French government staggered by mounting economic crisis

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The stagnation of the French economy in the first half of this year, announced officially on Thursday by the INSEE national statistics institute, has staggered the Socialist Party (PS) government of President François Hollande. With falling tax revenues forcing Paris to consider delaying its plans to cut the budget deficit to 3.8 percent of gross domestic product (GDP) this year, the PS is preparing to accelerate austerity measures against the working class.

With the euro zone economy heading back into recession, including Germany, the region's leading economy, French GDP posted 0 percent growth. Trade, investment and manufacturing slumped, and consumer prices declined 0.3 percent in July. Unemployment—already at historic levels, with over 3 million jobless—is rising. With French exports stagnating, the trade deficit soared to an astronomical €30 billion (US$40.2 billion) in June.

The austerity policies implemented by the PS and by the entire European Union (EU) have produced a catastrophe in France and throughout Europe. When he came to power in a cabinet reshuffle this April, Prime Minister Manuel Valls of the PS openly boasted to the financial markets that his party's goal was to slash "labor costs"--that is, workers' living standards. It is trying to push through a "responsibility pact" involving €50 billion in social cuts, as well as €40 billion cut in corporate payroll taxes.

The ongoing collapse in economic activity and jobs testifies to the failure of capitalism and to the bankruptcy of the PS government's policies.

The PS has responded with calls for the European Central Bank to hand over yet more money to the banks in a desperate attempt to boost credit and stave off a deflationary spiral and economic collapse across Europe. In an op-ed column in *Le Monde*, Finance Minister Michel Sapin wrote, "This situation of overly weak growth, of overly weak inflation, of slower reduction of deficits has purely French causes, but it also reflects situations to which only a concerted European reaction can bring a solution."

Earlier this month, Hollande told the daily *Le Monde*: "We implement the announced reforms, but the pace of efforts to reduce the deficit also depends on growth. We are not asking Germany for any indulgence, but we ask for more support for growth."

The EU and Berlin rejected these proposals, however, demanding that Paris accelerate austerity measures and structural reforms to meet its deficit target. Replying on Thursday to Sapin's remarks, Bundesbank President Jens Weidmann said: "France should stop pleading for more support from Germany and accelerate measures to overhaul its economy."

"France needs to set an example with its budget," Weidmann told *Le Monde*. "Paris needs to stop asking for growth-enhancing efforts from Berlin and concentrate on its own structural reforms."

The crisis has staggered French President François Hollande. On August 10, the online journal *Médiapart*, which is close to both the PS and the pseudo-left New Anticapitalist Party (NPA), published a detailed report based on inside accounts of a top government meeting on the economy on August 1. The article, titled "The government is terrified of a black scenario in the back-to-school period," explains: "All hope of economic growth, halting the rise of joblessness, fixing the deficit risk annihilation."

Noting that the French Treasury forecasts see Europe descending into a deflationary spiral, the journal cited one anonymous official who said: "One cannot say that economic debate is gripping the government. In fact, it is in disarray."

The journal claimed that Hollande and his advisers live in constant fear that the banks could try crash the French economy by speculating against French debt, as the financial markets did in Greece in 2010. Like the Greek social-democratic government of George Papandréou, however, the PS is completely hostile to a nationalization of the banks in order to prevent such politically criminal behavior. Instead, they use the threat of bank speculation to justify continuing on with discredited policies of social austerity and attacks on the working class.

One participant in the meeting told *Médiapart*: “As usual, François Hollande is evasive. Nothing came out of the governmental seminar. He seems very unhappy. He said we had to maintain the line and take clear decisions that the French people would understand.”

Another official said, “François Hollande seems to have discovered the profound break caused by the crisis of 2008. He has understood that all the economic schemas learned 40 years ago no longer work.”

Médiapart also reported that several prefects, who run the state administration in France's departments, have warned of a “catastrophic” autumn: “Numerous companies, especially in construction, are threatened with bankruptcy due to a lack of public orders. Delays in payment are accumulating. Numerous plans for mass layoffs and liquidations are being prepared.”

The *Médiapart* report made clear the escalating inter-imperialist tensions in Europe provoked by the deepening economic slump. It promoted the views of Industry Minister Arnaud Montebourg, who having overseen the closure of numerous factories, is now pushing for a harsher confrontation with Berlin in order to secure more ECB funding for French banks.

Another official poured cold water on such plans: “If France wants to obtain a change in European economic policy, it will not obtain it by begging from Germany. The problem is that it missed its chance in 2012 [when Hollande was elected]. All of southern Europe was waiting for France and was ready to follow it. François Hollande preferred to sign the stability pact without discussion and to cut the budget deficit to 3 percent. France lost all its influence. Since then, Italy went its own way. Spain went behind Germany. No one expects anything from France anymore.”

None of these proposals, made to reflect the interests of French finance capital, offer any progressive alternative to the austerity policies dictated by Berlin and the EU. The proof is that the strongest voice for a capitalist “stimulus” policy is the neo-fascist National Front (FN), which is profiting from the bankruptcy of the PS and its pseudo-left supporters to posture as an anti-establishment party on a protectionist, cheap-currency line.

After the publication of the INSEE’s growth figures, FN leader Marine Le Pen released a statement branding the EU’s economy policy as a total failure, calling for breaking up the euro and returning to a cheaper French national currency. She said, “It is now more than evident that the euro zone's economic policy is a total failure and that we must change models.”

Accusing both the PS and the right-wing opposition UMP of advocating pro-EU policies, Le Pen continued, “Austerity deepens the crisis, cutting consumption, investment, and production. The euro continues to bury our countries in sub-par growth and de-industrialization. The total opening of our borders and the refusal of all forms of protectionism is speeding the disappearance of our industry.”

Replying to PS first-secretary Jean-Christophe Cambadélis, who called for a national debate on economic policy in France and Europe, Le Pen said: “In this debate, we will defend the idea that France must turn her back on devastating austerity and find its muscles again faced with wild globalization with a national currency adapted to her needs.”

In fact, both the outright wage and social cuts of the Hollande administration and the hidden wage cut produced by cutting the value of the currency proposed by the FN amount to plans for further impoverishing the working class.