Why the coffers are empty

Article in Le Monde, April 2008 by Jean Pisani-Ferry

1992, 2001 and now 2008 : for the third time the French economy is going into an economic slow-down with a budget deficit which is too high. And for the third time the French government has had to choose between supporting growth and running down public finances once again. Nicolas Sarkozy hardly mentioned it when he spoke to the nation on 24 April, but in opting not to showcase any key measure, he implicitly confirmed the choice he had made in January – he does not intend to 'empty the coffers which are already empty'.

This decision has a social and economic cost. On account of the rise in prices 2008 will doubtless end in stagnation or with a drop in spending power. A tax measure, benefits targeted on those on low incomes, would have sustained consumption when it was flagging and would have helped contain the catch-up wage demands which now threaten to feed an inflationary spiral. But deliberately increasing a deficit already at 2.7% of GDP in 2007 would mean incurring the wrath of France's European partners, attracting the suspicion of capital markets and probably triggering enough concern to seriously reduce the impact of fiscal refaltion. The government's choice is a rational one.

The situation is entirely different in Germany where the budget is in balance, and in Spain where there is a surplus. Of the fifteen countries of the euro area four recorded a substantial surplus in 2007 and six hovered around balance. All these countries today enjoy the latitude needed to sustain growth and some are set to do so. Only Portugal and Greece are in a similar situation to France. Even Italy is doing better.

Why is this the case? Why does France maintain deficits in periods of growth, thus debarring itself from wheeling out the budgetary arsenal in downturns? Why does it do the exact opposite of what both Keynesianism and European rules prescribe? Why does it systematically run a policy which magnifies the fluctuations of the cycle rather than ironing them out, with the risk of slowing overall growth? Other countries have made these mistakes in the past, and then learned from them. France seems incapable of learning.

The reason is more political than economic. The permanent budget imbalance is primarily the result of a contradiction: an addiction to spending and a reluctance to tax. France is second in the OECD ranking of public expenditure, but as soon as governments of any stripe have got a sniff of additional revenue, they have all rushed to cut taxes. The deficits also reveal a fixation with the present, a collective inability to think even a few years ahead, which is a feature of countries which are obsessed by distributional conflict.

In order to corral the tendency to run deficits and so as to stretch policy deadlines, it is possible to guide decisions with principles and ensure institutional supervision. Traditionally France relied on the clout of the minister of finance: the French constitution, the law and custom give him the means. But the rapid rotation of finance ministers (thirteen ministers in fifteen years) has undermined their authority. Ten years ago France timidly endowed itself with a three-year spending ceiling. It has never been respected. Also, it subcontracted its fiscal discipline to the European institutions, in the shape of the Stability Pact. But by a strange reverse logic everyone has come to consider that the more the rules are flouted, the smarter the government is. At the end of the day none of the methods by which France has sought to impose a degree of consistency over time has succeeded.

Of course the present government cannot be held to blame for all of this, but it has not shown any sign of wanting to change tack. On the contrary the budgetary package of summer 2007 – barring an unsubstantiated claim of having devined the current difficulties – follows perfectly the tradition of off-beat management. The decision shortly to submit the three-yearly spending plan to a vote in the French parliament is a start, but will not change much on its own. At the same time Germany, on the model of a number of other countries, is preparing to revise its constitution to introduce a new budgetary rule-set.

It is high time that France confronted this question head on and adopted in its turn a code of budgetary responsibility and procedures to ensure it is complied with. The code could be elaborated on a cross-party basis, since the goal would be to establish fairly consensual principles for successive governments to follow. It should go beyond bare objectives and, for example, determine whether forecasting and evaluation should remain within the purview of the finance minister. International experience provides an extensive range of solutions for France to choose from.

This will of course have no effect on the current situation. But apart from sending a signal that France is taking this question seriously, it would go some way to ensuring that we are not caught out as badly as today the next time a recession comes around.