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FRANCE INTERNAL: WHY ARE THE FRENCH SO WORRIED?

SUMMARY

1. DESPITE CONTINUING ROBUST ECONOMIC GROWTH THE POLITICAL ATMOSPHERE IN FRANCE SHOWS SIGNS OF MALAISE. UNEASE IN SOCIALIST RANKS OVER THE INCREASING GAP BETWEEN THE RICHEST AND THE LOWER-PAID AND AMONG THE MODERATE RIGHT OVER THE RISING FORTUNES OF LE PEN. THE TENSION IS SHOWING IN RELATIONS BETWEEN MITTERRAND AND ROCARD.

BUT AN EARLY CHANGE AT THE MATIGNON SEEMS UNLIKELY.

DETAIL

2. A YEAR AGO I PAINTED A PICTURE (MY TELNO 913) OF A FRANCE WITH TWO FACES: ONE MODERN, CONFIDENT AND OUTWARD-LOOKING WITH A STRONG ECONOMY AND A DYNAMIC ENTREPRENEURIAL SPIRIT; AND ANOTHER MORALISTIC, INSECURE AND BACKWARD-LOOKING PRONE TO PROTECTIONISM. I SUGGESTED THEN THAT THE TENSION BETWEEN THESE TWO FRANCES WAS PRODUCING SOME ODD RESULTS. NOT LEAST WERE THE TWIN IRONIES OF A SOCIALIST PRESIDENT PURSUING ESSENTIALLY CENTRE/RIGHT ECONOMIC POLICIES, YET SOUNDING OFF AGAINST THE DANGERS OF CAPITALISM; AND OF A SOCIALIST GOVERNMENT WITH ONE OF THE HIGHEST UNEMPLOYMENT RATES IN EUROPE PREFERRING THE RHETORIC OF SOCIAL EUROPE TO JOB CREATION. LAST YEAR, THESE IRONIES WERE LARGELY MASKED BY THE PATRIOTIC FANFARE OF THE BICENTENARY AND THE FRENCH EC PRESIDENCY. THIS YEAR THEY ARE COMING TO THE SURFACE.

3. THE MAIN WORRIES EXPRESSED BY THE FRENCH POLITICIANS AND PRESS, AND REFLECTED IN PUBLIC OPINION POLLS ARE

A) ECONOMIC - THE WIDENING GAP BETWEEN THE RICH AND THE LOWER PAID (STRANGELY THIS IS MORE OF AN ISSUE THAN THE STUBBORNLY HIGH RATE OF UNEMPLOYMENT AT AROUND 2.5 MILLION, 9.3 PERCENT OF THE WORK FORCE; BUT BEFFA, WHO RUNS ST GOBAIN, TOLD ME THIS WEEK THAT HE BELIEVES THE UNEMPLOYMENT FIGURES ARE MISLEADING - INCLUDING A LARGE FEMALE COMPONENT OF 'VOLUNTARY UNEMPLOYED').

B) SOCIAL - THE FEELING ESPECIALLY IN LEFT WING CIRCLES THAT THE

GOVERNMENT ARE NOT DOING ENOUGH FOR THE LESS PRIVILEGED, AND THE LATTER'S WORRIES ABOUT COMPETITION FOR JOBS, HOUSING, WELFARE SERVICES WITH THE EXPANDING IMMIGRANT COMMUNITY:

C) INTERNAL POLITICAL - THE FAILURE OF EITHER THE SOCIALISTS OR THE MODERATE RIGHT PARTIES TO BURY THEIR DIFFERENCE SUFFICIENTLY TO PRODUCE UNITED PARTIES ON EITHER POLITICAL WING. INCREASING CRITICISM OF THE UNRESPONSIVENESS OF POLITICIANS AND THE POLITICAL SYSTEM. ABOVE ALL FEELING THAT NEITHER GOVERNMENT NOR MODERATE OPPOSITION ARE ADDRESSING THE IMMIGRATION ISSUE. FEEDING ON THIS THE CONTINUING RISE OF THE EXTREME RIGHT FRONT NATIONAL. CONFIRMATION OF THE LATTER TREND WAS THE SUCCESS OF THE FN, IN A CANTONAL BY-ELECTION AN INDUSTRIAL SUBURB OF LYON LAST WEEKEND, IN ELIMINATING THE MODERATE RIGHT IN THE FIRST ROUND. BOTH SOCIALISTS AND OPPOSITION ARE NOW FORECASTING A HUNG PARLIAMENT AFTER THE 1993 ELECTIONS, WITH THE GREENS AND THE FN SPLITTING THE VOTE AND EVEN POSSIBLY THE FN WINNING A SIGNIFICANT BLOCK OF SEATS:

D) EXTERNAL POLITICAL - IN SPITE OF MUCH TRAVEL BY THE PRESIDENT AND INITIATIVES, A SENSE THAT THE ACTION IS ELSEWHERE. REAL WORRIES ABOUT THE MAGHREB (WHICH WILL BE SHARPENED BY THE ISLAMIC VICTORY IN ALGERIA - SEE MY TELNO 689).

4. IS THE PRESENT SENSE OF INSTABILITY A BAD ATTACK OF MIDTERMITIS, OR SOMETHING MORE FUNDAMENTAL? A BIT OF BOTH BUT PROBABLY MORE OF THE FORMER. ON THE FIRST COUNT THE BOREDOM FACTOR PLAYS ITS PART - AFTER 10 YEARS MITTERRAND'S AVUNCULAR STYLE IS LOSING IT APPEAL. THE EDGES OF HIS POLITICAL ARGUMENTS HAVE BECOME TOO ROUNDED AND INDISTINCT. DISENCHANTMENT IS SPREADING DOWNWARDS TO THE GOVERNMENT. THE ELECTORAL CAMPAIGN IN 1993 AND A NEW FACE IN THE PRESIDENTIAL CAMPAIGN IN 1995 COULD CHANGE A LOT OF THIS. BUT THE UNDERLYING WORRIES ABOUT FRANCE'S PLACE IN THE WORLD AND ABOUT NATIONAL IDENTITY ARE NOT EASILY SUSCEPTIBLE TO TREATMENT. AND THERE ARE BEGINNING TO BE QUESTIONS - HARD YET TO SAY HOW SERIOUS - WHETHER THE 5TH REPUBLIC FORMULA OF A STRONG PRESIDENCY ELBOWING ASIDE A WEAK NATIONAL ASSEMBLY AND JUDICIARY IS RIGHT FOR THE 1990S. EDITH CRESSON (NOT ROCARD'S WARMEST SUPPORTER) TOLD ME RECENTLY THAT THE CONSTITUTION DID NOT WORK WHEN THERE WAS TENSION BETWEEN ELYSEE AND MATIGNON AS AT PRESENT. SHE WOULD SAY SO, BUT IT IS TRUE.

5. FACED WITH A DIP IN POPULARITY, OVER THE PAST TWO WEEKS THE PRESIDENT HAS MOVED ONTO ROCARD'S POLITICAL TERRITORY WITH A SERIES OF PRONOUNCEMENTS ON SOCIAL ISSUES: FULMINATING ONCE AGAIN AGAINST

FINANCIAL AND PROPERTY SPECULATORS WHO 'GROW RICH IN THEIR SLEEP', URGING EMPLOYERS TO ACT QUICKLY TO IMPROVE THE SALARIES OF THE LOWEST PAID, AND ATTACKING THE ELITISM OF THE 'GRANDES ECOLES' FRENCH INTEREST RATES WERE REDUCED, NOT PRIMARILY FOR ECONOMIC MEANS. THE MOST IMMEDIATE EFFECT OF ALL THIS WAS A SUDDEN RUN LAST WEEK ON THE PARIS STOCK EXCHANGE, AS INVESTORS PANICKED THAT THE GOVERNMENT WOULD BE BOUNCED INTO TAKING MEASURES HARMFUL TO THE FRENCH ECONOMY. ROCARD MOVED QUICKLY TO CALM THE BUSINESS COMMUNITY AND TO INSIST THAT THERE WAS NO DIFFERENCE OF VIEW BETWEEN HIMSELF AND THE PRESIDENT.

6. DROPPING ROCARD WILL NOT SOLVE MITTERRAND'S OR THE SOCIALIST PARTY'S PROBLEMS, BUT IT REMAINS AN OPTION. WHEN ROCARD TOOK OFFICE HE EXPECTED TO STAY FOR THREE YEARS (HE HAS SERVED 2). MITTERRAND IS REPORTED NOT TO LIKE HIM AND TO BE SAD THAT HE HAS NOT SLIPPED ON MORE BANANA SKINS(SO AS TO ALLOW A MORE CONGENIAL SUCCESSOR TO BE CHOSEN). BUT ROCARD HAS BEEN FAR MORE SUCCESSFUL THAN MOST PEOPLE EXPECTED. MITTERRAND SAID ONLY 6 WEEKS AGO THAT ROCARD WAS BEST PLACED TO LEAD THE SOCIALISTS INTO THE 1993 LEGISLATIVE ELECTIONS. BUT SOME OF ROCARD'S ADVISERS, SCENTING A SOCIALIST DEFEAT, ARE NOW PUSHING HARDER FOR HIM TO RESIGN SOON WITH HIS POPULARITY INTACT. THE TRADITIONAL SUMMER RECESS RESHUFFLE WOULD BE THE FIRST AVAILABLE MOMENT WHICH WOULD NOT BE INTERPRETED AS PANIC.

7. THE RIGHT IS AT ODDS WITH ITSELF. IT LACKS A POLITICAL CAUSE WHILE THE GOVERNMENT PURSUES BASICALLY RIGHIST POLICIES. IT SUFFERS FROM TRADITIONAL FRENCH FRACTIONALISM WITH SMALL GROUPS GATHERED ROUND A DOZEN DIFFERENT PERSONALITIES BUT LITTLE COHERENCE OVERALL. APART FROM THE UNSOLVED PROBLEM OF HOW TO RESPOND TO LE PEN'S CHALLENGE, THERE IS THE FURTHER BASIC PROBLEM THAT THE LARGEST AND BEST ORGANISED PARTY, THE RPR, CANNOT YET ACCEPT THAT GISCARD, FROM THE MUCH SMALLER UDF, IS CURRENTLY THE RIGHTS CURRENT FRONT RUNNER FOR THE PRESIDENTIALS IN 1995. FOR WHAT IT IS WORTH, GISCARD HAS THE REPUTATION OF ALWAYS BEING READY TO STAND FOR ELECTION AND THEREFORE SEEMINGLY PLAUSIBLE BUT SUFFERS FROM THE TAIN OF PREVIOUS FAILURE AND OF LACKING SOLID PRINCIPLES.

8. IT WOULD BE AN EXAGGERATION TO SAY THAT NATIONAL OR GOVERNMENT SELF CONFIDENCE HAS MORE THAN DIPPED. AT MANY LEVELS THERE IS A WILLINGNESS TO PLAN FOR THE LONGER TERM THAT TRADITIONALLY BETOKENS POLITICAL CONFIDENCE. ECONOMIC PERFORMANCE SHOULD REMAIN GOOD IF THE GOVERNMENT CAN STICK TO PRESENT POLICIES. BUT THE LINKED ISSUES OF IMMIGRATION AND THE RISE OF THE FAR RIGHT ARE THE POTENTIAL DESTABILISERS. AND THE RESULTING RISE IN NATIONALIST

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THE EUROPEAN COMMUNITY ON POLITICAL UNION.

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FRANCE: ECONOMIC REPORT FOR MAY 1990

SUMMARY

- National accounts mark fourth quarter 1989 marketed GDP growth down to 1% from 1.1% - mark third quarter growth up to 0.6% from 0.4%.
- Continuing mixed signals over whether economy is slowing down.
- Unemployment in April falls again below 2.5 million: and rate falls to 9.3%.
- Mitterrand calls for action against social inequality in May.
- Consumer prices rise by 0.4% in April: annual inflation rate falls to 3.2%.
- April external trade deficit widens to F4.3 billion, with marked deterioration in the industrial sector.
- M2 growth of 2.6% in March, below target range of 3.5% - 5.5%.
- Bourse trading back up at record levels in May.
- Industrial capacity utilisation in 1989 the highest since 1973.
- Commission and French government settle differences over Renault debt write off.

FRANCE: ECONOMIC REPORT FOR MAY 1990

DETAIL

I ECONOMIC ACTIVITY

1. Revised 1989 4th quarter National Accounts figures were issued by INSEE and marketed GDP growth (over the previous quarter and at 1980 prices) was marked down to 1.0% from the original estimate of 1.1%. Growth in the 3rd quarter was however revised upwards, from 0.4% to 0.6%.
2. According to the National Accounts production of manufactured goods rose by 0.6% in the fourth quarter, essentially due to the 4.0% increase in the production of transport materials. Purchases of manufactured goods were however down by 0.2%. Total domestic fixed capital formation rose by 0.7%, after 1.7% in the third quarter.
3. Imports of goods and services rose by 5.3% in the fourth quarter after the fall of 0.6% recorded in the previous quarter. Exports of goods and services also rose by 5.3%, after having fallen by 1.9% in the third quarter. (INSEE have noted however that foreign trade figures for the third and fourth quarters may have been distorted because of the public sector strikes in the autumn of 1989).
4. Import prices fell by 0.2% during the fourth quarter, due largely to the fall of 0.8% in manufactured goods import prices. Export prices rose by 0.3% following the third quarter when there was no change. Prices of exported agricultural products rose by 7.1% but agro-food export prices fell by 4.1%, having risen by 6.7% in the third quarter.
5. Production Prices rose by 0.6% in the fourth quarter after the rise of 0.1% in the third quarter. Total unit costs rose by 1.0% during the quarter, 0.2% of which came from increased labour costs.
6. The spending power of household's gross disposable income rose by 1.6% during the fourth quarter, much the same rate as in the previous three months (1.7%). The domestic savings rate rose from 12.1% in the third quarter to 12.9% in the fourth.