June 2013

WORKING PAPER SERIES

2013-ECO-07

The launch of the euro brought about an impressive decrease of manufacturing production in France and huge losses of market shares

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The launch of the euro brought about an impressive decrease of manufacturing production in France and huge losses of market shares

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Abstract

Since the launch of the euro, French and German industrial productions have extremely diverged. French manufacturing production decreased while German manufacturing industry very strongly increased. The decrease or stagnation of exports of French products contrasts with the strong increase of German exports. France lost market shares on the foreign markets. This evolution is a direct consequence of the flaws of the monetary union as it has been organized. Also, due to sharp differences in the average degree of sophistication of French products, sharing a common currency with Germany inevitably had to lead to a loss of competitiveness of France on foreign markets.

Manufacturing industry production in France

The detailed data computed in this paper shed light on the magnitude of French disindustrialisation since the launch of the euro. Before EMU, the rates of growth of French and German industrial production were close to each other. For example, from January 1995 to December 1998, the cumulated rate of growth was 5.5% in France and 6.4% in Germany. However, since the launch of the euro, from January 1999 to April 2013, French industrial production decreased by 11.4% while German industrial production increased by 32.8% ! Even before the financial crisis, from January 1999 to December 2008, the divergence was obvious. French manufacturing production only increased by 3.4% while German manufacturing industry increased by 32.4%. The crisis was destructive for France, where manufacturing production decreased by 15.2% from January 2009 to April 2013, while Germany resisted with a decrease limited to 1.5%. The data on manufacturing industrial production also show that since the start of EMU, the UK has performed better than France, which is clearly close to the distressed economies of the periphery, like Spain and Italy.

Disaggregated data of **Cumulated growth of industrial production in %** show that the divergence between France and Germany occurred in nearly all sectors of industrial activity.

How the flaws in the design of the euro led to a major crisis

A lot of automatic correction mechanisms were lost by joining the euro without having set up the appropriate macroeconomic policy coordination framework. In a floating exchange rate system, excessive wage increases and spending lead to a depreciation of the domestic currency which pushes interest rates upward and increases the relative price of import goods while decreasing export prices in foreign currencies. As a result domestic demand decreases, private and public agents deleverage, current account imbalances are corrected. The equilibrium is automatically restored. Before joining the euro, southern European countries including France had used devaluation for decades as their main adjustment tool to preserve competitiveness.

During the early period of the monetary union, low interest rate and abundant money flowing from the northern part of the euro area allowed the countries of the periphery to excessively increase their private or public debts. The European monetary union quickly appeared as split into a core set of frugal export-oriented countries and a periphery of profligate importing countries. The core countries were saving and were putting wages under control, while the periphery allowed labour costs to rise and financed consumption by debt. Without the constraints of an efficient economic policy coordination, these imbalances were not corrected and could reach levels that led to the collapse of the banking sector of several countries of the periphery. Without any debt pooling mechanism inside the euro area, the deterioration of public finance in most countries of the periphery inevitably led to a sovereign bond crisis. In reaction the austerity policies, desperately trying to avoid a default, maintain southern countries in a deepening depression.

A single currency cannot function properly without being backed by some supranational political authority, fiscal federalism, some degree of debt pooling and the possibility to enforce discipline among the members to prevent them from conducting heterogeneous economic policies.

The shortcomings of the monetary union were known from the start

The responsibility of those who pushed ahead with the EMU project is enormous, because many of them were aware of the flaws of its design. This awareness is very well documented by Geert De Clercq (2011)[1]. They shared misgivings about the deficiencies of the system that was prepared, but instead of waiting for sufficient improvement before launching the euro, they preferred to go forward. They systematically fended off all the objections of many skeptical economists in Europe or elsewhere.

The reason is that many of them considered the early launch of the euro as an instrument to reach political objectives of deeper integration and stronger supranational authorities in the EU. They thought that once the euro would be in circulation European governments would be compelled to deepen political integration and set up some form of fiscal federalism, in order to allow the monetary union to function correctly. Still now the usual defense of the founders of EMU is to claim that the single currency would not have sparked the current crisis if the European leaders had quickly moved further towards fiscal federalism and political union.

The stability and growth pact of 1997 was a recognition of the shortcomings of the design of the monetary union. It is well known that in 2003 and 2005, after the deficits of France and Germany exceeded the limit, their governments decided to get away with the provisions of the stability and growth pact. This example undermined the discipline in the euro area since the other partners concluded that they could also ignore the stability and growth pact. But even if the stability and growth pact had been respected, it only addressed a small part of the problems, and would not have shielded the euro area from the current financial crisis. The pact was built on the wrong principle that it would be sufficient to monitor public debts and general government deficits to guarantee a harmonious functioning of the monetary union. In particular the stability pact completely ignored

[1] Geert De Clercq, 2011, Ten years after the euro's launch: How could it have gone so wrong? **, Reuters**

major issues like current account imbalances between the member countries, divergence in relative wages and other competitiveness indicators, excessive indebtedness of the private sector or local bubbles in asset prices. It is the reason why the rising imbalances in many countries of the periphery were completely overlooked by European leaders until their implosions.

Laying a single currency over a set of very heterogeneous countries which stick to their sovereignty and autonomy concerning their wage formation mechanisms and fiscal policy inevitably led to growing imbalances.

It must be pointed out that it was known by experts that the mechanics of the common currency would lead to a likely implicit funding of the southern countries by northern countries. Before joining the ECB in 1998, Otmar Issing himself had published a paper[2] where he warned that a single currency would require transfers of cash between the member countries and that it would cause political tensions. While the enormous TARGET related claim of the Bundesbank on the rest of the Eurosystem has recently raised major concerns in Germany, such a likely phenomenon had been very early identified, even before the launch of the Euro, for example by Garber[3]

The consequences for France

While France did not experience a real estate bubble and an excessive private sector indebtedness that could compare with those of other European southern countries, the competitiveness of the country and the profitability of its industry have dramatically deteriorated since the launch of the euro. As a result the trade deficit has continuously increased and the losses of productive capacity in the industry have been huge.

French structural reforms lag behind those conducted in Germany and are less ambitious. Since the launch of the euro, the growth of nominal wages has been higher in France than in Germany. As a result, with very close starting levels and rates of growth of productivity, unit labour costs increased less in Germany than in France. In the past this would have been corrected by a depreciation of the French currency. With the euro the cost competitiveness of French producers deteriorated.

From 1999 to 2012 nominal wages in the industry have risen by 34.5% in Germany and 53% in France. It is interesting to note that the level of French nominal wages was only 93% of German nominal wages in 1999. Therefore the level of nominal wages in France only exceeds the level of German nominal wages by 3% now. Of course, it would be insufficient to trigger big competitiveness problems if the qualitative structure of production was identical in France and Germany. But the average degree of sophistication of products is much lower in France than in Germany. French products rather compete with those of Spain, Italy, Eastern European countries or emerging

[2] Issing, O. (1996). *Europe: political union through common money?* (No. 98). London: Institute of Economic Affairs.

[3] Garber, P. M. (1999, December). The target mechanism: Will it propagate or stifle a stage III crisis?. In *Carnegie-Rochester Conference Series on Public Policy* (Vol. 51, pp. 195-220). North-Holland.

economies, where the levels of labour costs are much lower. Therefore France would really need lower levels of nominal wages and unit labour costs than in Germany.

Even if there are a few segments of high technology in the French industry, it is well known that the average degree of sophistication of the goods produced domestically is much lower in France than in Germany. The price elasticity of unsophisticated products is high. Unsophisticated products are sold on large international markets on which the French producers are price taker. Attempts to sell at higher prices than the competitors result in high market share losses. On the contrary the price elasticity of very sophisticated products is low, which gives German producers some market power. If the world price of unsophisticated product is given in dollars, the price denominated in euro that French producers receive depends on the exchange rate of the euro against the dollar. Therefore the French industry would need a weak euro while the German industry can accommodate a strong euro.

Data

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
total manufacturing industry	France	-6,5	5,5	-11,4	3,4	-15,2
	Germany	41,1	6,3	32,8	32,7	-1,5
	Spain	-10,8	11,7	-20,1	11,1	-28,7
	Italy	-18,8	-2,5	-16,7	1,5	-22,6
	UK			*-4,4*	*4,8*	*-8,9*
food industry	France	10,8	7,5	3,0	2,3	1,0
	Germany	31,1	7,3	22,1	20,6	-0,7
	Spain	20,8	13,1	6,9	14,3	-6,5
	Italy	19,8	3,0	16,3	15,6	-4,0
	UK			*1,3*	*0,4*	*0,3*
beverage industry	France	15,8	-0,8	16,8	8,6	2,9
	Germany	-10,8	7,3	-16,9	-11,4	-7,3
	Spain	25,4	9,5	14,5	24,3	-8,2
	Italy	22,7	0,2	22,5	15,0	3,4
	UK			*17,9*	*9,1*	*3,5*
tobacco based products	France	-56,2	-11,0	-50,7	-45,8	-17,4
	Germany	-71,0	6,4	-72,7	-59,6	-29,3
	Spain	-58,5	0,7	-58,8	-40,4	-29,9
	Italy	-97,7	-9,4	-97,4	-69,4	-92,1
	UK			*-36,0*	*-25,4*	*-13,4*
textile fabrication	France	-61,2	-3,9	-59,6	-44,1	-27,2
	Germany	-40,4	-10,8	-33,2	-16,7	-20,6
	Spain	-52,6	-3,1	-51,1	-35,3	-25,7
	Italy	-53,3	-15,5	-44,7	-23,6	-33,5
	UK			*-41,5*	*-30,6*	*-17,8*
wearing apparel	France	-94,5	-34,8	-91,6	-83,1	-50,3
	Germany	-79,8	-25,1	-73,0	-62,4	-28,8
	Spain	-72,5	-7,0	-70,4	-47,3	-47,4
	Italy	-14,1	2,0	-15,8	0,2	-16,4
	UK			*-40,6*	*-34,6*	*-9,8*

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
footwear	France	-88,0	-25,7	-83,9	-73,5	-41,1
	Germany	-49,6	-9,6	-44,2	-35,2	-13,1
	Spain	-56,3	-13,6	-49,4	-27,4	-29,1
	Italy	-72,2	-15,6	-67,1	-58,8	-25,5
	UK					
leather treatment	France	-62,9	-23,2	-51,7	-53,8	8,2
	Germany	-28,3	-23,7	-6,0	-16,4	11,0
	Spain	-59,1	-12,2	-53,4	-47,6	-15,6
	Italy	17,9	12,7	4,6	5,3	3,3
	UK					
paper and paper products	France	-17,2	1,3	-18,3	-0,7	-20,3
	Germany	18,7	-1,2	20,2	23,8	-5,5
	Spain	28,6	8,1	18,9	21,0	-6,2
	Italy	7,3	-0,1	7,4	17,8	-12,7
	UK			-12,5	0,0	-15,6
refined petroleum products	France	-18,4	14,7	-28,8	-1,5	-24,6
	Germany	-9,2	-3,7	-5,7	13,8	-19,6
	Spain	12,4	5,7	6,4	8,0	-1,3
	Italy	-20,7	11,2	-28,8	3,4	-29,6
	UK			-28,2	-21,8	-8,9
printing	France	-25,6	9,7	-32,2	-18,7	-21,9
	Germany	1,1	4,4	-3,2	5,4	-9,7
	Spain	1,6	-0,5	2,1	51,2	-39,2
	Italy	-22,4	13,1	-31,4	-3,8	-31,8
	UK					
chemicals and chemical products	France	18,2	9,0	8,5	8,2	1,7
	Germany	19,1	2,4	16,3	16,1	-10,3
	Spain	7,2	5,9	1,3	8,5	-8,1
	Italy	-20,7	-5,2	-16,3	9,2	-23,2
	UK			-11,4	13,1	-23,5

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
pharmaceutical industry	France	101,2	23,1	63,5	61,7	0,3
	Germany	57,5	-4,4	64,8	60,8	2,5
	Spain	124,4	17,6	90,9	43,0	26,1
	Italy	35,8	20,5	12,7	6,9	6,0
	UK			31,7	71,6	-13,9
rubber products	France	-27,7	12,0	-35,4	-5,3	-31,1
	Germany	29,5	20,7	7,3	20,4	-12,4
	Spain	5,6	18,8	-11,1	36,4	-34,1
	Italy	-30,0	15,2	-39,3	14,3	-43,7
	UK					
plastics products	France	-10,8	10,1	-19,0	-1,4	-18,8
	Germany	15,5	1,8	13,5	5,3	3,6
	Spain	-23,2	3,3	-25,7	19,7	-36,2
	Italy	-4,0	8,9	-11,9	24,1	-36,9
	UK					
glass and glass products	France	-10,8	10,1	-19,0	-1,4	-18,8
	Germany	15,5	1,8	13,5	5,3	3,6
	Spain	-23,2	3,3	-25,7	19,7	-36,2
	Italy	-4,0	8,9	-11,9	24,1	-36,9
	UK					
refractory products	France	-30,0	-25,5	-6,0	36,6	-35,1
	Germany	-1,0	-11,1	11,3	32,3	-20,3
	Spain	-8,8	-1,6	-7,3	19,8	-24,4
	Italy	-37,7	-17,6	-24,4	-12,9	-26,6
	UK					
clay building materials	France	-34,8	-7,0	-29,9	-2,0	-32,1
	Germany	-56,0	-23,6	-42,5	-28,0	-19,6
	Spain	-38,9	14,4	-46,6	5,5	-48,7
	Italy	-48,5	-4,0	-46,4	-13,1	-42,5
	UK					

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
other porcelain and ceramic products	France	-59,5	3,8	-61,0	-26,7	-34,3
	Germany	-28,9	-9,3	-21,6	3,0	-20,1
	Spain	-80,5	-2,0	-80,1	-9,2	-78,6
	Italy	-69,6	-14,3	-64,6	-31,1	-45,2
	UK					
cement, lime and plaster	France	-8,8	-1,9	-7,1	20,7	-26,8
	Germany	-18,7	-13,3	-6,3	-19,4	-11,7
	Spain	-55,0	21,3	-62,9	36,4	-73,1
	Italy	-25,9	8,1	-31,5	14,0	-41,3
	UK					
articles of concrete, cement and plaster	France	-0,8	4,0	-4,6	26,1	-28,9
	Germany	-24,3	-14,3	-11,7	-26,6	-3,5
	Spain	-76,2	15,7	-79,5	10,7	-81,2
	Italy	-42,2	11,5	-48,2	10,7	-53,3
	UK					
tubes, pipes, hollow profiles and related fittings, of steel	France	-19,0	-1,6	-17,7	67,5	-37,2
	Germany	-3,4	-25,0	28,8	84,6	-27,8
	Spain	-53,2	-2,8	-51,8	-21,1	-37,0
	Italy	-12,6	3,6	-15,7	-8,2	-21,4
	UK					
basic precious and other non-ferrous metals	France	-48,1	-5,6	-45,0	-23,4	-32,2
	Germany	4,0	6,9	-2,8	24,8	-23,6
	Spain	34,2	2,4	31,0	48,4	-11,9
	Italy	-40,2	-14,2	-30,2	-5,6	-28,9
	UK					
Manufacture of structural metal products	France	-19,3	-4,2	-15,8	8,5	-28,8
	Germany	12,1	-5,0	18,0	5,8	10,9
	Spain	-42,3	2,4	-43,7	43,5	-65,0
	Italy	-12,5	0,8	-13,2	12,0	-25,7
	UK					

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
Casting of metals	France	-27,8	0,7	-28,3	12,4	-34,7
	Germany	38,0	6,4	29,8	48,4	-12,0
	Spain	26,0	14,7	9,9	48,1	-25,8
	Italy	-20,6	-4,6	-16,8	11,4	-30,1
	UK					
tanks, reservoirs and containers of metal	France	-30,4	-1,2	-29,5	22,3	-41,9
	Germany	-29,4	-8,3	-23,0	-8,3	-14,6
	Spain	-26,8	21,3	-39,7	-23,7	-25,1
	Italy	-40,9	-13,0	-32,0	-20,6	-34,5
	UK					
steam generators, except central heating hot water boilers	France	-38,2	72,3	-64,1	4,6	-32,6
	Germany	-74,4	-28,6	-64,2	-39,5	-51,7
	Spain	-17,2	-39,3	36,3	3,0	30,8
	Italy	89,2	63,5	15,7	30,0	-25,0
	UK					
Forging, pressing, stamping and roll-forming of metal; powder metallurgy	France	-4,9	19,4	-20,3	29,2	-40,5
	Germany	128,2	24,7	83,0	76,2	-1,3
	Spain	-5,7	27,2	-25,9	9,0	-31,7
	Italy	20,7	-7,0	29,7	75,7	-23,2
	UK					
cutlery, tools and general hardware	France	-31,0	1,1	-31,8	-10,6	-22,9
	Germany	25,4	9,1	14,9	20,0	-7,4
	Spain	6,9	12,6	-5,0	85,1	-45,5
	Italy	-19,7	-8,2	-12,6	7,9	-18,6
	UK					
other fabricated metal products	France	-3,1	-2,3	-0,8	21,3	-20,7
	Germany	-8,5	-4,9	-3,8	8,2	-13,3
	Spain	-44,7	8,1	-48,9	-2,0	-44,6
	Italy	-36,3	4,8	-39,3	-0,5	-32,6
	UK					

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
communication equipment	France	-47,3	-0,5	-47,0	13,7	-57,7
	Germany	3,5	23,9	-16,5	91,8	-56,5
	Spain	-95,1	-41,9	-91,6	-61,3	-81,7
	Italy	-47,3	-3,0	-45,7	-29,9	-19,1
	UK					
consumer electronics	France	65,0	76,5	-6,5	-1,8	-1,6
	Germany	-5,1	-4,2	-0,9	39,8	-31,2
	Spain	-42,9	15,6	-50,6	17,7	-64,9
	Italy	-36,4	-29,9	-9,2	-14,2	9,2
	UK					
instruments and appliances for measuring, testing and navigation; watches and clocks	France	14,2	-4,2	19,2	10,5	9,9
	Germany	90,0	2,6	85,2	51,1	17,6
	Spain	-46,1	9,8	-50,9	1,6	-48,6
	Italy	14,1	-17,3	38,0	4,7	18,8
	UK					
electric motors, generators, transformers and electricity distribution and control apparatus	France	-16,4	-6,2	-10,8	-5,7	-5,3
	Germany	74,9	16,1	50,6	48,4	-3,5
	Spain	-27,2	53,7	-52,6	34,8	-60,5
	Italy	-33,4	-5,7	-29,4	-13,2	-23,7
	UK					
batteries and accumulators	France	-48,2	30,5	-60,3	8,8	-54,5
	Germany	41,0	-12,4	61,1	38,5	10,0
	Spain	21,8	55,5	-21,7	-15,4	-8,2
	Italy	14,8	5,5	8,8	-12,8	15,8
	UK					
wiring and wiring devices	France	-11,3	9,8	-19,2	-0,9	-24,4
	Germany	34,8	10,8	21,6	24,7	-5,5
	Spain	-21,8	32,8	-41,1	0,5	-40,4
	Italy	-26,3	-24,4	-2,6	16,6	-24,7
	UK					

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
electric equipment	France	-12,4	2,5	-14,5	0,4	-15,5
	Germany	44,6	9,1	32,5	33,9	-5,9
	Spain	-3,6	34,6	-28,4	17,6	-37,4
	Italy	-44,7	-8,7	-39,5	-14,1	-34,0
	UK			*-18,5*	*-3,4*	*-18,2*
electric lighting equipment	France	34,3	21,5	10,5	11,1	-4,0
	Germany	9,5	2,9	6,4	7,5	-7,4
	Spain	-37,1	14,0	-44,8	2,5	-49,0
	Italy	-36,1	14,2	-44,1	-33,8	-28,6
	UK					
domestic appliances	France	-20,3	-5,1	-16,0	2,5	-16,8
	Germany	-8,8	-5,6	-3,3	-8,2	-2,8
	Spain	-6,3	32,8	-29,5	17,2	-35,3
	Italy	-49,2	4,5	-51,4	-0,9	-52,7
	UK					
other electrical equipment	France	31,8	8,3	21,8	32,0	-9,2
	Germany	67,5	6,8	56,9	76,0	-8,1
	Spain	127,1	28,6	76,6	48,6	14,3
	Italy	-74,3	-37,1	-59,1	-37,0	-41,8
	UK					
general-purpose machinery	France	-9,0	-0,2	-8,9	28,8	-29,4
	Germany	70,7	4,4	63,5	62,3	-1,7
	Spain	-10,2	26,9	-29,2	16,4	-39,4
	Italy	2,2	4,7	-2,3	17,9	-21,7
	UK					
other general-purpose machinery	France	22,0	13,6	7,4	54,6	-29,0
	Germany	56,1	18,4	31,9	33,6	-2,2
	Spain	-0,7	28,5	-22,7	26,1	-38,6
	Italy	6,0	13,8	-6,8	18,8	-30,5
	UK					

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
agricultural and forestry machinery	France	34,7	8,3	24,4	25,4	-3,2
	Germany	107,7	12,4	84,8	61,6	18,4
	Spain	37,5	13,9	20,7	66,0	-23,0
	Italy	16,9	24,9	-6,5	22,1	-28,2
	UK					
Manufacture of other special-purpose machinery	France	-29,9	3,8	-32,5	-4,4	-32,3
	Germany	51,7	21,4	25,0	22,5	-1,5
	Spain	-6,9	9,8	-15,2	18,1	-25,6
	Italy	-16,0	-6,5	-10,1	-5,6	-14,9
	UK					
motor vehicles	France	-0,6	28,0	-22,3	17,2	-35,6
	Germany	107,0	26,9	63,2	45,2	16,2
	Spain	0,2	32,4	-24,3	15,9	-33,5
	Italy	-38,2	2,2	-39,5	-6,3	-38,1
	UK			-1,0	5,4	-4,6
bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers	France	26,0	40,7	-10,4	40,8	-38,1
	Germany	36,7	5,1	30,1	60,4	-24,0
	Spain	19,2	105,9	-42,1	21,1	-55,1
	Italy	-71,5	-21,7	-63,6	-18,8	-65,6
	UK					
parts and accessories for motor vehicles	France	20,1	33,6	-10,1	17,6	-24,9
	Germany	124,9	30,3	72,5	52,2	10,4
	Spain	7,9	27,8	-15,6	18,4	-28,5
	Italy	-17,5	14,3	-27,8	-0,1	-28,0
	UK					
other transport equipment	France	72,7	41,4	22,1	19,7	9,0
	Germany	46,3	-9,6	61,7	49,6	12,0
	Spain	-6,4	67,4	-44,1	-8,4	-38,1
	Italy	-24,3	7,6	-29,7	-5,8	-27,6
	UK			87,6	23,1	58,9

Cumulated growth of industrial production in %

		total period 1995-2013			euro period	
		total	before the euro	euro period	before crisis	during crisis
		january 1995 to april 2013	january 1995 to december 1998	january 1999 to april 2013	january 1999 to december 2007	january 2008 to april 2013
ships and boats	France	-7,0	3,5	-10,2	-10,6	-11,0
	Germany	-19,6	-9,5	-11,2	28,8	-19,6
	Spain	-50,5	57,8	-68,6	-20,4	-59,6
	Italy	-49,1	-2,2	-47,9	-15,1	-38,1
	UK			35,3	-1,7	44,0
railway locomotives and rolling stock	France	125,2	113,2	5,6	9,3	-1,6
	Germany	-30,4	-32,2	2,7	1,9	-2,6
	Spain	4,7	92,2	-45,5	-53,0	2,9
	Italy	-39,8	7,5	-44,0	-22,6	-32,0
	UK					
air and spacecraft and related machinery	France	104,6	45,8	40,3	36,4	16,1
	Germany	126,2	-3,2	133,7	81,6	27,5
	Spain	89,2	33,0	42,2	75,7	-17,1
	Italy	16,3	13,5	2,5	28,3	-13,0
	UK			57,0	24,7	37,2
furniture	France	-40,8	-3,5	-38,6	-24,4	-21,9
	Germany	-35,1	-11,5	-26,7	-14,4	-16,1
	Spain	-56,7	8,2	-60,0	0,3	-62,0
	Italy	-8,8	4,6	-12,8	2,1	-20,3
	UK			-20,7	-1,6	-21,7
computer, electronic and optical products	France	35,1	21,6	11,1	8,5	0,8
	Germany	189,6	20,8	139,7	147,2	0,2
	Spain	-64,4	4,7	-66,0	-27,1	-55,3
	Italy	-43,1	-8,3	-38,0	-27,2	-14,6
	UK			-20,3	-6,7	-16,0

An analysis of recent French structural reforms, and a comparison with Germany

Recent French structural reforms

The recent structural reforms conducted by the Hollande and Ayrault government are:

a) "National Pact for growth, competitiveness and employment" that had been presented in November 2012

The main measure is a tax credit for corporate firms computed as a percentage of their gross wage bill concerning workers earning up to 2.5 times the legal minimum wage (SMIC: "salaire minimum interprofessionnel de croissance"), who account for 80% of the wage earners. It should decrease the costs incurred by companies by 20 billion €. It is the "tax credit for competitiveness and employment". On average it should decrease the wage cost of a worker by 6%, for those earning less than 2.5 times the SMIC.

Since January 2013 the level of the legal minimum wage SMIC is 1430.25 € gross per month (which amounts to 9.43 € gross per hour for a work duration of 35 hours per week). After deduction of the worker's part of social security contributions, it is 1120.43 € per month. The tax credit thus applies to the wage bill of the part of the workers earning less than 3575 € gross per month.

Instead of targeting the manufacturing industry, this measure targets the labour cost of a much broader set of sectors and activities. It will essentially benefit to the very labour intensive sectors employing workers with low or average qualification levels: hotels and restaurants, construction, commerce and retail, various services like cleaning, transport, …

b) "National Interprofessional Agreement" which has just been voted

On one hand, these reforms of labour law seek to increase "employment security" from the point of view of the worker.

For example an increase of social security contributions to be paid by companies on very short term labour contracts of less than 3 months. The objective is to encourage "undetermined term" contracts at best, or at least longer determined term contracts.

On the other hand, these reforms of labour law seek to **increase "flexibility" from the point of view of the employer**. Among such measures:

The possibility for the firms to negotiate an agreement to adjust working time and wages to the prevailing economic conditions, in exchange of a commitment not to fire any worker

Measures to facilitate dismissals of workers and specially collective dismissals when companies experience problems

Possibility of intermittent labour contracts in certain sectors

Prescription after 2 years of any dispute concerning a labour contract, for example a dismissal

Efficiency of these reforms

Currently the main structural problems of the French labour market are

Excessive dismissal costs and rigidity of labour laws, so that employers are reluctant to hire workers in periods of uncertainty about future demand

An absence of adjustment of the wages to the economic conditions of the firm, and to the unemployment rate in the economy. For this reason the average profitability of French firms has excessively decreased, which reduces investment and future employment opportunities

A resulting increase of the average unemployment duration, and a much to high proportion of unemployed people who are without job for above 12 months

The main objective of good labour market reforms should be

> to increase the rotation of jobs in the economy by decreasing dismissal costs. If dismissal costs are low, firms easily hire workers knowing that they may quickly dismiss them if economic conditions deteriorate. The resulting unemployment duration decreases.
> To increase the reaction of wages to economic conditions and unemployment. This wage flexibility would preserve the profitability of firms and avoid massive dismissals of workers during recessions

The above measures are small steps in the right direction, but seem to be much insufficient to bring about changes to the job market situation. Knowing French labour unions, the conditionality of wage and working time flexibility to an agreement with the workers could considerably threaten the applicability of the measure.

Concerning tax credits, the amount of 20 billions € is still insufficient. But the main problem is that they should have been targeted on the manufacturing industry which is exposed to international competition.

Comparison with the structural reforms of Germany

The package of Hartz I to IV Acts voted between 1 January 2003 and 3 January 2005 increased flexibility of the labour market, and provided strong incentives to find a job

Hartz I (1 January 2003)

> Stimulation of the placement of job seekers by the creation of “Personal Service Agenturs” (PSA) specialised in monitoring job seekers

Stimulation of independent employment via the creation of “Ich AGs”: egressive aid provided for job seekers who set up a sole proprietorship of this kind

Hartz II (1 January2003)

widening the scope of the famous “mini jobs” in order to support employment of low skilled labour. **These mini jobs already existed before**. They are lower social securioty contributions rates on such jobs. The package Hartz brought new advantages granted for services aimed at helping households. It

brought the possibility of combining contracts without losing advantages. Before the Hartz package, the lower social security contributions for the employers of mini jobs were limited to payouts below 325 € per months. The Hartz package extended the advantages to payouts up to 800 € per month. There are now 6 million mini jobs in Germany, i.e. about 15% of employment. Mini jobs could have increased by 10% since the Hartz measures, but German experts explain that most of these new jobs are not new jobs: they were jobs of unskilled workers who did not benefit from such advantages before the Hartz measures.

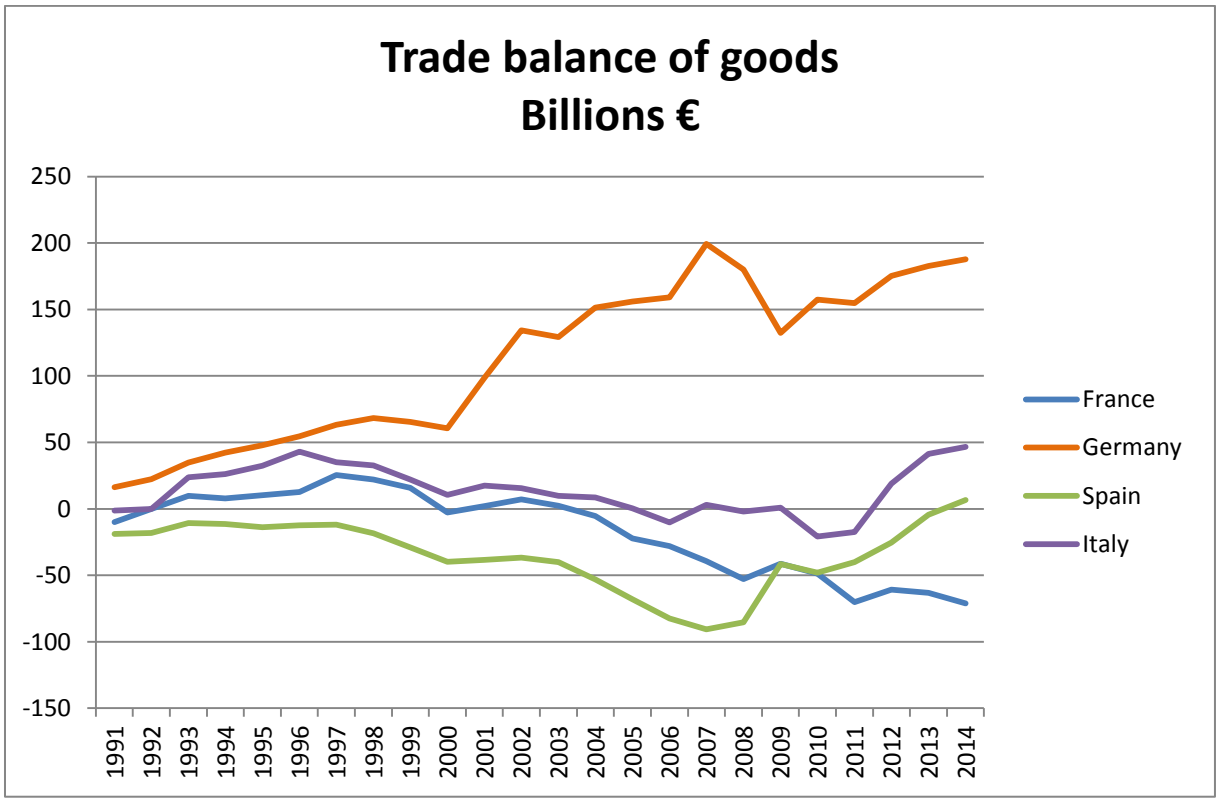
Hartz III (1 January 2004) and IV (3 January 2005)

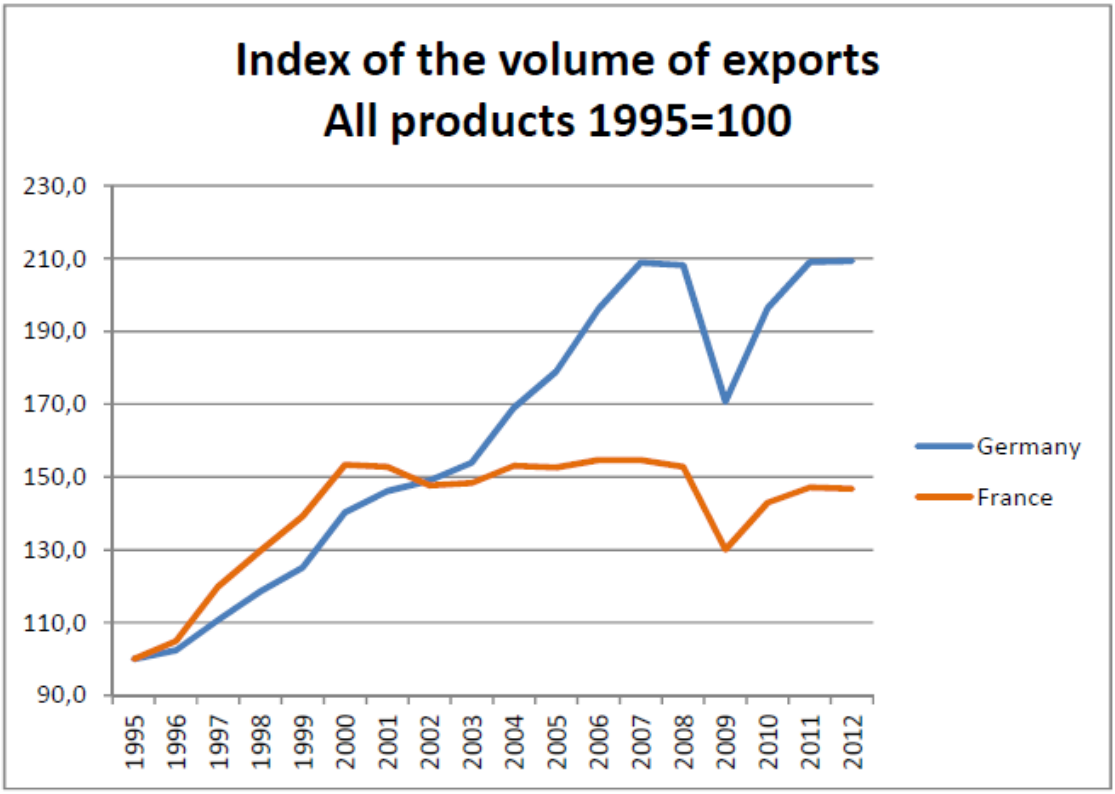
Strong reduction of the advantages of unemployment benefits

In addition there were a lot of measures aimed at enhancing the flexibility of the labour market via an easing of legal protection against unfair redundancies (1 January 2004)

It is clear that the scope and the intensity of the German structural reforms were higher than those that have been launched in France until now. **In particular it is in the field of unemployment benefits that the gap is very large between France and Germany, and also in the encouragement of low pay jobs for unskilled workers.** The incentives to return to the job market are still much higher in Germany than in France. Also, Germany accepts much lower wages for unskilled workers essentially employed out of the manufacturing sector.

External trade

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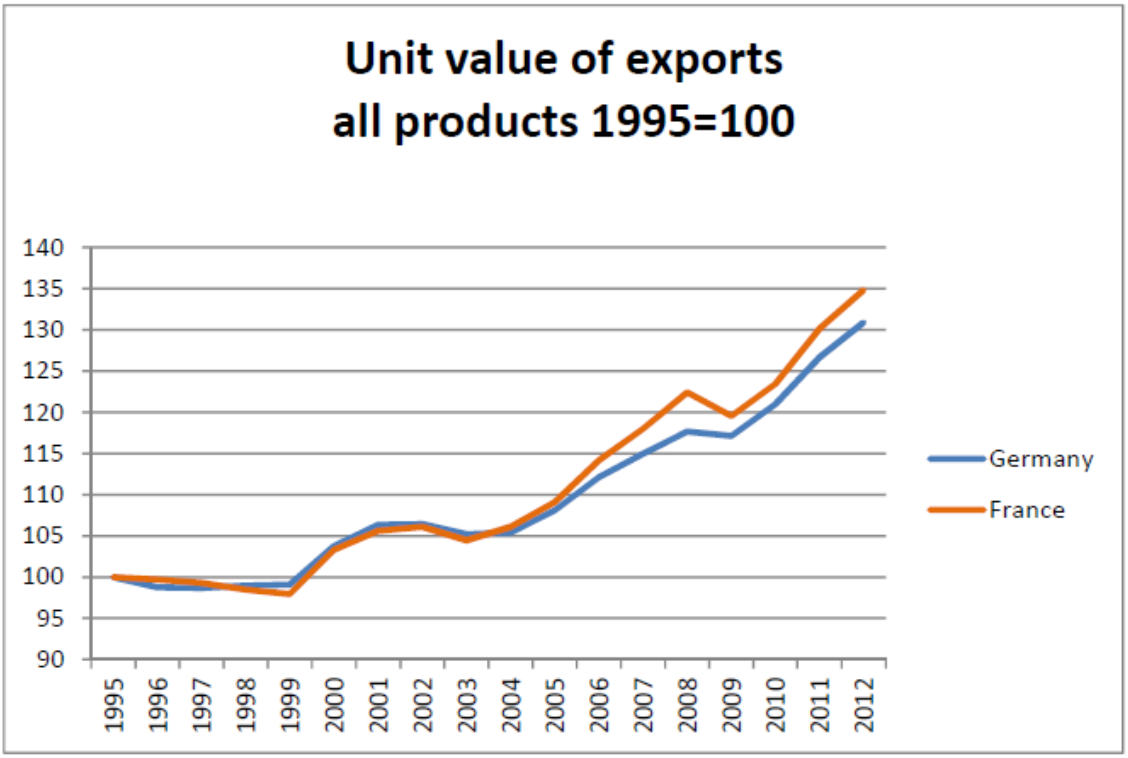
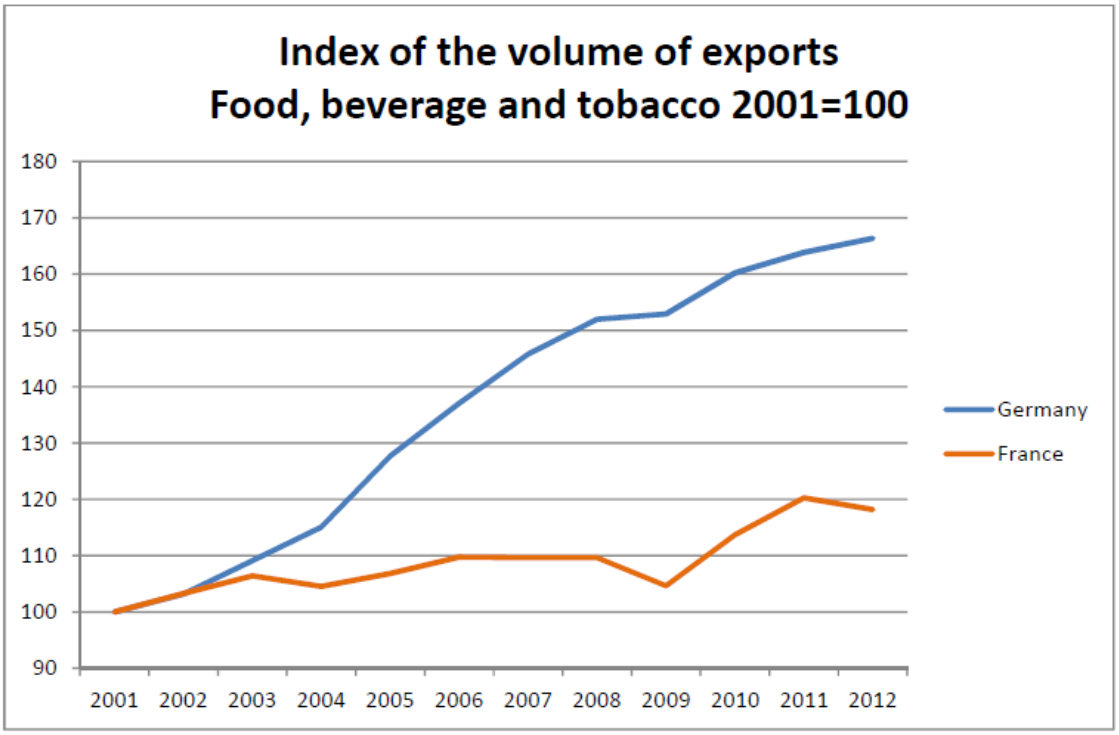
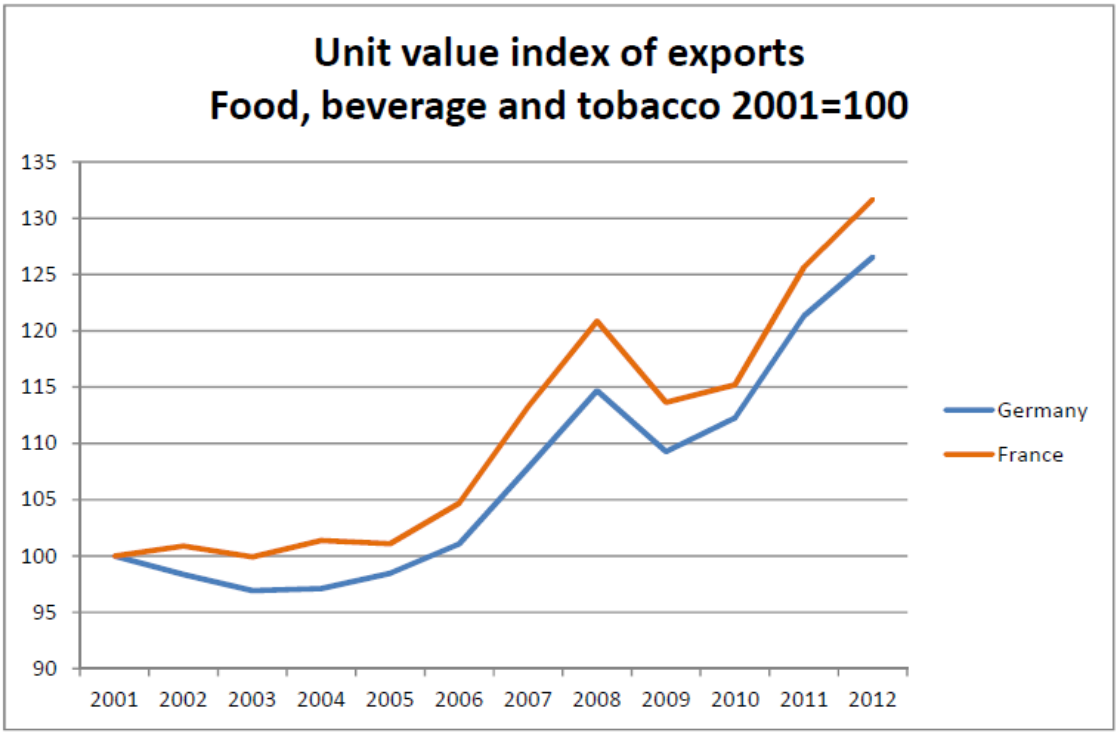
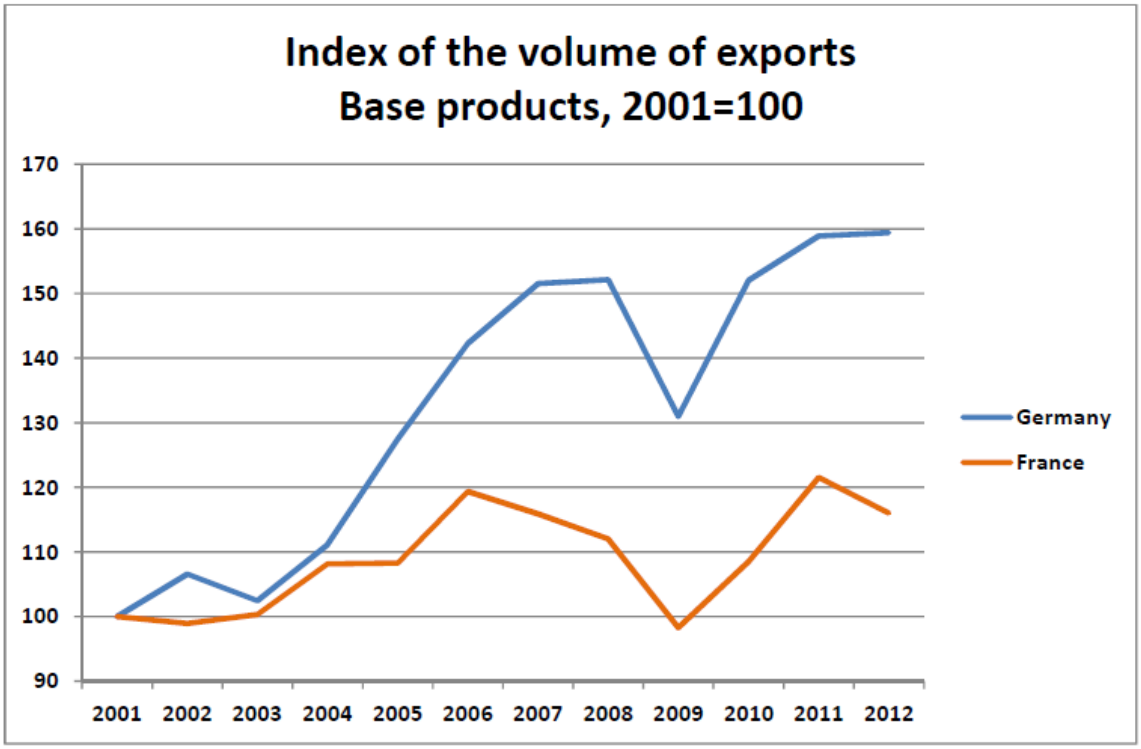
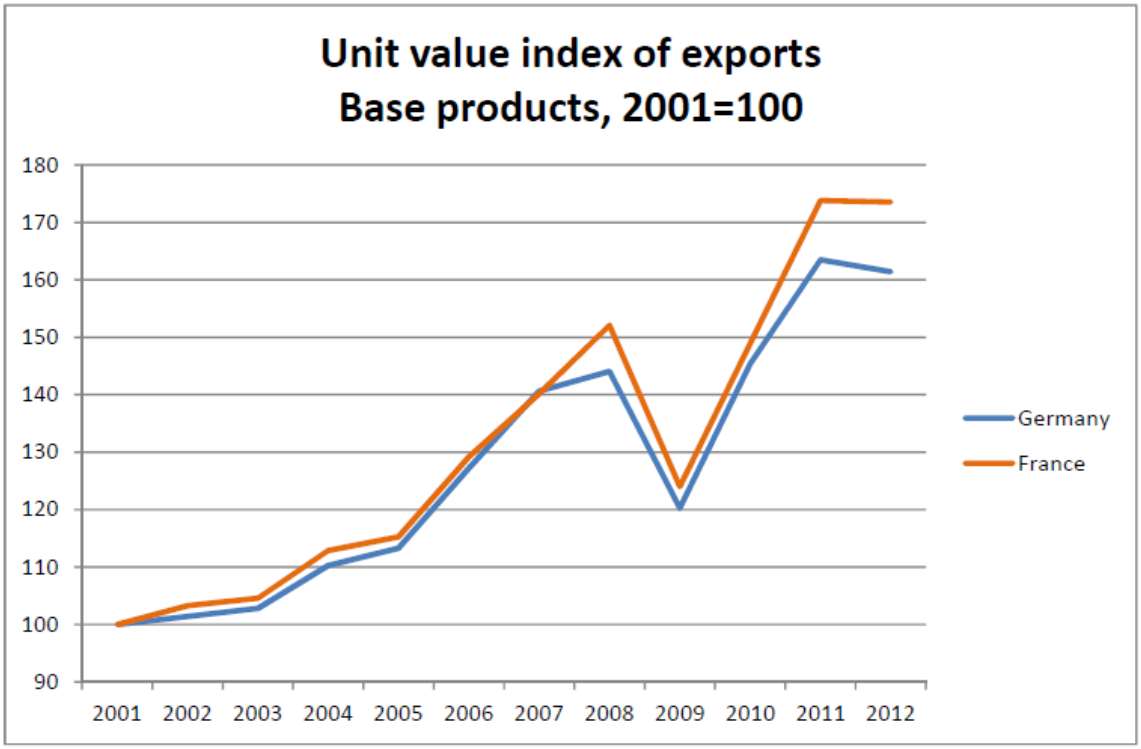
All products 1995=100
230,0
210,0
190,0
170,0
150,0
130,0
110,0
90,0
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Germany
France

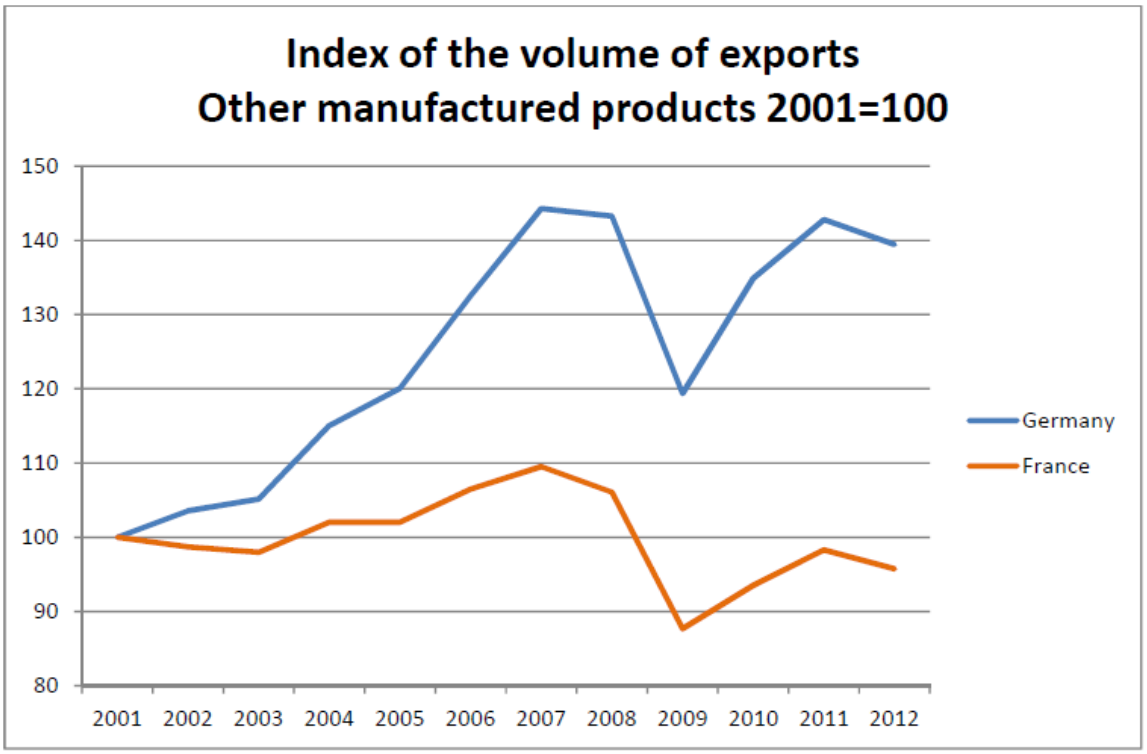

Unit value of exports
all products 1995=100
140
135
130
125
120
115
110
105
100
95
90
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Germany
France

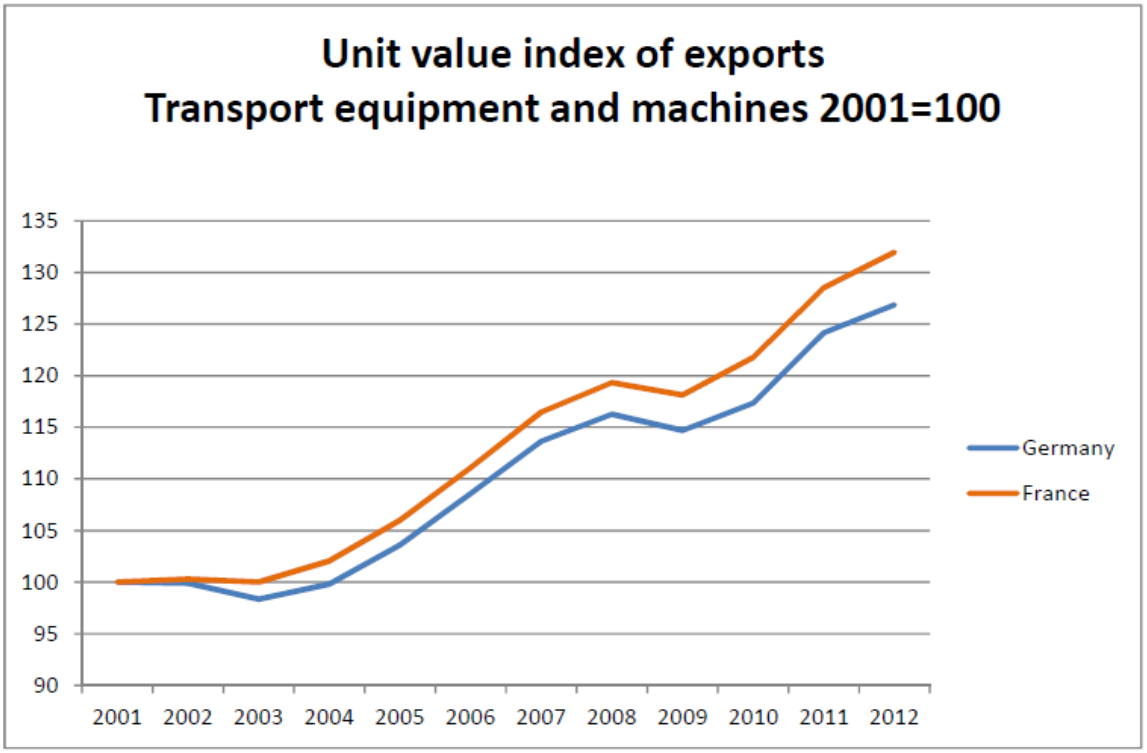

Index of the volume of exports
Food, beverage and tobacco 2001=100
180
170
160
150
140
130
120
110
100
90
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Germany
France

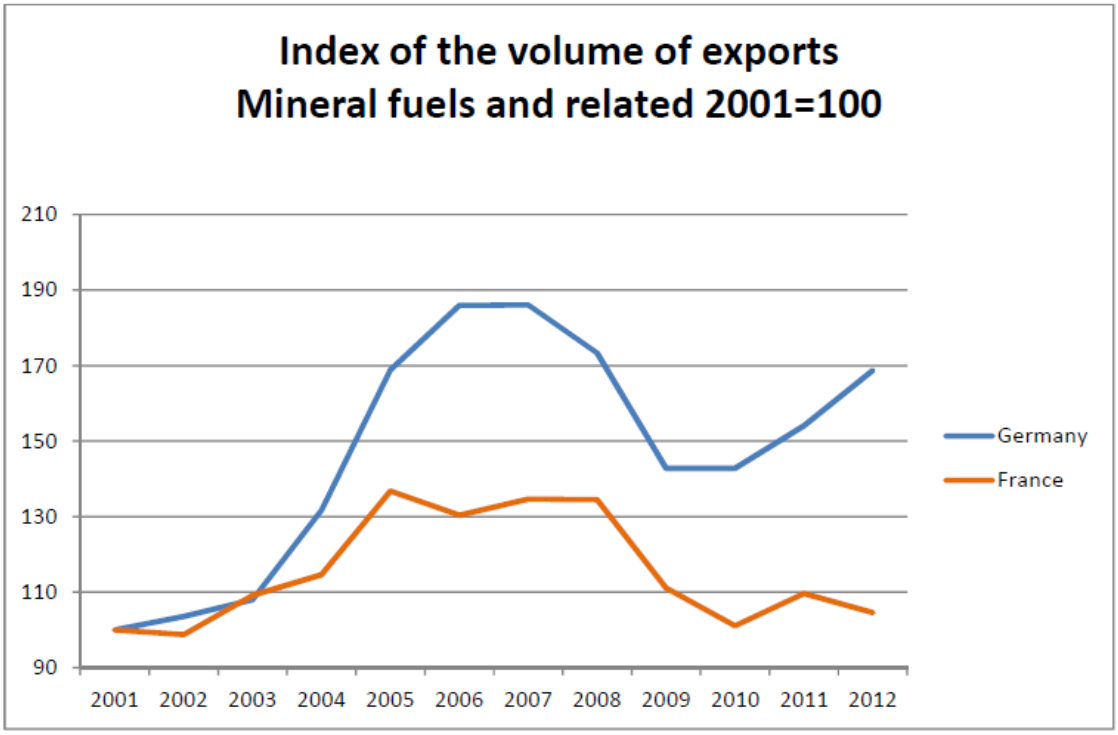

Unit value index of exports
Food, beverage and tobacco 2001=100
135
130
125
120
115
110
105
100
95
90
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Germany
France

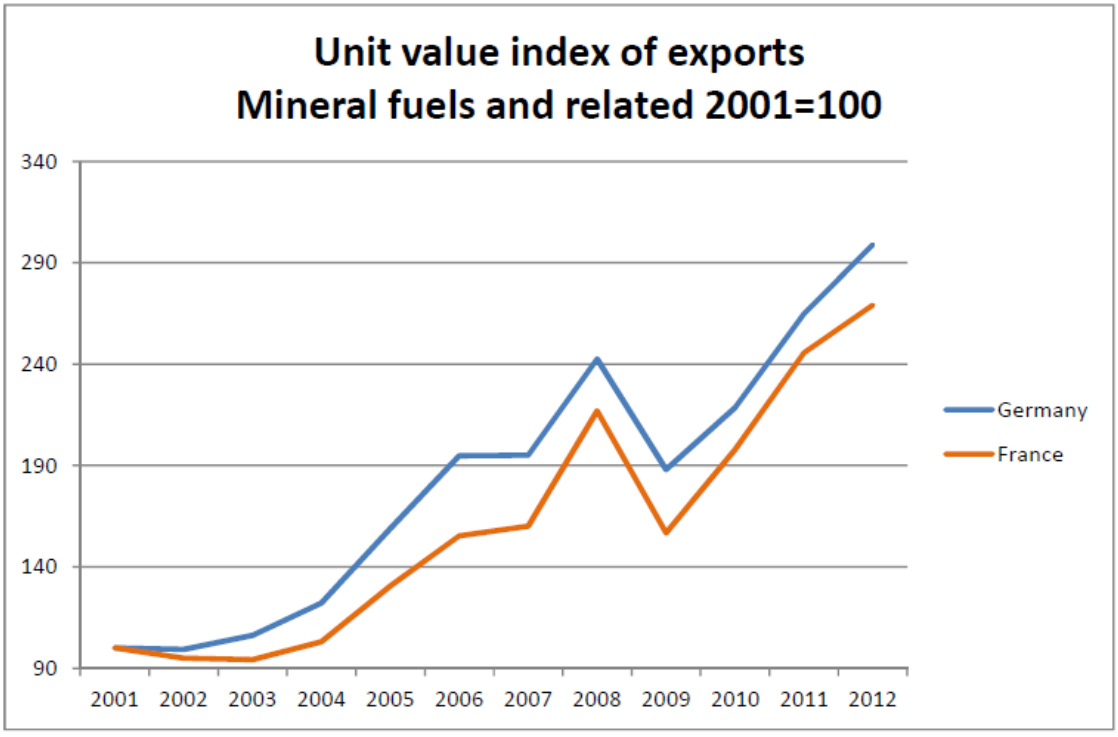

Index of the volume of exports
Base products, 2001=100
170
160
150
140
130
120
110
100
90
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Germany
France


Unit value index of exports
Base products, 2001=100
180
170
160
150
140
130
120
110
100
90
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Germany
France


Index of the volume of exports
Other manufactured products 2001=100
150
140
130
120
110
100
90
80
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Germany
France


Unit value index of exports
Transport equipment and machines 2001=100
135
130
125
120
115
110
105
100
95
90
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Germany
France


Index of the volume of exports
Mineral fuels and related 2001=100
210
190
170
150
130
110
90
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Germany
France


Unit value index of exports
Mineral fuels and related 2001=100
340
290
240
190
140
90
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Germany
France