Financial markets demand deep cuts following French presidential election

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16 April 2012

In the run-up to the first round of the French presidential elections April 22, international financial markets are preparing to step up pressure for social cuts once a new government is sworn in.

On Saturday various media reported that Eurex, a subsidiary of the German stock exchange, is about to launch a new futures contract on French government bonds on April 16. The bonds would allow financial markets to speculate on France’s insolvency.

Marco Fiorentino, a millionaire banker and columnist for *La Tribune*, described the new financial instrument as “an ideal weapon against France.” He writes that it is now possible “for nearly everybody to buy or sell short French state bonds—and this with a leverage factor of 20. That is to say with 50,000 euros it is possible to sell short one million euros of French bonds.”

The Thomas More Institute, a Paris-based think-tank, writes: “For the first time, a presidential election takes place under the surveillance of the markets. The next president will have no margin for manoeuvre.”

The two leading presidential candidates, the incumbent conservative president Nicolas Sarkozy and Socialist Party (PS) candidate François Hollande, have made clear that they intend to implement the austerity measures demanded by the banks.

Sarkozy told France Info radio that “if we do not follow the line of reducing our deficit and debt, interest rates will quickly rise.”

Hollande said in an interview with *La Tribune* that he would undertake “structural reforms to restore balance.” He added that “the first days and months of the next five years are decisive. It is from the beginning that we must give visibility and legibility to economic actors.”

Both candidates have vowed to reduce France's deficit to zero if elected—with the only difference being that Sarkozy declared that he aimed to do so by 2016, as opposed to Hollande’s goal of 2017.

Together with German Chancellor Angela Merkel, Sarkozy was the driving force behind the European fiscal pact, the project of the European bourgeoisie to slash public spending and wages across the continent. In his *La Tribune* interview, Hollande makes clear that he fully supports the measures promoted by the European Union (EU). He stated that the “discipline component” of the fiscal pact “is necessary,” and that he had assured his “European partners” that he would “balance the budget.” His proposal to renegotiate the fiscal pact would only be about adding a “growth component” to it.

France, the second largest economy in Europe after Germany, is increasingly in the crosshairs of the international financial markets. France's annual debt is approaching 90 per cent of gross domestic product (GDP), and the bankers insist that too high a proportion of France’s GDP goes to public spending. The financial elites believe that money spent on education, health care, social security, infrastructure, etc., should go directly in their pockets.

France's annual budget deficit currently stands at 4.5 per cent GDP, while the budget deficit of Germany is at 1 per cent. Bourgeois politicians and journalists speaking on behalf of the financial elite regularly refer to the so-called “German model” to illustrate the “tasks” of the next French government. The strategy of the financial markets and the banks is to pit workers across Europe against each other in a race to the bottom in terms of wages and living standards.

In an April 11 article, the *Financial Times* commented that France's “overall picture represents a dramatic loss of ground to Germany." As a "role model," the paper cited "Gerhard Schröder, the former Social Democratic German chancellor, who in his second term pushed through the labour market reforms instrumental in underpinning the country's present strength."

The comparison with the Schröder-government is a stark warning to the French workers. The Social Democratic (SPD)-Green government of Gerhard Schröder was the most aggressive anti-working class government in post-World War II Germany. Working closely together with the trade unions, it slashed social spending and wages, liberalized labor markets and cut taxes for corporations and the rich.

France's "loss of ground to Germany" gives an indication for the scope of the austerity measures the country's ruling elite must carry out to make French capitalism competitive.

As a result of the German labor reforms under Schröder, hourly labor costs are now 10 percent lower in Germany than in France. Public spending in Germany amounts to 48 percent of GDP, while in France it is 56 percent—a difference of 160 billion euros. From 1999 to 2008, German unit labor costs were cut 20 to 30 percent, compared to other euro-zone countries.

The FT writes that France "has suffered a slide in industrial competitiveness." French exports are stagnating, and in 2011 the trade deficit doubled to 70 billion euro. On the other side of the Rhine, the export industry is booming; last year German trade enjoyed a record surplus of 158 billion euros.

While the French ruling elite prepares for class war against the workers, social conditions in France are already very tense. Unemployment stands at almost 10 percent, a 12-year high. For young workers, the situation is particularly difficult. Among 15-to-25-year-olds, 22 percent do not have a job. Half the country's poor are 18 to 25, with 20 percent of this age group living below the poverty line.

In January the financial markets sent a warning sign and the rating agency Standard & Poor's (S&P) downgraded France, along with nine other European countries, from AAA to AA+. Since then the rating agencies have increased pressure on a series of countries, including France's neighbors Spain and Italy, to implement Greek-style "structural reform measures."

In the case of Greece, the rating agencies downgraded the country several times down to junk status. Social-democratic Prime Minister George Papandreou (PASOK) and his successor, Lucas Papademos, used this to justify carrying out the most drastic cuts.

At the behest of the troika—the European Central Bank (ECB), the IMF and the World Bank—the Greek ruling elite slashed wages 30-50 per cent, cut unemployment benefits 22 per cent and laid off tens of thousands of workers. With the Greek economy now in its fifth year of recession because of the austerity measures, over half of Greek youth are unemployed, and the official unemployment rate stands at 21 percent. The suicide rate has doubled in the last two years. Is this the future for France?