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The Economic and Political Decline of France

Bonjour Tristesse

By Mathieu von Rohr

6/5/2013

France is in the grip of a crisis. As both its economy and European influence weaken, scandal has hobbled its political elite. The country needs drastic overhaul, but President Hollande does nothing but waver and hesitate.

Judging by the imperial magnificence of the Elysee Palace, France has never ceased to be a world power. Rooms with five-meter (16-foot) ceilings, gilded chandeliers, candelabras and elaborate stucco work are guarded by members of the Republican Guard, who parade in front of the palace gates with their plumes of feathers and bayonets.

The man in charge, on the other hand, seems lonely and small in his palace. He is surrounded by court ushers who make sure that glasses and writing sets are perfectly arranged, and when he enters a conference room, they call out grandly "Monsieur le Président de la République!", to give his attendants time to stand up for him.

François Hollande never intended to become a king, but rather a "normal president," as he put it, and now he has to play one nonetheless. He occasionally seems like an actor who has somehow ended up in the wrong play.

Outside, throughout the country, unemployment reaches new highs each month, factories are shut down daily, hundreds of thousands take to the streets to protest gay marriage, and the French are increasingly outraged over a barrage of new political scandals as the country hovers on the cusp of waning global relevance. Yet this roar of dissatisfaction doesn't permeate the walls of Hollande's world. Here, it is quiet, very quiet.

Shortly after moving into his new official residence, Hollande warned his staff that in a palace it is easy to feel protected, and he insisted that he did not want to be "locked in." But that is precisely what is happening, as evidenced by the documentary film "Le Pouvoir" (The Power), which recently debuted in French theaters and whose creators accompanied Hollande during the brutal first eight months of his presidency.

Elite in a Bubble

They paint an image of a likeable man who seems to spend a lot of time rewriting speeches prepared by his staff. As you watch him in the movie, you start to wonder: Does he do all the important things when no one's watching or does he really spends most of his time on the unimportant? However, the main subject of the film is not the president, but rather the reality bubble in the country's top echelons. Not just Hollande, but also most of his cabinet ministers, still reside in Parisian city palaces that predate the French Revolution, and perhaps that's a problem.

A justice minister who spends her days in the Hôtel de Bourvallais on Place Vendôme, next door to the Hotel Ritz, a culture minister who goes to work at the magnificent Palais Royal, a prime minister whose offices are in the grand Hôtel Matignon and a president who resides at the Elysee Palace, they all need a great deal of inner strength to avoid losing their connection to reality. It's a difficult proposition, because Paris's settings of power convey the message that France is big, rich and beautiful.

But the mood hanging over the country is depressed. France is in the midst of the biggest crisis of the Fifth Republic. It feels as if the French model had reached an end stage, not just in terms of the economy, but also in politics and society. A country that long dismissed its problems is going through a painful process of adjustment to reality and, as was the case last week, can now expect to be issued warnings by the European Commission and prompted to implement reforms.

France's plight was initially apparent in the economy, which has been stagnating for five years, because French state capitalism no longer works. But the crisis reaches deeper than that. At issue is a political class that more than three quarters of the population considers corrupt, and a president who, this early in his term, is already more unpopular than any of his predecessors. At issue is a society that is more irreconcilably divided into left and right than in almost any other part of Europe. And, finally, at issue is the identity crisis of a historically dominant nation that struggles with the fact that its neighbor, Germany, now sets the tone on the continent.

The French economy has been in gradual decline for years, without any president or administration having done anything decisive about it. But now, ignoring the problems is no longer an option. The economy hasn't grown in five years and will even contract slightly this

year. A record 3.26 million Frenchmen are unemployed, youth unemployment is at 26.5 percent, consumer purchasing power has declined, and consumption, which drives the French economy, is beginning to slow down, as well.

There is a more positive side of the story, which sometimes pales in the face of all the bad news. France is the world's fifth-largest economy, and interest rates for government bonds have been at historic lows for months. The country is far from being on the verge of bankruptcy and cannot be compared with Italy or Spain, and certainly not with Greece. Nevertheless, France is ailing. And looking weak is something the French themselves hate more than anything else.

Consequences of French Decline

This mixture of factors could jeopardize the entire European structure. For one thing, if France continues to decline, more and more responsibility will be shifted to Germany. "Germany cannot carry the euro on its shoulders alone indefinitely," writes Harvard University economist Kenneth Rogoff. "France needs to become a second anchor of growth and stability."

Another problem is that the European Union is losing its standing in France at a more dramatic pace than in any other EU member state. According to a study by the Pew Research Center, the public approval of the EU in France has declined from 60 to 41 percent in only a year. This might be owed to the uncomfortable fact that Brussels is increasingly treating France as a problem and not as one of Europe's supporting columns, and many French citizens have started to see the terms 'Brussels' and (German Chancellor) 'Angela Merkel' as synonymous.

But is the EU to blame for the France's crisis? Can Europe truly be held responsible for the fact that the government is behind 57 percent of total economic output in France? That government debt has risen to more than 90 percent of the gross domestic product? Is it Germany's fault that, for decades, French administrations have failed to make the country's business environment more competitive? And has anyone in Brussels demanded that a fifth of all workers in France be employed by the government?

France may be ailing, but it still has a lot going for it. It is home to successful major corporations, such as the luxury brand group LVMH, tire manufacturer Michelin and many pharmaceutical companies. The country has an efficient healthcare system, the highest birthrate in Europe and healthier demographics than Germany, fostered by tax breaks for families, the acceptance of working mothers as a fact of life and a corresponding system of full-day childcare.

But the French welfare state costs money, a lot of money. The country has neglected to make decisions on how much its individual achievements are worth, and how certain luxurious aspects of life it has come to appreciate could be modified to conform to not-so-luxurious realities, including the 35-hour workweek, a retirement age of 60 for some workers and unemployment benefits of up to €6,200 (\$8,122) a month. As a result, there is a sense of gridlock, and a sour public mood is following on the heels of bad economic news.

Stuck in Past Grandeur?

France has an illustrious past, of which it is justifiably proud, but its historic success also prevents it from clearly recognizing the need for reforms. The omnipotent, bloated central government, which also controls the economy, should have been reformed long ago. The privileges of the Paris political elite are so outdated that they have become intolerable, and many bribery and corruption scandals are undermining an already fragile political legitimacy.

It cannot be accidental that France's leading politicians increasingly refer to their country as the "grande nation." Since the election campaign, President Hollande has hardly missed an opportunity to invoke the nation's greatness. With some dialectical malice, one could see this as evidence that France's greatness is now becoming a relic, but it certainly reflects the self-hypnosis of a nation whose stature is in the process of shrinking.

"Our soldiers demonstrated our role," Hollande said recently in a major press conference at the Elysée Palace, as he praised one of his rare successes, the military operation in Mali. "Namely that of a great nation that can influence the balance of power in the world."

There is an increasingly stark contrast between the feigned grandiosity of the president's appearances and the faintheartedness of his daily actions. The obstructionism and inflexibility that prevail throughout the entire country can only be eliminated through deep-seated renewal. But so far Hollande, who promised "change" in his campaign, has been more conspicuous for his hesitation than his courage.

Since this spring, Hollande has been viewed by most commentators as the nice "Grandpa" in the Elysee Palace, who lacks the gumption to address the country's serious structural problems. The French constitution grants the office of the president more power than is allotted any other leader of the Western world. Besides, his Socialist Party holds significant majorities in the National Assembly, the Senate and even in regional governments.

In other words, Hollande could get down to business on any day he chooses. He could reform the country as he wished, if only that were his objective. But no one -- not citizens, not journalists and possibly not even his cabinet ministers -- knows what he wants and if indeed he wants anything at all.

Does he aim to be France's great reformer but lacks the courage to defy the left wing of his party, as a member of the German government believes? Or is it that he clings to his party's old formulas, wants to change as little as possible and is waiting for the day when the recovery happens on its own?

Hollande's Mixed Messages

At the recent 150th anniversary celebration of Germany's center-left Social Democratic Party (SPD), Hollande praised the "bold reforms" introduced by former Chancellor Gerhard Schröder, which attracted attention in France. But it remains unclear how he intends to apply this recognition to his own country. Last week, when the European Commission called upon France to "credibly implement ambitious structural reforms" in areas that include pensions, ancillary wage costs and taxes, he responded defiantly, saying that the Commission had no right to dictate

anything to France. His country is reforming itself, he added, but how it approaches the task is its own affair.

It was a surprisingly irate reaction, given how accommodating the Commission has been to the French. They have been given a two-year reprieve, until 2015, to reduce new borrowing to less than 3 percent of GDP. In other words, France is not expected to cut spending and enact reform at the same time, which is a departure from the hard line represented most prominently by German Chancellor Merkel.

Nevertheless, France is routinely offended by criticism from abroad, especially coming from Germany. It is precisely this combination of sensitivity and heel-dragging when it comes to reform that other Europeans find worrisome.

What could be done? There are plenty of blueprints available, the most recent by former EADS CEO Louis Gallois, who was asked to write a report for Hollande on how France could improve its competitiveness. His conclusions are similar to those of the European Commission and the International Monetary Fund. According to Gallois, France should reduce its ancillary wage costs, which amount to half of gross salaries, as soon as possible. It should relax its rigid labor laws, under which it currently protects those with tenured jobs from others trying to enter the labor market -- mostly young people -- whose employment status often remains precarious. Other steps under discussion include raising the retirement age and lowering taxes.

The administration, elected on the strength of completely different and unrealistic promises, reacted lukewarmly to the Gallois report and has since given the impression that it is pursuing a zigzag course. It has indeed enacted a few reforms, such as tax relief for small and mid-sized businesses and a cautious amendment of its labor laws. On the other hand, the government is still adhering to many campaign promises, including the lowering of the retirement age for certain groups to 60 and a 75-percent wealth tax on incomes over €1 million, which triggered reactions throughout Europe and was promptly struck down by the Constitutional Council. The French audit court recently criticized the government's plan to hire 60,000 new teachers.

It took until March 2013 for Hollande to clearly state, for the first time, that government spending needs to be reduced and that the French will have to "work a little longer" for their pensions in the future. But before anything can happen, the government will first need to enter into protracted negotiations with labor unions.

The Minister of Productive Recovery

To comprehend the way of thinking that has shaped France for decades, it's worth having a conversation with a man who is sitting in the First Class car of a TGV high-speed train traveling in the direction of the Alps, from Paris to Chambéry. He looks splendid as always, with his perfectly fitting tailored suit, his blue eyes and his bright white teeth. Arnaud Montebourg is 50 but looks much younger. He is France's industry minister, but his official title is more apt, because it sounds as grandiose as the minister himself: Minister of Productive Recovery. A visit to a dying factory is on today's agenda.

His destination is the Rio Tinto Alcan aluminum plant in Savoy, which its owners plan to shut down because they believe that operating the plant is no longer economically viable. Montebourg, who has never worked in industry himself, disagrees. He has even found a German company that wants to keep the factory and its jobs afloat, with government support. The purpose of his visit is to garner support for his rescue plan with German assistance.

"France once had a glorious industry," says the minister. He adds that he personally combats the nightmare scenario that author Michel Houellebecq described in his novel "The Map and the Territory," set in 2035, when all of France has become nothing but a theme park for tourists.

To avert this fate, Montebourg, since coming into office, has been hectically travelling around a country whose industrial base is in jeopardy. More than 1,000 factories have been closed in the last four-and-a-half years, and industry's share of value added is now only half as large as it is in Germany.

Montebourg has assumed the role of the outspoken populist among his fellow cabinet ministers, while the others tackle the tedious task of reforming the status quo. The darling of the party's left wing, he is reputed to be on hostile terms with the prime minister, and Hollande seems convinced that it is better to have Montebourg in his government than leading demonstrations against him.

The minister believes in the state. Although it has "no divine power," he says, it can "accomplish a lot." France is a "world power," and it refuses to be forced into a game of "cat and mouse" by international corporations, continues Montebourg. Part of his portfolio is to publicly berate big business leaders, which includes telling people like steel baron Lakshmi Mittal that he is no longer welcome in France. Although such statements attract attention, it is not clear how many jobs they have yet preserved.

At the beginning of the year, Montebourg engaged in a public correspondence with American corporate leader Maurice Taylor, whom he had asked to acquire a Goodyear tire factory threatened with closure. Taylor responded: "How stupid do you think we are?" He wrote that he had no interest in investing in a country where "so-called workers" spend "only three hours" a day actually working and in which he would be constantly battling with unions.

A De-Globalized France ?

Montebourg's second opponent is Germany. The German economic model is "uncooperative, dangerous for France and suicidal for Europe," he wrote in his book "Votez pour la démondialisation!" (Choose De-Globalization). During the train ride, Montebourg says that austerity in Europe needs to end and the European Central Bank should start acting like other central banks and "monetize parts of the debt," which basically means printing money so as to reduce government debts, which he says will never be fully repaid anyway. "It is Germany that should withdraw from the euro if it refuses to accept doing what the other countries are doing to resolve the crisis."

In Chambéry, he gets into a black limousine and, in a convoy of six vehicles, arrives at the giant Rio Tinto Alcan plant in Saint-Jean-de-Maurienne, set against a backdrop of mist-covered

mountains. The employees are waiting for him in the rain, as if expecting a savior. Montebourg takes a tour of the plant, and when he steps out into the rain after an hour, he tells the employees again about the German company he has found for them, gets back into his car and is whisked away.

After the visit, the head of Rio Tinto Alcan's aluminum division says in front of the factory's entrance: "Of course the government has a role to play, but I would like to point out that we own the factory."

In the traditional French concept of economic policy, no company is ever entirely private, because businesses are bound to serve the Republic. In this sense, Montebourg embodies a worldview that, in a somewhat watered-down form, can be found among many members of the elite. He is an intellectual heir of Jean-Baptiste Colbert, who served as finance minister under Louis XIV in the 17th century and lent his name to a doctrine known as Colbertism, which holds that the state establishes manufacturing companies, directs the economy and pursues a protectionist trade policy.

This legacy continues to influence France today. Every president from Charles de Gaulle to Nicolas Sarkozy has been inspired, at least in part, by Colbertism. Free trade, the market economy and liberalism are expletives in France. Is Montebourg Colbertism personified? "Colbert wore a wig, but I don't," he says, laughing out loud over his joke, and adds: "That was a good one, wasn't it?"

Whenever Montebourg talks about growth, it always has something to do with the state. A few weeks ago, for example, he held a seminar for suppliers of government-owned businesses, which have an annual budget of €60 billion. He told his audience that state buying agents should from now on give preference to domestic products. "In this way," he said, "every civil servant becomes a soldier for 'Made in France'!"

The industry minister also likes to tell the story of how he summoned auto industry leaders to discuss with them which company was to devote itself to which field of research: Valeo to the self-driving car, Peugeot to hybrid engines and the rest to hydrogen and electric cars.

Nothing illustrates France's relationship to the economy more effectively than the spaceship-like Ministry of the Economy, Finances and Industry in the Paris district of Bercy, on the Seine River, an enormous complex that currently houses seven ministers, each of whom does something related to the economy. Bercy, as the small ministerial city is called, is a monument, cast in concrete, to French economic dirigisme.

The Other Face of the French Economy

Montebourg is not the only important man when it comes to the French economy. Minister of Finance Pierre Moscovici has his office three floors above Montebourg's office in Bercy. Like the prime minister and the president, Moscovici is trying to find a middle ground between French tradition and European demands. Moscovici and Montebourg have a tense relationship. Together they form the two faces of the French government in economic matters -- the one constantly

raging against austerity and the European Commission and the other traveling around Europe and insisting that France is serious about balancing the budget.

Last October, when steel tycoon Lakshmi Mittal announced that he was shutting down blast furnaces in Florange in northeastern France, dramatic scenes erupted within the government. Montebourg wanted to temporarily nationalize the unprofitable production facility, but Hollande refused to support him. It took some persuasion to convince the minister not to submit his resignation.

These psychological dramas say a lot about how much the French left has had to adjust to reality since it came into power. It is true that Hollande has inherited a difficult legacy. Ironically, a Socialist is now expected to do the dirty work after 17 years of conservative rule. This is all the more difficult in a country in which being leftist still comes with the lofty claim to having superior morals and being imbued with the desire to make the world a better place.

Hollande was incapable of using the euphoria over the transition of power to take decisive action. Now the left wing of his party is already rebelling, as it laments what it calls the "austerity" that prevails in France. But in contrast to Greece, for example, where government spending has been cut significantly, there has been no real austerity in France yet -- and because of the reprieve granted by the Commission, there will be none for the time being.

The French political class suffers most of all from the fact that, in a German-dominated euro zone, it can no longer implement its traditional notions of an economy financed by state debt, if only because of constant pressure from the financial markets. As a result, Hollande is on his way to a European policy similar to that of his predecessor Nicolas Sarkozy, even though he promised voters a new direction. This makes some Socialists irate, a feeling they expressed publicly in recent weeks when prominent party members called upon the president to seek "confrontation" with Germany.

But when Merkel and Hollande met in Paris last week, they put on a unified front. They even presented, for the first time since Sarkozy was voted out of office, a joint Franco-German paper for the EU summit in June.

Blame Germany

Nevertheless, this does nothing to change the fact that, in the eyes of many Socialists, Germany is to blame for the crisis. They fault both the now-weakened austerity mandate in Europe and the German economic model, arguing that the Germans pursue an unfair, egoistic export policy. Politicians across the political spectrum, from right-wing populist Marine Le Pen to Arnaud Montebourg to several conservatives, have voiced similar criticism.

The French left paints Germany as a place afflicted with deep social problems. Even members of Hollande's staff are quick to cite German poverty figures in private talks, even though they are not much higher than French figures. They say that they don't believe in the German export model for all and are fighting to preserve the European social model.

In recent months, Germanophobia within parts of the public has even reached troubling levels. During the presidential campaign, Montebourg caused a stir when he accused Merkel of having "Bismarck-style policies." But hardly anyone raised an eyebrow when the renowned intellectual Emmanuel Todd said in a talk show recently that the goal of German economic policy was "to exterminate" its neighbors.

As a candidate, Hollande was still inspired by the serious conviction that, as president, he would convince the German chancellor to relent on European issues. Instead, the French voice has become quieter at the European level. Paris's diplomats used to set the tone in Brussels. But when Finance Minister Moscovici reportedly fell asleep during a meeting with his European counterparts on the bailout package for Cyprus, no one noticed. International Monetary Fund Managing Director Christine Lagarde had to wake him up, according to reports by prominent French daily *Le Monde* and Reuters news agency. Some interpreted this as evidence of France's waning importance in Europe. A furious Moscovici tweeted that he hadn't dozed off at all, and that the rumors were nothing but "French bashing." It's a term that French politicians have resorted to frequently of late, as a way of brushing aside criticism from abroad.

What this shows, however, is that France's fear of no longer playing an important role is real. This is all the more jarring because the country, with its 1,500-year history and its "civilisation française," sees itself as a natural leader among nations. France still maintains a costly vestige of its former colonial empire, scattered halfway around the globe. The imperial Parisian palaces contribute to the sense that France is not just an ordinary country. Does democracy truly benefit from being celebrated in a monarchical setting?

'A French Oligarchy That Sticks Together'

France's biggest problem is not economic reforms, like the ones Germany demands, but a dearth of democratic culture, says journalist Edwy Plenel. He is sitting in the conference room of an office building in a residential neighborhood in eastern Paris. Plenel, with his trademark large moustache, was a Trotskyite in his youth. Today, at 60, he manages the Internet newspaper *Mediapart*, which has set almost all major French political scandals of recent years into motion -- including perhaps the most devastating of them all, the case of Jérôme Cahuzac.

The fact that a budget minister faced allegations of tax fraud and held a secret bank account in Switzerland, which he had strenuously denied until overwhelming proof finally forced him to admit it, transcended even the worst of improprieties to which the French had become accustomed. The case of disgraced former IMF Managing Director Dominique Strauss-Kahn had already given the public a glimpse into the behavior of an elite that considers itself above the law. Citizens had long resigned themselves to the fact that many politicians repeatedly embroil themselves in inscrutable financial scandals.

The Cahuzac case, says Plenel, demonstrates with nearly chemical clarity that the French democracy isn't functioning properly. "Democracy isn't just the institutions," he explains, "but also the way it is lived out."

In this case the entire system failed, says Plenel. After *Mediapart* reported on the minister's Swiss bank account in December, other media organizations, which Plenel accuses of engaging in "government journalism," chose to believe Cahuzac's lies instead. Neither the president nor the parliament, including the opposition, took action after the *Mediapart* report. The judiciary only became involved when *Mediapart* filed a complaint, says Plenel. "In this manner, the public gains the impression of a French oligarchy that sticks together."

Plenel has been working as one of France's few investigative journalists for the last 30 years. He was with *Le Monde* for many years, including a stint as editor-in-chief. After leaving the paper, he founded *Mediapart*, which is now in its third year, has 45 employees and is turning a profit. Plenel defends the profession of journalism as he understands it, but, as he points out, this makes him something of an oddity in France. France's basic problem, says Plenel, is presidentialism. "We entrust everything to one man instead of strengthening our democracy."

The 'Grand Throne'

Plenel explains that France had the most absolute monarchy on the continent until the French Revolution swept it away, but it in turn was followed by the dictatorship of Napoleon Bonaparte. As a result, the concept of placing so much control into the hands of one individual was implanted into the heart of post-revolutionary politics. "It has shaped our entire history since then. Unfortunately, General de Gaulle was also a Bonapartist."

In 1958, the office of the French president was created specifically to accommodate De Gaulle. As a war hero, he enjoyed the stature of a democratic ersatz king. But it is difficult to construe the office for modern times. Sarkozy tried to breach the prevailing conventions in a constant state of agitation, but in doing so he alienated the people. In Hollande's case, on the other hand, the grand throne seems to reinforce his phlegmatic tendencies. At the same time, he has trouble filling the seat.

Nevertheless, the president remains at the center of society. The Paris elites resemble a royal court, in which those who have gained access remain part of it forever -- making entry all the more difficult. The same group of people has dominated the economy and politics for decades, and there is also little turnover in culture and academia.

While members of the upper class are prepared from an early age to attend the "grandes écoles," or elite universities, which are practically a prerequisite to a government career, there is only a theoretical path to the top for the lower class, not to mention an entire generation of the children of immigrants growing up in the ghetto-like suburbs of Paris, Marseille and Toulouse. Largely excluded from the labor market, their prospects are few in the French Republic. When they do make headlines, it is usually in connection with reports of violence. In Marseille, for example, street gangs armed with Kalashnikovs clash in broad daylight. And then there is the case of Mohamed Merah, who became a terrorist in Toulouse.

There is one person who benefits in particular from the French public's fear of the future, and its rage against the elites, the crisis and immigrants: Marine Le Pen, the leader of the right-wing

populist National Front. Polls show that if a presidential election were held today, she could even defeat Hollande in the first round.

Growing Unrest from the French Right

But another new force has developed in the right half of society. It is the great surprise of Hollande's presidency, and he is the one who unwillingly helped to create it. Knowing that he would be unable to satisfy the left with his economic policies, he gave the country a revolution in social policy: marriage for gays and lesbians. Same-sex marriage is now legal in France, but instead of mobilizing his supporters, Hollande has inspired the opposition.

A previously unknown coalition took to the streets by the hundreds of thousands on three Sundays to protest the law. It ranges from traditional Catholics to the extreme right and the conservative center.

The left and the right have been at odds in France since the Revolution, and there is something folkloristic about their conflict. This too makes it so difficult to achieve compromise. And because in France, feeling culturally attracted to the right is by no means the exclusive preserve of older people, the movement also includes large numbers of young people, many of them from the wealthy, conservative districts in the western part of Paris.

Gay marriage isn't their only concern. Not unlike the Tea Party activists in the United States, their resistance to gay marriage is combined with the feeling that the left's claim to power is not legitimate. The protests illustrate the sensitivity of an anxious society that is easily inflamed on both sides of the political spectrum. They also expose the vulnerability of a presidential system when the strong man at the top is perceived as weak.

The president will hardly be able to overcome the rift that runs through French society and even divides the conservatives. His most radical opponents have announced protests for the coming months. Should Hollande truly begin to embark on real economic reforms at some point, and if the French are forced to make real sacrifices one day, the left will probably also call for resistance in the streets.

When that happens François Hollande, in his palace, will realize what it means to be alone.