

What is a weaker euro likely to mean for the French economy?

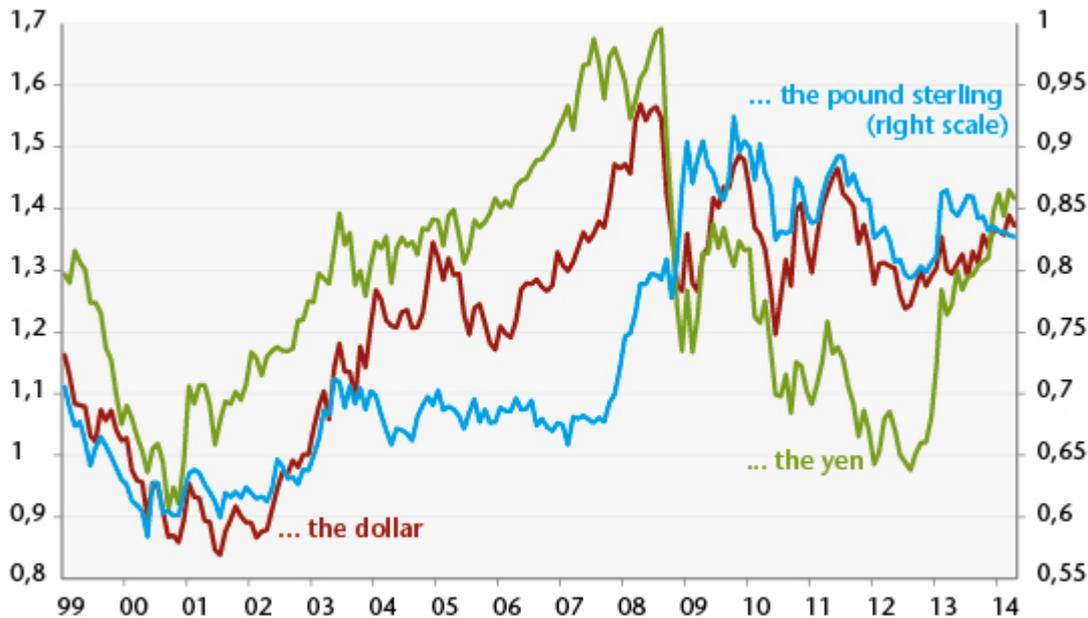
By [Bruno Ducoudré](#) and [Eric Heyer](#)

Faced with the rising risk of deflation in the euro zone, which has been reinforced since mid-2012 by the continued appreciation of the euro against other currencies, the heads of the European Central Bank have begun to change their tone in their communications with the financial markets: [they are now evoking the possibility of conducting a new round of quantitative easing](#). These measures are likely to lower the exchange rate of the euro. This would provide valuable support for the euro zone economies by shoring up their price competitiveness vis-à-vis competitors outside the zone, in a context where fiscal consolidation policies will continue to dampen [the growth expected in the zone in 2014 and 2015](#). What are the likely consequences for the French economy from reducing the euro's value against other currencies? We briefly review past episodes of exchange rate changes, and then present the impact expected from a 10% depreciation of the euro against other currencies using the *emod.fr* model. These effects are more moderate than those projected by the government.

Quantitative easing measures have been used extensively by the US Federal Reserve, the Bank of England and the Bank of Japan. Since mid-2012, the balance sheets of these three banks has continually increased, by respectively 6.5 percentage points of GDP, 1.3 GDP points and 15.3 GDP points. [During this same period, the ECB balance has on the contrary declined by 8.4 GDP points](#). This difference in strategy has led to a continued rise in the strength of the euro: now at 1.38 dollars, the euro has seen its value against the dollar increase by 12%

since June 2012. During the same period, the single currency has appreciated 49% against the yen and about 3% against the pound sterling (Figure 1).

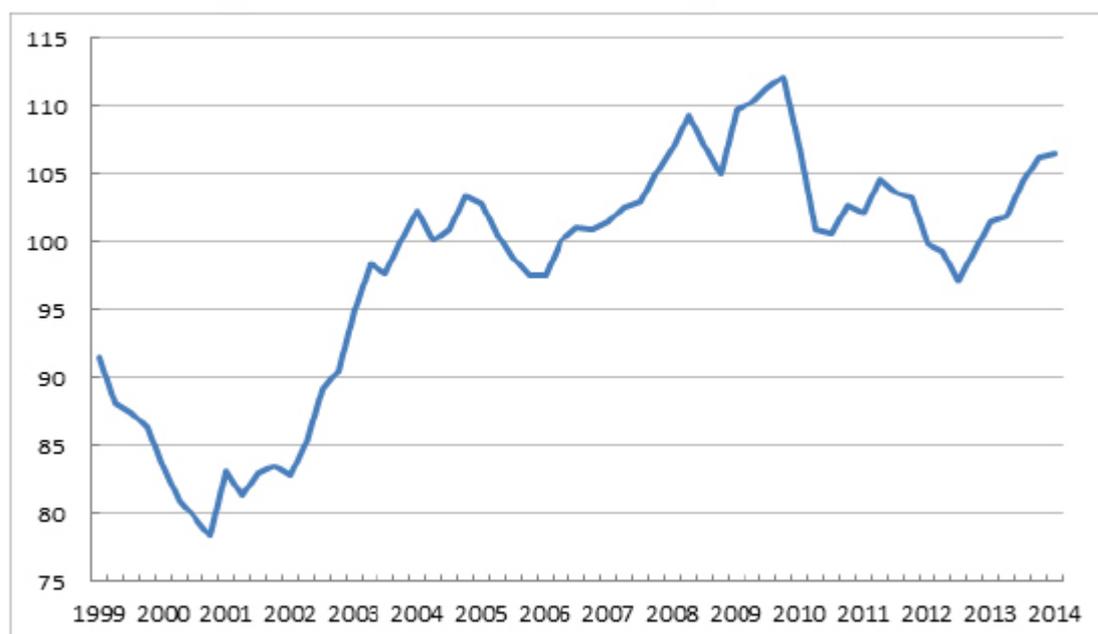
Figure 1. Exchange rate of the euro against...



Source : Datastream.

The nominal effective exchange rate of the euro, which weights the different exchange rates depending on the structure of trade in the euro zone, has thus appreciated by 9.5% since the third quarter of 2012 (Figure 2). This appreciation, combined with austerity policies and the competitive disinflation carried out within the euro zone, has held down GDP growth in the zone, which was negative in 2012 and 2013, as well as inflation. The absence of inflationary pressures and the past appreciation of the euro have now given the ECB leeway to try to influence the course of the euro against other currencies.

Figure 2. Nominal effective exchange rate of the euro



Source : OECD.

What would be the impact of a devaluation of the euro against all currencies?

The depreciation of the euro would have a dual effect:

- **An income effect:** a weak euro would increase the prices of imports. This would result in higher energy costs, a rise in companies' prices of production and a loss of household purchasing power;
- **A substitution effect:** a weak euro would decrease the prices of exports and increase their volume. Depreciation would also decrease the competitiveness of rival manufacturers, causing a decline in imports in favour of domestic production.

These opposite effects would apply only to trade outside the euro zone. Trade with our European partners would not be directly impacted, as the prices of imports and exports to and from this area would remain unchanged. On the other hand, intra euro zone trade would be impacted by a weaker euro. But this involves the channel of addressed demand.

Table 1. Impact on the French economy of a 10% depreciation in the exchange rate of the euro against all currencies combined

(Difference with the reference scenario in %)	n	n+1	n+2	n+8
GDP	0,3	0,4	0,5	0,0
Total waged employment (1000s)	22	53	74	34
Household consumer prices	0,9	1,4	1,9	3,9
Public financing capacity (% of GDP)	0,0	0,2	0,3	0,2

Note: The euro's depreciation would be favourable to short-term activity due to an improvement in France's price competitiveness relative to countries outside the euro zone. The positive impact of the euro's depreciation on the activity of our euro zone partners and the negative impact on our partners outside the zone are taken into account.

Source : *emod.fr*

As is summarized in Table 1, a 10% depreciation of the euro against all currencies leads to a gain in price competitiveness for French exports vis-à-vis the rest of the world. Other countries in the euro zone would benefit from the same gain in competitiveness across all export markets. In this case, the impact on activity would amount to 0.3% in the first year, 0.5% after three years, and none after nine years. The increase in demand due to this improvement in the activity of our European partners would be broadly offset by a reduction in demand addressed to France from the rest of the world. As for the labour market, this depreciation would create 22,000 jobs in the first year and 74,000 jobs after 3 years. The public deficit would in turn improve by 0.3 GDP point within 3 years.

These results, while more moderate than those [published by the DG Treasury\[1\]](#), are nonetheless significant and are welcome in an economic situation like today's that is marked by sluggish growth and the risk of deflation. A depreciation of the single currency would also undercut the process of competitive deflation engaged in by countries in the euro zone.

[1] The publication of the DG Treasury argues that a 10% decrease in the effective exchange rate of the euro (against all currencies) would do the following: increase our GDP by

0.6 percentage point of GDP in the first year and 1.2 GDP points after three years; create 30,000 jobs in the first year and 150,000 jobs within three years; and reduce the government deficit by 0.2 GDP point in the first year and 0.6 GDP point after three years.

Social inequality in the face of death*

By [Gilles Le Garrec](#)

The problem of inequality in the face of death has become an important topic in French public discourse in recent times, in particular in autumn 2010 during debate about raising the minimum legal retirement age by two years, by gradually shifting it from age 60 to 62. The debate became focused around a politically divisive issue: should the retirement age remain unchanged for low-skilled workers on the grounds that they enter the labour market earlier and / or have more strenuous jobs and live shorter lives? Since the socialist government came to power in 2012, two exemptions have been introduced to allow less-skilled workers to continue to retire at 60. First was the introduction in summer 2012 of an exception for a “long career”, that is to say, for those who have contributed for a sufficiently long time. This September 2013 it has also been decided to set up a “hardship” account, starting in 2015, which will allow all employees who are exposed to working conditions that reduce their life expectancy to retire earlier. Nevertheless, the issue of inequality in the face of death – a taboo subject? – involves

much more than simply the retirement age; before that, there are also the issues of inequality in income, housing, access to employment, education, etc. What follows is a small panorama (statistical) on inequality in the face of death in France, its causes and the difficulty of developing a political solution due to the multidimensional factors involved.

Very old – but not very reliable – statistics

From the late 18th century [\[1\]](#), the development of censuses, which was associated with the rise of statistics, has made it possible to build up data that show the existence of a close link between inequality in the face of death and social inequality more generally. These early studies show that inequality in the face of death is explained primarily by income (Cambois, 1999). However, the import of these studies is limited due to the low reliability of their data and methodology. It is no easy matter to develop reliable indicators on this issue. Once we have the socio-professional categories (SPC) for death statistics and censuses, we can easily calculate mortality rates by comparing the number of deaths for the year (or years) classified by SPC with the size of the population classified in the same way. For example, in France for the period 1907-1908 Huber catalogued on an annual basis the death of 129 business executives aged 25 to 64 out of a total of 10,000, compared with 218 workers. This simple and intuitive method nevertheless gives a distorted view of social inequality in the face of death, due to incompatibilities between population data and mortality data (Desplanques, 1993). The difficulty of obtaining an accurate representation of inequalities in the face of death becomes especially difficult with this method, as there is a growing trend for career paths to fragment, with alternating periods of activity and unemployment.

The longitudinal method and its lessons

To overcome this problem, France's INSEE has developed a longitudinal method that consists of regularly monitoring a group of individuals who have particular characteristics at a given point in time, and ultimately the date of their death. The permanent population sample thus obtained, which was initialized during the census of 1968, currently includes approximately 900,000 individual histories, ensuring a good representation of the French population ([Couet, 2006, for a description of this sample and how it was constructed](#)). This large-scale socio-demographic panel makes it possible to draw a relatively accurate picture of social inequality in the face of death in France. This shows that individual lifetime varies greatly from one socio-professional category to another, especially among men (Table 1). Male executives have a life expectancy (at age 35) that is four to five years above the average for men. Excluding inactive people [2], the most disadvantaged groups are manual workers, followed by white-collar employees, with life expectancies that are, respectively, two years and one year less than the average. Another interesting point is that the overall gain of four years in life expectancy over the period did not reduce inequalities in the face of death. The relatively stable result is that at age 35 the life expectancy of manual workers is six to seven years less (and white-collar employees five to six years less) than that of corporate executives and managers. In addition, at age 35 on average the latter experience 34 years in good health [3], 73% of their life expectancy, against 24 years for manual workers, or 60% of their life expectancy ([Cambois et al., 2008](#)). While among women, the difference in life expectancy between managerial personnel and manual workers was "only" three years at the time of the last census, the differences are comparable with those for men in terms of life expectancy in good health. The conclusion is clear: numerous social inequalities persist in the face of death, including in terms of health. This conclusion holds for every country in Western Europe that has conducted this kind of study, although it should be noted that

the level of inequality in France appears to be the greatest by far (Kunst *et al.*, 2000). The ratio of “manual to non-manual mortality” in France was 1.71 for men age 45-59, whereas it is on the order of 1.35 in most other countries (Finland, second behind France in terms of inequality, is 1.53). Leaving aside issues of data comparability, alcohol consumption is, according to Kunst *et al.* (2000), the most important factor behind the specific situation of France. Indeed, the greatest inequalities in mortality in France are due to major differences in mortality due to liver cirrhosis and to cancer of the aerodigestive tract, both of which are associated with excessive alcohol consumption.

**Table. Life expectancy of men and women at age 35,
By period and socio-professional category**

In years

Socio-professional category	Life expectancy at age 35			Difference with the average			Life expectancy at age 35			Difference with the average		
	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008
	Men						Women					
Executives/managers	43,7	45,8	47,2	+4,5	+5	+4,4	49,7	49,8	51,7	+3,3	+1,8	+2,3
Intermediary profession	41,6	43,0	45,1	+2,4	+2,2	+2,3	48,1	49,5	51,2	+1,7	+1,5	+1,8
White collar employee	38,6	40,1	42,3	-0,6	-0,7	-0,5	47,4	48,7	49,9	+1	+0,7	+0,5
Manual worker	37,3	38,8	40,9	-1,9	-2	-1,9	46,3	47,2	48,7	-0,1	-0,8	-0,7
Inactive, not retired	27,5	28,4	30,4	-12,7	-12,4	-12,4	45,4	47,1	47,0	-1,0	-0,9	-2,4
Total	39,2	40,8	42,8	-	-	-	46,4	48,0	49,4	-	-	-

Source : Blanpain (2011), based on data from the permanent demographic sample, INSEE.

The causes

Several factors have been identified to explain the difference in mortality between socio-professional categories.

First, one can easily imagine that the working conditions of manual workers are usually physically demanding and debilitating. Moreover, during the 1980s we have seen a transformation in the structure of unskilled jobs. Over this period, the increasing need for businesses to be highly responsive has led to a more widespread use of flexible and precarious forms of employment (short-term contracts; atypical schedules; development of part-time, temporary work, etc.). But the increasingly precarious nature of work, which affects low-skilled jobs above all, is contributing to a serious

deterioration in working conditions. Global economic conditions may therefore play a part in explaining disparities in mortality. In any event, working conditions are not improving as quickly for manual workers as for managers. This is certainly the view that was advocated in establishing the "hardship" account that is to be implemented from 2015. So any private sector employee who is exposed to working conditions that reduce life expectancy will accumulate points that will, among other things, enable them to retire early, and potentially before the statutory threshold of 62.

It should also be noted that the most disadvantaged groups cumulate a number of risky behaviours, such as smoking, excessive alcohol consumption, poor diet and a sedentary lifestyle. In contrast, managers and the intermediate professions smoke and drink in moderation. As was already pointed out as a factor in France's poor results in Western Europe (Kunst *et al.*, 2000), these differences in behaviour show up clearly in the mortality rates associated with certain diseases. The risk of death due to a tumour in the aero-digestive tract (larynx, pharynx, lungs, oesophagus, liver) is especially high among manual workers, and is at the heart of a significant portion of the observed differences in mortality. For example, during the 1980s, among men aged 45 to 54, the mortality rate associated with a tumour of the pharynx was 11 times higher for skilled workers and labourers than for teachers and the intellectual professions (Desplanques, 1993).

A lack of access to healthcare for the most disadvantaged groups is another explanation offered for the disparities in mortality, first of all because of costs. [Mormiche \(1995\)](#) thus shows that the consumption of medical products (their quantity but also their nature) is highly dependent on income. Disparities in access to healthcare are particularly marked for care that is expensive or poorly covered (especially dental). [Herpin \(1992\)](#) points out that a reduction in income due to a loss of employment leads to an almost proportional

reduction in consumer spending, including on health. The risk of death rises by 60% for unemployed men in the years following a job loss ([Mesrine, 1999](#)). A man in poor health is of course more likely to be unemployed, but unemployment, due to the development of financial stress and disorientation and to personal factors, may affect health by creating a physical and emotional distance with respect to obtaining care.

Finally, the social environment and the local context play an important role in the persistence of social inequalities in the face of death, as can be seen in Table 1. The idea that the behaviour of individuals is influenced by their place of residence has been developed in an extensive literature in the fields of both sociology and psychology ([Roberts and DelVecchio, 2000](#)). Mechanisms through which children identify with the behaviour of the adults surrounding them highlight a collective type of socialization. However, socio-spatial polarization, which is characterized by the creation of urban areas that cumulate all sorts of social disability, has been steadily increasing since the 1980s in France ([Fitoussi et al., 2004](#)). In these neighbourhoods, the high level of concentration of groups characterized by risky behaviours may, through this process of identification, root these behaviours in the core of people's lifestyle. This phenomenon may explain why prevention policies among high-risk populations are ineffective. The financial difficulties that are giving rise to the under-utilization of medical facilities can also wind up leading to social distancing from health issues. The weak participation of women from disadvantaged strata in public programmes to screen for breast cancer is illustrative of this. Moreover, even in countries where there is effective universal health coverage, the differences in the consumption of healthcare persist.

What should we conclude?

Social inequality in the face of death is a sensitive issue. At the heart of this problem lie a multitude of more or less

overlapping causes. To be effective, policies to combat this type of inequality must grasp them as components of an ensemble, with interactions throughout their economic, social and spatial dimensions. While awaiting the reduction of these larger inequalities, it would seem worthwhile to establish just social policies that take account of this inequality in the face of death. In this regard, setting up a “hardship” account that enables any employee who is exposed to working conditions that reduce their life expectancy to retire earlier is definitely a step in the right direction. Nevertheless, the establishment of criteria is not as easy as it seems. Indeed, it is clear that a good share of social inequality in the face of death can be explained by risky behaviour. Some might reason that such behaviours are an expression of individual freedom and that it is not up to society to compensate for the consequences. Or, it could be argued, to the contrary, that these behaviours are a response to psychosocial stress caused by, among other things, difficult working conditions. From this perspective, the compensation represented by an earlier retirement would seem more equitable. But it is not certain that we can really distinguish these two cases. You can bet that the future definition of the criteria for accumulating points to meet the “hardship” criteria giving entitlement to early retirement will be the subject of lengthy negotiations....

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* I would like to thank Sandrine Levasseur, Hélène Périvier and Evens Salies for their insightful comments.

[1] Pioneering works that could be cited include those by [Moheau \(1778\)](#) and [Villermé \(1840\)](#).

[2] A category that groups individuals who have never worked. For women, this means mainly "housewives".

[3] Good health is defined by the absence of limitations on everyday activities and the absence of incapacity.

Estonia: a new model for the euro zone?

By [Sandrine Levasseur](#)

In the wake of the Swedish and German models, should Europe now adopt the Estonian model? Despite Estonia's *success story*,

the answer is no. Here's why.

Estonia has been a source of continuous surprise in recent years. First, it wrong-footed those who, in the autumn of 2008, thought the country had no alternative but to abandon its [currency board](#) and massively devalue its currency. However, Estonia chose a different path, as it strengthened its monetary anchor by adopting the euro on 1st January 2011. The winter of 2008 saw another surprise when the country decided on a significant reduction in civil servant salaries in the hope of creating a "demonstration effect" for the private sector, particularly for businesses exposed to international competition. The government's objective was clearly to help the economy to become more competitive. This strategy, called an "internal devaluation", worked in the sense that the total wage bill actually declined, with wage losses that could reach up to 10% to 15% at the peak of the crisis. Surprisingly, this decline in wages, which affected every sector of the economy, was relatively well accepted by the population. It was met by only a few strikes and demonstrations, even when the government decided to introduce more flexibility into the labour market (easier redundancy procedures, lifting administrative authorization for the reduction of working time, etc.). Finally, [the ultimate surprise](#) was undoubtedly GDP growth of around 8% in 2011, a fall in the unemployment rate to less than 11%, and a trade deficit of only 2% of GDP (versus 16% before the crisis). Estonia's public debt was contained at 15.5% of GDP, and for 2011 the country even recorded a budget surplus of 0.3% of GDP! This is the stuff of dreams for the other euro zone countries!

Despite all this, the strategy adopted by Estonia cannot be turned into a model for the other euro zone countries. In fact, Estonia's success story is due to a convergence of favourable factors, with two conditions being critical:

1. A strategy of lowering wages makes it possible to become more competitive relative to a country's main partners only if it is conducted in isolation. If in Europe, particularly in the euro zone, every country were to lower its wage bill, the result would simply be sluggish domestic demand, with no positive impact on the countries' exports. To date, among the members of the euro zone, only Estonia and Ireland (two "small" countries) have played the card of lowering wages in the context of the crisis. We can scarcely imagine the impact on the euro zone if Germany or France ("large" countries) had drastically lowered wages at the height of the crisis. In addition to weak demand, this would have inevitably led to a trade war between the countries, which ultimately would not have benefited anyone.

2. A strategy of lowering wages is good for the country that implements it only so long as its major trading partners are on a trajectory of growth. In this regard, the upturn in Sweden and Finland partly explains Estonia's good export performance. In 2011, GDP increased by 4.1% in Sweden and 3% in Finland (against "only" 1.6% in the euro zone). We might expect that exports from Estonia would have been less dynamic (+33% in 2011!) if the growth rate of its two major trading partners had been lower, since between them Finland and Sweden represent 33% of Estonia's export markets.

But does this mean that a slowdown in activity in [Sweden](#) and [Finland](#) – as can be anticipated for 2012 or 2013 – would negate the efforts made by Estonia's workers in terms of pay concessions? In other words, with respect to the long-term prospects of Estonia's economy, has the reduction in wages been in vain? The answer is no, it hasn't. In Estonia (as well as in the other Baltic states), the decline in wages was in fact necessary to offset the strong wage hikes granted before the crisis, which were largely disconnected from any gains in productivity. The loss of competitiveness of the Estonian economy that resulted could be seen in the winter of 2007,

when GDP decelerated significantly and the trade deficit reached an abysmal level. By the spring of 2008, it had become clear that the growth model of Estonia (and of the other Baltic states), based on the equation “consumption + credit + greatly expanded construction”, was [unsustainable](#) and that “adjustments” were inevitable in order to reorient the economy towards exports.

A detailed analysis of the adjustments made in the Estonian labour market during the economic crisis (see [here](#)) helps to measure the impact on business competitiveness of the pay cuts, the reduction in working time and the massive layoffs. Overall, the [real effective exchange rate](#) (measured by the unit labour costs of Estonia relative to those of its trading partners) has depreciated by some 23% since 2009. The loss of purchasing power suffered by Estonia’s workers is estimated at 9% (in real terms) since 2009, or even at 20% of the gains in purchasing power obtained in 2004-2008. Among the institutional and societal factors that led Estonians to accept the wage cuts and a more flexible labour market, the absence of strong union representation seems to be an important explanatory factor. For example, in Estonia, fewer than 10% of employees are covered by collective bargaining agreements (against 67% in France). The other key explanatory factor seems to have been the desire to join the euro zone. In these difficult times for the single currency, if this willingness seems surprising, it is nevertheless still [relevant for a certain number of EU countries](#) that have not yet adopted the euro.