Flash Economics

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France: what are the consequences of declining productivity?

Labor productivity in France fell by 2.2% between the second quarter of 2019 and the second quarter of 2025. We consider how the cost of this decline in productivity was shared between households, businesses, and the government. The purchasing power of household disposable income has increased by 7.5% since the beginning of 2019; this is not due to an increase in per capita wages (real per capita wages have fallen by 2.5% since the beginning of 2019), but to an increase in employment (+5.9% since the beginning of 2019) and social benefits (+3.4% in 2023 since the beginning of 2019 in real terms).

Since 2019, the corporate profit margin has increased from 36.1% to 36.7%. Finally, the public deficit has widened from 2.4% of GDP in 2019 to an expected 5.4% of GDP in 2025 for the total deficit, and from 0.9% of GDP in 2019 to 3.2% of GDP in 2025 for the primary deficit (excluding interest on public debt).

This shows that the decline in labor productivity has only had negative consequences for the government and public finances. In reality, the government has protected households and businesses from the effects of declining productivity.

But this sharing of the cost of declining productivity cannot be prolonged. Today, the primary public deficit must be significantly reduced in order to stabilize the public debt ratio; if productivity does not recover, there will inevitably be a decline in real household income and real corporate profits.

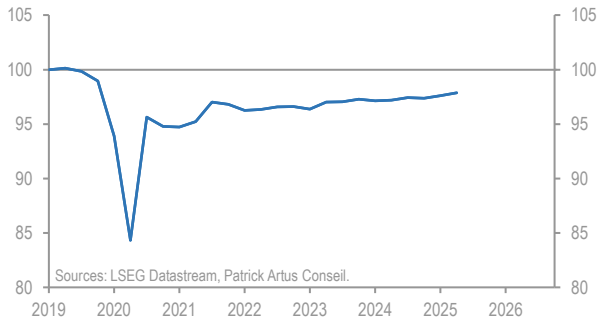
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Who suffered from the decline in labor productivity in France?

Per capita labor productivity declined by 2.2% between the second quarter of 2019 and the second quarter of 2025 (**Chart 1**).

Chart 1
France: Productivity per head (2019.Q1 = 100)



This decline in labor productivity leads to a **decline in income growth**. We consider who has **suffered from this decline**: households, businesses, or the government?

1. Households have benefited from an **increase in their disposable income** (**Chart 2**), which is **not due to an increase in the purchasing power of wages**, but to an **increase in employment** (**Chart 3**) **and social benefits** (**Chart 4**).

Chart 2
France: Real gross disposable income (2019.Q1 = 100).

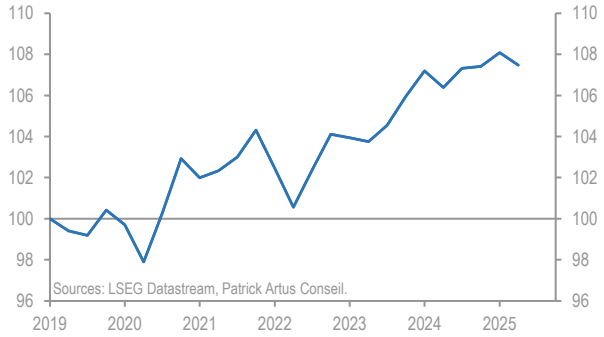


Chart 3
France: employment and real compensation per employee (2019.Q1 = 100)

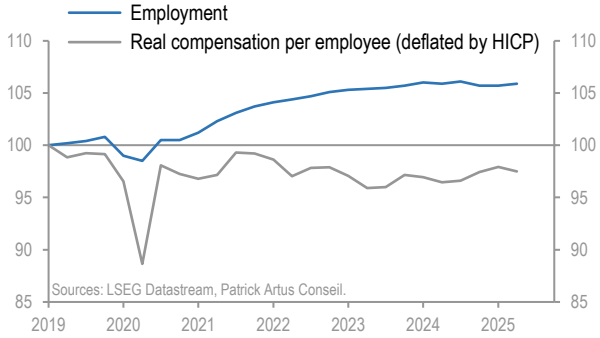
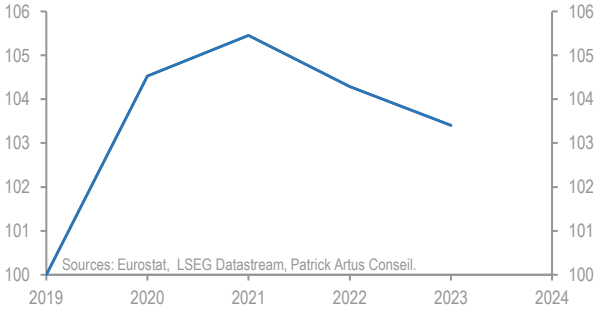


Chart 4
France: Public expenditure on health and social protection in constant euros (2019 = 100)

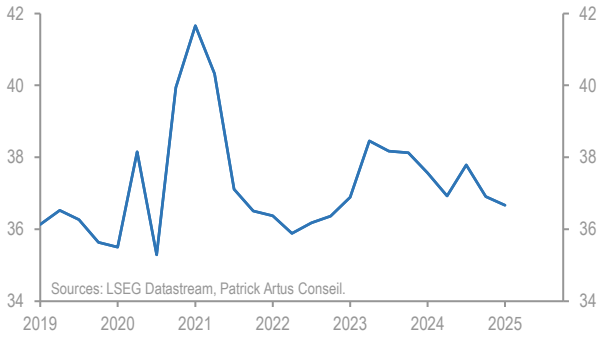


French households have therefore:

- **Benefitted from numerous job creations**, with a favorable trade-off for employment and an unfavorable one for per capita wages;
- **Benefitted from an increase in social benefits** while productivity declined.

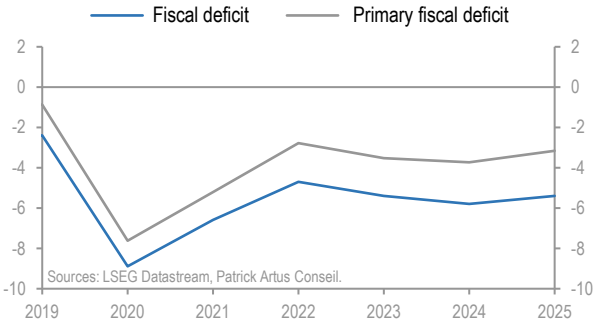
2. **Corporate profit margins are now higher than at the beginning of 2019** (**Chart 5**), showing that companies have not suffered overall from the decline in productivity.

Chart 5
France : Margin rate of non-financial entreprises (as %)



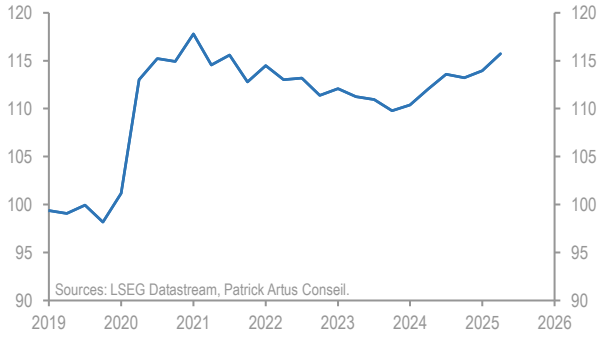
3. While households and businesses did not bear the cost of the decline in labor productivity, **the government bore the entire cost**. This is clearly evident in the evolution of the public deficit (2.4% of GDP in 2019, 5.4% of GDP in 2025) and the primary public deficit excluding interest on public debt (0.9% of GDP in 2019, 3.2% of GDP in 2025), **Chart 6**.

Chart 6
France: Fiscal deficit and primary fiscal deficit (as % of nominal GDP)



In reality, **the government has insured households and businesses** against the negative consequences of declining productivity. This explains the high level of public deficits and **the rise in public debt** (**Chart 7**).

Chart 7
France: Public debt (as % of nominal GDP)



Summary: the sharing of costs resulting from declining productivity will have to change in the future

In the future, **stabilizing the public debt ratio will be a key objective**. This will require moving from a primary public deficit of 3.2% of GDP in 2025 to a primary budget surplus of 1.2% of GDP within a few years, with a primary surplus being necessary to stabilize the public debt ratio because the long-term interest rate (around 3.5% for the 10-year interest rate) is higher than long-term nominal growth (around 2.5% per year).

If labor productivity does not recover, it will be necessary to switch to a restrictive fiscal policy, which will inevitably **result in either a levy on household income or a reduction in corporate profit margins**.

A levy on household income may result from the under-indexation of pensions to prices, increases in health care deductibles, and real wages rising at a slower rate than productivity.

A levy on corporate income, combined with declining profit margins (**Chart 5** above), would reduce profits available for distribution in the form of dividends (**Chart 8**) and instead lead to a further decline in investment (**Chart 9**).

Chart 8
France: Dividends distributed by non-financial corporations (as % of nominal GDP)

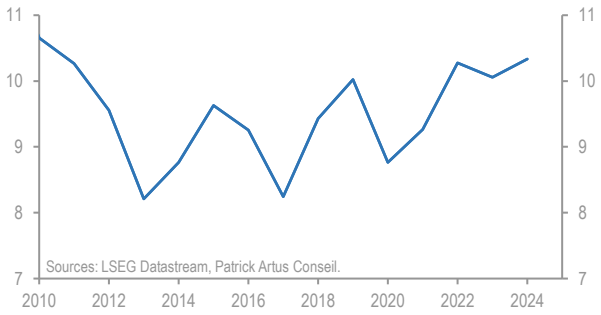
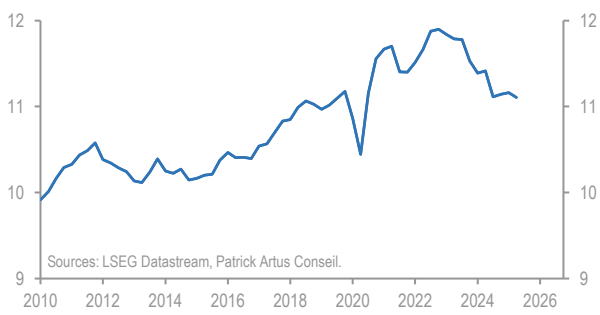


Chart 9
France: Investment of non-financial corporations in value terms (as % of nominal GDP)



It is however no longer possible for the government to bear the cost of the impact on incomes of declining productivity.

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