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France needs 'unprecedented' spending cuts

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By Hugh Carnegy in Paris


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France's socialist government needs to make "unprecedented" cuts in public spending and avoid further undermining the country's weakened competitiveness as it raises taxes in the battle against the budget deficit, the national auditor warned on Monday.

In a report ordered by President François Hollande when he took office in May, the Cour des Comptes spelt out the scale of the task facing the government in meeting France's commitments to reduce its budget deficit to 3 per cent of gross domestic product next year and eliminate the deficit by 2017.

"2013 is a crucial year," said Didier Migaud, the Cour des Comptes president and a former socialist parliamentarian. "The budgetary equation will be more difficult than expected because of the worse economic situation.

"The government must simultaneously cut not one but two deficits, in the public finances and in its competitiveness."

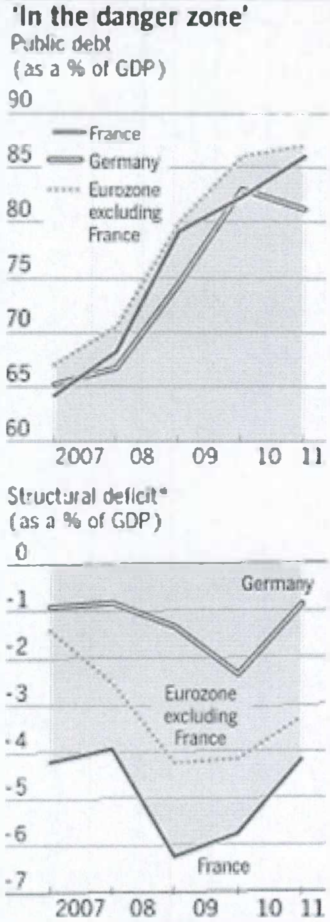
Estimating that savings of €33bn will be needed to hit the 2013 deficit target, the auditor said France could see its public debt hit 90 per cent of GDP this year. It pulled few punches on the country's "far from exemplary record" on its public finances, noting that it lagged far behind Germany – and that Italy and Spain had made twice the effort on their deficits.

"The country is in the danger zone. The risk of a surge in the debt can't be excluded. The sovereign debt crisis in Europe shows that the risk is not theoretical," said Mr Migaud.

The report said the required savings next year were based on a forecast of 1 per cent growth – and would follow €6bn-€10bn in additional savings needed to meet the 2012 deficit target of 4.4 per cent to compensate for low growth and lower-than-forecast tax receipts.

It pointed out that the savings figure for next year did not take into account new spending pledges already made by the government, or the repayment of some €5bn in receipts from a tax on non-resident dividends ruled out by the European authorities.

'In the danger zone'



* General government deficit excluding one-off items
Source: Cour des Comptes

“It will require both an unprecedented curb on public expenditure and an increase in taxes,” Mr Migaud said.

Jean-Marc Ayrault, the prime minister, is due to set out the government’s economic policy plans on Tuesday, with a supplementary budget for 2012 to follow on Wednesday.

The government has sought to use the Cour des Comptes report to lay the blame for the fiscal predicament on the former government of Nicolas Sarkozy, beaten by Mr Hollande in the presidential election, and give it political cover for the imposition of tough savings measures.

“The state of the public finances left by the last government makes determined correctional action necessary,” a statement from the prime minister’s office said in response to the auditor’s report.

But the report revealed no “black hole” in the state books and gave credit to Mr Sarkozy’s administration for a significant improvement in the deficit since 2010. It appeared at odds with the government’s plans for tax hits on big business and the wealthy.

It pointed out that France already had one of the highest tax burdens in Europe and most of the fiscal savings made to date had been through raising taxes. It stressed the importance of limiting further required tax increases to the closing of France’s multiple tax relief schemes and a widening of the base of value added tax and social charges.

Tax strategy must “improve competitiveness, potential growth and employment”, the report said.

By contrast, it said it was “essential” to cut public spending – at 56 per cent of GDP, the second highest among OECD countries – which could be reduced “without putting in question the quality of public services and the scale of redistribution”.

The report canvassed a number of scenarios for cutting spending, saying that if the €33bn in savings was split evenly between cuts and taxes, the required figure could be reached by freezing state spending in real terms.

It pointed out that state salaries accounted for 13.6 per cent of GDP, saying meeting deficit targets implied the need to stabilise this figure in nominal terms. It said there was a strong need for efficiencies in the disbursement of a range of social spending and other transfer programmes which accounted for €620bn out of total public expenditure of €1.1tn.

“In health, education, vocational training, for example, France spends much more than other countries where the outcome in these areas is considerably better than ours,” Mr Migaud said.

The report also warned that the state pension system would run an annual €10bn deficit up to 2020, despite the pension reforms undertaken by Mr Sarkozy raising the minimum retirement age to 62. The new government has restored the right to retire at 60 for some workers and is set to conduct a new pension reform review.

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