Moody’s downgrades French debt rating, presses for austerity in Europe

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On November 19, the credit rating agency Moody’s downgraded France’s sovereign debt by one notch from Aaa, the top rating, to Aa1. It warned that its outlook on France’s creditworthiness remained negative.

The Moody’s downgrade aims to pressure French President François Hollande to intensify his reactionary and unpopular austerity policies. Hollande’s Socialist Party (PS) government has announced plans for over €80 billion (US$103 billion) in spending and corporate tax cuts and for slashing labor law protections for workers to boost French corporate competitiveness. The PS now faces a political crisis as Hollande’s approval ratings collapse, to 36 percent.

Moody’s warned of France’s “sustained loss of competitiveness” amid “subdued domestic and external demand”—that is, the deepening economic slump in Europe, as social cuts undermine workers’ purchasing power and, with it, the economy. (See: “Growth forecasts slashed as Europe sinks deeper into crisis”)

Moody’s gave France a negative outlook, citing the depressed world economy and fears that “risks to the implementation of the government’s planned reforms remain substantial.”

Given that PS austerity policies have broad support in business circles and the political establishment, such comments can only be read as a guarded reference to fear of working-class opposition to austerity throughout Europe. Moody’s is adding to pressure for reactionary and unpopular social policies, by issuing a credit downgrade that encourages investors to push up interest rates and speculate against French debt.

Through such manipulation of the bond markets, the capitalist class ruthlessly pursues its social agenda. It widens profit margins on the mountains of fictitious capital handed to big investors in bank bailouts, by increasing the interest rates governments pay to their creditors. By threatening to cut off the flow of credit to governments, it also encourages them to slash labor costs—so that local corporations regain competitiveness on world markets at workers’ expense.

These policies point to the dead end of capitalism in Europe. Applied to Greece since 2009, they succeeded in cutting off Athens’s access to credit. Athens replied with social cuts that slashed wages 30 to 60 percent, sent unemployment soaring to over 25 percent, destroyed the health care system, and shrank Greece’s economy by more than 20 percent. Similar policies were pursued in Spain, Portugal, Ireland, and Italy.

Though these countries are becoming more globally competitive, their economies continue to collapse amid wage and social cuts. Spanish and Portuguese exports have risen 22 percent in real terms since 2009, but both countries’ economies have continued to contract; they are projected to contract by over 1 percent this year.

Sections of the bourgeoisie are considering whether to impose similar policies against popular opposition in France. Business magazine *La Tribune* wrote, “What threatens France is a series of credit downgrades that its southern neighbors, Spain and Italy, went through. Paris would have no other choice than to accelerate austerity, which would annihilate the last bastion of French economic growth: consumer spending. The euro zone’s second-largest economy would then enter into a deflationary spiral…which would doubtless lead it to be downgraded again.”

The collapse already produced by such policies in southern Europe now threatens to undermine the broader economy. Moody’s stressed the risk of a sudden crisis in southern Europe engulfing France: “France’s exposure to peripheral Europe through its trade linkages and its banking system is

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disproportionately large."

It added, "Shocks to sovereign and bank credit markets would further undermine financial and economic stability in France… While the French government's debt service costs have largely been contained to date, Moody's would not expect this to remain the case in the event of a further shock."

Moody's added that it has negative credit outlooks for Germany, the Netherlands and Austria. This is because, like France, they have promised to contribute to various funds—the European Financial Stabilization Fund or the European Stability Mechanism—to guarantee the debts of southern European countries.

La Tribune added that a bailout of the euro zone is beyond Germany's capacity: "The risk is that, if France enters into a spiral of downgrades, Germany will have to bear the full costs of saving the euro… But obviously the Federal Republic cannot do this. Whatever its power, its GDP is only €2.8 trillion and its gross debt is already 80 percent of that. Its capacity to do more to save the euro is, one must say, quite limited or, to speak more plainly, basically nil."

Such comments point to a deep economic and political crisis of European capitalism. Trillions of euros have been handed to the banks, but these sums have gone to paying off wealthy investors, while unemployment has skyrocketed and productive investment continues to stagnate. The result is an ever more unequal and crisis-ridden society. In France, known for its comparatively state-dominated economy, the top 1 percent and 10 percent of French society nonetheless owned fully 24 percent and 62 percent of national wealth in 2010.

Nonetheless, the cry among bourgeois commentators is that there is no money, and they are demanding further cuts. Bloomberg News criticized France for "squandering an opportunity" to accelerate the cuts after the Moody's downgrade.

Over the last several days, French 10-year interest rates have risen only 0.1 percent, to a still low 2.18 percent. Bond buyers apparently still preferred France's credit rating to that of Italy or Spain, and it still offers better returns than German 10-year debt, which pays under 1.5 percent.

This is also largely because France's PS is already implementing the agenda of finance capital, without the pressure of a bond market panic. French Finance Minister Pierre Moscovici said he would use the Moody's downgrade to press for social cuts, calling it "encouragement to rapidly and strongly pursue the reforms we have decided and that go in the right direction."

German Finance Minister Wolfgang Schäuble also sought to play down the Moody's downgrade. He told Germany's Bundestag, "Our main partner has received a small warning from a credit rating agency… We should avoid all over-dramatization."

Nonetheless, PIMCO LLC—the world's largest bond fund manager—indicated that it planned to avoid buying French and German debt. PIMCO prefers to buy Italian and Spanish bonds that offer higher returns, and PIMCO believes they have ECB backing.

PIMCO manager Andrew Bosomworth said the return on German and French bonds was too low, adding that the French economy "is more similar to that of the southern European countries."

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