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TRANSATLANTIC RELATIONS PROGRAM

France: Back to the Future

Vive la différence! or *Plus ça change, plus c'est la même chose*? Which French expression best describes François Hollande and his socialist majority, elected in May and June to govern France for the next five years? The correct answer is: both.

Hollande won office on the theme of “Change is here” (*Le changement, c'est maintenant*) and the main change he promised—and that a majority of the French wanted—was to get rid of Nicolas Sarkozy. That is *la différence*. But now the honeymoon is over and being “not Nicolas Sarkozy” provides a slim platform for good policy.

Over the next five years, Hollande and his government are likely to act like socialists at home and Gaullists abroad. This contrasts with Sarkozy's approach but actually hews more closely to longstanding French tradition. So instead of real change, Hollande brings mostly *la même chose*.

Yet socialism at home and Gaullism abroad fail to address the genuine problems that France faces today. Domestically, instead of creating an ideal social democracy, France needs to enhance its competitiveness. Internationally, instead of protecting French national independence, France needs to find a way forward in Europe and, with its principal EU partners, must articulate and begin to implement a positive vision for Europe in the 21st century.

With respect to the French-American relationship, Hollande and his socialist government have created uncertainties merely by coming to power. From a US perspective, Sarkozy was a strong ally. Hollande and his administration must reach out to Americans—just as the US must do to

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the French, both now and after the American elections in November.

Enter Mister Normal, Stage Left

Hollande campaigned saying that he would be a “normal” president. In so doing, he succeeded both in distinguishing himself from Sarkozy and in casting the Socialists as a natural party of government.

Sarkozy was viewed by many French, and not only on the left, as personally undignified and politically undisciplined. Jogging in the Elysée Palace garden; insulting a farmer with a vulgar epithet at the national agricultural fair; evincing a fascination with the rich, bedazzlement with celebrity, and love of the limelight all earned Sarkozy early and lasting opprobrium as the “bling-bling” president.

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Politically, Sarkozy floated policy ideas without advance coordination and treated government ministers as a team he coached, stepping on the rightful prerogatives of the prime minister. Worse, he failed to deliver on oft-repeated promises, especially to increase jobs and incomes.

In Europe, Sarkozy was seen as too tied to the German chancellor, Angela Merkel, in a “Merkozy” duopoly. Internationally, he was the individualistic and assertive “American” too ready to impersonate, or to subordinate himself to, Uncle Sam.

Hollande, who had never held ministerial office before becoming president, was actually more classically trained for the presidency than Sarkozy. In addition to law and business school, Hollande graduated from Sciences Po and from the national civil service academy ENA while Sarkozy had little academic grounding in the service of the state and brought an essentially private-sector perspective to politics.

Hollande made swift work after his election of distancing himself from Sarkozy, starting with his inaugural address in which he reaffirmed his determination to govern with dignity and a sense of service. He promised as well not to micro-manage the government but to let the prime minister exercise his responsibility for formulating and implementing policy in accordance with the constitution.

On the evening of his inauguration, Hollande stood up to Merkel in their first meeting, insisting on growth as well as austerity in Europe, consistent with his campaign promise. At the NATO summit in Chicago during his first week as president, Hollande displayed his independent Gaullist credentials by confirming the early withdrawal of French troops from Afghanistan, also a campaign promise. Indeed, Hollande has made it a point to begin to deliver systematically on his “Sixty Pledges for France” campaign promises, in contrast to Sarkozy’s scatter.

During the campaign and in his victory speech, Hollande proclaimed, “I am a socialist.” For 21 years, he was the first secretary of the French Socialist Party. The values of French socialism stem as much from the French Revolution as from the Socialist International. Unlike the American War of Independence, which aimed to eject the agents of a distant monarch and install home rule, the French

Revolution chiefly sought the leveling of privileges among the three estates of nobility, clergy, and commoners. The motto of the Revolution—*Liberté, Egalité, Fraternité*—therefore means something very different in French than in English: freedom from obligation to others rather than the right to do whatever one wants, equality of entitlement rather than individual non-discrimination, social solidarity on a broad scale rather than an *ad hoc* brotherhood of the like-minded.

Democracy itself, in France as in most other countries in mainland Europe, represents a hard-won prize, far from the smooth continuum that the British and Americans flatter themselves has been their path to representative government. The initial intent of the French revolutionaries in the Oath of the Tennis Court was to establish a constitutional monarchy along English lines, but from the Reign of Terror onwards, the will of the people became equated with the rule of the mob. The bracketing empires of the two Napoleons and the Bourbon restoration between them delayed the advent of French democracy until 1870 and it then had to survive three wars with Germany and two post-colonial conflicts before becoming unassailably anchored in today’s Fifth Republic.

Notwithstanding how sincerely the French espouse the principles of *Liberté, Egalité, Fraternité*, they remain a conservative people, such that socialism, the left wing in government, has long played second fiddle in French democracy. At the Congress of Tours in 1920, the French Section of the Workers International (SFIO) split off from the communist majority spellbound by the recent Russian Revolution. The SFIO-led Popular Front only reached office in 1936, a decade after Labour in Britain, and it lasted merely two years. But it did institute the 40-hour working week, two weeks of paid vacation, the right to strike, and collective bargaining. The Socialists did not regain power outright until the election in 1981 of François Mitterrand, whose 14-year presidency was punctuated by two cohabitations with conservative governments, but which managed nonetheless to implement progressive modern social policies while it turned back the clock to implement the long out-of-date economic policies of a long out-of-power party, including a series of noxious nationalizations.

So for Hollande to be a president from the Socialist Party and tradition marks a major political accomplishment in France. Yet the strongest legacy that Hollande embodies is that hard-won prize of democracy: the French Republic. Educated to act in the service of the state, Hollande found fault with Sarkozy for too personal and too casual an exercise of office and has emphasized his formal attachment to institutions and to texts. In a speech on his inauguration day in praise of the 19th century statesman Jules Ferry, Hollande began: “In the history of the Republic, the major dates, the real steps forward, the truest milestones on the pathway of time are our laws.” Hollande told an author that his model as president would be not the socialist François Mitterrand but the conservative Georges Pompidou, the “normal” president who succeeded Charles de Gaulle.

The core shared value of all democracies is their goal to achieve the right balance between personal freedom at one end of the spectrum and the public good at the other. Where the needle reaches equilibrium on that scale varies from time to time and from place to place, based on history, culture and philosophy. In this democratic debate, what sets French socialism apart is as much its Frenchness as its socialism: its willingness to use the power of a strong, organized state and its attachment to French founding principles—the defense of the smallholder, the leveling of privileges and a belief in the equity of distributive justice.

Domestic Dangers: the Insufficiency of Success

The risk for the Socialist government is not that it will fail to enact its domestic program, but that it will succeed and stop there.

When Hollande said during the presidential campaign, “My adversary is international finance,” he not only set himself apart from Sarkozy—and, incidentally, Dominique Strauss-Kahn—he also made it clear that France under his leadership would not crumble before the markets. Among Hollande’s Sixty Pledges stands the commitment to split banks’ businesses between those that “contribute to investment and employment” from those that constitute speculation, a sort of Volcker rule *à la française*. And

as a message to the markets as well as to the French people, the prime minister, Jean-Marc Ayrault, declared in his government’s policy statement to parliament that indebtedness was an “issue of national sovereignty” and that “a France in debt is a France in dependency.”

The government then took firm action and the markets responded by pricing French debt even closer to German. The first aim of the government was to cut the budget deficit to 4.5 percent of GDP for 2012. This was accomplished via a series of tax increases, mainly on companies and the wealthy, amounting to €7.2 billion. To reach the 2013 target of a budget deficit of 3 percent of GDP, an EU target and one of Hollande’s Sixty Pledges, at least a further €33 billion is required. The government has identified about two thirds of this through further taxes, including the 75 per cent tax on income over €1 million, and one third through spending cuts, which will nonetheless largely spare the police, the justice system, and homeland security.

The president and ministers have shown the way by taking a 30 percent pay reduction themselves and capping the top salary in nationalized companies at 20 times that of the lowest-paid worker. This leveling of privileges will make it easier to impose austerity measures on the middle class, which Hollande and the government have billed as acts of patriotism. But already business leaders have begun to push back against measures they say will hamper growth and the return of prosperity.

With unemployment stuck near a record high around or above 10 percent, the government wants to protect jobs, make it more expensive and more difficult to fire workers, and avoid planned massive layoffs or the transfer of jobs abroad. In a first test of will, Hollande and the government formulated a stern response to Peugeot’s announced closure of its plant at Aulnay; this may seem like overkill given that only 6,500 jobs were at stake but the government viewed it as the tip of the iceberg, even though it cannot actually prevent the closure.

The *contrats d’avenir*, “contracts for the future” under which the government will pay up to 80 percent of the salaries of young people, stand little chance of reducing youth unemployment below its current level of more than

20 percent simply because the jobs are not there: in order to hire new workers, even inexpensive ones, old workers would have to go; French law now makes that difficult and the attrition rate of retirees will not create a flood of new positions.

The real challenge over the next five years is not merely job preservation but business creation. The only way to reduce the weight of the public sector in France, among the highest of OECD countries at 56 percent of national output, is to increase the size of the private sector.

This will require significant labor market reform and reduction in the welfare system. On the same basis that only Nixon could go to China, or in French terms that only de Gaulle could withdraw from Algeria, Hollande may be the president who can introduce genuine flexibility into the labor market, as his fellow socialist Gerhard Schröder did in Germany a decade ago. Above all this means making it easier for employers to hire and fire. Because the vast majority of new jobs are temporary contracts only—where strict labor code restrictions do not apply—Hollande can portray increased labor market flexibility as giving up some protection under the old rigid system to obtain more protection than those temporary contracts provide.

Labor reform will not, however, work on its own. The governor of the Bank of France, Christian Noyer, wrote to Hollande in his cover letter to the bank's annual report that France is in a crisis of competitiveness. Thousands of French entrepreneurs and other expatriates, many of them extensively and expensively trained in the French educational system, have moved to London (now "France's sixth largest city"), as well as New York, Silicon Valley, Hong Kong, Singapore, and Dubai. Enhancing competitiveness requires the combined resources of the public and private sectors working together. The goal must be to make France a market where French people want to stay to start and build businesses and foreigners want to come to start and build businesses—where capital formation, capital growth and capital preservation can flourish.

To achieve greater competitiveness, at a minimum, France will have to aim to:

- provide substantially increased incentives for cooperation among business, research institutions, and government
- recognize that the source of investments need not be the government but that the government must create an atmosphere in which the private sector seeks to invest
- do a much better job at promoting current French sources of excellence in engineering, science, technology, higher education, industry, and the like—not least in business where the country's strengths in cleantech, environmental services, energy (particularly nuclear), transport, and infrastructure are under-recognized globally as being French
- offer a less obstructed path to market for entrepreneurs who want to establish and finance new businesses
- vastly simplify the tax system on business
- build on the Law on the Modernization of the Economy of 2008 in liberalizing business creation and expansion.

This may not be a socialist agenda, but it is one that Hollande must implement in order to succeed, and it will necessitate a reversal of the perceived high-tax anti-business stance that won him the election and that have been his policy so far.

France in the World: The Return of History

On the global stage, France under Hollande will revert to a more traditional Gaullist posture, with the goal of *indépendance nationale*. This denotes the lack of subordination to others, not an intention to strike out on one's own, or snub allies. Hollande emphasized in his speech to the annual conference of French ambassadors in late August that France's independence makes her valuable in the world.

In Europe, a more Gaullist France will be less immediately accommodating with Germany. Hollande has already influenced eurozone policy by insisting on the €120 billion

growth pact, though it is not clear how much of that will actually be new money, nor when it will actually be made available. Hollande said in his speech to the ambassadors that he favored a mutualization of euro debt over time, a fiscal union, and harmonization of social and environmental policies. He also laid the psychological groundwork for a multi-speed Europe by stating that those who wish to go further faster should be able to do so.

In the Middle East, Hollande has said repeatedly that Syria's Assad must go. The French defense minister, Jean-Yves Le Drian, has indicated France's willingness to consider no-fly zones over Syria, though France is highly unlikely to use force on the ground in the midst of Syrian turmoil. Hollande made it plain at the Elysée Palace with Vladimir Putin that he disagreed with Russia's support for the Syrian regime—and Hollande appears quite wary of Putin generally. Hollande said that, while France would prefer to use force only under a UN mandate, any deployment of chemical or other weapons of mass destruction by Assad would be grounds for immediate intervention without institutional cover.

France's position on Iran's potential acquisition of non-civil nuclear capability is completely in line with Germany, the UK and the US and is likely to evolve in concert with them, with no change from the policy of Sarkozy.

Hollande specifically targeted anti-Semitism, as well as other forms of intolerance, in his Sixty Pledges. He condemned the rounding-up of 13,000 Jews at the Winter Velodrome in Paris under the collaborationist Vichy regime in 1942 as a "crime committed in France, by France." With this strong stand, Hollande can speak credibly to Israel on the need for resolution of the Israeli-Palestinian standoff, restraint vis-à-vis Iran, and other sensitive topics. But in his speech to the ambassadors, he mentioned the need for Palestinian "self-determination" but not a Palestinian "state," leading to concern that French defense of the Palestinian aspiration might fade.

In an opening to Turkey, a Muslim country which Sarkozy shunned, Hollande established a good relationship at the Rio+20 summit with the prime minister, Recep Tayyip Erdogan. Turkish sanctions against France, resulting from the French law making denial of the Armenian genocide a

crime, have since been dropped.

In Africa, the return of Gaullism in French foreign policy will not mean a return to the old ways of "*Françafrique*," the exercise of quasi-colonial power with authoritarian leaders, which Hollande denounced in his Sixty Pledges. With respect to Al Qaeda in the Islamic Maghreb, Hollande stressed the need for France to cooperate with the Malian government and international organizations in stabilizing Mali, which he said affects French interests directly, though he ruled out French military intervention as a thing of the past.

In his speech to the ambassadors, Hollande stressed his desire that strong relations with the United States should continue and his satisfaction that he and President Obama share views on major issues including economic growth. Hollande said France must accomplish its goals not alone but "with its European partners and also with its allies and especially the United States." So Gaullism includes Atlanticism.

Hollande himself refused to accept an exemption from military service for poor eyesight and is imbued with respect for France's armed forces. France's withdrawal from Afghanistan—a Gaullist gesture of independence—is being conducted "in harmony" (the felicitous French phrase is "*en bonne intelligence*") with NATO allies and represents only a one-year acceleration of Sarkozy's previous timetable. By year-end, 2,000 French troops will have been repatriated, with others remaining behind to train the army and police and assist in education and the promotion of women's emancipation.

Hollande has commissioned a review of the value of France's reintegration into the combined military command of NATO by the former socialist foreign minister Hubert Védrine who has been an outspoken critic of that reintegration. While he might not propose a major change, Védrine will probably blame Sarkozy for giving up French independence and getting little in return. Hollande has broached with the British the concept of extending UK-France military cooperation to other EU countries and he confirmed this in his speech to the ambassadors—an old Gaullist goal of European defense outside NATO.

Hollande has commissioned a new French defense white

paper for year-end led by the distinguished diplomat Jean-Marie Guéhenno to replace the grand strategic plan produced in 2008: the world has changed in four years. French conventional forces will be “right-sized” and an attempt made to match resources and probable missions. These defense cuts will probably result in a reduction in French forces’ availability for longer deployments abroad.

One should expect little or no diminution in France’s independent nuclear capability, the *force de frappe*, demonstrated by Hollande’s visit to *Le Terrible*, one of France’s latest-generation nuclear submarines, on July 4, off the coast of Brittany, and his reaffirmed commitment to nuclear deterrence. Hollande also means to beef up the French defense industry as a center of industrial excellence and jobs at home.

Hollande has stressed he will stay true to existing French priorities centered on anti-terrorism, counter-terrorist intelligence, and preparation for cyber-warfare.

While France under Hollande may thus return to apparent Gaullist detachment, rather than what many perceived as Sarkozy’s deference, the tough-mindedness of France as a Western ally and its commitment to national and international security will not flag in principle, though its resources may be focused more narrowly in practice.

French-American Relations: Getting To Know You

On both sides of the Atlantic today we actually understand very little of the motivations and mechanisms by which our populations and institutions operate. We labor under the false assumption that common values and a 60-year alliance permit us to take the transatlantic relationship for granted. This is aggravated in the French-American relationship by the assumption that the two great Enlightenment democracies share practices because they share principles, whereas in reality France and the United States approach governing and decision-making from often radically different perspectives.

The professionals in the French-American relationship—diplomats, military officers, terrorism specialists, certain senior ministers—may be well acquainted but the vast majority of other policy makers and influencers are not. With

respect to the new socialist government, although some of the ministers and members of parliament in France have participated in legislative or leadership exchanges with the United States, virtually none were extensively educated in America or have more than a passing acquaintance with the United States. While some American policy-makers may have attended study-abroad programs, or did their graduate studies in the UK, not many have a strong connection to contemporary thinking in continental Europe.

Americans also need to know that no phobia should attach to the socialist label, even though the French left is more social-democratic than most of political America. Similarly, the French left needs to overcome its suspicion that Americans, especially on the right, are isolationist, exceptionalist, individualist gunslingers.

Such building of bridges carries value in itself but should also be applied to France and America jointly addressing problems they face. Given our alliance, we will naturally cooperate on issues such as Iran, Syria, terrorism and nuclear non-proliferation. But to build a deeper relationship, and to move beyond government-to-government contacts alone, we need to concentrate not just on foreign policy but on working together to enhance our chances of being successful countries in the 21st century.

France faces a crisis of competitiveness and Americans increasingly if reluctantly recognize that the United States needs a competitiveness overhaul of its own. Conveniently, perhaps, France leads in areas where the United States lags and vice versa: the United States ranks poorly on primary education, infrastructure, and cost-efficient medical services, France much better on those. The United States is excellent on higher education, entrepreneurship, and public-private research collaboration while France lags there. France is a leader in environmental services and nuclear energy, the United States in information technology and media. Consequently, initiatives to bring together French and Americans from government, the private sector, academia and civil society around competitiveness would serve the dual purpose of strengthening French-American relations and fixing our focus on the challenges we face, and can meet, together.

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