

## Why there are fairer ways to reform in France

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From Prof Patrick Messerlin and

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Sir, While any proposal to encourage economic reform in France is to be warmly welcomed, the solution set out by Jacques Delpla and Charles Wyplosz ("The French will accept reform if the price is right", March 22) runs the risk of further delaying it.

The notion of compensating losers is appealing, foremost because it tests whether a policy change delivers net benefits. But there are good reasons why "Pareto" compensation is not generally applied. (The reference to the Meiji emperor is misleading - the emperor abolished the privileged status of the samurai, and forced the feudal lords to surrender their lands and relevant taxes, more a revolution than a compensation, even though feudal lords were appointed governors of Japanese prefectures.)

As the authors note, compensation can be expensive. But transfers are not the real cost of "buying out" opposition to reform. Problems arise because of difficulties and costs in measuring *net* losses for individuals or groups of individuals, particularly in a country such as France, which has accumulated so many distortions that very few people know whether they are *net* beneficiaries or losers - which might lie at the heart of the French fear of reform. Moreover, people may remain in jobs or industries they would otherwise have left in the expectation of payment, or they may be encouraged to oppose any policy changes, as best illustrated by the case of farmers in Europe.

Last but not least, policy reforms may redistribute income in a way that the community regards as desirable. It could be argued that all those who will be worse off because of reform *inaction* should be compensated. Many policy interventions are intended to alter income distribution. Should increased taxes or interest rates be compensated for? This is not to say that compensation is never appropriate, just that there should be no "right" to it.

There are potentially more effective and fairer ways of easing the adjustment burden and reducing resistance to reform. All of them require a broader understanding and acceptance of reform assisted by rigorous, independent and transparent evaluation of the costs (including adjustment costs) and benefits of reform options.

Such an approach emphasises sound analysis and policy design combined with measures to "oil the wheels" of structural adjustment, in contrast to creating a risk-free, compensation mentality. Interestingly, the first programme of buying out opposition to reform in France under Napoleon III gave substantial subsidies to industries after the 1860 free trade agreement with the UK - a good example of how buying off opposition can become an impediment to adjustment.

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