

France



President: Nicolas SARKOZY	Population (2007 est.): 63,392,140
Finance Minister: Christine LAGARDE	GDP (2007): €1892.2 billion
Central Bank Governor: Christian NOYER	GDP/capita: €29,800
Joined the EU: 1957	GDP by sector:
Adopted the Euro: 1999	Agriculture 2.2%
Currency prior to Euro: French Franc	Industry 21%
	Services 76.7%
	Life Expectancy (women / men): 84 / 77
	2005 2006 2007 2008*
Real GDP growth rate	1.9% 2.2% 2.2% 0.9%
Inflation	1.9% 1.9% 1.6% 3.3%
Unemployment Rate	9.2% 9.2% 8.3% 8.0%

* forecast

France in the EU and the Euro Area

France was one of the first six member states of the EU. In 1957, it joined what was then called the European Economic Community, one of the predecessors of the European Union.

France was also one of the founding members of the Euro area and was among the first group of countries to introduce the Euro on 1 January 1999. Euro notes and coins entered general use on January 1, 2002, replacing the French Franc.

Economic Overview of France

France's economy is in the midst of shifting from extensive government ownership and intervention to relying more on market mechanisms. The government has already fully or partially privatized many large companies, banks and insurers. It has already given up stakes in a number of firms, including Air France, France Telecom, Renault, and Thales. France's leaders remain committed to a capitalism in which they maintain social equality by means of laws, tax policies, and social spending that reduce income disparity and the impact of free markets on public health and welfare.

In 2007, growth was a rather moderate 2.2 percent. Due to the global financial crisis growth is forecasted to weaken significantly to only 0.9 percent in 2008. Domestic demand, the traditional main support of growth is likely to shrink, making a negative contribution to economic activity for the first time since 2001. France still experiences high unemployment rates, despite the fact that employment has increased in recent years. This recovery of employment is due to the gradual implementation of the "emergency plan" which aims to facilitate recruitment by small companies and encourage people to return to work. However, unemployment continues to remain high and

consequently wage moderation policies are expected for future years as a means of making it easier for the private and public sector to take on further workers. In 2007, the government launched divisive labor reform efforts that will continue into 2008. France's tax burden remains one of the highest in Europe

The Executive Board of the IMF¹ considered that the main challenges facing the French authorities are the need to increase flexibility in labor markets, to eliminate rigid structures that constrain supply and lessen export performance and to reform the goods and service market, to boost output and consumer welfare. Exports have been a significant drag on growth, while domestic demand has remained robust. Inflation remains one of the lowest in the euro area.

Some Economic Challenges Facing France

Low employment offsets a high production level (output per hour worked), leaving a wide gap vis-à-vis the GDP per capita of the best performing countries. Productivity growth itself has been weak.²

The Cost of Labor

Compared with other countries in the OECD, the cost of labor in France is relatively high. This may have had the effect of reducing the demand for labor, thus leading to higher unemployment, though the extent to which unemployment can be attributed to high wage policies remains open to debate. Moreover, reducing wages will reduce domestic demand, thus dampening economic growth, so the balance remains delicate.

Increase labour force participation of older people

Despite pension reforms, only 56% of those aged 55-59 and 17% of those aged 60-64 are working. A penalty for dismissing workers over 50, which acts as a disincentive to their recruitment, should be abolished, the job-search exemption for older workers receiving unemployment benefits should be removed and incentives for continuing work should be increased.

Procedures for Employment are Complex

Procedures to dismiss permanent workers are more complex than those associated with dismissing temporary workers. Legal justifications are required to dismiss permanent workers and firms are obligated to help find such workers new jobs. Such obligations discourage firms from hiring workers on permanent contracts, causing detrimental effects to the job prospects of specific groups, especially youth. This situation has created a segmented labor market which may become less efficient in the long-run. However, the government of France has attempted to combat this problem by negotiating a number of modifications to employment protection legislation, for example to loosen firing procedures. Many in France feel that there are great advantages in the regulatory model. Those that are employed enjoy a much greater degree of protection where job security, working hours and health and safety are concerned, together with higher real wages, compared to their Anglo-American counterparts. Moreover, it is questionable as to how far companies' savings in efficiency made from a more flexible labor market would be passed on to the wider population, both in terms of the consumer and the employee.

Barriers to Competition

¹ International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2008/pn0872.htm> 06/13/2008

² "Economic Reform: Going for Growth." OECD. 2008

In a number of sectors, mainly retail distribution and some network industries, competition is restricted by regulations that reduce productivity growth and employment. This could be seen as acting as a disincentive for new firms looking to enter such markets and may thus ultimately hinder economic growth. The government took action and further modified price regulation in retail distribution in early 2008: although individual distributors cannot freely negotiate prices with suppliers, their legal margin for selling below cost has been widened.

Improve the efficiency of tertiary education

Per-student funding for tertiary education, especially in the non-selective institutions which take the majority of students, is relatively low. To increase funding for education tuition fees in public higher education institutions could be raised simultaneously with the introduction of an improved system of means-tested grants and student loans.