

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## INTERIM REPORT OF THE WORKING PARTY ON THE CONSULTATION WITH FRANCE

1. The Working Party was appointed by the Intersessional Committee at its meeting on 28 June 1957, at which it took note of the modifications introduced by the Government of France on 17 June in its régime of import restrictions and considered that these modifications constituted a substantial intensification within the meaning of paragraph 4(b) of Article XII. The French Government was therefore invited to enter into consultation within thirty days as required by the provisions of that Article.

2. In accordance with the instructions given to it by the Intersessional Committee (see IC/SR.32, p.4), the Working Party met, under the chairmanship of Mr. L. Cozzi (Italy), on 16 and 17 July in Paris to initiate on behalf of the CONTRACTING PARTIES the consultation with the French Government. In the course of the consultation, the Working Party heard a statement from the head of the French delegation the text of which is annexed to this report (Annex II), as well as statements of members of the French delegation on the various points covered in the "Plan for Consultations under Article XXI:4" (Annex I). A summary of these statements is appended to this report (Annex III). Annex IV contains a memorandum, subsequently supplied by the French delegation, on internal financial and fiscal measures taken by France, and Annex V contains statistics, supplied by the French delegation at the request of the Working Party, showing the balance of trade in 1955 and 1956 with different currency areas. The Working Party heard also a statement from the representative of the International Monetary Fund to the effect that the IMF had completed the preliminary stage of its 1956 consultation with France and that it expected that the results of that consultation and the related documentation would be transmitted to the CONTRACTING PARTIES in time for the Twelfth Session.

### Nature of the Balance-of-Payments Difficulties

3. The Working Party noted that, according to the figures given by the French delegation, the deterioration in the balance-of-payments position of France in 1956 had been principally due to a substantial increase in the trade deficit, the deterioration on the trade account amounting to about \$810 million. It noted further that, during the first six months of 1957, the situation had

continued to deteriorate, as compared with 1956. The Working Party agreed that exceptional circumstances such as the effects of frost on the import requirements for and the export availabilities of cereals were one factor tending to cause the deterioration in the balance of payments, but noted that these circumstances did not appear to be sufficient to account for the total deficit during 1956 or in the early months of 1957. The French delegation stressed, in this connexion, that although the direct effects of frost on the French balance of trade in 1956 did not exceed about \$300 million the psychological effects of frost and other accidental factors were probably greater in France than they would have been in any other country. It recognized, however, that the French Government deliberately tried to maintain the rate of expansion of the productive capacity, even though this might involve some temporary decline in its foreign exchange reserves. It was pointed out by members of the Working Party that the French balance-of-payments difficulties appeared to be of a domestic origin, the disequilibrium being caused by a general expansion of internal demand. It appeared that the rate of expansion aimed at in the policy of the French Government and the consequential rate of rise in the standard of living were higher than could be afforded by the available resources. The French delegation, while admitting that the task of reconciling the balance of payments and economic considerations was a difficult one, noted that the French Government had to take into account the psychology and the traditions of the French public.

4. According to the statements made by the French delegation the prospects for the longer-term future appeared to depend on the sound expansion of industry, for example in agriculture and the chemical industry. In this connexion, some members of the Working Party pointed out that the French Government should ensure that this expansion of production would be conducted in a context of free competition and without artificial assistance on the part of the public authorities. The expected expansion in the agricultural field and in particular in the exports of cereals was a source of concern for certain delegations. The French delegation indicated that the French Government did not contemplate to foster an artificial expansion of agricultural production and export, but to encourage a shift in production towards products such as meat, which could be produced competitively in France. As regards wheat, some time would be needed before reconversion to other types of production took place, but there was no intention of developing an increased export surplus of cereals.

5. It was also pointed out that the development of the chemical industry in France, in particular the production of synthetic or artificial textile fibres, might create difficulties for countries exporting natural fibres. The French delegation explained that the intention was not to stimulate artificially the production of such fibres, or to reduce imports of natural fibres, but simply to stabilize such imports at their present levels while providing French consumers with the choice of such fibres similar to that enjoyed by consumers in neighbouring countries. These synthetic materials, such as fibres and rubber,

would be utilized by exporting industries and it would not be in the interest of the French economy if they were produced at non-competitive prices or qualities. It was noted by the Working Party that the objective was not the only thing of interest to other governments; the means employed to achieve that objective were also of importance. The French delegation thought the fact that the French economy would have to be adjusted in the near future to fit into the broader framework of the European Economic Community would make it impossible for the French Government to encourage non-competitive production.

#### Alternative Measures to restore Equilibrium

6. The Working Party noted the statements made by the French delegation concerning the internal measures which had been introduced in order to restore the equilibrium in the balance of payments and the measures which have been taken by the French Government since 1955 to improve productivity and export capacity. The Working Party was of the opinion that it would be in a better position to examine these problems when it had before it the documentation to be supplied by the International Monetary Fund. The points on which members of the Working Party would welcome further information included the extent to which the French Government was prepared to bring down internal demand to levels more compatible with the resources of the country. It would also be useful for the Working Party to have an estimate, in more precise and quantitative terms, of the cumulative effects of the measures already taken by the French Government to restore equilibrium. Doubts were expressed by several members of the Working Party as to whether the measures taken would enable the restoration of such equilibrium within the time-limit of eighteen months as contemplated by the French Government, and the question was asked whether the French Government was prepared to introduce further measures if the measures now in force proved to be insufficient to achieve that purpose. The French delegation indicated that the French Government would have to consider this question when the 1958 budget was prepared on the assumption that the French economy would be stabilized next year on the level reached by the end of 1957.

#### Nature and Scope of the Intensification

7. Several members of the Working Party pointed out that the Special Temporary Compensation Tax which the French Government had introduced at the time when certain imports were liberalized was inconsistent with the GATT and should be withdrawn. In reply the French representative thought that there had been no change in the application of the tax as a result of the new import restrictions and that its continuance might not be a particularly appropriate matter for discussion by the Working Party. The French Government suggested that this tax could not be treated as a purely commercial measure. After further discussion, the Working Party noted that under the terms of a decision of the CONTRACTING PARTIES at their last session (BISD, Fifth Supplement, pp.27-28),

the French Government was expected to submit a report on the tax by 1 September next. This report would be examined by the Intersessional Committee which would then decide how further consideration of the matter should be handled.

8. The Working Party felt that the complexity of the import control system made it difficult to see clearly how it would work until the amounts of the quotas became known, and the view was expressed that, although the intention of the French Government was to reduce discrimination, the new system might introduce new discriminatory features. The French delegation agreed that the position would become clearer when the announcements concerning the import programme became available; it pointed out, however, that the new system would not be modified as far as contractual commitments or autonomous quotas were concerned. The main changes were that the ex-liberalized products would be covered by "global" quotas. As far as "Programme A" products (raw materials, basic agricultural products and certain equipment goods) are concerned, the quotas would be open either (a) for OEEC and other EPU countries and those in the transferable franc area, or (b) for these countries and the dollar area countries. As regards Programme B imports (consumer goods, semi-manufactures, agricultural products and equipment goods) the quotas would be open to all the countries from which the goods could be imported without limitation prior to 18 June.

#### Effects on Trade

9. The Working Party noted that for raw materials and certain equipment which were regarded as covered by "Programme A", the imports would be limited to about 545 billion francs for the second half of 1957, as compared with actual imports of 600 billion francs in the second half of 1956, and that for the commodities included in Programme B, the average reduction would be of the magnitude of 30 per cent. The figure of 545 billion francs was arrived at after considering the needs of the French economy and the stock position for the individual commodities, whereas the reduction with respect to Programme B was a result of a uniform rate of reduction on the various categories of goods, which would bring down the total imports under that programme to the 1955 figures.

10. It appeared difficult to estimate the effects of the new measures, particularly for raw materials, on the different currency areas, as the wider use of "global" quotas, including those for various currency areas, would give a wider choice of sources of supply to the importers and commercial considerations might affect the geographical distribution of suppliers. It should be added, however, that insofar as contractual commitments had been entered into, there would be no change in the legal position or in the amount to be imported.

11. With respect to the maintenance of discriminatory measures vis-à-vis the dollar area, it was pointed out that the French Government might find it advisable to husband its limited exchange reserves in allowing its importers

to buy in the cheapest market, irrespective of the currency of settlement. The French delegation pointed out that the discrimination would only exist when goods were available under the same terms from two or more currency areas but that the reasons which justified the maintenance of such limitation before 17 June were still relevant at the present time. The products under Programme B for which imports from the dollar area will be admitted were listed in the Notices to Importers issued in the course of February 1957.

12. Some doubts were expressed by members of the Working Party concerning the adequacy of the measures taken by the French Government to conform to paragraphs 2 and 3 of the code of "Standard Practices" approved by the CONTRACTING PARTIES in 1950. Some members of the Working Party drew attention to the difficulties which had been experienced because it had not been possible to give any assurance to their exporters that due regard would be paid to legitimate trade contracts. The French delegation pointed out that as regards goods a substantial part of which had been paid for or was covered by an irrevocable letter of credit, they would have been covered by an import document at the time of the payment and that no problem should arise. As regards goods "en route", the Customs Authorities have been instructed on 1 July to clear them if the accompanying transport documents gave sufficient evidence that the goods had been shipped before the date of suspension.

13. As regards prior contracts or orders for which no licence had been issued, the position was more difficult. The French Government were concerned to make provision for the admission of such imports, provided that the contracts were bona fide. No difficulties were expected as regards raw materials, in view of the nature and habit of the trade. For other products, the French Government expected that the adoption of a system similar to that applied satisfactorily by the United Kingdom authorities would permit them to determine whether an import contract was bona fide. The statements made by the French authorities should provide the necessary assurance that the French Government would take due account of the legitimate interests of the exporters. Applications for licence related to prior contracts would receive priority within the limits of importers' quotas for the second half of 1957 fixed on the basis of previous performance. The French Authorities would also take into consideration the needs of seasonal trade, as well as individual cases of hardship in the application of the 50 per cent rule.

14. Several members of the Working Party wished to draw the attention of the French Government to the practical disadvantages of issuing licences valid for only three months instead of six as formerly. The French delegation stated that the Government was prepared to consider issuing new licences on a six-month basis. As regards the licences issued prior to 18 June, it would be desirable for the imports covered by such licences to be effected as soon as possible, in order to determine as early as possible the needs of the French economy. In any case the French authorities had already been considering hardship cases on an individual ad hoc basis.

15. The members of the Working Party wished to have further information on the part to be played by the Technical Committees in the consideration of applications for licences. The French delegation indicated that from a legal point of view, the rôle of these Committees, which was actually limited to the consideration of imports covered by Programme B or under trade agreements, remains unchanged, but that in effect they would have a limited part to play as a consequence of the introduction of the system of global quotas and of the distribution of licences among importers on the basis of a representative period. The task of these Committees would be confined to certain questions such as the granting of quotas to newcomers.

16. The attention of the French Government was drawn to the desirability of communicating to the other contracting parties the text of the administrative measures which it might take for the purpose of implementing the import programme. Such a communication would give them some indication of the spirit in which the principles set forth by the French authorities in their communications and statements to the Working Party were in fact being applied.

#### Concluding remarks

17. The Working Party considers that the preliminary exchange of views which has taken place between the French delegation and the other members has been very useful and has enabled it to have a clearer view of the French economic and financial situation. It was particularly gratified in having the opportunity of discussing in a free and frank manner all the points covered in the plan for consultation with the high officials whom the French Government had designated to participate in these discussions, and it was confident that the views expressed by the members of the Working Party would be taken into account by the French authorities in the framing of their future policy. The French delegation expressed its appreciation of the frank and co-operative spirit in which the consultation had been conducted and assured the other members of the Working Party that their views would be duly transmitted to the French Government.

18. The Working Party is, however, of the opinion that because of the time limit imposed by the provisions of the General Agreement, this preliminary exchange of views could not be considered as having covered the entire field. The Working Party had not yet received from the International Monetary Fund the necessary documentation on the nature of the balance-of-payments difficulties of France or its views on the remedial measures so far taken. The information so far available did not entirely dispel the doubts which some members expressed on certain major points. It was not clear for instance whether the remedial measures applied or under consideration could be expected to restore equilibrium within a reasonable time limit. Some members also felt that the French Government was pursuing various objectives which might be

difficult to reconcile and that the French internal policies might not take sufficiently into account the effects which they might have or fail to have on the French balance-of-payments situation.

19. The French delegation had given to the Working Party detailed information concerning the import policy to be followed in the immediate future, but in the absence of the relevant details of the import programme, the Working Party felt that it was difficult for it to have a clear picture of the operation of the new policy. It would therefore be necessary for it to examine at a later stage the details of that programme when it had been approved by the French Government, and it might be more useful to resume its discussion when this programme had been in operation for some time.

20. The Working Party recommends that the consultation with France which has been initiated should not be considered as having been concluded and that it should reconvene in the autumn of this year, when fuller documentation is at its disposal. The Working Party would then complete the consultation and submit a final report.

ANNEX I

PLAN FOR CONSULTATIONS UNDER ARTICLE XII:4<sup>1</sup>

I. Circumstances leading to the intensification

1. Changes in exports and imports.
2. Changes in other external receipts and payments.
3. The resulting changes in gold and foreign exchange reserves.
4. Effects of governmental policies on the balance of payments.
5. Prospects for the future.

II. Alternative measures to restore equilibrium

6. Internal fiscal and monetary measures to preserve or restore equilibrium (see Article XII:3(c)(1)).
7. Long-term measures, e.g. to raise productivity and export capacity, to reduce structural disequilibrium or rigidities.
8. Measures expected to have more immediate effect on the balance of payments.

III. Nature and extent of the intensification

9. Categories of goods affected; changes in quotas and treatment of goods for which no quotas are provided.
10. Treatment of exports from different countries or currency areas; increase or reduction in discrimination.
11. Level of restrictions resulting from the intensification in relation to the need for restrictions (see Article XII:2(a)).
12. Expected duration of the intensified restrictions; possibility of alleviation or modification in the near future.

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<sup>1</sup> This Plan, adopted by the CONTRACTING PARTIES for consultations under the second part of the first sentence of paragraph 4(b) of Article XII, was originally annexed to the Tenth Session Working Party Report on Balance-of-Payments Restrictions (L/465, BISD, Fourth Supplement, pp. 44-45). A slight modification has been made in item 14 to take account of the "Standard Practices".

IV. Effects on trade

13. Expected changes in imports as a result of the intensification (total and from different currency areas).
14. The avoidance of unnecessary damage in accordance with Article XII: 3(c)(iii), including steps:
  - (a) to alleviate hardships by admitting goods which have been en route or which are under firm orders placed before the intensification<sup>1</sup>;
  - (b) to preserve the normal channels of trade, through admitting token imports, avoiding total prohibition, etc.
15. Steps taken to reduce the protective effect of the restrictions.<sup>2</sup>
16. Effects of the restrictions on particular commodities of interest to individual contracting parties.

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<sup>1</sup> cf. paragraph 2 and 3 of the code on Standard Practices for Import and Export Restrictions and Exchange Controls adopted by the CONTRACTING PARTIES in 1950.

<sup>2</sup> cf. the report on The Use of Quantitative Restrictions for Protective and Other Commercial Purposes, adopted by the CONTRACTING PARTIES in 1950.

ANNEX II

Statement by the Head of the French Delegation

It is hardly necessary to tell you how sorry I am that my first direct contact with GATT should arise from the intensification of import restrictions which the French Government had to impose about a month ago. Such measures are unquestionably harmful in their effects. From the economic angle the country which has to impose them often suffers more than those countries which are affected only in one sector of the external trade. In my view, however, the present case has one comforting feature: unlike what happened five years ago, the present balance-of-payments crisis in France is due less to an excess in consumption than to an economic expansion drive which may be considered as basically sound, although its pace has perhaps been too high. It may, therefore, be said that to a large extent we are dealing with a form of "growing pains" which will right themselves: for if the investment drive has temporarily upset the balance of payments, it will itself lead in the not too distant future to an increase in exports which will make it possible to restore the shaken balance.

From a strictly economic point of view, the French experiment could have been pursued, in my opinion, without major risks, since the temporary conversion of part of the monetary reserves into capital goods is a good thing if the capital goods acquired make it certain that the previous levels of reserves can be restored within the near future. Unfortunately, the monetary reserves of France proved inadequate, in part because speculative moves inflated the normal rate of imports. The French Government, therefore, had to intervene not only to put an end to speculative buying but also, unfortunately, to reduce for a time the normal supplies of the country to the level demanded by the decline in monetary reserves. In view of the depletion of these reserves, the balance-of-payments equilibrium had at all costs to be restored. Restrictive measures had to be taken. Our experts will explain to you the details of these measures, and I shall merely expound to you the main lines of the action decided on by the French Government.

A conservative estimate of our exports and a careful evaluation of the results of our non-commercial transactions leads to the conclusion that France cannot possibly have available more than 650,000 million French francs to finance her imports in the second half of 1957. To achieve equilibrium it would, therefore, have been necessary to reduce the overall import figure to that level. This is what we have endeavoured to do. Taking account of the fact that imports of some essential raw materials have been unduly high during the first six months of the year, we thought we could appropriately authorize for the second half of 1957 an import figure well below current requirements. Currency appropriations for this category of imports could, therefore, be substantially reduced to 545,000 million French francs as against an actual import figure of 600,000 million in the second half of 1956. There was, therefore, available for all other items a global figure of about 105,000 million French francs.

Now, imports of these items during the corresponding period of 1956 represented about 180,000 million French francs. The reduction, therefore, would have been very substantial and could have caused serious harm both to international trade and to the French economy, where unduly restrictive measures might well bring about a recrudescence of protectionism. In these circumstances the French Government felt it had to take a decision which, from the strictly financial point of view, is no doubt open to criticism. It decided to find the currency resources necessary to meet a voluntarily accepted deficit of no less than about 50,000 million French francs for the current six-monthly period. In other words, the authorized import ceiling was raised from 650,000 to 700,000 million French francs.

This made it possible to alleviate the effects of restriction on two essential points. On the one hand it seemed fair not to allow the weight of the restrictions to fall on those countries which had not previously benefited from the liberalization measures which are now being suspended, at least to the extent that we had trade undertakings with these countries. As far, therefore, as such countries are concerned, nothing will be changed. On the other hand, restrictions on imports of formerly liberalized items other than raw materials do not represent a reduction of more than 30 per cent as compared with 1956. This reduction will in any case be the same for all manufactured articles whether economically essential or not. Thus, globally speaking, imports for the second half of 1957 will be only 11 per cent below imports for the second half of 1956. The bulk of the economies achieved in the conditions I have described will in fact affect raw materials. As a result of the solution adopted, the discrimination which existed in the past between those countries to which French liberalization measures were applicable and other GATT countries will be reduced, because the restrictions will on the whole be felt only by the former group. Furthermore, restrictions upon imports of formerly liberalized items will involve no discrimination between countries to which liberalization measures were previously applicable, because such imports will in future be subject to licences which can be used in imports from any of the countries concerned.

It may be that certain countries which have not benefited from previous liberalization measures might gain some advantage from these changes. This too appears to us fair, when it is remembered that these countries did not in the past enjoy the benefits conferred upon the others.

As I said before, our experts will explain the details of the specific methods to be followed in applying the principles which I have just outlined. But I do not wish to conclude this brief statement without a few words on future prospects as I see them.

International agreements - and I have in mind the commitments which France has undertaken within the framework of OEEC and of the Rome Treaty establishing the European Economic Community - allow France a maximum of eighteen months to restore the system which existed before de-liberalization. Experience shows

that such a period is not unduly long, so true is it, unfortunately, that balance-of-payments equilibrium recovers more slowly than it deteriorates. I must tell you why it nonetheless seems to me that this period is realistic in this case. First of all, it can be hoped that in the course of the next eighteen months there will be no such exceptional circumstances as those which during the last eighteen months have caused an increase in the French trade deficit; the bad harvest of 1956, for example, increased the deficit in France's balance of payments by 100,000 million French francs; and as I said before the imports of the last twelve months though doubtless excessive in themselves, give us reason to expect that they will make their own contribution to the restoration of equilibrium. While the inflation of certain stocks will make it possible to reduce imports of raw materials in the forthcoming months, the excess in investments, if excess there be, will bring about a more rapid and a proportionately greater increase in our exports.

Lastly - and I would like to say with our English-speaking friends, last but not least - there is a psychological factor which in my opinion should not be underestimated. It must be admitted that France has a time-honoured tradition of "Colbertianism". It takes a great deal of time to alter such deep-rooted traditions, but for my part I feel that in this field France is moving very fast. Enlightened public opinion is now aware of the fact that Colbert and his followers, whether European or not, belong to the past. And in this radical change which is occurring in French public opinion the Rome Treaty is certainly not without its influence.

ANNEX III

STATEMENTS BY MEMBERS OF THE FRENCH DELEGATION

A. Statement by Mr. J. Mayoux,  
Deputy Head of the Commercial Policy Service,  
Directorate of Foreign Economic Relations

In order to evaluate the present balance-of-payments situation in France, it may be useful to consider its development in the last few years. In 1951, the balance of accounts showed a deficit of approximately \$900 million. In succeeding years, the gradual increase in exports and the provisional continuation of import restrictions brought about a temporary recovery of the balance of payments which, in 1955, showed a surplus of about \$275 million. Within a period of four years, the balance-of-payments situation therefore improved by about \$1,200 million.

This satisfactory development was mainly accounted for by the trade balance, which passed from a deficit of \$770 million in 1951 to a surplus of \$90 million in 1955 - a total gain of over \$850 million. Non-commercial settlements, composed mainly of freight, tourist trade and expenditure in French territory by foreign governments, accounted for the remainder of the gain during those four years. Other budget headings developed rather unfavourably. Thus, between 1951 and 1955, foreign exchange liabilities incurred by the franc area overseas grew by about \$100 million. In addition, during the same period, capital transactions increased and caused a growing drain of monetary reserves, particularly in 1955 as a result of the repayment by the French Government of several loans.

Thus, in 1955, the balance-of-payments situation was satisfactory and gold and foreign exchange reserves stood at a high level; at the end of that year, the reserve holdings of the Exchange Stabilization Fund (Fonds de stabilisation des changes) and of the Bank of France amounted to approximately \$1,900 million. Attention should nevertheless be drawn to the fact that this amount included about \$400 million annually of United States Government assistance.

The balance-of-payments situation gradually deteriorated in the course of 1956. The trade balance fell from a surplus of approximately \$90 million in 1955 to a deficit of about \$810 million in 1956. Non-commercial items of the metropolitan balance of accounts, i.e. transactions other than those for goods and capital, showed a similar trend; while in 1955 these items produced a surplus of \$517 million, they showed a surplus of only about \$125 million in 1956. As there was not much fluctuation in other items, the total balance-of-payments deficit (\$890 million) is therefore close to the deficit in the trade balance. The deterioration in the balance of payments was accompanied by a

marked drop in foreign exchange reserves amounting to about \$730 million, and by an increase of about \$120 million in indebtedness towards EPU.

The external financial situation has shown no improvement in 1957. On the contrary, taking into account the EPU settlement of 10 July for June transactions, the deficit for the first half of 1957 is greater than the deficit for the whole of 1956. However, it has been possible to reduce the drain on monetary reserves, largely through credit amounting to some \$390 million granted by the EPU and the International Monetary Fund.

A detailed study of the factors making up the trade balance must be based on customs statistics, which are somewhat higher than the data concerning imports used for the balance of accounts since they are calculated on the c.i.f. value.

On the basis of customs statistics, the deficit of the trade balance rose from \$230 million in 1955 to \$1,180 million in 1956. An analysis of trade shows that this increase of \$950 million in the trade deficit has resulted mainly from a rise of about \$530 million in the deficit for trade in raw materials and semi-finished products. The 1955 surplus in trade in foodstuffs gave way to a deficit; the loss can be estimated at \$300 million. In the finished products and consumer goods sector, the surplus fell by about \$120 million. As sales of consumer goods fell by only \$20 million, the decrease resulted mainly from a drop in the net surplus of exports of finished products for industrial or agricultural use.

One of the essential causes of the deterioration of the balance of payments is the rapid increase in the demand for energy, raw materials, semi-finished products and equipment goods which has resulted from the very rapid development of the French economy. The increased debit balance for imports and exports of these items accounts for about \$600 million of the total rise of \$950 million in the trade deficit. Imports of agricultural products, which in 1956, drew some \$300 million from reserves, were another factor contributing to the deterioration.

It should, however, be pointed out that the 1955 trade balance was affected by a number of exceptional factors. In 1955 following two years at a relative standstill, production began to expand in the other West European countries earlier than in France. That is why part of the raw materials produced in France were exported instead of being consumed on the domestic market. Exports of coal, which are normally worth about \$100 million dollars, were almost doubled in 1955, but fell again to \$105 million in 1956. The same trend occurred in steel and foundry products.

French industry is a large-scale importer of raw material, but in the second half of 1956 this characteristic became increasingly pronounced owing to the urgent demands of the textile industries which till then had little or no share in the general expansion.

Imports of equipment goods showed an increase parallel to the rapid growth in production; while imports of various machinery (SITC 716) had increased by about \$25 million from 1954 to 1955, the following year saw an increase of \$65 million.

In view of the French economy's efforts to expand and increase investment, the French Government decided to postpone for the time being any increase of its foreign exchange reserves, in order not to hamper development, and so as to permit many branches of industry, which had lived in a closed circuit for thirty years, to re-equip themselves before having to face foreign competition. The Treaty establishing the European Economic Community in fact made such a policy essential. In line with this policy of encouraging modernization in certain sectors, and not only because of moral commitments undertaken in international agreements, the French Government announced new liberalization measures in April 1956, at a time when it was obvious that the severe winter which had just ended would inevitably cause a severe drain on monetary reserves. Although this policy did not provide for the deterioration in the balance of payments which actually occurred, the Government was nevertheless prepared to allow foreign exchange reserves to fall, if that would result in expanded production and a rationalization of industrial and agricultural activity. From the social point of view, such a reform could not take place in an atmosphere of contraction, the more so since it was necessary to avoid hampering the fundamental change to a dynamic economy and to the more liberal trade policy which was developing among business directors and in public opinion in general. Furthermore, it should be noted that domestic action in France has relatively little effect on foreign trade relations because the proportion of foreign trade to gross national production is not as great as in certain other countries.

The unfavourable development of the French economy was made more acute by several chance circumstances, as has already been mentioned. The severe frosts during the winter of 1956 caused heavy losses in foreign exchange, amounting to some \$300 million. Imports of wheat, which in 1955 amounted to \$45,000, rose to \$118 million in the following year, while exports fell from \$139 million to \$52 million. Imports of vegetables almost doubled from one year to the next, and fruit imports increased by about one-third. The severe winter of 1956 not only reduced agricultural production, but also caused a rise in certain prices, and consequently in the cost of living. The Government therefore imported large quantities in order to stabilize prices.

The events of the second half of 1956 also affected the balance of payments by causing a rise in the price of imports, resulting from the increase in freight costs which made itself more clearly felt in the early months of 1957. These two accidental factors had other unfavourable effects. The rapidly increasing deficit on foreign account made the future of liberalization uncertain again, and led to purchases for speculation and for stocks.

The rise in the rate of imports since the beginning of 1957 results mainly from the expansion of production, speculative and reserve purchases and, incidentally, from the rise in freight costs and the changed sources of supply for petroleum products. In the first half of 1956, the c.i.f. customs value of imports was \$2,060 million; for the corresponding period of 1957, the figure was \$2,650 million. A remarkable feature is that there was an increase for almost all items, and particularly for energy. On the export side, progress from one year to the next was perceptible but slower. Exports rose from \$1,560 million in the first half of 1956 to \$1,750 million during the same period of 1957. Exports of manufactured goods account for about \$140 million of this increase. It should be noted that, for the first half of 1957, the trade balance deficit was \$900 million, while it only amounted to \$1,200 million for the whole of 1956.

As far as prospects for the current year are concerned, the Government hopes to develop sales abroad, particularly of engineering products and cereals. It is, however, difficult to estimate the level of exports, since this depends on the general level of economic activity, the relative evolution of prices in France and abroad, and the possible effects of the tightening of quantitative restrictions. In its import programme, the Government has tried to take into account unused permits of which the total value is several hundred million dollars. This indicates that the tightening of restrictions will not have an immediate effect on arrivals of goods. Petroleum products have already shown a marked improvement; purchases in June were down by 20 per cent in volume and by over 30 per cent in value compared with May.

With regard to long-term prospects for the balance of payments and measures to increase productivity and export capacity in France, it should be recalled that, since 1955, the Government has planned a series of long-term measures to increase exports. There is a planning body for the future development of the French economy. This body the "Commissariat Général au Plan", does not control all industrial and agricultural activity, but provides for the allocation of investments and provides facilities for finance. First among the sectors for which an improvement is planned during the next five years is agriculture. The Government's policy is to encourage the trend of agricultural activity towards animal products, and in particular it is hoped that exports of meat will be doubled. Increased sales abroad of agricultural products could yield \$300 million in foreign exchange. In the energy sector, there has been considerable expenditure for research and investment; the results have been quite successful, and it is now accepted that imports of energy will be stabilized after 1961. A whole series of measures have been taken to reduce imports of raw materials, including rubber and organic chemicals, and it is hoped to reduce them by about one-quarter in the next five years. After 1958, current investment will permit a reduction in imports of chemical products; in particular the working of the Lacq oilfield will make it possible to export sulphur, which France has at present to import. It is anticipated that the increased use of man-made fibres will lead to a reduction in the present rate of increase

in imports for the textile industry. Another factor which will serve to strengthen the balance of payments will be the more intensive development of mining resources in territories within the franc area, especially of deposits of bauxite and copper and iron ore. Finally, it is hoped that the electrical and engineering industries, which produce many competitive items, will be able to develop their sales abroad, and that the automobile and aeronautical industries will continue to use their productive capacity in order to increase their exports, as they have done recently.

B. Statement by Mr. C. Gruson,  
Director of the General Service for Economic and Financial Studies,  
Directorate of the Treasury

The French Government has taken various internal budgetary and monetary measures in order to restore the balance of payments. In the budgetary field, several long-term economic factors account for the tendency for public expenditure to grow, a tendency which has been noticed since the end of the war. One important reason for this growth is the large increase in population which has led to expansion of the public services and a rise in expenditure for public education for social security and for investment in key industries. A high rate of capital formation is necessary because of the considerable arrears in investments which have accumulated since before the war; it has now been possible to achieve a satisfactory rate, and investments are at present double what they were before 1939. Finally, the programme of exceptional military expenditure in Algeria is an added burden on the national budget.

Public expenditure has increased rapidly in recent years, and in 1956 a marked deficit appeared for that heading. Measures taken in the past few months have brought about a considerable reduction of this deficit. Whereas the authorized budget for 1956 amounted to 4,215,000 million francs, the 1957 Finance Bill made provision for the expenditure of 4,465,000 million francs. This amount was first amended to 4,634,000 million francs, then reduced to 4,498,000 million francs in accordance with the measures to restore equilibrium which have been taken by the present Government. Total expenditure has therefore been reduced by about 150,000 million francs.

The economic and financial recovery plan now being applied should produce 150,000 million francs of new resources in the second half of 1957; this amount will result mainly from an increase of one-tenth in the rate of the company tax (26,000 million francs), an increase in the domestic tax on petroleum products (71,000 million francs), an increase of 20 per cent in stamp duties and registration duties (10,000 million francs), and an increase in the rate of the purchase tax (taxe sur la valeur ajoutée) on certain products (18,000 million francs). In 1958 these fiscal measures will produce approximately 300,000 million francs of revenue for the Treasury.

The reorganization undertaken in the field of taxes and budgetary expenditure has reduced the fiscal deficit for 1957 by 350,000 million francs. Since in 1951 the Treasury deficit<sup>1</sup> was 995,000 million francs, and it has now been reduced to 863,000 million francs for 1957, a decrease of 132,000 million francs, it can be said that great efforts have been made.

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<sup>1</sup> The Treasury deficit should not be confused with the budget deficit. In France the Treasury plays the part of a banker of considerable importance (400,000 million francs in 1956). In this matter the Treasury is only an intermediary. It should also be noted that the budget includes as expenditure the financing of productive investments.

The French authorities have also intervened in the credit field. In recent years the increase of permanent capital has exerted pressure on the balance of payments, and the Government has therefore tried to reduce the financial holdings of business firms. As a first step to restrain credit, the minimum percentage of resources which banks must place in Treasury bonds has been raised from 21 to 25 per cent. The Bank of France has also decided to reduce the rediscount ceilings by 20 per cent in two stages of 10 per cent each, the first to take effect after the June settlement and the second after the July settlement. In addition, the Act of 26 June 1957 has freed the Bank of France from the obligation to take up without limit bonds issued by the Treasury in respect of the floating debt maturing within at most three months. This new provision will give the Bank of France greater freedom of action to control the monetary market. Finally, the bank rate has been raised and the system for discounts beyond the ceilings has been modified, in order to avoid any circumvention of the tighter monetary measures.

In addition to these new credit provisions, specific measures have been taken, in particular with regard to hire-purchase transactions. The National Credit Council (Conseil National du Crédit) has increased the stringency of existing controls on the financing of these transactions, by limiting the total credit which finance companies may grant to eight times the total of their own funds. The percentage of the price for which credit may be granted has been reduced from 80 to 65 per cent, and the maximum term of credit facilities has been reduced to fifteen months for motor vehicles, furniture and certain current consumer goods, and to twelve months for other goods. Parallel with these measures, the "Chambre syndicale des Agents de Change" has raised the minimum cash cover required for forward purchases of securities from 20 to 30 per cent.

What will be the effect of this reorganization on the balance of payments? An examination of the problem shows that a large number of French markets have little contact with the outside world and that in those cases where there is contact, it frequently exists only at the stage of semi-finished goods or raw materials and not at the stage of finished products. Consequently, a reduction in domestic demand has less effect in France than in countries with a free-trade tradition such as the United Kingdom and the Netherlands, and exports can therefore be increased and imports reduced only by a very large drop in domestic demand.

The Government has nevertheless endeavoured to prepare as detailed a statement as possible of the expected effects of a reduction in permanent capital, in the demand for consumer goods and in the requirements of the administrative authorities. Household expenditure is mainly on foodstuffs which, with the possible exception of meat, cannot be reduced so as to make a surplus available for export. The situation in the equipment goods sector seems more favourable; the domestic machinery market has good contacts with foreign countries, and this industry has already had considerable success in export markets. In order to give new vigour to the export drive, it is essential to slow down the formation of permanent capital. But it is precisely on the maintenance of a high level of investment that the possibility of restoring a lasting equilibrium to the balance of payments depends. Therefore, if the Government takes premature action concerning that sector of domestic demand which is in close contact with foreign markets, there is a risk that present equipment efforts will be hampered; and so

the Government must be most careful over measures which affect the liquidity of firms and their self-financing capacity.

As these fiscal and financial measures are already restraining the rise in consumption and reducing the financial holdings of companies, the upward trend of productive investment will certainly be slowed up slightly in the coming months. The French Government is aware of the danger of discouraging industrialists, as this might reverse the expansionist movement of the economy and mortgage future prospects for a long time. If the economy can be stabilized at its present level, it seems possible to achieve a balance between exports and imports by maintaining the measures for tightening the monetary market.

C. Statement by Mr. A. Kojève  
Technical Adviser to the Directorate of Foreign Economic Relations  
Ministry of Economic Affairs

Since a considerable time must necessarily elapse before the results of internal budgetary and monetary measures and other long-term measures to restore the balance of payments become apparent, the French Government has been obliged to resort to measures which have a more immediate effect both on expenditure and on receipts.

The suspension of liberalization will make it possible to reduce the balance-of-payments deficit rapidly, though not to eliminate it completely. As things stand at present, the import programme allows for a deficit of some 50,000 million francs in the second half of the current year. Although the volume of imports of raw materials under this programme is considerably below the current needs of the French economy, production will not necessarily be reduced; it is considered, on the contrary, that the present level can be maintained by drawing on stocks which, in many cases, seem excessive, and which could be reduced by the end of 1957 to the level existing at the end of the preceding year. This measure would also in fact mean a reduction of stocks in relation to the volume of French production, which in 1956 showed an annual rate of growth of between 8 and 9 per cent.

As far as receipts are concerned, various measures relating to exports are currently being studied, but any action in this field would not have any appreciable effect before 1958. It can be expected, however, that there will be a considerable increase in agricultural exports compared with 1956, in which year severe weather conditions had an adverse effect. For the same reason, there is reason to hope that abnormal imports of these products will cease. With regard to receipts for services, a special effort is being made for tourist traffic, including the offer of petrol coupons at reduced price.

An average reduction in imports of 11 per cent as compared with the second half of 1956 is planned for the corresponding period of 1957. The effect of the restrictions will not, however, be the same for all categories of goods. The statistical programme which will be published in a few days' time may appear somewhat incoherent at first sight, for it makes provision for no reduction for certain non-essential products, while certain primary products are subjected to severe restriction. With regard to previously liberalized products, for instance, the same treatment is accorded to equipment goods and consumer goods. This apparent incoherence is due to the fact that the programme is not based exclusively on the actual needs of the French economy; it also takes into account international obligations and considerations of equity as well as the need not to cause undue injury to the interests of France's trading partners.

The import programme is based on three fundamental principles. In the first place, the French Government wanted as far as possible to prevent the disadvantages resulting from the withdrawal of liberalization from falling on countries whose exports had not previously benefited from the liberalization measures. For that reason, the restrictions applicable to many products from certain countries have

not been enforced, despite their limited interest to the French economy. This applies for instance to coffee. The second principle is to avoid any discrimination between one product and another in the sector which was formerly liberalized and has now again been subjected to quota restrictions. Any reduction of imports which had an unequal effect on different categories of products would inevitably give an advantage to certain countries to the detriment of others. For previously liberalized products other than raw materials, 1956 has been chosen as the base year for the establishment of the import programme, although a 10 per cent variation either way has been permitted. For these products quotas are in principle equal to imports in 1955. The third consideration has been to reduce certain stocks of raw materials, and so the volume of imports of these products has been brought below the level of actual current needs.

There has been no change in the system applicable to goods not strictly speaking subject to quota. This applies mainly to steel imports from ECSC countries, which continue to be liberalized, EFAC accounts which permit exporters to acquire essential equipment goods abroad, and the IMEX procedure which allows imports outside the programme, for re-export after processing.

The changes in the system have reduced the degree of discrimination, for they affect only the countries which formerly benefited from liberalization measures, and only apply to previously liberalized products other than raw materials. These countries and these products will in future be subject to the global quota system, that is to say, import licences will be equally valid for all countries for which the product concerned was liberalized. These licences will therefore be valid for all OEEC countries, if the product was liberalized only for OEEC countries, and for these same countries plus Canada and the United States, if the liberalization measures were also applicable to these two countries.

There is no change in the system applicable to other countries and other products, or to formerly liberalized raw materials. A distinction will continue to be made between sources of supply, according to whether they are payable in dollars or in other currency, since monetary considerations make it necessary that preference should still be given to purchases payable in currency other than dollars, at least in cases of equivalent conditions of purchase. Quotas valid for areas other than the dollar area will be global, in the sense that they may be used by importers in any of the countries which make settlement through the EPU and in any of the transferable franc countries.

Is this tightening of restrictions really necessary? From the point of view of the balance of payments, the present restrictions are inadequate, for they allow a probable deficit of about 50,000 million francs during the second half of this year. However, if the needs of the French economy be taken into account, the restrictions are too severe, since imports of raw materials will be below actual current needs.

The head of the French delegation has indicated the reasons why it is believed that it will be possible to return to normal conditions within the period of eighteen months, in accordance with France's international obligations. It should also be mentioned that from 1958 on, imports of certain products will have to be increased if France's economic activity is not to be unduly kept down.

D. Statement by Mr. R. Thomassin  
Deputy Head of the Supply Service,  
Directorate of Foreign Economic Relations

As the head of the French delegation has indicated, the objective of the French Government is to limit imports to 700,000 million francs during the second half of 1957. This ceiling represents an overall reduction of 11 per cent in imports. The tightening of restrictions will not affect imports of products under contractual obligations; it seemed equitable that the burden of the new restrictions should not be borne by countries which had not formerly benefited from liberalization measures.

The changes in the import system following the tightening of restrictions fall into two categories: (1) those which affect products for which credit accounts are opened according to needs and taking into account the stock position (Programme A); (2) those which apply to products for which quotas are established according to a base period (Programme B).

Products in the first category are divided among a number of import plans under Programme A, which will be published in a few days' time. This programme, which includes mainly raw materials and primary products, will indicate the geographical area to which each quota applies. There are four such areas: (1) the dollar area, the EPU countries and the transferable franc countries; (2) the EPU countries and the transferable franc countries; (3) the dollar area, and (4) the sterling area. Imports from areas (3) and (4) were formerly grouped in purchasing programmes. Allocations of foreign exchange for the groups of products in Programme A have been reduced considerably to a level corresponding to imports worth about 545,000 million francs c.i.f., as against 600,000 million francs of actual imports during the second half of 1956. This reduction of some 55,000 million francs, which was made possible by the existence of large stocks, has not been spread uniformly over the various products, or over a period of time. The intention is to effect a considerable reduction in imports of wool, because of the high level of purchases previously undertaken and the imports effected in the first six months of 1957; rubber, of which stocks are considerable, permit a reduction in the rate of imports; and cereals, for which the harvest prospects are better than in 1956. On the other hand, larger credit accounts will be opened for purchases of coal and petroleum products, for they are directly related to the needs of the economy. With regard to the staging of imports under Programme A over a period of time, the volume of licences granted during the third quarter of 1957 will be lower than that of the last quarter because of the present uncertainty regarding the exact level of stocks and the utilization of licences already issued.

Quotas for products included in Programme B are determined according to a base period. This programme includes all manufactured consumer goods and all equipment goods, almost all intermediary products, and most agricultural and food products which were formerly liberalized. The total amount of foreign exchange allocated to this programme is equal to the value of all corresponding imports in 1955, but the distribution of this amount among the various categories of products is based on 1956 statistics. The reduction as compared with 1956 statistics is 30 per cent for all categories, but a variation of 10 per cent in either direction is permitted in order to give the programme some flexibility. Five per cent of the total will be held in reserve, to meet unforeseen circumstances and to permit any necessary amendments to the programme during its implementation.

Separate credit accounts are opened for imports of essential goods, and no change has been made in the system previously applied.

The French Government has been careful to authorize the import of goods en route which were despatched to France before 18 June 1957, even if they were not yet covered by licence. In the latter case, the goods will be admitted upon production of the shipping documents, and the transaction will be legalized later. Instructions have also been given that applications for licences submitted before 18 June should be granted in full. The Government will grant the most liberal treatment possible to current contracts, and to the extent that these contracts are not of a speculative nature, licences under the current programme will be granted with priority. The French authorities will reserve an equitable fraction of licences under the programme for importers without prior contracts. In addition, licences will be granted to persons who, although not traditionally importers, can prove that they have a real need of certain imports.

Otherwise, there is no change in the system of restrictions which existed hitherto. The EFAC procedure will still give importers a chance to make certain purchases for which no unilateral quota has been established, or to effect imports over and above the quotas. Similarly, the withdrawal of liberalization measures will not be accompanied by any total prohibitions.

The problem of the protective effects of the restrictions only arises in the case of consumer goods and equipment goods. The system of global quotas allows any importer, within the limits of each quota, to import any product included in that category, and therefore reduces to a minimum the possible protective effects of the restrictions. In general, it should also be mentioned that, from a psychological point of view, the ratification of the Treaty establishing the European Economic Community is likely to discourage the establishment or development of activities or industries which are not competitive.

ANNEX IV

Memorandum by the French Delegation on Measures of  
Rehabilitation in regard to Budgetary Expenditure,  
Taxation and Credit<sup>1</sup>

France has to meet certain unavoidable commitments. These are due, in particular, to the great increase in the population since 1945, involving considerable social expenditure, to the increased investment necessitated by the considerable arrears accumulated since before the war, and to the need to create productive machinery which will enable the country to compete on world markets. Finally, it is of interest to recall that France, in proportion to her national income, is the country which contributes most to assisting the underdeveloped countries.

But although production has increased, internal demand has continued to rise even more rapidly as a result of the increase in private consumption and public expenditure.

The fact that a high rate of investment, which is the essential long-term condition for the restoration of our trade balance, had to be maintained, set a limit to the anti-inflationary measures which could be taken. The only means of obtaining equilibrium was to take specific and carefully assessed action in regard to both public and private demand.

The French Government has followed this course and during the last month budgetary expenditure has been reduced, the incidence of taxation increased and bank credit facilities restricted.

I. Public Expenditure and the Budget Situation

When the Government prepared the 1957 budget, it already took steps to stabilize the charge on the economy represented by the financing of public expenditure. By purely and simply refusing to renew Frs.350 billion of expenditure, the principle of which had been approved in 1956, it kept the total Treasury liability at Frs.1,050 billion as against Frs.993 billion in 1956.

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<sup>1</sup> Throughout this memorandum a "billion" means a thousand million.

	1956 Final authori- zation	1957 Finance Act
	Billions of francs)	
<u>BUDGETARY PROVISIONS</u>		
Civil Budget (ordinary expenditure)	2,318	2,408
(capital expenditure)	411	464
War damage	236	231
Military Budget (ordinary expenditure)	933	1,002
Exceptional military expenditure	317	360
Total	4,215	4,465
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Ordinary and extracrinary revenue	3,573	3,820
American aid	49	-
Total	3,622	3,820
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Budget deficit	593	645
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<u>TREASURY PROVISIONS</u>		
Special Treasury accounts	95	80
Economic and Social Development Fund	200	205
Loans to H.L.M. organizations (Building societies)	107	120
Total	402	405
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TOTAL TREASURY LIABILITY	995	1,050

As the following table shows, the expenditure proposed under the 1957 Finance Act was only 5 per cent more than in the previous financial year (apart from exceptional military expenditure in Algeria) and 7 per cent more if this expenditure is included.

At the beginning of 1957, however, it was admitted that an additional effort would have to be made, not so much to suppress unnecessary or questionable expenditure as to reduce the incidence of public expenditure on internal demand. In accordance with this anti-inflationary policy, the Finance Act provided for the blocking of Frs.250 billion of budget allocations with a view to subsequent economies.

#### The Effort Undertaken in 1957

The Act of 26 June 1957, not only created new resources (details of which are given below), but ratified the Frs.250 billion of economies to be made in respect of the financial year 1957 and gave the Government the necessary powers to effect, even before the voting of the Finance Bill, 200 billion of economies on the estimated expenditure for 1958.

To this end, the Government may limit, suspend or defer the financial incidence of any legislative or statutory provision entailing expenditure by the State or State-controlled bodies.

Henceforth, for 1957, the total Treasury liability has been reduced to Frs.863 billion, which is Frs.132 billion less than 1956.

The following table will give a better idea of the recovery made. It takes into account the readjustments to be made (as occurs each year) in the budget allocations authorized under the Finance Act; these readjustments, which are normally implemented by texts submitted to Parliament at the opening of the Autumn Session, must evidently be included in the statement of the public finances<sup>1</sup>.

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<sup>1</sup> The texts in question are already before the National Assembly.

	1957 Finance Act	1957 rectified (before rehabili- tation)	1957 (after rehabili- tation)
(Billions of francs)			
<u>BUDGETARY PROVISIONS</u>			
Civil Budget (ordinary expenditure)	2,408	2,514	2,498
(capital expenditure)	464	464	433
War damage	231	231	210
Military Budget (ordinary expenditure)	1,002	1,015	969
Exceptional military expenditure	360	360	338
Reserve	360	50	50
Total	4,465	4,634	4,498
<u>TREASURY PROVISIONS</u>			
Special Treasury accounts	80	80	74
Economic and Social Development Fund	205	205	177
Loans to H.L.M. organizations (Building societies)	120	120	120
Total	405	405	371
Total sum payable	4,870	5,039	4,869
Revenue	3,820	3,814	4,006
Total Treasury liability	1,050	1,225	863

II. Additional Taxation

(1) The extent of the effort made

The economic and financial recovery plan now being applied by the French Government involves a substantial increase in taxation. The measures adopted by Parliament should, in fact, produce Frs.450 billion of new resources during the next eighteen months, made up as follows:

	<u>1957</u> (6 months)	<u>1958</u>	<u>Total</u>
	(Billions of francs)		
- increase of one-tenth in the rate of the company tax	26	49	75
- reduction in relief and allowances for stocks accumulated in 1956	20.5	-	20.5
- reform of the system for relief and allowances for stocks	-	13	13
- increase in the domestic tax on petroleum products	71	175	246
- increase of 20 per cent in stamp duties and registration duties	10	20	30
- increase in the rate of the added value tax on certain products	<u>18</u>	<u>41</u>	<u>59</u>
Total	145.5	298	443.5

Furthermore, the recent increase in postal rates, besides balancing the subsidiary budget of the P.T.T. (Post Office Services), will produce 23 billion of additional revenue in 1957 and 56 billion in 1958.

These different measures should, therefore, provide the Treasury with more than 350 billion of new resources in 1958, thus increasing the public resources by more than 9 per cent.

Drawings on the gross national income, already at a relatively high level (21.5 per cent) in 1955, will thus be definitely increased and will amount to at least 23.6 per cent<sup>1</sup> in 1957; in only one country of Western Europe has taxation represented a higher percentage of the national income in recent years<sup>2</sup>. This percentage will increase steadily in the coming years as personal incomes rise and a correspondingly greater proportion becomes subject to the higher rate of personal income taxes.

It seems, therefore, that in these circumstances the additional taxation recently decided by the French Parliament, represents a maximum.

(2) Incidence of the tax measures on the economy

In view of their extent, the effect of the new taxes imposed by the French Government should normally be to reduce the existing inflationary difference.

In addition, the taxes have been chosen with a view to their acting on those sectors in which the inflationary pressures will be greatest. Thus, the increase of one-tenth in the rate of the company tax and the readjustment of the system for relief and allowances for stocks will reduce the liquidities of companies by 46.5 billion in 1957 and 62 billion in 1958. Companies will thereby be led to reduce stocks both of raw materials and finished products and forego useless investment.

The increase in the duties on fuels will have a serious effect on individual consumers whose available funds will be reduced accordingly. The demand for various consumer goods will be reduced correspondingly.

Furthermore, the taxes chosen should not have any direct effect on prices; the increased incidence of taxation on companies is an additional charge on their profits; the increase in fuel prices mainly affects the individual user, and not agriculture and industry<sup>3</sup>; the increase in stamp duties and registration duties will affect a very large number of taxpayers and being so widely spread should not have any effect on prices.

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<sup>1</sup>	National income	19,800 billion
	Taxation	4,673 "
<sup>2</sup>	In 1955: Western Germany	25.7 per cent
	Belgium	16.3 " "
	Italy	19.1 " "
	Netherlands	22.9 " "
	Luxemburg	23.2 " "

<sup>3</sup> The prices of agricultural fuel and fuel oil are not affected by the rise; there will be only a very slight increase in the price of gas-oil.

The new taxes will have no incidence on prices; this levy on the resources of industry and individual consumers should result in reducing domestic demand for consumer goods and purchases abroad of raw materials and investment goods, while at the same time increasing the aggregate supply of goods on the market; it should therefore have the combined effect of reducing inflationary pressures and of improving the French foreign trade balance.

### (3) Measures taken to encourage saving

In addition to these efforts in respect of taxation, steps have been taken to encourage private savings which it seems must be increased to enable expansion to continue and to obtain surplus production for export.

In the past, the conditions on the financial market should normally have led to a considerable rise in the volume of increases of capital; the large rise in Stock Exchange values encourages companies to issue new share and investors to subscribe.

However, although there has been some improvement recently, the volume of capital increases is still small, the reason for this being largely a question of taxation. The incidence of taxation is, in fact, appreciably greater on shares than on bonds.

To remedy this situation, the Government has asked Parliament for powers to grant partial relief from company tax on dividends paid on certain new shares.

The same desire to encourage savings is behind the measures taken in favour of life assurance policies and companies' investments in the formation of subsidiaries.

Similarly, the fact that the Government is now able to issue special certificates representing oil company shares should enable considerable liquid funds to be collected.

It should thus be possible to bring about an increase in savings which, together with the new taxes, should lead to the absorption of a considerable proportion of the surplus purchasing power.

### III. Measures taken in Respect of Credit

Since about the last eighteen months, the credit situation in France has tended to become very tight under the combined effect of the increasing economic expansion and the balance-of-payments deficit. In these circumstances, steps had to be taken to counter pressure by borrowers on the banks, this being one of the factors causing inflationary pressures. It is in this context that measures were taken in two principal stages to restrict the grant of credit.

The first took place in the summer of 1956; it consisted of:

- A. raising the minimum of the portfolios of Government securities to be held by the banks; and
- B. strengthening the regulations on hire purchase finance issued in July 1954.

The second series of measures was taken during the second quarter of 1957, parallel with the measures taken by the Government to restore order in the public finances.

It included:

- (a) raising the discount rate of the Bank of France;
- (b) reducing the rediscount ceilings allowed to the banks;
- (c) a further strengthening of the regulations on hire purchase finance; and
- (d) a modification of the legal provisions concerning the taking up of Treasury bonds by the Bank of France.

A. Measures Affecting the Total Volume of Credit

(1) Effect of raising the "floors" on the use of resources

The system established in 1948 compels the banks to keep a certain percentage of their resources in Government securities, this percentage being initially fixed at 95 per cent of the portfolio of Government securities held at 30 September 1948, plus 20 per cent of the increase in liabilities since that date. By the middle of 1956, the proportion of the banks' resources employed in this manner averaged about 21 per cent. On 19 July 1956, a new method of calculating the minimum portfolio of Government securities was established; this makes no further reference to the position in 1948, but compels the banks to keep a sum equal to 25 per cent of their liabilities invested in Government paper. This measure increases the resources of the Treasury and correspondingly reduces the amount of credit available to the economy.

(2) Action on the banks' resources

(a) Reduction of the rediscount "ceilings"

These rediscount ceilings which, when they were first established in September 1948, had been fixed at 185 billion, were subsequently gradually raised parallel with the increase in economic activity, and by June 1957, amounted to some 620 billion. On 27 June last, the Bank of France decided to reduce them by 20 per cent in two stages of 10 per cent each, the first to take effect after the June settlement and the second after the July settlement.

This measure will reduce liquidities and consequently the amount of credit that the banks are in a position to grant.

(b) Repeal of Article 13 of the Act of 24 July 1936

Under the Act of 24 July 1936, the Bank of France was bound to take up without limit bonds issued by the Treasury, in respect of the floating debt maturing within not more than three months. The Act of 26 June 1957 relieves the Bank of France of this obligation in the case of bonds held by the banks and financial institutions (bonds in current accounts). The removal of this obligation will give the Bank greater freedom of movement for its policy of intervening on the market, such freedom being particularly necessary at a time when a restriction of liquidities is needed.

(3) Action on the cost of credit

(a) Increase in the bank rate

The bank rate, which has been fixed at 3 per cent since 2 December 1954, was raised to 4 per cent on 11 April 1957.

(b) Change in the system for discounts beyond the ceilings

The system by which the Bank of France allowed the banks to discount beyond their ceiling has been changed. The facility of being able to discount bills up to an amount of 10 per cent above the discount ceiling at two points above the discount rate has been continued, but any bills offered and accepted beyond this limit will be subject to a higher discount rate, the amount of which will be fixed by the Governor of the Bank of France.

B. Specific Measures

(1) Action on hire purchase transactions

These measures are designed to restrict hire purchase finance and to extend the existing regulations in this matter to the actual sellers. Although the volume of hire purchase transactions in France is proportionately much lower than in many other countries, the situation called for certain limits to be set to the increase in such transactions:

(A) On 17 July 1956 the Conseil National du Crédit strengthened the measures decided in July 1954 concerning the financing of hire-purchase transactions:

(a) the finance companies were obliged to limit the total amount of their credit to eight times the total of their own funds (this limitation had, in fact, already been imposed by the Bank of France when rediscounting);

(b) the percentage of the total price for cash in respect of which credit could be granted was reduced from 80 per cent to 70 per cent on 11 April, and to 65 per cent on 27 June 1957.

(B) The maximum term of the facilities, after being temporarily increased from eighteen to twenty-one months for new motor vehicles in December 1956, in view of the difficulties experienced by the motor industry as a result of the reduction in fuel supplies, was reduced in April 1957 to eighteen months for all vehicles, furniture and certain current consumer goods, and to fifteen months for other goods. In June, together with the reduction in the percentage of the price that might be financed by hire purchase, the maximum term of such financing was reduced uniformly by three months, consequently to fifteen or twelve months, according to the category of goods.

(C) The regulations issued by the Conseil National du Crédit for the banks and finance companies financing hire purchase business were extended to the actual sellers by virtue of the Decree of 4 August 1956, giving effect to the principle laid down in the Decree of 20 May 1955.

(2) Action in respect of the cover required for forward stock exchange transactions

Parallel with the measures decided by the Conseil National du Crédit and the Bank of France, and with the same aim in view, at the beginning of July 1957 the "Chambre syndicale des Agents de Change" raised the minimum cash cover required for forward purchases of securities from 20 per cent to 30 per cent.

The budgetary and fiscal measures described above will in themselves reduce purchasing power in 1958 by:

- 354 billion of new fiscal revenue, and
- 367 billion, corresponding to the reduction in public expenditure.

If the effects of the credit restriction policy decided and applied by the Bank of France and the recent measures to encourage saving are also taken into account, the importance of the recent reduction in internal demand will be appreciated.

ANNEX V

French Regional Balance of Trade in 1955 and 1956

(Data supplied by the French Delegation)

(million dollars)

Monetary Zones	1955			1956		
	Import	Export	Balance	Import	Export	Balance
<u>Dollar Area</u>	563.4	321.4	- 242	798.8	344.5	- 454.3
<u>Sterling Area (total)</u>	1,201.5	591	- 610.5	1,282.5	509.4	- 773.1
OECEC	537	427.1	- 109.9	629.8	341.9	- 281.9
Non OECEC	664.5	163.9	- 500.6	658.7	167.5	- 491.2
<u>Other Countries (total)</u>	1,832.9	2,450.6	+ 617.7	2,302	2,291.7	- 10.3
OECEC	1,352.2	1,778.1	+ 425.9	1,724	1,762.4	+ 38.4
Non OECEC	480.7	672.5	+ 191.8	578	529.3	- 48.7
<u>French Franc Zone</u>	1,185.6	1,595.8	+ 410.2	1,320.1	1,490.5	+ 170.4