

Czech University of Life Sciences Prague  
Faculty of Economics and Management  
Department of Economics



Diploma Thesis

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

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Economics

Faculty of Economics and Management

## DIPLOMA THESIS ASSIGNMENT

Grégoire Giusiano

Economics and Management

Thesis title

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

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### Objectives of thesis

The main objective of the thesis is to analyze the French immediate response to the financial crisis of 2008.

### Methodology

The thesis will be divided to a theoretical part and a practical part. Mainly it will be done providing practical examples for the theoretical events. The thesis will mainly use comparative and descriptive methods.

**The proposed extent of the thesis**

60-70

**Keywords**

Crisis, France, Stimulous package, Economic Pefromance

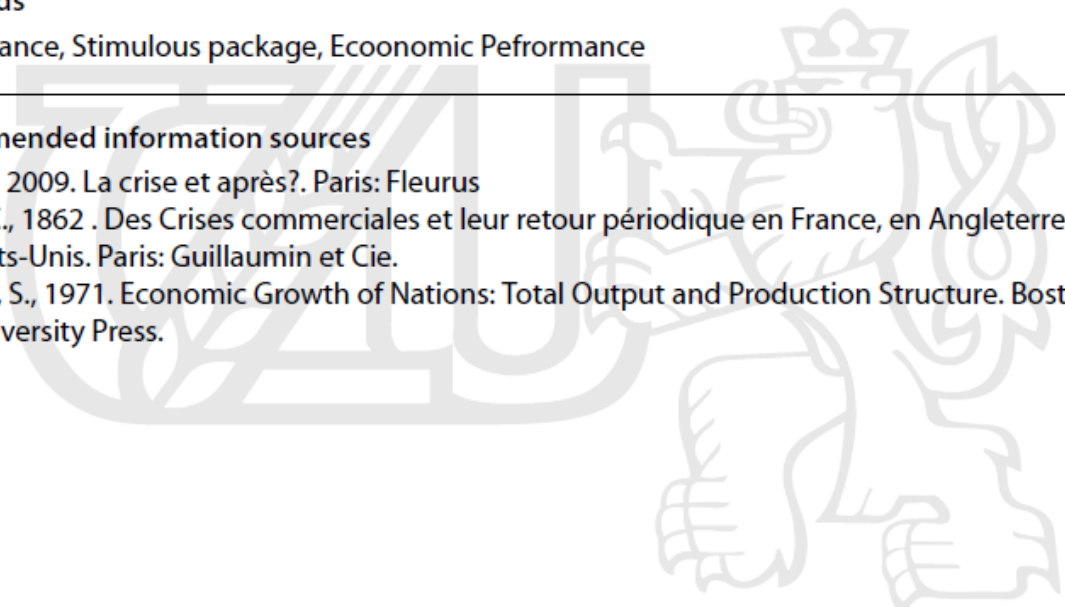
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## Declaration

I hereby declare that I have worked on my Diploma thesis titled “The 2008 crisis and the response of France in the European context” solely and completely on my own and that I have marked all quotations in the text. The literature and other material I have used are mentioned in the Bibliography section of the thesis.

In Prague, March 22<sup>nd</sup> 2015

.....

Grégoire Giusiano

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

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## 2008 krize a reakce Francie v evropském kontextu

### 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 States 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 political 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 European 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 společnostem 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 využití 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,



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# Introduction

*“Humanity has always been through crisis, whether they were religious, moral, political, or economic. Since capitalism came to power, the crisis seems to be its natural state.”* (Attali, 2009)

The American financial crisis of 2007, which swept the rest of the world in the following year was a new type of crisis. New in a few ways. The force with which it hit the American economy and the rest of the world make it stand out from the previous crisis. It also seems unique in its Americano-American feel. The subprime scheme was an American-build bubble, the crisis resulting from their solvability problems should have, in all logic, stayed inside the borders of the United States. But this crisis went global, thanks to an internationalized banking system where banks all over the world have a say in operations from everywhere else. The American “way of banking” went global and so went the crisis.

In 2008, when most of the industrialized countries started to see results from the Subprime Crisis on their own economy, they started to implement plans, stimulus packages, to keep their national economy and companies afloat. France did so at the end of the year 2008, to be followed by other measure in the beginning of the year 2009. Like most of those recovery plans in Europe, the plan was to be applied the following two years of its announcement.

One may wonder if the package was specific to the country or if it followed the same pattern as its neighbors’. Where would the differences have originated from?

The first theoretical and historical part of this paper defines the crisis cycles and the different forms they can take. It deals with the financial crisis, at the center of most of the modern crisis, and explains how the over-indebtedness create the bubble and trigger the burst. It summarize the 1929 crisis and the New Deal to give a historical comparative point on a crisis that seems to be much like the one that shook the world almost eighty years later. The aim is to give through this historical example the theoretical background to better understand what happened in 2007-2008, and an historical background to better understand the plans that were applied in the following years.

It then analyses the sequence of events that led to the 2007 bubble-burst of the subprime and the first results in the United States through the analysis of macro-economic indicators. This subpart's objective is to give the context of the actions of France and the others studied countries. The American economy is still the world leading economy, understanding the reach of the crisis gives an idea of the reach of the crisis on the world economy.

The second part of the thesis analyzes the state of France economy before the crisis, the first effects of the crisis on the economy, and then puts it in perspective through a comparison with two other European countries: the Czech Republic and Germany. The comparison will be carried out through the main macroeconomic indicators. It seems important to study the situation of France before the crisis, since it explain in part why the country was touched by the crisis as it was and contextualizes the kind of policies that will be carried out by the government. The first subpart is devoted to explain the different periods of time from the end of the Second World War until the beginning of the crisis. By describing one of the most important job reform of the modern history of the country and its results it gives an idea of the French political environment.

The third main part of the paper describes the immediate measure taken by France and the quantifiable effects of those measures. It also compares them to those of two of its neighbors: Germany and the United Kingdom. The aim of this subpart is to explain why each country developed the stimulus packaged and compare their reach.

# 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 analysis<sup>1</sup>.

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

# I) The Crisis and their Reach

## 1) Financial crisis or debt crisis?

### A) The bubble-burst cycle and the industrial crisis

The 19<sup>th</sup> century and the industrial revolution saw the advent of the “capitalist rhythm” (Corpron, 2011). While preindustrial economies were dependent on agricultural externalities like climate and/or seasons, and were then at the mercy of those elements which could set off a crisis, the ever growing importance of the industry in the new societies ended up imposing a new origin to the economic crisis.

Two main theories can be underlined to explain the crisis. The first one: the reaction crisis, considers that the crisis is only the result of an externality choc. It is applicable to the agrarian economies, where a harsh weather means the loss of a harvest. It is the group of the “equilibrium cycles theories” (Corpron, 2011). The second group of theories is the natural cyclic group. Those theories consider that the growth is naturally cyclic. The cycle is deemed inseparable from the economic evolution and is thought to find its roots in the core of the economy itself. This group of theories considers that the cycle is visible through the alternation of economic bubbles during the growth period and the burst of those bubble leading to recession.

The bubble-burst cycle can have a number of different sources. The crisis of 1890 started in England with over investment in Argentinian silver. It is closely followed by a crisis in the United States in 1893 after a railroad bubble. The crisis of 1907 started in the United States because of an unregulated banking system without a central bank and very important investment in the new technologies: electricity, chemistry, telephone.

All the crisis until the one of 1929 had a foot into reality. They were investments in tangible assets. The new opportunities were attracting a lot of capital, made easily available, especially in 1907, with a badly regulated or unregulated banking economy. The countries were then connected by those assets, those investments. The “*pays-guide*” (“guiding country”) (Guitton, 1951), where the crisis starts, bring the others with it because of those tangible assets and their

loss of value. The causes of the crisis are companies, not just money in itself, companies that fail to get the investors the results they promised.

The same will happen with the Dotcom bubble of 1997-2000. New technologies promised great return on investment. But not every investment is a good one. Investors often take a few years to realize that and only then start to take out all the capital they can from the adventures they have got themselves into. That is the moment when the bubble bursts. The fear for the capital will spread to other part of the market and as the largest investors withdraw their money from the different sphere of the economy the public will start to follow the same logic and a crisis will soon start.

A global economic crisis always start the same way: too much investment leads to a bubble, and then fear leads to the burst.

But until 1929, the crisis seemed to have a silver lining and a utility to the economy. They follow the model defined by Juglar. For him, the economic cycle, between 7 and 11 years, is a cleansing cycle started by the credit (Juglar, 1862 ). One of the cause is that innovations appear by cluster. A new cluster of innovations will spur new investment possibilities. As more and more people go into the businesses around those innovations, more and more investors are drawn to it. But not every enterprises is a good one. People will realize that some investments are not worth it and get the bubble bursting. That is when the cleaning begin: only the best company will be able to make it through the newly developed crisis. The crisis is here to cleanse the economy from the wrongly invested capital and reorient it to the good companies. The bubble and burst cycles were deemed essential to Juglar and he will be one of the first to try to define with precision the cycles and their span.

In all the crisis until 1929 money plays a very important role and speculation is at the center of the bubble. Those crisis were linking the world through companies, new technology or other innovation defined by Schumpeter (Schumpeter, 1942): new markets, new work organization, new raw material, etc... But even if an investment crisis was at the origin of the national crisis and if a financial crisis was not the main source of it, its importance was still significant.

Since the crisis of 1929, we can see that the financial system has been taking more and more power over the “real” economic sphere. Understanding the impact of the financial crisis over the economic cycle is, thus, more and more important to help understand the crisis of 2008.

## B) The financial crisis

For the monetarist, a school of thought that underline the importance of money in the economy, the financial crisis is assimilated as a banking panic (Friedman & Schwartz, 1963). Close to the idea of Juglar in the selection and the necessity of the crisis, the main cause of the downfall of the economy is, for the monetarists, the chain closing of the different banks, which in turn leads to a shortage of capital being injected in the economy. With less money to invest, the investors make choices in where to put their capital and the selection provoke the crisis by closing an important number of companies.

In its report of 1993, the INSEE defines another way of how the finance sphere can influence the physical economic sphere: “*the financial sphere can accentuate the cyclical nature of the job and product markets evolutions through the superposition of an indebtedness cycle of the actors, and the overreaction of the markets*” (Insee, 1993).

Fisher has been one of the first to analyze this link between excessive debt and financial crisis (Fisher, 1933). In his book, he explains the process that leads to a financial crisis. During the growth phase, investors are anticipating profits that are well over the price of the capital. The price of the capital is the borrowing interest rate. Building a debt is therefore interesting since it will be reimbursed with the future profits and a benefice will still be taken out. A debt overload can result from this situation. But the anticipated profit can be long term, while there are most of the time short term reimbursement imperatives. To pay-back their debt and face those imperatives, the investors, speculators, and the companies will liquidate their investments. There would then be a contraction of the monetary mass since debt reimbursement corresponds to monetary destruction. The main consequence is the same as the one the monetarists define, but the origin is different. For Fisher, the monetary contraction leads to a deflation, a lowering of the prices, which increases the weight of the debt in a vicious circle.

Minsky developed this idea of over indebtedness. He identified three structures following each other's in a cycle (Minsky, 1974). He explains that the financing of the economy evolves during the period of growth and then result in the crisis. The three debt structures are: *hedge finance*, *speculative finance*, and *Ponzi finance*. The hedge finance covers the period of time when the totality of the debt is covered by the revenue. It is the cautious way of building debt. In speculative finance only the interest are covered, but not the capital. This type of finance aims at the long term and is more risky. The Ponzi finance is a direct reference to the banker



Ponzi, a speculator from the 19<sup>th</sup> century. Those operations are the most hazardous, they are “cavalry” operation: new loans are used to payback old debt.

During a growth period those three structure follow each other's. With the promises of greater benefices, the investors will change their financing habits from hedge to speculative. The agents will shift to a Ponzi structure when the interest rates are risen. They then have to liquidate a part of their active to payback their debt. This liquidation results in a drop in the prices and a global worsening of the situation as long as the investments of the agents are not cleansed.

In conclusion. The debt cycle amplify the real growth cycle and develop the bubble-burst cycle. During the growth, the economic actors are willing to build debt and are encouraged to do so by the financial environment which provides low interest rates. This development of the debt sustains the economic growth. But the opposite will occur during the crisis: consumers will prefer to build their security savings and lower their debt to be less vulnerable to any other possible future changes, and the companies will lower their investment. The banks will then review their credit allowance rules and lower, in the same way, the monetary mass available in the economy.

This debt cycle can be seen under most of the crisis since the end of the 18<sup>th</sup> century. But it really is with the growing importance of the banking system that this cycle seems to have become the main cycle underlying the economy. The first global modern crisis, dependent of this new “way of banking” can be seen in the crisis of 1929.

## 2) The first global Crisis of 1929

### A) The building-up of the bubble

The financial markets are interested in the future yield of the shares. In theory this appreciation, which is only centered on the future, keep the price of the shares of a companies in link with its results. The speculative bubble are these quick growth in the price of stock

without any links with reality. The prospect is of short of medium term and do not plan on the dividends from the share but on the future possible resell price, this is when the disconnection of the stock prices and the real value of the company in the economy happens. The burst of those bubble can have impact on the real economy when the banking agent and the financial intermediaries go bankrupt which lead to a reduction of the investment through the reevaluation of their portfolio and also with a credit crunch. A credit crunch is the drastic reduction of loans the banks are allowing themselves, or are allowed, to give. This can be the result of the increase of the central banks interest rates or simply to the general psychology of the moment, where fear of mal-investment is the strongest.

This is what happened October 24<sup>th</sup> in the New York stock exchange and will happened almost eighty years later.

The United States came out stronger than ever on the international scene from the First World War. They finally took the rank of first economy from the United Kingdom. The twenties were qualified by a strong growth sustained by what would be called a second industrial revolution (Melandri, 2008). Concentration in every industry will be one of the cause of this industrial development. The automotive industry, considered as the engine of the economy at that time is a good example: the three main company, General motors, Chrysler, and Ford, after having englobed some of their competitors, produced, in the beginning of 1929, 80% of the cars made in America (Portes, 1997). The Taylorism (the scientific management and division of work), through its American application, the Fordism, is the other main cause of this new industrial revolution. The American GDP will, during the period 1919-1929, rise by an average of 4.2% per year: from 78.9 billion dollars in 1919 to 104.4 billion dollars in 1929 (Portes, 1997).

Those evolution in the means of production led to a reduction of the price. Combined with the augmentation of the average wages, this period saw the development of the idea of the American Way of Life. The consumption cannot already be called mass consumption but the new economy was thriving enough to qualify the period for the name “Roaring Twenties”.

Speculation during this era is encouraged by very low interest rates and a much unregulated banking system. Even so, until the beginning of 1928 the rise in the stock price follow the reality of the profits of the companies (Corpron, 2011). At this period, the big companies, speculators, and, a novelty for that time, a main part of the population, are borrowing to be able to invest in the stock market. Those agents also take advantage of a new way of buying shares allowed

since 1926: “call loans”. This new type of buying order means that the cover to buy a share needs only to be of 10%: to buy 10 dollars of action, the investor needs only to own 1 dollar of it. He is expected to get the rest of the money from the profit of the sale (Brasseur, 2004). It is not the dividends that were motivating the investors but the sheer possibility to resell the shares with a profit. This huge afflux of capital greatly fed the bubble.

## B) The Great Depression and the New Deal

The burst doesn't have a clear cause. The fear may have been provoked by the bad results of the automotive industry in the beginning of the year or the repeated alerts given by many consulting cabinet, at the head of which Charles Merrill, today Merrill Lynch, started advising in the end of 1928 to stop borrowing to invest. The Dow Jones fell from 326.51 points to 198.69 points in the span of 20 days, between the 22<sup>nd</sup> of October and the 13<sup>th</sup> of November. The virtual loss in valued worth is of 30 billion dollars, this represent ten times the United States federal budget at that time, or, in other terms more than all the spending of the United States during the First World War (Marcel & Taieb, 2008). The drop in the share prices meant that all the actors who had invested capital in the stock exchange saw their investment vanish<sup>2</sup>. The industrial production and the import of the United States led to a contraction of the international trade. This event, combined with the withdrawal of the American capital in foreign companies led to the international crisis of the thirties.

The United States will stay in this Great Depression until the beginning of the Second World War even if actions from the government will allow the country to see its indicators slowly rise again during those ten years.

The GDP (Gross Domestic Product) “*is an aggregate measure of production equal to the sum of the gross values added of all resident institutional units engaged in production*”<sup>3</sup>. Even through the criticisms of many, this index is as of today, if not the best indicator, at least the most widely used indicator of the economic wellness of a country.

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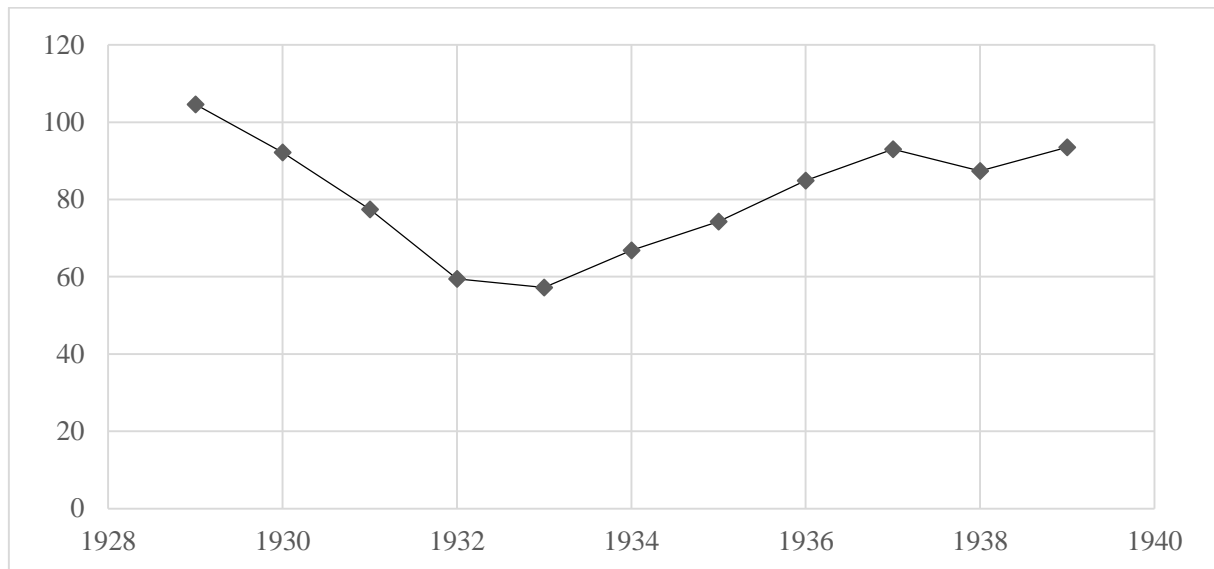
<sup>2</sup> A director of Earl Radio Corporation was found dead with the following note: „We are broke. In april I had 100,000 dollars, today I owe 24,000.“

<http://rue89.nouvelobs.com/demonte-rumeur/2008/09/16/combien-de-suicides-par-chute-en-1929-peut-etre-zero>, accessed 14/03/2015

<sup>3</sup> OECD Glossary: <http://stats.oecd.org/glossary/detail.asp?ID=1163>, accessed 14/03/2105

The following scheme shows the effect of the crisis in the American GDP, and the turnaround which started in 1933, coinciding with the election to the presidency of Franklin Delano Roosevelt and the beginning of its stimulus program called the New Deal.

**Scheme 1: U.S. Gross domestic product (in billion dollars)**



Source: Author's depiction based on data from the U.S. Bureau of Economic Analysis

After being elected on the 8<sup>th</sup> of November 1932 and the democrat party having swept the Senate and the House of Representatives, Roosevelt unveiled his program, he called the New Deal, with 3 main objectives: help the poorest part of the population, reform the financial market, and reset the economy on a growth track. We can divide the policies of the New Deal in three parts, social aids, reforms, and economic recovery.

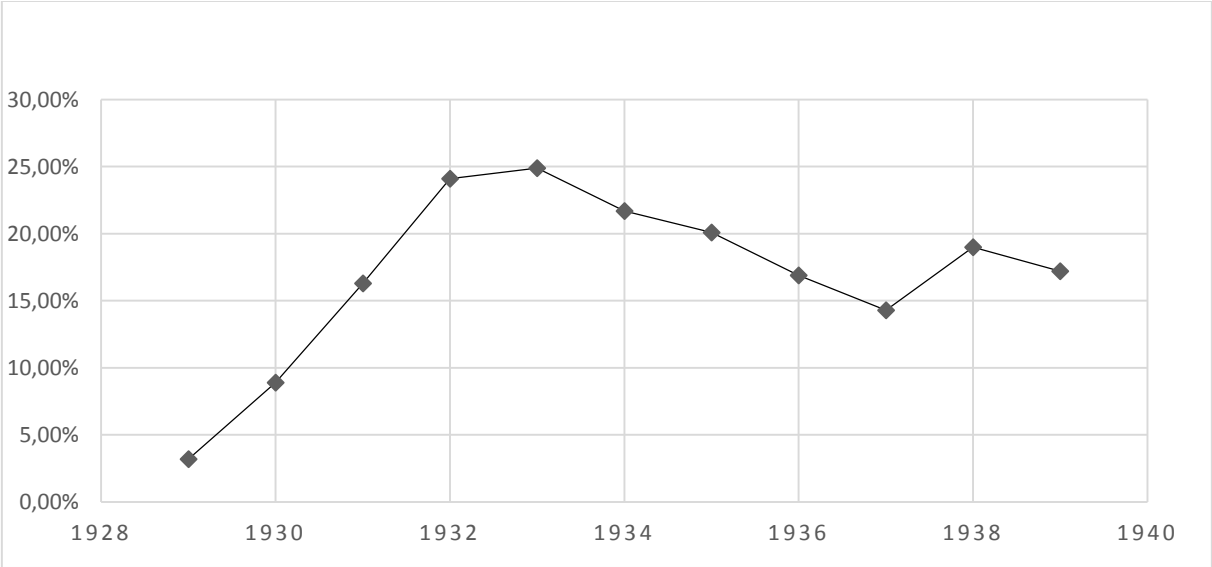
### *Social aids*

The New Deal is known around the world for its pictures of hundreds of workers on major projects. The unemployment was one of the main problems of the depression-era-America. The first action the president took was to create the *Federal Emergency Relief Administration* which objective was to organize the helps for the unemployed and be able to organize the distribution of this help at the country level (Kaspi, 1988). But with the help of the

state came another idea from the president, not only will the government monetary support the unemployed, it would create jobs for them.

The unemployment of the young being the most important share of the total unemployment at that time, Roosevelt created the *Civilian Conservation Corps*. The objective was, through great environmental projects, to give a work to two millions of young men, aged from 18 to 25 over the span of the 8 years of the project (Kaspi, 1988). Other programs, among which the *Tennessee Valley Authority* is the most widely known, was aiming at taking control of the natural environment in different states to make them more livable and in the same time, give work to the unemployed mass. Those different actions gave faith to the American people in their leaders, but they did not really served to restart the economy or even lower the immediate employment in the country, in 1934 still 21.7% of the population was still unemployed (Carter, 1976),

**Scheme 2: U.S. National unemployment rate 1929-1939**



Source: Author's depiction based on data from (Carter, et al., 2006)

But this idea to not only give relief but pay people to work led, in 1933, to the most widely recognized program of the New Deal: the *Civil Works Administration*. This agency will in less than a year give work to more than four millions Americans (Rauchway, 2007). This program is renewed in 1935 with the *Work Progress Administration*, and led to the construction

of 110,000 schools, train stations, and post offices, 100,000 bridges, and 800,000 km of roads, until its dissolution in 1943.

We can see that social aids following the financial crisis was not a given for free but involved the population as a working force in the make-work jobs, just as intended by the president and its government.

### *Reforms*

Considering that the crisis comes primarily from the action of the bankers and the captains of industries, Roosevelt took some direct measures to clean the environment of the institutions that were deemed unsolvable. Through the *Emergency Banking Act* of 1933, the government tested the solvability of the banks, and selected the ones that could be opened again. Three quarters of the banks opened their doors again in the following months. Thousands of those banks closed or merged in the following years but it allowed the American to get 85 cents on the dollars for their savings (Schlesinger, 1971). The government also decided to create the *Federal Deposit Insurance Corporation* which insured the deposit of the American up to 5,000 dollars.

But two main measures have set the financial history of the US for the next forty years: the passing of the *Glass-Steagal Act* in 1933 the creation of the *Security and Exchange Commission* in 1934.

The Glass-Steagal act, taking its name from the presidents of the *Bank and Money Commission*, validated the insurance of the saving deposit but also set the rule that a banking institution has to choose between being a commercial bank and being an investment bank. This rule was set to protect the saving of the Americans. The banks could not use the savings from its clients' deposit to invest in dangerous enterprises.

The creation of the Security and Exchange Commission dealt with the stability of the market. Its roles were to make sure the investment institutions would apply the newly passed laws, but also to protect the smaller investors from possible insider trading on the market by bigger companies.

After the crisis, the government learned the lessons from the bubble-burst that led to 1929. Real measures were taken to make sure such environment would not be possible in the future. This control over the market is not to be confused for the newly developed and broadly discussed Keynesianism<sup>4</sup>, but more as a natural answer to the incapacity of the Neo-classics to deal with the crisis, like the Truman years have shown.

### *Economic recovery*

This area is where the New Deal really hits its main critics. Even if the different measures taken by the government have allowed the economy to recover, it still has not in 1936 totally came back to its situation of pre-1929 (see scheme 1). This same year was also marked by a new crisis, which started in the agricultural sector, caused by the Dust Bowl of the previous years.

If the New Deal is today seen as the reason for which the USA have been able to get out of the crisis started in 1929, it mainly comes from the positive review of the public. Indeed, if the measures packages did not deeply revitalized the economy, it allowed to support and give hope back to the poorer parts of the population. To see a real economic recovery one would have to wait the start of the Second World War and the installation of the national industry of war.

The 1929 crisis marks the beginning of a new analysis of the crisis, not only favored by the banking system but started around it, by it. It also is the beginning of the state really taking part into economic policies. The policies taken during the New Deal by the American government were set in such fashion, the unbridled appetite of the banks for profits and risky games were under control; for at least the next 60 years.

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<sup>4</sup> Keynes book *The General Theory of Employment, Interest and Money* would only be published in 1936, 3 years after the first measures. Moreover, after a meeting between Keynes and roosevelt, the later reportedly said that he didn't understood anything from Keynes' presentation (Bernard, 1999).

### 3) The 2008 Crisis

#### A) How it started

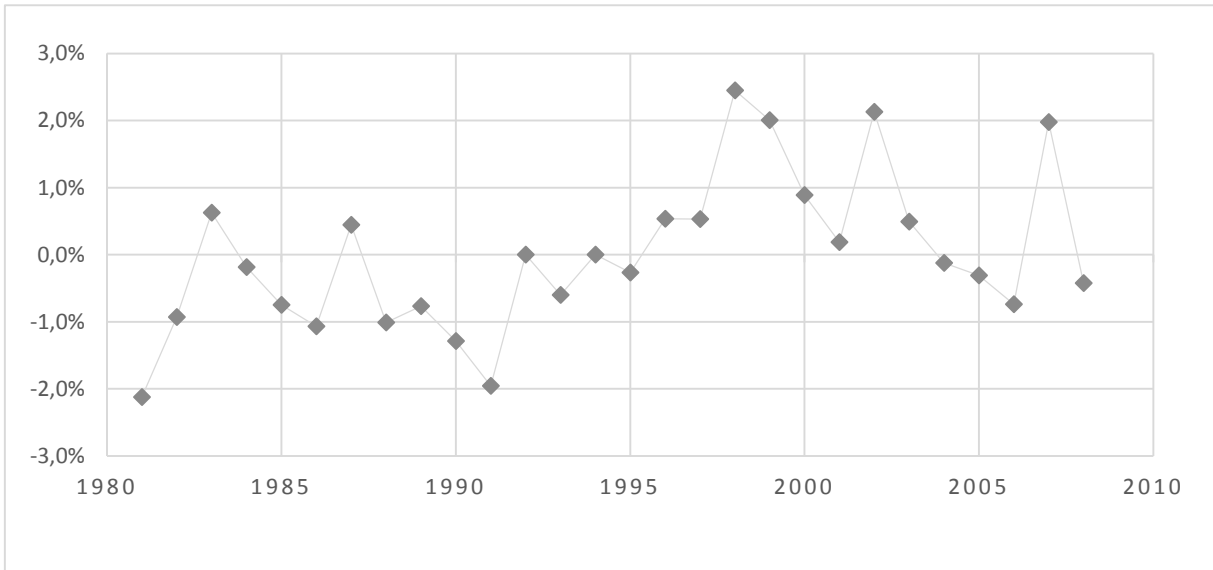
The economic environment of the United States at the beginning of the years two thousands can be defined by two of its main aspect: the re-liberalization of the economy and its access to faster speeds: speeds in commerce, in calculation capacities, and in communication. This is particularly true in one of the main domains of the US hegemony: finance.

As seen in the first part, after the crisis of 1929, the government defined new rules to make sure that the financial markets would be controlled to a certain extent, and at least supervised by the state, to make sure that a crisis of this span would not happen again. But since the beginning of the eighties until the beginning of the years two thousand, those safeguards were put down. The Glass-Steagel act of 1933 was repealed November 12<sup>th</sup> 1999 by the Clinton administration. This meant that banks were now allowed to act as commercial banks and investment banks at the same time, or in other words, use the saving of its client to build its profits on the market. This was done in time to allow the formalization of the merger of Citicorp and Travelers Group. This would allow the financial sector to take a new importance in the American economy: if in 1960 the revenue of the finance sector was representing 14% of the overall profit of the American economy, it jumped to 39% in 2008 (Attali, 2009).

But if the financial revenues are on the rise it isn't the same for the rest of the population:



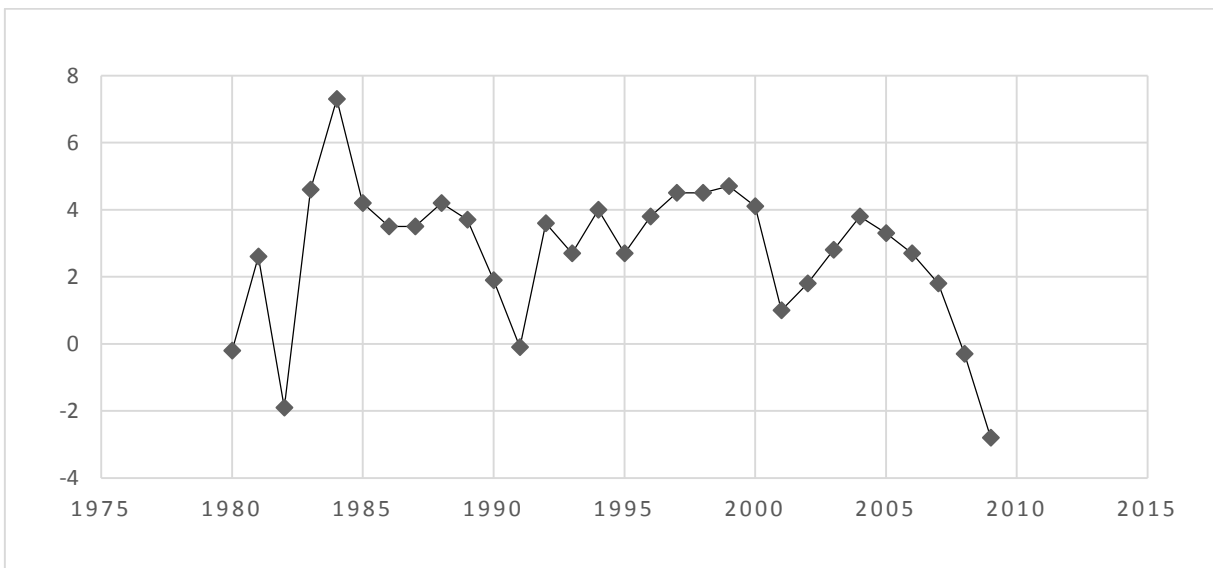
### Scheme 3: Adjusted U.S. average hourly earnings growth 1981-2008



Source: Author's depiction based on data from the St. Louis Federal Reserve Bank

During most of the eighties and until the middle of the nineties, the national average hourly earnings have only gone lower. But this evolution has to be put next to another data:

### Scheme 4: U.S. GDP growth 1980-2008



Source: Author's depiction based on data from the International Monetary Fund

On the same period, we can see that the growth of the United States maintains itself on the positive most of the years. How thenceforth can we explain that without more revenues, the people have been able to keep the consumption at a level high enough to maintain the growth of the GDP? The answer can be given by the financial system: with debt.

Facilitated by the reduction of the American central bank's, the Federal Reserve System, interest rate in 2001 by Alan Greenspan, this debt "service" became particularly active in the housing sector. It favored an older law: in 1977 the passing of the *Community Reinvestment Act* forced the banks to allow loans to borrowers with low solvability. Not really followed by banks at the beginning, this measure that wanted to see every Americans being able to borrow really started in the second half of the eighties (Attali, 2009). This allowed the housing market to double its prices between 1980 and 1998<sup>5</sup>.

At the same time, looking to always please an aging population looking for high yield of their pension fund and the flourishing hedge funds, the banks then went to securitizing those newly created risky loans. Securitization is the way of gathering different kinds of active debts in financial product packages to be sold to investors. The selling point of those packages is the future reimbursement of the original sum with the interests: the higher the interest rate the better.

**Table 1: Origination and Issue of subprime securities (in billion USD)**

Year	Origination	Issuance	Ratio
2001	190	87	46%
2002	231	122	53%
2003	335	195	58%
2004	540	362	67%
2005	625	465	74%
2006	600	448	75%

Source: Author's depiction based on data from the Federal Reserve Bank of New York<sup>6</sup>

<sup>5</sup> Federal Housing Finance Agency :

[http://www.fhfa.gov/DataTools/Downloads/Documents/HPI/HPI\\_AT\\_us\\_and\\_census.txt](http://www.fhfa.gov/DataTools/Downloads/Documents/HPI/HPI_AT_us_and_census.txt), accessed 14/03/2015

<sup>6</sup> Federal Reserve Bank of New York Staff Reports: Understanding the Securitization of Subprime Mortgage Credit [http://www.newyorkfed.org/research/staff\\_reports/sr318.pdf](http://www.newyorkfed.org/research/staff_reports/sr318.pdf), accessed 14/03/2015

As we can see on Table 1, between 2001 and 2006, as the amount of subprime was multiplied by six, the level of securitization also increased, from 46% in 2001 to 75% in 2006. This allowed the banks to get rid of the risk of those loans and guaranty themselves a sure return from it. The term *subprime* comes from the fact that those amalgams of loan were not the *prime* ones but the riskiest ones, and thus, the one with the highest interest rates. The very high promised returns of those newly created RMBS (Residential Mortgage-Based Security) were very sought after. So much so that half of the subprime RMBSs were sold to foreign banks, which then were able to sell them to their own clients. (Attali, 2009).

A phenomenon created in the US, to support the US housing market and profit the US financial system thus found itself exported worldwide.

## B) The burst

With the implementation of a very conservative branch of liberalism in the country, most of the American economists expected a debt crisis to start from the government side, with its own debt, no from the private side. But as soon as 2005, some clue were giving up the possibility of a major crisis.

During the second part of 2005, the building project in the US started to diminish as the rise of the prices started to slow down. In 2006 the information that the first defaults were occurring on the subprime loans started to go up the banks' hierarchy (Attali, 2009). In February 2007, as the bank evaluated their actives with the market prices, as required by a newly passed legislation, a problem emerged for them: the Basel Accords (Basel II) required the banks to have enough capital to cover the loans they were providing. But, at the time, since the banks were still owning a large part of the given loans, the high market value of those assets could mean the bankruptcy of the banks.

During 2007 more and more household with subprime mortgage defaulted. *“Subprime residential mortgage loans were ground zero in the Great Recession, comprising over 50% of all 2006–2008 foreclosures despite the fact that only 13% of existing residential mortgages*

*were subprime at the time.*"<sup>7</sup>. If the American banks were already looking into a way to get themselves out of this problem, it is when a French bank, BNP Paribas, raised the alarm that the global economy got an idea of the problem that the banks of the world were facing (Jorion, 2008).

If the burst of this entire system needs a date, it would be the 15<sup>th</sup> of September 2008: the bankruptcy of Lehman Brothers. Lehman Brothers is the first major bank to have filed for bankruptcy as a direct effect of the subprime bubble. As early as August 2007 the bank was closing its subprime lending branch<sup>8</sup>, and it announced losses of 2.8 billion dollars on June 2008 for the second quarter exercise of the year.

With the general public now aware of the risk on the banks, more and more people and economic actors started trying to withdraw their saving out of the institutions. In one week following the bankruptcy of Lehman brothers, 170 billion dollars were taken out of the banks, and thus, from the markets and the economy. The same bank-run<sup>9</sup> effects as seen during the 1929 crisis were visible at that time. As the liquidity wears down, the banks get in an even more precarious position. The liquidity crunch led to a retraction of the banks from the real economy and made it harder for businesses to get new loans, and when those loans were provided, it was with the cost of higher interest rates.

The burst of 2008 has the same cause as the one of 1929: a realization of a built-up problem on the market. If in 1929 it was the overpricing of stocks, in 2008 it was the un-sustainable financial arrangement built by the banks for the last 20 years.

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<sup>7</sup> „Why Did So Many Subprime Borrowers Default During the Crisis: Loose Credit or Plummeting Prices?“ Christopher Palmer, MIT, 15/11/2013,

[http://web.mit.edu/cjpalmer/www/CPalmer\\_JMP.pdf](http://web.mit.edu/cjpalmer/www/CPalmer_JMP.pdf), accessed 14/03/2015

<sup>8</sup> „Lehman Brothers Amputates Mortgage Arm“. TheStreet.com, 22/08/2007,

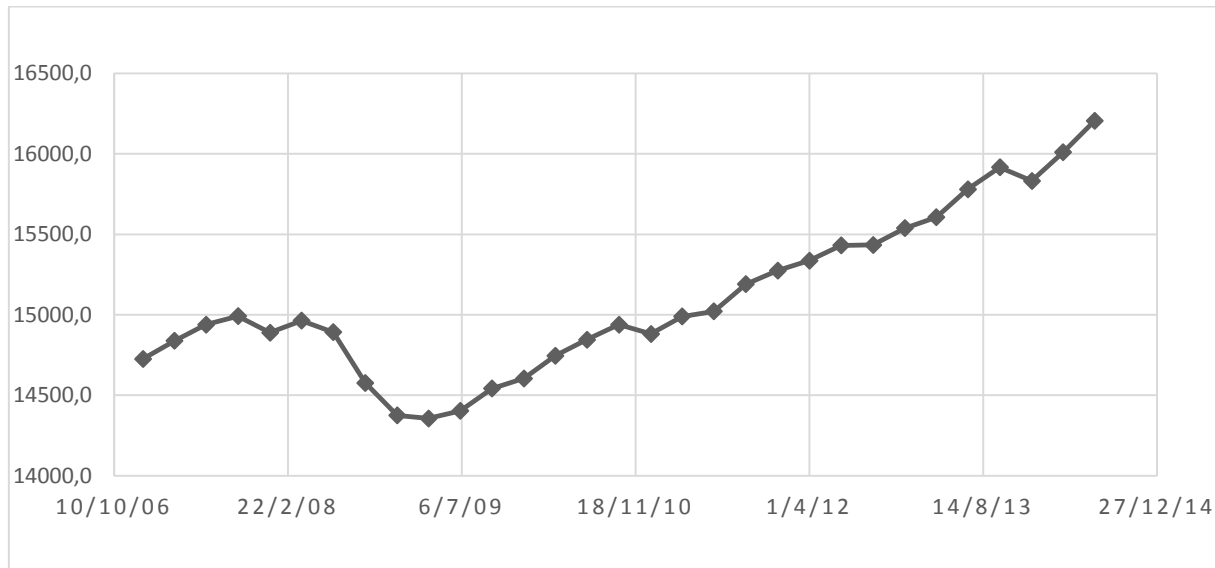
<http://www.thestreet.com/story/10375812/1/lehman-brothers-amputates-mortgage-arm.html> \_ accessed 14/03/2015

<sup>9</sup> A bank-run is the panic movement that pushes people to withdraw their money from banking institutions. Well known depictions of that event are the long queues that formed in front of banks during the crisis of 1929 and 2008.

### C) The first results in the US

We can estimate the impact of the 2008 crisis in the US through the scope of the main macroeconomic indexes.

**Scheme 5: U.S. GDP evolution January 2007 –December 2014 (in billion dollars)**



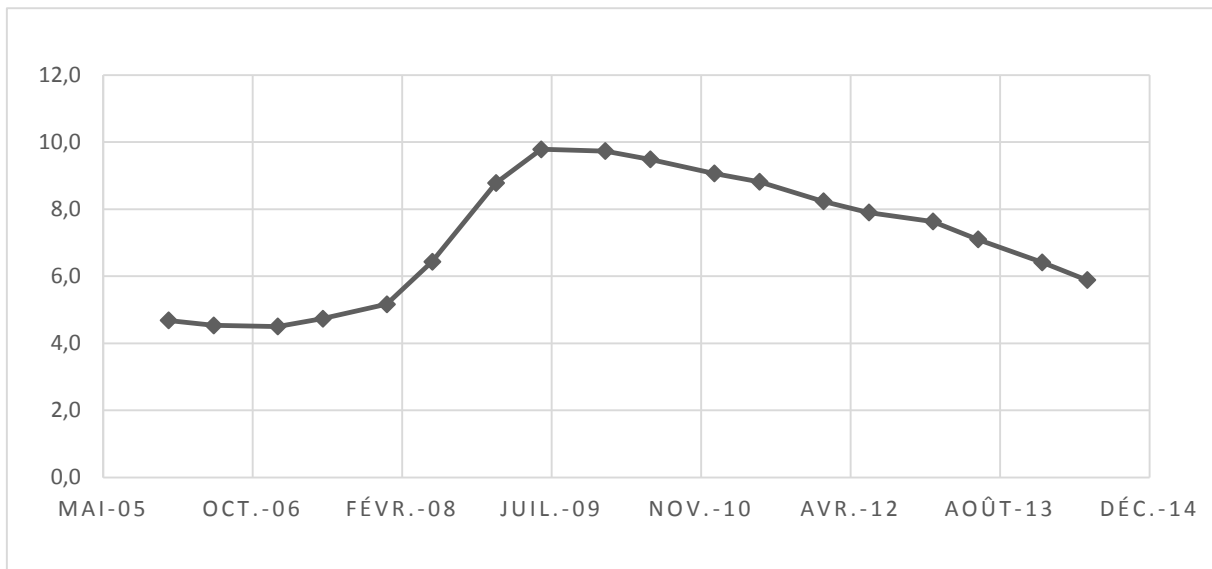
Source: Author's depiction based on data from the US. Bureau of Economic Analysis

In the United States, the effect of the financial, turned global, crisis of 2008 is very visible. From April 2008 until April 2009, America was in recession, meaning, less was produced in the country from one month to another. The first explanation can be the fact that companies' pension funds and savings were highly invested in the stock market. With the Dow Jones recording drops as high as 777.68 points on 29<sup>th</sup> September 2008 or 733.08 points one month later, the lost value of 2008 on the stock market is evaluated to 6.9 trillion dollars<sup>10</sup>. This can also be seen as an effect of the credit crunch: the banks, in turmoil, stopped allowing loans to companies. Those companies cannot face the absence of cash-flow that results from the receding demand from the population and have to file for bankruptcy, lowering the general

<sup>10</sup> „America Lost \$10.2 Trillion In 2008“, Business Insider, 03/02/2007: <http://www.businessinsider.com/2009/2/america-lost-102-trillion-of-wealth-in-2008>, accessed 14/03/2015

production. The United States will only get back to their production level of before the crisis in November 2010.

### Scheme 6: U.S. Unemployment Rate (16 and older) January 2006 –December 2014



Source: Author's depiction based on data from the US. Bureau of Labor Statistics

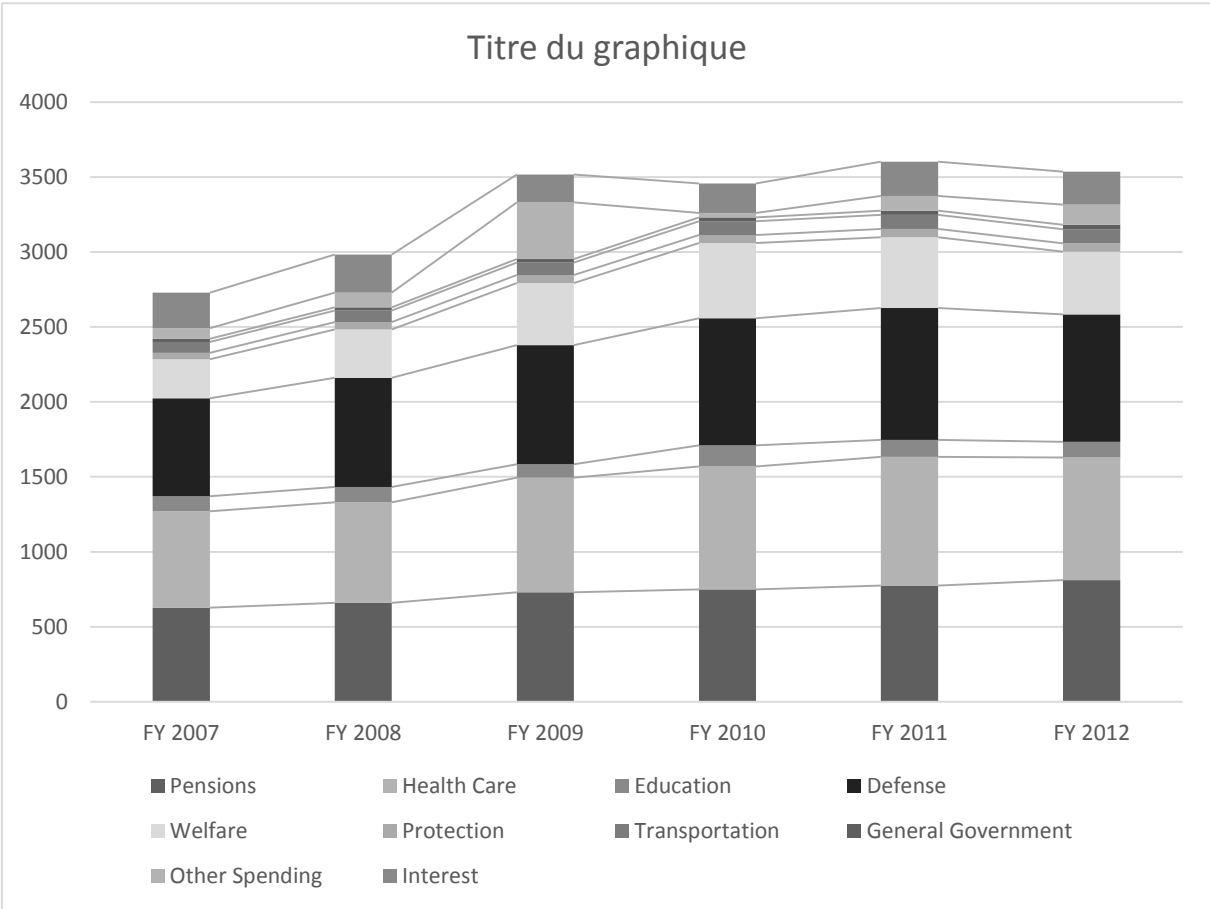
As defined by the International Labor Organization: “*The "unemployed" comprise all persons above a specified age who during the reference period were: without work, currently available for work, and seeking work*”<sup>11</sup>. Once again, as for the GDP, the crisis of 2009 is very visible in the evolution of the unemployment level in the US. Going from the average level of 4-5 percent of the previous year to almost 10 percent of the population in June 2009. This can be viewed as a direct impact of the closing of companies: 170,000 small businesses had to close their doors in the first two years to the crisis<sup>12</sup>. Before the crisis of 2008, 7 million people were unemployed in the United States, in 2009, this number rose to 15 million, and is as of January 2014 at approximately 8.9 million of unemployed<sup>13</sup>.

<sup>11</sup> International Labor Organization : <http://www.ilo.org/public/english/bureau/stat/download/res/ecacpop.pdf>

<sup>12</sup> „Recession claimed 170,000 small businesses in two years „, The Business Journal, 24/07/2013, <http://www.bizjournals.com/bizjournals/on-numbers/scott-thomas/2012/07/recession-claimed-170000-small.html>, accessed 14/03/2014

<sup>13</sup> Federal Reserve Bank of St. Louis: <http://research.stlouisfed.org/fred2/graph/?id=UNEMPLOY>, accessed 14/03/2015

**Scheme 7: U.S. Government’s spending by main post 2007-2012 (in billion dollars)**



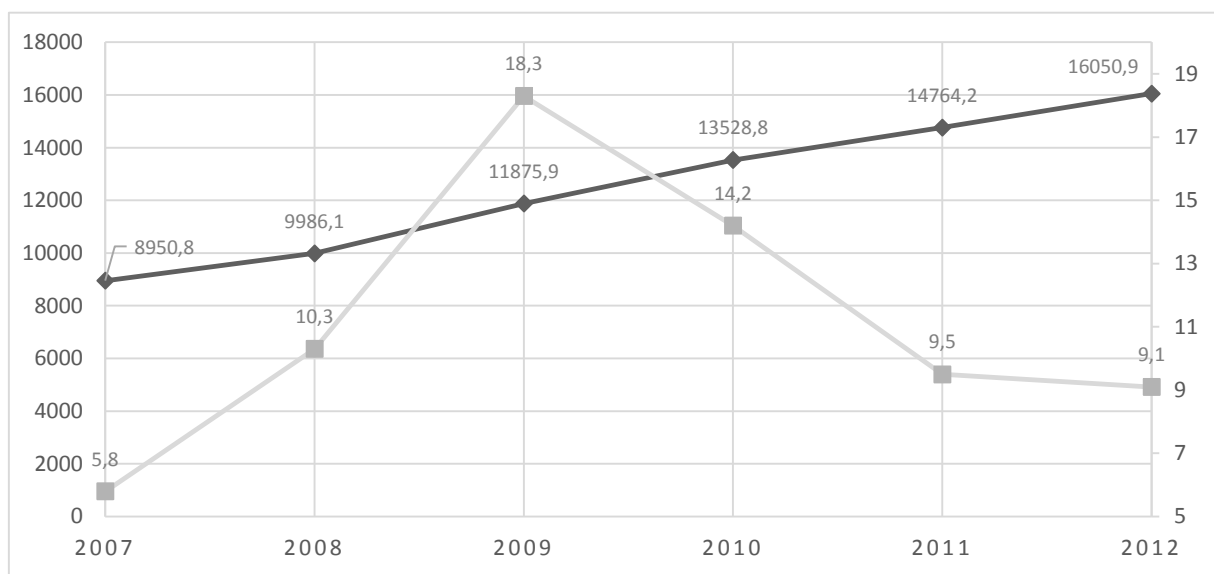
Source: Author’s depiction based on data from usgovernmentsspending.com

The spending allocation of the American government does not show as much changes relatively to the crisis compared to the GDP or the unemployment rate. The spending grow proportionally every year in an almost constant manner. But one element reveals the crisis: the 2009 “Other Spending” part: of 99.3 billion dollars in 2008, it reaches 377.2 billion in 2009, and goes back down to 28.9 billion in 2010. The surge in spending in this post can be explain by the Polson Plan, or *Emergency Economic Stabilization Act of 2008*.

This plan had for objective to bail out the banks, thus saving the American banking system from total collapse and ruining the American household who had their savings in them. The spending of this post correspond to the first payment of this plan. 250 billion were projected to be advanced to the banks immediately, then 100 billion dollars if the president of the United

States deemed it necessary and finally 350 billion after a new vote from the congress<sup>14</sup>. From the look of the spending repartition we can assume that this place stayed in its first two stages. The second spending of 100 billion was distributed during the following years. The third part of the plan was not executed and in September 2013, 421 billion dollars were spent for this program. That same month, it is estimated that 422 billion were recovered by the state<sup>15</sup> thanks to interest rate.

**Scheme 7: U.S. Federal debt 2007-2012 (in billion dollars) principal axis and its growth (in percent) secondary axis**



Source: Author's depiction based on data from usgovernmentspending.com and the Federal Reserve Bank of St. Louis

This graph gives us two details on the United States government during this period. Firstly, its debt not only never stopped rising between 2007 and 2012 but also almost double during this period. Secondly, the 2008 crisis is visible through the scope of the growth of the US federal debt. Never over 13% since 1991, the US debt rises up to a growth of 18.3% compared to 2008. This can be explained by the necessity of the government to overcome the effects of the crisis on the tax inputs. With less consumption and more companies filing for bankruptcy, the government do not get as much as estimated from its tax revenues. To be able

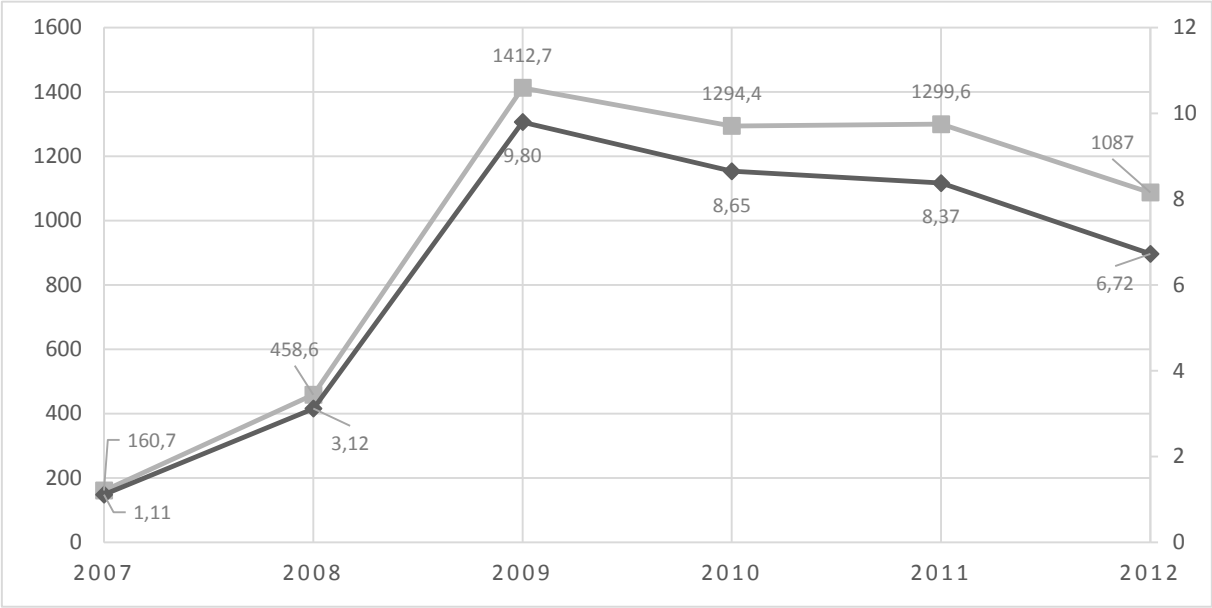
<sup>14</sup> „Summary of the Emergency Economic Stabilization Act of 2008“, The Washington Times, 28/09/2008, <http://www.washingtontimes.com/news/2008/sep/28/summary-emergency-economic-stabilization-act-2008/>, accessed 14/03/2015

<sup>15</sup> „Crise de 2008: un sauvetage "moins coûteux que prévu"?", L'Express, 11/09/2013, [http://lexpansion.lexpress.fr/actualite-economique/ crise-de-2008-un-sauvetage-moins-couteux-que- prevu\\_1443065.html](http://lexpansion.lexpress.fr/actualite-economique/ crise-de-2008-un-sauvetage-moins-couteux-que- prevu_1443065.html), accessed 14/03/2015



to put in action the Emergency Economic Stabilization Act of 2008 and face the usual spending of the government, it had to borrow money, thus building the debt. The rise of the debt in 2009 gives a measure of the turmoil the government was in at that time.

**Scheme 8: U.S. Federal deficit 2007-2012 (in billion dollars) principal axis and its percentage of the gross domestic product (in percent) secondary axis**



Source: Author’s depiction based on data from usgovernmentspending.com and Federal Reserve Bank of St. Louis

The deficit is to be linked to the debt of the federal government: the debt is the result of the deficit of the government. If the inputs are lower than the inputs the government cannot cover all its expenses and is thus building debt by accumulation.

This graph shows the staggering effect of the crisis on the deficit of the government with a loss of almost one trillion dollars from 2008 to 2009. This can be explained by the need to increase support spending, in particular for the Emergency Economic Stabilization Act of 2008, with less revenues from the taxes. What is also interesting to note is the very high share of GDP that the deficit starts to represent in 2009: 9.8%. A level never reached since 1943 during the Second World War with a level of 26.8 percent of the GDP<sup>16</sup>.

<sup>16</sup> Federal Reserve Bank of St. Louis : <http://research.stlouisfed.org/fred2/series/FYFSGDA188S#>, accessed 14/03/2015

With a recessing GDP, an increase in the spending, and a decrease of the revenues, the share of the deficit in the GDP is bound to be greater and greater. At the moment of redaction the United States government still faces deficit, representing for 2014 2.7 percent of the GDP.

The crisis of 2008 did hit the United States very harshly, they were the country of origin of the crisis, the first to be hit. They are what Guitton would call the „guiding country“ (Guitton, 1951). But how did it hit other countries, in particular France and European countries? And what were the first effects and reactions to this crisis in those?

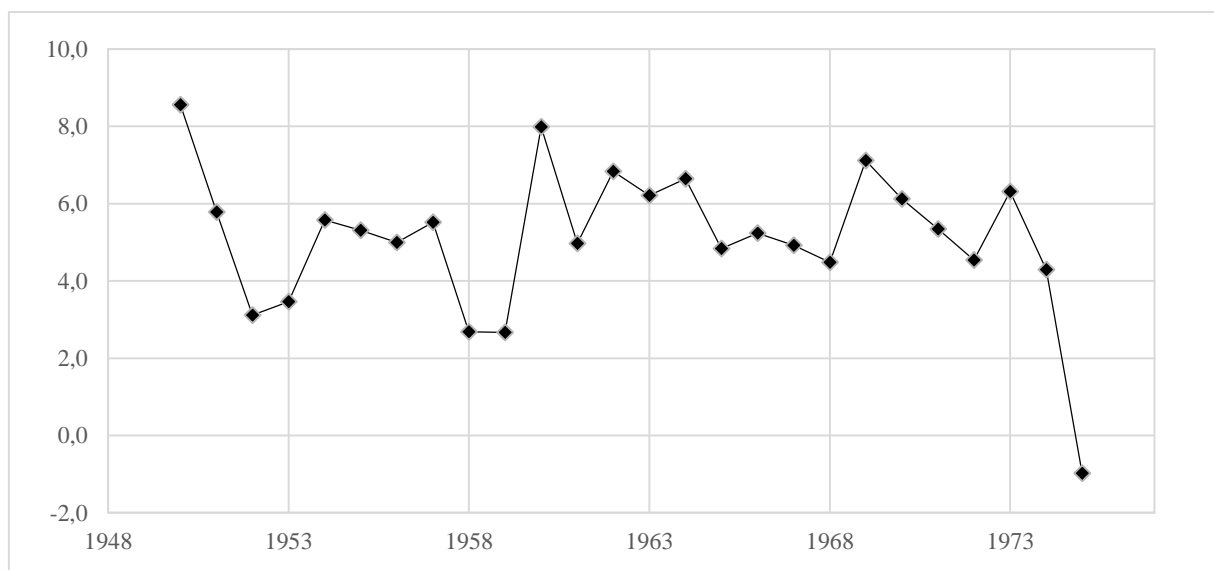
## II) The Beginning of the Crisis in France and Europe

### 1) The economic state of France before the crisis

#### A) The end of the heyday

At the end of second world war, pushed by the necessity of the reconstruction, France makes its entry into the period that Jean Fourastié called the *Trente Glorieuses* (the Glorious Thirty) (Fourastié, 1979). This reference to the *Trois Glorieuses* (Glorious three), the three revolution days of 1830 that overcome the last king of France, is nationally used to define the thirty years of growth and social development that followed the end of the war in France. As the name of his book support, the revolution of the *Trente Glorieuses* is a consumerist revolution with the entrance of France in the world of mass consumption.

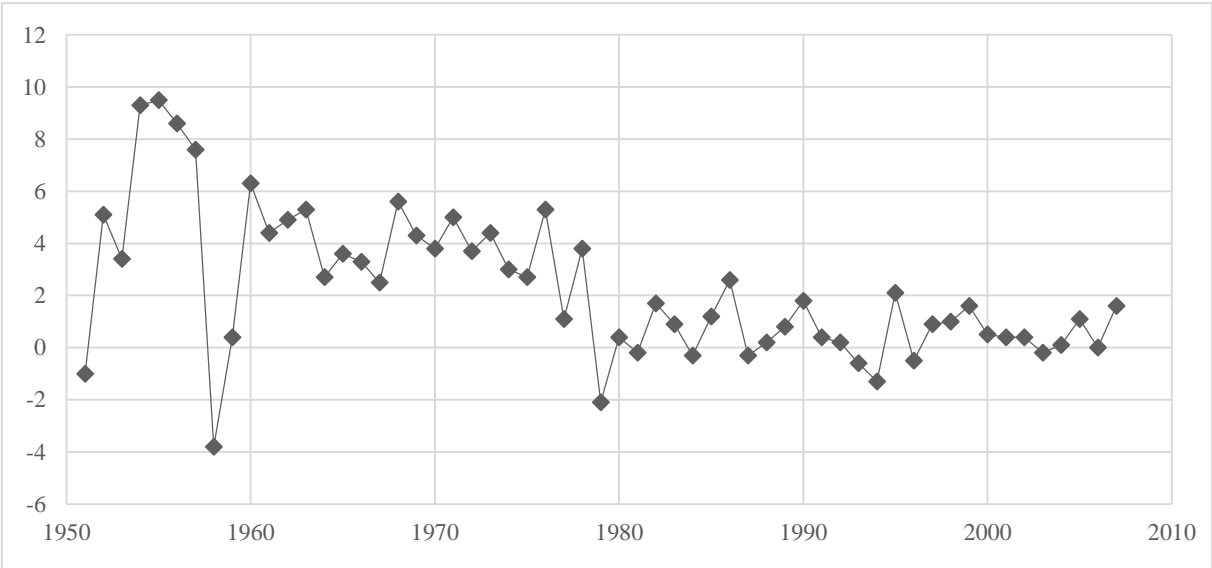
**Scheme 9: France's GDP Growth 1949-1975**



Source: Author's depiction based on data from INSEE

During this period, as seen on the graph above, the GDP growth was almost always over four percent, with four years around 3 percent. The first recession year came in 1975, due to the 1973 oil crisis, hitting the country with a two years delay, and marks the end of the Trente Glorieuses. For Denison the high rates of economic growth in France are mainly explained by technological progress imported from the United States and a mostly unregulated job market (Denison, 1967).

**Scheme 10: Evolution of purchasing power in France 1951-2007**



Source: Author’s depiction based on data from INSEE

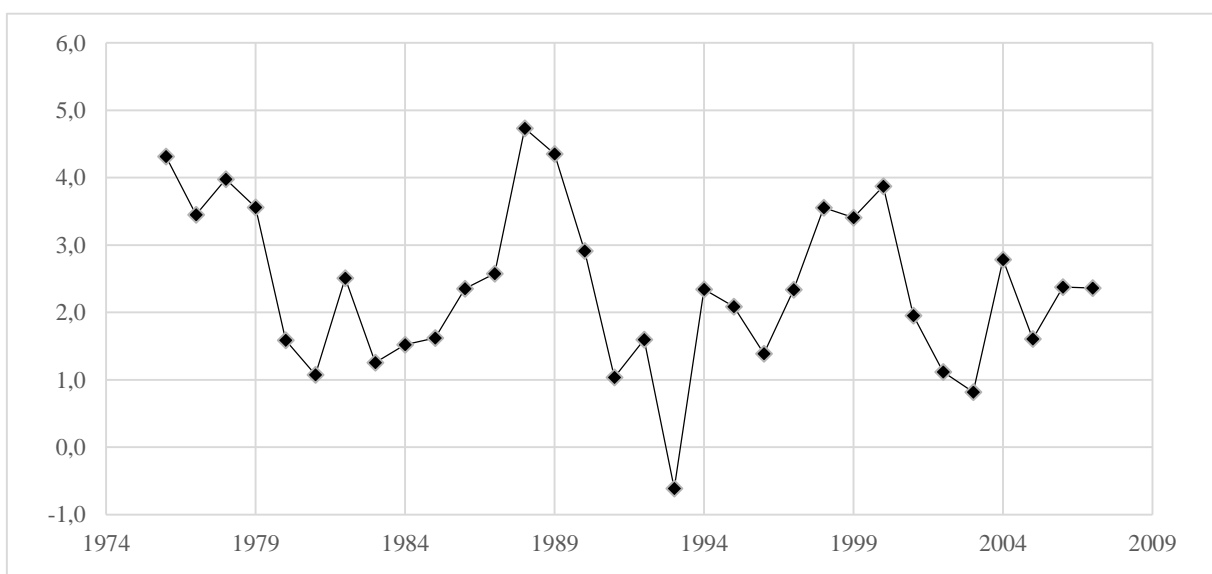
The evolution of the purchasing power during the period 1951-1975 reveals the evolution of France society into a society of mass consumption. With the exception of two years: 1951 and 1958, the purchasing power never ceased to grow, and most of the years at a rate of a two percent growth. The negative rate of 1951 can be explain by the continuance of rationing in the country after the war, and in 1958 the country faced the Algeria independence crisis of the coup of the 13<sup>th</sup> of May (Bromberger & Bromberger, 1959).

It is to be noted that a rise in the life quality and the life expectancy of the French people as well as a reduction of the wealth inequality was happening during the second part of the Trente Glorieuses (Piketti, 2001). After the end of the Trente Glorieuses, the deceleration of the improvement of the consumption capabilities is very visible, as seen on the Scheme 10. With a growth stagnating around zero percent and often getting under zero percent, it is

understandable that this period, which also distinguished itself by a great development of the industrial force, full employment, is since then considered as the heydays of the country, a kind of ideal toward which the entire country should aim and move.

But 1975 marks a flipping point in the economic growth of France. Driven by the United States growth to rise to the same levels of living standard until 1973, the slowdown of the American economy put a nail in the coffin of the French golden years.

### Scheme 11: France's GDP Growth 1976-2007



Source: Author's depiction based on data from INSEE

On this graph we can see that the growth never reached the level of five percent after the oil crisis of 1973. It suffered a general slowdown and seems confined mainly to levels under three percent. This period of time is more and more called the *Trente Piteuses* (the Pitiful Thirty) as a reference to the *Trente Glorieuses* (Baverez, 1998). The slowdown of the economy during this period was already forecasted by Denison, who considered that the end of the *Trente Glorieuses* would be caused by the end of exactly what started them: a slowdown in technical progress in the industry and a higher protection on the job market (Denison, 1979).

One year can be highlighted, with the second negative growth year, thus the second recession, since the end of World War Two: 1993. This crisis was in part led by the attack on the European Monetary system by the speculator George Soros and on the margin of the

exchange rates between the members of this system<sup>17</sup>. With the euro not yet established, the central idea of this system was to guarantee certain exchange rates to facilitate the commerce between the member countries. This crisis was also in part due to the reduction of the exchanges with the newly reunified Germany<sup>18</sup>.

The crisis of 1993 shares many commonalities with the future crisis of 2008. At that time, the go-to investment of the main national banks was real estate (Muet, 1994), with the increase of the interest rate by the Banque de France (France national bank) in 1992, the prices of real estate started to decrease. This led the commercial banks invested on the market to record significant losses and then, as a response, reduce the credit<sup>19</sup>. The over investment of the banks in one specific field would be the same cause of the future crisis, on an entirely new scale.

## B) The case of unemployment

During the period of the Trente Glorieuses, France was in a state of full employment. Full employment is defined by the International Labor Organization as an unemployment rate below 5 percent of the active population. Full employment receives such a definition because it is considered that under five percent of unemployment, the people looking for work are in transition situation, they are only between works.<sup>20</sup>

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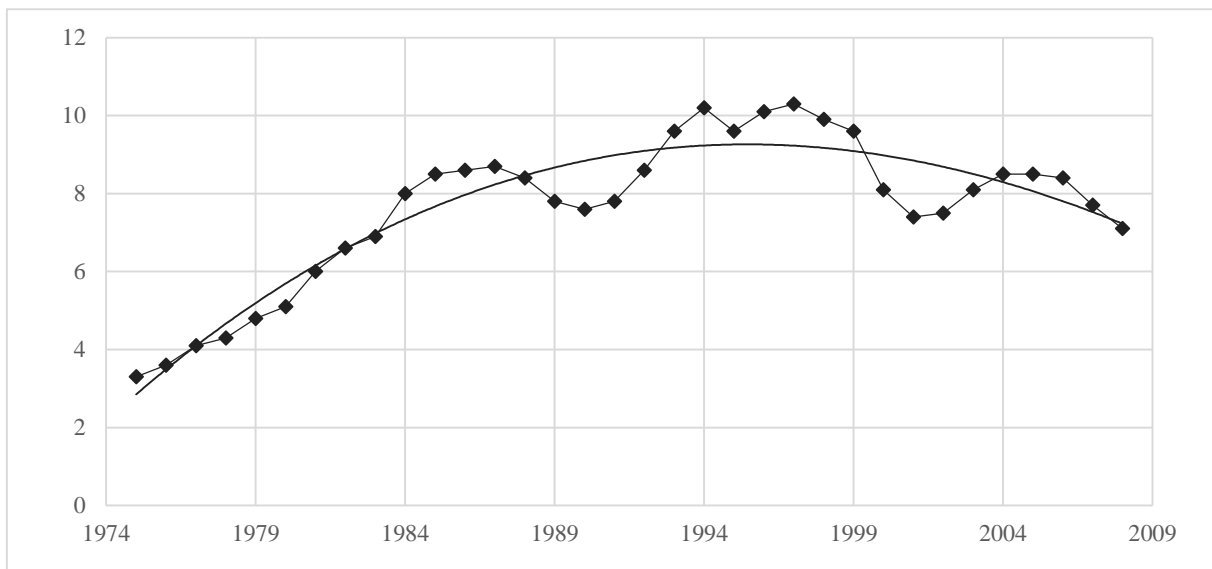
<sup>17</sup> „Samedi 31 juillet - George Soros spéculé sur le franc“, L’Express, 23/12/1993, [http://www.lexpress.fr/informations/samedi-31-juillet-george-soros-specule-sur-le-franc\\_596602.html](http://www.lexpress.fr/informations/samedi-31-juillet-george-soros-specule-sur-le-franc_596602.html), accessed 14/03/2015

<sup>18</sup> „Un regard sur la récession de l’hiver 1992-1993“, INSEE: [http://www.insee.fr/fr/themes/document.asp?reg\\_id=12&ref\\_id=16254&page=decimal/dec2010305/dec2010305\\_p12.htm](http://www.insee.fr/fr/themes/document.asp?reg_id=12&ref_id=16254&page=decimal/dec2010305/dec2010305_p12.htm), accessed 14/03/2015

<sup>19</sup> „En 1993, une récession comparable à celle prévue pour 2009“, Nouvel Observateur, 19/12/2008: <http://tempsreel.nouvelobs.com/la-crise-financiere/20081219.OBS6270/en-1993-une-recession-comparable-a-celle-prevue-pour-2009.html>, accessed 14/03/2015

<sup>20</sup> „Chômeur (BIT)“, INSEE: <http://www.insee.fr/fr/methodes/default.asp?page=definitions/chomeur-au-sens-du-bit.htm>, accessed 14/03/2015

**Scheme 12: France's Unemployment rate 1975-2008 and its trend line**



Source: Author's depiction based on data from INSEE

The first thing that meets the eye when studying the above graph and is the growth of the unemployment rate since the end of the Trente Glorieuses: from 3.3 percent in 1975 to 7.1 percent in 2008. But two main trends are visible, especially when the trend is outlined by the polynomial trend line. Two periods of time are visible: from 1975 until 1995-97, the unemployment reaches one of his two highest level in history, and from 1995-97 to 2008 with a globally decreasing unemployment rate. The two peaks of 1994 and 1997, and the high level in the in-between years, can be explained by the effect of the 1993 crisis.

### *The political array*

Unemployment during this period has to be linked to the political scope. In France, the two main political family, the name of the political parties tend to change with time, have very defined view on unemployment. The left is prone to see unemployment as Keynesian unemployment: it considers that it is the demand level that has to be helped in order to launch new hiring. The right has a more classical approach to unemployment and considers that it is on the level of the companies that the help should be focused, relieving it of too much regulation and costs.

From 1975 to 2007, three different presidents have succeeded each other's. From 1974 to 1981, Valéry Giscard d'Estaing, the only president from the center of the Fifth Republic, mainly acted on social issues like the right to induced abortion or the civil majority age. From 1981 to 1995, François Mitterrand, from the left, led multiple governments, notably two cohabitations, meaning that his government would be from the right when he himself was elected as a president from the left. From 1995 to 2007, Jacques Chirac, from the right, also led multiple governments including one cohabitation with the left.

This alternation of governments and political trajectories can be seen as one of the explanation of the impossibility of the leaders to set in motion effective long lasting plans to tackle unemployment. The left would create laws restricting the possibility to fire employees, increase the taxes of the richest, and increase the state's workforce and redistributions. The left is globally reaching for the idea of "social progress". The right would tend to lower the taxes for the companies, pass laws making easier the accession to first jobs, and reduce the state workforce. The right tends to be in favor of the policy of the German chancellor Konrad Adenauer which can be summed up as: the best social policy is a healthy economic policy (Williams, 2001). During this period, what one government would set, the next would pass a new law to reduce the impact of the first one, rendering impossible the implementation of substantive solutions, and increasing the legislative build-up.

In his books, Kuznets explained that without the smoothing of the state and the setting by it of a supportive environment, a country is bound to be the victim of the economic cycles (Kuznets, 1930) (Kuznets, 1971). And France seems to fall into that category.

### *The 35 hours*

After the *Accords de Matignon* (Matignon Agreements) of 1936 which set the legal average weekly working hours to 40, the government led by Lionel Jospin, from the left, under the presidency of Jacques Chirac passed a defining law for the French economy of the years two thousand. Also called *Lois Aubry* (Aubry Law) for the name of the then Minister of Labor Martine Aubry, the measure was inspired by bilateral agreements in Germany that let some industries reduce their worktime. The difference being that in France, this law was to be applied



to the entire economy. Voted in 1998 and validated in 2000, the reform became effective later that same year.

This measure was the corner stone of the left for the legislative elections of 1997 which led to the cohabitation. Three objectives were considered for this reform. The main one was the reduction of unemployment. With the highest rate of unemployment of its history at the time (see scheme 12) the country had to review its measures to lower it. The idea was that, with a reduction of worktime of 10.2 percent, the companies would have to increase the number of hiring by the same amount. The aim was to create 700 000 jobs<sup>21</sup>. Another objective was to restart the social dialog between the economic actors: the companies, the government, and the unions. The last objective was to increase the productivity by a better quality of life: with more free time, an employee would have a more balanced life and would feel better at his job, thus increasing its productivity.

The effect of the policy are largely debated. In 2003, the OECD conclude that, even if it there might have been some positive effects on the job market in the short term, the cost for the government and the breaks it sets on the growth might be higher than the benefits<sup>22</sup>. In 2002, l'IFRAP, *Institut Français pour la Recherche sur les Administrations et les Politiques Publiques* (Foundation for the Research on the Public Administrations and Public Policies), calculated that this reform created 500 000 jobs for a cost for the government of 65 billion francs (10 billion euros)<sup>23</sup>. This cost comes from the fact that the government planned to allocate help for the companies to cover a part of the increase of the hourly wage resulting from the shortening of the work time. The official numbers taken by the left and the minister at the origin of the law are 400 000 jobs created, and the INSEE, the national institute of statistics, estimates this number at 350 000<sup>24</sup>.

This reform is also controversial with the effects it had on the relation between companies and employees. Before the passing of the law, the unions and the companies were agreeing on negotiating the reduction and/or adjustment of the working hours in a German fashion: by industry branch and company. Negotiations would be held as the job of each

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<sup>21</sup> Partie Socialiste information: <http://www.psinfo.net/elections/legislatives/1997/changeons1.html>, accessed 05/03/2015

<sup>22</sup> „La réduction du temps de travail, une comparaison de la politique des „35 heures“ avec d’autres politiques de pays membre de L’OCDE“, OECD, 22/01/2003: <http://www.oecd.org/fr/emploi/emp/25806219.pdf>, accessed 05/03/2015

<sup>23</sup> IFRAP, 10/2002: <http://www.ifrap.org/6-actualite/Colloque-2002-10/tmocilnikar.PDF>, accessed 05/03/2014

<sup>24</sup> INSEE: [http://www.insee.fr/fr/ffc/docs\\_ffc/es376377b.pdf](http://www.insee.fr/fr/ffc/docs_ffc/es376377b.pdf), accessed 05/03/2014

categories would evolve. Some unions point out that the hasty passing by the government of a general law, without regards or consultation of the economic actors worsen the relations between them. One union in particular, the CFDT, *Confédération Française Démocratique du Travail* (French Democratic Work Federation), considers that the social dialogue has been greatly worsen by this measure and that it « reinforce the CEOs/employees manicheism<sup>25</sup>».

Unemployment, being at the center of the economic and political talk nowadays, gives a realistic image of the running, or non-running, of the French eco-political environment of the thirty years that led to the 2008 crisis: a political stalemate and a legislative buildup.

## 2) The first effects of the subprime crisis in France

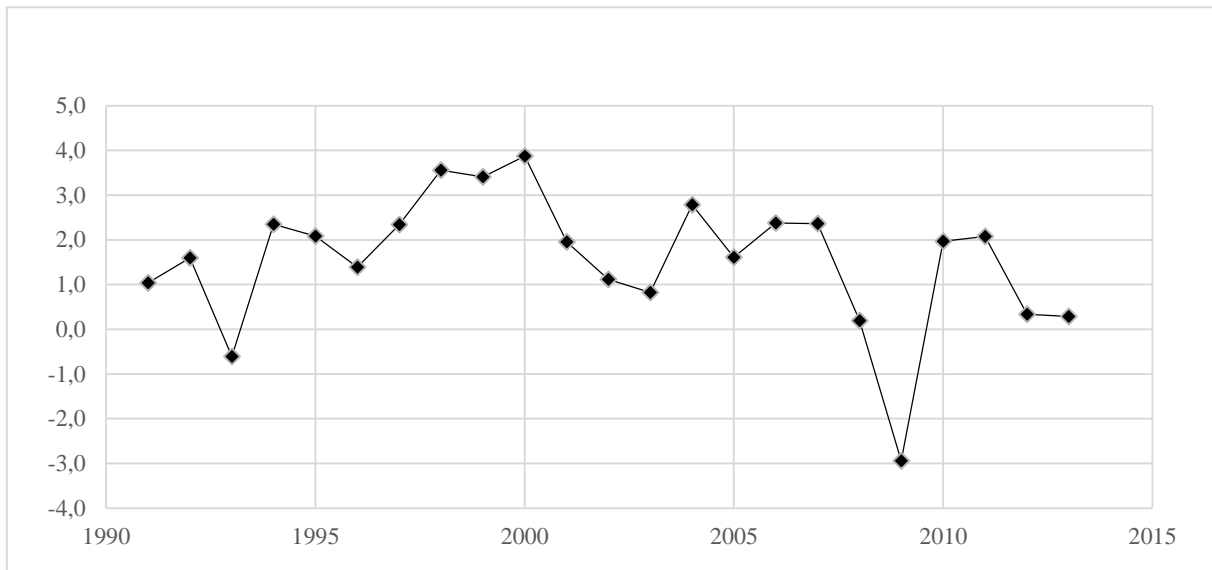
### 1) Global results

Like most of the other industrialized countries, France suffered from the 2008 financial crisis. In 2008 the GDP only grew of 0.4 percent while it was growing of 2.4 percent in 2007, and it dropped to a recession of 2.9 percent in 2009. The main causes of the slowdown of the economic growth is the slowdown of the national demand and the reduction of the exportations. In 2008 the demand of the households only grew of about 1 percent, while during the previous ten years, it always grew by more than 2 percent.

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<sup>25</sup> „35 heures : "Pas une bonne idée" (CFDT)“, Le Figaro, 22/08/2014: <http://www.lefigaro.fr/flash-eco/2014/08/28/97002-20140828FILWWW00059-35-heures-pas-une-bonne-idee-cfdt.php>; accessed 05/03/2014

### Scheme 13: France's GDP growth rate 1991-2013



Source: Author's depiction based on data from INSEE

On the whole the investments of the economic actors of the country slow down as well in the days following the crisis after being in an increase sharply in the last 4 years. The investment of the households mainly translates in France by investments in new real estates or rehabilitation works of already existing properties. After the crisis, those investments in the real estate market decreased for the first time since 1993<sup>26</sup>. The consumption of the households as mentioned above, slowed down in 2008: while it grown of 2.4 percent in 2007, it lessened to 1 percent in 2008.

The public administration's investment also greatly decreased: from a 4.5 percent growth in 2007 to a 4.4 percent decrease in 2008. But this evolution can also be explained by the fact that legislative elections were held in 2007, and the politicians in office tend to spend more during election years.

On the front of the companies, the added value really suffered from the reduction of the demand. Considering the non-financial companies, the growth of the value added was slower than the growth of the salaries, thus the EBITDA, earnings before interests, depreciations and amortizations, only grew of 2.2 percent while the growth was of 7.4 percent in 2007. The productivity at work also suffered from the crisis. It is to be noted that, since the implementation of the 35 work hours per week law, France ranked among the most productive countries of the

<sup>26</sup> INSEE : [http://insee.fr/fr/themes/document.asp?reg\\_id=0&id=2876](http://insee.fr/fr/themes/document.asp?reg_id=0&id=2876), accessed 06/03/2015

world<sup>27</sup>. None the less, if during the five years before the crisis, the average productivity, excluding the agricultural sector, was growing at a rate of 1.8 percent per year, in 2008, the productivity decreased by 0.1 percent. This could be the effect of the slowdown of the production of certain industries with a short production cycle, which could have adapted faster to the slower demand.

**Table 2: Main France's GDP influencing posts 2006-2008**

Main GDP influencing posts	2006	2007	2008
Final consumption of households	1,3	1,3	0,5
Final consumption of public administrations	0,3	0,4	0,3
Gross fixed capital formation	0,8	1,4	0,1
Non-financial companies	0,4	0,9	0,3
Public administrations	-0,1	0,1	-0,1
Household production	0,3	0,3	-0,1
External balance of goods and services	-0,3	-0,8	-0,3
Exports	1,3	0,7	-0,1
Imports	-1,5	-1,5	-0,2
Variation de stocks	0	0	-0,3
GDP	2,4	2,4	0,2

Source: Author's depiction based on data from INSEE

With the crisis hitting the world, the international trade contracted. This led to a slowdown in the growth of the exportations (weaponry excluded) in the country: from a growth of over 5 percent for the 3 years before the crisis (over 10 percent for 2004 and 2006), the growth is only of 3 percent in 2007 and 2008<sup>28</sup>. Despite this growth, 3000 French companies stopped exporting in 2008 due to a lower international demand<sup>29</sup>.

The companies were also hit on their savings. Since they were based on the results of the previous year, companies' dividends stayed high in 2008. This element and the fact that the companies had to pay interest rates on their loans in a context of high-end risk premium meant that less and less was set aside from the results. Thus after a sharp increase in 2007 of 10.9

<sup>27</sup> „U.S. CEO Insults French Workers. He's Wrong. So Are the French“, Bloomberg, 21/02/2013: <http://www.bloomberg.com/bw/articles/2013-02-21/u-dot-s-dot-ceo-insults-french-workers-dot-hes-wrong-dot-so-are-the-french> , accessed 06/03/2015

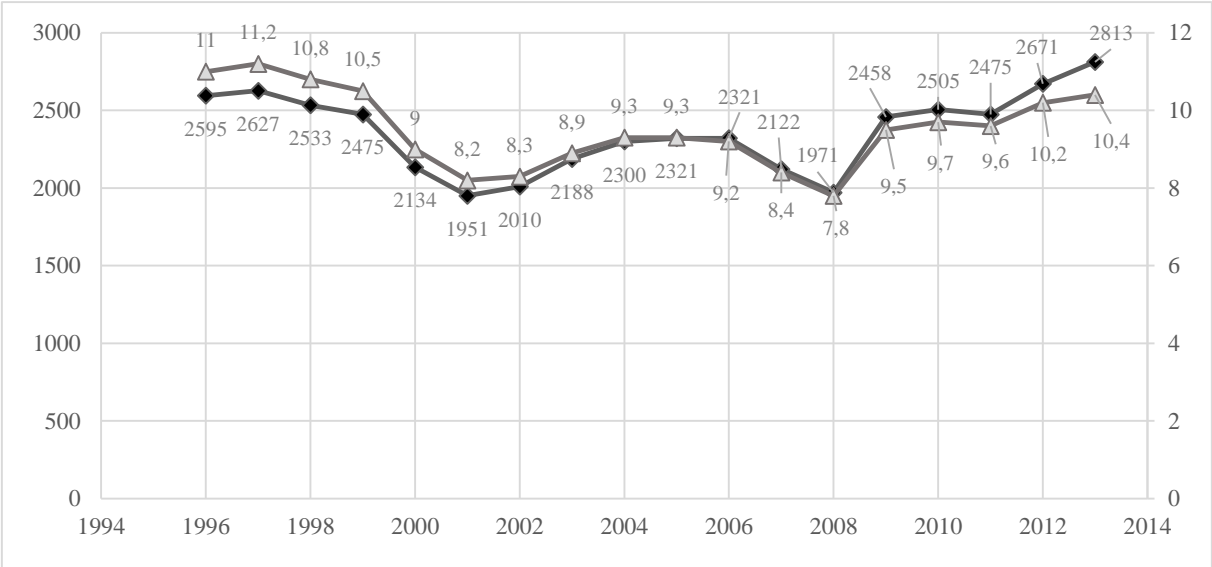
<sup>28</sup> INSEE: <http://www.insee.fr/fr/bases-de-donnees/bsweb/serie.asp?idbank=001568783>, accessed 07/03/2015

<sup>29</sup> „La France en déficit d'exportation en 2008“, L'usine nouvelle, 09/02/2009: <http://www.usinenouvelle.com/article/la-france-en-deficit-d-exportation-en-2008.N30047>, accessed 07/03/2015

percent, the savings of the companies decrease by 6.6 percent in 2008. Self-financing reached his lower point since 1974 with a drop of 8 points to 61.6 percent in 2008<sup>30</sup>.

Many companies could not face those new conditions and had to declare bankruptcy. In a study conducted over the companies created between January 1<sup>st</sup> 2000 and December 31<sup>st</sup> 2007, the INSEE estimated that more than half of the 63 500 companies bankruptcy declared between November 2008 and November 2009 can be directly attributable to the 2008 crisis<sup>31</sup>. This high number of company closing led to a resurgence of unemployment.

**Scheme 14: Number of unemployed (BIT definition) in thousands, principal axis and in percentage of the active population, secondary axis 1974-2013**



Source: Author’s depiction based on data from INSEE

As we can see on the above graph, between 2008 and 2009, the unemployment increased in number as well as in share of the active population. Increasing from 7.8 percent in 2008 to 9.5 percent in 2009, and from 1.97 million to 2.46 million in the same period. If the rate and the number of unemployed worker still doesn’t reach in 2009 the levels of 1996-1997, it announces a trend that will not stop, at least until the end of 2014.

<sup>30</sup> INSEE : [http://insee.fr/fr/themes/document.asp?reg\\_id=0&id=2843](http://insee.fr/fr/themes/document.asp?reg_id=0&id=2843), accessed 07/03/2015

<sup>31</sup> INSEE : [http://insee.fr/fr/ffc/docs\\_ffc/ES462C.pdf](http://insee.fr/fr/ffc/docs_ffc/ES462C.pdf), accessed 07/03/2015

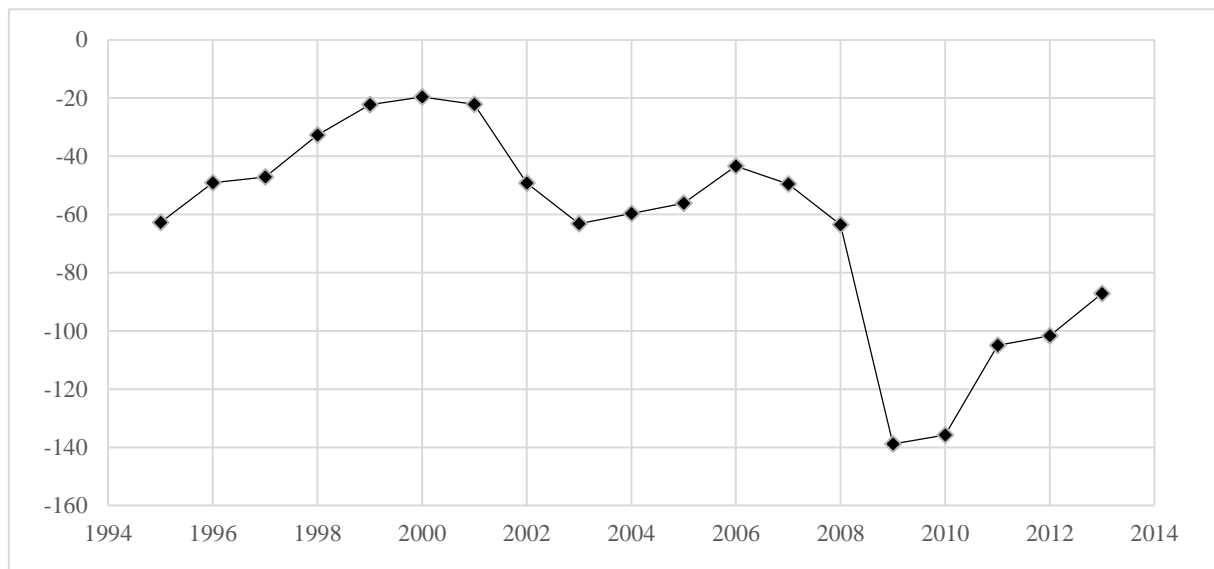
But one category of the active population is particularly affected: the 15-24 years old part. From 2008 to 2009 the number of unemployed 15-24 years old went from 528.000 to 676.000, the highest level since 1987. It also went from 18.3 percent to 22.9 percent, the highest rate since the definition of this age group in 1975. This can be explain by the reluctance of the companies, which already have to manage reduced profit, to bet on newcomers on the job-market instead of more experienced workers, or even developing their own workforce through training.

## 2) The debt

The financial crisis of 2008 slowed down the economy, by impacting the companies as well as the populations. This led to another crisis in the following years: the sovereign debt crisis of some European countries. The logic is that, with the decline of the economic wellbeing of the national economic actor, the states do not get enough inputs from the taxes, and through economic policies, might see its expenditures rise. This thus leads to a possible deficit of the state or a worsening of an existing deficit (Nersisyan & Randall, 2011). The last year the French administration turned up more input than output was 1974, before the effect of the crisis could be recorded in the national spending, and the debt kept growing from then on.

It is to be noted that the administrative deficit is different from the state deficit, the two being often mistaken in articles. The administrative deficit of France takes into account the state's deficit and adds to it the central public administration's deficit, the local administration's deficit, and the social security administration's deficit.

### Scheme 15: French administrative deficit, in billion euros

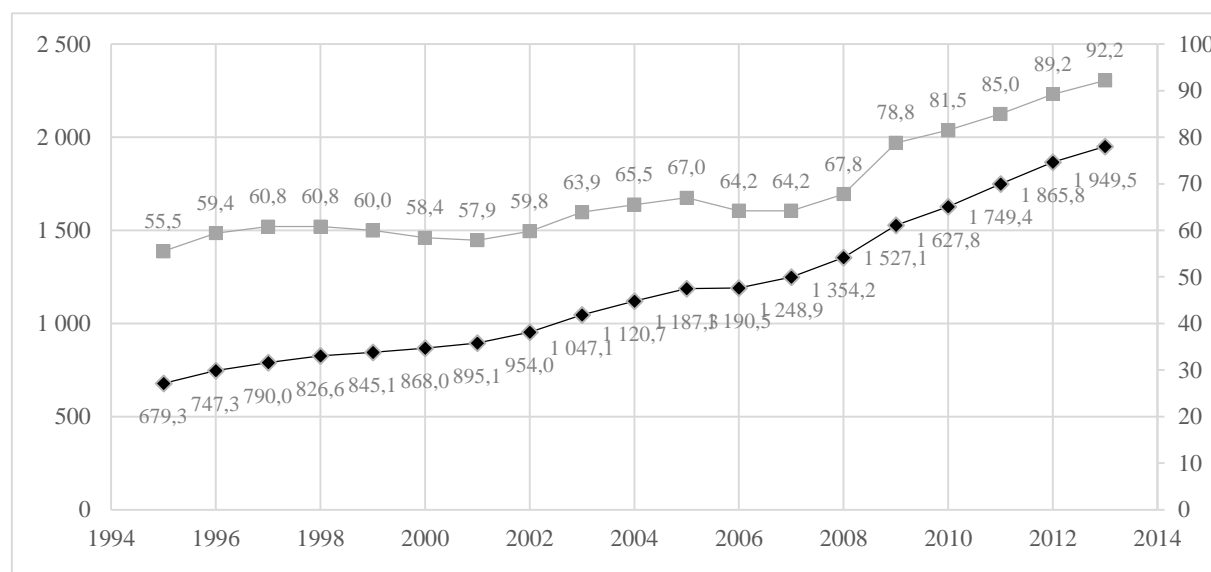


Source: Author's depiction based on data from INSEE

As we can see, if the deficit was already in a worsening trend for the two previous years, 2009, when the effect of the 2008 crisis can be felt on the administration budget, there is a doubling of the deficit: from 63.5 billion in 2008, to 138.9 billion in 2009. In term of percentage of GDP this is the equivalent of a steep increase from 3.2 percent of the GDP in 2008 to 7.2 percent in 2009. Two posts can be highlighted in the worsening of the deficit: the state, which saw its deficit grow from 3.3 percent of the GDP to 6 percent in 2009, and the social security, which after four years of being in the green became turned up a loss again, of 1 percent of the GDP.

Since a country still need to function when the state runs out of money, the administrations, through the state, are able, up to a point, to get loans to finance themselves. The deficit of the different administrations accumulate every year and build up the national debt.

**Scheme 16: French national debt, in billion euros, principal axis and in percentage of the GDP, secondary axis 1995-2013**



Source: Author's depiction based on data from INSEE

As we can see on the graph, 2009 is affected by a higher worsening of the percentage of the GDP the debt represents than the previous years. Due to the augmentation of the deficit, the debt which represented 67.8 percent of the GDP in 2008, went to represent 78.8 percent of the GDP in 2009. It can indeed be argued that it is not the amount of the debt that is important but the share of the GDP.

The debt in itself might be necessary: if the total amount of debts diminishes in countries where the national banks do not create money, then the monetary supply is reduced which can lead to a recession. An economic actor then has to run into debt. Firstly, if the banks do not want to take any risks and do not loan to companies and households, only the state has the stature to attract loans. Secondly, if the companies do not want to get loans to invest and if the households prefer savings to consumption in a time of crisis, the state has to get indebted to go against this kind of liquidity trap (Keynes, 1936). As we can see, the country hasn't reach in 2009 the level of 90 percent of the GDP highlighted as being the stage where the debt starts to have negative effects on the growth (Reinhart & Rogoff, 2009), but the level will be reached in the following years (2012-2013).



France was greatly touched and affected by the 2008 crisis and the results can be seen as soon as 2009 on the main macroeconomic indexes. But is the reach of the crisis important only in France or were the same effects seen in other European countries?

### 3) European comparison

We can compare France to two other European countries: Germany and the Czech Republic. Germany has been a founding country of the European Union in 1957. The Czech Republic, a fairly young country of its own, joined the European Union in 2004. It is to be noted also that since 2002, Germany official currency is the Euro, while the Czech Republic kept its own national currency, the Czech crown. The comparison between those countries makes sense in the way that Germany and France are often pointed out as an economic couple, with a lot of their production exchanged between themselves and a lot of partnership set in place. They are next to each other in the world economic ranking: Germany being the fourth country by the nominal GDP while France is fifth. The Czech Republic, ranking fifty second<sup>32</sup>, on the other hand offers a different economic picture: an economy which became a market economy rather recently, joined the union even more recently, and was moved from the category of Emerging and Developing Countries to the category of Advanced Economies by the IMF in 2009<sup>33</sup>.

**Table 3: GDP growth of the Czech Republic, German, and France 2003-2013**

Country\Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Czech Republic	3,6	4,9	6,4	6,9	5,5	2,7	-4,8	2,3	2	-0,8	-0,7
Germany	-0,7	1,2	0,7	3,7	3,3	1,1	-5,6	4,1	3,6	0,4	0,1
France	0,8	2,8	1,6	2,4	2,4	0,2	-2,9	2	2,1	0,3	0,3

Source: Author's depiction based on data from Eurostat

<sup>32</sup> CIA: <https://www.cia.gov/library/publications/the-world-factbook/>, accessed 09/01/2015

<sup>33</sup> IMF : <http://www.imf.org/external/pubs/ft/weo/2009/01/weodata/weose1gr.aspx>, accessed 09/01/2015

As seen on the graph above, the Czech Republic shows a different trend from the German and French ones. While Germany and France both have a low GDP growth, never reaching over 4 percent, in the years before the crisis, the Czech Republic has growth rates reaching as high as 6.9 percent, and constantly over 4.9 percent after the integration in the European union.

Of the three countries Germany is the one most hurt by the 2008 crisis in 2009 with a recession of 5.6 percent of the GDP. This can be explained by the very important part of the exportations in the German economy, the exportations were of the level of 43.5 percent of the GDP in 2008<sup>34</sup>. And the fact that those exportations mainly are made with other countries suffering from the crisis reinforce this effect: France, the United States, and the United Kingdom constantly representing at least 23 percent of Germany's export's destinations<sup>35</sup>.

The analysis is almost the same for the Czech Republic. In 2008, the exports represented 63 percent in term of the Czech Republic GDP<sup>32</sup>, a greater amount that Germany and France. Also, the importance of one country in the export is very visible. If the four main importers of Czech goods are Germany, Slovakia, Poland, and France, Germany alone represents more than 30 percent of the country exports<sup>33</sup>. The Czech economy was very dependent on the wellbeing of the German economy, which can explain in part the recession of 4.8 percent in 2009.

We can thus see that the countries with high level of exportations were the first touched by the crisis, and in a greater scale than others, which like France, with a level of export of 27 percent of the GDP in 2008, were having less to lose in a contraction of the world trade after the crisis.

**Table 4: Unemployment Rate of the Czech Republic, German, and France 2003-2013**

Country\Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Czech Republic	7,8	8,3	7,9	7,1	5,3	4,4	6,7	7,3	6,7	7	7
Germany	9,7	10,4	11,2	10,1	8,5	7,4	7,6	7	5,8	5,4	5,2
France	8,6	8,9	8,9	8,8	8	7,4	9,1	9,3	9,2	9,8	10,3

Source: Author's depiction based on data from Eurostat

<sup>34</sup> World Bank: <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS>, accessed 09/03/2015

<sup>35</sup> CIA : <https://www.cia.gov/library/publications/the-world-factbook/fields/2050.html#gm>, accessed 09/03/2015

On the topic of unemployment we can see two trends. This time the Czech Republic and France share the same one: an increase from 2008 to 2009 of approximately 2 percent. Germany on the other hand saw only an increase of 0.2 percent. The explanation for the rise of the unemployment in the Czech Republic can be seen as the same as in France: an increase in the firing of worker in the end of 2008 and during 2009 and the difficulty for the young graduate to find a first full time job. The difference between the two countries comes from the trend in the previous years. From 2004 until 2008 the Czech Republic saw its unemployment rate decreasing from 8.3 percent of the active population to 4.4 percent. In France the unemployment stayed in a stable trend between 8 and 9 percent. If the unemployment rate was already high in France, the Czech Republic had an unemployment rate considered by the ILO to be a full employment rate. We can thus imagine that the unemployment in the Czech republic not only grow but also saw the development of endemic unemployment, also called long term unemployment.

The trend in Germany is different for one main reason: the importance of part time jobs in the German economy. With the exception of 2009 in a limited manner, the unemployment rate in Germany saw a constant reduction from 2005 until 2013. On the 2.5 million jobs created during this period, most of the jobs were part time job or fixed term jobs<sup>36</sup>. The importance of part time jobs in Germany can be linked to the passing of the Hartz reforms of 2003 and 2005, considered by many as being at the origin of the “German Miracle”: *“The reforms were set out in four laws aimed at strengthening job-search activities, providing incentives for the unemployed to accept a job, and encouraging labor force participation, notably for women and older persons”*<sup>34</sup>. During the crisis of 2008, laws were passed to further increase the flexibility of the workforce to lower the firings.

We can see that the crisis impacted more the job market of the countries with a rigid work environment, like the Czech Republic and France, whereas countries like Germany, with a highly flexible job market seem to have less suffered from it. With the cost of a reduced income in some instance, but still, with the remaining of an income.

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<sup>36</sup> Administration du Trésor: <http://www.tresor.economie.gouv.fr/File/386657>, accessed 09/03/2015

**Table 5: Government Deficit of the Czech Republic, German, and France  
in percentage of GDP 2003-2013**

Country\Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Czech Republic	-6,4	-2,7	-3,1	-2,3	-0,7	-2,1	-5,5	-4,4	-2,9	-4	-1,3
Germany	-4,1	-3,7	-3,3	-1,5	0,3	0	-3	-4,1	-0,9	0,1	0,1
France	-3,9	-3,5	-3,2	-2,3	-2,5	-3,2	-7,2	-6,8	-5,1	-4,9	-4,1

Source: Author's depiction based on data from Eurostat

On the topic of the government deficit we can see one trend, but carried out in two different scales. The first one in the Czech and German one: the two countries were greatly reducing their deficit in the years before the crisis. In some part with the help of the European Union and the development of foreign direct investments for the Czech Republic, and a renewed economic growth and taxation for Germany. This lowering, and in the case of Germany, the suppression of the deficit, was stopped by the 2008 crisis with an increase of 3 percent of the deficit in percentage of the GDP between 2008 and 2009 for the two countries. This trend is existing in a lesser extent in France, where the reduction was lower and the impact of the crisis was greater with an increase of 4 percent. As well as for France, the increase of the deficit for Germany and The Czech republic can be explained by the increase in spending, the emergency measures taken to face the crisis, and a reduction of the tax revenues for the state.

**Table 6: Government Debt of the Czech Republic, German, and France  
in percentage of GDP 2003-2013**

Country\Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Czech Republic	28,1	28,5	28	27,9	27,8	28,7	34,1	38,2	41	45,5	45,7
Germany	62,9	64,6	66,8	66,3	63,5	64,9	72,4	80,3	77,6	79	76,9
France	63,9	65,5	67	64,2	64,2	67,8	78,8	81,5	85	89,2	92,2

Source: Author's depiction based on data from Eurostat

The increase of 2009 of the deficit led to a worsening of the government debt for the three states, but once again in two different measures. The Czech Government debt is less than

half the ones of Germany and France in terms of respective GDP, but during the crisis, the debt growth of the Czech Republic is closer to Germany than Germany's is to France's. With an increase of 5.4 points, the Czech Republic has the smaller relative growth of the three countries. Germany faces a 7.4 points increase while France faces an 11 points increase. But the aftermath of the crisis on the debt seem to be continually more felt in 2010 in Germany and the Czech Republic. Before seeing its government debt reduced in 2011, Germany sees its debt growing by another 8 points from 2009 to 2010. The Czech Republic on the other hand has seen its debt increase by 4 points.

As we can see, Germany and the Czech Republic seem to follow the same trends when it comes to deficit and debt, while France and Germany shared before the crisis a greater resemblance in the reach of the numbers.

The direct aftermath of the crisis change this relation in the "Franco-German couple", but seemed to have reinforced the visible links between the Czech Republic and Germany.

# III) The Measures

## 1) The immediate responses in France

### A) Declaration of Intent

The first acknowledgment from the French government of the necessity of taking actions against the crisis was unveiled during a speech from the then president Nicolas Sarkozy in Toulon, on September 25<sup>th</sup> 2008, and is often referred as *Le discours de Toulon* (the speech of Toulon)<sup>37</sup>. It also roughly gives the big trends that would have to be followed by economic policies. We can highlight 4 trends:

- « *L'autorégulation pour régler tous les problèmes, c'est fini. Le laissez-faire, c'est fini. Le marché qui a toujours raison, c'est fini* ». “The self-regulation to solve all the problems, finished. The Laissez-faire, finished, the “always right” market, finished”

The goal of the president at that time is to set new legislations to allow the European Union to control the banks with a greater power.

- “*Les modes de rémunération des dirigeants et des opérateurs doivent être encadrés*». [...] «*Leur rémunération doit être indexée sur les performances économiques réelles de l'entreprise* ». « The salaries of the employers have to be controlled [...] they must be linked with the real results of the company »

Something that shocked the French public during the crisis of 2008 was the disclosure, or the realization of the very high difference of revenues between the employers and the employees. The main problem is that the people were referring themselves to the salaries of Wall Street CEOs, or the salaries of the CAC40<sup>38</sup> companies' CEOs. But in France, more than

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<sup>37</sup> „Le discours de Nicolas Sarkozy à Toulon“, Le Monde, 25/09/2008:  
[http://www.lemonde.fr/politique/article/2008/09/25/le-discours-de-nicolas-sarkozy-a-toulon\\_1099795\\_823448\\_1.html](http://www.lemonde.fr/politique/article/2008/09/25/le-discours-de-nicolas-sarkozy-a-toulon_1099795_823448_1.html), accessed 10/03/2015

<sup>38</sup> The CAC 40: „Cotation Assistée en Continu“, Continuous Power Quotation, is the french exchange market main index, gathering the 40 most valued and exchanged companies of the french market.

99.5 percent of the companies are small and medium-sized enterprises<sup>39</sup> without those kinds of gaps. Even if the president was aiming at the aforementioned companies, this sentence, even in its context, is representative of the feelings between employers and employees at the time: distrust.

- *«Il faut bien que l'Etat intervienne, qu'il impose des règles, qu'il investisse, qu'il prenne des participations». [...] «Quoi qu'il arrive, l'Etat garantira la sécurité et la continuité du système bancaire français.» « The state has to intervene, to set rules, to invest, to take stakes». [...] “Whatever happens, the State will guaranty the security and the continuity of the French bank system”.*

The idea here is that the state will not stay inactive and will take direct measures against the crisis. He supports that this speech is an intention speech, the effective measure are to follow.

What the president is also defending here is the same idea that was in the talk in the United States at that time: bailing out the banks to make sure that the savings of the households would not be lost. Even if the French banks were relatively less involved than the ones of other countries like the United Kingdom, they had positions in the subprime, and needed help from the government to face the crisis.

- *«Je n'accepterai pas des hausses des impôts et des taxes qui réduiraient le pouvoir d'achat des Français». « I will not accept taxes rise that would decrease the purchasing power of the French households. »*

This last point was a very important subject for the gouvernement at that time. The candidate Sarkozy campaigned around the augmentation of the purchasing power of the population, notably with the fact that he would not raise taxes. He here reaffirm his campaign promise, after the advent of the crisis.

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<sup>39</sup> CEDEF : Centre de Documentation Economie-Finance : <http://www.economie.gouv.fr/cedef/chiffres-cles-des-pme>, accessed 10/03/2015

## B) Measures

After the declaration of intent the first actual actions were presented by the Prime Minister Francois Fillon during the following months.

The bailout plan of the French banks was set to be of 360 billion euros. 40 billion were to directly help investment banks that needed to be recapitalized. The other 320 billion were set to guarantee the financial exchange of the banks. Through the creation of a specific company, the idea is to keep the money circulating in the market. This guaranty of the state was intended to be mainly used for the loans given to households and smalls and medium companies.

The economic recovery plan was estimated to be of 26 billion euros. Of those 26 billion, 11 were to be loaned directly to the companies with a zero interest rate. This measure was taken to allow the companies to continue their activities in the recession through the support of their treasury. They would then have to reimburse those loans in medium term, once the worst of the recession would have passed. It also covers anticipated payment by the government on the account of the Research and Development tax credit, which plan a reduction of the taxes for the companies, depending on their amount of investment in R&D.

11 billion are also to be released for government financed operations: the “1000 projects” of the government<sup>40</sup>. Of those 11 billion, 870 million are aimed at the transport infrastructures, in particular to four new high speed train railroads. Those projects would be officered by a company created by the state which would choose to revoke the help in case of any misuses of the funds or too large delays. The remaining 4 billion were to be spent by major public companies to modernize themselves with French-made equipment.

The direct social measures were released to the public and the social partner on February 18<sup>th</sup> 2009 in a meeting with the social partners and through a televised address<sup>41</sup>. The amount of this help package devised by the government reaches 2.65 billion euros. They can be divided in three main categories: employment, social justice, middle class support.

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<sup>40</sup> UMP: <http://www.ump-34.org/fileadmin/ARGUMENTAIRES/90-cles-actu-les-1000-projets-du-plan-de-reliance.pdf>, accessed 11/03/2015

<sup>41</sup> „L'allocation télévisée de Sarkozy“, Le Point, 19/02/2009: <http://www.lepoint.fr/actualites-economie/2009-02-19/regardez-l-allocation-televisee-de-sarkozy/916/0/318555> accessed 11/03/2015



## *Employment*

The main category of those measure represents the heart of the different laws: The government wanted to support the country through the employment and the companies.

-The unemployment benefits are to be raised to 75 percent of the salary before taxes. This measure is only set for the salaries under 1143 euros per month<sup>42</sup>. The other income brackets still follow the previous calculation rules, from 40 percent to 57 percent. If Christine Lagarde, then Minister of Economy, was to start discussions with the social partners to see how the spending were to be distributed, it quickly became clear that the state was going to take charge of the majority of the costs.

-The continuing formation, helped by the state, would get reoriented in priority to the workers with low qualification, about to be fired or set in part-time jobs. The managers and executives, considered “installed” in the companies, will no longer get help from the government on that point.

-The helped banks are to review the deadlines of the real-estate loans of the part-time workers. The idea is to avoid at all cost the expulsion wave that touched the United States.

-An exceptional 500 euros premium would be set for the people not eligible to unemployment benefits and could prove two to four months of work in the last year. This premium act as a prelude to a law that was in the work at that time in the government: The RSA: *Revenu de Solidarité Active* (Active Solidarity Income). This law, which works on the proof of the seeking of a job, supports the household which are not eligible to any other help from the government.

-The development of study training. The objective is to make the youngest enter the work world during their studies, and allow them to acquire experience early on. Helps are also set for the companies deciding to recruit the students they have been welcoming for the study training.

-To reinforce the social dialog, every help given by the government to a company will be studied by the work council. The measure, seen as a “gift” to the union, aimed at reassuring

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<sup>42</sup> UNEDIC : <http://www.unedic.org/quesitons-reponses/comment-est-calculee-mon-allocation-chomage>, accessed 11/03/2015

the workforce, facing the closing of many companies in the country, that the help of the government would be well used by the executives.

-The exemption of the employer tax for the very small companies (less than ten employees) that would hire new employees at the minimum wage. It is to be noted that no reductions were set in the country before for this kind of hiring. The scope of this measure is 1.3 million companies, which represent 80 percent of the total companies in France<sup>43</sup>. This new measure is not cumulative with other measure already set in place, for example the first job helped contract, for the youngest who enter the job market.

### *Social Justice*

-The CEOs of the banks that have received help from the state are asked to renounce to their “variable remuneration”, in other words, to their bonuses. This “exemplary measure” is asked to show the unity of the country in hard times.

-In the same idea, the government launched a study of the repartition of the added value in the company to set path for a “fairer capitalism”.

### *Middle class support*

-The suppression of the income tax for more than 4 million households in 2009. This represent the first tax bracket of the taxable household.

-A tax credit scheme for the households near the limit of the first tax bracket to thwart a threshold effect. This means that, every household that would be over the first tax bracket, and for which the regular income tax would set it lower than the limit of this bracket would see a reduction of its taxes. This represent another 2 million of households.

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<sup>43</sup> „Quelle efficacité pour les exonérations à l'embauche des TPE?“, L'Expansion, 03/02/2009: [http://lexpansion.lexpress.fr/actualite-economique/quelle-efficacite-pour-les-exonerations-a-l-embauche-des-tpe\\_1360136.html](http://lexpansion.lexpress.fr/actualite-economique/quelle-efficacite-pour-les-exonerations-a-l-embauche-des-tpe_1360136.html), accessed 13/03/2015

-The distribution of another 150 euros premium per children, to the families already getting the back to school allowance, an existing measure that provide support at the beginning of the school year to help the families face the cost of buying new school supplies. This measure would impact 3 million households having a kid at school for the school year 2009.

-The creation of coupons devoted to pay for assistance to the person. This premium of 200 euro per household would be distributed to the families already receiving help for the following cases: 660.000 retired household receiving help and care at home, 470.000 families having children in daycare, 140.000 households taking care of handicapped child, and newly hired parents that have to find new solutions to have their child taken care of during the day.

-The creation of a support system to change car, like the Car Allowance Rebate System. A premium of 1000 euros is given to someone purchasing a new car to replace a 10 years old or more car. The aim of this measure was at the same time to support the French car industry, the general consumption, and to renew the old polluting national fleet.

-The reimbursement of a part of the added value tax to the local collectivities, to help them finance projects of their own, to boost local economy.

As we can see the government was planning on measures to support and encourage consumption, through the help to companies, and, to a lesser extent, with direct redistribution. The politics taken by the French government can thus be defined as Keynesians: like most of the countries touched by the crisis, the first round of measure was to support the people who would suffer from a contraction of the economy, and keep the money flowing in the economy. By insuring the loans of the banks to the small companies, the government also encourages the investment of the companies, and by giving some air through the tax credit, it also tries to prevent a major wave of company closing.

## 2) The 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 plan<sup>44</sup>, and the yearly reports on the public finance, from the same institution, for 2011<sup>45</sup> and 2012<sup>46</sup>. 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*”<sup>41</sup>. This measure was a safeguard measure, with no profits to be taken out of it, it

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<sup>44</sup> Cours des Comptes :

[https://www.ccomptes.fr/content/download/47182/1330591/file/58\\_2\\_58837\\_plan\\_relance.pdf](https://www.ccomptes.fr/content/download/47182/1330591/file/58_2_58837_plan_relance.pdf), accessed 12/03/2015

<sup>45</sup> Fondafip: [http://www.fondafip.org/f792\\_Rapport\\_situation\\_des\\_finances\\_publiques.pdf](http://www.fondafip.org/f792_Rapport_situation_des_finances_publiques.pdf), accessed 12/03/2015

<sup>46</sup> Cours des Comptes :

[http://www.ccomptes.fr/content/download/44948/776337/version/2/file/rapport\\_situation\\_perspectives\\_finances\\_publiques\\_2012.pdf](http://www.ccomptes.fr/content/download/44948/776337/version/2/file/rapport_situation_perspectives_finances_publiques_2012.pdf), accessed 12/03/2015

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 less<sup>47</sup> and that companies wanted to set a trial periods before committing to long term employment.

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 jobs<sup>48</sup>. 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.

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<sup>47</sup> „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](http://lexpansion.lexpress.fr/actualite-economique/800-000-embauches-a-zero-charges-en-2009_1417713.html), accessed 13/03/2015

<sup>48</sup> „Oséo a soutenu 23.500 entreprises“, L'Expansion, 22/12/2009 : [http://lexpansion.lexpress.fr/entreprises/oseo-a-soutenu-23-500-entreprises\\_1382935.html](http://lexpansion.lexpress.fr/entreprises/oseo-a-soutenu-23-500-entreprises_1382935.html), accessed 13/03/2015

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.

### 3) International measures and comparison

To compare the stimulus packets of other countries we will consider the ones from the United-Kingdom and Germany. Germany was more touched by the crisis than France due to the importance of the exportations in its economy but also did a better job at recovering in the years following the stimulus plans 2010-2013. The United-Kingdom was also more touched by

the crisis than France, due especially to the importance of the financial market in its economy and its economic relations with the United States, but its recovery follows the same path as Germany's. What did those countries do to recover in a better way than France?

### A) United Kingdom's stimulus package

The first difference between France's measures and the United-Kingdom's ones is their financing. While France didn't raise the taxes due to presidential election promises, and thus financed its plan solely by creating debt, the UK has been increasing its companies' taxes, while also taking advantage of its low level of debt: 43.6 percent in 2007<sup>49</sup>.

The amount of the estimated global plan are close: 20 billion pounds, or 23 billion euro for the United-Kingdom, and 26 billion for France<sup>50</sup>. The main post for the British government is the reduction of the VAT<sup>51</sup>: from 17.5 percent of 15 percent from December 2008 to the end of 2009. Moreover a temporary tax relief of 130 pounds adds itself to the already existing tax relief of 600 pounds for private individuals. Those two measures account for 14.7 billion of the entire package set by the government.

As in France the state anticipated on structural investments firstly planned for 2010 and 2011. This represents 4 billion euros for the UK and 8 billion for France. The objective is, as in France to set into action major projects that will in turn impact many branches of the economy.

A very important difference is the help given to the companies. While France oriented most of its help toward them with a budget of 12.8 billion euros, the British government settled for a help of 35 million euros to support the treasury of the companies.

On the topic of the banks, the UK and France operates in the same order of magnitudes: both countries guaranty 320 billion euros of bank operations but if France recapitalizes its bank for 40 billion, the UK does it for 64 billion. Another very important difference is how the

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<sup>49</sup> Eurostat :

<http://ec.europa.eu/eurostat/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdde410>, accessed 08/03/2015

<sup>50</sup> „La Grande-Bretagne dévoile son plan de relance“, Nouvel Observateur, 24/11/2008 :

<http://tempsreel.nouvelobs.com/la-crise-financiere/20081124.OBS2402/la-grande-bretagne-devoile-son-plan-de-relance.html>, accessed 13/03/2015

<sup>51</sup> VAT: Value Added Tax

recapitalization occurs in the two countries. France just loaned money to the banks, expecting to get it back with interest rates. The British government took participation in the banks or increased its already existing participation: the participation of the government in the Royal Bank of Scotland went from 60 percent in 2008 to 70 percent in January 2009<sup>52</sup>. The aim of the British government is clear, take parts in banks to either be able to change their economic actions, or profit from their future wellness with dividends.

The two plans may seem similar in the estimated amount but they do not aim at the same things. France wanted to protect its small companies, at the heart of the French economy. The UK wanted to maintain the consumption with direct measures. The government took measure that helped in the short term, and made decisions on the topic of the banks that are more for the long term. But the price of those actions, financed by taxing companies and indebting itself, are that from 2007 to 2013, the government debt went from 43.6 percent of the GDP to 87.2 percent, while on the same period, it rose in France by 28 points.

## B) Germany's stimulus package

The German stimulus package is the largest one of the Eurozone. It is also the largest German economic package since the Second World War. It was defined in two rounds. The first package of 31 billion announced in November 2008 was deemed inadequate for the reach of the crisis in the country: Germany saw its greatest recession since the reunification during the fourth trimester of 2008<sup>53</sup>. In January 2009, after discussions between the SPD<sup>54</sup> and the CDU<sup>55</sup>, the two main parties of Germany, another package of 50 billion was decided. Even if many measures are the same as in France, this stimulus package is also very much like the United-Kingdom's one: help to the companies and direct support of the consumption. Few

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<sup>52</sup> „Grande-Bretagne : un nouveau plan de soutien aux banques“, Le Figaro, 19/01/2009 : <http://www.lefigaro.fr/societes/2009/01/19/04015-20090119ARTFIG00424-grande-bretagne-un-nouveau-plan-de-soutien-aux-banques-.php>, accessed 13/03/2015

<sup>53</sup> „L'Allemagne adopte un plan de relance de 50 milliards“, L'Expansion, 22/02/2009: [http://lexpansion.lexpress.fr/actualite-economique/l-allemande-adopte-un-plan-de-relance-de-50-milliards\\_1338296.html](http://lexpansion.lexpress.fr/actualite-economique/l-allemande-adopte-un-plan-de-relance-de-50-milliards_1338296.html), accessed 14/05/2015

<sup>54</sup> SPD: Sozialdemokratische Partei Deutschlands

<sup>55</sup> CDU: Christlich Demokratische Union Deutschlands



numbers have been given by the government for each specific measures, and the plan already takes into account the possible over costs.

One of the largest part of the plan consists of tax cut of 9 billion euros: the tax threshold being raised from 7.664 euros to 8.004 euros with the entry level tax-rate being lowered from 15 percent to 14 percent. The different tax brackets' allocation will also be changed. Until 2008, the evolution of revenues for the households was considered without the effect of inflation. Whatever the raise of income and inflation, one would shift in the upper bracket. Starting in 2009, the shift of brackets will take into account the inflation rate, thus limiting the number of household joining higher tax brackets, and bringing tax relief.

9 billion were planned to be spent on a reduction of the employees' health insurance contribution. This measure benefits the companies and the employees at the same time since in Germany, both the employer and the employee participate to this contribution.

As in France, Germany started a program of Car Allowance Rebate System, where people get an incentive to change their old car. As in France, this measure was particularly important given the prominence of the car industry in the country. The measure, yet, was given a bigger importance than in France. The German car's age limit to benefit from the measure was 9 years where it was 10 in France. Also, the premium was of 2.500 euros in German, two and a half time the premium in France.

Another measure common to both countries was the one time premium per children. Of 150 euros in France, it amounted to 100 euros in Germany.

As in the UK and France, Germany planed on government investment in construction. 18 billion were to be invested in infrastructure projects: repairs were to be carried on the roads and railroads networks, and the internet communication network was to be upgraded<sup>56</sup>.

To further help industries, the government announced the creation of a "credit and guarantee fund" of 100 billion euros to directly give loans the companies most touched by the crisis<sup>57</sup>.

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<sup>56</sup> „Help for Europe's Biggest Economy: Germany Seals 50 Billion Euro Stimulus Plan“, Der Spiegel, 13/01/2009 <http://www.spiegel.de/international/germany/help-for-europe-s-biggest-economy-germany-seals-50-billion-euro-stimulus-plan-a-600977.html>, accessed 14/03/2015

<sup>57</sup> „Germany agrees biggest economic stimulus package since World War II“, The Telegraph, 13/01/2009: <http://www.telegraph.co.uk/news/worldnews/europe/germany/4227690/Germany-agrees-biggest-economic-stimulus-package-since-World-War-II.html>, accessed 14/05/2015

On the topic of banks, the Reichstag decided to recapitalize German banks up to 80 billion euro, with parts taking. This is twice as much as the French recapitalization plan, and almost half more than the British one. Furthermore, the government planned to guaranty banks operations up to 400 billion euros, 80 billion more than the French and British plans.

As we can see the German stimulus plan is different in two aspect from the French and British plans: the aim, and the reach. The German government, like the British one, plans on demand to boost back its economy, but it also provide a lot of support to its companies. The second difference is the amounts invested in the package. Germany planned almost three times as much as the French and British governments did.

This can be explained by one main fact: Germany was more touched by the crisis than France, and had to give a bigger response. It is a result of the economic system of the German economy. Germany is turned toward export and was in 2008 the first exporter of the world before China. With a contraction of the world economy, the government faced the issue of the demand for its companies, it had to create one, and thus boosted its national demand. The German government was planning to see the world economy rise again in the following years and thus considered it could offer a plan that large.

## IV) 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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