggested to the Nathan Commission that an increase in direct taxes be proposed in order to lessen the tax burden on investment and prices. They note that the rate of the French corporate income tax (34 per cent) is well below that in other countries, including the United States (where rates are between 30 and 52 per cent), Germany (50 to 60 per cent), and Great Britain (47.5 per cent). A relatively small increase in the corporate income tax rate, accompanied by a comparable reduction in the production or turnover taxes, would bring the proportion of indirect taxes down to the German level, although it still would remain much higher than in the United Kingdom 2/. Such a tax revision might spread the overall tax burden somewhat more equitably among industry groups and enterprises although it would hardly have any significant downward effect on industrial prices in general.

1/ Study of Ministry of Commerce, as summarized in Le Monde, January 31, 1954.

2/ Studies of the Ministry of Commerce, in La Vie Francaise, February 5, 1954.

Price disparities and exchange rate adjustments

The effect on international transactions of existing price disparities between France and competing nations would be deeply influenced by a change in the exchange rate. It must be emphasized, however, that internal and external methods of adjustment are not alternative but rather complementary procedures, the first taking effect primarily in the longer, and the second in the shorter run.

Prior to the Korean War — French price levels appear to have been approximately in line with prices in the rest of Europe immediately after devaluation in September 1949; the de facto dollar rate for the French franc established at that time appears to have undervalued rather than overvalued the franc.

French experience following that devaluation presents a rather striking demonstration of what can be accomplished through exchange rate adjustment provided other economic (and psychological) factors are favorable. In September 1949, the prior multiple rate structure for commercial and invisible transactions was unified on the basis of a rate of about 350 francs to the dollar. This meant devaluation against the dollar of 6 per cent for invisible transactions and of 21.8 per cent for trade transactions; and appreciation against sterling (12.5 per cent) and many Continental European currencies.

The success of the devaluation against the dollar was indicated: (i) by the virtual disappearance of domestic inflationary pressures by June 1950 at a level of activity close to full employment; (ii) by a marked improvement in the French external balance and an increase in official gold and dollar reserves in the first half of 1950; and (iii) by a reduction in the "parallel" market rate for the dollar from 391 at the end of 1949 to 352 in May 1950, representing a premium of less than one per cent over the so-called "free" (actually official) dollar quotation.

It must be remembered that in 1949 most European currencies were devalued and that the usual unfavorable psychological impact of devaluation was mitigated by the concerted action between France and her neighbor countries; moreover, the induced small (9 per cent) rise in industrial prices tended to be offset by an independent decline in prices of agricultural products. The joint devaluation of major European currencies in 1949 (and the fact that the French franc was in fact appreciated against currencies of some of her major raw material suppliers) also tended to prevent a marked rise in French import prices and a consequent deterioration in the terms of trade. General world-wide price stability and a decline in the price of gold in world markets also tended to strengthen the external value of the French franc and to mitigate the impact on domestic prices.

Since the Korean War — The outbreak of the Korean War in June 1950 reversed both the internal and the external situation in certain aspects. Between the end of June and of July 1950, the price of gold increased by nearly 20 per cent and the premium of the black market over the "official" (free) dollar rate rose by more than 10 per cent. With respect to commodity price indices, disparities had become evident by the end of March 1951. These disparities widened progressively through March 1952 (if measured by cost of living indices) or through June 1952 (if measured by wholesale price indices). On the latter date the discrepancy generally was between 18 and 24 per cent.

Recently, France has attained good success in maintaining internal price stability. By the end of December 1953, the disparity had been reduced to about 15 to 20 per cent, except in the case of Germany where the price differential continues to stand at 23 per cent 1/.

The external situation also worsened markedly after June 1950. The overall deficit on current account of the French franc area (France and her overseas territories) had declined from \$483 million in the first half of 1949 to \$168 million in the first half of 1950. It rose continuously to a peak of \$506 million in the first half of 1952. In the first half of 1953 it declined again to \$276 million; however, while the improvement in 1950 was achieved despite a relaxation in French trade restrictions, the reduction of the deficit in 1953 was, at least in part, the result of a considerable tightening of restrictions, and especially the complete reversal of the liberalization of intra-European trade achieved in previous years. Nevertheless, improved internal stability also played an important role in 1953, just as it had done in 1950.

Disguised devaluation of the French franc

Offsetting tax and social security rebates on French exports — Recent existing price differentials have been mitigated by increased financial aid to French exporters. The French Government has consistently stated that internal stability would be jeopardized by a formal devaluation of the French franc. Instead, various measures have been employed whereby the Treasury reimburses the French exporter for certain tax payments as well as for social security charges. Refunds to exporters are much larger in France than in other countries, aggregating 20.4 per cent of the price of the product exported, on

1/ The first half of 1950 appears to be a good base period from which to measure shifts from equilibrium. The country was then in closer approximation to internal and external balance than previously during the postwar period, with the volume of exports rising more rapidly following devaluation than the volume of imports.

the average, compared with 5 to 7 per cent in other countries 1/.

Generally speaking, export products which enjoy the larger rebates are those with the greater numbers of production stages (and hence the relatively larger indirect tax liabilities) or those with relatively large wage costs (and hence relatively larger social charges). Such products, in general, suffer the greatest competitive price disadvantage abroad.

In effect the system can be said to be a multiple currency practice with discriminatory features, which applies devaluation to exports in commodity areas where the French competitive disadvantage is greatest. What have been the net effects in stimulating exports? The greatest recent increases in French exports have been in food products (resulting from good harvests), and in raw materials and semi-finished products — categories which have not benefitted very much from export incentives — rather than in manufactures. The best that can be said is that the volume of exports of manufactured products has remained relatively stable despite increased competition on foreign markets. Within the EPU area, the French special incentives have raised exports to non-sterling countries but not to the sterling area; however, they may have helped to combat the negative effect of increased restrictions on imports imposed by the United Kingdom in 1952.

From the long-range point of view, the system tends to protect weak and inefficient export industries and to "freeze" into the economy the internal maldistribution of productive factors. It tends to perpetuate inefficient methods of production and distribution. It also tends to divert attention away from the need for further internal financial and structural reform, since it probably offsets or compensates, in part, for existing inequities in distribution of the tax burden.

Imposition of an exchange purchase tax — In mid-April the Government raised from 18 to 53 per cent the level of liberalization of French imports from OEEC member nations, and announced that the level would be extended to 65 per cent liberalization by November 1, 1954. At the same time, it imposed by decree a "special temporary compensation tax" on certain selected imports, to be levied either at the full rate of 15 per cent or at a reduced rate of 10 per cent. Proceeds of the tax, estimated at between five and six billion francs annually (\$14-17 million), will be placed in a fund designed to promote reconversion of French industries affected by foreign competition.

1/ See Le Monde, March 1, 1954. French export products fall roughly into five classifications. For products of the first group, including roughly one-half of French exports to foreign countries, there is no rebate. For another category (covering only 2 per cent of French exports) there is a refund of 3 per cent of the export value. Products in the third group enjoy a 100 per cent refund of social security charges. Products in a fourth and fifth group (representing about 20 per cent of total exports) receive full refund on social security charges and, in addition, receive additional Treasury refunds amounting to 5.45 and 8.72 per cent, respectively, of export value. These latter refunds are intended to compensate for indirect tax payments. In 1953, the French Government spent 47 billion French francs for these refunds on social charges and taxes, compared with 33.8 billion in 1952 and only 2.3 billion in 1951.

This new tax is designed primarily to improve the position of French industries that may be hurt by the new liberalization measures. Since the tax will be applied uniformly to imports from OEEC and all other foreign countries alike, it may be considered a form of differential devaluation for certain French imports, just as the system of tax rebates constitutes effective devaluation for selected French exports. Like these rebates, the new tax tends to "protect" the domestic producer and the level of employment, at the price of permitting the continued practice of uneconomic production methods. In contrast to outright devaluation, use of this tax may keep prices of essential French imports unchanged and thus reduce the impact on the domestic price level, on costs of production, and on the terms of trade; on the other hand, it adds more restrictions and administrative complications to the French trade and exchange mechanism.

Recent changes in the value of the French franc

Discussion of the need for outright franc devaluation, to wipe out part of the existing disparity between French and foreign price levels, has recently been dampened in view of some evidence that France may gradually be approaching both internal and external equilibrium at existing prices and exchange rates. Such evidence includes the attainment of internal price stability; the sharp reduction in the franc price of gold and of U. S. dollars on the "parallel" (or black) market; the revival of personal savings in the form of bonds or monetary assets and the corresponding lessened personal desire to hoard gold; the decline in speculative capital outflow and the probable repatriation of domestic capital; and, finally, the improvement in the French external balance.

Internal stability --- Between June 1950 and March 1952, when Premier Pinay inaugurated his stabilization program, French prices and wages increased by over 40 per cent. However, since then wholesale and consumer prices have declined 11 and 5 per cent, respectively. To some extent, these declines were the result of a government policy expressly aimed at rolling back costs and prices. At the same time, wage rates increased, but only by 5 per cent. With increased confidence in the future stability of French price levels and some strengthening of monetary policy, the public became more willing to increase its monetary savings.

Strengthening of the franc rate in terms of dollars and gold --- Since January 1948, the French franc has had no official par value under the International Monetary Fund Agreement; nevertheless, the so-called "free market" rate for U. S. dollars (in reality the official rate) ^{1/} has remained stable since September 1949 at about 350 French francs. This rate is kept within certain prescribed limits through the limitation of authorized demand and supply and the intervention of the exchange authorities in the market.

^{1/} The International Monetary Fund distinguishes between "free market" franc rates for certain currencies (Belgian francs, Canadian dollars, Swiss francs, and U. S. dollars) and "official market" rates for certain other currencies.

At the end of March 1952, the "parallel" (black market) dollar rate was quoted at 450 francs. After that time, it declined almost continually, reaching 366 francs in March 1954 and a new low of 362 francs on April 14, 1954. The current premium in relation to the official rate is thus only 3 per cent.

Similarly, on April 15, 1954 the gold price (417,000 francs per kilogram) exceeded the official gold buying price of the Bank of France (393,000 francs) by only about 6 per cent; this price for gold bars corresponds (on the basis of the prevailing "parallel market" dollar rate) to a price of about \$35.60 per ounce. The 20-franc gold coin (Napoleon), which stood as high as 4470 francs at the end of March 1952, has declined to 2680 francs.

In conjunction with the stability of commodity prices since early 1952, these sharp declines have discouraged French gold hoarding and may even have induced some dishoarding. The French Stabilization Fund, in intervening on the gold market, recently has had to act in general as buyer rather than as seller.

How much farther is the Paris gold price likely to decline? It seems unlikely the free price could go down to the official buying price of the Bank of France. It could not do so unless the "parallel" dollar price in Paris fell to the official price of 350 French francs and the price of French notes in Switzerland rose correspondingly. A continuing gold inflow from Switzerland as well as from South Africa and other gold-producing areas should tend to exert pressure on the Paris gold price 1/. However, substantial further declines in gold prices toward the "theoretical" minimum would lead to expectations of possible future rises and therefore of speculative profits from current gold purchases at a price level considered by the "market" to be artificially depressed. These attitudes would also be deeply affected by any actual (or expected) devaluation of the French franc. On the other hand, the recent opening of the London and Brussels gold markets, by widening the possibility for gold arbitrage and speculation, may reduce the volume of Paris gold transactions and tend to narrow somewhat the past wide fluctuations in the price of gold in Paris.

Problem of external equilibrium

Significance of declining gold prices — Declining dollar rates gold prices and the cessation of gold hoarding, while important, cannot be taken as clear evidence of a return to external equilibrium at the present official rate of the French franc:

1/ See Frederic Jenny, "The Declining Price of Gold" L'Information, February 27, 1954. He states that on the basis of the rate of FF 100 = SF 1.16 1/4 (quoted at the end of February in the Zurich market) and the price of gold of \$35.07 1/2 on the Swiss market, the cost of gold in Switzerland amounted to FF 416,000. This left a margin of about FF 7,000, sufficiently large to induce a continued (although somewhat reduced) movement of gold from Switzerland to France.

First, the gold market has been affected by normal changes in demand and supply, such as an increased supply from foreign sources (including South Africa and possibly Russia, although the latter has been officially denied) and by a reduced internal demand linked to confidence in growing internal financial stability. Neither of these factors is directly related to, nor corrective of, external disequilibrium due to price disparities between French products and competing products abroad.

Second, the slump in gold prices may be in large part a corrective of previous maladjustments in personal savings and consumption habits, due to a slight relaxation of the public's ingrained inflation psychology; this development is again no clear indication of attainment of external equilibrium. It merely reflects changes in the public's preferences relative to disposition of its savings. These preferences are influenced by present and expected future domestic price levels; by present and prospective interest rate changes and corresponding changes in the value of interest-yielding assets; and by the changing relative desirability of alternative outlets for investment funds (for instance, bonds with "escalator clauses").

The very fact that escalator clauses continue to be inserted in quasi-governmental bond issues (those of the French National Railways and the nationalized electricity and gas industries, for instance) indicates that the French inflation psychology (previously reflected in the public's desire to hoard gold) is far from being entirely overcome. On the contrary, public and private industries in France are willing to capitalize on this ingrained attitude as a means of attracting private investment funds at reasonable interest costs.

Significance of declining black-market dollar rates -- The recent reduction in the U. S. dollar rate on the "parallel market" -- although indicative of increased external stability -- cannot be overrated, either, as evidence for the hypothesis that the official rate of 350 francs is an "equilibrium" rate.

First, use of franc notes purchased at this rate is strictly limited. The rate applies to French banknotes bought by tourists in France, and to French banknotes purchased in the United States from New York dealers; these dealers smuggle them from France (via Switzerland) at a rate which corresponds to the Paris "parallel market" rate less shipping expenses and dealers' profits. Banknotes purchased in the New York market are used only for tourist expenditures and for illegal capital transactions.

They cannot legitimately be used by American importers, who must settle their liabilities entirely either (a) in U. S. dollars which the French exporter, in turn, remits to the exchange control authorities and from which he is permitted to keep 15 per cent (the so-called EFAC accounts), presumably to be used for his own equipment and raw material imports from this country; or less commonly (b) in French francs credited to the account of the exporter in a French bank, purchased by the American importer at the "free market" (i.e., official) rate of exchange from an accredited New York bank.

The demand for and supply of "free market" (i.e. official) dollars, which can be used for commercial transactions, is not subject to normal market forces, either. This market is strictly controlled by the French authorities, first, by intervention by the Bank of France and the Exchange Stabilization Fund to maintain the official price within limits corresponding to the classical gold points; and, even more important, by the existing rigid import restrictions. Licensing of virtually all individual import transactions restricts the demand for dollars by French importers and thus helps to maintain the price for dollars in terms of French francs at an artificially low level.

An equilibrium franc rate could not emerge unless there were an absence of significant direct trade and exchange restrictions as well as of export subsidies or rebates. These conditions obviously do not exist today either in France or in most other countries, nor is there any likelihood that they will be restored in the foreseeable future.

Under these circumstances, what does the declining "parallel market" rate for dollars, in fact, indicate? Most important, it reflects the improvement in Paris gold prices and possibly a heavier purchase of franc banknotes, both in Switzerland and in the New York market, in anticipation of spring and summer tourist traffic in France. It also reflects more favorable expectations about the French franc generally and the resulting decline in speculation by dealers against the possibility of future franc devaluation. It doubtless mirrors less outward capital flight from France and some possible repatriation of domestic capital.

For the most part, these factors are related to improved domestic and foreign confidence in the prospects for French internal stability. While such stability is a necessary condition for external equilibrium, it does not by itself correct the basic unsolved problem of how best to meet rising foreign competition at existing French price levels.

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