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## Does the French Government Really Believe Its Own Economic Forecasts?

- By IRWIN STELZER



With the summer vacation period coming to an end, and a new policy-making season beginning, this is a good time for a reality check on the French government's economic forecasts.

Finance Minister Christine Lagarde predicts the French economy will chalk up growth of 2.0% next year, and reduce the budget deficit from 8% of GDP to 6%. The basis for her optimism is unclear. France's plan to preserve its threatened triple-A bond rating by cutting its deficit to 6% next year and 3% by 2013 will require austerity measures, if implemented—no sure thing since 2011 is a presidential election year—that will lop 1.4% off next year's growth. That, plus the dampening effect on French exports of slowing growth in China and America, prompted Jean-Christophe Caffet, economist at Natixis, to forecast that France will grow in 2011 at only a 1% rate.



Reuters

French Finance Minister Christine Lagarde pictured at a Paris meeting in June.

Add the facts that in half of the past 12 years France has failed to achieve 2% growth, and that the Paris-based Organisation for Economic Co-operation and Development notes that "France has a poor track record in meeting the deficit targets in its stability programs," and one has to wonder whether the government actually believes its projections.

Still, Ms. Lagarde's optimism is easier to understand than President Nicolas Sarkozy's view that he has found the perfect substitute for Anglo-Saxon capitalism. Mr. Sarkozy relentlessly trumpets the French model of active state intervention as an alternative to "Anglo-Saxon neoliberalism."

The Economist Intelligence Unit's (EIU) notes that Mr. Sarkozy continues to establish and preserve national champions, and to promote "Franco-French" mergers to prevent foreigners from acquiring French companies. He has announced that when he takes the presidency of the G-20 in November he will continue his drive to reduce the role of the dollar as the world's reserve currency, and press for greater intervention in currency markets. Former president Valéry Giscard d'Estaing once told me that Americans are ruled by "the law of the jungle". Mr. Sarkozy apparently sees himself as the essential animal tamer. Former president Giscard d'Estaing once told me "the law of the jungle" will be civilized by a French animal tamer.

Consider roughly comparable data available from Eurostat and the Congressional Budget Office. Over the past dozen years (full-year 2010 data not yet available) the unemployment rate in France has averaged 9.15%, and has never fallen below 7.8%. In that same period, the U.S. unemployment rate has averaged 5.35%, and in no single year has ever reached French levels.

French critics who hurl the charge of racism at America might note that unemployment rates for native- and foreign-born American workers are generally quite close, while in France the unemployment rate among immigrants is 1.7 times that of native-born French.

Then there are those increasingly problematic deficits. In the 10 recent years for which data are available, France's budget deficits averaged 3.25% of GDP, while those in America averaged 2.05%,

even including in the U.S. average President Barack Obama's 9.9% for 2009.

Finally, since GDP per capita in America is approximately 40% higher than it is in France, and since "France's economic performance has deteriorated in recent decades relative to that of many of its peers," according to the EIU, one has to wonder why Mr. Sarkozy wants to export his high-unemployment, low-growth, high-deficit model to innocent citizens in other countries.

Because France's welfare system creates disincentives to work, it has one of the lowest labor-force participation rates in Europe, and its workers put in fewer hours than in any developed country outside of Scandinavia. Fewer productive hours and an ageing population are a combination that threatens the affordability of the French welfare state.

The relatively poor prospects for improved performance of the French economy have important implications for the euro zone. It is prompting French policy to turn even more protectionist than it now is, reflected in its efforts to decrease the competitiveness of its trading partners rather than to increase its own.

Britain's decision to raise VAT and income taxes is widely applauded in the French bureaucracy, and Germany's greater competitiveness is dismissed as due to excessive thriftiness, and a system of labor-management cooperation that neuters the trade unions. It does, of course, preclude the sort of strikes that periodically stifle the French economy: France lost more than five times as many days to strikes as did Germany in 2007, the last year for which France will release data.

With 16 of the 18 members of the euro zone in aggregate contributing nothing to growth, the burden of moving the zone forward falls to France and Germany, which together account for about half of euro-zone GDP.

Germany is growing much faster than France, no surprise: a leading French politician explained to me that France's policy focus must be more on redistributing the existing pie than on growing the pie, hardly a recipe designed to realize Ms. Lagarde's expectations. In which

case the entire euro zone will be the loser, and Mr. Sarkozy will have a more difficult time selling his alternative to "neoliberalism" and German economic management.

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