Report from Paris by Christine Bierre

Financial Chernobyl ahead?

Bad real estate debt heralds a chain of major bankruptcies—but French politicians are in a state of denial.

The hunch that a huge financial crisis might soon explode in France is growing by the hour, as the list of potential bankruptcies among banks and companies continues to swell. Banking and financial experts are sounding the alarm over the dangers hovering over the French financial sky. The most explicit so far is Eric Leser, who, in an article in *Le Monde* of Feb. 5, warned that without being "overpessimistic, the increasing number of accidents [bankruptcies] should incite us not to feel totally protected from a financial Chernobyl."

Indeed, unlike former Prime Minister and current Mayor of Lyon Raymond Barre, who is echoing in France the analysis published by the Council on Foreign Relations that the economic and financial crisis is now over, Leser's description of the financial scene is particularly accurate for France.

The year-end reports published by banks and companies have been the occasion to measure the depth of the crisis. After the near-bankruptcy of Crédit Lyonnais in recent years, other banks, insurance companies, construction firms, and infrastructure giants are either on bankruptcy's edge or, at least, deep in the red. The worst case is Crédit Foncier de France, a public bank for real estate loans. France's bad real estate debt is estimated at nearly 300 billion francs (about $60 billion). Crédit Foncier has a total of 200 billion francs tied up in special State-backed loans for real estate investment under a program called the PAP. In normal times, the bank would have absorbed all those loans in five years, but today it is squeezed between the State, which ended its special PAP-backed loans, and the markets, which refuse any further credit to this bank because the State eliminated the PAP loans. Since Crédit Foncier relies on the money markets to get its cash to the tune of 24 billion francs per year, the bank is nearly bankrupt; only a 20 billion franc cash line extended *in extremis* by another public bank, the Caisse des Depôts, keeps it afloat.

Several other top companies are in very bad shape due to overextension in the real estate markets. The Compagnie Générale des Eaux, an infrastructure giant which was always called one of two real powers of France (the other being the government), has, for the first time, announced a mammoth loss of 3.5 billion francs, due to bad real estate investments. The worst might yet be to come, because the company is still holding 11 billion francs in real estate, at a point when real estate prices are in free fall.

The construction giant Bouygues is, for the first time, in deep water. Bouygues had to increase its funding by 4 billion francs this year, 2 billion of which was to cover for depreciated costs of real estate stock. Danone, one of the top world producers of dairy products, as well as Alcatel Alsthom, the producer of the French TGV high-speed trains, are both having to fund themselves in the billions in order to meet big restructuring requirements.

The posture of the government and the majority of the French politicians is one of hysterical denial of the scale of the financial crisis, and hysterical clinging to small administrative reforms to try to solve it.

Instead of attacking head-on the deregulation policies which have led to massive speculation in finance and real estate, the government is stubbornly attacking the remaining productive sectors. Prime Minister Juppé and his Labor Minister Barrot have found new scapegoats for the crisis: the French people, who refuse to consume and only stash their money under their mattresses; and the companies, which refuse to hire new personnel, despite all the tax breaks they have gotten from the governments in recent years. The measures announced by Juppé to relaunch the economy are aimed at forcing these two sectors to act according to the government's fantasies. The remuneration on savings offered by the State through one of its public banks was cut from 4.5% to 3.5% in order to force people to take out their money and consume. The government has also started a public campaign attacking businesses for not creating new jobs. The growing poverty of the general public, as well as the fact that the companies don't have enough orders to hire new personnel, are facts totally unknown to this government.

Some people are even further into fantasyland. At the recent Davos conference in Switzerland, Raymond Barre averred that the crisis is over, and "the world has entered, since the beginning of the 1990s, a new phase of long-term growth—an ascending phase of Kondratiev cycle—an expansion nourished by new technological innovations, price stability, and development of exchanges stimulated by a flow of capital radiating throughout the planet." The recession in Europe is, according to Barre, just "a natural breather."