OECD Economic Surveys FRANCE

MARCH 2015

OVERVIEW

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BETTER POLICIES FOR BETTER LIVES

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Summary

- *Main findings*
- *Key recommendations*

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Main findings

France has no lack of economic assets: an enviable standard of living, high productivity, above-average prime-age labour-force participation and average income inequality that, unlike in many other OECD countries, has not worsened over the long term. This economic performance is underpinned by a diversified industrial structure, a sound banking system and high, even if uneven, educational attainment. However, potential output has slowed, partly because of the crisis; the economic recovery has disappointed; and unemployment is at a high level and still rising. The fiscal situation is weak, with a chronic deficit, considerable government spending, correspondingly high taxes and rising public debt. The significant complexity of systems and institutions highlights a pressing need to speed up the ongoing simplification effort. The government has undertaken a series of welcome pro-growth structural reforms and has more in the pipeline. Equity considerations have not been neglected, with efforts to improve educational inclusiveness and the pathway into the labour market for the young. Building on these reforms holds the promise of renewing growth, thereby raising living standards and improving well-being. The necessary public support will be forthcoming if it is also seen as a way of enhancing equality of opportunity.

The key challenge is to reform the labour market to promote job growth. Further labour market reforms should be the top priority. The strong protection accorded by open-ended contracts hinders labour mobility, despite the progress brought by reforms regarding mass layoffs and the introduction of the *rupture conventionnelle*, a mutually agreed termination procedure. The complex labour code, inefficient labour courts and various rules restrict flexibility in both the private and public sectors and create significant duality that penalises the most vulnerable, especially the young. Despite recent measures, such as the Competitiveness and Employment Tax Credit and the Responsibility and Solidarity Pact, France's tax wedge is still among the OECD's highest, except for those on low wages. With complex governance and weak quality controls, the vocational education system fails to provide many with the skills they need to be hired. A recent reform strengthens adult training, and welcome efforts are envisaged to expand apprenticeships.

Public spending is too high. Public spending, at 57% of GDP, is among the highest in the OECD and imposes a heavy burden on economic performance. Spending is moderating, however, and this trend needs to be intensified to lower the tax burden so as to strengthen incentives to work, build businesses, save and invest, thereby reducing public debt (soon to reach 100% of GDP). Operating expenses, public-sector employment and social spending are all greater than in most other EU countries, and there are too many sub-central governments with overlapping responsibilities. Social transfers are in most cases generous and poorly targeted. Health-care and pension expenditures' shares of GDP are comparatively large and rising.

Product-market weaknesses also undermine economic performance. Weak competition in some industries raises prices and costs, and undermines economic efficiency, potential output and purchasing power. Competition could be better factored into the formulation of regulations, and despite recent simplification, complexity in setting up a business and paying taxes are still constraining factors. In many cases controls imposed on professions can seem to be disproportionate to the stated public objectives. The draft rules governing urban commercial development and Sunday opening are unnecessarily complex. Reforms underway in these areas, such as the new business simplification committee, are, nevertheless, encouraging. The draft "growth, activity and equal opportunity" law would continue this process.

Key recommendations

An overarching theme is that activity will benefit from simplification on a broad scale

- Step up efforts to reduce complexity in the labour code, business norms and regulations, the structure of sub-central government, taxation and pensions.
- Accelerate the elimination of economic rents and privileges to favour competition and equity.

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Make labour market reform the top priority on the government's structural reform agenda

- Simplify and shorten layoff procedures by, for example, reforming the labour courts, as intended.
- As public spending declines, cut taxes further on labour.

Reduce the weight of public spending to ensure that taxes promote sustainable growth

- Eliminate the "general powers clauses" for all local governments (including for communes and the municipal groupings or *intercommunalités*). Reduce the number of communes. Expand the responsibilities and size of *intercommunalités* as planned, so as to shrink the role of communes.
- 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.
- Make sure that pensions contribute to the reduction of public spending compared to GDP, modify the parameters of 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.
- Modify the parameters of the unemployment benefits system, especially their duration, when it is renegotiated by unions and employers in 2016, and implement changes once the economy recovers. Make the link between benefits, job search and training tighter and more effective.
- Pursue the development of an efficient environmental tax system, by aligning the tax structure for fossil fuels with their carbon emissions and other externalities.

Provide high-quality vocational education and adult training to those who need it most

- 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.
- Use the envisaged quality-assurance system to introduce the certification of training providers.
- Ensure the regions have sufficient capacity and financing to co-ordinate the new vocational trainee guidance service.

Enhance the competitiveness of the economy and the business environment

- Engage an independent institution to conduct a thorough review of all existing and proposed regulations affecting firms, applying the OECD Competition Assessment Toolkit principles.
- 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).
- 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.

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Assessment and recommendations

- *Receiving growth will be challenging*
- *A permanent reduction of public spending*
- *Political economy considerations for the reform agenda*
- *Reform the labour market, a precondition for better competitiveness and faster growth*
- *Stimulate employment, productivity and equity through vocational and adult training*
- *Enhancing competitiveness, purchasing power and employment by strengthening competition*
- *Greening the economy is essential*

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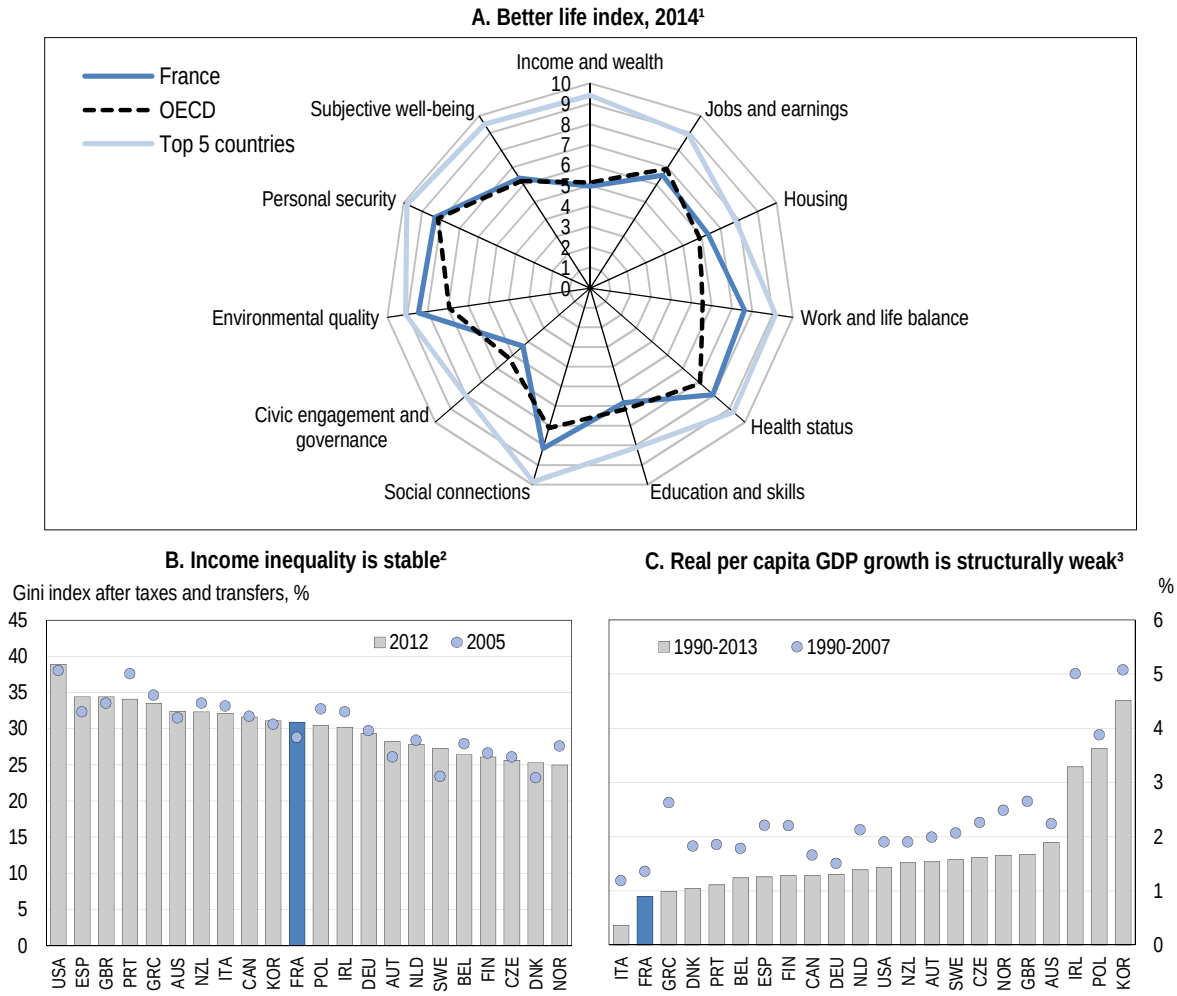
France has an enviable standard of living (Figure 1, Panel A), thanks to high labour productivity, owing in part to a well-educated work force. Inequality is not excessive (Panel B), and the country has come through the crisis without suffering too heavily. The government's cost of borrowing remains low. The banking system is sound, and, in contrast to some other countries in the euro area, the supply of credit does not seem to be constraining economic activity, even for small and medium-sized enterprises. France also stands out in terms of work-life balance, health status, social connections and environmental quality.

Figure 1. **Most social indicators are sound, despite weak growth in per capita GDP**



1. Each well-being dimension is measured by one to four indicators from the OECD Better Life Index set. Normalised indicators are averaged with equal weights. Indicators are normalised to range between 10 (best) and 0, according to the following formula: (indicator value – minimum value)/(maximum value – minimum value) x 10.
2. 2012 or last available year and 2005 or closest year.
3. Annualised growth rates.

Source: OECD (2014), *OECD Better Life Index, www.oecdbetterlifeindex.org*; OECD, *Income Distribution and Poverty and National Accounts Databases*.

France's fundamental economic problem is a lack of growth. That lack has a short-term component that is cyclical and results from insufficient demand. It is important for France to continue with consolidation at an appropriate and recovery-compatible pace and letting the automatic stabilisers work. But growth has been sluggish for about a generation (Panel C), which reflects supply-side weaknesses. These weaknesses have also led to a gradual deterioration in the competitiveness of its enterprises, manifest in a weakening in foreign trade performance since around 2002, with steady loss of market share of French exporters

(largely attributable to the rise of emerging economies in world trade) and current account deficits, although these imbalances seem to have shrunk in recent years. The government has been putting reforms in place and plans to introduce more. But boosting growth and competitiveness is a long-term process that will involve difficult trade-offs and policy-sequencing issues. It will require determination to follow through with challenging reforms and careful communication to build trust in the government's willingness and ability to move forward. Success is critical to inducing investors and consumers to throw aside their wait-and-see attitudes.

There is an obvious need to control France's steadily rising public debt, which, if not stabilised, will exacerbate vulnerabilities and ultimately reduce growth and deepen social problems. In the short term fiscal policy cannot be too restrictive because that would threaten economic recovery. Yet, substantial reductions in the share of public spending in GDP are clearly needed in order to roll back the heavy burden of taxation that has done so much to curtail the longer-term incentives to work, save and invest.

In addition, the supply side of the economy still needs an overhaul to stimulate new businesses and employment. In labour markets, structural reforms need to focus on reducing the tax wedge after the cuts introduced under the Competitiveness and Employment Tax Credit (CICE) and the Responsibility and Solidarity Pact, simplifying labour law and regulation, making labour contracts more flexible, and improving the efficiency of education, especially the adult training system. In product markets the priority is to enhance competition and shrink the extensive web of norms and regulations, especially in retail trade, most network industries and regulated professions. The prompt implementation of ambitious structural reforms would raise potential growth and confidence and have long-term positive budgetary effects.

An overarching theme is that simplification of structures, regulatory frameworks and institutions will bear ample fruit. The recent simplification "shock" and other recent measures, such as the current reform of labour courts, represent clear progress in this regard, but plenty of targets for worthwhile future efforts remain.

- The myriad official norms and regulations make for costly compliance and administration (Lambert et Boulard, 2013).
- The multiple layers (often referred to as a *mille-feuille*) of sub-central administration (regions, departments, communes and inter-communal groupings) reduce the effectiveness of many public policies and lead to excessive staffing.
- The taxation system is needlessly complex because of the large number of taxes and the many exemptions, particularly at the local level.
- Pension financing depends on multiple public schemes, each with its own specific parameters, making it difficult for contributors to understand their rights.
- Even if the welfare system provides fairly complete coverage, it is excessively fragmented and untargeted, raising costs and weakening labour supply.
- Long and complex layoff procedures and the labour courts undermine hiring and economic dynamism; a particular issue is the labour-market duality resulting from the excessive protection accorded permanent contracts.
- The vocational education system covers a great variety of training, financed by a multitude of institutions, but somebody needs to be accountable for its overall results. Despite significant resources, the system fails to provide commensurate results to those in greatest need.

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The key message of this *Survey* are therefore the following:

- France faces an important competitiveness problem. The government has recognised this and has embarked on a serious effort to deal with it. These measures need to be implemented, then strengthened.
- There is a clear need to cut back the share of public spending in GDP to ensure public debt sustainability and reduce the tax burden to levels in neighbouring countries with comparable social models.
- The highest priority for structural reform is to improve the functioning of the labour market. There, and in product markets as well, regulations and institutions are too complex and in many respects ill-designed to maintain competitiveness and generate higher living standards.

Reviving growth will be challenging

After two years of very modest expansion, economic activity remained sluggish in 2014 (Figure 2, Panel A). Business investment, which had shown some encouraging signs in the second half of 2013, dipped in early 2014 and failed to recover during the rest of the year (Panel B). The weakness of the construction sector is of particular concern, in the face of a persistent decline in residential investment. Until the fourth quarter exports did not keep pace with the growth of international trade, partly because of the past appreciation of the euro. But over the last two years, market share losses and the current account deficit have eased (Panel E). Labour market outcomes have also been disappointing. Employment has proven resilient, but largely due to labour hoarding, which is partly linked to economic rigidities and subsidised contracts in the non-market sector. The unemployment rate has risen past 10% (hitting 23% for those under 25), while underemployment stands at a further 6.5%.Weak growth, unfavourable labour market conditions and the recent decline in food and energy prices have resulted in a downward drift in inflation (Panel D). Core inflation has reached a very low rate. The overall result is that, despite the maintenance of a high level of productivity, GDP per capita has fallen steadily further behind the OECD's best performers (Panel F). The reason is that hours worked per capita are below 1 500 per year, down from nearly 2 000 in 1970.

The government is well aware that reforms are needed to improve the situation, and it has accordingly undertaken or announced a series of structural reforms that, if fully implemented, would have a meaningful impact on growth in the medium term (OECD, 2014a). The OECD has recently undertaken an assessment exercise of some of the recent reforms; the total impact is of the order of 0.3-0.4% extra growth per year over a 5-10 year horizon (Table 1).

In the short term, however, growth is projected to remain weak but to start to recover, even if only slowly in the course of 2015 (Table 2). A steady improvement in the global environment, a falling euro exchange rate, lower oil prices, and a much less ambitious pace of fiscal consolidation should spark a gradual rebound in spending. This modest pickup will dampen the employment outlook, and the unemployment rate will fall only slightly. Households will remain highly cautious in their residential investment decisions (see below) and will maintain a high saving rate in the face of persistent uncertainty (due to the domestic and international economic environment and the public reform agenda). The current account deficit will fall, thanks to lower energy import costs, the recent depreciation of the euro (an effect that will only be felt in 2016) and to the initial beneficial effects of recent structural reforms on competitiveness. Annual inflation may return to levels of around 1%, at best, once the impact of recent commodity price declines has faded.

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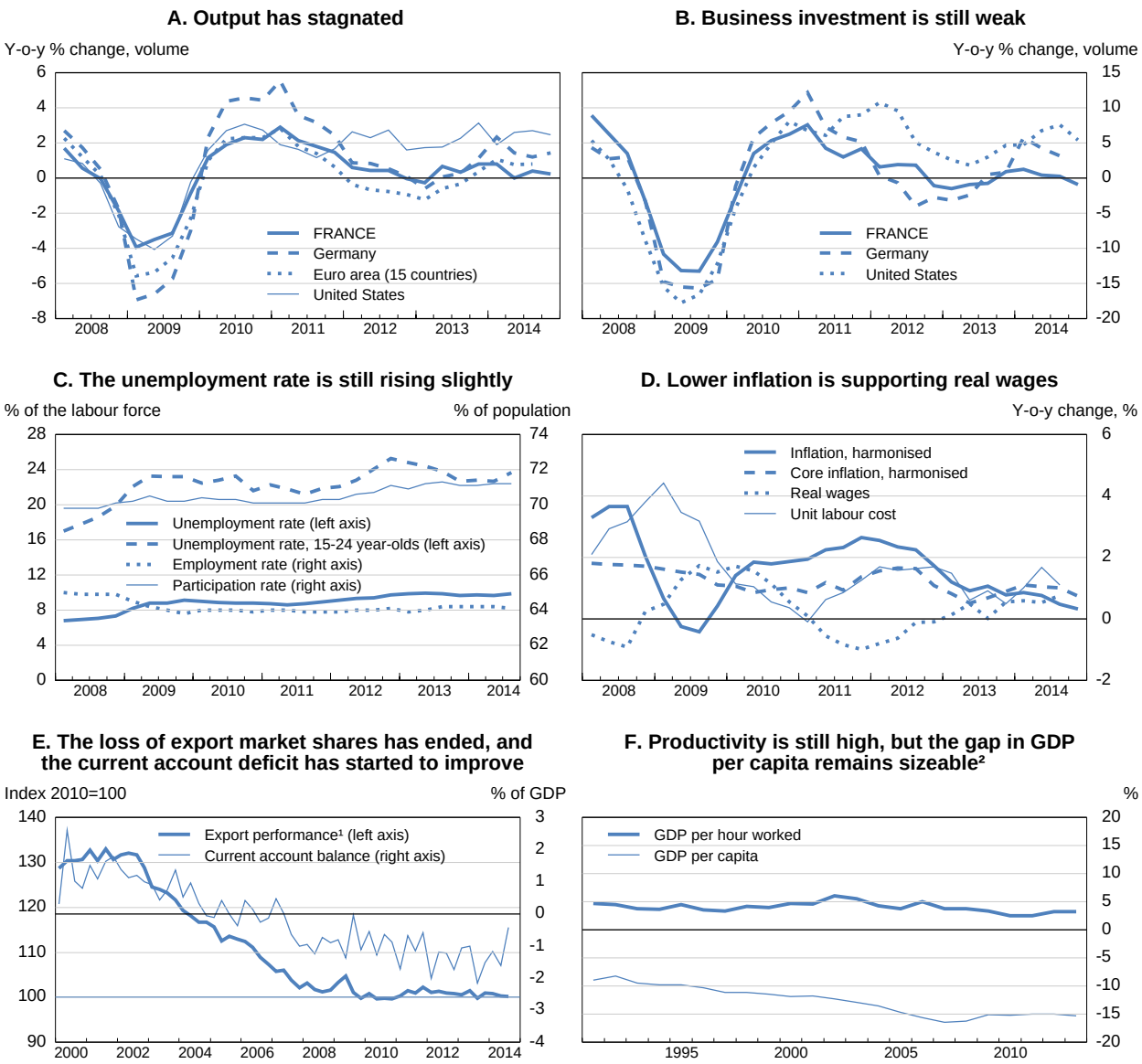
Figure 2. **Output was little changed once again in 2014**



1. Difference between export growth and export market growth, in volume terms.
2. Percentage gap with respect to the simple average of the highest 17 OECD countries, in constant 2005 PPPs.

Source: OECD Economic Outlook 96 database, updates and *Going for Growth 2015*.

Table 1. **The percentage impact of France's main structural reforms on GDP since 2012**[1]

	Over 5 years			Over10 years		
	GDP	*Of which due to*:		GDP	*Of which due to:*	
		Employ-ment	Produc-tivity		Employ-ment	Producti-vity
Reforms undertaken:						
Reducing regulatory barriers to competition (simplification shock, initial measures affecting regulated professions)	0.2		0.2	0.3		0.3
Improving the labour market						
Reduction of the tax wedge through the CICE and the Responsibility and Solidarity Pact	0.5	0.8	-0.3	1.1	1.6	-0.5
Unemployment insurance reform	0.0	0.0		0.1	0.1	
Active labour market policies	0.1	0.1		0.1	0.1	
Improving the structure of the tax system (corporate taxation, carbon tax, VAT increase, income tax relief)	0.1		0.1	0.4		0.4
Potential for reforming metropolitan governance[2] (Paris, Aix Marseille)	0.3		0.3	1.0		1.0
Total	**1.2**	**0.9**	**0.3**	**3.0**	**1.8**	**1.2**
Annualised impact on growth (percentage points)	0.2	0.2	0.1	0.3	0.2	0.1
Reforms announced:						
Reduction of regulatory barriers to competition in the network industries (gas and electricity) and announced reforms to the regulated professions	0.4		0.4	0.7		0.7
Total	**1.6**	**0.9**	**0.7**	**3.7**	**1.8**	**1.9**
Annualised impact on growth (percentage points)	0.3	0.2	0.1	0.4	0.2	0.2

1. All figures are rounded to the nearest decimal point.
2. The metropolitan areas of Paris and Aix Marseille are based on a functional definition of urban areas in the OECD database, which includes 275 cities with more than 500 000 inhabitants. The areas covered differ slightly from those affected by the planned reform.

Source: OECD (2014), *France, Structural reforms: impact on growth and options for the future*, OECD Publishing.

The government's plans for fiscal consolidation for the period 2014-16 have been cut back, and the deficit will not be brought down to the Maastricht ceiling of 3% of GDP until 2017. The slippage in 2014 was due mainly to disappointing tax receipts, reflecting the combined impacts of weak economic growth and low inflation. Efforts to reduce the structural deficit will remain modest in 2015-16, given the weakness of activity and uncertainty about the strength of private demand. It is important for France to continue with consolidation at an appropriate and recovery-compatible pace and letting the automatic stabilisers work.

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Table 2. **Macroeconomic indicators and projections**

	2011	2012	2013	2014	2015	2016
	Current prices (billion EUR)	Percentage change by volume (2010 prices)				
GDP	2 058.1	0.4	0.4	0.4	1.1	1.7
Private consumption	1 146.9	-0.4	0.3	0.6	1.4	1.8
Government consumption	486.0	1.7	2.0	1.9	0.8	0.2
Gross fixed capital formation	461.1	0.3	-0.8	-1.6	-0.6	1.7
of which: Housing	116.0	-2.1	-2.8	-5.8	-1.7	0.3
Private sector, non-residential	263.5	1.1	-0.6	0.3	0.6	2.6
Final domestic demand	2 094.1	0.3	0.5	0.4	0.6	1.2
Change in inventories[1]	16.4	-0.6	-0.2	0.3	0.0	0.0
Total domestic demand	2 110.5	-0.3	0.3	0.	0.6	1.2
Exports of goods and services	571.8	1.2	2.4	2.7	4.0	5.2
Imports of goods and services	624.3	-1.2	1.9	3.8	3.0	4.1
Net exports[1]	-52.4	0.7	0.1	-0.4	0.2	0.3
Other indicators (growth rates in %, unless specified):						
Potential GDP (volume)	-	1.0	1.0	1.2	1.3	1.5
Output gap (% of potential GDP)	-	-0.8	-1.4	-2.2	-2.5	-2.2
Employment	-	0.0	0.0	0.1	0.2	0.7
Unemployment rate (% of the labour force)	-	9.4	9.9	9.9	10.1	9.9
GDP deflator	-	1.2	0.8	0.8	0.2	1.0
Consumer price index	-	2.2	1.0	0.6	0.2	0.9
Core consumer prices	-	1.5	0.7	1.0	0.7	0.9
Household saving ratio, net (% of household disposable income)	-	9.6	9.5	9.7	10.3	10.0
Trade balance (% of GDP)	-	-2.0	-1.5	-1.6	0.0	-0.4
Current account balance (% of GDP)	-	-1.5	-1.4	-1.2	-0.3	-0.0
General government fiscal balance (% of GDP)	-	-4.9	-4.1	-4.3	-4.0	-3.5
Fiscal structural balance (% of GDP)	-	-4.5	-3.5	-3.3	-2.8	-2.3
Primary structural fiscal balance (% of GDP)	-	-2.1	-1.3	-1.4	-1.0	-0.7
Gross debt of general government (% of GDP)	-	110.5	110.4	113.7	116.2	117.0
Public debt, Maastricht definition (% of GDP)	-	89.3	92.2	95.4	98.1	98.8
Net debt of general government (% of GDP)	-	67.8	67.2	70.5	73.1	73.6
Three-month money market rate, average	-	0.6	0.2	0.2	0.1	0.1
10-year government bond yield, average	-	2.5	2.2	1.7	0.5	0.5

1. Contributions to changes in GDP by volume, nominal amount in the first column.

Source: *OECD Economic Outlook No. 96 Database* and updates.

And there remain substantial risks to growth, mostly to the downside

The risks to short-term growth are mostly but not exclusively on the downside. The wait-and-see attitude of households and firms could well continue, given uncertainty about the success of structural policies and euro area growth. The downward trend in real estate prices and the weakness in the construction sector could, if they persist, reduce household wealth (and potentially spending) and banking margins. By international comparison, even though its banking system is sound, France ranks poorly by several financial measures, because of its lack of growth, still-high level of house prices by historical standards, net international investment position and banks' unproductive loan portfolios (Table 3). On the other hand, even lower oil prices could be positive. A further 10-dollar fall in the current price of Brent crude (57 dollars) could push growth up by 0.1 or 0.2 percentage points in 2015.

Table 3. **Financial vulnerability indicators**

	Real economy			Non-financial sector (NFS)				Financial sector			
	Real growth vis-à-vis potential (%)	Current account balance (% of GDP)	Export performance (change in percentage points)	Net public debt (% of GDP)	Household debt (% of gross disposable income)	NFS debt (% of GDP)	Real increase in property prices since 2000 Q1 (%)	Non-performing bank loans (% of portfolio)	Debt to foreign banks (% of GDP)	Short-term debt to foreign banks (% of GDP)	Net interna-tional investment position (% of GDP)
	2014	2014	2012-14 (cumulative)	2014	2013	2013		Most recent period			
United States	0.2	-2.2	0.3	85.5	110.1	114.4	15.6	2.3	14.9	5.5	-32.5
Japan	0.1	0.3	2.1	142.1	132.2	160.5	-31.2	1.9	17.8	14.7	64.5
Germany	0.3	7.4	0.3	42.4	94.8	70.5	-0.6	2.7	31.8	16.0	47.5
France	**-0.8**	**-1.2**	**-0.7**	**70.9**	**108.1**	**103.2**	**75.5**	**4.5**	**53.4**	**30.3**	**-17.6**
Italy	-0.3	1.5	-2.9	120.4	78.6	90.9	13.3	16.5	26.5	9.4	-32.8
United Kingdom	1.2	-4.8	-6.5	64.2	148.6	87.3	71.7	3.7	71.3	46.2	-5.5
Canada	0.5	-2.6	2.7	40.9	169.5	138.0	90.5	0.5	23.9	12.7	1.5

Source: OECD Economic Outlook No. 96 Database and updates.

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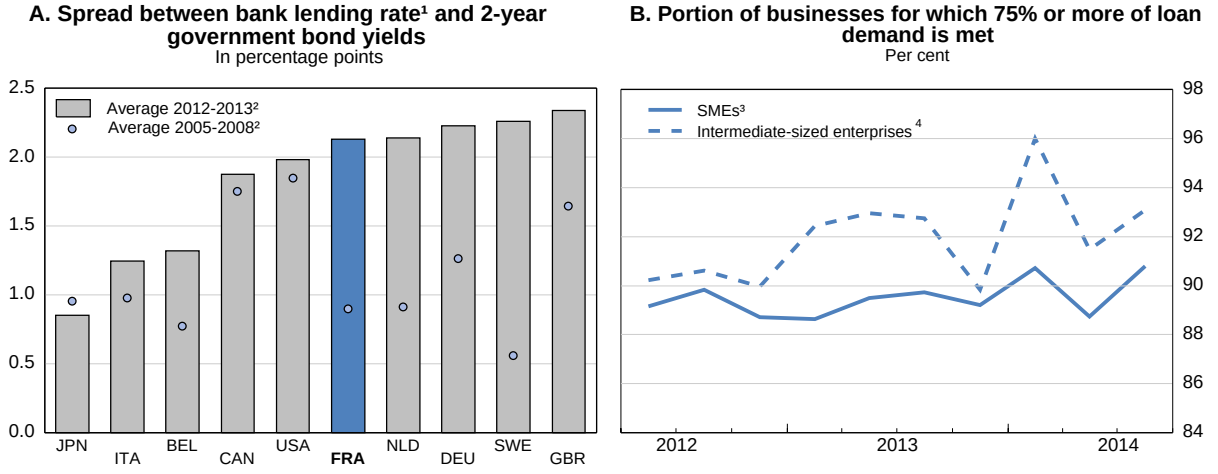
Similarly, the effective implementation of the euro area's quantitative easing programme could trigger a greater-than-expected currency devaluation, and the Juncker plan for leveraged EU-wide investment could boost growth in 2016. Finally, successful implementation of an ambitious and credible programme of structural reforms could dispel uncertainties and doubts and spark a more rapid recovery.

The in-depth review conducted in 2014 by the European Central Bank found no balance-sheet weakness among the 14 French banks examined. They became stronger and more diversified in the years before the crisis, expanding their investment banking activities – particularly with derivatives – both in Europe and internationally. The fact that this growth was financed from the capital markets has been a source of vulnerability, but the banks have shrunk their balance sheets since the onset of the crisis, bringing their total consolidated assets from 370% of French GDP in 2008 to 308% in 2013 (ECB, 2014). They remain able to finance businesses: the demand for credit seems to be largely satisfied, even for SMEs, although the risk premium has risen since the crisis (Figure 3).

Figure 3. **Financing for businesses**

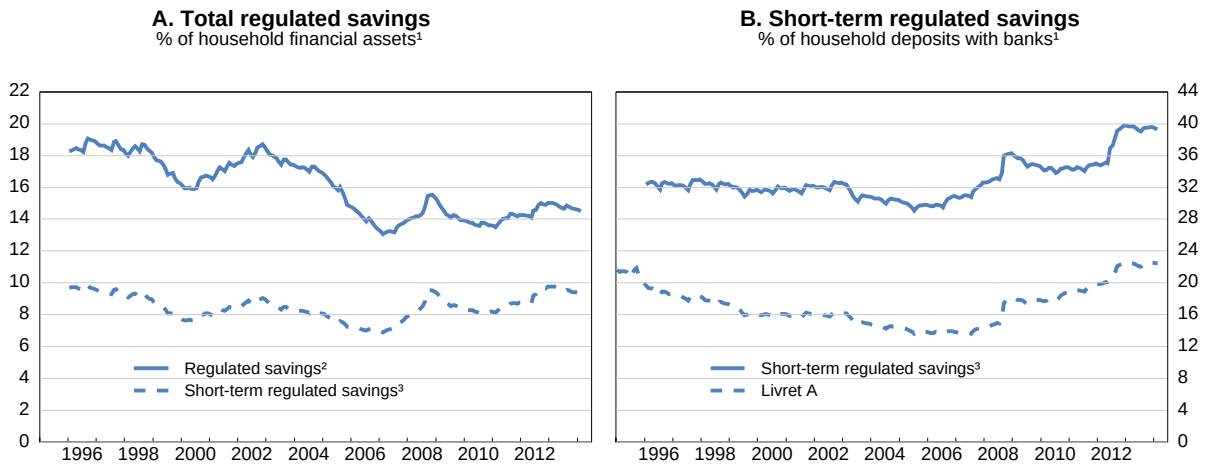


1. Lending rates for loans to non-financial corporations (NFCs) for the United States, rates for new loans to businesses in euro area member countries, rates for new loans to NFCs and households for Japan, rates for new loans to NFCs for the United Kingdom and Sweden, and rates for new prime loans to NFCs for Canada.
2. Weighted average across all maturities.
3. Businesses with fewer than 250 employees.
4. "Intermediate-sized enterprises", with 250 to 5 000 employees.

Source: Lewis, C. et al. (2014), "Investment Gaps after the Crisis", *OECD Economics Department Working Papers*, No. 1168, OECD Publishing (Panel A); Banque de France (Panel B).

Beyond the banks, financing for the economy is heavily influenced by policy and regulations. Much of household financial assets – EUR 657 billion, or 31% of GDP (Figure 4, Panel A) – is regulated, and its allocation is largely influenced by the authorities (around EUR 250 billion, or 12% of GDP). A growing portion of bank deposits is also in the form of such instruments (Panel B). They have an opaque impact and generate inefficiency: they enjoy a privileged tax status and fixed remuneration above comparable market rates, and their allocation is restricted, raising the cost of bank funding as a whole and impeding monetary policy transmission (IMF, 2013). A useful step would be to bring the rates paid on them closer to market rates, as the rules call for. At a time when new solvency and liquidity demands on banks are being introduced, the regulated saving accounts called *Livret A* and the sustainable development account (EUR 341 billion, 6% of system assets) impose a constraint on banks' balance sheets. The saving account for house acquisition (PEL) remains too generously remunerated and its terms almost completely disconnected from that objective despite recent reforms.

Figure 4. **Regulated savings**

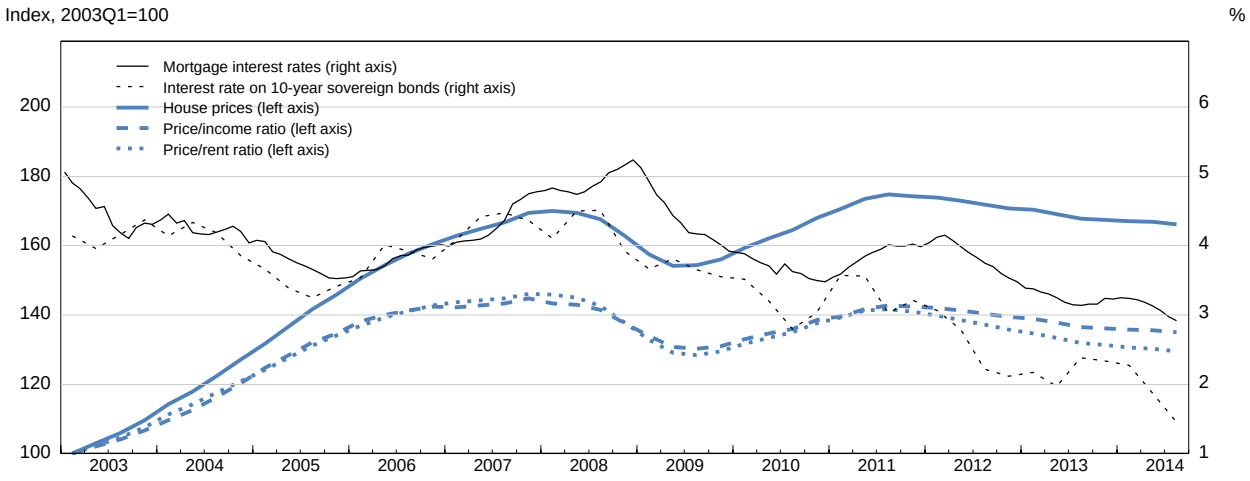


1. Households excluding individual entrepreneurs.
2. Total of *livret A, livret bleu, livret d'épargne populaire (LEP), livret jeune, livret de développement durable (LDD)* and housing savings accounts and plans.
3. Total of *livret A, livret bleu, livret d'épargne populaire (LEP), livret jeune* and *livret de développement durable (LDD)*.

Source: Banque de France.

Another potential risk to the economy emanates from imbalances in the housing sector. Trends there have been unfavourable since summer 2011 (Figure 5). Prices have fallen 4.8% (nominal; 7.0% in real terms) since their peak. They could continue their gentle decline, without ruling out a significant cumulative drop in asset valuations. During previous worldwide housing cycles, France's property market and the banking sector have adjusted more slowly than in English-speaking countries, but the end result has been roughly comparable (Grjebine, 2014). However, the quality of housing loans still appears relatively sound, thanks to banks' prudent lending policies: housing loans to households are only around 40% of GDP, about 10 percentage points higher than in 2005 but only slightly above the euro-area average.

Figure 5. **Property prices remain high**

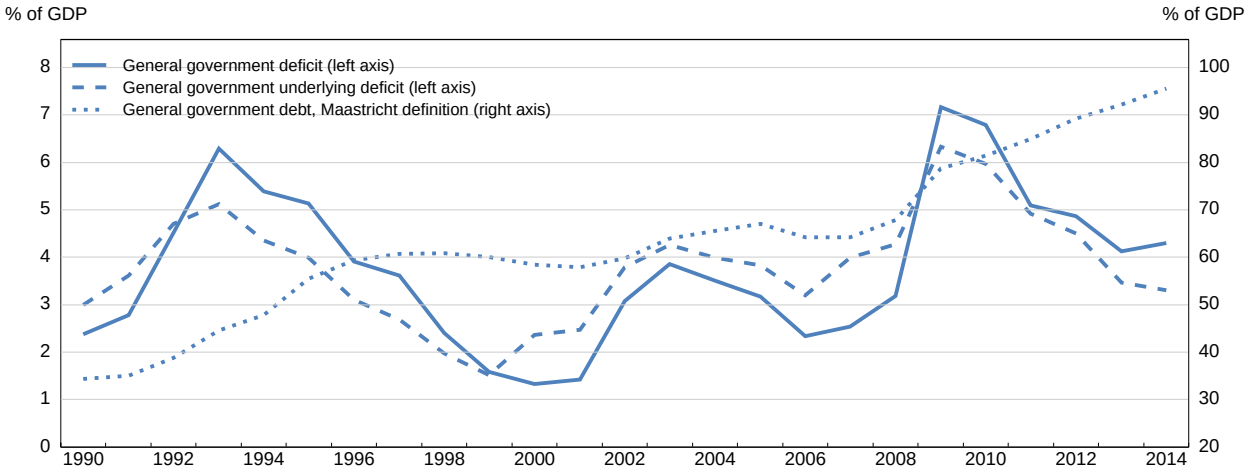


Source: *OECD House price and OECD Economic Outlook 96 Databases*; Banque de France.

A permanent reduction of public spending

According to OECD projections, France's public debt (Maastricht definition) will be close to 100% of GDP by 2016 (Figure 6), a still unstabilised level that would already be difficult to sustain if and when interest rates start to rise. In 2014, France had, at 57.3%, the second highest ratio of public spending to GDP among OECD countries (Figure 7, Panel A). Since 2000, it has risen by 6.2 percentage points, whereas it dropped 0.3 points in Germany and rose a more modest 4.9 points in the EU15. Despite a marked slowdown since 2010, this level of spending requires high taxes (Figure 8) that exert heavy pressure and distortions across the entire economy, particularly in terms of business competitiveness and incentives to hire. In real terms, increases have moderated since 2009 (Table 4), but going ahead with a significant cut in the spending ratio is a *sine qua non* to reduce the most distortive contributions over the medium term and improve the trend growth rate. Other OECD countries, such as Canada, Israel, Spain and Sweden have successfully managed to reduce their public spending by 10 percentage points of GDP over the medium term (Figure 9). Even if France did likewise, its spending ratio would still be above the OECD average

Figure 6. **Public deficit and debt, 1990-2014**



Source: *OECD, Economic Outlook No. 96 Database* and updates.

How to read this figure: The underlying general government balance is the general government balance excluding the impact of economic cycles on public finances, notably due to automatic stabilisers. Its evolution shows in principle the impact of discretionary fiscal policies. For example, a rise of one percentage point of GDP in the underlying deficit corresponds to a discretionary fiscal loosening of one percentage point.

The government plans to restrain spending in the next three years and to reduce labour and business taxation through the Responsibility and Solidarity Pact (RSP, *Pacte de responsabilité et de solidarité*). The cutbacks called for in the 2015 budget amount to EUR 21 billion in 2015 (and EUR 50 billion cumulatively by 2017), against a particular baseline with rising outlays, but real spending would continue to rise slightly while declining as a share of GDP. A more ambitious reduction of public spending is needed over the medium term. Accordingly, the medium-term expenditure-reduction strategy set out in the budget legislation should be implemented and pursued over the medium term.

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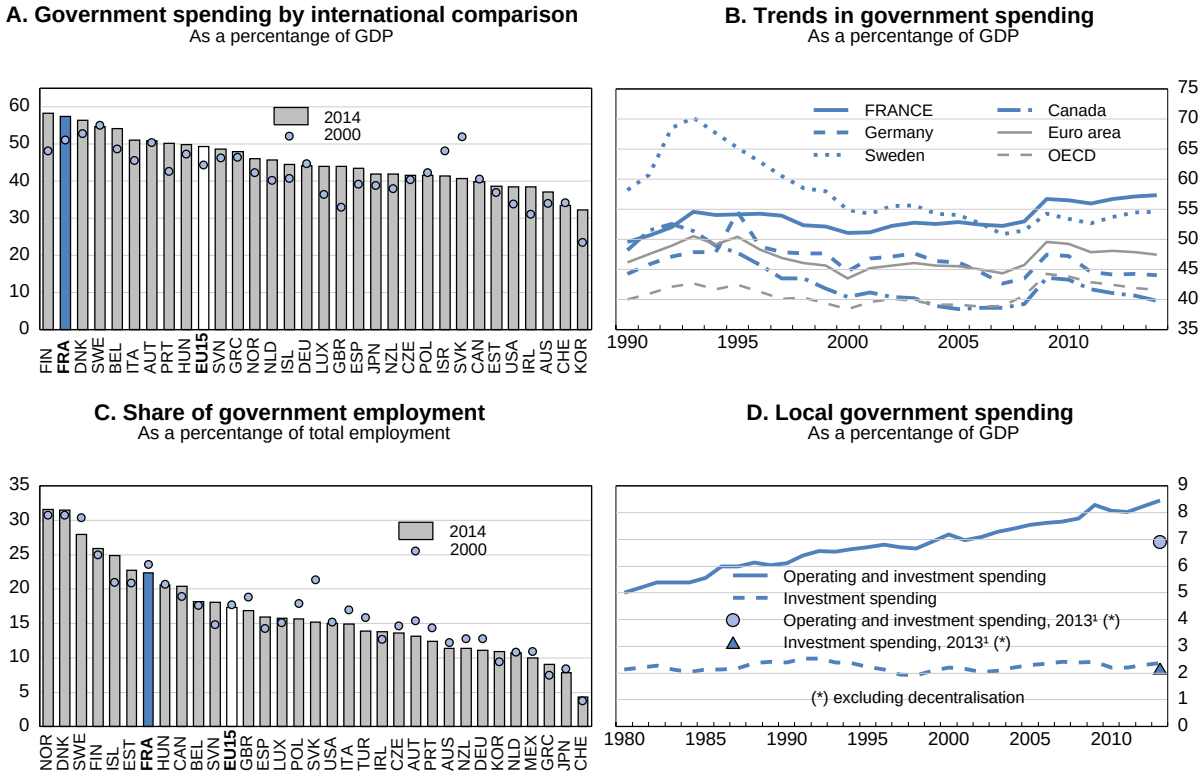
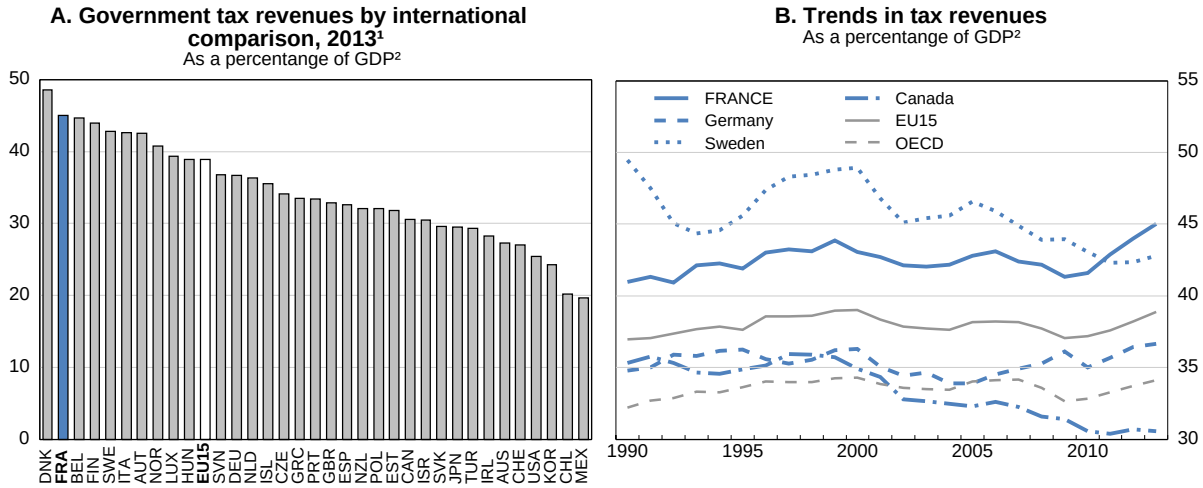
Figure 7. **Government spending**



1. Spending by constant field of responsibility, evaluated by the Direction du budget.

Source: OECD, Economic Outlook No. 96 Database; INSEE and Direction du budget.

Figure 8. **Total tax burden**



1. Or latest year available.
2. Simple averages for the EU15 and the OECD.

Source: OECD, *Revenue Statistics Database*.

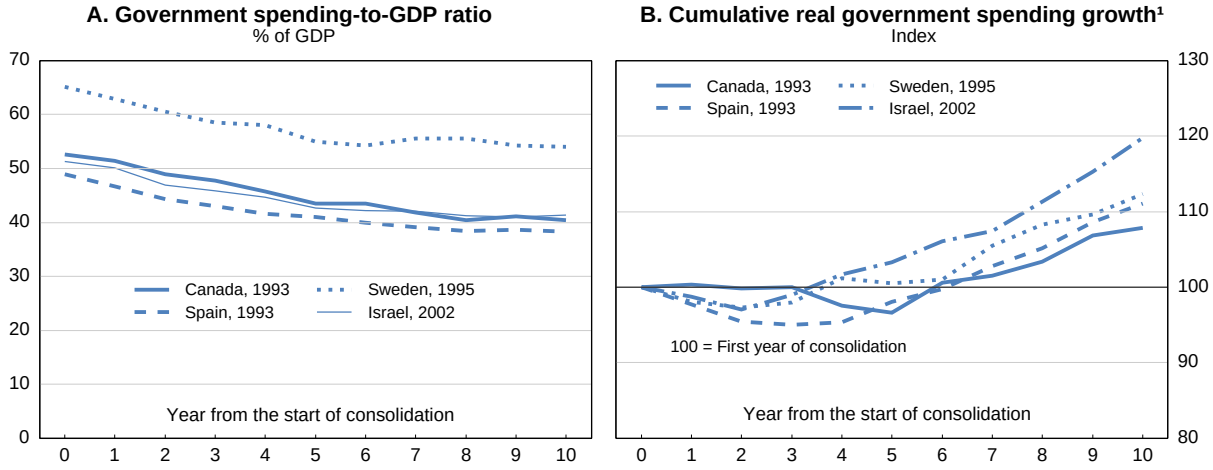
Table 4. **Structure of general government expenditures, 1980-2014**

	1980	1990	2000	2008	2009	2010	2011	2012	2013	2014
A. Expenditures, as a share of GDP										
Operating expenditures	18.0	17.1	18.1	17.5	18.7	18.6	18.3	18.4	18.6	n.a.
Wage bill	12.5	11.9	12.9	12.4	13.1	13.0	12.8	12.8	12.9	n.a.
Investments	4.1	4.6	3.9	3.9	4.2	4.1	4.0	4.0	4.0	4.0
Benefits and transfers	22.6	25.2	26.2	28.6	31.2	31.2	30.9	31.6	32.0	n.a.
Social benefits	15.1	16.1	16.7	17.6	19.2	19.2	19.1	19.5	19.9	20.0
Interest payments	1.2	2.5	2.8	2.8	2.4	2.4	2.6	2.5	2.3	2.1
Primary spending	**44.9**	**47.1**	**48.3**	**50.2**	**54.4**	**54.1**	**53.3**	**54.1**	**54.9**	**55.2**
Total expenditures	**46.1**	**49.6**	**51.1**	**53.0**	**56.8**	**56.4**	**55.9**	**56.7**	**57.1**	**57.3**
B. Expenditures, annualised real growth rates[1]										
Operating expenditures		2.0	2.6	1.2	3.9	1.5	0.6	0.9	1.4	n.a.
Wage bill		2.0	2.9	1.1	2.9	1.1	0.5	0.7	1.0	n.a.
Investments		3.6	0.5	1.7	4.7	-0.5	-2.5	2.2	0.6	2.3
Benefits and transfers		3.6	2.5	2.8	5.9	1.8	1.2	2.6	1.5	n.a.
Social benefits		3.2	2.5	2.3	5.7	2.0	2.0	2.3	2.1	1.0
Interest payments		10.7	3.2	1.7	-17.3	1.5	11.3	-1.7	-11.2	-6.9
Primary spending		**3.0**	**2.4**	**2.1**	**5.2**	**1.4**	**0.7**	**1.9**	**1.6**	**1.1**
Total expenditures		**3.2**	**2.4**	**2.1**	**4.0**	**1.4**	**1.1**	**1.7**	**1.1**	**0.8**

1 Deflated by the GDP deflator.

Source: INSEE, national accounts, 2010 basis and *OECD Economic Outlook No. 96 Database*.

Figure 9. **Examples of successful medium-term public spending consolidations**



1. Deflated by the GDP deflator.

Source: *OECD Economic Outlook No. 96 Database*.

Restructure public employment, and redefine the missions of the government

Operating and personnel outlays are high (Table 4). Government's share in total employment (22% in 2014, Figure 7, Panel C) remains one of the OECD's largest and is one reason why it is so difficult to make spending cuts, even though some efforts have been made to bring the payroll under control. Considering the high level of spending, human-resource management is crucial. Unfortunately, it is excessively centralised and rigid, without sufficient capacity to manage careers and to gear civil servants' pay to their performance. They are subject to numerous limits on their professional mobility, especially

in low-skilled categories. It is difficult for them to accumulate varied experience within the public sector or to enjoy stints in the private sector, which curbs their lifelong effectiveness.

Introducing greater flexibility to the unusually privileged status of civil servant (*fonctionnaire*), redefining the missions of the government, especially its sub-national elements, and shrinking regulation would allow for fewer, more actively managed, public employees, more appropriate pay scales and significant savings with a lower attendant fiscal burden.

Reduce and improve the effectiveness of spending by sub-central governments

Local governments represent more than 20% of public spending (12% of GDP) and 34% of government jobs. Their spending has risen by three percentage points of GDP since 1983, and more than half of that cannot be justified by added responsibilities (Figure 7, Panel D; Ministère des Finances, 2014). Their payrolls have continued to grow by some 3% a year because of higher staffing levels, indexed pay scales (promotions through rank and grade) and bonuses (Cour des comptes, 2014a). The grants they receive from the State are supposed to drop by EUR 3.7 billion a year between 2015 and 2017. This should exert pressure to reduce operating expenses and to pool services, but local authorities could partially circumvent it by boosting local taxes – although this would be limited by the rules governing local taxation – or cutting back investment. A better way to achieve these savings, then, would be to gear central government grants to local authorities' success in controlling their operating expenses. The budget framework law for 2014 to 2019 will introduce a target figure for local public spending (Odedel), similar to that used in healthcare, which is one step towards controlling this spending. This target will inform the annual discussions between central and local government concerning local government's contribution to planned budget reduction

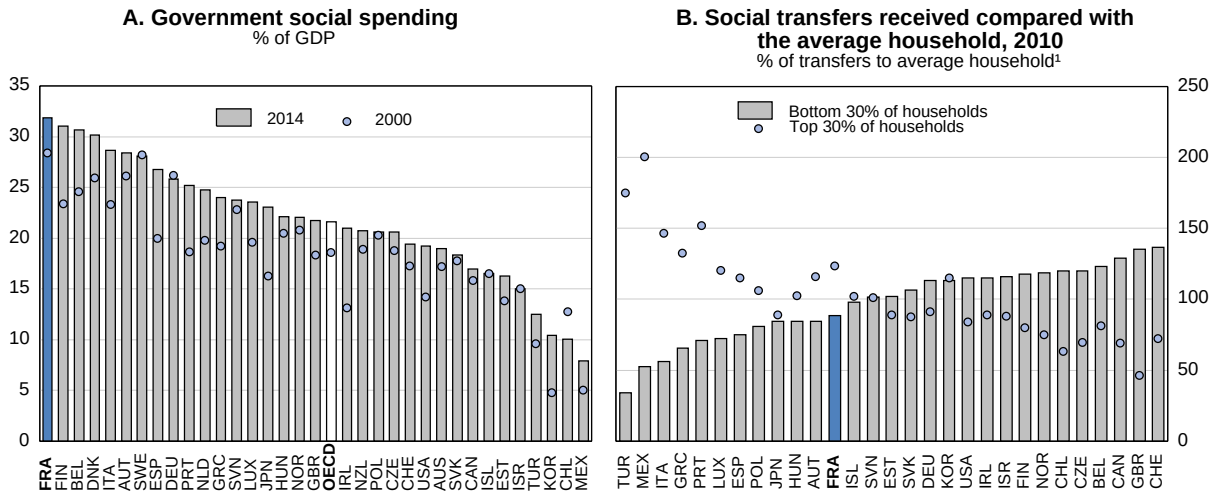
If resolutely pursued the current efforts to simplify the multiple layers of sub-central government – the so-called *mille-feuille* – could also serve to make spending more efficient and, in due course, realise substantial savings. Mainland France has at present 22 regional governments who oversee upper secondary schools, transport and economic development; 96 departments who are responsible for lower secondary schools and many aspects of social welfare spending; 15 341 *intercommunalités* and *syndicats intercommunaux* (groupings of local governments for delivering particular services); 36 552 municipalities; and about a dozen metropolitan governments in urban areas. The territorial reforms already decided – the creation of *métropoles*, the reduction in the number of regions to 13, rationalisation of the *intercommunalités* and clarification of responsibilities – are steps in the right direction. If properly carried out, the "metropolisation" of large urban areas could improve their governance and their productivity substantially (OECD, 2014a). Although there has been some progress in transferring responsibilities from the municipalities to the *métropoles*, this transfer is still incomplete. New transfers of powers to the *intercommunalités* are also needed (with attendant transfers of resources so as to avoid increasing total numbers of personnel) and are included in the current local government reform, as are measures to increase their size. The planned elimination of the "general powers clauses" for the departments and regions, which were reintroduced in January 2014, will also help, but the elimination should be extended to the communes and the *intercommunalités.*

France should also reduce the number of communes by merging the smallest ones and shift powers to the *intercommunalités*. French communes represent 41% of all the municipalities in the European Union and 27% of those in the OECD. This fragmentation, which the current reform begins tentatively to address, makes it impossible to achieve economies of scale and to pool resources effectively. Moreover, it frustrates the implementation of public policies by segmenting employment and industrial areas. For example, it has perverse effects on procurement processes, where the local authorities account for more than 60% of purchases (apart from social security spending). This administrative splintering provides little incentive to professionalise or standardise processes. Engaging sub-central governments in the State's plans to move to electronic procurement and to systematise procedures through centralised purchasing and project management units could lead to significant savings.

Control spending on health, pensions and unemployment

French social spending is among the OECD's highest, led by health-care and old-age spending (Figure 10, Panel A; Table 5). Social transfers help to reduce inequalities yet are poorly targeted (Panel B). Public health-care spending is one of the highest in the OECD (8.7% of GDP in 2012) and has been rising steadily, albeit at a clearly decelerating rate (OECD/European Union, 2014). The quality of the care provided is appreciated, but the cost seems disproportionate, and public outlays could be substantially reduced without compromising care quality or accessibility – by around 1 point of GDP, according to some sources (OECD, 2010a; Mareuge and Merckling, 2014). The government plans to again limit spending growth in 2015, notably by further fostering generics, moderating medication prices and prescriptions, and developing outpatient care. However, there is scope to go further. Indeed, spending on medications remains one third higher per head than the European average (OECD/European Union, 2014). Aligning generics' consumption with that in Germany or the United Kingdom could yield an annual public savings of between EUR 2 and 5 billion (Cour des comptes, 2014b). Reducing the volume of prescription drugs, notably antibiotics, could be achieved by giving doctors appropriate incentives. In addition, efforts to make public and private hospitals (which account for 44% of national sickness insurance spending) more efficient remain limited, though the certification of hospital-level budgets since 2014 is a welcome first step. Better use of hospitals' human resources (4% of total employment) requires reforming their management practices. Closing some of the small public rural hospitals would allow economies of scale and greater investment in new technologies, both of which would boost the quality of care. Greater emphasis on outpatient surgery could also generate savings of some EUR 5 billion a year (Cour des comptes, 2014b). Finally, better aligning the public Social Security and supplementary insurance incentives could make the system more efficient, as the shared coverage of health costs tends to impede a clear and efficient oversight of the care network (Dormont et al., 2014).

Figure 10. **Social spending is high and poorly targeted**



1. Average total cash transfers received by low- and high-income groups, as a percentage of average transfers in 2010.

Source: OECD, *Social Expenditure* (2014) and *Society at a Glance* (2014) *Databases*.

How to read this figure: Panel B shows the relative amounts of social transfers received by households at different points in the income distribution. For example, in France the bottom three deciles received slightly less than the average household, while the top three deciles enjoyed about a quarter more than the average.

Table 5. **Structure of general government social expenditures, 1980-2014**[1]

	1980	1990	2000	2008	2009	2010	2011	2014
A. Expenditures, as a share of GDP								
Old age	7.6	9.2	10.5	11.4	12.2	12.3	12.5	n.a.
Health	5.5	6.2	7.8	8.2	8.7	8.7	8.6	n.a.
Family	2.4	2.5	3.0	2.9	3.1	3.0	2.9	n.a.
Unemployment	n.a.	1.7	1.5	1.3	1.6	1.7	1.6	n.a.
Active labour market policies	n.a.	0.7	1.2	0.8	1.0	1.1	0.9	n.a.
Survivors	1.9	1.6	1.5	1.7	1.7	1.7	1.7	n.a.
Incapacity related	2.8	2.1	1.7	1.3	1.4	1.4	1.4	n.a.
Housing	0.4	0.7	0.9	0.8	0.8	0.8	0.8	n.a.
Other social policy areas	n.a.	0.2	0.3	0.5	0.6	0.6	0.6	n.a.
Total expenditures	**20.6**	**24.9**	**28.4**	**28.8**	**31.2**	**31.3**	**31.0**	**31.9**
B. Expenditures, annualised real growth rates[2]								
Old age		4.4	3.4	2.7	4.7	2.5	3.4	n.a.
Health		3.7	4.4	2.3	4.1	1.0	1.4	n.a.
Family		2.7	4.0	1.0	3.3	-0.7	0.5	n.a.
Unemployment		n.a.	0.6	0.0	22.3	4.5	-2.6	n.a.
Active labour market policies		n.a.	7.2	-2.6	13.7	16.5	-16.4	n.a.
Survivors		0.7	1.4	2.9	2.0	1.7	1.6	n.a.
Incapacity related		-0.4	0.1	-1.7	1.0	1.2	1.5	n.a.
Housing		8.6	3.6	0.4	2.6	0.2	2.5	n.a.
Other social policy areas		n.a.	10.1	6.3	29.5	4.4	3.4	n.a.
Total expenditures		**4.4**	**3.4**	**1.8**	**5.4**	**2.2**	**1.3**	**1.2**

1. 2012-13 data not yet available.
2 Deflated by the GDP deflator.

Source: OECD, *Social Expenditure* (2014) and *OECD Economic Outlook No. 96 Database*.

Ageing-related spending, notably pensions, represents 14% of GDP. They have been on a steady upward trend, while Germany, the Netherlands and Sweden have managed to moderate their spending over the past 20 years. The effective retirement age (around 61 in 2013 according to the Pension Advisory Board) is among the lowest in the OECD and well below the legal age (65). The result is that on average French people spend 25 years in retirement, the longest in the OECD (the EU21 average is 21 years). The pension system's parameters are evolving only slowly, many special pension schemes coexist, and the survivors' pension system is generous (OECD, 2013a). Some major reforms have been put in place since 2010. The latest, in 2014, will increase the work requirements for a full pension to 43 years in 2035. A route to early retirement was also partly closed by lowering the generosity of unemployment insurance for those laid-off workers who receive large severance pay packages.

The medium- and long-term sustainability of the full pension system remains uncertain, however, and may push contributions up to a level that would put intolerable pressure on the tax wedge. Detailed forecasts were recently issued by the Pension Advisory Board (Table 6). They show a system breaking roughly even, despite a slight reduction in contributions, according to certain economic assumptions, the most significant of which are average annual growth of at least 1.5% in labour productivity per worker, unemployment falling to 4.5% and the migratory balance returning to pre-crisis levels (scenarios A, A' and B). This would see the pension spend fall from 14% to less than 12.8% of GDP by 2060, mainly between 2020 and 2030. If, on the other hand, French economic performance fell short of these assumptions, the system would run a permanent deficit, preventing pensions making any contribution to the essential cuts in public spending (scenarios C and C'). And the fall in the average pension from over 50% of average pay to

some 40% could prove unpopular in a pay-as-you-go system. While it makes sense to keep the parameters stable so soon after the last reform, top-up pensions are in such a worrying position that employers and unions have frozen their level in 2015 and started talks aimed at eliminating their persistent deficit (estimated at around EUR 5 to 6 billion in 2014).

Table 6. **Forecasts for all pension system schemes**[1]

	Expenditure (as % of GDP)					Financial balance (as % of GDP)				
	Scenario					Scenario				
	A′	A	B	C	C′	A′	A	B	C	C′
2013	14.0	14.0	14.0	14.0	14.0	-0.4	-0.4	-0.4	-0.4	-0.4
2020	13.9	13.9	14.0	14.0	14.0	-0.3	-0.3	-0.3	-0.3	-0.3
2030	12.9	13.0	13.2	13.8	14.1	0.4	0.2	0.0	-0.4	-0.7
2040	12.2	12.5	13.0	13.8	14.5	1.0	0.6	0.2	-0.5	-1.2
2050	11.6	12.1	12.9	13.7	14.7	1.5	1.0	0.3	-0.5	-1.5
2060	11.3	11.9	12.8	13.7	14.9	1.7	1.2	0.3	-0.5	-1.6

General assumptions

1) Fertility rate: 1.95 children/woman
2) Life expectancy at 60: an increase from 22.2 to 28.0 years for men and from 27.2 to 32.3 years for women
3) Migration: migratory balance + 100 000 a year
4) Duration of insurance (full rate): an increase from 41 years (2012) to 41.75 years in 2020 followed by a steady increase to 43 years in 2035
5) Revaluation of pensions: based on prices
6) Average annual per capita growth in labour productivity in the long term: A′ - 2.0, A - 1.8, B - 1.5, C - 1.3, C′ - 1.0
7) Long-term unemployment rate: A′ - 4.5, A - 4.5, B - 4.5, C - 7.0, C′ - 7.0

Other assumptions

	Contributors / Pensioners					Overall tax rate (%)				
	A′	A	B	C	C′	A′	A	B	C	C′
2013	1.73	1.73	1.73	1.73	1.73	30.7	30.7	30.7	30.7	30.7
2020	1.68	1.68	1.68	1.68	1.68	30.7	30.7	30.8	30.8	30.9
2030	1.60	1.60	1.59	1.56	1.56	29.9	29.9	30.0	30.2	30.2
2040	1.50	1.50	1.49	1.45	1.45	29.7	29.7	29.8	30.1	30.1
2050	1.44	1.44	1.43	1.39	1.39	29.5	29.5	29.6	29.9	30.0
2060	1.42	1.42	1.42	1.38	1.37	29.4	29.4	29.5	29.8	29.9
	Relative average pension (%)					Average actual retirement age				
2013	51.6	51.6	51.6	51.6	51.6	61.0	61.0	61.0	61.0	61.0
2020	50.6	50.6	50.6	50.6	50.6	62.4	62.4	62.4	62.4	62.4
2030	44.8	45.3	46.0	46.6	48.0	63.3	63.3	63.3	63.3	63.3
2040	40.0	41.1	42.9	44.1	46.5	64.1	64.1	64.1	64.1	64.1
2050	36.9	38.4	40.8	42.5	45.6	64.1	64.1	64.1	64.0	64.0
2060	35.7	37.5	40.3	42.2	45.7	64.1	64.1	64.0	64.0	64.0

1. Employers' contributions for civil servants and balancing subsidies paid to certain special pension schemes evolve in line with the payrolls of these schemes.

Source: Conseil d'orientation des retraites (2014), "Réunion du Conseil du 16 décembre 2014".

Spending on unemployment insurance could also pose a problem for the public finances and for incentives to work. It could be made to fall more quickly over time as the unemployment spell lengthens, and the ceiling, maximum duration and replacement rate could be reduced, at least with regard to the maximum duration for older workers, which is

relatively longer than for other workers (OECD, 2014a). Although in the present economic circumstances it would be unfair to spring such a surprise on people who are already highly vulnerable, adjustments of this kind are nonetheless useful; they could be pre-programmed, as part of the planned renegotiation of the unemployment insurance regime in 2016 between the social partners. Moreover, local experiments have shown the importance of separating inspection from support actions with regard to job seekers, particularly those in the greatest difficulty, and of ensuring that such actions are properly co-ordinated (Pôle emploi, 2014). Moreover, it would be beneficial to stiffen the conditions attached to benefits, reform the inappropriate sanction system and enhance training opportunities (Commission des affaires sociales, 2013). The government's intention to reinforce beneficiary supervision is certainly welcome.

Recommendations to reduce the weight of spending and thereby strengthen the public finances

Key recommendations

- Eliminate the "general powers clauses" for all local governments (including for communes and the municipal groupings or *intercommunalités)*. Reduce the number of communes. Expand the responsibilities and size of *intercommunalités* as planned, so as to shrink the role of communes.
- To control health-care spending close small public hospitals, place greater stress on outpatient surgery and generic medications, and give doctors stronger incentives to limit prescriptions.
- Make sure that pensions contribute to the reduction of public spending compared to GDP, modify the parameters of 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.
- Modify the parameters of unemployment benefits, especially their duration, when the unemployment insurance system is renegotiated by unions and employers in 2016, and implement changes once the economy recovers. Make the link between benefits, job search and training tighter and more effective.

Other recommendations

- Reform public employee mobility rules, and reduce the number of civil servants through a targeted approach, redefining the missions of government, for example with the help of an external audit.

Political economy considerations for the reform agenda

The government will need to communicate its future reform plans carefully

To inspire confidence in its ability to shrink spending and taxes and pursue an ambitious structural reform agenda the authorities should redefine the broad priorities of government and deepen their efforts to simplify the complex set of laws, regulations and procedures that govern economic activity, building on a thorough assessment of the initial simplification measures. The example of other countries that have made heftier efforts under the pressure of the recent crisis could be cited (Mian et al., 2014). It will require good communication regarding the welfare gains that can be expected from the reforms. Voters and other stakeholders have to be convinced of the need for reforms and of the costs that would be incurred by lack of reform (OECD, 2010b). For example, the potential beneficiaries of French labour market and pension reforms – i.e. the young and the low skilled – have often been reluctant to support them, because their benefits are poorly understood and seen as uncertain. Policies dealing with short-term issues, such as demand weakness, may also sometimes appear to conflict with those tackling longer-term objectives, and this too

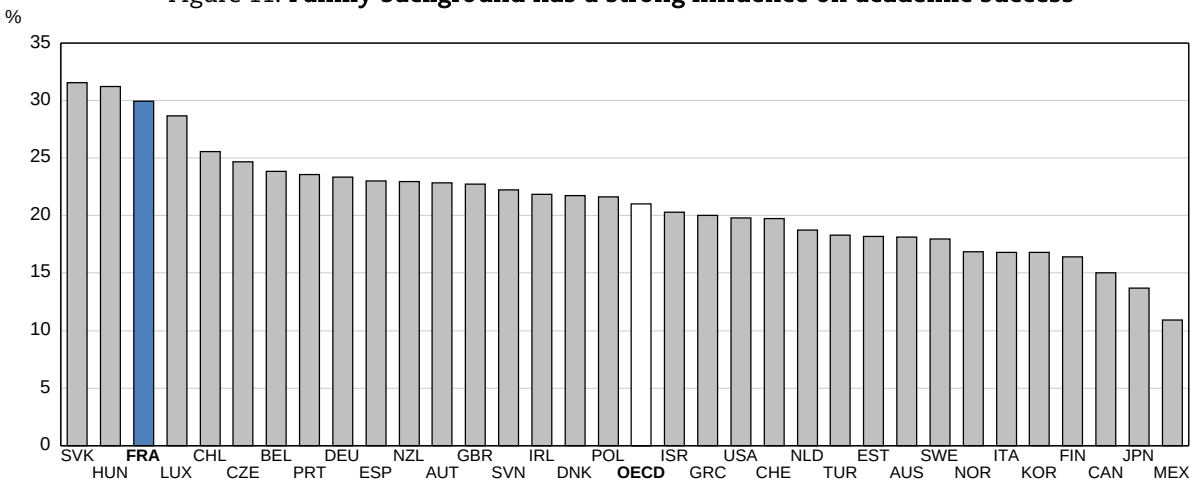
needs to be well explained. High-quality communication will be vital in avoiding political polarisation with the risk of legislative impasse that could lessen the chances to make changes (Alesina et al., 2006). In the current context, an explicit, transparent and well-publicised action plan for effective implementation is therefore the way to lay to rest doubts of France's ability to reform. A sketch of that was recently provided in the form of a calendar for forthcoming reform implementation. Further help could come by establishing a national productivity commission, as has been done in a number of other OECD countries, which could play a significant role in advocating, communicating and evaluating reform.

There may well be an inevitable trade-off between social conflict and the speed of implementation. The question of acquired rights is central for the economics of reforms in 2015. Like other European countries France has many vested interests who benefit from a variety of economic rents and privileges. Older generations who have enjoyed substantial income gains and high social mobility may well see necessary reforms as an arbitrary paradigm shift. To be socially acceptable and politically feasible, the reform agenda should be introduced without completely eliminating their long-established rights. This means that a fine balance should be struck between some partial recognition of acquired rights, to the extent that the public finances can accommodate it, along with the inclusion of provisions to induce the older generations to be part of the reform process, as against swift implementation of the reforms as new generations enter the labour market together with a mechanism to compensate the younger generations that may feel themselves badly treated.

Reforms should aim at enhancing economic and social mobility

Economic policy reform is more likely to garner public support if it is seen as a way of improving the quality of life, removing obstacles to intergenerational economic and social mobility, and thus promoting equality of opportunities. France no longer scores very well when it comes to intergenerational income and educational mobility. A child's academic performance is more dependent than elsewhere on parents' social and occupational status, contrary to the principle of equal opportunities (Figure 11). To attack this problem at its roots and to overcome the early-childhood handicaps besetting pupils from disadvantaged social groups will require a better allocation of resources over the school cycle. Today, spending per pupil in primary school relative to upper secondary is among the OECD's lowest. But beyond this, France should give consideration to solutions that can be spread out over the entire lifecycle.

Figure 11. **Family background has a strong influence on academic success**[1]



1. Percentage variance in mathematics 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 (2013), *PISA 2012 results: Excellence through Equity*.

Recommendations for improving the political economy of reforms and ensuring their implementation

Other recommendations

- Reform public employee mobility rules, and reduce the number of civil servants through a targeted approach, redefining the missions of government, for example with the help of an external audit.

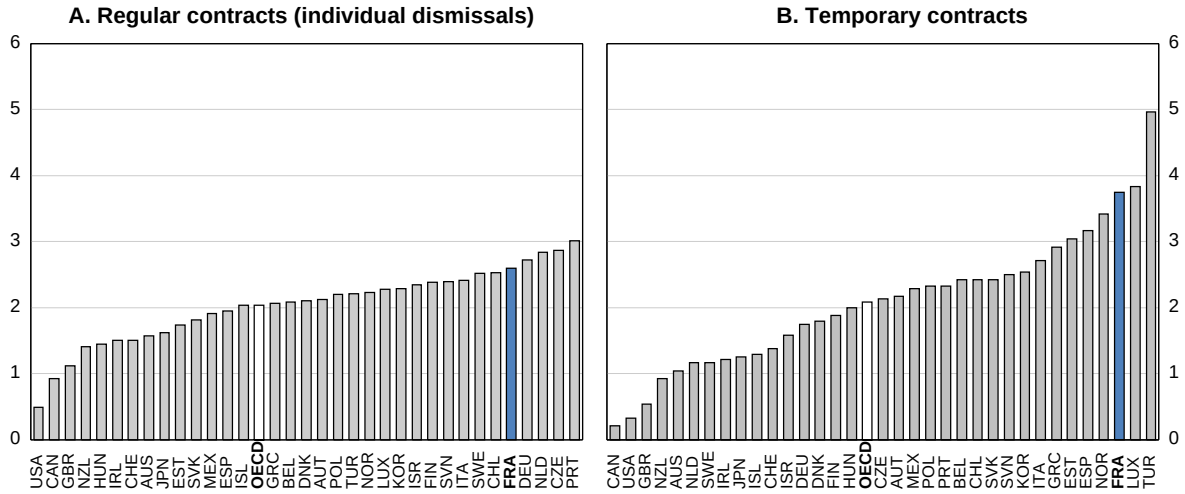
Reform the labour market, a precondition for better competitiveness and faster growth

Reforming the French labour market is an essential precondition for any growth and well-being strategy. Reforms under way are many, ranging from the reduction of labour costs through the Competitiveness and Employment Tax Credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi*, CICE) and the RSP, to amendments to the occupational training and apprenticeship systems, and alterations to unemployment insurance with a longer waiting period for employees in receipt of generous separation allowances.

Still, France suffers above all from a low employment rate among young people and seniors (60 and above), and from high long-term unemployment, which not only deepens inequalities but also holds back actual and potential economic growth. Social contributions and withholding taxes on labour are among the OECD's highest other than for those on low wages. Employment protection legislation, which is relatively restrictive compared to other OECD countries (Figure 12), discourages hiring into stable jobs and contributes to labour-market segmentation and low labour mobility. The goal must thus be to boost work incentives, continue to cut the cost of labour, revise certain aspects of its protection and enhance the quality of the workforce by promoting workers' qualifications and employability. A special effort must be made to resolve the labour-market problems of young people and seniors.

Figure 12. **Employment protection is high for both regular and temporary contracts, 2013**

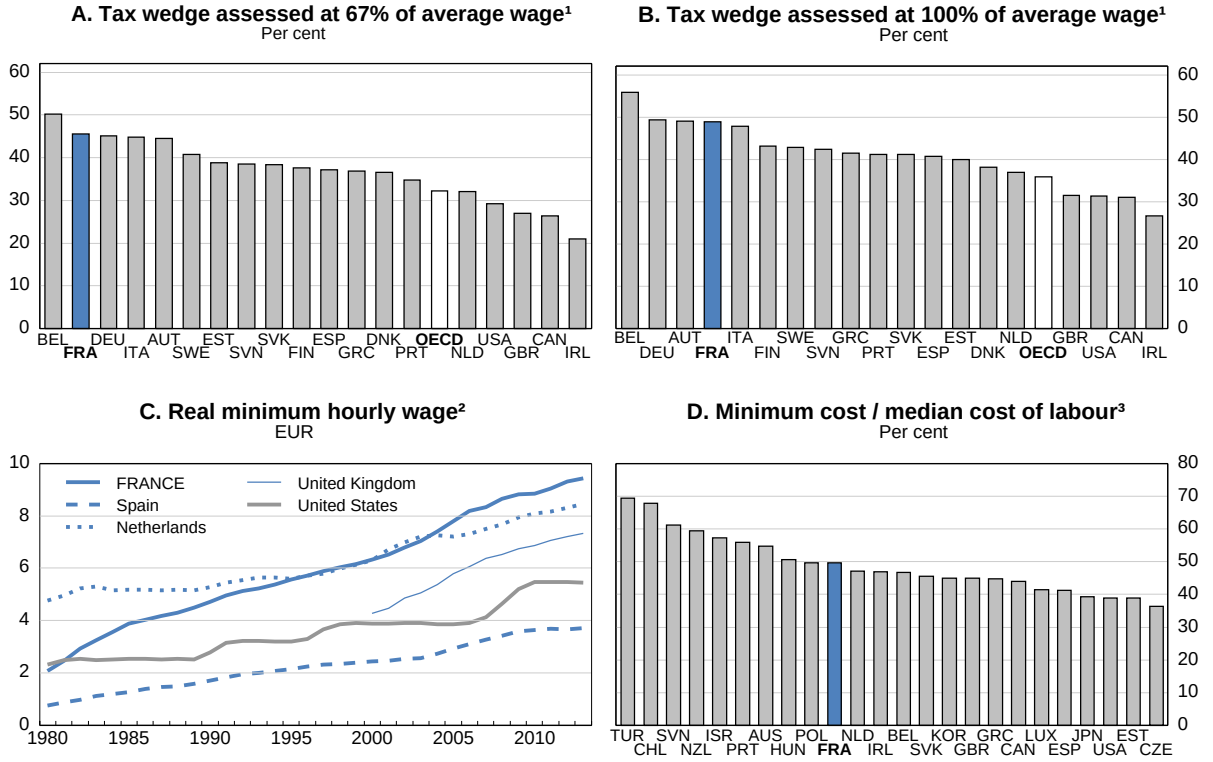
Index scale of 0 to 6, from least to most restrictive



Source: OECD, *Employment Protection Legislation Indicators Database*.

France still has one of the highest tax wedges in the OECD area (Figure 13), except for the very lowest wages. Heavy taxation (Panels A and B) and a high minimum wage (Panel C) tend to depress employment, particularly among young and low skilled workers, and to reduce profitability, even if targeted cuts in social insurance charges reduce the cost of labour at the level of the minimum wage (Panel D). It is important, then, to shrink further the labour tax wedge, i.e. labour costs imposed in the form of taxes and social contributions, and avoid any discretionary increases in the minimum wage. The ramping-up of the CICE and reductions in employers' contributions set out in the Responsibility and Solidarity Pact is a move in this direction. This will amount to a reduction in the cost of labour of around 30 billion euros in 2017, i.e. 1.5 percentage points of GDP.

Figure 13. **The cost of labour is high**



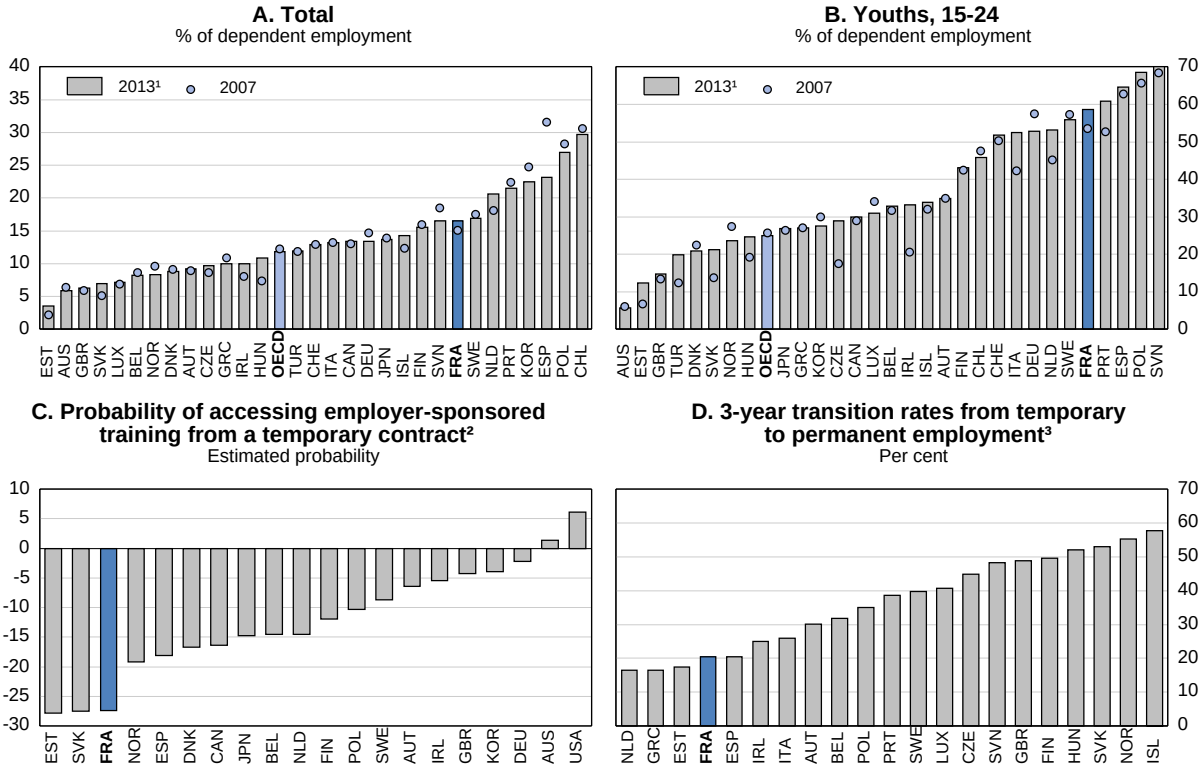
1. As a percentage of total remuneration for work (including employer social security contributions) in 2013, for a single childless worker. Measures the gap between total remuneration from work paid by the employer and net remuneration actually received by the employee, as a percentage of total remuneration from work. Both employer and employee contributions to Social Security are thus taken into account.
2. At constant 2013 prices and exchange rates.
3. The cost of the minimum wage takes into account the reductions in employer social contributions applicable for businesses in 2013.

Source: OECD (2014), *Taxing wages* and *OECD database on the minimum wage and estimates of the cost of labour*.

A number of recent labour market reforms are worthy of praise. The 2013 simplification of collective layoff procedures in case of proven economic difficulties is clearly a step in the right direction. Since this reform, the proportion of Employment Safeguard Plans (*Plan de Sauvegarde de l'Emploi,* PSE) appealed against has fallen from 25% to 8% thanks to greater negotiation within firms. The July 2013 law opens the way to greater "flexicurity" and improved labour-management relations through legally secured firm-level "opt-out" agreements that allow for temporary suspension of contracts or collective agreements.

However, the impact to date of these reforms has been mixed. The labour market remains highly segmented, and permanent contracts (CDIs) accounted for no more than 16% of new hires in 2013 (23% in 2009), though their share in all salaried employment has remained constant (Figure 14, Panel A). The problem is the generational difference: under-25s are mostly on fixed-term contracts (CDD) (Panel B), and the probability of transitioning to permanent contracts is low (Panel D). Few employers have used the 2013 provisions to introduce greater flexibility into working time and pay conditions in the face of particularly difficult economic circumstances. Employees can refuse to enter into such "opt-out" agreements at little cost to themselves, and the case-law relating to this measure has not yet been established, which creates uncertainty for employers.

Figure 14. **Share of employment under fixed-term contracts**



1. 2012 for Australia and Japan.
2. 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.
3. Share of employees on fixed-term contracts in 2008 who were hired on permanent contracts in 2011, as shown by the findings of the EU-SILC survey. The annual rate of transition from fixed-term to permanent contract determined on the basis of the employment survey in France amounted to 24% in 2010.

Source: OECD (2014), *Labour Force Statistics Database* (Panels A and B); OECD (2014*), Employment Outlook* (Panels C and D).

To reduce the duality of the labour market, the procedures for laying off employees, particularly those on permanent contracts, need to be simplified and shortened. One option would be to improve the operation of the labour court system by shortening procedures and significantly increasing their predictability, as is the government's intention. This reform would strengthen the legal security of employees and employers, and the resultant reduction in redundancy costs would have a positive impact on employment if the increased predictability of procedures helped avoid an excessive increase in appeals.

This might allow greater flexibility with regard to permanent contracts, for which the costs of laying off employees (including those resulting from possible legal procedures and the associated uncertainty) are much higher than for fixed-term contracts. In addition, it would also be desirable to bring redundancy payments for permanent and fixed-term contracts closer into line with each other by substantially easing the regulations relating to permanent contracts. However, this increased flexibility must remain associated with good income protection for workers between jobs. Another ambitious option to reduce duality would be to introduce a single contract with the same costs and termination procedures applicable to all contracts. Such contracts would be of open-ended duration, in return for which layoffs would be facilitated and compensation calculated according to a rate-setting mechanism based on time in the job, as is currently the case for permanent contracts.

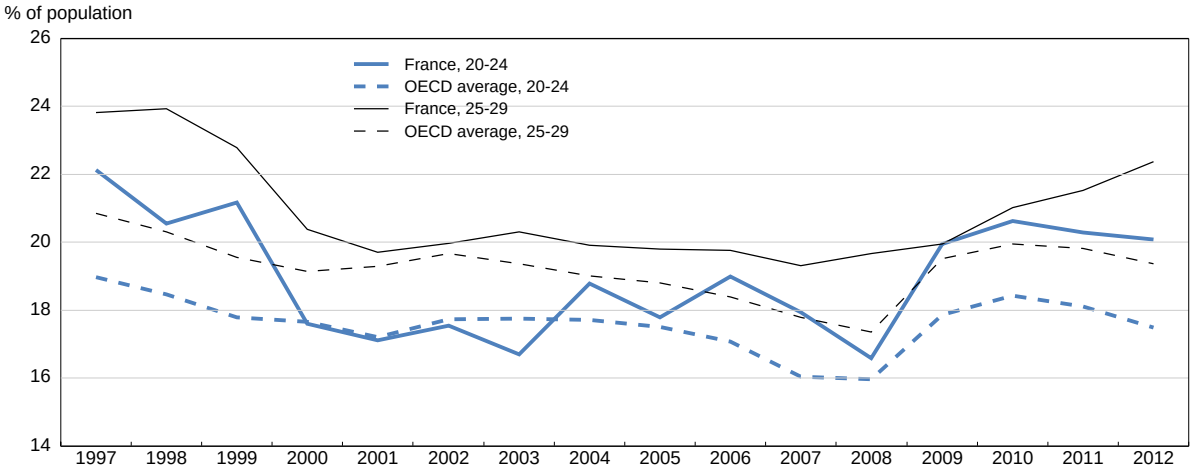
Even though relations between labour unions and employers' organisations seem less confrontational than in the past, they are still perceived as poor by employers (World Economic Forum, 2014). While about 90% of French workers are covered by collective wage agreements, fewer than 8% of employees are affiliated with a union (the widest discrepancy among OECD countries). According to Murtin et al. (2014), the low rate of union membership in relation to the coverage of industry wage agreements, in combination with a high tax burden, explains why unemployment in France is so high in comparison with other countries. Moreover, the financing of both unions or employers' associations is not sufficiently based on members' contributions. The result is that regulatory law, complex and constraining though it is, still takes precedence over contract law, which would allow labour and management to negotiate greater flexibility (Barthélémy and Cette, 2010). However, involving unions and employers in the labour market reform process has made it possible to secure major agreements in a number of areas (four national inter-industry agreements since 2012). When negotiations fail, as was the case with the modernisation of social dialogue in early 2015, the State should move forward on its own so as to keep unions and employers involved in the future reform process.

New technologies have induced a marked differentiation of skills between generations. The results from the OECD Survey of Adult Skills (PIAAC) show that the least skilled workers, who have not benefited from training of the kind that would update their skill sets, are the ones whose employability is most jeopardised by technological change. Steps must be taken to ensure that they can upgrade their skills when necessary. The encouragement of digital literacy and the rising power of MOOCs (courses offered over the Internet and open to all) or other forms of digital training offer a wealth of possible approaches to bringing up to grade people who are at risk of marginalisation and whose skills might have eroded or become obsolete.

France must also improve the articulation of its policies at the point where the basic education system, training courses and social welfare measures intersect with a view to better integrating young people into the labour market and thereby helping them become independent. There are nearly 1.7 million young people between the ages of 20 and 29, over 21% of this age bracket, who are not in employment, education or training (NEET) (Figure 15). Many of them lack the skills required to find a job. The unemployment rate among workers aged 25-34 years who have not completed secondary education was more than 23% in 2012, more than double the average rate.

The gradual introduction by 2017 of a "youth guarantee" is meant to give 18-25 year-olds in highly precarious situations a "leg up" by offering them a guaranteed income and a first work experience based on individualised coaching and alternating periods of work and training. The beneficiary undertakes, as a counterpart, to pursue the course proposed by the individual counsellor for one year. The allowance is suspended if the recipient abandons the agreed path.

Figure 15. **Proportion of young people who are not in education, employment or training**[1]



1. Only basic initial training is taken into account.

Source: OECD, *Education Statistics Database 2014*.

Recommendations to reduce the weight of spending and thereby strengthen the public finances

Key recommendations

- Simplify and shorten layoff procedures by, for example, reforming the labour courts, as intended.
- As public spending declines, cut taxes further on labour.

Other recommendations

- Continue to improve the dialogue between unions and employers.
- Avoid any discretionary increases in the minimum wage.

Stimulate employment, productivity and equity through vocational and adult training

The global economy is changing ever faster and with it the kind of skills required to earn a living. It is therefore crucial that countries have in place a system of lifelong learning that allows workers to ensure their skill set is attractive to potential employers. However, a large share of the French population has weak numeracy and literacy skills (Table 7). Given the relatively high salaries for unskilled labour, this undermines employment prospects, productivity and well-being (Figure 16). France has an elaborate vocational education and training (VET) system, yet it suffers from a high degree of complexity and weak quality controls, insufficient guidance to training candidates and employers regarding the available supply of training, and a lack of information about the quality of providers. As a result, access to training is weak for those who need it most, in particular the low-skilled. With careful implementation, the 2014 VET reform could go a long way in addressing a number of these issues.

In secondary education it is largely students who performed poorly at lower secondary school who are directed to the vocational branch, which therefore suffers from a serious image problem. While graduates of work-study apprenticeship programmes fare much better in terms of labour market outcomes, probably because of the more intense work

experience, two-thirds of vocational students are trained in the school-based branch, as historically the public schooling system has been responsible for most initial training. Apprenticeships and other programmes involving work experience need to be better developed in vocational schools, as the government plans to do. The number of apprentices has grown of late, but this is due to the most qualified students at the tertiary level, while the numbers of students at lower levels of qualifications have been stagnant at best (Figure 17).

Table 7. **Percentage of adults scoring at each proficiency level in numeracy and literacy**

From lowest (1) to highest (5) level of proficiency

	Numeracy				Literacy			
	Level 1[1]	Level 2	Level 3	Level 4/5	Level 1[1]	Level 2	Level 3	Level 4/5
Japan	8.3	28.4	44.3	19.1	4.9	23.1	49.2	22.8
Finland	12.8	29.3	38.4	19.4	10.6	26.5	40.7	22.2
Czech Republic	12.9	34.9	40.6	11.5	11.9	37.7	41.7	8.7
Netherlands	13.5	28.8	40.3	17.4	11.9	27.0	42.4	18.6
Slovak Republic	13,8	32.3	41.3	12.7	11.7	36.3	44.5	7.5
Belgium[2]	14.1	29.2	38.8	17.9	14.8	31.2	40.9	13.1
Denmark	14.3	30.8	38.2	16.7	15.8	34.1	40.1	10.0
Estonia	14.3	36.3	38.2	11.2	13.1	34.4	40.7	11.8
Austria	14.5	33.8	37.8	13.9	15.6	37.7	38.0	8.6
Sweden	14.7	28.7	38.0	18.6	13.3	29.1	41.6	16.1
Norway	14.9	29.1	38.2	17.8	12.5	30.9	42.6	14.0
Germany	18.7	31.4	35.4	14.5	17.8	34.4	37.0	10.8
Korea	19.0	39.5	34.7	6.8	12.9	37.1	41.8	8.1
OECD	19.2	33.4	34.8	12.6	15.7	33.7	38.7	11.9
Australia	20.5	32.7	33.2	13.6	12.8	29.7	40.1	17.3
Canada	22.6	32.1	32.6	12.7	16.5	32.0	37.6	13.9
Poland	23.5	37.7	30.5	8.4	18.8	36.5	35.0	9.7
United Kingdom[2]	24.5	33.9	30.2	11.4	16.6	33.7	36.4	13.3
Ireland	25.3	38.2	29.0	7.6	17.5	37.7	36.2	8.5
France	**28.3**	**34.1**	**29.3**	**8.4**	**21.7**	**36.2**	**34.3**	**7.8**
United States	30.0	34.1	27.1	8.9	18.3	34.0	12.0	12.0
Spain	31.9	40.4	24.7	4.1	27,7	39.4	28.0	4.8
Italy	31.9	39.0	24.5	4.5	27,9	42.3	26.5	3.3

Note: Levels of proficiency in numeracy and literacy are defined by particular score-point ranges and the level of difficulty of the tasks within these ranges. Adults scoring at proficiency level 1 or below, for example, are only able to perform basic arithmetic operations with whole numbers, whereas adults attaining the highest scores have proven to master analysis and more complex reasoning about quantities and data (level 4) or the ability to draw inferences and work with mathematical arguments and models (level 5).

1. Includes adults scoring at PIAAC's "below level 1" proficiency level.
2. The data cover solely Flanders region for Belgium and England and Northern Ireland for the United Kingdom.

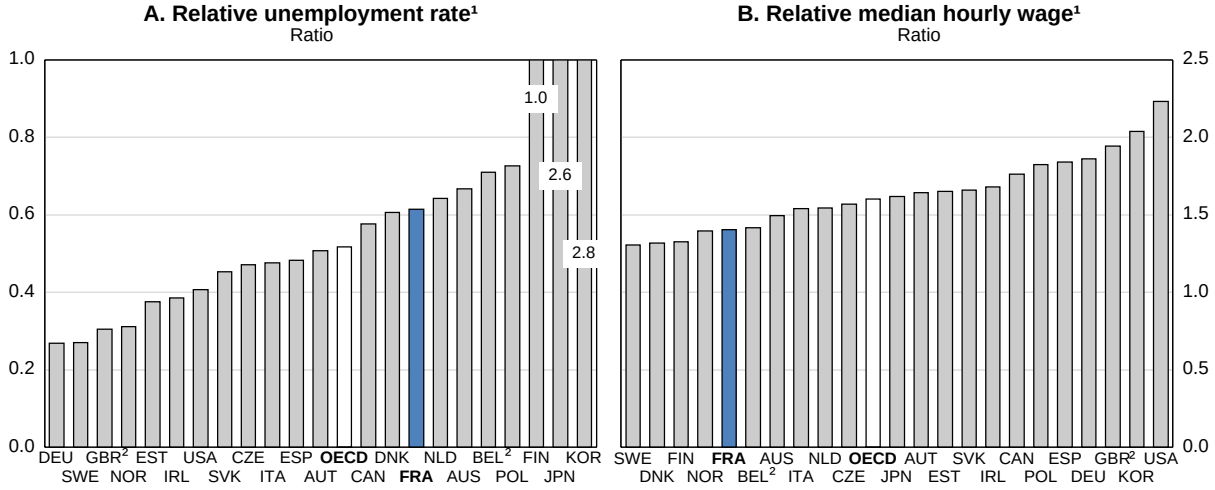
Source: OECD, *Skills Outlook 2013 Database*.

Vocational students need better opportunities to upgrade their basic skills. Ensuring high-quality education in core subjects and attracting highly qualified teachers are crucial; this may require higher pay for teachers in vocational schools. The government has worked to develop personalised help and remedial classes in primary education and before, but more such opportunities are needed in vocational schools to upgrade basic competencies of teenaged students with learning difficulties. Providing vocational students with better skills would help convince more employers to offer apprenticeships. Experience shows (OECD, 2010d) that the success of vocational education can be enhanced by ensuring that teachers have recent work experience and workplace trainers have pedagogical training, which is not mandatory in France. More flexible teaching hours, on an annual rather than a weekly basis, would facilitate combining teaching with other work. Social partners could

negotiate the required training along with salary bonuses for workplace trainers. Some pre-apprenticeship programmes implemented by the regions have succeeded in orienting young people and preparing them better for vocational training. Such programmes should be rolled out more widely.

Figure 16. **Unemployment and wage rates for highly skilled versus unskilled adults**

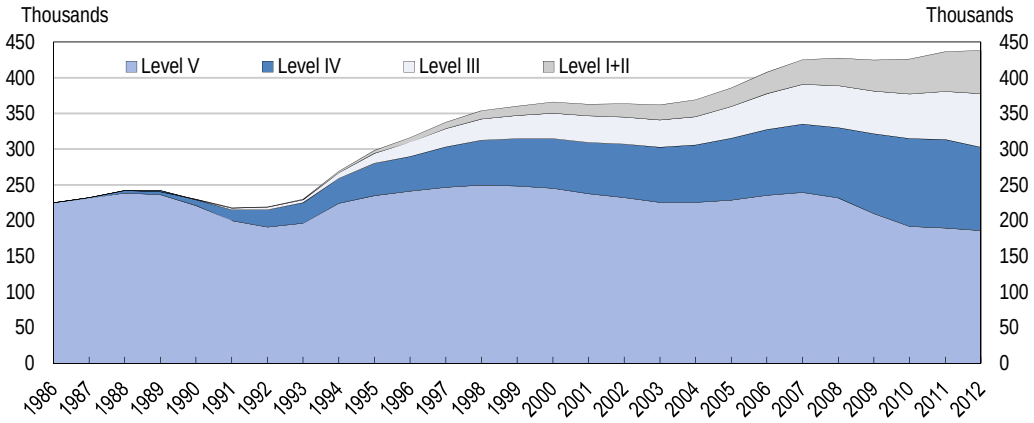
Adults aged 16 to 65 years



1. Panels A and B show the ratios of the unemployment rate and the median hourly wage for adults who have solid literacy proficiency according to the results of the PIAAC survey (levels 4 or 5) compared to the same indicators for adults with weak proficiency according to that survey (level 1 or below).
2. The data cover solely Flanders region for Belgium and England and Northern Ireland for the United Kingdom.

Source: OECD, *Skills Outlook 2013 Database.*

Figure 17. **Number of apprentices at year-end, by level of diploma¹**



1. Certificat d'aptitude professionnelle (CAP), brevet d'études professionnelles (BEP) and mention complémentaire (MC) for level V (below upper secondary level, ISCED 3C); brevet professionnel (BP), baccalauréat professionnel (Bac pro) and mention complémentaire (MC) for level IV (upper secondary, ISCED 3); brevet de technicien supérieur (BTS), diplôme universitaire de technologie (DUT) for level III (vocational programmes at the tertiary level, ISCED 5B); licence et maîtrise for level II (tertiary level, ISCED 5A); diplôme d'ingénieur, diplôme d'études supérieures spécialisées (DESS) and masters for level I (tertiary level degrees, ISCED 5A/6).

Source: Ministry of National Education, DEPP.

The financing and governance of VET is yet another area where a redoubling of simplification efforts is called for. An apprenticeship tax and a training levy are collected by a very large number of different bodies managed by social partners. Funds are then redistributed among these bodies, the unemployment agency, the regions and central government, each of them participating in spending decisions. Employers may offset a large part of their apprenticeship tax liability through direct training or payments to institutions of their choice. Since the reform of 5 March 2014, the regions, which are responsible for apprenticeships, control half of the funds collected. Although this is a significant increase, it would be preferable in the future for each major vocational training programme to be managed by a single actor who would have control over the corresponding funds, while ensuring that other stakeholders, particularly firms, remain involved. To lower administrative costs, the government has reduced the number of collectors from 100 to 48. This could be taken further by making a single body responsible for collecting the tax, for example the URSSAF network, which already collects almost all payroll-based taxes.

The government should also reconsider whether training should be financed by payroll taxes. These are already high in France, undermining employment and thereby working at cross-purposes with the main goal of vocational training. Continuing vocational training could be promoted via tax breaks and subsidies, provided that these are regularly reviewed to ensure they are effective. They should be structured to give the strongest incentives for training yielding the largest social benefits. This is likely to be more effective than the current system of directing funds to the low-skilled and unemployed via complex earmarking mechanisms. In addition, the streamlining of the numerous subsidies and tax breaks for apprenticeships needs to be carried further, as their effectiveness is questionable. The best way to promote apprenticeships is to ensure high-quality education and support for vocational students.

Stronger individual guidance services are crucial to improve access to training. Following the 2014 vocational education reform, the national guidance service, established in 2009 but only partly implemented, will be administered by the regions to help workers in their choice of training pathway and career. The regions must have the necessary funds and technical capacity to co-ordinate the implementation of this service. Guidance counsellors should be trained to identify people with basic skills problems who need special support and training. But better information about the quality of the 55 300 providers (for 16 000 of whom training is their main activity) and the very large number of intermediaries and regimes is also necessary for enterprises and training candidates alike to identify the training courses that best fit their needs. The government is in the process of spelling out a quality-assurance mechanism that is foreseen in the 2014 reform law. The Languedoc-Roussillon region has set up a quality label for training providers, and this could serve as a model. An alternative would be to set up a central certification agency, as in several other OECD countries.

The new personal training account (*Compte Personnel de Formation* or CPF) could help improve access to training and promote individual initiative. Workers can accumulate rights to up to 150 hours of training from a list of schemes that focuses on longer programmes leading to formal qualifications. While accumulated CPF rights will often be insufficient alone, financing can be supplemented by the unemployment agency or the employer. However, for the time being a range of older training schemes, which are often similar in nature but have different access criteria, will remain in place, effectively competing with the CPF for funding and making the system unnecessarily complex. The government should integrate them into the CPF. More modular training programmes, leading to higher qualifications in multiple steps, along with training that takes place outside of working hours and during less busy periods are also needed. More generous training rights could be assigned to lower-skilled individuals to help them access long-term training.

Recommendations for improving basic skills and providing lifelong training

Key recommendations

- 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.
- Use the envisaged quality-assurance system to introduce the certification of training providers.
- Ensure regions have sufficient capacity and financing to co-ordinate the new vocational trainee guidance service.

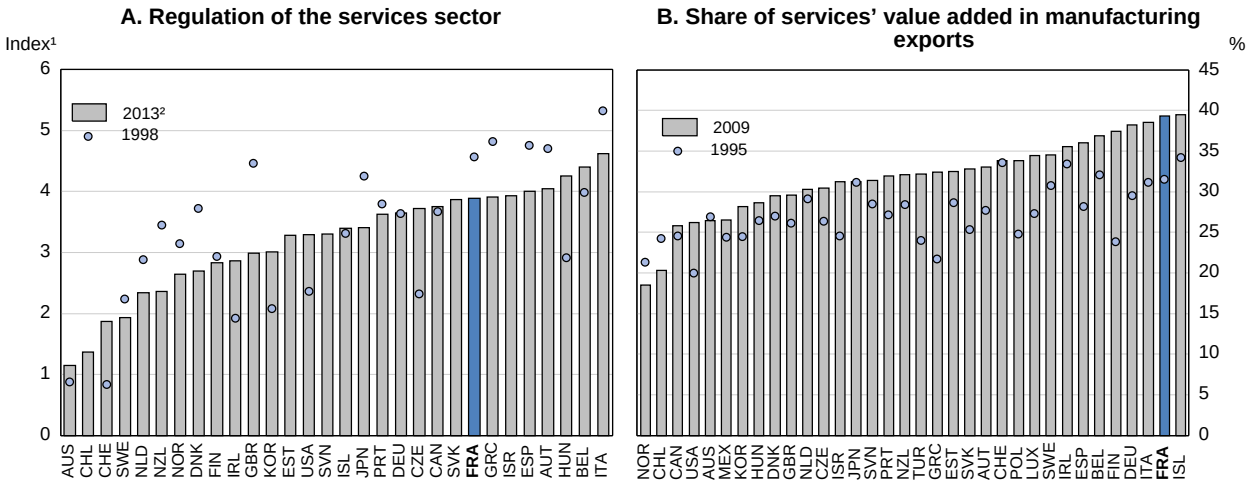
Other recommendations

- Clarify which actor has the lead role in developing large-scale training programmes, and align this responsibility with control over funds, particularly with regard to the regions in the case of apprenticeships.
- Integrate all competing training schemes into the new CPF. Ensure that supplementary rights for lower-skilled workers are introduced in the CPF.

Enhancing competitiveness, purchasing power and employment by strengthening competition

Stronger competition associated with an easing in the constraints on firms could boost productivity and support production and employment, and thus offset the structural slowdown in French growth. Despite considerable progress over the last decade, notably strengthening the competition rules and their enforcement, the business environment remains complex, and there is still scope for further strides in sectors such as retail trade, transportation and various other services sectors and energy. The scant competition in some services sectors can be detrimental to the entire economy (Figure 18).

Figure 18. **The services sector**



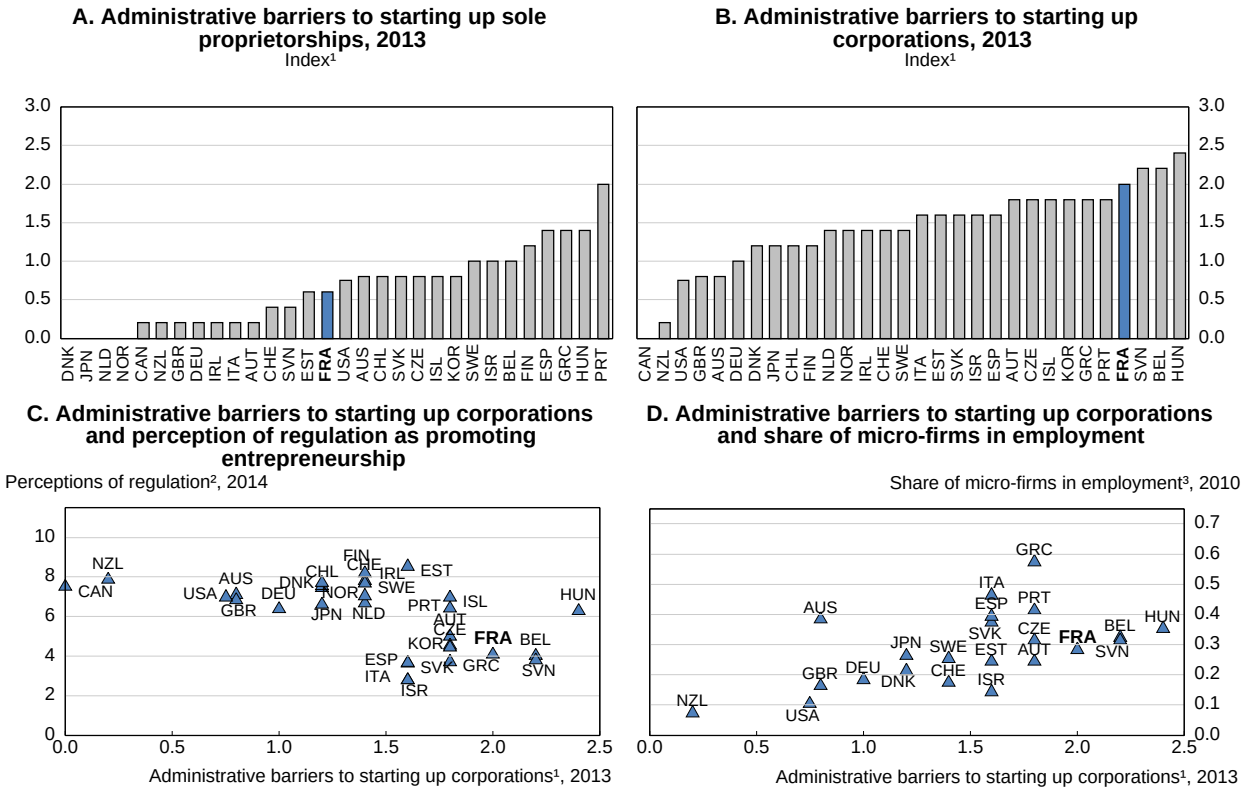
1. Index scale of 0 to 6, from least to most restrictive.
2. 2008 for the United States.

Source: OECD (2013), *Product Market Regulation Statistics* (for Panel A); OECD-WTO, *Trade in Value Added (TiVA)* – May 2013 (for Panel B).

The regulatory framework and the taxation system remain burdensome

Although administrative barriers to creating a sole-proprietorship are low, there are still major obstacles to the creation of companies, including the number of procedures needed to register and record a name in the business registry and to establish a formal contract among partners (Figure 19). Even if many of the numerous applicable rules and norms (Lambert and Boulard, 2013) can be justified, at least in part, by legitimate policy objectives, they are too often concerned with excessive requirements that stifle competition and technological progress. The regulatory burden appears significant according to the OECD and World Bank indicators, though most restrictions do not affect foreign firms disproportionately (Koske et al., 2015; OECD, 2014b; World Bank, 2014).

Figure 19. **Cumbersome administrative procedures are harmful to business creation**



1. From most favourable to competition (0) to the least favourable (6).
2. Scale from 0 to 10, from the least favourable to the most favourable perceptions of the ease of creating a business.
3. Firms with nine or fewer employees.

Source: OECD (2013), *Product Market Regulation Statistics* (Panels A, B, C and D) ; World Competitiveness Center, 2014 (Panel C); OECD and Eurostat (2014), *Structural Business Statistics* (Panel D).

The authorities have begun to simplify the business environment since 2013, following a "simplification shock"; the first 100 measures of this effort are now in the process of being applied. A committee that includes private-sector representation, created in 2014, has been regularly proposing new measures and examines all new legislative or regulatory texts. In parallel, the government has adopted the principle that any new regulations that create a burden must be accompanied by elimination or streamlining of another with an equal offset. However, the committee's existence should be made permanent. Moreover, in 2010 an initial moratorium on rules applied to sub-national governments failed to rein in regulatory inflation (CCEN, 2013). Following recommendations calling for the regulatory impact assessments required prior to adopting any new norm or regulation to be strengthened and entrusted to an institution more immune to lobbying (Autorité de la

concurrence, 2012; OECD, 2010c), the government announced the creation in 2015 of an independent body for oversight and assessment of impact studies.

The taxation system, the social thresholds and the allocation of government subsidies are still too constraining. The taxation thresholds (based on the firm's number of employees or its business turnover) are numerous, while larger firms can optimise their taxation structure (OECD, 2013b). The resulting hump-shaped effective tax rate increases with the size of the firm for dynamic young enterprises, thereby penalising their growth and job creation, or at least it did prior to the measures taken in 2013 and 2014 (Ministère des Finances, 2012). As well, the numerous and rising social obligations associated with crossing employment thresholds, such as the presence of a staff representative or a "workers' committee", are believed to be harmful to productivity, according to some studies (Garicano et al., 2013; Gouryo and Roys, 2014). The planned reform of labour/management dialogue may allow these threshold effects to be reduced. Lastly, the multiplicity of government levels providing public subsidies to businesses leads to inconsistent practises, without much coordination, creating distortions and reducing their potential effectiveness. Making regions the sole focal point for all local business subsidies, to ensure better coordination, and strengthening evaluation requirements would be first steps toward resolving this problem (Demaël et al., 2013).

More generally, the government should task the business simplification committee to perform a thorough evaluation of the impacts of its current simplification efforts and to continue the reform process, while focusing it on the most burdensome regulations and procedures. Ensuring an adequate contribution from all relevant stakeholders and communicating on the positive results will be instrumental to ensure broad-based support for reform.

The Competition Authority can take a position on existing regulations when asked for an opinion or presented with a case. However, systematic review of all existing regulatory provisions should be conducted by an independent agency such as the Competition Authority or the Audit Court (*Cour des comptes*) to identify pro-competitive alternatives, for example using the OECD toolkit principles (2011a). Any rule identified as harmful to competition should be amended, unless the government asks for a second opinion, which should be submitted publicly within pre-set time limits. This would require additional resources for the Competition Authority, which is among the most effective in the OECD. Indeed, its resources are limited, and further constraining them may limit its ability to undertake new investigations.

The 2014 consumer law partly eased private damage-claim procedures in case of anticompetitive practices: the Competition Authority's decisions are now taken as unquestionable proof in case of further damage claims, and the time limits for such claims have been extended. In addition, households can now benefit from a new class-action procedure following final decisions by the Competition Authority and the European Commission, even if that procedure does not yet cover the environmental and health-care sectors. Along these lines, the draft health act may extend the procedure to the latter sector. Class-action procedures could afford victims better protection, even if the setting of damages has not been amended. The incentive to engage in such proceedings has so far been limited because of uncertainty as to the amount of possible damages. A rapid transposition of the 2014 European directive for antitrust damages would improve fairness, damages and deterrence. At the same time, class-action procedures should be open to SMEs and local governments and cover all sectors of the economy.

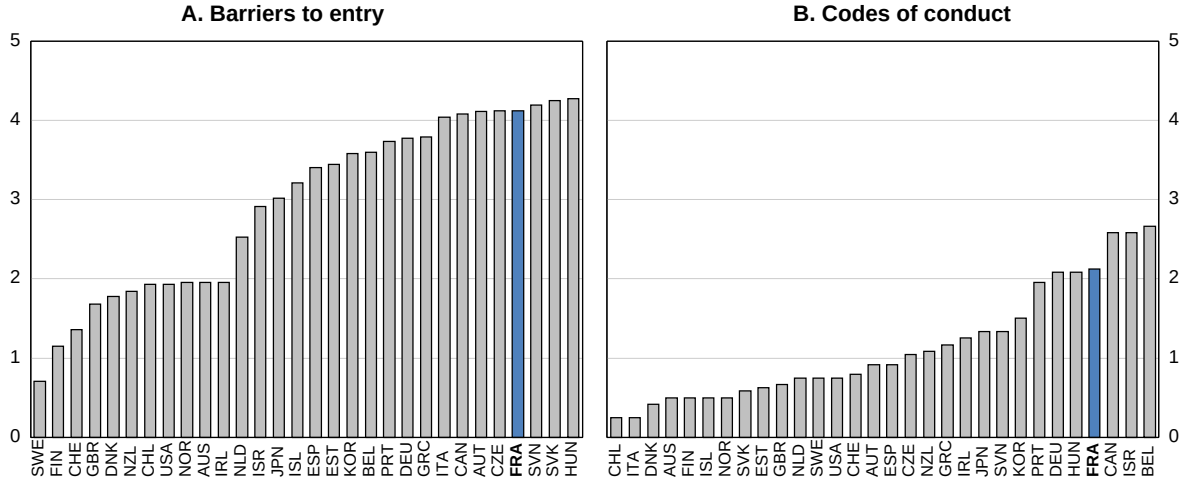
More competition in trade and services would be good for employment and purchasing power

In the services sector, some regulated professions enjoy special protection from competition through barriers to entry, such as the requirement for occupational diplomas or licenses, restrictions on capital participation or regulated tariffs (Figure 20) that are excessive in view of the intended public objectives. The consumer law, various rulings and the 2014 draft "growth, activity and equal economic opportunity" law (Box 1) together reduce this protection for some products sold by pharmacies, certain legal professions and accountants. A further opening of the capital of selected professions would ease new entry

and allow economies of scale and scope. Moreover, regulated fees should be abolished in potentially competitive markets, and numerical quotas (outside some health-care professions, such as physicians, where supplier-induced demand may be a problem) should be abolished to avoid rent creation, as provided for in the draft law on "growth, activity and equal economic opportunity".

Figure 20. **Regulation of architectural, accounting and legal services, 2013**[1]

Index scale from 0 to 6, from least to most restrictive



1. Regulations at 1 January 2013. 2008 for the United States.

Source: OECD (2013), *Product Market Regulation Statistics*.

Box 1. **The "Growth, Activity and Equal Economic Opportunity" Bill**

This draft legislation was submitted on 11 December 2014. Following initial review by the National Assembly in January and February 2015, it contained a number of significant provisions in the realm of competition, including:

- **Passenger land transport:** The bill sets up an intermodal regulatory authority overseeing the rail network, motorways and coach services. The starting-up of coach services will be facilitated, even if routes under 100 km will still be subject to prior authorisation and must not disrupt the financial balance of existing public transport services.
- **Regulated legal professions:** The bill institutes controlled freedom to set up practice, the Competition Authority being in charge of determining the areas in which practices may be set up freely. Outside such areas, the Authority shall issue opinions on proposed new practices, and the Minister of Justice may forbid the new practices, while existing licensed practitioners may request compensation from new entrants within six years. Fees for regulated services will be reviewed regularly on the basis of their costs, and limited discounts will be possible, whereas the creation of firms combining all legal and accounting professions will be facilitated.
- **Retail trade:** The bill proposes delineating new areas (international tourist areas defined by the Ministers in charge of labour market, trade and tourism, as well as major railway stations) in which Sunday trading will be subject to industry-, company- or establishment-wide agreements. It gives mayors an opportunity to authorise businesses to open 12 Sundays per year, versus five at present. It also regulates contractual relations between networks of chain stores and merchants

to facilitate merchants' mobility. The Competition Authority would be empowered to review local town planning documents and to order the divestment of assets in highly concentrated trading markets.

In addition, the bill calls for reforming the labour courts, simplifying job-saving plans, expanding employee shareholding, improving driving licence granting procedures and accelerating building permit procedures. An independent commission assessed the impact of the bill's main provisions at the time it was debated in Parliament (Commission d'étude des effets de la loi pour la croissance et l'acticité, 2015). The estimated effects are mostly positive for employment and economic activity, though many improvements remain possible.

In retail trade, prices are now negotiated more freely than before, and, while loss-leader sales are still prohibited (even though predatory pricing is already punishable under competition law), the resulting distortions have been significantly reduced (Biscourp, 2014). The periods during which clearance sales can be held and the sales of certain products, such as prescription-optional drugs, are still tightly controlled; the possibility for shops to set their own limited sales periods was suppressed in 2015. Moreover, urban zoning rules are still a constraint, though the forthcoming "growth, activity and equal economic opportunity" law will give more powers to the Competition Authority to assess local zoning plans. Opening a large retail store requires special authorisation, and the varied rules governing Sunday openings distort competition and limit employment. The "growth, activity and equal economic activity" bill includes measures that expand Sunday trading options (e.g. the authorisation of 12 annual Sunday openings being left to mayors' discretion and the designation of international tourist areas), while ensuring negotiations for offsets to Sunday working hours. However, it would be desirable for Sunday trading to be extended throughout the country, subject to negotiations, and factoring in social consequences and environmental impacts. This would give consumers greater freedom in managing their time.

In the financial sector there is also room for progress. The 2014 consumer law gave borrowers the right to switch mortgage insurance providers up to one year after signature of the contract, provided the new contract offers an equivalent level of security. Competition in consumer credit provision could be improved, and the government could facilitate the entry of foreign providers.

Improving the housing sector

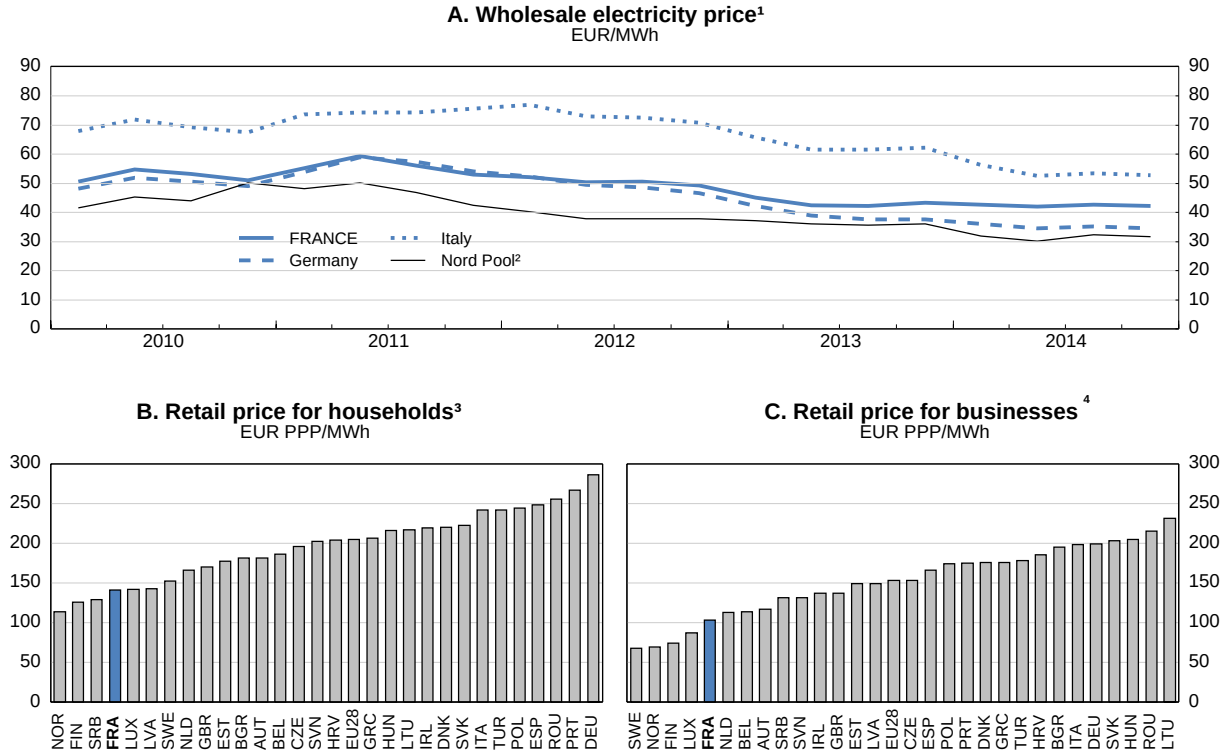
The rules governing the housing sector and its taxation are also too complex. The market should be freed up by reducing transaction taxes, which restrict labour mobility; property taxes should be increased, and the regulations on construction and the procedures for obtaining building permits simplified (OECD, 2011b; Boulhol, 2011; Andrews et al., 2011). Transactions costs could also be reduced by reforming the fees charged for notary services and removing restrictions on the entry of new notarial offices; the "growth, activity and equal economic activity" bill calls for measures along these lines. In 2014 the government introduced tax incentives on the sale of building lots and took some initial steps to simplify the issuance of building permits. However, bolder reforms, in particular to align real estate taxation with that on other financial products, would be desirable. In addition, the broadening of *intercommunalités'* competences for land allocation, which was continued by the 2014 law on access to housing and urban renewal and by the ongoing territorial reform, should be expanded.

Enhanced competition is needed in some network industries

There is room for greater competition in most network industries, apart from telecommunications where competition is already vigorous. In the energy industry, regulated tariffs are being progressively phased out for non-residential consumers, and competition is strengthening in the retail segment, though the historical monopolies still supply 71% and 58% of the electricity and gas markets, respectively. Retail prices are below the European average in part due to the current low regulated tariffs (Figure 21, Panels B and C), which are below replacement costs, and in some cases even accounting production

costs, even if they exceed supply costs in wholesale markets. As elsewhere in Europe, wholesale electricity prices are declining, which is due to weakening demand and intense short-term competition (Panel A). In order to reduce the share of nuclear power, as set forth in the draft energy transition law of 2014, mechanisms will be needed to encourage investment and preserve retail and wholesale competition. The generating costs of new facilities are in most cases well above wholesale prices, ranging from 40 to more than 200 EUR/MWh depending on technology and assumptions (OECD/NEA, 2010). The introduction of a market for "capacity certificates", which is expected in 2015 or 2016, could help reward new investments, though it also entails risks of wholesale market fragmentation. Moving forward with the delayed competitive tenders for hydroelectric concessions would also allow new entrants to develop their own generating capacity.

Figure 21. **Electricity prices by international comparison**



1. Futures price at one-year horizon.
2. Nord Pool is a voluntary Scandinavian market.
3. Price in the first semester of 2014 for annual use of 2 500 – 5 000 kWh.
4. Price in the first semester of 2014 for annual use of 500 – 2 000 MWh.

Source: CRE (2014), Marchés de gros, *Observatoire des marches de l'électricité, du gaz et du CO_2*, fourth quarter 2014 (Panel A). Eurostat (2014), *Energy Price Statistics* (Panels B and C).

In the transportation sector, the re-integration of the rail network manager (RFF) and the incumbent operator (SNCF) within a single group could hinder entry of new railway operators and intermodal competition, despite the ongoing liberalisation of the coach sector. The functional and legal separation of train stations from the operator also fails to guarantee transparent pricing and non-discriminatory station access. The government has pledged to report to Parliament within two years on the advisability of separating stations from the passenger carrier. The current regulation of the stations focuses on the railway sector, and the designation of a single independent regulator for the entire transport sector, as currently planned for passenger railway and road transportation, would help address intermodal competition issues.

Recommendations for improving competition in the economy and the business environment

Key recommendations

- Engage an independent institution to conduct a thorough review of all existing and proposed regulations affecting firms, applying the OECD Competition Assessment Toolkit principles.
- 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).
- Continue to liberalise the regulated professions by: reducing entry requirements to those needed to protect the public; narrowing professions' exclusive rights; eliminating regulated tariffs I potentially competitive activities, and gradually abandoning quotas.

Other recommendations

- Free up the real estate market by reducing transactions costs.
- Eliminate, as planned, regulated tariffs on the retail electricity and gas 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.

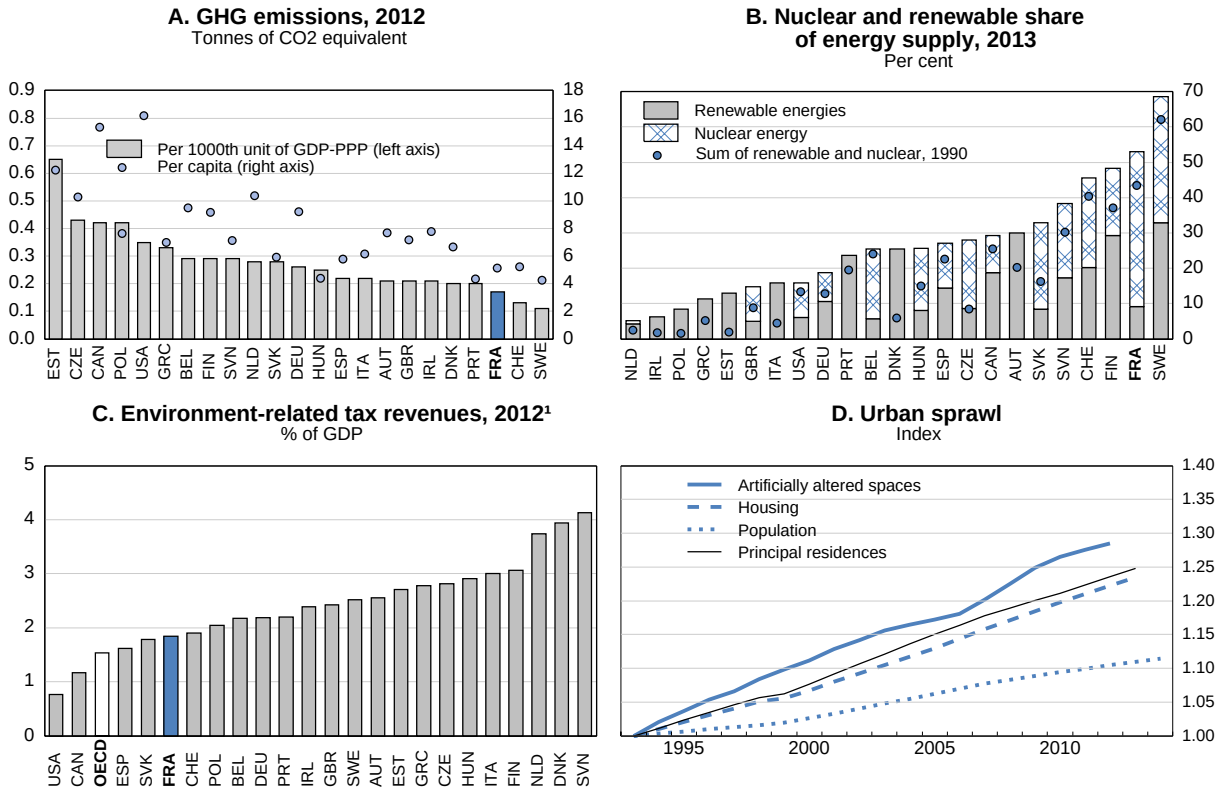
Greening the economy is essential

Green growth should be a key concern of economic policies, in order not only to protect the environment and preserve natural resources for future generations, but also to make growth sustainable, enhance welfare in a number of dimensions, and ensure social stability and cohesion. France has many assets for making its growth more sustainable and better protecting its environment. Its greenhouse gas emissions intensities are relatively low (Figure 22, Panels A and B), due largely to the preponderant role of nuclear power, which, together with renewable energies, accounts for the bulk of its energy supply (see also OECD, 2015). Since the publication of the last *Survey* chapter on French environmental policies (OECD, 2011c; Égert, 2011), energy taxation has been improved. The carbon component of energy excise tax, adopted in 2013 should in due course allow harmonisation of the taxation of carbon emissions from different sources. The tax on diesel was also raised *vis-à-vis* petrol at the beginning of 2015. However, the diesel share of the vehicle fleet is still more than 60%, despite efforts to encourage clean cars, and environmental tax revenues are still lower than elsewhere (Panel C). Road pricing remains controversial, as shown by the abrupt suspension of the highway toll on heavy vehicles (the "eco-tax") in October 2014, which had a substantial budgetary impact. Therefore, further shifting the tax burden towards diesel would be appropriate within an overall strategy of boosting carbon taxes. Air pollution could be cut by making parking more expensive and by providing more means of shared transport, including bicycles and clean vehicles.

The draft law on the energy transition sets ambitious goals for halving energy consumption by 2050, cutting greenhouse gas emissions and reducing the shares of fossil and nuclear energy. The first measures include an obligation to undertake energy conservation works during major residential renovations, tax relief on such works and a bolstering of the zero-interest "eco-loan". A new subsidy for lower-income households should also encourage energy-efficiency investments. As well, the real estate transactions tax will be able to vary as a function of the building's energy efficiency. However, it would have been preferable to instead vary recurrent taxes on property, and the tax credits and subsidised loans proposed will do nothing to improve France's energy balance unless these

measures actually lift the barriers to investment facing households and businesses wishing to undertake renovation work.

Figure 22. **Environmental indicators**



1. 2011 for Belgium, Greece and the Netherlands; environmental taxes cover taxes on energy products (including electricity, petrol, diesel and other fossil fuels), automotive vehicles, transportation, waste management, substances that deplete the ozone layer, and other environment-related taxes.

Source: IEA, *GHG Emissions and Energy Database* (Panels A and B); OECD, *Environmental Taxation Database* (Panel C); CGDD, MEDDE, *Sustainable Development Indicators* (Panel D).

Species-depleting urban sprawl has also continued unabated (Figure 22, Panel D). The scattering of urban planning responsibilities among multiple local authorities is not helpful in controlling the external effects of urban sprawl, such as the excessive use of private vehicles and increased risks of flooding. Municipalities often grant exemptions from the "territorial economic contribution", a local property and value-added tax paid by businesses, in order to attract jobs, thereby extending the urban frontier. Local governments also make too little use of their power to modulate taxes on new low-density construction, while a number of measures to ease property access give undue encouragement to new construction at the expense of renovations. Urban sprawl entails risks, including poor maintenance of the stock of existing housing.

Recommendations for improving environmental outcomes

Main recommendations

- Pursue the development of an efficient environmental tax system, by aligning the tax structure for fossil fuels with their carbon missions and other externalities.

Other recommendations

- Take action to reduce air pollution through taxation, higher parking charges and the provision of more means of shared transport (clean vehicles, bicycles).

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Annex

Progress in structural reform

This Annex reviews the measures taken in response to the recommendations from previous *Surveys*. The recommendations that are new to this *Survey* are contained in the corresponding chapters.

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Labour market policy

Recommendations	Measures taken since the beginning of 2013
Continue to ensure that the minimum wage grows more slowly than the median wage while avoiding discretionary increases.	The minimum-to-median wage ratio has been roughly stable at a high level. There were no discretionary increases in the minimum wage in 2014 and 2015.
Broaden the definition of economic dismissal; simplify lay-off procedures and streamline legal procedures; ease employer redeployment obligations; ensure that employers' social security contributions are higher on temporary contracts than on permanent contracts; and lengthen the probationary periods on permanent contracts.	The Act of 14 June 2013 simplified collective layoff procedures and made them more secure. In 2013, employer contributions to unemployment insurance rose for short-term contracts. An exemption from employer contributions to unemployment insurance was also introduced for signing a permanent employment contract with a young person aged under 26. The draft law on "growth, activity and equal economic opportunity" provides for reform of legal and labour court procedures.
Simplify substantially all social benefits. Merge the *RSA-activité* and the earned-income tax credit (PPE).	The Government decided to merge the *RSA-activité* with the PPE on 1 January 2016 into a quarterly working income-tested top-up. It is also considering merging the welfare programme (*RSA socle*) and long-term unemployment benefits (*ASS*).
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.	Since 2013, firm-level agreements (*accords de maintien dans l'emploi*) have allowed struggling businesses to suspend contractual provisions on wages or hours subject to majority company-wide agreement. Very few agreements have been signed, however, and reforms are envisaged for 2015. In 2014, the financing of employers' and employees' organisations was separated from the financing of vocational training. Negotiations between the social partners on labour-management relations ("social dialogue") broke down in early 2015 but the government proposed new legislation.
Extend the return-to-work strategy to reinforce the link between benefits, job-seeking and involvement in active measures based on efficient public employment services.	Small-scale programmes were piloted in 2014 to improve oversight of job-seeking. The National Interprofessional Agreement (ANI) of 1 January 2013 established a mechanism for transferable accrued rights to unemployment benefits (*droits rechargeables*) that bolsters incentives to return to work on short contracts and simplifies the "reduced activity" system.

Recommendations	Measures taken since the beginning of 2013
Give priority to making young people employable, and to on-the-job training programmes. Improve co-ordination among the actors involved in securing entry into employment in order, in particular, to take charge of dropouts at an early stage by concentrating resources on activation strategies. Rationalise support for helping young people to find jobs by limiting the number of programmes, centralising responsibility for local initiatives to the regional level and setting up regional structures that bring the various actors together.	The aim of the Education Act of 8 July 2013 is to double the number of students combining education with employment by 2020. The Act rolled out apprenticeships, integrated training/study programmes and mechanisms to improve the school-to-work transition for programme graduates.
Increase the focus of subsidies for combined training and study towards the low-skilled. Maintain the work-study orientation of subsidised contracts and restrict the use of subsidised contracts that do not incorporate work placements. Improve the co-ordination or even close the gap between school-based vocational training and apprenticeship. Assess the performance of apprentice and work-study training centres.	The 2014 Vocational Training Act enhanced funding for training for the low-skilled and for job-seekers. It also established personal training accounts, independent of employers, and seeks to bolster employment guidance services. In 2013 and 2014, the government launched a programme of over 150 000 subsidised contracts (*emplois d'avenir*) for 16 to 25 year-olds with low educational attainment. These non-work-study contracts include training obligations for employers.
Consider extending the second-chance schools, depending on the results of the government's ongoing evaluation of the programme.	A qualitative study was published by the Ministry of Labour in September 2014. Since 2011, the number of young people accepted under the programme has risen by 10% per year.
Extend entitlement to the RSA to young adults who have completed their studies in line with a graduated, age-related scale, subject strictly to the requirement to implement an effective activation strategy incorporating training or active job-seeking measures. At the same time, bring all age limits down to 18 years of age in all legislation. In particular, abolish the inclusion of adult children in the household for tax assessment purposes, as well as the family benefits to which they provide entitlement, and if necessary increase means-tested grants for students. Index the minimum wage for young people to a progressive scale similar to that used for the extended RSA.	The "youth guarantee" was launched in 10 pilot areas in October 2013 to facilitate labour-market integration of young people who are furthest from employment. These guaranteed resources provide 18 to 25 year-old job-seekers with income support subject to strict training and job-seeking requirements. It was rolled out to a further 51 areas in December 2014. Additionally, family allowances will be means-tested in 2015, a factor that is likely to restrict incentives to include adult children in the household for tax assessment purposes. In 2016, workers under 25 will become eligible for the working income-tested top-up resulting from the merger of the *RSA-activité* and the PPE.
Adopt individual-based personal income taxation. Increase incentives for low-skilled women to return to the labour market after the birth of their children by shortening the duration of the parental leave allowance and by increasing the supply of places in public nurseries.	Between 2010 and 2012, 25 000 new places in nurseries for children under 6 years of age were created (+7.0%). The 2014 law establishing genuine equality between women and men increases the share of parental leave for the second parent (in a large majority of cases, the father).
Encourage labour and management to put the issue of age-related salary adjustments at the heart of wage negotiations.	Issues related to age were addressed in the ANI of 1 January 2013 (see measures below).

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Recommendations	Measures taken since the beginning of 2013
Ensure that the unemployment insurance system does not implicitly subsidise early labour-market exit. Abolish the specific provisions contained in the unemployment regimes applicable to older workers. Gradually phase out long-term unemployment benefits (ASS, AER) and replace them with the RSA. Introduce a staggered reduction in unemployment benefits during a spell of unemployment.	The ANI of 1 January 2013 incorporated several measures implemented under the new unemployment insurance agreement of 22 March 2014. The waiting period for significant severance packages was increased for *rupture conventionnelle* – a negotiated termination of an individual labour contract – and for redundancy (except for redundancy on economic grounds). Additionally, employees aged over 65 are now subject to the unemployment insurance contribution rates set out in ordinary law. The government is planning to create a simplified and overhauled social minimum income benefit in 2016 and envisages merging the *RSA socle* with the ASS ("Specific solidarity allowance").

Management of public finances

Recommendations	Measures taken since the beginning of 2013
Reduce public spending to rein in the budget deficit and ease taxes on labour and business income in the medium term. Systematically review the efficiency of existing and proposed spending items, including government subsidies to businesses, and gradually phase out or reject those found to be ineffective, badly targeted or distortionary.	The government presented a EUR 50 billion savings and spending plan for 2015-17. The Employment Competitiveness Tax Credit in 2014 is broadly equivalent to a 6% fall in the labour costs of workers receiving up to 2.5 times the minimum wage (SMIC). It is due to be converted into a cut in employers' wage contributions at the beginning of 2017. The Employment and Solidarity Pact increased these efforts by introducing cuts to employers' wage contributions for workers earning up to 2.5 times the SMIC at the beginning of 2015. It also provides for a cut in family contributions for the self-employed in 2015 and for employees paid up to 3.5 times the minimum wage in 2016. Lastly, it provides for a decrease in corporate taxes: repeal of the corporate social solidarity contribution (C3S) between 2015 and 2017, that of the corporate tax (IS) surtax in 2016 and a gradual reduction of the rate of IS as from 2017. The system of aid to businesses (EUR 2 billion) was also reformed in 2014.
Merge the smallest municipalities and abolish the *départements*. Convert earmarked tax revenues into budgetary transfers.	The 2014 local government reforms provide for the gradual abolition of the *départements* in 2020 through mergers with different supra-municipal bodies. The cut in central government transfers to municipalities in 2015-2017 should encourage their merger process.
Rationalise hospital services, in particular by relying more extensively on outpatient care. Decrease drug costs by reimbursing only the price of generics, and continue focusing more on products whose therapeutic benefits are well established.	The 2015 Finance Act provides for better co-ordination between the hospital and non-hospital care organised by treating physicians. Additional measures also aim at developing outpatient services in hospital facilities in 2015.

Recommendations	Measures taken since the beginning of 2013
Follow the recommendations of the Fiscal Council (Haut *Conseil des finances publiques*).	On several occasions, the Fiscal Council has noted that government macroeconomic assumptions were optimistic and that budgetary measures were not defined closely enough to ensure the attainment of medium-term objectives.
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 inefficient.	The Corporate Simplification Council, created in January 2014, proposes tax simplification measures. For example, the government has instituted the principle of non-retroactivity in taxation and simplified a variety of reporting obligations and is implementing a system of guaranteed responses within fixed time delays. In addition, the French President re-instigated a debate on introducing withholding taxes on household income. The first income tax bracket was abolished and the threshold for the second bracket lowered for 2015. Tax conferences between financial ministry services and industry representatives examined the tax expenditures and taxes earmarked in 2013 and 2014. In this connection, the 2015 Finance Act abolished several low-yield taxes.
Enhance the neutrality of capital taxation across and within asset classes, in particular by ending preferential tax treatment of certain investment income, including immovable assets. Explore the possibility of shifting taxes from nominal to real returns. Streamline the taxation of dividends. Tax bequests and gifts based on the amount received over a lifetime, regardless of source.	Taxation of capital gains on transfers of undeveloped land was cut in September 2014. In 2015, the income tax relief on investment in intermediate rental housing was consolidated and the zero-rate loan for home ownership was extended. However, the tax treatment of employee profit-sharing programmes is due to be streamlined and become more favourable under the draft law on "growth and activity".
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.	Some reduced rates (for catering, prepared food products, transport and renovation work) rose from 7% to 10% in 2014, whereas the standard rate increased from 19.6% to 20%.
Implement a universal points-based or notional accounts pension system. Make pensions actuarially neutral, especially in the retirement age bracket. Internalise at the individual level the costs of survivors' pensions in old-age pension benefits. Render the link between gains in life expectancy and the pension eligibility age fully automatic.	The 2014 pension reform will gradually increase the period of insurance that confers entitlement to a full pension, beginning in 2020, to 43 years in 2035. From 2015, the reform also introduced a points-based system (*compte de pénibilité)* that varies pension rights in line with the strain of an individual's job. Employers' and employees' pension contributions will also rise in the period 2014-2017.

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Recommendations	Measures taken since the beginning of 2013
Increase the CSG (generalised social contribution) on pension income, introduce pensioner contributions for health care, simplify the current system of minimum guaranteed pensions, abolish tax breaks for pensioners and, if needed, raise the minimum pension.	Since 2013, retirement and disability pensions have been subject to the additional solidarity contribution for autonomy (CASA). Since 2014, pension supplements for parents of three or more children have been taxable, and persons living alone who have raised children no longer qualify for an additional half-exemption. The 2015 budget limited the possibility for persons with high replacement income but who paid little income tax for reduced rates of CSG. The government estimates that 460 000 pensioners will be affected. The rate of CSG on pensions (6.6%) is still lower than that levied on employment income (7.5%).

Education policy

Recommendations	Measures taken since the beginning of 2013
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 Act of 8 July 2013 created 60 000 additional posts over five years, including 21 000 tenured teaching posts, and two-thirds of them will be in primary schools. Since 2013, additional resources are dedicated to admit children in disadvantaged areas from age two.
Allow primary schools and their principals at least as much authority as at secondary-school level by changing their status to that of public teaching establishments and by giving their principals clear-cut line-management responsibilities.	No action taken.
Cut back heavily and swiftly on grade repetition, and introduce teaching practices that are better tailored to individual students in order to prevent dropping out. Adapt school calendars and schedules to children's biorhythms. Make pedagogical practices a more central part of teacher training. Rationalise non-wage costs in order to be able to increase teachers' pay.	The Decree of 18 November 2014 provided that all students should have suitable academic guidance throughout their schooling. It stressed that to repeat a year of school should be the exception and stipulates the relevant provisions for students, including the specific guidance process. A plan to combat school-leaving was presented in November 2014, and an additional EUR 50 million will be appropriated thereto each year, beginning in 2015. The school week increased from 4 to 4.5 days in 2014 to improve class scheduling. The Act of 8 July 2013 had provided for an increase of 60 000 jobs in education between 2012 and 2015. The establishment of specialist teacher-training schools (*écoles supérieures du professorat et de l'éducation*) in 2013 strengthened initial teacher training through theoretical and practical training, guided practices and internships.

Recommendations	Measures taken since the beginning of 2013
Use the surplus public financing 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 these schools.	The ongoing reform of priority education sets up 102 reinforced first-priority education networks (REP+s) in 2014. At the beginning of the 2015-16 school year, 1 089 priority education networks (REPs), including 350 REP+s, will be in place. This new geography is based on the social characteristics of the schools' student body. REPs and REP+s will get increased funding, and their staff greater training and higher pay.
Reform the functions and inspect more closely the activity of career guidance counsellors/psychologists. Draw a clear distinction between their specific guidance functions and psycho-social functions and improve the specialist guidance functions by forging closer links with business. Increase the involvement of teachers in pupils' career guidance through tailored instruction. Introduce an initial foundation course year in upper-secondary technology and vocational studies. Through the public careers guidance service, provide detailed information on job opportunities resulting from the courses offered by higher education establishments.	A new guidance system (*le parcours individuel d'information et de découverte du monde économique et professionnel*) is designed for secondary-school students and encourages partnerships between schools. The programme is undergoing trials in January 2015 in a few pilot schools with a view to rolling it out more generally at the start of the new academic year in September 2015. For upper-secondary technological studies, the first year is the same as for the general curriculum, and some schools also combine different vocational study groups in the following year. Lastly, regional public lifelong guidance services were generalised in January 2015 after trials in eight pilot regions.
Shift public resources from the elite tertiary institutions (*grandes écoles*) to universities. Give universities more autonomy in management, student selection and setting tuition fees. Make part of funding awards contingent on mergers between establishments and on strengthening the effective role of research and higher education centres (PRES). Increase tuition fees and introduce student loans with repayment conditional on future earnings. Develop courses at degree level that are valued in the labour market.	The 2013 Higher Education and Research Act (ESR) made grouping compulsory for tertiary institutions, but the degree of integration in such groupings can vary. Since the ESR Act was passed, 25 groupings have been set up, and some resources have been allocated on the basis of their collective projects. The principle of curriculum certification introduced by the ESR Act has also bolstered the schools' pedagogical autonomy. The clarity of training measures at degree level has been improved.

Research and innovation policy

Recommendations	Measures taken since the beginning of 2013
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.	The new "competitiveness clusters" phase (2013-2018) includes a target for assessment between year-end 2015 and early 2018. In 2015, the reduction in State subsidies to the clusters' governing bodies was indexed to the generation of R&D projects and their ratios of private to public resources.
Assess the effectiveness of the research tax credit (CIR) regularly so as to optimise its configuration and scope of application.	A university impact study and a report on the CIR were published in 2014. A board to assess innovation policy was instituted in 2014.

Competition and regulatory reform

Recommendations	Measures taken since the beginning of 2013
Facilitate class-action lawsuits and ensure that they are applicable to damage caused by anti-competitive practices.	A class action for anti-competitive practices was introduced in 2014, but it concerns households only. By 2016, the transposition of the European Directive on antitrust damages actions should strengthen claims for damages.
Abolish tax breaks that unduly benefit large firms in return for a reduction in the rate of corporation tax. Reduce the distortions that encourage recourse to debt over equity financing. Abolish or lessen the obligations imposed on businesses arising from regulatory thresholds that are superfluous or secondary, and better distribute, on the basis of headcount, those that are necessary, so as to smooth their effects.	The Solidarity and Responsibility Pact envisages a cut in corporate tax rates at the beginning of 2017 (from 34.4% in 2013 to 28% in 2020), the abolition of companies' social solidarity contribution between 2015 and 2017, and of the corporate "surtax" in 2016. It is to be funded by public spending cuts and a rise in environmental taxation (see below). The deductibility of interest on loans was again restricted in 2014 (from 85% to 75%). However, that restriction does not apply to small and medium-sized enterprises. A reform of the regulatory obligations incumbent upon businesses is planned for 2015.
Remove the need for special authorisation for commercial zoning and the ban on selling at a loss, and ease restrictions on store opening hours. Adopt the 2011 Consumer Rights, Protection and Information Bill.	The 2014 Trade Licensing Act combined construction permit and business licensing procedures, but the principle of dual authorisation remains in place. The draft law on "growth, activity and equal economic opportunity" partially facilitates Sunday and evening trading, especially in some newly defined touristic areas (see Chapter 2). However, the possibility for shops to set their own limited sales periods has been suppressed in 2015.
Assess the impact of measures under the Economic Modernisation Act (LME) regarding the conditions governing negotiations between retailers and suppliers and ascertain whether they should be eased further.	Several studies have shown marked increases in competition as a result of measures taken under the LME; however, the ban on resale below cost remains in place. Some contractual clauses still place constraints on independent distributors in their dealings with suppliers and major brand networks.
Gradually phase out the quotas (*numerus clausus*) in certain legal professions (attorneys before the Council of State and the Court of Cassation) as well as in a number of health-related professions (pharmacists, physiotherapists and veterinarians).	The Act of 2 January 2014 authorising the government to simplify the operations of businesses and make them more secure created salaried employee status for attorneys before the Council of State and the Court of Cassation.
Simplify entry conditions to certain professions, either by reducing the field of activities over which they hold exclusive rights (architects, notaries, bailiffs) or by reconsidering the required years of study (architects, veterinarians, hairdressers).	The draft law on "growth, activity and equal economic opportunity" provides for a revision of the regulated tariffs of the legal professions, gearing them towards costs and including the option of price-based competition. It would also make it easier for new entrants to become established. Acquisitions of equity interests would be facilitated between legal professions.

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Recommendations	Measures taken since the beginning of 2013
Create a single independent authority to regulate the whole transport sector. Maintain and clarify the separation between the rail network manager (RFF) and the incumbent operator (SNCF) so as to ensure conditions conducive to effective competition.	The draft growth, activity, and equal economic opportunity law envisages conferring powers over coach transport and motorway concessions upon the rail regulator. RFF (French rail network manager) and the SNCF (French rail operator) have re-merged, but regulation of the railway sector was bolstered.
Reconsider the scope of application of various regulated prices in the retail electricity market, at least as they apply to non-residential customers.	Regulated prices will be fully phased out by 2016 for companies consuming more than 36 kVA, while they will remain in place for small consumers.

Housing policy

Recommendations	Measures taken since the beginning of 2013
Update the registry of rateable values and implement a mechanism for periodic revaluation. Make the *taxe foncière* 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.	Cadastral values for commercial immovable property were revised in 2013 and will be updated annually from 2016. With regard to housing, an experiment is being carried out in five *départements* in 2015. The *départements* were also authorised to increase property transaction taxes in 2013, a mechanism that was made permanent in 2014. The draft law on "growth, activity and equal economic opportunity" plans to introduce limited competition on emoluments for notaries, which is likely to reduce transaction costs.
Broaden the responsibilities of *intercommunités*, with particular regard to building permits and local land-use plans, raise coverage coefficients, and consider broadening the scope of application of the taxes on vacant housing.	The Access to Housing and Town Planning Reform Act (ALUR) of March 2014 transferred town planning powers to *intercommunités*, but a minority of municipalities may oppose such a transfer. The Metropolitan Authorities Act of January 2014 strengthened the metropolitan governance structures of the largest conurbations. Taxes on secondary homes increased in 2015.
Index rent over the life of contracts on the basis of a published index reflecting trends for new rental contracts, preferably at a sufficiently localised level. Bring rents in the social housing sector closer to market values, rather than linking them to costs at the time of construction.	No action taken.
Merge social housing authorities at a supra-municipal level in order to achieve economies of scale; protect social housing from local pressures, including in matters of allocation; and reduce mismatches between needs and new construction.	No action taken.

Recommendations	Measures taken since the beginning of 2013
Evaluate the way social housing is financed through a cost-benefit analysis taking into account the likely significant distortions that it may generate in the allocation of savings and investment and the structure of rents. Consider opening up the social housing market to private providers subject to appropriate regulation.	No action taken.
Continue to target the allocation of social housing toward the most disadvantaged households, and strengthen and enforce the rules on extra rent charges. Relax the provisions governing mobility within the social housing sector. Facilitate access for young people to social housing by increasing the supply of small dwellings and student accommodation.	No action taken.
Completely rethink positive discrimination based on geographical criteria by making municipal zoning policy more transparent and by ensuring that it is consistent with priority education. A more radical reform aimed at preventing the stigma from zoning might replace policies aimed directly at given territories with resource-allocation policies based on the characteristics of the individuals composing the target population (education, housing, transport, support for entry into employment, etc.).	"Sensitive urban zones" (ZUS) and zoning measures to encourage the economic development of certain areas (urban regeneration areas – ZRU, urban tax-free zones – ZFU) were abolished and replaced with Quartiers Prioritaires (Priority Neighbourhoods) and individualised State-municipality contracts on 1 January 2015. Fewer neighbourhoods will be concerned (1 300 compared to 2 600 previously). The new urban regeneration programme will provide EUR 5 billion for 200 neighbourhoods over the period 2014-2024.

Financial system

Recommendations	Measures taken since the beginning of 2013
Continue to encourage banks to increase their capital. Improve transparency by publishing data that are easily accessible and comparable across financial institutions.	The in-depth review conducted in 2014 by the European Central Bank found no balance-sheet weakness among the 14 French banks examined.

Environmental policies

Recommendations	Measures taken since the beginning of 2013
Equalise implicit and explicit carbon prices across emission sources by introducing a carbon tax. Undertake a systematic evaluation of the abatement costs of the individual elements of France's comprehensive climate-change mitigation policies and put more emphasis on low-cost abatement options.	A carbon component (the climate energy tax) was introduced in 2014. It takes the form of a tax hike on fossil fuels in proportion to the CO_2 emissions they produce. The indefinite suspension of a road toll for heavy goods vehicles *(ecotaxe)* in 2014 led to an increase in taxes on diesel for private and heavy goods vehicles in 2015 (see below).
Make abatement costs due to feed-in tariffs more homogenous for all renewables, and alter the bonus-penalty system applied to new car purchases so as to remove bonuses and enhance cost effectiveness.	The bonus applied to purchases of new cars was reduced from 1 November 2013, while the penalty increased from 1 January 2014. However, the Energy Transition (Green Growth) Bill provides for the introduction of a further bonus for some new vehicles.

Recommendations	Measures taken since the beginning of 2013
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.	Diesel tax rose by EUR 0.04/l on 1 January 2015 for private and heavy goods vehicles; half of that increase is due to the carbon tax and half to the suspension of the *ecotaxe*. However, heavy goods vehicles, agricultural vehicles, fishing boats and taxis still receive a partial reimbursement for fuel taxes.
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 use.	In January 2014, the rate of VAT on water use rose slightly, but it remains far lower than the standard rate.

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Chapter summaries

Chapter 1. Vocational training and adult learning for better skills

France devotes a great deal of resources to vocational training for youths and especially adults, but the system is unduly complex and yields rather poor returns. The basic literacy and numeracy skills of many French adults remain weak in international comparison, with harmful effects on employment opportunities, wages and well-being. Access to basic skills training is poor for those who need it most, many of whom come from disadvantaged socio-economic backgrounds. Secondary vocational education and apprenticeship training still suffer from a serious image problem in the minds of French families, even though the latter have a good track record. The government has succeeded in ensuring that the number of apprenticeships is growing, but that is mostly due to those studying at the tertiary level or at least for a higher secondary diploma. The labour market outcomes of those with only shorter vocational qualifications are not good, and quality in that stream needs to improve. To do so better teachers and workplace trainers need to be attracted to the field, especially individuals who can better link practical experience and theoretical concepts. The financing of the adult training system involves complex collection mechanisms even following a major recent overhaul. Making further changes will have to confront entrenched interests, even if the use of the training levy to finance business groups and unions has now ended. The goal is to direct more training funds to workers in small firms who have the weakest skills as well as to jobseekers, but this might be more easily achieved by shifting the funding base from a levy on employers to fiscal incentives or direct subsidies. There remains a need to align responsibilities for adult training with corresponding control over funds. Workers are henceforth to be given personal training accounts in which they can accumulate rights to up to 150 hours of training. But the enormous number of providers and courses on offer calls for greater efforts to develop good guidance, evaluation and certification systems to ensure the training finally chosen is appropriate and of sufficiently high quality.

Chapter 2. Enhancing competitiveness, purchasing power and employment by increasing competition

Over the past decade, France has substantially eased the burden of anti-competitive regulations and effectively enforced competition law against anti-competitive practices. Various sectors have been opened up more widely to competition, and the powers of the Competition Authority have been strengthened. However, reducing burdens on French businesses would increase competitive pressures in many sectors. In particular, the administrative procedures involved in starting a business remain lengthy, and the number of regulations and rules is substantial, while their potential impact on competition is not fully taken into account when they are drawn up and implemented. The complexity of the tax system also tends to penalise the youngest and smallest businesses. Recent streamlining initiatives are welcome but remain limited. Meanwhile, the territorial fragmentation of public procurement procedures, which could decline following ongoing reforms, impairs their efficiency, and entry and operating requirements appear to go beyond consumer protection in several regulated professions, such as legal services and health care. In the retail sector, recent reforms have significantly relaxed negotiating conditions between suppliers and retailers, and Sunday trading is intended to be partly liberalised. However, the ban on resale below cost has not been challenged, nor the tight rules controlling commercial zoning. Individual shops that contract with superstore chains cannot change chain easily. Of the network industries, it is in the telecommunications sector that competition has made the most progress, and there is room for further improvements in transport and energy.

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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of France were reviewed by the Committee on 2 February 2015. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 20 February 2015.

The Secretariat's draft report was prepared for the Committee by Nicola Brandt, Antoine Goujard and Natacha Valla under the supervision of Peter Jarrett. Research and assistance was provided by Patrizio Sicari.

The previous Survey of France was issued in March 2013.

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