



## French Cabinet Shakeup: Old Wine in New Bottles?

*Nicolas Véron analyzes President Hollande's Cabinet rearrangement following the electoral defeat of the Socialists, but the basic rightward thrust of his government is expected to continue.*

*Transcript of interview recorded April 2, 2014. © Peterson Institute for International Economics.*

Steve Weisman: President François Hollande of France has shaken up his cabinet and his team following recent elections. Nicolas Véron, a visiting fellow at the Peterson Institute and of Bruegel is here with me, Steve Weisman, to discuss the economic implications of the shakeup. Nicolas, tell me what happened.

Nicolas Véron: On Monday [March 31], the day after the second round of the municipal election in which governing parties, the Socialist Party took a drubbing in a number of large of cities, President Hollande announced that Manuel Valls would be the new prime minister replacing Jean-Marc Ayrault, who had been prime minister since national election which brought Hollande to power in mid-2012. And today, April 2, avoiding any announcement on April 1st, which would have been ominous of course ...

Steve Weisman: Foolish.

Nicolas Véron: The main part of the government was announced -- 16 ministers, it being understood that there will be junior ministers or state secretaries, which will be announced apparently next week. It's not just full government but it's also cabinet ranking members, if you will. This is a more compact team than before. It's a team of mostly experienced politicians and the expectation is that it will be more cohesive and less incoherent frankly than the previous team, which was prone to leaks and squabbling. Of course, it remains to be seen how the functioning of this team will play out over the next weeks and months but this is clearly a signal of continuity from a policy perspective. Many people on the left side of the Socialist Party argued that the bad result of the municipal election for the Socialist Party would justify a change of direction; but this is clearly not the choice that President Hollande has made.

Steve Weisman: The spending cuts envisioned by Hollande originally are still underway?

Nicolas Véron: Absolutely. In January, President Hollande made a series of big economic announcements, the main ones being a program of €50 billion of spending cuts and the "responsibility pact," which is a program of tax cuts or social security contribution cuts for business with newly defined counter party in terms of job creation. And those key plans of the current economic policy remain very much current and the choices of personalities for the different ministries, especially Finance Ministry Michel Sapin, who used to be labor minister and the new labor minister, François Rebsamen, who is known as somebody very close to President Hollande, suggests that this will be enforced as initially announced. No change of direction on this account.

Steve Weisman: Didn't he advocate tax increases for the very wealthy?

Nicolas Véron: That was in the previous incarnation of this government and it has been put in place. One way to look at it is that Hollande was elected on a fairly, you would say, left-of-center program including tax increases for the wealthy including a number of regulatory initiatives and has implemented these, but actually his current economic policy is quite different from his electoral platform. So, it's a new face if you will of his government economic policy which has started in January and is confirmed by this government. And by the way, Manuel Valls, the prime minister, is widely considered to be the furthest to the right of the Socialist Party. So, it's clearly a pro-business and I guess in an international perspective, pro-reform signal.

Now, the signal is not so clear. At the same time, President Hollande being a master of ambiguity sends signals which go exactly in the opposite direction, including the promotion of personalities like Benoit Hamon, the new education minister who is a very prominent figure of the left-of-center wing of the Socialist Party and perhaps most significantly for economic policies, the elevation of Arnaud Montebourg who was Minister of Industrial Renewal in the previous government as a minister of the economy, which is a new ministerial perimeter but now more prominent. And Arnaud Montebourg is a talented orator but somebody who in terms of policy has been certainly not on the side as IMF or World Bank associated with structural reformants of Washington consensus.

Steve Weisman: He is a bit of bomb thrower and certainly an economic nationalist. You have argued that this restrictive economic nationalism is one of the plagues of the modern French economy. Do you see his elevation as impeding reform?

Nicolas Véron: I think a lot will depend on what sort of change or lack thereof can be observed in Montebourg's rhetoric and actions as minister. What is clear is that in the recent past, Montebourg interestingly started as a consumer advocate. So, he was very anti-big business and defending the small guy as it were. And then, he became more of an economic nationalist protectionist defending big corporate incumbents, national champions against foreigners, and also to a certain extent, against new entrants on the domestic market. So, a very mercantilist to the extent that he declared it last month. Colbertism is back and that's a good thing.

Steve Weisman: And not referring to Stephen Colbert but ...

Nicolas Véron: Not referring to Stephen Colbert even though Stephen Colbert attended the state dinner at the White House when President Hollande visited Washington.

Steve Weisman: So, you're just going to watch and see his rhetoric for clues, right?

Nicolas Véron: Exactly. I mean, this is a very skilled politician, very talented orator who has changed on policy substance several times. And so, the question now is: will he change from his recent economic nationalism, which I see as difficult to make compatible with the real program of growth and economic vitality in France, or will he stay on that course which indeed would be a negative signal. But I think it's too early to tell.

Steve Weisman: Thank you very much, Nicolas.

