

France must face reality

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By Klaus F. Zimmermann (China Daily)

The labor market reform packages recently announced in Italy and Spain were long overdue, but they are now setting these countries onto the right track for a more prosperous future. That is to be welcomed as a positive step for all of Europe. Against this backdrop, it is all the more regrettable that if Francois Hollande is elected president, France will move in the opposite direction and is likely to reverse the already timid reforms which Nicolas Sarkozy managed to push through.

If the Socialist Party's candidate for the French presidency is indeed elected and follows through on his announcements, he risks his country being viewed as assuming the mantle of the pre-Mario Monti Italy. Yes, Hollande has paid lip service to former German chancellor Gerhard Schroeder's labor market reforms, which were launched well over a decade ago, yet Hollande does not want to follow the path chosen by the German Social Democrats, his ideological soul mates.

Schroeder grasped that the public sector's share of GDP could not be elevated any further if the German economy was to grow again. The measures Germany implemented show that unemployment can be driven down, even amid a global economic crisis and even in a high labor cost economy. In fact, Germany's Social Democrats launched and executed a gutsy social and economic experiment. They restructured and made the national economy dynamic, by trimming benefits and reducing the state's role in the economy.

This is a lesson Hollande should learn, especially given that the public sector's share in the French economy is considerably higher than Germany's. Instead, he is opting for a different path, claiming in effect that economic laws, as they apply elsewhere, do not apply to France.

A France that wants to re-open negotiations over the European Union's fiscal pact, and a France that does not correct its past choices, is bound to delay the European reform process and growth and jobs will arrive commensurably later. At worst, it could threaten to paralyze the European Central Bank, which in many ways has become 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 by any means.

Recently, even the World Bank, which under its outgoing president Robert Zoellick was critical of Germany's economic policy, has unequivocally stated that countries such as France are driving up their labor market costs too much in light of an ever shorter numbers of hours worked and the overly generous time off workers receive. In France's case, it goes well beyond an eight-week vacation period. It is with good reason that the World Bank has declared this strategy unsustainable in a world economy that is marked by ever more cross-border competition.

The worst thing about Hollande's pronouncements is that they have raised unrealistic expectations among French workers. They are likely to be sorely disappointed. For all of his justified criticism of the financial industry, it certainly is not the root cause of France's lack of competitiveness. And

blaming the banks certainly does not make it any more fiscally responsible to bring the retirement age back down to 60 years, as Hollande intends.

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 successful labor 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 what is not a merely a German but a global vision for Europe, the worse certainly for France and the worse as well for all of Europe.

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