French government’s emergency budget deepens social divide

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President Nicolas Sarkozy announced a raft of economic measures December 4 amounting to €26 billion (US$33 billion) as part of an effort to refloat the French economy in 2009 in the face of the world slump. He termed the measures "a massive investment plan," aimed at increasing economic growth by 0.8 percent over next year. This will increase the budget deficit by €15.5 billion, taking it to 4 percent of the GDP, well over the 3 percent set by the European Union to control inflationary pressures.

The national protectionist thrust of his plan is in line with the general nature of the €200 billion European Union plan, which is an assemblage of national responses to the crisis. This is particularly expressed by the sharp differences between France and Germany on the isssue.

Sarkozy jingoistically made it clear that "there will be no help without the commitment not to relocate abroad and to build new engines in France." He further warned, in reference to the US, that he "would not leave the French automobile industry disadvantaged with respect to its competitors." And if competitors like Germany, Sweden and the US continued to subsidise their national car manufacturers, then direct aid would be forthcoming to French constructors in the form of guaranteed loans.

In response to criticisms about increasing the government debt, Sarkozy replied, "We don't have a choice. To do nothing would be far more costly." Three months ago, before the banking crisis became full-blown, Sarkozy and Prime Minister Francois Fillon refused to help consumers struggling against rising costs by claiming "the state is bankrupt...the coffers are empty."

In announcing his measures, Sarkozy referred to the situation as "not being a passing crisis" and called for a "profound" change in the world.

Those benefiting most from the cash injection are the employers who will get €11.5 billion in exemptions from social charges, company taxes and accelerated refunds on VAT-taxed consumer goods. On the other hand, Sarkozy ruled out any lowering of VAT tax in the manner of Britain's reduction by 2.5 percent. He said this would only benefit foreign imports.

Employers with fewer than 10 workers on the payroll who take on extra staff will pay no social charges for the new hires in 2009. The public sector will get €10.5 investment in infrastructure projects in hospitals and retirement homes. Some €4 billion of these investments are planned by the SNCF national rail company, the Post Office (soon to be privatised), the EDF electricity utility (partly privatised) and the private gas utility GDF-Suez. Four new high-speed TGV rail links will be built at the same time by the SNCF between 2010 and 2014. The military will receive €4 billion.

While handing out huge incentives to employers to help with cash flows and maintain jobs, the measures specifically targeted the two key sectors of the construction and automobile industries, which have been hardest hit by the developing recession. The first employs 1.5 million workers and is projected to lose 45,000 workers in 2009. The French auto sector, also in serious difficulty, employs 10 percent of the working population directly or indirectly. The number of new cars sold in November slumped by 14 percent, and 1 million are unsold stock.

The announcement of €1.8 billion for the construction of 70,000 new low-cost public housing units and zero interest rates for new home buyers will hardly affect the 3.5 million badly housed and homeless. The government has already bailed out the housing developers by buying up 30,000 unsold homes in October.

Sarkozy announced €1 billion to save the automobile industry. Peugeot/Citroên and Renault get €500 million each for their banking affiliates to encourage sales, combined with a fund for restructuring the industry. Car owners who possess a 10-year-old model will be entitled to a €1,000 exchange deal for a new purchase.

However, the least favoured by the relaunch package were the poorest households. Just €760 million was set aside for a one-off payment of €200 to the 3.8 million households living on the strict social minimum (RSA) of about €800 a month.

A paltry €500 million is on offer to help workers made redundant by the crisis, but on condition they accept any job. Sarkozy said he would help the "victims" of unemployment. "The state commits itself to accompany them [fired workers] in their retraining and will allow them to maintain their previous salary for one year, if they accept a less well-paid job.... The social partners [unions and employers] must find the most judicious solutions. Companies must refrain from using the crisis to fire people in anticipation [of difficulties] when their economic position doesn't justify it."

Temporary agency workers, especially in the construction and automobile industries, have been the first to bear the brunt of sackings. A total of 66,000 temporary jobs have disappeared in 2008, a reduction of 10 percent, resulting in unemployment going back over the 2 million mark.

The CGT union [General Confederation of Labour, close to the Communist Party] commented on Sarkozy's speech: "The only certainty that appears in this umpteenth presidential speech on the crisis is that the employers will benefit once again through exemptions on paying social charges. In this context it is more urgent than ever to for united action to be reached so that workers' demands can be expressed with force." The demagogic and hypocritical character of this comment is demonstrated by the record of the CGT in relation to the Sarkozy regime: open collaboration with the regime since it came to power and the sabotage of workers' opposition to the government policies.

The Socialist Party's newly elected leader, Martine Aubry, stressed the necessity of boosting purchasing power and stimulating consumer spending, citing London and Madrid as examples. She said, "Tonight, France still doesn't have an economic relaunch plan to match the depth of the crisis."

Michel Sapin, the SP spokesman on economic affairs, echoed the theme of increasing consumer demand. "There is nothing on the question of consumption...and the evolution of purchasing power...which are the only elements in the short term to kick-start the machine. Two plans would have been necessary. One for the immediate stimulation of demand...and a plan for afterward, the time to prepare projects. We see clearly the necessity of these investments, whose accelerated introduction is welcome, but which will have an effect on our economy when France, struggling along, starts to emerge from the crisis, and not at the moment, in the middle of it."

Former presidential candidate and defeated rival of Martine Aubry for the Socialist Party leadership, Ségolène Royal, expressed the same disappointment with Sarkozy. His plan amounted to "half measures that don't measure up to the problem.... The crisis must serve as an opportunity to define another fiscal and economic model. For that, Sarkozy must do what he says. It seems to me that the President is disconnected from the base and that he has lost the sense of the reality of daily life for French people."

However, Sarkozy's reaction to the banking crisis last month made it clear where his priorities lie. Some €360 billion was guaranteed to bail the banks out, €40 billion of which has been made available with no strings attached. One of Sarkozy's first economic measures on taking office last year was a tax reduction of €15 billion for the most affluent. The current measures will be totally inadequate to prevent French capitalism from plunging into crisis.