



Hollande's Folly

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'The problem with socialism', Margaret Thatcher once said, 'is you eventually run out of other people's money.' And so it seems this has occurred in France, where the socialist experiment implemented by President François Hollande has, only two years since its implementation, failed miserably.

The French experience stands as a salient example of what can happen when the entrepreneurial spirit is sapped from an economy through the implementation of high taxes and excessive regulation.

By targeting entrepreneurs and businessmen Hollande has not only run out of money, he has also run out of support. He has become the least popular president in the history of the Fifth Republic. Even for a nation with an atavistic distrust of entrepreneurs and capitalism, François Hollande's

policies have gone beyond the pale.

Rather than cut spending, Hollande has attempted to reduce his nation's growing debt through high taxes on businesses and individuals – exemplified by a 75 per cent super tax on those earning over €1 million. Instead of limiting government activity in the economy, he has attempted to expand the public sector in a misguided attempt to decrease unemployment.

The result has been tragically predictable. Unemployment has risen to 11 per cent, a 16 year high. Public debt is estimated to breach 95 per cent of GDP sometime this year. Public spending continues to hover at around 56 per cent of GDP. Hollande's policies ignore the basic tenet of the Laffer curve: high levels of taxation will eventually begin to reduce revenue.

By removing the possibility of high profits, the introduction of high taxes and a heavy regulatory burden removes the incentive to try new things – the losses accumulated by failure will not be regained when success is eventually achieved. As Dwight Lee, in his book *The Seeds of Entrepreneurship*, says 'no matter how fertile the seeds of entrepreneurship, they wither without the proper economic soil.'

Supporting entrepreneurship is pivotal for the growth of any economy. International studies conclude that differing rates of entrepreneurship accounts for one-third to one-half of the difference in national economic growth rates. While it seems many countries – France not among them – have cottoned on to this fact, attempts to provide the right economic environment are often very misguided.

Government attempts at encouraging more entrepreneurship usually centre on the provision of subsidies and benefits to specific firms, industries or technologies of their choosing. But as history has shown, government attempts to pick winners are seldom successful, one need only look at the billions of tax payers dollars that were poured into the Australian car manufacturing industry to see how costly this policy can be.

All entrepreneurs need is an independent judiciary, respect for property rights, enforcement of contracts and sound money. Rather than involvement in the economy, the best thing government can do is get out of the way.

And yet getting out of the way can often be politically very difficult. While entrepreneurship is a key factor in the production of new goods, services and technologies that make our lives better, it is also a destructive force.

Joseph Schumpeter argued that the 'creative destruction' innovation unleashed on the status quo of existing industries and products was pivotal in driving the regeneration of a capitalist system from within. Inherent in this process, however, is the inevitable failure of some companies and industries as others prosper.

Failing companies and industries will often place substantial pressure on the government to intervene in the market and save them from their fate. But failure is a powerful and necessary



force in a free market economy.

The fear of failure instils discipline upon companies and forces them to be innovative in their production techniques. It requires companies to remain vigilant of changes in consumer demand. If they fail to do this successfully, they will lose market share to those that do.

Encouraging new companies to grow is an effective way to create competition and ensure existing companies remain vigilant. It is also an effective way to drive down unemployment. In the three decades leading up to the global financial crisis in 2008, firms less than five years old accounted for practically every new job created in the private sector in the United States. Roughly one third of total US employment and economic output stems from companies that did not exist prior to 1980.

The new year has brought some of these realisations to François Hollande. Mirroring the actions of the last Socialist Party President, François Mitterrand, Hollande has begun the process of releasing the shackles his policies have placed on French entrepreneurs and businessmen in what he calls his 'responsibility pact'.

While these steps are a move in the right direction, the French economy, like many other developed western economies, has a long way to go. Entrepreneurship can be a powerful driver of economic development and technological progress but, as Dwight Lee notes, in order for it to 'germinate, take root, and yield the fruit of economic progress it has to be nourished by the right mixture of freedom and accountability, a mixture that can only be provided by a free market economy.'