THE GLOBE AND MAIL

Memo to France: A high standard of living must be earned

KLAUS ZIMMERMANN

Published Friday, Apr. 27 2012, 9:52 AM EDT

Last updated Monday, Sep. 10 2012, 2:03 PM EDT

Klaus Zimmermann is director, IZA (Institute for the Study of Labor), Germany

Long overdue reforms to labour markets recently announced in Italy and Spain are setting these countries up for a more prosperous future – a net plus for all of Europe. Against that backdrop, it is all the more regrettable that France, under a presumable President Françoise Hollande, would move in the opposite direction. It would seek to reverse the already timid reforms which Nicolas Sarkozy managed to pass during his term.

If the Socialist Party's candidate for is indeed elected and follows through on his announcements, he risks his country being viewed rather quickly as assuming the mantle of Italy, before Mario Monti. Yes, Mr. Hollande has paid lip service to former German chancellor Gerhard Schroeder's labour market reforms, which the latter launched more than a decade ago. These measures have shown that unemployment can be driven down in a country with high labour costs, even amidst a global economic crisis.

But Mr. Hollande does not seem to grasp that relying on tax increases was precisely not the path chosen by the German Social Democrats, his ideological soul mates. At the core, Mr. Schroeder understood that the public sector's share of GDP could not rise any further is the economy was to grow. In fact, Germany's Social Democrats launched and executed a gutsy social and economic experiment. They demonstrated that parties on the left could restructure and re-dynamize a national economy, by trimming benefits and reducing the state's role in the economy. If anything, that is the lesson Mr. Hollande should embrace, especially given that the public sector's share in the French economy is considerably higher than Germany's. Instead, he is opting for a special path, claiming in effect that economic laws, as they apply elsewhere, do not do so in France. This is regrettable.

A France moving in the wrong direction, a France that wants to reopen negotiations over the EU's fiscal pact and a France that does not correct its past choices is, at a minimum, bound to delay the European reform process. Growth and jobs will arrive commensurably later. At worst, it could threaten to paralyze the European Central Bank, which in many ways now is the true engine of European integration. Anybody who knows the ups and downs of Franco-German history will recognize that this is a high-risk gamble.

Even the World Bank, which under outgoing president Bob Zoellick criticized German economic policy, is clear in its warning that France and other countries are driving up labour market costs by shortening the number of hours worked and providing overly generous time off. In France's case, it goes well beyond an eight-week vacation. With good reason, the World Bank declares this strategy as not sustainable in a world economy that is marked by ever more cross-border competition.

The worst thing about Mr. Hollande's pronouncements is that they raise expectations among French citizens. His criticism of the financial industry may be justified but it is certainly not the root of

France's lack of competitiveness. And pointing to the banks while promising to return the retirement age to 60 is fiscally irresponsible.

In today's Europe, the battle should not be about becoming more "German." This betrays a profound misunderstanding of global realities, in particular the competitive pressures emanating from a rapidly integrating global economy. It's just possible that Germany can be described as Europe's most global economy due to its orientation toward exports and successful labour market reforms. The changes over the past decade were and are wrenchingly painful. But there was and is no alternative. A high standard of living has to be earned, not just claimed. That is the true – and only relevant – form of German leadership.

The longer the French wait to get onboard of what is not a German, but a global vision for Europe, the worse certainly for France and the worse as well for all of Europe.