
What Is Going on in France?

BY PIERRE GARELLO

It is sometime painful for a liberal—I will be using that word in its old, continental, sense—to live in France, especially in southern France: so much light, so many beauties given by nature, and at the same time so much wealth wasted! Riots; strikes; blockage of roads, schools, universities, factories; or simply so many adults not working, sometimes by choice, sometimes by force (the 35-hours-per-week law).

But beside the waste, what makes the lover of freedom really sad is that *apparently* most of his or her fellow citizens don't see the waste and firmly believe that “we” in France have developed a political system that strikes the right balance between wealth creation and redistribution. “We” have realized the old dream of such socialists as Sismondi, who in the early nineteenth century was looking for a way to combine the efficiency of Manchester industrialism with the *douceur de vivre* (softness of living) of Tuscany.

“We” have high-tech industries (the national champions: EDE, Alcatel, Airbus-EADS, Total, Veolia, Sanofi-Aventis), and at the same time “we” are able to guarantee decent health care and decent education to everyone. Indeed, the list of the famous *droits acquis*—positive rights that demagogic governments under the pressure of unions have ordained throughout the previous decades—is a long one. (It might be interesting for the rest of the story to recall that France is among the very few countries in the world to have almost no private

university, and where anyone holding a high-school diploma can enter the university of his choice at no charge.)

Hence liberals experience a deep frustration when realizing that the perception of their fellow citizens is so different from theirs. In a way it is a well-known frustration, probably similar to that felt by advocates of free trade in an often-protectionist but nonetheless relatively prosperous U.S. economy, or to that experienced in the '60s and early '70s by those opposing Keynesian policies

in a globally booming economy. You try to convince others that those *droits acquis* don't make them wealthier but poorer, but you and they apparently don't live on the same planet! Before commenting on such apparent divergence of perceptions, it is necessary to run a more detailed analysis of the situation, considering individuals instead of abstract groups such as “the liberals” and “the others.”

For indeed, the set of people who demonstrate in the streets of Paris, Lyon, Marseille, and other cities was far from homogeneous. So we need, if only briefly, to tell the story of the last months in order to identify the various subgroups and what was motivating them to act as they did.

The story started with the riots of November 2005. At that time some parts of the country were in a state of



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chaos (cars burned, policemen stoned, shops vandalized), so much so that a “state of emergency” was officially declared and curfew ordained in some municipalities. A few days or weeks later, once order was (more or less) restored, a consensus emerged that something had to be done, and we all know what that means: a new law must be passed that will solve the problem. Prime Minister Dominique de Villepin was asked to quickly come up with a proposition to show that President Jacques Chirac cares, that the government is responsible (keeping in mind that the next presidential elections are scheduled for April 2007). Hence, in a few weeks, a law was prepared and ready to go to the National Assembly.

One article of that law (article 8) was to become famous: the introduction, in the midst of an already existing jungle of specific labor contracts, of a new contract designed for youth (under 26) without professional qualifications. The hope of the government was to bring down the rate of unemployment in that subset of the population from 25 percent to a more “reasonable” level. In France, as in many countries, freedom of contract is limited in employer–worker relations. In particular, French law distinguishes between *Contrat à durée déterminée* (CDD) and *Contrat à durée indéterminée* (CDI). Both types are regulated, with the latter offering a wide “protection” for employees, making it particularly costly for the employer to breach it. As indicated by its name, a CDD is a labor contract with predetermined duration (in any case less than 19 months), while a CDI does not specify any duration.

Because of the *droits acquis* associated with CDIs, employers were reluctant to offer such contracts, especially to a young person without working experience, and tended in such cases to favor short-term CDDs. The strategy of the government had been to give tax allowances or grants to any company willing to employ an inexperienced youth. In January 2005 a new regulated labor contract (*Contrat Initiative Emploi*) had been created, granting up to 45 percent of the minimum salary to any employer entering such a contract. (It must be recalled that the minimum salary is fixed by the law at €1,357, or \$1,682 a month.) Then, after November 2005, instead of sponsoring short-term contracting, the government decided to create a new CDI contract (baptized *Contrat Première Embauche*, or CPE), which for the

first two years permitted layoffs of young employees without specific justification (but with compensation). To a liberal mind, this was a further contractual option, and therefore was going in the direction of greater freedom.

Probably anticipating opposition from the central and left parties in the Assembly and therefore everlasting debates, Villepin, who had prepared the law without much discussion with the labor unions, decided to use Article 49-3 of the constitution to put the law to vote without discussion by senators and MPs. Since his party (the UMP—*Union pour un Mouvement Populaire*) benefited from a disciplined majority in the Senate and Parliament, the law passed as expected.

Ironically, this was great news for the leftist parties (socialists, communists, and greens): Villepin had unwittingly created a unique opportunity for them to convince electors that the right and the left have different views on what should be done. Such an opportunity does not present itself often, since Chirac, seconded by his successive prime ministers, has often followed socialist lines.

The socialist response to the government was simple: the “ultra-liberal” legislation gives up major social advances (again, *les droits acquis*) and will greatly penalize youth entering the job market. Seen from the perspective of “*la lutte des classes*” (the class struggle), the new contract was not perceived as a minor advance of freedom, but as “greater flexibility,” that is, greater freedom for the employer to exploit the young worker. Interestingly, in August 2005 a contract similar to the CPE but available only to firms of fewer than 20 employees, the *Contrat Nouvelle Embauche*, was approved and no demonstration followed. Maybe in the socialist dialectic, exploitation by a small company is not as bad as exploitation by a big company.

Labor Monopoly

Another key player in that drama was the labor unions. Because of a 1936 law, labor unions in France benefit from a large monopoly; even though membership is low (8 percent), the unions’ political power is huge. (More precisely, only so-called “representative unions” can present candidates for election as workers’ representatives and are called for negotiation at

the national level. To become a “representative” union you must be one of the five unions named by the 1936 law or prove your “representativeness.”)

To the unions, too, Villepin offered a great opportunity to show that they can make a difference. But they were facing a major difficulty: they are not representatives of the population targeted by the law: the youth looking for a first job and without qualifications. To circumvent that handicap a two-tier strategy was to be implemented. First, create agitation in the universities. This is much easier than reaching out to the unemployed in the suburbs, and it was likely to work because university students, although not concerned by the new contract because they, supposedly, will be qualified, are worried about their future. Second, motivate union members by arguing that if they let the government start dismantling the actual labor law with all its *droits acquis*, employers will soon have free hands to exploit all employees.

One may wonder what the reaction of the business community was. Two employers’ unions play a significant role in France: the MEDEF, which represents the “large” companies, and the CGPME, which represents the small and medium enterprises. (France’s deficit in medium-size enterprises is well known. This is, surely, one of the main explanations for its high unemployment.) If both unions were supportive of the CPE, their voices did not make much of a difference, and one is tempted to add . . . as usual! The reason is surely that they have for a long time been “institutionalized” and have made too many compromises in the past with the successive governments. Surely they are not strong supporters of the “class struggle,” and here and there they pay lip service to the market, but they also ask for protectionist policies each time they feel endangered by competitive pressures. (It is therefore not surprising that those unions typically back all the propositions in favor of a more centralized and “harmonized” Europe, including the imposition of a single currency.) Furthermore, most CEOs of France’s largest companies went to school with the technocrats and politicians who run the country, and in those schools they were taught that engineering—*not* entrepreneurship—is the main engine of economic growth. For all these reasons, there was not much hope for employer–union support of the CPE.

Finally, in order to win, the coalition needed the support of the media and the intellectuals (and in particular the teachers). I will not comment on that aspect of the conflict since it would necessitate a long digression. It is enough to say that this support was gladly offered and that, consequently, this was too many battles for a government and a majority unsure of their own convictions.

The end of the story is known: in a curious move, President Chirac started by saying that, although the law was passed, it will not be applied. Then, a few weeks later, he asked the government to prepare a new law, which was passed on April 21, 2006. The CPE lived only a couple of weeks! Should the youth rejoice?

What Should the French Youth Worry About?

If the youth had nothing to fear from the CPE, there are other good reasons to be worried. Some are to be found in the present state of the French economy; others, even more worrisome, in the state of the rule of law prevailing in this country.

Let me first focus on the economic reasons why the youth should worry about their future. To start, France has little growth and creates no employment. The unemployment rate has been stuck at 10 percent (and this is probably an underestimation) for the last quarter-century. Among the youth, as I said, the figure is 25 percent. Nothing to rejoice about indeed!

The reasons for that state of affairs are well known. The main engine of growth, the entrepreneur, is not a popular figure in France. In the country of Colbert, Saint-Simon, and Napoleon, the popular figure is that of the engineer, or the top civil servant. Worse, it is commonly thought that if an entrepreneur makes a profit, it is necessarily at the expense of the employees. The “class struggle” is the Economics 101 of a large part of the population. This is, by the way, one of the saddest things to a liberal: while people could live in harmony, they choose envy and anger. Lower entrepreneurial spirit translates into a sluggish labor market. To this add the usual ingredients that increase the total cost of hiring:

- A minimum wage around \$1,700 a month (interestingly, one quarter of the total working population is paid the minimum wage!);

- The cost of laying off (first you must “justify” your decision, second you pay high monetary compensation);
- Lack of flexibility in working time;
- High unemployment benefits (which might create a moral-hazard problem in low-skilled positions where being fired is not seen as a disaster);
- Lack of good training (due to a quasi-absence of competition in the school and training system).

But that’s not all. Another great source of concern for the youth is their parents’ *droits acquis*, which will cost the grown children a lot of money. In particular, like many Western countries France has opted for the pay-as-you-go pension system, and demographic projections are such that the bill to be paid by coming generations will be high. We can predict much more violent confrontations between generations when the youth realize how irresponsible their parents have been. And of course, borrowing will soon no longer be an option—or it will be a very costly one: over the last quarter century the public debt has increased by a factor of more than 10 (from €73.8 billions to €992 billions) and as percentage of GDP, by a factor of 3 (moving up from 21.3 to 63.7 percent). As a consequence, the interest charge is already the second-highest expenditure in the budget, reaching in 2004 2.34 percent of GDP or 10.9 percent of total public expenditures and 14.35 percent of tax revenues.

So the situation is worrying, but there is something that surfaced once again during the recent events which is even more frightening for the freedom lover because it indicates we are losing something that is probably more difficult to teach than Economics 101: the spirit of the rule of law.

A Degraded Rule of Law

The rule of law is the precondition for growth, and more generally for the flourishing of a harmonious society. Attacks on property rights have, however, been recurrent during the twentieth century. This is nothing but the logical consequence of choosing to live in a social democracy based on a high level of redistribution. It is also the down-to-the-earth meaning of *droits acquis* since those “rights” must be acquired from someone!

(Note that the French disease has reached the European Union; in Brussels the two most-used French words are *acquis communautaires*.) But we are now going one step further: private citizens have lost the possibility of expressing their opinion through the political system; or more precisely, that right has been emptied of meaning. If you elect a representative, it is so that he can convey your opinion in the lawmaking process. But Article 49-3 of the Constitution (which allows the government to bring a bill to a vote without legislative debate) has been used 86 times since the fifth constitution was enacted in 1958. This time it was worse: a president of the Republic asserted that a law just passed will not be applied, and a couple of weeks later he asked for a new law that abrogates part of the previous one. One may wonder what’s left of the predictability of the law?

Of course one may respond that the rule of law has often been violated by a regular vote of a majority of the representatives, but shouldn’t we prefer the rule of the majority to the rule of the street? Doesn’t the French love for public, and often violent, demonstrations destroy any respect for the legislative process and, more importantly, for the law? Some commentators welcomed young people’s sudden interest in what is done by the government. But I don’t share that opinion: first, because, as explained above, the demonstrations were not that spontaneous, and second, because the recent events clearly show that governments as well as MPs are mere puppets and the law is written in sand. This, I am afraid, is the message that Chirac has sent to the French youth.


Voting with one’s feet is of course an option whenever one’s voice is not taken into account. As a matter of fact, France has been losing entrepreneurs and attracting low-skilled workers. This is not surprising and will undoubtedly worsen the economic situation. Exit remains nonetheless an essential attribute of freedom and might at some point (but when exactly?) invite the government to engage in the right reforms.

Assuming one decides to stay (maybe because the cost of exit is too high), what can be done? One possibility is to resort to some kind of retaliation. For instance, one could decide to boycott the elections for a while. That would be a way to tell everyone that the parliament and even the executive have lost all legitimacy.

But that strategy, however tempting, is likely to be misinterpreted, and one runs the danger of ending with the worst possible representatives. Maybe a more efficient way to express one's discontent with the way decisions are made would be to invite one's fellow taxpayers to join a fiscal revolt. Indeed, why should we pay taxes if there is no representation and if decisions concerning the level of taxes are made in the street by the most excited, the least educated, and the communists who have no respect for your property? No representation, no tax!

A somewhat softer strategy would consist in educating the youth. (As argued above, the problem goes beyond the teaching of sound economics, which of course is necessary). To fulfill that task we know that we cannot count on the state education system largely controlled by socialist-minded individuals. An urgent battle is therefore to be engaged against the state monopoly on education. At the same time we must use all the media available—Internet, newspaper, radio, television, books, and conferences—to articulate the liberal vision of a free

and responsible society. As a matter of fact, a cheerful aspect of the past months lies in the creation and development in France of many free-market think tanks and other liberal initiatives coming from civil society.

Meanwhile, one can and must rely on the most natural way to provide education: the family. It was indeed shocking during the recent events to hear that some associations of parents called on their members, and beyond them all parents, to demonstrate with their kids against the CPE. This way, those associations claimed, parents could not only make the demonstrations safer (another way was to forbid your 16-year-old to miss class and have fun downtown during all afternoon!), but could also show their kids that they share their fears and desire to see the law abrogated. I remain convinced, however, that even though they don't take the time to explain to their kids what their vision is, most parents *do not* share the vision motivating the demonstrations. The family probably being the best place to learn about the rule of law and more generally the responsible life, it is time for the parents to behave in a responsible way. 

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