France’s Stability Programme: the missing line

By Eric Heyer

On April 17, the government presented its Stability Programme for 2013-2017 for the French economy. For the next two years (2013-2014), the government has relied on the projections of the European Commission in forecasting growth of 0.1% in 2013 and 1.2% in 2014. Our purpose here is not to revisit these forecasts, though they do seem overly optimistic, but rather to discuss the analysis and outlook for France for the period 2015-2017 that is explicit and sometimes implicit in this document.

According to the document provided to Brussels, the government is committed to maintaining its fiscal consolidation strategy throughout the five-year period. The structural effort will lessen over the years, representing only 0.2 percent of GDP in 2017, *i.e.* nine times less than the effort required of citizens and business in 2013. Under this assumption, the government expects a return to 2% annual growth during the period 2015-2017. The deficit will continue to shrink, reaching 0.7 percent of GDP in 2017. This effort would even lead for the first time in over 30 years to a structural fiscal surplus in 2016, rising to 0.5 percent of GDP in 2017. For its part, public debt would peak in 2014 (at 94.3 GDP points) then begin to decline from 2015 to a level of 88.2 GDP points by the end of the five-year period, which is lower than the level when the Socialists came to power (Table 1). It should be noted, however, that in this official document nothing is said about the changes in unemployment that the government expects will result from its policies by the end of the five-year period. This is the reason for our introduction of a missing line in Table 1.

Based on assumptions similar to those of the government for fiscal policy as well as for the potential for growth, and starting from the same short-term situation, we have attempted to verify the analysis provided by the government and to supplement it by integrating the changes in unemployment related to its Programme.

Table 2 summarizes this work: it indicates that growth would accelerate gradually over the period 2015 to 2017, to over 2% in 2017. Growth over the period would average 1.8%, a rate close to but slightly lower than the 2% expected in the Stability Programme [1].

At end 2017, the deficit would be close to the government target, without however reaching it (1 GDP point instead of 0.7 GDP point). The public debt would also fall to a level comparable to that in 2012.

In this scenario, which is similar to that of the government, the trend in unemployment will not reverse until 2016; by the end of the five-year period, the unemployment rate is expected to be 10.4% of the working population, *i.e.* a level higher than that prevailing at the time François Hollande assumed office.

The scenario proposed by the government in the Stability Programme seems optimistic in the short term and misses the goal in the medium term. On this last point, it seems surprising to want to stick to a policy of austerity after the economy has seen the public finances balanced in structural terms and while the unemployment rate is rising above its historical peak.

A more balanced approach could be considered: assume that from 2014 the euro zone adopts a “reasonable” austerity plan aimed at both restoring the structural balance of the public finances and reducing the unemployment rate. This alternative strategy would involve rolling back the planned fiscal stimulus in all the euro zone countries and limiting it to 0.5 GDP point [2]. This would constitute a fiscal effort that could be sustained over time and allow France, for example, to eliminate its structural deficit by 2017. Compared to the current plans, this would provide a greater margin for maneuver that would spread the burden of the adjustment more fairly.

Table 3 summarizes the results of simulating this new strategy. Less austerity leads to more growth in all the countries. However, our simulation also takes into account the impact of economic activity in one country on other countries via international trade. In 2017, in the “less austerity” scenario, the public finances would be in the same state as in the baseline scenario, with the additional growth offsetting the reduced effort. However, in this scenario, unemployment would decline in 2014, and by 2017 would have fallen to a level comparable to the 2012 level.

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[1] The difference in growth can arise either because of not taking into account the impact of foreign trade due to the austerity plans being implemented in other partner countries, or because the fiscal multiplier used in the Stability Programme is lower than in our simulation, where it is around 1. Indeed, we believe that in a period of low economic activity, adopting policies of fiscal restraint that are applied simultaneously in all the European countries and when there is little maneuvering room for monetary policy (real interest rates are close to zero) leads to pushing up the value of the multiplier. There is also now a broad consensus on the fact that the short-term multipliers are high,

especially given that full employment is still out of reach (see Heyer (2012) for a review of the literature on multipliers).

[2] This strategy has already been simulated in previous OFCE work, such as that by Heyer and Timbeau in May 2012, by Heyer, Plane and Timbeau in July 2012 and by the iAGS report in November 2012.