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Statement by Mr. de Maulde on France
Executive Board Meeting 82/63
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The papers before us today give a clear and concise review of the problems the French economy faces and the Government's approach to solving them.

Once again, Mr. Whittome and his staff have identified those key sectors that will determine success or failure. I do not wish to repeat what is already in the report or to contest the points it makes. I would, however, like to share with my colleagues some of the thoughts this document inspires.

I. The recent economic developments paper clearly identifies the problems of substance.

France faces a major problem, employment, which slack investment and the influence of outside constraints have further aggravated.

1. The magnitude of the employment problem is attributable to a phenomenon peculiar to France. Since the mid-1970s, the postwar baby-boom generation has entered the labor market in massive numbers while retirement has only removed from it the small World War I generation. This is the reason the working population increased by an average of 207,000 persons per year between 1975 and 1980. From 1980 to 1985, the annual increase will still average 182,000 persons per year and is expected to drop to 123,000 per year between 1985 and 1990 and to 83,000 per year between 1990 and the year 2000. In addition, more are entering the labor market, especially women, which means an additional number of job seekers averaging some 31,000 per year from 1975 to 1980 and 48,000 per year from 1980 to 1985. Only about a quarter as many new jobs as in the early 1970s have been created to cope with this extremely sharp increase in the labor supply since 1975. Total available jobs rose by less than 2 per cent between 1975 and 1980, while the labor force increased by some 6 per cent. The number of unsuccessful job seekers has increased by around 60 per cent. At the beginning of 1982, the unemployment rate was close to 9 per cent of the working population as compared to only 2.8 per cent at the end of 1974.

No government could ignore a problem of such magnitude and persistence.

2. Investment is slack. Table 1 on page 11 of the recent economic developments paper shows that private and public consumption in France increased at much the same rate as in other major industrial countries. Investment, however, progressed at a much slower rate--averaging 1.7 per cent as compared to 3.9 per cent in other industrial countries--thus fueling the employment crisis.

In the industrial sector, the investment ratio fell to approximately 13 per cent in the late 1970s as against 17.9 per cent at the beginning of the decade, and new investment was aimed less at increasing productive capacity than at reducing labor costs. Since 1975, investments by public enterprises and government agencies--which account for over 20 per cent of capital formation in the industrial sector--have certainly played an important part in maintaining growth (telephone network, nuclear program, highways). Their average annual increase was 10 per cent from 1975 to 1980. More recently, however, this share of overall investment has also tended to stabilize as major investment programs were completed.

Investment in the tertiary sector (commerce and services) initially held up better than investment in industry; after a time, however, it also reacted to slackened activity and, with some lag, now shows a profile similar to that of industrial investment. Real property investment initially stabilized, then dropped off sharply. Today, it is back to mid-1977 levels. In the most recent period, the abrupt rise in interest rates forced upon by the international environment has constituted a strong additional obstacle to investment.

3. External constraints have substantial repercussions. The French economy is basically open, and import and export flows taken together account for over 50 per cent of trade GDP. Changes in international demand and prices have immediate and considerable impact. In the energy field, the report rightly stresses the effort made since 1973 to save energy and step up nuclear power production. Nuclear generated electricity will cover 14 per cent of the country's needs in 1982 as compared to 2.1 per cent in 1977. The fact remains, however, that the "oil bill" is extremely high--F 133 billion in 1980 (4.3 per cent of GDP)--and might well amount to F 169 billion in 1981 and F 182 billion in 1982, even though imports decreased in terms of volume by 12 per cent in 1981 and could decrease by 1 per cent in 1982.

Trade in services is showing a most encouraging trend, generating a surplus of around F 30 billion in 1981. Despite this, however, the balance on current account remains largely dependent on traditional exports, which are at the mercy of international competition and economic fluctuations, and good results in the agro-food sector have only partially offset the problems in the industrial sector. France's share in the overall export market for the seven major industrial countries was eroded in 1979 and 1980 in the sectors most affected by competitive pressures (automobiles, consumer goods) in spite of the reduction in exporters' profits. Import penetration of the domestic market was markedly greater in 1979-80 (cf. Table 37, page 76). Apart from the interplay of macroeconomic variables (demand and prices), the main question mark is the level of specialization and modernization of France's production facilities, as is clearly evidenced by the deterioration in trade balances vis-à-vis the most technologically advanced countries.

II. These are the problems of substance the French Government is endeavoring to solve through its economic policy. The measures adopted, and clearly described in the report are aimed at the threefold objective of building a stronger, more competitive, and more equitable economy.

1. A stronger economy. The French Government is fully committed to vigorous budgetary action in combating underutilization of both labor force and productive capacity.

Stimulating the household demand is only one aspect of this action, which includes an important supply side element and intends also to stimulate investment and modernize production. In macroeconomic terms, the budget deficit--which amounted to 2.6 per cent of GDP in 1981 as compared to 1.1 per cent in 1980--has in fact had a favorable impact on economic activity, evaluated at some 1.6 per cent of GDP (table 5, page 19, SM/82/63). The forecast budget deficit for 1982 represents a continuation of this trend, as its level with respect to GDP is expected to be similar to that of the year before.

Specific additional measures have been taken to promote employment directly, by creating more jobs in the public sector, or indirectly--e.g., through tax incentives to private enterprises that reduce working hours and create jobs.

2. A more competitive economy. In addition to the global conjunctural policy aiming at containing the nominal annual increases of incomes, prices and public utilities at a 10 per cent level, resources devoted to industrial policy have been substantially increased. This policy consists in:

- stimulating growth and innovation in private enterprises--mostly small- and medium-scale ones--especially through an increase in their equity capital;

- nationalizing the industrial groups holding key positions in the French economy. The new status of these industries will enable them to develop medium-term investment, production, and employment strategies while preserving the management autonomy required in competitive sectors;

- spurring research and development in a limited number of technologies.

This industrial policy which excludes the use of direct or indirect protectionist measures is about covered by the expression "reconquer the domestic market."

3. A more equitable economy. The Government's policy includes a large social component whose objectives are self-evident. Among the most important measures in this field are: increases in the minimum wage which

have a rather slight impact in the higher brackets, a revaluation of the most significant social security benefits (minimum old-age benefits, family allowances, pensions for agricultural workers), and financial support for the unemployment insurance scheme.

Two main concerns underlie the steps taken: to avoid excessive stimulation of demand, and excessive increases in the burden borne by enterprises, hence taxes and parafiscal levies paid by households have been increased while those on enterprises have been stabilized.

Finally, the Government is committed to developing a new incomes policy. I shall return to this important topic in a moment.

III. There are questions raised in the Fund staff report with respect to the cyclical risks implementation of the French Government's policy may entail.

--first, that an uncontrolled increase in wages may dry up profits, thus stunting the enterprises' investment capacity.

--second, that runaway public spending and budget deficits may make it impossible to abide by the money supply objective, thus fueling inflation.

Such questions are hardly new; in fact, they tend to appear in most Article IV consultation reports on France. They should nonetheless be accorded careful attention.

I would like to give my colleagues the latest information I have on the economic situation before making a few comments of a more general nature.

1. The most recent economic indicators are as follows:

As regards prices, a slowdown in the retail price index was already observed in the last quarter of 1981. The average increase in this index for 1981 as a whole leveled at 14 per cent as compared to 14.9 per cent in the first three quarters. This trend continued in the first quarter of 1982, and the index rose by only 12 per cent in annual terms during the four-month period December 1981-March 1982.

The Government's objective remains to return to a 10 per cent rate by the end of 1982.

As regards wages, fourth quarter figures for 1981 are extremely high (up 4.1 per cent) because of the increase in the minimum wage which occurred at the time. A marked slowdown has certainly occurred in the first quarter of 1982, though no figures are yet available. The Government expects this trend to continue, especially because of incomes policy implementation.

As regards the budget, the 1981 deficit stood at 2.6 per cent of GNP and is expected to remain at approximately the same level in 1982. The President himself has publicly stated that the deficit of the 1983 budget, now being drawn up, will be kept below 3 per cent of GNP. Precise instructions have been given to that effect. Social security system will be balanced in 1982, as in 1981, as a result of the higher households premiums decided in last November.

Money creation remains under strict control. The growth of M2 in the last six months slowed down considerably, especially thanks to the re-establishment of a considerable differential between the short- and long-term rates which permitted sizable issues to be floated on the financial market. The economy's liquidity rate has returned to 1979 levels, i.e., before the second oil shock. The monetary authorities expect to meet the M2 growth target of 12.5-13.5 per cent for 1982 as a whole without undue difficulty.

The employment situation is showing the first hopeful signs. While the monthly increase in the number of unemployed was 38,000 persons in the first six months of 1981, it dropped to 22,000 persons in the period November 1981 to February 1982. It is anticipated that the level will fall to 15,000 persons by the end of 1982, provided there is no deterioration in the international economic situation.

Finally, the balance of trade, which as a result of the cyclical lag between France and its main trading partners, and of precautionary purchases due to exchange rate expectations, had deteriorated during the fourth quarter of 1981 (with the monthly deficit amounting to F 6 billion), has recently improved; the deficit was F 5 billion in February and F 4.5 billion in March despite the appreciation of the U.S. dollar. Present projections for 1982 as a whole indicate a deficit on current account of the same order as in 1981.

2. In evaluating the situation of a complex economy, it is important to avoid easy generalizations, as indeed the Fund report does most successfully.

Unfortunately, there is no guarantee of a link between profits and investment, as borne out by the French experience of previous years. Action on the part of the new public sector might further loosen this tie in France.

Similarly, a restrictive monetary policy--except an excessively savage one--does not necessarily lead by itself to moderation in nominal price and wage changes. This is why the French Government considers as essential the implementation of a new incomes policy under which wage increases will be linked to the target inflation rate rather than the actual rate, any required adjustment being made subsequently. This policy already applies to 5.2 million workers in the public sector, and the private sector has just agreed to follow the same recommendations. As the inflation target is 10 per cent, the initial wage increase is limited in principle to 2.5 per cent per quarter.

Another misconception is the budget/money supply link. The width the long-term securities market in France presently has achieved ensures substantial nonmonetary financing for the Government provided sufficiently remunerative long-term rates are offered, as has been the rule in the past few months.

I should finally like to recall one obvious fact: the French Government can avail itself of good economic indicators and, if need be, is fully prepared to take all appropriate measures in connection with the budget, the money supply, and price controls. It has proved its ability and determination to do so last October.

May I be permitted, in conclusion, to assure the Executive Board of the International Monetary Fund that my country's authorities are firmly committed to respecting Fund principles and increasing international cooperation. The decisions taken with respect to official development assistance, which are described in the report, indeed bear witness to this desire for openness and solidarity.