

Mitterrand's economic policies: galloping toward a disaster

by Laurent Murawiec, European Economics Editor

The Socialist government of French President François Mitterrand has lost no time in squandering the reserves accumulated under preceding administrations, both in the state's own vaults, and in the corporate sector. This will give way to panicky re-evaluations of policy, due to external and internal disasters, by September.

Former President Giscard's 1981 budget deficit was a very low 31 billion francs; 1982 projections calculated by Mitterrand's Budget Minister Laurent Fabius call for a 75 billion franc deficit, and the fiscal 1983 budget is being planned on the basis of a deficit as high as 150 billion. This trebling of the deficit is calculated by the Minister's experts on the basis of a 14.3 percent rate of annual inflation, although the 1982 figure is expected to be closer to 20 percent.

Spending the dowry

Thus far, the Socialist government has succeeded in keeping a substantial part of the electorate happy, by means of budgetary handouts, pressure exerted on industrialists to increase wages, and so forth. A vast number of government ministries have been given a go-ahead by both the Elysée and the Prime Minister's office to push forward costly pet projects, each of which, such as the national machine-tool restructuring plan of Industry Minister Pierre Dreyfus, may have independent merit, but whose total cost exceeds by far the state budget's funding capabilities.

The reason why these projects do not add up to a genuine industrial-development plan is twofold. First, the Mitterrand government remains opposed to former President Giscard's ambitious nuclear-power program, whose cheap and secure energy supply is a prerequisite for economic productivity.

Second, there is no way to finance those projects without further disrupting the domestic energy and France's external financial position, unless the kind of

export drive and trade-credit funding is launched which Mitterrand is far from proposing.

The machine-tool project, for example, starts from the obvious necessity of remedying the huge sectoral deficit historically suffered by France, and boosting the ailing "big three" machine-tool manufacturers, slated to be merged in the Minister's plan. The hitch lies with the money: while Dreyfus announced in Parliament a 2 billion franc state funding, insiders privy to the negotiations report a probable cost of 7 to 8 billion francs for the national budget.

The typical Socialist mania of "budgetizing" every expenditure incurred by society and the economy thus leads to a gigantic swelling of the public deficit, at a time when the savings rate pursues a downturn started in 1976, when it stood at 18 percent, and landing at a low 14 percent level last year.

How will Mitterrand finance deficits?

Who will finance the soaring deficits? In the post-election euphoria, quite a few demagogic rob-Peter-to-pay-Paul measures were indulged in. Higher tax-bracket incomes were targeted while significant new taxes were exacted from the corporate sector.

Income-tax squeezing may be presented once as a measure of social justice. The second year, it will simply accelerate capital flight and fail to return sizeable revenue for the Treasury. The corporate sector has suffered a dangerous erosion of its profit margins, as after-tax, pre-amortization profits slumped from 20 percent to 13 percent of value added from 1974 to 1981. Investment will suffer.

The money will have to come from some other source. The only way the corporate sector could generate enough tax revenue under present circumstances would be by way of large price increases, worsening an

already precariously high rate of inflation. Either the Socialist government will have to resort to politically disastrous tax increases (which would dispel all the illusions generated by the "neo-Keynesian" socialist experiment of Mitterrand) and similar "revenue-enhancement" devices; or financial manipulation will have to become the priority.

Domestic resort to the printing presses would have to start from the current 15 percent "inflation floor," or massive external borrowings will have to be incurred—which bankers and civil servants are already privately discussing. In which case leading Paris bankers predict that French public-sector entities (the preferred vehicle for external debt-taking) will only find lenders at extremely high margins over the interbank rate on the Euro-currency markets; talk of 1 percent margins is not unusual.

The difficulties involved in such a large use of external borrowing are compounded by the dangerous trends on the trade account. While the trade deficit for 1981 has been contained to a projected total of 58 billion francs, the monthly deficit has now reached 7 billion. The annualized figure calls for a 1982 deficit of 84 billion—a 62 percent year-to-year increase—and respected experts expect the annual rate to reach a stupendous 100 billion francs by mid-year.

Destruction of the franc

The effects on the parity of the French franc would be devastating. The 8.5 percent parity shift of the franc and the D-mark of last summer would need to be hugely accentuated, leading to inevitable rises in import prices. What generated this brutal rise of the trade deficit is a deeply embedded structural feature of the economy, whereby in any period of production pick-up, imports rise over-proportionately with respect to production.

The principal effect of the government's economic and fiscal policy since last June has been to boost consumption (which is growing at a 10 percent annual rate in real terms) while investment has remained flat since then. Investment is not expected to perk up before December 1982. Due to the fact that consumer goods is a sector more affected than others by that structural defect, huge exports would be the only means of correcting the imbalance—and saving the currency.

But exports are not going to play that role. Not only is the impetus from world demand undermined and turned negative by the depressive effects of U.S. Federal Reserve Chairman Paul Volcker's high interest rate policies, but also the Socialist government has started to yield to external pressure on the most controversial—but also the most fundamental—instrument of "Colbertist" economic policy at the disposal of the French administration, which is the export-credit machinery.

At first, the Mitterrand government has accepted an initial across-the-board increase in interest rates granted Third World and Eastern European borrowers in tied trade deals, under the OECD's so-called "gentlemen's agreement" (also known as the "consensus rate").

Then, Finance Ministry circles and Paris financiers report the new administration's intent to weaken and partially dismantle the export-credit and insurance machinery centered around the COFACE, the foreign-trade credit-insurance corporation. Under this system, over 100 billion francs worth of capital goods and advanced weaponry were sold last year, largely to developing countries and Comecon nations.

In this system, the Banque de France issues credit to banks at rate of 4 to 5 percent, which the banks then blend with commercial rates and lend either as suppliers' or purchasers' credit. The procedure, even if costly to the Treasury, has made French exports of a crucial category of high-technology goods virtually independent of erratic upward fluctuations of the dollar sector interest rates.

Undermining this procedure under the twice fallacious pretext that it "feeds inflation" (which it does only in the very short term, while securing a disinflationary rise of productivity in the medium and long term) and that "the priority should go to recovering the domestic market," the Mitterrand regime is preparing a disaster for the French economy.

Perspectives for 1982

If the panicstricken forecasts of ousted French right-wing politicians have not immediately concretized, the complacent predictions of Socialist Finance Minister Jacques Delors are way out of line with reality. The extreme dependency of the country's financing on the level of U.S. and German interest rates, underscored by the fragility of the franc's parity, will impose a new J-shaped twist by the spring, as the Federal Reserve tightens again, while the corporate sector's abilities to finance its requirements through the banking system will be severely constrained by the fiscal situation. A wave of bankruptcies should be expected, particularly for small-and medium-sized entrepreneurs overburdened by Socialist tax and social reforms. The targets for growth of the monetary aggregates set by the Treasury at 12.5 to 13.5 percent will result in a sharp net deflationary curbing of real credit issuance to the economy.

Consumer spending, the government's darling, has already abated, with October and November failing to continue the upward trend of the summer. Public demand—i.e., budget deficits—will be the main, if not the sole prop to economic activity. The rate of growth of unemployment, which a 100,000-plus government jobs

creation program has recently flattened, will then powerfully restart, bringing the current 2 million unemployed figure one unit ahead.

Social consequences will hit. While it is widely expected that farmers will be rioting on countryside roads and at local government buildings by the spring, laid-off workers will join the ranks of the discontented at the latest by next September, when the government's 1983 budget project fails to deliver any of the hoped-for handouts. Most observers in Paris expect a "left-wing" version of Raymond Barre's austerity policy—with a peculiar, anti-industrial twist.

The incoherent government policy in the field of nuclear energy has given a foretaste of its general industrial planning: after a hectic and disorderly debate that stretched throughout the summer and fall, the Mitterrand regime ordered three nuclear plant projects shut down, while the future of the breeder reactor Super-Phénix at Creys-Malville is uncertain.

The national utility, EDF, may encounter nasty problems in reimbursing Euro-dollar debt incurred on the basis of cash-flow projections expected from the nuclear electricity generating program the government has cut down. EDF is one of the largest single borrowers on the Euro-markets.

Worse, the vast multiplier effect of that program being undermined, and the uncertainty cast over the industry as a whole, will further slow down high-technology investment. Specious pretexts are advanced by Socialist officials, such as the clearly Club of Rome-inspired motto of "it is beneficial that we cut down on the nuclear program, since the stagnation of industrial production will lessen the demand for energy." The Malthusian Socialists seem particularly apt at issuing self-fulfilling prophecies.

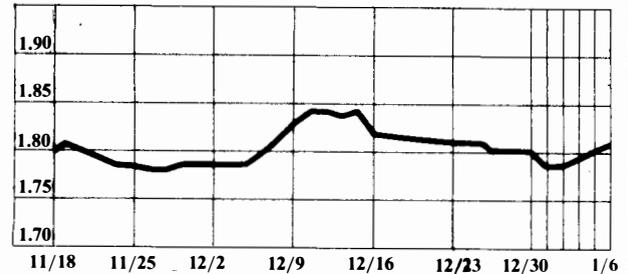
The fundamental orientations of the Mitterrand regime's economic policies were sketched to this reporter last June by the government's number one economic policy "brains," Club of Rome member Jean Saint-Geours, now the administration's "employment czar." Saint-Geours, a founder of the extreme futurology anti-growth cult known as the Futuribles, explained that nuclear energy would have to be reined in to make way for soft-energy, soft-technology types of employment; the planned dismantling of other energy-intensive heavy industries such as steel, shipyards, and other "regressive branches" such as textiles, would lessen energy demand, and pave the way for the "informatization" of the economy and society.

What is meant by "informatization" are the so-called progressive, post-industrial forms of employment based on computers and telecommunications. Emphasizing these types of "industry" is coherent with the Socialist policy of total decentralization and regression of society.

Currency Rates

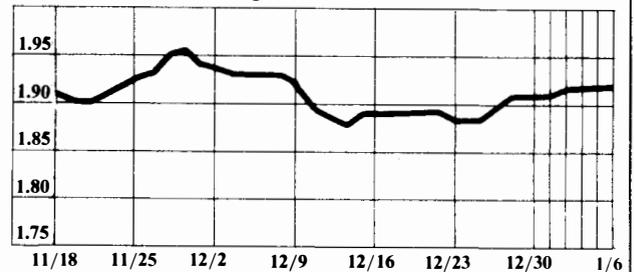
The dollar in Swiss francs

New York late afternoon fixing



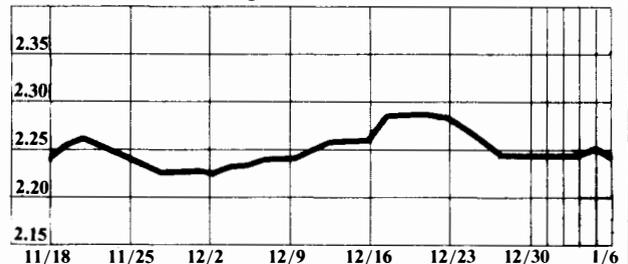
The British pound in dollars

New York late afternoon fixing



The dollar in deutschemarks

New York late afternoon fixing



The dollar in yen

New York late afternoon fixing

