

EXECUTIVE SUMMARY

Anglais

Productivity and Competitiveness: Where Does France Stand in the Eurozone?

*The final version of the National Productivity Council report
is now available*

The first report of the *Conseil national de productivité* (CNP, National Productivity Council) provides a comprehensive overview of France's performance in terms of productivity and competitiveness. France, like other OECD countries, is experiencing a slowdown in productivity, but our poor performance in terms of skills is a specific French feature. Our competitiveness shows persistent signs of weakness, particularly in the non-price dimension, but the current account deficit stabilised after the crisis at a limited level. More generally, the issue of current account imbalances and therefore competitiveness must be discussed with our partners because it poses a risk to the integrity of the Eurozone.

France shares common causes for the productivity slowdown with other OECD countries, but we consider that the issue of skills is a specific factor in this slowdown in France. French competitiveness is still showing signs of weakness, particularly in non-price competitiveness, even though the current account deficit stabilised at a limited level after the crisis. More generally, the issue of competitiveness between Eurozone countries must be discussed with our partners because current account imbalances pose a risk to the integrity of the Eurozone.

The slowdown in productivity in France is mainly due to factors common to all developed countries

- The productive structure has shifted towards sectors with lower productivity gains, namely services compared to industry;
- The contribution of information and communication technologies (ICTs) to productivity growth has been weakening since the early 2000s;
- The decline in productivity has been accompanied by a greater dispersion of performance between companies. This could be a sign of misallocation of resources between companies.

Although productivity remains at a high level, it has slowed down in both France and the OECD since the late 1990s. There is no consensus either on the causes of this slowdown (persistent weakness in demand or slower technological progress) or on its persistence in the long term.

Specific characteristics may explain a more pronounced slowdown in productivity in France

- The National Productivity Council emphasises the issue of labour force skills. They are lower than the OECD average and the gap is not narrowing;
- French companies are lagging behind in the adoption and diffusion of information and communication technologies, which could be linked to the issue of skills;
- The gap in productivity gains between firms at the technological frontier and others is more pronounced in France in less skilled services not exposed to international competition;
- French innovation performance appears to be significantly lower than that of the main leading European countries in this field.

French competitiveness deteriorated in the early 2000s

Even if France's current account deficit is limited, it masks a large trade deficit partly offset by a primary income surplus. France's price competitiveness deteriorated vis-à-vis OECD countries between 2000 and 2010, but it is mainly "non-price" competitiveness that would explain France's trade performance differential compared to its Eurozone partners. Today, French competitiveness is still showing signs of weakness. However, the differences in production costs between France and European countries no longer explain the persistent deficit in the balance of goods and services. The combination of the primary income surplus and the trade deficit suggests that France remains competitive for innovation and design activities but has seen its competitiveness deteriorate as a location of production.

By definition, competitiveness is a subject that must be addressed in a coordinated way. This is all the more important in a monetary union where the standard adjustment of imbalances through the exchange rate is impossible and must then happen through relative wages and prices. Since the crisis, the fiscal effort of Eurozone countries without sufficient adjustment of wages and prices in surplus countries has led to a large surplus for the Eurozone while maintaining imbalances within the area. This asymmetric adjustment has been very costly both economically and socially.

These imbalances jeopardise the integrity of the Eurozone because they increase the vulnerability of countries with high external debt to the risk of redenomination. The Eurozone crisis has shown that this risk is real. In the absence of an exchange rate, the normal adjustment mechanism requires higher inflation in surplus countries, which amounts to a real appreciation of these countries. It requires lower inflation in other countries, which is made all the more complicated in a context of low inflation and constrained monetary policy. Economic policies must not counteract this adjustment. On the contrary, it is important that economic policies, particularly fiscal and wage policies, facilitate this.