Kessler: “Statutes set in stone, untouchable incomes”

Le Point
05/12/2012

Scathing. The Chairman & CEO of SCOR, the reinsurance company he saved from disaster, looks at what is ailing France.

Le Point: France in crisis seems very (too) calm. Are appearances deceptive?

Denis Kessler: The work of the American sociologist Albert Hirschman helps to explain this deceptive calm. For him, there are basically only two possible modes of behaviour faced with the decline of a company, an organisation or a country. The “exit” mode, where you free yourself from your obligations, you leave, you retreat, you back away, you don’t want to be in the photo any more. And the “voice” mode, where you express yourself, you shout, you protest, you demonstrate. The “exit” mode currently has the lead in France. The general deterioration of the situation is generating more resignation than protest, more withdrawal than demonstrations, more surrender than objection. France’s few, heavily publicised hotbeds of protest are not doing much to disprove this idea of a country drifting towards resignation in the face of the accelerated economic, moral and political decline of our nation. The “exit” mode is increasingly evident through the exile of qualified people, talent and wealth, amid the jeers of the populist orators.

What lies at the root of this problem?

Without a doubt, the problem is rooted in the dysfunctional nature of our democracy. The State thinks of itself as omnipotent and continues to make people believe that it really is omnipotent – whereas in fact it is in debt, immobilised, exhausted. There is an increasing imbalance between a public sector that is constantly absorbing more and more of the nation’s resources, and a withered and depleted civil society. There is a morbid obsession with issues of distribution and redistribution and a denial of the problems linked to production and accumulation. There is a mechanical belief in the “French exception”, which is used as an excuse for procrastination, when in fact our so-called model has lost so many of its virtues that nobody copies it any more. We have politicians – on both the right and the left – who get on the merry go round and never get off again, trying to catch the brass ring at each turn. We have statutes set in stone, untouchable incomes, ossified social bodies... Where is the movement in all of this, where is the innovation and the mobility? Proof of the dysfunctional nature of our democracy resides in the fact that our country has seen the most crisis and emergency plans across all areas – education, fishing, Corsica, agriculture, hospitals, social security... We have even had an emergency plan for hospital emergency units!

Is this the State’s fault?

To think that this is the country where Tocqueville was born! So long as we have not firmly and sustainably rebalanced the respective shares of civil society and state society, the respective shares of the productive sector and the administrative sector, we will trail behind History. We should
remember that, in this regard, the situation has deteriorated over the years, as demonstrated by record levels of public spending, mandatory contributions, and public deficit! Moreover, because this fundamental imbalance leads to very weak growth, we are playing a negative sum game that generates a chaotic mixture of claims and frustrations for everyone. We therefore need more civil society and less State. We still need to give civil society the means, notably financial, by which to assume its responsibilities.

The 1804 Civil Code tried to prevent mortmain assets, principally those belonging to the clergy, from reappearing in another guise. Moreover, only two types of property were defined: private property and public property. No mention of intermediary forms of assets such as those belonging to associations or foundations. The former were not recognised until 1901, while the latter had to wait 200 years for recognition! I am delighted by recent developments in this field, but such developments remain modest, and foundations are still tightly controlled. Just look at the striking differences when you compare France to Germany, the Netherlands, the UK and the US, where foundations are omnipresent in education, research, art and sport! A foundation – unlike a 1901-style French association – has permanent sources of funding that guarantee its independence from the State, and therefore its freedom. The major French universities should be foundations... just as the Sorbonne was when it was created!

Consequently, in France, the museums petition department D17 of the Ministry of Culture, the universities send requests to department B12 of the Ministry of Higher Education, and sportsmen and women write to department C23 of the Ministry of Youth and Sport. In the absence of means, civil society and the active population spend their time begging for subsidies and funding from a State that demands a monopoly on the allocation of resources.

That seems insolvable...

I am not pleading for a weak State: it must be powerful in its sovereign duties – nobody is trying to take these away from it, but it is no longer conducting them properly because it is trying to do everything. The French State has become an unmanageable conglomerate: it needs to start concentrating on its core business. Civil society must be revived, it needs oxygen. Otherwise, we will not be able to avoid a permanent, frustrating and despair-inducing confrontation between the State and its citizens. Teachers, company directors, researchers, artists, doctors, unions, the unemployed – everybody either turns to the State for help or rejects it, and some do both at the same time. This relationship has become unhealthy, and even fruitless.

Despite its presidential system, France seems incapable of major reform...

There is a metaphor I often use on this topic. France regularly changes its pilot, but the plane cannot even pick up speed on the runway, let alone take off! The pilot may have supreme control on board, bustling around, pulling all the levers, moving the joystick, pressing all the buttons, but he can’t get his plane to take off. The reason for this is simple: the plane is made of lead. The solution, therefore, is not to change the pilot, but to change the plane. To review all of its plans, engines, and circuits, and to fill it with fuel. Long live reform!

The Gallois report is yet another emergency plan...
Of course it is, even though it should be congratulated for getting politicians to dare to use the long-outlawed word “competitiveness”. However, you will note that the State increased corporate and employee contributions by around EUR 20 billion before offering to give these contributions back... It would have been better just to leave that EUR 20 billion with corporations in the first place!

**Even so, the Gallois report is a positive thing.**

Of course it is, Louis Gallois has done a good job. But in order to genuinely reinforce competitiveness, we need to rethink the entire social welfare system, which weighs too heavily on companies and their employees. Employee contributions should be made purely to fund the rights generated by employment contracts. All other facilities (such as health insurance, family allowance, etc.) should be funded through taxation (VAT or the universal social security tax CSG). Moreover, there is a glaring absence in the Gallois plan: the length of time worked. This includes the 35-hour week, which we are the only country to practice, but also the amount of time worked over a year and over a lifetime. You want to know the best way to rapidly strengthen competitiveness? Get rid of the 35-hour week.

**France has been downgraded by Standard & Poor’s and now by Moody’s – is it the new “sick man” of Europe?**

Unemployment, competitiveness, external trade, budget deficit… A purely objective analysis shows that the France brand has lost some of its value. Moreover, although France is still borrowing at very low interest rates, this has more to do with the monetary policy of the ECB than with the country’s health. The rating agencies have sounded a warning – it would be fatal to ignore it. Their message is clear: if France does not get back on track, its budgetary credibility will be called into question. We no longer have any room for error, and any deviation will be punished. If this happens, we know what will come next: a sharp rise in interest rates, leading to higher public deficit, a higher cost of credit for corporations, a fall in investment, further tax increases, a decline in growth, and so on. And then the country will fall into a vortex identical to the one currently being experienced in Spain, from which it is extremely difficult to get out. When your work is graded badly, you need to correct it.

**Is there any chance that France could manage to dodge these bullets?**

Unfortunately, it doesn’t seem likely. The crisis is not over, and the efforts to come through it will have to continue. However, if these efforts are supported by the productive sector alone, which is currently the case, we will postpone the exit from the crisis by a long margin. The crucial thing is to maintain corporate investment, but at the moment four engines have broken down.

**Four engines?**

The four sources of capital are drying up. The State, which is still a shareholder in public corporations, no longer has the means to recapitalise these. Family capital, which is so important on the other side of the Rhine, has been smothered, notably by taxes: wealth tax, inheritance tax, capital gains tax, and so on. Moreover, with Basle III and Solvency II, banks and insurance companies are discouraged from investing in the share market and in private bonds. Finally, France still refuses to develop pension funds, which provide a major share of corporate financing for our partners. This is a tragic mistake...
You said pension funds..

Pension funds are essential, both to complement contributory pension schemes, and to strengthen the ties between employees and corporations. Neither the right nor the left has wanted to implement them. As a result, because there are no pension funds in France, French companies pay a constantly increasing share of their dividends to foreign pension funds...

Is it a good idea to tax the rich in order to redistribute and re-launch growth?

This argument is popular Keynesianism. It is nonsense to say that there’s no growth because the rich are too rich and the poor are too poor to consume. We have chosen an economy of distribution and redistribution, when what we need is an economy of production and accumulation. Keynesianism was designed for a closed economy, with the aim of smoothing out economic cycles. But now we have a globalised economy and we are facing a crisis that is structural rather than economic. This is a major change. The Keynesianism we have been practising in France, letting public debts pile up, has only weakened the productive sector. At the present time, to say that there is no growth due to low consumption is a diagnostic error. In an open economy, demand is addressed to production sources throughout the world. Thus we need to focus on supply rather than demand, because the former is “localised”, not the latter! Let’s do what the Germans have done and put the factory back at the heart of the village.

Interview by Patrick Bonazz

**USD 57.4 billion** - this is the sum of foreign investments in France in 2011. Cause for celebration?

Not really, because France has slipped back to fourth place globally in terms of foreign investment. Moreover, such investment consists for the most part of buying already existing technology or market shares (such as the acquisition of Lacoste by Switzerland’s Maus).

**57% of GDP** - this is the level of public spending in France, the highest of all the Eurozone countries (Germany: 46%).