Morgen, morgen, nur nicht heute!

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The event of the week in France has been the submission of the “Gallois” report, drawn up by the former Chairman of EADS. This report, entitled: “Pact for the competitiveness of French industry”, paints a damning picture of the competitiveness gap that has been widening between France and Germany over the past fifteen years. In a number of key fields, there is a real disparity between the economic performances on either side of the Rhine. Germany has a trade surplus, while France has a deficit of EUR 70 billion. Unemployment, public deficit and debt rates are all higher in France than in Germany. This is nothing new to those who follow the developments of the two countries and who have industrial, commercial or financial interests in them. This wide gap in competitiveness is due to a whole series of factors such as retirement age, working hours, healthcare charges, the weight of taxes and contributions, bureaucratic pressure, the size of the public sector, and so on.

To curb this disparity, Louis Gallois proposes a “shock therapy” that consists of lowering the welfare contributions weighing on salaried employment, and using other contributions to finance the associated welfare spending. Meanwhile, the government has announced that as of 2014, i.e. in two years’ time, it will use tax credits to lower the welfare contributions paid by companies over a three-year period. In order to compensate for the subsequent loss of revenue, it has also announced an increase in VAT and a EUR 10 billion decrease in public spending, but has not specified which budgetary items will be concerned. The Gallois report is thorough and well referenced, and has been greeted with a certain amount of satisfaction and a collective “At last!” by the business community.

The major question not addressed in this report is why these measures have come so late. Why has it taken so much time to recognise what is blatantly obvious for anyone who takes the trouble to look at a few figures and graphs? The Maastricht Treaty is now 20 years old: it stated categorically that economic and social policies would need to converge in order to ensure the success of a transition to a single currency, and set clear limits for public deficit and public debt as a percentage of GDP. The Euro was created fourteen years ago. At the time, economists clearly highlighted the fact that its success would depend on increasingly close coordination between public and social policy in all areas. The reality has been very different. Germany completed its structural
reforms in the first half of the 2000s... while France postponed them until 2007 during Chirac’s presidency, and began to implement them half-heartedly under Sarkozy. Moreover, François Hollande was not elected over the urgency of deep-seated reform, but with a mandate to preserve the system (we won’t call it a model) that already exists.

It has therefore taken fourteen years for French politicians to acknowledge the facts. Rather than continuously reforming the country, in France we only reform under the pressure of events, when we have no other choice. The crisis must be irrefutably in full swing, the threat of a rating agency downgrade must be real and urgent, unemployment must increase sharply and the country must be virtually in recession before we decide to act. To the west of the Rhine, we spend our time denying reality – above all when it comes to economic reality - and permanently patching up an outdated economic and social model. To borrow François Mitterand’s horrible expression, “we are making time for time”. The procrastination is widespread and the motto for it could be, as the German expression has it: “Morgen, morgen, nur nicht heute” (tomorrow, tomorrow, just not today). This applies to the diagnosis of the situation (too late), to the associated decision making (too feeble), and to the actual implementation of the measures announced (too slow): companies will have to wait until 2014 to benefit from this “competitiveness shock”, which has once again been postponed until it is absolutely critical.

The Franco-German couple are dancing, but each partner is dancing to a different tune: Germany has chosen a fast, spirited waltz, while France has opted for a slow, hesitant turn around the floor. This is not sustainable and the partners are unevenly matched. The second dancer must speed up and find the rhythm now if the heart of Europe is to regain its stability and overall performance. Europe’s new ambition should be to work towards a common choreography, via fiscal and social policies promoting the competitiveness of Europe as a whole and that of each its component countries.