Flash Economics

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France: what public opinion wants, what should be done and market discipline

The majority of French people put support for purchasing power at the top of their list of wishes for future economic policy and are hostile to pension reform.

But one also need to increase investment (for energy transition and re-industrialisation), and increase spending on health, education, research and development, and military expenses.

There are only two solutions if the wishes of the French and the necessary increases in strategic public spending are implemented simultaneously:

- a sharp rise in the tax burden, with the risk of reducing France's attractiveness;
- the French giving up their most costly demands in terms of the public deficit: the employment rate must continue to rise, so there must be no going back on pension reform or unemployment insurance reform, and no massive increase in the minimum wage.

If the two economic policy objectives (increased purchasing power and increased public spending on energy transition, health, education, etc.) are pursued in parallel, market discipline will come into play, with higher interest rates forcing the abandonment of a certain amount of public spending.

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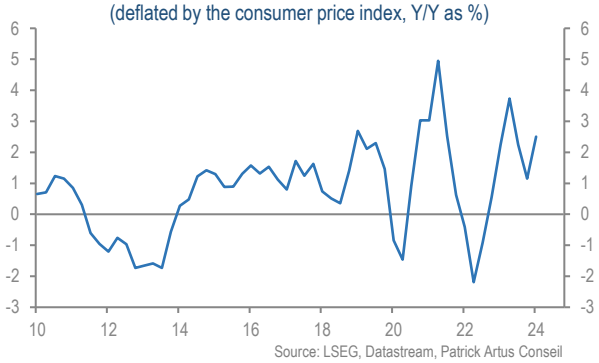
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What the majority of French people wants in terms of economic policy

The polls are very clear: **a large majority of French people:**

- puts **the support of purchasing power (Chart 1)** at the top of its list of concerns which includes a rise in salaries, particularly low salaries, an increase in social benefits, price controls, particularly on the prices of basic necessities (energy, food), etc.

Chart 1
France: gross disposable household income
(deflated by the consumer price index, Y/Y as %)



Source: LSEG, Datastream, Patrick Artus Conseil

- **rejects the pension reform** (legal retirement age increased to 64, except for French people who started working before the age of 21 who can retire before 64, for example at 60 for someone who started working at the age of 18)

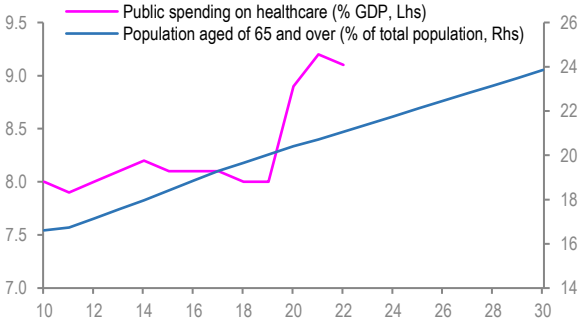
Major investment and public spending requirements

In addition, **there is a very significant need for public and private investment and additional public spending.**

These include:

- investments in the energy transition, improving water management and maintaining biodiversity;
- health spending, linked to demographic ageing (**Chart 2**), education spending needed to improve the quality of the education system (**Table 1**), R&D spending, military spending, etc.

Chart 2
Public spending on healthcare and population aged of 65 and over



Source : LSEG, Datastream, Patrick Artus Conseil

Table 1: PISA results (overall score, by descending score, 2022)

Country	Results
Japan	533
United Kingdom	494
Denmark	491
United States	489
France	**478**

Sources : OECD, Patrick Artus conseil

In total, the need for public and private investment and additional public spending is of the order of 5 points of GDP.

How can we reconcile the desires of the French with the needs of the economy?

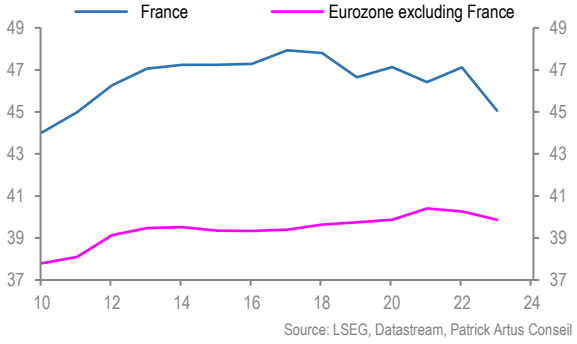
If we need to both:

- increase purchasing power and cancel the pension reform;
- increase public investment and public spending by a very large amount;

there are only two solutions:

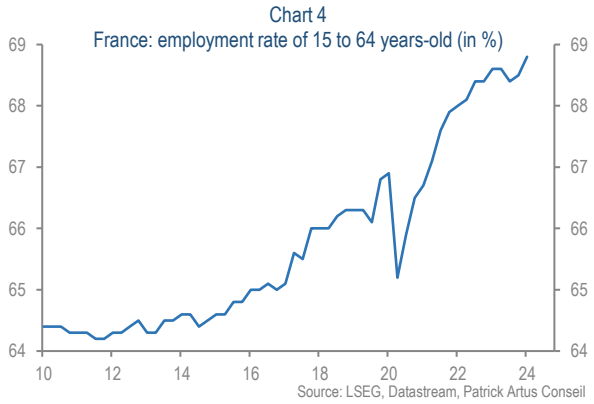
- **a very sharp increase in the tax burden (Chart 3), which would make France less attractive as an investment location**, given the already very high level of taxation in France, and would lead to a decline in investment, the supply of goods and the supply of labor.

Chart 3
Tax burden (as % of nominal GDP)



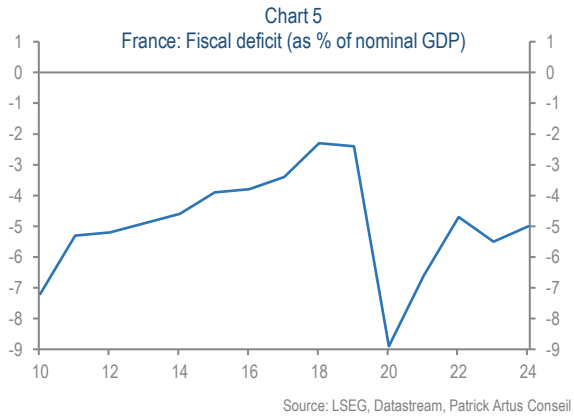
Source: LSEG, Datastream, Patrick Artus Conseil

- **the French abandoning their most costly demands in terms of the public deficit**; this would mean, on the one hand, maintaining the pension reform (which would avoid a fall in the employment rate (**Chart 4**) and in tax revenues) and, on the other hand, avoiding a sharp rise in the minimum wage, so that the State would not have to compensate for the effects of this rise on company profits by a sharp rise in aid to companies.



Summary: The arrival of market discipline.

If the two economic policy objectives increasing purchasing power, increasing public investment - energy transition, maintaining biodiversity, improving water management - and public spending - health, education, research, military spending) **are pursued simultaneously, France's public sector deficit will remain very high (Chart 5)**, either because of the increase in public spending or because of the negative supply effects linked to the increase in the tax burden.



The lack of improvement in public deficits, especially if it is linked to the abandonment of economic policies that boosted the employment rate, will eventually **lead to a public debt crisis**, with rising long-term interest rates (**Chart 6**), difficulties in financing the public deficit, **and the need to reduce public spending.**



Given the current state of public finances, France does not have the resources both to support household purchasing power and to implement the necessary increases in investment and public spending. The solution of sharply increasing the tax burden would lead to a tax burden that is so much higher in France than in other European countries that France's attractiveness to investment, by French or foreign companies, would be reduced, as would the level of activity and employment.

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