

1990/1991



# OECD ECONOMIC SURVEYS

FRANCE

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ECONOMIC SURVEYS

**FRANCE**

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## BASIC STATISTICS OF FRANCE

### THE LAND

|                                      |       |                                   |           |
|--------------------------------------|-------|-----------------------------------|-----------|
| Area (1 000 sq.km)                   | 549.1 | Major cities (1990), inhabitants: |           |
| Agricultural area (1 000 sq.km) 1989 | 307.1 | Paris                             | 2 175 110 |
|                                      |       | Marseille                         | 807 726   |
|                                      |       | Lyon                              | 422 444   |

### THE PEOPLE

|                                                |        |                                      |        |
|------------------------------------------------|--------|--------------------------------------|--------|
| Population, 1.1.1990 (thousands)               | 56 304 | Total labour force (1989, thousands) | 24 314 |
| Number of inhabitants per sq.km                | 102    |                                      |        |
| Total increase in population, 1990 (thousands) | 287    |                                      |        |

### PRODUCTION

|                                                                       |        |                                                                |       |
|-----------------------------------------------------------------------|--------|----------------------------------------------------------------|-------|
| Gross domestic product at market prices, in 1989 (billions of francs) | 6098.9 | Origin of the gross domestic product, at market prices (1989): |       |
| GDP per head (US \$) (1989)                                           | 17 022 | Agriculture                                                    | 3.6   |
| Gross fixed investment (1989):                                        |        | Industry                                                       | 24.7  |
| — Per cent of GDP                                                     | 20.8   | Construction                                                   | 5.5   |
| — Per head US \$                                                      | 3547.5 | Services                                                       | 66.2  |
|                                                                       |        | Total                                                          | 100.0 |

### GENERAL GOVERNMENT

(ESNA concepts)

|                                                    |      |
|----------------------------------------------------|------|
| Current expenditure in 1989 (per cent of GDP)      | 46.3 |
| Current revenue in 1989 (per cent of GDP)          | 48.4 |
| Current fixed investment in 1989 (per cent of GDP) | 3.2  |

### FOREIGN TRADE

|                                                              |      |                                                              |      |
|--------------------------------------------------------------|------|--------------------------------------------------------------|------|
| Exports of goods and services, as a percentage of GDP (1989) | 23.3 | Imports of goods and services, as a percentage of GDP (1989) | 23.1 |
| Main exports as a percentage of total exports, 1989 (SITC):  |      | Main imports as a percentage of total imports, 1989 (SITC):  |      |
| Food, beverages and tobacco (0 + 1)                          | 15.2 | Food, beverages and tobacco (0 + 1)                          | 9.8  |
| Machinery and transport equipment (7)                        | 35.7 | Machinery and transport equipment (7)                        | 33.5 |
| Iron and steel products (67 + 68)                            | 7.0  | Iron and steel products (67 + 68)                            | 6.7  |
| Chemical products (5)                                        | 13.9 | Chemical products (5)                                        | 10.9 |
| Textile products (65)                                        | 2.9  | Mineral fuels, lubricants and related materials (3)          | 8.9  |

### THE CURRENCY

|                          |                                                     |        |
|--------------------------|-----------------------------------------------------|--------|
| Monetary unit: the franc | Currency units per US \$, average of daily figures: |        |
|                          | Year 1990                                           | 5.4459 |
|                          | March 1991                                          | 5.3871 |

*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 22nd March 1991.*

•

*After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 15th April 1991.*

•

*The previous Survey of France was issued in March 1990.*

## Introduction

Economic activity remained buoyant in France for 1990 as a whole. For the third consecutive year a substantial number of new jobs were created, and, although it remained at a high level, the unemployment rate fell slightly further. Inflation was kept under control, owing in part to a squeeze on business margins, but company finances remain healthy overall. The current-account deficit increased only modestly. Policies have adhered to two medium-term objectives: *i)* fiscal consolidation in order to reduce the budget deficit to a level consistent with sustainable trends in public debt; and *ii)* the maintenance of a stable franc within the EMS in order to return to a disinflationary path and to work towards eventual European monetary union. These prudent policies have continued to bear fruit as risk premiums embodied in French interest rates have been eliminated; despite the oil-price rise, inflation continued to moderate, and France recorded the second lowest rate among the major seven OECD countries after Germany; finally, the economy entered the recent turbulent period with only a modest public deficit.

However, the conjunctural situation has deteriorated recently as in most other OECD countries. The economy has entered a phase of weaker growth in output and employment in recent months. By year-end, growth even came to a halt, with the pace of demand increases severely reduced by the substantial world-wide rise in uncertainty engendered first by developments in Eastern Europe and then by the crisis in the Persian Gulf; the recessions now under way in a number of partner countries and the appreciation of European currencies against the dollar also weighed on activity. The war in the Gulf may have had a further contractionary effect on demand, as both consumer and business confidence deteriorated markedly. With the end of hostilities, this should recover. Given the expected recovery in foreign markets, lower oil

prices and easing interest rates made possible by disinflation gains and the heightened credibility of the strong franc policy, output growth should improve to rates consistent with the economy's supply potential of about  $2\frac{3}{4}$  per cent by the second half of 1991. While real GDP growth may average  $1\frac{1}{2}$  per cent this year according to OECD projections, inflation should fall to less than 3 per cent, widening the favourable gap with France's trading partners. Nevertheless, the pause in growth may be sufficient to reverse some of the gains made in recent years on the unemployment and budget-deficit fronts.

While the macroeconomic fundamentals are favourable and appreciable progress has been made in terms of structural reform, much remains to be done in this domain. Despite the substantial advances made over the 1980s, product markets remain insufficiently subjected to competitive market forces. Labour-market outcomes are still unsatisfactory, as unemployment remains widespread. The public finances are also in need of attention, especially spending restraint. Expenditure by local authorities and in the social sector (especially on health) has yet to be brought under control, while upward pressures are identifiable in the longer term from retirement pension liabilities and environmental improvements.

Part I of the Survey reports on France's recent economic performance and prospects for the immediate future in the light of the external shocks with which it has had to contend. In Part II the current setting of macroeconomic policies is described and analysed. Part III is devoted to a review of certain structural problems on the national agenda – the labour market, taxation, social-security spending and financing, local government finances and the environment. The main features of France's competition policies is the subject matter of Part IV. Conclusions are presented in Part V.

## **I. Recent trends and prospects**

### **A slowdown in growth**

Real GDP growth in 1990 was some  $2\frac{3}{4}$  per cent, down from the  $3\frac{3}{4}$  per cent recorded in both 1988 and 1989 (Table 1). The slowdown was widespread in terms of expenditure components but was concentrated on exports and fixed capital formation. Sectorally, it would appear to have been most evident in manufacturing where production growth fell from 5.2 per cent to 1.2 per cent, but some slowing was also observed in other secondary and tertiary sectors. Particularly hard hit was the motor-vehicle industry whose four-year-long expansion cycle came to an end. The origins of the slackening actually date back to mid-1989: GDP expanded by 4 per cent in the four quarters ending in the spring of that year, but by an average of only 3 per cent (at annual rates) during the following period to the third quarter of 1990. A second stage of decline set in in the aftermath of the Gulf crisis, when the economy began to shrink for the first time in nearly four years. While even provisional outcomes for the year are not yet available for the majority of France's European partners, it would appear that the easing in activity elsewhere was slightly less pronounced on average, although to a large extent the buoyancy of the German economy, and to a certain degree those of the economies most closely tied to it, has masked a slowdown which was at least as marked in Italy, as well as those countries that are acknowledged to be in recession.

The principal factors which have played a role in the evolution of the French economy over the past year are: the achievement of German unification and other changes in Eastern Europe; the increases in both oil prices and

Table 1. Recent economic indicators<sup>1</sup>

|                                        | 1989   |      | 1990   |      | 1990Q1 |                   | 1990Q2 |                    | 1990Q3 |                    | 1990Q4 |                   |
|----------------------------------------|--------|------|--------|------|--------|-------------------|--------|--------------------|--------|--------------------|--------|-------------------|
|                                        | France | EC   | France | EC   | France | EC                | France | EC                 | France | EC                 | France | EC                |
| <b>Supply</b>                          |        |      |        |      |        |                   |        |                    |        |                    |        |                   |
| GDP                                    | 3.7    | 3.4  | 2.8    | 2.8  | 3.6    | 5.9               | 0.7    | 0.2                | 5.2    | 2.7 <sup>3</sup>   | -0.5   | 0.2 <sup>4</sup>  |
| Stockbuilding <sup>2</sup>             | -0.1   | -1.4 | -0.1   | 1.4  | -2.4   | 3.8 <sup>3</sup>  | 1.6    | -4.6 <sup>3</sup>  | 4.5    | 2.9 <sup>3</sup>   | -4.9   | 0.0 <sup>4</sup>  |
| Imports                                | 8.3    | 8.9  | 5.7    | 6.4  | 5.8    | 20.1 <sup>3</sup> | -3.0   | 9.9 <sup>3</sup>   | 11.9   | -4.0 <sup>3</sup>  | -1.8   | 16.5 <sup>4</sup> |
| Industrial production                  | 4.0    | 3.4  | 1.1    | 1.9  | -3.5   | 0.1               | 4.4    | 1.1                | 11.0   | 4.1                | -15.2  | -3.6              |
| Retail sales, volume                   | 1.5    | 3.8  | 0.5    | 2.6  | 2.0    | -5.5              | 0.7    | 4.8                | -3.1   | 6.4                | 2.8    | 3.9               |
| <b>Demand</b>                          |        |      |        |      |        |                   |        |                    |        |                    |        |                   |
| Household consumption                  | 3.1    | 3.1  | 3.0    | 3.1  | 4.8    | 5.8 <sup>3</sup>  | 2.5    | 0.8 <sup>3</sup>   | 0.9    | 1.8 <sup>3</sup>   | 2.1    | 2.0 <sup>4</sup>  |
| Government consumption                 | 1.6    | 0.8  | 3.3    | 2.3  | 7.0    | 2.6 <sup>3</sup>  | -0.5   | 1.7 <sup>3</sup>   | 5.4    | 3.3 <sup>3</sup>   | 5.0    | 4.5 <sup>4</sup>  |
| Total investment                       | 5.9    | 6.4  | 3.7    | 3.9  | 4.6    | 28.9 <sup>3</sup> | 1.5    | -12.3 <sup>3</sup> | 3.1    | 0.4 <sup>3</sup>   | -3.3   | 0.5 <sup>4</sup>  |
| Final domestic demand                  | 3.4    | 3.6  | 3.2    | 2.4  | 5.1    | 4.7 <sup>3</sup>  | 1.7    | 1.2 <sup>3</sup>   | 2.2    | 1.6 <sup>3</sup>   | 1.4    | 2.1 <sup>4</sup>  |
| Exports                                | 10.5   | 8.8  | 4.6    | 5.8  | 9.9    | 1.0 <sup>3</sup>  | -12.9  | 20.4 <sup>3</sup>  | 6.2    | -11.6 <sup>3</sup> | 10.5   | 9.6 <sup>4</sup>  |
| <b>Manufacturing</b>                   |        |      |        |      |        |                   |        |                    |        |                    |        |                   |
| Orderbooks <sup>5</sup>                | 16.3   | 2.5  | -8.4   | -9.5 | 2.0    | -3.3              | -1.7   | -4.5               | -9.3   | -11.5              | -24.7  | -18.6             |
| Finished goods stocks <sup>5</sup>     | -0.2   | 4.6  | 15.8   | 9.6  | 11.0   | 8.1               | 13.0   | 8.6                | 16.3   | 9.6                | 22.7   | 12.2              |
| Capacity utilisation rate <sup>5</sup> | 85.2   | 80.7 | 85.5   | 78.7 | 85.3   | 79.7              | 86.3   | 79.3               | 85.7   | 78.6               | 84.6   | 77.2              |
| Leading indicators, end period         | -0.6   | 0.0  | -5.9   | -2.7 | -1.9   | -2.0              | -1.9   | -0.3               | -12.7  | -3.9               | -6.8   | -5.0              |
| <b>Labour market</b>                   |        |      |        |      |        |                   |        |                    |        |                    |        |                   |
| Unemployment rate <sup>5</sup>         | 9.4    | 9.0  | 9.0    | 8.4  | 9.0    | 8.5               | 9.0    | 8.3                | 9.0    | 8.3                | 9.0    | 8.3               |
| Employment                             | 1.2    | 1.7  | 1.1    | 1.6  | -      | -                 | -      | -                  | -      | -                  | -      | -                 |

1. Growth rates in per cent – seasonally adjusted at annual rate, unless otherwise indicated.

2. Contributions to GDP growth.

3. Only France, Germany, United Kingdom and Italy.

4. Only France, Germany and United Kingdom.

5. In level.

Sources : OECD, *Quarterly National Accounts, Main Economic Indicators* and Secretariat estimates.

overall uncertainty resulting from the Gulf crisis; the conjunctural slowdown in demand in North America, the United Kingdom and several other smaller countries; and the non-accommodating stance of domestic monetary policy.

The process of *German unification*, which culminated in complete union in October, is likely to have favourable long-term effects resulting from the

creation of a bigger market for French exports through an increase in potential output growth in the unified Germany. However, the substantial additional need for capital, both in eastern Germany and elsewhere in Central and Eastern Europe, has been generating an increase in real interest rates, especially in EMS countries. The net effect on activity outside Germany is therefore unclear *ex ante*. OECD simulations (see Annex Table A1) suggest that, abstracting from the effects of the inflow of migrants into western Germany resulting from the late-1989 collapse of the Berlin wall, the net impact is likely to be modest in both the short and medium term. The influence of the increase in French interest rates needed, everything else being equal, to maintain the franc/Deutschemmark parity, as well as of the effective appreciation against non-EMS currencies, nearly offsets the export stimulus. However, simulations undertaken by the Direction de la Prévision yield more favourable outcomes (Schimel and Cotis, 1991).

The evidence available thus far would confirm that real interest rates rose substantially early in 1990 as the market digested the probable increase in the demand for capital. While the upward move was world-wide, it was much more marked in Europe. The result was, as expected, an effective appreciation of the EMS currencies. Following the German example, monetary policy remained set firmly against inflation in the light of quickening wage gains and still-tight product markets (see Part II). On the other hand, French merchandise exports to Germany in value terms did increase substantially more rapidly than to other destinations, but the difference was worth only about 0.2 percentage points of GDP. Admittedly, this excludes indirect effects on other German trading partners' demand for French exports, as well as all effects on invisibles; nevertheless, the global impact was arguably of the same order of magnitude as the contractionary influence of tighter monetary conditions. It can be concluded that the potential substantial gains to France from German unification are yet to be realised.

A second and probably more important exogenous change to the economic environment was the *crisis in the Persian Gulf* which generated a major decline in consumer and business confidence in addition to the temporary immediate impact on oil prices. After having fallen through the first half of 1990 to as low as \$15 per barrel in early July, prices jumped to nearly \$40 after the invasion of Kuwait, before falling back to below \$20 during and

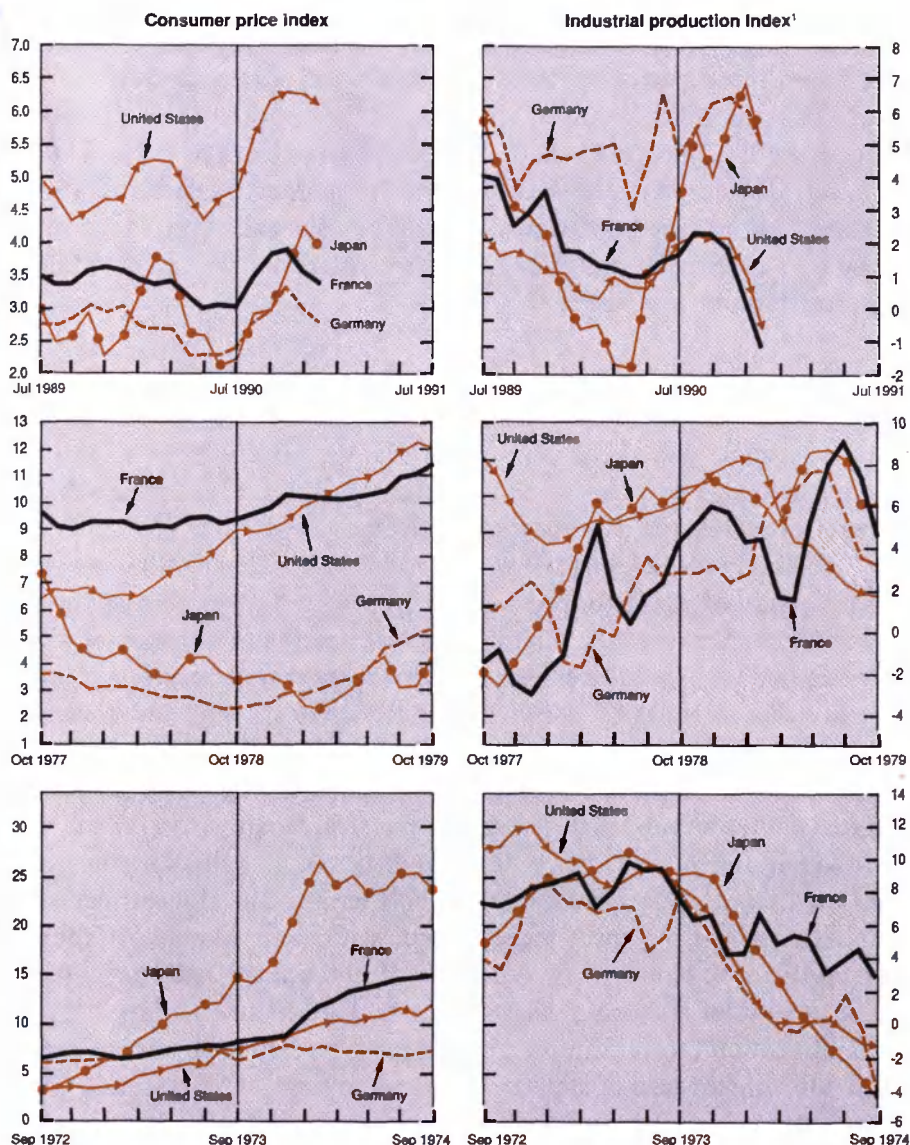
after the ensuing war. However, although the dollar price of imported oil rose by nearly 30 per cent on average in 1990, in franc terms the increase was limited to 9 per cent, compared to 27 per cent in 1989 when the dollar was still strengthening. While France's experience in comparison with other OECD countries in the aftermath of the two previous oil shocks showed a moderately good output performance in the short term, the deterioration in its relative inflation rate was quite significant, especially in 1973-74 (Diagram 1). The deleterious effects of the 1990 shock were expected to be less marked than during the previous stagflationary episodes because:

- i) The oil-price rise was much smaller and less long-lasting, especially in franc terms as mentioned above;
- ii) The intensity of energy and especially oil use has been reduced, France's net oil-import bill having fallen from a peak of 4.3 per cent of GDP in 1981 to 1.1 per cent in 1989;
- iii) Structural reforms should have made the economy more resistant to supply shocks;
- iv) There is likely to be faster recycling internationally, given the military intervention in the Gulf, although most of these benefits have flowed to the United States in the form of official transfers; and
- v) The economic-policy reaction contributed to limiting the pick-up in inflation expectations.

Results of econometric model simulations by INSEE showed that the oil-price increase (put at some \$10 per barrel) would have depressed aggregate output growth by no more than about  $\frac{1}{2}$  point and raise prices by less than a point in the first year after the shock. However, initial indications are that while France's inflation performance has been very satisfactory since the shock, in part because of the subsequent oil-price reversal, output, at least in the industrial sector, has slackened substantially – as much as in the United States, for example.

The slowdown in activity experienced by many of France's trading partners in 1990 led to a shrinkage in the growth of world visible trade volumes from 7.1 to barely 4.5 per cent. Reflecting this, the growth of export demand faced by France was pared from 9.1 per cent to some 6.4 per cent for manufactures, for example. Slowing market growth as well as losses in market

**Diagram 1. INDUSTRIAL OUTPUT AND INFLATION OUTCOMES  
FOLLOWING OIL-PRICE SHOCKS: AN INTERNATIONAL COMPARISON**  
Per cent change over twelve months earlier



1. Three-month moving average.  
Source: OECD, *Main Economic Indicators*.

shares due to diminished competitiveness resulting primarily from the depreciation of the dollar meant that, overall, exports of goods and services managed only a 4.6 per cent increase in volume terms, compared to 10.5 per cent in 1989; a simulation using OECD's INTERLINK model indicates that this difference alone is responsible for about 1 point of reduced GDP growth. Furthermore, the export slowdown was cumulative, with year-over-year volume growth rates falling from 11.5 per cent at the end of 1989 to 3.0 per cent at the end of 1990, parallel to the decline in the growth of the value of OECD imports (in SDR terms) from 12.8 per cent in the fourth quarter of 1989 to 8.4 per cent in the fourth quarter of 1990. The year ended on a particularly weak note, with French merchandise export values in December falling to their lowest level in two years.

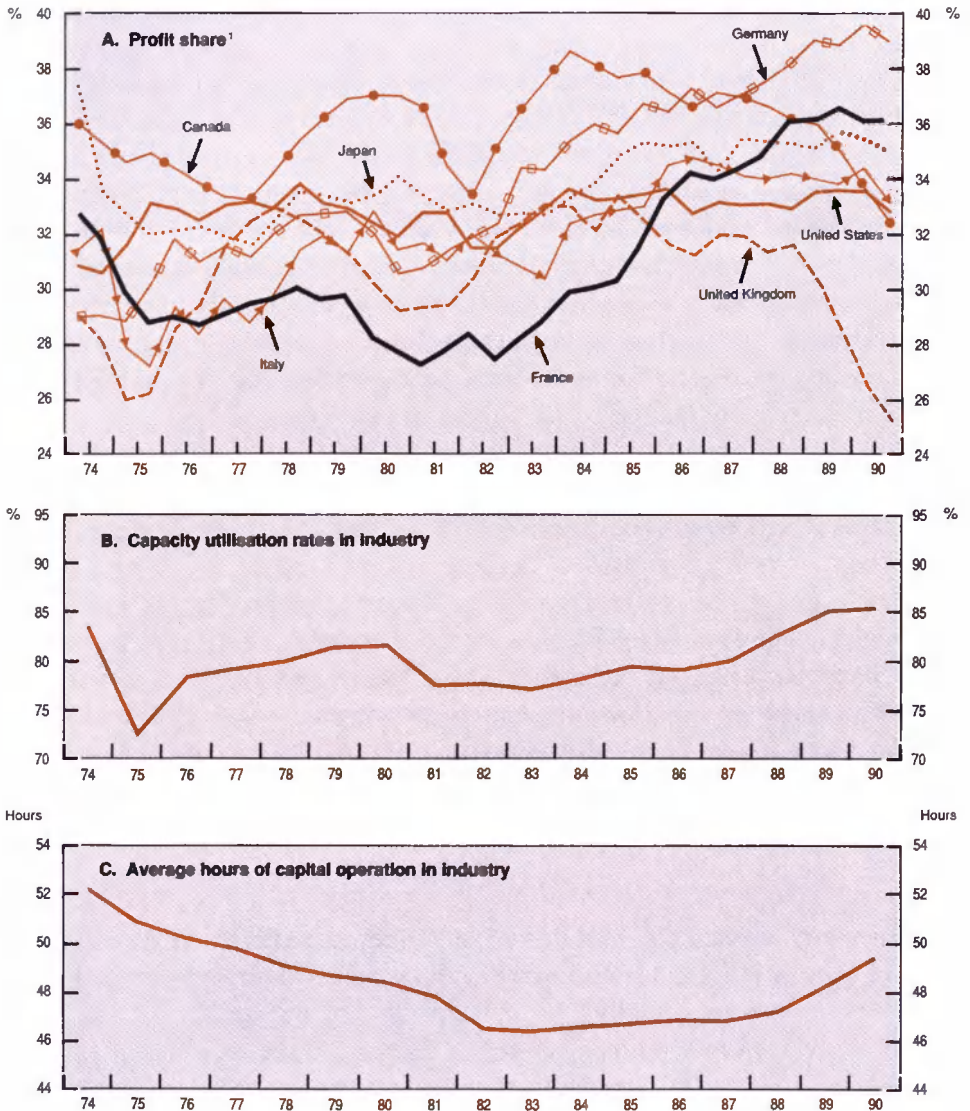
There was also a slight reduction in the pace of domestic-demand growth, especially towards year end. While private consumption was bolstered by substantial income gains ( $3\frac{1}{2}$  per cent in real terms) due primarily to both continuing employment growth and stronger wage rises, consumers limited their purchases after the first quarter, particularly on durable goods and most notably on motor vehicles. This was especially reflected in the growth of consumer credit which continued to drop (reaching 5.7 per cent in the year ending in December 1990), after the three-year period of adjustment following the elimination of credit ceilings. Faced with increased uncertainty following the invasion of Kuwait, consumer confidence fell sharply, and households boosted their saving rate, which rose to 13 per cent in the second half of the year, compared to  $12\frac{1}{4}$  per cent in 1989. Personal saving was probably also stimulated by the evolution of household financial wealth (the French stock market having fallen by 22 per cent through 1990), as well as by the attractions of high real returns available from short-term financial investments. For similar reasons housing investment growth slackened as well. In addition, higher mortgage interest rates, especially in the second half, as well as a bringing forward of residential construction into 1989 due to a late-1989 fear of an imminent end to certain tax advantages served to depress such activity in 1990, after three years of steady rises. Real government investment growth also slowed to a more usual rate (3.7 per cent) from the rapid pace of 1988-1989 (over 7 per cent). Public consumption expenditures rebounded in volume terms, notably in non-wage components.

Given the persistence of high levels of demand and the resulting capacity pressures, especially in industry (Diagram 2, Panel B), firms maintained fairly strong investment growth despite the interruption in the trend improvement in business finances (see below) and the inhibiting effects of high and rising real interest rates. While overall real business investment growth decelerated from 7 to less than 5 per cent, entrepreneurs continued to increase their investment in relation to GDP (Diagram 3, Panel A) and as a share of their value added, although by rather less than in the past: in the non-financial business sector, the rise amounted to only  $\frac{1}{4}$  point, compared to  $\frac{1}{2}$  point in 1989. In the industrial sector, there was even a slight acceleration in growth – from 8 to 9 per cent. However, there was virtual stagnation in construction (given the slowdown in the residential sector) as well as in capital expenditure by the *Grandes Entreprises Nationales*. Investment in the distributive trades and services slowed after consumer demand began to wane in the spring and industrial production started to fall in the late summer.

However, in the course of 1990, and especially after the beginning of the Gulf crisis, there was a noticeable change in the investment climate: businesses began to put the brakes on, as seen in the sharp decline in productive investment in the fourth quarter and the November survey in the industrial sector which indicated a freeze on the intended volume of capital formation in 1991. They also changed the orientation of their capital outlays late in the year. The share of capacity-augmenting investment, which had peaked in 1989 at about 27 per cent, fell sharply in 1990 to 17 per cent; nevertheless, this remains well above the 1982-87 average of only 13 per cent (Diagram 3, Panel C). Parallel to this reversal, the share devoted to modernisation and cost reduction rebounded to over 60 per cent.

Inventory investment followed a very uneven pattern. An unexpected burst of growth in final demand early in the year led to involuntary destocking. Stock levels were actually unchanged in the first quarter for the first time in four years. However, with the easing in demand in the second half came a rapid build-up in stocks, especially of manufactures, as producers were surprised at the swiftness of the conjunctural deterioration. They began to correct the inventory overhang late in the year, leading to the large year-end reduction in industrial production and the corresponding fall in real GDP.

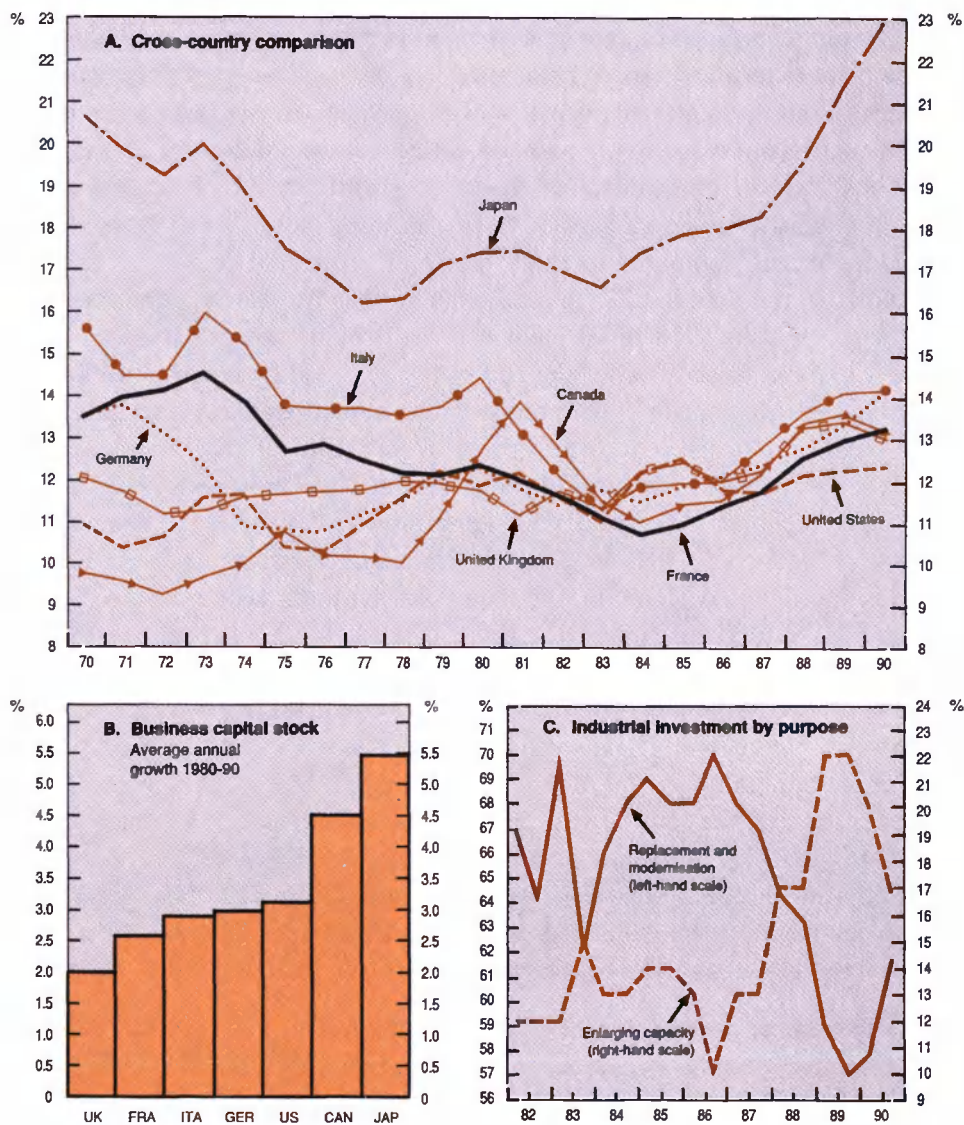
Diagram 2. **INCENTIVES TO INVEST IN THE BUSINESS SECTOR**



1. Ratio of surplus of value-added over estimated labour costs to value added in per cent.

Sources: Centrale de bilans, Banque de France; OECD, *Main Economic Indicators* and Secretariat estimates.

Diagram 3. **BUSINESS INVESTMENT**  
As a percentage of GDP, at constant prices



Note: Some of the recent data are estimates.

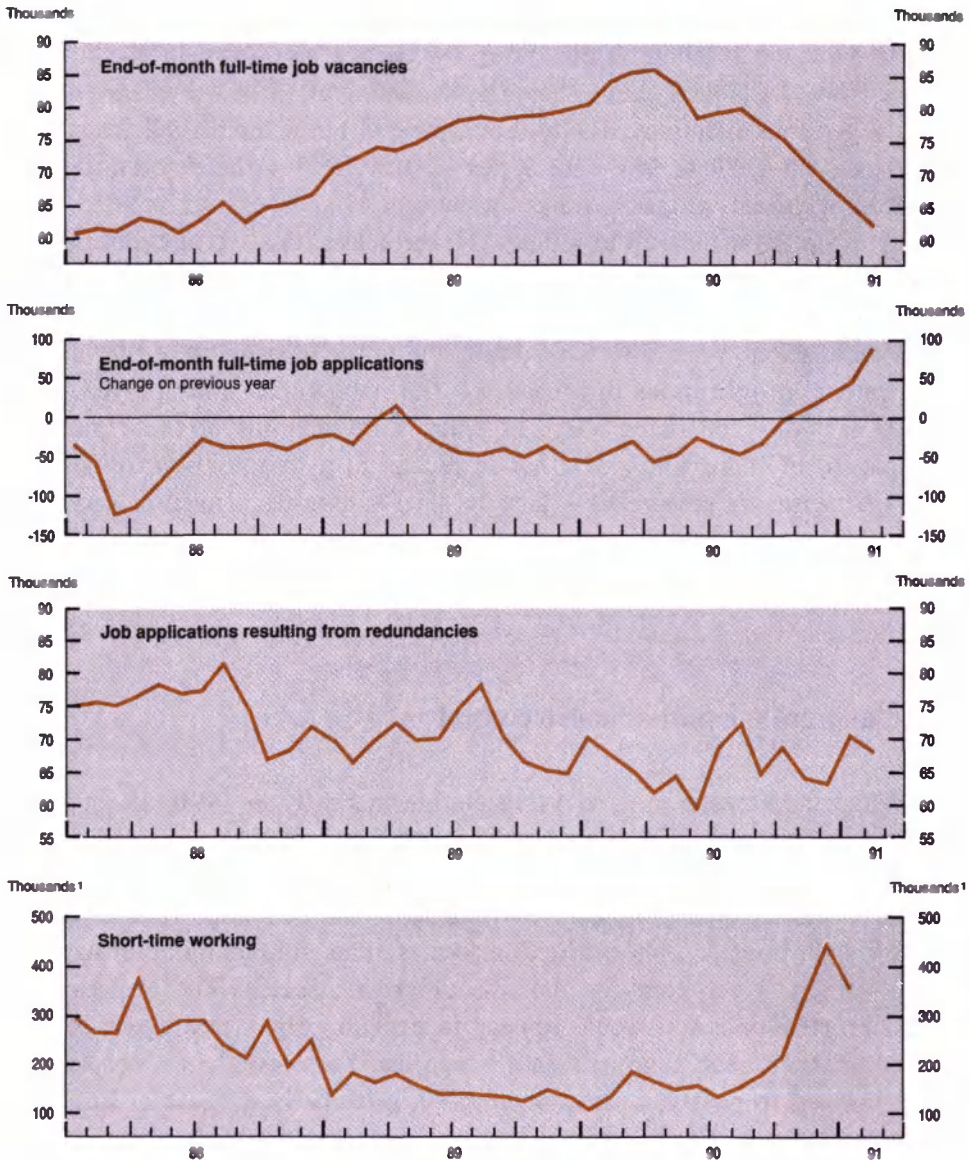
Sources: INSEE, *Enquête sur les investissements dans l'industrie*, and OECD estimates.

## Continued albeit flagging pace of job creation

The economic slowdown influenced the labour market only after a lag. Employment continued to expand at a rapid rate through most of 1990: about 240 000 jobs were created (representing 1.1 per cent of total employment), practically the same rate as during the two previous years, a pick-up in hiring by the non-business tertiary sector offsetting a slight slowdown in the non-farm business sector. Labour productivity growth therefore continued the slowing underway since mid-1989. In the business sector, gains amounted to only 0.6 per cent, compared to an average of 2 ½ per cent during the previous five years. In the manufacturing sector the fall has been even more dramatic: from 6 per cent in 1988 to -0.5 per cent in 1990. However, labour demand appears to have slowed toward the end of the year, led by renewed declines in the manufacturing sector, where employment adjustment seems to have been more rapid than in the past<sup>1</sup>, due, in part, to easier layoff provisions. Much of that reaction came in the form of reductions in average hours worked and in employers' recourse to temporary workers (broadly defined to include agency-temporary workers as well as those on limited-duration contracts and youth traineeships), whose share in the non-farm business sector dropped from 6.5 per cent of total employment at the end of 1989 to 5.9 per cent by the end of 1990. The period of massive growth in agency-temporary employment came to an end. This was primarily a result of cyclical factors, while, to some probably limited extent, it may also have been due to the July 1990 passage of legislation tightening up on the conditions under which such jobs may be offered, although the reform was aimed at limiting abuses. It was only late in the year, with a series of announcements of imminent layoffs and restructurings, notably in the motor vehicles and electronic sectors, that permanent employees began to be subjected to any effects emanating from the adjustment of the labour market to the slowdown in production growth.

There are a number of other signs that the labour market has weakened and that its waning robustness predates the onset of the Gulf crisis (Diagram 4). The rising trend of unfilled vacancies peaked in the spring after five years, with a substantial reversal by year-end. Resort to a reduced work-week (*chômage partiel*) began to move up early in 1990 and jumped dramatically toward the end of the year. And the unemployment rate itself showed

Diagram 4. **SLOWDOWN IN THE LABOUR MARKET**  
Seasonally-adjusted data



1. Number of days<sup>1</sup> for which compensation was paid.

Sources: INSEE and Ministère des Affaires Sociales et de l'Emploi.

signs of ending its trend decline in the spring – it bottomed out in May at 8.9 per cent. By February there were nearly 100 000 more registered unemployed than in August, and the rate had risen to 9.2 per cent, where it had last been in November 1989. While there has been a slowdown in the rate of outflow from the jobless queue since the beginning of 1990 – the share of the newly registered unemployed who found jobs within a month fell from over 13 per cent in 1989 to less than 9 per cent in 1990 – the deterioration in the unemployment situation since the summer has been attributable to a greater extent to a pick-up in inflows. Nevertheless, the average duration of the current spell of unemployment for those so registered began to fall in the spring and by October was marginally below its year-earlier level, but it remains about one year. This is no doubt due to the gearing up of the various government programmes targeted at the long-term unemployed, but also in part due the rising share of exits from the rolls of the registered unemployed of those who are either in receipt of a dispensation to look for work (*dispenses de recherche*) – largely elderly long-term unemployed – or who are absent from control interviews (nearly one-third of all exits in December, 1990).

## **Wage and price inflation under control**

Wage increases continued to accelerate modestly in 1990, although in real terms most of the pick-up occurred in the first half of the year. Since the end of 1988, when year-over-year rates reached a trough of 3½ per cent, there has been a fairly steady upward movement in nominal wage rises of about 0.2 points per quarter, concentrated in sectors other than manufacturing, to a rate of about 5 per cent for the overall private sector. The evolution of consumer price inflation would appear to explain only a small part of this pattern. Rather, real wage increases which had been less than 1 per cent in 1988, jumped to nearly 2 per cent in 1990, principally because of business' comfortable financial position and the labour-market tightness which continued well into the year, despite an unemployment rate stuck at about 9 per cent<sup>2</sup>. The increases were especially significant in the construction sector, due to both labour shortages as well as the adjustment of the job classification

system (see Part III). Wage increases appeared to be more concentrated early in the year than in the past, and there were few signs in the aftermath of the oil-price rise of any break-out above the 5 per cent rate. In fact, survey evidence points to a tighter wage-bargaining posture on the part of employers after the onset of the Gulf crisis. The minimum wage (SMIC) rose in three steps by 6¾ per cent, much of it (5 percentage points) pure indexation-linked. Nevertheless, the authorities did grant a full point of discretionary increase (*coup de pousse*), compared to the 0.15 point granted in 1989. Thus, the SMIC rose through the year by nearly 2 points more than the average blue-collar hourly wage (see Part III), although the average increases in the two measures were fairly similar.

With an average increase of 5.8 per cent in 1990, public-sector wages and salaries per head, abstracting from departures and new arrivals, slightly exceeded the increases granted to their private-sector counterparts for the second consecutive year. Apart from generalised increases of 2.5 per cent during the course of the year and a further increase to compensate for higher-than-expected price inflation in 1988 and 1989, there were substantial raises for certain categories of workers, especially teachers, worth an average of 2.3 percentage points, as well as an assumed 1.8 per cent for career advancements (the so-called "*GVT positif*"). Finally, the seven-year reform of the grid system (*grille*), which began on 1st August<sup>3</sup>, in part also represents categorial increases. Its goal is to raise the salaries of the lowest paid, improve career prospects and compensate new qualifications and responsibilities. The overall cost of the reform is estimated at FF 40 billion over the period (of which FF 12.4 billion for the State). In its first year the cost will be some FF 2½ billion, about 0.3 per cent of the general-government wage bill.

Once combined with the pattern of slowing productivity gains, the pick-up in wage increases resulted in a noticeable acceleration in unit labour costs (Table 2). Cost increases in the non-financial business sector were also under upward pressure from continued rapid growth in interest payments per unit of output (13.4 per cent in 1990, following 11.0 per cent in 1989). However, overall unit cost increases moderated by nearly a point (3.5 compared to 4.4 per cent) due to substantial deceleration in costs of intermediate inputs resulting from the strength of the franc. Since early in 1989, price increases have not kept pace with cost inflation. Faced increasingly with deteriorating

Table 2. Recent cost and price inflation in France and Germany

Annual increases in per cent

|                                  | France |       |      |                   | Germany |       |      |                   |
|----------------------------------|--------|-------|------|-------------------|---------|-------|------|-------------------|
|                                  | 1987   | 1988  | 1989 | 1990              | 1987    | 1988  | 1989 | 1990 <sup>2</sup> |
| Consumer prices                  |        |       |      |                   |         |       |      |                   |
| Total                            | 3.3    | 2.7   | 3.5  | 3.4               | 0.2     | 1.3   | 2.8  | 2.7               |
| Food <sup>1</sup>                | 3.1    | 2.4   | 4.3  | 4.4               | -0.5    | 0.2   | 2.3  | 3.0               |
| Energy                           | -3.1   | -1.0  | 4.8  | 4.6               | -8.0    | -2.8  | 8.7  | 4.4               |
| Services including rent          | 5.6    | 4.2   | 3.0  | 3.2               | 1.9     | 3.0   | 2.5  | 2.3               |
| Rent                             | 5.7    | 6.0   | 5.3  | 4.9               | 1.6     | 2.2   | 3.0  | 3.4               |
|                                  | 1987   | 1988  | 1989 | 1990 <sup>2</sup> | 1987    | 1988  | 1989 | 1990 <sup>2</sup> |
| Export prices                    |        |       |      |                   |         |       |      |                   |
| Goods and services <sup>3</sup>  | -0.4   | 2.3   | 5.2  | -1.6              | -0.8    | 1.8   | 2.6  | 0.6               |
| Goods <sup>4</sup>               | -0.5   | 2.2   | 5.2  | -3.1              | -2.7    | 0.9   | 4.5  | -0.4 <sup>7</sup> |
| Manufactures <sup>4</sup>        | 0.4    | 3.2   | 4.5  | -2.9              | -2.0    | 0.9   | 4.3  | -0.3 <sup>7</sup> |
| Foods <sup>4</sup>               | -4.1   | 0.6   | 6.4  | -5.9              | -6.9    | 4.2   | 6.0  | -2.1 <sup>7</sup> |
| Energy <sup>4</sup>              | -5.3   | -11.3 | 13.7 | 3.7               | -14.6   | -11.1 | 0.8  | 10.5 <sup>7</sup> |
| Raw materials <sup>4</sup>       | -4.4   | 9.4   | 8.9  | -10.6             | -12.0   | 9.9   | 9.2  | -5.7 <sup>7</sup> |
| Services <sup>4</sup>            | 0.2    | 2.7   | 4.9  | 3.6               | 0.7     | 1.8   | 3.2  | 2.2 <sup>8</sup>  |
| Import prices                    |        |       |      |                   |         |       |      |                   |
| Goods and services <sup>3</sup>  | -0.5   | 2.4   | 6.6  | -2.0              | -4.1    | 1.5   | 4.6  | -1.8              |
| Goods <sup>4</sup>               | -1.0   | 2.4   | 6.9  | -2.8              | -6.1    | 0.9   | 7.4  | -0.5 <sup>7</sup> |
| Manufactures <sup>4</sup>        | 0.4    | 3.4   | 5.2  | -3.4              | -4.2    | 1.7   | 5.1  | -1.6 <sup>7</sup> |
| Foods <sup>4</sup>               | -4.5   | 4.3   | 3.5  | -8.1              | -8.9    | -0.6  | 2.5  | -3.4 <sup>7</sup> |
| Energy <sup>4</sup>              | -9.9   | -15.2 | 21.2 | 8.1               | -16.0   | -16.4 | 19.1 | 16.6 <sup>7</sup> |
| Raw materials <sup>4</sup>       | 4.3    | 30.5  | 17.9 | -19.8             | -11.3   | 13.7  | 10.5 | -4.1 <sup>7</sup> |
| Services <sup>4</sup>            | 2.8    | 2.9   | 3.8  | 4.5               | 0.7     | 2.3   | 3.5  | 2.1 <sup>8</sup>  |
| National accounts deflators      |        |       |      |                   |         |       |      |                   |
| GDP/GNP                          | 2.7    | 3.0   | 3.3  | 3.1               | 2.0     | 1.6   | 2.6  | 3.5               |
| Private consumption              | 3.1    | 2.7   | 3.3  | 3.0               | 0.6     | 1.2   | 3.2  | 2.5               |
| Public consumption               | 1.6    | 2.5   | 4.0  | 3.1               | 2.3     | 1.5   | 2.5  | 3.7               |
| Total investment                 | 2.8    | 2.5   | 3.0  | 2.8               | 1.2     | 1.5   | 2.9  | 3.9               |
| Factor costs <sup>5</sup>        |        |       |      |                   |         |       |      |                   |
| Compensation per employee        | 4.2    | 4.3   | 4.6  | 5.2 <sup>6</sup>  | 3.1     | 3.2   | 3.0  | 4.4 <sup>6</sup>  |
| Real labour costs                | 1.8    | 1.4   | 1.3  | 1.8 <sup>6</sup>  | 1.0     | 1.5   | 0.9  | 1.3 <sup>6</sup>  |
| Unit labour costs                | 1.9    | 0.9   | 1.9  | 3.3 <sup>6</sup>  | 2.1     | 0.0   | 0.3  | 2.0 <sup>6</sup>  |
| Unit labour costs, manufacturing | 1.6    | -1.4  | 1.0  | 5.5 <sup>8</sup>  | 3.2     | -0.2  | 1.0  | 2.5 <sup>8</sup>  |
| User cost of capital             | 4.1    | 4.5   | 5.5  | 4.9 <sup>8</sup>  | 0.5     | 1.5   | 3.4  | 3.8 <sup>8</sup>  |
| Unit cost of capital             | 3.9    | 2.9   | 4.3  | 4.8 <sup>6</sup>  | 1.7     | 0.5   | 2.5  | 3.2 <sup>6</sup>  |

1. Including food away from home.

2. First three quarters.

3. On a national accounts basis.

4. Cif data on a balance-of-payments basis.

5. Business sector, except as noted.

6. Projections, first half.

7. First quarter.

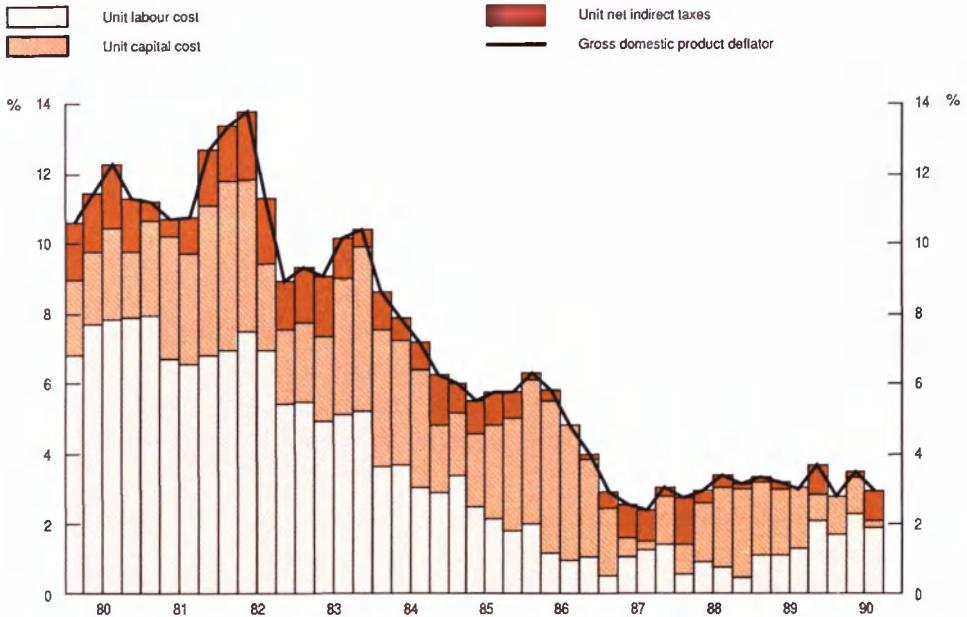
8. First half.

Source : OECD Secretariat estimates.

demand conditions and rising foreign competition because of the appreciating exchange rate, firms were forced to accept a substantial squeeze on their margins, especially on export sales. The share of profit in value added declined moderately from 1989 levels but remained very high by historical standards (Diagram 2, Panel A), and the wage share jumped by nearly a point. The rate of return on capital fell slightly as declines in the profit share and in capital productivity exceeded the decrease in the relative price of capital goods. Despite the moderation in investment growth, the diminishing increases in cash flow brought about a substantial jump in external financing (to 25 per cent from 14 per cent in 1989 and only 6 per cent in 1988). Overall, the increase in the GDP deflator, which has been steady in the range of 3 to 3¾ per cent since mid-1988, was held to about 3 per cent in 1990, as the pick-up in the pace of unit-labour-cost growth was entirely offset by the evolution of unit capital costs (the aforementioned profit squeeze) (Diagram 5). The prices of both exported and imported goods and services actually fell in franc terms, with little change in the overall terms of trade.

Increases in consumer prices during 1990 remained under control, and France recorded the second lowest rate of change in consumer prices among the major seven countries. In fact, outcomes at the end of the year were surprisingly good (3.4 per cent year over year in December, as compared to 3.6 per cent a year earlier), as an inflationary spiral was avoided following the oil-price increase. Indeed, when crude oil prices eased in the autumn, consumer prices fell for two consecutive months – a first since 1965. The energy component contributed only 0.3 points to the through-the-year price rise (compared with 0.2 in 1989) and was more than offset by the easing in food price increases. They dropped from 5 to 3 per cent through the year (worth nearly ½ a point in terms of the overall index). Thus, underlying inflation – defined to exclude both food and energy prices – was little changed, moving up during the year only to 2.9 from 2.6 per cent. However, a further jump to 3.3 per cent took place in early 1991. Most disquieting has been the slow but sustained acceleration in private-sector services prices since the late summer of 1989 in line with the evolution of wage costs. Price increases for private-sector manufactures remained in the 2 per cent range thanks to a further cut in the top VAT rate in September but have since the beginning of 1991 picked up to about 2½ per cent following the decline in the value of the franc. Rises

Diagram 5. **CONTRIBUTIONS TO CHANGES IN THE GDP  
IMPLICIT DEFLATOR**  
Four-quarter change



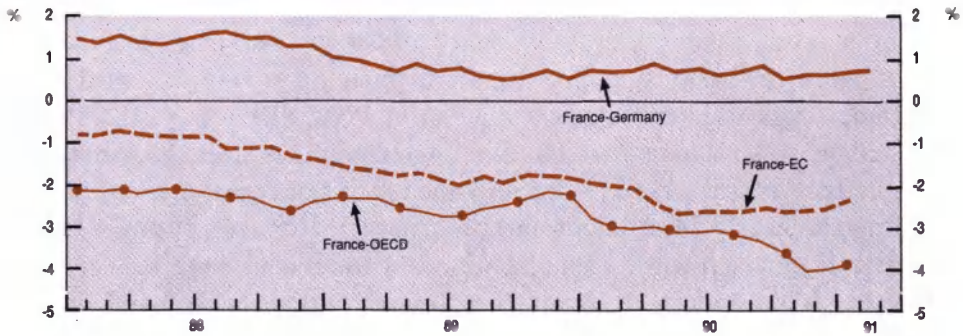
Source: OECD, *National Accounts*.

in rents fell back from 5.3 to 4.5 per cent (the lowest rate since 1972), due to the renewal of controls in the Paris region and the small increases in construction costs upon which most leases are based.

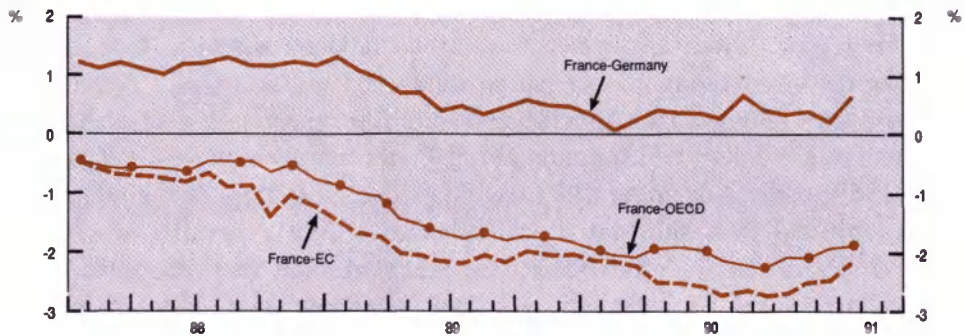
Finally, in terms of relative performance on a GDP-deflator basis, the inflation differential with respect to Germany was reversed for the first time in the year ending in the third quarter (Diagram 6). However, the better-known CPI differential remained at about 0.6 points, largely due to a gap of 1.7 points on services excluding rent. Consumer-price inflation differentials in favour of France continue to widen with respect to a majority of other OECD countries.

**Diagram 6. INFLATION DIFFERENTIALS**  
Twelve-month change

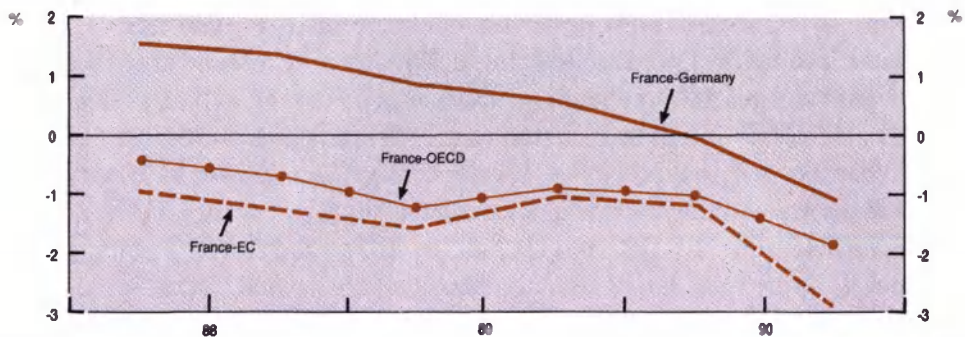
**A. Consumer price index**



**B. Consumer price index excluding food and energy**



**C. GDP deflator**



Sources: OECD, *Main Economic Indicators* and *National Accounts*.

## Adequate external balance

Although there have been some notable changes, France's balance of payments has recently been subject primarily to forces of continuity. The current account remains in small deficit, offset by net long-term capital inflows, while the basic balance continues to fluctuate around zero (Table 3). The trade balance deteriorated once again in 1990, albeit only slightly (by FF 6 billion on a customs basis) and in any case by less than the increase in the oil import bill (nearly FF 11 billion) and the loss of export markets in Iraq and Kuwait (nearly FF 3 billion in goods alone<sup>4</sup>). However, strong German domestic-demand growth meant that France's traditional large and growing deficit on visible trade with its principal trading partner peaked and showed signs of rapid reversal by year end<sup>5</sup>.

Although it widened only minimally, the *merchandise trade* account remains fragile. Given an acceleration in unit labour costs in manufacturing (4.2 per cent over the most recent four quarters, compared to 1.1 per cent in the previous four quarters), combined with the appreciation of the franc against the US dollar, which amounted to 35 per cent from the latter's peak in May 1989 to the November 1990 trough, French exporters of manufactures were subjected to a substantial loss of relative cost competitiveness (Diagram 7, Panel A). In order to try to safeguard their market shares, they reacted by absorbing a substantial share of the appreciation (one-half according to official estimates) through a compression of profit margins rebuilt over the previous four or five years. Dollar depreciation also proved burdensome through its indirect depressing effect on the growth of markets in other European countries. Given a substantial slowdown in market growth (from over 9 per cent in 1989 to about 6½ per cent in 1990), as well as problems in Airbus assemblies and deliveries due to a strike at British Aerospace<sup>6</sup>, manufactured exports managed only a 5.4 per cent volume growth rate last year, and France's market share declined, although slightly less than in the rest of the EC (Diagram 7, Panel B). In the key German market, French goods producers appear to have gained market share: while German imports increased by about 8 per cent in value terms, French exports to that destination rose over 11 per cent. Nominal import growth continues to exceed that of GDP, and the gap between the import penetration ratios of France and the

**Table 3. Balance of payments**  
FF billions

|                                                 | 1988  | 1989   | 1990   | 1990Q1 | 1990Q2 | 1990Q3 | 1990Q4 |
|-------------------------------------------------|-------|--------|--------|--------|--------|--------|--------|
| <b>Current balance</b><br>(Seasonally adjusted) | -26.6 | -27.1  | -40.9  | -8.6   | -7.8   | -12.5  | -12.0  |
| <i>of which:</i>                                |       |        |        | -3.2   | -13.0  | -17.0  | -6.2   |
| Goods                                           | -50.4 | -64.7  | -73.0  | -15.1  | -17.2  | -23.1  | -17.6  |
| Services                                        | 27.5  | 44.8   | 33.6   | 6.8    | 11.1   | 8.6    | 7.2    |
| Other goods and services                        | 36.9  | 40.9   | 42.8   | 10.9   | 11.0   | 10.0   | 10.8   |
| Unilateral transfers                            | -40.6 | -48.0  | -44.3  | -11.1  | -12.7  | -8.0   | -12.4  |
| Private                                         | -14.5 | -12.2  | -15.0  | -4.1   | -3.5   | -3.7   | -3.7   |
| Official                                        | -26.1 | -35.9  | -29.2  | -7.1   | -9.3   | -4.2   | -8.7   |
| <b>Capital transfers<sup>1</sup></b>            | -     | -5.7   | -30.0  | -22.1  | -4.8   | -0.1   | -3.0   |
| <b>Long-term capital</b>                        | 3.2   | 55.0   | 59.7   | 26.3   | -0.3   | 25.9   | 7.8    |
| <i>of which:</i>                                |       |        |        |        |        |        |        |
| Trade credits                                   | 13.7  | 8.4    | 9.8    | 0.6    | 3.1    | 3.9    | 2.1    |
| Direct investment                               | -33.1 | -54.3  | -98.7  | -15.4  | -37.7  | -22.5  | -23.1  |
| Outward                                         | -76.0 | -115.2 | -141.5 | -25.8  | -53.2  | -29.5  | -32.9  |
| Inward                                          | 42.9  | 60.9   | 42.8   | 10.5   | 15.5   | 7.0    | 9.8    |
| Public investment                               | -2.5  | -3.0   | -2.8   | -0.3   | -1.8   | -0.5   | -0.3   |
| Loans                                           | -20.1 | -39.6  | -1.5   | 15.2   | -3.0   | -18.5  | 4.8    |
| Private non-financial                           | 6.7   | -3.3   | -1.6   | -1.5   | -5.9   | -0.1   | 5.4    |
| Financial                                       | -0.7  | -10.8  | 8.5    | 4.7    | 9.4    | -9.4   | 3.8    |
| Public                                          | -26.1 | -25.5  | -8.4   | 12.0   | -6.5   | -9.0   | -4.9   |
| Portfolio                                       | 45.2  | 143.4  | 152.9  | 26.1   | 39.1   | 63.4   | 24.4   |
| By residents                                    | -24.6 | -42.4  | -43.4  | -16.1  | -14.3  | -2.5   | -10.5  |
| By non-residents                                | 69.8  | 185.9  | 196.4  | 42.2   | 53.3   | 66.0   | 34.9   |
| <b>Short-term capital<sup>2</sup></b>           | 13.7  | -11.5  | -21.6  | 24.1   | 16.9   | 11.9   | -74.5  |
| <i>of which:</i>                                |       |        |        |        |        |        |        |
| Private, non-financial <sup>2</sup>             | -5.8  | -75.6  | -112.5 | -61.7  | -41.0  | -35.4  | 25.7   |
| Financial <sup>2</sup>                          | 14.0  | 37.0   | 150.4  | 100.4  | 72.2   | 70.2   | -92.4  |
| Public <sup>2</sup>                             | 5.5   | 27.1   | -59.6  | -14.6  | -14.3  | -22.8  | -7.8   |
| Official reserves <sup>2</sup>                  | 30.2  | 3.4    | -60.4  | -7.2   | -18.1  | -20.4  | -14.7  |
| <b>Errors and omissions</b>                     | 4.2   | -10.7  | 32.5   | -20.0  | -4.0   | -25.2  | 81.7   |
| <b>Memorandum items:</b>                        |       |        |        |        |        |        |        |
| Basic balance <sup>3</sup>                      | -17.9 | 22.2   | -10.9  | -4.1   | -13.0  | 13.3   | -7.2   |
| Overall balance <sup>4</sup>                    | -19.6 | -64.1  | -90.9  | -85.8  | -58.0  | -47.3  | 100.2  |
| Balance on official settlements <sup>5</sup>    | -5.6  | -27.1  | 59.5   | 14.6   | 14.2   | 22.9   | 7.8    |

1. New category as of 1989 comprising LDC debt forgiveness, formerly classified under unilateral transfers.

2. A plus sign denotes a decrease in claims abroad or an increase in foreign liabilities; a minus sign denotes an increase in claims abroad or a decrease in foreign liabilities.

3. Sum of balances on current and long-term capital accounts and on capital transfers.

4. Sum of the basic balance and the balance on short-term private, non-financial capital operations as well as net errors and omissions.

5. Sum of overall balance and balance on short-term financial capital operations.

Source : Ministère de l'Economie, des Finances et du Budget and Banque de France, *La balance des paiements de la France*, 1989 Annual Report and official updates.

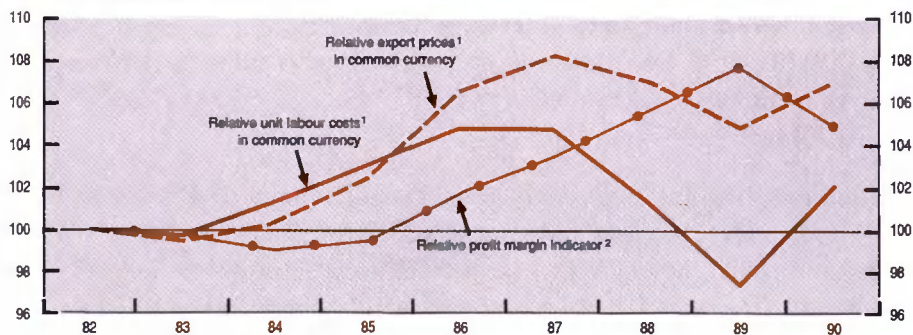
EC has maintained its steady narrowing since 1986 (Diagram 7, Panel C). In manufactures, the differential was even eliminated in 1990, while for services there has again been a slight widening. In value terms, on a customs basis, the trade deficit grew once again (from FF 44 to 50 billion), in spite of a moderate pick-up in transport equipment export volumes as well as a small improvement in the terms of trade, concentrated in the period prior to the Gulf crisis and in non-energy aggregates.

While visible trade outcomes have been broadly stable, France's surplus on *services* (broadly defined) has fallen. This deterioration is to be found principally on factor income account which worsened by some FF 9.5 billion (after FF 3 billion the previous year), representing increased interest and dividend payments on portfolio capital inflows which have grown rapidly in recent years. The surplus on non-factor services remained broadly unchanged. After a strong increase in income in 1989 (26 per cent) due to a "bicentenary" effect, the surplus on tourism widened slightly further in 1990 to some FF 42 billion as France continues to gain market share at the expense of its Mediterranean neighbours: for example, the traditional bilateral deficit with Italy was reversed for the first time in 1989. The balance on *unilateral transfers* improved somewhat in 1990; a specific category of "capital transfers" has been created to include LDC debt forgiveness, such as the FF 20 billion announced by the authorities at the Dakar summit in 1989. This forgiveness is excluded from the current account pending IMF decisions regarding the proper accounting for such transactions in 1993. The deficit on *current account* thus defined was stable in 1989 and showed a moderate rise in 1990 but still represents only 0.7 per cent of GDP; including the transfers associated with debt forgiveness, the 1990 deficit would have exceeded 1 per cent of GDP.

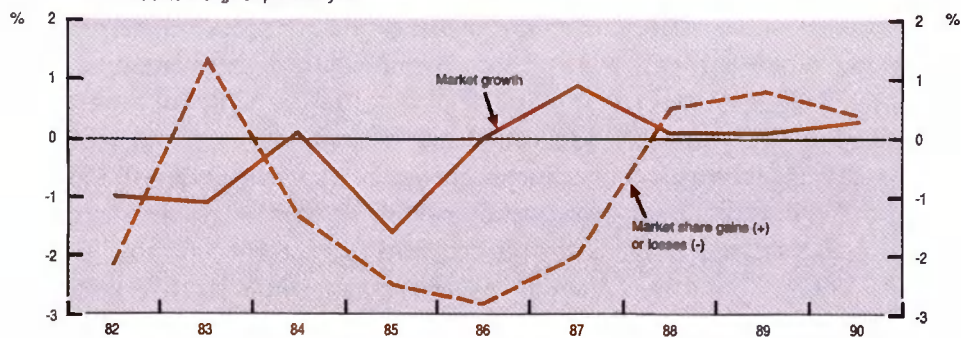
Outflows of *direct investment capital* continue to rise at a rapid pace, as they have done since 1986. From less than FF 20 billion per year in the early 1980s, the outflow reached FF 115 billion in 1989 and FF 141 billion in 1990. This very rapid "external growth" – or growth through acquisition – resorted to by French enterprises<sup>7</sup> has been usually explained as a belated participation in the world-wide internationalisation and restructuring of business, with France's slow start attributable to exchange controls and the poor financial situation of domestic firms. Whether this foreign direct investment activity is

Diagram 7. **COMPETITIVENESS, EXPORT PERFORMANCE AND IMPORT PENETRATION**

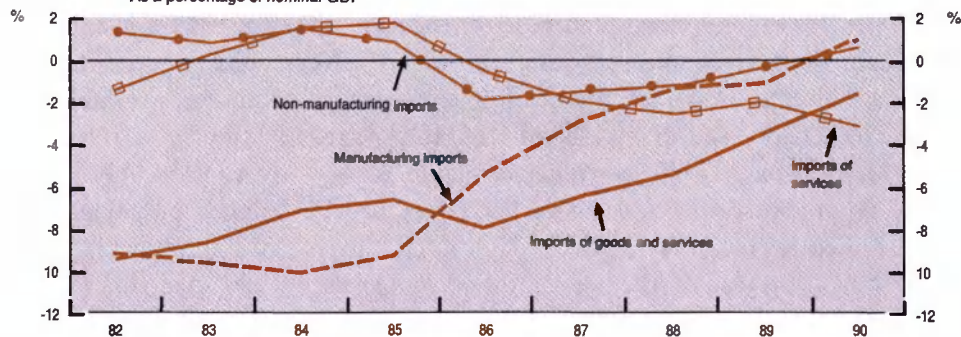
**A. Indicators of competitiveness**  
1982 = 100



**B. Export performance - France-EC differential**  
Volume change on previous year



**C. Import penetration - France-EC differential**  
As a percentage of nominal GDP



1. In manufacturing. A rise in the relative cost or price curves indicates a loss of competitiveness.

2. Export prices/relative labour costs in manufacturing.

Source: OECD estimates.

complementary to or a substitute for increases in fixed investment in France and the service of foreign markets through exports remains an unsettled question. Some recent research has shown that foreign investment can stimulate the exports of firms undertaking such operations (Barlet, 1989), especially given the preponderance of intra-firm transactions in international trade (Julius, 1990). However, the ratio of exports to total sales in the sample of very large firms surveyed by Crédit National declined over the recent period of strong foreign investment outflows.

More puzzling has been the relatively small amount of direct investment inflows into France. Inward investment was only about a third of outward investment in 1990, having fallen back to 1988 levels. Again, the level of the dollar is probably one factor, as is the reputedly small amount of local and regional incentives provided and the already rather high level of foreign control, at least in manufacturing<sup>8</sup>. France's image, which may in some quarters remain that of an interventionist and protectionist nation, despite the substantial progress in structural reform achieved since 1983, may also be inhibiting foreign investors (see Part IV). Now that virtually all regulatory barriers have been removed and confidence in franc-denominated portfolio investments has increased, one can expect that greater buoyancy will soon be manifest for inward direct investments as well. Indeed, a recent survey of French and foreign intermediaries in the field of mergers and acquisitions (FREF, 1991) showed that French regulatory and administrative practices are no longer considered to be barriers to inward investment.

*Long-term portfolio-capital* inflows continue to grow from already high levels. Besides the increased credibility of the fixed parity of the franc and the significant long-term interest-rate differentials, foreigners appear to be attracted by the range of financial investment opportunities available in France, especially shares and bonds, notably issued by the State (OATs). *Short-term financial and non-financial capital* flows were considerably influenced by operations (without any net effect on the balance of payments) which aimed at avoiding relatively high domestic reserve requirements. The reduction of the required-reserves ratios in October 1990 (see Annex II) eliminated the incentives to undertake such investments. At the same time, French banks became substantially more indebted abroad on a net basis, largely because of the aforementioned flow of deposits through their foreign

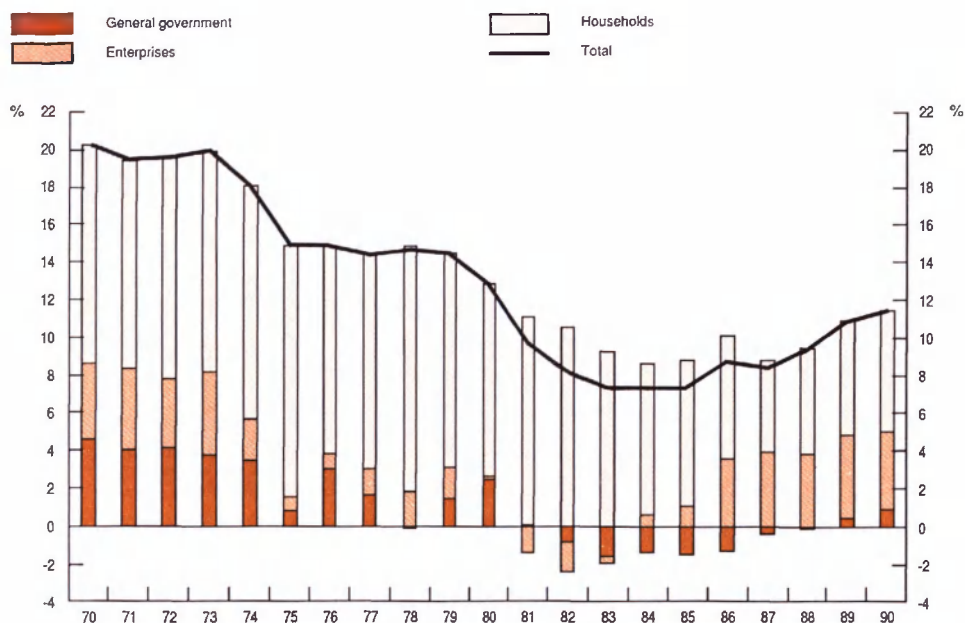
subsidiaries, but also because of a reduction in outflows taking the form of net forward sales of francs by non-residents. Finally, *official reserves* rose in 1990 for the first time since 1986, as the authorities benefited from the greater credibility of the strong franc policy, which allowed the parity to be maintained while about FF 60 billion in reserves were accumulated.

## **The level of national saving**

It has often been argued over the past few years that France, like other nations, is suffering from a "shortage" of saving. Proponents of this view generally point to the decline in the gross *household* saving rate from 20 per cent in 1975 to some 11 per cent in 1987, the parallel decline in investment rates, the high levels of (real) interest rates observed and the admittedly small deficit in the current account as evidence in favour of this point of view. While it is true that the household saving rate has fallen, the decline is lessened by over 3 points (over one-third) once inflation adjustment is undertaken (Dean *et al.*, 1990) and further slightly diminished when measured on a more meaningful net basis (Diagram 8). Furthermore, some of the decline may be due to socio-economic influences, especially resulting from life-cycle effects<sup>9</sup>. Last, there has been a noticeable rebound since 1987: the ratio has risen from 11 to some 12.6 per cent in 1990. This reversal may have been limited by the easier consumer-borrowing opportunities available over the past few years<sup>10</sup>, as well as by the earlier rises in the value of household wealth, especially in the form of equities.

An examination of the issue of a shortage of saving needs to look more broadly than at household saving. The rate of net *national* saving also fell substantially – more than in most other OECD countries – in the decade following the first oil shock, as reductions in government and business saving roughly coincided with those recorded by the household sector. But for these sectors the recovery has been more substantial, the public sector having made up nearly half of its decline with the fiscal consolidation since 1983 and the business sector, virtually its entire fall, as profits have recovered during the 1980s.

Diagram 8. **NET SAVING BY INSTITUTIONAL SECTOR**<sup>1</sup>  
As a percentage of net national product



1. Figures for 1989 and 1990 are estimates.

Sources: OECD, *Annual and Quarterly National Accounts* and Secretariat estimates.

Real interest rates are high, not only in France, but throughout the OECD. Their international pattern has less to do with domestic saving-investment gaps (current imbalances) than with premia associated with exchange-rate risks, although such risks may be perceived to be related to the state of the current account. Greater saving world wide would undoubtedly lower rates. However, for any single country, even if an increase in its yield can enhance domestic saving in theory, experience shows that specific measures to stimulate saving mainly generate shifts in its composition.

The current fairly small excess of investment over saving would appear to be easily financed and probably sustainable in a largely deregulated environ-

ment and provides no reason for concern, unless the authorities impose an exogenous limit on the size of the current deficit<sup>11</sup>. Furthermore, the French tax system is probably already relatively generous in terms of saving incentives. Thus, assuming that the major pertinent policy-induced distortions have been eliminated, the current deficit is probably indicative of better investment opportunities in France than elsewhere, on average (as manifest in superior rates of return and a high value of Tobin's  $q$  ratio), given its relatively favourable long-term demographic outlook. This is not to imply that in the future France's saving and investment needs will not be greater. Business fixed investment has yet to catch up fully with its period of sub-par outcomes in the early 1980s and to provide a sufficient stock of capital to overcome the supply constraints that seem to have hampered its export performance in many sectors over the decade and to return the economy to full employment. Also, some funding of the additional pension burden of the 21st century would seem desirable (see Part III), and, in any case, the public sector debt-to-GDP ratio has only just been stabilised. Thus, it might be hoped that a set of appropriate economic policies would lead to increases in both saving and investment rates, without any necessary elimination of the small gap between the two.

### **Short-term prospects**

After a period of marked slowdown which began in the spring of 1990, France's market growth for manufactures should recover as of the summer of 1991, with a pick-up in activity in the major English-speaking countries, and may stabilise at a 6 per cent rate over the remainder of the projection period. As is the custom, OECD projections are based on a technical assumption of constant exchange rates and oil prices in real terms. Thus, the maintenance of the exchange rate at its average rate during the last week in February – FF 5.18 per dollar – implies little change in the nominal effective exchange rate between 1990 and 1991. Spot oil prices fell back to some \$17 per barrel in February 1991, and, on that basis, oil import prices should fall by 15 per cent on an annual average basis this year.

Monetary policy should continue to be oriented to the stability of the exchange rate within the EMS; with the continuation of the disinflation

process in France and the expected stability of German interest rates, a slight decline in interest rates may be foreseen. The fiscal policy assumptions underlying current projections take into account the expenditure reductions announced in February 1991. However, the direct costs of the Gulf war (recently estimated by the authorities to be FF 8½ billion) will only be partially covered by contributions from coalition partners, while the conjunctural slowdown should weigh heavily on the public finances, especially on social-security contributions and tax receipts from the value-added tax and the corporate income tax. In all, the general government net borrowing requirement could rise by ¼ point of GDP this year in the absence of any new measures, before stabilising in 1992 given the expected recovery of output.

After a sharp reversal in the autumn of 1990, activity appears to have remained quite weak in the early months of 1991. According to the monthly surveys in the industrial sector, orders in the first quarter were at their lowest level in nearly six years, and stocks had not been so high since 1983. Car sales in the first three months were some 20 per cent below the corresponding levels of 1990. However, these developments seem to a large extent the result of a "wait-and-see" attitude on the part of economic agents related to the Gulf war, as well as to the effects of the durable-goods cycle, especially in motor vehicles. With the conclusion of the hostilities, confidence should gradually return, with the result that GDP growth should rebound to a rate of about 2¾ per cent, close to its potential rate, by the second half of 1991. Nonetheless, on an annual average basis, growth is not likely to exceed 1½ per cent this year, but it should bounce back to over 2½ per cent in 1992 (Table 4). This outlook for GDP growth would appear insufficient for job creation to match the increase in the labour force; thus, the unemployment rate should increase.

The probable persistence of the high real interest rates should impact primarily upon private investment, especially residential construction. In addition, the easing of capacity pressures since the spring of 1990 and the deterioration in profit margins could lead business to defer their investment programmes. Households' reactions to the events in the Gulf could be more temporary, and private consumption could accordingly return to a more rapid growth path by the middle of the year. Nevertheless, it would appear likely that the increased propensity to save, which was probably particularly strong

**Table 4. Short-term projections**  
Percentage changes, seasonally adjusted at annual rates

|                                                       | 1990 | 1991 | 1992 | 1991 I | 1991 II | 1992 I | 1992 II |
|-------------------------------------------------------|------|------|------|--------|---------|--------|---------|
| Private consumption                                   | 3.0  | 1.8  | 2.8  | 1.4    | 2.9     | 2.8    | 2.7     |
| Government consumption                                | 3.3  | 2.7  | 2.2  | 2.3    | 2.2     | 2.2    | 2.2     |
| Gross fixed investment                                | 3.7  | 0.5  | 3.1  | -0.4   | 1.9     | 3.3    | 4.1     |
| <i>of which:</i>                                      |      |      |      |        |         |        |         |
| General government                                    | 3.7  | 3.0  | 2.7  | 2.8    | 2.7     | 2.7    | 2.8     |
| Residential construction                              | 1.1  | -1.1 | 1.0  | -2.5   | -1.0    | 1.5    | 2.2     |
| Other                                                 | 4.9  | 0.6  | 4.2  | -0.4   | 3.0     | 4.2    | 5.2     |
| Final domestic demand                                 | 3.2  | 1.7  | 2.8  | 1.2    | 2.6     | 2.8    | 2.9     |
| Stockbuilding <sup>1</sup>                            | -0.1 | -0.1 | 0.1  | -1.0   | 0.4     | 0.0    | 0.0     |
| Total domestic demand                                 | 3.1  | 1.6  | 2.9  | 0.2    | 2.9     | 2.8    | 2.9     |
| Exports of goods and services                         | 4.6  | 3.5  | 5.2  | 3.6    | 4.8     | 5.2    | 5.4     |
| Imports of goods and services                         | 5.7  | 3.9  | 5.7  | 2.7    | 5.5     | 5.8    | 5.8     |
| Foreign balance <sup>1</sup>                          | -0.4 | -0.2 | -0.3 | 0.1    | -0.3    | -0.3   | -0.3    |
| GDP at constant prices                                | 2.8  | 1.5  | 2.6  | 0.3    | 2.7     | 2.6    | 2.7     |
| GDP price deflator                                    | 2.9  | 3.1  | 2.9  | 3.3    | 3.1     | 2.8    | 2.8     |
| Private consumption deflator                          | 3.0  | 3.0  | 2.7  | 2.7    | 2.9     | 2.7    | 2.6     |
| Household savings ratio <sup>2</sup>                  | 12.6 | 12.9 | 12.8 | ..     | ..      | ..     | ..      |
| General government borrowing requirement <sup>3</sup> | -1.4 | -1.7 | -1.6 | ..     | ..      | ..     | ..      |
| Employment                                            | 1.1  | 0.1  | 0.2  | -0.2   | -0.2    | 0.2    | 0.5     |
| Unemployment rate <sup>4</sup>                        | 9.0  | 9.4  | 9.8  | 9.3    | 9.6     | 9.7    | 9.8     |
| Current balance <sup>3</sup>                          | -0.7 | -0.7 | -0.9 | ..     | ..      | ..     | ..      |

1. Rates of change are expressed as a percentage of GDP in the previous period.

2. As a percentage of disposable income.

3. As a percentage of GDP.

4. In levels.

Source : OECD estimates.

at the beginning of 1991, will be sustained with the stabilisation of household indebtedness and the increase in the unemployment rate. Given the restrictive budgetary measures already announced, the growth of public consumption should hold steady in the range of 2¼ per cent beginning in the first part of 1991. While the growth of exports in 1991 will be bolstered by the acceleration in Airbus deliveries, it will remain less than market growth, primarily because of the lagged impact of losses in competitiveness resulting from the

depreciation of the dollar. This effect should, however, diminish steadily, and exports could begin to follow market growth at the end of the projection period. Increases in imports could pick up in line with the recovery in domestic demand, with the result that the external contribution to growth should remain slightly negative, of the order of  $\frac{1}{4}$  point of GDP.

The probable deterioration in labour-market conditions should bear on average compensation rates, at the same time as labour productivity growth should revive along with the recovery in activity. Unit labour cost growth could therefore slow substantially, with the result that, given the assumed oil price, consumer price inflation could be held to nearly  $2\frac{1}{2}$  per cent by the end of the projection horizon. The profit squeeze should reverse during the second half of 1991 with the improvement in productivity growth. The fall in the oil-import bill and the official transfers by way of Gulf war contributions should limit the worsening in the current balance in 1991. On the other hand, in 1992 the end of the Airbus stimulus, the increasing payments on net investment income account and the renewed deterioration on net official transfers should combine to lead to a moderate increase in the current account deficit; it would, however, remain below 1 per cent of GDP.

It should be noted that the constant exchange rate hypothesis underlying these projections could be particularly risky. Since the reference date the dollar has appreciated considerably, with the result that the franc has fallen by  $1\frac{1}{2}$  per cent in effective terms. On that basis, the competitiveness of French products could improve, and the current deficit would be approximately stable in 1992. On the other hand there would probably be no further progress in terms of disinflation. On the domestic front the principal element of uncertainty inherent in these projections is likely to reside in business investment behaviour. It has been assumed here that firms defer their expenditures in 1991 due to the deterioration of their profitability and the attenuation of capacity pressures but that there is no permanent break. However, it cannot be excluded that in a context of still high real interest rates, businessmen would re-evaluate their strategies in a more drastic fashion and would prefer first to consolidate their balance-sheet situation and their self-financing capacity which has been significantly impaired since 1989.

## II. Macroeconomic policies

### Monetary and exchange-rate policies

In 1990 the thrust of monetary policy remained broadly unchanged: the authorities continued to give priority to the fight against inflation while seeking to lower interest rates when domestic and external conditions permitted. Thus, the intervention rates of the Banque de France were cut by  $\frac{3}{4}$  of a percentage point in three stages. The growth of the monetary aggregates slowed considerably, primarily due to changes in the composition and location of economic agents' financial assets; the growth of the targeted aggregate M2 was thus well below the objective set. To take into account these shifts, caused essentially by structural changes in financial markets, new monetary aggregates were introduced from 1991; the target now relates to the broad M3 measure of the money supply whose definition has been modified<sup>12</sup>. Growth of this aggregate is targeted to slow to 5-7 per cent (compared with growth of about  $7\frac{1}{2}$  per cent in 1990), reflecting the monetary authorities' resolve to maintain a non-accommodating policy.

#### *Relatively stable interest rates*

The progress made on the inflation front and the firmness of the franc in the European exchange-rate mechanism prompted the monetary authorities to cut their leading rates in April and October 1990 from 10 per cent to 9.25 per cent for tenders and from 10.75 per cent to 10 per cent for 5-to-10-day repurchases (*prises en pension*). Compulsory reserve requirements were also lowered in October, primarily to discourage banks from shifting funds to financial markets with lower requirements and to try to check the fall in bank profitability. Short-term interest rates, which had risen by  $3\frac{1}{2}$  per-

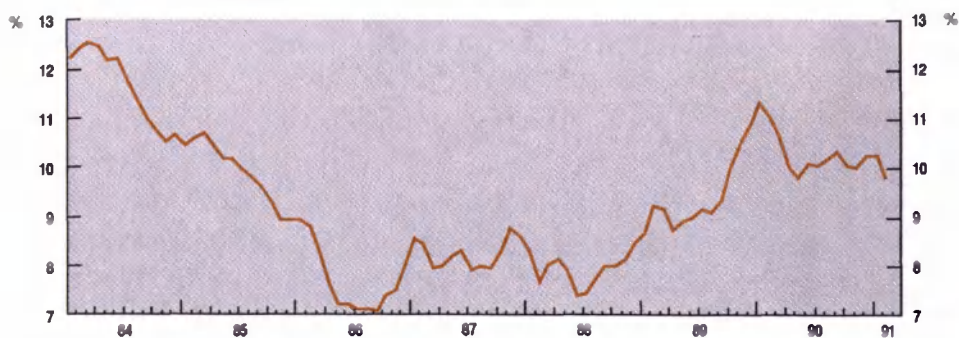
centage points from mid-1988 to the beginning of 1990, fell markedly up to May and remained within the 10-10½ per cent range for the remainder of the year (for the three-month interbank rate, see Diagram 9). Most recently, with the increasingly marked economic slowdown and the moderation in inflation, the exchange-rate situation was adequate to allow the Banque de France to cut a further ¼ point off its intervention rate, and short-term market rates fell further to some 9¼ per cent.

The relative stability of French interest rates needs to be seen in relation to the mounting pressures on German interest rates over the same period. The slight reduction in the inflation differential between France and Germany and the growing credibility of French exchange-rate policy made it possible to reduce gradually the short-term interest-rate differential (Diagram 10). Reflecting the increased amount of leeway at their disposal, at the end of October 1990 the monetary authorities were able to adjust French leading rates in an opposite direction to German interest rates (which were raised by ½ a point on 1st November) for the first time since July 1988. This adjustment was gradually confirmed by the market, and the differential on short-term market rates continued to narrow; in April 1991 it was less than ¼ per cent, compared to 3 per cent at the beginning of 1990. In the same way, the French monetary authorities did not follow the increase in German official rates decided on at the end of January 1991.

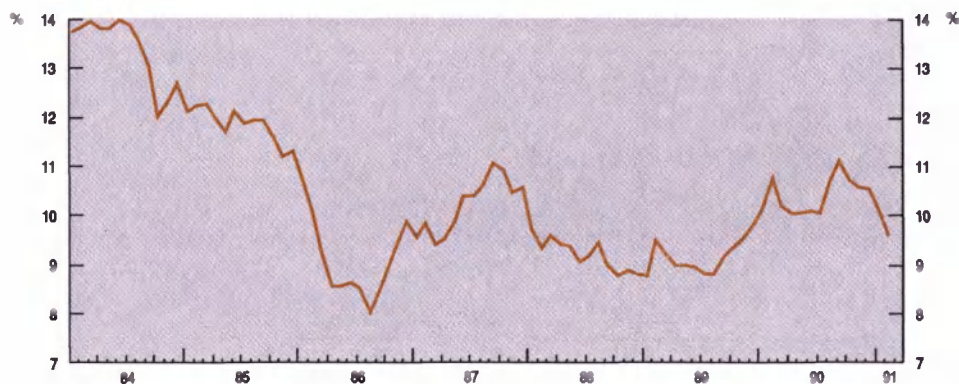
After the world-wide increases in interest rates prompted by the prospect of German unification, French long-term rates stabilised in spring 1990. Then, from summer 1990 up to the outbreak of the Gulf War, they rose slightly, in contrast with short-term rates, so that, in line with trends observed in other countries, the yield curve became upward-sloping once again. Long-term rates came under particularly heavy pressure in August and September, rising by 1 point in response to events in the Gulf, whereas German rates, for example, rose by only 0.3 point. The risk premium, as measured by the difference between real long-term rates in France and those in Germany, which had fallen to less than ½ a point prior to the events in the Gulf, compared with 1¼ points at end-1989, widened again to about 1 point. The experience of the previous oil shocks does not seem to have operated to the advantage of the bond market on this occasion, since in France there may have been relatively large transfers of capital from long-term to short-term investments. Further-

Diagram 9. INTEREST RATES

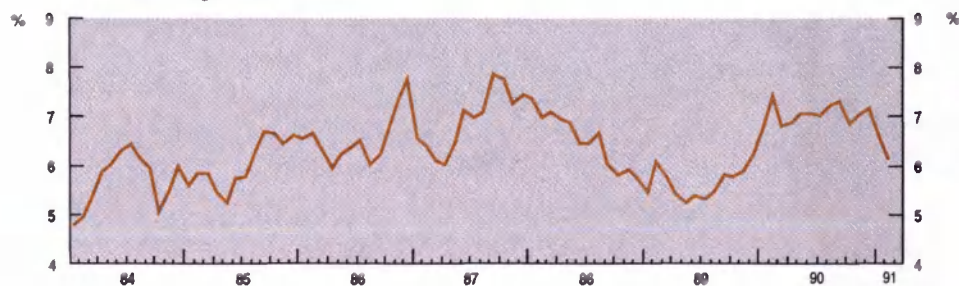
A. Three-month rates



B. Long-term bond rates



C. Real long-term bond rates<sup>1</sup>

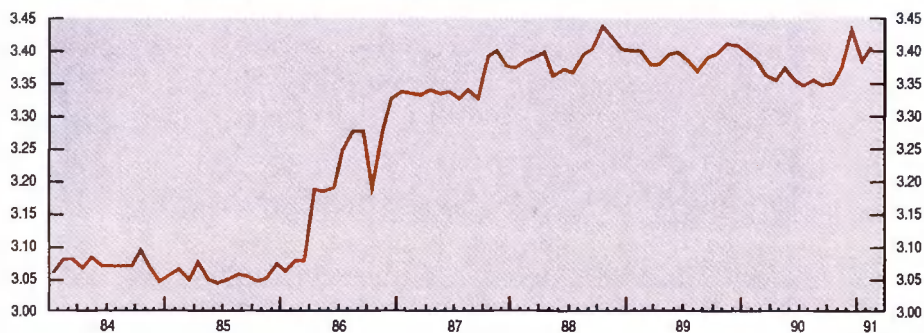


1. Nominal rate adjusted for consumer price increases.

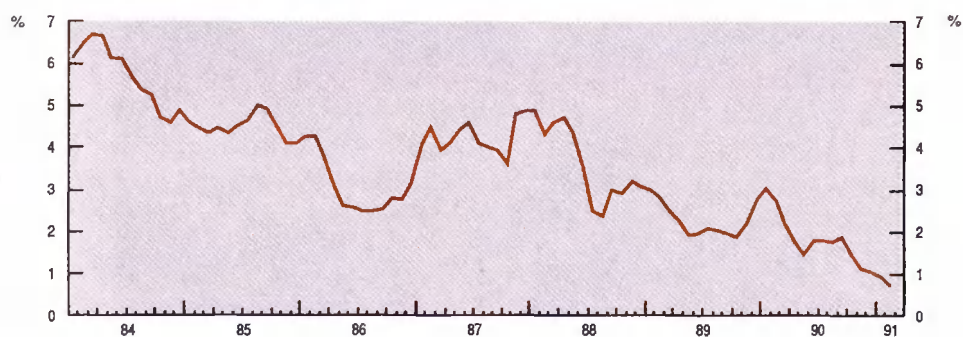
Sources: OECD, *Financial Statistics Monthly and Main Economic Indicators*.

Diagram 10. **EXCHANGE RATE AND INTEREST-RATE DIFFERENTIALS  
WITH GERMANY**

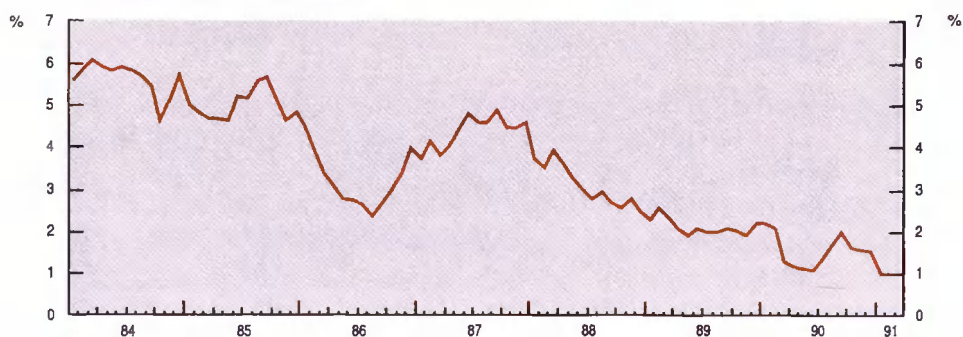
**A. Franc/Deutschemark exchange rate**



**B. Differential on three-month loans<sup>1</sup>**



**C. Differential on long-term bonds<sup>2</sup>**



1. Difference between French inter-bank rate and German money market rate.

2. Difference between the rates for French public and semi-public bonds and those for German public sector bonds.

Sources: OECD, *Financial Statistics Monthly* and *Main Economic Indicators*.

more, some foreign investors may have slowed their purchases of French securities, after a two-year period during which foreign purchases had increased considerably. However, by the beginning of 1991 the differential between French and German long rates had already narrowed substantially to around 0.6 point: while in Germany the pressures resulting from the budget deficit and the heightened inflation risks no doubt limited the softening of long-term rates observed in several countries' bond markets, French long-term rates fell, indicating investors' renewed confidence in the durable nature of the progress made in terms of disinflation.

*A marked slowdown of the growth of monetary aggregates due to financial innovations*

Monetary aggregates were considerably affected by the changes in the composition of economic agents' financial assets. The success of the "popular" saving plans (PEPs)<sup>13</sup> was very largely at the expense of sight deposits and passbook savings accounts, although the French authorities consider that they may also have generated some new saving. The very rapid growth of mutual funds (OPCVMs), particularly in money-market SICAVs (open-end investment companies) – whose assets increased by 35 per cent during 1990<sup>14</sup> – also modified the structure of liquid investments. Lastly, the first three-quarters of the year saw substantial outflows of franc-denominated capital; the reason for this was that, once the remaining exchange controls had been lifted, banks encouraged their customers to shift their funds to financial markets in which the reserve requirements for banks were less stringent, and then these funds were transferred back to the French banks by their foreign correspondents. All told, through-the-year growth of M1 was about 2 per cent and that of M2 was slightly negative (whereas the target was a range of 3½-5½ per cent range). The year-on-year growth of the broad aggregate of liquidity L was down to about 7½ per cent at end-1990, compared with 10½ per cent at end-1989 (Table 5). However, with the new definitions of monetary aggregates – short-term OPCVMs held by resident non-financial agents are now included in M3 – the evolution of the target aggregate should be more stable.

As mentioned above, these developments prompted the monetary authorities to lower the compulsory reserve requirements for banks, particularly

Table 5. Objectives and outcomes of monetary policy

Growth rates in per cent

|                                         | 1987  | 1988  | 1989  | 1990             | 1991               |
|-----------------------------------------|-------|-------|-------|------------------|--------------------|
| <b>Forecasts and objectives</b>         |       |       |       |                  |                    |
| GDP                                     |       |       |       |                  |                    |
| Value                                   | 4.5   | 4.8   | 5.1   | 5.5              | 5.4                |
| Volume                                  | 2.5   | 2.2   | 2.6   | 3.0              | 2.7                |
| Price                                   | 2.0   | 2.5   | 2.4   | 2.5              | 2.6                |
| M2 <sup>1</sup>                         | 4 - 6 | 4 - 6 | 4 - 6 | 3.5 - 5.5        | —                  |
| M3 <sup>1,2</sup>                       | 3 - 5 | —     | —     | —                | 5 - 7 <sup>2</sup> |
| <b>Outcomes</b>                         |       |       |       |                  |                    |
| GDP                                     |       |       |       |                  |                    |
| Value                                   | 5.0   | 7.0   | 7.1   | 5.8 <sup>3</sup> | —                  |
| Volume                                  | 2.2   | 3.8   | 3.6   | 2.8              | —                  |
| Price                                   | 2.7   | 3.0   | 3.4   | 2.9 <sup>3</sup> | —                  |
| M2 <sup>1</sup>                         | 4.2   | 4.0   | 4.5   | -0.7             | —                  |
| M3 <sup>1</sup>                         | 9.2   | 7.0   | 7.4   | 6.4              | —                  |
| M3 <sup>1,2</sup>                       | —     | 8.9   | 8.9   | 7.5              | —                  |
| L <sup>1</sup>                          | 11.8  | 8.7   | 9.4   | 7.2              | —                  |
| Total domestic credit <sup>1</sup>      | 10.8  | 11.9  | 10.9  | 10.5             | —                  |
| Interest rates (average annual levels): |       |       |       |                  |                    |
| Three-month PIBOR                       | 8.3   | 7.9   | 9.4   | 10.3             | —                  |
| Long-term public-sector bonds           | 10.2  | 9.2   | 9.2   | 10.4             | —                  |

1. Fourth quarter to fourth quarter.

2. New definition of M3.

3. OECD projections.

Sources: Banque de France and OECD estimates.

those for passbook savings accounts (from 3 to 2 per cent) and time deposits and certificates of deposit (from 3 to 0.5 per cent). Accordingly, reserves that credit institutions are required to hold fell by about FF 25 billion. Also, some limited measures to curb the growth of short-term OPCVMs have been taken. However, it would seem difficult to remove the tax reliefs granted them without driving capital abroad again.

### *Demand for external financing still growing rapidly*

Despite the slowdown of activity, total domestic indebtedness of non-financial agents decelerated only very slowly. In particular, bank lending to

the economy continued to rise very rapidly (15 per cent through the year), at virtually the same rate since mid-1988. Lending to the corporate sector continued to be particularly buoyant (with bank loans up by nearly 22 per cent), reflecting the continuing brisk growth of their productive investment and mergers and acquisitions and probably also an increased demand for external financing as a result of the fall in corporate profits – a demand that was difficult to meet in any other fashion because of the fall in share and bond prices. In contrast, increases in consumer credit and mortgage loans slackened, as individuals slowed their rate of spending and banks became more cautious about lending, given the risk of over-borrowing by households. However, according to the French authorities, it does not seem that French banks are exposed to any systemic risk, even if the number of loan defaults were to increase as a result of a rise in interest rates or a fall in property values, especially given the ample provisions they have already made for unrecoverable sovereign debt in previous years. On the other hand, bank profitability fell in 1990, since the cost of their funds increased, mainly because their low-interest-bearing deposit accounts had to compete with new products like the OPCVMs and the PEPs.

Although bank lending continued to grow very rapidly, bond financing slowed markedly (with a particularly sharp fall in bond issues by financial institutions); this was due both to higher interest rates and the uncertainty arising from the Gulf crisis. Thus, when one takes into account interest payments, repayments over the year probably exceeded the amount of subscriptions. Share issues also fell markedly, as they were affected by the fall in equities prices of about 25 per cent from end-June 1990 to mid-January 1991 (CAC index). However, the equities market has recently picked up in response to the favourable outcome of the Gulf War and prospects for the beginning of a recovery by mid-year.

### *Some longer-term considerations*

The authorities have followed their strong-currency policy for over four years now: there has been no reduction in the value of the franc measured against any other ERM currency. Despite periodic bouts of exchange-market pressure when market participants have tested their commitment to the cur-

rent parity, the steadfastness of the authorities' resolve to fight inflation has lent the policy steadily greater credibility, allowing a trend decline in interest differentials with Germany, in line with the waning inflation differential. Indeed, in real terms those differentials have been eliminated. Nevertheless, gratifying as these outcomes are, it must be remembered that the level of real long-term rates rose substantially in 1990 to some 7 per cent, 1 point higher than in 1989. Even if it is difficult to quantify the incidence of changes in interest rates on the level of activity, there is every reason to believe that their maintenance over a prolonged period at levels significantly in excess of trend growth rates (the gap currently being in the range of 4 - 5 percentage points) can only serve to depress investment with harmful effects on the economy's longer-term growth prospects. In addition, the strong-franc policy has resulted in a gradual appreciation of the franc in effective terms (taking both ERM and other currencies together), which, although relatively limited (about 6 per cent from early 1989 to the end of 1990, despite a slight reversal in recent months), has had noticeable contractionary effects on France's exports.

The franc's value needs to be seen in the light of the recent unification of Germany. This is a real shock which should raise the rate of return on capital in Germany and would therefore tend to increase for a time the equilibrium value of the Deutschmark in real terms *vis-à-vis* other currencies in general. With France (and its other EMS partners) continuing to maintain their parities *vis-à-vis* the Deutschmark, the adjustment would, other things being equal, be effected by a change in the inflation differential with Germany.

## **Budgetary policy**

### *1990: A turning-point on the fiscal front*

1990 marked the end of a period of plentiful tax revenue which had allowed the deficit to be reduced substantially and an active policy of tax reductions to be implemented. From 1986 to 1990 the general-government borrowing requirement fell markedly, down from FF 138 billion to less than FF 90 billion<sup>15</sup>, or from 2.7 per cent to 1.4 per cent of GDP (Table 6). However, while the State deficit was further reduced from FF 100 billion in

Table 6. Consolidated general-government account

|                                                                         | 1989       | 1989        | 1990       | 1991       | 1992       |
|-------------------------------------------------------------------------|------------|-------------|------------|------------|------------|
|                                                                         | FF billion | Growth rate |            |            |            |
| <b>Current receipts</b>                                                 | 2 949      | <b>6.7</b>  | <b>6.3</b> | <b>5.3</b> | <b>5.6</b> |
| <i>of which:</i>                                                        |            |             |            |            |            |
| Direct taxes                                                            | 552        | 7.8         | 6.7        | 10.1       | 6.3        |
| Social-security contributions                                           | 1 288      | 8.3         | 7.1        | 3.7        | 5.5        |
| Indirect taxes                                                          | 867        | 5.1         | 4.9        | 4.5        | 5.6        |
| <b>Current expenditure</b>                                              | 2 825      | <b>5.9</b>  | <b>5.8</b> | <b>6.0</b> | <b>5.7</b> |
| <i>of which:</i>                                                        |            |             |            |            |            |
| Interest payment                                                        | 176        | 11.7        | 13.7       | 5.7        | 5.3        |
| Government consumption                                                  | 1 115      | 5.6         | 5.7        | 5.8        | 5.1        |
| <i>of which:</i>                                                        |            |             |            |            |            |
| Wages                                                                   | 825        | 5.8         | 4.5        | 5.8        | 5.3        |
| Social benefits                                                         | 1 312      | 6.3         | 6.1        | 6.5        | 6.1        |
| Subsidies                                                               | 104        | -1.6        | 3.3        | 2.0        | 1.8        |
| <b>Capital expenditure</b>                                              | 194        | <b>18.3</b> | <b>4.9</b> | <b>6.6</b> | <b>5.9</b> |
| <i>of which:</i>                                                        |            |             |            |            |            |
| Gross fixed capital formation                                           | 195        | 11.8        | 4.7        | 6.0        | 5.7        |
| <b>Lending capacity (+) or borrowing requirements (-)</b>               |            |             |            |            |            |
| FF billion                                                              |            | -86         | -89        | -113       | -111       |
| As a percentage of GDP                                                  |            | -1.4        | -1.4       | -1.7       | -1.6       |
| <i>of which:</i>                                                        |            |             |            |            |            |
| Central government                                                      |            | -1.5        | -1.4       | -1.6       | -1.5       |
| Local government                                                        |            | -0.3        | -0.2       | -0.3       | -0.3       |
| Social security                                                         |            | 0.3         | 0.2        | 0.2        | 0.2        |
| <i>Memorandum item:</i>                                                 |            |             |            |            |            |
| Primary lending (+) or borrowing requirement (-) as a percentage of GDP |            | 0.7         | 1.0        | 0.7        | 0.8        |

Source : OECD estimates.

1989 to FF 93.4 billion in 1990, the overall general-government deficit rose in absolute terms. Unlike the previous year and despite budgetary redeployment, the final borrowing requirement of the State was slightly above the initial target set in the 1990 Finance Act. Slower growth from mid-1989 meant that supplementary revenue was less than forecast; as it was well down on 1988 and 1989 (FF 12 billion according to the supplementary budget, compared with FF 38 billion and FF 28 billion respectively), it was not sufficient to

finance the additional expenditure incurred as a result of the Gulf crisis and solidarity measures (the guaranteed income (RMI), aid to developing countries and to agriculture).

The policy of *tax cuts* started a few years earlier made it possible to reduce slightly the share of income tax and social insurance contributions in GDP from 44.5 per cent in 1985 to 43.9 per cent in 1990, although it remains much higher than in the other major EC countries (see below). It should be noted, however, that only central-government taxes have fallen appreciably since the mid-1980s. The shares in GDP of other items which the State cannot influence directly, such as transfers to the EC, or contributions with structural problems, such as those of the social-security system, have risen. The reductions in taxes provided for in the 1990 Finance Act, which were designed both to adapt the tax system and to make French enterprises more competitive in preparation for the single European market, amounted to FF 26 billion or 0.4 per cent of GDP. They consisted essentially of a further cut in the tax on retained profits and in the top VAT rate, as well as reductions in taxes on saving. In contrast, the wealth tax was raised, and the burden of social contributions increased, so that the share of income tax and social insurance contributions in GDP stabilised at its 1989 level.

At the same time the share of *public spending* in GDP fell from 51.4 per cent in 1986 to 50.0 per cent in 1990 (Table 6). Wages and subsidies were the main contributory factors in the fall in public spending, with on the one hand initial wage moderation in the civil service and on the other the State's less interventionist approach, the latter being greatly facilitated by economic conditions. However, with a view to developing and modernising infrastructure, general-government investment was not cut, its share in GDP remaining stable (at about 3¼ per cent over the period 1986-90). Furthermore, interest payments on the public debt increased more rapidly than GDP in 1989 and 1990 because of higher interest rates and FF 5.6 billion of capitalised interest on renewable Treasury bonds<sup>16</sup>.

The progress made over the past four years was obviously facilitated by strong output growth. The way this "growth gain" was used can be illustrated by comparing the actual trend of general-government accounts over the period 1986-90 with the simulated trend mechanically assuming "unchanged" fiscal policies<sup>17</sup>. At the outset, it may be noted that the primary fiscal balance

**Table 7. Changes in actual and simulated<sup>1</sup> general-government borrowing requirement, 1986-90**

As a percentage of nominal GNP/GDP

|                      | Borrowing requirement <sup>2</sup> |             | Primary balance <sup>2,3</sup> |             | Receipts    |             | Expenditures |             |
|----------------------|------------------------------------|-------------|--------------------------------|-------------|-------------|-------------|--------------|-------------|
|                      | Actual                             | Simulated   | Actual                         | Simulated   | Actual      | Simulated   | Actual       | Simulated   |
| United States        | +1.1                               | +3.0        | +1.3                           | +3.1        | +0.7        | +0.7        | -0.4         | -2.4        |
| Japan                | +4.1                               | +6.8        | +3.0                           | +5.6        | +3.7        | +1.3        | -0.4         | -5.5        |
| Germany <sup>4</sup> | -1.8                               | +5.5        | -1.9                           | +4.7        | -2.7        | +0.6        | -1.0         | -4.8        |
| France               | <b>+1.5</b>                        | <b>+4.6</b> | <b>+1.7</b>                    | <b>+4.4</b> | <b>-0.2</b> | <b>+0.4</b> | <b>-1.7</b>  | <b>-4.1</b> |
| Italy                | +1.7                               | +2.4        | +3.5                           | +4.1        | +3.1        | +0.2        | +1.4         | -2.2        |
| United Kingdom       | +2.3                               | +4.9        | +1.3                           | +3.7        | -1.9        | +0.3        | -4.2         | -4.6        |
| Canada               | +2.3                               | +3.4        | +3.2                           | +4.1        | +2.0        | +0.8        | -0.3         | -2.6        |

1. The simulations assume unchanged fiscal policies (see text).

2. A + sign denotes a reduction in the deficit or an increase in the surplus.

3. Excluding net interest payments.

4. The increase in Germany's borrowing requirement was ascribable to reunification.

Source : OECD estimates.

actually improved less than in the simulation (Table 7). As in most other major OECD countries, besides reducing the deficit (which excluding interest payments has improved by some 2 points of GDP over the past five years), the fiscal "gains" were in fact used to finance increases in real expenditures. At the same time, although to a much lesser degree than in Germany and the United Kingdom which embarked upon far-reaching reforms of their tax systems, these "gains" enabled the authorities to finance tax reductions totalling FF 170 billion since 1985, or a total of 3 percentage points of GDP over the six years. Cuts in direct taxes on households accounted for 35 per cent of the total reductions, those in corporation tax for 20 per cent and VAT declines for 25 per cent (Annex Table A3).

### *1991: Continuing restraint*

The 1991 Finance Act reaffirms the aim of reducing the budget deficit and taxes in preparation for the single European market. On last Autumn's official forecasts, which assume GDP growth of 2.7 per cent, the fiscal deficit of the State was expected to fall by FF 10 billion, despite the spontaneous slowdown in the growth of tax revenue, to FF 81 billion in 1991. Abstracting

from spending carried forward from 1990, overall State expenditure will continue to grow more slowly than GDP (4.8 per cent compared with 5.4 per cent), but various appropriations will increase at a faster rate: education (9 per cent), research (7.3 per cent) and solidarity measures, particularly public housing and social protection as the RMI scheme comes into full operation (21.8 per cent). Debt-service costs are set to rise in 1991 at twice the rate of overall State expenditure (9.8 per cent) and to absorb 12.7 per cent of net tax revenue. But moderate growth in intermediate consumption spending, a certain amount of wage restraint and a reduction in subsidies were together expected to make it possible to reduce the State deficit.

Tax reductions amounting to FF 8½ billion (about half the amount of the 1990 cuts) are to be split equally between enterprises and households. Their purpose is twofold: first, to cushion the impact of the rise in oil prices by lowering the indirect taxes on petroleum products<sup>18</sup> and the top VAT rate from 25 to 22 per cent (a measure which was implemented already in September 1990); second, to bolster productive corporate investment, primarily by reducing the tax on retained profits from 37 per cent to 34 per cent. To finance these measures, taxes on capital have been increased, mainly by modifying the wealth tax and increasing the rate of tax on corporate financial gains. To start to bring under budgetary control the system of social protection and to broaden the base of its financing, the government introduced a new "tax" – the *contribution sociale généralisée* (CSG) – at a uniform rate of 1.1 per cent in a revenue-neutral fashion (see Part III below).

The assumptions on which the 1991 Finance Act are based are now out of date. The official forecast of real GDP growth of 2.7 per cent has been revised down to 2 per cent, and this will have a major impact on the endogenous growth of revenue. According to simulations run on the OECD Interlink model, a 1 percentage point reduction in the GDP growth rate is likely to increase the growth rate of public spending by ¼ of a point and to increase the general-government borrowing requirement by some FF 20 billion (0.3 point of GDP)<sup>19</sup>. In these circumstances the authorities might find it more difficult to reduce the general-government deficit. Accordingly, the authorities recently announced a plan to cut spending by FF 10 billion (0.2 point of GDP); however, this does not take into account the effects of the recent further slowdown in activity.

Indeed, the amount of fiscal leeway is still narrow. Although the level of net public debt in relation to GDP (the debt ratio) seems relatively low compared with the OECD average, and has fallen slightly in recent years (reaching 24.7 per cent at end-1990, compared to 25.5 per cent at end-1985), the overall favourable situation remains precarious. The outlook for certain expenditures, particularly social expenditures, which are likely to increase rapidly if no legislative changes are made to control them, could imply in time increased pressure on the public debt. Furthermore, while the primary surplus of the central government is now indeed in the region of the FF 40 billion required, on the French authorities' calculations, to stabilise the debt ratio for that level of government, this goal was not yet quite achieved by the end of 1990.

### **III. The structural agenda**

While macroeconomic policies have been in line with short- and longer-term requirements in recent years, the French economy is still confronted with important structural problems. The next two chapters focus on some of the areas which give cause for concern. This chapter deals with the unsatisfactory labour-market outcomes (especially the persistence of high unemployment), various aspects of the public finances – focusing on taxation, local government financing and social spending – and environmental concerns. The state of competition on the nation's markets and French policies bearing on it are the subject of the following chapter.

#### **The labour market and income-distribution issues**

Despite recent improvements, labour-market performance in France over the past decade has been rather unsatisfactory. While the average OECD unemployment rate in 1990 was hardly greater than it had been in 1980, thanks to superior outcomes for Member countries outside Europe, the increase in the rate over the ten-year span was even larger for France than for the average EC country (Table 8); furthermore, the improvement over the last five years was only half as great. In addition, the situation is even more disappointing on the basis of statistics on registered unemployment, which has declined only marginally since the 1987 peak (Diagram 11). A growing discrepancy between registered unemployment and joblessness when measured by standardised (ILO) definitions (over 300 000 in 1990) is primarily ascribable to a discouraged-worker effect: 11.3 per cent of the registered

Table 8. **Labour-market outcomes: an international comparison**

|                                       | France  |         |         | EC      |         |         | OECD    |         |         |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                                       | 1970-80 | 1980-85 | 1985-90 | 1970-80 | 1980-85 | 1985-90 | 1970-80 | 1980-85 | 1985-90 |
| Total employment growth               | 0.4     | -0.4    | 0.7     | 0.2     | -0.3    | 1.4     | 1.1     | 0.7     | 1.7     |
| Standard unemployment rate (end-year) | 6.3     | 10.2    | 9.0     | 6.4     | 10.9    | 8.4     | 5.8     | 7.8     | 6.1     |
| <i>Memorandum item:</i>               |         |         |         |         |         |         |         |         |         |
| Real GDP growth                       | 3.3     | 1.5     | 3.0     | 3.0     | 1.5     | 3.1     | 3.3     | 2.4     | 3.3     |

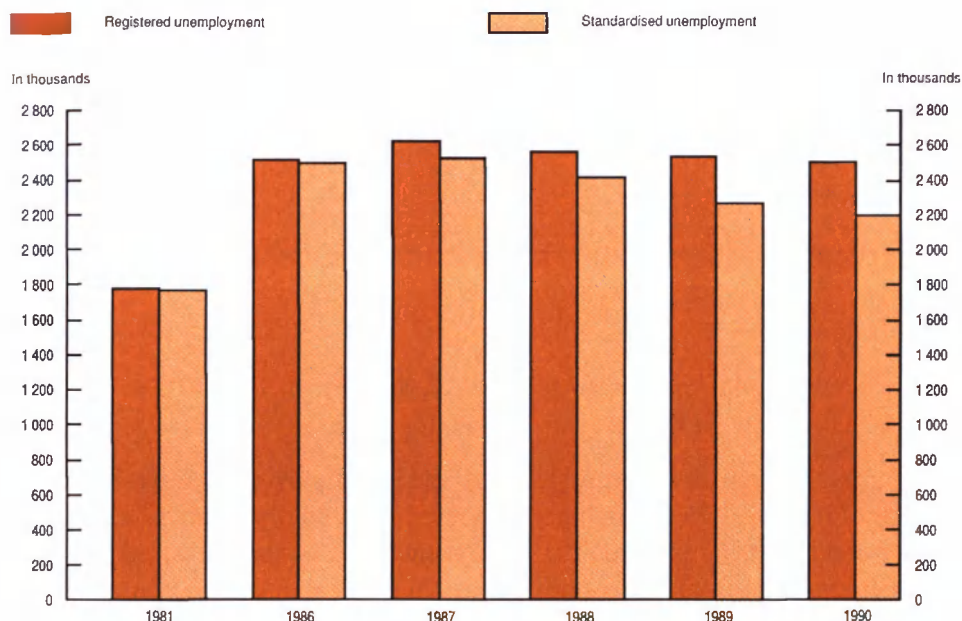
Sources : OECD, *Main Economic Indicators* and *Economic Outlook* 48.

unemployed in 1990 (compared to only 2.7 per cent in 1986 – nearly one in three of those over 55) have given up looking for work.

A particularly disquieting trait of the unemployment situation is its average duration. Long-term unemployment is a plight faced primarily by older workers; indeed it seems that once someone over the age of 50 loses his job, there is a very high probability of his being permanently relegated to the jobless queue. While the share of those out of work for more than a year has declined slightly since its 1987 peak, that decline is largely attributable to youths, and the problem has become more serious for prime-age workers. Furthermore, the proportion of those unemployed for three years or more is increasing. There may be a sort of “poverty trap” mechanism at work: individuals might in the first instance lack the incentives to take an available job because of the resulting reduction in various social transfers or a fear of being demoted to a lower job classification, and employers may be unwilling to hire because the cost of employing the lowest paid workers is excessive (see below). For the long-term unemployed the main factors are probably the decaying of their skills and their resulting discouragement.

Stubbornly high unemployment is, in large part, the result of the more moderate employment growth recorded by France which in turn is related to its relative growth performance. In addition, the output growth which France did attain generated less employment than achieved elsewhere; to put it another way, labour productivity growth was “too high” given the excess supply of labour. It might, therefore, be argued that real labour costs are too

Diagram 11. REGISTERED VERSUS STANDARDISED UNEMPLOYMENT



Sources: OECD, *Main Economic Indicators* and Secretariat estimates.

high in France (that unemployment is, to some extent, of a “classical” nature), especially because of the onerous level of employer social-security contributions. The authorities believe that there is no generalised problem of labour costs, as the relatively high level of contributions is offset, in large part, by a lower level of net wages in the long run (Cotis and Loufir, 1990). Indeed, average employer contributions have been largely stable for about five years now. Furthermore, labour costs would appear to have developed favourably in relative terms in recent years, at least in manufacturing (Table 2), making the persistence of high unemployment all the more disappointing.

Nevertheless, the classical unemployment hypothesis does seem to have merit in some cases. The principal example is the low-skilled, many of whom

are youths. In a freely functioning market, those workers with low marginal productivities would be paid fairly low wages; but with a minimum wage constraint, those whose labour costs more than the value of their marginal product will be priced out of the market and will find themselves unemployed. Indeed, unemployment is particularly prevalent among workers earning at or near the level of the minimum wage (the SMIC). Classical unemployment is likely to be especially prevalent in the household services sector where official estimates place the elasticity of employment with respect to real wages at about  $-0.4$ . The French minimum wage is paid to some 2 million workers, 12 per cent of all dependent employees. Most importantly, the gap between the average industrial wage and the SMIC fell from nearly 57 per cent in the late 1970s to only 43 per cent in 1985; since then it has remained globally stable, contrary to the strategy of widening differentials adopted in most other Member countries. Indications are that the increase in the relative value of the SMIC in the 1980s is likely to have reduced employment levels, especially for youths (Bazen and Martin, 1991) and the unskilled. Any narrowing of wage differentials, although favourable to income-distribution objectives, has been shown to be counterproductive in terms of employment goals: countries, such as France, with less wage and salary dispersion, have experienced systematically greater increases in unemployment since 1973 (INSEE, 1990a).

The unemployment problem of the low-skilled has probably not been alleviated by measures recently taken by the authorities in the matter of income redistribution. A new guaranteed income (the *revenu minimum d'insertion* or RMI) was established in late 1988; it is intended to help those on the margin to reintegrate into society by providing a minimal income to participants who agree to the steps necessary to re-enter the workplace. While there have been 700 000 people who have taken up the benefits since its inception, at a cost of some FF 10 billion, only about 40 per cent have signed an "integration contract". The programme appears at risk of becoming in part a no-strings-attached welfare programme, especially if there is no demand for the labour supplied by its participants. A commission has been charged with evaluating its efficiency by January 1992.

The government has also strongly encouraged private-sector employers to re-negotiate industry-wide minimum wage rates which, in many cases, employers had allowed to fall below the SMIC, because seniority bonuses are

tied to them. By 1st December agreements to raise minimum contractual wage rates to levels at least equal to the SMIC had been successfully reached in 16 of 37 industries. While such increases give better prospects of wage increases to the low-paid through their careers which should improve morale, they risk causing an acceleration in wages with negative consequences for disinflation targets.

Conscious of the predicament of the low-skilled, the government has attempted to compensate for the distortionary effects of the SMIC and other measures which boost labour costs by offering payroll tax subsidies for hiring members of various disadvantaged groups. However, this is only a second-best solution which is detrimental in terms of the opportunity cost of those funds to the Treasury and in terms of meeting medium-term public-finance objectives.

Besides excessive labour costs for the least-skilled workers, another potential explanation for the intractability of the unemployment problem is that many of the jobless are poorly located relative to available jobs or suffer from a lack of appropriate skills, as seen in the fact that the unemployment rate for the unskilled was nearly double the overall rate in 1989 (compared to a gap of only about one-third in the late 1970s) and in the rise in unfilled vacancies despite the persistence of high levels of joblessness. Until recently at least, the education system would appear to have been poorly geared to the needs of the labour market, and an excessive number of people emerged without any qualifications. While employers currently spend about 3 per cent of the overall wage bill on retraining, most of the benefit goes to those who are already well qualified, such as managers and engineers, and there is little control to ensure that substantial benefits are derived for the costs involved. Thus, the authorities intend to reform the 1970 legislation governing retraining. France does have a national apprenticeship programme under which social-insurance contributions are partly or fully forgiven, but it suffers from a poor public image and covers only about a quarter of a million participants, compared to seven times that many in western Germany, for example. The authorities have recently begun to address the overall problem by making education one of the priority spending areas in the budget as well as by instituting a system of personalised training (*crédit-formation individualisé*); since its inception in September 1989 some 180 000 participants have benefited from further education. A variety of other publicly-subsidised traineeship

programmes have also been created in the three annual employment plans since 1988. Nearly a million adults and 700 000 youths participated in publicly-financed labour-market training in 1988 at a cost of FF 28 billion (0.5 per cent of GDP) (OECD, 1990c). In July 1990, the State also signed a three-year performance contract with the national employment agency (ANPE) in which it agreed to the creation of 900 new posts to improve placement services.

## Taxation

France's systems of taxation and social protection, which were already reviewed in depth in the previous *Survey*, have remained at the centre of attention over the past year. In keeping with their medium-term objectives, the authorities have succeeded in reducing the overall level of taxation in relation to GDP (Table 9). Progress has also been made in the reshaping of the tax system. In part, such reform has been guided by the goal of harmonisation in the context of economic union within the EC. The top VAT rate has been reduced (from a peak of 33 per cent to 22 per cent) and is set to be eliminated by 1993 (leaving the relevant items to be taxed at the standard rate, currently 18.6 per cent). The recent EC decision to maintain the imposition of VAT according to the destination principle for some time after customs barriers come down has lessened the need to lower the relatively high French standard rate.

The overall burden of corporate income taxation has also been further reduced, and, at 34 per cent, the rate on retained profits has virtually attained the ultimate goal of 33 $\frac{1}{3}$  per cent at which, given the existing system of partial integration, double taxation of dividends would be eliminated. Since no reduction has been applied recently to distributed profits, the gap between the two rates has widened to 8 points, a differential which could prove increasingly costly over the longer term because it may generate distortions in capital allocation by restricting capital mobility between sectors<sup>20</sup>. Businesses have also benefited from a variety of other tax changes; however, taxes on businesses' financial capital gains were raised from 19 to 25 per cent, still less than in most neighbouring countries.

Table 9. **Taxes and social-security contributions**  
As a percentage of GDP

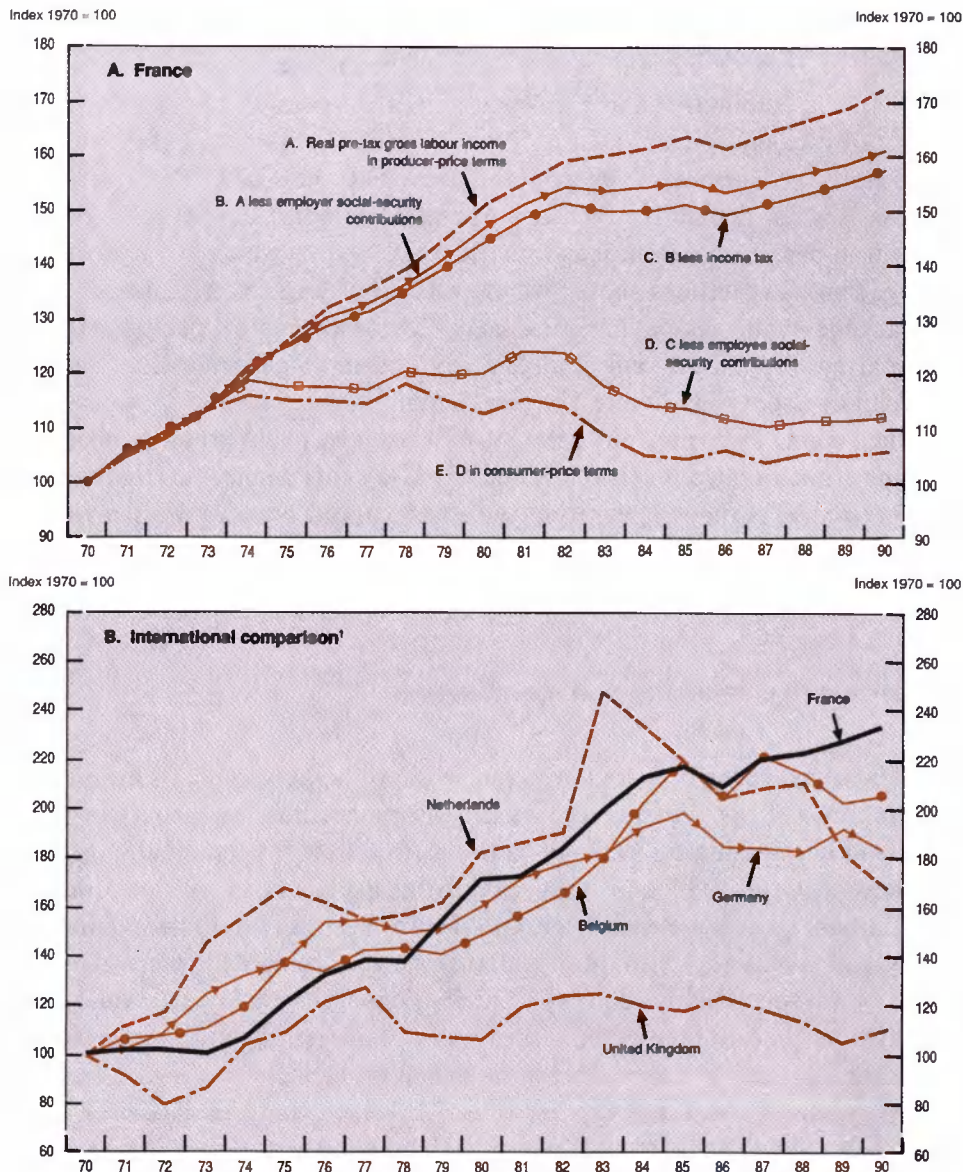
|                                             | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---------------------------------------------|------|------|------|------|------|------|------|
| Taxes                                       | 25.2 | 25.1 | 25.4 | 25.0 | 24.6 | 24.5 | 24.3 |
| <i>of which:</i>                            |      |      |      |      |      |      |      |
| Central government                          | 17.9 | 17.7 | 17.7 | 17.1 | 16.9 | 16.8 | 16.5 |
| Local authorities                           | 5.7  | 5.8  | 5.9  | 5.9  | 5.9  | 5.9  | 5.9  |
| EC                                          | 0.8  | 1.0  | 1.0  | 1.2  | 1.1  | 1.0  | 1.1  |
| Social security                             | 0.8  | 0.7  | 0.8  | 0.8  | 0.8  | 0.8  | 0.8  |
| Social-security contributions               | 19.3 | 18.9 | 19.2 | 19.1 | 19.3 | 19.4 | 19.5 |
| Total tax and social-security contributions | 44.5 | 44.0 | 44.6 | 44.1 | 43.9 | 43.9 | 43.8 |

Source : *Projet de Loi de Finances pour 1991, Rapport Economique, Social et Financier*, ministère des Finances.

But it is arguably personal-income and social-security taxation which remains most in need of an overhaul, given the substantial and still rising tax wedge on labour and its possible impact on the level of employment and unemployment (Diagram 12). The most recent *Rapport du Conseil des impôts* was especially critical as to the personal tax system's yield, complexity and progressivity. Nothing has been done since 1988 to bring down the top marginal personal tax rate which – at 56.8 per cent – is high by international standards. The system is widely acknowledged to be excessively narrow-based and progressive, as virtually half of all households pay no tax at all<sup>21</sup>. This is in contrast to the system of social-security contributions, although its regressive nature has diminished in recent years (see below). Recently, the introduction of a pay-as-you-earn system (such as exists everywhere else in the OECD) has come under consideration, in order, in part, to improve the automatic-stabiliser role of the tax system.

A substantial advance in the financing of social-security expenditure was made when a new "tax" levied on all incomes was recently introduced (the *contribution sociale généralisée* or CSG) in order to moderate the overall burden of taxation on labour, especially for the low paid. The financing of family allowances by employers was eased, thereby creating room for them to increase their funding of the retirement pension system. Thus, the CSG is levied at a rate of 1.1 per cent on all incomes, including, in particular,

Diagram 12. TAX WEDGE FOR PRIVATE-SECTOR WORKERS



1. Difference between real pre-tax gross labour income in producer-price terms (A above) and real after-tax labour income net of employer and employee social-security contributions in consumer-price terms (E above).  
Source: OECD estimates.

financial and replacement incomes. It is expected to generate FF 32 billion in revenue in 1991, of which FF 21 billion on wages and salaries. However, in order to make the introduction of the CSG revenue neutral, the special 0.4 per cent levy on taxable income (which annually generated some FF 6 billion in revenue) was eliminated, and employee retirement-pension contribution rates were cut by 1 point plus a flat FF 42 per month. The impact of the reform is significantly redistributive, despite the fact that the CSG is proportional, because it is not deductible for tax purposes<sup>22</sup> and because it is accompanied by a cut in pension contributions (part of which is flat) which are subject to a ceiling. Thus, simulations show that 83 per cent of wage earners benefit from the package, while tax-paying pensioners (55 per cent of all pensioners) and unemployed (8 to 10 per cent of all jobless) lose, and big families are favoured over childless couples. While the low initial rate is unlikely to cause any macroeconomic problems, any attempt to increase it could present difficulties in terms of the implied reversal of some of the tax cuts on income from savings made recently, perhaps generating increased capital outflows by individuals toward lower-tax jurisdictions.

### **Social-security financing and spending**

The social security system remains high on the government's agenda for reform. As well as creating the CSG, the authorities have continued the process of eliminating the ceilings on the income base for contributions (family allowances in 1989 and 1990, industrial accidents in 1991), although contribution rates have also been cut. However, in order to safeguard the ability and incentives to invest of the business sector, they have continued to avoid increasing the burden of contributions for employers, while rate increases have been imposed on employees<sup>23</sup>. However, the authorities clearly recognise the need to deal with the financing problems of the social-security system primarily on the spending side. Nevertheless, there has been little success in reducing the growth of social spending over the past few years: in inflation-adjusted terms the annualised growth rate of social outlays rose from 2.6 per cent during the four years to the end of 1987 to 3.7 per cent over the most recent three-year period. The system's largest player, the Régime Gén-

éral, which had been in overall equilibrium in 1989, fell into deficit in 1990, as the structural surpluses on industrial accidents and family allowances stabilised and the chronic deficits on health and retirement pensions swelled (Table 10, Panel A). In spite of recent measures (see below), the situation is likely to worsen this year as a result of the slowdown in output growth<sup>24</sup> as well as the structural deterioration on pension account.

### *The health system*

It is the health system which has been suffering the greatest pressures of late. Expenditure has continued to grow at a rapid rate, reaching 8.1 per cent of GDP (compared with 6.8 per cent in 1980), although there was some success in 1990 in slowing its expansion from the rapid pace of 1989, which had been induced in part by the broadening of reimbursement contained in the Plan Evin, as well as by the measures taken to up-rate salary scales in the hospital sector (Table 10, Panel B). The slowdown may also be attributed to the temporary effects of a lengthy strike by some administrative personnel responsible for reimbursement, as well as the permanent benefits of a reduction in the VAT rate on medicines from 5.5 to 2.1 per cent, cuts in clinical biology and pharmacists' margins and moderation in physicians' fees. Recently, a number of measures have been taken to deal with the previously expected deficit of some FF 10 billion in 1991: the doctors' fee increase previously agreed between part of the profession and the health authorities (Caisse Nationale d'Assurance Maladie) to take effect in December 1990 was not approved; hospitals' total spending growth was cut by 1/2 percentage point; and negotiations have begun regarding the levels of fees and margins with all groups of health professionals<sup>25</sup>.

The authorities are also intent on a number of other reforms, notably to end reimbursement for FF 14 billion worth of medical items which are of a non-therapeutic nature, to link pharmaceuticals' prices to their sales volumes and to make the suppliers of medical care responsible to a greater extent for health expenditures. A draft hospital reform law, the most ambitious in two decades, would grant greater autonomy to hospital administrators to manage their operations (in order to allow the contracting out of many non-medical functions), with the authorities' role confined to one of regulation. These

Table 10. Recent social-security outcomes

| A. Régime Général                            |       |       |      |       |       |
|----------------------------------------------|-------|-------|------|-------|-------|
|                                              | 1987  | 1988  | 1989 | 1990  | 1991  |
| I. Financial results (in billions of francs) |       |       |      |       |       |
| Health                                       | +4.6  | +1.8  | -2.5 | -10.7 | -8.3  |
| Occupational accidents                       | +3.2  | +3.6  | +3.3 | +3.6  | +2.2  |
| Retirement pensions                          | -10.3 | -17.1 | -4.6 | -6.9  | -16.8 |
| Family allowances                            | +1.0  | +4.4  | +3.5 | +5.0  | +6.2  |
| Total                                        | -1.4  | -7.3  | -0.4 | -8.9  | -16.7 |
| II. Expenditure growth (in percent)          |       |       |      |       |       |
| Health                                       | 1.5   | 6.6   | 9.1  | 7.8   | 5.8   |
| Occupational accidents                       | 2.7   | 2.8   | 4.7  | 4.7   | 4.4   |
| Retirement pensions                          | 7.3   | 8.2   | 7.5  | 9.4   | 7.5   |
| Family allowances                            | 3.3   | 3.4   | 6.3  | 4.6   | 2.3   |
| Total                                        | 3.6   | 6.2   | 7.8  | 7.4   | 5.5   |

Source : Commission des comptes de la Sécurité sociale, *Les comptes de la Sécurité sociale*, February 1991.

| B. Changes in the volume of health spending of the Régime Général <sup>1</sup> |      |      |      |      |      |      |
|--------------------------------------------------------------------------------|------|------|------|------|------|------|
|                                                                                | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
| Physicians' fees                                                               | 7.3  | 5.9  | 1.6  | 7.2  | 5.4  | 3.6  |
| Hospitals                                                                      | -5.9 | 10.0 | 1.4  | 2.4  | 5.8  | 3.7  |
| Prescription medicines                                                         | 7.9  | 8.4  | -4.7 | 8.0  | 11.0 | 3.6  |
| Total <sup>2</sup>                                                             | -0.3 | 8.1  | -0.8 | 3.9  | 6.6  | 3.8  |

1. Deflated by consumer prices.

2. Including cash transfers.

Sources : INSEE, *Comptes de la Nation 1989*, p. 197 and OECD estimates.

| C. Influence of patient participation ( <i>ticket modérateur</i> ) |                               |                                  |       |
|--------------------------------------------------------------------|-------------------------------|----------------------------------|-------|
| Number of medical visits and interventions, 1989                   | With <i>ticket modérateur</i> | Without <i>ticket modérateur</i> | Total |
| Consultations                                                      | 4.4                           | 7.7                              | 4.8   |
| Visits                                                             | -1.1                          | 6.6                              | 1.3   |
| Technical interventions                                            | 10.5                          | 13.0                             | 11.7  |
| Radiological interventions                                         | 6.2                           | 18.5                             | 10.1  |
| Dental care                                                        | 2.8                           | 5.7                              | 3.1   |
| Nursing interventions                                              | 3.8                           | 21.3                             | 15.0  |
| Kinesitherapy                                                      | 8.3                           | 13.0                             | 10.2  |
| Clinical biology                                                   | 11.6                          | 13.3                             | 12.2  |

Source : INSEE, *Comptes de la Nation 1989*, p. 198.

measures are for the most part an attempt to control costs by limiting supply. Yet in the past this approach led physicians to offset the compression of their unit margins imposed by the authorities by an increase in volumes. Indeed, while France was the only country among the major seven whose price deflator for health care rose less than the GDP deflator over the period 1975 to 1987, it also experienced easily the most rapid growth in per capita volumes (OECD, 1990d). The risks of a continuation of such rapid spending increases in the years to come are significant to the extent that the number of doctors coming on to the market is still rising fairly rapidly. In a system characterised by the freedom to prescribe and by substantial medical coverage by the social-security system, restricting the growth of public health expenditures will most likely have to entail an increased reliance on demand-restraining measures, such as reductions in reimbursement rates (Table 10, Panel C) and limits on the frequency of reimbursible doctors' visits. However, such measures have been excluded by the authorities on the grounds of the problems they may pose in terms of equity of access; they prefer to resort to a strategy of contractual regulation on the supply side. Furthermore, the health system would appear beset by excessive administrative costs – over 4 per cent of expenditure compared with a European average of 3½ per cent (Commission des Comptes de la Sécurité Sociale, 1991, p.52) – and a lack of statistical information, rendering more difficult the intended improvement in evaluation procedures.

### *The retirement system*

The Régime Général's finances are also deteriorating on retirement account<sup>26</sup>. So far there has been no substantial reform in order to dam the rising tide of retirement pensions, and the measures taken have been limited to their indexation to price rises rather than gross wage increases in order to reduce their burden in terms of GDP. However, the authorities are aware of the structural problem and its severity and have undertaken to present in the next few months a white paper which should serve as a basis for wide-ranging discussions later in the spring with a view to beginning the process of reform before the year is out. Various papers recently published by INSEE (INSEE, 1990b) illustrate the orders of magnitude at issue.

Given demographic trends, the ratio of retired persons over 59 to those in work is expected to rise gradually from 45 per cent at present to 48.5 per cent in 2005; at that point it should increase rapidly with the arrival at retirement age of the "baby-boom" generation and would reach 77.6 per cent in 2040 at constant fertility rates and trend mortality rates. On the basis of current legislation, the wealth equivalent of pension rights (that is the discounted value of pensions receivable less the discounted value of remaining future contributions) is nearly twice the level of GDP (with a 4 per cent discount rate), and, in order to finance them, implicit contribution rates (based on total earned incomes including employers contributions) would have to be boosted from 16.3 per cent in 1985, the starting point for the simulations, to nearly 22 per cent in 2005. At that point the average pension would be equal to 60 per cent of the average earned income of those in work net of contributions (the "net replacement rate"), as against 46 per cent in 1985, already high by international standards. By the year 2040 the necessary contribution rate could reach nearly 40 per cent and the net replacement rate 70 per cent, based on the assumption of a constant annuity rate, that is the average value of pension rights acquired per year worked. These calculations are obviously very sensitive to the underlying assumptions (such as the assumption of no changes in immigration trends), but they show clearly that the continuation of the current system would imply untenable intergenerational transfers which might cause considerable disincentives to work and save as well as upward pressure on wages.

The establishment of a system which is viable over the longer run will undoubtedly entail an increase in contribution rates, a reduction in benefits and/or an extension of average working lifetimes. An increase in working lifetimes by 1½ years would stabilise the ratio of contributors to the retired until 2005 and allow a reduction of 2 to 3 points (compared to the baseline scenario) in the subsequent rise in contribution rates (Vernière, 1990). Other scenarios were also studied, including a freeze on the net replacement rate. This would require a cut in the annuity rate as well as a still substantial increase in contribution rates as of 2005, albeit nearly two-thirds less than in the reference case.

No matter what strategic choices are made, it would be beneficial to smooth the adjustment burden through the temporary constitution of reserves

within unfunded regimes, as is done in some other OECD countries, by increasing contribution rates beyond the level needed to balance the system in the short term. Such reserves can be complementary to the current unfunded system, partial funding being perfectly feasible. It is clear that in stable-growth equilibrium, a pure pay-as-you-go system generates a higher rate of return to all generations if potential output growth exceeds the real interest rate<sup>27</sup>. This was indeed the case prior to 1980, but over the past decade declining labour-force and productivity growth, coupled with rising real interest rates, have clearly favoured funded systems. Funding would also allow increased national saving (*ceteris paribus*) and some combination of greater domestic capital formation with, ultimately, higher income levels, and less of a deficit on current account. In any case, funding should diminish the distortions associated with contributions (in particular on labour supply and saving) which would become more akin to forced saving<sup>28</sup>. Finally, it would appear advisable to consolidate the different obligatory regimes into one single public pension plan in order to reduce administrative costs, spread systemic risks and standardise retirement provisions across regimes in the interest of equity. The greater the complexity of the overall system, the more difficult are the social choices that have to be made.

## Local government financing

Little has been done to reform local government finance which suffers from excessive complexity and a lack of restraint on the expenditure side. In recent years, spending has continued to mount in relation to GDP as well as to overall government expenditure (Table 11). In 1985, French local taxes were higher than those imposed in most neighbouring unitary states (Conseil Economique et Social, 1990, p.40), and, given the increases since then in France, the comparison is probably still valid today.

Nearly a third of all local-government tax revenues come from the much criticised *taxe professionnelle* (paid by businesses), which was instituted in 1975 in order to replace the equally unpopular *patente* system. Its major faults are its complexity – it suffers from a myriad of exemptions representing over

Table 11. Importance of local government

|                                         | 1970  | 1975  | 1980  | 1982  | 1985  | 1989  |
|-----------------------------------------|-------|-------|-------|-------|-------|-------|
| <b>A. Percent of general government</b> |       |       |       |       |       |       |
| <b>Revenues</b>                         | 12.6  | 14.5  | 14.8  | 15.2  | 15.9  | 16.9  |
| <i>of which:</i>                        |       |       |       |       |       |       |
| Indirect taxes                          | 7.5   | 11.6  | 11.6  | 12.1  | 14.3  | 15.1  |
| Direct taxes                            | 14.1  | 16.6  | 14.8  | 14.2  | 18.7  | 18.8  |
| Transfers received <sup>1</sup>         | 190.1 | 266.8 | 266.0 | 273.0 | 271.7 | 282.1 |
| Property income                         | 32.9  | 32.0  | 44.5  | 40.7  | 41.4  | 46.9  |
| <b>Expenditures</b>                     | 14.6  | 16.0  | 15.6  | 15.6  | 15.5  | 16.8  |
| <i>of which:</i>                        |       |       |       |       |       |       |
| Current consumption                     | 15.6  | 17.9  | 19.6  | 20.4  | 22.0  | 23.7  |
| <i>of which:</i>                        |       |       |       |       |       |       |
| Wages                                   | 14.9  | 16.7  | 18.4  | 19.2  | 20.4  | 21.9  |
| Subsidies                               | 5.4   | 6.4   | 8.3   | 7.4   | 6.7   | 8.9   |
| Interest payments                       | 35.2  | 41.6  | 42.9  | 33.8  | 30.8  | 33.2  |
| Transfers paid <sup>1</sup>             | 12.1  | 24.6  | 21.1  | 20.8  | 19.5  | 23.0  |
| Fixed investment                        | 65.1  | 67.2  | 70.9  | 73.3  | 71.9  | 72.4  |
| <b>B. Percent of GDP</b>                |       |       |       |       |       |       |
| <b>Revenues</b>                         | 4.9   | 5.9   | 6.8   | 7.2   | 7.8   | 8.2   |
| <i>of which:</i>                        |       |       |       |       |       |       |
| Indirect taxes                          | 1.1   | 1.6   | 1.7   | 1.8   | 2.1   | 2.2   |
| Direct taxes                            | 1.0   | 1.2   | 1.2   | 1.2   | 1.7   | 1.7   |
| Transfers received <sup>1</sup>         | 2.1   | 2.3   | 2.7   | 3.0   | 2.6   | 2.9   |
| <i>of which:</i>                        |       |       |       |       |       |       |
| Tax-revenue transfers                   | 1.3   | 1.4   | 1.7   | 1.8   | 1.9   | 2.1   |
| Property income                         | 0.7   | 0.8   | 1.1   | 1.2   | 1.3   | 1.4   |
| <b>Expenditures</b>                     | 5.6   | 7.0   | 7.2   | 7.9   | 8.1   | 8.4   |
| <i>of which:</i>                        |       |       |       |       |       |       |
| Current consumption                     | 2.3   | 3.0   | 3.5   | 3.9   | 4.3   | 4.3   |
| <i>of which:</i>                        |       |       |       |       |       |       |
| Wages                                   | 1.6   | 2.1   | 2.5   | 2.8   | 3.0   | 3.0   |
| Subsidies                               | 0.1   | 0.1   | 0.2   | 0.2   | 0.2   | 0.2   |
| Interest payments                       | 0.4   | 0.5   | 0.6   | 0.7   | 0.9   | 1.0   |
| Transfers paid <sup>1</sup>             | 0.2   | 0.4   | 0.3   | 0.4   | 0.4   | 0.4   |
| Fixed investment                        | 2.4   | 2.5   | 2.2   | 2.3   | 2.2   | 2.3   |
| <b>Net lending</b>                      | -0.9  | -1.0  | -0.6  | -0.8  | -0.4  | -0.3  |

1. Excluding social security.

Sources : INSEE, *Comptes annuels* and *Comptes trimestriels*.

one-quarter of its total yield – and the substantial intersectoral variance of its importance: for example, industry pays 46 per cent of the total, compared to its 36 per cent share in GDP, while financial institutions pay only 5 per cent, despite their 11 per cent share in GDP. Accordingly, the national authorities have been moving towards reducing its burden, but at the risk of substantial waste. The State has directly assumed increasing responsibility for its payment by limiting the taxpayer's maximum amount payable in relation to his value added. Thus, in 1989, 27 per cent of its total proceeds were paid directly by the State (FF 26 billion or nearly  $\frac{1}{2}$  per cent of GDP), compared to 3 per cent in 1980. In the 1991 budget, this ceiling in relation to value added has been further reduced from 4 to  $3\frac{1}{2}$  per cent. It is clear that with such a ceiling in place, local authorities feel little constrained at the margin with regard to their tax and spending policies, with a consequent risk of fiscal irresponsibility. Proposals to switch the base entirely from an amalgam of wages, sales and fixed capital to value added were shelved when simulations revealed that such a change would prove particularly onerous to small business.

Property taxes constitute the other main tax levied by local governments, and opposition to them has been growing, not surprisingly, given, for example, the average  $9\frac{1}{2}$  per cent increase seen in the departmental share in 1990 and the substantial variation in per capita rates (by a factor of over 3 to 1). Thus, in July 1990 parliament voted in favour of a reform of this part of property taxation, which would shift the base from property values to household income but with an extensive variety of deductions and exemptions. The reform would take place in 1992, subject to legislative confirmation later this year.

The other main source of local-authority income are transfers from central government, the most important of which is the *dotation globale de fonctionnement* (DGF) (worth some FF 88 billion or  $1\frac{1}{2}$  per cent of GDP in 1989). Many transfers are automatically indexed in one way or another, thereby avoiding any budgetary stringency imposed by the State. For example, until 1990 the DGF and other transfers were based on hypothetical VAT proceeds calculated under the assumption of a fixed set of VAT rates, and other transfers are still indexed on forecasts of general government investment. Given the progressive reductions, especially in the top VAT rate, effected over the past few years, the adjustment burden of VAT relief had

been borne solely by central government. However, in 1990 the DGF was frozen in real terms, and henceforth it will rise in volume terms by a fraction of the rate of real economic growth. Other transfers are related to the shift in responsibilities effected with the major decentralisation voted in 1982. These have increased from 3.4 per cent to 5.7 per cent of the State's total tax revenue. Overall, the State transfers over FF 213 billion (nearly 3½ per cent of GDP and 21 per cent of its total tax take) to local governments, compared to only FF 117 billion or 16 per cent in 1984. Recently, the authorities decided to take some modest initial steps to re-direct budgetary transfers to communes with a view to increasing equalisation payments in favour of the least endowed localities. Finally, the financial relationships between the State and the local authorities are complex, perhaps excessively so, in part because of the large number of different levels of local government (*communes, départements, régions*), as well as the tally of *communes* themselves (some 36 000).

### **Toward a greener environment**

Recent OECD indicators point to both relative strengths and weaknesses in terms of environmental outcomes for France. Although making comparisons is difficult, it would appear that France contributes relatively little in the way of major air pollutants (greenhouse gases such as carbon dioxide, nitrous oxides, sulphur oxides) (Table 12). Low population density also makes for relatively low concentrations in most areas. Nevertheless, there remain serious local air quality problems (in Paris, for example). There has been a substantial reduction in emissions during the 1980s, thanks to a substantial cut in fossil fuel requirements; this reflects the reduced energy intensity of the national economy as well as the development of nuclear capacity. However, the increase in the share of nuclear power in electricity consumption (from 8 per cent in 1973 to 70 per cent in 1988) has left France with a greater nuclear waste disposal problem. France also compares favourably with its OECD partners in terms of its solid waste generation as well as the share of its land area which is protected. The principal problem areas would appear to be the following: intensity of water withdrawal<sup>29</sup> and of nitrogenous fertilizer and

Table 12. Environmental indicators: a France-OECD comparison<sup>1</sup>

|                                                                                   | France           |      |                  | OECD             |      |                  |
|-----------------------------------------------------------------------------------|------------------|------|------------------|------------------|------|------------------|
|                                                                                   | 1970             | 1980 | 1988             | 1970             | 1980 | 1988             |
| Emissions of greenhouse gases, tons per capita                                    | n.a.             | n.a. | 4.0              | n.a.             | n.a. | 6.1              |
| of which:                                                                         |                  |      |                  |                  |      |                  |
| CO <sub>2</sub> emissions from energy use, tonnes per capita                      | 2.5              | 2.6  | 1.8              | 3.4              | 3.2  | 3.4              |
| Sulphur oxides, kg. per capita                                                    | 58.4             | 61.9 | 22.8             | 90.3             | 68.0 | 48.3             |
| Nitrogen oxides, kg. per capita                                                   | 26.0             | 34.0 | 29.6             | 45.2             | 48.3 | 44.3             |
| Water withdrawal, as % of gross annual availability                               | 13.5             | 20.3 | 23.4             | 8.6              | 10.5 | 10.2             |
| Nitrogenous fertilizers applied on arable land, in tonnes/km <sup>2</sup>         | 7.9              | 11.4 | 13.3             | 3.9              | 5.6  | 5.7              |
| Pesticides applied on arable land, in tonnes (active ingredients)/km <sup>2</sup> | n.a.             | n.a. | 0.4              | n.a.             | n.a. | 0.3              |
| Population served by waste water treatment plants, %                              | 19.0             | 43.6 | 52.0             | 34.0             | 51.0 | 60.0             |
| Protected land area %                                                             | 0.9              | 2.4  | 8.2 <sup>2</sup> | 1.9              | 5.9  | 7.1 <sup>2</sup> |
| Municipal waste generated, kg/capita                                              | 228 <sup>3</sup> | 260  | 304              | 407 <sup>3</sup> | 436  | 513              |
| Industrial waste, per unit of GDP (t/10 <sup>6</sup> \$US)                        | n.a.             | n.a. | 89               | n.a.             | n.a. | 146              |
| Nuclear waste, per unit of energy (t/MTOE) <sup>4</sup>                           | n.a.             | n.a. | 4.5              | n.a.             | n.a. | 1.7              |

1. Caution should be exercised in making international comparisons, since measurement methods vary.

2. 1989.

3. 1975.

4. Amounts of spent fuel expressed in tonnes of heavy metal per unit of primary energy requirement.

Sources: OECD, *Environmental Indicators*, 1991 and OECD, *Environmental Data*, Compendium 1989.

pesticide use, the share of the population served by waste water treatment plants and solid waste generation.

While in certain respects, efforts to protect the environment have been made for a long time, such as the regional agencies for the management of water resources, expenditures to control pollution are still rather limited<sup>30</sup>. However, the environment is a growing concern of the authorities. A national environmental plan has been proposed which is designed, among other things, to:

- i) Cut average emissions of major pollutants by 30 per cent;
- ii) Double the share of household waste water which is treated;

- iii)* Recycle more than half of all primary industrial materials; and
- iv)* Eliminate the use of chlorofluorocarbons (CFCs) within ten years.

It is estimated that this would raise the share of environmental expenditure from 1.3 to 1.9 per cent of GDP and cost the exchequer some FF 6 billion annually in its first five years. While the State increased its budget for the environment ministry by 15 per cent for 1991, it remains extremely modest (less than FF 1 billion) and represents merely an interim move. It is only this year that longer-term decisions are intended to be taken, with implementation beginning in 1992. A greater role should be given to economic instruments in environmental management. In the same vein, taxes on polluting activities are called for, and indeed various polluter-pays taxes are being mooted. In addition, a draft law on water policy is before Parliament and should lead to a doubling of water prices. The Ministry of Agriculture has announced a series of measures to encourage environmentally friendly farming, and discussions are under way with a view to re-examining the problem of nuclear waste.

## **IV. Competition and competition policy**

### **Historical background**

The strengthening of France's competition policy in recent years should facilitate its achievement of the structural adjustments needed for a fuller integration into the single European Market. In the past France was long perceived as one of the developed countries where competitive forces were relatively weak, blurred in particular by the intervention of the State in the economy. Indeed, until the beginning of the 1980s, except during brief periods, economic policy was generally distinctly interventionist whether through the policy of "national champions", the development of assistance to sectors in difficulty or the intention to "reconquer the domestic market" via the wave of nationalisations in 1982. Most of these policies aimed at strengthening the external competitiveness of the industrial sector. On the other hand, little was done to develop competition in sheltered sectors. A number of them have continued to benefit from substantial protection, inherited from the past, while in certain areas protection has increased for reasons which are generally more socio-political than economic in nature. However, this strategy yielded rather disappointing results: it did not succeed in stopping the rising trend of import penetration nor in modifying comparative advantage in industry for any length of time, while the inadequacy of competition often led to inefficient resource allocation. Thus, the accent came to be put on reducing the role of the State, especially as of the middle of the 1980s.

In the same manner, while France's regulation of competition was seen as part and parcel of price legislation<sup>31</sup>, the promotion of competition gradually supplanted the idea that price controls could keep inflationary tendencies in check and so enhance external competitiveness. In addition, the authorities

gradually brought French legislation into line with that of the European Community. Prices began to be deregulated in industry and some parts of the service sector in the late 1970s. In the first half of the 1980s, even though competition was progressively confirmed as the key instrument in the policy of economic liberalism, price measures remained of considerable importance<sup>32</sup>. Analysis of trends in relative prices in the market sector<sup>33</sup> shows that there was distinct convergence between 1980 and 1985 in relative prices among a group of 17 countries, but the convergence was probably less marked in France than in the majority of other countries (see Annex Table A4).

A decisive step forward on the competition-policy front was taken at end-1986. The 1986 Order on the deregulation of prices and competition (*Ordonnance de 1986 relative à la liberté des prix et de la concurrence*) rescinded the 1945 Order which gave the government the power to institute price controls at will. In order to comply as fully as possible with EC competition legislation, it established a whole new framework for the functioning of the market. The previous system, based primarily on proscription, was replaced by one encouraging contractual freedom and punishing only abuses. The new principle was that competition should be the sole instrument of market regulation. It reflected a more market-based approach to competition law. By deregulating prices across the board, the Order signalled reduced government intervention and affirmed the authorities' confidence that economic agents would behave rationally. This reduced involvement was accompanied by deregulation in various sectors, designed to enable enterprises to operate in a competitive setting relatively unencumbered by government intervention (Jenny, 1990a).

This chapter focuses essentially on the operation of the goods and non-financial services markets from a competition-policy standpoint. The financial sector and labour markets have already been looked at in previous OECD Economic Surveys. The new approach to competition policy was embodied in the gradual dismantling of barriers to entry (natural monopolies, concessions, licenses and professional controls), the reduction in direct intervention in the economy and the opening up of markets to external competitors (foreign investment and public procurement). The structure of competition law is then presented in the second section. The last two parts present an overview of developments in the EC context and some concluding remarks.

## Towards a gradual reduction in barriers to competition

### *Barriers to entry*

By definition, the extreme case of an absence of competition occurs in a situation of *natural monopoly*. The State has made extensive use of direct intervention by setting up public monopolies to remedy what were seen as market failures in such areas as energy production, the railways, air transport, public utilities and telecommunications, the idea being that, given substantial economies of scale or scope, a single firm can guarantee supplies at minimum cost. As a result, there is little or no possibility of market access for potential competitors, as in the case of the distribution of gas and electricity.

Regulations have been eased in a certain number of sectors by introducing a "quasi-competitive" situation. With technological change, the regulatory framework has in fact become increasingly ill-adapted to the current market situation (OECD, 1990b). Thus, in the telecommunications industry, the introduction of new digital, radio and television broadcasting technologies has allowed other networks to supply better quality products and services without, however, producing any economies of scale or network savings, thereby draining the natural monopoly of any substance. The development of competitive cable and satellite services marked the demise of the monopolistic supply situation which resulted from the physical limits on broadcasting frequencies. On the other hand, technological changes can generate new natural monopolies, such as computerised flight booking systems. Also, experience has shown that because one of an enterprise's activities is a natural monopoly, this does not imply that all its activities are. Some segments may be competitive. For example, while the distribution of electricity constitutes a natural monopoly, there is room for potential competition in its generation<sup>34</sup>.

Thus, deregulation has been implemented. The public air-transport monopoly with respect to flights to and from the overseas *départements* was liberalised in 1987, and the authorities, under pressure from the European Commission, have recently undertaken to accelerate the introduction of competition on domestic and international lines (OECD, 1988a). In the field of telecommunications, where, as a result of technological progress (see below), the market is no longer considered to be a natural monopoly, the exclusive

licence no longer covers value-added services (which since 1986 have had to be notified to or authorised by the Ministry of Postal Services and Telecommunications) nor mobile telephone and radio-paging systems (OECD, 1988b). The change in status of France Telecom would seem to be evidence of a shift in the authorities' perceptions in this respect. However, as public service and pricing considerations remain important, telecommunications have only been partially deregulated. In this regard, less progress has been made than in other OECD countries where the very concept of a natural monopoly has gradually lost its meaning (OECD, 1990b). Another example is the deregulation of both gasoline prices in 1985-86 and of the imports of petroleum products in 1987 (which remain subject to the approval of the Ministry of Industry). Although it is difficult to separate the impact of the liberalisation from that of the fall in oil prices, it is interesting to note that the pre-tax price of petrol fell by 31 per cent in France between 1984 and 1986, compared with 25 per cent in Germany and Italy (Table 13). Initially, moreover, oil companies' profit margins rose, but the pressure exerted by hypermarkets forced them down so that, prior to the Gulf crisis, they were at a record low, except for domestic fuel oil.

In some instances, a public monopoly in one sector can have repercussions on others. For example, as in other countries and notably in Germany, the road transport sector came to be regulated in order to protect the activities of the railways (OECD, 1990a). Thus, despite having the structural characteristics of a competitive industry, the sector was made subject to a system of

**Table 13. Petrol prices net of tax**  
In US dollar per litre, at current exchange rates

|                | 1984         | 1986         | 1989         |
|----------------|--------------|--------------|--------------|
| <b>France</b>  | <b>0.258</b> | <b>0.177</b> | <b>0.206</b> |
| Germany        | 0.252        | 0.191        | 0.230        |
| Italy          | 0.252        | 0.187        | 0.242        |
| United Kingdom | 0.244        | 0.199        | 0.241        |
| United States  | 0.244        | 0.165        | 0.189        |
| Japan          | 0.383        | 0.410        | 0.450        |

*Source :* OECD, *Energy prices and taxes, third quarter 1990, 1991.*

licences and government regulation of prices and quality of service. The negative impact of regulation on efficiency can be illustrated by comparing the respective trends in road freight and road passenger transport, the former enjoying a considerably greater degree of deregulation than the latter. In the *road haulage sector*, which is largely comprised of private enterprises, entry conditions have been partially liberalised: for long-distance haulage, licences have been granted without any quotas since 1986, while for short-and-medium distance haulage, enterprises are simply required to be on the road hauliers' register. The mandatory pricing system was abolished in 1986, and there followed a three-year transitional period. Since liberalisation began, activity has picked up significantly, and the number of enterprises has increased. Price competition has been intense and, despite the mandatory pricing system in force up to 1989, prices fell below their floor level. Prices fell more sharply for long-haul transport, which was more fully deregulated, than for short-haul transport (Table 14). Employment in the sector has risen appreciably since 1984, and the quality of services has also improved. The situation with respect to *road passenger transport* is very different. The sector is dominated by public enterprises, barriers to entry (in the form of licences) are formidable, and a mandatory pricing system is still in force (prices have to be approved by local authorities). Prices are generally high, but, since costs too are high, profitability is lower than in freight. The price structure is distorted, since it is used as an instrument of regional policy, notably to even out differences between low-cost and high-cost regions. This has affected the structure of supply and demand, since hauliers are forced to keep non-profitable capacity in service.

Table 14. **Prices of trucking services**  
Annual percentage change

|                    | 1986 | 1987 | 1988 | 1989 |
|--------------------|------|------|------|------|
| Domestic transport |      |      |      |      |
| Short-haul         | 2.7  | -2.4 | -0.7 | 0    |
| Long-haul          | 0    | -5.0 | -4.2 | -1.9 |

Source : Rapport de la Commission des Comptes de Transport, ministère de l'Équipement-INSEE, February, 1991.

Quite a number of industrial sectors, fee-earning professions and trades are regulated despite having none of the characteristics of natural monopolies. This has been justified based on notions of workable competition, externalities and informational asymmetries. In the case of public utilities, for example, it is the importance and the specific nature of the relevant assets which are invoked in imposing statutory barriers to entry. In granting *concessions and licences*, respectively, the authorities allow only one private supplier to provide a public service, or a specific product or service. For example, tenders have been called for operating mobile telephone and public call-box systems ("ex ante" competition)<sup>35</sup>. Access to the television and radio broadcasting industry remains subject to authorisation by the Conseil Supérieur de l'Audiovisuel set up in January 1989. Occupations subject to licensing requirements are varied, ranging from taxis to funeral services and pharmacies. In certain cases, government measures which create barriers to entry in sectors or professions where competition is not thought to be workable may well have the effect of maintaining the status quo to the detriment of the competitive process. It is therefore important to pay careful attention to pressure groups which invoke motives of consumer protection to preserve their professional advantages.

*Professional controls* are common practice in the fee-earning (medical, legal and technical) professions, of which some 15 have a professional supervisory body (Order) that monitors compliance with the relevant code of ethics. Professional access often requires registration with an Order or other professional body. Doctors can practise only after having registered with the physicians' Order; the same applies to lawyers and architects. Moreover, these bodies enjoy wide-ranging powers to regulate their members' advertising. The control of such advertising is tighter than in other domains<sup>36</sup> and may exert some influence on fee-setting. Nevertheless, frequent judgements by the Conseil de la concurrence (see Annex III) against required fee schedules imposed by professional organisations has led to their gradual disappearance. Another means of restricting entry is *investigation by the authorities of the need for additional supply*, often in connection with public health requirements<sup>37</sup>. Access to certain commercial activities is also regulated at the distribution stage. For example, under the terms of the Royer Act, recently strengthened by the Doubin Act, the establishment of hypermarkets is submitted to a requirement of prior authorisation from regional bodies (*commissions départe-*

*mentales d'urbanisme commercial*) which take excessive account of social goals of protecting small shopkeepers. However, France is one of the countries where large-scale retailing is the most developed in Europe.

### *Other factors affecting competition*

In the past *subsidies* have been an important means of government intervention in the economy. As in the case of regulation, they are often justified by the desire to offset market imperfections or failures when there are externalities, very high entry costs or where operators do not enjoy the same access to information. In fact, a large proportion of French support has been granted to large firms, independent of considerations of market performance<sup>38</sup>. In France, subsidies, measured on a national accounts basis, represented 2.5 per cent of GDP in 1988, a proportion equal to the average for the European OECD countries, as against 3 per cent in 1985-86. Indeed, in view of the disappointing results of direct aid to and protection for industry, which has tended if anything to retard the necessary adjustments, the authorities have embarked on a programme to reduce government intervention, and the volume of subsidies has declined. This was most noticeable in the manufacturing sector, especially in the steel industry (Table 15).

The State also intervenes directly in the competitive sector through its ownership of *public enterprises*. The public sector expanded appreciably with the wave of nationalisations in 1982, but then slimmed down following the 1986-87 privatisations. Since then, the policy has been to effect no divestments nor extensions of the public sector. Certain measures have, however, been taken which have shifted the frontier dividing the public from the private sector. Very recently, the authorities decreed that minority interests in public corporations could be sold, provided that the change includes an industrial, commercial or financial co-operation agreement with the purchaser. In 1988, government holdings, whether or not related to natural-monopoly consideration, covered 2 000 enterprises employing some 1.4 million wage-earners, i.e. 11 per cent of those in dependent employment. The share of the corporate public sector in the economy is estimated at around 12 per cent (Table 16)<sup>39</sup>. For the most part, these firms face privately-owned competitors. However, because of their status they are at least in part protected from the normal

**Table 15. Subsidies by sector, 1981-1988**

As a percentage of the value added in the sector

|                       | Agriculture | Manufacturing | Manufacturing<br>excluding steel<br>and<br>shipbuilding | Shipbuilding | Railway   |
|-----------------------|-------------|---------------|---------------------------------------------------------|--------------|-----------|
| <b>Germany</b>        |             |               |                                                         |              |           |
| 1981-86               | 9.8         | 3.0           | 2.9                                                     | 12.3         | 37        |
| 1986-88               | 13.5        | 2.7           | 2.7                                                     | 16.6         | 32        |
| <b>France</b>         |             |               |                                                         |              |           |
| <b>1981-86</b>        | <b>12.1</b> | <b>4.9</b>    | <b>3.6</b>                                              | <b>56.6</b>  | <b>38</b> |
| <b>1986-88</b>        | <b>7.6</b>  | <b>3.7</b>    | <b>3.5</b>                                              | <b>68.0</b>  | <b>29</b> |
| <b>Italy</b>          |             |               |                                                         |              |           |
| 1981-86               | ..          | 9.5           | 8.2                                                     | 45.9         | 49        |
| 1986-88               | ..          | 6.7           | 6.5                                                     | 28.2         | 8         |
| <b>United Kingdom</b> |             |               |                                                         |              |           |
| 1981-86               | 14.1        | 3.8           | 2.9                                                     | 21.6         | 18        |
| 1986-88               | 8.6         | 2.7           | 2.5                                                     | 25.0         | 9         |
| <b>Belgium</b>        |             |               |                                                         |              |           |
| 1981-86               | 7.3         | 6.4           | 4.5                                                     | 27.7         | 70        |
| 1986-88               | 6.2         | 4.4           | 4.6                                                     | 12.3         | 63        |
| <b>Netherlands</b>    |             |               |                                                         |              |           |
| 1981-86               | 7.2         | 4.1           | 4.1                                                     | 10.7         | 22        |
| 1986-88               | 6.2         | 3.3           | 3.5                                                     | 3.8          | 6         |

Source : EC, 1990a.

mechanisms of the market place, and they thereby modify the competitive conditions in the market. Not only are they sheltered from the risks of bankruptcy and takeovers when faced with poor performance, but they also benefit from the State's financial support, which is justified in theory by its role as shareholder, but whose subsidy element is often difficult to identify. Nevertheless, it is true that the management of public corporations has in recent years become more similar to that of private firms.

As far as *restrictions on foreign competition* are concerned, French legislation is aligned in the main on that of the Community. Nominal customs tariffs have been significantly lowered since World War II. In a number of sectors, however, (especially clothing and footwear) customs duties from countries outside Europe remain quite high. The main barriers originate in the

Table 16. **Distribution of public enterprises by industry, 1989**

As a percentage of value added in each industry

|                   | Post<br>Office | Telecom-<br>muni-<br>cations | Electricity | Gas | Oil | Coal | Railways | Air<br>transport | Road<br>transport | Steel | Ship-<br>building |
|-------------------|----------------|------------------------------|-------------|-----|-----|------|----------|------------------|-------------------|-------|-------------------|
| United States     | 90             | 0                            | 25          | 0   | 0   | 0    | 25       | 0                | 0                 | 0     | 0                 |
| Japan             | 100            | 33                           | 0           | 0   | —   | 0    | 25       | 0                | 0                 | 0     | 0                 |
| Germany           | 100            | 100                          | 75          | 50  | 25  | 50   | 100      | 100              | 25                | 0     | 25                |
| France            | 100            | 100                          | 100         | 100 | —   | 100  | 100      | 75               | 50                | 75    | 0                 |
| Italy             | 100            | 100                          | 75          | 100 | —   | —    | 100      | 100              | 25                | 75    | 75                |
| United<br>Kingdom | 100            | 0                            | 100         | 25  | 25  | 100  | 100      | 0                | 0                 | 75    | 50                |
| Canada            | 100            | 25                           | 100         | 0   | 0   | 0    | 75       | 75               | 0                 | 0     | 0                 |
| Australia         | 100            | 100                          | 100         | 100 | 0   | 0    | 100      | 75               | 0                 | 0     | —                 |
| Austria           | 100            | 100                          | 100         | 100 | 100 | 100  | 100      | 100              | 100               | 100   | —                 |
| Belgium           | 100            | 100                          | 25          | 25  | —   | 0    | 100      | 100              | 100               | 50    | 0                 |
| Netherlands       | 100            | 100                          | 75          | 75  | —   | —    | 100      | 75               | 50                | 25    | 0                 |
| Spain             | 100            | 50                           | 0           | 75  | —   | 50   | 100      | 100              | 0                 | 50    | 75                |
| Sweden            | 100            | 100                          | 50          | 100 | —   | —    | 100      | 50               | 25                | 75    | 75                |
| Switzerland       | 100            | 100                          | 100         | 100 | —   | —    | 100      | 25               | 0                 | 0     | —                 |

Source : Oxley *et al.*, 1990.

Multifibre Agreement. Quantitative restrictions on imports are still substantial, but were recently reduced<sup>40</sup> (Table 17). Effective rates of protection in France have been cut and will continue to come down as the quantitative restrictions introduced within the framework of EC regulations are eased. According to an update of the calculations published by the World Bank, but at a more disaggregated level, the rate of effective market protection in France is 8 per cent excluding textiles and 5 per cent excluding textiles and automobiles.

Nonetheless, restrictive measures do apply in a number of sectors, the reasons being either strategic (energy products) or industrial. For instance, "temporary" protection has been accorded to whole areas of industry (textiles, for example) to facilitate restructuring. In the automobile sector, essentially only specific restrictions still remain. Competition with imports from the rest of the world is the rule, the notable exception being imports from Japan. The French authorities imposed a 3 per cent quota in 1976 as a result of pressure from French producers. The effects of this measure have been much studied,

Table 17. Imports affected by selected non-tariff barriers<sup>1</sup>

Per cent

|                           | End-1981                       |                                | End-1986                       |                                |
|---------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                           | Share of imports in the sector | Share of manufacturing imports | Share of imports in the sector | Share of manufacturing imports |
| <b>France</b>             |                                |                                |                                |                                |
| Agriculture               | 43.3                           | ..                             | 44.7                           | ..                             |
| Manufacturing             | 11.2                           | 11.2                           | 15.4                           | 15.4                           |
| <i>of which:</i>          |                                |                                |                                |                                |
| Textiles and clothing     | 42.9                           | 4.3                            | 43.0                           | 4.3                            |
| Footwear                  | 6.5                            | 0.1                            | 6.5                            | 0.6                            |
| Iron and steel            | 28.9                           | 1.1                            | 34.3                           | 1.3                            |
| Electrical and electronic | 13.0                           | 0.9                            | 31.3                           | 2.3                            |
| Motor vehicles            | 11.9                           | 0.8                            | 19.1                           | 1.3                            |
| <b>Germany</b>            |                                |                                |                                |                                |
| Agriculture               | 32.7                           | ..                             | 33.3                           | ..                             |
| Manufacturing             | 15.0                           | 15.0                           | 17.9                           | 17.9                           |
| <b>Japan</b>              |                                |                                |                                |                                |
| Agriculture               | 49.8                           | ..                             | 49.8                           | ..                             |
| Manufacturing             | 10.2                           | 10.2                           | 10.2                           | 10.2                           |
| <b>United States</b>      |                                |                                |                                |                                |
| Agriculture               | 6.2                            | ..                             | 18.4                           | ..                             |
| Manufacturing             | 11.7                           | 11.7                           | 17.9                           | 17.9                           |

1. These include quotas, import taxes, import permits, minimum prices and the Multifibre Arrangement. The calculations are based on the list of trade barriers drawn up by the World Bank.

Source: Kelly *et al.*, 1988.

and it appears they are negative for the French market (OECD, 1987). French car prices seem higher, and the design and production cycle is longer than in Germany and Japan, for example. According to statistics on monthly base salaries compiled by the Groupement des industries de la métallurgie de la région parisienne (GIM), labour compensation seems to be higher in motor vehicles than in metal products overall. What is more, imports from Japan have been replaced by those from other EC countries<sup>41</sup>, while Japanese producers have been stepping up their penetration of less-protected European markets at the expense of French exporters' market share. Lastly, Japanese firms have increased their profits by adjusting their selling prices to con-

strained demand and by aiming to sell more cars with plenty of options where profit rates are higher (OECD, 1987). Quotas have thus been clearly less efficient than equally protective tariff barriers, since the resulting economic rents have not accrued to France alone. France is participating in the ongoing negotiations in the EC context over the disposition of these quotas.

*Restrictions on inward direct investment* have, for their part, been generally eased in recent years. The setting up of enterprises has been free since 1988. Since January 1990, when taking an interest in a French firm, EC investors may obtain a permanent proof of their EC origin (which has been granted systematically by the authorities). Without this proof, prior notification from the Ministère de l'Économie, des Finances et du Budget is required; the reform of January 1990 cut the period during which the examination is undertaken from two months to 15 days. Furthermore, Community investors not having requested permanent recognition must draw up an ex post report (for statistical purposes). For all investments by non-EC firms, authorisation is tacitly granted one month after filing if the Minister has not exercised his right of deferral in the interim. In fact, he has not done so since January 1990.

The authorities have strived to strengthen the transparency of *public-procurement markets* and to increase the degree to which the proper procedures are followed, in particular by limiting combines. In the main, public-procurement contracts are awarded to the lowest bidder. However, the authorities can call upon privileged suppliers through restricted tendering procedures. These restrictions are justified in France, as elsewhere, by invoking strategic reasons (national defence and telecommunications), employment support in ailing sectors (steel) or support for high-tech industries.

*Company law* makes takeovers relatively difficult. Corporate boards of directors no doubt enjoy a greater degree of independence than in other countries. The existence of a substantial proportion of non-voting and bearer shares, coupled with the fact that boards of directors can use all abstentions, which is the case in no other Community country, weakens the market for corporate control. Furthermore, a takeover bid must be for at least 66 per cent of the voting shares in France, whereas most EC countries have no such rule. Taking the predominant influence of the authorities via their holdings in industry (see above), together with the key role played by company manage-

ment, the conclusion is that France is the country with the most dissuasive regulation on takeovers (Booz\* Allen, 1989). In practice, takeovers are much less frequent than in the United Kingdom but more numerous than in certain other European countries such as Germany and Switzerland.

## **Structure and thrust of competition law**

### *Main institutions*

Competition policy is for the most part implemented consensually by the Direction Générale de la Concurrence, de la Consommation et de la Répression des Fraudes (DGCCRF) of the Ministère de l'Economie, des Finances et du Budget, the Conseil de la concurrence and the courts (see Annex III). Even before 1986, the Ministère de l'Economie generally endorsed the analyses and opinions of the Commission de la concurrence, and the courts amended only the procedural aspects, not the substance of the decisions. Since 1986, the Conseil de la concurrence has itself been responsible for decision-taking with respect to anti-competitive practices and the Cour d'Appel de Paris (Court of Appeal), to which disputes are referred, has upheld the majority of its decisions<sup>42</sup>.

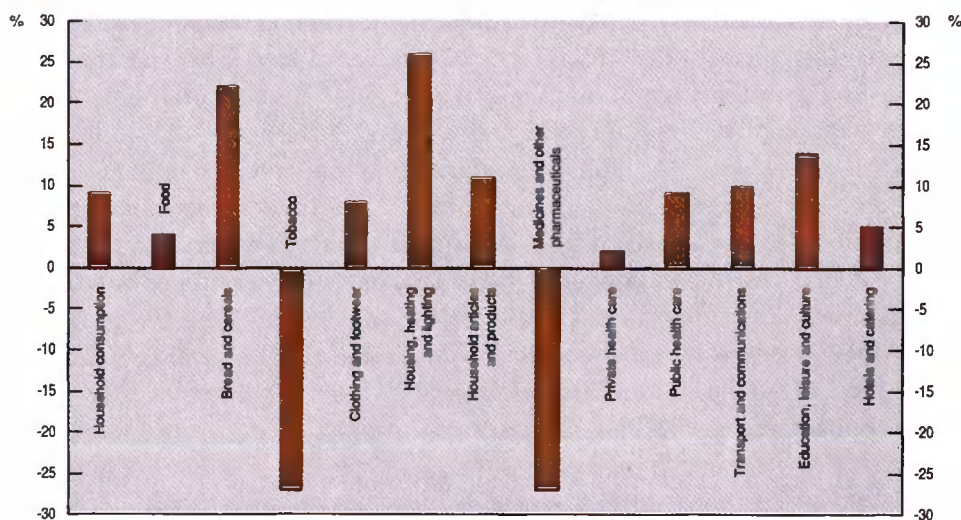
### *The price-setting regime*

Since the 1986 Order was adopted, the general rule has been one of free price setting, with two important exceptions. They concern sectors or areas where price competition is limited, either owing to the existence of monopolistic situations or chronic supply shortages, or for legislative or regulatory reasons. On this basis certain activities are sheltered from competition. The most important of these are pharmaceuticals reimbursed by the Social Security system, the medical and para-medical professions<sup>43</sup>, electricity, urban public transport and book selling. When the Conseil de la concurrence has been consulted, it has usually found economic reasons (based on unit costs, capacity expansion, contribution to economic progress) for the statutory orders on price regulation submitted to it. For example, in the case of urban

public transport fares, the Conseil found that, because of the legal system applying and the scale of the financial subsidies provided by the responsible authorities, the operators of this public service were in a monopoly situation which restricted possible price competition.

The statutory setting of maximum profit margins on pharmaceuticals has probably contributed to lowering the prices of medicines, which were 27 per cent below the EC average in 1985 (Diagram 13). But it may also lie behind the relatively slow growth of real R & D expenditure in this sector (OECD, 1991b), the corollary being a sharp increase in the rate of penetration of foreign products. Public health spending, on the other hand, was 10 per cent cheaper than the EC average. The fact that banks are banned from charging for maintaining customer accounts has curbed the development of interest-bearing accounts and depressed bank profits.

Diagram 13. **RELATIVE CONSUMER PRICES, 1985**  
Difference in percentage points with the  
EC average<sup>1</sup>



1. ICP Classification.

Source: OECD, *Purchasing power parities and real expenditures in the OECD, 1985*.

Second, the government may adopt temporary measures by decree to curb excessive price rises in case of crises, exceptional circumstances, a public disaster or a patently abnormal market situation in a given sector. This has happened in two cases. The most recent was the freeze on oil companies' and petrol stations' profit margins in the summer of 1990. Eventually, the freeze proved unnecessary, since company-owned petrol stations were quick to lower their pump prices to below the ceiling under pressure from hypermarket competition. Also, rents have again been controlled since the summer of 1989 in the Paris region, and this would appear to have contributed to the slowdown in rent increases.

### *Indirect price regulation*

Traditionally *associations representing the fee-earning professions* have enjoyed extensive dispensations from competition law and have been authorised to determine collectively a standard scale of charges for their services. As a result, their fees have not come under the same competitive pressure as have the prices of other goods and services. However, the past decade has seen some very significant changes in this respect. A variety of measures were taken with a view to expand competition in sectors where there was none and to restrict the use of percentage-based fees. This was the case for lawyers, with the Conseil de l'Ordre (Bar Council) being prohibited from setting average and minimum fees, and for legal counsellors and architects, who were not allowed to publish standard contracts comprising a fee scale based on a percentage of the amount of the transaction on the grounds that this practice discouraged them from determining their own prices on the basis of their actual costs. The impact of these decisions on price trends is hard to assess, but, on the information available, it would seem that the range of hourly rates charged by architects has widened and that, on average, according to the "Mutuelle des architectes français", their fees remained virtually unchanged between 1985 and 1988.

The *authorities* still play a considerable role in price setting. Because medical expenditure is very extensively reimbursed by government, doctors are not in general free to set their own scale of charges, and pharmacists are strictly regulated. They have the monopoly on sales of all products conforming

to the definition of medicine, and the government sets their maximum profit margins. Notaries' fee scales are set by decree, and the charges for virtually all the activities of bailiffs are based either on a fixed price for each act or as a proportion of the debts collected.

### *Abuse of dominant position*

Since French legislation does not explicitly condemn monopoly situations but rather their possible abusive utilisation, the competition authorities have considerable room in assessing abuse of a dominant position<sup>44</sup>. An enterprise is deemed to be in a dominant position when it has a monopoly or a dominant share in a given market. The standard criteria used by economic analysis in *defining a market*, namely cross-elasticities of substitution between different goods and services, are seldom available. A number of factors are therefore taken into account, such as the technical feasibility of meeting similar demands in other ways, the substitutability of almost identical goods, the determinants of demand, and product and distribution-network differentiation. The authorities have tended to adopt a narrow definition of the market (Jenny, 1990b). The combination of different brands and distribution networks, for example, reduces product substitutability so much that they can be considered to be on different markets. Similarly, the geographical market does not necessarily encompass the whole nation and may be no more than local<sup>45</sup>. However, a large market share is not in itself evidence of a dominant position. Other criteria taken into account include barriers to entry, the company's technological or managerial superiority or, in contrast, its ties with a major financial group enabling it to pursue a predatory pricing policy. The majority of cases of abuse of a dominant position consist of efforts to impede market access through unfair pricing practices and attempts to crowd out competitors on a given market.

### *Horizontal restrictive practices*

The 1986 Order prohibits *agreements* among competitors to adopt practices whose aim is to distort free competition (market-sharing, price-fixing agreements, circulation of price lists, collusive tenders, etc.). Such agreements are unlawful even if they are not put into practice. Over the period 1977-1988,

price-fixing and market-sharing agreements represented a little over 25 per cent of all offences, while *collusive tenders* (essentially in public procurement markets) accounted for roughly 20 per cent of all cases brought before the competition authorities.

### *Predatory strategies*

The corporate strategy of setting prices with a view to maximising profits during the life cycle of a product or service poses problems when the price is set below average cost. The motives for such a strategy can range from wanting to penetrate a new market, or increase market share, to seeking to crowd out existing competitors or deter potential competitors. The first two strategies are deemed lawful by the Conseil, whereas the last two are considered to be anti-competitive practices. Market entry may indeed be impeded if predatory prices are maintained for any length of time. Distinguishing between predatory and competitive prices is very difficult (OECD, 1989). The competition authorities should intervene only in the case of potential abuse of economic power by the so-called predator. In fact, during the period of reduced prices, competition is strengthened overall. France has no specific legislation dealing with *predatory-pricing strategies*, though some of the provisions relating to below-cost selling, discriminatory pricing and the banning of loss-leader pricing may be used to curb them. Traders are prohibited from *selling at below cost* (which is in fact an indictable offence), since it can lead to the elimination of efficient enterprises as a result of a price war, for example. It would be useful for there to be greater flexibility in applying this provision. One should in fact test its economic effects on the level of competition before judging the restrictive nature of the practice. The justification for the ban on below-cost selling is to protect small retailers from hypermarket competition. For the same reasons, price discrimination is illegal, and measures have been adopted to counter exclusive trading contracts and vertical agreements.

### *Vertical restrictive practices*

Vertical restrictive practices as meant here are inter-company strategies covering the various stages of production and distribution which aim at reducing production and transaction costs to a minimum. Strategies developed by

producers, either unilaterally or by explicit or tacit agreement, to limit distributors' freedom to trade are among the most common. They take the form of selective distribution agreements, exclusive distribution agreements and franchising agreements and may entail various forms of resale price maintenance. The effects of vertical constraints may vary according to the type of distribution contract. They may in some cases improve resource allocation. For one thing, certain vertical restrictive practices are equivalent to an indirect imposition of resale prices and can therefore help the producer to restrain price competition between the resellers of his goods. Moreover, although these practices can be judged to be harmful for intra-brand competition, they can still be acceptable on the grounds that they do not impair inter-brand competition. On the other hand, while it is recognised that the setting of certain sales conditions by producers can enhance competition, *resale price maintenance* is considered as unlawful *per se* in France inasmuch as it impairs price competition among retailers as well as inter-brand competition. Paradoxically, in France, but also in Germany, resale price maintenance is permissible for some goods such as books, though it is not warranted by the specific nature of the physical investment.

The authorities' attitude with regard to refusal to sell and price discrimination is ambiguous. Banning the *refusal to sell* prevents the producer from controlling distributors' parallel supplies. This prohibition is therefore seen as favourable for competition. But its interdiction can also be interpreted more broadly in order to prevent abuse of a dominant position, in the case of public monopolies and patents where the dominant position is the result of the government's action. *Price discrimination* that is not justified on grounds of costs is forbidden (although it ceased to be a criminal offence in 1986); one of the underlying motives is often to protect small business and small shopkeepers. Due regard is paid to how such price discrimination is applied, with a view to avoiding abuse of a dominant position.

To remedy situations in which small distributors were discriminated against in relation to major outlets (which secured lower purchase prices from manufacturers), and the converse situation where producers complained that they were suffering from abuse of buying power by hypermarkets, the concept of *abuse of a situation of economic dependence* was introduced in 1986. This provision, based on the German model, makes it unlawful for an enterprise to

use its privileged situation to impose discriminatory conditions on a partner who, for want of other competitive solutions, is compelled to do business with the enterprise in question. The dependent enterprise may be the customer or the supplier. Refusals to sell, tied sales and discriminatory conditions are sometimes manifestations of abuse of a situation of economic dependence. In most cases, while distributors are not in a dominant position, the products concerned account for a large proportion of the manufacturers' turnover; as a result the latter find themselves forced to agree to rebates that jeopardise their financial position. The economic grounds for this provision are debatable, since the fact that a manufacturer is dependent on a distributor does not necessarily mean that the distributor's market power is such as to impair competition (Jenny, 1990a). Moreover, there is a potential risk of covering up poor management by a single manufacturer who may, for instance, have been willing to risk dependence in exchange for a large order, while his shrewder competitors would have preferred to diversify their customer base and would continue, through their business activity, to exert competitive pressure on the market.

### *Controlling mergers and acquisitions*

The control of mergers and acquisitions has not until very recently been an important instrument of France's competition policy compared to measures deployed in the area of restrictive trade practices. It is true that the 1977 antitrust law did not implement a system of required prior notification of mergers, contrary to the practice in Germany, the United States, Japan and at the EC level. The Minister of Finance may consult the Conseil de la Concurrence for its opinion, but he alone is authorised to take the final decision. He is not required to follow the advice of the Conseil which, as a result, is unable to play fully the role of judge in the evolution of market structures in contrast to the powers given to the competition authorities in most of the countries with a control mechanism. In particular, and in contrast to what transpires in a certain number of other countries, the independent body that is the Conseil is not in general in a position to investigate cases not referred to it nor those exceeding the legal thresholds due to the lack of compulsory notification of mergers to the Conseil.

This probably explains the small number of operations controlled by the Commission de la Concurrence (from 1977 until 1986) and then by the Conseil (twelve, that is an average of only one per year) (Table 18). Seven cases involved takeovers of French companies by foreign firms. In this context, in 1989 the Minister of Finance opposed the purchase of Spontex by Minnesota Mining and Manufacturing, although the Conseil had judged that the advantages of the sale outweighed its drawbacks from the point of view of economic progress (Jenny, 1989). In France, in the past, industrial policy often took precedence over competition policy. Large-scale mergers, such as the recent case of Air France and UTA, have not been controlled. In this case, according to the national authorities, since the two companies operate on largely different routes, their merger should yield productivity gains.

The number of mergers and acquisitions has grown sharply since 1977. In 1988, a little more than 2 per cent of all firms accounted for 57 per cent of sales, 74 per cent of exports, 67 per cent of investment and 93 per cent of R&D. In view of the Single Market and the economies of scale and scope expected to result from it, the wave of mergers and acquisitions accelerated markedly in 1988. In order to monitor developments, the Direction générale

Table 18. Merger and acquisition control

|                                                       | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|-------------------------------------------------------|------|------|------|------|------|------|
| Number of concentrations                              | 388  | 502  | 590  | 751  | 801  | 639  |
| Takeovers                                             | 154  | 207  | 299  | 348  | 526  | 491  |
| Mergers                                               | 27   | 23   | 26   | 20   | ..   | ..   |
| Partial mergers                                       | 70   | 110  | 100  | 173  | ..   | ..   |
| Sub-total                                             | 251  | 340  | 425  | 541  | 526  | ..   |
| Joint ventures                                        | 20   | 33   | 41   | 49   | 156  | 62   |
| Minority share-holding acquisitions                   | 52   | 75   | 80   | 108  | 119  | 86   |
| International concentrations                          | ..   | ..   | 170  | 219  | 286  | ..   |
| Concentrations notified to the Ministre de l'Economie | ..   | 2    | 13   | 19   | 23   | 23   |
| Cases referred to the Conseil de la Concurrence       | 1    | 0    | 2    | 3    | 0    | 7    |

Sources : Jenny, 1990c and DGCCRF.

de la concurrence, de la consommation et de la répression des fraudes (DGC-CRF) count such operations based on information available from a variety of sources. In 1990, there were 639, compared to 801 in 1989. Thus, these figures reveal a certain slowdown in the pace of merger activity, but one which should be seen in the light of the exceptional nature of the year 1989. The merger boom was especially pronounced in the capital-goods sector. In general, it is in line with the world-wide phenomenon of corporate developments and restructuring.

The share of all mergers which were controlled by the Conseil in the past was low. However, one should be cautious in one's interpretation of this observation. In fact, the DGCCRF does play a non-negligible advisory role in exchanging views informally with the parties concerned. This is effective, as it can make planned mergers compatible with the law without the need to transmit them to the Conseil. However, if the Conseil were involved to a greater extent in merger control, the procedure would benefit from enhanced transparency and reduce legal uncertainties surrounding transactions. It is also worthwhile emphasising the increased awareness by the authorities in this domain as well as the sharp change in attitudes in referring cases to the Conseil: in 1990, it was consulted eight times by the Minister. In addition, with the entry into force of the EC regulation on mergers and acquisition in September 1990, the largest operations are no longer within the purview of the national authorities. Thus, a merger such as that between the Lyonnaise des Eaux and Dumez in mid-1990 would have been investigated by the EC Commission had it occurred after September.

The appraisal of the Conseil depends on how it considers a merger will affect competition. It judges the operation from the standpoint of supply and demand, market shares, the presence of barriers to entry (patents, nature of the products, technologies involved) and whether potential competition is likely to be eroded (price increases in the wake of the merger). The Conseil is concerned to prevent enterprises from using their financial clout to distort competition on a given market through predatory-pricing practices or cross-subsidisation. If the added concentration is liable to sap competitive forces, the question is whether it will generate economic progress (in terms of unit production costs, capacity expansion, increase in the rate of innovation).

## **Influence of EC competition policy in the run-up to 1992**

As was said above, the EC legal realm has gradually penetrated French legislation in a number of domains. The Commission of the European Communities calculates that, at end-1990, some 60 per cent of the measures essential to the smooth functioning of the single market had been adopted. Two areas are especially relevant in this regard: the control of cross-border mergers and acquisitions and public procurement.

### *Policies with respect to market structure*

In 1990 the Commission was entrusted with the task of controlling *company mergers and acquisitions* in the EC. The Commission will concern itself only with company mergers and acquisitions involving an overall turnover of not less than ECUs 5 billion and individual sales totalling ECUs 250 million within the EC area; in addition, the merging firms must have activities in more than one Member country. National authorities will, for their part, continue to investigate mergers involving less than ECUs 5 billion, including those between companies each of which has at least two-thirds of its turnover in a single EC country. In some cases where "national interest" is recognised as being at stake (notably, in cases of public security and prudential rules on financial markets), the Commission leaves it to the national authorities to control concentrations involving major companies. The thresholds are to be reviewed in 1994. Between January and September 1990, some 12 mergers, out of the 700 or so recorded in France, would have come within the purview of the Commission.

The criteria adopted in deciding whether or not to authorise a merger are very similar to those used in monitoring mergers and acquisitions in France. The creation or abuse of a dominant position bulks large in the Commission's decision, but for a dominant position to be deemed unlawful, it must be such as to prevent effective competition from being maintained or developing within the Community. Also, social- or industrial-policy considerations may play a part in the decision, though they would appear to be of lesser importance (Jacquemin, 1990). If the merger fulfils the conditions indicated above, it must be automatically notified to the Commission which is given one month

to respond. But, contrary to the French situation, both responsibility for investigating the concentration and the final decision rest with a single authority, namely the Commission.

### *Government procurement*

The opening up of government procurement to EC competition is the second major prong of EC competition policy. The sectors involved account for between 8 and 16 per cent of EC industrial value added, with France occupying a midway position (EC, 1990b) (Diagram 14). The rate of import penetration is much lower, on average, than in the economy as a whole. Furthermore, the degree of openness to foreign firms of public-procurement markets is in line with the EC average (Table 19). Procurement contracts traditionally tend to be in sectors heavily protected against foreign access, and they are thus the most likely to be affected by the Community Directives: rolling stock, construction, energy-production equipment and pharmaceuticals. In the longer term, the liberalisation of these activities ought to benefit the most competitive European suppliers and so have the effect of increasing trade and lowering prices. High-technology activities with important public procurement, such as telecommunications and data processing, are characterised by high growth and substantial economies of scale that are not yet being fully exploited at the Community level. They are relatively open to the other Community countries, with an intra-EC penetration rate of 32 per cent on average in the EC countries, but only 24 per cent in France, although this gap

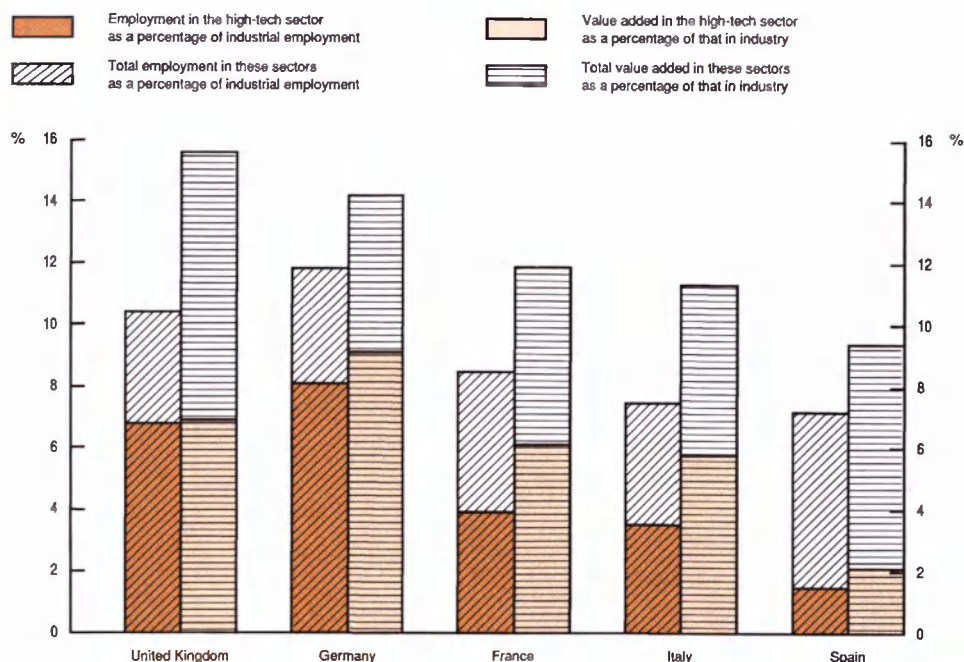
**Table 19. Import penetration in markets with public-sector procurement**

1985 values in per cent

|                                                         | Germany | France | Italy | United Kingdom |
|---------------------------------------------------------|---------|--------|-------|----------------|
| Total import penetration rate                           | 22      | 20     | 19    | 22             |
| Apparent penetration rate for public procurement        | 12      | 16     | 1     | 4              |
| Foreign firms' share of public procurement <sup>1</sup> | 3.8     | 1.6    | 0.3   | 0.4            |

1. Value of contracts.  
Source : EC, 1988.

Diagram 14. **IMPORTANCE OF MARKETS WITH PUBLIC-SECTOR PROCUREMENT**<sup>1</sup>



1. Sectors in which there is public procurement. The "high-tech" sector comprises telecommunications as well as data processing and medical equipment. The other main sectors in which there is public procurement are pharmaceuticals, land transport equipment and electrical equipment.

Source: EC, 1990b.

might be ascribable to France's comparative advantage in these areas as well as its relatively limited degree of overall openness.

The new EC legislation on government procurement is designed to cut the special ties between national monopolies, whether or not they are under public control, and their suppliers. The area of investigation has thus been extended to take in private monopolies and all public buyers, including semi-public enterprises, insofar as half of their turnover is made within the European Community. Moreover, the four sectors previously excluded – telecom-

munications, transport, energy and water – which account for over half of such markets, are to be brought within the Commission's supervisory purview by 1993, together with services. However, some major exceptions still remain. In the energy sector, the distribution of gas and electricity is excluded from the scope of the Directive, primarily because a European energy policy has yet to be defined. In order to make public tenders more transparent, in those cases which exceed certain thresholds which are considerably higher than those specified in the French legislation, the parties involved will be required to disclose more throughout the process of negotiating and implementing contracts<sup>46</sup>. Although it is too early to judge what the Directive's impact on French markets might be, the determining factor will be the stance taken by the enterprises involved. Attitudes have seemingly evolved somewhat. There is less fear of retaliation with respect to future contracts<sup>47</sup>. Also, the French market would seem to be opening up, as is evidenced by the award of the contract to build the Marseille metro to a German firm.

### **A few concluding remarks**

Competition policy would therefore seem to have evolved substantially in recent years. Beyond the institutional changes, it has become more active and is replacing France's traditional industrial policy as a means of achieving structural adjustment. This change in approach is in part the result of a growing awareness of the distortions created by government regulation and direct intervention in the functioning of markets. Furthermore, technological developments, in telecommunications in particular, have both facilitated and rendered all the more important the new approach. These new technologies have transformed market structures and thus the failures associated with them, thereby necessitating a reform of the regulatory framework previously established in order to mitigate their negative consequences. The shift in policy is also the outcome of a new interpretation of the organisational structure of firms and of the role of competition, which is increasingly seen as a dynamic process in which market structures reflect primarily the relative efficiency of producers. In this view, dominant firms owe their position to superior performance, and concentration is therefore the natural consequence

of a competitive process in which only the most efficient survive, rather than as a symptom of imperfect competition. In this context the role of the State must be limited to the sanctioning of abuses of market power through "rules of reason", rather than *per se* proscription.

Even though a coherent competition policy is being gradually formulated and there are indications that the behaviour of economic agents is changing, some substantial grey areas nonetheless remain. The State's direct intervention in market mechanisms is still significant, the process of privatisation remains incomplete, and the share of public enterprises in sectors normally in private hands continues to be important. In addition, much is as yet unfinished in the deregulation of sectors which are not, at least any longer, natural monopolies, such as air transport. Finally, regulation continues to respond excessively to the interests of the few to the detriment of overall consumer welfare, as was seen again recently in the increased protection granted to small shopkeepers. But clearly it is in this area that it will prove most difficult to bring the reform to a successful conclusion.

## V. Conclusions

Although not as substantial as in 1988-89, real output growth in 1990 amounted to some  $2\frac{3}{4}$  per cent, broadly in line with growth in the OECD as a whole. While the additional demand for labour was insufficient to reduce significantly the still high rate of unemployment, it resulted in an increase in employment of slightly more than 1 per cent. However, the economic climate worsened markedly in the course of the year. Up to the third quarter the cyclical weakening – which began in mid-1989 – was fairly limited, and output was on a sustainable growth path. High real interest rates, both in France and more generally throughout Europe, joined with the slowdown in a number of partner countries to cause the deceleration. After the onset of the Gulf crisis and the spreading recession in North America and the United Kingdom, the slowdown deepened further; the economy even stopped growing in recent months. Both household and business confidence deteriorated, and industrial production fell sharply. Furthermore, a further worsening occurred once hostilities broke out in January, reflecting a wait-and-see attitude on the part of both households and businesses. These developments are not unique to France: they are shared, to some extent at least, by virtually all countries in continental Europe except western Germany.

Nevertheless, the economy's fundamental position is sound. Overall inflation is under control and was actually lower in 1990 than in 1989. There was a pick-up in wage increases early in the year in response to tight labour-market conditions, but most indications are that recent claims have been more modest. The effects of the oil-price rise appear to have been successfully contained, with no enduring impact on inflation expectations nor evidence of contagion into wages or other prices. Business profitability remains at historically high levels, despite the squeeze on margins (especially in export markets) from the

depreciation of the dollar, the jump in unit labour cost growth – in part caused by cyclically dwindling productivity growth – and diminishing capacity pressures. The current-account deficit has widened slightly but remains sufficiently small to be of no particular concern and, in any case, has been matched by long-term capital inflows. Finally, the downward trend in the budget deficit has been maintained, and public spending continues to decline in relation to GDP.

The short-term outlook is particularly uncertain at present, given the extraordinary number of unknowns relating to the effects of the Gulf war and the evolution of the economies of France's trading partners. Nevertheless, with the end of hostilities confidence should rebound, and assuming that there is a recovery by mid-year in those countries now experiencing recession, a turnaround would be in prospect for France as well. Recovery should be facilitated by the favourable income effect of the recent fall in oil prices. Led initially therefore by renewed private consumption and export growth, followed by a return to buoyant fixed investment increases, there is no reason why overall GDP growth at close to potential rates of some 2½ to 3 per cent should not resume in the second half of 1991. Nevertheless, given the starting point, the average increase for the year may be only 1½ per cent. The pause in output growth could be sufficient to generate a reversal of some of the gains made on the public-sector deficit and unemployment fronts over the past few years. Accordingly, with easing labour-market pressures, real wage increases should moderate and disinflation resume, while at the same time profit margins may begin to widen once again. Assuming stable oil prices and exchange rates at recent levels, consumer price increases in 1991 could be less than 3 per cent, one of the lowest rates among the major seven countries. With the lower oil-import bill the current-account deficit may remain small, despite a growing deficit on investment-income account (resulting from the marked strengthening in recent portfolio inflows). The major risk associated with this projection is that confidence is more durably impaired and that the assumed rebound in foreign markets fails to materialise, in which case the rise in the number of jobless would be amplified, although disinflation would be sharper.

Despite the evidence of conjunctural weakening, the orientation of macroeconomic policy in 1991 looks likely to remain aimed at the ongoing consolidation of the public finances as well as competitive disinflation. For its

part, fiscal policy is geared to the attainment of a steadily declining deficit. While the annual targets have been attained in recent years, if greater fiscal consolidation had been achieved during this period of substantial output growth, more room for manoeuvre would be currently available to meet the short-term conjunctural weakness. For 1991, the authorities have made it clear that, despite some modest specific short-term efforts to limit the expected rise in unemployment and encourage recourse to shortened work-weeks rather than outright layoffs, there will be no pump-priming measures to sustain activity. This should prove salutary to the extent that it provides a signal to wage bargainers of the need to restrain wage increases. Nevertheless, there is a risk that, should the automatic fiscal stabilisers be prevented from functioning, policy will become unduly restrictive and contribute to an amplification of current contractionary tendencies. While it is essential to preserve the credibility of the policy of fiscal consolidation, it would probably be inappropriate to be excessively concerned about a moderate shortfall in a single year's deficit objective for purely cyclical reasons, so long as the medium-term trends of spending, tax pressure and the deficit are kept on a downward path.

On the monetary-policy front, significant gains continue to be made in enhancing the credibility attached to the policy of maintaining the nominal stability of the franc within the EMS. Non-resident purchases of franc-denominated securities are mounting rapidly, trend declines in interest-rate differentials are persisting, and, once corrected for the small remaining inflation gap with Germany, it is clear that investors no longer require much in the way of a risk premium to hold French-franc assets. German unification has probably brought about an increase in the real value of the Deutschemark which, in a context of fixed nominal parities, will have to be compensated by a shift in inflation differentials between Germany and the other EMS countries. The cost of the strong-currency policy will however be offset by the increase in German demand. The adjustment will also be facilitated by the recently decided German tax increase. But further structural reforms in both product and labour markets in France could likewise contribute to the adjustment process.

Labour-market performance has been disappointing over the 1980s. France's unemployment record compares unfavourably with that elsewhere,

and there has been mounting evidence of dualistic tendencies: despite an unemployment rate of about 9 per cent, skill shortages contributed to an acceleration in real wage increases; a rising proportion of the jobless have been unemployed for over three years; and the problem is substantially more severe for youths, older workers and the unskilled than others. After a protracted period of wage moderation, it appears unlikely that generalised excessive labour costs are still a primary cause of the persistence of unemployment. The evidence is stronger that the overall compensation of the least qualified exceeds equilibrium levels and that this has been costly in terms of diminished employment. Furthermore, the national minimum wage seems to be in part responsible for this outcome. While most other countries either have no minimum wage or have allowed the gap between it and the average wage to widen over time, in France the authorities permitted the gap to narrow sharply in the early 1980s and have stabilised it since then. In implicit recognition of the employment-reducing consequences of excessive labour costs for low-skilled workers, the authorities have attempted to compensate by cutting social-security charges for the affected groups, a second-best solution with substantial costs for the public finances.

Lately, distributional concerns have come to the fore. Besides the recent increase in the SMIC relative to average wages, the authorities have encouraged the renegotiation of industrial wage minima in order to improve career prospects for the low paid, despite the possible costs in terms of lower employment and inflationary increases in labour costs. A guaranteed income programme instituted late in 1988 in order to reintegrate into society those on its fringes has turned out to be a greater drain on the public purse than expected, while its success in achieving the labour-market goals for which it was intended remains unclear. In general, it would be preferable for equity issues to be clearly separated from the functioning of the labour market and handled directly through the tax-transfer system. A better strategy might be to raise the productivity levels of low-skilled workers through the improvement of the education system to a point where it provides young people with the skills that today's job market is demanding and to expand and upgrade the retraining opportunities available to adults. The authorities have gone some way along this path by making education a priority spending area in budgetary planning and by establishing a system of individual retraining, but

there should be better co-ordination between the government, employers and training organisations in order to increase the value derived from retraining schemes.

Significant improvement has been achieved in instilling greater competition into French product markets during the 1980s. The authorities have reduced the extent of their direct intervention in the economy and have endeavoured to strengthen competition in those sectors sheltered from foreign competition. Subsidies, especially to sunset sectors, were cut, in recognition of the fact that they delayed rather than promoted structural adjustment. The State has returned to the private sector many firms where there was no strong justification for public ownership and reduced interference in the management of those remaining in the public sector. Often within the framework of EC integration, some regulatory entry barriers have been or are in the process of being lowered in order to allow greater competition in, for example, trucking, telecoms and domestic air travel. Competition from abroad in the form of inward direct investment has been liberalised, but France may still suffer from a protectionist image that may have contributed to limiting such inflows. Public procurement markets have been opened up to foreign competition from within the EC, but evidence of collusive arrangements among firms is still surfacing. The establishment of a strong and independent *Conseil de la concurrence* is an important step forward in the enforcement of competition law. Overall, France's competition policy is in line with EC regulations and is quite comparable to that prevailing in most other EC countries.

However, more needs to be done to strengthen competitive forces. There are still many exceptions to free price-setting and to free entry; various sectors are unnecessarily protected from potential entrants. On occasion, the State still interferes with price setting for ends other than resource allocation, in order to achieve regional or income-distribution objectives, for instance. In many policy domains, insufficient weight is given to consumers' welfare and too much to producer interests; a prime example is the automobile sector with its quotas on Japanese cars. In addition, the sole decision-making power over merger approval retained by the Minister of Finance may have led to non-economic considerations, possibly perceived as protectionist, entering into certain decisions. However, beyond the institutional reforms that have yet to be undertaken, the main challenge will be the adaptation of firms to the

conditions of heightened competition in the market-place; the stepped-up intensity of competition at home should help strengthen the capacity of French business to confront its foreign competitors.

While recent budgetary outcomes have been satisfactory overall, and indeed superior to those of most other major countries, the public finances retain a priority position on the agenda of necessary structural reforms. On the revenue side some progress has been achieved over the past few years: the top VAT rate has been brought down and is set to be eliminated by 1993, in line with EC harmonisation objectives, and corporate rates on undistributed profits have been cut from 50 to 34 per cent. However, the substantial gap between the rates applicable to retained earnings and to dividends is distortional and, if maintained, might restrict capital mobility between sectors. More importantly, local-government finances are in need of special attention. The financing of the local authorities relies in large part on revenues which are automatic in nature, thereby obscuring the effective increase in local taxation from the view of the taxpayer, and thus fails to impose sufficient responsibility for the control of expenditure at the local level. For its part, the personal tax system suffers from substantial progressivity as well as an unduly narrow base, with the result that only about one household in two pays any income tax. Taxation generally has also been particularly onerous on labour. In order to limit the very large tax wedge on labour, the authorities recently introduced the *contribution sociale généralisée*. While this new source should facilitate the financing of social expenditure by broadening the relevant tax base, it would be detrimental if it were to lead the authorities to ease their efforts to control spending. Furthermore, its establishment has the effect of increasing the redistributive character of the social-security system, and, with the prospect of an increase in the overall cost of social protection, the dilution of the notion of insurance within its funding mechanism is likely to make the acceptance of higher contribution rates more difficult.

The financing problems of the social-security system should be tackled primarily on the spending side. Recently, the authorities have had little success in limiting the pace of social-expenditure growth; in fact, there has been a slight pick-up over the past three years. In the short term, the pressures have been most acute on the health account. The government continues to make great efforts to restrict such spending, but virtually entirely through actions

which limit supply and providers' incomes. It is fairly clear, however, that such steps will have to be complemented by demand-reducing measures, as well as improved administrative efficiency. Over the longer term the public pension scheme will face even greater difficulties: a continuation of the current system would entail unfathomable increases in contribution rates over the longer term, implying excessive intergenerational transfers and harmful effects on incentives to work and save. Whatever reform is decided on, it will probably have to combine a reduction in benefits, an extension of working lifetimes and an increase in contribution rates. This reform should be undertaken early in order to smooth the necessary adjustment and to constitute temporary reserves. Such partial funding would reduce the distortions associated with contributions and increase national saving.

Despite the short-term conjunctural weakness facing the economy which has been caused largely by external forces, there is little question that the best choice for policy makers is to persevere with the current macroeconomic policy orientation. If fiscal policy is geared to spending restraint and monetary policy continues to be aimed at maintaining the strength of the franc, competitive disinflation can proceed, competitiveness will be improved, interest rates can be brought down, investment should recover and growth can return to unemployment-reducing rates. The speed of the transition to a high-employment economy will be determined by the pace of structural adjustment in both labour and product markets. Implementing a strategy of prudent macroeconomic policies combined with bold microeconomic reforms should allow France progressively to overcome its remaining problems and to face the future with an economy performing at its full potential.

## Notes and references

1. Maurel (1990) showed that the mean-lag of employment to changes in output in the manufacturing sector was six months in the period 1985-1989, compared to ten months prior to that. It is possible that this lag has shortened even further very recently.
2. Labour shortages in the industrial sector peaked in early 1990 when 45 per cent of survey respondents claimed to have experienced hiring difficulties. For business equipment goods the peak came in mid-1990 when 67 per cent so responded. See Kramarz and Lollivier (1990).
3. The reform includes a provision which institutionalises the cyclical bonus paid to civil servants in December 1989: an extra FF 120 million is to be paid to the 4½ million government employees covered by the agreement for each tenth of a point by which the real GDP growth rate exceeds 3 per cent (raised to FF 150 million per tenth above 3½ per cent).
4. Merchandise exports to Iraq and Kuwait in the first seven months of 1990 amounted to some FF 2.9 and FF 0.7 billion respectively, or a total of FF 6.3 billion at annual rate.
5. If France's total merchandise exports to Germany in 1990 had grown only in line with those destined for its other EC partners (4.8 per cent) in value terms, rather than at the 11.6 per cent rate actually realised, the impact would have been a reduction of FF 13 billion (about 0.2 per cent of GDP and 1.1 per cent of total merchandise exports). Note that this excludes the indirect effect of unification on French exports through the stimulus to market growth in third countries principally in the EC. However, it also ignores the import content of such exports, most recently estimated at 23 per cent.
6. The strike halted the flow of vital spare parts to the French assembly operations. Whereas planned deliveries were to rise from 94 in 1989 to 120 in 1990, only 85 were actually completed. This year's target for deliveries is 150-160. While the average Airbus is sold for about FF 0.35 billion, the net value to France's balance of payments is only about 30 per cent of that. Since imports other than those from British sources continued to flow normally, the net overall loss in 1990 was nearly FF 10 billion.

7. As with foreign trade, there has been an increasing concentration of outward flows on OECD countries (92 per cent in 1986-1988, compared to 76 per cent in 1981-1983). The EC has been a favourite destination of late (64 per cent in 1988, compared to 23 per cent in 1981-1983), no doubt due to the Single Market programme.
8. Unofficial figures for 1986 indicate that firms accounting for 27 per cent of sales and 21 per cent of employment in the manufacturing sector are under foreign control.
9. See Graham (1989). A further amount, representing some 4 points, is ascribable to the decline in residential construction, that is in the rate of investment by the household sector. This reduction has no long-term impact on the saving-investment gap, since it affects both sides of the identity. However, in the short run, fluctuations in the rates of paying off mortgage debt as well as saving for a down-payment can lead to divergences.
10. Consumer credit outstanding represented 8.4 per cent of household disposable income in 1989, compared to 2.9 per cent in 1981; this compares with about 15 per cent in Japan, Germany and the United Kingdom and 28 per cent in the United States.
11. For countries other than France, the historical correlation between saving and investment rates is rather low (Dean *et al.*, 1990). Thus, the substantial observed correlation for France is undoubtedly a result of the authorities' oft-professed desire for current-account equilibrium as well as France's history of capital controls.
12. The new definitions of monetary aggregates are given in Annex II. The new M3 aggregate is a better indicator of the economy's liquidity than M2 because it includes, in particular, certificates of deposit. The monetary authorities have indicated, however, that they will also monitor the growth of M2 and total domestic debt (previously total domestic credit), although no quantitative targets have been set for them.
13. These savings accounts, whose capitalised interest is free of tax, are for a minimum period of eight years, although they are extendible and renewable. Upon maturity, the investor may either withdraw the capital or receive a tax-free annuity. Introduced in January 1990, PEPs attracted more than FF 110 billion during the year.
14. Short-term SICAVs have performed very well since their introduction, showing a return of about 9 per cent in 1990; furthermore, their returns are virtually risk-free and their tax treatment is attractive. The measures adopted in October 1989 limited the tax on the securities: many money-market SICAVs opted for taxation under the system of capitalisation, whereby the capital gains are taxed only when realised and then only when total sales exceed a given annual amount.

15. At the moment of finalising this Survey in April 1991, INSEE announced the 1990 outcomes for the Annual National Accounts, which showed a financing requirement of FF 108 billion (1.7 per cent of GDP). This apparently includes the official debt forgiveness of FF 23 billion discussed in Part I. At this late stage it was not possible to modify the text of the Survey to take it into account. In any case, the economic impact of such expenditure is probably limited.
16. In order to smooth the interest burden, renewable treasury bonds (ORTs) were exchanged for ordinary treasury bonds (OATs). The ORTs, which were issued between 1983 and 1985 with a six-year maturity, have a system of capitalised interest payable upon maturity – between the beginning of 1989 and the middle of 1991. OAT interest is payable annually.
17. By unchanged fiscal policy is meant the following: the share of income tax on households in GDP evolves in line with real income; the share of other revenue in GDP remains constant; civil-service remuneration rises at the same rate as nominal GDP; and other expenditures, apart from interest payments, which rise in line with the implicit historical rate of interest on the net public debt, remain constant in volume terms.
18. Enterprises have been authorised to deduct VAT on heating oil and diesel fuel, and the system of indexation used for the tax on petroleum products has been modified.
19. Estimates undertaken by the Direction de la Prévision show that the negative impact on the State budget alone amounts to FF 13 billion.
20. Capital is also to some extent frozen in place by the existing equity transactions tax (*impôt de bourse*).
21. The top 5 per cent of taxpayers with 21 per cent of total income pay 52 per cent of income tax, while the bottom 70 per cent with 39 per cent of income pay less than 13 per cent of the tax. However, the progressivity of the rate schedule is undermined by the presence of means-tested benefits which generated effective marginal rates in excess of 60 per cent for a band of low and middle income earners in 1987, as well as by the unique system of tax splitting for families (*quotient*) which favours high-income households with many children and is quite costly in terms of yields.
22. Thus, the 1.1 per cent represents 1.35 per cent of after-tax income for those earning the minimum wage (SMIC) and 1.68 per cent for those earning FF 40 000 per month (about 7 times the SMIC).
23. Old-age pensions are a case in point: while the employer rate had been held at 8.2 per cent since 1979 through 1990, the employee rate, which had been 4.7 per cent in 1979, reached 7.6 per cent in 1989.
24. While the recent turnaround in the labour market will put additional stress on the finances of the relevant system (UNEDIC), UNEDIC simulations show

they can easily withstand a rise in unemployment such as might be expected from a fall in GDP growth to 1.8 per cent (with an associated increase in unemployment of 70 000 this year and 90 000 in 1992), provided that such a decline does not endure beyond the end of 1992.

25. In addition, in November 1990 it was decreed that henceforth prior government approval of certain expensive medicines would be required, and no reimbursement would be made for medicines excessively promoted for purposes other than those for which they were intended.
26. The pressures are similar for the public service where pensions increased faster over the period 1984-1989 than salaries (by 31 compared to 23 per cent).
27. See R.P. Hagemann and G. Nicoletti (1990); for an exception to this rule see D. Blanchet (1990).
28. These distortions are likely to be greater the larger the gap between expected returns on pension contributions and those yielded by market-based investments available to the individual. This gap is much larger than in the past because not only has the real interest rate risen over the past decade, but also the deregulation of French financial markets and the elimination of exchange controls have allowed individual investors easy access to high-yielding investments, especially through money-market mutual funds.
29. While water prices have risen substantially of late and are now above average European levels, they remain low in comparison with Germany, Belgium and the Netherlands; their prices are, respectively, 38, 20 and 9 per cent higher than those in France.
30. Most recent estimates, which date from the mid-1980s, show that pollution-control expenditure was only 0.9 per cent of GDP, compared to an average of 1.2 per cent in nine other OECD countries – see Table 21 of OECD (1991a).
31. The Ordonnance (“Order”) of 1945 which was the basis for the regulation of prices contained certain provisions pertaining to competition. An important step was the subsequent creation of the Commission de la concurrence and the adoption of the merger-control law in 1977.
32. While, from 1978 to 1981 the prices of almost all goods and services had been freed, general price controls were reinvoked in 1982. In 1985, however, between 60 and 80 per cent of industrial prices were again freed, whereas service prices remained subject to strict controls (Cling and Meunier, 1986) until 1987.
33. The OECD’s Purchasing Power Parity data base was used in order to make international price comparisons, in this case of market-based goods and services.
34. It should be noted that the supply of equipment to subscribers is already subject to competition.
35. For each concession the government is required to submit specifications but also to provide an operating subsidy equal to the consumers’ surplus. But this

approach is not without its problems in the case of major infrastructures, such as inter-city or local communications. All equipment other than the infrastructural networks and all telecommunications services, excluding voice-data transmission, have recently been opened up to competition.

36. A firm providing emergency medical services was recently obliged to suspend its activities for a brief period, because the *Ordre des Médecins* forbade it to show its trade name on its home-visit vehicles.
37. For instance quotas are imposed on the number of students admitted to medical studies. The number of doctors affiliated with the social-security system is regulated, while quotas are imposed on the number of pharmacies based on the number of residents in the district. The number of pharmacies per inhabitant exceeds that found elsewhere in Europe. While these measures would seem to be justified in the case of the medical profession, they are more difficult to justify in other cases, such as notaries and bailiffs for example.
38. For a detailed analysis of the macroeconomic effects of subsidies, see Ford and Suyker (1990).
39. Public enterprises are firmly entrenched in the following sectors: energy (ERAP, CFP, EDF, GDF, etc.), intermediate goods (Usinor-Sacilor, Pechiney, Rhône-Poulenc, etc.), capital goods (SNECMA, Aérospatiale, Bull, etc.), land transport equipment (Renault), transportation (SNCF, Air France, Compagnie Générale Maritime, etc.), banking (BNP, Crédit Lyonnais, CIC, etc.), insurance (UAP, GAN, etc.) and traded services (Antenne 2 etc.).
40. Import quotas on certain Japanese products, notably integrated circuits and watches, have just been eliminated. Nevertheless, there have been cases of recourse to pin-pointed protectionist measures.
41. The rate of import penetration by foreign vehicles was up to over 40 per cent recently.
42. 105 cases were referred to the Conseil in 1989. It investigated 72 and took 59 decisions, while handing down 13 opinions.
43. About 70 per cent of all general practitioners and 60 per cent of all specialists in 1990 were so sheltered.
44. France's legislation to control abuses of dominant position and cartel agreements closely reflects that of the EC. Under Articles 85 and 86 of the Rome Treaty, firms may neither enter into cartel agreements nor abuse their dominant position.
45. The local and regional newspaper market is one such example.
46. The thresholds are ECUs 5 million for public works contracts and ECUs 0.2 million for most procurement contracts. The threshold is ECUs 400 000 for water and energy transport equipment and ECUs 600 000 for

telecommunications. In France, where 80 per cent of contracts are for less than FF 500 000, the threshold which triggers a call for tenders is FF 300 000 or about ECUs 50 000.

47. For example, the construction company Bouygues appealed to the Commission against Denmark's refusal to award it a major contract, and Denmark repaid the company the costs of its tender.

*Annex I. Supplementary tables*

**Table A1. Simulated effects of German unification on France<sup>1</sup>**

Deviations from baseline levels in percentage points

|                                                | 1990 |      |      |      | 1991 |      |      |      | 1992-94 (average) |      |      |      |
|------------------------------------------------|------|------|------|------|------|------|------|------|-------------------|------|------|------|
|                                                | 1    | 2    | 3    | 4    | 1    | 2    | 3    | 4    | 1                 | 2    | 3    | 4    |
| Real domestic demand                           | -0.1 | -0.1 | -0.0 | -0.1 | -0.3 | -0.4 | -0.1 | -0.2 | 0.0               | -0.1 | 0.1  | 0.1  |
| Real GDP                                       | 0.1  | 0.0  | 0.1  | 0.0  | 0.1  | -0.0 | 0.1  | 0.0  | 0.2               | 0.0  | 0.2  | 0.1  |
| Price level (GDP)                              | 0.0  | 0.0  | 0.0  | 0.0  | 0.1  | 0.0  | 0.1  | 0.0  | 0.6               | 0.5  | 0.6  | 0.5  |
| Current account balance<br>(\$ billions)       | 2.4  | 2.3  | 1.6  | 1.5  | 6.6  | 6.7  | 4.6  | 4.5  | 4.7               | 4.6  | 2.5  | 2.3  |
| Long-term interest rate<br>(percentage points) | 0.2  | 0.3  | 0.1  | 0.2  | 0.7  | 0.9  | 0.4  | 0.5  | 0.4               | 0.4  | 0.0  | 0.0  |
| Exchange rate versus \$                        | 0.4  | 0.5  | 0.2  | 0.3  | 1.6  | 2.0  | 0.9  | 1.1  | 0.5               | 0.7  | -0.3 | -0.3 |

1. Assumptions common to all simulations are that German monetary policy is maintained sufficiently tight so as to hold its inflation rate below 3 per cent during 1993 and 1994 and that other EMS countries adjust their interest rates to hold bilateral exchange rates unchanged at baseline levels.

Case 1: Output in eastern Germany converges to within 10 per cent of the western German average in 15 years, and 50 per cent of the demand stimulus is directed toward western Germany.

Case 2: Output in eastern Germany converges to within 10 per cent of the western German average in 15 years, and 75 per cent of the demand stimulus is directed toward western Germany.

Case 3: Output in eastern Germany converges to within 10 per cent of the western German average in 30 years, and 50 per cent of the demand stimulus is directed toward western Germany.

Case 4: Output in eastern Germany converges to within 10 per cent of the western German average in 30 years, and 75 per cent of the demand stimulus is directed toward western Germany.

Source: OECD, "The impact of German economic and monetary union in OECD countries", DES/NI(90)20, June.

Table A2. Reform of the monetary aggregates

|       | Old aggregates                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | New aggregates                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| M1    | <ul style="list-style-type: none"> <li>– Notes and coins held by resident non-financial agents</li> <li>– Sight deposits held by resident non-financial agents, and mutual funds (OPCVM)</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>Unchanged</p> <p>Sight deposits held by resident non-financial agents only</p>                                                                                                                                                                                                                                                                                                                                                                       |
| M2-M1 | <ul style="list-style-type: none"> <li>– Passbook savings accounts held by resident non-financial agents (tax exempt passbook savings accounts, "livrets bleus", industrial-investment (CODEVI), "popular" savings books, home-ownership savings accounts, taxable passbook savings accounts)</li> </ul> <p><math>M1 + (M2 - M1) = M2</math></p>                                                                                                                                                                                                                                                                                                       | <p>Unchanged</p>                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| M3-M2 | <ul style="list-style-type: none"> <li>– Foreign currency-denominated deposits and negotiable claims held by resident non-financial agents, and OPCVMs</li> <li>– Repurchases ("rémérés" and "pensions") by resident non-financial agents, and OPCVMs</li> <li>– Time deposits held by resident non-financial agents, and OPCVMs</li> <li>– Non-negotiable bills held by resident non-financial agents</li> <li>– Franc-denominated certificates of deposit, bonds issued by financial institutions and companies held by resident non-financial agents and OPCVMs</li> <li>– . . . . .</li> </ul> <p><math>M1 + (M2 - M1) + (M3 - M2) = M3</math></p> | <p>Foreign-currency deposits and negotiable claims held by resident non-financial agents only</p> <p>Repurchases by resident non-financial agents only</p> <p>Time deposits held by resident non-financial agents only</p> <p>Unchanged</p> <p>Certificates of deposit and bonds issued by financial institutions and companies held by resident non-financial agents only</p> <p>Short-term OPCVM securities held by resident non-financial agents</p> |
| L-M3  | <ul style="list-style-type: none"> <li>– Commercial paper and Treasury bills held by resident non-financial agents, and OPCVMs</li> <li>– Home-ownership savings plans and business-savings accounts held by resident non-financial agents</li> </ul> <p><math>(L - M3) + M3 = L</math></p>                                                                                                                                                                                                                                                                                                                                                            | <p>Commercial paper and Treasury bills held by resident non-financial agents only</p> <p>[Components of P1]</p> <p><math>(M4 - M3) + M3 = M4</math></p>                                                                                                                                                                                                                                                                                                 |

Source : Banque de France.

**Table A3. Tax reductions, 1985-1990**

Cumulative amounts in FF billion

|                                 | 1985      | 1986      | 1987      | 1988      | 1989       | 1990       |
|---------------------------------|-----------|-----------|-----------|-----------|------------|------------|
| Personal income tax             | 11        | 23        | 39        | 49        | 57         | 60         |
| Corporation tax                 | 0         | 0         | 14        | 13        | 23         | 35         |
| Other direct taxes              | 1         | 2         | 7         | 11        | 9          | 14         |
| VAT                             | 1         | 3         | 5         | 15        | 29         | 42         |
| Other indirect taxes            | -5        | -7        | -9        | -8        | -8         | -4         |
| Deductions, refunds and reliefs | 7         | 8         | 14        | 18        | 20         | 23         |
| <b>Total</b>                    | <b>14</b> | <b>29</b> | <b>70</b> | <b>97</b> | <b>129</b> | <b>170</b> |

Source : Ministère des Finances.

**Table A4. Rate of convergence of relative prices in OECD countries, 1980-85**

|               |      |         |                |      |        |
|---------------|------|---------|----------------|------|--------|
| United States | 0.88 | (10.40) | Denmark        | 0.61 | (6.78) |
| Austria       | 0.87 | (11.55) | Luxembourg     | 0.56 | (3.12) |
| Canada        | 0.86 | (10.29) | Belgium        | 0.54 | (3.90) |
| Germany       | 0.83 | (10.34) | Netherlands    | 0.50 | (7.37) |
| Portugal      | 0.76 | (12.20) | United Kingdom | 0.50 | (5.54) |
| Norway        | 0.74 | (10.87) | France         | 0.47 | (5.07) |
| Ireland       | 0.74 | (14.71) | Japan          | 0.43 | (7.82) |
| Spain         | 0.64 | (2.30)  | Greece         | 0.25 | (2.56) |
| Italy         | 0.62 | (5.23)  |                |      |        |

The estimated model is:

$$RP_{i,1985} - RP_{i,1980} = a + b \cdot (100 - RP_{i,1980})$$

where  $RP_{i,t}$  is the relative price index of product groups  $i$  in year  $t$ . Thus the higher the relative price in 1980, the larger its subsequent decline and the lower the relative price in 1980, the greater its subsequent rise. The figures given are regression estimates for  $b$  with corresponding  $t$ -statistics in parentheses.

Source : OECD estimates.

## *Annex II*

### **Reform of the monetary aggregates and of the system of required reserves**

In response to a number of developments that were affecting analysis of the money supply, the Conseil National du Cr dit decided in October 1990 to remodel the system of minimum reserve requirements, to redefine some of the monetary aggregates and to introduce new aggregates. Since the beginning of that year there had been a slowdown in demand for the liquid assets included in the aggregates; this was attributable to the slowdown in activity and to other institutional factors – the switch of large amounts of funds into “popular” savings plans (PEPs) and the large-scale transfer abroad of certificates of deposit not included in the aggregates. The structure of liquid investments was also modified by the unexpected acceleration of inflows into money-market SICAVs (open-end investment companies).

Three measures remodelling the system of minimum reserve requirements were adopted, with effect from the fourth quarter of 1990:

- In response to the shift abroad of deposits that were subject to minimum reserve requirements, which had been encouraged by the opening up of capital markets and the removal of the remaining exchange controls, the reserve ratios for franc-denominated products included in M3-M2 were lowered: the reserve ratio for certificates of deposit, repurchases, time deposits and bills, which are the easiest instruments to move abroad, was lowered from 3 per cent to 0.5 per cent.
- The slowdown of M2 growth (slightly negative in 1990) made it possible to reduce the reserve ratios for passbook savings accounts (M2-M1) from 3 per cent to 2 per cent;
- Lastly, minimum reserves can now include 75 per cent of the notes held by institutions subject to reserve requirements.

These latter two measures should enable banks to raise deposit rates or to lower lending rates and/or to improve their margins, which should help them to stand up

better to competition from foreign banks. All told, the assets held by the Banque de France under the heading of minimum reserves are likely to fall by about FF 26 billion, i.e. an annual reduction, at market rates, of the banks' costs of some FF 2.5 billion. This should place French credit institutions on a comparable footing to their European partners.

*The reform of the monetary aggregates*, in force since January 1991, concerned first the way in which mutual funds (OPCVMs) are recorded and, second, the reform of M3 and the creation of a new aggregate – M4 – which is more homogeneous than the liquidity aggregate L. The principle of “transparency” – the money-market assets included in total OPCVM holdings had been considered since 1986 to be held directly and entirely by resident non-financial agents – was dropped. This was because the demand for money by resident non-financial agents, as shown by the monetary aggregates, had become increasingly difficult to keep track of because the volume of OPCVM securities held by financial agents had increased and the portfolio switches made by OPCVM managers<sup>1</sup> had resulted in changes in the monetary aggregates even though customers' behaviour had not changed. Furthermore, the role played by OPCVMs in financial intermediation had been to a large degree obscured. Better knowledge of the components of OPCVMs thus makes it possible – as in the United States, where the collective management of money-market investments is highly developed – to include directly in the aggregates – in this case M3 – the securities issued by short-term OPCVMs held *only* by resident non-financial agents (Table A2 in Annex I), whence a reduction in the volatility of M3 and improved understanding of the monetary behaviour of resident non-financial agents. Also, the commercial paper and Treasury bills held by resident non-financial agents, which is similar to some of the investments included in M3, will be included in a new aggregate – M4.

The aggregate L was abolished and the components of L-M3 will be included in the investment aggregates (P). Three new aggregates were in fact created in order to track more effectively the non-money-market investments of non-financial agents. P1 includes non-negotiable investments: various types of contractual saving, essentially home ownership savings plans and “popular” savings plans (PEPs), and capitalisation bonds. P2 comprises bonds and units in bond SICAVs held by non-financial agents, and insurance companies' technical reserves. P3 includes shares and units in equity SICAVs held by non-financial agents. Lastly, a table of Total Domestic Debt (replacing total domestic credit) and its sources of financing will be published every three months; this will make it possible to establish the link between economic and financial variables and between debt and investment behaviour more frequently than was possible with the annual national accounts. According to the monetary authorities, the new system will make for improved consistency of the monetary statistics in the EC.

### **Note**

1. The switches, for example, between certificates of deposit and Treasury bills reduce M3-M2 but increase L-M3, without there being any change in the behaviour of ultimate investors.

### *Annex III*

#### **Main institutions responsible for competition policy**

Competition policy is implemented at three levels: by the *Direction Générale de la Concurrence, de la Consommation et de la Répression des Fraudes* (DGCCRF – the General Directorate for competition, consumer affairs and the elimination of fraud), the Conseil de la Concurrence (Competition Council) and the courts. The DGCCRF is one of the directorates of the Ministry of Finance. Under present legislation, it formulates and implements competition policy. It is responsible for monitoring market structures, and it ensures that the rules of competition are complied with in the trades concerned. The Directorate also undertakes investigations on competition. It represents the Ministry in the various courts concerned with competition and, lastly, is also responsible for consumer policy.

The second body responsible for applying competition policy is the *Conseil de la Concurrence* (Competition Council) established in 1986. The Conseil took over from the Commission de la Concurrence set up in 1977 and enjoys greater independence, notably as regards its powers and the seniority of its members. It is a quasi-judicial body, made up of judges, lawyers, economists and representatives of the business community. It too has powers of investigation, even though most investigations are still undertaken by the DGCCRF. Prior to 1986 the Commission de la Concurrence only gave opinions, and the power of decision-making rested with the Minister. Under the new 1986 regulations, the Minister of Finance no longer has any power to contest decisions by the Conseil relating to anti-competitive practices, not even the power of veto. However, the government's representative, as designated by the Minister (the Director General of the DGCCRF or his representative) can make observations on cases before the Conseil, attend its meetings and make interventions. However, he cannot participate in its deliberations.

The Conseil de la Concurrence has been vested with greater authority to safeguard the equilibrium of the market and competition. It investigates breaches of competition, not restrictive practices. In other words, its task is to safeguard competition rather than competitors. The Conseil can itself choose to investigate cases; it alone is empowered to issue injunctions and to impose fines on enterprises in breach of

the law<sup>1</sup>. The right to refer a case to the Conseil was extended in 1986 to enterprises and trade associations in addition to those already entitled: consumers' associations and local authorities<sup>2</sup>. Thus, the Minister of Finance now has to share the right of reference, although he retains an initiating power thanks to this right of reference.

Apart from its investigative responsibilities, the Conseil de la Concurrence judges the competition policy enacted by the authorities and is consulted for its opinion. The Commission de la Concurrence already disposed of consultative powers. The Conseil's powers were broadened, both with respect to purview as well as to the impact of its opinions. The essential reform was that thenceforth it must by law be consulted by the government on all draft legislation and regulations which would directly restrict competition. It must also be consulted before prices are regulated in the two exceptional cases provided for in the Order (described in the main text). In addition, parliamentary Commissions are no longer limited to consulting on draft laws; they can refer to the Conseil all questions concerning competition. Account is expressly taken of the publication of opinions of the Conseil. Thus it plays a key role in shaping attitudes. It provides information and champions the cause of competition *vis-à-vis* government, parliamentary committees, employers' and consumers' associations, and the trade unions.

The *courts* are the third means of implementing competition policy. The role of the civil judiciary and courts has gained considerably in importance since 1986, the vast majority of competition suits now falling within their province. On the one hand, appeal of the Conseil's decisions are no longer made before the Conseil d'Etat but before the Cour d'Appel de Paris (Paris Court of Appeal), *de facto* and *de jure*, and to the Cour de Cassation (the Court of Final Appeal) *de jure* only. The government's representative has the power to intervene before the Cour d'Appel and can inform it of his opinion. On the other hand, those answerable are tending increasingly to have recourse to law. The fact that the courts act in direct pursuance of Articles 85 and 86 of the Rome Treaty and the implementing directives is also an important contributory factor. Moreover, the civil courts are responsible for dealing with such restrictive practices as refusal to sell, tie-in selling or discriminatory practices between people in particular trades which, under the 1945 Order, were criminal offences. Last, and more broadly, the courts' increased powers are evidence of the intention of the State to relax its control over economic activity.

### **Notes**

1. Fines are proportional to the seriousness of the offence and should act as a deterrent.
2. Consumers' associations have been fairly inactive in this area, probably because they have not been professional enough, while local authorities have been even less conspicuous, despite their tendering activities.

## *Annex IV*

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*Annex V*  
**Calendar of main economic events**

**A. Public finance**

**1990**

**January**

Reduction in the VAT rate on medicines refunded by social security from 5.5 to 2.1 per cent, in accordance with the 1990 Finance Act.

**April**

Pay rise for civilian and military personnel, of the State, local authorities and public hospitals: an increase of 0.5 per cent and an across-the-board award of an extra index point at 1st January 1990, in settlement of the accounts for 1988 and 1989, and 1.2 per cent at 1st April 1990.

**July**

General review of the property valuations on which the local direct tax base is calculated. As from 1st January 1992, individuals will be liable to a "departmental" income tax.

**September**

Draft 1991 Finance Act providing for an increase in government revenue of 6 per cent, taking account of net tax reductions of FF 8.5 billion. A deficit of FF 80 billion, or 1.2 per cent of GDP, is projected, compared with 1.4 per cent in 1990. The following tax measures are taken for enterprises and households:

- reduction from 37 to 34 per cent of corporation tax on retained profits, equivalent to a reduction of FF 5.4 billion in 1991 and FF 2.7 billion in 1992;

- payroll tax (*taxe professionnelle*) ceiling reduced from 4 to 3.5 per cent of value added, equivalent to a reduction of FF 90 million in 1991 and FF 3.2 billion in 1992;
- reduction in taxes on diesel and heavy fuel oil;
- immediate 100 per cent depreciation for energy-saving equipment;
- personal income tax brackets raised by 3.2 per cent, reductions in contributions maintained and the ceiling on family-related tax rebates raised, equivalent to a reduction of FF 24.5 billion in 1991;
- reduction of the top VAT rate from 25 to 22 per cent from 13th September 1990 for cars, and for all goods and services attracting the top rate, with the exception of tobacco, from 17th September 1990.

## November

Draft Amending Finance Act for 1990 keeps the deficit at FF 90.2 billion; supplementary expenditure on the guaranteed income scheme (RMI) (FF 1.1 billion) and on assistance to farmers (FF 0.7 billion) financed out of extra revenue.

## December

Civil servants' pay raised by 1.3 per cent.

# 1991

## February

Introduction of a new tax – the *contribution sociale généralisée* at a flat rate of 1.1 per cent on all incomes.

Cuts in budget expenditure of FF 10.2 billion in 1991.

## March

Reform of the *dotation générale de fonctionnement* to redirect transfers from the richest to the poorest localities.

## **B. Monetary policy**

### **1990**

#### **January**

Statement on the broad thrusts of monetary policy in 1990: saving to be encouraged by tax reductions in the 1990 Finance Act; *Plan d'Épargne Populaire*; money supply growth to be brought under tighter control.

Adoption by the Banking Regulation Committee of two measures deregulating time deposits:

- banks to be free to set interest rates on time deposits and bank bills of at least one month;
- automatic transfers within the same bank from a current account to a pass-book account to be authorised.

Short-term interest rate raised by 1½ points to 12 per cent.

Statement on the next stages of EC economic and monetary union: full liberalisation of capital movements from 1st January 1990, and completion of the single market and ratification of the union treaty from 1st January 1994. The third stage will involve the implementation of a common monetary policy based on a single currency – the ECU.

#### **April**

Leading rates of the Banque de France lowered by ½ point in two stages to 9½ per cent for tenders and to 10¼ per cent for purchases under resale agreements.

#### **July**

Approval of the regulations of the stock exchange watch-dog body (COB) relating in particular to the futures market, disclosure requirements and the use of insider information.

#### **September**

Draft reform updating the status of venture capital institutions in the light of the recent changes in taxes on saving [the creation of capitalisation mutual funds (OPCVM)], simplifying and harmonising the various regulations and bringing them into line with European practice.

## **October**

Announcement of the decision to scrap the principle of transparency which had been applied to the recording of OPCVMs in the monetary aggregates, new definitions for some of the aggregates and changes to minimum reserve requirements (see Annex II).

Banque de France rate for purchases under resale agreements (prises en pension) lowered by  $\frac{1}{4}$  point to 10 per cent.

## **November**

Banque de France tender rate lowered by  $\frac{1}{4}$  point to  $9\frac{1}{4}$  per cent.

# **1991**

## **January**

Issues by nine state enterprises on international capital markets will no longer be guaranteed by the State.

Foreign companies are allowed to issue corporate paper on the French market.

## **C. Competition policy**

# **1990**

## **January**

Air France takes over UTA and Air Inter.

Statement on the easing of the regulations governing foreign investment in France: a system of "permanent proof of EC origin" to be applied to all established European investors, who are thus exempted from the obligation to give prior notification of planned investments; other Community investors are still required to give prior notification, but the authorities have only 15 days to check the EC origin of the investment. For non-EC enterprises, the time limit is one month. If the authorities do not give a formal decision on the investment, within this time limit, then it can go ahead.

## **February**

Directive on public sector wage policy abolishing all forms of indexation and limiting across-the-board wage increases for 1990 to 2.5 per cent. The protocol reshaping civil service pay scales to apply for 7 years from 1st August 1990.

## **July**

The Post Office and France Télécom split into two separate legal entities.

## **August**

Renault made a public company governed, subject to certain reservations, by the same rules as commercial companies. Shareholdings in the new company authorised up to 25 per cent of the capital, three-quarters of the voting rights to remain directly or indirectly in the hands of the State.

Exceptional temporary ceiling on the profit margins of oil companies and petrol stations from 9th August to 15th September (prompted by the Gulf crisis).

Rent controls in the Paris area renewed for a further year.

## **November**

Draft law on Sunday-opening for stores designed to modernise the existing regulations which date from 1906 and 1923.

## **December**

The Doubin Act, updating the Royer Act of 1973, approved; this Act imposes tighter controls on supermarkets and hypermarkets, and institutes a sharing of the resulting *taxe professionnelle*.

Act modernising the regulatory framework for telecommunications, taking account of the Brussels compromise of December 1989, as part of the process of liberalising telecommunications services. France Télécom's monopoly of public telecommunications networks, the telephone, telex and public call boxes confirmed. Other services opened up to competition.

# **1991**

## **February**

French airlines allowed to compete with Air France on 15 routes between Paris and both foreign capitals and French cities.

Community Directive on public works contracts embodied in French law.

## **April**

Minority participations in public corporations' equity are allowed.

## **D. Other measures**

### **1990**

#### **January**

Emergency measures to improve the situation of the *lycées* and *lycées professionnels*.

Emergency measures for the university intake of 1990 and 1991: new buildings and posts, modernisation of administrative and technical functions.

Neiertz Act on household overindebtedness.

#### **April**

Minimum wage (SMIC) raised by 2 per cent, bringing the hourly rate up to FF 30.51.

#### **May**

Introduction of a tax on pollutant emissions, the proceeds of which will be used to finance air pollution control.

Guaranteed income (RMI) increased for the third dependant.

#### **July**

Minimum wage (SMIC) raised by 2.5 per cent, bringing the hourly rate up to FF 31.28.

Draft law authorising approval of an international convention on the control of transborder movements of hazardous waste, and its disposal.

Act on personalised training credits designed to improve the quality and monitoring of further training.

#### **August**

Measures to help farmers, particularly livestock-breeders hit by the drought and lower prices.

## **October**

Announcement of the third Employment Plan, the main features of which are:

- employers continue to be exempted from social-security contributions in respect of the first employee hired;
- lifting of the ceiling on the transport allowance paid by firms to their employees;
- lifting of the ceiling on work accident insurance contributions from 1st January 1991;
- option period for training credits renewed;
- “integration contracts” continued;
- measures to encourage the geographical mobility of skilled workers.

## **November**

New package of emergency measures to improve the situation in the *lycées* and *lycées professionnels*.

## **December**

Minimum wage (SMIC) raised by 2.1 per cent, bringing the hourly rate up to FF 31.94.

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***STATISTICAL AND STRUCTURAL ANNEX***

# Selected background statistics

|                                                                       | Average<br>1980-89 | 1980 | 1981 | 1982  | 1983 | 1984 | 1985 | 1986  | 1987 | 1988 | 1989 |
|-----------------------------------------------------------------------|--------------------|------|------|-------|------|------|------|-------|------|------|------|
| <i>A. Per cent change from previous year</i>                          |                    |      |      |       |      |      |      |       |      |      |      |
| Private consumption <sup>1</sup>                                      | 2.4                | 1.2  | 2.1  | 3.5   | 0.9  | 1.1  | 2.4  | 3.9   | 2.7  | 3.2  | 3.1  |
| Gross fixed capital formation <sup>1</sup>                            | 2.0                | 2.6  | -1.9 | -1.4  | -3.6 | -2.6 | 3.2  | 4.5   | 4.1  | 8.6  | 5.9  |
| General government                                                    | 3.8                | 3.5  | 3.3  | 4.7   | -3.6 | -0.5 | 9.8  | 3.2   | 2.9  | 7.7  | 6.4  |
| Residential construction                                              | -0.7               | -0.3 | -3.1 | -6.3  | -2.6 | -4.4 | -2.1 | 1.3   | 2.3  | 4.6  | 3.4  |
| Private non-residential                                               | 2.9                | 4.2  | -2.5 | 0.0   | -4.1 | -2.1 | 4.4  | 6.6   | 5.4  | 10.8 | 7.0  |
| GDP <sup>1</sup>                                                      | 2.1                | 1.6  | 1.2  | 2.5   | 0.7  | 1.3  | 1.9  | 2.5   | 2.2  | 3.8  | 3.7  |
| Implicit price index:                                                 |                    |      |      |       |      |      |      |       |      |      |      |
| GDP                                                                   | 7.2                | 11.4 | 11.3 | 11.8  | 9.7  | 7.5  | 5.8  | 5.2   | 2.7  | 3.0  | 3.3  |
| Exports of goods and services                                         | 6.6                | 11.8 | 13.9 | 12.6  | 9.9  | 9.3  | 4.7  | -3.0  | -0.4 | 2.3  | 5.2  |
| Imports of goods and services                                         | 7.0                | 21.8 | 18.9 | 12.6  | 8.5  | 10.0 | 2.0  | -12.7 | -0.6 | 2.4  | 6.6  |
| Total domestic demand                                                 | 7.2                | 13.5 | 12.5 | 11.8  | 9.4  | 7.6  | 5.1  | 2.9   | 2.5  | 3.0  | 3.5  |
| Industrial production                                                 | 1.2                | 2.0  | -0.9 | -0.7  | -0.7 | 0.3  | 0.2  | 0.9   | 1.9  | 4.6  | 4.0  |
| Employment                                                            | 0.1                | 0.0  | -0.3 | 0.0   | -0.3 | -1.0 | -0.3 | 0.2   | 0.2  | 0.8  | 1.2  |
| Compensation of employees (current prices)                            | 8.8                | 15.6 | 13.8 | 14.6  | 9.9  | 7.3  | 6.4  | 5.0   | 4.3  | 5.2  | 6.5  |
| Productivity (GDP <sup>1</sup> /employment)                           | 2.1                | 1.6  | 1.5  | 2.6   | 1.0  | 2.3  | 2.2  | 2.3   | 2.0  | 3.0  | 2.4  |
| Unit labour costs (compensation/GDP <sup>1</sup> )                    | 6.6                | 13.7 | 12.5 | 11.8  | 9.1  | 5.9  | 4.4  | 2.4   | 2.0  | 1.3  | 2.7  |
| <i>B. Percentage ratios</i>                                           |                    |      |      |       |      |      |      |       |      |      |      |
| Gross fixed capital formation as a per cent of GDP at constant prices | 21.2               | 23.0 | 22.3 | 21.4  | 20.5 | 19.7 | 20.0 | 20.4  | 20.8 | 21.7 | 22.2 |
| Stockbuilding as a per cent of GDP at constant prices                 | 0.5                | 1.2  | -0.2 | 0.8   | 0.0  | 0.0  | -0.1 | 0.8   | 1.0  | 0.8  | 0.7  |
| Foreign balance as a per cent of GDP at constant prices               | -0.6               | -1.2 | 0.0  | -0.9  | 0.5  | 1.4  | 0.8  | -1.0  | -2.1 | -2.2 | -1.9 |
| Compensation of employees as a per cent of GDP at current prices      | 54.6               | 56.0 | 56.6 | 56.6  | 56.3 | 55.5 | 54.8 | 53.3  | 52.9 | 52.0 | 51.7 |
| Direct taxes as a per cent of household income                        | 6.5                | 6.1  | 6.2  | 6.2   | 6.6  | 6.9  | 6.6  | 6.7   | 6.7  | 6.3  | 6.3  |
| Household saving as a per cent of disposable income                   | 14.6               | 17.6 | 18.0 | 17.3  | 15.9 | 14.5 | 14.0 | 12.9  | 11.1 | 12.1 | 12.3 |
| Unemployment as a per cent of civilian labour force                   | 9.1                | 6.3  | 7.5  | 8.2   | 8.4  | 9.8  | 10.2 | 10.4  | 10.5 | 10.0 | 9.3  |
| <i>C. Other indicators</i>                                            |                    |      |      |       |      |      |      |       |      |      |      |
| Current balance (billion US dollars)                                  | -3.6               | -4.2 | -4.7 | -12.2 | -4.8 | -1.2 | -0.3 | 1.8   | -5.0 | -4.4 | -5.1 |

1. At constant 1980 prices.

Source: OECD estimates.

Table A. Gross domestic product and expenditure

FF. billion

|                                                                                | 1980    | 1981    | 1982    | 1983    | 1984    | 1985    | 1986    | 1987    | 1988    | 1989    |
|--------------------------------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Current prices                                                                 |         |         |         |         |         |         |         |         |         |         |
| Private consumption                                                            | 1 645.1 | 1 897.9 | 2 190.3 | 2 424.1 | 2 639.2 | 2 858.4 | 3 049.5 | 3 231.1 | 3 422.3 | 3 645.7 |
| Public consumption                                                             | 517.5   | 604.3   | 711.8   | 793.5   | 866.4   | 923.0   | 972.8   | 1 016.0 | 1 071.1 | 1 130.9 |
| Gross fixed capital formation                                                  | 645.8   | 700.5   | 774.3   | 809.6   | 840.4   | 905.3   | 977.5   | 1 046.2 | 1 164.4 | 1 271.0 |
| Increase in stocks                                                             | 34.3    | -7.5    | 18.8    | -14.1   | -12.4   | -17.9   | 17.2    | 19.3    | 31.0    | 36.8    |
| Domestic expenditure                                                           | 2 842.7 | 3 195.3 | 3 695.2 | 4 013.2 | 4 333.6 | 4 668.8 | 5 017.0 | 5 312.6 | 5 688.8 | 6 084.4 |
| Exports of goods and services                                                  | 604.4   | 714.3   | 790.4   | 900.7   | 1 053.3 | 1 123.9 | 1 074.1 | 1 103.2 | 1 221.9 | 1 420.9 |
| less: Imports of goods and services                                            | 638.8   | 744.8   | 859.5   | 907.4   | 1 025.0 | 1 092.6 | 1 021.8 | 1 095.0 | 1 218.0 | 1 406.4 |
| Gross domestic product at market prices                                        | 2 808.3 | 3 164.8 | 3 626.0 | 4 006.5 | 4 361.9 | 4 700.1 | 5 069.3 | 5 320.8 | 5 692.7 | 6 098.9 |
| 1980 prices                                                                    |         |         |         |         |         |         |         |         |         |         |
| Private consumption                                                            | 1 645.1 | 1 678.9 | 1 737.2 | 1 753.3 | 1 772.2 | 1 814.9 | 1 886.0 | 1 937.3 | 1 998.8 | 2 061.5 |
| Public consumption                                                             | 517.5   | 533.5   | 553.4   | 564.8   | 571.2   | 584.1   | 594.1   | 610.9   | 628.4   | 638.2   |
| Gross fixed capital formation                                                  | 645.8   | 633.6   | 624.9   | 602.6   | 586.9   | 605.9   | 633.2   | 659.1   | 715.6   | 758.0   |
| of which: Corporate, quasi-corporate and private<br>unincorporated enterprises | 334.2   | 324.7   | 324.5   | 310.3   | 301.7   | 314.7   | 334.5   | 351.7   | 389.7   | 415.7   |
| Households                                                                     | 211.8   | 205.2   | 192.4   | 187.4   | 179.1   | 175.5   | 177.7   | 181.8   | 190.1   | 196.5   |
| General government                                                             | 86.6    | 89.5    | 93.7    | 90.4    | 89.9    | 98.7    | 101.9   | 104.8   | 112.9   | 120.2   |
| Non-profit organisations, credit institutions<br>and insurance companies       | 13.2    | 14.2    | 14.3    | 14.4    | 16.1    | 17.1    | 19.1    | 20.8    | 22.9    | 25.6    |
| Increase in stocks                                                             | 34.3    | -5.8    | 23.8    | -1.0    | -0.1    | -2.2    | 23.7    | 31.7    | 26.2    | 22.9    |
| Domestic expenditure                                                           | 2 842.7 | 2 840.2 | 2 939.3 | 2 919.7 | 2 930.3 | 3 002.7 | 3 137.0 | 3 239.2 | 3 368.9 | 3 480.5 |
| Exports of goods and services                                                  | 604.4   | 626.6   | 616.1   | 638.8   | 683.5   | 696.5   | 686.4   | 707.8   | 766.7   | 847.4   |
| less: Imports of goods and services                                            | 638.8   | 625.5   | 641.7   | 624.5   | 641.3   | 670.9   | 718.3   | 773.8   | 840.7   | 910.9   |
| Gross domestic product at market prices                                        | 2 808.3 | 2 841.3 | 2 913.7 | 2 933.9 | 2 972.5 | 3 028.4 | 3 105.1 | 3 173.2 | 3 294.8 | 3 417.1 |

Source: OECD, Annual National Accounts.

Table B. The money supply and its counterparts

|                     |                                                                         | FF. billion, end of period |         |         |         |         |         |         |         |         |         |
|---------------------|-------------------------------------------------------------------------|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                     |                                                                         | 1980                       | 1981    | 1982    | 1983    | 1984    | 1985    | 1986    | 1987    | 1988    | 1989    |
| <i>Money supply</i> |                                                                         |                            |         |         |         |         |         |         |         |         |         |
| A.                  | M1                                                                      | 805.0                      | 905.8   | 992.7   | 1 121.1 | 1 245.7 | 1 328.7 | 1 408.4 | 1 471.1 | 1 531.4 | 1 652.2 |
|                     | of which: Sight deposits                                                | 661.3                      | 746.1   | 816.7   | 931.9   | 1 048.5 | 1 122.9 | 1 196.0 | 1 249.3 | 1 295.8 | 1 405.8 |
| B.                  | M2                                                                      | 1 485.7                    | 1 690.5 | 1 894.5 | 2 153.6 | 2 364.2 | 2 505.8 | 2 607.2 | 2 721.3 | 2 821.7 | 2 948.3 |
|                     | of which: Livrets A and livrets bleus                                   | 489.8                      | 556.1   | 623.0   | 685.0   | 735.6   | 761.2   | 760.6   | 788.5   | 806.2   | 802.1   |
| C.                  | M3                                                                      | 1977.2                     | 2 194.2 | 2 448.1 | 2 729.2 | 2 990.2 | 3 167.5 | 3 317.9 | 3 616.3 | 3 880.6 | 4 184.0 |
|                     | of which: Time deposits and money-market paper<br>denominated in francs | 482.2                      | 493.8   | 534.4   | 553.7   | 591.9   | 634.1   | 685.2   | 864.7   | 999.2   | 1 121.1 |
| D.                  | L                                                                       | 2 107.9                    | 2 331.1 | 2 592.8 | 2 890.2 | 3 185.4 | 3 418.2 | 3 659.8 | 4 095.7 | 4 451.9 | 4 906.6 |
|                     | of which: Contractual savings in francs                                 | 129.5                      | 135.6   | 144.5   | 160.4   | 186.2   | 236.8   | 295.4   | 351.3   | 408.7   | 449.8   |
| <i>Counterparts</i> |                                                                         |                            |         |         |         |         |         |         |         |         |         |
| A.                  | External                                                                | 145.7                      | 102.4   | 22.3    | -44.1   | -72.4   | 14.0    | 86.1    | 68.5    | 3.5     | -53.9   |
| B.                  | Claims on Treasury                                                      | 303.4                      | 362.1   | 434.5   | 526.1   | 605.7   | 689.2   | 727.2   | 702.6   | 733.2   | 699.5   |
|                     | Loans and advances by the Banque de France                              | 15.5                       | 0.0     | 0.0     | 5.8     | 11.5    | 23.6    | 25.3    | 36.5    | 36.9    | 28.9    |
|                     | Other credit institutions                                               | 114.5                      | 117.7   | 119.9   | 125.8   | 142.1   | 152.5   | 159.8   | 176.5   | 166.5   | 172.8   |
| C.                  | Domestic lending                                                        | 2 126.3                    | 2 410.3 | 2 776.1 | 3 110.1 | 3 464.8 | 3 799.7 | 4 081.3 | 4 601.9 | 5 143.1 | 5 702.4 |
| D.                  | Long term financing (-)                                                 | 348.5                      | 419.0   | 499.4   | 611.0   | 724.0   | 903.5   | 1 092.2 | 1 243.4 | 1 421.4 | 1 573.3 |
| E.                  | Contractual savings (-)                                                 | 129.5                      | 135.6   | 144.5   | 160.4   | 186.2   | 236.8   | 295.4   | 351.3   | 408.7   | 449.8   |
| F.                  | Miscellaneous, net                                                      | -119.1                     | -126.0  | -141.0  | -91.4   | -97.7   | -195.1  | -189.0  | -162.0  | -168.9  | -141.0  |

Source: Banque de France, *Bulletin trimestriel*, No. 76, September-October 1990.

Table C. Balance of payments on a transactions basis

\$ million<sup>1</sup>

|                                      | 1980    | 1981    | 1982    | 1983   | 1984   | 1985    | 1986    | 1987    | 1988    | 1989    |
|--------------------------------------|---------|---------|---------|--------|--------|---------|---------|---------|---------|---------|
| Exports (fob)                        | 107 935 | 100 407 | 91 385  | 89 810 | 92 528 | 95 225  | 118 613 | 140 803 | 159 966 | 171 077 |
| Imports (fob)                        | 120 963 | 110 530 | 106 926 | 98 019 | 96 639 | 100 588 | 121 375 | 150 040 | 168 432 | 181 217 |
| Trade balance                        | -13 028 | -10 123 | -15 541 | -8 209 | -4 111 | -5 363  | -2 762  | -9 237  | -8 466  | -10 140 |
| Services, net                        | 8 755   | 5 953   | 4 782   | 4 229  | 2 827  | 4 322   | 4 968   | 4 740   | 5 614   | 8 211   |
| of which:                            |         |         |         |        |        |         |         |         |         |         |
| Major works projects                 | 1 846   | 1 888   | 1 977   | 1 621  | 1 325  | 1 329   | 935     | 1 167   | 719     | 707     |
| Travel                               | 2 225   | 1 492   | 1 845   | 2 945  | 3 327  | 3 385   | 3 211   | 3 378   | 4 071   | 6 214   |
| Investment income                    | 2 284   | 782     | 42      | -960   | -1 523 | -1 554  | -487    | -408    | 96      | -430    |
| Other goods and services, net        | 4 264   | 3 679   | 3 306   | 3 122  | 3 337  | 3 323   | 4 718   | 5 408   | 6 127   | 6 425   |
| Private transfers, net               | -2 443  | -2 274  | -1 962  | -1 729 | -1 007 | -1 295  | -1 735  | -2 298  | -2 428  | -2 657  |
| Official transfers, net              | -1 716  | -1 978  | -2 649  | -2 105 | -1 881 | -1 336  | -2 845  | -3 052  | -4 389  | -5 682  |
| Current balance                      | -4 167  | -4 742  | -12 063 | -4 691 | -834   | -348    | 2 345   | -4 438  | -3 541  | -3 842  |
| Long-term capital                    | -8 473  | -9 140  | 1 214   | 9 042  | 5 041  | 3 267   | -7 787  | 2 193   | 545     | 8 497   |
| Private                              | -7 279  | -8 101  | 562     | 5 481  | 6 852  | 7 037   | -1 111  | 7 522   | 5 352   | 13 052  |
| Official                             | -1 194  | -1 039  | 652     | 3 561  | -1 811 | -3 770  | -6 676  | -5 329  | -4 807  | -4 555  |
| Basic balance                        | -12 640 | -13 882 | -10 849 | 4 351  | 4 207  | 2 919   | -5 442  | -2 245  | -2 996  | 4 655   |
| Short-term capital                   | 5 055   | -4 464  | 1 274   | -380   | -775   | 2 184   | 4 150   | 3 054   | -267    | -14 702 |
| Balance of non-monetary transactions | -7 585  | -18 346 | -9 575  | 3 971  | 3 432  | 5 103   | -1 292  | 809     | -3 263  | -10 047 |
| Bank capital                         | 14 249  | 13 082  | 4 539   | 1 933  | -347   | -2 826  | 2 986   | -9 299  | 2 344   | 5 805   |
| Balance on official settlements      | 6 664   | -5 264  | -5 036  | 5 904  | 3 085  | 2 277   | 1 694   | -8 490  | -919    | -4 242  |
| Net position with FECOM              | -1 997  | 2 709   | -179    | -1 675 | 739    | 0       | 24      | 3 913   | -3 984  | 0       |
| Miscellaneous assets and liabilities | 200     | 387     | 1 737   | -1 236 | -172   | 475     | 13      | 1 981   | -403    | 3 521   |
| Change in official reserves          | 4 867   | -2 168  | -3 478  | 2 993  | 3 652  | 2 752   | 1 731   | -2 596  | -5 306  | -721    |

1. Exchange rate 1980: \$1 = 4.2261; 1981: \$1 = 5.4343; 1982: \$1 = 6.5720; 1983: \$1 = 7.6212; 1984: \$1 = 8.7394; 1985: \$1 = 8.9841; 1986: \$1 = 6.9269; 1987: \$1 = 6.0087; 1988: \$1 = 5.9559; 1989: \$1 = 6.3801.

Source: OECD estimates.

Table D. Foreign trade by commodity

|                                                           | Structure<br>(in % of total) |       | Percentage change from previous year |       |       |       |      |       |       |
|-----------------------------------------------------------|------------------------------|-------|--------------------------------------|-------|-------|-------|------|-------|-------|
|                                                           | 1982                         | 1989  | 1983                                 | 1984  | 1985  | 1986  | 1987 | 1988  | 1989  |
| <i>Exports, fob</i>                                       | 100.0                        | 100.0 | -1.4                                 | 2.2   | 4.7   | 22.1  | 20.2 | 13.0  | 6.7   |
| <i>SITC classification</i>                                |                              |       |                                      |       |       |       |      |       |       |
| 0 Food and live animals chiefly for food                  | 13.0                         | 11.8  | -1.8                                 | -0.4  | 0.6   | 20.7  | 14.9 | 17.3  | 5.8   |
| 1 Beverages and tobacco                                   | 2.8                          | 3.4   | 0.4                                  | 5.1   | 11.7  | 33.9  | 23.5 | 9.4   | 6.8   |
| 2 Crude materials, inedible, except fuels                 | 3.6                          | 3.8   | 10.6                                 | 1.7   | 7.2   | 7.1   | 29.6 | 18.1  | -0.8  |
| 3 Mineral fuels, lubricants and related materials         | 4.1                          | 2.2   | -5.3                                 | -1.7  | 10.9  | -15.0 | -0.7 | 2.8   | 14.2  |
| 4 Animal and vegetable oils and fats                      | 0.3                          | 0.3   | -0.7                                 | 34.9  | -2.0  | -28.6 | 1.8  | 29.3  | 17.1  |
| 5 Chemical products                                       | 12.7                         | 13.8  | 1.1                                  | 6.2   | 9.1   | 22.2  | 21.9 | 15.2  | 1.3   |
| 6 Other manufactured goods classified chiefly by material | 20.0                         | 18.6  | -4.9                                 | 3.4   | 2.3   | 19.2  | 16.3 | 14.2  | 8.9   |
| 7 Machinery and transport equipment                       | 34.2                         | 35.7  | -1.7                                 | 0.5   | 2.7   | 29.2  | 22.6 | 12.0  | 8.3   |
| 8 Miscellaneous manufactured articles                     | 9.0                          | 10.0  | -2.5                                 | 3.7   | 10.8  | 26.5  | 24.1 | 11.8  | 5.6   |
| 9 Other                                                   | 0.2                          | 0.3   | 206.8                                | -1.0  | 9.6   | 10.1  | 25.1 | -69.2 | 148.5 |
| <i>Imports, cif</i>                                       | 100.0                        | 100.0 | -8.8                                 | -1.4  | 3.7   | 18.8  | 23.2 | 12.2  | 7.6   |
| <i>SITC classification</i>                                |                              |       |                                      |       |       |       |      |       |       |
| 0 Food and live animals chiefly for food                  | 8.8                          | 8.8   | -1.4                                 | -5.1  | 1.8   | 34.0  | 17.2 | 8.2   | 1.4   |
| 1 Beverages and tobacco                                   | 0.9                          | 1.0   | -6.7                                 | 2.3   | 14.5  | 8.6   | 19.2 | 16.6  | 4.9   |
| 2 Crude materials, inedible, except fuels                 | 5.0                          | 4.6   | -7.4                                 | 4.6   | -3.3  | 8.5   | 19.5 | 15.6  | 8.0   |
| 3 Mineral fuels, lubricants and related materials         | 26.8                         | 8.9   | -16.5                                | -2.4  | -4.5  | -32.6 | 4.9  | -14.1 | 15.7  |
| 4 Animal and vegetable oils and fats                      | 0.6                          | 0.3   | -7.8                                 | 32.9  | -10.2 | -24.5 | -6.8 | 16.5  | 8.2   |
| 5 Chemical products                                       | 8.6                          | 10.8  | -3.7                                 | 4.6   | 8.5   | 26.6  | 23.2 | 15.6  | 5.6   |
| 6 Other manufactured goods classified chiefly by material | 15.6                         | 18.5  | -8.6                                 | 0.6   | 5.2   | 31.1  | 20.7 | 17.6  | 8.4   |
| 7 Machinery and transport equipment                       | 23.9                         | 33.5  | -7.2                                 | -4.1  | 9.4   | 41.1  | 31.9 | 18.0  | 8.2   |
| 8 Miscellaneous manufactured articles                     | 9.8                          | 13.5  | -4.5                                 | -2.6  | 8.2   | 45.1  | 31.8 | 11.2  | 5.9   |
| 9 Other                                                   | 0.1                          | 0.1   | 6.1                                  | -17.0 | 29.1  | 6.0   | 50.1 | 17.7  | 23.2  |

Source: OECD, *Foreign Trade Statistics, Series C*.

Table E. Foreign trade by origin

|                     | Structure<br>(in % of total) |       | Percentage change from previous year |       |       |       |      |       |       |
|---------------------|------------------------------|-------|--------------------------------------|-------|-------|-------|------|-------|-------|
|                     | 1982                         | 1989  | 1983                                 | 1984  | 1985  | 1986  | 1987 | 1988  | 1989  |
| <i>Exports, fob</i> |                              |       |                                      |       |       |       |      |       |       |
| World               | 100.0                        | 100.0 | -1.6                                 | 2.2   | 4.7   | 22.2  | 20.0 | 12.2  | 7.4   |
| OECD                | 68.4                         | 79.4  | 0.3                                  | 4.7   | 7.7   | 27.9  | 23.4 | 14.2  | 6.0   |
| EEC <sup>1</sup>    | 57.3                         | 63.8  | -2.2                                 | -0.7  | 6.2   | 29.7  | 25.2 | 15.2  | 7.3   |
| <i>of which:</i>    |                              |       |                                      |       |       |       |      |       |       |
| Germany             | 15.1                         | 16.4  | 3.6                                  | -3.6  | 6.5   | 31.9  | 23.6 | 10.3  | 5.9   |
| Belgium-Luxembourg  | 8.6                          | 8.9   | -2.5                                 | 2.6   | 3.7   | 30.2  | 23.2 | 8.8   | 5.6   |
| Italy               | 11.3                         | 12.1  | -6.8                                 | 4.2   | 5.0   | 31.6  | 23.3 | 13.9  | 6.0   |
| Netherlands         | 4.6                          | 5.7   | 1.5                                  | 2.7   | 6.9   | 24.0  | 23.6 | 23.9  | 8.3   |
| United Kingdom      | 7.2                          | 9.5   | 2.9                                  | 6.9   | 8.7   | 30.9  | 19.9 | 24.3  | 4.9   |
| United States       | 5.6                          | 6.5   | 9.4                                  | 31.9  | 11.9  | 4.7   | 18.0 | 12.8  | -3.9  |
| Japan               | 1.2                          | 1.9   | 0.0                                  | -5.4  | 15.5  | 35.6  | 37.2 | 24.0  | 19.9  |
| Non-OECD            | 31.6                         | 20.6  | -6.1                                 | -3.3  | -3.3  | 6.9   | 8.6  | 4.9   | 13.4  |
| COMECON             | 2.9                          | 1.7   | 21.3                                 | -10.7 | -1.8  | -11.3 | 11.8 | 11.2  | -2.9  |
| OPEC                | 11.0                         | 3.8   | -14.7                                | 4.2   | -20.2 | -9.0  | -7.1 | -4.8  | 11.7  |
| Other               | 17.7                         | 15.0  | -5.1                                 | -6.0  | 7.0   | 17.6  | 13.7 | 6.9   | 16.1  |
| Unspecified         | 0.0                          | 0.0   | 317.5                                | -27.5 | 81.8  | -55.0 | 49.5 | -50.7 | -63.0 |
| <i>Imports, cif</i> |                              |       |                                      |       |       |       |      |       |       |
| World               | 100.0                        | 100.0 | -8.9                                 | -1.6  | 3.9   | 19.5  | 22.4 | 11.3  | 8.3   |
| OECD                | 69.1                         | 81.0  | -5.3                                 | -0.4  | 6.6   | 27.5  | 24.4 | 11.7  | 8.0   |
| EEC <sup>1</sup>    | 57.5                         | 68.6  | -5.3                                 | -0.4  | 6.6   | 27.5  | 24.4 | 11.7  | 8.0   |
| <i>of which:</i>    |                              |       |                                      |       |       |       |      |       |       |
| Germany             | 17.1                         | 19.6  | -8.2                                 | -5.4  | 5.6   | 39.6  | 24.6 | 11.2  | 6.4   |
| Belgium-Luxembourg  | 7.7                          | 9.2   | -5.2                                 | 0.9   | 8.1   | 31.4  | 21.9 | 8.6   | 8.8   |
| Italy               | 9.6                          | 11.5  | -5.7                                 | -2.1  | 6.0   | 37.8  | 23.6 | 10.9  | 6.9   |
| Netherlands         | 5.6                          | 5.2   | -2.5                                 | 1.0   | 2.7   | 13.1  | 20.5 | 2.4   | 8.4   |
| United Kingdom      | 6.1                          | 7.2   | 6.0                                  | 12.4  | 5.6   | -4.8  | 33.2 | 14.5  | 6.3   |
| United States       | 7.9                          | 7.7   | -10.6                                | -1.9  | 2.2   | 18.6  | 16.7 | 19.8  | 8.1   |
| Japan               | 2.6                          | 4.1   | -9.9                                 | -0.3  | 10.6  | 54.1  | 29.1 | 22.1  | 6.7   |
| Non-OECD            | 30.2                         | 17.3  | -17.3                                | -4.8  | -4.4  | -5.8  | 12.9 | 7.5   | 9.5   |
| COMECON             | 3.6                          | 2.2   | -6.7                                 | -6.1  | -1.6  | 13.4  | 2.3  | 5.4   | -1.7  |
| OPEC                | 15.9                         | 4.1   | -27.4                                | -10.5 | -12.4 | -29.4 | -7.0 | -12.2 | 29.4  |
| Other               | 10.7                         | 10.9  | -6.0                                 | 2.1   | 2.8   | 8.8   | 27.2 | 16.0  | 5.9   |
| Unspecified         | 0.7                          | 1.7   | 0.1                                  | -2.3  | 34.1  | 39.3  | 39.4 | 35.6  | 9.1   |

1. Including Spain and Portugal as of 1985.

Source: OECD, *Foreign Trade Statistics, Series A*.

Table F. Structure of output and performance indicators

|                                                  | 1980                | 1985             | 1986             | 1987             | 1988             | 1989             | 1980                      | 1985              | 1986              | 1987              | 1988              | 1989              |
|--------------------------------------------------|---------------------|------------------|------------------|------------------|------------------|------------------|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                                  | Share of GDP        |                  |                  |                  |                  |                  | Share of total employment |                   |                   |                   |                   |                   |
| <i>A. Structure of output (constant prices)</i>  |                     |                  |                  |                  |                  |                  |                           |                   |                   |                   |                   |                   |
| Agriculture, hunting, forestry and fishing       | 4.2                 | 4.6              | 4.5              | 4.4              | 4.3              | 4.2              | 8.6                       | 7.5               | 7.2               | 7.0               | 6.7               | 6.4               |
| Mining and quarrying                             | 0.8                 | 0.7              | 0.7              | 0.7              | 0.6              | 0.6              | 0.8                       | 0.7               | 0.6               | 0.6               | 0.6               | 0.5               |
| Manufacturing                                    | 24.2                | 22.1             | 21.5             | 21.0             | 20.9             | 20.8             | 24.3                      | 21.9              | 21.4              | 20.8              | 20.3              | 20.0              |
| of which: Food products                          | 3.2                 | 3.0              | 3.0              | 2.9              | 2.7              | 2.8              | 2.7                       | 2.8               | 2.7               | 2.7               | 2.7               | 2.6               |
| Textiles                                         | 2.0                 | 1.7              | 1.6              | 1.6              | 1.4              | 1.5              | 3.1                       | 2.5               | 2.4               | 2.3               | 2.2               | 2.1               |
| Paper                                            | 1.5                 | 1.4              | 1.4              | 1.4              | 1.4              | 1.4              | 1.6                       | 1.5               | 1.5               | 1.5               | 1.5               | 1.5               |
| Chemicals                                        | 4.3                 | 4.2              | 4.0              | 3.9              | 3.9              | 3.8              | 2.6                       | 2.4               | 2.4               | 2.4               | 2.4               | 2.4               |
| Metals                                           | 1.4                 | 1.1              | 1.2              | 1.2              | 1.2              | 1.2              | 1.5                       | 1.3               | 1.2               | 1.2               | 1.1               | 1.1               |
| Metal products, machinery and equipment          | 9.4                 | 8.5              | 8.3              | 8.1              | 8.2              | 8.3              | 10.2                      | 9.2               | 8.9               | 8.6               | 8.4               | 8.3               |
| Electricity, gas and water                       | 1.8                 | 2.4              | 2.5              | 2.6              | 2.5              | 2.4              | 0.7                       | 0.8               | 0.8               | 0.8               | 0.8               | 0.8               |
| Construction                                     | 6.9                 | 6.0              | 6.0              | 5.9              | 6.1              | 6.0              | 8.5                       | 7.1               | 7.1               | 7.2               | 7.2               | 7.2               |
| Traded services <sup>1</sup>                     | 36.7                | 38.0             | 38.9             | 40.0             | 40.0             | 40.5             | 35.2 <sup>s</sup>         | 37.2 <sup>s</sup> | 37.4 <sup>s</sup> | 38.2 <sup>s</sup> | 39.1 <sup>s</sup> | 39.8 <sup>s</sup> |
| Non-traded services <sup>2</sup>                 | 4.3                 | 5.0              | 5.2              | 5.1              | 5.2              | 5.3              | ..                        | ..                | ..                | ..                | ..                | ..                |
| Total traded goods and services                  | 79.0                | 78.8             | 79.2             | 79.3             | 79.5             | 79.8             | 78.1                      | 75.1              | 74.6              | 74.6              | 74.5              | 74.7              |
| General government non-traded sector             | 16.0                | 16.5             | 16.3             | 16.2             | 15.8             | 15.5             | 21.9                      | 24.9              | 25.4              | 25.4              | 25.5              | 25.3              |
|                                                  | Productivity growth |                  |                  |                  |                  |                  | Share of total investment |                   |                   |                   |                   |                   |
| <i>B. Economic performance (constant prices)</i> |                     |                  |                  |                  |                  |                  |                           |                   |                   |                   |                   |                   |
| Agriculture, hunting, forestry and fishing       | 7.2 <sup>4</sup>    | 3.7              | 3.8              | 5.0              | 3.4              | 6.7              | 3.6                       | 3.3               | 2.9               | 2.6               | 2.8               | 3.0               |
| Mining and quarrying                             | -1.7 <sup>4</sup>   | 13.0             | -0.7             | 8.7              | -2.5             | 0.9              | 0.2                       | 0.2               | 0.1               | 0.1               | 0.1               | 0.1               |
| Manufacturing                                    | 2.2 <sup>4</sup>    | 2.6              | 1.8              | 2.4              | 5.3              | 3.8              | 15.4                      | 15.6              | 15.7              | 16.1              | 16.5              | 16.7              |
| of which: Food products                          | -0.2 <sup>4</sup>   | 4.3              | 0.4              | -0.2             | -1.7             | 8.5              | 2.0                       | 2.4               | 2.2               | 2.1               | 2.2               | 2.1               |
| Textiles                                         | 3.6 <sup>4</sup>    | 1.7              | 1.3              | 7.8              | 3.4              | 4.1              | 0.7                       | 0.8               | 0.7               | 0.7               | 0.8               | 0.7               |
| Paper                                            | 0.3 <sup>4</sup>    | 2.9              | -0.1             | 1.0              | 5.8              | 3.7              | 0.8                       | 0.9               | 1.2               | 1.5               | 1.6               | 1.7               |
| Chemicals                                        | 4.3 <sup>4</sup>    | -1.5             | -0.9             | -1.0             | 5.8              | 0.9              | 3.4                       | 3.1               | 3.1               | 3.1               | 3.2               | 3.2               |
| Metals                                           | 0.6 <sup>4</sup>    | 1.6              | 13.8             | 4.4              | 13.8             | 2.3              | 1.4                       | 1.4               | 1.4               | 1.6               | 1.3               | 1.3               |
| Metal products, machinery and equipment          | 1.6 <sup>4</sup>    | 3.9              | 2.4              | 3.4              | 6.5              | 4.5              | 5.5                       | 5.6               | 5.7               | 5.7               | 5.9               | 6.1               |
| Electricity, gas and water                       | 5.5 <sup>4</sup>    | 6.0              | 2.9              | 5.2              | 1.4              | -0.3             | 6.0                       | 5.6               | 5.0               | 4.5               | 4.1               | 3.7               |
| Construction                                     | 2.4 <sup>4</sup>    | 3.5              | 2.9              | 0.6              | 5.5              | 1.1              | 3.3                       | 2.6               | 2.4               | 2.4               | 2.5               | 2.5               |
| Traded services <sup>1</sup>                     | 1.3 <sup>4,5</sup>  | 2.5 <sup>5</sup> | 4.2 <sup>5</sup> | 1.4 <sup>4</sup> | 2.0 <sup>5</sup> | 2.0 <sup>5</sup> | 57.3                      | 55.2              | 55.8              | 56.4              | 56.1              | 55.7              |
| Non-traded services <sup>2</sup>                 | ..                  | ..               | ..               | ..               | ..               | ..               | 2.0                       | 2.8               | 3.2               | 3.2               | 3.4               | 3.7               |

|                                      |                  |      |      |      |      |      |      |      |      |      |      |      |
|--------------------------------------|------------------|------|------|------|------|------|------|------|------|------|------|------|
| Total traded goods and services      | 2.5 <sup>4</sup> | 3.2  | 3.6  | 2.1  | 3.5  | 2.9  | 87.7 | 85.2 | 85.1 | 85.3 | 85.5 | 85.4 |
| General government non-traded sector | 0.3 <sup>4</sup> | -1.4 | -0.5 | 0.8  | 0.8  | 1.2  | 12.0 | 14.5 | 14.6 | 14.4 | 14.3 | 14.4 |
|                                      | 1979             | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |      |

C. *Other indicators (current prices)*

|                                           |      |      |      |      |      |      |      |      |      |      |     |
|-------------------------------------------|------|------|------|------|------|------|------|------|------|------|-----|
| R & D as % of GDP in manufacturing sector | 3.8  | 4.2  | 4.6  | 4.9  | 4.9  | 5.3  | 5.6  | 5.5  | 5.8  | 5.8  | ..  |
| Total R & D expenditure as % of total GDP | 1.8  | 1.8  | 2.0  | 2.1  | 2.1  | 2.2  | 2.3  | 2.2  | 2.3  | 2.3  | 2.3 |
| Government funded R & D as % of total     | 50.3 | 51.4 | 53.4 | 54.0 | 53.8 | 53.7 | 52.9 | 52.5 | 51.7 | 50.6 | ..  |

Breakdown of employed workforce<sup>3</sup>

by size of establishment:

|                        |        |        |        |        |        |        |        |        |        |        |        |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 1 - 9 employees        | 20.2   | 20.8   | 21.4   | 21.6   | 22.3   | 22.9   | 23.2   | 23.8   | 24.1   | 24.2   | 24.1   |
| 10 - 49 employees      | 25.7   | 26.1   | 26.4   | 26.5   | 26.9   | 27.0   | 27.3   | 27.8   | 28.2   | 28.3   | 28.5   |
| 50 - 199 employees     | 22.1   | 21.9   | 22.0   | 22.0   | 21.8   | 21.7   | 21.9   | 22.0   | 22.3   | 22.7   | 22.8   |
| 200 - 499 employees    | 13.1   | 13.0   | 12.9   | 12.8   | 12.5   | 12.3   | 12.1   | 11.9   | 11.6   | 11.7   | 11.8   |
| 500 employees and more | 18.9   | 18.2   | 17.3   | 17.1   | 16.5   | 16.1   | 15.5   | 14.5   | 13.8   | 13.1   | 12.8   |
| Total                  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  | 100.0  |
| Workforce (thousands)  | 13 351 | 13 321 | 13 197 | 13 193 | 13 000 | 12 778 | 12 701 | 12 704 | 12 840 | 13 139 | 13 569 |

1. Wholesale and retail distribution, restaurants and hotels, transportation, warehousing and communications, finance, insurance, real estate and business services.
2. Community, social and personal services.
3. All UNEDIC-affiliated employees.
4. 1980-1984 average.
5. Including non-traded services.

Sources: INSEE, *Annuaire statistique de la France 1990*; OECD, *National Accounts and Main Science and Technology Indicators*.

Table G. Labour market indicators

|                                                             | Peak              | Trough             | 1985  | 1986  | 1987  | 1988  | 1989  |
|-------------------------------------------------------------|-------------------|--------------------|-------|-------|-------|-------|-------|
| <i>A. Trend</i>                                             |                   |                    |       |       |       |       |       |
| Standardised unemployment rate                              | 1987: 10.5        | 1964: 1.4          | 10.2  | 10.4  | 10.5  | 10.0  | 9.4   |
| Unemployment rate                                           |                   |                    |       |       |       |       |       |
| Total                                                       | 1987: 10.5        | 1964: 1.1          | 10.2  | 10.4  | 10.5  | 10.0  | 9.4   |
| Male                                                        | 1987: 8.3         | 1965: 1.0          | 8.3   | 8.4   | 8.3   | 7.7   | 7.0   |
| Female                                                      | 1987: 13.6        | 1965: 2.5          | 12.9  | 13.1  | 13.6  | 13.1  | 12.6  |
| Youth <sup>1</sup>                                          | 1985: 25.6        | 1970: 3.2          | 25.6  | 23.4  | 23.0  | 21.7  | 19.1  |
| Share of long-term unemployment <sup>2</sup>                | 1986: 47.8        | 1975: 17.0         | 46.8  | 47.8  | 45.5  | 44.8  | 43.9  |
| Registered vacancies (thousands)                            | 1973: 251.6       | 1985: 46.0         | 46.0  | 49.4  | 54.3  | 63.1  | 76.2  |
| Length of working week <sup>3</sup>                         | 1964: 45.7        | 1985: 38.6         | 38.6  | 38.6  | 38.7  | 38.7  | 38.7  |
|                                                             | 1970              | 1980               | 1985  | 1986  | 1987  | 1988  | 1989  |
| <i>B. Structural and institutional features</i>             |                   |                    |       |       |       |       |       |
| Labour force (% change)                                     | 0.9 <sup>9</sup>  | 0.5 <sup>10</sup>  | 0.2   | 0.4   | 0.4   | 0.2   | 0.5   |
| Participation rate <sup>4</sup>                             |                   |                    |       |       |       |       |       |
| Overall                                                     | 67.8              | 68.0               | 65.8  | 65.7  | 65.7  | 65.5  | 65.5  |
| Male                                                        | 86.9              | 81.7               | 76.8  | 76.3  | 75.8  | 75.3  | 75.1  |
| Female                                                      | 48.5              | 54.4               | 54.9  | 55.3  | 55.7  | 55.8  | 56.2  |
| Employment / population aged 15 to 64                       | 66.1              | 63.7               | 59.0  | 58.9  | 58.8  | 58.9  | 59.3  |
| Employers, self-employed and family workers (as % of total) | 20.1              | 16.2               | 15.5  | 15.4  | 15.2  | 14.8  | 14.4  |
| Wage earners and salaried employees (as % of total)         | 79.9              | 83.8               | 84.5  | 84.6  | 84.8  | 85.2  | 85.6  |
| Civilian employment by sector (% change)                    |                   |                    |       |       |       |       |       |
| Agriculture                                                 | -3.8 <sup>9</sup> | -2.9 <sup>10</sup> | -2.8  | -3.1  | -3.4  | -2.9  | -4.0  |
| Industry                                                    | -0.5 <sup>9</sup> | -2.4 <sup>10</sup> | -2.8  | -1.7  | -1.6  | -0.5  | 0.6   |
| Services                                                    | 2.1 <sup>9</sup>  | 1.2 <sup>10</sup>  | 1.7   | 1.6   | 1.8   | 2.0   | 2.5   |
| of which: General government                                | 1.7 <sup>9</sup>  | 2.1 <sup>10</sup>  | 2.6   | 1.5   | 0.3   | 0.4   | 0.4   |
| Total                                                       | 0.5 <sup>9</sup>  | -0.4 <sup>10</sup> | -0.2  | 0.2   | 0.4   | 0.8   | 1.2   |
| Civilian employment by sector (as % of total)               |                   |                    |       |       |       |       |       |
| Agriculture                                                 | 13.2              | 8.6                | 7.5   | 7.3   | 7.0   | 6.8   | 6.4   |
| Industry                                                    | 39.2              | 35.6               | 31.9  | 31.3  | 30.7  | 30.3  | 30.0  |
| Services                                                    | 47.6              | 55.8               | 60.6  | 61.4  | 62.3  | 63.0  | 63.6  |
| of which: General government                                | 18.1              | 20.6               | 23.3  | 23.6  | 23.6  | 23.5  | 23.2  |
| Total                                                       | 100.0             | 100.0              | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

|                                                         |      |                    |      |      |      |      |      |
|---------------------------------------------------------|------|--------------------|------|------|------|------|------|
| Fixed-term contracts <sup>5</sup>                       | ..   | ..                 | 1.8  | 2.2  | 2.7  | 3.0  | 3.3  |
| Agency temporary <sup>5</sup>                           | ..   | ..                 | 0.6  | 0.7  | 0.7  | 0.9  | 1.3  |
| Part-time <sup>6</sup>                                  | ..   | ..                 | 10.8 | 11.6 | 11.6 | 11.9 | 11.9 |
| Non-wage labour costs <sup>7</sup>                      | 23.9 | 26.1               | 27.9 | 28.0 | 28.1 | 28.2 | 28.3 |
| Government unemployment insurance benefits <sup>8</sup> | ..   | 46.2 <sup>11</sup> | 41.0 | 42.0 | 43.5 | 44.4 | 44.7 |
| Minimum wage as % of average wage                       | 39.3 | 45.2               | 51.2 | 50.9 | 49.8 | 49.2 | 49.2 |

1. 15 to 24 year old.
2. People looking for a job for one year or more as a percentage of total unemployment.
3. Hours worked by industrial wage-earners.
4. Labour force as a percentage of population aged 15 to 64.
5. As a percentage of dependent employment.
6. Part-time employment as a percentage of total employment (part time and full time).
7. Employers' social security contributions as a percentage of total wages.
8. Unemployment benefits per unemployment beneficiary as a percentage of net average wage.
9. 1970-1979 average.
10. 1980-1984 average.
11. 1982.

Sources: INSEE, *Annuaire statistique de la France 1990*; OECD, *Labour Force Statistics, Main Economic Indicators* and Secretariat estimates.

Table H. Financial markets

|                                                                      | 1970 | 1980               | 1984  | 1985  | 1986  | 1987  | 1988  | 1989  |
|----------------------------------------------------------------------|------|--------------------|-------|-------|-------|-------|-------|-------|
| <i>Sector size</i>                                                   |      |                    |       |       |       |       |       |       |
| Sectoral employment / total employment                               | ..   | 2.6 <sup>13</sup>  | 2.8   | 2.8   | 2.8   | 2.8   | 2.8   | 2.8   |
| Non-financial agents' financial flows / GDP                          | ..   | ..                 | ..    | 15.1  | 15.6  | 20.7  | 20.0  | 22.3  |
| Domestic financial assets / GDP                                      | ..   | ..                 | 4.9   | 5.0   | 5.5   | 5.5   | 6.0   | ..    |
| Stock-market capitalisation / GDP                                    | ..   | 30.3               | 39.6  | 48.4  | 61.7  | 56.7  | 59.4  | 69.2  |
| Density of banking network <sup>1</sup>                              | ..   | 37.6               | 38.7  | 38.8  | 38.8  | 38.8  | 38.5  | 38.1  |
| <i>Structure of financial flows</i>                                  |      |                    |       |       |       |       |       |       |
| Share of intermediated financing in total financing <sup>2</sup>     | ..   | 72.8               | 58.6  | 58.1  | 33.7  | 54.2  | 61.6  | 54.2  |
| Financial institutions' share of financial assets                    | ..   | ..                 | 50.1  | 49.1  | 48.5  | 50.1  | 48.9  | ..    |
| Securities issues in financing flows of non-financial agents         | ..   | 10.8 <sup>13</sup> | 28.3  | 27.2  | 41.6  | 21.9  | 24.8  | 33.9  |
| Structure of private non-financial sector's portfolio <sup>3</sup> : |      |                    |       |       |       |       |       |       |
| Deposits <sup>4</sup>                                                | ..   | ..                 | 33.9  | 31.4  | 25.7  | 27.8  | 23.0  | 20.6  |
| Bonds and bills                                                      | ..   | ..                 | 5.3   | 4.2   | 4.3   | 4.2   | 4.0   | 3.8   |
| Equities                                                             | ..   | ..                 | 26.3  | 32.0  | 41.2  | 36.8  | 45.0  | 48.8  |
| Institutional investment <sup>5</sup>                                | ..   | ..                 | 4.1   | 5.2   | 5.9   | 6.4   | 6.5   | 6.5   |
| Non-financial corporate financial structure:                         | ..   | ..                 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Equity                                                               | ..   | ..                 | 38.6  | 45.9  | 56.7  | 51.6  | 60.0  | 63.5  |
| Short-term debt: Securities                                          | ..   | ..                 | 1.4   | 1.5   | 1.5   | 1.9   | 1.7   | 1.9   |
| Other                                                                | ..   | ..                 | 35.0  | 30.6  | 23.7  | 27.1  | 22.3  | 19.7  |
| Medium- and long-term debt: Bonds                                    | ..   | ..                 | 4.7   | 4.2   | 3.8   | 3.5   | 3.1   | 2.7   |
| Other                                                                | ..   | ..                 | 20.2  | 17.8  | 14.4  | 15.9  | 12.9  | 12.2  |
| <i>Internationalisation of markets</i>                               |      |                    |       |       |       |       |       |       |
| Foreign business of the banking sector <sup>6</sup> :                |      |                    |       |       |       |       |       |       |
| Assets                                                               | 12.8 | 32.0               | 43.7  | 39.0  | 37.2  | 36.1  | 36.8  | 36.9  |
| Liabilities                                                          | 14.8 | 28.9               | 43.7  | 37.6  | 35.4  | 33.7  | 36.3  | 37.4  |
| International banking networks:                                      |      |                    |       |       |       |       |       |       |
| Foreign banks in France <sup>7</sup>                                 | 58   | 122                | 147   | 148   | 152   | ..    | 168   | 167   |
| French bank branches abroad                                          | ..   | ..                 | ..    | ..    | ..    | ..    | 341   | ..    |
| Share of cross-border transactions:                                  |      |                    |       |       |       |       |       |       |
| Net purchases of foreign securities by residents                     | ..   | ..                 | ..    | ..    | ..    | ..    | 21.6  | 29.2  |
| Net purchases of domestic securities by non-residents                | ..   | ..                 | ..    | ..    | ..    | ..    | 24.0  | 46.6  |
| <i>Efficiency of markets</i>                                         |      |                    |       |       |       |       |       |       |
| Cost of bank intermediation <sup>8</sup>                             | ..   | ..                 | ..    | ..    | 8.6   | 8.6   | 9.2   | 9.5   |
| Interest margins <sup>9</sup>                                        | ..   | 2.5 <sup>13</sup>  | 2.3   | 2.3   | 2.5   | 2.1   | ..    | ..    |
| Bank productivity <sup>10</sup>                                      | ..   | 69.4 <sup>13</sup> | 69.1  | 68.5  | 67.0  | 73.3  | ..    | ..    |

|                                                                         |    |                    |      |      |      |      |      |      |
|-------------------------------------------------------------------------|----|--------------------|------|------|------|------|------|------|
| Divergence between Euro rates and domestic interest rates <sup>11</sup> | .. | 0.3                | 1.0  | 0.7  | 1.6  | 0.3  | 0.1  | -0.1 |
| <i>Indicators of market intervention</i>                                |    |                    |      |      |      |      |      |      |
| Share of preferential-rate lending in total <sup>12</sup>               | .. | 42.8 <sup>13</sup> | 42.7 | 44.0 | 44.1 | 20.6 | 16.6 | 15.2 |

1. Number of bank branches and head offices (excluding savings banks) per 100 000 population.
  2. Definition of Conseil National du Cr dit: share of financial institutions in total external financing of non-financial residents.
  3. The private non-financial sector includes corporations as well as households and non-profit institutions. The total differs from 100 because some items, such as loans and trade credit, are excluded.
  4. National and international means of payment plus other liquid assets.
  5. UCITs.
  6. As a percentage of commercial banks' balance sheets.
  7. Number of branches and subsidiaries.
  8. Ratio of net banking product minus commission and fees of the member banks of the AFB and the mutual and co-operative banks.
  9. Difference between interest receipts and interest payments divided by average total assets.
  10. Operating expenses divided by gross income.
  11. Three-month Euro-French franc interest rate minus three-month interbank rate.
  12. New medium- and long-term loans at preferential rates (Bank of France definition) as a per cent of new credit extended.
- Sources: INSEE, *Annuaire statistique de la France 1990* and *Comptes de la Nation 1989*; Banque de France, *Bulletin trimestriel*, No. 77, December 1990-January 1991; Conseil National du Cr dit, *Rapport annuel 1989*; IMF, *International Financial Statistics*, January 1991 and OECD estimates.

Table I. Public sector

|                                                                     | 1970             | 1980 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---------------------------------------------------------------------|------------------|------|------|------|------|------|------|
| <i>Budgetary indicators: general government accounts (% of GDP)</i> |                  |      |      |      |      |      |      |
| Primary receipts (excluding interest)                               | 37.4             | 43.6 | 46.2 | 45.4 | 46.0 | 45.7 | 45.4 |
| Primary expenditure (excluding interest)                            | 37.1             | 44.2 | 49.1 | 48.3 | 47.9 | 47.3 | 46.7 |
| Primary budget balance                                              | 0.3              | -0.6 | -3.0 | -2.9 | -1.9 | -1.6 | -1.3 |
| Net interest (including net capital transfers)                      | 0.6              | 0.6  | 0.1  | 0.2  | 0.0  | -0.2 | -0.1 |
| General government budget balance                                   | 0.9              | 0.0  | -2.9 | -2.7 | -1.9 | -1.8 | -1.4 |
| of which: Central government balance                                | 1.1              | -0.3 | -2.9 | -2.2 | -1.9 | -1.7 | -1.5 |
| <i>Structure of expenditure and taxes (% of GDP)</i>                |                  |      |      |      |      |      |      |
| General government expenditure                                      | 34.2             | 42.3 | 48.8 | 48.0 | 47.7 | 46.9 | 46.3 |
| Transfers                                                           | 16.4             | 20.8 | 24.2 | 23.9 | 23.9 | 23.7 | 23.4 |
| Subsidies                                                           | 2.0              | 1.9  | 2.3  | 2.3  | 2.2  | 1.9  | 1.7  |
| General expenditure                                                 |                  |      |      |      |      |      |      |
| Education                                                           | ..               | ..   | 5.0  | 4.9  | 4.8  | 4.7  | ..   |
| Transport                                                           | ..               | ..   | 0.6  | 0.6  | 0.6  | 0.6  | ..   |
| Health                                                              | ..               | ..   | 3.2  | 3.1  | 3.1  | 3.0  | ..   |
| Tax receipts                                                        | 35.1             | 41.7 | 44.5 | 44.0 | 44.6 | 44.1 | 44.0 |
| Personal income tax                                                 | 4.2              | 5.4  | 5.7  | 5.6  | 5.7  | 5.3  | 5.2  |
| Corporate taxes                                                     | 2.2              | 2.1  | 2.0  | 2.2  | 2.3  | 2.3  | 2.4  |
| Social security contributions                                       | 12.7             | 17.8 | 19.3 | 18.8 | 19.2 | 19.1 | 19.3 |
| Consumption taxes                                                   | 13.4             | 12.7 | 13.2 | 12.9 | 13.0 | 13.0 | 12.7 |
| of which: Value added tax                                           | 8.9              | 8.7  | 8.8  | 8.4  | 8.6  | 8.5  | 8.3  |
| <i>Other indicators</i>                                             |                  |      |      |      |      |      |      |
| Income tax elasticity                                               | 1.2 <sup>1</sup> | 1.5  | 0.2  | 1.2  | 1.4  | 0.0  | 0.7  |
| Income tax as % of total tax                                        | 18.3             | 18.1 | 17.3 | 17.9 | 18.0 | 17.4 | 17.4 |
| Gross general-government debt (as % of GDP)                         | 53.1             | 37.3 | 45.5 | 45.7 | 47.5 | 47.4 | 46.8 |
| Net general-government debt (as % of GDP)                           | 9.7              | 14.3 | 22.9 | 25.5 | 24.9 | 25.2 | 24.8 |
| <i>Tax rates (%)</i>                                                |                  |      |      |      |      |      |      |
| Average effective personal income tax rate                          | ..               | 15.0 | 13.9 | 13.2 | 13.7 | 13.5 | 13.4 |
| Top rate                                                            | 69.8             | 60.0 | 67.0 | 65.0 | 58.0 | 56.8 | 56.8 |
| Average marginal rate                                               | ..               | ..   | ..   | ..   | ..   | 18.6 | 17.3 |
| Effective social security contribution rate                         | 28.0             | 33.0 | 36.0 | 36.8 | 37.6 | 38.4 | 39.0 |
| Standard VAT rate                                                   | 17.6             | 17.6 | 18.6 | 18.6 | 18.6 | 18.6 | 18.6 |

1. 1975 figure.

Sources: OECD, *National Accounts and Revenue Statistics of OECD Member Countries*.

***BASIC STATISTICS:***  
***INTERNATIONAL COMPARISONS***

*BASIC STATISTICS*

## BASIC STATISTICS: INTERNATIONAL COMPARISONS

|                                                                         | Units      | Reference period <sup>1</sup> | Australia | Austria  | Belgium             | Canada   | Denmark  | Finland  | France   | Germany  | Greece     | Iceland  | Ireland   | Italy   | Japan    | Luxembourg      | Netherlands | New Zealand | Norway   | Portugal  | Spain     | Sweden   | Switzerland       | Turkey   | United Kingdom | United States | Yugoslavia |
|-------------------------------------------------------------------------|------------|-------------------------------|-----------|----------|---------------------|----------|----------|----------|----------|----------|------------|----------|-----------|---------|----------|-----------------|-------------|-------------|----------|-----------|-----------|----------|-------------------|----------|----------------|---------------|------------|
| <b>Population</b>                                                       |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| Total                                                                   | Thousands  | 1988                          | 16 538    | 7 596    | 9 879               | 9 950    | 5 130    | 4 947    | 55 873   | 61 451   | 10 016     | 250      | 3 538     | 57 441  | 122 610  | 375             | 14 760      | 3 326       | 4 209    | 10 305    | 38 996    | 8 436    | 6 672             | 53 969   | 57 065         | 246 329       | 23 560     |
| Inhabitants per sq.km                                                   | Number     | 1988                          | 2         | 91       | 324                 | 3        | 119      | 15       | 102      | 247      | 76         | 2        | 50        | 191     | 329      | 144             | 396         | 12          | 13       | 112       | 77        | 19       | 161               | 69       | 233            | 26            | 92         |
| Net average annual increase over previous 10 years                      | %          | 1987                          | 1.4       | 0.0      | 0.0                 | 1.0      | 0.1      | 0.4      | 0.4      | 0.0      | 0.7        | 1.0      | 0.8       | 0.3     | 0.7      | 0.3             | 0.6         | 0.5         | 0.3      | 0.5       | 0.7       | 0.2      | 0.5               | 2.2      | 0.1            | 1.0           | 0.8        |
| <b>Employment</b>                                                       |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| Total civilian employment (TCE) <sup>2</sup>                            | Thousands  | 1988                          | 7 366     | 3 310    | 3 660 (87)          | 2 245    | 2 660    | 2 420    | 21 179   | 26 825   | 3 598 (87) | 135      | 1 078     | 20 937  | 60 110   | 174             | 5 934       | 1 503       | 2 079    | 4 280     | 11 780    | 4 399    | 3 481             | 16 550   | 25 555         | 114 968       | ..         |
| of which: Agriculture                                                   | % of TCE   |                               | 5.9       | 8.1      | 2.7                 | 4.5      | 5.8      | 9.8      | 6.8      | 4.0      | 26.6       | 10.4     | 15.4      | 9.8     | 7.9      | 3.4             | 4.8         | 10.4        | 6.4      | 20.7      | 14.4      | 3.8      | 5.7               | 50.6     | 2.3            | 2.9           | ..         |
| Industry                                                                | % of TCE   |                               | 26.4      | 37.4     | 28.0                | 25.6     | 27.2     | 30.6     | 30.3     | 39.8     | 27.2       | 31.1     | 27.8      | 32.4    | 34.1     | 31.6            | 26.4        | 26.0        | 26.4     | 35.1      | 32.5      | 29.5     | 35.1              | 20.4     | 29.8           | 26.9          | ..         |
| Services                                                                | % of TCE   |                               | 67.8      | 54.5     | 69.3                | 69.8     | 67.1     | 59.6     | 62.9     | 56.1     | 46.2       | 58.5     | 56.8      | 57.7    | 58.0     | 65.0            | 68.8        | 63.6        | 67.1     | 44.2      | 53.1      | 66.7     | 59.2              | 29.0     | 68.0           | 70.2          | ..         |
| <b>Gross domestic product (GDP)</b>                                     |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| At current prices and current exchange rates                            | Bill US \$ | 1988                          | 247.0     | 127.2    | 150.0               | 484.6    | 107.6    | 105.3    | 949.9    | 1 201.8  | 52.5       | 5.9      | 32.5      | 828.9   | 2 848.9  | 6.6             | 228.3       | 41.8        | 89.4     | 41.7      | 340.1     | 181.8    | 183.7             | 70.7     | 822.8          | 4 817.8       | 62.8       |
| Per capita                                                              | US \$      |                               | 14 937    | 16 748   | 15 180              | 8 675    | 20 926   | 21 287   | 17 002   | 19 581   | 5 244      | 24 031   | 9 182     | 14 430  | 23 235   | 17 592          | 15 461      | 12 568      | 21 241   | 4 265     | 8 722     | 21 546   | 27 581            | 1 305    | 14 413         | 19 558        | 2 664      |
| At current prices using current PPP's <sup>3</sup>                      | Bill US \$ | 1988                          | 221.3     | 94.8     | 124.5               | 477.8    | 70.2     | 68.1     | 758.6    | 867.5    | 67.9       | 4.0      | 28.8      | 744.4   | 1 751.5  | 5.8             | 189.1       | 36.5        | 67.0     | 65.9      | 363.6     | 124.4    | 110.8             | 235.6    | 765.1          | 4 817.8       | ..         |
| Per capita                                                              | US \$      |                               | 13 383    | 12 482   | 12 599              | 8 413    | 13 655   | 13 772   | 13 577   | 14 134   | 6 786      | 16 087   | 8 131     | 12 960  | 14 285   | 15 528          | 12 807      | 10 972      | 15 916   | 6 737     | 9 325     | 14 743   | 16 641            | 4 348    | 13 402         | 19 558        | ..         |
| Average annual volume growth over previous 5 years                      | %          | 1988                          | 4.5       | 2.2      | 2.2                 | 4.7      | 2.3      | 3.5      | 2.2      | 2.5      | 2.1        | 4.4      | 3.0       | 3.0     | 4.5      | 4.1             | 2.3         | 1.8         | 3.4      | 2.7       | 3.6       | 2.7      | 2.7               | 6.0      | 3.6            | 4.4           | ..         |
| <b>Gross fixed capital formation (GFCF)</b>                             |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| of which: Machinery and equipment                                       | % of GDP   | 1988                          | 25.0      | 23.5     | 17.8                | 22.0     | 18.4     | 25.0     | 20.1     | 19.9     | 17.4       | 18.8     | 17.0      | 19.9    | 30.5     | 24.2            | 21.4        | 19.7        | 29.1     | 26.8      | 22.5      | 19.7     | 26.6              | 24.0     | 19.2           | 17.1          | 17.2       |
| Residential construction                                                | % of GDP   |                               | 12.1      | 9.9      | 8.0                 | 7.5      | 7.5      | 10.1     | 8.8      | 8.8      | 7.1        | 5.8      | 9.6       | 10.0    | 11.7     | 10.5            | 10.3        | 8.8         | 9.0      | 9.8 (86)  | 7.8 (87)  | 8.9      | 9.3               | 9.3 (85) | 9.3            | 7.9           | ..         |
| Average annual volume growth over previous 5 years                      | %          | 1988                          | 5.9       | 4.9      | 4.1                 | 7.3      | 4.2      | 6.5      | 5.2      | 5.2      | 4.7        | 4.0      | 3.7 (87)  | 5.0     | 6.3      | 4.4             | 5.7         | 4.3         | 5.0      | 4.8 (86)  | 4.1 (87)  | 4.8      | 17.3 <sup>9</sup> | 3.3 (85) | 4.0            | 4.8           | ..         |
|                                                                         | %          |                               | 6.1       | 3.8      | 5.4                 | 8.3      | 5.6      | 3.1      | 3.0      | 2.4      | -1.3       | 5.3      | -2.6      | 3.8     | 7.9      | 6.0             | 6.0         | 0.0         | 3.1      | 3.2       | 7.1       | 5.6      | 6.3               | 6.3      | 7.2            | 6.8           | ..         |
| <b>Gross saving ratio<sup>4</sup></b>                                   |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
|                                                                         | % of GDP   | 1988                          | 22.4      | 25.2     | 19.3                | 20.4     | 16.0     | 23.8     | 20.5     | 24.6     | 16.7       | 16.2     | 18.0      | 20.7    | 33.5     | 58.8            | 23.5        | 17.0        | 22.7     | 25.3      | 22.7      | 18.2     | 32.8              | 26.0     | 16.4           | 15.2          | ..         |
| <b>General government</b>                                               |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| Current expenditure on goods and services                               | % of GDP   | 1988                          | 17.4      | 18.4     | 15.3                | 18.8     | 25.8     | 20.2     | 18.6     | 19.5     | 20.6       | 18.6     | 16.7      | 17.2    | 9.4      | 17.0            | 15.7        | 17.1        | 21.0     | 16.0      | 14.3      | 26.0     | 12.8              | 8.8      | 19.9           | 18.3          | 14.2       |
| Current disbursements <sup>5</sup>                                      | % of GDP   | 1988                          | 32.0      | 45.8     | 49.0                | 41.7     | 57.3     | 35.9     | 46.9     | 43.1     | 45.7       | 30.5     | 50.0 (87) | 46.1    | 26.8     | 46.2 (86)       | 53.3        | ..          | 49.7     | 40.4 (86) | 36.1 (86) | 57.2     | 30.4              | ..       | 41.2 (87)      | 34.8          | ..         |
| Current receipts                                                        | % of GDP   | 1988                          | 34.3      | 46.8     | 44.3                | 40.4     | 59.5     | 40.3     | 47.1     | 43.7     | 35.1       | 35.7     | 43.8 (87) | 39.9    | 34.3     | 54.2 (86)       | 52.2        | ..          | 55.1     | 37.6 (86) | 35.0 (86) | 61.9     | 34.8              | ..       | 40.7 (87)      | 31.5          | ..         |
| <b>Net official development assistance</b>                              |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
|                                                                         | % of GNP   | 1988                          | 0.41      | 0.21     | 0.44                | 0.48     | 0.88     | 0.55     | 0.73     | 0.39     | ..         | 0.05     | 0.20      | 0.37    | 0.31     | 0.10            | 0.98        | 0.27        | 1.10     | 0.08      | 0.06      | 0.88     | 0.32              | ..       | 0.30           | 0.20          | ..         |
| <b>Indicators of living standards</b>                                   |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| Private consumption per capita using current PPP's                      | US \$      | 1988                          | 7 703     | 6 952    | 7 951               | 666      | 7 283    | 7 353    | 8 198    | 7 747    | 4 652      | 9 968    | 4 708     | 7 930   | 8 192    | 8 873           | 7 615       | 6 830       | 8 426    | 4 387     | 5 872     | 7 821    | 9 756             | 2 817    | 8 456          | 12 999        | 1 333*     |
| Passenger cars, per 1 000 inhabitants                                   | Number     | 1988                          | 497 (85)  | 370      | 349                 | 454 (86) | 321      | 344      | 394      | 457      | 130        | 488      | 201 (86)  | 408     | 241      | 443             | 348         | 490         | 388      | 135 (82)  | 263       | 400      | 419               | 18 (82)  | 318            | 559           | 121 (83)   |
| Telephones, per 1 000 inhabitants                                       | Number     | 1985                          | 540 (83)  | 460 (83) | 414 (83)            | 664      | 783      | 615      | 614      | 641 (86) | 373        | 525 (83) | 235 (83)  | 448     | 535 (83) | 425 (86)        | 410 (86)    | 646         | 622 (84) | 166 (83)  | 381       | 890 (83) | 1 334             | 55 (83)  | 521 (84)       | 650 (84)      | 122 (83)   |
| Television sets, per 1 000 inhabitants                                  | Number     | 1985                          | ..        | 300 (81) | 303 (84)            | 471 (80) | 392      | 370 (86) | 394 (86) | 377 (86) | 158 (80)   | 303      | 181 (80)  | 244     | 250 (80) | 336 (83)        | 317 (86)    | 291         | 346 (86) | 140 (80)  | 256 (82)  | 390      | 337               | 76 (79)  | 336 (84)       | 621 (80)      | 175 (83)   |
| Doctors, per 1 000 inhabitants                                          | Number     | 1985                          | ..        | 1.7 (82) | 2.8 (84)            | 1.8 (82) | 2.5 (84) | 2.3 (86) | 2.2 (86) | 2.8 (87) | 2.8 (83)   | 2.4 (84) | 1.3 (82)  | 3.6     | 1.3 (82) | 1.9 (86)        | 2.2 (84)    | 2.4         | 2.2      | 1.8 (82)  | 3.4 (86)  | 2.5      | 1.4 (84)          | 1.5 (83) | 0.5 (83)       | 2.0 (85)      | 1.6 (82)   |
| Infant mortality, per 1 000 live births                                 | Number     | 1985                          | 9.2 (84)  | 11.0     | 9.4                 | 9.1 (83) | 7.9      | 5.8 (86) | 7.0 (86) | 9.1      | 14.1       | 5.7      | 8.9       | 10.9    | 5.9 (84) | 9.0             | 9.6 (86)    | 10.8        | 8.5 (86) | 17.8      | 7.0 (84)  | 6.8      | 6.9               | ..       | 9.4            | 10.4 (86)     | 31.7 (83)  |
| <b>Wages and prices (average annual increase over previous 5 years)</b> |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| Wages (earnings or rates according to availability)                     | %          | 1988                          | 5.3       | 4.5      | 2.7                 | 3.8      | 6.0      | 7.9      | 4.8      | 3.8      | 17.2       | ..       | 6.4       | 7.9     | 2.9      | ..              | 2.0         | 8.9         | 9.4      | 16.4      | 9.3       | 8.0      | ..                | ..       | 8.4            | 2.8           | 96.5       |
| Consumer prices                                                         | %          | 1988                          | 7.1       | 2.8      | 3.0                 | 4.2      | 4.6      | 5.1      | 4.3      | 1.2      | 18.1       | 25.7     | 4.6       | 7.1     | 1.1      | 2.3             | 1.0         | 11.3        | 6.9      | 15.6      | 7.8       | 5.9      | 2.1               | 47.8     | 4.7            | 3.5           | 101.3      |
| <b>Foreign trade</b>                                                    |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| Exports of goods, fob*                                                  | Mill US \$ | 1988                          | 32 852    | 31 044   | 92 124 <sup>7</sup> | 600      | 27 108   | 22 176   | 167 508  | 323 244  | 5 484      | 1 416    | 18 576    | 128 484 | 264 864  | .. <sup>8</sup> | 103 056     | 8 784       | 22 452   | 10 476    | 40 236    | 49 764   | 50 448            | 11 604   | 144 540        | 322 428       | 12 598     |
| As % of GDP                                                             | %          |                               | 13.3      | 24.4     | 58.8                | 23.0     | 25.2     | 21.1     | 17.6     | 26.9     | 10.4       | 23.8     | 57.2      | 15.5    | 9.3      | ..              | 45.1        | 21.0        | 25.1     | 25.1      | 11.8      | 27.4     | 27.5              | 16.4     | 17.6           | 6.7           | 20.0       |
| Average annual increase over previous 5 years                           | %          |                               | 10.3      | 15.0     | 12.1                | 8.7      | 11.0     | 12.1     | 12.0     | 13.8     | 6.6        | 13.7     | 16.6      | 12.1    | 12.5     | ..              | 9.8         | 10.2        | 4.6      | 18.0      | 15.3      | 12.6     | 14.5              | 15.2     | 9.5            | 9.9           | 9.5        |
| Imports of goods, cif*                                                  | Mill US \$ | 1988                          | 33 276    | 36 564   | 92 436 <sup>7</sup> | 512      | 25 920   | 21 972   | 173 016  | 250 332  | 12 408     | 1 584    | 15 444    | 138 588 | 187 668  | ..              | 99 288      | 7 320       | 23 088   | 15 744    | 60 432    | 45 792   | 56 388            | 14 412   | 189 012        | 440 952       | 13 154     |
| As % of GDP                                                             | %          |                               | 13.4      | 28.7     | 59.0                | 22.0     | 24.1     | 20.9     | 18.2     | 20.8     | 23.6       | 26.7     | 47.5      | 16.7    | 6.6      | ..              | 43.5        | 17.5        | 25.8     | 37.8      | 17.8      | 25.2     | 30.7              | 20.4     | 23.0           | 9.2           | 21.0       |
| Average annual increase over previous 5 years                           | %          |                               | 12.4      | 13.5     | 10.8                | 11.6     | 9.7      | 11.3     | 11.3     | 10.4     | 7.6        | 14.1     | 11.0      | 11.5    | 8.3      | ..              | 10.4        | 6.5         | 11.4     | 14.2      | 15.8      | 11.9     | 14.1              | 8.9      | 13.7           | 11.3          | 6.0        |
| <b>Total official reserves<sup>6</sup></b>                              |            |                               |           |          |                     |          |          |          |          |          |            |          |           |         |          |                 |             |             |          |           |           |          |                   |          |                |               |            |
| As ratio of average monthly imports of goods                            | ratio      | 1988                          | 10 105    | 5 475    | 6 935 <sup>7</sup>  | 437      | 8 000    | 4 733    | 18 849   | 43 486   | 2 690      | 216      | 3 780     | 25 798  | 71 879   | ..              | 11 945      | 2 132       | 9 510    | 3 810     | 27 550    | 6 310    | 17 985            | 1 758    | 32 773         | 27 305        | 1 774      |
|                                                                         |            |                               | 3.6       | 1.8      | 0.9                 | 1.3      | 3.7      | 2.6      | 1.3      | 2.1      | 2.6        | 1.6      | 2.9       | 2.2     | 4.6      | ..              | 1.4         | 3.5         | 4.9      | 2.9       | 5.5       | 1.7      | 3.8               | 1.5      | 2.1            | 0.7           | 1.6        |

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### ***Economics and Statistics Department, OECD***

The Economics and Statistics Department of the OECD offers challenging and rewarding opportunities to economists interested in applied policy analysis in an international environment. The Department's concerns extend across the entire field of economic policy analysis, both macroeconomic and microeconomic, and it is also responsible for the collection, processing and dissemination of a wide range of internationally consistent statistics. On the economic side, its main task is to provide, for discussion by committees of senior officials from Member countries, documents and papers dealing with current policy concerns. Within this programme of work, three major responsibilities are:

- To prepare regular surveys of the economies of individual Member countries;
- To issue full twice-yearly reviews of the economic situation and prospects of the OECD countries in the context of world economic trends;
- To analyse specific policy issues in a medium-term context for the OECD as a whole, and to a lesser extent for the non-OECD countries.

The documents prepared for these purposes, together with much of the Department's other economic work and its statistical output, appear in published form in the *OECD Economic Outlook*, *OECD Economic Surveys*, *OECD Economic Studies*, the Department's *Working Papers* series, and an extensive list of statistical publications.

The Department maintains a world econometric model, INTERLINK, which plays an important role in the preparation of the policy analyses and twice-yearly projections. The availability of extensive cross-country data bases and good computer resources facilitates comparative empirical analysis, much of which is incorporated into the model.

The Department is made up of about 100 professional economists and statisticians from a variety of backgrounds from all Member countries. Most projects are done by small teams and last from four to eighteen months. Within the Department, ideas and points of view are widely discussed; there is a lively professional interchange; and all professional staff have the opportunity to contribute actively to the programme of work.

### **Skills ESD is looking for:**

- a) Solid competence in using the tools of both microeconomic and macroeconomic theory to answer policy questions. In our experience this requires the equivalent of a PhD in economics or substantial relevant professional experience to compensate for a lower degree.
- b) Solid knowledge of economic statistics and quantitative methods; this includes how to identify data, estimate structural relationships, apply and interpret basic techniques of time series analysis, and test hypotheses. It is essential to be able to interpret results sensibly in an economic policy context.
- c) A keen interest in and knowledge of policy issues, economic developments and their political/social contexts.

- d) Interest and experience in analysing questions posed by policy-makers and presenting the results to them effectively and judiciously. Thus, work experience in government agencies or policy research institutions is an advantage.
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