

WSJ Print Edition

France Heads for a Fiscal Crackup

So long, sweet summer: That icy chill in Paris signals the start of French budget season. Investors caught a cold Tuesday on the prospect that the government might soon fall like an autumn leaf, because after all these years Paris still can't get a grip on its budget or the economy.

Prime Minister François Bayrou said Monday he'll call a confidence vote on Sept. 8. He's likely to lose. This would send the administration of President Emmanuel Macron into crisis mode—again—with no clear path to pass a budget or do anything else. In the extreme, Mr. Macron could call another snap legislative election as he did last year, but there's no reason to think the result would be clearer than the hung National Assembly currently in office.

Cue a steep drop in French shares (down as much as 2% for the main index at one point on Tuesday) and surging bond yields. Investors understand that neither of the likely winners of a snap election, on the far left or insurgent right, care about balancing the budget. Nor is anyone offering much of a plan for boosting economic growth, which is the most important task in France and most of Europe.

French unemployment remains persistently high, and the productive parts of the economy are straining under a welfare state that extracted 51.4% of GDP last year in revenue, while crowding out defense spending. And that's still not enough. Mr. Bayrou warned Monday of "a chronic disease of debt" that has increased by €12 million, or nearly \$14 million, "every hour" of the past 20 years. The European Commission projects French government debt will rise to 116% of GDP this year.

You'd think an economic and fiscal disaster of this magnitude would produce a burst of creative policy and political thinking. Instead, politicians mostly agree that they'd prefer to raise taxes than cut any spending or reform any entitlements. Mr. Macron has lost whatever momentum he once had for policy overhauls after he modernized labor laws and took a crack at pension changes.

Mr. Bayrou in February pressed ahead with a budget heavy on growth-punishing tax increases and light on other reforms—and then only with parliamentary gimmickry. His budget plan for 2026 features a slower rate of growth for government spending to "save" some €44 billion (around \$51 billion), though overall government spending would still increase. Yet even that's too much cutting for lawmakers.

Missing from all of this is any discussion of economic growth, which is the only way for France to escape a fiscal morass. Mr. Macron's early reform successes showed that change is possible, but his imperious style failed to bring voters along, and no other politician has been willing to try. Until someone does, investors can expect the heartburn to continue. So can voters.

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