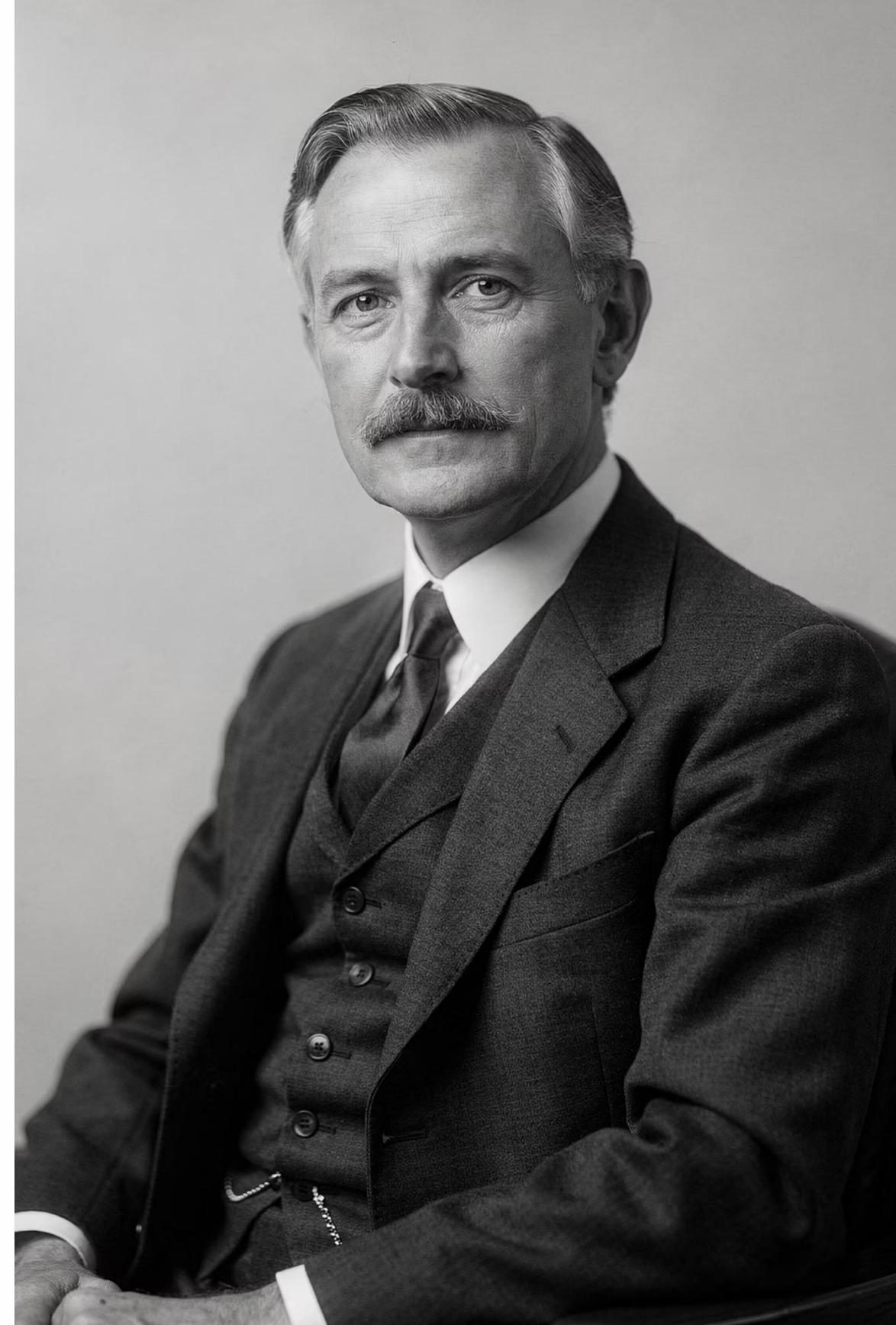


What Would Alfred Marshall Say About the Current French Budget and Austerity Programme?

A Marshallian Welfare Economics Perspective

Bastien Devèze | Great Economic Thinkers | ESSCA School of Management



Why Ask Alfred Marshall Today?

Classical economic theory offers a rigorous framework to analyze current French fiscal pressures.

Rising Public Debt

Fiscal pressure mounting across European economies

Austerity Measures

Increasing reliance on spending cuts and tax adjustments

Social Tensions

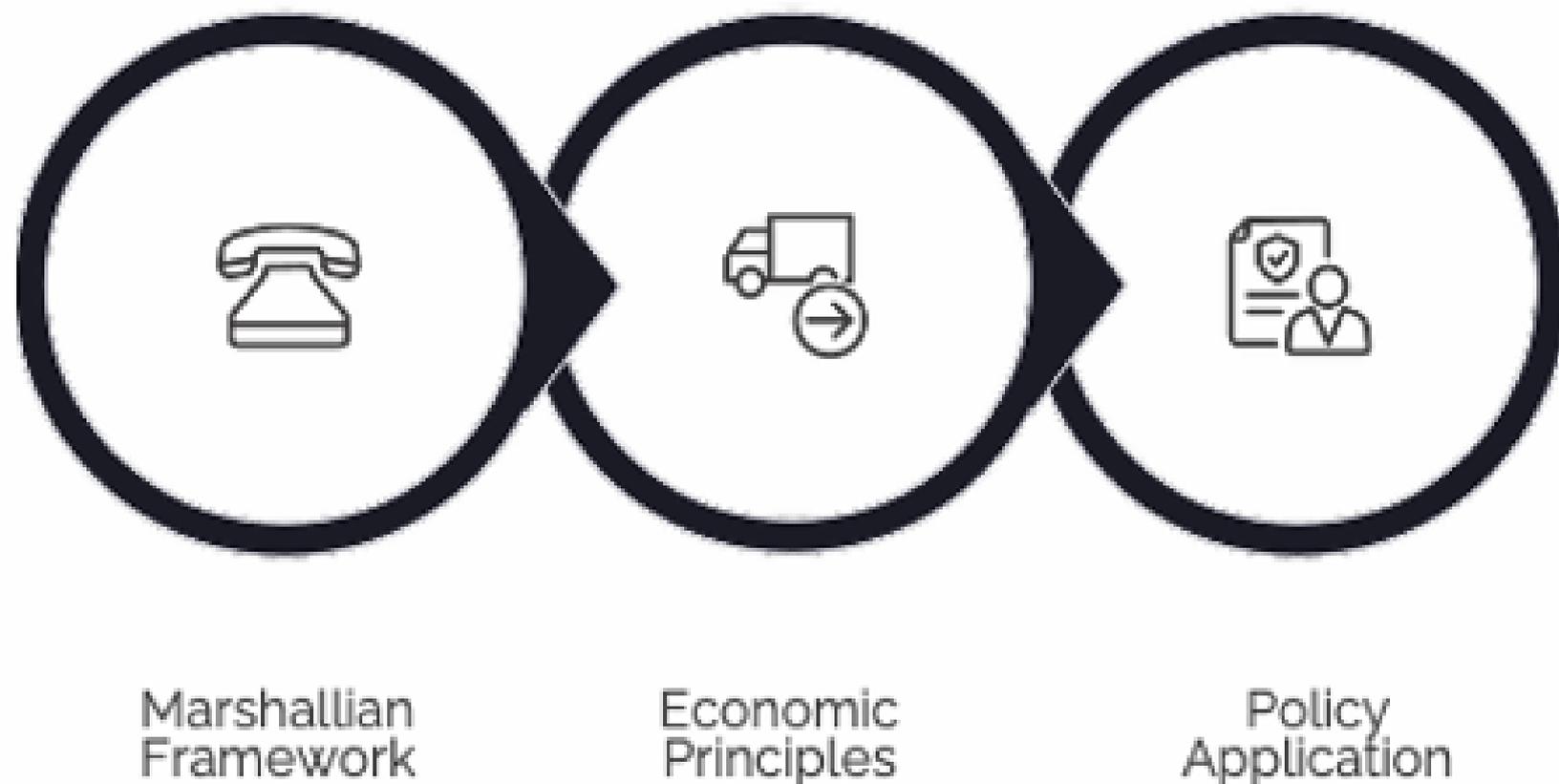
Growing political and economic instability

Welfare Economics

Renewed relevance in modern policy debates



Methodological Approach



Marshallian economic reasoning is applied to a contemporary policy case.

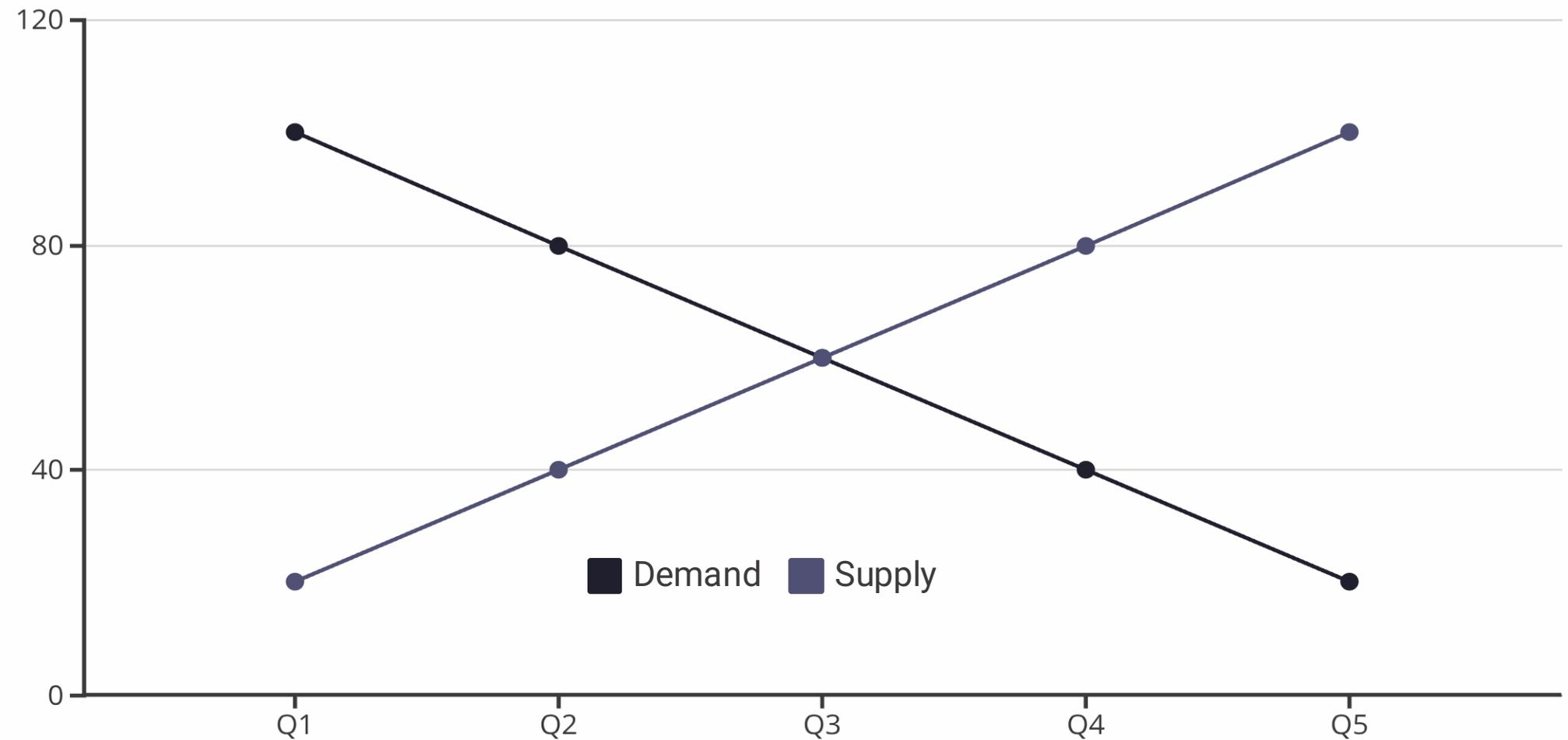
*The analysis focuses **on elasticity, consumer surplus, welfare, and long-term stability.***

*The objective is **analytical rigor, not historical narrative.***

Alfred Marshall's Core Economic Principles

Theoretical Foundation

- Elasticity of demand and supply as behavioral indicators
- Consumer surplus as a quantifiable welfare measure
- Emphasis on gradual market adjustment
- Concern for social stability and cohesion



The Logic of Austerity in France

French fiscal policy prioritizes deficit reduction to reassure markets and comply with EU constraints.

Understanding this framework is essential before any critical analysis.



Policy Objective

Reduce public deficit and stabilize debt-to-GDP ratio

Primary Tools

Spending cuts, indirect taxation, reduced social expenditure

Justification

Fiscal responsibility and market confidence

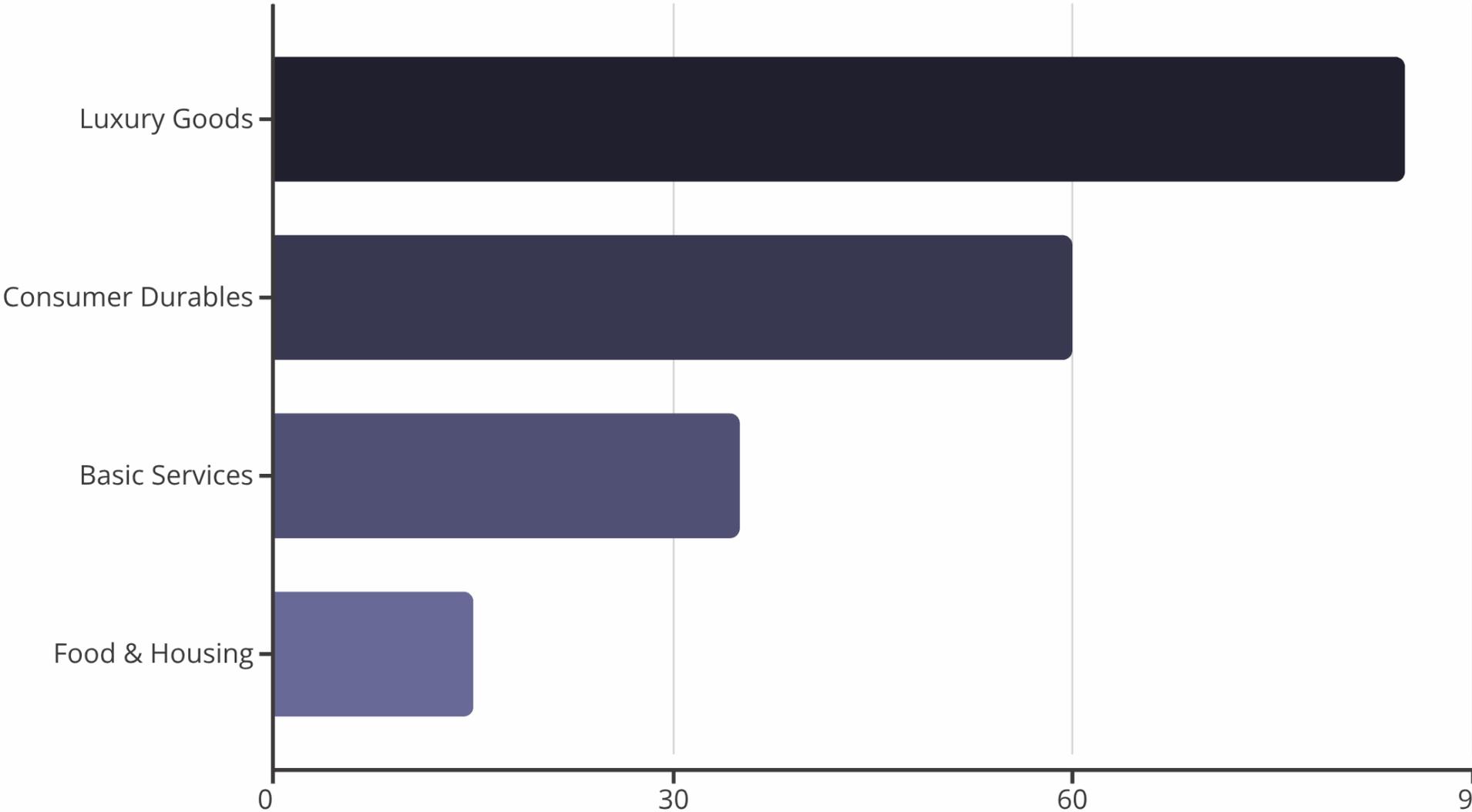


Elasticity: A Central Marshallian Concern

***Elasticity** determines behavioral response.*

***Basic goods** are highly inelastic.*

***Austerity here** imposes high welfare costs.*



Austerity and the Loss of Consumer Surplus

- **Consumer surplus** captures economic welfare beyond budget figures.
- **Austerity reduces** purchasing power and disproportionately harms low-income households.
- **Welfare losses** often exceed the fiscal gains achieved.



Welfare Impact

☒ Fiscal consolidation produces asymmetric effects across income distribution

The welfare cost exceeds the nominal budgetary benefit when measured through Marshallian surplus

Marshallian Welfare Economics

Welfare extends beyond budget arithmetic.

Social Spending
Transfers to households with high
consumption propensity

Employment
Job creation and income stability



Consumption
Direct expenditure on goods and services

Production
Firms respond to sustained demand

- Social spending targets high consumption propensity.
- Cuts weaken multiplier effects and economic stability.

Fiscal Choices and Market Distortions

The structure of fiscal policy reveals crucial asymmetries in how different income groups respond to tax and transfer changes. Marshall would scrutinize these differential elasticities carefully.

Income Source	Consumption Elasticity	Savings Rate
Wage Income	High	Low
Capital Income	Low	High
Social Transfers	Very High	Minimal

→ **Tax cuts** favor low-impact households with high savings.

→ **Cuts to high-consumption** groups weaken aggregate demand.

→ **The problem** lies in allocation, not spending itself.

A Marshallian Critique of Short-Termism



The Paradox of Austerity

- **Abrupt austerity** contradicts gradual adjustment
- **Demand contraction** weakens growth and public finances.
- **Debt dynamics** worsen despite spending cuts.

What Would Marshall Say?



Ignores Elasticity Effects

Fails to account for behavioral responses and demand rigidities



Reduces Consumer Surplus

Disproportionate welfare losses relative to fiscal gains



Weakens Social Cohesion

Undermines welfare and economic stability



Threatens Long-Term Stability

Creates self-defeating contractionary dynamics

Conclusion

Marshall's Position

Would not reject fiscal discipline

Would reject welfare-destroying
austerity

Efficient Policy Balance

- Budgetary responsibility
- Welfare preservation
- Long-term stability

Poorly designed austerity is economically inefficient.



References

Marshall Basis

Marshall, A. (1890). *Principles of Economics*. London, UK: Macmillan and Co.

Rees, R., & Huettinger, M. (2024). *Great Economic Thinkers*. Course lectures, ESSCA School of Management.

French fiscal policy analysis. Contemporary case study materials.

Welfare economics

Pigou, A. C. (1920). *The economics of welfare*. London, UK: Macmillan.

Harberger, A. C. (1971). Three basic postulates for applied welfare economics. *Journal of Economic Literature*, 9(3), 785–797.

Elasticity & taxation

Saez, E., Slemrod, J., & Giertz, S. H. (2012). The elasticity of taxable income with respect to marginal tax rates: A critical review.

Journal of Economic Literature, 50(1), 3–50. <https://doi.org/10.1257/jel.50.1.3>

Austerity & fiscal multipliers

Blanchard, O., & Leigh, D. (2013). Growth forecast errors and fiscal multipliers. *American Economic Review*, 103(3), 117–120.

<https://doi.org/10.1257/aer.103.3.117>

Social spending & MPC

Kaplan, G., Violante, G. L., & Weidner, J. (2014). The wealthy hand-to-mouth. *Brookings Papers on Economic Activity*, Fall, 77–138.

French fiscal context

Landais, C., Piketty, T., & Saez, E. (2011). *Pour une révolution fiscale*. Paris, France: Seuil.



Thank You

Questions and Discussion

BASTIEN DEVÈZE

ESSCA SCHOOL OF MANAGEMENT

GREAT ECONOMIC THINKERS

