France Chooses the Path of Economic Austerity

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Despite the election of socialist François Hollande to the presidency of the Republic, France, far from breaking with the neoliberal model that has led much of Europe toward disaster, has chosen the path of austerity.

The austerity policies advocated by the European Union – promoted primarily by Germany's Angela Merkel – the International Monetary Fund and the European Central Bank have led to deadlock. They are politically unpopular, economically inefficient and socially disastrous. Wherever they have been implemented, whether in Greece, Ireland, Italy, Portugal or Spain – without a single exception – they have been unsuccessful, engendering an increase in poverty, unemployment, and public indebtedness as well as leading to the dismantling of the welfare state through the destruction of public services and a drastic lowering of state revenues.

François Hollande's election to the presidency of the Republic in May 2012 sparked some hope among French citizens for an alternative to austerity policies. But rather than significantly increasing the minimum wage and public investment – measures that would have boosted economic growth – the government of Prime Minister Jean-Marc Ayrault adopted the "Pact for competitiveness" recommended by the Gallois report [1]. This is a pact that has shown itself slavishly devoted to policies that have already demonstrated their ineffectiveness across Europe.

The Gallois report's Pact for competitiveness.

The government has in fact decided to implement the measures recommended by Louis Gallois, commissioner general for investment. In his opinion the policy would improve the competitiveness of French companies at the international level, stimulate the economy and create jobs. At the same time, President Holland has chosen to reduce the corporate tax by granting a tax credit of 20 billion euros [2].

In order to do this, the Elysée has adopted two measures. As a first step, public expenditure will be reduced by 10 billion euros. This means that public services made available to French citizens will be severely affected, with a direct impact on the quality of life of the most vulnerable elements of the population [3].

The second measure is the most unpopular: Reneging on his campaign promise, François Hollande has made a decision to increase the VAT, or value-added tax. Indeed, former President Nicolas Sarkozy had already raised the VAT using a differentiated formula in which the middle rate was raised from 5% to 7% and the overall rate from 19.6% to 21.4%. This represents an increase in the VAT of 10.6 billion euros, a cost that would necessarily be borne by French citizens [4]

One of the first measures taken by the new National Assembly in July 2012 was to remove this VAT hike. Now, three months later, the Socialist government has reversed this decision by again raising the main VAT rates. Thus, beginning the first of January 2014, the overall rate will climb from 19.6% to 20% and the intermediate rate from 7% to 10%. Only the lowest rate will be decreased from 5.5% to 5%. Collectively, these measures represent a tax increase for the French population of 7 billion euros, an imposition that will mainly affect the most vulnerable elements of the population. Indeed, this new tax will account for a loss in purchasing power of 260 euros per person per year, in other words, 25% of the monthly minimum wage [5].

The increase in the VAT (+3% for products as necessary as gas, electricity, transport, books, or medicines not reimbursed by social security) will inevitably lead to a reduction in economic activity. Indeed, the loss of household purchasing power will result in a decrease in consumption and, thereby, a decrease in production. This in turn will cause an increase in unemployment, and consequently a decline in tax revenues for the State as well as an increase in the cost of allowances paid to the unemployed.

Furthermore, this plan will stimulate only 20% of the country's economy. Indeed, in France, export production represents only one fifth of the wealth produced, while eighty percent of the country's production is intended for domestic use. It is the latter that will be directly affected by the increase in the VAT [6]

According to the Government, this fiscal gift of 20 billion euros to large corporations will potentially create 300,000 jobs in France by 2017. However, this is highly uncertain [7] and, in fact, it is contrary to all economic logic. Indeed, assuming that the number is correct, this means that 67,000 euros will need to be allocated to cover the cost of each job created. However, the creation of a post of teacher, nurse, social worker or cultural attaché in the public service requires an expenditure of only 40,000 euros yearly. Thus, had the State allocated 20 billion euros to the public sector, 500,000 quality jobs would without a doubt have been created. This is 200,000 more than what is currently planned for and these are jobs that would contribute greatly to the improvement of public services and the welfare of citizens.

The measures taken by President François Holland and the Government of Jean-Marc Ayrault constitute an economic oxymoron and are doomed to failure. They fall directly in line with the austerity policies already implemented throughout Europe, policies that have led the most vulnerable elements of the population to disaster.

Translated from the French by Larry R. Oberg

[1] Louis Gallois, "Pacte pour la compétitivité de l'industrie française", 5 novembre 2012. (Site consulted November 23, 2012).

[2] *Le Parisien*, "Rapport Gallois: ce que le gouvernement adopte, ce qu'il enterre", November 6, 2012. (Site consulted Novembre 23, 2012).

[3] *Ibid*.

[4] Jean-Luc Mélenchon, "Interview TV5 Monde", November 6, 2012. (Site consulted Novembre 23, 2012).

[5] *Ibid*.

[6] *Ibid*.

[7] *Les Echos*, "Jean-Marc Ayrault : 'Le crédit d'impôt devrait créer plus de 300 000 emplois d'ici 2017'", November 6, 2012.

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