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OVERVIEW

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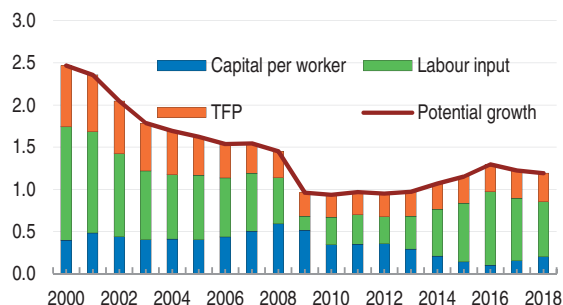
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Executive summary

- *The economy is expanding, but stronger growth would help to maintain the level of social protection*
- *Too many people are excluded from the labour market*
- *A long-term strategy would help to reduce public spending and improve its impact on equity*

The economy is expanding, but stronger growth would help to maintain the level of social protection

Weaker productivity gains have slowed potential growth



Source: OECD Economic Outlook 101 Database.

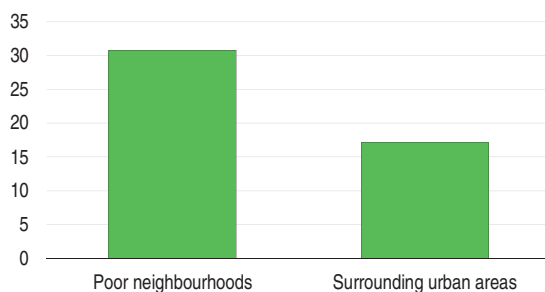
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GDP is set to grow by at least 1.6% in 2017-18, supported by private consumption and investment. The labour market is improving, but productivity gains are too low to sustain the current level of social protection, high-quality public services and rising incomes in the long run. Recent reforms have strengthened competition in some services sectors, but it remains weak in others. Along with high and complex taxes, this weighs on employment and productivity growth. Too many adults have weak basic skills, and their access to training is hindered by excessive turnover of fixed-term contracts and a complex training system.

Too many people are excluded from the labour market

Likelihood of unemployment by place of residence¹

15-29, %



1. After controlling for individual characteristics; see Figure 36 for details.

Source: ONPV (2016), Rapport annuel 2015.

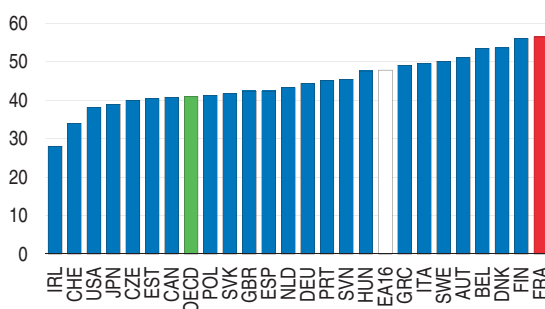
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Poverty is low overall. Yet, many youngsters and low-skilled workers are excluded from the labour market, especially when they live in poor neighbourhoods. These can be difficult to leave, as housing affordability is an issue, at least in big cities. Efforts to increase the number of apprenticeships have not sufficiently benefited secondary school students, who need them most. Shorter court procedures with less uncertain outcomes might entice firms to hire staff on permanent contracts with higher wages and better access to training, fostering a more inclusive labour market. The labour laws need to give businesses and their workers more flexibility to negotiate working conditions and wages, in order to promote employment and productivity. The challenge is to ensure a reasonable balance of power between employers and employees.

A long-term strategy would help to reduce public spending and improve its impact on equity

Public spending is high

Per cent of GDP, 2016¹



1. Or latest year available.

Source: OECD Economic Outlook 101 Database.

StatLink <http://dx.doi.org/10.1787/888933578503>

A long-term strategy is needed to reduce public expenditure without endangering social protection so as to allow lower taxes with sustainable public finances. Such a combination would generate faster growth and lower unemployment. Pension spending remains high, as the retirement age remains low, although it has been gradually raised by recent reforms. Increasing the focus on infrastructure and education spending for the poor would improve equity. Health-care quality is high, but there is room to improve prevention and co-ordination between providers, while the broad coverage of expenditures for most households results in significant use and spending.

MAIN FINDINGS	KEY RECOMMENDATIONS
Developing a long-term strategy to reduce public spending and taxes	
A large public sector requires high taxes that weigh on employment and investment.	Meet the ambitious targets to reduce public spending and taxes. Lower social contribution rates and corporate income tax rates, as planned.
The share of the progressive income tax in revenues is low. VAT exemptions and reduced rates are important, and higher green taxes would improve environmental outcomes.	Withdraw reduced rates for VAT, and increase green taxes. Use lower social contributions as an opportunity to give a bigger role to the progressive income tax by lowering the basic allowance. Remove personal tax breaks on capital income, and lower the tax rate.
The pension system is fragmented and pension spending elevated.	Move towards a single pension system to improve labour mobility and lower management costs. Then, gradually increase the minimum retirement age in line with life expectancy.
Health-care quality is high, but there is room to improve prevention and co-ordination between different care providers. This increases spending unnecessarily.	Increase health practitioners' remuneration for prevention and treating complex chronic diseases, which will help reduce the level of medical intervention, the number of prescriptions and drug sales. Facilitate insurance schemes' contracting with groups of providers. Expand electronic health records to improve health-care co-ordination.
Fostering an inclusive development of skills and employment	
Too many adults have weak basic skills. Their access to training is hampered by the great number of different schemes and the complexity of the personal training account (<i>compte personnel de formation</i> – CPF).	Simplify the CPF, and reduce the number of similar schemes. Improve information about providers by strengthening the quality label system. Continuously evaluate active labour market policies.
Education outcomes are highly dependent on parental background. Too many youngsters are excluded from the labour market.	Offer attractive salaries and career prospects to excellent teachers in schools with many pupils from disadvantaged backgrounds. Develop apprenticeships in vocational lycées by encouraging businesses to take in young apprentices. Promote an innovative range of different practices in teacher training in order to meet the different needs of pupils.
The labour law leaves insufficient room for firms and their employees to adjust working conditions to their needs. The government limits that room further by extending sectoral agreements systematically to firms not involved in negotiations. Many sectors are too small for effective negotiations, and firms often lack worker representatives with whom they can negotiate because of the complex governance of representation and discrimination against workers negotiating for colleagues.	Merge inactive sectors and those that lack the critical mass for effective bargaining. Ensure that the extension procedure for sectoral agreements takes account of their economic and social impacts, and authorise exemptions. Encourage sectoral agreements that are differentiated by the size or age of the business, for example. Reduce the number of institutions that represent workers. Ensure better protection for workers that represent colleagues against discrimination, and improve the performance of employment tribunals.
Workers in poor neighbourhoods suffer from insufficient access to jobs and public services. Low flexibility of housing supply and the rigid allocation of social housing hinder access to housing for the poor and greater residential and labour mobility. Workers living in underprivileged areas are discriminated against.	Use urban renewal in poor neighbourhoods as an entry point to offer practical training in firms and basic skills courses. Better target public spending at transportation, childcare services and face-to-face public services in poor neighbourhoods. Reduce registration fees, and increase taxes on immovable property. Tighten obligations to pay higher rents and encourage occupants whose income rises above the eligibility ceiling to move house. Continue awareness campaigns for recruiters.
Improving productivity growth	
Despite some progress, barriers to entry and competition in services remain high.	Obtain an independent assessment of the impact on competition of laws and regulations, and increase dialogue on this subject between the competition authority and the Ministry for the Economy during the decision-making process.
Long labour court procedures with a high rate of appeals limit the use of open-ended contracts.	Introduce professional judges to guide lay assessors.
Science-industry collaboration remains weak, as is the share of competitive project financing of public research.	Increase the share of project funding in the financing of public research institutes and universities. Increase universities' autonomy to define programmes, and encourage them to increase their own resources.

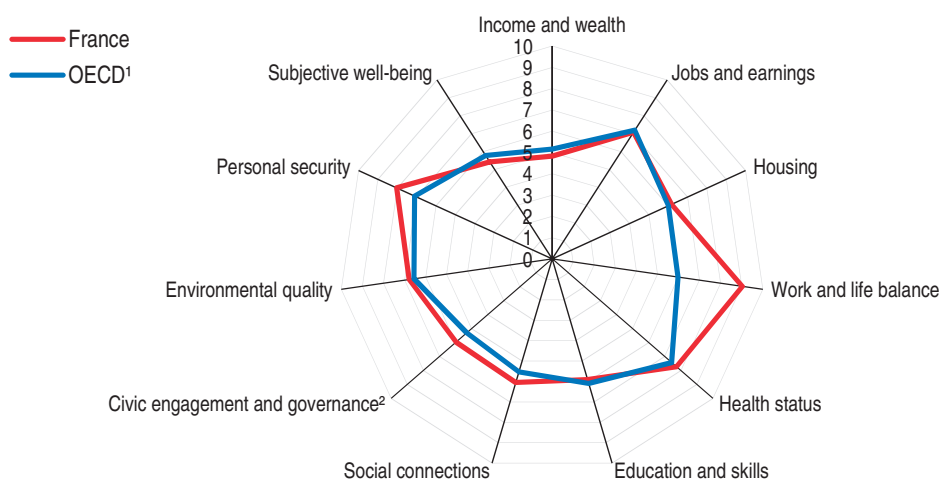
Assessment and recommendations

- *The French economy has many strengths but also faces important challenges*
- *Making taxes more favourable to employment and productivity while maintaining social protection*
- *Strengthening productivity growth*
- *Enhancing employment and access to high-quality jobs*
- *Improving life in poor neighbourhoods*

The French economy has many strengths but also faces important challenges


The French economy has high productivity and standards of living, excellent childcare services, adequate fertility, long life expectancy in good health and a good work-life balance for the average person (Figure 1). Extensive social benefits and the minimum wage have kept poverty and inequality relatively low (Figure 2). The economy, although still a bit weaker than the euro-area average, is expanding, and the labour market is gradually recovering.

Figure 1. **The average person has enviable well-being in France**



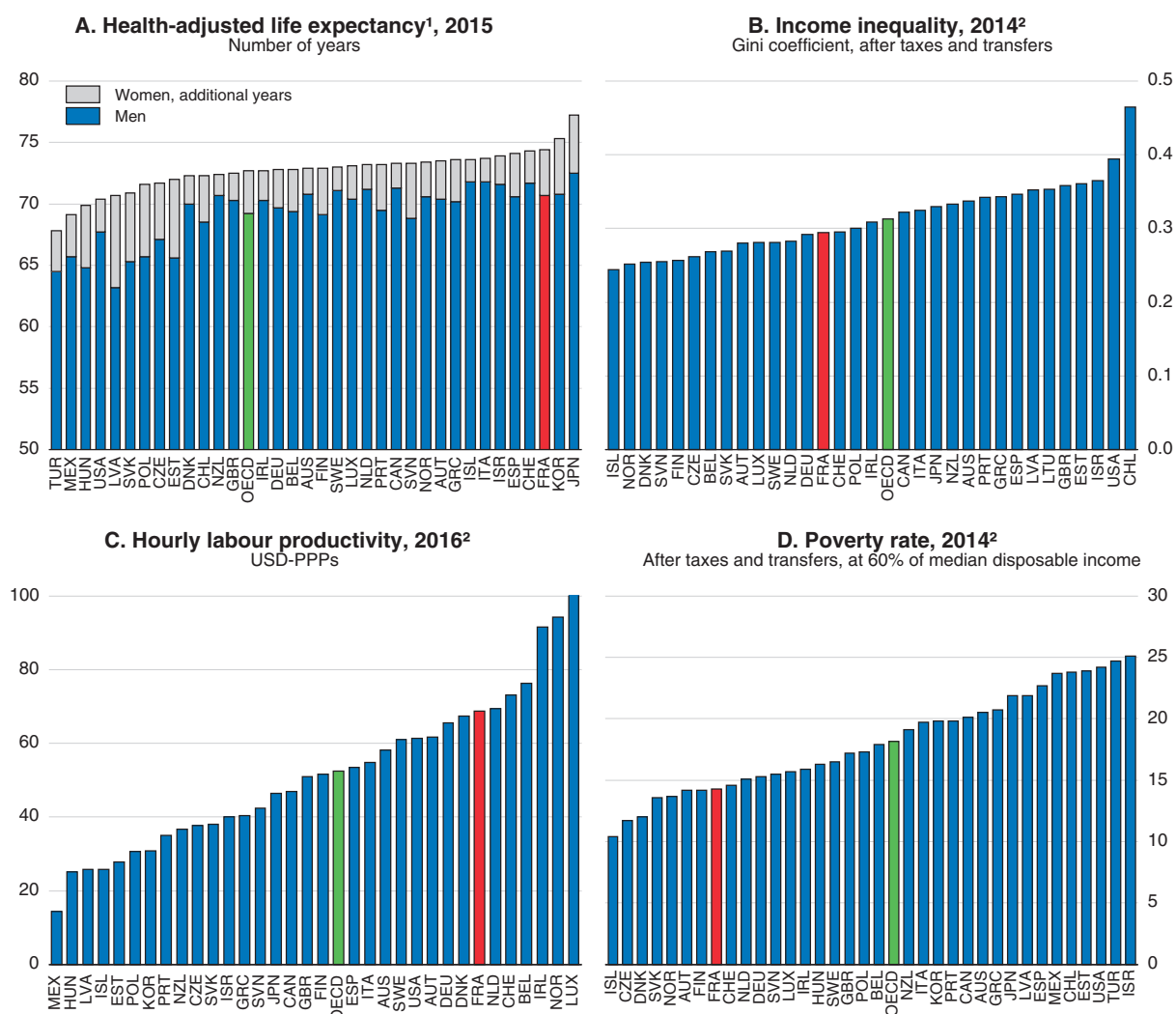
1. Unweighted average.

Source: OECD Better Life Index, www.betterlifeinitiative.org.

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However, potential growth has declined, mainly due to a weakening of productivity trends, undermining incomes and the government's capacity to provide social protection and high-quality public services. Elevated public spending, while contributing to low poverty and good health, requires high taxes that limit firms' ability to invest and create jobs and reduce incentives for people to work. Unemployment is still high, and spells are long, particularly for young people; too many of them are not in employment, education nor training. Educational outcomes that strongly reflect parental socio-economic background put inter-generational social mobility at risk (Figure 3). While poverty is relatively low on average, it is highly concentrated in certain neighbourhoods, where residents are confronted with poor housing and public infrastructure, a difficult school environment, a lack of services and amenities, and discrimination, notably in the labour market. The new government was elected on a platform of structural reforms designed to address these weaknesses (Box 1).

Figure 2. France has many strengths



1. Average number of years that a new-born infant can expect to live in full health by taking into account years lived in less than full health due to disease and/or injury (HALE). The countries are ranked according to women's life expectancy.

2. Or latest year available.

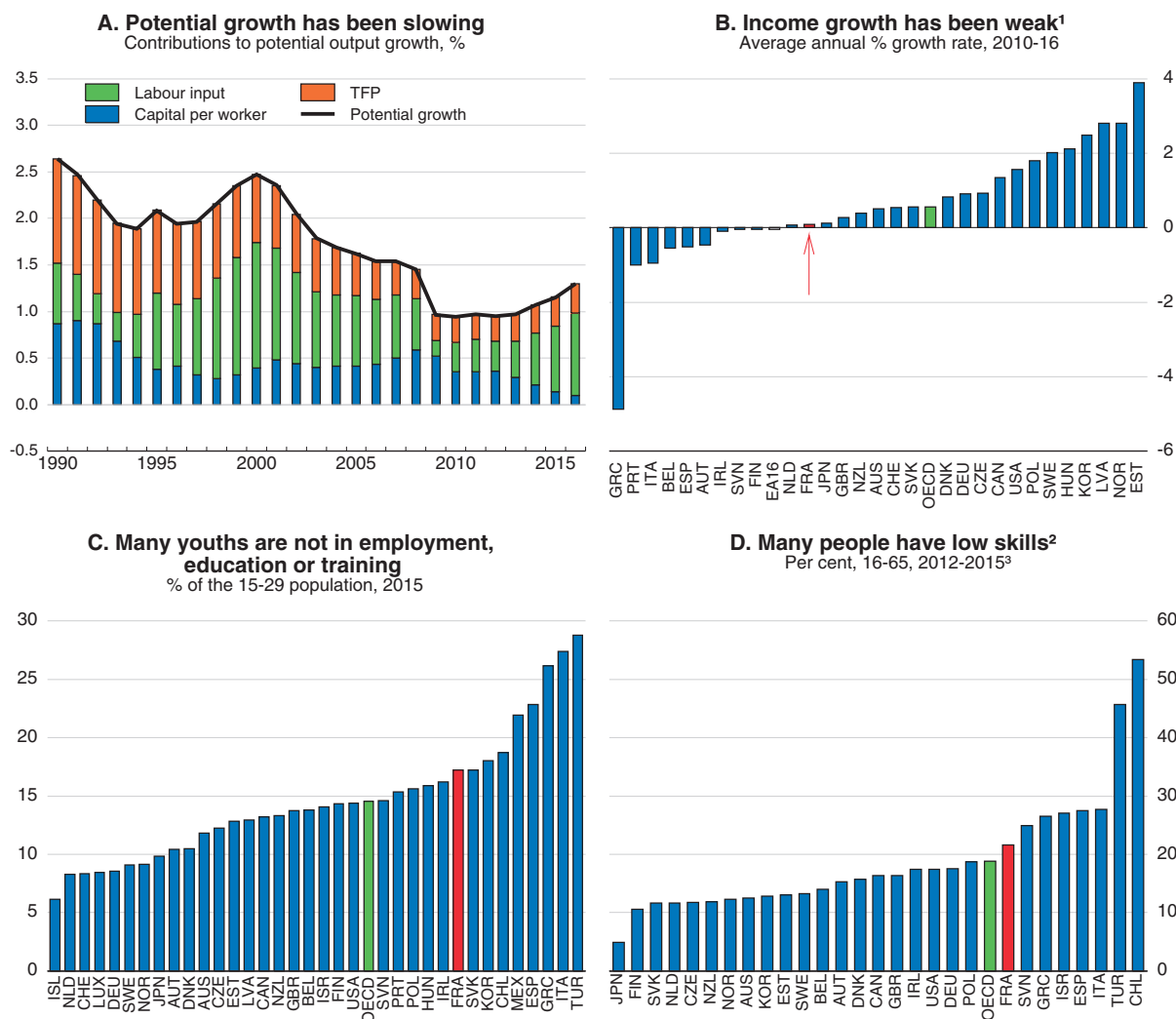
Source: OECD (2017), *Family, Economic Outlook 101* and *Income Distribution and Poverty Databases*.

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Against this background this Survey has four main messages:

- Too many low-skilled people are excluded from the labour market, and sharp inequalities in educational outcomes hinder social mobility and prevent more inclusive labour market outcomes.
- Residents of poor neighbourhoods suffer from multiple social and economic disadvantages, such as discrimination and a lack of transport services connecting them to jobs.
- Labour law leaves insufficient flexibility to negotiate wages and working conditions, while long court procedures lead to excessive use of very short-term contracts.
- Developing a long-term strategy to reduce public spending in relation to GDP would help to reduce high taxes that hinder economic development and employment growth.

Figure 3. The country also faces many challenges




1. Real net household disposable income per capita.

2. Share of adults 16-65 scoring below level 2 in PIAAC's reading proficiency scale.

3. The data are based solely on Flanders for Belgium and England and Northern Ireland for the United Kingdom.

Source: OECD (2017), *Economic Outlook 101 and Education Statistics Databases*; OECD (2016), *Skills Matter: Further Results from the Survey of Adult Skills*, OECD Skills Studies, OECD Publishing, Paris.

StatLink  <http://dx.doi.org/10.1787/888933577002>

Private consumption and investment are underpinning growth (Table 1). Although real wage gains have been slow, a modest but strengthening labour market recovery is supporting consumption. Cuts in social contributions and business taxes have helped firms restore their profit margins after a protracted decline (Figure 4). Improved internal financing capacity along with still favourable financing conditions is buoying business investment. Overall GDP growth is expected to reach at least 1.6% in 2017-18, the highest level since 2011 but still below the euro-area average.

After increasing strongly in 2015, exports dipped in 2016 due to temporary factors. But France's competitiveness problems do not seem to have been fully resolved: the hourly cost in particular is higher than the euro area average, despite measures to support cost-competitiveness such as the CICE tax credit for competitiveness and employment. In

Box 1. Key features of the programme of the new government and a preliminary assessment

- **Labour market reform:** The draft decrees reforming the labor market aim at encouraging social dialogue within firms and defining work relations and the conditions for dismissals. In this respect, the link between sector-level and firm-level agreements will be modified by listing the areas reserved for negotiations at the sectoral level and by leaving more room for taking initiatives at the firm level in other matters. In addition, sector-specific agreements will have to include explicit conditions for micro, small and medium-sized firms. Collective bargaining will be strengthened by allowing companies with fewer than 50 employees to negotiate directly with a staff representative. Companies with fewer than 20 employees who do not have staff representatives will be able to negotiate directly with their employees. One works council, the social and economic council, will be created in all firms with at least 11 employees; and for firms with more than 50 employees, this new council will merge all existing bodies. Moreover, a binding scale including minimum and maximum amounts for the indemnities decided by the labour courts will be put in place. The scope of economic justification for dismissals will now be set at the national level. Finally, statutory severance payments will be increased by 25%.
- **Unemployment insurance, vocational training and adult learning reforms:** Unemployment benefits are to be extended to the self-employed and employees who resign (once every five years). In return, job-search controls and sanctions are to be strengthened. Comprehensive vocational training and adult learning reforms are also to be implemented. To make more financing available for the personal training account various competing schemes will be withdrawn. All certified training measures will be available through it. These reforms will be reviewed by parliament in spring 2018. A national vocational training investment plan of 15 billion euros is also scheduled for implementation.
- **Pension reform:** The government plans to move to a single pension system to improve equity and transparency and lower costs. Discussions about this reform are projected to start in 2018 culminating in a reform framework at the end of 2018.
- **Public spending:** The government intends to reduce the weight of current public expenditure by three points of GDP over the next five years, by keeping it stable in real terms for the first three years. The details will be set out at the end of September in the initial Finance Law for 2018, but the President's manifesto contained a number of indications, including 25 billion euros corresponding to lower social spending obtained from reduced health and unemployment insurance outlays. A further 10 billion euros would come from expenditure reductions to be negotiated with local governments and 25 billion euros from other government spending cuts, notably by reducing the number of civil servants by 120 000. On the spending side, there will be a new investment plan worth a total of 50 billion euros, i.e. half a percentage point of GDP per year, including the 15 billion euros for training. The planned cuts in public spending could add around 2% to GDP in 20 years (according to Fournier and Johansson, 2016). If the increase in spending planned for investment during the President's five-year term of office were maintained, this impact could rise by 0.5% to 2% according to the different models used by the OECD (OECD, 2016a).
- **Tax reform:** The government plans to eliminate the residency tax (*taxe d'habitation*) for 80% of households, narrow the tax base of the wealth tax (*impôt sur la fortune*) to real estate assets only, and the taxation of capital will be modified to a flat rate of 30% (rather than being subject to the progressive income tax as is currently the case). The corporate income tax rate will be reduced from 33.3 to 25%. This could increase GDP per capita by around 0.9% in the long term (Égert and Gal, 2016). Employees' social contributions for health care and unemployment insurance should be eliminated in two steps in 2018, a measure financed by an increase in the contribution sociale généralisée (CSG), a proportional income tax. The tax credit for competitiveness and employment (*credit d'impôt pour la compétitivité et l'emploi* – CICE) will be converted into a reduction in employers' social contributions as of 2019.

Box 1. Key features of the programme of the new government and a preliminary assessment (cont.)

- **Education reform:** The government intends to halve class size to 12 pupils for grade 1 and grade 2 in poor neighbourhoods (priority education schools), with implementation starting in the 2017-18 school year. Universities will be granted more autonomy to recruit their professors and define their teaching programmes.
- **Health care:** Prevention, access to care and efficiency are the pillars of the national health-care strategy. Vaccines for babies and toddlers should become mandatory in 2018, and the cost of a packet of cigarettes should gradually rise to ten euros. The Minister for Solidarity and Health is also preparing a plan to combat health-care deserts for September 2017 and new incentives for information sharing and co-operation between health-care professionals, and care quality. The government has also pledged to provide full coverage for glasses, dental care and hearing aids.

Table 1. Macroeconomic indicators and projections

	2013	2014	2015	2016	2017	2018
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP	2116.1	1.0	1.0	1.1	1.7	1.6
Private consumption	1176.1	0.8	1.4	2.1	1.1	1.2
Government consumption	507.7	1.3	1.1	1.2	1.3	1.2
Gross fixed capital formation	467.4	0.0	0.9	2.7	2.9	3.5
<i>Of which: Residential</i>	114.9	-2.7	-1.8	2.4	4.1	3.7
<i>Non-residential</i>	268.2	2.9	3.1	3.6	3.5	3.9
Final domestic demand	2151.2	0.7	1.2	2.0	1.6	1.7
Stockbuilding ¹	5.3	0.7	0.3	-0.1	0.2	-0.2
Total domestic demand	2156.6	1.5	1.5	1.9	1.8	1.5
Exports of goods and services	605.4	3.4	4.0	1.9	3.5	4.4
Imports of goods and services	645.8	4.8	5.5	4.2	3.7	4.0
Net exports ¹	-40.4	-0.5	-0.5	-0.8	-0.1	0.0
Other indicators (% change, unless otherwise specified):						
Potential GDP	-	1.1	1.2	1.3	1.2	1.2
Output gap ²	-	-1.8	-2.0	-2.2	-1.7	-1.4
Employment	-	0.1	0.1	0.6	0.6	0.7
Unemployment rate ³	-	10.3	10.4	10.1	9.5	9.3
GDP deflator	-	0.6	1.1	0.4	1.0	1.5
Consumer price index	-	0.6	0.1	0.3	1.1	1.0
Core consumer prices	-	1.0	0.6	0.6	0.6	1.0
Household saving ratio, net ⁴	-	9.1	9.1	8.7	8.7	8.7
Trade balance ⁵	-	-2.0	-1.5	-2.0	-2.3	-2.1
Current account balance ⁵	-	-1.3	-0.4	-0.9	-1.1	-1.0
General government financial balance ⁵	-	-3.9	-3.6	-3.4	-3.0	-2.9
Underlying government financial balance ²	-	-2.8	-2.4	-1.9	-1.8	-2.1
Underlying government primary balance ²	-	-0.7	-0.6	-0.2	-0.2	-0.4
General government gross debt ⁵	-	119.7	120.4	123.3	124.3	124.8
General government debt, Maastricht definition ⁵	-	94.8	95.6	96.4	97.4	97.9
General government net debt ⁵	-	74.0	75.7	79.0	79.9	80.4
Three-month money market rate, average	-	0.2	0.0	-0.3	-0.3	-0.3
Ten-year government bond yield, average	-	1.7	0.8	0.5	0.9	1.2

1. Contributions to changes in real GDP, actual amount in the first column.

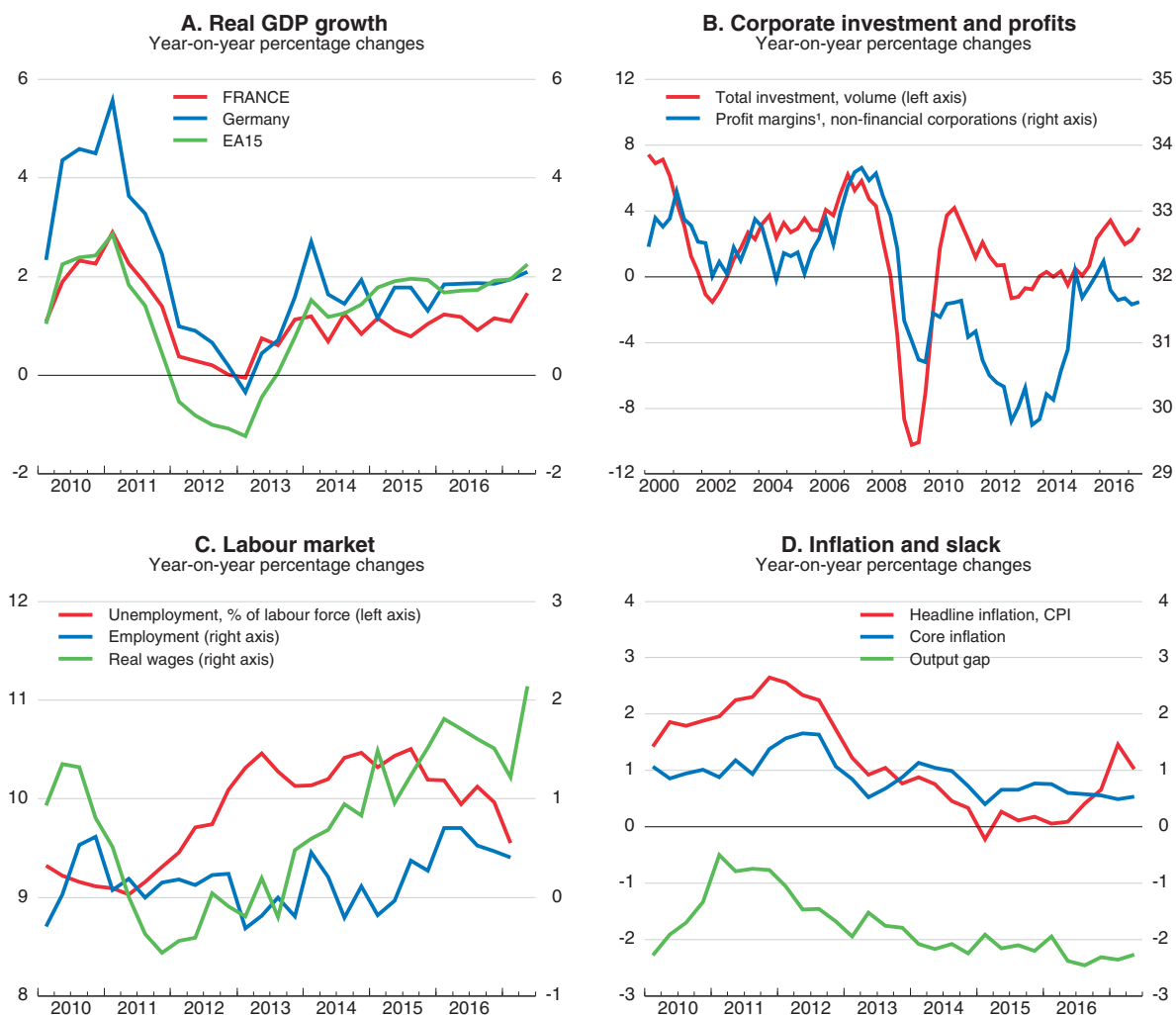
2. As a percentage of potential GDP.

3. As a percentage of the labour force.

4. As a percentage of household disposable income.


5. As a percentage of GDP.

Source: OECD STEP 101 Database (and updates).

Figure 4. **Macroeconomic indicators**

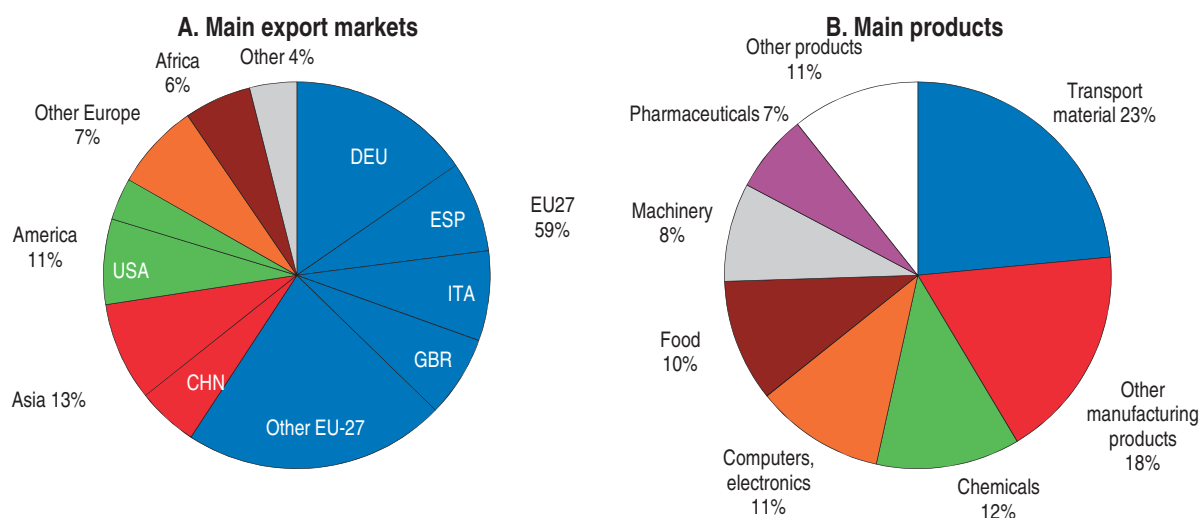
1. As a percentage of gross value added.

Source: OECD (2017), OECD Economic Outlook 101 Database (and updates); INSEE.

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France, non-price competitiveness is hampered by weaker innovation than in the best-performing economies, whereas research spending is mostly directed at industries that are in decline in terms of their share of value added. After the sharp fall observed at the beginning of the 2000s, France's export performance has been relatively stable since 2010. Exports are expected to rebound thanks to revived world demand, in particular from France's main European trading partners. The share of services has been growing strongly, reaching close to 30%, second in Europe only to the United Kingdom. While goods exports are fairly well diversified by both type and destination (Figure 5), their growth has depended on only a few sectors (aircraft in particular), indicating vulnerabilities.

A clear downward trend in the unemployment rate set in towards end-2015, thanks to lower social contributions, hiring subsidies and stepped-up training programmes for the unemployed. Surveys point to solid hiring intentions, and the effects of labour tax cuts are expected to strengthen over time, so unemployment should continue its gradual fall.

Figure 5. **Structure of trade in goods, 2016-17¹**

1. 12-month cumulated flows (values) as of June 2017, excluding military equipment.

Source: INSEE.

StatLink  <http://dx.doi.org/10.1787/888933577040>

Headline inflation increased at the beginning of 2017 as energy prices rebounded. With persistent ample slack, however, inflationary pressures will remain muted, even as the labour market gradually recovers.

The development of France's exports depends on demand in trading partners' economies in a context where the effects of the United Kingdom's exit from the European Union remain highly uncertain, as does the economic situation in major emerging economies, notably China. The medium-term effects of lower business taxes and social charges on business sentiment could be stronger than expected, leading to more dynamic investment, employment growth and consumption. In addition, a number of possible shocks could alter the economic outlook significantly (Table 2).

Table 2. **Events that could lead to major changes in the outlook**

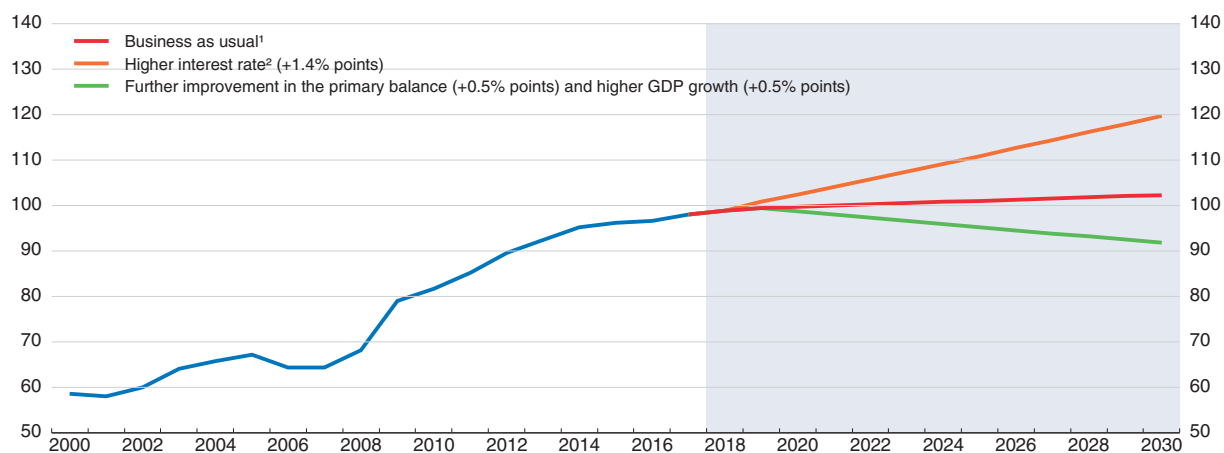
Shock	Possible impact
Worldwide rise in protectionism.	This would have adverse effects on exports and firm entry, harming productivity and potential growth.
Further deterioration of banks' problems in some European countries, triggering a European banking system crisis.	This could have ripple effects across the EU and beyond, engendering financial market turmoil and higher interest rates.
Disorderly exit of the United Kingdom from the European Union.	A disorderly exit of the United Kingdom from the EU, a major trading partner for France, could erode trust in European institutions and severely hurt consumer and business confidence, resulting in lower investment.

Financial-sector vulnerabilities appear contained, and the French banking sector seems to be resilient to adverse economic developments (EBA, 2016). The level of non-performing loans remains low, at 3.9% on average in 2016, compared to 5.7% on average in OECD countries. The ECB's bank lending survey suggests ongoing accommodative lending conditions. Loan growth to the private sector is accelerating and remains higher than in other major euro-area economies. According to the Banque de France, the debt-to-GDP ratio

of non-financial corporations (net of intra-group transactions) has continued to rise to 71.3% in the fourth quarter of 2016, compared to 63.5% on average in the euro area. Also, in the fourth quarter of 2016 household debt had risen to 57.4% of GDP, just under the figure for the euro area as a whole (58.6% of GDP). Beyond knock-on effects related to a further deterioration of the European banking system's financial health, the key financial-sector risk is the very low interest-rate environment that is harming banks' profitability and encouraging risk-taking and private-sector borrowing. An abrupt interest rate increase would lead to a major rise in businesses' debt (Banque de France, 2017). And a steep hike in rates could also lower asset prices, notably commercial property valuations in the office building segment, which has seen strong, steady growth since 2009. The systemic consequences of a sharp fall in commercial property prices, however, seem limited (Haut Conseil de stabilité financière, 2017).

The budget deficit has declined, but there are risks for future public-debt developments. Tax cuts have curbed revenue growth, and there has been additional spending in 2017 on security to tackle the terrorist threat, employment and education, but some restraint in other areas. Lower debt-servicing costs should also help to lower the deficit further to just below 3% of GDP in 2018. The OECD expects the budget trend for all public administrations to be more or less neutral in 2017-18, which seems appropriate, given the recovery in growth and EU constraints. Under a no-policy-change scenario, public debt should continue to move up, albeit at a slow pace (Figure 6). Should interest rates rise more than expected, debt would quickly increase, seriously shrinking room for fiscal policy manoeuvre in the wake of any unanticipated shocks. As such, it is necessary to gradually reduce public spending through reforms addressing inefficiencies as explained below. Such spending cuts should be large enough to lower public debt and labour taxes to raise long-term growth, which would be reinforced by structural reforms discussed below. Such policies would allow debt to decline (see the green line in Figure 6).

Figure 6. **Without policy changes the debt-to-GDP ratio is set to increase further**
Per cent of GDP



1. The business-as-usual scenario is consistent with the projections from the June 2017 OECD Economic Outlook until 2018, and assumes thereafter an annual real GDP growth of 1.2%, an effective interest rate of 2.7%, annual inflation according to the GDP deflator gradually rising to 1.75% by 2020, and a primary balance deficit improving to 0.5% of GDP from 2020.
2. Assumes a permanent increase in the effective interest rate to 4.1% by 2019.

Source: OECD calculations based on OECD (2017), OECD Economic Outlook 101 Database.

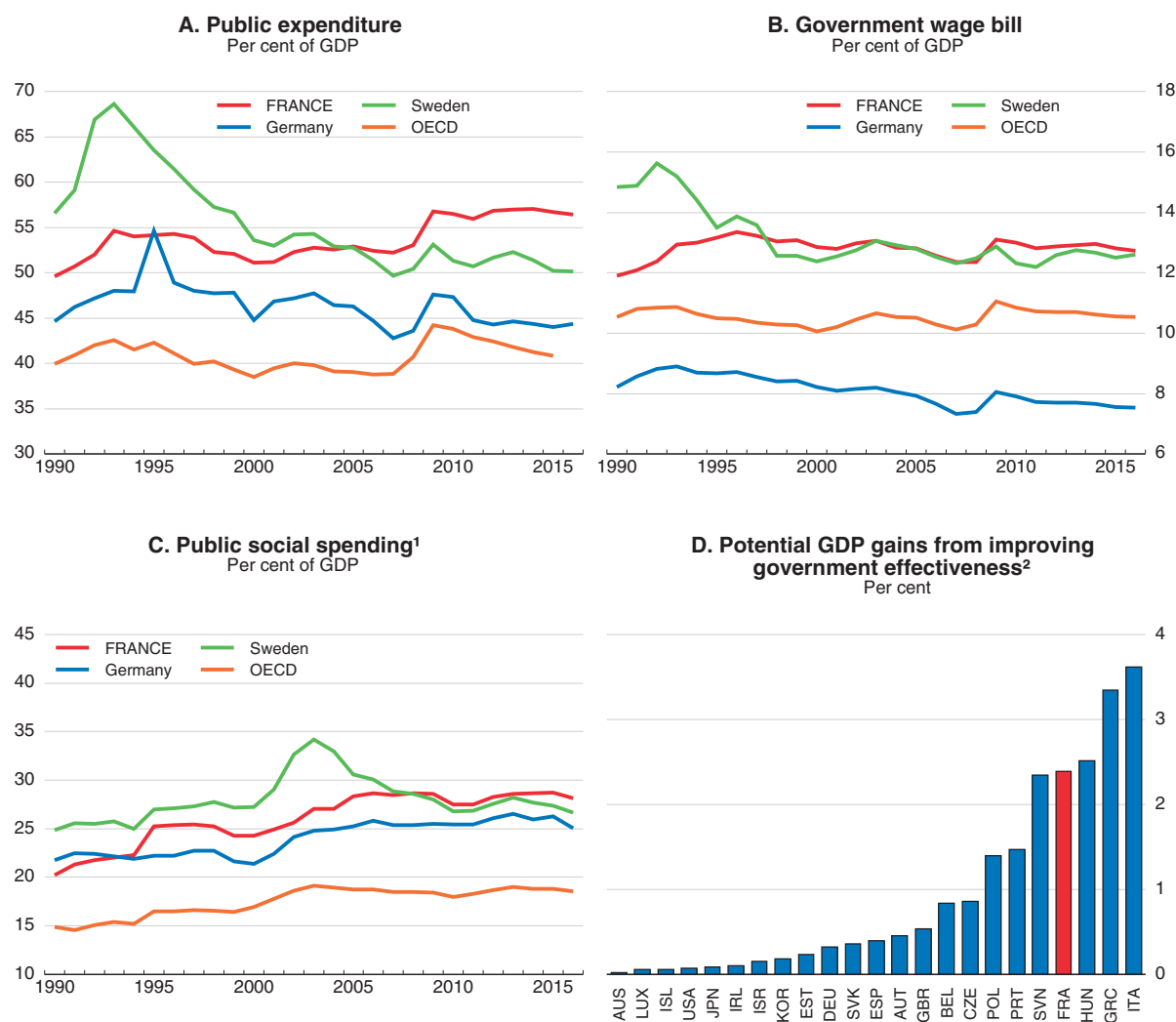
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Making taxes more favourable to employment and productivity while maintaining social protection

Sustainable spending reductions

At 56.4% of GDP in 2016 (standardised definition, including tax credits), France has the highest public spending of any OECD country (Figure 7). A long-run strategy is needed to contain public spending, ensure debt sustainability and make room for further tax cuts and simplification. This would help to strengthen employment and investment. Recent tax cuts are helpful, but the tax burden is still too high and complying with the tax system too complex. A long-term strategy to shrink public spending should include reducing pension


Figure 7. **The size of government is large**



1. Data from 2014 onwards are estimates.

2. Effect after 10 years of a reform phased in over 10 years. In countries where the effectiveness of government is below the average of the top half of the countries, the government effectiveness will gradually converge to this level. See Fournier and Johansson (2016) for details. No potential GDP gains are foreseeable for Canada, Denmark, Finland, New Zealand, the Netherlands, Norway, Sweden and Switzerland, which were already found to be at the frontier of government effectiveness.

Source: OECD (2017), *OECD Economic Outlook 101* and *OECD Social Expenditure (SOCX) Databases*; Fournier, J. and A. Johansson (2016), "The Effect of the Size and the Mix of Public Spending on Growth and Inequality", *OECD Economics Department Working Papers*, No. 1344, OECD Publishing, Paris.

StatLink  <http://dx.doi.org/10.1787/888933577078>

spending in relation to GDP, lowering the substantial government wage bill and addressing inefficiencies in public spending, particularly related to the plethora of local governments. Housing policies are another area where heavy fiscal support yields comparatively little benefit (OECD, 2011).

Elevated pension spending, together with the government wage bill, explains most of the gap of public spending between France and comparable economies such as Germany and Sweden (Table 3). Pension spending stands at 14.3% of GDP, which is among the highest in the OECD, although international benchmarking does not reflect the total cost, including private-sector financing. The average age at which workers leave the labour market remains among the lowest in the OECD (Figure 8), but recent reforms to pensions in 2010 and 2015 and unemployment insurance for workers over 50 in 2017 have yet to fully deliver. The system's long-term financial viability is ensured only under favourable macroeconomic assumptions, even though pension spending will fall significantly as a share of GDP in several scenarios (Conseil d'orientation des retraites, 2017). To strengthen the sustainability and reduce public spending in relation to GDP, gradually increasing the minimum retirement age in line with rising life expectancy seems appropriate (see below). For example, the Conseil d'orientation des retraites (2016) estimates that progressively increasing the minimum retirement age to 65 years could lead to a fall in direct-entitlement pension spending of around 0.6% of GDP by 2030 with sizeable benefits for economic activity (about 0.75% on GDP by 2030 compared to the situation if no reform were introduced). The two other levers that could be used to rein in pension spending, the number of years of contributions required for a full pension and the replacement rate, have largely been used in previous reforms so that they offer little room to generate substantial additional savings.

Table 3. Composition of public spending by main component

As a percentage of GDP

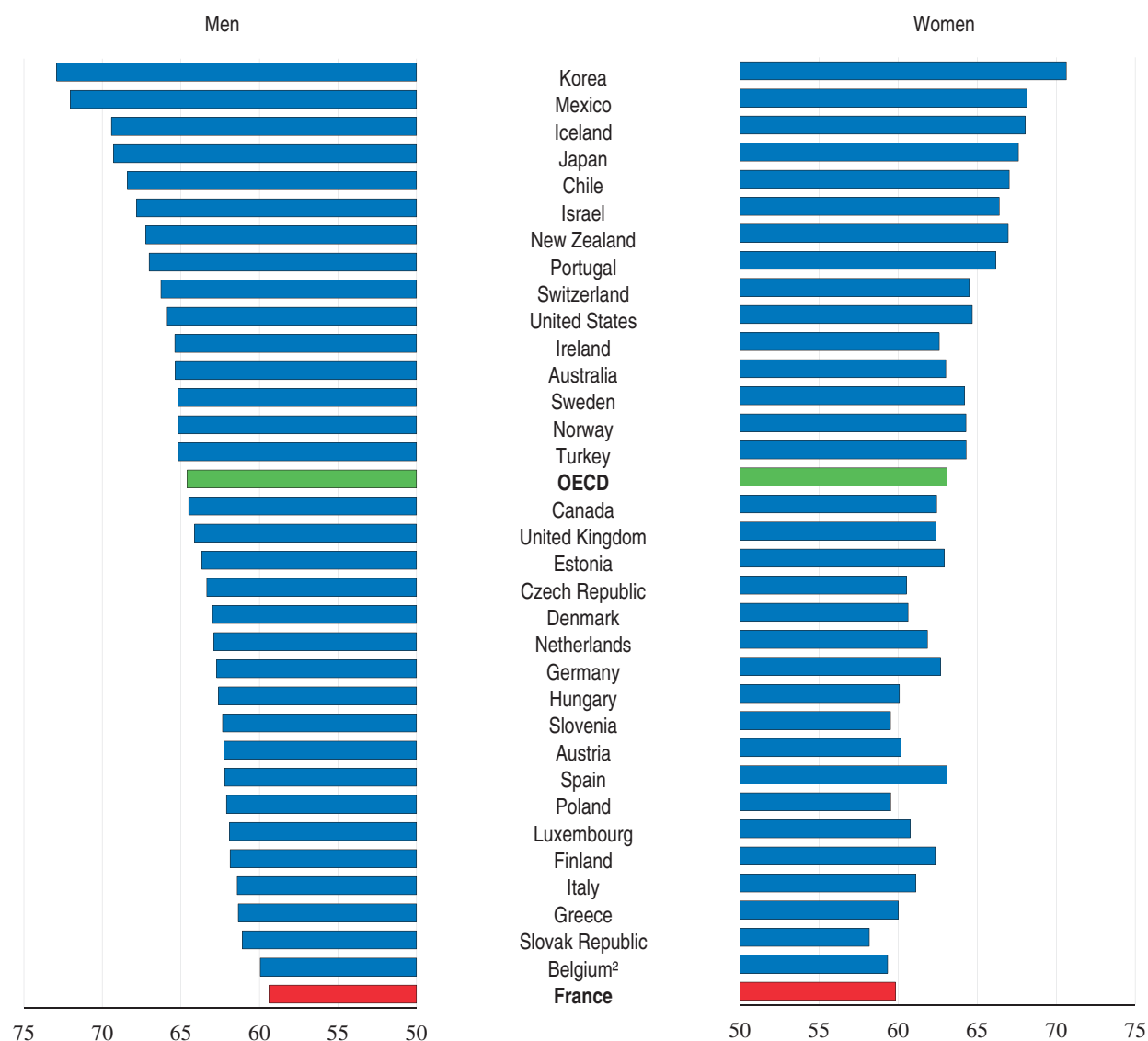
	Year	France	Germany	France vs. Germany		Sweden	France vs. Sweden	
				Difference ¹	Share in total difference (%) ¹		Difference ¹	Share in total difference (%) ¹
Total public spending	2013	57.0	44.6	12.4	100	52.3	4.7	100
	2016	56.4	44.4	12.0	100	50.2	6.2	100
Wage bill	2013	12.9	7.7	5.2	42	12.8	0.1	2
	2016	12.8	7.5	5.3	43	12.6	0.2	4
Pensions	2013	14.3	10.1	4.2	34	10	4.3	91
Health	2013	8.6	7.9	0.7	6	6.6	2	43
Education ²	2013	4.7	3.7	1.0	8	5.2	-0.5	-11
Family benefits	2013	2.9	2.2	0.7	6	3.6	-0.7	-15
Housing	2013	0.8	0.6	0.2	2	0.5	0.3	6
Unemployment	2013	1.6	1.0	0.6	5	0.5	1.1	23
ALMPs	2013	0.9	0.7	0.2	2	1.4	-0.5	-11

1. Numbers may not add to totals because of rounding, overlapping across selected spending categories and non-universal coverage of all spending categories.

2. Excluding pre-primary education.

Source: OECD Economic Outlook 101 Database; OECD Social Expenditure Database (SOCX); OECD Education at a Glance 2016 Database.


While the employment rate of older workers (aged 55 to 64) has increased significantly, it remains more than nine percentage points below the OECD average. Older workers still enjoy a longer unemployment benefit entitlement period than their younger counterparts. These advantages were reduced in 2017, but aligning benefit entitlements completely would further improve work incentives for older workers. Better access to high-quality training would

Figure 8. **Average effective age of labour-market exit in 2014**¹

1. The effective retirement age shown is for the five-year period 2009-14. The official pension age is shown for 2014, assuming labour market entry at age 20.

2. Belgium introduced a certain number of measures in 2015 to raise the effective age of labour market exit, focusing on conditions for accessing early retirement.

Source: OECD (2015), *OECD Pensions at a Glance 2015*, OECD Publishing, Paris.

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improve their employability, and making gradual retirement more attractive would help them adapt their working time to their fitness (OECD, 2014a). With 37 different pension schemes the pension system is deeply fragmented, leading to higher management costs than in comparable European countries (1.9% of total pension spending against about 1.3% in Germany and Italy). Building on the planned merger of the two main occupational top-up schemes (Table 4) by moving further towards a single pension system, as planned by the new government, would strengthen labour mobility and lower management costs. The improved transparency would help address public concerns regarding inequities. Once the different schemes have been aligned, it will make sense to gradually raise the minimum retirement age.

Table 4. Past OECD recommendations to reduce the weight of public spending and boost its efficiency

Main OECD recommendations	Summary of actions taken since the 2015 Survey
<p>Eliminate the “general power clauses” for all local governments (including for communes and the municipal groupings or <i>intercommunalités</i>).</p> <p>Reduce the number of communes.</p> <p>Expand the responsibilities and size of <i>intercommunalités</i> as planned, so as to shrink the role of communes.</p> <p>Ensure that pensions contribute to the reduction of public spending compared to GDP, modify the parameters of the top-up pensions to ensure their sustainability in the context of the negotiations between unions and employers planned in 2015, and continue to eliminate the exceptions attached to special pension schemes.</p> <p>Implement a universal points-based or national accounts pension system. Make pensions actuarially neutral, especially in the retirement age bracket. Internalise at the individual level the cost of survivors’ pensions in old-age pension benefits. Render the link between gains in life expectancy and pension eligibility fully automatic.</p>	<p>The “general power clauses” were eliminated for <i>départements</i> and <i>régions</i> but remain in place for communes.</p> <p>The territorial reform law reduced the number of regions in metropolitan France from 22 to 13, and the number of communes and <i>intercommunalités</i> shrank. Additional mergers are in progress. <i>Métropoles</i> were established in and around large cities.</p> <p>The two main occupational top-up schemes (AGIRC and ARCO) are to be merged by 2019, which should lead to lower administrative costs. The 2015 AGIRC-ARRCO agreement also provides for parametric measures and incentives for deferring the liquidation of pension rights. This agreement should improve the balance of the pension system by 0.3% of GDP by 2020, in addition to any savings in administration costs. The government plans to move to a universal system. Discussions about this reform are projected to start in 2018.</p>
<p>Reform public employee job-mobility rules, and reduce the number of civil servants through a targeted approach, redefining the duties of government, for example with the help of an external audit.</p>	<p>No action taken.</p>

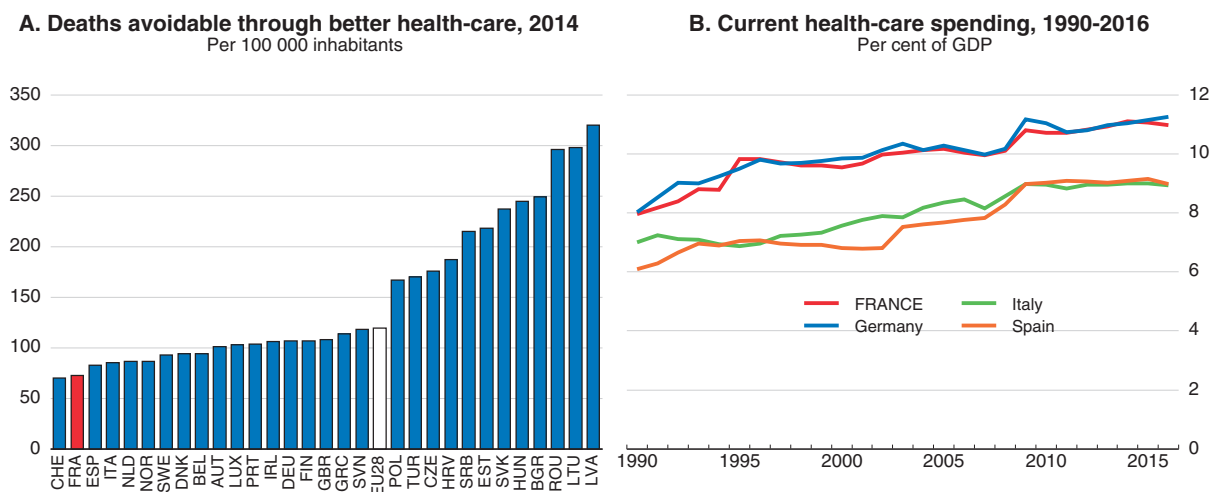
Local government expenditure represents about 20% of overall public spending. The many layers of government with overlapping competencies and the unusually small size of municipalities generate inefficiencies. Further streamlining local governments could lead to substantial savings over time (Table 4). Continuing reforms and clearly allocating responsibilities will be important. Quickening the pace of commune mergers would help achieve economies of scale and contribute to improving environmental outcomes, as poor waste water treatment tends to be concentrated in small municipalities, for example (OECD, 2016b).

The government wage bill is substantially higher than the OECD average (Figure 7, Panel B). The local government wage bill has increased particularly fast, but there is also room to improve efficiency in some central government services. The new government plans to cut the number of civil servants by 120 000 over the next five years, split between central and local governments. This can be done by replacing one out of every three retiring civil servants. Over time, the restructuring of sub-central governments should contribute to reducing the number of civil servants further. Moreover, the wage bill could be contained and better aligned with conditions in different government services by changing the system governing salary increases. As it stands, salary increases for all 5.6 million civil servants depend on the change in an index reflecting the payment grid to which base salary and other components are linked. Changes are decided by the central government, which announced that it was freezing the index in 2018. Decentralising the calculation of the index between all three categories of the civil service, as planned by the new government, is a step in the right direction.

Improving efficiency and equity in health care

Health outcomes are generally good in France. Health-adjusted life expectancy is high, and the number of deaths that could have been avoided if the health-care system offered more timely and effective services is low (Figure 9, Panel A). However, health-care spending is rising steadily (Panel B), and population ageing will put the system under growing pressure. The life expectancy of lower-income groups is shorter than average (Figure 10,

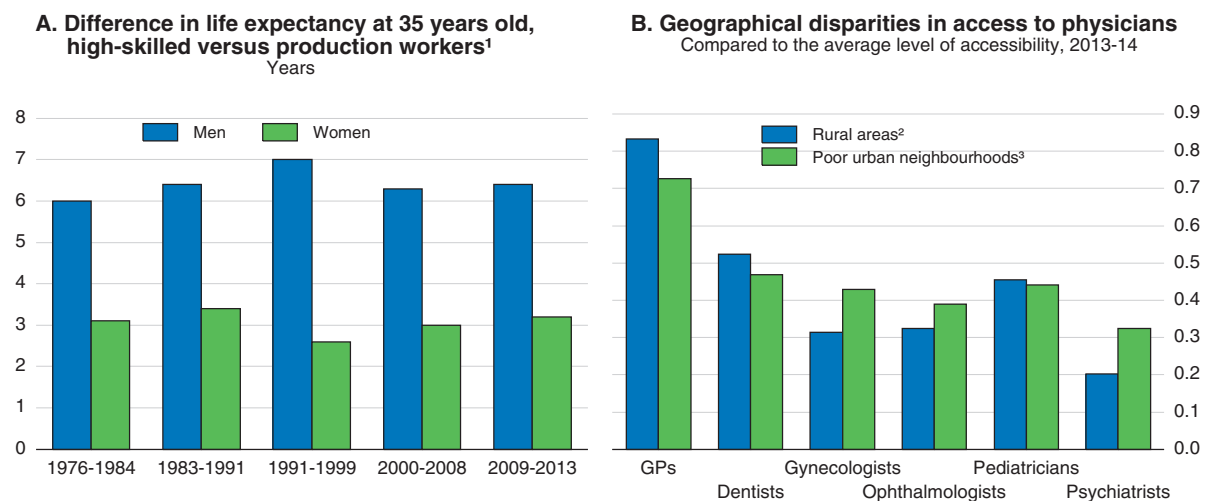
Figure 9. Health outcomes are good, but spending is high



Source: OECD (2017), OECD Health Statistics database; Eurostat (2017), Amenable and Preventable Deaths Statistics.

StatLink <http://dx.doi.org/10.1787/888933577116>

Figure 10. Health outcomes and access to care are unequal



1. High-skilled workers include white collar and highly qualified workers, such as managers, researchers and industry experts. Production workers refer to both unskilled and less than highly-skilled employees doing mainly manual work.

2. Ratio of accessibility index in rural areas to the index in France. Rural areas are weighted according to their population in 2011.

3. Ratio of density per inhabitants in poor urban neighbourhoods (quartiers prioritaires de la ville) to density in metropolitan France.

Source: Blanpain, N. (2016), « Les hommes cadres vivent toujours 6 ans de plus que les hommes ouvriers », *Insee Première*, No. 1584; Direction de la recherche, des études, de l'évaluation et des statistiques, Drees; OECD calculations based on ONPV (2016), « L'offre de soins dans les quartiers prioritaires de la politique de la ville en 2014 », *Rapport annuel de l'Observatoire national de la politique de la ville 2015*; Vergier, N. (2016), « Accessibilité aux professionnels de santé libéraux: des disparités géographiques variables selon les conditions tarifaires », *Etudes et Résultats*, No. 970, Drees; Brutel, C. and D. Levy (2011), « Le nouveau zonage en aires urbaines de 2010 », *Insee Première*, No. 1374; Drees (2016), *Les dépenses de santé en 2015 – Résultats des comptes de la santé*.

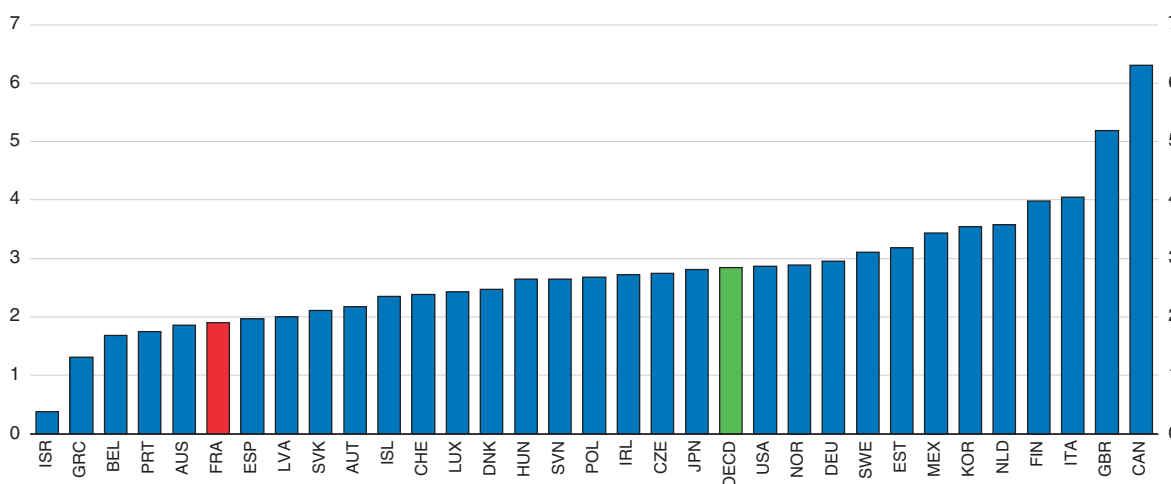
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Panel A) and shows no sign of converging, and there are fewer providers in rural areas and poor neighbourhoods (Panel B). The governments' plan to increase the number of health centres gathering different providers is one way of improving access to care in these areas. The centres would also be helpful to improve co-ordination among providers.

Health insurance coverage is universal, and access to these rights was strengthened in 2016 when universal health cover (*protection universelle maladie*) came into force. There are several occupational schemes in addition to the main public insurance scheme. These are topped up by complementary insurance plans, which reimburse a varying amount of what is not covered by the statutory scheme. Out-of-pocket payments are generally low. Government programmes exist for chronic diseases and for the poorest sections of the population (CMU-C and ACS). However, because of a lack of uptake of these programmes, some groups, such as the unemployed and elderly, are less well covered by complementary schemes. Tax breaks promote the expansion of complementary plans for employees. The authorities have recently capped the reimbursement of extra billing by most employer-provided complementary insurance plans, although at a high level. Hence, many employees still have generous complementary insurance plans, contributing to high prices and thereby reducing access for low-income households with less generous coverage (Dormont and Péron, 2016).

Reforming payment schemes for primary care and pharmacists would strengthen prevention (Figure 11) and improve health outcomes. There is near full freedom of practitioner choice, and general practitioners and specialists are mostly remunerated by fee-for-service arrangements, which appear to foster extra billing and large numbers of prescriptions (Figure 12; Paris et al., 2016). Raising the fees pharmacists and physicians receive for prevention efforts, particularly so for complex diseases that require extensive co-ordination, would increase preventive care (OECD, 2016c). In contrast, fees related to sales volume and numbers of prescriptions for less complex diseases should be reduced (OECD, 2016c). Regarding medicines the government has achieved some cost containment through the promotion of generics and caps on some public reimbursements. Developing further the ability of health insurers to contract with groups of providers would improve health-care pathways and ease the treatment of chronic diseases. Sharing electronic

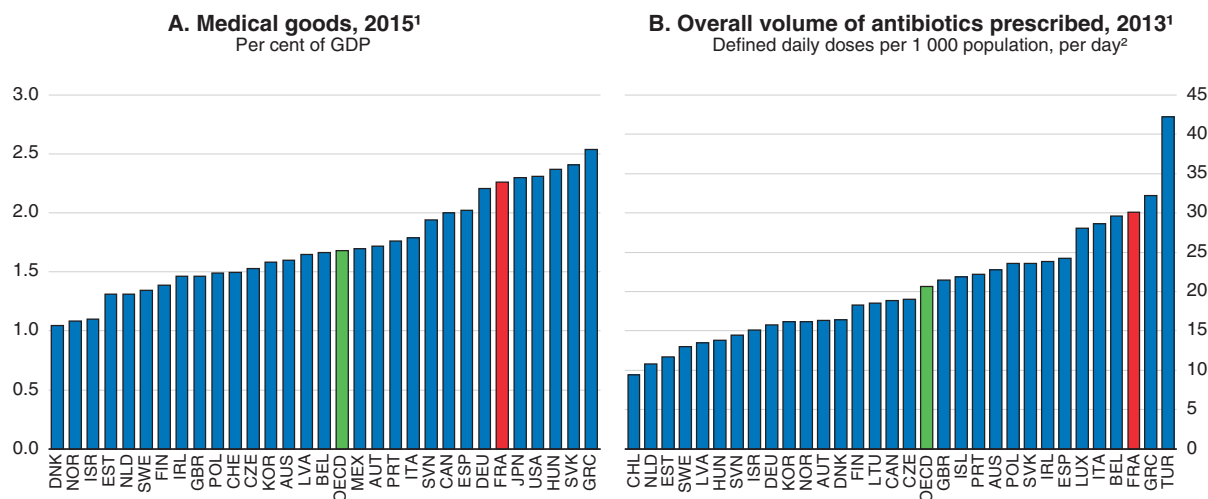
Figure 11. **Spending on prevention is low**¹
Per cent of health-care spending, 2015²



1. The scope of institutional spending is different from the entirety of spending on prevention in France, especially for ordinary consultations, which amount to 9.3 billion euros in 2014 according to Drees, i.e. 3.9% of health spending, compared to 2.0% in 2014 according to OECD figures.
2. Or latest available year.

Source: OECD (2017), OECD Health Statistics Database.

StatLink  <http://dx.doi.org/10.1787/888933577154>

Figure 12. **Spending on pharmaceuticals and prescriptions is high**

1. Or latest available year.

2. In hospital and primary care. A drug's defined daily dose is the assumed average maintenance dose per day for its main indication in adults (e.g. 3 grams for oral aspirin). It is constant across countries.

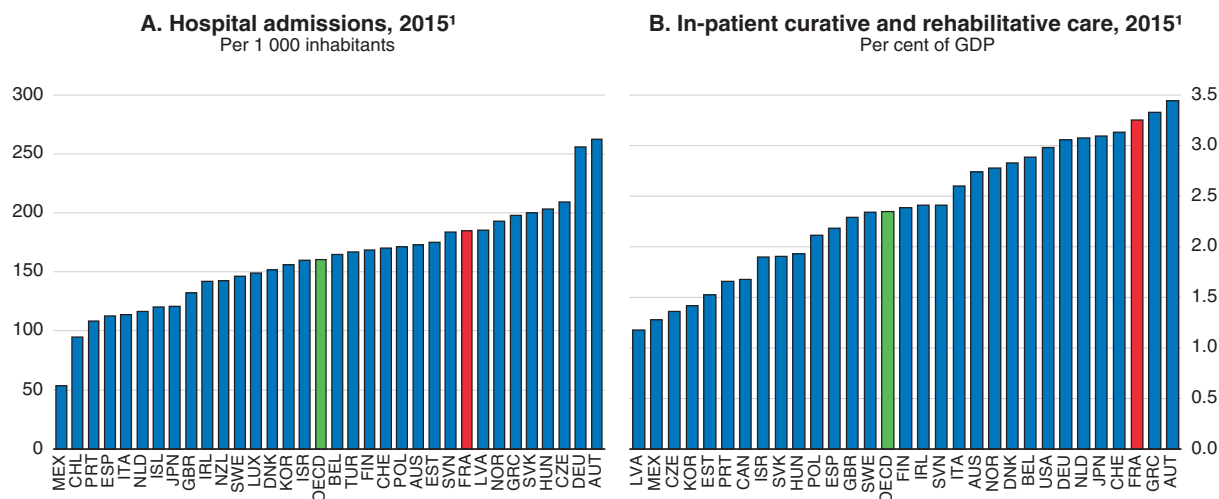
Source: OECD (2017), OECD Health Statistics Database.

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health records between primary-care providers would also aid in co-ordination and limit wasteful expenditures (OECD, 2017a). Strengthening the assessment of clinical and cost effectiveness and safety of new medications would also help (Polton, 2015).


Promoting prevention and healthier lifestyles, as announced by the new government, would improve long-term health outcomes. Despite information campaigns and higher taxes on tobacco and some sugary drinks, the number of daily smokers and the level of alcohol consumption are still well above the OECD averages, while the obesity rate was increasing rapidly until recently (OECD, 2014b). Banning advertisements on digital media, monitoring high-risk populations, tightening sanctions against illegal sales and encouraging technology blocking drunk drivers would significantly lower the social costs of alcohol consumption. Raising taxes on alcohol and reforming the excise tax on soft drinks to reflect their sugar content and extending it to food products would be more effective than information campaigns (Sassi et al., 2013).

The hospital sector has unexploited efficiency reserves. Admissions are numerous and costly, partly encouraged by an activity-based payment system (Figure 13). Staff management rigidity largely related to the civil service status of most public hospital employees has led to a rising and costly recourse to temporary contracts with independent health practitioners, worsening patient outcomes and working conditions (Bloom et al., 2014; Coutrot and Davie, 2014). The remuneration of practitioners on temporary missions was capped by the 2016 law modernising the health-care system. This trend could be reversed by amending the status of hospitals' employees to enhance the autonomy of public hospital managers for hiring decisions, careers and wages. This would allow them to manage human resources more efficiently and could lead to lower spending, as the wage bill amounts to 60% of public hospital spending (Drees, 2016). A 2016 reform eased collaboration between hospitals and their specialisation by creating new local hospital groups. This should reduce incentives for activity maximisation and help rationalise coverage in rural areas.

Figure 13. **Hospital admissions and spending on in-patient care are high**

1. Or nearest available year.

Source: OECD (2017), OECD Health Statistics Database.

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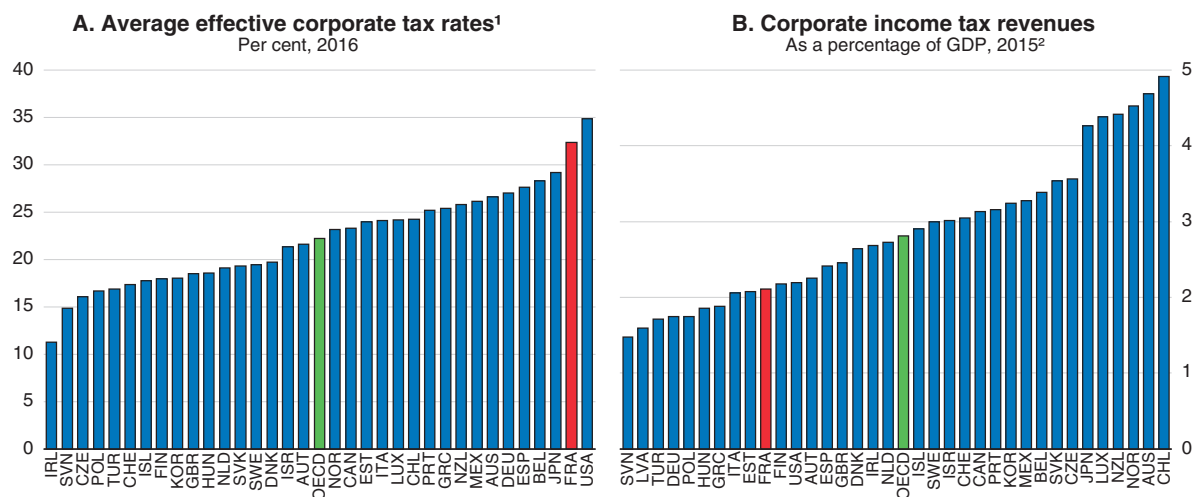
Simplifying the tax system and the framework of environmental regulation

The tax system is complex, with a large number of frequently changing exemptions and credits, making for high compliance and collection costs. For example, firms are subject to 233 different taxes. Taxes on production, such as the *contribution sociale de solidarité des sociétés* levied on firms' turnover and the *cotisation sur la valeur ajoutée des entreprises* levied on firms' value added, which directly affect profit margins, are particularly onerous: 3% of GDP, compared to 1% in Spain and 0.4% in Germany (European Commission, 2017). Eliminating taxes, reducing rates and broadening bases should continue to be a priority.

The corporate income tax combines high rates, which differ by firm size, with a low yield, creating financing distortions, despite measures taken in 2013 to limit the deductibility of interest, and obstacles to investment, firm entry and productivity growth (Figure 14). Reducing the statutory rate to 25% from 33.3%, as promised by the new government, is desirable, as is broadening its base (Conseil des prélèvements obligatoires, 2016). The effectiveness of generous R&D tax credits would be worth further examination. New rules could be introduced to limit the possibility for firms to carry back their losses, while further cutting corporate rates to promote innovation spending (OECD, 2014c). The reduced corporate rate for SMEs can be a barrier to firm growth, as small firms may shy away from growing beyond the threshold for the reduced rate. It should be reconsidered.

Limiting the role of earmarked social contributions would make the tax system simpler and more employment-friendly. More than a third of revenues are labour taxes – mainly social contributions. This is high in international comparison (Figure 15) and undermines incentives to work and hire. Recent cuts in social contributions on low wages are welcome, as studies show that this is likely to promote employment (Cahuc et al., 2014). Yet, these measures combine a tax credit, the *credit d'impôt pour la compétitivité et l'emploi* (CICE), paid with a year's lag, and reductions of contributions with different withdrawal rates, a complex set-up that can limit effectiveness. In fact, early evaluations of this tax credit have shown benefits that may take some time to materialise but are already perceptible. The CICE monitoring committee (France Stratégie, 2017) reports a positive impact on employment in

Figure 14. **High corporate tax rates go along with low revenues**

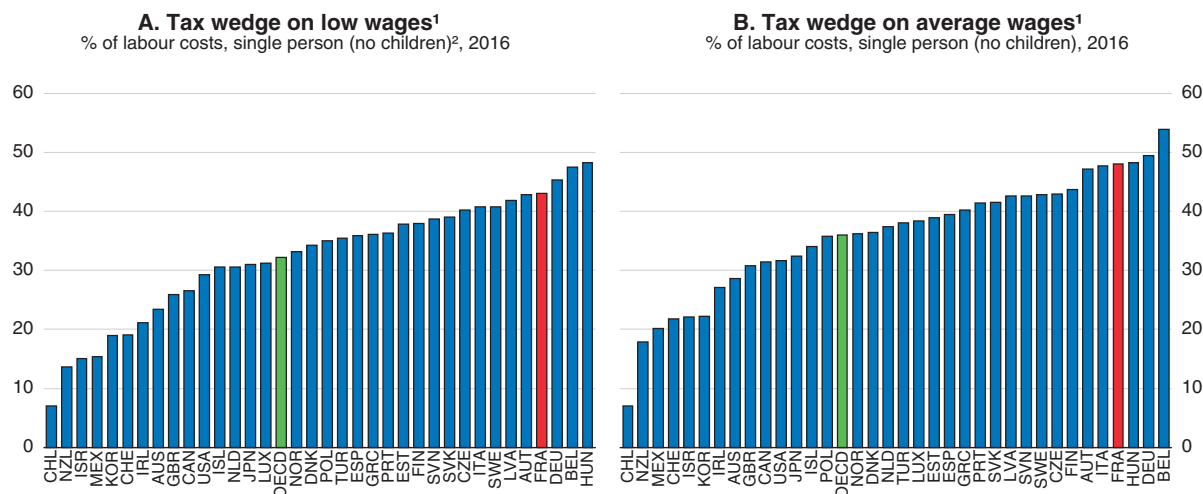


1. Difference between the pre-tax and post-tax net present values of a one-period investment in each country, computed by taking into account existing tax allowances and statutory rates and assuming a given rate of return, scaled by the present value of the income stream. The one-period investment is a composite of four assets (plant and machinery, buildings, intangible assets and inventories) financed by debt and equity.
2. Or latest year available.

Source: Oxford Centre for Business Taxation (2017), CBT Database; OECD (2017), OECD Revenue Statistics Database.

StatLink <http://dx.doi.org/10.1787/888933577211>

Figure 15. **Taxes on labour remain high**



1. The tax wedge corresponds to income tax plus employee and employer contributions less cash benefits.
2. At 67% of the national average wage.

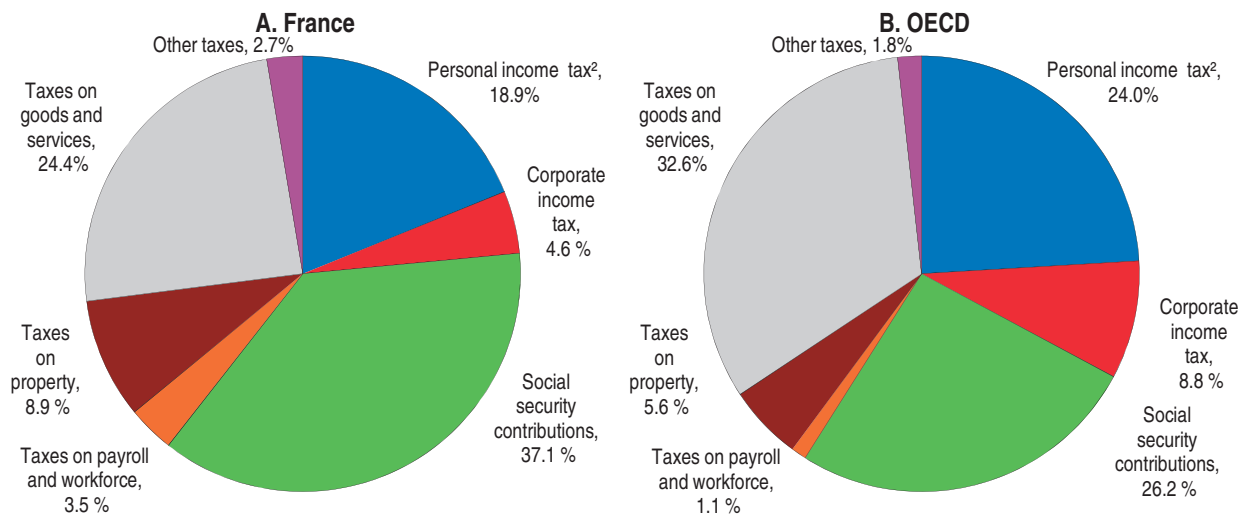
Source: OECD (2017), OECD Taxing Wages Database.

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2013 and 2014, amounting to between 50 000 and 100 000 jobs created or saved. Reducing social contributions across the board while giving progressive income taxes a bigger role would be a simpler way to lower labour taxes on low wages. Many expenditures for which social contributions are currently earmarked benefit society as a whole and would be better financed from the general budget, for example those for families, training, social housing and non-contributory health insurance.

The personal income tax currently contributes far less to overall tax revenues than in the average OECD country (Figure 16). It combines progressive (*impôt sur le revenu des personnes physiques*) and proportional (*contribution sociale généralisée*) components. The proportional PIT has a broader base and generates more revenues, while only 42.8% of households paid the progressive PIT in 2016. Given the limited revenue share of progressive income taxes the tax system contributes less to the reduction in inequality than in many other OECD countries (Figure 17). The new government plans to compensate the revenue loss from the planned elimination of employees' contributions for health care and unemployment by increasing the

Figure 16. **Structure of tax revenues, 2015¹**



1. 2014 for the OECD.

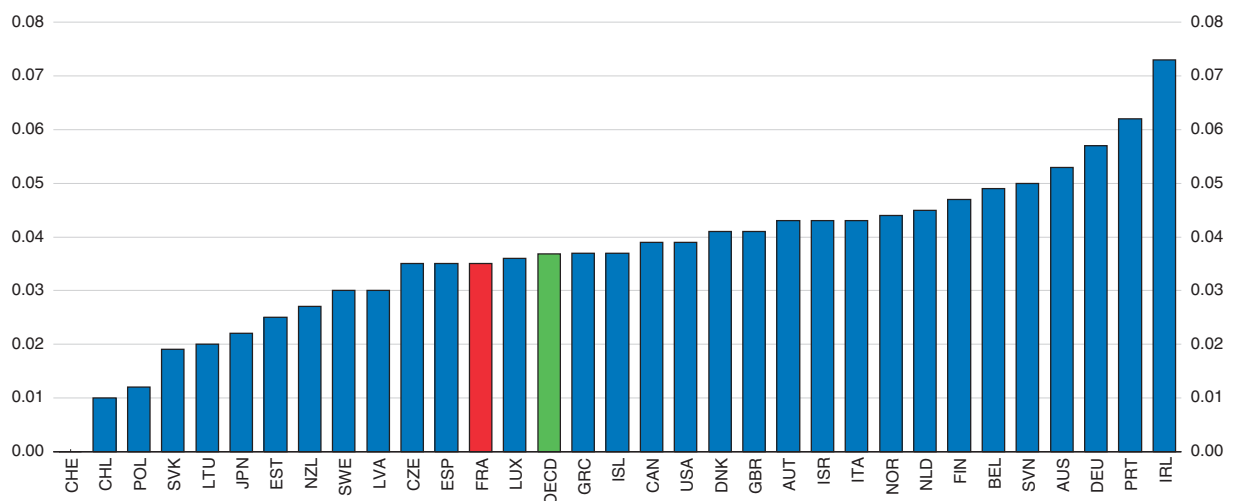
2. Including the *contribution sociale généralisée*.

Source: OECD (2017), OECD Revenue Statistics Database.

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Figure 17. **Taxes have limited effectiveness in reducing income inequality**

Reduction in gross income inequality¹ due to household taxes, Gini coefficient points, 2014²



1. After social transfers.

2. Or latest year available.

Source: OECD (2017), OECD Income, Distribution and Poverty Database.

StatLink <http://dx.doi.org/10.1787/888933577268>

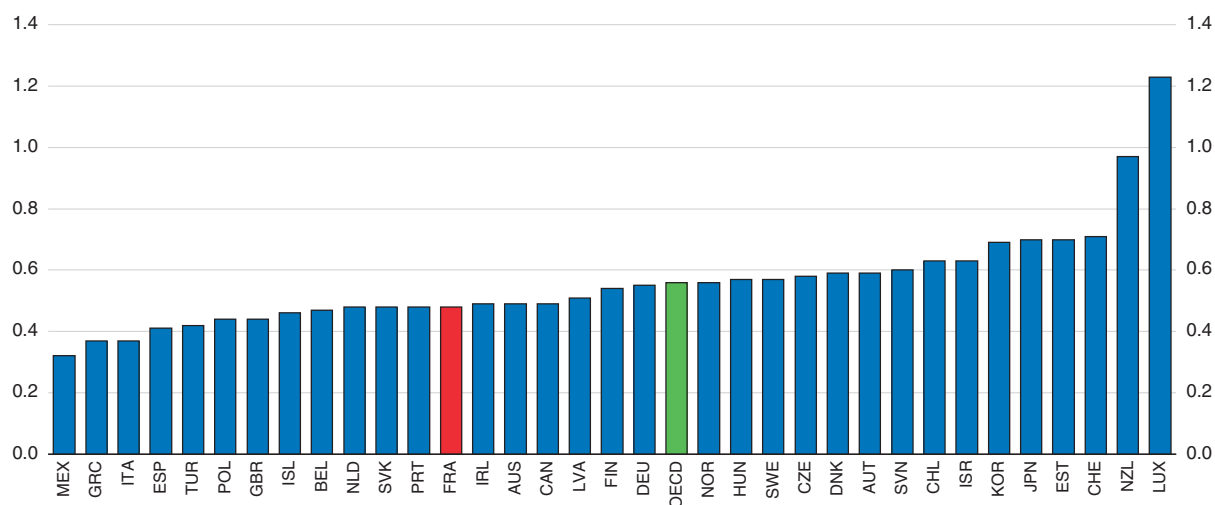
proportional PIT. But the tax system would gain in transparency and equity by giving a more important role to the progressive PIT, for example by further reducing tax expenditures that benefit mainly higher-income households. The new government plans to tax capital income at a single 30 per cent flat rate, which could give room to remove at least some of the myriad tax breaks to specific savings accounts (e.g., *plan d'épargne logement*, *livret d'épargne populaire* and *livret de développement durable*) and shared savings plans (*plan d'épargne en actions* and *plan d'épargne salariale*). This would ensure neutrality of taxation across and within asset classes (Table 5; OECD, 2013). Lower social contributions could be combined with a new tax bracket with a low rate to extend progressive income taxes to more households, while lowering their labour taxes overall. The special tax reduction mechanism on the progressive PIT (*décote*) should be phased out, as it complicates the tax system, hinders progressivity and leads to threshold effects that are detrimental for economic activity (Pacífico and Trannoy, 2015). A desirable long-term objective would be to implement a single, simple and progressive PIT as in most other OECD countries. The move to withhold the progressive PIT at the source in 2019 will facilitate implementing such a change.

Table 5. **Past OECD recommendations for a tax system promoting sustainable growth**

Main recent OECD recommendations	Actions taken since the 2015 Survey
Pursue the development of an efficient environmental tax system by aligning the tax structure for fossil fuels with their carbon emissions and other externalities.	The tax differential between diesel and petrol cars was reduced, and the new government plans to align the taxation of diesel with that of petrol by 2022. The trend in the carbon tax, which was written into the law with a target of 100€/t CO ₂ by 2030, is on track. The new administration intends to accelerate this rise.
Free up the property market by cutting transaction costs.	Registration fees increased in most <i>départements</i> .
Enhance the neutrality of capital taxation across and within asset classes, in particular by ending preferential tax treatment of certain investment income.	No action taken.

Figure 18. **VAT revenue shortfall due to tax breaks**

VAT revenue ratio¹ (%), 2014



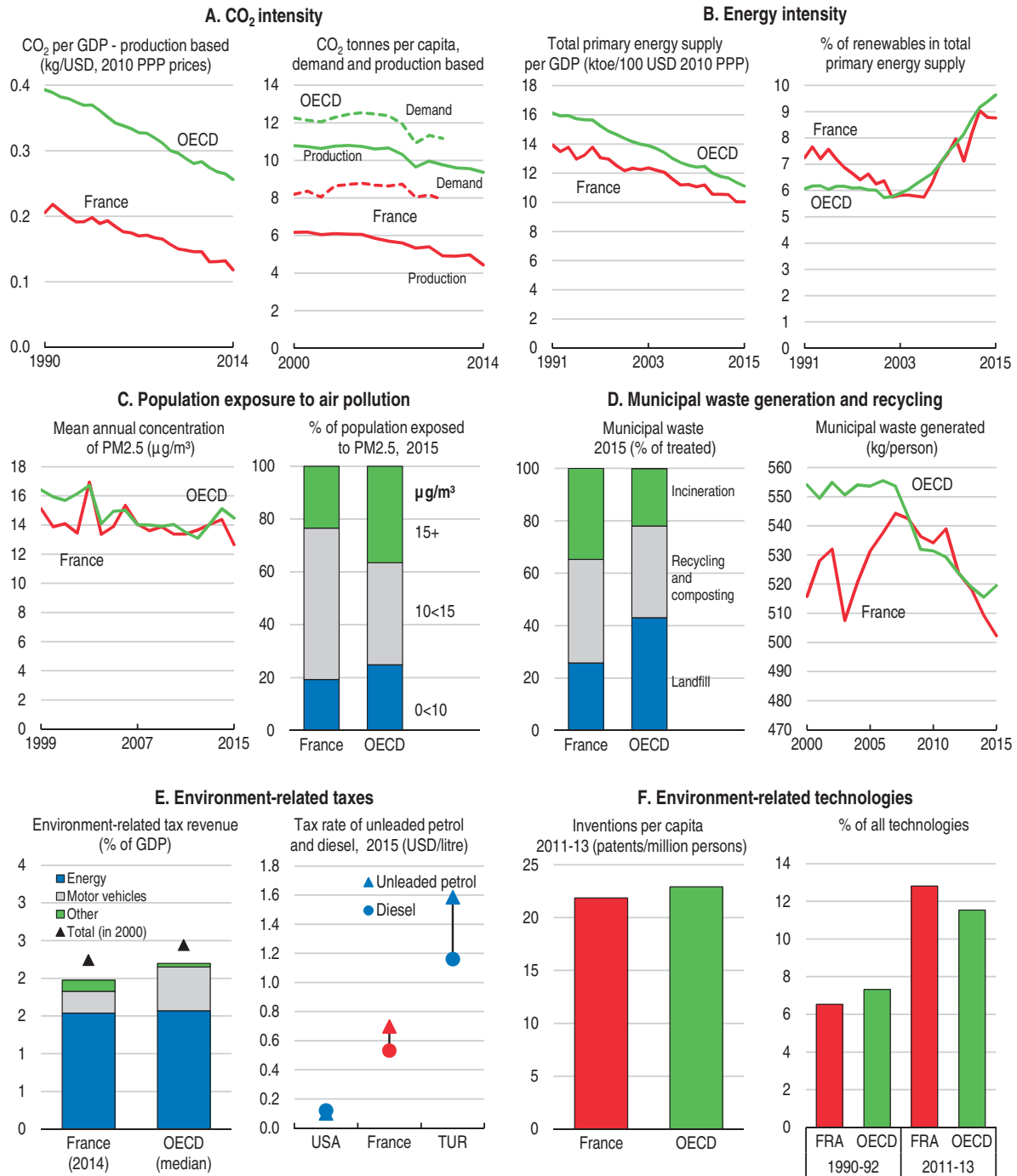
1. Ratio between the actual value-added tax (VAT) revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. It implicitly measures the share of potential tax revenues lost due to the existence of preferential tax treatments.

Source: OECD (2016), *Consumption Tax Trends 2016: VAT/GST and excise rates, trends and policy issues*, OECD Publishing, Paris.

StatLink <http://dx.doi.org/10.1787/888933577287>

Value added taxes account for a relatively low share of revenues, reflecting exemptions and reduced rates (Figure 18). The effect of these is often regressive, for example in the case of hotels and restaurants (Ruiz and Trannoy, 2008), yet a stronger role for VAT could still reduce the progressivity of the tax system. This is best counteracted through means-tested transfers to low-income households and a larger role for the progressive personal income tax.

Figure 19. Green growth indicators: France



Source: OECD (2017), Green Growth Indicators (database). For detailed metadata click here.

StatLink <http://dx.doi.org/10.1787/888933577306>

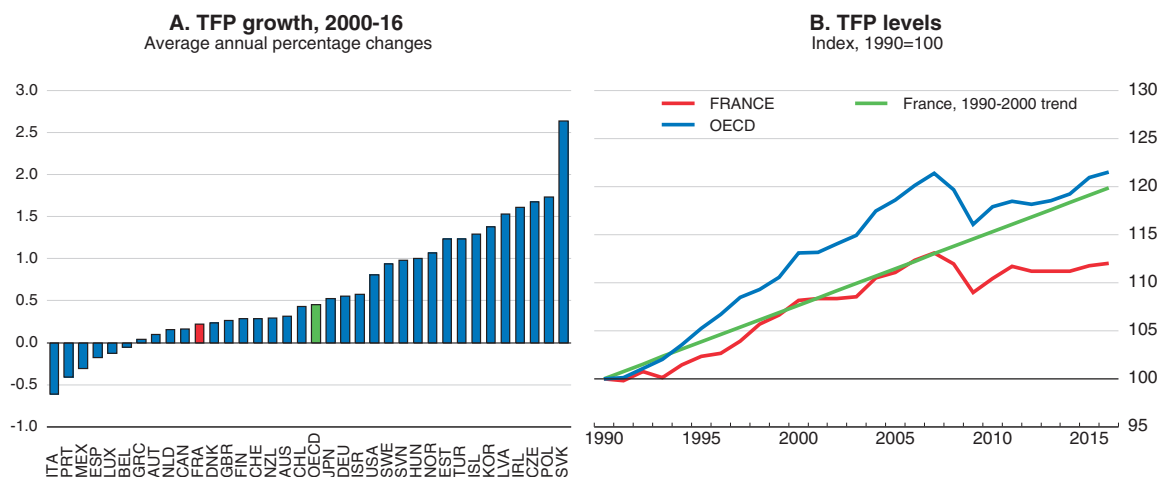
Increasing environmentally related taxes would yield extra revenues, while helping to address environmental challenges. Environmentally related tax revenues are low compared to the OECD average (Figure 19, Panel E), reflecting in part low CO₂ emissions (as France relies heavily on nuclear energy) but also low average effective tax rates on heating and process energy and on CO₂ by international standards (OECD, 2015a). The increase in diesel taxation to bring it closer to petrol taxes is encouraging and could be expedited. Diesel has long enjoyed preferential treatment in terms of vehicle and fuel taxation, but taxing it more leniently than petrol is not justified, given the fact that it pollutes more by most measures such as fine particles and NO₂ (Harding, 2014). The share of private diesel cars almost doubled to 62% from 2000 to 2014, one of Europe's highest rates, and many people are exposed to dangerous amounts of particulate matter (Panel C). The government has announced its intention to equalise the taxation of diesel and petrol before the end of the current administration. The incorporation of a carbon component into fossil fuel taxation in 2014 was a significant step. It could be made more effective by further removing environmentally damaging fuel tax exemptions, for example for road haulage, agricultural machinery and public works, which cost more than 2 billion euros per year. Other pollutants should also be taxed more, such as mineral fertilisers, which are an important source of environmental damage in France. The government should continue to raise its carbon tax, as it has been doing, to its target of 100 euros per tonne of CO₂ in 2030 to strengthen France's efforts to reduce greenhouse gas emissions, in accordance with the trajectory set out in the Energy Transition for Green Growth Act. This trajectory must be at a minimum respected or raised.

Beyond taxation, the quality of environmental regulation needs to improve. The 2015 Energy Transition for Green Growth Act established ambitious objectives to shift electricity generation towards renewables (Figure 19, Panel B). Yet, there are many targets that are difficult to reconcile, and regulations are complex, with frequent changes hampering their effectiveness (OECD, 2016b). Pursuing the rationalisation efforts launched by the Energy Transition Act in order to ensure clearer and more stable long-term measures to support renewables and energy efficiency more generally, while reducing the role of nuclear energy, would support the energy transition (OECD, 2016b). In this light, the new government has announced its intention to close nuclear power stations in step with the expansion of renewable energies.

Strengthening productivity growth

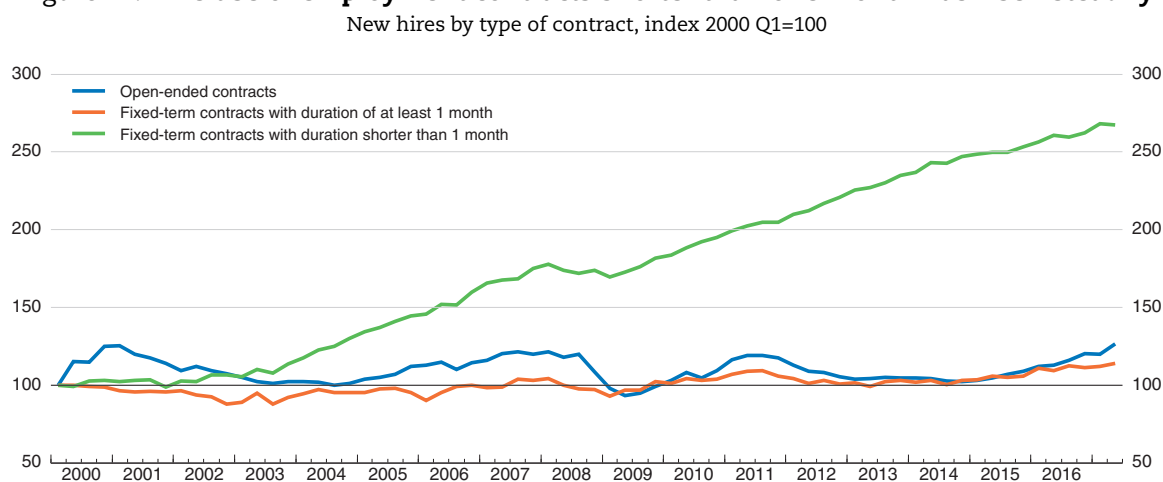
While hourly labour productivity is high in France, its growth has slowed, as elsewhere in the OECD, particularly since the mid-2000s, mainly because of weak total factor productivity (TFP) increases (Figure 20). High labour productivity is partly linked to the exclusion of many low-productivity workers from the labour market. In turn, a major cause of the recent productivity slowdown is a combination of factors common to all advanced countries. But it can be partly traced to factors specific to France, such as greater entry of lower-productivity workers owing to a simplified regime for micro entrepreneurs (*auto-entrepreneurs*), reduced taxes on low-wage workers – two measures that have boosted employment but depressed the productivity trend, and a sharp rise in the use of contracts shorter than a month that limit on-the-job-training opportunities (Askenazy and Erhel, 2015) (Figure 21). But there are other factors hampering the adoption of new technologies and productivity in many French firms.

French workers' literacy and digital skills are relatively poor, and some groups struggle to understand even very simple texts or perform basic digital tasks (Figure 22). Improvements in education and the effectiveness of training are needed to allow these workers to use new technologies effectively. Organisational changes that require good management are often

Figure 20. **TFP growth has slowed**

Source: OECD (2017), OECD Economic Outlook 101 Database.

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Figure 21. **The use of employment contracts shorter than one month has risen steadily**

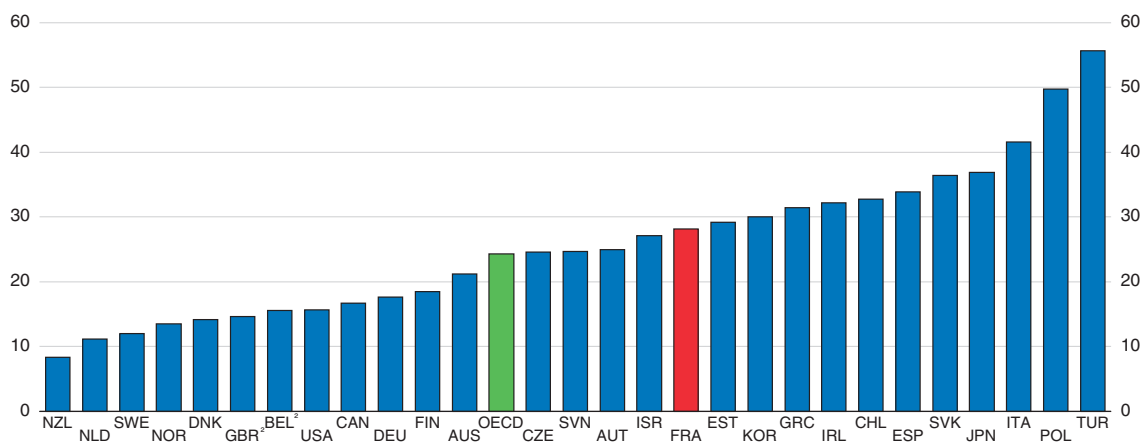
Source: ACOSS-URSSAF.

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necessary to adopt new technologies. But France has a larger share of poorly managed firms than the United States and Sweden (Figure 23, Panel A), which explains more than half of its shortfall in total factor productivity *vis-à-vis* the United States (Bloom et al., 2016). Stronger competition would spur the adoption of better management practices and re-allocation of resources to the best managed firms. Good labour relations are also crucial to re-organise work processes. In fact, French firms with better labour relations enjoy higher productivity (Cette et al., 2013). Reforms have improved labour unions' representativeness and the quality of labour relations, but managers still tend to see them as conflictual (Panel B).

Reforms of labour and product markets and housing regulations would enhance competition, skills matches and productivity (Figure 24). Regulations on start-ups and those in services sectors that hinder firm entry, competition and productivity are stricter than in many other OECD countries (Bourlès et al., 2013). Dismissal costs for open-ended contracts are high, owing to long legal procedures with highly uncertain outcomes, despite

Figure 22. **The share of adults with no knowledge of ICT is high¹**
16-65, 2012-15

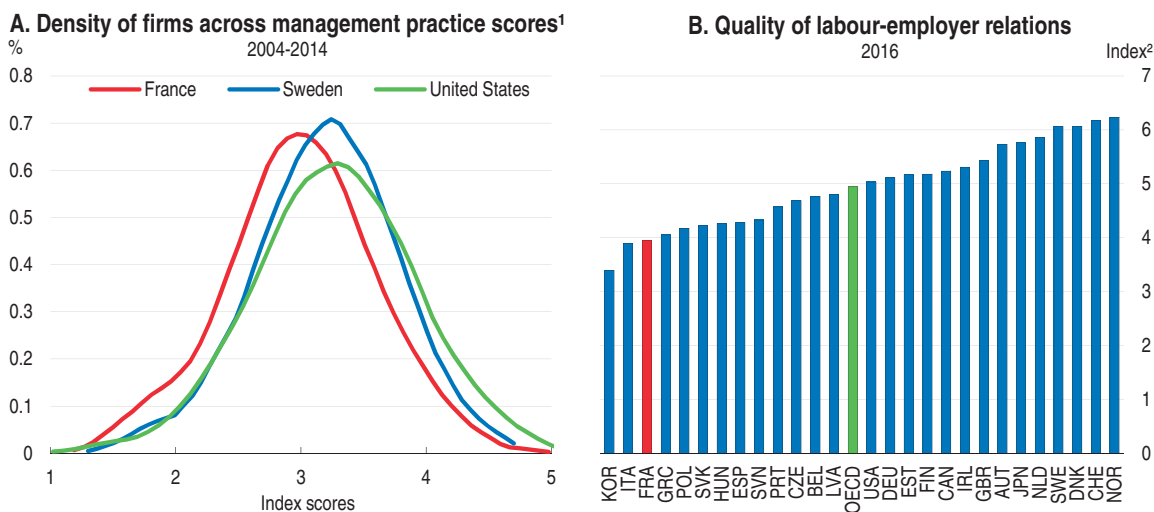


1. Share of adults who declared a lack of any ICT experience, opted out of the PIAAC computer-based assessment or failed the ICT core test.
2. The data are based solely on Flanders for Belgium and England and Northern Ireland for the United Kingdom.

Source: OECD (2016), *Skills Matter: Further Results from the Survey of Adult Skills*, OECD Publishing, Paris.

StatLink <http://dx.doi.org/10.1787/888933577363>

Figure 23. **Better management and labour relations would support technology adoption**



1. Index scale from 1 (worst practice) to 5 (best practice), manufacturing sector.
2. Index scale of 0 to 7, from lowest to highest perceived quality in labour-employer relationship.

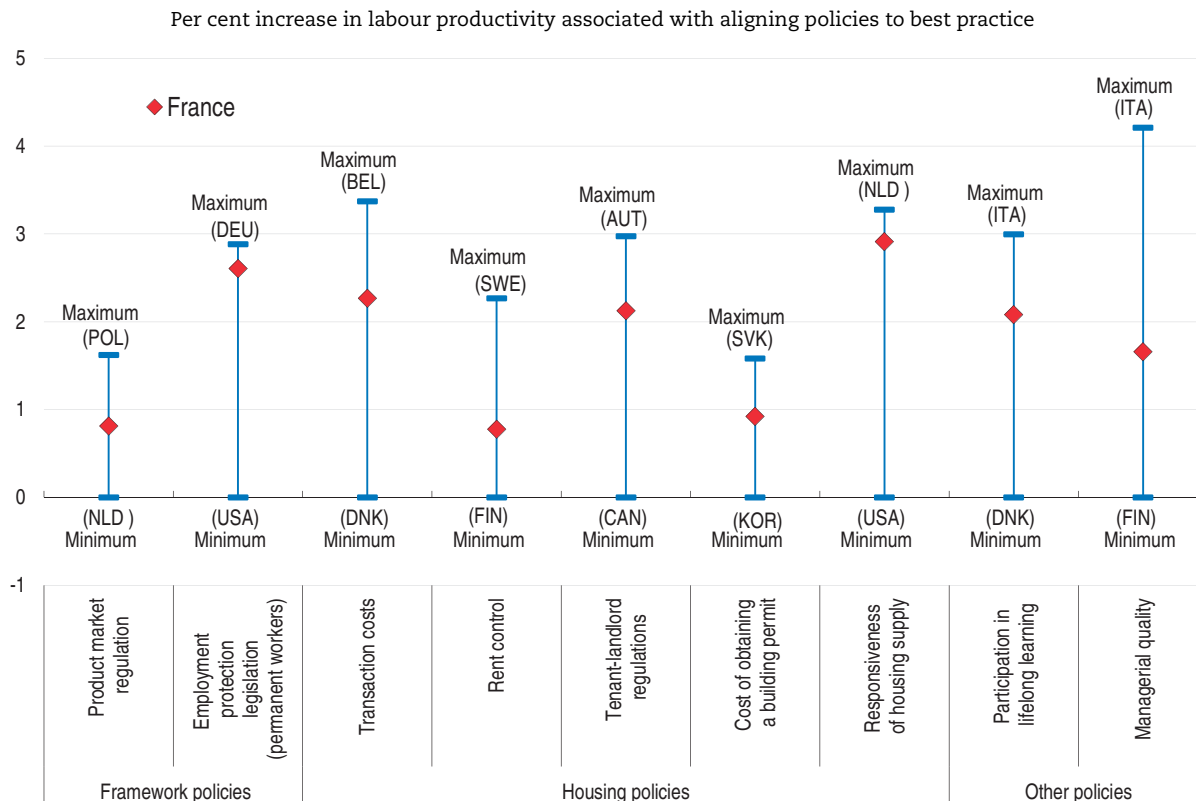
Source: World Management Survey Database; World Economic Forum (2016), *World Competitiveness Report 2016-17 Database*.

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the introduction in 2016 of indicative scales for indemnities payable in cases of dismissal without real and serious cause and in conciliation cases. High dismissal costs hinder a more efficient resource allocation towards the most productive and innovative firms (Andrews and Cingano, 2012; Andrews and Westmore, 2014). Housing transactions costs are elevated, hindering labour mobility and thus productivity and employment (Adalet McGowan and Andrews, 2015). Lowering high registration fees for real estate transactions and raising recurrent taxes on immovable property, which are less distortionary, would improve labour mobility (Arnold et al., 2011).

The 2015 law on growth, activity and equal opportunities improved the competitive environment in a number of areas (Table 6). But barriers to entry and restrictions on

Figure 24. **Estimated gains to the level of labour productivity from policy reforms that reduce skills mismatch**



1. Estimates are based on: i) logit regressions of probability of mismatch controlling for age, marital and migrant status, gender, education, firm size, contract type, a dummy for working full-time and working in the private sector; and ii) OLS regressions of labour productivity on skills mismatch.

Source: Adalet McGowan, M. and D. Andrews (2015), "Skill Mismatch and Public Policy in OECD countries", *OECD Economics Department Working Paper*, No. 1210, OECD Publishing, Paris <http://dx.doi.org/10.1787/5js1pzw9lnwk-en>.

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Table 6. **Past OECD recommendations for improving competition and the business environment**

Main recent OECD recommendations	Actions taken since the 2015 Survey
Task an independent institution to conduct a thorough review of all existing and proposed regulations affecting firms, applying the OECD Competition Assessment Toolkit principles.	No action taken.
Continue to streamline burdensome permit procedures for large new stores. Eliminate restrictions on loss-leader selling, dates of discount sales and opening hours (for which time-off and salary compensation should be negotiated).	New touristic areas were created to facilitate work on Sundays. Mayors can authorise openings on up to 12 Sundays a year.
Continue to liberalise the regulated professions by: reducing entry requirements to those needed to protect the public; narrowing professions' exclusive rights; eliminating regulated tariffs in potentially competitive activities; and gradually abandoning quotas.	Entry barriers in regulated legal professions were eased. Tariff regulations governing certain legal professions were reformed. The creation of firms combining all legal and accounting professions is now possible.
Ensure non-discriminatory access to the rail network. In particular, modernise the process of allocating service slots for rail freight, and separate the rail infrastructure manager from the station manager. Pool regulatory powers for the various modes of transport under a single land transport regulator.	The regulation of the whole ground transportation sector was transferred to a single institution (<i>Arafer</i>), and its regulatory power was strengthened.

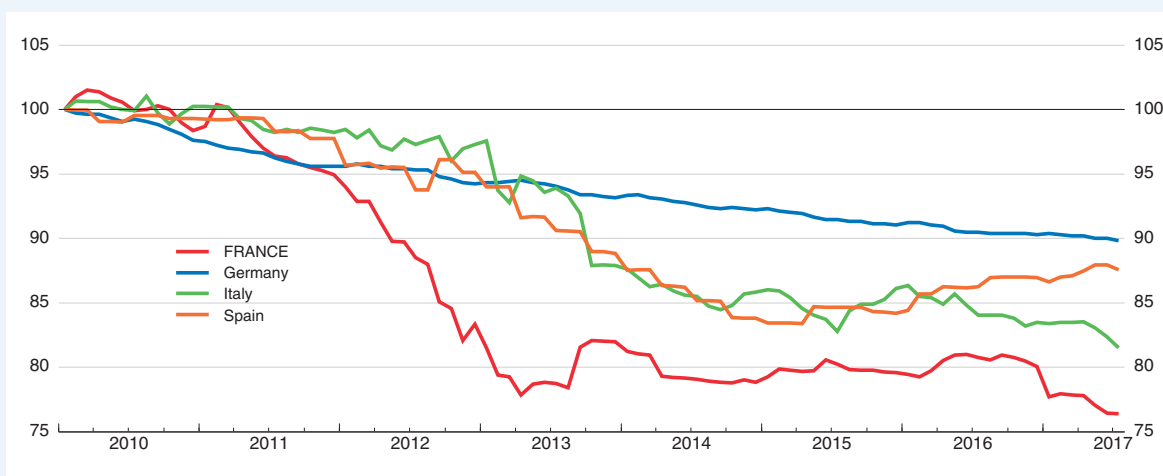
professional practices remain among the highest in the OECD for accountancy and architectural services and in rail transport. More non-prescription health-related products could be made available outside of pharmacies. Sunday opening differs by locality and type of store, which can create unequal competitive conditions. Compared with European neighbours, competition is weak in a number of services sectors that are important for the economy overall (European Commission, 2017 forthcoming). French evidence shows that strengthening competition can lead to more jobs, higher real incomes and better services (Box 2). The competition effects of laws and regulations should be evaluated, while strengthening the dialogue on this issue between the competition authority (l'Autorité de la concurrence) and the Ministry of the Economy and Finance during the decision-making process.

Box 2. The benefits of competition in France

Since a licence for a **fourth telecommunications operator** was awarded in 2010, the price of communications services has declined markedly more in France than in other euro-area countries (Figure 25) with no noticeable adverse effects on employment (OECD, 2015b).

Figure 25. **Communications prices have declined much faster in France than elsewhere**

Harmonised CPI index for communication prices, January 2010 = 100



Source: Eurostat.

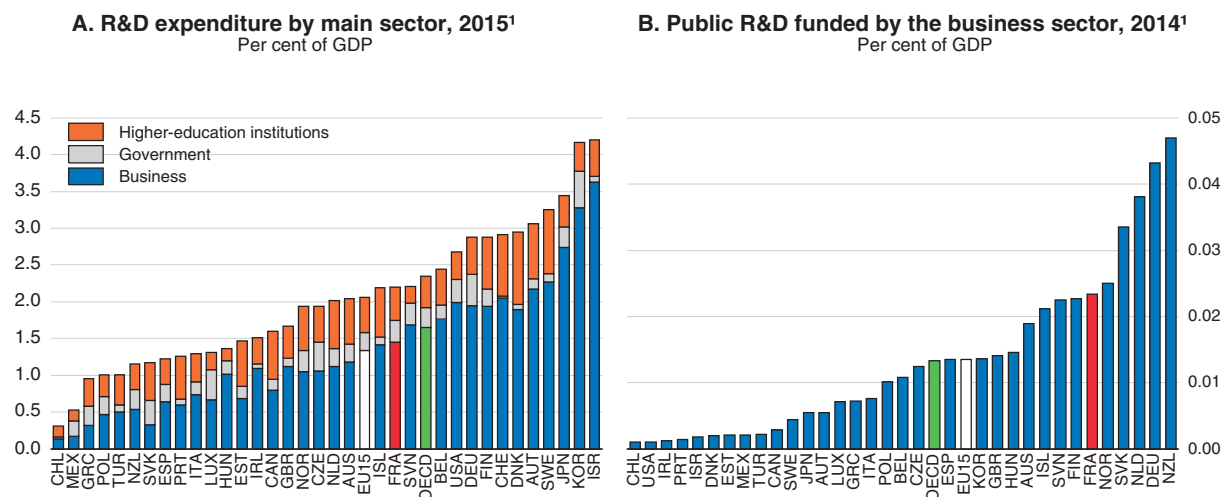
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The opening of competition for long-distance **domestic coach transport** has led to significantly lower fares for customers than alternative transportation options and shorter transport times, with employment gains from August 2015 to September 2016 estimated at around 1 350 jobs (Arafer, 2016).

Given important restrictions on the number of taxi licences, there is strong pent-up demand in Paris (Thévenoud, 2014). **Ride-sharing services** have therefore grown strongly, and a report commissioned by one provider seems to suggest that this has led to an increase in youth employment in areas with high unemployment rates (Landier et al., 2016). Hence, lifting market entry barriers can also benefit workers otherwise excluded from the labour market.

Investment in R&D lags behind the OECD average and European leaders'. This also holds for innovation output, particularly among SMEs, the quality of scientific publications and science-industry collaboration (OECD, 2014c; Figure 26). This is partly related to the sectoral mix of the French economy, in which the more R&D-intensive high and especially

Figure 26. The lag in R&D investment is partly attributable to the productive structure



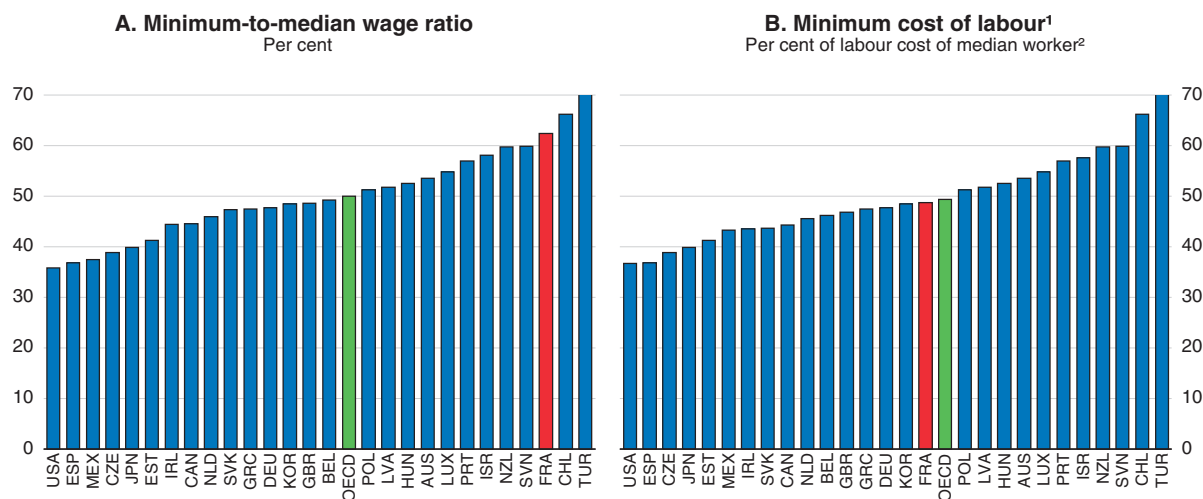
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medium-high tech sectors are under-represented in comparison with the economies of leading countries such as Germany. In terms of competitiveness, the main challenge for the French economy is therefore to encourage the expansion of the productive structure to more technology- and R&D-intensive sectors. As recurrent institutional financing of public research institutes and universities makes up close to 90% of the total financing provided by the State, the share of project financing for public research is relatively low. It should be increased to strengthen incentives for excellence, technology transfer and more generally to align research activities with national priorities. Continuing reforms that give universities more autonomy to manage and remunerate their staff, define their research and teaching programmes and collect their own resources would allow them to develop innovative teaching and research. With its emphasis on thematic objectives and evaluation, support for public-private collaboration and entrepreneurship as well as openness and selectivity in allocating resources, the *programme d'investissements d'avenir* has the features of a modern innovation system (OECD, 2014c).

Enhancing employment and access to high-quality jobs

High overall labour costs and poor access to training for low-skilled workers raise unemployment

Widespread unemployment is related to the skills mismatch of low-skilled workers in the labour market, due in particular to a high proportion of adults with poor literacy and numeracy skills (see Figure 3, Panel D above), combined with high labour costs. The minimum wage is high relative to the median (Figure 27, Panel A). The recent cuts in social security contributions have brought overall labour costs for minimum-wage workers close to the OECD average (Panel B). Yet, they remain higher than in other big OECD economies where sectors such as retail trade, hotels and restaurants that offer many low-skill jobs employ more workers (Figure 28), despite France's position as a world-leading tourist destination. In addition to lowering labour taxes, effective training policies are needed, both in initial vocational education and adult training.

Figure 27. **The minimum wage is high, 2015**

1. The cost of labour is the sum of the wage and the corresponding social security contributions paid by employers.

2. Excluding the Competitiveness and Employment Tax Credit (CICE) in France

Source: OECD (2017), OECD Earnings Database; OECD (2017), Economic Policy Reforms 2017: Going for Growth, OECD Publishing, Paris.

StatLink <http://dx.doi.org/10.1787/888933577762>

Figure 28. **Despite recent cuts in labour costs, employment in low-wage services sectors is relatively modest**

Average 2012-15



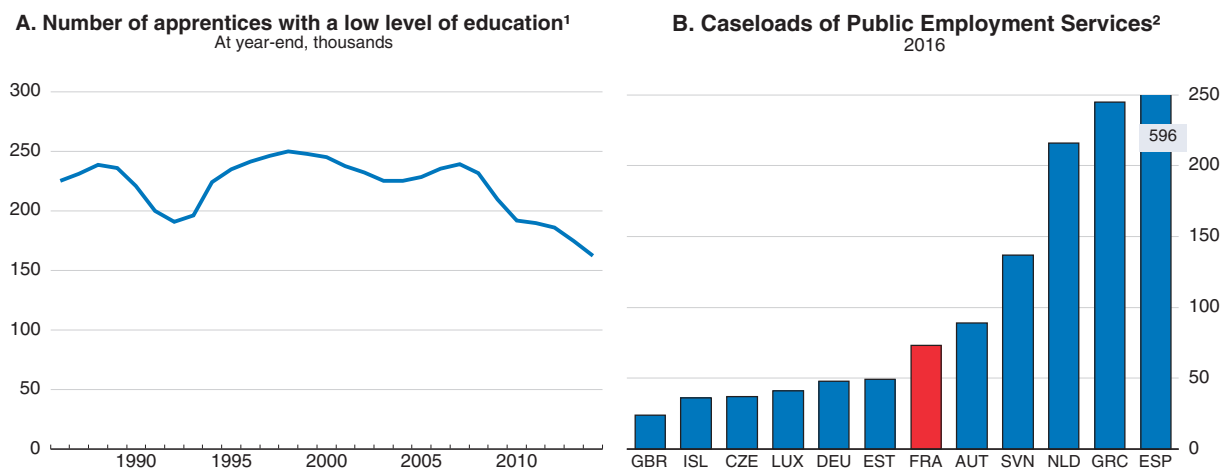
1. Including repair of motor vehicles and motorcycles.

Source: OECD (2017), OECD National Accounts Database.

StatLink <http://dx.doi.org/10.1787/888933577781>

The government has rightly aimed at promoting apprenticeships, as they have proven successful in providing students with skills that help them find a job. Yet, for lower levels of qualification, where they are needed most, their numbers have fallen, even if a slight increase has been observed recently, in particular following the implementation of measures targeting minors on apprenticeships in very small businesses (Figure 29, Panel A). In general, they offer much better employment prospects to graduates than school-based vocational education in *lycées professionnels*, which have less emphasis on work practice in firms and

Figure 29. Access to apprenticeships and job-search assistance should improve



1. Refers to ISCED 3C qualifications: *Certificat d'aptitude professionnelle (CAP)*, *Brevet d'études professionnelles (BEP)* and *mention complémentaire*.
2. Caseloads are calculated by dividing the number of jobseekers by PES' total staff. The figure compares PES institutions that are also responsible for Unemployment Benefits (UB).

Source: Ministry of National Education, DEPP; European Commission (2016), *Assessment Report on PES Capacity*.

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where two-thirds of students are enrolled (OECD, 2015b). Employment rates of vocational education graduates in OECD countries that put a lot of emphasis on work practice, such as Germany, Switzerland and the Netherlands, are particularly high. Hence, the challenge for France is to integrate more work-based training in its vocational schools, which involves businesses making an effort to take on young people as apprentices. The various apprenticeship subsidies should be streamlined and concentrated at the secondary level. The most successful of the many programmes preparing struggling youngsters for apprenticeships should be rolled out more widely (OECD, 2015b). It would also be useful to build on ongoing efforts to improve the training of teachers in vocational education and workplace trainers (Table 7).

Table 7. Past OECD recommendations for improving training

Past recommendation	Measures taken since the 2015 <i>Economic Survey</i>
In secondary vocational education provide highly qualified teachers and more individualised support for students lacking basic skills. Hire teachers who combine teaching with professional experience outside education, and provide workplace trainers with pedagogical training.	A Masters course now includes pedagogical and workplace training. The purpose of the individualised support provided by teachers in secondary vocational education (included in the timetable) is to improve, develop and consolidate topics and give career guidance. For example, the time allocated to this support can be used to ensure that the common core of skills has been properly acquired if that was not the case beforehand. 57% of teachers in secondary vocational education (and 31% in general and technological secondary education) have come from another profession. Recent co-operation agreements between the Ministry and the business world provide for the training of tutors.
Use the envisaged quality-assurance system to introduce certification of training providers.	The government set up a list of officially recognised labels and quality certifiers.
Ensure regions have sufficient capacity and financing to co-ordinate the new vocational trainee guidance service.	No action taken.
Integrate all competing training schemes into the new personal training account (<i>compte personnel de formation, CPF</i>).	No action taken.

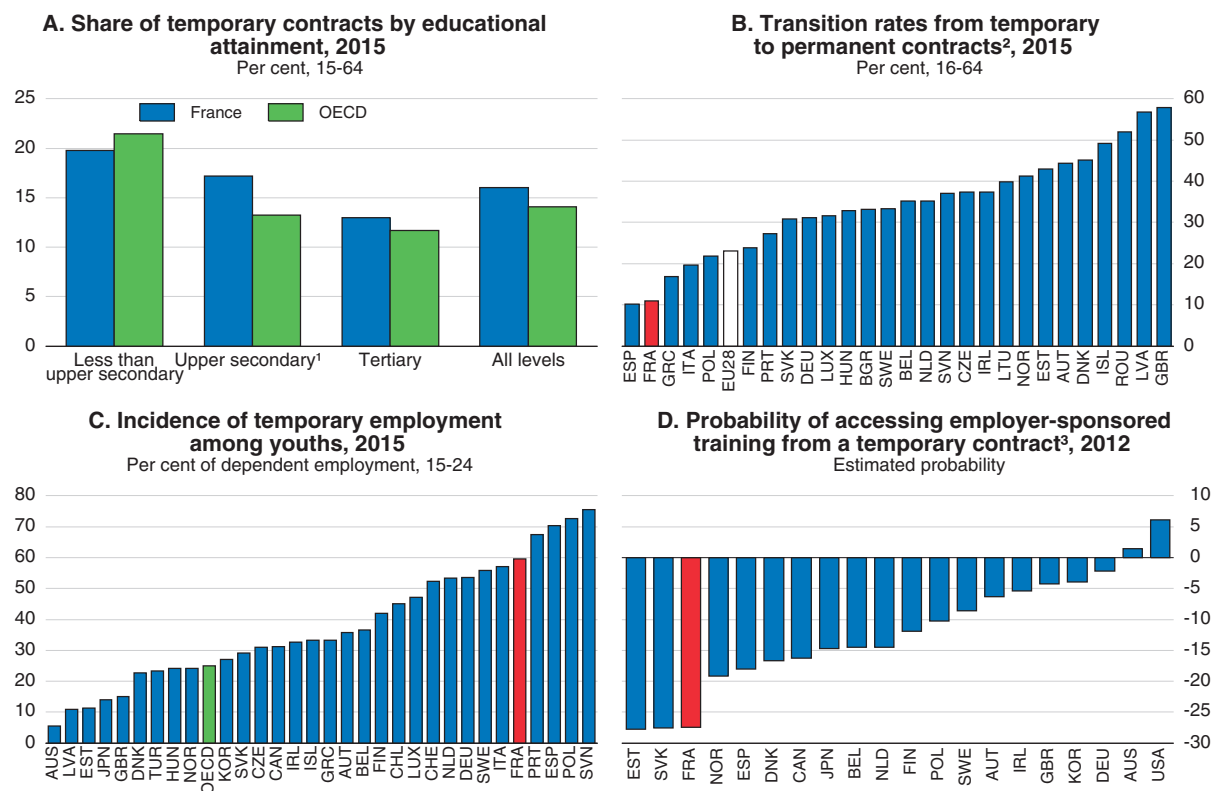
The training system's complexity makes access thereto more difficult for low-skill workers. Online personal training accounts introduced in 2014 co-exist with many competing measures (Table 7). But they have been little used to date, mainly by higher-skilled workers, owing to their complexity and the limited list of training measures to which they give access. A quality label would help workers better identify high performing training providers. The government's list of officially recognised labels must be made more transparent for individual users. For example, it could be simplified by reducing their number. Obtaining one of these labels could then become the only requirement for training measures to be accessible through the accounts. Online personal training accounts should also include a link to a readily available counsellor from the public guidance service (*conseil en évolution professionnelle*), which remains very difficult to access.

Enhanced co-ordination between different agencies, more and better trained staff and continued evaluation of training measures are essential to ensure good quality job-search assistance. An information technology infrastructure shared between the unemployment agency, Pôle emploi, and other agencies with similar mandates, such as Youth Centres (*missions locales*), would help disseminate job offers. Significant efforts have been focused on collaboration, but the creation of working groups among agencies active within the same local labour market would co-ordinate engagement with firms. More and better trained staff are needed to reduce caseloads, which often remain too high. Despite more initiatives by Pôle emploi to target those most alienated from employment, more must be done to improve the quality of the support they receive (Figure 29, Panel B; Cahuc et al., 2013). The practice of evaluating and improving wage-subsidy and job-search programmes, such as the "Youth Guarantee", should continue. As an example, the jobs-for-the-future (*emplois d'avenir*) subsidy has a strong and welcome training component, but most such jobs are in the non-market sector, with a risk of misalignment with labour market needs. The planned evaluation will reveal whether shifting some funding to pre-apprenticeships and employer-based training would be desirable.

A dual labour market weighs on productivity and the quality of jobs


The French labour market is marked by strong duality. Permanent contracts accounted for no more than 15.2% of new hires in 2015 (down from 23% in 2009), even if their share in total salaried employment is relatively stable at around 85% (Figure 30, Panel A). Temporary workers rarely transition to permanent jobs (Panel B), typically face a wage penalty and lower job stability and are less likely to receive any on-the-job training (Panel D) (OECD, 2014d and 2015c). Regulatory constraints for open-ended contracts are relatively tight in France (Figure 31), court procedures for contested dismissals are long, close to 70% are appealed, and the court of appeals upholds only roughly half of those judgements. In addition, indemnities for unfair dismissals set by courts differ widely. There have been advances with the 2008 introduction of the mutually agreed contract termination, which is less costly for employers than dismissal and very popular. Yet, there are still studies showing that reducing firing costs for open-ended contracts would significantly increase workers' chances to obtain a permanent contract and training, strengthening their productivity and wages (Fialho, 2017). Limiting the flexibility of short-term contracts, e.g. through a tax reflecting their social costs, such as higher unemployment benefits, would re-inforce this effect. While the OECD employment protection legislation (EPL) indicator suggests that fixed-term contracts are quite regulated (Panel B), court rulings have facilitated their use significantly, and this is not captured by the indicator (Askenazy and Erhel, 2015). Making open-ended contracts more

Figure 30. **Fixed-term contracts are widespread across all qualification levels and seldom lead to stable jobs**



1. Including post-secondary non-tertiary education.
2. Employees on temporary contract in year t-1 but declaring having been hired on a permanent contract in year t.
3. Estimated percentage difference in 2012 between workers on temporary and permanent contracts in the probability of accessing training paid for or organised by the employer in the year preceding the survey, obtained by controlling for workers' literacy and numeracy skills, and for their individual characteristics. The data are based solely on Flanders for Belgium and on England and Northern Ireland for the United Kingdom.

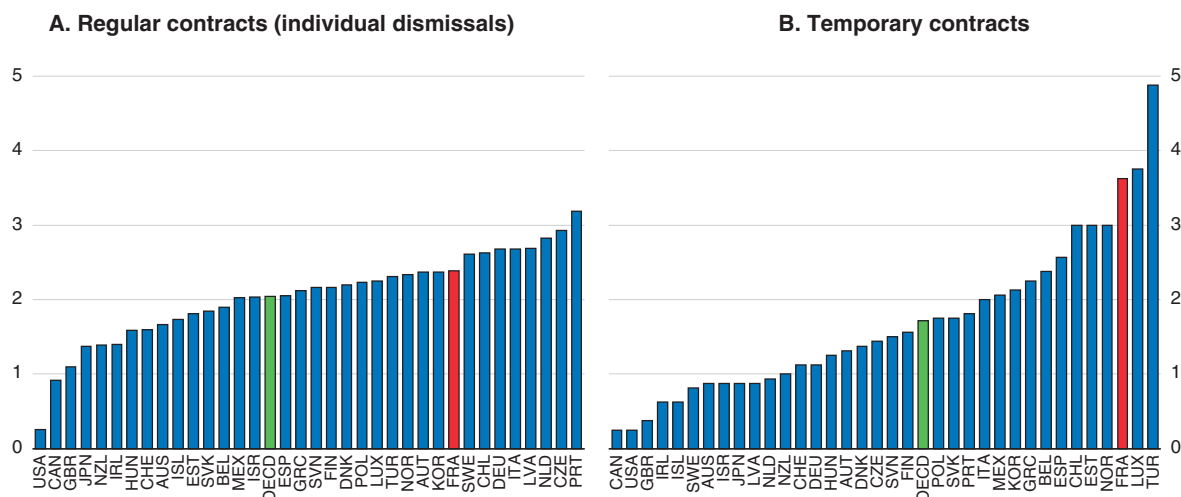
Source: Eurostat (2017), *Detailed annual European Labour Force Survey results* and *EU-SILC Database*; OECD (2017), *OECD Labour Force Statistics Database*; OECD (2013), *OECD Skills Outlook 2013*, OECD Publishing, Paris.

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flexible would also facilitate better job matches (see Figure 24 above) and the mobility of high-ability workers towards innovative firms (Adalet McGowan and Andrews, 2015).

Several recent reforms have aimed at improving legal procedures following dismissals, reducing their length and associated costs (Table 8). Courts may well be sticking to the recently introduced indicative scale for indemnities, but the new government still wants to make them binding to increase legal certainty. In the OECD only France and Mexico rely exclusively on lay assessors for the initial stage of labour litigation. Deploying professional judges to guide lay assessors would improve the quality of judgements. The effectiveness of conciliation attempts preceding litigation could be boosted by sanctioning parties who do not appear in person, possibly through automatic loss of the case, as in the United Kingdom. This would shorten procedures, which has been shown to improve employees' perception of job security (Fraisie et al., 2013). Combining an improvement in the quality of labour court procedures with training reform would be particularly effective in increasing the use of permanent contracts and productivity and should make the reform package more attractive to employees (Fialho, 2017).

Figure 31. **Employment Protection Legislation appears to be restrictive overall**
Index scale of 0 to 6, from least to most restrictive, 2013¹



1. Or most recent available year.

Source: OECD (2017), *Employment Protection Legislation Indicators Database*.

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Table 8. **Past OECD recommendations to strengthen employment**

Recommendations	Measures taken since the 2015 Survey
Simplify and shorten layoff procedures by, for example, reforming the labour courts, as intended.	Stronger training obligations were introduced in 2015 for lay judges reviewing labour court procedures. To strengthen the initial phase of conciliation judges have been able, since 2015, to make their decisions based on the evidence presented by the present parties alone, if one party does not appear. In 2016 the conditions for economic dismissals were clarified, and an indicative schedule for indemnities was introduced. The draft decrees for the 2017 labour reform foresee a mandatory schedule.
As public spending declines, cut taxes further on labour.	Social contributions on lower wages were cut.
Continue to improve the dialogue between unions and employers.	The 2016 reform requires that unions that sign a firm-level agreement must have 50% of the votes, up from 30%. The draft decrees for the 2017 labour reform facilitate negotiations in small firms.
Avoid any discretionary increase in the minimum wage.	The minimum wage has not been increased beyond what is prescribed by the regular price indexation.

Giving more space to collective negotiations

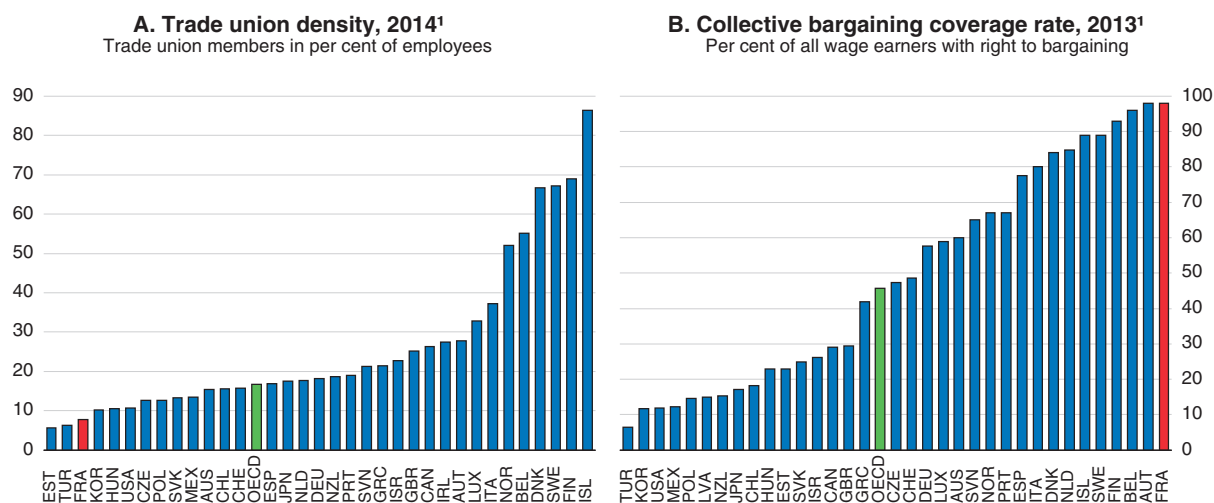
French labour law is often not well adapted to the diverse nature of the concrete situations of firms and their employees. Giving a greater role to sectoral and firm-level negotiations instead to determine wages and working conditions would help to increase flexibility to adapt wages to productivity growth in sectors and firms, supporting employment. Good labour relations are also conducive to negotiating organisational changes that help to improve efficiency and adopt new technologies, promoting productivity. They also play an important role for inclusiveness and job quality.

France has an unusually large number of bargaining sectors: around 700 compared to roughly 150 in Germany. A number of them are small and do not comprise enough firms to ensure effective negotiations. Moving ahead rapidly with the envisaged merger of such sectors would be useful to improve the quality of negotiations.

The government regularly extends sectoral wage agreements to firms that not were involved in negotiations, which can hinder employment. Even though the Ministry can


remove certain clauses from the sectoral wage agreements from the scope of application of administrative extensions on legal grounds or in the sake of general interest, the economic and social impact of decisions to extend agreements should be better taken into account. Moreover, labour union membership is low, and the discrepancy with wage agreement coverage is particularly high in France (Figure 32). This can hurt small enterprises, new entrants or firms facing temporary challenges and lead to higher unemployment (Magruder, 2012 ; Murtin et al., 2014; Hijzen and Martins, 2016). For that reason many countries that use administrative extensions frequently require the initial agreement to cover a minimum proportion of employees, which means, for example, that the wage agreement must be signed by employers representing at least 50% of employees in the sector (OECD, 2017b). The current draft decrees provide possibilities for sectoral wage agreements to stipulate that some of their provisions are not applicable to small businesses. Agreements which are tailored to the specificities of SMEs should be encouraged. Allowing exemptions to extensions in line with well-defined criteria, as in the Netherlands, could also help.

Figure 32. **Unionisation is weak, while coverage of collective agreements is pervasive**



1. Or latest year available.

Source: OECD (2017), OECD Labour Force Statistics Database; Amsterdam Institute for Advanced Labour Studies (2017), ICTWSS Database.

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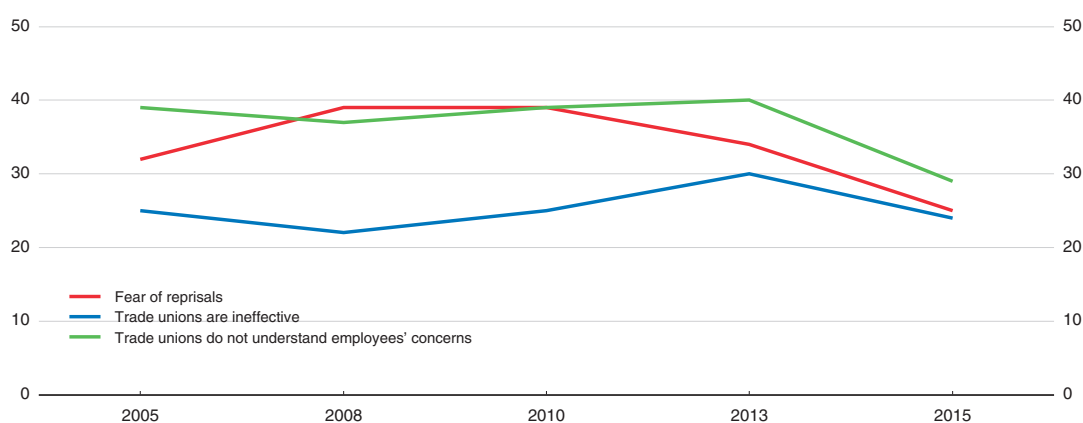
The new government plans to increase the scope for firm-level agreements to deviate from sectoral agreements. In general, firm-level agreements are allowed to be only more favourable for employees. Exceptions to this rule, such as the job preservation agreements (*accords de maintien en emploi*) and the agreements for job preservation and development (*accords de préservation ou de développement de l'emploi*) have been little used, with employers citing complexity and legal uncertainty (Cheuvreux and Rambert, 2017). One possibility would be to have the social partners negotiate at the sectoral level what can be decided at the firm level along with conditions for exceptional opt-outs from sectoral agreements.

Firm-level negotiations are very uncommon in smaller firms, mainly because few have worker representation. Less than 10% of firms with fewer than 100 employees negotiated a firm-level agreement in 2014 (DARES, 2016). One barrier to establishing worker representation is its high direct cost to employers, which is partly related to the complexity of its governance. Obligations to release worker representatives from work are much more costly than, for example, in Germany, particularly for small firms (Cheuvreux, 2016). Firms with more than

50 employees may combine two different types of worker representative bodies with both union and worker representatives, while most OECD countries have only one (OECD, 2017b). This also hinders firm growth and thus aggregate productivity. Studies estimate the cost of such regulations at between 0.3 and 4% of GDP (Gourio and Roys, 2014; Garicano et al., 2016), depending on the degree of downward wage rigidity, although older research implies only a small impact on the firm-size distribution (Ceci Renaud and Chevalier, 2010). The new government's plan to move towards a single works council, where unions can have a strong voice, should thus reduce hurdles to firm-level negotiations and promote growth.

Studies show that worker representatives suffer discrimination, in particular those involved in negotiations (Breda, 2014; Bourdieu and Breda, 2015). Employees cite fear of reprisals relatively frequently as an obstacle to unionisation (Figure 33). Currently negotiation, which is potentially threatening to employers, and consultation, which is more in their interest as it can promote better work organisation, are separated in different worker representative bodies. A single works council would merge these functions, potentially improving relations with employers. Introducing professional judges in labour courts to guide lay assessors and ensure high-quality procedures, as suggested before, would ensure that worker representatives can defend their rights effectively. Unions also have a role to play, for example by supporting them with legal support and advice.

Figure 33. **Lack of trust in trade unions and fear of reprisals hinder stronger unionisation**¹



1. Percentage of employees identifying fear of reprisals, trade unions' ineffectiveness or inability to understand their concerns as obstacles to labour unionisation in France. Data for the 2015 survey are not entirely comparable with previous observation, due to a change in the set of questions.

Source: TNS Sofres, *Baromètre 2015 sur l'image des Syndicats*.

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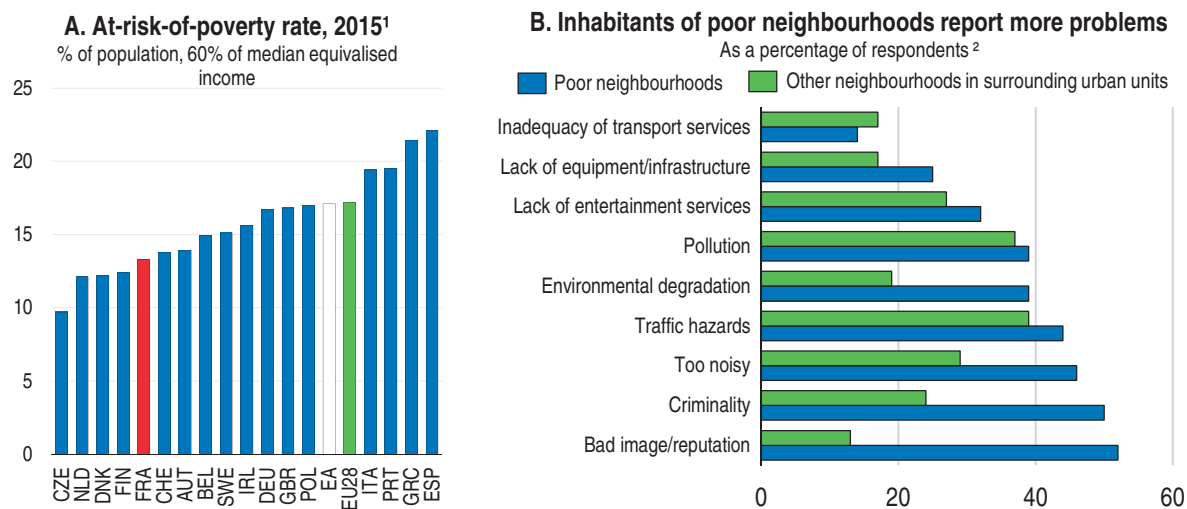
Although trust in unions is high overall, many employees say that they fail to understand their concerns. A 2008 reform has improved participation in elections of worker representatives and trust, while reducing the number of unions in individual firms on average (Askenazy and Breda, 2017). The reform required unions to reach 10% in elections to be considered representative and to be allowed to negotiate. Yet, this bar remains low, and raising it would increase representativeness and enhance accountability, while favouring coalitions and incentives to look for compromises. Member fees finance only 20% or less of unions' activity in many cases, compared to 80% or more in most OECD countries. Allocations of institutional funding do not currently depend on the number of unions' members. Gradually phasing in such a link would create incentives for unions to recruit more members and strengthen their accountability.

Improving life in poor neighbourhoods

Poverty is low overall, but highly concentrated in some neighbourhoods

Residents in some neighbourhoods face pervasive social disadvantages, including many children struggling in school, run-down housing and urban infrastructure, and a lack of local employers, public and private services, and amenities (Figure 34). These problems are partly related to social structure, as inhabitants of poor neighbourhoods are often young, immigrants or members of visible minorities, and relatively low-qualified (Figure 35). They

Figure 34. Residents of poor neighbourhoods face various social handicaps



1. Or latest year available; 2014 for France.

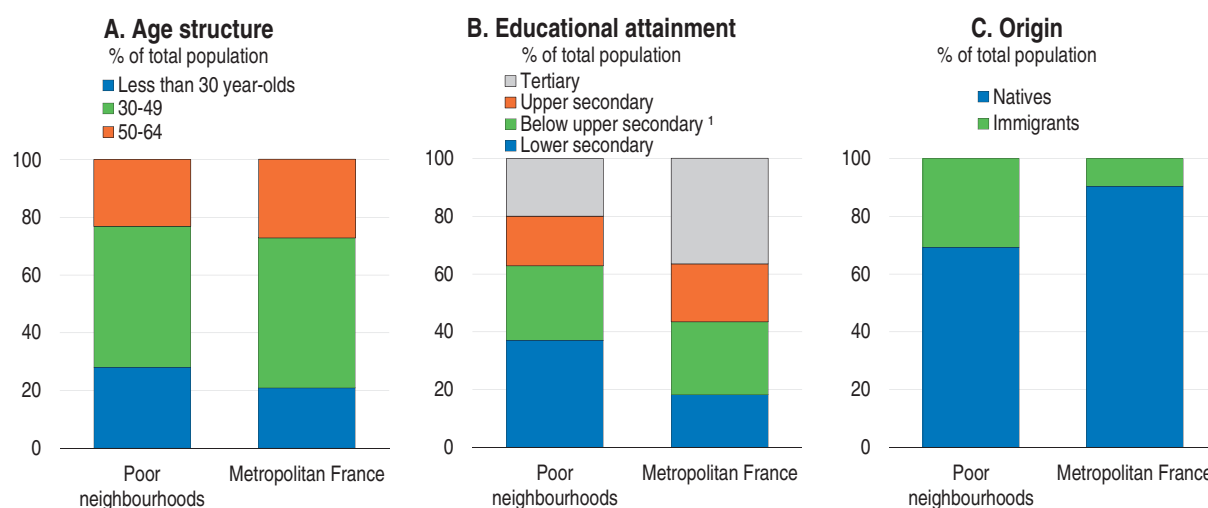
2. Share of residents who answered their neighbourhood is concerned by the listed issues.

Source: Eurostat; ONPV (2016), *Rapport annuel*, based on data from the INSEE survey « Cadre de vie et de sécurité 2015 ».

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Figure 35. Population structure in poor neighbourhoods, 2014

15-64



1. Refers to post lower secondary education vocational qualifications such as: *Certificat d'aptitude professionnelle (CAP)* and *Brevet d'études professionnelles (BEP)*.

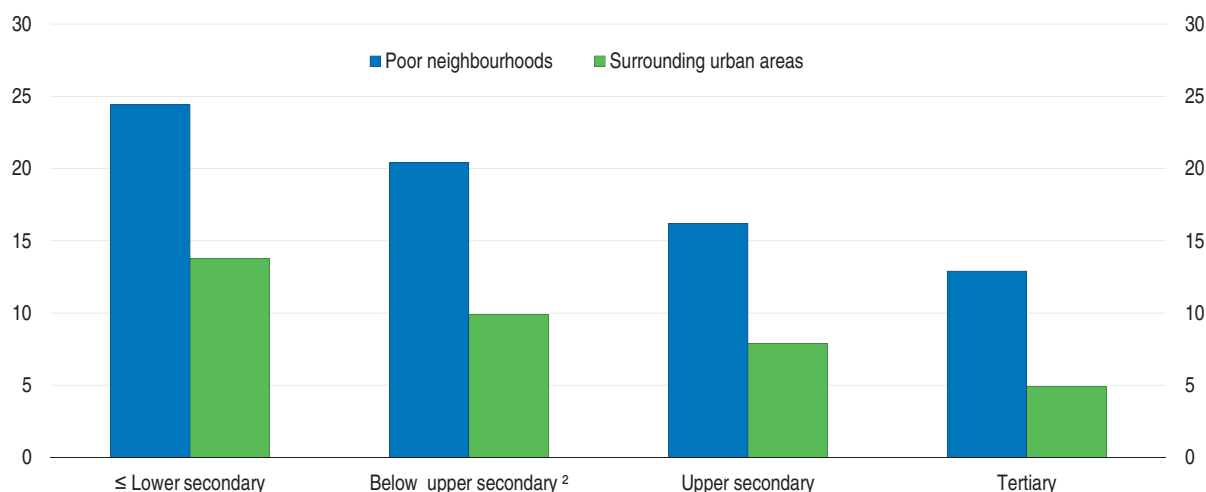
Source: ONPV (2016), *Rapport annuel* 2015.

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are more likely to be unemployed or have unstable jobs with fewer responsibilities and lower earnings than others with similar characteristics (Figure 36). Relations between police and some youngsters of immigrant background can in certain situations be strained. To address these issues urban policies (*politique de la ville*) target education, safety and business policy measures specifically at these neighbourhoods. The government also aims to limit poverty concentration and promote social mixing through public housing policies and urban renewal.

Figure 36. **Whatever their education, poor neighbourhoods' residents are more likely to be unemployed, 2014**

Likelihood of unemployment by place of residence and education, adjusted for personal characteristics, education and immigrant status,¹ 15-64 (%)



1. Percentage point gap in the odds of unemployment for poor neighbourhoods' residents versus residents of surrounding urban areas; employed native-born women aged 30 to 49 with a *baccalauréat* only are identified as the reference group.

2. Refers to post lower secondary education vocational qualifications such as: *Certificat d'aptitude professionnelle* (CAP) and *Brevet d'études professionnelles* (BEP).

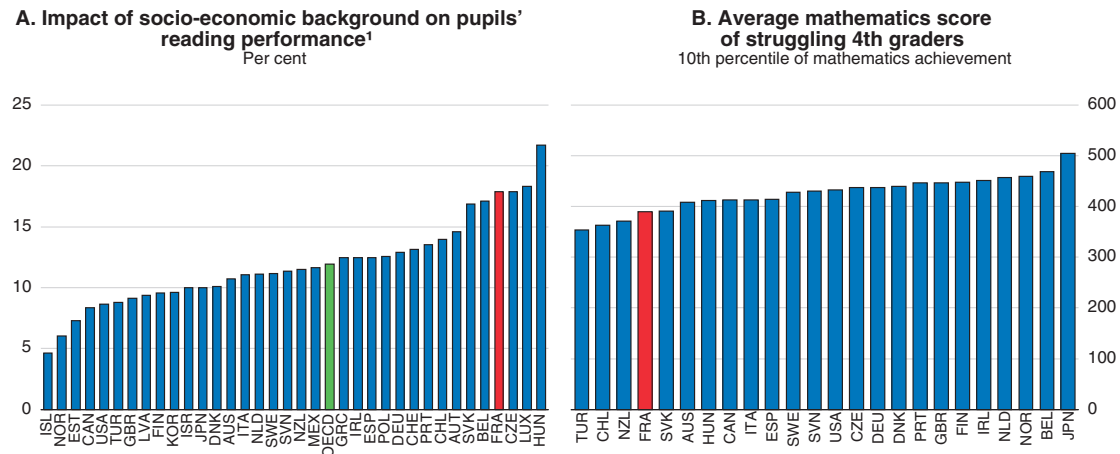
Source: ONPV (2016), *Rapport annuel 2015*.

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Improving learning outcomes of disadvantaged children

For decades the priority education network programme (*Réseaux d'éducation prioritaire*, REP) has targeted extra money at schools in poor neighbourhoods. Yet, even if class size is a little lower in these neighbourhoods, the extra resources have not always reached the targeted schools (Beffy and Davezies, 2013). Also, efforts to attract better teachers and improve their pedagogical training adapted to classes with many struggling children have not been sufficient. In fact, teachers are less well prepared in these schools, and there are fewer teaching hours due to both teacher and student absenteeism and greater problems with indiscipline and violence (CNESCO, 2015; ONPV, 2016). The impact of parents' socio-economic background on learning results remains large. The share of pupils with weak skills in reading, math and science is high (Figure 37).

Recent reforms put appropriate emphasis on modern pedagogical techniques. Teachers in France do not feel well prepared in pedagogy, and access to continuing training is poor (Figure 38). A 2013 reform improves upon this by integrating subject content, pedagogical and practical training in new institutions (*Écoles supérieures du professorat et de l'éducation*). Joint teaching is not widely practised in France (Panels C and D), despite evidence that it

Figure 37. **More disadvantaged children still show weaker educational outcomes, 2015**

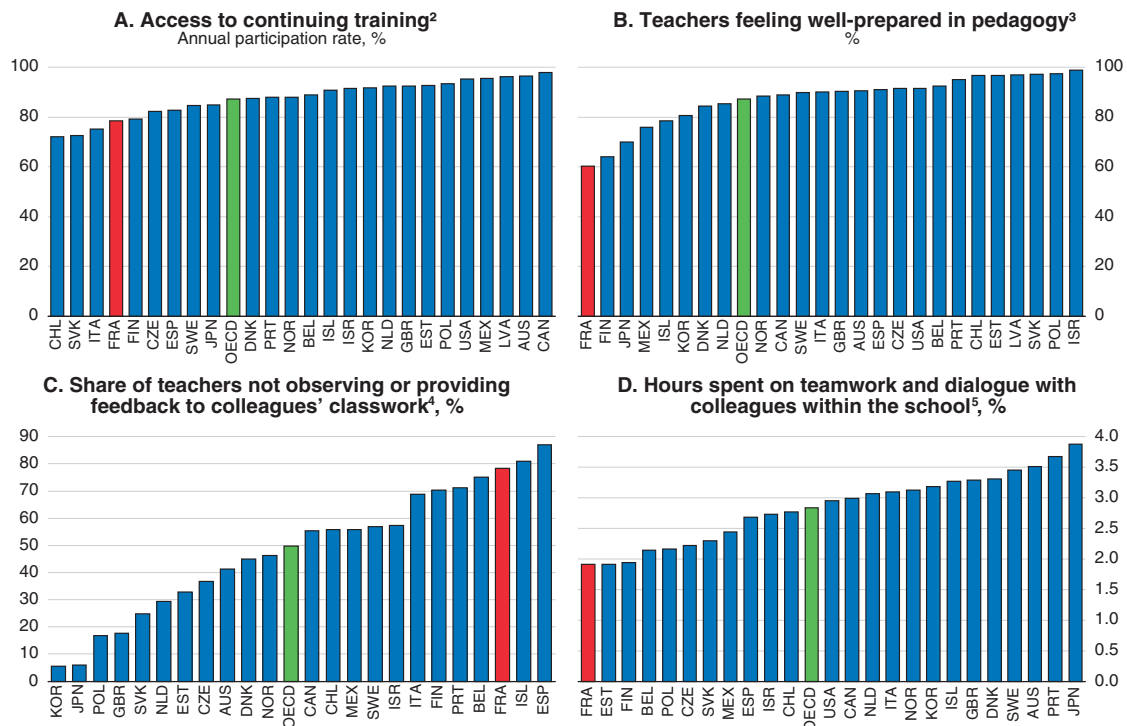
1. Percentage variance in the PISA reading score for children aged 15 years explained by family environment (parents' level of education and income, social and occupational status, cultural possessions, books and education resources available at home).

Source: OECD (2016), PISA 2015 Results (Vol. II): Excellence and Equity in Education, OECD Publishing, Paris; and International Association for the Evaluation of Educational Achievement; IEA (2016), TIMMS 2015: International Results in Mathematics.

StatLink <http://dx.doi.org/10.1787/888933577610>

Figure 38. **Pedagogical training and teacher teamwork are weak**

Teachers in public lower secondary education, 2013¹



1. Belgium, Canada and the United Kingdom refer to, respectively, only Flanders, Alberta and England.

2. Share of public lower secondary education teachers who participated in professional development over the previous year.

3. Share of lower secondary education teachers who feel well or really well prepared in the pedagogy of subjects being taught.

4. Share of lower secondary education teachers who report never doing the mentioned activities.

5. Average number of 60-minute periods that lower secondary education teachers report having spent on the mentioned activities during the most recent complete calendar week (not shortened by breaks, public holidays, sick leave, etc.).

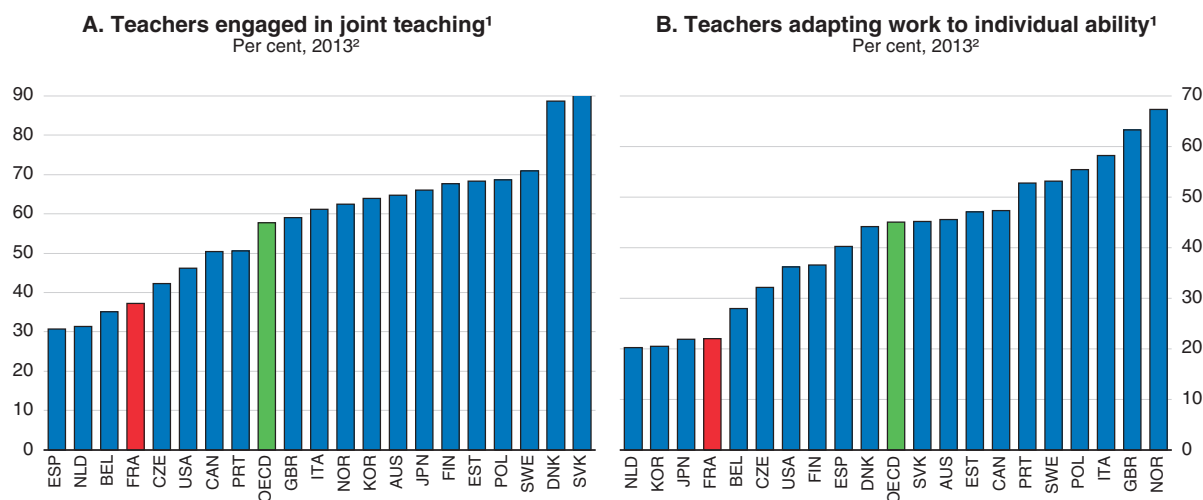
Source: OECD, Talis 2013 Database.

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helps improve educational outcomes (Vescio et al., 2008; Saunders et al., 2009). It is a key pillar of Japan's and Singapore's high performing school systems. Following a 2015 reform, two hundred teacher trainers now supervise continuing training for teachers in priority education schools. Timetables have been modified in these schools to facilitate joint work combining pupils from different grades and co-teaching.

Joint teaching and other techniques that differentiate teaching in line with students' capabilities are underdeveloped in France (Figure 39). Recent reforms aim to support co-teaching by deploying additional teachers, and the new government intends to halve class size in the first two years of primary school in the priority education network. There is evidence that class size reduction in France has been beneficial, especially for struggling students (Bressoux et al., 2009). Yet, the various individualised support measures have not been sufficiently effective, as a result of insufficient guidance and training to support implementation (CNESCO, 2016). The additional resources for initial and continuing pedagogical training should be used to improve on this. The Finnish experience shows that adapting pedagogical methods to individual needs can make grade repetition all but superfluous. Despite being expensive and ineffective in improving learning outcomes (OECD, 2012; Benhenda and Grenet, 2015), grade repetition has been common in France (Figure 40). Yet, it has been greatly reduced, in particular since 2015 following a 2014 law stipulating that it should become exceptional.

Figure 39. **Joint teaching and adapting teaching to heterogeneous abilities are underdeveloped**
Teachers in public lower secondary education



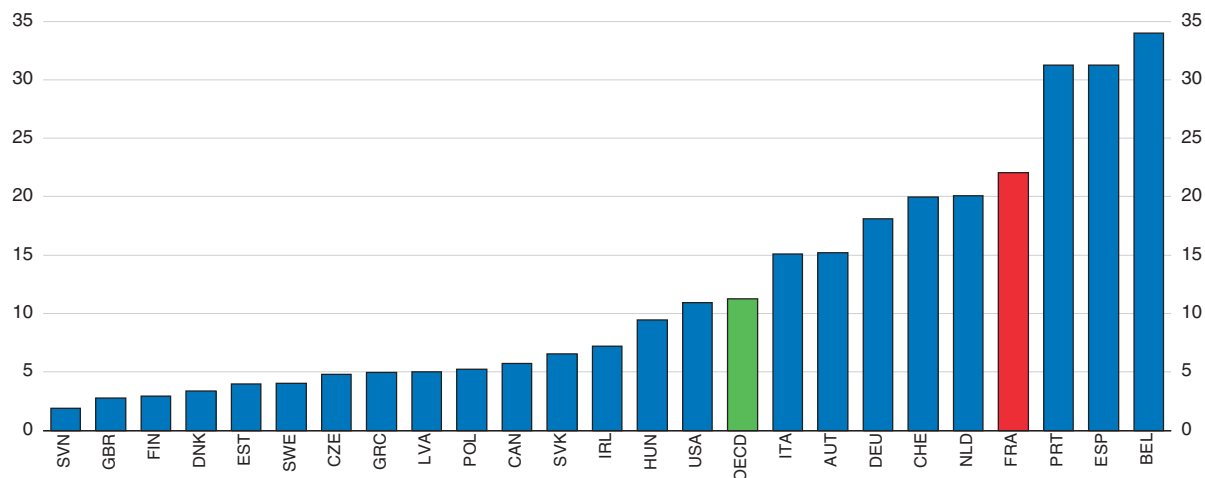
1. Share of lower secondary teachers who report: jointly teaching in the same class as a team, either regularly or occasionally (Panel A); and who report giving different work to students with learning difficulties, or those who can advance faster, frequently or in nearly all lessons (Panel B).
2. Belgium, Canada and the United Kingdom refer to, respectively, only Flanders, Alberta and England.

Source: OECD, Talis 2013 Database.


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Recognising that a lack of teacher experience and high turnover are bad for student outcomes, in 2015 the government increased the bonus for teachers in priority education to around 10% of the average salary. Yet, research from the United States shows that as much as 30-50% might be needed to retain teachers in difficult schools (Hanushek et al., 2004). Teachers in the priority education network in poor neighbourhoods enjoy an accelerated accumulation of points, which help them move faster to a school of their

Figure 40. **Grade repetition is high**¹
Per cent, 2015²



1. Share of students reporting having repeated a grade at least once in primary, lower secondary or upper secondary school.
 2. This figure shows the grade repetition of students throughout their academic career, and therefore does not fully reflect the new regulations in France under which grade repetition should be used only in exceptional circumstances.
- Source: OECD (2016), *PISA 2015 Results: Policies and Practices for Successful Schools*, OECD Publishing, Paris.

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choice, attracting those whose main aim is to leave. A better option would be to evaluate teachers based on their contribution to students' personal and academic development and to their colleagues' performance, as in Singapore, and offer attractive pay and career packages to those who excel in schools with many struggling children. This could include new intermediate leadership positions, for example guiding professional development teamwork and faster promotion to principal.

At present, teacher qualifications and salaries are highest within post-secondary programmes offered at lycées preparing students to enter elite universities, which offer the road to the best-paid and most influential jobs in both the public and private sectors (Cour des comptes, 2013). Per pupil spending in these courses is well above twice as high as in primary education. While there have been efforts to encourage more disadvantaged students to participate in these courses, progress has been limited (CNESCO, 2016). Average spending per pupil in the later stages of secondary education is above average, while it is well below the OECD average in primary education. This is not the right balance, as educational inequalities are widening, and it is well known that only early intervention can help struggling students to catch up.

School funding should be reformed further. The government has made important progress by linking the number of teachers more closely to the socio-economic composition of primary schools. A similar reform is being developed for secondary schools. But linking schools' socio-economic composition to their human resources budget, rather than the number of teachers, would better align the quantity and quality of schools' personnel with students' needs. Publishing the formula along with schools' budgets would improve transparency and accountability. Currently, heads of school districts (*recteurs*) have considerable discretion in assigning teachers to schools, which seems to have undermined past efforts to reduce class size in schools in the priority education network (Beffy and Davezies, 2013). This programme would become redundant if a transparent funding formula were adopted for all schools based on their pupils' socio-economic backgrounds.

Some studies suggest that the priority education label carries stigma for the schools operating under it, leading to a lower share of students from higher socio-economic backgrounds, more teachers with non-standard degrees and higher teacher turnover (Beffy and Davezies, 2013; Davezies and Garrouste, 2014).

Investing more and more effectively in poor neighbourhoods

Other than problems with their schools, poor neighbourhoods suffer from a lack of business activity and jobs. Yet, efforts to revive both with place-based tax exemptions (*zones franches urbaines*) have had mixed results. While they have been successful in attracting enterprises and creating jobs, this has been roughly compensated by negative effects on employment and activity in surrounding areas (Givord et al., 2013; Mayer et al., 2015). They were most effective in neighbourhoods well integrated into their urban surroundings and connected to transport infrastructure (Briant et al., 2015), so tax breaks should be focused on this type of neighbourhood. Initiatives for poorly connected neighbourhoods should focus on connections to the large existing infrastructures in order to attract new business, along with renovation of local real estate and commerce.

Physical distance to jobs and limited transport increases the unemployment risk in poor neighbourhoods (Goffette-Nagot et al., 2012). Transport services also need to accommodate unusual working hours, which are more common among less qualified workers, while they are much more likely than others not to own a car or possess a driver's license (CGET, 2016). The government should systematically collect data on distance to jobs and key services in poor neighbourhoods, conduct surveys on the adequacy of transport services and set out a timeline and quantitative goals to address important needs that are not met. Associated public spending should be published and evaluated.

While, overall, France has excellent availability of childcare services, special efforts are needed in poor neighbourhoods. Many parents there are single, and a lack of childcare can therefore be especially harmful for their labour force participation (ONPV, 2016), particularly if available jobs are remote. Moreover, high-quality early childhood education can yield benefits throughout life, especially for children from disadvantaged and foreign-language backgrounds (OECD, 2012; Wilson et al., 2013). The ongoing increase in places for children under three in pre-schools in poor neighbourhoods is therefore welcome. This could also create attractive employment opportunities for local residents as caregivers. Beyond that, local data on childcare places are needed and should be used to guide new supply. Reaching out to parents may be necessary to encourage early enrolment. There are some efforts to inform disadvantaged parents of the availability of pre-schools, but they are less systematic for day-care centres run by municipalities.

The promotion of e-government is welcome in general, but poor neighbourhoods are not the right place for that. Too many people there have weak basic and digital skills and insufficient access to computers. Even if measures are envisaged to assist people having weak digital skills with online access to public services, direct personal service delivery is necessary in the poorest neighbourhoods.

Government-commissioned evaluations of recruitment practices based on fictitious CVs have consistently pointed to discrimination against immigrants and inhabitants of poor neighbourhoods (Bunel et al., 2016; L'Horty et al., 2011). The government has experimented with an anonymous CV, not showing candidates' name or address, but evaluations did not point to substantial benefits (Behaghel et al., 2011). To improve practices the government has also reached out to employers whose recruitment was revealed to be discriminatory in

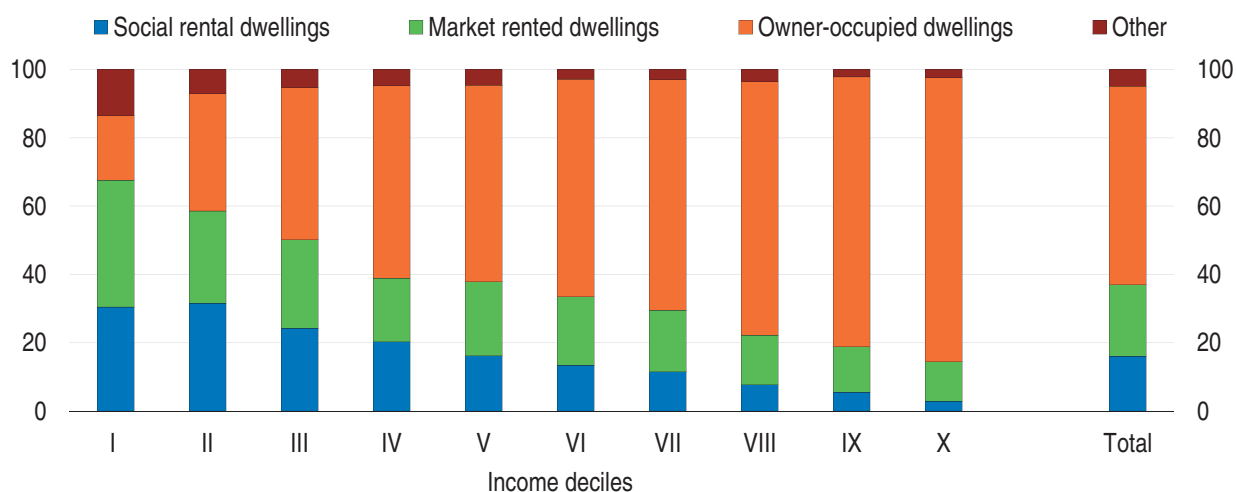
evaluations. Continuing these efforts and adding diversity training and information campaigns for recruiters would be useful to raise their awareness. Personal contact with candidates from poor neighbourhoods has been shown to help overcome prejudice. Job-seekers at risk of discrimination should be given priority for training courses that involve practical work experience in firms. Regions and schools running apprenticeships should actively engage with firms to present candidates. Pôle emploi provides mentoring and coaching for candidates from poor neighbourhoods and reports good results.

Improving access to higher-quality housing for the poor

Paris is one of the most expensive cities in Europe, and housing affordability is a serious issue for lower-income households there as well as in some other big cities. France has a large and growing social housing sector, but there are long queues, and a considerable share of the lowest-income households still struggle to find affordable housing. While 65% of the population qualify for standard social housing, the share of the lowest income quintile among social housing tenants increased from 21% in 1973 to 50% in 2013 (Cour des comptes, 2016). Nevertheless, households from the lowest income decile were still more likely to live in private rental housing, (Figure 41) with 30% higher rents and up to 50% in the Paris region.


Figure 41. **Housing tenure across households by income decile¹**

Metropolitan France, primary residences, 2013

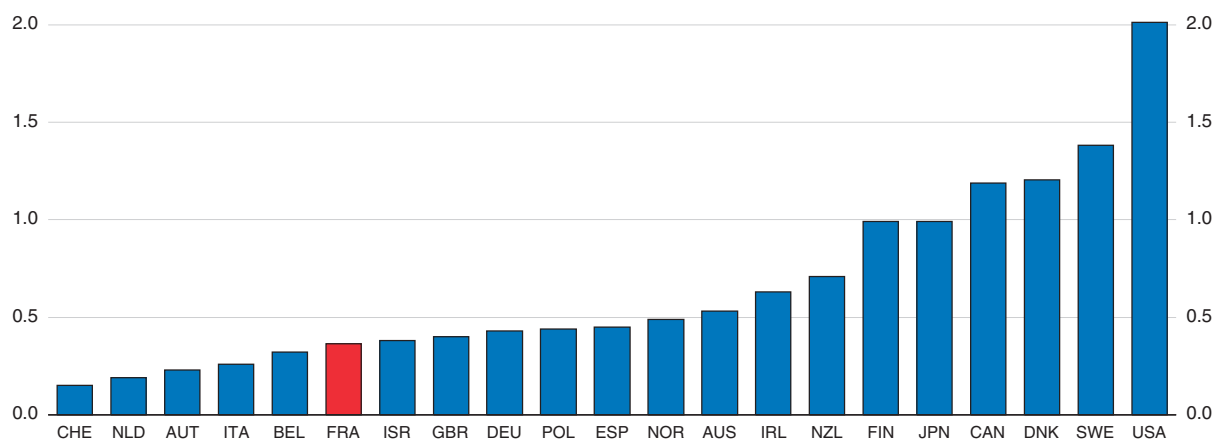


1. The first income decile includes households with average annual income below EUR 8 000, while the 10th decile refers to households with average annual income above EUR 39 000.

Source: INSEE, Housing Survey 2013.

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To provide households with more affordable housing – private or social – the government needs to confront the limited flexibility of overall supply (Figure 42). Some reports suggest that both demand and bricks-and-mortar subsidies mainly increase prices (Grislain-Letrémy and Trevien, 2015), although this point is contested by others (ongoing work by the CGEDD, 2016). There is evidence that social housing construction crowds out private construction, perhaps even fully (Chapelle, 2015). The government has taken action to release publicly owned land for construction, give financial incentives to mayors who are successful in increasing the housing stock in areas with important supply shortages and reduce the time it takes to obtain a building permit. In addition, higher recurrent taxes

Figure 42. Price responsiveness of housing supply¹

1. Estimates of the long-run price elasticity of new housing supply where new supply is measured by residential investment.

Source: Caldera Sánchez, A. and Å. Johansson (2011), "The Price Responsiveness of Housing Supply in OECD Countries", *Journal of Housing Economics*, Vol. 22, Issue 3, September, pp. 231-49.

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on immovable property would counter land hoarding in areas with housing shortages (Caldéra Sanchez and Johansson, 2011).

Moreover, land-use planning requires co-ordination at the metropolitan area level and sometimes the regional level. This would limit externalities, such as urban sprawl, or rationing of supply, for example if mayors prefer to specialise in commercial real estate to maximise tax revenues or want to preserve high prices for homeowners (Trannoy and Wasmer, 2013). Co-ordination of land-use planning has improved, but higher-level coherence plans (*Schéma de cohérence territoriale*, SCoT) do not yet cover the entire country, and further efforts are needed to strengthen consultation procedures (OECD, 2017c). Local land-use plans and construction permits are still often issued by municipalities. Groups of municipalities (*intercommunalités*) are responsible for local zoning plans by default as of 2017, but these can be blocked by a minority of member jurisdictions. This possibility should be removed, and the competency for building permits should also be transferred to the *intercommunalités*.

Taxation and a geographically fragmented social housing sector contribute to low labour mobility. This hinders better skills matches and thus productivity and employment opportunities (Adalet McGowan and Andrews, 2015). Lowering high registration fees for real estate transactions would improve labour mobility (Arnold et al., 2011). Social housing also impinges on mobility through a right to stay for life, combined with the aforementioned substantial rent advantage (Trévién, 2014) and opaque municipal queuing systems. A 2017 reform foresees tighter obligations to leave for tenants whose income rises beyond the eligibility ceiling and more possibilities to increase their rents (Table 9). These are steps in the right direction, but changes should go further. Establishing national or regional waiting lists subject to clear criteria would also help.

Urban renewal needs a stronger focus on well-being and participation

To reduce the concentration of poverty in poor neighbourhoods and improve well-being the government has run an extensive urban renewal programme since 2003. The largest share of the associated investment, around 65%, has been devoted to renovation or demolition of the social housing stock – often large, run-down estates built before the

Table 9. **Past OECD recommendations on housing**

Main recent OECD recommendations	Actions taken since the 2015 Survey
Update the registry of rateable values, and implement a mechanism for periodic revaluation. Make the <i>taxe foncière</i> the equivalent of a tax on imputed rents by regularly updating the cadastral/rental values, and abolish taxes on actual rents. Cut transaction taxes on the purchase of property.	The government has drawn up a plan to bring building values that are used to calculate the tax base more into line with market prices.
Broaden the responsibilities of <i>intercommunalités</i> , with particular regard to building permits and local land-use plans, and consider broadening the scope of application of the taxes on vacant housing.	A 2014 law transferred responsibility for local town planning (PLU) to <i>intercommunalités</i> . In Spring 2017, 45% of the 570 public establishments for inter-communal co-operation (EPCI) were responsible for PLU.
Bring rents in the social housing sector closer to market values, rather than linking them to costs at the time of construction.	Since the 2017 law on equality and citizenship, rent supplements for social housing tenants are subject to a rent ceiling of 30% of the tenants' income irrespective of quality and flat size and local market conditions. Tenants can be asked to leave their flat when, for two consecutive years, their income exceeds 150% of the revenue ceiling for eligibility, compared to 200% of the revenue ceiling for eligibility of the occupied property before the law was changed.
Merge social housing authorities at a supra-municipal level in order to achieve economies of scale. Protect social housing from local allocation pressures, and reduce mismatches between needs and new construction.	The communal housing offices with EPCIs responsible for housing report to the latter since January 2017. A 2017 law creates intercommunal governance for the allocation of social housing with an obligation to allocate more social housing to low-income individuals outside of poor neighbourhoods.

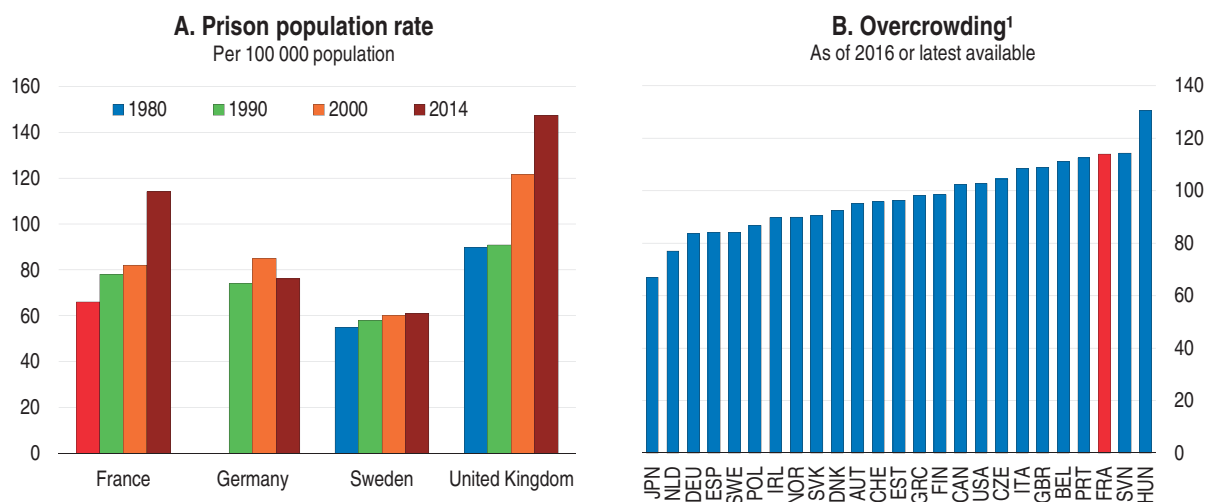
mid-1970s – and reconstruction of smaller buildings with a mixture of tenures. The idea has been to attract the middle class and thus provide for more social mixing. The programme has helped to modernise housing and other urban infrastructure, and the neighbourhoods are often better integrated into their urban surroundings than before. The impact on social mixing is more questionable, though. Echoing the experience with similar programmes in other countries, displaced households often ended up in other high-poverty neighbourhoods, while the departure of higher-income households was accelerated (Posthumus et al., 2013; Lelevrier, 2013).

Urban renewal could also be used as an entry point to offer basic skills and language training. Overall, France has a good basic skills strategy, but more could be done to ensure these measures reach immigrants and inhabitants of poor neighbourhoods. The National Agency for the Fight Against Illiteracy has good programmes to overcome stigma by reaching out to adults with basic-skills deficiencies through their workplaces or their children's schools. To reach more inhabitants of poor neighbourhoods local employment clauses of renovation projects could be strengthened and used to offer apprenticeships alongside work experience combined with basic-skills improvement. Experience has shown that basic-skills training works particularly well when it is integrated in candidates' daily lives (OECD, 2015d). Public consultations regarding urban renewal should be used systematically to offer basic-skills and language training.

Incarceration


Residents of poor neighbourhoods are also more likely to be incarcerated. Conditions in French prisons are poor and suicide rates high. The prison population has increased markedly, in particular since 2000, and there is serious overcrowding in some institutions (Figure 43). This undermines prisoners' well-being and their ability to exercise their basic rights (Contrôleur général des lieux de privation de liberté, 2014). There is evidence of network effects in prisoners' home neighbourhoods and in jail from the United States, but there are no data or studies on these issues in France. Yet, they are needed to develop a

Figure 43. Increase in the prison population and overcrowding



1. Ratio of total prison population to official capacity of the prison system in per cent.

Source: Institute for Criminal Policy Research (2016), *World Prison Brief 2016*, Birkbeck College School of Law, University of London.

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coherent strategy for urban policy along with judicial reform. Alternative sentencing, such as community work and electronic bracelets, has been shown to reduce recidivism (Kensey and Benaouda, 2011). The government is working on building more modern prisons, focused primarily on the preparation for release of prisoners serving short sentences, and has started reforms to promote alternative sentencing and probation, while ensuring better support for ex-convicts to facilitate their re-integration into society. These efforts need to continue.

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ANNEX

Progress in structural reform

This Annex reviews actions taken on recommendations from previous Surveys that are not covered in tables within the main body of the Assessment and Recommendations. Recommendations that are new in this Survey are listed at the end of the relevant chapter.

Labour market policy

Recommendations	Action taken since previous <i>Survey</i> (March 2015)
Increase opportunities for companies to opt out of sectoral and individual agreements. Reform the financing of labour and employers' organisations so as to enhance representativeness and continue to improve social dialogue.	The 2016 labour reform facilitated firm-level agreements regarding working-time arrangements. It also requires that unions that sign a wage agreement must have the support of 50% of the workers, up from 30%.
Simplify substantially all social benefits. Merge the <i>RSA-activité</i> and the earned-income tax credit (PPE).	The income supplement <i>RSA-activité</i> and the earned-income tax credit (PPE) were merged into a single social benefit, the <i>Prime d'activité</i> , effective 1 January, 2016.
Give priority to making young people employable and to on-the-job training programmes. Improve co-ordination among the actors involved in youth activation in order, in particular, to take charge of dropouts at an early stage. Rationalise support for helping youth to find jobs by limiting the number of programmes, shifting responsibility for local initiatives to the regional level where new structures would bring the various actors together.	In 2016 500 000 training courses for jobseekers were financed, particularly those with few or obsolete skills. The law of August 2016 reforming the labour market introduced the <i>Garantie Jeunes</i> programme and created the <i>parcours contractualisé d'accompagnement vers l'emploi et l'autonomie</i> (PACEA), the new single contractual framework to support young people that draws upon the entire range of services available to meet the varied needs of young people.

Management of public finances

Recommendations	Action taken since previous <i>Survey</i> (March 2015)
To control health-care spending close small public hospitals, place greater stress on outpatient surgery and generic drugs, and give doctors stronger incentives to limit prescriptions, as planned.	The 2016 organizational reform leading to the creation of hospitals groupings (GHT, <i>groupements hospitaliers de territoire</i>) could improve efficiency through the pooling of functions, in particular human resources, and an improved access to local care.
Reduce the complexity and enhance the stability of the tax and transfer system. Task an independent institution with the systematic evaluation of the cost efficiency of tax expenditures in order to abolish those that are tax inefficient.	No action taken.
Gradually phase out reduced VAT rates, and compensate low-income households via means-tested annual payments to achieve distributional objectives in a more cost-efficient way.	No action taken.

Education policy

Recommendations	Action taken since previous <i>Survey</i> (March 2015)
Shift some secondary education funding to primary schools and to admitting children in disadvantaged areas from age two. Achieve economies of scale by speeding up the merger of small schools.	The government intends to reduce class size to 12 pupils for grade 1 and grade 2 in priority schools. Schooling of children from age two has increased in priority schools.
Use the surplus funding allocated to education to make priority education a genuine priority. Improve the quality of teaching staff and of management teams in schools in disadvantaged neighbourhoods. Give these schools greater autonomy in terms of recruitment and tailored support to individual students, and develop parental involvement in those schools.	Additional funding of 350 million euros for the 2017 school year was channelled to priority schools. The bonus payment for teachers in priority schools has been increased.

Research and innovation policy

Recommendations	Action taken since previous <i>Survey</i> (March 2015)
To make the "competitiveness clusters" policy more effective, state aid should be contingent on results; establish a sunset date for subsidies, while gradually replacing them with private financing.	No action taken.
Assess the effectiveness of the research tax credit (CIR) regularly so as to optimise its configuration and scope of application.	An innovation policy board (<i>Commission nationale d'évaluation des politiques d'innovation</i>) launched a tender for projects to evaluate the research tax credit (CIR).

Competition and regulatory reform

Recommendations	Action taken since previous <i>Survey</i> (March 2015)
Evaluate the impact of new class action procedure. Consider providing SMEs and local authorities with the option to make use of them when they are victims of anti-competitive activities and loosening the condition for class action standing.	No action taken.
Eliminate, as planned, regulated tariffs on the electricity and gas retail markets for non-residential customers as of 2015, and reconsider these tariffs for residential customers. Ensure that the financing of new generating capacity preserves competition among power producers and suppliers alike.	Regulated tariffs on the electricity and gas retail markets for major customers have been eliminated.

Environmental policies

Recommendations	Action taken since previous <i>Survey</i> (March 2015)
Abolish the favourable tax treatment given to diesel compared with petrol. Review fuel tax reliefs for agricultural vehicles and fishing boats with a view to reducing them, and abolish tax relief for heavy goods vehicles and taxis.	The tax differential between diesel and petrol cars has been reduced and the new government plans to align the taxation of diesel with that of petrol by 2022. The scope of the general tax on polluting activities (TGAP) has been extended, and rates have been increased. The annual tax on company vehicles has been modified to take into account emissions of CO ₂ and other pollutants.
Fully implement the polluter-pays principle for farmers where their use of water causes pollution. Raise water prices for industry and farming to cover both operating and capital costs. Apply the standard VAT rate to water.	An experimental certification system for reduced agricultural use of plant protection products (<i>certificats d'économie de produits phytosanitaires</i>) was implemented in 2017 to encourage a decline in their use.