



Malaise and Paralysis in France?

Nicolas Véron says Franco-German ties are suffering as the French grow sullen over their increasingly challenging economic travails.

Transcript of interview recorded May 1, 2013. © Peterson Institute for International Economics.

Steve Weisman: It has been almost a year since Francois Hollande took office as president of France, and he's already become one of the most unpopular leaders of his country in the last couple of generations. Nicolas Véron is here with me, Steve Weisman, at the Peterson Institute to talk first about the factors in that unpopularity, but also the ramifications for the rest of Europe.

Nicolas, the French President has a program, the French people don't love it, the economy is in bad shape. What are the factors at work?

Nicolas Véron: I think it's not really about the program. I think it's widely accepted that the result of the presidential election last year was at least as much a vote against Nicolas Sarkozy as opposed to a vote in favor of Francois Hollande. In a way he was elected for not being his predecessor. Unemployment is at a record high, so the economic situation is not good, even though it looks reasonably good by comparison with some of the southern neighbors, but in absolute terms it's not good. I think there's something perhaps a bit deeper. France is a country which is not completely comfortable with its current position. It has lost leadership in Europe. It's aware of this. French public opinion is aware that change is needed, but at the same time change is not desired, so you have this sort of national "funk" that I think also explains a large part of the unpopularity of the president, but also of the governing coalition, but also of the opposition. It's not like the opposition is very popular.

Steve Weisman: Well they have tried to split the difference. This government is embarking on reforms, but not so many that would annoy or anger the base of the Socialists, such as the unions. What kind of scorecard would you give Hollande in success in implementing the necessary reforms?

Nicolas Véron: In my simplified framework, which I think corresponds very much to how particularly investors look at France's base, is that you have three axes. You have fiscal adjustment; you have structural reform; and you have the position of France in Europe and France's rule in European initiatives, specifically in the context of the euro crisis.

Steve Weisman: Let's talk about the first two first.

Nicolas Véron: Fiscal adjustment: I think the French government has been serious in terms of turning the fiscal screws, both in terms of tax increases but also to a certain extent in terms of reducing spending, so things are not drifting out of control. But at the same time, there has been no very strong signal sent in that direction. So France is sort of in the middle of the road, but the problem is that nothing really significant is happening on the structural front. There has been a welcome reform at labor market, but it's more a promising start than anything really significant. Apart from that, there have been some negative signals in the field of taxation and in attitude to entrepreneurship to foreign investment. So overall, one can say that

France doesn't have a structural reform posture, doesn't have a structural reform trajectory or strategy, and this is making investors very nervous. But it's also a recipe for bad economy trajectory if you have fiscal adjustment without a structural reform, because you can't have a negative sphere of austerity in precisely these conditions.

Then on Europe, France has been very constructive at the very, very beginning of Hollande's term in terms of making the banking union story start, and I think France has played a much bigger role in this particular episode in May-June last year than it usually gets credit for. But since then there has been basically a parallel with the whole European debate in France and especially a strong reluctance to envisage any form of political institutional reform from a French perspective. Part of this is the trauma of the referendum on the constitutional treaty in 2005, wherein the French public rejected the treaty. But part of it is also a more broader set of uncertainties and reluctance to move forward in terms of European integration. That has a lot to do with what I was mentioning of the country not really comfortable with itself right now.

Steve Weisman: At the core of European integration is the relationship between France and Germany. One does get the sense that the Germans are growing impatient with France, that they feel they're not undertaking these reforms. And isn't that pivotal to how they're going to lead Europe to increasingly integrate in the way you've just mentioned it?

Nicolas Véron: I think you're right to mention that the Germans are impatient. But I would say they are generally concerned, because there is a very strongly held belief in Germany that the French and German relationship is essential to get Europe moving forward. What they're seeing, and this predates Hollande's election to a large extent, is that it no longer works as it used to. Part of this is because France is not strong enough because it doesn't reform. It's really a sort of loss of traction of that device to get Europe moving forward. And I think the big question on which there is absolutely no consensus in Germany, in France, or elsewhere is: Is this loss of traction permanent? Which would mean that the French-German relation would no longer be the driving template of initiatives in the European Union. Or is it only temporary? Many Germans hope it's temporary, but they don't see it coming back.

Steve Weisman: One gets a feeling it will be temporary if France gets its "mojo" back as they say in America, which means economic growth and that sort of thing. But what are the French attitudes now toward Germany? Is that troublesome?

Nicolas Véron: Certainly in Paris there is no sense at all, and I would think France more generally...the situation is not as dire outside of Paris as it is in Paris.

Steve Weisman: They talk too much in Paris.

Nicolas Véron: Yes, exactly. And there is more creative energy frankly in the provinces, as we say in France ...

Steve Weisman: Really?

Nicolas Véron: Than there is in the capital, which is a sort of interesting situation. Anyway, the problem is that the mood in Paris is very gloomy. There is no sense of the "mojo" coming back any time soon, and this party translates in an increasingly disturbing aggressiveness vis-a-vis Germany. So there was a lot of comment in the past few days about a leaked "dry" version of a statement

of the Socialist Party, not off of French current members of the Socialist Party, but basically the mainstream party itself, accusing Mrs. [Angela] Merkel [Chancellor of Germany] of being selfish and basically driving Europe down into crisis, which was remarkably and frankly disturbingly aggressive, given the history of this French-German relationship. So you see this sense of high German mood building up in a very defensive spirit.

Steve Weisman: Correct me if I'm wrong, didn't Merkel endure Sarkozy, so the Socialists are not going to be her biggest fans?

Nicolas Véron: That was during the election campaign. Actually, that was more at the beginning of the campaign than at the end of the campaign, so you would imagine that, you know, "let bygones be bygones"; and once Hollande is in power, his responsibility as a statesman, and you would expect the responsibility of the Socialist Party as basically the anchor of the ruling coalition for the next four years would be to basically not to hold grudges for what happened during the election campaign at the time when it appeared possible, even probable, that Sarkozy would be re-elected. So now, of course, you can make the converse argument saying there's an election campaign in Germany and the French Socialist Party is entitled to supporting the SPDs, the Social Democratic opposition to Merkel. But the question is, is that in the interest of France and of the ruling coalition in the more narrowly political sense? The obvious answer is no. It's not, if only because it's quite likely that Merkel will remain as chancellor. And the support of the French left will not critically increase the chances of the SPD winning.

So I think it's really a bit of disturbing development. It's not something that was necessarily to be expected, at least not that intense, and it's not helping the next steps of European crisis management, I suspect.

Steve Weisman: In the 1970s there was a whole debate about "malaise" in the United States. It sounds like you're saying there's malaise in France?

Nicolas Véron: There is malaise in France. Let's remember that there was malaise in Europe in the 1970s as well. I mean, it was a time of Europe pessimism as people were labeling it at the time. The pendulum swings in different directions over time. But I think the malaise you're describing in France actually is something that has been festering for some time, at least for the last five years or so. It seems to be a bit of a long cycle. The question now is: can France exit from this cycle of gloom just by pulling its socks and getting back to work, or is it inevitable that there will have to be some form of crisis and disruption at some point to get it going?

I think the general feeling in Paris, unfortunately at this point, is the latter rather than the former, and of course there are plenty of moving parts in the euro zone crisis. It's difficult to make a forecast. But I certainly don't see signs, neither in the French government nor the opposition or in the mainstream political landscape generally, and actually also in the nonmainstream political landscape. Frankly, you don't see much indication of renewal. So at this point, there is a sense of the country being stuck and no clarity on how it will get moving from there.

Steve Weisman: I hesitate to say thank you for that gloomy assessment, but thank you, Nicolas.

Nicolas Véron: Thanks to you, Steve.

