



Mitchell: Macron's reforms sure to boost job growth in France

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I like France, in part because it's a nice place to visit, but also because I've been able to use the country as an example of bad public policy.

-Its tax system is a nightmare, leading entrepreneurs to escape to other nations (hardly a surprise when tax rates can exceed 100 percent and politicians equate taxes with patriotism!) In some cases, tax rates are so punitive that revenues fall rather than rise

-The French bureaucratic elite is pampered with costly perks and lavish compensation and the nation's cossetted political class is famously self serving

-And the regulatory system is a disaster, which not only hinders economic growth but also contributes to an erosion of social capital as people exploit the system and adopt an entitlement mentality.

One reason for the bad tax system is that the French government consumes a huge share of economic output. The welfare state is enormous as privileged sectors of the population get expensive handouts.

It's hard to pick which policy does the most damage. As a fiscal policy wonk, I'm tempted to blame France's woes on high taxes and wasteful spending. However, there's a strong case that labor law is the worst feature of economic policy. France has all sorts of rules that "protect" employees, but the net effect is that workers suffer because these laws discourage entrepreneurs from creating jobs.

And even though I get a lot of mileage out of making France a bad example, I actually hope that the nation's new government will move policy in the right direction. Indeed, this is why I wanted France's current President, Emmanuel Macron, to get elected.

Yes, he used to be part of the previous socialist government that sought to make things worse rather than better. But I figured he was most likely to enact some pro-market reforms. And it appears my hopes may be realized, at least with regard to labor policy.

Here's what he is proposing: Reforms that will make it easier for bosses to hire and fire employees, offer more flexibility in negotiating wages and conditions and encouraging small companies to establish workers' committees that could bypass unions and capping damages that can be awarded to workers for wrongful termination.

And he'll probably get what he wants, both because some of the bigger unions have decided to play ball and also because he's been granted authority to unilaterally make changes.

By reducing the potential cost of employing workers, the reforms will lead to more employment. And France desperately needs reform. France's 9.5 percent unemployment rate is double the rate in Germany. Unemployment among workers aged 15-24 is 25 percent.

As the Wall Street Journal noted, even if Mr. Macron's reforms take effect, the French workplace will still be considerably more regulated than that of the U.S.

Let's close with some excerpts from a story in the New York Times:

"...the government announced sweeping changes on Thursday with the potential to radically shift the balance of power from workers to employers. ...invigorated France is considered critical to the survival of a European Union that is finally showing signs of revival after a lost decade. ...Economists in France and across Europe expressed optimism about the new law... France has stagnated for years under chronically elevated unemployment and slow growth. The country's strong worker protections and expensive benefits have been blamed by some for being at least partly at the root of the problem."

Wow, it must be bad if even the NYT is acknowledging that government is causing the economy to stutter.

Amazingly, the story even admits that economic liberalization is the right way to get more job creation.

"Germany crossed that Rubicon in the 1990s under Chancellor Gerhard Schröder. ...Roughly 15 years ago, 'France and Germany had economies that were more or less comparable, and that ceased to be the case because the Germans wisely did micro-reforms and the French did not,' said Sebastian Mallaby, senior fellow for international economics at the Council on Foreign Relations. So the French ended up with high unemployment, which fed populism, and getting out of that trap is vital."

For what it's worth, I think the reference to German reforms is key.

Under a left-leaning government, Germany liberalized labor markets. The so-called Hartz reforms were a huge success, slashing the jobless rate by more than 50 percent.

I don't know whether Macron's reforms are as bold as what happened in Germany, but any movement in the right direction will create more employment.

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