

Economic policy : why France is on the blacklist

The road from theoretical breakthrough to economic policy reality is longer and more unpredictable in France than elsewhere.

Almost all school children get to learn the lesson at some point in their school careers : a scornful remark is often worse than punishment because others laugh at you and you are on your own. This is precisely the kind of public humiliation which the European Commission is engaging in today on the subject of French fiscal policy.

While the admonishment is directed at the government in office, the issue is not cyclical. Public debt has been wayward for 30 years without public finances serving to cushion the effect of fluctuations. Rather than being the fault of any particular government, the root cause of our problems can be traced to a longstanding inability to think outside the box and to rejig the institutional framework of economic policy.

But research has been pumping out new ideas and processes for thirty years. Three discoveries (or rediscoveries) have marked this renewal. The first is the inter-temporal dimension of policy, in other words the realisation that the impact of decisions may be felt over a lengthy period and that private operators second-guess policy. The second is that almost all public and private decisions are taken on the basis of incomplete information. While this may be a motive for public action – because markets do not work well when information is imperfect – this situation also casts doubt on the ability of government to act properly. And the third discovery is the political economy, which has revealed the naivety of the usual claims that governments always stand for the general interest.

In many countries these breakthroughs have triggered thinking about which governance techniques are best suited to overcoming the deficiencies uncovered by economic analysis. This has led to innovations such as delegation of responsibilities to independent institutions operating at arm's length from political cycles, the use of behavioural rules which provide a stable reference for judging the quality of public decisions, and the introduction of contractual incentives between the public principal and its agents. Particular fields may be selected to pilot given techniques but the lessons drawn have been useful in other fields. We can thus speak about general governance techniques.

The impact of these techniques has been major. The spread of the independent central bank model, which is now to be found in emerging countries, has been instrumental in keeping inflation to its still-moderate level. Many countries have reformed the way they conduct fiscal policy, setting out principles and rules requiring governments to substantiate policy choices. The reform of public management is based increasingly on establishing independent authorities and the use of incentives. Step by step economic policy has thereby undergone a transformation. Errors are of course still committed, and policy need not be identical everywhere. But the average quality of decision-making has improved.

As for France, it appears to be stuck with a mindset, institutions and practices which belong to another age. When France has adopted these advances it has often done so reluctantly, especially when frogmarched into it by the EU. Moreover, it has failed to tie the innovation it has achieved into any coherent articulation of public policy. The result has been a certain schizophrenia, a recurrent and damaging tendency not to say what it is doing, and not to do what it is saying.

In monetary policy France has been a recalcitrant follower of the international doctrine, but has not paused to work out how an independent institution would fit in with its own institutional system. In fiscal policy it has adopted rules but flouted them. In public management, France trails others in applying modern incentives. Several changes warrant acknowledgement, such as the constitutional by-law on budget acts, the recent decision to move to three-year budgets, and the strengthening of the Conseil de la concurrence, the French competition commission. But these initiatives remain inadequate.

The time between a theoretical breakthrough and its conversion into economic policy reality is lengthy everywhere. But in France it is longer than in other countries. Why? The first reason is intellectual: in France public action is sacrosanct and decision-making must remain discretionary because, as a matter of principle, the general interest dictates that decision-makers should have complete freedom to decide – what Jean-Jacques Laffont called an idealistic notion of political power. The second reason is institutional: the parliament, which in neighbouring countries has often leveraged innovation for the purpose of supervising the executive, has been too weak in France to carry out this role. The third reason is political: while recent innovation is compatible with the different

political persuasions, it nevertheless clashes with a focus on the urgent and the redistributive conflicts which characterise French economic discourse.

These obstacles are real. This does not imply that they cannot be surmounted, nor that institutional or even constitutional transformation is incapable of helping. It merely signals that the renewal of economic policy in France is a long-term project, which must get to grips with the root causes of our deficiencies and not just the symptoms.