



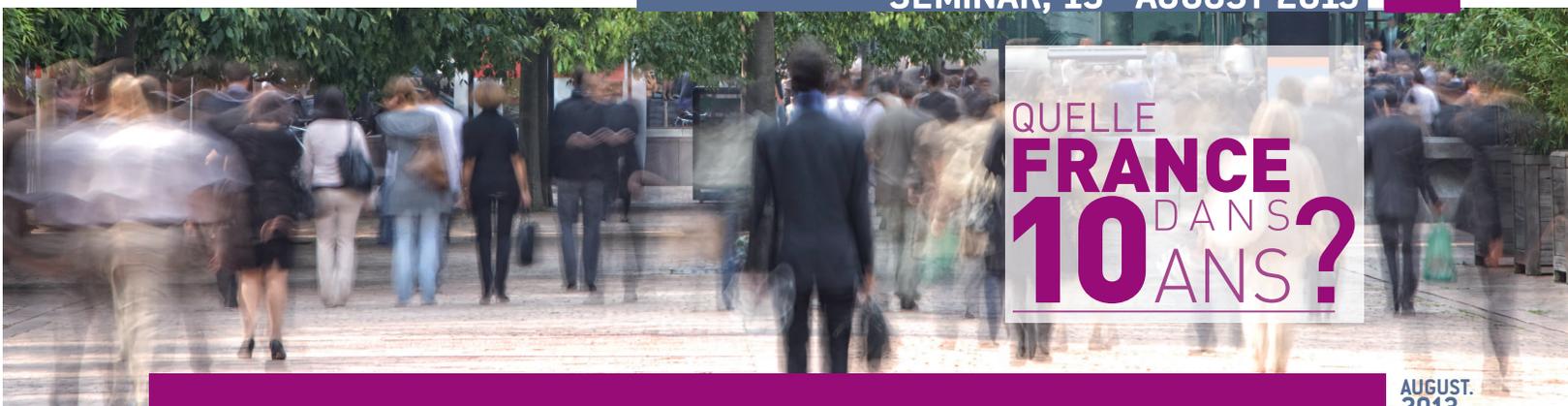
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RÉPUBLIQUE FRANÇAISE

PREMIER MINISTRE

Commissariat général à la stratégie et à la prospective

AN INTRODUCTION TO THE GOVERNMENTAL
SEMINAR, 19th AUGUST 2013



QUELLE
FRANCE
DANS
10 ANS?

AUGUST.
2013

This briefing paper has been designed as an introduction to the governmental seminar held on August 19th, 2013. It was prepared during July-August 2013 by a group of experts from the CGSP. It includes comments and ideas for discussion concerning a ten-year horizon and sketches out an approach for developing a medium-term strategy, without in any way claiming to raise all the questions or provide suitable answers. Its principal aim is to initiate discussion on the agenda.

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CONTENTS

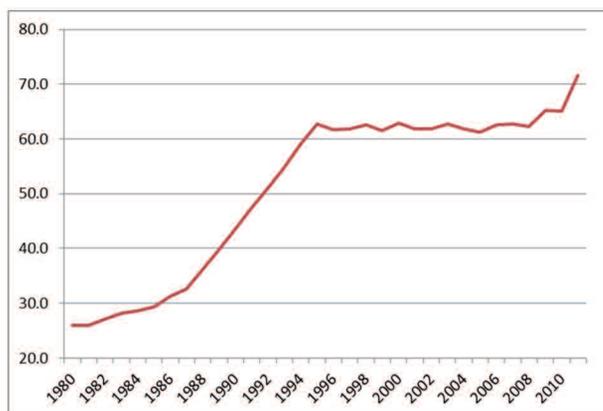
Introduction	2
Certainties and uncertainties	3
■ The world ten years from now	3
■ Europe ten years from now	6
■ France ten years from now	7
Three collective choice	12
■ How to approach globalisation?	12
■ How to shape for equality?	16
■ How to view progress?	18
Key elements for a strategy	20
■ Method	20
■ Main themes	21

INTRODUCTION



In 1985, the Education Minister, Jean-Pierre Chevènement, launched a programme to increase the percentage of students passing the national Baccalaureate examination to 80% by the year 2000. At that time the number had languished below 30% for several years. Ten years later, in 1995, the figure was above 60% (Chart 1). While some consequences of such a rapid change can be criticised, France with 500,000 more students than in 1985, had started its educational catch-up, and increased access to further education ensuring that academic achievement will no longer be monopolized by a minority. This objective was clearly stated and motivated people.

CHART 1: SUCCESS RATE AT THE BACCALAUREATE, BY GENERATION, 1980-2011



Source: Insee – Institut national de la statistique et des études économiques (*The French National Statistical Office*).

Recent French history offers other similar examples: the programs for telecoms equipment and energy independence implemented in the 1970s; the single currency introduction in the 1990s; the harmonisation of European university systems within the Bologna process, or the cancer initiatives in the years 2000. On each occasion, a long-term objective was set, although it often seemed totally unrealistic when formulated. It guided public action, galvanised those involved and public opinion followed. Whatever one might think of these undertakings, whatever view one might have about the undesirable effects of such and such a project, they were ambitious and the changes they brought were significant.

Other countries besides France have also managed to implement far reaching transformations within a decade. The case of Germany comes immediately to mind: in March 2003, when the Chancellor Gerhard Schröder presented his reform programme, Germany was the sick man of Europe. Ten years later, income inequality may have increased, but unemployment is at an all-time low and the country's economic prosperity is the envy of all. Sweden is another striking example. The financial crisis of the early 1990s provoked radical rethinking and caused a complete overhaul of the way social security was implemented, without destroying the fundamental social model. Such success is all the more remarkable when comparing these cases with what happened in Japan, where a violent financial crisis hit the country in the early 1990s, but where its leaders were unable to tackle the difficulties with the required determination to resolve the problems. At the international level, one can also mention, the Millennium Development Goals, which were developed in favourable economic conditions and enabled a concentrated effort to such an extent that many of them have been achieved before the expected due date of 2015¹.

These examples show that public action loses none of its reforming ability as long as the vision is sufficiently long term and the objectives are clearly stated. Ten years is the right horizon for structural decisions that:

- clearly define the long-term goal;
- give continuity to collective action across changes in government;
- enable throwing off quantitative logic - how much more of this, how much less of that - and embrace the need for qualitative changes;
- require reasoning in terms of asset stocks that determine the health of a nation - competence/skills, technical facilities, housing, debt - rather than just in terms of flows;
- lead institutions to reform themselves in order to meet the objectives they are given.

Five years is a political horizon, whereas ten is a societal one. A ten-year perspective has the advantage of being

1. Particularly in reducing extreme poverty by half, in achieving parity in primary education and slashing by half the percentage of people having no access to drinking water.

both sufficiently close for people to identify with, and sufficiently distant for the necessary institutional and material investments to bear the desired fruit. For these same reasons, it also allows for debate and dialogue.

However, for several years now, French society has had a blurred vision of where it is going. This is undoubtedly a handicap, as the absence of a clear collective vision with which each citizen can identify and work towards weakens the collective will and favours the attitude of every man for himself. France's blurred vision is also a source of questions for its international trading partners and observers that have difficulty in discerning what the country wishes. From the outside too, there are questions. International trading partners and observers have difficulty in discerning what the country wishes to be and even more in understanding what means it is bringing to achieve its objectives.

Thinking and debating about what the French people wish to be ten years from now, fixing the roadmap ahead on the basis of such discussion, and implementing the actions to be taken will enable the country to come out from its current confusion. France in 2013 is not the France of the 1970s, nor even that of the 1990s. The priorities and urgencies of today are not the same as they were. The State is no longer able to decide for society as a whole. Continuity and consistency are essential to address the issues to be tackled, and adopting a rigorous method will be extremely worthwhile.

In this context, the current briefing paper is divided into three sections. The first provides a brief snapshot of the world, of Europe, and of France in the next ten years. The second dwells on three key collective choices that are particularly important for French society. The third suggests methodological elements and some reference points as an aid to producing a ten-year strategy.

CERTAINTIES AND UNCERTAINTIES

| The world ten years from now

For more than three decades, the world economy has been experiencing unprecedented and powerful forces: the planet's population has grown by a factor of 2.7 since 1950, the arrival of the Internet has provided global access to information and knowledge, heavy investment everywhere has spread advanced technology worldwide and, finally, reduction in transport costs and liberalised exchange of goods and capital has led to a fragmentation of manufacturing processes.

All this is generally given the term 'globalisation', and it has produced a rapid growth in global revenue and a noticeable reduction in inequality worldwide. No-one, at the beginning of the 1980s, had imagined such developments at the very heart of the poorer nations. But these historic achievements have been accompanied by a significant transfer of revenue to the producers of rare primary resources, by social upheaval in industrial economies, by an increase in inequality within both Northern and Southern economies, and by the financial imbalances that contributed to the 2007-2008 crisis. In addition, there has been noticeable environmental damage in those regions that experienced rapid industrialisation and grave concern over public goods such as climate and biodiversity.

The rise of a world middle class

Three facts summarize what these changes mean:

- extreme poverty (defined as existing on less than 1.25 dollar per day per person) has declined from 40% of the world's population in 1993 to less than 20% in 2013;²
- since 2007, the majority of the world's population live in towns and cities;³
- in 2013, the emerging and developing countries' GDP, as a share of world GDP (calculated using purchasing power parities), exceeded 50%, having been only 36% in 1993.⁴

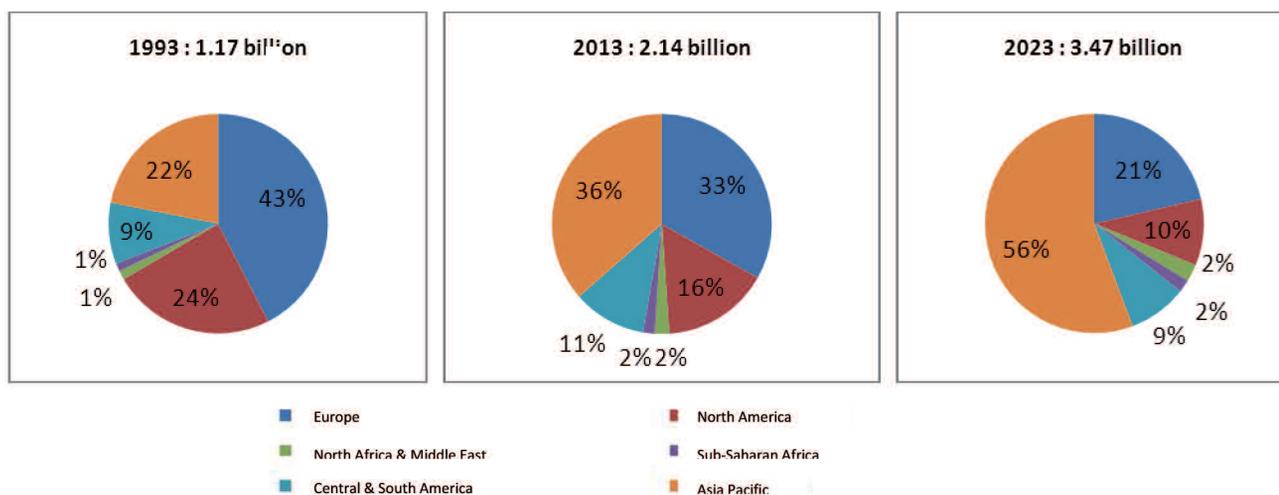
Ten years from now, the world-wide middle class will comprise some four billion people. More than half will live in Asia (Chart 2). In the regions called the 'South', the rise of an educated urban middle class with the desire to spend is a major sociological phenomenon with significant economic and environmental consequences that need to be addressed, but also with significant political

2. Source: World Bank, *Global Development Indicators*.

3. Source: United Nations.

4. Source: IMF, *World Economic Outlook*.

CHART 2: THE WORLD MIDDLE CLASSES, 1993-2023



Middle class is here defined as the population whose daily expenditure is between 10 and 100 dollars (2005 purchasing power parity).

Source: Brookings Institution, calculation by the CGSP.

consequences, as the unrests in the spring of 2013 have so amply highlighted.

For two decades, consumers were in the North, in particular in the United States, whereas the producers were in the South, notably in China.⁵ These producers have started to become consumers and the trend is likely to accelerate in the coming decade.

Debt in the North, knowledge in the South

The onset of the 2008 financial crisis accelerated a major shift in the world economy. Between 2007 and 2013, GDP per capita grew by more than 60% in China and by a third in India, whereas it decreased in most advanced economies.⁶ Until recently, sovereign debt crises were one of the sad trademarks of the Southern countries. However, at the end of 2012, gross public debt levels in advanced countries had reached an average of 110% of GDP, against 35% in emerging ones.⁷ At the same time, knowledge and expertise, generally held in the recent past to be the prerogative of the North, are today much more evenly distributed. This conclusion is drawn from the data

in scientific publications and the trends in the ranking of countries according to their expenditures in research and development (Table 1): two emerging countries were among the world's top ten in 2000 - in 2010 this number doubled, and China jumped from the sixth place to the second.

TABLE 1: R&D EXPENDITURES: RANKING OF THE MAJOR ECONOMIES

		in billions of US dollars					
		2000		2010		Changes in rank	
Position	Country	Volume	Position	Country	Volume	2010/2000	
1	USA	268,121	1	USA	408,657	=	
2	JPN	98,667	2	CHN	178,168	+4	
3	DEU	52,350	3	JPN	140,959	-1	
4	FRA	32,962	4	DEU	86,280	-1	
5	UK	27,859	5	KOR	53,243	+2	
6	CHN	27,216	6	FRA	49,934	-2	
7	KOR	18,559	7	UK	39,506	-2	
8	CAN	16,690	8	RUS	32,788	+4	
9	ITA	15,249	9	IND	31,823	+2	
10	BRA	12,483	10	BRA	26,017	=	

Source: Ghislaine Filiatreau, OST, Carist, calculations CGSP.

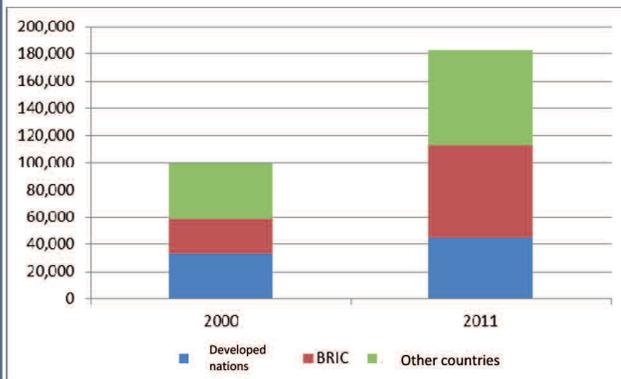
5. The categories 'North' and 'South' are approximations, used here for illustration.

6. Source: IMF, WEO database.

7. Source: IMF, Fiscal Monitor, April 2013, Table 2.

In the world's student population, this shift is likely to accelerate: there were 100 million students in 2000, with 33 million of them in the developed nations and 25 million in the BRIC countries.⁸ By 2011, this number had increased to 180 million, with some 67 million in the BRIC countries (Chart 3).

CHART 3: WORLD STUDENT POPULATION



Source: OST, calculations CGSP.

Twenty years ago, the South faced the debt problems and the North had the knowledge. Today, indebtedness is mainly located in the North, and knowledge is more and more in the hands of the South.

Demand for energy and food will inevitably increase, fuelled by demographic expansion and middle class growth. The challenges of climate change and biodiversity will be increasingly tough to address. Despite the slow-down in industrial activity, the economic crisis has not slowed the emissions of greenhouse gases, which reached a new high in 2012.⁹ The United Nations Environment Programme (UNEP) assumes a trend where the average temperature will rise of 3°C to 5°C during the 21st century; if no sufficiently ambitious correcting policies are implemented in the next ten years, radical and irreversible changes to the climate, to the configuration of land above sea-level, to the biosphere and to the oceans will occur. Challenges to biodiversity will intensify. Damage to land surfaces, the consumption and over-extraction of natural resources, invasive species, and pollution of all kinds will continue and accelerate the rate of extinction of endangered species and the destruction of natural habitats. Over the next decade, the impacts of climate change (scarcity

of water, natural disasters, melting of the ice-caps, the raising of the oceans' levels and the acidification of the water, agricultural constraints) are unlikely to be contained, with the associated consequences surrounding scarce resources and a significant increase in the number of climatic refugees.

Uncertainties are rather political than economic ones

Should these trends be taken for granted? The slow-down in China's growth, the stagnation experienced by Brazil and the disappointing performance in India would all suggest that a growth in the emerging economies as strong as it has been in the past few decades is unlikely. Just considering the BRIC countries, slower growth is inevitable as these countries succeeded in the economic catch-up process, narrowing the gap with the developed world. China will experience a demographic slowdown (the active population will cease to grow starting in 2015¹⁰ and the number of people over 65 will double by 2030¹¹) and even if the resituating of factories to the inner heartlands enable the country to have better access to the rural workforce, its capacity for industrialisation is reaching its limits both socially and environmentally.

Even putting aside political factors, the experience of both Europe and the advanced Asian markets suggests that the transition from a growth cycle to a different economic rhythm is rarely smooth and trouble-free. Various obstacles are most likely to occur in China. Over the years, China has launched a series of recovery plans based on infrastructure projects and credit facilities, such that the level of investment has been abnormally high, and moving from this investment-based economy to the new consumption-based one is both necessary and fraught with difficulties. The idea that there will be a new wave of emerging countries with parts of Africa taking off is not unfounded but the scale remains to be seen – there are a host of Asian and African countries that could start to fill the gap, but none has the size of a BRIC country. With the fall of the Berlin Wall and China opening up, the 1990s witnessed what has become known as the doubling of the global workforce.¹² We shall not see such a phenomenon reproduced on the same scale in the years ahead.

8. Brazil, Russia, India and China.

9. At 31.6 Gt CO₂e according to the estimations from the International Energy Agency (IEA). Source: Emissions from combustion of fossil fuels, IEA (2013), *Re-drawing the Energy-Climate Map*.

10. According to a forthcoming survey by Du Yang and Wang Meiyun, researchers at the Chinese Academy of Social Sciences, Peking University's China Centre for Economic Research.

11. Source: Cécile Jolly, Maxime Liégey and Olivier Passet (2012), *Les secteurs de la nouvelle croissance*, Centre d'analyse stratégique, Paris, La Documentation française; see also Gilles Pison (2009), "Le vieillissement démographique sera plus rapide au Sud qu'au Nord", (*Demographic ageing will be faster in the South than in the North*), *Population et Société*, no. 457, INED.

12. Richard B. Freeman (2007), "The great doubling: The challenge of the new global labor market", in J. Edwards, M. Crain and A. L. Kalleberg (Eds) *Ending Poverty in America: How to Restore the American Dream*, New York: The New Press, pp. 55-65.

Such cautionary remarks concerning the figures in no way undermine the view that the global economy will be led by the emerging markets, nor that the middle classes will continue to grow. The uncertainties can be grouped under four headings:

- **Geopolitical risks.** China will be the world's leading economic power within ten years. This change in economic leadership to the detriment of the US will mark a significant turn in the international order, which has remained unchanged since the end of the Second World War. Such a situation could significantly affect globalisation and even create tension. It is unlikely that the transition from a unipolar world to a bi- or multi-polar one will pass off without any hitches, with the sharpening of territorial tensions in the Far East possibly being just a pre-view. At a regional level, the current tensions in the Middle East and the countries of the Sahel are a risk for the political and economic security of Europe, especially as the United States is no longer dependent on the region for its oil supplies.
- **Socio-political trends.** The last two decades have been a fertile ground for naive projections, claiming that democracy and the market economy necessarily go hand in hand. The recent events in Egypt are just the latest reminders that majority rule and civil liberties are not necessarily compatible. Between one third and one half of the world's population lives under authoritarian regimes, under which a State-driven capitalism often prospers.¹³ Nevertheless, it is unlikely that the current political status quo can be considered compatible with the rapid growth of an educated middle class fuelling the desire for democracy and respect for the rule of law.
- **Shortcomings in global governance.** For the past fifteen years the multilateral system has reached a standstill. It has failed to produce any significant global agreement on world trade or on global warming, and the results from the financial agreements following the 2008 crisis remain to be seen. There has also been no noticeable progress made in the area of social protection. Although the G20 gave rise to renewed hopes, its effective output has already reached the point of decreasing returns in its usefulness. The one exception to this meagre performance is the recent development in taxation cooperation, but even that is largely informal and still somewhat tentative. This situation, which can partially be explained by the change in the balance of economic power, foretells ill for the world's collective capacity to successfully manage global resources. It leads to a frag-

mentation within the international arena, accelerated by regional or bilateral initiatives that are only a partial substitute for effective multilateral action. In such a context, there is a real possibility that global governance will be deadlocked.

- **Commodity price instability.** After having more than doubled between 2000 and 2008, with a brief correction in 2008-2009, the price for basic commodities has started to rise again. Although there is a certain consensus that basic food prices will remain at a fairly high level, energy and other raw material pricing is subject to conflicting trends: new energy sources (non-conventional fossil fuels) and a slow-down in world growth on the one hand, with increasingly high extraction costs (deep water off-shore drilling) and the risks associated with geo-political factors on the other hand. Such uncertainties lead to a wait-and-see attitude regarding investments and fuel the existing tensions on the supply side.

Opportunities and risks for France

The broad-brush picture of the global situation given above offers both opportunities and risks for France. Globalisation is entering a new phase, where the emerging countries that have fuelled the recent growth through huge investment and massive exports will be turning to a demand-driven growth from internal consumption by those two billion new consumers. This offers huge possibilities for a country like France, a country not renowned for its production of capital goods, but whose products are recognised throughout the world as a symbol of excellence and a certain *savoir-vivre* (way to live). On the other hand, the fact that the upper strata of these new middle classes will have increased access to advanced education means that those industries in France which require high levels of training and knowledge will no longer receive any natural protection

Europe ten years from now

For half a century, the European integration has been a structural factor in France's development. It has been the framework within which the country has thought about and built its future. It may be that this framework was not always the one the country would have wanted, but it had the huge advantage of being stable and predictable. When crucial decisions were at stake, membership in the European Union clarified everything: free exchange of goods and services, common standards, competition law, reduction of inflation, integration of ex-Soviet bloc coun-

13. See the data compiled by Freedom House.

tries, the single currency. For these fundamental steps forward to be taken, the EU was reassuring since it appeared able to manage such changes without questioning each country's social model. However, over a ten-year period, it no longer appears to be the epitome of stability or a shield against adversity. Economically, monetarily, politically and socially, the EU has become a source of uncertainty.

Three main concerns about Europe

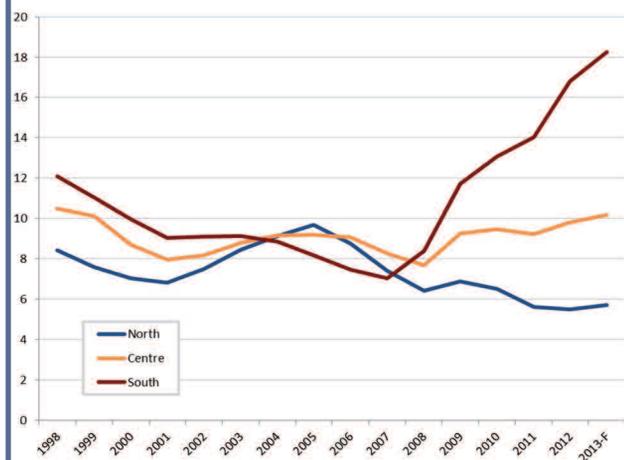
The first concern is economic. Collectively, Europe is paying the price of unbalanced growth during the first ten years of this century, confused management of the 2008 financial shock, and the prevarications thrown up by the eurozone crisis. Despite the timid short-term improvement taking shape, per capita GDP in the eurozone will only regain its 2007 level in 2016.¹⁴ And in this lost decade, Europe's share of global GDP will have dropped by three percentage points.¹⁵ Moreover, the zone is divided into prosperous countries and those in financial difficulty. In the former, led by Germany, unemployment is hovering around its lowest level for thirty years. In the latter, notably in Spain, one is seeing historically high levels (Chart 4). In both groups, the painful process of regaining economic stability that started in 2008-2009 is under way, but in those countries in financial difficulties, the limit of social acceptance has been reached. It seems clear that this process will continue to leave its mark on the coming decade. What is not clear is the route that this process will take. Alongside scenarios of gradual recovery, one might see some more abrupt developments.

Doubts about the eurozone also concern the level of integration. In 2010 series of systemic initiatives were taken in response to the debt crisis : strengthening of budgetary and macroeconomic oversight, creating of a mutual aid mechanism, defining for conditioning the intervention of the central bank, and laying the foundations of a banking union. These initiatives started to define a more integrated eurozone within which solidarity between member states would be stronger.

However, such a transformation has not come to pass. Not only is there still no agreement on the level of risk sharing that a banking union implies, but discussions about other features regarding the eurozone integration have hardly got off the ground - a budget, a common basis for unemployment benefit, partial debt mutualisation, taxation initiatives, creation of a European Treasury, etc. In particular, France and Germany have not yet decided whether they can agree on a compromise that would enable sharing of risk with sharing of sovereignty. And finally, the eurozone

has not found a way of asserting itself versus the economic giants China and the United States.

CHART 4: UNEMPLOYMENT RATES IN THE EUROZONE, 1998-2013



The split into three groups is based on economic criteria. The Centre comprises Belgium and France. Ireland has been placed in the South group.
Source: Bruegel from the European Commission's database (2013 forecasts).

The third uncertainty concerns not just the eurozone but the European Union as a whole. Despite the success of the EU 2004 enlargement, the past ten years have seen stagnation, or even a decline, in the Union's initiatives. Ratifying the Lisbon Treaty did not remove the sense of failure that the proposed constitutional changes engendered, and the mistakes committed during the handling of the recent crisis have simply added to a sense of disillusion in public opinion concerning Europe. Speculation concerning a possible withdrawal from the EU by the United Kingdom adds to the feeling that the European Union has more possible future scenarios than was thought possible in the past few decades. And as for the social dimension, there is consensus neither for its content nor even for the necessity of it being part of any European integration project. In this context of persistent difficulties, the uncertainties strengthen the doubts concerning the legitimacy of any European construction.

France's responsibilities

Such a context is uncomfortable for France where, not without reason, Europe is a source of division, with a significant part of public opinion blaming the EU for the current economic and social malaise. The French are aware of the seriousness of the situation, convinced that the solution needs efforts and averse about what lies ahead. But they have become mistrustful of the accumu-

14. Source: European Commission, AMECO database.

15. From close to 16% in 2007, to approximately 13% in 2014. Source: IMF, WEO database.

lation of EU initiatives and of the logic of integration. Such a state of French public opinion is not conducive to being creative and audacious.

But unfortunately the conditions in Europe leave no room for sitting idly by. The status quo may be tempting, but it is a risky policy not to start the reforms that could enable the eurozone to be more resilient in the future. Financial tensions exist and tomorrow they could flare up with increased violence. Refusing to move the EU forward regarding governance would, at the same time, deprive Europe of a credible voice. The rest of the world is unlikely to stand still while waiting for Europe to catch up.

Thus a heavy responsibility weighs over France. For the first time since the Treaty of Rome, one cannot exclude the possibility of a break-up of the whole European edifice. Additionally there is an unprecedented and serious possibility of a completely unbalanced Europe, dominated by too great an extent by the countries in the North. The attitude of France, its sense of initiative, its ability to throw off the ambivalence that devours and sometimes paralyzes it, the consistency in its domestic and European policies, and the quality of its dialogue with Germany will all be decisive factors in shaping the course of events in the years to come. France will need to brace itself for the possibility of even tougher choices to be made, between greater integration, including political integration, and break up, with the trail of problems that such an event would necessarily entail.

France ten years from now

In ten years' time, France will have 67 million inhabitants.¹⁶ The population will be older, in absolute terms and, relative to the rest of the world, the country will be smaller and less rich. This is not necessarily the bad news that it would seem to be at first glance because it will also be better educated, very well equipped and potentially attractive. Its citizens will be more diverse and more self-reliant, which is not synonymous with being less socially integrated.

An older France

First of all, France will be an older society. Despite a more dynamic demographic development than its neighbours, over the next decade France will experience an ageing of the population more rapid than in the past as the *baby boomers* will be retiring. This will mean that the share of the non-working population in the population as a whole will increase sharply. The ratio of those of non-working-age (children and pensioners) to those of working-age,

which had declined up until 2003 because the relative reduction in the number of youngsters was greater than the increase in the number of elderly, started a sharp increase in 2007 (Chart 5). By 2023, it will have reached the level it had in the 1960s, but the senior citizens will have replaced the children.

The ageing of the population will inevitably have a consequence on incomes. At an unchanged rate of participation in the working force and income replacement rates for pensions, a significant rise in the level of contributions (from workers, pensioners or companies) will be required. However, Insee, the French statistical office, forecasts a two-point increase in the rate of activity for the 15-69 year-olds between 2013 and 2023, notably due to the retirement reforms. This will lead to an increase in the number of workers and a reduction in the level of deductions.¹⁷

CHART 5: RATE OF ECONOMIC DEPENDENCE, 1960-2030



The rate of economic dependence is defined as the ratio between the working-age population and the non working-age population.

Source: Insee, demographic projections.

An ageing population also presents a challenge for the nation's health system. There will be significant requirements for trained personnel to attend the elderly, and the medico-social services, personal services, and technologies geared to the elderly will need investment.

A smaller and less rich France

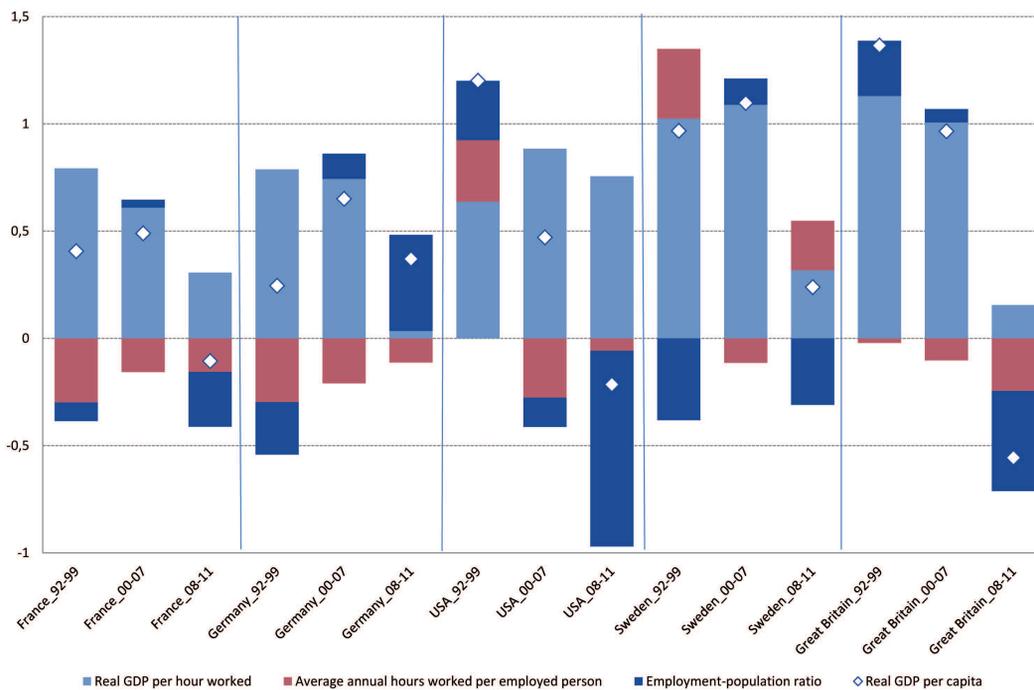
France will become relatively smaller and less rich. Demographically, and particularly economically, France will have less influence in ten years' time than it did ten years ago.

Largely because of the global financial crisis and then the sovereign debt problems in the eurozone, growth in France was exceptionally weak during the past decade - per capita GDP only grew by about 3% between 2003 and

16. Insee, Population projections, December 2010.

17. Insee, population projections, April 2011.

CHART 6: SOURCES OF PER CAPITA GDP GROWTH IN SELECTED COUNTRIES, 1992-2011



Source: Data from Fred (Federal Reserve Bank of Saint-Louis), calculations CGSP.

2013. This can largely be attributed to the significant slowdown in demand triggered by the 2008 crisis, but also to the setbacks in productivity gains, caused by a sluggish growth of investment, and by a very slow reorganisation of working practices within companies. This is observed in most European countries, whereas the United States sets itself apart and continues to register productivity gains (Chart 6).

Being more optimistic for the future is however possible, even though much of the ground lost during the crisis will never be recovered. If the economic conditions improve for French businesses, the increase in productivity gains should resume at a steadier pace, enabling the rise of purchasing power without compromising the returns on investments already made. Unlike the United States, which temporarily faces a slowdown in efficiency improvements from IT and communications investments, the French economy, like many others in Europe, could paradoxically take advantage of its late start in adopting such technologies. In the next ten years, the economy can continue to benefit from the wave of innovations implemented in the years 2000, whilst waiting for the next wave, the arrival of the 3D and biochips.¹⁸ France also has significant room for growth, given the level of underemployment, and removing the persistent anti-competitive regulations could boost productivity gains.

To turn this promise into reality, the country will need to innovate, train and retrain its workforce, promote innovation, invest and renew its production base, and also show its ability in the fine-tuning of demand. The medium-term forecasts give 1.5% potential growth for the next five years plus a half-point per year from the reduction of the output gap, giving 2% overall. Whilst it may not be prudent, in the current uncertain context, to plan on growth rates higher than such forecasts, it is nonetheless true that these figures are not impractical barriers and one can hope for a faster pace. By undertaking wide-ranging reforms and releasing the potential growth, other countries have managed to add 0.5% annual point of growth on average.

On the other hand, it is clear that a combination of demand stagnation and failure to remove the obstacles to developing the supply side can kill off any growth. Fifteen years ago, Germany and Italy had roughly the same per capita GDP - within 10%. Since then, Italy's has not improved, while Germany's has increased by 20%, with the result that Germany is now one third richer than Italy. Assuming a return to growth, France's share of global GDP should diminish less quickly in the coming years than during the period 2003-2013, but a reduction is unavoidable. In 2023, France should represent slightly less than 3% of world GDP. It will still be a member of the rich

18. Gilbert Cette (2013), Presidential conference at the AFSE, June.

country club, but its per capita real income will be twice the world figure as opposed to three times ten years ago (Table 2). Economically speaking, its weight will be roughly that of Canada or Spain in 1980. Being relatively smaller in a larger world, its relative weight will be two or three times less than it was thirty years ago.

TABLE 2: FRANCE IN THE GLOBAL ECONOMY: 2003, 2013, 2023

	2003	2013	2023
France's share:			
- of world population (%)	0.97	0.92	0.87
- of global GDP (%)	4.0	3.1	2.7
France per capita GDP /world per capita GDP (ratio)	2.7	2.2	1.9

Source: OECD, long term projections. GDP and per capita GDP are calculated using purchasing power parities.

These trends, which can be considered as fairly accurate, could lead to a feeling of national decline. But this would be wrong:

- all advanced countries and many emerging ones are experiencing a rapid ageing of their populations, but France has the advantage of a higher birth-rate. Also a longer life expectancy should not be considered as an economic handicap. On the contrary, it can be a source of growth for those countries that organise themselves to face the situation and to seize the opportunities from what is called the silver economy;
- the downward trend in the relative weight of France will undoubtedly have an effect in global power games, but in a peaceful and open global market, a relatively small country has no reason to be less prosperous. Economic history has long evoked theories that assimilate power with wealth. But plenty of smaller countries, even in Europe, have been very successful;
- a relatively smaller size implies almost mechanically a greater level of specialisation on which to build a comparative advantage. France in the 1980s was not particularly specialised. Inevitably, France in the years 2020 will be much more so;
- as has already been mentioned, the development of France's partners among the emerging nations will inevitably lead to them becoming more and more competitive in labour intensive sectors. There will no longer be protected areas. But at the same time, these countries will be customers and will demand products and services where France has a comparative advantage.

A France better trained, excellently equipped and potentially attractive

In ten years, France will be more and better trained and educated. With the coming generation replacing the generation that did not benefit from the longer schooling period, the average level of the working population's qualifications will have increased. France's backwardness in terms of the level of training of the working population, something that was a serious handicap in recent decades, will cease to be an issue; the rapid rise in the level of qualifications in the emerging countries will not already have spread to the totality of their working population.¹⁹ Human capital is a precious asset, the result of several decades of sustained effort. Ten years from now France will be better trained than it has ever been in the modern era compared with the United States, and will still be far richer in human capital than the emerging countries.

France will benefit from being highly equipped. Here again one needs to think in terms of stock. According to the *World Economic Forum*, France is fifth out of 144 nations for the quality of its infrastructures (motorways, railways, ports, air transport, telecommunications – one could add the quality of the health system, which is also a competitive strength). This particular asset is doubtless temporary, given the level of investments undertaken in the emerging countries. This advantage is unfortunately less obvious for digital infrastructures than for the more traditional ones. Here France is not in the leading pack among advanced nations. But, overall, for the next ten years, France's level of infrastructure facilities will remain a significant advantage.

Finally, other exceptional assets make France a country that is *remarkably attractive for foreign investors*. If it plays its cards well, France has, with its geographic situation, its infrastructures, its top quality public services, its urban and cultural vitality and its renowned way of life, all the trump cards necessary to be a country of predilection for attracting investors. This is especially true for businesses relying on high-level intellectual assets, and on a quality of life for the employees, that is recognised as a productivity factor and a competitive edge.

A more urbanised France

The urbanisation of France will continue. Given the cluster effects, the concentration of innovation and production

19. In 2011, France ranked 22th among 38 countries chosen by the OECD, concerning the share of the 55-64 year-olds having had a university level education, but was 12th among the 25-34 year-olds. See OECD, Fact book 2011.

factors, large cities and metropolitan areas generate wealth, employment, and productivity gains. Their overall attractiveness plays both for the economic activity and the population, given the concentration of human resources, industries, finance institutions, educational establishments, etc. With their cultural vitality, their universities and other higher education establishments, metropolitan areas attract young people and a highly qualified labour force. They mostly have highly effective and sophisticated infrastructures and systems of public transport and telecommunications. Although some have mentioned in the past a return to the countryside, the idea has not materialised. If the large cities succeed in controlling their development, they are likely to remain highly attractive for their inhabitants.

However, the nature of this urbanisation has changed significantly over the past decade and is likely to continue along this path. In ten years, the urban space has increased by 19% with towns now being home to 77.5% of the population. However, this rise is due more to the expansion of the cities' outskirts rather than to an increased density in the cities themselves: from 2006 to 2010, towns with less than 5,000 inhabitants, where only 40% of the population lives, grew by close to a million, which represents nearly 70% of the French population increase. Today there are roughly 400 inhabitants on average per square kilometer in urban areas, against 600 before 1962.²⁰

This tentacular spread of urban areas has given rise to environmental problems because of land damage (reduction of the biodiversity, pollution of water courses, etc.) and transport congestion (concentration thresholds for fine particles in the air regularly exceeded, etc.). The resulting social order is marked by a huge inequality within the population, with the centres of towns being occupied by the more well-off section of society and the suburbs being the home for the less fortunate classes, bringing with it a split in behaviour and appropriate electoral choices. This trend could be reversed with coherent policies for public transport, administrative modernisation, and taxation policies that take into account the modern urban and social realities.

Changes in employment and the nature of work

After the growth period which propelled France towards full employment, the crisis of 2008-2013 saw the

unemployment rate, whilst remaining lower than that during the 1990s and that experienced recently by southern European countries, rise to a level that is nonetheless pretty alarming. Reducing this in the next ten years will depend on the country's ability to generate sustainable growth and to improve the labour market efficiency. The fact that several of France's neighbours, such as Germany, are currently close to full employment, is ample evidence that the current level of unemployment in France is not due to any technological or economic fatality.

In ten years' time, senior/middle management and professions will represent more than 40% of the working population, as against 30% in 2000 and 25% in 1990.²¹ In only just over a generation, this represents a major sociological change. But this upgrading of employment will not be uniformly felt. In France, as in other advanced economies, the share of skilled workers and employees will probably diminish, whereas the share of the jobs occupied by the least qualified will probably remain stable, helped by the demand for personal services and the tourism sector. This trend is likely to lead to a polarisation of jobs at the top and bottom of the qualification scale and risks creating an 'hourglass' society.²² It will require significant efforts to ensure that this duality in the demand for jobs does not create a permanent social duality, consigning a proportion of the population to working in unstable jobs requiring little or no qualifications. The challenges of the policies required to increase the status of jobs and training are to ensure that workers are helped in the transition and to free the labour market from its current constraints.

Another significant trend is the feminization of the workforce. This will continue under the pressure of the increased female employment rate, the increase in the relative share of tertiary sector employment (already heavily feminised, as in personal services), and a greater academic performance by girls, which will boost their presence in the more highly qualified professions. In total, women could occupy close to half the jobs in the market, a proportion greater than their representation in the labour force. This could lead to overturning the traditional hierarchy in the relative rates of unemployment between men and women.

20. François Clanché and Odile Rascol (2011), "Le découpage en unités urbaines de 2010" (The distribution of urban entities in 2010), *Insee Première*, August.

21. Source: CGSP, "Prospective des métiers et des qualifications" (The outlook for professions and qualifications) (PMQ), forthcoming.

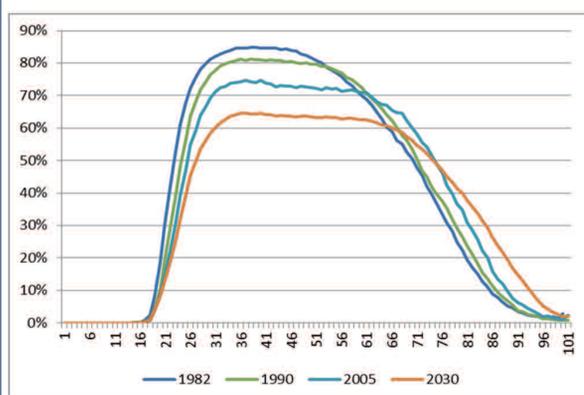
22. David H. Autor and David Dorn (2009), "The growth of low skill service jobs and the polarization of the U.S. labor market", NBER Working Papers, No. 15150, National Bureau of Economic Research, Inc., July.

More self-reliant French

These changes will also affect the structure of the family. In this area, all the indicators suggest that the spectacular changes in the family structure that have taken place in the past thirty years will continue through the next ten, with an increase in the number of divorces, cohabitation and single-parent families.

Insee forecasts a further fall in the size of households (from 2.6 people per household in 1990 to 2.1 in 2025), which will lead to an increase in demand for accommodation, and present the challenge of supporting those individuals who will be the most vulnerable in these circumstances, notably women and children. In 2009, 21% of children lived in a single parent structure, whereas it was only 17% ten years earlier. Over a longer period, the reduction in the rate of cohabitation within couples is a significant trend - in 1982, close to 85% of women aged 40 lived as a couple, and only 64% will do so in 2030 (Chart 7).²³

CHART 7: WOMEN LIVING IN COUPLES, RANKED BY AGE



Source: INSEE.

But we should not generalize because the family structure in France is not a homogeneous picture across the country.²⁴ Sociologically, however, the trend towards a society of individuals who value safeguarding freedom of choice will continue. Such individuals will not be opting out of society. Surveys show that the French have a strong attachment to family - even if today's family is not the family of the past - and to work, which remains in France, more it seems than in other countries, the key to the definition of the individual, of integration and of social acceptance.

Such a change in society will require another kind of relationship between the society, the State, and its social institutions. This new society will no doubt seek to distance itself from paternalism and favour access to public services, as a support for the individual's new-found autonomy.

THREE COLLECTIVE CHOICES

The broad picture that has been drawn in Section 1 gives insights into the challenges that France will face in the next ten years. It throws up a set of risks. But it suggests that France also has high value assets and that the forthcoming period could well present more opportunities than the previous years.

However, in order to make the most of this potential and to strengthen it, there needs to be absolute clarity and stability in the collective choices that are to be made. But, French society is hesitant, ambivalent or divided on several key issues. It has great difficulty in organising proper discussion of these issues, in driving towards consensus and in arriving at the creative compromises on which to build sustainable action. Three of these choices would appear to be particularly crucial. They concern the position to be adopted vis-à-vis globalisation, the social model for equality and the nation's vision of what constitutes progress.

How to approach globalisation?

It is well known that the French perceive globalisation as, above all, a threat to their jobs and their way of life. They are frequently nostalgic for the world as it was before, and sometimes dream of opting out of the world as it is.

Mixed views on the international area

Such questions and doubts are understandable. Although globalisation has resulted in significant purchasing power gains, it has been, and will remain, a rapid, brutal and sometimes unfair process. It is easy to understand the bitterness of employees who see their companies threatened or destroyed by international competition, or the despair of local elected officials when whole industries are wiped off their local map. But the choice is not whether to say yes or no to globalisation. Even if one was able to restrict the exchange and flow of capital, this would not pre-

23. Source: Insee, "Household forecasts for metropolitan France in 2030". See Alain Jacquot (2006), "Des ménages toujours plus petits", *Insee Première*, No. 1106, October.

24. See Hervé Le Bras and Emmanuel Todd (2013), *Le mystère français*, Paris, Seuil.

vent emerging nations obtaining the latest technology nor would it halt their progress in world markets. And it would be paradoxical indeed for a country that manages still to have eight of its enterprises in the top hundred worldwide (against nine for Germany and four for Italy) not to take advantage of such an asset.²⁵ The choice is to decide what role the country wishes to play.

Globalisation is first and foremost a question of trade and exchange. In this respect, an analysis of France's competitiveness on the world markets was presented less than a year ago in the Gallois' report.²⁶ Despite the measures adopted at that time, in particular the CICE (*Crédit d'Impôt pour la Compétitivité et l'Emploi*, Tax Credit for Competitiveness and Employment), the statement is just as valid today as it was when first presented. On foreign markets, France is being left behind and declining. Even if the giants of the CAC 40²⁷ are registering significant profits and distributing comfortable dividends (often as a result of their activities overseas), most French industrial enterprises suffer from very low profitability. This prevents them from investing sufficiently in innovation and quality, and condemns them to price competition with its often disastrous consequences. France's production base lacks a buoyant demography of firms and industry and, specifically, lacks the critical mass of medium-sized companies. Finally, the French industrial organisation is aimed neither at orienting the key resources – financing and skills – to those companies at the cutting edge of international competition, nor to the development of start-ups and other promising businesses.

The problem is not that France lacks large exporting firms. Neither is it that France imports too much and does not purchase enough products 'made-in-France'. France's external trade performance rather illustrates how difficult it is for its firms to expand and to gain sufficiently solid position in the international value chain. Two indicators demonstrate these characteristics the best:

- In France, one company in twenty is present on foreign markets, compared with one out of ten in Germany. This gap corresponds to a much lower density of medium-sized firms in France. For too many companies, exporting is an intermittent activity: each year, a third of them cease to export and choose to concentrate on the domestic market.²⁸ In addition, the number of exporting

firms has noticeably diminished in the past ten years: there were less than 120,000 in 2012, whereas there were more than 130,000 in 2002.²⁹ And this is at a time when, in all countries, exporting means being the most productive, the most innovative and employing the highest qualified people;

- German successful exports have been closely scrutinised, but their imports are no less important. Between 2000 and 2012, German imports grew by close to 80%, whereas France's increased by only 50%.³⁰ This gap, which has widened despite a more sustained domestic demand in France, illustrates the different levels reached by the two countries in the global supply chain. Germany has relocated more than France, buys more, sells more and, in total, exports a much greater share of its added value.

The French industry issue

To cope with such a situation is a long-term objective. The effort needed will require both overall measures and initiatives targeted by sector. The latter, which the government has decided to address by branch, will necessarily be chosen on a case by case basis.

Fortunately, consensus concerning industrial policy is much stronger today than it was twenty or thirty years ago, when partisans of a global approach and those favouring sector-based policies were roughly opposed.

However, it would not be sufficient to stick to this somewhat reassuring observation. The split of revenues between those sectors not subject to international competition and those that are is far too much in favour of the former. France remains too hesitant regarding its openness to foreign trade, in championing its comparative advantages and in deciding which sectors it should specialize on.

Contrary to common beliefs, France has not been hit by a sudden decline in industrial employment. The same trend, largely explained by sustained productivity gains and by the outsourcing of functions to the services sector, affects all advanced economies (Chart 8). What sets France apart is partly its historically low industrial implantation and partly the relatively poor trend in added value in recent years. This trend is itself one of the consequences of low profitability and poor product positioning on international markets.

25. Source: *Fortune 500* list.

26. Louis Gallois (2012), *Pacte pour la compétitivité de l'industrie française*, report to the Prime Minister, November.

27. French stock market index.

28. See Raphaël Cancé (2009), "L'appareil exportateur français : une réalité plurielle", [The French export machine: a multi-faceted picture] *Trésor-Éco*, No. 54.

29. Source: Douanes - the French Customs & Excise organisation.

30. Source: European Commission, AMECO database.

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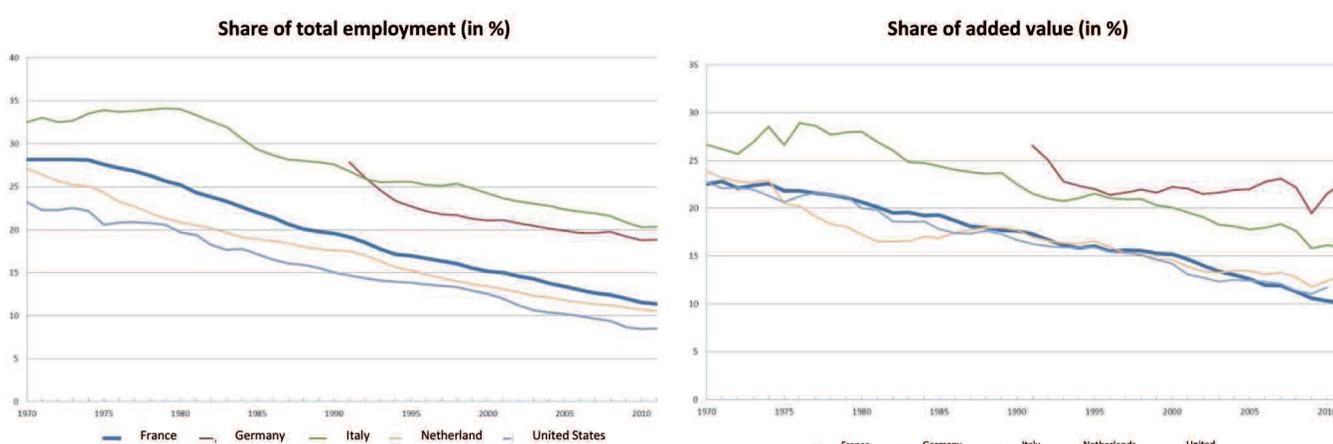
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This is the result of an implicit collective choice: too often, France has tried to limit its involvement in international trade; too frequently, it rather supported sectors insulated from foreign competition instead of those that are not. The latter, starting with the industrial sector, are caught in the stranglehold of their international competitors' prices, the prices from their suppliers - infrastructure, services and energy costs - and the cost of labour. And labour costs are hit both by the costs of social contributions and by the cost of living, with housing first on the list. Despite the various relief offered by the State to sectors or businesses in difficulty, it is this stranglehold that squeezes the added value in sectors exposed to international competition and that diminishes their industrial profitability. Economists talk of the internal exchange rate - the ratio between the price of goods and services not traded internationally and the price of those that are. There are strong signs that suggest that the level of this indicator in France is still a handicap for restoring the industrial sector.

Two models for internationalisation

A rather more qualitative dilemma comes in addition to this quantitative one. A country ranking according to its comparative advantages depends on geography and history, but also on the choices made, deliberate or otherwise. This is not to suggest that decisions on specific specialisations are made by the State rather than by firms,

CHART 8: FRANCE'S MANUFACTURING INDUSTRY IN THE ECONOMY, 1970-2011



Source: Eurostat, calculations CGSP.

but that public policies in areas as diverse as immigration, education and research, equipment investment, the organisation of public services, energy prices, taxation and commercial regulation exert a determining influence over private decisions. In this sense, State neutrality is a fiction, as the State always has an implicit industrial policy.

In this respect France is hesitant. It does not really know whether its future lies in being a *manufacturing power*, like Germany, or as in its own previous ambitions, or in being a *services and innovation economy*.

Each of these options is viable. Japan is probably the best example of the former. There, one finds a very export-oriented industry, for which significant efforts have been expended and continue to be made, and a service sector which remains a protected domestic affair. This organisation sees a remarkably insular society cohabiting with large industrial companies heavily oriented towards the international market. The United Kingdom has chosen a different path, basing its economy on tradable services, in particular, but not solely, financial, and on rolling out the red carpet to attract capital and the finest talents from all over the world. Rather like the United States, where the influx of highly-trained immigrants in the 1990s and the innovations that followed have enabled the country to add around 2 percentage points to its per capita GDP³¹, the UK is trying to attract the best brains to its universities and to become the European leader in the global competition between the higher education establishments. The proportion of foreign students in British universities has thus doubled in less than ten years.

What this comparison shows is that advanced economies have several ways in which they can embrace the global economy. Japan certainly does not ignore the Internet, any more than the UK shuns traditional industry. But the two nations illustrate two different paths.

France seems not to know which road to take: being a producer of goods for tomorrow's world, or a service exporter? In truth it is both as, today, services represent about half of the added value exported by France.³² France sees itself sometimes as a nation of inventors, and sometimes the natural home of a certain way of life. It places its hopes successively on traditional production and radical innovation³³. Moreover, such ambivalence has not arrived overnight³⁴.

The question is all the more pressing, though, as the next few decades will doubtless see services moving towards a significantly greater level of tradability. Technology is pushing in this direction, but so also are personal mobility and the appetite of the emerging countries' middle classes for tourism.

Repositioning France as a major industrial power would imply some very tough choices. It would require strengthening practical knowledge in academic degrees, maintaining low energy prices, promoting investment and providing financial help in capital-intensive projects and, more generally, a massive transfer of resources to the industrial sector, including the use of a tax lever. More fundamentally, it would require rediscovering the will and the discipline that led to the post-war industrial success. It would not require significant structural changes, but rather a conscious and very determined effort to modify the split of revenue between industry and sectors protected from international competition.

Relying on creation, innovation and tradable services would no doubt require less effort in the transfer of revenue, but it would imply a significantly more profound economic and social transformation. It would require an active policy for attracting talent from around the world, an intensification of competition in the services sector and a sustained programme of modernisation of public services in order to take a credible place in the emerging competition for education and health. It would be necessary to concentrate the creative activity in (excellent) urban centres of international stature. Placing the emphasis on creative activities could also be accompanied by a tendency towards increased inequalities to the benefit of the more qualified and talented individuals - both French and foreign.

Neither of these choices is easy. Nor is it a question of black or white - recovery will necessarily require elements of both, or even a rather original combination of the two. But sketching out both scenarios demands thinking about what productive futures are possible, and about what France's role in the new global economy should be, and about the coherent public choices that are available for driving France's future economy. Whatever direction is taken, French society can no longer consider itself the victim of a new world that is being created alongside France, despite France and without France.

31. See Jennifer Hunt and Marjolaine Gauthier-Loiselle (2010), "How much does immigration boost innovation?", *American Economic Journal: Macroeconomics* 2, April, pp. 31-56.

32. Source: WTO (2013), "Trade in value added indicators: France", May. The proportion is 40% for Japan and close to 60% for the United Kingdom.

33. On this point see the contribution from Anne Lauvergeon.

34. See Jean-Louis Beffa (2012), *La France doit choisir*, Paris, Seuil, 285 p.

How to shape for equality?

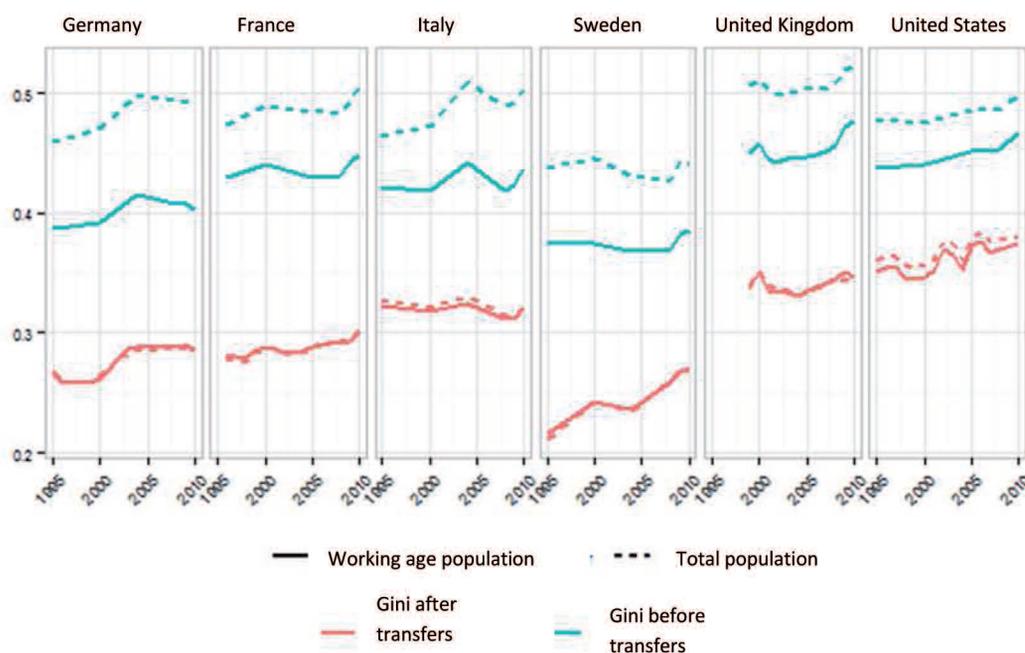
For the past twenty years, France has managed to contain the expansion in income disparity better than others. True, French society is not as egalitarian as the Scandinavian countries and, in line with global trends, it has not escaped a certain widening of the gap, but income disparity, after tax and transfers, is less pronounced in France than in the Anglo-Saxon countries, and it has increased less than in Germany and in Sweden. Up until the onset of the 2008 crisis, the tax/social security system played its distributive role. In particular, the share of very high incomes increased less and the transfer system limited the widening of the gap at the bottom better than elsewhere.³⁵ Even though the system was unable to stem the widening of inequality after 2008, through the worsening situation

for the most vulnerable households, the assertion remains basically valid (Chart 9).

Despite this, three-quarters of the population believe that society is unfair, almost nine out of ten think that the situation has become worse in the recent past, and eight out of ten expect such degradation to continue.³⁶ This perception is likely due to the fact that, in the past fifteen years, the highest incomes increased significantly. But the sense of injustice does not only concern incomes. Considered even more intolerable, and getting worse, is the inequality in access to housing and to healthcare, as well as in access to learning, to employment and to digital services.

One has to admit that the observations are well-founded. France has managed to limit the disparity in revenues

CHART 9: GINI COEFFICIENTS, SELECTED COUNTRIES, 1995-2010



Source: OECD, calculations CGSP. An increase in the coefficient means an increase in income inequality.

35. See Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez (2013), "The Top 1 Percent in International and Historical Perspective", *Journal of Economic Perspectives*, Volume 27, No. 3—Summer, pp. 3-20. On the second, see the French survey from the OECD, March 2013.

36. Source: DREES, monitoring opinion in French society.

better than others, but it cannot be proud of failing to make progress in terms of opportunities - or, as Amartya Sen expressed it, the capabilities. All the indicators show that:

- among the OECD countries, France has been one the least able to prevent the socio-economic and ethnic origins of parents from having an influence on their children's academic achievement (Chart 10);
- despite repeated efforts, spatial segregation is a determining factor in access to education and employment;
- half of the students training for entering into one of the *grandes écoles*, the most prestigious French universities, have parents in upper and middle class management and in the liberal professions; and the son of a senior manager has twelve times the chance of entering a *grande école* than the son of a worker;³⁷
- the gap between young graduates and non-graduates is getting wider. For everyone, the first step into the job market is fraught with uncertainty, but this lasts much longer for those without qualifications.

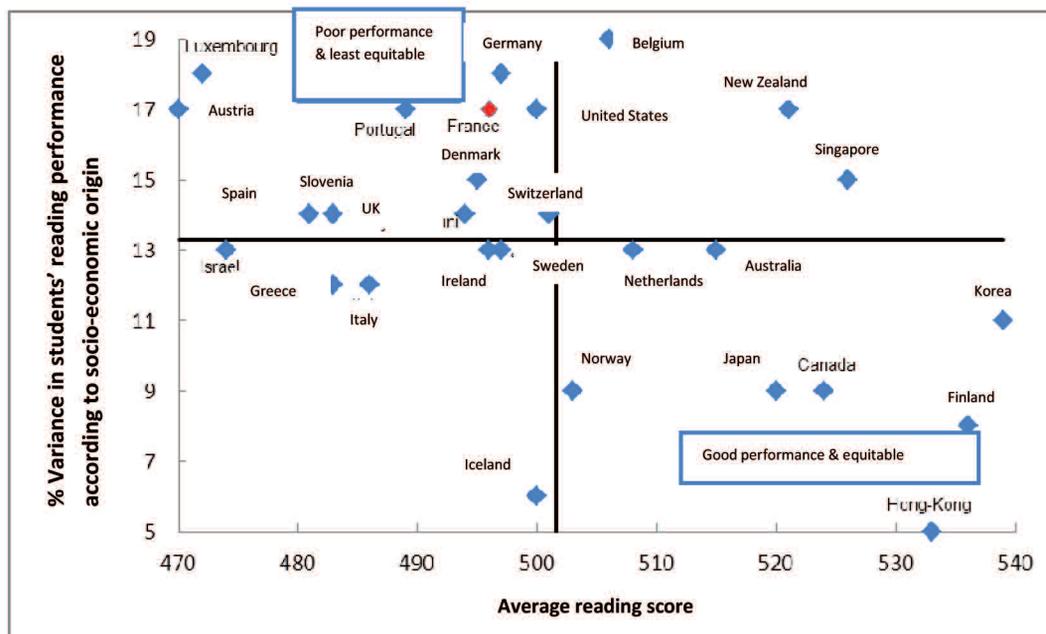
Despite its passion for equality, France is a country where socio-economic factors and national origin have the biggest influence on an individual's future, starting with

school but continuing into the employment market. And this is unfortunately getting worse. It is not a question of money or resources. The amount devoted to education in schools, as a percentage of GDP, is roughly the same in France as in those countries who have best corrected social inequalities in terms of opportunities, and the amount allocated to employment policies, still in GDP percentage terms, is significantly above the average of the OECD countries. What is at stake is rather the efficiency of France's public services and the way its labour market works.

Having failed to tackle the inequalities at the source, society picks up the bill for the risks that such inequalities entail - sanitary, unemployment, loss of income, etc. The result is a model of inequality reduction that is more costly and less effective than the models that place the emphasis on social investment.

This current model is probably not a sustainable one. First, because of the historic level of public spending: from this perspective, the gap between France and comparable nations is largely explained by the level of transfer payments. Secondly, because this model creates tensions between those who feel rejected or excluded by a closed

CHART 10: READING ABILITY OF THE 15 YEAR-OLDS AND SOCIO-ECONOMIC INFLUENCE, 2009



Country selection: in order to compare France with comparable countries, only data from countries whose per capita GDP in 2010 was higher than 20,000 dollars have been used, with the exception of the oil sheikdoms where the education system is not comparable.

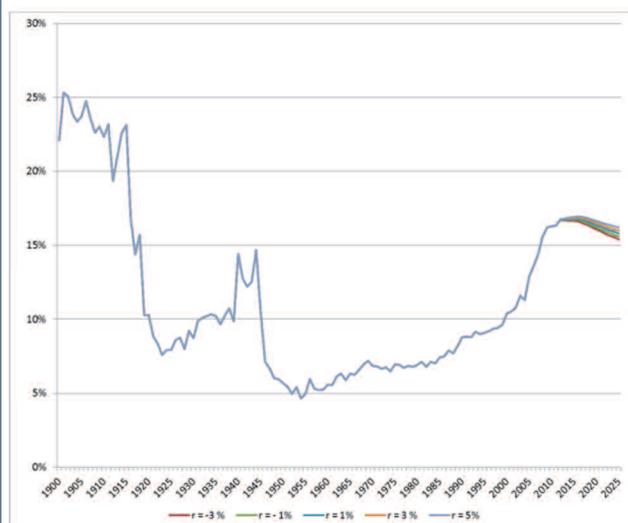
Source: CGSP, using the PISA database (OECD).

37. Analysis conducted by the CGSP with data from INSEE's Survey on Employment. The ratio was 12.1 for the generation 1949-1958, 14.1 for the generation 1959-1968 and 11.7 for the generation 1969-1978.

society and those who appear to be relatively privileged. It is not certain that the country can both fail to build a way of living in harmony based on social, economic and political integration and, at the same time, maintain consensus on a system of social and tax transfers that achieve a high level of solidarity.

In the next few decades, this model will need to face up to an additional challenge. In an economy with weak growth, inheritance plays a greater role than in an expanding one where the fruit of a lifetime of labour tends to confer a secondary role on such income. Even though tax greatly reduces the return on capital, France in the next few decades will have a rising ratio of inheritance to revenue similar to the one experienced in the early part of the 20th century (Chart 11). In such a context, preventing the emergence of a caste society will require a complete rethink of the country's social model.

CHART 11: INHERITANCE IN THE NATIONAL INCOME, 1900-2025



Source: Thomas Piketty, calculations by CGSP.

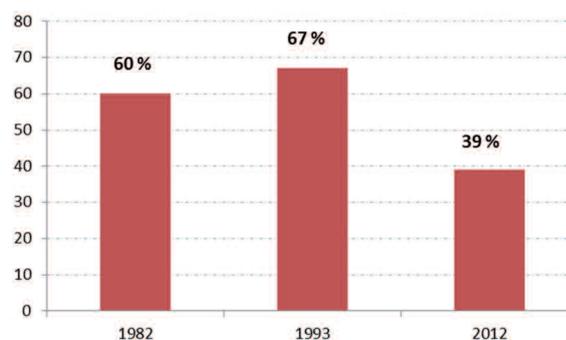
How to view progress?

France, country of the Enlightenment and of Marie Curie, believed in progress. It is not certain that today's France has the same vision. Opinion still views scientific progress favourably, but applications such as nuclear energy, GMOs, and research into stem cells - are regarded with suspicion. Furthermore, the French have doubts about the collective ability to make good use of science and technology. For example they think that science can solve global warming but do not expect the problems to be solved. Though they consider that scientific discoveries include

substantial economic benefits, they largely believe they live worse off than twenty years ago. They expect high productivity gains from technological progress, but fear that this will cause decreasing employment. They dream of consuming better, but believe that scientific advances are changing their way of life too quickly.³⁸ They criticize industry for inciting them to consume more and look with interest on the proposals of the circular economy.³⁹

The historic roots of the gloominess and mistrust of French people are discussed among researchers. Two facts clearly stand out. First, this pessimism increased dramatically at the start of the last decade. In particular, according to the DREES, the share of French people claiming to be optimistic for the future of their children and subsequent generations plunged from 53% to 34% between 2001 and 2004, to reach just 31% in 2012⁴⁰. Over a longer period, the trend reversal is clear (Chart 12). Secondly, the French are far more worried about their collective future than they are about their own personal situation.

CHART 12: FRENCH PEOPLE CLAIMING TO BE CONFIDENT IN THE FUTURE



Source: La Poste's Confidence Forum barometer 2013, TNS Sofres.

Such an attitude is political in nature. It is one thing for French society to be more prudent, even suspicious, with regard to technical progress, to be aware of the need for up-front tests concerning implementation of scientific advances and verifying that they are appropriate to society's needs. But it is quite another to lack confidence in the future because one has no confidence in oneself, in one's economic, political and social institutions and, at the end of the day, in one's capacity to put those advances to the service of mankind. French citizens fear that scientific developments are systematically diverted for the use of pressure groups to the detriment of the common good. Their confidence in progress dissipates.

38. TNS Sofres, Observatoire de la confiance de La Poste, June 2013. It should be pointed out that attitudes to technical progress are a function of age.

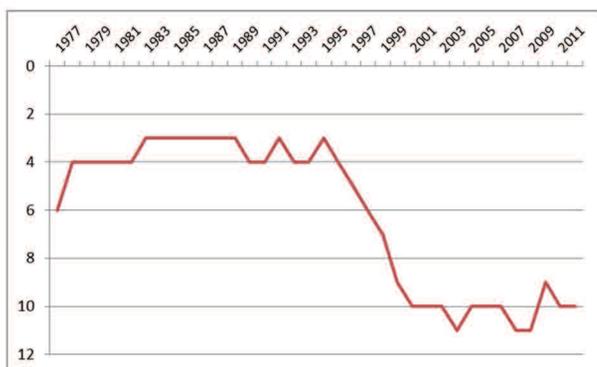
39. Audition de Mercedes Erra before the Lauvergeon Commission.

40. Source: Opinion barometer from the DREES 2013, BVA and IFOP.

The consequences are considerable, because a society that no longer believes in its capacity to organise its own progress is inevitably going to treat any debate on social issues as worthless, a win-lose situation, where gains by one party are necessarily losses for the other. Conflicts concerning distribution policy dominate the thinking and block investment in future projects. Instead of thinking about the well-being of future generations, the various social categories find themselves arguing about dividing up the resources, they are convinced, will continue to decline.

Numerous signs testify to the difficulty that French society has in taking its own future in hand to build a positive vision. The national debt is one of them. Not because it is bad in itself, but more because, instead of being the result of investments whose benefits are gradually being perceived, it is the fruit of the country's inability to reconcile its appetite for spending and its aversion to taxation. Another sign is the never-ending pension debate. Because of the failure to reach long-term collective agreements, each five-year presidential term is the stage for another round of confrontation surrounding the solution to a problem, the principal characteristics of which have been known for ages. Yet another sign is to be found in environmental issues and the future of nuclear energy. The difficulty in having a constructive debate on the environmental "debt", just as in the case of the financial debt and the social debt, is yet another example of the nation's inability to embrace the long-term challenges. Finally, the legacy that the country is leaving to its children can hardly be considered the result of a deliberate choice and can only be explained by an inability to ensure a minimum of equity between the generations.

CHART 13: FRANCE'S LEVEL OF NATIONAL DEBT COMPARED WITH THE 15 EUROZONE COUNTRIES



Source: European Commission. Classification according to the inverse ratio debt/GDP.

The discussions concerning the GMOs, nanotechnologies and nuclear waste testify to the recurrent difficulties facing public debate about new technology. These discussions do not move the country towards consensus, but rather to a polarisation of positions. The debate about GMOs is the most flagrant example of failure in the dialogue between the interested parties. Neither the State, nor their opponents, nor the farmers complied with the legal enactments and related regulatory texts. Thus, instead of agreeing on a framework for using the technology (however restrictive that might have been), one simply fixes a set of principles that are ignored by everyone.

Paradoxically, at the point in time when intergenerational challenges are piling up and people are understanding their importance, the country is demonstrating its inability to grasp the nettle.

The climatic risk issue demonstrates this fracture: although the French citizen is convinced the problem is real (such is the case for 80% of those polled)⁴¹ and of the need to undertake immediate action to stop it⁴², very few link the phenomenon to its causes. The 'greenhouse effect' is even sometimes interpreted to be caused by nuclear power stations. Climatology is as yet a young science and maybe difficult to understand, but it is not the sole reason for society to lack interest in it. The reduction in the sense of urgency is in line with a lesser media coverage of global warming, following the failure of the Copenhagen conference. Interest in the climate issue remains superficial because the average citizen does not make the link between it and his production and consumption habits. Even when the individual is cited as among the players in protecting the environment⁴³ – which is increasingly the case – awareness is still fairly limited if one is to judge by the speed with which people are insulating their homes or modifying their behaviour in terms of transport.

It is clearly not realistic to imagine that prospective thinking will produce a magic wand and that consensus will fall from the sky; however recurrent questions can generate very animated discussions. There is no reason that a spontaneous agreement would be reached on valuing time (discount parameters, for instance) nor on the appreciation of the risks. Nor is there a single way of tackling the problems. When relating today with tomorrow, societies turn, in differing degrees, to the family, the State, the social institutions and the markets. But none of these approaches covers the totality of the issues to be faced.

41. MEDDTL (ministère de l'Écologie, du Développement durable, des Transports et du Logement) [2011], "Les perceptions sociales et pratiques environnementales des Français de 1995 à 2011" (French social perceptions and environmental practices from 1995 to 2011), *La Revue du CGDD*, October.

42. ADEME and MEDDAT (ministère de l'Écologie, de l'Énergie, du Développement durable et de l'Aménagement du territoire) [2011], National survey of the French people in 2010 concerning knowledge and perceptions about geological storage of CO₂.

43. CREDOC [2012], Survey of attitudes and behaviour of French people concerning the environment.

France has difficulty in fixing its objectives and defining a methodology. But it needs to rediscover that capacity to look to the future, which served it so well after the Second World War, and enabled the country to avoid the trap of stagnation and to rebuild constructive development opportunities.

KEY ELEMENTS FOR A STRATEGY

When France compares a past, viewed through rose-coloured glasses, with a future fraught with anxiety, it tends to adopt an unjustified defeatism. The analysis in this paper has made no attempt to hide the truth - the weaknesses are alarming and the challenges the country faces are formidable. But what is also true is that today's world is not just one of pessimism and that France possesses assets and talents.

The uncertainties surrounding France's future have less to do with the state of the world than they do with the country's ability to be coherent in the collective choices to be made, with its clarity in fixing the target and in ensuring continuity in pursuing the chosen path.

Method

Classically, drawing up a ten-year strategy involves deciding on the directions to take, fixing objectives and identifying the levers to pull. But simply doing that is no guarantee that it will happen. The French State apparatus in the post-World War II decades ensured that in many sectors, but not all, the main projects were successfully completed. In today's France, for many reasons - openness of the economy, decentralisation, economic liberalisation, the relative weight of civil society - this is much less true. The failure of the Lisbon strategy, launched in 2000 and aimed at transforming the European economy within a decade, is a timely reminder that an arsenal of indicators and a plethora of procedures are not enough to implement a complex technocratic exercise. "Modernisation is not a state of things, but a state of mind". This warning in the introduction to the first 1947 French national development plan is as true today as it was then. A successful strategy demands first and foremost that the directions to be taken are expressed with enough assertiveness and readability and that they have a galvanising effect that goes way beyond the politicians in the corridors of parliament. For society to buy into the project, it needs to be able to recognise in it a response to its own concerns and a reflection of its own aspirations.

Is today's France in a position to reach an agreement on where it wants to be in ten years' time? The 1970s' France was plagued by numerous conflicts, but the nation as a whole converged on a common goal. Whether one was a fervent supporter of free enterprise or an advocate of public ownership of all means of production, whether one supported women's liberation or cherished traditional family values, one was still able to unite behind the building, investing, electrifying projects in order to drag the country out of the backwardness from which it had so long suffered. The France of the 1980s was already not the same, but faith in progress was still intact and the desire for greater access to knowledge and training was widely shared. Today's France no longer has confidence in what the national political leaders or the economic and intellectual elite are saying, and neither does it trust the media.⁴⁴

To break down the related barriers will require in-depth work, dialogue and discussion to fashion directions that are sufficiently open-ended to allow different points of view to be heard but sufficiently precise to enable preferences to be clear and to act as common references.

To have any chance of making this work, one needs to start with *an objective view of the current situation*. Defining priorities amid the uncertainties of the future is already a sufficiently arduous task, without increasing the difficulties by having disagreements as to the nature of the existing problems and the mechanisms that are causing them. In the Commission in charge of reshaping retirement pension schemes, the experts and the social partners have succeeded in sharing a common view of the problem. This demonstrates that agreeing on the issues is possible even when one has different, or even totally opposite, answers to put forward. Without generalising from this example, it is possible for many other topics to shape a common vision of the challenges. Moreover, the French government has initiated, on specific issues, dialogue and discussion which resemble such an approach.

To be useful, such analysis needs to be done openly, should go back sufficiently far in time, and should use international comparisons. Whether it be the shortcomings in industrial production, the inability of school to correct social handicaps, the malfunctioning labour market, the cost-effectiveness ratio of public services, the excessive complexity of the tax system, or the barriers to immigrant integration, to take a series of classic examples, most of the problems that need resolving have been

44. Sondage Marianne/Harris Interactive, May 2013, and La Poste's Confidence Forum barometer.

debated for a long time. France's neighbours often faced the same problems and some of these have managed to tackle the issues better than France. The perfectly legitimate attachment to the nation's history and to the specificities of its social model should not serve as an excuse not to make comparisons.

Building a shared vision and associating with it the necessary performance indicators is essential if one is to go further than making public decisions and have the country identify with the project.

Even if certain directions taken will necessarily have a political connotation, a ten-year strategy must not be a roadmap for a parliamentary session or a term for a presidential mandate, and the achievements of its objectives must not rely on the incumbent majority being re-elected. In the past, the 80% objective for success in the baccalaureate examination and the need for energy independence met these requirements. It must be the same today.

Although indicators can have some perverse effects, if carefully selected, numeric milestones enable focusing the effort on a specific objective and measuring the results obtained. They help in maintaining continuity.

And finally one needs to *identify the levers for action*. In part, these are a direct result of public decisions. Such is the case, for example, with taxation, public spending, managing public services, and economic and social regulation. The myth of public powerlessness must be disavowed. It is, however, true that European integration, decentralisation and liberalisation often impact the State's ability to act alone. A certain confusion and overlap in public responsibilities, between the European and national levels, or more importantly within the French local administration structure, hinders full commitment to, and the effectiveness of, public actions. The response here is to give to each administrative layer a set of well-identified competence areas such that each player has the appropriate means and responsibilities, and is accountable for carrying out its mission.

In this respect, if a clarification is desirable in the case of EU politics, it is absolutely essential in the French territorial administration and in the decentralised administrative levels of responsibility. Be it in transport, housing or economic development, this overlap of responsibilities is a constraint on France's ability to take full advantage of the

potential for local growth. This is particularly true in the large towns and metropolises where, in all advanced economies, the cutting edge of the new growth is to be found, blessed as they are with rich sources of skilled and stable manpower. The barriers to a redefinition of responsibilities and competence are well known, and breaking these down would help in several areas - the effectiveness of public actions, realising the potential for economic growth and also the functioning of democracy.

Beyond these relationships between the various layers of local administration, numerous changes to be made will require behavioural evolutions from all the players involved. The French Jacobin tradition, hierarchic and regulatory, does not easily lend itself to the idea of cooperation and partnering which are the characteristics of today's modern economies and societies. Changing this will require the creation of entities that understand networking and are capable of influencing the behaviour of a host of different players. This will require that the entities that will be called upon to play such a role - local authorities, universities, business clusters, financial institutions, etc. - are given very wide discretion in the way they perform their part of the defined programme. The 'Programme des investissements d'avenir', which combines context adaptability with rigorous procedures, provides a very instructive example in this respect.

Seeking consensus and understanding the level of complexity must in no way allow the politicians to escape their political responsibility. Defining a strategy means choosing between what is possible and it means investing in change. Only the politicians can step up to these challenges.

| Main themes

The aim of this paper, as has been said, is not, and cannot be, to bypass the discussion by proposing a strategy. It is possible, however, to suggest what should be the different themes and axes along which such a strategy could be built. Four have been chosen. The first three correspond partly to the three collective choices analysed in the previous sections, and the fourth corresponds to the challenge of governance.

The first relates to the nation's *productive dynamic*. France's prosperity depends largely on its capacity to take on technical changes and to play to its advantages and assets in a changing world. This paper has underlined

that it is not a case of being subjected to these changes but of making a choice. It is important to add that this choice is not limited to the traditional instruments used by industrial policy making. To re-invent the productive model of the 21st century also requires reconsidering the financing system, education and research, immigration, the labour market, public services and local authorities, just to name the major features. It also requires defining what role France wants to play in the global supply chain. It requires deciding the balance and share that is to be sought of the revenue between the sectors playing on the international markets and those that are largely sheltered from international competition. It requires deciding how the risk should be managed so as not to discourage skills and capital from entering professions and sectors that are most exposed to changes in economic conditions.

The second axis concerns the country's *social model* in the broadest sense. In this paper great emphasis was put on explaining the limits of an approach which allows access inequalities to proliferate, and then tries to limit the consequences, in particular through monetary transfers. The design of France's social model requires putting aside the risk-by-risk and mechanism-by-mechanism approach and adopting one which involves simultaneous access to training, to employment, to accommodation and to healthcare. It means understanding what, from school to employment, from housing to healthcare through to retirement, can help to ensure equality for individual autonomy at various ages and at the different stages in life.⁴⁵

The third element concerns the *sustainability* of the changes implemented. The purpose of deciding on a ten-year outlook is to raise the question of the balance between the generations and how to take into account the well-being of future generations. This leads inevitably to asking the questions about containing public indebtedness and about the financing of social protection. Financial debts and implicit debts may not be of the same nature, but sustainability is as imperative for the one just as much as for the other. The same concept also applies to the nation's energy and environmental footprints, which are also a form of intergenerational legacy. Imposing the need for sustainability leads to thinking about all the objectives in terms of sustainable development - economic growth, consumption, urban development, etc.

The fourth and final item for a ten-year strategy is one of *governance*. France is not the unitary State of the 1960s, and whilst the prerogatives enjoyed by Paris have been curtailed both at the top and at the bottom of the pyramid, it does not yet have the federal culture of those countries

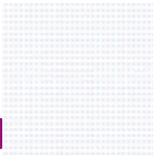
with a long-established experience with different levels of government. Drawing up a national strategy would be an opportunity for France to define its European priorities, i.e. what it is prepared to give and what it asks from its partners in order to compensate for the shortcomings in the EU's own governance. A national strategy would also be the support for collaboration between national public authorities to enable each level of the regional governments to contribute to the achievement of the collective goals.

Keywords: France, 10-year outlook, International, European integration, Globalization, Progress, Equality, Strategy, Sustainability, Growth, Production model, Citizenship, Society, Prospective analyse.

FRANCE TEN YEARS FROM NOW

08/2013

45. On equality for autonomy, see Marc Fleurbaey (2006), *Capitalisme ou démocratie? L'alternative du XXI^e siècle*, [Capitalism or democracy? The 21st century alternative], Paris, Grasset.



QUELLE FRANCE DANS 10 ANS?

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Commissariat général
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At the governmental seminar held on August 19, 2013, the Head of State wished to begin, without waiting, a widely-concerted process relying on joint efforts to elaborate a 10-year strategy for France.

The definition of such a strategy includes several objectives:

- Establish a path that permits the country to move forward with points of reference and indicators clearly identified;
- Engage in collective choices that regulate the major transitions;
- Adapt policies and instruments according to the objectives set;
- Initiate an extensive dialogue with everyone concerned.

At the end of the seminar, the Prime Minister entrusted the *Commissariat général à la stratégie et à la prospective (CGSP)* with the preparation of this project, identifying notably five major issues: the future of the production model, the reform of the social model, the sustainability of the growth model, the transformations occurring in the French society and the European project.

The CGSP report will be handed over to the Head of State and the Prime Minister at the end of 2013. In particular, this report will have the goals of:

- Clarifying a certain number of prospects for the next ten years through a prospective assessment based on the most common findings;
- Proposing among possible choices a limited number of national priorities;
- Setting concrete and quantitative objectives concerning these priorities in order to mobilise the relevant stakeholders and the society as a whole, beyond a single Parliament's term.

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Created by decree on April 22, 2013 the Commissariat général à la stratégie et à la prospective (CGSP) replaced the *Centre d'analyse stratégique*. A place of dialogue and discussion, the CGSP assists the government in determining the main directions for the future of the Nation and the medium and long term objectives for its economic, social, cultural and environmental development. It contributes, moreover, to the preparation of governmental reforms.



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