THE TRUE COST OF AUSTERITY AND INEQUALITY

France Case Study

Introduction

From 2010 to 2013, the French strategy for coping with the economic crisis was slightly different from those of Spain, Portugal or Greece, where 60 to 80 per cent of deficit-reduction efforts were made through cuts in public spending. France's initial political decision was to focus on raising taxes rather than drastically cutting public spending.

France has undoubtedly been affected by the economic crisis, even if the media have put more emphasis on the impact of the crisis on neighbouring countries. In 2009, France's GDP shrank by 3.1 per cent, compared with 2008.[1] It recovered slightly in subsequent years, but France officially entered into recession in the first quarter of 2013 after its GDP decreased for the second period in a row by 0.2 per cent.[2] The French government expects zero per cent growth in 2013 at best. The main consequences of the economic crisis in France have been seen in unemployment, lower purchasing power, an increase in public debt, and the impacts of austerity measures.

Despite the criticism of European austerity policies by French President François Hollande (and before that by Nicolas Sarkozy) and his calls to promote growth in Europe, France has gone through several rounds of austerity measures since 2010. 2013 saw the government begin to follow the traditional austerity measures recommended at EU level, with new taxes and massive cuts in public spending.

Austerity measures in France

In May 2013, the European Commission granted France a two-year deferral (until 2015) to bring its public deficit back to the European target of three per cent.[3] This deferral has been presented by the government as a political victory against austerity. The Finance Minister Pierre Moscovici, speaking on 4 May 2013, gave the official French line on the public deficit: 'no room for complacency in any effort to cut spending, but no structural overshooting, no austerity plan … We're inventing a new way between deficit reduction and growth.'[4] However, since 2010, France has been through five rounds of austerity measures. In November 2011, the then-government, led by François Fillon, announced measures intended to raise €65bn by 2016 through a combination of reduction in public spending and increases in taxes, including €7bn in 2012 and €11.6bn in 2013. For 2013, the plan foresees €7.9bn of tax increases of which 86 per cent (€6.8bn) will fall on households.[5]

Since the change of government in 2012, more austerity measures have been announced for the 2013 budget with the aim of saving an additional €37bn. This new austerity plan will include an unprecedented amount of new taxes and spending cuts. It includes President Hollande's well-known electoral promise to impose a 75 per cent tax on earnings above €1m per year. Additional measures include the abolition of fiscal incentives for large companies and €10bn of cuts in public spending (focusing mainly on the ministries of Environment/Ecology, Economy, Agriculture, Foreign Affairs and Culture). Despite an attempt to raise taxes among the wealthiest people in the country, the new austerity measures are likely to affect the entire population. Indeed, the French Parliament, as part of a package to save an additional €20bn in 2014 (including €5bn in direct cuts from ministerial budgets), voted for a general hike in VAT, from 19.6 to 20 per cent, from next year. On one hand, the French government claims to be putting the burden of the tax increase on the richest, but on the other, it agrees an increase in VAT, known to be a regressive tax that impacts all social categories, especially the most vulnerable.

The two-year deferral from the European Commission brings with it the prospect of future reforms for the population. There are plans for further cuts in public spending (such as through changes to family allowances) and for reforms to the labour market (such as a reduction in unemployment benefits). Moreover, the government will soon be discussing pension reform – a controversial topic in France – opening up the possibility of reducing pension rates in the future. The objective is to bring the public deficit down from 4.8 per cent to 3.6 per cent in 2014 and to 2.8 per cent in 2015.

Impact of the austerity measures on inequality and poverty

One of the first effects of the economic crisis in France was the loss of more than 600,000 jobs since 2007. Since the crisis began in 2008, unemployment rates have risen steadily to unprecedented levels. In May 2013, unemployment increased for the 24th consecutive month, with 4,799,200 people out of work (10.4 per cent of the active population[6]). Those most affected are under 25s and senior workers.[7] In the first quarter of 2012 alone, 207 redundancy plans were registered and 16,000 companies went into liquidation.[8]

People's purchasing power in France shrank by 1.2 per cent in 2012; the greatest retraction since 1984; while at the same time essential costs (like electricity, gas and oil) have been rising. French public debt has increased by 3 per cent since 2011, further widening the budget deficit.

The crisis in France has brought greater poverty. Taking the official poverty line to be 60 per cent of the median wage, 7.8 million people (or 13 per cent of the total population) were considered poor in France in pre-crisis 2006. In 2010, this rose to 8.6 million (more than 14 per cent of the population), including 2.7 million children.[9] This represents an increase of 800,000 people in less than five years.

This increase in poverty has particularly hit single-parent families, retired women and young people under 18 years, among whom the poverty rate has reached 19.6 per cent.[10] Between 2009 and 2010, wages among the 20 per cent poorest people have decreased by 1.3 per cent, whereas for the 20 per cent richest, wages have risen by 0.9 per cent.

One way to gauge how people are being affected by the crisis is to measure access to health care. This has steadily diminished since the crisis began. The French health care system is largely financed by a national health insurance: in 2010, approximately 77 per cent of health costs were covered by the state and the remainder by a mutual system, private insurance or by individuals' out-of-pocket expenditure. The state still assumes the full costs for people on the lowest incomes through the 'couverture médicale universelle – complémentaire', but for other poor to middle-class groups, things are deteriorating rapidly. According to a 2012 survey,[11] 11 per cent of the French population said financial reasons had prompted them not to get treatment. In 2012, this had risen to 27 per cent. Those surveyed said that they chose first to do without dental care (19 per cent), then without buying glasses (10 per cent) and medication. The reason for this growing struggle to afford health care is mainly the reduction in the proportion of costs that the state will reimburse. As a result, 91 per cent of the French population believes that the way health care is currently financed is now under serious threat.

Inequality has been on the rise in France for at least the last decade. Between 2000 and 2010, the average household income of the poorest 10 per cent of people grew by 5.3 per cent, or €400, while the average household income of the 10 per cent richest increased by 18.9 per cent, or €8,950. In 2010, the poorest section of society earned seven times less than the richest, compared with 6.3 times in 2000. Inequalities are rising in France – rapidly.

At the very top of the income pyramid, financial revenues represent a significant share of resources. If these financial revenues failed to perform well in 2009 due to the financial crisis, this did not dent the fortunes of the 'super rich' who nonetheless experienced the largest increases over the period 2004 to 2010. The 10 per cent richest people have increased their revenues by nearly 7 per cent and the 0.01 per cent richest by 32.3 per cent.[12]

Pressure on aid budgets

The total official development assistance delivered by France in 2011 amounted to €9.8m.[13] According to the OECD, French aid represented 0.45 per cent of GDP in 2012, far below the 0.7 per cent objective set for 2015, and missing the 2010 European interim target of 0.56 per cent. More worryingly, French aid has decreased from 0.5 per cent in 2010 to 0.46 per cent in 2011 and 0.45 per cent in 2012.

Despite the French development agenda prioritizing social sectors like health and education, this has not been reflected in French budget allocation. The strong growth of concessional loans to emerging countries is resulting in a reduction of bilateral grant projects. The French Development Agency seeks to minimize state commitments and focuses on lending mainly to credit-worthy countries. The poorest countries necessarily find themselves excluded from this funding.

France is one of those leading the way on creating innovative financing mechanisms, including introducing a tax on financial transactions. It implemented a financial transaction tax in August 2012, which it hoped would raise €1.6bn in additional revenue. However, due to a narrow tax base, it is expected to generate only €600– 800m in 2013. Most importantly, only €160m per year will be allocated to international development.

Conclusion

Those in greatest poverty in France have without doubt benefited from state social transfers. As Fabrice Lenglart of the National Statistics Institute (INSEE) has noted, 'Without the redistributive effects of social transfers, the decline in living standards of 20 per cent of the poorest households [in France] would have been four times higher, which would have caused an explosion of inequality'.

Poverty and inequality are rising in France, however, and this situation will only be worsened by the likely cuts in public spending across all sectors in 2013 and 2014, , combined with stalling growth.

NOTES

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