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The French model

Richard W. Rahn

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Why does it appear France is bouncing back more quickly from the recession than the United States? France has long been known for having an economy that suffered from too much government interference, too-high taxes and destructive union activity. Yet it grew 1.4 percent in the second quarter of 2009, while the U.S. economy continued to decline.

The United States and Britain have had the largest "stimulus" programs of the major economies (as measured by increases in government spending and deficits relative to gross domestic product) and yet they are not moving toward recovery as rapidly as most other countries that had far smaller stimulus programs or none.

Many, including yours truly, have argued that the big increases in government spending were more likely to cause, rather than cure, problems, just as such policies led to a much longer period of decline during the Great Depression of the 1930s.

Despite doing better than the United States and the United Kingdom at the moment, France is still far from being a poster child for good economic policy. Its economic growth rate has lagged behind those of the United States, the United Kingdom, Ireland and many other European countries for most of the past three decades, largely because it did not make the economic reforms the others did. There seems, however, to be a growing awareness among the French that they can do better.

In recent years, a number of pro-free-market think tanks and taxpayer associations have been formed in France, and their effectiveness and impact clearly are increasing. These groups include Institut Economique Molinari, the Institute for Economic Studies-Europe, Institut de Formation Politique, Contribuables Associes (French Taxpayers Association), etc.

In part because of their efforts, France has sharply reduced its corporate income-tax rate so it is lower than the U.S. rate. France also has been reducing its individual tax rates so that many Frenchmen now pay a lower maximum tax rate than do the taxpayers of New York, California and many other states.

If the tax-rate increases proposed by the Obama administration and the Democratic Congress are passed into law, all upper-income Americans will be paying higher personal tax rates than the wealthy in France.

The economic reforms in France have not been sufficient to keep large numbers of wealthy French from moving much of their savings and investment to other countries. Rather than make their tax laws sufficiently competitive to keep their capital at home, the French have been on a crusade to force other countries to raise their tax rates and engage in widespread tax information sharing.

These bad habits have been picked up by many in the U.S. Congress as it pushes for legislation to discourage the free movement of capital along with the destruction of financial privacy. The result will be slower economic growth throughout the world, less job creation and more economic misery.

Next door to France is a neighbor that does a far better job in managing its economy -- Switzerland. Even though, unlike France, it has few natural resources, Switzerland has maintained a sound currency for decades, along with relatively low tax rates and government spending, yet has managed to deliver a far higher quality of government services than the French and much higher real incomes for its citizens. Rather than emulate the Swiss, many in France try to pressure the Swiss to engage in counterproductive economic and banking policies.

This past week, the French think tank the Institute for Economic Studies-Europe hosted the sixth annual European Resource Bank meeting in Marseille, which brought together two dozen free-market organizations from European countries for a discussion of how they can make all of their institutions more effective and influential. Speakers included a number of leading European and American economists and think-tank leaders as well as Vaclav Klaus, president of the Czech Republic, who is also a noted economist.

The current French economic model continues to be far less attractive than economic models in Asia, other European Union states and Switzerland. However, there is good reason to believe that in future years, the French will modify their model so it becomes more, rather than less, attractive.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.