

## **No Gloating in France on Finance Crisis**

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France has long liked to see itself as the other, non-American model for organizing a modern economy, with a rich tradition of exalting the state and disdaining "Anglo-Saxon"-style capitalism. So it would be completely de rigueur for the French to smile smugly over Washington's French-style intervention in the financial markets. But by and large, they're not. For however suddenly the U.S. government has embraced the Gallic tradition of nationalization, the French economy has itself been slowly and surely becoming très américaine. As a result, the impulse to utter "I told you so" is being checked for now by fear that the rot is bound to spread.

"France's economy, companies and employees have embraced a lot more of the globalized, free-market practices than people here may have suspected," says Jacques Mistral, head of economic research for the French Institute on International Relations in Paris. "France has been doing a pretty good job getting with the global program after all. But this crisis is a reminder that French financial institutions — and the wider French economy — are exposed to external forces, including those in a U.S. system we often criticize as reckless."

French leftists have long slammed the U.S. economic system as "savage capitalism," and many a right-wing Gaullist has been prone to agree: in 2005 then French President famously said that "ultra-liberalism" — French parlance for the unbridled marketplace — is "as disastrous as communism." For decades, any episode of turbulence in the U.S. stock market or speculative finance sector was bound to provoke scorn across France's political spectrum. Detractors disparaged the U.S. economic model for rewarding short-sighted greed with indecent executive compensation, for its myopic focus on share price rather than wider-view company performance, and for its recurrent bubbles and busts. "People ironically asked when American markets would stop believing in free lunches," recalls Mistral.

No one is gloating or giving lessons this time around. "Yes, the crisis is really here — in Europe as well, meaning France," wrote Didier Pourquery in the left-leaning daily Libération's editorial Friday. "We're going to pay, and because we're entering a phase of economic slowing, it's going to cost dearly."

The sober French reaction marks how the nation has evolved towards a freer market system under European Union rules, even as it struggles to preserve parts of its vaunted welfare state. Over the past decade, millions of French citizens became first-time shareholders following a huge wave of privatizations, the bulk of them carried out in the late 1990s by a Socialist-led government. Meanwhile, once-modest executive compensation — long cited as proof of France's more egalitarian approach — has skyrocketed in recent years; in 2007 alone, pay for French top executives soared by an estimated 58%, according to the French business weekly L'Expansion. Another recent study, by the Hay group, found that average annual pay for French CEOs now tops the scale in Europe at \$8.4 million; that's half of the U.S. average, but well ahead of British company heads, who get an average of \$7 million per year.

French companies on France's CAC 40 exchange posted cumulative profits last year of \$133 billion, attesting to the efficient, globalized nature of the nation's businesses. When it emerged last January that

accused rogue trader Jérôme Kerviel had allegedly cost his employer, Société Générale, \$6.86 billion for uncovered transactions, more than just a financial scandal was revealed. The case was also concrete proof, should any have been needed, that the French no longer matched their mythic status as a profit-eschewing, socially minded alternative to the dog-eat-dog Americans.

"In the last 20 years, French companies and workers have taken a very serious turn towards free markets and competition, which has made people more comfortable in trusting business and economic forces," says Jacques Bille, a senior civil servant and former political adviser. "But when trouble arises, that French individual goes into collective mode and expects the state to intervene and safeguard stability. That attitude has differentiated us starkly [from the Americans], until now."

But while France is hardly protected from the downturn — the Paris CAC 40 stock index dropped 2.3% Monday after the French government nearly halved its 2009 growth estimates to 1% — at least one factor might limit the damage to a degree. In the course of the last 15 years, which saw a boom in France's real estate values, no lender would grant credit to an applicant with more than a 33% debt-to-income level. French banks have also always favored fixed-rate mortgages over more enticing but perilous variable-rate loans. The French real estate market is slowing, but the more prudent approach of French banks lessens the prospect of foreclosures, which have haunted millions in the U.S. and are one major origin of the current crisis. That's hardly a reason for smugness, either, though, since there's scant evidence that enlightened domestic practices in France or anywhere else can ward off contagion from a global meltdown.

**Source: Time**