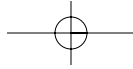


FREE-FALLING FRANCE OR FREE-TRADING FRANCE?

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The most common perception of France found these days in the American media is that of an arrogant country, whose international gesticulations are the last hurrah masking its inevitable decline into oblivion. The French have not yet come to terms with their lengthy collapse, which started with the devastation of World War I, continued with the humiliation of their defeat in 1940 and was furthered by the loss of their colonial empire. This would explain their support, still to this day, for a Gaullist policy made up of power incantations, in contrast to real power—or lack thereof. Of course, this characterization is meant as much as an insult as an objective statement of fact. What few of these American commentators comprehend, however, is how much this image of a nation blinded by self-confidence is erroneous. On the contrary, the French have excelled at self-flagellation for a long time, rightly or wrongly. Whether one calls it “malaise” or decline, French commentators are the first to confess that France is free-falling—whether vis-à-vis the US, its European partners, or its own aspirations.

A French economist named Nicolas Baverez published in September 2003 a book entitled *La France qui tombe*. This fall's biggest bestseller, it argues, based on a variety of current and long-term economic statistics, that France is clearly headed for a steep, irreversible decline. The debate over national decline has flared everywhere in France. The daily *Le Monde* has published a series of twenty op-eds by prominent thinkers in response to Baverez' thesis, and the prime minister himself was instructed by President Chirac to address the controversy. At least three other books by French intellectuals have come out this fall on a similar topic, with gloomy titles such as *Le Désarroi français* (Alain Duhamel), *Adieu à la France qui s'en va* (Jean-Marie Rouart), and *L'Arrogance française* (Emmanuel Saint-Martin and Romain Gubert).



Beyond the central question of whether the analysis of Baverez and his acolytes is correct, the other interesting question raised by the success of the “declinist” thesis is why the debate is occurring now. Who are its main actors, and why? What can it change regarding the way in which France adapts to international constraints and to its capacity to undertake reforms in order to be a beneficiary, not a victim, of globalization? Can the prominence taken last fall by “declinist” ideas finally force French politicians to abandon their double-talk on globalization and launch the long-awaited, fundamental discussion on the issue of France and globalization?

From the “Stalled Society” to “Free-falling France”

“Declinism” is an old classic in French political thought. Even during the period later nicknamed “les trente glorieuses,” intellectual Cassandras deplored the “stalled society”² and the “French disease.”³ Then came commentaries about “depression” and “malaise.” The current buzzwords are decline, decadence and effacement. This tendency to self-criticize is not a French exception, however; such discussions also appear regularly in the United States, where exegeses about the decline of the American empire were quite prolific in the late 1980s, for instance. Nevertheless, even though the 2003 vintage of the declinist thesis follows directly from the previous ones, it does not mean that the central argument of a free-falling France is erroneous.

According to Baverez, the country is fatally paralyzed both by a statist economy that has missed globalization and by its delusions of grandeur. As a result, the society stagnates, while its best researchers migrate to US universities and its best entrepreneurs flock to London. Judging from the accumulation of alarming statistics, it seems objectively true that France is regressing in a variety of domains. There are three in particular in which the analysis presented by Baverez suggests a worrisome long-term evolution.

The first handicap faced by France is the weakness of research spending, which will not be able to sustain the nation’s technological competitiveness for long. Vigorous, independent research is essential to future economic success, the capacity to innovate being one of the main assets of a country in a globalizing world. In spite of its worldwide fame, however, the future of French research is far from certain. Countless expert reports have denounced its long-term deficiencies, but successive governments, in particular the current government headed by Jean-Pierre Raffarin, have not prioritized research, have frozen research budgets, and have diminished even more the social status of researcher. One consequence of this policy has been the expatriation of many young French graduates, especially to the United States, where they join prestigious universities, innovate, and file patents in sectors as diverse as information technologies, medical research, biotechnology and services—sectors with important stakes for growth, employment, and quality of life.

Other major handicaps for France are the high labor costs and tax burden. France is one of the few developed countries where unemployment rates have persisted at around 9 percent for a quarter of a century, with particularly somber figures for youth unemployment. Most of France's European partners have drastically reduced their unemployment rates in recent times, with the UK economy almost at full employment, while France's unemployment rate under the Raffarin government has climbed steadily. Strong rigidities in the labor market and the perception of excessive "prélèvements obligatoires" encourage neither hiring nor effort. Yet the absence of political will to confront egotistical corporatist reflexes that prevent all reform attempts do not suggest a rapid improvement.

Finally, France is handicapped by a bloated and relatively inefficient public sector, whose missions ought to be reviewed. Almost half of the annual French budget is spent on paying civil servants—that is, 8 percent of GDP in 2002. The efficiency of public action could be improved by abolishing redundancies, by simplifying many administrative procedures, and by privatizing many of the state's functions. The Raffarin government recently initiated a reform of the public sector. It remains to be seen whether this reform can be implemented without triggering another social conflict that will make a government with cold feet back off under pressure yet another time.

A France Adapting to the Challenges of Globalization

If many of these handicaps are more structural than temporary, does it mean that France is really in agony, powerless, and irretrievably condemned to decline? It is excessive to paint the portrait of a nation incapable of adapting to global challenges, contrary to other advanced industrial democracies; indeed, France is not immobile. For the past 50 years, France's trajectory is that of a country with a great capacity to adapt to a changing world: from overcoming the end of its colonial empire to building European integration, from economic and financial liberalization to globalization. The end of price controls, the move to the Euro, the dismantling of state capitalism and the international expansion of large companies all paint a different picture than the classic one of French historical immobilism and intrinsic inadaptability.

Several figures put forth by Baverez to support the argument of a free-falling France are misleading, such as the GDP comparisons that many economists view as useless when they do not take exchange rate differentials into account. Has France really fallen behind compared to the UK and its other European partners, as Baverez contends? A comparison of GDP per capita based on Purchasing Power Parity shows that in 2002 France was in 21st place worldwide and in seventh place in the EU—indeed, higher than the UK. Moreover, many European countries follow each other extremely closely in these rankings, with statistically equivalent standards of living: a few decomal

point changes in percentage growth, and the ranking of these Cassandras is all mixed up.

The arguments about the decline of French productivity are also contestable. Baverez laments a strong downfall in productivity gains, stagnating at 1.1 percent per year. This statement forgets a little too quickly that France has experienced on average hourly productivity gains superior to those of the United States until the mid-1990s, in part because of the high labor costs that force companies to employ less and substitute capital for labor. The EU is now behind the US in terms of productivity, but, as *The Economist* recently recalled, figures are often misleading:⁴ Official statistics exaggerate the advance of the US, which count IT expenditures as investment, whereas the EU counts them as consumption. Indeed, productivity gains have been higher in France, and probably closer to American figures, than national statistics suggest.

As for France's competitors in the developed world, they also face problems, although these are not necessarily measured with the same statistics as the ones used by Baverez. The US is not the most virtuous example of a smart use of fiscal policy to react to global economic conditions, and the aid granted in the wake of September 11th, contrary to what Baverez argues, represents only a tiny drop in the general budget. Their handling of the electrical power crisis, as well as their budgetary policy, are not models either. And when the statistics used for comparison are not the standard economic measures of aggregate wealth, France performs quite well in terms of universal health (ranked number one in the world by the World Health Organization), limitation of poverty, and overall quality of life.

It is undeniable that restructurations, bankruptcies, and outsourcing happen in France, sometimes in a spectacular fashion. Familiar names of free-falling French companies succeed each other in the press: Vivendi, Metaleurop, Air Liberté, Tati, Alstom, Pêchiney, and so on. Restructuration plans, and all the human drama that comes with them, proceed at a constant rate. In 2002, the textile industry has accelerated its outsourcing, 20 percent of French clothing manufacturing companies having transplanted in one year all or a large part of their production outside of France.⁵ Indeed, how is it possible for French companies to compete when they face an hourly labor cost of \$13.80, compared to \$1.70 in the Maghreb and \$0.30 in Pakistan?

But French industry is not in agony, and de-industrialization is not always synonymous with decline. There is a France that loses from globalization, but there is also a France that wins. Many French companies have learned how to use to their advantage the opportunities provided by globalization. In spite of its reputation as a protector of non-competitive companies, France has witnessed the emergence of large, dynamic firms, with world champions in the sectors of automobiles (PSA, Renault), aeronautics (Airbus), collective services (Suez), retail (Carrefour), building and construction (Bouygues), advertisement (Publicis), and cosmetics (L'Oréal), among others. Indeed, in the annual ranking of the world's "best" companies, published in April 2003 by *Forbes*, France

held the number two spot for the first time, well behind the US, but ahead of Japan, the UK and Germany.

Globalization has altered French corporate culture dramatically. The recent wave of mergers and acquisitions that many French firms have used either to acquire foreign firms or to compete with them in a less protected home market receded in 2002 under the onslaught of a harsh global and political climate, with the notable exception of the Air France and KLM fusion. The spectacular debacle of Jean-Marie Messier and his ambitious strategy of overseas expansion of Vivendi Universal also contributed to a more cautious approach of France towards mergers and foreign direct investment (FDI). Nevertheless, France remains one of the world's largest investors. Many big French companies operate outside of France, often without the public in the host country knowing their country of origin. The story of Sodexo is exemplar in this respect. As was revealed to incredulous Francophobe Americans at the height of Franco-American dissensions over Iraq, thanks to an \$880-million contract signed in 2002 with the Pentagon, the French institutional food company Sodexo now feeds the US Marines, has a presence in 50 American states, and employs 110,000 workers in the US.

France is also becoming more open to overseas investors at home, overcoming its traditional aversion to foreign control even in key sectors like banking. FDI in France rose 26 percent in 2001 to a level of \$53 billion, while during the same period FDI in advanced industrialized countries as a whole dropped by nearly 50 percent.⁶ France was the world's third most attractive location for FDI in 2002, after the United States and the United Kingdom. Foreign corporations, mostly from North America and Western Europe, now account for a sizeable share of economic activity in France: 17 percent of French production and 15 percent of employment.⁷ Foreign investment represents now 4 percent of France's GDP, compared with 3.3 percent in 2000, and one out of three French workers is now employed by a firm owned at least in part by foreign capital.⁸ As for the share of FDI (especially Anglo-Saxon) in the capital of large French corporations, it has risen from 10 percent in 1985 to 37 percent in 1997 and 43.7 percent in 2002. If foreigners invest in France, when nobody forces them to do so, is it not because they find a productive, dynamic environment?

France still has many assets. As the fifth largest economy in the world and fourth biggest exporter of goods and services, the country has an excellent communication and transportation infrastructure, well-qualified workers, a strong demography, and an exceptionally vibrant culture. The French economy can still expand towards an enlarged Europe and towards the Maghreb.⁹ Yet the declinist thesis defended by Baverez and others, who denounce France's inability to face the challenges of modernity, also seems to condemn the globalization process in its distrust of foreign capital and the denunciation of France's international investments. In this, it simply reflects French political schizophrenia towards globalization.

Who Benefits from the Declinist Debate?

The current debate on the French decline highlights the paradoxical (and untenable in the long run) attitude of France towards globalization. The majority of French people have difficulties accepting the conversion of their country to globalization, of which France is one of the main beneficiaries. Indeed, whether on the issue of globalization or that of European integration, French public opinion is one of the most ambivalent in Europe. According to a recent poll, 63 percent of the French are convinced by the declinist thesis. Forty-nine percent of the French attribute this decline to the "international economic context", and 31 percent denounce "EU constraints" as the main cause of the degrading situation.¹⁰

If a paradoxical, almost schizophrenic discrepancy persists between a majority benefiting from globalization and a majority criticizing globalization, it is above all because of the irresponsible double-talk of French politicians on the issue. On the Left as on the Right, mainstream parties have usually treated Europe and globalization as scapegoats in order to shirk blame. From Porto Alegre to Larzac, from the Messier to the Alstom affairs, globalization has been designated as the culprit for all the evils currently experienced by France.

Lionel Jospin greatly contributed to this double-talk when he was prime minister, leading a policy of "globalization by stealth" while constantly denouncing the ravages of globalization.¹¹ For instance, Jospin supported the so-called "Tobin Tax" on financial transactions and openly welcomed the law on new economic regulations, originally intended to outlaw companies from laying off workers unless on the verge of bankruptcy. Yet his government actually privatized more than the past three right-leaning governments combined and opened up entire sectors of the French economy to international competition.

President Jacques Chirac has also been adept at double-talk on globalization, with his constant refrain on the need to "humanize" globalization. With his discourse that, in earlier times, would have passed for "gauchiste" and "tiers-mondiste," Chirac has become the herald of "alter-globalization" in many international forums, from the G8 to the United Nations, where he recently warned that "there cannot be economic globalization if it is not accompanied by a globalization of solidarity."¹² Moreover, he asked for the creation of an "observatoire français de la mondialisation" in order to provoke a dialogue with civil society on a phenomenon "which creates, for many French people, a feeling of dispossession and worry."¹³

As for Raffarin, his double-talk applies as much to globalization as it does to Europe. In his inaugural speech in July 2002, Raffarin announced that "globalization with a human face" was one of the four pillars of his governmental project. In addition, he committed a widely-noticed act of anti-European demagoguery on the issue of the budget deficits, declaring that his first

duty was not to do accounting equations and mathematical problems in order to satisfy “some office or other in some country or other.”

Indeed, the biggest success of the French anti-globalization movement has been to define the terms of the debate. The atmosphere of mistrust of globalization is so widespread that it is almost as if, on this issue, France shared a “pensée unique.” Instead of asking the really fundamental question—which trade-offs are the French willing to accept between efficiency and solidarity, between individual gain and equality—the debate has been relegated to the background by other topics, such as crime and the 35-hour workweek. On this issue, I share Baverez’s analysis that the bulk of the French political discourse has emphasized the virtues of immobilism in the name of French exceptionalism, when instead it should have alerted French citizens to the necessity of change. France will successfully adapt to globalization only when its mainstream politicians engage in a real debate on the issue and stop their double-talk, when they create a discourse that no longer dupes the electorate.

One of the main benefits of the current declinist controversy may be to launch the necessary debate on the future of a France confronted simultaneously with the multiple facets of globalization: trade, immigration, food safety, technological advances, national security, and so on. France cannot simply rest on its laurels and assume that it will catch up once growth has durably picked up in the US and Germany. Globalization not only accentuates existing structural problems but also creates new challenges that are particularly difficult for France to accept because of its *dirigiste* tradition, its generalized belief in the superiority and universalism of its culture, and its conviction of a “special mission” in international affairs.

The ideological purpose of declinism is to create the conditions for a radical neo-liberal reform. Impregnated with “sovereignist” thought, the declinist thesis suggests that national salvation will come from voluntarist reforms (preferably enacted by a providential leader), not by an improvement of the international conjuncture. But in order for these reforms to come from a deliberate political choice, French politicians need to have the courage to confess that France cannot have its cake and eat it too. The multiple components of the choice must be asked and debated publicly, with a particular emphasis on the following questions: How much longer can France sustain this high level of unemployment, accompanied by a redistribution between those who work and those who do not? Through what process can France increase labor flexibility, as it is now dictated by the competition of developing countries in highly qualified jobs and services as well as low-qualified jobs? Can the French state remain omnipotent and privileged in a world where external constraints erode a little more every day the margin of maneuver of national policies? What sacrifices are the French ready to accept in order to relaunch national research and hope for technological advances? Can France have a society model based on social cohesion when the integration of millions of its citizens in the economy and in the urban fabric seems to have failed? Can France reap

benefits from Europe without accepting its constraints? What price are the French ready to pay to ensure a first-rate role in international affairs, whether in defense budget or foreign aid? Can one coherently subsidize domestic agriculture and preach in favor of developing countries?

If mainstream parties do not rise up to the challenge, it may well be that the declinist debate will benefit those who have already experienced political success by mobilizing on rejection and unconscious fears. As long as there is no true debate, the thesis of a French decline caused by globalization and the anti-European demagoguery of Raffarin and many Socialists benefits above all the extremist parties. The first beneficiary is obviously the National Front, a long-time prophet of French decline and national decadence, the only party that has appealed successfully to those feeling victimized by the opening of France towards the outside world in the form of North African immigrants, Brussels' Eurocrats, or globalization in general. The declinist thesis also benefits the far Left, which is trying to articulate a novel critique of capitalism in alliance with the popular alter-globalization movement—as was clearly demonstrated in August 2003 in Larzac, where more than 200,000 people came to protest globalization under scorching heat. As for the mainstream parties, the declinist debate, which many politicians have brushed off without addressing its central assumptions and evidence, has not provided a big enough spark to trigger a real change in their understanding of the country's problems and to restore some coherence between their discourse and actions. With respect to globalization, they still have to choose between adapting their rhetoric to their actions, or aligning their actions to their rhetoric. But this is not yet on the agenda. As writes Claude Imbert, "Chirac and Raffarin see that, in their own majority, the Gaullist core shuns a neo-liberal *aggiornamento*. While in the opposition, a Socialist Party still vindictive and old-fashioned—arsenic and old laces—shuns the social-democrat *aggiornamento* that has swept all of Europe."¹⁴ Maybe the debate on the European Constitution, like the debate on Maastricht ten years ago, will finally force parties and politicians to take a clear position on the issue of globalization. But it is not even certain that this debate on Europe will take place.

The idea of French decline is not new. After all, ask any American outraged at the French stance over Iraq, and they will tell you that France is a second-if not third-rate power whose decline is irreversible because of its 35-hour workweek, incessant strikes, and a dinosaur-sized state. The argument that Europeans can enjoy the good life because the United States assumes the tough, expensive burden of their defense is a frequent litany of the neo-cons and of *New York Times* columnist Tom Friedman. It can also be a homegrown product. The prominence taken by this debate in France lately should remind an American audience, too quick to condemn without nuance, that the French, far from being arrogant and self-confident, are themselves conflicted about the nature and use of their power.

Neither is it the first time that France confronts the challenge of globalization and that its politicians must find solutions to avoid the declinist impasse. As Suzanne Berger notes in her fascinating book on France's "first globalization," the political debates at the turn of the twentieth century were quite similar to the ones France knows now, with a few exceptions.¹⁵ The questions raised then by dramatic changes in the international economy and amazing technological advances were those of wage convergence, human migrations, international investment, and the social consequences of open economies. Politically, globalization was supported by the Left, whose international Marxist component wanted to improve the fate of workers abroad and which considered protectionism as an "expensive bread" policy, bad for workers' standard of living. It is interesting to note that this first globalization was accompanied by the implementation of the first welfare-state mechanisms (income tax, ten-hour workday, six-day workweek, workers' compensation, retirement) in order to soften the consequences of the international opening of the French economy.

Obviously, the national and international environment have changed a lot since this "first globalization," but it can be useful to draw more lessons from it in order to avoid the resurgence of exacerbated nationalisms, which led to the bloody collapse of this first era of globalization. Above all, French politicians should have the courage to admit that the state is neither omniscient nor omnipotent. But they should also recognize that they still have at their disposal some policy tools to steer the country in a certain direction. Yet many of these tools are now to be found at the European level. Therefore the ambiguous rhetorical link between Europe and globalization needs to be clarified, Europe being both a vector of globalization in France and a bulwark against its worst excesses. Between the publicity recently given to declinism with the success of *La France qui tombe* and the future debate on the European constitution, France should seize the opportunity to finally confront its uncertain, often contradictory, discourse towards globalization.

Notes

1. I wish to thank Yacine Ait-Sahalia, Pierre-Olivier Gourinchas, Jean Imbs, and H el ene Rey for their useful suggestions.
2. Michel Crozier, *La Soci et  bloqu ee* (Paris: Seuil, 1970).
3. Alain Peyrefitte, *Le Mal fran ais* (Paris: Plon, 1976).
4. *Economist*, 11 September 2003.
5. *Le Monde*, 21 October 2003.
6. Source: UNCTAD World Investment Report 2002.

7. Michèle Debonneuil and Lionel Fontagné, *Compétitivité*, Conseil d'Analyse Économique, Rapport No. 40 (Paris: La Documentation Française, 2003).
8. *Le Figaro*, 12 December 2002; *Le Monde*, 16 May 2003.
9. "En raison de liens culturels, historiques et géographiques évidents, l'avenir de notre croissance se trouve sur le pourtour méditerranéen. Aujourd'hui, les investissements français réalisés au Maroc, en Algérie et en Tunisie se comptent par dizaines de millions d'euros. C'est en milliards d'euros qu'ils devraient se calculer." Patrick Artus, "Le salut de la France passe par le Maghreb," *Challenges* 209 (October 2003).
10. Poll by l'Observatoire de l'Opinion Louis Harris-Libération-AOL, published 14 October 2003.
11. On "globalization by stealth," see Philip Gordon and Sophie Meunier, *The French Challenge: Adapting to Globalization* (Washington, DC: Brookings Institution Press, 2001). See also Meunier, "France's Double-Talk on Globalization," *French Politics, Culture and Society* 21, 1 (Spring 2003): 20-34.
12. Press conference by Jacques Chirac, United Nations, 23 September 2003. See also Christian Losson, "Chirac en croisade pour les pays du Sud," *Libération*, 2 September 2002.
13. See the report by Serge Lepeltier, "Réconcilier la France et la mondialisation," at www.dialogue-initiative.com/site
14. Claude Imbert, "La réforme ou le déclin," *Le Point* 1621 (10 October 2003), p. 5.
15. Suzanne Berger, *Notre Première mondialisation* (Paris: Seuil, 2003).