

François Hollande After One Year

The Silent Reformer or Lost in Reform?

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policy network paper



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Abstract

The jubilation and fanfare that greeted François Hollande's election win seems like a distant dream. His first anniversary of President of the Fifth Republic is clouded by dismal approval ratings, terrible press at home and abroad, and widespread confusion about what his government stands for. The change promised for France has not happened, and he is no longer the flag bearer for a different Europe. For many European commentators and politicians, there is no doubt about Hollande's central shortcoming: he has yet to get real about fiscal discipline and structural reform. France has only itself to blame for its poor performance, unsustainable welfare state and huge, still increasing public debt. This paper takes a different view: the record of the PS-run government is far from being negligible after one year. There is widespread awareness in Paris about the need to reform the French socio-economic model. The developments of the last few months prove that successful reforms from the Left are possible and that more steps in this direction can be expected. However, this reform programme has to go further. Hollande and his government have to decisively take on vested interests in French society and their critics within the *Parti Socialiste*. The winners and losers of the inevitable distributional conflicts need to be acknowledged and political capital should be invested less in symbolic gestures around societal modernisation and more in leading a crisis-mode government dedicated to economic rescue. The paper sets out a detailed account of the first year in office and argues that there is room for a more consistent and far-sighted reform of the French social model as a way to strengthen both competitiveness and social justice.

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Introduction

One year ago, François Hollande was given the benefit of the doubt, not only in France but in all European left-wing circles. The former Socialist Party leader was elected after a well thought-through campaign during which the PS had offered a refreshing image: primaries, door-to-door campaigning and punchy sound-bites railing against inequality and rapacious finance. There were of course early warnings that his victory should be seen within the context of the crisis and anti-incumbency tide sweeping Europe, as well as linked to the exasperation aroused by Nicolas Sarkozy's presidential style rather than by his policies. In addition, the high scores of Marine Le Pen and Jean-Luc Mélenchon highlighted the rising temptation to vote for populists at the ballot box. Nonetheless, the over-riding emotion was a sense of hope that the Left could change the game.

Looking at the headlines of the last few weeks, the Hollande experience is dominated by catastrophic polls, poor economic prospects and an early end-of-reign-atmosphere. According to IFOP, 75% of French people are dissatisfied with the President's first year in office. His ratings have plummeted from 60% in May 2012 to 25% in April 2013. The number of unemployed has hit an all-time high. Even the strong claim of a morally irreproachable République has largely faded away. The recent Cahuzac-gate was the peak of a perfect storm, in which a talented and respected budget minister was found guilty of fiscal evasion after months of lies. Although the President seized the occasion to set much higher transparency standards, the episode discredited him and the entire French political class.

As a result, many opinion formers and political leaders aggressively question Hollande's leadership and his strategy. However, as this essay shows, the criticism is often misplaced. The PS majority's record is far from being negligible after one year. The government has made significant moves to address longstanding French weaknesses, such as poor competitiveness and a rigid labour market. These developments prove that enacting left-wing structural reforms is possible and that more steps in this direction can be expected. Of course, the deflationary European context makes it very difficult to reap the benefits of reforms in the short-term. Yet, neither the centre-right, nor the far left offer any convincing alternatives at the moment.

What undermines François Hollande is largely his wariness of claiming a programme he has not been elected for. When in opposition, the then PS leader never took on the more left-leaning factions in the PS. He stuck to the traditional rhetoric of redistribution and did not engage party members about the need for welfare reform and a supply-side agenda based on investment and mobility. His current misfortune relates a long way to the difficulty to justify, articulate and amplify such a strategy.

This essay sets out to provide a supportive critique of François Hollande's action after one year. It starts by identifying five structural weaknesses which France must address head on. The second section offers an overview of the main decisions made by the PS government after one year. The third section shows that there is room for a more consistent and far-sighted reform of the French social model as a way to strengthen both competitiveness and social justice. Finally, the paper provides some insights into the difficult politics of reform.

Overall, the essay argues that Hollande's actions deserve more credit and are genuinely progressive, but that they urgently need careful prioritisation and clarification. The implication is that he must accept the inevitability of distributional conflicts and the political storms they will generate in the short-term. Facing up to this political reality is the only way to confront both the French people's anxiety about the country's predicament and the increasingly fixed image of a Republic led by a "directionless muddler". Such a focus on reforms will also help Hollande to position France under a better light in Europe and score points for a different tack in Brussels and Berlin on austerity.

1. Five structural weaknesses that need to be addressed

François Hollande came to power at a time when the diagnosis about France's predicament had long been established. Inflated talk about decline was already a national sport a decade ago. The country has been facing a series of five structural crises: low competitiveness, unemployment, fiscal imbalances, stumbling social mobility, and a broad problem of distrust. The eurozone crisis has not created, but only amplified these long-standing weaknesses.

FALLING COMPETITIVENESS

From a surplus of €19bn in 1999, the trade balance reached a record deficit of €73bn in 2011, i.e. 10% of French GDP. This deficit is mainly driven by a decline in goods exports as services still perform well.¹ The main loss in exports has been in high tech products with French market share declining by a third between 1995 and 2005, against 15% for the EU15. France is not engaging well with the BRIC economies.

Classic explanations point to deteriorating cost-competitiveness. Pushed by a stronger growth of real wages since 2000, French unit labour costs have increased at a slightly faster pace than in the euro area as a whole. This has led to a deterioration in France's real effective exchange rate. Especially since 2008, the growth of real wages has outpaced productivity.² However, most experts recognise that competitiveness has to do with many more factors affecting the general business environment, such as bureaucratic complexity and poor industrial relations. Trade unions and the OFCE, the economic research centre at Sciences-po, stress that the cost of labour is roughly the same in Germany and France; still Germany has a better range of products, industries and strategies as well as easier access to finance for companies and closer ties between research, education and industry.

STRUCTURAL UNEMPLOYMENT

France has been coping with a relatively high level of unemployment for three decades. In 1983, it reached 7% and hasn't gone below this level since then. It remained around 10% in the 1990s, then went slowly down until 2007 before the crisis hit.³ With a rate of 10.8% unemployment in February 2013, the all-time high records of 1994 and 1997 have been equalled. 26% of young people are unemployed and 41% of 55-64 year olds are in employment against a 47% EU average.⁴ This reflects a polarised labour market in which the most fragile are the first to be hit by economic shocks and slow growth. Three quarters of French employees hold a permanent contract (*contrat à durée indéterminée*, CDI), but fixed-term contracts represented 82% of new hires in 2012, up from 70% in 2008. Young people are overrepresented in the short-term, subsidised and temporary contracts category.⁵

French unemployment is generally attributed to three main causes. First, some blame wage rigidities, in particular the cross-sector, inflation-adjusted, minimum wage. It represents 60% of the median wage, the EU's highest level. Labour market rigidities provide a second, commonly used explanation. Employees in permanent contracts are strongly protected, so that companies offer few CDI in uncertain times. Finally, skills shortages and poor education performances are an important driver of youth unemployment. Each year, 150,000 young people pull out of the education system without any qualification.

UNCONTROLLED PUBLIC SPENDING

With more than 56% of GDP spent by the public sector in 2013, France ranks second in the OECD after Denmark. In itself, this figure does not say a lot about a country's economic performance. However, the steady increase of public debt in the last 40 years is indicative of a problem on which

1 European Commission (2012), "Macroeconomic imbalances – France", European Economy, Occasional papers 105, http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp105_en.pdf, p. 7

2 European Commission (2013), "In-depth review for France", Commission staff working document, SWD(2013) 117, http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp136_en.pdf, p.14

3 INSEE, "Taux de chômage puis 1975", http://www.insee.fr/fr/themes/tableau.asp?reg_id=0&ref_id=NATnon03337

4 INSEE, "Taux d'emploi des seniors" http://www.insee.fr/fr/publications-et-services/default.asp?page=dossiers_web/dev_durable/taux_emploi_seniors.htm

5 Lefresne, Florence (2012), « Youth unemployment and youth employment policy. Lessons from France », Friedrich Ebert Stiftung Study, November 2012

the eurozone crisis has shed crude light. France has not recorded a budget surplus since 1974. In 2012, the debt ratio reached 90.2% of GDP after a period of gradual increase from 60% to 70% between the late 1990s and 2008. Whatever the impact on growth, as the EU Commission points out, servicing a large debt has a negative impact “on more productive expenditure”.⁶

In 2012 and 2013, the government has mainly relied on tax increases to bring the deficit down. It is however expected to base 70% of the effort on spending cuts in 2014, with the objective to reach primary balance in 2016.⁷ Following up on Sarkozy's *Révision générale des politiques publiques*, Hollande has launched a *Modernisation de l'action publique*, a more selective multi-annual savings programme. The stress will be put on prioritising expenditure and productivity gains rather than staff cuts. Yet the government has not been more specific so far. A new project for reforming local government, for instance, does not confront the so-called “mille-feuille”, namely the numerous layers of authorities in France. The 36,000 *communes* contain an average of 1,800 people against an EU average of 5,500. The creation of *communautés de communes and métropoles* ten years ago has not led to significant economies of scale.

Furthermore, with 32% of GDP France has the highest level of social expenditure among OECD countries.⁸ As in most countries, pensions are the largest item. Despite the 2010 reform shifting the minimum retirement age to 62, more than €20 billion will be missing in 2017. The balance of the unemployment insurance fund has also greatly deteriorated in the last decade, with an expected deficit of €18 billion in 2013. The Court of Auditors (*Cour des comptes*) recently pointed to the unsustainability of unemployment benefits.

LOW SOCIAL MOBILITY

France is commonly associated with a relatively low level of inequality. In 2008, the OCDE observed that ‘France [was] one of only five OECD countries where income inequality and poverty have declined over the past 20 years’.⁹ Generous benefits and the minimum wage have played an important part in this performance. Yet, the crisis has led to a reversal in this trend. National statistics office INSEE finds that poverty has been on the rise since 2008, and that young people account for two-thirds of this increase.

An important but less visible source of concern is the low level of social mobility. As Thomas Piketty has shown, wealth inequality has soared over the last 30 years and the level of inequality transmission is as high today as it was before the first World War.¹⁰ This finding can be related to another structural trend, namely French average-low school performances as revealed by OECD PISA studies. The education system is characterised by a widening gap between very-well performing and poor-performing pupils. Social origin plays a bigger role than in other countries.¹¹

Social polarisation is reflected by widening spatial divides. Sociologist Christophe Guilly finds a high degree of social separatism between metropolitan suburbs, characterised by a concentration of people from immigrant backgrounds, and peri-urban centres in which the white lower middle class have settled.¹² Images of globalised and well-connected metropole elits increasingly stir-up the anger of left-behind areas where public services and economic opportunities are scarcer. The latter group represents a pool of voters for the Front National.

LACK OF TRUST

Défiance (distrust) has become a buzz word in the last few years. It was thoroughly documented in 2007 by Yann Algan and Pierre Cahuc in a widely-commented essay.¹³ They found that the French society was characterised by a structurally high level of mutual distrust and lack of civic duty. The World Values Survey showed for instance in 1990 and 2000 that in response to the question, “Would you say that most people can be trusted or that you need to be very careful in dealing with people?”,

6 European Commission (2012), *ibid* 1, p. 19-20

7 Guélaud, C. (2013), “Dépenses publiques : un effort de 14 milliards en 2014”, *Le Monde*, 22/04/2013, http://www.lemonde.fr/politique/article/2013/04/22/dépenses-publiques-un-effort-de-14-milliards-en-2014_3164003_823448.html

8 OECD, “Social spending during the crisis”, November 2012, <http://www.oecd.org/els/soc/OECD2012SocialSpendingDuringTheCrisis8pages.pdf> [accessed 24/04/2013]

9 OECD (2008), “Growing Unequal?: Income Distribution and Poverty in OECD Countries. Country Note: France”, p.1, <http://www.oecd.org/els/soc/41525323.pdf>

10 Picketty, T. (2010), “On the Long-Run Evolution of Inheritance: France 1820-2050”, working paper, 03/09/2010, <http://piketty.pse.ens.fr/inheritance/Piketty2010WP.pdf>

11 OECD, “PISA 2009. Note de présentation France », <http://www.oecd.org/pisa/46624019.pdf>

12 Guilly, C. (2010), *Fractures françaises*, François Bourin Editeur

13 Algan, Y., and Cahuc, P. (2007), *La société de défiance*, Edition rue d’Ulm, collection du CEREMAP

only 20% of French people responded “most people can be trusted”. This is striking when compared to more than 60% of Scandinavians and Dutch, and around 40% of Americans, Germans and Britons. In terms of a lack of civic duty, France registered the most tolerating attitudes to corruption and to receiving undue public money.

More controversial were the explanations for these findings. The authors established a direct link between the low level of trust on the one hand, and the development of a corporatist and interventionist state after the Second World War on the other. They point to a vicious circle, in which people adopt conservative attitudes and stick to their statutory privileges, thus encouraging further state interventionism and rent-seeking. The thesis was criticised for its weak scientific underpinnings, especially for blaming the post-war *dirigisme* inspired by the National Resistance Council.¹⁴ Other sociological works have shown that the roots of French people’s attachment to privilege dates back to the revolutionary promise of a “noble status for all”.¹⁵ In any case, Algan’s and Cahuc’s diagnosis validated the idea that France would gain from shifting social and market regulation away from the state.

The five structural problems identified above largely informed the 2012 presidential campaign. François Hollande gave some indications that he seized the gravity of the situation and that he was ready to confront it. However, he carefully avoided being more specific, and his first year in office offers a mixed picture of reform and caution.

2. A year of social reform

Three dominant features characterise François Hollande’s first year in office. First, the government has delivered on a series of symbolic measures with the aim of accommodating the left-wing electorate. Second, a few bolder moves have been made to deploy a new economic strategy based on competitiveness rather than consumption. Third, Hollande has attached much importance to improving policymaking and the social climate. On paper, this combination of symbolic gestures, strategy and method still looks appealing today.

SOCIAL AND SYMBOLIC MEASURES

Retirement age. Nicolas Sarkozy raised the minimum legal age for retiring from 60 to 62 in 2010. The Left campaigned to change it back to 60, and followed through with this decision in July 2012, although this only concerns those who started to work at 18 and 19 and who validate their 40 years of contribution period (15 per cent of those who retire every year). The measure is not the irresponsible step backwards sometimes described and is socially just, however it costs a €1 billion.

Tax system. Significant decisions were taken concerning the tax system, although they do not amount to the large fiscal reform announced during the campaign. Most of them consisted of removing costly tax rebates introduced under Sarkozy, and increasing the tax rate on capital incomes. In 2013, a new income tax rate of 45% applies on incomes above €150 000. The project of taxing incomes above €1 million at 75% has been rejected by the Constitutional Court. Fears of massive fiscal exodus have been largely invalidated.

Financial regulation. Hollande had promised that he would be tough on financial regulation. “Finance should be a servant and not a master”, he said in his famous Bourget speech in January 2012. In reality, little has been done so far except supporting the EU’s Financial transaction tax project. The draft banking regulation law currently debated in the Parliament is widely criticised for not enforcing a real separation of retail and investment activities. This tends to accredit the idea that

14 See for instance Delalande, N. (2008) “Une histoire de la confiance est-elle possible ? », *La Vie des idées*, <http://www.laviedesidees.fr/Une-histoire-de-la-confiance-est.html>

15 D’Iribarne, Philippe, *L’étrangeté française*, Points essais, Editions du Seuil, 2006

banks represent a powerful lobby and have close links to the government.

Purchasing power. Purchasing power always plays an important part in the PS lexicon. During the campaign, Hollande had promised to raise living standards. In practice, the minimum wage was pushed up in 2012 by a symbolic 2%. Support for low-income families on schooling was boosted and a rent freeze was introduced for 36 months on new contracts in some urban areas. Yet, these one-off measures could be quickly offset by a rocketing energy bill, the 2014 expected VAT rise, and increasing transport fees.¹⁶ Despite an extension of social rebates on energy, the government has no clue about how to boost household incomes in a period of stagnation, high unemployment and competitive pressures.

Same-sex marriage. Finally, same-sex marriage garnered a lot of attention until its adoption on April, 23rd. The President chose to remain distant from the battle of amendments and from massive streets demonstrations that sprang up across the country. He might have listened to political scientists such as Laurent Bouvet, for whom focusing on “societal” issues implies the risk, for the French Left, of ending up like the former Spanish Prime Minister Zapatero, who left office with a reputation as minority defender rather than economic strategist.¹⁷ The tension between addressing the most pressing socio-economic issues and dealing with important but second-order institutional matters is set to continue with the prospect of laws introducing a cap on elected members’ mandates and voting rights for foreigners.

SIGNIFICANT SOCIO-ECONOMIC MOVES

Hollande placed reindustrialisation and production at the core of his campaign, arguing that France would not bring down unemployment and uphold its social model without raising its profile. Yet he refrained from spelling out how he would achieve this. He laid out this vision in a landmark press conference in November, which, for many commentators, marked the official proclamation of a Socialist supply-side strategy. The focus would be put on restoring companies’ margins and investments capacities.¹⁸

Reduced labour cost. Following a series of recommendations by former EADS CEO Louis Gallois, the government launched in November a package of measures (*Pacte compétitivité-emploi*) supposed to create a “competitiveness shock”. The most far-reaching measure is a tax credit of €20 billion deducted from social contributions paid by employers. This will be financed by a targeted rise in VAT from 2014. The credit will ultimately bring the labour cost down by 2.6%.¹⁹ Some argue that this is a drop in the ocean. For many SMEs struggling to stay afloat, however, this will bring a welcome breath of fresh air.

Labour market reform. Germany’s post-crisis employment performance is often attributed to the possibility of negotiating reduced working hours at company level (*Kurzarbeit*). In July 2012, the government invited social partners to craft a labour market reform that would allow similar arrangements. An agreement was found in January (*Accord national sur l’emploi*, ANI). On the flexibility side, internal mobility and redundancy plans will be more easily enforceable; a company will be able to offer flexible working time and pay in exchange for safeguarded jobs in a downturn. In exchange, trade unions obtained significant new rights for employees, in particular a mandatory contribution from firms to employees’ private health insurance. Short-term contracts will be taxed more heavily, thus making permanent contracts more attractive. Finally, employees are granted a transferrable “training account”.

The agreement was hailed as an important step towards a less rigid labour market and as a landmark in the history of social dialogue. The centre-left trade union CFDT was instrumental in the success, whereas the more conservative CGT and FO were joined by Jean-Luc Mélenchon’s Front de Gauche

16 CLCV, « 2013 : une année difficile pour le pouvoir d’achat », <http://www.clcv.org/communiqués-de-presse/2013-une-année-difficile-pour-le-pouvoir-d-achat.html>

17 Les Echos, “Le risque, pour le chef de l’Etat, est de finir comme Zapatero”, 23/10/2012, http://www.lesechos.fr/23/10/2012/LesEchos/21297-007-ECH_-le-risque-pour-le-chef-de-l-etat-est-de-finir-comme-zapatero-.htm

18 Fressoz, F. (2012) « François Hollande assume enfin le hollandisme », *Le Monde*, <http://fressoz.blog.lemonde.fr/2012/11/13/francois-hollande-assume-enfin-le-hollandisme/>

19 Plane, M. (2013) « Quel impact du crédit d’impôt pour la compétitivité et l’emploi ? », *Blog de l’OFCE*, 01/02/2013 <http://www.ofce.sciences-po.fr/blog/?p=3225>

in their critiques. When adopted by the National Assembly in April, a handful of Socialist MPs voted against it, and 35 of them abstained alongside the UMP group. Thus, there is no consensus about the agreement and the government's majority appears very frail.

Public investment bank. A third significant decision is the creation of a national investment bank (*Banque publique d'investissement*, BPI). In a context where banks give priority to improving their balance sheets, SMEs find it difficult to finance much-needed investments. Again, the template is German: KfW (*Kreditanstalt für Wiederaufbau*) provided more than €14 billion in loans to 20,000 SMEs since 2009 and has been playing a key role for the German *Mittelstand* since the Second World War.²⁰ The BPI will be capitalised at €42 billion, with half of it to be handed out as loans. The rest will include public guarantees, credits for exports and share-buying in companies of strategic importance. The added value of this instrument remains to be demonstrated. KfW is deeply entrenched in the German economic culture, and there is an obvious limit to copying-and-pasting.

Education reform. The new "orientation law" for schools, which is currently in debate, aims at tackling poor performances, especially school inequalities. 60 000 teachers and educational staff will be hired between now and 2017, a compensation for the 80 000 non-replaced retiring staff between 2007 and 2012. Most of them will be appointed at nursery and primary school levels in disadvantaged areas. In addition, a specific programme is to be reintroduced for equipping teachers with skills at the beginning of their career. Finally, a decision was taken to come back to a week of 4.5 days (up from 4 days). Today, French pupils spend only 144 days a year at school against an OECD average of 187.

Does the reform live up to the challenges described above? On the positive side, deprived areas will enjoy more means and smaller classes, and a more balanced weekly schedule may improve focus and results. However, the reform falls short of opening a debate on teaching methods. Schools in deprived areas are not endorsed with greater autonomy and financial incentives. Little is done to encourage experienced teachers to stay in these areas and a stream of inexperienced teachers is too heavily relied upon. Generally speaking, the culture of results, something very common in Northern Europe, remains a taboo.

Energy transition. The way in which countries manage the rising price of oil and reach EU climate-energy targets will have a determining impact on their competitiveness. In September 2012, François Hollande confirmed his commitment to bring the share of nuclear energy down from 75 to 50% by 2025. Concretely, only one nuclear plant will be shut down before 2017. He also outlined his opposition to shale gas exploitation, arguing that further research on the environmental impact was needed. This decision was criticised across the whole political spectrum for depriving France of the opportunity to make significant competitive gains.

More specific choices are expected in the autumn at the end of a six-month consultation period (*débat national sur la transition énergétique*). In particular, the government will have to arbitrate between rising fuels costs in household budgets and the energy transition. Outspoken energy expert Jean-Marc Jancovici argues that energy scarcity will bring about structurally low growth. A carbon tax is much needed to change behavioural patterns, but the acceptance of it requires a wider fiscal reform and better job prospects. The French Left would also be well-advised to trade its rhetoric of growth for a focus on living standards. The PS has barely reflected on the results of the 2009 Stiglitz-Sen-Fitoussi commission.

STYLE, NARRATIVE AND GOVERNANCE

With the discredit brought on elites after the financial crisis, putting forward "moralisation" was a clever move by Hollande during his campaign. But his record on living up to his moral promises

20 Lemarié, A. « A quoi sert la Banque publique d'investissement, promesse du candidat Hollande ? », *Le Monde*, 18/01/2012, http://www.lemonde.fr/economie/article/2012/10/18/a-quoi-sert-la-banque-publique-d-investissement_1777465_3234.html

21 Wieder, T. "La défiance des Français envers la politique atteint un niveau record", *Le Monde*, 15/01/2013 http://www.lemonde.fr/politique/article/2013/01/15/la-defiance-des-francais-envers-la-politique-atteint-un-niveau-record_1817084_823448.html

offers a mixed picture. By implication, recent surveys revealed sky-falling levels of trust, especially in the Parliament, the presidential office and political parties.²¹

The limits of the “normal” presidency. Hollande made himself famous when he floated the idea that he would be a “normal” president. By that, he meant departing from the collusion with business, the frequent intrusion in the judicial system and the frenetic media obsession that marked the Sarkozy era. He also vowed to restore a sense of dignity in the presidential function and reign in government’s unnecessary expenses. These were clear references to highly respected 1950s and 1960s leaders Mendès-France and De Gaulle.

Alas, with a deteriorating economic situation, the President had to change tack quickly. As sociologist Alain Mergier argues, only spectacular moves and short-term victories can bring trust back. Setting distant objectives is laudable, but seems irrelevant to most people who feel a growing sense of uncertainty in their lives.²² Since the autumn, Hollande has been much more present in the media. He gave evidence of his leadership capacity on several occasions, for instance when sending troops to Mali and reacting promptly to the Cahuzac scandal. In short, the portrayed calm and “normal” presidency has transformed very quickly into a leadership style based much more on bold eye-catching moves.

Participatory democracy. A positive but less noticeable change is the extension of public consultation and social dialogue practices. To be fair, previous right-wing governments had paved the way with the *Grenelle de l’environnement*, an ambitious negotiation that kick-started France’s environmental transition in 2008. Since 2012, several consultation rounds have taken place on education, higher education and energy. For instance, a consensus conference on crime recidivism and alternatives to prison recently recommended the introduction of probation in France.

These initiatives might only have a limited impact since they bring together experts and stakeholders, and are often relate to technical issues. The development of social dialogue, by contrast, could be an important trademark of the Hollande presidency. The successful labour market reform offers a template. On salient issues such as pensions, relying on social partners would help the government share the responsibility of tough decisions. In a country where trade unions enjoy a very low level of membership and trust, this development could come as a cultural revolution.

Overall, the record of a first year in office for the French Left is far from negligible. If growth prospects get better in the eurozone in 2014, France could start reaping some benefits. Nevertheless, Hollande’s reformism looks somewhat improvised and difficult to read. Rather than breaking with this strategy, as some in the PS suggest, he should not shy away from spelling out a clearer and bolder vision of how France will match economic prosperity with social justice in the 21st century.

3. Recalibrating the social model: An ambition for the French Left

Reforming the French social model is not about putting a cap on public spending. It should be framed by the PS majority as a road to both economic prosperity and social justice. This view draws on André Sapir’s 2006 analysis, according to which the Nordic and Anglo-Saxon social models are better equipped than the Continental and the Mediterranean ones to cope with globalisation.²³ Continental models, a category in which the author classified France alongside Germany, Austria and Belgium, are both inefficient and unsustainable. In a quickly changing environment, they tend to maintain the status-quo on the job market, thus keeping unemployment high, especially for categories such as young people and immigrants.

²² http://www.lemonde.fr/politique/article/2012/12/08/un-risque-de-rupture-irremediable-entre-les-categories-populaires-et-les-politiques_1801945_823448.html

²³ Sapir, A. (2006) « Globalization and the Reform of European Social Models », *Journal of Common Market Studies*, Volume 44, Number 2, pp. 369–90

Of course, the case for the Anglo-Saxon model looks pretty thin since the 2008-2009 financial crisis. By contrast, Austria, Germany and Belgium have done relatively well, especially in terms of employment. Yet, these countries have undertaken reforms introducing flexibility, stepped up their social dialogue, and redefined the conditions of welfare entitlement to a greater extent than France. This seems to confirm Sapir's thesis that Continental countries can successfully pick elements from both the Nordic and the Anglo-Saxon models. The argument that there is a cultural limit to transposing models has it largely wrong when a clear national strategy is set out and consistently pursued.

Rather than defending the 1945 social settlement as a golden age of social protection, the PS should rather draw inspiration from the collective ambition to raise France's profile at that time. François Hollande's first year in office demonstrates that left-wing structural reforms are possible. However, they would gain a lot from a more consistent and encompassing vision of who should get what, and how they should get it, at a time when investments geared towards future competitiveness should have absolute priority. The following paragraphs outline five principles that could underpin a new social model.

SHIFT RESOURCES FURTHER FROM CONTRIBUTIONS TO TAXES

From a Bismarckian model based on social contributions paid by employers and employees, the French welfare system has evolved into a mixed regime also relying on taxes. The Social Security founded in 1945 consists of four funds for health, pensions, family, and workplace accidents/occupational diseases. They broadly follow a contributory principle,²⁴ however baseline allowances financed by the state have been introduced for pensions (*minimum vieillesse*) and health (*couverture maladie universelle*, CMU). Today, social contributions account for 68% of Social Security resources, against 32% for taxes. Half of the latter is covered by the 1988 created CSG (*Contribution sociale généralisée*), a large base and fixed rate tax on earned incomes, pensions and capital incomes that generates more resources than the traditional and progressive income tax (*Impôt sur le revenu*).

In addition, the unemployment insurance fund (*Unédic*) relies uniquely on social contributions paid by employers and employees. Its budget is independent from both Social Security and the state. Finally, state benefits targeted at the most in need have been created over the last 30 years. The "Guaranteed minimum income" (*Revenu minimum d'insertion*, RMI, today *Revenu social d'activité*, RSA), for instance, provides a baseline income for those not entitled to unemployment benefits, or taking up a low-paid job after a long period of inactivity.

The introduction of universal benefits and new taxes have not been matched with a significant lowering of social contributions paid by companies, which represents an impediment to competitiveness today. François Hollande gave hints at this "fiscal big bang" during his campaign, committing to merge the CSG and the income tax into one single, broad based, progressive tax. Yet, he quickly refused to jump the obstacle; the tax credit on social contributions (see above) will be financed by a rather unfair VAT rise. Thomas Piketty, a vocal advocate of the fiscal reform, criticised it as mere tinkering.²⁵

CONSOLIDATE UNIVERSAL BENEFITS AND BEEF UP CONDITIONALITY

Universal benefits have sought to address the growing "security inequality" between labour market insiders and outsiders. With baseline incomes for the unemployed, pensioners, the elderly and the disabled, social protection has become less dependent on status and career, and more targeted at those in need. These innovations have had a beneficial effect on standards of living. The RSA, for instance, however costly, has the potential to play an important activating role and to lift low earners out of poverty. The extension of the CMU to illegal migrants has fulfilled a much needed function.²⁶

24 The family branch (*allocations familiales*) is partly universal (child benefits) and partly means-tested (housing benefits).

25 Piketty, T. (2012) "Le socialisme de l'usine à gaz". *Libération*, 19/11/2012, http://www.liberation.fr/economie/2012/11/19/le-socialisme-de-l-usine-a-gaz_861597

26 Piel, S., « L'aide médicale d'Etat, un dispositif discuté à gauche comme à droite », *Le Monde*, 10/10/2012 http://www.lemonde.fr/sante/article/2012/10/10/l-aide-medicale-d-etat-un-dispositif-discute-a-gauche-comme-a-droite_1772414_1651302.html

To keep these benefits untouched and to ask for bigger burdens from social contributors can only prove controversial. UMP and Front National leaders often paint the caricature of welfare recipients and foreigners free-riding the welfare state, while low income workers and pensioners face stagnating allowances and rising taxes. In order to avoid a chasm between these two categories, the Left should endeavour to toughen conditionality and demand more from individuals. This can take the form of a minimum tax contribution, or of a cap on the level of benefits a household can obtain.

REGRESSIVE TRANSFERS

The government has recently announced a decrease in the level of child benefits (*allocation familiales*) above a certain level of income. Like in the UK, this is indicative of a more means-tested welfare state. Similar moves should be made concerning the unemployment and the pension systems. Both could be brought closer to the health insurance system in France, which combines a solid public insurance baseline, a high-quality public service, and a non-mandatory private insurance regime.

Regarding unemployment benefits, high earners should be granted a much lower replacement rate. With a rate of 65%, the level of income substitution of an unemployed person paid above the average is one of the highest in Europe. The ceiling of what a person can get comes to €6129, against around €2000 in Belgium and Germany. Both the ceiling and the substitution rate should go down. This would probably be accepted by white collar unions in exchange for a diminution of social contributions.

As for pensions, there are several ways to balance the books durably while improving fairness. First, rich pensioners could be taxed at the level of in-work tax payers. Second, the number of required years of contribution (currently 40 years) should be extended, a less unfair move than raising the minimum retirement age. This move would follow a principle enacted by the PS in the recent years, according to which the required working time should follow at least partially the development of life expectancy. Finally, a more controversial move would be to align the generous public sector pension regime with the private sector's one. Such a move is a matter of fairness.

INVESTING IN HIGH QUALITY PUBLIC SERVICES

Spending differently must go hand in hand with improving the quality of public services, which benefit the less advantaged in the first place. If the unemployed are to get a lower income substitution rate, or less long rights, they need greater support from *Pôle Emploi*, the public placement agency. They should also be allowed to cumulate their benefits with more substantial training rights than what exists today. Likewise, if old-age workers are to stay longer in activity, the state should be more ambitious in supporting companies to adapt jobs and working time above 60.

Investment in affordable and high-quality public services must also be prioritised for the young, from early childcare to higher education. The budget dedicated to education and post-school orientation has stayed relatively high over the last decade, but greater individualisation and a beefed-up culture of results could be introduced.

LABOUR MARKET REFORM: A STEP FURTHER

France suffers from a two-tier labour-market which disadvantages young people and low-qualified workers. A long-standing idea for reform consists in merging the numerous existing working contracts into one a single and more flexible contract.²⁷ Modifying the terms of the contract would be easier during execution. An objective or a project could be attached, the achievement of which could lead to ending the contract if the company cannot make any new offer. Employees' compensation would come in form of greater training rights and personalised placement services. To be fair, this is the direction taken by the ANI (see above). Yet, a more comprehensive reform will probably be necessary in order to durably fix the structural unemployment problem.

27 See for instance Glaize, C., "Un CDI pour tous", *Institut Montaigne*, Novembre 2011, <http://www.institutmontaigne.org/un-cdi-pour-tous-3517.html>

28 Askenazy, P., Diallo, R. "Face à la précarisation de l'emploi, construire des droits pour tous", *Terra Nova*, 10/04/2013, <http://www.tnova.fr/note/face-la-precarisation-de-lemploi-construire-des-droits-pour-tous>

Improving the quality of jobs should also be part of the ambition. The Paris-based think tank Terra Nova recently pointed to the instability and bad quality of many permanent contracts, which no longer represent a guarantee for an ascending career.²⁸ Authors suggest removing the annual €8 billion spent on tax credits and subsidies for low-paid jobs and low wages, and to allocate these resources to training and apprenticeships. The idea of a massive skill upgrading plan is attractive as part of the broader ambition to take a high road to competitiveness. However, it would take a lot of time and money to offset negative consequences on employment. With a minimum wage already at 60% of the median wage level, French companies have been extensively relying on public subsidies to cut the labour cost. A counterpart could be to decentralise further wage bargaining by leaving more flexibility, depending on the sector and the age.

Whatever the details will be, France will have to reform further her social model, and the Left should depart from a too conservative posture in that respect. Giving clear directions for change and communicating them the right way is paramount. The final section offers some insights into the politics of reform, focusing successively on the narrative and the means needed to reach out to the wider public.

4. Make the politics of reform work

THE CLIMATE OF *DROITISATION*

The first few months of Hollande's presidency have seen a rapid shift of public attitudes towards the Right, a development called *droitisation*. According to a recent CEVIPOF survey (December 2012), 53% of French people think that the state should give more freedom to the private sector, up from 41% in 2011. Tolerance to welfare spending comes in shorter supply: 53% think that social justice presupposes taxing the rich and redistributing money to the poor, down from 73% in 2011. 65% think there are too many immigrants, a steady increase from 49% in 2009. These findings confirm the trends identified by Cahuc and Algan (see section 1): the Left risks being trapped in what Peter Hall calls "*sauve-qui-peut-politics*", namely the tendency of voters to cling to their vested interests. In these conditions, reforming the welfare state by concentrating public resources on those in need might prove very difficult. As Patrick Diamond and Guy Lodge recently revealed²⁹, public attitudes towards social spending are largely conservative in Europe.

GETTING THE RHETORIC OF CHANGE RIGHT

A crisis-mode government. François Hollande has been right to put exemplarity at the core of his communication, but he can do more to match form and substance. The recent Cahuzac scandal provided him with the opportunity to impose more transparency on political life. After having reduced the government's salaries by 30%, he could shrink the size of his team and form a more strategic and cohesive government. Does France really need four ministers and deputy ministers for social affairs? Two ministers for agriculture? Seven ministers for financial and economic matters? As Frédéric Saint-Geours, a left-leaning CEO, argues, France needs an "anti-crisis commando government".³⁰

Not more, but better. François Hollande has kept promising the return of growth as the gateway to employment, fiscal balance and prosperity. Certainly, the EU is inflicting upon itself a misplaced austerity cure that feeds the crisis further. However, a lot of experts think that low growth will remain on our horizon given higher energy costs and declining demography. Japan is often seen as a template for what EU countries can expect. A recent YouGov poll found that growth was a matter of preoccupation for only 5% of French people, whereas employment (41%) and social protection (14%) came first and second. This should lead left-wing leaders to drop technocratic language

29 Diamond, P., Lodge, G. "European Welfare States after the Crisis", *Policy Network paper*, 28/01/2013. <http://www.policy-network.net/publications/4320/European-Welfare-States-after-the-Crisis>

30 Lefebvre, E., Kindermans, M. "Frédéric Saint-Geours : «Il faut un gouvernement commando anti-crise»", *Les Echos*, 15/04/2013 <http://www.lesechos.fr/economie-politique/politique/interview/0202705448882-frederic-saint-geours-il-faut-un-gouvernement-commando-anti-crise-558411.php>

about growth and deficits, and talk straight about employment and living standards, drawing on the conclusions of the 2009 Stiglitz-Sen-Fitoussi committee on alternative indicators of progress.

Fairness. In a society where status is traditionally important, making people renounce their privileges is not an easy task. How can a left-wing government convince civil servants to take up higher objectives? Permanent contract holders to accept more mobility? Aged workers to stay longer in activity? Only a discourse rooted in fairness can do the trick. The PS electorate, largely made of well-protected middle-class employees, should be engaged in a debate about how left-wing values should translate in the current context. It must defend the idea that redesigning the social contract is necessary in order for everyone to get a fair share. Such a narrative might prove difficult, but it provides a clear way forward, and addresses French people's anxiety about the future.

REACHING OUT

At a local level. During the campaign, PS party members opened five million doors, a performance that proved instrumental in their candidate's victory. A well designed door-to-door campaign managed to bring the party closer to ordinary people.³¹ Since the election, these dynamics have largely faded away. The PS has been preoccupied by internal reshuffling matters rather than by communicating aggressively about the government's strategy. Finding a way to reconnect to French people should become a priority. Of course, the message must be right in the first place. Still, the government should not dismiss the potential impact of new door-to-door campaigns.

Overcome ideological disputes. The French Left has been caught for two years in a controversy sparked by a Terra Nova report in 2011.³² The paper suggested that the PS core electorate was shifting from blue-collar male employees to graduates, young people, women and people from immigrant background. The party, said the authors, should base its electoral strategy on progressive values rather than on socio-economic promises. Inevitably, a group of left-leaning intellectuals reacted vehemently to the report and assembled under a *Gauche populaire* banner. For them, reconciling the Left with the lower-middle class and precariat should have priority. The notion of "cultural insecurity" has been introduced to urge the PS to rethink its supposedly lax approach to immigration and integration.

Whatever the merits of both visions, only a pragmatic combination of the two will help the French Left regain some ground. Micro-targeting might be a useful tool in an electoral context, but it offers no solution to the country's predicaments. Inversely, focusing strictly on the economic and cultural anxieties of the less well-off could trap the PS in a conservative discourse that fails to encapsulate hope and faith in the future. The French society is mature enough to recognise itself in a strong republican discourse that does not mean turning its back on globalisation, European integration or cultural plurality.

Conclusion: reform and say it loud

François Hollande's first year in office shows that France is not "in denial" and that the French Left might be better placed than the Right to reform the country. Important decisions have been taken to improve the quality of policy-making and to deploy a new economic strategy based on education and investment. Courageous moves are under consideration to safeguard the social model for the next generation. However, all of this has come in a somewhat improvised way. Hollande has been enacting reform without saying it, operating silently on territory far from the left-leaning rhetoric he used in opposition and as a candidate. His record so far seems to confirm the thesis of historian Alain Bergounioux, according to whom the PS has always found it difficult to trumpet its governmental

31 For a detailed account of it, see Liégey, G., Muller A., Pons, V., *Porte-à-porte, reconquérir la démocratie sur le terrain*, Calman-Lévy, 2013. See also from the same authors "Of doors and voters", http://www.policy-network.net/pno_detail.aspx?ID=4360&title=Of-doors-and-voters, Policy Network Political Observatory, 27/03/2013

32 Ferrand, O., Jeanbart, T., Prudent, R. (2011), "Quelle majorité électorale pour 2012?", *Terra Nova*, <http://www.tnova.fr/sites/default/files/Rapport%20Terra%20Nova%20Strat%C3%A9gie%20%C3%A9lectorale.pdf>

33 Bergounioux, A., Grunberg, G., *L'ambition et le remords, les socialistes français et le pouvoir (1905-2005)*, Fayard, 2005

achievements, as if there was something shameful in facing up to the realities of power and making tough decisions compatible with progressive ends.³³

In order to avoid this curse, Hollande should raise his profile and improve both the policy formulation and the politics of reform. Rather than a small steps approach, the stormy social climate calls for greater prioritisation and crisis communication underpinned by a detailed vision of where France should be in 10 years' time. The way in which the state, the social model and the tax system can be redesigned in line with left-wing values must be spelled out. This ambition is necessary to reconnect with the wider public and to slowly instil a sense of direction and self-confidence in a confused and anxious society.

Another benefit from a more outspoken reform strategy would be for France to regain some influence at EU level. An implicit trade-off has emerged in Brussels between fiscal discipline and structural reforms. At the moment, France needs the latter more than the former, and the Hollande experience is closely scrutinised abroad. The President was right to call for a change of tack one year ago, especially for more support from Berlin to combat instability and recession in Europe. Confronting deep-seated dilemmas at home and communicating more about it could help set a different course in Europe.