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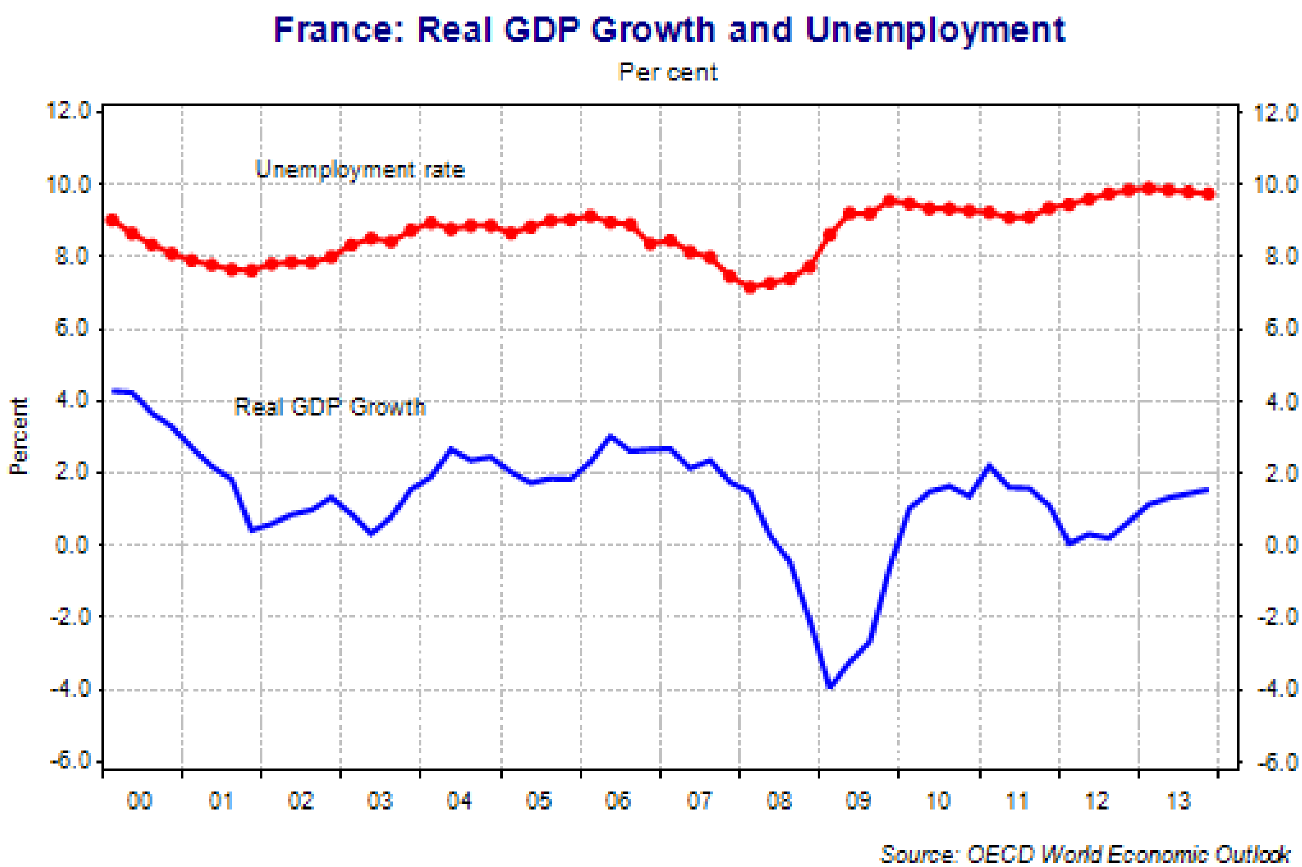
France

Economic Climate

France is the Eurozone's second largest economy, and one of its key players. While damaged, France's economy hasn't been hit as hard by the global recession as some economies. The country recently elected a new president François Hollande (Socialist Party) on a pro growth platform.

France's current public debt is approximately 90% of GDP. The country isn't in immediate danger of a liquidity or solvency crisis, but if policy makers fail to address the problem a serious crisis will arise. Under Nicholas Sarkozy French public debt ballooned from 65% to 85.3% of GDP from 2007 to 2012 (Al Jazeera 4/17/2012).



France's unemployment rate currently sits at over 10%, up from 9% in 2003 and 7.8% in 2008, and is one of the primary concerns among both policy makers and analysts. France has a systemic issue with employment for younger and older workers (OECD 2011). Like many other European states, there are concerns for the social issues that could develop from youth unemployment.

Hollande's proposed budget would cut the budget deficit to 3% by 2013 bringing France in line with EU guidelines. However, GDP growth for 2013 is expected to be about 0.8%, which may be insufficient to meet the 3% goal (Economist 9/28/2012). Hollande's pro growth platform is very important for France's future. He has introduced a number of measures aimed at bringing debt levels down and while also raising employment levels. Many of these are geared toward growth in the services sector. As outlined by the OECD Economic Survey (2011) they include greater autonomy for universities, a research tax credit, and future spending on higher education, training and research. The French economy's labor force is made up of 3% agricultural, 24% industry, and 72% services (CIA Factbook). These measures largley favor services, which should foster further employment. Two other important measures include forming a new competition authority and a new bank for public investment, Banque Publique d'Investissement (BPI), to help finance middling firms (Economist 10/20/2012). The BPI should also help the economy generate growth in multiple sectors of the economy. While the competition authority will work to increase market efficiency, largely through antitrust work.

On the revenue side of the deficit issue, Hollande had proposed a number of tax increases. These largely focus on France's wealthy, and include a top income tax of 75% on incomes over €1m, and doubling the capital gains tax to 60% (Economist 10/13/2012). Many groups have criticized these measures, under the assumption that France will not be able to compete for the world's best and brightest businesspeople. Hollande has since responded to such criticisms by backing down from some proposals. Though, he has maintained his commitment to focus on taxing economic. France's wealthiest man, Bernard Arnault, is currently seeking citizenship in Belgium. While he has denied it is due to said tax hikes, many speculate that to be the cause.

One of the largest concerns with France’s austerity plan is the focus on tax increases. The balancing effort in the 2013 budget between revenue and spending cuts will be a 2:1 effort respectively (Economist 9/28/2012). With public spending at 56% of GDP many are calling for greater spending cuts.

Political Climate

Currently France’s political climate is in a poor position to make tough choices. It is never easy to raise taxes and cut spending, and Hollande’s 36% approval rating shows it (Reuters 10/25/2012). The two largest grieves against him are tax policy and current unemployment levels (Reuters 10/25/2012). France has recently had strikes from ferry workers, air traffic controllers, and railroad staff in response to plans of company restructures (Telegraph 10/22/2012). These issues represent a large hurdle towards economic reforms in France. There are certain political expectations among the French populous that necessary economic measures are likely to upset.

Labor unions have traditionally played an extremely important role in France. The largest include, Confederation francaise democratique du travail or CFDT, Confederation generale des cadres or CFE-CGC, Confederation francaise des travailleurs chretiens of CFTC, Confederation generale du travail or CGT, Confederation generale du travail - Force ouvriere or FO, and the Mouvement des entreprises de France or MEDEF (CIA Factbook). These groups can assert significant political pressure and contribute to the continuation of job protection legislation, and other social democratic policies. Many small businesses in France currently struggle to hire because of the risk they are taking on. In a BBC article Philippe Magne, CEO of Arcad Software, said “we need the power to employ people quickly without fear that we can’t afford to lay them off” (1/20/2012). This means that for now the French people will have to choose between more jobs or greater job security for those who find one.

Political Involvement in the Euro crisis

During his five-year tenure as president, Nicolas Sarkozy and Chancellor Merkel shared an uneasy but workable relationship. This relationship, which the NY Times categorized as the “motor of the European project” is one that Sarkozy was initially apprehensive of, but proved necessary in the economic and political climate of Europe.

Considerable press attention was given to the potential shift in Franco-German relations after the election of Francois Hollande and his Socialist party in May 2012. Thus far Hollande and Merkel have cultivated a productive relationship, however Hollande, who campaigned on a platform against austerity does seem to have intentions to mix up the policy-making status quo. His anti-austerity campaign immediately sets him apart from Merkel as has several other decisions, such as the recent support of the creation of a Single Supervisory Mechanism. Additionally, one NY Times article (Grant 2/10/2012) noted that a new type of Franco-German relationship is developing. In the past Franco-German relations had been dominated by the “Deauville model” in which Merkel had “persuaded Sarkozy to accept a policy and the two would then impose it on reluctant fellow leaders” (Grant 2/10/2012), Hollande has been taking steps to “strengthen France’s position” (Grant 2/10/2012). These include working more closely with countries like Italy and Spain as well as the European Commission. France’s newly instated fiscal policy is relevant here because by bringing down it’s debt, France could be less dependent on the bonds market. Conversely, if the 3% debt rule is not met by 2013, France will lose credibility. This could be harmful to the interest rates on their loans, which would exacerbate the problem (NY Times 28/9/2012).

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