France once again becomes the 'sick man of Europe'

by Laurent Murawiec, European Economics Editor

France in the years of the Fourth Republic, 1945-58, was known as the "Sick Man of Europe," on grounds of the instability of its political system as well as of its chronically weak currency. Now that a Fourth Republic politician has assumed the powers vested unto presidents of the Fifth Republic by its founder, Charles de Gaulle, the France of Monsieur Mitterrand is making great strides toward a recovery of its former nickname.

The Banque de France is spending over 10 billion francs a month in market intervention to support the currency, and the foreign exchange reserves have dropped by nearly 20 percent in the 11 months since the Socialist sweep into power. Reserve losses reached nearly 12 billion francs—about $2 billion—last March, and the hemorrhage is aggravated by the irrepressibly growing trade deficit.

The cover rate of foreign trade (exports divided by imports) has fallen to a permanent 80-85 percent, and the trade deficit reached 17 to 21 billion francs in the first quarter (according to different criteria). This, in a highly favorable environment where the price of oil and all other raw materials dropped substantially, and where French oil purchases dropped in volume by nearly 25 percent! France has in fact imported consumer goods with the monies liberally distributed by the Mitterrand government—an altruistic, but hardly efficient handling of a national recession.

Exports went up 7.6 percent in the first half of 1981, and went down by 2.9 percent in the second half. Imports were respectively down 0.8 percent and then up 5 percent. The gap widened throughout 1981 and is continuing. Exports stagnated. For the first quarter of 1982, the volume of large industrial export contracts dropped by 10 percent, a harbinger of lower output figures for the next few months. The current depressed state of exports is chiefly due to the growing deterioration of the ability of French products to compete because of their inflated prices.

The Mitterrand regime, admittedly, never counted on export markets to be a locomotive. Domestic consumption, and the state administration's consumption of services, were entrusted with that task. Real disposable income of households dropped 0.7 percent in the third quarter of 1981, and gained 0.7 percent in the final quarter—at a time when the Socialist government was supposedly massively increasing purchasing power of the population to prime the economic pump!

Inflation has already canceled what nominal gains were granted. The lowest wage earners' purchasing power grew by 5 percent last year, but white-collar workers and professionals have suffered a sizable erosion of their income, which has now nipped off any chance, if there ever had been any, of a consumer-led recovery. Consumption is now shrinking.

Nor is investment likely to provide any relief. Social and fiscal costs for the corporate sector underwent a crushing 15-18 percent increase since the Socialist victory. Investment was up an insufficient 1 percent in the second half of 1981, and down 10 percent for the year as a whole. The national Statistical Institute (INSEE) reckons with a further 7 percent drop in 1982. Recent pro-investment measures announced by a panicked Prime Minister (including cheap credit for the corporate sector, a pause in the overburdening of corporations with new costs, backing off from legislation to bring down the work-week to 35 hours) will ameliorate, but by no means solve the problem. Profit margins and sales opportunities have been so eroded, future conditions are so uncertain, that investment remains essentially paralyzed. The state, which now controls 40 percent of potential investment through the wave of nationalizations, will push the newly-nationalized corporations to compensate for the lag in private sector investment—either at the cost of public finances, or through massive price rises. In either case, the strategy is counter-productive.

'Post-industrial' growth

Only one category of expenditure is growing, that of the government bureaucracy. One hundred thousand unproductive jobs have already been created, and the administration is consuming vast amounts of unproductive services.

GDP was up a fairly ridiculous 0.2 percent for 1981 as a whole, for all the loud-trumpeted recovery financing done by the redistributionist doctrinaires in government. The INSEE index of industrial output shows how, after a short blip due to the massive pumping of cash into sectors of the economy, the inane Socialist policy has sent economic activity plummeting:

February 1981	130
November 1981	131
December 1981	133
January 1982	128
February 1982	127
	(1970 = 100)

The lack of a sustained recovery, or even of a *status quo ante* stagnation, has resulted in an increase of 300,000 in unemployment since May 1981. Over 10 percent of the wage-earning labor force is now unemployed. Of the 600,000 school-graduates who will hit the labor markets starting next June, not more than half will find a job. By October, unemployment will reach 2.3 to 2.4 million—a socially explosive level. Worse for the Socialists, the year-to-year increase in unemployment obstinately refuses to drop much below 20 percent.

No balanced budget

The state of public finances is one of the most worrisome aspects of the situation. The last Giscard-Barre budget called for a tiny 31 billion franc deficit. Estimates for 1982 are that it will hit 140 billion. The estimates for the 1983 budget, which will have to be presented by the government by September, call for a 200 billion franc deficit—a full 6 percent of gross domestic product—and unofficial forecasts circulated in Paris suggest that the final figure might be nearer 250 billion francs, or about 7.5 percent of GDP. The large "off-budget" deficit of the National Health Service, 13 billion francs, and of the National Unemployment Insurance Fund, estimated at 37 billion for 1982 and 1983 together, foretell more trouble.

In the first two months of the year, while budget expenditures grew by 27.6 percent, total state income only went up by 11 percent; monetary creation—commonly known as printing confetti money—has provided the remainder. More recently, when Monsieur Mitterrand started to be briefed by those of his advisers whose understanding of figures, if not of economics, is in some way related to realities, he stamped his foot on the ground, and issued orders for the deficit to remain under 3 percent of GDP—a Gallic imitation of King Canute, one assumes. Inexorably, the Mitterrand regime is being led to a crossroads: either an explosion of costs, inflation, and currency devaluation, or a violent swing to brutal budget and wage austerity. In both cases, the French economy stands to lose. This is nonetheless the debate which opposes the "realist" wing of the Socialists (who militate for gradual de-industrialization and a shift to a "technetronic," "telematique" society), and the lunatic wing of *sans-culotte* revolutionary levelers.

The overall result is of course inflation, due to the weakness of the franc (most currencies are hitting their historical highs against the French currency), to the level of nominal wage increases—15 percent annually, to the money-printing methods of budget-financing, to the new cost factors imposed on industrial prices, and to the absurd level of interest rates (admittedly none of the Socialists' fault since the base rate in the pyramid of interest rates has stubbornly refused to move under 15 percent at any time in the last year). The rate of inflation had moderated in the last few months, down to 11 percent, but the latest figures for March indicate an end to this easing: the annualized rate of inflation is now 15.4 percent.

Mortgaging France

The trade deficit, the budget deficit, the inflation differential with major trade partners, the large-scale withdrawals of funds by international investors (France now loses 20 billion francs of reserves a month on trade account and market intervention), and the increasing recourse to large-scale foreign indebtedness (while the medium- to long-term purchasing power of the franc is dropping) will mortgage larger and larger parts of the national wealth. The central bank is losing reserves accumulated in the last two decades of productive expansion, and will probably soon start to mortgage the gold component of its reserves. Swiss banks have been attracting much of the flight capital so dearly paid by the national accounts in the form of currency depreciation—and they will, ironically, be able, at a later phase of the crisis, to buy the productive assets of the French economy at a greatly devalued price.

In 1789 and the few years of chaos that ensued as a year-long process of financial destabilization of France reached its climax, the Swiss-controlled Girondins, the shock troops of Marat and Danton, failed to push through the international, imperial dreams of their Geneva paymasters. The British financiers decided that France had to be destroyed, and the *sans-culottes* in their pay did the job quite effectively. France in the 1980s is faced with the same predicament under its present Socialist government. A mere few months' time now stands between the French economy and the outbreak of an explosive crisis.