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FRENCH INTERNAL POLITICS: CURRENT FINANCIAL AFFAIRS

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SUMMARY

1. FRANCE PRE-OCCUPED WITH REVELATIONS OF INSIDER DEALING (THE PECHINEY AND SOCIETE GENERALE AFFAIRS). POLITICAL IMPLICATIONS FOR THE STABILITY OF THE ROCARD GOVERNMENT AND FOR MITTERRAND, AND IMPLICATIONS FOR THE DEVELOPMENT OF PARIS AS A FINANCIAL MARKET.

DETAIL

2. ALL THE TALK AND MEDIA ATTENTION FOR SEVERAL DAYS HAS BEEN ON THE TWO CURRENT FINANCIAL ''AFFAIRS''

(I) THE REVELATIONS OF INSIDER DEALING ACCOMPANYING THE TAKE-OVER BY THE STATE-OWNED COMPANY, PECHINEY, OF AMERICAN CAN LAST NOVEMBER: AND

(II) THE ATTEMPTED TAKE-OVER LAST AUTUMN OF THE PRIVATISED BANK SOCIETE GENERALE BY A GROUP LED BY MARCEAU INVESTISSEMENTS AND INCLUDING THE STATE-OWNED CAISSE DES DEPOTS. THIS HAS LED TO ACCUSATIONS THAT BEREGOVOY UNDER MITTERRAND'S ORDERS MAY HAVE IMPROPERLEY USED A STATE INSTITUTION FOR POLICICAL ENDS. BEREGOVOY WAS AGAINST THE CHIRAC PATTERN OF 100 PERCENT PRIVATISATION, BUT HAD MITTERRAND NOT DETERMINED OTHERWISE WOULD HAVE BEEN READY TO CARRY THROUGH A PROGRAMME OF PARTIAL PRIVATISATIONS. THE SOCIETE GENERALE AFFAIR POINTS IN THAT DIRECTION.

WE HAVE REPORTED THE BACKGROUND AND DETAILS UP TO THE BEGINNING OF THIS WEEK (CATON'S LETTER TO BLUNT OF 25 JANUARY).

3. THE FRENCH ARE FASCINATED BY THE LINKS BETWEEN FINANCE AND POLITICS AND HAVE BEEN HAVING A FIELD DAY IN SPECULATING ABOUT THESE EVENTS. THE MAIN RECENT DEVELOPMENTS OF POLITICAL SIGNIFICANCE ARE:

- THE RESIGNATION ON 19 NOVEMBER OF BOUBLIL, BEREGOVOY'S DIRECTEUR DU CABINET WHO HAD PREVIOUSLY WORKED AT THE ELYSEE (PARIS TELNO 93). HE RESIGNED IN ORDER TO CLEAR HIS NAME OF ALLEGED INVOLVEMENT IN TIP-OFFS ABOUT THE PECHINEY TAKE-OVER.

- THE INVOLVEMENT OF MITTERRAND'S CLOSE FRIEND, PELAT, WHO ADMITS TO HAVING BOUGHT SOME SHARES IN AMERICAN CAN AND MAY HAVE BOUGHT MANY MORE THAN HE ADMITS TO.

4. IN THE LONG HISTORY OF FINANCIAL SCANDALS IN FRANCE THIS ONE HAS SOME NEW FEATURES. ONE IS THE INVOLVEMENT OF THE AMERICAN SECURITIES EXCHANGE COMMISSION, WHICH IS WIDELY SEEN HERE AS LIKELY TO LEAD TO A GREATER DEGREE OF PUBLIC TRANSPARENCY THAN IF THE AFFAIR HAD REMAINED A PURELY FRENCH ONE. THE PRESS SEEMS ALSO - UP TILL NOW - PREPARED TO PLAY A MORE AGGRESSIVE PART THAN IN PREVIOUS YEARS: THERE IS A DEGREE OF COMPLICITY BETWEEN POLITICIANS AND PRESS IN FRANCE WHICH HAS OFTEN SERVED TO COVER UP INCONVENIENT FACTS. HOWEVER RECENT CRITICISM, INCLDINGS UNUSUALLY CRITICISM OF THE PRESIDENT HIMSELF HAS COME FROM THE LEFT AS WELL AS THE RIGHT OF THE POLITICAL SPECTRUM, AND THE PRESS HAVE BEEN ABLE TO FOLLOW THAT LEAD. THE MOST IMPORTANT NEW FACTOR IS THE POLITICAL CONSENSUS SINCE 1983 IN FAVOUR OF A BASICALLY OPEN AND LIBERAL FRENCH ECONOMY AND THE DEVELOPMENT OF PARIS AS AN INTERNATIONAL FINANCIAL CENTRE. BEREGOVOY SEES THAT THE CONSEQUENCES OF THE PRESENT AFFAIRS FOR THESE AMBITIONS COULD BE SERIOUS, UNLESS THE GOVERNMENT IS SEEN TO HAVE LEARNT ITS LESSONS AND BE TAKING FIRM MEASURES TO ACHIEVE GREATER TRANSPARENCY AND HONESTY IN THE WORKINGS OF THE PARIS MARKET: HE IS THEREFORE STRENGTHENING THE ROLE OF THE COMMISSION DES OPERATIONS DE BOURSE (COB), THE FRENCH REGULATING AGENCY, AND AIMING TO CLARIFY THE RULES ON TAKE OVERS.

5. THE ELYSEE AND GOVERNMENT MINISTERS ARE NOW TAKING THE LINE THAT THEY WILL ENSURE THAT THE TRUTH WILL COME OUT, WHATEVER THE CONSEQUENCES FOR INDIVIDUALS. THE REPORT BY THE COB ON THE PECHINEY AFFAIR IS DUE ON 31 JANUARY. MITTERRAND HAS PUBLICLY INSTRUCTED THE GOVERNMENT TO PUBLISH IT IN FULL. BEREGOVOY TOLD THE FINANCE COMMITTEE OF THE NATIONAL ASSEMBLY ON 26 JANUARY THAT EVEN IF THE COB'S EVIDENCE WAS NOT CONCLUSIVE HE WOULD ASK FOR A JUDICIAL ENQUIRY. THE AFFAIR PROBABLY STILL HAS SOME WAY TO RUN, BUT, AFTER A HESITANT BEGINNING, THESE REACTIONS BY THE GOVERNMENT LOOK LIKE A SENSIBLE APPRACH TO DAMAGE LIMITATION. AND THERE IS NO SUGGESTION YET THAT THE GOVERNMENTS'S SURVIVAL IS IN QUESTION, THOUGH ITS INTERNAL INCONSISTENCIES HAVE BEEN ENHANCED.

6. SO FAR AS INDIVIDUALS ARE CONCERNED, BEREGOVOY'S APPEARANCE BEFORE THE ASSEMBLY WAS IMPRESSIVE AND HE SEEMS TO HAVE COME THROUGH SO FAR VIRTUALLY UNSCATHED. NO-ONE HAS SUGGESTED, DESPITE THE RESIGNATION OF BOUBLIL, THAT ANY PECHINEY MUD STICKS TO HIM

PERSONALLY, THOUGH HE CONTINUES TO FACE CRITICISM FOR HIS MEDDLING IN THE FAILED SOCIETE GENERALE TAKEOVER. MITTERRAND IS WIDELY SEEN AS REPRESENTING A LOFTY SOCIALIST DISTASTE FOR MONEY. BUT SOME OF THE REVELATIONS ABOUT THE COMPANY HE KEEPS CAN HARDLY HAVE HELPED HIS IMAGE. ROCARD, WHO THROUGHOUT HAS SAID ALMOST NOTHING, LOOKS AS IF HE WILL EMERGE WITH THIS REPUTATION FOR HONESTY WHOLLY INTACT THOUGH, WITHIN SOME PARTS OF THE SOCIALIST PARTY, HIS SILENCE HAS SEEMED LESS THAN LOYAL.

7. RECENT EVENTS HAVE THROWN INTO RELIEF THE CLOSE RELATIONSHIP IN FRANCE BETWEEN THE STATE AND THE WORLD OF BUSINESS AND FINANCE, AND THE MAIN VICTIM IN THE END COULD BE THE REPUTATION OF THE POLITICAL WORLD, ALREADY LOW AS SHOWN BY THE RATE OF ABSTENTIONS IN THE LEGISLATIVE ELECTIONS EARLIER THIS YEAR. THERE ARE ALSO IMPLICATIONS FOR THE SOCIALIST PARTY. THE PUBLICITY ALREADY GENERATED HAS LEFT AN AURA OF SUSPICION FLOATING OVER THE SOCIALISTS WHICH COULD HAVE AN EFFECT ON VOTERS IN THE MUNICIPAL ELECTIONS ON 12 AND 19 MARCH. IN THE LONGER TERM, THESE DEVELOPMENTS ARE LIKELY TO SHARPEN THE TENSIONS WITHIN THE SOCIALIST PARTY BETWEEN PRAGMATISTS SUCH AS ROCARD AND BEREGOVOY AND THE MORE OLD-FASHIONED REPRESENTATIVES OF SOCIALIST VALUES SUCH AS MAUROY, JOXE, AND CHEVENEMENT. MITTERRAND HIMSELF WILL HAVE TO WORK HARD IF HE IS TO MAINTAIN HIS AUTHORITY OVER THE PARTY SO AS TO INFLUENCE THE STRUGGLE FOR HIS EVENTUAL SUCCESSION.

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FRANCE: ECONOMIC REPORT FOR DECEMBER 1988

SUMMARY

- Good end of year results. Growth (3.5%) highest since 1976; unemployment drops to 10% in November; inflation only 0.1% in November (3% over November 1987) but also further trade deficit (F.3.7 billion; F31 billion Jan. -Nov.).

- Public sector industrial unrest continues. Days lost through industrial action rise steeply in 1988.

- OECD forecast predicts future French growth in line with OECD Europe average.

- Financial markets bounce back: Bourse breaks back through 400 barrier.

- 1989 Budget approved: deficit target of F100.5 billion.

- Bank of France raises intervention rate by 0.5%.

- M2 money supply target of 4-6% reconfirmed for 1989.

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DETAIL

I. ECONOMIC ACTIVITY

1. INSEE produced a bullish end year report in December, based on provisional final quarter figures. It was in line with earlier optimistic reports. Market GDP in 1988 was expected to have increased by 3.5%, the biggest increase since 1976. Industrial investment would be 8% higher than in 1987 and exports 7% higher.

2. The components of growth in the report were as follows (predictions at the beginning of the year also attached, for purposes of comparison):

(percentage increase over 1987)

	1988 (predicted)	1988 (now expected)
GDP	1.5	3.5
Imports	2.9	7.6
Household consumption	0.3	2.6
Total fixed capital formation (of which business)	3.5 (3.7)	6.1 (7.7)
Exports	2.0	7.0
Stock variation	23.3	49.6
Total internal demand	1.8	3.8

3. The report acknowledged that the improvement in the French economic performance, although partly the fruit of internal factors, owed much to external factors, namely the lowering of oil prices and the dynamism of world demand. Import and export levels had been seriously underestimated. In addition, French production, already supported by exports, was stimulated by higher than expected consumption. The consumption/saving relationship was less favourable than expected.