The French Kiss…Goodbye

By Vern Gowdie, Editor, The Rum Rebellion, 12 December 2019

'With pension fund portfolios in tatters and government revenues squeezed, promises are going to be broken. New arrangements will be struck. These will be far less favourable than those drafted in the 20th century…..What the second half of the 20th century gave, the first half of the 21st century seems destined to take away…from all developed nations.'

The past and the future are colliding on the streets of Paris. Thousands are striking against what they see as an attack on their rights. Pension entitlements have been promised and they cannot be reneged on…or else.

And that 'or else' is creating a great deal of disruption to the workings of the city. Our eldest daughter has lived and worked in Paris for the past three years.

Her firsthand report to me the other day, painted a picture of a city in turmoil.

What's my daughter's take on things? 'Why should we pay higher taxes to fund these generous schemes? My friends and I are not happy with having our future being burdened by these ridiculous obligations. Hopefully, Macron can push through change. But we are not confident.'

What are some of the ridiculous obligations? According to *The New York Times* on 6 December 2019: '*Train drivers can retire at 52, public electric and gas workers at 57, and members of the national ballet, who start dancing at a very young age, as early as age 42. That is to name just a few of the stark differences.*'

These are but a sample of the 42 differing pension schemes that Macron is trying to replace with one 'universal' points-based pension plan.

According to the prime minister, Édouard Philippe…

'*The new system would mean more equality between workers and would exchange 'the solidarity with certain professions with a national solidarity'. 'It will enable each French person to pay in the same way and benefit from the same rights,'…'France cannot accept in future these schemes that allow some to leave (work) earlier and with more than others.''*

This sounds like the French version of JFK's 'Ask not what your country can do for you, ask what you can do for your country' inaugural address in 1961.

That appeal to the greater good might have resonated (just a little) 60 years ago, but judging by the reactions in France, it's a plea that's falling on deaf ears.

From the outside looking in, there’s no question the pension schemes are unaffordable and overly generous.

But good luck trying to tell someone who is the beneficiary of one of these schemes that ‘working longer and possibly receiving a reduced pension is for the greater good’.

The French PM went on to state the obvious…

‘*If we do not implement a thorough, serious and progressive reform today, someone else will do one tomorrow, but really brutally,’*

The brutal truth is the future cannot afford the past.

These generous pension schemes were given life in another era. As reported in *The New York Times* article:

‘*The country’s postwar retirement system was founded by Gen. Charles de Gaulle, who was intent on establishing a social safety net in 1946 following the liberation of France.*

‘*Amid the postwar tumult, he bowed to demands by France’s mainly Communist-led unions to let different professions control their pension plans.’*

For more than 70 years, workers have been conditioned to believe these retirement benefits are their rights…irrespective of whether they can be afforded or not.

My long-held view is that the extraordinary success of the 20th century has set us up for failure in the 21st century.

The second half of last century was nothing short of amazing in the terms of economic progress.

This meant that the promises made in post-war France could easily be kept by a system that continued to grow in population, productivity, workforce participation and an abundant supply of credit.

But those dynamics have changed.

This is from the OECD Economic Surveys, France 2019: ‘*Sluggish growth and job prospects weigh on well-being, while the level of public spending is high. Slowing productivity gains and weak employment rates have reduced GDP per capita growth.*’

Something has to give.

The realities are there for all to see, but those with ‘a dog in this fight’ obviously have a very different view.

As reported in *The Guardian*: '*…unions see the changes as an attack on fundamental worker rights, and fear people will have to work longer for smaller pensions.'*

That is the brutal truth…people will have to work longer and receive less.

Accepting that truth is not going to be easy.

In the interim, the deficits mount up.

And tensions rise as future generations begin to harbour a deep-seated resentment at being made to pay for promises they never made and are unlikely to ever receive.

France — due to its overly-generous schemes — is one of the forerunners in this 'past meets future' crisis. However, this is not a French issue alone.

Pension plans the world over are under varying degrees of strain.

The funding is simply not there (to the extent needed) to fully honour commitments made in a time that has long passed.

Even our own Treasurer has floated the prospect of those in their mid to late 60s staying in the workforce for longer. That went down like a lead balloon.

This long overdue conversation is one that all developed nations are destined to have sooner or later.

As the funding pressure builds, expect to see generations pitted against each other. You can be assured that social media will be used to great effect by the younger generations to shape public opinion. And frankly, I don't blame them.

The extraordinary and unprecedented post-GFC stimulus efforts provided the cover needed for governments to kick the pension can down the road.

However, the combination of a slowing global economy and baby boomers being another decade older, has meant the end of the road is coming into sight.

Politicians will 'duck and dive' for as long as possible.

The poisoned pension chalice gets passed from one government to the next.

What usually occurs — like in Greece — is they wait for a full-blown crisis to happen and then, and only then, they are forced to act.

Given this established pattern of political procrastination, I expect the unfunded pension crisis will become a major social issue when the next global recession hits.

With pension fund portfolios in tatters and government revenues squeezed, promises are going to be broken. New arrangements will be struck. These will be far less favourable than those drafted in the 20th century.

And it won’t just be the French who are kissing goodbye to their retirement dreams.

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