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FRANCE: ECONOMIC POLICY UNDER THE NEW GOVERNMENT

SUMMARY.

1. NO EARLY CHANGE IN ECONOMIC POLICY LIKELY. BUT THE WAY DECISIONS ARE MADE WILL CHANGE WITH GREATER CENTRALISATION IN THE ELYSEE AND MATIGNON AND AT LEAST INITIALLY, A MORE LIMITED ROLE FOR THE MINISTER OF FINANCE. THE COLLECTIVE STRENGTH OF THE NEW ECONOMIC TEAM IS LESS THAN AWE-INSPIRING. IT FACES SUBSTANTIAL PROBLEMS.

DETAIL.

2. JOSPIN, FIRST SECRETARY OF THE SOCIALIST PARTY, HAS SAID THAT FABIUS INTENDS TO FOLLOW A POLICY WHICH DOES NOT DIFFER FROM MAUROY'S. THIS STATEMENT CAN BE TAKEN TO REFLECT THE INTENTIONS OF THE ELYSEE AND MATIGNON. THE NEW MINISTER OF FINANCE OUTLINED TO THE COUNCIL OF MINISTERS YESTERDAY A BUDGET EVIDENTLY UNCHANGED IN ITS MAIN FEATURES FROM THAT PREPARED UNDER MAUROY (PARIS TELNO 896). THE GOVERNMENT WILL PRESENT A GENERAL POLICY STATEMENT TO PARLIAMENT NEXT TUESDAY, AND SINCE MITTERRAND IS AT PRESENT COMMITTED TO THE STRATEGY OF RIGOUR THIS STATEMENT CAN BE EXPECTED TO REAFFIRM THE MAIN LINES OF EXISTING ECONOMIC POLICY.

3. ON THE OTHER HAND, THE WAY ECONOMIC DECISIONS ARE MADE MAY WELL CHANGE: THE GRIP OF THE ELYSEE TEAM WILL BE TIGHTENED, BUT FABIUS AND HIS STAFF AT THE MATIGNON MAY ALSO WANT TO PLAY A LARGER ROLE THAN UNDER MAUROY. IN CONSEQUENCE, BEREGOVY'S INFLUENCE MAY WELL BE LESS THAN THAT OF DELORS, AT LEAST INITIALLY. THE SPLITTING OF THE MINISTRY OF INDUSTRY AND RESEARCH INTO TWO, AND THE APPOINTMENT OF THE LIGHTWEIGHT MME CRESSON AS MINISTER OF INDUSTRIAL REDEPLOYMENT SUGGESTS THAT FABIUS INTENDS TO CONTINUE TO INVOLVE HIMSELF CLOSELY IN POLICY FOR INDUSTRY.

4. BEREGOVY COMES TO THE MINISTRY OF FINANCE AFTER EARNING CONSIDERABLE RESPECT BY THE WAY HE BROUGHT THE SOCIAL SECURITY ACCOUNTS INTO BALANCE. HE DID NOT SHRINK FROM IMPOSING UNPOPULAR ECONOMIES AND WAS AN EFFICIENT ADMINISTRATOR. HIS WORKING-CLASS ORIGIN AND AIR OF COMMON SENSE, MAY HELP HIM IN SEEKING CONTINUED SUPPORT FOR THE POLICY OF RIGOUR, WHICH WILL BE INCREASINGLY CONTESTED BY THE COMMUNISTS AS THEY EXERCISE THEIR ENHANCED FREEDOM TO EXPLOIT POPULAR DISCONTENT. INTERNATIONAL FINANCIAL MARKETS CANNOT TAKE THE SAME REASSURANCE FROM BEREGOVY'S POLICY PREFERENCES AS FROM HIS PERSONALITY. WHILE HE LOYALLY AND EFFICIENTLY APPLIED THE POLICY OF RIGOUR, HE BASED A BID FOR

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THE PREMIERSHIP IN MARCH 1983 ON ADVOCACY OF AN ALTERNATIVE ECONOMIC STRATEGY THAT INCLUDED FRANCE'S DEPARTURE FROM THE EMS, A FREE FLOAT OF THE FRANC, IMPORT CONTROLS AND THE UNLINKING OF DOMESTIC INTEREST RATES FROM INTERNATIONAL ONES. HE HAS ALSO ARGUED FOR AN INCREASE IN VAT, NOT LEAST AS AN ADDITIONAL MEASURE OF PROTECTION FOR FRENCH INDUSTRY. THIS PACKAGE MAY HAVE OWED MORE TO A DESIRE TO OFFER AN ALTERNATIVE TO DELORS' ORTHODOXY THAN TO PERSONAL CONVICTION, AND HE WOULD NOT EXPECT HIM TO PRESS FOR ITS ADOPTION NOW. BUT HE COULD AGAIN BE TEMPTED BY MIRACLE SOLUTIONS WHEN NEW DEVELOPMENTS REQUIRE NEW DECISIONS.

5. THE COLLECTIVE STRENGTH OF THE TEAM NOW IN CHARGE OF THE ECONOMY IS LESS THAN AWE-INSPIRING. THE LIMITATIONS OF MITTERRAND'S COMPETENCE IN THIS AREA ARE WELL KNOWN. THE RECORD OF FABRIS IS MORE SUGGESTIVE OF POLITICAL DEXTERITY THAN ECONOMIC MASTERY. BEREGOVY IS UNLIKELY TO PROVE ONE OF FRANCE'S MORE BRILLIANT MINISTERS OF FINANCE, AND NOTHING MUCH BEYOND VERBAL FIREWORKS CAN BE EXPECTED OF MME CRESSON. THE ELYSEE STAFF IS UNCHANGED FOR THE MOMENT. THE CHANCES OF THIS TEAM PRODUCING A STRATEGY THAT COULD IN TIME REINVIGORATE THE FRENCH ECONOMY AND WOULD BY 1986 BEGIN TO RECAPTURE LOST ELECTORAL SUPPORT ARE NOT HIGH. WITH THE FISCAL DEFICIT STEADILY CLIMBING, EXCEEDING THE CEILING OF 3 PERCENT OF GDP (ON AN UNCHANGED ACCOUNTING BASIS) BY A GROWING MARGIN, MONETARY CREATION THREATENING TO KEEP THE INFLATION DIFFERENTIAL TOO HIGH, FOREIGN DEBT CONTINUING TO RISE, AND PROGRESS ON THE EXTERNAL ACCOUNTS HALTED, THE NEW GOVERNMENT WILL HAVE ITS WORK CUT OUT JUST TO MAINTAIN THE IMAGE OF SOUND MANAGEMENT EARNED BY DELORS.

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