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The French Economy:
An Examination of Competition and Regulation

by
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Abstract

Several factors can affect a country's economic competitiveness, one of which being an imbalanced ratio between imports and exports. Add the contributions of high debt and high unemployment rates, and you have the French economy of 2014. While France was not as dramatically affected by the Euro Crisis in 2009, their economic recovery rate was one of the slowest in the European Union, and has continued on this sluggish rate since. The profitability of the French firms has decreased enough to be a threat to the competitiveness of the French economy: the profit margin is the lowest in the euro area. This thesis offers a few solutions as proposed by other scholars, and discusses the implications of France's current trajectory. In particular, I focus on imports and exports, barriers and regulations on French businesses, and the possibility of returning to the franc as the national currency, and how this effects French economic competitiveness.

Since the Euro Crisis began in 2009, France has experienced a multitude of challenges, including a continual uptrend of national debt, high unemployment and weak economic growth. France, like many of the richest countries in the world, has a high level of public debt, and current President Francois Hollande has decided on a deadline of 2015 to begin reducing the nation's fiscal deficit. In approaching this issue, one of the ways to make debt more manageable is to grow GDP by creating more production from the private sector. This would improve the debt-to-GDP ratio, ultimately reducing the effect of the debt without decreasing it. Unfortunately for France, the private sector has been struggling.

One way to look at the problem is as follows: France is being out-produced by other countries, such as Germany or China, who are able to produce the (nearly) same commodities at much cheaper prices. Because it is cheaper to produce these commodities elsewhere, the total amount of exports from France has dramatically decreased over the past decade, bringing with it a decrease in production. This is counter-productive in terms of growth, which explains why France's growth has stagnated over the past eight years. When a population grows, but its economy doesn't, the result is a significant rise of debt and deficits.

This situation has been found in the countries that have recently experienced economic hardship: Italy, Spain, Portugal, and Greece. The difference between these countries and France is their governmental approach to fixing the problem: their governments have taken the steps to reform the economy to attempt to increase competitiveness—France has not. Rather, while the past two presidents have acknowledged the economic issues facing France, they've preferred to use the “sweep it under the rug” technique—meaning that they've approached the situation with temporary, short-term solutions as opposed to long-term growth plans. Unfortunately for

Hollande, this tactic will not be able to prevail much longer if the country wishes to avoid an eventual financial crisis.

In 2012, the Economic Commission determined that France was “experiencing serious macroeconomic imbalances, in particular as regards developments related to export performance and competitiveness.” (*Statistical Annex of European Economy* 9) Between 2008 and 2009, the French GDP decreased by 3.2%, which is not as large as some of the countries suffered during the beginning of the euro crisis, and was one of the few member states of the EU to avoid recession in 2010 and 2011. That being said, France has also had one of the slowest recovering economies. An article in the *Journal of International Economics* titled “Firms and the global crisis: French exports in turmoil” described that in comparing data, the largest French exporting firms (the top 1%) as well as the opposite end of the spectrum (the smaller of the Small to Medium Enterprises) suffered the most in the short run; but as a whole, the majority of exporting firms were able to adjust in the short-term. (Bricongne, Fontagné, Gaulier, Taglioni, and Vicard 144) The profitability of the French firms has decreased so much that it poses as a main threat to the overall competitiveness of the French economy: French profit margins are among the lowest in the euro area. In addition, the constantly accrued debt by the private sector poses a threat to the ability of firms to invest, innovate and expand, and therefore, export. (OECD Executive Summary 9)

This inquiry seeks to establish that one of the main contributing factors to the struggle of the French economy is weak exports, suggesting that one way to commence change in a positive direction for France is to implement incentives and programs to boost exports, while relying less on imports.

Overall make up and construction of the French economy

France has the fifth largest economy in the world, and the second largest in Europe, behind Germany. As of 2013, the country has a high Human Development Index rating of 89.3%, meaning that France rates right at the average for OECD countries, appearing at number 20 on the list—below the US, Canada, Germany, and several of the Scandinavian countries. (*Human Development Report 2013* 144) The standard of living in France is quite high, due to several factors such as socialized medicine and education, paid for with high taxes. Good education and a reliable healthcare system provide the basic foundation to build a stronger workforce. Clearly, France is considered a highly-developed country, but this alone does not mean that France is without economic struggles.

The main economic issues facing France are a high unemployment rate, especially among the elderly and youth, a continual uptrend of national debt, and a poor growth rate. The staggering growth rate is attributed to many things, one of which is the declining in international competitiveness in world markets. Competitiveness is generally defined as an ability to produce and export more than is imported—meaning that to be economically competitive is to have a large presence in international markets. This is generally shown numerically in the net balance of exports.

Compared with other member states of the EU, France tends to export more to the EU 27 rather than to a more international market. This has been changing slowly since 2006, but it still remains the case that France's trade is largely focused on continental Europe. Exports to the EU 27 have overall decreased by almost 5% since 2006, while exports to non-continental Europe have not drastically increased, meaning that exports overall have diminished as a whole. (Statistical Annex of European Economy)

France's important production sectors include: automotive, aerospace, railways, cosmetics, luxury goods, insurance, pharmaceuticals, telecoms, power generation, defense, agriculture and hospitality—not to mention that France has the highest number of tourist visitors per year in Europe. (About.com) Between 2006 and 2011, five of the top producing categories of exports included air and space craft, motor vehicles, pharmaceuticals, parts and accessories for motor vehicles, and refined petroleum. In terms of high-technology exports, France is doing well—particularly in the aeronautical sector. This suggests that the weakness in exports is not from a lack of luxury goods, but rather in the goods that face more competitive markets and market prices. (*Statistical Annex of European Economy*)

In the European Union, France also has a very strong economic presence in the sectors of agriculture, transportation and chemicals. The Economic Commission claims in its report *Statistical Annex of European Economy: Autumn 2013*, that one of the main issues limiting the growth of industries is that France has a more rigid labor market which prohibits workers from quickly changing industries. This forces sectors to remain more fixed over time than in other countries, and doesn't allow for the fast-growing industries to attract as much new labor as they would need to continue to compete with more internationally competitive prices. (*Statistical Annex of European Economy*)

According to the OECD, France has not experienced a great increase in GDP over the past four years. Since 2010, France has had minimal change in GDP, growing no more than 1.7% each year, sometimes not at all. Net exports have remained mostly unchanged as well. While exports are expected to increase an additional 6% in the following year, the number is overshadowed by the 5.4% increase in imports. Currently, France's most recent data showed that the value of imports exceeds that of exports, leaving total net exports of negative 342 billion

euros. (OECD Table 1 17) There remains a high imbalance between public finances and external trade to aggravate the weak growth rate. (OECD Basic Statistics 15)

Granted, an economy's success is not determined solely by its net exports. In the example of the United States, negative net exports is definitely manageable, so long as there is continual growth, and there is a significant amount of total exports. It is more important to have more trade with negative net exports, than less trade with very positive net exports. The economic school of thought known as mercantilism operates under the notion that an economy is successful if it has positive net exports: if the economy is producing more than it consumes then it has more power in the situation and is better off. Rather, let us consider Adam Smith's assumption that an economy's success is determined in part by the total exports. Countries such as the United States can maintain negative net exports for a sustained period of years, but still have a growing and thriving international trade presence: so long as a country is able to continue to grow in terms of total exports, then a more consistent ratio between imports and exports is more sustainable.

(Angresano)

In the past, France has slowly integrated into the international market with use of indicative planning, nationalization, membership into the EU and beginning to accept an open-market economy—making the French economy more open and attractive to foreigners.

(Angresano) Internationalization was a great aid for the French economy, and France took the opportunity to excel for many decades. But over the years, France has also incorporated a more regulated economy. The French follow the *dirigiste* model, which is essentially a capitalistic economy, but one in which the state is involved in several industries and provides strong direction to economic activity. The state maintains a high amount of regulation of firms and

industries. Such industries include the SNCF¹, EDF², and Air France. But to the French, globalization is equivalent to Americanization, and the French would prefer to maintain their “Frenchness.” As former President Jacques Chirac was quoted: “We have our greatest respect for others, but we have our traditions, our model, and we wish to keep them.” In short terms, American capitalism does not equate with French dirigisme. But perhaps this way of regulation is a contributing factor to the current struggle of the French economy, as noted in a 1999 article in *The Economist*: “if the country is to build the dynamic and prosperous economy it wants, and is capable of operating, it has to accept some of the things it associates with the American way, and to find a way of doing so that does not undermine its Frenchness.” This could potentially mean a less regulated economy and a move away from dirigisme. (Pedder)

The Buildup of the French Economy since WWII

Up until 1945, French firms had high protective barriers which tended to support monopolistic endeavors, leaving just a few powerful firms able to compete in world markets. The end of World War II brought about a new desire for state guidance but decentralized decision making and a belief in the free market. The French sought a different methodology, while still trying to maintain protection of the traditional firms. Implementing new methods such as nationalization, and political and economic integration with competing European rivals—especially with what was then West Germany—were used to try to achieve this new idealized goal. (Angresano 236) Thus France continued to play a part in economic happenings in Europe while preserving and building onto the French identity.

Charles de Gaulle, France's first president in the Fifth Republic from 1959-1969, sought to grow the economy with modernization and greater economic activity. The state economic goal

¹SNCF (Société Nationale des Chemins de fer Français) is the train transportation system in France.

²EDF (Électricité de France) is the public energy utility.

at this time was to have a process whereby the government could "guide" the economy, so as to veer towards efficient market system forces without being dominated by bureaucrats. (Angresano 237) After 1974, France then turned towards an emphasis on free markets as the primary form of economic coordination. (Angresano 258)

Comparatively, France has even today extremely high levels of regulation of the economy—approximately 30% of economic processes are regulated by the government. French firms have to work harder to achieve international business success than their foreign rivals due to high levels of regulatory hoops in France. There are many more barriers to international trade than can be found in other countries across the European Union.

The Effect of Francois Holland and the Economic Recession

The global recession of 2007 hit most of the world economies quite hard; France was no exception, though the country was rather lucky to have suffered less of a shock than other countries, cushioned by a cautious banking and investment sector. In 2008, according to the OECD, France was the fifth largest economic power in the world behind the USA, China, Japan and Germany, narrowly ahead of the United Kingdom. The general opinion of the world was (and some would say still is) that France is, and will remain, a world economic powerhouse. But the reality is that France has slowly begun to slip in its economic ratings. France has not had a balanced budget since 1980, and the deficits have been mounting ever since. France's rising deficits have affected the country's budget so much that France's credit rating went from AAA to AA+ as by Standard and Poor (Jan 2012), Moody (Nov. 2012), and lastly Fitch (July 2013). (*EEAG Report on the European Economy 2009*) As evidenced by the lack of growth and the stagnating net exports, France has begun to lose its edge in international markets.

The main difference between France and the other rich countries who were hit harder by the economic recession is in the response: France has had a much slower recovery than Germany or the UK, though one could argue that this isn't as important since France wasn't as dramatically impacted as Germany or the UK in the first place. Despite the smaller amount of ground needed to be gained back, the recovery has been slower in France than in other economically significant European countries. Compared to most other European countries, the French economy weathered the economic crises of 2008 and 2009 fairly well. Conversely, the resilience of the country is diminishing. As of 2012, French GDP growth began to stall, and slow growth has been weighing on domestic demand and the possibility for economic recovery in the medium- to long-run. (OECD Executive Summary 13)

Since the end of the recession, the French government has coped by raising taxes, with the hope that the temporary fix would hold strong for a period longer than the short-term. Taxes have risen not only on individuals, but on businesses as well. The decrease in firms' profitability, as a result of this, is making it more and more difficult for business to expand and pursue international endeavors: "The Sarkozy government [...] failed to get seriously to grips with the most pressing problems of the French economy: firstly an excessively high level of taxation, and secondly—largely a result of the first problem—the falling competitiveness of French business in the international market." (About.com) Unfortunately, raising taxes as the sole solution to the problem has not been very effective, evidenced by the perpetual existence of the issue; raising taxes will not create more competition for France in the international markets. Conversely, raising taxes only increases the influence of the public sector. The ever-growing size of the public sector in France is not an impediment to growth in international competitiveness.

François Hollande took office in 2012 with a high public deficit, a high rate of unemployment, and a low economic growth rate. The President, a centrist who supports a social market economy, was head of the Parti Socialiste from 1997-2008 before taking up the presidency. As part of his campaign, Hollande advocated a doctrine he called “60 Engagements pour la France,”³ in which he stressed that the Europe Budgetary Discipline Treaty (EBDT) should be renegotiated to enhance the new priority of growth. Via his prime minister, Hollande made it a priority to decrease public spending and to drastically increase taxes for both individuals and companies. His goal, upon entering office, was to decrease the deficit by at least 3%, as well as to “create the conditions for growth.” But Hollande, like most politicians around the world, has faced a system in which political views of other government officials and other political parties remain an obstacle between what he wishes to see enacted and what is actually accomplished. His biggest hurdle is determining how to find an economic solution without touching the welfare state. (Lequesne)

Hollande implemented the “Pacte national pour la croissance, la compétitivité et l’emploi”⁴ a list of reforms aimed at restoring competitiveness, lowering the costs of production and supporting innovation. The program, which was launched in 2012, includes many measures to facilitate the rebirth of growth, one of which includes a tax credit that shifts taxes away from labor. The measure is believed to have had a positive impact on export performance. (OECD Economic Surveys 17) The tax credit will allow firms to restore profitability—the program is not intended for firms to simply decrease the price of exports. The tax credit opens the door for further investment, which is hoped will bring more productivity. The overall goal is that the improvement of export performance and competitiveness will enhance the trade balance,

³Translation: “60 commandments for France”

⁴Translation: “National Pact for Growth, competitiveness and employment”

changing it from negative to positive, and to increase trade overall. This will produce long-term benefits. (OECD 30) The *Pacte National* is forecasted to create an approximate 30,000 jobs by the year 2017, which would help to boost the economy by about 0.5% within that same time period.

The year 2012 brought new hope as the trade deficit was stabilized, but the loss in competitiveness will continue to impose a burden on the external balance in the medium run. So long as imports continue to outpace exports, the trade balance and international growth will continue to deteriorate. (OECD Executive Summary 14) The French government has initiated a set of reforms that address both the fiscal and structural imbalances, with the intention of restoring competitiveness in the medium run. This includes measures aimed at reducing the cost of labor, increasing the amount of money available for the innovation capacity and export capacity of firms, and keeping the level of debt at a stable if not decreasing level. (OECD Executive Summary 10)

France needs “greater competition in services and rationalization of housing policies” in order to “boost purchasing power, create jobs and enhance competitiveness.” To ease the tax burden in the medium-run, public spending, accounting for a very large amount of GDP, must be reduced. The means to do this are proposed in two ways: the first is to reform unemployment benefits, and encourage those currently unemployed, who are mainly the young and the elderly, to seek jobs (and save costs overall); the second is to implement better programs to help make the transition from high school to work easier. Currently, French youth who graduate high school and then live with their parents, and hold back on getting a job because their financial situation isn’t dire, find themselves in a difficult situation when they do decide to enter the work force. The ratio of the standard of living to the amount of public spending is decreasing over time,

meaning that the amount of public spending is increasing disproportionately to the standard of living in France. (OECD Economic Survey of France 2013)

1. Scholars Matthieu Crozet et al. agree in their article “Plus grandes, plus fortes, plus loin... les performances des firmes exportatrices françaises” that it is necessary to make French firms more economically competitive in international markets. As Crozet notes, France puts most of its effort into the national level of the economy, followed by a close relationship to the surrounding countries. Exporting to the neighboring countries in the EU is standard among European countries and still profitable, however the biggest money-making opportunities lie in trading with non-European international countries. Only 30% of firms in France export, and the data in Crozet’s article, collected between 1995-2005, show that the firms that do export are clearly bigger and more productive (by 15%) than those that don’t export, meaning that they have a much more competitive edge: “...ces politiques, lorsqu’elles s’adressent aux plus grandes entreprises, doivent accompagner en priorité les projets d’expansion vers les marchés lointain, au delà des frontières de l’Union européenne.”⁵ (Crozet) The overall message is that it is in France’s best interest to find a way to increase exports to the broader world market, not just to the EU. Firms that export are, in general, more productive and more additive to the country’s GDP than firms that do not.

Supportive Evidence

Germany was harder hit than France during the 2009 economic crisis but managed to bounce back much faster than France. Germany encouraged its firms to take advantage of foreign suppliers and outsourcing in Central and Eastern Europe, but did so with only certain portions of the production process.

⁵Translation: These politics, which address the biggest enterprises, need to accompany in priority the expansion projects towards other markets, beyond the borders of the EU.

An example of outsourcing would be the making of car parts in various other countries while contrary to German workers who assemble the parts into the final product. In all, this has allowed German firms to decrease their costs while maintaining a German employment, keeping some domestic involvement in the production process. (OECD Basic Statistics 28) France did not take this shared approach, meaning that they outsource most of the production process. The result has been that the outsourcing by the French firms has led to the continual production of goods in other countries, and French firms do not receive as much economic benefit as German firms do.

France has had a much slower recovery rate than Germany, as well as most of the bigger economies of Europe. Other large-GDP countries in the Euro area have had a similar experience as Germany. Again, this is mainly because their ability to increase the overall GDP is significantly smaller than the other big countries of Europe: with a smaller than average net export percentage. While France is a great exporter of such goods as agricultural items, they import nearly the same value of goods, only allowing for a very small increase in the GDP attributable to net trade. As detailed, this small percentage of net gain hampers the recovery rate. While France has the capacity to increase imports at any rate, they cannot reciprocate in terms of exports. Increasing the total amount of trade by simply increasing imports is not very helpful in the long-run for the French economy; rather, the French should hope to see an increase in exports, if not an equal rise in both imports and exports so as to maintain economic balance.

From Eurostat, the European Union's statistical group, it is clear to see how France and Germany have diverged since the Euro Crisis began. From the graph titled "France v. Germany: Total Exports," one can see that France and Germany both had steady growth up to 2008. Of course, as expected, 2009 brought a decrease in overall trade. The striking difference is between

the experience of the two countries between the Crisis and 2012. France has grown 130% of its 2009 trade amount, while Germany has grown 140% of its 2009 data point. If Germany and France had both grown at 130%, Germany would have had a 2012 trade value of 860 billion euro instead of 910 billion euro. The extra 10% of growth has given Germany an extra 50 billion more in than what France has. As of 2012, Germany has nearly 175% of the total trade that France does.

France does not have many exporting firms, especially in comparison with Germany (OECD Basic Statistics) and this in particular contributes to the rather disappointing export performance of France. In the industrial sector, France has a much smaller presence than Germany in terms of exports; there are a larger number of export-focused Small to Medium Enterprises in Germany than in France, a difference of about 5% between the two countries.

One could argue that comparing France and Germany is like comparing apples and oranges, but instead consider comparing the first and the second largest economies of Europe. While Germany is much bigger than France, France's recovery rate is equally as important as Germany's, since France's economy has effects on the rest of the European economies and the euro as well.

The trajectory of the French economy over past few decades has been one of decline. In 1999, France was responsible for 7% of total world exports. Fifteen years later, that figure is less than half, and appears to be on the trend to keep falling. While France has lost in exports, they've conversely increased imports. (*Statistical Annex of European Economy*)

In 2005, France's net exports were a positive 0.5% of GDP. In the year 2013, that figure is now a negative 2.7%, meaning that imports far outweigh exports. As France turns to more imports and less exports, their economic competitiveness will fall.

Since 2008, profit margins have experienced a significant decrease after being relatively constant for a solid decade. In addition to this, companies have tried to make up for the deterioration of cost competitiveness by adjusting prices and reducing profit. (*Statistical Annex of European Economy* 23) Firms are not investing in innovation and expansion as would be hoped: they are playing defense instead of offense, meaning that the measures they're taking are for the effect of playing catch-up, and not for paving the way for new growth.

Barriers and Regulatory Trade

One of the issues affecting export competitiveness of businesses is the number and type of barriers and regulations surrounding economic activity. Many hurdles stand between French retailers and other businesses and their customers. There are barriers to entry in many professions such as accounting, architecture, pharmaceuticals, veterinary sciences, and other service industries. Granted, requiring these professions to have specific licenses will greatly improve the quality of service. However, regulations also prohibit more producers from entering the market, therefore keeping France from the opportunity to expand GDP. The high number of regulations raise costs of production immensely, the outcome of which is either placed on the consumer, or results in a smaller overall output. In either situation, the effect on overall GDP is undesirable in comparison to more productive suppliers. (OECD Basic Statistics 35) Basic economic theory dictates that when fewer firms are allowed to enter the market, there will be a smaller number of suppliers selling at a higher price, rather than several suppliers selling at a more competitive price. A market with a larger number of producers results in lower market prices for consumers, creating a bigger and more profitable impact on the overall GDP than a smaller number of firms. Another French business regulation insists that retailers are “not allowed to sell at a loss, even though predatory pricing is already forbidden under competition law [...] store opening hours are

still highly regulated, particularly when it comes to Sunday openings, thereby restricting competition, consumer choice and employment.” (OECD Executive Summary 36) These restrictions on opening hours are yet another obstacle to obtaining a higher GDP. Firms could expand their profits if they were not restricted in the hours they are allowed to operate their businesses. This mandate was not made with economic benefits in mind, but rather to protect the health of the French citizens. Essentially, restrictions on the hours of business inhibit the amount that firms can produce and sell in one day, lowering the overall amount of production of firms and raising costs.

The overall amount of regulation that French firms face in comparison with other high-functioning countries is demonstrated by data from the OECD. It shows us that France has a very highly regulated economy comparatively.

The OECD report suggests that a lack of Small to Medium Enterprises (as defined by the European Commission) is due to the fact that firms face an exponentially more difficult burden of administrative and financial responsibilities and fees as they increase in size and production. The labor code “tends to penalize small businesses disproportionately,” suggesting that the issues concerning taxation of firms lies in the early to beginning stages of growth and size. (OECD Basic Statistics 38) For instance, there are regulations that hit businesses as they continue to expand: when a firm grows above a certain number of employees, the firm then faces many new taxes and regulatory fees that often times discourage the SMEs from advancing their business further. As soon as they pass that point of growth, the return on investment drops significantly, and it isn’t worth pursuing that small amount of growth. Because the push to expand and then continue to break even or profit from the expansion is so large, firms are then subtly discouraged from expanding to a large enterprise, unless they have significant means to expand to the next

level and still earn a profit. The OECD estimates that this problem alone could be “[costing] the economy at least 0.5% of GDP.” (OECD Basic Statistics 37)

As suggested by Mattieu Crozet in his paper “Plus grandes, plus fortes, plus loin...” Les performances des firmes exportatrices françaises,” the government should finance and provide supplemental resources to help aspiring enterprises to enter the international market. (Crozet) He claims that «l’objectif affiché est clair: apporter un soutien financier et technique aux entreprises qui souhaitent s’établir sur les marchés mondiaux de sorte à accroître le nombre d’exportateurs français.»⁶ If the government can give the support needed for French businesses to expand their capacity for profits, then it is very possible that the future will hold expansion in economic competitiveness. The government can help to bolster French firms by reducing the amount of taxes that firms have to pay.

Possible Solutions

Several possible solutions to the problems of the French economy have been proposed by other scholars. Considering the euro, Philip R Lane, a Political Economy professor in Dublin, proposed in his journal article "The European Sovereign Debt Crisis" that a major cause of the euro crisis was due to the existence of the euro itself. By doing away with national currencies, "a traditional adjustment mechanism between national economies was eliminated and those countries participating in the euro could not revert back to the manipulation of their currencies. (Lane 49) From this point of view, it is a very possible outcome of the crisis that the euro will implode due to the strains outlined in this paper, inevitably bringing about another crisis within Europe. Among other solutions for a more macro approach to fixing the effects of the euro and the euro crisis, Lane is proposing that each country consider reverting back to an individual

⁶Translation: The objective is clear: to bring financial support and technique to the enterprises who are hoping to establish themselves in the world markets, in order to increase the number of French exporters.

national currency: a national currency is much easier to control, and its value can be manipulated using monetary policy so as to help the economy. For example, if France were to return to the franc, then they could choose to devalue the franc, therefore making it more attractive and easy for other countries and international firms to invest in France. This idea is supported by Arestis and Sawyer in “The Ongoing Euro Crisis,” in which they described the necessity of leaving the euro, and giving each country their own financial freedom to do as they please. The European Monetary Union poses a rather cumbersome burden to the individual countries, and will continue to do so, especially while so many countries share the same currency. (Arestis and Sawyer 12)

Because France is still in the euro area, it takes a collaborative effort between other countries who participate on the euro as well to be able to manipulate their currency. (Lane 65) With more investment from outside firms and countries, the French government could then invest in the private sector, therefore serving to provoke an increase in production and exports.

In their article “Would a euro’s depreciation improve the French economy?” scholars Magnani, Piccoli, Carre and Spadaro predict that a 10% depreciation of the euro in France would produce an asymmetric shock which would affect the prices between monetary zones and between sectors; realistically, they claim that few outcomes would actually result from the depreciation. The first would be that the labor supply would increase by 1.9%, and the second that the real GDP would be stimulated by 0.6%, which would in turn stimulate aggregate demand. This in turn would predictably produce an increase in exports by 3.2% and decrease in imports by 7%. While this wouldn’t solve the problem completely, it could create the stimulation needed to provoke the French economy towards a larger increase in exports. It is thought that this change would produce the inertia needed to jump-start the process towards growth. (Magnani, Piccoli, Carré and Spadaro)

One of the suggestions from the OECD and the European Commission is to decrease the cost of labor, allowing for firms to regain some of the lost ground in competitiveness. If the cost of labor is decreased, there would be more funding for innovation and amelioration of products and services. (OECD Executive Summary 30) One such way to do this is to lower the minimum wage. The problem with this proposal is that this issue has been a long-standing issue in France, and like most countries, France's citizens are not amiable towards the idea of lowering the minimum wage.

Conclusion

Why is it important if France loses its spot as an international economic leader? As mentioned, France is the second largest economy in Europe, and the 5th largest in the world. The issue is that France's economy is not growing as it should, and the future prospects do not appear favorable if France is to continue on the same path. Without growth, there is no possibility for France to attain greater competitiveness. If the second largest economy in Europe falters, Europe and other countries around the world will feel the negative effects in their own economies. Up to this point, several measures have been taken to ease the pressure of the depressed French competitiveness; but Hollande and his administration have run out of room to keep evading the true issues at hand. As the private sector shrinks and the public/government sector expands, the room for growth continues to diminish. The current situation suggests that France may be entering a downward spiral of more and more debt.

Now that the French have found themselves with an undesirable level of international competitiveness, they appear to have entered a negative feedback loop. The lack of competitiveness has been costing French firms, resulting ultimately in a smaller profit margin. As a result of this, French firms have had less room for investment, development or market

innovation. With less financial room for such needs, firms cannot continue to grow to their fullest potential. In the long run, this decreases competitiveness even further. Beyond high-end technology and pharmaceutical sectors, the weight of poor economic performance is weighing heavily on French firms. (OECD Basic Statistics 35) One of the main culprits of the stagnating net export is that profitability has dramatically fallen throughout the past decade, much of it directly attributable to the euro crisis. When firms begin to lose profits, they are less likely to spend money on investments, research and development, and as a result may see a drop in customer service and product quality. The above mentioned items contribute greatly to international competitiveness. (*Statistical Annex of European Economy* 195)

In conclusion, the issue that France faces is one of stagnating competitiveness that is multi-faceted, signifying that not only is the issue complicated but so are many of the proposed solutions. France can approach the situation internally, removing barriers to firms' growth, trade and operations of business; another solution being to decrease the cost of labor, and therefore the cost of operating costs, leaving more wiggle-room with the left-over funds to expand or ameliorate business. In a more macro view of the problem, as several economic scholars have suggested, France could leave the Euro and return to the franc. Of course, these are just a few tough options of many available in France. Regardless of the chosen approach, the factor of the utmost importance is that President Hollande and his administration, including subsequent French presidents, choose to take action for the long-term health of France.

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