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# OECD ECONOMIC SURVEYS

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**FRANCE**

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## **ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT**

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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)               | 56 420 | Total labour force (1990, thousands) | 24 479 |
| Number of inhabitants per sq.km                | 103    |                                      |        |
| Total increase in population, 1990 (thousands) | 260    |                                      |        |

### PRODUCTION

|                                                                       |        |                                                                |       |
|-----------------------------------------------------------------------|--------|----------------------------------------------------------------|-------|
| Gross domestic product at market prices, in 1991 (billions of francs) | 6766.5 | Origin of the gross domestic product, at market prices (1991): |       |
| Gross domestic product per head (US dollars) in 1991                  | 21 268 | Agriculture                                                    | 3.2   |
| Gross fixed investment (1991):                                        |        | Industry                                                       | 24.4  |
| — Per cent of GDP                                                     | 20.8   | Construction                                                   | 5.5   |
| — Per head (US dollars)                                               | 4 420  | Services                                                       | 66.9  |
|                                                                       |        | Total                                                          | 100.0 |

### GENERAL GOVERNMENT

(ESNA concepts)

|                                                    |      |
|----------------------------------------------------|------|
| Current expenditure in 1991 (per cent of GDP)      | 46.7 |
| Current revenue in 1991 (per cent of GDP)          | 48.1 |
| Current fixed investment in 1991 (per cent of GDP) | 3.4  |

### FOREIGN TRADE

|                                                              |      |                                                              |      |
|--------------------------------------------------------------|------|--------------------------------------------------------------|------|
| Exports of goods and services, as a percentage of GDP (1991) | 22.7 | Imports of goods and services, as a percentage of GDP (1991) | 22.3 |
| Main exports as a percentage of total exports, 1991 (SITC):  |      | Main imports as a percentage of total imports, 1991 (SITC):  |      |
| Food, beverages and tobacco (0 + 1)                          | 14.7 | Food, beverages and tobacco (0 + 1)                          | 9.9  |
| Machinery and transport equipment (7)                        | 39.0 | Machinery and transport equipment (7)                        | 34.7 |
| Iron and steel products (67 + 68)                            | 5.8  | Iron and steel products (67 + 68)                            | 5.4  |
| Chemical products (5)                                        | 13.5 | Chemical products (5)                                        | 10.5 |
| Textile products (65)                                        | 2.9  | Mineral fuels, lubricants and related materials (3)          | 9.7  |

### THE CURRENCY

|                          |                                                     |        |
|--------------------------|-----------------------------------------------------|--------|
| Monetary unit: the franc | Currency units per US \$, average of daily figures: |        |
|                          | Year 1991                                           | 5.6408 |
|                          | April 1992                                          | 5.5740 |

*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 April 1992.*

•

*After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 21st May 1992.*

•

*The previous Survey of France was issued in May 1991.*

## Introduction

The French economy has experienced a difficult spell of slow output growth and rising unemployment since the crisis in the Persian Gulf and the recessions experienced by a number of partner countries put an end to the previous period of strong expansion. Real output growth has declined from  $2\frac{1}{4}$  per cent in 1990 to  $1\frac{1}{4}$  per cent in 1991, and, although employment expanded slightly, the unemployment rate has moved up about a percentage point, nearly reaching the psychological threshold of 10 per cent. All major sectors have witnessed a slowdown, and consumer and business confidence have been shaken.

The unemployment problem apart, however, the economic fundamentals are in good shape. France suffers from no major disequilibrium which could prevent a recovery from taking place in the near future. The household sector is not unduly indebted by international standards. Firms have weathered the phase of stagnating demand with a much smaller loss of profitability than occurred earlier in the 1980s, liquidity is adequate, and balance sheets appear to be healthy overall. While inflation has remained stable, competitiveness continues to improve, as increases in wages and prices have been kept below rates in most other countries. The result has been a fairly marked recovery in export performance and a reduction in the deficits on both the merchandise-trade and current accounts. With the conjunctural slowdown the general-government deficit has widened, but the deterioration has been held to a tolerable range and should be reversible in the course of the recovery.

While the exact timing of the recovery is uncertain, the Secretariat projections show a gradual acceleration in activity over the next year and a half, with real GDP increasing by 2 per cent in 1992 and  $2\frac{1}{2}$  per cent in 1993, a  $\frac{1}{2}$  percentage point more than the average of the major European countries. This should be sufficient to return the unemployment rate to a downward path later this year. Activity is expected to be sustained by export growth as recovery takes hold in

North America, and French producers retake market shares, given their improved competitiveness. Domestic demand should strengthen steadily. There is room for lower saving rates to sustain consumption until the pace of employment increases picks up. Then the investment correction should come to an end, following a resumption of interest-rate declines and a bottoming-out of capacity utilisation. Wage increases should continue to shrink in both real and nominal terms, and consumer price increases could ease to the 2½ per cent range by the end of 1993. The public deficit may continue to rise for a time, given the delayed impact of the turnaround on fiscal revenues.

The Survey begins with an analysis of the performance of the economy over the past year or so. In Part II, the current stance of macroeconomic policies is described, certain structural policy changes are reviewed, and the prospects for the economy until end-1993 are presented. Part III focuses on France's chronic unemployment problem; it describes its key features and goes on to enumerate some of its causes and the authorities' policy reactions. The education and training system is the subject matter of Part IV; in particular, the question of its capacity to respond to structural changes is broached. Finally, conclusions are given in Part V.

## **I. Recent trends**

### **A slowdown in growth**

Domestic demand growth slowed sharply after the invasion of Kuwait, increasing only 1 per cent in 1991, compared with an average of  $3\frac{3}{4}$  per cent over the previous five years (Table 1). All components of private demand weakened, the fall affecting particularly business investment (down by 3 per cent between the third-quarter peak in 1990 and the end of 1991) and also, significantly, household expenditure (see below). But both public consumption and investment picked up, despite the freezing of some budgetary spending. Inventory movements were fairly erratic during the year, but their average contribution to growth was slightly negative, as entrepreneurs sought to run down stocks in response to heightened uncertainty. On the other hand, foreign trade gave a substantial boost to activity in 1991, the slackening of foreign demand being offset partly by market-share gains, while, in line with the slowdown of domestic demand, import growth was more than halved.

Increases in activity were fairly uneven: after being flat at the close of 1990 and during the first quarter of 1991 on account of the Gulf crisis, the economy started to catch up during the second and third quarters but did not truly recover, as attested by the fact that growth came to a halt again during the fourth quarter. All told, GDP growth was only  $1\frac{1}{4}$  per cent, the same as the EC average. Industrial output fluctuated even more widely, but by the end of 1991 it had not yet returned to its level of the third quarter of 1990. However, during the year some sectors did pick up, especially consumer goods and cars, supply having responded to increased foreign demand, mainly from Germany. It would seem that German reunification continued to contribute positively to growth in 1991, despite the rise in interest rates following the tightening of German monetary policy, adding about 1 point directly to GDP, twice the 1990 amount. But when

**Table 1. Recent trend of activity**

Percentage changes, seasonally adjusted at annual rates, 1980 prices

|                             | 1990 | 1991 | 1991 |      |      |      |
|-----------------------------|------|------|------|------|------|------|
|                             |      |      | Q1   | Q2   | Q3   | Q4   |
| <b>Supply</b>               |      |      |      |      |      |      |
| GDP                         | 2.2  | 1.3  | 0.4  | 1.2  | 1.6  | 1.8  |
| Imports                     | 6.5  | 2.8  | 3.8  | 2.5  | 3.8  | 1.2  |
| Industrial production       | 1.9  | 0.3  | 0.6  | -0.3 | -0.1 | 0.9  |
| Retail sales: major outlets | 0.6  | -0.3 | 0.7  | -1.1 | 1.0  | -0.2 |
| <b>Demand</b>               |      |      |      |      |      |      |
| Private consumption         | 2.9  | 1.5  | 1.4  | 1.1  | 1.6  | 2.1  |
| Government consumption      | 1.9  | 3.2  | 2.6  | 3.6  | 3.5  | 2.9  |
| Fixed investment            | 2.9  | -0.6 | -0.5 | -0.5 | -0.6 | -0.7 |
| General government          | 3.9  | 5.0  | 4.0  | 6.5  | 5.3  | 4.1  |
| Households                  | -0.6 | -1.2 | -2.4 | -4.2 | 0.6  | 1.5  |
| Other                       | 4.3  | -1.9 | -0.9 | -0.7 | -2.8 | -3.0 |
| Final domestic demand       | 2.7  | 1.3  | 1.1  | 1.2  | 1.4  | 1.6  |
| Stockbuilding <sup>1</sup>  | -0.1 | 0.3  | 0.4  | -0.6 | -0.5 | -0.7 |
| Total domestic demand       | 2.6  | 1.0  | 1.6  | 0.6  | 0.9  | 0.9  |
| Exports                     | 5.5  | 4.0  | -0.6 | 5.0  | 6.8  | 4.9  |
| <b>Labour market</b>        |      |      |      |      |      |      |
| Unemployment rate           | 8.9  | 9.4  | 9.0  | 9.3  | 9.6  | 9.8  |
| Employment                  | 1.0  | 0.4  | ..   | ..   | ..   | ..   |
| <i>Memorandum items:</i>    |      |      |      |      |      |      |
| GDP                         |      |      |      |      |      |      |
| Germany                     | 4.5  | 3.1  | 5.3  | 4.5  | 2.0  | 0.9  |
| Italy                       | 2.2  | 1.4  | 1.4  | 1.8  | 1.1  | 1.5  |
| United Kingdom              | 1.0  | -2.2 | -2.1 | -3.4 | -2.1 | -1.2 |

1. Contribution to GDP growth.

Source: OECD, *Quarterly National Accounts* and estimates.

its negative effect on European competitiveness resulting from effective exchange-rate appreciation is taken into account, the net effect was probably only  $\frac{3}{4}$  of a point (Harasty and Le Dem, 1992).

Available indicators suggest that the trough of the cycle was passed at the end of 1991 but do not point to a strong pick-up of activity. Industrial production in January-February averaged 2 per cent higher (at annual rates) than in the previous quarter. According to monthly surveys, industrial orders, particularly from abroad have improved marginally, and the outlook for production is slightly

brighter. Stocks of finished products, while still considered to be above normal, have eased somewhat. Retail trade surveys indicate that sales began to recover at the beginning of the year, while households' consumption of manufactures picked up strongly in January and February, and registrations of new cars, which had fallen by 12 per cent in 1991, were slightly higher than year-earlier levels during the first quarter of 1992. In contrast, order books in the building industry continued to shorten, and the latest quarterly survey of the services sector indicates that the slowdown was continuing during the early months of 1992.

### **Has personal consumption behaviour changed?**

Real disposable income growth slowed appreciably from  $4\frac{1}{2}$  in the year to mid-1990 to 2 per cent. The effects of employers' workforce adjustments to the slowdown in activity have weighed heavily on the wage bill since end-1989. At the same time, the increase in property and entrepreneurial income has fallen by more than half (Table 2), the slowdown being particularly marked as of early 1991, in line with the weakening in profits. Also in 1991, the tax burden was boosted with the rise in the health-insurance contribution rate in the second half (see Part II).

Household consumption dipped even more sharply than did incomes. Whereas it had been growing at an annual rate of nearly  $3\frac{1}{2}$  per cent since the end of 1984, private consumption slowed abruptly in the second half of 1990, coinciding with the Gulf crisis, and rose at an annual rate of no more than  $1\frac{1}{4}$  per cent through to mid-1991. Since mid-1990, consumption has been bolstered by energy spending, because of the severe winter of 1990-91, and, to a lesser extent, by services demand. On the other hand, purchases of manufactures, particularly durables, fell, in line with the end of the motor vehicle cycle and the sluggishness of residential construction. The household saving rate rose by nearly a full point from the first half of 1990 to the first half of 1991. Although private consumption picked up after the middle of 1991, notably as a result of the upturn in purchases of durables other than automobiles, the saving rate did not fall back to its pre-Gulf-crisis level.

Household behaviour since mid-1990 has, at first sight, been very different to that of the 1970s and 1980s, when consumption was more impervious to changes in income<sup>1</sup>. At this stage, however, it is difficult to gauge whether the

Table 2. **Households' appropriation account**

Percentage changes

|                                                    | 1987<br>FF billion | 1987 | 1988 | 1989 | 1990 | 1991 |
|----------------------------------------------------|--------------------|------|------|------|------|------|
| Compensation of employees                          | 2 816.6            | 4.3  | 5.5  | 6.5  | 6.6  | 5.1  |
| Income from property and other sources             | 1 259.7            | 5.4  | 5.7  | 13.5 | 6.4  | 4.6  |
| Current transfers received                         | 1 276.7            | 3.8  | 7.4  | 5.8  | 5.2  | 7.9  |
| Total income                                       | 5 176.8            | 4.4  | 5.8  | 7.7  | 6.5  | 5.9  |
| Less:                                              |                    |      |      |      |      |      |
| Direct taxes                                       | 347.0              | 4.6  | 0.4  | 5.7  | 6.1  | 18.0 |
| Current transfers paid                             | 1 200.7            | 6.5  | 6.3  | 8.2  | 6.2  | 4.3  |
| Disposable income                                  | 3 629.1            | 3.7  | 6.2  | 7.7  | 6.6  | 5.3  |
| Private consumption                                | 3 235.6            | 6.1  | 6.0  | 6.9  | 6.0  | 4.7  |
| Real disposable income                             |                    | 0.5  | 3.4  | 4.1  | 3.5  | 2.1  |
| Savings ratio (as percentage of disposable income) |                    | 10.8 | 11.0 | 11.7 | 12.2 | 12.7 |
| Of which:                                          |                    |      |      |      |      |      |
| Financial saving                                   |                    | 1.6  | 2.0  | 2.1  | 2.9  | 3.8  |
| Non-financial saving                               |                    | 9.2  | 9.0  | 9.6  | 9.3  | 8.9  |

Source: OECD, National Accounts and estimates.

increased propensity to save will prove a lasting phenomenon. The fall-off in consumption after a long period of growth may be attributed to a number of factors. The slowdown in real income increases caused by higher oil prices was only temporary; however, the Gulf crisis did reveal households' doubts about job security and their future financial situation and prompted a stock-market reversal which led to a partly temporary rise in precautionary saving. High real borrowing rates (see Part II) probably reduced households' desired level of debt: witness the sharp slowdown in effective interest payments since early 1989. In addition, the decline in lending to households may have boosted the saving rate. Also, with the easing of inflation, households have the advantage of attractive real interest rates on their financial investments, the incentives to save being all the greater in that new financial products have become available which are easy to manage and which benefit from tax concessions (short-term mutual funds and *Plans d'épargne populaire*, for example). The financial saving rate having again risen appreciably in 1990 and 1991, it would seem that households opted in favour of this type of investment. Finally, wealth effects, stemming from the incipient

reduction in real estate prices after the 1990 peak, may also have had a positive impact on saving.

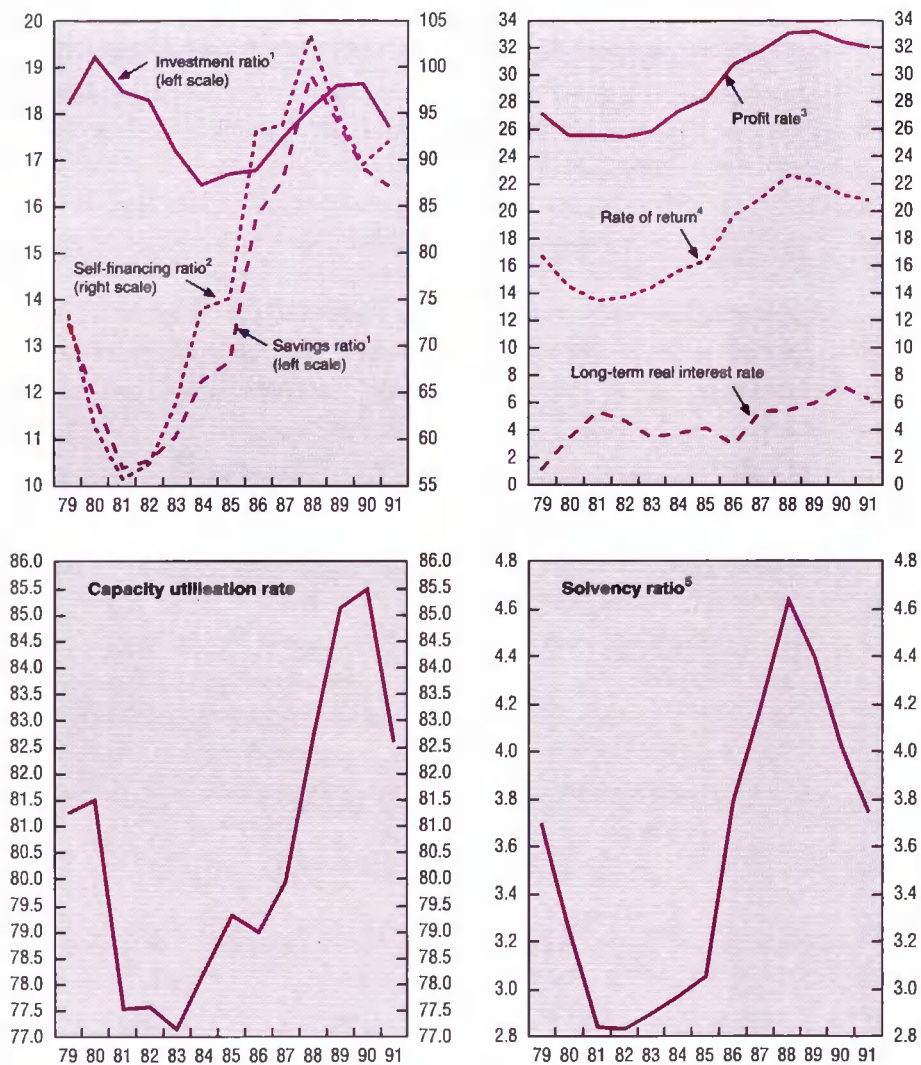
The non-financial saving rate, which is related to residential investment, fell by over  $\frac{1}{4}$  point in 1991, slightly more than it did in 1990. High real interest rates continue to curb housing construction, and starts were down to some 300 000 last year (-2 per cent on 1990). This trend was mainly attributable to single-family housing, which continued the decline that began in 1980 as a result of sociological changes in families (for example, higher divorce rates and a further fall in the fertility rate). After being depressed for a year, the volume of residential investment picked up during the summer, due to the usual lags, in part because of substantial major maintenance on the public-housing stock, so that, in all, it fell by only 1.2 per cent in 1991. Activity in the construction sector was supported by strong growth in public works and by buoyancy in non-residential construction and maintenance.

## **Business finances and investment**

Having improved appreciably after 1982-83, business finances began to deteriorate in late 1989 but seem to have stabilised in 1991 (Diagram 1). In annual average terms, however, the profit rate of the business sector as a whole fell in 1990 and 1991 under the combined effects of continuing big wage increases in 1990, the slowdown in productivity gains and the efforts firms made last year, particularly in manufacturing, to meet the competition from dollar-area products. To the decline in the profit rate was added the sharp rise in net dividend payments in 1990 and the steep increase in financial costs, the share of net interest payments representing 8.6 per cent of value added in 1991, compared with 8.1 per cent in 1990 and 7.6 per cent in 1989. The reduction in business saving seems, however, to have been less substantial in 1991, with the slowdown in borrowing, and also the reduced growth of dividends linked to the relatively low level of profits in 1990 and the fall in the tax rate on retained earnings. The decline in business investment in 1991 curbed the growth of firms' indebtedness, thereby also contributing to the limited increase in interest payments. Rates of return, both economic and financial<sup>2</sup>, also turned down. Yet the fact remains that, over the long term, the deterioration in the profitability ratios in 1990-91 only partially reversed the improvement of the preceding years, and their levels

Diagram 1. **BUSINESS INVESTMENT AND ITS DETERMINANTS**

Percentages



1. As a percentage of value added.

2. Savings ratio/investment ratio.

3. Gross operating surplus as a percentage of value added.

4. Gross operating surplus less net interest and current taxes as a percentage of value added.

5. Gross operating surplus/interest payments.

Sources: INSEE, *Comptes de la Nation*, 1990 and *Note de conjoncture de l'INSEE*, March 1992.

remain close to the 1970-73 and 1988-89 peaks. The business solvency ratio, that is the extent to which profits cover debt interest payments, has fallen substantially since 1988 but is still at quite a healthy level, since it is above the generally accepted minimum of three (Conseil National du Cr dit, 1991).

Although business profits remain generally satisfactory, firms nevertheless reacted very promptly to the decline in their margins and the easing of pressure on capacity. Accordingly, business fixed investment, in decline since autumn 1990, fell by 2 per cent in volume terms in 1991. Whereas the rapid rise in capacity utilisation was matched in 1987-90 by an increase in the average length of utilisation of capital, it would seem that business decisions in 1991 were dominated by market weakness. Indebtedness and the mediocre profit outlook also played a role. The still very high level of interest rates is a serious obstacle to investment. In the October 1991 survey, 46 per cent of businessmen in industry quoted interest rates as a factor restricting or severely restricting investment, compared with 27 per cent two years earlier. However, many studies suggest that the interest-rate elasticity of investment is relatively low in France. While it is true that the fall in investment must be looked at in comparison with the steep 1984-90 upturn, the fact remains that the average growth rate of the capital stock has been relatively low, about 2½ per cent, and doubtlessly insufficient to absorb the potential labour supply (see Part III).

It was in industry that the 1991 adjustment was the most marked. With the turnaround in demand expectations in mid-1990, which was abrupt because it had lagged behind the underlying trends, industrial investment switched from 11 per cent growth in 1990 to a 9 per cent decline in 1991. In autumn 1991, with expectations very unfavourable even though the business situation seemed to have stopped deteriorating, businessmen were still reluctant to invest. The sluggishness of demand meant that investment in the capital goods sector was the hardest hit, falling by some 17 per cent. However, volume growth of investment by the *Grandes Entreprises Nationales* picked up to 6 per cent in 1991, as against 3.2 per cent in 1990, the renewal of Air France's fleet of aircraft and the extension of the TGV network both contributing to this trend. In the private sector, large enterprises fared better than SMEs which had to contend with increased financial costs. The aim of the government's recently launched SME support plan (see Part II) is to bolster their investment.

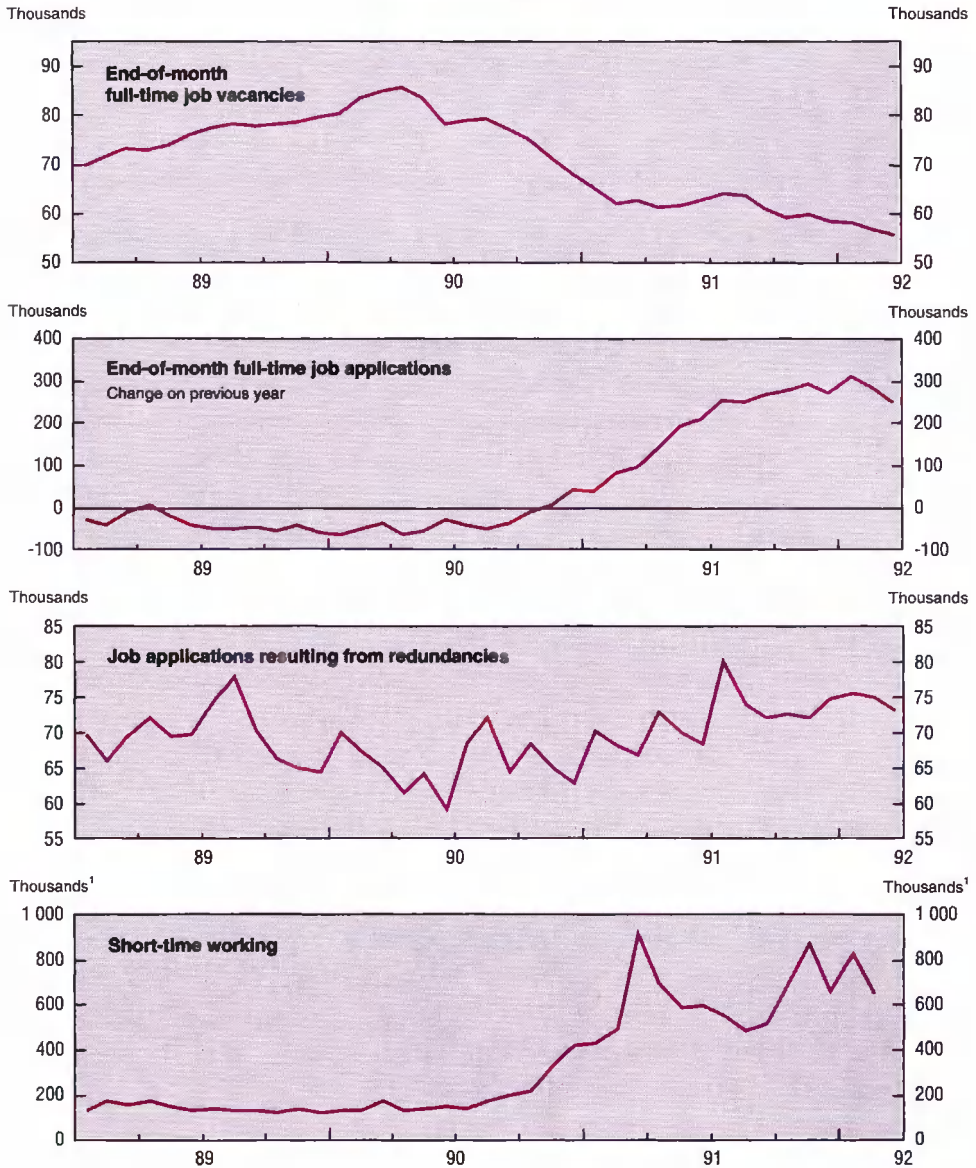
In addition to cutting back on physical investment, firms also reduced their financial investment in 1991. They began by trimming their liquidity and mutual-fund investments (by 40 per cent in 1990 and then about 30 per cent in 1991). Then, in response to their worsening financial situation, and also perhaps because the rate of capital gains tax was raised from 25 to 34 per cent as of July 1991, they lowered their financial investments which fell from 7.4 per cent of value added in 1990 to about 6 per cent in 1991. They also relied heavily on bank lending, the outstanding stock of which climbed by 17.4 per cent in 1990 and nearly 15 per cent in 1991. 1991 saw a small upturn in disintermediated financing, largely because of share issues by large enterprises. After falling steadily from 1985 onwards, the ratio of debt to equity capital of the business sector rose in 1990 to 41½ per cent.

### **Renewed labour-market deterioration**

Given the slowdown in output growth, it is not surprising that 1991 was marked by stagnant levels of employment and rising joblessness. While data are as yet provisional, with a massive increase in the number of employees on a shortened work week (Diagram 2), overall employment seems to have risen 0.4 per cent during the year, following a rise of 1 per cent in 1990. In the non-farm business sector some 30 000 jobs were created, but this was only one-fifth of the pace of the preceding year. The weakness was especially pronounced in the manufacturing sector where there was a belated productivity correction and a 2 per cent decline in the number of salaried employees. The pace of job creation in the private services sector continued to moderate, reaching some 1½ per cent. However, increases in employment in other services picked up to a 1¾ per cent rate, aided by a rapid expansion in the number of jobs created under the *contrats emploi-solidarité* programme. Based on non-farm business sector data, there was an apparent easing in the deterioration as of the summer, and employment levels rose in the second half of the year. In the light of productivity developments in recent years the real growth rate necessary to stabilise employment may be in the 2 per cent range.

The share of employment in non-traditional forms (*emploi précaire*) fell in 1991 as it did in 1990; it remains below that observed in other European nations, especially for part-time employment, demand for which is reduced by France's

Diagram 2. **LABOUR-MARKET DEVELOPMENTS**  
Seasonally adjusted data



1. Number of days for which compensation was paid.

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

extensive pre-primary education. Other components played their usual buffering role. The number of agency-temporary contracts reached a new peak in 1990 of some 7½ million (340 000 full-time equivalents, nearly 1¾ per cent of total labour inputs). After some decline in the latter part of that year and in the first half of 1991, there followed a rebound in the summer along with the modest recovery in overall employment. Similarly, the rate of new hires on fixed-term contracts continued to fall through the first semester, with a rebound in evidence by the summer.

The **standardised** unemployment rate rose by nearly a full point during 1991, reaching 9.8 per cent by year end. The increase represented some 235 000 additional jobless. All age/sex groups experienced rising rates, although young women and those over 50 faced the least deterioration. Almost 300 000 additional people were **registered** as unemployed by December (an increase of 11.7 per cent), bringing the estimated level of the gap between the two measures to 420 000<sup>3</sup>. The largest rises in unemployment during the year were those at the top of the spectrum of professional qualifications (the rate for managers jumping by one-third and that for technicians by over one-quarter), with only modest increases for unqualified manual workers. To some extent this can be explained by the economy's cyclical position, as the industrial sector – employer of relatively high-skilled labour – has fared especially poorly. Lay-offs became a steadily more common reason for entry into unemployment in the course of 1991, with an average increase of about 8 per cent for the year but a December figure up 23 per cent from a year earlier. While there was some improvement during the first part of the year in the average spell duration, the trend soon reversed, and those (registered) unemployed out of work for more than a year rose by nearly 14 per cent through the year, with the share reaching 30.6 per cent (nearly 900 000) by year-end. Unfilled vacancies registered at the national employment agency (ANPE) continued to shrink since the early 1990 peak, although the rate of decline has slowed. The average share of all those unemployed at the end of each month who exited from the rolls during the subsequent month fell from 11½ per cent in 1990 to 10½ per cent in 1991.

The labour force is rather poorly measured in the short term<sup>4</sup>. But with employment slightly higher and unemployment rising strongly, the implied increase through the year is over a quarter of a million (1¼ per cent), a surprisingly high figure. If this is borne out, it would indicate a reversal of recent trends

in participation rates: annual working-age population increases in the 1980s averaged only 165 000, with a decline to 120 000 expected in the early 1990s. Even though immigration has traditionally provided an annual supplement of some 25 000 working-age people, overall manpower increases, abstracting from changes in participation, should have declined from about 190 000 to about 150 000 per year. In recent years recorded labour force gains have been far less than these figures, albeit on a rising trend. Thus, participation rates may have switched from annual declines of several tenths of a percentage point, focused entirely on men, early in the 1980s, to a stabilisation late in the decade and even to a rise of a similar magnitude in 1991. This would be contrary to the usual procyclical nature of participation and remains difficult to explain<sup>5</sup>. However, statistical uncertainties regarding the rate of job creation as well as the increase in (standardised) unemployment are of such importance that any appreciation of the change in the participation rate in 1991 is possibly premature.

### **Low but sticky inflation**

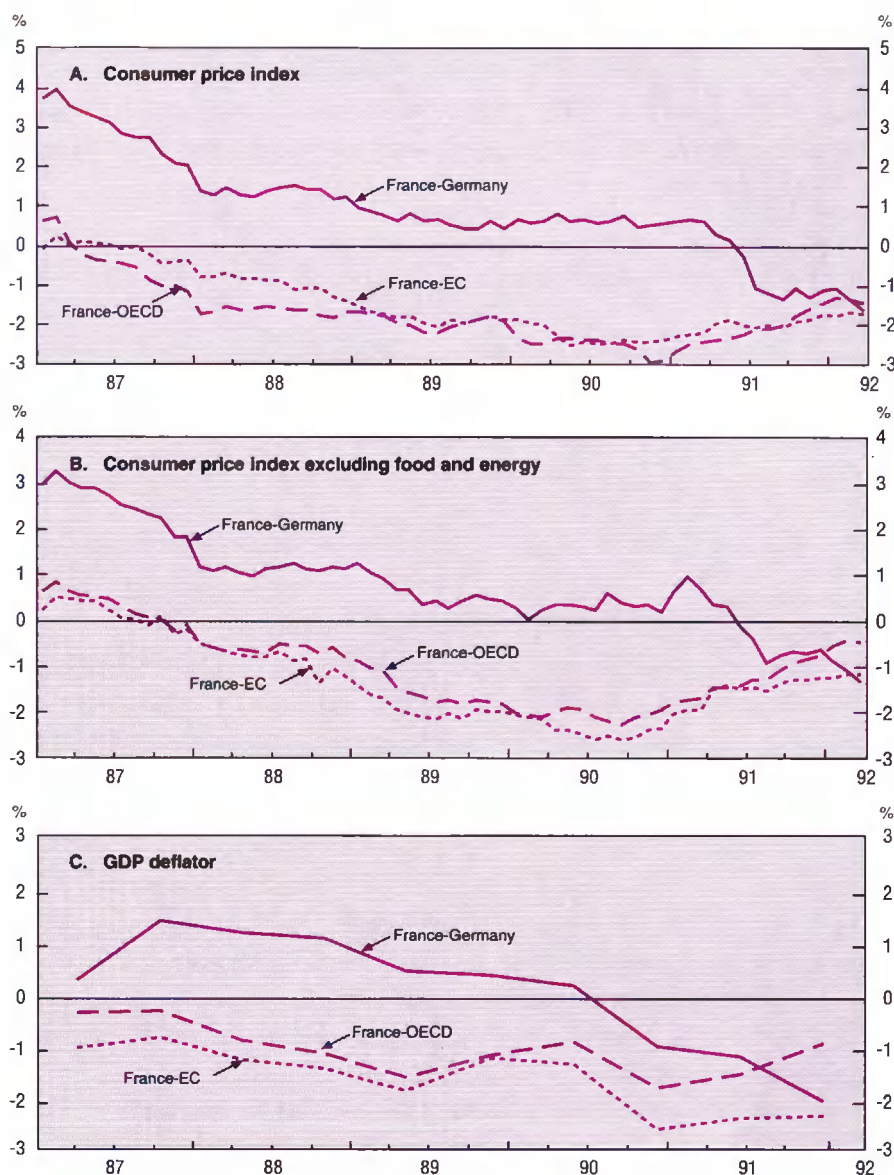
While the pace of cost increases tended to ease slightly in 1991, measures of price inflation showed few signs of further decline, thereby leading to the improved margins referred to above. Unit cost growth for non-financial businesses fell to 2.2 per cent in 1991, compared to a 1990 average of 2.5 per cent. Under the influence of weakening labour-market conditions hourly wages stopped accelerating and receded to the 4½ per cent range, about a percentage point less than in 1990 and similar to mid-1989 outcomes. However, in the construction sector, wage gains were still near 8 per cent due to continuing shortages of specialised labour and the effect of the upgrading of the salary grid in May<sup>6</sup>. The pattern of hourly productivity growth has been quite volatile, but has continued to fall in line with the business cycle, despite the labour shedding described above. Unit-labour-cost increases were held to 2.5 per cent (1¼ per cent within the year), compared to 3.7 per cent in 1990. Cost pressures were also mitigated by slowing intermediate input prices which rose at only a 1 per cent rate, analogous to the increase recorded the previous year<sup>7</sup>. Similarly, the rate of increase in interest charges per unit of output eased, especially late in the year, due to a slowdown in debt accumulation and small declines in rates.

Increases in base wages in the public sector in 1991 averaged 2.1 per cent of which 1.5 percentage points resulted from a carry-over from 1990. In October, a wage agreement was reached under which increases of 1.1 per cent, retroactive to August, and a further 1.0 per cent in November were granted. As in 1990, significant specific measures were put into effect in 1991 (worth 1.7 per cent). Overall, including individual measures such as bonuses, average wages per employee increased by 4.7 per cent. The autumn-1991 wage agreement calls for rises in base wages in 1992 of 1.3 per cent in February and 1.4 per cent in November. Given carry-over effects, this would yield an average boost to base wages of 3.2 per cent. While specific measures should slow slightly (to 1.4 per cent), they remain substantial, and the average wage per head should go up by 5.3 per cent.

Consumer price increases remained broadly unchanged at 3.2 per cent on average in 1991 (compared to 3.4 per cent in 1990). Both food and energy prices contributed to restraining the overall increase, recording changes of 3.0 and 2.1 per cent, respectively, after 4.4 and 4.6 per cent in 1990. Accordingly, underlying consumer price inflation, including VAT changes picked up to  $3\frac{1}{2}$  per cent by the end of 1991 after an average of 2.7 per cent in 1990. Three components led the way: first, increases for private manufactures moved up from 2 to nearly 3 per cent during the year due to the evolution of VAT rate changes<sup>8</sup>. Second, rents accelerated from  $4\frac{1}{2}$  to  $5\frac{1}{4}$  per cent during the year, in part due to the aforementioned faster pace of construction cost increases. Third, public tariffs were raised by  $3\frac{1}{2}$  per cent through the year compared to only 1 per cent during 1990, in part due to the first in a series of administered tobacco price increases (5 per cent effective 30 September, worth nearly 0.1 point on the aggregate index). Other components moderated the overall consumer-price acceleration: for example, private services prices rose 4.8 per cent during the year, down from 5.4 per cent. The rate of change of the aggregate GDP deflator remains in the 3 per cent range (where it has been since the second half of 1986), higher than the inflation rate of production prices (near 2 per cent) because of the declining price of intermediate inputs.

While France was maintaining roughly stable rates of price increase, some of its trading partners have experienced rising inflation. Indeed, in June 1991 the gap between France's and Germany's rates of consumer price inflation finally tipped in favour of France (Diagram 3, Panel A), and since then the gap has been

Diagram 3. **INFLATION DIFFERENTIALS**  
Year-on-year percentage



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

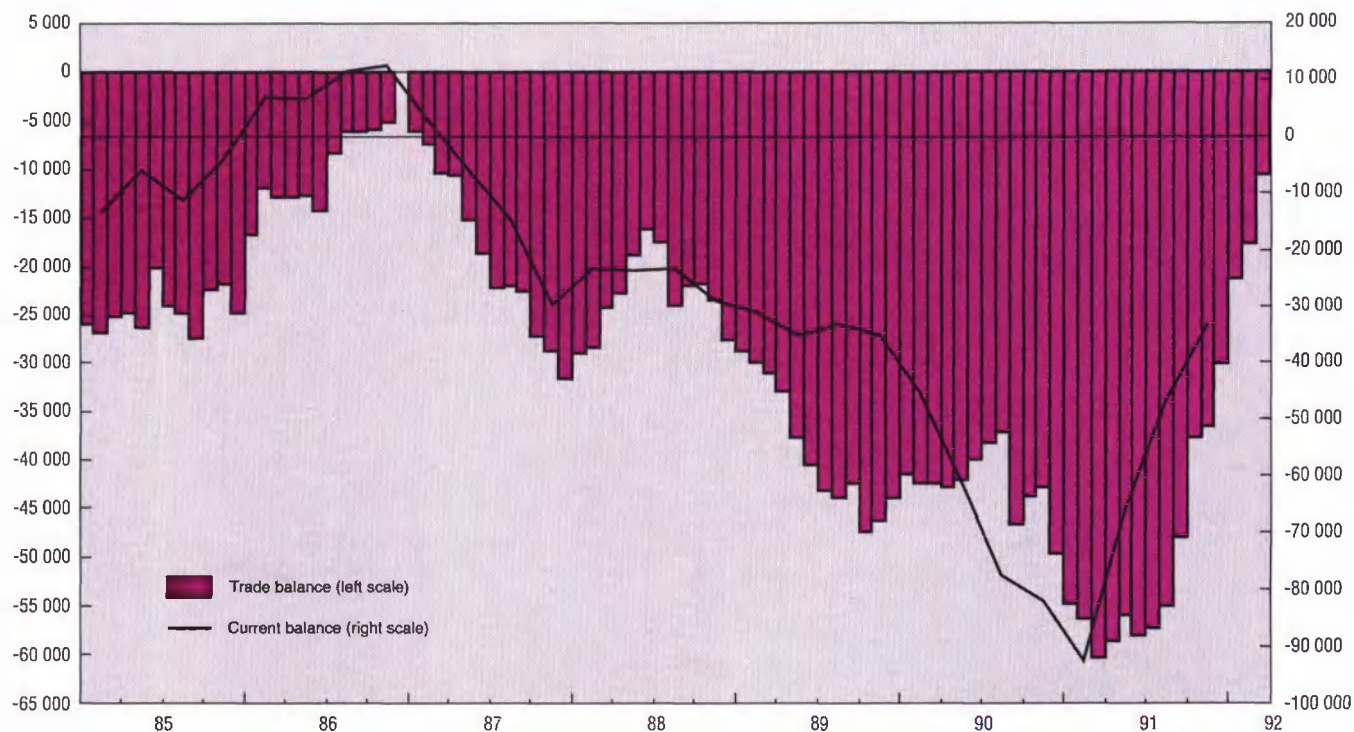
over 1 percentage point in France's favour. However, there have been no further gains against the OECD average and some reversal of the advantage against other EC nations, as inflation has been reduced in some higher-inflation countries, in line with nominal convergence objectives. Nevertheless, it must be remembered that since the beginning of 1987 France's GDP deflator has increased no more than that in Germany and nearly 8 percentage points less than the EC average.

## **Improving external performance**

The merchandise trade and current accounts have shown a clear trend to improvement since early 1991 following over four years of steady deterioration (Diagram 4). This is the second stage in the pay-off to the policy of competitive disinflation and also results from a steady geographic re-orientation of exports towards expanding markets. Viewed from the perspective of labour costs, French competitiveness began to improve already in 1987 (Diagram 5, Panel A). This was achieved despite a trend effective appreciation of the franc and is ascribable both to greater labour productivity growth in manufacturing (up to 1989) and a more moderate increase in hourly wages than seen in partner countries (Panel B). France's relative wage and unit labour cost levels declined by nearly 8 and 12 per cent, respectively, in the four years to 1991. Initially, however, French exporters chose not to pass their increasing cost advantage through to prices; indeed, relative export prices only began to decline in 1988 and by 1991 had only regained 1985 levels. The result was a substantial improvement in export profit margins relative to competitors in the years to 1989. But since then, relative margins have stabilised or possibly fallen slightly, allowing, according to OECD measures, substantial improvement in price competitiveness, which translated into market-share gains during the course of 1991. Compared to its EC partners, there has been a clear trend to improvement in export performance (measured by changes in market share) since 1985 (Panel C). Similarly, only in 1991 were producers of import-competing goods and services able to stave off rising penetration: the increase in the imports-to-GDP ratio in volume terms was the slowest since 1984. Overall, the change in the real net export component of GDP was positive in 1991 for only the second time since 1984. However, part of the favourable external contribution in 1991 is attributable to the slower domestic

Diagram 4. **TRADE AND CURRENT BALANCES<sup>1</sup>**

12-month cumulative rates, FF millions

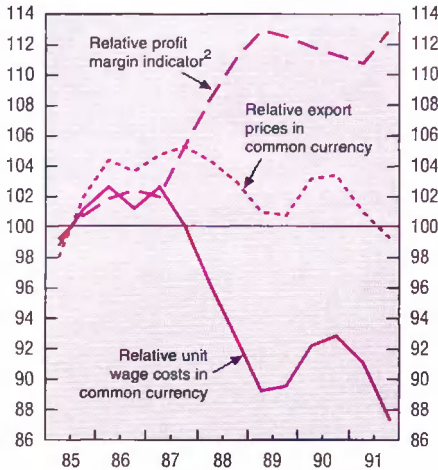


1. While the current balance is given on a balance-of-payments basis, the trade balance is given on a customs basis because that is the most widely used definition. Accordingly, the two should not be compared in level terms but only in terms of their respective evolutions.

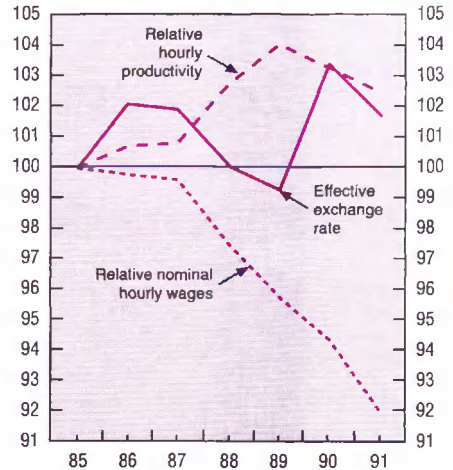
Source : OECD, *Main Economic Indicators* and Secretariat estimates.

Diagram 5. IMPROVING FRENCH COMPETITIVENESS

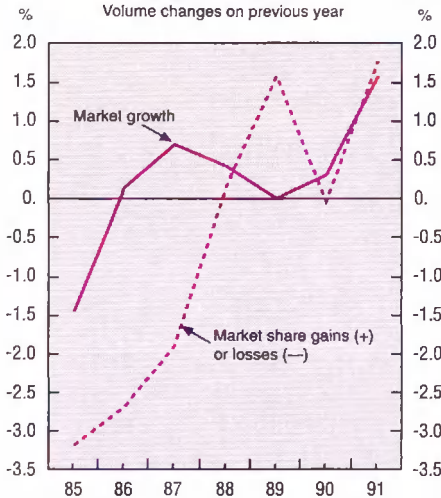
A. Indicators of competitiveness<sup>1</sup>  
1985 = 100



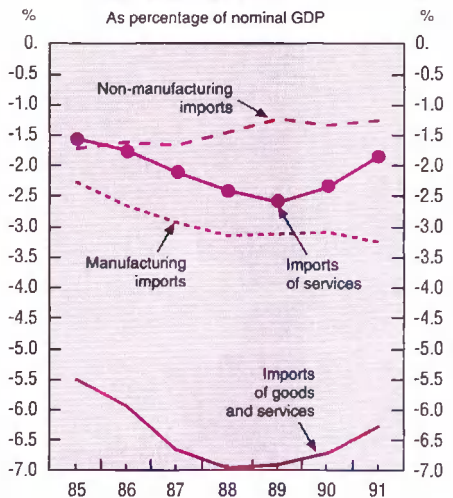
B. Components of relative unit wage costs in common currency<sup>1,3</sup>



C. Export performance:  
France-EC differential  
Volume changes on previous year



D. Import penetration:  
France-EC differential  
As percentage of nominal GDP



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

2. Export prices/relative labour costs in manufacturing.

3. Only 16 competitor countries were taken into account.

Source: OECD.

demand growth in France than in its trading partners (1.0 per cent versus 1.4 per cent).

On a customs (fob) basis the trade deficit was FF 30 billion in 1991 after nearly FF 50 billion in 1990. The value of imports rose only 2 per cent, while exports increased  $3\frac{3}{4}$  per cent. Furthermore, by the final quarter of the year a surplus was registered, albeit with the assistance of some extraordinary items on the export side but due primarily to a fall in import values. The improvement was particularly pronounced in the civilian manufactures area, with a near halving of the deficit (FF 46 billion after FF 83 billion cif in 1990). Led by exports, especially to the German market, all manufacturing sub-sectors, except non-durable consumer goods, notched up better outcomes<sup>9</sup>. But the surpluses on farm and processed food products fell, given the poor weather conditions and generally low prices, and there was a marked decline for military equipment in line with the widespread fall in defence expenditures. Despite a further expansion in the tourism surplus, to FF 51 billion (FF 42 billion in 1990), related once again to France's enhanced competitiveness, especially compared to its southern European neighbours, the services surplus appears to have slipped very slightly overall (Table 3). There was another jump in the investment-income deficit due to the increased interest payments resulting from ongoing non-resident purchases of government debt, only partly offset by a rise in net dividend receipts from French direct investments abroad. A small reduction in the current portion of the deficit on public unilateral transfers was ascribable to receipts from Gulf War allies, in part negated by France's increased contributions to the EC (now FF 24 billion on a net basis). Capital transfers, included in the current account under most countries' definitions, were far smaller in 1991 after the end of the major developing-country debt write-offs decided on at the 1989 Dakar and La Baule summits. According to preliminary estimates, the overall current-account deficit (excluding capital transfers) was FF 32 billion (0.4 per cent of GDP), a drop of FF 20 billion from the previous year.

While the evident improvement on the current account, and especially its manufacturing trade component, is a testimony to the value of disinflationary policies, it should be pointed out that such indicators of the performance of the real economy are of declining relative importance in today's global economy. Merchandise flows have fallen to only about one-quarter of overall external transactions from nearly one-half as recently as 1980 (Diagram 6), even though

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

|                                              | 1989   | 1990   | 1991   | 1991 Q1 | 1991 Q2 | 1991 Q3 | 1991 Q4 |
|----------------------------------------------|--------|--------|--------|---------|---------|---------|---------|
| <b>Current balance</b>                       | -27.1  | -52.9  | -32.3  | -26.8   | -3.4    | -1.0    | -1.1    |
| (seasonally adjusted)                        |        |        |        | -21.0   | -9.5    | -5.5    | 4.2     |
| <i>Of which:</i>                             |        |        |        |         |         |         |         |
| Goods                                        | -64.7  | -70.3  | -51.2  | -24.6   | -12.8   | -12.9   | -0.8    |
| Services                                     | 44.8   | 21.5   | 18.3   | -1.2    | 5.8     | 8.0     | 5.7     |
| <i>Of which:</i>                             |        |        |        |         |         |         |         |
| Factor income                                | -3.5   | -18.8  | -28.8  | -5.3    | -8.7    | -7.8    | -6.9    |
| Other goods and services                     | 40.0   | 40.3   | 41.8   | 10.1    | 11.0    | 10.7    | 10.0    |
| Unilateral transfers                         | -48.0  | -44.4  | -41.2  | -11.1   | -7.4    | -6.8    | -16.0   |
| Private                                      | -12.2  | -14.9  | -14.4  | -3.6    | -3.6    | -4.5    | -2.7    |
| Official                                     | -35.9  | -29.5  | -26.9  | -7.5    | -3.7    | -2.3    | -13.3   |
| <b>Capital transfers<sup>1</sup></b>         | -5.7   | -29.9  | -3.2   | -0.3    | -0.7    | -0.5    | -1.6    |
| <b>Long-term capital</b>                     | 55.0   | 56.4   | 35.8   | 1.8     | -7.9    | 21.3    | 20.6    |
| <i>Of which:</i>                             |        |        |        |         |         |         |         |
| Trade credits                                | 8.4    | 7.5    | 12.4   | 2.9     | 4.9     | 4.0     | 0.5     |
| Private direct investment                    | -54.3  | -98.3  | -47.4  | -3.5    | -27.7   | -14.4   | -1.7    |
| Outward                                      | -115.2 | -147.6 | -108.6 | -27.6   | -35.8   | -29.3   | -15.9   |
| Inward                                       | 60.0   | 49.4   | 61.1   | 24.0    | 8.1     | 14.9    | 14.1    |
| Public investment                            | -3.0   | -2.9   | -3.9   | -2.6    | -0.6    | -0.2    | -0.5    |
| Loans                                        | -39.6  | -6.5   | -4.3   | -0.1    | -5.7    | 6.5     | -4.9    |
| Private non-financial                        | -3.3   | -5.3   | 1.6    | 1.3     | -1.7    | 0.7     | -2.0    |
| Financial                                    | -10.8  | 8.7    | 19.6   | 6.1     | 1.1     | 12.5    | -0.0    |
| Public                                       | -25.5  | -9.9   | -22.3  | -7.5    | -5.2    | -6.7    | -2.9    |
| Portfolio investments                        | 143.4  | 156.5  | 79.0   | 5.1     | 21.3    | 25.3    | 27.3    |
| <i>Of which:</i>                             |        |        |        |         |         |         |         |
| By residents                                 | -42.4  | -46.1  | -62.6  | -29.4   | -9.5    | -11.5   | -12.1   |
| By non-residents                             | 185.9  | 202.5  | 143.8  | 34.4    | 30.9    | 37.6    | 40.9    |
| <b>Short-term capital<sup>2</sup></b>        | -11.5  | -10.9  | -68.2  | 3.5     | -13.8   | -6.3    | -51.7   |
| <i>Of which:</i>                             |        |        |        |         |         |         |         |
| Private non-financial                        | -75.6  | -101.4 | -67.5  | -66.5   | 10.7    | -9.8    | -2.0    |
| Financial                                    | 37.0   | 149.4  | -30.6  | 65.6    | -55.7   | 27.4    | -68.0   |
| Public                                       | 27.1   | -58.9  | 29.9   | 4.4     | 31.2    | -23.9   | 18.3    |
| Official reserves                            | 3.4    | -60.4  | 7.0    | 1.6     | 5.4     | n.a.    | n.a.    |
| <b>Errors and omissions</b>                  | -10.7  | 37.4   | 67.8   | 21.8    | 25.8    | -13.5   | 33.7    |
| <i>Memorandum items:</i>                     |        |        |        |         |         |         |         |
| Basic balance <sup>3</sup>                   | 22.2   | -26.4  | 0.4    | -25.4   | -12.0   | 19.8    | 18.0    |
| Overall balance <sup>4</sup>                 | -64.1  | -90.4  | 0.7    | -70.1   | 24.5    | -3.5    | 49.7    |
| Balance on official settlements <sup>5</sup> | -27.1  | 59.0   | -29.9  | -4.5    | -31.2   | 23.9    | -18.3   |

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

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

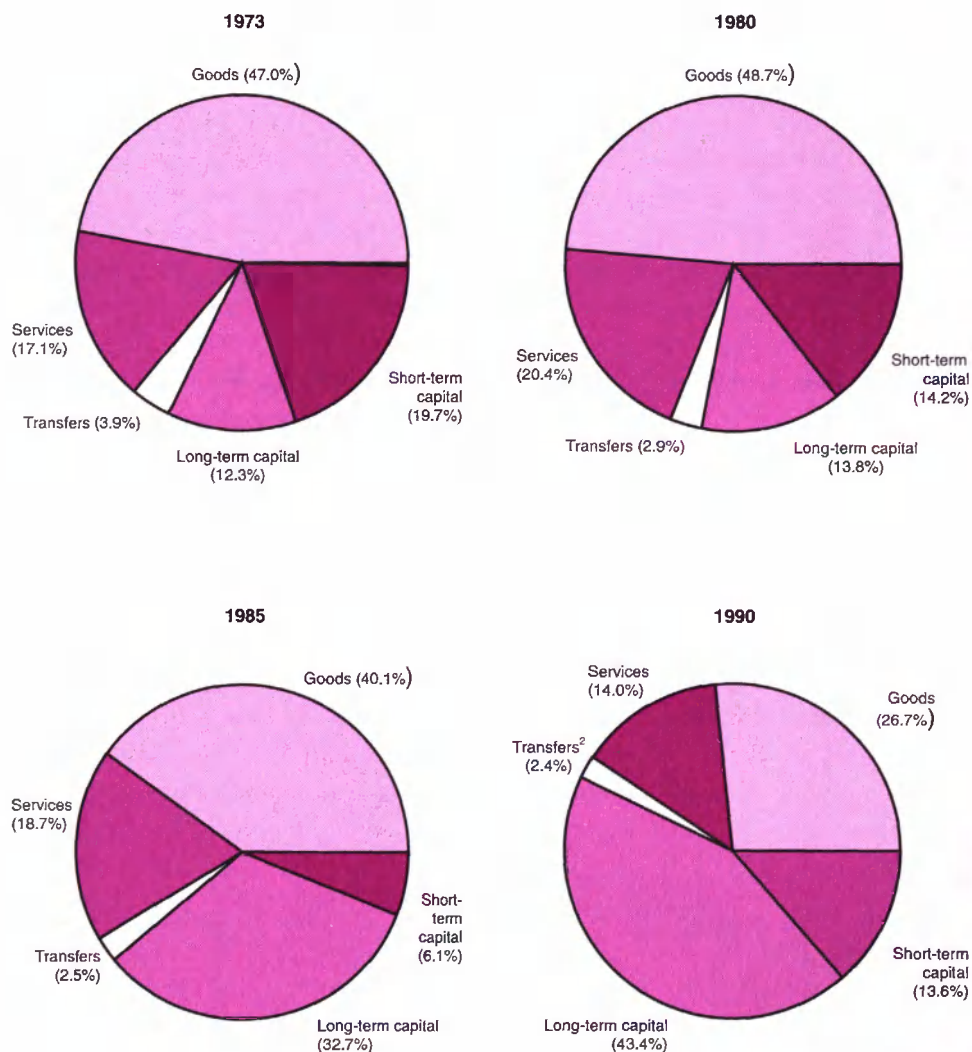
3. Sum of balances on current and long-term capital accounts and on capital transfers.

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

5. Sum of overall balance and balance on short-term financial capital transactions of the banking sector.

Sources: Ministère de l'Economie, des Finances et du Budget, and Banque de France, *La balance des paiements de la France*, 1990 Annual Report and official updates.

**Diagram 6. THE INCREASING SHARE  
OF FINANCIAL TRANSACTIONS IN THE BALANCE OF PAYMENTS<sup>1</sup>**



1. Share of each component in total transactions measured as the sum of debits and credits excluding adjustments.

2. Including capital transfers.

Source: Banque de France.

the official balance-of-payments data upon which such calculations are based include only **net** short-term capital flows. On such a basis the share of services fell from one-fifth to one-seventh over the decade. Accordingly, long-term capital flows surged from 14 per cent to 43 per cent over the period.

The surplus on long-term capital account would appear to have been sharply reduced in 1991 (by some FF 20 billion), and as a result the basic balance may have been near equilibrium. This contraction is more than totally attributable to the curtailment of portfolio capital inflows by non-residents which fell by one-third (nearly FF 60 billion), as the non-resident share of net increases in public debt fell back from the extraordinarily high level of 1990<sup>10</sup>. This might be ascribable to the declining interest-rate differential against the Deutschmark (see Part II) or to the policy uncertainty engendered by the change in government. Similarly, French residents rapidly increased their purchases of foreign securities, leaving a balance on portfolio investment account about half that recorded in 1990. Part of this deterioration has been offset by a halving in the net outflow of foreign direct investment: in line with the waning of the catch-up phase under way since 1986, gross outflows eased to some FF 109 billion, while inflows returned to their 1989 level. With the end of the period of deposit flow to their foreign subsidiaries to avoid high domestic reserve requirements, French banks appear to have begun to reduce their net indebtedness position. Official financing was required (in addition to a sharp rise in errors and omissions) to counteract the short-term capital outflows, and official reserves fell by some FF 30 billion, concentrated in the fourth quarter of the year (see Part II below). This was no doubt not unrelated to the upward pressure on domestic interest rates seen at the same time.

## II. Economic policies and projections

France's macroeconomic policy goals are two-fold. First, inflation should be held to a level lower than that of major trading partners (*désinflation compétitive*) in order to stimulate sustainable export-led growth. Second, the budget deficit should be kept on a declining trend in order to stabilise the ratio of public debt to GDP and minimise its call on private saving, both domestic and foreign. In addition, another more structural orientation lies in the search for greater flexibility in the labour market in order to increase the employment intensity of output and to reduce the high unemployment rate.

### Monetary policy: ongoing tightness

The overriding goal of France's monetary policy continues to be the maintenance of the purchasing power of the currency. In the domestic context this implies a constant vigilance against inflation, while from an external point of view the authorities remain committed to the current parity of the franc within the exchange-rate mechanism (ERM) of the EMS. They have been unwavering in their adherence to this policy, despite the short-term costs involved. Thus, as was argued above, France's inflation outcomes have continued to be satisfactory; its industry has made significant gains in international competitiveness, thereby bringing down the external deficit. Critics of this policy have recently argued that it is inappropriate in the light of the sluggish record of output increases over the past 1½ years, the ensuing increase in unemployment, the persisting external deficit and real interest rates well in excess of both historical averages and sustainable growth rates of real GDP. The debate came to the fore when the authorities were forced to raise domestic interest rates twice in late 1991 in order to stem capital outflows. However, abandoning the strong-franc policy would not

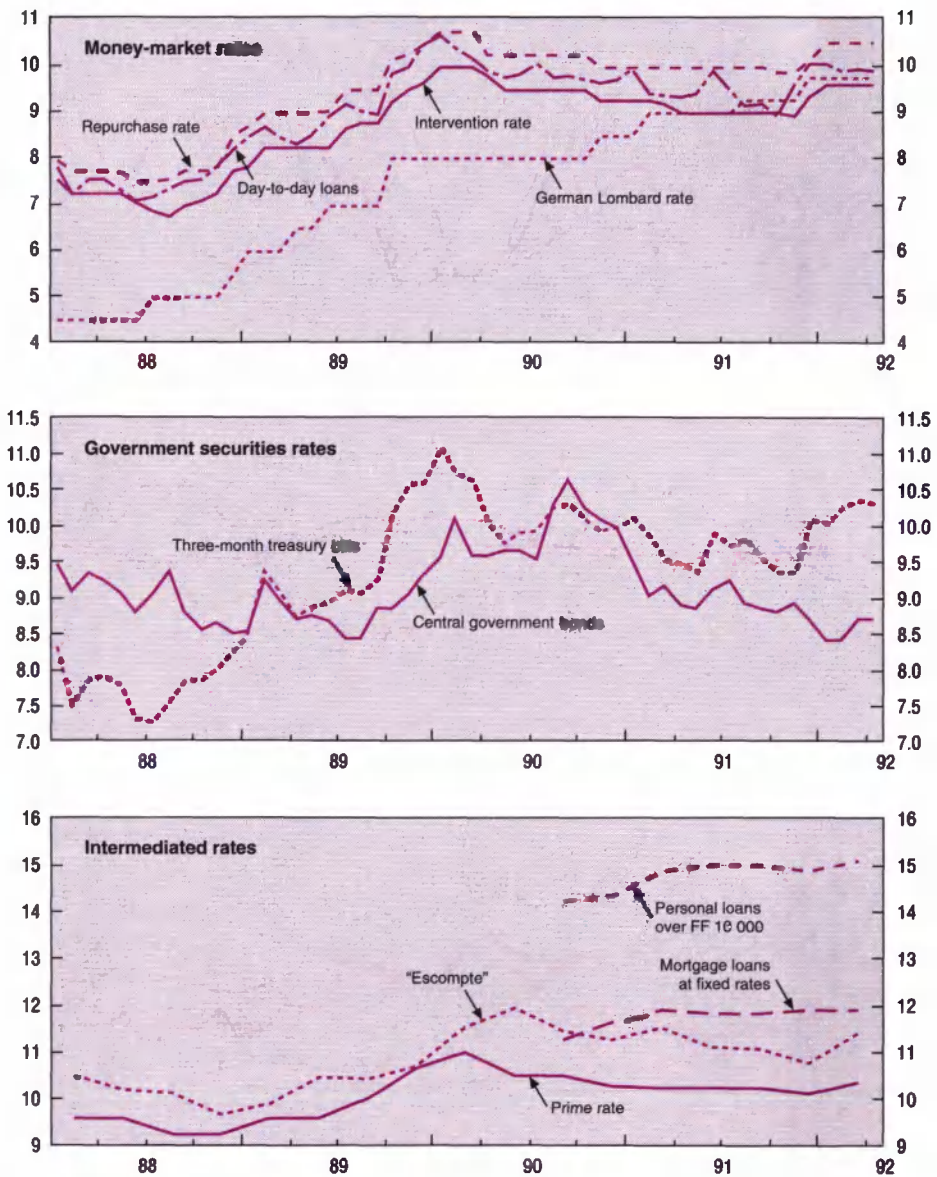
provide any leeway on the interest-rate front and risks reigniting inflation rather than stimulating growth.

### *Interest-rate developments*

During most of 1991, the Banque de France managed to reconcile the desirability of lower interest rates in view of the slowing domestic economy and the constraints involved in maintaining the franc's level in the ERM. The official intervention rate, which had peaked in early 1990 at 10 per cent ( $3\frac{1}{4}$  percentage points above its low recorded some  $1\frac{1}{2}$  years earlier), was cut by  $\frac{1}{4}$  point in both March and October, reaching a low of  $8\frac{3}{4}$  per cent (Diagram 7). Furthermore, increases were avoided in February and August when German official rates were raised. The three-month Eurodeposit differential against the Deutschmark (DM), which was still 5 points in early 1988, was indeed effectively eliminated by April (Diagram 8). However, uncertainties associated with the change of government in May led to a renewed widening to about  $\frac{3}{4}$  point. Nevertheless, once fears were allayed by the authorities' reaffirmed commitment to the existing policy stance, the differential resumed its downward trend. During the period of declining interest rates the franc weakened only marginally within the ERM, trading reasonably consistently between  $\frac{3}{4}$  and 1 per cent below its average parity. Yet it is clear that the position of the franc acted as a brake on the authorities' willingness and ability to accelerate the pace of interest-rate declines. First it was to some limited extent the strength of the peseta in the spring, and by autumn the surge in the DM, the Dutch guilder and the Belgian franc which may have limited their room for manoeuvre.

During the late summer, after what was regarded by traders at the time as probably the Bundesbank's final rate increase in August, market participants began to anticipate a unilateral reduction in French rates. With persistent weakness evident from the monetary indicators, the Banque de France finally acted in October, and for a few weeks short-term rates fell below corresponding German rates. However, with the renewed dollar weakness after the summer and expectations of further German tightening, the franc came under heavy pressure<sup>11</sup>, and the October reduction had to be reversed in November. Demonstrating their concern for the impact of such a move on intermediated rates, the authorities agreed, as they had in October 1990, to undertake an offsetting reduction in required reserves, effective 1st December. The reserve requirement on sight

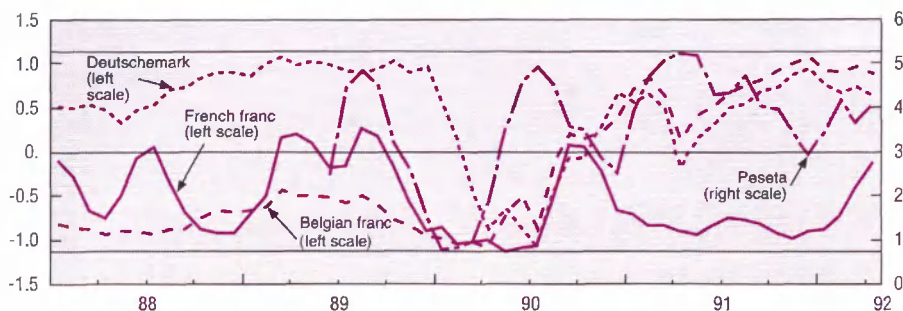
Diagram 7. **INTEREST-RATE DEVELOPMENTS**  
Per cent



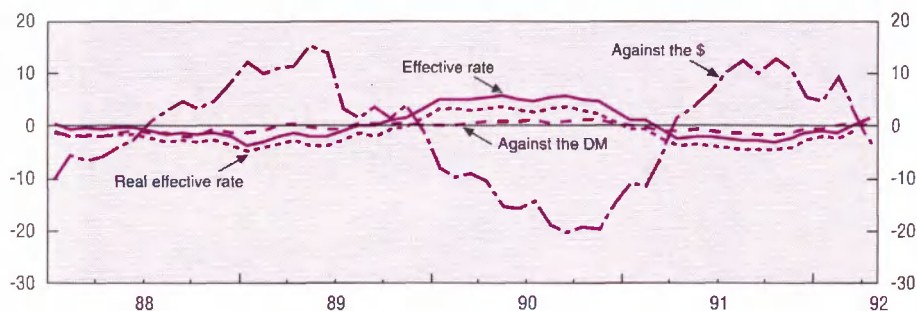
Source: OECD.

Diagram 8. EXCHANGE RATE AND INTEREST-RATE DIFFERENTIALS

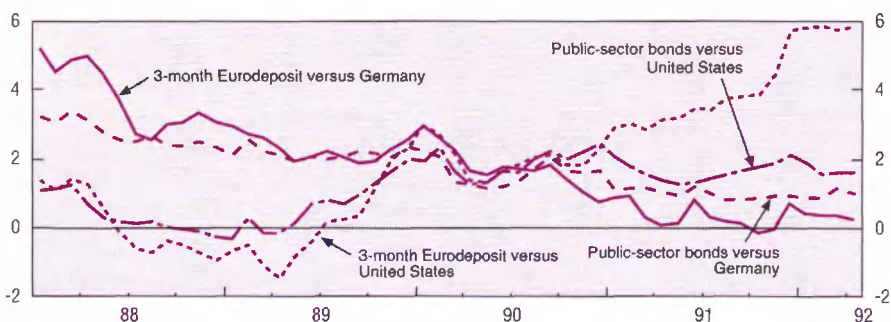
**A. Positions of members' currencies in ERM band<sup>1</sup>**



**B. Year-on-year changes in the franc exchange rate, percent**



**C. Interest-rate differentials, percentage points**



1. Zero line represents average of strongest and weakest currencies within the narrow band; maximum divergence is thus 1 1/8 per cent in either direction.

Source: OECD.

deposits was reduced from 5.5 to 4.1 per cent, and that on all bank liabilities with market-determined interest rates and maturity in excess of one year (0.5 per cent) was cut to zero. The level of required reserves accordingly fell by nearly FF 13 billion, equivalent for banks' funding costs to a money-market interest-rate cut of some 0.3 to 0.4 percentage point. The next act was played out late in the year, when German rates rose  $\frac{1}{2}$  point, and French official rates by 0.35-0.50 point, bringing them back to early 1990 levels. This time, no compensating reduction in required reserves was offered to the banks, and the prime rate rose by 0.35 point. Short-term market rates rose above their German counterparts, with the differential recently averaging about 20 basis points, albeit on a declining trend. Finally, in May 1992 the authorities once again reduced reserve requirements to the nearly symbolic level of FF 17 billion (down from FF 48 billion prior to the change), only FF 6 billion above their holdings of currency (which count towards the constitution of reserves). The banks responded by cutting their prime rates by  $\frac{1}{2}$  point.

Longer-term interest rates have fallen more substantially, given declining bond yields abroad, conjunctural weakness and the spreading perception of steadfastness in the authorities' overall policy position. While the yield curve was relatively flat in the second half of 1990, it again became inverted in 1991, especially when financial markets rallied with the end of the Gulf War. Government bond rates fell nearly  $\frac{1}{2}$  point to below  $8\frac{1}{2}$  per cent around year-end despite the increase in short-term rates, leaving the yield curve in early 1992 more sharply inverted than at any time since the beginning of 1990; three-month bills were yielding over  $1\frac{1}{2}$  points more than State bonds. Long-term differentials *vis-à-vis* German bonds fell to less than  $\frac{1}{2}$  point in spring 1991 (from  $2\frac{1}{2}$  points in early 1988), widened with the change in government and then narrowed once again over the summer months. However, the differential, at nearly  $\frac{3}{4}$  of a percentage point, remains stubbornly high. Other than relative levels of credibility, part of this gap may also be explained by the greater liquidity of the German bond market relative to its French counterpart.

Intermediated rates have followed varying patterns, but it is fairly clear that overall intermediation margins have increased, albeit mostly on loans to households, and greater account was taken of perceived risk in the pricing of loans through nearly all of 1991. While the banks' prime rate (used for about a quarter of all variable-rate credit in 1989) hardly changed during the year, their various

actual short-term lending rates to business initially fell (by October some were up to 0.7 point below year-earlier levels) and then rose in the last quarter in line with the fluctuations in money-market rates. Interest rates on longer-term business loans were little changed, averaging 10.7 per cent as in 1990. Until the fourth quarter of 1991, for nearly all types of business loans, the larger the loan, the greater was the year-over-year decline in its cost<sup>12</sup>: for example, the *taux d'escompte* (discounts of bills of exchange) in October 1991 was 0.8 percentage point below its year-earlier level for loans in excess of 10 million francs but unchanged for those of less than 100 000 francs. In addition, the standard deviation of loan rates widened for all kinds of business loans. Personal loans, on the other hand, were subject to substantial cost increases in the year to October 1991; these again varied with the size of the loan (0.9 point for those less than 10 000 francs, 0.5 for larger loans). Rates on housing loans of the traditional fixed-rate variety also rose, but only by ¼ point.

### ***Monetary slowdown***

Monetary targets, set by the Banque de France in conjunction with the Ministry of Finance's Direction du Trésor<sup>13</sup>, continue to play a role in the implementation of monetary policy. They provide a medium-term point of reference for private-sector agents. As well, they furnish the authorities with an indication, of the degree to which the exchange-rate constraint is impinging on the economy's ability to maintain the predicted growth rates of nominal income. In December 1990 the target growth rate for the year ending in the fourth quarter of 1991 was fixed at 5 to 7 per cent for a redefined M3 measure which includes money-market mutual funds held by non-financial residents. This was set based on a predicted annual average increase in nominal GDP of 5.4 per cent compared to the outcome of 4.3 per cent (Table 4). Not surprisingly, monetary growth – at 4.2 per cent – was also below the target range. However, the revised M3 definition was indeed a better indicator, as its velocity was stable, and the “error” in the projection was much smaller than in recent years. In December 1991, the Banque de France set a target range of 4 to 6 per cent for M3 growth in 1992 based on projected nominal GDP growth of 5.1 per cent, and the expectation that velocity will remain stable in the future.

As indicated, M3 growth has continued to moderate since its recent peak of over 10 per cent in early 1990 (Diagram 9). Indeed, the slowdown intensified

Table 4. **Monetary targets and outcomes, 1986-91**

Per cent

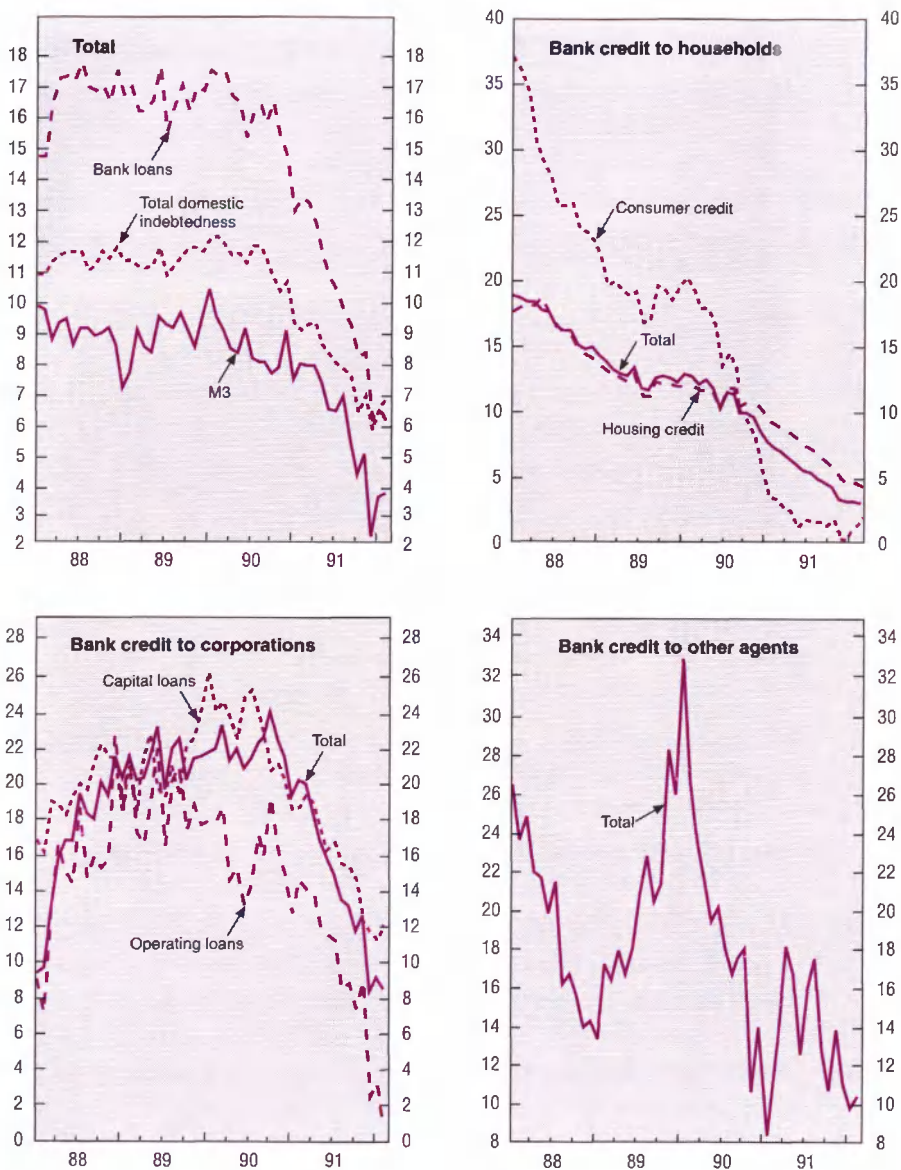
|                                                  | 1986           | 1987               | 1988 | 1989 | 1990 | 1991 |
|--------------------------------------------------|----------------|--------------------|------|------|------|------|
| Projected GDP growth (a)                         | 6.1            | 4.5                | 4.8  | 5.1  | 5.5  | 5.4  |
| Actual GDP growth (b)                            | 7.9            | 5.0                | 7.0  | 7.4  | 6.2  | 4.3  |
| GDP "surprise" (b-a)                             | 1.8            | 0.5                | 2.2  | 2.3  | 0.7  | -1.1 |
| Target monetary growth midpoint (c)              | M2:<br>M3: 4.0 | 5.0<br>4.0         | 5.0  | 5.0  | 4.5  | 6.0  |
| Actual monetary (M3) growth (d)                  | M2:<br>M3: 4.6 | 4.2<br>9.2         | 4.0  | 4.5  | -0.6 | 4.2  |
| Deviation from target midpoint (d-c)             | 0.6            | M2:-0.8<br>M3: 5.2 | -1.0 | -0.5 | -5.1 | -1.8 |
| Implicit projection for velocity changes (e=a-c) | 2.1            | M2:-0.5<br>M3: 0.5 | -0.2 | 0.1  | 1.0  | -0.6 |
| Actual velocity changes (f=b-d)                  | 3.3            | M2: 0.8<br>M3:-4.2 | 3.0  | 2.9  | 6.8  | 0.1  |
| Velocity "surprise" (f-e)                        | 1.2            | M2: 1.3<br>M3:-4.7 | 3.2  | 2.8  | 5.8  | 0.7  |

Source: OECD.

through 1991, and recent year-over-year increases have been in the range of 3½ per cent. This can be ascribed to the coincident easing in income growth, as well as, possibly, the slowdown in credit expansion and a tax-induced change in firms' financial investment behaviour (see below). Narrow money (M1) growth, which had fallen from 8 to 4 per cent through 1990, continued to decline, reaching -5.6 per cent during 1991. While part of this reduction results from reduced transactions needs, agents continue to gain awareness of the opportunity cost of holding non-interest-bearing assets<sup>14</sup>. The remainder of M2, savings deposits, has continued to shrink very slowly for similar reasons<sup>15</sup>. Growth in the other components of M3 not included in M2 experienced a marked slowdown from 22.6 per cent in December 1990 to 10.2 per cent in March 1992. Notable has been the deceleration in short-term mutual funds. Their waning growth, particularly evident for money-market funds, is attributable to the end of the phase of adjustment to the tax change introduced in 1989 allowing their interest

Diagram 9. **MONEY SUPPLY AND CREDIT DEVELOPMENTS**

Year-over-year growth rates in percent



Source: Banque de France.

to be capitalised and to competition from various contractual saving products offered by insurance companies and from the *Plans d'Epargne Populaire (PEPs)*<sup>16</sup>. It is also to some extent the result of a deliberate policy by banks to brake their growth by raising purchase/sales charges in order to limit the increases in their average cost of funds. However, the inversion of the yield curve has served to enhance their attractiveness.

Increases in total domestic indebtedness have also slowed, as the demand for and supply of credit have dwindled, although they remain well above those in GDP. Bank loans have led the deceleration, as increases fell from 15 per cent during 1990 to 6 per cent during 1991<sup>17</sup>. Increases in loans to most types of agents have declined. Lending to households was the first to ease and has continued to do so, led by virtually complete stagnation in consumer credit. The slowdown in the extension of mortgage credit has been more moderate, but there, too, growth rates have been cut by more than half since mid-1990. Increases in lending to business have also fallen sharply, but remain reasonably buoyant at 7½ per cent in December 1991. Real estate developers have benefited from increases which, while slowing, are nevertheless still in the 30 per cent range. Firms have also borrowed less and invested less in financial assets<sup>18</sup>. Finally, credit growth to other agents – primarily local authorities – has shown few signs of abating.

### **A “credit crunch”?**

There has been some question of whether France, possibly like the United States and other OECD countries, has been experiencing a “credit crunch”. This hypothesis envisages an activity slowdown induced by an extraordinary lack of credit availability – some sort of rationing beyond what is implied by prudent lending behaviour. The consensus view is that, despite the notable slowdown in overall credit growth in general and in bank lending in particular, there has not been in France, nor is there likely to be, any abnormal scarcity of credit, since the credit/GDP ratio is still rising.

However, the contrast with the boom conditions that had prevailed for several years is noteworthy. The supply of credit may indeed have been restricted by lenders’ greater selectivity and tightening of terms and conditions, resulting from both normal cyclical deterioration of asset quality and the need to comply with capital requirements agreed internationally at the BIS. As well, given their

poor profitability in 1990, banks markedly increased their margins on new loans, especially to households. But the average cost of banks' funds has continued to rise, with 35 per cent of their resources now remunerated at money-market rates, and, combined with higher bad-debt provisions due primarily to surging domestic bankruptcies, this has limited any recovery in profit margins. French banks continued to be relatively unprofitable by international standards in 1991 (OECD, 1992). The more recent Neiertz law on household indebtedness<sup>19</sup> may also have dampened lenders' enthusiasm. However, the moderation in credit extension has probably resulted more from dwindling demand than from supply shifts. Households seem to have fully exploited the increased scope for leveraging since consumer credit was liberalised in the mid-1980s. And businesses have slowed significantly the pace of their takeover activities. But, once again, most of the softening in the demand for credit and thus in the amount extended has probably been a consequence rather than a cause of slower domestic expenditure increases and high interest rates.

## **Fiscal policy**

### ***1991: a cyclical deterioration in public spending***

The slowdown of activity had a marked effect on the public finances in 1991. Indeed, aggregate general-government revenues only rose 5 per cent, compared with 6 per cent in 1990 (a loss worth  $\frac{1}{2}$  per cent of GDP). Total public spending increased  $6\frac{1}{4}$  per cent in 1991, 2 percentage points more than GDP, led by social transfers, interest payments and public investment. Whereas the Finance Act had provided for a reduction in the budget deficit to FF 81 billion in 1991, the actual outturn was a deficit of FF 132 billion, equivalent to 1.9 per cent of GDP. The local-government deficit relative to GDP remained slight, while the social-security account was in slight deficit (Table 5). All told, the overall general-government deficit net of debt forgiveness to the least-developed countries (which had increased the budget deficit for 1990 by 0.3 point of GDP) widened by 1 point of GDP between 1990 and 1991. However, at 2.1 per cent of GDP, the deficit on a national-accounts basis is still one of the lowest amongst OECD countries.

Table 5. Consolidated general-government account

|                                                                           | 1990          | 1990                             | 1991 | 1992 | 1993 |
|---------------------------------------------------------------------------|---------------|----------------------------------|------|------|------|
|                                                                           | FF<br>billion | Growth rate<br>Percentage change |      |      |      |
| <b>Current receipts</b>                                                   | 3 123.4       | 5.8                              | 4.4  | 4.9  | 5.2  |
| <i>Of which:</i>                                                          |               |                                  |      |      |      |
| Direct taxes                                                              | 576.3         | 4.5                              | 8.5  | 3.3  | 5.2  |
| Social-security contributions                                             | 1 363.1       | 6.0                              | 4.4  | 5.5  | 5.9  |
| Indirect taxes                                                            | 915.4         | 4.9                              | 0.9  | 6.2  | 4.5  |
| <b>Current expenditure</b>                                                | 2 963.3       | 5.8                              | 6.8  | 5.4  | 5.1  |
| <i>Of which:</i>                                                          |               |                                  |      |      |      |
| Interest payments                                                         | 191.0         | 13.7                             | 9.0  | 6.5  | 3.7  |
| Government consumption                                                    | 1 161.7       | 4.8                              | 6.6  | 5.3  | 5.0  |
| <i>Of which:</i>                                                          |               |                                  |      |      |      |
| Wages                                                                     | 863.6         | 4.9                              | 5.8  | 6.6  | 5.6  |
| Social benefits                                                           | 1 383.2       | 6.4                              | 7.0  | 6.2  | 5.6  |
| Subsidies                                                                 | 99.9          | -2.5                             | -2.7 | 0.0  | 1.8  |
| <b>Capital expenditure</b>                                                | 240.9         | 12.0                             | -4.8 | 7.7  | 5.4  |
| <i>Of which:</i>                                                          |               |                                  |      |      |      |
| Gross fixed capital formation                                             | 213.8         | 6.5                              | 7.9  | 4.3  | 5.4  |
| <b>Lending capacity (+) or borrowing<br/>requirement (-)</b>              |               |                                  |      |      |      |
| FF billion                                                                |               | -92                              | -140 | -167 | -174 |
| As a percentage of GDP                                                    |               | -1.4                             | -2.1 | -2.3 | -2.3 |
| <i>Of which:</i>                                                          |               |                                  |      |      |      |
| Central government                                                        |               | -1.5                             | -1.8 | -2.0 | -2.1 |
| Local government                                                          |               | 0.0                              | -0.1 | -0.2 | -0.2 |
| Social security                                                           |               | 0.1                              | -0.2 | -0.1 | 0.0  |
| <i>Memorandum items:</i>                                                  |               |                                  |      |      |      |
| Primary lending capacity (+) or borrowing<br>requirement (-) <sup>1</sup> |               | +1.5                             | +1.0 | +0.8 | +0.7 |
| Net public debt <sup>1</sup>                                              |               | 24.3                             | 25.0 | 26.1 | 27.1 |

1. As a percentage of GDP.

Source: OECD estimates.

The difficulties encountered in meeting the budget deficit target in 1991 were largely ascribable to changes in the economic environment. Indeed, the increase in spending was lower than foreseen in the budget (4.2 per cent compared to 4.9 per cent). France's budgetary spending in the Gulf War was financed entirely by foreign contributions, in particular from Kuwait and Germany (FF 10 billion). The slowdown in activity, which was more marked than anti-

Table 6. The accounts of the *régime général* of the social-security system

|                               | 1991<br>FF<br>billion | 1990<br>Outturn | 1991<br>Estimate<br>Percentage change | 1992<br>Forecast |
|-------------------------------|-----------------------|-----------------|---------------------------------------|------------------|
| <b>Total régime général</b>   |                       |                 |                                       |                  |
| Revenue                       | 949.3                 | 6.3             | 5.2                                   | 6.7              |
| <i>Of which:</i>              |                       |                 |                                       |                  |
| Contributions by the insured  | 255.7                 | 8.4             | 0.7                                   | 8.2              |
| Employers' contributions      | 568.8                 | 5.0             | 3.6                                   | 4.8              |
| Expenditure                   | 964.4                 | 7.4             | 5.7                                   | 5.2              |
| Balance (FF billion)          | -15.1                 | -9.6            | -15.1                                 | -2.2             |
| <b>Health insurance</b>       |                       |                 |                                       |                  |
| Revenue                       | 442.4                 | 5.9             | 8.2                                   | 8.7              |
| <i>Of which:</i>              |                       |                 |                                       |                  |
| Contributions by the insured  | 146.5                 | 7.3             | 11.3                                  | 13.6             |
| Employers' contributions      | 263.1                 | 5.8             | 5.7                                   | 6.1              |
| Expenditure                   | 444.0                 | 7.6             | 6.2                                   | 6.7              |
| Balance (FF billion)          | -1.6                  | -9.3            | -1.6                                  | 7.0              |
| <b>Old-age insurance</b>      |                       |                 |                                       |                  |
| Revenue                       | 263.4                 | 8.6             | 3.0                                   | 5.6              |
| <i>Of which:</i>              |                       |                 |                                       |                  |
| Contributions by the insured  | 93.2                  | 9.8             | -11.3                                 | 0.6              |
| Employers' contributions      | 137.4                 | 6.3             | 25.9                                  | 9.1              |
| Expenditure                   | 282.8                 | 9.3             | 7.8                                   | 5.4              |
| Balance (FF billion)          | -19.4                 | -6.6            | -19.4                                 | -19.8            |
| <b>Family allowance</b>       |                       |                 |                                       |                  |
| Revenue                       | 198.1                 | 4.8             | 2.7                                   | 5.6              |
| <i>Of which:</i>              |                       |                 |                                       |                  |
| CSG (FF billion)              | 31.4                  | ..              | 31.4                                  | 40.8             |
| Contributions by the insured  | 16.0                  | 9.1             | -6.7                                  | 2.0              |
| Employers' contributions      | 125.9                 | 3.5             | -15.2                                 | -0.2             |
| Expenditure                   | 193.0                 | 4.7             | 2.0                                   | 3.8              |
| Balance (FF billion)          | 5.3                   | 3.8             | 5.3                                   | 9.0              |
| <b>Occupational accidents</b> |                       |                 |                                       |                  |
| Revenue                       | 45.4                  | 3.2             | -0.1                                  | -1.8             |
| <i>Of which:</i>              |                       |                 |                                       |                  |
| Employers' contributions      | 42.4                  | 3.0             | -0.6                                  | -2.2             |
| Expenditure                   | 44.8                  | 5.3             | 4.4                                   | -4.1             |
| Balance (FF billion)          | 0.6                   | 2.5             | 0.6                                   | 1.6              |
| <b>Memorandum item:</b>       |                       |                 |                                       |                  |
| Nominal GDP                   |                       | 5.6             | 4.2                                   | 5.1              |

Source: *Les Comptes de la Sécurité Sociale*, Commission de la Sécurité Sociale, January 1992.

pated, resulted in a shortfall in tax revenue equivalent to about 1 point of GDP<sup>20</sup>. All told, taking into account the amount by which transfers to local authorities and the contribution to the EC budget (FF 7 billion and 4 billion, respectively) had been underestimated, the State budget incurred net revenue losses of FF 45 billion (about  $\frac{3}{4}$  percentage points of GDP). Various measures were taken to increase budgetary resources (FF 5½ billion in tax revenue and FF 30 billion in non-tax revenue, half of which from financial transfers). The cancellation of expenditure amounting to FF 19 billion, which affected all ministries except for defence, offset the additional expenditure that resulted from solidarity measures (guaranteed minimum income or RMI<sup>21</sup>, aid to agriculture), provisions to support employment and interest payments on the public debt.

As mentioned above, in contrast with the previous four years, in 1991 the social-security account did not show a surplus despite the persisting surpluses on the family-allowance and industrial-accident branches and on the supplementary retirement-pension scheme. The increase in income slowed due to the deceleration in the growth of the wage bill, and social transfers continued to rise strongly (4.0 per cent in real terms, equal to the average during the period 1987-1990). With the rapid rise in the number of jobless, the unemployment-insurance system again recorded a deficit (of nearly FF 10 billion) after a year of respite. In contrast, the health-insurance account was virtually in balance on account of the 0.9 percentage point increase in the wage-earners' contribution rate in July 1991; this is estimated to have generated FF 8 billion in 1991, or 2 per cent of revenue (Table 6). Furthermore, the efforts to curb health expenditure (see below) made possible savings equal to  $\frac{3}{4}$  of a point of expenditure in 1991. Also, although retirement pensions were only partially index-linked, the deficit on the old-age-pension account widened sharply, due to underlying trends related to rapid increases in the number of pensioners and in their pension rights (see below).

### ***1992: a budget of consolidation***

In response to the less favourable economic environment, the initial 1992 Finance Act gave special emphasis to boosting employment and to improving competitiveness, while continuing the policy of fiscal consolidation. On official forecasts, which were compiled last autumn on the assumption of real GDP growth of 2.2 per cent, the State deficit for 1992 (excluding contributions to the IMF and the Exchange Stabilisation Fund) was projected to be FF 90 billion, or

about 10 billion francs higher than the target in the initial 1991 Finance Act, but FF 42 billion less than the final budget outturn for 1991.

Measured in relation to the initial 1991 Finance Act, the growth of State expenditure is budgeted to be modest in volume terms and less than that of GDP by value (3.1 per cent as compared with 5.1 per cent). All the increases in spending have been allocated to priority areas – education, industry and research, the legal system and official development assistance. Priority has also been given to spending on solidarity measures, particularly as the RMI is coming into full operation, and new schemes to help unskilled young people and the long-term unemployed to find jobs were set up. Nevertheless, the amount of leeway at the disposal of the authorities is limited by the strong growth of certain types of expenditure that rise automatically, especially debt-service costs (estimated to represent 11.4 per cent of net tax revenue), and payments to the EC (an increase of FF 13.5 billion) and to local authorities, which are set once again to grow more rapidly than overall State spending. Also, in the light of the revision to civil servants' pay scales and the increases in their basic pay that were decided in autumn 1991, the government wage bill is projected to increase by 5.3 per cent despite a slight fall in the number of employees. On the other hand, the growth of the defence budget (which represents 18 per cent of total State expenditure) and capital expenditure is likely to be modest, while intermediate consumption growth will probably be virtually flat in current terms. In this respect, it should be noted that public investment was cut much less in relation to GDP in 1991 than in most other OECD countries.

Tax cuts have continued in 1992 but at a slower pace than in earlier years. Instalment payments on corporate income tax have been reduced from 38 to 36 per cent of reference-period profits for large firms and to 33⅓ per cent for small and medium-sized enterprises (at a cost of FF 8 billion in 1992). In addition, the top VAT rate was eliminated in April 1992 (at a cost of FF 4 billion in 1992, FF 8 billion next year). On account of the lagged impact of the slowdown of activity in 1991 on direct tax revenue, in 1992 net revenue should be up by only 2.6 per cent on the 1991 Finance Act. However, the expected level of receipts is probably overestimated because the implicit estimate for 1992 revenue is 5½ per cent higher than the revenue that was actually collected in 1991, given the aforementioned shortfall. While the overall tax burden will remain unchanged, some adjustments have been made as part of the continuing

effort to reshape the tax system in preparation for the advent of the Single European Market and to improve business competitiveness; specific measures, amounting to FF 10½ billion, are planned to help firms, of which FF 4½ billion for small and medium-sized enterprises (see below). To enable corporations to strengthen their capital base, the tax rate on distributed profits has been lowered from 42 to 34 per cent, i.e. the same rate as on retained earnings. These tax reductions will be offset in part by a further increase in the tax rate on financial capital gains, from 25 to 34 per cent. A number of measures with a lesser impact on budget revenue have also been taken, the most important of which are: income tax relief for people who provide family service jobs or who invest in property with a view to letting it, and changes to the taxation of gifts and inheritances.

The 1992 Finance Act is likely to prove difficult to implement on both the revenue and expenditure side. Not only is a pick-up in activity, on which the budget is based, still uncertain, but the top rate of VAT has been eliminated, and further expenditure has been added: the civil-service pay agreement concluded in autumn 1991 (FF 4 billion), compensation for those contaminated with the Aids virus through blood transfusions (FF 4 billion) and the measures to promote employment that were adopted at the end of 1991 and the beginning of 1992 (FF 12 billion). These measures are to be financed by reductions in other spending and from the proceeds of partial privatisations (see below). It will thus prove difficult to meet the target for the fiscal deficit: indeed, the authorities recently announced a deficit objective of FF 135 billion for 1992.

On the other hand, on official forecasts it should prove easier to balance the social-security accounts in 1992 than in 1991. The deficit of the *régime général* is set to fall substantially, mainly on account of the full-year effects of the increase in health-insurance contributions in July 1991. Various measures were taken to improve the financial situation of the unemployment-insurance scheme, but they may not even stabilise its significant deficit due to the increase in the number of beneficiaries. All told, on the Secretariat's estimates, and in the absence of further measures, in 1992 the general-government deficit could rise to 2¼ per cent of GDP.

Although it overshot somewhat in 1991, the public deficit is still one of the lowest among the major OECD countries. Furthermore, the general-government primary balance has been positive since 1987, and according to the calculations of the Ministry of Finance, up to 1990 it was larger than the amount needed to

**Table 7. Average implicit interest rate and general-government debt**

|                                                                                   | Percentages |      |      |      |      |      |
|-----------------------------------------------------------------------------------|-------------|------|------|------|------|------|
|                                                                                   | 1974-82     | 1985 | 1988 | 1989 | 1990 | 1991 |
| Implicit interest rate on net debt <sup>1</sup>                                   | 5.1         | 9.0  | 8.8  | 9.2  | 10.2 | 10.3 |
| Nominal GDP growth rate                                                           | 13.8        | 7.7  | 7.2  | 7.2  | 5.7  | 4.4  |
| Budget outturn excluding interest payments<br>(as a per cent of GDP) <sup>2</sup> | -0.6        | -0.8 | 0.5  | 1.1  | 0.9  | 0.9  |
| Budget outturn required to stabilise the<br>debt (as a per cent of GDP)           | -1.1        | 0.3  | 0.4  | 0.5  | 1.1  | 1.5  |
| Net general-government debt (as a per cent<br>of GDP)                             | 12.7        | 22.9 | 25.0 | 24.7 | 24.6 | 25.2 |

1. Net interest payments/net general-government debt.

2. The budget outturn (as a percentage of GDP) (s) required in year (t) to stabilise the debt/GDP ratio (d) in year (t+1) is equal to  $d*(i-g)$  where (i) is the interest rate and (g) is the nominal GDP growth rate.

Sources: Banque de France and OECD estimates.

stabilise the debt. Thus, despite a marked increase in the average implicit interest rate, the public debt in terms of GDP roughly stabilised at a fairly low level over the period 1987-90 (Table 7). However, the margin of leeway was still narrow, and in 1991 the public debt began to rise again as a percentage of GDP. The growing debt burden prompted the authorities to initiate a policy of active debt management with a view to improving the secondary market in public debt and to lengthening its average maturity.

## Structural policies

While substantial progress was unquestionably made on the macroeconomic front during the second half of the 1980s, the French economy is still beset by major structural problems, particularly in the area of public finance, at the very moment when the slowdown of activity has put a stop to fiscal consolidation. As labour-market problems are analysed in detail in Part III and the education system in Part IV, in this section taxation, including social-insurance contributions, local-government financing, social expenditure, state intervention in the economy, the financial sector and, lastly, environmental issues will be examined.

## Tax and social-insurance contributions

Whereas the share of income tax and social-insurance contributions in GDP fell slightly between 1987 and 1989 as a result of the tax reductions implemented, it stabilised at 43.7 per cent of GDP in 1989-90 and rose slightly in 1991 (Table 8). However, only **tax** revenue fell relative to GDP from 1987 to 1991, while social-security contributions continued to rise<sup>22</sup>. The process of harmonising VAT rates with those of France's EC partners, which accounts for about half of the cumulative effects resulting from the series of tax reductions instituted since 1988, was completed in April 1992 when the top rate (22 per cent since September 1990) disappeared. The standard rate will remain at 18.6 per cent, as compared with an EC average of 16.8 per cent in 1991.

Since 1986 the rate of corporation tax has come down from 50 per cent to 34 per cent, the latest cut being an eight-point reduction in the rate on profits distributed in respect of financial years from 1992. The harmonisation of the rate on distributed profits with the rate on retained earnings thus removes an important distortion; furthermore, with the rate at 34 per cent it effectively eliminates the double taxation of dividends. All told, the corporation tax burden has fallen sharply<sup>23</sup>, and the rate adopted is relatively attractive. Nonetheless, when the total tax burden, including local taxes and taxes on inputs, is considered, the French system occupies a mid-way position among its main partners<sup>24</sup>. Furthermore, a

Table 8. **Taxes and social-insurance contributions**

As a percentage of GDP

|                                                | 1987 | 1988 | 1989 | 1990 | 1991 |
|------------------------------------------------|------|------|------|------|------|
| Taxes                                          | 24.6 | 24.1 | 23.8 | 23.4 | 23.5 |
| Of which:                                      |      |      |      |      |      |
| Central government                             | 17.3 | 16.9 | 16.8 | 16.6 | 16.1 |
| Local authorities                              | 5.9  | 5.9  | 6.0  | 6.0  | 6.2  |
| EC                                             | 1.0  | 1.2  | 1.1  | 0.9  | 1.2  |
| Social-insurance contributions <sup>1</sup>    | 19.9 | 19.7 | 19.9 | 20.1 | 20.4 |
| Total taxes and social-insurance contributions | 44.5 | 43.8 | 43.7 | 43.7 | 43.9 |

1. Including taxes, such as the *contribution sociale généralisée*, used to finance the social-security system.

Source: INSEE.

distinguishing feature of French company taxation is the relatively large share of taxes on inputs. For example, the *taxe professionnelle* is a tax based on wages and the rental value of fixed assets.

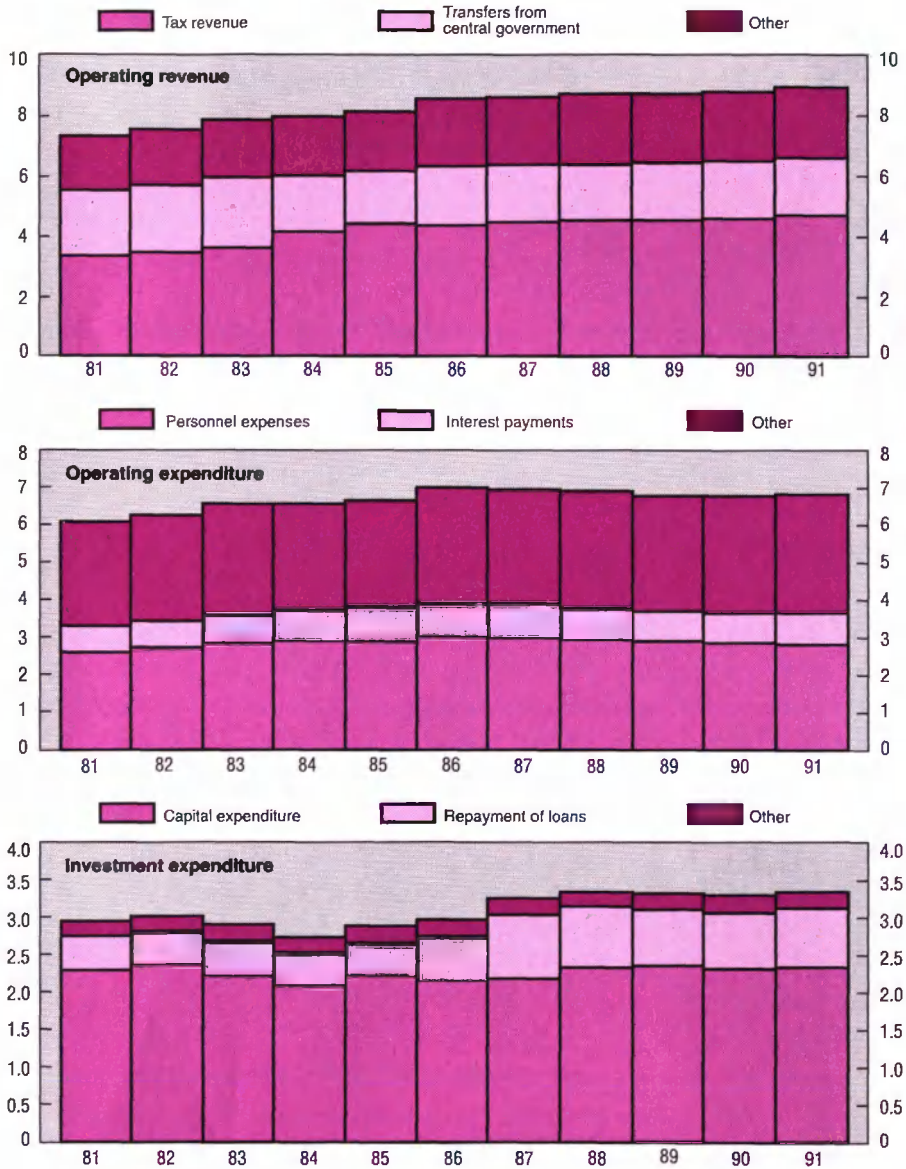
### ***Decentralisation and local-government financing***

The process of decentralisation set in train ten years ago has had a major impact on the structure of public spending and revenue. From 1982 real expenditure by local government increased at an average rate of 3.4 per cent a year (11 per cent a year in the case of the regions), while central-government spending increased only by about 1.3 per cent per year<sup>25</sup> (Diagram 10). Capital spending was particularly buoyant, especially from 1985, as local authorities took over responsibility for school buildings and transport infrastructure investment, and for improving public amenities. The debt burden of local authorities also increased steeply, from 7.6 to 9.7 per cent of their expenditure between 1980 and 1990, due to the disappearance of subsidised loans and the rise in real interest rates. A corollary of the marked increase in local-government expenditure was a steep rise in local taxes, up from 3 per cent of GDP in 1981 to 4 per cent in 1990, or more than half of local-government operating revenue, and in transfers of tax revenue from central government to local authorities, which represented 2.1 per cent of GDP in 1990 as compared with 1.7 per cent in 1981.

The local authorities' increased role in the economy made the management of the public finances more difficult. Although the upward momentum of central-government transfers to local authorities has probably eased somewhat since 1990 with the decision to peg increases in the block operating grant (*dotation globale de fonctionnement*) to a fixed percentage of real GDP growth, it was probably not sufficient to convince the local authorities to pursue a sufficiently stringent tax policy nor to keep their expenditure under tight control. Thus, the efforts made to reduce central-government expenditure were partly cancelled out by the policies pursued by local authorities. The widening of the local authorities' role has also given rise to problems of equity, some areas being richer than others. It was for this reason that in 1991 measures were taken to redistribute local-authority revenue, albeit with no impact on its overall level, with a view to reinforcing financial solidarity between local authorities.

The growth of local-government debt is often mentioned as another cause for concern. In fact, the rapid growth of operating revenue has allowed the local

Diagram 10. **FINANCING OF LOCAL GOVERNMENT**  
As a percentage of GDP



Source: Crédit Local de France

authorities to reduce their direct debt by 2 percentage points of GDP from 1986 to 1990 to 9.1 per cent of GDP<sup>26</sup>. However, this average figure masks wide disparities between authorities, a few of them having much higher debt. On the other hand, it would seem that the guarantees provided by local authorities to private economic agents have increased substantially in the past few years. In order to ensure fuller consistency between overall macroeconomic policy and local-government actions, a draft law on regional government reorganises the basis of co-operation between communes and between regions and gives the regional *préfets* the right to shape and direct economic policy in the *départements*. According to the 1991 Report of the Cour des Comptes (Audit Office) on local-government cash management and debt, it is essential that the authorities improve the accounts of both the central government, which does not know the exact amount of the taxes that it collects on behalf of local government, and of local governments, whose accounts do not reflect faithfully their actual financial situation.

### *Social security*

As mentioned earlier, the recent improvement in the finances of the health-care system is ascribable essentially to the fact that contribution rates were raised. However, the authorities are also trying to curb the supply of medical goods and services. Agreements have been negotiated with some health-care professions with a view to reducing the growth of health to a rate closer to the underlying rate of GDP growth. The authorities' aim is to get health professionals to accept that care be financed out of a negotiated overall appropriation. To this end, agreements have been signed with clinical biologists, ambulance personnel, private-sector nurses and private clinics; however, they are of limited impact: official estimates point to a  $\frac{1}{4}$  point reduction in spending in 1992. Doctors have agreed to limit their billing to an increase of 7.1 per cent in 1992, compared to a spontaneous growth rate of  $8\frac{1}{4}$  per cent. In the event of overspending, sanctions will be invoked against the relevant practitioners. In return, doctors were granted an increase in their fees amounting to FF 2.2 billion per year. Also, a *Plan-Medicament* is being negotiated; under this plan there would be an overall appropriation for the medicines that are reimbursed by the social security, and the amount by which it would increase would be fixed every year.

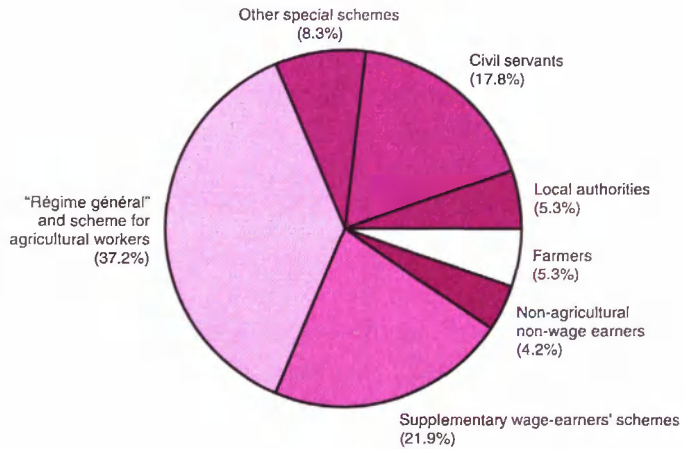
However, the retirement pension system seems to give as much cause for concern in the long run. On official estimates, the structural deficit on the old-age insurance account is already increasing by FF 6 billion a year. To date, no major reform has been introduced to curb the growth of expenditure on retirement pensions; the measures taken have been limited to indexing pensions in recent years to the projected rise in prices. However, in spring-1991 the authorities published a White Paper on retirement pensions with a view to launching a debate on the reform of the system based on a full assessment of the medium and long-term problems involved; this was followed by the Cottave Report on retirement pensions in January 1992.

The White Paper set out the main features of the highly diversified retirement system. The two main schemes for private-sector employees (the *régime général* and the scheme for agricultural workers) are supplemented by numerous other schemes, some of which are compulsory, others optional. For non-wage-earners, the same structure applies to each socio-professional category. Lastly, public-sector employees are covered by 20 different schemes. All told, while the entire labour force has compulsory pension cover, pensions are usually more generous for wage-earners, particularly those in the public sector, the disparities relating less to the amount of pension than to the age of entitlement and ancillary benefits (especially survivors' pensions) (Table A1 in Annex I). The main wage-earners' scheme which is the largest in terms of number of members, collects more than 40 per cent of contributions and pays out 37 per cent of total retirement pensions (Diagram 11). Also, the procedure for uprating pensions was very favourable to pensioners up to the beginning of the 1980s. But the growth of pensioners' purchasing power slowed due to the changes in the system of indexation: beginning in 1982 they were calculated in line with changes in net wages, i.e. after deduction of social-insurance contributions<sup>27</sup>, and then as of 1987 with those in projected prices. In contrast, in 1990 and 1991 pensioners suffered relative purchasing-power losses, because no catch-up was given for underestimation of the rise in prices.

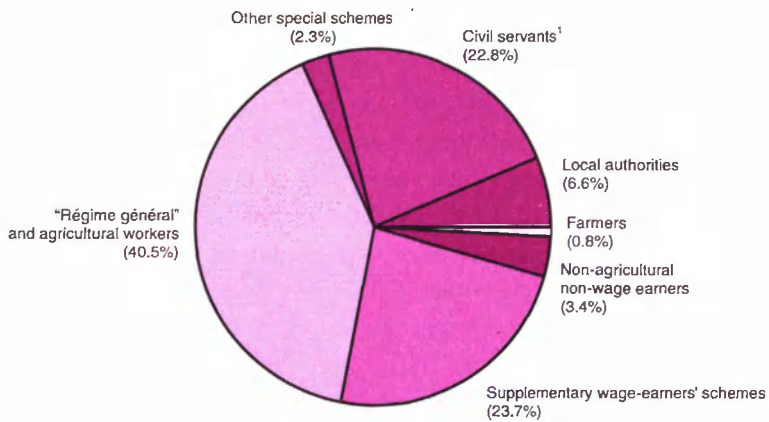
The White Paper recommended that the pay-as-you-earn pension schemes be reorganised, although not to the point of merging them, and put forward a number of possible scenarios: the number of years needed to qualify for a full retirement pension under the various schemes could be harmonised and increased from 37.5 years to 41 or 42 years; the rules for calculating the amount of pension

Diagram 11. **THE PUBLIC PENSION SYSTEM, 1990**

**Breakdown of benefits (FF 541 billion)**



**Breakdown of contributions (FF 529 billion)**



1. Including notional contributions (FF 99.4 billion).

Source: *Livre blanc sur les retraites*, la Documentation Française, August 1991.

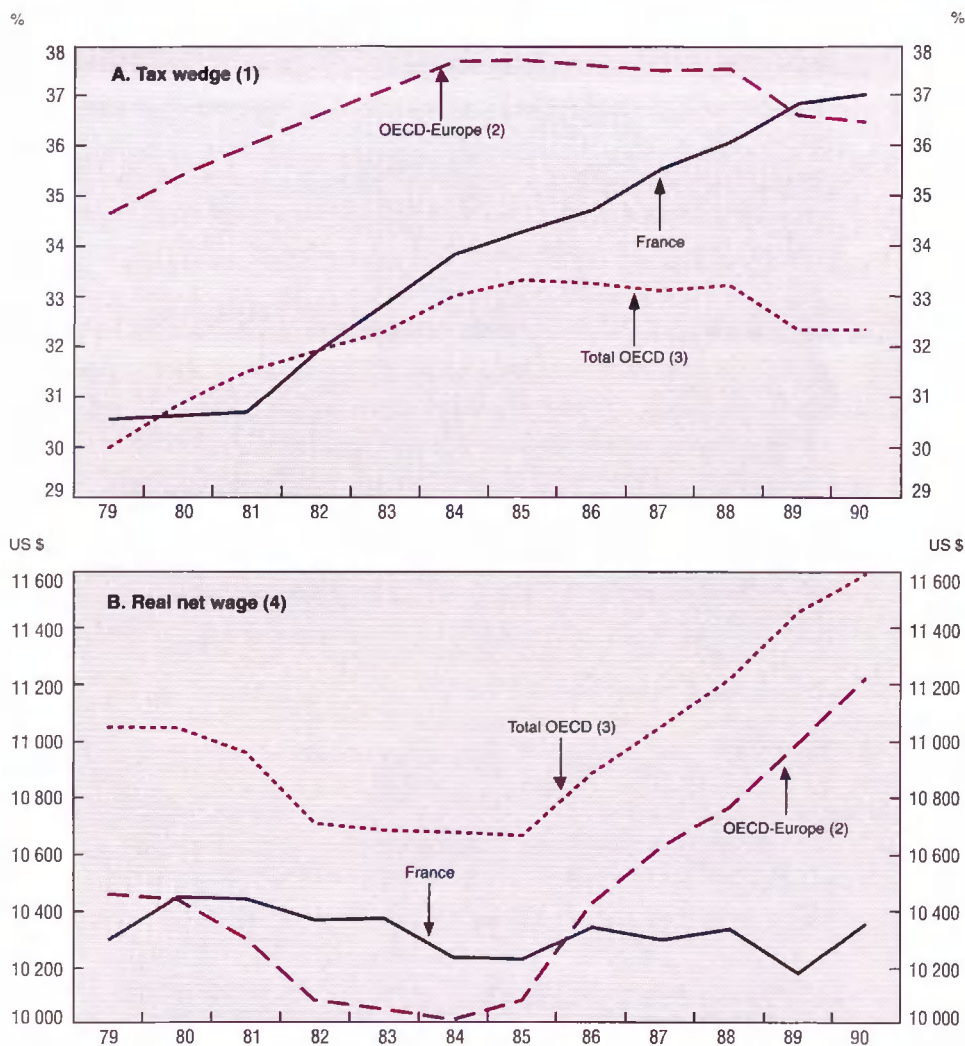
could be modified with a view to linking benefits more closely to contributions, e.g. by calculating entitlements on the basis of the average of the 25 best annual salaries (instead of the 10 best, as is usually the case at present); pensions could be upgraded in line with the observed increase in prices or net wages corrected for wage drift, so as to avoid the distortions that result from the rapid rise in social-insurance contributions. It would seem that the imminent proposals for reform will include some increase in the number of years of required contributions but will not change the way in which the amount of the pension is calculated.

Such reforms are all the more necessary in that rising social-insurance contributions have been significantly widening the "tax wedge" (the gap between labour costs and net take-home pay) since the mid-1970s. In 1990, the tax wedge for the average production worker was of the order of 37 per cent of average pay, roughly 5 points more than the OECD average (Diagram 12). Thus, real net take-home pay stayed approximately unchanged during the 1980s, although it rose an average of  $\frac{1}{2}$  per cent per year in the rest of the OECD. The recent increase in health contributions boosted the tax wedge once again in 1991, with adverse consequences on employment and unemployment, at least in the short run<sup>28</sup>.

### *State intervention*

The government's position on industrial policy is varied. On the one hand, in 1991 it interrupted its policy of neither privatising nor nationalising, which it had followed since 1988, and authorised the partial privatisation of public enterprises (up to 49 per cent of the capital of banks and industrial enterprises, provided that the operation includes an agreement on industrial, commercial or financial co-operation with the purchaser)<sup>29</sup>. A government bill will extend the same arrangements to insurance companies. The proceeds from the sale of assets will be used to finance equity infusions for public enterprises as well as the recent measures to promote employment (see Part III). Also, at the beginning of 1992 it was decided to create a new public enterprise by merging the non-defence activities of Thomson and CEA-Industrie. Although the aim of this alliance is to generate synergy between the electronics and nuclear sectors, there also seems to be financial considerations behind it, insofar as state intervention in the form of subsidies or equity funding is closely watched by the EC Commission.

Diagram 12. **TAX WEDGE AND TAKE-HOME PAY OF THE AVERAGE PRODUCTION WORKER**



1. The tax wedge is defined as the ratio of taxes plus employees' and employers' contributions to employees' total remuneration.
2. Excluding Portugal, Greece, Iceland, Luxembourg, Turkey.
3. Excluding the United States, Portugal, Greece, Iceland, Italy, Luxembourg and Turkey.
4. Deflated using the private consumption deflator (1985 = 1) and converted into US dollars using 1985 purchasing power parities.

Sources: OECD, *The Tax/Benefit Position of Production Workers, 1979-1990*, and OECD Secretariat estimates.

Turning to competition policy (the subject of the structural chapter in the previous Survey of France), comparative advertising was authorised in November 1991; also, discussions are under way on the easing of the law on Sunday trading – which is backed by consumer associations – but only for the sale of “cultural goods”. The regulations governing foreign investments were also eased further; investment projects by non-EC companies that do not exceed FF 500 million, which account for 90 per cent of all cases, no longer have to receive prior authorisation. It may be noted that two of the four projects that had not been authorised in 1990 were approved in 1991, both of them relating to Japanese investment in the automobile sector. On the other hand, intervention seems to be continuing on the trade front. As an illustrative example, the authorities have tended to resort fairly frequently to Article 115 of the Treaty of Rome, which authorises it to limit imports from other Member States in order to avoid the diversion of merchandise trade. From 1980 to 1990, France’s curbs on imports accounted for a fairly constant 42 per cent of the total, admittedly declining, recourse to the Article, especially in textiles and electronics (GATT, 1991).

Experience having shown that it is small and medium-sized enterprises (SMEs) that create the most jobs, the “Plan PME-PMI”<sup>30</sup> was launched in September 1991 to help improve their performance. The main aim of the tax measures in the 1992 budget, which represent about 6 per cent of the corporation tax paid by SMEs, is to encourage them to increase their equity capital, the inadequacy of which compared with large enterprises and SMEs in other countries has been long recognised<sup>31</sup>. Also, with a view to continuing the consolidation of SME equity capital that was begun in 1988, a tax credit for capital increases has been introduced. Non-tax measures were also taken, including a reduction in the time limit within which companies have to be paid; the latter measure should make a marked improvement on the finances of most industrial enterprises (Banque de France, 1991). Initially, the improvement in cash positions that will result from these measures will probably be used by SMEs to continue to reduce their indebtedness, which they had started to do in 1987. In a context of high real interest rates, debt-servicing costs place a relatively heavier burden on SMEs, which are more heavily indebted than large enterprises (in 1990 their debt ratios were respectively 48 and 39 per cent). However, once their

financial situation has improved, the SMEs can be expected to show a high rate of job-creating investment once again.

### ***The financial sector***

In 1991 a number of measures were taken that supplemented certain aspects of the reform of the monetary and financial system. The prudential rules concerning the risks attaching to money-market Sicavs (open-end investment companies) were eased. The rules on the issue and maturity of negotiable corporate debt instruments were modified with a view to promoting the market in instruments with maturities of more than two years. Also, the 1984 Banking Act was amended to bring it into line with EC law. EC banks no longer require approval to open a branch in France, but merely have to inform the authorities.

As stock-market transactions have fallen substantially since end-1989, notwithstanding the deregulation of 1988, and the Paris Bourse still lags well behind the London stock market in terms of both transactions and capitalisation (26 per cent of GDP in Paris compared to 88 per cent in London), a number of proposed reforms of the Bourse were put forward in autumn 1991 in the de la Serre Report. With a view to improving the quality of the market, the Report recommended in particular that the securities tax (0.3 per cent of the transaction) be abolished – this would encourage investment in French shares – and that a wholesale trading market (for large block trades) be set up.

### ***The environment***

The main aims of the 1990 National Environmental Plan were to cut air pollution by 20-30 per cent, to increase the share of treated household waste water to 60 per cent (as compared with 40 per cent at present) and to improve waste recycling. With regard to water policy, over the period 1992-96 it is planned to double water prices and aid to the regional agencies for the management of water resources (*Agences du Bassin*) as compared with the period 1987-91. The special depreciation allowances (50 per cent during the first year) for environmentally-friendly investment have been extended to air and water pollution control equipment. Environmentally-friendly farming practices (winter intercrops, late hay-making) will be encouraged in sensitive areas, in line with EC regulations. Also, a draft law, which is expected to be approved this spring, proposes to introduce a tax on the dumping of solid waste by local authorities as

well as a prohibition on the dumping of untreated waste. It is estimated that the introduction of selective refuse collection on a large scale, which was announced recently, would increase collection costs by 20-30 per cent. The 1992 budget includes some tax exemptions on energy, notably, subject to certain conditions, on a biofuel – rapeseed-based diester<sup>32</sup>.

## **Outlook to end-1993**

France does not seem to be experiencing any major imbalances that could impede a return to growth. Monetary policy will continue to be oriented to maintaining the stability of the franc within the EMS. With further progress on the disinflation front in France and virtually stable interest rates in Germany, this should nonetheless be compatible with a slight easing of interest rates in 1993 and the closing of the gap with German rates. As regards fiscal policy, its impact on growth is set to remain essentially neutral in 1992-93. The fiscal-policy assumptions embodied in these projections take account of developments since the 1992 budget was voted, especially the elimination of the top VAT rate, the measures for the long-term employed and possible spending cuts to offset some additional expenditure, as well as the early indication that State spending increases should be held to about 3½ per cent in 1993. Furthermore, financial pressures are expected to force a boost in employee social-security contribution rates by the beginning of 1993. All told, in the absence of further measures, the general-government borrowing requirement should rise slightly in 1992 and 1993 to 2¼ per cent of GDP, the expected pick-up of growth offsetting only partly and with a lag, the effects of the other changes already described.

The main stimulus to activity is likely to come from abroad. After slowing again during the second half of 1991 due to the flatness of activity in Germany and persisting sluggish growth in English-speaking countries, the demand for French manufactures is set to pick up during the first months of 1992, in line with the projected recovery in the United States, rising on a year-on-year basis by 5¾ per cent in 1992 and 6½ per cent in 1993, as compared with 5¼ per cent in 1991.

The growth of activity is likely to remain modest at least until mid-1992, and thereafter strengthen gradually (Table 9). GDP growth should return to its potential rate of some 2¾ per cent only towards the middle of 1993. On an

**Table 9. Short-term projections**  
Percentage changes, seasonally adjusted annual rates, 1980 prices

|                                                          | 1991 | 1992 | 1993 | 1992 I | 1992 II | 1993 I | 1993 II |
|----------------------------------------------------------|------|------|------|--------|---------|--------|---------|
| Private consumption                                      | 1.5  | 2.5  | 2.5  | 2.5    | 2.3     | 2.5    | 2.6     |
| Government consumption                                   | 3.2  | 1.8  | 2.0  | 1.4    | 1.8     | 2.1    | 2.1     |
| Gross fixed investment                                   | -0.6 | -0.6 | 2.9  | -2.1   | 0.9     | 3.3    | 4.0     |
| <i>Of which:</i>                                         |      |      |      |        |         |        |         |
| General government                                       | 5.0  | 2.4  | 3.3  | 1.5    | 2.4     | 3.6    | 3.6     |
| Households                                               | -1.2 | -1.1 | 1.5  | -4.0   | -1.5    | 2.3    | 3.0     |
| Other                                                    | -1.9 | -1.3 | 3.4  | -2.3   | 1.5     | 3.8    | 4.5     |
| Final domestic demand                                    | 1.3  | 1.7  | 2.5  | 1.3    | 1.9     | 2.6    | 2.8     |
| Stockbuilding <sup>1</sup>                               | -0.3 | -0.1 | 0.1  | -0.1   | 0       | 0.1    | 0.1     |
| Total domestic demand                                    | 1.0  | 1.5  | 2.6  | 1.2    | 1.9     | 2.7    | 2.9     |
| Exports of goods and services                            | 4.0  | 5.2  | 6.1  | 4.5    | 5.5     | 6.2    | 6.6     |
| Imports of goods and services                            | 2.8  | 3.2  | 5.7  | 2.5    | 5.0     | 5.8    | 6.2     |
| Foreign balance <sup>1</sup>                             | 0.2  | 0.5  | 0.0  | 0.5    | 0.1     | 0.0    | 0.0     |
| GDP                                                      | 1.3  | 2.0  | 2.6  | 1.7    | 2.0     | 2.7    | 3.0     |
| GDP price deflator                                       | 3.0  | 3.1  | 2.7  | 3.2    | 3.0     | 2.6    | 2.5     |
| Private consumption deflator                             | 3.1  | 2.8  | 2.6  | 2.7    | 2.6     | 2.6    | 2.5     |
| Household saving ratio <sup>2</sup>                      | 12.7 | 12.6 | 12.3 | ..     | ..      | ..     | ..      |
| Short-term interest rates                                | 9.6  | 10.0 | 9.3  | 10.0   | 9.9     | 9.5    | 9.1     |
| Long-term interest rates                                 | 9.5  | 9.2  | 9.1  | 9.2    | 9.2     | 9.2    | 9.0     |
| General-government borrowing<br>requirement <sup>3</sup> | 2.1  | 2.3  | 2.3  | ..     | ..      | ..     | ..      |
| Total employment                                         | 0.4  | 0.2  | 0.5  | 0.1    | 0.4     | 0.5    | 0.7     |
| Unemployment rate <sup>4</sup>                           | 9.4  | 9.8  | 9.8  | 9.9    | 9.8     | 9.8    | 9.7     |
| Current balance <sup>5</sup>                             | -0.5 | -0.1 | -0.1 | ..     | ..      | ..     | ..      |

1. Contributions to GDP growth.

2. As a percentage of disposable income.

3. As a percentage of GDP.

4. As a percentage of the labour force.

5. As a partage of GDP, including capital transfers.

Source: OECD estimates.

annual average basis, it is estimated that GDP growth will be 2 per cent in 1992 and some 2½ per cent in 1993. The mainstays of growth are likely to be exports and private consumption. Despite flagging demand in Germany, the recovery expected among France's other main trading partners and the continuing very

favourable trend of competitiveness should stimulate the growth of foreign sales. On the other hand, domestic demand is likely to continue to pick up only slowly. In spite of persisting weakness of households' real disposable income growth in 1992, in a context of high unemployment it is unlikely that their propensity to consume will increase significantly. However, the need to renew the stock of consumer durables as well as a revival of confidence should contribute to a very gradual strengthening in private consumption. Given the fiscal measures that have been announced, public consumption in 1992 is set to slow, but general-government investment should remain relatively buoyant.

The outlook for business investment is highly uncertain. The deterioration in firms' results in 1991, the low rate of capacity utilisation and the cost and difficulty of obtaining credit are all likely to make entrepreneurs cautious as long as there are no clear signs of recovery. Indeed, the January 1992 survey indicates that industrial investment will continue to fall this year (by 4 per cent in volume terms). Also, the *Grandes Entreprises Nationales* are likely to slow the growth of their capital spending. On the other hand, if the general climate improves, the financial situation of companies is sufficiently sound and capacity utilisation high enough to permit a fairly vigorous pick-up in investment in 1993. Import growth is set to remain fairly slow in 1992 but then to accelerate in 1993 in line with domestic demand, so that, after being largely positive in 1992, the contribution to growth from foreign trade may disappear in 1993.

Notwithstanding the new measures to promote employment, whose impact is difficult to foresee at this stage, the unemployment rate will probably only stabilise during the summer of 1992, before falling very slightly late in the year and in 1993. The labour-market situation should continue to bear down on wage growth, which should slow further. Thus, together with the cyclical improvement in productivity, the growth of economy-wide unit labour costs could fall to 2 per cent in 1993, and to 1¼ per cent in industry. These cost developments should permit both a rebuilding of profit margins and a return to gradual price deceleration. The current-account deficit could continue to narrow in 1992, stabilising at less than FF 10 billion in 1993. Market-share gains, further rises in the surplus on tourism account, positive terms-of-trade changes and the fall in the oil bill this year should more than offset the further deterioration in net transfers and the growing deficit on net investment income.

Clearly, these projections hinge importantly on an improvement in the international environment. Failing a revival of foreign demand, the market-share gains stemming from the favourable trend of competitiveness would be unable alone to secure sufficient growth of output to generate income growth and a pick-up in domestic demand. In this respect, while the prospects now seem brighter in the English-speaking countries, the outlook in Germany is more uncertain. If the slowdown of activity turned out to be much more marked than projected or monetary policy was tightened again in Germany, thereby pushing up interest rates in the EMS countries, not only would it be likely that the recovery would be deferred but also that it would be weaker.

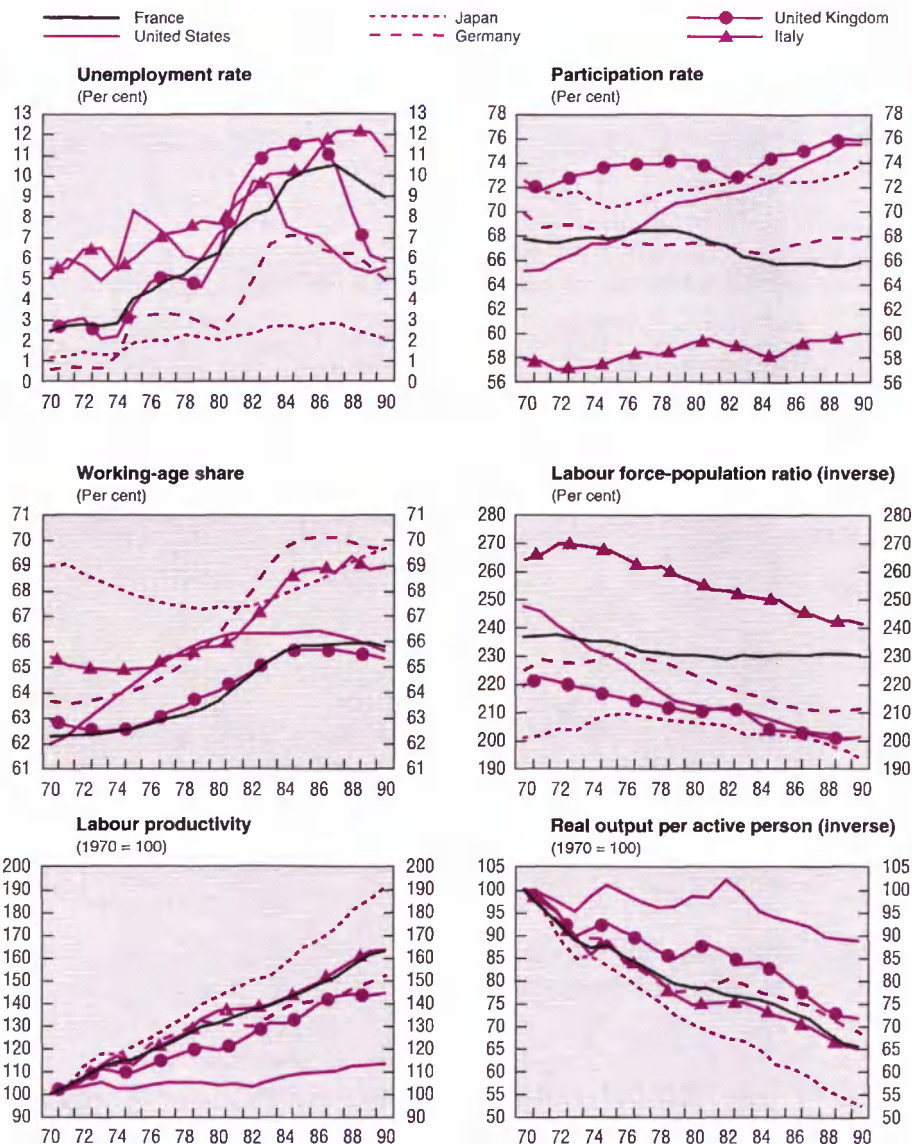
### **III. Unsatisfactory labour-market performance**

France's labour-market performance is widely acknowledged to have been unsatisfactory. This concern is not recent, but dates back to the late 1970s. Indeed, it was only in 1988 that the nation's civilian employment regained its 1974 level. Yet the problem has been most clearly visible in terms of the trend rise in the unemployment rate. France stands out as the major OECD country which experienced the longest and largest uninterrupted rise in unemployment after the first oil-price shock, with a peak of over 10 per cent recorded in 1987 (Diagram 13, Panel 1). While a reduction of  $1\frac{3}{4}$  percentage points was indeed achieved in the closing years of the 1980s, as nearly three-quarters of a million jobs were created (over 1 per cent per year), even that progress was less than impressive compared to the employment expansion seen in the large majority of other Member countries, including all of the other major seven, and there has been a renewed rise in unemployment since the end of 1990. The nation also suffers from relatively severe problems of long-term, youth and female unemployment (Table 10). This chapter delves further into this sub-par performance and attempts to identify some of its causes. The following chapter evaluates the possible role of the education and training system in generating high levels of structural unemployment.

#### **An overview of supply and demand factors**

A frequently heard explanation for France's relatively poor performance on the unemployment front is its demographic situation. However, the rise in the working-age share of the total population until the mid-1980s was less marked in France than in Germany and no greater than in the United States or Italy. Nevertheless, France's experience in terms of total population growth stands out: while others faced a slowdown, France's was better maintained, given its higher

Diagram 13. **FACTORS IN UNEMPLOYMENT<sup>1</sup>**



1. The unemployment rate is related by an identity to the other five factors displayed; see Annex. Note that an increase in each factor is reflected in an increase in the unemployment rate.

Sources: OECD, *Labour Force Statistics* and Secretariat estimates.

Table 10. Unemployment trends across countries

Per cent

|                | Standardised unemployment rate |             |             |             |             |            | Long-term unemployment share <sup>1</sup> |             |             |             |             |             |
|----------------|--------------------------------|-------------|-------------|-------------|-------------|------------|-------------------------------------------|-------------|-------------|-------------|-------------|-------------|
|                | 1973                           | 1979        | 1987        | 1989        | 1990        | 1991       | 1973                                      | 1979        | 1987        | 1989        | 1990        | 1991        |
| United States  | 4.8                            | 5.8         | 6.1         | 5.2         | 5.4         | 6.6        | 3.3                                       | 4.2         | 8.1         | 5.7         | 5.6         |             |
| Japan          | 1.3                            | 2.1         | 2.8         | 2.3         | 2.1         | 2.1        | ..                                        | 16.8        | 20.2        | 18.7        | 19.1        |             |
| Germany        | 0.8                            | 3.2         | 6.2         | 5.6         | 4.9         | 4.3        | 8.5                                       | 28.7        | 48.2        | 49.0        | ..          |             |
| <b>France</b>  | <b>2.7</b>                     | <b>5.9</b>  | <b>10.5</b> | <b>9.4</b>  | <b>8.9</b>  | <b>9.4</b> | <b>21.6</b>                               | <b>30.3</b> | <b>45.5</b> | <b>43.9</b> | ..          |             |
| United Kingdom | 3.0                            | 5.0         | 10.3        | 7.1         | 6.8         | 8.9        | 26.9                                      | 29.5        | 45.9        | 40.8        | ..          |             |
| Italy          | 6.2                            | 7.6         | 10.9        | 10.9        | 10.3        | 9.9        | ..                                        | 51.2        | 66.4        | 70.4        | ..          |             |
| Canada         | 5.5                            | 7.4         | 8.8         | 7.5         | 8.1         | 10.2       | ..                                        | 3.4         | 9.4         | 6.8         | 5.7         |             |
| Belgium        | 2.7                            | 8.2         | 11.0        | 8.0         | 7.3         | 7.7        | 51.0                                      | 61.5        | 74.9        | 76.3        | ..          |             |
| Netherlands    | 2.2                            | 5.4         | 9.6         | 8.3         | 7.5         | 6.9        | 12.8                                      | 35.9        | 45.6        | 49.9        | ..          |             |
|                | Unemployment rate              |             |             |             |             |            | Unemployment rate                         |             |             |             |             |             |
|                | Youth <sup>2</sup>             |             |             |             |             |            | Female                                    |             |             |             |             |             |
|                | 1973                           | 1979        | 1987        | 1989        | 1990        | 1991       | 1973                                      | 1979        | 1987        | 1989        | 1990        | 1991        |
| United States  | 9.9                            | 11.3        | 11.7        | 10.5        | 10.7        | 12.9       | 6.0                                       | 6.8         | 6.2         | 5.3         | 5.4         | 6.3         |
| Japan          | 2.3                            | 3.4         | 5.2         | 4.5         | 4.3         | ..         | 1.2                                       | 2.0         | 2.8         | 2.3         | 2.2         | 2.2         |
| Germany        | 0.9                            | 3.4         | 8.1         | ..          | ..          | ..         | 1.2                                       | 4.5         | 8.8         | 8.1         | 7.4         | 6.3         |
| <b>France</b>  | <b>4.0</b>                     | <b>13.3</b> | <b>23.0</b> | <b>19.1</b> | <b>19.3</b> | ..         | <b>4.6</b>                                | <b>8.5</b>  | <b>13.5</b> | <b>12.6</b> | <b>12.0</b> | <b>12.3</b> |
| United Kingdom | 3.1                            | 10.3        | 17.3        | 8.3         | 8.1         | ..         | 0.9                                       | 3.3         | 7.6         | 4.0         | 3.3         | 4.4         |
| Italy          | 12.6                           | 25.6        | 35.5        | 33.6        | 31.4        | ..         | 11.4                                      | 13.1        | 18.5        | 18.6        | 17.4        | 16.7        |
| Canada         | 10.1                           | 12.9        | 13.7        | 11.3        | 12.8        | 16.2       | 6.7                                       | 8.7         | 9.3         | 7.8         | 8.1         | 9.7         |
| Belgium        | ..                             | ..          | ..          | ..          | ..          | ..         | 3.4                                       | 12.8        | 16.4        | 13.7        | 12.8        | ..          |
| Netherlands    | ..                             | ..          | ..          | ..          | ..          | ..         | 1.8                                       | 6.7         | 13.6        | 11.5        | 10.7        | ..          |

1. Proportion of those unemployed for more than one year in total unemployment.

2. 15-16 to 25 age group.

Sources: OECD, *Economic Outlook, Employment Outlook and Labour Force Statistics*, Part III.

birth rate. Labour-force participation is another frequently heard explanation, but while participation in France was not unusual in the 1970s, it appears to have been remarkable in declining over the 1980s, notably for youths and those over 55 (there is considerable uncertainty at present due to difficulties in interpreting all the results of the 1990 Census). By the middle of the decade its rate was lower than all others save Italy. While female participation rates rose less than elsewhere since the early 1980s (8.2 percentage points compared to an average of 14.3 points in a dozen other OECD countries), the fall in male participation rates was particularly steep.

On the demand side, for any given rate of output growth, employment is higher the lower is labour productivity. French productivity growth since 1970 has averaged about 2½ per cent per year, substantially greater than observed in the United States (0.7 per cent), but France's output growth has been just as "rich" in job creation as Italy's and far more so than Japan's (productivity growth of 3.3 per cent). Overall, however, labour productivity increases have been slightly above average. Last, labour demand is a function of the level of output, and average real GDP growth in France has been in line with the average recorded by other major countries. To sum up then, in a simple arithmetic sense, the relative severity of France's unemployment problem in spite of manifestly weak labour-force participation trends can be ascribed to an insufficient rate of growth of aggregate output and employment, given the rate of population increase which was comparatively rapid by European standards. The manifestation of the imbalance was most obvious in terms of a surge in joblessness among new entrants to the labour force.

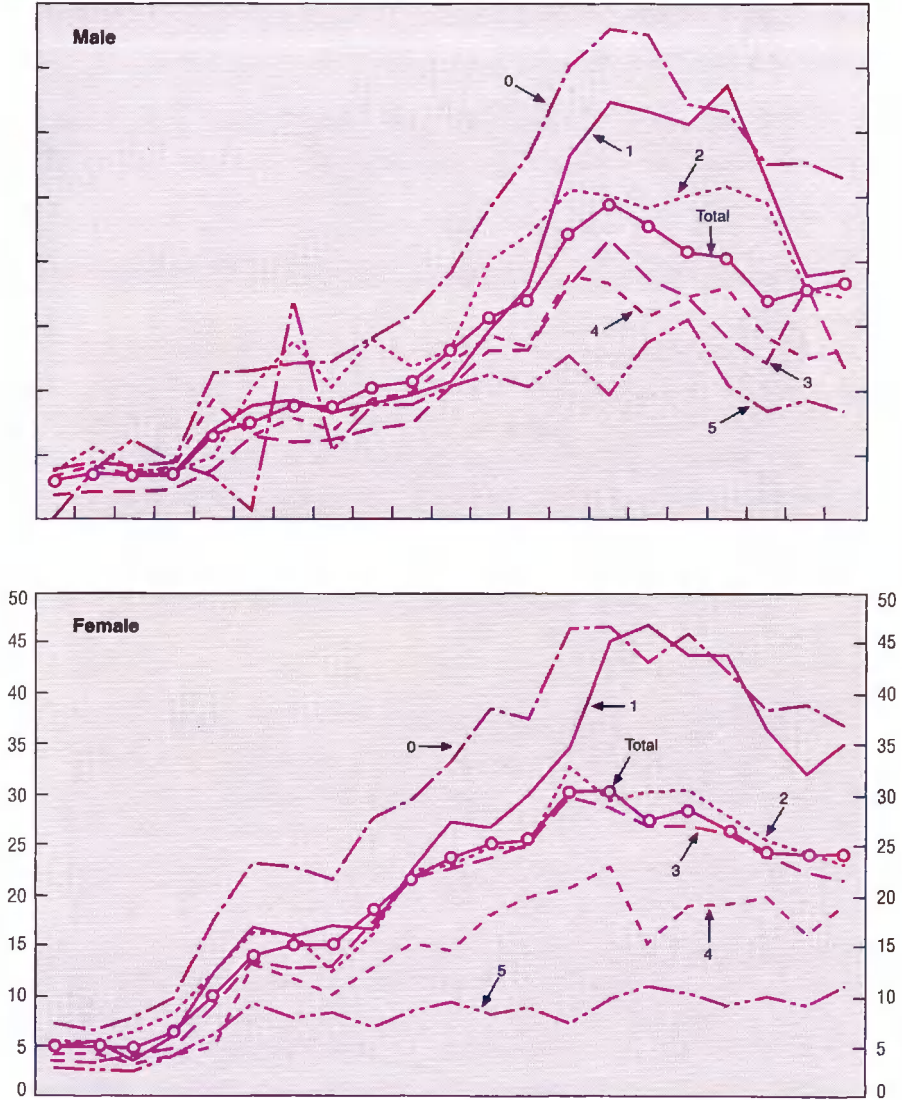
## **A particular problem of youth unemployment**

While the aggregate unemployment rate for France rose by a factor of four between the early 1970s and the mid-1980s peak, for those under the age of 25 it rose by over six, in response to a one-third drop in new hires between 1973 and 1985. By then, more than one in four active youths was unemployed. The problem has been particularly severe among young women for whom the peak rate exceeded 30 per cent. While the ratio of youth to adult rates is in line with the OECD average, the actual rate itself is exceeded only by that of Italy among

major trading partners. Such early-career joblessness can be especially costly as it prevents the accumulation of skills. Another perspective on the bleak prospects for inexperienced youths can be gained by observing that the number of new hires of school leavers directly upon completion of studies, apprenticeships or military service fell from 695 000 in 1973 to 358 000 in 1985<sup>33</sup>, while total new hires from the ranks of the unemployed surged from 181 000 to 715 000 over the same period. Job-market prospects deteriorated most markedly after 1973 for those with the lowest levels of educational attainment: nearly 47 per cent of women participating in the labour market between the ages of 15 and 24 with no more than primary education were unable to find work in 1984-85, five times the rate faced by their better educated sisters, whereas a typical multiple in the early 1970s was more like two or three (Diagram 14). The penalty to low educational attainment among young men is somewhat less, but sizeable nonetheless. Thanks to a significant expansion in targeted measures to combat youth unemployment between 1985 and 1987 (whose budgetary cost was 0.14 per cent of GDP), the authorities managed to turn the tide, and, combined with a pick-up in the trend to extended schooling and therefore delayed entry into the labour force (Table 11), youth unemployment rates eased until 1989, especially for those with the lowest levels of educational attainment (who were the particular targets of these measures).

Even in 1989, however, the unemployment rate among French youth exceeded the EC average by two percentage points, despite substantially more limited labour-force participation: overall, only 27.5 per cent of the age-group had full-time jobs, compared to 36.6 per cent in the EC as a whole. In addition, those jobs which young people have managed to obtain have tended to be "precarious": fixed-term contracts are about all that is available<sup>34</sup>. While this can also be observed elsewhere in the EC, such employment has been particularly focused on youth in France; the result has been a heavy concentration of low-wage earners among youths (CERC, 1991a). Finally, as elsewhere, with their higher share of employment in fixed-term contracts, youths (and women) manifest a higher turnover rate and therefore higher measured rates of unemployment. This probability of becoming unemployed – measured by the ratio of those unemployed for less than one month to the level of employment – has increased by a factor of three since 1973 for youths, especially young women, with little change for those over the age of 25.

Diagram 14. UNEMPLOYMENT RATE FOR 15-24 YEAR-OLDS BY EDUCATIONAL ATTAINMENT<sup>1</sup>



1. 0: no qualification whatsoever or not stated; 1: certificat d'études primaires (CEP); 2: only the brevet d'études du premier cycle du second degré (BEPC); 3: certificat d'aptitude professionnelle (CAP) or brevet d'études professionnelles (BEP) or equivalent, with or without the BEPC; 4: baccalauréat-level diploma (including the brevet professionnel); 5: post-baccalauréat diploma.

Source: INSEE.

Table 11. Main characteristics of activity of young persons

Per cent

**A. International comparison in 1989** (shares of population aged 14-24)

|                         | France |         |       | EC12  |         |       |
|-------------------------|--------|---------|-------|-------|---------|-------|
|                         | Males  | Females | Total | Males | Females | Total |
| In employment           | 36.6   | 30.1    | 33.2  | 45.4  | 37.7    | 41.6  |
| Part time               | 3.4    | 7.8     | 5.7   | 3.5   | 6.5     | 5.0   |
| Full time               | 33.2   | 22.3    | 27.5  | 41.9  | 31.2    | 36.6  |
| Unemployed              | 7.1    | 9.0     | 8.1   | 8.2   | 9.5     | 8.9   |
| Registered              | 5.6    | 7.3     | 6.5   | 6.4   | 7.3     | 6.8   |
| Seeking first job       | 1.6    | 2.5     | 2.0   | 3.9   | 5.2     | 4.5   |
| Labour force            | 43.7   | 39.1    | 41.3  | 53.6  | 47.3    | 50.4  |
| Non-active              | 56.3   | 60.9    | 58.7  | 46.4  | 52.7    | 49.6  |
| In education            | 52.1   | 52.8    | 52.4  | 43.5  | 42.9    | 43.2  |
| <i>Memorandum item:</i> |        |         |       |       |         |       |
| Unemployment rate       | 16.2   | 23.1    | 19.6  | 15.2  | 20.2    | 17.6  |

Source: OECD calculations based on Eurostat, *Labour Force Survey Results 1989, 1990*.**B. Trends in France** (shares of population aged 16-25)

|                               | 1983 | 1985 | 1987 | 1989 | 1991 <sup>1</sup> |
|-------------------------------|------|------|------|------|-------------------|
| In employment                 | 46.8 | 42.8 | 42.7 | 40.7 | 40.6              |
| Assisted by specific measures | 5.3  | 5.6  | 10.8 | 8.9  | 8.5               |
| Apprenticeships               | 2.6  | 2.5  | 2.6  | 2.7  | 2.6               |
| Other (including trainees)    | 2.7  | 3.1  | 8.2  | 6.2  | 5.9               |
| Unassisted                    | 41.5 | 37.2 | 31.9 | 31.8 | 32.1              |
| National service              | 2.9  | 2.9  | 2.7  | 2.7  | 3.2               |
| Unemployed                    | 9.8  | 12.4 | 11.2 | 8.7  | 7.7               |
| Non-active                    | 36.7 | 38.6 | 40.3 | 43.3 | 48.2              |
| In education                  | 29.9 | 32.0 | 34.6 | 38.2 | 42.8              |
| Others                        | 6.8  | 6.6  | 5.7  | 5.1  | 5.4               |
| Residual                      | 3.8  | 3.3  | 3.1  | 4.6  | 0.3               |

1. Care should be taken in comparing 1991 with earlier years as the methodology changed.

Source: INSEE Première, Numbers 52 and 189.

## The phenomenon of long-term unemployment

Not surprisingly, with the mounting numbers of unemployed over the medium term has come a lengthening in the average duration of unemployment spells and a widening share of long-term unemployment. The risk is that the long-term unemployed become detached from the labour market and cease to exercise any moderating influence on wage outcomes, thereby raising the rate of unemployment consistent with stable wage inflation (the so-called ‘hysteresis’ effect), and that they become gradually marginalised in social terms. The proportion of the unemployed out of work over a year has doubled since 1973 from 22 to 44 per cent based on survey data<sup>35</sup>. While this is substantial in comparison with the situation in North America and Japan, it is far from the worst cases in the EC in this respect: Belgium and Italy have long-term shares over 70 per cent. Indeed, for youths and those seeking a first job, the long-term share in France was distinctly lower than the EC average by 1989; however, those jobless over the age of 50 were more likely than others in the Community to have been unemployed for over a year.

A fairly clear profile of the long-term unemployed is available. They tend to be older<sup>36</sup>, despite early-retirement programmes (see below), and to have a lower level of educational attainment than the unemployed generally and therefore than the rest of the labour force (Bonnal and Fougère, 1990). They also tend to be concentrated in the least-qualified occupations (Caracosta *et al*, 1991) and are often victims of lay-offs, rather than the end of temporary work contracts. Women seem to be especially prone to lengthy spells of unemployment in their late thirties, when they tend to re-enter the labour force, but for men this age group is the least affected. The job-market prospects of the long-term unemployed are unfavourable: once a job seeker’s spell has exceeded a year, there is a greater than 50 per cent probability that the person will still be unemployed nine months later, and a further one in nine will have dropped out of the labour force, leaving only one in three – generally the better educated<sup>37</sup> – who successfully avoid becoming effectively excluded from the job market.

## Some contributing factors

### *The mismatch hypothesis*

At the same time as France's unemployment rate has remained strikingly high, a not inconsiderable number of job offers continue to go unfilled, and shortages have been widely reported even with unemployment in the 9 per cent range (Kramarz and Lollivier, 1990)<sup>38</sup>. The mean duration of such vacancies is rather long by international standards<sup>39</sup>. Aggregate mismatch unemployment is most often assessed by examining the relationship between the unemployment rate and the vacancy rate, the so-called "Beveridge curve". It is hypothesised to show a negative relationship in the absence of structural change. While France's vacancy rate is rather poorly measured (since only a small share of overall vacancies are counted), recent research has pointed to an outward shift in the decade to 1985, like that of many other European countries but unlike Sweden (see Bourdet and Persson, 1991) and others such as the United States. A variety of types of mismatch are possible: 1) the unemployed have inappropriate or insufficient skills or training; 2) they are in the wrong location (and are unwilling or unable to move); 3) the job is deemed unsuitable, as working conditions in the sector are, or are perceived to be, difficult<sup>40</sup>. The skills mismatch problem began to be apparent already in the 1970s as the pace of the decline in unskilled jobs exceeded that of the number of unskilled workers (Tanguy, 1986). When disaggregated by socio-economic (occupational) status, the dispersion of the unemployment rate increased markedly from 1975 to 1987 as demand for employees and manual workers fell (Table 12). However, during the recent recovery unskilled manual workers saw no improvement in job-market outcomes.

There was also a surge in the dispersion of unemployment rates across different levels of educational attainment after the 1973-74 oil-price shock (Diagram 15): while the unemployment rate rose for all groups over the years to 1987, the increase was more substantial the lower the level of education achieved. This was in part the result of a steady flow of youths arriving on the labour market without qualifications (see Part IV), combined with the ongoing shrinkage in the number of jobs requiring no qualifications<sup>41</sup>. By 1988, fully 5.0 percentage points of aggregate unemployment were represented by those with no more than primary schooling (54 per cent of the total)<sup>42</sup>, while those with the

Table 12. Evolution of the standardised unemployment rate according to occupational category

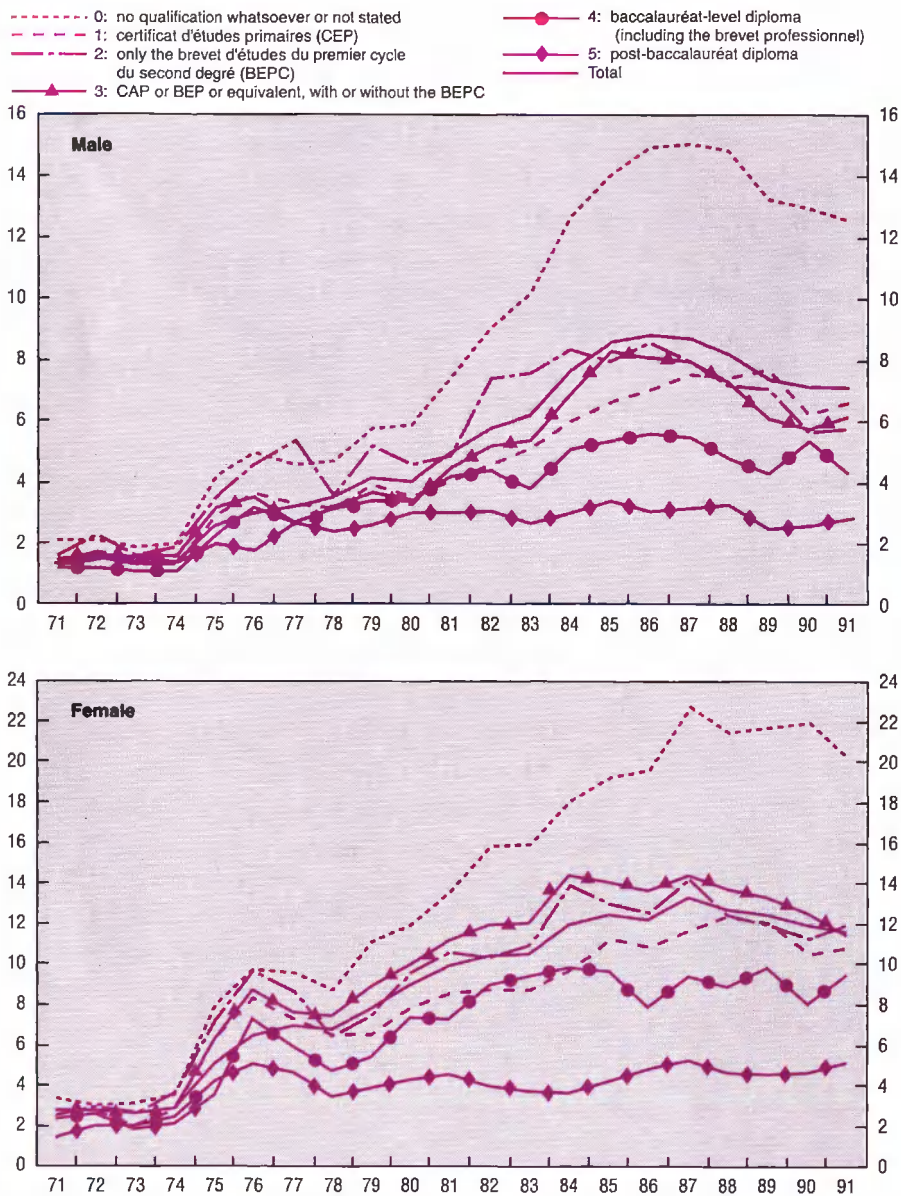
|                                                        | Percentages |      |      |      |
|--------------------------------------------------------|-------------|------|------|------|
|                                                        | 1975        | 1982 | 1987 | 1991 |
| Farmers                                                | 0.2         | 0.2  | 0.4  | 0.6  |
| Craftsmen, traders and entrepreneurs                   | 1.3         | 2.0  | 3.3  | 2.5  |
| Senior management and professionals                    | 1.7         | 2.5  | 2.9  | 3.0  |
| Intermediate-category professions                      | 2.1         | 4.1  | 5.1  | 4.2  |
| Non-manual workers                                     | 4.5         | 8.9  | 12.4 | 11.6 |
| Manual workers                                         | 4.1         | 9.6  | 14.8 | 11.6 |
| of which:                                              |             |      |      |      |
| Unskilled                                              | ..          | 11.3 | 18.8 | 18.8 |
| Skilled                                                | ..          | 6.7  | 11.2 | 7.2  |
| Total (including the unemployed who have never worked) | 3.7         | 7.8  | 10.7 | 9.0  |
| Memorandum item:                                       |             |      |      |      |
| Coefficient of variation                               | 0.72        | 0.85 | 0.89 | 0.86 |

Sources: INSEE, *Population active, emploi et chômage depuis 30 ans*, 1987 and INSEE, *Enquête sur l'emploi de 1991*.

*baccalauréat* or more contributed only 1.2 percentage points (13 per cent of the total, compared with their 38 per cent labour-force share) (Caracosta *et al*, 1991).

Mismatch can also be geographic in nature. As in other countries, while youths tend to be mobile – and tend, in France's case, to move from southern to northern regions – adults are rather more rooted. The unity of France's youth labour market is reinforced by its national system of diplomas and qualifications. However, adult mobility is constrained by the prevalence of two earner-households and the heavy burden of property-transfer taxation, especially important in light of a relatively high share of owner-occupiers, although the presence of universal public pensions is a favourable factor<sup>43</sup>. Indeed, a recent survey of the (registered) unemployed who had been without work for over 15 months showed only one-quarter willing to move anywhere in the country to take a job offer and fully one-half unwilling to commute more than half an hour to their place of employment (Rouault, 1991). Available empirical evidence on the importance of internal migration is scant but would appear to place France in an intermediate position by international standards (OECD, 1990). Over time there appears to have been some increased integration of regional labour markets; however the

Diagram 15. **UNEMPLOYMENT RATE BY EDUCATIONAL ATTAINMENT<sup>1</sup>**



Source: INSEE.

trend may have reversed in recent years<sup>44</sup>, and there remains a need for greater regional differentiation of the wage structure.

A variation on the mismatch hypothesis has recently been advanced (d'Iribarne, 1990a and b). Over time increasing international competition may have forced employers to lay off those whose experience has given them a "socially justified" wage exceeding the market-clearing wage, replacing them by younger and therefore cheaper labour or with additional capital. The incentives for employers to shift to younger workers are strong, as the effect of experience on wages in France is twice as great as in Germany and Italy and four times that in Belgium (Depardieu and Payen, 1986). Rather than accept a lower wage or a lower-qualification job<sup>45</sup>, it is argued that large numbers of workers prefer unemployment, especially given the ready availability of unemployment benefits. The similarities with the earlier, better known dual-labour-market hypothesis (Piore, 1978), and its offshoots are evident: many people might prefer to continue to search for a "primary"-sector job (big firms in the French case), with developed internal labour-markets and better pay and conditions, rather than accept a lower-status job in the "secondary" sector, leading to so-called "wait unemployment" (van de Klundert, 1990).

### *Classical unemployment, wage inflexibility and capital shortage*

According to the classical view, unemployment can also be caused by too-high real wages: if wages exceed market-clearing levels due to some rigidity<sup>46</sup>, then producers will substitute other factors, notably capital, for labour in order to minimise costs. While econometric estimates of the elasticity of substitution must be made with caution, if only because of uncertainties regarding the measurement of the capital stock and its cost, they usually reveal very small estimates of this elasticity. But in recent years there has been a shift in the consensus opinion and a greater willingness to accept the importance of earlier real-wage problems in limiting labour demand, and correspondingly of wage moderation seen in recent years in generating employment, especially in the services sector. It has been shown, for example, that as of 1986 there was an otherwise unexplained upward shift in the labour content of output in France (Le Dem and Lerais, 1990). After a period of slower wage gains and increases in the cost of capital, the "real-wage gap" was gradually eliminated. However, according to INSEE, real-wage equilibrium was re-established only around 1987 in France, several years after the

completion of the corresponding adjustment phase in Germany and elsewhere, with a resulting significant impact on employment levels in France relative to abroad (INSEE, 1991).

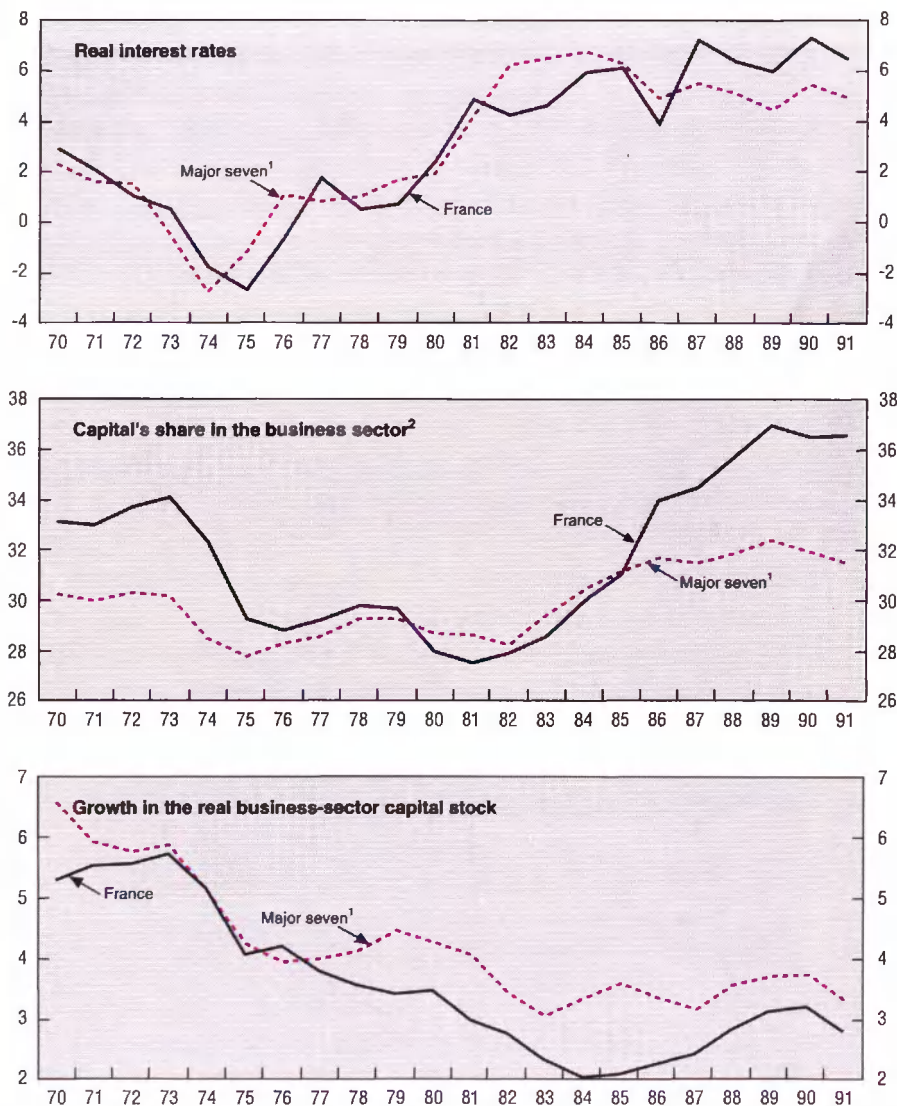
However, because of the lengthy period of real wages in excess of what could be justified by levels of productivity, profitability was for a long time inadequate, and investment and output suffered. Given the failure of real wages to adjust quickly after the two major oil-price shocks of the 1970s, labour absorbed little of the initial real-income losses; thus, the return to capital was compressed through the decade. By raising the cost of capital, the increase in real interest rates during the 1980s has been an equally powerful additional factor in reducing profitability and in reallocating capital income flows away from shareholders toward creditors (Diagram 16). France's case stands out not only as one of relatively high wage rigidity<sup>47</sup>, but also as one of a relatively large increase in real interest rates in the 1980s. While this no doubt led to some substitution in favour of labour, the dominant effect was probably to reduce the demand for both factors of production. In any case, productive investment has not been sufficient to absorb the available labour supply<sup>48</sup>.

Of course, it is not wages but rather total labour costs which are relevant in the determination of the demand for labour, and during the period 1973-87, there was a rise of 7 per cent in the ratio of non-wage labour costs (primarily employer social-security contributions) to wages. This was one of the factors contributing to the substantial rise in the tax wedge (see Part II), which itself may have imparted downward rigidity of net wage demands, at least in the short term. Over the long term however, to this point at least, employees have apparently been willing to identify the benefits received with the contributions paid to the social-security system (Cotis and Loufir, 1990). However, should the implicit yield on pension contributions fall noticeably and the cost of medical coverage continue to surge, this would be unlikely to continue, and the distinction between social contributions and pure taxes, however clear heretofore, would tend to disappear.

### *The role of the minimum wage*

While labour costs no longer appear to be an important contributing factor in raising unemployment, there is evidence that the deterioration of labour-market outcomes for young people, in relative terms at least, is in part the result of increases in the cost of employing them resulting from the rising value of the

Diagram 16. **REAL INTEREST RATES, INCOME SHARES AND CAPITAL GROWTH**  
Per cent



1. Aggregated using 1987 GDP weights and actual exchange rates.

2. Value added (at factor cost) less gross wage bill including wage income imputed to the self-employed as a share of value added.

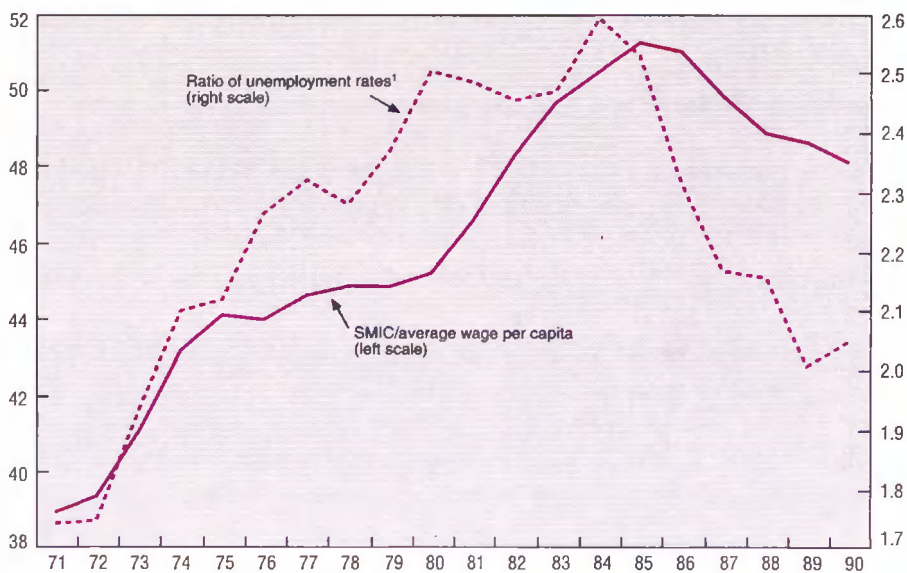
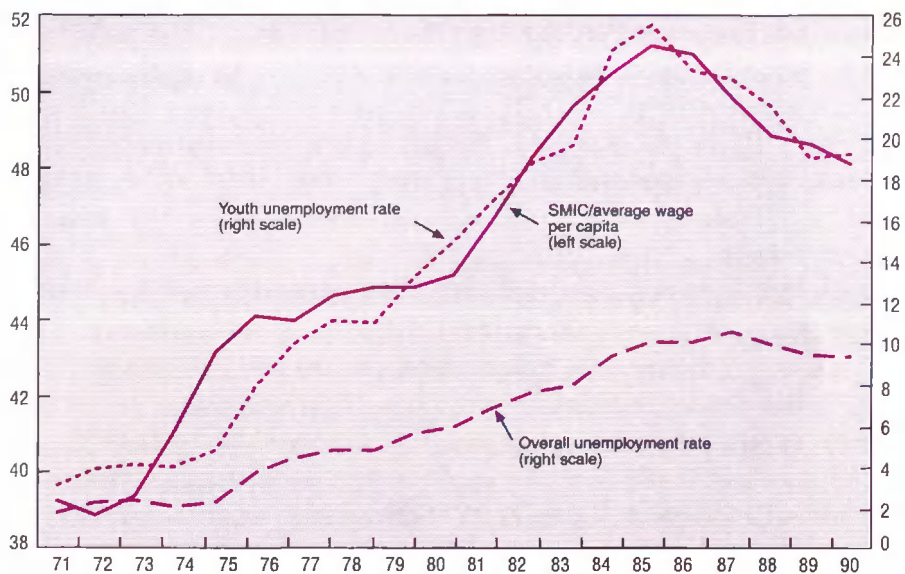
Source : OECD.

national minimum wage (SMIC)<sup>49</sup> (Diagram 17). Recent research points to elasticities of: 1) youth employment with respect to the SMIC of between  $-0.1$  and  $-1/4$  (Ducos and Plassard 1991; Bazen and Martin, 1991); and 2) of the unemployment rate for unskilled labour with respect to minimum wages of a similar magnitude (Riechl, 1991). The estimates on the minimum-wage elasticity suggest that a 10 per cent increase in the real value of the SMIC, *ceteris paribus*, would reduce youth employment by between 20 000 and 60 000 (equivalent to between  $3\frac{1}{2}$  and  $8\frac{1}{2}$  per cent of youth unemployment). However, this empirical research must be interpreted cautiously. Only a limited number of employees (12 per cent) earn the SMIC, and even if it generates probable spillover effects on those paid near the SMIC, it may not be binding in many high-wage sectors. It especially affects youths and the unskilled, the very groups with the highest unemployment rates. Accordingly, in recent years the authorities have tried to offset the employment impact of the SMIC by reducing employer social-security contribution rates for youths and other disadvantaged groups; this shows up quite clearly in Diagram 17. Furthermore, while an explicit youth differential has been ruled out, a broad panoply of special programmes effectively led to over 40 per cent of 18 to 20 year olds earning less than the SMIC in 1986 (CERC, 1990), a proportion which has probably risen in recent years.

### ***Unemployment insurance and the guaranteed minimum income***

Another area of public policy which may serve to increase structural unemployment relates to the specific traits of the unemployment insurance system, particularly the duration of benefits. According to Commission figures, unemployment benefit was paid to 43 per cent of those without work in France in 1989, substantially higher than the EC average (30 per cent). While benefit is paid to allow recipients to search for an appropriate job, perversely coverage is particularly high for those not actively looking for work, even compared to those registered as unemployed for over 3 years (Tresmontant, 1991). The initial gross replacement ratio, at 59 per cent for the average production worker in January 1989, is not especially high by European standards, but, on a net basis (excluding related transfers such as the housing subsidy) the ratio rises to 84 per cent for those earning the minimum wage. High replacement ratios may generate lower incentives to search for employment and therefore serve to extend average spell-duration. Evidence has recently been provided that the time pattern of

Diagram 17. **UNEMPLOYMENT RATE AND THE MINIMUM WAGE**



1. Youth unemployment rate/overall unemployment rate.

Sources: INSEE and OECD.

individual transitions from joblessness to employment is highly correlated with that of the expiry of benefits: the probability of an unemployed person getting hired rises significantly as the end of his benefits draws near (Florens *et al*, 1990). Indeed, over half exit from the rolls near the benefit expiry date. Thus, the benefit system tends to delay the return to work and thereby extend mean spell duration beyond optimal levels<sup>50</sup>; this seems to be particularly apparent for women. Similar results have been found for other OECD countries (OECD, 1991), but France has a fairly long period (2½ years in general and up to 4¾ years for those over 55) for which benefits are payable, with insufficient incentives to take up job offers, as enforcement of work tests has been weak. The contrast with Sweden has been much noted of late (Bourdet and Persson, 1991): put most simply, France reacted to the economic shocks of the 1970s by strengthening its unemployment-insurance system, while Sweden relied on its active labour-market policies<sup>51</sup>.

The guaranteed minimum income (RMI) scheme may also have perverse effects. Although encouraging those on the fringes of society to undergo training in order to take up gainful employment is a laudable objective, this appears to be still the exception rather than the rule with the RMI, three years after its inception. Despite public expenditure which directly and indirectly amounted to some FF 17 billion in 1991 (0.3 per cent of GDP) and which benefited well over a half-million households and nearly 1.2 million people, about 40 per cent of all beneficiaries never signed the related training contract. The result is that, even after two years, the reintegration success rate is only about 30 per cent, with most others relegated to unemployment (50 per cent) (CERC, 1991*b*). However, the programme is unlikely to provide serious disincentives to work, given that the benefit is minimal and the targeted population is on the fringes of society. The authorities are committed to reviewing the relevant legislation this spring.

### **The authorities' reactions**

The authorities have attempted to deal with the problem of high and rising unemployment through a multi-faceted and complex series of rapidly changing policy actions which will be only briefly alluded to here<sup>52</sup>. Suffice it to say that, besides some limited steps to increase labour-market flexibility (primarily by easing lay-off provisions in 1986<sup>53</sup>, encouraging more forward-looking hiring

behaviour and widening the conditions of recourse to fixed-term contracts and agency-temporary employment), the strategy has aimed both to stimulate demand for and reduce the supply of labour. Demand has been boosted primarily by temporary traineeships, mostly in the public sector (and not closely tied to more permanent job opportunities), and by subsidising private-sector employment through the exemption of members of certain disadvantaged groups (youths and the long-term unemployed, in particular) from employer social-security contributions. These latter measures have had a limited net effect on the level of employment, with most of the impact coming via a shift in the composition of employment<sup>54</sup>. Measures have been taken to share work by reducing working time in the context of greater resort to multiple shift working; supply has also been restrained through costly incentives to early retirement. The spontaneous demand for extended schooling among the young was also encouraged. In addition, efforts to tackle the mismatch problem have centred on training provided to the unemployed.

Total labour-market spending has jumped from less than 1 per cent of GDP in 1973 to 3.3 per cent in recent years (Table 13, Panel A). Public spending makes up the lion's share<sup>55</sup> and is much more substantial than in the other major OECD countries (Table 13, Panel D). Unemployment benefit represents the largest share of such spending; despite a 1¾ percentage point fall in the unemployment rate over the years 1987-90, its share actually rose from 37 to 40 per cent due to a shift in the structure of unemployment from youths to prime-age workers. While early-retirement payments have waned in relative importance, in line with the falling stock of beneficiaries of the relevant measures, they remain substantial. By 1990, only one-third of all dependent employees were still working at age 60, and the decline in labour-force participation by French men after 55 is striking (Table 14). There seems to be tacit connivance between employers (especially larger firms) and elderly employees to make use of the generous early-retirement schemes<sup>56</sup>. While professional training efforts have increased in recent years (see Part IV), the share of "active" measures in total spending in 1990 was still only 42 per cent, the same as in 1980, but up from 32 per cent in 1983. For public spending alone, the share was 28 per cent in 1989. This is one of the lowest shares among OECD countries (Table 13, Panel D).

Table 13. Labour-market programmes: some indicators

|                                                                                  | 1973              | 1980  | 1987  | 1988                       | 1989  | 1990  |
|----------------------------------------------------------------------------------|-------------------|-------|-------|----------------------------|-------|-------|
| A. Total expenditure                                                             |                   |       |       |                            |       |       |
| FF billions                                                                      | 10.2              | 64.8  | 192.3 | 200.4                      | 201.7 | 217.1 |
| In constant 1990 prices                                                          | 38.8              | 118.9 | 209.8 | 212.4                      | 207.3 | 217.1 |
| As a per cent of GDP                                                             | 0.9               | 2.3   | 3.6   | 3.5                        | 3.3   | 3.3   |
| Per employee                                                                     |                   |       |       |                            |       |       |
| FF thousands                                                                     | 0.5               | 3.0   | 8.9   | 9.2                        | 9.2   | 9.8   |
| In constant 1990 prices                                                          | 1.9               | 5.4   | 9.7   | 9.8                        | 9.5   | 9.8   |
| B. Total expenditure by nature, shares in percent                                |                   |       |       |                            |       |       |
| Passive:                                                                         | 34.1              | 57.6  | 62.8  | 60.9                       | 59.7  | 57.6  |
| Unemployment benefit                                                             | 18.6              | 40.4  | 37.1  | 38.3                       | 39.3  | 40.1  |
| Early retirement                                                                 | 15.5              | 17.3  | 25.7  | 22.5                       | 20.4  | 17.5  |
| Active:                                                                          | 65.9              | 42.4  | 37.2  | 39.1                       | 40.3  | 42.4  |
| Employment maintenance                                                           | 1.4               | 3.9   | 1.5   | 1.4                        | 1.3   | 1.4   |
| Job creation                                                                     | 4.9               | 4.1   | 7.6   | 6.2                        | 5.6   | 6.7   |
| Incentives to labour-force participation                                         | 0.8               | 2.1   | 2.0   | 1.9                        | 2.1   | 2.1   |
| Professional training                                                            | 56.2              | 30.6  | 24.8  | 28.2                       | 29.8  | 30.5  |
| Labour-market functioning                                                        | 12.6              | 1.6   | 1.4   | 1.4                        | 1.5   | 1.8   |
| Total                                                                            | 100.0             | 100.0 | 100.0 | 100.0                      | 100.0 | 100.0 |
| C. Beneficiaries of labour-market programmes (average annual stock in thousands) |                   |       |       |                            |       |       |
| Total:                                                                           | 91                | 619   | 1 731 | 1 551                      | 1 473 | 1 522 |
| Of which:                                                                        |                   |       |       |                            |       |       |
| Early retirement                                                                 | 44                | 188   | 470   | 394                        | 344   | 288   |
| Unemployed exempt from job search                                                | 0                 | 0     | 141   | 209                        | 220   | 230   |
| Professional training for the unemployed                                         | 47                | 87    | 151   | 202                        | 206   | 242   |
| Private-sector subsidised employment                                             | 0                 | 344   | 767   | 542                        | 536   | 613   |
| Public-sector employment contracts                                               | 0                 | 0     | 202   | 204                        | 167   | 149   |
| D. International comparison of public labour-market expenditure, 1989            |                   |       |       |                            |       |       |
|                                                                                  | As percent of GDP |       |       | Share of "active" measures |       |       |
| France                                                                           |                   | 2.65  |       |                            | 27.6  |       |
| United States <sup>1</sup>                                                       |                   | 0.73  |       |                            | 34.2  |       |
| Japan <sup>1</sup>                                                               |                   | 0.51  |       |                            | 33.3  |       |
| Germany                                                                          |                   | 2.25  |       |                            | 45.3  |       |
| Italy <sup>2</sup>                                                               |                   | 1.52  |       |                            | 52.6  |       |
| United Kingdom <sup>1,3</sup>                                                    |                   | 1.50  |       |                            | 44.0  |       |
| OECD <sup>4</sup>                                                                |                   | 2.02  |       |                            | 40.6  |       |

1. 1989-90.

2. 1988.

3. Great Britain only.

4. Simple average.

Sources: Ministère du Travail, de l'Emploi et de la Formation Professionnelle and OECD, *Employment Outlook*, July 1991.

Table 14. **Participation rates by age groups, 1989**

Per cent

|                   | France |         |       | EC12  |         |       |
|-------------------|--------|---------|-------|-------|---------|-------|
|                   | Males  | Females | Total | Males | Females | Total |
| 14-19 years       | 17.3   | 13.4    | 15.3  | 31.3  | 27.6    | 29.4  |
| 20-24 years       | 76.5   | 67.8    | 71.8  | 79.1  | 68.8    | 73.8  |
| 25-29 years       | 95.7   | 76.1    | 85.8  | 92.3  | 69.1    | 80.7  |
| 30-34 years       | 97.5   | 72.8    | 85.0  | 96.3  | 64.5    | 80.4  |
| 35-39 years       | 97.6   | 73.8    | 85.6  | 97.0  | 64.4    | 80.6  |
| 40-44 years       | 97.3   | 73.9    | 85.7  | 96.4  | 62.2    | 79.3  |
| 45-49 years       | 95.4   | 67.6    | 81.6  | 94.8  | 56.8    | 75.9  |
| 50-54 years       | 88.6   | 61.0    | 74.6  | 89.0  | 48.1    | 68.3  |
| 55-59 years       | 62.1   | 41.3    | 51.4  | 71.7  | 34.6    | 52.7  |
| 60-64 years       | 19.2   | 13.8    | 16.3  | 37.7  | 14.2    | 25.2  |
| 65-69 years       | 6.1    | 3.2     | 4.5   | 11.5  | 4.7     | 7.7   |
| 70 and over years | 2.3    | 0.8     | 1.4   | 3.9   | 1.2     | 2.2   |
| Total             | 65.4   | 46.0    | 55.2  | 67.9  | 41.7    | 54.2  |

Source: Eurostat, *Labour Force Survey Results 1989, 1990*.

Over the past year the authorities have again been actively modifying their labour-market policies with a view to holding back the rising tide of joblessness. Existing job programmes have been expanded, the number of *contrats emploi-solidarité* in the non-market sector, for example, rising from 240 to 300 thousand. In addition, in October 1991, firms with fewer than 500 employees were exempted in whole or in part from payment of payroll taxes for 18 months when hiring young people without qualifications to indefinite-term contracts paying up to 120 per cent of the SMIC before the end of May 1992. This scheme contains no obligation for training. Also, a new programme of non-renewable "orientation contracts" of 3 to 6 months' duration for unqualified youths was set up; these are paid at 30 to 65 per cent of the SMIC, are again exempt from employer contributions and provide 32 hours of training per month. In addition, households have been granted a 50 per cent income tax credit (up to FF 12 500) to hire people to work in the home; the aim is to boost declared employment by 40 000 full-time equivalents (of which a large share would be merely those coming from the black market) at an annual cost of about FF 3.3 billion. Furthermore, in two steps, the authorities temporarily boosted from 10.32 to 18 francs per hour the public subsidy towards short-time working. Finally, at the end of 1991, the authorities

toughened the sanctions applicable in cases of non-respect of job-search and availability requirements for continued registration as unemployed.

The authorities have also decided to try to improve the service rendered by the public employment agency, the ANPE. With 12 500 employees, its role was traditionally limited to that of managing the stock of unemployed, and only about 20 per cent of all job offers passed through the agency<sup>57</sup>. Despite its monopoly on non-temporary placement services, its record in this regard has been weak. Accordingly, its placement efforts are to be stepped up through improved contacts with employers, but this will require a larger and better-trained staff (France has one of the lowest ratios of staff members in public employment offices per unemployed person) with greater responsibility. A first step in this direction is now under way: all long-term unemployed (about 920 000) are being called to an in-depth interview in order to offer them a job, some training or some other general interest activity. However, a similar effort in 1987<sup>58</sup> did not alleviate the problem over the medium term; and, in any case, intensified interviews are already undertaken in the fourth and thirteenth month of unemployment. A complementary approach would be to remove the agency's monopoly position and allow private employment services to cater for some employment service needs which are currently unmet. The liberalisation of this market would boost efficiency and allow public and private job-placement institutions to provide the services for which they demonstrate themselves best suited.

## IV. Some aspects of the education and training system

In France, education has traditionally been a politically-charged issue. Perhaps more than in other countries, for historical reasons the basic role assigned to schools has been to educate and integrate citizens into society rather than to train the labour force. Today the focus of debate has switched to the economic plane and to the ability of the education system to respond to structural change and to the resulting changes in employment and skills. The reforms currently being drawn up seek to take account of this two-fold dimension of education – the social and the economic. The 1989 guideline law on education stated that: “all young people, irrespective of their social, cultural or geographic origin, are entitled to acquire a general education and a recognised qualification” (Article 1), with the aim of bringing “all the members of a given age group up to at least the level of the *certificate d’aptitude professionnelle* (CAP – vocational education certificate) or *brevet d’études professionnelles* (BEP – technical certificate), and 80 per cent of them up to the level of the *baccalauréat*”<sup>59</sup>. With a view to improving the efficiency of education and training, special emphasis has been placed on decentralisation and on combating failure at school by an improved adaptation of the school system to the heterogeneity of pupils and development of more bridges between programmes. Closer ties between schools and employers are also being promoted, for example, by extending classroom/workplace alternation.

This chapter aims to describe the French system of initial and continuing education and how it interacts with labour-market outcomes. It will also attempt to generate a broad evaluation of the system based on its impact on economic performance, even if the lack of a convincing theory of its role in determining a nation’s competitive potential limits the feasibility of such analysis. On the other hand, the chapter will not address the performance of schools in other areas

which, although ancillary, are essential to life in a democracy, such as that of equipping citizens with a cultural, moral and civic education. It should also be said that while France has a well-developed body of statistics in the sphere of education, that is not the case for certain other OECD Member countries. Accordingly, some comparative analyses of education are very tenuous. The current efforts of the OECD's Directorate for Education, Employment, Labour and Social Affairs to compile relevant and internationally comparable statistics should permit considerable progress in the comparative evaluation of education systems.

## **The initial education system**

The French education system has some original features: mainly a state system, it has an important private sector, especially at the primary and secondary levels and for certain kinds of higher education. It provides pre-elementary schooling (the so-called *maternelle*) with a view to promoting equality of opportunity. Elementary and secondary schooling lasts seven years and consists of a common core-curriculum for all pupils; specialisation comes fairly late on compared with other countries, one stream following a general curriculum, the other a technical and vocational curriculum. Higher education is open and heterogeneous. First, there are state universities for which the tuition fees are negligible; any student who has the *baccalauréat* can get into them. Alongside these is a sector that practices selection for courses of study which are either short (upper-level technical courses in *Instituts Universitaires de Technologie* – IUT) or long (in business and engineering schools – *grandes écoles*) (see Annex I).

## **The internal efficiency of the system and cost control**

As in other OECD countries, the French education system has expanded very rapidly in recent decades. Over the past 30 years the school and university population has increased from 9.8 to more than 14.2 million (excluding apprentices), i.e. an average annual growth rate of 1¼ per cent. This growth is the result of the increases in the enrolment ratios of under 6 year-olds, up from 50 to over 80 per cent (one of the highest in the OECD), and of 17 to 24 year-olds, which is

Table 15. Trends in the school and university population

Thousands

|                                                                                                                  | 1960-61         | 1975-76         | 1980-81         | 1985-86         | 1989-90         |
|------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Pre-elementary                                                                                                   | 1 374           | 2 591           | 2 384           | 2 564           | 2 536           |
| Elementary                                                                                                       | 4 997           | 4 752           | 4 741           | 4 122           | 4 163           |
| Total primary<br>(as a percentage of the total)                                                                  | 6 371<br>(64.7) | 7 343<br>(54.8) | 7 125<br>(52.1) | 6 686<br>(47.9) | 6 699<br>(47.0) |
| First level (lower) secondary                                                                                    | 2 353           | 3 166           | 3 138           | 3 332           | 3 157           |
| Second level (upper) secondary vocational                                                                        | 383             | 746             | 773             | 818             | 706             |
| Second level (upper) secondary general and<br>technology streams                                                 | 422             | 961             | 1 103           | 1 209           | 1 528           |
| Apprenticeship training                                                                                          | —               | 189             | 242             | 222             | 234             |
| Other types of secondary schooling                                                                               | —               | 95              | 122             | 249             | 247             |
| Total secondary schooling (including<br>agricultural colleges and apprentices)<br>(as a percentage of the total) | 3 158<br>(32.1) | 5 157<br>(38.5) | 5 378<br>(39.3) | 5 830<br>(41.7) | 5 872<br>(41.2) |
| Special schools to prepare for the entrance<br>examinations to the <i>grandes écoles</i>                         | —               | 38              | 41              | 50              | 65              |
| Higher technical courses                                                                                         | —               | 46              | 67              | 118             | 179             |
| Technical universities                                                                                           | —               | 44              | 54              | 62              | 70              |
| Universities                                                                                                     | 215             | 757             | 793             | 886             | 1 019           |
| Other higher-education institutions                                                                              | 97              | 19 <sup>1</sup> | 222             | 244             | 253             |
| Total higher education<br>(as a percentage of the total)                                                         | 311<br>(3.2)    | 903<br>(6.7)    | 1 177<br>(8.6)  | 1 360<br>(9.7)  | 1 586<br>(11.1) |
| Total                                                                                                            | 9 840           | 13 404          | 13 680          | 13 876          | 14 157          |

1. Partial data.

Source: Ministère de l'Éducation Nationale, *Repères et Références Statistiques*, 1991.

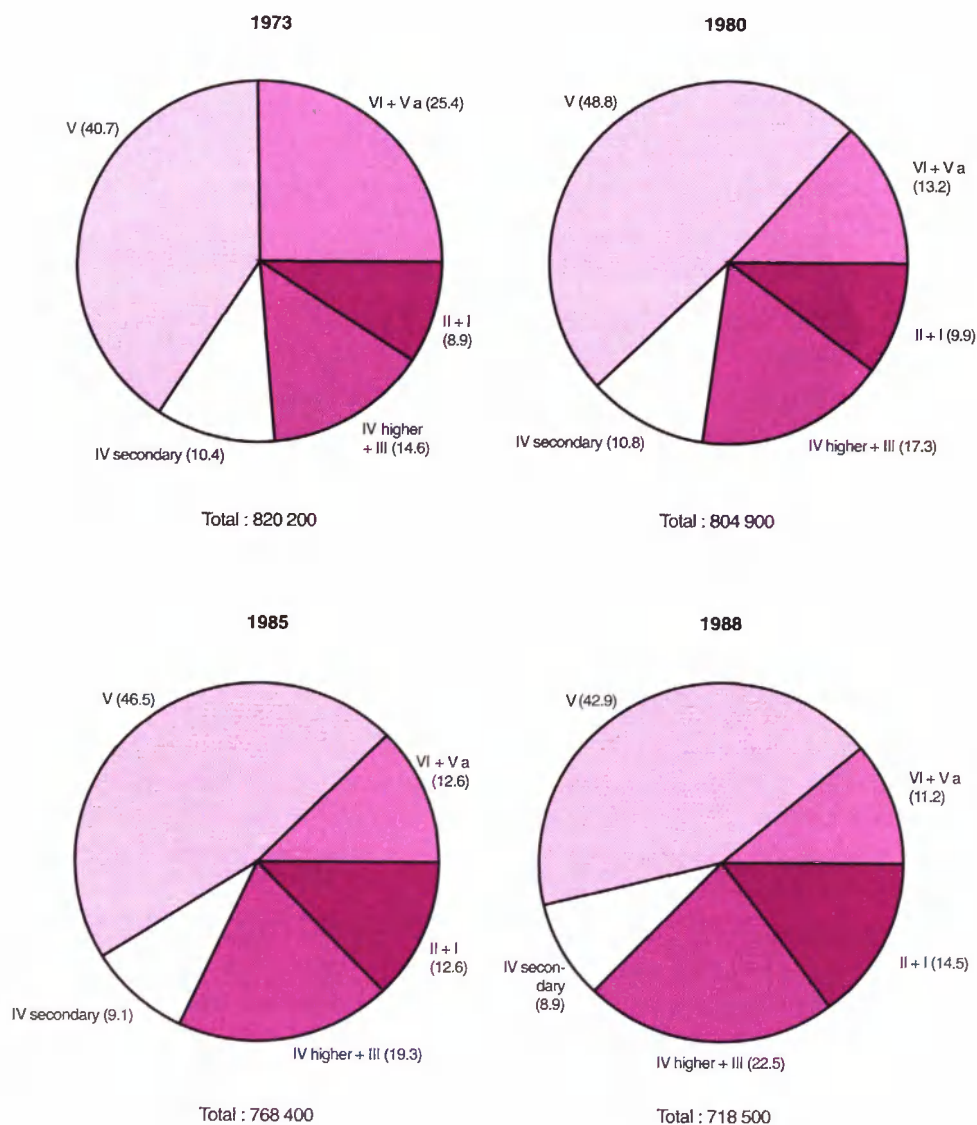
now over 42 per cent. At the same time, the structure of the school and university population has changed radically (Table 15). Whereas the number of primary-school pupils was more or less the same at the beginning and the end of the period, reflecting demographic trends, the 1980s saw a steep increase in the number of secondary-school pupils. Thus, the proportion of the relevant age group representing *baccalauréat*-level pupils<sup>60</sup> has increased spectacularly, having risen by 18 points in five years to 55 per cent at the start of the 1990 school year. The total number of post-secondary students has also risen rapidly, increasing five-fold from 1960 to 1990. As a result of the surge in the number of secondary-school pupils, the growth of the number of students attending universities, which are open to all qualified applicants, accelerated at the end of the

period. As more than 90 per cent of those who pass the *baccalauréat* continue their studies, higher education will continue to feel the effects of the increase in the number of years that pupils spend at school. The increase in the enrolment ratio has resulted in a rapid rise in the average level of school-leavers' qualifications, and in a change in the distribution of qualifications (Diagram 18). The effect of this increase in educational attainment can also be seen by examining the data by age groups (Table 16): only a quarter of the labour force aged 25 to 39 were in the lowest attainment class in 1991, compared to more than half of those over the age of 50.

This trend reflects, in part at least, rising demand for skilled labour by employers faced with increased capital intensity of their production (implying a smaller but better-trained workforce due to the obvious complementarity between tangible and human capital). The difficulties involved in successfully forecasting the nature of their medium-term manpower needs has probably led firms, or at least the largest among them, to raise their educational requirements, as seen by the heightened demand for workers having at least two years education beyond the *baccalauréat*. The trend also results from families' attitudes, due to their awareness of the impact that a better education has on easing labour-market entry and on minimising the risk of unemployment.

However, these overall figures should be seen in relation to the still high failure rate. Although it is tending to fall, the cost to community has been estimated at several tens of billions of francs in comparison with a hypothetical situation without any pupils failing (Conseil Economique et Social, 1987). Thus, more than 13 per cent of school-leavers in 1989 (compared to 25 per cent in 1978), nearly 100 000 youths, left the system without any qualifications. The failure rate is also relatively high for university studies (due in part to the lack of selection upon entry): for example, in 1989 between 80 000 and 90 000 students (nearly 30 per cent of secondary-school graduates) went on to higher education and then found themselves later in the labour market with only the *baccalauréat*. Another indicator shows that slightly more than a quarter of the pupils in the final year of elementary school should theoretically already have moved on to secondary school. Likewise, a majority of pupils entering the final year of secondary school has repeated at least one year in the course of their secondary schooling. Last, despite the rise in school enrolment, illiteracy is still very common. According to a recent study (Borkowski, 1990), in 1986 11 per cent of the under-26

Diagram 18. **SCHOOL-LEAVERS BY LEVEL OF ATTAINMENT, 1973-1988**<sup>1</sup>



1. Apprenticeship included in education system.  
Source : INSEE, *Bilan Formation-Emploi* 1983, 1988.

Table 16. Labour force according to educational attainment and age, 1982 and 1991

As a percentage of total

|                                                                                                      | 15-24<br>year-olds |      | 25-39<br>year-olds |      | 40-49<br>year-olds |      | 50-59<br>year-olds |      | 60-69<br>year-olds |      | Total |      |
|------------------------------------------------------------------------------------------------------|--------------------|------|--------------------|------|--------------------|------|--------------------|------|--------------------|------|-------|------|
|                                                                                                      | 1982               | 1991 | 1982               | 1991 | 1982               | 1991 | 1982               | 1991 | 1982               | 1991 | 1982  | 1991 |
| Qualification not stated                                                                             | 1.3                | 5.5  | 0.9                | 3.0  | 0.9                | 3.1  | 1.0                | 2.2  | 1.1                | 1.8  | 1.0   | 3.2  |
| No diploma or only the CEP                                                                           | 32.4               | 27.4 | 34.9               | 25.3 | 53.4               | 36.8 | 66.4               | 53.7 | 69.1               | 61.9 | 45.4  | 34.0 |
| Only the BEPC                                                                                        | 9.9                | 6.7  | 18.7               | 7.5  | 5.8                | 6.4  | 5.7                | 5.3  | 6.1                | 6.0  | 7.0   | 6.7  |
| CAP, BEP or other                                                                                    | 33.5               | 36.1 | 28.7               | 32.8 | 20.8               | 27.3 | 12.3               | 20.4 | 6.9                | 9.7  | 23.9  | 29.2 |
| <i>Baccalauréat, Brevet professionnel</i><br>or other                                                | 10.0               | 9.8  | 10.9               | 11.3 | 8.3                | 8.7  | 7.0                | 6.7  | 7.3                | 6.8  | 9.4   | 9.6  |
| First-level university diploma,<br>BTS, DUT or other                                                 | 3.3                | 5.8  | 8.4                | 10.7 | 4.9                | 7.7  | 2.8                | 4.2  | 2.4                | 3.0  | 5.7   | 8.1  |
| 2nd or 3rd-level university diploma, or<br>diploma from <i>grande école</i> or<br>engineering school | 0.6                | 1.1  | 7.8                | 8.6  | 5.9                | 9.9  | 4.8                | 7.5  | 7.0                | 10.9 | 5.7   | 8.0  |
| In initial education                                                                                 | 9.0                | 7.6  | 1.2                | 0.9  | 0.1                | 0.0  | 0.0                | 0.0  | 0.0                | 0.0  | 1.9   | 1.2  |
| Total                                                                                                | 100                | 100  | 100                | 100  | 100                | 100  | 100                | 100  | 100                | 100  | 100   | 100  |

Source: INSEE, *Enquêtes sur l'emploi* of 1982 and of 1991.

year-olds born in France who had attended only primary school exhibited at least one of the characteristics of illiteracy (they could not read or write or did not have a proper command of the French language). While the problem has probably been of declining significance, the illiteracy rate remains high, despite the rising rate of educational attainment.

These difficulties have many causes – pedagogical, organisational and financial. Designed, on the one hand, for selecting and training an elite, and on the other hand, for providing everybody with the basic skills (reading, writing and arithmetic), the French education system, like those in most other countries, was unprepared for the steep rise in the number of pupils, who saw in it the means of acquiring the skills they would need to fit into a world of rapid technical change. Despite the frequent reforms that have been carried out, it is still marked by a tradition which emphasises a broad, all-round education. It favours general education to the detriment of vocational and technical education. Pupils entering technical or vocational schools are largely those that have failed in the basic subjects, among which mathematics is very important. However, in order to get into these schools and to pass the examinations, it is necessary first to have attained a certain level of general education or to have passed an examination of a theoretical nature. Thus, many young people leave school without any qualification whatsoever because they have failed the theoretical part of the CAP. At a more general level, this reflects a style of teaching that emphasises deductive and abstract reasoning to the detriment of the inductive and experimental approaches that are required for a successful industrial and commercial culture (OECD, 1986). Higher education also has a somewhat theoretical bias, with a fairly small proportion of engineering and technology students and a bigger share of arts and sciences students (Table 17).

The system also suffers from inadequate guidance and selection procedures. Pupils and parents are often insufficiently informed about the implications of their initial choices for later possibilities. There is not enough guidance provided either in secondary schools or at the outset of higher education. Another possible interpretation is that pupil guidance is excessively determined by parental wishes with resulting costs in terms of both equity and efficiency. Sometimes, it is what courses are available, rather than the abilities or interests of the pupil that dictate which course of study he or she is advised to take. This is particularly true of some technical courses, in which the student body consists largely of young

Table 17. **University students by specialisation**  
Percentages

|                                                               | France | Germany | Spain | Italy             | United Kingdom    | Japan | United States     |
|---------------------------------------------------------------|--------|---------|-------|-------------------|-------------------|-------|-------------------|
|                                                               | 1987   | 1987    | 1984  | 1987              | 1987              | 1987  | 1982              |
| Teaching                                                      | 1.7    | 3.4     | 8.6   | 1.8               | 10.3              | 7.6   | 6.7               |
| Medicine and health care                                      | 15.6   | 8.0     | 11.9  | 11.7              | 6.5               | 6.6   | 12.0              |
| Engineering and technology                                    | 6.2    | 17.4    | 10.5  | 9.0               | 18.3              | 15.6  | 11.3              |
| Agriculture, forestry and veterinary studies                  | 0.4    | 3.1     | 1.5   | 2.6               | 1.0               | 3.4   | 2.4               |
| Science                                                       | 16.7   | 13.5    | 9.9   | 9.2               | 15.6              | 3.4   | 7.0               |
| Administration, management and social sciences                | 28.8   | 29.0    | 35.1  | 38.9              | 29.2              | 38.9  | 33.0              |
| Architecture, town planning and environmental studies         | 3.0    | 3.3     | 3.0   | 6.2               | 3.9               | 4.3   | —                 |
| Languages and literature                                      | 29.6   | 16.2    | 17.9  | 19.1              | 5.5               | 14.9  | 10.6              |
| Art, music, etc.                                              | 1.0    | 6.1     | 1.6   | 1.4               | 9.4               | 2.5   | —                 |
| Other                                                         | —      | —       | —     | 0.1               | 0.3               | 2.8   | 17.0              |
| Total                                                         | 100    | 100     | 100   | 100               | 100               | 100   | 100               |
| Total number of students in above specialisations (thousands) | 1 010  | 1 366   | 856   | 795               | 891               | 1 806 | 10 919            |
| Total number of students in higher education (thousands)      | 1 350  | 1 568   | 900   | 1 160             | 972               | 2 597 | 12 544            |
| Number of students per 1 000 inhabitants                      | 24.4   | 25.0    | 23.5  | 20.2 <sup>1</sup> | 17.1 <sup>2</sup> | 21.4  | 29.3 <sup>3</sup> |

1. Estimate.

2. If only full-time students are taken into account, the figure is only 10.8 per cent.

3. Full-time students only. If part-time students are included, the figure is 52 per cent.

Source: INSEE, *Données sociales 1990*.

people who are dissatisfied with the type of studies they were advised to take<sup>61</sup>. Admission to the IUTs also gives rise to a problem of selection. They attract excellent pupils who have completed general secondary schooling<sup>62</sup> but have been unable to get into one of the special schools to prepare for the entrance examinations to the *grandes écoles*. Because of the shortage of places in some streams, graduates of technical schools, for whom the IUTs were intended, often go to university instead and then frequently drop out.

Administratively, despite various efforts since 1983-84 to increase the autonomy of individual schools, the system is still centralised and regulated and

does not permit sufficient competition. In the public sector and a large part of the private sector the central administration is responsible for the determination of programmes as well as the appointment and promotion of teaching staff. A school head has administrative but no teaching authority over his staff whom he does not choose. Teachers' duties and rules governing transfers are set out precisely in regulations. The nature and content of curricula are decided centrally, though schools do have some leeway with regard to teaching methods (which, moreover, they do not always take advantage of). There are no differentiated pay incentives, and the scope for adjusting teachers' conditions of work – whether their hours or the disciplines that they teach – is limited. Within this structure, it is difficult to cater for the different types of pupils with which the schools (especially secondary schools) have to deal and to cope with the demographic imbalances that beset the system (both between the different stages of schooling and between regions) and the changing needs of pupils (in terms of the subjects taught and the teaching methods used). Yet it is not easy to evaluate the impact of the degree of centralisation on the performance of the system. In any case, the “consumer” has hardly any influence on “supply” to the extent that the freedom to choose one's school within the public sector is limited on the one hand by administrative obstacles and on the other by a lack of information on performance evaluation. However, it must be admitted that France is probably one of the OECD countries where the system of school audits is the most developed.

In addition, there seems to be a shortage of candidates for teaching positions, whereas it was estimated that 160 000 secondary-school teachers (equal to nearly half the current stock) had to be recruited between 1989 and 2000 to fill job vacancies and to cope with the increase in the number of pupils. Already in 1990 more than a quarter of the tenured teaching posts which are allocated by competitive examination were not filled<sup>63</sup>. While teachers' salaries do not appear to be significantly below those of other employees with equivalent qualifications and experience, their relative situation has probably deteriorated<sup>64</sup>. This situation calls into question the effectiveness of current teacher assignment procedures and particularly the lack of any significant financial incentives for teaching in less-desirable areas.

Despite these shortcomings, however, it does not appear that the French education system is much less efficient than those of other countries at a compa-

Table 18. **Expenditure on education: an international comparison, 1988<sup>1</sup>**

|                | Expenditure on education         |                    | Public expenditure on education as a per cent of total public expenditure |
|----------------|----------------------------------|--------------------|---------------------------------------------------------------------------|
|                | Public<br>(as a per cent of GDP) | Public and private |                                                                           |
| Japan          | 3.8                              | 4.9                | 11.7                                                                      |
| Spain          | 3.9                              | 5.0                | 9.7                                                                       |
| Germany        | 4.3                              | 6.2                | 9.1                                                                       |
| Portugal       | 4.7                              | 4.9                | 10.7                                                                      |
| United Kingdom | 4.7                              | ..                 | 11.4                                                                      |
| Italy          | 4.8                              | ..                 | 9.4                                                                       |
| Australia      | 4.8                              | ..                 | 13.9                                                                      |
| United States  | 5.0                              | 5.7                | 13.7                                                                      |
| <b>France</b>  | <b>5.1</b>                       | <b>5.7</b>         | <b>10.2</b>                                                               |
| Switzerland    | 5.1                              | ..                 | 14.7                                                                      |
| Austria        | 5.6                              | ..                 | 11.1                                                                      |
| Sweden         | 5.7                              | 5.7                | 9.6                                                                       |
| Ireland        | 5.8                              | 6.2                | 11.5                                                                      |
| Luxembourg     | 6.0                              | ..                 | ..                                                                        |
| Belgium        | 6.1                              | ..                 | 10.5                                                                      |
| Netherlands    | 6.3                              | 6.6                | 10.9                                                                      |
| Canada         | 6.4                              | 7.2                | 14.4                                                                      |
| Norway         | 6.6                              | ..                 | 12.4                                                                      |
| Denmark        | 6.8                              | 6.9                | 11.6                                                                      |
| Finland        | 6.8                              | 6.8                | 17.1                                                                      |
| Average OECD   | 4.8                              | 5.7                | 12.0                                                                      |

1. For notes see Annex I.

Source: OECD, Centre for Educational Research and Innovation, *Education at a glance*, 1992 (forthcoming).

able level of development. Thus, in the 1980s France joined the group of countries in which the proportion of 17 to 24 year-olds enrolled in an educational institution was 40 per cent or over. The United States had already attained this level in 1970 (and has remained there ever since). In the same year, France and Germany (including apprentices) had enrolment ratios of about 26 per cent. They now both have enrolment rates for this age group of about 42 per cent. In 1988, France had the highest enrolment rate for 19 to 20 and 21 to 24 year-olds among countries at a comparable level of development, and also, more broadly, with the exception of Belgium, for the 2 to 29 year-old age group (62 per cent in 1990).

While the enrolment rate in France is now higher than the OECD average, expenditure on initial schooling has remained virtually flat as a percentage of GDP since the beginning of the 1970s and is now around the OECD average (5.7 per cent) (Table 18). Thus, in absolute terms expenditure per pupil is well

below that of most other OECD countries at a comparable level of development<sup>65</sup> (Table 19). The deviation from the average is particularly marked in higher education – France ranks last but one among all the comparable countries, with a level of expenditure 40 per cent below the average. But it is difficult to know to what extent to attribute this difference to a superior level of efficiency in French higher education, or if it reflects a shortfall in resources allocated to this function, especially in light of the strong rise in the number of students.

The diversity of education systems makes more difficult cross-country comparisons of pupils' level of knowledge: however, in this respect France does not

Table 19. **Total educational expenditure per student relative to per capita GDP in 1988**

|                             | Pre-primary | Primary     | Secondary   | Sub-Total<br>Pre-primary,<br>primary and<br>secondary | Tertiary    | All levels<br>combined |
|-----------------------------|-------------|-------------|-------------|-------------------------------------------------------|-------------|------------------------|
| Austria <sup>1</sup>        | 12.9        | 21.0        | 25.7        | 22.6                                                  | 40.4        | 27.9                   |
| Belgium <sup>1</sup>        | 12.0        | 16.7        | 32.0        | 22.4                                                  | 39.4        | 24.6                   |
| <b>France</b>               | <b>12.1</b> | <b>14.5</b> | <b>24.8</b> | <b>18.6</b>                                           | <b>31.9</b> | <b>23.1</b>            |
| Ireland <sup>1</sup>        | 13.1        | 13.9        | 23.3        | 17.4                                                  | 58.4        | 20.5                   |
| Italy <sup>1</sup>          | 12.2        | 18.9        | 22.2        | 19.6                                                  | 32.7        | 23.7                   |
| Japan                       | 10.7        | 17.7        | 18.9        | 17.7                                                  | 42.0        | 22.8                   |
| Luxembourg <sup>1</sup>     | 27.5        | 31.5        | 36.0        | 32.9                                                  | 77.6        | 37.1                   |
| Netherlands                 | 15.2        |             | 19.0        | 17.1                                                  | 77.8        | 27.5                   |
| Portugal                    | 12.7        | 20.3        | 21.3        | 20.2                                                  | 68.8        | 23.7                   |
| Canada                      | ..          | ..          | ..          | 23.4                                                  | 50.9        | 29.2                   |
| Germany                     | 6.7         | 15.0        | 19.0        | 16.2                                                  | 36.3        | 21.8                   |
| Switzerland <sup>1</sup>    | n.a.        | n.a.        | n.a.        | 24.6                                                  | 61.4        | 27.8                   |
| United Kingdom <sup>1</sup> | 12.2        | 15.5        | 20.4        | 17.9                                                  | 58.7        | 22.2                   |
| United States <sup>2</sup>  | 14.2        | 18.3        | 22.4        | 19.7                                                  | 50.4        | 22.0                   |
| Denmark                     | 18.9        | 23.2        | 30.8        | 27.0                                                  | 78.0        | 33.5                   |
| Finland                     | 31.6        | 22.8        | 27.4        | 25.8                                                  | 38.3        | 32.9                   |
| Norway <sup>1</sup>         | 5.5         | 24.6        | 30.6        | 24.9                                                  | 47.0        | 31.1                   |
| Spain                       | 13.4        | 14.6        | 19.6        | 17.1                                                  | 26.9        | 19.2                   |
| Sweden <sup>1</sup>         | 15.2        | 30.0        | 34.9        | 31.3                                                  | 43.0        | 32.7                   |
| Simple average <sup>3</sup> | 15.1        | 18.0        | 22.6        | 20.3                                                  | 50.1        | 25.9                   |
| Simple average <sup>4</sup> | 14.5        | 19.7        | 25.2        | 21.9                                                  | 50.5        | 26.7                   |

1. Expenditure from public sources only. For Ireland data for expenditure from private sources exist but only for all levels combined. They would raise the figure from 20.5 to 21.8. The average ratio of private to public expenditure in the countries for which such data exist is 0.17.

2. For pre-primary, primary and secondary data, expenditure from public sources only. For other notes see Annex I.

3. Includes only countries where data for expenditure from all sources are available.

4. Includes all countries.

Source: OECD, Centre for Education Research and Innovation, *Education at a Glance*, 1992 (forthcoming).

seem to differ much from its main partners. In tests conducted in several subjects in primary and secondary schools, it usually scores slightly above the average. Likewise, illiteracy is far from being a phenomenon that is peculiar to France. There are no internationally comparable data in this area, but it has been estimated that 24 per cent of the population in Canada are functionally illiterate, and that 4 per cent are illiterate in the United Kingdom. However, the situation in higher education probably compares less favourably with other countries. The share of students successfully completing their first university degree varies widely from one country to another (from 6 to more than 26 per cent), and the

Table 20. **Educational attainment for the adult population in 1989<sup>1</sup>**

Shares in per cent

|                                         | Pre-primary<br>and primary | Lower-<br>secondary | Upper-<br>secondary | Non-<br>university<br>tertiary | University     | Undistributed |
|-----------------------------------------|----------------------------|---------------------|---------------------|--------------------------------|----------------|---------------|
| Canada                                  | 14                         | 14                  | 41                  | 15                             | 15             | 0             |
| United States                           | 8                          | 10                  | 46                  | 12                             | 23             | 0             |
| Australia                               | 14                         | 30                  | 25                  | 21                             | 10             | 1             |
| Japan                                   | 30                         |                     | 48                  | 8                              | 13             | 1             |
| New Zealand                             | 33                         | 10                  | 25                  | 22                             | 9              | 1             |
| Austria                                 |                            | 35                  | 60                  |                                | 5 <sup>2</sup> | 0             |
| Belgium                                 | 33                         | 30                  | 20                  | 10                             | 7              | 0             |
| <b>France</b>                           | <b>24</b>                  | <b>26</b>           | <b>33</b>           | <b>7</b>                       | <b>7</b>       | <b>3</b>      |
| Germany                                 |                            | 22                  | 61                  | 7                              | 10             | 0             |
| Ireland                                 | 37                         | 25                  | 23                  | 7                              | 7              | 1             |
| Netherlands                             | 19                         | 26                  | 36                  | 13                             | 6              | 0             |
| Switzerland                             |                            | 20                  | 50                  | 15                             | 9              | 6             |
| United Kingdom                          |                            | 35                  | 48                  | 6                              | 9              | 1             |
| Italy                                   | 44                         | 30                  | 20                  |                                | 6 <sup>2</sup> | 0             |
| Portugal                                | 89                         | 4                   | 2                   | 2                              | 4              | 0             |
| Spain                                   | 67                         | 13                  | 10                  |                                | 9 <sup>2</sup> | 0             |
| Denmark                                 |                            | 43                  | 40                  | 7                              | 10             | 0             |
| Finland                                 |                            | 42                  | 40                  | 8                              | 10             | 0             |
| Sweden                                  |                            | 33                  | 44                  | 11                             | 12             | 0             |
| Norway                                  |                            | 35                  | 42                  | 10                             | 11             | 2             |
| Simple average of above<br>countries    |                            | 45                  | 36                  | 9                              | 10             | 1             |
| Simple average of European<br>countries |                            | 49                  | 35                  | 7                              | 8              | 1             |

1. Population aged 25-64 in 1989, except Japan (1987), Denmark (1988), New Zealand (1990), the Netherlands (1990) and Norway (1990).

2. All tertiary education, but virtually all are university. For other notes see Annex I.

Source: OECD, Centre for Educational Research and Innovation, *Education at a Glance*, 1992 (forthcoming).

proportion of students who graduate with a *licence* in France is around the average for the countries studied by the OECD – 12 per cent of students of graduating age. On the other hand, the rate of retention of students in the university system is lower in France than in many comparable countries. Admittedly, the relatively high drop-out in France is probably partially ascribable to the fact that universities are non-selective and virtually free.

However, the rise in the level of education in France has probably been more recent than in many OECD countries, so that in terms of the level of education not of the youngest age groups but of the whole population, France's position is still relatively unfavourable. In particular, while the proportion of the French population with a diploma below or equal to that of the first stage of

Table 21. **Education and unemployment – a French/German comparison**

**A. Unemployment rate by educational achievement**

|                                    | France       |                            | Germany      |               |
|------------------------------------|--------------|----------------------------|--------------|---------------|
|                                    | Total (1987) | Youths (1989) <sup>1</sup> | Total (1987) | Youths (1989) |
| CEP, BEPC or not declared          | 13.7         | 33.5                       | 13.0         | 22.1          |
| CAP, BEP                           | 10.4         | 19.6                       | 7.0          | 5.6           |
| Baccalauréat, Brevet de technicien | 7.4          | 18.0                       | 5.6          | 4.4           |
| Baccalauréat + 2 years             | 4.2          | 9.9                        | 4.3          | 6.6           |
| Post-secondary                     | 4.1          |                            | 4.2          |               |
| Total                              | 10.8         | 24.0                       | 8.1          | 8.9           |

**B. Educational attainment of the employed labour force in 1989<sup>1</sup>**

|                                    | France              |             |       | Germany             |             |       |
|------------------------------------|---------------------|-------------|-------|---------------------|-------------|-------|
|                                    | Youths <sup>2</sup> | 25-34 years | Total | Youths <sup>2</sup> | 25-34 years | Total |
| CEP, BEPC or not declared          | 38.1                | 31.4        | 43.1  | 21.2                | 13.7        | 19.5  |
| CAP, BEP                           | 43.4                | 33.9        | 28.9  | 66.1                | 56.4        | 55.4  |
| Baccalauréat, Brevet de technicien | 11.5                | 14.6        | 11.6  | 11.5                | 16.5        | 13.4  |
| Baccalauréat + 2 years             | 7.0                 | 11.6        | 8.2   | 1.2                 | 5.1         | 4.0   |
| Post-secondary                     |                     | 8.5         | 8.2   |                     | 8.3         | 7.7   |
| Total                              | 100.0               | 100.0       | 100.0 | 100.0               | 100.0       | 100.0 |

1. Excluding apprentices, trainees and those whose educational attainment was not declared.

2. Labour force (employed and unemployed).

Source: Möbus and Sevestre (1991).

secondary schooling is around the European average, it is still greater than in the United Kingdom or in Germany, for example (Table 20). Yet, in view of the difficulties involved in making international comparisons, these findings should be treated with some circumspection. Nevertheless, when France is compared only with Germany, which methodologically is easier to do, the contrasts are more marked (Table 21). In Germany, the share of employees with an intermediate level of education is almost twice as large as that in France, while that with a lower level of qualifications is more than twice as large in France. On the other hand, the proportion of the French population with a higher level of education is comparable to that of other European countries: thus, France ranks ahead of Italy, is on the same level as the United Kingdom and Germany and behind Japan and the United States.

### **External efficiency: the system's returns**

Spending on education can be regarded as an investment whose return accrues to both the individual and to society. According to the traditional theory of education, this investment increases the stock of human capital and thus the productivity of the person in whom it is embodied. The benefit to the individual from his investment takes the form of greater life-time earnings, while society gains by having a higher level and growth rate of production. On the other hand, another analytical approach attributes to the education system a screening or filtering function (Arrow, 1973): people are sorted by their innate abilities, diplomas are merely signals, and salary differentials are not returns on investment but rather a payment for natural competences. If this theory is valid, it implies a limited financial participation of the community; however, if education is the source of favourable externalities, then the State has every interest in subsidising it. The official goals of improving educational attainment so that all pupils reach the level of the CAP/BEP and 80 per cent that of the *baccalauréat* are founded on a human capital approach; but a generalised rise in educational attainment would blur the role of the filter. Whichever theory one adopts, the rationality for almost free access to upper education can be questioned, given that the acquisition of a diploma is the source of additional income for its holder, as will be seen below. It could also be questioned on income-distribution grounds,

as well as by observing the lack of cross-country correlation between the private-financing share and the rate of participation in higher education.

It would be desirable to be able to estimate the contribution of human capital to the rate of economic growth. Unfortunately, in the case of France the estimates of this type that have been made are, by and large, fairly old<sup>66</sup>. More recent studies focus rather on the link between labour skills and productivity at enterprise level<sup>67</sup>. This link is important and statistically significant and is stronger as enterprises use a more capital-intensive technology requiring labour that is already highly skilled (Sevestre, 1990). The "profitability" of training can also be measured on the basis of wage differentials (Table 22). If we compare the wage of a graduate with a diploma requiring more than two years of study beyond the *baccalauréat* to that of an employee with a CAP/BEP, the differential is substantial and seems fairly stable since 1985, if not before (Baudelot and Glaude, 1989), despite the increase in the number of people holding advanced diplomas. Compared with other OECD countries, it seems that the early-career differences in wages between levels of education are more marked in France, but in mid-career they approach the average, a finding that is consistent with the importance attached to length of service referred to in the previous chapter.

But it is particularly the ability of the education system to meet the evolving needs of the labour market that has been the subject of debate in recent years. As output growth and the demand for labour have slowed, it has become much more difficult for young people to establish themselves in the labour market. Surveys of young people nine months after they had left school showed that in 1988 less than half of them had a job, with a large share of the others unemployed, especially for the least qualified (Diagram 19). Not only is the likelihood of being unemployed all the greater the lower the level of education (see Part III), but the dispersion by levels has increased. By and large, the chances of a university graduate finding a job are still favourable: 85 per cent of university graduates or post-graduates have found a job within a year after graduating. The share of those with higher-education diplomas who are working as clerks or manual workers, and thus doing jobs for which they are over-qualified, has remained stable and small. The job situation is also satisfactory for young people who have completed a short course of higher education: 90 per cent of the holders of a diploma from a IUT or a higher technical certificate (*brevet de technicien supérieur*) have found a job within a year. The situation is much less favourable for general or technical

Table 22. Wage level according to educational attainment<sup>1</sup>

|                                                                      | 25-29 year-olds |      |      |      | 35-44 year-olds |      |      |      |
|----------------------------------------------------------------------|-----------------|------|------|------|-----------------|------|------|------|
|                                                                      | 1969            | 1976 | 1984 | 1990 | 1969            | 1976 | 1984 | 1990 |
| <b>Total</b>                                                         |                 |      |      |      |                 |      |      |      |
| Without any diploma                                                  | 0.8             | 0.9  | 0.9  | 0.9  | 0.7             | 0.7  | 0.8  | 0.8  |
| CAP-BEP                                                              | 1.0             | 1.0  | 1.0  | 1.0  | 1.0             | 1.0  | 1.0  | 1.0  |
| Baccalauréat                                                         | 1.2             | 1.1  | 1.1  | 1.2  | 1.5             | 1.3  | 1.3  | 1.2  |
| Diploma involving 2 years of study beyond the Baccalauréat           | 1.2             | 1.2  | 1.3  | 1.3  | 1.5             | 1.3  | 1.4  | 1.3  |
| Diploma involving more than 2 years of study beyond the Baccalauréat | 1.6             | 1.4  | 1.5  | 1.7  | 3.4             | 2.1  | 1.9  | 1.8  |
| <b>Male</b>                                                          |                 |      |      |      |                 |      |      |      |
| Without any diploma                                                  | 0.8             | 0.9  | 0.9  | 0.9  | 0.7             | 0.7  | 0.8  | 0.8  |
| CAP-BEP                                                              | 1.0             | 1.0  | 1.0  | 1.0  | 1.0             | 1.0  | 1.0  | 1.0  |
| Baccalauréat                                                         | 1.2             | 1.2  | 1.2  | 1.2  | 1.6             | 1.4  | 1.4  | 1.3  |
| Diploma involving 2 years of study beyond the Baccalauréat           | 1.3             | 1.2  | 1.3  | 1.3  | 1.8             | 1.4  | 1.5  | 1.5  |
| Diploma involving more than 2 years of study beyond the Baccalauréat | 1.8             | 1.5  | 1.6  | 1.8  | 3.6             | 2.1  | 2.0  | 2.0  |
| <b>Female</b>                                                        |                 |      |      |      |                 |      |      |      |
| Without any diploma                                                  | 0.8             | 0.8  | 0.9  | 0.9  | 0.7             | 0.7  | 0.8  | 0.8  |
| CAP-BEP                                                              | 1.0             | 1.0  | 1.0  | 1.0  | 1.0             | 1.0  | 1.0  | 1.0  |
| Baccalauréat                                                         | 1.2             | 1.1  | 1.1  | 1.2  | 1.4             | 1.4  | 1.3  | 1.2  |
| Diploma involving 2 years of study beyond the Baccalauréat           | 1.3             | 1.3  | 1.3  | 1.4  | 1.4             | 1.4  | 1.4  | 1.3  |
| Diploma involving more than 2 years of study beyond the Baccalauréat | 1.6             | 1.4  | 1.4  | 1.7  | 2.1             | 2.0  | 1.7  | 1.6  |

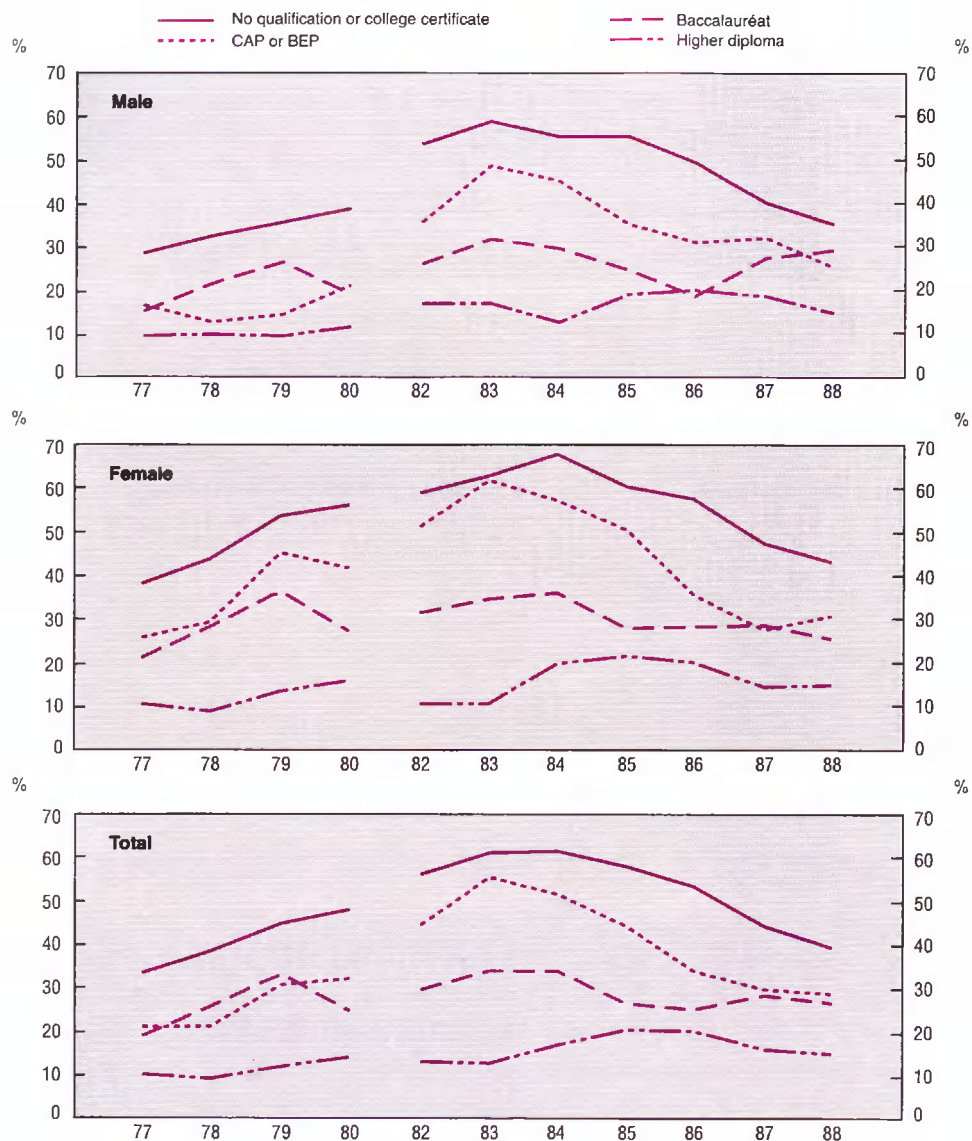
1. Compared with the average wage for somebody with a CAP-BEP.

Source: Ministère de l'Éducation Nationale, *L'état de l'école*, 1992.

secondary school-leavers, since in 1988 only 30 per cent of them had found a stable job immediately (compared with nearly 70 per cent in 1980), and the situation of young people without any qualification whatsoever is even more difficult (see Diagram 14 in Part III).

The link between the level of education and unemployment is less clear-cut at an aggregate level. As Table 23 shows, the unemployment rate for all age groups together is inversely related to the level of educational attainment, but compared with the European average, the problems of finding a first job seem

Diagram 19. **UNEMPLOYMENT RATE BY EDUCATIONAL ATTAINMENT  
UPON GRADUATION<sup>1</sup>**



1. Break in the series in 1981.

Source: INSEE, Enquête sur l'emploi.

Table 23. Unemployment rates for the adult population in 1989 by level of educational attainment<sup>1</sup>

Per cent

|                                      | Pre-primary and primary |             |             | Lower-secondary |            |             | Upper-secondary |            |            | Higher-education non-university |            |            | Higher-education university |            |            | Total      |            |             |
|--------------------------------------|-------------------------|-------------|-------------|-----------------|------------|-------------|-----------------|------------|------------|---------------------------------|------------|------------|-----------------------------|------------|------------|------------|------------|-------------|
|                                      | Total                   | Men         | Women       | Total           | Men        | Women       | Total           | Men        | Women      | Total                           | Men        | Women      | Total                       | Men        | Women      | Total      | Men        | Women       |
| Canada                               | 10.3                    | 10.1        | 10.7        | 9.8             | 9.1        | 10.9        | 6.8             | 6.0        | 7.7        | 5.0                             | 4.4        | 5.6        | 3.6                         | 3.2        | 4.2        | 6.7        | 6.2        | 7.3         |
| United States                        | 8.5                     | 8.9         | 7.7         | 9.1             | 9.7        | 8.3         | 4.6             | 5.0        | 4.2        | 3.3                             | 3.1        | 3.6        | 2.2                         | 2.3        | 2.0        | 4.4        | 4.7        | 4.0         |
| Australia                            | 8.1                     | 9.0         | 6.7         | 7.0             | 7.4        | 6.5         | 4.2             | 3.9        | 5.7        | 4.6                             | 3.3        | 5.4        | 3.7                         | 3.1        | 5.1        | 5.4        | 5.1        | 6.0         |
| Japan                                | ..                      | ..          | ..          | 7.0             | 4.6        | 10.1        | 6.5             | 2.6        | 11.6       | 7.7                             | 2.7        | 10.9       | 2.3                         | 1.3        | 8.4        | 5.9        | 2.8        | 10.0        |
| New Zealand                          | 9.3                     | 11.2        | 7.0         | 4.7             | 5.1        | 4.3         | 4.9             | 5.0        | 4.7        | 5.1                             | 5.8        | 4.5        | 2.9                         | 1.8        | 4.9        | 6.0        | 6.4        | 5.4         |
| Austria                              | ..                      | ..          | ..          | 3.6             | 3.4        | 3.8         | 2.4             | 2.2        | 2.8        | ..                              | ..         | ..         | 1.1                         | ..         | ..         | 2.7        | 2.3        | 3.1         |
| Belgium                              | 14.0                    | 11.3        | 18.8        | 9.2             | 4.4        | 18.3        | 4.7             | 2.0        | 8.8        | 2.7                             | 1.4        | 3.7        | 2.0                         | 1.6        | 3.1        | 7.5        | 4.7        | 12.2        |
| France                               | <b>11.8</b>             | <b>10.5</b> | <b>13.4</b> | <b>10.5</b>     | <b>7.4</b> | <b>14.1</b> | <b>6.6</b>      | <b>4.5</b> | <b>9.8</b> | <b>3.4</b>                      | <b>2.7</b> | <b>4.0</b> | <b>3.0</b>                  | <b>2.0</b> | <b>4.7</b> | <b>8.1</b> | <b>6.1</b> | <b>10.8</b> |
| Germany                              | ..                      | ..          | ..          | 13.8            | 13.8       | 13.7        | 6.8             | 5.5        | 8.8        | 3.7                             | 2.7        | 7.6        | 4.5                         | 3.3        | 7.5        | 7.3        | 5.8        | 9.6         |
| Ireland                              | 19.2                    | 16.0        | 31.6        | 20.3            | 17.5       | 27.5        | 11.0            | 9.0        | 13.4       | 6.1                             | 4.1        | 8.2        | 3.3                         | 3.1        | 3.6        | 14.4       | 12.5       | 18.0        |
| Netherlands                          | 13.6                    | 12.0        | 16.7        | 7.6             | 4.7        | 11.9        | 4.8             | 2.7        | 8.6        | 4.6                             | 2.4        | 7.4        | 5.0                         | 3.8        | 8.4        | 6.5        | 4.4        | 10.2        |
| Switzerland                          | ..                      | ..          | ..          | 1.5             | 0.3        | 2.6         | 0.6             | 0.1        | 1.3        | 0.3                             | 0.2        | 0.8        | 0.8                         | 0.3        | 2.2        | 0.8        | 0.2        | 1.6         |
| United Kingdom                       | ..                      | ..          | ..          | 10.0            | 12.1       | 7.8         | 5.6             | 5.2        | 6.7        | 2.7                             | 2.2        | 3.2        | 2.4                         | 2.1        | 3.1        | 6.4        | 6.4        | 6.4         |
| Italy                                | 5.9                     | 3.7         | 10.6        | 6.8             | 3.8        | 13.2        | 7.7             | 4.4        | 12.5       | ..                              | ..         | ..         | 4.8                         | 3.1        | 7.2        | 6.6        | 3.9        | 11.7        |
| Portugal                             | 6.0                     | 6.0         | 6.0         | 5.8             | 5.5        | 6.4         | 6.4             | 7.2        | 4.9        | 6.0                             | 7.2        | 5.6        | 6.1                         | 5.8        | 6.6        | 6.0        | 6.0        | 6.0         |
| Spain                                | 12.7                    | 10.8        | 17.6        | 15.6            | 10.6       | 25.3        | 13.1            | 8.3        | 22.9       | ..                              | ..         | ..         | 10.7                        | 6.6        | 16.0       | 12.9       | 9.9        | 19.3        |
| Denmark                              | ..                      | ..          | ..          | 12.1            | 10.5       | 13.6        | 7.1             | 6.5        | 8.0        | 4.0                             | 6.5        | 2.7        | 3.4                         | 3.6        | 3.0        | 8.3        | 7.5        | 9.3         |
| Finland                              | ..                      | ..          | ..          | 4.1             | 4.0        | 3.9         | 3.1             | 3.4        | 2.6        | 1.6                             | 2.0        | 1.1        | 1.7                         | 0.7        | 2.2        | 3.0        | 3.1        | 3.0         |
| Sweden                               | ..                      | ..          | ..          | 1.4             | 1.1        | 1.7         | 0.9             | 0.9        | 1.3        | 0.9                             | 1.0        | 0.8        | 1.0                         | 1.1        | 0.4        | 1.0        | 1.1        | 1.0         |
| Simple average of above countries    | 10.9                    | 10.0        | 13.3        | 8.4             | 7.1        | 10.7        | 5.7             | 4.4        | 7.7        | 3.9                             | 3.2        | 4.7        | 3.4                         | 2.6        | 4.9        | 6.3        | 5.2        | 8.2         |
| Simple average of European countries | 11.9                    | 10.0        | 16.4        | 8.7             | 7.1        | 11.7        | 5.7             | 4.4        | 8.0        | 3.3                             | 2.9        | 4.1        | 3.6                         | 2.7        | 4.9        | 6.5        | 5.3        | 8.7         |

1. Adult population aged 25-64 in 1989, except Japan (1987), Denmark (1988), New Zealand (1990) and the Netherlands (1990). For other notes see Annex I.

Source: OECD, Centre for Educational Research and Innovation, *Education at a Glance*, 1992 (forthcoming).

more acute in France, not for people without any qualifications but for those who have had secondary schooling. Taking all categories together, the differences by level of education and the composition of the labour force explain only a small part (15 per cent or about 50 000 people) of the difference between France's unemployment rate and the average rate of its partner countries<sup>68</sup>.

As mentioned in Part III, the fact that the mismatch between the supply and demand for labour is more pronounced than in other countries is probably ascribable chiefly to the functioning of the labour market, especially to the fact that the problem of unemployment affects particularly the two extremes of the labour force (the youngest and oldest), to wage-setting rigidities, particularly for the least-skilled categories, and to the image problem of some sectors. This said, however, the education system's response to changing labour needs has apparently not been satisfactory either. Because it is unable to supply the skills that are required, especially engineering and technical skills, probably because of the restriction of supply practised by the *grandes écoles* and the inadequacy of the efforts to increase the number of students having completed short technical courses at university<sup>69</sup>. There are also shortages of training capacity for some specialised manual skills. Furthermore, schools seem unable satisfactorily to provide the knowledge and the ability to adapt that are needed to fit easily into an enterprise. In this respect, the comparison between Germany and France is illuminating. As mentioned earlier, the proportion of the labour force with an intermediate level of education is higher in Germany, but above all it is much easier than in France for young people to find initial employment; this is usually attributed to the fact that the education and training system is better integrated with the business world. On the other hand, in the over 25 year-old age group the unemployment rates are very similar in the two countries.

## **The recent policy stance**

The education-employment interface is obviously not a new issue, but the approach to it has changed considerably over the past 20 years, in France as in the other OECD countries. It is now recognised that, given the speed of structural change, it is impossible to foresee the human qualifications that will be needed in the future. In view of this uncertainty, the natural response is to seek to raise the general level of education and training, independent of employment opportuni-

ties, based on the belief that the more educated the labour force, the better it will be able to meet the changing needs of the economy. Experience has indeed shown that the greater the educational attainment, the easier it is to integrate into the labour market. The objectives of the 1989 guideline law (100 per cent of an age group to be educated up to CAP/BEP level and 80 per cent up to *baccalauréat* level) are in keeping with this belief. On the other hand, the strategy may fail to bring the education and training system closer to the world of business, whereas the growing complexity of production processes reduces the proportion of skills that can be taught in the initial training system. For this reason the emphasis is increasingly on the complementary roles of schools and firms in the education and training process.

A preliminary response to this need for additional company training was provided by the development of a series of varied job-placement schemes (see Annex I). The differences among them lie in the target groups addressed and the mix between the in-company training and work provided. The reduction in the cost of youth employment these schemes afford is considerable. Together they have involved such a large share of the youth population that it has now become the accepted route for the least-qualified school-leavers: in the three years to June 1989, 70 per cent of secondary-school-leavers participated in one or more of the programmes. They undoubtedly facilitated initial entry into employment for some young people and lowered their unemployment rate. Nonetheless, one-fifth of all those who left secondary school in 1986 at the lowest levels (V and VI) experienced only periods of unemployment interspersed with periods of involvement in one of the measures during the following three years. Two-thirds knew only "precarious" employment (*emploi précaire*) and almost 5 per cent only unemployment. In sum, it is hard to gauge how effective the schemes have been, particularly since some of them have not been used as intended. Thus, the success of the *contrats de qualification*, for example, which are in theory aimed at unskilled youths, must be seen in perspective, given that 30 per cent of young people signed up were at least of *baccalauréat* level. Moreover, while it is clear that the reduction in the cost of labour has played no small part in the schemes' success, it is hard to determine how much actual training the beneficiaries obtained under the programmes. Detailed *ex post* evaluation (in contrast with existing studies) is all the more necessary in that the cost of the measures to the public purse is high (see Annex I).

However, these labour-market entry schemes are in many respects purely palliative, and the stress is now on better integration between schools and enterprises **during** the period of initial training. The Schwartz Report (1981) recommended that priority be given to alternating classroom and workplace training (*alternance*), that is, sequentially organised educational courses comprising theoretical instruction and practical traineeships<sup>70</sup>. Streams of this kind have therefore been established; they begin in the fourth year leading to the BEP (typically 13 year-old pupils) and provide an opportunity to continue studies up to the vocational *baccalauréat*. Created in 1985, this new *baccalauréat* provides for 16-to-20-week work placements in the course of the two years of study. It is geared to fairly broad specialisations (computer-integrated manufacturing/engineering, office automation, maintenance of automated mechanical systems and audio-visual electronics), defined in close consultation with professionals in the field. While this new option has proved a genuine success, achieving a high rate of successful labour-market entry (over 80 per cent), the numbers involved are still quite small (around 50 000). However, its development and thus its possible contribution to meeting the 80 per cent *baccalauréat* goal are limited by the number of traineeships offered by professionals and not by pupils' demands, in contrast with what transpires for other streams.

Measures were also adopted at the beginning of 1992 to give new impetus to apprenticeship. In contrast to the situation in Germany, Austria and Switzerland, apprenticeship training is somewhat neglected, with the main focus on handicrafts and services. Despite the possibility of continuing such training right up to the level of engineer introduced in 1987, in general only a short period of training is provided (two years at Level V), and schoolchildren unable to move on to academic secondary education most often resort to it. While the job-placement record of apprentices is better than those coming out of technical high schools (24.2 per cent of all apprentices were still unemployed nine months after completion of training compared to 17.8 per cent for youths in general)<sup>71</sup>, only a small share of apprentices is hired by the firm employing them at the end of the training period, and the scheme is often seen as providing a source of cheap labour. Overall, this image problem has led to a stagnation, indeed even a decline in the number of apprentices, despite many training-centre vacancies. The problem may intensify in the event of the successful attainment of the 80 per cent *baccalauréat* objective with a significant share of professional *baccalauréats*. A currently

proposed reform is designed to increase the number of training positions involving classroom/workplace alternation, including apprentices, to 400 000 within five years, to widen the range of sectors acting as hosts and to provide enhanced opportunities under the system to study for high-level qualifications, including engineering degrees. Incentives have been introduced to encourage industrial firms to develop apprenticeship schemes by simplifying the procedures and reducing the cost; the 1993 Finance Act is expected to provide a tax credit to this end, and some training expenditures will probably be allowed to be treated as intangible assets by firms for purposes of calculating their taxable earnings; apprentices' pay will be boosted in order to match the rates offered by the *contrat de qualification* with which the apprenticeship scheme competes.

Obviously, the development of a training system alternating between the classroom and the workplace, whatever institutional form it takes (school-based, apprenticeship, labour-market integration schemes) demands a considerable participation by firms. Currently, firms provide some 800 000 traineeships a year. For firms to play a more effective training role, organisational changes and in particular an increase in the number of "instructors" will be required. The new emphasis on apprenticeship could also raise problems of funding. The apprenticeship tax, 0.5 per cent of the total wage bill, yielding about FF 6 billion per year, is used only in small part to finance apprenticeship training, the remainder going to other public or private educational establishments, notably the *grandes écoles* and the universities. But the main problem to be overcome is that of the gap between the two training streams, the school-based system leading, for example, to the vocational *baccalauréat* and the work-based employment-contract route – apprenticeship – which, though with different agents, should have the same goal of providing alternating theoretical and workplace training.

Such partnerships between firms and the educational system have made greater headway at the university level. Vocationally oriented courses must of necessity call on the services of professionals in the field. Involved in setting up programmes, firms also help to fund them. Although still only small – 8.9 per cent of total current expenditure in 1990 – total private university funding rose by almost 55 per cent between 1985 and 1990, against only 39.5 per cent for total expenditure. Also, recognising the need for more upper-level technical training, the authorities plan to provide 50 000 additional places in the IUTs by 1995.

While it appears that the corporate sector ought to play a growing role in the initial training system, so too ought local authorities, given their significant comparative advantage in understanding the needs of the local labour market. The measures introduced to put into effect the Decentralisation Act of 1982 have vested local authorities with new responsibilities in equipping and operating schools. The purview of the regions too has been extended to cover apprenticeship and vocational training. The share of local government in total education spending has therefore risen from 14.3 per cent in 1980 to 16.8 per cent in 1990. Besides giving rise to problems of division of responsibility, these developments may engender some regional inconsistencies and may prevent the realisation of economies of scale. Since the efforts made by local authorities have been substantial, exceeding their statutory obligations, local governments have come to influence decisions that in theory fall outside their ambit, in such matters as streams and programmes or, in the case of higher education, the teaching staff.

Last, a major effort is being made to impart greater flexibility to the school system in order to combat failure at school. Irrespective of the level of education – in primary schools, where reforms are to be applied over the whole system in 1992, in secondary schools where they are to take effect in *seconde* grade at the beginning of the next academic year, or in the universities where discussions are in progress – reforms are aimed at diversifying the options and making them accessible to pupils from widely varying backgrounds, though the curricula will be the same for all. In the most disadvantaged areas, new impetus was given in 1990 to the *zones d'éducation prioritaires* (ZEP – priority education areas), introduced in 1982 and comprising almost 10 per cent of educational establishments, for the most part primary schools<sup>72</sup>. In addition, teachers' pay has been increased at a cost of FF 12.3 billion between 1989 and 1992, an average of about FF 3 000 per year for each civil servant in the Ministère de l'Éducation Nationale; 45 000 posts were also created. Overall, the Ministry of Education's spending, which declined in constant prices over the period 1984-87, jumped by FF 65 billion since then and is expected in 1992 to account for 21 per cent of the State's current expenditure, against 16 per cent in 1987. Greater efforts are being made to boost the evaluation of teaching methods, schools and pupils by, for example, monitoring pupils' situation during the year following their departure from the education system. Finally, increased emphasis is being put on improved

teacher training, with the recent foundation of post-secondary teacher-training institutions (*Instituts Universitaires de Formation des Maîtres*).

## Enterprise-based training

The purpose of the 1971 Act organising enterprise-based training in France and which is due to be revised in 1992 was twofold: to retrain workers in new technologies and encourage upward mobility. With mounting unemployment and young people's labour-market entry problems, the first aim has gradually come to take precedence over the second, and enterprise-based training today takes a variety of forms: it includes both the measures for young people's initial job placement, discussed above, as well as training for adult employed workers, the group discussed in this section<sup>73</sup>.

Enterprise-based training systems in OECD countries differ according to whether training is instigated on the initiative of the employee or of the firm, and according to the extent to which the training is linked to the school system. The Act and subsequent measures provide for two types of training programmes, individual and collective. Once there is agreement between the social partners, firms are required by law (this is one of the unique features of the French system) to allocate 1.2 per cent of the total wage bill (until 1992) to continued vocational training; this levy must be divided according to a strict rule among individual training leave, employee training and *alternance* schemes for young people<sup>74</sup>. In fact, individual training leave, used for long, intensive training courses leading to a diploma, is not widely used<sup>75</sup>. The traineeships that are arranged in this way are run either by the firm itself, or by private or public specialised training agencies called in for the purpose. The turnover of such agencies in 1990 totalled almost FF 20 billion. The quality of the training is generally seen as uneven, and the new Act is expected to include strengthened conditions for government recognition.

Spending on enterprise-based training gained ground throughout the last decade, reaching FF 85 billion in 1989 (including apprenticeship). Of this FF 34 billion was spent by employers. Their financial participation rate (the ratio of continued vocational training expenditure to the total wage bill) moved up steadily over the period (Table 24) and by 1990 was 3.2 per cent, more than twice the minimum statutory rate (1.2 per cent). The number of trainees rose

Table 24. Trends in main indicators of enterprise-based training from 1972 to 1990<sup>1</sup>Financial participation rate<sup>2</sup>

| Size of firm<br>by number of employees | 1972 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|----------------------------------------|------|------|------|------|------|------|------|------|------|
| 10 to 19                               | 0.47 | 1.10 | 1.13 | 1.14 | 1.15 | 1.30 | 1.34 | 1.31 | 1.30 |
| 20 to 49                               | 0.62 | 1.17 | 1.20 | 1.20 | 1.22 | 1.36 | 1.42 | 1.43 | 1.45 |
| 50 to 499                              | 0.92 | 1.47 | 1.46 | 1.51 | 1.54 | 1.72 | 1.88 | 2.02 | 2.17 |
| 500 to 1 999                           | 1.91 | 1.94 | 2.02 | 2.12 | 2.24 | 2.44 | 2.71 | 2.92 | 3.20 |
| 2 000 and over                         |      | 3.36 | 3.47 | 3.62 | 3.81 | 4.05 | 4.43 | 4.67 | 4.99 |
| TOTAL                                  | 1.35 | 2.14 | 2.17 | 2.24 | 2.33 | 2.51 | 2.74 | 2.89 | 3.14 |

Percentage of employees who had received training

| Size of firm<br>by number of employees | 1972 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|----------------------------------------|------|------|------|------|------|------|------|------|------|
| 10 to 19                               | 1.4  | 6.3  | 6.6  | 6.0  | 6.2  | 6.8  | 7.9  | 7.3  | 7.9  |
| 20 to 49                               | 2.3  | 7.8  | 8.6  | 8.5  | 8.9  | 9.5  | 10.7 | 10.0 | 10.7 |
| 50 to 499                              | 6.1  | 14.9 | 16.1 | 16.3 | 17.8 | 19.2 | 20.9 | 22.0 | 23.4 |
| 500 to 1 999                           | 17.8 | 23.4 | 24.9 | 26.8 | 28.5 | 30.9 | 33.9 | 36.1 | 38.8 |
| 2 000 and over                         |      | 37.3 | 38.2 | 39.5 | 42.6 | 44.5 | 49.3 | 50.7 | 52.9 |
| TOTAL                                  | 10.7 | 21.5 | 22.3 | 23.0 | 24.7 | 26.2 | 29.2 | 30.1 | 32.4 |

Average length of training (hours of training per trainee)

| Size of firm<br>by number of employees | 1972 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|----------------------------------------|------|------|------|------|------|------|------|------|------|
| 10 to 19                               | 60   | 40   | 43   | 42   | 44   | 43   | 42   | 41   | 38   |
| 20 to 49                               | 60   | 42   | 42   | 44   | 40   | 41   | 40   | 43   | 39   |
| 50 to 499                              | 61   | 45   | 44   | 45   | 42   | 42   | 41   | 41   | 42   |
| 500 to 1 999                           | 78   | 50   | 50   | 47   | 46   | 44   | 43   | 44   | 45   |
| 2 000 and over                         | 74   | 57   | 57   | 58   | 55   | 54   | 53   | 54   | 54   |
| TOTAL                                  | 62   | 52   | 51   | 52   | 49   | 48   | 47   | 48   | 48   |

1. Provisional data for 1990.

2. In 1972 and 1973, the statutory rate was 0.8 per cent of the gross payroll; from 1974 to 1977 1 per cent; from 1978 to 1986 1.1 per cent; from 1987 to 1991 1.2 per cent; since 1992 it has been 1.4 per cent.

Source: Centre d'études et de recherches sur les qualifications, *Statistique de la formation professionnelle continue financée par les entreprises*, December 1991.

from 2.8 million in 1980 to almost 5 million in 1989. While the proportion of employees receiving training increased by half between 1983 and 1990, from 21.5 per cent to 32.4 per cent, the average duration of the traineeships manifests a

downward trend over the long term. In assessing the magnitude of this effort, caution is called for in cross-country comparisons, in view of countries' differing conceptions and definitions of continued vocational training. An important problem relates to whether or not on-the-job training is included; it is not in France, but is in the United Kingdom, for example. Nonetheless, despite the training levy, the overall French continued-training effort does not appear to be greater than that of the other OECD Member countries having such data (OECD, 1991).

The extent of continued vocational training effort depends in large measure on company size; this effect is more marked than in the other countries for which comparable figures are available (OECD, 1991). Thus, in 1987 for instance, the largest 2 per cent of firms, who each have a workforce of over 500 and together employ 14 per cent of all employees, accounted for over two-thirds of total expenditure. Workers in large firms are six times more likely to be able to go on a training course (and, on average, a considerably longer one) than those in firms with only 10-20 employees. Employees of small firms, on the other hand, receive little training, so that the compulsory contribution of their employers, centralised in common funds, serve mainly to finance the training of larger firms' personnel. Nor is there any systematic relationship between the nature of a branch's activity and its training effort. Firm size and related capital intensity are the more important criteria. But a ranking of sectors in terms of their enterprise-based training effort has remained unchanged over time. Workers' unequal access to enterprise-based training is not a phenomenon specific to France. The sharpest differences are in the levels of initial education and of qualification of workers obtaining continued training. On the whole, it is the best-trained workers from the highest socio-occupational categories that receive the most training (Table 25). This is the situation generally, but, although the data suffer from some incomparabilities, the differences between classes of educational attainment appear to be less clear-cut elsewhere than in France (OECD, 1991). By socio-occupational category, the rate of access to training of engineering and managerial staff and of technicians and supervisory staff is four times higher than that of unskilled workers, and the gap is tending to widen. Nevertheless, in recent years, firms' strategic needs have led them to provide the lengthiest training courses to qualified manual workers and to increase substantially the training available to intermediate-level managers.

**Table 25. Incidence of training among employees by level of educational attainment**

As a percentage of total number of employees

| Level of educational attainment                     | France | Australia | Germany <sup>1</sup> | Ireland | Japan <sup>2</sup> | Spain <sup>3</sup> | Sweden | United States |
|-----------------------------------------------------|--------|-----------|----------------------|---------|--------------------|--------------------|--------|---------------|
| Without any diploma or only the BEPC                | 1.3    | 69.2      | 7.4                  | 8.7     | 26.0               | 0.2                | 17.6   | 17.1          |
| <i>Baccalauréat</i> or <i>brevet professionnel</i>  | 3.8    | 87.5      |                      | 10.7    | 32.2               | 4.0                | 30.3   | 31.0          |
| <i>Baccalauréat</i> plus another two years of study | 4.1    | 83.5      | 9.9                  |         | 31.0               | 8.7                | 38.1   | 41.9          |
| Advanced diploma                                    | 4.9    | 91.4      | 12.2                 | 12.2    | 45.6               | 4.2                | 42.4   | 55.6          |
| Vocational training (CAP-BEP)                       | 9.2    | 80.4      | 15.5                 | 9.6     | n.a.               | n.a.               | 23.1   | n.a.          |

1. Apprentices are included in the last line. However, if they had been included in the first line, the figures would have been 27.1 (instead of 7.4) and 7.4 (instead of 15.5).  
2. Only employees who have had training in the previous two years.  
3. Only employees in the 16 to 49 year-old age group.  
Source: OECD (1991), Table 5.3.

All in all, enterprise-based training continues to be enjoyed primarily by well-trained workers, employed by large firms in expanding sectors with a dynamic personnel management and training policy (Dubar, 1990). Continued vocational training is thus more of a complement to top up initial training rather than as a replacement for it and does not really offer a second chance. The provisions of the Bill passed at the end of 1991 in the wake of the social partners' agreement of 3 July 1991 nonetheless constitute an important step forward in better uniting training with personnel management methods, since the employee is required to contribute in case of lengthy training, and responsibilities and costs are hence shared<sup>76</sup>; in return, employers are required to promote the beneficiary within a year to the grade corresponding to his new qualifications (which should enhance career mobility). To the extent that workers participate in the costs of their training they will take greater care to ensure its quality. Furthermore, the kind of training offered would then be able to go beyond the short-term, highly focused additions to firm-specific human capital which interest employers alone. In any case the optimality of the training levy and especially of the required partition of its components is open to question. The variation in qualified expenditure by sector and firm size means that the constraint binds in ways which could be efficient only by accident: a rigid and arbitrary share of a firm's wage

bill has little chance of corresponding to the benefits which it can expect from an investment in training. If further training is regarded as having favourable externalities and social benefits, then a more flexible global incentive is called for. This could take the form of a more generous, refundable tax credit, rather than the training levy<sup>77</sup>. Another possibility would be to offer the same tax treatment to training expenditures as is available to fixed investment by allowing their amortisation.

## V. Conclusions

The economy has been faced by weak overall demand during the past year and a half. Real output grew at an average rate of only  $1\frac{1}{4}$  per cent in 1991 and looks set to increase by only 2 per cent this year. This has not been sufficient to generate much additional demand for labour, and the unemployment rate has risen inexorably towards the 10 per cent mark, last seen in 1988. Price inflation has remained low, but, despite the reversal of the oil-price rise at the beginning of 1991 and further declines in commodity prices, it has shown few signs of falling further, with apparent resistance near the 3 per cent rate.

However, even the modest GDP growth recorded in 1991 has placed France in the upper half of OECD countries for the fourth year in a row, and the unemployment rate has risen no faster than elsewhere in Europe or the rest of the OECD. Furthermore, wage gains have eased in response to the deteriorating labour-market conditions. Stable inflation has consequently been achieved in spite of the end of the decline in business profit margins recorded during 1991 and increases in net indirect taxes and relative prices of public services. In any case, the inflation rate remains one of the lowest in the OECD area, and heightened price competitiveness has given French exporters the means to retake market shares lost in previous years. The merchandise-trade account accordingly improved by some FF 20 billion ( $\frac{1}{3}$  per cent of GDP) in 1991, and the current deficit was only  $\frac{1}{2}$  per cent of GDP.

The external factors which caused the downturn – the recessions suffered by several important trading partners and the loss of confidence and added uncertainty resulting initially from the Gulf crisis – have either faded already or look set to do so in the near future, while interest rates could decline slightly in 1993 as a result of further falls in the risk premium, as well as some limited easing in German rates. Yet projecting the timing of the take-off point is fraught with risks. Given the incipient recovery which now seems to be under way in North

America and the expected imminent stabilisation in the European economies experiencing recession, export market growth should pick up, despite the slow-down in the important German market, and, combined with sustained improvement in competitiveness, overall exports should accelerate. This, together with a dissipation of domestic agents' 'wait-and-see' behaviour should be sufficient to set demand on a steeper upward path by the end of this year. On average, however, overall real GDP may rise only 2 and 2½ per cent in the next two years, leaving the unemployment rate on a fairly horizontal trajectory. Faced with excess supply of labour, wage increases should slow further. Consequently, a further reduction in price inflation seems likely, even as profit margins recover, and consumer price increases could be brought down to 2½ per cent in 1993. Enhanced competitiveness should allow continued progress toward a balanced current account. The major risk to this scenario is that the rebound in foreign markets could fail to materialise in good time, further delaying the improvement in confidence and the strengthening of demand.

Recognising that there is little that French macroeconomic policy can do now to hasten the recovery in the short term, the authorities should set their sights firmly on the medium-term policy guidelines they have already established. For budgetary policy this implies returning to the path of steadily declining deficits that was interrupted by the current period of slow growth, and, in due course, stabilisation of the ratio of public debt to GDP. The size of the budget deficit outcome for 1991 – 1.9 per cent of GDP – as well as the overshooting of the target by some ¾ of a percentage point of GDP is not alarming, given that it is largely the result of a temporary, unforeseen slowdown in growth. While the State's spending increased moderately, overall general-government expenditure rose at a rate of 6¼ per cent, substantially faster than the growth rate of GDP. Therefore, according to OECD estimates, the general-government deficit, once corrected for the effects of the business cycle, interest charges and other exogenous influences, widened by nearly ½ per cent of GDP. For 1992 the aim should be to fulfil the budget target of holding spending increases well below the value of GDP growth and to ensure that any additional spending is easily reversible. This approach will clearly not be sufficient to lead to a significant reduction in the deficit in the short term, but if adhered to over a number of years, should allow medium-term guidelines to be respected. Attention should focus not only on the rate of increase but also on the structure of spending; in particular,

restraint should be concentrated on current items, particularly the size of the public service, while capital expenditure should be maintained. Special consideration will also have to be given to moderating the increase in social spending.

There is virtually no possible nor desirable policy variation on the monetary front. The delays in the recovery have led some to call for relaxation, arguing that a devaluation of the franc would allow lower interest rates and faster export growth through improved competitiveness; but there is very strong reason to doubt that these benefits would be realised. Indeed, the credibility of the successful anti-inflation policy carried out by successive governments over the past decade would be destroyed, and the risk premium embodied in long-term interest rates would almost certainly rise, perhaps significantly. Following the realignment, short-term rates could be reduced for any length of time only to the extent that there was an expectation of a subsequent appreciation. With deteriorating inflation performance and diminished credibility, the prospects for appreciation would fade, possibly rapidly, and short-term rates would have to rise again to partner-country levels in order to defend the currency at the new, lower parity. A cheaper franc would not do much to stimulate exports either, given the likely pass-through into domestic wages and prices. In any case, the logic of the strong-franc policy has always been to promote competitiveness through cost moderation rather than to ratify agents' inflationary wage and price setting through devaluation. It would be inappropriate to abandon the policy of competitive disinflation when it is clearly bearing fruit. Moreover, a policy reversal would not be consistent with France's central role in the process of European economic and monetary integration: if even France, one of the few countries already complying with all the criteria decided on at the Maastricht summit, changes course in such an important fashion, not only would it make more difficult their satisfaction again in the future, but it would also discredit the whole European enterprise.

While the macroeconomic policy stance has been appropriate, structural difficulties remain. First and foremost is the problem of high and persistent unemployment. Despite continuous public spending on labour-market programmes of some 3 per cent of GDP and declining labour-force participation, the unemployment rate has remained in the 9-10 per cent range for about eight years, one of the worst outcomes among OECD countries. It is particularly concentrated among females and non-prime-age groups whose unemployment exerts less downward pressure on wage bargains and who may suffer from a lack of

adequate incentives to price themselves back into the market. Furthermore, nearly half of the unemployed have been without work for over a year.

The factors which have led to such disappointing performance are multiple and inter-related, and their respective contributions cannot be quantified. It appears, however, that the bulk of overall unemployment is structural in nature, in the sense that only a very small share appears attributable to the **current** depressed level of aggregate demand. Mismatch of jobs and job-seekers plays a role, in that the unemployed are in the wrong place relative to job offers or lack the appropriate skills or training. In addition, labour costs were excessive for at least a decade after the first oil-price shock, and, combined with the structural increase in real interest rates, profitability was for a long time inadequate to support job-creating investment on a scale sufficient to absorb inflows into the labour force. Furthermore, it appears that significant dualism in the labour market is serving to exacerbate the unemployment problem.

Certain public policies may also indirectly contribute to unemployment. The floor on the cost of taking on an employee set by the minimum wage and social charges may limit employment of youths, especially the least educated. Official measures to offset such effects by favouring youth employment have succeeded in bringing down their unemployment rate but may have led to a reduced demand for other kinds of labour. Unemployment benefits are not especially generous by international standards, but, for low-wage earners at least, they seem to provide sufficient replacement income to discourage job search and help maintain reservation wages. More importantly, they are too loosely connected to measures aimed at improving employability and may be drawn for an excessive period, a factor which tends to extend the average length of unemployment spells. While possibly difficult to achieve in the current conjuncture, overall labour-market policy would benefit from a substantial refocusing away from unemployment compensation and early-retirement provisions toward more active policies involving increased training suited to the needs of the labour market and improved placement services, possibly in part by private competitors to the existing public agency. Also, the panoply of labour-market programmes should be rationalised and then stabilised, and co-ordination between the different administrations responsible for labour-market policy should be improved.

The specific characteristics of the operation of the labour market have tended to concentrate unemployment on youths and, increasingly, on the least

educated among them, calling into question the ability of the system to provide a proper education for all. However, the education system has a positive record in a number of respects. It allows virtually all children access to pre-primary schooling, with measurable results in terms of individual performance. It has successfully dealt with a substantial increase in demand at the upper- and post-secondary levels over the past decade, thereby achieving a marked upgrading in educational attainment. Furthermore, this has been managed without a corresponding boost in public expenditures on education.

Nevertheless, the education system does also manifest certain obvious weaknesses. Individual performance is still judged with undue emphasis on academic skills. The priority placed by the education authorities on ensuring that all youths have at least some minimal level of skills needed in the labour market is still insufficient; thus, despite the increase in average educational attainment, large numbers of school-leavers still enter the job market without any qualifications and accordingly face much greater risks of unemployment. If more young people could reach this minimal level of attainment, then the need for some of the costly programmes to facilitate their labour-market integration might be reduced. Recently announced reforms to go beyond traditional narrow definitions of excellence in selection and to upgrade technical and vocational streams are encouraging, but, in order to moderate the strong tendency to exclusion, even more efforts should be made to provide a high-quality education to those youths who do not choose or are not admitted to academic education. This would be assisted by even greater co-operation between the education establishment and the social partners in the development of regular programmes, as well as of alternatives which would overcome the troublesome distinction between scholastic and employment status. In elaborating such alternatives, France must foster a system of alternating training with employment experience consistent with its institutions and suited to its needs.

The system of further education is a positive factor but exhibits a number of problems, some of which are not specific to France. Most employer-financed training benefits the already well educated, and small firms tend to subsidise the training of their bigger counterparts. There is a high concentration on very short training programmes, which often lack recognition and validation by employers, and an exclusive focus on expenditure levels, rather than on human capital upgrading and productivity enhancement. It would be preferable to meet these

objectives by transforming the training levy into a more flexible and sufficiently attractive tax credit which would be more neutral across sectors and different firm-size categories. Also, with a view to policing the value of training expenditure and to matching the costs with the benefits which accrue to them, recipients of training should participate to an even greater extent in its financing, as was agreed in the recent accord between the social partners. Overall, with a better integration of the systems of initial and further education, life-long learning would progressively become the norm.

Progress on some other structural fronts has been made over the past year, but major issues remain undecided. The corporate income tax rate has been unified at a level which eliminates the double taxation of dividends, but, while the overall business tax burden is not especially high by international standards, it is excessively based on inputs rather than on profits. The national authorities have begun to force greater budgetary rigour on their local counterparts by cutting intergovernmental transfers; yet local government taxation has continued to rise rapidly, their finances are exceedingly opaque, and some municipalities are severely indebted. The authorities have not yet succeeded in reining in the growth of social expenditure. While they have managed to institute spending envelopes for a number of health-care professionals which should allow better medium-term control over the spiralling cost of health care, the allocation mechanisms will be very complex to apply and may breed inefficiencies over the medium term. A comprehensive White Paper on the public pension system has been published, but there still appears to be a lack of willingness on the part of the social partners to recognise the long-term constraints on the system and the need for early reform to avoid sudden, sharp changes later on. Finally, the authorities have relaunched the process of partial privatisations but purely for financial reasons.

While economic growth in 1991 was disappointing, this was very largely a result of external factors. There is little that a country integrated into the wider European economy can do by itself to avoid international cyclical fluctuations. Indeed, overall performance was among the best of the major OECD countries. Given a continuation of prudent macroeconomic policies, once the current slowdown in partner countries is overcome, there is every reason to believe that activity will gradually pick up and unemployment will begin to ease, while disinflation resumes and competitiveness continues to improve. The probability

of realising this favourable scenario can be enhanced by adhering to the medium-term objectives of fiscal and monetary policies, while squarely facing the structural problems confronting the nation and resolutely engaging in the necessary reforms.

## Notes and references

1. The usual econometric equations, containing a stable long-term relationship between consumption, real income and the inflation rate (reflecting the effect of rebuilding real money balances), pointed to much brisker growth of private consumption between mid-1990 and mid-1991 than that actually observed ( $2\frac{3}{4}$  per cent for the Ministry of Finance's METRIC and the OECD's INTERLINK models, compared with  $1\frac{1}{4}$  per cent).
2. The economic rate of return is the ratio of gross operating surplus to productive capital stock. The financial rate of return is the ratio of gross operating surplus plus investment income net of interest expenses to equity capital at market prices.
3. This is a net figure. In March 1991 some 323 000 unemployed (according to the standardised definition) were not registered, while over 700 000 people who declared themselves as registered did not conform to the standardised definition, either because they were actually employed (usually part-time), not actively looking for work or not available for work. The widening gap between the two definitions over the past five years is due to an increase of nearly a quarter of a million (444 per cent) in the number of registered unemployed not actively looking for work as well as an increase of over 200 000 (384 per cent) in the discrepancy between those actually registered and those declaring themselves registered at the national employment office – the ANPE; see Marchand (1991).
4. Such measurement problems are long standing – see Marchand and Thélot (1986). France has only an annual labour-force survey; its results are known only with a fairly long lag, and significant revisions to the data are undertaken when population censuses are undertaken every seven or eight years. The results of the 1990 Census are still in the process of being analysed and will probably lead to fairly significant revisions to the labour-market data for the period since the preceding Census (1982). INSEE has announced that it will undertake a quarterly labour-force survey beginning in June 1992.
5. The *Revenu Minimum d'Insertion*, introduced at the end of 1989, is usually thought to have contributed to additional recorded participation, perhaps to the extent of 10 000 people per year. Another possibility is that the unusually large cohort of youths expected to arrive on the labour market in 1989-90 was delayed due to a further increase in the average school-leaving age. Also, the trend increase in female participation may have been underestimated, based on provisional results from the 1990 Census. Finally, the overall importance of early retirement programmes has been diminishing and the shift in the emphasis of labour-market policy from the provision of traineeships (excluded from the labour force) to alternating employment

contracts with periods of training may also have contributed to recent buoyancy in the measured labour force.

6. If wages in this sector had risen in line with those in the rest of the economy, overall hourly wage gains would have been 0.6 percentage points lower.
7. However, non-oil raw materials prices were not as weak as in 1990: prices of industrial materials fell 9 per cent, half the 1990 rate, while those of agricultural materials were stable after falling by more than one-quarter the previous year. These relatively less favourable outcomes were offset by the 9 per cent decline in crude-oil import prices which mirrored the 1990 increase.
8. During 1990 (as well as the two previous years) the top VAT rate was cut, contributing 0.2 to 0.3 percentage points to overall disinflation. There was no corresponding reduction in 1991; indeed, a number of small items were reclassified to higher-rate categories in August. Also, at the same time, the VAT base for electricity was broadened to include local taxes which served to raise its price by 1.3 per cent. In all, the impact of the VAT changes was of the order of 0.1 per cent. Similarly, 1991 saw no repeat of the 1989-90 one-off reductions in pharmacists' margins and medical laboratory analysis costs.
9. Gross Airbus exports rose to FF 38 billion after being held down to FF 22 billion in 1990.
10. Non-residents now hold 21 per cent of France's negotiable public debt (over FF 300 billion), compared to only 1 per cent in 1986. In 1990, they purchased FF 108 billion worth of government securities, some two-thirds of net new issues. In 1991, net purchases were less than FF 30 billion.
11. France's official reserves fell by over FF 50 billion (13 per cent) between end-October and end-December. While part of the decline was due purely to the depreciation of the primary reserve currency (the dollar) and the semi-annual revision to the price of gold held as official reserves, there remained a sharp fall in dollar terms as well.
12. The question of whether size is an adequate proxy for risk has recently been discussed by Artus (1991). He examines the reasons why banks use this measure and concludes that they are indeed overcharging equally risky small borrowers relative to their larger counterparts.
13. Under the terms of the Maastricht treaty, the authorities are required to grant independence to the Banque de France by 1997.
14. Nevertheless, much of this adjustment may not be finished, as the ratio of M1 to GDP, at 0.23, is far higher than in the United States, for example (0.15).
15. However, there was a once-and-for-all increase in the level of CODEVI (*comptes pour le développement industriel*) accounts after their ceiling was raised in August 1991. Nonetheless, with largely tax-free savings deposits averaging FF 22 000 per person, there is still plenty of room for further shrinkage.
16. The total amount of PEPs reached FF 200 billion at end-1991, compared to FF 109 billion at the end of 1990, the year of their inception.
17. It would appear that the average intermediation rate may have declined somewhat in 1991 after having jumped from 0.52 to 0.59 in 1990 – see Conseil National du Cr dit (1991).
18. In 1990, non-financial businesses borrowed FF 417 billion, three times their estimated cash needs (FF 136 billion), with the remainder invested in financial assets. Investment in liquid

assets represented 6.1 per cent of their value added compared to only 3.8 per cent in 1985, but down from the 1989 peak of 9.2 per cent. This reversal is likely to be given added impetus in light of the recent increase in corporate tax rates on long-term capital gains.

19. The law of 31 December 1989 established procedures for dealing collectively with cases of excessive household indebtedness. By the end of 1991, a surprisingly large number of cases (over 158 000) had been submitted to the relevant commissions. Nearly one-third have led to debt reduction plans. Nevertheless, this represents only something like one household in 3 000.
20. In particular, there was a surprisingly large shortfall in VAT revenue (FF 37 billion), only partly explained by the weak growth of household consumption, and in corporation tax revenue (FF 16 billion); these were partly offset by additional personal income tax revenue of FF 10 billion, resulting from the way the calendar fell in 1991.
21. The surge in the expenditure on the RMI in 1991 (more than FF 12 billion, compared to the FF 9 billion initially foreseen) stemmed from a higher-than-forecast average level of benefits and an increase in the number of beneficiaries.
22. The CSG is treated as a tax on personal income in the national accounts. However, its proceeds accrue to the social-security system. Given that the CSG is levied on all incomes, it has a higher yield than social-insurance contributions. Indeed, according to the Commission des comptes de la Sécurité Sociale, an increase of 1 point in the CSG generates FF 37 billion, compared with 30, 28 and 16 billion for one-point increases in contribution rates on health insurance, family allowances and retirement pensions, respectively. However, it was not the CSG that was increased to balance the accounts of the *régime général* in mid-1991.
23. The ratio of corporation tax to value added fell from 7.7 per cent in 1986 to 5.8 per cent in 1991 (Caubet-Hilloutou *et al*, 1991); its share of profits fell by 10 percentage points over the same period (from 38.5 to 28.6 per cent). The various rates of tax (25, 18 and 15 per cent) on long-term capital gains realised by companies have been merged into a single rate of 18 per cent in financial years from 1 October 1991. Thus, corporate profits are taxed either at 34 per cent or at 18 per cent, thereby bringing the French system more closely into line with the tax systems of the other major countries.
24. Based on 1990 legislation, the total corporate tax burden, calculated by applying to a French company the rates in effect in each country, is estimated to be 10.6 per cent of value added, compared with 12.8 per cent in Germany, 11.6 per cent in Italy and 9.9 per cent in the United Kingdom (Caubet-Hilloutou *et al*, 1991).
25. According to a 1987 study by the Ministry of Finance, the transfers of responsibilities resulting from the policy of decentralisation reduced the real growth of central government expenditure by about  $\frac{1}{2}$  a point a year between 1982 and 1986. At the same time, they increased the real growth of local government expenditure by  $1\frac{1}{4}$  per cent per year.
26. The indebtedness ratio is 20 per cent in Germany (Länder and local authorities in 1988), where, unlike France, the central government guarantees local-government debt, and 11 per cent in the United Kingdom (1990), but only 5.2 per cent in Italy (1987). However, given institutional differences, these figures should not be directly compared.
27. The pre-1982 indexation method led to an improvement in the relative situation of the retired compared to active workers each time the wage-earners' contribution rate rose. Such contri-

butions increased from 7.8 per cent of pay in 1971 to 11.4 per cent in 1980 and 17.3 per cent in 1990.

28. Note that international comparisons of the tax wedge are fragile to the extent that institutions differ across countries: for example, in France complementary pension contributions are considered as taxes, broadly defined, while in other countries such payments are handled by the private sector without any fiscal element. Furthermore, social-security contributions, as distinct from taxes, may have a less distorting impact to the extent that they represent to some degree a deferred salary (pensions) or an insurance premium (health) and thus are less clearly redistributive.
29. Thus, part (20 per cent) of the capital of the *Crédit Local de France* was offered to the public at the end of 1991; also *NEC* (in spring 1991) and *IBM* (in January 1992) acquired stakes of about 5 and 6 per cent respectively in *Bull*; and 2.3 per cent of the capital of *Elf-Aquitaine* was privatised in March 1992.
30. In 1991 there were 2.15 million small and medium-sized enterprises (with less than 500 employees); they employ two-thirds of all wage-earners, create three-quarters of all new jobs, and account for 54 per cent of value added and 45 per cent of business investment. Firms with less than 10 employees alone account for 24.1 per cent of the employees affiliated to the *Unedic* (unemployment insurance scheme), as compared with 18.4 per cent in 1975.
31. According to a study by the *Banque de France*, the equity capital of SMEs represents only 30.6 per cent of their assets, as against an average of 35.5 per cent for the five other countries examined.
32. This is a diesel substitute and costs FF 2.90 a litre as compared with FF 1 for diesel. It is estimated that in 1992 this tax exemption will cost the State budget only FF 50 million. Implementation of a policy to increase the share of biofuels in total fuels to 10 per cent would reduce State revenue by FF 12 billion.
33. The unemployment rate for school-leavers seeking a first job without qualifications rose from 12 to 42 per cent for males and 18 to 63 per cent for females from 1973 to 1980 – see *OECD* (1984).
34. In 1990, 78 per cent of all new hires of those under 25 were to fixed-term contracts, compared to 54 per cent for those 29 to 49 years of age. This contractual arrangement is particularly prevalent for unskilled manual workers.
35. Based on registration data the share rose even more spectacularly: from 11½ per cent in 1973 to over 30 per cent in recent years. The level is probably underestimated by registration data, as spells may be interrupted for a variety of technical reasons.
36. In 1991 the average spell duration for those on the register was 360 days; for those under 25 it was 189 days, for those 25 to 49 it was 372 days, for those 50 to 59 it was 634 days, while for the few over 60 it was 1028 days.
37. 59 per cent of the long-term unemployed in November 1986 with at least their *baccalauréat* plus two years found jobs in the following 18 months, compared to 29 per cent with only primary education – see *Rouault* (1991).
38. Even though recruitment problems have eased in the past two years or so, in mid-1991 they were still more severe than at any time in the period 1976 to mid-1989. Shortages would

appear to be most acutely felt by firms employing less than 500 employees, as they lack personnel specialists. However, French firms in general have shown themselves to be rather poor managers of their future manpower needs. It would appear that the most important "error" in recent years has been the underestimation of the demand for skilled blue-collar workers (see below).

39. Out of a sample of 12 OECD countries, only Japan, Austria, Switzerland and the Netherlands – all with much lower unemployment rates than France – took longer to fill outstanding offers (OECD, 1991).
40. Certain sectors, most notably construction, suffer from a very poor image and have more severe hiring problems as a result.
41. The level of employment of those with no more than the *certificat d'études primaires* fell by nearly 2½ million over the period 1982-1991, an average of 3.2 per cent per year. This rate has been easing in recent years, in line with the conjunctural improvement. However, it is clear that both the demand for and the supply of unskilled labour remains on a downward trend. Indeed, employers are alleged to be hiring unnecessarily qualified people, possibly to ensure a certain level of adaptability to continuous, unpredictable technical and organisational changes.
42. In 1991, the corresponding figures were down to 4.7 percentage points or 52 per cent of the total.
43. Also favourable is the availability (since September 1989) of a public grant of FF 20 000 to FF 30 000 per person laid off for economic reasons if that person takes a job more than 50 kilometers from his or her former residence.
44. The coefficient of variation of the unemployment rate across France's 22 regions fell from 0.28 in 1974 to 0.14 in 1985 before rebounding to 0.19 in 1990. Also, cross-section regressions on the three-year rate of change of the regional vacancy rate on the corresponding change in the unemployment rate from 1984 to 1990 show a steady decline in the proportion of variance explained (from 29 to 20 per cent).
45. A job's image and status seem to be particularly important in France; it is the broadly-defined industrial sector which suffers the most in this respect.
46. It has been argued, for example, that real wage rigidity is heightened when bargaining is neither fully centralised nor decentralised, such as in France; in this case bargainers have some market power but do not suffer the consequences of inflationary agreements. See, for example, Layard *et al* (1991). However, there are many other reasons for limited flexibility, only some of which are mentioned in this chapter. For a detailed discussion, see OECD (1989). In any case rigidities can slow adjustment through time or across sectors. For example, Cases (1991) shows that the sectoral dispersion of real wages per head fell substantially from 1970 to 1986 and indicates that such a decline may have led to reduced employment and higher joblessness.
47. There is broad agreement that real wages fall some 0.6 percentage points per year per percentage point increase in the unemployment rate. Much larger declines would result from higher unemployment in the U.S., Japan and Canada, for example. There is little evidence that these figures have changed during the 1980s. Thus, in the aggregate, hysteresis effects have been contained, in contrast with what appears to have occurred in some other other

European countries (Spain and the United Kingdom, for example), probably due to the enhanced disinflationary credibility of overall macroeconomic policy – see Atkinson *et al.* (1991).

48. Despite a population growth rate fairly near the mean, France's share in the major seven countries' business fixed investment, which was nearly 10 per cent in the early 1970s, fell below 9 per cent by 1978 and bottomed out at 7 per cent in 1985 before recovering to over 8 per cent in 1990.
49. In 1990 10.9 per cent of dependent employees in the non-farm sector earned the SMIC (compared to 4 per cent in the Netherlands, 8 per cent in Belgium and 10 per cent in Portugal, but some 15 per cent in Spain and even more in Greece); according to survey evidence, about 30 per cent of them were 25 or less, down from 43 per cent in 1987. The decline in the youth share is attributable to their declining participation rate and an increase in assisted employment programmes, excluded from the aforementioned survey.
50. Over the medium term, it may also stimulate labour-force participation (Bonnal and Fougère, 1990): in combination with certain labour-market programmes, it may lead to entry solely for the purpose of earning the right to benefits and may reduce the probability of discouragement.
51. According to econometric estimations of the Beveridge curves of France and Sweden reported in Bourdet and Persson (1991), if France's labour market had behaved like Sweden's, the unemployment rate would have been 1.8 percentage points lower in 1989.
52. For a more detailed look at French labour-market policy, see Cornilleau (1990). An evaluation of the impact of labour-market policies over the period 1974-88 contained therein shows that in 1988 unemployment was 231 000 lower than it would have been in their absence. However, output was 1.2 per cent lower, consumer prices 6.7 per cent higher and the external deficit FF 17 billion (0.3 per cent of GDP) worse. According to official estimates, policy has had a much more favourable impact on labour-market outcomes, with 452 000 jobs created and 965 000 fewer unemployed by 1991.
53. Lazear (1990) attributes 59 per cent of the 7½ percentage point increase in France's unemployment rate between 1956-59 and 1981-84 to increases in mandated severance pay.
54. Thus, the net employment effect derived from 130 000 beneficiaries may be only 13-20 thousand. Since the expected budgetary cost is some FF 3½ billion, the cost per net job created would be 180-275 thousand francs.
55. In 1990 the State share was 37 per cent, local government spending was 2 per cent and the UNEDIC was responsible for 41 per cent; the remainder was spent by the private sector, primarily employers.
56. As of 1985, workers over 55 had been entitled to unlimited basic unemployment benefit of 57 per cent of previous salary without looking for work. In 1991 the age limit was raised to 56, and employers are now required to pay a penalty of three months' salary if they lay off workers in this age group. However, if there is an associated restructuring, workers over 56 years and 2 months can get 65 per cent of previous income up to a ceiling of about FF 12 000 per month (50 per cent thereafter) with the employer paying 10 per cent of the cost. The two schemes cost FF 25 and 17 billion, respectively. In the near future early retirement provisions may be made available to farmers. It is obvious that the implications of

such limited labour-force participation by French men and women beyond the age of 55 for the longer-term equilibrium of the pension system are serious – see Part II.

57. Only a small minority of all firms have actually hired anybody through the ANPE. In addition, 1988 data show only 21½ per cent of all the unemployed who returned to work got their jobs through the ANPE.
58. 660 000 long-term unemployed were called in by the ANPE; 553 000 were interviewed. One-tenth were offered a job, but in one-quarter of all cases nothing came of the interviews at all.
59. See Annex I for a description of the structure of the initial education system.
60. That is, those who are in the final year of general secondary, vocational or technical education. In 1990, 60 per cent of final-year classes were in the general stream, 32 per cent in the technical stream and 8 per cent in the vocational stream.
61. In the case of girls, a BEP in accountancy and secretarial studies or a CAP in dress-making and secretarial studies; in the case of boys, a BEP in building and engineering or a CAP in engineering and boiler-making (Oeuvarard, 1990).
62. Because the universities are against selection, i.e. they are open to all comers, the best pupils do not want to go them (Lesourne, 1988).
63. The situation is critical in some subjects: for example, the university system turns out 1 000 mathematics graduates every year, less than the number of posts offered at the CAPES (the competition examination for recruiting secondary-school teachers).
64. Orivel and Perrot (1989) concluded that while teachers are not underpaid in terms of annual salaries, their relative advantage resulting from fewer hours worked per year has been reduced.
65. In 1988, \$3 160 in purchasing-power-parity terms for public spending alone, compared with \$3 303 in Japan, \$3 513 in the Netherlands and \$4 925 in the United States, but only \$3 047 in Germany.
66. See Carré, Dubois and Malinvaud (1972) for global estimates using the traditional method put forward by Denison. Maddison (1987) attributes a large proportion of the growth over the period 1974-1984 to the improved "quality" of labour, but by their very nature his findings do not make it possible to determine whether that quality did in fact rise as a result of the increased duration of training.
67. Based on survey data, Dubois (1985) estimated the productivity of a wage-earner who left school before the age of 15 to be half that of one who completed his studies between the age of 22 and 24.
68. One way of evaluating the contribution of the education system to the overall unemployment rate in France is to ask what would have been the rate if the structure of the French population by level of education had been the same as the OECD average. When measured in this way, the education system's contribution is seen to be very small. On the assumptions that only 25 to 64 year-olds are concerned and that the level of education of those within the labour force is the same as that of those outside it, the differences in the composition of the labour force by level of education explain only 15 per cent of the difference between the French unemployment rate and the average OECD rate. This finding is strengthened when

European rather than OECD weightings are used. A similar result was derived from a bilateral comparison with Germany (Möbus and Sevestre, 1991).

69. The shortage of engineers is estimated to be about 10 000 a year, as compared with 14 000 trained at present. A similar shortage also exists in other European countries, where on the estimates of a recruiting agency there is a shortage of 45 000 engineers for an annual output of 105 000. Nevertheless, an effort to increase substantially the capacity of the system to train engineers and technicians is underway.
70. Experimentation with periods of work had already been made in the 1970s.
71. In February 1990, nine months after completing their education, 57 per cent of apprentices had found employment, against 40 per cent for those having studied at technical high schools. Furthermore, it appears that apprentices accede to the category of qualified worker more quickly once hired.
72. In 1990, 19.7 per cent of primary schoolchildren, 15.2 per cent of children in first-cycle secondary education and 9.4 per cent of those studying in vocational lycées fell within the ZEP.
73. In its broadest sense, it also includes the training of the unemployed which was alluded to in Part III and will not be treated here for reasons of space.
74. For firms with over 10 employees, 1.2 per cent of the total wage bill is divided up as follows: 0.75 per cent for employee training, 0.3 per cent for youth *alternance* schemes, and 0.15 per cent for individual training appropriations. The statutory floor was set at 1.4 per cent of the total wage bill as of 1992; at the same time firms employing fewer than 10 workers will be required to allocate 0.15 per cent of their total wage bill to training.
75. Almost 26 000 requests for individual training leave were granted in 1990, against 47 000 in 1986. Workers taking individual training leave remain on full pay for a period of up to 2 years.
76. This sharing is justified, since the employee benefits from the training both through enhanced promotion prospects, although the effect is smaller than in the 1970s (Ministère de l'Éducation Nationale, 1992), and through a lower probability of unemployment (Laulhé, 1990). The accord provides in particular for the possibility of joint investment in training whereby employees contribute to the funding of training courses of more than 300 hours leading to a diploma or recognised qualification, by taking 25 per cent of the training outside paid working hours. The classification of employees could be changed on the basis of know-how thus acquired.
77. The only role of the State in the setting up of the training levy was to legislate the terms of an agreement among the social partners. Also, there is already a business tax credit for training beyond the minimum legal requirement, but this is used by only a small share of employers (16 per cent in 1990 for those with more than ten employees).

# Annex I

## Supplementary Material

**A. Table A1. The various pension schemes, 1989**

|                                 | Average rate of contribution <sup>1</sup> | Age of pension entitlement |
|---------------------------------|-------------------------------------------|----------------------------|
| General scheme                  | 20.4                                      | 60                         |
| Farm workers                    | 22.4                                      | 60                         |
| State employees (non-manual)    | 38.1                                      | 50-55                      |
| State employees (manual)        | 18.3                                      | 55                         |
| Local authorities               | 21.8                                      | 55                         |
| Miners <sup>2</sup>             | 14.4                                      | 50-55                      |
| Railwaymen <sup>2</sup>         | 35.2                                      | 50-55                      |
| RATP                            | 56.2                                      | 55                         |
| Seamen <sup>2</sup>             | 25.0                                      | 50-55                      |
| EDF/GDF                         | 49.1                                      | 55                         |
| Solicitors' clerks              | 26.1                                      | 55-60                      |
| Bank in France                  | 42.5                                      | 55                         |
| <b>Total, employees</b>         | <b>23.4</b>                               | ..                         |
| <i>of which:</i> Civil servants | 34.2                                      | ..                         |
| Private sector                  | 22.2                                      | ..                         |
| Farmers <sup>2</sup>            | 8.7                                       | 60                         |
| Wholesalers and retailers       | 9.1                                       | 60                         |
| Craftsmen                       | 11.3                                      | 60                         |
| Professional classes            | 8.7                                       | 65                         |
| Ministers of religion           | 13.4                                      | 65                         |
| <b>Total, self-employed</b>     | <b>9.4</b>                                | ..                         |
| <b>Overall total</b>            | <b>21.6</b>                               | ..                         |

1. In percent, including contributions to complementary schemes.

2. These schemes also receive a subsidy from the State.

Source: *Livre blanc sur les retraites*, La Documentation Française, July 1991.

## B. Notes to Diagram 13. Factors in Unemployment

### Arithmetic decomposition of the unemployment rate

Unemployment (UN) is the excess of the labour force (LF) over the level of employment (ET):

$$UN = LF - ET \quad (1)$$

The labour force is the product of the participation rate (LF/POPT), the working-age share of the population (POPT/POP) and the size of the population (POP):

$$LF = (LF/POPT) * (POPT/POP) * POP \quad (2)$$

The level of employment is equal to the product of real output (GDPV) and the inverse of labour productivity:

$$ET = (ET/GDPV) * GDPV \quad (3)$$

Combining (1), (2) and (3), we have:

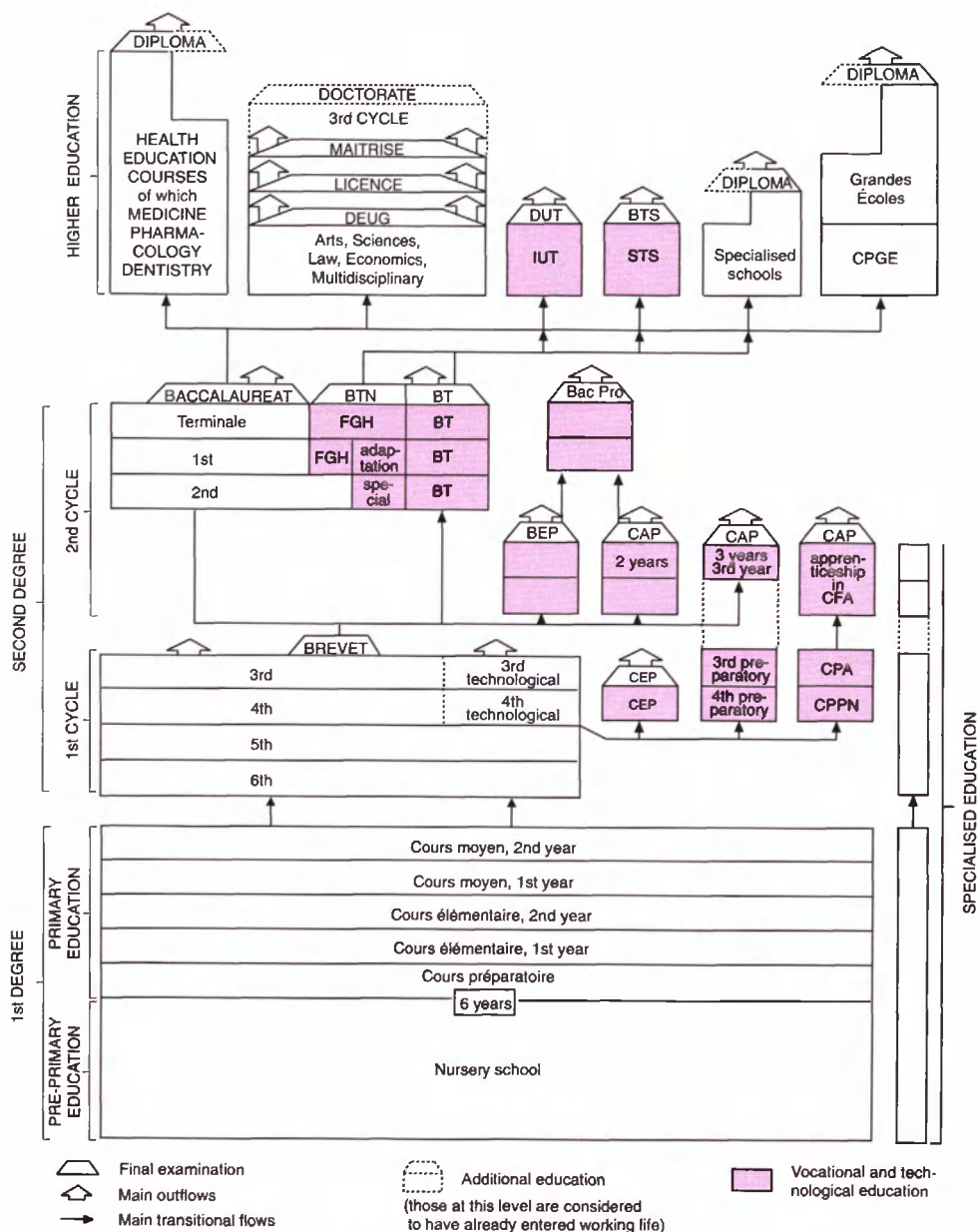
$$UN = (LF/POPT) * (POPT/POP) * POP - (ET/GDPV) * GDPV \quad (4)$$

The unemployment rate (UNR) is just:

$$UNR = (LF/POPT) * (POPT/POP) * (POP/LF) - (ET/GDPV) * (GDPV/LF) \quad (5)$$

Thus, the unemployment rate varies positively with the participation rate, the working-age share of the population, the inverse of the labour-force-to-population ratio, labour productivity and the inverse of real output per active person. Diagram 13 in the text presents these five factors with the last two indexed in order to avoid the currency translation problem.

### C. ORGANISATIONAL CHART OF INITIAL TRAINING



Notes on the following page.

## Notes to organisational chart of initial training

**CEP:** *certificat d'éducation professionnelle* (certificate of vocational education) and preparation for the CEP; **CPPN:** *classe préprofessionnelle de niveau* (prevocational preparatory class); **CPA:** *classe préparatoire à l'apprentissage* (preparatory class for apprenticeship); **CFA:** *centre de formation d'apprentissage* (centre for training apprentices); **CAP:** *certificat d'aptitude professionnelle* (certificate of vocational proficiency) and two or three-year preparation for the CAP; **BEP:** *brevet d'études professionnelles* (technician's certificate) and preparation for the BEP; **BT:** *brevet de technicien* (technician's baccalauréat) and preparation for the BTs; **F, G, H:** specialisations for the **BTn:** *baccalauréat de technicien* (technician's baccalauréat) and preparation for baccalauréats **F, G, H;** **IUT:** *institut universitaire de technologie* (university institute of technology); **DUT:** *diplôme universitaire de technologie* (university diploma of technology); **STS:** *section de technicien supérieur* (advanced technician's section); **BTS:** *brevet de technicien supérieur* (advanced technician's certificate); **CPGE:** *classe préparatoire aux grandes écoles* (preparatory class for the **grandes écoles**; **DEUG:** *diplôme d'études universitaires générales* (diploma of general university studies); **Bac pro:** vocational baccalauréat.

### D. Nomenclature of levels of educational attainment

School-leavers are classified by level of attainment, on the basis of a nomenclature in use since 1969. It is as follows:

#### Level VI

Outflows from the first cycle of the second degree (6<sup>e</sup>, 5<sup>e</sup>, 4<sup>e</sup>) and one-year prevocational training courses: class preparing for the **certificate** of vocational education (CEP), prevocational preparatory class (CPPN), preparatory class for apprenticeship (CPA).

#### Level Va

Outflows from 3rd and short second-cycle classes before the final year.

#### Level V

Outflows from the final year of vocational short cycles and drop-outs from the long second cycle before the final year.

#### Level IV

Outflows from the final year of the long second cycle and drop-outs from post-baccalauréat courses before reaching level III. This level can therefore be divided into IV secondary and IV higher.

### Level III

Outflows with a diploma requiring 2 years' study after the *baccalauréat* (diploma from a IUT, BTS, teaching diploma, health or welfare education diploma, DEUG, etc.).

### Level II + I

Outflows with a second or third-cycle university diploma or a diploma from a *grande école*.

## E. Notes to Tables 18, 19, 20 and 23

**Table 18. Expenditure on education: an international comparison, 1988**

**Austria, Switzerland:** Despite the similarity between the German, Swiss and Austrian dual vocational systems, Switzerland and Austria could not provide any estimation of private sector expenditure on vocational education, as Germany did. It can be assumed that these expenditures are substantial.

**Germany:** In accordance with the German National Accounting System, education expenditure includes, as fictitious payments, contributions to the pension funds for teachers who are civil servants. Total public expenditure refers to expenditure by the Federal and Länder governments as well as by local government: it does not include money of social insurance funds. Note that the private expenditure data include that incurred within the apprenticeship system.

**Italy:** The low percentage of public expenditure for education with respect to the total public expenditure is due to the high level of public expenditure and not to the low level of expenditure on education.

**United Kingdom:** The data include expenditure of the Ministry of Education only. They exclude expenditure by the Department of Health on nursing and paramedical education.

**United States:** Figures on private expenditure concern only tertiary education: data are not available for pre-primary, primary and secondary education.

**Table 19. Total educational expenditure per student relative to per capita GDP, 1988.**

**Australia:** Expenditure at secondary level include only the cost of the comprehensive education and not the vocational education.

**Canada:** Estimates.

**France:** Expenditure for apprenticeship are not considered in the secondary level but only in the expenditures of all levels combined.

**Netherlands:** Pre-primary combined with primary.

**United Kingdom:** The estimated expenditure for nursing and paramedical students are not included, but the number of these students has been counted. The cost per student at the tertiary level is therefore underestimated.

**United States:** Figures on private expenditure concern only tertiary education: data are not available for pre-primary, primary and secondary education.

#### **Table 20. Educational attainment for the adult population in 1989**

**Pre-primary/Primary education:** In certain countries lower secondary education is the lowest level of education in the population. In these cases a distinction between pre-primary and primary education, on the one hand, and lower secondary education, on the other hand, cannot be made.

**Austria, Italy and Spain:** Non-university higher education is almost non-existent in these countries. Adults having obtained a degree of this type are probably counted with higher education graduates.

**Ireland:** The data refer to the population 15-64 years of age.

**United Kingdom:** Women 60-64 years of age are excluded.

#### **Table 23. Unemployment rates for the adult population in 1989 by level of educational attainment**

**Austria, Italy, Spain:** The distinction between higher education (non-university) and higher education (university) is not relevant.

**Germany:** People in apprenticeships are considered not to be part of the active population.

**Netherlands:** Only persons who are actively looking for a job and who can begin employment within three weeks' time are considered to be unemployed.

**United States:** Women aged 60-64 are excluded from the relevant population.

### **F. Integration programme measures and their cost**

Work experience programmes – *stages d'initiation à la vie professionnelle* (SIVP): these were introduced in 1985 and were intended for young people under 26 looking for their first job. Participants follow a short vocational training course and are paid on a scale ranging from 30 to 60 per cent of the SMIC, the cost being divided between the firm and the State. Because of the advantages they could derive from the system, some firms abused it, substituting trainees for work contracts. This led to SIVPs being purged and finally replaced by work experience contracts.

Work experience contracts – *contrats d'orientation* – took the place of SIVPs in 1992. They are non-renewable, fixed-term (3 to 6 month) work contracts. Their object is to provide initial work experience for young people, aged under 23, without skills and having difficulty finding employment, and to help them acquire both a skill and a job. Beneficiaries attend vocational guidance courses for 32 hours per month. They are

supervised by a tutor in the workplace and are paid between 30 and 65 per cent of the SMIC, depending on their age. Firms are exempted from employers' social-security contributions.

Skill formation contracts – *contrats de qualification* – are fixed-term (6 months to 2 years) work contracts intended for young people aged between 16 and 23 who, in principle, have no qualifications. They follow training courses accounting for at least 25 per cent of the total duration of the contract, and which enable them to acquire a recognised qualification. Trainees are paid a minimum of between 30 and 75 per cent of the SMIC and are supervised by a tutor. The firm does not pay social-security contributions.

Adaptation contracts – *contrats d'adaptation* – are work contracts which can be either fixed-term or indefinite-term of at least six months' duration, and which are designed to integrate young people with level V basic skills into the business environment. A minimum of 200 hours' training has to be provided. Pay is equal to 80 per cent of the normal wage for the job, and to 100 per cent once the adaptation is achieved; it is always higher than the SMIC. Such contracts began to be less popular after 1988, because of the elimination of the 50 per cent exemption from employers' social-security contributions.

In the case of the latter three contracts, training is financed by the State from a share, equal to 0.3 per cent of the wage bill, of the compulsory contribution to further vocational training and on the basis of an hourly flat-rate amount recently increased to FF 60.

Community work schemes – *travaux d'utilité collective* (TUC) – were introduced in 1984 and are reserved for young people aged between 16 and 25. They are made available by local authorities, public institutions or associations. The work is half-time and can last between three months and two years; wages are paid by the State (FF 1 250 per month between 1986 and 1988) and the organising body (a maximum of FF 500).

Employment-solidarity contracts – *contrats emploi-solidarité* (CES) – replaced TUCs in 1990. They enable local authorities, associations or public institutions to employ young people experiencing particular difficulty in finding work because of their low level of initial training and, under certain conditions, adult jobless. They are fixed-term, part-time (20 hours per week) work contracts which confer wage-earner status. They last between 3 and 12 months for young people. The wage is calculated on the basis of the hourly SMIC rate. Employers are exempt from social-security contributions, and the State provides 85 per cent of the gross wage.

Local vocational guidance contracts – *contrats locaux d'orientation* – replace CES for 16 to 17-year olds without skills, the object being to guide them towards apprenticeship or skill formation contracts. The contracts last between 3 and 6 months, are paid at a rate equal to 30 per cent of the SMIC for full-time work, are exempt from employers' social-security contributions and are targeted at the same types of employer (associations or local government) as the CES. Trainees receive 32 hours' guidance per month.

**Table A2. Programmes involving alternating school/workplace training and other aids to youth labour-market entry**

|                                 | A. Average annual number of beneficiaries (thousands) |       |       |                   |
|---------------------------------|-------------------------------------------------------|-------|-------|-------------------|
|                                 | 1988                                                  | 1989  | 1990  | 1991 <sup>1</sup> |
| Apprenticeship                  | 259.0                                                 | 235.0 | 233.5 | 228.0             |
| Skill formation contracts       | 66.4                                                  | 102.4 | 132.5 | 118.6             |
| Adaptation contracts            | 141.6                                                 | 82.8  | 84.5  | 72.7              |
| Work experience programmes      | 111.0                                                 | 41.8  | 19.9  | 13.0              |
| Community work schemes          | 183.7                                                 | 155.8 | 69.2  |                   |
| Employment-solidarity contracts |                                                       |       | 51.4  | 127.2             |
| Total                           | 761.7                                                 | 617.7 | 591.0 | 559.5             |
|                                 | B. Annual budgetary cost (FF millions)                |       |       |                   |
|                                 | 1988                                                  | 1989  | 1990  | 1991 <sup>1</sup> |
| Apprenticeship                  | 1 092                                                 | 1 381 | 1 582 | 2 145             |
| Skill formation contracts       | 2 957                                                 | 1 362 | 1 900 | 2 296             |
| Adaptation contracts            | 1 614                                                 | —     | —     | —                 |
| Work experience programmes      | 3 434                                                 | 1 177 | 564   | 271               |
| Community work schemes          | 3 804                                                 | 3 222 | 1 431 |                   |
| Employment-solidarity contracts |                                                       |       | 1 953 | 4 360             |
| Total                           | 12 901                                                | 7 142 | 7 430 | 9 072             |

1. Estimate.  
Source: Ministère des Finances.

## Annex II

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### *Annex III*

## **Calendar of main economic events**

### **A. Public finance**

#### **1991**

##### **February**

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

##### **March**

Cuts in budget expenditure of FF 10.2 billion in 1991.

##### **April**

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

##### **May**

Tax revenue to be raised by FF 17 billion. Act introducing a number of measures designed to strengthen financial solidarity between local authorities, in particular setting up an urban solidarity grant and a solidarity fund for the localities of the Ile de France region.

##### **July**

Local taxes and charges on the supply of electricity liable henceforth to VAT at the normal rate; the rate of VAT raised on a series of goods and services, in particular horticultural and forestry products and travel agencies' commissions; sales by public auction of objets d'art also to be liable henceforth to VAT.

## **October**

Adoption of the initial 1992 Finance Act providing for a slowdown in public spending (3.1 per cent), with increases in spending allocated to priority areas: education, research, culture and the legal system, and a projected deficit of FF 90 billion.

The civil service pay agreement provides for a 6.5 per cent increase in several instalments between August 1991 and February 1993.

In order to limit the 1991 budget deficit, FF 7 billion raised from the home-ownership saving contingency fund and 6.4 billion from the farm social benefits annex budget.

## **B. Monetary policy**

### **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 without prior Treasury approval.

Mutual funds to be included under required reserves for an experimental period of 15 months.

## **March**

The Banque de France lowers the leading rate from 9.25 to 9 per cent.

## **October**

The Banque de France lowers the leading rate from 9 to 8.75 per cent and the rate for purchases under resale agreements from 10 to 9.75 per cent; banks lower their base rate from 10.25 to 10 per cent.

## **November**

The Banque de France raises the leading rate from 8.75 to 9.25 per cent and the rate for purchases under resale agreements from 9.75 to 10 per cent.

The minimum reserve ratio for sight deposits lowered from 5.5 to 4.1 per cent and eliminated in respect of market rate resources in excess in one year.

## **December**

The Banque de France raises the leading rate from 9.25 to 9.60 per cent and the rate for purchases under resale agreements from 10 to 10.5 per cent; banks raise their base rate from 10 to 10.35 per cent.

## **C. Other measures**

### **1991**

#### **January**

Wage increases in public corporations not to exceed 2.5 per cent in 1991. No indexation, but a review to be held at the end of the year on the basis of the results of each enterprise and activity in general.

VAT deductibility on certain petroleum products raised (95 per cent for diesel oil and 50 per cent for domestic fuel oil).

Parliament votes the Act on the expansion of employment through enterprise-based training, aid to social integration and employment and the redistribution of working hours.

#### **March**

A white paper on pensions presented by the Prime Minister.

#### **April**

Minority participations in public corporations' equity are allowed.

Presentation of a plan to restructure the electronics industry, with FF 8.5 billion of equity funding.

#### **June**

Act on hospital reform.

#### **July**

Minimum wage (SMIC) raised by 2.3 per cent.

Rate of employees' health-insurance contributions raised from 5.9 to 6.8 per cent.

Tax reductions allowed in respect of any investment in rental property during the period 1990-92.

## **August**

Announcement of an overall support plan for SMEs, of which the main measures concern taxation.

The ceiling on industrial development accounts (CODEVI) raised to FF 25 000 and the level of loans to FF 25 billion, and the accompanying concessional rate lowered by ½ point.

## **September**

Measures announced to promote the employment of young people without skills (exemption from social-insurance contributions) and the development of family service jobs (employment tax credit as of 1992), the total cost being FF 1.5 billion.

Tobacco prices to be raised in two instalments: 5 per cent in September 1991 and 10 per cent in April 1992.

## **October**

Agreement between the government and the Caisse Nationale d'Assurance Maladie to achieve negotiated control over health spending.

Agreement between the government and insurance companies on compensation for people contaminated by the AIDS virus as a result of blood transfusions.

## **November**

Private participations in public insurance firms to be authorised up to 49 per cent.

Plan to revitalise rural areas and measures to encourage farmers to retire, the total cost being FF 2 billion.

## **December**

New management buy-out mechanisms set in place, which adjust and improve the previous system.

Under the environmental protection heading, exceptional 12-month depreciation is available in respect of new electrically-powered vehicles.

The government signs negotiated health spending agreements with the representatives of the four health professions: biologists, ambulance drivers, nurses and officials from private clinics.

# **1992**

## **January**

Pensions to be raised in 1992: by 1 per cent in January and 1.8 per cent in July.

Under the July 1991 agreement between the social partners, the participation rate in further vocational training for firms with more than 10 employees set to increase from 1.2 to 1.4 per cent of the wage bill. Firms with fewer than 10 employees, which were not previously liable, required henceforth to contribute 0.15 per cent of their wage bill.

Introduction of the regional income tax (*taxe départementale sur le revenu*) to replace the regional share of the property tax (*taxe d'habitation*).

In order to conform with Community regulations, non-EC companies will no longer be required to request prior authorisation for participations of less than FF 500 million in French companies.

Unemployment insurance contributions raised by 0.12 point (of which 0.06 point for the employer's contribution) to 6.7 per cent of wages, of which 4.31 per cent is payable by the firm.

### **March**

New measures to halt the rise in unemployment: 40 000 young people without skills and unemployed for more than 6 months to follow training courses for 18 months with a wage of FF 2 000 exempt from employers' social-insurance contributions. In addition, 500 000 long-term unemployed (later raised to all such jobless, that is about 920 000) are to be interviewed by the ANPE by the Autumn in order to offer them either a job, some training or another "general-interest activity".

New housing support plan comprising, in particular, a reduction in the length of home-ownership saving schemes from 5 years to 4 and the expansion of intermediate rental loans.

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*STATISTICAL AND STRUCTURAL ANNEX*

# Selected background statistics

|                                                                          | Average<br>1981-90 | 1981 | 1982  | 1983 | 1984 | 1985 | 1986  | 1987 | 1988 | 1989 | 1990  |
|--------------------------------------------------------------------------|--------------------|------|-------|------|------|------|-------|------|------|------|-------|
| <i>A. Percentage change from previous year</i>                           |                    |      |       |      |      |      |       |      |      |      |       |
| Private consumption <sup>1</sup>                                         | 2.6                | 2.1  | 3.5   | 0.9  | 1.1  | 2.4  | 3.9   | 2.9  | 3.4  | 3.2  | 3.1   |
| Gross fixed capital formation <sup>1</sup>                               | 2.3                | -1.9 | -1.4  | -3.6 | -2.6 | 3.2  | 4.5   | 4.8  | 8.6  | 7.5  | 3.9   |
| General government                                                       | 4.0                | 3.3  | 4.7   | -3.6 | -0.5 | 9.8  | 3.2   | 3.3  | 11.1 | 4.9  | 3.9   |
| Residential construction                                                 | -0.1               | -3.1 | -6.3  | -2.6 | -4.4 | -2.1 | 1.3   | 3.3  | 3.9  | 7.7  | 1.4   |
| Private non-residential                                                  | 3.2                | -2.5 | 0     | -4.1 | -2.1 | 4.4  | 6.6   | 6.0  | 10.2 | 8.1  | 5.1   |
| GDP <sup>1</sup>                                                         | 2.3                | 1.2  | 2.5   | 0.7  | 1.3  | 1.9  | 2.5   | 2.3  | 4.2  | 3.9  | 2.8   |
| Implicit price index:                                                    |                    |      |       |      |      |      |       |      |      |      |       |
| GDP                                                                      | 6.3                | 11.4 | 11.7  | 9.7  | 7.5  | 5.8  | 5.2   | 3.0  | 2.9  | 3.2  | 2.8   |
| Exports of goods and services                                            | 5.3                | 14.0 | 12.5  | 9.9  | 9.3  | 4.7  | -3.0  | -0.5 | 2.6  | 4.9  | -1.2  |
| Imports of goods and services                                            | 4.6                | 19.1 | 12.5  | 8.5  | 10.0 | 2.0  | -12.7 | -0.6 | 2.3  | 6.5  | -1.5  |
| Total domestic demand                                                    | 6.1                | 12.5 | 11.7  | 9.3  | 7.6  | 5.2  | 2.9   | 2.8  | 2.8  | 3.5  | 2.7   |
| Industrial production                                                    | 1.1                | -0.9 | -0.7  | -0.7 | 0.3  | 0.2  | 0.9   | 1.9  | 4.6  | 4.1  | 1.8   |
| Employment                                                               | 0.1                | -0.3 | 0     | -0.3 | -1.0 | -0.3 | 0.2   | 0.2  | 0.8  | 1.0  | 0.9   |
| Compensation of employees (current prices)                               | 8.0                | 13.8 | 14.6  | 9.9  | 7.3  | 6.4  | 5.0   | 4.3  | 5.6  | 6.7  | 6.6   |
| Productivity (GDP / employment)                                          | 2.2                | 1.5  | 2.6   | 1.0  | 2.3  | 2.2  | 2.3   | 2.0  | 3.4  | 2.9  | 1.9   |
| Unit labour costs (compensation/GDP <sup>1</sup> )                       | 5.6                | 12.5 | 11.8  | 9.1  | 5.9  | 4.4  | 2.4   | 2.0  | 1.3  | 2.7  | 3.7   |
| <i>B. Percentage ratios</i>                                              |                    |      |       |      |      |      |       |      |      |      |       |
| Gross fixed capital formation as a per cent<br>of GDP at constant prices | 21.2               | 22.3 | 21.4  | 20.5 | 19.7 | 20.0 | 20.4  | 20.9 | 21.8 | 22.5 | 22.8  |
| Stockbuilding as a per cent of GDP at constant prices                    | 0.5                | -0.2 | 0.8   | 0    | 0    | -0.1 | 0.7   | 0.8  | 0.9  | 0.9  | 0.8   |
| Foreign balance as a per cent of GDP at constant<br>prices               | -0.8               | 0    | -0.9  | 0.5  | 1.4  | 0.9  | -1.0  | -2.1 | -2.3 | -1.9 | -2.3  |
| Compensation of employees as a per cent<br>of GDP at current prices      | 54.2               | 56.6 | 56.6  | 56.3 | 55.5 | 54.7 | 53.3  | 52.8 | 51.9 | 51.7 | 52.1  |
| Direct taxes as a per cent of household income                           | 6.5                | 6.2  | 6.2   | 6.6  | 6.9  | 6.6  | 6.7   | 6.7  | 6.4  | 6.3  | 6.3   |
| Household saving as a per cent of disposable income                      | 13.8               | 18.0 | 17.3  | 15.9 | 14.5 | 14.0 | 12.9  | 10.8 | 11.4 | 11.6 | 12.0  |
| Unemployment as a per cent of civilian labour force                      | 9.3                | 7.5  | 8.2   | 8.4  | 9.8  | 10.2 | 10.4  | 10.5 | 10.0 | 9.4  | 8.9   |
| <i>C. Other indicator</i>                                                |                    |      |       |      |      |      |       |      |      |      |       |
| Current balance<br>(billion US dollars)                                  | -5.1               | -4.7 | -12.2 | -4.8 | -1.2 | -0.2 | 2.0   | -4.9 | -4.7 | -5.5 | -14.9 |

1. At constant 1980 prices.

Source: OECD estimates.

Table A. **Gross domestic product and expenditure**

FF. billion

|                                                                                | 1981    | 1982    | 1983    | 1984    | 1985    | 1986    | 1987    | 1988    | 1989    | 1990    |
|--------------------------------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Current prices                                                                 |         |         |         |         |         |         |         |         |         |         |
| Private consumption                                                            | 1 897.9 | 2 190.3 | 2 424.1 | 2 639.2 | 2 858.4 | 3 049.5 | 3 235.6 | 3 433.4 | 3 663.2 | 3 888.5 |
| Public consumption                                                             | 604.3   | 711.8   | 793.5   | 866.4   | 923.0   | 972.8   | 1 018.6 | 1 073.9 | 1 122.2 | 1 186.9 |
| Gross fixed capital formation                                                  | 700.5   | 774.3   | 809.6   | 840.4   | 905.3   | 977.5   | 1 054.8 | 1 177.2 | 1 295.9 | 1 373.1 |
| Increase in stocks                                                             | -7.5    | 18.8    | -14.1   | -12.4   | -17.9   | 17.2    | 20.7    | 35.2    | 45.2    | 41.5    |
| Domestic expenditure                                                           | 3 195.3 | 3 695.2 | 4 013.2 | 4 333.5 | 4 668.8 | 5 017.0 | 5 329.6 | 5 719.7 | 6 126.5 | 6 490.0 |
| Exports of goods and services                                                  | 714.3   | 790.4   | 900.7   | 1 053.3 | 1 123.9 | 1 074.1 | 1 101.4 | 1 220.5 | 1 412.1 | 1 466.7 |
| less: Imports of goods and services                                            | 744.8   | 859.5   | 907.4   | 1 025.0 | 1 092.6 | 1 021.8 | 1 094.3 | 1 217.0 | 1 402.5 | 1 469.1 |
| Gross domestic product at market prices                                        | 3 164.8 | 3 626.0 | 4 006.5 | 4 361.9 | 4 700.1 | 5 069.3 | 5 336.6 | 5 723.2 | 6 136.1 | 6 487.5 |
| 1980 prices                                                                    |         |         |         |         |         |         |         |         |         |         |
| Private consumption                                                            | 1 678.9 | 1 737.2 | 1 753.3 | 1 772.2 | 1 814.9 | 1 886.0 | 1 939.9 | 2 005.2 | 2 069.0 | 2 133.5 |
| Public consumption                                                             | 533.5   | 553.4   | 564.8   | 571.2   | 584.1   | 594.1   | 610.9   | 628.4   | 629.6   | 649.1   |
| Gross fixed capital formation                                                  | 633.6   | 624.9   | 602.6   | 586.9   | 605.9   | 633.2   | 663.8   | 721.1   | 775.0   | 805.2   |
| of which: Corporate, quasi-corporate and private<br>unincorporated enterprises | 324.7   | 324.5   | 310.3   | 301.7   | 314.7   | 334.5   | 354.1   | 390.1   | 423.5   | 446.4   |
| Households                                                                     | 205.2   | 192.4   | 187.4   | 179.1   | 175.5   | 177.7   | 183.6   | 190.8   | 205.5   | 208.3   |
| General government                                                             | 89.5    | 93.7    | 90.4    | 89.9    | 98.7    | 101.9   | 105.3   | 117.0   | 122.7   | 127.5   |
| Non-profit organisations, credit institutions<br>and insurance companies       | 14.2    | 14.3    | 14.4    | 16.1    | 17.1    | 19.1    | 20.8    | 23.2    | 23.3    | 23.0    |
| Increase in stocks                                                             | -5.8    | 23.8    | -1.0    | -0.1    | -2.7    | 23.2    | 26.3    | 28.9    | 29.6    | 27.1    |
| Domestic expenditure                                                           | 2 840.2 | 2 939.3 | 2 919.6 | 2 930.3 | 3 002.3 | 3 136.6 | 3 240.9 | 3 383.6 | 3 503.2 | 3 614.8 |
| Exports of goods and services                                                  | 626.6   | 616.1   | 638.8   | 683.5   | 696.5   | 686.4   | 707.4   | 764.4   | 843.3   | 886.8   |
| less: Imports of goods and services                                            | 625.5   | 641.7   | 624.5   | 641.3   | 670.4   | 718.3   | 773.7   | 840.8   | 909.4   | 967.0   |
| Gross domestic product at market prices                                        | 2 841.3 | 2 913.7 | 2 933.9 | 2 972.5 | 3 028.4 | 3 104.6 | 3 174.5 | 3 307.2 | 3 437.1 | 3 534.6 |

Source: OECD, *Annual National Accounts*.

Table B. **The money supply and its counterparts**

FF billion, end of period

|                                                 | 1981    | 1982    | 1983    | 1984    | 1985    | 1986    | 1987    | 1988    | 1989    | 1990    |
|-------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <i>Money supply</i>                             |         |         |         |         |         |         |         |         |         |         |
| A. M1                                           | 900.4   | 985.4   | 1 105.9 | 1 217.4 | 1 296.3 | 1 388.9 | 1 449.0 | 1 508.6 | 1 634.5 | 1 697.7 |
| <i>of which:</i>                                |         |         |         |         |         |         |         |         |         |         |
| Sight deposits                                  | 740.7   | 809.4   | 916.8   | 1 020.2 | 1 090.5 | 1 176.6 | 1 227.2 | 1 273.0 | 1 388.0 | 1 442.2 |
| B. M2                                           | 1 685.1 | 1 887.2 | 2 138.5 | 2 335.9 | 2 473.4 | 2 587.7 | 2 699.1 | 2 798.9 | 2 930.5 | 2 956.2 |
| <i>of which:</i>                                |         |         |         |         |         |         |         |         |         |         |
| Livrets A and livrets bleus                     | 556.1   | 623.0   | 685.0   | 735.7   | 761.3   | 760.6   | 788.5   | 806.3   | 802.2   | 789.2   |
| C. M3                                           | 2 193.1 | 2 464.5 | 2 788.1 | 3 093.6 | 3 322.1 | 3 547.4 | 3 894.7 | 4 223.3 | 4 627.6 | 5 037.4 |
| <i>of which:</i>                                |         |         |         |         |         |         |         |         |         |         |
| Time deposits and paper denominated in francs   | 497.9   | 558.1   | 627.8   | 723.6   | 822.1   | 934.9   | 1 168.0 | 1 373.3 | 1 604.5 | 2 018.9 |
| D. M4                                           | 2 193.1 | 2 464.5 | 2 788.1 | 3 093.6 | 3 325.2 | 3 570.2 | 3 934.3 | 4 263.8 | 4 690.3 | 5 087.0 |
| <i>Counterparts</i>                             |         |         |         |         |         |         |         |         |         |         |
| A. External                                     | 126.2   | 64.7    | 5.1     | -22.9   | 66.5    | 154.1   | 127.1   | 80.7    | 54.5    | -49.7   |
| B. Claims on Treasury                           | 375.4   | 468.7   | 573.8   | 691.0   | 815.3   | 911.1   | 930.0   | 1 024.0 | 970.8   | 974.3   |
| Loans and advances by the Banque de France      | 0       | 0       | 5.8     | 11.5    | 23.6    | 25.3    | 36.5    | 36.9    | 28.9    | 38.6    |
| Other credit institutions                       | 117.7   | 119.9   | 125.8   | 142.1   | 152.5   | 159.8   | 176.5   | 166.5   | 173.8   | 172.4   |
| C. Domestic lending                             | 2 452.4 | 2 844.7 | 3 245.6 | 3 671.1 | 4 137.3 | 4 593.5 | 5 105.0 | 5 767.3 | 6 516.4 | 7 106.0 |
| D. Long term financing (-)                      | 499.8   | 606.0   | 785.4   | 968.3   | 1 276.3 | 1 685.5 | 1 812.7 | 2 139.0 | 2 412.5 | 2 432.2 |
| E. Contractual savings and PEP <sup>1</sup> (-) | 135.6   | 144.5   | 160.4   | 186.2   | 236.8   | 295.4   | 351.3   | 408.7   | 448.6   | 538.6   |
| F. Miscellaneous, net                           | -124.6  | -143.1  | -90.7   | -91.1   | -193.9  | -180.0  | -103.3  | -101.0  | -53.0   | -22.4   |

1. Plans d'épargne populaire.

Source: Banque de France, *Bulletin trimestriel*, No. 81, March 1992.

Table C. **Balance of payments on a transactions basis**\$ million<sup>1</sup>

|                                      | 1981    | 1982    | 1983   | 1984   | 1985    | 1986    | 1987    | 1988    | 1989    | 1990    |
|--------------------------------------|---------|---------|--------|--------|---------|---------|---------|---------|---------|---------|
| Exports (fob)                        | 100 407 | 91 385  | 89 810 | 92 528 | 95 225  | 118 613 | 140 803 | 159 971 | 171 096 | 206 819 |
| Imports (fob)                        | 110 530 | 106 926 | 98 019 | 96 639 | 100 588 | 121 375 | 150 040 | 168 433 | 181 167 | 219 735 |
| Trade balance                        | -10 123 | -15 541 | -8 209 | -4 111 | -5 363  | -2 762  | -9 237  | -8 462  | -10 071 | -12 916 |
| Services, net                        | 5 751   | 4 524   | 3 867  | 2 281  | 3 966   | 4 481   | 4 202   | 4 604   | 6 969   | 3 949   |
| Of which:                            |         |         |        |        |         |         |         |         |         |         |
| Major works projects                 | 1 889   | 1 977   | 1 622  | 1 325  | 1 329   | 936     | 1 167   | 719     | 707     | 1 172   |
| Travel                               | 1 492   | 1 845   | 2 945  | 3 327  | 3 385   | 3 211   | 3 378   | 4 071   | 6 214   | 7 762   |
| Investment income                    | 783     | 43      | -959   | -1 523 | -1 553  | -487    | -408    | 60      | 321     | -1 856  |
| Other goods and services, net        | 3 901   | 3 387   | 3 374  | 3 545  | 3 699   | 4 696   | 5 395   | 5 786   | 6 025   | 7 405   |
| Private transfers, net               | -2 274  | -1 962  | -1 729 | -1 007 | -1 295  | -1 735  | -2 298  | -2 430  | -2 661  | -4 000  |
| Official transfers, net              | -1 978  | -2 649  | -2 105 | -1 881 | -1 336  | -2 845  | -3 052  | -4 332  | -5 820  | -9 638  |
| Current balance                      | -4 723  | -12 241 | -4 802 | -1 173 | -329    | 1 835   | -4 990  | -4 834  | -5 558  | -15 200 |
| Long-term capital                    | -9 075  | 1 256   | 9 058  | 5 050  | 3 265   | -7 793  | 2 190   | -632    | 7 520   | 10 351  |
| Private                              | -8 036  | 604     | 5 497  | 6 861  | 7 035   | -1 117  | 7 519   | 4 202   | 12 077  | 12 690  |
| Official                             | -1 039  | 652     | 3 561  | -1 811 | -3 770  | -6 676  | -5 329  | -4 834  | -4 557  | -2 339  |
| Basic balance                        | -13 798 | -10 985 | 4 256  | 3 877  | 2 936   | -5 958  | -2 800  | -5 466  | 1 962   | -4 849  |
| Short-term capital                   | -4 550  | 1 410   | -284   | -444   | 2 166   | 4 665   | 3 610   | 2 206   | -12 009 | -13 097 |
| Balance of non-monetary transactions | -18 348 | -9 575  | 3 972  | 3 433  | 5 102   | -1 293  | 810     | -3 260  | -10 047 | -17 946 |
| Bank capital                         | 13 082  | 4 539   | 1 933  | -347   | -2 826  | 2 986   | -9 299  | 2 343   | 5 805   | 27 427  |
| Balance on official settlements      | -5 266  | -5 036  | 5 905  | 3 086  | 2 276   | 1 693   | -8 489  | -917    | -4 242  | 9 481   |
| Net position with FECOM              | 2 709   | -179    | -1 675 | 739    | 0       | 24      | 3 913   | -3 984  | 0       | 0       |
| Miscellaneous assets and liabilities | 389     | 1 737   | -1 237 | -173   | 476     | 14      | 1 980   | -405    | 3 469   | 1 360   |
| Change in official reserves          | -2 168  | -3 478  | 2 993  | 3 652  | 2 752   | 1 731   | -2 596  | -5 306  | -773    | 10 841  |

1. Exchange rate 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; 1990 : \$1 = 5.4459.

Source: OECD estimates.

Table D. Foreign trade by commodity

|                                                           | Structure<br>(in % of total) |       | Percentage change from previous year |       |       |      |       |       |       |
|-----------------------------------------------------------|------------------------------|-------|--------------------------------------|-------|-------|------|-------|-------|-------|
|                                                           | 1983                         | 1990  | 1984                                 | 1985  | 1986  | 1987 | 1988  | 1989  | 1990  |
| <i>Exports, fob</i>                                       | 100.0                        | 100.0 | 2.2                                  | 4.7   | 22.1  | 20.2 | 13.0  | 6.7   | 21.4  |
| <i>SITC classification</i>                                |                              |       |                                      |       |       |      |       |       |       |
| 0 Food and live animals                                   | 13.0                         | 11.6  | -0.4                                 | 0.6   | 20.7  | 14.9 | 17.3  | 5.8   | 19.0  |
| 1 Beverages and tobacco                                   | 2.9                          | 3.5   | 5.1                                  | 11.7  | 33.9  | 23.5 | 9.4   | 6.8   | 22.2  |
| 2 Crude materials, inedible, except fuels                 | 4.1                          | 3.2   | 1.7                                  | 7.2   | 7.1   | 29.6 | 18.1  | -0.8  | 1.5   |
| 3 Mineral fuels, lubricants and related materials         | 3.9                          | 2.4   | -1.7                                 | 10.9  | -15.0 | -0.7 | 2.8   | 14.2  | 30.4  |
| 4 Animal and vegetable oils and fats                      | 0.3                          | 0.2   | 34.9                                 | -2.0  | -28.6 | 1.8  | 29.3  | 17.1  | 3.7   |
| 5 Chemical products                                       | 13.0                         | 13.5  | 6.2                                  | 9.1   | 22.2  | 21.9 | 15.2  | 1.3   | 18.4  |
| 6 Other manufactured goods classified chiefly by material | 19.3                         | 17.6  | 3.4                                  | 2.3   | 19.2  | 16.3 | 14.2  | 8.9   | 15.2  |
| 7 Machinery and transport equipment                       | 34.1                         | 37.4  | 0.5                                  | 2.7   | 29.2  | 22.6 | 12.0  | 8.3   | 27.2  |
| 8 Miscellaneous manufactured articles                     | 8.9                          | 10.5  | 3.7                                  | 10.8  | 26.5  | 24.1 | 11.8  | 5.6   | 27.1  |
| 9 Other                                                   | 0.5                          | 0.1   | -1.0                                 | 9.6   | 10.1  | 25.1 | -69.2 | 148.5 | -42.6 |
| <i>Imports, cif</i>                                       | 100.0                        | 100.0 | -1.4                                 | 3.7   | 18.8  | 23.2 | 12.2  | 7.6   | 22.3  |
| <i>SITC classification</i>                                |                              |       |                                      |       |       |      |       |       |       |
| 0 Food and live animals                                   | 9.5                          | 8.4   | -5.1                                 | 1.8   | 34.0  | 17.2 | 8.2   | 1.4   | 16.8  |
| 1 Beverages and tobacco                                   | 1.0                          | 1.0   | 2.3                                  | 14.5  | 8.6   | 19.2 | 16.6  | 4.9   | 22.9  |
| 2 Crude materials, inedible, except fuels                 | 5.0                          | 3.9   | 4.6                                  | -3.3  | 8.5   | 19.5 | 15.6  | 8.0   | 5.0   |
| 3 Mineral fuels, lubricants and related materials         | 24.6                         | 9.6   | -2.4                                 | -4.5  | -32.6 | 4.9  | -14.1 | 15.7  | 32.3  |
| 4 Animal and vegetable oils and fats                      | 0.6                          | 0.3   | 32.9                                 | -10.2 | -24.5 | -6.8 | 16.5  | 8.2   | 14.6  |
| 5 Chemical products                                       | 9.1                          | 10.7  | 4.6                                  | 8.5   | 26.6  | 23.2 | 15.6  | 5.6   | 20.5  |
| 6 Other manufactured goods classified chiefly by material | 15.6                         | 17.9  | 0.6                                  | 5.2   | 31.1  | 20.7 | 17.6  | 8.4   | 18.8  |
| 7 Machinery and transport equipment                       | 24.3                         | 34.2  | -4.1                                 | 9.4   | 41.1  | 31.9 | 18.0  | 8.2   | 24.9  |
| 8 Miscellaneous manufactured articles                     | 10.3                         | 13.9  | -2.6                                 | 8.2   | 45.1  | 31.8 | 11.2  | 5.9   | 25.1  |
| 9 Other                                                   | 0.1                          | 0.1   | -17.0                                | 29.1  | 6.0   | 50.1 | 17.7  | 23.2  | -7.2  |

Source: OECD, Foreign Trade Statistics, Series C.

Table E. Foreign trade by origin

|                     | Structure<br>(in % of total) |       | Percentage change from previous year |       |       |      |       |       |      |
|---------------------|------------------------------|-------|--------------------------------------|-------|-------|------|-------|-------|------|
|                     | 1983                         | 1990  | 1984                                 | 1985  | 1986  | 1987 | 1988  | 1989  | 1990 |
| <i>Exports, fob</i> |                              |       |                                      |       |       |      |       |       |      |
| World               | 100.0                        | 100.0 | 2.2                                  | 4.7   | 22.2  | 20.0 | 12.2  | 7.4   | 21.3 |
| OECD                | 69.7                         | 80.2  | 4.7                                  | 7.7   | 27.9  | 23.4 | 14.2  | 6.0   | 22.4 |
| EC <sup>1</sup>     | 56.9                         | 64.8  | -0.7                                 | 6.2   | 29.7  | 25.2 | 15.2  | 7.4   | 23.2 |
| <i>of which:</i>    |                              |       |                                      |       |       |      |       |       |      |
| Germany             | 15.8                         | 17.4  | -3.6                                 | 6.5   | 31.9  | 23.6 | 10.3  | 5.9   | 29.2 |
| Belgium-Luxembourg  | 8.6                          | 9.4   | 2.6                                  | 3.7   | 30.2  | 23.2 | 8.8   | 5.6   | 28.0 |
| Italy               | 10.7                         | 11.4  | 4.2                                  | 5.0   | 31.6  | 23.3 | 13.9  | 6.0   | 13.9 |
| Netherlands         | 4.7                          | 5.6   | 2.7                                  | 6.9   | 24.0  | 23.6 | 23.9  | 8.3   | 20.7 |
| United Kingdom      | 7.6                          | 9.3   | 6.9                                  | 8.7   | 30.9  | 19.9 | 24.3  | 4.9   | 18.3 |
| United States       | 6.3                          | 6.1   | 31.9                                 | 11.9  | 4.7   | 17.9 | 12.9  | -3.9  | 12.8 |
| Japan               | 1.2                          | 1.9   | -5.4                                 | 15.5  | 35.6  | 37.2 | 24.0  | 19.8  | 23.5 |
| Non-OECD            | 30.1                         | 19.8  | -3.3                                 | -3.3  | 6.9   | 8.6  | 4.9   | 13.4  | 16.8 |
| COMECON             | 3.5                          | 1.4   | -10.7                                | -1.8  | -11.3 | 11.8 | 11.2  | -2.9  | -0.5 |
| OPEC                | 9.5                          | 3.9   | 4.2                                  | -20.2 | -9.0  | -7.1 | -4.8  | 11.7  | 26.4 |
| Other               | 17.1                         | 14.4  | -6.0                                 | 7.0   | 17.6  | 13.8 | 6.9   | 16.1  | 16.5 |
| Unspecified         | 0.2                          | 0     | -27.4                                | 81.1  | -54.9 | 49.3 | -50.3 | -62.5 | 33.9 |
| <i>Imports, cif</i> |                              |       |                                      |       |       |      |       |       |      |
| World               | 100.0                        | 100.0 | -1.6                                 | 3.9   | 19.5  | 22.4 | 11.3  | 8.3   | 22.4 |
| OECD                | 71.8                         | 80.7  | -0.4                                 | 6.6   | 27.5  | 24.4 | 11.7  | 8.0   | 21.8 |
| EC <sup>1</sup>     | 59.8                         | 67.5  | 1.2                                  | 4.3   | 26.8  | 25.4 | 12.5  | 9.6   | 20.4 |
| <i>of which:</i>    |                              |       |                                      |       |       |      |       |       |      |
| Germany             | 17.2                         | 19.0  | -5.4                                 | 5.6   | 39.6  | 24.6 | 11.2  | 6.4   | 18.5 |
| Belgium-Luxembourg  | 8.0                          | 8.8   | 0.9                                  | 8.1   | 31.4  | 21.9 | 8.6   | 8.8   | 17.4 |
| Italy               | 9.9                          | 11.6  | -2.1                                 | 6.0   | 37.8  | 23.6 | 10.9  | 6.9   | 22.8 |
| Netherlands         | 6.0                          | 5.1   | 1.0                                  | 2.7   | 13.1  | 20.5 | 2.4   | 8.4   | 19.8 |
| United Kingdom      | 7.0                          | 7.3   | 12.4                                 | 5.6   | -4.8  | 33.2 | 14.5  | 6.3   | 24.3 |
| United States       | 7.7                          | 8.1   | -1.9                                 | 2.1   | 18.6  | 16.7 | 19.8  | 8.1   | 29.5 |
| Japan               | 2.6                          | 4.0   | -0.3                                 | 10.7  | 54.1  | 29.1 | 22.1  | 6.7   | 19.0 |
| Non-OECD            | 27.4                         | 17.5  | -4.8                                 | -4.4  | -5.8  | 12.9 | 7.5   | 9.5   | 23.8 |
| COMECON             | 3.6                          | 2.3   | -6.1                                 | -1.6  | 13.4  | 2.3  | 5.4   | -1.7  | 24.1 |
| OPEC                | 12.7                         | 4.4   | -10.5                                | -12.4 | -29.4 | -7.0 | -12.2 | 29.4  | 30.4 |
| Other               | 11.0                         | 10.8  | 2.1                                  | 2.8   | 8.7   | 27.2 | 16.0  | 5.9   | 21.3 |
| Unspecified         | 0.8                          | 1.8   | -2.4                                 | 34.2  | 39.3  | 39.4 | 35.6  | 9.1   | 33.4 |

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 | 1987 | 1988 | 1989 | 1990 | 1980                      | 1985              | 1987              | 1988              | 1989              | 1990              |
|--------------------------------------------------|---------------------|------|------|------|------|------|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                                  | Share of GDP        |      |      |      |      |      | Share of total employment |                   |                   |                   |                   |                   |
| <b>A. Structure of output (constant prices)</b>  |                     |      |      |      |      |      |                           |                   |                   |                   |                   |                   |
| Agriculture, hunting, forestry and fishing       | 4.2                 | 4.6  | 4.5  | 4.2  | 4.2  | 4.1  | 8.6                       | 7.5               | 7.0               | 6.7               | 6.3               | 6.0               |
| Mining and quarrying                             | 0.8                 | 0.7  | 0.7  | 0.6  | 0.6  | 0.5  | 0.8                       | 0.7               | 0.6               | 0.6               | 0.5               | 0.5               |
| Manufacturing                                    | 24.2                | 22.1 | 20.8 | 21.0 | 21.1 | 20.8 | 24.3                      | 21.9              | 20.8              | 20.3              | 20.2              | 20.1              |
| of which: Food products                          | 3.2                 | 3.0  | 2.8  | 2.7  | 2.8  | 2.8  | 2.7                       | 2.8               | 2.7               | 2.7               | 2.6               | 2.6               |
| Textiles                                         | 2.0                 | 1.7  | 1.5  | 1.4  | 1.3  | 1.3  | 3.1                       | 2.5               | 2.3               | 2.2               | 2.0               | 2.0               |
| Paper                                            | 1.5                 | 1.4  | 1.4  | 1.4  | 1.4  | 1.4  | 1.6                       | 1.5               | 1.5               | 1.5               | 1.5               | 1.6               |
| Chemicals                                        | 4.3                 | 4.2  | 3.9  | 4.0  | 3.9  | 3.8  | 2.6                       | 2.4               | 2.4               | 2.4               | 2.4               | 2.4               |
| Metals                                           | 1.4                 | 1.1  | 1.1  | 1.2  | 1.2  | 1.2  | 1.5                       | 1.3               | 1.2               | 1.1               | 1.1               | 1.1               |
| Metal products, machinery and equipment          | 9.4                 | 8.5  | 8.3  | 8.3  | 8.4  | 8.3  | 10.2                      | 9.2               | 8.6               | 8.4               | 8.4               | 8.4               |
| Electricity, gas and water                       | 1.8                 | 2.4  | 2.6  | 2.5  | 2.4  | 2.4  | 0.7                       | 0.8               | 0.8               | 0.8               | 0.8               | 0.7               |
| Construction                                     | 6.9                 | 6.0  | 5.9  | 5.9  | 5.8  | 5.7  | 8.5                       | 7.1               | 7.2               | 7.2               | 7.2               | 7.2               |
| Traded services <sup>1</sup>                     | 36.7                | 38.0 | 39.7 | 39.9 | 40.3 | 40.6 | 35.2 <sup>5</sup>         | 37.2 <sup>5</sup> | 38.2 <sup>5</sup> | 39.0 <sup>5</sup> | 39.7 <sup>5</sup> | 40.2 <sup>5</sup> |
| Non-traded services <sup>2</sup>                 | 4.3                 | 5.0  | 5.2  | 5.3  | 5.4  | 5.6  | ..                        | ..                | ..                | ..                | ..                | ..                |
| Total traded goods and services                  | 79.0                | 78.8 | 79.3 | 79.5 | 79.7 | 79.8 | 78.1                      | 75.1              | 74.6              | 74.6              | 74.7              | 74.8              |
| General government non-traded sector             | 16.0                | 16.5 | 16.1 | 15.8 | 15.3 | 15.3 | 21.9                      | 24.9              | 25.4              | 25.4              | 25.3              | 25.2              |
|                                                  | Productivity growth |      |      |      |      |      | Share of total investment |                   |                   |                   |                   |                   |
| <b>B. Economic performance (constant prices)</b> |                     |      |      |      |      |      |                           |                   |                   |                   |                   |                   |
| Agriculture, hunting, forestry and fishing       | 7.2 <sup>4</sup>    | 3.7  | 5.2  | 3.1  | 6.5  | 5.3  | 3.6                       | 3.3               | 2.6               | 2.8               | 3.0               | ..                |
| Mining and quarrying                             | -1.7 <sup>4</sup>   | 13.0 | 6.8  | 1.2  | 2.4  | -0.3 | 0.2                       | 0.2               | 0.1               | 0.1               | 0.1               | ..                |
| Manufacturing                                    | 2.1 <sup>4</sup>    | 2.6  | 1.7  | 6.9  | 4.1  | 0.8  | 15.4                      | 15.6              | 15.7              | 16.5              | 16.7              | ..                |
| of which: Food products                          | -0.2 <sup>4</sup>   | 4.3  | -4.4 | 2.9  | 8.3  | 4.5  | 2.0                       | 2.4               | 2.2               | 2.2               | 2.1               | ..                |
| Textiles                                         | 3.6 <sup>4</sup>    | 1.7  | -1.0 | 3.7  | 3.4  | 2.3  | 0.7                       | 0.8               | 0.7               | 0.8               | 0.7               | ..                |
| Paper                                            | 0.3 <sup>4</sup>    | 2.9  | 0    | 7.2  | 3.4  | -2.4 | 0.8                       | 0.9               | 1.3               | 1.6               | 1.7               | ..                |
| Chemicals                                        | 4.3 <sup>4</sup>    | -1.5 | -0.1 | 6.0  | 1.2  | -0.2 | 3.4                       | 3.1               | 3.1               | 3.2               | 3.2               | ..                |
| Metals                                           | 0.6 <sup>4</sup>    | 1.6  | 0.2  | 19.3 | 5.2  | -0.1 | 1.4                       | 1.4               | 1.3               | 1.3               | 1.3               | ..                |
| Metal products, machinery and equipment          | 1.6 <sup>4</sup>    | 3.9  | 5.0  | 7.0  | 4.3  | 0.2  | 5.5                       | 5.6               | 5.7               | 5.9               | 6.1               | ..                |
| Electricity, gas and water                       | 5.5 <sup>4</sup>    | 6.0  | 5.8  | 2.1  | -0.3 | 4.3  | 6.0                       | 5.6               | 4.5               | 4.1               | 3.7               | ..                |
| Construction                                     | 2.4 <sup>4</sup>    | 3.5  | 0.3  | 3.3  | 0.6  | 0.2  | 3.3                       | 2.6               | 2.4               | 2.5               | 2.5               | ..                |

|                                                                        |                    |                  |                  |                  |                  |                  |       |       |       |       |       |       |
|------------------------------------------------------------------------|--------------------|------------------|------------------|------------------|------------------|------------------|-------|-------|-------|-------|-------|-------|
| Traded services <sup>1</sup>                                           | 1.6 <sup>4,5</sup> | 2.6 <sup>5</sup> | 1.6 <sup>5</sup> | 1.9 <sup>5</sup> | 2.2 <sup>5</sup> | 1.4 <sup>5</sup> | 57.3  | 55.2  | 56.5  | 56.1  | 55.7  | ..    |
| Non-traded services <sup>2</sup>                                       | ..                 | ..               | ..               | ..               | ..               | ..               | 2.0   | 2.8   | 3.4   | 3.4   | 3.7   | ..    |
| Total traded goods and services                                        | 2.5 <sup>4</sup>   | 3.2              | 2.2              | 3.6              | 2.9              | 1.6              | 87.7  | 85.2  | 85.2  | 85.5  | 85.4  | ..    |
| General government non-traded sector                                   | 0.3 <sup>4</sup>   | -1.4             | 0.7              | 1.3              | 0.4              | 1.9              | 12.0  | 14.5  | 14.5  | 14.3  | 14.4  | ..    |
|                                                                        | 1979               | 1980             | 1981             | 1982             | 1983             | 1984             | 1985  | 1986  | 1987  | 1988  | 1989  | 1990  |
| <i>C. Other indicators (current prices)</i>                            |                    |                  |                  |                  |                  |                  |       |       |       |       |       |       |
| R & D as % of GDP in manufacturing                                     | 3.8                | 4.2              | 4.6              | 4.9              | 4.9              | 5.3              | 5.6   | 5.5   | 5.8   | 5.8   | 6.1   | ..    |
| 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   | 2.4   |
| 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  | 49.9  | 48.1  | ..    |
| 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  | 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  | 28.7  |
| 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  | 22.9  |
| 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  | 11.7  |
| 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  | 12.6  |
| Total                                                                  | 100.0              | 100.0            | 100.0            | 100.0            | 100.0            | 100.0            | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Workforce (millions)                                                   | 13.4               | 13.3             | 13.2             | 13.2             | 13.0             | 12.8             | 12.7  | 12.7  | 12.8  | 13.1  | 13.6  | 13.8  |

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 employees affiliated with UNEDIC (unemployment insurance scheme for private-sector employees).

4. 1980-1984 average.

5. Including non-traded services.

Sources: OECD, *National Accounts, Main Science and Technology Indicators* and OECD estimates.

Table G. Labour market indicators

|                                                             | Peak              | Trough            | 1985 | 1987 | 1988 | 1989 | 1990 |
|-------------------------------------------------------------|-------------------|-------------------|------|------|------|------|------|
| <i>A. Trend</i>                                             |                   |                   |      |      |      |      |      |
| Unemployment rate                                           |                   |                   |      |      |      |      |      |
| Total                                                       | 1987: 10.5        | 1964: 1.1         | 10.2 | 10.5 | 10.0 | 9.4  | 8.9  |
| Male                                                        | 1986: 8.4         | 1965: 1.0         | 8.3  | 8.2  | 7.7  | 7.0  | 6.6  |
| Female                                                      | 1987: 13.5        | 1965: 2.5         | 12.9 | 13.5 | 13.1 | 12.6 | 12.0 |
| Youth (15 to 24 year old)                                   | 1985: 25.6        | 1970: 3.2         | 25.6 | 23.0 | 21.7 | 19.1 | 19.3 |
| Share of long-term unemployment <sup>1</sup>                | 1986: 47.8        | 1975: 17.0        | 46.8 | 45.5 | 44.8 | 43.9 | ..   |
| Registered vacancies (thousands)                            | 1973: 251.6       | 1985: 46.0        | 46.0 | 54.3 | 63.1 | 76.2 | 79.5 |
| Length of working week <sup>2</sup>                         | 1964: 45.7        | 1985: 38.6        | 38.6 | 38.6 | 38.7 | 38.7 | 38.7 |
|                                                             | 1970              | 1980              | 1985 | 1987 | 1988 | 1989 | 1990 |
| <i>B. Structural and institutional features</i>             |                   |                   |      |      |      |      |      |
| Labour force (% change)                                     | 1.6 <sup>*</sup>  | 0.4 <sup>9</sup>  | 0.2  | 0.4  | 0.2  | 0.4  | 0.4  |
| Participation rate <sup>3</sup>                             |                   |                   |      |      |      |      |      |
| Overall                                                     | 67.8              | 68.0              | 65.7 | 65.7 | 65.5 | 65.4 | 65.4 |
| Male                                                        | 86.9              | 81.7              | 76.8 | 75.8 | 75.3 | 75.1 | 75.2 |
| Female                                                      | 48.5              | 54.4              | 54.9 | 55.7 | 55.8 | 56.1 | 56.6 |
| Employment/population aged 15 to 64                         | 66.1              | 63.7              | 59.0 | 58.8 | 58.9 | 59.2 | 59.6 |
| Employers, self-employed and family workers (as % of total) | 20.1              | 16.2              | 15.4 | 15.1 | 14.9 | 14.3 | 13.8 |
| Wage earners and salaried employees (as % of total)         | 79.9              | 83.8              | 84.6 | 84.9 | 85.1 | 85.7 | 86.2 |
| Civilian employment by sector (% change)                    |                   |                   |      |      |      |      |      |
| Agriculture                                                 | -4.7 <sup>*</sup> | -3.5 <sup>9</sup> | -2.7 | -3.6 | -3.6 | -4.1 | -4.2 |
| Industry                                                    | 0.6 <sup>*</sup>  | -1.6 <sup>9</sup> | -2.7 | -1.6 | -0.6 | 0.8  | 0.4  |
| Services                                                    | 2.2 <sup>*</sup>  | 1.1 <sup>9</sup>  | 1.7  | 1.8  | 2.0  | 2.1  | 1.8  |
| of which: General government                                | 2.7 <sup>*</sup>  | 0.5 <sup>9</sup>  | 2.6  | 0.3  | 0.3  | 0    | 0.4  |
| Total                                                       | 0.6 <sup>*</sup>  | -0.3 <sup>9</sup> | -0.1 | 0.3  | 0.8  | 1.3  | 1.0  |
| Civilian employment by sector (as % of total)               |                   |                   |      |      |      |      |      |
| Agriculture                                                 | 13.2              | 8.6               | 7.5  | 7.0  | 6.7  | 6.3  | 6.0  |
| Industry                                                    | 39.2              | 35.6              | 31.9 | 30.6 | 30.2 | 30.1 | 29.9 |

|                                              |       |                    |       |       |       |       |       |
|----------------------------------------------|-------|--------------------|-------|-------|-------|-------|-------|
| Services                                     | 47.6  | 55.8               | 60.6  | 62.4  | 63.1  | 63.6  | 64.1  |
| <i>of which:</i> General government          | 18.1  | 20.6               | 23.3  | 23.6  | 23.4  | 23.2  | 23.0  |
| Total                                        | 100.0 | 100.0              | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Fixed-term contracts <sup>4</sup>            | ..    | ..                 | 1.8   | 2.7   | 3.0   | 3.3   | ..    |
| Agency temporary <sup>4</sup>                | ..    | ..                 | 0.6   | 0.7   | 0.9   | 1.7   | 1.8   |
| Part-time <sup>5</sup>                       | ..    | ..                 | 10.8  | 11.6  | 11.9  | 11.9  | 11.9  |
| Non-wage labour costs <sup>6</sup>           | 23.9  | 26.1               | 27.9  | 28.1  | 28.2  | 28.2  | 28.0  |
| Unemployment insurance benefits <sup>7</sup> | ..    | 46.2 <sup>10</sup> | 41.1  | 43.5  | 44.1  | 44.2  | ..    |
| Minimum wage as % of average wage            | 39.3  | 45.2               | 51.3  | 49.9  | 48.9  | 48.7  | 48.1  |

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

Sources: OECD, *Labour Force Statistics, Main Economic Indicators* and OECD estimates.

Table H. **Financial markets**

|                                                                            | 1980               | 1984  | 1985  | 1986  | 1987  | 1988  | 1989  | 1990  |
|----------------------------------------------------------------------------|--------------------|-------|-------|-------|-------|-------|-------|-------|
| <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  | 18.3  |
| Domestic financial assets / GDP                                            | ..                 | 4.9   | 5.0   | 5.5   | 5.5   | 6.0   | 5.8   | 5.4   |
| Stock-market capitalisation / GDP                                          | 30.3               | 39.6  | 48.4  | 61.7  | 56.7  | 59.4  | 69.2  | 68.6  |
| 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  | 56.5  |
| Financial institutions' share of financial assets                          | ..                 | 50.1  | 49.1  | 48.5  | 50.1  | 48.9  | 30.0  | 33.0  |
| 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  | 45.3  |
| <i>Structure of private non-financial sector's portfolio: <sup>3</sup></i> |                    |       |       |       |       |       |       |       |
| Deposits <sup>4</sup>                                                      | ..                 | 33.9  | 31.4  | 25.7  | 27.8  | 23.0  | 20.6  | 19.8  |
| Bonds and bills                                                            | ..                 | 5.3   | 4.2   | 4.3   | 4.2   | 4.0   | 3.8   | 2.6   |
| Equities                                                                   | ..                 | 26.3  | 32.0  | 41.2  | 36.8  | 45.0  | 48.8  | 45.1  |
| Institutional investment <sup>5</sup>                                      | ..                 | 4.1   | 5.2   | 5.9   | 6.4   | 6.5   | 6.5   | 8.5   |
| Non-financial corporate financial structure:                               | ..                 | 100.0 | 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  | 57.5  |
| Short-term debt: Securities                                                | ..                 | 1.4   | 1.5   | 1.5   | 1.9   | 1.7   | 1.9   | 1.0   |
| Other                                                                      | ..                 | 35.0  | 30.6  | 23.7  | 27.1  | 22.3  | 19.7  | 23.0  |
| Medium- and long-term debt: Bonds                                          | ..                 | 4.7   | 4.2   | 3.8   | 3.5   | 3.1   | 2.7   | 3.5   |
| Other                                                                      | ..                 | 20.2  | 17.8  | 14.4  | 15.9  | 12.9  | 12.2  | 15.0  |
| <i>Internationalisation of markets</i>                                     |                    |       |       |       |       |       |       |       |
| <i>Foreign business of the banking sector: <sup>6</sup></i>                |                    |       |       |       |       |       |       |       |
| Assets                                                                     | 32.0               | 43.7  | 39.0  | 37.2  | 36.1  | 36.8  | 36.9  | 30.9  |
| Liabilities                                                                | 28.9               | 43.7  | 37.6  | 35.4  | 33.7  | 36.3  | 37.4  | 33.8  |
| <i>International banking networks:</i>                                     |                    |       |       |       |       |       |       |       |
| Foreign banks in France <sup>7</sup>                                       | 122.0              | 147.0 | 148.0 | 152.0 | ..    | 168.0 | 167.0 | ..    |
| French bank branches abroad                                                | ..                 | ..    | ..    | ..    | ..    | 341.0 | ..    | ..    |
| <i>Share of cross-border transactions:</i>                                 |                    |       |       |       |       |       |       |       |
| Net purchases of foreign securities by residents                           | ..                 | ..    | ..    | ..    | ..    | 21.6  | 29.2  | 25.2  |
| Net purchases of domestic securities by non-residents                      | ..                 | ..    | ..    | ..    | ..    | 24.0  | 46.6  | 34.0  |
| <i>Efficiency of markets</i>                                               |                    |       |       |       |       |       |       |       |
| Cost of bank intermediation <sup>8</sup>                                   | ..                 | ..    | ..    | 8.6   | 8.6   | 9.2   | 9.5   | ..    |
| Interest margin <sup>9</sup>                                               | 2.5 <sup>13</sup>  | 2.3   | 2.3   | 2.5   | 2.1   | ..    | 2.1   | 2.0   |
| Bank productivity <sup>10</sup>                                            | 69.4 <sup>13</sup> | 69.1  | 68.5  | 67.0  | 73.3  | ..    | 76.2  | 83.3  |

|                                                                         |                    |      |      |      |      |      |      |    |
|-------------------------------------------------------------------------|--------------------|------|------|------|------|------|------|----|
| 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>Indicator 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 Crédit: 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 are excluded.

4. National and international means of payment plus other liquid assets.

5. UCITs.

6. As a percentage of commercial banks' balance sheets (AFB banks for 1990).

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.

13. 1981 figures.

Sources: *Comptes de la Nation 1990*; Banque de France, *Bulletin trimestriel*; Conseil National du Crédit, *Rapport annuel 1990*; IMF, *International Financial Statistics* and OECD estimates.

Table I. **Public sector**

|                                                                     | 1970  | 1980 | 1985 | 1987 | 1988 | 1989 | 1990 |
|---------------------------------------------------------------------|-------|------|------|------|------|------|------|
| <i>Budgetary indicators: general-government accounts (% of GDP)</i> |       |      |      |      |      |      |      |
| Primary receipts (excluding interest)                               | 37.4  | 43.6 | 46.2 | 45.9 | 45.5 | 45.1 | 45.1 |
| Primary expenditure (excluding interest)                            | 37.1  | 44.2 | 49.1 | 47.8 | 47.0 | 46.1 | 46.1 |
| Primary budget balance                                              | 0.3   | -0.6 | -3.0 | -1.9 | -1.6 | -1.0 | -1.0 |
| Net interest (including net capital transfers)                      | 0.6   | 0.6  | 0.1  | 0    | -0.1 | -0.1 | -0.4 |
| General-government budget balance                                   | 0.9   | 0    | -2.9 | -1.9 | -1.7 | -1.1 | -1.4 |
| of which: Central-government balance                                | 1.0   | -0.3 | -2.9 | -1.9 | -1.7 | -1.5 | -1.8 |
| <i>Structure of expenditure and taxes (% of GDP)</i>                |       |      |      |      |      |      |      |
| General-government expenditure                                      | 34.2  | 42.3 | 48.8 | 47.5 | 46.4 | 45.5 | 45.6 |
| Transfers                                                           | 16.4  | 20.8 | 24.2 | 23.7 | 23.5 | 23.1 | 23.3 |
| Subsidies                                                           | 2.0   | 1.9  | 2.3  | 2.2  | 1.8  | 1.7  | 1.5  |
| General expenditure                                                 |       |      |      |      |      |      |      |
| Education                                                           | ..    | ..   | 5.0  | 4.8  | ..   | ..   | ..   |
| Transport                                                           | ..    | ..   | 0.6  | 0.6  | ..   | ..   | ..   |
| Health                                                              | ..    | ..   | 3.2  | 3.1  | ..   | ..   | ..   |
| Tax receipts                                                        | ..    | 41.7 | 44.5 | 44.5 | 43.8 | 43.7 | 43.7 |
| Personal income tax                                                 | ..    | 5.4  | 5.7  | 5.7  | 5.3  | 5.1  | 5.2  |
| Corporate taxes                                                     | ..    | 2.1  | 2.0  | 2.3  | 2.3  | 2.4  | 2.3  |
| Social-security contributions                                       | ..    | 17.8 | 19.3 | 19.1 | 19.0 | 19.2 | 19.3 |
| Consumption taxes                                                   | ..    | 12.7 | 13.2 | 13.0 | 12.9 | 12.5 | 12.3 |
| of which: Value added tax                                           | ..    | 8.7  | 8.7  | 8.5  | 8.5  | 8.3  | 8.1  |
| <i>Other indicators</i>                                             |       |      |      |      |      |      |      |
| Income tax elasticity                                               | ..    | 1.5  | 0.2  | 1.4  | 0    | 0.6  | 1.0  |
| Income tax as % of total tax                                        | 100.0 | 18.1 | 17.3 | 18.0 | 17.4 | 17.4 | 17.3 |
| Gross general-government debt<br>(as % of GDP)                      | 53.1  | 37.3 | 45.4 | 47.3 | 47.1 | 46.4 | 46.4 |
| Net general-government debt<br>(as % of GDP)                        | 9.7   | 14.3 | 22.9 | 24.8 | 25.0 | 24.6 | 24.5 |
| <i>Tax rates (%)</i>                                                |       |      |      |      |      |      |      |
| Average effective personal income tax rate                          | ..    | 15.0 | 13.9 | 13.7 | 13.5 | 13.4 | ..   |
| Top rate                                                            | 69.8  | 60.0 | 67.0 | 58.0 | 56.8 | 56.8 | 56.8 |
| Average marginal rate                                               | ..    | ..   | ..   | ..   | 18.6 | 17.3 | ..   |
| Effective social-security contribution rate                         | 28.0  | 33.0 | 36.0 | 37.6 | 38.4 | 39.0 | ..   |
| Standard VAT rate                                                   | 17.6  | 17.6 | 18.6 | 18.6 | 18.6 | 18.6 | 18.6 |

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

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

## 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  | 1989                          | 16 833    | 7 624   | 9 938                | 26 248   | 5 132    | 4 964    | 56 160   | 61 990  | 10 033   | 253      | 3 515     | 57 525   | 123 120  | 378             | 14 849      | 3 343       | 4 227    | 10 337    | 38 888    |  | 8 493    | 6 723             | 55 255    | 57 236         | 248 762       | 23 690     |
| Inhabitants per sq. km                                                  | Number     | 1989                          | 2         | 91      | 326                  | 3        | 119      | 15       | 102      | 249     | 76       | 2        | 50        | 191      | 326      | 145             | 364         | 12          | 13       | 112       | 77        |  | 19       | 163               | 71        | 234            | 27            | 93         |
| Net average annual increase over previous 10 years                      | %          | 1989                          | 1.5       | 0.1     | 0.1                  | 1.0      | 0.0      | 0.4      | 0.5      | 0.1     | 0.5      | 1.1      | 0.4       | 0.2      | 0.6      | 0.4             | 0.6         | 0.6         | 0.4      | 0.5       | 0.5       |  | 0.2      | 0.6               | 2.4       | 0.2            | 1.0           | 0.8        |
| <b>Employment</b>                                                       |            |                               |           |         |                      |          |          |          |          |         |          |          |           |          |          |                 |             |             |          |           |           |  |          |                   |           |                |               |            |
| Total civilian employment (TCE) <sup>2</sup>                            | Thousands  | 1989                          | 7 725     | 3 342   | 3 670                | 12 486   | 2 610    | 2 460    | 21 484   | 27 208  | 3 671    | 140      | 1 077     | 20 833   | 61 280   | 181             | 6 065       | 1 461       | 2 014    | 4 377     | 12 260    |  | 4 466    | 3 518             | 16 771    | 26 457         | 117 342       | ..         |
| Of which: Agriculture                                                   | % of TCE   |                               | 5.5       | 8.0     | 2.8                  | 4.3      | 5.7      | 8.9      | 6.4      | 3.7     | 25.3     | 10.0     | 15.1      | 9.3      | 7.6      | 3.3             | 4.7         | 10.3        | 6.6      | 19.0      | 13.0      |  | 3.6      | 5.6               | 50.1      | 2.1            | 2.9           | ..         |
| Industry                                                                | % of TCE   |                               | 26.5      | 37.0    | 28.5                 | 25.7     | 27.4     | 30.9     | 30.1     | 39.8    | 27.5     | 30.7     | 28.4      | 32.4     | 34.3     | 31.5            | 26.5        | 25.4        | 25.3     | 35.3      | 32.9      |  | 29.4     | 35.1              | 20.5      | 29.4           | 26.7          | ..         |
| Services                                                                | % of TCE   |                               | 68.0      | 55.1    | 68.7                 | 70.1     | 66.9     | 60.2     | 63.5     | 56.5    | 47.1     | 59.3     | 56.5      | 58.2     | 58.2     | 65.2            | 68.8        | 64.3        | 68.1     | 45.7      | 54.0      |  | 67.0     | 59.3              | 29.5      | 68.4           | 70.5          | ..         |
| <b>Gross domestic product (GDP)</b>                                     |            |                               |           |         |                      |          |          |          |          |         |          |          |           |          |          |                 |             |             |          |           |           |  |          |                   |           |                |               |            |
| At current prices and current exchange rates                            | Bill US \$ | 1989                          | 282.4     | 126.5   | 153.0                | 545.5    | 106.2    | 115.5    | 958.2    | 1 189.1 | 54.2     | 5.2      | 33.9      | 865.8    | 2 869.3  | 7.0             | 223.7       | 41.7        | 90.2     | 45.3      | 380.3     |  | 189.9    | 177.2             | 79.1      | 837.5          | 5 132.0       | 81.8       |
| Per capita                                                              | US \$      |                               | 16 800    | 16 603  | 15 393               | 20 783   | 20 685   | 23 270   | 17 061   | 19 182  | 5 399    | 20 516   | 9 644     | 15 051   | 23 305   | 18 613          | 15 063      | 12 503      | 21 341   | 4 623     | 9 711     |  | 22 360   | 26 350            | 1 432     | 14 642         | 20 629        | 3 454      |
| At current prices using current PPP's <sup>3</sup>                      | Bill US \$ | 1989                          | 240.4     | 102.1   | 135.0                | 506.7    | 74.9     | 74.6     | 818.0    | 929.0   | 72.8     | 4.0      | 31.6      | 799.7    | 1 934.4  | 6.5             | 203.6       | 38.2        | 69.4     | 72.1      | 401.2     |  | 131.7    | 119.0             | 247.4     | 820.6          | 5 132.0       | ..         |
| Per capita                                                              | US \$      |                               | 14 304    | 13 407  | 13 587               | 19 305   | 14 594   | 15 030   | 14 565   | 14 985  | 7 253    | 15 870   | 8 984     | 13 902   | 15 712   | 17 192          | 13 709      | 11 446      | 16 422   | 7 360     | 10 244    |  | 15 511   | 17 699            | 4 481     | 14 345         | 20 629        | ..         |
| Average annual volume growth over previous 5 years                      | %          | 1989                          | 3.9       | 2.7     | 2.6                  | 3.9      | 2.0      | 4.0      | 2.7      | 2.6     | 2.2      | 3.1      | 3.2       | 3.1      | 4.5      | 4.4             | 2.4         | 0.8         | 2.2      | 4.3       | 4.2       |  | 2.3      | 3.0               | 5.1       | 3.8            | 3.6           | ..         |
| <b>Gross fixed capital formation (GFCF)</b>                             |            |                               |           |         |                      |          |          |          |          |         |          |          |           |          |          |                 |             |             |          |           |           |  |          |                   |           |                |               |            |
| Of which: Machinery and equipment                                       | % of GDP   | 1989                          | 25.5      | 24.0    | 19.1                 | 22.2     | 18.2     | 27.6     | 20.8     | 20.5    | 18.5     | 18.7     | 18.4      | 20.2     | 31.0     | 24.1            | 21.8        | 21.0        | 27.5     | 26.2      | 24.0      |  | 21.2     | 27.6              | 22.8      | 19.6           | 16.6          | 14.5       |
| Residential construction                                                | % of GDP   |                               | 10.7      | 10.2    | 9.5                  | 7.5      | 8.0      | 10.9     | 9.3      | 9.3     | 8.0      | 5.1      | 9.9       | 10.6     | 13.0     | 10.9            | 10.6        | 10.5        | 9.4      | 9.8 (86)  | 8.5       |  | 9.6      | 9.5               | 11.7 (87) | 9.4            | 7.8           | ..         |
| Average annual volume growth over previous 5 years                      | %          | 1989                          | 5.4       | 4.7     | 4.1                  | 7.4      | 4.2      | 7.7      | 5.1      | 5.3     | 4.6      | 4.3      | 3.6 (88)  | 4.8      | 6.1      | 4.3             | 5.5         | 4.9         | 4.1      | 4.8 (86)  | 4.9       |  | 5.2      | 18.1 <sup>9</sup> | 5.8 (87)  | 3.8            | 4.4           | ..         |
|                                                                         | %          | 1989                          | 6.1       | 4.6     | 7.5                  | 8.1      | 3.5      | 6.3      | 5.3      | 3.5     | 1.3      | 1.6      | 0.5       | 4.1      | 8.1      | 7.8             | 5.7         | 3.2         | 0.2      | 8.9       | 11.1      |  | 6.5      | 6.7               | 4.6       | 6.9            | 3.9           | ..         |
| <b>Gross saving ratio<sup>4</sup></b>                                   |            | 1989                          | 22.5      | 26.0    | 20.9                 | 19.9     | 17.4     | 25.6     | 21.3     | 26.5    | 14.7     | 16.6     | 19.7      | 20.2     | 34.2     | 60.9            | 24.3        | 17.4        | 24.8     | 26.0      | 22.1      |  | 18.7     | 34.0              | 24.0      | 15.4           | 15.6          | ..         |
| <b>General government</b>                                               |            |                               |           |         |                      |          |          |          |          |         |          |          |           |          |          |                 |             |             |          |           |           |  |          |                   |           |                |               |            |
| Current expenditure on goods and services                               | % of GDP   | 1989                          | 16.4      | 18.1    | 14.4                 | 18.7     | 25.1     | 19.8     | 18.3     | 18.7    | 21.6     | 19.07    | 15.4      | 16.8     | 9.2      | 16.0            | 15.3        | 16.4        | 21.0     | 16.1      | 15.1      |  | 26.0     | 12.9              | 16.0      | 19.4           | 17.9          | 14.4       |
| Current disbursements <sup>5</sup>                                      | % of GDP   | 1989                          | 32.1      | 44.9    | 53.3                 | 41.6     | 56.0     | 35.1     | 46.2     | 41.6    | 47.7     | 32.1     | 49.9 (87) | 47.1     | 25.6     | 45.0 (86)       | 51.7        | ..          | 50.9     | 40.4 (86) | 35.5 (88) |  | 57.3     | 29.9              | ..        | 37.6           | 34.6          | ..         |
| Current receipts                                                        | % of GDP   | 1989                          | 34.2      | 46.1    | 48.5                 | 39.6     | 57.4     | 39.9     | 46.5     | 44.6    | 31.8     | 36.6     | 43.7 (87) | 41.1     | 33.3     | 52.9 (86)       | 50.1        | ..          | 54.9     | 37.6 (86) | 36.3 (88) |  | 64.1     | 34.1              | ..        | 39.7           | 31.8          | ..         |
| <b>Net official development assistance</b>                              |            | 1989                          | 0.38      | 0.23    | 0.43                 | 0.43     | 0.88     | 0.57     | 0.75     | 0.41    | 0.07     | 0.04     | 0.16      | 0.39     | 0.32     | 0.26            | 0.97        | 0.23        | 1.05     | 0.18      | 0.06      |  | 0.88     | 0.33              | ..        | 0.31           | 0.17          | ..         |
| <b>Indicators of living standards</b>                                   |            |                               |           |         |                      |          |          |          |          |         |          |          |           |          |          |                 |             |             |          |           |           |  |          |                   |           |                |               |            |
| Private consumption per capita using current PPP's <sup>3</sup>         | US \$      | 1989                          | 8 258     | 7 434   | 8 486                | 11 225   | 7 705    | 7 766    | 8 733    | 8 120   | 5 026    | 9 447    | 5 079     | 8 577    | 9 068    | 9 534           | 8 133       | 7 007       | 8 224    | 4 683     | 6 443     |  | 8 090    | 10 181            | 2 768     | 9 154          | 13 768        | 1 638*     |
| Passenger cars, per 1 000 inhabitants                                   | Number     | 1988                          | 435 (87)  | 370     | 349                  | 454 (86) | 321      | 344      | 394      | 457     | 130      | 488      | 210 (87)  | 408      | 241      | 443             | 348         | 490         | 388      | 190 (87)  | 263       |  | 400      | 419               | 20 (83)   | 318            | 559           | 129 (87)   |
| Telephones, per 1 000 inhabitants                                       | Number     | 1987                          | 550 (85)  | 525     | 478                  | 780      | 864      | 617 (85) | 608 (85) | 650     | 413      | 525      | 265 (85)  | 488      | 555 (85) | 425 (86)        | 639         | 697         | 622 (84) | 202       | 396       |  | 890 (83) | 856 (86)          | 91        | 524 (84)       | 650 (84)      | 154 (86)   |
| Television sets, per 1 000 inhabitants                                  | Number     | 1986                          | 472       | 323     | 301                  | 546      | 386      | 372      | 332      | 379     | 174      | 306      | 216       | 255      | 585      | 253             | 327         | 358         | 348      | 157       | 322       |  | 393      | 411               | 165       | 534            | 813           | 176        |
| Doctors, per 1 000 inhabitants                                          | Number     | 1989                          | 2.3 (86)  | 2.1     | 3.3 (88)             | 2.2 (88) | 2.7 (88) | 2.0      | 2.6      | 3.0     | 3.2 (88) | 2.7 (88) | 1.5 (88)  | 1.3 (88) | 1.6 (88) | 1.9 (88)        | 2.4         | 1.9         | 2.5 (87) | 2.8       | 3.7       |  | 3.1      | 2.9               | 0.8       | 1.4 (88)       | 2.3 (88)      | 1.8 (86)   |
| Infant mortality per 1 000 live births                                  | Number     | 1989                          | 7.9       | 8.3     | 8.6                  | 7.2 (88) | 7.5      | 6.1 (88) | 7.5      | 7.5     | 9.9      | 5.3      | 7.6       | 8.9      | 4.6      | 9.9             | 6.8         | 10.8 (88)   | 8.3 (88) | 12.2      | 7.8       |  | 5.8      | 7.3               | 6.5 (88)  | 8.4            | 9.7           | 24.8 (88)  |
| <b>Wages and prices (average annual increase over previous 5 years)</b> |            |                               |           |         |                      |          |          |          |          |         |          |          |           |          |          |                 |             |             |          |           |           |  |          |                   |           |                |               |            |
| Wages (earnings or rates according to availability)                     | %          | 1989                          | 5.3       | 4.7     | 2.9                  | 3.9      | 6.0      | 7.6      | 3.9      | 4.1     | 16.1     | ..       | 6.1       | 6.9      | 3.3      | ..              | 2.1         | 9.2         | 9.0      | 15.6      | 8.8       |  | 7.9      | ..                | ..        | 8.4            | 2.7           | 220.8      |
| Consumer prices                                                         | %          | 1989                          | 7.8       | 2.2     | 2.4                  | 4.3      | 4.3      | 4.9      | 3.6      | 1.3     | 17.1     | 23.7     | 3.7       | 6.2      | 1.1      | 1.8             | 0.7         | 11.2        | 6.6      | 12.6      | 6.9       |  | 5.6      | 2.1               | 50.6      | 5.3            | 3.6           | 210.2      |
| <b>Foreign trade</b>                                                    |            |                               |           |         |                      |          |          |          |          |         |          |          |           |          |          |                 |             |             |          |           |           |  |          |                   |           |                |               |            |
| Exports of goods, fob *                                                 | Mill US \$ | 1989                          | 37 191    | 32 448  | 100 081 <sup>7</sup> | 117 154  | 28 113   | 23 279   | 179 192  | 340 987 | 7 595    | 1 429    | 20 782    | 140 596  | 274 266  | .. <sup>8</sup> | 107 760     | 8 883       | 27 145   | 12 722    | 43 408    |  | 51 592   | 51 683            | 11 557    | 153 121        | 363 811       | 13 363     |
| As % of GDP                                                             | %          |                               | 13.2      | 25.7    | 65.4                 | 21.5     | 26.5     | 20.2     | 18.7     | 28.7    | 14.0     | 27.5     | 61.3      | 16.2     | 9.6      | ..              | 48.2        | 21.3        | 30.1     | 28.1      | 11.4      |  | 27.2     | 29.2              | 14.6      | 18.3           | 7.1           | 16.3       |
| Average annual increase over previous 5 years                           | %          |                               | 10.0      | 15.6    | 14.0                 | 6.2      | 12.0     | 11.5     | 13.0     | 14.7    | 9.5      | 14.2     | 16.6      | 13.9     | 10.1     | ..              | 10.4        | 10.         |          |           |           |  |          |                   |           |                |               |            |

\* At current prices and exchange rates.

1. Unless otherwise stated.

2. According to the definitions used in *OECD Labour Force Statistics*.

3. PPP's=Purchasing Power Parities.

4. Gross saving = Gross national disposable income minus Private and Government consumption.

5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.

6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.

7. Including Luxembourg.

8. Included in Belgium.

9. Including non-residential construction.

Sources: Population and Employment: OECD Labour Force Statistics.

GDP, GFCF, and General Government: OECD National Accounts, Vol. I and OECD Economic Outlook, Historical Statistics.

Indicators of living standards: Miscellaneous national publications.

Wages and Prices: OECD Main Economic Indicators.

Foreign trade: OECD Monthly Foreign Trade Statistics, series A.

Total official reserves: IMF International Financial Statistics.

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