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TOWARD ONE EUROPE

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Will France Be Ready?

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LESS than 11 months from now France is required, under the Common Market treaty, to begin to dismantle the tariff and quota protection which it has set up to protect itself from spending money it hasn't earned.

Tariffs must be cut 10 per cent at the end of the year. Quotas, that is to say limits on the quantity or number of an item which may be imported in any one year, must be enlarged by 10 per cent for any one item and not less than 20 per cent of the over-all value of all items subject to quota restrictions. If the present quota is zero, a quota must be established which amounts to 3 per cent of the national production of the item involved.

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Over the years the Organization for European Economic Co-operation has been whittling away at the quota system, and under OEEC agreements its members are supposed to have freed 90 per cent of their total trade from any quotas. Before its economic troubles began last year, France had freed 82.5 per cent. Then last June it was forced to return to zero, that is to say to subject all imports to license. It has now agreed to go back to 60 per cent this coming June and at the end of the year will be required, if it is to play its part in the formation of the European Economic Community, to further liberalize its trade.

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Many people are asking how France, which already imports more than it can pay for, can begin to import more without getting even more deeply in debt than it is already. And yet the whole of the Common Market project, the vast politico-economic undertaking to which six nations have tied their future, demands that it do so.

At this point it should be kept in mind that France is a very rich country. Its industrial production has expanded in the post-war years as fast as that of any country in the world, Germany not excluded. For a number of years it had no serious balance-of-payments difficulties. What has happened since is, in the first place, peripheral and, in the second, the fault of the government.

By peripheral we mean that it is a case of the rich man who must lay up one yacht, not of a poor man who must give up meat. What the government has done is simply "create" too much money. Governments create money by running deficits, that is to say spending money they should have raised by taxation but didn't, or by allowing the central bank to discount loans of smaller banks on too liberal a basis.

If the government caused the trouble, it can stop the trouble by a change of policy. It can live within its means by more taxation or cutting expenses. It can stop its citizens spending too much at home and abroad by making credit harder to come by, and so on.

Now the present government has announced that it will do these things. It has prepared a basic law (loi-cadre) of 12 points which would put the basically sound economy in a position to meet the Common Market. Certainly some French costs (and prices) are out of line, but the Common Market only opens the frontiers a chink at a time, and there is at least 12 years to iron out the inequalities. So the big "if" is simply a question of whether this government, and those which may follow, will stick to their good, and adequate, promises.

Now here we come to some very tough behind-the-scenes talking which has been going on in recent weeks. It is known that the loans which France just obtained to give it time to straighten out its affairs were given only on the basis of a specific program of fiscal reform which was agreed to not only by the present government, but also by the leaders of all the responsible parties which still, fortunately, command a majority in the Assembly. So they are a form of national contract.

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It was purposely arranged that the greater part of the credits be granted through the European Payments Union, that is to say by France's own partners in Europe. The United States did not wish to be the one who had to talk like a Dutch uncle to the French. But in the EPU it is different. There France "got worked over with a rubber hose" by its own neighbors, as one official put it. They made it clear that they were not going to have their own futures jeopardized. Their joint economic and moral pressure is enough to force France to walk the strait and narrow. And within the EEC it can be even more effectively brought to bear.

It is now clear to the last Deputy (Communists and Poujadists aside, of course) that this is the last chance and that the alternative is national default, economic and moral. This means unemployment (for lack of raw materials) and general chaos, which is not good for re-election. The fact that the Gaillard government got through a law preventing the Assembly from voting new credits unless matched by new revenue, something which would have been unthinkable a few months ago, indicates that the lesson has been learned. It looks as if France can, and will, be ready.