



## Elections in France: Major Shifts Unlikely

*Nicolas Véron argues that François Hollande has no plans and no mandate to shift policies dramatically toward austerity, Germany, or Europe.*

*Transcript of interview recorded May 7, 2012. © Peterson Institute for International Economics.*

Steve Weisman: What does the election of François Hollande as president of France portend for the future financial stability in Europe? Nicolas Véron, a visiting fellow at the Peterson Institute and senior fellow at Bruegel, is here to answer some of those questions.

Nicolas, Hollande's margin was a little narrower than some of the polls had indicated. Does he have a mandate for major changes?

Nicolas Véron: I don't think he has a clear mandate in terms of policy, and in my view, he has not really sought a mandate because he has made this election really a referendum about Nicolas Sarkozy and Sarkozy was disliked by the French public and lost. Of course, Hollande has a campaign platform; he has a number of policy measures, some of which he will implement even before the forthcoming legislative election on June 10th and 17th, in six weeks' time. But I think when this is done -- none of these measures is a complete game changer -- then it's pretty much a blank slate in terms of policy apart from very general commitments like balancing the budget and things that you almost have to say when you're campaigning for a general election in Europe these days.

I think it will be very interesting to see when the electoral dust settles, which is not before mid-June, what direction he will take in policy terms.

Steve Weisman: In the United States, this election is being seen as a repudiation of austerity measures, not just in France, but in Europe. Americans want to know the implications for the battles to come over fiscal and tax policy.

Nicolas Véron: Frankly, my impression is that many of the US commentators are really misreading this election from something else they had in mind which is the American debate on the stimulus versus austerity. And a) the European debate on austerity is not the same as in the US and b) that's not what the French election was on. You can say that the Greek election was about austerity principally and maybe this even is to be qualified. I don't spend enough time in Greece perhaps to have a completely full vision of that.

But certainly, the French election wasn't. I mean, Sarkozy has not introduced a policy of austerity and actually, the two candidates, Hollande and Sarkozy, have gone out of their way to basically be on the same page on this. I mean, Sarkozy was not standing for austerity, Hollande was standing for fiscal responsibility and balancing the budget and in the end, well of course there's a difference in their means.

Hollande is advocating more raising of taxes and Sarkozy, at least on the face of it, was advocating more cutting of expenses. But it is not clear that it made a big difference in the

end and it's not clear it will make a big difference going forward. I think as a French citizen, I haven't felt that this campaign was about austerity, frankly.

Steve Weisman: What about work and employment rules? When the socialists last ruled in I guess in the 1980s, we had things like the 35-hour work week. What changes does the socialist government offer?

Nicolas Véron: There are some adjustments that we know Hollande will make in the short term. One of them is removing the arguably excessive tax advantage that overtime was given by Sarkozy at the beginning of his term. Overtime was basically tax exempt and will no longer be so, which I think is not an unreasonable thing to do in the current circumstances. But that's relatively marginal.

Sarkozy hasn't really sought a mandate to reform labor market legislation in France in this election cycle. Perhaps more so in the last one, but he hasn't delivered that much either and alone has not sought such a mandate at all. We'll see whether Hollande reforms labor market legislation in France in the next five years but it's not been a big topic in the campaign.

Steve Weisman: Let's turn to Germany. Earlier, a lot of attention was paid to Chancellor Angela Merkel's endorsement of Sarkozy; she must have favored him because she was concerned about the French-German support of the European Union and its tough demands on the peripheral countries in the last couple of years. Can Hollande get along with Merkel?

Nicolas Véron: I think this question has already been answered by Chancellor Merkel when she said that she was "welcoming Hollande with open arms" -- I quote her. And they have had a conversation yesterday night. They are going to meet very soon, so we do have very much business as usual in terms of the French-German relationship and I believe that this could be fully anticipated.

There were tactical reasons both on Hollande's side and on Merkel's side to depict the relationship as antagonistic during the campaign, more at the beginning of the campaign than the end of it. But these reasons were entirely circumstantial and have disappeared yesterday night. So right now, there is every incentive for Hollande and Merkel to cooperate and I guess we'll be talking very soon of Merkolande as we were talking talking of Merkozy in the recent past.

Actually, my view is that Italy will probably play a stronger role in the euro zone governance than has been the case until now. But I don't think we have to expect particular tension between Merkel and Hollande. Of course, there is a very clear stance by Germany on certain aspects of European affairs that Hollande has not yet joined. Merkel has reiterated recently that the Fiscal Compact was not up for renegotiation, but I expect a compromise to be found very quickly on this.

Steve Weisman: Many in Europe are calling on Germany to stimulate its economy and even tolerate more inflation to help pull the whole region out of its slump. Where will Hollande come down on that?

Nicolas Véron: I think the question about inflation and the question about stimulus are not exactly the

same one. On inflation, actually I think it's fair to say that even the European Central Bank has been quite clear that to fulfill its own inflation mandate, there had to be a greater tolerance for inflation in Germany because Germany, in the current economic circumstances is going to have more inflation than the south no matter what.

Steve Weisman: Right.

Nicolas Véron: And if Germany doesn't have more inflation than what it has been used to in the past few years, it means that the situation in the south and in the Euro zone more generally is deflationary. So I guess there is a relative policy consensus outside of Germany on this. I expect some parts of the German debate certainly to join this consensus. But the question of stimulus is more contentious, and my view is that it's really a question about the fiscal architecture of the euro zone more than a question about fiscal stimulus in Germany.

So it's debatable whether fiscal stimulus in Germany would be an advisable stance. It's also debatable whether it would make a big difference for us to paraphrase. So I think what we're talking about on the fiscal side is more about euro zone fiscal arrangements and how they should evolve and how much a genuine fiscal union should be built in the next few years than just the fiscal stance of Germany.

Steve Weisman: You seem to be suggesting that a lot of American commentators are somehow applying the template of the American debate on France and now seeing this as a repudiation of Republican-style fiscal consolidation in the United States. It's not quite that -- is that what you're getting at?

Nicolas Véron: You could even say American Democratic commentators are saying that because these things play on their side in the heavily polarized and toxic partisan debate in Washington. But yes, I think the US has a huge fiscal problem and Europe has huge fiscal problems. But they are not the same.

The US one is medium term and structural. Europe's problems are structural too but they are very short term. So the US doesn't have a problem of its federal institutions, *per se*. The European Union, and especially the euro zone, has an enormous institutional design problem, so they're not the same. And basically, it seems to me that many US commentators on the right and on the left, particularly on the left in that case, are just hijacking for the purposes of their own partisan discussion, something that has little to do with it.

And I guess that's normal in the political debate, but it's not necessarily a good guide for policy thinking.

Steve Weisman: Thank you, Nicolas.

Nicolas Véron: Thank you, Steve.

