

Will France fall behind Italy?

28 April 2012 | last updated at 08:54AM

By Klaus F. Zimmermann

REFORM: Hollande must embrace German lesson on re-dynamising economy

THE labour market reform packages recently announced in Italy and Spain were long overdue, and they are setting these countries onto the right track for a more prosperous future.

That is to be welcomed as a net plus for all of Europe. Against that backdrop, it is all the more regrettable that France, under a presumable President Francois Hollande, would move in the opposite direction. It would seek to reverse the already timid reforms which Nicolas Sarkozy managed to put through during his term.

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

But Hollande does not seem to grasp that relying on raising taxes even further was precisely not the path chosen by the German Social Democrats, his ideological soul mates. At the core, Schroeder grasped that the public sector's share of gross domestic product could not be elevated any further for the economy to grow again. Any conservative would have had a much tougher time seeing through.

In fact, Germany's Social Democrats launched and executed a gutsy social and economic experiment. They demonstrated that parties on the left could very well do the right thing and restructure and re-dynamise a national economy by trimming benefits and reducing the state's role in the economy. If anything, that is the lesson 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 French special path, claiming in effect that economic laws as they apply elsewhere do not do so in France.

That is all the more regrettable as a France moving in the wrong direction, a France that wants to reopen negotiations over the European Union's fiscal pact and a France that does not correct its past choices, at a minimum is bound to delay the European reform process. Growth and jobs will arrive commensurably later. At worst, it could threaten to paralyse 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 recognise that this is a high risk gamble by any means.

Recently, even the World Bank, which under its outgoing president Bob Zoellick was rather a critic of Germany's economic policy, has unequivocally stated that countries such as France are driving up their labour market costs too much in light of an ever shorter numbers of hours worked and the overly generous time off which they provide. In France's case, it goes well beyond an eight-week vacation period. 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 Hollande's pronouncements is that they raise expectations in the French population. These are likely to be sorely disappointed. For all of his justified criticism of the financial

industry, it certainly is not the root of France's lack of competitiveness. And blaming the banks certainly does not make it any more responsible fiscally to bring the retirement age back down to 60 years, as Hollande intends to do.

In today's Europe, the battle is certainly not over becoming more "German". Saying so betrays a profound misunderstanding of global realities, in particular the competitive pressures emanating from a rapidly integrating global economy. The Germans can possibly be described as Europe's most global economy due to their export orientation and the successful labour market reforms. The reforms they undertook over the past decade were, and some of them still are, wrenchingly painful. But there was and is no alternative. A high standard of living has to be earned, not just claimed. That, in my mind, 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.