

# The French Franc

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WHEN ON January 25, 1948 the French Minister of Finance released to the press the government communique on the franc, the reverberations of dropping this bombshell could be heard around the world. The excitement over the report was not confined to financial circles. Foreign correspondents, economists, commentators and editors saw to it that the general public took notice. Now, as most of the returns are in, the storm has abated. With everyone watching for the effects of the French gambit, we, too, might profitably examine its significance.

Briefly, what happened is this: the cabinet decreed, first, to increase by a uniform "bonus" of 80 per cent the rates at which the Exchange Stabilisation Fund buys and sells all moneys against francs (the new rates thereby were lifted from Frs. 119 to Frs. 214.392 for the U. S. dollar—from about Frs. 480 to Frs. 864 for the pound sterling), and second, to permit, beside this official market, a free market in foreign exchange, initially limited to dealings in U. S. dollars and Portuguese escudos.

On the free market may be sold half the proceeds of the exports (the other half must be turned over to the Exchange Stabilisation Fund against payment in French francs at its official rates), as well as all funds having an origin other than that from exports; among the latter will notably be included moneys acquired from non-commercial transactions, moneys corresponding to movements of capital into France from abroad, moneys brought in by tourists. These resources of the free market may there be bought to pay for imports of non-essentials (for the payment of imported merchandise deemed essential, the Exchange Stabilisation Fund will make available foreign currencies at the official rates) and for practically all other payments representing movements of capital from France abroad.

Complementing this action, the National Assembly, a few days later sanctioned the return of a free market in gold; along with a general amnesty in favor of French holders of undeclared foreign assets, provided they repatriate these hitherto illegal possessions and pay a fine in the form of a special tax amounting to 25 per cent of their value; and finally the withdrawal from circulation of the 5000-franc notes.

The purpose of these combined measures aims at implementing earlier fiscal and budgetary means adopted by the present administration to place the chaotic French economy on a sound and workable basis. The emphasis rests, therefore, on reforms in the domestic field: stimulating dwindling exports, in order to forestall unemployment—inviting tourist traffic—luring hoarded dollar bills and gold, variously estimated at from 1 to 2 billion dollars, into the open where they can be usefully employed, for instance helping to pay for necessary imports— attracting both exiled French and foreign capital, further to aid production—abolishing black markets and forcing the large cash operators to the tax block—and, generally restoring confidence in the franc.

Of these anticipated results, the one affecting illegal trading in dollars has been achieved overnight. The speculators in this sector are twiddling their thumbs or, as one reporter tells

it, returned to peddling French picture cards. The former black market quotation for the dollar left off in the neighborhood of 340 francs. On the assumption that the free franc would step in at this level, an exporter could calculate the proceeds of a dollar to yield him 277 francs, this figure lying exactly midway between the free rate and the official one. However, the free franc opened much lower and tentatively settled around 300. When we contemplate this point as being close to the true value of the French unit—reflecting the unrelenting law of supply and demand—the difference between it and 340 reveals its nature as that of a premium for an element of risk, the risk of the black marketer to be apprehended. By wiping out this differential, the French government scored once more, narrowing the spread from the official to the free, franc. The ultimate goal is to have the two coincide. The other expectations need be given more time to crystallize.

Money, as we recall, is whatever in any time and place is used as the common medium of exchange in that time and place. In our time and place (United States), gold, although no longer actually in use for exchanges between private parties, is at least by law the standard money material. Its unit, called the dollar, is an arbitrarily set quantity, derived from the equation: 1 troy ounce (480 grains) of fine gold = \$35.00. Hence, one dollar has the same value as 1/35 part of a troy ounce of fine gold. This figures out at 13 5/7 grains, for which the equivalent in the metric system is 888.67 milligrams. France likewise defines its monetary unit as a certain quantity of fine gold, namely 7.47 milligrams of it being the franc. Comparison of these last two magnitudes at once establishes the relative value of the two kinds of (gold) money. Such ratios are called *par* values. In our case, then, one franc equals about .0084 dollars, roughly 5/6 of a cent. Expressed the other way around, one dollar is worth nearly 119 francs.

This latter rate we recognise as the one mentioned at the outset of our inquiry. Raising it by 80 per cent, *i. e.* to 9/5, means that the dollar will now fetch 95 francs more than it used to. Viewed from the opposite angle, the value of the official French franc has been lowered to 5/9, that is to say by 44 4/9 per cent. Specifically, the reduction amounts to .00374 dollars or 3/8 of a cent, the official franc now being worth only .00466 dollars or 7/15 of a cent.

Applying our arithmetic to the free franc and the "export franc" (half official, half free), we arrive at the following:

(Basis \$1 = Frs. 119.)

Franc	Rate	Bonus	Value	Devaluation
	Frs.	Frs.	cts.	%
Official	214	95	.467	44
Export	257	138	.389	54
Free	300	181	.333	60

The reaction to the French financial *coup d'Etat* brought sharp criticism from two quarters.

The International Monetary Fund—one of the war-born Bretton Woods twins—had to object, at least formally, by the tenets of its very

organisation. Committed to a scheme of elaborate currency management, the Fund specifically was compelled to reprove the heretical member on exceeding the 10 per cent depreciation limit and on the multiple currency practice feature. We perceive at once the impracticability of the One-World-Wilkenium. The nations, especially the big ones, are simply not willing to surrender any substantial part of their sovereignty.

Antagonism of the socialist government of Britain is rooted much deeper. They fear the immediate impact on their currency and, later, competition in the world markets. This writer shares the view of those who predict that the pound sterling will, rather soon, be devalued, all assurances to the contrary notwithstanding. At the pegged rate of \$4.03, possible only with the support of the U. S. government, the pound is grossly overvalued. In the black market it is parted with for \$2.50\*. The idyll of the fictitious sterling rate has permitted the British, ever since 1939, to levy tribute on their customers to help finance first the war and after that the unfortunate Marxist experiments. A Dunkirk in this realm might well prove disastrous to the socialist majority.

American average opinion ranges from mild disdain (the tongue-in-cheek variety) to outspoken approval. What the general public questions most often, is the effect on French imports. True, their cost will perhaps double. In the over-all picture the disadvantage is presumed far to be outweighed by the plus-factors.

I hold that the present French government deserves unstinted encomium for the display of courage in facing realities. Their acute logical reasoning power could not for ever remain oblivious to the bare facts of economic life. Lulled into lethargy in 1936 or thereabouts, they are now stirring. To my way of thinking, the strongest argument in favor of the French action is found in its bearing on the European Recovery Plan. Here we discern the first sign of a strong will to self-help. Why douse it?

As every Georgist knows, there would, in a free society, be no call for such courage. This quality of mind is, though, urgently needed in a world beset with the palliatives of our "social planners" who try to supplant the natural laws of economics. Shades of Lord Keynes, of Harry Hopkins! The futility of their efforts has by now been sufficiently demonstrated. Statism, regimentation, "management" of production and distribution of wealth, have by statute, ukase, order-in-council, and presidential proclamation erected for us a tower of Babel, which to the wary eye discloses the shape of a vast inverted pyramid. One of the tenants calls for a moving-van and up goes the clamor of the settlement. My vote is cast for the French who yet may have rekindled the torch on Bedloe's Island.

\*Incidentally, when the moment of devaluation arrives, there may be afforded a gratuitous opportunity to confer the benefits of the decimal system to British money. Assigning to the shilling its old value, approximating that of an American quarter, the new formula would read:

1 £ = 10 sh. = 100d. equal to \$2.50  
 1 sh. = 10d. " " .25  
 1d. " " .025