The vicious circle of fiscal shock

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Article for Challenges magazine

November 2012

We have had our fill of the declarations churned out by the government, insisting that the budget presented to Parliament is an “austerity budget”. Austerity for companies - which are being pumped heavily -, for households – with measures that amount to plundering for some -, but not for the State, which is happy just to stabilise its nominal spending excluding the debt and pensions burden. Once again, a very significant amount of wealth is being transferred from the private sector to the public sector, even though public spending currently stands at 56% of GDP. At least this is one field in which France is likely to beat the rest of the world! And despite these record contributions, the State is merely aiming for a public deficit of 3%, an objective that will be all the more difficult to attain in the sense that the ways and means it has chosen to do so are actually moving it further away from its goal.

How are companies supposed to develop their business – through investment, research and recruitment - when they are under pressure and their profit margins have already dropped to their lowest point since 1985? Who can seriously claim that foreign companies will choose our country to invest in? How can we believe that households, some of which are being seriously milked, will continue to consume, save and invest, as if nothing were wrong? How can we insist that this will not cause even more damage to the competitiveness of France, whose external accounts are currently a blazing shade of red with a trade deficit of around EUR 70 billion? How can we believe for one second that the government’s disproportionate (out of all proportion in fact!) fiscal strategy will not lead to relocations, capital flight and a brain drain?

These changes to public finances, almost exclusively based on additional mandatory contributions, will significantly slow down the economy, leading to higher unemployment and, ultimately, further tension over the deficit. They will put a severe strain on our ability to overcome the crisis. Meanwhile, the path we are following is becoming narrower on a daily basis: the day the markets decide that the objective set by France cannot be achieved, the country’s creditability will be shaken and risk premiums will explode. This will have the immediate effect of moving us even further away from the 3% objective. This is the vicious circle in which the peripheral European countries are currently struggling.

The French decision to reduce the deficit by applying austerity measures to companies and certain households – the very households leading and developing those companies – is the exact opposite of what should have been done to speed up the exit from austerity! Let’s work on the premise that only the productive sector generates a surplus, while the public sector simply breaks even according to
the definition of national accounting. In order to repay its debts as efficiently as possible, the country needs a higher surplus, which means prioritising the productive sector. One way to achieve this would be to lower the contributions currently hitting this sector. To be sustainable, this decrease should result directly from lower spending by the public authorities. The State could use the additional surplus to repay the country’s debts, and still maintain the surplus levels that are crucial in terms of returning to growth and ensuring that such growth continues. You have to think about the post-austerity period before defining the main substance of an austerity policy.

An optimal public deficit-balancing policy should always be primarily focused on public spending. Nothing less than wholesale structural reform will have a sustainable impact on the nation’s fixed costs and restore balance to the public sector. Without this reform, it will not be possible to restore the confidence of economic agents, who will continue to anticipate a lengthy period of very high contributions, and will consequently reduce both their investments and their consumption.

The incomprehension surrounding the government’s current economic policy decisions, both in France and abroad, is rooted in the profound conviction that the impending massive contributions will be pointless! All they will do is postpone changes to our welfare spending and protect a public sector opposed to any kind of reform, even if this means further exposing the productive sector, which is obliged to face this new fiscal blow having already suffered the shock of the 35-hour week and the successive blows to competitiveness dealt by Europeanization and globalisation. The sheltered sector of the economy will once again subject the exposed sector to all the consequences of its immobility, passivity and non-adaptability. The former receives attention, admiration and compassion, while the latter is subjected to accusations, levies and restructuring.