French foreign debt soars as asset-stripping of the economy begins

by Laurent Murawiec

Contrary to the contentions of French Finance Minister Jacques Delors, it is not 451 billion francs ($53 billion) that France owes its foreign creditors, but a whopping FF630 billion ($74 billion), a French Senate investigation revealed on May 16. Since the official external debt stood at a moderate FF123.7 billion by the end of 1980, a few months before a Socialist-Communist coalition took power, the slide into "risk-borrower" status has been precipitous. Its impact on the debt-sensitive French economy is already devastating; in three years of the Mitterrand government, the currency has been devalued thrice. By 1988, the country will have to disburse FF150 billion ($17.6 billion) in foreign debt-service, and the only way to meet such commitments will be to auction off parts of the nation's remaining economic assets.

Socialism à la Mitterrand has been the proximate cause for the country's extraordinary slide into debt; there are deeper causes, but the political course of events should be examined first. One of the first moves of the government elected on May 10, 1981 was to nationalize big corporations and banks. To nationalize 12 major industrial groups, FF47 billion was paid out to expropriated owners in the form of long-term floating-rate bonds. These groups, with employment of 600,000, had negligible losses as a result, and some chalked up hefty profits. Losses since have piled up to FF50.7 billion. The newly nationalized groups have received FF25 billion in government funding. The cost of nationalization now stands at FF75 billion; the total cost of the vast nationalized sector since 1982 stands at FF177.7 billion.

The Mitterrand regime's first policy phase was deemed the "State of Grace," and lasted less than one year; it consisted of a massive redistribution of purchasing power, pump-priming measures to stimulate household consumption, and large-scale hiring of state employees. It mainly resulted in an extraordinary swelling of the imports of cheaper manufactured goods. Inevitably, the imbalances created in the trade and current accounts were paid in the form of currency depreciation, which in turn led, through several policy turns, to the austerity policy—*plan de rigueur*—of Finance Minister Delors. "We are going to engineer a recession which will lower the import levels, which will stabilize the franc and permit us to return to equilibrium, even at the price of employment and industrial activity," a close economic adviser of President Mitterrand told us two years ago.

Debt and the dismantling of industry

What the Socialists had not expected is that money unproductively squandered does not return by the fiat of austerity: While the nonproductive sectors they had so boosted (civil service, leisure, etc.) absorbed credits that should have gone to industry, industry has been the first casualty of the successive waves of austerity. The target growth of the money supply, which had originally been set for 1982 at 12.5-13.5%, was lowered to 10% in October 1982, then to 9% in March 1983, and is now set at 5.5-6.5%, while interest rates stand at 14%. In the meantime, the franc has lost 59.7% of its dollar value, 43.15% of its Swiss franc value, and 29.2% of its deutschemark value. Budget deficits have been soaring, from 1980's FF31 billion to last year's effective FF130 billion, with more expected this year—in spite of the slash-and-burn fiscal measures announced a few days ago by the finance minister when he presented his FY1985 budget to the parliament.

Debt monetization has increasingly been the government's favored trick to fund the gaping deficit: Bank purchases of treasury securities have increased fivefold from FF35 billion to FF163 billion over the period considered; the fine terms these discount/lombard-eligible papers command have meant that the Banque de France, through bank mediation, has funded a huge part of the deficit. According to the cited Senate investigation, the external debt of public corporations soared to astounding levels in the 1980-83 period: that of the national utility EDF by 241%, that of the Telecom corporation by 123%, that of the national railroad system by 204%; the national natural gas company GDF's debt has

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increased by 433%, that of the highways corporation by 224%, and so forth. The seven most-indebted public corporations' foreign liabilities went up from FF83.4 billion in 1980 to FF319 billion at the end of last year—they have virtually quadrupled in three years!

It is standard Socialist policy to encourage these corporations to accumulate foreign debt and to reap the foreign exchange thus gained without formally having to chalk up the amounts on the State's own debt blackboard. Another standard operating procedure is to incite the huge nationalized banking sector to pump in foreign deposits, which are then used to finance the current account deficit. A glance at the banks' net *short-term* external positions is particularly revealing (see table).

In short, the banking system is not only the domestic credit cow milked by the government; its external position is equally used as a major stop-gap funding source. Domestic indebtedness represents more than FF600 billion. Of this, the short-term public debt represented FF147 billion in 1980 and FF358 billion now, with the increase in Treasury bills held by the public soaring by 460%. Public medium- and long-term debt has doubled from FF117 billion to FF234 billion. If we add sight deposits held by the Treasury (local authorities, the postal system, the national savings system, and the Treasury's net position with the Banque de France), the total domestic public debt represents FF800 billion ($100 billion). Worse, debt has grown three times faster in three years than Gross Domestic Product. Fifty percent of the new savings accounts created last year supposedly to channel funds into industry, the "Codevi" (industrial development accounts), have gone directly and indirectly to fund the state budget.

According to official statistics, external debt service should increase from FF40 billion in 1982 to FF90 billion in 1986. According to the much more realistic view of the Senate investigation, it will be FF150 billion by 1988. To counter the explosive effect of the senatorial revelations, Delors announced that France will seek to borrow $7.1 billion per annum in the next five years, and claimed that the 1988 debt service burden will only be FF89.6 billion, a very dubious proposition based on wildly optimistic projections of the parity of the French franc, and the trade and current accounts. The minister concedes that perhaps the debt-service burden will increase to FF119 billion.

Short-term external position of French banks

	Assets	Liabilities	Net Position
Dec. 1980	408	497	− 88
Dec. 1981	509	689	−179
Dec. 1982	594	831	−236
Sept. '83	571	861	−289
change	+163	+364	201
% change	+ 40	+ 73	+228

Bankruptcy and unemployment

Brazil, for the debt it piled up in the 1970s, has real assets to show: It has used much of its debt productively, in spite of the later subversion of economic growth by usurious interest rates. No such fight for industrial development has been attempted in France in the last years. To the contrary, in spite of the extraordinary advantage of cheap and abundant nuclear-produced electricity—48.3% of total energy consumed—the country's industrial record is now abysmal. Bankruptcies were occurring at an annual rate of 17,000 a year in 1980; they are now at 24,000 annually. Leading industries have announced major layoffs: The steel industry is in the process of laying off 30,000 workers over two years; the shipbuilding industry is cutting one-third of its capacity; 60,000 additional layoffs will be needed in the auto industry, says National Industrial Commission head Fr. Dalle, while a leader of the CGC white-collar workers' union speaks of 150,000 jobs on the chopping block.

Unemployment has grown more in the last 5 months than in the previous 22 months. Renault's RVI truck-manufacturing division has announced 3,750 layoffs, the Michelin tire manufacturer 6,000, the Talbot auto plant 3,000, and truck-maker Iveco 1,350. In the auto spare parts and equipment industry, 25,000 workers will lose their jobs, as well as an estimated 15,000 Creusot-Loire workers, since the leading high-technology engineering company is tottering on the edge of liquidation.

Industrial employment has been collapsing continuously. The 1982-89 scenario plotted by the national statistical institute INSEE calls for the further loss of 800,000 industrial jobs, after more than 400,000 lost in the last few years. There will officially be 3 million unemployed by year-end.

The loss of industrial capacity is appalling. The government's latest steel plan calls for a reduction of steelmaking capacity to 18.5 million tons, compared to 27 million 10 years ago. Shipbuilding will reduce capacity by 25%. The tremendous expenditure of "pump-priming" state monies had barely resulted in stagnation of industrial output as a whole—and this is now coming to an end. Sales of the major car manufacturers represent an unmitigated disaster: Citroen's dropped by 21.5% in March and fell again by 7.5% in April; Renault's were down 34% in April, and 20% over the first four months of this year; Talbot's sales dropped 56.5%—a harbinger of worse to come. Foreign orders of aerospace equipment, a traditional mainstay of the trade balance, dropped by 46% in 1983 to FF23.8 billion. Whole regions have been devastated, such as the north, which has lost one-fourth of its industrial jobs. According to INSEE, no fewer than 190,000 jobs were lost in 1983, and 240,000 will be lost this year.

The government panics

Shortly after his sojourn in "post-industrial" Pittsburgh, President Mitterrand took the final decision to slash the steel

industry, targeting especially the Lorraine region. To sugarcoat the decisions, Industry Minister L. Fabius canvassed industrialists offering bribes for those who would open plants, workshops, or offices in the region—or even for those who would announce their intention to do so. Painstakingly, 4,000 quasi-jobs, proto-jobs, and would-be jobs were piled up to allow the minister his triumphant announcement. "You don't solve in two weeks a problem that is 15 years old," an expert commented. True enough, but the government's response has been panic and improvisation. Faced with the combined FF10 billion losses of the two nationalized steelmakers, the government decided to strike—at industry.

After the flurry of wage increases and lavish budget allocations of 1981-82, the successive austerity plans led to a 0.9% drop in consumption in 1983. Farm income dropped by 3.1%. Wages and prices have been forcibly "divorced," and purchasing power of households will additionally be diminished by increased social transfer payments. Investment is hampered by the low self-financing capabilities of the corporate sector, the high interest rates, and the "crowding out" effect of government borrowing, denounced in a recent report to the president by Banque de France governor de la Genière. The public sector had accounted for 50% of productive investment under the previous Giscard government. In its present financial shape, it is nowhere near being able to fulfill that function. Some large infrastructure projects will continue, in the form of high-speed trains and urban transit, but not nuclear equipment, which the Socialists have sharply slowed down. Mitterrand's number-one priority is now the preposterous "telematique" fad, a combination of telecommunications and computers, wrongly supposed to be the "third industrial revolution."

Only exports could pull the economy ahead, but would require large, continuous devaluations of the French franc, since the inflation differential with competitor nations such as Germany is still high—in the 3-6% range. The country's terms of trade will have to deteriorate if the balance of trade and the current account are to improve. And while at the end of 1983, the International Monetary Fund had given one precious brownie point to the French government—the external account was supposedly improving—the first-quarter 1984 results have dashed the finance ministry's hopes: A FF12.8 billion trade deficit and a FF15 billion current account gap spell disaster for the year. It seems virtually impossible to avoid at least a FF30-35 billion trade deficit and a FF40-50 billion payments gap.

The government's reaction has been spelled out by Delors: "The 1985 budget will be incommensurably more rigorous than that of 1984." Planned is a 10% cutback in government investment, which will end up as a 16.5% cutback once inflation is taken into account; state employment will be cut by 1%, and operating expenses of the state will drop by 8.5% in real terms. Already last March, large government investment programs were abruptly canceled, and the favorite game in ministerial offices ever since has been to juggle declining amounts of credit from one budget to another, according to the fluctuations of presidential moods and the riot-capability of the social layers affected.

Asset-stripping

Aside from the cybernetic fantasies of chief presidential adviser Jacques Attali, whose "technetronic" leanings have been the subject of numerous cocaine-inspired books which have earned him several unprintable nicknames, the new fad in government circles is "sharing the work." Work-time should be shared to "save jobs," and some approximation of a 35-hour work-week should be introduced, Social Affairs Minister Pierre Beregovoi has repeatedly insisted. Sops have to be found: A massive strike wave is presently hitting the auto industry, complete with sit-ins and violence, and its principal backer, the Moscow-controlled CGT labor union, wants government blood.

But another way out is being dangled in front of the Socialist government's weary eyes: *asset-stripping*. The nationalization of large chunks of the corporate sector and many private banks has fundamentally represented *a redeployment of funds* rather than a "socialist" move. Shareholders have been lavishly bought out; the state has been loaded with loss-generating sectors, and, in the words of one commentator, "The losses have been nationalized," and the buck passed on to the taxpayer, whose lot the finance ministry is presently working at worsening.

The looting mechanism is breathtaking in its sheer imaginative power: Capital fled France before and after the Socialist-Communist assumption of power; the franc collapse worsened the terms of trade as the import bill soared. France had to borrow abroad, from the creditors that had pulled out the means to repay its accumulating debt in the first place. The time is now approaching when foreign creditors will be able to buy up large chunks of that same nationalized industry very inexpensively, and which the government will have to sell under the pressing diktat of immediate financial requirements.

Nationalization will have meant a vast redistribution of power which, for two years, has given the misleading impression of benefiting either the poorer layers of the population or the state. The former have already been despoiled of whatever they briefly acquired in terms of purchasing power; the latter will disengage itself from ownership, whether under a "revisionist" Socialist government or a new regime manned by the opposition, which announces loud and clear its intent to massively denationalize, à la Britain's Margaret Thatcher. This will be the price for redeeming the foreign debt. The current adventures of Creusot-Loire (see *EIR*, May 15) are just a first signal in this direction. New waves of panic and improvization can easily be forecast. "Buy dear, sell cheap"—such is the motto of the incompetent crowd presently running French economic policy.