H-France Review Vol. 16 (July 2016), No. 119

Michel Hau, *France-Allemagne: la difficile convergence.* Berne: Peter Lang, 2015. 222 pp. Notes, bibliography, and index. 30.70€. (pb). ISBN 978-3-0343-1604-0.

Review by Mark S. Sheetz, College of Europe.

Michel Hau has written a good book. And because the Franco-German relationship is the cornerstone of European construction, he has also written an important book.[1] Germany has the strongest economy in Europe and France lags behind. Why? This book tells us. Hau engages in historical and cultural analysis to explain the difference between French and German economic development. His reasons for the difference between French and German approaches to political economy are persuasive, and his conclusion that France is only slowly and very reluctantly converging with Germany is borne out by the evidence.

Germany, as a collection of historically small states, has always been open to the international economy, while France, as a large state, has long sought to preserve its lucrative internal market with protectionist impulses. The goal of French trade policy has been to promote industrialization and preserve for French industry privileged access to its sizable domestic market. In contrast, the small domestic markets of the traditional German states obliged their producers to sell abroad. Their trade policies were thus of necessity open to foreign competition. By the dawn of the twentieth century, Germany had the least protective trade policy of all the great industrial powers, excepting Britain.

The role of the state is another major factor. In France, the state plays a hands-on, *dirigiste* role in the economy. The ranks of the bureaucracy and enterprise emerge from the same administrative elite and are closely linked. Large technology projects, like Airbus, TGV, and Concorde are routinely directed by the state, and the state owns a sizable interest in industrial giants like Elf-Aquitaine, BNP, and Renault. French industrial policy is set by the state and is dedicated to minimizing risk. The state aims to satisfy workers' demands for job security, but does not necessarily aim to satisfy the demands of the marketplace.

German industrial policy, on the other hand, is primarily a matter for the private sector and is dedicated to minimizing the cost of production. The German government, concerned about the climate for German business, seeks to make German products competitive in the world market by reducing labor costs. This means taking the burden of social costs off the backs of business through absorption by the state. In France, conversely, social costs are piled onto businesses, because of an obsession with social justice and a deep suspicion of the capitalist class.

France is a centralized, closed system that looks to the state for protection. Germany is a decentralized, open system that looks to the market for growth. The French advocate higher external tariffs and flexible monetary policy. The Germans, in contrast, fear tariff reprisals from extra-EU trading partners and inflation from lax monetary policy. Germany welcomes globalization, while France is wary of it.

France is distinctly Keynesian in its approach to easy credit, debt financing, and deficit spending, while Germany favors the Chicago school of strict monetarism and fiscal restraint. France has a preoccupation with stimulus, while Germany's obsession is inflation. In the collective German subconscious, inflation is associated with defeat and penury after 1918 and after 1945. In the collective French subconscious, inflation is associated with postwar growth in the era of the *Trentes Glorieuses.* Interestingly enough, debit cards are much more popular than credit cards in Germany, whereas in France the reverse is true.

Germans live by the Protestant ethic that values saving while, for the French, saving connotes an image of the idle rich. Germans put the emphasis on balanced budgets, achieved through austerity. The French emphasize public spending, with balance to be sorted out later through growth. In contrasting the two, Jean de la Fontaine's fable of *la Cigale et la Fourmi* comes to mind.

Hau provides a keen insight when he explains that the word "growth" in a joint communiqué means different things to French and Germans. The French immediately translate "growth" as an increase in public spending, while Germans instinctively interpret it as an increase in business competitiveness.

The French system burdens industry with taxes and social benefits that make the cost of labor uncompetitive in world markets. The social costs on French business constitute a sort of customs duty in reverse, making French exports more expensive while exempting foreign imports. This has the perverse effect of impairing the balance of trade and, without the possibility of devaluation as an adjustment mechanism in a common currency, forces the burden of adjustment on the labor force in the form of lower wages and/or unemployment. Moreover, the system affords generous benefits to the unemployed and job security guarantees that discourage hiring of the young. This has the perverse effect of prolonging a high rate of unemployment, with the consequence that France's unemployment rate (10.7 percent) is more than twice that of Germany (4.5 percent).[2]

Foreign trade, which is a motor of German growth, is instead a brake on the French economy. The most recent statistics show that France has a trade *deficit* of $100 billion (72 billion euros), while Germany has a trade *surplus* of $ 265 billion (220 billion euros).[3] Because each billion euros of trade surplus or deficit represent several thousands of jobs, Hau argues that the gap in French and German unemployment rates is easily explained (p. 5). This seems plausible at first, but the experience of the United States indicates skepticism. The US has by far the world's largest trade deficit, and yet its unemployment rate is one of the lowest of all industrial powers.[4] Persistent French unemployment is surely linked to the competitiveness of its manufactured products, as Hau insists, but there is likely more to it.

The fact that France has traditionally had a large internal market that it wanted to protect seems plausible enough to warrant fear of globalization. But again one recalls that the United States, possessing the largest internal market in the world for over a century, is an open economy. A more suggestive rationale for French hostility to economic liberalism would appear to be the historical legacy of the French Revolution and the Paris Commune, in its fascination with class structure and, more precisely, its contempt for the capitalist class.

The French Socialist Party (PS) was originally founded not on the principle of reform, but on the Marxist doctrine of class struggle and revolution. There is not a town in France without an avenue named for its founder, Jean Jaurès. For the French left, labor relations are bitterly infused with Marxist concepts of exploitation and injustice. Labor and management are archenemies, the general strike is the weapon of choice, and unions can never be associated with management in efforts to improve the lot of the working class. Any measures to help French enterprise compete more effectively in international markets are viewed as gifts to the capitalist class *(cadeaux faits au patronat*). "Profit" is a dirty word, and companies that return dividends to shareholders do not have the right to lay off workers.

In contrast, German socialism developed along evolutionary and reformist principles inspired by Eduard Bernstein. The evolutionary model of social democracy rejected the inevitable demise of capitalism. Revolutionary socialists advocate the overthrow of the parasitic bourgeoisie, while evolutionary socialists seek pragmatic reform of capitalism working within the system to improve the lot of the worker. Hence, German Social Democrats have rejected class struggle and have instead embraced the concept of *Mitbestimmung*, where labor is represented at the board level and works together with management for the good of the enterprise. Relations between labor and management are collaborative. Conflicts are generally resolved in view of market conditions and the state is not involved. Strikes are rare.

Two items that are only briefly touched upon could have received more attention: the failure of the *programme commun* in France and the success of *Agenda 2010* in Germany. Both initiatives were important events that clearly indicate each country's priorities, and both initiatives were proposed by socialist governments. Holding this regime variable constant provides a nifty contrast of each country's approach to political economy.

When French Socialists came to power with the victory of François Mitterrand in 1981, they raised the minimum wage by 10 percent, reduced the legal length of the workweek from forty to thirty-nine hours, formalized a fifth week of annual paid leave, and reduced the retirement age from sixty-five to sixty years, all paid for with higher taxes on business. Mitterrand castigated the capitalist class as "those who get rich while they sleep."[5] But, the increase in the minimum wage (SMIC) caused the unemployment rate for non-skilled workers to soar from 7 percent to 10 percent. The increased taxes on business produced a growing gap in the costs of production between French companies and foreign competition that resulted in three devaluations of the franc in two years. When relief did come, the state directed scarce resources towards the most threatened, hence the least competitive enterprises (steel) in hopes of preserving jobs at the expense of more competitive businesses (semi-conductors).

Mitterrand came to power promising to solve the twin problems of economic growth and unemployment. Instead, France got anemic growth and even higher unemployment. These difficulties were accompanied by rising inflation and a prolonged foreign exchange crisis that saw multiple devaluations of the French franc in October 1981, June 1982, and March 1983. When Socialists again came to power under Lionel Jospin in 1997, they put through laws reducing the workweek to thirty-five hours without any reduction in wages, which translated into an immediate wage hike across the board of 11.4 percent. Jospin's government raised the minimum wage, lowered employee contributions to health care, and increased corporate taxes.

The Socialist government of François Hollande (2012) has maintained this system of high social costs, rigid job security, generous unemployment benefits, and a thirty-five-hour workweek. The shutdown of the Goodyear tire factory in Amiens is a case in point. After eight years of bitter negotiations, during which workers at one point occupied the factory and held managers hostage, the plant closed with the loss of 1,250 jobs.[6] Unions, whose call to arms was *"patrons voyous,"* refused to accept a longer workweek in return for job security and, with the backing of French courts, blocked all efforts at restructuring to make the plant profitable. Hollande endorsed union demands and, during a visit to the factory, promised workers he would sign into law a provision barring "economically unjustified" dismissals.[7]

Late last year, unions at a Smart car factory in Lorraine rejected a management proposal to abandon the 35-hour workweek in return for job security. "They are asking us to work more and earn less," complained the local union boss. They want to exploit the worker "to enrich the 1 percent."[8] Hollande's latest response to ever-growing unemployment is a resort to *trompe-l'oeil* artifice to disguise statistics through a state-sponsored "civic service" program that will take up to 150,000 young people off the rolls of the unemployed.[9]

A more thorough discussion of the Schroeder economic reforms, the so-called Agenda 2010, would be welcome as well. These reforms, which included measures to reduce labor costs and lower taxes, stimulated growth and sharply reduced unemployment over the past ten years. They cut jobless benefits, raised the retirement age, reduced retirement benefits, permitted the hiring of part-time workers without social benefits, and made firing easier by loosening rules against the dismissal of workers for economic reasons.

Such reforms in Germany, with the cooperation of German labor, are precisely the kind of provocation that, in France, produces angry demonstrations in the street. In 1993, for instance, the union at IG Chemie accepted a lower starting salary for young workers, violating the principle of "same work, same wage," while at the same time a similar measure in France was met with unanimous opposition from unions and leftist parties. In 2006, the Sarkozy government attempted to solve the problem of youth unemployment by allowing dismissal for any reason during a probation period of two years. This measure would have encouraged hiring and afforded young people an entry into the labor market. The proposal, however, was met with massive street demonstrations supported by leftist parties and by both major unions, the CGT and CFDT. Today the unemployment rate for youth is over 25 percent in France compared to 7 percent in Germany.[10]

With this book, Michel Hau has made an important contribution to our understanding of Franco-German relations. He has shown that the different approaches to political economy are deeply rooted in history and culture. The depth of these differences means that convergence will be halting and incomplete.

The problem is not the French worker who is, in any event, more productive than his German counterpart. It is not socialism per se, since German socialists seem to be able to govern successfully. It is rather an anti-capitalist bias that demonizes business, treats all negotiation as zero-sum, and considers "profit" a dirty word. This bias leads the French to view globalization as a scourge, instead of a challenge. Hence, French efforts are directed at protecting, rather than promoting, French industry.

Convergence is not excluded. If the European Union is to achieve an "ever closer union," French and German economic policies will have to converge. But, as Hau argues, it is France that will converge on the German model and not vice-versa. The evidence shows that the German model works and that the French model does not. Because French society is so enamored with the idea of revolutionary socialism, convergence will take place as a result of bankrupt policy and not out of conviction. As Hau concludes, necessity will gradually force France to abandon its revolutionary ethos and adopt a more pragmatic, i.e., German, approach to political economy.

NOTES

[1] In a toast honoring Konrad Adenauer, de Gaulle famously declared that "Nous autres, Européens, nous sommes des bâtisseurs de cathédrales....Eh bien, cette cathédrale que nous construisons, je parle de l'Europe occidentale, elle a une fondation, et cette fondation nécessaire, c'est la réconciliation de l'Allemagne et de la France," speech in Bonn, 11 June 1965, quoted in *Le Monde*, 13-14 June 1965.

[2] Eurostat news release, 30 October 2015, accessed 9 May, 2016, http://ec.europa.eu/eurostat/documents/2995521/7054219/3-30102015-AP-EN.pdf/.

[3] WTO International Trade Statistics 2014, accessed 9 May 2016, https://www.wto.org/english/res_e/statis_e/its2014_e/its2014_e.pdf; Eurostat: international trade, 2013-14, accessed 9 May, 2016, http://ec.europa.eu/eurostat/statistics-explained/index.php/File:International_trade,_2014–15_YB16.png.

[4] OECD Data 2014, accessed 9 May 2016, http://stats.oecd.org/index.aspx?queryid=36324.

[5] François Mitterrand, address at the Mutualité, 29 March 1995.

[6] Jean-Baptiste Jacquin, "Comédie dramatique à l'usine Goodyear d'Amiens-Nord," *Le Monde*, 28 Nov 2014, accessed 9 May 2016, http://www.lemonde.fr/economie/article/2014/11/28/comedie-dramatique-a-l-usine-goodyer-d-amiens-nord_4531097_3234.html.

[7] Francine Aizicovici et Cédric Pietralunga, "Goodyear s'apprête à fermer son site d'Amiens," *Le Monde*, 25 Jan 2013, accessed 9 May, 2016, http://www.lemonde.fr/economie/article/2013/01/25/goodyear-s-apprete-a-fermer-son-site-d-amiens_1822487_3234.html.

[8] Liz Alderman, "French Plant Faces Choice: Lose Perk or Lose Jobs," *New York Times*, 13 Dec 2015, accessed 9 May 2016, http://www.nytimes.com/2015/12/13/business/international/smart-car-standoff-pits-social-progress-against-global-competition.html.

[9] Liz Alderman, "Hollande, Facing Election Pressures, Announces Program to Bolster Jobs," *New York Times*, 19 Jan 2016, accessed 9 May 2016, http://www.nytimes.com/2016/01/19/business/international/hollande-aims-2-billion-plan-at-frances-high-unemployment.html.

[10] Eurostat, youth unemployment, 2014Q4, accessed 9 May, 2016, http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Table_1_Youth_unemployment,_2014Q4_(%25).png and http://www.statista.com/statistics/266228/youth-unemployment-rate-in-eu-countries/

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ISSN 1553-9172