

FRANCE: CHALLENGES AND CRISES

Nino Galetti

“La France est en guerre” – “France is at war”. This is how President François Hollande began his address to Congress, a joint sitting of the *Assemblée Nationale* and the *Sénat*. Just three days earlier, 130 people had been murdered and hundreds more injured during terrorist attacks in Paris. The terror attacks of 13 November 2015 have changed France’s political agenda. In the public debate, criticism of the government’s economic and labour market policies have now been ousted by the issue of security. According to President Hollande, security is now more important than economic stability. At the same time, Germany’s closest ally is facing some major economic challenges: government debt is growing, the economy is stagnating and unemployment is on the rise.

Although France was not as badly hit by the effects of the 2008 financial crisis as Spain, Ireland and Greece it has still suffered much more than Germany. Of course France is one of the world’s leading industrialised nations and plays a leading role in international politics and the global economy. It is home to many companies that are market leaders in their fields, such as energy, aerospace and pharmaceuticals. But in recent years French companies have been struggling to maintain their global position, and the market share of French products is shrinking. In some sectors, France’s global market share has halved since the fall of the Iron Curtain. France has below-average representation in the world’s growing markets.

The impact of the financial crisis and a reluctance to implement long-overdue structural reforms have only served to exacerbate this trend. Compared to Germany, France is falling ever further behind.



Dr. Nino Galetti is Head of the Konrad-Adenauer-Stiftung’s office in France.

ECONOMY IN CRISIS

Since the start of the financial crisis, France's national debt has grown from 65 per cent to 94 per cent. The country's deficit is averaging four to five per cent of GDP, well above the three per cent figure specified in the Maastricht criteria. On the heels of President Nicolas Sarkozy's plan to cut the deficit to below three per cent by 2013, the French Socialist-led government shifted the target date to 2015 and then 2017. But in his speech to Congress three days after the 13 November attacks, President Hollande also gave up on this aim. Now security is more important than economic stability. Fighting terrorism costs money. But money is a somewhat scarce commodity in France at the moment.



On the barricades: French pharmacists protested in September 2014 against government plans to deregulate the pharmacy market, as here in Nantes. | Source: © Stephane Mahe, Reuters.

Economic growth is hovering steadily around zero. While unemployment in Germany has fallen to a historic low, the French government's various employment programs in recent years have had little success in reviving the labour market. In the summer of 2015 over 3.5 million people were unemployed, representing more than ten per cent of the workforce. This is almost twice the unemployment rate in Germany. And among young people under 25, the rate is close to 25 per cent.

The French economy is not as dynamic as it could be. At the turn of the millennium, unit labour costs were lower in France than in Germany, but today they are 20 per cent higher. One reason for this is French labour laws: the standard working week is 35 hours and the statutory minimum wage is relatively high at 9.20 euros per hour. In recent years, wage increases in France have outstripped those of their European neighbours. Tax and social security contributions are high and there are strict laws to protect employees against dismissal. Large companies have been able to circumvent these conditions by shifting their production abroad, but small and medium-sized companies have been left to face these myriad administrative and regulatory obstacles. As a result, employers are reluctant to take on new staff. All this means that French-manufactured products have become more expensive and France now has a weaker position in global markets.

Large companies have been able to circumvent the administrative and regulatory obstacles by shifting their production abroad, but small and medium-sized companies have been left to face these challenges.

Clearly France has to respond to these developments. At the last presidential and parliamentary elections, large sections of the French public demonstrated a desire for their country to be governed with a steady hand that would build the economy while retaining the social model. This is one of the reasons François Hollande and his Socialist Party emerged victorious from the 2012 elections.

POLITICS IN CRISIS

François Hollande has been at the helm since May 2012. He was elected president in the second round with a small majority, winning 51.6 per cent of the vote. He was supported by an alliance of Socialists, Greens and Communists and by many voters from the political center who were keen to keep Nicolas Sarkozy from winning a second term.

During the election campaign, François Hollande tried to put most of the blame for the crisis in France and Europe on President Sarkozy's failed policies. He claimed that Sarkozy's reforms and austerity policies had worsened the crisis rather than resolving it and prevented growth rather than promoting it. Hollande's proposal was that the state should not pursue austerity measures in the current situation but stimulate economic growth through broad programs for economic development and employment.



President Hollande: During the election campaign he had claimed that the crisis in France and Europe was a result of the failed policies of his predecessor Sarkozy. | Source: © Philippe Wojazer, Reuters.

As soon as he took office, Hollande launched a number of initiatives in this respect. He introduced a “tax on the rich”, imposing a 75 per cent tax rate on people with incomes in excess of one million euros. He lowered the retirement age from 62 to 60. He increased the minimum wage. He reinstated taxation on overtime earnings. But he did not dare to tackle France’s generous welfare system, rigid labour laws and bloated public service.

THE POTENTIAL OF A EUROPEAN ECONOMIC GOVERNMENT

During his election campaign, President Hollande liked to portray himself as a political student of former Commission President Jacques Delors. But since taking office in May 2012 few of his policies have given the impression that he has his own ideas for steering the future of the European Union and the euro zone. At first he sought to distance himself from his predecessor, Nicolas Sarkozy, so he spoke out against the austerity policies that are largely being driven forward by Germany. He was keen to renegotiate the rules for maintaining a balanced national budget, which set him on a collision course with German Chancellor Angela Merkel. This inevitably led to problems between Paris and Berlin and cast a shadow over German-French relations that lingered for some time after he took office.

In May 2013 Hollande proposed the creation of an economic government for the euro zone as the next step towards European integration and political union. This was by no means a new idea, as it had already been supported by the French during the negotiations on a common European currency as part of the Maastricht Treaty. President Sarkozy returned to this idea with the onset of the financial crisis. And now Hollande was proposing that the economic, fiscal and welfare policies of the euro zone countries should be coordinated by a full-time, elected president and a cabinet that should meet on a monthly basis. Legislative oversight would be the remit of a separate parliamentary chamber in addition to the existing European Parliament.

The aim of this proposed “economic government” was to harmonise the economic and labour market policies of individual EU member states. The community principle would be applied to a policy area that it was sensible to govern in a collective way after the introduction of the euro. Along with implementing rigorous economic measures, an economic government could also take a targeted approach to combating unemployment in Europe.

This kind of “economic government” would also act as a political counterweight to the independent, supranational European Central Bank (ECB). Such an institution would provide the individual member states with greater policy-making powers. But it would also have the authority to issue directives that the ECB and the governments of euro zone countries would have to follow. Many countries, and Germany in particular, have no interest in this. This was one of the main reasons behind the German government’s lukewarm reaction to the proposal.

Many countries, and Germany in particular, have no interest in an “economic government”. This was one of the main reasons behind the German government’s lukewarm reaction to the French proposal.

President Hollande’s ambitious proposal failed to build any lasting momentum because of this lack of enthusiasm on the part of his European partners. At the same time it is becoming ever clearer that the economic policies of Hollande and his government are not working and that France’s economy is lagging behind countries such as Germany. Germany is currently doing much better in many areas, such as fighting unemployment and reducing the national debt.

Germany's strong position also means France is in danger of seeing its role diminish still further. This is also a source of some frustration, as France has traditionally considered itself to be a leader in Europe and a vital link between the continent's north and south. However, the French president has not allowed himself to be drawn into creating a southern European counterweight to the north-east part of the European Union that is led by Germany. Early in 2015, Hollande rejected the attempt made by newly elected Greek Prime Minister Alexis Tsipras to forge such an axis against Berlin. Paris is in no doubt that close relations between France and Germany provide the foundations for a successful European Union.

Many French people wish the German government would display more willingness to compromise. This last erupted in July 2015 when senior French politicians publicly voiced strong criticism of Germany.

But Germany's tough and at times rigid approach is not always considered to be helpful. Many French people wish the German government would display more willingness to compromise. This last erupted in July 2015

when senior French politicians publicly voiced strong criticism of Germany's behaviour during talks on whether Greece should remain in the euro zone. And almost 15 years after the introduction of the common currency, Germany and France still hold very different views on financial policy. The idea of emphasising distributive justice and increasing purchasing power continues to be popular among left-wingers in the ruling *Parti Socialiste*. In contrast, the more centrist Socialists are keen to make the French economy more competitive. The ruling party is split into two camps, and their views on how to overcome the crisis could not be more different. The president weaves his way between the two camps and seems to spend most of his time trying to keep these two wings of the Socialist Party happy.

THE FRENCH APPROACH – A "SPECIAL PATH"

It is not only the Socialists who believe France's current economic problems are the result of external factors rather than their own shortcomings. This view is shared by large swathes of the French public. They readily blame the difficulties currently being experienced in France and many other EU countries on globalisation in general and above all on the strict austerity policies Germany in particular has pushed through in the euro zone. Many in France are sceptical of the idea that streamlining structures and boosting entrepreneurship may help the country to find a way out of the crisis. With its long tradition of etatism, in France there is a

general feeling that the state should play an active role in the economy. The government is not expected to justify making interventions it deems appropriate.

France's model of "capitalism à la française", a market economy that involves government intervention and an extensive welfare system, has run smoothly for many decades. Of course it is not only the French who are wedded to the idea that "if it ain't broke, don't fix it", and indeed this has worked well over the years.

Even more than in Germany, there is a feeling that the consequences of globalisation – known as *mondialisation* in French – pose a danger. Not only the Socialists but also broad sections of the public think a potential solution lies in relaxing austerity policies, reducing the public debt more slowly and launching government programs for growth and economic development. There is a widely held belief on both wings of the political spectrum that France has forged a "special path" based on its former economic and social model, and that this will allow it to escape the consequences of globalisation.



Angela Merkel in Paris: The admiration of the French for Germany has grown in recent years due to her leadership and personality. | Source: © Philippe Wojazer, Reuters.

There is no doubt that one of the European Union's largest economies after Germany has the potential to conquer the crisis. Its infrastructure is one of the best in the world, its people are highly

educated and open to technological innovation. But President Hollande has been unable to transform his political victory of May 2012 into a new impetus for change to boost the recovery of France's ailing economy. On the contrary, indicators remain negative, while admiration for their neighbours across the Rhine is growing – admiration for Germany's current economic strength and capacity for innovation, its willingness to introduce reforms, the way it is dealing with new challenges (such as accepting refugees) and for the leadership and personality of its Chancellor.

President Hollande has quickly frittered away voter sympathy, despite consistently sticking to his campaign promises and pandering to the many sensibilities within his party. Apart from short-term outliers the approval ratings for his policies were constantly below 20 per cent. After the attacks of 13 November, the popularity of the president has doubled to over 40 per cent.

LES RÉPUBLICAINS – OPPOSITION IN CRISIS

In these circumstances, it should have been easy for the center-right opposition to make political capital from the divisions within the *Parti Socialiste* and the weak performance of the president and his government. But the *Union pour un mouvement populaire* (UMP), which in May 2015 changed its name to Les Républicains, still seems to be largely engaged in navel-gazing. After its defeat

The main reproach of the Republicans under Sarkozy directed at President Hollande and his government is that they display a lack of leadership.

in the presidential elections of May 2012 and the parliamentary elections of June 2012, the party descended into months of internal bickering. In December 2014 former President Nicolas Sarkozy returned to take the reins of the party, which now seems to be consolidating under his leadership. The main reproach directed at President Hollande and his government is that they display a lack of leadership. All too often François Hollande, his Prime Minister Manuel Valls and the government have failed to fulfil the leadership role that France has traditionally held in Europe. All too often this is being left to the German government. When it comes to the conflict between Russia and Ukraine, the Greek debt crisis and the acceptance of refugees – it has always been the German Chancellor who has taken the lead in Europe, while the French President travels to European summits seemingly lacking in ideas and fresh initiatives.

The *Républicains* are similarly lacking in ideas and initiatives of any substance. The French have not forgotten that the president in power from 1995 to 2012 came from this party, and that it also provided the government for twelve years during this period (1995 to 1997 and 2002 to 2012). Today's economic and political situation in France is not solely the result of President Hollande's term of office, but the policies pursued during this time have played their part. Many projects were not implemented systematically because the opposition of the unions and interest groups and the desire to maintain standards of living in France were also very strong when the center-right were in power. The announcements of politicians often failed to produce the promised results. The French public have not forgotten the polarising style and frantic "doing for the sake of doing" that characterised the presidency of Nicolas Sarkozy, and the majority do not have fond memories of the presidencies of Nicolas Sarkozy and Jacques Chirac.

The French public have not forgotten the polarising style and frantic "doing for the sake of doing" that characterised the presidency of Nicolas Sarkozy.

The public's fractious mood, the weaknesses of the government and divisions among the *Républicains* have led to the *Front National* making great gains over recent years. Their leader Marine Le Pen has gradually whittled away at its extreme right-wing image and now presents it as a young, dynamic party, making it electable to new target groups in the process. Of course this has involved papering over many cracks, such as when Marine Le Pen's father, former party leader Jean-Marie Le Pen, came out with anti-Semitic, racist and homophobic statements or when it was revealed that the *Front National* had taken money from Russia. However the party managed to win almost 25 per cent of the vote at the 2014 European elections, the largest share of all the parties. Of course not everyone who votes for the *Front National* is an extremist. In many cases people voted for the *Front National* as a form of protest.

IDENTITY IN CRISIS

Much of this widespread mood of protest is also directed against the European Union. France continues to view itself as one of Europe's leaders, a country that provides ideas and initiatives in pursuit of European integration. Germany is one of France's key partners because of its political and economic size and importance. But Europe and German-French relations have changed fundamentally in the 25 years since the fall of the Iron Curtain. Since

its reunification Germany has a larger population and a stronger economy. France is no longer the key country in a community of twelve members whose geographical center and economic focus runs along the Rhine on a line between London and Milan, and whose undisputed center and regular meeting place is Strasbourg, a town with a French and German history. Today France is a large country in a community of 28 members whose geographic heart has shifted to the east. It now finds itself on the western edge of the European Union.

The globalisation that has increased since the fall of the Iron Curtain has favoured the march of the English language to the detriment of French. Of course French is still spoken in many African countries, but they are not the countries that are experiencing really dynamic growth and development. In these countries – South Africa, Nigeria and Kenya – people speak English. In Syria (which was under French control between 1920 and 1946) French is now only spoken by the educated elite. When tens of thousands of Syrian citizens flooded into Central Europe in the summer of 2015, most of them were not heading for France. By the end of September 2015 less than 1,000 Syrians had sought asylum in France. Most of them who applied for asylum said they wanted to come to France because they had relatives, friends or business contacts in the country. There is an ongoing public debate about why migrants do not want to come to France.

After the Second World War France hoped that European integration would allow it to maintain its claim to be a world leader. But these hopes were to be dashed.

This development does not exactly lead to the French feeling a stronger sense of identification with Europe. After the Second World War and the loss of its colonial empire,

France hoped that European integration would allow it to maintain its claim to be a world leader as it worked with other (Western) European states to influence political developments around the world. But these hopes were to be dashed. Every voter must recognise the advantages of European integration, but in France – much more than in Germany – the public debate is imbued with the feeling that the country would be better positioned to meet the challenges of the new millennium if it were on its own.

The January 2015 attacks on the office of the satirical magazine *Charlie Hebdo* and the Jewish supermarket and the terror attacks of 13 November 2015 have highlighted France's crisis of identity. French policies on integration, the place of Islam, the concept of secularism (the strict division between church and state) are all

being called into question – and hence the model of the French Republic as a whole. In the wake of the attacks, politicians are faced with the challenge of how to fight radicalisation and ensure young Muslims participate in society. Youth unemployment in France is generally high, but for young people with African origins the rate doubles to around 40 per cent. Frustration and disillusionment provide the perfect breeding ground for seeking a new identity, an identity that Muslim youth are increasingly finding in fundamentalist forms of their religion.



“Undaunted”: Flowers and candles at the Place de la République. The French do not let themselves be intimidated by the November attacks. | Source: © Eric Gaillard, Reuters.

France’s underlying principle of secularism means that public debate about the role of religion has been avoided for centuries. Changes in the structure of the population and the increase in the numbers of Muslim citizens whose parents and grandparents came from Africa or the Middle East have led to a sense of insecurity in many areas of French society. The phrase “Islam belongs to France” has come under fire, as was the case when German Chancellor Merkel commented that “Islam belongs to Germany”. But at the same time there is no disputing that France is a country of immigration. The law of *ius soli* applies: any child born in France is automatically a French citizen.

PROFILE-RAISING THROUGH SECURITY POLICY?

It is only in the area of foreign and security policy that France still has a commanding presence, harking back to its long tradition as a major power. In these areas of policy, Hollande has seized the opportunities that accompany the office of French president. In 2013 in Mali and recently in Syria Hollande very deliberately made use of the political and military options that were available to France. After the terrorist attacks of 13 November 2015 Hollande increased air strikes in Syria and seized the initiative to forge an international coalition against the terrorist organisation Islamic State. Working with the German Chancellor, since 2014 he has developed and successfully pressed ahead with the "Normandy format" for resolving the conflict between Russia and Ukraine. In the run-up to the COP21 climate conference, held from 30 November to 13 December in Paris, the President presented himself as a player on the global stage and France hosted the event in the tradition of great international conferences of the past. There are suggestions that it is the policy of the Élysées to position François Hollande as a statesman, climate saviour and peacemaker – and since the attacks also as a warlord with a human face. This may be a way of concealing his lack of success with the economy and employment.

But war costs money. Even before the 13 November attacks, France had regularly highlighted the fact that its global engagement in the fight against Islamic terrorism was an important and expensive operation to increase the security of all EU member states. This is why in the wake of the attacks President Hollande asked the other member states for assistance under the obligation set out in art. 42, par. 7 of the EU Treaty. This did not only – or even primarily – mean military assistance, but also financial aid. The idea behind this is that France's military engagement and the cost to the public purse should in future be deducted from France's deficit.

CONCLUSION

The 2008 financial crisis has left France weakened. Its governments have lacked the courage and power to push through the necessary reforms. Prior to the attacks of 13 November, 80 per cent of the population were dissatisfied with the work of François Hollande and his government. In the European elections of May 2014 the ruling party won only 14 per cent of the vote.

The appointment of Manuel Valls as Prime Minister in March 2014 and the dismissal of left-wing economics minister Arnaud Montebourg in August 2014 showed that President Hollande is now more ready to pursue a clear direction of austerity and reform. In August 2014 the French government set out its austerity program with a view to making 50 billion euros in cuts by 2017. It remains to be seen what effect this will have on the national deficit.

It is doubtful whether the president has the support of his party for the necessary reforms. The *Parti Socialiste* has a majority in the *Assemblée Nationale*. In the vote on the autumn 2014 budget, the government's proposals were only passed thanks to the support of the Greens. 37 Socialist MPs abstained. It remains difficult for President Hollande and Prime Minister Valls to push through their planned reforms. All the reforms have to be agreed with the *frondeurs*, the left wing of the ruling party. So it is also doubtful whether the remaining 18 months of President Hollande's term will see any major decisions on economic and social reforms. François Hollande has linked his personal political destiny to the success of his policies. He has repeatedly emphasised that he will not stand for re-election unless unemployment falls and the economy grows. But the terror attacks have shown that it is not all about the economy. France is now in a state of emergency. The President announced to Congress that "La France est en guerre" – "France is at war". Hollande has left it open as to whether he will stand again in 2017. This is one of the reasons why there is already strong public interest in the presidential elections planned for May 2017. According to the latest polls, the President would not make it to the second round but would be beaten into third place. In the first round Marine Le Pen of the *Front National* would probably win the most votes, followed by candidates from the *Républicains* – a prospect that does nothing to lift the spirits of the French people.