When the OECD persists in its mistakes…

By Henri Sterdyniak

The OECD has published an economic policy note, "Choosing fiscal consolidation compatible with growth and equity" [1]). There are two reasons why we find this note interesting. The OECD considers it important, as it is promoting it insistently; its chief economist has, for instance, come to present it to France's Commissariat à la Stratégie et à la Prospective [Commission for Strategy and Forecasts]. The subject is compelling: can we really have a fiscal austerity policy that drives growth and reduces inequality? Recent experience suggests otherwise. The euro zone has been experiencing zero growth since it embarked on a path of austerity. An in-depth study by the IMF [2] argued that, "fiscal consolidations have had redistributive effects and increased inequality, by reducing the share of wages and by increasing long-term unemployment". So is there some miracle austerity policy that avoids these two problems?

1) What goals for fiscal policy?

According to the authors of the OECD study, the goal of fiscal policy should be to bring the public debt down by 2060 to a "prudent" level, defined for simplicity's sake, we are told, as 60% of GDP. All the OECD countries must work towards this objective and immediately make the necessary adjustments.

But a target of 60% is totally arbitrary. Why not 50% or 80%? Furthermore, this goal is set in terms of gross debt (as defined by the OECD) and not debt under Maastricht. But the difference is far from meaningless (at end 2012, for France, 110% of GDP instead of 91%).

The OECD makes no effort to understand why a large majority of

the organization's members (20 out of 31, including all the large countries) have a public debt that is well over 60% of GDP (Table 1). Do we really think that all these countries are poorly managed? This high level of public debt is associated with very low interest rates, which in real terms are well below the growth potential. In 2012, for example, the United States took on debt, on average, of 1.8%, Japan 0.8%, Germany 1.5%, and France 2.5%. This level of debt cannot be considered to generate imbalances or be held responsible for excessively high interest rates that could undermine investment. On the contrary, the existing debt seems necessary for the macroeconomic equilibrium.

We can offer three non-exclusive explanations for the increase in public debts. Assume that, following the financialization of the economy, firms are demanding higher rates of profit, but at the same time they are investing less in the developed countries, preferring to distribute dividends or invest in emerging markets. Suppose that globalization is increasing income inequality [3] in favour of the rich, who save more, at the expense of the working classes who consume virtually all of their income. Suppose that, in many countries, aging populations are increasing their savings rate. In all three cases a demand deficit arises, which must be compensated by private or public debt. Yet since the crisis of 2007-2008 private agents have been deleveraging. It was therefore necessary to increase the public debt to prop up demand, as interest rates were already at the lowest possible level. In other words, it is not really possible to reduce public debt without tackling the reason why it's growing, namely the deformation of the sharing of value in favour of capital, the increase in income inequality and unbridled financialization.

Table 1. State of the public finances in 2012 (% of GDP)

	Gross public debt	Structural primary balance	Output gap*	Loss in potential GDP due to the crisis	Effort required**
Austria	85	1.1	-1.6	-3.0	0.2
Belgium	104	0.3	-0.8	-4.5	1.6
Canada	85	-2.5	-0.4	-6.1	2.7
Finland	63	-1.8	-1.4	-9.7	3.8
France	110	-1.3	-2.4	-3.6	4.7
Germany	89	1.4	0.1	-1.6	0.0
Greece	166	3.2	-11.7	-17.6	8.2
Ireland	123	-1.8	-7.9	-9.6	5.8
Iceland	132	2.6	-4.2	-9.0	3.6
Italy	140	4.4	-4.5	-6.8	0.7
Japan	219	-8.1	-0.8	-3.1	18.3
Netherlands	83	-1.4	-1.5	-7.6	2.8
Portugal	139	-0.6	-6.7	-10.4	7.5
Spain	91	-1.8	-7.7	-9.1	5.3
United Kingdom	104	-5.1	-2.1	-10.4	9.2
United States	106	-5.4	-3.0	-5.7	7.7
Euro zone	104	0.6	-2.0	-4.9	2.6
OECD	109	-3.2	-2.3	-4.6	6.0

* According to the OECD; ** short-term effort required to eventually stabilize the debt at 60% of GDP.

According to the OECD, gross public debt on the order of 100% of GDP, as at present, poses problems in terms of fragile public finances and a risk of financial instability. The economy could in fact be caught in a trap: households (given income inequality, aging or their justified mistrust of the financial markets) implicitly want to hold 100% of GDP in public debt (the only risk-free financial asset), interest rates are already near zero, and the financial markets are wary of a country whose debt exceeds 60% of GDP. We cannot escape this trap by reducing public deficits, as this reduces economic activity without lowering interest rates; what is needed is to reduce private savings and carry out a Japanese-style financial policy: the central bank guarantees the public debt, this debt is held by households, and the rate of compensation is low and controlled.

We only regret that the OECD has not made a serious analysis of the cause of the swelling public deficits.

2) Reduce the structural primary deficits

The OECD recommends that all countries embark on extensive programmes to reduce their structural primary deficits. To do this, we must first assess these structural primary deficits. However, the OECD estimates are based on a very specific hypothesis, namely that most of the production lost due to the crisis can never be made up. That is to say, for the OECD as a whole, 4.6 points of potential GDP have been lost forever out of the 6.9 point gap in 2012 between GDP and the pre-crisis trend. Also, the OECD believes that the structural primary balance of many countries was negative in 2012 whereas it would have been positive if the loss of production could have been made up. For France, the OECD estimates the structural primary balance at -1.3% of GDP, while the balance would be 0.5% if the loss due to the crisis could be made up. Only the United States and Japan would retain a structural primary deficit under the "catch-up hypothesis".

Assume that long-term rates remain below the growth rate of the economy and that it is not necessary to reduce the public debt ratios. Then a structural primary balance at equilibrium would be sufficient to stabilize the public debt. Only two countries would need to make fiscal efforts: Japan (for 6.7 GDP points) and the US (for 2 points). The other countries would primarily be concerned with re-establishing a satisfactory level of production.

However, the OECD assumes that the countries will suffer forever from the shock induced by the crisis, that it is imperative to reduce the debts to 60% of GDP, that long-term rates will be higher (by about 2 points) than the economy's growth rate in the very near future, and that public health spending will continue to rise. This leads it to conclude that most countries should immediately engage in a highly restrictive policy, representing 4.7 GDP points for France, 7.7 points for the United States, 9.2 points for the United Kingdom, etc.

The problem is that the OECD study assumes that these restrictive policies will not have any impact on the level of economic activity, or at least that the impact will be temporary, so that it can be neglected in a structural study of the long term. This is based on a notion that, though widespread, is wrong: that the economy has a long-term equilibrium that would not be affected by short or medium-term shocks. But this makes no sense. Real economies can go off in a different direction and experience periods of prolonged and cumulative depression. Is it possible to imagine a long-term Greek economy that is unaffected by the country's current situation? The shock induced by the strategy advocated by the OECD would mean a lengthy period of stagnation in Europe , Japan and the United States; the depressive effect would not be offset by lower interest rates, which have already hit bottom; a fiscal cutback of 6% of the OECD's GDP would result in a fall in GDP of 7.2% [4]; and the decrease in activity would be so great that debt ratios would rise in the short term (see the explanatory box below). To believe that the economy would eventually return to its long-term trajectory is just wishful thinking. The OECD provides no assessment of the impact of such a policy produced with a macroeconomic model.

We can only wonder that the OECD continues to advocate austerity policies that were shown in the years 2012-2013 to have adverse effects on growth and a negligible impact on the level of public debt, instead of advocating a policy stimulus that, while its content is of course debatable, would be more promising for the Western economies.

3) Choosing the right instruments

The bulk of the OECD study, however, is devoted to researching the policy instruments that would be most effective for achieving fiscal consolidation.

Based on previous work, the OECD assigns to each instrument an impact on growth, equity and the trade balance (Table 2). The

organization has happily discovered that in some cases public expenditure can be helpful for growth as well as equity: such is the case of spending on education, health, family benefits and public investment. These should therefore be protected to the fullest. However, the OECD does not go so far as to imagine that they could be strengthened in some countries where they are particularly low today. In other cases, the OECD remains faithful to its free market doctrine: for example, it considers that spending on pensions is detrimental to long-term growth (since reducing it would encourage seniors to remain in employment, thereby increasing output) and is not favourable to equity. One could argue the opposite: that reducing public spending on pensions would hit the poorest workers, who would then live in poverty during their retirement; the better-off would save in the financial markets, which would strengthen these and thus fuel financial instability. Similarly, for the OECD unemployment and disability benefits hurt employment, and thus growth. Moreover, subsidies would be detrimental to long-term growth, as they undermine the competitive balance, and thus efficiency, but the OECD puts all subsidies in the same bag: the research tax credit, the PPE employment bonus, and the common agricultural policy, whereas a more detailed analysis is needed. Moreover, orthodox economic theory itself recognizes the legitimacy of public action when the market fails. The OECD has a negative view of social contributions, whereas it is legitimate for public PAYG systems to be funded in this way. The organization believes that income tax hurts long-term growth by discouraging people from working: but this is not what we find in Scandinavia.

Finally, the ranking produced (Table 2) is only partly satisfactory. The OECD warns against lowering certain public spending (health, education, investment, family) and occasionally advocates higher taxes on capital, corporation tax and income tax, and environmental taxes. But at the same time it advocates cutting back on pensions and unemployment

insurance and reducing subsidies.

The OECD seeks to take into account the heterogeneity of national preferences. But it does so in a curious way. It considers that countries where income inequality is high (the United States and United Kingdom) should be more concerned with equity, but that the opposite holds for egalitarian countries (Sweden, Netherlands). But the opposite position could easily be supported. Countries that have highly egalitarian systems want to keep them and continue to take account of equity in any reforms they undertake.

Ultimately, suppose that, like France, all the countries had set up an efficient system for the control of their public finances (the RGPP then the MAP). At equilibrium, all expenses and revenues have the same marginal utility. If there is a need to save money, this should involve a reduction in costs and an increase in revenue in the same proportions. Dispensing with this strategy would require a detailed analysis of the utility of the spending and the cost of the revenue, an analysis that the OECD is incapable of providing. The fact that the OECD considers that spending on disability is generally detrimental to growth does not give it the right to advocate a strong reduction in disability spending in Finland, without taking into account the specific features of the Finnish system

Table 2. Short-term (ST) and long-term (LT) impact of fiscal consolidation instruments on growth, equity and the trade balance, according to the OECD

	Growth		Equity		Trade balance	Ranking*
	ST	LT	ST	LT		
Spending (down)						
Education	--	--	-	--	+	17
Health	--	-	-	-	++	15
Other spending	--	+	-		+	9
Pensions		++			++	2
Disability	-	+	--	-	++	11
Unemployment	-	+	-		++	4
Family	-	-	--	--	+	16
Subsidies	-	++	+	+	+	1
Investment	--	--			++	13
Revenue (up)						
Income tax	-	--	+	+	+	5
Social contributions	-	--	-	-		14
Corporation tax	-	--	+	+	++	6
Ecological tax	-	+	-		+	7
Consumer tax	-	-	-		+	12
Property tax	-				+	8
Other property tax	-		++	+	+	3
Sale of goods	-	+	-	-	+	10

* The higher the figure, the less the instrument should be used in fiscal consolidation.

All things considered, the recommendations for France (Table 3) are of little use, whether this is a matter of greatly reducing the level of pensions and unemployment benefits (under the pretext that France is more generous than the average of the OECD countries!) or of reducing subsidies (but why?) or of reducing public consumption (because France needs an army, given its specific role in the world).

Table 3. Fiscal adjustments recommended for France by the OECD (% of GDP)

	Short term	Long term
Pensions	-0.6	-2.2
Subsidies	-0.7	-0.7
Unemployment benefits	-0.7	-0.4
Ecological tax	+0.7	
Corporation tax	+0.5	
Other public consumption	-1.2	-1.1
Total adjustment	4.7	4.7

Overall, the OECD does not provide any simulation of the impact of the recommended measures on growth or equity. It is

of course possible to do worse, but this still winds up in a project that would lead to a sharp decline in growth in the short to medium term and a decrease in spending on social welfare. Even though it claims to take account of the trade balance, it does not argue that countries running a surplus should pursue a stimulus policy in order to offset the depressive impact of the restrictive policies of countries running a deficit.

But the OECD also holds that there are of course miracle structural reforms that would improve the public deficit without any cost to growth or equity, such as reducing public spending without affecting the level of household services by means of efficiency gains in education, health, etc.

What a pity that the OECD is lacking in ambition, and that it does not present a really consistent programme for all the member countries with an objective of growth and full employment (to reduce the unemployment caused by the financial crisis) and of reducing trade imbalances, especially a programme with social objectives (reducing inequality, universal health insurance, and a satisfactory level of social welfare)!

Box: Austerity policy and the public debt

Consider an area where GDP is 100, the public debt is 100, the tax burden is 0.5 and the multiplier is 1.5. Reducing public spending by 1 lowers GDP by 1.5 and public revenue by 0.75; the public balance improves by only 0.25. The debt / GDP ratio rises from 100% to 99.75 / 98.5 = 101.25%. It takes 6 years for it to fall below 100%.

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[1] Boris Cournède, Antoine Goujard, Alvario Pina and Alain de Serres, *OECD Economic Policy Papers*, July 2013. A more detailed version can be found in: Boris Cournède, Antoine Goujard and Alvario Pina, "How to achieve growth-and-equity fiscal consolidation ?", *OECD Economics Department Working Paper*, 2013.

[2] Laurence Ball, Davide Furceri, Daniel Leigh, and Prakash Loungani, "The Distributional Effects of FiscalConsolidation", IMF WP/13/151, June 2013.

[3] See: OECD, 2012, *Toujours plus d'inégalité* [More and more inequality], March.

[4] Using the multiplier of 1.2 from the OECD Note, 2009, "The Effectiveness and the Scope of Fiscal Stimulus", March.

Renewed growth in the United Kingdom in 2013: trompe-l'oeil effects

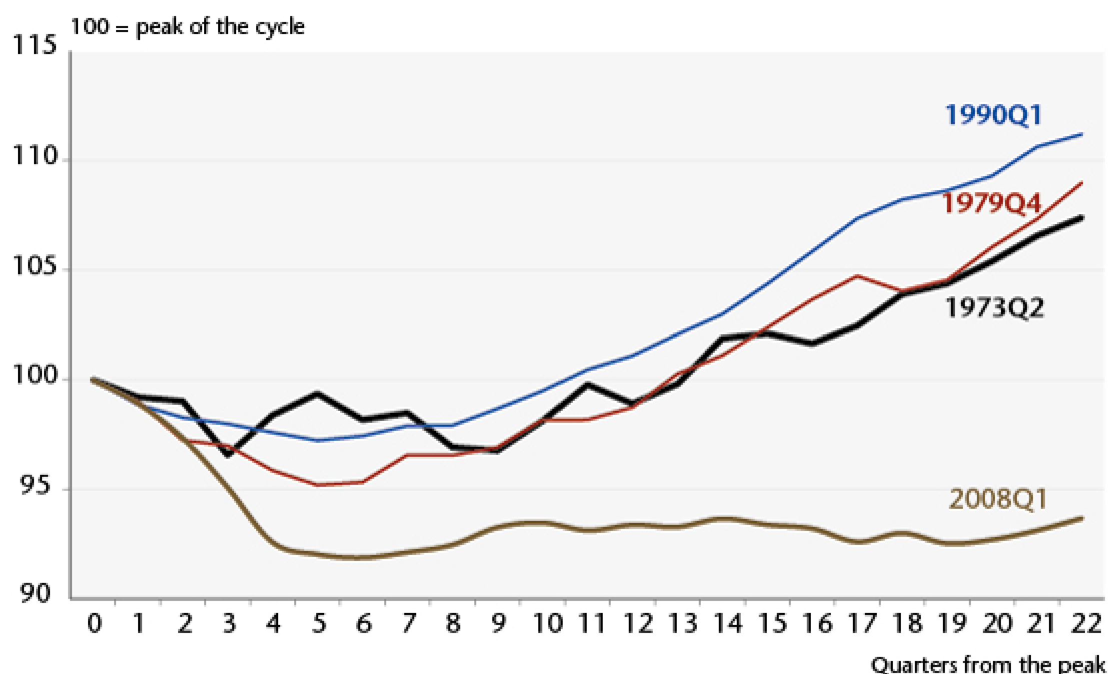
By Catherine Mathieu

The latest estimate of the British national accounts, published on 27 November, confirmed GDP growth of 0.8% in the third quarter of 2013, following 0.7% in the second quarter and 0.4% in the first quarter. This represents a sparkling

performance for the UK economy, especially in comparison with the euro zone. GDP was up 1.5% year on year in the third quarter of 2013 in the UK, against -0.4% in the euro zone, 0.2% in France and 0.6% in Germany. In the eyes of some observers, Britain's return to growth shows that fiscal austerity does not undermine growth … on the contrary. But the argument seems at a minimum questionable.

Let's look at the numbers a little more closely. Admittedly, GDP is up 1.5% year on year in the third quarter, but it rose by only 0.1% in 2012 and is still 2.5 percentage points below its pre-crisis level: this does not really represent a great success. Even more striking has been the change in GDP since the start of the crisis: GDP initially fell 7 points between the first quarter of 2008 and the second quarter of 2009; the recovery then got underway, allowing GDP to rise 2 points in the third quarter of 2010, before it fell again. The GDP trajectory since the third quarter of 2010 has been quite unusual with respect to recoveries from previous crises (Figure 1).

Figure 1. Change in British GDP during recessions and recoveries



Source: Office for National Statistics (ONS).

In 2008, the United Kingdom was one of the first

industrialized countries to implement a recovery plan. Gordon Brown, Chancellor of the Exchequer in the Tony Blair government, lowered the standard VAT rate by 2.5 percentage points in December 2008 in an effort to boost household consumption. The measure, which was announced as temporary, was ended in late 2009. In 2009, fiscal policy was highly expansionary, with a fiscal impulse of 2.8 percent of GDP following a 0.6 point impulse in 2008 (Table 1). The public deficit increased under the dual impact of the recession and fiscal policy, as did the public debt.

In May 2010, the Conservatives won the election on a programme focused on reducing the public debt and deficit. This was supposed to ensure market confidence and maintain the AAA rating of Britain’s public debt, and thus keep the interest rate on the debt at a low level. This was combined with a very active monetary policy, with the Bank of England maintaining its key rate at 0.5%, buying government securities and making great efforts to facilitate the refinancing of banks and kick-start lending to businesses and households. The resumption of growth was supposed to come from business investment and exports.

The fiscal policy implemented by the David Cameron government has therefore been highly restrictive. At first, the measures focused on increasing revenue by raising the VAT rate and cutting spending, including on social benefits. The resumption of growth was interrupted. Fiscal policy had also become restrictive elsewhere in Europe, so economic activity slowed in the UK’s main trading partners. In 2012, fiscal austerity was sharply curtailed (Table 1). The growth figures in recent times are a long way from demonstrating the success of austerity.

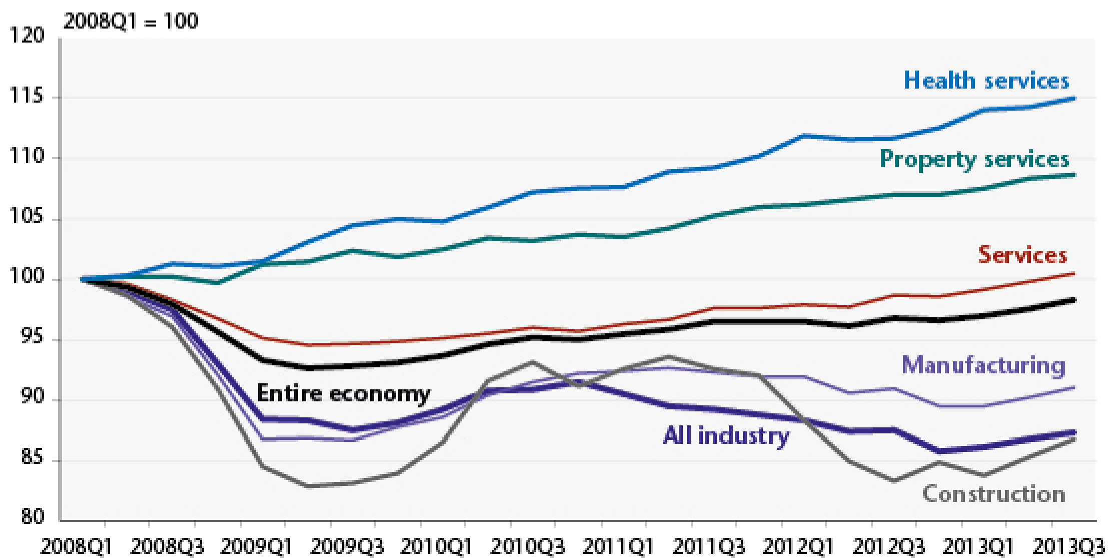
Table 1. Growth and fiscal impulses in the United Kingdom since 2008

	2008	2009	2010	2011	2012
Growth	-0,8	-5,2	1,7	1,1	0,1
Fiscal impulse	0,6	2,8	-2,7	-3,2	-0,5

Sources : Office for National Statistics (ONS), OECD, author's estimates.

It is also important to note that David Cameron has excluded health expenditure from his cost-cutting plan. The British are attached to their public health care system, and the newly elected Conservatives were determined in 2010 not to repeat the mistake made in the 1980s when Margaret Thatcher was head of government. So fiscal austerity has not hit the health sector. The result is clear in terms of activity: value added (by volume) in the health sector is now 15 points above its pre-crisis level – in other words, it has continued to grow at an average annual rate of nearly 3% (Figure 2). The second sector where activity has remained strong since 2008, and which has even accelerated since the end of 2012, is real estate. Property prices in the UK had risen sharply before the crisis, leading to record household debt, and have not dropped much since then. Indeed, they have remained historically high and even begun to rise from 2012 (at an annual rate of about 5%). But other sectors are lagging behind. Most services have for instance only now regained the level of pre-crisis output, and some of them are still well below this level: -9% for financial services and insurance, which is comparable to the figure for manufacturing, while output in the building sector is down 13%.

Figure 2. : Changes in added value (in volume) by sector since the onset of the crisis



Source: Office for National Statistics (ONS).

Since 2008, British growth has thus been driven in part by a public service spared from fiscal austerity and by real estate services supported by an ultra-active monetary policy… The British recovery could, moreover, give birth to a new housing bubble. Household consumption is now the main engine of growth (Table 2). The failure of investment to pick up represents one of the main setbacks suffered by the supply-side policy implemented since 2010 by the government. The government wants to make the UK tax system the most competitive in the G20, and to this end has slashed the corporate tax rate to the lowest in the G20 (the rate, lowered to 23% this year, will be only 20% in 2015). But business investment has nevertheless not picked up again. The government is also relying on exports to drive growth, but given the economic situation prevailing in Britain's main foreign markets, in particular the euro zone, this is just not realistic. After having experienced sustained growth in previous quarters, boosted by strong sales outside the European Union until the summer, exports have contributed to a sharp fall-off in growth in the third quarter (-0.8 GDP point). As the British government prepares to present its budget on 5 December, support for fiscal policy would be welcome to help keep the UK economy on the road to recovery in the coming months…

Tableau 2. Contributions of demand components to growth

In GDP points (except GDP)

	2010		2011		2012		2013	
	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half
GDP, in %	1,3	0,8	0,4	0,6	-0,3	0,2	0,6	0,8
Household consumption	0,2	0,6	-0,6	0,1	0,5	0,4	0,6	0,5
Spending by general government	0,0	0,0	0,0	0,0	0,4	-0,1	0,1	0,1
GFCF	0,7	0,2	-0,4	0,1	0,5	-0,8	-0,2	0,2
Productive private	0,6	0,0	-0,2	0,1	0,4	-0,5	-0,2	0,1
Change in inventory	1,0	0,4	0,0	0,6	-1,0	0,7	-0,2	0,9
Foreign trade	-0,5	-0,3	1,5	-0,2	-0,6	-0,0	0,2	-0,9
Exports	1,1	1,1	0,7	0,2	0,1	0,3	0,2	-0,8
Imports	-1,5	-1,4	0,8	-0,4	-0,6	-0,3	-0,0	-0,1

Note: Half-year contributions, except * 3rd qtr contributions. The sum of the contributions may not correspond exactly to GDP growth, due to rounding.
Source: Office for National Statistics.

Never on Sunday?*

By Xavier Timbeau

** Note from the editor: This text was initially published on 10 June 2008 on the OFCE site under the heading "Clair & net" [Clear & net] at a time when working on Sundays was a burning issue. As this is once again a hot topic, we are republishing this text by Xavier Timbeau, which has not lost its relevance.*

In Jules Dassin's cult film, Ilya, a prostitute working a port near Athens, never works on Sunday. Today, according to the *Enquête emploi* labour force survey, nearly one-third of French workers say they occasionally work on Sunday and nearly one out of six does so regularly. As in most countries, Sunday work is regulated by a complex and restrictive set of legislation (see here) and is limited to certain sectors (in France, the food trade, the hotel and catering industry, 24/7 non-stop manufacturing, health and safety, transport, certain

tourist areas) or is subject to a municipal or prefectural authorization for a limited number of days per year. This legislation, which dates back more than a century, has already been widely adapted to the realities and needs of the times, but is regularly called into question.

The expectations of those who support Sunday work are for more business, more jobs and greater well-being. Practical experience indicates that revenue increases for retailers that are open Sundays. Conforama, Ikea, Leroy Merlin and traders in the Plan de Campagne area in the Bouches du Rhone *département* all agree. Up to 25% of their turnover is made on Sunday, a little less than Saturday. For these businesses, it seems clear that opening on Sunday leads to a substantial gain in activity. And more business means more jobs, and since there are also significant benefits for consumers, who meet less traffic as they travel to less congested stores, it would seem to be a "win-win" situation that only a few "dinosaurs" want to fight on mere principle.

Nevertheless, some cold water needs to be thrown on the illusions of these traders. Opening one more day brings more business only if the competition is closed at that same time. This is as true for furniture, books, CDs or clothes as it is for baguettes. If all the stores that sell furniture or appliances are open 7 days a week, they will sell the same amount as if they are open 6 days a week. If only one of them is open on Sundays and its competitors are closed, it can then capture a significant market share. It is easier to purchase washing machines, televisions and furniture on a Sunday than on a weekday. So anyone who opens on their own will benefit greatly. But ultimately consumers buy children's rooms based on how many children they have, their age or the size of their home. They do not buy more just because they can do their shopping on Sunday. It is their income that will have the last word.

It is possible that a marginally larger number of books or

furniture are sold through impulse buying on Sunday, if the retailers specializing in these items are open. But consumer budgets cannot really be stretched, so more spending here will be offset by less spending elsewhere. Year after year, new products, new reasons for spending, new commercial stimuli and new forms of distribution emerge, but these changes do not alter the constraints on consumers or their decisions.

In the case of business involving foreign tourists, who are passing through France, opening on Sunday could lead to an increase in sales. Tourists could spend less in another country or after they return home. But this positive impact is largely addressed by existing exemptions.

In 2003, the strict German legislation regulating retailer opening times was relaxed. This did not lead to any change in the population’s consumption or savings (Figure 1). Value added, employment and payroll in the retail sector stayed on the same trajectory (relative to the overall economy, see Figure 2). Opening longer does not mean consuming more.

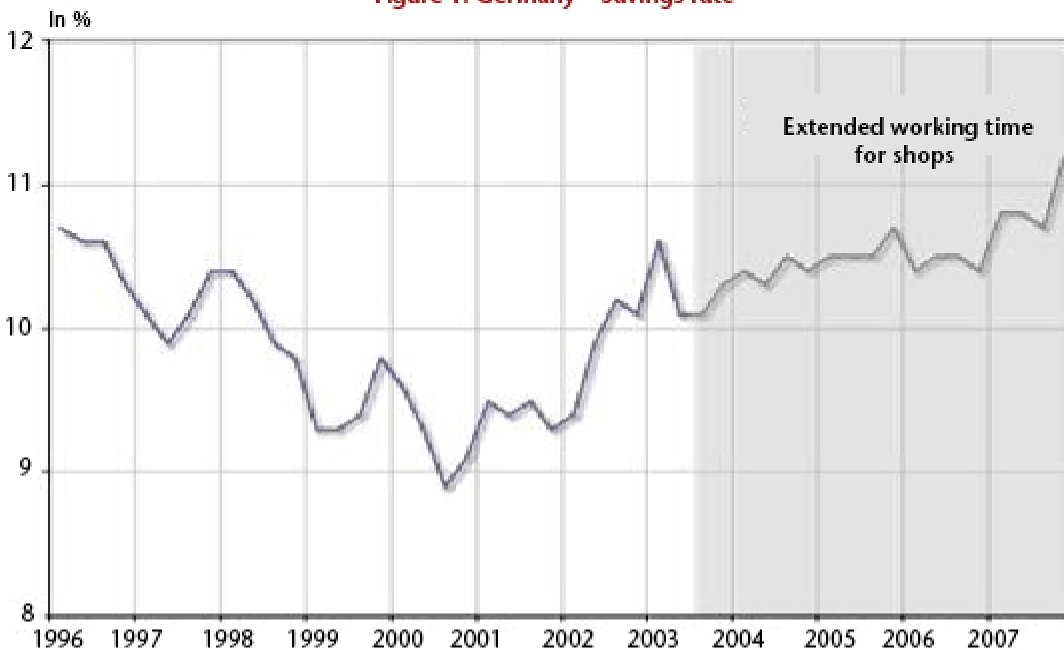
The issue of Sunday opening is a matter of social time and its synchronization as well as consumer convenience and the freedom of the workforce to make real choices about their activities. Sunday work affects many employees, so expanding it is a societal choice, not a matter of economic efficiency.

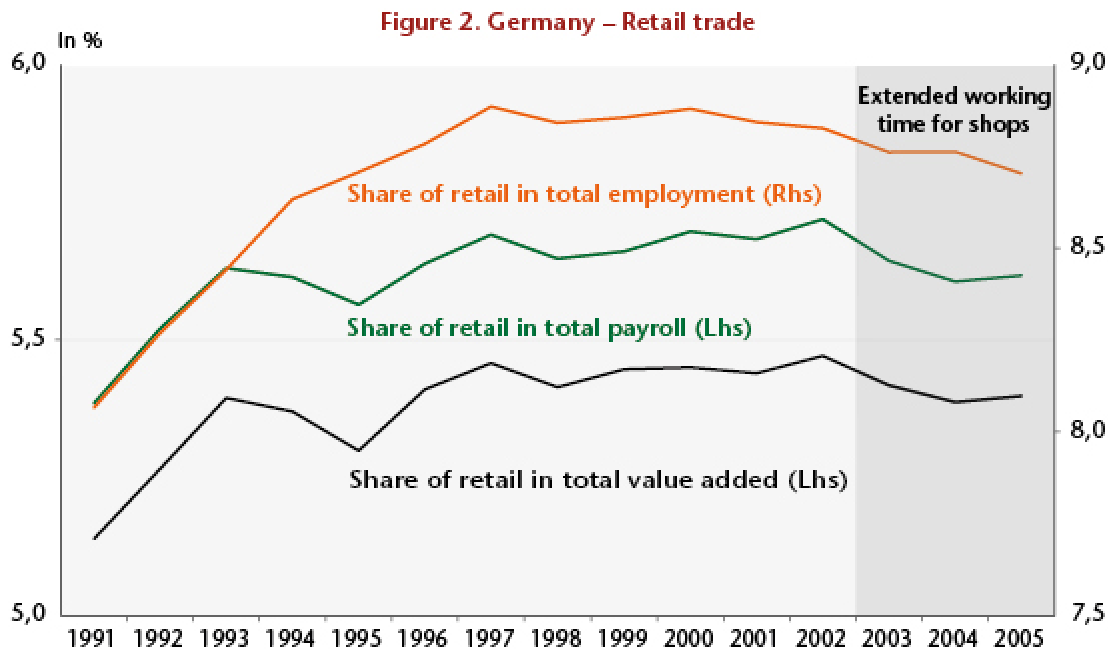
Finally, the complexities of the legislation on Sunday work and its unstable character have led economic actors to adopt avoidance strategies. For example, in order to open on Sunday Louis Vuitton installed a bookstore (with travel books!) on the 5th floor of its Champs Elysées store (the other Louis Vuitton stores in Paris are closed on Sundays). Selling luxury bags thus became a cultural activity. Large food stores (which can open on Sunday morning) sell clothing and appliances, thus justifying other ways of working around restrictions by non-food retailers, who view this as unfair competition. These workarounds render the law unjust and distort competition with

a legal bluff as cover.

Any change in the law should pursue the objective of clarification and not introduce new loopholes (as did the recent amendment of December 2007 to the [Chatel law of 3 January 2008] extending earlier exemptions to include the retail furniture trade).

Homer, a cultured American on a visit to Athens, attempted to save Ilya from her sordid fate by introducing her to art and literature. But Homer was acting on behalf of a pimp from the Athens docks who wanted to put an end to the free-spirited Ilya's subversive influence on the other prostitutes. When Ilya learned of this, she went back to her work: trading herself for money. Her dignity came from never doing it on Sunday.





Sources : Annual accounts, Statistisches Bundesamt Deutschland. The savings rate is gross savings relative to gross disposable income. In the German classification, retailing is sector WZ-52. Author's calculations.

Tales from EDF

By Evens Salies[a]

The challenge facing policy-making on the reduction of greenhouse gas emissions is not just environmental. It is also necessary to stimulate innovation, a factor in economic growth. Measures to improve energy efficiency [1] demand high levels of investment to transform the electricity network into a smart grid. To this end, EU Member States have until 2020 to replace the meters of at least 80% of their customers in the residential and commercial sectors with "smarter" meters. In France, these two sectors account for 99% of the sites connected to the low-voltage grid (< 36 kVA), or about 43% of electricity consumption and nearly 25% of greenhouse gas emissions (without taking into account emissions from the

production of the electrical power that supplies these sites).

These new meters have features which, as has been shown by research, lead to lower energy consumption. The remote reading at 10 minute intervals of data on consumption, which is transmitted in real time to a remote display (a computer screen, etc.), immediately shows the savings in electricity, which, with two surveys per year, was previously impossible. High-frequency remote reading also makes it possible to expand the range of vendor contracts to include rates that are better suited to customers' actual consumption profiles. The "pilot" flying the transmission network can better optimize the balance between demand and a supply system that has fragmented due to the growing number of small independent producers. For distributors [2], remote reading solves the problem of gaining access to meters [3].

These features are supposed to create the conditions for the emergence of a market for demand-side management (DSM) that is complementary to the supply market. This market would give non-traditional suppliers an opportunity to differentiate themselves further by offering services that are tailored to the needs of the DSM customer [4]. This could lead to significant gains in innovation if other companies that specialize in information and communication technology also develop software applications that are adapted to the use of the smart meters. However, in France, the policy on the roll-out of smart meters does not seem to be facilitating greater competition. Innovation could stop at the meter due to a decision by the French Regulatory Commission (CRE) which states that:

"The features of advanced metering systems must strictly meet the missions of the electricity [distributors] … Thus the additional features requested by some stakeholders [essentially suppliers] which are subject to competition (basically remote displays) are not accepted."

A reading of this paragraph would seem to indicate that the suppliers are not willing to bear the cost of developing these features. However, according to Article 4 of this decision, which specifies the list of features for distributors, none of them seems to have been left exclusively to the competitive sector. In practice, households with a computer can check their consumption data without going through their provider or a third party.

It is worth considering the costs and benefits of such an approach, which *a priori* would seem to amount to the monopolization of the DSM market by the distributors.

This approach will make it possible to quickly reach the goal of 80%, since the CRE has opted for a public DSM service: the distributors, who have public service obligations, will roll out the smart meters. The “Linky” meter alone, from the dominant electricity distributor, the ERDF, will be installed on 35 million low-voltage sites, covering 95% of the national distribution network [5]. There is thus little risk of under-investment in the demand-response capacity that electricity suppliers will soon have. In fact, as the suppliers do not have to bear the costs of the manufacture and deployment of the meters, they can quickly invest in the development of these capabilities. In addition, the equalization of subcontracting costs for the manufacturing of the meters and their installation throughout the French distribution network will make for considerable economies of scale. Finally, the low rate of penetration of meters in countries that have opted for a decentralized approach (the cost of the meter and services are then borne partly by the households concerned) argues in favour of the French model. This model is more practical since it removes most of the barriers to adoption.

Despite this, the degree of concentration in the business of the distribution and supply of electricity to households raises questions: ERDF is affiliated with EDF and has a virtual monopoly on the supply of electricity to households.

In terms of innovations in DSM services, it would seem that EDF has little reason to go beyond its subsidiary's Linky project – first, because of the costs already incurred by the Group (at least five billion euros), and second, because the quality of the default basic information mechanism in Linky will be sufficient to lead to a cost for migrating to DSM services offered by competitors. [6] Alternative suppliers will of course be able to introduce innovative tariffs. But so will EDF. One way to overcome this problem would be to set up a Linky platform so that other companies' applications could interact with its operating system. With the agreement of the household and possibly a charge for access to the data, the business would of course be regulated, but entry would be free. This would stimulate innovation in DSM services, but would not increase competition since these companies would not be electricity suppliers. Would the consumer have a lot to lose? This would obviously depend on the amount of the reduction in their bills. Given that the price of electricity is likely to rise by 30% by 2017 (including inflation), we are worried that consumers' efforts to optimize their consumption will not be rewarded. The net gain in the medium term could be negative.

Finally, we can ask ourselves whether with Linky the EDF group is not trying to reinforce its position as the dominant company in the supply of electricity, a position that has grown weaker since the introduction of competition. With DSM service installed by default on 95% of the country's low-voltage sites, Linky will become an element in the network infrastructure that all DSM service providers will have to use. From the point of view of the rules on competition, one must then ask whether ERDF and its partners have properly communicated information about the Linky operating system, without any favouritism being shown to the EDF Group and its subsidiaries (Edelia, NetSeenergy). The story tellers would like to tell us a beautiful tale about encouraging innovation in energy and the digital economy in order to deal with the

ecological transition. Knowing that the current CEO of the company in charge of the architecture of the Linky information system, Atos, was Minister of the Economy and Finance just prior to the launch of the Linky project in 2007, there seems to be room for doubt ….

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[1] “Energy efficiency improvement” and “energy savings” are used interchangeably in this post. For precise definitions, see Article 2 of Directive 2012/27/EU of the European Parliament and of the Council.

[2] The distributors manage low and medium-voltage lines. ERDF has the largest network. The networks and meters are licensed equipment, which are the property of the local public authorities.

[3] This would nevertheless involve, for example for ERDF, the elimination of 5000 jobs (compared with 5900 retirements, see Senate Report no. 667, 2012, Vol. II, p. 294).

[4] In accordance with the NOME law of 2010, suppliers and other operators must be able to make ad hoc reductions in the consumption of electricity for certain customers (temporarily cut the supply to an electric boiler, etc.), which is called demand-response load-shedding.

[5] In areas where the ERDF is not a supplier, other experiments exist, such as that of the distributor SRD in Vienna, which has installed its smart meter, i-Ouate, on 130,000 sites.

[6] See the document by the DGEC, 2013, the Working group on smart electricity meters (GTCEC) – Coordination document, February [in French].

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