

## Is France really a victim of triumphant capitalism?

*The debate sparked by the French referendum on Europe's Constitutional Treaty has been more lively than those which have preceded previous democratic consultations in France. It has in effect highlighted profound differences between the Treaty's supporters and its opponents, to the extent that representatives from the same parties have been mutually accusing each other of going over to the other side. However, among this chorus of squabbling voices, one consensual opinion has been voiced more explicitly than ever before. It is, of course, the anti-liberal political consensus. Partisans of both sides have "sold" their positions as the best protection there is against the damage done by liberal capitalism and against Europe's possible race towards even greater liberalism.*

This presupposes the extremely widespread opinion that says capitalism rules in France. Otherwise, how could we blame it for unemployment, poverty, insecurity and the majority of difficulties experienced by the French people? But have these last few years really been marked by such a triumph? Does the State intervene so little in the French economy? These are the questions that this paper will try to answer. By considering the considerable role of the State in French society, we will demonstrate that we are far from experiencing "triumphant capitalism". We will therefore have shown that it is impossible to criticise it simply by listing the misfortunes of our fellow citizens, as these could just as easily be attributed to the fundamentally interventionist nature of economic policy.

### Public spending and taxation

#### The expansion of the State from the start of the Twentieth Century to today

An indicator of the degree of interventionism in the economy is the ratio of public spending to gross domestic product. Given the nature of the State, given the fact that it obtains its income essentially from taxation, it is normal to concentrate first on these figures. And if it is true that the public loan financing part of the spending is not in itself a tax, it is



still true that the taxpayer must pay it back one day or another. In this way, the ratio of public spending to GDP is more significant than that of taxes to GDP, because it takes into account the sums coming from the loan.

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Graph 1 shows that at the start of the Twentieth Century public spending represented little more than 10% of French GDP. Over the course of the century, the relative expansion of the State continued progressively. It was in the 1980s, generally considered a period when interventionism was called into question, that the symbolic 50% line was crossed. If this growth diminished in the 1990s, the ratio has never been significantly reduced.

What is the situation today? According to the INSEE's most recent figures<sup>1</sup>, the ratio of public spending to GDP was 53.5% in 2004<sup>2</sup>. Contribuables Associés, the leading French

<sup>1</sup>INSEE is the National Institute for Statistics and Economic Studies - France.

<sup>2</sup> With the new accounting method known as "base 2000".

taxpayers' association, presents this in an elegant manner: the taxpayer was "freed" on 16 July. The idea is to transpose the relative weight of the State budget into number of days per year. Thus, the French worked an average of 67 days for the central State, mostly thanks to VAT, income tax and corporate tax, 37 days for local governments, mostly thanks to professional and residential taxes, 80 days for social security, 4 days for Europe and 9 days to reimburse public debt. The taxpayer would therefore have had to work entirely for the State from 1 January to 15 July inclusive.

At this stage, it should be clear that the popular discourse on "triumphant capitalism", this liberal turnaround allegedly made in economic policy-making over 20 years or more, does not describe reality. For it to be correct, we would have had to witness a State withdrawal, manifesting itself as a decrease in public expenditure as a proportion of GDP. The usual shortcut of blaming rising unemployment and poverty on this "triumph" does not hold up for this reason alone. If the mistake is still made, it is because the link between the relative weight of public finances and the more or less liberal character of a society is badly identified. Why can we not talk about "triumphant capitalism" when public spending represents over half of GDP?

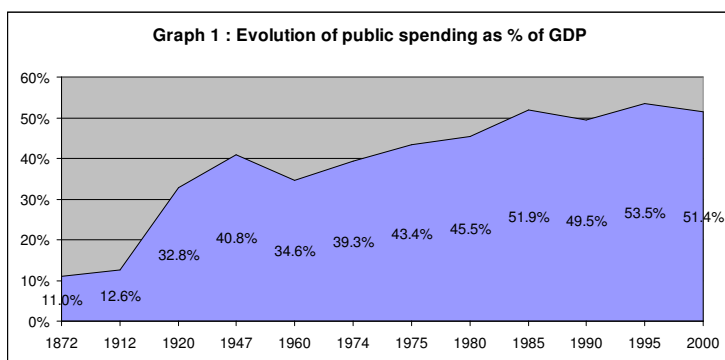
Behind every large stack of statistics, there are people and their actions. It is true that all French citizens in principle have the same right to decide what to do with themselves and the fruits of their labour. However, in perfect contrast with what we usually call "capitalism", there is no question of allowing these citizens to manage their total incomes. Through public budgets it is decided for them how their money should be spent, since the money deducted through tax can no longer be spent according to their wishes. Whether they

like it or not, taxpayers must pay for what is chosen for them by others, including the salaries of those who carry out this "service". For example, instead of investing in the education of his or her children, the anonymous citizen in the statistical mass must finance the running of an opera house which he couldn't care less about, while a worker with few qualifications will have to finance the studies of those who can afford to go to university without working, etc.

The higher the proportion of public expenditure as part of GDP, the less control people have over their incomes. The higher it is, the more production and consumption patterns are determined by the government. In other words, the more the values which determine the life choices of individuals are ignored in favour of those judged as priorities by the people in charge of public budgets. Taken to extremes, if the ratio was 100%, that would mean that the only choices left in life would be those taken on behalf of everyone by the State. And every rise in public spending is a step in

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this direction. From this point of view we could say that the Twentieth Century was marked by a huge retreat of capitalism. So it should be clear that, insofar as we have not seen the significant proportion of public spending as part of GDP decrease over the last few years, the much maligned arrival of a liberal society has not taken place. Could this myth of triumphant capitalism serve as an ideological barrier against the calling into question of the State-managed economy, whose existence is very real?



Sources : Christine André and Robert Delorme, "Le Budget de l'État", in Cahiers français no 261 (May-June 1993) for the historical datas, OECD from 1960. INSEE's figures in the new national accounting framework which came out of SEC in 1995 are slightly higher (for example 52.8% instead of 51.4% for 2000)

## Legislative and regulatory inflation

"No one is deemed to be ignorant of the law", as they say. However, understanding of the law is not automatic. It must be acquired. When the law is made up of general principles, applicable to everyone regardless of their particular situation, such as the law that "everyone controls the fruits of his or her labour", the law is relatively simple, intelligible, and easily understood by everyone. However, French legislation and regulation do not conform to such a rule by far. Today, nobody expects jurists to be experts on "law" in general, but on a particular area such as family or business law. This fact is significant. The law is increasingly difficult to grasp. If it is often puzzling for a jurist, how can ordinary citizens possibly understand it?

In its 1991 report on "judicial security", the French Conseil d'Etat noted the existence of 7,500 laws and 100,000 decrees. Today there are apparently around 8,000 laws and 400,000 decrees in force, according to report 266 of the law commission directed by Bernard Saugéy.

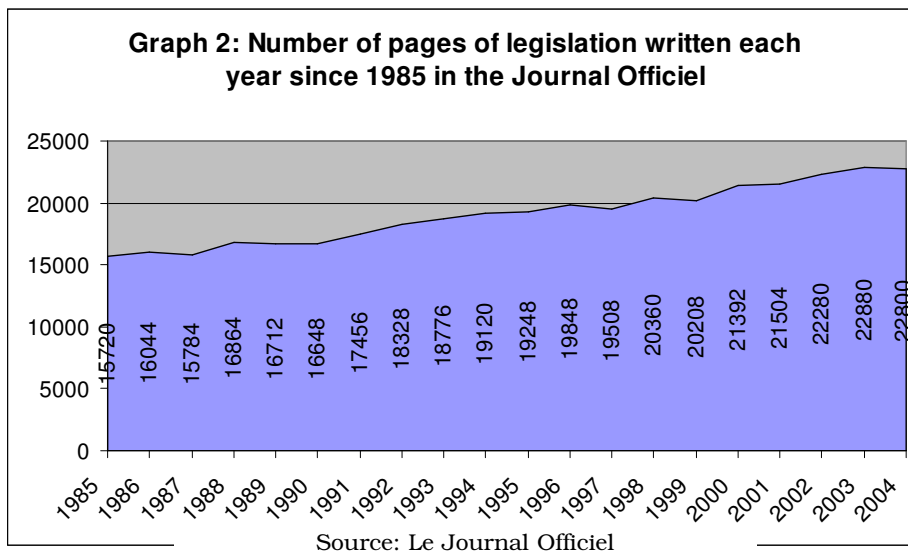
Graph 2 gives an idea of annual legislative and regulatory production over 20 years. It shows the number of pages that new laws, orders, decrees, resolutions, decisions, circulars and instructions take up in the Journal Officiel each year. The verdict is unequivocal. Legislative and regulatory production is increasing constantly, from 15,720 pages in 1985 to 22,800 in 2004. All this means that citizens can easily act outside of the law in good faith. It is "juridical insecurity".

The complexity of the legislation reflects the movement away from general and univer-

sally applicable rules. From birth to death, every choice must conform to a particular legal and regulatory context. Regulation can cover anything from the precise composition of baby food (resolution from 5/6/2003, page 11420 of JO) to the products that can be used to preserve dead bodies (resolution from 10/12/2004, page 22016), from taxi fares (resolution from 16/12/2004, p.21828) to labelling on Christmas trees (decree from 26/11/2003,

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p.20200). The Journal Officiel is stuffed with these kinds of restrictions limiting free trade between consenting adults. If the rules can in principle differ according to people and their activities, the potential for the multiplication of these texts is only limited by the countless features of these people and activities. In this way, the law is increasingly based around a mass of detailed norms corresponding to each circumstance and activity of daily life.



Once again, the widespread idea that we have lived in a country ruined by liberal policies for over 20 years is disproved by a simple statement about legislative and regulatory inflation. If this scenario of out and out liberal-

isation were true, we would have seen a clear trend towards getting rid of this multitude of texts. So it is not so easy to attribute to "triumphant capitalism" the responsibility for making a significant section of the population poorer, for the simple reason that there is no sign of the triumph of capitalism in the legal and regulatory productivity of these past decades. If it is not often recognised, it is because the relationship between the more or less liberal character of a society and frenzy or moderation as regards legislative and regula-

tory production is misunderstood.

It is difficult to imagine that such "textual harassment" could have little or no impact on people's right to manage themselves and their incomes, a right that is theoretically recognised. The effective recognition of such a principle, a part of what we normally mean by "capitalism", would only require a small number of texts to outline it. In stark contrast to what currently prevails in legislative and regulatory production, no particular text on the conditions for entry into a specific industrial sector would have any place, because it would contradict the general principle. Indeed, free choice for one-self and for one's earnings implies the freedom to enter into production as one sees fit, and to exchange products under agreed terms with whomever one wants to. We are far from such a legal environment in France today. Through the legislative and regulatory process, individuals are prevented from entering into and carrying out exchanges that they consider to be mutually advantageous, under the pretext that a potential partner might not have the necessary certificate or that a certain product should meet a certain standard before going on sale, etc.

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The large number of texts and their particular character institutionalises a regime of privileges, compulsory cartels, price controls and trade restrictions, which contradicts completely the entrepreneurial and contractual freedom of this so-called triumphant capitalism. The greater this legislative and regulatory production, as we have seen these last few years, the less people are in control of the fruits of their labour and of their own lives. So, who has really been triumphant in the last 20 years? It is certainly not capitalism. If poverty and unemployment are increasing, we will perhaps have to consider that liberalisation, largely imaginary, is not the cause.

President Giscard d'Estaing ventured to suggest that when compulsory taxes reached 40% of GDP, this would be a socialist regime. It was in 1980, under his presidency, that this threshold was crossed. His successor, François Mitterrand, had declared that the limit beyond which freedoms would be threatened was 45%, a threshold which was to be crossed for the first time in 1984 under his presidency. These arbitrary limits are not important, but such historical "anecdotes" can still teach us some lessons. These days it is quite normal to rally around the slogan "another world is possible". Invariably, the idea behind this is that the world we live in is the incarnation of the "economic horror" of liberal capitalism, responsible for unemployment, poverty, bad taste, pollution, and anything else people consider to be disastrous. It should be clear following this study that these enemies of capitalism have got at least one thing right: capitalism is not the only choice. The proof is that it is not the world we live in: a society in which public spending represents over 50% of GDP and where no area of life is free of guiding regulation is not a model of capitalism. The problems of French society cannot therefore be automatically laid at capitalism's door. Liberal policies have not failed in France. They have not been tried.



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