

# France: Consumer credit reforms benefit finance, trading groups

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The Senate, the French parliament's upper house, has adopted a bill reforming consumer credit. In its current form, it is very favourable to the interests of financial groups and supermarkets, reinforcing the most predatory forms of consumer credit. The bill will be read in the National Assembly at a date to be determined, probably at the end of 2009.

The few cosmetic reforms advanced in the bill offer no protection from one of the most pernicious forms of consumer credit, permanent or "revolving credit", whose extortionate interest rates can reach 20.9 percent, the legally authorized ceiling.

The bill's basic framework was decided by Minister of the Economy Christine Lagarde. The announced "reforms" deal mostly with information and advertising, but despite the seriousness of the present economic crisis, none of the basic problems posed by consumer credit were seriously addressed. In particular, no limits on excessive interest rates were set, and big supermarket chains successfully fought for the right to keep distributing customer loyalty cards linked to revolving credit.

The bill also requires the state to issue a report, three years after the bill becomes law, preparing the establishment of a database of all citizens carrying consumer loans in France. Such state access to personal financial data is a blatantly anti-democratic, ultimately opening up the path for those with access to the database to monitor, police, and potentially blackmail recipients of consumer loans.

Illustrating how the government obeys the dictates of the finance sector and supermarket chains, requests from consumer protection associations were largely dismissed. One of these organizations, UFC Que-Choisir, had asked that the law ban revolving credit at

sales outlets (supermarkets, etc.) and ban the combining of credit with loyalty cards.

The government ruled out these proposals, and only provided for "protection" through the information and advice offered to the customer at the time of the issuing of the loyalty card at the sales outlet.

High Commissioner for Active Solidarity Martin Hirsch, a top civil servant and member of the government, was assigned to discuss the parliamentary bill with consumer associations, which are largely opposed to the proposed law.

He is one of the Socialist Party personalities who have joined the right wing UMP (Union for a Popular Movement) government of President Sarkozy. As president of the giant French Emmaüs charity association, he is aware of the problems. Nevertheless, once the bill was finalised, he limited himself to vague promises, claiming certain elements of the text of the bill could be amended in the parliamentary debates.

The Socialist Party and Communist Party, who have been in government in France several times since 1981—when over-indebtedness and the most rapacious forms of consumer credit were developing—never supported reforms to protect the population from the finance industry.

From this point of view it is necessary to underline the role of Nicole Bricq, SP senator of the Seine-et-Marne, who has a key post as member of the finance commission. She worked with conservative senators to introduce the surveillance database into the bill.

Revolving credit extracts enormous profits from the most deprived layers of society and leads to the impoverishment of households through inextricable indebtedness. In France, over-indebted households undergo humiliating economic and legal supervision that can last several years to force them to reimburse

the maximum of debt.

Such loans' average annual rate of interest is 15.6 percent, due in particular to low promotional rates at the beginning of the loan period, but the effective rates of many contracts are often 20 percent. The average rates often have a tendency to increase while the European Central Bank's principal interest rate has fallen to its most historic low of 1 percent.

In 2008, 40 million revolving credit accounts were opened of which 20 million are active. Nine percent of French households were paying back this type of loan, which represented 21 percent of current consumer credit. Among the borrowers, 41 percent are low-income households. Revolving credit is closely linked to the most brutal forms of impoverishment.

In France 710,000 households are overburdened with debt. Eighty-five percent of cases of excessive debt include at least one element of revolving credit. The households that have engaged in this sort of credit have, on average, at least five such loans.

Furthermore, with the economic crisis, the rate of excessive debt is increasing rapidly, with a 30 percent increase in cases registered between March 2008 and March 2009, while economists estimate that the effects of the crisis on employment and income will only start to be fully felt after the summer 2009.

France is often presented as a country where the most deprived households benefit from social welfare to make up their income. In reality, we see the state allowing the banks to merrily plunder the incomes it distributes.

Although revolving credit appears to be an indefensible form of credit due to its cost, the financial sector continues to discuss sanctimoniously its advantages and drawbacks.

For example, to help in the preparation of the bill of law, the sector ordered a report through the Consultative Committee of the Finance Sector (a public authority) to be drawn up by the Athling Management firm.

The report, published in December 2008, puts forward an unabashed argument in favour of revolving credit, the title of which sets the tone: "For a responsible development of renewable credit in France". According to the report, which heavily inspired the law, the rates of interest practiced are nowhere excessive and rates reaching 20 percent barely

allow for bank charges to be covered.

The *Expansion* magazine Web site that published several articles on the law quotes the cynical discourse that prevails in the circles of the elite French financiers on the issue. First, apparently, the French would be wrong in complaining, because it's a lot worse elsewhere. "Some very free market European countries do not have the regulations on usury, and rates of interest can reach very high levels, within the order of 35 percent in the UK. In effect, in the Anglo-Saxon countries, it is accepted that the rate of interest covers the risk, and the risk has a price", explained Françoise Palle-Guillabert, general manager of ASF (Association of French Financial Companies).

Moreover, we are told, that modest households would be the first victims of reforms that would want to protect them from the excesses of revolving credit. "If the usury rate of renewable credit was lowered, the banks will restrict their conditions and exclude from the sector the households with the lowest incomes, agency and temporary workers or those on short term contracts", added Nicolas Bouzou, president of Asteres.

UFC-Que Choisir published in March 2009 a national field study, showing that distributors of credit quite systematically orient households to renewable credit, to the detriment of other less onerous formulas, such as personal or one-off loans, which would be much better adapted to their needs.

It is significant that in this economic crisis, the ruling classes are bolstering the short-term interests of banks and businesses by allowing them to ruin hundreds of thousands of families. From this standpoint, revolving credit reminds us of the subprime housing loans distributed to the least solvent American families by the banks, who knew that it was impossible for them to repay them. This is a sign of the crisis of capitalism, which develops ever more exploitative and parasitic forms of profit extraction.



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