Flash Economics

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France: Has supply-side policy failed?

The supply-side policies implemented in France since 2017 are numerous:

- Reducing taxes on production (halving the CVAE, or business value added contribution);
- Lowering the rate of corporation tax (from 28% to 25%);
- Abolition of the wealth tax (ISF) ;
- Creation of a single flat-rate levy (PFO) on capital income;
- Degressive exemption from social security contributions for companies from 1 to 3.5 SMIC;
- Reduction in the duration and amount of unemployment benefits;
- Reform of vocational training;
- Reform of the labour market (giving priority to company agreements).

The estimated cost of the policy implemented since 2017 is €60 billion a year.

There are many critics of this supply-side policy which argue that it has been ineffective. One can analyse this point and defend the idea that other factors have worked against the recovery of productivity in France: the deterioration of the education system, the burden of regulations and standards, and the high cost of labour.

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Has supply-side policy been effective in France since 2017?

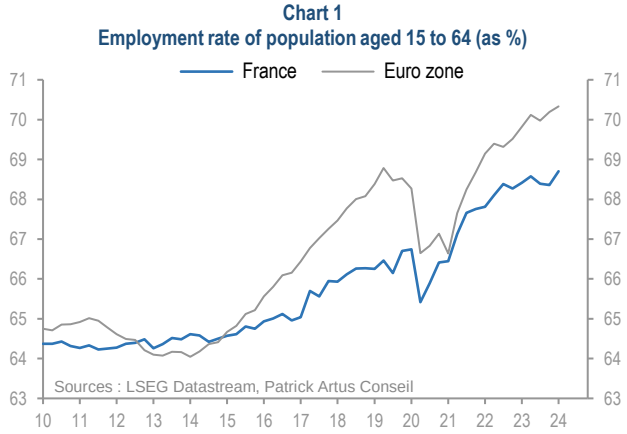
The various **supply-side policy** measures taken in France since 2017 were outlined in the introduction.

Supply-side policies are expected to:

- Increase the employment rate and reduce unemployment;
- Stimulate production and employment, particularly in the manufacturing industry;
- Improve the trade balance;
- Boost investment.

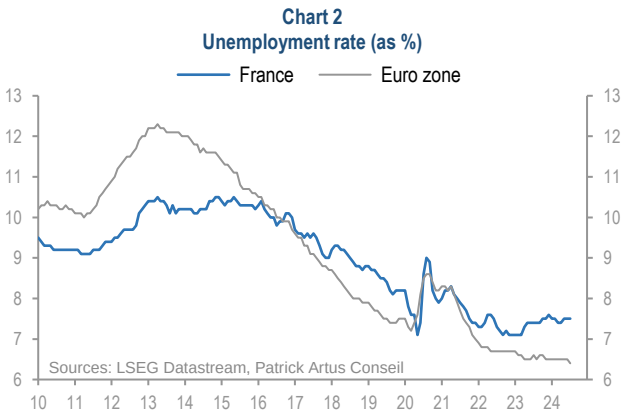
Since supply-side policy has been pursued in France as a means of correcting handicaps vis-à-vis other euro zone countries, we need to ask whether, **in terms of the various objectives, France has fared better than other euro zone countries since 2017**.

Chart 1 shows **the employment rate of 15–64-year-olds in France and in the euro zone as a whole.**



One can see that **the employment rate has risen in France since 2017, but no faster than in the other euro zone countries.**

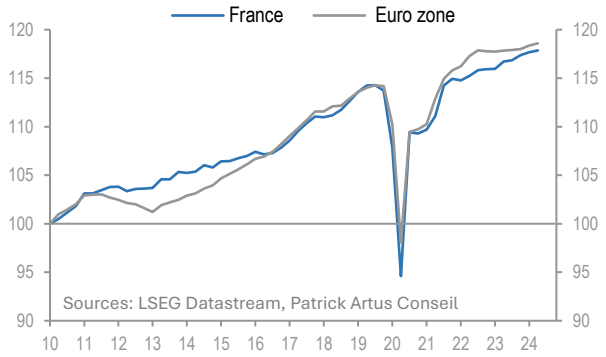
Chart 2 shows the unemployment rate, also in France and in the euro zone.



The **unemployment rate fell in France, but less than in the other euro zone countries**.

Chart 3 shows **the level of real GDP** in France and in the euro zone.

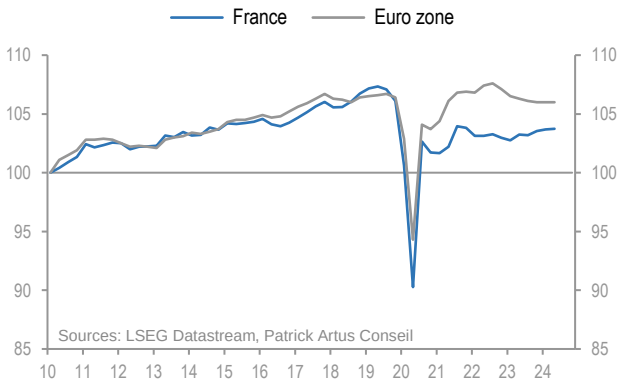
Chart 3
Real GDP (2010.T1 = 100)



Since 2017, real GDP has grown slightly less in France than in the euro zone.

Chart 4 shows **the productivity per capita** in France and in the euro zone.

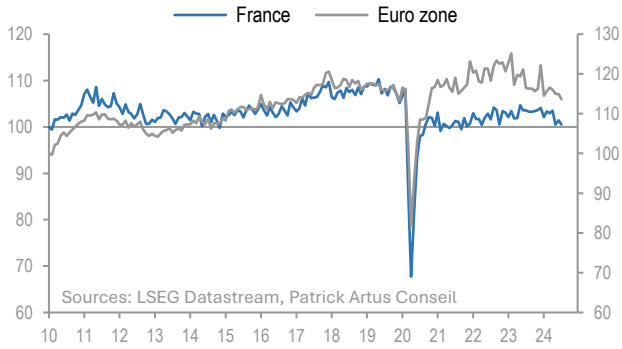
Chart 4
Productivity per capita (2010.Q1 = 100)



Labour productivity fell sharply in France, while it remained flat in the euro zone.

Chart 5 shows **manufacturing production** in France and in the euro zone.

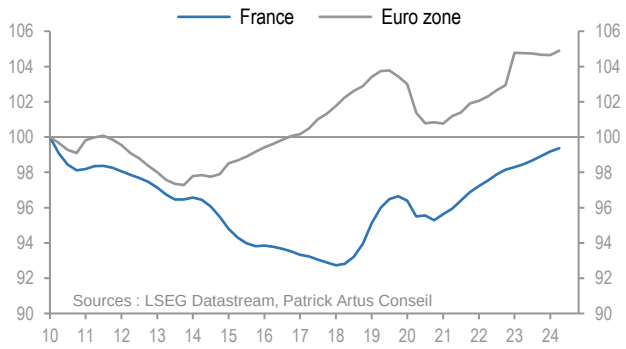
Chart 5
Manufacturing production (01.01.2010 = 100)



Manufacturing production has decreased in France since 2017, while it has remained flat in the euro zone.

Chart 6 shows **the level of manufacturing employment** in France and in the euro zone.

Chart 6
Employment in manufacturing industry (2010Q1 = 100)

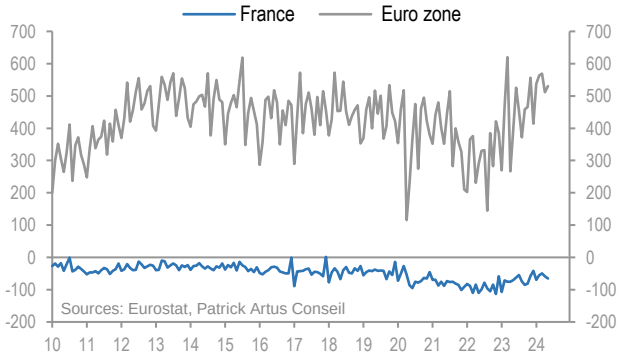


One can see that **manufacturing employment increased in France in approximately the same proportion as in the euro zone.**

Moreover, the rise in manufacturing employment in France is associated with a slowdown in manufacturing productivity growth.

Chart 7 shows **the trade balance in manufactured** goods in France and in the euro zone (the trade balance for energy varies with energy prices, while the one for services depends heavily on comparative advantages for tourism).

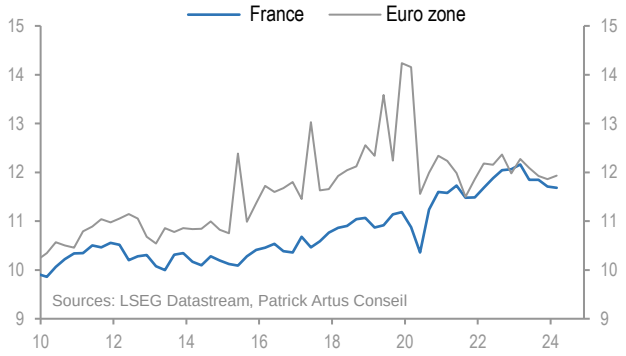
Chart 7
Trade balance in manufactured goods (EUR bn, annualised)



The trade balance in manufactured goods has improved in the euro zone since 2017 but has worsened in France.

Chart 8 shows **the rate of corporate investment in value terms** in France and the euro zone.

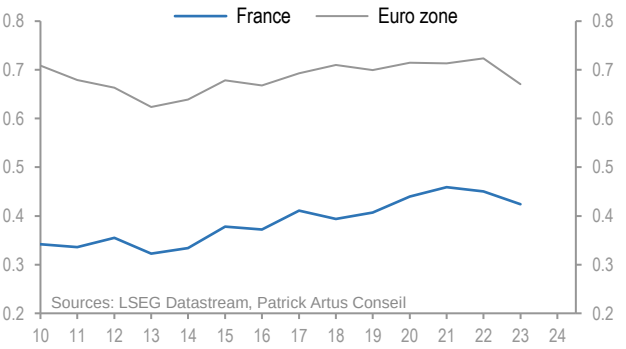
Chart 8
Investment of non-financial corporations
(in value terms, as % of nominal GDP)



The corporate investment rate has risen sharply in France since 2017, whereas it has remained stagnant in the euro zone.

Chart 9 shows **the investment rate in information and communication technologies** excluding software (in order to make the data internationally comparable) in France and in the euro zone.

Chart 9
Investment in information and communication technologies
excluding software (in value terms, as % of nominal GDP)



The investment rate in new technologies remains significantly lower in France than in the euro zone.

This characteristic of investment in new technologies in France shows that the increase in total investment by French companies does not concern technological investment.

Overall, one can see a favourable effect of the implementation of supply-side policy in France in terms of total corporate investment, but not in terms of employment, unemployment, productivity, GDP and manufactured goods, the trade balance for industrial products and investment in new technologies.

Summary: Supply-side policies have not corrected all the supply-side problems of the French economy

Since 2017, one has seen that supply-side policies have had a favourable effect only on total corporate investment.

Critics of these policies argue that their high cost has been associated with small positive effects. In particular, growth has been slower since 2017, labour productivity has fallen sharply, the employment rate has not risen faster than in other euro zone countries, manufacturing production has fallen, and the trade balance for manufactured goods has worsened. It should be borne in mind that supply-side policies have by no means corrected all the supply-side problems of the French economy: in particular, the deterioration of the education system (**Table 1**), regulations and standards that are unfavourable to investment and growth (France ranks 122nd out of 144 countries for the severity of regulations and standards according to the *World Economic Forum's Global Competitiveness Report*).

Table 1: France: Results of OECD PISA surveys (overall score)

Year	2009	2012	2015	2018	2022
France	497	500	496	494	478

Source : OECD

The burden of production taxes has certainly been reduced, but these taxes (for the part borne by companies) still represent 3.4% of GDP compared with 0.7% in Germany. The high level of social security contributions paid by companies means that the cost of labour in manufacturing, including social security contributions (reductions in social security contributions on low salaries hardly affect manufacturing), is very high in France: €43 per hour worked, compared with €45 in Germany, but €29 in Italy, €25 in Spain and €13 in Portugal.

All things considered; it is hardly surprising that the benefits of supply-side policies have fallen short of expectations.

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