

# INCRA

AN INTERNATIONAL NON-PROFIT  
CREDIT RATING AGENCY

by Henrik Uterwedde



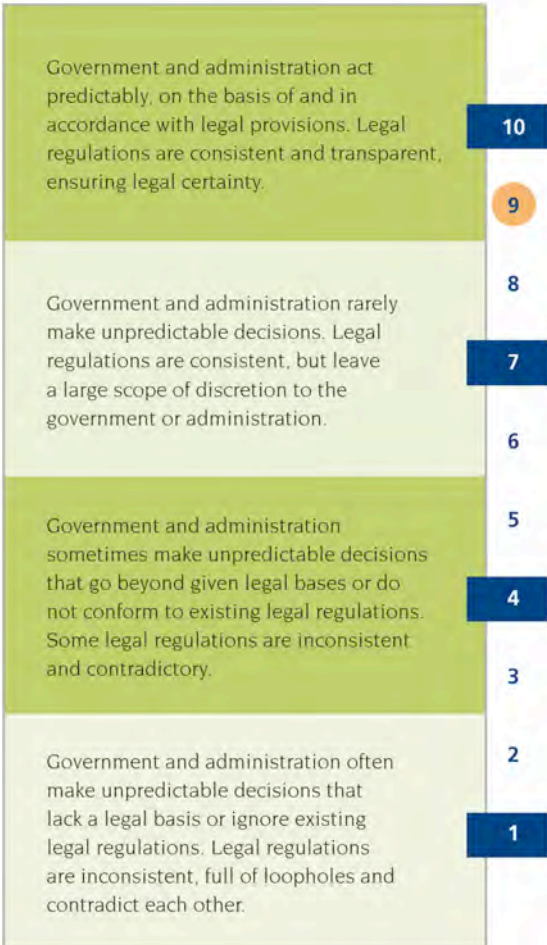
This rating radar illustrates the average scores of all experts who evaluated France in the INCRA rating process. The following report is an assessment of France by Henrik Uterwedde with his evaluation of the indicators as they relate to France’s willingness and ability to repay its debt, based on INCRA’s Forward Looking Indicators.

## I. Political, Economic and Social Stability

### I. Rule of Law

To what extent do government and administration act on the basis of and in accordance with legal provisions or culturally accepted norms to provide legal or practical certainty?

This question assesses the extent to which executive actions are predictable (i.e., can be expected to be guided by law).



Usually public authorities act in line with the existing legal framework. However, government discretion remains high, even if France has been moving toward a rule-of-law state since the 1970s. The legal system suffers from at least two defects. First, many pieces of legislation cannot be enforced or are delayed due to the lack of implementing measures, such as government decrees or bylaws. This tactic is sometimes deliberately used by the government, in particular when active lobby groups manage to put a brake on reforms voted by parliament. Second, it is not infrequent that the executive branch's interpretation of legislation restricts, changes or extends the meaning of the initial legislation. Interpretations might change over time through the publication of internal directives or "circulaires" which actually become more important than the initial law. In addition, in the Fifth Republic, the supremacy of the executive allows many successive changes to be made over short periods of time.

**To what extent do independent courts control whether government and administration act in conformity with the law?**

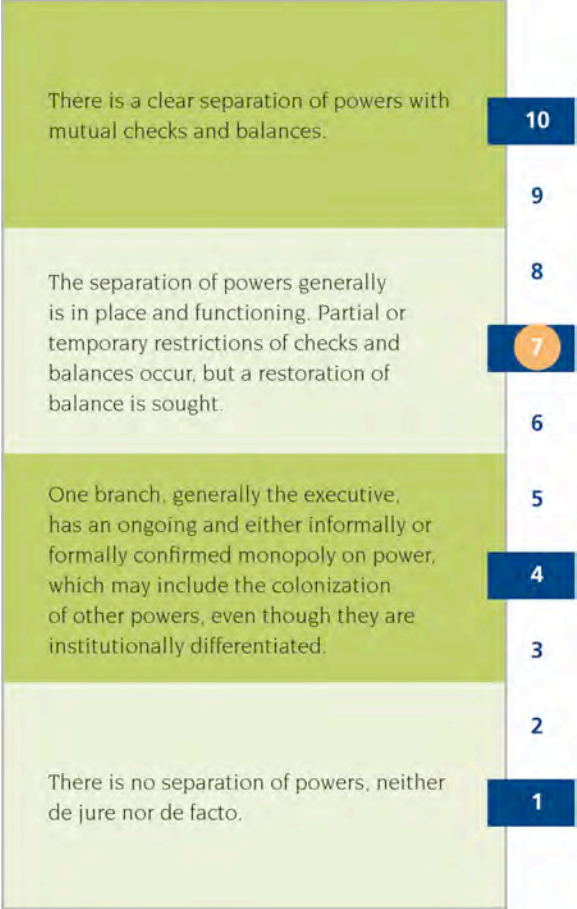
This question examines how well the courts can review actions taken and norms adopted by the executive branch. To provide effective control, courts need to pursue their own reasoning free from the influence of incumbent governments, powerful groups, or individuals. This requires a differentiated organization of the legal system, including legal education, jurisprudence, regulated appointment of the judiciary, rational proceedings, professionalism, channels of appeal, and court administration.



The French judicial system is characterized by a dual structure: Civil and penal courts act under the control of the Supreme Court of Appeals (Cour de Cassation) while administrative courts are headed by the Council of State (Conseil d'Etat). Historically, civil and penal courts have acted in the shadow of the executive and their autonomy has always been a matter of concern and conflicts. Administrative courts, in spite of being born out of the advisory councils of the ancien régime, have gradually been able to secure full independence. Since 1958, a quasi-constitutional court, the Constitutional Council (Conseil Constitutionnel), has been added to the edifice. Over the last years, this council has seen its role extended and has gained more autonomy and impact. The last constitutional reform further increased its powers. Formerly, the council was only entitled to check legislation immediately after its adoption at the request of the opposition, but had no power to examine the constitutionality of past laws. This changed with a 2008 revision. Since March 1, 2010, any citizen can raise the issue of unconstitutionality before any lower court. The request is examined by the Supreme Court of Appeals or the Council of State and might be passed to the Constitutional Council. This new procedure is used frequently. At the end of July 2012, some 230 requests had been submitted to the Court.

**To what extent is there a working separation of powers (checks and balances)?**

This question refers to the basic configuration and operation of the separation of powers (institutional differentiation, division of labor according to functions and, most significantly, checks and balances).



Established to overcome the extreme political instability of the Parliamentary Regime of the 4<sup>th</sup> Republic (1946-1958), the constitution of the 5<sup>th</sup> Republic (1958) is not based on the separation, or diffusion, of political power. On the contrary, it has reinforced the concentration of power, which was shifted in 1958 from parliament to the executive, and notably to the president, since the latter is elected by the people (1965). A certain number of rules in the constitution have tamed the parliament, by weakening considerably its power to control government. For instance, rules that limit standing committees to five, procedural provisions that restrict the parliamentary session calendar and the government having the right to set the parliamentary agenda or to restrict legislative amendments. In the last decades, constitutional reforms have enhanced the power of parliament, however the latter is far from holding the same central status as Congress in the US, or parliaments in the UK or Germany.

The only exceptions to the rule have been the three periods of “cohabitation”, when the president was faced with a parliamentary majority from the opposing party. This occurred to the left-wing President François Mitterrand in 1986-88 and in 1993-1995, and to the right-wing President Jacques Chirac in 1997-2002. In this constellation, power is shared between the president -- who controls constitutional questions, foreign affairs, defense, and European policy -- and the prime minister, leader of the opposing majority, who controls most of the legislative process. But this sort of power sharing and compromise is not seen as desirable by political leaders nor by the citizens. Since 2002, presidential and legislative elections take place in the same period, shortly one after the other, so that the elected president is normally assured of a sufficient political majority in parliament.



**To what extent do government authorities ensure well-defined property rights and regulate the acquisition, benefits, use, and sale of property?**



Property rights are guaranteed in the constitution. However, government may interfere, which it has done when nationalizing private companies, after 1945 but also in 1981. The right to nationalize was uncontested; the private owners had the right to be compensated. Even if most companies have been privatized since 1986, there remain political pressures and interferences on private businesses. Thus, in 2008, government strongly influenced the saving banks and the cooperative banks to merge. In 2006-2008, government forced a private group (Suez) into a merger with the public EDF in order to build a group big enough to resist the bid of an Italian group on Suez.

**2. Transparency / Accountability**

**Corruption prevention: To what extent are public officials prevented from abusing their position for private interests?**

This question addresses how the state and society prevent public servants and politicians from accepting bribes by applying mechanisms to guarantee the integrity of officeholders: auditing of state spending; regulation of party financing; citizen and media access to information; accountability of officeholders (asset declarations, conflict of interest rules, codes of conduct); transparent public procurement systems; effective prosecution of corruption.



Up to the 1990s, corruption was a widespread phenomenon in France. The problem was linked to secret party financing, because political parties are often lacking sufficient resources from member fees and/or public subsidies. On the local level, corruption is a major issue, where cases linked to public purchases and the awarding of long-term concessions for local public services have occurred. Illegal payments from the firms that were favored served to obscure party financing. Spectacular cases have been revealed by judges' investigations, which ended with the imprisonment of industrial and political leaders, and were a factor in growing awareness of the issue. This has led to substantive action to establish rules both on party financing and transparency in public purchases and concessions. But once the momentum passed, the ad hoc committees put in place to secure checks and controls lost part of their influence and authority and have not received the necessary means to assure their mission, for instance the control of assets detained by elected officials is rather formalistic due to the lack of human resources. Corruption is certainly much less important than it was 30 years ago. With an overall score of 7.0, France is ranked 25th out of 189 countries in Transparency International's 2011 ranking, just one place behind the US and behind European countries like Denmark, Sweden, the Netherlands, Germany, the UK and Belgium. Evidently, necessary checks are still not sufficient, in particular in areas where corruption is difficult to ascertain, for instance, in building zoning. The concept of conflict of interest still remains a vague and superficially understood, as it is not really part of the French political and administrative culture.

**To what extent are the media independent from government?**

This question asks to what extent the media are subject to government influence and the influence of actors associated with the government. The question focuses both on media regulation and government intervention. The rules and practice of supervision should guarantee sufficient independence for publicly owned media. Privately owned media should be subject to licensing and regulatory regimes that ensure independence from government.



Media pluralism is reasonably guaranteed in France. The diversity of newspapers and opinions mirrors rather well the political diversity of the country. The weaknesses of the system are found in the ownership structure. Today most of the media are owned by powerful industrial groups or wealthy tycoons whose money was earned outside the media sector. Actually, investing in the media is a sure way to lose money but gain influence. France is not unique in this situation but the fragility of the press is more acute as the sector gets less and less independent resources; less and less readers and buyers, in particular among the young population; less and less publicity. Faced with the competition of the Internet, rising costs and a shrinking readership, the printed media have to rely more and more on the benevolence of wealthy entrepreneurs or of the state. This is not a particularly favorable situation for a vibrant pluralism. This being said, pluralism is still alive thanks to the relative autonomy that journalists have tried to safeguard through negotiated agreements with the owners, but this equilibrium is fragile. Freedom of the press is guaranteed by a law of 1881, which has been amended since. The journalistic freedom was limited in the case of investigative journalism; cases from the 1970s to the 1990s show that journals or journalists who were suspected to have had illegal access to information sources have been prosecuted, or eavesdropped by the police. In the last years, however, these practices have ceased, given the amount of transparency and publicity introduced by the Internet.

In the audiovisual media, the basic law on audiovisual communication of 1982, amended since but still in vigor, stipulates the freedom of communication. In the same period the state monopoly on radio and television was dropped and private-public concurrence installed. The public radio broadcasters (Radio France, 4 programs) coexist with private radio broadcasters like RTL, Europe 1 or RMC. France television

(several stations, e.g. France 2, France 3) compete with the private TF1 and a certain number of more specialized chains. This competition tends to ensure a better balance of coverage and, on the whole, radio and television act relatively independently. A pluralistic board (Conseil Supérieur de l'Audiovisuel; CSA) supervises the private stations. Government influence on nominations of public radio and TV directors is perceptible but on the whole, government influence on the public audiovisual media is limited thanks to the Internet and corresponding public alertness.



**To what extent does the government enable the participation of civil society in the political process?**

This question asks whether the political leadership involves civil society actors in agenda setting, policy formulation, deliberation, decision-making, policy implementation, and performance monitoring. Civil society actors include civic, economic, and professional interest associations, religious, charity and community-based organizations, intellectuals, scientists, and journalists.



The French political culture and tradition means that parliament and government, legitimized by democratic elections, hold the monopoly on expressing the people’s “general will”, whereas associations are seen as lobbies proclaiming egoistic particular interest. Therefore, in general governments traditionally have tended to have arms-length relationships toward associations.

Associations do not play a major part in the formulation of policy proposals in France. In general, they have limited organizational, analytical or expertise power, which would allow them to influence the debate. Few cases of corporatist relationship between a government department and a relevant interest group exist, mainly in agriculture, where the main agricultural organization is able to mobilize policy proposals that may be adopted or taken into consideration by parliament and government.

However, the difficulties in governing complex societies with pluralistic interests, as well as the rather high distrust towards the political class, have led governments to change attitudes and to involve representatives of the civil society. Civil society experts have been nominated in governmental positions. In 2007, President Nicolas Sarkozy opened his cabinet to several representatives of civil society associations, mostly activists in the social field. The same president involved ecological associations and experts to launch a new strategy of sustainable development in 2007, using a wide range of roundtable consultations. Experts are commonly called to head a group, often involving civil society members, in order to describe challenges and to propose solutions. A striking example was the Attali group on the liberalization of French growth, led by a former top official and former counselor of President Mitterrand, Jacques Attali.<sup>1</sup> But in all these cases tactical motives

<sup>1</sup>See the report of the group: Commission pour la libération de la croissance française présidée par Jacques Attali: Une ambition pour dix ans, une mobilisation générale pour libérer la croissance et

play a large role. Government is seldom willing to integrate associational expertise in policy.

As for the decision making process, the arm's length relationship between government and these economic and social associations has given way to more cooperation. In the last decade, new rules have stipulated that relevant associations must be consulted before presenting a bill in social policy. A law passed in 2007 even forces government to announce its intent to present a law in social matters, and to give the social partners -- employers and trade unions -- the chance to negotiate a contract. If the negotiation succeeds, government promises to put the agreement into law.

Concerning the implementation of public policies, there are cases where non-economic associations play an active role together with state and local authorities. This can be seen in fields such as environmental policy; urban policy, where national programs and local public actors rely on the expertise and the commitment of associations dealing with local social difficulties; or social policy, giving aid to people with different social problems or handicaps. This being said, not all associations are able to exert a real influence on policymaking except by providing new ideas and concepts, which are taken up from time to time by politicians.<sup>2</sup>

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donner un avenir aux générations futures. Paris: XO éditions, 2010

<sup>2</sup>Two official reports have analyzed problems of social dialogue and of government-civil society relations; see Dominique-Jean Chertier: Pour une modernisation du dialogue social, Rapport au Premier Ministre, Paris 2006; Raphael Hadas-Label: Pour un dialogue social efficace et légitime, Rapport au Premier Ministre, Paris 2006

### 3. Social Cohesion

#### To what extent is exclusion and decoupling from society effectively prevented?

Reducing the various risks of social exclusion is a fundamental precondition for social cohesion and stability. The country assessment should focus on the following key questions: 1) To what extent is poverty effectively prevented? 2) To what extent are there enabling conditions for equal opportunity in society? In addition to poverty, please also take into account additional dimensions of exclusion like the experience of marginalization and the desire to be appreciated when evaluating socioeconomic disparities.

Reference Indicators: Poverty rates | Gini Coefficient



By international and European standards, the French welfare state is very generous and covers all possible dimensions affecting the collective and individual welfare, not only of nationals but also of foreign residents, and keeps poverty at a comparatively low level. A national minimum wage (€9.00 an hour in 2011) is fixed by government, the evolution being mostly rules-based. Public social spending, at more than 30 percent of gross domestic product (GDP), is the highest among Organisation for Economic Co-operation and Development (OECD) countries. This confirms the general value of equality (égalité) as a guideline for political and social life and the “Social Republic”. According to the CIA World Fact book, the poverty rate amounts to 6.2 percent, one of the lowest rates, which ranks France in the top range (8<sup>th</sup> out of 153 countries). As for distribution of income, the Gini coefficient has been rather stable (0.3 in 1985, 0.29 in 2008), meaning that in France, income distribution is more equal than the OECD average (0.32). Nonetheless, the fact that very few aspects of life escape social policy coverage both at the local and national level also has drawbacks, as high benefits for a long period of time create negative employment incentives. The problem has been present for years in public debate and in action. The debate has mainly focused on social cohesion and on fighting social exclusion, seen as a combination of material poverty and inability to take part in social and political life. The biggest problem is unemployment, especially for the young (under 25) who meet considerable barriers when they try to enter the labor market after leaving school, but also elderly people (over 55), whose employment rate is very low. Another cluster of problems concerns the social situation in the suburban zones (banlieue; Grands ensembles), where social, economic and ethnic problems accumulate and lead to ghetto effects and social exclusion. In the last decades, violent suburban riots have broken out repeatedly. Despite a considerable amount of special urban policy programs, this is still an unresolved challenge to public urban policy.

**How strong is the citizens' approval of political institutions and procedures?**

Please base your assessment on public opinion survey data, addressing the following factors:

- approval of the political system
- approval of performance (measured by how the political institutions function in practice or the satisfaction with the working of the institutions)
- approval of political institutions (often measured by the level of trust in institutions such as government, the legal system and police, state bureaucracy, political parties, and the military)



Citizens' opinion is split about French politics. They are strongly attached to democracy in general, and to the political institutions of the 5<sup>th</sup> Republic, but also (and sometimes strongly) contest the functioning of democracy and the behavior of the political leaders.

The political system of the 5<sup>th</sup> Republic, which was highly controversial in the beginning, has gained more general support according to opinion polls. The percentage of French judging that the institutions work well has risen from 56 percent in 1978 to 71 percent in 2000<sup>3</sup>. The functioning of democracy in

France is judged as good or rather good by a majority, varying between 50 percent and 60 percent, where negative judgments oscillate between 35 percent and 45 percent, in polls between 1985 and 2010. Only in times of governmental crisis do negative judgments gain a temporary majority, mainly related to very controversial policies, or at the moment of the Maastricht referendum on Europe in 1992, or after the 2002 presidential election. Most of the public institutions enjoy high confidence rates. Social services like schools or hospitals are above 80 percent, army at 75 percent, police at 71 percent, public administration at 63 percent, justice and public companies 60 percent each. The least confidence is conferred to private or civil society institutions, with political parties at 23 percent, media at 27 percent, banks at 37 percent, private business at 43 percent. (All polls: TNS Sofres, Dec 2009).<sup>4</sup>

This goes together with growing defiance of the political class by citizens. Between 2006 and 2009, generally over 60 percent do not have confidence in the right or left-wing political class. Only in the short period preceding and following the 2007 presidential election, a majority had confidence. This was mainly the effect of the Sarkozy election and his promises to break the routines of the political class. An increasing number of people think that political leaders do not care about "people like you". The percentage rises from 42 percent in September 1977 to 78 percent in November 2009.

It is interesting that confidence is mostly conferred to local or international authorities: local (69 percent) and regional (64 percent) government, the mayor (69 percent) and local MPs (58 percent), with international organizations such as the G20 and World Trade Organization, government or the president receiving more than 60 percent.

<sup>4</sup>All polls: Pierre Bréchon/Jean-Francois Tchernia: La France à travers ses valeurs, Paris 2009

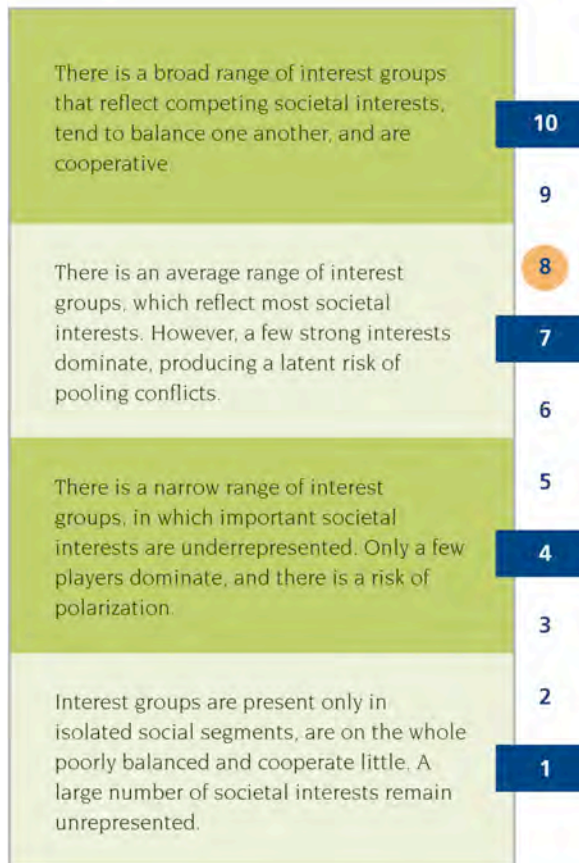
<sup>3</sup>Sofres, L'Etat de l'opinion 2001, Paris 2001



**To what extent is there a network of cooperative associations to mediate between society and the political system?**

This question addresses the representation of societal interests in the political system. In evaluating the systemic nature and the quality of representative patterns, please consider:

- the spectrum of interest groups, ranging from social movements and community organizations to unions and professional associations
- the capacity to incorporate all (competing) societal interests and to avoid the dominance of a few strong interests
- the degree of cooperation between different interest groups



If the association sector is lively and pluralistic, representing the whole spectrum of social interests and concerns, the mediation capacity of associations between society and the political system is restricted for several reasons.

First, the interest groups have limited organizational, analytical or expertise power, which would allow them to impose themselves as an unavoidable partner to the government. In some cases the association sector remains fragmented and weakly organized, as the trade unions organize only 8 percent of the French workforce but are split into a certain number of rival organizations. Second, in general, the French political culture and tradition means that governments tend to have arms-length relationships toward associations, seen as lobbies proclaiming egoistic interest, opposed to government and parliament, which are seen as expressing the general will. The centralization and the majority effect of the electoral system, in addition to the political bi-polarization, add to the fact that political power tends to make top-down decisions without really consulting associations and without taking into account the plurality of interests and opinions.

This being said, consultations do exist. The various economic, social and ecological interest groups are united, together with experts, in an official Economic, Social and Environmental Council (Conseil économique, social et environnemental, CESE) which has constitutional status but remains purely consultative. In many government departments, consultative councils exist, where relevant representatives of the respective social or professional field are members. Moreover, government invites the social partners for social round table meetings on special subjects -- employment, wages and income, social security -- and calls associations for relevant or new political topics. In 2007, the new president invited all political, civic, economic and social actors in order to launch a new strategy of sustainable development. In 2009-10, a huge consultation and discussion forum was held at the

invitation of government to assess the situation of French industry. However, very often consultation seems to be symbolic, or tactical, and the terms of consultation or negotiation are not clear. In consequence, associations often do not feel they can influence public decisions and action. Some of them regularly prefer public protest, polarization lobbying and sometimes rule-breaking actions instead of using arguments in consultation, as seen in trade unions, professional organizations of farmers, fishermen, truck drivers, etc.

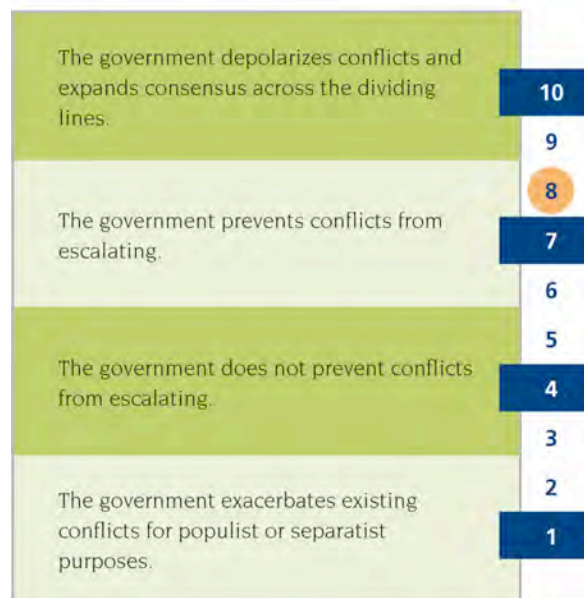
As for the association's capacity for face-to-face negotiations, this had been traditionally a major problem in France, the focus of all interest groups being state intervention more than social negotiation. This problem was first put to the political agenda in 1969. Since then, substantial change has taken place. Governments have enhanced social negotiations in companies (Auroux laws, 1982), and in 2007 a new law gave more place to independent social negotiations on matters of social legislation. The social partner institutions such as employers' unions and trade unions, are given the chance to negotiate a solution before parliament debates and votes a law. However, progress is slow. The various trade unions are split about the value of social negotiations. If the reformist CFDT (the strongest trade union) is resolutely for autonomous negotiations with the employers' organization Medef, others like the 2<sup>nd</sup> and 3<sup>rd</sup> unions, CGT and CGT-FO, may prefer to rely on governmental action, especially if there is a left-wing government.<sup>5</sup>

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<sup>5</sup>For French tradition in this field, see Stanley Hoffmann (ed.): *In Search for France*, 1963. Recent public expert reports on social dialogue: Dominique-Jean Chertier: *Pour une modernisation du dialogue social*, Rapport au Premier Ministre, Paris 2006; Raphael Hadas-Lebel: *Pour un dialogue social efficace et légitime*, Rapport au Premier Ministre, Paris 2006.

**To what extent is the government able to moderate domestic economic, political, and social conflicts?**

Please assess the extent to which the government is able to depolarize structural conflicts, to prevent society from falling apart, and establish as broad a consensus as possible across the dividing lines.



If strong political and ideological polarization has characterized France up to the early 1980s, with governments being prisoners of social tensions, things have considerably changed since then.

After the 1981 Presidential election, which saw the first left-wing victory since 1958, the newly elected President Mitterrand nominated communist ministers, proclaimed his will to overcome capitalism and started to nationalize France's most powerful industrial groups. Political and ideological but also social class tension was very high. But the Mitterrand experience throughout the 1980s has considerably changed the situation. The left-wing policies did not work out. Public opinion became skeptical towards communism and socialism, whereas liberal ideas spread. Mitterrand himself changed not only policies but also his style, doing much to appease the public climate.

In the last three decades, right-wing and left-wing governments have become more moderate and pragmatic and have tried not to aggravate social tensions but to appease them. A hidden consensus has seemed to

guide them, alongside an ideal of social market economy trying to reconcile free markets, and competition, with social justice, public goods and regulation of markets. While government and public discourse often stick to traditional arguments, hidden polarization in public debates and election periods remains very high and may lead to mass mobilization. This has led to politics avoiding if ever possible conflicting issues, with the result of postponing necessary reforms. In the last years, when very sensible reforms have been realized, the government's ability to compromise, and to depolarize, was under stress but partially succeeded. The 2003 pensions reform had been preceded by large consultations with the trade unions, and the reformist CFDT had been willing to forgo fighting the reform in exchange for some important modifications.

On the whole, government's ability to moderate domestic conflicts has expanded. However, the arm's length relationship between political power and associations and the difficult involvement of the latter in policy making, as the centralist top-down approach of governing put some limits to this ability, leaving sometimes associations to more violent action. Take for instance farmers, exasperated workers facing plant closures and young people in the suburbs.

#### 4. Future Resources

##### To what extent does education policy deliver high-quality, efficient, and equitable education and training?

This question assesses the extent to which a government's education policy facilitates high-quality learning that contributes to personal development, sustainable economic growth, and social cohesion. Your response should focus on the following, irrespective of the education system's organization: the contribution of education policy towards providing a skilled labor force, the graduate output of upper secondary and tertiary education, and (equitable) access to education. While the latter pertains to issues of fairness and distributive justice, it also has implications for a country's international competitiveness as unequal education implies a waste of human potential.

Reference Indicators: PISA results | education spending | attainment levels



The French education system can in many aspects be characterized as successful. France is rated rather well in the PISA study even though it has been downgraded in the ranking, dropping from the 10<sup>th</sup> rank out of 27 in 2000 to the 17<sup>th</sup> place out of 33 in 2009, while French results remained close to the OECD average throughout this period. Overall spending for education amounted to €132.1 billion in 2009, 6.9 percent of GDP. Spending at the preschool level is exemplary, with nearly all children three years and older attending preschools, or *école maternelle*, and still above the OECD average at the primary level. Secondary education is good but costly and, in recent years, tended to lag behind other OECD countries. Higher education is dual, with a broad range of excellent elite institutions (the *grandes écoles*) and a large mass university, which is poorly funded and managed and doesn't really prepare its students for a vibrant entrance to the labor market. Spending in the university sector is below the OECD average.

Social inequality in access to education and qualifications is a sensitive topic. The leading orientation of the national education system is to provide equality and social advancement. But formal equality -- which tends to promote all students, regardless of their social background, on strictly meritocratic criteria -- has not prevented social inequality. France is one of the countries where social inequality is high and tends to be reproduced. Moreover, social, ethnic and territorial inequalities are very often linked as a result of massive concentration of poor immigrant families in the suburban zones. The educational system is highly selective, resulting in social reproduction of the elites and recurrent problems for students in underprivileged suburban zones, where social problems of all sorts accumulate. Some experiences of positive discrimination -- e.g., a social quota in admissions for the prestigious elite university Sciences Po in Paris -- have shown interesting results but remain isolated. Another problem with the school system is the job training branch, which does not



succeed in helping young people enter the labor market. Organized by the state schools, it has lacked alternate training in cooperation with business, and diplomas are not accepted by firms. This is one of the reasons for high youth unemployment in France -- 22 percent in 2011 compared with an overall unemployment rate of 10 percent -- which is one of the highest youth unemployment rates in Europe after Spain and Italy. In recent times, new formulae of joint training programs with businesses have been established and proven successful. Reforms tend to foster more dual vocational trainings, combining the public school system and training in companies, but France is still far from providing a transition from school to work.

Failure at school and university is a permanent problem. The proportion of pupils leaving school without a diploma has risen from 15 percent in 2000 to 20 percent in 2009 according to the OECD. This concerns a yearly number of 150,000. In the universities, the attrition rate is high. Some 40 percent to 50 percent of students (circa 90,000) leave the system before acquiring a diploma. To make matters worse, the degrees acquired do not assure students of employment. More than half of students are still jobless one year after leaving university.

**To what extent does research and innovation policy support technological innovations that foster the creation and introduction of new products and services?**

This question comprises subsidies and incentives for research institutions conducting basic and applied research, as well as subsidies and incentives for establishing start-up companies that transfer scientific output into products and enhanced productivity. Bureaucratic impediments to research and innovation should also be taken into account.

*Reference Indicators: R&D spending | Science and Technology Degrees | Patents | R&D Personnel*



France has a rather good overall performance concerning research and development (R&D). According to the EU Innovation Scoreboard results for 2011, France is ranked eleventh (out of 27 EU countries) with respect to innovation capacity, performing just above the EU average. France is classified at the end of the second best group of innovation followers, behind the group of “innovation leaders” consisting of Denmark, Finland, Germany and Sweden. The report states that **“France is one of the innovation followers with an above average performance. Relative strengths are in human resources;**

open, excellent and attractive research systems; and finance and support. Relative weaknesses are in firm investments, Intellectual assets and Innovators.” These weaknesses include a relatively low private resource mobilization for R&D; low innovative behavior of companies, especially small- and medium-size businesses; and a rather weak collaboration between the private and the public sectors. France spent 2.26 percent of GDP on R&D in 2010, a ratio that has not risen since 2000; is below the OECD average of 2.28 percent in 2007; and is far below the common European target of 3 percent. But whereas public spending is comparable to the best countries, private spending is low, just 1.36 percent in 2010, compared to 1.9 percent in Germany, 2.0 percent in the US and 2.7 percent in Japan. This meager performance is linked to the comparatively low profitability of French companies and especially the weakness of medium-sized companies in France. Since 2007, the government has taken several measures to facilitate and promote innovation. Fiscal rebates for companies and citizens have been introduced; major projects have been financed; private funds have been mobilized through the creation of foundations; and a €30 billion public loan has been launched to support innovative ventures. Some procurement policies have also been implemented, such as the commitment by public authorities to order up to 100,000 electric cars for use by public services or administrations. In many ways, the traditional French model of state support for large technological projects -- Airbus, Arianespace, high-speed trains and so on -- has been revamped. However, given the new environment of globalization, it remains to be seen if this traditional model can efficiently work.<sup>6</sup>

<sup>6</sup> Sources for figures: <http://www.proinno-europe.eu/inno-metrics/page/innovation-union-scoreboard-2011>; OECD Factbook 2010; Eurostat: R&D Expenditure [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/R\\_%26\\_D\\_expenditure](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/R_%26_D_expenditure)

### How successful is a government in reducing unemployment and in increasing employment?

This question addresses a government's strategies to reconcile the following objectives: unemployment reduction and job security, and balancing supply and demand on the labor market by providing sufficient mobility of the labor force according to the needs of potential employers in order to increase the level of employment. To assess labor market and employment policy comprehensively, special emphasis should be placed on the positive or detrimental effects resulting from labor market regulation (e.g., dismissal protection, minimum wages, collective agreements) and from the modus operandi of unemployment insurance).

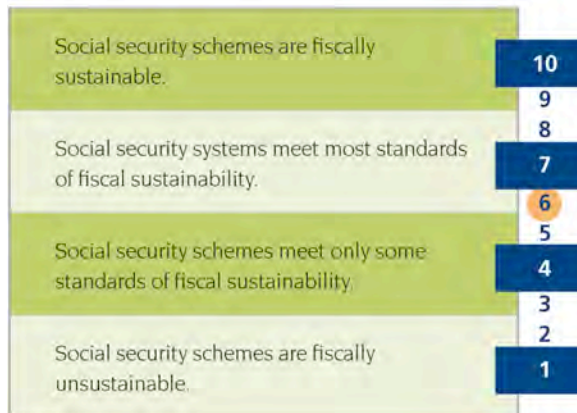


Despite high overall spending and an impressive number of measures, labor market policy has shown rather poor results. Since the 1990s, France has faced a high unemployment rate, which reached 10 percent in 2012. The main problems are young and elderly people, as well as the difficulties of French citizens with a migrant background entering into the labor market. The insider-outsider problem linked to strict regulation and job protection, which excludes parts of the workforce from the labor market, adds to these specific problems. The reasons for such failures are many and complex. The French job-training system relies heavily on public schools, yet diplomas are not really accepted in the industry at large, which hinders a potential worker's transition from school to a job. As for senior

workers, a retirement age set at 60 and various early retirement schemes have led to the present situation. Heavy labor market regulation is another issue. All successive governments have added new layers of regulations and employment programs, resulting in a costly, highly complex system. According to the OECD index on employment protection, the French labor market is one of the most strictly regulated in the OECD. Labor policies in the last decades have tried various measures, such as mobilizing considerable financial spending and reducing the weekly working time from 39 to 35 hours in 1998, however, this measure caused competitiveness problems to the French economy. Various cuts in the employer's social contributions in order to reduce labor costs showed positive effects, but French companies still bear comparatively high indirect labor costs. Targeted actions towards unemployed often consisted of public job offers or subsidies for the employment of younger or elderly persons. Targeted action to increase the employability of persons seeking a job has been taken. Labor market policy tries to give incentives for individual re-qualification, mobility and active search for jobs, as does the PARE program, plan d'aide au retour à l'emploi, which consists of individual aid to reenter the labor market. Consequently, the labor administration has been reformed in order to be more responsive to job-seeking persons. But these measures seem too timid and do not show the expected positive effects. More flexible approaches to the labor market do not exist in France. They remain highly controversial, even if the Danish "flexicurity" model has been widely discussed. Experts still recommend this approach, which would separate flexibility of the companies and security for the individual, protecting not existing jobs but individuals' qualifications and careers.

**To what extent are social security schemes based on principles of fiscal sustainability?**

This question seeks to assess the extent to which social security schemes (e.g. pension systems, health care insurance, unemployment insurance etc.) are fiscally sustainable. This question is essential for assessing a government's room to maneuver in paying its current financial obligations without shifting the cost to future generations.



The generous system of social security in France, with an annual budget of €330 billion, represents one fifth of the French GDP. It is financed mainly by employers' and employees' contributions (about 65 percent) and fiscal taxes, namely the general social security tax, CSG (about 22 percent) and state subsidies (10 percent). It has been in constant annual deficit since 1990 (except for the short period of 1999-2001), annual deficit amounts at or exceeding €10 billion since 2003. This is due to three causes. First, greater expenditure due to medical progress with better, and more intensive, treatments in the health care system. Second, longer life expectancy in the pension system. And third, stagnant income due to economic cycles, unemployment and the multiplication of exoneration schemes for employers and employees, namely for the lower wage groups.

Reform policies in the last three decades have widened the financial basis in taxing not only wages (i.e., jobs) but also other sources of income (e.g., financial profits), by the creation of the CSG tax. This policy was designed to assure better financing without penalizing the competitiveness of the companies (cost of labor). It also restricted the social benefits. A higher proportion of health costs are paid by the patients and the age of pension has been raised. Moreover, in 1996, in order to ease the financial burden of the social security system, its accumulated debts were taken over by a special fund (Caisse d'amortissement de la dette sociale, CADES) that shall assure the long-term amortization of these debts with revenue from a special repayment tax (contribution pour le remboursement de la dette sociale, CDRS, which is 0.5 percent on all sources of income).

Despite these reforms, the social security budgets still show deficits, challenging the French taxation and contribution system as a whole, as well as the social security system. It cannot be judged as financially sustainable.<sup>7</sup>

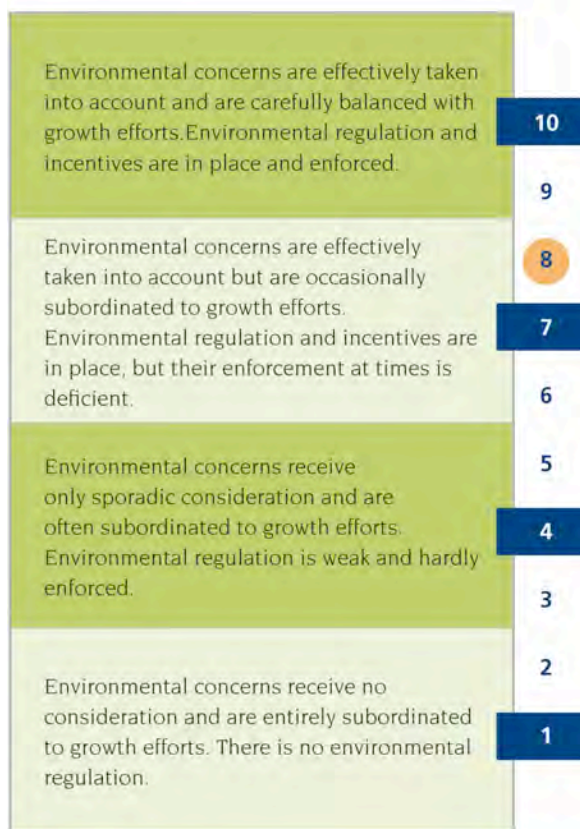
<sup>7</sup>Source for figures: Ministère du travail, de l'emploi et de la santé: Les chiffres clés de la sécurité sociale 2010, Paris 2011



**To what extent are environmental concerns effectively taken into account in both macro- and microeconomic terms?**

This question seeks to assess the extent to which externalization of costs or inadequate time horizons are avoided or restrained by environmental regulation. In macroeconomic terms, please determine whether tax and energy policies take ecological goals and measures into account (e.g. promotion of renewable energies, CO<sup>2</sup> reduction goals). In microeconomic terms, please establish whether the government sets incentives for environmentally sound consumption and investments to households and companies. Please take into account that a deeply engrained awareness of the environment or nature in society may serve as a functional equivalent.

*Reference Indicators: CO<sup>2</sup> emissions | Environmental Performance Index*



France shows mediocre performance with respect to environmental targets. Its good performance on CO<sub>2</sub> emissions is due to the importance of nuclear power. The availability of cheap electricity furnished by nuclear

[http://www.securite-sociale.fr/IMG/pdf/2011\\_chiffres\\_cles.pdf](http://www.securite-sociale.fr/IMG/pdf/2011_chiffres_cles.pdf)

plants -- accounting for 75 percent of French electricity consumption -- has led governments to neglect incentives to invest in new fields, such as isolation, energy economies or renewable energy. Although a national strategy for sustainable development was set up in 2003, environmental policies continued to be subordinated to sectoral policies, which are considered as more important. The ambitious plan of President Sarkozy, launched in 2007, to build consensus between various environmental stakeholders, was linked to major initiatives at the international, European and national level. But after some initial successes, the momentum has been lost, in particular after the failure of the Copenhagen summit.

In 2010, energy coming from renewable sources was one of the highest in Europe (15% percent), largely because of traditionally important water power installations (12.4 percent) whereas development of photovoltaic and wind power was lagging behind other countries. The target for 2020 is 23 percent. On the national level, a carbon tax adopted in December 2008 faced many criticisms both from consumers (supported by the left) and from the business community and farmers (supported behind the scenes by a large percentage of the majority party). The final straw was inflicted by the Constitutional Council, which ruled the bill as unconstitutional for not fairly distributing the additional costs related to the new tax. The government first declared that a revised version would go into effect in June 2010, but following bad results in the regional elections it declared that the carbon tax would have to be European or not at all, a way of burying its initial ambitions. This major blow has contributed to downgrading environment from the top of the agenda. The economic crisis and the meager political gains have played their role in this new order of priorities.

## II. Steering Capability and Reform Capacities

### 5. Strategic Capacity

**Prioritization: To what extent does the government set and maintain strategic priorities?**

This question seeks to assess:

- the political capability to take on a longer-term perspective going beyond immediate concerns of electoral competition, to maintain strategic priorities over periods of crisis and stalemate
- the strategic capacity of the government to prioritize and organize its policy measures (gaining and organizing expertise, evidence-based policy-making, regulatory impact assessment, strategic planning units)

Make sure to identify reform drivers and defenders of the status quo, as political determination and institutional capacity may vary among different departments and ministries. Please also comment on how setting and maintaining strategic priorities might be constrained by government composition and by actors outside the government (e. g. powerful economic interests, lobbies, foreign governments, foreign donors).



The French government can rely on abundant expertise coming from different advisory institutions. Some 600 standing committees, councils and observatories are attached to the different ministries.<sup>8</sup> One of the most important is the Council for Strategic Analysis (Conseil d'analyse stratégique, CAS), which is subordinated to the prime minister's office. It covers a wide range of issues, determining actual and mid-term challenges and possible responses. The Council of Economic Analysis has an equal role for economic policy. Each minister can dispose of corresponding analytical, sometimes prospective expertise. This includes regular impact assessment, which was developed since 1995. Ad-hoc committees are often created to assess special problems, and to propose measures. Another question is if government makes use of this expertise to prioritize its political action. This is doubtful. Very often, opportunism seems to prevail over real strategic planning. For instance, after his election, President Sarkozy put in place dozens of such committees, the most ambitious being the Attali committee (named after Jacques Attali, a former chief adviser of President Mitterrand), which reviewed all impediments and potentialities for growth in the forthcoming years. The report, published in January 2008, suggested several hundred reform measures; only some of them were put in place fully or in part. There are crucial issues in the economic and social policy where numerous expert reports have accumulated without having been utilized for government measures. Alongside with opportunism, the show effect (government showing that it cares about the issue) seems to be more important than the real willingness to act. So the saying that there is no problem of analysis but a problem of decision and action fully applies to France. Awkward, controversial reforms have seldom a chance without being pushed by the top of the government: the president, the prime minister or sometimes the ministry of

<sup>8</sup> According to the weekly magazine "Nouvel Observateur", 26 July 2012),

finance. Other ministries and the parliamentarians are more defenders of the *status quo*. A significant example was President Sarkozy, whose election platform in 2007 had been the necessity of breaking reforms in order to modernize the French economic and social model. Here the strong hierarchy in government and the top-down style of governing may help to overcome blockades and to put forward reforms, even if Sarkozy's overall reform performance (2007-2012) is rather moderate. Vested interests often mobilize not only by defending their sectoral or professional interests but also call on idealistic arguments as the value of the French model. Thus, railway workers are not just fighting for their jobs but for the defense of public service, a core element in the French model. They can rely on wide-spread discourse networks that are able to influence public opinion.<sup>9</sup>

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<sup>9</sup>For the background, see Joachim Schild/Henrik Uterwedde (eds.): *Die verunsicherte Französische Republik. Wandel der Strukturen, der Politik – und der Leitbilder?* Baden-Baden: Nomos, 2009; Vivien A. Schmidt: *The futures of European capitalism*, Oxford, OUP, 2002.

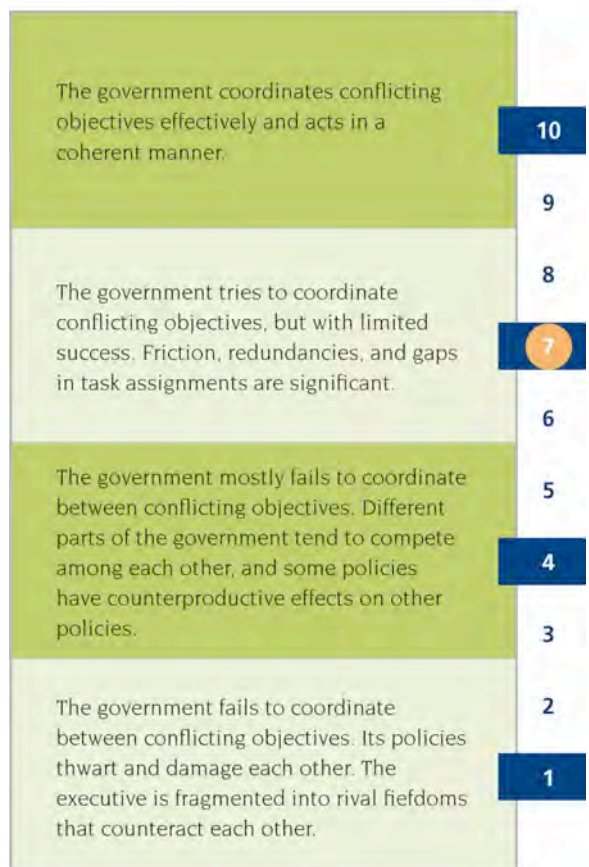


**Policy coordination: To what extent can the government coordinate conflicting objectives into a coherent policy?**

As many policies have conflicting objectives, reflect competing political interests and affect other policies, the government has to ensure that its overall policy is coherent. Successful coordination should:

- assure that trade-offs between policy goals are well balanced
- introduce horizontal forms of coordination to mediate between different departments of the state administration
- ascribe responsibilities in a transparent manner to avoid the negligence of tasks, redundancies, or friction between different government branches.

Various coordination styles (hierarchical-bureaucratic, informal-network, personalist, centralized, decentralized etc.) are possible and may be functionally equivalent. What matters is their impact on policy coherence.



The hierarchical organization of government gives the prime minister the possibility of modifying draft bills from ministers. In important cases, or even continuously, as it has been the case under President Nicolas Sarkozy, this steering function is situated in the president's office.

The prime minister appoints advisors from all ministries as policy advisors in a given sector. All ministerial domains are covered. For the time of their appointment, these civil servants are accountable to the prime minister. With a smaller but powerful team, the president's office does the same. Several hundred people are involved in the steering, checking, controlling and advising functions. However, quite often, the issues at stake are not technical but of a political or corporatist nature. Sometimes conflicts are triggered by substantive issues, but in many instances the crucial questions are related to the division of competences and power. The ministry of finance is a crucial player in every matter under discussion. The main but limited exception to that prime minister's office's influence is found when influential leaders of minority parties of the coalition can use their political leverage. Another exception is related to the close relationship that a minister might have with the president. In that situation, in case of conflict between the prime minister's office and a line minister, a kind of appeal procedure to the president puts the prime minister in an awkward position, as the president might choose to support the line minister's view over the prime minister's opinion.



**Stakeholder Involvement: To what extent does the government consult with major economic and social interest groups to support its policy?**

This question assesses how successfully the government consults with economic and social actors in preparing its policy. Successful consultation is conceived here as an exchange of views and information that increases the quality of government policies and induces economic and social actors to support them.



The traditional distrust regarding lobbies, which are not seen as legitimate political actors, and the difficult social relations in France that hinder social dialogue have limited the capacity of governments to seamlessly or successfully find avenues of cooperation. Corporatism in France (in the sense of coordinated sectoral steering both by government and specialized interest groups) has had a rather limited impact, and the temptation to govern top down has always been strong. But severe, repeated conflicts and protest movements have raised and often successfully vetoed governmental action. This is a clear hint that government has not succeeded in assessing the political power, the consideration and cooperation of civil society and its actors.

While the debate on necessary consultation between government and economic and social actors goes back to 1969 (especially concerning social partnership between capital and labor unions), it has seldom been followed by consequent action. However, in recent years, governments seek consultation of interest groups more systematically, and these practices have been partly made into legal obligations. Moreover, the rules of social negotiations have been modernized to encourage social contracts between employers and trade unions. But, despite the awareness of the need to install regular consultation procedures, governmental practice has changed only gradually.

**Political Communication: To what extent does the government actively and coherently communicate and justify the rationale for and goals of its policies to the public?**

A coherent communication policy is an important aspect of strategic governance, and ultimately in winning public acceptance for governmental policies. This question assesses governments' public communication efforts, and the extent to which policy-makers are able to coherently describe and justify goals and programs to the public.



The need for strong discipline is imposed on the French government by the coalition government. Coordination of government action and communication is assured in a hierarchical manner. The president is the effective chief of government. Both the prime minister and all other ministers are nominated by the president and are dependent on him. In practice, the presidential office monitors the action of the government regularly, and under President Sarkozy, very closely. The prime minister and the president impose tight controls and ministers are expected to be in line with their guidance. The main rationale is to avoid divisions or confusion that can be exploited by the media. But leaks by ministers themselves can bring to the fore internal contradictions between ministers or their bureaucracies. President Sarkozy has dismissed several ministers whose public communication on planned projects did not suit him. When a president is less direct, coordination is assured by the prime minister who is able to manage possible conflicts between ministers.

## 6. Implementation and Efficiency

**To what extent can the government achieve its own policy objectives?**

This question seeks to evaluate a government's implementation performance against the performance benchmarks set by the government for its own work. The assessment should therefore focus on the major policy priorities identified by a government and examine whether declared objectives could be realized.



The government is efficient in implementing its program as it can rely on a relatively disciplined cabinet and an obedient majority, while other veto actors are basically absent. The question if government policies are effective is another matter. There is a growing tendency to privilege communication over substantive policy and to believe that a reform is in place when a law is passed. This phenomenon is illustrated by the recurrence of legislation on the same topics. For instance, to address the concerns of the population over law and order issues, there have been a series of new laws passed aiming to strengthen police controls, crime penalties and so on. The same can be said for fiscal policies, which are characterized by a high rate of instability.

**To what extent does the government make efficient use of available human, financial, and organizational resources?**

In assessing the government's resource efficiency, please focus on the executive, including the administration and the cabinet.

*Reference Indicators: Personnel expenses relative to the services offered by the state | low number of politically motivated dismissals and new appointments of public servants | competitive recruiting procedures protected against political influence | transparent budget planning and implementation | low deviation of actual budget expenditures from the associated planned expenditures | effective and independent auditing | public administration that enables effective management under criteria of professional rationality | procedures and institutions to reform and modernize public administration.*



Government can rely on a devoted, qualified civil service with some very high standard administration branches. The recruitment of the top staff is conferred to an elite school (ENA, Ecole nationale d'administration). Access is only by meritocratic criteria. However, the hiatus between these highly qualified and motivated civil servants and the numerous dysfunctions in public administration points to the problem of state and administrative reform. This has been a topic since 1991, but progress has been too slow. Under the pressure to bring down the administrative staff, whose number had been rising for the last 50 years, the Sarkozy administration decided in 2007 to replace only 50 percent of the retiring civil servants, a measure which has cut the number of public civil servants by 170,000 within five years. Linked to this was a general revision of public policies (RGPP), a vast assessment of public action and administrative structures aiming at administrative reforms. But in spite of interesting assessment results, implementation has been rather marginal. President Holland has stopped this procedure but could be driven to turn to it again under the pressure of budget consolidation. Regular auditing is given by the court of accounts. It is accountable to the parliament which might require any auditing, report or enquiry it needs. This is a big change in contrast with the past when the court was perceived mainly as a controlling institution at the service of the executive. The last 2008 constitutional reform has increased its role but it remains to be seen the use the parliament and the court itself will make of these new opportunities. The most interesting procedural innovation has been the installment of a new budgeting framework for the annual planning of the national budget. In 2001, a law was passed reorganizing the presentation of the budget lines, in order to allow better transparency, better allocation of financial resources and a more efficient control of budget execution (LOLF). The new procedure was first applied



to the 2006 state budget. This modernization of public accountability and budgeting was part of a general movement in OECD countries towards the new public management doctrine. In a first report on the new experience, the court of accounts has pointed the new transparency of budgetary choices but criticized the absence of regular revision of choices, the absence of state reform (which was initially thought to be the logical consequence of the LOLF procedure), and the insufficient parliamentary involvement.<sup>10</sup>

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<sup>10</sup>For background information, see Cour des comptes: La mise en oeuvre de la loi organique relative aux lois de finances (LOLF): Un bilan pour de nouvelles perspectives, Paris, November 2011.

## 7. Adaptability

### Policy Learning: How innovative and flexible is the government?

Innovation in policy-making often comes from learning. This learning goes beyond changes in policy outputs to include changes in the basic beliefs in guiding policy formulation. Learning opportunities are provided by:

- learning from past experience (effective internal monitoring and evaluation)
- observation and knowledge exchange (good practices, international cooperation)
- consultancy (academic experts and practitioners)

Flexibility refers to a government's ability to adapt to and take advantage of development opportunities inherent to a given political situation. Flexibility and learning allow governments to replace failed policies with innovative ones. If possible, provide empirical evidence on whether policy learning happens coincidentally or if there are institutionalized mechanisms that facilitate innovation and flexibility in policy-making.



Policy learning has become apparent over the last three decades in major fields of public policies, when France was faced with changed European and global conditions as well as with policy failures. Striking examples are: the U-turn in macro-economic policy initiated in March 1983 as a response to the failure of the inflationary growth model; the liberalization of markets (which had been previously under multiple state controls in France), following the EU Unique Act of 1985 and the strategy to build up a real common market without barriers in Europe; the renewal of industrial policy in the 1990s and 2000s, giving place to a new horizontal framework policy, in order to overcome the structural weaknesses in industrial competitiveness; the successive reforms of the pension system in 1993, 2003, 2008, and 2010, to overcome growing financial problems resulting from the changed demographic conditions; the introduction in 1991 of a social security tax imposed on all sources of income, in order to overcome structural financial problems of the old system of contributions from wages. Other examples exist, such as the development of a comprehensive urban policy as a response to outbreaks of urban violence, or the European policy, which in the 1980s gradually gave up the defense of national sovereignty, which had become more and more elusive in favor of a new approach accepting partial transfers of sovereignty and majority votes. When preparing changes, consultancies including foreign experiences are widely used. The problem of policy learning is not the lack of expertise or intelligence of the political actors but the support of citizens. When it comes to reforms that alter the traditional post-war French model -- meaning a strong state steering the economy, a strong welfare state, protection of existing national structures, and defiance towards economic liberalism and towards change coming from outside -- popular opposition is often very high, and defenders of the status quo are relayed by powerful networks proclaiming the ideals of the French model. This has driven governments often to practice stealth

reforming, changing policies when maintaining the traditional discourse, the caricature being President Mitterrand after the radical U-turn of 1983 saying, “We did not change our policies”. Another tactic is to blame outside pressures. Many changes are presented to the public opinion as being required by the European Union or by the necessity to adjust to the new challenges of international competition and globalization. This strategy was initially rather efficient but has become counterproductive in transforming opponents to Europeanization and globalization. The absence of a clear discourse that would explain necessary changes and redefine the French model in the light of the 21<sup>st</sup> century is damaging the reform capacity of the country. It does not allow a broad democratic policy learning, nor acceptance of change. The contradiction between a practice of policy change and a discourse of continuity widens the gap between the people and the political class. Given this context, policy learning mostly occurred coincidentally, as a reaction to manifest policy failure. New European rules or the pressure of globalization have been driving forces of most changes. Substantive policy change hurting powerful interests and implying changes in the core of values and identities often was accompanied by political dramatization. In 1983, France had to choose whether to stick to its inflationary, Keynesian policies and its multiple state interventions, which would have meant isolation upon leaving the European Monetary System (EMS), or to remain in the European System, which meant a radical policy change. In 2007, President Sarkozy dramatized the failure of the French social model and proclaimed a rupture, i.e. radical reforms, choosing explicitly to break taboos. It remains to be seen if President François Hollande, who is faced with conflicting internal and external pressures, will choose to dramatize in order to get support for his difficult choices. Calls for more growth and more social justice while maintaining the Welfare state, for instance, conflict with the need to return to budget stability in order to cope with European rules.

There is no systematic review of structures except from time to time reports from the Council of State or from the Court of Accounts. Ad hoc reports on specific authorities or agencies are also produced by internal controlling structures (*corps de contrôle*) or external committees at the request of the government. The most ambitious recent attempt has been the so-called “*Revue générale des politiques publiques*”, which foresees an assessment of all policies and institutions in order to rationalize and make savings. Critics have argued that the only purpose was to make cuts in the budget and that there was no real managerial improvement. To be fair, the results of such a wide experience cannot be judged yet. In the meantime however, ministerial portfolios and their respective administrations are still organized on a pure political basis without managerial consideration. Division and merger of tasks and services are still fixed by short-term and opportunistic considerations.<sup>11</sup>

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<sup>11</sup> Sources: Joachim Schild/Henrik Uterwedde (eds.): *Die verunsicherte Französische Republik. Wandel der Strukturen, der Politik – und der Leitbilder?* Baden-Baden: Nomos, 2009; Vivien A. Schmidt: *The futures of European capitalism*, Oxford, OUP, 2002

**Institutional Learning: To what extent does the government improve its strategic capacity by changing the institutional arrangements of governing?**

Strategic capacity is the capacity to take and implement political decisions that take into account the externalities and interdependencies of policies, are based on scientific knowledge, promote the common goods and represent a long-term orientation. Institutional arrangements include the rules of procedure and the work formats defined there, in particular the cabinet, the office of the head of government, the center of government, the portfolio of ministries, the advisory staffs of ministers, and the head of government as well as the management of relations with parliament, governing parties, ministerial administration, and public communication.



Government has effectively adapted its structures to meet the impact of European integration and the rise of multilevel governance, which increases the need for inter-ministerial coordination. A coordination secretariat under the authority of the prime minister, the SGAE (secrétariat général des affaires européennes) bears responsibility for daily coordination; conflicts are arbitrated by the prime minister's senior civil servants, with only serious conflicts resolved by the prime minister or the president himself. In 2005, an inter-ministerial committee was founded to coordinate the French position in EU councils. It meets monthly under the authority of the prime minister. The ministers of foreign affairs, Europe, finance and economy are regular participants, while other ministers partake in the meetings according to the agenda.



### III. Track record of past crisis management (if applicable)

*Is there evidence from historical events that the country and its society have already mastered economic and political shocks in the past?*

France has been under adaptation stress several times in the last 50 years. At two major moments (1958 and 1983), the country's leaders have shown their capacity to master major political and economic shocks, while the current situation demands a similar effort that has not yet been realized.

1958 was a crucial year, for several reasons: (a) By establishing the French 5<sup>th</sup> Republic, General de Gaulle ended a major political crisis that might have been turned into a civil war. The new republic established a strong executive power in order to overcome political instability, which had marked the country from 1946 to 1958. (b) De Gaulle put an end to the colonial war in North Africa in negotiating and at last conceding the independence of Algeria in 1962. (c) The beginning of the European economic integration (EEC, 1958), together with decolonization, stopped a protectionist past and opened the French economy for international concurrence. Therefore (d) de Gaulle set up an economic recovery program, accelerating economic modernization and bringing back economic and monetary stability, such as with currency reform and the new franc.

Another economic shock led the French left-wing government in March 1983 to a historical U-turn in its economic policy. The failure of the French national Keynesian policy led to a crisis within the European Monetary System. Having to decide either to pursue his left-wing policy and quit the EMS, or to stay in the EMS and accept an alignment of French economic policy, president Mitterrand changed his policy. This included stopping the traditional French inflationary growth model by returning to price stability and by linking the French currency to the Deutschmark ("strong Franc"), and extended later to a privatization and deregulation policy, and to a changing state-economy relationship, giving more place to market regulation and to more indirect state intervention. These new policies adopted in the 1980s have been continued by all successive governments.

Since the 2000s, under the pressure of globalization, European monetary integration, industrial competitiveness problems and growing financial deficits, France has been under new pressures challenging its capitalism and its growth model. The call for structural reforms has been omnipresent in the public debate but up to now, French governments failed to address the challenge energetically. Despite reforms in the social security system (mainly pension reform) and some supply-side measures for competitiveness, major reforms still remain to be done. For instance, France needs labor market reforms and state and administration reforms to reduce the high ratio public expenditure of nearly 58 percent, the highest ratio in the OECD. In addition, the government must reform the tax and social contribution system, which is penalizing business.<sup>12</sup>

*Does the political system facilitate crisis remediation in a timely manner?*

The answer to this question consists of a French paradox. On the one hand, the concentration of political power (a strong executive, together with a centralist State organization), with nearly no institutional veto players, facilitates rapid political decisions and their prompt implementation if

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<sup>12</sup> For the general background, see: Pepper D. Culpepper/Peter A. Hall/Bruno Palier (eds.): *Changing France. The Politics that Markets Made*. Palgrave-Macmillan, 2006; Adolf Kimmel/Henrik Uterwedde (eds.): *Länderbericht Frankreich*, Bonn: Bundeszentrale für politische Bildung, 3<sup>rd</sup> ed., 2012; Joachim Schild/Henrik Uterwedde (eds.): *Die verunsicherte Französische Republik. Wandel der Strukturen, der Politik – und der Leitbilder?* Baden-Baden: Nomos, 2009; Vivien A. Schmidt: *The futures of European capitalism*, Oxford, OUP, 2002.

necessary. The recovery plan in 2008-09 to overcome the international economic crisis is a good example for this capacity to react. On the other hand, these apparent advantages of the political system often turn to disadvantages when it comes to difficult and controversial issues. The failing climate of social negotiation, the inconsistent practice of consultation of organized labor and business by government, as well as the prevalent Manichean political climate lead to a constant weakness of negotiation for compromise. Very often French government has imposed measures in a top-down manner that has led in turn to massive social and political mobilization. In 1995, a reform bill of the then-conservative government on pensions in the public sector produced strikes and mass demonstrations that lasted several weeks, and forced government to retire its bill. In 2006, a similar bill (on special labor contracts for young people containing less job protection) put forward by the conservative prime minister had the same fate. Government may win the conflict with “the street” as in the 2003 and 2009 pension reform bills, but mass mobilization by trade unions or specialized professional movements often appears to be the only veto player in a political system that concentrates all institutional powers without checks and balances.

As a result, the apparently strong executive may be weak in reality because of the failure of mediation (or missing links) between government and society. The apparent power to push its political aims without negotiation leads sometimes to top-down decisions without sense for their social acceptance. This problem has been discussed for the last decades, and new rules, forcing government to consult economic and social organizations systematically when planning a new bill, have been introduced. Practice seems to evolve in this direction even if examples of illusive consultation (when government consults while having already decided where to go) are still present. Progress will take time in this field.<sup>13</sup>

*Is the signaling process between decision makers (government, central bank, employers, employee representatives) so well established that confusion about (and resistance to) the expected outcome of decisions by one decision maker on the others can be avoided or at least minimized?*

On the one hand, political, economic and social actors meet and know each other sufficiently to predict the respective positions, and possible political or social resistance. On the other, some “accidents” mentioned above (the 1995 and 2006 reform bills) may occur, as well as some confusions in consultation procedures, such as 1998, when government presented its bill on reducing weekly work-time to 35 hours at the end of a trilateral conference on employment without taking into account the discussions, or 2003, when the negotiations between government and trade unions turned obscure because of dissenting positions on the labor side. As a result, the conflictual social climate, as well as rivalries between organizations, has not really fostered a negotiation culture that would allow a clear view both of positions and potential resistance.

*Are there constitutionally anchored and politically accepted procedures for sequencing and timing countermeasures in a crisis?*

There are no such special procedures. In case of an economic crisis, the executive has sufficient instruments at its disposal, and is using them extensively. Political support is normally guaranteed, in a country that tends to stress about economic growth, where economic policy traditionally is very sensitive to the macroeconomic conditions and seeks to be counter-cyclical.

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<sup>13</sup> For the general background, see Joachim Schild/Henrik Uterwedde (eds.): *Frankreichs V. Republik. Ein Regierungssystem im Wandel*, Wiesbaden, VS Verlag, 2005; Public expert reports on social dialogue: Dominique-Jean Chertier: *Pour une modernisation du dialogue social*, Rapport au Premier Ministre, Paris 2006; Raphael Hadas-Label: *Pour un dialogue social efficace et légitime*, Rapport au Premier Ministre, Paris 2006

*Are precautionary measures (e.g., deposit insurances, foreclosure procedures) in place that can protect the most vulnerable groups against the full effect of a crisis?*

In the banking and finance sector, various precautionary rules have been established. In general, and according to common European guidelines, a monetary and financial regulation corpus (Code monétaire et financier) contains rules on precautionary rules, and defines the scope and the mode of bank supervision. This supervision was transferred to an authority of prudential control (Autorité de contrôle prudentiel, ACP) in 2010. In the same year, and as a consequence of the 2008 financial crisis, a law re-enforced the supervision of the banking and financial sector.

As for the security of deposits, a guarantee fund (Fonds de garantie des dépôts) was set up in 1999. It is a mutual fund financed by the banks, with an estimated financial reserve of €1.9 billion. The bank clients, owners of deposits, other titles (bonds, company shares etc.) or warranties, are to be compensated up to €100,000 per client and bank account. It has to be mentioned that this system is clearly limited to a relatively small number of compensation cases (estimated at a maximum of about 16,500 deposit holders). In no case would the fund be able to cover a systemic risk involving several banks or important companies.

*Are automatic stabilizers in fiscal policies sufficiently strong to contain surges of massive unemployment?*

With a public expenditure ratio of 56.6 percent of GDP in 2011, a social spending ratio of more than 30 percent of GDP, and one out of four French people working in the public sector, public redistribution is one of the highest in OECD countries. This implies strong and effective automatic stabilizers in case of an economic recession. In the year of worldwide recession in 2009, GDP dropped by 2.7 percent when in Germany it went down by 5.1 percent. However, while in Germany coordinated action of government, employers and trade unions helped to avoid mass redundancies, in France unemployment rose and has not sunk since; the economic recovery following the 2009 crisis was rather poor. This points to structural problems in the rigid employment market, to the rather poor coordination between government policy and action on the micro-economic level, but also to a huge challenge of qualitative competitiveness.

Another problem is that of public finance. With high public deficits in the last decade, half of which are estimated as structural by the French court of audit (Cour des Comptes), the automatic stabilizers have added to the public debt. Hence the current debate about stabilizing public finance. The new left-wing government addresses it mainly by raising taxes but this will not be sufficient: structural reforms are needed on the expenditure side, e.g. state and administrative reform.<sup>14</sup>

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<sup>14</sup> For more background information, see Annual report of the French Cour des Comptes, Jan 2012; own work: Henrik Uterwedde: Zeit für Reformen: Frankreichs Wirtschaft im Wahljahr (Time for Reforms: The French Economy in a Year of Elections; English abstract), DGAP Analyse 5, April 2012 (<https://dgap.org/de/article/getFullPDF/21072>)