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1982-1983

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

FRANCE

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

MARCH 1983



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FRANCE

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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CONTENTS

Introduction	7
I. Recent trends in the economy	8
General features	8
Domestic trends	11
Output and employment	11
Components of demand	16
Prices and wages	21
External transactions	24
Trade	24
Balance of payments	28
Exchange rate trends	31
II. Economic policy	33
Public finance and fiscal policy	33
Central government budget	36
Social security	38
Local government	40
Monetary policy	40
Prices and incomes policy	45
III. Some structural problems	47
Interim Plan and Ninth Plan	47
Industrial policy: new strategies	49
Energy policy	52
Some financing problems	52
IV. Short-term forecasts	58
V. Conclusions	61
 <i>Annexes</i>	
I. Comparison of scenarios for the period of the ninth plan	65
II. Financing problems by economic agents	68
III. Calendar of main economic policy measures, 1981-1983	71
Statistical annex	78

TABLES

Text

1. Relative performance of the French economy	9
2. Overall economic trend in 1982: forecasts and outturns	10
3. Output, employment and productivity in certain sectors	12

4. Labour force and employment	15
5. Demand and output	16
6. Households' appropriation account	17
7. Price trends	22
8. Wage trends	22
9. Trade balance (fob-fob) – Price-volume breakdown	25
10. Penetration of imports of manufactures	26
11. Balance of payments on a transactions basis	28
12. Consolidated account of general government	34
13. Impact of general government transactions on demand	35
14. Central government budget	37
15. Social security accounts	39
16. Monetary policy: targets and outturns	40
17. Money and credit	42
18. Relative importance of public groups in industry, 1980	50
19. Comparison of savings and investment trends in selected OECD countries	53
20. Trend of gross fixed asset formation	54
21. Structure of new sources of financing for the economy	55
22. Capital market	56
23. Secretariat forecasts	58

Annex I

A1. Definitions of the combined scenarios	66
A2. Comparison of scenarios for the period of the IXth Plan	67

Statistical annex

A. National accounts	78
B. Gross fixed asset formation	79
C. Industrial production	80
D. Employment and labour market	81
E. The money supply and its counterparts	82
F. Foreign trade by area	83
G. Balance of payments of France with the rest of the world	84

DIAGRAMS

1. Output indicators	13
2. Labour market indicators	14
3. Selected items of the households' accounts	18
4. Characteristic ratios of enterprises' accounts	20
5. Real labour costs gap	23
6. Relative competitive position in manufacturing industry	24
7. Foreign trade	27
8. Structure of the balance of payments	29
9. Exchange rates	32
10. Interest rates	44
11. Business forecasts	60

BASIC STATISTICS OF FRANCE

THE LAND

Area (1 000 sq. km.)	551.2	Major cities, (census of 1975), inhabitants :	
Agricultural land in use (1 000 sq. km.), 1979	294.9	Paris	2 317 227
		Marseille	914 356
		Lyon	462 841

THE PEOPLE

Population 1.1.1982 (thousands)	54 091	Total labour force (1981, thousands)	23 249
No. of inhabitants per sq. km	98.1	Influx of manpower (1981, permanent foreign workers excluding EEC nationals)	25 686
Total increase in population, 1981 (thousands)	250		

PRODUCTION

Gross domestic product, at market prices, in 1981 (billions of francs)	3 094.4	Origin of the gross domestic product, at market prices (1981):	4.2
GDP per head (US \$) (1981)	10 552	Agriculture	31.1
Gross fixed investment (1981):		Industry	7.3
- per cent of GDP	21.2	Construction	57.4
- per head (US \$)	2 232	Services	100.0
		Total	

GENERAL GOVERNMENT (ESNA concepts)

Current expenditure in 1981 (per cent of GDP)	46.2
Current revenue in 1981 (per cent of GDP)	44.7
Gross fixed investment in 1981 (per cent of GDP)	2.7

FOREIGN TRADE

Exports of goods and services, including those to franc area, as a percentage of GDP (1981)	22.2	Imports of goods and services, as a percentage of GDP, including franc area (1981)	24.0
Main exports as percentage of total exports (1981) SITC:		Main imports as a percentage of total imports (1981) SITC:	
Food, beverages and tobacco (0 + 1)	16.4	Food, beverages and tobacco	9.5
Machinery and transport equipment (7)	33.2	Machinery and transport equipment	22.1
Iron and steel products (67 + 68)	8.4	Iron and steel products	5.7
Chemical products (5)	12.0	Chemical products	8.6
Textile products (65)	3.1	Mineral fuels, lubricants and related materials (3)	28.9

THE CURRENCY

Monetary unit: the franc	Currency units per US dollar, average of daily figures:	
	December 1982	6.8572
	Year 1982	6.5720

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of France by the Economic and Development Review Committee on 3rd February 1983.

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 16th March 1983.

(See Addendum page 64)

INTRODUCTION

The main objective of the economic policy introduced by the French Government half way through 1981 was to combat unemployment and its basic strategy was to stimulate the economy. The process was expected to be as follows. As a first stage, the raising of low wages and increased income transfers would bring about a recovery in the demand for and output of consumer goods. Later, the general world recovery forecast for 1982 would stimulate exports and reduce the growth differential between France and its trading partners. Lastly, improved financial results and more optimistic expectations in the business sector would bring an upturn in investment, also stimulated by the public sector. It was planned to contain inflationary pressures by limiting money supply growth to 12½-13½ per cent in 1982, holding the budget deficit to about 2½ per cent of GDP and bringing in an incomes policy to control the rate at which prices and nominal incomes increased. At the same time, a number of medium-term reforms were begun (nationalisation, extension of contractual policy, decentralisation).

Some of the objectives were achieved. Private consumption picked up in the second half of 1981 and the first half of 1982, causing a slight increase in GDP and slowing down the rise in unemployment, though this was also due to various worksharing measures. The improvement was confined, however, to private consumption: exports were hit in the first half of 1982 both by the weakness of world demand and by the erosion of French competitiveness, whilst investment in the productive sector stagnated and housing construction fell back.

With the continuance of a substantially higher rate of inflation in France than in the country's main trading partners, a widening balance-of-payments deficit and unremitting pressure on the franc, the authorities set economic policy on a more restrictive course in June 1982 and at the same time decided to adjust the exchange rate of the franc in the EMS. Prices and incomes were frozen up to October 1982 and the Government then introduced a policy based on negotiating procedures, in order to restrain the rise in prices and nominal incomes in 1983. The authorities also took steps to contain the growth in the expenditure and deficit of general government, largely by bringing the social security accounts back into balance. This policy could quickly bring the French economy back into step with the international environment. In France volume growth rates in total domestic demand and GDP between mid-1981 and mid-1982 were 3½ per cent and 2 per cent respectively, whereas the figures for OECD Europe were ½ per cent for both. A first deceleration in growth and inflation became apparent in France in the second half of 1982 and the OECD Secretariat's current forecast for 1983 is a GDP growth rate of ½ per cent, which is practically identical with the average for OECD Europe. With growth rates in line as between France and its main trading partners and the expected slowing of the rate of inflation (an easing of the consumer price rise from 11½ to 9 per cent between 1982 and 1983), the current payments deficit could narrow from 12 to 9½ billion dollars over the twelve months to end 1983.

In Part I of the survey, after a brief review of the forecasts made a year ago, the assumptions on which they were based and the principal uncertainties attaching to them, the main factors that influenced macro-economic trends and led to the shift in economic policy are examined. Part II is devoted to a study of short-term economic policy. In Part III, some medium-term problems are analysed in three areas: planning, industrial policy and financing of the economy. The survey ends with a presentation of short-term forecasts followed by economic policy conclusions.

I. RECENT TRENDS IN THE ECONOMY

General features

Between the two oil crises, the French economy achieved relatively satisfactory results in terms of activity and domestic demand growth. GDP grew at an average rate of nearly 3 per cent between 1974 and 1979, which compared with 2.3 per cent for OECD Europe and about 2 per cent for the OECD area as a whole. At the same time, however, unemployment rose steeply and, even in those years when import prices had a pronounced moderating effect, the rate of inflation never fell below 10 per cent for any length of time. Although there were some year-on-year contrasts, the external current account stayed more or less in balance over the period and budgetary equilibrium was maintained.

With the second oil crisis and then the dollar's appreciation as from autumn 1980, the situation worsened significantly, clear evidence of a number of deep-lying structural maladjustments in the French economy. Activity stagnated and then declined in late 1980 and the first half of 1981, this being accompanied by a sharp rise in unemployment. The acceleration of the rise in prices was longer-lasting than in most of the other OECD countries, and the balance of payments, though slightly improved, was still substantially in deficit in the first half of 1981.

Economic policy after the first oil crisis went through some fairly marked changes of course up to 1976. Thereafter it became restrictive and remained so, apart from a few minor shifts, until May 1981, precedence in government objectives being given to fighting inflation and maintaining budgetary equilibrium. At the time of the change in government, economic activity was declining, unemployment was rising steeply and trends in wages and prices were disquieting. Considerable room for manoeuvre in economic policy did exist – virtual budget equilibrium and a low level of external indebtedness – and in May 1981 the shift in policy got under-way¹.

The official forecasts drawn up in the summer of 1981, based on the new economic policy and subject to a number of assumptions with regard to the international environment, gave a GDP growth rate of 3.1 per cent for 1982 which was considerably higher than the 0.6 per cent then estimated for 1981. This recovery in output was expected to stem from the re-activation of domestic demand: private consumption, spurred by the growth in households' disposable income, was to be one of the stimuli of demand, as it was in the second half of 1981. Productive investment by the private sector, forecast to increase by 3 per cent (it decreased by 4½ per cent in 1981) would also play a decisive part in this recovery. The foreign balance would have a slightly negative effect (–0.1 per cent) on growth but exports were expected to grow at close to 5 per cent, with a consequent multiplier effect on output. For wages and prices, the

1. For details, see OECD, Economic Survey of France, January 1982.

Table 1. **Relative performance of the French economy**
Annual percentage changes

	1973 1967	1980 1973	1981	1982	1973 1967	1980 1973	1981	1982
	GDP, volume				Gross fixed asset formation, volume			
France	5.6	2.8	0.3	1.5	6.6	1.1	-2.7	-1.0
Germany	5.3	2.3	-0.2 ¹	-1.2 ¹	5.8	1.5	-3.8	-6.2
Italy	5.0	2.8	-0.2	-0.2	4.4	1.0	-0.2	-4.0
United Kingdom	3.4	0.9	-2.2	1.2	2.7	-0.3	-8.2	2.6
EEC	5.0	2.3	-0.6	0.2	5.2	0.8	-5.1	-2.8
Total, OECD	4.9	2.5	1.2	-0.3	6.0	0.6	0	-2.9
	Real value added in industry				Unemployment rate ²			
					1973	1980	1981	1982
France	6.6	2.0	-0.9	-1.5	2.6	6.3	7.3	8.3
Germany	6.0	1.5	-1.5	-2.3	1.0	3.3	4.8	6.8
Italy	5.9	2.7	-2.3	-0.2	6.2	7.4	8.5	9.0
United Kingdom	3.4	0	-6.4	0	2.3	6.5	10.2	12.0
EEC	5.8	1.5	-2.5	-1.0	2.8	5.7	7.1	8.5
Total, OECD	5.6	2.1	0.7	-3.5	3.6	6.2	7.0	8.5
	Consumer prices				Unit labour costs in manufacturing industry			
France	5.9	11.1	13.4	11.8	4.7	10.8	13.2	13.7
Germany	4.3	4.8	5.9	5.3	5.8	5.3	5.0	3.8
Italy	5.0	17.0	19.5	16.6	8.2	16.2	22.4	16.0
United Kingdom	7.0	16.0	11.9	8.6	6.5	18.6	8.5	5.2
EEC	5.5	10.7	11.4	9.9	5.7	10.7	—	—
Total, OECD	5.4	10.4	10.6	8.0	4.3	8.9	—	—
	Terms of trade				Current balance ³			
					1967-73	1974-80	1981	1982
France	0.6	-2.0	-3.6	1.3	-0.1	-0.8	-0.8	-2.4
Germany	1.6	-2.1	-4.3	4.7	1.2	0.6	-1.1	0.4
Italy	-1.1	-2.9	-7.8	4.7	1.6	-0.5	-2.0	-1.7
United Kingdom	-2.3	0.1	5.1	1.4	0	-0.8	2.4	1.5
EEC	-0.9	-2.3	-3.0	2.1	0.6	-0.3	-0.6	-0.5
Total, OECD	-0.3	-3.2	-1.2	2.0	0.3	-0.4	-0.4	-0.4
	General government lending capacity (+) or borrowing requirement (-)							
	1973	1980	1981	1982				
France	0.9	0.3	-1.6	-2.9				
Germany	1.2	-3.1	-4.0	-4.1				
Italy	-8.5	-8.3	-11.9	-12.1				
United Kingdom	-2.7	-3.2	-2.1	-2.0				

1. GNP instead of GDP.

2. Percentage of the labour force; national definitions.

3. Percentage of GDP.

Sources: OECD, *Historical statistics, 1960-1980*; Secretariat estimates.

official forecasts for 1982 were for a 13 per cent rise in the private consumption deflator, and a 2.6 per cent increase in households' real disposable income. OECD Secretariat figures produced in December 1981, forecast an overall development for the French economy comparable with the picture given by the official forecasts, namely a growth of 2.5 per cent in final domestic demand but a 0.3 per cent decline in investment. The

contribution of the foreign balance would be nil and, overall, the GDP growth rate was forecast at 2.5 per cent in volume terms. The OECD forecasts put the rise in consumer prices at about three-quarters of a point higher than the official forecasts.

Last year's survey highlighted the main uncertainties surrounding the forecasts for 1982². These firstly related to the assumptions regarding the international environment. The official French forecast and the OECD forecast were based on the assumptions of the franc/dollar exchange rate of Frs. 5.30 and 5.64 respectively whereas, as it turned out, the average rate was Frs. 6.57 for the year. Some of this difference may, admittedly, be put down to the decision to devalue the franc in June 1982 but, even so, the gap is due for the most part to the appreciation of the dollar against all other currencies. Whereas both the official and the OECD forecasts were based on a growth assumption of nearly 5 per cent for export markets in 1982 the figure is now put at about 1 per cent because of the low growth in demand, particularly in the OECD countries. This weakness certainly affected French exports but it also widened the growth differential, over a large part of the year, between France and its trading partners, as can be seen from Table 1. This cyclical lag between France and its neighbours was also mentioned as one of the risks affecting the 1982 forecasts. The current deficit climbed steeply in the second half of 1982 to \$6.4 billion, compared with \$3.5 billion for the preceding six months. The figure for the whole year could be \$12 billion whereas, a year ago, it was expected to come to about \$7 billion (the official forecasts gave a higher figure – about \$9 billion).

Table 2. Overall economic trend in 1982: forecasts and outturns
Percentage changes

	Official French forecasts, August 1981 ¹	Secretariat forecasts, December 1981 ²	Most recent estimates ³
Private consumption	2.5 ⁶	2½	3.4
Public consumption	2.7	3½	2.5
Gross fixed investment ⁴	2.3	-1	-1.0
General government	3.2	½	-2.0
Residential construction	0.1	½	-5.0
Non-residential investment	3.0	-1½	0.8
Final domestic demand	2.5	2½	2.3
Change in stockbuilding ⁵	0.8	½	0.5
Total domestic demand	3.4	2½	2.8
Exports	4.9	5	-2.0
Imports	5.1	5	3.7
Change in foreign balance ⁵	-0.1	0	-1.3
GDP	3.1	2½	1.5
Private consumption deflator	12.9	..	10.9
Consumer price index	..	13½	11.6

1. According to the 1982 draft budget.

2. Forecasts published in the December 1981 OECD, *Economic Outlook* and the January 1982 Economic Survey of France.

3. February 1983 estimates of the Secretariat.

4. The breakdown of investment is not strictly comparable:

Draft budget	<i>Economic Outlook</i> , No. 30	February 1983 estimates
General government	General government, including the major national enterprises	General government
Households	All residential construction	All residential construction
Individual companies and enterprises	Market sector enterprises	All enterprises

5. Changes expressed in percent of GDP of the previous year.

6. Market consumption.

As regards domestic demand, one of the main risks cited was that investment might not take over the running from consumption. As will be seen in more detail when trends in the various components of demand are analysed, there was an upturn in productive investment but it did not last and investment in industry has continued to decline for two reasons: the deterioration in firms' finances due to falling output figures, mounting social insurance contributions and higher rates of interest, and their more pessimistic expectations. Employment and unemployment trends for 1982 were also enigmatic a year ago because it was difficult to tell the effects that such measures as lowering retirement age and reducing work-time might have. The fact that the growth rate was about half that forecast a year ago affected the employment situation but, even so, specific measures succeeded in considerably slowing the growth of unemployment during 1982. In the second half of the year, the average rate of unemployment was close to that forecast the year before, namely $8\frac{1}{2}$ per cent of the labour force. As regards inflation, the risk pointed to a year ago was that of a price/wage spiral largely triggered off by the spill-over of the increases in the lowest incomes. This danger did not materialise. Admittedly, there was a steep increase in the hourly wage rate during the first half of 1982 but this was largely due to the one-hour reduction in the statutory working week with no cut in wages, and the prices and incomes freeze policy brought in in mid-June thereafter prevented the start-up of a spiral.

Domestic trends³

Output and employment

The upturn in GDP growth in the second half of 1981, led by private consumption and exports, ran out of steam relatively quickly and in the second half of 1982, GDP was virtually flat. This slowdown, attributable to the deterioration in foreign trade in the first half of the year, affected all the components of domestic demand in the second half whilst the foreign balance improved. The recovery in industrial output that had seemed secure in autumn 1981, after three half-years of falling figures, was of brief duration and in the first half of 1982 there was another downturn. Between the second half of 1981 and that of 1982 the fall was about $3\frac{1}{4}$ per cent, this being comparable to the rate for OECD Europe as a whole. Output in the consumer goods industries, which had weakened during 1980, picked up again as from the start of 1981. This trend continued in 1982 under the combined effect of buoyant household demand and the rebuilding of stocks of finished products at retail and wholesale levels. Swings in output from the intermediates sector, which had dropped sharply in 1980, were more irregular; after recovering slightly in the second half of 1981, output declined again in 1982. Output of capital goods, affected by the lower level of investment abroad, also contracted sharply in 1982 compared with 1981. In the building and public works sector, the situation has steadily worsened since the beginning of 1980. The fall in activity was mainly in housing, but construction of industrial and commercial buildings has also suffered since early 1982. In aggregate, value added in the building and civil engineering sector, which had fallen by nearly 2 per cent (annual rate) from the beginning of 1980 to the end of 1981, was $3\frac{1}{2}$ per cent down in the first half of 1982. Conversely, stimulated by household demand, value added in services and commerce gained ground in the first half of 1982.

The sluggishness of production growth in 1982 curbed the progress hoped for on the employment front. A year ago the official forecasts were for a slight increase in employment, but in the event the employment level was virtually flat on average over 1982 as a whole (-0.2 per cent as against -1 per cent in 1981), this being due to the

3. A number of estimates for 1982 results are still provisional.

Table 3. **Output, employment and productivity in certain sectors**
Percentage changes from previous period at annual rates

	1980	1981	1980 II	1981		1982	
				I	II	I	Q3 ¹
Output							
All sectors	1.3	-0.1	-1.6	-0.5	2.0	1.3	-4.3
of which:							
Manufacturing industry	0.4	-1.6	-5.0	-1.7	1.8	-0.2	-9.3
Building, civil engineering	0.4	-1.9	-2.0	-2.0	-2.0	-3.7	-10.7
Wholesale and retail trades	1.2	0.9	-0.7	0.8	3.1	2.4	0
Marketable services	3.2	2.4	1.2	2.4	3.6	5.0	1.2
Wage earners and salaried employees							
All sectors	0.1	-1.0	-0.4	-1.0	-1.8	0.2	0.4
of which:							
Manufacturing industry	-1.4	-3.8	-2.4	-4.2	-4.5	-1.3	-1.2
Building, civil engineering	-0.4	-2.7	-0.8	-2.6	-4.4	-4.1	-3.9
Wholesale and retail trades	1.0	0.8	0.8	1.7	-0.6	2.0	1.2
Marketable services	2.3	2.0	1.4	2.2	2.0	2.3	3.6
Hourly productivity							
All sectors	1.6	1.4	-0.7	1.0	4.3	5.3	-3.9
of which:							
Manufacturing industry	2.2	3.0	-2.2	3.6	6.9	5.1	-7.4
Building, civil engineering	1.3	1.7	-0.8	1.6	4.0	5.5	-5.9
Wholesale and retail trades	0.5	0.4	-1.1	-0.8	4.2	5.5	0
Marketable services	1.3	0.7	-0.2	0.6	2.0	6.2	-1.2

1. Third quarter/second quarter.

Source: INSEE, Quarterly national accounts.

negative carryover from the second half of 1981 and also to a further fall as from mid-1982. The rise in unemployment could therefore not have been contained in 1982 without the introduction of specific measures for this purpose. The priority aim of the economic policy introduced in June 1981 was to stabilize the number of jobless at around the 2 million mark by the end of 1982. After rising appreciably between June 1981 and June 1982 (+260 000 in seasonally adjusted figures compared with an increase of 365 000 during the previous twelve months), unemployment stabilized in the second half of 1982 at 2 040 000 on average or 8.7 per cent of the labour force⁴.

In 1981 and 1982 labour force growth was restrained by the fall in the participation rates of the under 25's and over 55's, the decline gathering further momentum in the course of 1982. Instead of the labour force increasing by some 220 000, as it would have done on present population trends, it went up by only about 100 000 between 1980 and 1981 (a growth of ½ per cent as compared with 1 per cent between 1975 and 1979). The decline in youth participation rates coincided with the introduction of measures to encourage traineeships, which in 1981 had an impact comparable to that of the earlier employment pacts and which were further developed in July 1982⁵. As far as the over 55's are concerned, a number of measures were introduced to facilitate early retirement: the resource guarantee scheme was extended by the introduction in September 1981 of

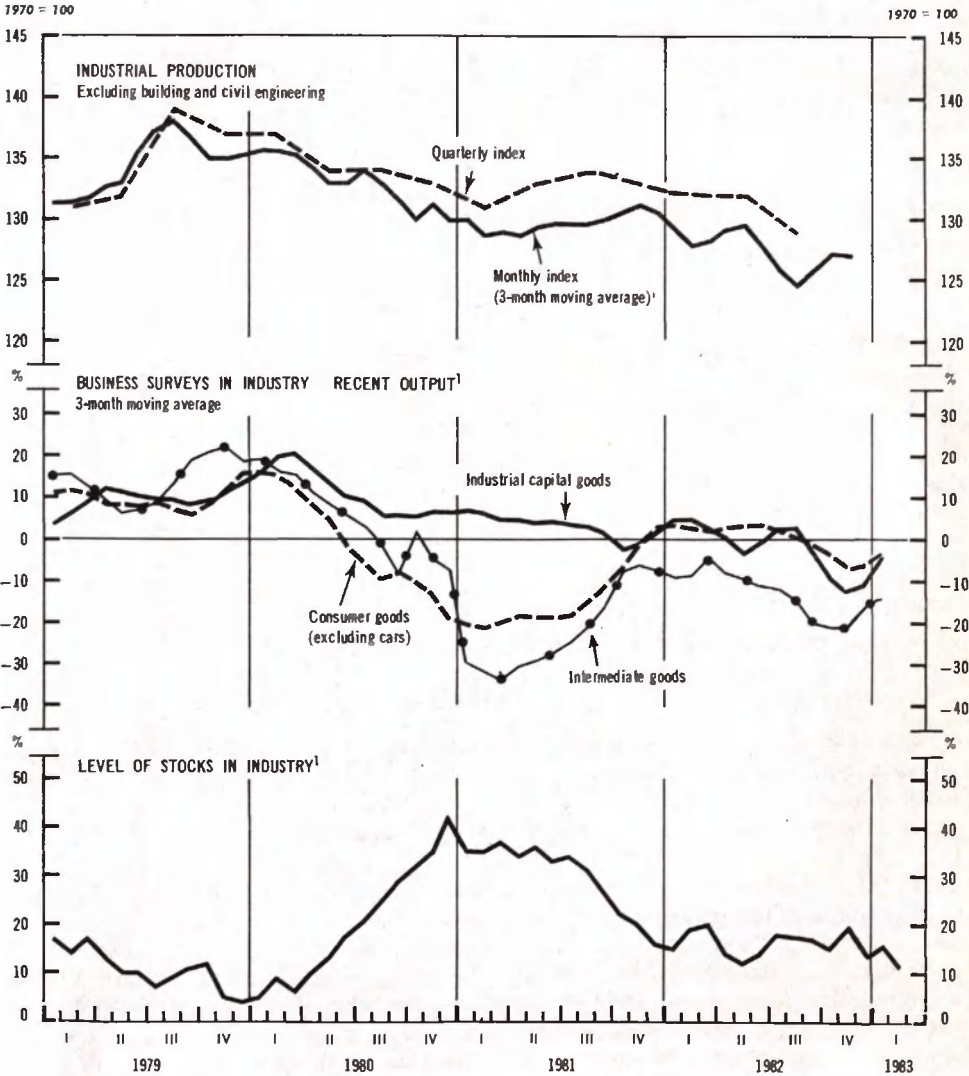
4. These figures are for end-of-month job applications. Applying the International Labour Office definition gives an unemployment rate of 8.4 per cent for the same period.

5. These measures include backing for in-firm training schemes and the payment by the State of the employer's social security contributions under the "Avenir Jeunes" scheme introduced in 1981, and also the "integration into working life" measures of July 1982.

“solidarity contracts” which, by way of financial aid from the State, permitted early retirement subject to compensatory recruitment. This last measure probably enabled some 80 000 persons to leave the labour market in 1982. But the effect on unemployment has been more limited, because of the time still to go before those concerned actually retire and because of some reorganisation within firms. It is estimated that the number of job seekers was down by about 25 000 in 1982.

Specific employment promoting policies were also introduced in 1981 and strengthened progressively in 1982. First there were the solidarity contracts providing for early retirement subject to compensatory recruitment and maintenance of firms’

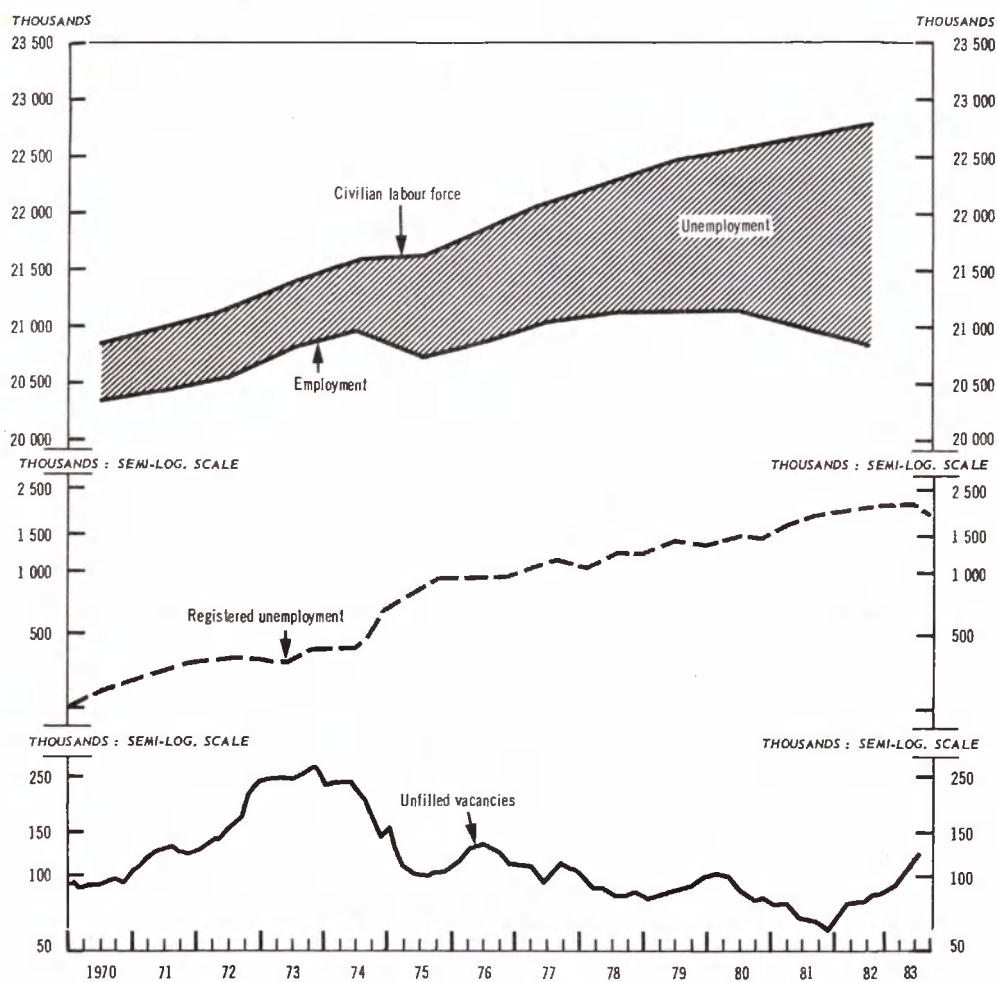
Diagram 1. Output indicators
s.a.



1. Difference between businessmen’s optimistic and pessimistic answers.

Source : INSEE, *Tendances de la conjoncture*.

Diagram 2. Labour market indicators



Sources : INSEE, *Bulletin Mensuel de Statistique*; OECD Secretariat.

workforce levels for a year. Secondly, job creations in the public sector resulted in an increase in the employment figures. According to official estimates, public job creations totalled 80 800 in 1981 and 122 700 in 1982. No precise assessment is available at the moment of the impact of these job creations on the unemployment figure. It is thought that there may have been a net reduction of nearly 100 000 for the two years, which is about 50 per cent of the number of job creations, a ratio similar to that found in the marketable services sector. The effect of the various measures specifically aimed at young people is more doubtful. The development of in-firm training schemes, in particular, and the exemption from one year's social security contributions for the recruitment of young people and apprentices will partly benefit the young who are not as yet on the unemployment registers but will be applying to the National Employment Agency at the end of their contract. The effect on unemployment of some of these measures is therefore temporary and could even become negative in the future if the various schemes are not continued and if no recovery materialises in recruitment.

Table 4. Labour force and employment

	1981		Annual change	Percentage changes from previous year		
	Thousands	Breakdown in %		1979/73	1980	1981
Total labour force	23 265	100.0	0.9	0.5	0.4	0.5
Employed labour force ¹	21 483	92.3	0.3	0.1	-0.7	-0.2
Self-employed	3 492	15.0	-1.4	-0.5	-0.3	
Wage-earners	17 991	77.3	0.6	0.2	0.8	
Primary sector	376	1.6	-4.0	-2.2	-2.6	
Secondary sector	6 610	28.4	-1.3	-1.1	-3.3	
Tertiary sector	11 005	47.3	2.3	1.2	0.8	
of which:						
Non-marketable services ¹	3 933	16.9	1.3	0.8	0.4	
				As a percentage of total labour force		
				1973		
Unemployment ²	1 696		2.6	6.3	7.3	8.3

1. Including draftees and career servicemen, i.e. a total of 577 000 in 1981.

2. ILO definition.

3. Provisional estimates.

Sources: INSEE, *Rapports sur les comptes de la Nation* and Secretariat estimates.

Under the Government's plan, the reduction of work-time was to create additional jobs in parallel with growth in productivity. How the benefit would be shared between productivity gains and employment growth was one of the major uncertainties of that plan. According to the national experts' estimates, four-fifths of the 3¼ per cent reduction in work-time between 1981 and 1982 was offset by productivity gains, the effect on employment being therefore very slight. Jobs created or redundancies avoided under this heading is currently estimated at 75 000 in 1982, of which 40 000 in industry. The major element in the reduction – the cutting of the statutory working week from 40 to 39 hours – came into effect in the first half of the year whereas the adjustments to annual work-time (fifth week of paid holiday, public holidays no longer compensated for) were brought in during the second half of the year. It appears, moreover, that in industry, the reduction of the working week had a very rapid impact in the form of avoided redundancies. Some firms even kept their work force levels higher than necessary pending reorganisation of production. In the second half-year there was a corresponding fall in employment which encouraged productivity gains. In services, on the other hand, there was net job creation which, allowing for the usual recruitment time lags, continued in the second half of the year⁶. Hourly productivity of labour is expected to have increased by about 4.1 per cent for the non-agricultural sectors as a whole, nearly two-thirds of this gain attributable to the work-time reduction. Per capita productivity, therefore, would have increased only 0.8 per cent, a much lower figure than that recorded for the period 1979-1981.

6. The margin of spare production capacity without recruitment, which partly measures trends in workforce reserves, went up by 4.1 points between June 1980 and June 1981 and then fell by 2 points to June 1982. This fall mainly occurred between January and March 1982 and about 1 point could be due to the reduction in work-time. The margin of spare capacity with recruitment showed a similar trend. Apart from the reduction in workforce reserves, the narrowing of margins probably expresses the insufficiency of industrial investment during the last few years.

Components of demand

Household consumption was considered a year ago to be one of the best means of getting activity on the move again. Measures to raise the lowest wages and social benefits were taken as of June 1981 and in the first part of 1982, but their total impact has been partly offset by higher social insurance contributions. The chief measure in the policy to raise the lowest wages was to increase the statutory minimum wage by 16.8 per cent between May and December of 1981, a rise of 5.3 per cent in real terms, and by 14.2 per cent between December 1981 and December 1982. Given the carryover from 1981, the increase in the real minimum wage in 1982 can be estimated at 4.8 per cent in annual average terms, as against 4.1 per cent a year earlier⁷. Fears had been expressed by the Secretariat about the spill-over of the June 1981 minimum-wage increases to the total wage bill⁸. In the event it was limited (contributing only about 0.6 per cent to the twelve-month increase in the hourly wage rate), whilst the proportion of employees on the minimum wage rose from 4 to 8 per cent between the beginning of 1981 and 1982 owing to the size of the increases. A number of factors probably helped to limit the spill-over effects of the raising of low wages: on the one hand, poor business figures; on the other, the recommendations of the authorities and their incentives, in particular the State's part-payment of social insurance contributions for employees earning less than 1.2 times the new minimum wage.

Table 5. Demand and output
Percentage changes from previous period at annual rates, 1970 constant prices

	1981 Fr. billion	1981	1982	1981		1982	
				I	II	I	II
Private consumption ¹	2 016.3	2.2	3.4	1.9	3.9	4.0	1.6
Government consumption	488.2	1.4	2.5	1.7	1.7	3.0	2.2
Gross fixed investment	654.6	-2.7	-1.0	-3.3	-2.7	0.1	-1.5
Public ²	87.3	-0.8	-2.0	0	-2.0	-2.5	-0.8
Residential ³	209.5	-2.8	-5.0	0	-2.0	-6.2	-5.6
Non-residential	357.8	-3.1	0.8	-5.3	-3.1	3.3	0
Final domestic demand	3 159.1	1.0	2.3	0.7	2.2	3.1	1.0
Change in stockbuilding ⁴	-9.2	-1.8	0.5	-3.0	0.2	1.9	-1.9
Change in foreign balance ⁴	-55.5	1.1	-1.3	-2.3	0.1	-3.5	1.6
Exports of goods and services ⁵	688.3	5.2	-2.0	2.4	7.1	-9.8	5.8
Imports of goods and services ⁶	743.9	0.4	3.7	8.0	6.9	4.4	-0.9
GDP at market prices	3 094.4	0.3	1.5	0.1	2.5	1.4	0.7
GDP implicit deflator	—	11.7	12.0	9.9	14.5	13.6	6.8
Consumption deflator	—	12.5	10.9	11.5	14.2	10.9	7.8
Index of industrial production ⁷	—	-0.9	-1.5	-2.2	3.0	-3.0	-3.0

1. Consumption in France of resident and non-resident households and of private administrations.

2. Not including national enterprises.

3. Including public sector housing.

4. Changes expressed as a percentage of GDP in the previous period.

5. Not including consumption by foreign tourists in France.

6. Not including consumption by French tourists abroad.

7. Quarterly index.

Sources: INSEE, *Rapport sur les comptes de la Nation*; Secretariat estimates.

7. The rise in the real minimum wage was more rapid in the last two years than between 1976 and 1980 (2.5 per cent), but it was close to the average for the last ten years (4.5 per cent).

8. See OECD Economic Survey of France, January 1982, pages 23-25.

As part of the policy of income redistribution, social benefits have been raised very substantially during the last eighteen months. Their share of gross disposable income, which has been rising since 1973, was 33 per cent in 1982 and their purchasing power showed an average increase of 6.8 per cent. The rise in unemployment benefits was largely responsible. As against this, employees' social insurance contributions were raised. All told, the net increase in transfers to households (benefits less contributions) and the increases in the minimum wage between mid-1981 and end-1982 accounted, over twelve months for each of those two years, for 0.4 per cent of households' disposable income⁹. As a result, in spite of the fall in employment, which was particularly marked in 1981, and higher taxation in 1982, households' real disposable income rose by approximately 2½ per cent in 1981 and in 1982 (after being virtually flat in 1980)¹⁰.

Table 6. **Households' appropriation account**
Percentage changes from previous year

	1981 Fr. billion	1980	1981	1982
Compensation of employees	1 729.0	14.9	13.6	13.8
Income from property and others	705.0	12.1	13.5	14.0
Current transfers received	776.0	15.9	18.5	19.2
Total income	3 210.0	14.5	14.7	15.1
Less:				
Direct taxes	197.0	22.2	14.5	18.5
Current transfers paid	663.0	17.7	12.2	18.0
Disposable income	2 350.0	13.0	15.5	14.1
Private consumption	2 002.4	15.1	15.2	14.7
Savings ratio (as a percentage of disposable income)	—	14.6	14.8	14.4
Real disposable income ¹		-0.3	2.7	2.9

1. Divided by the private consumption implicit price deflator.

Source : INSEE, *Rapport sur les comptes de la Nation de l'année 1981*; Secretariat estimates.

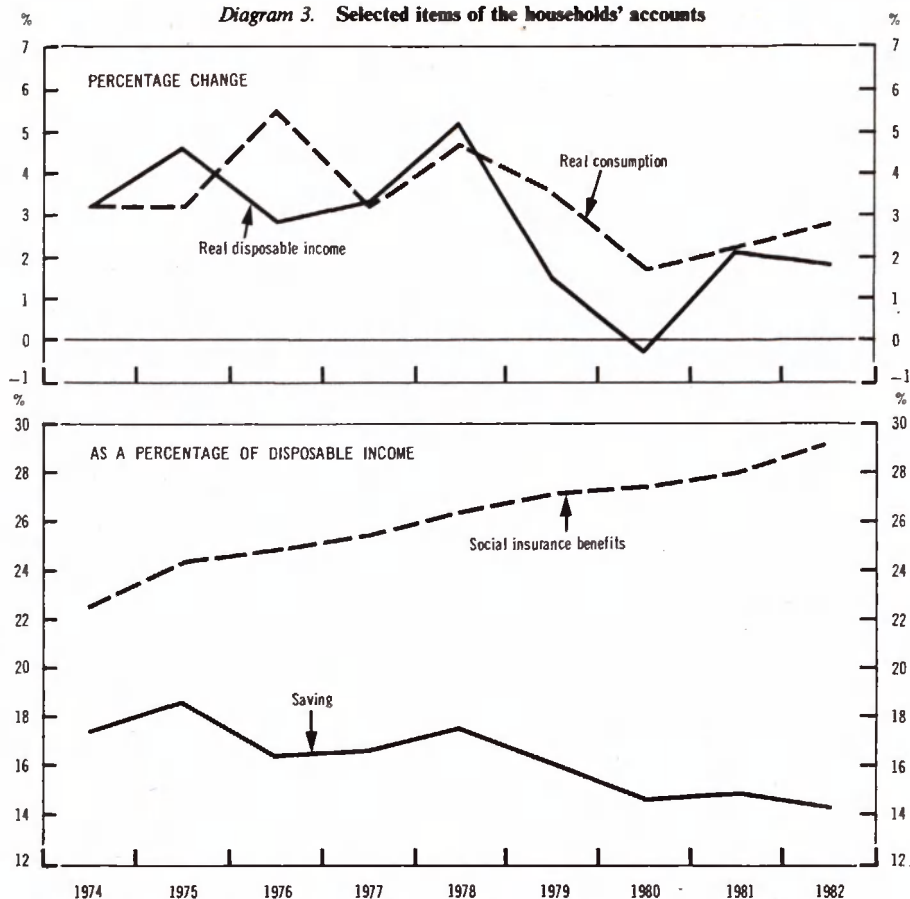
The savings ratio, which had declined rapidly in 1980, staged a temporary recovery at the beginning of 1981 and again in the first half of 1982, probably because of the time taken by consumption patterns to adjust to income changes. The boost given to low incomes benefited the social categories with the highest propensity to consume. In addition, price expectations certainly accelerated purchases of durables up to mid-1982. Thus, with only very temporary and small-scale fluctuations, the savings ratio seems to be continuing on a downward path; in 1982 it was 14½ per cent compared with an average of 17.3 per cent between 1974 and 1978. The reason is that, in spite of some recent pessimism concerning their incomes and employment, households are continuing to show a preference for consumption. Allowing for the usual lags, the income boosts

9. The impact of the different measures has been estimated by INSEE as:

	1981-II	1982
Increase in minimum wage	2.6	8.0
Increase in social benefits	4.4	22.8
Increase in employees' social insurance contributions	-2.0	-19.4
Total	5.0	11.4

10. Growth of households' real disposable income was calculated using the private consumption deflator (base 1970 = 100). Using the consumer price index, the increase would be about 2 per cent in 1981 and 1982.

Diagram 3. Selected items of the households' accounts



Sources : INSEE, *Rapport sur les Comptes de la Nation*; OECD Secretariat estimates.

resulted in a steep rise in consumption expenditure, especially between mid-1981 and mid-1982, when consumption growth amounted to 3.8 per cent, as against 1.8 per cent a year earlier, and contributed over 2.3 per cent to GDP growth. Durables (motor cars) and household equipment (especially electronic appliances) were the fastest-moving components of household demand¹¹. This growth of consumption did not give the lasting stimulus to production that had been hoped for, but instead caused a steep increase in imports of consumer goods.

The second source of impetus for the economy in 1982 was to have been productive investment and general government investment, for which a growth of 3 per cent was officially forecast, whilst the downtrend in residential construction from previous years was to cease. In all, gross fixed asset formation was set to grow by 2.3 per cent in volume compared with 1981. The OECD forecast, while admitting the plausibility of an upturn in investment, rested on the assumption that the reaction lag would be much longer than envisaged in the official forecast and that the first signs of an upturn would not appear until the second half of 1982, so that on a year on year average basis there would be no growth in gross fixed investment.

11. The 13 per cent fall in motor vehicle purchases in the second quarter of 1982, due in large measure to strikes, was offset by a rise of 18 per cent in the third quarter.

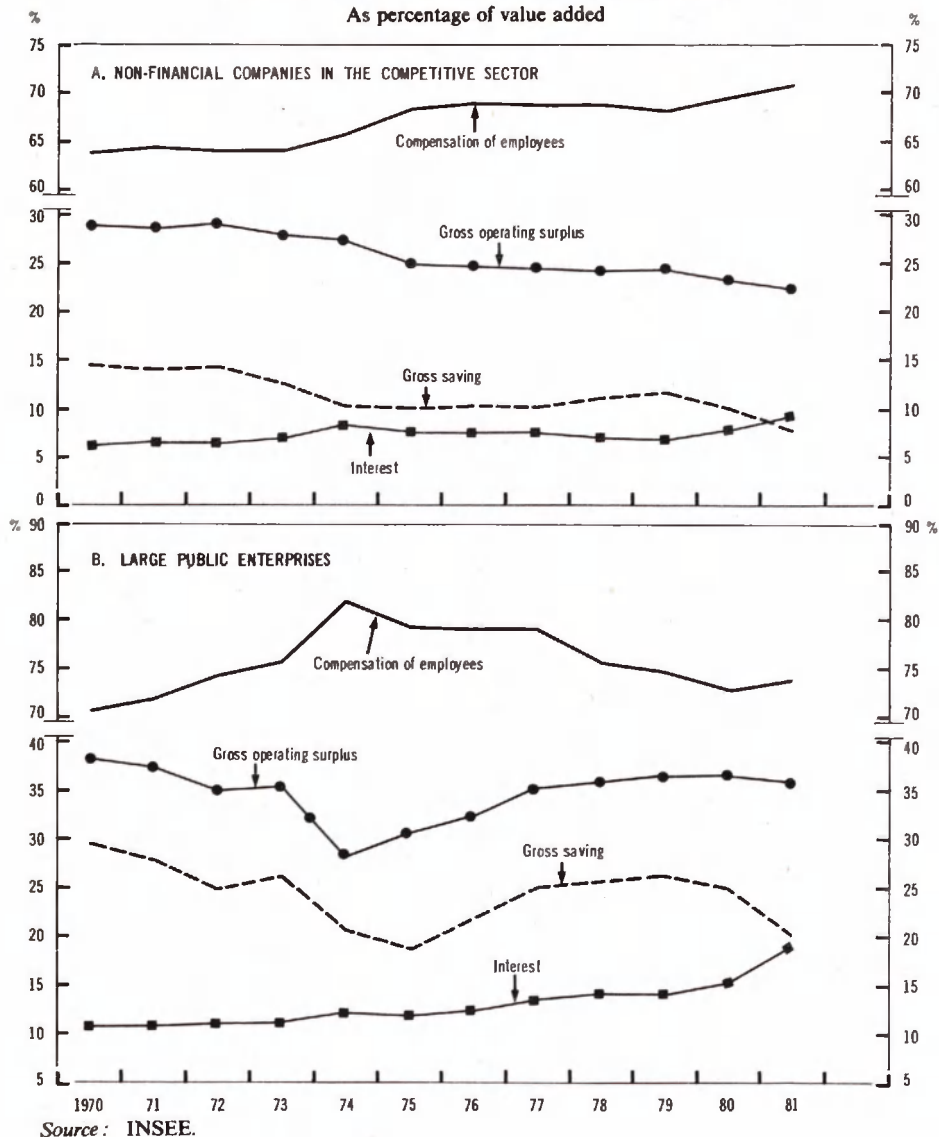
In the government's strategy, the pick-up in private investment would result from a turnaround in expectations and an improvement in enterprises' financial positions. In particular, it would be stimulated by the introduction of a number of incentives. Development of equity loans for small and medium-sized enterprises would support the programmes of firms with limited equity, and major measures were indeed enacted in this regard. The overall appropriation for long-term low-interest loans was increased. From Frs. 13 billion in the 1981 initial budget, it was raised to Frs. 17 billion in June 1981 and Frs. 22 billion in October 1981, the loans being reserved for investments that were begun prior to 30th June, 1982, created employment and increased competitiveness. Interest on medium-term loans to small and medium enterprises, in particular, was reduced by abolishing the commission hitherto payable. The tax deduction for investments was increased from 10 to 15 per cent for expenditure in 1982 but made conditional on certain undertakings by firms with regard to employment. Direct support for investment in the form of aids to industry was increased from Frs. 3.9 billion to Frs. 5.8 billion between the 1981 and 1982 budgets and aid to public enterprises rose from Frs. 0.7 billion in 1981 to Frs. 2.5 billion in 1982. A rapid growth of public expenditure on research was likewise intended to augment productive capacities, though with the effects not being felt until the medium term. All these incentives, which together represented about 10 per cent of the productive investment total, formed part of a comprehensive industrial strategy which will be discussed further on.

These different measures did not bring about a recovery on the scale hoped for, mainly because of continuing adverse expectations concerning output but also because of the poor financial situation of enterprises. The very small increase in enterprises' value added, combined with a steep rise in total wage costs, caused a further deterioration in their gross operating surplus in 1981, this trend having begun in 1980. After a temporary improvement during the first half of 1982, when output picked up, their situation probably deteriorated in the second half of the year as a result of the worsening terms of trade. In all, the mark-up of corporate and quasi-corporate enterprises decreased from an average of 24½ per cent between 1975 and 1979 to 23 per cent in 1982. In addition, the interest burden grew considerably in 1980 and 1981 (net interest payments increasing by 27 per cent and 36 per cent respectively), as a result of increased cash-drawing facilities to finance inventories and the steep rise in interest rates (by about 2 percentage points between the beginning and end of 1981). In 1982, the growth of enterprises' financial costs slowed in the first half-year (+12¾ per cent at an annual rate compared with the previous half-year) but the financial cost ratio remained high.

The fall in investment volume, which was particularly marked in industry in 1981 when it was about 4 per cent, may have averaged around 5 per cent in 1982 – and 7 per cent for the competitive sector – being most noticeable in the intermediate and consumer goods sectors. The downtrend was largely confined to small businesses in 1981 and the first part of 1982, but from mid-year it spread to medium-sized and large enterprises. The proportion of capacity-expanding investment remained very low, the main emphasis being on modernisation or innovation. In this context, purchases of plant and equipment declined less rapidly than construction of industrial buildings. The margin of spare capacity continues to be considered sufficient in spite of the aging of some plants. Industrial investment has been falling almost continuously for ten years, and in 1982 it was 10 per cent below its 1972-73 level. By contrast, investment in the large public enterprises of the non-competitive sector¹² after declining in volume terms in 1981,

12. There are eight large public enterprises operating in the non competitive sector, namely, EDF (electricity production and distribution), GDF (gas distribution), Charbonnages de France (coal mining), Air France, Air Inter, RATP (Paris public transport), SNCF (railways) and PTT (the Post Office).

Diagram 4. Characteristic ratios of enterprises' accounts
As percentage of value added



resumed its upward trend of earlier years although at a slower pace, due particularly to the end of the start-up phase of the nuclear power station programmes. Investment in commerce and services grew by about 5 per cent in 1982. In all, productive investment in 1982 probably showed an average increase of about 1 per cent compared with 1981.

As will be seen in the section on fiscal policy, growth of general government expenditure in 1981 and 1982 was mainly attributable to transfers, the temporary freeze of programme authorisations and disbursement appropriations in 1982 serving to inhibit capital spending. Local authorities, for their part, continued to show caution on the investment front and, all in all, general government did not impart the expected stimulus, its gross fixed asset formation declining by nearly 2 per cent in volume terms in 1982.

The forecasts drawn up at the end of 1981 were for a halt in the downtrend of residential construction as of the first half of 1982, largely encouraged by the increase in budget appropriations for housing. However, the introduction of the wealth tax and the continuance of high nominal interest rates certainly discouraged private investors¹³, whilst the public sector had a more limited impact than expected. Housing starts and building permits fell steeply in the first nine months of 1982 (down 18 per cent and 16 per cent respectively in the first nine months of 1982 from the same period in 1981), the non-subsidised sector showing a sharper decline than the State-assisted sector¹⁴. The downtrend in housing demand has thus been continuing for three years.

Rebuilding of stocks, a big uncertainty in the December 1981 forecasts, was more pronounced than expected, accounting for 1 per cent of GDP between mid-1981 and mid-1982, whereas the forecast a year ago was less than ¼ per cent. This movement, which was particularly marked in the second quarter of 1982, was due to the upturn in consumption, the exchange-rate expectations of some importers and probably some involuntary stockbuilding in certain sectors; the second half of the year saw a downward adjustment. All told, domestic demand grew by 2¾ per cent on average in 1982, all of the increase being achieved before mid-year. A year ago it was stressed that the upturn in household demand and stockbuilding might cause a rapid rise in imports and this proved to be the case, whereas exports fell steeply in the first half of 1982. In that period, the deterioration in the foreign balance thus had a negative impact of 3½ points on GDP growth, reducing it to 1½ per cent on average for 1982.

Prices and wages

The rise in consumer prices, which had accelerated during the summer of 1981 owing to the upward adjustment of public utility charges, eased as from the fourth quarter as the result of a partial price-freeze to accompany the readjustment of the franc's parity in October¹⁵. However, a number of factors which contributed to the rise in prices in 1981 were still having a considerable impact in the first half of 1982:

- i) the rise in public utility charges, of which the energy component suffered from the dollar's appreciation from mid-1981;
- ii) the rise in private-sector service prices (which resumed at the end of the price freeze in autumn 1981) in accordance with authorisations under the regulation agreements;
- iii) food prices, although these have eased somewhat since May 1982.

13. The rise in interest rates provided a strong inducement for households to switch from saving for housing to financial savings. The trend of household savings as a percent of disposable income, was as follows:

	1980	1981	1982
Savings ratio	14.6	14.8	14.4
Financial savings ratio	3.9	4.8	5.4

Sources: *Rapport sur les comptes de la Nation, 1981. Tendances de la conjoncture*, notes de synthèse, December 1982; Secretariat's estimates.

14. The non-assisted sector was already in recession in 1981, as shown by the trend in new loans to households not receiving State aid (down 17 per cent in value terms between 1980 and 1981, representing a decrease of nearly 25 per cent in volume terms), as estimated by the Bank of France.

15. Change of the consumer price index through the period, annual rate:

June 1981 June 1980	June 1982 June 1981	Dec. 1982 Dec. 1981	1981		1982	
			I	II	I	II
13.1	13.5	9.1	13.5	14.6	12.5	6.9

Table 7. Price trends

	Annual average		Percentage changes from previous year			Change during		
	1970-1973	1973-1979	1980	1981	1982	1980	1981	1982
Consumer price index	6.7	10.7	13.5	13.3	11.8	13.6	14.0	9.7
Food	7.6	10.7	9.5	13.6	12.7	9.8	16.5	9.3
Manufactures (private sector)	4.7	9.8	13.8	10.9	9.7	13.3	10.4	8.1
Services (private sector)	7.1	12.1	14.4	16.1	13.1	15.7	15.7	11.0
Rents and health services	6.7	9.2	11.3	11.4	9.3	12.1	12.7	6.9
Public sector products and services ¹	4.7	12.5	21.8	17.2	15.7	20.7	17.4	14.7
Industrial wholesale prices								
Fuel and power	5.5	16.2	28.6	20.7	14.9	26.1	19.2	16.5
Semi-processed industrial products	6.8	8.9	9.7	11.1	12.4	7.7	12.3	8.1
Industrial raw materials	7.7	7.4	6.4	9.9	7.2	7.8	8.0	7.7
of which:								
Imported	10.2	4.2	3.4	16.1	3.2	9.9	7.1	9.0

1. Gas, electricity, coal, fuel oil, gasoline, public transport, goods transport, post and telecommunications, radio and TV licences, tobacco, matches.

Source: INSEE, *Bulletin mensuel de statistiques*.

Thus, in spite of the government's policy of price restraint and a number of favourable conditions (easing of food prices, rents and automobile costs), the slowdown in inflation during the first half of 1982 was insufficient to close the average differential between France and its main trading partners. A tighter price-freeze was introduced in June 1982 for four months. The effect of this freeze and its strictly controlled phase-out was a marked slowing of inflation throughout the second half of the year. The rate of price increase has thus drawn progressively closer to that in the other OECD countries: averaged over 1982, it was 11¾ per cent compared with 10½ per cent for OECD Europe.

As mentioned earlier, the trend of wages in 1981 and 1982 was directly influenced by the policy introduced in June 1981 (raising of the minimum wage and reduction of work hours without equivalent loss of pay, in particular). The rise in nominal hourly wage rates accelerated sharply over the twelve months to June 1982 (16.7 per cent as against 14.5 per cent over the previous twelve months) and the increase in the real hourly wage was twice that of a year earlier. The prices and incomes freeze in June 1982

Table 8. Wage trends
Percentage changes over same period of previous year

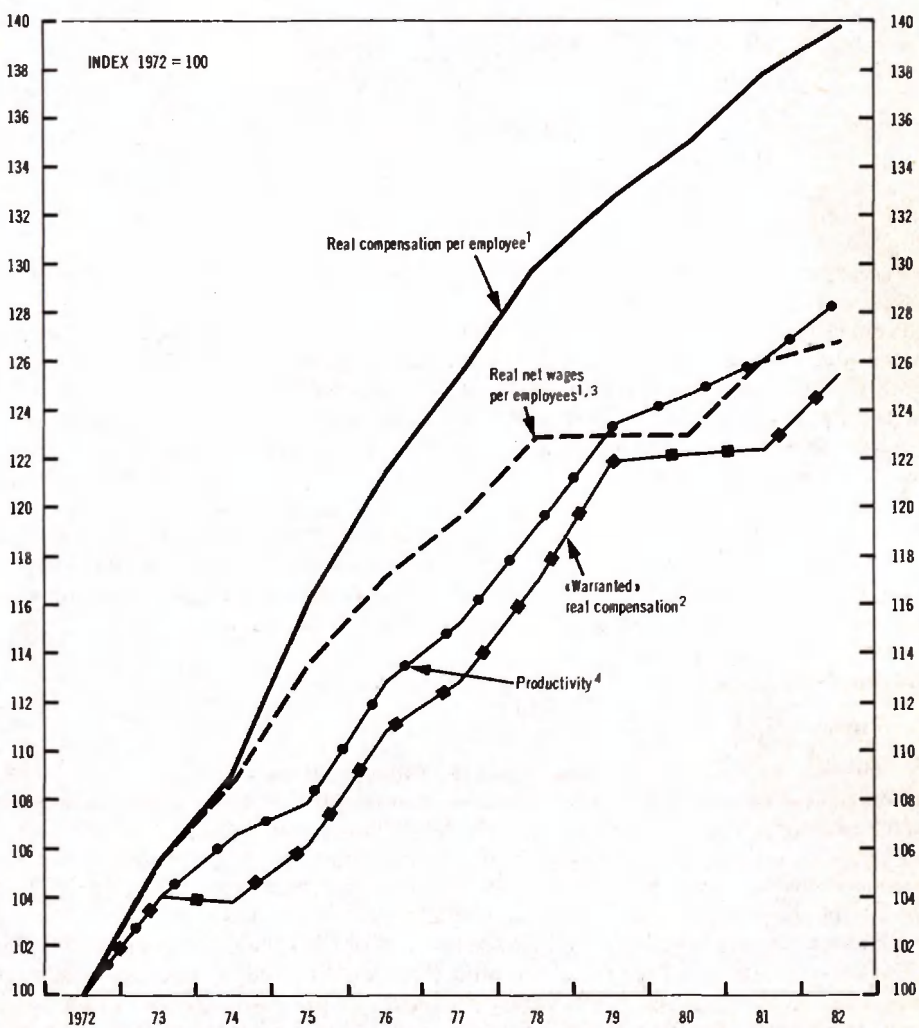
	1980	1981	1981		1982	
			I	II	I	II
Index of hourly wage rates	15.3	14.9	14.5	15.2	17.5	13.4
Index of wage rates in manufacturing	15.1	14.5	14.1	14.9	17.3	13.3
Minimum hourly wage (SMIC)	15.6	18.1	15.0	21.0	21.4	14.3
General index of salaries in the public service	12.8	13.8	13.4	14.2	13.2	8.5
Changes in purchasing power						
Hourly wage rate	1.6	1.3	1.6	1.1	3.2	2.9
Minimum wage	1.8	4.1	2.0	6.2	6.6	3.7
Salaries in the public service	-0.6	0.3	0.6	0.3	-0.6	-1.5

Sources: INSEE, *Bulletin mensuel de statistiques* and *Tendances de la conjoncture*; OECD, *Main Economic Indicators*.

and its negotiated phase-out may have resulted in a virtual stagnation of real wages in the second half of the year. Even so, averaged over 1982 the real hourly wage rate probably rose by nearly 3 per cent (compared with 1½ per cent in 1981). However, given the sharp reduction in the working week in 1982, the increase in purchasing power is likely to have been less than 1 per cent, which would be significantly less than the average over the period 1975-1981.

In spite of the steep wage increases, the rise in unit labour costs in manufacturing industry slowed slightly in 1981 and 1982, owing to the productivity gains induced by the upturn in activity and, from June 1982, to the wage freeze. However, the slowdown

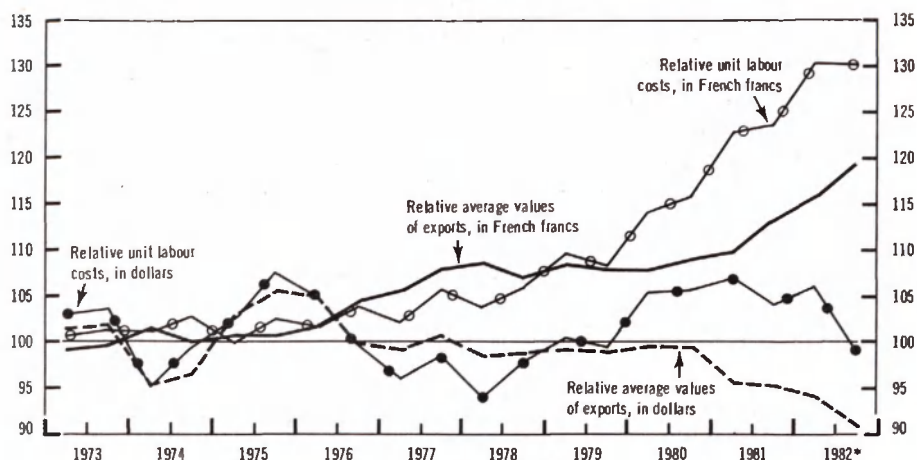
Diagram 5. Real labour costs gap



1. Compensation deflated by the private consumption deflator.
2. Productivity corrected for terms-of-trade changes.
3. Compensation less employee's and employer's social insurance contributions.
4. Real GDP growth per person employed.

Source: OECD Secretariat.

Diagram 6. Relative competitive position in manufacturing industry
Index 1970 = 100¹



* Provisional figures for the second half of 1982.

1. Index calculated in respect of the 15 main OECD countries.

Source: OECD Secretariat.

was less pronounced in France than in other OECD countries and France's competitive position deteriorated very appreciably between the beginning of 1980 and the middle of 1982. The exchange rate adjustment in October 1981 brought a slight improvement in the competitiveness of French products, as measured by relative unit labour costs expressed in dollars¹⁶. However, relative average export values of manufactures, which had fallen substantially in the first half of 1981 due to a squeeze on profit margins, only followed the decline in labour costs with some lag. The second exchange rate adjustment, in June 1982, had a much stronger incidence on competitiveness, since it produced its effects at a time when unit labour costs were stable; and this brought export average values down. At the same time, on the domestic market, prices of imported industrial products rose more rapidly than producer prices.

External transactions

Trade

The deterioration in the foreign trade performance at the end of 1981 and in 1982 was more pronounced than had been forecast a year ago. The trade deficit, which had narrowed during most of 1981, owing to the fall in imports, widened as from the fourth quarter. Up until mid-1982 most of the deterioration was attributable to volume changes while the terms of trade improved slightly. This trend was reversed in the third quarter. In the fourth quarter, the trade deficit narrowed appreciably.

Export volumes, which had risen in the first half of 1981, began to fall steeply at the end of the year and continued to do so until the middle of 1982 (-10½ per cent at an annual rate in the first half of 1982 compared with the previous half year), picking up slightly thereafter. Year on year, the decline was about 3 per cent in 1982. Sluggish

16. The movement of relative unit labour costs in manufacturing is estimated for the fifteen main OECD countries in local currency and in dollars. Since the base data are not fully comparable, the results should be regarded solely as indications of trend.

Table 9. Trade balance (fob/fob)¹ — Price-volume breakdown
Changes in Frs. billion

	1978-1979	1979-1980	1980-1981	1981-1982
Volume	-10.8	-21.5	+40.0	-39.2
Terms of trade ²	-2.0	-29.2	-29.6	-3.0
Total value	-12.8	-50.7	+10.4	-42.2

1. Customs basis.

2. Calculated as a residual.

Source: OECD Secretariat.

foreign demand was partly responsible for the poor export performance. A year ago it was estimated that France's export markets for manufactures would grow by 5 per cent in 1982; their growth is now estimated at 1 per cent. In addition, there were further losses of market shares in 1982 as there had been in 1980, whereas in 1981 the situation seemed to have stabilized¹⁷. As seen earlier, price-competitiveness of French products, as measured by relative average export values, improved only temporarily in the first half of 1981. The gains resulting from the franc devaluation of June 1982 will not show through fully until about a year after that date, according to estimates made with the METRIC model. Other factors operated as well. First, French producers could well, in view of the buoyancy of domestic demand and the narrowness of their export margins, have failed to be sufficiently aggressive on foreign markets, but this is difficult to quantify. Second, the franc depreciated more against the dollar than against the other currencies of the European Monetary System, and most of France's exports are to EEC countries. Finally, some specific factors had an influence, such as the motor industry strikes in the second quarter of 1982 and the heavy demand in France, as in all European countries, for consumer durables and especially audio and video, hardly any of which is manufactured in France.

Import volumes, which had declined between mid-1980 and mid-1981, rose very rapidly from the fourth quarter of 1981 to mid-1982 (up 6½ per cent at an annual rate in the first half of 1982, compared with the previous half year, on the basis of customs figures) as a result of the upturn in domestic demand and a considerable increase in foreign penetration of the French market. The rate of import penetration, which did not stabilize in 1980 in spite of the fall in demand, increased again in 1981, becoming especially pronounced in the fourth quarter and in the first half of 1982¹⁸. For manufactures as a whole, the rate of penetration increased by 1 point between the first half of 1981 and the first half of 1982. With the exception of industrial capital goods, all product categories were affected, but more particularly transport equipment and household durables. Leaving aside the impact on motor vehicle output of the strikes early in 1982, there seems nothing to suggest that this deterioration is due to strain on production capacities. The rise in relative unit labour costs until mid-1982 certainly

17. Export performance of manufacturing industry:

	1979	1980	1981	1982
Growth of markets	8.3	6.3	2.4	1
Export growth, volume	9.9	1.0	2.5	-1½
Gains (+) or losses (-) of market shares	+1.6	-5.3	+0.1	-2½

18. For a fuller analysis of the trend in competitiveness up until 1980, see Economic Survey of France, January 1982, pages 32 to 38.

Table 10. **Penetration of imports¹ of manufactures**
Percentages, constant 1970 prices

	1970	1979	1980	1981	1982 ²
Intermediate goods	25.8	32.7	33.4	34.0	34.6
Ferrous ores and metals	22.0	31.1	31.8	32.2	
Non-ferrous ores and metals	50.0	54.2	55.0	57.4	
Construction materials	12.4	18.1	18.6	18.6	
Glass	16.0	30.9	32.1	33.9	
Basic chemical products	36.0	55.3	55.6	58.4	
Paper and board	19.2	27.2	28.1	29.2	
Rubber and plastics	16.1	28.7	29.0	29.5	
Industrial capital goods	26.1	43.5	47.6	47.7	48.5
Mechanical engineering products	29.2	44.8	49.9	50.1	
Industrial electronic equipment	21.8	42.0	48.2	49.6	
Household appliances	28.5	43.4	44.4	46.4	47.7
Motor cars and other road transport equipment	17.9	27.8	30.6	32.2	
Shipbuilding, aircraft and armaments	15.7	24.4	29.7	31.0	
Consumer non-durables	11.2	23.7	24.9	26.2	27.0
Parachemicals and pharmaceuticals	8.4	14.3	15.3	15.4	
Textiles and clothing	11.8	32.2	34.1	36.7	
Leather and footwear	13.3	36.6	39.2	42.8	
Wood products, furniture, etc.	14.6	24.6	26.2	27.6	
Printing and publishing products	7.6	12.7	12.7	13.3	
Total	20.6	32.6	34.6	35.6	36.5

1. Imports/(production of the sector + imports - exports).

2. First three quarters.

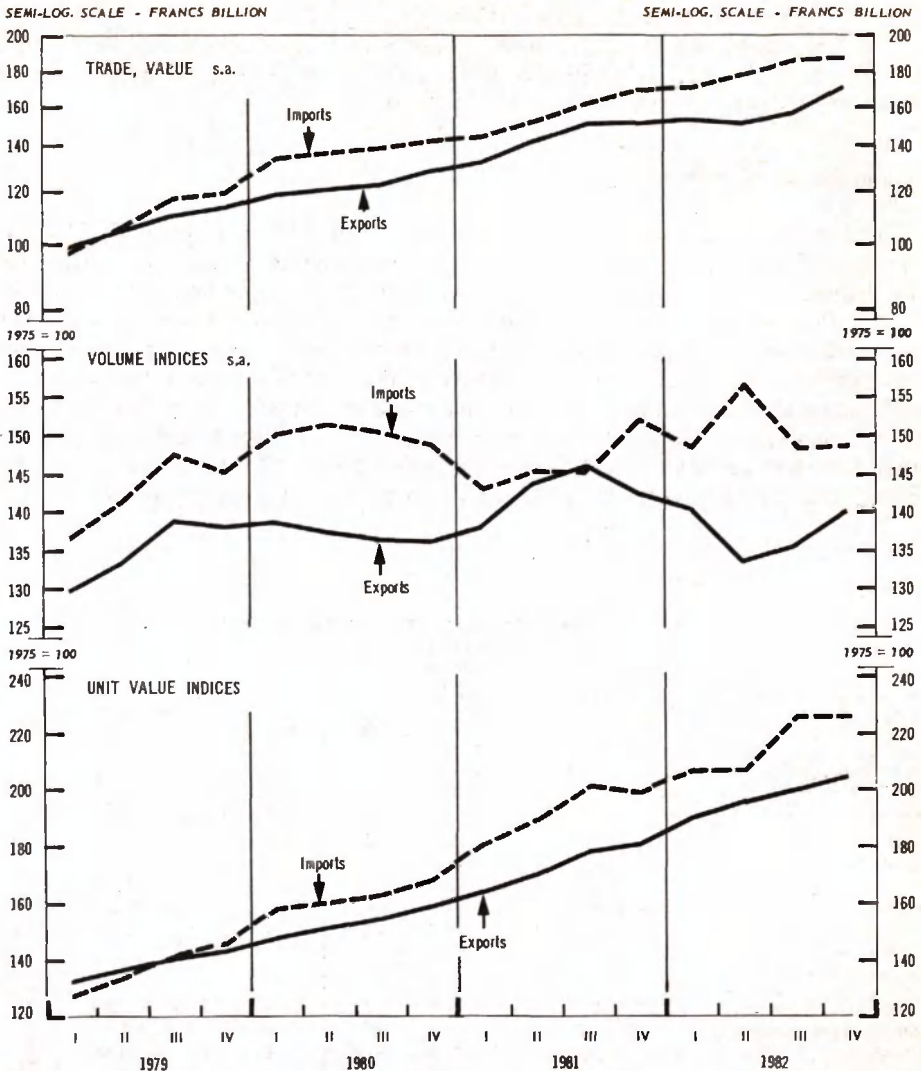
Source: INSEE, input/output tables and quarterly national accounts.

explains the increased penetration of some categories of foreign products for which elasticity of substitution is high (textiles, clothing, leather and footwear). But in addition, the change in the pattern of demand in the latest upturn has been distinctly unfavourable: for one thing, there has been accumulation of stocks with a high import content and, more importantly, household demand has shifted mainly to consumer goods with a high penetration rate.

Trade volume trends turned round in the third quarter of 1982. For one thing, the slowdown in domestic demand curbed import growth and probably encouraged French producers to turn to foreign markets. Secondly, the favourable impact of the franc's adjustment, combined with the policy of price and wage restraint, began to make itself felt. Export volumes grew by 10.8 per cent at an annual rate between the second and fourth quarters, whilst imports fell by about 9.6 per cent. However, the deterioration in the terms of trade following the devaluation more than offset the improvement in the export/import ratio and the trade deficit widened again in the third quarter, amounting to Frs. 10 billion per month on average on fob-fob customs basis and then narrowed to a monthly average of Frs. 6 billion in the fourth quarter.

The energy deficit continued to increase in 1981 and 1982. It amounted to Frs. 161 billion in 1981 (of which Frs. 135.5 billion for oil products) and will probably be close on Frs. 180 billion in 1982. As in 1980, this deterioration was the result of price increases in franc terms, since import volumes declined (-18 per cent in 1981 for imports of crude) owing to sluggish economic activity, energy policy measures and, in particular,

Diagram 7. Foreign trade



Source : INSEE, *Bulletin Mensuel de Statistique*.

the rise in domestic nuclear power production¹⁹. The average price of imported crude, which had risen by 77 per cent in dollar terms in 1980, has remained virtually stable and even eased temporarily during the last two years owing to the sluggishness of world demand, but the dollar's steep appreciation against the franc (25.3 per cent in 1981 and

19. Trend of gross imports of crude from 1979 to 1982:

	1979	1980	1981	1982 ¹
Quantity, t. million	126.0	109.7	90.2	58.8
Percentage change	8.2	-12.9	-17.8	-
Value, Frs. billion	73.1	118.8	131.5	96.7
Percentage change	35.6	52.9	17.6	-

1. First nine months.

20.9 per cent in 1982) added to the energy bill, which was made still heavier by increased imports of refined oil products and gas.

All told, the trade deficit fob-fob on a customs basis amounted to Frs. 93 billion in 1982, an increase of Frs. 33½ billion on 1981. On a transactions basis, the trade deficit amounted to about Frs. 100 billion (\$15.5 billion).

Balance of payments

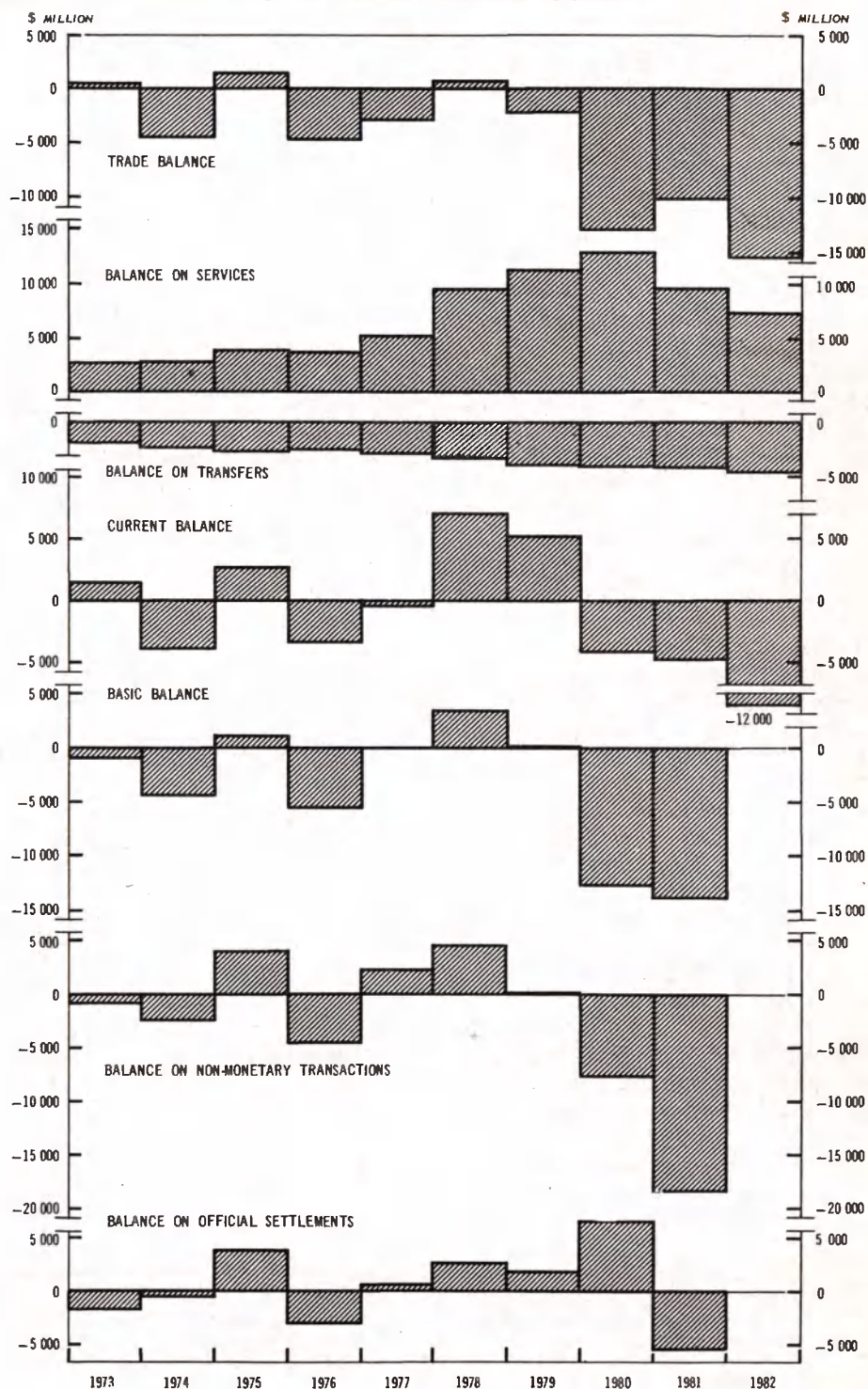
The current transactions account showed a deficit of \$12 billion in 1982, an increase of \$8 billion compared with 1981²⁰. This was a sharper deterioration than in the trade balance, the difference being due to a worsening of the position on the invisibles account. One of the factors responsible was the emergence of a deficit on investment income reflecting the increase in interest payments on external borrowing due to the rise in interest rates. In addition, there was a very marked growth of net transfers from the public sector to abroad, chiefly because of increased net transfers to the EEC budget in the third quarter of 1982 together with development aid. The steep deterioration in the public transfers account in the third quarter was partly offset, however, by a very marked improvement on the tourism account, which was favourably influenced by a

Table 11. **Balance of payments on a transactions basis**
Recent trends
\$ billion

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Seasonally adjusted</i>								
Trade balance	-2.74	-1.70	-2.17	-3.40	-3.32	-4.86	-4.21	-3.44
Services	1.93	2.86	1.95	2.65	2.47	1.59	2.03	2.35
<i>of which:</i>								
Investment income	-0.04	0.33	-0.07	0.19	0.15	-0.27	-0.13	-0.23
Transfers	-0.86	-0.94	-1.14	-1.27	-1.13	-1.18	-1.28	-0.99
Current balance	-1.67	0.22	-1.36	-2.02	-1.99	-4.44	-3.45	-2.09
<i>Not seasonally adjusted</i>								
Current transactions	-2.4	1.11	-1.64	-1.86	-2.69	-3.68	-3.69	
Long-term non-monetary capital	-0.78	-2.66	-3.93	-1.47	-0.15	-1.08	0.43	
Short-term non-monetary capital	0.95	-2.53	-1.41	0.87	1.52	0.40	0.49	
Errors and omissions	-0.60	-1.05	0.26	-0.88	-0.72	-0.68	-0.07	
Balance on non-monetary transactions	-2.84	-5.13	-6.71	-3.34	-2.04	-5.00	-2.84	
Short-term bank capital	-4.75	1.50	-3.70	-6.09	-0.68	-1.56	-1.40	
Balance on official settlements	-1.91	-6.63	-3.01	2.74	-1.35	-3.44	-1.44	

20. This analysis is based on data estimated by the French authorities which may differ from those published by OECD, owing, in particular, to different seasonal adjustment methods. It should also be noted that since 1st January, 1982, the balance-of-payments item "miscellaneous and leads and lags" has been split into an item "other goods and services" which appears in the balance on current transactions and an item "other short-term credits and leads and lags" which is in non-monetary short-term private capital. This change is explained in "les Cahiers économiques et monétaires de la Banque de France", No. 14. Series have been calculated on the revised basis back to 1973.

Diagram 8. Structure of the balance of payments



Sources: Banque de France; OECD Secretariat.

decrease in spending by French residents and an increase in spending by European and United States visitors.

The deficit on long-term capital account, which had widened in 1980-81, contracted appreciably in the first nine months of 1982. In 1980 there had been a steep increase in long-term foreign currency loans to non-residents and foreign currency borrowing from resident banks, while in 1981 political uncertainties were responsible, in the first half-year, for a heavy flow of direct and portfolio investment abroad as well as large long-term loans. In the second half of 1981 long-term capital outflows slowed, mainly owing to the introduction of a currency switch in the stock market ("devise titre"). The brisk growth of net long-term borrowing authorised by the Treasury, which rose from Frs. 18 billion in 1980 to Frs. 33 billion in 1981, also helped to slow the increase in the deficit on long-term capital between 1980 and 1981. In 1982 net drawings on long-term loans again increased sharply, amounting to Frs. 47.7 billion in the first nine months compared with Frs. 22.6 billion for the same period in 1981. Growth of net long-term trade credit accelerated appreciably in the first nine months of 1982, but this movement was amply offset by the decrease in intermediation by resident banks for account of non-residents and an increase in intermediation for account of residents²¹. In the first nine months of 1981, these operations resulted in net long-term capital outflows of Frs. 20.4 billion; in the same period of 1982, the outflows amounted to Frs. 12.4 billion²². Long-term capital movements for the first nine months of 1982 showed a deficit of Frs. 4.8 billion (a surplus of Frs. 7.6 billion excluding intermediation), compared with one of Frs. 40.9 billion for the first nine months of 1981 (Frs. -20.5 billion excluding intermediation). This improvement in the long-term capital account caused the deficit on the basic balance to narrow appreciably between the first three quarters of 1981 and the same period in 1982.

In 1981, largely as a result of heavy pressure on the franc, private short-term capital and the errors and omissions account showed shortfalls that added considerably to the non-monetary transactions deficit, which amounted to \$18.35 billion compared with \$7.58 billion in 1980. The slowdown in short-term capital outflows – which had begun in late 1981, mainly as a result of tighter foreign exchange controls – continued in 1982 and for the period from the fourth quarter of 1981 to the third quarter of 1982 there were net inflows totalling about Frs. 41 billion²³ (frs. 20 billion excluding bank intermediation). As a result, the deficit on non-monetary transactions in the first nine months of 1982 was held to Frs. 10 billion below its year-earlier level, in spite of the significant deterioration in the current transactions account between the two periods. This deficit, which amounted to \$8.1 billion for the first nine months, was financed for the most part (\$6.25 billion) from the official exchange reserves, banks' foreign indebtedness having risen much less rapidly in 1982 than in 1981.

In the fourth quarter, the persistence of a large trade deficit and pressure on the franc caused the authorities to intervene on the foreign exchange market and to continue their policy of controlled borrowing. Consequently, for this period net government-authorised borrowing amounted to about Frs. 12.5 billion, making the twelve-month total Frs. 60 billion, or \$9.2 billion compared with \$6.2 billion in 1981. Given the revaluation of the gold stock at end-year and the large amount of borrowing abroad, the

21. In these intermediation operations, resident banks borrow foreign currency at short term and lend it to non-residents at long term.

22. These movements were counterbalanced by net inflows of short-term bank capital.

23. According to an official estimate by the Ministry of Finance, French foreign debt amounted to \$35 billion at the end of the first half of 1982. Given the trend of capital movements in the second half, the debt could have increased, according to OECD Secretariat estimates, by about \$10 billion and be equivalent to 9 to 10 per cent of GDP at end-year.

public sector's external position is likely to have improved in 1982, with net official gold and foreign exchange holdings amounting to Frs. 339 billion compared with Frs. 303 billion in 1981²⁴.

Exchange rate trends

The magnitude of the fluctuations during the last three years in the exchange rates of the leading currencies, especially the dollar, has made it extremely difficult to measure their effects from a purely technical standpoint. The franc's effective exchange rate, as calculated by OECD, depreciated by 9 per cent in 1981 and 1982 after two years of virtual stability. Relatively steady to begin with, the slide has become more erratic over the recent period, phases of near-stability being followed by marked downturns in October 1981 and especially June 1982 with the two parity realignments in the EMS²⁵. The real effective exchange rate, calculated by reference to relative consumer prices, depreciated by some 5 percentage points between mid-1980 and mid-1981 but held virtually stable over the next twelve months. The combination of the currency adjustment in June 1982 and the price freeze in France then caused a steep depreciation amounting to about 8 points between May and November. The effective exchange rate, calculated by reference to relative average export values for manufactures, fell more steeply, by more than 10 per cent over the twelve months to the third quarter of 1982.

The dollar's continuing appreciation (33½ per cent between December 1980 and December 1982) has been largely responsible for the downward movement in the franc's effective exchange rate, although this influence swung the other way at the end of 1982. Nevertheless, the franc has also depreciated against most of the currencies of France's main European partners except, in 1982, for the Belgian franc and the Swedish kronor. The franc's depreciation against the deutschemmark accelerated from 9¼ to 12 per cent between 1981 and 1982. The parity adjustments of the last two years have improved France's competitiveness vis-à-vis the German economy: this had deteriorated sharply between mid-1978 and end-1980. The depreciation against the Swiss franc, on the other hand, was relatively limited in 1982 (5¾ per cent), whereas in 1981 it had been particularly rapid (21 per cent), especially in the latter part of the year.

Having had the initial effect of pushing up import prices, the franc's depreciation should stimulate exports in the course of 1983. Simulations made by the Secretariat with the aid of an econometric model for France suggest that the differential impact of the two EMS realignments in 1981 and 1982 on GDP growth was, other things being equal, 0.7 point (annualised) in the second half of 1982 and will be 1 point in 1983 as a result of the improvement in the real trade balance. On the other hand, it is estimated that the negative effects on the terms of trade would add about Frs. 20 billion to the current deficit for the second half of 1982 and the first half of 1983, the positive effects on the foreign balance not showing through until the second half of 1983. However, this mechanical impact should be adjusted for the effects of the back-up measures of June

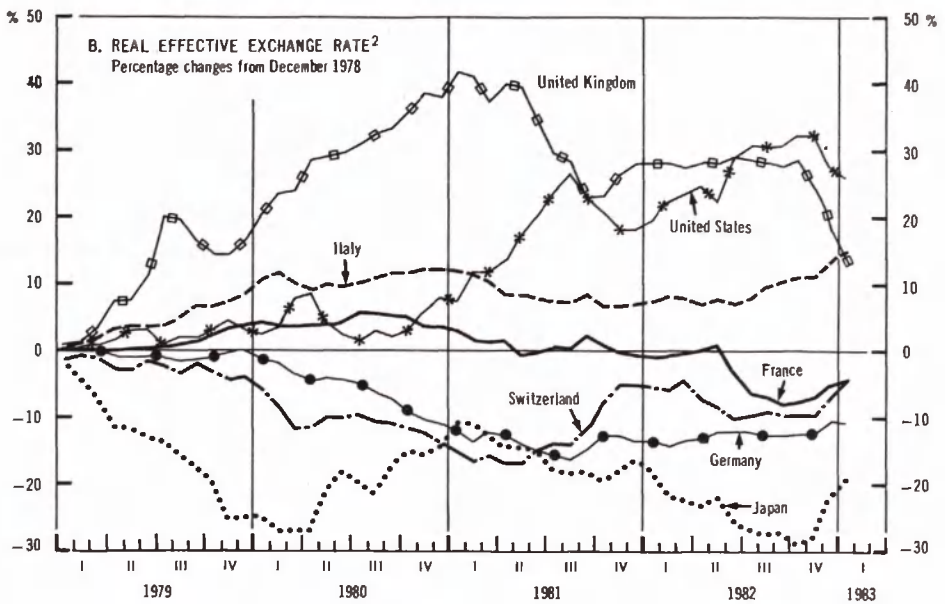
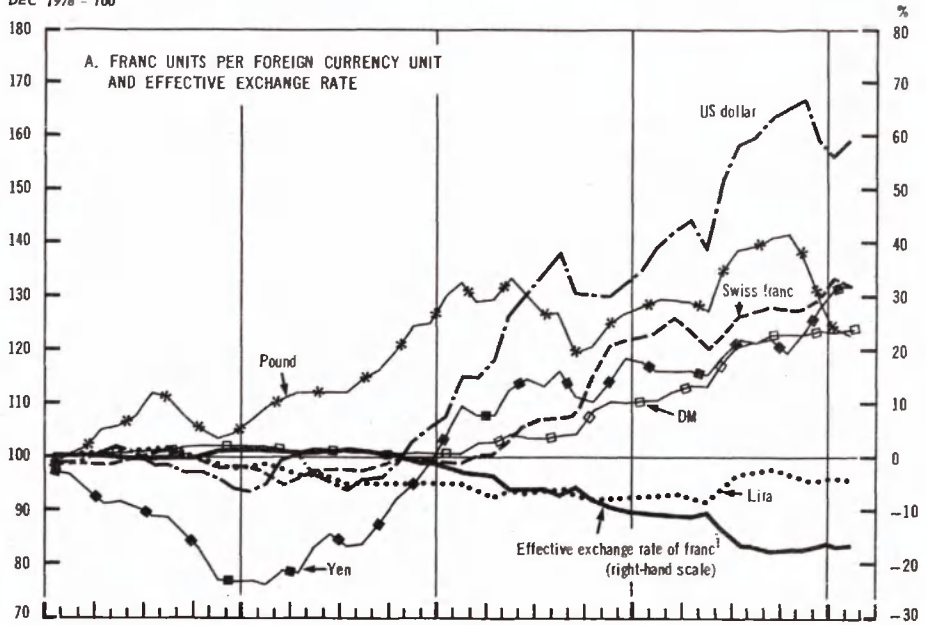
24. Trend in the short-term external position in billion francs:

	1980	1981	1982
Net official holdings	350.5	303.0	339.0
Gold	226.9	194.7	247.1
Convertible foreign exchange	44.5	38.3	39.7
ECUs	70.6	76.5	58.2
EMCF	8.5	-6.5	-6.0

25. With these two readjustments the franc's effective exchange rate depreciated by 3.5 per cent in October 1981 and by 6 per cent in June 1982.

Diagram 9. Exchange rates
Monthly averages of daily rates

DEC 1978 = 100



1. Percentage difference from December 1978.
 2. Deflated by the rise in relative consumer price.
- Source: OECD Secretariat.

1982. Quantifying the effects of the depreciation of the franc's effective exchange rate is made difficult by the fact that it was the result both of the dollar's appreciation against all currencies and of the changes in the franc rate against each of the currencies of France's main trading partners. A study made by INSEE using the METRIC model²⁶ suggests that a franc depreciation against the deutschemark or the guilder soon has significant effects on relative competitiveness and thus results in a rapid improvement in the export/import ratio and a limited terms-of-trade deterioration, the positive effects on the current balance showing through after four quarters. In the case of a depreciation against the dollar, the deterioration in the trade balance, largely due to costlier dollar-invoiced imports of energy and raw materials, would continue for more than five years.

II. ECONOMIC POLICY

In the face of the pressure on the exchange market, aggravated by the continuing depressed level of international activity, the government decided on a shift in economic policy and took measures to accompany the adjustment of the franc in the EMS in June 1982. Whereas before, via general government expenditure, the authorities had tried to anticipate the expected recovery of world demand in 1982, they now felt, given the uncertain timing and scale of that recovery, that stimuli to domestic demand could not be increased because of the disequilibria they were causing in the balance of payments. What is more, since these disequilibria had been aggravated by the fall in competitiveness due to the widening inflation differential between France and its main trading partners, combatting inflation became a priority. The central government budget, which had been one of the instruments of activity-boosting policy in 1981 and 1982, took a far less expansionary turn in the proposals for 1983 with growth in expenditure now close to the growth rate forecast for nominal GDP and the deficit stabilized at about 3 per cent of GDP – whereas a continuance of the 1982 trend would probably have resulted in a much larger deficit. Social security benefits had also helped, in 1981 and early 1982, to increase households' disposable income. This trend was turned round during 1982 and the rate of increase in purchasing power of social benefits is set to fall from 6.5 to 4.3 per cent between 1982 and 1983, whereas growth of employees' social security contributions should accelerate from 8.5 to 10.8 per cent in real terms. Monetary policy, whose restrictive role was increased in the second half of 1982, will back up the anti-inflationary measures in 1983 with prices and incomes policy a major feature.

Public finance and fiscal policy

In 1981 and 1982, public expenditure, which in the form of central government expenditure and social security benefits, was the main instrument of recovery policy, increased appreciably faster (18.4 per cent on an annual average basis) than during the three preceding years (15.4 per cent). In real terms (deflated by the GDP price rise) the acceleration was the same, since the annual average rate of increase in expenditure was 5.7 per cent in 1981-1982, whereas between 1978 and 1980 it had been reduced from 5.5 to 3.3 per cent. This acceleration was essentially attributable to redistribution expenditure, social benefits and subsidies, and also interest payments which went up by 42.9 per cent in 1981 and 29.6 per cent in 1982 (though the amount was still small

26. INSEE, *Economie et Statistiques*, No. 142, March 1982, "Apprécier une dévaluation".

because of the low level of debt). Conversely, consumption expenditure (intermediate consumption and wages) and investment spending, taken together, did not accelerate over the period and there was even a slight decrease in the volume of general government investment in 1981 (down 0.4 per cent) followed by a slight increase in 1982 (0.6 per cent). Although the general government wage bill might have been expected to increase steeply in 1981 because of recruitment policy, the growth rate was in fact lower than for the previous year, the largest proportion of the new influx having been taken on towards the end of the year; in 1982, the wage freeze had a restraining influence.

In 1981-1982, consolidated general government revenue increased much less steeply and less steadily than expenditure. Revenue growth in 1981 was slower than in the two previous years (12.8 per cent compared with an average of 18 per cent). This slowdown was caused by the combined effect of automatic stabilizers and deliberate measures, one of these being the one-point reduction in the employee's health insurance contribution from February 1981. In 1982, general government resources increased much more briskly (by about 16.5 per cent) in the form of tax revenue, stimulated by major discretionary measures (solidarity tax, ceiling on family-related rebates and wealth tax) and social security contributions, particularly those from employees. The difference between the nominal increases in revenue and expenditure caused the general government borrowing requirement to rise to 1.6 per cent of GDP in 1981 and 2.9 per cent in 1982 compared with 0.7 per cent on average during the three preceding years²⁷. However, the revenue growth rate was faster than that for nominal GDP, so that the tax and social security contributions/GDP ratio continued to rise over the last two years, the official estimate for 1982 being 43.9 per cent.

Table 12. Consolidated account of general government

	Value	Structure		Rate of growth			
	1980	1980	1983	1980	1981	1982	1983
<i>Expenditure</i>	1 208.2	100.0	100.0	15.5	18.4	18.4	12.6
Administration	425.1	35.2	32.8	15.8	15.1	14.9	11.3
<i>of which:</i>							
Wages and salaries	219.7	18.2	16.9	14.5	15.2	14.1	11.9
Intermediate consumption	127.6	10.6	10.2	18.2	16.5	17.2	11.5
Investment	77.3	6.4	5.7	15.8	12.4	13.4	9.3
Redistribution	736.9	61.0	61.7	14.9	18.8	19.5	12.4
<i>of which:</i>							
Subsidies	60.2	5.0	4.8	7.4	23.5	14.9	7.8
Social benefits	623.4	51.6	52.4	15.6	18.4	20.0	12.8
Interest paid	46.1	3.8	5.5	23.2	42.9	29.6	23.8
<i>Revenue</i>	1 217.4	100.0	100.0	17.5	12.8	16.5	12.6
Tax	640.7	52.6	52.4	17.0	13.2	16.4	11.2
Social security contributions	468.2	38.5	39.2	18.5	11.4	16.6	15.5
<i>of which:</i>							
Employers	302.1	24.8	24.8	16.1	13.1	14.7	13.5
Employees	133.7	11.0	11.6	25.2	5.9	21.2	20.9
Other revenue	108.5	8.9	8.4	15.6	16.5	16.7	8.9

Sources : For 1980, INSEE, *Rapport sur les Comptes de la Nation de l'année 1981*; for 1983, Draft budget for 1983, *Rapport économique et financier*.

27. In the accounts, the general government borrowing requirement or lending capacity is affected by upward and downward movements in the value of the Banque de France's currency reserves which are credited or debited to the Treasury. Depreciation of the dollar caused downward movements (increasing the borrowing requirement) in 1977 (Fr. 1.1 billion) and in 1978 (Fr. 4.1 billion). Conversely, upward movements of Fr. 6.4 and Fr. 16.5 billion were booked in 1980 and 1981, reducing the general government borrowing requirement by the same amount.

Table 13. **Impact of general government transactions on demand**

	1978	1979	1980	1981	1982 ¹	1983 ¹
Net borrowing (–) or lending (+) (as a percentage of GDP)						
General government	–1.9	–0.7	0.3	–1.6	–2.9	–2.9
Central government	–1.3	–0.8	0	–1.1	–2.4	–3.0
Local authorities	–0.7	–0.5	–0.6	–0.5	–0.4	–0.4
Social security	0.1	0.7	1.0	—	–0.2	0.4
General government demand (volume percentage change)						
Final consumption	4.4	1.5	2.8	2.4	2.9	2.1
Gross fixed investment	–3.6	1.5	1.4	–0.3	0.6	1.2
Total	3.0	1.5	2.6	1.9	2.6	1.9
Transactions affecting households' account (nominal percentage change)						
Wages and salaries	13.9	12.2	14.5	15.2	14.1	11.9
Social benefits	18.5	15.9	15.6	18.4	20.0	12.8
Ratio: direct taxes ² and social security contributions/gross income	25.3	26.1	27.0	26.8		
Transactions affecting corporations' and quasi-corporations' account						
Subsidies (nominal percentage change)	6.4	13.7	8.2	21.9	14.5	7.6
of which:						
Major national enterprises ³	–0.6	12.8	2.1	18.3		
Other non-financial corporations and quasi-corporations	16.8	14.7	11.7	24.3		
Ratio: Tax and social security contributions/GDP	39.5	41.0	42.6	42.9	43.9	—
Ratio: Tax/GDP	22.8	23.5	24.2	24.6	25.1	25.1
Ratio: Effective social security contributions/GDP	16.7	17.5	18.4	18.3	18.8	—

1. Official estimates and forecasts.

2. Taxes on income and wealth.

3. Charbonnages de France, EDF, GDF, SNCF, RATP, PTT, Air France.

Sources: INSEE, *Rapport sur les comptes de la Nation*; OECD Secretariat.

This trend towards an increase in the weight of tax and social security contributions and in the general government borrowing requirement prompted the government to re-orient fiscal policy with the object of stabilizing the share of revenue and expenditure in GDP and holding the general government deficit down to an amount equivalent to 3 per cent of GDP. These objectives were first expressed in a draft budget for 1983 that was far less expansionary than those for 1981 (after revision) and 1982. Secondly, a plan to redress the situation of the social security and unemployment insurance systems was put into motion in mid-1982 and will continue in 1983. Although this plan largely rests on economy measures designed to check the growth in expenditure, the weight of social security contributions in GDP will probably again increase (according to the official estimates) by about half a percentage point, bringing the tax and social security contributions/GDP ratio up to about 44.5 per cent. According to the assumptions for the 1983 budget, the growth rate for consolidated expenditure by general government should come down to 12.6 per cent, or 3.2 per cent in real terms. It should be noted, however, that these forecasts are based on a GDP growth rate of 2 per cent in volume for 1983 which, as things stand, seems difficult to achieve. If the GDP growth rate were 0.5 per cent (the present OECD forecast), the general government borrowing requirement

could, in the absence of fresh discretionary measures, go up a further Frs.10-15 billion because of the slower growth in tax revenue (VAT in particular) and social security contributions, and the increase in benefits paid (unemployment insurance).

The central government budget

The expansionary nature of the central government budget for 1981, after the passing of the various supplementary finance acts and in particular that of August (which made provision for the financing of the social measures decided by the new government) was maintained in the 1982 budget as can be seen from Table 14. The initial budget for 1982 was directed at three main goals: support of employment, income redistribution in order to reduce inequalities, and holding the budget deficit at a level compatible with the anti-inflation target. Compared with the revised 1981 budget, the initial 1982 budget, based on an assumed GDP growth rate of 17 per cent in value terms (3.1 per cent volume and 13.4 per cent prices) set growth rates for expenditure and revenue that were more or less the same as that for nominal GDP. In total, the budget (including temporary loan and advance transactions) provided for a negative balance of Frs.95.5 billion or 2.6 per cent of GDP. Employment support policy was reflected in a rapid growth of appropriations for employment measures, which were 45 per cent up from the initial budget for 1981, and in government-financed job creations totalling 46 300 on top of the 33 700 provided for in the supplementary budget of August 1981. The 1982 budget also made provision for a steep increase (some 27.5 per cent) in non-defence capital spending compared with the initial 1981 budget. At the end of 1981 it was decided to freeze Frs.15 billion of payment appropriations for 1982 investment and defence spending, to be used only if the economic situation so demanded. One-third of this amount was, in fact, released during the year.

The tax revenue forecast in 1982 was 16.9 per cent higher than the figure in the revised budget for 1981, and 15 per cent of the increase was to come from discretionary measures arising out of the big tax changes introduced by the 1982 Finance Act. A ceiling was placed on the income tax reduction resulting from the application of family-related rebates and an exceptional surtax of 10 per cent was applied to high incomes²⁸. On the other hand, the taxation brackets were scaled up by 13.5 per cent to allow for inflation and exemptions were specified for the lowest income groups. A wealth tax was also brought in. Lastly, a number of fiscal measures were taken to help investment (tax deductions, concessions for the formation of new companies, etc.).

The various supplementary budgets introduced in 1982 (June and December) were designed to keep the budget deficit at a level close to that set in the initial budget, i.e. Frs.98.9 billion. One object of the new fiscal measures taken during the year was to support investment by increasing the capital funding of the nationalised companies by Frs.9.2 billion. In addition, VAT was reduced from 7 per cent to 5.5 per cent on food products and raised one point on others. Lastly, a change was made to the trade tax («taxe professionnelle») to relieve the burden on firms creating jobs.

The 1983 budget gives fiscal policy a less pronounced expansionary role. Whilst the 1982 budget allowed for a substantially larger increase in central government expenditure than in nominal GDP, the 1983 budget associated with a forecast GDP growth rate of 11.2 per cent (2 per cent volume and 9.1 per cent prices) provides for an 11.8 per cent increase in expenditure over the figure in the initial 1982 budget. Within this overall figure, growth rates vary with type of expenditure, central government intervention (transfers, subsidies, support for employment, research, industry and housing) continuing to increase steeply (up 16.6 per cent), non-defence capital spending

28. This increase would apply only to that part of tax exceeding Frs.15 000 a year for individuals paying over Frs.25 000.

Table 14. Central government budget

	1980	1981	1982	1983 draft budget	1982 ² 1981	1983 ² 1982
Permanent operations:						
Expenditure				A. INITIAL BUDGETS		
Public debt	26 886	37 744	53 679	58 376	42.2	8.8
Administration	186 055	216 418	262 729	284 652	21.4	8.3
Government interventions	164 957	188 487	261 711	305 030	38.8	16.6
Capital spending	41 921	51 871	66 215	74 479	27.7	12.5
Defence	105 405	123 212	144 392	158 866	17.2	10.0
Special appropriation accounts (balance)	-197	-210	-317	-237		
Total expenditure	525 027	617 522	788 409	881 166	27.7	11.8
Revenue						
Personal income tax	115 839	135 226	163 380	188 217	20.8	15.2
Corporate taxes	51 275	64 660	71 020	91 500	9.8	28.8
Other direct taxes	44 709	52 710	77 102	76 732	46.3	-0.5
Value added tax	253 007	299 130	348 395	385 335	16.5	10.6
Registration duties, customs duties and other indirect taxes	102 881	119 442	137 722	148 046	15.3	7.5
Non-tax revenue	27 788	35 143	41 284	45 870	17.5	11.1
Transfers to local authorities and EEC	-55 798	-68 607	-78 004	-98 644	13.7	26.5
Tax refunds and reliefs	-41 850	-45 600	-56 300	-70 999	23.5	26.1
Total revenue	497 851	592 104	704 599	766 057	19.0	8.7
Balance on permanent operations	-27 176	-25 418	-83 810	-115 109		
Balance on temporary operations	-3 980	-3 967	-11 646	-2 653		
Overall balance	-31 156	-29 385	-95 456	-117 762		
				B. OUTTURNS		
	1980	1981	1982 ¹			
Permanent operations, total						
Expenditure	592 259	709 478	797 498			
Revenue	557 168	633 984	705 725			
Balance	-35 091	-75 494	-91 773			
Temporary operations (balance)	11 298	11 211	-7 146			
General balance (less IMF position)	-23 793	-64 283	-98 919			

1. Revised budget.

2. **Percentage change.**

rising at a rather slower rate (up 12.5 per cent)²⁹ and operating expenditure growing by only 8.3 per cent in nominal terms, which is a 0.7 per cent drop in real terms. In part, this would be the result of the reduction in the number of job creations financed from the budget – down from 41 000 in 1982 to 13 000 in 1983. Funding of nationalised enterprises amounts to Frs. 11 billion. Appropriations of Frs. 20 billion, 2.2 per cent of the total, will be committed for action to regulate the economy during the year.

The growth rate for tax revenue in 1983 is relatively low: 8.7 per cent up on the revised assessment for 1982. In spite of the adjustment of the tax scales to allow for inflation, growth in income tax revenue should still be relatively steep (up 15.2 per cent), but the lower rates expected in inflation and in the growth of private consumption should slow growth in VAT revenue appreciably compared with 1982. By and large, the new tax provisions made in the 1982 budget (exceptional surtax, ceiling on family-related rebates and the wealth tax) are repeated with a few adjustments. Measures to encourage long-term saving have been strengthened by the creation of a share-type savings account entitling the holder to a tax reduction equal to 25 per cent of the amount by which annual purchases exceed annual sales of shares in French companies. The total budget deficit (balance of permanent and temporary operations) amounts to Frs. 117.8 billion for 1983 or 2.9 per cent of the official GDP forecast.

Social security

There was a major swing in the social security accounts in 1981 when, for the first time since 1966, a borrowing requirement of some Frs. 360 million arose due to an imbalance in the general social security and unemployment insurance (UNEDIC) systems. With sometimes considerable annual fluctuations, the surplus accruing from 1967 to 1975 averaged Frs. 6.8 billion a year. From 1974-1975 on, unemployment and health benefits began to accelerate swiftly and the rate at which income came in began to fall. A number of measures were taken in 1975-1976 to redress the situation, principally increases in contributions, and again in 1979-1980. In 1981, the financial situation of the social security system was suddenly worsened by a number of factors. Firstly, the exceptional increase of one point in the health insurance contribution, introduced in 1979, was abolished; secondly, social benefits were substantially scaled up and lastly, the steep rise in unemployment increased expenditure and reduced income. Rebalancing measures introduced in November 1981, including reintroduction of the one point contribution increase abolished at the beginning of the year and financing of the unemployment insurance system by an exceptional solidarity tax, were insufficient to prevent the accounts showing a deficit.

In 1982 the social security account was adversely affected by the full-year impact of the measures introduced in 1981, the slowdown in nominal trends which worked through to receipts more rapidly than to expenditure, and the continuing rise in unemployment. Benefit payments again increased steeply (up 20 per cent). New measures (raising of the liability ceiling, increase in contributions, contributions from public servants) had to be taken during the year in order to prevent the accounts showing a further deficit. This had the effect of considerably increasing the social security contributions/GDP ratio and of adding to the burden of labour costs. To counter this trend, the government is planning measures to reduce the growth in costs³⁰. Major

29. This increase is in fact smaller in that the VAT compensation fund, which amounts to Frs. 8 billion, no longer figures in the 1983 budget.

30. One of the main reforms will be to alter the rules for the financing of hospitals which, up to now, has depended on the number of medical "acts" (days of hospitalization, number of consultations, etc.) actually performed by the hospital, a procedure which can cause spending to grow excessively. Under the reform, an "ex ante" budget will be drawn up for each hospital after joint discussion between the hospital management, the insurance funds and the responsible authority.

Table 15. **Social security accounts**
Frs. billion

A. SIMPLIFIED ACCOUNT OF THE SOCIAL SECURITY SYSTEM ¹			
	Annual change 1977-1981	1981	
		Value	Structure (percentage)
Resources	16.8	662.5	100.0
Social security contributions	16.2	560.0	84.5
<i>of which:</i>			
Employers	15.1	386.7	58.4
Employees	18.6	134.8	20.3
Non-wage-earners	19.2	38.6	5.8
Transfers	23.5	84.8	12.8
Uses	18.0	662.9	100.0
<i>of which:</i>			
Wages and social security contributions	16.5	24.3	3.7
Social benefits	18.1	618.7	93.3
<i>of which:</i>			
Sickness, disablement	17.3	206.1	31.1
Industrial injuries	12.5	25.9	3.9
Death	16.3	254.4	38.4
Maternity, family allowances	17.3	80.1	12.1
Unemployment	46.2	52.3	7.9
B. BUDGETED ITEMS OF THE GENERAL SOCIAL SECURITY ACCOUNT ²			
	1981	1982	1983
Revenue (total)	407.7	486.1	552.6
<i>of which:</i>			
Contributions	380.0	451.8	496.8
Employees	93.5	117.0	129.6
Employers	286.5	334.8	367.2
Government subsidies	13.7	14.5	30.6
Expenditure	414.3	488.6	552.7
<i>of which:</i>			
Benefits	348.2	411.8	466.1
Balance	-6.6	-2.5	-0.2

1. Commission des comptes de la Nation.

2. Commission des comptes de la Sécurité sociale.

economy measures have also been brought in on unemployment insurance, the most important of them being a reduction of the duration and rates of unemployment benefit, which could save about Frs.10-12 billion a year. Finally, it is planned to introduce in 1983 a supplementary tax on tobacco and spirits, the proceeds of which will go to the social security account. Altogether, these measures could enable the social security account to be back in balance in 1983. Financing problems could arise again thereafter because of the likelihood of continuing high levels of unemployment. Bringing retirement age forward to 60 in 1983 will also increase the drawings on the account as of 1984. In the longer term, it is planned to budgetise the family allowances system, with the financing of that system being transferred from social security to the central government budget by 1988.

Local government

The local government annual borrowing requirement has oscillated, since 1975, around the Frs.15 billion mark, which means it has declined in real terms. Two factors are responsible: declining investment and mounting tax revenue. The implementation of the first phase of decentralisation, which transfers part of the central government's administrative and financial responsibilities to local government, should not affect the total volume of public expenditure, but solely the way it is split between central and local government. The départements and the communes no longer need prior administrative and financial approval but the principle of budgetary equilibrium is maintained for these levels. The earlier system of central government grants to local authorities for specific investment projects will, after a three-year transitional period, be replaced by the introduction of a "block investment grant". In 1983, it is planned to bring this new system into operation for all investment dependent up to now on grants from the Ministries of agriculture and the interior, and for up to 20 per cent of the grants from other ministries, all of which will add up to a total block investment grant of Frs.2.7 billion. The 1983 budget shows, in respect of the block operating grant system, a 12.9 per cent increase in appropriations. All in all, the central government's aggregate financial assistance to local government has gone up by 18.2 per cent, between the initial budgets for 1982 and 1983.

Monetary policy

The stance of monetary policy in 1982 was initially restrictive, in line with the measures taken in October 1981 in conjunction with the realignment of the exchange rate of the franc within the EMS. The M2 growth target of between 12.5 and 13.5 per cent was thus well below forecast nominal GDP growth (17 per cent). Moreover credit ceiling norms for the first half of the year were strict (3 to 7 per cent growth annualised,

Table 16. **Monetary policy: targets and outturns**
Percentage changes

	1977	1978	1979	1980	1981	1982
Money supply growth target (M2) December to December	12.5	12	11	11	10	12.5-13.5
Outturn December to December	13.9	12.2	14.4	9.8	11.4	12
Year on year	12.3	13.2	13.4	11.6	12.6	12.3
Nominal GDP growth Forecast ¹	13.2	12.6	13.0	11.9	12.3	17.0
Outturn	12.3	13.6	13.9	13.1	12.2	13.7
Real GDP growth Forecast ¹	4.6	4.5	3.6	2.6	1.6	3.1
Outturn	3.1	3.8	3.3	1.1	0.2	1.4
GDP deflator Forecast ¹	8.1	7.8	9.1	9.1	10.6	13.4
Outturn	9.0	9.5	10.3	11.8	12.0	12.1
Liquidity ratio $\frac{M2}{GDP}$ (%)	48.7	48.5	48.3	47.7	47.8	47.3

1. Economic forecasts associated with the draft budgets.

Sources: Conseil National du Cr dit, *Bulletins mensuels*; Minist re de l'Economie, *Rapport  conomique et financier des Projets de Loi de finances*; INSEE, *Rapports sur les comptes de la Nation*; OECD Secretariat.

depending on the credit category)³¹. Lastly, the external constraint prompted the monetary authorities to persist with positive real interest rates. Money supply growth went through two contrasting phases in 1982; after accelerating very sharply in the first half of the year, it slowed appreciably during the second half, so that the annual target was achieved. In line with international trends, short-term interest rates began to fall in mid-1982 and continued to do so up until the end of the year. Long-term rates declined much less rapidly throughout the year, the slowdown in inflation, therefore, meaning that they rose in real terms in the second half of the year. The trend in long-term rates was the result of the size of the domestic, and particularly public sector borrowing requirement, the government's desire to rechannel savings into financial investments, and also external constraints. For 1983 the M2 growth target has been tightened appreciably by comparison with the results observed and was set at 10 per cent, against an official nominal GDP growth forecast of 11.2 per cent. This tighter target can be expected to inhibit domestic lending, for which growth norms have been reduced by 1.5 percentage points in 1983 by comparison with 1982.

Seasonally adjusted M2 growth was uneven in 1981-1982. During the first eight months of 1981 the annual growth rate of M2 was 16.5 per cent, but it then came down to 2 per cent over the last four months so that, through the year, the growth was 11.4 per cent (12.6 per cent year on year), whereas the initial target had been 10 per cent. In setting a growth target of between 12.5 and 13.5 per cent for 1982, the government had two objectives: to continue to use monetary policy as an instrument for combating inflation, and to have some room for manoeuvre in view of the uncertainty surrounding the scale of the economic upturn. At the time this seemed an ambitious target given the nominal GDP growth rate to which it was linked (17 per cent) and the constraints the authorities were apparently going to have to contend with in 1982. According to their assumption that the net foreign assets counterpart of the money supply would have a slightly restrictive influence on money creation (with the current account deficit being largely financed by capital inflows corresponding to the international loans that had been organised), the foreseeable increase in the borrowing requirements of the Treasury and the private sector meant that the capital market had to prove very dynamic if these requirements were to be met without excessive recourse to money creation. Also indicative of the restrictive stance of monetary policy were the adoption of strict credit growth norms for the first half of 1982 and the renewal of measures designed to curb the growth of non-restricted credit.

The first half of 1982 saw a very sharp acceleration in the growth of the monetary aggregates – mainly due to accidental or institutional factors³². When the regulations concerning the interest on time deposits were changed in September 1981, some of the amounts outstanding were switched into other less liquid deposits (savings bank and bond investments), thus reducing the rate of growth of M2 in the second half of 1981. Over and above these developments, money creation was stimulated by a number of factors. The Treasury's monetary requirements grew rapidly because of the increase in

31. Credit growth norms were as follows (intra-year: December to December):

	1980	1981	1982	1983
Main banks	4.9	4.8	5	3
Consumer credit institutions	7	7	7	5

Approximately 60 per cent of domestic bank credit is subject to ceilings.

32. Because of the dates when banks were closed during the last week of December 1981, some transactions were postponed until January 1982. According to the authorities' estimates, the M2 growth rate, which was 0.2 per cent in December 1981 and 2.4 per cent in January 1982, was consequently 1 percentage point lower in December 1981 and that much higher in January 1982.

Table 17. Money and credit

	Outstanding end December 1979	1980				1981				1982			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4 ¹
Changes in outstandings during the period (Fr. billion)													
Not seasonally adjusted													
Total money supply	1 286.4	-2.2	24.3	25.3	78.6	9.1	58.2	29.8	64.2	28.8	60.7	33.1	65.6
Money	647.3	-30.6	20.5	8.6	46.9	-25.2	43.1	37.5	45.9	-20.9	38.9	18.9	50.5
Quasi-money	639.1	28.4	3.8	16.7	31.7	34.3	15.1	-7.7	18.3	49.7	21.8	14.2	15.1
Counterparts													
Gold and foreign assets	63.0	3.2	6.6	2.9	12.6	12.0	-37.4	-4.6	23.6	-12.5	-17.6	-2.3	-17.5
Credit to government	137.1	21.5	-12.9	13.9	-28.8	15.5	19.7	14.3	-15.2	35.6	16.7	22.3	-41.9
Bank credit	1 331.6	-8.0	47.6	38.9	137.9	25.5	55.0	32.1	125.8	28.1	98.7	54.2	121.6
Non-monetary resources	-164.2	-19.4	-10.2	-3.4	-31.3	-23.8	6.0	13.3	-20.1	-27.0	-13.9	-26.4	3.4
Other	-81.0	0.5	-6.8	-27.0	-11.8	-20.1	14.9	-25.3	-49.9	4.6	-23.2	-14.7	
Percentage increase during the period, annual rate													
Seasonally adjusted													
Total money supply	1 252.5	9.9	7.9	10.6	10.9	13.5	17.8	11.0	4.2	18.3	16.5	11.2	2.6
Money	614.6	3.2	5.4	8.7	11.4	7.5	19.1	26.1	7.7	10.7	12.8	13.0	7.6
Quasi-money	641.0	14.4	10.2	11.1	14.6	16.1	16.6	-3.0	5.0	23.3	19.5	8.1	2.2
Credit to government	150.4	17.0	-20.2	3.1	-10.5	-1.4	87.4	0.3	39.7	33.6	54.6	9.0	-7.7
Domestic bank lending	1 151.6	19.3	11.1	15.3	23.6	18.7	15.2	13.8	14.9	20.2	22.4	17.7	12.4

1. Provisional data.

Source: Conseil National du Cr dit.

the budget deficit on an outturns basis, while another cause of the acceleration in money supply growth was domestic bank credit, which rose during the first half of the year at an annual rate of 21 per cent. This acceleration, which in large part concerned short-term lending to business, was evidence both of the increased financial difficulties facing firms and the scale of stock rebuilding in the second quarter. Lastly there was the impact that the franc's depreciation had on the amount of credit in foreign exchange, which increased by 60 per cent during the first half of the year. The growth of demand for credit meant that credit controls had a constraining effect which led to a rise in the "derestriction premium"³³ and caused ceiling to be overshoot.

The results at monetary policy level of the more restrictive stance of economic policy since June 1982 were that credit growth norms in the second half of the year were identical to those for the first six months (which, allowing for seasonal movements, implied a tightening up), while measures were taken to limit monetary financing of the economy. Also, in view of the size of the budget deficit at the end of the first half of the year, the decision to hold it to Frs.105 billion for the whole year was designed to limit the Treasury share in money creation. M2 did in fact slow appreciably, its annualised growth rate (seasonally adjusted) being reduced from 17.4 per cent in the first half of the year to about 7 per cent in the second. This slowdown was attributable above all to the trend in credit to government. On the other hand, the annual rate of growth of domestic bank credit remained high in the second half-year – 16.2 per cent, though this was down on the first half of the year (21.3 per cent). The trend in the net foreign assets counterpart remained distinctly negative in the third quarter, when it contracted by Frs.2.4 billion. i.e. Frs.32.4 billion over the first nine months of the year, against 30 billion for the same period in 1981.

In all, M2 growth was back to an annual rate of about 12 per cent in 1982. This increase was particularly appreciable in the case of quasi-money following an upturn in time deposits. On the other hand, M1 growth, which has fluctuated widely from month to month since early 1982, was much slower than in 1981 (5.7 per cent annualised for the first nine months, against 10.6 per cent for the same period in 1981). Stimulated by the increase in savings bank deposits, the M3 aggregate has also grown appreciably faster since early 1982 than in 1981.

The M2 growth target for 1983 (10 per cent in nominal terms) is consistent with the tighter counter-inflationary policy decided on in June 1982. If this target is compared with the official forecast for nominal GDP growth of 11.2 per cent, it implies a contraction of liquidity. Domestic bank credit growth norms for 1983 vary quite widely, indicating a selective credit policy. The central norm which applies to the majority of banks is 3 per cent growth³⁴ between December 1982 and December 1983, i.e. a reduction of 1.5 point on the 1982 norm. Investment, export and housing credits, on the other hand, could grow by about 11 per cent.

After going through a period of sluggish activity during the first half of 1981, the capital market revived in the second half of the year under the stimulus of central government demand. Taking 1981 as a whole, capital market issues totalled Frs.106.7 billion. The attraction of high real interest rates and the number of incentives offered, in particular, the regulations concerning time deposits, stimulated the capital market in

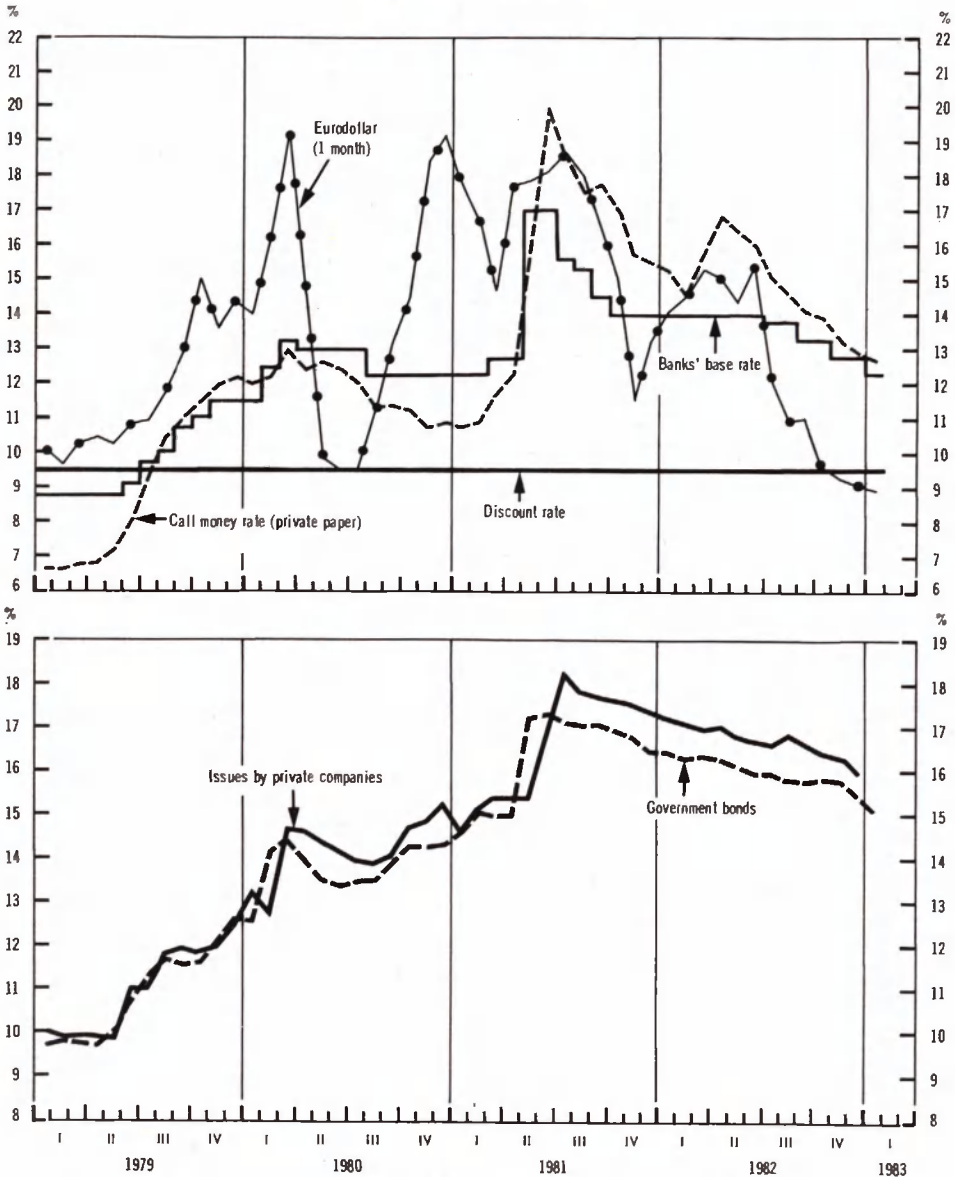
33. Banks with outstandings in excess of credit ceilings can temporarily place such surpluses with banks which have unused margins. Banks availing themselves of this facility pay those which take their surpluses a derestriction premium which is additional to the money market rate and which rises with the increasing degree of constraint represented by the credit ceilings. This premium rose from 2 per cent in January 1982 to nearly 12 per cent in June, before falling back to about 8 per cent at the end of the year.

34. In view of the provisions whereby banks which have increased their long-term resources (bonds or net capital) can deduct them from the amount of credit subject to ceilings, bank credit coming under the normal regulations could grow by approximately 8 per cent in 1983.

1982 – bond issues reaching nearly Frs.153 billion. Issues by general government – central government and local authorities – continued to account for a large proportion of this total (31.2 per cent); the major national enterprises borrowed much more extensively on the capital market than in 1981 (12.8 per cent of issues as against 6.7 per cent), this being to the detriment of the non-bank financial institutions, which substantially increased their borrowings on the international markets.

Although one of the authorities' main objectives was to bring domestic interest rates down so as to ensure conditions conducive to an upturn in economic activity, their

Diagram 10. Interest rates



Sources: INSEE, *Bulletin Mensuel de Statistique*; Morgan Guaranty Trust Bulletin.

room for manoeuvre was strictly limited by the pressures on the foreign exchange market in an international context of high interest rates. After peaking at 19.91 per cent in June 1981 and remaining high in July, the call money rate fell steadily until February 1982 when it was down to 14.56 per cent. Renewed pressure on the franc in subsequent months then pushed it up again to nearly 17 per cent in April. It was only after the monetary realignment in June, when it was at 16¼ per cent, that nominal rates again began to fall, bringing the money market rate down to 12¾ per cent during the first week of January 1983. Given the distinct slowdown in inflation in the third quarter of 1982, real short-term interest rates rose very steeply – from 3.5 per cent in the second quarter to 8.6 per cent in the third, and it was not until the fourth quarter that there was any perceptible easing of real rates. Nominal long-term interest rates fell by only about 1 point between June 1981 and December 1982, when they stood at 16¼ per cent on average. This was due in part to the thrust of monetary policy which was aimed at encouraging long-term savings rather than liquid savings, thereby prompting the authorities to keep bond market rates attractive. Another factor was the size of the borrowing requirements of general government, nationalised enterprises and banks which put that market under growing demand pressure. Although rates fell slightly in 1982, real rates on the bond market were still high at the end of the year – around 6 per cent on average.

Although a large proportion of domestic credit (some 40 per cent) is at preferential rates and therefore to some extent disconnected from money or capital market rates, this phenomenon is only partial and, in general, firms' interest repayments rose very appreciably in 1982. Simulations by the Secretariat would suggest that, after one year, a permanent 1 point increase in short-term interest rates has a negative effect of 1 percentage point on growth of productive investment and of 1.2 point on that of residential investment. In all, the negative effect on GDP is of the order of ¼ point of growth. In order to ease the financial costs of enterprises, new measures were introduced at the end of 1982: the bank's base rate was reduced by 0.5 point through the lowering of compulsory reserve ratios; the rates on subsidised investment credit were lowered by 3 points; equity loans from central government and financial institutions were increased. In addition, industrial, construction and transport enterprises which borrowed at fixed rates of over 12 per cent (i.e. approximately one-quarter of industrial enterprises' indebtedness), will be able to obtain refinancing loans at 9.75 per cent.

Prices and incomes policy

In view of the persisting high rate of inflation during the first 9 months of 1981, the Government introduced a number of measures when the franc exchange rate was first adjusted in October 1981. These consisted chiefly in freezing the prices of certain mass-consumption food products during the fourth quarter and freezing all service prices for six months with effect from 3rd October, with the possibility as from January 1982 of national or departmental regulation agreements covering the whole of the year. Lastly, import margins in absolute values were mostly frozen for three months. Freedom remained the rule where prices of industrial products were concerned, but the government recommendation to industrial enterprises and wholesalers was an average annual increase of 8 per cent for 1982, while the Government itself undertook to limit increases in public utility charges to between 8 and 10 per cent for the year. With regard to incomes, the authorities announced their intention of moving towards a system aimed at making the price/wage linkage less rigid, and recommended setting norms for nominal wage increases equal to the price rise target for the coming year, any purchasing power losses due to inflation in excess of the norm being made good at the end of the period. A second series of measures to counter inflation were taken in June 1982. These consisted in freezing prices and wages for four months up until

31st October, 1982. This freeze applied to virtually all prices and markups (with the exception of oil product prices, farm gate prices and fresh food prices). As regards incomes, wage increase agreements were suspended (although the minimum wage was not frozen), as were the indexation clauses concerning non-wage incomes. Lastly, dividend increases were limited and certain professional emoluments reduced by 3 per cent for a period of four months.

A procedure for phasing out the freeze was worked out during the summer. It rested essentially on a policy of consultation and negotiation of price and income rises consistent with the inflation rate target set by the authorities (10 per cent rise in consumer prices during 1982 and 8 per cent during 1983). With regard to prices, three broad schemes were devised. Industrial prices would rise in accordance with contractual commitments entered into at industry or enterprise level which would determine the timing and extent of the increases in such a way as to take account of the specific circumstances of each contracting industry or enterprise and the price targets set by the Government. Furthermore, it is planned to decontrol prices again during the course of 1983 if the conditions specified by the commitments have been complied with and if there are no inflationary pressures. In the case of services, the procedure was to phase out the freeze by negotiation between the Government and the trades, to be followed by price regulation agreements extending to end-1983 and negotiated with due regard for the official price rise targets. For 1983, the trades can choose between two schemes: either stabilization of markups, article by article, at their level on 11th June, 1982, scaled down by 1 per cent; or stabilization of the aggregate markup scaled down by 2 per cent. Finally, the price change clauses written into contracts with the public or private sector may be partially restored, though the rise in wages and social insurance contributions for 1983 is limited to 8 per cent. At the end of 1982 it seemed that agreements in compliance with the Government's norms had been signed in nearly all branches of activity, both in industry and in services.

For wages, the principle is that of an increase equal to the norm set for consumer prices, i.e. 18 per cent from January 1982 to December 1983. The arrangements for applying the system are determined by contractual negotiation in each branch and are therefore not mandatory. In the public sector, nominal pay increases were set at 3 per cent at 1st November, 1982 and 2 per cent for each quarter of 1983. An additional floating-date increase of 2 per cent will also be awarded, as needed, in order to maintain end-year purchasing power of earnings under Frs.250 000 in 1982. As noted in last year's survey³⁵, the degree of indexation of wages to consumer prices is close to 1 in France and the adjustment lag is relatively short, about three months. In addition, there is a pronounced spill-over from one labour category and one sector to another. The new system is intended to do away with implicit and permanent indexation of earnings to consumer prices³⁶. Thus, in absence of automatic indexation, if the inflation norm were to be exceeded, there would be an automatic deflationary effect because of the fall in wage purchasing power (with the exception of the lowest earnings, the minimum wage remaining index-linked). Furthermore, this system should have the effect of considerably reducing the inflationary expectations resulting from an even momentary acceleration of the rise in consumer prices. As seen in the section on prices and incomes, the four-month freeze had appreciable effects. It is too early to make any assessment of price trends since the phase-out. The price increases over the three subsequent months (about 1 per cent a month) were largely due to scheduled catch-ups, especially in the

35. OECD, *Economic Survey of France*, January 1982, pages 22 to 25, "Wage rigidity as a factor of inflation".

36. It is also planned to change the system of emoluments for certain professional classes whose fees are proportional to the cost of the service provided.

case of rents and public utility charges. Overall, the targets around which the 1983 price and wage increases³⁷ are being negotiated are appreciably lower than they would have been on spontaneous trends, given the potential sources of momentum that had built up in 1982 (catch-up with first half-year's inflation, spill-over of the increases in the minimum wage). At the end of 1982, the wage agreements negotiated concerned about 3.5 million employees and 40 per cent of them provided for nominal wage increases in 1983 consistent with the official inflation target. Furthermore, the results recorded for 1982 in a great number of industries, including the public sector, would indicate a delinking of prices and wages, with indexation as such being discontinued.

III. SOME STRUCTURAL PROBLEMS

The January 1982 Survey of France described the broad lines of the new medium-term strategies, notably as laid down in the Interim Plan for 1982-1983 approved by Parliament in October 1981³⁸. The French administration has made a mid-term assessment of the plan³⁹. On the basis of this appraisal and the first outlines of the Ninth Plan it is proposed to consider the shift in the medium-term strategies that now seems to be taking shape, with the main focus on industrial policy. But clearly the shift in medium-term strategies and, more particularly, the successful implementation of an ambitious industrial policy depend very much on financing conditions. One section of this chapter will therefore deal with some financing problems of the French economy.

Interim Plan and Ninth Plan

The Interim Plan: first assessment

The stated central aim of the Interim Plan was to "stabilize unemployment and then to reverse the trend during the term of the plan", which implied "net creation of 400 to 500 thousand jobs in two years". It was planned to achieve this goal by a number of means: essentially a return to more rapid growth (of the order of 3 per cent a year over the period 1982-83), but also "work sharing" and a steering of activity towards sectors with high employment potential. A further aim of the Interim Plan was to carry out a number of structural reforms, particularly as regards renewal of productive capacities. What is the position today? First, it has to be remembered that the international context has proven much more depressed than expected at the time the Interim Plan was drawn up. Growth will be well below-target and the unemployment rate, which stabilized in the course of 1982, is liable to rise again in 1983. The work-sharing schemes have proved limited and costly; this applies both to the shortening of work hours without an equivalent reduction in pay (which added considerably to wage costs in the first half of 1982) and to the "solidarity contracts", which indeed resulted in earlier retirements but with no immediate job creation.

37. The Secretariat has estimated that the spontaneous rate of increase in consumer prices would have been approximately 12½ per cent at an annual rate in the first half of 1983, whereas the Secretariat's forecast is for 10½ per cent.

38. OECD, *Economic Survey of France*, January 1982, pages 55 et seq.

39. *Commission du suivi du Plan intérimaire: premier bilan*, 7th July, 1982 (document sent to the Secretariat by the French authorities).

As regards structural reform, certain major decisions were taken: the legislation to nationalise the five big industrial groups (C.G.E., Pechiney Ugine Kuhlman, Rhône-Poulenc, Saint-Gobain-Pont-à-Mousson and Thomson), the main banks and two finance houses (Paribas and Suez) was enacted on 13th February, 1982. This has given the State an important tool of not only industrial but also social policy (the new public enterprises are to be the locus of "social innovation" and "experimentation in new forms of economic democracy")⁴⁰. In the financial field, too, the Government now has a major nationalised sector. Other key segments of the Interim Plan have been completed or are in progress. The decentralisation of economic and political powers, the procedures for which were laid down in legislation enacted on 2nd March, 1982, constituted a milestone with the formal transfer of the regional executive power from the Prefect to the Presidents of Regional Councils on 15th April, 1982. Some of the powers hitherto exercised by the central government have been transferred to the communes, departments and regions. The transfer of financial resources – which is certain to pose some difficult technical and political problems – will be phased over three fiscal years (1982 – 1983 – 1984) and will therefore have to be completed by 1985. One of the aspects of this decentralisation concerns the Plan itself, as regards both its preparation and the monitoring of its implementation.

The medium-term plan for 1984-1987 will be drawn up around the proposals of a National Planning Commission in which the regions will be represented. The overall plan will comprise enterprise plans, regional plans and a national plan, which the Commission will be required to co-ordinate. One of the instruments for monitoring the plan's implementation, the "plan contracts", is a procedure conducive to decentralisation of decision-making: these contracts can be entered into by regions, local authorities, public or private enterprises, etc. with the central government or between themselves. Some major decisions, in accordance with the Interim Plan, have also been taken in regard to research policy and industrial policy; these will be discussed further on. Finally, certain social objectives of the Interim Plan (reduction of inequalities, in particular) have been embarked on, with substantial increases in the statutory minimum wage and social benefits and specific measures to assist the most disadvantaged population categories (programme for social development of rundown districts, establishment of priority education zones, etc.).

The Ninth Plan: first outlines

The Ninth Plan, covering the period 1984-1988, is now in course of preparation. It will comprise two bills of legislation: the first, defining the strategic choices and objectives for the five-year period and the main courses of action proposed in order to achieve the goals, will be put before the Parliament in the spring 1983 session; the second, defining the legal, financial and administrative measures to be taken in order to realise the aims of the first legislative enactment, will be put before the Parliament in the autumn 1983 session. The Plan will not contain any quantified macro-economic targets (e.g. GDP growth over the period), but it may set specific objectives in the economic, social and cultural fields, accompanied by concrete operational arrangements including programming legislation in certain areas like defence and research, priority implementation plans, plan contracts between central government and public enterprises and regions, in particular, and "rolling" three-year budgetary programming. An overall appraisal in mid-term (i.e. late 1985 – early 1986) is also planned.

40. This assignment to the new public enterprises has yet to be specified. In the past, however, there was evidence that certain big nationalised undertakings (the Régie Nationale des Usines Renault, in particular) acted as trend-setters in the social fields (in-firm industrial relations, longer annual holidays, etc.).

In October 1982 the French Government referred to the National Commission a document setting out preliminary guidelines for the drafting of the Plan's first bill of legislation. The document presents employment as the priority goal and recommends two courses of action to this end: the rebuilding of a high growth potential "which will be achieved only by means of a vigorous investment effort in industry"; the reduction of work-time, under strict conditions of application essential to success. The guidelines document also emphasizes the need to redress the external trade situation, to bring prices under control, to create competitive production capacities, to develop solidarity through greater consistency of the social insurance system and better regulation of social expenditure, and finally to increase the national saving effort and the efficiency of savings allocation. These guidelines are now being examined by the National Planning Commission and the Labour Commissions it has set up and the regions are also being consulted on them. Finally, to guide the preparatory work on the Ninth Plan, a number of exploratory scenarios with a 1988 horizon were drawn up⁴¹.

Industrial policy: new strategies

There is a long tradition of government economic intervention in French industrial policy. The French reaction to the first oil shock of 1974 was in the form of a deliberate industrial and energy "redeployment" policy designed to bring about large-scale structural changes in the country's production system. In the case of energy, this policy has, by and large, continued up to the present time and because of it a significant degree of adjustment has been made to the new world situation. In the case of industry, high priority was given to the production of capital goods and other high value-added products, and to exports.

As time went by, it became clear that the policy was swallowing up considerable amounts of public money, in the support of exports or firms in difficulty, without achieving the hoped-for results. Budgetary restraint became a more important concern and, with the resumption of economic growth after the 1975 recession, greater selectivity was pursued and less ambitious objectives set. Firms and activities that appeared to be doomed had to be run down smoothly. Firms and sectors with a chance of becoming competitive had to be given limited help. Others that were fully competitive internationally did not need any special measures. A number of bodies were set up during this period, some to help small and medium firms adapt (e.g. CIASI⁴²), and some to strengthen the competitiveness of the high-technology sectors "of the future" (e.g. CODIS⁴³). The deepening of the recession after the second oil crisis and rising unemployment have shown that this policy did not suffice to halt a process coming to be called "disindustrialisation", whose symptoms (in France, as in many industrial countries, incidentally) have been the continuous decrease in industrial jobs since 1974 and the decline in industrial investment.

With the change in government in 1981, industrial policy was reframed and the first and most important measure introduced by the new government was the nationalisation of certain large industrial groups early in 1982. Relations between the new competitive public sector and the government will be defined under the terms of "plan contracts" negotiated for periods of three to five years and, since the beginning of 1983, are in the process of being signed with 12 industrial groups in the sectors of steel,

41. Information about these scenarios is given in Annex I.

42. Comité interministériel pour l'aménagement des structures industrielles set up in 1974, which became CIRI (Comité interministériel pour les restructurations industrielles) at the beginning of 1982.

43. Comité d'orientation pour le développement des industries stratégiques, set up late in 1979.

Table 18. **Relative importance of public groups in industry, 1980**
Percentage

	A. BEFORE AND AFTER NATIONALISATION ¹		
	Totals	Before nationalisation	After nationalisation
<i>Sales (Frs. million)</i>			
All industrial activities	1 706.06	17.2	29.4
Industrial activities excluding energy	1 352.20	8.9	24.3
<i>Labour force (thousands of persons)</i>			
All industrial activities	4 473.92	11.0	22.2
Industrial activities excluding energy	4 220.48	6.4	18.3
<i>Investments (Frs. million)</i>			
All industrial activities	100.09	43.5	51.9
Industrial activities excluding energy	60.76	12.1	25.9
B. BY SIZE OF ENTERPRISE, AFTER NATIONALISATION ¹			
		Employment	Pre-tax sales
Enterprises:			
With more than 2 000 employees			
All industry		47.7	48.4
Industry excluding energy		41.0	47.1
With between 500 and 2 000 employees			
All industry		15.4	18.2
Industry excluding energy		15.2	18.2
With fewer than 500 employees			
All industry		2.7	6.6
Industry excluding energy		2.6	6.1

1. On the basis of the 1982 nationalisations.

Source: Ministère de la recherche et de l'industrie.

chemicals, motor vehicles, aerospace, and electronics⁴⁴. These plan contracts set strategic objectives which are defined by the government as a shareholder, the aim being to ensure consistency of enterprises' action with the government's industrial policy options and to establish the framework within which enterprises exercise autonomy of management.

It is extremely difficult to attempt a first analysis of the role that the nationalised enterprises have so far played in industrial policy. In the 1981-82 period they were more the physical expression of an objective than a real instrument of intervention. One thing is already quite clear, however. The weight of the nationalised sector in industry is now very considerable: the public groups control 29.4 per cent of sales, 22.2 per cent of the workforce and 51.9 per cent of total industrial investment, energy included⁴⁵. If only the large firms (over 2 000 payroll) are considered, these figures obviously become much higher. It seems certain now that the government intends to use the new nationalised enterprises to reactivate productive investment in 1983. The financial resources put at

44. These groups are: steel – Sacilor and Usinor; chemicals – St. Gobain Pont à Mousson, Rhône Poulenc, Charbonnage de France, Pechiney Ugine Kuhlman; Entreprise Minière et Chimique; motor vehicles – Renault; Aerospace – SNECMA; electronics – Compagnie Générale d'Électricité, CII Honeywell Bull.

45. Figures produced by the Ministry for research and industry by working back to the 1980 results: *Le secteur public dans l'industrie avant et après les nationalisations*, publication No. 25, 1982.

their disposal have been significantly increased: the equity contribution to the competitive public sector has been raised from Frs.15 billion in 1982 (of which Frs.10 billion in capital endowments from the budget and Frs.5 billion in contributions from the banking and financial sector) to Frs.20 billion in 1983.

The general objectives of industrial policy (for both the nationalised and private sectors) will be set out in the industrial development act for 1984-1988 due to be put to the vote at the bill stage at the end of 1983. Already, however, the first schemes introduced and the programmes now under study reveal the broad policy thrusts. The French government's major stated objective is to accelerate modernisation of the productive system in order to establish increased growth potential in the spearhead industries, but also in the "traditional" sectors (machine tools, wood, textiles, etc.). As regards the spearhead industries, just as much emphasis as previously, if not more, has been placed on support for new technologies. The legislation on "orientation and programming of research and technological development" enacted in 1982 specifies that the share of GDP allocated to research and development expenditure will be increased to 2.5 per cent by 1985 (compared with 1.8 per cent in 1981); the 1983 finance act provides for a 17.8 per cent volume increase in the civilian research budget (compared with 14.1 per cent in 1982). In the context of the preparatory work on the Ninth Plan, the priority given to the electronics "cycle"⁴⁶ is likely to be reflected in a block appropriation of Frs.140 billion over 5 years; already, certain sectoral plans are in operation (electronic components, automated office systems) or being drawn up (cable networks, bio-medical applications).

Policy in regard to the traditional sectors takes a rather different line in that the intention not to abandon these industries, many of which are labour-intensive, reflects the priority given to employment. The five sector plans already introduced (leather, furniture, toys, machine tools, textiles, clothing) include employment-support aids pending the effects of measures designed to restore the capacity for response to international competition: modernisation of plant, but also development of domestic producer linkages between upstream and downstream activities in the same industry cycle and also with distribution channels, so that the assisted industries may be better integrated in the French market.

All in all, industrial policy seems to be still in a phase of transition. The general shift in economic policy since mid-1982, particularly in the direction of tighter budgetary control, will tend to accelerate restructuring measures in the nationalised sector – with their inevitable effects on employment. The concentration and modernisation of the basic industries could certainly have positive effects in the medium term. On another level, the policy of maintaining a diversified industrial fabric takes the concrete form of sector assistance. The policy in favour of new technologies and the "industries of the future" has not yet been defined. The degree of interdependence now binding France to its industrialised partners, the maintenance of which is not at issue, will make a choice of priorities necessary if industry is to be capable, at one and the same time, of standing up to the most advanced competition, meeting the requirements of the home market, preserving sectoral coherence, ensuring at least a stable level of employment and keeping up with the structural and technological change whose pace seems to be dictated to it. If all these ambitious objectives are to be achieved, then a considerable volume of savings will have to be channelled to industry. The problem therefore arises of what national resources are available for total investment and how those resources are to be allocated among the various sectors of the economy. Some aspects of this problem are discussed in the last part of this chapter.

46. "Filière" in French. This covers all activities, upstream and downstream, in a given industry (e.g. the wood "filière" ranges from tree-felling to the furniture and toy industries).

Energy policy

Energy is a key component of industrial policy. One of the major objectives of industrial policy today in France being, as we have seen, the "recapture" of the home market and reduced dependence on imported supplies, energy is clearly one of the areas concerned. An active policy⁴⁷ introduced after the first oil crisis, has brought about a change in the pattern of consumption in favour of natural gas and hydro-electric and, above all, nuclear power. At the same time, as in many other OECD countries, the dependence ratio (net imports as a percentage of total primary energy requirement or TPER) was trimmed. In France it went down from 78 per cent in 1973 to 71 per cent in 1980 and 64.8 per cent in 1981⁴⁸. The outstanding result for 1981 (when, for the first time since the mid-1960s, oil met less than 50 per cent of the country's energy requirements) is certainly due to the efforts that have been made but also owed something to the recession in the country. It is worth noting that the first results available for 1982 confirm the 1981 figures.

The national experts⁴⁹ calculate that the period between now and 1985 should see the consolidation of past progress. The shares of coal, gas and hydro-power will be roughly the same but that of oil should fall to 40 per cent and that of nuclear power should rise to 21 per cent. This should bring import-dependence down to under 50 per cent of the total requirement.

Some financing problems

The slowdown in economic growth since the mid-1970s has been associated with substantial changes in the flows of savings and investment in France. Changes in the global macro-economic flows are first briefly reviewed in comparison with developments in other major European OECD countries. This is followed by an analysis of some of the main issues of financial intermediation related to the channelling of savings into investment. A more detailed examination of the savings and investment behaviour of domestic economic agents will be found in Annex II.

Since 1974 in the four major European OECD countries, there has been a general downward trend in the ratios of gross and net savings to GDP, but in France it has been more pronounced and more recent than elsewhere. This is particularly the case for net savings – the domestic resources available for financing increments in the country's capital stock. However, given the high starting level, the share of income saved in France is by no means the lowest. As might have been expected during a period of slow growth, the ratio of gross fixed investment to GDP has also generally fallen. Here, though, the

47. On energy policy in France and its effects, see OECD, *Economic Survey of France*, May 1980, pages 48 to 50.

48. Breakdown of total primary energy requirement (in %):

	1973	1980	1981	1982
Coal	16.9	17.0	17.0	18.1
Oil	67.2	56.7	48.0	46.7
Natural gas	7.6	10.2	13.1	13.2
Hydro-electric power and new sources	6.4	8.7	10.2	9.7
Nuclear	1.9	7.4	11.7	12.2
Total	100	100	100	100
Import-dependence (net imports as a percentage of TPER)	78	72	65	64

Source: International Energy Agency and, for 1982, provisional data in "Industrie et énergie françaises", 22nd December, 1982.

49. Commissariat Général du Plan, long-term Group on Energy, working paper of October 1982 communicated to the OECD Secretariat.

Table 19. Comparison of savings and investment trends in selected OECD countries
(as a percentage of GDP at current prices)

Average over the period	France	Germany	United Kingdom	Italy
Gross savings				
1970-73	26.0	27.3	20.6	22.8
1974-78	23.3	23.1	17.5	21.8
1979-81	21.3	22.6	18.9	21.4
Net savings				
1970-73	16.3	16.9	11.4	14.6
1974-78	12.1	11.9	8.3	11.8
1979-81	9.9	10.8	7.0	11.5
Gross fixed investment				
1970-73	23.6	25.6	18.7	20.6
1974-78	22.9	21.0	19.0	20.3
1979-81	21.4	22.2	17.1	19.6
Gross investment (including inventories)				
1970-73	25.7	26.6	19.5	22.2
1974-78	23.9	21.8	19.5	22.4
1979-81	22.3	23.7	16.5	22.5

Source : OECD, National Accounts.

fall in the ratio in France, despite quickening somewhat since 1978, has not been more rapid than in the other countries considered, and the share of fixed investment in GDP was lower only than that of Germany on average during 1979-1981. In France, as well as in Germany and the United Kingdom, the fall in the ratio of gross investment to GDP has been relatively steeper than that of fixed investment, partly reflecting more rational inventory management by firms in face of rising costs.

At the same time, gross fixed investment in volume in France was virtually flat between 1974 and 1982 for all major categories, with the exception of large public enterprises in the non-competitive sector. On balance, while at the beginning of the 1970s *ex post* savings and investment were roughly equal, the reduction in the share of domestic resources devoted to capital formation since the first oil shock has tended to be less than that in the share of domestic savings. This trend has become more pronounced since 1978, so that a widening current account deficit has emerged.

The direct channelling of non-financial economic agents' savings into investment has always been quite limited in France and consequently intermediation through financial agents has played an important part⁵⁰. This concurrence has been partly the result of the preference of non-financial agents for holding their financial assets⁵¹ as

50. Financial agents are the Banque de France, financial institutions (banks and non-bank financial institutions) and the Treasury. Non-bank financial institutions generally grant credit in line with the increase in their resources and do not therefore participate in money creation. The inclusion of the Treasury as a financial agent in French financial statistics is due to the national distinction between the central government and other government bodies, as non-financial agents which carry out economic transactions and the Treasury, which finances them and grants credit to other non-financial agents.

51. Financial assets of non-financial agents are M3 + other liquidities + holdings of shares and bonds. They are the counterpart of the liabilities of financial institutions and issues of securities in French capital markets. Financial assets and liabilities arising from direct transactions between non-financial domestic and foreign agents are not included in this definition. The increase in financial assets (increase in financial liabilities) is referred to as new finance available to the economy (Moyens de financement nouveaux fournis à l'économie).

Table 20. **Trend of gross fixed asset formation**

	Growth rate, volume							
	Average 1970-73	Average 1974-78	Average 1978-82	Average 1974-82	1979	1980	1981	1982
Non-financial corporate and quasi-corporate enterprises and unincorporated enterprises (excluding housing)	6.6	0.7	0.9	0.9	1.8	4.7	-3.7	0.8
of which:								
Major national enterprises	2.6	10.7	3.2	7.2	8.7	4.6	-3.2	3.0
Other	7.2	-2.1	0.1	-0.8	-0.2	4.7	-3.8	0
Households	9.1	0.3	-1.4	-0.4	4.7	-3.8	-1.1	-5.2
General government	0.7	-0.4	0.2	-0.1	1.6	1.6	-0.3	-2.0
Gross fixed asset formation	6.7	0.1	0.2	0.1	2.7	1.2	-2.3	-1.0

Sources: INSEE, *Rapports sur les comptes de la Nation*; Secretariat estimates.

currency and deposits in financial institutions. In particular, between 1970 and 1979 the share of the increase in households' financial assets accounted for by M3 components averaged more than 80 per cent. The combination of limited funding through capital markets and the preference for short-term financial assets has also implied an increasing mismatch of maturities of assets and liabilities of financial institutions. Thus the ratios of "transformation" (the difference between long-term credits of financial institutions and their long-term liabilities) to long-term credit and to gross fixed investment increased all along the 1970s⁵².

Since the late 1970s the authorities have taken measures to develop capital markets with the aim of limiting intermediation, altering the structure of households' financial assets so as to provide a stronger demand for capital market instruments and possibly introduce more stability in consumer spending, and favouring the consolidation of the accounts of financial institutions. Two-pronged legislation (known as the Monory Act) was introduced in 1978 aiming at providing incentives to both buyers and sellers in the capital market. Enterprises issuing new shares were exempted from payment of company tax on dividends for a number of years, and households were allowed to deduct from their taxable income a given amount of their new financial assets (shares, bonds and holdings in variable capital investment companies (SICAV)⁵³). Furthermore, fiscal and incentives were introduced, notably in the form of heavier tax on income from financial investments other than bonds. Finally, in 1978 financial institutions were given the possibility of lending in excess of credit ceilings, providing that their excess credits were partly matched by an increase in long-term liabilities (particularly bonds). At the end of 1981, the regulations on time deposits were tightened so as to channel savings into bonds.

This policy has given mixed results. Partly in response to these measures, there has been a rapid development in capital market issues, particularly bonds. Net issues

52. It should be noted that the maturity criterion used to define the long-term operations by which transformation is estimated is arbitrarily set at 2 years. Consequently, the estimated amount of transformation and the transformation/long-term credit and transformation/gross fixed investment ratios should be interpreted with caution. Only the trends are significant. The transformation/long-term credit ratio increased from 32.3 per cent in 1970 to 92.4 per cent in 1979, while the transformation/gross fixed investment ratio increased from 9 per cent in 1970 to 42.4 per cent in 1979.

53. This system was replaced in the Budget for 1983 by the institution of savings accounts for stocks, which allow a reduction of taxes for holders of such accounts who block them for five years (see Annex III: Economic Policy Measures). This new measure is part of the legislation on the development of savings and investment which aims at facilitating the financing of business investment.

increased by more than 75 per cent in 1980, and though declining slightly in 1981, they were still 60 per cent above the level of 1979. The amplitude of this change can be gauged by the ratio of net issues to gross fixed investment, which increased from 11.8 per cent on average between 1970 and 1979, with narrow fluctuations around the mean, to 17.2 per cent on average for 1980-81. In 1982, bond issues increased again (up 46 per cent). Concurrently, the proportion of capital market issues in the increase in financial assets of non-financial agents rose from 8.4 per cent on average for 1974-78 to 24.3 per cent for 1979-81. However, progress appears to have been limited with regard to intermediation over this period. The recourse of non-financial agents to capital markets has increased only slightly as a proportion of new sources of finance. And the increase has originated entirely from general government, while the share of firms has actually fallen. Financial institutions, on the other hand, appear to have been relatively successful in consolidating the structure of their liabilities through bond issues. This is reflected in a fall in the ratio of "transformation" to long-term assets.

On the buyers' side of the capital market, households, which represent about 80 per cent of purchases by non-financial agents, showed a strong preference for bonds and shares in 1980 and 1981 relative to the more traditional M3 instruments. Consequently, the share of securities holdings in the increase of their financial assets rose from 11.6 per cent in 1979 to 24 per cent on average during the following two years and has probably increased further in 1982. A fundamental factor seems to have been households' increasing awareness of inflation and negative interest rates paid on small time and saving deposits. Action taken to lower the yield on larger deposits relative to bonds has also had an effect. Furthermore, in 1980 and again in 1982, long rates have exceeded short rates by a significant margin. And many new types of securities have appeared in

Table 21. *Structure of new sources of financing for the economy*
Percentage

	Average 1974-78	Average 1979-81	1979	1980	1981
<i>Resources (financial liabilities of non-financial agents)¹</i>	100.0	100.0	100.0	100.0	100.0
General government bond issues	0.3	6.4	4.4	9.6	5.3
Issues of securities by non-financial enterprises	9.4	7.6	7.0	8.8	7.3
<i>of which:</i>					
Shares		3.4	3.2	5.2	1.8
Bonds		4.3	3.7	3.6	5.5
Lending by bank financial institutions	46.7	52.9	55.3	61.6	41.8
Lending by non-bank financial institutions	29.0	25.4	25.1	22.6	28.5
Other liabilities (including credit to government)	14.2	12.0	8.3	-2.6	17.1
<i>Uses (financial assets of non-financial agents)¹</i>	100.0	100.0	100.0	100.0	100.0
Money supply (M1)	21.9	21.1	21.3	14.4	27.5
Liquid or short-term investments (M3-M1)	50.9	44.9	48.7	46.4	37.2
Capital market investments	8.4	24.3	13.9	29.9	29.1
Other assets	18.8	10.6	16.3	9.3	6.2
<i>Memorandum item</i>					
New finance, Frs. billion (total assets = total liabilities)			334.8	312.6	371.0

1. Households, non-financial enterprises, public and private administrations and insurance companies.

Source: Conseil National du Cr dit, *Rapports annuels*.

Table 22. **Capital market**

	Amount in Frs. billion				Structure of gross bond issues (percentage)			
	1979	1980	1981	1982 ¹	1979	1980	1981	1982 ¹
Bonds issued by:								
Public administrations	20.3	36.4	29.8	47.7	31.0	32.6	27.9	31.2
Banks	14.7	27.9	36.6	50.7	22.4	25.0	34.2	33.2
Non-bank financial enterprises	14.4	29.8	27.0	22.7	22.0	26.7	25.3	14.8
Non-financial enterprises	13.6	15.2	11.3	28.1	20.8	13.6	10.6	18.4
<i>of which:</i>								
Major national enterprises	10.4	11.9	7.2	19.5	15.9	10.7	6.7	12.8
Other ²	2.5	2.4	2.2	3.6	3.8	2.1	2.0	2.4
Total gross issues	65.5	111.7	106.9	152.8	100.0	100.0	100.0	100.0
Redemption	15.6	20.9	27.7	..				
Net issues	49.9	90.8	79.2	..				
Equity holdings	14.4	21.1	23.7	24.1				
Total net issues of securities	64.3	111.9	102.9	..				

1. Provisional data.

2. Other financial institutions and international issues.

Sources: Conseil National du Cr dit, *Rapports annuels*, and Banque de France, *Bulletins trimestriels*.

the market, including variable rate bonds, which are particularly attractive during periods when price expectations are uncertain.

Table 22 shows clearly that, on the sellers' side, securities issued by banks and non-bank financial institutions, which more than doubled between 1979 and 1982, have been one of the major factors of the rapid growth of the primary bond market. This trend is probably explained by generally tight credit conditions since 1979 – with the exception of the second half of 1981 – in association with conditions regulating credit in excess of ceilings. Issues of general government bonds have also been a factor of buoyancy. These issues increased sharply in 1980 and 1982, in connection with financial operations by the Treasury.

By contrast, the share of bonds issued by non-financial enterprises – about a third of the total until 1977 – fell sharply between 1978 and 1981. This reflected an absolute fall in the value of bonds of firms in the competitive sector – from Frs.9 billion on average between 1974 and 1977 to about Frs.5 billion between 1978 and 1981. The weakening of firms' issues, common to bond markets in other countries, can be partly explained by the disincentive to sellers of rising interest rates, which has led to the substitution of short for long-term credit. Consequently, issues of bonds by large public enterprises (GEN), which are the result of economic policy decisions, have taken up an increasing proportion of bond issues of non-financial enterprises. In 1982 there was been a brisk revival of issues of bonds by all non-financial enterprises, probably as a result of falling interest rates. However, the scope for further sustained expansion appears to be constrained by high fixed costs compared with other sources of long-term finance, so that less than a handful of very large enterprises in the competitive sector have approached the market even under favourable circumstances.

In the course of the 1970s share issues accounted for between a quarter and a third of total gross bond issues. Firms were traditionally reluctant to issue new equity because of the fear of diluting ownership and of the possibility of sharp fluctuations in a small and narrow market. Furthermore, until 1978 taxation constituted a powerful disincentive because interest paid was deductible from company taxes, while dividends were generally not. And, until recently, inflation and negative interest rates made debt

financing more attractive than the issue of new shares, particularly for large firms which benefit from better credit conditions. The fiscal incentives provided in 1978 seem to have given some stimulus to equity issues in 1980 and 1981, especially by unlisted firms. The weight of shares in total capital market issues has thus been roughly maintained, though annual issues of equity still represent less than half of dividend payments. In all, the proportion of capital market issues (bonds and shares) in the new sources of finance of firms – exclusive of the construction sector – decreased from about 22.5 per cent on average between 1974 and 1977 to 18 per cent between 1979 and 1981, with a declining trend during the latter period.

Two important issues arise from these trends. First, as a result of the limited role played by capital markets, most firms in the competitive sector have remained dependent up to now on credit from financial institutions, 45 per cent of which is granted at subsidised rates. This lack of funding of firms on the basis of market criteria has probably had a negative effect on resource allocation. Qualitative evidence indicates that a major source of distortion is the difficulty of access to subsidised credit by small firms, which are compelled to pay long interest rates 2 to 3 percentage points higher than those charged to larger firms. Second, since 1981, the public sector has been absorbing a higher share of new finance. Following a marked reduction in the late 1970s, the share of new sources of finance taken up by general government increased from 12.3 per cent in 1980 to 20.6 per cent in 1981. On present estimates of public finance aggregates, this ratio is likely to be close to 30 per cent in 1982, higher than the record level of 1975. Taking into account also large public enterprises (GEN), whose financing requirements probably increased in 1982, the absorption of new finance by the public sector becomes even more substantial. The authorities have so far limited the monetary financing of the general government borrowing requirement by drawing on the public's deposits in savings banks and through public bond issues. Because of this, the risk of crowding out other non-financial agents cannot be excluded, although during the last two years the latter's demand for finance seems to have been relatively moderate owing to the weakness of activity. Measuring crowding out is always difficult in a system where many interest rates are administered. However, the trend of free interest rates, such as those of the bond market, does not suggest in itself any crowding out so far, as a considerable rise in issues has been accompanied by a slow decline in interest rates.

It may also be noted that in 1982, whereas equity funding of the public competitive sector amounted to Frs.15 billion, funding of private enterprises (equity funding and long-term loans at preferential rates) increased to Frs.35 billion as compared with Frs.20 billion in 1981. This growth of both public and private industry funding should continue in 1983, since it is planned to make available Frs.20.2 billion (+34.7 per cent on 1982) in equity funding for the public competitive sector and Frs.45 billion (+28.6 per cent) in equity loans and long-term low-interest loans for the private sector, of which Frs.7 billion will for the first time come directly from the banks in the form of low-interest loans. In the medium term the magnitude of the financing requirements associated with the modernisation and expansion of the productive system will probably impose constraints on the allocation of funds as between public and private enterprises and between different industries. However, it should be easier to satisfy simultaneously the requirements of the different industrial sectors if the current stated objectives of the French authorities are attained: namely, to bring the general government deficit under control, to channel banks' and financial institutions' flows towards the productive sector and to continue to expand the capital market.

IV. SHORT-TERM FORECASTS

At the time of finalising the present survey (end February), it was not possible to make a complete reappraisal of the short-term forecasts published last December in OECD Economic Outlook No. 32. Since that time the broad thrusts of French economic policy for 1983, in the fiscal, monetary, price and income fields, have not undergone any substantial changes. The latest statistical data – in particular the quarterly accounts estimates for the fourth quarter, which are somewhat different from what was expected at the end of 1982 and slightly alter the year's performance chart – have been taken into account, but the developments are broadly in line with the December forecasts and do not affect them fundamentally. As regards exchange rates, over the period to end-February, the franc appreciated by about 5 per cent against the dollar by comparison with the assumptions in Economic Outlook No. 32. This will have a favourable effect on some import prices, particularly for raw materials, but the franc's effective exchange rate has remained almost unchanged by comparison with December assumptions, implying a depreciation against certain currencies other than the dollar.

The big oil price changes since the end of last year have not been taken into account, the reason being that at the time of finalising the forecasts the world oil market was still very unsettled and it was impossible to choose a realistic energy price assumption and gauge the hypothetical effects on the French economy. It is, of course, possible to

Table 23. **Secretariat forecasts**
Percentage changes from previous period, annual rates

	1981 Fr. billion	1982 ⁶	1983	1982 ⁶		1983		1984 I
				I	II	I	II	
Demand and output (volume) ¹								
Private consumption	2 016.3	3.4	1.1	4.0	1.6	0.8	1.0	1.5
Government consumption	488.2	2.5	1.1	3.0	2.2	0.6	0.8	1.2
Gross fixed investment	654.6	-1.0	-0.7	0.1	-1.5	-0.9	0.6	2.0
Public sector ²	87.3	-2.0	0.5	-2.5	-0.8	0.8	1.0	1.3
Residential construction ³	209.5	-5.0	-4.4	-6.2	-5.6	-4.2	-3.0	-0.5
Productive investment	357.8	0.8	1.0	3.3	0	0	1.5	3.0
Final domestic demand	3 159.1	2.3	0.7	3.1	1.0	0.4	0.8	1.2
Change in stockbuilding ⁴	-9.2	0.5	-0.8	1.9	-1.9	-0.5	-0.3	0.3
Change in foreign balance ⁴	-55.5	-1.3	0.6	-3.5	1.6	0.3	0.2	0
Exports of goods and services	688.3	-2.0	3.8	-9.8	5.8	3.0	3.5	3.7
Imports of goods and services	743.9	3.7	1.1	4.4	-0.9	1.5	2.5	3.8
GDP at market prices	3 094.4	1.5	0.5	1.4	0.7	0.3	0.9	1.8
Index of industrial production ⁵	—	-1.5	-0.4	-3.0	-3.0	0	1.5	2.5
Prices								
GDP implicit price deflator	—	12.0	9.8	13.6	6.8	11.0	8.5	8.5
Consumer price deflator	—	10.9	8.7	10.9	7.8	9.2	8.2	8.0

1. At 1970 prices.

2. Not including national enterprises.

3. Including public sector housing.

4. As a percentage of GDP in the previous period.

5. Quarterly index.

6. Provisional data.

Source: OECD Secretariat.

estimate an order of magnitude for the direct mechanical effects of an oil price reduction on the trade balance. As an example, a fall in the price per barrel from \$33.7 (technical assumption of *Economic Outlook* No. 32) to \$29 might, all else being equal, reduce the trade deficit by \$2.5-3 billion over twelve months. On the other hand, it is too early to be able to estimate the distribution among economic agents of the terms of trade gains from the fall in energy import prices, and thence the latter's impact on the domestic demand deflator. Finally, the indirect effects on the French economy of the foreseeable reduction in demand from the oil-producing countries, or conversely an acceleration of demand from a number of net oil importers, are still very hypothetical and cannot be quantified. The forecasts given below are based on the international activity assumptions of *Economic Outlook*, No. 32 (in particular, a moderate recovery in the United States and slower one in Europe) which still seemed valid at the beginning of 1983. The new developments since the beginning of the year will necessitate a re-examination of these forecasts, but this will have to be done for all OECD countries so as to ensure overall consistency.

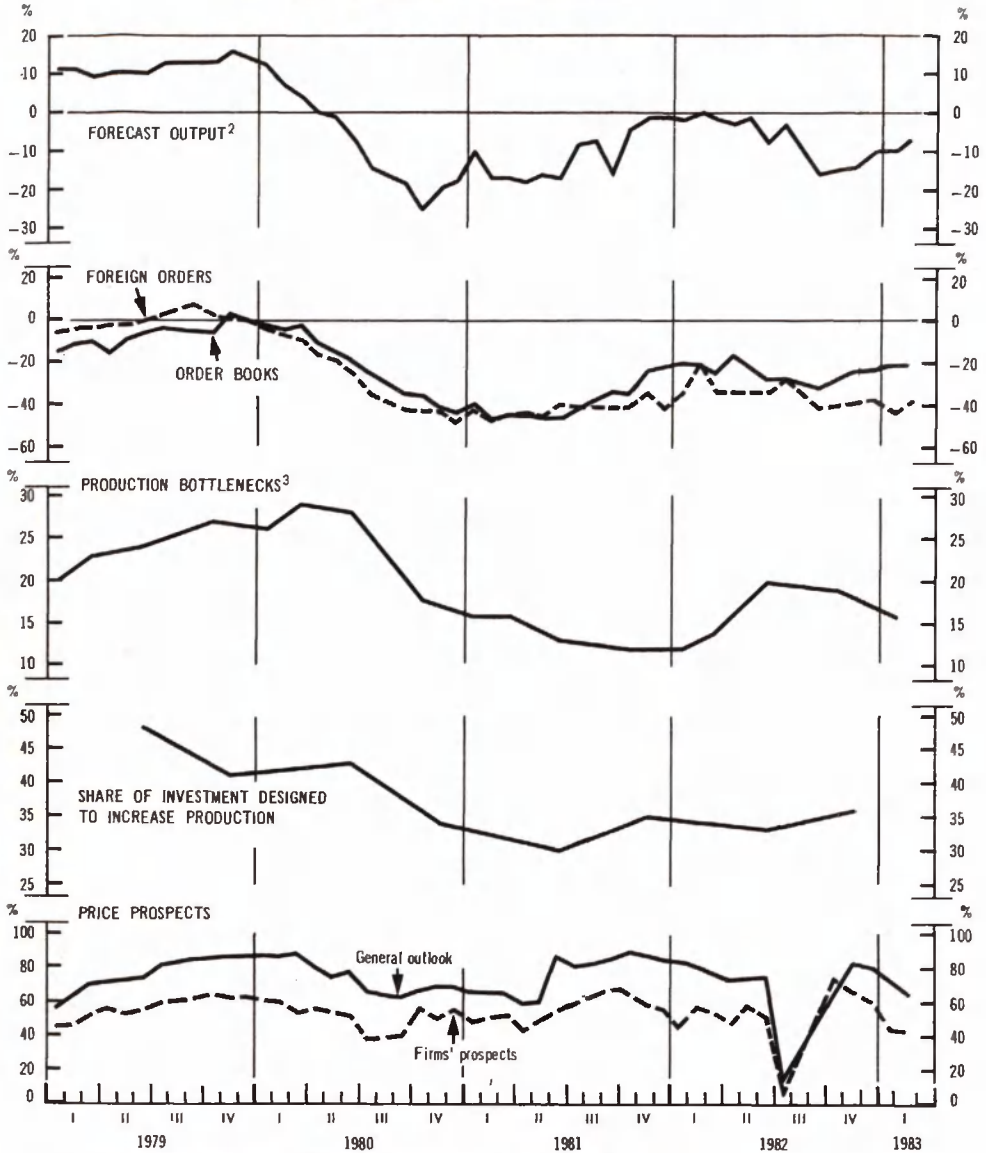
The current business indicators do not point to any shift in the trend of final domestic demand in the short term which, on the policy applied since June 1982, might again show a growth of less than 1 per cent for 1983 as a whole. However, there could be a slight upswing in the course of the year and in the first half of 1984 as the result of the induced effects of the pick-up in exports and a modest recovery in productive investment in the second half of 1983; the impetus here would come both from the nationalised enterprises and from private sector firms, whose financial position might become easier owing to a more moderate trend in wage costs and the terms-of-trade improvement, assuming that the latter is not passed through in full to prices. Private consumption, which will be affected in the first half year by the stagnation of households' real disposable income, might pick up a little in the second half, but on the incomes policy introduced in 1982 its growth would be unlikely to exceed 1½ per cent at an annual rate in the first half of 1984.

The expected slowdown in wage costs and an easing of the perverse effects of the exchange rate movements of 1982 might serve to stabilise competitiveness with the result that export volumes (goods and services), which had already picked up significantly in the second half of 1982, might grow by 3¼ per cent in 1983. The very weak growth of domestic demand could cause import volume growth to slow to about 1 per cent in 1983. In all, the foreign balance of goods and services should have a positive impact on GDP growth, which might be about 0.5 per cent in 1983, with an upturn between the first and second halves of the year. The low rate of growth will probably cause the unemployment total to rise by a further 150-200 000 between now and the first half of 1984 in spite of continuing measures in this field.

The rise in consumer prices may accelerate slightly in the first half of 1983, as the January figures would suggest, owing to a number of readjustments subsequent to the price freeze (especially as regards public utility charges) and the introduction of a supplementary tax on tobacco and spirits, designed to finance social security spending, which will come into effect in the second quarter and will have an impact of about 1 per cent on consumer prices. However, given the prices and incomes policy in operation since last autumn and on the technical assumptions for exchange rates, inflation might ease again in the second half of the year, with the twelve-month rate of consumer price increases coming down to 8¼ per cent in the second half of 1983. Due to the more moderate trend in hourly wage rates and social insurance contributions, unit labour costs might rise less in 1983 than in 1982.

With the expected improvement in the real trade balance and slightly better terms of trade in the course of the year, the trade deficit may fall by about \$2½ billion between 1982 and 1983. The balance on invisibles might show a slight deterioration, mainly owing to the continuing growth of the external debt burden; hence, the current account

Diagram 11. Business forecasts¹



1. Difference between businessmen's optimistic and pessimistic answers.
2. Individual output prospects three or four months ahead.
3. Percentage of firms unable to produce more with their current resources.

Source : INSEE, *Tendances de la conjoncture*.

deficit might narrow from \$12 billion (2¼ per cent of GDP) to \$9½ billion (1½ per cent of GDP) between 1982 and 1983. These estimates do not take into account the possible effects of the fall in the price of oil, one of which might be a much greater terms-of-trade improvement than assumed here.

For France, like most other OECD countries, the forecast for 1983 and 1984 are clouded by numerous uncertainties. Some are of an external order and concern the

present instability of the oil market and the impact of the price falls on real demand in both the oil-exporting and oil-importing countries. Other uncertainties concern domestic behaviour. First, there is no knowing the degree to which the oil price reduction will be passed on to domestic prices. A second area of doubt is the allocation that households will make between consumption and investment in a period of slow real income growth. A third question is how far and how fast businessmen will react to the various public incentives to investment when considerable idle capacity still exists. Finally, the results on the price and wage front cannot yet be regarded as proof of a lasting moderation of inflationary behaviour. For example, higher-than-expected wage increases in certain sectors or labour categories might encourage a renewed price-wage spiral. If there were some easing of external constraints as a result of the fall in oil prices and/or a stronger upturn in international activity than currently foreseen, the room for short-term policy manoeuvre would obviously be increased. On the other hand, a revival of inflationary pressures and the resulting deterioration of the external balance would complicate the task of the authorities.

V. CONCLUSIONS

Some time has now passed and it is possible to assess the first effects of the new policy introduced as from May 1981. Positive results have been achieved on a number of fronts. The recessionary trend in the French economy that started in the middle of 1980 has been checked and, as a result of specific measures, the jobless total stabilized in the course of 1982. Low wages and certain social benefits have been raised, which seems a welcome development in a country where income differentials are wide. At the same time, the steep increase in the statutory minimum wage has not spilled over to wages as a whole and there has been no start-up of an inflation spiral, although prices in France have continued to rise more rapidly than the OECD average. The steep rise in general government expenditure has been partly offset by increased revenue, with the result that the public sector deficit, although widening, remained comparatively moderate until the end of 1981.

Difficulties have arisen and a number of risks mentioned in last year's OECD Economic Survey have materialised. International activity has been more depressed than expected and in some of France's main partner countries domestic demand has declined, which has obviously made the French authorities' task more difficult. The disappointing results can also be explained by some domestic factors. The French Government had envisaged a specific sequence of economic recovery (with household consumption generating an upswing in production and then in investment in a context of firmer international activity) which has not taken place. In particular, although household consumption did turn up sharply, it was satisfied more by imported products than by home-produced goods. The pick-up in activity was therefore comparatively modest and short-lived and the external deficit climbed steeply. With business tending to be sluggish and firms' costs rising (wage costs and financial costs pushed up by high interest rates), together with businessmen's adverse expectations as to domestic and international demand, private investment did not pick up lastingly. It is possible, too, that the climate of uncertainty has acted as a deterrent. The various work-sharing measures have helped to slow down unemployment but, being applied too rigidly at first, have added very considerably to wage costs and there has been a shift in the pattern of national income away from corporate incomes. Finally, the first half of 1982 saw a widening of the public sector deficit and mounting difficulties in balancing the social security accounts.

Certain lessons can be drawn from France's experience over the twelve months to mid-1982. It is difficult for a country to maintain a much stronger domestic demand growth than that of its trading partners. The problems are further aggravated if wage costs rise much more rapidly than abroad and if the nation's productive system is unable to respond quickly to changes in domestic consumption. It is difficult, in spite of numerous aids and subsidies, for businessmen to change their investment behaviour radically if the demand outlook is uncertain and economic policy unclearly perceived, and if their costs are rising too steeply. Work-sharing schemes should be applied flexibly and should not entail full pay compensation if they are not to be counter-productive.

In response to the difficulties that were arising (large external deficit, persistence of a wide inflation differential with the main trading partners) the government changed the orientation of its short-term policy as of June 1982, the realignment of the franc's parity in the EMS being accompanied by a temporary price and wage freeze, tighter monetary policy and a more restrictive budget for 1983. In addition, a number of measures were taken to bring the social security account into structural balance. At the same time, the main medium-term options were retained: namely, the fight against unemployment, expansion of the country's industrial capacities and the reduction of inequalities. Figures for the second half of 1982 show that appreciable results have already been achieved: moderation of prices and wages, improvement in the real trade balance, stabilization of the budget deficit.

As 1983 begins, the outlook for the French economy over the next 18 months is not encouraging in terms of activity and employment. Real GDP might be all but flat in 1983, with a modest upturn in the first half of 1984. After marking time temporarily, unemployment might begin to rise again. But there are some more positive aspects. The trend of prices and wages should ease, the first months after the freeze was phased out are showing encouraging results; in particular, price-indexation of wages no longer figures in most of the contracts already negotiated between employers and unions – marking a break with a practice that has been generally applied in France for a long time. The budget for 1983 should produce a deficit that is tolerable, while monetary policy should prove more restrictive and selective than in 1982 (favouring investment and housing rather than consumption). It should be remembered that these different forecasts were drawn up at the beginning of 1983 and do not allow for the possible effects of the reduction of oil prices.

One major uncertainty is the external balance. Following the very poor figures for 1982, some improvement can be expected, owing to the positive effects of the franc's effective exchange rate depreciation, which should begin to show through in 1983, and the levelling-off in domestic demand. But the extent of this improvement will depend on the trends in activity in France's main partner countries, the costs of its imported supplies and the ability of the nation's productive system to respond to structural changes in demand at home and abroad. In any case, there is reason to think that the two realignments in October 1981 and June 1982 have served to improve French competitiveness. But efforts should continue to be made to reduce the inflation differential if there is not to be a further deterioration in the current account.

Should the improvement in the external balance take longer and be less pronounced than expected, there might be a case for making short-term policy even more restrictive. France's external indebtedness increased in 1981 and especially in 1982; even though its present level is still moderate by comparison with other OECD countries, the recent trend clearly cannot continue for long without making the debt burden considerably heavier in the years to come. Furthermore, the progress made as regards price and wage restraint cannot yet be seen as a sign of lastingly changed behaviour. The national authorities will therefore have to remain very vigilant. It is important, however, that

adjustments to economic policy be quite cautious to avoid a serious recession that would inevitably have consequences not only for employment but also for the public finance deficit and investment, thus ultimately reducing the chances of modernising the productive system: taking deflationary tactics too far can be counter-productive. If an orderly international recovery could get under way in the short term, the room for policy manoeuvre in each country would be correspondingly enlarged. All told, short-term policy will have to be very flexible. In the medium term, the French economy should certainly work towards a positive adjustment of the productive system, so that the upswing in domestic demand will not be choked off by supply-side deficiencies.

This adjustment of the productive system clearly implies an active industrial policy to reverse the downtrend in France, as in other advanced OECD countries, since the early seventies. The new nationalised enterprises may serve as an effective policy tool in this regard. But there are two dangers to be avoided here: the temptation to centralise and bureaucratised (in their management and decision-making the nationalised enterprises will certainly need to accommodate to the mechanisms of the market and competition); and the related danger of a siphoning of public funds that would have the effect of crowding private businesses out of the capital market. Private-sector firms are vital to the industrial renewal process. Here it is necessary to mention the important role of small and medium-sized enterprises, especially for job creation. It seems essential that their activity should not be inhibited by difficult access to funding, any more than by unduly stringent requirements in regard to management and recruitment. The industrial redeployment process which, in the French authorities view, will make it possible to "recapture the domestic market" will take time to bear fruit. It is true that the French government has recently reaffirmed its attachment to free trade. But it would be highly prejudicial if, in a difficult intermediate phase, it were to yield to the protectionist temptations which are making their appearance again in France, as in other countries.

The Ninth Plan, to cover the period 1984-1988, has not been finalised yet, but thinking on the medium term has already begun with the preparatory work on the plan. For a number of reasons, the chief of them being high unemployment, relatively strong growth is essential in France, as in many other OECD countries. This will necessitate, among other things, major endeavours to restructure industry, continuing efforts to reduce energy dependence and a lessening of rigidities, particularly at the level of non-wage incomes. A prerequisite for the success of economic policy over the medium term is to bring inflation under control. Recent experience shows that the social partners seem ready to participate in a concerted policy, which would help to reduce the traditional wage/price spiral.

ADDENDUM

Since the date on which this Survey was approved there have been a number of developments, the effects of which it has not been possible to take into account.

The parity of the franc was adjusted downward on 21st March 1983 in the context of a realignment of parities within the European Monetary System. Relative to the central rate the parity changes are as follows:

- Deutschmark +5.5 per cent, Netherlands Gulden +3.5 per cent, Danish Krone +2.5 per cent, Belgian and Luxembourg Francs +1.5 per cent, Italian Lira -2.5 per cent, French Franc -2.5 per cent, Irish pound -3.5 per cent.
- The French Franc's effective exchange rate as calculated by the OECD, which takes account of parity changes in other currencies, has moved as follows since the currency readjustment of June 1982, on the base 1st quarter of 1970 = 100: week of 14th-18th June 1982, 73.24; week of 21st-25th March 1983, 69.7 - a depreciation of 4.8 per cent.

A package of measures to accompany the devaluation was announced on 25th March. The chief measures are the following:

- in the fiscal field: a programme to cut budget expenditure by Frs.15 billion in 1983, the introduction of a tax on motor fuels to offset the fall in the price of crude oil, a levy of 1 per cent of taxable income to rebalance the social security account, a compulsory three year loan to the Government equal to 10 per cent of income and wealth tax for 1982 to be subscribed by persons paying over Frs.5,000 in tax, a reduction of Frs.7 billion in expenditure by the nationalised enterprises and of Frs.3 billion in expenditure by local authorities in 1983;
- in the monetary field: the M2 growth target for 1983 has been reduced from 10 to 9 per cent, measures have been taken to encourage saving for house ownership and the upper limits for savings bank passbook deposits have been raised;
- in the foreign exchange field: restriction of foreign currency purchases by French tourists to Frs.2 000 per year per adult and Frs.1 000 per child for the rest of 1983.

COMPARISON OF SCENARIOS FOR THE PERIOD OF THE NINTH PLAN

To guide the preparatory work on the Ninth Plan, the Commissariat Général du Plan produced a number of scenarios with a 1988 horizon, the results of which were simulated with the aid of the DMS model¹. It is necessary to emphasize the exploratory nature of these exercises which in no way constitute forecasts. However, they do have the value of showing the main economic policy constraints for the years ahead. Three international environment scenarios (z, y and x) were drawn up, based on different assumptions as to economic developments in France's main partner countries: slow recovery with the same trends as those prevailing just prior to the second oil shock (scenario z); prolonged stagnation and tendencies towards segmentation of the world economy (y); disinflation and new conditions of growth more favourable to the countries with very advanced technology (United States, Japan) than to Europe (scenario x). These three international environment alternatives were accompanied by seven alternatives for domestic economic and social policy (A to G).

The domestic alternatives can be described as follows. Scenario E assumes a brisk growth of public expenditure and a moderate rise in real earnings from employment. On general government account, investment would grow in volume by 2.3 per cent a year on average, intermediate consumption by 3 per cent a year and employment by 1.1 per cent. Investment by the enlarged public sector (i.e. including the new nationalised enterprises) would grow by 10 per cent a year in volume terms. Purchasing power of social benefits would continue to rise faster (2.8 per cent a year) than GDP, although more slowly than in the past. The additional resources necessary to bring the social security accounts into balance would come from value added tax. The working week would be shortened to 35 hours by end-1985. The average real per capita wage would rise by 0.5 per cent a year on average over the period, including the impact of increases in the lowest wages. Scenario A uses the same assumptions as Scenario E, except as regards growth of purchasing power, which would be more rapid (1.5 instead of 0.5 per cent a year for the per capita wage). Scenario B differs from A in that it assumes tighter control of public expenditure. In addition, it is assumed that purchasing power of social benefits will rise less rapidly (2.5 per cent) and that the additional resources needed to balance the social security accounts will come from households by way of higher income tax and increases in various indirect taxes.

Scenario F assumes that the modernisation of industry will speed up, the impetus coming from the enlarged public sector. The total volume of industrial investment is 4.6 per cent up on Scenario E (implying a steep rise in the investment share of GDP). The aim built into the scenario is to reduce the French economy's external dependence more rapidly and efficiently. Scenario G explores the possibility of decentralised programming of work hours and organisation (in particular, phased reduction of the working week to 35 hours by 1988 accompanied by better utilisation of plant). Each international configuration can be combined with each set of domestic economic and social policy assumptions. In fact, the national experts selected only seven scenario combinations, which seemed to them the most significant. It is not proposed to discuss the plausibility of these different scenarios here, especially in view of what was said earlier about their exploratory nature. However, some comments are in order concerning the performances that are suggested.

To begin with, the investment trends are extremely buoyant and may not seem very consistent with the moderate or even low demand growth common to all the scenarios. The assumptions underlying them are, first, the need to replace capital vintages dating from the late 60s and early 70s and, second, the improvement in corporate finances (on the assumptions as to more moderate real wage growth). They also rest on the assumption of rapid investment growth in the public industrial sector, with the big nationalised enterprises (energy, telecommunications) showing the same rates of growth over the period of the Ninth Plan as they have since 1975. Such trends cannot be ruled out, but they presuppose the successful pursuit of an active industrial policy. On the other hand, the exercise has the advantage of illustrating some of the constraints that are liable to weigh on the economy in the years ahead, such as the level of unemployment. In this regard, it may be wondered whether the scenarios are not over-pessimistic: given demographic movements, the trend in labour

1. Dynamic multi-sector model used by INSEE. Concerning this model, see in particular *Economie et Statistiques* No. 79, June 1976: DMS, modèle de prévision à moyen terme (D. Fouquet, J.M. Chaprin, M. Guillaume, P.A. Muet and D. Vallet).

Table A1. Definitions of the combined scenarios

International trends	Domestic assumptions						
	Faster growth of real wages				Slower growth of real wages		
	A Brisk growth in public expenditure	B Limitation of the public deficit	C Modernisation of the productive system	D Slower and decentralised reduction in working hours	E Brisk growth in public expenditure	F Modernisation of the productive system	G Slower and decentralised reduction in working hours
Z. Same trend as between the two oil shocks	AZ	BZ	CZ ¹	DZ ¹	EZ	FZ	GZ
Y. Prolonged stagnation					EY		
X. Disinflation and renewed growth					EX		

1. Scenarios which are available but for which results are not set out in the presentation note by the Commissariat Général du Plan.

Source: Commissariat Général du Plan.

Table A2. Comparison of scenarios for the period of the IXth Plan
Average annual growth rate

Scenarios	EX	EY	International environment similar to that prevailing between the two oil shocks				
			EZ	AZ	BZ	FZ	GZ
Marketable GDP, volume	2.4	2.1	2.5	2.9	2.5	2.7	2.8
Household consumption, volume	1.8	1.6	1.8	2.6	2.0	2.0	2.0
Corporate investment, volume	5.7	5.1	5.5	4.9	5.3	5.5	6.2
Consumer prices	6.3	6.5	8.9	10.7	5.8	8.8	4.9
Net real per capita wage	0.4	0.1	0.5	1.5	1.5	0.6	0.4
Households' real disposable income	1.7	1.4	1.8	2.4	1.7	1.8	1.8
Total employment (thousands, average annual change)	195	64	289	447	95	361	194
Unemployment rate in 1988, ILO definition (percentage of the labour force)	9.8	10.1	9.5	9.2	9.9	9.3	9.8
Change in the rate of taxation and social security contributions during the IXth Plan	1.6	1.7	1.9	2.2	0.4	1.8	1.2
General government borrowing requirement in 1988 (percentage of GDP)	2.1	2.8	2.0	2.6	1.4	1.5	1.9

Source: Commissariat Général du Plan.

force participation rates and the various "work sharing" schemes under study or already in operation, there may be more of a turnaround in the unemployment trend than that assumed by the national experts, on unchanged assumptions as regards production. It should also be noted that the exploratory scenarios contain no specific assumptions as to the possibility of redressing the foreign balance during the first years of the Ninth Plan's implementation.

The exploratory scenarios show the general government borrowing requirement as remaining moderate. This result, which would mark a departure from recent developments and trends to date such as the brisk growth of spending on social benefits (unemployment, retirement, health), can be achieved only by way of a policy of tight restraint. In addition, the scenarios show very different price trends, with the average rise in prices over the period ranging from 4.9 to 10.7 per cent a year in the two extreme cases, for the same international environment and growth rate. This is due to different assumptions as to growth of real earnings from employment, the taxes needed in order to balance the social security accounts and the feedthrough or non-feedthrough of those taxes to costs and prices.

All told, the scenarios are of undoubted value for analysing possible medium-term trends in the French economy. But it might arguably have been interesting to explore more contrasted trends: with regard to the international environment in particular, the scenario favoured by the national experts (continuation of the trends observed in the period between the two oil crises) seems realistic; given that the short-term outlook for the international environment is poor. However, it would have been interesting to explore another path, assuming that after a difficult phase of transition, the OECD countries, having largely succeeded in mastering the energy constraint, would get back on a path of higher and more sustainable growth. As regards domestic trends, too, the growth paths suggested are very low (ranging from 2.1 to 2.9 per cent). Admittedly, a wide growth differential between France and its partner countries would not be sustainable for long without giving rise to difficult problems of external equilibrium, as happened in 1981-82. But here, too, it would have been interesting to explore other possibilities - if only as an instructive exercise and to bring possible obstacles to the surface and show what the appropriate policy responses should be.

Annex II

FINANCING PROBLEMS BY ECONOMIC AGENT

An analysis of the savings and investment behaviour of domestic economic agents follows. It is restricted to non-financial enterprises (public and private), households and general government, which account for 95 per cent of gross fixed investment. Because of their limited impact on investment, other domestic agents, i.e., financial institutions, insurance companies and private institutions (non-profit institutions, political parties, etc.) are not referred to in this section.

Non-financial enterprises

A summary review of the main trends in the distribution of national income since the first oil shock (see Diagram 5) is helpful in focusing on some of the major factors affecting the investment behaviour of non-financial enterprises. The main feature of this period has been the emergence of a large labour cost gap¹, which, with the exception of 1978-79 and probably 1982, has never narrowed significantly, implying a reduction in the share of non-wage incomes. The narrowing of 1978-79 was linked to government policy at the time, which encouraged the reconstitution of profit margins and wage moderation, and deteriorating labour market conditions. The widening of the gap that followed in 1980 and 1981 occurred despite continued moderation in real compensation, owing to a marked deceleration in productivity growth and the deterioration of the terms of trade induced by the second oil shock and the appreciation of the dollar. In 1982, very moderate real compensation increases, partly as a result of the July-October wage freeze, and some improvement in the terms of trade, have contributed to a reduction of the gap.

The general tendency for the real labour cost gap to widen can be attributed largely to the increase in social security contributions required to finance rapidly growing welfare expenditure. Diagram 5 shows clearly that this trend has become more accentuated since 1978 and contrasts markedly with the slowdown in real net wages per employee². Indeed, had it not been for soaring social security contributions, the gap might have almost disappeared in 1982, with net wages growing at a considerably slower pace than productivity.

The reduction of the share of non-wage earnings in national income understates the deterioration in the accounts of non-financial enterprises in the competitive sector³. The ratio of compensation of employees to value-added greatly increased, though less since 1979 than in the years following the first oil shock, and it actually decreased in 1982, owing to the effect of labour market conditions on the wage bill. But employers' social security contributions have risen constantly to attain nearly 19 per cent of value-added in 1982. The reduction of the flow of internally generated funds has induced enterprises to increase their indebtedness, despite a persistent weakness of investment. Consequently, the ratio of debt to total liabilities, already high at the beginning of the 1970s compared with some other major OECD countries, has continued to rise, attaining more than 70 per cent in 1979 and possibly more in following years⁴. This trend has also gone hand-in-hand

1. A positive real labour cost gap is said to exist when real compensation per dependent employee, deflated by the private consumption deflator is growing faster than "warranted" real compensation. This is defined as productivity corrected for terms of trade changes, or the growth of real compensation consistent with initial factor shares. A deterioration of the terms of trade (as in the case of an oil shock) reflects a loss of purchasing power of exports compared with imports and has a negative effect on productivity gains available to domestic factors of production. Thus the emergence of a labour cost gap implies the failure of wages and related costs to adjust to the loss of income induced by the deterioration of the terms of trade.

2. Compensation per employee less employer's and employee's social security contributions.

3. This classification includes public enterprises operating in the competitive sector.

4. Debt/total liabilities in 1979, per cent

Germany	United States	United Kingdom
65.5	42.2	51.9 ¹

1. 1977.

Source: OECD, non-financial enterprises financial statements.

In France the ratio increased constantly from 64.7 per cent in 1970 to 73.9 in 1977, declining somewhat in the following two years in connection with the improvement in profitability at the time. As cost conditions have deteriorated since, the ratio is likely to have risen again.

with an increase in the ratio of short- to long-term debt⁵. Interest payments have thus risen constantly, from 5.8 per cent of value-added in 1973 for net interest payments of enterprises to 6.4 per cent in 1981, with the strongest rise coming after 1979, owing to higher interest rates. Small and medium firms have apparently suffered more than large firms as they normally pay higher interest rates and are more dependent on short-term credit. On balance, the ratio of saving to value-added has declined from 14.4 per cent in 1972 to 7.8 per cent in 1981, with a small temporary improvement in 1978 and 1979.

The reaction of non-financial enterprises in the competitive sector to this marked reduction in profitability and deteriorating domestic and foreign demand prospects has generally been to cut down on investment. During the last two years the increasing difficulty in obtaining bank credit and a certain lack of confidence have also played a non-negligible role. Two major exceptions were 1976, when private non-residential investment increased by 8.3 per cent following the reflationary programme of the previous year, and 1980, when it increased by 4.7 per cent owing to some reconstitution in profits in 1978 and 1979, a pick up in foreign demand for investment goods, the implementation of more generous depreciation allowances and a drive towards rationalisation. However, between 1973 and 1982, non-residential investment⁶ by private non-financial enterprises has fallen on average by 0.9 per cent per year, with most of the adjustment to higher costs and slower growth apparently having taken place already by 1978. By contrast, the steeper fall of industrial investment since 1973 – 1.2 per cent on average – has been heavily concentrated in 1981 (11 per cent) and 1982 (5 per cent), in connection with the increase in the import propensity for intermediate and consumer goods.

By contrast, the average rate of growth of investment of large public enterprises in the non-competitive sector (GEN), rose from 2.6 per cent between 1970 and 1973 to 9.5 per cent between 1974 and 1980, the main thrust coming from nuclear power, telecommunications and transportation projects. The investment of these enterprises is by and large dictated by economic policy decisions and has constituted a major countercyclical factor, although a definite slow-down has occurred since 1980 because of the completion of some major projects. The authorities have prevented a marked deterioration in the accounts of GEN by granting a substantial rate of subsidy⁷. This government aid was required not only to finance investment, but also to compensate for the rising burden of interest payments, particularly since 1976, as the authorities encouraged GEN to have recourse to foreign credit because of balance-of-payments considerations and domestic financial markets.

General government

General government accounts have been affected by repeated changes in policy stance during the period under review. A reflationary programme in 1975 and 1976 was followed up to 1980 by a period of budgetary restraint and renewed expansion in 1981 and 1982. In addition to cyclical swings, an important development has been the sharp rise in the weight of welfare expenditure in GDP. In the early 1970s this reflected mainly the increase in the demand for welfare services, in common with many other OECD countries. However, especially since the second oil shock, the rise in welfare expenditure has resulted from both automatic and discretionary responses to worsening economic conditions. Social security contributions and taxation have also risen rapidly, but have failed to keep up with the trend of expenditure. Furthermore, interest payments have increased considerably since 1974. There has therefore been a general tendency for the traditional surplus on current account (savings) to narrow. The expansionary policies of 1981 and 1982 have greatly accentuated this trend, with the surplus actually disappearing in 1982.

On the other hand, the net borrowing of general government that emerged at the time of the reflationary package of 1975 was gradually absorbed by 1980, owing to the weakness of investment which fell in volume terms by 8 per cent between 1974 and 1982. This was apparently part of the authorities' attempt at the time to reduce the weight of general government in the economy. And since it was not feasible to cut down on current expenditure, investment bore the brunt of the adjustment. During the following two years investment remained particularly weak since reflation relied heavily on current spending, so that the increase in net borrowing to 3 per cent of GDP in 1982 was entirely due to the fall in government savings.

Households

As shown in Diagram 3, the rate of increase in real disposable income of households slowed down between 1974 and 1978, mainly as a result of a deceleration in wages, despite an increase of their share in national

5. This ratio has increased constantly, from 2.65 in 1970 to 3.42 in 1979.

6. This represents more than 90 per cent of the investment of private non-financial enterprises.

7. The rate of subsidy is defined as:

$$\frac{\text{subsidies} + \text{capital transfers} - \text{taxes}}{\text{value added}}$$

This amounted to 12.4 per cent on average between 1974 and 1981, compared with a negative rate of 10 per cent for other non-financial enterprises.

income. However, households appear to have accepted a parallel downward adjustment in the rate of growth of their consumption with little change in the rate of saving. A much sharper deceleration of real disposable income has taken place since 1979, associated this time with a marked fall in the saving rate – from 17.5 per cent in 1978, a relatively high rate, to 14.4 per cent in 1982 – that did not, however, prevent a deceleration in the rate of increase of private consumption. A number of factors appear to have contributed to the fall in the saving rate. The persistence of two digit inflation in recent years is likely to have weighed in favour of consumption. Standard of living expectations are also likely to have lagged behind the trend in revenue. Furthermore, the weight of welfare payments in disposable income, the beneficiaries of which have a high propensity to consume, has risen constantly and reached 29 per cent in 1982. Another important factor has been the fall in households' residential investment for the last three years caused by high and rising interest rates and severe limitations imposed on the expansion of housing credit⁸. Finally, it is possible that high interest rates and fiscal incentives might have increased the relative appeal of financial saving vis-à-vis construction⁹ with a net downward bias on the saving rate because the former can be undertaken with a smaller amount of capital.

8. In 1980 compulsory reserve requirements were imposed against some categories of housing credits (prêts complémentaires d'épargne-logement).

9. The share of financial saving in total household saving rose from 26.7 per cent in 1980 to 32.4 per cent in 1981 and 33.1 per cent in 1982.

Annexe III

CALENDAR OF MAIN ECONOMIC POLICY MEASURES

1981

1. FISCAL POLICY

December

The 3rd and 4th amended budgets for 1981 resulting in a net additional outlay of Frs. 19 billion.

1982

January

Initial 1982 budget providing for an amount of Frs. 796 794 million for permanent-category expenditure and Frs. 712 984 million for revenue, up 27.6 and 19 per cent respectively on the initial 1981 budget. The deficit on temporary operations budgeted at Frs. 11 646 million and the overall deficit at Frs. 95 456 million.

June

Amended budget increasing expenditure and revenue by Frs. 11.9 billion, leaving the deficit unchanged. The main fiscal measure was the lowering of the special reduced rate of VAT on certain food items from 7 to 5.5 per cent. The standard rate was raised from 17.60 to 18.60 per cent. This measure increased net tax revenue by Frs 3.1 billion.

Job-creating or investing firms awarded a reduction in the trade tax (2 per cent instead of 6 per cent).

August

A special major works fund set up to finance infrastructure projects (transport, roads, energy, etc.), funded from a special tax on oil products, loan issues, contributions from public entities and possibly capital grants.

September

Exemption from wealth tax on business capital assets awarded to firms making investments between 1981 and 1984.

December

Amended budget bringing the overall operations deficit to Frs. 98.9 billion.

1983 budget. Permanent-category expenditure set at Frs. 881.2 billion and revenue at Frs. 776.1 billion. The overall operating deficit budgeted at Frs. 117.8 billion.

1982

2. MONETARY AND FINANCIAL POLICY

January

M2 growth target set at between 12.5 and 13.5 per cent for 1982.

Growth rates for ceilings on credit subject to the supplementary reserves requirement set as follows for the first half of 1982:

- Category A establishments, comprising all banks and financial institutions other than consumer credit institutions: 3.5 per cent for those extending credit of less than Frs. 200 million, and 1.5 per cent for the rest.

Category B establishments, i.e. consumer credit institutions: 5 per cent for those extending credit of less than Frs. 200 million, and 3 per cent for the rest.

- Export credits and credit for energy conservation: 7 per cent.

Introduction of a compulsory reserve ratio of 0.10 per cent in respect of all domestic lending with the following main exceptions: export credits, certain construction loans and credit to finance major investment projects.

The Banque de France intervention rate lowered $\frac{1}{4}$ point to 14.75 per cent.

Interest on savings bank passbook accounts set at 8.5 per cent.

Government loan of Frs. 10 billion issued at 16.20 per cent.

February

Certain medium-term interest rates lowered (on credit for innovation and investment by small and medium firms).

Long-term loans at preferential rates of an amount of Frs. 24 billion awarded to firms: special loans for investment (at the very preferential rate of 13.5 per cent) or loans at the preferential rate of 15.5 per cent.

Equity loans legally assimilable with firms' equity of an amount of Frs. 3.5 billion made available to firms.

April

Introduction of a "popular" passbook savings account reserved for low-income categories, on which the rate of interest is indexed on prices in respect of money left on deposit for over six months.

June

Government loan of Frs. 10 billion issued at 16 per cent.

Opening of a credit line for special advances to firms experiencing cash-flow problems due to the price freeze.

July

Ceilings on credit subject to the supplementary reserves requirement set for the second half-year:

Category A: + 3 per cent

Category B: + 3.5 per cent.

Société française de participation industrielle set up to enable the nationalized banks to acquire holdings of share capital in nationalized industrial companies.

September

Government loan of Frs. 10 billion issued at 15.75 per cent.

The Treasury authorized to issue bonds renewable for a period of five to eight years.

October

Rates on consumer credit lowered by $\frac{1}{2}$ to 1 point.

November

Government loan of Frs. 10 billion issued at 15.30 per cent.

December

Money supply growth target set at 10 per cent for 1983.

Growth of category A credit: 3 per cent

Growth of Category B credit: 5 per cent

Growth of export and investment credit: 12 per cent.

1983

January

A second market set up on the Paris Stock Exchange open to firms whose distributed shares represent at least 10 per cent of their share capital.

Banks' compulsory reserve ratio lowered to 2.5 per cent for sight deposits and 0.25 per cent for savings accounts.

Measures introduced to relieve the financial burden on firms paying interest on long- and medium-term borrowing at fixed rates amounting to over 12 per cent in 1983. These firms will be able to obtain a special refinancing loan at 9.75 per cent for a period of 12 years.

Legislation on "development of investment and protection of savings", introducing, in particular, the shares savings account which will give entitlement to a tax reduction equal to 25 per cent of net share purchases during the year up to a maximum of Frs. 7 000, provided that the portfolio is kept to at least the previous year's level.

1982

3. SOCIAL POLICY

January

Enabling Act empowering the government to take social measures, until 31st March 1982, through Government Orders.

Statutory working week reduced from 40 to 39 hours.

Maximum working week reduced from 50 to 48 hours.

Annual paid leave extended to five weeks.

Government Order concerning solidarity contracts between central government and enterprises or local government for the recruitment of young or unemployed persons through the following measures:

- temporary exemption from all or part of employers' social insurance contributions in respect of newly hired persons;
- early retirement, full or partial, for employees aged over 55, subject to their replacement by young persons.

Social security measures, in particular: benefits to continue to be paid to unemployed persons having used up their entitlements; special contributions to be paid by unemployed drawing benefit, etc.

Minimum wage raised by 2.2 per cent over the level at 1st November 1981 (i.e. from Frs. 17.76 per hour to Frs. 18.15).

The minimum earnings limit for social insurance contributions henceforth to be set every six months.

February

Limits set on and redefinition of the scope of fixed-term work contracts.

Limits set on and re-organisation of temporary work.

March

Minimum wage raised by 2.6 per cent (to Frs. 18.62 per hour).

Certain social insurance contributions in industrial firms in the textiles and clothing sector financed by the central government.

Measures taken to provide young persons aged between 16 and 18 with a vocational qualification.

Government Order concerning the lowering of retirement age to 60 years (voluntary). Entry into force, 1st April 1983.

Limits on retirement pension entitlement for persons also in receipt of earnings from employment.

May

Minimum wage raised by 2.2 per cent (to Frs. 19.03 per hour).

July

As from 1st July, the minimum earnings limit for social insurance contributions raised by 7.4 per cent over the level at 1st January.

Act permitting spouses of artisans and shopkeepers to acquire social or work-related entitlements as co-workers, employees or associates.

Various social benefits raised by 7.4 per cent (old-age and disability pensions, payments to victims of industrial accidents, etc.).

Family allowances raised by 6.2 per cent.

Minimum wage raised by 3.2 per cent (to Frs. 19.64 per hour).

August

Law increasing the participation of employers in financing employees' public transport expenses.

Act concerning the liberty of workers within the firm, providing protection for employees in the event of disciplinary action being taken and laying down the principle of the employees' right of expression concerning the content and organisation of their work.

October

Social security rehabilitation plan for 1982-1983. Planned additional revenue: social insurance contributions from early-retired drawing more than the minimum wage, introduction of a flat-rate daily hospital charge of Frs. 20 in respect of "lodging" expenses to be paid by the insured person. Tax on advertising of patent medicines for which payment is refunded by the social security. Tax on tobacco (25 per cent) and spirits (Frs. 10 per litre).

Introduction of a solidarity contribution to unemployment insurance by public servants amounting to 1 per cent of their emoluments.

Additional financing for the unemployment insurance scheme through an increase in contributions of 0.48 per cent for employees and 0.72 per cent for employers.

December

Minimum wage raised by 3.3 per cent (to Frs. 20.25 per hour), of which 1 per cent increase in purchasing power.

New solidarity contracts concerning the reduction of working time. aids for concerted reduction of working time in order to improve employment.

1983

January

Minimum earnings limit for social security contributions raised by 4.6 per cent.

1982

4. PRICES AND INCOMES POLICY

January

Measures taken to phase out the October 1981 partial price freeze: price regulation agreements for services, and voluntary stabilization of certain retail prices.

Public utility charges raised.

Civil service pay raised by 3.1 per cent.

April

New procedure for setting the selling prices of oil products designed to pass on full cost prices without deviating significantly or durably from international market prices and to prevent increases of a speculative nature.

Public utility charges raised.

Civil service pay raised by 2.8 per cent.

June

Net selling prices of goods and services or margins, frozen for four months, until 31st October, except for oil products, coal and certain fresh farm and fishery products.

Importers' margins frozen for the same period.

Wages and salaries (except the minimum wage), civil service pay and fees of the professional classes frozen until 31st October.

Emoluments of certain professional classes reduced by 3 per cent for four months.

Dividends distributed by companies in 1982-1983 not to exceed the amount, plus 8 per cent, of the biggest dividend distributed between 1975 and 1981.

September

The principles of prices policy laid down:

- For industrial products, negotiation of commitments to fighting inflation, with the possibility of a return to pricing freedom at the end of the first half of 1983.
 - For services: implementation of price regulation agreement until the end of 1983.
- Public utility charges raised by 8 per cent over the period to the end 1983.

Incomes policy:

- Contractual policy in the private sector designed to discontinue existant indexation.
- Abolition of indexation in the public sector.

November

Civil service pay raised by 3.93 per cent. Public utility charges raised.

December

Civil service pay raised by 2 per cent as from January 1983.

1982

5. FOREIGN EXCHANGE POLICY

March

Exchange control tightened:

- Time limit for surrender of foreign currency by exporters reduced from one month to two weeks.
- French direct investment abroad required to be financed in its entirety (instead of to the extent of

¾ previously) by borrowing in foreign currency.

- Capital outflows for the purchase of second homes made subject to prior authorization.

June

EMS central rates adjusted, resulting in a 6.3 per cent devaluation of the franc against the new ECU value and 9.6 per cent against the Deutschemark.

October

International loan issue of \$4 billion.

December

\$2 billion loan extended to France by Saudi Arabia.

1982

6. OTHER MEASURES

February

Nationalization Act concerning five industrial companies (Compagnie Générale d'Électricité, Compagnie de Saint-Gobain, Pêchiney-Ugine-Kuhlman, Rhône-Poulenc, Thomson-Brandt), 39 banks (18 with immediate effect, 21 as of 1st July) and two financial companies. The shares representing the capital of the industrial companies transferred to the State; shareholders are given government bonds in exchange.

April

Special aids extended to farmers having invested between 1st April 1981 and 31st March 1982.

June

Act concerning the rights and obligations of tenants and landlords.

July

Act to orient and programme technological research and development to 2.5 per cent by 1985.

Planning reform Act aimed in particular at decentralizing planning by assigning a bigger part in national planning to regions and by instituting regional planning. In addition, contractualized planning to enable local authorities and firms to sign contracts with the central government in respect of the implementation of the Plan.

November

Appropriation for the investment programme of nationalized industrial firms in the competitive sector set at Frs. 27 billion for 1983.

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STATISTICAL ANNEX

Table A. **National accounts**
Gross domestic product and expenditure
Fr. billion

	1973	1974	1975	1976	1977	1978	1979	1980	1981
	Current prices								
Private consumption	669.0	781.3	899.0	1 041.9	1 171.5	1 327.8	1 518.0	1 745.6	2 010.6
Consumption of public and private administration	146.7	173.9	209.1	245.0	277.7	320.3	362.7	419.3	488.2
Gross fixed asset formation	265.0	310.9	337.9	390.7	419.9	458.9	521.0	597.1	654.6
Increase in stocks	26.9	30.5	-3.6	19.7	20.8	13.1	34.3	44.8	-9.2
Domestic expenditure	1 107.6	1 296.7	1 442.4	1 697.3	1 889.9	2 120.1	2 436.1	2 806.8	3 144.2
Exports of goods and services	203.2	275.1	283.9	338.2	401.9	455.2	535.6	616.0	727.9
less: Imports of goods and services	196.6	293.5	273.7	357.6	407.2	434.2	532.2	664.1	777.8
Gross domestic product at market prices	1 114.2	1 278.3	1 452.3	1 678.0	1 884.6	2 141.1	2 439.6	2 758.7	3 094.4
	1970 prices								
Private consumption	561.3	577.6	597.2	630.7	650.5	678.1	702.4	714.0	730.9
Consumption of public and private administrations	115.2	116.6	122.1	129.7	131.5	137.2	139.6	141.5	144.8
Gross fixed asset formation	223.1	225.2	218.0	226.1	224.3	227.6	235.0	240.6	236.1
Increase in stocks	22.1	22.8	-2.9	12.6	10.1	9.0	18.5	22.2	-1.5
Domestic expenditure	921.7	942.2	934.4	999.1	1 016.4	1 051.8	1 095.5	1 118.3	1 110.3
Exports of goods and services	179.3	197.9	195.0	215.6	234.9	250.4	267.9	275.4	288.5
less: Imports of goods and services	180.6	189.9	177.4	213.5	219.6	231.4	257.1	274.9	278.1
Gross domestic product at market prices	920.4	950.2	951.9	1 001.2	1 031.7	1 070.8	1 106.3	1 118.9	1 120.7

Source: French submission to the OECD.

Table B. Gross fixed asset formation

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Fr. million, current prices									
Breakdown by institutional sector:									
Corporate and quasi-corporate enterprises	116 314	133 993	144 508	171 159	188 499	208 507	232 598	274 810	297 960
Households	97 876	117 680	125 238	142 737	151 348	166 932	193 826	215 463	237 028
Credit institutions	13 060	14 384	13 346	16 138	17 430	18 308	20 546	21 660	24 070
Insurance companies	1 274	1 833	1 919	2 380	3 345	2 996	3 850	3 899	4 368
Public administrations	35 644	42 028	51 761	56 985	57 842	60 530	68 399	79 180	88 871
Private administrations	813	984	1 117	1 272	1 435	1 610	1 806	2 068	2 328
Total gross fixed asset formation	264 981	310 902	337 889	390 671	419 899	458 883	521 025	597 080	654 625

**Rate of growth of fixed investment of non-financial corporate and quasi-corporate enterprises
and unincorporated enterprises, by branch of activity**

	1975	1976	1977	1978	1979	1980	1981
	Fr. million	In volume					
Agriculture, forestry and fishing	15 448	3.5	-13.4	10.4	1.9	-2.7	0.3
Energy	16 965	1.0	5.4	17.2	15.6	14.1	2.4
Agriculture and food	7 482	-1.5	4.1	-7.3	15.2	6.8	-4.3
Intermediate goods	20 118	16.2	-8.4	-2.5	-5.6	4.6	-13.4
Investment goods	17 062	5.9	6.6				
Current consumption goods	8 249	10.5	-9.4	-7.4	2.2	8.0	-18.0
Building, civil and rural engineering	8 362	9.7	-8.5	-5.8	-3.9	0.3	2.5
Wholesale and retail trades	15 129	4.6	0.8	3.7	3.2	2.7	2.1
Transport and telecommunications	29 130	4.7	7.2	2.3	-2.3	0.4	-3.7
Marketable services	19 640	15.1	7.8	3.7	-1.4	3.2	-3.7
Rental and leasing credit	21 839	-6.1	-7.1	-5.1	1.8	0.1	-1.3
Total	179 424	5.7	-0.3	2.1	1.8	4.2	-3.5

Source: INSEE, *Rapport sur les Comptes de la Nation*.

Table C. **Industrial production**
Adjusted for seasonal variations

	Weights	1978	1979	1980	1981				1982		
					I	II	III	IV	I	II	III
Monthly indices (1970 = 100)											
Investment goods	39	144	142	145	143	152	155	148	143	147	142
Consumer goods	103	143	151	150	145	144	144	146	145	148	148
Intermediate goods	148	119	126	123	117	118	120	120	117	119	114
Energy	90	124	132	130	129	126	127	131	125	124	119
Construction materials	29	119	124	126	119	120	118	121	115	115	107
Total industry, excl. construction ¹	409	128	134	133	129	129	130	131	128	130	125
Quarterly indices (1970 = 100)											
Food and agriculture	69	123	127	127	126	127	128	127	127	129	128
Investment goods	118	140	144	143	148	155	154	150	150	147	144
Total industry, excl. building and public works ²	610	129	135	134	131	133	133	133	132	132	129

1. Data represent 54 per cent of total industry.

2. Data represent 94 per cent of total industry.

3. Weight of index for total industry including building and public works = 831.

Sources : OECD, *Industrial Production*; INSEE, *Bulletin mensuel de statistique*.

Table D. **Employment and labour market**
Thousands

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Civilian labour force	21 007	21 147	21 391	21 573	21 616	21 849	22 109	22 296	22 473	22 578	22 672
Civilian employment	20 438	20 552	20 815	20 958	20 714	20 856	21 036	21 113	21 118	21 127	20 976
Employers, self-employed, family workers	4 310	4 154	4 020	3 891	3 776	3 721	3 684	3 655	3 627	3 594	3 572
Wage earners	16 128	16 398	16 795	17 067	16 938	17 135	17 352	17 458	17 491	17 533	17 404
Civilian employment by sector											
Agriculture, forestry, fishing	2 668	2 514	2 364	2 221	2 104	2 073	1 977	1 927	1 887	1 841	1 800
Industry	8 113	8 147	8 266	8 298	8 025	7 948	7 915	7 790	7 671	7 598	7 391
Other activities	9 656	9 890	10 184	10 441	10 585	10 870	11 144	11 396	11 560	11 688	11 785
Employment position (monthly averages)											
Outstanding job applications	337	380	394	498	840	933	1 073	1 167	1 350	1 451	1 773
Unfilled vacancies	123	166	252	205	109	124	104	87	88	89	69

Sources : OECD, *Labour Force Statistics* (estimates of annual averages); INSEE, *Bulletin mensuel de statistique*.

Table E. **The money supply and its counterparts**
Fr. billion, end of period

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Total money supply	417.2	494.6	569.0	659.7	779.7	879.8	1 002.0	1 124.5	1 286.4	1 412.4	1 574.2
A. Money	262.9	302.4	331.9	370.5	432.2	465.7	519.6	577.1	647.3	692.7	794.4
Notes and coins in circulation ¹	78.0	84.0	89.5	97.8	106.6	116.1	121.5	131.9	139.1	143.7	160.8
Demand deposits	184.9	218.4	242.4	272.7	325.6	349.6	398.1	445.2	508.2	549.0	633.6
B. Quasi-money	154.3	192.2	237.1	289.2	347.5	414.1	482.4	547.4	639.1	719.8	779.7
Savings deposits and housing-linked savings accounts with banks	49.2	67.3	84.9	95.9	131.1	166.1	199.2	240.0	273.6	287.3	330.1
Certificates and fixed-term accounts with banks and financial institutions	75.3	89.5	112.4	151.8	170.0	193.3	222.6	241.8	294.2	357.4	372.0
Other items ²	29.8	35.4	39.8	41.5	46.4	54.7	60.6	65.6	71.4	75.1	77.6
Counterparts											
A. Gold and foreign exchange, net ³	40.8	47.3	39.9	37.4	49.7	41.3	46.3	55.7	63.0	88.3	81.9
B. Claims on Treasury	67.1	64.9	56.1	67.6	104.1	120.3	121.4	124.8	137.1	130.9	165.2
of which:											
Loans and advances by the Banque de France	18.0	11.9	4.5	7.5	24.6	34.8	24.6	8.6	12.8	-1.7	7.7
Government securities held by banks and financial institutions	1.5	0.4	0.4	0.1	13.8	13.8	15.7	24.8	24.3	24.9	67.1
Current postal accounts of non-financial sector	34.7	39.0	42.9	50.2	54.5	58.9	66.4	75.6	81.7	90.6	97.7
C. Domestic lending	340.0	423.9	508.4	610.1	676.6	790.9	907.7	1 007.7	1 167.4	1 319.5	1 533.7
D. Miscellaneous	-30.7	-41.5	-35.4	-55.4	-50.7	-72.7	-73.4	-63.7	-81.0	-126.2	-206.8

1. Excluding notes held by banks.

2. Mainly bonds of the Caisse Nationale du Crédit Agricole (share held by the public).

3. Based on Banque de France position.

Sources: Conseil National du Crédit, Annual and Quarterly Reports.

Table F. **Foreign trade by area**
US \$ million

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Exports, fob										
World	25 738.8	35 754.0	45 812.4	52 099.2	55 818.0	63 514.8	76 467.6	97 981.2	111 310.8	101 270.4
OECD	19 669.2	27 267.6	34 191.6	35 394.0	38 642.4	44 070.0	54 342.0	70 008.0	77 902.8	68 233.2
EEC	14 650.8	20 226.0	24 735.6	26 016.0	28 654.8	32 474.4	40 711.2	52 718.4	57 818.4	48 790.8
<i>of which:</i>										
Germany	5 444.4	6 925.2	7 880.4	8 616.0	9 650.4	10 850.4	13 288.8	16 857.6	17 836.8	14 973.6
Belgium-Luxembourg	2 937.6	4 119.6	5 176.8	5 316.0	5 676.0	6 328.8	7 884.0	9 604.8	10 399.2	8 384.4
Italy	2 956.8	4 198.8	5 335.2	5 034.0	6 081.6	6 650.4	8 352.0	11 192.4	13 910.4	11 488.8
Netherlands	1 402.8	1 974.0	2 460.0	2 730.0	2 847.6	3 244.8	4 176.0	5 238.0	5 420.4	4 468.8
United Kingdom	1 406.4	2 290.8	2 996.4	3 391.2	3 367.2	4 130.4	5 530.8	7 526.4	7 760.4	7 198.8
United States	1 371.6	1 678.8	2 238.0	2 043.6	2 527.2	3 265.2	4 264.8	4 790.4	4 921.2	5 588.4
Japan	226.8	426.0	463.2	376.8	423.6	459.6	609.6	928.8	1 098.0	1 017.6
Non-OECD	6 069.6	8 486.4	11 619.6	16 704.0	17 174.4	19 442.4	22 120.8	27 972.0	33 121.2	33 034.8
COMECON	997.2	1 348.8	1 711.2	2 722.8	2 850.0	2 881.2	3 058.8	4 172.4	4 974.0	4 118.4
OPEC	1 159.2	1 833.6	3 001.2	4 899.6	5 086.8	5 958.0	6 496.8	7 591.2	9 852.0	10 923.6
Other	3 913.2	5 304.0	6 907.2	9 081.6	9 237.6	10 603.2	12 565.2	16 208.4	18 295.2	17 992.8
Unspecified	—	—	1.2	1.2	1.2	1.2	3.6	2.4	285.6	3.6
Imports, fob										
World	26 564.4	37 189.2	52 758.0	54 208.8	64 464.0	70 494.0	81 678.0	106 874.4	134 852.4	120 496.8
OECD	20 164.8	28 170.0	35 619.6	37 354.8	44 787.6	48 522.0	58 591.2	75 373.2	90 099.6	79 558.8
EEC	14 943.6	20 565.6	25 270.8	26 691.6	32 139.6	35 065.2	42 294.0	53 920.8	62 424.0	54 370.8
<i>of which:</i>										
Germany	5 913.6	8 439.6	10 158.0	10 166.4	12 379.2	13 036.8	15 514.8	19 213.6	21 814.8	19 143.6
Belgium-Luxembourg	3 021.6	4 324.8	5 348.4	5 138.4	6 176.4	6 333.6	7 548.0	9 656.4	11 272.8	8 974.8
Italy	2 708.4	3 356.4	3 948.0	4 746.0	5 750.4	6 746.4	8 289.6	10 837.2	12 666.0	10 785.6
Netherlands	1 641.6	2 251.2	2 965.2	3 418.8	3 915.6	4 303.2	5 098.8	6 471.6	7 308.0	6 930.0
United Kingdom	1 381.2	1 753.2	2 350.8	2 564.4	3 154.8	3 680.4	4 497.6	6 009.6	7 285.2	6 572.4
United States	2 157.6	3 080.4	4 105.2	4 082.4	4 722.0	4 893.6	5 956.8	8 091.6	10 734.0	9 808.8
Japan	363.6	540.0	945.6	999.6	1 231.2	1 382.4	1 641.6	2 055.6	2 770.8	2 736.0
Non-OECD	6 394.8	9 008.4	17 120.4	16 833.6	19 647.6	21 897.6	22 898.4	30 994.8	43 936.8	39 958.8
COMECON	728.4	1 023.6	1 347.6	1 726.8	2 029.2	2 252.4	2 566.8	3 337.2	5 323.2	5 025.6
OPEC	2 776.8	3 778.8	10 074.0	9 678.0	11 376.0	11 808.0	11 881.2	16 611.6	25 128.0	22 192.8
Other	2 889.6	4 206.0	5 698.8	5 428.8	6 242.4	7 837.2	8 450.4	11 046.0	13 485.6	12 740.4
Unspecified	4.8	10.8	18.0	20.4	30.0	73.2	189.6	505.2	816.0	979.2

Source: OECD, *Statistics of Foreign Trade* (Overall Trade by Countries), Series A.

Table G. **Balance of payments of France with the rest of the world**
 Transactions basis
 US \$ million

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Exports, fob	34 874	44 418	50 187	54 293	61 636	75 141	95 269	107 935	100 407
Imports, fob	34 375	48 819	48 738	58 964	64 470	74 393	97 366	120 963	110 530
Trade balance	499	-4 401	1 449	-4 671	-2 835	748	-2 097	-13 028	-10 123
Services, net	2 704	2 763	3 842	3 704	5 228	9 533	11 307	13 018	9 632
Private transfers, net	-1 092	-1 151	-1 520	-1 414	-1 407	-1 805	-2 298	-2 443	-2 274
Official transfers, net	-636	-1 116	-1 100	-1 041	-1 417	-1 478	-1 724	-1 716	-1 978
Current balance	1 474	-3 905	2 671	-3 423	-431	6 999	5 187	-4 169	-4 742
Long-term capital movements	-2 413	-492	-1 567	-2 129	599	-3 444	-4 965	-8 504	-9 087
Private	-2 160	38	-1 345	-1 902	819	-3 440	-4 260	-7 406	-8 174
Official	-254	-530	-222	-227	-220	-4	-705	-1 097	-913
Basic balance	-939	-4 398	1 105	-5 552	168	3 555	223	-12 672	-13 829
Multilateral settlements	—	—	—	—	—	—	—	—	—
Non-monetary short-term private capital	351	836	1 149	31	1 201	1 027	-586	2 802	-2 277
Errors and omissions	-234	1 134	1 786	1 041	931	-41	560	2 284	-2 241
Balance on non-monetary transactions	-822	-2 428	4 040	-4 479	2 299	4 541	196	-7 587	-18 346
Private monetary institutions' short term capital	-851	1 975	-160	1 622	-1 652	-1 846	1 665	14 249	13 082
Assets	-8 870	496	-7 192	-7 305	-13 345	-12 871	-15 723	-16 956	-2 540
Liabilities	8 019	1 479	7 032	8 927	11 693	11 026	17 388	31 205	15 622
Balance on official settlements	-1 673	-452	3 881	-2 857	647	2 695	1 861	6 662	-5 265
Drawings on IMF credit	—	—	—	—	—	—	—	—	—
Miscellaneous official assets and liabilities	98	51	259	122	-451	547	-94	-50	180
Net position with FECOM	—	—	—	—	—	—	—	—	—
(European Monetary Co-operation Fund)	-376	348	—	—	—	—	-19	-1 997	2 709
Allocation of SDR's	—	—	—	—	—	—	255	251	208
Change in reserves (+ = increase)	-1 951	-53	4 140	-2 735	196	3 243	2 003	4 867	-4 395
Gold	—	—	—	—	—	—	—	—	—
Convertible foreign exchange	-1 325	3	3 689	-2 971	311	3 527	1 557	4 295	-2 596
IMF position	8	-206	422	252	-123	-350	-14	483	53
Special drawing rights	-633	150	28	-17	8	66	461	89	375

Source: French submission to the OECD.

BASIC STATISTICS :
INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

Reference period			Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxem- bourg	Nether- lands	New Zealand	Norway	Portugal	Spain	Sweden	Switzer- land	Turkey	United Kingdom	United States	Yugo- slavia ¹	
POPULATION		Mid-1980	Thousands	14 616	7 509	9 857	23 959	5 125	4 780	53 713	61 566	9 599	229	3 401	57 042 ²	116 782	365	14 144	3 131	4 087	9 966	37 381	8 316	6 373	45 078	56 010	227 658	22 340	
	Inhabitants per sq. km of land area	"	Number	2	89	323	2	119	16	97	248	73	2	48	189	309	141	418	12	13	108	74	18	154	58	230	24	87	
	Net average annual increase	Mid-1970 to Mid-1980	%	1.4	0.1	0.2	1.2	0.4	0.4	0.6	0.1	0.9	1.1	1.4	0.6	1.2	0.7	0.8	1.1	0.5	1.0	1.1	0.3	0.2	2.4	0.1	1.1	0.9	
EMPLOYMENT	Total civilian	1980	Thousands	6 242	3 070	3 751	10 655	(2 470)	2 192	21 142	25 265	(3 347)	(101)	1 149	20 572	55 360	159	4 677	1 270	1 914	3 951	11 254	4 232	3 012	14 610	24 397	97 270	9 690 ³	
	of which: Agriculture, forestry, fishing	"	% of total	6.5	10.5	3.0	5.5	(8.1)	11.6	8.8	6.0	(29.7)	(11.9)	19.1	14.2	10.4	5.7	6.0	11.0	8.5	28.3	18.9	5.6	7.2	60.4	2.6	3.6	..	
	Industry ⁴	"	"	31.0	40.3	34.8	28.5	(28.6)	34.4	35.9	44.8	(30.0)	(37.6)	32.4	37.8	35.3	38.2	31.8	33.6	29.7	35.7	36.1	32.2	39.5	16.3	38.0	30.6	22.3	
	Other	"	"	62.5	49.2	62.2	66.0	(63.3)	54.0	55.3	49.2	(40.3)	(50.5)	48.5	48.0	54.3	56.1	62.2	55.4	61.8	36.0	45.0	62.2	53.3	23.3	59.4	65.8	41.9	
GROSS DOMESTIC PRODUCT at market prices			1980	US \$ billion ¹¹	140.0	77.0	116.5	253.3	66.4	49.9	651.9	40.4	2.8	17.8	394.0	1 040.0	4.6	167.6	23.3 ⁹	57.3	24.1	211.1	122.8	101.5	52.9	522.9	2 587.1	56.2 ⁸	
Average annual volume growth ⁶			1975 to 1980	%	2.5	3.5	2.9	3.0	2.6	3.1	3.6	4.4	3.7	3.9	3.8	5.1	2.3	2.5	0.7	4.6	5.2	2.2	1.2	1.6	2.8	1.6	3.9	5.6	
Per capita			1980	US \$ ¹¹	9 580	10 250	11 820	10 580	12 950	10 440	12 140	13 310	4 210	12 410	5 190	6 910	8 910	12 570	11 850	7 442	14 020	2 430	5 650	14 760	15 920	1 170	9 340	11 360	2 516
GROSS FIXED CAPITAL FORMATION			1980	% of GDP	22.8	25.3	21.4	23.1	18.3	24.6	23.6	23.5 ⁸	26.5	27.9	20.0	31.7	25.3	21.0	17.8	25.0	20.9	19.6	20.3	23.8	18.0	17.8	18.2	35.5	
of which: Transport, machinery and equipment			1979	"	..	9.8	6.0	8.1	7.6	8.6	9.1	8.6	6.6	9.8 ¹⁰	8.0	10.7	9.2 ¹⁰	8.7	7.8	9.9	7.1	6.9 ¹⁰	7.3	7.1	..	9.3	7.4	..	
Residential construction			"	"	4.2 ¹⁰	14.2	6.5	5.3	6.9	6.3	6.4	6.5	9.2	5.7	6.4 ¹⁰	5.1	7.4	6.6 ¹⁰	5.8	3.3	5.3	3.7	..	5.0	..	3.8	3.0	4.8	7.2
Average annual volume growth ⁶			1975 to 1980	%	1.6	2.2	1.6	2.3	-0.3	-2.2	2.0	5.2	3.8	2.3	7.6	3.5	4.7	1.1	1.4	-7.7	-0.5	4.7	-0.9	-0.2	2.2	-0.2	0.3	3.3	5.7
GROSS SAVING RATIO ¹²			1980	% of GDP	21.4 ¹⁰	26.2	16.3	21.5	14.4	24.8	21.7	23.1	25.6	24.5	19.8	22.3	30.7	50.1	20.1	19.3 ⁹	29.9	20.5	18.9	17.3	26.7	16.6	19.2	18.3	37.0
GENERAL GOVERNMENT																													
Current expenditure on goods and services			1979	% of GDP	16.2	18.0	17.7	19.4	25.2	18.4	14.9	16.3	11.7	20.0	16.1	9.8	15.9	18.1	16.0 ⁹	19.7	14.8	10.8	28.4	12.9	13.7	20.0	17.4	17.6	
Current disbursements ¹³			"	"	29.6 ¹⁰	42.2	46.2	35.8	49.4	34.6	42.1	40.9	29.7	25.0 ¹⁰	41.7 ¹⁰	24.2	43.5	55.1	..	47.1	30.7	26.7	56.8	29.9	23.4	40.0	31.5	..	
Current receipts			"	"	32.5 ¹⁰	44.2	43.2	35.8	50.3	38.2	43.4	42.9	30.6	34.0 ¹⁰	37.8 ¹⁰	35.7	26.6	52.2	..	52.2	26.9	27.5	57.4	33.2	23.8	39.0	32.5	..	
NET OFFICIAL DEVELOPMENT ASSISTANCE			1980	% of GNP	0.5	0.2	0.5	0.4	0.7	0.2	0.6	0.4	..	..	0.2	0.3	..	1.0	0.3	0.8	..	..	0.8	0.2	..	0.3	0.3	..	
INDICATORS OF LIVING STANDARDS																													
Private consumption per capita			1980	US \$ ¹¹	5 800	5 650	7 540	5 950	7 270	5 720	7 690	7 340	2 750	7 560	3 310	4 270	5 220	7 430	7 200	4 550	6 600	1 790	3 950	7 630	10 128	851	5 581	7 370	1 343
Passenger cars, per 1 000 inhabitants			1978	Number	479	272	302	410 ¹²	219	235	327	346	80	339	194	300	185	423	288	395	282	118	178	345	324	11 ¹⁴	256	536	85
Telephones, per 1 000 inhabitants			1979	"	440 ¹⁰	375	352	666	609	470	415	434	281	444 ¹⁰	174	318	460	547	486	545 ¹⁰	423	132	294	772	700	39	480	793	79 ¹⁰
Television sets, per 1 000 inhabitants			1977	"	351 ¹⁴	247 ¹⁴	286	428 ¹⁴	363 ¹⁴	372	308	372	127 ¹⁴	214 ¹⁴	193	224	239 ¹⁰	293 ¹⁴	279	259 ¹⁴	270 ¹⁴	76 ¹⁴	185 ¹⁴	363 ¹⁴	285 ¹⁴	44 ¹⁴	324	571 ¹⁰	199
Doctors, per 1 000 inhabitants			1977	"	1.5 ¹⁴	2.3	2.1	1.8	2.0	1.6	1.6 ¹⁴	2.0	2.2	1.7 ¹⁴	1.2	2.3	1.2	1.1	1.7	1.4	1.5	1.8	1.8 ¹⁴	2.0	0.6	1.5	1.7	1.3	
Full-time school enrolment ¹⁵			1979	% of age group	44.4	32.0 ¹²	61.3 ¹²	64.9 ¹²	57.4 ¹²	68.5	55.9	45.4 ¹⁰	45.4 ¹⁰	..	50.5	43.9 ¹⁴	71.4	37.3 ¹⁰	65.0	44.8 ¹²	65.0	33.4 ¹⁴	41.3 ¹⁰	56.3 ¹⁴	70.1 ¹²	12.7 ¹⁰	46.2 ¹²	75.0	52.2
Infant mortality ¹⁷			1980	Number	11.0	13.9	11.2 ¹²	10.9 ¹²	8.8 ¹²	7.7 ¹²	10.0	13.5 ¹²	18.7 ¹²	5.4 ¹²	12.4 ¹²	14.3	7.4	11.5	8.7 ¹²	12.6 ¹²	8.8 ¹²	26.0 ¹²	11.1	6.7	8.5 ¹²	..	11.8	12.6	33.4 ¹⁰
WAGES AND PRICES																													
Hourly earnings in industry ¹⁸			Average annual increase	%	10.3	7.4	8.8	10.1	11.2	11.1	13.6	6.1	24.2	43.4	16.6	21.2	8.4	..	6.1	15.4	9.4	14.5	25.7	9.9	2.8	35.5	14.9	8.5	19.0
Consumer prices			1975 to 1980	%	10.6	5.3	6.4	8.7	10.4	10.7	10.5	4.1	16.3	41.5	14.1	16.6	6.5	6.1	6.0	14.4	8.4	21.8	18.6	10.5	2.3	50.1	14.4	8.9	17.9
FOREIGN TRADE																													
Exports of goods, fob			1980	US \$ million ¹¹	22 068	17 364	64 500 ⁷	64 944	16 740	14 148	111 312	191 688	5 184	924	8 508	77 904	129 588	—	73 836	5 421	18 492	4 644	20 820	30 924	29 616	2 748	115 176	220 704	8 568
As percentage of GDP			"	%	15.8	22.8	55.7	25.8	25.2	28.2	17.2	23.3	12.3	33.0	47.8	19.8	12.5	—	46.0	23.3	32.2	19.3	9.8	25.3	29.9	5.2	22.4	8.6	15.2
Average annual volume increase			1975 to 1980	%	3.7	9.3	5.9	6.3	6.2	10.5	6.8	6.3	8.9	12.7	9.6	5.9	9.2	—	4.6	8.1	9.2	..	9.9 ¹²	2.1	6.3	4.7	4.7	6.7	3.8
Imports of goods, cif			1980	US \$ million ¹¹	20 208	24 252	71 676 ⁷	58 992	19 320	15 612	134 856	185 856	10 632	996	11 148	99 708	141 108	—	76 872	5 468	16 956	9 300	34 176	33 420	36 336	6 252	120 156	241 200	14 436
As percentage of GDP			"	%	14.5	31.8	61.8	23.4	29.1	31.2	20.8	22.5	25.2	35.6	25.4	13.6	—	47.9	23.5	29.5	38.7	16.1	27.4	36.7	11.8	23.3	9.4	25.7	..
Average annual volume increase			1975 to 1980	%	5.0	9.7	5.5	3.2	3.2	2.3	8.7	7.3	3.9	4.9	10.3	7.6	4.4	—	4.7	0.9	4.4	..	0.7 ¹²	0.8	9.0	-4.1	3.9	6.7	0.5
TOTAL OFFICIAL RESERVES ¹⁴			End-1980	US \$ million	2 044	6 223	9 349 ⁷	4 029	3 459	1 914	30																		

1. Partly from national sources.
2. Total resident population.
3. Private and socialised sector.
4. According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
5. Social product.
6. At constant prices.
7. Including Luxembourg.

8. Excluding ships operating overseas.
9. Fiscal year beginning April 1st.
10. Fiscal year beginning July 1st.
11. At current prices and exchange rates.
12. Gross saving = Gross national disposable income minus private and government consumption.
13. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
14. 1976.

15. Children aged 15-19.
16. 1974.
17. Deaths in first year per 1 000 live births.
18. Figures are not strictly comparable due to differences in coverage.
19. 1978.
20. 1975.
21. 1972.
22. 1977.
23. 1979.

24. Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, series Total Reserves).
25. 1976 to 1980.

Note: Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Statistical Office of the European Communities, Basic Statistics of the Community; IMF, International Financial Statistics; UN, Statistical Yearbook.

National sources have also been used when data are not available according to standard international definitions.

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