Interview Denis Kessler

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Since he has been Chairman of the SCOR group, the fifth largest reinsurer in the world, one might be forgiven for thinking that the former deputy head of the Medef has distanced himself from public debate. Nevertheless, this overqualified figure has lost none of his bite. As much of a teacher as ever, the most intellectual of the big bosses gives a damning overview of the government. Far from being satisfied with its change in discourse, now he is calling for firm action.

Denis Kessler

“France is in a siding”

Is François Hollande any different from his predecessors?

Unlike a lot of his predecessors, François Hollande took up his post without previously having shown a genuine interest in the world. He suffers from ethnocentrism. To me, it seems difficult to define the country’s destiny without thinking about its integration within Europe and how it connects to the rest of the world. Just as a company constantly observes its competitors, a country should compare its justice, its education system, its public services, its social protection and its tax system with what is being done abroad. It is crucial to understand the world and to draw inspiration from things that have worked elsewhere, rather than defending the idea of “l’exception française”. France has long been a carrier of universal values, but now it is, wrongly, invoking its particularism. A French model that no longer inspires anyone is no longer a model. By claiming to be different, we have justified all these renunciations. We have chosen to uncouple France’s carriage from the global train, which is moving faster and faster, and now we find ourselves in a siding... I prefer open globalism to the narrow municipalism that has characterised the first two years of the five-year presidential term.

Is this what led to a diagnostic error?

Nowadays, it is a fundamental error to say, like François Mitterrand, that we have to “give time to time”. This is how general procrastination begins: painful changes are pointless, because everything will turn out all right in the end. François Hollande has seriously underestimated the crisis. His party, when it was in opposition, fought against crucial reforms. It believed in the theory of the seven-year economic cycle: the crisis emerged in 2007, so recovery should be inevitable in 2014. This does actually seem to have happened in the US, the UK and Germany, but because these countries made the necessary reforms, either before or after the beginning of the crisis.

Does the responsibility pact translate into a raising of awareness?

INSEE, the French National Institute of Statistics and Economic Studies, has just published the main economic indicators for 2013. It’s all bad on our report card: investment, company profit margins, the weight of public spending in GDP, external accounts, and so on. France has achieved neither of the two main objectives set by the government: to reverse the unemployment trend and reduce
public deficit. The past couple of years have been disastrous: the very severe fiscal shock has destabilised all behaviour and led to stagnation, without reducing the deficit. Without a radical change in economic policy, we are headed, after decline and deterioration, towards degradation, with the threat of finding ourselves in a situation where we cannot meet our obligations. For the moment, we have the historic opportunity to borrow at very low interest rates, thanks to the generosity of an accommodating monetary policy. However, the day when interest rates rise again, we risk having to be drip fed by the IMF, the ECB and the European Commission, just like the European countries in difficulty have been. We are in a state of emergency. I am not satisfied with the government’s change of discourse. Certainly, it is now daring to pronounce the formerly despised words “attractiveness” and “competitiveness”, it says it wants to rehabilitate business after lauding the State to the skies, but this aggiornamento has come extremely late. Let’s see some action!

Has the content of the pact eased your concerns?

The State has undertaken to reduce the cost of labour by lowering employer contributions - this is positive. It finally recognises the need to reform corporate tax - so much the better. It recognises the fact that this must be secured by a reduction in public spending - perfect. The government wants to reform local authorities – excellent. Nevertheless, it worries me when I see the schedule that has been proposed: an emergency situation demands emergency measures! I would only believe in the effort if large scale structural reforms were implemented immediately, in order to transform our collective organisation and reduce the fixed costs of the nation: reform of special pension schemes, civil service legislation, health insurance, social welfare, etc. The Constitution includes orders to resolve exceptional situations. Neither our European partners nor the markets will wait for us, and they won’t take any mitigating circumstances into account if we make a mistake.

Nevertheless, the IMF and the Commission itself now regret the excessive level of austerity in Europe...

In my view, strictly speaking, France has not experienced austerity. Consequently, this kind of reflection is not really directed towards us. The current majority won the election in 2012 by explaining that the previous government had applied a policy of austerity. In actual fact, faced with the financial crisis, as of 2008 it implemented a traditional Keynesian policy of supporting business, followed by a phase of tax increases in response to the sovereign debt crisis in the Eurozone. The crisis has taken a very heavy toll on the business sector, as demonstrated by the evolution of profit margins and the number of bankruptcies. If you look at the overall spending power of households, however, it has not really been affected by the crisis. Today, the priority must more than ever be to stimulate growth through investment, work, effort, risk taking and innovation. We need to promote business and scale down the State: this is a Copernican reversal. For too long, our country has been obsessed with the distribution of wealth and indifferent to how that wealth is produced and accumulated, whether you are talking about knowledge or capital. As a result, we are falling behind in terms of relative wealth. Tomorrow, the issue of ownership rights will be at the centre of French political debate: who owns the companies, the land, the buildings? Public investment is weighed down by spiralling operating costs, to such an extent that the State congratulates itself on its real estate disposal programmes. On the private investment side, the tax system has discouraged family capitalism, we have no pension funds in France to collect and invest individual retirement savings, and we have discouraged institutions from investing. Foreign investment is obviously welcome, but...
transferring too many ownership rights with nothing in return will expose us to progressively losing control of our own destiny. Yes to competition, but on equal terms.

Do you regret having supported Pierre Gattaz in his bid for the Presidency of the Medef?

No. Pierre embodies the entrepreneur at the head of an exporting, technologically-minded, successful family business. He is President of the Medef at a very complex time, in an unstable context where neither the employers nor the unions know where they stand. Neither social partner can find the right position in relation to the other. On the ground, the players are disorientated, as illustrated by movements like the “bonnets rouges” (red caps), the “pigeons” (pigeons), the “tondus” (the shorn), the “poussins” (chicks), and so on. Company representatives are always likely to find themselves at fault: if they’re too compliant, they are told that they’re helping a government heading in the wrong direction; if they are too critical, then they’re irresponsible. This is why it’s important to redefine the rules of the game. Five employee unions and three employer unions – it’s too much. In Germany, Belgium, Italy, Sweden and the Netherlands, there is just one representative on each side. One day we are going to have to redefine the concepts of representativeness and responsibility, so that the social partners can make a more active contribution to the reform of the country. That being said, it’s important to note that the main structural reforms carried out by our partners have been achieved through laws, not through labour agreements.

You describe your job as a “balcony on the world”. What can you see from your promontory?

I find the US recovery impressive. Unable to do battle with China or Mexico over labour costs, the US has focused on technology... and on ownership rights. You see a lot of products marked: “Designed in the United States, made in China”. They have capitalised on new machines, on robots, on the exploitation of shale gas, and they have managed to relocate business and regain their industrial leadership. This is a great example of adapting. The world is experiencing a new technological revolution, as often happens when a crisis ends. This could give rise to a new, long-lasting Schumpeterian movement, which would nourish growth. We should, fifteen years ago, have prepared for this technological wave instead of imposing the 35-hour working week.

Has the world changed much since you have been running the SCOR group?

The world has become even more interdependent. For example, the last floods in Thailand triggered disruptions to the supply of electronic parts right into the far reaches of the Midwest. With the extraordinary development of trade, the risks relating to pandemics have also greatly increased. All these risks influence each other. I think that the food riots and the Arab Spring, at the end of 2010 and the beginning of 2011, were partly due to the very bad wheat harvests in Ukraine and Russia in 2010, which led the authorities to enforce an embargo on exports, thereby leading to higher prices in the importing countries...

Natural catastrophes are more frequent. Are they more costly?

Yes, because, in a Historical paradox, wealth is now accumulated in the most exposed regions. Florida and California, two of the most developed US States, are the most vulnerable to cataclysms – hurricanes and earthquakes. Japan, the third most powerful economy in the world, is the most earthquake-prone zone on the planet. As for China, its production activity is concentrated on the
coastline with the highest number of typhoons. That’s how it is; business develops near volcanoes because that’s where the soil is most fertile.

**Should reinsurers review their models?**

We are devoting an increasing amount of resources to understanding all this phenomena. By definition, reinsurers are on constant watch. As well as traditional risks, such as natural risks, there are also technological risks: each new invention creates a new risk. For example, we have already examined the dangers linked to the appearance of 3D printers. Don’t they enable people to create undetectable, plastic weapons in airports?