

North by Northwest: What's Wrong with the French Model and How Can the Nordic Model Help. The Nordic Model: Solutions for Continental Europe's Problems?", Center for European Studies, Harvard University, May 9-10, 2008.

Jean-Paul Fitoussi, Eloi Laurent

► **To cite this version:**

Jean-Paul Fitoussi, Eloi Laurent. North by Northwest: What's Wrong with the French Model and How Can the Nordic Model Help. The Nordic Model: Solutions for Continental Europe's Problems?", Center for European Studies, Harvard University, May 9-10, 2008.. The Nordic Model: Solutions for Continental Europe's Problems?", May 2008, Harvard, United States. hal-01053234

HAL Id: hal-01053234

<https://hal-sciencespo.archives-ouvertes.fr/hal-01053234>

Submitted on 30 Jul 2014

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

Preliminary Draft (Please do not quote without permission.)

North by Northwest:
What's Wrong with the French Model and
How Can the Nordic Model Help¹

Jean-Paul Fitoussi

Éloi Laurent

(OFCE/Sciences-po)

May 2008

Abstract

In this paper, we try to point out some important weaknesses of the contemporary French social-economic model, focusing on relevant elements of comparison with Nordic countries. In doing so, we rely on the idea that large and small countries differ in terms of growth and governance strategies. Hence, while the “Nordic model” can be a good revelatory of some of France’s major problems, it is also an ambiguous template for reform. The paper starts by examining the question of growth strategy (macroeconomic management and structural reforms), then goes on to investigate governance strategy (trust, confidence, governance quality) and finally explores the issues of diversity and integration policy.

¹ Paper prepared for the conference “The Nordic Model: Solutions for Continental Europe’s Problems?”, Center for European Studies, Harvard University, May 9-10, 2008.

Correspondence: eloi.laurent@sciences-po.fr

« La vie forte est au nord. Là s'est opéré le grand mouvement des nations ».
Jules Michelet, *Tableau de la France*.

“I am but mad north-north-west, when the wind is southerly,
and I know a hawk from a handsaw”
Hamlet, II, ii.

Prologue: Northern is beautiful?

What is the state and future of the French social-economic “model”? If the state of mind of the French people is of any relevance to answer this question, one can look back at the arguments exchanged during the presidential campaign of 2006-2007 to grasp it. Two conflicting visions of France’s future were then developed by the main candidates, Nicolas Sarkozy and Ségolène Royal. Yet, they resulted from two common diagnoses: first, the French model is deeply ill, and not merely going through a bad phase; second, France can usefully take a look at the world to find its inspiration for reform, studying and importing best practices from more successful nations. The candidate of the right expressed a marked preference for the notorious “Anglo-saxon” pattern while the “Nordic model” was praised by the candidate of the left. Judging by the outcome of the election, it seems that the latter left a majority of French voters unconvinced.

This could come as a surprise given the “Nordic mania” that has developed in France in the recent years. Parliamentary reports, academic papers, press articles all seem to tell the same story: since France is some much attached to equality in a globalization that has become a less hospitable place for it, the Nordic paradise, where openness, efficiency and equality coexist harmoniously, would be the French new frontier. But is it only a coincidence that *there is no such thing as a large Nordic country*?

While Jules Michelet reminds us that the French Nordic obsession is nothing new, Shakespeare invites us to prudence when considering institutional copy-paste: it is always important to know hawks from herons.

In this paper, we try to point out some important weaknesses of the contemporary French socio-economic model, focusing on relevant elements of comparison with Nordic countries. In doing so, we rely on the idea that large and small countries differ in terms of growth and governance strategies. Hence, while the Nordic model can be a good revelatory of some of France’s major problems, it is also an ambiguous template. The paper starts by examining the question of growth strategy (macroeconomic management and structural reforms), then goes on to investigate governance strategy (trust, confidence, governance quality), and finally explores the issues of diversity and integration policy. For every dimension we study and compare, we try as much as possible to distinguish between France, continental countries and Nordic nations, in order to set apart continental and French issues. We start by an exposition of our basic line of reasoning regarding the relation between country size and social-economic policy.

I] Large and small states, a basic elementary framework

The relation between country size and economic policy has been an essential feature of economic theory until the end of the 1970s, before it gradually gave way to a geographic approach of macroeconomic performance of national models, often exclusively characterized by their social compact. Actually, in the light of the last two decades' literature on economic policy, it seemed as if increasingly integrated Nation-States have been implementing various combinations of macroeconomic and structural policies regardless of their size, but rather in accordance with or contradiction to universal canons of "good" or "bad" economic and social policies. This minimization of the role played by country size in growth strategies can be related to the growing importance of globalization and regional integration, but also to the exclusive focus (in some academic corners) put on supply-side economics. Whatever the causes of this neglect, the issue of country size is hopefully again the object of theoretical and empirical attention.

The most recent works (see Alesina & Spolaore, 2003 and Alesina, Spolaore & Wacziarg, 2005 for an overview of some models and results) attempt to determine endogenously national preferences using size as a causal factor. Country size itself is seen as resulting from a trade-off between citizens' preferences heterogeneity costs and economies of scale in the provision of public goods. However interesting with regard to the causes of the size of nations, this new literature somewhat overlooks the *consequences* of the size of nations.

As such, it does not acknowledge the important progress made in the understanding of the "Economic Consequences of the Size of Nations" by the September 1957 International Economic Association (IEA) conference held at The Hague, which proceedings were published in 1960². To quote Robinson in the Introduction of the 1960 volume, the economics and political economy of the size of nations is "a subject that well deserves more attention".

Among several interesting contributions, the paper by Kuznets (1960) stands out as of particular importance. It offers an integrated framework to distinguish small and large countries political economy on measurable criteria: "because of their smaller populations and hence possibly greater homogeneity and closer internal ties [small nations] may find it easier to make the social adjustments needed to take advantage of the potentialities of modern technology and economic growth." Laurent (2008) interprets Kuznets framework to list four country size-based policy criteria for developed countries, subdivided into two areas: growth strategy and governance strategy.

- Growth strategy:

- *Openness*: Large and small countries differ on the nature of economic policies that is best for their short-term economic growth. As a small country is more open to international trade and a large country more closed, the former will benefit more from supply-side and competitiveness policies, while the latter needs to stimulate its domestic market through Keynesian macroeconomic policies in order to grow;

² See Robinson (1960).

- *Adaptation*: Because they are more open and more vulnerable to external shocks, small countries are forced to adapt to changing economic context faster and will better than large ones be able to implement structural changes in their economies;

- Governance strategy:

- *Cohesion*: because of smaller population, small countries are more cohesive than large ones: trust among citizens and confidence in institutions is generally higher than in larger countries, as is governance quality due to a better accountability;
- *Integration*: small countries tend to have less diverse and fragmented population, which brings a contradictory outcome: while anti-immigration sentiment could be higher in theory in small countries less accustomed to diversity, public policies against discriminations and segregation, i.e. integration policy, could be more developed and effective in small countries than in large ones, because of the imperative of national cohesion.

Admittedly this framework is a bit simplistic, but it will well serve our purpose. We are using the taxonomy of sizes having in mind the countries of Europe. But if we were to consider the world, we would probably have to distinguish at least three types of countries: small, medium and large. Europe being a collection of small and medium sized countries exhibits problems that would be different if it were characterized by any other combination of sizes (more on this further on).

This paper thus uses this simple framework to first investigate empirically the difference in growth and governance strategies between France and Nordic countries and then to determine whether and how Nordic countries best practices can help the “French model” out of some of its major predicaments.

Table 1 presents the very first elements needed to grasp the difference in terms of growth strategy between France and Nordic countries. France, like large continental countries, is less open regarding international trade (except for Germany, which growth strategy will be discussed in detail *infra*). France is conversely more open than the two other large continental countries in terms of FDI flows and stock. These deviations from the expected can be understood using the concepts put forward by Delmas (1965) of “structural openness” and “functional openness”. A small country is structurally more open than a large one because it has limited domestic resources and uses the world market to overcome what Robinson (1960) has called the “penalties of smallness”. Yet, both large and small countries can develop a functional openness, i.e. a growth strategy in line or in contradiction with the advantage or disadvantage of size in certain contexts. Tax competition in the face of accelerating capital mobility is one obvious modality of functional openness for small countries.

Table 1. “Structural” and “functional” openness of Nordic and Continental countries.

	Population (thousands)	GDP (billion US dollars, current prices and PPPs)	Trade to GDP (%)	FDI stock (% of GDP)	Corporate tax statutory rate (%)
	2006	2006	2006	2007	2007
Norway	4 651	242,6	37,5	19,9	28
Sweden	9 074	316,7	47,3	57	28
Denmark	5 435	191,5	50,5	49,9	25
Finland	5 266	172,4	41,9	30,6	26
Iceland	297	10,9	41,5	48,2	18
France	61 203	1962,1	27,6	35	34,4
Germany	82 683	2631,6	42,3	17,4	38,9
Italy	58 643	1699,2	28,2	16	33

Source: OECD and UNCTAD.

Governance strategy of small countries has been investigated under the label “democratic corporatism” by Kaztenstein (1985) among others, according to whom cohesive small European states are “distinguished by three traits: an ideology of social partnership expressed at the national level; a relatively centralized and concentrated system of interest groups; and voluntary and informal coordination of conflicting objectives through continuous political bargaining between interest groups, state bureaucracies, and political parties.”

There is of course a direct relation between growth and governance strategies, clearly expressed by Kuznets (1960): “It is in the evolution of social institutions and organizations that facilitate long-term peaceful type of economic growth (the only type that can be long-term) that both the challenge and the promise of economic growth are particularly great for small nations”. Without explicit reference, its contemporary influence is obvious in the most recent reflections about country size and economic performance: “Country size may also matter, with small countries sometimes found to undertake more reform, as in Continental Europe over the past two decades. Reasons for this could comprise greater population homogeneity, which may ease decision making, and greater openness to trade, which increases competitive pressures and eases concerns that structural reform could lead to imbalances between aggregate demand and supply” (*Economic Policy Reforms, Going for Growth*, OECD, 2007).

III] Development, income and growth strategy

We start by examining and analysing the development and growth performance of France in comparison to that of the Nordic countries and then investigate the two sub-issues of growth strategy stated in the previous section: short-term and long-term growth strategy.

1) Development and growth performance

The broadest available international measure of development is the Human Development Index calculated by the United Nations. It has many shortcomings but it is broadly used in view of its simplicity. Table 2 indicates that France's HDI grew at a faster pace from 1975 to 1995 than in most Nordic countries, while it slowed significantly from 1995 to 2005. Overall, France ranks 10th among the 177 countries investigated, ahead of Finland, Denmark and well ahead of Italy and Germany.

Table 2. Human development dynamic 1975-2005.

	1975	1995	2005	HDI Ranking in 2005	Growth rate 1975-1995	Growth rate 1995-2005
Iceland	0,868	0,923	0,968	1	6,0	4,6
Norway	0,87	0,938	0,968	2	7,2	3,1
Sweden	0,872	0,935	0,956	6	6,7	2,2
Finland	0,846	0,918	0,952	11	7,8	3,6
Denmark	0,875	0,916	0,949	14	4,5	3,5
France	0,856	0,925	0,952	10	7,5	2,8
Italy	0,845	0,91	0,941	20	7,1	3,3
Germany		0,913	0,935	22		2,4

Source: United Nations.

Table 3 allows to have a closer look at the French performance in 2005: France ranks 11th for life expectancy at birth and for combined primary, secondary and tertiary gross enrolment ratio, but only 18th for GDP per capita (PPP US\$). The explanation of the better rank of Sweden, Iceland and Norway is to be found in the GDP per capita index, while the major strengths of France are the education index and, to a lesser extent, life expectancy. From these very first observations, France's problem seems not to be one of development, but of growth of income. What is more, France shares this problem with the two other large continental countries.

Table 3. Breakdown of HDI performance in 2005

	Education	Life expectancy	GDP per capita
Iceland	0.978	0.941	0.985
Norway	0.991	0.913	1.000
Sweden	0.978	0.925	0.965
Finland	0.993	0.898	0.964
Denmark	0.993	0.881	0.973
France	0.982	0.919	0.954
Italy	0.958	0.922	0.944
Germany	0.953	0.902	0.949

Source: United Nations.

Two other measures help us to confirm this intuition. First is the dynamic of GDP per capita from 1970 to 2006 presented in Table 4. France's expansion is faster from 1970 (ahead of two out of 5 Nordic countries) to 1980 (ahead of just one) and still, barely, to 1990 (ahead of none) than the EU 15 and OECD average. It holds well when compared to Nordic countries, even if it has been surpassed by all of them. But the pace is lost from 1990 on, and in 2006, France is by roughly 15 percentage point behind the least prosperous Nordic country, and by an astounding 50 points short of the wealthiest, as are Italy and Germany. France and Germany started in 1970 ahead of OECD and EU 15 average while they lag both behind in 2006.

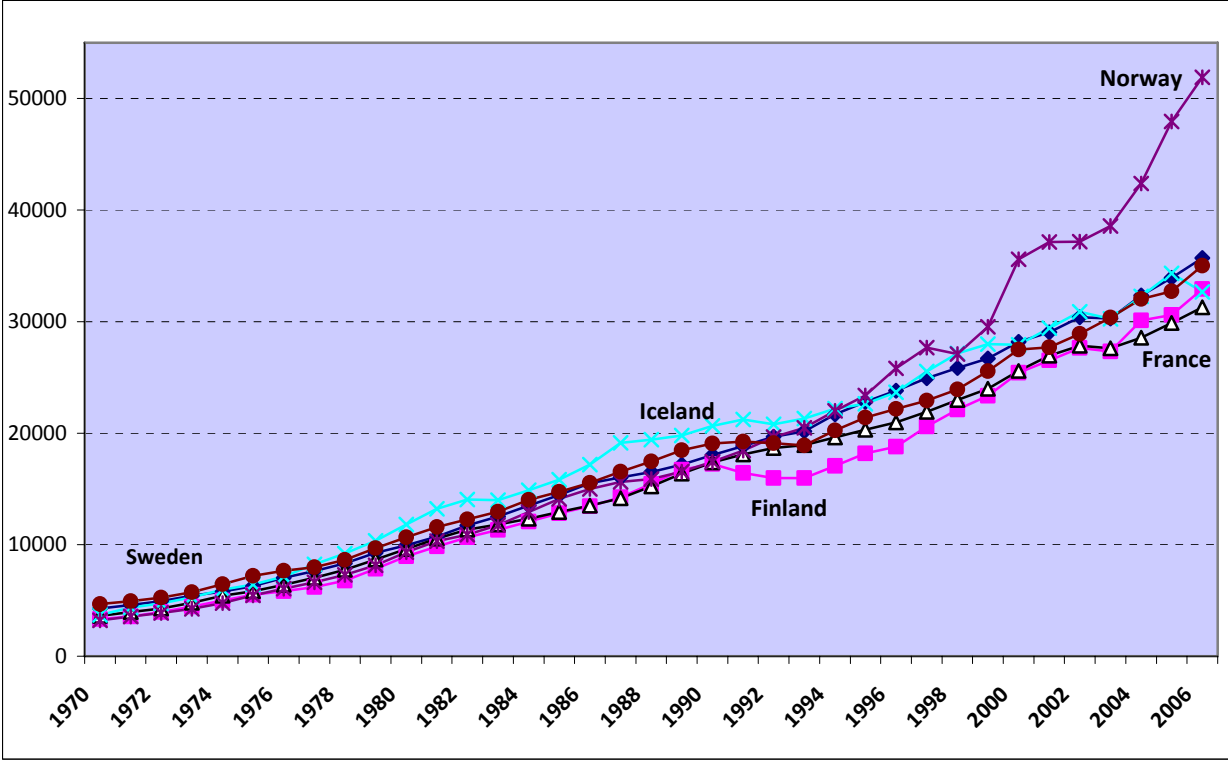
Table 4. Volume index of GDP per capita (OECD = 100 in 2000), at 2000 price levels and PPPs

	1970	1980	1990	2000	2006
Denmark	63,2	76,1	93	115,8	125,8
Finland	49,2	68,2	88,1	103,2	120,7
Iceland	51,1	84,4	99,1	115,6	134,7
Norway	57,7	86,5	106,8	145,1	159,4
Sweden	66,8	78,5	94,7	111,5	128,6
France	53,6	72,5	87,1	101,5	107,9
Germany	53,5	70,6	87,7	104,2	110,1
Italy	50,4	69,9	88,2	102,8	104,9
EU15 total	51,6	67,4	83,6	101,1	109,2
OECD total	52,6	67	83,4	100	109,1

Source: OECD.

An even better measure of income dynamic is OECD’s GNI per capita (defined as GDP plus net receipts from abroad of wages and salaries and of property income), especially since Nordic countries are small countries. Chart 1 shows that France is very close to Nordic countries from 1970 to 1990. In the beginning of the 1990s, France starts to fall behind. In 2006, France ranks last and the gap has widened, especially with Sweden, Denmark and Norway.

Chart 1. Gross national income per capita in US dollars, current prices and PPPs, 1970-2006.



Source: OECD.

How can we make sense of this recent (mis)performance and is there something in the Nordic countries growth strategy than can be learnt from France?

2) Productivity, population and employment rates

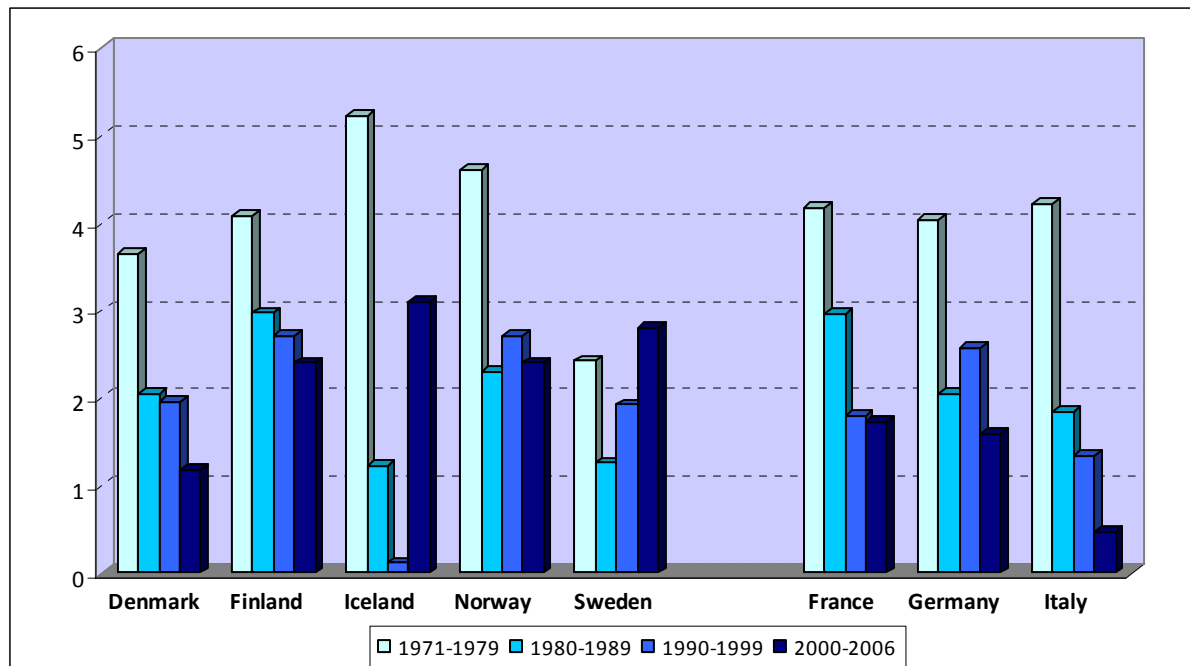
Actual economic growth is the sum of the rate of increase of labour productivity per hour and that of the number of hours worked. The latter depends on demographic, social (duration of the working week, rate of participation etc..) and economic factors (the degree of slack in the labour market).

- Labour productivity:

Productivity is the natural figure to look at when a country falls behind in terms of income per capita. Yet, in the case of France, this indicator could be misleading. The Groningen database³ ranks France only second to Norway in terms of GDP per Hour (in 1990 GK \$), with 35,33 against 37,93 but ahead of Sweden (30,74), Denmark (30,26), Finland (29,80) and Iceland (23,64).

But if the level of French productivity remains indeed higher than four out of five Nordic countries, French productivity is growing at a slower rate than most Nordic countries since the middle of the 1990's , at the exception of Denmark (Chart 2).

Chart 2. GDP per hour worked, average annual growth in percentage, 1971-2006.



Source: OECD.

- Population

Turning to demographic factors, it seems that here France is in a much better position: It is, at least in Europe, a model for fertility rate as it has resisted much better than all Nordic states the wave of decline in fertility rates observed in the EU. France is actually the most dynamic EU country in terms of fertility rate in 2005 (Table 5), which was not the case in 1960, but fertility rates started to re-increase from 1990 in France. The relative dynamic in France and Nordic countries from 1990 is almost exactly the opposite of that of income per capita.

³ The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2008, <http://www.conference-board.org/economics/>

Table 5. Total (period) fertility rates.

	1960/1964	1970/1974	1980/1984	1990/1994	2000/2003	2004/2005
Denmark	2.58	1.97	1.44	1.73	1.75	1.78
Finland	2.68	1.64	1.68	1.82	1.74	1.80
Sweden	2.30	1.90	1.64	2.04	1.62	1.75
France	2.83	2.36	1.88	1.72	1.89	1.90
EU-15	2.67	2.23	1.72	1.50	1.50	1.55

Source: European Commission.

- Employment rates.

When one looks at employment rates in France and at their evolution over time, it seems easier to explain the previous observations. First of all, France has the lowest (by far) total employment rate when compared to Nordic countries (Table 6), to Germany and the OECD average. Only Italy is doing worse.

Table 6. Total employment rates in 2006.

Denmark	76,9
Finland	68,9
Iceland	85,3
Norway	75,5
Sweden	74,5
France	62,3
Germany	67,2
Italy	58,4
OECD total	66,1

Source: OECD.

Yet the French “employment problem” is heavily concentrated (Table 7): it concerns the two extremes age groups, young and old workers, while the employment rate of the bulk of the labour force is in 2006 close to that of Nordic countries, higher than Germany and Italy, higher than OECD and EU 15 average, and has increased from 1970 to 2006. For young and old French workers, data show the opposite dynamic.

Table 7. Total employment rates, 1970-2006.

	1970			1990			2006		
	age group 15-24	age group 25-54	age group 55-64	age group 15-24	age group 25-54	age group 55-64	age group 15-24	age group 25-54	age group 55-64
Denmark	..	..	..	65	84	53,6	63,7	85,5	60,9
Finland	57,8	80,7	56,8	52,2	87,9	42,8	40,6	82,5	54,5
Norway	..	..	..	53,4	82,2	61,5	53,1	84,4	67,4
Sweden	61,5	78,9	63,7	66,1	91,6	69,5	44	84,7	69,8
Iceland	..	..	..	..	..	..	72,9	89,1	84,9
France	52,1	72,6	55,5	29,5	77,4	35,6	25,3	80	40,5
Italy	39,3	59,2	28,6	29,8	68,2	32,6	25,5	73,3	32,5
Germany	70	71,4	49,6	56,4	73,6	36,8	43,9	78,8	48,5
OECD	53,1	69,1	53,9	48,8	75,8	48	43,3	76,5	53
EU15	50,9	65	46,6	45,2	73,4	38,5	40,2	78,6	45,6

Source: OECD.

From these elements, it seems that France, confronted to declining economic growth, has opted for a model of exclusion from the labour market of young and old workers, leaving only the very productive employed. This evolution points to a key pattern of the French model since the 1990s and a major difference, not only with Nordic countries, but also with Germany: France has developed a “Malthusian productivity”, increasing its level by leaving out of the labour force workers with low productivity.

This combination of high level of productivity but low employment rates of some less productive categories of the population was actually the argument put forward by Lindert (2004) to explain why the welfare state was essentially a “free lunch”. In the case of France, this process is not a free lunch: declining employment rates (and rising unemployment) for certain categories of the population has reduced the overall income per capita.

Table 8 confirms that the French problem is not, to put it in the words of Paul Krugman, one of “inspiration” but of “perspiration” (not of productivity but employment rates and number of hours worked). This latter factor account for virtually the entire income gap between France and the US in 2006, which is not the case for any other country surveyed. Table 9 shows in addition that the “perspiration problem” of France lies more on the side of employment rates than on the side of persons in employment working shorter hours (which are quite comparable to Norway, Sweden or Denmark).

Table 8. Breakdown of GDP per capita in its components in 2006.

	Gap in GDP per capita with respect to the US (in % points)	Gap in GDP per hour worked with respect to the US (in % points)	Gap in hours worked per capita with respect to the US (in % points)
Iceland	-18	-29	15
Norway	18	41	-16
Sweden	-20	-11	-10
Denmark	-20	-15	-5
Finland	-25	-18	-8
France	-29	-1	-28
Germany	-27	-7	-22
Italy	-34	-24	-13
OECD	-30	-25	-7
Euro area	-29	-14	-18

Source: OECD.

Table 9. Average hours actually worked (Hours per year per person in employment).

	1970	1980	1990	2000	2006
Denmark	1879	1646	1518	1554	1584
Finland	1982	1849	1769	1750	1721
Iceland	2158	1864	1839	1885	1794
Norway	1835	1580	1503	1455	1407
Sweden	1730	1517	1561	1625	1583
France	2012	1842	1702	1591	1564
Germany	..	..	..	1473	1436
Italy	2145	1950	1902	1861	1800
EU15 total	1876	1773	1723	1655	1625
OECD total	1969	1893	1862	1812	1777

Source: OECD.

The level of productivity is hence a strength by default of the French model, due to lower employment rates, and, to a lesser extent, shorter hours worked. The major French problem and difference with Nordic countries is thus employment rates. But this problem can't be summed up by the proverbial "structural rigidities" in the labour market, as it is more broadly related to real GDP growth, itself related to macroeconomic management co-piloted with fellow member states of the euro area (see Fitoussi, 2006). On this matter, Nordic countries' profitable lessons are limited.

3) Real GDP growth and macroeconomic management

France is not only a large country, while Nordic countries are small. It is a large country belonging to the euro area and, as such, engaged in a process of monetary unification since the early 1990s. French real GDP growth follows almost exactly euro area economic growth from 1971 to 2007 (which is made at 75% by the large continental countries), see Table 10.

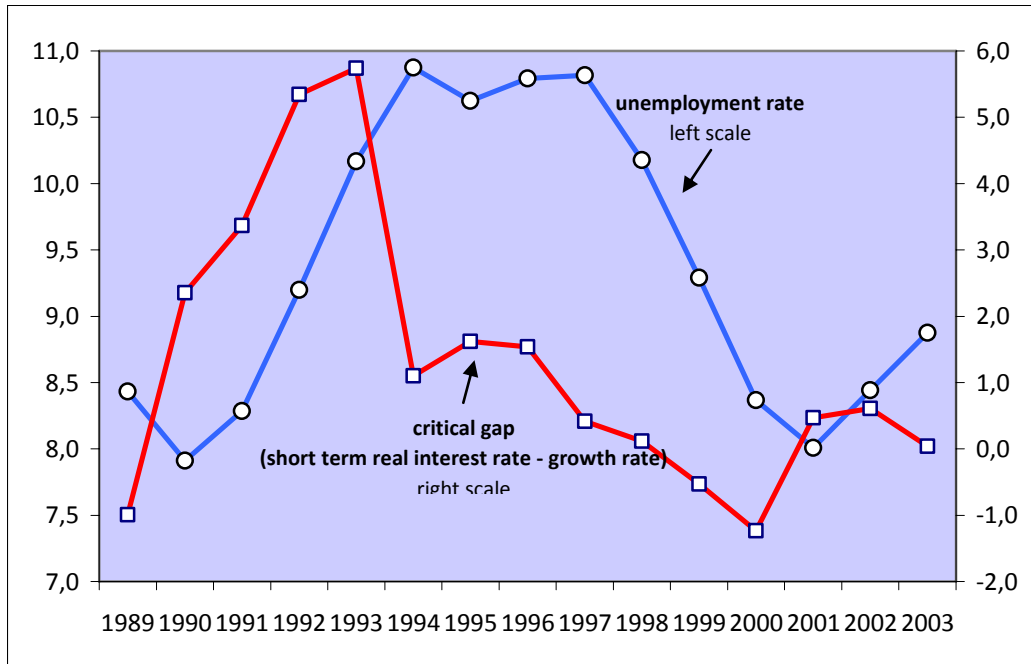
Table 10. Real GDP growth rate, 1971-2007.

	1971-1979	1980-1989	1990-1999	2000-2007
Denmark	2,6	1,9	2,4	2,0
Finland	3,6	3,5	1,6	3,3
Iceland	6,5	3,2	2,2	3,9
Norway	4,7	3,1	3,7	2,4
Sweden	2,0	2,3	1,6	3,0
France	3,5	2,5	1,9	1,9
Euro area	3,5	2,3	2,2	2,0
OECD total	3,8	2,9	2,6	2,5

Source: OECD.

Fitoussi (1995, 2002) has argued that rules chosen for European monetary integration have been very costly in terms of growth and unemployment. European monetary unification indeed came at a high price for future euro area's member states, as restrictive monetary policy increased markedly the regional critical gap and unemployment rate (see Chart 3).

Chart 3. European monetary union, unemployment rate and critical gap, in %.

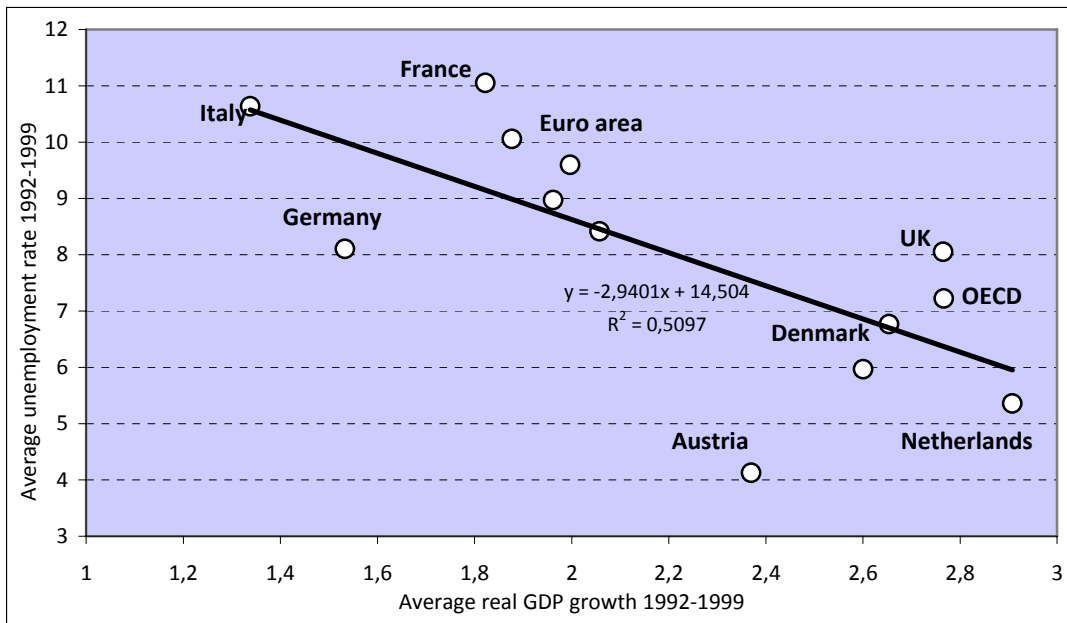


Source: Fitoussi and Laurent (2006).

Laurent and Le Cacheux (2006) have gathered empirical evidence on the fact that monetary unification was systematically biased in favor of small states of the euro area given the rules of the “European economic constitution”. The fact that the single market and economic policy constraints give small countries the advantage of trade while not allowing large countries to compensate their handicap by active macroeconomic policies may explain part of the divergence in their performance in the recent period (and the overall disappointing record of the euro area).

Chart 4 illustrates how growth was lower and unemployment higher for future euro area's three continental large members during the convergence years, not only compared to small euro area members but also to the UK.

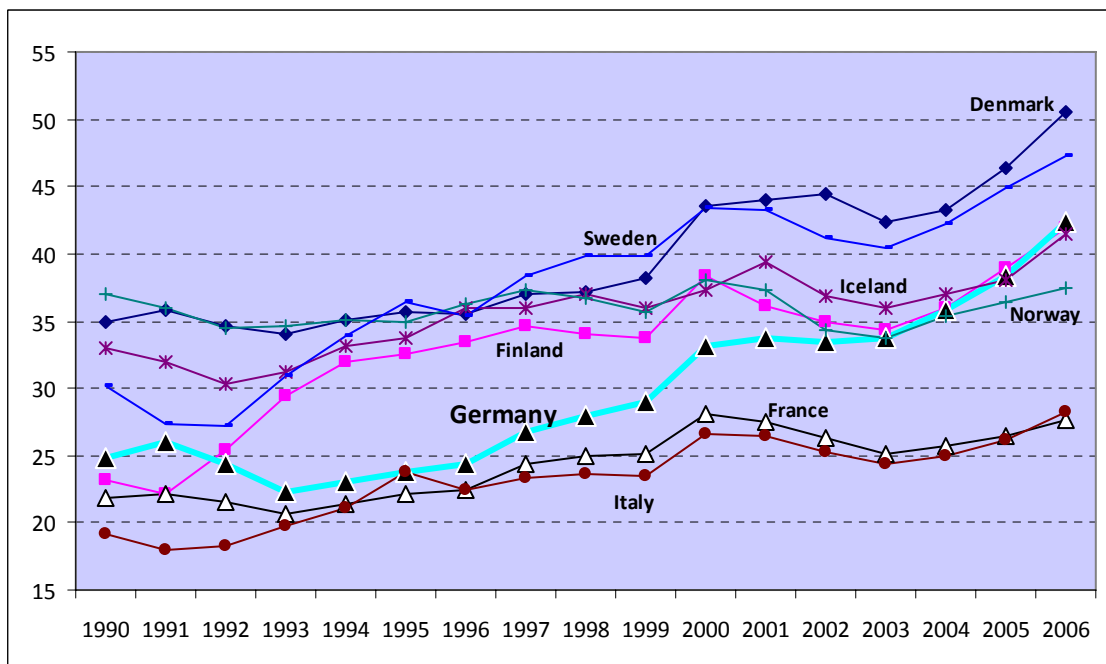
Chart 4. Unemployment rate and real GDP growth, 1992-1999.



Source: Fitoussi and Laurent (2006).

But here, a major difference between France and Germany has appeared in recent years. While France has relied on the stimulation of its domestic market to grow which is at odds with euro area rules, Germany has adopted since the mid-1990s, but especially since 2000, a small country growth strategy. The country's trade openness is actually higher in 2006 than that of Norway, Iceland and Finland (Chart 5).

Chart 5. Trade in goods and services, as a percentage of GDP.



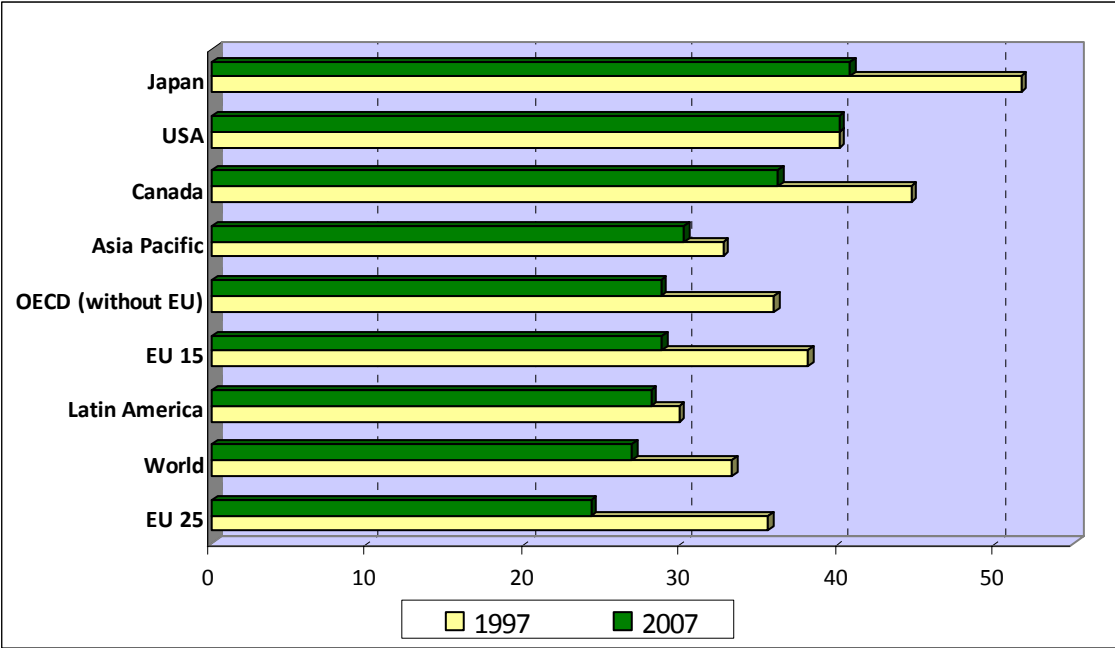
Source: OECD.

Laurent and Le Cacheux (2007) noted that if the German competitiveness effort has been a huge success in terms of net exports growth, it is still hardly compatible with the fact that Germany is a large country. It appears that the “shrinking” of Germany has, so far, been a counter-productive small country growth strategy.

So why did Germany choose it in the first place? One can argue that in the face of globalization, all countries have become small and that Germany simply decided to acknowledge this fact. But Germany is first and foremost part of European integration. As such, it is subject to the incentives system devised by the “European economic constitution” whereby large countries are encouraged to behave like small ones, competing through real “social disinflation” rather than nominal exchange-rate policy, adopting competitiveness policies focused on labor cost reduction. Since large continental countries are precisely not small, the results are neither good for them nor, worse even, for the euro area. These policies have triggered strategic reactions from the other large countries, which in turn engage in the social race to the bottom. Some elements of this worst-case scenario for euro area social models have already appeared (see Laurent, 2006), measurable for instance by the intensity of tax competition in the EU compared to the rest of the world (Chart 6).

If France wants to increase income per capita, the solution is thus not to follow Germany in trying to metamorphose into a small country. The euro area as a whole is fundamentally a big closed economy: its degree of openness is close to that of the US. This means that it should allow for reactive macroeconomic policies at the regional and national levels in order to make the most of its domestic market if it wants to stimulate its economic growth, like much of large and middle countries in the developed world (like the US and the UK). Otherwise, in applying economic rules made for small economies while it is indeed a large economy, it runs the risk of structurally jeopardizing growth, pitting against one another its largest economies and turn monetary union into a zero, or even a negative-sum game.

Chart 6. Statutory corporate tax rate, in %.



Source: KPMG.

3) Structural reform and long-term growth

Because they are more open and more vulnerable to external shocks, small countries are forced to adapt to changing economic context more quickly, and will, better than large ones, be able to implement structural changes in their economies. In the current economic context, this should mean that Nordic countries are more than France able to invest in knowledge economy and sustainable development. Here, contrary to macroeconomic management, they can be an example.

In a nutshell the mechanism is the following: structural adjustment in a small country has a high rate of return, because in increasing competitiveness, it acts on the major component of its demand, i.e. exports. The sacrifice it implies in term of restricting internal demand is thus short leaved, which gives to the government a larger room of manoeuvre to implement the most profitable investment policies. In a medium size country, such is not the case as the sacrifice in terms of internal demand may be long lasting before bearing its fruits, since the increase in competitiveness concerns a small fraction of total demand.

This means that in a small economy, a supply side policy is after all a demand policy in such a way that these countries do not need the instruments of a demand policy. In a medium size economy, this is not the case and the government has to pursue a two handed policy using different instruments. This brings us back to the flaws of European economic rules, blocking access to these instruments absent a demand policy at the European level. It is no wonder then if it does not constrain small economies but big ones. The rules of the Stability and Growth Pact, that do not discriminate between government investment and consumption and to which France is submitted, are typically not well adapted to pursue a long-term growth policy (see Fitoussi, Laurent and Le Cacheux for a critical presentation and reform options).

- Knowledge economy.

France, like the two other large continental economies, is not investing as much as it should in the knowledge economy. As shown in Table 11, the overall investment in knowledge in France, Germany and Italy, is lower than the OECD average and much lower than Nordic countries. The evolution since 1997 is negative. The breakdown into three major components allows to identify R & D as the major problem of France. Public R & D is not so much at fault than private R & D (Table 12). On this chapter, France has to take its inspiration from the Nordic countries.

Table 11. Investment in Knowledge, 2004 in % of GDP.

	R&D	Software	Higher Education	Investment in Knowledge	Change in investment in knowledge to GDP ratio (1997-2004)
Denmark	2,58	1,36	1,16	5,10	1,29
Finland	3,49	1,31	1,11	5,92	0,72
Sweden	3,98	1,54	0,93	6,44	0,86
France	2,20	1,16	0,95	4,31	0,49
Italy	1,14	0,57	0,68	2,38	0,38
Germany	2,54	0,64	0,73	3,90	0,43
OECD	2,41	1,08	1,42	4,91	0,69

Source: OECD.

Table 12. Private and public R & D, 2003 in % of GDP.

	Private R&D	Public R&D	Total R&D
Norway	1	0,74	1,74
Denmark	1,75	0,78	2,53
Iceland	1,67	1,27	2,94
Finland	2,46	1,01	3,47
Sweden	2,95	1,02	3,97
France	1,36	0,79	2,15

Source: OECD.

- Sustainable development.

The performance of France in terms of climate change is flattering, the country being ahead of its Kyoto target, which is not the case of Norway and Iceland. But France has not made a genuine effort to re-orientate its energy mix towards renewable, with the share of renewable energy actually falling from 1990 to 2005 (Table 13). Even Finland, which also relies on nuclear energy, has developed renewable energies in its energy mix.

Table 13. Climate change and renewable energy performance.

	GHG emissions growth 1990-2005	Kyoto target	Share of renewable energies in primary energy consumption 1990	Share of renewable energies in primary energy consumption 2005
Denmark	-7,8	-21,0	6,7	16,2
Sweden	-7,4	4,0	24,9	29,8
Finland	-2,6	0,0	19,2	23,2
Norway	8,8	1,0	53,2	40,4
Iceland	10,5	10,0	64,9	73
France	-1,9	0,0	7	6
Germany	-18,7	-21,0	1,6	4,8
Italy	12,1	-6,1	4,2	6,5
Spain	52,3	15,0	7	6,1
EU-15	-2,0	-8,0	4,9	6,7
EU-27	-11,0		4,4	6,7

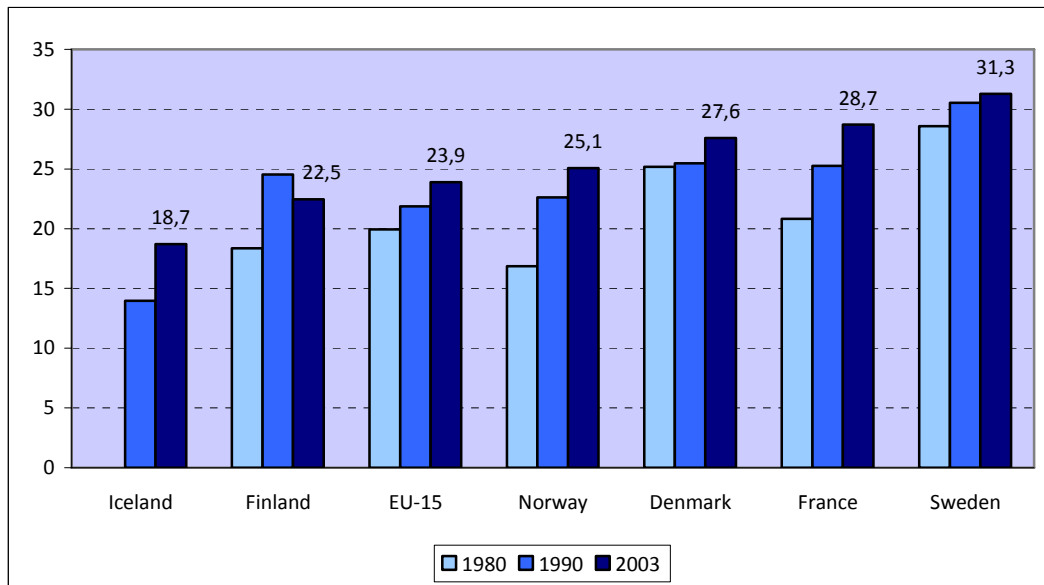
Source: European Environmental Agency..

On both counts, France should take note of Nordic countries' long-term growth policies. But how can large countries be inspired by small countries' ability to foster change if they can not implement it in practice because they lack the corresponding institutions and governance? We now thus turn to these issues.

III] Trust, confidence and governance strategy

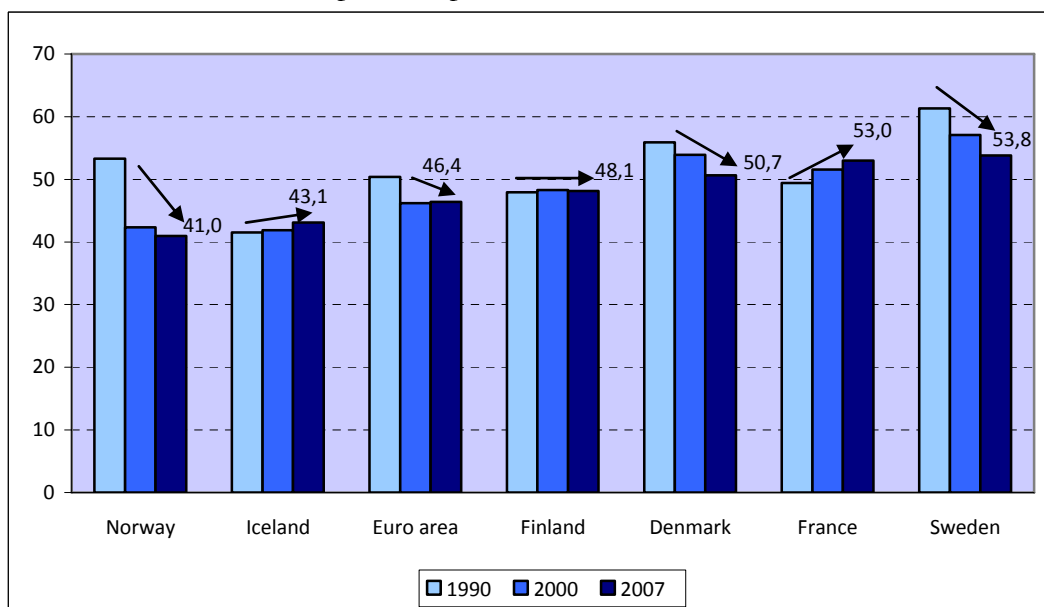
If the question is merely one of public and social spending, France is now "out-nordic-ing" almost all Nordic countries. Public social spending in France is in fact higher than in all Nordic countries, except Sweden (Chart 7). What is more, France has increased its total spending from 1990 to 2007 to reach 53% of GDP (Chart 8), whereas Nordic countries have either stabilized or decreased theirs.

Chart 7. Public social expenditures in % of GDP, 1980-2003.



Source: OECD.

Chart 8. Total public expenditures in % of GDP, 1990-2007.



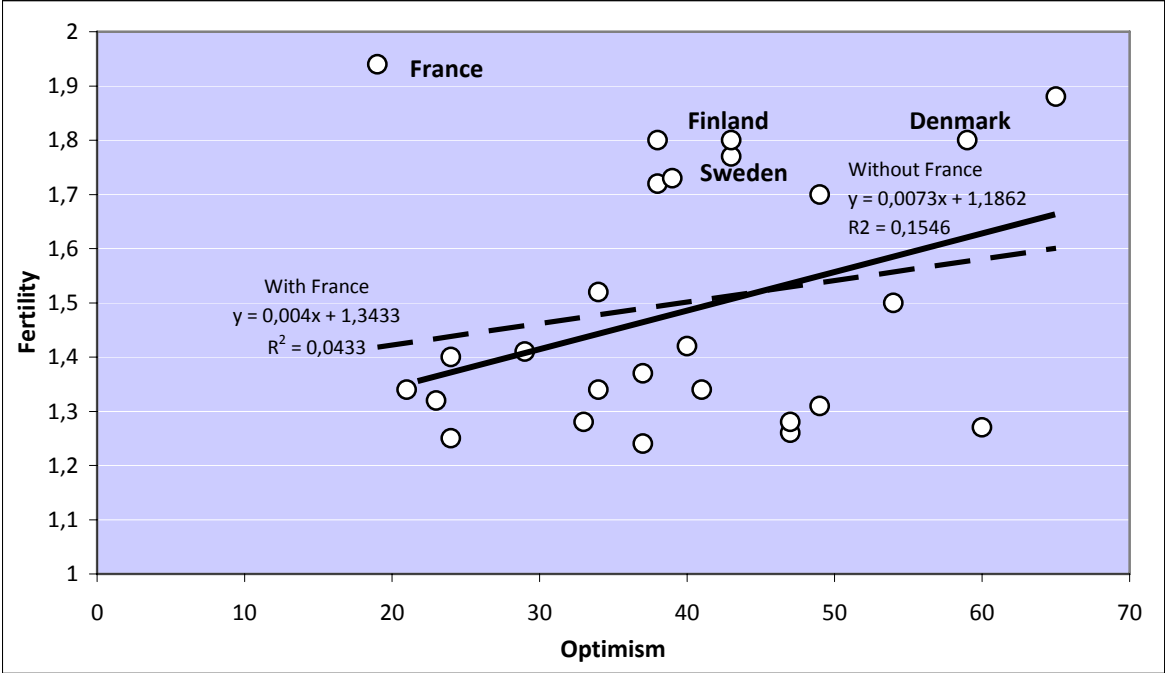
Source: OECD.

But of course the quantity of public and social spending does not guarantee policy success, it is the quality of the expenditures that matters. In this respect, a lively debate has developed in France about the Nordic model of trust, confidence and governance quality. This new literature points at the development of distrust in France as a blocker of social policy efficiency and turns to Nordic countries for inspiration. Danish “flexisecurity” in particular is praised by the increasing influential proposition of “professional paths securization”. We now explore this debate and start by asking ourselves if France is truly distrustful.

1) The paradox of French pessimism: fertility and the future

The first form of trust we look at is trust in the future. As noted in Fitoussi and Laurent (2007), there is a paradox here between subjective French pessimism, recurrently expressed and highlighted for instance in the Eurobarometer surveys, and an objective booming fertility rate, which can be interpreted as a sign of trust in the future. In the EU, France has at once the highest fertility rate and the most pessimistic public opinion about the future. Here again, France is clearly at odds with Nordic countries, where optimism in the future and fertility are both high (Chart 9).

Chart 9. The French paradox: fertility and optimism* (2005) in the EU.



* Fertility is the total fertility rate; pessimism is the percentage of positive response to the question “do you think things in your country are going in the right direction?”

Source: Eurostat and Eurobarometer.

Admittedly, French fertility dynamism can be related to the generosity of family policy in France. But how can it coexist with such pessimism in the future? One possible explanation is that French malaise is a public or social malaise rather than a private one. French institutions and/or social relations would be feeding negative subjective sentiments. While the correlation between private happiness and public or social optimism is typically very high, France appears to be too socially pessimistic for its level of private happiness, as illustrated in Table 14. This observation brings us to the question of generalized trust and confidence in institutions.

Table 14. Happiness and pessimism, 2006.

	How happy are you? (% of “very happy”)	For most people in country life is getting worse (% of “agree”)
Germany	47,6	70
Denmark	80,3	15,6
Finland	74,5	22,3
Norway	69,4	13,3
Sweden	68	29,1
France	48,4	84,4
Total	51,7	51,6

Source: European Social Survey.

2) France’s crisis of confidence: generalized trust and confidence in institutions

A new literature tries to explore the connection between France dysfunctional social model and trust and confidence in institutions among French. Using inter alia 1980-2000 World Values Survey data, Algan and Cahuc (2007) go so far as to argue that “the deficit in trust among French account for 66% of the income gap with Sweden” and that French GDP would “be increased by 5% or 1500 euros per person if French trusted their fellow citizens like Swedish do”. The interesting point of this literature is the shift from the typical *OECD Job Study* perspective that attributes all of French evils to “structural rigidities” in the labor market. The idea here is to investigate whether dysfunctions, inter alia in the labour market, and more generally in the French social model, derive primarily from a lack of trust and confidence.

- Generalized trust

Algan and Cahuc (2007) argue that the “spiral of defiance is what prevents France from implementing a social-democracy of the Scandinavian type”. The “trust deficit” among French, which authors relate to un-civic attitudes, “blocks cooperation abilities and social dialogue” so that the State is forced to intervene in social relations, harming social partners legitimacy, which further increases defiance between workers, firms and the State. On possible remedies, Cahuc and Algan (2006) warn that: “civic attitudes cannot be systematically changed quickly just by changing institutions... civic attitudes impose real constraints on the choice of labour market institutions. From this point of view, it is unlikely that countries with weak public-spiritedness

can implement the Danish Model without specific action aimed at changing the values of their citizens.” French should thus find ways to amend their civic attitudes in order to benefit from a more efficient and egalitarian social model like Nordic countries.

Let’s first take a look at “generalized trust” in France according to the latest available wave of the World Values Survey. Table 15 reports that France is indeed an exception in this respect, not only compared with Nordic countries but also to Italy and Germany.

Table 15. Generalized trust*.

Denmark	64
Finland	57
Norway	65
Sweden	64
France	21
Italy	32
Germany	33

* Percentage of people responding “most people can be trusted” to the question: “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?”.

Source: OECD, Data from the 1999-2004 wave of the World Values Survey.

A closer look at the evolution of generalized trust in France since the 1980s in the light of the European values survey data reveals that trust was actually higher in France in the 1980s than it is now, while the French social model was closer to its original features than it is now. In every other country in the table, trust has increased (Table 16).

Table 16. Generalized trust*.

	1981	1990	1999/2000
Sweden	56,7	66,1	66,3
Norway	60,9	65,1	
Iceland	39,8	43,6	41,1
Denmark	52,7	57,7	66,5
Finland		62,7	57,4
France	24,8	22,8	21,3
Italy	26,8	35,3	32,6
W. Germany/ Germany		37,9	37,5

* Percentage of people responding “most people can be trusted” to the question: “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?”.

Source: EuropeanValues Survey.

- Confidence in institutions

But Cahuc and Algan (2007) insist that trust should be considered more specifically, in relation to public institutions such as the legal system, the Parliament, trade unions. The French, they argue, have an exceptionally lower confidence in their institutions than other countries, most of all the Nordic ones. Table 17 shows a more nuanced picture for trust in Parliament and the civil sector, with France actually toping Finland, Germany and Italy.

Table 17. Share of respondents reporting high levels of trust in different entities in the early 2000s

	Trust in Parliament	Trust in the civil sector
Denmark	0,49	0,55
Finland	0,44	0,41
Iceland	0,72	0,56
Norway	0,69	0,51
Sweden	0,51	0,49
France	0,41	0,46
Germany	0,36	0,39
Italy	0,34	0,33

Source: OECD, Data from the 1999-2004 wave of the World Values Survey

But the real problem highlighted by Cahuc and Algan (2007) is the higher level of people in France declaring not to trust institutions at all. Table 18 and 19 (reporting percentages of mistrust) show in this respect that French were indeed in 2000 the least trustful of all countries surveyed for all dimensions studied, except for confidence in the social security system, in which Italians put even less confidence than the French. The important point here is that the French pattern of distrust seems to be different from Germany but quite close to Italy. Yet, again, some observations are puzzling. For instance, French seem to trust trade unions more in 2000 than in 1990, while trust in all other institutions has declined over this period. Note also that the social security system (arguably a large part of the “French social model”) appears to be the most trusted of all French institutions in 1990 and 2000.

Table 18. Dis-confidence* in institutions, 1990

	in the legal system	in Parliament	in trade unions	in civil service	in social security system
Sweden	7,7	11,1	14,8	8,5	12,3
Norway	2,5	5,1	6,6	6,7	8,9
Iceland	4	8,2	7,5	7,5	4,5
Denmark	1,6	9,6	13,7	5,3	3,5
Finland	3,1	15,1	12,5	11,9	2,3
France	10,8	17,3	28,7	15,5	7,1
Italy	21,9	22,6	21,9	28,4	20,6
W. Germany	4	7	16,6	10,2	3,6

* Percentage of people responding “none at all” to the question: “How much trust do you have...” ?

Table 19. Dis-confidence* in institutions, 1999/2000

	in the justice system	in Parliament	in trade unions	in civil service	in social security system
Sweden	4,7	6,1	9,7	5,4	5,3
Iceland	3,9	2,8	6,2	3,5	7,2
Denmark	2,3	6,7	8,4	4,3	2,8
Finland	3,5	9,4	6,9	8,3	3,8
France	19,5	23,6	25,4	17,7	9,8
Italy	19,1	16,8	24	15,2	18,8
Germany	6,9	16	13,1	11,7	8,8

Source: EuropeanValues Survey.

* Percentage of people responding “none at all” to the question: “How much trust do you have...” ?

From these first observations, two related questions emerge: is the French social model really to blame for the lack of trust among citizens? Is the poor quality of institutions in France to blame for the French lack of confidence in them?

Let's start with the second question: are French right about the quality of their institutions and governance? Do they exhibit significantly less quality than in other countries, the Nordic ones to start with?

- Indicators of governance quality

Kaufmann, Kraay, and Mastruzzi have built a dataset of indicators widely used in the field of development policy, but that can prove useful here as well, although one would expect rich western democratic countries not to differ much in terms of governance quality. Actually, they do, and French institutions seem of lesser quality, not only than institutions in the Nordic countries but also in Germany, while Italy is in all dimensions studies the less well ranked (Table 20). According to the data, the lack of confidence in institutions would find a logical explanation and reforms thus would be needed in this department to improve confidence. The lower level of confidence in institutions could also be explained by disappointed high expectations.

Table 20. Governance score (-2,5 to +2,5).

	Political stability	Voice and accountability	Government effectiveness	Regulatory Quality	Rule of law	Control of corruption
Denmark	0,82	1,72	2,29	1,81	2,03	2,39
Finland	1,47	1,63	2,08	1,7	1,95	2,57
Iceland	1,6	1,47	2,13	1,62	2,03	2,46
Norway	1,21	1,64	2,1	1,34	2,02	2,13
Sweden	1,13	1,55	2	1,44	1,86	2,24
France	0,46	1,4	1,2	1,06	1,31	1,44
Germany	0,83	1,48	1,52	1,39	1,77	1,78
Italy	0,28	1,14	0,38	0,84	0,37	0,31

Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2007: Governance Matters VI: Governance Indicators for 1996-2006

- What determines generalized trust?

The question of the determinants of generalized trust remains. Should we attribute it, as suggested by Algan and Cahuc (2007), to poor civic attitudes reinforced by an omnipresent State? Does it depend on confidence in institutions, in which case solving the confidence crisis in institutions would also solve the lack of trust? Does it depend on cultural mind-frame unrelated to the institutional context, or better, of which the institutional context would be a consequence and not a cause? Table 19, even if it does not present rigorous econometric tests allows measuring the relative importance of subjective, economic, institutional and civic variables in the determination of trust. The importance of civic variables appears doubtful, as in the determination of the most significant determinant of generalized trust (Table 21 & 22).

Table 21. Determinants of generalized trust, 2004.

	Coefficient	Significance
Most people try to take advantage of you, or try to be fair	0,4	0
Most of the time people helpful or mostly looking out for themselves	0,22	0
How happy are you	0,03	0,0005
How satisfied with present state of economy in country	0,08	0
Any period of unemployment and work seeking within last 5 years	0,09	0,0193
Trust in country's parliament	0,06	0
How satisfied with the way democracy works in country	0,04	0
Trust in the legal system	0,03	0,0005
Citizens should not cheat on taxes	0,04	0,0983
You should always obey law even if it means missing good opportunities	0,02	0,2905
Occasionally alright to ignore law and do what you want	-0,02	0,3673
Falsely claim government benefit: social security or other, last 5 years	-0	0,7912
Intercept	0,19	
Valid N	9884	
Adjusted R Squared	0,411	

Table 22. Determinants of “subjective trust”, 2004.

Dependent variable: “Most people try to take advantage of you, or try to be fair”

	Coefficient	Significance
How happy are you	0,2	0
How satisfied with present state of economy in country	0,12	0
Any period of unemployment and work seeking within last 5 years	0,16	0,0003
Trust in the legal system	0,1	0
How satisfied with the way democracy works in country	0,07	0
Trust in country's parliament	0,05	0
Falsely claim government benefit: social security or other, last 5 years	-0,04	0,0523
Citizens should not cheat on taxes	0,03	0,2777
You should always obey law even if it means missing good opportunities	0,02	0,4575
Occasionally alright to ignore law and do what you want	0	0,9419
Intercept	2,03	
Valid N	9911	
Adjusted R Squared	0,161	

Source: European Social Survey.

What kind of lessons should France take from the Nordic countries on the chapter of trust and confidence? From our limited observations, Improving institutions' democratic quality and the state of the economy could prove useful. The role of equality policies should also not be overlooked. Rothstein and Uslaner (2006) indeed argue that: “low levels of trust and social capital that plague many countries are caused by too little government action to reduce inequality”. They insist that: “the policies most effective in reducing inequalities are universal social policies. These policies stem from our sense of generalized trust—and, in turn, help to create a more trusting society.” As shown in Table 23, France is less egalitarian than all Nordic countries except Norway.

Table 23. Income inequality indicators.

	Gini Index (2006)	Income quintile share ratio (2006)
Denmark	24	3.4
Finland	26	
Sweden	24	3.5
Iceland	26	3.7
Norway	30	4.6
France	27	4
Italy	32	5.5
Germany	27	4.1

Source : Eurostat.

This argument is all the more important in the current French context that contemporary evolution of income inequality in France in the recent period seems to have been overlooked, as documented empirically by Landais (2007) which findings are summarized in Table 24.

Table 24. Income evolution in France, 1998-2005.

P99,99-100	+42,6%
P99,9-100	+32,0%
P99-100	+19,4%
P95-100	+11,3%
P90-100	+8,7%
P0-90	+4,6%
Median income	+ 4,29%

Source: Landais (2007).

3) France's crisis of confidence: the role of trade unions and job satisfaction

A final issue touching on the matter of trust regards the role played by trade unions in the French social model and the general level of social relations quality that results from it, with job satisfaction as an indicator of this quality. Phillipon (2007), also taking Nordic countries as a reference, argues that France is burdened with poor workplace relations due to the absence of strong trade unions and resulting in low job satisfaction. Table 25 illustrates some of Phillipon's arguments.

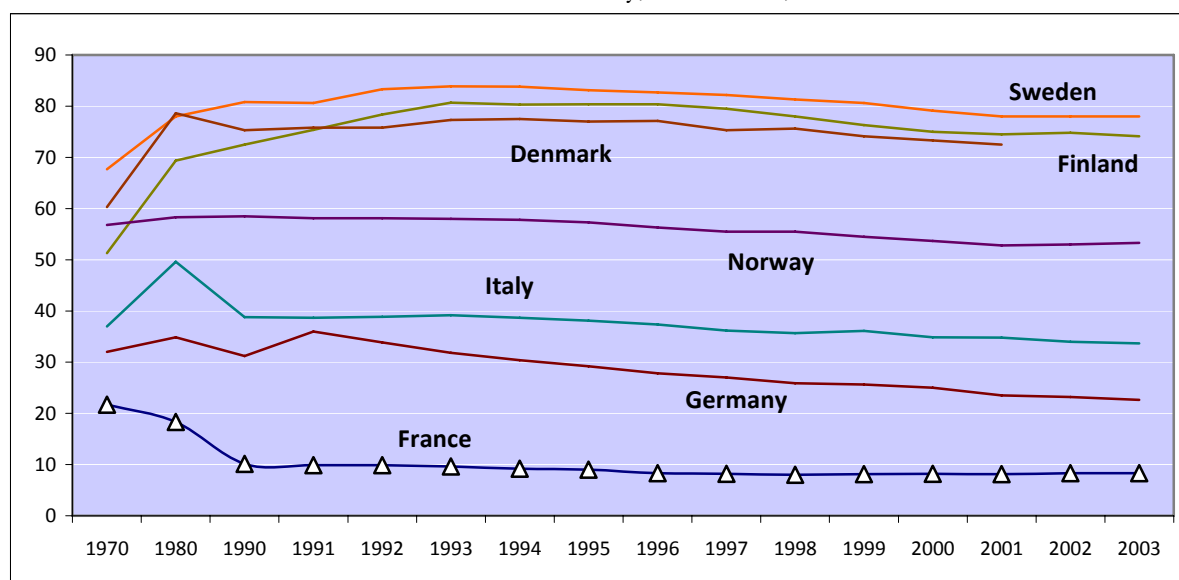
Table 25. Workplace relations and job satisfaction.

	Workplace relations quality	Job satisfaction
Finland	5,42	65
Denmark	5,97	72,5
Sweden	5,92	56,9
Norway	5,72	
France	3,33	47,2
Germany	5,25	60,3
Italy	4,22	53,6

Source : Philippon (2007), p.14, data from Global Competitiveness Report and World Value Survey.

While workplace relations quality seems to be markedly low in France, its relation with the weakness of trade unions must be considered cautiously. Trade union density has not changed much for the last 15 years in France and was always much lower than that of Nordic countries. What is more, Italy's union density is higher than Germany's with workplace relations quality higher in Germany (Chart 10). What is true however is that trade unions seem to be the least trusted institution in France (see supra Table 19).

Chart 10. Union density, 1970-2003, in %.



Note: Union density expresses the rate of “actual” to “potential” membership, usually as a percentage. For any one union, potential membership is given by eligibility criteria, usually defined in the union rulebook or constitution.

Source: Visser, J. (2006), 'Union membership statistics in 24 countries', Monthly Labor Review, January, pp. 38-49. <http://www.bls.gov/opub/mlr/2006/01/art3full.pdf>

On the consequences side, a closer look at the dynamic of job satisfaction through the European values survey brings also some qualifications. Philippon's data can be reconstituted by adding the highest three levels of job satisfaction, but a different picture appears while considering the lowest three or level 6 and 7 of satisfaction (fairly high), where France is the highest ranked of all countries surveyed (Table 26). The evolution of job satisfaction through time is also puzzling, with satisfaction in France increasing in the last two decades, while it has decreased for instance in Sweden (Table 27).

Table 26. Job satisfaction*

	France	Germany	Italy	Denmark	Sweden	Finland	Iceland
dissatisfied	1,8	0,9	2	0,8	0,6	0,2	0,5
2	1,1	0,5	1,3	0,9	2,3	0,9	0,3
3	1,5	1	2,3	1,1	2,3	2	0,9
4	3,5	1,8	3,5	1,4	3,2	1,6	2,1
5	10,7	5,1	6,8	5,3	7,5	4,7	4
6	10,8	9,3	11,2	6,7	10	7,6	7,8
7	22,4	19,9	19,2	11,2	17,6	19,1	17,9
8	26,4	30,2	25,6	25,6	30,6	35,8	30,8
9	13,2	17,4	13	25,3	17,8	20,1	21,4
satisfied	8,4	13,9	15,1	21,6	8,1	8,1	14,4
8 + 9 + 10	48	61,5	53,7	72,5	56,5	64	66,6
1 + 2 + 3	4,4	2,4	5,6	2,8	5,2	3,1	1,7

* Percentage of respondents to the question "How satisfied are you with your job?"

Source: European values survey.

Table 27. Job satisfaction* through time in France and Sweden.

	France 1981	France 1999	Sweden 1981	Sweden 1999
dissatisfied	2,7	1,8	0,3	0,6
2	2,5	1,1	1,4	2,3
3	3,7	1,5	2,6	2,3
4	3,4	3,5	1,8	3,2
5	14,4	10,7	5,6	7,5
6	13,4	10,8	6,2	10
7	17,7	22,4	12,2	17,6
8	21,6	26,4	27	30,6
9	11	13,2	22,2	17,8
satisfied	9,5	8,4	20,7	8,1
8 + 9 + 10	42,1	48	69,9	56,5

Source: European values survey.

III] Diversity and Integration

In the final part of this paper, we try to shed some light on the question of integration policy, i.e. policies against discriminations and segregation. Logic would want diversity and fragmentation to be higher in large countries than in small ones, in France than in Nordic countries. We start by reviewing empirical evidence of this intuition.

1) Diversity and fragmentation

- Diversity

Table 28 shows that diversity, captured by the ratio of the foreign-born population to total population, appears to be higher in France in 2005 than in Denmark or Finland, but lower than in Norway, and much lower than in Sweden. Yet, the foreign population is higher in 2005 in France than in all Nordic countries. While the data for Germany confirm the link between country size and diversity, figures for Italy contradict it.

Table 28. Foreign-born and foreign populations, as a percentage of the total population.

	Foreign-born population			Foreign population		
	1995	2000	2005	1995	2000	2005
Denmark	4,8	5,8	6,5	4,2	4,8	5,0
Finland	2,0	2,6	3,4	1,3	1,8	2,2
Norway	5,5	6,8	8,2	3,8	4,0	4,8
Sweden	10,5	11,3	12,4	6,0	5,4	5,3
France	..	7,3	8,1	..	5,6	5,8
Germany	11,5	12,5	12,9	8,8	8,9	8,8
Italy	..	2,5	..	1,7	2,4	4,6

Source: OECD.

- Fragmentation

Table 29 yields mixed results with regards to fragmentation. According to ethnic and religion indexes, France (and Germany and Italy) are more fragmented than Nordic countries (except Finland for the ethnic criterion). But the language index is higher in Finland and Sweden? Overall, still, continental countries (and France among them) appear more fragmented than Nordic ones.

Table 29. Fragmentation indexes.

	Ethnic	Language	Religion
Denmark	0,08	0,10	0,23
Finland	0,13	0,14	0,25
Iceland	0,08	0,08	0,19
Norway	0,06	0,07	0,20
Sweden	0,06	0,20	0,23
France	0,10	0,12	0,40
Germany	0,17	0,16	0,66
Italy	0,11	0,11	0,30

Source: Alberto Alesina, Arnaud Devleeschauwer, William Easterly, Sergio Kurlat and Romain Wacziarg, "Fractionalization", *Journal of Economic Growth*, vol. 8, no. 2, June 2003, pp. 155-194.

2) Discriminations and segregation

With diversity and fragmentation higher in France and continental countries, one would expect attitudes towards immigration to be more positive. The reverse is actually true, with anti-immigrants sentiments much higher in Germany and France than in Nordic countries. The more immigrants it seems, the more anti-immigrants are exacerbated where one could expect (hope) that the importance of immigrants population would reduce xenophobia (Table 30).

Table 30. Attitudes towards immigration, 2004.

	Immigrants make country worse place to live*	Allow no immigrants of different race/ethnic group from majority
Finland	7,6	10,7
Sweden	7,2	3,5
Norway	13,1	6,6
Iceland	2,5	8,5
Denmark	9,8	10,3
France	19,8	15
Germany	17,1	15,5

Source: European social survey.

Discriminations of course are also objective, as migrants are offered or not the conditions of their social integration. In this respect also, most Nordic countries appear overall more hospitable to immigrants than France and Germany, while Italy ranks higher (Table 31). France would certainly be well-inspired to invest more in migrants welfare-enhancing public policies, even if the recent creation of the HALDE is a step forward (that accounts for France's rank according to the anti-discrimination indicator).

Table 31. Migrant integration index, 2005.

Rank (out of 32)		Overall market access	Labour	Family reunion	Long term residence	Political participation	Access to nationality	Anti- discrimination
1	Sweden	88	100	92	76	93	71	94
5	Finland	67	70	68	65	81	44	75
7	Italy	65	85	79	67	55	33	69
8	Norway	64	70	66	72	86	39	54
	EU-15	60	64	59	61	60	48	66
11	France	55	50	45	48	52	54	81
14	Germany	53	50	61	53	66	38	50
21	Denmark	44	40	36	67	55	33	33
	Gap between top 3 Nordic and France	18	30	30	23	35	-3	-7

Source: Jan Niessen, Thomas Huddleston and Laura Citron, Migrant Integration Policy Index, Brussels, British Council and Migration Policy Group, September 2007. The Migrant Integration Policy Index may be downloaded from www.integrationindex.eu

- Segregation

Since Sweden is presented as the best practice country for migrants' integration in the Migrant Integration Policy Index, we will finally compare Sweden with France on the chapter of segregation.

Fitoussi, Laurent and Maurice (2004) have highlighted the fact that, in contemporary France, socio-spatial polarisation bears witness to a long period of persistent unemployment and generates a dynamic of urban divergence. This has found a particularly clear expression in the creation and expansion of the French ZUS (*zones urbaines sensibles* – sensitive urban areas). Furthermore, the authors formulated the hypothesis that urban segregation had a multiplier effect on the hysteresis observed in the labour market, the key drivers of this “spatial hysteresis” being the establishment of a physical and social distance from employment and the development of pronounced discrimination in the labour market. This dynamic of divergence grows steadily in time and space within a genuine system of urban segregation, whereby social inequalities in sensitive urban areas are perpetuated over time due to difficulties in education and training systems while their geographical extension are caused by unequal access to housing, collective facilities and inequalities in local public finances.

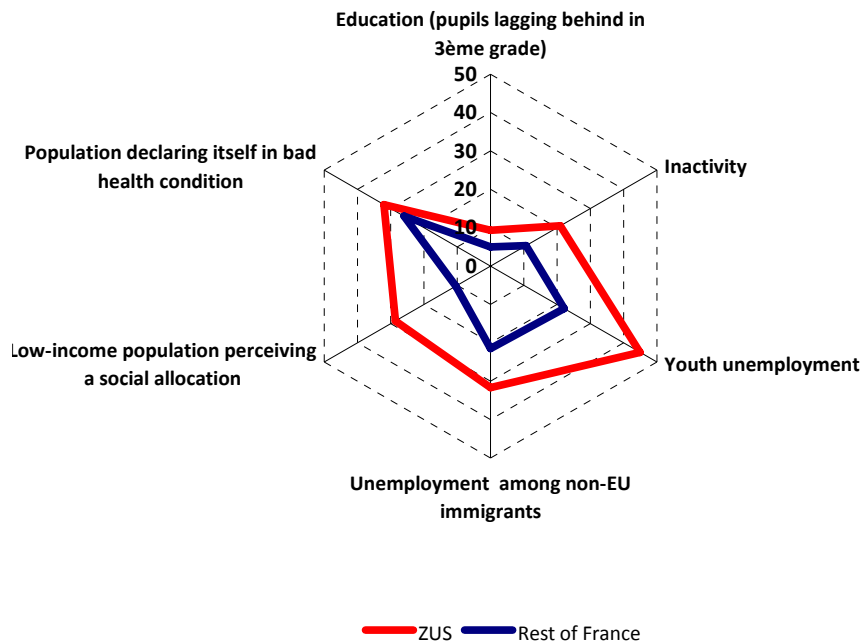
The latest available figures (Table 32) largely confirm this conclusion, even if they show that from 2002 to 2006, unemployment actually decreased more in the ZUS than in the rest of France, maybe showing positive impact from the implementation of urban policies reforms (from 1990 to 1999, unemployment increased more in the ZUS than in the rest of France). What is more, the double penalty resulting from staying in a ZUS and being an immigrant, is as strong as ever. Chart 11 illustrates how the ZUS aggravate French social trends.

Table 32. ZUS and the rest of France.

	ZUS	Rest of France
Success at the Baccalauréat S exam (June 2006)	84,4	89,1
Success at the Brevet exam (2004-2005)	68,3	80,9
Percentage of pupils lagging behind in 6ème grade (2005)	5,8	2,9
Percentage of pupils lagging behind in 3ème grade (2005)	9,3	5
Reduction in unemployment from 2002 to 2006 in Category 1	-14	-9,4
Inactivity rate of 25-49 years old (2005)	21	10,7
Inactivity rate overall (2005)	34,3	25,1
Unemployment rate for 15-24 years old (2005)	44,9	22,2
Unemployment overall (2005)	22,1	10,5
Unemployment rate among non-immigrants (2005)	19,7	9,7
Unemployment rate among immigrants from EU (2005)	9,6	8,5
Unemployment rate among non-EU immigrants (2005)	31,7	21,5
Income at the 1st decile in euros (2002)	6115	12266,5
Income at the 5th decile in euros (2002)	9048,5	14329,5
Interdecile gap (D9/D1) in 2002	2	1,3
Low-income population perceiving a social allocation (2003-2004)	28,6	10,4
Population declaring itself in bad health condition (2002-2003)	32	26

Source : Observatoire des Zones Urbaines Sensibles.

Chart 11. ZUS and the rest of France.



Source: Observatoire des zones urbaines sensibles. See Table 32 for data details.

But Sweden, with a very different approach to integration policy, also has a problem of segregation. As noted in Anderson (2007), “it is something of a paradox that, since the country declared itself multicultural in 1975, integration into the labour market has become much more problematic, immigrants’ political participation has dropped, and increasing proportions of especially newly arrived immigrants have concentrated in ‘immigrant-dense’ neighbourhoods.” “Furthermore, segregation increases the risk of racism and discrimination. The multicultural model seems more out of reach now than it was at the time of its breakthrough 30 years ago.” adds the author. Åsa (2006) also remarks that “during the 1990s, the residential segregation of immigrants increased in many Swedish cities.”

Bitterman and Franzén (2007) provide empirical evidence of segregation in large Swedish cities. Table 33 and 34 reproduce some of their results.

Table 33. Segregation in Sweden.

	Living in region Greater Stockholm	Greater Göteborg	Greater Malmö	Whole country
Total population	1,830,600	769,900	528,300	8,940,800
of which born in Sweden (%)	82	85	83	88

Table 34. Segregation in Sweden.

	Economic development				Total
	Well-off	Economically integrated slightly impoverished	Poor	Very poor	
Predominantly Swedish-born population	262	90	14	1	367
Ethnically integrated, elements of visible minorities	10	32	34	1	77
Predominantly minorities	–	10	25	8	43
Almost exclusively visible minorities	–	–	1	13	14
Total	272	132	74	23	501

Source : Danuta Biterman, Eva Franzén (2007), Table 6:3. Distribution of urban neighbourhoods in Greater Stockholm, Greater Göteborg and Greater Malmö by ethnic and economic types of development.

How should the French model of integration take into account the Nordic experience? Resolute progress should be made in anti-discrimination policies, since discrimination exacerbates still further the phenomenon of urban segregation impacting, in particular, access to housing, work and training. It affects not only foreigners, but also French citizens of, or assumed to be of, foreign origin.

But should France embrace multiculturalism of the Swedish type? The French model of integration is certainly in crisis, but it is possible that multiculturalism is simultaneously in crisis in Sweden. As noted by Lamont and Laurent (2006)⁴, in France, “the frustration and resentment expressed by French minorities is largely caused by the contradiction between a fantasized equality and real-life discrimination”. Yet, the French “republican model” is not to be altogether thrown overboard. The French model of integration has been neglecting the social conditions necessary to its success for too long. It now has to apparently contradict itself to be renewed, by acknowledging that where the initial conditions of access to society have deteriorated too far, greater equality must take over from strict legal neutrality.

⁴ [“France shows its true colors”](#), *The Boston Globe*, June 3 2006, reprinted as “Identity: France shows its true colors” in *The International Herald Tribune*, June 6 2006.

Epilogue: May 1968, models and systems

It is usually when a social system is entering a severe crisis that it becomes a model for others. If this is so, Nordic countries should be worried about all the international attention they are getting. France itself was a “model” in the late 1960s for the rest of the world.

How can the Nordic model be helpful in solving some of the major problems France is facing? We have tried to show in this paper that taking country size difference into account is a first step in the right direction. The next one may be to realize that there is not so much a “Nordic model” than a “Nordic method”⁵, which allows implementing peacefully efficient reforms. While France can not import “ready to wear” institutional features, it should try to understand Nordic countries’ customized reform design.

The 40th anniversary of May 1968, the most important post-war civil event of French history, that started by way of youth revolt in universities, but did not lead to a betterment of youth welfare or universities, now both a major weakness of the French model, is a good reminder that reform rhetoric often trumps reform action in France. France has the lowest figures for youth labor market integration not only compared to all Nordic countries, but also to continental ones (Table 35), this table being only of course the tip of the iceberg of the youth’s predicament in France⁶.

Table 35. Youth (15-24 years old) in the labor market 2006.

	Unemployment rates	Employment/population ratios	Labour force participation rates
Iceland	8.4	72,9	79,5
Norway	8.6	53,1	58,1
Sweden	21.3	44,0	56,0
Finland	18.8	40,6	50,1
Denmark	7.6	63,7	69,0
France	23.9	25,3	33,2
Germany	13.5	43,9	50,7
Italy	21.6	25,5	32,5

Source: OECD.

⁵ Grejbine and Laurent (2008) make this point about Sweden.

⁶ For an analysis of French youth social itinerary since the 1960s, see Chauvel, Louis, 1998 [2e éd. 2002], *Le destin des générations : structure sociale et cohortes en France au XXe siècle*, Paris : Presses universitaires de France ; for a contemporary comparison between French and Danish youth, see C. Van de Velde, *Devenir adulte. Sociologie comparée de la jeunesse en Europe*, Paris, PUF, « Le Lien social », 2006.

French universities should not as well be a motive of national pride, as illustrated by Table 36.

Table 36. Top universities in 2007.

	Ranking overall	Top 100	Top 200	Top 300	Top 400	Top 500
Sweden	7	4	4	9	10	11
Denmark	12	1	3	4	4	4
Norway	13	1	1	2	3	4
Finland	14	1	1	1	3	5
France	6	4	7	12	18	23
Germany	4	6	14	22	36	41

Source: Institute of Higher Education, Shanghai Jiao Tong University.

There is much to learn from Nordic countries in those two respects. But the major limit of the Nordic template ultimately lies in the fact that a model's coherence is idiosyncratic. France chose to preserve solidarity in the face of globalization, as the importance (and quality) of its public services and social protection shows. Yet, this commitment only applies for a part of the French population. Furthermore, a high level of solidarity can only be sustained in terms of public finance if income per capita grows rapidly and France can only increase its income per capita by expanding the scope of its exceptional but partly artificial productivity. Given France's size, this implies both an ambitious industrial and research policy and a reactive macroeconomic management so that employment rates grow for all categories of workers. The scale of these policies is now European. In this regard, social and tax competition among European countries should not be viewed as a sustainable growth strategy, but as a dangerous illusion: a quick fix that risks jeopardizing decades of European integration.

References

- Algan, Y. and Cahuc, P. (2006) “Civic Attitudes and the Design of Labour Market Institutions: Which Countries Can Implement the Danish Flexicurity Model?” *Discussion Paper* No. 5489, CEPR, February.
- Algan, Y. and Cahuc, P. (2007). *La société de défiance : comment le modèle social français s'autodétruit*, Paris : Ed. ENS rue d'Ulm, 2007.
- Andersson, R. (2007), “Ethnic Residential Segregation and Integration Processes in Sweden” in Karen Schönwälder (Ed.) *Residential Segregation and the Integration of Immigrants: Britain, the Netherlands and Sweden*, *Discussion Paper* Nr. SP IV 2007-602, Wissenschaftszentrum Berlin für Sozialforschung gGmbH, Social Science Research Center Berlin.
- Alesina A. & Spolaore E. (2003), *The size of nation*, MIT press, Cambridge.
- Bitterman, D. & Franzén, E. (2007) Residential segregation (Chapter 6) *International Journal of Social Welfare* 16 (s1), S127–S162
- Bråmås, Å. (2006). Bråmås, Åsa (2006) *Studies in the Dynamics of Residential Segregation*, Geografiska regionstudier nr. 67 (PhD thesis). Uppsala: Department of Social and Economic Geography, Uppsala University.
- Demas, W. 1965, *The Economics of Development in Small Countries*, Montreal: McGill University Press.
- Fitoussi, 2006, “Macroeconomic policies and institutions”, *OFCE Working Paper* n° 2006-06, April <http://www.ofce.sciences-po.fr/pdf/dtravail/WP2006-06.pdf>
- Fitoussi, J-P. 1995. *Le débat interdit : monnaie, Europe, pauvreté*. Paris: Arléa.
- Fitoussi, J-P. 2002. *La règle et le choix*. Paris: Seuil.
- Fitoussi, J-P. and Laurent, É. (2007) « Conclusion : Economie politique des réformes et crédibilité démocratique » in Fitoussi, J-P. and Laurent E. (eds.), *France 2012: E-book de campagne à l'usage des citoyens*, OFCE, 2007. <http://www.ofce.sciences-po.fr/publications/ouvrages.htm>
- Fitoussi, J-P. and Laurent, É. (2006) “Union monétaire et modèle social en Europe : chronique d'une incohérence institutionnelle”, presented in the ILO-IILS Conference, IILS Research Conference Decent Work, Social Policy and Development, ILO Geneva, 29 November - 1 December 2006. <http://www.ilo.org/public/french/bureau/inst/papers/confrence/research/fitoussi.pdf>
- Fitoussi, J-P., Laurent, É and Maurice, J. (2004). *Ségrégation urbaine et intégration sociale* (with Jean-Paul Fitoussi and Joël Maurice), Rapport du Conseil d'analyse économique, n°45, La Documentation française, Paris. <http://www.ladocumentationfrancaise.fr/rapports-publics/044000057/index.shtml>
- Fitoussi, J-P., Laurent, É Le Cacheux, J. (2007). « L'Europe des biens publics » in Fitoussi, J-P. and Laurent E. (eds.), *France 2012: E-book de campagne à l'usage des citoyens*, OFCE, 2007. <http://www.ofce.sciences-po.fr/pdf/ebook/ebook315.pdf>

Grejbine, A. and Laurent, É. (2008), « Suède : la cohésion au défi de l'adaptation », *Note du CERI*, forthcoming.

Katzenstein, P. J., 1985, *Small States in Global Markets*, Ithaca: Cornell University Press.

Kuznets, S., 1960, "Economic Growth of Small Nations" in E.A.G. Robinson, ed. *The Economic Consequences of the Size of Nations*, London: Macmillan.

Landais, C. (2007) « Les hauts revenus en France (1998-2006): Une explosion des inégalités ? », *Mimeo, Paris School of Economics*.

Laurent, É. (2008), "Economic consequences of the size of nations, 50 years on", *OFCE Working Paper*, forthcoming.

Laurent, É. and Le Cacheux, J. (2006) "Integrity and Efficiency in the EU: The Case against the European economic constitution" (with), *Working Paper Series* n°130, Center for European Studies, Harvard University, March.

http://www.ces.fas.harvard.edu/publications/docs/abs/Laurent_LeCacheux_abst.html

Laurent, É. and Le Cacheux, J. (2007) « The Irish Tiger and the German Frog : A Tale of Size and Growth in the Euro area » (with Jacques Le Cacheux), *OFCE Working Paper Collection ANR n°3*, October 2007. <http://www.ofce.sciences-po.fr/pdf/dtravail/WP2007-31.pdf>

Lindert, Peter H. (2004) *Growing Public: Social Spending and Economic Growth since the Eighteenth Century*. Two volumes. Cambridge University Press.

Niessen, Jan, Huddleston T. and Citron L. (2007), Migrant Integration Policy Index, Brussels, British Council and Migration Policy Group, September 2007. The Migrant Integration Policy Index may be downloaded from www.integrationindex.eu

Philippon, T (2007). *Le capitalisme d'héritiers*, Paris : Seuil.

Robinson E. A. G. (Ed.). *Economic Consequences of the Size of Nations: Proceedings of a Conference Held by the International Economic Association*. New York : St. Martin's Press, 1960.

Rothstein, B. and Uslaner, E. (2006) « All for All : Equality and Social Trust », Center for European Studies, *Working paper series* 117.