important than the health of France's own national economy.

But already, French official unemployment is 11.5% and rising. An even more alarming sign is youth unemployment in France, currently running over 23% officially. The series of measures being proposed in the past month by the Juppé government—sharp cuts in social security and health benefits, severe rationalization of the state railway, and general budget cuts and new taxes—guarantee that, all else being equal, the French economy over the coming months will plunge far deeper into depression.

To reduce the French budget deficit from 5% of GDP to 3% by 1997, will mean that hundreds of thousands will be forced out of state jobs, from the state railways, the airline, and public services. It is a cruel irony that the austerity will only worsen the deficit, as overall tax receipts to the government fall. France's public sector forms a predominant share of the overall economic activity—some 40% of GDP, far higher than in Germany or the United States—so cuts here hit the economy most directly.

Caught in a blind alley of debt

The present situation underscores the trap waiting for most governments of the European Union. Ever since the oil shocks of the 1970s, most European governments have gone deeply into debt to finance oil imports and maintain "full employment." France today has a total national debt of more than $828 billion. Germany's public debt will top $1.4 trillion by year-end. Italy has well over $1 trillion debt. The Maastricht Treaty, under these conditions, imposes the worst possible deflationary engine upon the European economies, just when their economic necessities demand radical new job and infrastructure-creation expansion policies.

To reduce deficits, France, Germany, and other European Union countries are also introducing severe new tax burdens on industry. This, in turn, is accelerating the trend to industrial "globalization." Large French and German multinationals are going to cheaper production sites in Asia or eastern Europe in order to lower production costs, leaving a growing army of unemployed behind, who draw even more on the State welfare deficit.

The situation is a vicious, self-feeding downward spiral. On the one hand, the Juppé government demands that State employees work several years longer to qualify for pension benefits. But that only means fewer workplaces for young workers, as the economy contracts. The high interest rates of the Bank of France, needed to keep the franc stable for the Maastricht Treaty, prevent significant business and job creation in France. Massive job eliminations in State companies from railways, aerospace, and electricity generation further ensure loss of tax revenue. Into this volatile situation, the triggering of a new banking crisis through liquidation of billions of dollars of French office space at fire-sale prices in coming months, gives us all the ingredients for a financial and economic explosion.

Currency Rates