

The economic consequences of President Mitterrand

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Summary

France under Mitterrand

Jeffrey Sachs and Charles Wyplosz

While French economic performance has not conformed to the enthusiastic promises of early 1981, this paper argues that the widely held view that it has been an unmitigated failure is unwarranted. First, the general deterioration can largely be dated back to the early seventies. Second, the early and unfortunate attempt at a demand-led expansion was both moderate in size and quickly reversed. Finally, the post-1983 anti-inflationary policies have been successful so that, overall, the disappointing French performance has been on a par with, and in some ways better than, the rest of Europe.

But the main theme of the paper is the emphasis on the supply side. The analysis is organized around the NAIRU, the threshold rate of unemployment below which inflation rises. In an attempt to explain the factors which have led to a continuous rise of the NAIRU since 1973, the paper focuses on labour costs, particularly on the ‘wedge’ between the costs borne by employers and net take-home pay. To achieve and sustain a significantly lower level of unemployment, labour taxes must be cut, thus reducing the wedge and the NAIRU, and there must be a corresponding demand stimulus so that actual unemployment can fall to this level.

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