

# The struggle for reform in France and Italy

*Hollande and Renzi must continue to push on with liberalisation*

The sense of spectacle with which French deliberations on economic reform are traditionally conducted was on display again this week, as law books were dumped and flares set off in Paris to protest at the “loi Macron”.

The proposed legislation is named after Emmanuel Macron, President François Hollande’s economy minister and very embodiment of reformist zeal. He wants a grab-bag of liberalisation including both literally and metaphorically opening closed shops – permitting more Sunday opening in the retail sector and reducing entry barriers to the legal and other professions. Although well short of truly fundamental reform such as abolishing the 35-hour workweek, the proposals still met a storm of protest.

Mr Macron’s efforts deserve applause. To effect a fundamental change in the French economy, however, they will need much deeper and broader political support than they have enjoyed hitherto.

France is in a similar situation to Italy. Both are attempting structural reform while fighting the threat of recession and asking the EU – which is to say Berlin – for more leeway on fiscal policy. Matteo Renzi, Italian prime minister, has been trying to get through difficult reforms of the justice system and the senate. These may seem like abstract political goals: they are not. Clogged-up courts and a foot-dragging legislature are impediments that must be removed before other reforms to the Italian economy can take place.

Similarly, the French legal reforms may appear abstruse but they take aim at exactly the right problem: the bureaucratic sclerosis that chokes off innovation and growth. Hearteningly, the plans have aroused particular ire from notary profession, which controls a narrow defile through which myriad legal procedures must pass, exacting

tribute from households and companies as they go. The reforms are important not because they are likely to kick-start growth in the short term. Liberalisation of closed product and labour markets often has a somewhat contractionary effect, as workers and companies react by cutting back on spending and investment.

Rather they matter for two other reasons. One, they should increase the productive capacity of the economy: stagnant productivity was a chronic problem well before the global financial crisis. Two, liberalisation will give Germany and the ECB cover for reducing their objections to looser policy in the near future. This will be much easier if it is clear that demand-side boosts and supply-side reforms are complements, not substitutes.

Therein lies a problem of trust and political commitment. There must be a suspicion that Mr Hollande’s hugely unpopular administration is doing only the minimum reform necessary to win concessions from Frankfurt and Berlin. At its worst, the reform process as well as opposition to it may also be political theatre, making a show of proposing reforms and being beaten back by domestic outcry.

That would be a serious mistake. Fundamental liberalisation needs broad backing across the French political spectrum and from workers and employers. It will not succeed if it is simply a hopeful shopping-list of reforms propagated by one technocratic minister.

Mr Hollande’s presidency thus far has been deeply disappointing. He has little to lose. By throwing what weight he has fully behind Mr Macron’s reforms, he will at least give himself a chance of rescuing some credibility. The opposition seen in Paris this week was both predictable and wrong. Mr Hollande should face it down.

La lotta per le riforme in Francia e Italia

