Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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# A new eurozone debt crisis: France now. Is Spain next?

France is a wonderful country with excellent human capital, innovative companies, and outstanding entrepreneurs. However, France is on the brink of bankruptcy because for decades it has maintained an interventionist economic model with a giant state (57% of GDP), extremely high taxes, an overgrown public sector, uncontrolled immigration, and restrictive legislation.

Many commentators hail Spain today as an example of euro area growth. However, the Spanish government is copying the French model point by point.

France is in a debt crisis because of the typical "moderate" politicians. When spending skyrockets, these statists remain silent, but when it's time to tighten budgets, they advocate for prudence and gradualism.

The "moderate experts" propose the same old socialist farce: a 50% budget adjustment through spending cuts and 50% through increased revenues—always resorting to a higher tax burden for businesses and families, and then never actually cutting the spending they announce.

The problem with the so-called French "moderate" experts is that they only propose stopgap measures instead of resolving the real issue: an unsustainable state.

## A giant state, sky-high taxes, and high immigration

France's public sector workforce represents about 20% of total employment, the pension system's annual deficit is projected at around €5 to €6.6 billion in 2025, the unfunded committed pension liabilities exceed 400% of GDP, and the current total government deficit is about 5.4% of GDP, which is over €100 billion for 2025.

France's total tax wedge for labour is the highest among EU countries, reaching 54.4% of employer cost in 2025 for the average single employee.

Taxpayers are suffocated, and the so-called social spending beneficiaries are relegated to being a dependent underclass

For businesses, the standard corporate tax rate remains at 25%, but with additional levies, large companies face effective tax rates up to 36.1% in 2025. The total tax-to-GDP ratio stands at 43.8% for 2024, placing France as the highest-taxed major OECD economy.

France never had austerity: it has a giant state, sky-high taxes, and high immigration—all of which have brought stagnation, debt, and social discontent. Taxpayers are suffocated, and the so-called social spending beneficiaries are relegated to being a dependent underclass.

## France's massive imbalances

Let's not forget that the European Central Bank has incentivised the current fiscal mess by providing every monetary easing option available: rate cuts, the anti-fragmentation mechanism, and the endless cycle of monetising maturities.

None of the ECB measures helped France correct its massive imbalances; instead, they have perpetuated and incentivised government excess.

> France's problem is that so-called moderate experts and politicians have only been moderate when it comes to perpetuating an insolvent state

Macron came to power warning about "sclerotic" growth and high spending, but he did nothing. Bayrou presents himself as a moderate but proposes further tax hikes—on top of taxes that have been confiscatory for years.

Lombard, the economy minister, has not

proposed a single liberalisation measure, but he maintains the current suffocating tax burden.

France's problem is that so-called moderate experts and politicians have only been moderate when it comes to perpetuating an insolvent state; when it comes to squeezing taxpayers, they have been radical.

## Raise an artificial alarm

The trick in France is always the same: raise an artificial alarm about an alleged radical threat, and the predatory statism is always maintained. This is also the case in Spain.

While the press raised alarms about Le Pen, no one spoke about the fiscal disaster brought by social democracy and the left.

The French media whitewashed extreme-left Mélenchon and his communist proposals, pulling the economic debate to the left and cementing as the only apparent solution a socialism that treats businesses and families solely as cash machines.

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The French governments forgot that wealth needs to be created before it can be distributed—they got used to making policies for those who deduct, ignoring those who create wealth.

The popularity of the meme "C'est Nicolas qui paie" ("It's Nicolas who pays") in recent weeks is not surprising, but it is incorrect. Nicolas does not pay for France's excessive political spending and subsidies; his grandchildren, if any, do.

## On the brink of bankruptcy and IMF intervention

Prime Minister Bayrou has issued a warning, stating that France is on the brink of bankruptcy and might need an IMF bailout. The problem is an IMF rescue would do little to control out-of-control spending and even less about the confiscatory tax burden.

Lombard claims, "There is a risk that France will need IMF intervention" if his government fails to control the deficit and public debt, which already exceeds €3.3 trillion—114% of GDP.

> Neither Lombard nor Bayrou advocate liberalisation or cutting superfluous spending

The projected fiscal deficit for this year is 5.4%, with interest payments rising ever higher after increases in the bond's risk premiums and French bond rates, which even surpassed those of Greece.

The problem is that neither Lombard nor Bayrou advocate liberalisation or cutting superfluous spending.

The French situation illustrates the dangers of unsustainable public sector expansionary policies, especially in welfare and pension systems.

## Same policies as France

So, why would Spain follow? Following the largest monetary and fiscal stimulus in history, Spain's deficit spending remains above 3% of GDP, its debt to GDP exceeds 103% with total liabilities above 134%, and its unfunded pension liabilities, at 500% of GDP, are the highest in the European Union, according to Eurostat.

Despite headline GDP growth bloated by government spending, immigration, and European Union funds, the country's unemployment rate is the highest in the EU;

total unemployment, including underemployment, also stands at the highest level in the EU, and private investment has basically flatlined since 2019.

In Spain, Social Security debt has risen from €34 billion in 2018 to more than €126 billion in 2025—almost quadrupling. The system's real deficit, hidden by state transfers exceeding €43 billion in 2025, now equals 8% of GDP, according to the Bank of Spain.

> ECB and the European Commission have been instrumental in allowing excess government and persistent fiscal imbalances

Without these transfers, the system would be technically insolvent: contribution revenues don't even come close to covering obligations, so each year the state must take on more debt to prevent collapse.

State transfers to Social Security exceed €40 billion every year, while Spain's overall public deficit remains above 3%, reaching 3.3% in 2024, with only very optimistic forecasts for future reductions.

The Spanish government is following the same policies as France: massively increasing government spending and public sector employment, constantly raising taxes and opening borders to illegal immigration, with inflows of 60k migrants per year.

When the placebo effect of external EU funds and immigration and the record tourism fade away, the challenges will appear rapidly, as happened before.

The biggest problem is that the ECB and the European Commission have been instrumental in allowing excess government and persistent fiscal imbalances. Instead of limiting excess in the public sector, they have incentivised it.

## Gradualism consistently leads to failure

What can the United States learn from the French crisis?

Gradualism consistently leads to failure, and social democracy inevitably results in economic ruin. Without structural reforms for pensions, cuts to useless spending, and tax reductions, the state will face a confidence crisis like France's.

*It's crucial to recognise the real size of deficits and design bold, drastic liberalisation solutions before the crisis becomes irreversible - Daniel Lacalle*

Relying on immigration, European funds, and massive transfers to cover public sector budget shortfalls will lead to a credibility crisis and external intervention.

Propaganda and euphoria don't work. It's crucial to recognise the real size of deficits and design bold, drastic liberalisation solutions before the crisis becomes irreversible.

The French case shows that being a large, developed economy does not prevent the risk of a debt crisis from excessive statism.

Furthermore, the French case demonstrates that massive central bank easing and low interest rates do not resolve the issues caused by statist stagnation policies.

The lesson from France for Spain is clear: there is no such thing as "gradual adjustment" via tax revenues, and keeping an oversized public sector always leads to ruin.

Illegal immigration does not pay pensions, and, most importantly, there is nothing “moderate” about keeping confiscatory taxes to maintain a bloated state.