



The Barricades to Freedom:
How a Lack of Economic Freedom in France Impedes Growth

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December 13, 2018

The Fifth Republic of France is considered one of the world's most vibrant democracies. The French people's civil liberties are closely protected, their education system is highly regarded, and they have strong labor unions. They have a well-diversified economy, their trade policies reflect an open market, and their stable business climate also welcomes large amounts of investment in the country. However, despite the many positives in the French economy and society, for decades the country has been experiencing extremely low rates of economic growth, high unemployment, and punitive levels of public debt. This is largely attributed to the fact that France ranks fairly low in economic freedom compared to the rest of the world, especially among developed countries. While France maintains a high level of political freedom, the country's policies and restrictions on certain freedoms related to the economy have resulted in a society that is functioning at a level far below its potential. Unfortunately, the solution is not an easy one, as it will involve reshaping key aspects of French culture and political expectations.

French Politics and Economics

In order to understand the challenges facing France and the solutions necessary to address them it is important to understand the nature of the French political system and economy. France is a parliamentary republic based on their 1958 constitution, featuring a president, a prime minister, a council of ministers, and a bicameral legislature made up of an upper chamber, which is the senate, and a lower chamber, which is the national assembly.¹ Representatives are elected based on universal suffrage, and the president is elected to five-year terms. In terms of political freedom, Freedom House's Freedom in the World 2018 index gives France a freedom rating of 1.5 out of 7, a political rights rating of 1 out of 7, and civil liberties rating of 2 out of 7, with 1

¹ Henry Samuel, "How does the French political system work and what are the main parties?" *The Telegraph*, <https://www.telegraph.co.uk/news/0/does-french-political-system-work-main-parties/>, (May 7, 2017).

being the most free and 7 being the least free.² Freedom House notes that France’s political system “features vibrant democratic processes and generally strong protections for civil liberties and political rights.”³ The index also mentions that there have been positive developments in labor reform that have given businesses more freedom in hiring and firing as a result of President Emmanuel Macron’s changes to the labor code in 2016 and 2017. However, these modest attempts at political legislation to address economic freedom will likely not be enough to alleviate the endemic economic challenges facing France. While France is a politically free society, as laid out by Freedom House, this freedom has not effectively translated into economic freedom, which puts a stain on France’s claim to overall freedom and inhibits its ability to prosper as much as a modern European country should.

Not only is France a vibrant democracy, but it’s also a very large modern economy. In fact, France has the world's fifth-largest economy, as it boasts around a EUR 2.3 trillion GDP (\$2.6 trillion USD) and a GDP per capita of around EUR 35,000 (\$40,000 USD).⁴ France’s economy is heavily exposed to the service sector, as it contributes over 70% to the nation's GDP.⁵ However, France’s industries produce a variety of products ranging from machinery, metals, chemicals, automobiles, aircraft, textiles, cosmetic and luxury goods, and electronics.⁶ France is also known for its food processing, particularly in food products such as wine and cheese.⁷ Also, France is one of the leading nations in the world in nuclear energy, as nuclear

² “Freedom in the World 2018: France,” *Freedom House*, <https://freedomhouse.org/report/freedom-world/2018/france>, (2018).

³ “Freedom in the World 2018: France.”

⁴ “France Economic Outlook,” *Focus Economics*, <https://www.focus-economics.com/countries/france> (November 20, 2018).

⁵ Benjamin Elisha Sawe, “The Economy of France,” *World Atlas: France*, <https://www.worldatlas.com/articles/the-economy-of-france.html>, (April 25, 2017).

⁶ Sawe, “The Economy of France.”

⁷ *Ibid.*

energy contributes nearly 78% of the country's electricity.⁸ Lastly, France has one of the largest tourism industries in Europe, attracting more than 80 million tourists every year.⁹ France has a population of around 65 million and labor force of 30 million, with most being employed by the services sector and the state.¹⁰ However, the unemployment rate stands at around 9.4% and public debt is approximately 97% of GDP.¹¹

According to the Heritage Foundation's 2018 Index of Economic Freedom, France ranks fairly low on the list at the #71 position, between Brunei Darussalam and Portugal, with a score of 63.9.¹² The most significant deficiencies that affect France's economic freedom according to the index, which are evident in the country's economic data, are government spending, the tax burden, and labor freedom.¹³ Also, while the government has partially or fully privatized many large companies, it still maintains a strong presence in industries such as energy, infrastructure, and defense.¹⁴ The Heritage Foundation claims that fixing unemployment levels, boosting economic growth, and improving public finances will be France's biggest policy challenges moving forward.¹⁵ However, although the need to fix these issues has been recognized by the French government for years, there has been little success in addressing them. This is largely due to the culture that has characterized France for the past two hundred years and the government policies implemented in the last half century.

Revolution, Egalitarianism, and Dirigisme

⁸ Ibid.

⁹ Ibid.

¹⁰ Sawe, "The Economy of France"; Helen Drake, *Contemporary France*, Houndmills, (Basingstoke, Hampshire: Palgrave Macmillan, 2011), 174-175.

¹¹ "France Economic Outlook."

¹² "2018 Index of Economic Freedom: France," *Heritage Foundation*, <https://www.heritage.org/index/country/france>, (2018).

¹³ "2018 Index of Economic Freedom: France."

¹⁴ "France Economic Outlook."

¹⁵ "2018 Index of Economic Freedom: France."

Revolutions, barricades, the execution of tyrants, and the cries of freedom, equality, and solidarity have become almost synonymous with France. Nearly two hundred and thirty years since the original French Revolution, the French people are still taking to the streets to violently protest what they see as the elite's oppression of the working classes. In November 2018, groups of French people calling themselves "Des Giletes Jaunes," or "Yellow Vests," after the high-visibility vests they wear in solidarity, erupted into violent protests against a diesel fuel tax increase that raised prices by 16%.¹⁶ Although they have been considered the worst protests since the May 1968 student protests, civilian protests against taxes and other government reforms is not a unique phenomenon in France.¹⁷ For example, there were protests when the French government proposed labor reform in 2006 and 2016, pension reform in 1995 and 2010, and school reform in 2005, to name a few.¹⁸ The French government has done little to curb spending and enact any meaningful reforms, which has resulted in the continued stagnation of the French economy. However, it is not surprising that French leaders are averse to making any real reforms or spending cuts, as it seems that whenever the French government proposes measures that may contribute to an improvement in economic labor freedom, a change in the tax code, or a reduction in government spending they are responded to with outrage and violence by the French people. These facts, which make it difficult to implement any real solutions, are the consequences of the culture of egalitarianism present since the French Revolution, but more

¹⁶ Bill Bostock, "Who are the 'Yellow Vests' protesting across France and rioting in Paris, and what do they want from Macron?" *Business Insider*, <https://www.businessinsider.com/who-are-the-yellow-vests-gilets-jaunes-protesting-riot-france-macron-2018-12>, (December 3, 2018).

¹⁷ Bostock, "Who are the 'Yellow Vests' protesting across France?"

¹⁸ Angelique Chrisafis, "Nicolas Sarkozy orders break-up of blockades as French protests continue," *The Guardian*, <https://www.theguardian.com/world/2010/oct/20/nicolas-sarkozy-france-protests-blockades>, (October 20, 2010); Molly Moore, "French Students Hit Streets to Protest New Labor Law," *Washington Post*, <http://www.washingtonpost.com/wp-dyn/content/article/2006/03/16/AR2006031601908.html>, (March 17, 2006); "History of French protests," *BBC News*, <http://news.bbc.co.uk/2/hi/europe/4865034.stm>, (April 10, 2006).

specifically the central planning and Keynesian policies that were implemented by successive French governments following the conclusion of World War II.

Following the destruction of World War II, France sought to transform itself from a rural, localized, traditional, and imperial society, into a totally new modern, egalitarian, and industrial society.¹⁹ Widespread state intervention spearheaded this transformation during the initial post-war period of the Fourth Republic (1946-58), making France well-known for successfully operating a system of “indicative planning” of the economy.²⁰ Charles de Gaulle’s Fifth Republic (1959-1969) also was characterized by state intervention, as he conducted the modernization agenda by implementing planned economic policies led by a planning agency that regulated economic activity.²¹ The first national economic development plan, the Monnet Plan, and subsequent plans became a distinctive feature of France’s post-war economic policy.²² In addition, de Gaulle began the construction of a welfare state in France and established key institutions such as social security and works councils that remain today.²³ Specifically, the policies resulted in a tightly regulated labor market, including a maximum working week and a national minimum wage, and conflictual industrial relations that also largely remain today.²⁴ However, the modernization agenda resulted in consistent levels of economic growth, industrialization, and internationalization during the post-war period. It was such a successful period of thirty years that they became known in France as the “glorious decades.”²⁵ However, such success could not be sustained for long.

¹⁹ Drake, *Contemporary France*, 1

²⁰ Drake, *Contemporary France*, 181.

²¹ Drake, *Contemporary France*, 181.

²² “France Economic Outlook.”

²³ “France Economic Outlook.”

²⁴ Drake, *Contemporary France*, 175.

²⁵ Drake, *Contemporary France*, 1.

It was clear that France, after seeing their country ravaged by war, was experiencing “catch-up growth” during their “glorious decades,” as they used state spending to rebuild and advance their economy.²⁶ Planned industrialization and state intervention, which came to be known as “dirigisme” in France, has often allowed for sustained growth in GDP for industrializing economies until the economy has matured and matched, or “caught-up” to, other developed and industrialized countries. France finally caught up to its fellow Western countries in the early 1980s, and by 1983, mounting public debt, inflationary pressure, and internal and external imbalances caused the French government to transition from the era of “dirigisme” to an era of “de la rigueur,” or privatization.²⁷ The government began retreating from direct economic intervention, privatizing some state companies and adopting more market-orientated policies. However, the remnants of “dirigisme” can still be found in the French economy today as the government continues to control large segments of certain business sectors, government spending is extremely high, and much of the ideology that drove dirigisme perpetuates in the minds of the French people and their leaders.²⁸

The decades of state interventionist and socialist policies resulted in a pervasive skepticism towards capitalism, big business, entrepreneurship, the profit motive and globalization among French society.²⁹ However, these sentiments also have origins in the feeling that French culture and politics is exceptional, which has roots in the style of politics of direct democracy and flowery rhetoric that evolved from the 1789 French Revolution.³⁰ The French

²⁶ “Catch-up Growth,” also known as the “Catch-up Effect” or the “Theory of Convergence,” is the idea that poorer economies will tend to grow more rapidly than wealthy economies because they can replicate production methods, have access to advanced technological know-how, and get greater returns on infrastructure spending projects; See, James Chen, Julia Kagan, Will Kenton, and Caleb Silver, “Catch-Up Effect,” *Investopedia*, <https://www.investopedia.com/terms/c/catch-up-effect.asp>, (January 17, 2018).

²⁷ “France Economic Outlook.”

²⁸ “France Economic Outlook.”

²⁹ Drake, *Contemporary France*, 175.

³⁰ *Ibid*, 3.

claim they are unique compared to other democracies, and are particularly skeptical of the laissez-faire, “Anglo-Saxon” style of political economy.³¹ For example, contemporary France expert Helen Drake wrote that there is a “sense, in France, that there is—or used to be, more to the point—a uniquely French ‘model’ of political economy that is somehow less ruthless, and more moral and humane than the neo-liberal norms castigated by successive French presidents as ‘Anglo-Saxon’-style, laissez-faire capitalism.”³² A large amount of French people struggle with the very morality of money for money’s sake and are genuinely worried about the consequences for mind, body and soul of excessive consumerist consumption of material goods.³³ The rejection of material comforts and the desire for social and intellectual renewal were embodied by the May 1968 student protests.³⁴ Although these protests were not limited to France, they retain a significant level of meaning for French citizens even today, as evidenced by the repeated protests against what they view as government infringement on their social rights and the oppression of the poor by the rich.

For the most part, France’s leaders claim to embody and embrace the anti-capitalist and egalitarian sentiments reflected in the public. As recently as 1981, the French President François Mitterrand was elected on the promise to “break with capitalism,” although the experiment barely lasted two years.³⁵ Also, former President Nicolas Sarkozy maintained a political language that underlined the need to restrain capitalist forces at home and abroad.³⁶ At the level of corporate governance, especially regarding France’s big employers, these sentiments translate into an expectation that bosses will refer to the “social interest” as well as the profit motive when

³¹ Ibid, 5.

³² Ibid, 178.

³³ Ibid, 5.

³⁴ Ibid, 1.

³⁵ Ibid, 179.

³⁶ Ibid, 179.

making business decisions, where social interest refers to a firm's duty of care to its workers and, beyond them, to the structure of France society as a whole.³⁷ However, the drive for international competitive advantage has induced French companies to seek to provide value for shareholders, so they are tempted to offload their labor costs abroad at the expense of the local workforce, which is known in France as "La Délocalisation."³⁸ The French government may recognize today that they have no choice but to accept a retreat from the market and emphasize globalization if they are to become a prosperous nation and full member of the European Union, but they still speak and act in the spirit of dirigisme. Drake writes that the recent past "has meant that the 'tradition' of state interventionism in the French economy has become entrenched, mythologized and embedded in contemporary norms of political discourse and policy-making."³⁹ This tradition, combined with the revolutionary tradition, the anti-capitalist culture, and the belief in state-funded and controlled social responsibilities, makes any necessary solutions to address France's economic woes extremely difficult to achieve, even when French businesses yearn for freedom from constraints. However, although it will take much time and effort, there are certain steps the French government can take to move France in the right direction.

Challenges for France

France's high levels of unemployment, particularly among youth, is a major source of France's economic and societal woes. While the overall unemployment rate in France is around 9.1%, the youth unemployment rate hovers at around 21%.⁴⁰ It is important for a country to have as productive a labor force as possible if it is to have a robust economy. For France, not only is

³⁷ Ibid, 178.

³⁸ Ibid, 179.

³⁹ Ibid, 181.

⁴⁰ "France Youth Unemployment Rate," *Trading Economics*, <https://tradingeconomics.com/france/youth-unemployment-rate>, (2018).

the lack of economic productivity costing them, but the social safety nets that are a major feature of the French system become a heavier and heavier burden the more people remain unemployed and the smaller a fraction of the population is forced to support them. Furthermore, the high levels of youth unemployment present a unique problem, as being unemployed as a youth limits opportunity for skill development and the accumulation of wealth that will later be important for driving the economy.⁴¹ Moreover, the expectation in France that the state should be responsible for taking care of the people and ensuring their economic prosperity while so many people are continually unemployed results in added pressure on and frustration with leaders of the French government. It results in the criticisms by the French people of former president Sarkozy being a “bling-bling” president and current president Macron being dubbed “President of the Rich” as they seek a culprit for their continued woes.⁴² The criticisms may be warranted, as there have been no shortage of corrupt French leaders, but they address the wrong issues. The problem of unemployment is not that the French political and economic system favors the rich, it is that there are systemic disincentives for hiring and maintaining labor at all levels of French business.

According to the World Economic Forum’s Global Competitiveness Report, France ranks 141 out of 144 countries in hiring and firing practices.⁴³ Ever since the era of dirigisme, France has accumulated an unhealthy level of regulation of labor practices in business, all with the desire to improve the situation of the laborer. Some notable regulations include a mandated 35-hour work week, employment contracts that by nature make laborers difficult to fire and costly to maintain, and restrictions on the total number of practitioners allowed to exercise certain

⁴¹ Ryan Downie, “3 Economic Challenges for France in 2019,” *Investopedia*, <https://www.investopedia.com/articles/investing/012416/3-economic-challenges-france-faces-2016.asp>, (October 6, 2018).

⁴² *Macron’s nightmare: The French president’s problems are more to do with presentation than policy*, *The Economist*, December 6, 2018, 11.

⁴³ “France Economic Outlook.”

professions—such as taxi drivers or pharmacists.⁴⁴ These types of regulation have the unintended consequence of making it difficult and costly for employers to hire laborers, causing employers to either not hire and reduce their possible productivity, or seek cheaper labor internationally. While the government has shown signs that they understand the need for labor market reform, they tend to go about addressing it the wrong way. Also, when they do attempt to enact meaningful reforms, they are met with heavy resistance by a population that is deeply accustomed to government welfare.

The French government has often attempted to fix the problems that arose from state intervention in the economy by using state intervention in the economy. For example, President Macron has attempted to address the issue of unemployment by spending billions on job training and apprenticeships, despite the fact that France is one of the most highly educated countries in the world.⁴⁵ When they do attempt to address the issue of labor regulation they only do so minimally, and even then it is often met by fierce protests. For example, in 2006 the French government proposed a measure that would allow French employers to fire young people without giving a reason within their first two years of work, and French students took to the streets in protest.⁴⁶ Also, French presidents, most recently President Macron, have used relatively illiberal (although technically constitutional) means to pass legislation, which makes it difficult to gain widespread support. Under Article 49.3 of the French constitution, the French president is able to bypass parliament to enact legislation, and Macron has recently used this to reform labor

⁴⁴ Drake, *Contemporary France*, 184.

⁴⁵ *Macron's Nightmare*, 11.

⁴⁶ Moore, "French Students Hit Streets to Protest New Labor Law."

laws, and the controversial method fuels the fire of protests against perceived attacks on the rights of laborers.⁴⁷

Like labor regulations, high tax rates and government spending have been a consistent burden on the French economy, and French leaders have done little to address the issue in the correct ways. Government spending routinely amounts to over 50% of GDP, public debt is now at 97% of GDP, and the country has had continued issues with budget deficits. Also, France was just designated the highest taxed country among wealthy countries by tax rate according to the Organization for Economic Cooperation and Development.⁴⁸ France has an individual income tax rate of 45% and a top corporate tax rate of 34.3%, resulting in an overall tax burden of 45.5% of total domestic income.⁴⁹ The French government has had many problems with addressing these problems, largely because of the engrained tradition of Keynesian economic policies in the government. For example, President Hollande attempted to address the issue of the budget deficit by raising taxes on the wealthy while maintaining government spending, which inevitably failed to improve the deficit.⁵⁰ President Macron showed some promise when he pledged to cut the corporate tax rate to 25%, but at the same time he called for more government spending on infrastructure and green energy projects.⁵¹ Also, Macron abolished the wealth tax in 2017, but after the violent protests by the “Gilets Jaunes” he may be forced to reimpose it to save his presidency.⁵²

⁴⁷ “49.3, French politics’ imperfect number,” *Euronews*, <https://www.euronews.com/2016/07/17/493-french-politics-imperfect-number>, (July 17, 2016).

⁴⁸ Grace Dobush, “France Has Highest Taxes of Any Wealthy Country, Says OECD,” *Fortune*, <http://fortune.com/2018/12/05/france-tax-oecd/>, (December 5, 2018).

⁴⁹ “2018 Index of Economic Freedom: France.”

⁵⁰ “France Economic Outlook.”

⁵¹ Ray Keating, “Can France Break Out of Its Long Economic Slump?” *RealClear Markets*, https://www.realclearmarkets.com/articles/2017/05/10/can_france_break_out_of_its_long_economic_slump_102678.html, (May 10, 2017).

⁵² *Macron’s Nightmare*, 11.

Conclusion

France is fighting an internal battle between the knowledge of what is necessary to improve their economic situation and the tradition of dependence on government intervention in people's daily lives. If France is to make any real progress in improving economic growth, they must become more concerned with economic freedom rather than socialized government responsibility. France's ridiculous labor regulations have hampered innovation and competitiveness in the economy, but the culture of expectation of government guarantees of labor-friendly policies prove to be a major barrier for implementing any positive reforms. If France is to increase its competitiveness and innovation it needs to curtail government spending, which crowds out private-sector innovation and growth, and significantly reduce the heavy burden of labor regulations on French employers, which will increase incentives for hiring. Furthermore, although easier said than done, policies need to be implemented with the consent and understanding of the French people if it is to secure the legitimacy necessary to enact meaningful change. These necessary measures will require an integrated strategic effort of focused communication and education of the public, responsible governance, and inspiring leadership.

While the French often view themselves as a bastion of political equality and freedom, their policies of economic illiberalism have resulted in events and actions that are more characteristic of undemocratic societies. Rioting in the streets, executive bypassing of legislatures, and restrictions on daily activities in business are all a result of flawed economic policies that affect the political freedom of French citizens. It is true that France is well beyond many countries in terms of political freedom, but it will never reach its full potential as long as economic freedoms are restrained. Increased connection to the European Union and globalized

trade will certainly motivate France to make changes, but in the end, it will take a lot of courage and leadership from French leaders to make a difference in economic reform. French society is heavily geared towards anti-capitalism, egalitarianism, and the benefits of social security, so meaningful change will require a change in French attitudes towards these motifs. The French are responsive to charismatic leadership that establishes a positive rapport with the people, so it is not out of the question that a government that recognizes what needs to be done and communicates that need effectively will be able to convince the French government and people that economic freedom and responsible fiscal policies are in the country's best interests as a whole. France does not need to renounce itself, as there is already a deep passion for freedom engrained in its culture. France needs to hold true to its core values of freedom for all—politically and economically—and adopt the policies that will allow all French people the equal opportunity to pursue happiness and prosperity.

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