

Ecofax

Redeploying the state - is that so impossible?

The topic of scaling back taxes is now uniting voters from both left and right

by Jean-Jacques Rosa

Corporate restructuring is going on everywhere we look. Firms are downsizing and re-focusing on their core business to improve productivity. The mergers and acquisitions do not reflect the anticipated rush for size directly resulting from market globalization. Precisely the reverse: the speed-up in market development is sounding the death knell of those big hierarchies which characterized the first two thirds of the twentieth century. The size of the average company is decreasing everywhere, in the U.S. as in Germany, in France as in the United Kingdom.

The same goes for those really big businesses known as states: the most heterogeneous among them, such as the USSR or Yugoslavia, are breaking up into smaller entities where area and population are concerned. Their "internal" dimension, in terms of the share of the country's resources which they levy and control, is also contracting. Big administration is less effective than it was now we have the Internet and computing power within everybody's reach.

It is the rise of the markets and the corresponding decline of the hierarchies that account for the worldwide trend towards privatization, inter-state tax competition and the redeployment of the political apparatus. It is not the result of some ideology coming through but the organizational outcome of the contemporary information revolution (1).

France is particularly behindhand in this regard. The powers that be, politicians and public servants alike, drag their feet on the grounds that any reform is impossible because it would mean sacrifices that the French would refuse. Only pressure from outside – international competition or the authorities in Brussels – is said to be capable of getting the country to yield to salutary change.

This is a complete misrepresentation of the case, that really serves as an alibi for putting off as long as possible any reorganization of the state which is key to future prosperity. The French have everything to gain from improving the efficiency of the immense state bureaucracy they finance out of taxes. And it is those who run the system, the same politicians and public servants, who refuse to make the effort to adapt which those who earn a living in the competitive market place went along with long ago.

Today, our total tax and social security contributions are higher than in any other developed country, with the exception of Sweden and Denmark. The performance of our economy puts us way back behind the leaders according to the yearly ranking produced by the Lausanne Management School, the IMD. Our administrative regulations, according to the OECD, are at the highest level of its entire membership. It follows that business start-ups stagnate, while investment, both in human and physical capital, seeks its fortune in more favorable climes.

The solutions stare us in the face. They involve the rapid completion of privatization (France Telecom, Renault, Bull, Credit Lyonnais) while stock market prices are up, opening up the health insurance sector to competition while fully maintaining revenue transfers for the benefit of the least well off (2), and the introduction of a heavy dose of individually selected funding into the retirement systems.

Above all, there is an historic opportunity to be seized, highlighted by a recent government

report. With the retirement of half of the civil servants presently in office by 2012, their numbers, again already over the top by the most developed countries' standards, could be cut back. France is over-manned and under-managed. The aim would be to go for a partial replacement, and in accordance with standard contractual practice, with a view to gradually putting an end to the particularities of a status which can no longer be justified.

One good way of doing this would be to freeze public expenditure in real terms for the duration of the next legislature, which would not lead to any reduction in service provision but would force governments to finance any fresh services by weeding out old expenditure and seeking gains in productivity. The economic growth to be achieved in the space of six or seven years would bring public spending down from 54% of GDP to the European average of 45%.

Is this politically impossible? Military manpower was cut back by two fifths over 13 years and the cost of the armed forces brought down by a fifth in just five years. In the run-up to the next municipal elections, the great majority of city mayors have decided to reduce local taxes (*Les Echos*, 10 April 2000). Elsewhere, Australia reduced public spending from 37.5% to 34.5% of GDP in five years, Belgium went from 63.9% to 54.8%, Ireland from 53.2% to 43.8% and the United Kingdom from 44.7% to 37.5% at the end of the Thatcher years.

Nowadays, as the political surveys manager at the BVA remarked, "*voters on the left have joined up with the voters on the right when it comes to scaling back taxes*" (*Le Figaro*, 10 February 2000).

Reforming the state is beginning to be understood and accepted by public opinion as something not to be done against its better judgment but for its benefit. The public administration too has got to become competitive, or in other words, more productive.

(1) As I explain in *Le second XXème siècle, Déclin des Hiérarchies et avenir des nations*, Grasset 2000.

(2) Chapter 4 of *L'erreur européenne*, Grasset 1998.

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Le Figaro, May 19, 2000