Economic Policy and Income Distribution in France Since the 1970s

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1. From the Bretton Woods system to the oil shocks

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    - The consequences for households
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- high inflation,
- low unemployment rates,
- high levels of government expenditure,
- low public debt/GDP ratios,
- and overall social and economic stability, despite some important movements in the sixties.

From Bretton Woods to the oil shocks

Not everybody was comfortable with this system

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- "The principal causes of America's recent trade deterioration are to be found (...) in the high value of the dollar in foreign exchange markets" (Arthur Burns; Foreign Affairs, 1984).

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- The second half of the seventies was characterized by what came to be known as "stagflation".

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- In this work, we focus exclusively on the first two.

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    3. higher unemployment rates and greater labor market flexibility (higher profit rates at the expense of lower wage/GDP ratios, reduced benefits and higher contributions paid by workers, etc.).

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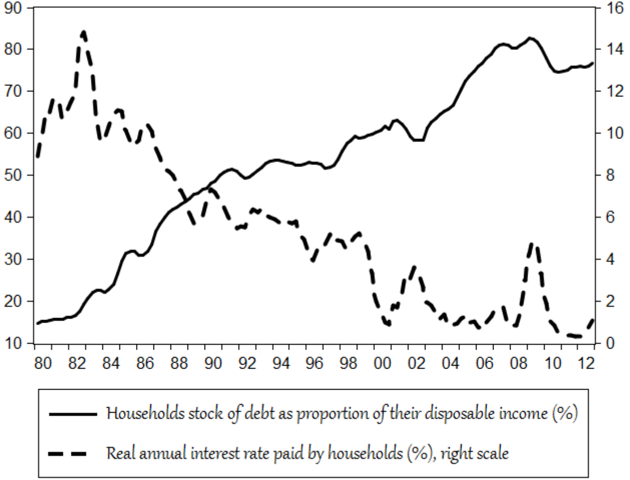
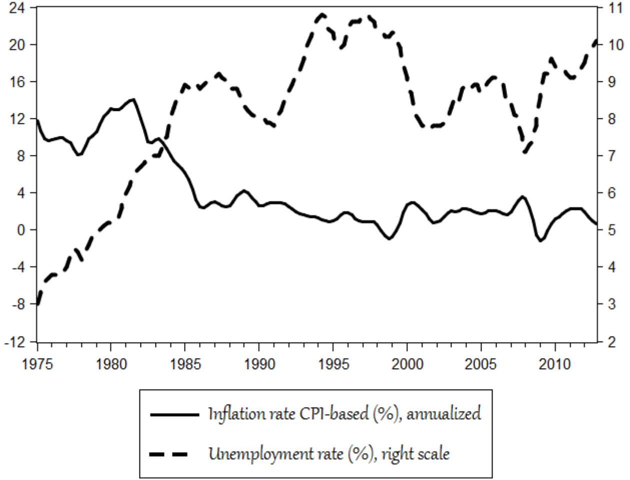
The consequences for households (2)



The end of stagflation, and the beginning of the calvary

The consequences for households (3)



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- The economy fell into a liquidity trap.
- With major borrowers (i.e. NFCs) demanding less credit, lenders (i.e. banks) had a strong urge in becoming market makers and find customers where there were formerly no potential gains (i.e. households and developing economies), thus creating new sources of instability.

The consequences for firms (2)

- Since firms were no longer being subject to the pressure of banks to invest in safer-though-less-profitable projects, investment tends to take place in riskier sectors, thus promoting even more risk-taking (i.e. issuing more equities at higher prices).

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- Given that the nature of riskier projects tends to be unproductive (for instance, advertising), new creation of wealth tends to be slower than it would otherwise be.

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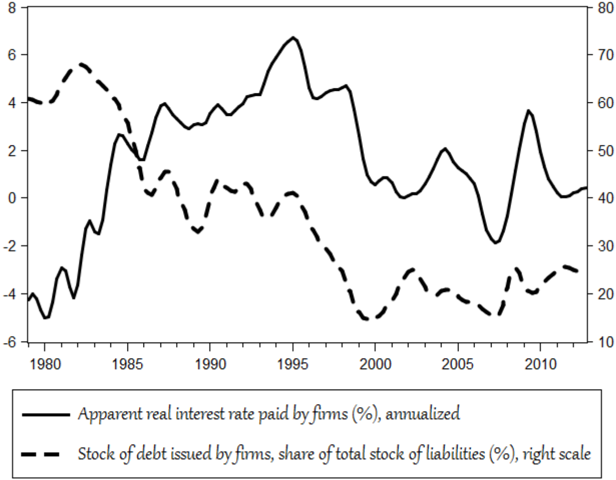

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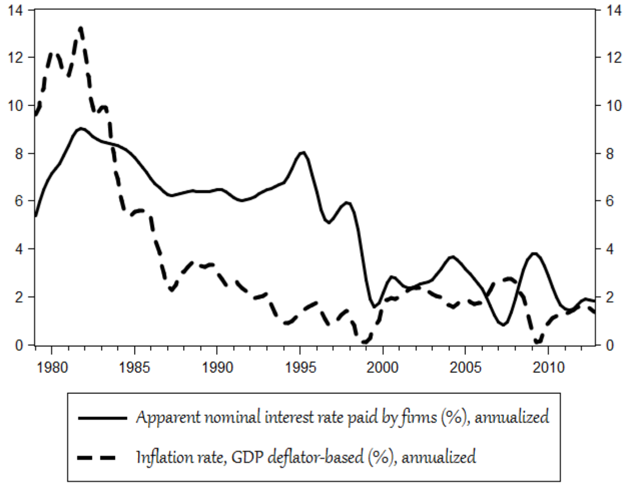

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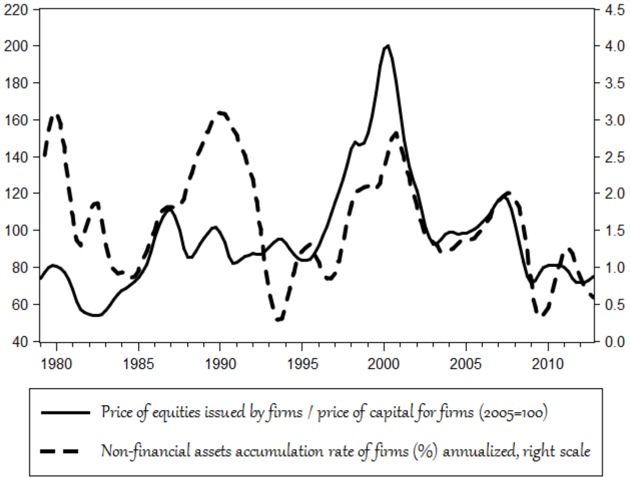
The consequences for firms (5)



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Period	*Correlation coefficient*
1979q1-1981q3	0.66
1981q4-1986q2	-0.81
1986q3-1992q2	0.41
1992q3-2000q4	0.79
2001q1-2003q4	-0.91
2004q1-2008q3	0.21
2008q4-2012q4	-0.92
1979q1-2012q4	-0.45

Table: Correlation coefficient between quarterly real interest rate and capital structure of firms, several periods. Source: authors' calculations based on data from *INSEE* and *Banque de France*.

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  2. the falling from grace of credit demand by firms (both of which were mutually reinforcing).
- With the collapse of Lehman Brothers in the U.S. came the signal of the worldwide bubble burst of both markets.

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Public expenditure and income inequality

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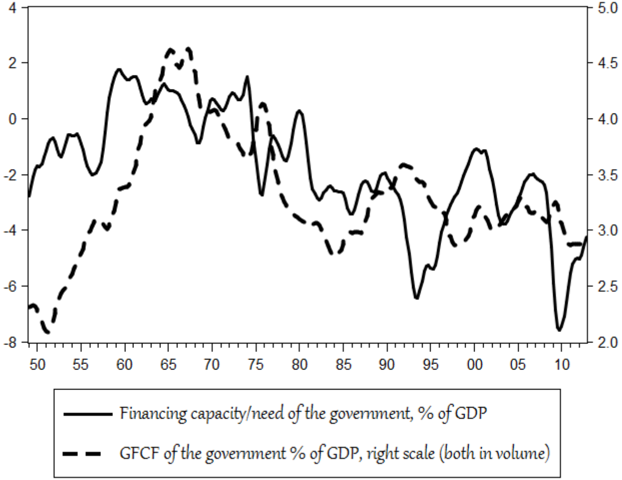

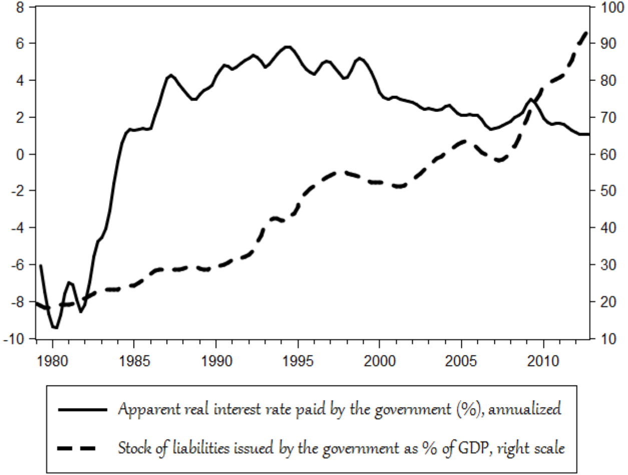
8
6
4
2
0
-2
-4
-6
-8
-10
100
90
80
70
60
50
40
30
20
10
1980
1985
1990
1995
2000
2005
2010
Apparent real interest rate paid by the government (%), annualized
Stock of liabilities issued by the government as % of GDP, right scale

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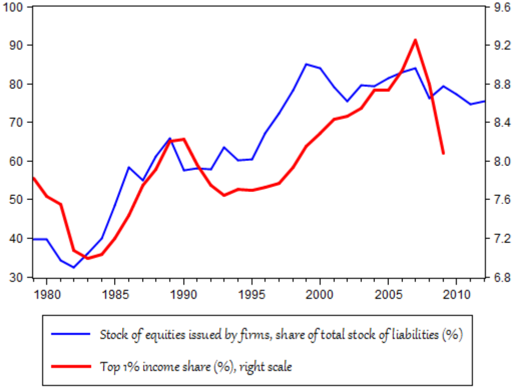
Income inequality



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Thank you for your attention.