

# **SMART REFORMS IN FRANCE**

## possible lessons from Dutch reforms ?

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## structure

- reforming in France & the Netherlands,  
pas comme les autres ?
- why outside pedantry should be mistrusted
- 25 years of Dutch reform sequence
- reform indicators for labour & services  
markets
- lessons for the Dutch, useful for France ?

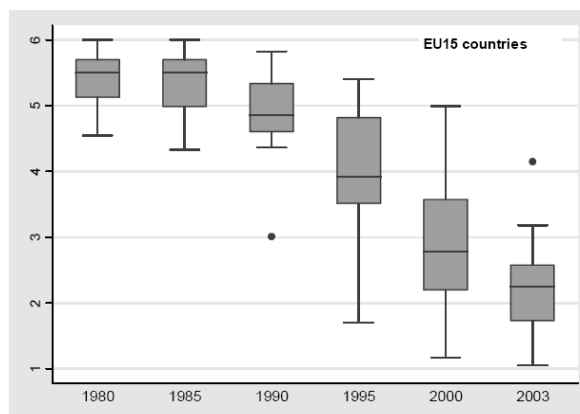
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## France- NL, pas comme les autres ? (1)

- the EU (and OECD) context tends to reduce the inter-EU-countries reform differences significantly
- due to EC-1992, network industries, Fin. Services Action Plan (EU level)
- due to Lisbon process (OMC, peers)
- due to intense market integration in a much bigger and open EU (plus orbit)
- due to the EURO (surely, for F & NL)

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## FRANCE-NL, pas comme les autres? (2) Network Reform convergence over time

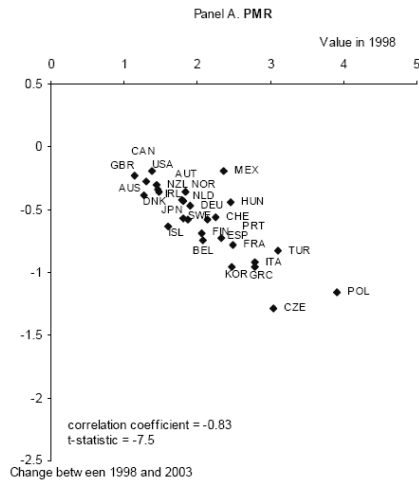


Source: Conway & Nicoletti (2006), OECD ECON WP no. 530 (Dec.)

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# FRANCE-NL, pas comme les autres?(3)

## Wider reform convergence (exc. labour)

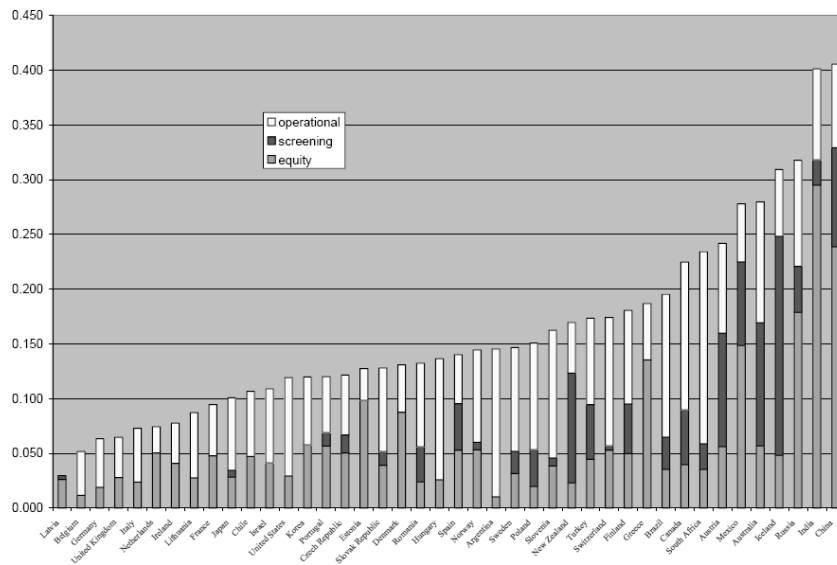


Source: Conway, Janod & Nicoletti (2005), OECD ECON WP no. 419, avril.

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# FRANCE-NL, pas comme les autres? (4)

Figure 1. Nine-sector FDI Regulatory Restrictiveness by Type of Restriction\*



## Why mistrust outside pedantry?

outsiders should humbly explain, not teach

- domestic economic structures as well as domestic political economy, idio-syncratic
- NL has a profound consensus culture, France is used to sharper social and political profiles (both have pros & cons)
- misunderstandings are rife >> one is that both voted NO ('05) for similar reasons
- no one country 'better' >> see Lisbon/OECD

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## Why mistrust outside pedantry(2)

- academic alternative is rigorous analysis
- Hoj, Galasso, Nicoletti & Dang, 2006 explore econometrically the political economy drivers of structural reforms
- **19 indicators** [macro-econ.conditions, macro-econ. policies, political institutions, internat. influences, demography, interactions between different reform areas, industrial relations ]
- **exogenous factors matter** [ econ. crises, exposure to foreign competition, government duration in office ]
- **but domestic politics can influence** [ statistically significant are budgetary conditions and spill-overs between product market reforms and labour market reforms ]

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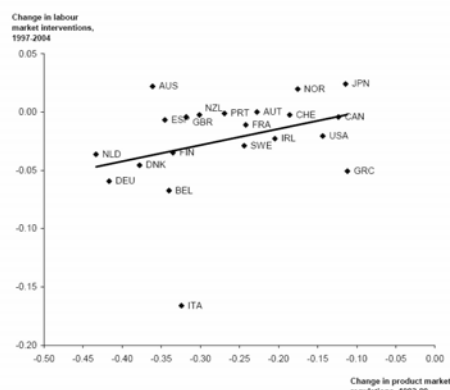
## 25 yrs of Dutch reform sequence(1)

- Dutch reform went through four stages
  1. Crisis-reforms in macro/budget/wages
  2. Abolishing perverse interactions between labour market & welfare state (excesses & disincentives)
  3. Pro-competitive reforms
  4. Tackling inactivity and red-tape
- hence, sequence from labour & welfare reforms ('80s and early '90s) to goods/services reforms (middle '90s and later) >> OECD often reverse

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## Sequencing reforms in OECD labour following product markets?

Figure 6. Liberalisation of product market over 1992-1999 and reforms in labour market over 1997-2004  
(absolute change)



coefficient: 0.13 t-statistics: 1.54\*

Note: Both restrictiveness indicators of labour and product markets are normalised, ranging from 0 to 1.  
Source: OECD

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## 25 yrs of Dutch reforms (2)

So, regulatory reform came rather late ; response to dramatic lack of competition in services, and selected goods markets

- new, EU-based competition law (a U-turn)
- piggy-backing on EU IM & globalisation + EURO
- domestic liberalisation of sheltered services (e.g. notaries, real estate agents, taxi's, child care, re-entry of long unemployed, health services [prudent], regional public transport)
- the ACM model for measuring/cutting red tape (now adopted by EU & many Member States)

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## Dutch regulatory reforms-results

	Quality			Accessibility		Efficiency
	Basic	Users' view	Prod. Differ. Cons. choice	Availability & access	Affordability/ price	Efficiency
<b>A. NETWORK SECTORS</b>						
1. Air trans.	=	n.a.	↑	↑	↑	↑
2. Telecom	=	n.a.	↑	↑	↑	↑
3. Post	↑	n.a.	↑	=	↑	n.a.
4. Energy (small us)	=	n.a.	↑	=	↓	↑
5. Rail fr.	↑	n.a.	↑	↑	n.a.	↑
<b>B. TRIPARTITE MARKETS</b>						
6. Reg. Public Tr.	↑	↑	=/↑	=/↑	=/↓	↑
7. Health	=	↑	=/↑	↑	↑	↑
8. Job search/long unemployment	n.a.	n.a.	=/↑	=/↑	n. applic.	n.a.
<b>C. OTHERS</b>						
9. Child care	n.a.	=	↑	↓	↑	n.a.
10. Taxi/ ind. Tr.	n.a.	=	↑	↑	↓	n.a.
Taxi contr. Tr.	n.a.	=	↑	↑	n.a.	n.a.
11. Notaries	=	↑	=	=/↑	=/↑	=/↑

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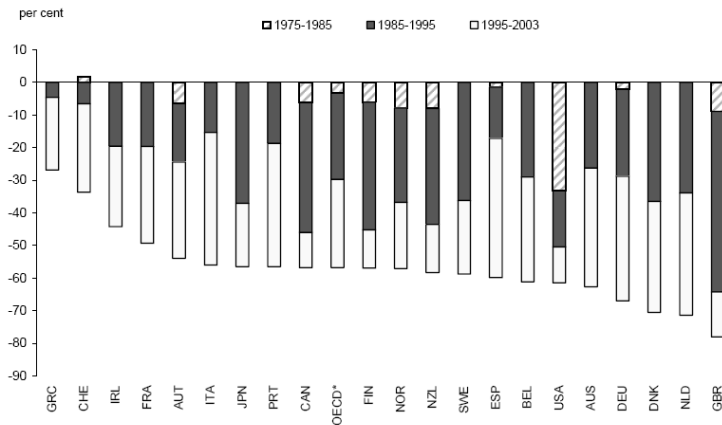
## Bottlenecks in market functioning

	Supply side	Demand side	Information Transparency	Proper contracting
<b>A. NETWORK SECTORS</b>				
1. Air transport				
2. Telecom				
3. Post				
4. Energy (small us)	X			
5. Freight rail				
<b>B. TRIPARTITE MARKETS</b>				
6. Reg. Pub. Transp.				
7. Cure: buying health services by insurers		X	X	X
Cure: health insurance				
8. Job search agencies long unemployment			X	X
<b>C. OTHERS</b>				
9. Child care		X		
10. Taxi. Ind. Tr.	X	X	X	
Taxi Contr. Tr.				X
Notaries			X	13

## Trends employment and job/labour conditions

	Employment	Real hr. wage	Other job/ labour cond.
1. Air transport	↑	=	In. labour conditions (sickness, disability, pension), no change; work pressure up
2. Telecom	↑	↓	Work pressure up; more individ. elements in annual assessment
3. Post	=	=	For 'insider' postmen, no change; new workers, other tasks & less good conditons
4. Energy (small us)	↓	↑	Traditional energy jobs, less good conditions (but still good); more other to employability; traders, marketeers better off.
5. Train freight transport	↓	n.a.	Virtually no change; greater flexibility
6. Reg. Public transport	↓	↑	No change; higher work pressure; uncertainty due to auctions ('for' the market)
7. Health	n.a.	n.a.	No change
8. Job search agencies long unp.	n.a.	n.a.	Flex. Contracts + performance requirements in this sector
9. Childcare	↑	↑	No change + higher work pressure
10. Taxi	↑	↑	Entry of single-person firms, but virtually no change in conditions
11. Notaries	↑	↑	Unclear, no hard data.

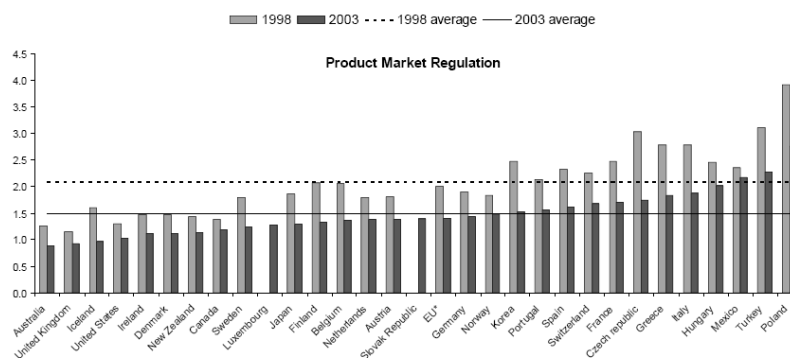
## Labour & productmarket reforms how distinct are France & the Netherlands?



Source: Hoy et al (2006), OECD, ECON WP 501

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## Labour & productmarket reforms(2) how distinct are France & the Netherlands?

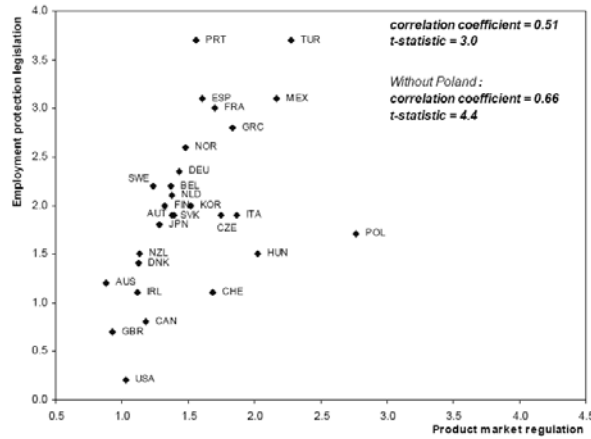


Source: Conway, P., Janod, V. & Nicoletti G. Product Market Regulation In Oecd Countries: 1998 To 2003, Econ. Dep. WP No.419

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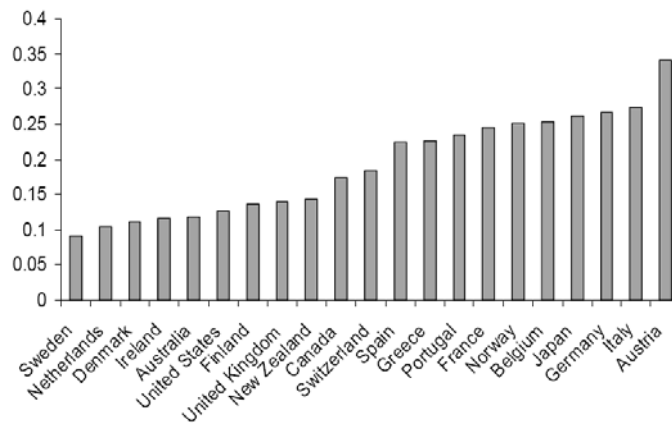
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## Labour & productmarket reforms(4) how distinct are France & the Netherlands?

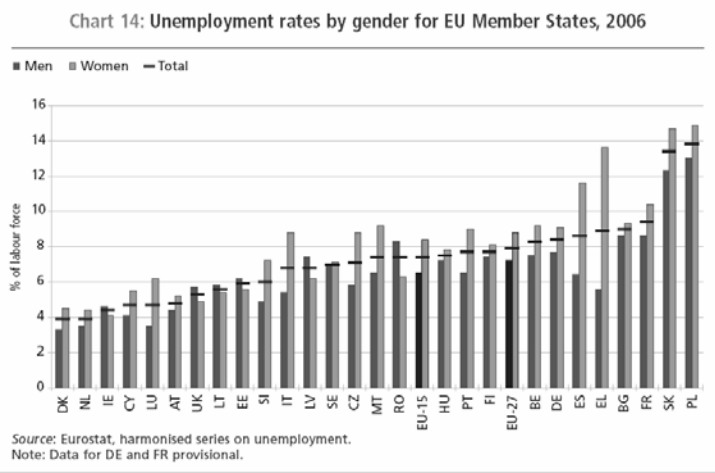


source: OECD International Regulation Database

[Impact indicators of services reg.n. on manufacturing]

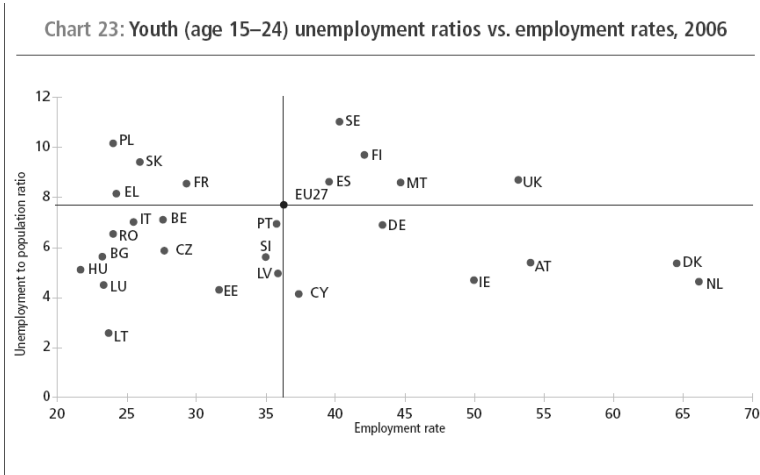
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# Labour & Productmarket reforms(5) how distinct are France & the Netherlands



Source: Employment Report 2007, E.C.

# Labour & Productmarket reforms(6) how distinct are France & the Netherlands



## Lessons for the Dutch, useful for France ?

- reforms are a means, economic welfare is the aim, also intergenerationally
- LABOUR / WELFARE STATE
  - cutting entitlements is not a-social if there are clear social standards (level)
  - Dutch labour market flex.ties allowed 'outsiders' to enter (massively), w/out taking EPL away from the insiders
  - flexing EPL requires tight labour market (at least in NL) and a solid welfare state
  - active LM policies taken from Danes/Swedes
  - Dutch luck : Dutch pensions capital-based ( PAYG is a minor part)
  - social partners are key (Socio-Economic Council ) ; however, government credibility hinges critically on worshipping the good things of corporatism, while explicitly resisting the bad ones [ like ignoring 'outsiders' or the next generation or vetting cosy deals ]

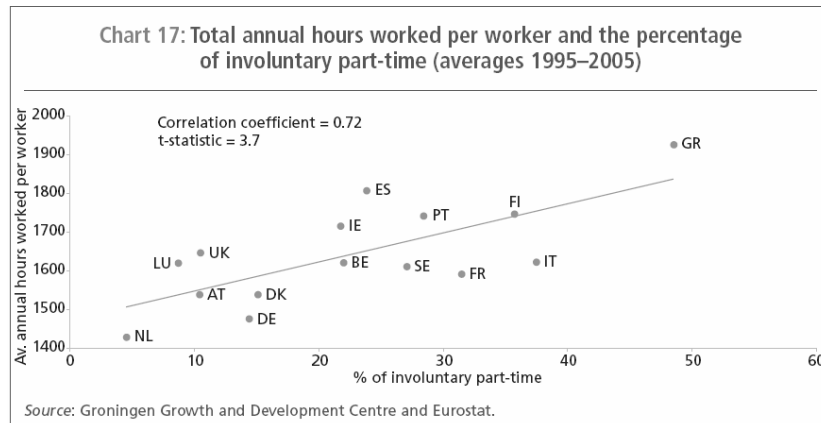
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## Lessons for the Dutch useful for France ? (2)

- BUT....
  - Dutch inactivity rates were long very high and have come down only recently  
(due to early retirement, huge loopholes in inability generosity, lack of ALMP, poverty trap)
  - The Dutch work few hours ; does this express a preference for leisure?  
[well, marginal tax rates cut, but not low ; a lot of part-time jobs – good for women, but what about their careers? are they myopic ? see next slide]

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## Lessons for the Dutch useful for France ? (3)



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## Lessons for the Dutch useful for France ? (4)

- REGULATORY REFORM
- 1. RR begun as supply-side, but demand issues (esp. true consumer choice, transparency, info obligations- in particular about quality, redress consumers) critical in services
- 2. regulate properly quality, security of supply and choice elements, besides efficiency ; supervise, with enough resources
- 3. a pro-active competition policy hand-in-glove with good regulatory reform
- 4. never promise swift results – reforms take time ; incumbents should not delay, yet do require time ; so do new entrants

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## Some cold water on 'Dutch delight'

- the ACM model works (- 25 %) but business (for which it ought to be noticeable) says that companies haven't experienced much difference
- domestic services liberalisation complex, with mixed results
  - [ health info problems on quality, deepseated ; health insurance 'buying' health services for their clients, fledgling ; taxi's failure ; notaries weakly positive ; regional bus transport badly handled by government; trains work ; compet. policy attacked service cartels]
- EU-driven sectors far better but slow, in three waves usually, and some network industries need tough approaches

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