GlobalResearch
Center for Research on Globalization

France: €360 billion to bail out the banks

By Antoine Lerougetel
Global Research, October 21, 2008
WSWS.org 20 October 2008

Region: Europe
Theme: Global Economy

With minimal debate, the French National Assembly endorsed the government's €360 billion rescue plan for the banks, a massive transfer of public funds to the financial elite, by a majority of 224 to 23. It is part of a coordinated €2.7 trillion action by the governments of the euro zone (15 countries whose currency is the euro) and Britain. The governing UMP (Union for a Popular Movement) was supported by the New Centre and the MoDem (Democratic Movement of François Bayrou). The Socialist Party (PS) and the Greens abstained and the Communist Party (PCF) voted against.

Forty billion euros are earmarked for recapitalising failing banks by buying up their shares and assets. The remaining €320 billion are a pledge to guarantee inter-bank loans. Finance Minister Christine Lagarde has claimed that the plan would not affect the budget. This implies heavy borrowing, increasing the already bloated public debt, which, currently at above 65 percent of GDP, is well over the European Union stability pact's 60 percent norm.

The rapidity with which the government has found cash for the banks in contrast with the reluctance to fund essential social needs has not been lost on the population, with seven million already under the poverty line. Pensioners protested in 80 towns all over France on Thursday against their diminishing purchasing power and the outrageous sums being made available for the banks. Pensions have gone up this year by less than two percent while inflation at the end of August was 3.2 percent.

The deficits for the private sector social security and health insurance for 2008 are calculated at €9 billion and €4.1 billion respectively. The government has used these figures, minuscule next to the €360 billion for the banks, to justify cutbacks in health and the social services.

Laurence Parisot, the leader of the main big business association MEDEF (Movement of the Enterprises of France) praised the plan as "the best possible for the present situation". She then stressed that she expects the government to continue with its austerity measures and that she would be asking the prime minister to "withdraw the transport bonus from the draft 2009 budget", supposed to alleviate the rising cost of travel to work.

The Socialist Party finance commission, meeting before the parliamentary debate on the rescue plan, unanimously recommended voting with the government. Later in the day, when the meeting of the full SP parliamentary group decided to abstain, first secretary of the SP, François Hollande explained, "It's out of the question to oppose a plan which at a European level enables us to emerge from out the first storms of the financial crisis. Out of the question too to give our approval to Nicolas Sarkozy's economic policies, because they too are responsible for the situation we are in."

The PS is fundamentally in agreement with the government's economic policies. A more plausible explanation for the abstention was its need to maintain an appearance of independence from Sarkozy. SP spokesman Julien Dray said, "A vote for it could give the appearance of 'a prelude' to a government of national unity."

The PCF, for decades the junior partner of the PS, in and out of government, and at present in an electoral alliance with the PS and the Greens for the European elections in 2009, made some anti-capitalist rhetoric—correctly pointing out that the government's plan represents "a bonus for all the predators." But this verbal opposition is belied by the support the PCF has given to the CGT (General Confederation of Labour, close to the PCF), which has constantly collaborated with President Sarkozy since his election in May 2007, notably in the destruction of the special pension schemes of railway and gas and electricity utility workers, and also the deregulation of working hours.

The government assurances that French banks were not severely affected by the credit crisis were somewhat dented when the Franco-Belgian bank Dexia, which handles the finance for local government in Belgium and France, had to be bailed out to the tune of €6.4 billion, €3 billion for each government. Its shares have fallen since and there are still doubts as to its solvency.

There is also strong evidence that one of the oldest banking institutions for small savers and for home loans, the CNCE (The National Bank of Savings Banks), founded 190 years ago, known as the Squirrel, has a crisis of liquidity. The satirical weekly, Le Canard Enchaîné, reports in its October 1 edition that because of a subsidiary Natixis's involvement in the US sub-prime market: "the CNCE must find 6.5 billion … With such an abyss to fill it is going to become the champion of France for the depreciation of its assets, ahead of Crédit Agricole (close to 6 billion)."

At the beginning of the year, in order to comply with the minimum legal capital requirement, CNCE had been obliged to "siphon off €3.3 billion from its 17 regional savings banks … and some of them scarcely have any reserves left."

The Canard quotes a financier: "There's a consensus of bankers and the government to say nothing about the situation of the Squirrel and to avoid starting a panic."

A further loss of €600 million from speculative operations has just been revealed. Fillon's announcement of the government's intention to dip into the funds of the Livret A saving scheme has also created a furore and contributed to the sense of insecurity felt by the millions of lower and middle income families who rely on it.

The three main French banks, Crédit Agricole, Société Générale and BNP Paribas, have denied the need to avail themselves of the state funds. However, the following exchange in the discussions recorded on the National Assembly site gives a different picture.

Pushed by Lionel Tardy, a UMP-aligned deputy, to reveal the amount of toxic credit in the French banking system, Georges Pauget, the president of Crédit Agricole, replied, "As far as concerns of the French banking system, I am unable to provide you with an up-to-date reply … Only the Banking Commission has the detailed figures … I do not have the figures in my head, but the information is available, and has been certified."

Tardy then suggested: "So even in France it is not known." Pauget replied: "No, it is known, but the figures are in the hands of the guardians of the Temple."

Nouvel Observateur quotes Fillon telling RTL Radio: "The financial crisis is not 'behind us'. We are not immune from a systemic crisis, brought on by the fact that some banks may have large quantities of toxic products, French banks too…. There is so much interconnection in the system."

He continued, "For the moment we are receiving forecasts [of growth] for 2009 in the order of 0.2 percent, which is extremely weak. It's a breakdown of growth with consequences for employment, for economic activity, for purchasing power. But if America goes into recession, it is obviously very, very, very bad news for us because all of the developed countries will experience a very, very difficult 2009."

Fillon is preparing for this. He emphasised that "what counts for us, is to keep hold of expenditure … we will be uncompromising on expenditure."

This means that the working class will have to shoulder the burden of the crisis and the government is preparing for this and demanding the support of the other major parties. Sarkozy's close advisor Henri Guaino's insisted, "this is not the time for debate … on every decision taken" stressing, "the Executive is in charge of carrying out its duties."

Les Echos' editorial of October 15 focuses on the social effects of the crisis. It warns: "The effect on the morale of French people, and thus on their consumption will of course be inevitable…. According to a survey of 150 directors of human resources it is advisable 'to take seriously the rise of conflicts' and not to forget that the financial crisis 'is going to make the social climate turbulent'."

It suggests that, in concert with the employers and the unions, initial increases in unemployment benefit to soften the immediate blow of redundancy, be then progressively diminished in order to force workers into low-paid and part time employment.