The no-confidence impact

Editorial for Challenges

Denis Kessler

March 2013

The new majority in France came to power with two strong convictions. Firstly, it was convinced that one of the main reasons for the economic crisis lay in the disquiet caused by Nicolas Sarkozy amongst the public and economic agents. The former president was portrayed as a spreader of anxiety, and removing this anxiety would promote economic recovery. What was needed was a change of management style, as they say in struggling companies where the executive directors have been replaced. Secondly, the policy of the last government was too market-oriented. Hence the urgency of breaking with previous economic orientations. The changeover was supposed to reassure consumers and investors, and to give them a more optimistic outlook. The new Keynesian direction was going to revive the economy. What was needed was a sudden, massive increase in confidence, which would then trigger a virtuous cycle, rapidly restoring economic balance. A new era was beginning...

Ten months later, nobody can deny that the economic and social situation in France has deteriorated significantly. Our country is entering a recession, the unemployment rate has just exceeded the 10% mark, the public deficit objective will not be met, despite historic tax levels, the depth of external debt remains unfathomable, corporate investment is at half mast, competitiveness continues to dive, and the number of companies in serious trouble is multiplying. The economic news flow is catastrophic: France has not just broken down, it’s going backwards! The massive increase in confidence never actually materialised.

On the contrary, we are witnessing a sudden and particularly violent increase in mistrust. The expectations of the vast majority of households and companies have fallen even further, at a time when they were already very pessimistic. The lack of confidence extends to the entire political and social sphere. Our leading European partner – Germany – now openly displays its profound incomprehension of our economic policy. And the markets are waiting – interest rate weapons at the ready – for confirmation of France’s inability to respect its budgetary commitments.

The two initial convictions have turned out to be wrong.

The new team’s mode of governance seems to be creating more anxiety than that of the previous government. Improvised or badly prepared announcements, decisions and measures are multiplying, in both the economic and social fields, often followed by
denials, retractions and counter arbitrages emanating from the same team. The vast majority of observers do not understand the overall reasoning of the State. The government wanted people to believe that the State’s new resoluteness would lead to a kick-start for industry. However, it is interesting to note that condemnation and accusation rhyme with gesticulation, and even destabilisation. The media and political buzz created by all this is not solving the increasing difficulties into which our country is being plunged: it’s making them worse! The decision to impose massive levies on the productive sector, whilst refusing to reform the public sphere, has been a historic error, at a time when many companies are having a tough time, particularly due to the fierceness of international competition, the credit crunch and the decline of exchange rate competitiveness. And people are surprised by the rise in unemployment? The successive measures that have affected all company employees (tax on incentive schemes, no more tax-free overtime, etc.) have been a blow to confidence. Company directors, executives, investors and innovators have been the fiscal and social targets of the public authorities, heaping even more discouragement on those who brave competition and technological change. The gap between the respective situations of the exposed sector and the protected sector is being viewed in a progressively negative light by the former, while the latter spends its time making ever greater demands. And the competitiveness pact has arrived extremely late, not to mention the fact that it still hasn’t been financed.

However, the second conviction is the main thing disturbing everyone. The policy of the previous government was not really market-oriented! On the contrary, it was constantly wavering between a policy of supply and a policy of demand based on the supremacy of purchasing power, between budgetary discipline and Keynesian revival, between confidence in private initiative and State-controlled aggressiveness, and ultimately took on a social-democratic hue: poorly controlled public spending, increasing public transfers, significant public deficit, all despite an accommodating monetary policy. Since 2007, company margins have done nothing but deteriorate, while added value has actually been increasingly shared by households! The State and local authorities have not really been reformed, any more than social welfare. The result of this policy is in line with initial fears.

The confidence crisis is due to the major confusion between those who believed that we were going to move from a market-driven policy to a social-democratic policy, those who thought that we were going to move from a social-democratic policy to a genuinely socialist policy, those who thought that we were going to move from a socialist policy to a fully-fledged left-wing policy, and so on. All these people are going to discover that the only possible way to achieve growth and recovery is through budgetary discipline, the reform of the State and local authorities, the revision of the social welfare system, the return to the 39-hour working week, the prioritisation of business, and so on. In other words, a rigorous, market-oriented policy to be led by a government elected on the premise that France was positively rejecting such ideas!