"Should France adopt a second golden rule?"

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INTERVIEW WITH DENIS KESSLER

The economy has been very present throughout the French presidential election campaign, but is the campaign tackling the fundamental issues involved?

The economy should have been at the centre of the campaign. France is in a very serious, critical situation. Our country is stagnating, it is crippled with debt, public deficit is untenable, unemployment is high, competitiveness and commercial attractiveness are at half-mast, and de-industrialisation is underway. Nevertheless, the fundamental issues are being avoided and many debates on the topic just seem surreal. The campaign is surfing along on imprecations in the style of Stéphane Hessel’s “Indignez-vous!” (“Time for Outrage”), on pseudo-revolutionary ramblings, droning accusations, repeated rebukes, and impassioned inflexibility. Here we are back in the time of preachers, who spend their time invoking good and evil, right and wrong, heaven and hell! People want to “condemn those who grow rich while they sleep”, a favourite theme of preachers in the Middle Ages. They are looking for scapegoats to sacrifice on the altar of populism – bankers, bosses, stateless major corporations, investors, raters, and so on. They accuse Europeanization and globalisation. We are witnessing a major comeback by obscurantism, which always calls for an attitude of withdrawal: closing up rather than opening up, protecting oneself rather than adapting, denying financial commitments rather than facing up to them. This leads to simplistic, truly shamanistic solutions: “we just need to be protectionist”, “we just need to leave the Euro”, “we just need to strip the rich of their wealth”, “we just need to ban redundancies”, “we just need to nationalise the banks”, etc. And above all, “we just need to collect more taxes and welfare contributions”, in a country where public sector expenditure is in excess of 55% of GDP!

Moreover, we make believe that the State can do anything. Everyone is trying to outdo each other with ideas designed to show that the only way forward lies through more State control. Claiming that more State control will solve the country’s problems is worrying, when we see the situation it is in. Meanwhile, we refuse to hear the footsteps of the bailiff on the stairs because we are staggering under the burden of debt. Our country, as The Economist writes, is living in denial of reality and rarely deals with problems in good time. This explains the large number of crisis, emergency and bailout plans!

Is debt our real problem?

Public debt represents almost a year of our national revenue! Debt, however, is just the symptom. The actual disease is our inability to reform our public organisations, which are all in deficit despite record
levels of mandatory contributions. There are few reforms, and the ones that have been made are always late, always incomplete, and always insufficient. We have not seen a budget surplus since 1974, and we continue, ceaselessly, to spend more. The stupid 35-hour working week law has cost the State more than EUR 100 billion since it was passed, disrupting companies and impacting their competitiveness. Those who voted it in claimed that working less would curb unemployment. France's public debt is very expensive: the interest to pay on it amounts to EUR 50 billion. And interest rates are currently low because the European Central Bank has injected around EUR 1000 billion since November, at a rate of 1%. This does some good, but it doesn’t actually solve anything. This monetary policy is not tenable – unless we accept a huge rise in inflation. Interest rates are bound to rise. If the new government embarks on a policy of spending, France’s spreads will increase, its rating will be downgraded and the cost of the national debt will explode, which will make it even more painful, if not impossible, to reduce the deficit. We would then be sucked into the downward spiral that has claimed Greece, Spain and Italy, and would be, like the Burghers of Calais, driven to ask for help from the IMF, Europe, Germany and China, with a rope around our necks. What a terrible fate! The situation is serious and our country has no room for error. Our credibility and our independence are at stake.

Are we about to enter a debt-clearing economy?

We have gorged ourselves on debt, and we need to pay it back. The debt contracted has not been used judiciously. If these resources had been invested in factories, infrastructure and technology, they would now be generating revenue to facilitate their own repayment. In actual fact, these debts have financed largely non-productive spending on day to day functioning, immediate consumption and transfers. We are going to experience 5 to 7 years of “debt clearing”. All players will be involved - primarily public ones such as the State, local authorities, and the social security and unemployment bodies - and to a lesser and variable extent banks, companies and households. Everyone is going to have to reduce their spending, restructure their balance sheets, manage their finances more effectively, and make better use of their money. This process will be painful, but it will enable us to return to sustainable growth. Unless, of course, we opt for radical solutions such as partial or total default, like Greece at the moment. Or we lower our debts by allowing inflation to come back, thereby ruining savers, the retired and the most underprivileged. We should remember the beginning of the 1980s, when inflation reached 13% before we committed to a price and wage freeze in 1983. History dictates that the Germans will be opposed to this way out through massive inflation, which traditionally appeals to the southern European countries. The tensions within Europe are going to get worse. The honourable way to avoid the downward spiral and these perverse solutions – i.e. default and inflation – is to return as rapidly as possibly to a budgetary equilibrium, by setting ourselves golden rules and rigidly sticking to them.

What solution would you recommend for getting France out of debt?

Considerable efforts must be made to eradicate the deficit, by securing primary surpluses so that the debt level can start to decrease. To curb the deficit, we should concentrate on lowering public spending rather than turning wholesale to taxes. France should thus adopt a second “golden rule”, according to which 70% of deficit reduction should come from cuts in spending and only 30% from a rise in contributions. This would enable us to simultaneously lower public spending, which represents 56% of national wealth, and to accelerate the clearing of the deficit. It should be impossible for the State to deduct another euro from the French if, at the same time, public spending has not been reduced by more than 2 euros. Otherwise, the
additional taxes mentioned during the campaign will strangle the productive sphere. It is up to the State, to the social welfare organisations and to local authorities to make most of the effort. They are the ones responsible for the debt. All of the countries that have come out of the crisis – Canada, Sweden and so on – have profoundly reformed their public organisations. Ours are more expensive than those in other countries, without being as efficient. Politicians should first of all take care of their responsibilities, i.e. the State apparatus, social security and local authorities, and should stop interfering in the workings of companies, taking money from them and trying to manage them. Unreserved support for the production sector, rather than restrictions, will generate the wealth to render the debt clearing process acceptable to French people, whilst preparing the future for new generations. We need to give absolute priority to production, after decades of expanding administration.

Should we go back to the drawing board and eliminate tax loopholes?

The French tax and welfare system is complex, incomprehensible and inefficient. There are far too many taxes, and far too many floors and ceilings. It has become of matter of urgency to rebuild a system where we know who pays what, for what reason and with what kind of compensation. This would presuppose a total rethink of the State, its missions, its functions and its organisational structure, which we have neglected to do since after the war. One idea? The same administrative body should deduct taxes and contributions and distribute social services, and should apply the same rigour to making a welfare transfer as it would to checking a tax return…the tax authorities employ 120,000 people…

Do we need to rethink the State, and in particular our social model?

That’s what has happened in the countries that have resolved their debt problems and returned to growth. We are obsessed by issues of allocation and redistribution. Too many participants in the debate seem to be unaware that wealth needs to be produced before it can be distributed. Those who produce such wealth should be encouraged rather than reviled. Following Germany’s example, it’s time we made a veritable pact between the production sector and the public sector. Companies need respect and freedom in order to develop. Let’s stop making them the scapegoats for all our problems. If the Nation cannot reconcile itself to business, it is heading for serious problems. We have an open economy and, sooner or later, the productive forces will go off to develop under more favourable skies. And this will be damaging for all French people: less jobs, less revenue…and public debts to repay! Here’s a major goal for France: invent a less costly, more efficient State and social welfare system fit for the 21st century.