

May 5, 1982 - 82/67

The Chairman's Summing Up at the Conclusion of the
1982 Article IV Consultation with France
Executive Board Meeting 82/64 - May 3, 1982

Executive Directors noted that the French authorities are seeking to increase growth and employment while reducing the rate of inflation and expressed sympathy for this effort, especially given that unemployment is high and rising and that the growth of the labor force would remain rapid over the coming years.

However, Directors emphasized that a sustainable increase in employment would depend upon a revival of investment from its current low level. This would require a significant improvement in profitability which has deteriorated sharply over the last two years. Directors stressed, therefore, that wage restraint was of critical importance and they expressed their broad agreement with the thrust of the staff appraisal in the report on the consultation. They also emphasized that the present French economic strategy was markedly different from that of most other industrial countries which believe that the restoration of price stability was a precondition for the resumption of sustainable growth. A number of Directors felt that the strategy involved serious risks for France and also for its trading partners.

Directors noted that the recent improvement in activity has been supported by some discretionary increases in expenditures and by a reduction for most of 1981 in Social Security taxes, at a time when cyclical developments were widening the budget deficit. While the level of the deficit was not unduly large by international comparison, the increase since 1980 has been significant and has led to a significant absorption of savings by the public sector.

Directors stressed that further deterioration in the budget position should be avoided as it would aggravate the balance of payments deficit and, if monetary policy remained on course, would keep interest rates high and adversely affect productive investment.

Directors noted that in contrast with developments in most other industrial countries, little progress had yet been achieved in reducing the rate of inflation and that in particular the rate of increase in labor costs remained very high. The growing inflation differential with EMS partner countries was viewed with particular concern. A number of Directors regarded a stringent monetary policy as essential if progress in reducing inflation was to be achieved and sustained.

Doubts were expressed about the adequacy of the M-2 target for 1982. Moreover, given France's exchange rate policy, some Directors thought that the control of domestic credit creation deserved greater attention.

Due to the effective depreciation of the franc in 1981 as well as to cyclical gains in productivity, the overall competitive position of French industry at the end of last year can be judged to have been favorable. Directors emphasized that the rise in labor costs would have to decelerate. Unless this occurred--there would be a threat of deterioration of competitiveness with adverse external consequences.

Directors saw little or no room for a rise in real wages. A number of them believed that a reduction in real wages was in the interest of France. Indeed, lack of adjustment of real wages to the terms-of-trade losses of the past two years was an obstacle to the restoration of adequate profitability and, therefore, could put the recovery of investment and the authorities' employment objectives in jeopardy.

Similarly, reductions in working hours and the encouragement of early retirement would raise unit labor costs, and thus impede the attainment of a higher rate of employment, unless fully offset by a rise in productivity.

Directors noted, however, that new wage formulation mechanisms aimed at moderating the impact of inflation on labor costs were being introduced and that measures had been taken recently to alleviate business taxation and to leave further reductions in working hours to contractual arrangements.

The nationalization of large industrial corporations and of most private banks had become effective in February 1982 and Directors noted the French authorities' indication that the newly nationalized companies would compete on the same basis as private firms and regarded it as important that this should be done.

While noting that the policy on reconquering the domestic market was based on an adaptation of the industrial structure, Directors were concerned that industrial policy might unduly encourage investment in ailing or nonviable sectors and that the Government's economic strategy might strengthen the pressure for measures of a protectionist nature. They strongly urged the French authorities to resist such pressures.

Finally, Executive Directors commended the determination of the authorities to increase Official Development Assistance in terms of France's GNP.