Descent into the Minor League – German Foreign Policy

2014/04/29

Paris/Berlin (Own report) – Today, numerous parliamentarians in France's Assemblé Nationale are planning to vote in favour of a program of dramatic austerity measures, in defiance of massive protests. This package of budget cuts had been inspired by Germany. The program is supposed to cut up to 50 billion Euros between 2015 and 2017, of which 21 billion will be from social services alone – and, 10 billion of this from health services. These measures are laying the groundwork for between 30 and 40 billion Euros in benefits for the industry. The redistribution from the middle and lower income strata of society to the industry is following Germany's example – the "Agenda 2010" and "Hartz IV." Within the framework of the Euro crisis, Germany has been imposing that other countries within the Euro zone imitate these measures. Paris is under massive pressure. German industry's exports are pushing its French competitors further in retreat. The French foreign trade deficit has reached new heights and the French industry is sinking deeper into a crisis. The latest manifestation of this decline is the looming sale of France's traditional Alstom, which Siemens, is competing with General Electric to become the majority shareholder. General Electric is seeking a "European presence" as a stepping stone to become the global market leader.

Redistribution

Today, hefty debates will ensue in France's Assemblé Nationale over the 50 billion Euro austerity package adopted last week by the government in Paris. The package foresees a national budget cut of 18 billion Euros for the period from 2015 to 2017, – 11 billion in cuts from regional municipalities and another 21 billion in social cuts. Ten of the 21 billion will be cut from health insurance, for example, for hospitalization or the cost of medicine. Another eleven billion is to be won by freezing pensions and social benefits. These measures will primarily impact on the middle and lower strata of society. Simultaneously, the government is preparing to provide the industry enormous perks – said to be in the range of 30 to 40 billion Euros, for example, in tax reductions. These measures are massively rejected by the population and causing wide dissention within the parliamentary group of the ruling Socialist Party, where a double-digit number of parliamentarians intend to not vote in favour of this austerity package. Yesterday, in an effort to somewhat assuage the protesters, the government announced slight alleviating concessions, for example, that pensions of up to 1,200 Euros will be exempted from the freeze.

Defeat and Decline

On the one hand, with this package of cuts, President François Hollande's government is taking the consequences of ultimate defeat in its struggle against the German austerity dictate imposed on the Euro zone.[1] In 2012, Hollande won an impressive electoral victory after promising to wage this struggle. On the other, this redistribution – from the middle and lower social strata to the business strata – is an attempt to halt French industry's current decline, largely due to a combination of the introduction of the Euro and the simultaneous German austerity policy during the SPD – Green government coalition. A recent analysis by the German Council on Foreign Relations (DGAP) has provided current data on this development.

More Poverty than Ever

As was noted by the author of the DGAP analysis, since the 1990s, a “*post-industrial Keynesianism*” has been dominant in France: a “*reduction of work hours and an expansion of the French social security model*” have been financed by “*additional strain on enterprises*.” “*As is known*,” the development in Germany has gone “*in exactly the opposite direction,*” with the *“enterprises’ cost components being reduced.”[*2] Industrial support in Germany found its preliminary climax in the SPD – Green government coalition’s “*Agenda 2010*” (“Hartz IV”). Their social ramifications have been severe. In Germany “*wage-earning poverty has reached a new record high of 15.2 percent*” confirms the CEO of the Parity Social Welfare Association, Ulrich Schneider, at the presentation of the “*Poverty Report*” in December 2013. Schneider has observed an “*expansion of the low-wage sector*” and a *“rise in inadequate part-time work and precarious employment relations over the past ten years.”* He noted “*the dichotomy between poverty and wealth in Germany has significantly grown. … The Federal Republic of Germany has never been as deeply divided as it is at present*.”[3]

Billions Diverted

The mighty rise of German industry is being financed by the sacrifice of that portion of the German population, which is sinking deeper into poverty. While “*the costs of a work hour*” in France had “*risen by approx. 50 percent*” between 2000 and 2013 – and an average of about 40 percent within the Euro zone – it rose in Germany, by only 24 percent, according to the DGAP analysis. This is a European significant reason for Germany’s export success. In addition, France uses Eastern European and non-European low-wage production sites far less than Germany. The research has uncovered that, since the Euro’s adoption – which no longer permitted balancing measures using monetary depreciation – France has no longer been able to use compensatory measures to offset the German style low-wage sector. Therefore, France's "*share of exports in goods and services beyond the Euro zone has dropped from 16.6 to 12.8 percent*," whereas Germany's share is almost at one-third – 31 percent.[4] The fact that the German industry with increased regularity is in a position to beat out its French competitor, has not only been shown in the relative decline in French exports, but also in the rise in German exports to France. Beginning in 2003, Paris' competitive disadvantages, particularly those vis à vis Germany – after decades of an equilibrated trade balance, even showing in the 1990s a foreign trade surplus – caused France to rapidly accumulate a foreign trade deficit reaching a new high of 76 billion Euros in 2013. Nearly half of this deficit – 36.2 billion Euros – is on Germany's account. According to German Bundesbank data, in the years 2002 to 2011, alone, 247.5 billion Euros – nearly a quarter trillion Euros – flowed from France to Germany, in goods, services and other lesser factors.

"Abolish the Social Welfare State"

Because, in the long run, this would lead to a collapse and because, up to now, it was impossible to break Germany's austerity dictate in favor of an alternative economic policy – also due to a lack of protest potential inside Germany – Paris sees itself obliged to imitate Berlin's redistribution from the middle and lower strata to the industry. There are serious doubts about how successful this will be. First of all, it is uncertain whether the French victims of these cuts will be as docile in their acceptance of the new situation as is the case in Germany, and secondly, German economists are now calling for further social cuts. Yesterday, Thomas Straubhaar, Director of Hamburg's Institute of International Economics (HWWI), declared that "*above all the social expenditures*" are a problem for the German national budget. "*We must get away* *from the consumptive, to return to the investment-related state. But, and this must be clearly understood, that means that the social welfare state must be cut back in many sectors*."[5] In Germany, this means further impoverishment – and, on the other hand, for France, it means an obvious impossibility of ever catching up to Germany's head start in austerity.

All Excited

The pressure France is currently subjected to can be seen in the tug of war over the future of the tradition-steeped French company, Alstom. Alstom is stuck in a serious crisis. Ten years ago, when a similar crisis had occurred, Paris stabilized the situation with state subventions. Because of the current critical budget situation, this option is out of the question. Recently, the US General Electric (GE) announced its intention to take over Alstom. To prevent this, the French government offered to sell the company to its German rival, Siemens. The consideration behind this offer is obviously that a takeover by a company within the EU would offer better possibilities for influencing the further development, than would be the case if the sale went to a US company – at least the production site locations inside France. A commentary in a German journal explained the significance this procedure has for Paris: "*whoever wants to see the situation from the French perspective should imagine Siemens – Alstom's German counterpart – suddenly being the object of two foreign takeover bids. No wonder France is all excited. One of the last major classical industrial enterprises of the country … could soon lose its independence*."[6]

"European Electric" vs. GE

Currently, in the discussion is whether Siemens cedes half of its transport branch to Alstom, to be able to take over Alstom’s energy business, which, at the moment, accounts for approx. 70 percent of Alstom’s returns. It is said that Siemens – reinforced with the main segment of Alstom – would like to enter onto the global market as “*European Electric*,” in competition to General Electric (USA), to take over the leadership position on the world market. While this indicates a new transatlantic rivalry, Berlin’s dominance over the EU is also being reinforced by this tradeoff. Whereas, just a few years ago, there was talk of Germany and France leading the EU in *“tandem*” and “*on an equal footing*,” today a news commentator spoke wryly of “*France making progress … in her industrial descent into the minor league.”[*7]

[1] See “Le Modèle Gerhard Schröder”.
[2] Markus Gabel: Stärken und Schwächen des “Made in France”. DGAPanalyse No. 2, Februar 2014.
[3] Zwischen Wohlstand und Verarmung – Deutschland vor der Zerreißprobe: Bericht zur regionalen Armutsentwicklung 2013. Statement von Dr. Ulrich Schneider, Hauptgeschäftsführer des Paritätischen Gesamtverbandes, anlässlich der Präsentation des Armutsberichts 2013 in der Bundespressekonferenz am 19.12.2013.
[4] Markus Gabel: Stärken und Schwächen des “Made in France”. DGAPanalyse No. 2, Februar 2014.
[5] “Weniger Sozialstaat, dafür bessere Straßen”. www.welt.de 28.04.2014.
[6], [7] Christian Schubert: Alstom auf dem Abstiegspfad. Frankfurter Allgemeine Zeitung 28.04.2014.