Denis Kessler

Born in 1952 in Alsace, Denis Kessler worked for several years as an economics professor in Paris before moving to the insurance industry. He was Vice-President of the Comité Européen des Assurances (CEA) and of the French employers’ union Medef prior to his appointment in November 2002 as Chairman and CEO of SCOR, the fifth-largest global reinsurer, founded in 1970 by the French state. Within the first nine months, SCOR’s premium income rose by 4.5% to €7.5 billion. SCOR employs 2300 people around the world, 250 of whom work in Zurich.

CHRISTIAN BOBST
“In France, people often deny the real problems”: Denis Kessler, Chairman and CEO of reinsurer SCOR. (Zurich, 7 November 2013)

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“There is a rebellion against new taxes”

Denis Kessler, Chairman and CEO of the leading French reinsurer SCOR, is up in arms against the economic decline of his country and Hollande’s government, which is incapable of changing course.

Interview by Daniel Hug

NZZ am Sonntag: Germany’s economy is set to record growth of 1.7% next year, twice as much as in France, as in previous years. Do France’s weaknesses pose a threat for the balance in Europe?

In the last thirty years, France first recorded faster growth rates than Germany, as Germany had to deal with the burdens of reunification. The integration of East Germany cost roughly €2000 billion. However, Germany undertook structural reforms, especially of the labour market and the former Chancellor Schröder was successful in this task. Over the same period, France conducted almost no reforms of the labour market, pensions provisions were barely questioned and social security was among the most generous in the world. 25% of people in employment are civil servants or public-sector employees.

What are the repercussions of this?

There is an ever increasing gap between France and Germany, which adapted to globalisation and maintained labour costs. France did not adjust to globalisation or to the eastern European expansion of the EU. Labour costs continued to rise, in the open global economy, where production was much cheaper elsewhere. In 2001, China joined the World Trade Organization, yet France did not draw the necessary conclusions of this development, and reforms were very unpopular. As a consequence, competitiveness declined and unemployment rose, as did the government deficit. In the year 2000, France introduced the 35-hour working week, just as the shift to the Euro currency was being planned. That was absurd. We have always warned that it is not possible to introduce a single currency while letting such major differences in competitiveness take hold. France did not launch any reforms, which would have enabled us to benefit from the Euro.
Why did European Member States develop so differently?

When the Maastricht Treaty was signed in 1992, we explicitly wanted more economic coherence, an alignment of employee benefits, performance. We wanted the Euro, but did not have the discipline to keep the government deficit below the ceiling of 3% of GDP. That was a major mistake. Unfortunately, France’s government has once again increased compulsory contributions and public spending by tens of billions. The increasing tax burden has destabilised companies and suppressed consumption. The gross profit of French companies has hit the record low of 28%, while in Germany it is at 40%. Poor economic policy is to blame.

Industry accounts for 10% of total economic performance in France, and 22% in Germany. Why is that?

France has lost 850,000 jobs in industry since 1995 due to the decline in competitiveness. Industrial production still only represents 84% of the 2008 level. The major French companies are, however, doing much better than the industrial sites in France, as they are present across the globe. Only 5% of SCOR’s premiums come from France. Today, the major companies in France produce and sell abroad for the most part. They adapt to the situation and understand globalisation. The sad fact of the matter is that they are developing abroad and not in France. Politicians should have drawn the right conclusions about French production in France a long time ago.

What can be done?

Germany has the answer: reform the labour market, unemployment benefits, education, retirement provisions and administration. In France, there are as many prefectures and sub-prefectures as in Napoleon Bonaparte’s time, while the means of communication have changed drastically since then. We must assert that industry must be a national priority and support companies. Yet the socialist government is not showing many institutions following this path. It strives to further expand the state and employers’ contributions.

Is an overhaul of French labour law necessary?

Swiss labour law has 38 pages, I read on the flight from Paris to Zurich. If you are a slow reader, you can finish reading on the return flight. French labour law is spread over 3500 pages, so you would need many journeys between Paris and Zurich to understand it all. The basic provisions date back to 1945, which was a very different time. A reform of labour law should be a national priority. Germany has tackled this issue successfully.
With regard to the protest movement in Brittany, does the government still have the authority to carry out reforms?

I think it is positive that there has been a sort of resistance to the repeated creation of new taxes. This resistance in Brittany involves companies, commerce and executives. They are sick of the situation. There is a rebellion against new taxes that are increasing year after year. The government thought that this could go on forever. Yet history over the last 200 years teaches us that every protracted crisis is always accompanied by three factors: protectionism, populism and patriotism. These are the senile children of the crisis. They are unavoidable if an economic crisis is poorly handled by politicians. It can be a threat to national stability. France is experiencing a rise in the extreme right and in the extreme left. People want to close the borders, and endlessly criticise Brussels and the European Central Bank. The blame is always shifted onto someone else. When scapegoats are used, politicians are trying to wriggle out of their responsibility. We must now find immediate solutions to the crisis, above all to curb mass unemployment.

Where do you see the solutions?

Sweden, Canada and other countries were in a position to solve their problems. In the UK, David Cameron started his term with a clear programme. He decreased public spending to 3.5% of GDP and privatised Royal Mail. He makes industry a priority, new jobs are created, as companies and their production are getting back to normal. Britain is now recovering faster than other EU Member States. Angela Merkel’s success in the elections shows that people follow her because she shows them a viable way. The results are positive and populism is in decline. In France, politicians want to avoid this and prefer compromises here and there. This has led to distrust in the country which partly results in opposition.

France also has a 75% tax on yearly income of over €1 million. This has led to protests and emigration.

High death duties, income tax, taxes on stock options: with such a packet, it is inevitable that many companies leave the country and go to London for example. Developing economic activities in France is not very appealing. We are in the Euro zone and can choose freely where to establish and operate companies. A country should strive to be attractive, to appeal to talents and capital. Switzerland is always successful in attracting international companies.

How can the movement be held in check?

People and capital are like the wind: they move between high-pressure and low-pressure systems. People and capital move away from areas with high control pressure, penalties, forfeits and regulation, back to low-pressure areas. We cannot control the wind. Only when we are on level playing fields does the wind abate.

German industry has specialised in high-quality automobiles that sell well in Asia and the USA. France, despite being a high-wage country, focuses on cheaper small cars, though not very successfully. Is that due to management or circumstances?
France decreased the number of hours in the working week from 39 to 35, which has increased production costs by 10%. When there is an open market for cars manufactured in low-wage countries, industries must specialise in high-value products. The likes of Michelin, Dassault, LVMH and Hermès have understood this and have positioned their activity in the highest segments of their sector on an international scale.

**When do you expect to see a genuine change?**

Voltaire once said “France arrives, France always arrives, France always arrives late”. We are seeing the last twitches of the French model that was created following World War II but which has not been sufficiently developed further since. It has lost its earlier virtues. At the end of the 1980s, when it should have been further developed, people wanted to maintain it at all costs. Yet in the meantime, the single European market was created, followed by the Euro. France paid too little heed to the fundamental changes. In earlier times, the French model was copied abroad. Today, it is no longer a viable model and no-one copies it anymore. Our education system was one of the best in the world, today it ranks below the OECD average in the Pisa test. It is deplorable, but in France people often deny the real problems. Politicians deny that jobs have been lost, that competitiveness is in decline. We have a culture of denial, to maintain the healthy picture of the past.

**You are from Mulhouse in Alsace. How did you experience the changes there?**

I witnessed Basel’s ascension and the collapse of our textile industry. In Mulhouse, we had the best schools for studying chemistry. We trained specialists, and they went to Basel for work. We are at a border triangle, with the same people and climate as in Basel. Only the country borders make a difference. Political and legal positions decide on the promotion and decline of a region. In the 19th century, Mulhouse was still known as the “City of a hundred chimney stacks”.