

# Summoning Marshall: A Theoretical Audit of the 2026 French Budget



**The Auditor: Alfred Marshall**  
Author of Principles of Economics (1890)  
and Industry and Trade (1920)

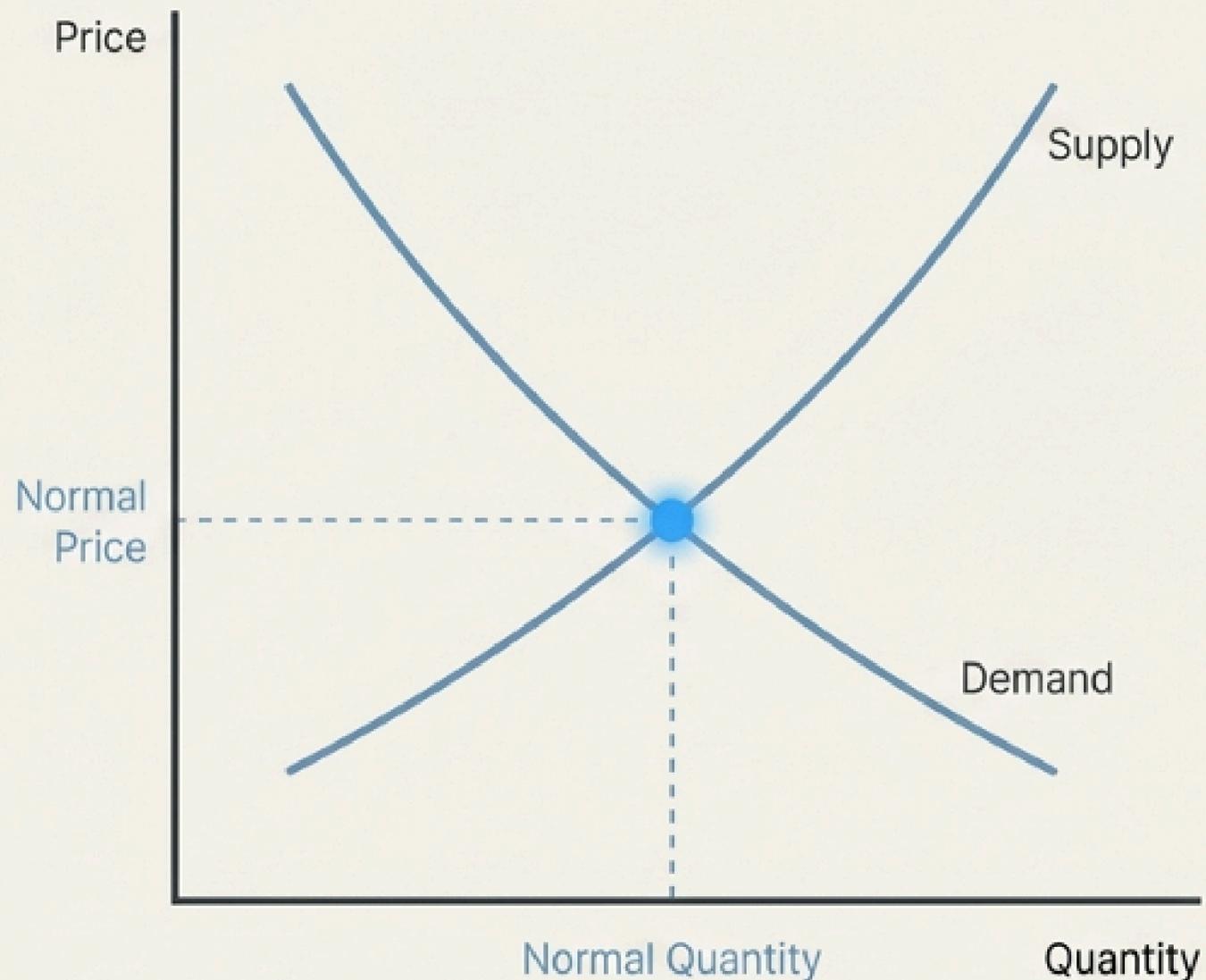


**The Subject: France 2026**  
5% deficit, 118% debt-to-GDP, €60B in annual  
debt service, and severe political tension.

## The Four Tests:

1. Market Distortions & Allocative Inefficiency
2. Fiscal Sustainability & Gradualism
3. Capital Accumulation & Long-run Growth
4. Distributional Efficiency & Welfare

# The Rules of the Audit: Marshall's Microeconomic Lens



## **Partial Equilibrium:**

Examining markets individually to find the normal price around which reality fluctuates.

## **The Core Metrics:**

Consumer Surplus and Producer Surplus as the ultimate measures of total welfare.

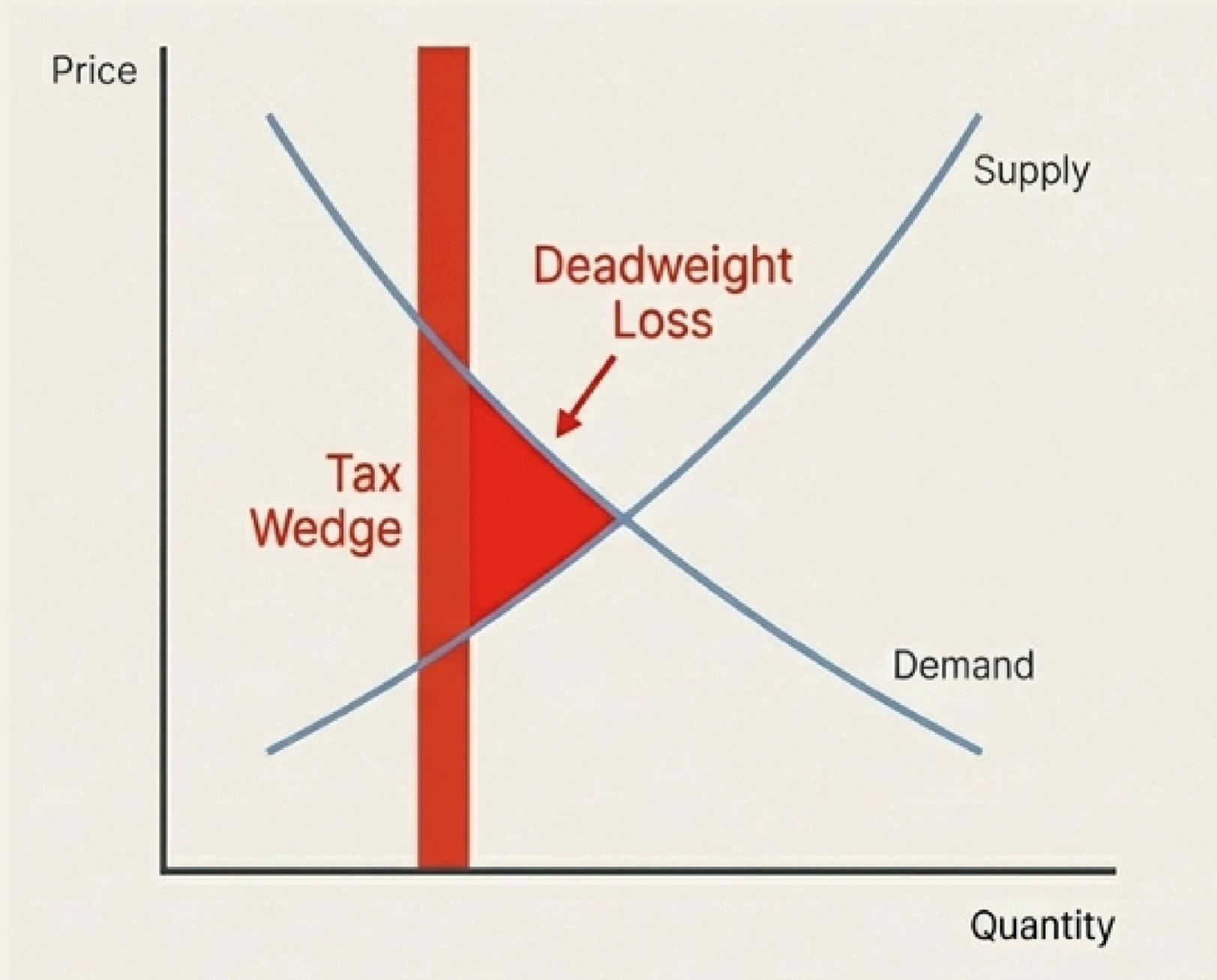
## **The Intervention Cost:**

Any state tax or subsidy inevitably shifts these curves, creating a Deadweight Loss—a destruction of total surplus that benefits no one.

## **The Guiding Maxim:**

Natura non facit saltum (Nature does not make jumps). A preference for gradual, incremental adjustment over radical experiments.

# Audit Test 1: The Weight of Capital Taxation



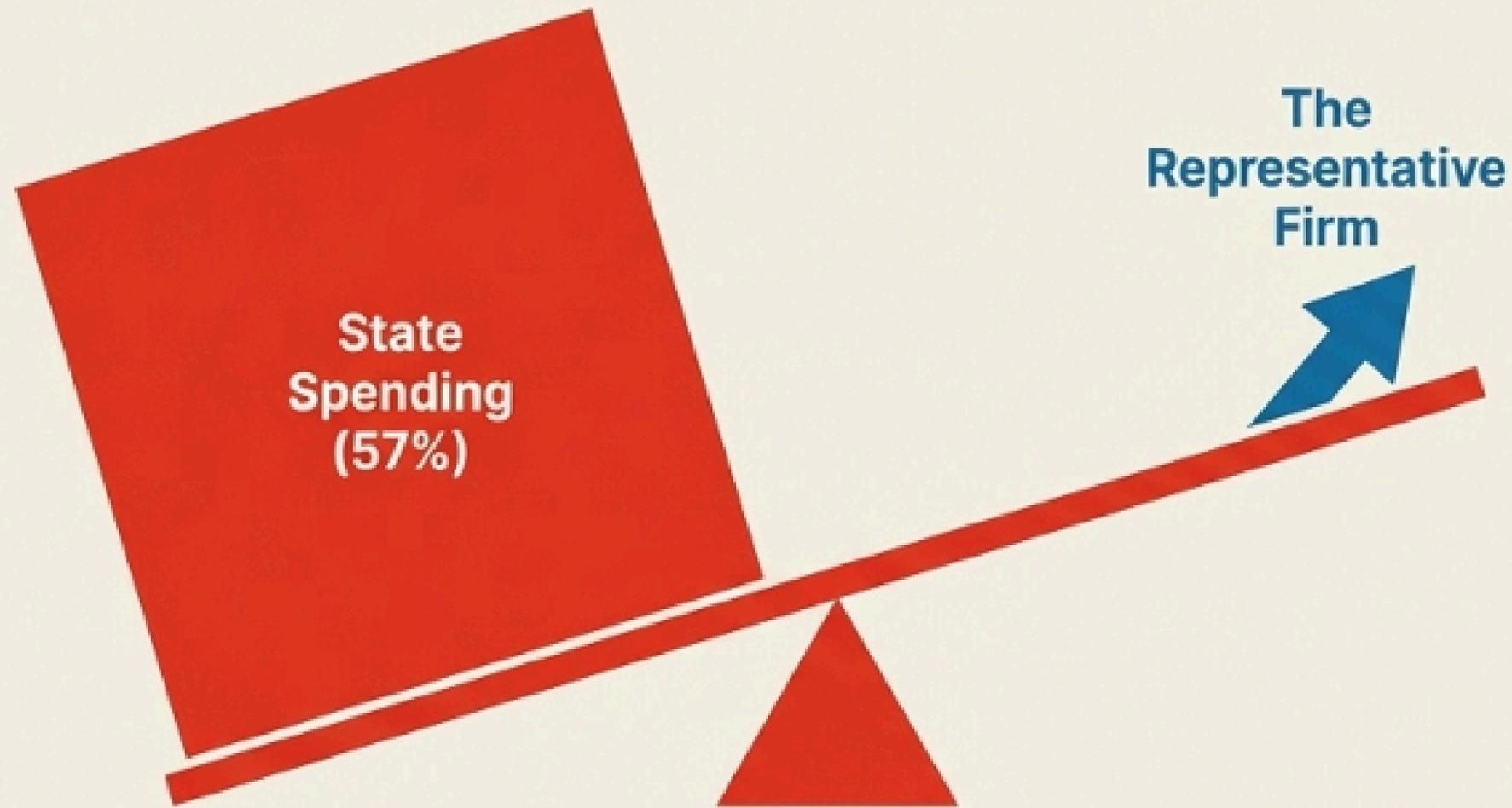
## The 2026 Reality

- A heavy reliance on capital income taxation.
- 12.8% income tax + 18.6% social contributions = 31.4% flat rate.
- The CSG (social contribution) rises from 9.2% to roughly 10.6%, with more hikes planned for 2027.

## The Marshallian Critique

- High marginal taxation drastically cuts the after-tax return, shifting the supply of savings leftward.
- With an overall tax-to-GDP ratio >45% (>50% including social contributions), the elasticity of the tax base becomes highly sensitive.
- Long-run result: Capital flight to lower-tax jurisdictions and severely stunted domestic investment.

# The State as an Inefficient Allocator



**The Spending Trap:** France leads Europe with 56-57% of GDP in public expenditure. The €17B in announced 2026 cuts are widely viewed as structural cosmetics.

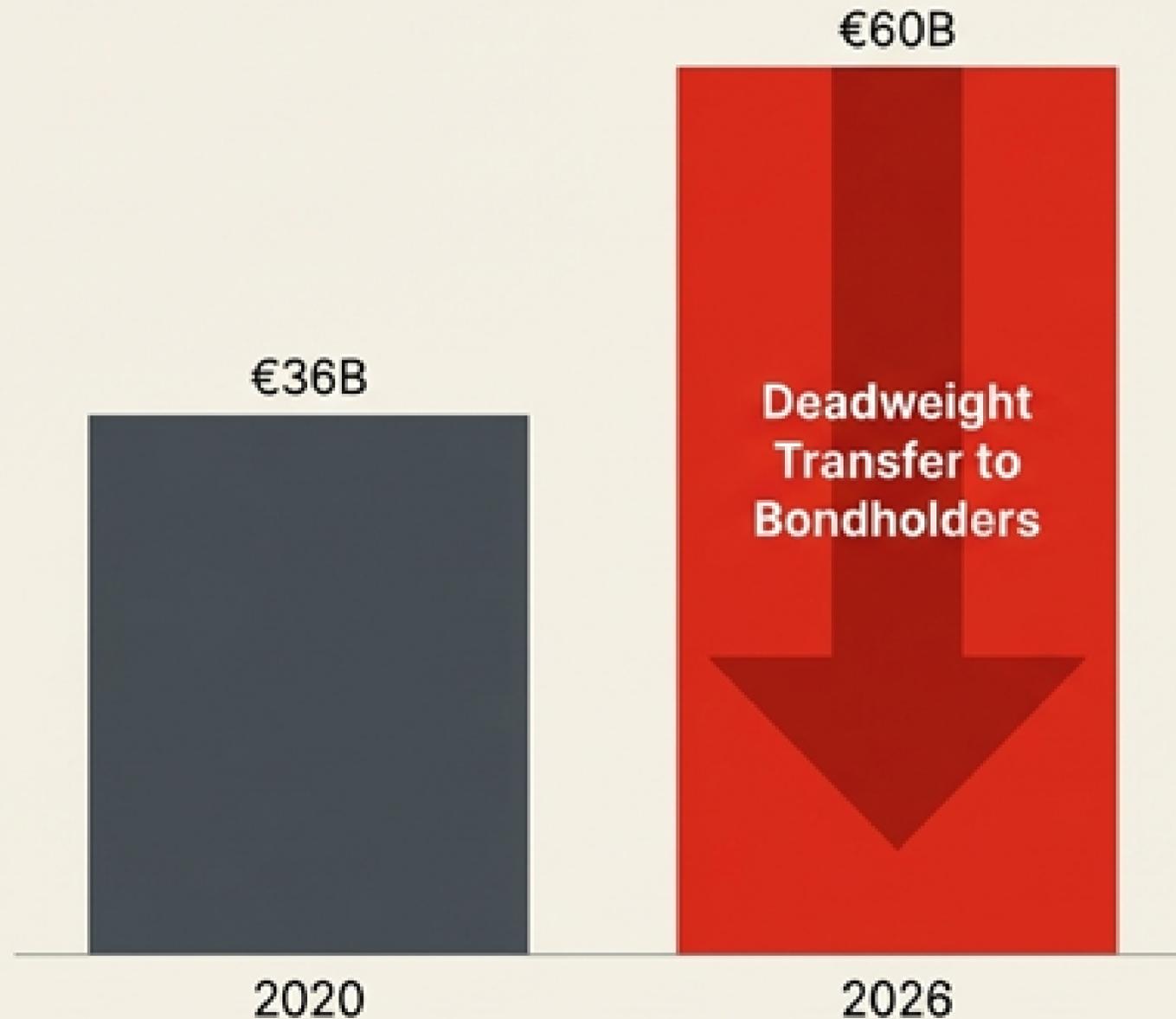
**Opportunity Cost:** Every euro sustaining inefficient transfers is a euro stolen from productivity-enhancing capital (machines, R&D, infrastructure).

**The Representative Firm:** Excessive state absorption prevents the typical, efficient firm from achieving the scale and flexibility required to innovate.

**The Marshallian Verdict:** When the state absorbs more than half of national income, it crowds out the very private enterprise necessary to raise real long-term wages.

# Audit Test 2: The Illusion of Short-Term Fixes

## DEBT SERVICE EXPLOSION



### The Deficit Disconnect:

A projected 5% deficit in 2026 (barely down from 5.4% in 2025, and far above the 3% Maastricht threshold). Debt approaches 118%, on track for 130% by 2030.

### The Cost of Disequilibrium:

Interest payments explode from €36B in 2020 to almost €60B in 2026.

### Time Horizon Confusion:

France is treating a permanent, long-run structural rot as if it were a short-run, temporary cyclical fluctuation. Chronic deficits violate the principle of sustainable exchange—the state systematically consumes more than it produces.

# The Death of Gradualism

Marshall's Ideal: *Natura non facit saltum*

French Reality: *Rising Risk Premia & Paralysis*



## Abandoned Targets

The initial target of a 4.6% deficit by 2026 has been effectively abandoned.

## Political Paralysis

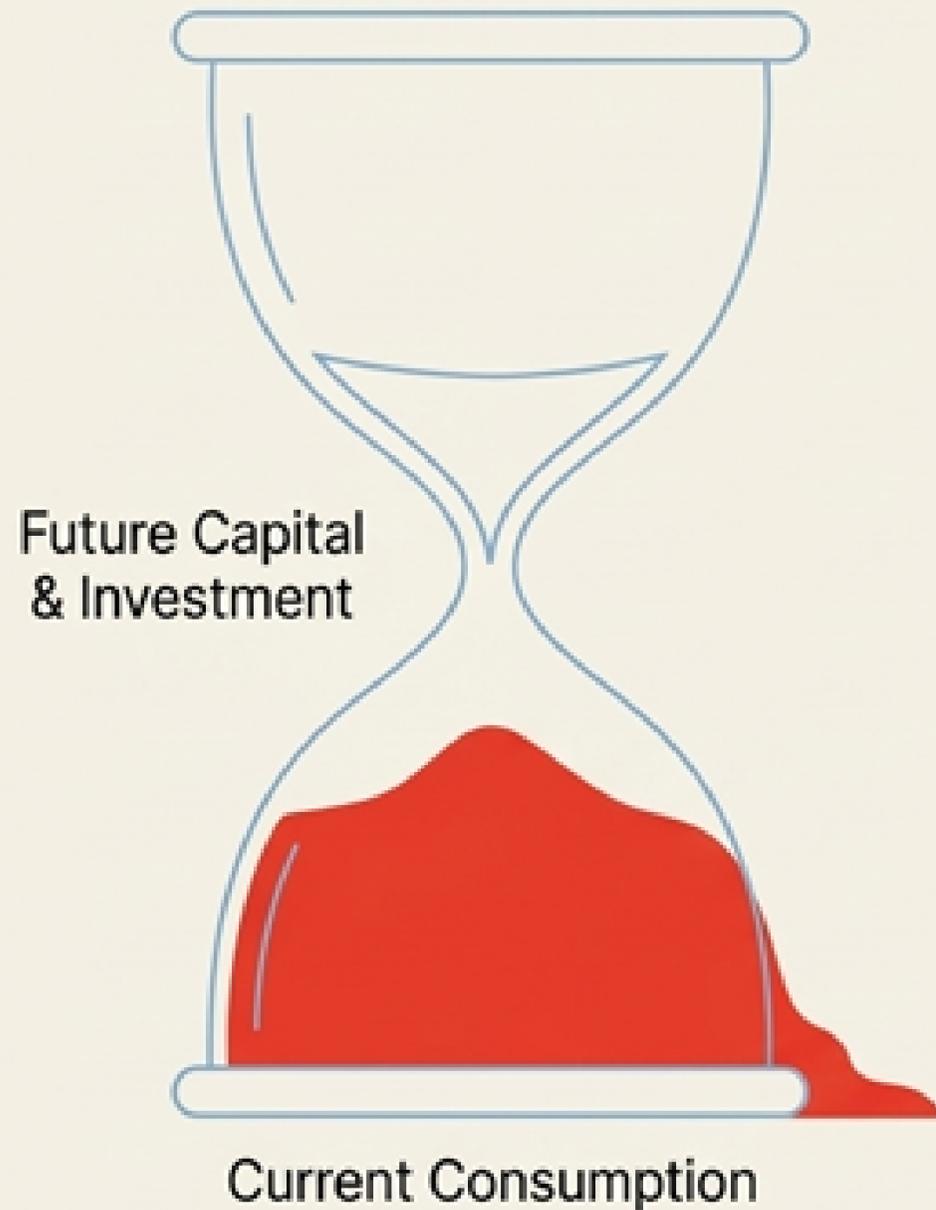
Late budget adoption and repeated reliance on Article 49.3 to bypass parliamentary majority votes.

## Market Reality

Rising risk premia on French bonds vs. German Bunds indicate a severe loss of credibility.

**The Marshallian Verdict: True gradualism is a strategy of credible steps toward equilibrium, not an excuse for erratic, reactive political paralysis.**

# Audit Test 3: Starving the Engine of Progress



## **Consumption Bias:**

Budget prioritizes current transfers over capacity. E.g., The prime d'activité is raised by €50/month for ~3 million workers, alongside local green/housing funds, while R&D and major infrastructure lack ring-fenced focus.

## **The Concept of Waiting:**

Economic progress relies on the willingness to postpone consumption to accumulate capital.

## **Destroying Quasi-Rents:**

High taxes and consumption-heavy policies erode the temporary returns (quasi-rents) that incentivize inventors and dynamic firms.

# The Mechanics of Crowding Out



## The Borrowing Behemoth:

The state will borrow €300-310 billion in 2026 (new debt + refinancing).

## The Mechanism:

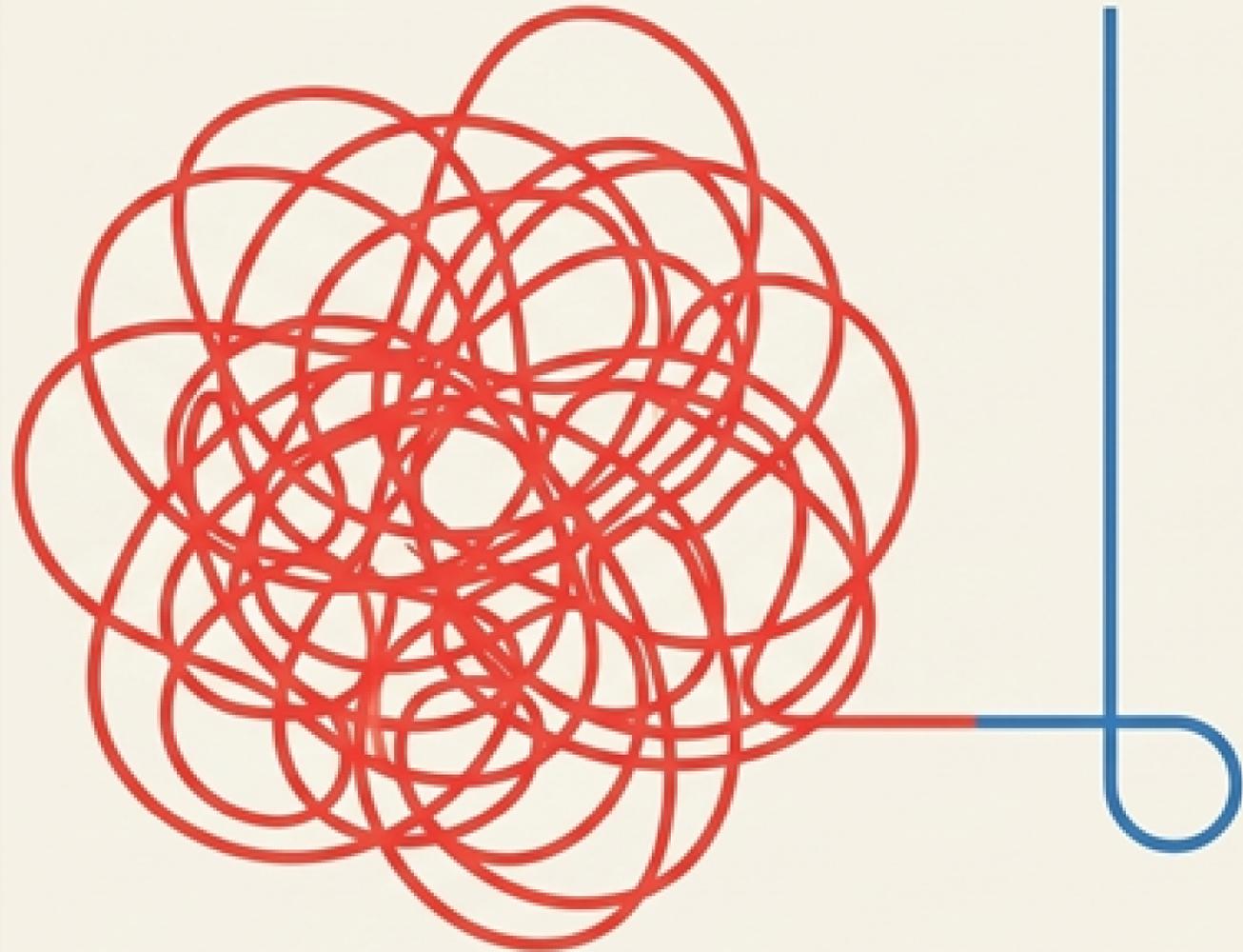
Massive state demand shifts the demand curve for loanable funds to the right.

## The Result:

Higher equilibrium interest rates force private firms to cut or abandon investment projects.

**The Marshallian Verdict: The dirigiste model systematically starves the national business plant, guaranteeing a smaller capital stock, lower productivity, and stagnant real wages.**

# Audit Test 4: The Bureaucratic Burden of Empathy



## **The Good (Prime d'activité):**

Marshall would approve of the €50/month boost to low-income workers; it relies on the declining marginal utility of income while preserving the incentive to work.

## **The Bad (Systemic Bloat):**

France devotes 10% of GDP to cash transfers-the highest among advanced economies-yet poverty reduction is not proportionally impressive.

## **The Welfare Calculus:**

The deadweight losses created by the taxes funding these overlapping schemes far exceed the actual welfare gains delivered to citizens. Redistribution must be minimal and efficient, not expansive and bureaucratic.

# The Intergenerational Theft



## **Pigovian Social Costs:**

Building on his student Pigou, Marshall would view public debt as a massive externalized cost placed on citizens who cannot vote today.

## **The Ethical Flaw:**

Accumulating 118% debt and €60B in annual interest to fund present consumption is fundamentally unjustifiable.

**The Marshallian Verdict: Deficit spending that finances today's consumption rather than tomorrow's productive capacity is a failure of both economic prudence and moral responsibility.**

# The Academic Rebuttal: Keynes and Stiglitz

## The Keynesian Defense (Demand)

With weak growth (~1%) and high unemployment, aggressive consolidation could depress aggregate demand.

The Marshallian Counter: Keynes advocated for cyclical deficits during recessions. France's 5% deficit is a permanent, structural imbalance in normal times.

## The Stiglitz Defense (Inequality)

Pre-tax incomes reflect monopoly power and rents, justifying heavy taxation to correct structural injustice.

The Marshallian Counter: Both agree on fixing market failures, but debt-funded transfers and distortionary taxes are the wrong tools. Fix the market, don't just tax the symptoms.

# The Marshallian Prescription for 2026

<p><b>1. Firm Consolidation</b> Reduce the deficit by 0.5% to 1% of GDP annually.</p>	<p><b>2. Structural Reform</b> Target actual efficiencies in social protection, health, and administration.</p>
<p><b>3. Tax Realignment</b> Broaden the tax base while lowering highly distortionary marginal rates on capital.</p>	<p><b>4. Pro-Market Policy</b> Shift focus from state micromanagement to private competition and innovation.</p>

***"The most reckless and treacherous of all theorists is he who professes to let facts and figures speak for themselves." - Alfred Marshall***

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