

François Hollande will require a more detailed and far-reaching economic strategy if he is to turn France's ailing economy around

LSE blogs.lse.ac.uk/europpblog/2014/02/06/francois-hollande-will-require-a-more-detailed-and-far-reaching-economic-strategy-if-he-is-to-turn-frances-ailing-economy-around/

06/02/2014

*Like many countries across Europe, France has suffered economically since the beginning of the financial crisis. As **Andy Langenkamp** writes, French President François Hollande's recent 'responsibility pact' outlined a number of reforms designed to restructure the economy, making it more competitive in the long-term. He argues that while Hollande has the political resources required to implement bold reforms, his current plan is too vaguely stated to turn France's economy around.*



Now that French President François Hollande has overhauled his private life, it is time to substitute vague vistas with bold reforms. Recently, Hollande presented a "responsibility pact" that is designed to put the faltering French economy back on track. He promised to reduce the burden on businesses. By 2017 companies will pay €30 billion less towards social security. Hollande also intends to cut public spending by €50 billion.

Reaction to Hollande's change of heart has been mixed. That the progressive movement has criticised the president is to some degree justifiable, if viewed in the light of Hollande's earlier promises. Shortly after he took office, there were hopes that he would assume the mantle of leadership over the southern Eurozone bloc. Such an alliance was supposed to give the brush-off to German Chancellor Angela Merkel and other advocates of fiscal austerity. "Boost the economy" would become the overriding slogan. Hollande's speech suggests that the leftist bloc has lost this battle.

Hollande had little choice, as France threatens to sink deeper and deeper into an economic morass. In the third quarter of 2013, the French economy contracted by 0.1 per cent. French competitiveness is also declining. The jobless rate stands near 11 per cent and a quarter of young people are out of work. The business climate has steadily deteriorated.

Essentially, lower labour costs and smaller government could help to boost competitiveness. At the same time, Hollande has yet to qualify his statements. The net effect of the €30 billion cut in social charges for businesses is said to be "merely" €10 billion in tax breaks, which are worth €20 billion, to be phased out simultaneously. Plus, the nature of the public spending cuts is still unclear.

On the one hand, Hollande's speech can be considered a major turning point. For the first time, the president has acknowledged that things cannot go on as they are – fundamental change is required. Yet, all he has offered are



François Hollande, Credit: jmayrault (CC-BY-SA-3.0)

vague vistas. A number of factors suggest that Hollande could implement the reforms if he wanted to. His presidential powers are unequalled in the democratic world. On top of this, Hollande's Socialist Party has a majority in parliament and holds sway over most regions and departments and local authorities.

Before he became president, Hollande showed that he was a pragmatist. Many will argue that this has not been in evidence so far. However, with his back against the wall, he may well unleash his no-nonsense side. At the same time, the population is waking up to the fact that it cannot continue to crawl – or tread water – forever. In addition, there is growing pressure on France to change tack, particularly as countries like Greece, Portugal, and Spain are finally getting round to taking painful decisions.

Last but not least, history shows that socialists can be capable of executing reforms – such as the Hartz IV labour market reforms done in Germany under Gerhard Schröder. In France, too, the socialists have not always antagonised the markets. The so-called “Tournant de la rigueur” (Turn to austerity) refers to former President François Mitterrand's radical policy shift when he decided to battle inflation and restore competitiveness.

Other developments could stymie Hollande's initiative. At the time, Mitterrand was able to devalue the franc. In addition, he was in a position to raise taxes, whereas Hollande is not – French taxes are among the highest in Europe and can hardly be raised further. Another big problem is that Hollande is currently the least popular post-war president, so he won't have an easy time convincing voters and other politicians to follow his lead.

In view of Hollande's extensive presidential powers, his pragmatist past, the external pressures to implement reforms and various past examples that he could emulate, there is a chance that Hollande will succeed. His volatile personal life will not present major obstacles. The majority of the French tend to shrug their shoulders when the romantic “adventures” of their leaders come to light. And, although Hollande's performance at home may be lacklustre, the fact that he sent troops to Africa shows that he can take a firm stand if he wants to.

But even if Hollande makes haste with his reforms, they are not far reaching enough. Unless he takes decisive steps, the initial market enthusiasm will fade as the realisation sets in that these are isolated plans. In the near future, however, France will be given the benefit of the doubt. For starters, it benefits from the cautious optimism about the rest of the southern Eurozone. In addition, the substance of Hollande's speech has taken the media and the markets by surprise. Yet, once this positivism wanes, he will need to bring heavier cannon to bear and to “set to work” – as his ex-partner and politician Ségolène Royal recently snapped at the leader of the opposition, who tried to capitalise on Hollande's amorous *faux pas*.

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