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France: Hudson study — an election argument

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Adjustment in trade matters will be as difficult as the reform of the international monetary system. Threats by the US Administration to cancel international trade agreements and to introduce again import surtaxes and quotas, if the EEC and Japan will not help the USA in its effort to bring the balance of trade and payments to equilibrium confirm President Nixon's readiness to pursue a hard line during the forthcoming negotiations. Whether this strategy, which stands in contradiction to his statement in September 1972 that progress in international trade relations will only be possible in the framework of equilibrium and cooperation, will bring about the desired reform in international trade within a shorter period of time, is an open question. But in the light of past experience in the field of world monetary reform, President Nixon's trade strategy is at least understandable. crm.

Italy

Permanent Crisis

The Italian economy did not have much cause for rejoicing last year, too. The GNP admittedly rose by 3.1 p.c. — against 1.5 p.c. in the preceding year — but the growth lagged far behind the 5.5 p.c. average attained in the sixties. As far as prices are concerned, the rate of increase was such as to take Italy from the middle of the field to second place. The Andreotti Government has not gone beyond threatening control measures and freezing some prices which the state had however already had power to curb. Employment has fallen by 2.8 p.c. and is down to the 1965 level, and unemployment is at 3.7 p.c., the highest recorded in Italy in the last 15 years.

The balance of payments is once more in deficit and constitutes another crisis element. For this the outflow of capital is responsible. Borrowings abroad, a larger surplus on current account as compared with the preceding year and traditional foreign exchange measures made up for part of the outflow only. The Government at the end of January drew the consequences from this development by dividing the foreign exchange market into a commercial and a financial sector and allowing the exchange rates in the latter to move freely. At the end of the monetary crisis in February it decided upon a de facto lira devaluation by letting the currency float.

The structural variations inside Italy and the structural weaknesses of certain industries are the main reason for the economic — and also political — crisis in the country. Another are the strikes and general strikes frequently called by the trade unions which are an important reason for the flight of capital from Italy. Besides, there is an inclination among trade unions to have private enter-

prises transferred to state ownership and keep them in existence without alteration of their structure. The Andreotti Government seems to be left with little time to master the crisis, for it may soon have to make room for another Government. kw.

France

Hudson Study — an Election Argument

In time for the French elections an expert opinion has been prepared on behalf of the French Government of which however excerpts only have so far been released. The French economy according to this study has the best chances for the future next to the Japanese. In 1980 France will be among the four richest countries of Europe (together with Sweden, Switzerland and Denmark), and the French will be as wealthy as the citizens of the USA are today while Germany will reach this point only in 1990. France will surpass the Federal Republic not only in per-capita income — in absolute terms France will also overtake the West German economy in 1985.

It can hardly be denied that France has more growth potential for its GNP than the Federal Republic. The population of France will increase from 50.8 mn (in 1970) to 57.6 mn (in 1985) while that of the Federal Republic — 60.7 mn (in 1970) and 62.0 mn (in 1985) — will be more or less stagnant. French growth can also profit more than the German one can from structural changes. As opposed to these advantages however there exist real impediments. France has to cope with tangible arrears in various sectors of the infrastructure, such as housing and hospitals. Nevertheless growth will be faster in France than in the Federal Republic — at least until 1980. The OECD forecasts for France a growth rate of 5.7 p.c. up to 1975 and then 6.1 p.c. until 1980; it puts the German growth at 4.6 and 5 p.c., respectively.

It is however rather doubtful whether this difference will really give France by 1985 a higher income than the Federal Republic. In 1969 the French GNP of \$ 142 bn was already close to the West German figure of \$ 154 bn. After the currency adjustments the Federal Republic in 1971 had a GNP of \$ 208 bn (in constant dollars) and France of \$ 163 bn. If the forecast is based on the 1969 figures, France will certainly overtake the Federal Republic from 1980 onwards, but on the 1971 figures the Federal Republic will remain in the lead (with \$ 292 bn against \$ 286 bn). Seeing that the DM is more likely to be revalued than the franc, the GNP ratio may yet change further. That no mention was made of such crucial facts suggests that the French Government in its information policy selectively stressed the positive aspects which should be regarded primarily as an argument for election purposes. ste.