French economy ‘at the edge of the precipice’

By Conrad Black

There is more than the usual curiosity that accompanies news of budgetary disappointment in an important country in the case of the shambles of public accounts now under review by an all-party committee of the French National Assembly. That country’s annual deficit, which had been expected to be 4.6 per cent of GDP for the latest year, jumped to 6.1 per cent, which the newly installed conservative Prime Minister Michel Barnier, has described as a “sword of Damocles” hanging over France. Approximately €50 billion of anticipated revenue just failed to materialise. The prime minister stated that Europe’s second economy after Germany has arrived at “the edge of the precipice.” For over 20 years, France has struggled, ultimately unsuccessfully, to keep its deficit below the European Union’s individual national target of 3 per cent of GDP. France has long had a generosity of social welfare programmes that was obviously unaffordable as birth rates declined and an ever-smaller percentage of the population was producing the taxable income for an ever-increasing number of benefits-takers.


President Macron and the French economy he leads, head bowed in shame? (Photo by Remon Haazen/Getty Images)

France was one of the most vigorously compliant countries in the European Union to the restraints recommended to deal with the Covid pandemic, and this is especially blamed for inducing a lingering period of economic stagnation. President Emmanuel Macron supported massive state intervention to save jobs and businesses, promote part-time employment, and subsidise childcare leave, to attempt to cushion the economic consequences of the pandemic. The former government, composed of the president’s followers, promised to put the country’s financial house in order but, as generally happens in such circumstances, costs were higher and revenues were lower than had been anticipated. The new prime minister, who took office last month, has promised to reduce the deficit to five per cent of GDP in a year. But France is already under heavy pressure from the European Union to lower its debt, and the economic performance of the country does not at this point generate much optimism that the traditional method of trying to grow out of a deficit and a period of sluggish economic performance is realistic. France is a proverbially rich country with a proverbially avaricious population in which enthusiasm for increased means is in a continuous struggle with the ambition for increased state benefit. As the country that has long effectively been the co-leader of Europe with Germany to have been placed by the European Union administration under the first stage of a formal procedure applied to excessive national debt, is humiliating as well as worrisome.

Barnier a has announced that his government has delayed the target date for reducing the deficit to three per cent from 2027 to 2029. This naturally affects the status of French government securities and the evaluation by stock markets of French companies. The governor of the Bank of France, François Villeroy de Galhau, has lectured the country that it is “like a family living beyond its means.” This is certainly timely advice, but it is made more difficult to follow by the fact, which the governor also emphasised, that France has the same (socialistic) model of state benefit as the rest of Europe but that it is much more costly in France. This implies that there are greater personnel costs and much larger numbers of personnel dispensing public services than the average in Europe and these are precisely the types of employees who become most demonstrative and obstructive when it is suggested that they should make some concessions to fiscal necessity. The Barnier plan includes the usual recourse to increased taxes which are being presented as a temporary measure, on the 24,000 wealthiest families and on the profits of large French companies, as well as increased taxes on electricity, air travel and gasoline powered automobiles. The attempt by the regime to swaddle itself in environmental virtue is naturally being received with considerable scepticism. Also under review is a freeze of state pensions for six months next year and a reduction in support payments for apprentices. There are also suggestions of reduced compensation for medical costs and sick pay.

In France, home of perhaps the most notorious population in the advanced world for making its discontent known and unsustainable at relatively early flashpoints, this is an ambitious and hazardous course to follow. To the government’s credit, the defence budget, which was allowed to wither for many years, is proposed to be maintained at the relatively high levels that it has reached during the conflict in

Ukraine. Naturally, the left-wing parties, where Macron and his followers in the National Assembly have turned for support, rather than to Marine Le Pen's populist and partially conservative National Rally, are pawing the ground in hostility and accusing the government of trying to pile the cost of its own mismanagement on workers and pensioners. The public-sector unions in particular are already warning of "a significant deterioration in public services such as education and healthcare." This obviously portends the assertion of maximum pressure on the government that is very vulnerable in the National Assembly and is serving a lame-duck president who has substantially forfeited the confidence of the country.

On these points, in the highest French tradition of a uniform dissent from any notion of unity, regenerative energy, and sacrifice, the employers' associations also are warning of large job losses and reduction of capital investment in the event of increases of corporate taxes. The government's position is complicated by Macron's stubborn persistence in regarding Le Pen as a quasi-fascist menace to democracy and seeking cooperation with the left-wing New Popular Front which includes a large contingent of outright anarchists. Despite having cold-shouldered Mme Le Pen and her large following, the government will be dependent upon them to survive. The French Fitch rating agency, the third largest in the world, has lowered France's outlook from "stable" to "negative."

This is not only a serious problem for France, it is an ominous development for the European Union. France is the most politically influential and the second largest economic power in Europe and it has arrived at a point that could swiftly descend into substantial social and political disorder. For all its wealth, splendour, and civilization, France has the historic habit of intermittent political crises and it is not far from that now.

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