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FRANCE: ECONOMIC ASPECTS

Professor Lev E. Dobriansky

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Reviewed by: Colonel P. B. Klein, USAF

Date: 17 May 1960.

INDUSTRIAL COLLEGE OF THE ARMED FORCES

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Reporter: Ralph W. Bennett

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COL. HAWKINS: Good morning, gentlemen.

Our subject today pertains to the economy in France. We have had much reference to the strength of the economy, the new economy in France, as to what lies behind the stability that General DeGaulle has enjoyed for the last short period of time. Today we have a chance to analyze this through the eyes of an American economist, a professor from Georgetown University.

It's a pleasure to welcome to the College, Professor Dobriansky, of Georgetown.

PROF. DOBRIANSKY: Thank you, Colonel Hawkins.

General Mundy, Gentlemen, the Student Body: It really is a pleasure to be back in this environment, having been here at the National War College two years ago. It's always a privilege to meet with members of the student body at ICAF, as I had even during the course of that year.

In another way I think it's very propitious for me, with my name, to come here at this time to give a talk about the French economy at the very time that a fellow Slav is more or less roaming the economy and terrain of France. I don't imagine that some of the French, in view of what they've done in deporting many of the people out to Corsica, and fearing that there may be some irritation given to Khrushchev, would go ahead and actually play on jokes, although the French humor should, I think, be

expressed. I could just visualize what might happen if some Frenchman were to recall the time when a French scientist happened to hit upon a discovery. He discovered a body and wanted to have it identified. They knew that the Russians were propagating their discoveries, and they sent this body over to Moscow for identification.

After a little while the Moscow scientist, Russian scientist, replied and stated that the body was identified. "It is Attila." The French scientists were just amazed. They simply wanted a chronological identification, and the wonderful Russian scientist not only identified it chronologically, but actually identified the man himself--Attila. So they, consequently, the French economists, decided: "Well, we'll find out precisely how they managed to do this." They again sent a message to Moscow inquiring as to the methods and processes of identification.

So a while afterward a message returned from Moscow and in that message it was simply stated: "Attila himself confessed. NKVD."

I know it isn't fashionable nowadays, gentlemen, to talk in those terms, especially when we have what I personally consider an exaggerated impression of the growth of the Soviet economy and the like. But still I think that there's much room for that kind of humor.

Now, it is in a way not humorous to look at the French economy. There are many facets to this economy, many developments; and what I propose to do this morning is to in a way first show what is the importance of looking into this economy; second, to give along chronological historical lines, and yet make it brief, hitting upon essentials and given phases,

the developments, let's say, from 1914 right down to the end of 1958; and then look more intensively into certain respective spheres of this economy under the DeGaulle regime; and then, finally, a summarization as to the major dangers that still prevail, the threats that exist, and that must be met in the near future.

Now, I won't belabor the first point, namely, the importance of the French economy. Its importance is, of course, reflected in the importance of the political stability, the health, the vitality of France itself as a nation. Beyond that, France is a part, an integral part, of the NATO alliance, and, consequently, of the free world. It's quite obvious, then, that if it has a strong economic base, all of that will be ramified politically, socially, militarily, and in every other conceivable way.

But there's a second aspect which I would like to stress, which oftentimes is neglected; and this second aspect actually refers to the French economy as a study, particular for Americans--a study in what one may call state welfarism, and to see what lessons we can learn in our economy as concerns the policies that we will formulate and draw up as to decisions that we would make in connection with allocations of our capital investments and the like.

So, bearing in mind the first, the stress will largely be on the second; and I'm sure it will provoke a good deal of thought and discussion here.

Now, a few basics. As you know, in the case of France you have roughly a population today of about 44 million. It's a young population, with a decreasing category of adults. The birth rate, for the first time since

the beginning of the century, is on the increase.

At this point I think that we might take note of some interpretations of this birth rate and not simply let it go as a statement of fact. There is one professor, Professor Gennening, who has written a work on the strengths and weaknesses of the French economy; and in this work he claims that actually this increase in birth rate is basically attributable to the growing and advanced inflation that has characterized the French economy.

He claims that the Frenchmen, who have had a world-wide reputation for their uncanny propensity to save, now in the course of this inflationary drift have apparently forgotten how to calculate on the number of children in relation to their ability to afford the number of children; and, consequently, with the development of social welfarism, state welfarism, all the allowances in connection with medicine allowances, health, education, and the like, the Frenchman knows that he can depend on these allowances and social security benefits and not worry too much about the magnitude of his family unit. Well, that may be. I think there is a grain of truth in that, in addition, of course, to the resumption of the vitality in French society.

The labor force is a sturdy one, of approximately 20 million people; and of that 7 1/2 million are women. A good part of it is absorbed industrially--35 percent--close to that, about 20 percent, in the agricultural realm; and then in commerce 14 percent, and the like.

Now, between 1949 and 1956 the gross national product of France, of course, had been on an increase. The gross national product increased

in the old franc 8,400 billion francs to 20,500 billion francs, which in the new franc would be approximately 41 billion dollars, accounting for price increases in this period of roughly seven or eight years of 50 percent. I mention this because this is oftentimes referred to when we analyze the French economy. The barometer, namely, the gross national product, is pointed out; and that is supposed to indicate some degree of health in the economy.

Let us at this moment take a look at this graph (Chart 1), which is extended to 1958. This blue line here, you notice, in this period, let us say, from 1953 right down to 1958 and into 1959, is looked upon as a period of expansion, after the initial period following the war, which was one of reconstruction. You see a steady increase in the gross national product, taking constant prices, right on up into 1958. As a matter of fact, through 1959 it would be extended upward, although the rate of growth tends to be somewhat leveled out.

In connection with taxes, the tax situation is shown here too. About 50 percent of the tax revenues come out of what we call excise taxes, 25 percent out of individual income taxes. I mention this at this point because the common impression is that the tax burden upon the individual Frenchman happens to be relatively light in comparison with that in Germany, in the United States, and elsewhere. And that is entirely contrary to fact.

The fact is that in the course of this entire period, despite the increase in gross national product, the incidence of taxation has been widely extended, and the burden has been increased. So that the tax load in France

is roughly about 40 percent of the net national income, which, in contrast to the United States, is somewhat about ours.

Now, in the case of expenditures, that's another matter that we're going to have to look into, because of the budgetary problem that has confronted France in the thirteen or more years right up to the present time. About 25 percent of the expenditures are devoted to defense. An additional 25 percent are devoted to administration. Of course this includes the educational cost of the central government, which bears a good part of it.

The public debt as a percentage of the gross national product is roughly about 35 percent.

Now, these preliminary points, as I said, I introduce at this moment to give at least one conception, that here is an economy that, even in the midst of inflation, has been growing. It has accomplished a feat of reconstruction, and it has continued to expand. Many leave it at that and say: "Well, that in itself shows the tremendous recovery realized by Frenchmen."

Now, that is highly questionable; and I think that to understand the significance of DeGaulle's reforms, to understand this current period, and to evaluate the dangers, and to see whether this current period will continue into the future, it is necessary to work up, I think, a long-range perspective. We have to look backward and at the same time intensively into the present and on a combination of the two perspectives to be able to project a sound perspective for the future.

Looking at the background quickly, back in 1914 France was in a very sound position, one of the richest countries in the world, diversified in

natural resources, as it is now; had a great colonial empire; and, as I indicated, a people known for their thrift. Businesses were of medium size character. Family concerns were actually in predominance and were reluctant to sell shares or bonds. Consequently, those that accumulated their savings had to look for high-grade bonds.

Even in the case of dowries, a woman in France wouldn't think of marrying without a dowry. That necessitated the family to save, to prepare for that kind of event; and this only tended to amplify the demand for high-grade bonds.

The same thing in connection with the matter of the French attitude toward retirement-- retirement at 50 or 55, after a life of balanced individual economy, proper savings, proper expenditures, and the like.

So that as a result of this, one finds France in the aggregate in a relatively strong international political position, with balance of payments favorable, a favorable balance of trade, tourist trade very prolific, and a French accumulation, if you will, of foreign investments, receiving considerable interest on them.

In this case France, of course, was one country where international finance and politics went hand in hand. The greatest recipient of French savings was the Russian Empire. Many of you might have noticed about a week or so ago many Frenchmen holding on still to czarist bonds, hoping that Khrushchev would give some consideration to it. The point is that France did place its money in short-term markets in Berlin, in London, and elsewhere.

Now, there are some economists who look upon this entire period, starting in about August of 1914, right down to the end of 1958, as a lesson in French, in French life, French inflation--a period of 44 years of inflation characterized by eleven full- grown devaluations. So that you had change here reflecting the political changes and the changes in government over this entire period of time.

Now, I think there is a controversial point here. If one looks, if you will, at the depreciation of the dollar, let us say, from 1873 down to the present time, one will find considerable depreciation. I needn't go that far back. One could go back to 1939, and roughly about a 58 percent depreciation in the dollar. So in a sense our dollar unit over a long period of time has been steadily depreciating, and yet one wouldn't say that we are in the course, if you will, of advancing inflation.

The same thing, I believe, is true in the case of France. You would not take 1914 as a period of departure. But certainly let us say the past seven years, from 1951 to 1958, one can take and show that France has been in a state of advanced inflation.

Now, the crucial aspect in the type of comparison made here, I believe, is this: That is the attitude of the people with regard to the inflationary trend. You take, for example, in the case of Pontherey. The French had a problem in reforming their currency back in 1926 and 1928 and Pontherey was quite bold in initiating the necessary reforms. And the significant aspect was that he had the majority of the people behind him in enacting and effectuating such reforms.

However, in the case of DeGaulle one must recognize, I think, that his position is almost that in relation to Pontherey of the position of virtual dictatorship, and the attempt is to clear up the mess in the quickest time possible; but still a great deal of grumbling on the part of the French population; and I will indicate a few of the instances shortly.

So that even in his own group, the DeGaullist group, there are many, in fact, a majority I would say, who are very anxious not to strike at the roots of the problem too quickly or too boldly, and to allow for further inflationary advances.

Now, this I think is a crucial aspect in any comparisons, in any perspectives, that are drawn with regard to the French economy--the past and the present.

Now, in the 1920's, quickly then, the French found themselves in a relatively sound position; so much so that attempts were made to actually make out of Paris an international money market, in this period of void after the London money market had gone under the shadows.

That didn't work out, in view of a number of circumstances, if you will--the know-how, the experience, the exaggerated opinion that Frenchmen had with regard to the value of money--a franc is a franc no matter at what time or what period you're speaking of--and they lacked the flexibility to establish this kind of international money market.

Then, as you know, during the thirties it had its problems. Of course, the unemployment, the depression, that was as severe or protracted as here. And then following the war, with France incurring its

losses.

But it's this period following the war that brings about very significant changes in the sense that up to the present time the French have in a way lost resistance to inflation and to inflationary measures, more or less coasting along and attempting to hedge, attempting to find all sorts of makeshifts, to be able to minimize as much as possible the losses of this inflationary growth.

Consequently, as one looks in this postwar period, one has to consider a number of factors. The first is, to be sure, that since '48 you had capital formation. That is indicated, if you will, by this growth in the gross national income--a/ gross capital formation at a fairly high rate of approximately 5.8 percent. However, a relatively large proportion of this was devoted to construction, as against, if you will, to machinery and equipment.

Then, thirdly, there was a relaxation of price controls after the war, in 1949; and that led to an 11 percent increase in prices.

Following that, the government in power at the time recognized that monetary and fiscal means and measures must be taken in order to curb the inflationary drive, rather than relying on price controls and on subsidies. So one can say that surely there was an awareness of the inflationary threat, and a half-hearted attempt in the course of this period, of '48 right down to '58, to cope with it. The question is whether it was adequate, and I believe it was not.

Another consideration is, of course, the Marshall Plan and the other

forms of aid that were given. To France, roughly, through Marshall Plan channels, it was about 4.5 billion dollars. But actually the United States over a 13-year period following liberation had given much more than that to France. I would say, roughly, that it was about 10.5 billion--the Marshall aid, other forms of aid, and in addition the expenditures of our own soldiers, if you will, in France itself. And this factor must be considered; namely, the French dependence upon such aid right down actually until 1958.

So that in this period of reconstruction, French reconstruction was effected quickly. As a matter of fact, the industrial production by '53 was well above the pre-World War II level.

Now, the period from '53 to '58 is characterized as a period of expansion; and here we have the second modernization and equipment plan, from '54 to '57, designed to give impetus to many of the areas where capital equipment was lacking--in agriculture, in building, certain manufacturing industries. The attempt was to have private capital investments actually take on a greater share of this total investment. And one sees thi s by the industrial production 1956 level--the level of production about 42 percent above 1953.

In mid-1957 an attempt was made to eliminate some of the selective price controls; and that led to a 15 percent increase in the index.

But it's the inflationary background during this period that I think is of importance. You will remember that it's in this period, immediately after the war, that you had rapid nationalization of public utilities, of numerous

forms of transport, and the like. Secondly, you had a state welfare orientation--the expansion of social security and many of the welfare services; and, of course, that requires governmental outlays.

It is in this period that the matter of dependence upon subsidies rose. The attempt here to reduce the cost of living, at least as shown by our indicators, product-budget deficits, and borrowing from the banking system. And while the budget deficits are feeding this inflationary growth, attempts, as I mentioned, have been to minimize the effect of the inflation; and you get the development of escalation and the introduction and innovation in many spheres of the escalator clauses, not only in labor contracts, so that these contracts are hooked on to the cost of living index; and when that rises, there would be a percentage increase in the wage rates.

But also it spreads. It spreads to include even bonds. And those creditors that offered their savings would have and insist upon the introduction of these index clauses in these bonds. And that spread until we have by 1958 a whole system of index obligations--the attempt here to hedge, to actually minimize the losses accruing, if you will, from this inflationary bulge.

In addition to that, we find a great deal of hoarding--hoarding within France and also Frenchmen sending their profits into other areas and investing in the form of gold or channeling their savings, if you will, into securities, bonds, and also, for that matter, foreign real estate. So that the capital markets in France have been severely disrupted during this period right up till 1958.

Now, this inflation that takes place has its impact also on the balance of payments. And here too one finds a situation where the external payments of France are on an increase; and actually in a period of, say, 1956 and 1957, resulting in a loss of 1.3 billion dollars of official international reserves.

So that even with aid given by the European Payments Union, by the International Monetary Fund, and other agencies, the French find themselves in a condition where their external debts are in excess of their capacity to pay for them. This would be actually a natural phenomenon arising from this inflationary bulge.

Now, I think it is significant here to indicate that in 1958 we had, as a result of the change in government, the first sizeable, long-term bond issue being floated by the government. Not only that, but it induced a dishoarding of roughly about 170 million dollars in gold.

In mid 1958 the Bank of France reserves were less than one billion dollars in gross. But compare that with 1914, an earlier period, when on a net basis , reserves of about a billion, and then after the reforms in '26 and '28, at the beginning of the '30's, it had reserves of about 6 billion dollars.

The purchasing power of the French franc actually one-two-hundredth of the 1914 level. The significant thing here is that about seven-eighths of this deterioration occurred in the 14 1/2 years following liberation. So that when one looks at the picture prior to the reform, one find this situation:

To be sure, the industrial output on an increase, gross national product increasing; and yet the constant pressure upon prices, consumer prices, wholesale prices, and at the same time additional budgetary outlays, increasing deficits year after year, and as a consequence of that, a drawing upon the bond reserves of the Bank of France and French reserves in general to increase their imports, and also a dependence upon foreign aid.

This is not a pretty picture. It's a situation in which one has the further development of this whole attempt to avoid the inflationary effects and losses, to hedge via this whole index obligation system, and, if you will, finally an expression through political privileges engulfing the whole national budget.

Now, the reform program, then, initiated in 1958 and carried through down to the present time actually is pitched to rectify the situation that has existed up till that time. Jacques Ruef, who headed the committee and set up the main direction of the economic reforms to be taken by the DeGaulle government, I think expressed it well when he said that the French were consuming more than producing, investing more than saving, importing more than exporting, and hiding a good portion of their profits in gold at home and in assets abroad.

And that, I think, characterizes the situation that led finally to the assumption of power by DeGaulle and the initiation of his reform program.

Now, what, then, is the significant aim, or perhaps what are the significant aims of this reform program? Well, certainly and obviously,

first, to eliminate the inflationary effect of budget deficits, and to strengthen the external value of the franc.

But it's even deeper than that. It is philosophically to change the whole attitude of the French population with regard to the necessary requisites for solid and sound economic growth; to really rehabilitate the savings propensities on the part of the French; to curtail this propensity simply to seek handouts via social security programs; and to actually bring about this basic philosophical reform.

Now, whether DeGaulle's program will succeed depends on a number of things. But it is a fact nevertheless that they began tackling it in the budgetary area, both on the expenditure side and also on the revenue side. It isn't expected that they can eliminate the deficits from year to year. On the contrary, the whole intention is to reduce the deficit from year to year as much as possible.

There has been curtailment of social welfare services, veterans' pensions except in the lowest income group. However, on the other hand, projected plans for defense, for public investment and housing, have been allowed to rise. But in the 1958-59 period you have had at least an increase of about 5 percent in relation, if you will, to the 10 or 15 percent in the budgetary deficit in the preceding three years.

On the revenue side, they, of course, have taken measures to increase taxes on wine, tobacco, individual incomes, and corporate income; and an increase to be realized of about 8 percent.

So that internally the budgetary problem is being coped with; the

whole intention slowly to reduce the deficit, and hope eventually to arrive at a concrete surplus.

On the external front, as you know, the French franc was devalued in December, 1958, by roughly 17 1/2 percent. This enabled the French to join the other members of the Common Market, to work toward currency convertibility. But, in addition to that, there were the abolition of restrictions of capital transfers by foreigners, and a good deal of import liberalization.

The indexing of bonds was not lifted, but all other index obligations, or at least the index feature in such obligations certainly as wage contracts, had been eliminated.

Also, with regard to subsidies, elimination of many of the farm subsidies, having the farm units assume a greater share of their tax liability; a matter of having, of course, a slight increase in the cost of living.

So that in essence we have a public revenue which is supposed to pay for public spending--no hidden subsidies. The Bank of France is not to be used as a channel for the outpouring, if you will, of funds regardless of the stability, or consideration for the stability, of the general price level.

No tax privileges and especially evasions, and especially in the agricultural field. And a simplification of the tax system and greater equalization in principle.

All of these have produced rather striking results in this period, although, as I mentioned, the danger still exists.

The price rise has slowed considerably, as you will see shortly.

The consumer prices in the period of '59 have increased only about 3 percent over '58. They edged up by the end of '59 to about 6 percent.

The Treasury tax position has been markedly improved, making it unnecessary to make recourse to long-term capital markets and strengthening, if you will, the country's balance of payments.

The French have been allowed also to make large repayments on their foreign debt, and have been in the forefront of liberalizing imports and the like within the C. M.

The trade gap--and it has been normal in these years for an excess of imports over exports--has been narrowed; and by the second quarter of '59 actually an excess of exports over imports.

In addition to that, a large inflow of foreign exchange and also foreign investment into the French economy.

It might be noted that in December, 1959, for the first time in 30 years, the French institution, the Credit Francaise, a semi-public institution, managed to float a 50-million dollar bond in the New York money market, which is an indication, if you will, of the growing confidence in the ability of the French to eliminate this mess and to settle their house in order.

Now, quickly let us take a look at some of the indices in the industrial field. (Chart 2) You have had an increase, naturally, along with the increase in the gross national product. As I indicated, the industrial output, the blue line here from '53 on, had increased right up till '58. Then, along with other countries, you had, of course, in '58 a relapse; and then

the continuation into 1959 and right up to the present time. So there was a definite rebirth of industrial activity in '59, and the continuation of that into this year with the growing stabilization that one finds in France.

The 1959 figure, for example, the index based on 100 of '52, at 168. In September of '58 it was only at 150. And it shows in the increases in steel production, in the machine tool industry, for example, not even being able to maintain or cope with the increasing orders.

In addition to this, I'd like to go on into the area of agriculture. Now, this is an area where the French government will have a great deal of trouble. It's been evident in the past month or so. In this area, as I mentioned, the French agriculture had been, just as in our case, succored by the government, the tax imposition has not been too great over these years; and, in addition to that, a guarantee of farm prices.

Now, the main difficulty here is, of course, that the French farmers have been accustomed to this and look forward to the continuation of guaranteed prices, and would like to continue the indexing system. This has been eliminated by the French government and as a result of the uproar, some of the protests, mass protests, in northern France and to some extent in southern France, the government apparently for the reconvening of Parliament next month is entertaining some degree of price support of French agricultural products; but is unwilling to go as far as the French General Federation of Farmers would like it to go.

It will submit a long-term program to meet this problem, which will involve technical training, financial help, improving the farms, and,

as I indicated, some degree of price support.

Last year there was a dry season, which affected the output of agricultural products, and as a consequence it showed itself in an increase in prices. But the whole attempt on the part of the government will be, of course, to keep these prices as low as possible.

Looking into the area of foreign trade, and first the matter of exports. (Chart 3). Here one finds--it's not shown here for '59--but one can see the steady growth over this period until the '58 period of French exports. However, in relation to imports an unfavorable balance of trade being shown. It is in this period here that exports have been on the increase and into this year, so that a favorable balance of trade has emanated.

Looking at the area of French imports (Chart 4) during this period, we can see a rather erratic development throughout the period, and certainly in '58 a very sharp increase.

Now, this, of course, helps in connection with consumer goods prices having these imports come to France and as a consequence depress the prices--and ordinarily they would be--or the export volume. Oh, I'm sorry. Let me reconstruct that (putting on a different slide). In this area here, '58, we have it shown as equally erratic. Now, of course, in comparison with the other, you have your increase, if you will, at the end of '58, and it continues into '59.

Now, the attempt on the part of the French government will be, it seems, to continue to emphasize the increase, if you will, of its favorable balance of trade; to stimulate investments into France; and to have a

considerable inflow of foreign exchange. And I think it is significant that last year again you had a conversion, if you will, as I indicated before, a conversion of circumstance with regard to the international reserve holdings of the Bank of France--now on the black side rather than being in the red.

Now, just quickly a few other areas. In the transport sphere, as you know, the auto production has increased immensely over the one million mark, and has entered into the export field. Exports to the United States in '59 over '58 increased by 44 percent. The French now have become the third ranking automobile exporter in the world, after West Germany and Britain.

You have Air France modernizing and acquiring last year the 707 intercontinental jet, and using it for service between Paris and New York.

In the railroad field, a modernization toward electrification but still definitely a long way to go.

In the shipping field, however, the facts are not entirely bright, as a result, if you will, --and this is an old story of the boom and bust, and this is the third time, in '59, where last November about 35 freighters have had to be placed on a standby basis. The French government looks to the future period of actually transferring or having a redirection of about 12,000 shipyard workers, out of a total of 40,000, into other fields.

In the case of tourism, the year 1959 turned out to be the best year, as a matter of fact, since the war--in terms of visitors and in terms of money received. The situation for this year will look even brighter, and every effort is made to build up this invisible export item.

Now, it's in the distribution field that there is brought up a structural problem that the French economy must cope with. It's a situation, I think, that one doesn't exaggerate when he says that here, with the modernization within industry, the intention to meet the problems of rapid economic growth, the French still have a distribution system that clings closely to the nineteenth century pattern.

The situation here being one of undue centralization in the market in Paris and, as a matter of fact, in some instances you will find that produce from corners of the country being processed through Paris will wind up for consumption very close to the point of origin. And the attempt here will be to regionalize the centers and to produce a greater amount of distributive efficiency.

Now, the attitude on the part of the French policy makers, I think, is in line with one of its basic aims--to rehabilitate, to actually revivify, the test of the market, rather than having these arbitrary decisions being built up in this inflationary context that has prevailed. So much so that the intention of the government is really to subject the income receipts and, if you will, the general economic activity to the test of the market; so that there wouldn't be the anomalous situations, let us say, in Paris, in which this occurred in '58, where the income on the part of French barbers, who happened to be in surfeit, increased two times more than the increase in the general price level, despite the fact that in Paris you have a surplus of barbers, whereas when you look at teachers, you have a shortage of teachers, and yet their prices had lagged behind.

This is just one indication, in addition to numerous others, of the disequilibria that have been built up in the economy and must be rectified so that price of labor will reflect the true labor costs, labor efficiency, and the same in the area of distribution.

Those who, like LeClerc, for example, are going to set up a series of retail outlets, selling approximately 20 or 25 percent lower than what one could get at the numerous groceries that you have in one block, will produce that kind of price competition that the government is seeking in order to rectify these disequilibria.

If we may continue into the area here of wages and purchasing power (Chart 5). Wholesale prices, you will see, which showed from '55 on a steady increase right up into '58, and then a slight lowering there and an increase again; and, as I indicated, a moderate increase during '59.

In the case of consumer prices, one finds here likewise the French, the blue line, a very steady increase '57, '58, and again into '59, but on a more moderate slope in the '59 period.

Now, in summarizing this, there are, of course, other aspects--the Algerian situation and the like. But if I have conveyed this pattern, I think, in this case we can't but be impressed by the whole attempt on the part of the DeGaulle government to stabilize the price level as much as possible, even if it means at some cost of industrial slow-down, to eliminate all of the makeshifts that have been built up in the course of this so-called period of reconstruction, these disequilibria; and it has taken its course in that area by eliminating the index obligation system for the

largest extent, and by infusing the market test in many areas.

But what are the serious problems that lie ahead? Well, first, of course, the matter of being able to curtail further pressure upon prices. It succeeded in a moderate increase in prices during 1959. The question is whether it will be able to do so this year.

That brings us to the second point and that is the restraint shown by labor, by industry in its price policy making, and also in agriculture. Whether that restraint on the part of these groups will be perpetuated into the future. There are many that have definite doubts as to whether that can be obtained.

A third would be, of course, the relationship of imports to exports. Will this favorable relationship continue, especially if you have an expansion in the economic activity within the country? And in this case there is the possibility that imports will be increased due to domestic demands which in turn are built up on the basis of further expansion in the economic activity of the country.

In the next few years, as a fourth point, taking the balance of payments, will the French balance of payments continue to be favorable, when we see that it is confronted by the burden of heavy short-term debt repayments, in addition, if you will, to a servicing of about 2 billion dollars in long-term obligations?

Fifthly, the French, like other countries, have their problems of growth, just as ours. Will they be able to maintain this balanced economic growth, or will political pressures, pressure groups, notably agri-

culture, and also possibly labor, be able to thwart the governmental intention to rectify these disequilibria?

Will there continue to be the dishoarding on the part of the French? That depends on the ability of the government to maintain the strong new franc.

The structural problem I have mentioned in connection with the distribution system.

So that, in conclusion, gentlemen, as one looks at the French economy, I for one feel that the attempt here on the part of the DeGaulle government has been to strike at the roots of the problem--this matter of the build-up of these disequilibria at the same time that French industry, due to heightened productivity in the past year, or two or three years, I should say, has increased by 7 percent; previously by 3.

Now, the measures that have been taken should reduce the burdens that have been imposed upon French industry and certainly curtail the increase in per-unit cost, which will enable French industry to enter, as it has been doing in the past year, but into the future, into the foreign markets. So that French prices may have contact, if you will, with the world markets.

Internally, it will mean also a decimation of the bureaucracy that has been built up within government. And when one stops to consider that actually government contributes to about one-fourth of the economy in the way of employment and through its nationalized industries. The intention has been expressed to denationalize to some extent. To what extent the government will be able to do that will depend largely on circumstances, and, of course, the measures to be taken will be expedient.

So that, looking to the future, if they are able to subject the economy to the market test, I think we will have further growth in the stability of the French franc, its external value, and an increasing solidity with regard to its economic base. As a result, it will, as it has been showing for the past year, become one of the forerunners with regard to further liberalization within the Common Market, and also in relation of the Common Market to external space.

I hope that at least some pattern has been given. I have tried to incorporate all of the facets as much as possible. I thank you.

COL. HAWKINS: Gentlemen, the Professor is ready for your questions.

QUESTION: Sir, could you tell us to what extent this resurgence of the economy in France is related to the Common Market integration scheme?

PROF. DOBRIANSKY: Well, to some extent, of course, the Common Market contributes to this resurgence. But there's an interplay here--the French contribution to the growth of the Common Market, which I think I said has been very significant in terms of liberalizing and eliminating the import duties between members of the Market. And in addition, the French, in contrast to others, attempting to liberalize their contacts with the external.

So that one finds that the imports and exports--I have the figures here--of France are to a very significant extent within the Common Market. So that the Common Market really does contribute to this. But actually, as you know, it's long overdue--this economic integration within Western Europe. It's what you might call the development of a regional economy,

such as ours, fundamentally. Despite the fact that our economy is within the nation, it has a regional character. It's a well-balanced agricultural base, industrial base, and the like. And when that comes to fruition, it will only contribute further to the French economy.

I might finish by saying that I think that is one of the great things that might self-feed; namely, the continuance of this resurgence not only of France, but within the other six nations in the Common Market. And when one compares statistically this entire area with our Communist opponents, it's a very impressive comparison.

Add to that our own economy and really you have the comparison of a giant with a pygmy. I for one have always contended that this manner of comparing the American economy with the Soviet economy is like comparing, if you will, a chimpanzee with an eel, in that they are incomparable. One is an empire economy and the other is a national regional economy. The better comparison would be to take the entire Communist empire and simply restrict yourself to the free world alliances; and I would even say, take the present output of the whole of Western Europe and the United States and you will see it far overshadows the Communist area. France will be making its contribution to it.

QUESTION: Sir, you said the French are having to cut back on some of their social services, under DeGaulle. Will you please compare the social services that the French have with the social services that we have, and projecting our new social security business now to providing hospitalization for the aged? In other words, are we getting as much compared

to them?

PROF. DOBRIANSKY: I'm just trying to recall the figures on that. I would't say that. Actually, of course, it all depends. If you are one that feels that welfare should only be instituted through governmental means, and set up your shopping lists of necessaries and health and medicine and the like, the likelihood is you might say: "Well, it's insufficient" and that we should have expansion of it. But I would say, in drawing the comparison here, that they tend to have more relatively speaking in the course of this period than we, and that there's greater dependence, and has been, upon the voluntary insurance systems and voluntary channels.

QUESTION: Getting back to this Common Market, the Communists have hinted that instead of helping the anti-Communist alliance, the Common Market is doing it harm, in that it is breaking them down into two parts; and as a consequence our strength in Western Europe is weakened rather than strengthened. Would you care to comment on that?

PROF. DOBRIANSKY: The only comment I could make on it is that I hope that Mr. Dillon will continue in his good efforts without showing discrimination to one or the other, and attempt eventually to minimize the present possible friction between the Outer Seven and the nations within the Common Market. I mean, that's a thing that would have to be worked out by ear pretty largely, but I am hopeful that it will come about.

QUESTION: Getting back to a former question, there are a lot of people in this country who have a desperate fear that we are marching too rapidly along the socialistic road and that eventually we will wind up with something comparable to what the Communists have, and that in the process

of fighting them we invite them in the back door. We have seen in England a reversal of some of their socialistic endeavors, and now you point out that France is doing likewise. Does this indicate that there is a built-in brake, so to speak, or limitation to the degree of socialization which you can impose upon a capitalistic system?

PROF. DOBRIANSKY: Well, sir, that's a rather complicated question, because it presupposes a number of things, and one thing, of course, is your definition of socialism. I would say that a safe definition of socialism would be an economic situation in which you have centralized direction of production and distribution.

Now, to that extent, if we, let us say, expand our welfare services by the Government, although you must always recognize that there is a tremendous area of welfare in the private field, and we oftentimes forget that. As a matter of fact, estimates have it that the welfare expense through the private channels, through corporations, companies, and the like, in the way of pensions, retirement plans, medical care, and the like, actually exceeds that of a few billion through our Department of Health, Education, and Welfare.

Now, there are those, of course, who contend that we should continue to expand our public welfare and strike at what you might call the lowly estate. I don't think that as our economy increases and expands, and this type of expenditure expands, you will have any danger of socialization. That's a matter of degree. Even Bob Fed, for example, was looked upon as an arch conservative. Yet he himself recognized the need for Federal expen-

ditures in the South, and didn't have any fear that that would put us on the road to socialization.

I think there should be a pragmatic approach, as indeed it will be in fact. Don't get the idea that despite the intention to resurrect, to rehabilitate, to revitalize a free market economy, they are not going to maintain their social security setup and heavy public investment in many areas along those lines. They will continue. But the matter, as I said, is one of pragmatism, and our orientation should be this: that if it cannot be adequately done by the private sphere, and it is almost impossible to, let us say, do it through such channels, then recourse should be made to the public. In that way I think we should never have any fear.

On the other hand, if you had, as in the case of France, this psychological makeup--and we do have expressions of it. You have heard people speak of the problems of peace. All right. Immediately set up a peace agency--this predisposition to solve problems by simply setting up a bureaucratic unit and being subjected to what we call Parkinson's Law.

So that with that definition of socialism that I suggested--and I think it could be fortified argumentatively--there would be no fear of that in anything that you might have in this country.

QUESTION: Based on the gross national product per capita in France, how is the income spread? Have there been any changes, like there have been in the United States, in the last 30 years, where we had a growing middle category, as opposed to maybe 30 years ago, when we had a great number of the higher level?

PROF. DOBRIANSKY: Well, an equalization process similar to ours, equalizing in the sense of no limit and heavy imposition, if you will, upon industrial areas and investment of those earnings in the industrial areas, businessmen and the like and the wealthy--you could see that, of course, the evidence immediately of this whole development toward the hoarding that has characterized this period, and the export of capital has been considerable, the flight of capital, in order to avoid this taxation.

But it has hurt the little man. In an inflationary period the little man is hurt likewise, despite the increase in the purchasing power of the French worker. His purchasing power has increased, but, as you say, has not increased glaringly.

So that the development there is very similar to what we have here. In our country, as you know, there are many--and, I think, quite rightly--who contend that we must have a revision of our tax system, at least of the surtaxes, in order to build up the further incentives for capital investment. The attitude there, that it's taking risk, is similar in that respect.

So that there will be changes in the tax structure--some of the changes which have been made--which will contribute, not necessarily to a marked disproportionate income, but an ability to build up savings for capital, and consequently continue to build up the tremendous middle class, which France has now.

QUESTION: Khrushchev is running around France making pronouncements about the possibility of the militarism of Germany coming up again and threatening France. We had someone on this platform who told us

that these two old men were all that more or less held France and Germany now as friends. Is there any latent animosity, do you think, of significance between these two countries? And, if so, what effect is that going to have on the future economic relations between them, and is that good?

PROF. DOBRIANSKY: Well, in that case, of course, with regard to the French populace and all that it lost in the two wars, there's no question that there is that element of hatred and perhaps faar. But it isn't a thing that has come out in the open. The French among themselves, as you know, at the time of the establishment of the Common Market, and at the time of the establishment of NATO, have debated this themselves, as to, well, bring in Western Germany into NATO. Isn't there a fear of or a prospect of military resurgence?

But, fortunately, that has been pretty much in the rear, as you said, latent; and the whole inclination in the economic sphere has been toward cooperation. We have that also in the military sphere, which is good, and in the political.

As you indicated, naturally Khrushchev is attempting to stir up or augment this latent animosity, and to sow his seeds of doubt between these two regimes. But I don't see any likelihood of it at all. As a matter of fact, in the economic sphere the cooperation has been uncanny between the French and the Germans; and the French are looking forward to a further expansion and a heavy inflow of German funds into France.

So the economic sinews are being tightened, and I think that augurs well. Mr. Khrushchev certainly will not cease in trying to divide the two.

But I certainly don't agree with that opinion that you referred to.

QUESTION: Will you discuss the probable impact on the French economy of the oil discoveries in Africa?

PROF. DOBRIANSKY: Very favorable. Of course, in and of itself. I mean, it will not produce any marked growth; but the discovery of oil in Africa will save the French several hundreds of millions of dollars in terms of their oil consumption.

Of course, all of this is light oil, and the French consumer by and large depends on heavy oil. But they will use it not only for domestic purposes, but largely for export. So that would be a contributory factor to its further growth.

QUESTION: I read the morning paper rather hurriedly today, and if I read it correctly, presumably Mr. Dillon yesterday had some reserve concerning our active support of the Inner Six. In trying to seek the reason for this, I recall a speech that we had just recently here to the effect, talking about Commonwealth preferences, that this is really an excuse rather than the real reason for getting France and England together; that there was a real basic exclusion between the two of them--among other reasons, preferences for certain types of colonies of France. My question is, Do you see the Six and the Seven getting together in time as one entity?

PROF. DOBRIANSKY: That's almost a duplication in a sense of a question raised here. I do. But it will depend actually on the steps taken, the role that Dillon and our own government play in it. I don't think that it

would serve that purpose to discriminate in favor of one as against another. But in the area of real possibility, if this is done with the common understanding that any serious split among them is going to affect all of them in terms of the common threat, I think that these problems will be worked out.

COL. HAWKINS: Professor, I believe we've run out of questions. On behalf of the Commandant and the students, I thank you for coming down and being with us today and giving us a very learned discussion on the French economy. Thank you.

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