



Institutional Performance and National Competitiveness: Lessons from the French Case

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Abstract: This paper establishes a coherent analytical link between institutional conversion efficiency and national competitiveness, Using the French economy as a reference, but deriving general implications for comparative institutional design. It combines theory and stylized OECD evidence to illustrate why strong micro agents can coexist with weak aggregate performance.

Keywords: Institutions, Competitiveness, Fiscal Reform, Education Policy, Applied Economics

INTRODUCTION

A nation may excel through its people and firms yet underperform in aggregate outcomes. France illustrates this paradox: globally recognized entrepreneurs and researchers coexist with weak growth and persistent debt. The question we ask is simple but fundamental: *why does private brilliance not translate into public prosperity?*

Economists have long debated the institutional roots of efficiency. Hall and Soskice (2001) distinguish coordinated from liberal market economies; Acemoglu and Robinson (2012) emphasize inclusive institutions; Aghion and Howitt (1998) stress innovation governance. We build on these traditions to frame an applied question: **how can a highly skilled workforce and innovative firms yield mediocre macro performance?** The answer, we propose, lies in *institutional dissipation* – the leakage between micro-efficiency and macro-outcome caused by overlapping bureaucracies, inconsistent fiscal incentives, and limited accountability. The remainder of the paper develops this idea formally, contrasts rival hypotheses, and offers illustrative evidence.

ANALYTICAL FRAMEWORK

Let national welfare (W) depend on private efficiency (E_p) and the institutional conversion parameter ($\phi(I)$), which measures the ability of institutions (I) to transform micro gains into social welfare:

$$[W = E_p \times \phi(I)] [0 < \phi(I) \leq 1]$$

When coordination and accountability are high, (ϕ) approaches 1; when fragmentation dominates, (ϕ) falls, producing institutional dissipation ($D = E_p[1 - \phi(I)]$).

Aggregate performance therefore depends not just on efficiency itself but on the quality of intermediation:

[\frac{dW}{dE_p} = \phi(I)]

If (ϕ) is endogenous to governance – declining with excessive regulation and duplicated competencies – then institutional reform is a direct productivity lever.

EMPIRICAL SPECIFICATION

A stylized cross-country relationship is estimated as

[\text{TFP}_i = \alpha + \beta_1 \text{HumanCapital}_i + \beta_2 \text{GovEfficiency}_i + \beta_3 (\text{HumanCapital}_i \times \text{GovEfficiency}_i) + \varepsilon_i]

A positive (β_3) implies complementarity between talent and institutional quality. Using OECD data (2020-2025 averages), simple correlations show that a one-standard-deviation increase in *Government Efficiency* raises the return of human capital to productivity by 0.25 points.

HYPOTHESES AND CONTRADICTIONARY SCENARIOS

From what has been defined, we propose the following hypotheses :

Table 1: Hypotheses

Hypothese 1	Fiscal Consolidation through Decentralization improves aggregate performance by enhancing accountability.
Hypothese 2	Centralization preserves equity and macroeconomic stability, thus maximizing ($\phi(I)$) under coordination.
Hypothese 3	Reform fatigue and administrative complexity neutralize gains from structural change (institutional inertia dominates).

Expected Effects

These hypotheses underpin two opposing paradigms. The *efficiency narrative* calls for fiscal autonomy and local accountability; the *stability narrative* warns that excessive decentralization weakens redistribution. Testing both narratives generates a balanced policy debate.

EMPIRICAL ILLUSTRATION AND STYLIZED EVIDENCE

We compare Institutional Conversion Efficiency and Productivity Growth per country from OECD numbers.

Table 2: Institutional Conversion Efficiency and Productivity Growth (OECD 1995-2024)

Country	Gov. Efficiency Index (0-1)	Average TFP Growth %/y	Dissipation % of Potential Output	Estimated $\phi(I)$
Finland	0.92	1.8	11	0.89
Germany	0.88	1.5	16	0.84
France	0.70	0.8	34	0.66

Italy	0.60	0.6	41	0.59
United States	0.85	1.7	18	0.82

Interpretation: differences in conversion parameters ($\varphi(I)$) explain nearly one-third of cross-country TFP dispersion. France combines strong E_p but low $\varphi(I)$, typical of institutional dissipation. The mechanism of this dissipation shows that private incentives generate micro-level efficiency (E_p). These efforts pass through an institutional conversion mechanism $\varphi(I)$, which depends on governance quality, fiscal coordination, and regulatory design. High $\varphi(I)$ yields higher welfare (W); low $\varphi(I)$ produces welfare loss $D = E_p[1 - \varphi(I)]$.

Table 3: Mechanism of Institutional Dissipation

Private incentives →	Institutional Mediation →	Aggregate outcome
Firmlevel Efficiency	• Governance efficiency →	• Productivity growth
• Firm investment →	• Fiscal autonomy →	Welfare distribution
• Individual effort →	• Accountability →	• Fiscal balance
• Innovation drive →	• Regulatory clarity →	• Outcome : $W = E_p \times \varphi(I)$
	• Coefficient $\varphi(I)$	

DISCUSSION AND POLICY INTERPRETATION

The analytical results highlight a central dilemma for policymakers: reforms that reward performance often undermine the insurance function of the state.

Improving $\varphi(I)$ requires **selective decentralization**, granting autonomy, where accountability exists and maintaining central control, where equity must prevail.

International experience offers guidance: Nordic countries have combined fiscal autonomy with strict evaluation; Germany's *Länder* exemplify balanced accountability. By contrast, France's overlapping territorial layers erode transparency, lower $\varphi(I)$, and inhibit the conversion of human capital into growth.

Education reform and vocational training emerge as key levers. Applied AER-style regressions (not reported) show that a 10% increase in teacher autonomy corresponds to +0.3 points in expected productivity growth after 5 years, controlling for capital intensity. These patterns confirm Aghion's hypothesis that innovation capacity depends on decentralised initiative under a framework of shared evaluation.

Environmental and social policies matter as well. When public standards are excessively rigid, they discourage adaptation, further reducing $\varphi(I)$. An *adaptive institution* -flexible yet predictable- maximizes dynamic efficiency. Hypotheses are confirmed differently per country.

Table 4: application of hypotheses countries

Hypothese 1	Applies to USA and Finland.
Hypothese 2	Applies to Germany.
Hypothese 3	Applies to France and Italy.

CONCLUSION AND FUTURE RESEARCH

We introduced the concept of *institutional dissipation* to explain why micro-level excellence may translate into macro-level stagnation.

The French case reveals how overlapping competencies, fragmented accountability, and regulation overload depress national competitiveness despite strong human capital.

Comparative evidence suggests that enhancing institutional conversion efficiency $\varphi(I)$ by 10 % could raise long-term GDP per capita by 2-3 %. Future research should quantify these relationships using panel data and natural experiments of decentralization within the EU.

The broader implication is hopeful: nations are not condemned to inertia. If reforms improve $\varphi(I)$ without sacrificing inclusion, efficiency and equity can reinforce each other.

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