

**NOTE**

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Malakoff, 29 avril 2005  
N° 14/G201

Objet : *Current Research Interests for the "Département des Etudes Economiques d'Ensemble"*<sup>1</sup>

The *Département des Etudes Economiques d'Ensemble* (D3E) at INSEE performs general applied studies on the French Economy. It includes three units, respectively specialized in macroeconomic analysis, micro-studies at the firm level, and studies on social policies and household behavior.

These studies are either prepared for public decision makers or for a larger audience, depending on the subject. They are generally based on data collected or elaborated within INSEE. The department also built and/or maintains three major simulation tools:

- Two quarterly macroeconometric models, the MESANGE model for France and an aggregate model for the Euro Zone.
- A long-term microsimulation model, the DESTINIE model, designed for evaluating the consequences of demographic changes and pension policies both at the macro and individual levels.

Some common centers of interest are naturally shared between the three subunits of the department. Members of the D3E also take advantage of the vicinity of INSEE's research center, the CREST (see separate note on main activities by the CREST). Cooperation is also important with national accountants and the department in charge of business tendency surveys and short-term economic outlooks.

The present paper summarizes the main research topics for these three units for year 2005.

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<sup>1</sup> Overview prepared for the 2005 NERO meeting.

## 1) Macroeconomic studies

This unit has defined three thematic axes for 2005.

One first thematic axis deals with the consequences of international competition for the French economy. This covers the question of outsourcing of French firms toward foreign countries, and the analysis of the decreases in French market shares on international markets over the last years, especially compared to Germany.

The second thematic axis deals with savings and consumption. Explaining both the level and trend of French households' savings remains a partly unresolved question, this level remaining significantly higher than in comparable countries, even when one uses the most comparable definitions of these savings rates. Current projects address this comparability problem (in the context of a contribution to an ongoing OECD study), and on improving the consistency between data from National Accounts and data computed at the micro-level from family budget surveys. Another subaxis of this program will be the examination of the relationship between savings by households and the evolution of public debt (test of some non linear ricardian effects).

A third axis is the prospective analysis of labor market implications of demographic change. It is generally admitted that a less dynamic or a declining labor force is not necessarily good news for unemployment trends. In the long run, population growth is considered to be at best neutral for the functioning of the labor market. There is less consensus concerning short-term impacts, and the aim is to clarify this question and its articulation with medium/long-term effects. This question will be examined by crossing a variety of approaches (econometric analysis, simulations of standard macroeconomic models, construction of *ad hoc* calibrated models).

A fourth axis is more methodological and deals with the use of Business Tendency Surveys for short-term analysis and forecasting. The unit is also involved, as usual, in the preparation of short-term economic outlooks (validation of short-term forecasts using the Mesange and the MZE models) and will provide some expertise on series of the new base of National Accounts to be published in June 2005. This rebasement will lead to a reestimation of our macroeconomic models.

## 2) Micro studies on firms

Three main axes can be mentioned for this unit.

One axis is the question of new technologies and organizational change. Various subtopics are examined such as the relationship between organizational structure and distance to the technological frontier, biases of technological or organizational changes against older workers, and the impact of corporate finance on innovation.

The second axis is about choices of localization by firms. Part of this axis corresponds to the cooperation with the macroeconomic division on the measurement of outsourcing. Thanks to its expertise on micro level data on firms, the division has been able to develop quite rapidly a new approach for the measurement of outsourcing, based on the matching of micro data on imports and employment changes. Additional work is done on determinants of forms of outsourcing (affiliation vs. subcontracting) or on the impact of environmental regulations on localization.

A third axis gathers studies on investment, corporate finance and taxation. A new axis will consist in developing studies on the demography of firms: creation/destruction of firms, impact of credit subsidies on evolutions for small or very small firms, impact of changes of managers, problems of transmission of firms, links with employment flows, consequence of belonging to a group...

Among other projects, we shall mention the exploration of links between concentration and the formation of prices, using the microdata that are used for the production of indexes of industrial selling prices. This work will result from cooperation with the CREST.



### 3) Redistribution and social policies

A large part of the work done by this division will remain structured by the Destinie dynamic microsimulation model. It will be used to feed the diagnosis on consequences of the large pension reform that occurred in 2003, both at the micro and the macro-level. Three important aspects of this evaluation will deserve strong scrutiny:

- The relevance of the model used for simulating the impact of pension reform on labor supply. One of the aims of the 2003 pension has been to increase the freedom to choose one's age at retirement. A large uncertainty still exists on how this will affect actual behavior. Existing semi-structural models that are used to predict this behavior have been estimated in a context where choices were much more constrained, and are therefore fragile. Sensitivity tests need to be done to evaluate this fragility.
- Redistributive impacts of the reform must deal with the consequences of this increased liberty of choice: for instance, a low replacement rate for a given individual may either result from constraint, or from the individual choice to favor a longer retirement rather than a high pension level. These two cases must be treated differently.
- We shall also maintain the expertise on the demand side of the labor market for older workers (a synthesis of our recent work on this question has been presented in the last 2004 NERO meeting).

Simultaneously, we shall also have to deal with the fact that the DESTINIE model will very soon have to face the emerging competition of similar tools currently developed in other institutions such as the ministry of social affairs or the CNAV, which is the most important pension scheme in France, the one that provides their first pillar pension for most of wage earners in the private sector. The advantage of these models will be that they will be based on administrative data, more accurate than household survey data for the detailed projection of pension entitlements.

To adapt to this new situation, we shall prepare a reorientation of the model toward other uses: emphasis on the household dimension, generally ignored by administrative data, longitudinal studies on questions outside the field of pensions, such as the long term evolution of health status and health expenditures, the impact of education on lifetime earnings profile...

All this work will be complemented by other activities, studies on intergenerational redistribution, studies on savings at the micro-level, such as the valorization of the SHARE survey of people aged 50 and plus in Europe, whose management has been partly assumed, in 2004, by the department.

