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The French Presidential Debate – A War Too Late

Many specificities of the French economy have firm roots in wartime thinking. During the 1940s the State had to make up for a shortage of resources by planning investments, rationing credit and nationalising companies of vital interest, as they could not be allowed to fail in times of crisis. Yes, the financial sector was deregulated in the 1980s and most public companies reverted to the private sector. But Gaullist mythology still leads politicians to keep alive the image of nation battling against nation, with their strength measured in armoured divisions, tons of steel, and reserves of oil and ordnance. To quote Nicolas Sarkozy (interviewed in Les Echos, 14 February), 'I want a Ministry for Economic Strategy, or even, let's not shy away from it, for Production, to give France a true response to globalisation'. Maurice Thorez, France's Stalin-era communist party leader, would not have put it better back in 1946.

In the 1870 war, France ordered its cavalry to charge against German machine guns. In 1914 it sent out its infantrymen in bright-red pants when they should have been camouflaged. Today's economic debate seems again to be (at least) a war too late. In spite of the change of generations, attitudes appear to have shifted little since the early 1970s. The consensus among today's strategists is that the most effective combat formations are decentralised, reactive and based on strict rules and standards ensuring the horizontal flow of information. In contrast, the prevailing pattern underlying the current presidential debate on economics and enterprise is one of arbitrary, top-down decisions.

The first consequence is complexity and extra cost, with every new initiative creating an administrative maze, just like the 35-hour week a few years ago. Nicolas Sarkozy wants to 'modulate company taxation according to companies' employment policies' and 'pay more to companies which create jobs and have an active employee policy'. On a proposal from Dominique Strauss-Kahn, Ségolène Royal proposes a 'lower company tax rate if profits are reinvested and a higher rate if they are distributed to shareholders'. These measures remain fuzzy at this stage but they obviously have a great potential to complicate life for companies, especially for the SMEs which both candidates swear they wish to help.

More worrying is the threat of arbitrariness. Companies are increasingly constrained in how they use their capital. The financial system punishes poor investment decisions more than in the past, and better rewards value-creating ones. But this mechanism stalls when the state intervenes and creates uncertainties about the future that are unrelated to market conditions. This should lead policymakers to narrow the margin for discretion in individual company cases.

Not a bit of it. The commander-in-chief boasts his unique decision-making capacity. ‘I am in favour of the State selecting around ten key sectors, such as energy, pharmaceuticals, communications etc and pushing them to grow and become champions. […] We need – and I say this as a liberal – a public financial instrument for buying into strategic companies.’ (Nicolas Sarkozy, interview of 9 Nov 2006 in Les Echos). Buoyed by the Aventis and Alstom precedents, our ‘stockpicker-candidate’ trusts his known judgement. But in the medium term, such choices are likely to be arbitrary, misinformed or opportunist. When he was Finance minister in 2004, Sarkozy had a lucky break with Alstom, the engineering group he rescued from near-bankruptcy; but less so when he fostered the ill-fated merger that created Safran, the struggling aeronautics-to-mobile-handsets conglomerate. Meanwhile Ségolène Royal commits to heed the collective wisdom of the French people, but so far shares the traditional reluctance of her Socialist party to acknowledge the benefits of that ultimate collective-wisdom-gathering device, capital markets.

Perhaps these attitudes are the result of increasing frustration. The more companies become international, the less power national politicians wield over them. So they go over the top in seeking to assert their authority. But politicians have not been successful at micromanaging companies, as Airbus sadly illustrated recently. Governments are more convincing when they give some trust to market-based capital allocation, without seeking to pick winners or rescue losers, than when they try moving companies around as is they were small flags on a map back at military headquarters.