# France announces emergency budget

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The emergency budget announced August 24 by Prime Minister François Fillon was in response to threats from the credit rating agencies to remove France's AAA rating if the government did not take stronger steps to reduce its budget deficit. Such a move would increase France's borrowing costs and endanger the viability of the common European currency. France is the second largest economy in the 17-nation euro zone after Germany.

Alain Minc, a senior economic advisor to President Nicolas Sarkozy, told *Le Figaro* that "France's AAA rating is a national treasure."

Under the guise of promoting public health, the new budget proposes to raise taxes on tobacco, spirits and sweetened drinks as part of a plan to reduce the national budget deficit by €12 billion by 2012. The tax hikes, calculated to increase revenues by €1.3 billion, will fall hardest on the least wealthy. Even as the Sarkozy government talks of improving public health, it is continuing to close hospitals, cut staff and impose greater health care costs on the population.

A temporary 3 percent tax increase on annual incomes over €500,000, to be lifted as soon as the deficit falls below the required limit of 3 percent of gross national product (GNP), will only partially claw back the €1.8 billion in tax breaks for the wealthy enacted since Sarkozy became president in 2007. The target date for reaching the 3 percent deficit plateau mandated by the European Union is 2013.

Nevertheless, much of the €12 billion in deficit reduction is to be borne by big business and the wealthy, including owners of second homes.

Prime Minister Fillon said the new measures will ensure that France carries out its promise to cut its budget deficit from 5.7 percent of GDP to 4.5 percent next year and 3 percent in 2013. The level of cuts required to achieve this goal has been revised upward as the government reduces its projections for GDP growth. In the last quarter, the French economy registered zero growth.

The new budget plan represents a partial retreat from Sarkozy's pledge not to raise taxes. It avoids as well the sweeping attacks on workers' jobs, wages and social benefits announced by the Greek, Portuguese and Spanish governments at the behest of the European Union, the International Monetary Fund and the banks.

One factor in formulating the budget is fear of social eruptions in France in the aftermath of this month's youth riots in Britain. France was hit by a wave of riots in immigrant communities in the suburbs of Paris and other cities in 2005.

Sarkozy is also seeking a new term as president in elections to be held next year and his poll numbers plummeted to between 24 percent and 35 percent last month.

*Financial Times* senior analyst Wolfgang Münchau commented in the August 29 issue: "Whether it be Nicolas Sarkozy, the centre-right incumbent, or one of his Socialist opponents, the winner of next year's French presidential election will face difficult choices on public expenditure and the future of the welfare state. This is the central message from the useful but limited austerity measures announced last Wednesday by Mr. Sarkozy's government... they demonstrated the government's ability to react swiftly to the disturbing signs on financial markets that the euro zone's sovereign debt and banking maelstrom was threatening to engulf France."

Münchau pointed out that in France "public debt has quadrupled over the past 40 years to more than 80 percent of gross domestic product," and concluded that this does "not go down well in today's punishing market environment." He infers that the years of borrowing by the French political elite to put off a showdown with the working class are over.

The new budget proposals were announced after

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phone consultations with the leaders of the main trade unions, notably Bernard Thibault of the Communist Party-aligned CGT (General Confederation of Labour) and François Chérèque of the Socialist Party-influenced CFDT (French Democratic Confederation of Labour). These talks are to continue to ensure the peaceful implementation of the measures.

The unions issued a joint statement on August 18 pledging to play their part alongside the government and the employers in "supporting growth, supporting employment and reducing the debt, while guaranteeing social cohesion." The minor tax rises for the rich are in part a sop to the unions to give them political cover for blocking any mass opposition by the working class.

The CGT has taken the initiative in calling for a day of action in early October. This follows the series of day-long protests against austerity measures last year, co-sponsored by the Socialist Party, the Communist Party, the Left Party of Jean-Luc Mélenchon and the New Anti-Capitalist Party. These were were used to let off steam and dissipate the opposition of workers to attacks on pensions and plant closures and layoffs, particularly in the motor industry. The unions and their allies rejected any struggle to bring down the Sarkozy government and deliberately isolated strikes by different sections of workers.

Meanwhile the unions, led by the CGT and the CFDT, held continual talks with the government over the implementation of austerity measures.

All of the Socialist Party contenders for the party's presidential candidacy support the 2013 target for deficit reduction to 3 percent of GDP, claiming this can be met without serious inroads into the living standards of the working class. Some are criticising Sarkozy for failing to enforce "law and order" and making this a major issue for the presidential campaign.

The first secretary of the Socialist Party, Marine Aubry, a leading contender to become the party's presidential candidate, has pledged to increase the police force by 10,000. Ségolène Royal, the defeated Socialist Party presidential candidate in 2007 and a contender for the nomination in 2012, is reiterating her policy of having delinquent youth placed in the care of the military.

The unions and the so-called "far left" are promoting the illusion that the government can be pressured into making concessions to the needs of the working class.

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