

Why the French dislike ``Bruxelles”.

Olivier Blanchard, June 15, 2005

As European governments meet to draw the lessons from the failed referenda, they need not search too far for culprits. They only need to look at themselves.

For many years, European governments played what they thought was a really smart game. Letting Bruxelles take unpopular measures, and then bitterly complaining about the ``Bruxelles bureaucrats." This way, they could both reap the benefits of reform, and avoid shouldering the blame.

They just made one mistake: Asking, at the end, people what they thought of Bruxelles. And people, at least the French people, sent a clear and unsurprising message: They did not like the reforms, and they did not like the ``Bruxelles bureaucrats", Constitution or no Constitution.

Nowhere is all this so visible as in the way governments have handled the deregulation of the product market.

The rewards to product market deregulation are very large. Breaking up monopolies often yields dramatically lower prices, and so a higher standard of living for consumers: The same wage buys a whole lot more. Think of the effects of deregulation in telecommunications, and of how little you now pay for each phone call. Think of deregulation of airlines, and how much cheaper airline travel has become, thanks mostly to the competition from new low-cost companies. Deregulation also leads to economies of scale, and this again leads often to much lower prices. Think of how much further your euro goes at your favorite hypermarket or discount store compared to your corner grocery store.

Deregulation however comes with disruptions. Consumers gain, but some workers lose. Often, existing firms have a hard time adapting. New, leaner, firms take over. In the process, the old firms go bankrupt, workers are laid off. Rents disappear: Think of the effects of airline deregulation on the salary of pilots. And even if as many or more jobs are created as are destroyed, this does not eliminate the pain for those who find themselves

unemployed.

By any estimate, with a decent safety net for the workers who lose their jobs, the benefits of deregulation far exceed the costs and the pain they trigger. This fact does not make the governments' political task much easier. The benefits are diffuse: Consumers paying less for airline tickets may not attribute it to deregulation. The airline workers who risk losing their jobs are intensely aware of the connection between deregulation and layoffs. Governments could try to explain why they pursue deregulation. It is much easier for them to adopt a low profile, get Bruxelles to do it, and then blame Bruxelles. This is exactly what they have done.

Could it be instead that Bruxelles has overstepped its powers, forcing more deregulation than governments wanted? That theory does not hold water. The case of airline deregulation is again revealing. Twice in the last ten years, national governments have explicitly given to Bruxelles the right to put tighter constraints on state aid to failing airline companies. Governments did not have to cede these powers. But they did. This did not prevent them from blaming Bruxelles strongly and loudly for these very constraints when their own national airline companies got in trouble...

Having triggered and then witnessed the anti-Bruxelles vote, what should the European governments do?

One piece of good news is product market deregulation is largely achieved, so there is less need to play the earlier game. The main item on the agenda is now the design of better social insurance, to insure that reallocation, be it from deregulation, technological progress, or globalization, proceeds come with minimum pain. Labor market policies do not fall under Bruxelles' mandate, so national governments will have to do it on their own. They won't be able to shift the blame to Bruxelles.

Some product market deregulation remains to be done however, especially in the service sector. The Bokelstein directive on services played badly, but there is no question that European consumers pay too much for many services. To take just one example, who can doubt that eliminating for example, the monopoly of notaries public in countries like France and Italy would not substantially decrease costs of buying and selling homes, decrease the cost of housing, and make it less costly for workers to move where the jobs are?

So European governments have a choice. They can try to stop product market reforms altogether---and, by the same token, stop trade liberalization, globalization, and so on. So far, no government appears to have fallen to that temptation. They can continue to play the blame game, letting Bruxelles pursue reforms, while complaining about Bruxelles. The outcome of the French referendum has shown the dangers of that strategy. Or they can help Bruxelles define and design product market reforms, and then sell these reforms, and Bruxelles' role to their voters. If they do, the referendum fiasco will prove to have been useful after all.