

SUMMARIES IN ENGLISH

La Revue de l'OFCE est référencée dans ECONLIT

Tensions under control

Forecasts for the world economy in 2004 and 2005

Département analyse et prévision

Output growth is robust in almost all areas of the world, with world GDP expected to rise by 5% in 2004 and 4% in 2005. Growth will remain buoyant in emerging Asian economies although it is expected to slightly decelerate under the effects of the recent strong increases of oil and industrial raw materials prices. The effect of oil prices on industrial economies will be limited, with US output growth to be cut by 0.3% this year. US monetary conditions will remain accommodative despite rising interest rates, while the fiscal stance will become slightly restrictive in 2005. US GDP will rise by 3.5%, the imbalances on the US budget and current accounts remaining unchanged. Euro area GDP growth will reach 2.4 %, with monetary policy staying accommodative at the area level and the fiscal stance being almost neutral.

JEL code: F01.

Low gear recovery

Forecasts for the French economy in 2004 and 2005

Département analyse et prévision

Following near zero growth in 2003, recovery has taken up in 2004 with an expected GDP increase of 2.5 %. Consumption constitutes the main engine for growth in a weak environment of low purchasing power - caused by a stagnant job market and accelerating inflation - where households, helped by low interest rates, resorted to borrowing and spending their previously accumulated savings. For growth to last over 2005, rates must therefore remain low, and investment and job creation need to finally catch up, thus fostering consumption. The present corporate financial health should allow 2.6 % GDP growth in 2005, which will in

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turn reduce unemployment and boost wages. Significant uncertainties remain though, both internationally (major oil crisis, global slowdown...) and, albeit to a lesser extent, internally (accelerated deficit-targeting fiscal crunch, already forecast to contribute – 0.4 % to growth; or house price bubble bust).

JEL code: F01.

Fiscal policy: at a turning point

Département analyse et prévision

In 2004 the positive growth differential between the United States and the euro zone is maintained through a more accommodating fiscal policy. Benefiting from a rate of growth above potential, the American fiscal authorities can afford carrying on a loose fiscal stance with a limited deterioration of the public deficit. In the euro zone, the weak increase in economic growth is accompanied by a slightly restrictive fiscal policy, which will not prevent the euro zone public deficit from breaching the 3% limit of the Stability and Growth Pact (SGP). An improvement in euro zone public finances will occur from 2005, sustained by faster growth, while the fiscal stance will remain slightly negative. An abrupt tightening of the fiscal stance carried out by the American authorities will reduce the growth differential with the euro zone in 2005.

JEL codes: F01, E6.

Monetary policy: the next step

Département analyse et prévision

The tightening cycle has at last begun in the United States. Bond markets have joined this movement. The next step for central banks is to handle the huge rise of oil prices without derailing the still fragile recovery. Choosing to support growth rather than unnecessarily combat the temporary pick up of inflation should lead the Federal Reserve to a 125 bp increase of the federal funds rate (to 3%). The ECB should tighten its rate only once, by 25 bp. Counting on a softening of the housing bubble, the Bank of England should interrupt its tightening cycle after two additional moves. No move is expected from the Bank of Japan because the Japanese economy has not yet ended deflation.

JEL codes: F01, E4, E5.

House prices: even higher?

Département analyse et prévision

Since 1997, house prices haven't risen strongly (+135% in the United Kingdom, +120% in Spain, +60% in France and in the United States). Demand has been sustained by a dynamic household income and easy financing (low interest rates and deregulation of the credit market). As of October 2004, the indebtedness of households is very high, except in France. Moreover, house prices seem overvalued by 10 to 20% in Spain and in the United Kingdom, less so in France, whereas they are in line with fundamentals in the United States.

We expect a slowdown of demand and an adjustment of supply, that has already begun in some countries. So prices would adjust progressively and then less boost consumption, but it wouldn't stop the recovery.

JEL code: F01.

Wealthy companies reluctant to invest

Département analyse et prévision

US corporate profit margins have recovered since 2003. It seems they reached a peak in the third quarter of 2004. In Europe, the upturn has been somewhat delayed, but profitability is likely to gather momentum over the next quarters.

Corporate investment is still much tentative in Europe, whereas it bounced back in 2003 in the USA. However, in both regions, profit margins have been used to cut indebtedness, distribute dividends or buy shares back, rather than invest.

In consequence, corporate balance sheets have strongly improved, thereby reducing risk premiums, and encouraging loans at low costs. Business' wait-and-see stance has benefited bond markets rather than share markets to date.

JEL codes: F01, G1.

An oil-sick global economy?

Département analyse et prévision

Since early 2004, oil prices have increased by 50% as a combined result of a demand shock, tensions on production capacities and supply disruptions. The surplus of wealth from oil importing to exporting countries

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nears 100 bn dollars (0.3% of OECD GDP) in the whole year. Households' real income should decrease by 0.3 point in the euro zone and by 0.5 point in the US. According to our oil price forecasts (33 dollars a barrel by the end of 2005), GDP growth should be reduced by 0.4 point in 2004-2005.

Should prices remain at 50 dollars throughout 2005, growth in industrial countries will be further impaired (0.6 point with a monetary policy response), but developing economies will suffer more. Oil producing countries should increase their imports and the reintroduction of petro dollars on financial markets should hold international interest rates down.

JEL code: F01.

Recent developments in health economics

Sandrine Chambaretaud and Laurence Hartmann

Since Arrow's seminal paper in 1963, health economics has been highly investigated. This paper gives a brief overview of recent developments in health economics following three main directions. First, we analyze health care demand and the link between this demand, needs and health status. Second, a lot have been done on health insurance markets and the problems arising with information asymmetries, mainly moral hazard and adverse selection. Finally, health care system regulation analysis, including patients' responsabilisation, producers' payments and incentives, and managed care organization, has been extensively developed from a theoretical and an empirical point of view.

JEL codes: I11, I18, D82.

Public health insurance : short and long term treatments

Gérard Cornilleau, Cyril Hagneré and Bruno Ventelou

Health spending as a share of GDP stands in France at the average level of industrial economies and much below than in the US. Recently, spending has rapidly accelerated leading to a rise in public health insurance accounts deficits. This paper analyses the factors behind these changes: ageing populations, rising incomes boosting the demand for high quality health care, medical progress. At the macro level the future increases in social contributions that will be needed to balance health

accounts should be planned. But reforms are also needed at the micro level to improve the efficiency of the health care system. The reform decided in 2004 introduces some elements of managed care (computerised medical records; referent doctor in charge of care coordination) but does not alter the core structure of a system that performs well for the majority of the French.

JEL code: I18.

Changing the mix between public and private health insurance, a microsimulation study

Christine Delvallée and Bruno Ventelou

The article intends to evaluate the consequences of changing the mix between private and public health insurance in France, knowing that this evolution is induced de facto by the tendency of the French Social Security to opt for de-reimbursement policies. The analysis is built on a microeconomic representative database which authorises at the same time: macroeconomic assessment - how much to gain for public finances? - and microeconomic results: who is affected, who has been to be compensated and how much? The study shows that this strategy of reform should be complemented by, at least, two measures: compensation policies for elderly or unhealthy people without private health insurance; incitements for complementary insurance companies to take in charge the regulation of health services.

JEL codes: I18, I19, C81, G220.

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EUROFRAME Conference on Fiscal Policies in the EU

Bruno Ducoudré, Catherine Mathieu and Henri Sterdyniak

This paper provides an outline of the first EUROFRAME conference on fiscal policies in the European Union held in Paris, 4 June 2004. Seven topics were addressed: 1) Assessment of European fiscal policies since 1990. 2) Fiscal policy effectiveness: any evidence of anti-Keynesian effects? 3) Fiscal policy interdependences in Europe: any gains to be expected from policy coordination? 4) Does EU need fiscal coordination or competition? 5) Impact of the European enlargement on the policy framework 6) What fiscal framework should be preferred: explicit rules, independent experts committees or discretionary policies? 7) Reforming the Stability and Growth Pact: better rules, debt surveillance, more powers to the Commission, more coordination by the Eurogroup, more national autonomy? Finally, a roundtable discussed the strategy needed in Europe: more active macroeconomic policies or structural reforms?

JEL code: E60.

Achévé d'imprimer par l'imprimerie Bialec, Nancy, France.

Dépôt légal : 4^e trimestre 2004.

Directeur de la Publication : Jean-Paul FITOUSSI

Imprimé en France