

France's Pathological Crisis

BY PHILIPPE RIÈS

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Forget the postcard image of Alsace with its picturesque, flower-bedecked villages along the vineyard route. This formerly German-speaking region in eastern France has for years been the target of a new German invasion. Daily, dozens of forty-ton freight trucks cross the border to use Alsace's secondary roads, avoiding an ecotax on the German side of the Rhine. After some forty miles, they cross back, leaving a trail of noise, air pollution, traffic jams, and road damage. For this ordeal, the good burghers of Alsace can blame their compatriots in Brittany, hundreds of miles to the west.

There, in 2013, a few thousand protesters—dubbed the “Red Bonnets” after a seventeenth-century anti-tax revolt that ended in a bloodbath—forced a democratically elected government to capitulate after a week of riots and destruction. The government scrapped a national ecotax targeting freight traffic outside the toll-gated motorway network. The cost to the then-socialist government was €1 billion to compensate the company that had already installed the gantries to collect the tax. The annual revenue, estimated at €1 billion at the time, would be far higher today. In 2027, Alsace alone is expected to finally introduce its own version of the tax, hoping to end this painful traffic diversion. Unsurprisingly, the local freight lobby is up in arms.

One cannot understand the budgetary crisis now making France the eurozone's worst performer without grasping the main driver of its political life: the relationship between the State and “corporatisms.” By this, we mean the myriad lobbies and vested interests whose aim is to capture the State so that their particular interests prevail over the common good. The term itself

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derives from the “corporations” that Jean-Baptiste Colbert, the great minister of King Louis XIV, used to force civil society into a new economic structure, consolidating the absolute monarchy on the ruins of the old feudal order.

In 1856, two decades after *Democracy in America* made him famous on both sides of the Atlantic, Alexis de Tocqueville published another brilliant work of historical

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and political analysis, *The Old Regime and the Revolution*. His central argument is that, despite its magnitude and global impact, the French Revolution did not affect—and in some cases even consolidated—key features of political power under the absolute monarchy. Notably, it preserved the extreme centralization of power backed by an ubiquitous and invasive bureaucracy.

According to Tocqueville, “[C]entralization was not abolished by the Revolution, because it was, in fact, its preliminary and precursor. ... The despot fell; but the most substantial portion of his work remained: his administrative system survived his government.” Tocqueville observed that ever since, whenever the French have overthrown an absolute government, “the head of Liberty has been simply planted on the shoulders of a servile body.”

A century later, with the creation of the Fifth Republic by Charles de Gaulle, the king ruling by divine right was replaced by an “elected Republican monarch.” The president of the Republic possesses powers and prerogatives that, on paper, far exceed those of any comparable leader in other advanced Western democracies. The political institutions are heavily biased in favor of the executive branch, acting through a state *nomenklatura* (headed by graduates of the École Nationale d’Administration) that continues to fit Tocqueville’s description of the Old Regime’s administrative machine. He noted its “hatred it bore to every one,

whether noble or not, who presumed to meddle with public affairs without its knowledge,” and its distrust of any free association not under its direct control.

In direct violation of Article 20 of the Constitution, a president backed by a parliamentary majority—a significant “if”—exerts decisive influence over “his” government, with the prime minister treated as a mere collaborator. The meddling of the Élysée Palace in daily life can sometimes border on the ridiculous. Thanks to the discipline of MPs nicknamed *godillots* (“combat boots”), the Parliament often functions as a rubber stamp. Even when facing a hostile majority—as happened to François Mitterrand and Jacques Chirac—the president has to relinquish control over domestic policies but continues to wield significant influence over defense and foreign policy, the so-called *domaine réservé*, a practice of dubious constitutional legality.

This top-down institutional setup profoundly influences how French citizens perceive their relationship with political power. In a word, and in absolute opposition to Ronald Reagan’s famous motto, the State is expected to be the solution to every issue, whether large or minor. Hence, the absolute necessity for “corporatism” to capture state intervention in areas of vital interest to them.

Some vested interests have been impressively successful at this game. In my more than fifty years as a journalist, I can recall only one French minister of agriculture who did not behave as a mere bag-carrier for the powerful farm lobby, led by the FNSEA union. With disastrous results, as seen in the proficiency of French pupils in PISA rankings, national education policy has been largely in the hands of the numerous teachers’ unions. And then, as witnessed with

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the *Bonnets Rouges* in 2013, there are regular outbursts of protest by violent minorities that force democratically elected governments to capitulate to narrow vested interests, usually at an outrageous economic and social cost. In 2018, after weeks of rioting and rampage, including the desecration of the Arc de Triomphe, the newly elected President Emmanuel Macron caved in to the *Gilets Jaunes* (Yellow Vests). The bill for appeasement? €17 billion.

What this all means is that behind an appearance of strength, state power in France is fundamentally weak. In the perennial game of chicken between the State and

corporatisms, the latter most frequently come out on top. Tocqueville would not be surprised. He wrote that while the king “used the language of a master, he was, in reality, the slave of public opinion. ... Absolute in theory, he was limited in practice.”

Obviously, despite this remarkable continuity across centuries and different regimes, the dialectic of power has had to evolve. Since World War II, two major trends have had a tremendous impact. The first was the emergence of the welfare state in Western Europe. The second was the end of the post-war high-growth period, coinciding with what historians call “the shock of the global” (see the book of that name edited by Niall Ferguson, Charles S. Maier, Erez Manela, and Daniel J. Sargent, Harvard University Press, 2010).

In short, the systemic rupture of the 1970s meant that the ballooning welfare state became increasingly difficult to finance, despite the continuous rise of public spending and tax revenues as a proportion of GDP. In 2023, France was leading the OECD countries by the magnitude of public expenses, at 57 percent of GDP. But there is much more at stake than a financing issue.

The late Portuguese historian and essayist Vasco Pulido Valente observed that the “Social State” needed to create a social class that would then support and perpetuate its existence as a political superstructure. In other words, unlike previous substitutions of an old ruling class by a new one, it was not an emerging power that recreated the State for its own needs, but the State that created its own supporting class. For Pulido Valente, the “democratic class” is this large section of the middle class directly or indirectly dependent on the State. In 2022, 5.6 million people were on the state payroll in France, a fifth of the country’s workforce. But the dependency extends far beyond civil servants and their relatives.

The Welfare State has been transformed from a social safety net into a massive redistribution machinery run largely by the State. This is a European issue, of course. Former German Chancellor Angela Merkel often pointed out that the European Union represents 7 percent of the world’s population, 20 percent of global GDP, and 50 percent of global social spending. But the problem is currently most acute in France. At €666 billion in 2025, the Social Security budget is a third larger than the state’s central budget and is voted into law by Parliament in a separate bill. It is no coincidence that the Welfare State is referred to in French as *l’État Providence* (“the Providential State”). Here again, Tocqueville foresaw it: “the government having assumed the place of Providence, people naturally invoked its aid for their private wants.”

Statistically, the French redistribution machine appears strikingly efficient. It reduces inequality, as measured by the Gini index, by 25 percent—10 percent more than the European average. The standard of living of the top 20

percent is eight times that of the bottom 20 percent before redistribution; the gap is halved afterward. But the system is hugely expensive, costing 25 percent of the national income. It is utterly complex, operating through a thick jungle of taxes and subsidies, and is fundamentally bankrupt, rendered unsustainable by economic and demographic shifts.

At the heart of the system is a common interest bonding the state *nomenklatura* and the “democratic class.” While the latter is the main beneficiary, the former revels in exerting power over the economy and society through what the econ-

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omist Ludwig von Mises termed “social engineering”—the state’s pretension to structure society using taxes, subsidies, laws, and regulations.

In *The Old Regime and the Revolution*, Tocqueville pinpointed this fundamental contradiction: the French desire for political liberty was imbued with notions of government that were “almost hostile to it. In their ideal society there was no aristocracy but that of public functionaries, no authority but the government, sole and all-powerful, director of the state, tutor of individuals.”

The free-market think tank IFRAP has listed 483 different taxes, levies, and contributions in France. Of these, 192 yield less than €150 million annually. Companies alone face over 140 different taxes and contributions, including the infamous “production taxes,” due whether the company is profitable or not. These account for 3.8 percent of GDP, against a European average of 2.5 percent (0.7 percent in Germany). These figures are disputed because even the French tax administration cannot precisely map this nightmarish jungle. Overall, the mandatory contributions of French companies are 6 percent of GDP higher than the European average—a €157 billion handicap. To “compensate,” the state distributes a similar amount through tax exemptions and subsidies, but the contributors and beneficiaries are not the same. IFRAP estimates that 81.4 percent of direct budget subsidies went to state-owned corporations in 2022. France retains a large

public business sector, accounting for 5 percent of GDP and employing nearly a million people.

Hopes that European integration would force the French state to reform and release its grip have proven largely delusional. A closer look at the history of European institutions demonstrates, on the contrary, Paris's capacity to project its administrative model onto the Brussels apparatus. From 1968 to 1987, Frenchman Emile Noël served for nineteen years as the first Secretary-General of the Commission, the top bureaucrat in the European executive branch.

In fact, with the birth of the single currency in 1999, French governments received a license to finance their way out of trouble. The euro initiated what Morris Goldstein, then chief economist at the International Monetary Fund, described as a "convergence play," where the risk premiums of member states converged towards the best signature—Germany's. The Growth and Stability Pact, designed to enforce budgetary discipline, did not survive the night of November 2003, when the ECOFIN council overruled Commissioner Pedro Solbes and decided that sanctions would definitely not apply to "big countries" like Germany and France.

To this day, France has enjoyed the implicit guarantee extended to its public debt by Germany and benefited from the complacency of European institutions, always ready to refill the glass of the drunk begging for one last drink. But the tectonic plates are shifting in the wrong direction for Paris.

France has not had a balanced budget since 1974, but the current situation is different. From being one of many sinners in the eurozone, France has become the worst performer. The debt-to-GDP ratio is now 115.6 percent, expected to reach 120 percent by 2027 and, on the current trajectory, 130 percent by 2030. By contrast, the ratio has stabilized or decreased in the so-called PIGS—the countries at the heart of the 2011–2013 sovereign debt crisis. Greece's ratio fell from 207 percent to 150 percent, Italy's from 155 percent to 135 percent, Spain's from 119 percent to 102 percent, and Portugal's from 134 percent to 93 percent.

International investors and rating agencies seem to have awoken from their prolonged nap. France, whose financing needs are a staggering €300 billion for 2026, now borrows at a cost equal to or higher than all other eurozone member states. The yield on Italy's ten-year bond is currently lower than France's. After recent downgrades and upgrades, Portugal's public debt rating of "A" is only one notch below France's "A+". With rising interest rates and the European Central Bank engaging in quantitative tightening, debt servicing is expected to reach €100 billion in 2029 (up from €67 billion this year), far exceeding the budgets for education or defense.

In short, the budgetary equation has become untenable, generating ever-growing frustration. The downgrading of

the country's economic status has been much faster than that of its public debt. Within the OECD, its GDP per capita fell from seventh place in 2000 to twenty-fifth today. It is now 80 percent lower than in the United States and 20 percent lower than in Germany.

As in many Western democracies, this sense of decline is driving the electorate away from traditional political forces, resulting in a radical left unique in Europe and a right-wing populism that is now the largest delegation in a fragmented National Assembly. But both the institutions and the political mindset are ill-equipped to deal with these challenges. Since his re-election in 2022, President Macron has used five prime ministers. This political instability, which makes Italy look like a paragon of steadiness, feeds economic apathy and social unease. The country is approaching a state of stasis, vainly hoping the next presidential election will provide an exit. The chances are slim.

Foreign readers must understand that France is not facing a simple economic crisis, but a pathological one. The reliance on public spending and the Social State is a decades-long addiction, and a severe one.

In the short term, it seems obvious that France requires the same type of intervention that put the so-called PIGS back on track in the early 2010s—a troika (International Monetary Fund, European Central Bank, European Commission), ide-

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ally led by Vítor Gaspar, the finance minister who shepherded Portugal back to health and for eleven years served as head of the IMF's Fiscal Affairs Department (he is now special advisor to the Managing Director). Unfortunately, France continues to be wrongly regarded as "too big to fail."

In the longer term, the list of necessary structural reforms is well-documented, detailed in one discarded report after another. But as Leszek Balcerowicz, the father of Poland's "shock therapy," quipped years ago, the tragedy of democracy is that "bad policies are an easier sale than good ones." ♦