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Editorial

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Hollande's win is a chance for change

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François Hollande has been elected France's president on the promise that there is an alternative to an unexpurgated diet of austerity. His comforting message stood in stark contrast to that of the incumbent, Nicolas Sarkozy, who pledged that painful choices would be rewarded with jobs, growth and a brighter future. Neither was wrong.

As the first Socialist president in almost two decades, Mr Hollande takes power at a critical juncture, not just for France but for Europe. Despite several years of belt-tightening, growth in Europe is stagnating and millions are still out of work. In France, 10 per cent are unemployed, competitiveness is sliding and labour costs are among the highest in the OECD. France has run a budget deficit for almost 40 years, and this year lost its triple A credit rating.

These are the harsh realities that Mr Hollande faces. He is right to argue that, without measures to promote growth, a European fiscal pact requiring budget cuts and spending caps risks trapping the region in a downward spiral. There is no hope that Germany will accept a renegotiation of the fiscal treaty. But it could help recovery in the peripheral economies by promoting consumption at home or with a new European growth pact.

Mr Hollande could be the catalyst for a much-needed shift in emphasis. But on two conditions: first, he must manage the critical relationship with Germany. Second, he must not confuse long-term structural growth measures with a short-term tax and spend programme. That would simply exacerbate the handicaps France has in achieving its growth potential.

On Germany, it is reassuring that Mr Hollande wasted no time on Sunday in speaking to Chancellor Angela Merkel. Fears that Franco-German hostilities would drag Europe into a no-man's-land of inaction are likely to prove unfounded. The consensual Mr Hollande is the opposite of his predecessor, whose impetuous behaviour often annoyed Berlin. He has already sought to bridge the difference between his campaign promises and German rigour by dropping the more contentious of his growth proposals. What remains is hardly controversial.

More worrying is what Mr Hollande will do at home. He plans to unpick elements of Mr Sarkozy's pension reform, and reverse civil service cuts. He also wants to raise the minimum wage and create 60,000 new teaching posts. These promises will be costly.

The new French president will have little choice but to make painful cuts. He has pledged a balanced budget by 2017 and that cannot be done by increasing the state's spending. Markets may tolerate a few minor populist gestures at the start – especially with legislative elections in a month's time. But Mr Hollande will have to be clear about what he is doing and what his longer-term goals are. The risk is that without a strong message on reform, his actions will be misinterpreted by markets that already have doubts about Europe's public finances.

The good news is that Mr Hollande is keeping many changes of the past five years, even those his party initially opposed. He has also astutely insisted that no budget will be set before government auditors report on public finances. The findings could relieve him of public blame for politically difficult choices. The priorities should be to deal with costly health service, spendthrift regions and the labour taxes that drag on competitiveness.

Mr Hollande is in a better position than the unpopular Mr Sarkozy was to win public support for a reformist agenda. His Socialist party looks set to win a majority in the June legislative elections and the left already controls the Senate and the regions. By autumn he will have many of the levers he needs. The new president has a golden opportunity to make good his promise to bring change to France. He should not waste it.