

Report on the French President François Hollande's 3rd Press Conference

14 January 2014

Introduction

On January 14th, 2014, President François Hollande gave his third press conference since the beginning of his mandate in May 2012. The total press conference lasted for 2h30, with a big part dedicated to the many questions raised by the 600 French and foreign journalists present. Following a year of steady decline in the President's popularity, this press conference was aimed at presenting the new orientations of his economic policy, as initiated during his New Year's address.

The conference however occurred in the middle of a personal and political turmoil linked to the revelation of his alleged relationship with a French actress, which has been at the center of the media attention for the past few days. As a result, his potential comments on this situation (especially, in relation to the status of the first lady), were longed-for, and triggered a few questions in this matter, which, as expected, he dismissed as being private matters, however adding that the status would however be clarified before his trip to the US on February 11th. As a matter of fact, it is important to note that this situation is seen by more than 70% of the French people as being indeed a private matters which does not threatened Hollande's presidency, contrary to what the media coverage seems to indicate. Commentators even indicated after the press conference that this situation allowed François Hollande to be "more himself" during his exchange with the journalists.

On the whole, the French President appeared pretty determined and combative, showing a clear direction for his policy (which he insisted was "his own", not a replication of others'), with a tight implementation calendar, although he still lacked clarity when asked about the details of his plan.

Overview

In a framework drawn for the remaining time of his presidency (2014-2017), two main orientations were announced during Mr. Hollande's press conference. First, a **clear choice for an economic policy favoring the supply side**. President Hollande almost quoted Jean-Baptiste Say¹, one of the most famous French liberal economists of the 19th century, with very liberal economic views and who, among other things, defended the idea that a strong demand is the result of a strong supply. Hollande's main announcements therefore focused on alleviating the burden on companies, based on the "Responsibility Pact" mentioned during the New Year's address (*see Part I for details*), complemented by measures aimed at attracting investors, such as the establishment of a council on attractiveness convening CEOs, tasked with proposing measures favorable to foreign investors, or the launch of an international innovation contest that should attract entrepreneurial minds to France. The second orientation is the **acceleration of the rhythm** for the implementation of this policy, according to the tight calendar announced at the press conference.

¹ « *L'offre crée la demande* »

The very direct statement of these orientations, which President Hollande refused to call “a turning point in his policy”, confirm that he has now given up on the “socialist” type of language that he had adopted until then (notably during his campaign, e.g. calling “finance” his “enemy”). He is **now assuming his “social-democrat” views** (i.e. very similar to the center-right/Christian Democrat European average approach with a more social sensitivity), which are actually not new, but which were buried under a confusing communication, and which the journalists at the press conference insisted he formally recognized. While the very pro-business tone of Hollande’s speech probably irked the left part of his political majority, two announcements were aimed at easing their concerns: the “compensations” asked from companies as part of the Responsibility Pact, and the commitment that the reduction of the social costs paid by companies would not be financed by a raise in the individuals’ fiscal burden.

Mr. Hollande sent another strong message when clearly announcing his objective of an additional €50 billion reduction in public spending by 2017 (*see Part II for details*). The President also took the opportunity of the press conference to present his Government’s positions on societal issues (*see Part III for details*) and to make a strong case for Europe, in view of the coming elections but also by announcing a strengthened cooperation with Germany in three key areas (*see Part IV for details*).

The content of the President’s press conference, very close to the propositions made by Nicolas Sarkozy in his 2012 reelection program, has sparked many reactions, and created confusion on the political scene. In particular, a dividing line appeared between the centrists and moderate right wing representatives, who showed a cautious enthusiasm for the announcements made, and the traditional right/extreme right representatives, who kept repeating that François Hollande was not credible anymore. As a result, we are likely to witness a deep reshuffling of the political spectrum, with a battle for the center-right and center left, a reorganization of the extreme right and the parties “more-to-the-left” being currently in a state of uncertainty as to their future positioning and alliances. In any case, as anticipated, no governmental reshuffling appears in sight before the EU elections.

The reaction from the employers’ side also showed a lot of internal debating and confusion. On the whole, the announcement are seen as very good news, even though the general mood indicate a “wait and see” attitude. A division has also appeared within the employers’ organizations, but the “reasonable” branch is satisfied with the orientation taken. Negotiations will then be conducted at sectorial levels.

I. Responsibility Pact

The Responsibility Pact, which had been announced by President Hollande during his New Year’s address, has been presented during the press conference as the major policy program to be designed and implemented in the next 6 months, thus confirming the **pro-business turn** taken by the Government. As a reminder, this pact largely draws inspiration from a proposition made by the MEDEF (the main French employers’ union), and is **based on a tradeoffs: less burden on companies against more jobs creation**. The President, who stated that “the main economic problem of France comes from a low level of production”, used his press conference to announce the four upcoming projects included in the pact, and their planned timeframe:

- Further reduction of labor cost, with the **suppression, by 2017, of the “family social contributions” paid by companies and self-employed workers, representing a total of €30 billion.**

- Increased legal certainty, with a trajectory for corporate tax to be determined until 2017, and measures such as the diminution of the number of taxes to be included in the 2015 Draft Budget Law.
- Administrative simplification, with a reduction of norms and of costly procedures, and the creation of a Simplification Council tasked with the review of the 10 key legal acts of a company.
- Compensations from companies, in the form of **commitments to create jobs**, determined at the national level and adjusted to the various sectors. Specific targets will be set with regards to youth insertion, seniors' jobs, employment quality, training, opening of negotiation, modernization of the dialogue between social partners (employees' and employers' unions), and an **observatory, created in collaboration with the Parliament, will be in charge of assessing and reviewing the existence of these compensations.**

President Hollande reaffirmed his intent to favor a **constructive dialogue with social partners**, in particular with the employers' unions, for the development and implementation of the responsibility pact. He finally outlined a **strict calendar**, starting with the official launch of the pact on January 21st, then consultations with the social partners, the conduct of a large debate on taxation, with the objective of having a big "Social Conference" during the Spring (probably in May) concluding the discussions.

Hollande has **committed to engage the responsibility of his whole governmental team on the single legal text** that will result from these projects and which will be presented to the Parliament in the spring².

⇒ The Responsibility Pact is been welcomed by a majority of commentators (including the President of the Banque de France), who however point out that its content (financing, reality of the compensations asked from companies) remains vague, since the familial allowances should not be suppressed, and that it should not result in increased taxes paid by individuals. To be noted, the suppression of the "family social contributions" is likely to be replacing the current tool put in place in 2013 by the Government to reduce labor cost, the employment and competitiveness tax credit (CICE), representing €20bn, and only scheduled to be maintained in 2014 and 2015. The additional cut in labor costs would therefore represent, *in fine*, around €10bn but would be simpler and represent a direct cash saving compared to the CICE (tax credit, therefore retroactive). Other measures are also examined, such as a reduction of corporate tax (in particular since the reduction of the payroll tax will result in a larger basis for companies' taxation).

II. Reduction of Public Spending

Following his presentation of the Responsibility Pact, Hollande laid out his objectives in terms of the reduction of public spending, starting by recalling that €15bn cuts had been achieved in 2014. This first statement is however not completely accurate since these €15bn actually correspond to the slowing down of the public spending increase, and not to a decrease as such.

Leaving aside this debate, the French President announced an **additional €50bn in public spending cuts for the period 2015-2017, i.e. 4% of the total public spending**. He stated that a structural reform would

² Article 49-3 of the French Constitution provides that the Prime Minister can engage the responsibility of his Government in front of the National Assembly on a text that he proposes, meaning that the text will be adopted unless a "motion of censure" is being proposed and adopted by a majority of the deputies (in that case the Prime Minister and the Government have to quit their functions).

be performed, with the redefinition of the main missions of the Administration and a review of the redistribution mechanisms, so as to make it fairer and more efficient. In addition, a **Public Spending Strategic Council** will be created in order to evaluate the public policies and report to the President. The central state will be the first to work towards reducing its costs but it only represents approximately one third of the whole public spending, and the rest should come from social protection and local authorities.

Moreover, Hollande announced a **reform of the territorial organizations, insisting that the number of regions should be reduced**. On the next day, this idea has been picked up by Thierry Mandon, co-chair of the Simplification Council, who proposed a reduction of the number of regions from 22 to 15.

⇒ While the €50bn public spending cut objective had been mentioned before by the Prime Minister and while the explanations given by Hollande on the means to reach this objectives remained a bit vague, the announcement made at this level, by a Socialist President, sends a real signal that things are going to move. A reform of the territorial organization is however very tricky to achieve, due to the weight of the tradition and to the existence of strong local political networks. Although it is regularly put on the table as being a necessary rationalization of what is called the “territorial layer-cake”, an evolution of the territorial structure (vertically or horizontally) is a very touchy subject, as shown by previous case of failed attempts (resignation of President De Gaulle following a referendum on the regions, recent negative answer to referendums proposing the merger of local authorities in Corsica and in Alsace..). The real battle, in this field, will not take place between the right and left wing, but between the categories and groups of local representatives, regardless of their political affiliation.

III. Societal Issues

In contrast to his economic announcements, François Hollande’s societal policy appeared as a signal to his majority and in line with their positions (contentment with the gay marriage reform, announcement of a reform on “end of life” treatment). The President also mentioned the recent racial discrimination vs. freedom of expression case, insisting on the need to draw a line when dignity is at stake, and announcing the preparation of a governmental bill on fighting discrimination on the internet. President Hollande also presented a few axis for the next education reform, oriented towards “priority education”, i.e. the schools located in “impoverished” areas, with more resources allocated and better treatment for teachers.

IV. Europe and International Issues

The international policy has allowed François Hollande to win his major victories (in particular regarding Mali and the agreement with Iran) and to show the authority that he has been lacking on the national scene. He therefore took the press conference’s opportunity to evoke these successes and to announce the next important events (e.g. next Geneva Conference on Syria, Israel-Palestinian negotiations, next 2015 Climate Conference hosted by France...).

President Hollande was particularly emphatic when addressing Europe, expressing his **deep attachment to the European Union**, and the strong interdependency between France and the EU. He then stated his support for the set-up of a real Government for the Euro-zone. Interrogated about the candidate that France would support for the EU Commission’s presidency, François Hollande indicated that his choice would be determined by the results of the EU Parliament’s elections, in conformity with the Lisbon Treaty. He

expressed his determination to fight those who wish to destroy the “community acquis”, i.e. the body of common rights and obligations which bind all the Member States together.

In particular, President Hollande laid out 3 areas in which he wishes to **strengthen the partnership between France and Germany**:

- Economic and social convergence, possibly through an harmonization of corporate taxation;
- Energetic transition, with the desire to set up a common French-German company, following the Airbus model;
- Defense, with a coordination carried out in advance on every important project to be set up at the next French-German Ministers Council to be held on 19 February.

⇒ The importance given by Hollande to Europe in his press conference is a strong signal, in advance of the EU elections. The same goes for the French-German cooperation, which has been regularly stated as an objective for the Government in the past months. Germany reacted positively to these announcements, however stressing that discussions were still on-going on the areas of cooperation mentioned by Hollande. Officially, defense seems to be the most advanced of the three, but the reality is more contrasted and it is difficult to see, at this stage, how much resources Germany is willing to commit to this cooperation. The economic and social convergence also seems to be getting more traction with the new German government, but the EU Financial Transaction Tax project was not mentioned by François Hollande.