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Diploma Thesis Abstract

**The 2008 crisis and the response of France
in the European context**

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Abstract

The objective of this thesis is to analyze what have been the impacts of the 2008 financial crisis in France and what were the direct reactions of the government to it. This analysis would be put in perspective by comparing it to the policies taken by various European neighbors.

In the first part we analyze the cause of the crisis bubble-burst cycle and more precisely of the financial crisis. We conclude that a financial crisis comes from an accumulation of debt badly invested. We then study the example of the crisis of 1929 and the measures taken by the American government during the Great Depression through the New Deal. We explain that the measures not only planned on distributing money for the demand but set people to work and reformed the general economic environment. After studying the crisis of 2008 in the United State we see that even if the crisis began in the financial sector, its repercussion were felt on the entire American economy.

In the second part we analyze the main economic trends of France since World War Two. We will see that after thirty years of high growth and social development, the country was for thirty years on a downward trend of the economic development. We will study the case of unemployment, which is representative of the politic and economic system of France. We will realize that the different governments do not seem to be able to reform the country through sustainable measures that go beyond the impact of the announcement itself. We will then analyze the first effects of the crisis on the French economy to conclude that it resulted in the worsening of all the main macro-economic indexes, with the deepening of the debt and the development of a recession. We will then be able to compare those results to three major indexes of two other Europeans countries: the Czech Republic and Germany. We will see that those two countries, due to the importance of exportations on their national economies, and in the case of the Czech Republic, the importance of Germany, suffered more, in proportion, compared to France.

In the third part we will study the measures taken by the French government in the aftermath of the crisis and the effects of those measures. We will see that if they plan to support the country through the help to the companies, the measure lack of long term planning. They are short terms measures that helped the country pass the worst of the crisis, but with long lasting effects on the country's debt. We will then compare them to the measures taken by the United Kingdom and Germany. Those two country are interesting to study since the British government made the choice of mainly directly support the consumption and Germany, with the largest European stimulus package was acting on all fronts. We will conclude that the main result for the two countries are the growing debt in percentage of GDP, but also that the long term effects are more taken into account in those two plans.

Keywords: Financial Crisis; Economic Cycles, France, stimulus packages,

Abstrakt

Cílem této práce je analýza důsledků finanční krize z roku 2008 ve Francii a přímých reakcí vlády na tuto situaci. Tato problematika je analyzována v porovnání s různými evropskými zeměmi, které jsou sousedními státy Francie.

V první části analyzujeme příčinu této krize, konkrétněji finanční krize. Soudíme, že finanční krize vzniká nárůstem dluhu ze špatné investice. Poté je krize zkoumána na příkladu Velké

hospodářské krize z roku 1929, kde americká vláda provedla opatření pomocí dokumentu New Deal. Vysvětlíme, že tyto kroky nebyly zaměřeny pouze na plánovanou distribuci peněz poptávkou, ale také donutily vládu, aby se zaměřila na reformování celkového ekonomického prostředí a přidělování práce lidem. Po nastudování krize z roku 2008 ve Spojených státech zjišťujeme, že ačkoli krize začala ve finančním sektoru, její následky byly viditelné v celé ekonomice Spojených států amerických.

V druhé části analyzujeme hlavní francouzské ekonomické trendy po Druhé světové válce. Uvidíme, že po třiceti letech vysokého růstu a sociálního rozvoje, byla země po třicet let v klesajícím trendu ekonomického rozvoje. Zaměříme se na nezaměstnanost, která je významným ukazatelem politického a ekonomického systému ve Francii. Uvědomíme si, že odlišné vlády se nejeví jako schopné reformovat zemi pomocí udržitelných opatření, které jsou nad rámec dopadu samotného prohlášení. Následně budeme analyzovat to, jak prvotně krize ovlivnila francouzskou ekonomiku, abychom zjistili, že to ve výsledku vedlo k zhoršení hlavních makroekonomických indexů, jako prohloubení dluhů a vývoji recese. Díky tomu budeme schopni porovnat tyto výsledky se třemi nejdůležitějšími indexy dalších dvou evropských zemí: Českou republikou a Německem. Uvidíme, že tyto dvě země, vzhledem k důležitosti vývozu pro jejich národní ekonomiky, byly více negativně ovlivněny v porovnání s Francií.

Ve třetí části se zaměříme na opatření učiněná francouzskou vládou jako následek krize a důsledky těchto opatření. Uvidíme, že jejich plán podpory ekonomiky prostřednictvím pomoci společností je řešením, které nezohledňuje dlouhodobé cíle. Jsou to krátkodobé prostředky, které pomáhají národním ekonomikám překonat krizi, ale s dlouhodobými účinky na národní dluhy. Poté porovnáme prostředky využívané Velkou Británií a Německem. Tyto dvě země jsou velice zajímavé vzhledem k tomu, že britská vláda si zvolila především přímou podporu spotřeby a Německo, které s největším stimulačním evropským balíčkem bylo účinné ve všech oblastech. Závěrem určíme hlavní důsledky pro tyto dvě země, čímž je rostoucí zadlužení v procentním vyjádření HDP, ale také jsou důležité dlouhodobé výsledky těchto plánů.

Klíčová slova: Finanční krize; Hospodářských cyklů, Francie, stimulační balíčky,

Objectives and Methodology

The primary objective of this thesis is to assess the effects of the 2007-2008 crisis on the French economy when it hit the country and the efficacy of the immediate measure on the country economy.

The second objective is to compare the answer of the governments to this crisis and to compare them to other European countries that have also been touched by the crisis.

Two main portions compose this paper.

The first one, theoretical and historical is based on various economic publications and on applied examples. The two main examples being the crisis of 1929 and the crisis of 2008 in the United States.

The second portion of the thesis is based on data analysis and comparison. It is composed of the second and third parts. Most of the data used to develop the graphs and tables of this second portion are extracted from the INSEE (*Institut National de la Statistique et des Etudes Economiques*, National Institute of Statistic and Economic Studies) for the French national economic data, and from Eurostat for the comparison analysis¹.

¹ The two database research platforms can be respectively found at the following addresses: <http://www.insee.fr/fr/bases-de-donnees/>

Research Results

Most of the aforementioned measures were to be stopped during 2010 which is the official deadline of the stimulus pack set by the government. We can thus try to draw conclusions over those measures during this period.

The main sources on those results are the report of the *Cours de Comptes*, the French Court of Audit of July 2010 on the carrying of the stimulus plan², and the yearly reports on the public finance, from the same institution, for 2011³ and 2012⁴. 2012 is the last year where effects of the stimulus plan are considered being possibly seen and when the institution give the final official numbers over its previous estimate on the subject.. It is to be noted that, following a cabinet reshuffle in November 2010, the Ministry of Recovery, created when the first measures were taken, no longer existed which make the follow up of the official numbers more complicated.

The first document, presented in September 2010 to the Finance Committee of the National Assembly highlights one main issue with the different measures: the over costs. Initially estimated by the government to be of 26 billion euros for the years 2009 and 2010, the Court of Audit estimates that it amounted to 34 billion euros for those two years. This represent 1.4 percent of the GDP of those same years, 1 percent in 2009 and 0.4 percent in 2010. In its final report of 2011, the Court set the official definitive numbers at 42.2 billion, 35.3 of which only for the year 2009.

The general impact on the growth of the GDP is itself estimated to 0.5% for 2009. The Court confirms that this helped maintaining the recession in France to the smallest level of the European Union. The explanation of the difference between the cost of the operations and the revenues from it are explain by the Court of Audit by the fact the “*most of the amount of the stimulus plan was aimed at the treasury of the companies to limit the number of business’s bankruptcy*”⁴¹. This measure was a safeguard measure, with no profits to be taken out of it, it didn’t plan to increase the revenues but only to possibly maintain them through the not-closing of the companies.

The Court also gave a dimer estimate of the estimated number of created jobs: the Ministry of Recovery estimated that 400.000 long term jobs would be created during 2009 and 2010, the Court of Audit lowered this estimate to between 18.000 and 72.000 long term jobs created. In its report of 2011, it is estimated for example that 800.000 hiring were accompanied by exemptions from employer taxes in companies of less than 10 employees in 2009. This number is relatively low when only the impact of the measure is taken into account compared to 2007, where 700.000 hiring already took place while no incentives were set. Another problem is that 59 percent of those hiring were for fixed term contracts, which can be explained by the fact that 64 percent of the jobs concerned 25 years old or less⁵ and that companies wanted to set a trial periods before committing to long term employment.

<http://ec.europa.eu/eurostat/data/database>

²Cours des

Comptes : https://www.ccomptes.fr/content/download/47182/1330591/file/58_2_58837_plan_relance.pdf,
accessed 12/03/2015

³Fondafip: http://www.fondafip.org/f792_Rapport_situation_des_finances_publicques.pdf, accessed 12/03/2015

⁴Cours des Comptes :

http://www.ccomptes.fr/content/download/44948/776337/version/2/file/rapport_situation_perspectives_finances_publicques_2012.pdf, accessed 12/03/2015

⁵„800.000 embauches à "zéro charges" en 2009“, L’Expansion, 15/01/2010 :

http://lexpansion.lexpress.fr/actualite-economique/800-000-embauches-a-zero-charges-en-2009_1417713.html,
accessed 13/03/2015

The report also underline the positive effects of the help to the companies on the reduction of the growth of unemployment. Through the public aid bank OSEO, between the end of June 2008 and June 2009, 5.556 small or medium companies were helped, which resulted in the saving of more than 30.000 jobs⁶. Until 2010, the bank is considered to have helped 23.500 companies through state guaranteed loan, for an amount of 6 billion euros, but only 8.000 on them were considered at risk, meaning that they would have filed for bankruptcy without the help of the government.

A finger pointed item is the low following of the rules by the public companies. If they were allowed 4 billion by the government to invest in their modernizations, only 1 billion was used precisely for this matter. Moreover, the added value tax reimbursement to collectivities was mainly used to improve their financial situation and not to launch new investments projects. On all those points, the non-extendable nature of the stimulus package money was not respected by the administrations: the report gives the example of the Ministry of Environment that was able to renew half of the credit it received from the state in 2009.

The Car Allowance Rebate System is cited as one of the best measure, with a visible impact, taken by the government. For the court, it allowed to significantly help the French car industry while also supporting the consumption.

On the topic of the tax revenues for the state, the court considers that, by exempting the lowest incomes but broadening the scope of the imposed products and services, the state increase its revenues by 11 billion euros, but at the same time, the non-crisis related measures from the government, reduced them by 7 billion in 2009. In 2010, the tax revenues have been higher than the ones of 2009 of about 24.8 billion euros, of those, 14.6 billion are due to the reduction of the “tax gifts” given to companies and households.

In 2011 the Court considers that the crisis amounts for 38 percent of the deficit of both 2009 and 2010, and is mainly the result of discretionary measures. The rest of the deficit is deemed as a structural deficit.

The measure have overall mixed results. If the measure have definitively helped the companies in maintaining themselves afloat, it does not appear that they helped the creation of new jobs, or stimulate the consumption. Moreover the impact of those measure, due to the length of their application can only be considered until 2010, and as we can see in the previous part through the schemas 13, 14, 15, and 16, as well as through the tables 3, 4, 5, and 6, the country does not show good sign of recovery, while some of its neighbors are paving the ways to a new growth.

The measures do appear to have help to reduce the effects of the crisis on the country in the short run, but were not planned to set it on a right path for the long run.

⁶„Oséo a soutenu 23.500 entreprises“, L'Expansion, 22/12/2009 : http://lexpansion.lexpress.fr/entreprises/oseo-a-soutenu-23-500-entreprises_1382935.html, accessed 13/03/2015

Conclusion

The crisis of 2008 clearly is in line with the classic bubble-burst cycle that see the massive investment, beyond reason, of the economic actors in one kind of product. This over-investment in turn leads to the burst of the bubble once the main investors realize the tenuousness of their situation.

It started in the United States, with the massive challenging of the American financial system and spread to the rest of the society as the banks started to withdraw their remaining funds from the real economy. This resulted in a massive contraction of the world's largest economy, which thus swept most of the other developed countries.

France was among those them. The country was already struggling with a slowing growth and an increasing debt resulting from the end of the economic heyday called the Trente Glorieuses. Burden by an increasing legislative build-up and a political environment dominated by "effects of announcement", the countries was struggling to take active measure to solve its already existing problems.

Mainly interested in saving its small companies, seen as the backbone of the French economy, the government planned on short term measures that would indebt furthermore the country, without long lasting measures to build up future profits: maintaining the situation from before the crisis was considered an end in itself. The main effect of those measures is, as can be expected from administration: over-cost. Almost costing twice as much as forecasted, those measures still helped the country maintain itself afloat during the crisis, with the lowest recession of Europe.

Compared to the United Kingdom and Germany that decided to help in a larger scale the demand through direct redistribution, France did not seem to pick up on the same recovery track as its neighbors started in 2011. But if the stimulus packaged were not the same, the economic situations of those countries were not the same to begin with. The United Kingdom already had shares in its banks, which in the long term is positive through control and revenues. Germany on the other hand planned on the re-increase of the world trade, which meant a recovery for the country since exportations play a large role on its economy.

We can say that the crisis of 2008 worsened an already uncomfortable situation in France that had been building up for the last thirty years. To answer the aggravated problems, the government took immediate emergency measures but may have overlooked the future long lasting problematics that a recovery would involve. A lot was done to financially help the different economic actors, but little was done to fundamentally reform the country.

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