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COMMISSARIAT GÉNÉRAL DU PLAN

FRENCH PLANNING OFFICE

THE FRENCH MIXED ECONOMY EXPERIENCE

March 1991

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CONTENTS

Pages

INTRODUCTION 1

A HISTORY OF FRENCH PLANS 4

Chapter 1 - A GENERAL PRESENTATION OF FRENCH PLANNING 12

I - THE CHARACTERISTICS OF FRENCH PLANNING ORGANIZATION 13

1. A planning system compatible with a market economy 13
2. A light, flexible structure for evolutive planning 13
3. The three permanent functions of French planning 14
4. The French Planning Office's three essential roles 16

II- THE WAYS IN WHICH FRENCH PLANNING OPERATES 17

1. Consultation and dialogue 17
2. An evolutive forecasting procedure 19
3. Implementation instruments : a more selective,

Chapter 2 - AIMS ANS INSTRUMENTS OF ECONOMIC AND FINANCIAL MANAGEMENT 28

I - BUDGETARY MANAGEMENT 30

II - FINANCIAL AND MONETERY ADJUSTMENT 37

III - COMPETITION AND PRICE MANAGEMENT 47

IV - THE ECONOMIC FORECASTING AND STUDY FUNCTIONS OF THE MINISTRY OF FINANCE 50

Chapter 3 - WAGE POLICIES 53

I - THE INSTITUTIONAL AND LEGAL FRAMEWORK 54

1. The constituent parts of the "social public order" as applied to wages 55
2. The inssitutional framework of wage negotiations 55

II - THE CHARACTERISTICS OF WAGE POLICIES IN FRANCE 57

1. The social welfare function for wage earners 57
2. The maintenance of macroeconomic equilibria 58

III- THE EFFECTIVENESS OF THESE INSTRUMENTS 61

Chapter 4 - THE FRENCH SOCIAL WELFARE SYSTEM 64

I - THE NATURE OF THE FRENCH SOCIAL WELFARE SYSTEM 66

1. The major social welfare systems 66
2. The French social welfare system 67
3. The level of welfare cover provided in France 69

II- PROBLEMS AND OUTLOOK 70

1. Financing 70
2. Upholding the founding principles 72
3. The outlook for social welfare schemes 73

Chapter 5 - PUBLIC-SECTOR COMPANIES 77

I - GENERAL OVERVIEW OF THE PUBLIC SECTOR 78

1. Unity in diversity 78
2. The organization and legal status of public-sector companies 80

II- RELATIONS BETWEEN THE STATE AND PUBLIC-SECTOR COMPANIES 82

1. Companies providing a serviced to the general public 82
2. Public-sector companies in the competitive sector 84
3. The problem of financing public-sector companies 84
4. The contractualization of relations between the State and public-sector companies 85

Chapter 6 - SECTOR-SPECIFIC INDUSTRIAL POLICIES 95

I - PROGRAMMES WITH STRONG FUTURE GROWTH POTENTIAL 96

II - SECTOR-SPECIFIC PLANS FOR BRANCHES IN DIFFICULTY 98

III - THE NEW SECTOR-SPECIFIC APPROACHES 98

Chapter 7 - THE FRENCH EXPERIENCE OF DECENTRALIZED PLANNING 100

I - THE INSTITUTIONAL FRAMEWORK FOR DECENTRALIZED PLANNING 101

1. French administrative organization 101
2. Decentralization and its consequences 105
3. The major decentralized planning institutions 106

II- THE ORGANIZATION OF DECENTRALIZED PLANNING 109

1. The decentralized planning procedure 109
2. The contents of the second generation of Plan contracts 1989-1993 111
3. Decentralized planning and European Structural Funds 112

INTRODUCTION

The beginning of the 1990s has seen numerous countries make progress or turn towards the convergent path of democracy and a market economy. The choice is a logical one. Democracy and market economy are both founded on decentralizing decision-making, the separation of powers, the diffusion of information and responsibilizing people. The transition process from a command economy to a market economy is a long and complex process. It implies courageous economic and social reforms which will come up against numerous difficulties. France intends to make its contribution by meeting the requests it has received for co-operation, not because France believes in the possibility of transposing one model or another, but because it believes that confronting different experiences is one of the ways to progress. In fact, what is at stake goes beyond the various states. This means creating a set of common rules to ensure smoother running of the world economy.

The French Planning Office (*Commissariat Général du Plan or C.G.P.)* in close liaison with the other government officials concerned, is prepared to co-operate. It is in this perspective that this dossier has been drawn up: it obviously does not claim to paint a complete picture of French economic and social life, but simply to provide information that can serve as the point of departure for debate and reflexion.

The French experience is often described as a "mixed economy", a compromise made for historical reasons between market mechanisms and a tradition of the State which considers itself to be the vehicle of a common project. It is up to each country to invent its own compromise. It must be emphasized, however, that a mixed economy is not a "middle path" between a market economy and a state-run economy: it fully accepts the principles of the market economy (freedom for companies to set prices and salaries, competition, openness). Further ambiguities remain to be dissipated.

A mixed economy cannot be reduced to the juxtaposition of the private and public sectors, whose logics would be radically opposed. As we will see in this dossier, public companies in France, in both the industrial and financial sectors, play an important and specific role. Certain among them allow for the requirements of providing a service for the general public or pursuing efforts over long-term periods, to be catered for, which would hardly be profitable for private capital. Concern to control certain vital sectors for the defence or economy of the country also sometimes justifies public appropriation. But this in no way means that these public companies are run by the State: their management is autonomous and in line with the market economy.

In fact, there is no total solution of continuity between the public and private sectors. In order to strengthen their financing capacities, public companies often open their capital to private shareholders. Conversely, the French mixed economy is characterized by the frequent presence of public-sector shareholders in the capital of private companies. Large companies need powerful, stable shareholders, who will enable them to develop their strategy and protect themselves against takeover attempts, notably from foreign companies. Unlike in Germany for example, France boasts few financial groups capable of playing such a role. This stems, in particular, from the fact that the building of savings is not stimulated by the existence of systems of social welfare (notably pensions) through capitalization. It therefore falls to the main public investors to play the "protective" role, played in Germany by the major banks.

It could be said that a mixed economy is less a choice than a necessity in the French context.

However, it also corresponds to the conviction that, although it is pointless to claim to abolish the market to administer the economy, it is illusory to think that in the absence of any State regulation, market forces will enable the economic and social optimum to be reached. Left in the sole power of the "invisible hand", the market is likely to lead to the destruction of the environment, financial and monetary instability, increased social inequalities, sacrificing the community's long-term needs to the benefit of short-term opportunities alone.

A mixed economy therefore presupposes that the State play an important role in piloting economic and social life, without attempting to substitute itself for dynamic private-sector agents.

It is up to the State to draw up "the rules of the game" and ensure that they are respected. It must know how to resist the temptation of regulating and controlling. Markets are all the more efficient, however, when supervisory bodies oversee their transparency and smooth running. This is true of markets of goods and services - wherein competition always tends to be distorted by the "strongest" elements - as well as financial markets.

The State must also play the role of innovator and anticipate the future: action taken by economic players must be clarified by a common definition of strategic orientations and the State sometimes has to substitute for a market that can be too shortsighted to think about the future. Indicative planning, which tends nowadays to be similar to strategic planning used by large multinationals (presented in this dossier) is, in this respect, one of the instruments that enables the orientation and regulation of a modern, complex and competitive economy, in which players must continuously adapt to developments in technology, ideas and the international environment.

Finally, the State is the guarantor of social cohesion: it is the State's task not only to ensure that everyone is protected by the Law, but also to reduce insecurity by organizing the appropriate systems of social welfare, and to improve the lot of the underprivileged through public service action and reallocative fiscal and social mechanisms. A society is never strong without active solidarity. The State plays an indispensable federating role linking actions of solidarity, which should associate all members of society.

A mixed economy is therefore not a combination of a state-run economy and a market economy. It is an attempt to ensure the smooth running of a market economy open to the world, whose ultimate purpose is social justice.

This obviously presupposes a state that is sure of its principles, but also concerned for the respect of others, and its own efficiency. The complex balance that it sets up between market forces and public interventions needs to be constantly reassessed: a mixed economy calls for decentralized initiative-taking, social dialogue and consultation and democratic debate.

The French experience of a mixed economy is obviously the product of a specific history and culture. This does not make it a "French exception", which would condemn France to withdrawing into itself or renouncing its goal. On the contrary, over the last few decades the French compromise has shown that it is capable of evolving to adjust to the imperative requirements of integration into the world economy, following a deliberate choice to open up to foreign markets. In this respect, the French experience could be considered as as useful reference. It is, in any case, a wager that we feel it is wise to stake.

A HISTORY OF FRENCH PLANS

A HISTORY OF FRENCH PLANS

Born with the IVth Republic, French planning successfully passed the turning point into the Vth Republic. It was less successful, however, in coping with the 1973-1974 "crisis" and its consequences. It now has to take up what could be called the European challenge.

IVth REPUBLIC

A note from Jean Monnet to General de Gaulle outlined what non-imperative planning *"à la française"* would be. A decree dated 3rd January 1946 officially created the General Planning Office (*Commissariat Général du Plan or CGP*) and Monnet became the General Planning Commissioner.

What were the reasons behind this rather unusual institutional innovation in a country characterized by its democratic political institutions and a market economy? Two explanations can be given, which are in fact likely to merge:

- The explanation the most frequently advanced stemmed from the dilapidated, obsolescent state of the national productive system, and the preoccupation with rallying all efforts towards its modernization;

- the second explanation (sometimes advanced by Monnet) stemmed from the need to be able to provide Washington with sound arguments in order to obtain financial aid, notably through the Marshall Plan.

Any explanation linked to the favourable conditions in which planning was initiated leads one to ask why the institution has been maintained since then. The reasons usually advanced refer to the three functions fulfilled by the Planning Office, which Henri Guillaume, a former Planning Commissioner, put in the following terms: "Throwing a light on the future, facilitating economic and social debate, appreciating consistency"[1].

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[1] See "La Planification Française a-t-elle encore un avenir?" (Does French Planning still have a future?) in B. Cazes and Ph. Mioche (under the direction of), Modernisation ou Décadence?, 1990.p.228.

1st PLAN (or The Monnet Plan) 1948 -1952

The first French Plan has remained in the collective memory as the plan which expressed the "modernization or decadence" dilemna in precise figures and turned it into concrete actions. It also has several other notable characteristics:

- It introduced the notion of selectivity to the benefit of the so-called basic sectors, despite a downward revision of initial objectives.

- It was the first - but not the last - plan to have been subjected to external shocks, one of which was negative (a disastrous first year), the other totally positive, Marshall Plan aid. The latter marked the Monnet Plan in several ways: by extending its initial period of four years to 1952 to harmonize the two schedules, and by ensuring the financing of a large part of the basic sectors' investments.

2nd PLAN 1954-1957

This plan which coincided with the last years of the IVth Republic, has sometimes been considered as a symbol of "deplanning", for a whole series of different reasons:

- The exceptional length of time it took to draw up (the Parliament to whom it was submitted, unlike the Monnet Plan, voted it in March 1956).

- The Planning Office was attached to the Finance Ministry.

- The increased share of "downstream sectors" (agriculture, processing industries), to the detriment of the basic "upstream sectors in which there are proportionately more nationalized companies.

- Debudgetting of part of the financing of investments.

Conversely, it can be advanced that it was quite natural that sectoral priorities should not remain unchanged since the Monnet Plan. It is also worth noting that the scope of planning was then considerably broadened (apparently at the request of the Budget director) to include school, university and hospital plant. Finally, the "basic actions" recommended in favour of productivity were twenty years ahead of companies' indirect policies in favour of the environment.

The implementation of the 2nd Plan did not improve its image, since it ended with a growing foreign debt, which in January 1958 obliged the French Government to send Jean Monnet to Washington once again to obtain an emergency aid of $600 million.

Vth REPUBLIC

During this period, the most pertinent break seems to have been the first oil shock (1973-74), which marked the end of the thirty glorious post-war years and permitted the distinction between two groups of plans: the pre-crisis 3rd, 4th and 5th plans, and those that followed, which had to cope with the consequences.

THE END OF THE 30 GLORIOUS POST-WAR YEARS

3rd PLAN 1958-1961

The 3rd Plan was, with the Monnet Plan, the only French plan not to have been submitted to Parliament due to the difficult circumstances in which it was drawn up at the turning point between two Republics. Its basic set-up was the same however: some twenty committees made up of social partners, civil servants and experts carrying out horizontal and sectoral studies synthesized by the Planning Office within the framework of directives received from the Government.

The elaboration of the 3rd Plan nonetheless marked two significant changes: the use of the national accounting language to formulate macroeconomic objectives and the introduction of a long-term dimension into planning studies (1955-1965 forecast). The content of the plan reflected the concern - constantly present since the 1st Plan - to reintegrate the French economy into the international division of labour, hence the dual effort of rectifying imblances and preparing for the Common Market (set up on 1st January 1958). The plan's implementation was marked in 1959 by the Rueff stabilization "plan". The recovery was quicker than the 3rd Plan had forecast, but was set against a slowdown in growth, largely effaced by the interim plan (1960-1961).

4th PLAN 1962-1965

The 4th Plan marked an exemplary phase in the history of the French Plan, in both the way it was conceived and in its content and implementation.

Its elaboration benefitted from a series of favorable conditions, such as:

- The personality of Pierre Massé, the new Commissioner;

- The sustained economic context from 1960 to 1962;

- The fact that for several years the concept of democratic planning to which French planning could quite legitimately be attached - was in vogue;

- The openmindedness of a number of leaders during the Vth Republic with regard to an institution which, after all, was created by General de Gaulle.

The procedural innovations accepted by the Government strengthened all the more the consensual atmosphere around the Plan: consultation of the Economic and Social Council on major orientations, Conseil Supérieur du Plan (Higher Plan Council), and the reintegration of the Communist-linked trade union, CGT, into modernization committees. The content of the 4th Plan also gave reason for satisfaction: strong growth in line with maintained equilibrium in the key areas of the economy; public infrastructure investment progressed twice as fast, and an effort was made to remedy social and regional inequalities. The Law of 4th August 1962 which approved the 4th Plan defined the two-stage method (Options and the Plan itself) of elaborating later plans (for twenty years).

Furthermore, despite the effects of certain stabilization measures implemented by the Government from September 1963 onwards, "this plan was carried out better than all the other plans" (P. Massé). However, during this period, there were two notable negative phenomena: the failure of the Income Conference (Conférence des Revenus) in 1964, a year which also marked the beginning of a lasting fall in the fertility rate.

5th PLAN 1966 - 1970

The elaboration of the 5th Plan was marked both by the innovations introduced by P. Massé (the incorporation of the notion of strategy through the Plan's "warning lights", indicative programming in value terms, future-oriented studies geared toward 1985) and by concern to foresee any "overheating" of the economy, hence a slightly lower growth objective compared to that of the 4th Plan.

The "shock" of May-June 1968 seriously perturbed the execution of the 5th Plan, since while growth did not suffer, prices soared bringing with them a slowdown in public infrastructure investment through a process that was echoed in later plans.

The "OIL SHOCKS" and their consequences

6th PLAN 1971 - 1975

The 6th Plan seemed to get off to a good start, firstly due to its methodologial innovations : the use of a medium-term model (non econometric), long-term studies, quarterly follow-up indicators to the Plan, the notion of a **collective function** and a mid-way examination of the Plan. The second reasons lay in the broad diversity of its content, where strong growth combined with the industrial imperative, a low inflation rate, the stabilization of the taxes/GDP ratio, faster growth of public infrastructure investments than that of production and an improvement of living conditions.
Finally, the preparation of the 6th Plan was characterized by the increase in the number of committees.

The oil shock unfortunately cut the growth rate in the OECD area in half and meant that the 6th Plan was carried out exceptionally badly.

7th PLAN 1976 - 1980

The preparation of the 7th Plan began in the intellectual anti-growth atmosphere of the first Club of Rome report and continued after the beginning of the October 1973 oil shock in an atmosphere that had changed considerably. In comparison, methodological innovations, such as the creation by Mr. Giscard d'Estaing of a Planning Council, a reduction in the number of committees, abandoning the exhaustive programming of public infrastructure investment to the advantage of the more selective "priority actions programmes" (PAP) - seemed to be of limited scope.

Perhaps the most marked factor was that the succession of international "shocks" and the chaos that they created for the world economy made the final drafting and the execution of the plan very difficult. While its elaboration began in the recessionary context of the "first oil shock", it was completed while international economic research bodies (led by the OECD and the Economic Communities Commission) were working on the basis of far more optimistic international environment scenarios, reincorporating an outlet to the crisis due to the recovery in investments. It was in this context that more satisfying growth and employment objectives were set for 1980, the last year of the 7th Plan. It is common knowledge that the "second oil shock" put an end to these hopes, while at the same time, rendering the objectives null and void.

The Planning Office was therefore led to draw up a report on adjusting the 7th Plan during its execution, which was based on the new DMS (econometric) model. It was in this report that the themes that were to mark later plans emerged: the deeper nature of a crisis which is not merely an oil shock, industry's adjustment to foreign competition, French companies' financial fragility.

8th PLAN 1981 - 1985

The 8th Plan can be considered as a still-birth, since it was not presented to Parliament, and because the change in political majority prevented it from being implemented. It was prepared following consultation with two foreign experts, Leontief and Andrew Schonfield and was remarkable in its methodological innovation, which consisted in using the DMS model in an optimizing mode as an instrument to define an economic policy focussing on employment and respecting external requirements. Its public version was, however, lacking in any quantitative objective, due to (excessive) reaction to the hazards that marked the execution of the 7th Plan.

9th PLAN 1984 - 1988

Following an interim plan (1982 - 1983), the Law of July 1982 set up quite a complex institutional system that combined a national 80- member committee, a plan drafted in two stages, PPEs or priority programmes for execution - a follow-up to the PAP, and Plan-contracts signed by the State, the French regional authorities and public companies. The content of the plan, which bore reminders of the complexity of the 6th Plan, grouped components of various origins:

- a competitive supply policy;
- the struggle against inflation through wage austerity measures;
- maintaining France in the EEC;
- job creating growth;
- the reduction of **state taxes** within the GDP.

The change in political majority in 1986-1987 meant "a period in the wilderness" for the Planning Office which was almost turned into a Strategy Office at one point. Another change in the opposite direction, however, provided planning with the opportunity for recovery.

10th PLAN 1989 - 1992

Although it is still early to draw conclusions from the results of the 10th Plan, one can nevertheless attempt to appreciate the contributions it has made, by looking at a certain number of concepts and themes that have appeared during this brief history.

To begin with, the international environment is as present as it was during Monnet's plan, with, however, one interesting change: Europe's taking the place of the United States. The Plan period, which should have extended to 1993, was changed to end in 1992 when the Single Market is due to come into force. Similarly, the Planning Office's study of the macroeconomic implications of governmental directives was based on the European environmental scenario drawn up by the European Commission for the 1988-1992 period.

The three planning functions were still present, even if the forms they have taken have changed with time. "Shedding a light on the future" concentrated both on the long term - with the Horizon 2000 report - and on the medium term, by associating several teams of French modellers with experts from the EEC and the OECD. Consultation and dialogue was simplified (with exclusively "horizontal" committees) and extended (to younger generations and Europe). Consistency remained a major Planning Office concern, notably where macroeconomic strategy was concerned , but took on new dimensions - still not clearly perceived - with the political decentralization introduced after 1981, which vastly increased the number of decision-making centres to be co-ordinated.

The Plan's commitment value also took on different features from those of the past. It was strengthened in the "contractual" part of the Plan notably with the State-Region plan contracts. On the other hand, it was much weaker in the "programmed" part of the Plan: the PAPs or PPEs disappeared, since the 10th Plan had chosen a strategic approach.

Strategic planning is widely used by large companies which on the basis of future-oriented studies of their markets and their strengths and weaknesses, define long-term objectives and the criteria according to which measures will be taken to realize them.

France is obviously not an enterprise, but it was considered that these methods could serve as an inspiration. In an environment marked by all the hazards that characterize the world economy, and on the basis of an analysis of the French economy's strengths and weaknesses deemed necessary in view of the scheduled construction of Europe, the 10th Plan defined a certain number of rules by formulating commitments that were more qualitative than quantitative, more comparative than absolute, as, for example, the following expressions indicate:

"The new social distribution should above all benefit the creation of jobs for the unemployed".
"Our objective is that investment should progress twice as fast as the economy".
"The State is committed to reducing the budget deficit each year".

These orientations fall in line with the following three general objectives:

- to find room for manoeuvre with regard to the constraints of the international context and pursue our national adjustment effort;
- to ensure consistent choices by not running away from long-term realities (such as the effects of the population growth on pension systems) and by detecting incompatibilities between different orientations, which would appear desirable if taken in isolation;
- to govern differently, which implies periodical evaluations of the most important public actions.

This last element is an important innovation. As the 10th Plan decided to abandon objectives in figure form, such as growth rates, and quantitative budgetary programming in order to adopt a strategic conception in which the Plan's objectives and the Government's commitments are expressed in qualititative or comparative terms, the question of the Plan's follow-ups must be put in different terms. This implies designing a mechanism to evaluate the effects of public policies. A system was hence devised which included both an interministerial evaluation committee and, with a view to objectiveness and impartiality, an independent body known as the Scientific Evaluation Council[1].

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[1] See note on the General Presentation of French Planning.

Chapter 1

A GENERAL PRESENTATION OF FRENCH PLANNING

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A GENERAL PRESENTATION OF FRENCH PLANNING

I - THE CHARACTERISTICS OF FRENCH PLANNING ORGANIZATION

In 1946, Jean Monnet convinced General de Gaulle to create the French Planning Office *(Commissariat Général du Plan or C.G.P.)* and to set up an indicative planning system that would be compatible with a market economy and able to put government policies in a medium-term perspective. Jean Monnet was the first General Planning Commissioner (1946-1951).

After the Second World War, the French economy was partly in ruins and subject to numerous controls. Forty-five years later, planning still exists in a France that is open to international trade and contributes actively to building the European Community, because it has constantly been able to adapt.

1. A planning system compatible with a market economy

French planning has never sought to be a substitute for the market. On the contrary, it is complementary to the market, making up for its weaknesses, guiding it and ensuring that its operations are compatible with the country's social cohesion.

Market weaknesses can be of a permanent nature. Economic theory teaches us that in the face of natural monopolies (the case of growing returns), external economies or again, the production of public goods, the market is not capable of allocating resources efficiently. Short-sightedness is also one of markets' characteristics; they are not always the best guides for decision-making with a long-term impact.

These failings can, however, also be temporary, linked to a given phase in economic development. This was precisely the case of the French economy at the end of the Second World War, when it was an economy of shortage and overall rationing. In France today, with the exception of the prices of agricultural products set by the European Common Agricultural Policy, public tariffs practised by natural monopolies and the prices of health and educational services, all pricing is carried out on free markets.

2. A light, flexible structure for evolutive planning

This simple observation shows that planning has not only not conflicted with the market, but that it has encouraged its development. Planning has had to continuously adjust to the considerable transformation of the French economy as it became integrated in the international economy. Therefore, France does not have a planning model, but an evolutionary experience of planning.

This flexibility or malleability of planning presupposes that the French Planning Office be a light structure. Jean Monnet established the principle that the Office would "have done rather than do itself", which would prevent overmanning. It is a small entity with a total staff of 200, working in eight different divisions and 70 technical advisers, known as *"chargés de mission"*. It is not large enough to play a management role; it is responsible for organization and co-ordination only. This implies a clear distribution of roles between the Planning Office and the line ministries in order to avoid conflicts. The co-ordination between government departments presupposes that the Planning Office be considered as a "neutral" entity; being attached to the services of the Prime Minister facilitates its role as an "interface".

The Planning Office staff is original in that it includes technical advisers (high level administrators or engineers) - enabling it to call on a variety of skills in the legal, economic, scientific and technical fields - and clerical staff. There are no intermediate management positions. Approximately half of the technical advisers are civil servants who have already held at least one position in another sector of the public services, and who spend several years with the Planning Office. The fact that many technical advisers only stay for a few years is a safeguard against sclerosis and generates new ideas. Many of them stay in close contact with the Planning Office and often participate in consultation and dialogue proceedings.

Jean Monnet was the driving force behind the Plan's role of task administration, a light structure without management responsibilities. He declared that "the Plan would be quite different from a supplies ministry"; he also wrote: "I had better things to do than seek to exercise power myself: had it not been my role for many years to influence those who hold power?".

3. The three permanent functions of French planning

French planning focuses on three permanent functions. Planning is firstly a collective process of taking stock of the strengths and weaknesses of French society, identifying the problems posed by economic and social development and proposing solutions. Secondly, it provides a number of rules that aim to improve the way the economy and the market function. Thirdly, it establishes a medium-term framework of coherence for objectives and public policies accompanied by a long-term vision.

One of French planning's most important contributions is the collective examination of the strengths and weaknesses of the economy and French society's maladjustments. The Planning Office's neutrality with regard to lobbies and the critical examination of its social partners gives it the great objectivity that has always been the strength of French planning. It constitutes a serious basis upon which to pose problems of economic or social development and seek out solutions. French planning therefore rests on the association of diagnosis and the decisions made by economic and social partners as a whole, unlike the centralized system wherein directives come only from upon high. Planning is a process of dialogue and consultation, so-called because it aims to unite various players (government officials, employers, trade unions) with experts to identify together the problems that need to be solved in the various areas, and, if possible, propose solutions. The French plan also fulfils an explanatory and educative function. As Jean Monnet

wrote in the founding text of French planning: "Since implementing the Plan will require everyone's co-operation, it is essential that all the Nation's vital partners participate in its elaboration".

Planning also provides a set of rules and information that aims to improve the running of the economy and the market. It is an economic and social guide which gives players "indicators" and not detailed indications concerning production, prices, etc. In this respect, French planning is radically different from the centralized planning that was practised in eastern Europe. The French Plan is therefore complementary to the market; it corrects its short-sightedness, insofar as it provides economic and social players with general information that helps them make their choices.

Finally, French planning establishes a medium-term consistency framework accompanied by a long-term vision, with the assistance of various economic research bodies, firstly for the Government, but also for the community as a whole. Any economic and social policy needs to be clarified by knowledge of its medium- and long-term implications. The Plan is "a means of shedding light on the long-term implications of difficult, very short-term decisions". Devising a plan is not so much foreseeing, as it is making choices that take foreseeable and unforeseeable changes into account. In putting things into a medium- and long-term perspective the Plan becomes a consistency framework for Government decisions. The Planning Office is an adviser to the Government.

This function as a medium-term consistency framework played a considerable role in France at a time when very rapid growth led to accelerated transformations and changes in both the economy and society, and when it was both possible - due to regular growth - and primordial to know "where we were going". The "shocks" of the 1970s and the subsequent uncertainty in economic forecasts, the multiplication of hazards did not do away with the need for a medium-term vision, but, on the contrary, increased that need. The Plan therefore remained the framework of consistency of the major qualitative orientations for economic and social development and the Government's major medium-term choices, but in so doing, it has become more selective and strategic.

4. The French Planning Office's three essential roles

The French Planning Office plays three essential roles that are largely interdependent and complementary: preparing the Plan, advising the Government, and studying long-term and future structural problems. These roles all contribute to achieving one major ambition: the modernization of French society.

The first role is the preparation of the Plan. The procedure has obviously changed since the preparation of the first plans and today's conception of strategic planning. It is possible, however, to pinpoint several major traditional stages in the preparation of French plans. The procedure begins with the Government's drafting of a framework text. Then comes a phase of consultation and dialogue with the country's major economic and social bodies which are invited to take part in a number of theme-based committees organized by the Planning Office (cf.above). The following stage is made up of interministerial discussions destined to prepare the draft Plan. The Government then completes its final arbitration and presents the Plan bill to the Economic and Social Council. Once the Council's opinion has been taken into account, the Government puts the draft Plan to the vote in Parliament (National Assembly and Senate), which can amend the text. The final step in the procedure is adoption of the text by Parliament.

As the French Planning Office is not responsible for management, Plan implementation is carried out by others, but the Office follows implementation closely, through various activities:

- technical activities such as the elaboration and examination of quantitative macroeconomic indicators ;

- specialized activities with the explanation of priority themes within the Plan; in accordance with the 10th Plan, specific studies are being carried out in the fields of tourism, transport, education, natural parks and rural planning;

- formal activities such as the drafting of a progress report that is likely to be debated in Parliament; a mid-term examination of the 10th Plan was carried out in the spring of 1991.

The Planning Office's second role is that of economic policy adviser to the Prime Minister. It takes initiatives to ensure that the implementation of day-to-day economic policy reflects the Plan's orientations. As an example, the Planning Office took part - alongside all the other ministries involved - in the preparation of measures to encourage employment in the summers of 1988, 1989 and 1990 and in the study of the consequences of the Gulf Crisis (Anti-Crisis Group), as of August 1990.

Finally, the Planning Office's third role pertains to long-term and future structural issues, which, by definition, often tend to be sacrificed for the benefit of more immediate concerns. In 1987-1988, for example, a working party studied the possible effects for France of the completion of the European Single Market and the adjustments that would be necessary for French society to make this project a success. Since the summer of 1989, the Planning Office has set up several task forces on social inequalities in view of the construction of Europe, and on energy prospects in the year 2010.

II - THE WAYS IN WHICH FRENCH PLANNING OPERATES

Some of the characteristics of the French (so-called) indicative planning experience have remained the same for the past 40 years, but each Plan is also the reflection of the state of the economy and, more generally, of French society at the time and the problems it has had to face.

The Second World War made France aware of the fact that over the previous decades it had gradually been lagging further behind its neighbours. The Plan's key idea was then to modernize French society. The first Plan in 1947 was known as the Modernization and Infrastructure Plan. The idea was that market mechanisms would not suffice alone to ensure the modernization of French society. They had not succeeded in the previous decades. There was perhaps also the idea that so decentralized a mechanism as the market mechanism would not be sufficient to put France on the path towards modernity, since it had always been a centralized country, and one in which the market corresponded less to deep-rooted cultural traditions than it did elsewhere. Economic players had to communicate, not exclusively through market relations, but also directly, and devise society's objectives collectively and the necessary means to attain them.

The Planning procedure became characterized by the collective examination of French society's maladjustments and the search for consensual solutions through consultation and dialogue. Another of the procedure's characteristics was its concern to adopt a common vision of the future in the medium and long terms, which the market - often considered as short-sighted - does not produce spontaneously. Finally, the procedure is characterized by the State's commitments as to its future action and its relationships with its partners. These three elements together make up the planning procedure - the plan cannot exist if any one of these is missing.

1. Consultation and dialogue

The French planning experience cannot be dissociated from consultation and dialogue, i.e. associating the country's main economic and social forces in the planning process.

The French plan in fact comprises two different types of document. The Plan document itself is presented -in the Government's name - to the Parliamentary Assemblies, to be debated and put to the vote. This document is binding on the Government.

The Plan Committees' reports are drafted at the same time as the Plan itself by specialized tripartite committees made up of government officials, social partners (representatives of trade unions and employers' federations) and experts. The chairman of each committee is chosen from outside the French Planning Office and very often outside government services: he or she can be a company director, a banker, a trade unionist, a representative of an association, a university professor, or a journalist. The French Planning Office handles the group's secretariat and assists the chairman in organizing the work schedule and in drafting the report. It is the chairman himself, however, who oversees the working procedure with a view to best meeting the conditions of his mandate.

The Plan Committees' reports seek to arrive at a consensus on each subject handled, or at least a convergence on the diagnosis, if not on the solutions, and are not binding on the Government. It is not always possible to reach such a consensus, in which case the different opinions are included in the appendices to the texts. This procedure has developed a certain transparency encouraging French society's greater awareness of the problems at hand. The Committees set up to prepare the 1989 - 1992 Plan covered issues including France's industrial, commercial and financial adjustment to the European Single Market, employment and social relations, the future of social welfare, education and training, research, living conditions, and the efficiency of the State.

Although the preparation of the Plan is a privileged moment for consultation and dialogue, they both continue beyond this period. For example, since 1982 the French Planning Office has set up a number of Industrial Strategy Groups (G.S.I.) which are tripartite "think tanks" responsible for studying the situation and perspectives of French industry, either through sectoral approaches (chemicals, agrifood industries, wood, building, public works, etc.), or by theme (technologies, foreign trade, financing, small and medium-sized companies, etc.). They are asked to put forward proposals and make recommendations on the actions to be undertaken.

Today, all members of the Plan Committees are appointed by the Government. An attempt to include elected representatives in the Committees was made in 1982, during the preparation of the 9th Plan when the decentralization laws were beginning to take effect. The president of each Regional Council (the Assembly elected to govern each of the 26 French regions) was to be an ex officio member of the central consultation body: the National Planning Committee. Experience did not prove this initiative to be very fruitful and it was not maintained for the preparation of the 10th Plan.

While consultation remains one of the basic principles of the planning procedure, over recent years French wage earners seem to have lost interest in their trade unions.

2. An evolutive forecasting procedure.

Planning and forecasting were originally often taken as one and the same thing in a closed economy. The figures in the Plan appeared as both forecasts and objectives. The situation is quite different today. Forecasting is still part of the planning procedure, but at a different level. The Plan itself sets out priorities and defines policies. Forecasting becomes an element of clarification for economic and social partners (the Plan "reduces uncertainty") by contributing to overall consistency.

2.1. An institutional choice

In line with the rule that the Planning Office "has done rather than does itself", quantitative projections are provided by outside partners, which are traditionally the National Statistics and Economic Studies Institute (*Institut National de la Statistique et des Etudes Economiques or I.N.S.E.E.*) and the Forecasting Directorate, both in the Finance Ministry.

The Planning Office can also have recourse to research agencies and institutions which are attached to it, such as:

- the Centre for applied analyses in mathematical economics (*Centre d'Etudes Prospectives d'Economie Mathématique Appliquées à la Planification or C.E.P.R.E.M.A.P.*), which studies and improves methods of analysis, forecasting and economic programming applicable to national economies, international trade and their development and to carry out fundamental research on economic theory necessary for the advancement of these methods;

- the Centre for forecasting and analyses of international trade (*Centre d'Etudes Prospectives et d'Information Internationale or C.E.P.I.I.*), which gathers information and produces forecasts on the world economy, international trade and foreign economies;

- the Centre for income and cost studies (*Centre d'Etudes des Revenus et des Coûts or C.E.R.C.)*, which publishes regular reports on trends and distribution of various income categories;

- the Research Centre on living conditions (*Centre de Recherche pour l'Etude et l'Observation des Conditions de Vie or C.R.E.D.O.C.*), which carries out studies and promotes research on household consumption and the population's needs, aspirations and living conditions.

France has chosen this particular method, but others are obviously possible. Belgium and Holland, for example, have chosen to integrate forecasting teams into their planning offices.

One should be aware, however, that the choice is not a neutral one. When one chooses to integrate forecasting teams into a national planning office, they are doted with a more university-like, technical nature. When the operation is successful, it has the reputation of contributing scientific thoroughness into the

economic and social debate. This is largely the case today of the Dutch Central Planning Office in the tradition of the Nobel Prize for Economics, J. Tinbergen. This choice is particularly difficult to reconcile with that of a planning office that is close to personalities in charge of the country's economic policy, as is the case of the French Planning Office, which is attached to the Prime Minister. The choice is not a purely technical one.

2.2. The evolution of forecasting methods

It is not possible here to go into great detail on the evolution of forecasting methods used in planning. It is nonetheless instructive to make several observations to show how these methods have developed with the major problems of the French economy.

The early plans, and in particular the first plan covering the period from 1947 to 1953, were plans intended to rebuild the economy. The sectoral procedure was adopted deliberately. The intention of the first Plan was to reconstitute the production capacities of six basic sectors (coal, electricity, steel, cement, transports, agricultural mechanization and plant). The State also had the task of distributing the funds from the Marshall Plan. There was scarcely any recourse to forecasting studies during these early plans in view of their selective approach.

Once reconstruction had been completed, the French economy went through a period of strong, regular growth (5 to 6% per year), in an international context of openness, following the signing of the Treaty of Rome in 1957, which set up the 6-member Common Market.

Planning lost its sectoral nature to become more macroeconomic. Rapid, regular growth and exposure to competition worldwide had to be proven to be compatible with maintaining equilibrium in the key areas of the economy and, above all, with foreign equilibrium.

The French Planning Office decided to ask the Ministry of the Economy and, in particular, the National Statistics and Economic Studies Institute (INSEE) to carry out forecasts for each Plan (4th, 5th and 6th) during the period from 1962 to 1975). Initially, the forecasting work consisted in projecting the major synoptic tables of the national accounts for the last known year to the final year of the Plan period. With regular growth, a description of the intermediary years was pointless. From the mid-60s onwards, competitivity requirements became a central issue due to the process of dismantling Community customs barriers. INSEE developed a static, non econometric model, known as FIFI (physico-financial), based on the concept of an economy in competition, which shows the constraints of the international competition. During this period, the Plan included a macroeconomic forecast.

After the first oil shock in 1973, not only did the growth rate slow down, but it also became more erratic. The static FIFI model was abandoned and INSEE developed a Dynamic multi-sectoral econometric model (DMS) that was able to show macroeconomic developments on a yearly basis from the current year to the final Plan year. The DMS model also allowed for the integration of the current economic climate indicators into medium-term trends. Uncertainty as to the evolution of the international environment, however, led to a multiplication of economic scenarios

and in fact today, while forecasting has become increasingly sophisticated, it is no longer officially associated with the Plan; similarly, unlike past procedures, there is no longer a growth rate associated with the Plan.

The quantitative studies carried out during the 10th Plan preparation period were influenced by an institutional innovation: the Planning Office continued to request projections from INSEE, but also placed orders with independent institutes set up in the early 80s.

The quantitative studies requested by the Planning Office played a major role in the development of both French econometric modelling and the national accounts, which represents an indispensable basis for model building. The demand for statistical data needed to carry out these studies had a decisive influence on the progress made in economic and social information in France.

3. Implementation instruments: a more selective, contractual procedure.

Regarding the Plan's implementation, the distinction must be made between the State's own commitments, its relations with French companies and those with the 26 regions. The reader will find detailed information in the documents on "Public-Sector Companies and "The French Experience of Decentralized Planning".

3.1. The difficulties of budgetary programming.

Planning must be clearly distinguished from pluriannual programming and it must be realized that in various countries they do not overlap.

France has never used real pluriannual budgetary programming, whereas other countries such as Germany and Canada, although scarcely disposed towards planning, have adopted this type of procedure.

In France, until the 6th Plan, the Plan-Budget link was established through public infrastructure investment, while investment expenditure alone was subject to programming for each year covered by the Plan. From the 4th Plan (1962-1965) onwards, capital spending appropriations were even subject to regional divisions.

During this period of rapid, regular growth, by introducing a sophisticated, exhaustive programming of public capital spending appropriations, France sought to set up a public investment infrastructure that would encourage the development of a competitive economy capable of meeting the population's demand for community services.

With the outbreak of the first oil shock, the growth rate became uncertain and the State was no longer able to commit itself - with any credibility - to exhaustive pluriannual programming of capital spending appropriations. The resources implemented each year depend on the manoeuvring margins available in accordance with the economic climate.

For those Plans published during crisis periods i.e. from the 7th Plan onwards (1976), selectivity became the keyword. Exhaustive programming was abandoned

to the advantage of priority actions which benefited from a State financing commitment. The State committed itself to not applying budgetary adjustments imposed by the economic situation to a selected group of priority policies. The system changed from being one of exhaustive programming of simple (infrastructure investment) actions to a partial programming of complex actions (programmes).

In practice, selective programming proved cumbersome: the 12 priority programmes of the 9th Plan became 51 sub - or smaller - programmes, 191 actions, 492 sub-actions and almost 1,000 budgetary lines. The programmes were heterogeneous and were abandoned in 1986.

3.2. Strategic Planning and the evaluation of public policies.

The 10th Plan abandoned quantified objectives, such as growth rates, and quantitative budgetary programming, although - independently of the Plan - elements of programming subsist in certain areas (military expenditure, motorways) which represent pluriannual expenditure commitments.

In view of the uncertainties and hazards which increasingly characterize the international economy and the integration of the French economy, which opted for exposure to the world economy and European Community membership, the 10th Plan chose an essentially qualitative strategic approach similar to the methods used by large companies, which have considerable recourse to strategic planning. They carry out future-oriented studies of their markets and a diagnosis of their strengths and weaknesses, which then enables them to determine their long-term objectives and the criteria according to which measures will be taken to realize them. France is obviously not an enterprise, but it was considered that these methods could serve as an inspiration. On the basis of an analysis of the strengths and weaknesses of the French economy, the 10th Plan formulated the objectives and commitments made by the Government to achieve them, in terms that were more qualitative then quantitative, and more comparative than absolute.

Where public finances are concerned, strategic planning consists in determining a few regulatory principles and establishing priorities. The 10th Plan laid down two rules: the budget deficit would be reduced each year and overall public expenditure would grow more slowly than national production. These clearly defined commitments were respected in 1989 and 1990.

Regarding expenditure, the 10th Plan identified priority sectors (education-training, research, solidarity, the arts) where expenditure would be allowed to increase more rapidly than the average. It stipulated that a reduction in tax revenue would be necessary to meet European commitments (value added tax, financial revenue taxation). On the subject of social welfare, the 10th Plan proposed both a new resource in the form of a generalized social contribution (C.S.G.) and orientations towards controlling the growth in pension and health expenditure.

The French economy's progressive integration into the world economy - with all its developments, so difficult to predict - meant that budgetary decisions had to be selective and strategic.

Finally, the 10th Plan insisted on the need to modernize the State by granting more autonomy and initiative to government departments and by developing an a posteriori evaluation of public policies. This was an important innovation which stemmed from the strategic conception of planning. The system aims to give itself the means to appreciate the extent to which the real effects of public policies are in conformity with objectives. The Interministerial Evaluation Committee is responsible for developing and co-ordinating government initiatives in this area, while the National Fund for the Development of Evaluation finances these projects chosen by the Committee. Each project must be approved by the Scientific Council, an independent body made up of eleven members appointed by the President of the Republic, which is answerable for the quality and independence of the evaluations.

3.3. The keynote to relations between the State and French companies is responsibility.

3.3.3. General orientations

The relations between the State and French companies differ depending on company status: private, publicly-owned companies in the competitive sector, or monopolies.

Since French planning is indicative, it cannot impose obligations on companies in the private sector. Planning can indeed have a sectorial approach, as was the case with the early plans, and consequently have different impacts on private companies depending on their sector of activity. With the exception of the specific period of post-war construction, however, the results of the sectorial approach to planning have proved disappointing. Therefore, the principle has progressively been to replace a sectoral intervention policy by a so-called horizontal policy. The aim is to create a stable economic environment, characterized by applying general conditions to companies, which compare favourably with those that prevail among our major trading partners. A company environment policy is by definition many-sided. It has a macroeconomic side (price stability, control of income tax and social insurance contributions), a regulatory or legal side (clarity and stability of the "rules of the game", company law, competition law) and directly concerns government departments' actions (concentration and quality of public services: training, research and communication). The announcement of the stabilization of social contributions paid by companies or the improvement in conditions governing the handing down of small and medium-sized companies are two examples used in the 10th Plan to illustrate this type of policy. Specifically sectorial issue are the subject of G.S.I. (Industrial Strategy Groups) consultations, organized by the French Planning Office.

The relations between the State and publicly-owned companies in the competitive sector are not unlike those of a shareholder in a private-sector company. For this category of company, the State's most important action lies in the appointment of a chairman who enjoys great autonomy in running his company. The authorities have sought to limit finicky, selective interventions and adopt a global approach notably through objectives contracts which only concern the company's qualitative strategic objectives. Apart from its role as a member of the Board of Directors, the State also

provides publicly-owned companies in the competitive sector with indications to assist them in wage levels[1].

Relations are different with the major national companies i.e. natural public monopolies in the energy, transport and telecommunications sectors: they take the form of a Plan-contract, which concerns, in the first instance, investment policy and company tariffs.

This practice was introduced twenty years ago, following the publication of the famous NORA report in 1967. The NORA report recommended this contractual approach in order to give public-sector companies more autonomy.

Plan-contracts linking a company to the State cover a period of between three and five years; they can include productivity or quality objectives, investment programming and State commitments on the evolution of public tariffs. They offer the opportunity to both the State and the company of defining a medium- or long-term strategy and carrying out mutual financial commitments.

These contracts are signed by the company itself and the relevant ministry. The Planning Office does not therefore, as a general rule, act on behalf of the State. These contracts contain safeguard clauses in case the evolution of the economic environment prevent their conditions from being fulfilled.

The contracts permitted the clarification of the financial relationship between companies and the State. The distinction between commercial activities and those which call for financial compensation (specific general interest or public service constraints) has created a greater transparency of company results. Contractualization has enabled the State supervision of public-sector companies to be put into a more consistent framework with medium-term objectives and more equitably negotiated contacts.

3.3.2. The cost-benefit analysis

The relations between the State and public-sector companies can also be indirect, and supplement market indicators through the transmission of information. In fact, one of the problems of public monopolies is that of determining the optimal volume of investments for the overall economy, while profit only serves as a selection criterion.

One of the Plan's traditional functions is to define the discounting rate which serves as a decentralized selection criterion for companies in general for the choice of their investments. The discounting rate appears as the minimum profitability required by national investments, in order to ensure the correct financing of the global investments to be made during the Plan period. Programmed investment should be retained if its profitability rate is higher than discounting rates.

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[1] See note on public-sector companies.

Technically, the rate is calculated as the marginal productivity on the capital associated with one of the Plan's illustrative macroeconomic projections.

This discounting rate is similar to an interest rate and would even be the equivalent of the long-term interest rate on the financial market if all the markets were perfect, which is not the case. In fact, since the end of the war and until recently, the financing of the French economy was administered with rationing procedures. Interest rates did not perfectly reflect the real rarity of capital. The discounting rate is an example of the Plan's aim to make up for market failings to ensure that resources are allocated properly.

Beyond establishing decentralized management criteria to select large national companies' investments, the actual authorization to make an investment for this type of company falls to the Economic and Social Development Fund (FDES), whose Board of Directors is made up of the various ministers involved and chaired by the Minister of the Economy and Finance. Now that public-sector loans are contracted on the financial market, the role of the Economic and Social Development Fund consists on the one hand in ensuring that public-sector company debts remain controllable, and on the other hand in managing the investment timetable and, above all, major national companies' (Grandes Entreprises Nationales or GEN) loans in accordance with the climate of the financial markets. This means determining how the volume of public investments will be staggered over time in such a manner as to ensure - without excessive tension - that the financing of the economy's overall investments is in line with available savings.

France has both in its government and its major national companies, led by Electricité de France, a particular and original experience of rational management of natural public monopolies.

3.4. The Plan's regional dimension: contractual relations are given increased priority (cf. Note on French government organization and decentralized planning).

There was no regional dimension in the first 1947 Plan. The main objective was to reconstitute the production potential as rapidly as possible, notably energy sources and basic industries. In the given context, it seemed more efficient to rebuild on to existing plant.

Historically, the current French regions owe their existence to the State's repeated efforts to ensure that the Plan's choices were implemented throughout the country. The regional divisions provided a solution to organizational and programming difficulties, that actions within the framework of each département, or a fortiori at a local level, could not solve.

From the 4th Plan (1962) onwards, besides the definition of general urban and region development objectives, the Plan's regional dimension progressed with the implementation of "regional operating blocks", or the regionalized programming of public infrastructure investment. At the same time, the distinction was made between a regionalization of the national Plan and the existence of programming proper to the regions. The former is characteristic of the State and remains centralized. The latter is deconcentrated, but regional "prefects" are required to

submit their programmes to the départements' authorities and the Committees for Regional Economic Development (CODER), set up in 1964.

With the outbreak of the economic crisis which followed the first oil shock in 1973, the 7th Plan abandoned the exhaustive programming of public infrastructure investment in favour of a more selective approach, wherein the State's commitment only covers a number of Priority Action Programmes (PAP). At the same time, the creation in 1972 of Regional Public Bodies (Etablissements publics régionaux or EPR), which had their own elected assemblies and resources, led to two new notions. The first was that of an autonomous regional conception of economic and social development, prior to consultation with the State. The second concerned the inclusion within the Plan of the State's co-financing of operations which the regions considered should take priority. These were called Regional Interest Priority Action Programmes and can be considered as a prefiguration of the contractual procedure.

The region gradually asserted itself as a repository for research and organization in the field of regional economic development. The Decentralization Law of 2nd March 1982 made the region's role official, a role which had previously been implicity recognized and which the département had never disputed. The Law established the region as a fully-fledged territorial community by introducing elections to the Regional Council by direct universal suffrage and by transferring the executive function that had formerly been carried out by the "Prefect " of the region, a State representative, to the Regional Council President. The Law also recognized the region's general competence for economic organization, planning and regional development.

Moreover, the Law of 23rd July 1982 which reformed planning, provided that the co-ordination between the national and regional Plans would be facilitated by a joint executive procedure in the form of Plan contracts.

The State-Region Plan Contracts were elaborated during the preparation of the 9th Plan (1983). They were a privileged means of co-ordination and execution of the national and regional Plans. These 5-year contracts are signed by the Regional "Prefect" on behalf of the State and the President of the Regional Council on behalf of the Region. Their goal is the realization of common priorities in economic, urban and region development. Each partner is committed to contributing the necessary finances towards the realization of concrete actions.

The first generation of Plan Contracts covered the period from 1984 to 1988. The regions expressed their desire to repeat the experience and a second generation of contracts was signed along the same lines for the period from 1989 to 1993. The Regional Councils finance the contracts for 45%, on average, while the State contributes 55%. The State can, however, adjust its participation in accordance with its urban and regional development priorities. Its contribution is higher for underprivileged regions. The State's total commitments to the Plan Contracts over the five-year period represent FF 55 billion, or 1% of its total annual budget and 7% of its non-military investments budget.

There are four priorities in the main areas of contractualization: employment and economic development (16% of financial commitments), training and research

(18%), communications infrastructures - mainly road networks - (44%), solidarity and development of underprivileged areas (22%). The new generation of contracts is more selective than the first and partly governed by European preoccupations, notably insofar as road infrastructures and training and research are concerned.

Chapter 2

AIMS AND INSTRUMENTS OF ECONOMIC AND FINANCIAL MANAGEMENT

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Under the French system, economic policy is the responsibility of a number of different ministries according to the particular aspect in question, i.e., global or sectoral, short or medium term, etc. However, one government department plays a prominent role insofar as it is responsible for the consistency of all short term courses of action and has the main instruments of economic policy at its disposal: the Ministry of Finance and the Budget. The ministry employs some 190,000 staff throughout French territory, with the greater number assigned to Public Accounting, Taxation, Customs, Competition and Consumer services.

In a market economy, economic and financial management instruments are generally macroeconomic in nature. To perform its management functions, the Ministry of Finance avails itself of a range of instruments with interdependent effects that enable implementation of public expenditure policy, the public-sector borrowing requirement and its financing, control of the money supply, credit and savings, and the creation of the conditions necessary for free competition, i.e., the measure of proper pricing for goods and services and services by free interplay between supply and demand. The reader will find a summary of the modalities for exercising budgetary, financial and monetary adjustment, and competition and price management in information sheets I and III.

The prerequisite for all economic courses of action is, quite naturally, thorough knowledge of the economic situation, and an analysis of the prospects, i.e., an appraisal of possible shifts due to measures which the government might consider. Information sheet IV describes the agencies which assist the Ministry of Finance in important economic monitoring, forecasting and study tasks.

I BUDGETARY MANAGEMENT

The Budget is one of the most important instruments available to the State. Firstly, in terms of sheer volume: 1,200 billion francs, which represents relative weighting of over 20% of Gross Domestic Product, i.e., the same order of magnitude as in other developed countries. In the United States, Great Britain and Germany, as in France, this percentage has been multiplied by a factor of 3.5 since the beginning of the century. Secondly, it is important on account of its redistributive function: the Budget sets the amount and spread of taxation levied by the State and the corresponding expenditure. It leaves a balance which reduces national savings and the money supply, and outlines the State's operations within the national economy and its influence on economic agents. Taxation, which finances the State budget, is decisive in determining the development of economic structures, and can be an active instrument of business cycle policy.

It should be noted that the French Budget does not encompass operations which fall within the scope of the Social Security (unemployment, sickness, retirement, accidents, etc.) or local authority spending (regions, départements, municipalities, etc.).

The Budget Directorate (Direction du Budget) is responsible for drafting the Finance Bill and supervising its implementation. The Bill assesses revenues and specifies authorized expenditure for each ministry. The budget preparation procedure comprises three phases: the first (January-March) is purely internal to the Ministry of Finance and focuses on prospects. The second (April-September) is devoted to interministerial negotiations and bargaining, while the third phase is given over to debate and voting in Parliament (October-December).

During the implementation phase, authorized expenditure for each spending department is subject to a "visa" in each ministry by a representative of the budget office director, the "financial controller", who ensures that expenditure has been authorized by the Finance Act and that the necessary funds are available.

The Budget is primarily financed by fiscal and parafiscal revenues. The taxation legislation service (Service de la Législation Fiscale) is responsible for devising and drafting legislative and regulatory texts governing taxation. The general tax directorate (Direction Générale des Impôts) is responsible for setting and supervising State and local authority taxes: its external services calculate the

amount of tax owed by each taxpayer and perform various audit procedures on the basis of measures voted by Parliament or local authorities' deliberative assemblies.

Tax collection is the job of the external services of the public accounts directorate *(Direction de la Comptabilité Publique)*, which has at its disposal a network of accountants in charge of 108 (at least one per *département*) public revenue offices, which co-ordinate the work of 4,500 tax collectors' offices.

For customs and excise duties (VAT on imports and domestic duties on petroleum products), the relevant tasks, i.e., calculation of amounts due, and encashments, etc., are performed by the external services of the general customs and duties directorate *(Direction Générale des Douanes et des Droits Indirects)* and by customs collectors.

APPENDIX 1

THE THREE PHASES FOR DRAFTING THE BUDGET

1. First Phase: focusing on prospects (January-March)

The purpose of the first phase, which deals with "prospects", is to provide the Government with the necessary information for defining its budget strategy.

This phase is entirely internal to the Ministry of Finance, during which the Budget Office summarizes information from different sources relating to economic forecasts, expenditure and revenues, and studies the different courses of action that are likely to be selected by the Government.

Once the "prospects" phase has been completed, the Minister of Finance submits a first draft to the Prime Minister. Subseqently, the "lettre de cadrage", a statement outlining objectives, sent by the Prime Minister to the different ministries, summarizes the conditions in which each must prepare its budget (principles to be applied, major orientations, savings to be made, new measures, etc.).

2. Second Phase: gradual and negotiated fine tuning (April-September)

This is the phase of bilateral "budget conferences" between the Minister of Finance and each Minister. It comprises two rounds of conferences:

. Budget conferences on the first phase (April-June)

These are a means of achieving "friendly acknowledgement" of agreements and disagreements between the "spending" ministries and the Minister of Finance.

In early July, once the conferences are over, the Prime Minister's consultations take the form of "lettres-plafond" (literally "ceiling letters") which set the level of authorized expenditure for each ministry.

. Budget conferences on the second phase (July-September)

Their purpose is to specify expenditure details and, above all, to complete the fine tuning of revenue levels. Their exact amounts are decided in accordance with the tax package (particularly tax relief) envisaged by the Government.

Material preparation of the Finance Bill can then begin. This is an extremely involved operation which has to be performed within a tight deadline. The result is 160 documents for wide circulation representing 46 million pages and weighing in excess of 100 tonnes!

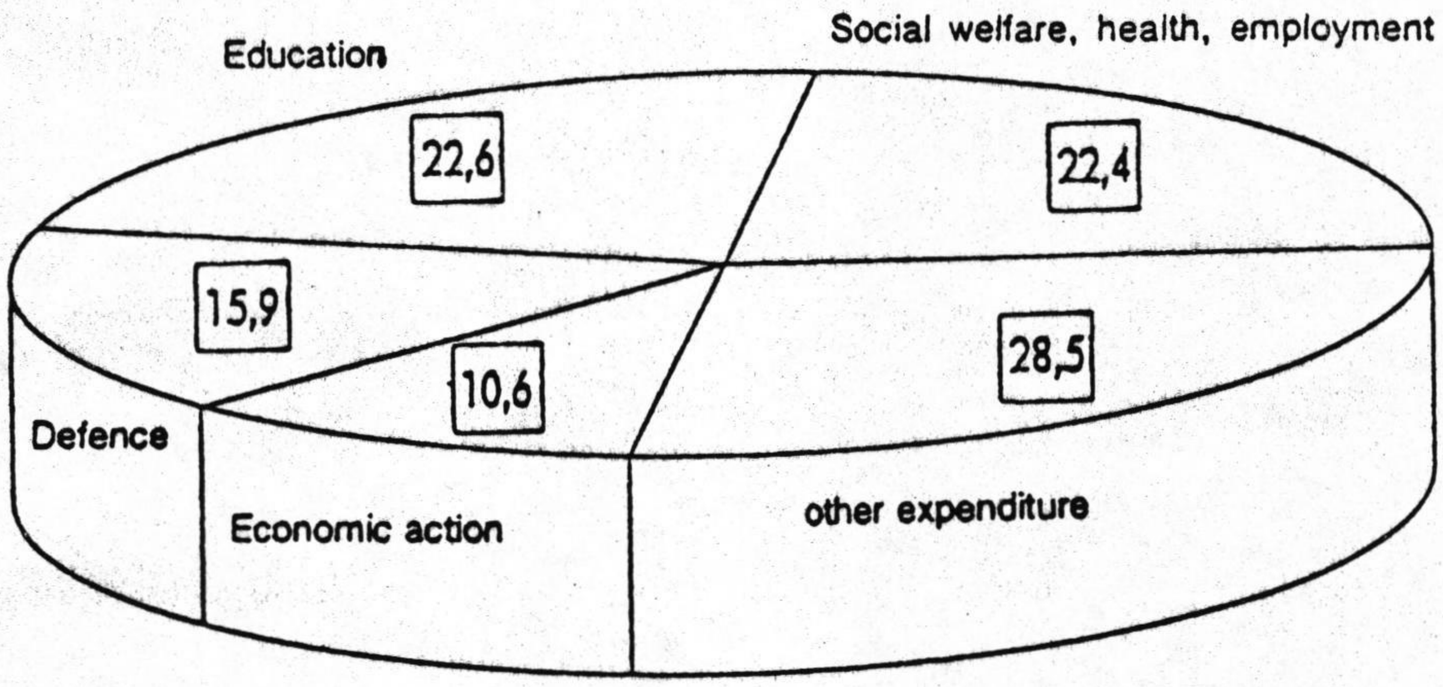
3. Third Phase: examination and vote on the budget by Parliament (October-November)

Parliamentary debates on the budget usually begin around 15th October. The time allotted for discussion is strictly defined (a maximum of 70 days, including 40 for the first reading in the National Assembly). Parliamentary initiative on spending is closely controlled: the Government can reject any increase in expenditure for want of additional revenues to fund it.

The procedure is completed when the Finance Act is passed and published in the Official Register, usually around 31st December.

APPENDIX 2

BREAKDOWN OF STATE EXPENDITURE BY MAJOR FUNCTIONS



APPENDIX 3

THE TWO MAJOR PRINCIPLES FOR MANAGING THE PUBLIC PURSE

In order to be beyond reproach, public purse management follows two major principles bequeathed by the Revolution.

1. First Principle: the separation of spending decisions and accounting functions.

This is a management precaution designed to prevent possible abuse. In other words, the person who decides on the allocation of funds or the level of a particular source of revenue (the authorizing officer or *ordonnateur* -- in this case the minister himself or one of his delegates -- is intentionally distinct from theperson who pays or encashes revenues (the accountant).

2. Second Principle: three concurrent controls.

The system incorporates a series of checks to ensure that taxpayers' money is spent properly. The first control, performed by a specialist service of the Ministry of Finance (this is the financial controller's role), inspects the availability of credits prior to committing specific expenditure. The second control, which is juridical in nature concerning enforcement of the Finance Act and sound management of the public purse, is performed by the French State Audit Commission *(Cour des Comptes)*. The main purpose of this second control is to inform Parliament. The third and final control is political and is performed by both parliamentary Assemblies asked to grant leave to the Government, which reports on the enforcement of the Finance Act by laying a "Budget Settlement Bill" before Parliament.

APPENDIX 4

THE RIGOROUS PROCEDURE FOR IMPLEMENTING PUBLIC SPENDING

Once the Finance Act has been passed, the ministries, which must ensure continuity of the public service, may, if they deem it necessary, use the credits voted by Parliament.

The implementation of expenditure is then subject to stringent rules whose application is placed under the close scrutiny of the public accounts directorate. Thus, whenever a government service decides to "commit" expenditure, submit an order to a supplier, or sign a contract with a company, an extremely complex procedure is applied.

Each spending programme is submitted to the financial controller. The controller undertakes a threefold auditing procedure to ensure that the necessary credits are available and that procedures have been complied with (rules for awarding contracts, civil servant status, etc.). Once the inspection is complete, he appends or refuses his "visa" and updates the accounts covering commitments to ensure that information on the outstanding credit balance is always available.

During the second phase, the *ordonnateur,* i.e., the spending service, may proceed with the expenditure, after the financial controller has appended his visa -- or at local level, after approval by the Chief Treasurer and Paymaster (*Trésorier-Payeur Général* - one per *département*). Once these operations have been performed, and upon receipt of ordered goods or execution of contracts, the contracting service certifies that work has been completed and asks the accountant to honour payment. Authorization for payment is visaed by the financial controller.

During the third and final stage, the accountant (in the *départements,* the services of the Chief Treasurer and Paymaster) undertakes a twofold "paymaster" and "cashier" inspection procedure.

In his role as paymaster, the accountant ensure compliance with the various rules which apply to public spending. In his role as cashier, he proceeds with payment after checking for possible objections.

II FINANCIAL AND MONETARY ADJUSTMENT

France's basic economic strategy is to make its economy structurally competitive. Indeed, this is a prerequisite for the nation to improve its trade position both on the export and domestic market, reduce the burden of the foreign trade deficit, and enter a virtuous circle of competitiveness and job creating growth. One of the primary conditions for competitiveness is controlling inflation or, more precisely, obtaining price movements equal to those achieved in the most virtuous countries of the European Community. In order to achieve this goal, the monetary and financial adjustment policy of France's economic authorities operates on two fronts:

- it contributes to limiting, within a free market economy, increases in various categories of income and public finance, in order to contain domestic prices;
- it ensures the stability of the franc on foreign exchange markets, to prevent the risk of importing inflation.

1 - REGULATORY AGENCIES: THE TREASURY DIRECTORATE AND BANQUE DE FRANCE[1]

1.1. The Treasury Directorate of the Ministry of the Economy and Finance

The result of long and complex development, the functions of the Treasury Directorate *(Direction du Trésor)*, which have kept pace with increased State intervention, cannot be easily defined. They can, however, be grouped under five main headings:

1.1.1. Managing the State's cash position

Even with a balanced budget, seasonal differences arise between expenditure, which is distributed fairly evenly throughout the year, and revenues, certain forms of which are concentrated at year's end (balance of income tax payments and local taxes). The Treasury Directorate ensures that the public-sector borrowing requirement is covered by raising resources on the capital market, a role which takes on greater significance during budget deficit periods.

1.1.2. Playing the role of financial intermediary and distributor of capital.

This relatively restricted function is used by the Treasury to borrow from particular institutions in order, in turn, to make both short-term loans in the form of advances (particularly to local authorities) or medium-term and long-term loans (to foreign governments, etc.).

1.1.3. Performing economic and financial assignments under the aegis of the State.

This role, derived from the above, is less clearly defined but has gained in importance. It covers responsibility for supervising the financial sector (financial institutions, banks and insurance companies) and implementing the State's resources as shareholder for all its interests. Moreover, the Treasury Directorate has considerable impact on its "sphere of influence", which encompasses all public, semi-public, and even private institutions and agencies which are auxiliary branches thereof. The following fall into this category: the Banque de France, Caisse des Dépôts et Consignations[2] , Caisses d'Epargne[3] , Crédit Foncier de France[4] , Crédit d'Equipement des Petites et Moyennes Entreprises (C.E.P.M.E.)[5] ,

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1 The central Bank of France.

2 Deposit and Consignment Office.

3 Public Savings Bank.

4 A specialized financial institution dealing in mortgage loans and in charge of the regulation of the mortgage market.

5 A specialized financial institution dealing in small and medium-sized business loans.

Compagnie Française pour l'Assurance du Commerce Extérieur (C.O.F.A.C.E.)[1] , and the Banque Française du Commerce Extérieur (B.F.C.E.)[2] , etc.

1.1.4. Managing instruments of public financial intervention to assist companies

The Treasury Directorate implements intervention measures aimed at reducing the cost of financial resources accorded to companies in the form of subsidized interest and certain guaranteed loans, etc. These operations, which themselves replaced direct government loans (loans made by the Economic and Social Development Fund) during the 1960s, are on the decline and are in the process of being phased out in certain cases. From 1984 onwards, the sound financial health of companies enabled them to turn to market mechanisms for financing, thereby bringing into question the principles and procedures of subsidized funding. However, farming and housing remain the two major exceptions to this.

1.1.5. Maintaining equilibrium in the key areas of the economy.

The last main function is the crowning achievement of the others, and consists in ensuring - in conjunction with the Banque de France - that borrowing requirements match the lending capacities in the various financial channels. This entails maintaining equilibrium in five key areas of the economy, which are:

- the public cash balance;

- the capital markets balance

- the money markets balance

- the foreign trade balance;

- the foreign exchange transactions balance.

1.2. The Banque de France

Although its status as an autonomous institution, guaranteed by the Law of 3rd January 1973 which defined its role, clearly distinguishes it from government departments, the Banque de France - alongside and in conjunction with the Treasury Directorate - plays a major role in determining and pursuing financial policy. It also plots the course for agencies which fall within the easury's "sphere of influence", and more particularly the banking sector. Furthermore, the banking sector was substantially reorganized by new legislation (referred to as the "Banking Act") of 25th January 1984. This legislation enshrined the leading role played by the Banque de France in monitoring and regulating the activities of credit institutions.

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1 French foreign trade insurance and export credit gurarantee compagny.
2 French Bank for Foreign Trade.

The Banque de France is run by a Governor, assisted by two Deputy Governors appointed by cabinet decree, and a General Council comprising - in addition to the Governors - ten advisors, of whom nine are appointed on the recommendation of the Minister of the Economy and Finance (who also designates an auditor, the Treasury Directorate, and his deputy), and one member of staff.

Further, the Governor is a member of the Board of Governors of the Central Banks of the European Economic Community, which manages monetary developments within the E.E.C. (in the light of Economic and Monetary Union) through three sub-committees charged respectively with exchange policy, monetary policy and supervision of the banking sector.

1.2.1. The functions of the Banque de France

The Banque de France's functions, reinforced and enshrined by legislation and everyday practice, cover four main aspects of financial policy:

1.2.1.1. Since 1848, the Banque de France has enjoyed sole rights to issue the only national currency considered to be legal tender, and at fixed rates since 1917. Article 2 of the Law of 3rd January 1973 stipulates that it is "alone empowered to issue notes which are accepted as legal tender." The Bank therefore controls fiduciary currency circulation in the economy.

1.2.1.2. It holds in its vaults and manages the nation's gold and currency reserves, and since 1936 has been responsible for managing the Exchange Rate Stabilization Fund. Thus, the Bank has responsibility for operating on currency markets and settling transactions with other countries in foreign currencies (cf. Article 3 of the Law of 3rd January 1973. By doing so, the Banque de France adjusts the ratios between the franc and other currencies.

1.2.1.3. The Banque de France takes part in and guarantees the implementation of monetary policy. On a day-to-day basis, it is responsible for seeing that the major pillars of monetary policy as defined by the Government are enforced. Article 1 of the basic Law of 3rd January 1973 stipulates that the State shall entrust it with the "overall task of overseeing the franc and the use of credit." It fulfils these functions by acting on the money market and by managing the credit control apparatus. More particularly, it directly controls the following:

- interest rates, by fixing the discount rate and through its open-market policy (the purchase, sale and temporary purchase of government and non-government securities);

- volume of money creation, through compulsory reserves[1] which banks have to respect, and by adjusting the quantity of "Banque de France money" (banknotes + banks' creditor current accounts held at the Banque de France), the system's ultimate liquidity, which is the decisive factor in determining the "credit multiplier",

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[1] Quantities of "Banque de France money" wihich banking institutions have to hold with the Banque de France in the form of non-interest-bearing deposits.

which in turn sets the amount of deposit money created by the banks, and hence changes in the money supply.

1.2.1.4. The Banque de France is also responsible for ensuring "the smooth running of the banking system" (Article 1 of the Law of 3rd January 1973) and assists in the regulation and control of credit institutions via three agencies set up by the Banking Act. The Bank is responsible for running these agencies' services, for which it assigns its own officials:

a. The Banking Regulation Committee : the regulatory body

The Committee is made up of six members, including the Minister of the Economy and Finance, who acts as Chairman, and the Governor of the Banque de France, as Vice-President, and is entrusted with "laying down the general provisions applicable to credit institutions". It is also empowered to set the rules governing the amount of capital and the size of acquisitions, conditions for creating networks, conditions for bank operations, management standards, accounting practices, credit policy instruments, etc.

b. The Credit Institutions Committee: the approvals body

Comprising ten members and chaired by the Governor of the Banque de France, the Committee is the registration authority for credit institutions and is responsible for taking case-by-case decisions, i.e., granting authorizations or exemptions as provided for by banking legislation and regulations, with the exception of those which come under the auspices of the Banking Commission.

c. The Banking Commission: the supervisory body

The Banking Commission is composed of the Governor of the Banque de France, in the capacity of Chairman, the Director of the Treasury, one member of the Council of State, a member of the Highest Appeals Court, and two members appointed by virtue of their expertise. It has authority over credit institutions and stockbroking firms.

The Commission is empowered to ensure that credit institutions comply with banking regulations. It examines the conditions in which they operate and monitors their financial situation. To this end, it inspects documents and performs on-site checks with the assistance of Banque de France officials.

Further, the Banking Commission is vested with disciplinary powers. In the event of breaches of the profession's code of practice, it has the power to issue warnings or injunctions to institutions' managements, and may also pronounce disciplinary measures and/or inflict financial penalties. In such cases, its decisions have the force of administrative law.

These functions, with which the Central Bank has been vested over time, are performed in the exercise of its duties as a public service and simple monopoly, since they are assignments of general interest which usually devolve upon the State.

1.2.2. Services provided to the State by the Banque de France

In return, the Banque de France provides services to the State, more particularly the Treasury. It is the State's banker.

1.2.2.1. Firstly, it is the Banque de France which **holds the Treasury's current account.** The Treasury's aim has been to free itself progressively from the hold exercised by private financial forces to take charge of its own financing and meet its own cash requirements. The Banque de France is to some extent the holder of the Treasury's accounts and is responsible for circulating its liquidity throughout the nation. The Banque de France performs, de facto, various cash transactions (e.g., encashment of cheques written in settlement of income tax) on behalf of the Treasury.

1.2.2.2. Secondly, the Banque de France grants the State advances. This is also a time-honoured tradition. The Law of 3rd January 1973 (Article 19) simply stipulates that advances and loans are determined by agreements between the Minister of the Economy and Finance and the Governor (authorized after consideration by the General Council and approved by Parliament. However, nowadays, this type of arrangement represents a **minute proportion** of Treasury financing for reasons of financial prudence and orthodoxy, which have led to tighter scheduling of Banque de France advances to the State.

1.2.2.3. Lastly, the Banque de France is a **very useful intermediary between the Treasury and the markets,** i.e., the foreign exchange and money markets which the State wishes to influence without appearing directly in the front line. This is not the case for domestic or foreign financial markets, where the Treasury often borrows "directly". Otherwise, it uses other intermediaries in its "sphere of influence", such as the *Caisse des Dépôts et Consignations.*

2 - FRENCH MONETARY POLICY: FROM QUANTITY CONTROL TO PRICE CONTROL

As part of economic policy, monetary policy has a particular role to play, since its aim is to provide the necessary liquidity to ensure that the economy runs smoothly, and to achieve growth, whilst maintaining stable prices and the desired foreign trade policy.

To achieve these goals, monetary policy is divided into two phases:

- firstly, intermediate objectives are defined (quantitative targets covering monetary aggregates, interest rate and exchange rate objectives);

- secondly, the objectives are achieved by using direct or indirect instruments;
ver the last fifteen years, French monetary policy has changed profoundly in three respects: its general framework, objectives, and instruments.

2.1. The field of application of monetary policy has completely altered.

2.1.1. The very approach to monetary policy has also changed.

The conceptual approach: from 1977 onwards, in line with developments in thinking on the issue, the French monetary authorities elected to set money supply growth targets, thereby pursuing what is known as "targeting policy".

The approach to the international question: France's membership of the European Monetary System since March 1979 has given, de facto, a clear external objective to the nation's monetary policy, i.e., to preserve the parity of the franc in relation to the currencies of other Member states. This was a de facto restraint in the short term for French monetary policy. The internal objective was thus coupled with a second, external, objective.

2.1.2. Far-reaching changes in the structure and operation of the financial system

During the 1980s, the international monetary environment underwent far-reaching changes. With the surge in the development of new financial instruments, new players and markets, a process of deregulation and financial innovation led to the emergence of new structures for financing the economy. As a result, the field of application of monetary policy altered too, requiring the main OECD countries, including France, to revise their monetary adjustment apparatus. In economies where markets are afforded much greater importance, prices (as opposed to quantities), i.e., interest rates, have quite logically been given a higher priority over other monetary policy transmission channels.

2.2. CHANGES IN MONETARY TARGETS AND OBJECTIVES

Monetary analysis instruments have, in point of fact, been redefined to take account of their shortcomings in the new economic order.

2.2.1. Findings: a need to reform money aggregates

Previously used aggregates were rooted in a classification system based on a combination of two types of criteria: institutional and functional.

The institutional distinction according to the type of collection network could scarcely continue to be justifiable with the opening out of the financial system (enshrined by the 1984 Banking Act), particularly since all networks began to offer identical financial instruments.

The appearance of undertakings for collective investments for transferable securities (UCITS) as a savings instrument played a part - along with the increased fungibility of capital markets - in blurring the line previously drawn between the economy's liquid assets. A reform of aggregates was thus undertaken in 1986 on the basis of three new elements: the abandonment of the institution criterion; inclusion of UCITS; improved homogeneity in monetary asset grouping according to type and degree of stability. A new reform was undertaken in October 1990 to become effective at the end of 1991. For statistical reasons, UCITS had hitherto been treated as though they were transparent, and aggregates had taken account of those assets which were considered to be monetary in nature. The new aggregate, set up to provide an improved overview of the monetary behaviour of residents by homogeneous asset type now only incorporate the amount of securities issued by short-term UCITS (in M3).

2.2.2. Defining the four monetary aggregates (as of the beginning of 1991):

. **M1** covers all methods of payment in the strictest sense of the word: notes and coins, cash deposits (of resident non-financial agents only);

. **M2** comprises, in addition to M1, all passbook savings accounts held by resident non-financial agents;

. **M3** encompasses M2 and all deposits and securities on the money market in foreign currency, non-negotiable futures, money market securities issued by credit institutions and held by the general public, and short-term UCITS held by resident non-financial agents.

. **M4** includes, in addition, to M3, commercial papers and Treasury bonds of resident non-financial agents only.

2.2.3. The desired objectives of monetary policy

The primary objective of monetary policy is currency stability, i.e. to preserve the purchasing power of the franc both at home and abroad. The following measures have been taken in order to achieve these goals:

- an intermediate objective is set in line with the development of M2: in 1990, growth in the 3.5 - 5.5% range (versus 4 to 6% in 1989);

- policy follows other indicators of the behaviour of demand for money and financing (particularly M3), and "total domestic credit" (includes total borrowing by resident non-financial agents);

- the policy must not undermine the parity of the franc within the European Monetary System.

2.3. NEW MANAGEMENT METHODS

2.3.1. The management system rapidly became over-directed.

In the mid-eighties, the monetary adjustment system rested on two pillars, the same objective being pursued by both instruments:

- for the most part based on the technique of quantity control of money supply counterparts (credit containment), which were used a priori to set growth norms;

- an interest and minimum reserve requirement policy which gradually turned into a basic management policy with the surge in financial innovations, thereby reducing the scope of direct quantitative control.

An overhauled monetary policy system was set up, de facto, on 1st January 1987.

2.3.2. The French monetary authorities now favour indirect instruments for managing bank liquidity.

The monetary authorities use two instruments to achieve this goal:

- **management through rates:** this is based on operations by the Banque de France on the interbank market, and conducted in accordance with two chief modalities: discretionary tenders and pensions. The very short-term interbank operation rates generally fluctuate within the range thus defined. They may, however, diverge temporarily depending on market liquidity and operators' expectations. In addition, the Banque de France conducts - where necessary - temporary sales or purchases at market rates, primarily on a day-to-day basis. It also purchases (or sells) Treasury bonds.

- **compulsory reserves,** which supplement the above actions. These are proportional to the deposits held by the banks and are a structural instrument for exerting pressure on bank liquidity, thereby underpinning the effectiveness of Banque de France action on the interbank market. They also help to limit growth in monetary investments managed by credit institutions, by encouraging them to seek other types of resources (e.g. bonds) that are not subject to reserve requirements.

2.3.3. French monetary policy: less independent, but more responsive to the markets

The new monetary policy modalities and the liberalization of capital movements have obviously reduced the autonomy of French monetary policy with regard to:

- the markets: since, on the one hand, managing the behaviour of credit institutions and other economic agents is only indirect, and, on the other hand, the diversity of available instruments limits the pressure which the monetary authorities are able to exert.

- the international environment, since at least in the short term, interest rate variations are linked to fluctuations in the franc exchange rate.

The perspective of an integrated financial market and the liberalization of capital movements within the E.E.C. serves to prolong the situation. Moreover, monetary construction presupposes convergent monetary policies for Member states.

The Economic and Monetary Union will be the final stage in this process, which will mean a single monetary policy common to all Member states.

III COMPETITION AND PRICE MANAGEMENT

The existence of a system of relative prices determined by the balance between supply and demand on competitive markets is an essential feature of the market economy. However, practices which breach the spirit of free competition are a constant temptation, and the fight against inflation is an essential economic policy objective. Proper policies on competition and prices are a sine qua non, and in this respect France moved from a policy of intervention using price control mechanisms to a management approach through a policy of free competition.

1 - POLICY ON PRICES

For a long period, permanent inflationist tensions in France caused the State to increase the number of price interventions. For the last five years or so, intervention has gradually given way to management.

The widespread shortage characteristic of the French post-war economy compelled the government to introduce an extremely rigorous price regulation policy which lasted, with various modifications, for over forty years.

Of course, the use of taxation, i.e., unilateral price setting by the government, lasted only very briefly, and price freezes have only ever been used as a temporary measure.

Nevertheless, free pricing has always been subject to varying degrees of monitoring, insofar as industries might be permitted to set their own prices provided that this entailed overall stability or increases in line with rates set by the government, i.e., decreases should be compensated by increases. Free pricing could also be accompanied by an obligation to undertake various commitments (on across-the-board price changes, investment programmes, export drives, etc.): programme contracts and price stability agreements were signed by the State and whole branches of industry.

There has been much criticism of the different price control mechanisms: it has often been objected that in the long term they prove to be ineffective in the fight against inflation, and stifle innovation by preventing product prices from being tailored to market characteristics. Criticism has also been levelled to the effect that they hamper companies' ability to adapt to changing production costs, distort competition between domestic and foreign companies, encourage relocation and dissuade companies from taking risks.

However, it is not easy to emerge from a system of price control. It is only since 1st December 1986 that the principle of free pricing has been enshrined in law. Nevertheless, price control is provided for temporarily in two cases: activities where price competition is limited by legal constraints or monopolies, and in the event of sudden upheaval in a particular market.

Naturally, price liberalization requires, in return, more effective management of competition using means which will be described in the second part of this chapter. Furthermore, competition does not deprive the State completely of the power to intervene, an obviously does not apply to rates charged by public services[1] Competition may be distorted by State decisions on fiscality (especially VAT), State intervention in certain sectors, such as health (price of drugs, medical fees, etc.) or housing (public sector rents), or certain restricted occupations (particularly where quotas are used, e.g., pharmacists and taxi drivers). It should be noted that farm prices are for the most part still subject to regulation (minimum prices are guaranteed for a number of products by specialist intervention agencies).

2 - COMPETITION POLICY

According to classical economic theory, the system of relative pricing on markets where competition is "pure and perfect" produces optimum allocation of resources. A single price balances out supply and demand on each market, provided that the market is dispersed (no one agent can affect the volume of supply and demand or price) and transparent (all agents should have thorough knowledge of the market), that the product on offer is homogeneous (considered to be identical by all buyers, whoever the producer might be), and that there is open access to the market (availability of factors of production, absence of constraints). Under such conditions, State intervention can only prevent the economy from achieving optimum performance.

Reality is, however, far different from this theoretical model. It is, in fact, oligopolistic-type competition which tends to predominate in certain cases, for instance in monopolistic situations, and economic agents are always tempted to limit free competition to take advantage of more lucrative prices than they might obtain by market forces. International exposure of the economy -- e.g., within the E.E.C. -- is of course in itself an important regulatory factor, insofar as it broadens the scope for competition.

Nonetheless, it is essential, at the same time, to sanction uncompetitive behaviour and ensure that the market operates smoothly.

Therefore, regulatory texts focus on individual modes of behaviour likely to override the constraints of free competition resorting to unfair methods, by establishing either a system of criminal penalties (to curb the use of fixed prices, loss leaders, etc.) or civil liability (for refusal to sell, tied sales, discriminatory practices).

The law also offers protection from company practices aimed at or resulting in the distortion of the the natural comparison between supply and demand, whether in

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1 Or those of fiscal monopolies.

the form of agreements (pricing and market share agreements, obstacles to market access, joint tendering for public contracts), abuse of power (crowding-out by pricing, exclusivity clauses creating bars to market entry, discriminatory practices, etc.), or abuse of a situation of economic dependency (abusive changes to terms of reference, discrimination or any display whatsoever of abusive practices towards a captive customer base).

The control and sanctioning of these practices now fall under the jurisdiction of both the courts and an independent overseers' body, the Council on Competition *(Conseil de la Concurrence)*, created in 1987, has full decision-making and sanctioning powers in such matters.

In addition to the aforementioned apparatus for curbing uncompetitive practices, there is another, more structural, aspect devoted to preserving free competition through a priori control of market concentrations, in which case the power to take decisions rests with the relevant ministry, primarily the Ministry of the Economy and Finance.

IV THE ECONOMIC FORECASTING AND STUDY FUNCTIONS OF THE MINISTRY OF FINANCE

The government services in France which are responsible economic forecasting are placed under the authority of the Minister of the Economy, Finance and the Budget. These functions are divided up between two main agencies: the National Institute of Economic and Statistical Information (*Institut National de la Statistique et des Etudes Economiques* or INSEE) and the Forecasting Directorate *(Direction de la Prévision).*

With 7,000 staff, INSEE is a fully fledged public information service which conducts studies and censuses, compiles statistics, the main indexes and national accounts, to provide consistent information on the national economy. It also coordinates the activities of the statistics offices of the various ministries. INSEE is the only one of its kind in the world in that it is both a statistics institute and economic forecast analysis and study centre. Although a substantial part of its work consists in providing the Government with the data and studies needed to define economic and social policy, it also compiles and publishes information needed by the whole of French society. It is able to distribute information requested by different categories of economic agents via its network of regional economic monitoring offices throughout France. INSEE therefore occupies a special position within government: although it is attached to the Ministry of Finance, it enjoys complete technical independence in its work as a public service accessible to the entire population. The information gathered is protected by a code of confidentiality. Under the terms of its strict code of practice, personal information collected from households and companies by its sworn officials shall be used for statistical purposes only and shall not be able to be reconstructed from published statistics.

The main role of the Forecasting Directorate (260 members of staff) is to clarify short term economic policy decision-making, more particularly by drafting economic budgets, and studying State intervention in the economy.

The way in which responsibilities are shared between INSEE and the Forecasting Directorate for statistical analysis and economic forecasting is based on the skills they have acquired respectively over time and the privileged positions they hold in respect of information-gathering channels and decision-making centres.

INSEE has thus maintained its functions in studying households and companies, whereas the Forecasting Directorate, formed in 1965 from the former Treasury Directorate's Economic and Financial Studies Service *(Service des Etudes Economiques et Financières de la Direction du Trésor)*, is of course in a better position to study financial operations, foreign trade, the international environment, and public finance.

Assignments are apportioned as follows:

- INSEE has considerable expertise in conducting analyses of households and companies, whereas the Forecasting Directorate is geared towards general government, financial institutions and international affairs;

- specialization according to the time period covered: retrospective accounts and the short-term forecasts (6 months) which are a corollary thereof are INSEE's responsibility; short term economic forecasts (2 years) fall under the aegis of the Forecasting Directorate since it is involved in preparing the Finance Bill. Lastly, medium term forecasts are compiled by INSEE, in conjunction with the Forecasting Directorate, for assumptions on economic policy and public finance.

Dividing assignments in this way makes for irrefutable complexity. However, there are two main reasons for maintaining a degree of separation between the two agencies. Firstly, the Minister needs to have at his disposal a service with a fair degree of flexibility able to shift its priorities quickly according to particular economic policy objectives. Conversely, INSEE remains first and foremost a public economic and social information service, both from the the point of view of gathering and distributing statistics on past and present-day situations, and studies describing the behaviour of economic units and the operation of trade channels. The process of preparing economic policy choices must not interfere with the smooth running of the information system of which INSEE forms the central core.

It will be seen that in contrast with the situation in other leading industrialized countries (including Germany and the United States), economic forecasting resources in France have long been highly concentrated within the economic authorities.

Forecasting methods necessarily include voluntary shifts, i.e., in the behaviour of economic agents in comparison with past observations. Changes in the world economy and economic policy entail the shedding of the "conservative" nature of models based on responses to past behaviour patterns, whereas economic forecasting, on the contrary, influences the said behaviour patterns. For France, the answer lies in aligning itself with its partners by breaking the de facto monopoly held by the government, and in focussing on pluralistic expertise by creating forecasting agencies independent of government.

A number of large companies and banks, including the Banque de France, have long had their own study units which regularly publish surveys of economic trends and forecasts. However, these analyses cover relatively specific areas, in line with their particular concerns. The Banque de France has its own investigative resources (studies of economic trends), and even though its findings may differ substantially from the Government's at time, it necessarily remains cautious at what it publishes, on account of its status.

During the 1970s, agencies such as the Economic Information and Forecasting Office (*Bureau d'Information et de Prévision Economique* or BIPE) and the Applied Macroeconomics Analysis Group (*Groupe d'Analyse Macroéconomique Appliquée* or GAMA) of the University of Paris X systematically published medium term forecasts.

Definite progress was made on the issue of **pluralist expertise** at the start of the 1980s with the Government's decision to use a grants system to promote the creation of independent forecasting institutes. This is paved the way for agencies, such as the French Economic Observatory (*Observatoire Français de Conjoncture Economique* or OFCE), and the Institute of Economic and Financial Forecasting for Business Development (*Institut de Prévision Economique et Financière pour le Développement des Entreprises* or IPECODE) which has close ties with employers' organizations. These agencies develop their own tools and models -- with a similar overall structure, but wide diversity in their mechanisms -- and are supplied with basic data by INSEE, which therefore plays a vital role as a purveyor of statistics. The only exception to pluralism in this sector is public finance forecasting, which remains a "public monopoly".

This is also reflected in the Government's decision to allow the authorize departments to "run" their models at the request of both Houses of Parliament using exogenous variables with values set by the latter.

The existence of these independent agencies has enabled the National Accounts Commission *(Commission des Comptes de la Nation)* to set up a technical working group in which they are represented. In the same spirit of pluralism, on the occasion of the publication of the 10th Plan, they have joined a panel of experts, the Macroeconomic Perspectives Group *(Groupe de Perspectives Macro-Economiques)*, which does not have any preference *a priori* for a particular model or forecast. In both cases the objective is the same: to compare the different sets of forecasts for improved diagnosis.

Lastly, it is important to mention the economic forecasting and advisory role played international organizations such as the OECD and the European Economic Community, which regularly compile forecasts covering each of their members. With this in mind, they have developed specific tools which, of course, use basic data gathered by the official agencies of each country.

Naturally, this cannot eradicate all sources of error. In this respect, it is worth noting the behaviour patterns of economic agents which do not always have the stability ascribed to them by the relationships used in the models, i.e., random fluctuations of variables, such as oil prices, the value of the dollar, and interest rates. Although pluralism cannot remove the fragility of macroeconomic forecasts in an uncertain world, it nevertheless represents considerable progress insofar as it expands the forum for debate and leads to the emergence of new partners, e.g., Parliamentary Commissions.

Chapter 3

WAGE POLICIES

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From 1945 until the end of the 1980s, the French economy was handicapped by price rises which in most cases were higher than those experienced by its main partners and competitors; this obliged it to make frequent monetary adjustments up until 1987. Higher inflation and a weaker currency were so many handicaps to competitivity, to the smooth regulation of growth and equitable income distribution.

One of the causes of this "over-inflation" was the failure of French society, of firms and trade unions, to keep increases in wages and other income down to levels compatible with rises in the productivity of labour and capital. It is a failure which results mainly from the fragility of France's social consensus. In the absence of any agreement on either the aims or the rules of the game, wage objectives were given short-term priority, while the negative long-term consequences were neglected. Those consequences were to make themselves felt with particular acuteness after the second oil shock, the effects of which were exacerbated by a significant sharpening of international competition.

It was thus only at a late stage, and once most of the economic and social forces in play had accepted both the reality of European integration and the need for French economic development to take place in a context that was open to outside competition, that the rules of the wages game began to change. **This was particularly the case from 1984 onwards when automatic and across-the-board wage indexation were abandoned.** This was a profound change in French wage-setting practices, and it at long last reversed the price-wage spiral. **The break with the previous sliding scale of wages and salaries was a key event in France's economic and social history.**

It was from then on that both companies and employees effectively changed their behaviour with respect to wages, moving beyond the simple application of legal provisions, an approach which our country's history has shown to be of limited effectiveness. The maintenance of this new orientation is at the heart of the recommendations contained in the 10th Plan. The Plan proposes that wage and income rises be adjusted in line with increases in productivity so that companies can maintain their profit margins and investment capacity, parameters which in turn dictate long-term progress on both the social and the economic fronts.

I - THE INSTITUTIONAL AND LEGAL FRAMEWORK

From the very beginnings of French labour law, the normal system under which wages and salaries are set is governed by the principle of individual and collective **contractual freedom.**

Two qualifications are however necessary. On the one hand this contractual freedom can be curtailed, and even in exceptional periods suppressed entirely, in the name of economic and social factors deemed pre-eminent. The system is then replaced by **binding rules** either laid down by the State (in the form of laws and regulations) or drawn from our legal system in the form of what legal specialists refer to as the **social and economic "public order."**

On the other hand, collective wage bargaining is bound by a **legal framework** which tends to favour the role of workers' trade unions, organizing the different levels of negotiation that exist between them and laying down a hierarchy of collective wage agreements.

1. The constituent parts of the "social public order" as applied to wages

These can be split into two categories. They are:

On the one hand, **binding** arrangements arising from economic or social laws and regulations which apply to collective or industrial bargaining agreements. (Examples are laws which prohibit the linking of wages decided by agreement to prices or to the legal minimum wage, but also the regulations which dictate how to draw up pay slips, or the compulsory forms on which wage contributions to social security bodies are declared).

On the other hand, it is forbidden to set wages and the arrangements for their payment at levels which are **less favourable to employees** than those agreed on or set by legal authorities at a higher level. More favourable conditions can however be agreed to, provided that the aforementioned binding regulations be adhered to.

In French labour law, the hierarchy of legal authorities is as follows, by decreasing order of importance:

- The law itself
- Regulations (i.e. orders enacted by the executive branch of government)
- Broad-based collective bargaining agreements (see below for definition of this term)
- Non broad-based collective bargaining agreements, at the national level firstly and then at the lower regional level.
- Labour agreements
- Plant or shop-floor agreements
- The individual labour contract

"Public order" as regards wages is thus both a **social minimum** and an obligation to respect certain clear-cut rules. Among the most important State rules involving the obligation to set a social minimum in relation to wages, it is at least worth noting the one which set up the so-called "minimum inter-profession growth salary" (salaire minimum interprofessionel de croissance, or SMIC), the general working of which is described below. However, although the social public order forbids any employer to pay an employee at a rate below that set by the SMIC, or below the agreed minimum for a given qualification, wages can nevertheless remain below

the SMIC for the purposes of calculating supplements to the main wage, with the sole condition that the total sum actually paid out to any employee may not be less than the SMIC.

2. The institutional framework of wage negotiations

With the exception of the legal minimum wage set by the State, the different elements of the wages and salaries effectively paid out to employees are determined by **collective bargaining agreements** and individual wage contracts within an interlinked system. Collective bargaining agreements, at all levels of negotiation, must be reached by employees' trade unions which are legally recognized as being **representative.**

The exercising of trade union rights in France is free and protected, but it is also regulated. The general principle is one of liberty to join the union of one's choice, or to set up new ones. But while France is a country of **trade union pluralism**, five union confederations are in fact considered representative at all negotiating levels, including in companies or branches in which they may have very few members (other unions are under the obligation to prove their representativeness on a case-by-case basis). The representativeness of a union is judged by several criteria, as follows:

- the number of its members
- its membership fees
- its experience and age
- its patriotic attitude during the Nazi occupation in World War II.

Recognition of a union's representativeness gives it an exclusive right to intervene in the various forums in which wage agreements are negotiated. This right was supplemented in 1982 by a law which lays the onus on employers to negotiate revised pay agreements each year.

On the side of the employers, their organizations have also to be recognized as representative by the Ministry of Labour in order to be allowed to negotiate agreements at branch level. The organization of contractual labour law, in particular for employees, is as follows: **collective agreements signed at branch level** determine (over and above the minimum provisions for the protection of wage earners laid down by the law) the minimum wage or salary for each qualification in accordance with the qualification scale drawn up elsewhere in the overall collective agreement (*convention collective*). Such branch agreements also determine the level of the various additions to the basic rate (bonuses and other supplements corresponding to various obligations), and the level of social benefits.

All other agreements which are below the branch agreement in the legal hierarchy, and in particular the individual labour contract, can only **adjust** the provisions of the branch agreement in a way which is at least as favourable to employees.

In the absence of agreements signed by an employer or employers' organizations on the one hand, and by representative trade unions on the other, wages are set

unilaterally by the employer in order to respect the minimum standards of protection laid down by the law and by regulations.

Collective agreements are free to determine their own professional and territorial field of application. They normally apply to all labour contracts reached by an employer who is a signatory or member of the employers' organization which is a signatory, of the agreement in question. However, our legal system provides for procedures allowing the Ministry of Labour to **extend** the field of application of a collective agreement to **all** the companies included in its professional field of application, or involved in related activities. The extension of a collective agreement, in particular as regards wages, is preceded by consultation of a national tripartite body known as the National Commission for Collective Bargaining (*Commission nationale de la négociation collective*). The main utility of this procedure is to avoid penalizing companies which co-operate in progressive wage negotiations, and to ensure the general spread of social compromises agreed to at branch level. It is worth noting that the obligations under which companies are placed through application of the extension procedure can be enforced by means of penalties.

At present most French companies are thus covered by extended wage agreements of which some, it is true, are no longer appropriate because they have never been updated since they were first concluded. It should be stressed that the State has not set up very powerful machinery allowing it to give a new impetus to a wage negotiating process which has weakened over time, as is to a certain extent the case today with branch-level bargaining. Unlike Germany or the United States, the obligation to negotiate in France is a purely formal one. There is no obligation on the parties to actually reach an agreement, or even to negotiate in good faith. Furthermore, with the exception of the provisions for extending collective bargaining agreements or monitoring their conformity with the law, the State cannot step in to take the place of one of the partners in the event of failure in the negotiations. Under normal conditions, its direct intervention extends only to setting a legal minimum and defining the way bargaining is organized.

II - THE CHARACTERISTICS OF WAGE POLICIES IN FRANCE

Beyond the ups and downs of the economic and political situation, it is possible to discern a few principles and concerns which have been constant features of State intervention in wage-setting in France since 1945.

French policies on wages have always been inspired by consideration of the twin dimensions - social and economic - of the way in which wages are set; one function being to guarantee social protection for wage earners and the other to maintain key macro-economic equilibria.

1. The social welfare function for wage earners

Very early on, the French State introduced the concept of a guaranteed minimum wage, calculated and periodically updated on the basis of a retail price index which is independently and objectively established by the national statistical service,

INSEE. Since 1971, whenever the increase in the retail price index exceeds 2%, this triggers equivalent and automatic increases in the SMIC.

The State has also enacted an increasingly dense legislation which underpins the payment of wages and salaries: the periodicity of payment, the superior ranking of wages as debt, their guaranteed payment in the event of default on the part of the employer, the compulsory payment of social contributions, limitations on the right to dock wages and on the proportion of the wage that can be sequestered or ceded and the obligation to provide a pay slip, according to a regulated layout.

However the social aims of the State in the setting of wages go beyond the sole function of guaranteeing a remuneration corresponding to the basic minimum. There is also **a function of promoting distributive justice**, which was particularly stressed by the law of 2nd January, 1970. This law replaced the concept of "guaranteed minimum inter-profession salary" (SMIG) with that of "minimum inter-profession growth salary" (SMIC) . Here the overall aim is to create a legal mechanism to impose the redistribution of at least a fraction of the benefits drawn from economic growth to the lowest-paid, who are thus assured of being able to profit, at least in part, from that growth (with reference to the increase in buying-power of the average hourly wage as recorded in quarterly studies carried out by the Ministry of Labour).

This mechanism for sharing the rewards of economic progress nevertheless existed, to a lesser degree, in the French system prior to 1970. It also features in the **profit-sharing and incentive schemes** operated by certain companies, the foundations of which were laid as early as 1945 and supplemented in 1959 and 1967. In the same spirit, that of ensuring a right to improvements in buying-power linked to a company's development, there is the legislation on the various types of **"social programme"** (*oeuvres sociales*) that a company can implement at its own expense. Such cultural and social advantages provided for employees include housing, canteens, shows, sports activities and mutual insurance services. As a proportion of the total wage bill in large companies they can amount to a non-negligible additional payment in kind, which can be distinguished from incentive and profit-sharing schemes in particular insofar as they are not very reversible for the companies involved should their results deteriorate rather than improving.

Seen from a certain angle, it is possible to argue that the idea of allowing wages to benefit from the rewards of growth has also provided the inspiration for **certain institutional changes** which have tended to promote a shift in the contractual bargaining power of workers' trade unions and other institutions representing company staff. These include legislation on trade union rights in companies (Law of 1968), the organization of tripartite negotiating structures for branch-level wage bargaining on agreements which are likely to be extended (Law of 1950) and, above all, the 1982 decree on compulsory annual wage negotiations (with a compulsory five-year period for the revision of job category scales).

2. The maintenance of macroeconomic equilibria

French wage policies are permanently characterized by two main types of concern, to which can be added a third, much more specific to the most recent period. They are the fight against inflation, the stimulation of investment and the encouragement

of company modernization seen as both a factor in, and a consequence of, the transformation of our productive system from one based on "Taylorism" to one built on the so-called Kalmarian model (i.e., to give but the outlines of this model, a system based on training and increased involvement and responsibility for employees).

2.1. Application of wage policies to the fight against inflation

The State's number-one concern today is to break the inflationary price-wage spiral that is fed by the different, more or less camouflaged, forms of wage indexation, including in most cases, *ex post* indexation. As we will see below, between 1950 and 1982 (i.e. between two periods of a total freeze on, or of authoritarian pricing and wage-setting) this aim was not achieved in practice, and wages and prices showed a high level of correlation thanks to a de facto indexation which occurred in spite of the fact that the practice had been repeatedly banned by legislation (in 1958, 1959 and 1970). It was only from 1983 onwards that France finally and durably adopted wage practices which cut the link between wages and prices. However, State mechanisms aimed at regulating wages in order to fight inflation have in fact never been absent from wage policies.

The basic forms of such policies are as follows:

- Authoritarian setting of wage increases, or wage freezes

This first technique was used between 1945 and 1950 during a period of shortages and reconstruction, but which was designed as an interlude in a system whose fundamental vocation is to be based on the principle of contractual freedom to set wages.

The only limits to such freedom are the respect of "public order" as regards wages, defined by the SMIC and the prohibition against linking wages to either prices or to the guaranteed minimum wage. Similarly, the technique of freezing wages has only been used in France for a very short period (for four months in 1982), with the main aim of using it as "electro-shock therapy," the starting point for a process whereby wages would no longer be linked to prices. An aim which in the event was to be achieved.

- Another instrument already mentioned above is the **prohibition on indexation wages to prices or to the guaranteed minimum wage**, which, with the exception of a short period between 1950 and 1958, has been a constant feature of the French system. But in spite of extreme vigilance justified by an abundant jurisprudence on this point, it has to be admitted that until 1982 the legal principle was continually by-passed by employers and unions. The law used as a mechanism to fight inflation thus demonstrated the limits of its effectiveness.

- The last normative instrument occasionally used by the State (especially in 1976) involves combining a wage policy with **a policy on prices**, the latter being regulated and controlled up until 1986. This is a *dirigiste* policy which proves to be ineffective in the long term because it cannot take into consideration the diversity of the situations in which companies find themselves: productivity gains, the appearance of new products, sheltered markets.

- The other State intervention mechanisms often used in France to try and beat inflation via wages, and to achieve an effective de-linking of wages from prices are non-normative in character. They include on the one hand what has been called the government's **"language of encouragement"** and its **recommendations** to economic and social agents, sometimes verging on **"incantation"** with the proclamation of target figures (such as the annual increase in total gross wages, or in the level of wages) to serve as simple benchmarks.
This technique has been much used since the early sixties, with uneven success.

French experience proves, however, that it has had certain real effects, in particular since 1983, in that it can allow a large number of company heads and employers' organizations to hide behind such recommendations and government objectives in order to oppose pay rises at a higher level. Finally, the last method consists in following an **exemplary wage policy in the public sector**, which the State can then cite in order to influence wage policy in the private sector. Thanks to an institutional mechanism endowed with considerable power (the Interministerial Committee on the Control of Salaries, or CICS), the State can in fact exercise quite strict control over the wage policies of public-sector companies in the industrial and commercial sectors, while as an employer itself, it also decides on the pay of civil servants. Thus a total of nearly 6.5 million employees (almost a third of France's active population) depend either directly or indirectly on the State for changes in their earnings (the total comprises 2.7 million State employees, 2.3 million employees of local authorities and State-run hospitals and 1.5 million employees of public-sector companies). All these mechanisms, widely used since 1983, have thus proved their relative effectiveness in contributing to de-linking wages from price rises.

2.2. The State's instruments for stimulating investment and company modernization via wage-setting

Through mechanisms aimed at allowing wage-earners to share in the rewards of growth and the earnings of their companies, the State has legally given itself the means to seek to raise savings and stimulate productive investment, and even fight inflation at the same time, by diverting a part of the sums used to remunerate labour towards the capital markets for a specific time period. These instruments are:

- profit-sharing
- staff shareholding schemes

They have in common, on the one hand, the fact that they constitute a **mode of delayed remuneration** for wage-earners, or of **forced saving**, without having the legal characteristics of a wage, being mainly intended to nourish productive investment and, on the other, the fact that they are accompanied by fiscal and social exemptions which benefit companies and employees. The amount of savings currently mobilized in this way is estimated at between 6 and 7 billion francs of credits each year in mutual funds alone, and a total of some 40 billion francs thus built up over the past few years, which given the size of France is an appreciable contribution to its economy.

Of course, the administrative, fiscal and social mechanisms of these instruments are complex, and have evolved considerably since their institutionalization in 1959. It would therefore be unreasonable to describe them in the present work. We will simply point out the main advantages and disadvantages of such approaches in relation to the targetted economic objectives, and to the compromises which result from them.

2.2.1. The search for motivation and efficiency, and the stimulation of social modernization in companies

If an employee has a stake in improving the economic efficiency of the company - be it in the form of indicators such as labour productivity, operating profits, turnover, or net earnings (the latter being calculated according to strictly-defined legal criteria for purposes of profit-sharing) or in its development (via shareholding) - that employee will be encouraged to take more interest in its functioning, to aid its development and also to improve his or her training and working methods. But the difficulties encountered here lie in the social need to retain an equitable distribution of these employee income elements between the different socio-professional categories within each company, the avoidance of excessive discrimination between the most successful companies and those which trail behind, and to avoid too great a degree of individualization of earnings. The latter phenomenon can be a factor of social destabilization and can also adversely affect the development of the other earning elements, which have the legal status of a wage.

The compromise towards which current policies are moving in order to avoid such social pitfalls is one which keeps these performance-based payments at a reasonable proportion of total gross wages (4% in the public sector, and less than 15% in the private sector). It also makes agreement on such payments subject to the prior conclusion of a wage agreement less than three years earlier, seeks better control of the way the payments are shared and the conditions under which this is done, and broadens the field of application of compulsory profit-sharing schemes to include a greater number of companies. This, at least, is the thrust of current policy.

2.2.2. The search for flexible wage policies

One of the major advantages of this method of remunerating wage- and salary-earners is that it makes the perks on offer **reversible** by correlating them with the company's economic progress. However it has to be admitted that major expansion of these methods is a comparatively recent phenomenon which has occurred as the economic and financial results of French companies have been improving. They have not yet had to stand the test of a recession, which is always on the cards. It is therefore important to keep the development of the system within limits which are compatible with social acceptance of the effects of a possible recession.

Such methods must make a contribution to investment, and to the channelling of savings into the same. This is the case when mechanisms are used to set aside the sums earned via such systems for at least five years (with exemptions provided for in the event of normal social contingencies such as lay-offs or family events, etc.) and to channel most of the funds into productive investment. But inciting companies and employees to accept such forms of payment involves the State granting them financial advantages in return, which take the form of **tax**

breaks and rebates on social contributions. It is difficult to estimate the fiscal cost to the State of such advantages, but at present it is believed to come to almost one billion francs. This cost does not mean that the utility of such methods should be doubted, but it does call for vigilance in the control of investment and profit-sharing agreements to ensure that they do not develop to the detriment of the wage policies which provide the resources needed for social benefits. Today such vigilance is one of the State's concerns, and is reflected in plans for reform.

III - THE EFFECTIVENESS OF THESE INSTRUMENTS

None of the above-mentioned instruments by which the State can intervene in the wage-setting is sufficient on its own to dictate the success or failure of the wage policies that have been applied.

The State is in fact obliged to juxtapose and combine them over time, using varying doses of each to maintain **balance** between the two fundamental and permanent requirements: a slowdown in wage increases on the one hand and the maintenance of a good social climate on the other.

If one excepts the period between 1945 and 1950, which was characterized by *dirigisme* and reconstruction, it becomes clear that **the same instruments do not always produce the same effects, depending on the context in which they are applied.** After 1950, it was not until the turning-point of 1983-84, which occurred in a new economic, social and political context, that instruments used to bring about the effective de-linking of wages and prices started to become fully effective.

Thus the official ban on linking wages to prices or to the legal minimum wage, even when it was supplemented, from 1976 onwards by the government-declared aim of returning the economy's major indicators to equilibrium and by price controls plus a public-sector wage policy which aimed at setting an example, had but little effect on the wage-price spiral up until 1983. **The 1983 turn-around, which represented an in-depth change in the relationship between prices and wages in France, can be explained by several factors which originated outside State wage policies, but which combined with those policies to make the change effective.** In particular, and although the relative importance of the different factors cannot be determined with any certainty, there was from 1983 on an appreciable deterioration in the labour market, an improvement in productivity (of both labour and capital) resulting from company modernization and a change in the behaviour of economic agents. Such factors no doubt have more influence on wage-price linkage than do the official texts which regulate that linkage, even when the intention of the latter is to ban it. In this respect, and as already stressed above, the decision to temporarily freeze prices and incomes in 1982 no doubt played a key role, since it occurred in a context, and at a stage in the development of the economic and social situation, which favoured its success.

In addition, a certain number of legislative and institutional instruments have roots in our economic and social history and have had a profound effect on the behaviour of social and economic players, to the extent that they resemble a structural feature

of the system more than a simple economic and social tool which can be easily switched as and when the situation changes.

In this respect, it was not enough for a 1982 decree to create an obligation for wages to be renegotiated each year, or for qualification scales to be revised every five years, for collective branch bargaining to be revitalized as much as was needed. Such a renewal was required to avoid an excessive squeezing of wage differentials due to the accumulated delay in the growth of agreed minimum scales in relation to increases in the SMIC. It is true that the relative weakening of branch-level collective bargaining in the past few years can be partly explained by the deteriorating influence and organizational power of both workers' trade unions and employers' groupings, phenomena over which the State has but little influence.

The State also has less room for manoeuvre to change the regulatory machinery used at the micro-economic level than one might think at first sight, because of the difficulty, not to mention the political and technical drawbacks, of too-frequent changes in their general structure.

The institutional and regulatory machinery used by the State to influence wage policies in fact make up a cumbersome and complex set of rules, to which economic agents have to be able to adapt, and which for that reason cannot be easily subjected to major changes at any time. Conversely, a balance must continually be maintained between social and economic requirements, and the system must remain at all times capable of adapting to a changing and uncertain economic environment.

Reconciling these apparently contradictory requirements is the source of all the difficulty in operating wage policies. In the most recent period, since 1983, government policies can lay claim to a certain measure of success in making wage policies coherent with major economic policy objectives, particularly as regards the de-linking of wages from prices and the re-adjustment of the relative portions of wages and earnings in the sharing-out of added value, not to speak of the stimulation of investment. But at the same time other pitfalls, of a social nature, have emerged, and these must be avoided. They are:

-excessive individualization of incomes;
-an increase in wage disparities between types of companies and between workers;

-fragmentation of wage policies at company level, which corresponds to a company's need to be independent, but is damaging for overall social cohesion and can contain the seeds of a worsening of the social climate which the State could find difficult to deal with.

The difficulty of implementing a balanced wage policy thus persists in full. The problem is to simultaneously operate economic and social strategies which rather than being in contradiction, combine and interact to strengthen one another.

Chapter 4

THE FRENCH SOCIAL WELFARE SYSTEM

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As in other Western European countries, France devotes a substantial part of its national wealth (some 27.4% of gross domestic product) to social welfare (cf. Appendix 1). According to figures published by the Statistics Office of the European Communities, an social spending of this size puts France in fourth place among the twelve members of the Community, behind the Netherlands, Belgium and Denmark, but before Germany, the United Kingdom, and Italy.

The substantial proportion of national resources spent on social welfare is first and foremost a reflection of the quality of the social cover provided for French citizens: as we will see later on, a generous policy towards retirement pensions, constant efforts to improve public aid to families, and the longstanding commitment to maintaining the conditions for the private practice of medicine, are among the primary reasons for the exceptionally high level of welfare expenditure in France. However, it may also be explained by the mixed nature of the French social welfare system, in that it combines the features of welfare insurance systems in which entitlement to cover is obtained only on payment of contributions, and systems providing universal and unconditional membership. By meeting the needs of national solidarity, the French system offers excellent cover, but proves to be relatively expensive in the final analysis.

In its current state, the French social welfare system insures citizens against certain risks characterized either by a fall in income (sickness, maternity, invalidity, work accidents, retirement, unemployment), or an increase in costs (family allowances). In addition, a series of measures exists to guarantee a minimum wage to certain categories of people, which does not fall within the scope of any of the above-mentioned risk categories. As shown in Appendix 1, the risks attached to old age and sickness absorb the major part of welfare expenditure.

Further, other fast-growing contributory factors are now implicated, i.e., an ageing population and the supply and demand for health care. Medium-term financial forecasts for social welfare schemes indicate considerable borrowing requirement levels in the coming years. These prospects give cause for concern and, in pursuance of the major courses of action outlined in the 10th Plan, call for adjustment to be made to balance welfare revenue and spending.

The first part of this report deals with the nature and organization of the French social welfare system and the results obtained regarding improvements to social cover. The second part discusses the financial prospects and modalities for medium-term adjustment of social welfare schemes' accounts.

I - THE NATURE OF THE FRENCH SOCIAL WELFARE SYSTEM [1]

1. The major social welfare systems

There are two major systems in Europe:

- the first, often referred to as "Bismarckian", establishes a very close link between welfare entitlement and professional activity. Entitlement depends on contributions paid in by the beneficiary throughout his working life, hence benefits take the form of deferred income. The system can thus be likened to a social insurance system based on professional solidarity. Professional funds, run for the most part on a joint basis by employees and employers, collect social contributions and pay out benefits. The funds' management boards are responsible for their financial equilibrium.

Schemes of this type are not funded -- or at least as little as possible -- by subsidies from the State budget. Indeed, the principle of budgetary universality is in stark contrast to social insurance schemes' approach to resource allocation. Furthermore, funding social welfare by taxation introduces, on account of the progressive nature of tax schedules, redistributive effects which do not comply with the spirit of the model. Quite the contrary: welfare finance channels should be as independent of the State budget as possible.

National solidarity, through social aid systems, can however, top up welfare entitlements accrued under insurance schemes for low-income households. Nonetheless, these are subsidiary packages which depart from the predominant "Bismarckian" approach.

In this model, contributions are only compulsory in part. There may therefore be wage ceilings for affiliation (above which membership to social welfare schemes is no longer compulsory) or only for contributions (affiliation is then compulsory, but contributions are payable only within the limit of the wage ceiling, and entitlements are calculated with reference thereto).

The model is thus based on a **commutative** concept of justice: the fact of contributing gives entitlement to social benefits. When it was founded at the end of the last century, the German social welfare system clearly resembled this model. Even today, affiliation to health insurance schemes is only compulsory for some 75% of employees whose income is below the ceiling (approximately 15,000 Francs a month), and retirement and health insurance schemes operate within a framework that is, on the whole, professional in nature. The considerable development in social aid measures in Germany from 1960 onwards means that this statement need to be qualified insofar as the proportion of social welfare spending today financed by taxation is higher in than in France.

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[1] Appendix 2 gives a brief summary of the institutional structure of the French social welfare system.

- the second, referred to as the "Beveridge model", deems that any person, irrespective of whether he or she is in employment or not, is entitled to a minimum level of security in the face of sickness, old age, or any other cause of a significant drop in income. In countries opting for this model, such as Great Britain, there are health insurance systems to which affiliation is automatic, or retirement systems which guarantee a minimum income to all senior citizens regardless of their total contributions. These systems are funded by the State budget: thus the principle of national solidarity predominates, and the underlying concept of social justice is distributive in nature.

Social welfare systems which conform to this model may nevertheless be supplemented by additional "stages" within a collective (interprofessional or professional) or individual framework.

2. The French social welfare system

Although Article 1 of the Social Security Code refers to national solidarity, it is obvious that when it was founded in 1945, the social welfare system was ostensibly much closer to the first model than the second. Thus, social entitlements covering sickness, retirement, accidents at work, and family allowances were linked to professional activity, and contributions were payable for each risk, admittedly within a high wage ceiling limit (at the present time, approximately three employees in every four earn less the ceiling limit). On the other hand, the range of institutional measures arising from an Ordinance of 1967 provided for broad autonomy in managing the schemes: joint management boards (equal representation of staff and employers) with competence to propose appropriate measures in order to ensure financial equilibrium of the schemes, thereby guaranteeing adequate impregnability between the State budget and the finances of social schemes.

However, since its inception this type of organization has undergone far-reaching changes as a result of various reforms:

- retirement: a law of 1956 improved substantially the package of measures to provide a minimum level of revenue for the elderly *(minimum vieillesse).* A "supplementary" allowance, irrespective of the total contributions made by the beneficiary throughout his working life, tops up other non-contributory benefits and is funded by the State budget. Moreover, legislation passed in 1972 made contributions to complementary retirement schemes compulsory. Hence, the wage ceiling plays an all but theoretical role in pensions systems.

- family allowances: the 1975 law to "generalize" the Social Security System abolished any link between benefit entitlement and professional activity;

- health insurance: a law of 1978 allows voluntary membership of the scheme by persons not in dependent employment or whose contributions are insufficient to gain entitlement to benefits. Subsequently, a number of texts have specified the categories of the population whose contributions should be paid out of the public purse: beneficiaries of the minimum income scheme known as the *Revenu Minimum d'Insertion* or RMI are a case in point;

- a reform of 1983 transferred responsibility to the State budget for certain employment benefits falling within the scope of national solidarity;

- the Law of 2nd December 1988 instituted an RMI guaranteeing a minimum wage to all persons and families in return for a contractual commitment to actively seek work;

- Finally, legislation passed in 1978, 1989 and 1990 increased the ceiling for all Social Security contributions, except retirement.

It is worth noting that, in practice, the principle of autonomous management has only ever been partially applied. More often than not, the Government has had to impose the necessary measures for the schemes' financial equilibrium.

Today, the French social welfare system is broadly mixed in nature. Elements of professional solidarity subsist, especially the enduringly strong degree of independence in Social Security funding, as separate from the State budget(1). Nevertheless, a large degree of national solidarity has been introduced, both in relaxing entitlement conditions and extending the range of incomes on which contributions are liable.

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(1) In France, social insurance contributions provided 76.4% of total welfare revenues in the mid-eighties, versus 70.3% in the former Federal Republic of Germany, and 47.6% in the United Kingdom.

3. The level of welfare cover provided in France

It should be emphasized just to what to extent these measures, quite apart from their consequences for the statutory French social welfare organization, have had a substantial impact on the level of welfare cover of the population, as follows:

- retirement: the full range of measures taken over the last forty years or so has led to both the abolition of pockets of poverty which, after the Second World War, were highly concentrated among the elderly, and to guarantee retired people currently liquidating their entitlement a level of benefits which can be compared favourably with the average wage paid to those in employment. Thus, under very general conditions, a retired couple is guaranteed minimum income of around 5,000 Francs a month. Furthermore, pensioners liquidating their entitlement today, and having worked fully throughout their lives - a trend which is becoming more and more widespread with the increase in the numbers of working women - receive on average a total pension equal to approximately 80% of the net average salary after deductions for social welfare contributions. Of course, such progress is not without consequences for the accounts of retirement schemes.

- public cover for **health** risks remains high despite a gradual tailing-off over the last ten years, whereas the free market nature of general practice has not been threatened in the least: patients are completely free to choose their doctor without any restriction on the number or type of consultations, and practitioners have complete freedom to prescribe treatments. Since 1980, they have also had the right, under broadly free market conditions, to set their fees above the base used by the Social Security to assess reimbursements. The conditions governing general practice are, moreover, subject to three-yearly agreements between representatives of the medical professions and the health insurance funds, which are an important forum for social negotiations in France. Practice in private, profit-making hospitals and clinics is also subject to a few additional restrictions, i.e., authorization to install equipment is linked to overall national health planning objectives, and consultation fees are governed by individual agreements between the establishments and the health insurance schemes, but these do not regulate the number of consultations. As with retirement, the financial cost of this free market policy is considerable;

- a dynamic family policy measured by the exceptional weight of social spending on public aid to families (in excess of 4% of gross domestic product), in the form of social benefits or tax relief, is undoubtedly the reason why France's demographic situation is less disadvantageous than that of other European countries. Economic indicators put the fertility rate at 1.8 children per woman, as opposed to a European average of 1.5 -1.6;

- improved compensation for **disabilities and rehabilitation programmes for the disabled** have also become an important pillar of social welfare policy. Legislation has simplified the package of specific allowances for disabled people by creating two benefits: one earmarked for educating young people, the other aimed at guaranteeing a minimum income for adults. In addition, considerable improvements have been made to housing and rehabilitation facilities for the disabled, particularly through employment programmes;

- lastly, a series of measures supplements the insurance schemes to assist the sections of the population most in need. Besides the RMI, the minimum income for senior citizens and the aforementioned measures to help the disabled, there is also a housing benefit which is in the process of being extended to cover all low-income households, and a single parent allowance to supplement the income of one-parent households. Special attention is also paid to widows and widowers both within the scope of insurance schemes and national solidarity through specific tax measures.

The efficiency of social welfare agencies can be assessed by the low level of expenditure on administration and management (barely above 5% of total benefits), although there are areas where productivity could certainly be improved. Further, the network of local Social Security funds represents a decentralized public service which the State can use to implement local social policies, as was the case with the RMI.

II - PROBLEMS AND OUTLOOK

For several years now the French social welfare system has been faced with financial instability due primarily to the rapid growth in retirement and health insurance spending. Although this has not led to a broad rethink of the system, this worrying development would tend to suggest a need for widespread adjustment to the schemes' income and expenditure.

1. Financing

According to calculations made by the Ministry of the Economy and Finance in autumn 1989, the Social Security borrowing requirement should stand at over 60 billion Francs in 1994, i.e., 0.7% of Gross Domestic Product, presuming that social legislation is not amended in the meantime. Moreover, slower economic growth would add to the financial imbalance by reducing revenues.

1.1. Growth in revenues

With unamended legislation, the social welfare schemes' main source of revenue, in the event social insurance contributions, progress in line with the assessment base, i.e., wages. In 1988 and 1989, there was a distinct rise in welfare scheme revenues due to resumed growth and employment (+6.7% and +8.3% respectively). However, this transient positive trend should not mask two important factors attached to wage rises, resulting, on the one hand, from macroeconomic policy, and on the other, from the emergence of new forms of remuneration:

- in line with the 10th Plan's major orientation, France's macroeconomic strategy is directed towards job creating growth. In the long term, this strategy will be beneficial to the Social Security, since it is preferable that wages rise as a result of increased employment than across-the-board wage settlements (1). Nevertheless, in the short and medium term, achieving such a goal presupposes a high level of investment, which in turn requires that national wealth be distributed with a slight bias away from the fruits of labour.

- furthermore, the development of certain forms of remuneration, *inter alia* staff profit-sharing perquisites, which are partially exempt from social insurance contribution payments, tends to curb increases in social welfare schemes' revenues. Besides, in the fight against unemployment, the Government has broadened the scope of social insurance contrbution reductions without fully compensating for the loss in earnings to schemes.

1.2. The rise in welfare spending

The rise in welfare spending can be explained by a range of factors depending on the risks covered. Retirement and health insurance are essentially at the root of the rapid increase. The other schemes produce financial equilibrium or a slight surplus.

1.2.1. Retirement insurance

In this sector, growth factors are easy to identify: firstly, the rising number of pensioners (+4% yearly average), and the fact that pension schemes have reached maturity (the proportion of pensioners receiving the full rate when liquidating their pensions is on the increase). Nowadays, the consequences of these phenomena can still be borne by wage earners, particularly since statutory provisions governing periodic upgrading of pensions have been interpreted rather restrictively over the last five years: in practice, increases are strictly linked to price indexes. Nonetheless, the inevitability and cumulative effect of the corrective measures to be taken do not augur well for the next fifteen years: calculations made by the 10th Plan's "Social Welfare" Committee show that retirement insurance contributions would have to soar by 60% between now and 2005 to keep pace with pension entitlements at current levels.

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(1) Growth in employment reduces unemployment benefit expenditure, while wage increases add to the cost of certain types of social spending (retirement pensions, daily sickness benefit, which are calculated on the basis of wages, the cost of hospital staff, etc.).

1.2.2. Health insurance

For some fifteen years now elasticity of health spending in volume terms compared with Gross Domestic Product has been around 3 on average. Consequently, health insurance spending can be only brought under control by, on the one hand, the regulatory pegging of the cost of medical supplies and services and overall control of spending on public hospitals, and on the other hand by the constant fall over the last ten years in the part of health expenditure paid for out of the public purse. The proportion fell from 79.4% in 1980 to 75.5% in 1989, making the French health system one of the most expensive (in terms of ratio of expenditure to G.D.P.) and one of the most advantageous to insured parties, in comparison with other OECD countries). Furthermore, various indicators, such as the overall death rate, suggest that France ranks about average for the health of its population.

1.2.3. The other schemes

The other schemes' accounts (accidents at work, family allowances, unemployment benefits) are substantially in equilibrium or show a slight surplus.

- the number and seriousness of **accidents at work** experienced downward movement until 1988, followed by a quite perceptible upswing in 1989, which can probably be attributed to resumed economic growth. All in all, these changes in volume mean that the scheme's financial situation regularly shows a surplus;

- **family allowances:** population movements over the last twenty years have tended to stabilize the number of beneficiaries. With unamended legislation, the scheme can easily maintain financial equilibrium;

- **unemployment insurance:** after several years of deficit, returned to equilibrium in 1988 and 1989 with the resumption of growth and the fall in unemployment. This positive situation might endure, provided that current international tension does not result in too marked a downturn in economic activity.

2. Upholding the founding principles

In the face of an uncontrolled financial situation, voices have been raised in favour of an enquiry into the nation's social welfare system: its generosity weighs heavily on the competitiveness of companies, their capacity to offer jobs, and households' ability to save. It is true that with social expenditure absorbing some 27% of gross domestic product, France comes at the top end of the scale of OECD members.

In the opinion of its critics, the remedy to this obstacle lies in implementing private insurance mechanisms to provide cover for social welfare risks. This applies especially to **retirement:** in the light of inadequate domestic saving compared with what France should invest to underpin its competitiveness - one of the main reasons for keeping interest rates high - it has often been suggested that pension funds be developed, both individually and collectively, in addition to, or as a replacement for, current pay-as-you-go schemes. The proposal thus means aligning the tax system applied to individual retirement pension savings, to the system of income tax relief enjoyed by contributions to compulsory distributive retirement pension schemes.

The Government has not hitherto explored this path. Quite the opposite: the 10th Plan boldly reasserts the essential role played by the social welfare system in promoting national solidarity and social cohesion, and the need to maintain the level of social welfare for the population. However, it does suggest a partial return to the Social Security's founding principles by proposing that expenditure which comes under the aegis of professional solidarity be distinguished more clearly from that of national solidarity. Such a move would require gradual adjustment in the various areas of social welfare.

3. The outlook for social welfare schemes

3.1. Retirement insurance schemes

To underpin solidarity between the generations that is inherent in pay-as-you-go retirement schemes, and the insurance principle which necessarily guides them, appropriate measures need to be found to distribute the burden equitably between pensioners and those in work, and achieve long-term financial equilibrium without resorting to sources of revenue other than contributions paid by employees.

To this end, the 10th Plan's "Social Welfare" Committee studied possible scenarios for adjusting the general scheme for employees, taking into account moderate increases in contributions, parallel growth in net wages and pensions after deductions for social insurance contributions, and various amendments to rules governing the liquidation of pensions, more particularly extending the period of insurance required to receive full-rate pensions.

3.2. Health insurance

For some years now, the scheme's equilibrium has been achieved by regular decreases in the percentage of health spending borne by the public purse. This situation is neither socially just, since it sows the seeds for the creation of a multi-tier health service, nor economically viable, since experiences in other countries, including the United States, show that increasing the proportion of health spending left to households is not a factor in controlling total health costs. Quite the opposite.

The alternative - to improve the efficiency of health spending - lies in progressive and concerted change in the habits of consumers and health care producers, and in the medical appraisal procedure.

3.3. Family allowances

For a number of years, the surpluses recorded by this scheme have been used in part to cover the deficits of other schemes. The course of action proposed by the 10th Plan is directed towards using these surpluses to improve the financial situation of certain categories of families (low-income and large families) and family housing conditions.

3.3. Financing social welfare

Although an increasing proportion of social welfare spending comes under the umbrella of national solidarity, the weight of social insurance contributions to fund the welfare system remains high. Clearer separation between professional and national solidarity should entail a substantial reform of funding. Spending on professional solidarity should continue to be funded from social insurance contributions paid by insured parties, whilst national solidarity could be wholly or partly funded by deductions from all household incomes.

Social spending includes one category -- family allowances -- which is clearly a matter of national solidarity, since entitlement no longer depends on professional activity, although it is financed entirely from work income. Such a situation is seemingly abnormal, and a bill recently passed by Parliament provides for the creation of a new source of revenue, the *Contribution Sociale Généralisée*, a social insurance contribution deducted from all household incomes to replace certain social contributions which fund the family allowances scheme.

By creating greater clarity and consistency in organizing and funding social welfare schemes, the reforms will safeguard these essential tools of solidarity without curbing the economy's competitiveness.

APPENDIX 1

Social welfare in France (1989 figures)

	in billions of francs	as a % of GDP
Welfare benefits including:	1,423.9	23.3%
- health (1)	399.2	6.5%
- retirement/ subsistence	716.5	11.7%
- maternity/family	189.3	3.1%
- employment	96.2	1.6%
- miscellaneous (2)	22.7	0.4%
Social services (3)	196.3	3.2%
Tax measures (4)	55.1	0.9%
Total social welfare spending	1,675.2	27.4%

Source: National Accounts Commission

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(1) Excluding public hospitals and clinics.

(2) This entry includes benefits paid to non-residents.

(3) These cover access to free or concessionary rate social welfare services that cannot be supplied on an individual basis, and mainly comprise services provided by public hospitals and clinics.

(4) These refer to tax exemptions and relief and are linked to a particular social welfare risk.

APPENDIX 2

The institutional organization of the French social welfare system

1. - Three-quarters of the nation's social welfare services are provided by **social insurance schemes.** The schemes' resources are primarily made up of contributions assessed on the basis of income from employment, and are paid by employees and employers alike.

This category of schemes includes the following:

1.1. - The **general scheme for employees,** which insures almost all those in dependent employment for sickness, invalidity, accidents at work, professional hazards, family allowances, and the majority of employees for retirement.

1.2. - The **special schemes for employees or the self-employed,** which cover specific professional categories for certain of the above-mentioned risks.

1.3. - The unemployment insurance scheme, which covers all private sector employees.

1.4. - Complementary retirement schemes, to which affiliation is compulsory for private sector employees, and optional for a large number of self-employed people.

2. - However, a sizeable proportion of social security transfers transit via other channels:

2.1. - Social benefits provided directly by employers on a compulsory or optional basis.

2.2. - Benefits paid directly by the State (RMI) and local authorities (social aid).

2.3. - Benefits provided by mutual insurance corporations and private non-profit-making agencies.

Chapter 5

PUBLIC-SECTOR COMPANIES

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PUBLIC-SECTOR COMPANIES

Over the past 50 years, the public sector has played a very important role in French economic life[1] The aim of this section is firstly to outline its main features (I) and secondly to analyse the way relations between the State and public-sector companies have changed (II).

I - GENERAL OVERVIEW OF THE PUBLIC SECTOR

1. Unity in diversity

"The public sector today is a vaguely-delineated world made up of chaotic landscapes," said the Nora Report in 1967. This remains just as true today. **There is in fact no watertight definition of what a public-sector company is, nor any overall rules defining its status.**

This is first and foremost a result of the fact that the public sector has been built up in successive layers since the start of the 1920s, both through the direct creation of companies (such as the Atomic Energy Commission, C.E.A., in 1945, or the National Explosives and Powders Company, S.N.P.E., in 1970), and, more commonly, as a result of **nationalizations**. There have been two major waves of nationalization, one in 1945-46 and the second in 1982.

In 1945-46, with the exception of a number of cases in which the aim was to punish management for their behaviour during the war (as was the case with Renault), most nationalizations occurred in industries which could be considered natural monopolies (in particular in the energy and transport sectors), and which were thought to have, in addition to their industrial or commercial aims, the role of providing a service to the general public (examples were the railways, with the Société Nationale des Chemins de Fer, electricity generation, with Electricité de France, and Air France). Also affected were companies whose regulations and traditions meant that they were in any case mainly sheltered from the winds of competition (such as major banks and insurance companies).

In 1982, on the other hand, at a time when the French economy as a whole had been thrown open to international competition (largely as a result of the development of the European Community), it was companies from the competitive sector which were nationalized. Particularly affected were companies producing semi-finished products, such as Pechiney, or capital goods, such as Thomson and Bull.

Between 1986 and 1988, a large number of public-sector companies were privatized, both in the industrial sector (Saint-Gobain, Compagnie Générale

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[1] See Appendix 1 for data on the size of the French public sector.

d'Electricité, Matra) and in the fields of banking and finance (Paribas, Société Générale).

Since 1988, the decision has been to call a halt, with no new privatizations and no new nationalizations. This does not mean however that the outlines of the public sector have now become perfectly well-defined. There was, for example, what was called a "quasi-nationalization" in January 1990, when Air France acquired a controlling stake (54.8%) in the private airline UTA. And conversely there have been cases of creeping privatization, in which subsidiaries, or sub-subsidiaries, of public-sector firms have been spun off to private shareholders, or merged with private concerns. Such operations have been dubbed "ventilating the public sector."

As explained below (II, part 3, on the problems of public-sector finance), the under-funding of public-sector firms and State budget restrictions have led the government to accept, and even to promote, the entry of private capital into the sector to take up minority stakes. As a result, there is now - alongside the purely public and the wholly private sectors - a very large area in which public and private capital co-exist in varying combinations. This is an important characteristic of France's experiment in the mixed economy.

The public sector's **aims** and ***raisons d'être*** are thus many and varied. The justification for certain nationalizations has been drawn solely from liberal neo-classical thinking, in cases in which the microeconomic optimum state could not be achieved (natural monopolies), or in which the aim was to contribute to the maximization of social well-being by producing public goods (positive externalities). The market's inability to take into account the constraints imposed by the provision of a service to the general public, or to cope with investments in which the return is too long term, has also been stressed. To these justifications can also be added the desire to control sectors which are considered vital for the economy or defence, to have a regulatory tool (in the field of overall investment for example) or an instrument of modernization (in particular for medium- to long-term research and development efforts), or again to redistribute resources between sectors when economic agents prove to be incapable of doing it themselves, or to give employees a stake in the running of their companies, etc.

The opposition between a basically monopolistic public sector dedicated to providing public services (energy and transport), and an essentially competitive public sector (in the industrial and financial sectors), should not be exaggerated however. On the one hand companies which theoretically enjoy a monopoly position are increasingly being faced with competition, such as that between the French national railway company (SNCF) and road and air transport; and on the other companies which are highly competitive (for example in electronics) are sometimes, because of their strategic position and frailty, highly dependent on the State.

2. The organization and legal status of public-sector companies

The themes of unity and diversity are also reflected in the legal status of public-sector companies.

2.1. "Status" and organization of public-sector companies

Notwithstanding the reservations laid out above, it is possible to provide some basic elements that define a public-sector company. It is of course firstly a company, which means, as well as the exercise of an industrial or trading activity, that it possesses its own distinct legal status.

A public-sector company is never a government service or department1. It is a legal entity distinct from the State, possessing its own legal capacities, its own tangible assets and its own accounts.

The fact of its being a public entity can mean several things. The public-sector company can be a public legal entity, that is a public body. Such is the case in particular with companies that provide a service to the general public (Electricité de France, Gaz de France, Société Nationale des Chemins de Fer, etc.). The legal framework in which such companies operate contains a number of aspects relating to public law, even though the nature of their activities means that they are basically governed by company law.

The public-sector concern can also be a legal entity under private law, that is to say a company. This is always the case for industrial concerns operating in the competitive sector, for major banks, and sometimes even for companies which provide a service to the general public (Air France). The majority of the capital of such entities then has to be possessed by a public entity (in particular, the state), or another public-sector company2. In cases in which private firms hold a minority stake in such companies, the accepted term is that of semi-public companies.3

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1 Examples of government services or departments which directly exercise an industrial or trading activity have in fact been extremely rare. The most noteworthy exception being the French Posts and Telecommunications department, up until its status was changed in 1990.

2 French company law makes a distinction between two levels of majority ownership. A 50% stake makes it possible to control the board (and thus, for example, to decide how profits are shared), but a 2/3 majority is necessary for decisions affecting company statutes, capital increases and mergers. This explains why the State owns more than 66% (and often 100%) of the capital of major public-sector companies (excluding subsidiaries).

3 In some cases a company is deemed a public-sector concern because although the State does not own the majority of the capital, it controls a majority of the votes on its governing bodies, and can therefore control the running of the company. In cases in which the state's role is important, but in which it controls a majority of neither the capital nor the board voting rights (as is the case at the Compagnie Française des Pétroles, for example), the company cannot be called a public-sector one.

If one accepts these broad definitions, the public sector contained, as of January 1, 1988, a hundred and eight companies controlled directly by the State, of which fifty-seven (with a total of five hundred and twenty-five thousand employees) had the legal status of publicly-owned bodies (établissement public) and fifty-one were registered as limited-liability companies (société anonyme). (The latter employed three hundred and thirty-seven thousand people). In addition to these parent ("first-ranking") companies, there were one thousand seven hundred and eighty subsidiaries and sub-subsidiaries, employing in all five hundred and sixty-eight thousand people.

Public-sector companies are headed by either a management structure alone, or a management structure plus an administrative body (board of directors) or other supervisory structure (board of trustees). In parent companies of public-sector groups, the chairman of the board, of the executive board or of the board of trustees and the managing director are appointed by cabinet decree, in principle for three years, but the Government reserves the right to terminate their mandates at any time.1

As a general rule the board of directors (or board of trustees) comprises three different kinds of appointee: representatives of the State, individuals chosen for their specific skills or their ability to represent users and consumers, and employees' representatives. When a company has private shareholders, they are also represented on the board. The State representatives and the independent individuals are appointed by decree, while representatives of private shareholders are appointed by the board. Representatives of company employees are chosen by the staff.

2.2. The legal status of public-sector companies

Public-sector companies are above all companies. Whatever the subtleties distinguishing different statuses - from the publicly-owned body which provides a service to the general public to the semi-public company, they are basically regulated by commercial law (as testified to by the fact that they all feature in the French legal registry of businesses). The above is of course particularly true for companies which are empowered to engage in arbitration and may be declared bankrupt.2

Employees of public-sector companies are, with the exception of private operatives, subject to French labour law (and not to civil service regulations). They are represented under common-law rules by staff delegates and works committees (délégués du personnel and comités d'entreprise).

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[1] In other public-sector companies, appointments are made under common law rules, i.e. by the governing body or bodies.

[2] As such, they are under an obligation to obtain insurance against the risk of non-payment of monies due to their employees in the event of their being declared bankrupt or placed in the hands of the official receiver.

Furthermore, provisions exist for staff profit-sharing schemes, in the form of share options in some companies and in that of incentive bonuses in others. Such bonuses may be based on earnings, and sometimes on other criteria such as added value per employee or per production unit, or plant productivity, etc. It should also be noted that public sector companies on average devote around 5% of their total wage bill to professional training for staff.

As regards finance, the regulations applied to public-sector companies are also very similar to those governing private concerns. Projections of outlays and income are drawn up, and accounts are kept in the same way as those of private-sector commercial companies, except in the case of publicly-owned entities which are subject to certain public accountancy rules (there are only a small number of such companies).

II - RELATIONS BETWEEN THE STATE AND PUBLIC-SECTOR COMPANIES

Public-sector companies cannot operate efficiently as companies - especially when they are competing directly in the marketplace with either domestic or foreign private companies - unless they enjoy a broad measure of managerial independence.

Conversely, the state clearly cannot refrain from exercising any control whatsoever over their decisions. On the one hand, it is responsible for the use made of taxpayers' money and has to play its role as shareholder, and on the other, it can be in a better position than any other entity to provide long-term projections and guarantee the continuity required to implement major industrial projects or research programmes.

What follows is an outline of, successively, the instruments of state trusteeship over public-sector companies which provide a service to the general public as a monopoly (Electricité de France for electricity, Gaz de France for gas, Société Nationale des Chemins de Fer for the railways, Régie Autonome des Transports Parisiens for Paris public transport services, Air France for air transport, etc.), the means of action possessed by the State as a shareholder of public-sector firms in the competitive sector, followed by information on the development of the financing of public-sector companies and contracts drawn up between the State and such companies within the framework of the French National Plan.

1. Companies providing a service to the general public: an extensive state trusteeship

First and foremost, the state has what might be called a priori control; i.e. that which is exercised before any decision can even be made by public-sector companies. The most important of these powers has already been referred to: the ability to appoint top-level management and a significant number of the members of the controlling board or committee. Such power obviously has to be used with care: those in charge of public-sector companies should be only appointed, and above all only be sanctioned, on the basis of their professional ability.

Public-sector companies are also subject to a double type of a priori control: technical on the one hand and economic and financial on the other.

Technical control is exercised by the government representative to the company, who represents the specific ministry under which its activity falls (such as industry, transport or defence). The representative attends board meetings and informs the board of the opinions of the relevant ministry. He or she may also demand that certain planned decisions be submitted to further consideration and can in some cases even exercise a right of veto.

Economic and financial trusteeship is exercised by a state auditor or audit commission, as the representative in the company of the Ministry of the Economy and Finance. The state auditor, who attends board meetings, monitors the company's economic activity and financial management. He or she is directly mandated by the ministry to carry out a certain number of functions, such as the authorization of contracts.

Major decisions taken by the company are subject to specific measures of control. Pricing decisions are in principle the domain of the Ministry of the Economy and Finance, and are taken with reference to the company's financial situation but also to macroeconomic objectives. However certain companies enjoy a measure of freedom to set their prices. This can be total (as in the case of Air France) or partial (as for the freight operations of SNCF, the national railway company).

The annual budget or the projected income and expenditure statement is approved by the governing ministry and the Ministry of the Economy. Acquisitions (or disposals) of company shareholdings are also subject to prior approval by the two ministries.

Investment plans are approved by the management committee of the Economic and Social Development Fund, and loans are subject to authorization by the Finance Ministry.

Public-sector companies are furthermore subject to measures of a posteriori control, which are intended to monitor the correctness and efficiency of their management. Such measures are essentially the prerogative of a specialized administrative body, the Cour des Comptes [1] . The latter in particular produces a biennial report on the overall activities, management and results of public-sector companies.

Further upstream, court-appointed independent auditors are responsible, in each public-sector company, for monitoring the correct keeping of accounts. And last but not least, the French Parliament naturally has a right to oversee the management of public-sector companies, in general terms because it has to monitor the activities of the government and adopt the budget, and, more specifically, because it can decide to set up an ad hoc commission to investigate or monitor such companies' activities.

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1 French State Audit Commission

2 The State as shareholder: public-sector companies in the competitive sector

The State has a real "presence" in public-sector companies operating in the competitive sector, as it appoints their top management and a number - often considerable - of board members. But otherwise it behaves like any majority shareholder in a company, in particular by giving its approval to the accounts and the distribution of earnings, and more generally to the strategic decisions which management has to submit to the board of directors.

Prior approval from the Ministry of the Economy and Finance nevertheless remains necessary for decisions relating to acquisitions and disposals of assets and shareholdings (although in practice, even on this point, the public-sector company often enjoys considerable decision-making autonomy).

Public-sector companies operating in the competitive sector are also, like other state-owned firms, subject to a posteriori control by the French State Audit Commission (Cour des Comptes).

3. The problem of financing public-sector companies

Needless to say, trusteeship and control are not the only types of relationship existing between the State and public-sector companies. It should firstly be pointed out that the State strives through its general economic and social policies to create a favourable environment for the development of public-sector companies, just as it does for private companies. And without going too much into detail, something should be said about the different ways in which the state can give financial support to public-sector companies.

Provision of capital can take a variety of forms. The main ones are straight equity funding (dotations en capital) to publicly-owned entities, and capital increases provided by the state to companies. But is is also worth mentioning the ploughing-back of dividends, the conversion of convertible bonds into shares and also debt consolidation actions.

The State also provides certain public-sector companies (Société Nationale des Chemins de Fer, Réseau Autonome des Transports Parisiens, etc.) with plant subsidies, which constitute a kind of complement to their self-financing capacity. In a small number of cases, there may also be operating subsidies (for example to allow transport companies to maintain their tariffs at a level below that needed to cover costs).

Furthermore the State can furthermore agree to underwrite domestic and foreign currency loans.

However major it may be, financial aid from the State is not sufficient on its own. In order to expand, form alliances, restructure and internationalize their activities, public-sector companies have to call on the market.

The State has therefore authorized them to issue their own specific financial paper, which allows them to increase their equity without having to resort to public sales on the financial market or to share swaps with private investors.

The so-called participation certificates (titres participatifs) are considered as "quasi-equity;" in fact they are debt securities that the company repays solely on its own initiative, which potentially have a perpetual term and which give rise (like bonds) to payment of interest, the level of which is linked to the company's results.

The instruments known as stock certificates (certificats d'investissement) are closer to true equity. These are securities representing a share of the company's tangible assets, but without conferring voting rights on their holders. The total volume of such certificates may not exceed 25% of the company's capital. Stock certificates sometimes carry dividend privileges (their dividend takes priority over share dividends).

Other systems, some of them extremely complicated, are used by public-sector companies to boost their equity. The practice of share swaps has spread greatly through the public sector, in particular between banks and insurance companies. Furthermore, the past few years have seen more and more stock exchange flotations of certain subsidiaries of public-sector companies. This practice allows the parent companies either to acquire resources by ceding part of their stake, or ensure the growth of their subsidiaries by diluting that stake. Public-sector companies have in fact spun off certain of their activities as subsidiaries with the sole aim of floating the new unit on the financial markets.

In addition to these financing techniques, it occasionally appears necessary to go further, by opening up the capital of public-sector firms to private shareholders. A wholly public shareholding can indeed appear to be a hindrance for certain operations of external growth (new acquisitions which can more easily be financed via the ceding of securities to the shareholders of the target company) or for international alliances (via cross-shareholdings with private companies). Renault, for example, in 1990 gave up its former special status and was turned into a limited-liability company governed by common law and Volvo was allowed to take a 25% stake in its capital.

The problem of the underfunding of public-sector companies (and of their consequent indebtedness) thus remains an important one1: it explains the way the capital structure of public-sector companies has developed, and the increasing complexity of that structure.

4. The contractualization of relations between the State and public-sector companies

Even though the legal framework has changed but little, the nature of the relationship between the State and public-sector companies has evolved a great deal since 1945. To simplify somewhat, it could be said that there has been a switch from a command system to one of contract.

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[1] It is a problem which remains quite acute in many private companies, too.

After World War II, when the state was engaged in a considerable effort to rebuild and modernize the national economy, it had a natural tendency to use public-sector companies as instruments, to be used as much to help master financial balances in the short term as to promote economic and social development, notably through the national Plan. The control which the State exercised was therefore close and permanent; it became stronger as financing difficulties increased, and the independence of the public-sector companies was therefore limited. Their room for manoeuvre, be it in the fields of investment and financing policy, pricing or wages, was very narrow.

In a time of worldwide reconstruction and modernization such a system, which was only one factor in the growing economic and social interventionism of the State, no doubt made it possible to achieve important results. However, from the 1960s on, it became clear that it had major drawbacks. In an economy which was increasingly opening up to international competition, and in which public-sector companies could no longer ignore the imperatives of efficiency to call on the generosity of the taxpayers, except on pain of seeing their legitimacy questioned, the "command system" clearly had limitations.

Indeed, in such a system, control by the State is liable to prove a factor of rigidity and irresponsibility. Subjected to multiple decisions, badly co-ordinated and often unpredictable, the public-sector company had neither the stable environment nor the unity of vision necessary for both the drawing-up of coherent industrial and commercial strategies and the process of adapting to market conditions. Above all, a certain confusion sometimes set in between the aims being pursued and the responsibilities of each individual. The state subjects the public-sector company to constraints which can very well be explained by such objectives as fighting inflation (price freeze), healing state finances (price increases, limits on equity funding), reducing unemployment (hiring of extra employees, or non-dismissal of superfluous staff), promoting better land use and planning (keeping loss-making railway lines open), co-operation with certain countries (purchase of production inputs at prices above market rates), etc., but these are aims which can contradict its purely industrial or commercial objectives, and compromise its competitivity. And in fact the State does not itself benefit from such a situation; not only does it have to bear the weight of permanent deficits (or income shortfalls), to which it has itself contributed, but above all it sometimes takes the easy way out by failing to reflect on the coherence of its own aims and possible ways to achieve them via other channels, something which could prove more efficient for everyone concerned.

Such drawbacks, which were already clearly noticeable during the 1970s, became even more evident from the start of the 1980s. Opening up to international markets henceforth made company competitivity a key factor in strategies aimed at emerging from the economic crisis and stimulating growth. Competition became the norm in practically every sector, even for companies which not so long beforehand had been, above all, providers of services to the general public. Moreover new nationalizations, carried out in 1982, drew in industrial and financial sectors which had long been subject to competition. The ways in which these new public-sector companies had to be run were necessarily very close to those in force in the private sector.

This is why the State decided to rethink its relations with public-sector companies.

In an open market economy, the State's role is more to lay down clear and stable "rules of the game", to set out the key orientations and to create regulatory mechanisms than to dictate regulations, or control and manage. The decentralization of public and private initiatives does not co-exist well with trusteeship-type relations; it presupposes consultationn and co-operation between responsible partners.

Contractualization thus becomes a key form of relationship. It demands agreement between different forces on clearly-defined aims, with a precise distribution of roles and responsibilities. We have seen elsewhere that it was in a similar way that relations between the State and local authorities, particularly regional bodies, were redefined.

Similar aims have been pursued with public-sector companies. Of course, the State expects the latter to contribute to the overall national effort, to achieve the aims laid down in the Plan, and even to bear their share of restrictions necessitated by the stabilization of a given economic indicator. But this does not imply that the state interferes with their management; rather it has to reach an agreement with them on predictable and coherent reciprocal obligations for each of the two partners.

This type of approach requires first and foremost that public-sector companies be responsible partners. Before signing a contract with the State, they have to draw up their own company plan. As seen elsewhere, national planning can under no circumstances be allowed to mean that the state forces economic agents, even public ones, to accept orientations that have been decided without their participation. Each public-sector company thus has to draw up, in liaison with the State, its own strategy, defining the aims which have to be debated with staff representatives and approved by the board.

The State and the public-sector company then agree on a Plan contract, with a duration that corresponds to that of the company's own plan. In principle, it comprises three essential parts. The first lays down the company's medium-term development aims, expressing both the priorities decided by the State and those contained in the company plan. It does not of course contain any quantitive targets, but only general strategic objectives agreed between the two parties. The second part lays down the aims of general interest that the State intends the company to take on board, especially in the fields of research and development, export aims or energy savings. The third section concerns the financial relations between the State and the company, and the latter's management aims (commercial and financial profitability, etc.). This last part displays the same desire for clarity as the first two.

First ntroduced in the 1970s,1 this type of approach has already proved itself. The State, which previously had tended to exercise its control in a disorganized and random fashion, was obliged to make its strategy explicit. In fields as basic as pricing policy, investment and finance, the company gained more independence and can now carry on its activity within a stable framework, the contours of which it has negotiated for itself. The person truly responsible for the company's management is its chairman, and not his governing ministries.

Of course, such contracts cannot provide for all eventualities. Indeed, should there be major changes in the overall economic situation in the course of their execution, modifications are explicitly provided for. In fact, the original clauses of such contracts have rarely been able to be respected in practice.

Neither can one expect the state to completely renounce its prerogative to impose certain extra-contractual obligations on public-sector companies in the event of economic difficulties.

Finally, the obligations undertaken by the Government are only effective, particularly on the financial level, if each year the Parliament gives it the budgetary means to fulfil those obligations. Conversely, the Government does not always have the means to force a public-sector company to respect its contract. In the continuous process of debate which goes on between the company's management and the Government after the contract has been signed, the former, who are permanently exposed to the realities of the marketplace, are in fact in a position of strength, and in the event of disagreements it is often their viewpoint which prevails.

Overall, it has become clear that the mechanism of Plan contracts is above all adapted to the needs of public-sector companies which provide services to the general public and which operate in sectors where, even if it is increasing, competition remains relatively limited. These are sectors in which the market is sufficiently stable, and the cost of the necessary investments is such as to require extremely detailed planning (transport or energy, for example).

For public-sector companies in highly competitive sectors, the problem is quite different. They also have to set clear strategic orientations, and they play a major role in the national economy, so the State cannot allow itself to forget about them. But as they are involved in rapidly-changing markets, they have to be able to respond with great flexibility to the demands of those markets.

The state has thus been at pains to adapt the overall framework of Plan contracts to fit the characteristics of each company. From 1989 on, it decided that it would only sign target contracts, which have very flexible clauses and are drawn up under a procedure that is separate from that of the national Plan2. It is still too early to assess the results of this new approach. It should be pointed out that, in the first target contracts signed to date, the definition of the company's industrial and financial strategy has been more general than that contained in Plan contracts, and

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1 Under the name of "programme contracts"

2 The drawing-up of Plan contracts themselves is also tending to become more and more independent of the elaboration of the Plan. At the end of the day, the only thing that counts is the compatibility of the aims being pursued.

the aims (notably as regards financing) have been made subject to yearly updates. Such contracts contain neither budgetary commitments on the part of the State nor promises concerning dividend payments on the part of the company.

It is not easy to strike a balance between the need for autonomy of companies whose action is above all determined in the marketplace, and the State's desire to ensure that certain national priorities are respected. As competition becomes ever more intense, the contractualization of relations between the State and public-sector companies seems destined to lead to progressively more emphasis being laid on the freedom of the latter than on the prerogatives of the former.

APPENDIX 1

STATISTICAL DATA ON PUBLIC-SECTOR COMPANIES

The public sector occupies a major position in the French economy, since out of all non-financial companies, all activities included, it accounts for 11% of the number of wage earners, 17% of added value and 25% of investment.

TABLE 1

Share of public-sector companies
in the activities of non-finance companies
(1989)

Key indicators	%
Size of workforce	11%
Added value	17%
Investment	25%

These figures are of course averages. There are great disparities between sectors, because the public sector is unequally distributed between different activities. To cite one example, the percentage of wage-earners employed by the public sector in different fields of activities ranges from 100% in coal-mining to less than 3% in the service sector.

Table 2 gives the relative positions of public-sector companies in their three main areas of activity : energy, transport ant telecommunications, manufacturing industriy.

TABLE 2

Share of public-sector companies in the activities

of all companies in the fields of energy, transport and industry

(1989)

Key indicators	Energy	Transport and Telecoms	Manufacturing Industry
Size of workforce	79%	30%	14%
Added value	68%	31%	21%
Investment	89%	26%	25%

APPENDIX 2

TRANSFORMING PUBLIC-SECTOR COMPANIES

Modifications in the structure of capital or in the articles of association of public-sector companies are not rare occurrences: they can be explained notably by the concern to increase management flexibility and company capitalization which have to be able to adjust ever more rapidly to market developments.

We will briefly describe three different types of transformation:

1 - If the State wishes to confer the status of a legal entity to a service whose activity is predominantly industrial and commercial, it can create a **public body**. In 1990, the French Post Office and Telecommunications service for example, which from an economic viewpoint was considered as a public-sector company, but in legal terms, was a general government service, was extensively transformed and replaced by two autonomous legal entities.

2 - The second type of transformation consists in turning a **statutory (body)** public-sector company into a limited liability company. This type of operation, which in no way means that the company leaves the public sector, can be carried out by a simple decree[1]. Legally speaking, this is in general a two-step operation: the company is dissolved and its property, rights and obligations pased on to the State; then its assets are put into a (public) company that either already exists or is created for the purpose, against new shares. This input can only be carried out by a common law procedure applicable to commercial companies, i.e. following an appraisal by an **accruals commissioner** *(commissaire aux apports)*. This type of transformation was carried out in 1980 for the SEITA, (the industrial tobacco and matches service) and again in 1990 for Renault[2]. In practice, this type of transformation is often the first stage prior to the new company's opening up to private capital.

3 - Transfers to the private sector (privatization).

This type of transformation does not entail opening up a public-sector company's capital to a minority private shareholding base (which only requires a simple governmental authorization), but the transfer of ownership (whereby public shareholders can remain minority shareholders or not, as the case may be).

In a country such as France, where the public sector is considerably smaller than the private sector, the advantages of privatization remain an ongoing debate. Certain observers see privatization as a means of reducing the State's budgetary

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[1] A government decision signed by the Prime Minister and countersigned by the ministers responsible for its execution.
[2] Even if Renault did not really have the status of a publi-owned body.

liabilities. Others consider that only natural monopolies and public services should not be opened to private capital, in which case, there needs to be an agreement on the implications of theses notions. A third body of opinion contends that the State plays the role of "a merchant marker" (or"insurer") by taking on the responsability of restructuring sectors in difficulty, but considers that the State should then "give these companies back" to the private sector once they have returned to profitability. atever the case, the Government set a considerable privatization movement in motion between 1986 and 1988: if subsidiaries and sub-subsidiaries are taken into account, 1100 companies employing a workforce of 300,000 were transferred to the private sector[1].

The procedure involved can be briefly summed up as follows:

The French Constitution stipulates that it is the legislator who is competent to authorize ownership transfers to the private sector. He exercises this competence directly - notably for companies in which the State alone holds more than half the capital - or delegates it to the authorities concerned, notably for the subsidiaries of the above-mentioned companies (depending on the case, authorization by decree or a Ministry of the Economy decision). National public services and de facto monopolies cannot be privatized.

A privatization commission, made up of 7 members appointed by decree, for their particular competences, is responsible for assessing the value of the companies concerned. The assessment must take into account the stock exchange value of the company's securities, the value of its assets and profits, the existence of subsidiaries and its future prospects.

The price at which the company's shares are sold is set by a Ministry of the Economy and Finance order after consultation with the Commission (the price cannot be lower than the Commission's evaluation)[2].

The privatization can be carried out on the stock exchange (notably through **a public offering)[3], or over-the-counter** (through tenders). The latter has been used particularly in partial sales of capital to stable shareholders (known as "hard core") who are not allowed to resell their shares before two or three years.[4]

The amount of stocks sold to foreign individuals or legal entities cannot exceed 20% of capital. When "the protection of national interests so requires", a Ministry of the Economy order can lower the ceiling and transform an ordinary share held or

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[1] The main privatizations were as follows: in industry - Saint-Gobain, Compagnie Générale d'Electricité and Matra; in banking and finance - Société Générale, Paribas, Suez, Crédit Commercial de France, Crédit Agricole; in communications - Havas, Télé France 1.

[2] These evaluations have sometimes been contested. For example, the overall value of the Paribas group was evaluated, depending on the method used, at 17.6 billion francs and at 21.5 billion francs. The Commission put forward the figure of 17.5 billion and the Ministry finally opted for 18.9 billion.

[3] The total number of subscribers stood at 17 million (public offerings: 41.5 billion francs; stocks sold to employees: 7 billion francs).

[4] In view of the amounts involved, the stable shareholders have been major companies (70 companies, both French and foreign). Certain companies - notably public financial bodies - have participated in several debates on the subject.

acquired by the State into a specific share which carries certain rights to the State's advantage, notably that of approving, after the privatization, any "golden share" or acquisition in the company that exceeds10%.

Employees are offered 10% of stock at reduced prices.

Requests made by individuals for 10 shares or less take priority.

It goes without saying that the implementation of these procedures has led to various objections, in particular, on the amount defined by the evaluation and the choice of "hard core" shareholders.

Chapter 6

SECTOR-SPECIFIC INDUSTRIAL POLICIES

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France applies or has applied specific policies to certain branches of industry. There are as many such policies as there are branches involved, in fact there are even more if one considers the changes that have occurred. For such policies have had to adapt to the specific characteristics of each sector and to the vicissitudes of the economic environment.

It is nevertheless possible to list three major categories. They are:

- Programmes with strong future growth potential. For several decades now, the State has been helping certain major projects in high-technology industries such as nuclear power, space, aeronautics, data-processing and electronics. The main questions that such programmes face today relate to the globalization of the world's economies, the need for European alliances and ways to ensure that the knock-on effect of the programmes provides more opportunities for small and medium sized companies.

- Sector-specific plans for branches in difficulty. After each of the two oil shocks the State had to intervene to help certain activities or certain firms to restructure and minimize the social consequences of the economic crisis. Such plans were implemented for the steel industry, shipbuilding, collieries, machine-tools, textiles and chemicals. Thanks to the restructuring which ensued, and to the acceleration of economic growth from 1987 to 1989, the situation has improved, and these sector-specific plans are now either completed or in the process of being so.

- New sector-specific approaches, which have been recently initiated on the basis of accumulated experience. Here the aim is to carry out actions specifically designed for the diverse needs of the companies concerned, and no longer to implement plans drawn up on the basis of a global approach. Such initiatives are usually taken in a regional framework, with their technological aspects being dealt with at the European level.

I - PROGRAMMES WITH STRONG FUTURE GROWTH POTENTIAL

In order to promote research, industrial development and in some cases national independence in certain high-technology fields, France has applied, since the 1950s and 1960s, a deliberately voluntarist policy backed with ample finance and applied with great continuity. Very early on such policies were broadened in the framework of European co-operation; firstly in nuclear power (EURATOM, CERN), then in aeronautics (AIRBUS), space (the ARIANE launcher and now the COLUMBUS space station and the HERMES "space plane"), weapons (in particular with Germany) and in electronics and data-processing (JESSI for components, TVHD for high-definition television).

Until quite recently, the most usual aim was to have major projects taken care of by big companies, often state-owned, or by major state research institutes, using public funds and providing openings for government contracts both in France and abroad. This policy has

proved successful, and has put France in a good position in the fields of nuclear power, aeronautics, space, weapons, professional electronics, telecommunications and high-speed trains.

However, one has to be able to adapt to environmental changes. Mass consumer markets have in many cases become more strategically important than government contracts (electronics being a prime example), while general trading activities have grown faster than major contracts. In general, expanding markets are highly competitive, with competition being made even tougher due to the opening-up of world economies and the emergence of new competitors.

France, like the European Community, has to adapt its policies to these changing circumstances. Two imperative requirements have to be considered. On the one hand, internationalization, deregulation and the relative decline of government contracts are forcing states to base their industrial policies more on companies, and, on the other hand, those companies need to form international alliances in order to increase their global stature and keep abreast of technological change.

On the last point, the past few decades have seen a considerable rise in the costs of technological research and development, necessitating a financial contribution from the State. In the United States, federal agencies, research laboratories and industrial companies have long been in the habit of co-operating with one another. In Japan, industrial groups participate, under the auspices of MITI, in ambitious long-term research projects. Each company subsequently uses the results of such projects to design and market new products.

Europe's industrial and technological requirements have led its major companies to implement a new type of strategy, based on two principles. These are integrated co-operation in research on practical projects, and permanent competition at the levels of industrial production and marketing, with total freedom of decision under traditional market conditions.

There are several justifications for using public funds on such projects. There is the strategic angle, both nationally and at the European level, the large scale of funding required, the inherent risk resulting from the fact that the success of a technical innovation can never be guaranteed at the outset, and last but not least the need to ensure that the fruits of the project are made available to small-to-medium sized businesses thanks to partial State financing.

It is indeed important to encourage technology transfers, and particularly project spill-over, so as to realize the potential for innovation of small-to-medium sized companies, and improve their competitivity.

Thus the development of major projects will increasingly involve technological co-operation between European firms, be it through structures such as ARIANESPACE, AIRBUS or EUROCOPTER (the latter being a joint helicopter-building subsidiary of AEROSPATIALE and MBB), or via EEC technological co-operation programmes (ESPRIT, BRITE-EURAM, etc.), not to speak of the EUREKA programme (which in particular spawned such projects as JESSI and TVHD).

II - SECTOR-SPECIFIC PLANS FOR BRANCHES IN DIFFICULTY

The growth, be it at the French or the European level, of major government-supported projects has generally been successful, although such projects now need to be revised, via international alliances and European programmes, to give a more active role to companies. The implementation of sector-specific plans for branches in difficulty has in general not been as easy. While the restructuring of the chemicals industry did not run into major problems, the other plans (steelmaking, shipbuilding, collieries, machine-tools and, to a lesser degree, textiles) have hit snags which have slowed down their implementation. Experience to date has yielded the following lessons:

- It is essential that the required adaptation and restructuring be carried out quickly, and that obsolete production facilities be shut down, with the implementation of social plans in order to minimize human consequences and provide re-training for staff. But there should be no effort to keep outdated structures alive, or to maintain condemned jobs. On the contrary, new activities which hold out the promise of solid, long-term employment must be favoured. The issue of employment needs to be dealt with in the medium and long term; any attempt to save jobs in the short term leads only to an increase in unemployment.

- The restructuring plan should not be restricted to simply providing funds, but must define a genuine industrial strategy, taking account of the potential of the companies involved and the logic of their development (changing markets and their internationalization, technical changes, required modifications in employee skills, the absolute need to change management methods, etc.).

- Company logic has to be given higher priority than the logic of the sector. Concepts such as sector or branch are indeed useful for statistics and surveys, but prove to be inadequate for practical action. There it is operational decision-making centres which count, and only companies fall into that category. In any case, the internationalization and deregulation of world economies restrict the State's scope of action. Which is why current industrial policy, as laid down in the 10th Plan, involves a bigger role for companies, be they public-sector or private (in the framework of the mixed economy), or large or small (small-to-medium sized businesses are one of the Plan's priorities).

- It is essential that machinery be set up to measure the effectiveness of the actions carried out, so as to make timely corrections if certain orientations prove to be inappropriate.

III - THE NEW SECTOR-SPECIFIC APPROACHES

Global sector plans have yielded contrasting results. Applied to highly-concentrated sectors in which government contracts play a major role, such as aeronautics or telecoms, they have been undeniably effective. However they have been less efficacious when used on sectors made up of a large number of often small firms, with varied profiles and performances and operating on more decentralized, less coherent markets. Examples of such sectors include machine tools and textiles.

Having learned the lessons provided by this uneven record, the Government has developed a new sector policy based on specific actions designed to fit the varying characteristics of the companies in the target sectors, rather than solely on a global approach. This method demands in-depth study of the strengths and weaknesses of all the companies in the sector involved before any intervention programme is drawn up or implemented at all. What ensues is a series of "one-off" measures, preferably applied at the regional level. They allow companies to obtain state aid that is designed to suit their needs, in terms of training, organization, research, alliances, etc. Such sector-specific studies, as well as the design and implementation of the programmes themselves, are carried out through close co-operation with representatives of the sector involved.

It was thanks to such an approach that an in-depth study of the textile sector, commissioned in 1989 from a specialist consultancy and a prominent industrialist, was able to identify the main weak points of companies in the textiles/clothing sector, and suggest appropriate and diversified courses of action to promote recovery for different types of firm. These initiatives were taken on a regional basis, under the responsibility of six official delegates to the textile sector.

A similar programme is currently under way for the machine-tool sector, and strategic examination of the electronics and automotive industries, carried out with the participation of industry professionals and trade unions, is also in progress. It has already led to the elaboration of certain initiatives in aid of industrial research to be applied to semi-conductor development (the JESSI programme) and high-definition television. The technological elements of these initiatives, as well as possible partnership projects, are often drawn up at the European level.

Chapter 7

THE FRENCH EXPERIENCE OF DECENTRALIZED PLANNING

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I - THE INSTITUTIONAL FRAMEWORK FOR DECENTRALIZED PLANNING.

1 - French administrative organization

1.1. General Presentation

The institutional organization of metropolitan France comprises three tiers of local government covering 22 regions, 96 *départements* and over 36,000 municipalities (see map).

Although definitions differ from country to country, a two or three-tier territorial structure is the rule within the EEC, with the exception of Luxembourg.

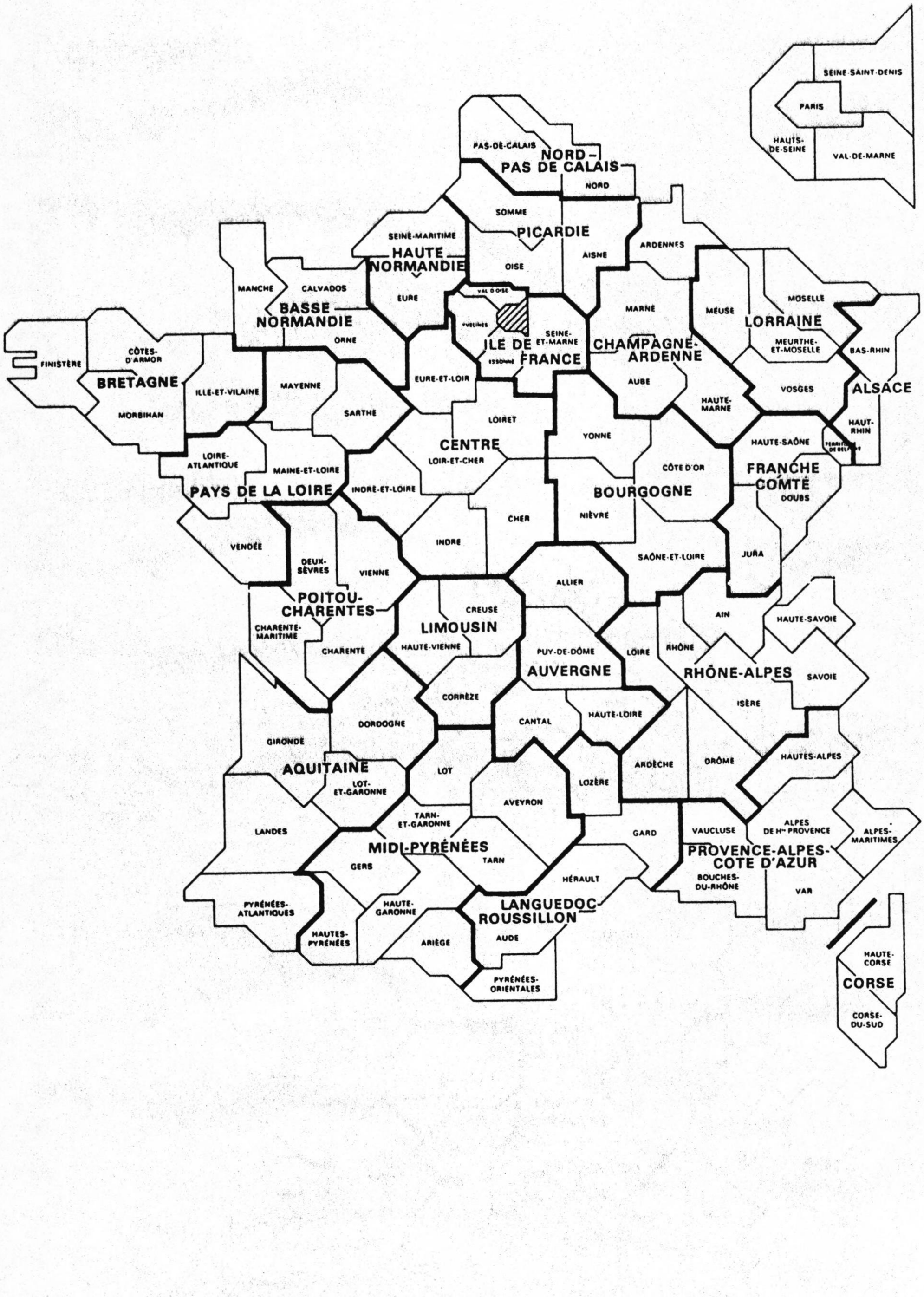
Denmark, Great Britain, Ireland and Portugal possess a two-tier system, in contrast to the three-tier territorial structure which exists in France, Spain, Italy and the former Federal Republic of Germany:

FRANCE (métropolitaine)	22 regions	96 *départements*	36,000 municipalites
SPAIN	17 communities	50 provinces	8,000 municipalites
ITALY	20 regions	95 provinces	8,000 municipalites
former FRG	11 Länder	328 Kreise and assimilated towns	8,500 municipalites

MAP

METROPOLITAN FRANCE

22 REGIONS - 96 DEPARTEMENTS



1.2. The fragmented nature of French municipalities.

The table reveals one specific characteristic of France: the number of municipalities. In the 1970's, the majority of EEC countries rationalized the basic units of their local government structures, to varying degrees. These reforms were wide-ranging in the first group of countries: Great Britain, the former Federal Republic of Germany, Belgium, Denmark, and the Netherlands.

Great Britain	1974-1975	from	1,549	to	522	municipalites
former FRG	1968-1970	from	24,978	to	8,514	municipalites
Belgium	1975	from	2,359	to	996	municipalites
Denmark	1967	from	1,387	to	277	municipalites
Netherlands	1951	from	1,012	to	774	municipalites

France, Italy and Spain made only minor adjustments.

In France, legislation passed in 1971 provided for the merger of municipalities on a voluntary basis, but met with only very limited success. The trend has in fact been reversed over the last few years with previously merged municipalities disbanding.

The average population of French municipalities is approximately 1,500, versus between 6,000 and 17,000 for France's European partners. It is worth mentioning that considerable disparities exist between depopulated and overpopulated municipalities.

1.3. The limited powers of French regions.

French regions are comparable in character to their counterparts in other major EEC countries with three-tier local government systems, as the following table shows:

Country	Number of regions	Average surface area (Km2)	Average population (millions)	Average GDP (Mecus)
Metropolitan FRANCE	22	24,959	2,508	34,337
SPAIN	17	29,694	2,263	20,591
ITALY	20	15,059	2,857	31,921
former FRG	11	23,508	5,547	80,802
Average	18	23,052	3,025	37,610

However, French regions do not enjoy the same degree of local autonomy or the concomitant financial resources.

In these countries, the regional tiers can be grouped into three categories:

- the German Länder, the Italian regions with special status, and the autonomous Spanish communities with increased powers enjoy a large degree of political, administrative and financial autonomy;

- the Italian regions and the autonomous Spanish communities with ordinary status are afforded broad and diverse areas of competence with a lesser degree of autonomy;

- lastly, French regions, whose elevation to the status of a fully-fledged tier of local government is relatively recent (March 1982), have more limited powers.

1.4. Regional disparities.

As in Spain and Italy, there are substantial disparities between French regions.

It will be seen from the map that the number of *départements* per region ranges from two to eight.

The populations of the regions also differ greatly, from between 250,000 inhabitants for Corsica, 750,000 for Limousin, to over 5 million for the Rhône-Alpes region and in excess of 10 million for the Ile de France.

The per capita Gross Domestic Product ranges from 75,400 francs for Corsica to 155,700 for the Ile de France, the national average being 102,000 francs.

There are also substantial disparities in the sectoral distribution of economic activity compared with the national average: e.g., farming occupies a relatively important

position in Brittany and Limousin, whereas industry is more prominent in the Nord-Pas-de-Calais and Alsace. In the Ile de France and Provence-Alpes-Côte d'Azur, it is the tertiary sector which predominates.

2. Decentralization and its consequences.

2.1. The principles

The decentralization process initiated by the Law of 2nd March 1982 and other legislation to decentralize powers are rooted in the four following principles:

- no tier has authority over another;
- transfer to the presidents of departmental and regional assemblies of executive functions previously exercised by the State's representative: the prefect;

- powers are shared out in blocs with corresponding transfer of financial resources;

- elevation of the region to a fully fledged tier of local government with, inter alia, the election of the regional council *(Conseil Régional)* by universal suffrage as of March 1986.

2.2. Distribution of functions.

Functions are distributed in major blocs, as follows:

- municipality: **land control by town planning,** local planning, building permits;

- *département*: solidarity and social aid;

- region: economic development and initiatives, urban and regional planning and development.

The region also has a number of other selected responsibilities: vocational training, highways and secondary schools.

The above is proof indeed of the rather limited scope of competence of French regions, underscored by their reduced financial autonomy. At 33 billion francs in 1988, regional budgets accounted for just 6% of total local government budgets, as against 390 billion francs for the municipalities and 150 billion for the *départements*.

The balance of power cannot therefore be compared directly with the situation in Germany, Spain and Italy. The Catalan budget, for example, stands at 41 billion francs, i.e., 8 billion francs higher than the total for all French regions, and 30 times that of the Midi Pyrénées region.

2.3. Overlapping competences.

Cooperation is essential in this theoretical distribution of powers in blocs, since a number of areas require further action by the various levels of government:

housing, education, health, the environment, the arts, to name but a few. No level can act effectively and consistently without consulting other authorities with other powers and financial resources.

2.4. Planning co-operation between the State and the Regions.

Planning is an excellent example of complementarity of action and areas of competence.

Historically speaking, the French region in its current form owes its existence to the State's continued efforts to ensure that the choices made in the Plan are fully implemented throughout the territory. It emerged in response to difficulties in organization and programming which the *départements*, or *a fortiori* the municipalities were unable to resolve.

The Law on Decentralization of 2nd March 1982 enshrined the role of the region, which was in fact already recognized and which no *département* had ever disputed.

After the 4th Plan, the region gradually asserted itself as a repository for research and organization in the field of regional economic development.

However, it was necessary to reconcile both planning and decentralization, which was in part the purpose of the Law of 23rd July 1982 to reform planning, in providing for the following:

- the creation of regional plans, with the regional councils enjoying complete freedom, within the scope of their responsibilities, to prepare and approve their plans, albeit with a few procedural obligations;

- measures to facilitate co-ordination between the national plan and regional plans through joint implementation procedures: Plan contracts.

The planning freedom granted to the regions might have a theoretical counterpart, i.e., the risk of divergence between national courses of action and the regional plans. This risk is in fact reduced, on the one hand, on account of the broad exchange of information between national and regional levels during the planning process, and on the other hand, because the Plan contract procedure, which is the primary means of implementing the regional plan, limits possible drifts.

3. The major decentralized planning institutions

3.1. At regional level

Decentralized planning at regional level is the responsibility of a number of institutions: a deliberative political assembly, the regional council, whose president holds executive powers, a consultative assembly with a more unobtrusive role, the regional social and economic committee *(Comité Economique et Social Régional)* , and the regional prefect *(Préfet de région*), who exercises the State's authority.

The regional council -- a deliberative political assembly elected by direct universal suffrage since 1986 -- debates the full range of regional issues within its areas of competence. These include the vote on the Region's budget, the regional plan document, and the draft Plan contract negotiated by its president and the State's representative. Since 1982, the president has been responsible for examining matters submitted to the regional council and deliberating thereon. This required the regional councils to set up their own administrations run, under the president's authority, by a general director of regional services. Technical planning functions are performed by a service usually known as the studies and planning directorate *(Direction des Etudes et du Plan)*.

The regional prefect is the Government's deputy and the direct representative of the Prime Minister and each minister in the Region. To this end, he has hierarchical power over the State's regional services which he runs and coordinates. He is backed by a twenty-strong support unit incorporated into a general secretariat for regional affairs (*Secrétariat Général pour les Affaires Régionales* or S.G.A.R.).

As a result of the loss, particularly of executive regional powers to the president of the regional council, the prefect's position is more ambiguous than under the old system, where he was the fulcrum of power. To underscore the unity of the State, his authority over the major bodies of the State's regional services has been bolstered. Hence his enlarged role as negotiator in the second generation of Plan contracts (1989-1993). He liaises directly with the President of the regional council and attends in person interministerial meetings held in the Prime Minister's office to finalize Plan contracts. His responsibility in implementing national and EEC economic development and regional policies has therefore been strengthened. He plays an indispensable role as intermediary and interface between the State and local authorities.

The technical aspects of planning and Plan contracts are dealt with by the region's services and the regional services of the State, which are coordinated by the S.G.A.R., while major decisions with political implications are negotiated directly by the Prefect and the President of the regional council.

There is also a consultative assembly, the regional economic and social committee (*Comité Economique et Social Régional* or C.E.S.R.), comprising representatives appointed by economic, social, professional, family, educational, scientific and cultural agencies of the Region. These assemblies exist to help the Region perform its duties with reference to the views of local economic, social and cultural representatives. The Region is, moreover, the only local government entity to combine a socio-professional consultative assembly with a deliberative political body. This has been achieved as part of a process of decentralization aimed at bringing together the greatest possible number of economic and social players in deciding on major courses of action.

The role of the C.E.S.R. is threefold. Firstly, it is a compulsory consultative body for regional planning and the overall orientations of the regional budget. Secondly, the President of the regional council may, optionally, consult it on economic and social issues. Thirdly, the President of the C.E.S.R. may also take the initiative in these areas.

The third possibility, although not contested in principle by the political assembly, is often hindered by the meagre operating resources of the C.E.S.R. which are determined by the regional council and therefore highly dependent on the relations between the two assemblies.

The situation varies from region to region. Relations are sometimes limited to the statutory minimum of compulsory consultation, which is aggravated by the lack of precise information on the budget and the partial and dilatory nature of regional planning consultations. Other regions can boast close cooperation in the form of joint committees for both assemblies working sufficiently upstream of final decision-making.

3.2. At the central level.

At the central level two agencies are primarily concerned by the various phases of decentralized planning: the Planning Office of course, and the urban and regional development agency (*Délégation à l'Aménagement du Territoire et à l'Action Régionale* or DATAR).

Set up in 1963, the DATAR is as light in structure as the French Planning Office *(Commissariat Général du Plan)* with some 60 project officers. It provides interministerial co-ordination for regional matters and is responsible for implementing regional planning and development policies on a day-to-day basis, in conjunction with the relevant ministers .

In principle, responsibilities are divided up as follows: general regional planning policy objectives are defined within the Plan, and co-ordination of interministerial action for implementing this policy is the responsibility of the DATAR. Needless to say, this division of tasks does not make for easy management.

DATAR has a number of means at its disposal to fulfil its functions, of which the major ones are as follows:

- a system of financial incentives to encourage economic decentralization.

- financing from different funds, primarily the intervention fund for urban and regional development (*Fonds d'Intervention pour l'Aménagement du Territoire* or F.I.A.T.), managed by DATAR;

- financing as part of the State-Region Plan contracts;

- co-ordination for France of the European structural fund, of which the European Regional Development Fund (E.R.D.F.) is the main component.

The work performed respectively by the Planning Office and the DATAR on the various aspects of decentralized planning may be summarized as follows:

Upstream, the Planning Office provided its regional partners with a document covering the main elements of the international environment and short-term macroeconomic focus to assist them in their future-oriented, planning and strategic

studies. It also answered specific requests for information drawn from its work on particular sectors or topics.

The DATAR was also responsible for following through Plan contracts from the first outline documents to the final drafts by organizing interministerial examinations at each stage to specify, region-by-region, their purpose and scope, in permanent consultation with the regional prefects. Simultaneously, the Planning Office, associated with the work, proceeded with a real-time capsule presentation to ensure consistency between the "outline" plan drawn up in September 1988 and the draft plan finalized in January 1989.

Lastly, under the joint chairmanship of the Planning Commissioner and the head of DATAR, a Plan contract evaluation group was set up with four assignments:

- following through contracts in progress;

- reporting on initial results;

- evaluating the procedure itself to improve subsequent Plan contracts;

- examining the synergies with other existing contract procedures, with the emphasis on Europe.

II - THE ORGANIZATION OF DECENTRALIZED PLANNING

1. The decentralized planning procedure

1.1. The experience of the 9th Plan 1984-1988.

The experience was highly positive despite the occasional inevitable difficulties in implementing so complex a process.

1.1.1. Regional Plans

Slightly under half of all French regions drew up proper regional plans, i.e., an overarching development strategy backed by detailed programmes. Furthermore, the task was a difficult one for reasons of methodology (lack of regional models for testing regional economic policies) and institutional considerations (relative inadequacy of regional budgets compared with those of the *départements* and municipalities, and the scale of the problems facing the regions).

1.1.2. Plan contracts between the State and the Regions.

Plan contracts have been an unequivocal success for the following reasons:

- all regions signed contracts with the State;

- the experience provided an occasion to study short-term programming between the State, the regions and other local authorities;

- the contracts covered substantial financial commitments which were implemented highly satisfactorily: a total of 73 billion francs with 44.5 billion provided by the State and 28.8 billion by the regions.

1.2. The procedure for drafting the second generation of Plan contracts for 1989-1993.

The first generation of Plan contracts met with the approval of the regions and ministries, which were appreciative of their effectiveness. Indeed, they created a partnership between the State and the new authorities which would later become the regions. In April 1987, the interministerial committee on urban and regional development (*Comité Interministeriel d'Aménagment du Territoire* or CIAT) -- an authority chaired by the Prime Minister and convening the relevant ministers -- decided to renew the procedure for 1989-1993 combined with a more selective choice of programmes and increased negotiating powers for the regional prefects. It also introduced the principle of consulting regional bodies in selecting priorities and charged the Planning Office with preparing an orientation document to provide the regions with the necessary background on the international environment and a macroeconomic focus to help them analyze medium-term action, and specify the major overall orientations which the State expects to implement to promote regional development.

In February 1988, the CIAT set the terms of reference for contractualization and asked the prefects to draw up outline contracts in conjunction with the regions, based on three priorities mapped out the during consultations and dialogue with the Regions: transport infrastructures, with emphasis on "roads", training, research, and concerted urban and regional development.

In the absence of a national procedure for drafting the Plan, the contractualization and national planning processes were completely separate. However, in accordance with the competence bestowed upon them by legislation on decentralization, regions may if they wish conduct groundwork for regional plans. The comparison with the 9th Plan has proved to be favourable, with some two-thirds of regions performing this type of exercise. Further, there has been increasingly in-depth study of issues, insofar as the regions conduct future-oriented long-term studies which were not covered fully by the 9th Plan.

In the summer of 1988, the new Government decided to make up for the time lost by the previous administration in preparing the 10th Plan, and dovetailing contractualization and national planning procedures.

In July 1988, it took exceptional measures for devising the Plan. In August of that year, having "taken note of the preliminary Plan contracts" drawn up by the prefects in conjunction with the presidents of the regional councils, the Government decided to reorientate the contents: in addition to infrastructure, training and research priorities, a new priority, employment, was hoisted into first place, thereby by broadening concerted regional development work to include solidarity solidarity.

In September 1988, it adopted the "outline" of the 10th Plan which was submitted to the Plan's Committees for the first round of consultations concluded in December

with each putting forward an "opinion" and a set of proposals. In line with these, the Government set the State budget for Plan contracts in November. In January 1989, it adopted the draft Plan, and in February authorized the signature of 21 Plan contracts for metropolitan France, the 22nd covering the Ile de France, and others relating to French overseas territories requiring a few more months before being finalized.

The objective, which consisted in establishing concurrent time periods for both assignments, was achieved thus underscoring the effectiveness of the contractual approach.

2. The contents of the second generation of Plan contracts 1989-1993.

2.1. From a global point of view

The second generation of Plan contracts marks a substantial joint investment (some 100 billion francs) for regional development, a clear increase (+35%) over the previous Plan.

For the whole 1989-93 period, the regions (metropolitan France, overseas regions and territories) will provide 46 billion francs in funding (43 billion from metropolitan France and 3 billion from overseas).

The State will contribute a total of 55 billion francs in metropolitan France and overseas *départements* and territories to implement the four main lines of the Plan contracts:

The State will provide 8.8 billion francs, through priority action on employment, economic development and the competitiveness of firms, under its commitment to stimulating the development or creation of businesses in areas most sensitive to economic change.

The priority afforded to training, research and technology transfer, would attract State investments worth 9.8 billion francs, with the emphasis placed on improving or expanding facilities for students where the need was greatest.

The State will also provide 24.2 billion francs for transport infrastructures to enable all French regions to play their part in the European economy and improve transport in towns and cities. Particular attention will be paid to substantial improvements in the road network: vastly accelerated programmes will be implemented in regions with the least developed infrastructure, without causing excessive financial burden.

In allocating 12.2 billion francs for solidarity measures, the State is committed to providing boosted resources for certain categories of the population or areas in need.

2.2. Metropolitan France

In metropolitan France, the State has programmed 52 billion francs for Plan contracts covering the period 1989-93.

In comparison with the 9th Plan (42 billion francs), the new contracts have risen by 25% in terms of State investment, whereas increased selectivity has led to a reduction in the scope of contractualization. Substantially boosted resources have therefore been made available to implement priority policies over the next five years.

The regional councils have shown **far greater interest in contractualization** than during the 9th Plan. This is witnessed by the seriousness with which they conducted future-oriented and planning studies, the quality of exchanges with the State throughout the procedure, and the size of the commitments which they are planning to make over the next five years: 43 billion francs, versus only 28 billion for the 9th Plan, i.e., an increase of 54% which does not include contributions by other local authorities.

The scope of contractualization has been reduced to four priorities: selectivity, simplified procedures, certain powers devolved to regional prefects, and deconcentration of regional development tools. Hence per capita State subsidies have been adjusted to regional development priorities. To this the State's per capita contribution varies on a regional basis by a factor of 1 to over 3.

The balance achieved in the level of assistance provided to each region in respect of specific sectoral or global needs, relative wealth and the level of involvement of the regional councils would appear to be satisfactory. In line with the priorities envisaged by the Plan, the State's contribution for regions suffering acute problems will be particularly strong, as follows:

- for regions of the so-called North-East Arc affected by widespread industrial change, and a severe shortage of adequate training facilities, the State's contribution will be considerably high for those which are particularly targeted by contractualization, or disadvantaged;

- for rural areas hit severely by agricultural restructuring problems or having specific idiosyncrasies, e.g., Corsica.

Furthermore, overall State aid will be especially high for a handful of regions where sectoral needs are exceptionally high: important road building programmes or Integrated Mediterranean Programmes.

3. Decentralized planning and European Structural Funds.

3.1. Background

Since the E.E.C. was founded in 1957, major differences in the level of regional development have been highlighted between the States which signed the Treaty of Rome. The Treaty's preamble provided for "strengthening the unity between the economies of Member states and ensuring harmonious development thereof by reducing regional disparities and underdevelopment of the most underprivileged regions.

Three major structural funds have been successively put in place. The first of this, the European Social Fund (ESF), created at the outset, is responsible for funding vocational training programmes, promoting employment initiatives and fighting unemployment. The function of the European Agricultural Guidance and Guarantee Fund (EAGGF), set up in 1962, is to improve farming structures through its "orientation" activities. With the creation of the European Regional Development Fund (ERDF), the Community expressed its wish to equip itself with a special regional policy tool to give body to national regional development policies.

3.2. The perspective of the European Single Market in 1993.

The risk of exacerbating regional disparities within the Community attached to the completion of the European Single Market in 1993 has caused the Commission to reform the structural funds in order to provide support to regions lagging behind.

Two basic principles have been highlighted.

Firstly, a doubling, in real terms, of the structural funds' financial resources was adopted, to provide total funds of 14.5 billion ecus in 1993.

Secondly, the Community is concentrating its action on five priorities:

- on a geographical basis for regions and areas experiencing greatest hardship: Objectives 1 (underdeveloped regions), 2 (social and industrial redeployment areas), and 5b (underdeveloped rural areas);

- on a topical basis: Objectives 3 (fight against long-term unemployment), 4 (integration of young people into professional life) and 5a (adjustment of agricultural structures);

3.3. The procedure revolves around two phases

The Regional Development Plans (RDP)

Regional Development Plans must be submitted by Member states to the European Commission.

They contain two sections:

- a summary of the socio-economic situation of the region forming the eligible areas;

- a socio-economic discussion of the conditions for redeveloping these areas explaining priority actions, with the appropriate funds statement. The plans are drawn up under the responsibility of the regional prefect who is charged with broad consultation of local partners, the regional council, General Council, municipal authorities, and agencies and institutions which are requested to contribute -- primarily financially -- to the plans and programmes.

The contents of the regional development plans largely stem from regional planning and contracts between the State and the regions both for economic strategy and the major orientations.

Lastly, within the context of objectives 2 and 5b where the selected areas account for only a tiny part of regional territory, a specific development strategy is required in the form of a "social and industrial redeployment plan" or "rural area development plan", where appropriate.

The Community Support Frameworks (CSFs) and financial aid decision-making.

Community Support Frameworks are the European Commission's response to requests for joint funding. They are adopted in agreement with Member states. They specify priorities, the type of action, the indicative funding plan, and the implementation procedures, including those governing follow-through and evaluation.

Financial aid decisions, prepared in line with Community Support Frameworks, are then adopted in the form of multiannual operating programmes.

Fund allocations for the period 1989-93 represent a total of 17 billion francs for eligible French regions and areas.

For the five regions covered by Objective 1, Corsica and the four overseas regions, Guadeloupe, Guyana, Martinique and Réunion Island, programmed funds are equal to an average of 3,700 francs per capita for five years.

Community aid for eligible French areas under Objective 2 (industrial restructuring) and 5b (underdeveloped rural areas) will stand respectively at 500 francs and 1,150 francs per capita for the same period.

In all cases, the sums involved are quite substantial. It is worth noting that the European Commission deems Objective 1 to be the main challenge and has decided to devote almost 80% of structural fund resources thereto.