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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 assistance was provided by Patrizio Sicari.

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BASIC STATISTICS OF FRANCE, 2013

(Numbers in parentheses refer to the OECD average)[a]

LAND, PEOPLE AND ELECTRORAL CYCLE

Population (million)	64.0		Population density per km^2	116.6	(34.7)
Under 15 (%)	18.3	(18.2)	Life expectancy (years, 2012)	82.1	(80.2)
Over 65 (%)	18.0	(15.6)	Men	78.7	(77.5)
Foreign-born (%, 2012)	11.7		Women	85.4	(82.9)
Latest 5-year average growth (%)	0.5	(0.5)	Latest general election	June	2012

ECONOMY

Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	2 808.2		Primary sector	1.7	(2.5)
In current prices (billion EUR)	2 114.9		Industry including construction	19.8	(26.8)
Latest 5-year average real growth (%)	0.4	(0.8)	Services	78.5	(70.5)
Per capita (000 USD PPP)	38.8	(39.2)			

GENERAL GOVERNMENT

Per cent of GDP

Expenditures	57.1	(43.1)	Gross financial debt	110.4	(113.2)
Revenue	53.0	(38.3)	Net financial debt	67.2	(72.7)

EXTERNAL ACCOUNTS

Exchange rate (EUR per USD)	0.753		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.845		Machinery and transport material	38.2	
In per cent of GDP			Chemicals and related products, n.e.s.	17.9	
Exports of goods and services	28.3	(53.4)	Miscellaneous manufactured articles	11.2	
Imports of goods and services	29.8	(49.4)	Main imports (% of total merchandise imports)		
Current account balance	-1.4	(-0.1)	Machinery and transport equipment	32.8	
Net international investment position	-17.2		Mineral fuels, lubricants and related materials	16.5	
			Chemical and related products, n.e.s.	13.9	

LABOUR MARKET, SKILLS AND INNOVATION

Employment rate for 15-64 year-olds (%)	64.2	(65.2)	Unemployment rate, Labour Force Survey (age 15 and over) (%)	9.9	(7.9)
Men	67.9	(73.1)	Youth (age 15-24, %)	24.0	(16.1)
Women	60.5	(57.4)	Long-term unemployed (1 year and over, %)	4.0	(2.7)
Participation rate for 15-64 year-olds (%)	71.2	(71.1)	Tertiary educational attainment 25-64 year-olds (%, 2012)	30.9	(32.2)
Average hours worked per year	1 489	(1 771)	Gross domestic expenditure on R&D (% of GDP, 2012)	2.3	(2.4)

ENVIRONMENT

Total primary energy supply per capita (toe)	3.9	(4.2)	CO_2 emissions from fuel combustion per capita (tonnes, 2012)	5.3	(9.7)
Renewables (%)	9.2	(8.8)	Water abstractions per capita (1 000 m^3, 2012)	0.4	
Fine particulate matter concentration (urban, PM_{10}, µg/m^3, 2011)	23.8	(28.0)	Municipal waste per capita (tonnes, 2012)	0.6	(0.5)

SOCIETY

Income equality (Gini coefficient, 2011[b])	0.309	(0.308)	Education outcomes (PISA score, 2012)		
Relative poverty rate (%, 2011[b])	8.0	(11.1)	Reading	505	(496)
Median equivalised household income (000 USD PPP, 2010)	23.3	(20.4)	Mathematics	495	(494)
Public and private spending (% of GDP)			Science	499	(501)
Health care (2012)	11.6	(9.2)	Share of women in parliament (%, December 2014)	25.7	(26.7)
Pensions (2011)	14.3	(8.7)	Net official development assistance (% du GNI)	0.41	(0.37)
Education (primary, secondary, post sec non tertiary, 2011)	3.9	(3.9)			

Better life index: *www.oecdbetterlifeindex.org*

a) Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 29 member countries.

b) 2010 for the OECD average.

Source: Calculations based on data extracted from the databases of the following organisations: OECD, International Energy Agency, World Bank, International Monetary Fund and Inter-Parliamentary Union.

Abbreviations and acronyms

AER	Allowance equivalent to pension benefits (*Allocation Équivalent Retraite*)
AIF	Individual training aid (*Aide Individuelle à la Formation*)
ANLCI	National Agency to Fight Illiteracy (*Agence Nationale de Lutte Contre l'Illettrisme*)
ANI	National interprofessional agreement (*Accord National Interprofessionnel*)
ARAF	Regulatory authority for railway activity (*Autorité de Régulation des Activités Ferrioviaires*)
ARCEP	Regulatory authority for electronic communications and postal services (*Autorité de Régulation des Communications Électroniques et des Postes*)
ARENH	Regulated access to existing nuclear power (*Accès Régulé à l'Électricité Nucléaire Historique*)
ASS	Specific solidarity allowance (*Allocation de Solidarité Spécifique*)
BEP	Certificate of professional studies, below upper secondary education certification (*Brevet d'Études Professionnelles*)
BPI	Public Investment Bank (*Banque Publique d'Investissement*)
CAP	Certification of professional skills, below upper secondary education certification (*Certificat d'Aptitudes Professionnelles*)
CCEN	Advisory board for the evaluation of standards and norms (*Commission Consultative d'Évaluation des Normes*)
CDI	Regular employment contract (*Contrat à durée indéterminée*)
CE	Enterprise's staff comittee (*Comité d'entreprise*)
CEP	Council supporting individualised career development and training choices (*Conseil en Évolution Professionnelle*)
CFA	Apprentice training centre (*Centre de Formation d'Apprentis*)
CFE	Business property tax (*Cotisation Foncière des Entreprises*)
CGDD	General commission on sustainable development (*Commissariat Général au Développement Durable*)
CICE	Competitiveness and Employment Tax Credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi*)
CIR	R&D tax credit (*Crédit d'Impôt Recherche*)
CLP	OECD Competition Law and Policy indicators
CNCP	National commission for professional certification (*Commission Nationale de Certification Professionnelle*)
CNEFOP	National council for employment and professional training (*Conseil National de l'Emploi, de la Formation et de l'Orientation Professionnelles*)
CNEFP	National council for the assessment of vocational training (*Conseil National d'Évaluations de la Formation Professionnelle*)
CPF	Personal training account (*Compte Personnel de Formation*)
CPO	Board of compulsory levies (*Conseil des Prélèvements Obligatoires*)

CPRDFOP	Strategic plan aimed at accomodating expenditure on initial and continuing vocational education to the regional economic structure (*Contrat de Plan Régional de Développement des Formations et de l'Orientation Professionnelles*)
CRE	Energy Regulation Commission (*Commission de Régulation de l'Énergie*)
CREDA	Research centre for business law of the Chamber of Business and Industry of Paris and the region of Île-de-France (*Centre de Recherche sur le Droit des Affaires de la Chambre de Commerce et d'Industrie de la région Paris-Ile-de-France*)
CREFOP	Regional council for employment and professional training (*Comité Régional de l'Emploi, de la Formation et de l'Orientation Professionnelles*)
CSG	Generalised social contribution (*Contribution Sociale Généralisée*)
DARES	Department for research and statistics of the Ministry of labour and social affairs (*Direction de l'Animation de la Recherche, des Études et des Statistiques*)
DGAC	Directorate General for Civil Aviation (*Direction Générale de l'Aviation Civile*)
DGCCRF	Directorate for Competition, Consumer Affairs and Fraud Prevention (*Direction Générale de la Concurrence, de la Consommation et de la Répression des Fraudes*)
DIF	Individual training right (*Droit Individuel à la Formation*)
DIMA	Pre-apprenticeship programme (*Dispositif d'Initiation aux Métiers en Alternance*)
DIY	Do-It-Yourself stores
ESF	European Social Fund
E2C	Second-chance schools (*École de Deuxième Chance*)
IGAS	General inspectorate of social affairs (*Inspection Générale des Affaires Sociales*)
FNTV	National passenger transport federation (*Fédération Nationale des Transports des Voyageurs*)
Fongecif-Opacif	Institutions responsible for the personal training leave (*Fonds de Gestion des Congés Individuels de Formation; Organisme Paritaire au titre du Congé Individuel de Formation*)
FPSPP	Jointly managed fund financing training opportunities for people with weak skills (*Fonds Paritaire de Sécurisation des Parcours Professionnels*)
ISE	Intermediate-Sized Entreprise
IUT	University institutes of technology (*Instituts Universitaires de Technologie*)
LME	Economic modernisation act (*Loi de Modernisation de l'Économie*)
MOOC	Massive Open Online Course
NEET	Youths Neither Employed nor in Education or Training
NOME	Law on the New Organisation of the Electricity Market (Loi : *Nouvelle Organisation du Marché de l'Électricité*)
OCTA	Body run by social partners collecting the apprenticeship tax (*Organisme Collecteur de la Taxe d'Apprentissage*)
OEAP	Economic Observatory for Public Procurement (*Observatoire Économique de l'Achat Public*)
OPCA	Body run by social partners collecting the training levy (*Organisme Paritaire Collectionneur Agrée*)

OPQF	Institution certifying training providers (*Office Professionnel de Qualification des Organismes de Formation*)
PEL	Saving account for house acquisition (*Plan Épargne Logement*)
PHV	Private-Hire Vehicles
PIAAC	Programme for the International Assessment of Adult Competencies
PISA	Programme for International Student Assessment
PLF	Draft budget Bill (*Projet de Loi de Finances*)
PMR	OECD Product Market Regulation indicators
PPE	Earned income tax credit (*Prime Pour l'Emploi*)
PRES	Poles of research and higher education (*Pôles de Recherche et d'Enseignement Supérieur*)
PUCE	Areas of atypical habitual trading (*Périmètres d'Usage de Consommation Exceptionnel*)
RBC	Resale Below Cost
RFF	Owner and manager of the national rail network (*Réseau Ferré de France*)
RNCP	National inventory of professional certifications (*Répertoire Nationale des Certifications Professionnelles*)
RSA	Active solidarity income (*Revenu de solidarité active*)
RSP	Responsibility and Solidarity Pact (*Pacte de responsabilité et de solidarité*)
SAI	Supervisory agency for vocational education (*Service Académique de l'Inspection de l'Apprentissage*)
SCPC	Central service for the prevention of corruption (*Service Central de Prévention de la Corruption*)
SMIC	National minimum wage (*Salaire Minimum Interprofessionnel de Croissance*)
SNCF	France's state rail company (*Société Nationale des Chemins de Fer Français*)
STS	Higer technician sections (*Sections de Techniciens Supérieurs*)
TaRTAM	Transitional regulated market adjustment tariffs (*Tarif Réglementé et Transitoire d'Ajustement au Marché*)
TRV	Regulated sales tariff (*Tarifs Réglementés de Vente*)
UGAP	Central public purchasing office (*Union des Groupements d'Achat Public*)
URSSAF	Network of private organisations whose main task is to collect employees and employers' social security contributions (*Unions de Recouvrement des Cotisations de Sécurité Sociale et d'Allocations Familiales*)
VAE	Accreditation of prior learning (*Validation des Acquis de l'Expérience*)
VET	Vocational Education and Training
ZFU	Urban tax-free zone (*Zone Franche Urbaine*)
ZRU	Urban regeneration area (*Zone de Redynamisation Urbaine*)
ZUS	Sensitive urban zone (*Zone Urbaine Sensible*)

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Executive summary

- *Main findings*
- *Key recommendations*

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 commitee, 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.

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

- *Reviving 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*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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.

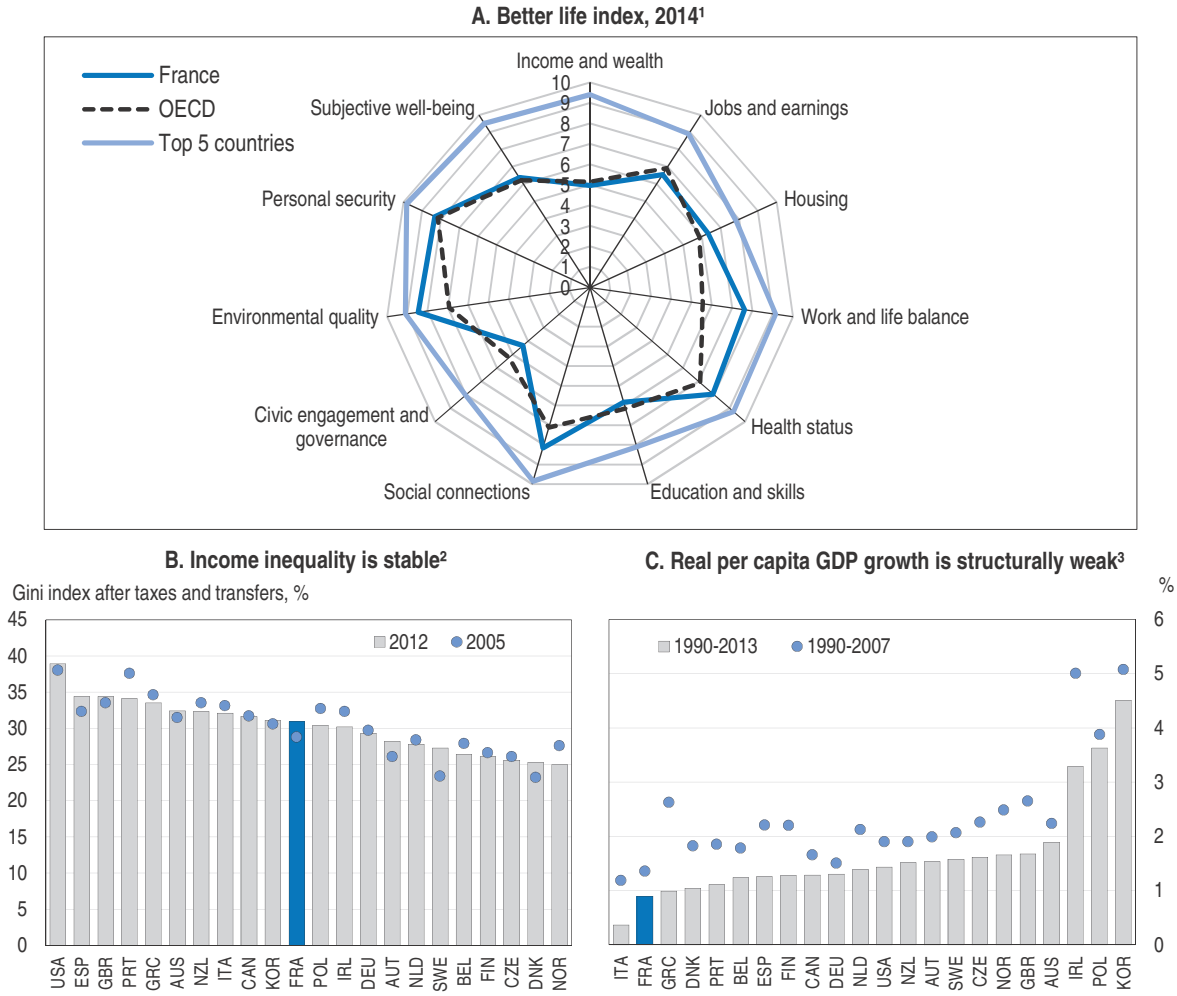
France's fundamental economic problem is a lack of growth. That lack has a short-term component that is cyclical and results from insufficient demand. It is important for France to continue with consolidation at an appropriate and recovery-compatible pace and letting the automatic stabilisers work. But 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

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) × 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*.

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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 and 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.

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

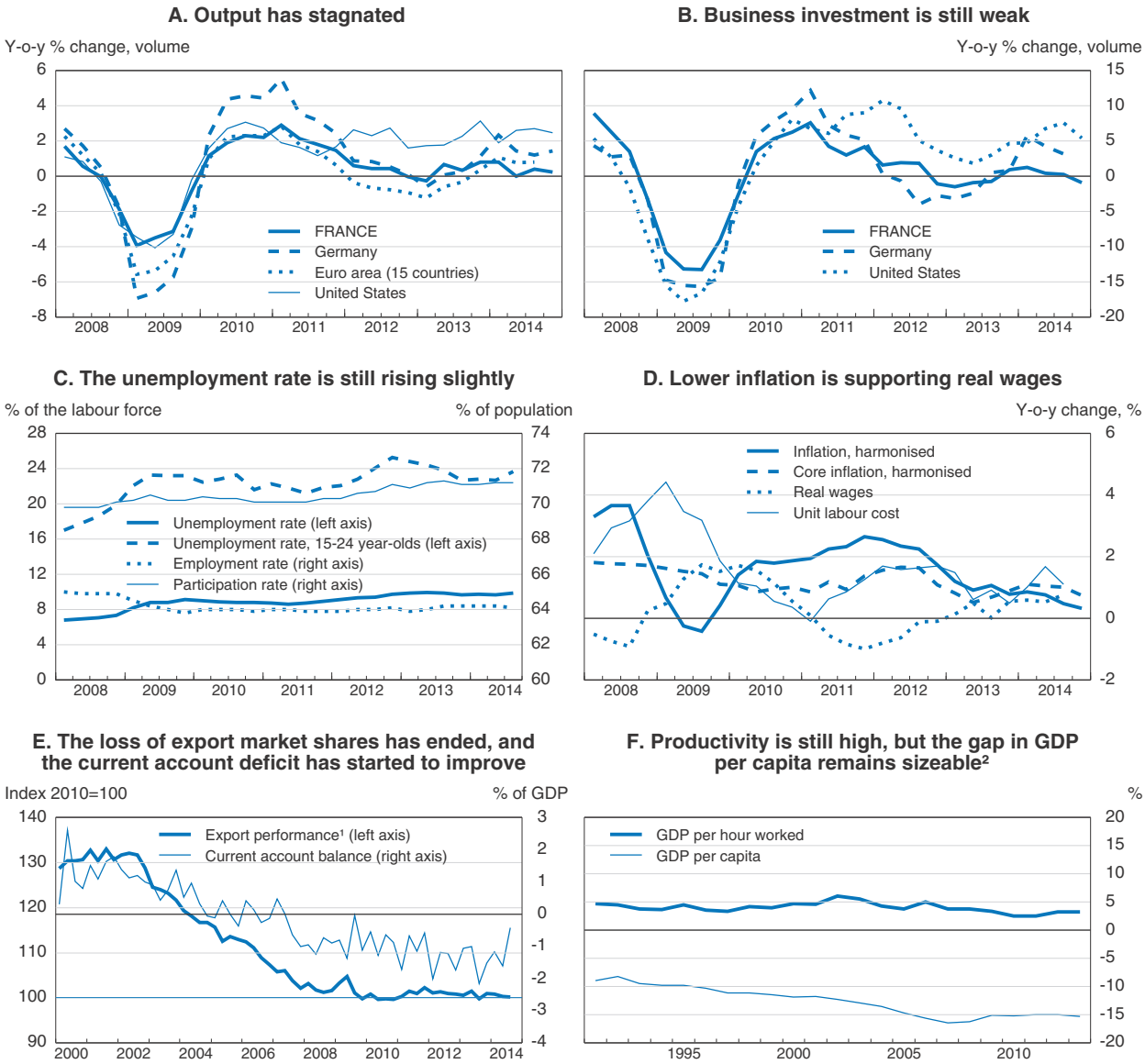
- France faces an important competitiveness problem. The government has recognised this and has embarked on a serious effort to deal with it. These measures need to be implemented, then strengthened.
- There is a clear need to cut back the share of public spending in GDP to ensure public debt sustainability 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).

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*.

StatLink http://dx.doi.org/10.1787/888933192282

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

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:*	
		Employment	Productivity		Employment	Productivity
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.

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.

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

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. Similarly, the effective implementation of the euro area's quantitative easing programme could trigger a greater-than-expected currency

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, harmonised	-	2.2	1.0	0.6	0.2	0.9
Core consumer prices, harmonised	-	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.

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).

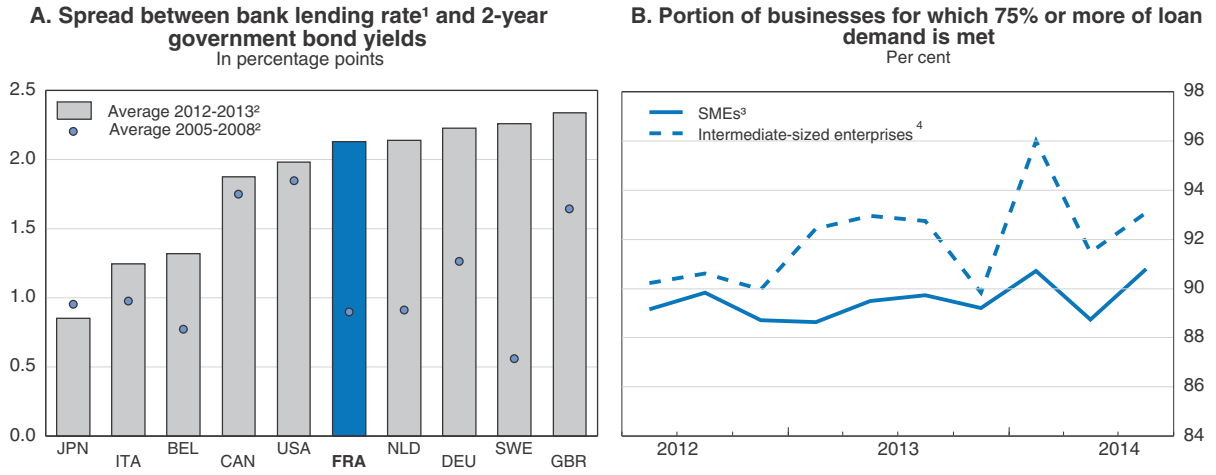
Beyond the banks, financing for the economy is heavily influenced by policy and regulations. Much of household financial assets – EUR 657 billion, or 31% of GDP (Figure 4, Panel A) – is regulated, and its allocation is largely influenced by the authorities (around

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 international 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.

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).

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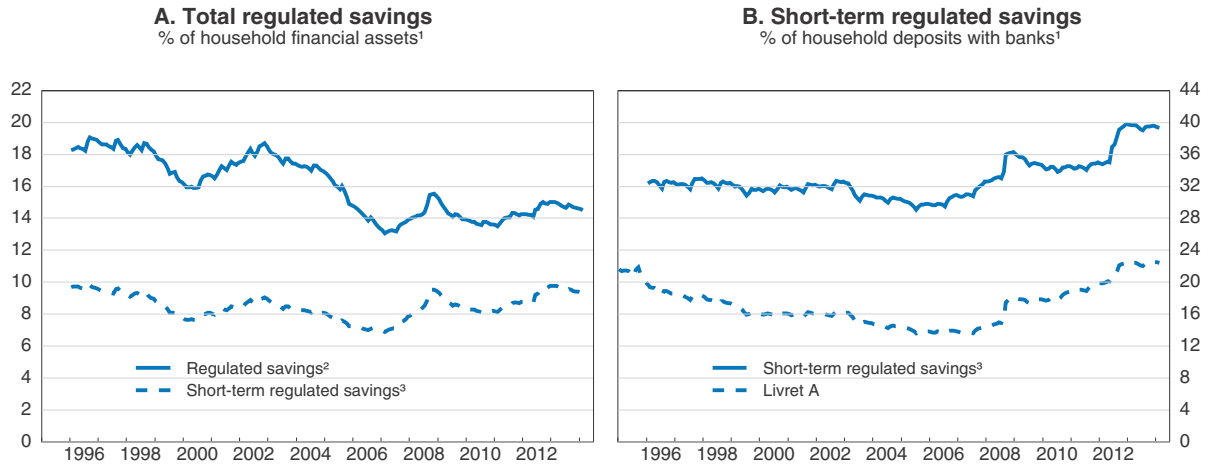
EUR 250 billion, or 12% of GDP). A growing portion of bank deposits is also in the form of such instruments (Panel B). They have an opaque impact and generate inefficiency: they enjoy a privileged tax status and fixed remuneration above comparable market rates, and their allocation is restricted, raising 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.

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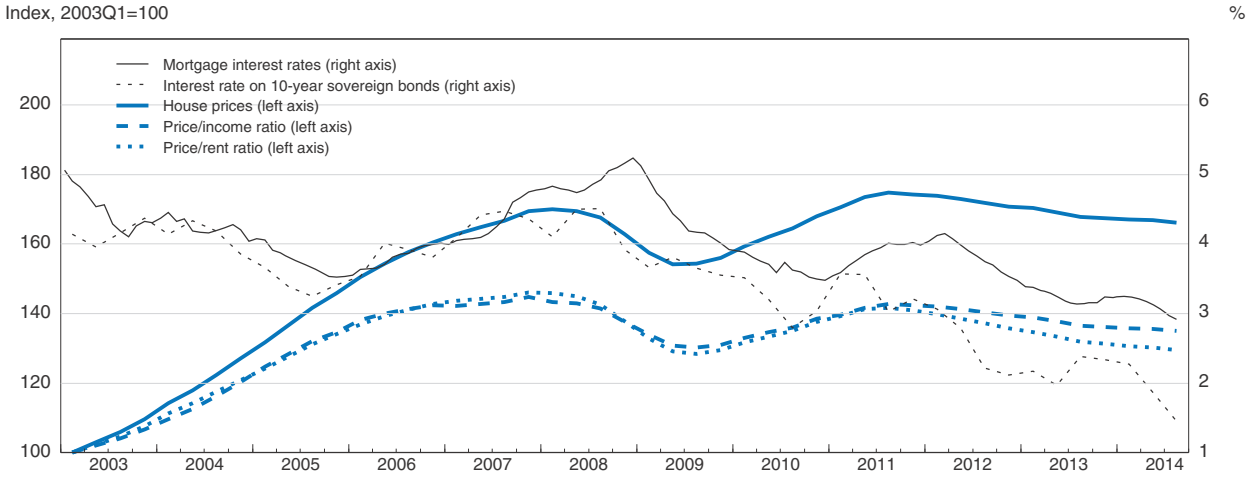
Another potential risk to the economy emanates from imbalances in the housing sector. Trends there have been unfavourable since summer 2011 (Figure 5). Prices have fallen 4.8% (nominal; 7.0% in real terms) since their peak. They could continue their gentle decline, without ruling out a significant cumulative 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.

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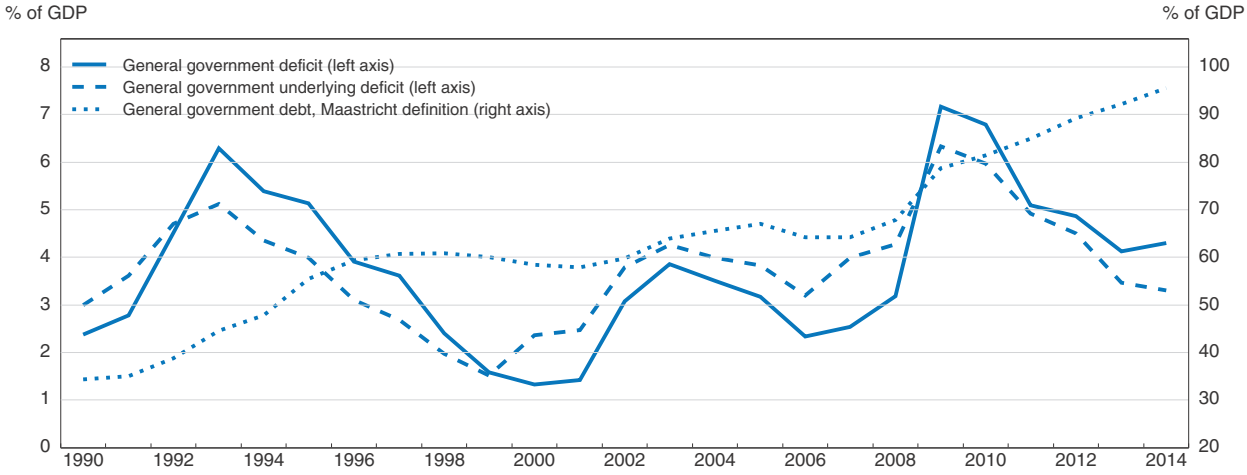
A permanent reduction of public spending

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**



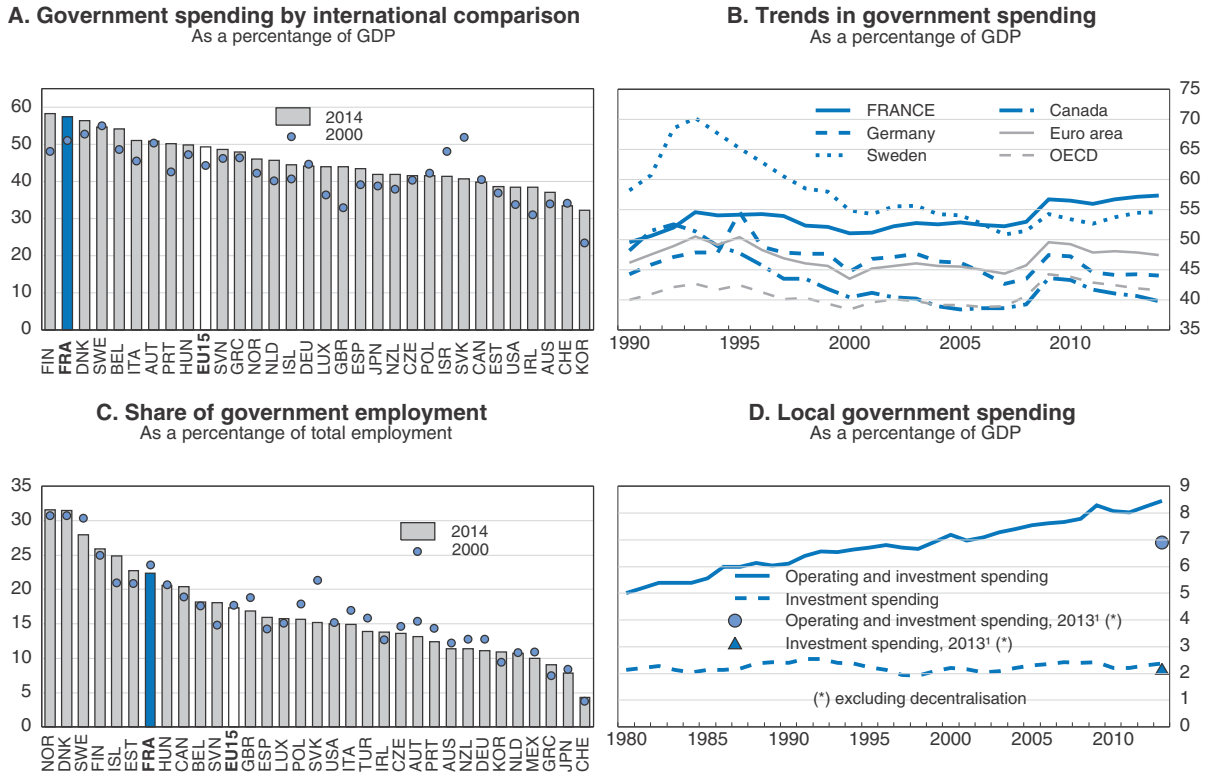
Source: OECD Economic Outlook No. 96 Database and updates.

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.

StatLink http://dx.doi.org/10.1787/888933192324

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.

Figure 7. **Government spending**

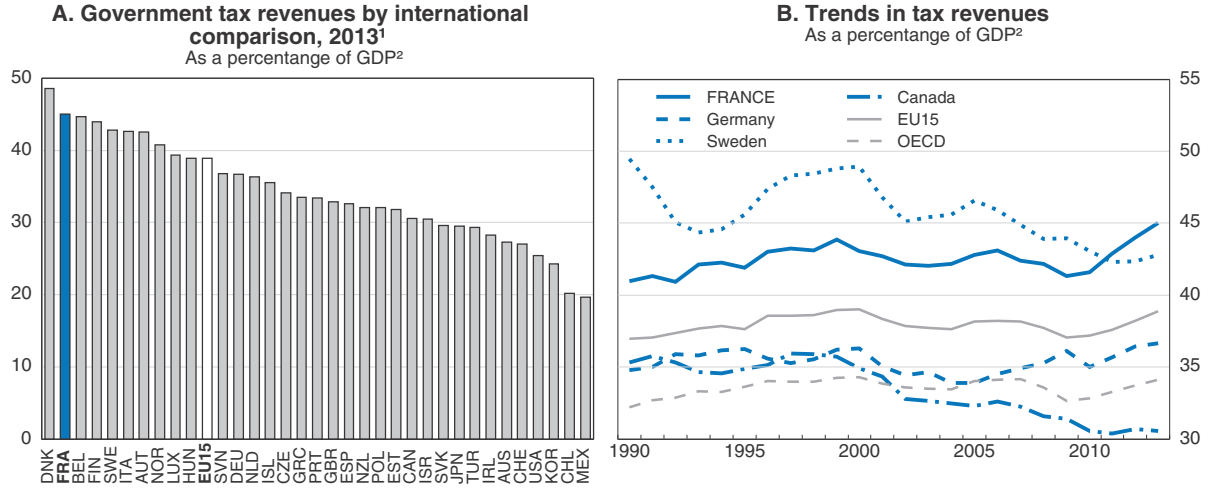


1. Spending by constant field of responsibility, evaluated by the Direction du budget.

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

StatLink http://dx.doi.org/10.1787/888933192332

Figure 8. **Total tax burden**



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

Source: OECD, *Revenue Statistics Database*.

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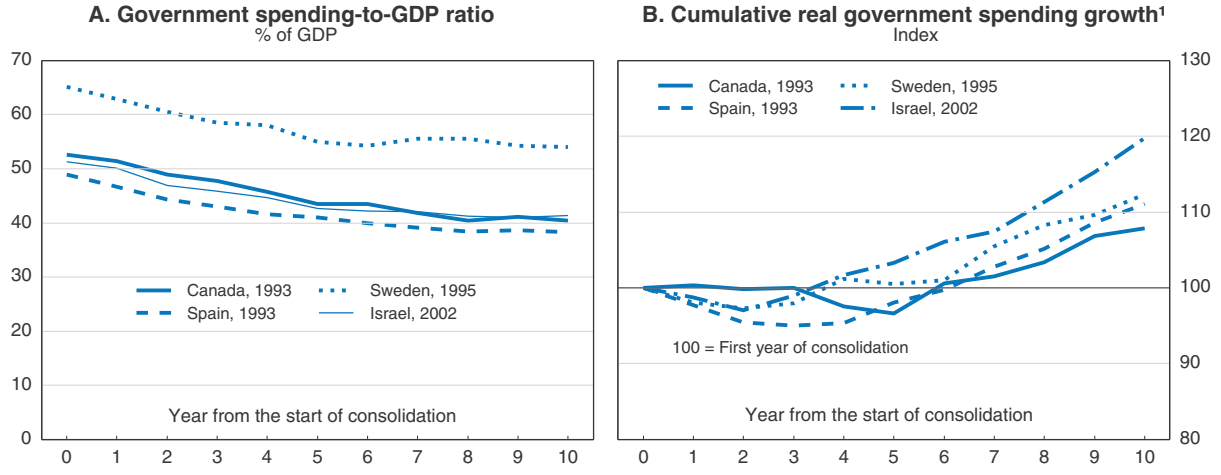
Table 4. **Structure of general government expenditures, 1980-2014**

	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	..
Wage bill	12.5	11.9	12.9	12.4	13.1	13.0	12.8	12.8	12.9	..
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	..
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	..
Wage bill		2.0	2.9	1.1	2.9	1.1	0.5	0.7	1.0	..
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	..
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*.

StatLink http://dx.doi.org/10.1787/888933192350

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.

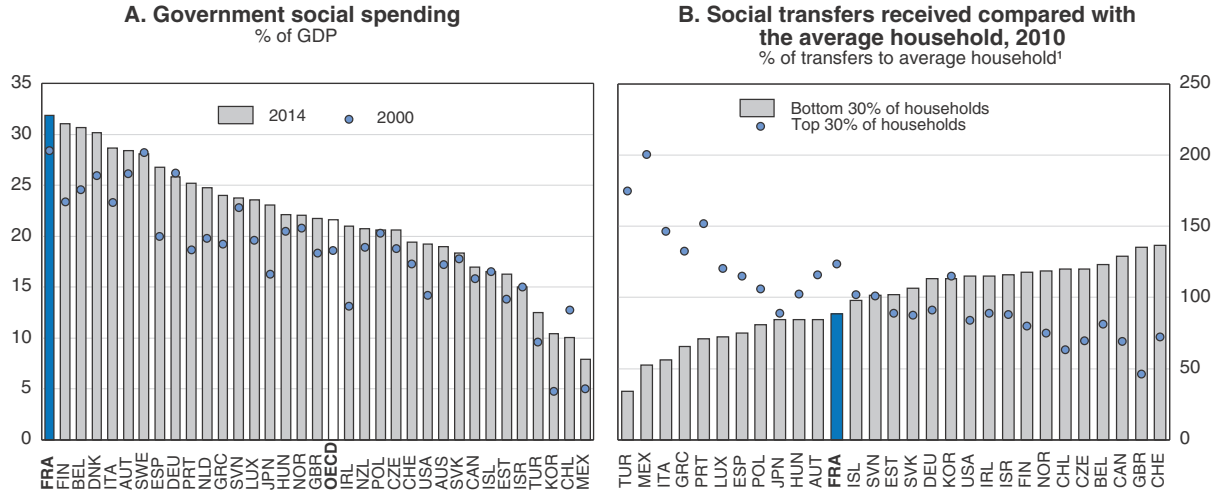
If resolutely pursued the current efforts to simplify the multiple layers of sub-central government – the so-called *mille-feuille* – could also serve to make spending more efficient and, in due course, realise substantial savings. Mainland France has at present 22 regional governments who oversee upper 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

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.

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(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).

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	..
Health	5.5	6.2	7.8	8.2	8.7	8.7	8.6	..
Family	2.4	2.5	3.0	2.9	3.1	3.0	2.9	..
Unemployment	..	1.7	1.5	1.3	1.6	1.7	1.6	..
Active labour market policies	..	0.7	1.2	0.8	1.0	1.1	0.9	..
Survivors	1.9	1.6	1.5	1.7	1.7	1.7	1.7	..
Incapacity related	2.8	2.1	1.7	1.3	1.4	1.4	1.4	..
Housing	0.4	0.7	0.9	0.8	0.8	0.8	0.8	..
Other social policy areas	..	0.2	0.3	0.5	0.6	0.6	0.6	..
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	..
Health		3.7	4.4	2.3	4.1	1.0	1.4	..
Family		2.7	4.0	1.0	3.3	-0.7	0.5	..
Unemployment		..	0.6	0.0	22.3	4.5	-2.6	..
Active labour market policies		..	7.2	-2.6	13.7	16.5	-16.4	..
Survivors		0.7	1.4	2.9	2.0	1.7	1.6	..
Incapacity related		-0.4	0.1	-1.7	1.0	1.2	1.5	..
Housing		8.6	3.6	0.4	2.6	0.2	2.5	..
Other social policy areas		..	10.1	6.3	29.5	4.4	3.4	..
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 Databases*.

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%

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".

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).

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 recommendation

- 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

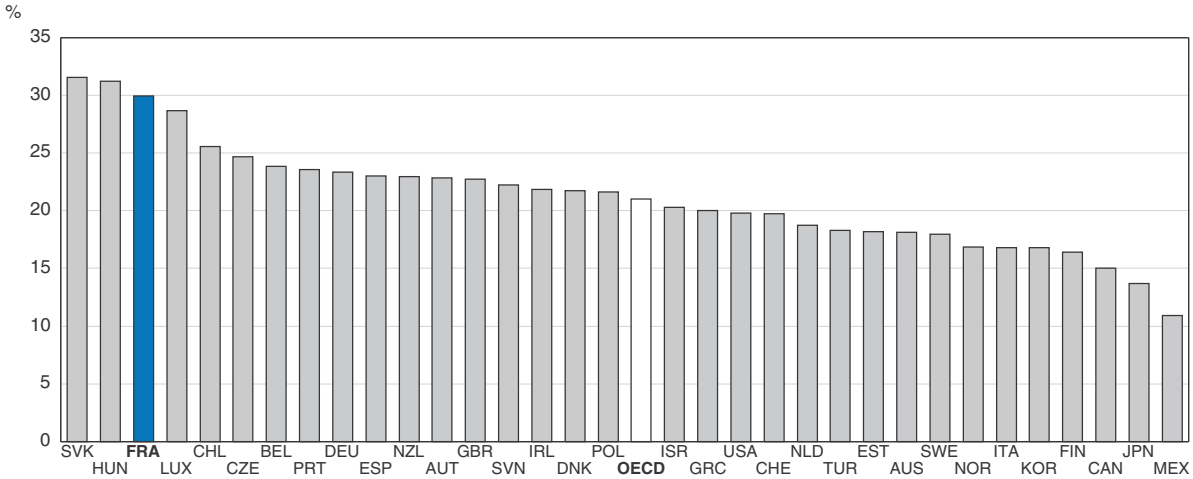
To inspire confidence in its ability to shrink spending and taxes and pursue an ambitious structural reform agenda the authorities should redefine the broad priorities of government and deepen their efforts to simplify the complex set of laws, regulations and procedures that govern economic activity, 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

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*.

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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.

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

Other recommendation

- Adopt an approach to reforms designed to achieve broad acceptance (possibly assisted by the establishment of a new productivity commission or based on an existing institution) through partial recognition of acquired rights, swift implementation of reforms for younger generations, and a mechanism to compensate cohorts who feel themselves badly treated.

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

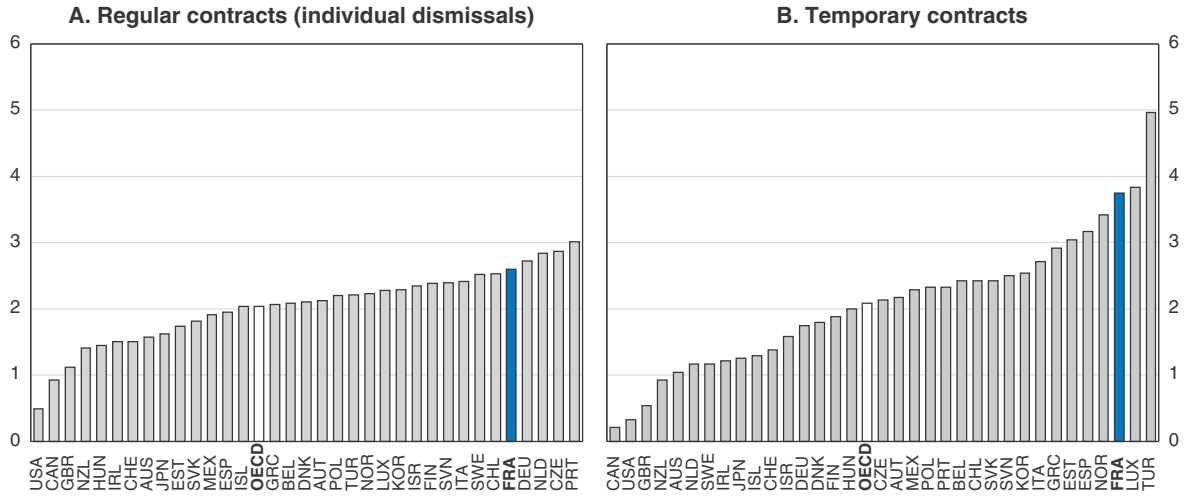
Reforming the French labour market is an essential precondition for any growth and well-being strategy. Reforms under way are many, ranging from the reduction of labour costs through the Competitiveness and Employment Tax Credit (*Crédit d'Impôt pour la Compétitivité et l'Emploi*, CICE) and the RSP, 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.*

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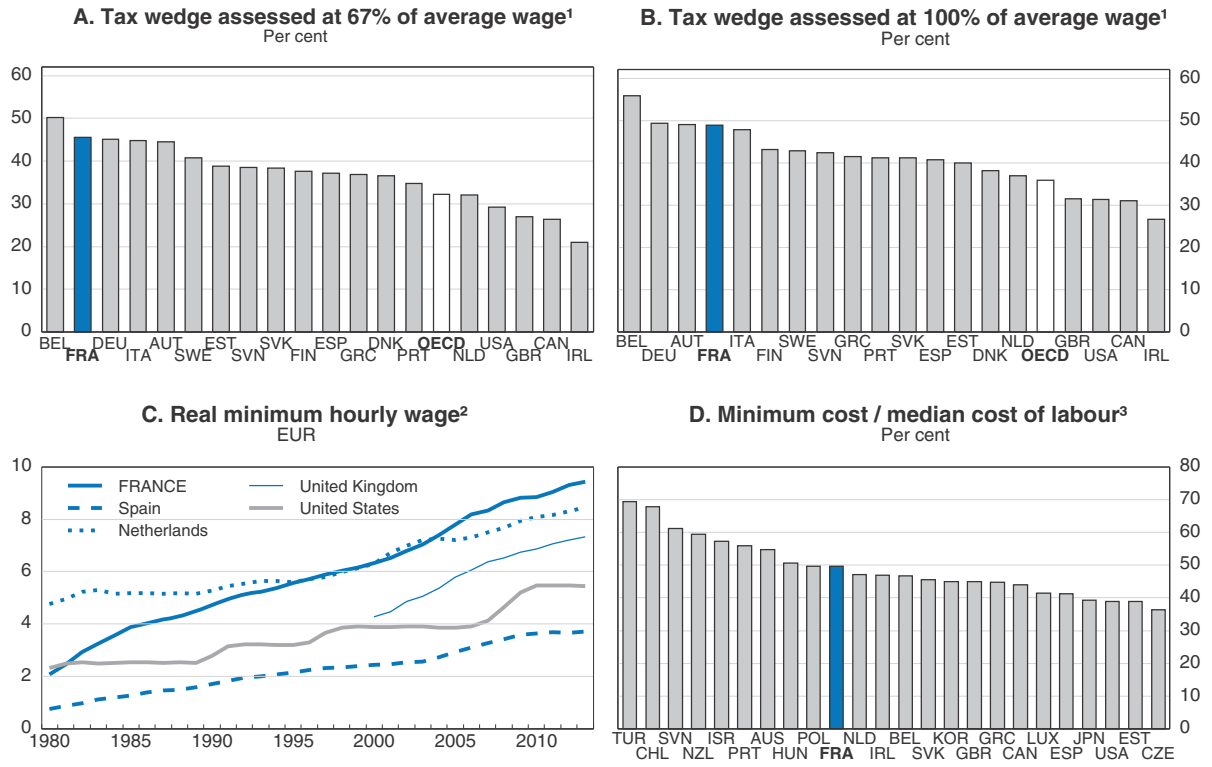
France still has one of the highest tax wedges in the OECD area (Figure 13), except for the very lowest wages. Heavy taxation (Panels A and B) and a high minimum wage (Panel C) tend to depress employment, particularly among young and low skilled workers, and to reduce profitability, even if targeted 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.

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-

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*.

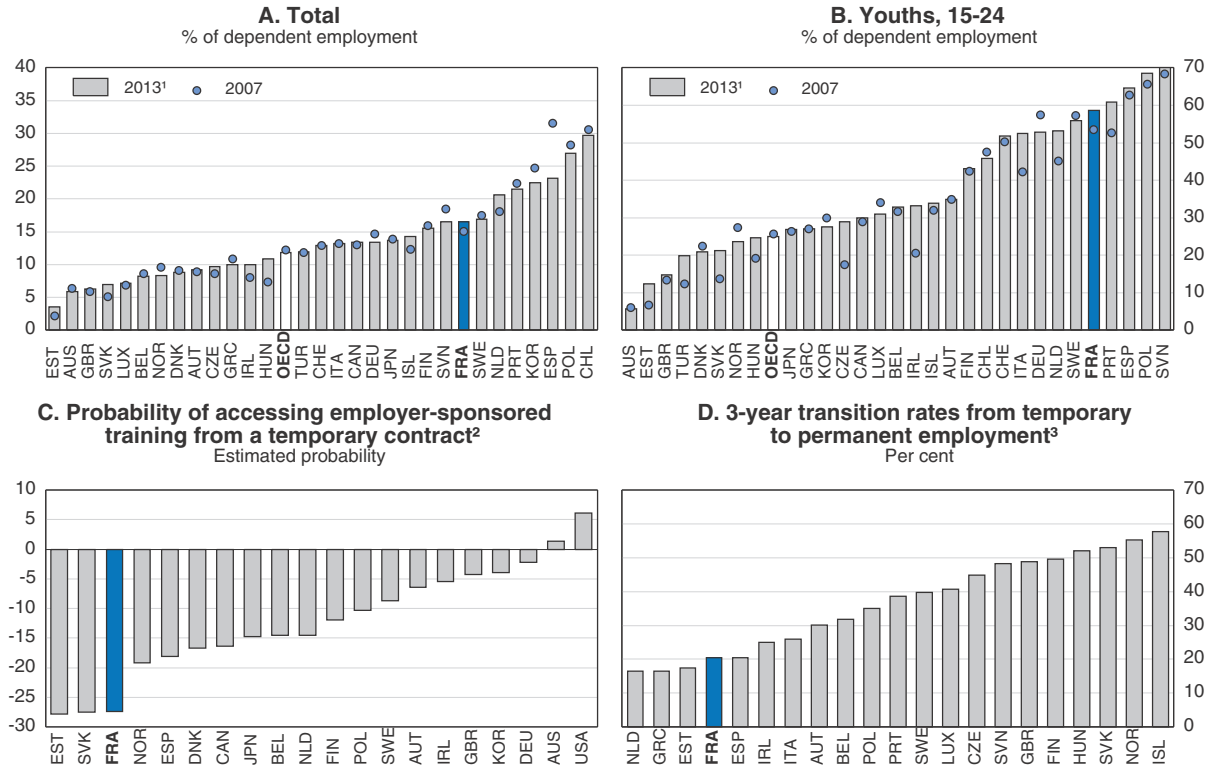
StatLink http://dx.doi.org/10.1787/888933192393

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.

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

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), *OECD Employment Outlook* (Panels C and D).

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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.

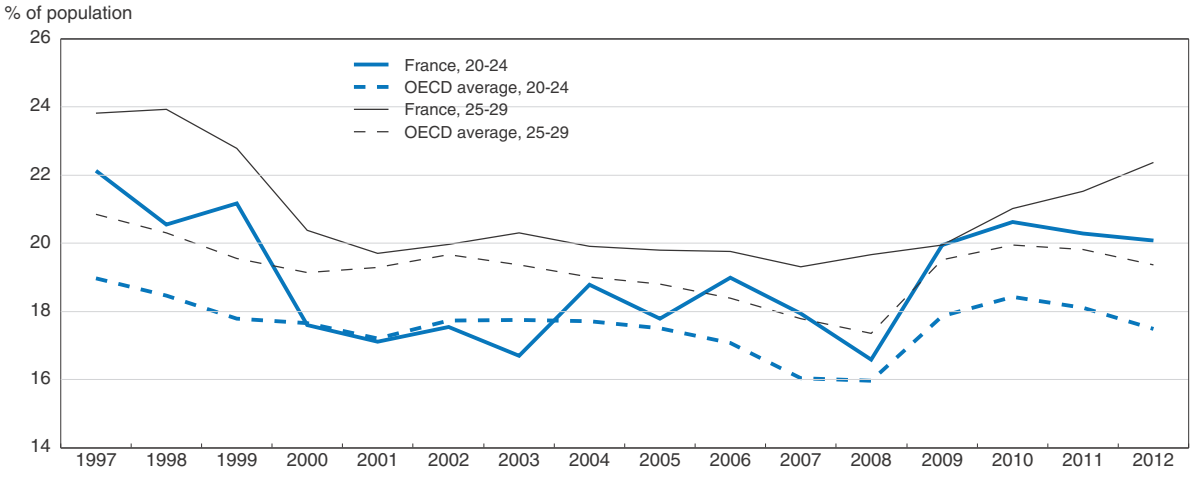
Even though relations between labour unions and employers' organisations seem less confrontational than in the past, they are still perceived as poor by employers (World Economic Forum, 2014). While about 90% of French workers are covered by collective wage agreements, fewer than 8% of employees are 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.

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.*

StatLink http://dx.doi.org/10.1787/888933192418

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.

Recommendations for a job-creating labour market

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).

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

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.

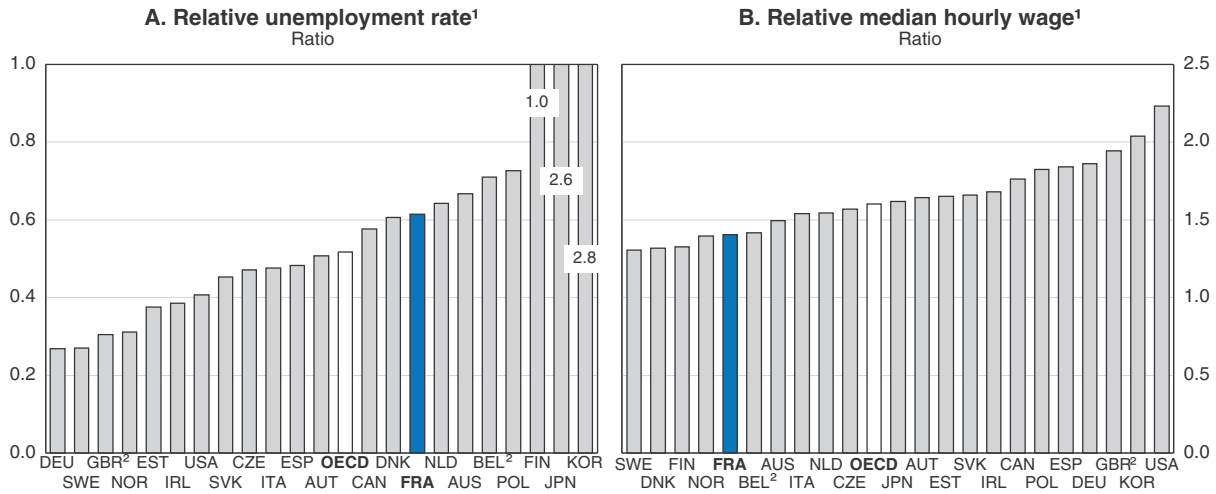
Source: OECD, *Skills Outlook 2013 Database*.

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.

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

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*.

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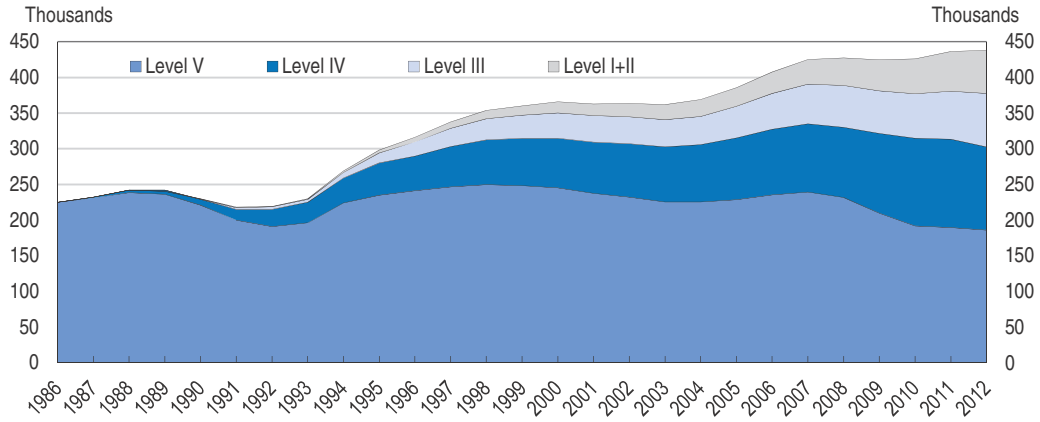
Figure 17. **Number of apprentices at year-end, by level of diploma**[1]



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.

StatLink http://dx.doi.org/10.1787/888933192439

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.

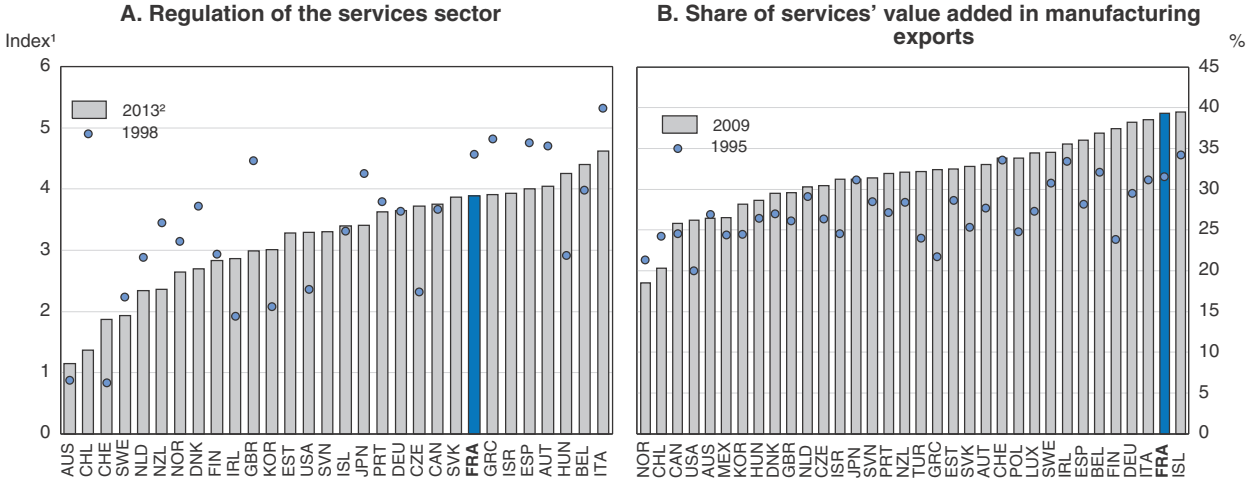
Other recommendations

- 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).

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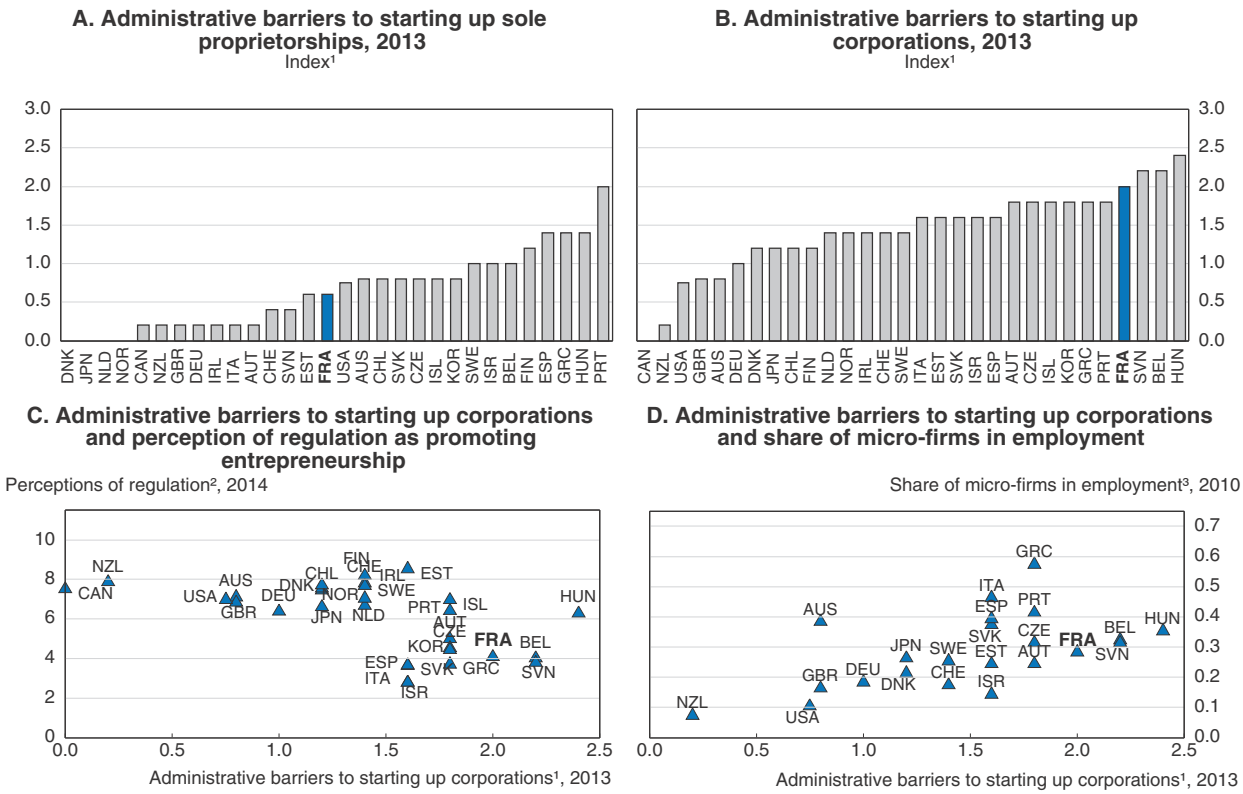
The regulatory framework and the taxation system remain burdensome

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).

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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 anti-competitive 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

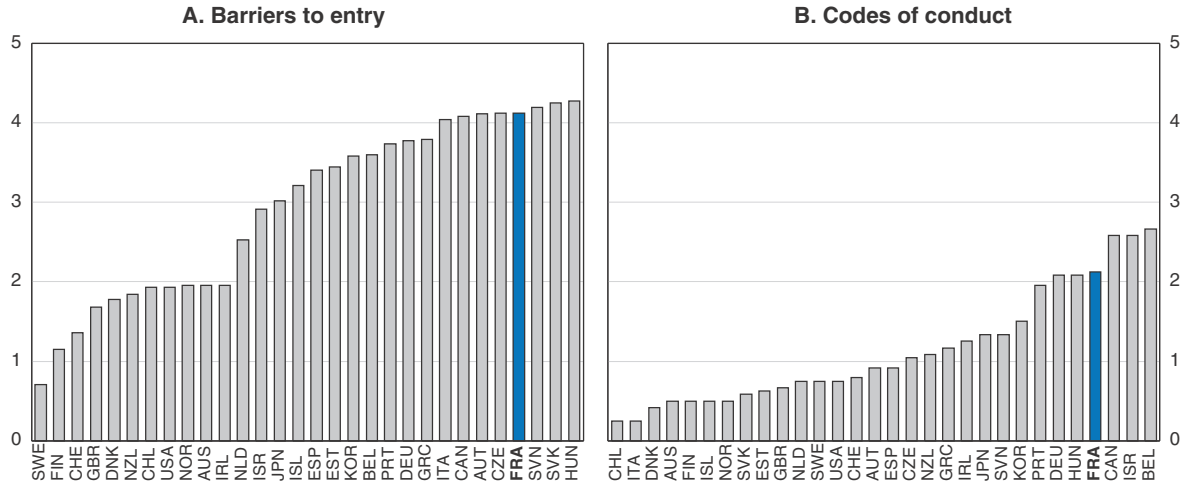
damages has not been amended. The incentive to engage in such proceedings has so far been limited because of uncertainty as to the amount of possible damages. A rapid transposition of the 2014 European directive for antitrust damages would improve fairness, damages and deterrence. At the same time, class-action 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*.

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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

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'activité, 2015). The estimated effects are mostly positive for employment and economic activity, though many improvements remain possible (see Chapter 2).

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

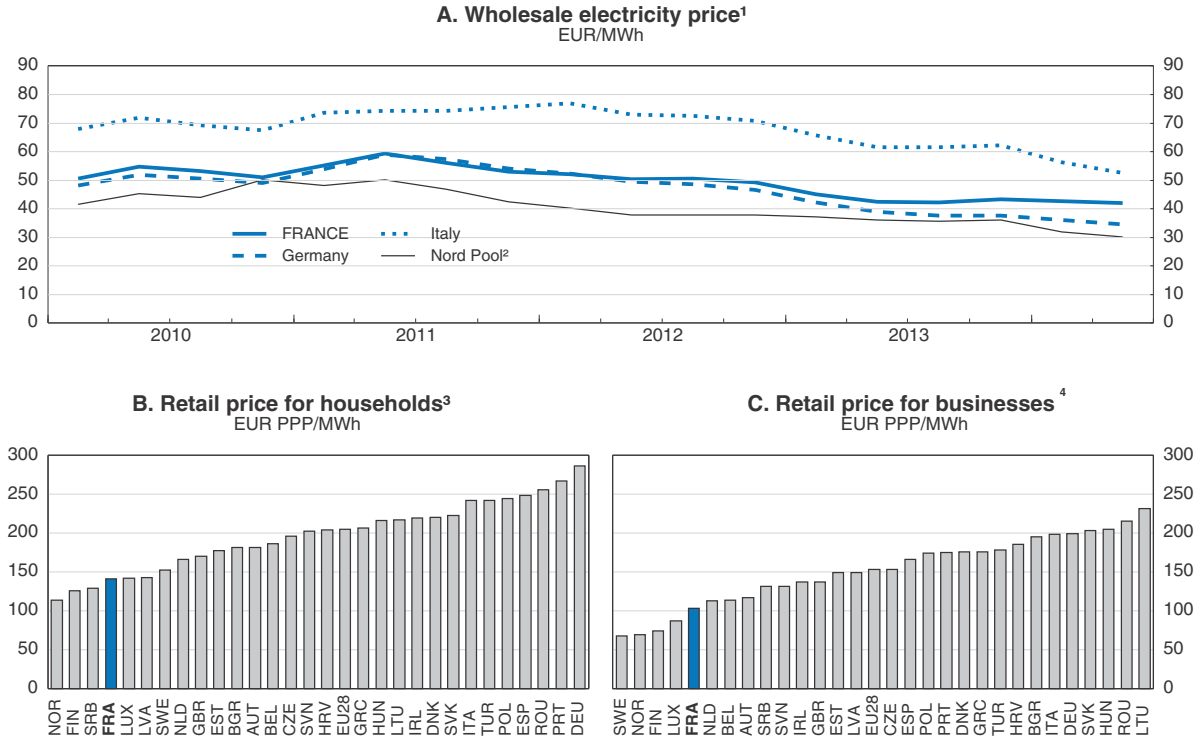
The rules governing the housing sector and its taxation are also too complex. The market should be freed up by reducing transaction taxes, which restrict labour mobility; property taxes should be increased, and the regulations on construction and the procedures for obtaining building permits simplified (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.

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.

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 marchés de l'électricité, du gaz et du* CO_2, fourth quarter 2014 (Panel A). Eurostat (2014), *Energy Price Statistics* (Panels B and C).

StatLink http://dx.doi.org/10.1787/888933192475

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 in 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.

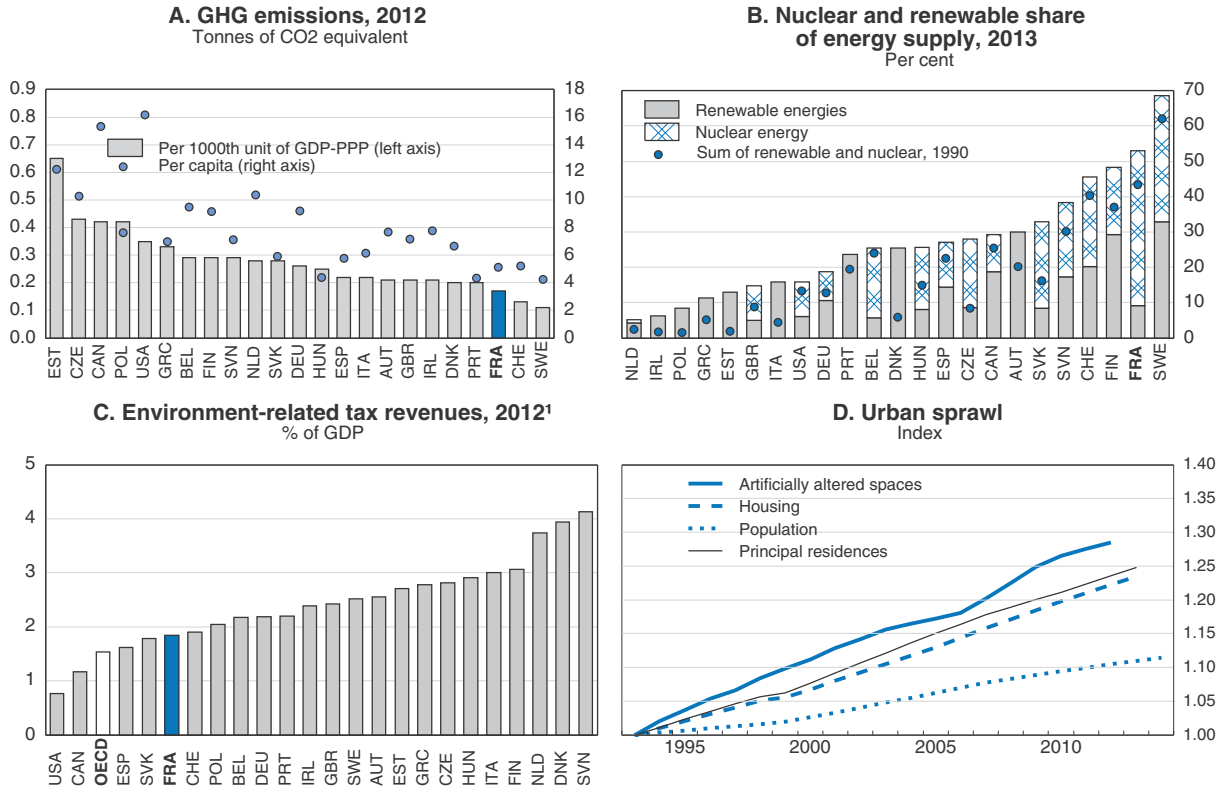
Greening the economy is essential

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.

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.

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).

StatLink http://dx.doi.org/10.1787/888933192487

Recommendation for improving environmental outcomes

Main recommendation

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

Other recommendation

- 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.

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.
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.

Recommendations	Measures taken since the beginning of 2013
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).
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 2015-17 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.
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.

Recommendations	Measures taken since the beginning of 2013
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 2014-17.
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 to qualify 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.
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.

Recommendations	Measures taken since the beginning of 2013
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 (2013-18) 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.

Recommendations	Measures taken since the beginning of 2013
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.
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 *intercommunalités*, 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 *intercommunalités*, 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.
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.

Recommendations	Measures taken since the beginning of 2013
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 2014-24.

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 providesfor the introduction of a further bonus for some new vehicles.
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.

Thematic chapters

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Chapter 1

Vocational training and adult learning for better skills

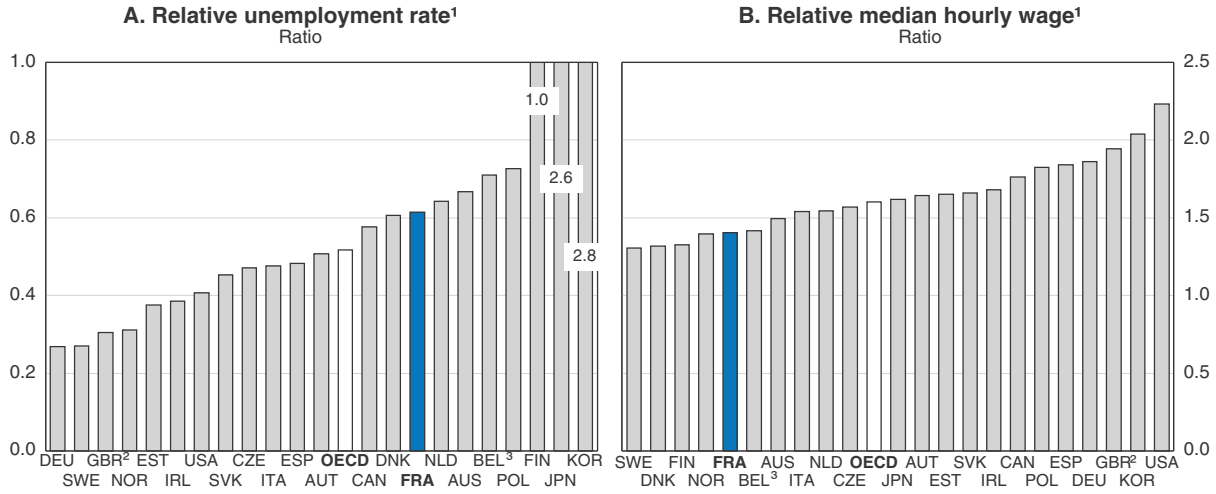
France devotes a great deal of resources to vocational training for youths and especially adults, but the system is unduly complex and yields rather poor returns. The basic literacy and numeracy skills of many French adults remain weak in international comparison, with harmful effects on employment opportunities, 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.

The skills of many French adults are weak

Strengthening the effectiveness of education and training and ensuring more equitable access to it will be important for France to improve the living standards of its population. A recent OECD study testing numeracy, literacy and IT skills of adults across OECD countries (Programme for the International Assessment of Adult Competencies or PIAAC) shows that higher numeracy and literacy scores are associated with a significantly lower risk of unemployment and better earnings for individuals (Figure 1.1). High average numeracy and literacy test scores and the share of top performers are also associated with stronger national economic growth (Hanushek and Woessmann, 2008). Research suggests as well that the skills distribution is an important determinant of income inequality (Nickell, 2004). Therefore, better access to education and training for the low-skilled is a good way to reduce inequality.

Figure 1.1. **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. England and Northern Ireland only.
3. Data refer to Flanders only.

Source: OECD, *Skills Outlook 2013 Database*.

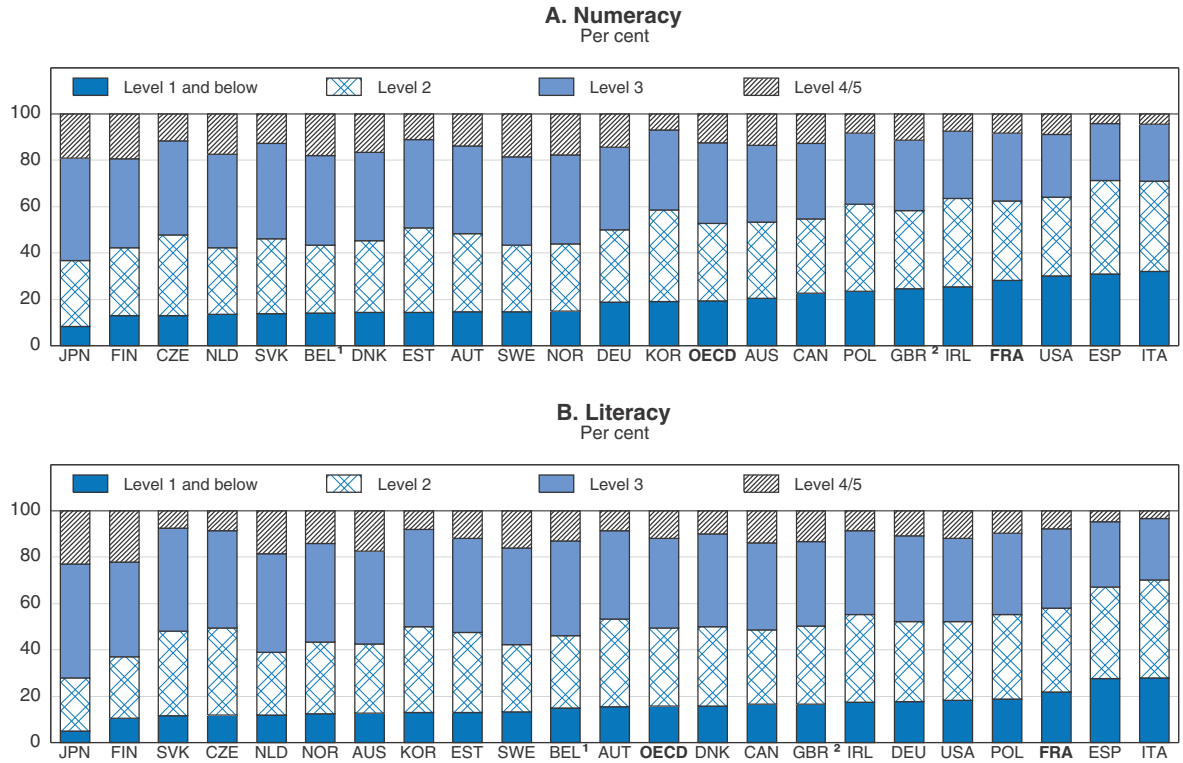
StatLink http://dx.doi.org/10.1787/888933192426

The results of the recent OECD study on adult skills (PIAAC) are a reason for the French government to take action. According to this survey, the share of adults achieving high literacy and numeracy scores (level 4 or 5) is relatively low, while the share of adults with weak scores (level 1 or below), which allow them to understand only simple texts or solve problems of limited complexity, is higher in France than in most OECD countries

(Figure 1.2). Mean scores are particularly low for adults that are over 35, while those for younger French people are a bit closer to the OECD mean (Figure 1.3). This is probably due to a massive improvement in educational attainment, as about 40% of the 55-65 age group in France has not completed upper secondary education, compared to only 14% in the 25-34 age group.

Figure 1.2. **Percentage of adults scoring at each PIAAC proficiency level in numeracy and literacy**

Adults aged 16 to 65 years



1. Data refer to Flanders only.
2. England and Northern Ireland only.

Source: OECD, *Skills Outlook 2013 Database.*

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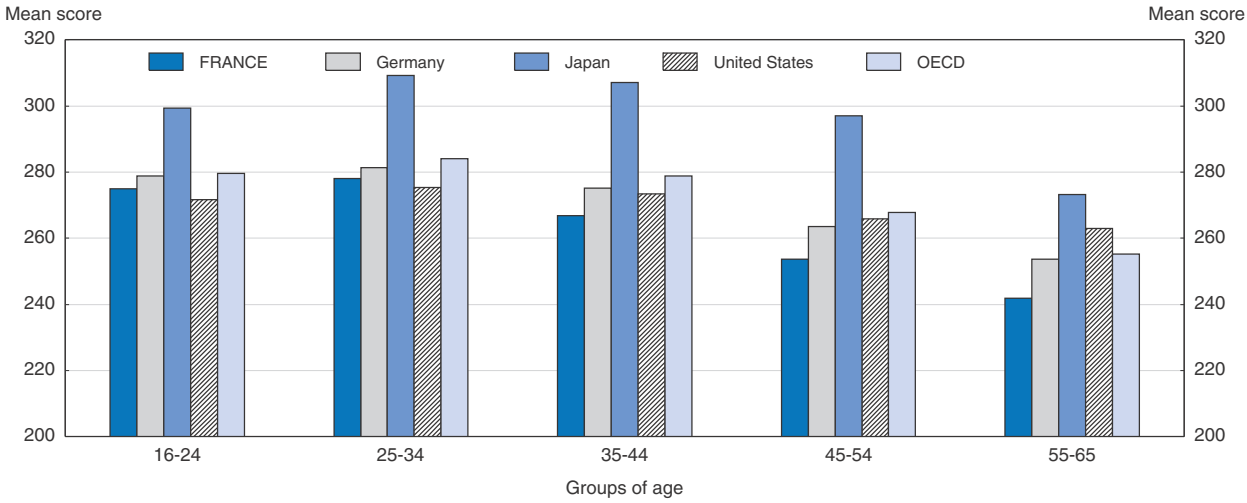
These findings suggest that much more needs to be done for adults to build on their initial education through high-quality adult learning and vocational training. The difference between the mean scores of adults who have completed tertiary education and those that have obtained less than upper secondary education is larger in France than in most other countries (Figure 1.4). This suggests that the quality of basic education needs to improve along with opportunities for adults to attain higher levels of education or enhance their skills in other ways. The impact of socio-economic background on test scores for adults is also particularly strong in France, mirroring similar results for 15 year-old pupils from the OECD Programme for International Student Assessment (PISA) test. Hence, access to high-quality education and training needs to become more equitable. At secondary level it is the vocational stream that receives the weakest students who later struggle to find a job or continue their education. This chapter devotes special attention to this type of school, in addition to continuing vocational education and basic skills training for adults.

Figure 1.3. **Mean PIAAC literacy proficiency scores by main age group**

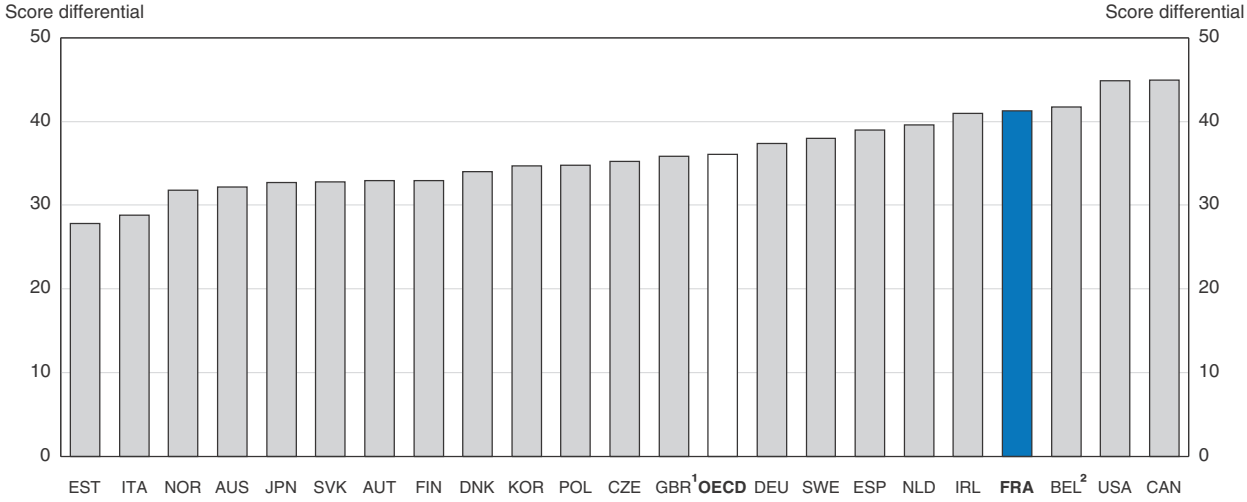


Source: OECD, *Skills Outlook 2013 Database.*

StatLink http://dx.doi.org/10.1787/888933192505

Figure 1.4. **Difference in PIAAC mean score: Adults with tertiary and with less than upper secondary education**

Adults aged 16 to 65 years



1. England and Northern Ireland only.
2. Data refer to Flanders only.

Source: OECD, *Skills Outlook 2013 Database.*

StatLink http://dx.doi.org/10.1787/888933192514

Assessing the benefits of vocational education and training

Many studies suggest that continuing education and vocational training have a positive effect on wages, but its size is difficult to pin down precisely. Brunello (2007) and Leuven (2004) conclude from literature reviews that results vary widely depending on investigated countries, estimation methods and the definition of what constitutes training. In a recent meta-analysis Haelermans and Borghans (2012) find an average wage effect of on-the-job training of 2.6%, but results are subject to considerable heterogeneity. Wage effects tend to be smaller when estimation methods take account of the possibility that

training participants' unobserved characteristics, such as motivation or intelligence, rather than the effects of training may explain their wage progression. Even then, results vary from insignificant (Goux and Maurin, 2000, for France) or very small (Leuven and Osterbeck, 2008, for the Netherlands) to a wage effect of roughly 5% and higher for formal training courses that result in a middle to higher vocational qualifications (Blundell et al., 1999). This heterogeneity is likely due to unobserved variation in training quality, its financing and duration. Much more detailed data would be needed to pin down the wage effects of training with more certainty and determine the characteristics that make for effective training measures.

Training does seem to have positive employment effects, however. For France, Chéron et al. (2010) find that training reduces the probability of changing firms or becoming unemployed, while it increases wages. Blasco et al. (2012) find that the probability of being employed rises with the time spent in training over the past year. OECD (2004) and Bassanini (2006), using data from the European Community Household Panel, find insignificant wage returns for workers who are older or not highly-skilled. Yet, for all groups of workers training has a positive effect on perceived employment security, the probability of participating in the labour force, of finding a permanent job and of being re-employed after a job loss. According to these results it reduces the risk of unemployment and the associated earnings losses. Once this is taken into account, its effects on income may be less ambiguous than suggested by studies that consider employed workers only.

A significant part of the returns to training seems to benefit employers. Studies find positive effects on productivity that are often larger than wage effects (Bartel, 1994; Zwick, 2005), implying that training increases profitability (Ballot et al., 2006; Dearden et al., 2006; Conti, 2005). In fact, Hansson's (2008) overview suggests that employers capture the larger part of the returns to training. Lê (2013) confirms this hypothesis using French data. Taking into account the costs of training, Almeida and Carneiro (2006) conclude that the private returns to training are positive.

At the same time, training is likely subject to positive externalities, which would justify government intervention to avoid underinvestment. Some skills acquired during training may be general rather than specific to the firm. If employees change firms, their new rather than their old employers will capture these benefits, weakening investment incentives. Although training is often found to lower the probability of changing employers, the estimated wage effects of training tend to be higher for job changers (Hansson, 2008), and training sponsored by previous employers has been found to improve productivity and profitability (Bishop, 1994). In addition, there may be learning spillovers associated with training. These are hard to identify, but there is some evidence from wartime shipbuilding that such spillovers were a considerable source of productivity growth in that context (Thornton and Thompson, 2001). Finally, adult learning and training for low-skilled workers and the unemployed, in particular, are likely to yield sizeable societal benefits, as improved basic literacy and numeracy skills have been shown to be associated with a higher likelihood to be in full-time employment, higher income, better health and self-confidence and more active engagement in social and political activities (Bynner and Parsons, 2006). Thus, training could help contain public spending associated with unemployment and health problems and improve social cohesion.

Overall, the literature suggests that it is worthwhile to invest in training, but to gain a better understanding of the effectiveness of different training measures, much more detailed data are needed. Since France spends sizeable amounts of money on initial and continuing vocational training, around 1.5% of GDP every year, and more if school-based vocational education is taken into account, rigorously evaluating training measures seems worthwhile. Yet, a systematic follow-up covering workers who have received training is lacking (Cour des comptes, 2008), and longitudinal data that would allow for a robust evaluation of employment status, wages and productivity developments after training are scarce (CNEFP, 2012). However, the authorities plan to collect better data and to evaluate specific training measures by following up on participants' career and wage progression, their well-being and their firms' economic outcomes. Regional governments, which implement many training measures, would need to transmit standardised data to the National Statistical Office or the Ministry of Employment. The unemployment agency, Pôle emploi, is planning to begin a systematic follow-up of the employment situation of former training participants over up to 9 months and evaluations with more detail on the characteristics of training measures, which is welcome.

Better data would help provide for independent evaluation of training measures, perhaps through a government agency or universities. While several institutions in France conduct evaluations, these suffer not only from limited data, but also, for some of them, from a potential lack of independence. The Conseil National d'Évaluations de la Formation Professionnelle (CNEFP) and a fund that finances training measures for people with weak skills (Fonds Paritaire de Securisation des Parcours Professionnel or FPSPP) both conduct and commission evaluations, mainly focussing on training practices, take-up and the satisfaction of participants, but less on the effects on wages and employment prospects. Moreover, these institutions are managed by social partners, who are deeply involved in financing, intermediating and providing vocational training. Denmark has an independent evaluation agency for the entire education system, including vocational training, a practise that might be worth considering. An alternative would be to make better data available to independent researchers.

Initial vocational education

Outcomes of vocational education at the secondary level

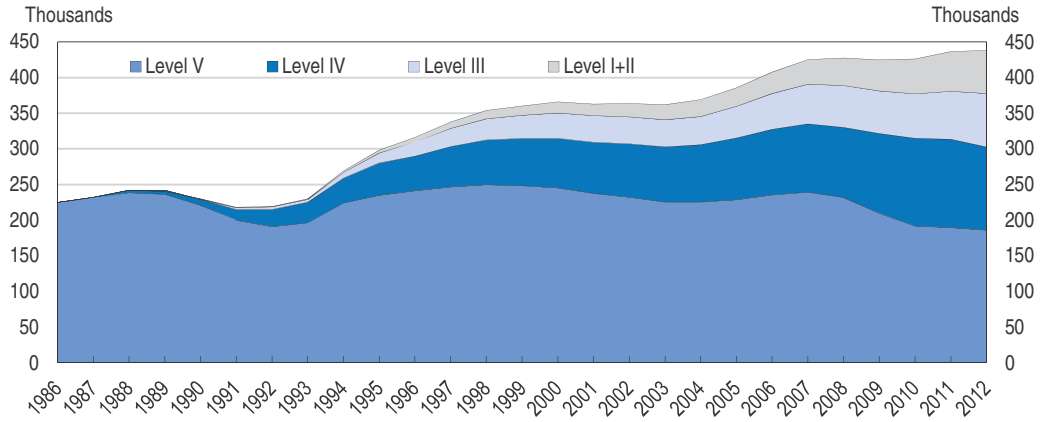
At the secondary level (Box 1.1), vocational education suffers from a serious image problem. The weakest students are oriented to the vocational branch, while better students prefer general or technical *lycées*. Vocational students are frequently from a low socio-economic background, and 80% of them were at least a year behind when they were twelve (Monteil, 2014). This is probably partly at the root of difficulties to engage employers in apprenticeships in spite of numerous subsidy schemes. The number of apprenticeships has expanded over recent years, but the increase is mainly due to students who study for tertiary or at least an upper secondary credential (*baccalauréat*) (Figure 1.5). This has done little to offer opportunities for students aiming for a diploma below the baccalauréat, such as *certificat d'aptitudes professionnelles* (CAP) or *brevet d'études professionnelles* (BEP). In 2012, 75% of young people hired on a *contrat de professionalisation,* an apprenticeship-type contract that is also open for older workers and jobseekers, had at least an upper secondary qualification (DARES, 2014a).

Box 1.1. **Initial vocational training in France**

At the secondary level, students can choose between a general track (*lycées général et technologique*) and vocational training. Vocational training may be school-based (in the *lycées professionnels*) or work-study based (apprenticeship). The latter combines work periods in a company and study in an apprentice training centre (CFA). The government finances and manages the *lycées professionnels*, but apprentice training centres are financed by an apprenticeship tax levied on labour income. Regional chambers of commerce and chambers of handicrafts manage most of the apprentice training centres.

A 2009 reform aimed at better aligning vocational education and other educational training schemes at the secondary level. It allows students to prepare a vocational upper secondary credential (*baccalauréat professionnel*) in three years after the end of lower secondary education, while gaining an intermediate diploma (CAP or BEP). It implements bridges between school-based vocational education and apprenticeships, as well as between vocational and general secondary education. At the same time, it develops individual support for students and new education programmes.

Figure 1.5. **Number of apprentices at year-end, by level of diploma**[1]



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, 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.

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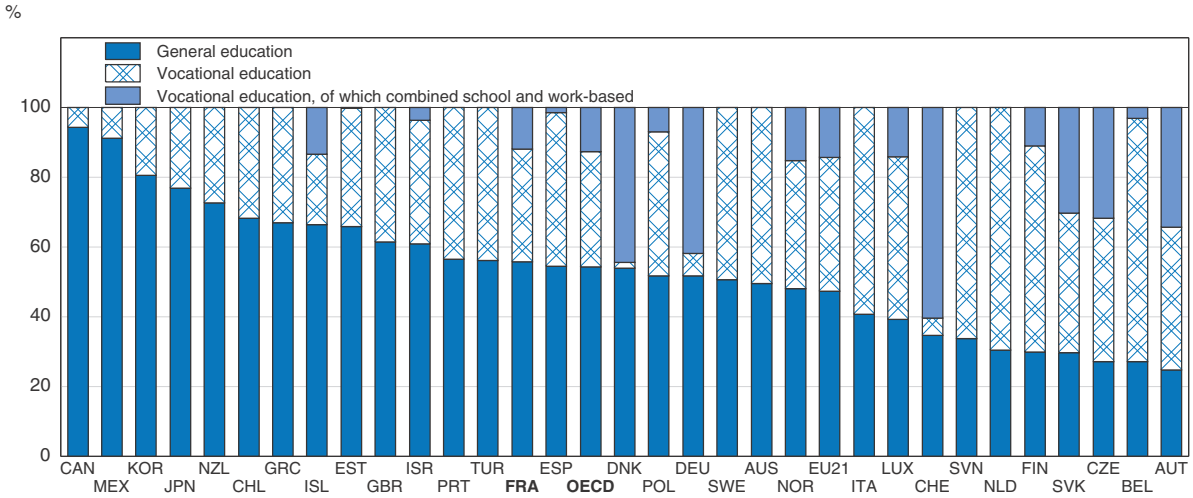
Work-study based apprenticeships offer better employment chances than school-based vocational training, but they are difficult to access. Apprentices combining training in a company and study in an apprentice training centre (*centre de formation d'apprentis* or CFA) account for only roughly a third of vocational students (Figure 1.6). Yet, they have a significantly higher employment rate, around 15% at the *baccalauréat* level, according to Besson (2008a) and almost 30% for graduates of shorter vocational programmes below this level (CAP or BEP; Cours des comptes, 2008). More than 50% of apprentices were hired on an open-ended contract over the 2001-07 period, compared to around 30% of graduates from a vocational *lycée* (Besson, 2008a). This advantage is long-lasting. In a study that looks at all levels of education simultaneously, rather than only the secondary level, Abriac et al. (2009) find that three years after graduation former apprentices with

Figure 1.6. **Distribution of students enrolled in upper secondary education by programme orientation, 2012**

Enrolment rates in public and private institutions



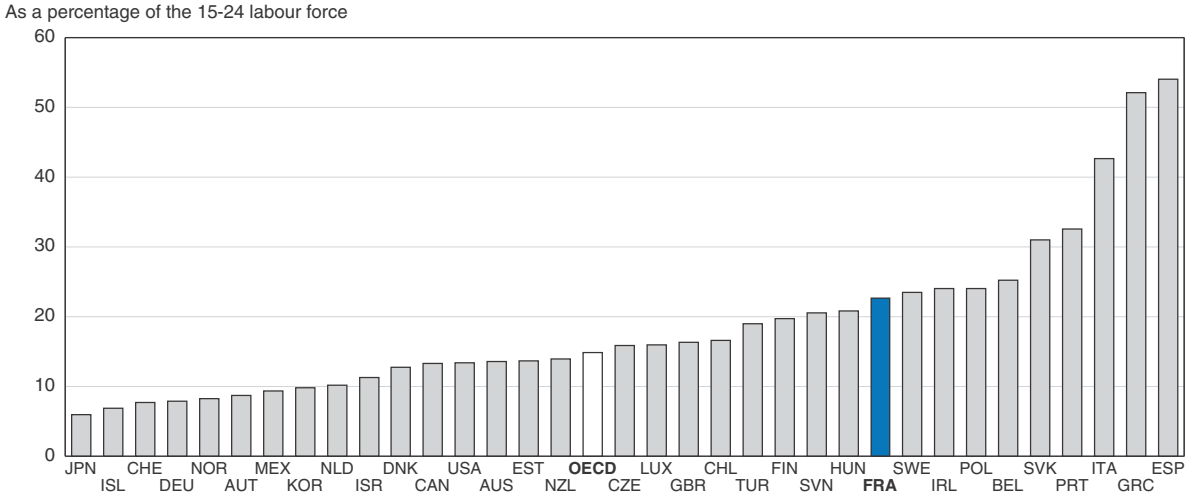
1. Data on students attending pre-vocational programmes, where available, have been aggregated in the vocational category.
Source: OECD, *Education at a Glance 2014 Database*.

StatLink http://dx.doi.org/10.1787/888933192522

otherwise similar characteristics have a 6.5% higher likelihood of being in salaried employment than graduates from programmes without a focus on work experience and a salary that is 3% higher. Companies probably value the practical experience of apprentices, who, spending more time at work, also have better opportunities to develop tighter and more effective networks than vocational *lycée* students. In some countries with a strong tradition of work-study based vocational education, such as Germany, Austria and Switzerland, youth unemployment is significantly lower than in France (Figure 1.7), motivating the French government to promote apprenticeships.

Figure 1.7. **Youth unemployment in OECD countries**

2014-Q3



Source: OECD, *Labour Force Statistics 2014 Database*.

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Overall, labour market opportunities after vocational studies at the secondary level are not good in France, and neither are opportunities to go on to study further. Unemployment rates are markedly higher for graduates of shorter vocational programmes at the secondary level than for graduates of the more advanced *baccalauréat* (Table 1.1). Moreover, vocational secondary programmes have not been resilient to the crisis. Comparing the graduates of 2004 with those of 2010, employment rates have decreased and unemployment rates have increased much more markedly for graduates of vocational secondary programmes than for all other groups with a degree. Moreover, access to tertiary education is poor for graduates from vocational *lycées*, including for vocational programmes, such as short courses in university institutes of technology (IUT) or higher technician sections (STS) in schools, as well as for vocationally oriented three-year university courses (*licence professionnelle*) (Figure 1.8). Yet, in terms of employment opportunities these programmes compare well with both secondary education and general three-year university programmes (*licence générale*), which are much less likely to include work experience. This advantage has persisted during the crisis (Table 1.1). More generally, higher educational attainment improves employment prospects significantly. A new law establishes minimum quotas for graduates with a vocational *baccalauréat* in vocational tertiary studies. However, the pedagogy of these programmes should also focus more on how they fit the skills of vocational *baccalauréat* holders, rather than how these compare with their peers from general *lycées*. At the same time, the quality of education at vocational secondary institutions needs to improve.

Table 1.1. **Labour market outcomes depending on educational attainment**

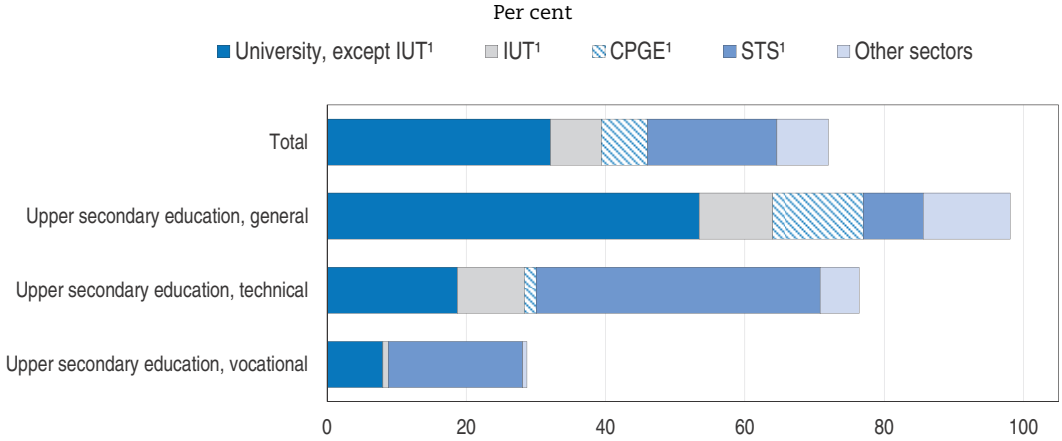
Graduates of 2004 and 2010[1], percentage

	Employment rate		Unemployment rate		With rapid access to employment (less than 3 months)		In employment more than 90% of the time	
Generation of:	2004	2010	2004	2010	2004	2010	2004	2010
All	77	69	14	22	65	62	44	40
Without diploma	57	41	32	48	45	32	23	14
Secondary diploma	74	64	15	25	66	61	42	34
CAP, BEP, MC	76	61	17	32	64	54	42	29
Professional or technological baccalauréat	78	70	13	20	71	67	46	40
General baccalauréat	62	55	15	21	63	59	36	29
Short tertiary degrees	86	81	7	11	74	75	54	52
BTS, DUT; other 2-year programmes	85	79	9	15	70	70	48	45
License professionnelle	91	85	5	10	78	75	59	52
License générale	81	70	8	14	75	70	49	42
Long tertiary degrees	91	88	6	9	69	76	55	59

1. *Certificat d'aptitude professionnelle* (CAP), *brevet d'études professionnelles* (BEP) and *mention complémentaire* (MC) are secondary level programmes at the ISCED 3C level (level V in the French nomenclature); *baccalauréat professionnel, technologique* and *générale* are upper secondary diplomas (ISCED 3 or level IV in Franch nomenclature); *brevet de technicien supérieur* (BTS), *diplôme universitaire de technologie* (DUT) are two-year tertiary programmes at the ISCED 5B level (level III in French nomenclature); *licence* is a three-year university programme at the ISCED 5A level (Niveau II); long university programmes last 5 years or longer, leading to degrees such as *diplôme d'ingénieur, diplôme de commerce* or doctorates (ISCED 6).

Source: Barrett et al. (2014),"Face à la crise, le fossé se creuse entre niveaux de diplôme – enquête 2013 auprès de la génération 2010", *Bref du Céreq*, No. 319, Paris.

Figure 1.8. **Immediate enrolment rate of 2012 graduates in tertiary education**



1. University Institutes of Technology (UIT); Preparatory classes for the Grandes Écoles (CPGE); Sections for higher technical studies (STS).

Source: DEPP, *L'état de l'École*, Édition 2014.

StatLink http://dx.doi.org/10.1787/888933192543

Policies to strengthen the quality and attractiveness of vocational secondary education

It is important that the general education in both branches of initial vocational education – school-based and apprenticeships – be of high quality. With rapid technological change and globalisation, workers are increasingly required to adapt to changes in the workplace. Education offered in vocational education should be more practical, but equivalent in quality and in subject content to that offered in general *lycées*, in particular for core subjects, such as mathematics and French, as should teacher training. At the same time, since the intake in vocational education tends to comprise more students with learning difficulties, ample catch-up opportunities for general knowledge and basic competencies are needed, for example through personalised help and remedial classes. The National Agency to Fight Illiteracy (Agence Nationale de Lutte Contre l'Illettrisme or ANLCI) has run a basic skills training pilot with 50 CFAs. It will be important to roll this programme out more widely, both in other CFAs and in vocational *lycées*. Some countries have had good results from pre-apprenticeships. A variety of such programmes exist in France, such as the *Dispositif d'Initiation aux Métiers en Alternance* (DIMA), but they may have to be developed further and diffused more widely (IGAS, 2014). Some good examples have been developed in the regions (Box 1.2).

Better linking practical and theoretical education will be important. First, better prospects and compensation for teachers with practical experience are needed to attract them to vocational *lycées*, in particular, but also to CFAs. In both branches, unlike in other OECD countries, teachers who combine teaching and work in an enterprise are rare (OECD, 2010) due to a lack of flexibility in the teaching load, which is typically negotiated at a weekly rather than an annual basis. Another issue is that career prospects and pay for part-time teachers on a civil law contract do not match those for civil servants in France, who dominate in vocational *lycées*, but have only few opportunities to upgrade their practical skills through continuing education and training, such as internships in firms (Cour des comptes, 2008). At the same time, teachers with professional experience and up-to-date technological knowledge are valuable in vocational training, because they can

Box 1.2. **Pre-apprenticeship programmes in Languedoc-Roussillon**

- **Second-chance schools (*école de deuxième chance* or E2C)** set up by the region are part of a national network of more than 100 such schools in 2013 with more than 14 000 students under 25 who have left school without a diploma. These schools offer training in basic and social skills, along with personalised support to regain motivation and develop a career plan through a work-study experience. A bit less than 60% of those who leave the programme find a job or a training opportunity or return to school.
- **Regional apprenticeship schools (*écoles régionales d'apprentissage*)** offer a twelve-week programme set up jointly with CFAs to help young people under 26 develop an interest in trades accessible through apprenticeships and to find an employer.
- **CAP Métiers d'Avenir** is a programme for jobseekers without qualifications who can try out several professions through a series of internships over a year. They can also consolidate their basic skills and receive individual help to develop a career plan. Several training providers have teamed up to offer a wide range of internships, and they have jointly developed pedagogical support. In 2013, 75% of programme graduates found a job or a training measure, an impressive result.

transmit knowledge that will be useful in the workplace. Flexible entry into teaching for professionals from other fields has proven successful in many OECD countries, provided this is accompanied with adequate pedagogical training (OECD, 2010).

Pedagogical training and supervision of teaching staff in vocational *lycées*, CFAs and at the workplace could be strengthened. Research shows that it is important to have dedicated trainers for apprentices at their workplace and that these are more effective when they have obtained pedagogical training (OECD, 2010). Workplace trainers (*maîtres d'apprentissage)* are mandatory for apprenticeships and for internships of students from vocational *lycées (tuteurs)*, but not for other work-study programmes. While some regions and branches require pedagogical training for *maîtres d'apprentissage*, the requirement is not systematic across the country. Encouraging social partners to negotiate guidelines for the pedagogical training of workplace trainers, along with salary bonuses or better career options as an incentive to take up this task would be helpful. Another useful measure would be to strengthen the role of the central government-led pedagogical supervisory agency for vocational education (*Service académique de l'inspection de l'apprentissage* or SAIA) in supporting and controlling both the staff of vocational *lycées* or CFAs and tutors in firms (IGAS, 2014). A number of countries have had good results from establishing closer links between teaching staff in vocational schools and workplace trainers, for example by allowing the teaching staff to shadow the trainer's work for some time (OECD, 2010), which is rare in France.

One way to promote apprenticeships would be to strengthen their role in the public sector, which currently provides less than 3% of all apprenticeship contracts. Access to most permanent public-sector jobs requires participation in a competition, and as a result apprenticeships have not become an independent route into public-sector employment for jobs that require more advanced qualifications. It would be worthwhile to review this system. Apprentices are considered a full employee in most public bodies, which requires them to cut another post if they want to take on an apprentice. More flexibility would be helpful. The French government is setting up a framework to develop apprenticeship in the public sector which would become operational in September 2015.

Incentives for vocational schools to engage in apprenticeships and other forms of more intense work experience need to be strengthened. While public vocational schools have had the possibility of developing apprenticeship programmes for some time, for example by establishing a CFA, this remains a marginal phenomenon. One issue is that engagement in apprenticeships is not properly recognised when it comes to assigning resources to schools. For example, apprentices are not taken into account for the assignment of administrative staff, and engagement in apprenticeships has no impact on the careers of principals and teachers (IGAS, 2014). Conversely, some regions oppose the establishment of apprenticeships at vocational *lycées*, because they would then have to devote a part of their apprenticeship tax revenues to such institutions, otherwise financed by the central government. Moreover, the number of students that are oriented to the general or technical *lycée* branch is implicitly seen as a sign of quality for the principals of lower secondary schools or *collèges* (IGAS, 2014). This needs to change. The guidance counsellors and psychologists who orient pupils at the lower secondary level, as well as students and parents, need to be better informed about the relatively good employment opportunities that apprenticeships can offer. *Campus des métiers et des qualifications* establishments that combine apprenticeship and school-based training at different educational levels, allowing students to switch, have proved successful and could be extended.

Continuing education and training for adults

Access to professional training and obstacles

Several past reforms of professional education and training aimed at addressing weaknesses in access for low-skilled workers and the unemployed. As in many other countries, access to such upskilling measures in France is easier for higher-income workers with a more advanced initial education (Box 1.3). Data from 2012 suggest that the share of workers with a tertiary degree who participate in training (67%) is much higher than the share of those without an upper secondary degree (26%). Employees with management responsibilities are more likely to participate in training (68%) than manual workers (36%) and employed persons (60%) than the unemployed (40%). For informal training courses participation rates are rather stable until the age of 44 (57%) and then start to drop, particularly strongly so for adults beyond 55 to 33% (Gossiaux and Pommier, 2013). It should be noted that there is no evidence to suggest that training has a lower short-run return for low-skilled or older workers (Hansson, 2008; Fouarge et al., 2013), so there is no economic reason for this phenomenon.

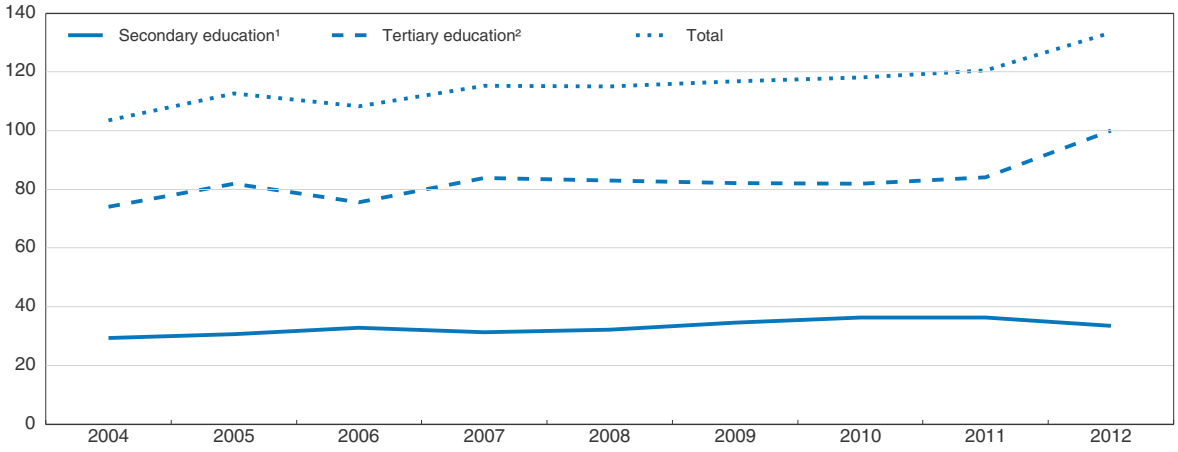
Box 1.3. **Lifelong professional training**

Lifelong professional training is mainly financed by a mandatory contribution of firms levied on the wage bill. This contribution is earmarked for different training schemes (see Box 1.4) that employees can access under specific conditions. The social partners manage several bodies that are in charge of collecting the financial contributions of firms. These bodies also advise firms and workers on their training choices. The public unemployment agency (Pôle emploi) finances and organises the training schemes for the unemployed.

The share of training measures that lead to a higher qualification is comparatively low in France. About 8% of the 30-69 age group has attained a qualification above the lower secondary level after interrupting studies for two or more years, and the number of formal qualifications attained through continuing education has increased markedly in recent years (Figure 1.9). On average in OECD countries, the share of 25-29 year-olds without a secondary school diploma who take part in vocational training or education is 7%, compared to only 1% in France, and more than 10% in Germany, Denmark, Finland, Iceland, the Netherlands, Portugal, Slovenia and Sweden (OECD, 2013d). While access to continuing vocational training in general is comparatively high in France, the access rate to formal training is relatively low (Figure 1.10).

Figure 1.9. **Qualifications attained through continuing education**

Thousands



1. Refers to the following qualifications: *Certificat d'aptitude professionnelle* (CAP), *Brevet d'études professionnelles* (BEP), *Mentions complémentaires* (MC), *brevets professionnels et de technicien* and *baccalauréat*.
2. Refers to three different categories: i. *Brevets de technicien supérieur* (BTS) ii. National degrees issued by the Ministry of education and iii. Degrees issued by universities and eventually recognised by the Ministry of education.

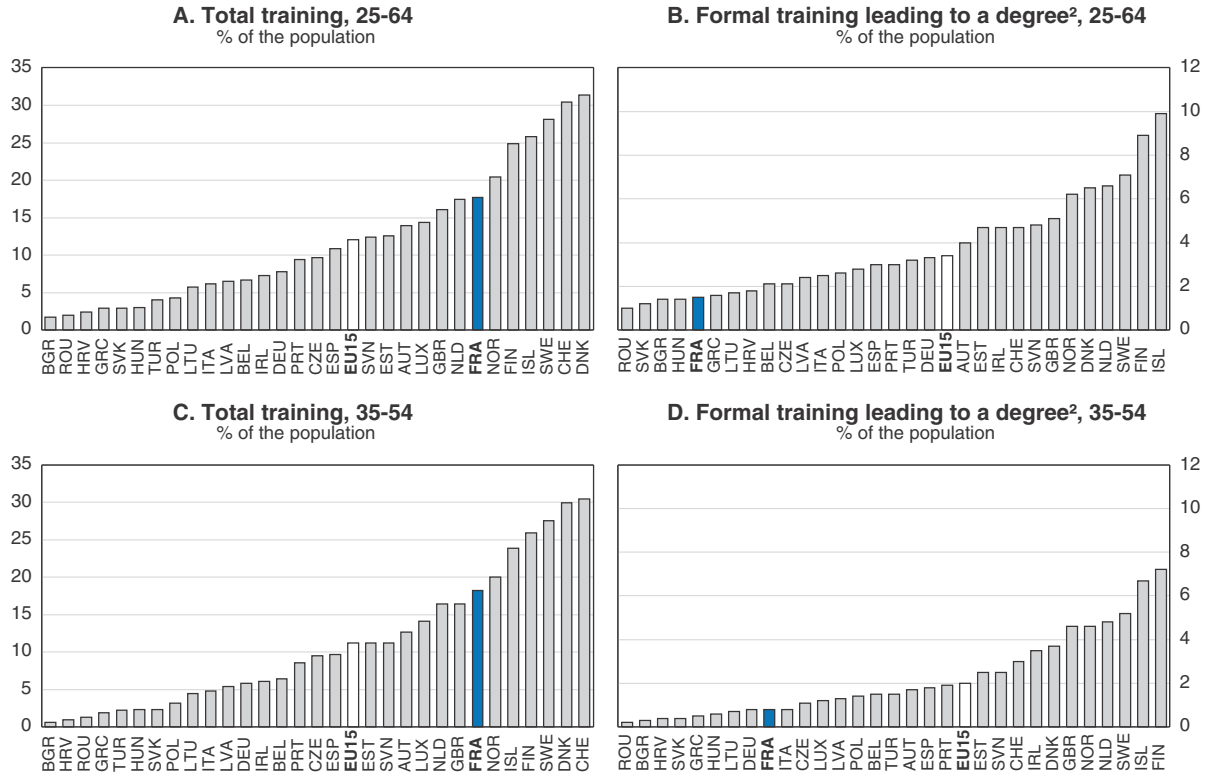
Source: Direction de l'évaluation, de la prospective et de la performance (DEPP).

StatLink http://dx.doi.org/10.1787/888933192551

Education is an important determinant of employment opportunities, and for both efficiency and equity reasons second chances are needed for those who did not get far with their initial education. Each year around 16% of school leavers have obtained at most a lower secondary certificate upon leaving school (Le Rhun and Dubois, 2013). Integration into the labour market is particularly difficult for these young people. According to OECD (2013a) 72% of young people under 20 who left school without a diploma were unemployed or inactive, compared to 57% on average in OECD countries. Yet, formal educational attainment remains important for labour market outcomes throughout one's working life, as employment rates increase with educational attainment, while unemployment rates decrease (Figure 1.11).

The involvement of employees in choosing and financing training is weak. More than 80% of employees and manual workers participate in training only following their employers' initiative and less than 20% have chosen their course themselves, compared to close to 40% of employees with higher qualifications and management responsibilities (Gossiaux and Pommier, 2013; see also Trautmann, 2004). Only 3% of employees contribute

Figure 1.10. **Participation rate in lifelong learning and training, 2013**[1]



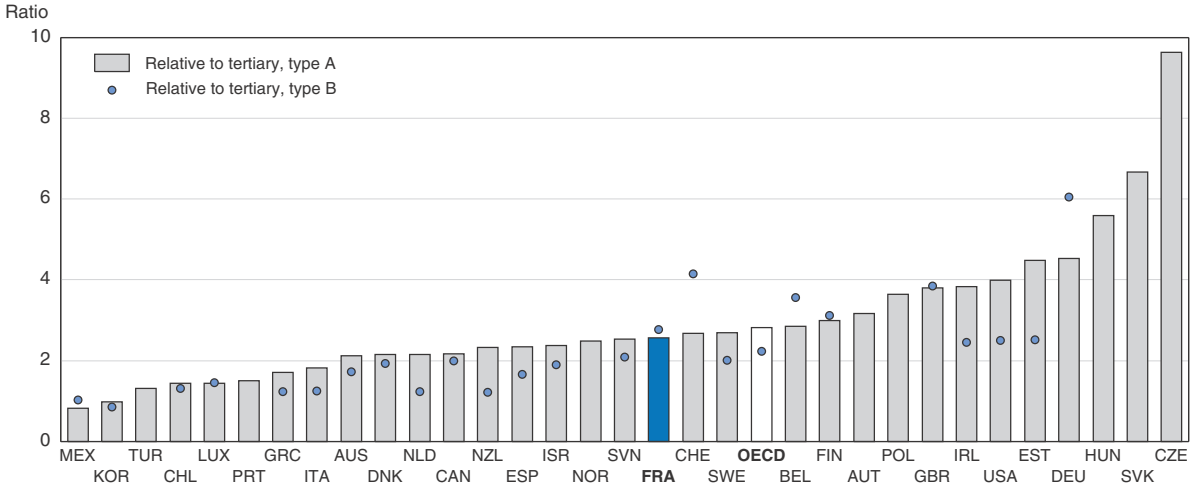
1. Data refer to the share of 25 to 64 and 35 to 54 year-olds who were in education or training in the 4 weeks prior to the survey.
2. Formal training is defined as education provided in the system of schools, colleges, universities and other formal educational institutions that normally constitutes a continuous ladder of full-time education for children and young people. Courses usually end with a formal qualification.

Source: Eurostat.

StatLink http://dx.doi.org/10.1787/888933192566

Figure 1.11. **Relative unemployment rate of individuals with lower secondary versus a tertiary degree, 2012**

25-64 years old



Source: OECD, *Education at a Glance 2014 Database*.

StatLink http://dx.doi.org/10.1787/888933192571

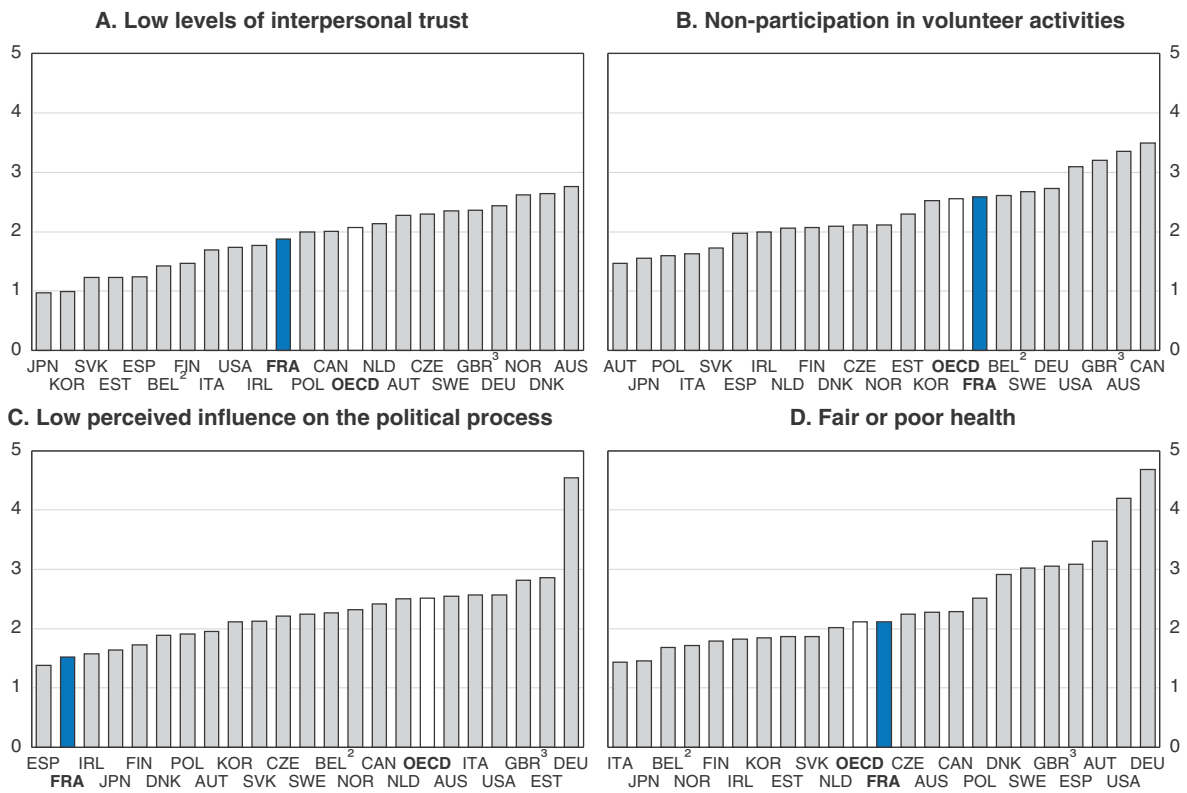
to the costs of their training courses, compared to 18% of the unemployed. Overall, households finance only 4% of total training expenses in France, compared to 16% in the United Kingdom and 35% in Germany (Cahuc et al., 2011). Yet, financing can constitute a barrier, in particular for jobseekers. While only 8% of the population in general claim that costs are an obstacle to participate in training, 20% of the unemployed say that this has prevented them from accessing training (Gossiaux and Pommier, 2013).

Opportunities for French adults to upgrade basic skills

A large number of adults in France have problems with basic literacy and numeracy skills. In numeracy 28% of French adults scored at the lowest proficiency level in the PIAAC test, and in literacy this share was just above 20%, with only Italy and Spain showing weaker results (see Figure 1.2). Based on a different methodology, which considers more dimensions of literacy and relies less on computer skills, a national study categorised a lower percentage of French adults, 16%, as having difficulties, while 11% have serious

Figure 1.12. **Literacy proficiency and social outcomes**

Relative likelihood of adults with low *versus* high PIAAC scores reporting a poor social outcome (odds ratio)[1]



1. Odds ratios are adjusted for age, gender, educational attainment and immigrant and language background; the reference group is adults with literacy proficiency levels of 4 or 5. Panel D. should be interpreted as follows: A French adult with literacy proficiency 1 or below is more than twice as likely as an adult at proficiency levels 4 or 5 to report poor health. For Panels A and C, the PIAAC survey questions ask respondents, respectively, to what extent they agree or disagree with the 2 following statements: "There are only a few people you can trust completely" and "People like me don't have any say about what the government does". Panel B is constructed based on respondents' self-assessment as to how often they participated in associative or volunteer activities in the last 12 months, while Panel D relies on their self-assessed health status.
2. Data refer to Flanders only
3. England and Northern Ireland only.

Source: OECD, *Skills Outlook 2013 Database*.

StatLink http://dx.doi.org/10.1787/888933192589

literacy problems (Jonas et al., 2013). Among those who went to school in France 7% are classified as illiterate (ANLCI, 2013). Roughly half of this group are employed, implying that many have developed effective strategies to cope with their daily routines.

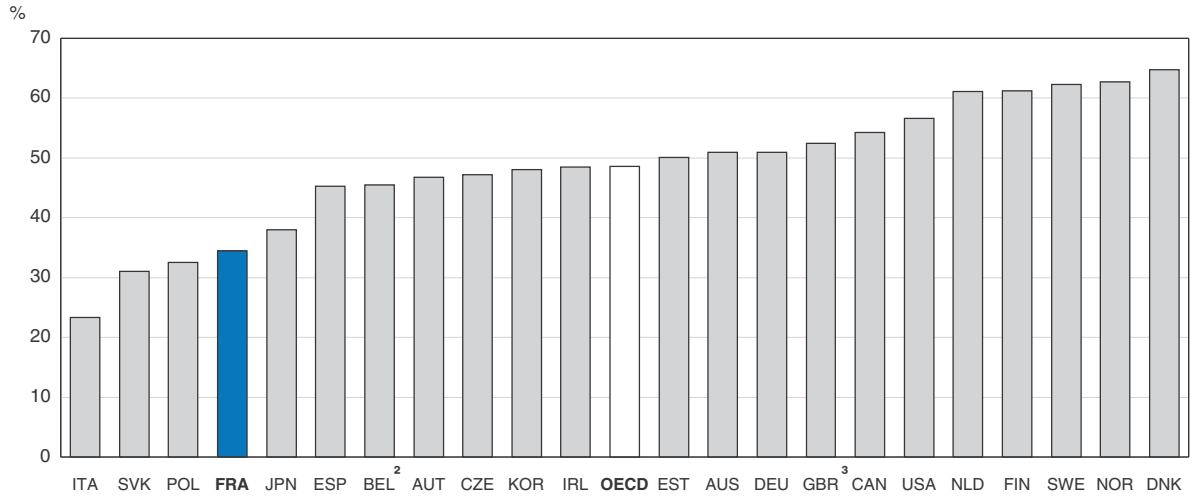
Low literacy and numeracy skills are associated with negative effects on well-being, employment opportunities and wages. The incidence of mental and physical health problems is higher among individuals with low skills (Bynner and Parsons, 1996). Moreover, their self-assessed health is relatively poor (Figure 1.12). They have low trust in others and are less likely to participate in political or social activities than higher-skilled individuals. Although these gaps are smaller in France than elsewhere in the OECD, they are still large. The incidence of separation and divorce as well as of unemployment is higher among people with low skills, and they are also less likely to engage in continuing education and training (OECD, 2013b; Bynner and Parsons, 1997; Figure 1.12). Low literacy and numeracy scores are also associated with lower employment rates and wages (McIntosh and Vignoles, 2001; Vignoles et al., 2011; see also Figure 1.1). At the same time, improving literacy and numeracy skills over time is associated with better economic and social outcomes, such as a higher likelihood of full-time employment, higher income, better health and self-confidence and more active engagement in social and political activities (Bynner and Parsons, 2006). US and Australian data suggest that training interventions for low-skilled individuals can lead to higher earnings (Gleeson, 2005). While cause and effect are not always clear, these results imply that policy action is needed to help people with basic skills deficiencies to improve both their skills and their well-being.

The French government has made the fight against illiteracy a priority and declared it a "*grande cause nationale*" in 2013. This label gives non-profit organisations free air time on public radio and television to seek donations for their campaigns against illiteracy. Adult literacy programmes have been considered as professional training since the mid-2000s, significantly increasing the funds available for it. The government, jointly with the European Union, launched a programme in 2009 to acquire basic competencies as part of the European key competencies framework, and around 50 000 people participated in 2011 (DARES, 2013a). That said, PIAAC data suggests that access to training measures in France is not as good as in other countries for adults with relatively weak skills (Figure 1.13).

Special efforts are required to reach those in need of basic skills training. Research shows that only a fraction of people with poor results in literacy and numeracy tests report that they have problems with reading, writing or calculating, but those who do are much more likely to state a willingness to improve their skills (Bynner and Parsons, 2006). People with low confidence in their ability to learn are less likely to take up training offers, but if they do, they progress as fast as others (Wolf, 2008). Helping people to deal with the stigma associated with weak skills and promoting self-awareness will be necessary, as well as providing training opportunities with low entry thresholds. Many countries have engaged in media campaigns to raise awareness about weak literacy and basic skills training, and some offer free advice by telephone (UNESCO, 2012). The French ANLCI launched a one-week information campaign in September 2014 to raise awareness about illiteracy and special programmes try to reach parents at school or employees at work. The 2014 vocational training reform foresees a new guidance service for workers and jobseekers. It will be important to train counselling staff, so that they can identify people with basic skills deficiencies and direct them to the right training.

Figure 1.13. **Share of adults who participated in adult education and training**[1]

At level 3 and below of literacy proficiency



1. During the year prior to the survey.
2. Data refer to Flanders only.
3. England and Northern Ireland only.

Source: OECD, *Skills Outlook 2013 Database*.

StatLink http://dx.doi.org/10.1787/888933192595

Family or intergenerational literacy programmes, where children and parents develop their literacy skills together, show good results. Adults often cite their inability to help their children with their homework as a motivation to enter a literacy programme. Such programmes can also be useful, because poor literacy skills can be transmitted between generations (Bynner and Parsons, 2006). Well-designed programmes have been shown to promote child literacy, parents' capacity to support them and their motivation to engage in further training. Some studies suggest that results are better than those of other programmes (Kruidenier et al., 2010; Carpentieri et al., 2011). In France the *Actions éducatives familiales* helped improve parents' engagement with their children's school (Carpentieri et al., 2011). The ANLCI developed guidelines jointly with the Ministry for Education to help teachers to put parents with low literacy levels at ease, avoiding, for example, having interactions that require an ability to read and write, and to gain their confidence. Ultimately, this is meant to help direct them towards suitable training courses.

Workplace-based programmes can improve participants' well-being and help tackle illiteracy, provided they lead to changes in participants' literacy practices or engagement in further training. Well-planned and executed workplace courses can have a positive impact on workers' skills and workplace practices (Bensemann, 2012; Finlay et al., 2007; Hollenbeck and Timmeny, 2008). Basic skills training at work has a positive effect on participants' self-esteem and on their willingness to engage in further training or in more active reading habits (Wolf and Evans, 2009; Projektträger im Deutschen Zentrum für Luft- und Raumfahrt, 2012). Yet, it is unreasonable to expect immediate economic benefits. In fact, evaluations of the workplace component of the "Skills for Life" strategy in the United Kingdom showed that employers were primarily interested in improving their workers' morale, not business results. Most interventions were too short-lived to yield sizeable gains in literacy performance or employment (Wolf and Evans, 2009; Meadows and Metcalf, 2008). To achieve this, interventions need to be longer-lasting and conditions to be created for participants to

use literacy and numeracy more actively at work or in their private lives (Wolf, 2008). In France, the ANLCI has signed agreements with trade unions and business associations in several sectors to promote basic skills training at the workplace.

Basic skills trainers need to be well prepared for the specific needs of their adult clients, who typically have a long history of struggling. They need to be treated like adults, and learning material adapted to the context in which they live seems to be particularly effective. Teachers perform better when they have received special training, but, given their low pay, it is often difficult to recruit high-performing staff (Perkins, 2009: Kruidener et al., 2011; Condelli and Wrigley, 2008, UNESCO, 2012; EU High Level Group of Experts on Literacy, 2012). Instead, this area depends a lot on volunteers (Looney, 2008). In France, integrating basic skills programmes into continuing vocational training and its financing schemes has helped to increase the remuneration of basic skills trainers and attract more professional staff, but greater efforts would help. The criteria for accessing training schemes newly created by the 2014 reform are now being defined. It will be important to ensure they can provide financing for basic skills training.

A number of good practices for basic skills training have been developed in France (see Michel and Maroun, 2008). The ANLCI regularly evaluates programmes together with teachers, reflecting on what worked and what did not. Conclusions are presented in workshops for other providers to publicise good practices and share experiences, and this seems to be very useful. The government could also consider sponsoring research evaluating different teaching practices and continuing training for basic skills teachers.

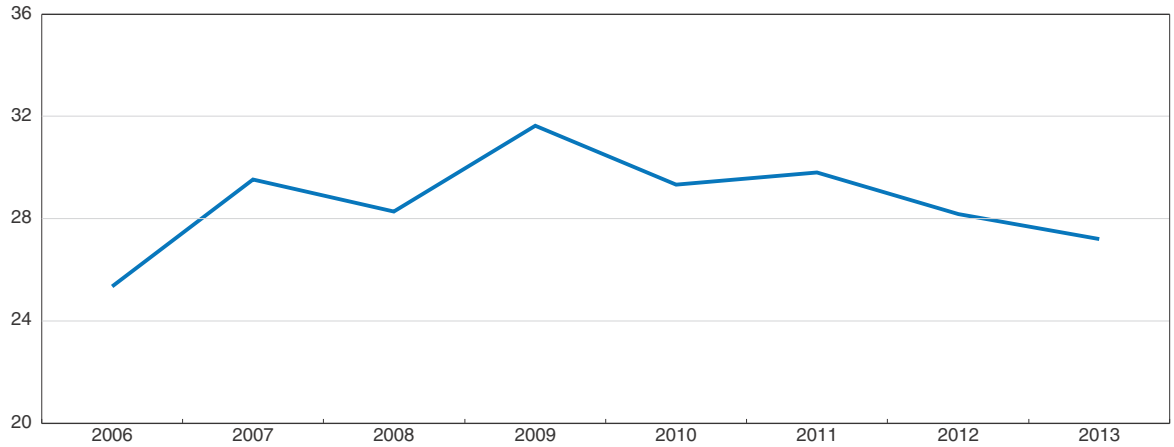
France is looking to strengthen access to training measures for adults with weak skills, but lighter procedures may be needed to achieve this goal. The FPSPP fund has dedicated financing for adult literacy programmes and other training measures for people with weak qualifications. However, only a fraction of these funds was spent in the past. Furthermore, the FPSPP has not been able to control what happened to the money that was spent or to engage the regions, the central government and social partners in planning projects, in contrast to what was foreseen by the law (Cour des comptes, 2013a). Some requirements of the FPSPP have turned out to be too heavy for some training providers. It seems desirable to look for lighter financing procedures, while safeguarding the integrity of the process, to give a chance to small-scale and local initiatives, which may often be of high quality.

Opportunities for French adults to study for higher degrees

One innovative scheme for adults to attain a higher degree, which could be extended, is the validation of prior experience (*Validation des Acquis de l'Expérience* or VAE). It certifies professional or personal skills without a need for candidates to attend formal classes. The certificates can correspond to those obtained in initial education, allowing participants to build on them with further studies. The population that could benefit most, namely youngsters and adults with low educational attainment and those who work in sectors where formal degrees are seen as indispensable, is estimated at 6 million people (Besson, 2008b). Compared to this, the actual number of diplomas conferred each year, which has been stagnating about 30 000, remains low (Figure 1.14). Only around 10% of technical and professional diplomas obtained after initial education stem from the validation exercise. Around 70% of the candidates aim at a diploma at the *baccalauréat* level or just below, and a majority of qualifications are concentrated in just a few fields, such as health and personal care for children or the elderly (DARES, 2014b). More could be done to establish the VAE as a means to obtain other qualifications and extend it, including to the tertiary level.

Figure 1.14. **Number of qualifications and diplomas obtained through VAE**[1]

Thousands



1. Excluding qualifications and diplomas certified by the Ministry of Youth and Sport.
Source: DARES, based on data provided by the certifying ministries.

StatLink http://dx.doi.org/10.1787/888933192606

Better information and support for VAE candidates is needed. The procedure is lengthy and difficult to understand, with 1 300 certificates and diplomas currently delivered by ministries or by private entities on behalf of the government. One possibility to improve transparency would be to align the certificates with the European Qualifications Framework that aims to make certificates and qualifications comparable across the EU (Besson, 2008b). Candidates need better information to understand how their competencies fit the certificates and to navigate through the certification process. People with low skills need personalised support with writing their reports describing how their skills and competencies correspond to the desired certificate. The regions, which are now responsible for informing and supporting potential VAE candidates, will have to implement this. They also need to improve their coordination with the public employment service in reaching jobseekers. Today, the majority of VAE candidates, 70%, is employed. The VAE process, which sometimes lasts longer than formal education to achieve an equivalent degree, discouraging candidates, could be shortened by setting deadlines for the review of the candidacy and the creation of the jury evaluating the report. To achieve this it might be necessary to make participation in the jury financially more attractive.

Making the validation procedure more modular and coordinating it with formal training would help accommodate patchy career paths. Today, several years of experience in the same kind of job are needed for the validation exercise, but those who would benefit most from the VAE tend to change jobs frequently, as they find it difficult to obtain an open-ended contract. More opportunities are needed for partial certification of professional experiences that are not sufficient to obtain a full qualification, and this should be better integrated with formal education and training to allow candidates to obtain a full qualification by combining different elements. The National Commission for Professional Certification (Commission Nationale de Certification Professionnelle, CNCP) could play a role in building an inventory of certificates that have not been registered in the existing national inventory of professional certifications (Repertoire national des certifications professionnelles, RNCP) and in ensuring the certificates delivered by different providers are well coordinated and build on each other (Besson, 2008b).

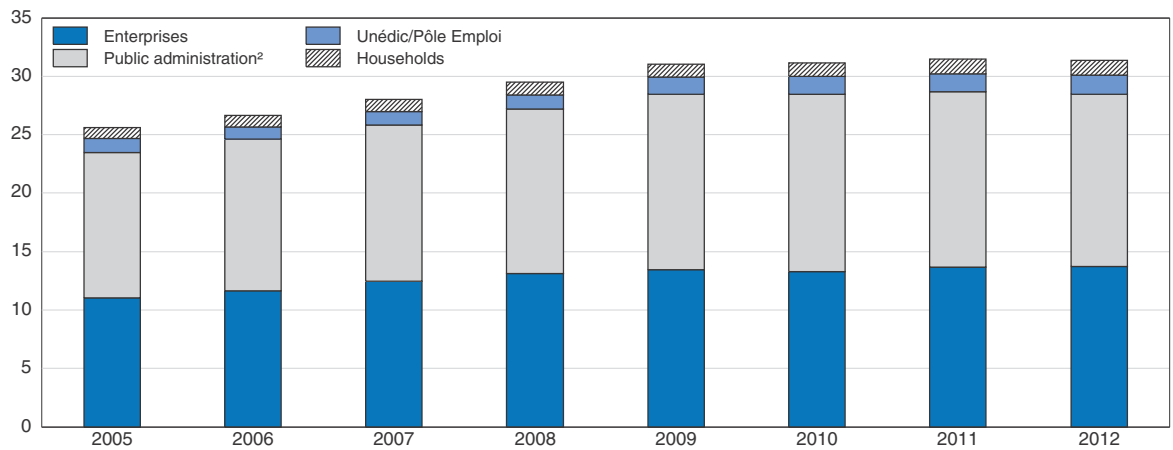
Financing and governance of vocational education and training

Compulsory financing with a complicated collection mechanism

France spends a considerable sum on professional training and apprenticeships, around 1.5% of GDP every year. Employers contribute a bit more than 40% of this, while central government and regional governments finance around 50% (Figure 1.15). Around 40% of public expenditure benefits public-sector workers. The unemployment agency and households each contribute around 4% of the total (Figure 1.15).

Figure 1.15. **Structure of the national expenditure on vocational training by final finance provider**

EUR billions[1]



1. Includes investment expenditure.
2. Including expenditure for the training of public-sector workers.

Source: DARES.

StatLink http://dx.doi.org/10.1787/888933192617

Enterprises contribute to the financing of apprenticeships and professional training via payroll taxes subject to complex collection mechanisms. Until recently, the apprenticeship tax had three different elements, two of which were merged in 2014 (amounting to 0.68% of payroll). This is a welcome simplification. A third element is a bonus-penalty system for enterprises with more than 250 employees. The tax rate increases with the shortfall of the share of apprentices in the number of the company's employees from 4%, or 5% as of 2015. In turn, companies can receive a bonus for each apprentice who brings the share of apprentices above this rate. Furthermore, it is mandatory for enterprises in France to contribute to the financing of continuing vocational training via a training levy. Since the 2014 reform the levy amounts to 1% of payroll for firms with more than 10 employees and to 0.55% for those with fewer than 10 employees. One set of bodies run by trade unions and business associations collects the apprenticeship tax (*Organismes collecteurs de la taxe d'apprentissage* or OCTAs), and another (*Organismes paritaires collectionneurs agréés* or OPCAs) collects the training levy. The number of OPCAs was progressively reduced through recent reforms, but the numbers of OCTAs remained large until recently – around 150 at the national level and more at the regional level. These bodies differ widely in size, administrative costs and enforcement performance (Larcher, 2012; Patriart, 2013).

The 2014 reform simplified the collection mechanism considerably, but further steps may be desirable. OCTAs are now being merged with OPCAs, thus reducing the number of collecting bodies. After the reform enterprises will pay the apprenticeship tax and the training levy each entirely to a single body. Previously, parts of each levy had to be paid to yet another set of institutions, and enterprises could partly pay their apprenticeship tax directly to training institutions of their choice. This system entailed high administrative costs and complicated enforcement. In practice, fiscal authorities have been unable to follow up on enterprises that do not pay (Patriat, 2013). For efficiency reasons, it is possible to go further and entrust the collection of all payroll taxes to a single body, for example the Union de recouvrement des cotisations de sécurité sociale et d'allocation familiales (Urssaf), which already collects the largest part of payroll taxes, such as those for pensions and health care. The Urssaf's administrative costs as a share of collected funds of 0.3% (Cour des comptes, 2013a) are lower than OPCAs' average collection costs, 0.8% according to data from the Ministry of Labour. The saving would be worth some 33 million euros.

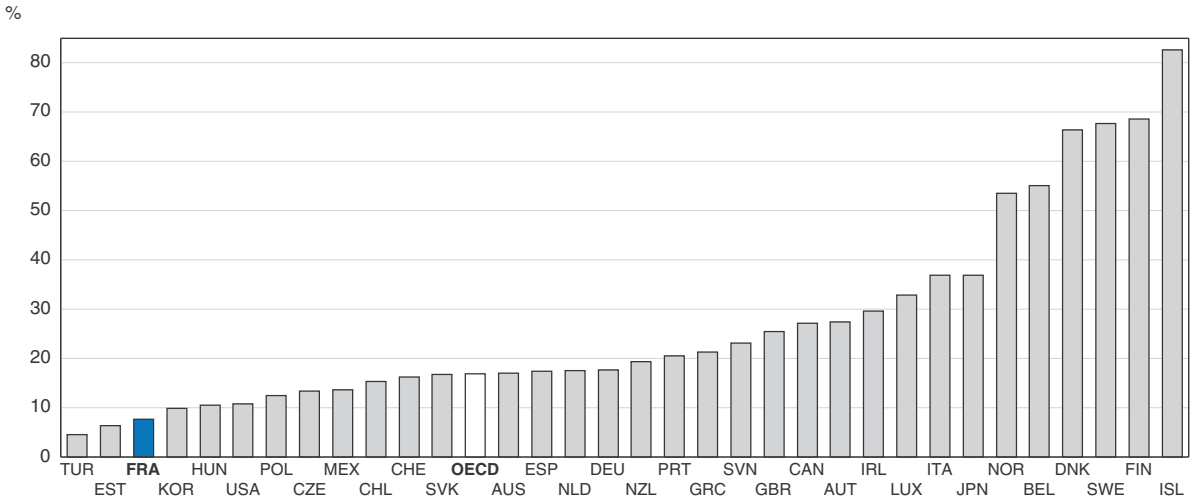
The current system is hard to reform in any radical way, however, because of deeply entrenched interests. Limits on administrative costs remain rather generous, in particular for OPCAs. The central government has started to manage these costs based on performance indicators, but with limited success so far, as they have been rising, perhaps because there were too many indicators, making the process cumbersome and opaque (Cours des comptes, 2013a). Moreover, there are potential conflicts of interest to address. While OPCAs cannot offer training services themselves, they can define the tasks that suppliers have to perform, buy services on behalf of their clients and direct them towards providers as part of their intermediary role. In principle, they can thus give preference to training providers run by their parent organisations (Cahuc et al., 2011). Until the 2014 reform around 1.5% of training levy funds collected by OPCAs was channelled directly to their parent organisations. Overall, this source of financing was more important than membership fees for a number of trade unions and business associations (Andolfatto and Labbé, 2007). Several reforms go some way to changing this situation: it is now impossible to work both for an OPCA and for a training supplier; the OPCAs have to publish the list of their 50 largest training suppliers; and the obligation to check the quality of training may also push them to reinforce the control over their funds.

The former practice of financing trade unions and business associations directly with a part of the training levy ended with the 2014 reform, a welcome change. OPCAs will no longer direct a part of the collected training levy to their parent organisations. Instead, there will be a new dedicated fund to compensate trade unions and business associations for their role in managing vocational education and various social systems. Enterprises, bodies jointly managed by social partners and the public administration will contribute to the financing of this fund. This is a welcome first step to disentangle professional training and trade union financing.

Over time, membership fees should become the main source of financing for trade unions and business associations, as in other OECD countries. Financing these organisations instead to a large extent via compulsory levies risks undermining their independence and their incentive to recruit members. In fact, French trade unions have one of the lowest membership rates across the OECD (Figure 1.16), undermining their representativeness. At the same time, administrative extension of collective wage agreements is widespread, weakening employees' incentives to join a trade union. In most OECD countries membership contributions are the main financing source for trade unions

Figure 1.16. **Trade union density in OECD countries**

2013 or latest year available[1]



1. Trade union density corresponds to the ratio of wage and salary earners that are trade union members, divided by the total number of wage and salary earners.

Source: OECD, *Trade Unions Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933192626

and business associations, constituting more than 80% of total financing in Germany, Italy, Belgium, Sweden and United Kingdom (IGAS, 2004). A first step towards such a model in France could be to link financing from the new fund increasingly to the number of trade unions' and business associations' members.

A tax base that should be reviewed

One reason for channelling business funds for professional training through the OPCAs is to redistribute them to those who need them most, but this has been of limited effectiveness. As discussed above, the low skilled, who work more often in small enterprises, and the unemployed have relatively poor access to training. In the past, training levy funds earmarked for the "training plan" (Box 1.4), about half of the total, were redistributed from small to larger firms, which tend to employ more highly qualified personnel (DARES, 2014c). While small firms did seem to benefit from a redistribution of OPCA funds earmarked for other training measures, more than 40% of enterprises with less than 50 employees channelled more funds overall into the system than they received in 2011, a share that falls quickly with firm size to less than 5% for firms with more than 2000 employees (DARES, 2014c). Conversely, the share of enterprises that use more training levy funds than they pay into the system is less than 25% for firms with less than 19 employees, but more than 45% for firms between 200 and 500 employees.

With the 2014 reform the government hopes to redistribute more training funds to workers in smaller firms and those with weaker skills. Larger firms do not have to contribute to the sharing of funds for the training plan any more, and their training levy was lowered accordingly, on the grounds that they generally tend to spend more on training their personnel than the minimum 0.9% that was implicitly foreseen by the levy. They never contributed much to fund sharing for the training plan, as they could escape this part of the tax by spending at least the same amount on training their own personnel. The reform foresees a mechanism to ensure that funds can be redistributed from the group

Box 1.4. **The main vocational training measures in France**

The training plan (*plan de formation*) comprises all training measures for employees at the initiative of their employer to adapt their abilities to their current post or develop new skills. It can include measures like an assessment of competencies (*bilan de compétences*) or a validation of personal and professional experiences (VAE).

The personal training leave (*congé individuel de formation* or CIF) gives employees who comply with certain seniority conditions the right to ask for a training leave to acquire a higher degree, change jobs or follow other personal interests. The leave can be total or partial and last up to a year or a maximum of 1200 hours. The worker can maintain between 80-100% of his/her salary if the measure is approved by an agency (*Fonds de gestion de congé individual de formation-Organisme paritaire au titre du conge individual de formation or* Fongecif-Opacif) jointly run by trade unions and business associations.

The individual training right (*droit individuel à la formation* or DIF) was replaced by the personal training account (CPF) as of 1 January 2015. The DIF allowed workers to accumulate rights to 20 hours of training annually over a six-year period, thus a maximum of 120 hours. Rights were not portable across employers, and the employer had to agree to the training choice.

The personal training account (*compte personnel de formation* or CPF) is operational as of 1 January 2015, allowing workers to accumulate up to 150 hours, which are retained if the employer changes or during unemployment. These rights can be topped up by the unemployment agency, the employer or the worker him/herself.

The professionalisation period (*période de professionnalisation*) is open to certain employees on open-ended contracts to maintain their employability through work-study programmes recognised by the branch or a collective agreement. The employee has a right to continue receiving his/her salary, when the training measure takes place during working hours; otherwise, he/she will receive a training allowance.

The *bilan de compétences* involves in-depth interviews with an external consultant to identify the employee's interests, motivations and competencies to determine opportunities for professional development.

The **professionalisation contract** (***contrat de professionnalisation*),** established in 2005 by the social partners, is open to those between 16 and 25, but also jobseekers and beneficiaries of certain transfers or contracts. The objective is to allow these groups to acquire professional qualifications or complete their initial education through a complementary qualification.

of firms that have more than 50 employees to the group of smaller firms, but not the other way around. By devoting a fixed share of the training levy to the FPSPP fund the government also hopes to channel more money to jobseekers, workers with weak skills and those threatened by layoffs or in need of re-training. Other FPSPP funds are earmarked to support the training plans of enterprises with fewer than 10 employees. While reserving funds for these groups can be a good idea, numerous non-financial barriers will need to be addressed as well.

Another – probably much easier – option would be to promote training through fiscal incentives. While an obligation for enterprises to pay for their employees' training is very rare in OECD countries, fiscal incentives are much more prevalent outside of France. Training costs are often tax deductible for firms, like other labour costs, and in some cases,

for example in Austria and the Netherlands, by more than 100%. In France there are only two very specific tax breaks for training costs, which are rather limited in size, one for the training of top managers, another for small and medium-sized enterprises. Little is done to promote household spending on training. In contrast, employees can deduct certain training costs from their taxable income in several other OECD countries, such as in Finland, Austria, Germany and the Netherlands. Research suggests that tax deductibility of training expenditures can promote private spending (Oosterbeck and Patrinos, 2008). Fiscal incentives or subsidies can be a good choice to promote spending on training when the social return is higher than the private return. The French system, in turn, does little to internalise the social benefits of training investments that go beyond the training levy. The French government could try subsidies or fiscal incentives that are structured to direct financing to those groups for whom the social returns are likely to be larger than the private benefits, such as the unemployed or the weakly skilled. Such schemes should be rolled out on an experimental basis, perhaps starting with a single region, to evaluate their effectiveness. If they prove to be effective, they could gradually replace the current, rather complicated financing system. This could also help to simplify the complex governance of vocational training financing and supply, as training would become more demand driven.

Apprenticeship-type contracts, in turn, benefit from a large number of financial incentives. They are exempt from most social contributions, and there is a tax credit worth EUR 1 600 per year and more for people with special difficulties. A lump-sum subsidy for each new contract can be obtained from the region along with the bonus element of the apprenticeship tax discussed above. Yet, in 2012 only 12% of all enterprises with more than 250 employees qualified for this bonus (IGAS, 2014), and its impact is very uncertain. In addition, there is an age-dependent subsidy from the unemployment agency, Pôle emploi, for professionalisation contracts for jobseekers. Finally, apprentice salaries are exempt from income taxes, and apprentice wages are only a fraction of the minimum wage depending on age and seniority. Given that apprenticeship contracts are increasingly signed with more highly qualified individuals, the windfall gains of subsidies are likely to be large. This is generally the case when subsidised contracts are not targeted at those with the greatest difficulties in finding a job (Martin and Grubb, 2001). In that sense, it is welcome that the tax credit was recently phased out for apprentices in advanced stages of tertiary education and that the regional subsidy is now limited to enterprises with fewer than 11 employees. The remaining subsidies should be carefully evaluated and only those of proven effectiveness should be retained, preferably focussing on apprentices with particular difficulties. However, withdrawal of subsidies should best take place during an upturn.

Using payroll taxes to finance professional training is questionable, in particular in the French case where payroll taxes overall contribute considerably to high labour costs. While only employers and employees bear the direct burden of payroll taxes, the benefits of training for weakly qualified workers in particular accrue to society at large. Payroll taxes can be harmful for the employment chances of the weakly skilled when there is a relatively high wage floor, such as in France through the minimum wage. In fact, there is evidence suggesting that lowering payroll taxes would have positive employment effects, in particular for low-wage workers (Cahuc and Carcillo, 2014). The current financing scheme is therefore inconsistent with the stated goal of vocational training to improve employment chances, in particular for the weakly skilled. Direct subsidies or tax breaks to promote training for the weakly skilled would be financed via the tax system as a whole, thus drawing on a larger tax base and a wider set of taxpayers, limiting negative

employment effects. This could be done by closing inefficient tax loopholes and broadening the tax base overall, which is narrow in France (OECD, 2013c). That said, tax breaks or subsidies for professional training should be subject to thorough evaluation. As the example of apprenticeship contracts demonstrates, subsidies and tax breaks have to be well designed to be effective.

A division of labour among numerous partners that is not well aligned with control over funds

Regions have gained steadily more responsibilities for apprenticeships and continuing vocational training in recent years, but this has not been accompanied by equivalent control over funds. The training levy is heavily earmarked for different training mechanisms (see Box 1.1) and groups, such as the unemployed, the low-skilled and employees of small enterprises. Different institutions run by social partners (the OPCAs) and another set of institutions responsible for the personal training leave (the Fongecif-Opacif; see Box 1.2), the FPSPP fund and the unemployment agency (Pôle emploi) spend or redistribute parts of the funds. This leaves little room for regions to plan spending for initial and continuing vocational education to accommodate the regional economic structure, as foreseen by the law, via a strategic plan called a *contrat de plan régional de développement des formations et de l'orientation professionnelles* or CPRDFOP. While parts of the apprenticeship tax go to the regions, the allocation of these funds required a framework agreement between the central government and the regions until the 2014 reform, and channelling the money to regions involved various funds and earmarked accounts. This has been simplified to some extent, as a larger fraction of the apprenticeship tax – around 50% – goes directly to regions as of 2015, without the necessity of framework agreements between the region and the central government, although they are still required by law between different actors for various other elements of initial and continuing vocational education financing. Moreover, other parts of the apprenticeship tax continue to be earmarked to finance CFAs or state-run vocational education institutions. Firms have considerable freedom to choose the institutions to which they want to devote the apprenticeship tax that they owe. If they do not make a choice, their OCTA will allocate these funds. In a number of cases OCTAs have tended to favour institutions that belong to their parent organisations (Patriat, 2013).

Since regions have been assigned the lead for planning apprenticeships, they should ideally control the full apprenticeship tax, and employers' right to assign parts of it directly should be phased out. This right is popular among enterprises and thus difficult to reform, but this issue needs to be tackled to allow regions to develop apprenticeships effectively. Allowing taxpayers to allocate tax funds themselves is at odds with the idea that public financing with tax money should occur whenever an elected government is better placed to generate social benefits than individual taxpayers. The 2014 reforms set up regional employment, training and professional guidance committees (*Comités régionaux de l'emploi, de la formation et de l'orientation professionnelles* or CREFOP) to facilitate coordination between regions, social partners and the central government when it comes to planning and implementing vocational training. Firms can thus influence apprenticeship policies via their business association within these new committees. This argument should be used to convince them to give up their right to allocate themselves parts of their apprenticeship tax liability.

Regions have to cooperate with numerous actors to make sure that their training programmes are well aligned with the regional economic structure, which complicates their task. The central government runs vocational *lycées* and decides upon the training

they offer, while chambers of commerce and other actors run some of the CFAs. Social partners have a strong role in planning, managing and funding vocational training for employees. They formulate strategies mainly at the branch level. The large number of branches involved – around 300 have more than 5 000 employees, and there are more if smaller branches are counted – complicates the formulation of a coherent strategy. Pôle emploi manages training for jobseekers along with the regions. There is co-financing from the FPSPP fund, and the central government formulates employment policies and passes laws to organise vocational training. This governance structure is complex, and collaboration does not always work very well. Therefore, it has been difficult at times to work out a strategic plan for vocational education and training that is well adapted to the regional economic structure (Cour des comptes, 2008).

With the 2014 reform the government sought to improve coordination by re-organising national and regional institutions that group together different actors. At the national level the Conseil national de l'emploi, de la formation et de l'orientation professionnelle (CNEFOP) will merge two predecessor councils, one for employment and one for training. At the regional level the equivalent bodies are to be combined to form the CREFOP committees. The law sets out in considerable detail how regions have to present their strategic plans for vocational education to their CREFOP committee and other stakeholders, to finally sign it jointly with the central government and to propose it to social partners for approval. Combining discussions about employment and initial and continuing vocational education seems useful, but this should be monitored.

Simplifying the allocation of funds, limiting earmarking and giving a single actor the lead in taking spending decisions may be more effective than creating new institutions for coordination. The role of other actors in making spending decisions directly should be limited, along with earmarking and framework agreements that restrain room for manoeuvre and make the process cumbersome for the lead actor, for example for regions regarding apprenticeships and training for jobseekers. Accountability should then focus on reaching objectives, which the central government could set, perhaps jointly with social partners. Such objectives could include the number of apprenticeships to be created, particularly at the secondary level, access to training for the unemployed and the low-skilled, as well as employment and career progression after participating in training. Successfully reaching these objectives could lead to a top-up of funds in subsequent years. If regions are so judged, they would have a strong incentive to coordinate with other actors running vocational schools or training centres and shaping training, such as the central government or social partners. Other actors could in principle take the lead in planning training for specific groups, such as social partners for employees, but responsibility for strategic planning should always be assigned to a single actor and accompanied by equivalent control over financing. While involving social partners in defining training content is useful and should be maintained, there is no need to accompany this with a dispersion of financing decisions and requirements to conclude framework agreements between different actors.

A complex training landscape requiring streamlining and better guidance services

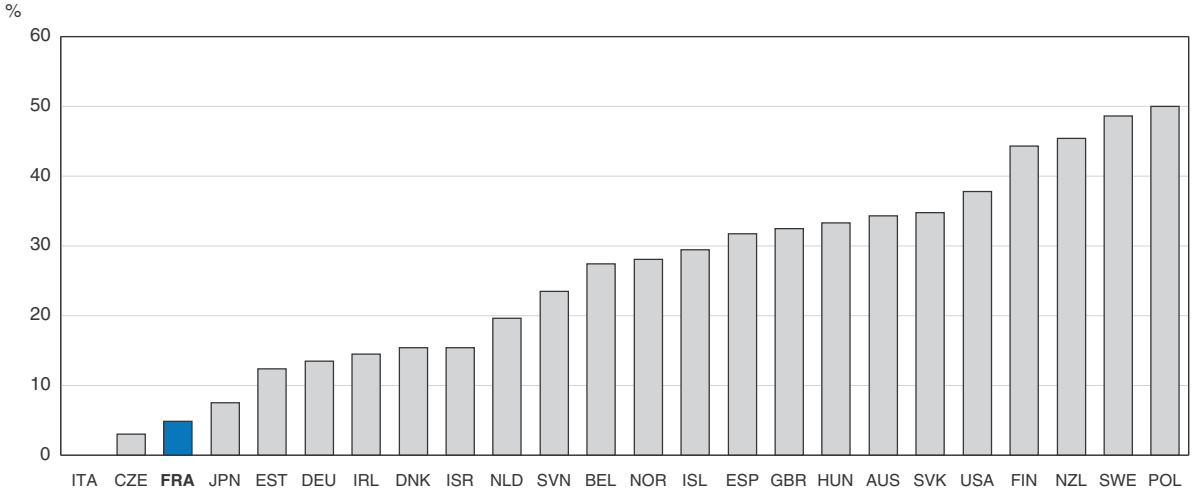
The complexity of the training system is likely to stifle the initiative of employees in choosing training courses. There are a host of different measures defined in the law (see Box 1.2), which often differ more in eligibility criteria and governance than in nature. There are more than 55 300 training providers, many of which are very small. Only 4% of providers accounted for 70% of the entire turnover, and around two-thirds do not offer training as a

principal activity (PLF, 2012). The sheer number of training providers makes it difficult for employees and their employers to identify those offering high-quality courses fitting their needs. Similarly, bodies that collect, redistribute and intermediate training levy funds are numerous, and their role is not always clear. Alongside the OPCAs, which counsel firms and training candidates and buy training, the Fongecifs-Opacifs handle the individual training leave, and Pôle emploi, jointly with the regions and the FPSPP fund, organises training for jobseekers, assisted by at least four other agencies that counsel specific groups, such as the young, handicapped people or highly qualified jobseekers. An evaluation of training for jobseekers revealed that the system was ineffective, not least because counsellors themselves found it difficult to understand (Pôle emploi, 2011). Around two-thirds of jobseekers declared in a survey that they had to contact at least two different agencies to plan their training, and more than 40% said that, in the end, they organised their training by themselves (Aude and Buffard, 2011). This system should be streamlined to reduce transactions costs and make it easier for employees, jobseekers and small firms, in particular, to find the right advisor to help them plan and finance their training. In addition, better information about available training and its quality will be necessary, along with strong individual guidance services. Pôle emploi has started to train its counsellors in intermediating training for jobseekers, but simplifying the system itself would certainly help. Therefore, the planned reinforcement of counselling services is likely to be useful.

More flexible scheduling will be needed to improve access to training. For small enterprises it is often difficult to release workers for training measures. Therefore, training outside of working hours would help to improve access, in particular for such workers. Yet, tertiary studies are very rarely offered part-time (Figure 1.17). Moreover, very little training is offered in the summer months (Figure 1.18), when business is slower for most firms. Longer training courses leading to a degree are usually aligned with the school year, delaying entry into training and reducing uptake for jobseekers. Candidates often prefer to accept job offers while they are waiting, not least because they may be reaching the end of their benefit entitlement period. While a number of other transfer payments are available

Figure 1.17. **Percentage of part-time students in higher education, 2012**

ISCED 5-6

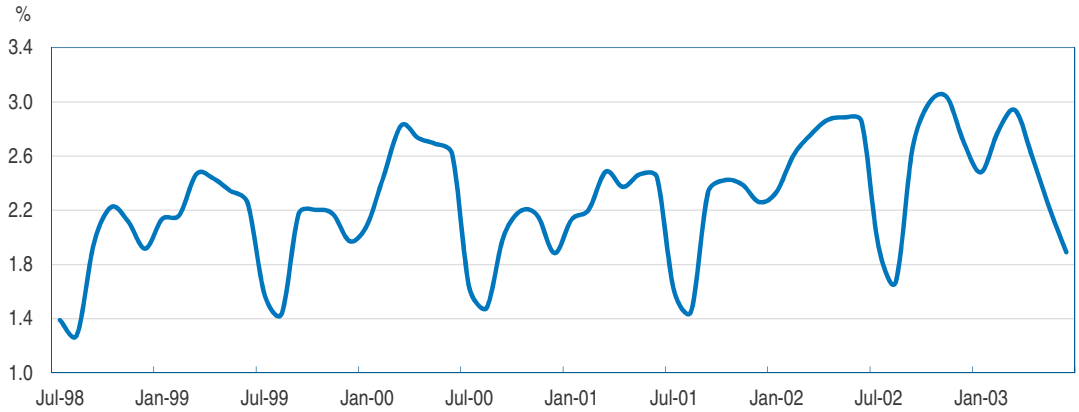


Source: OECD, *Education Statistics Database 2014.*

StatLink http://dx.doi.org/10.1787/888933192639

Figure 1.18. **Monthly rate of access to training for private-sector employees between 1998 and 2003**

Metropolitan France, 18-65 years old



Source: Blasco et al. (2009), "Formation continue en entreprise et promotion sociale : mythe ou réalité?", in INSEE, *Formation et Emploi* – Édition 2009.

StatLink http://dx.doi.org/10.1787/888933192642

in such cases, they are subject to different eligibility criteria and their management is dispersed among various actors, so jobseekers often find it safer to accept a job offer, even if completing further training would offer more stable employment prospects (Cour des comptes, 2013b). In fact, research suggests participation in longer training courses tends to increase employment stability for jobseekers (Crépon et al., 2012), indicating that taking up a job offer instead may worsen long-run employment prospects. Developing more training courses that start during the school year will therefore be important for jobseekers. Conversely, more courses offered in the evening, on week-ends or in the summer will be helpful for smaller firms and their employees.

The intermediation of training leaves little room to finance training projects conceived by individuals. OPCAs, regions and Pôle emploi generally purchase training on behalf of their clients, often on a large scale via public tenders. Moreover, funds are typically earmarked for different training schemes with specific eligibility criteria. If none of them fits the individual training project, there is little room to obtain financing from the training levy fund or public subsidies. Making the system more flexible and leaving more room for individual initiative would make it easier to spend training levy funds in an efficient and effective way. The strong take-up of the individual training aid (*Aide individuelle à la formation or AIF*) offered by Pôle emploi since 2010 (DARES, 2013b) is testimony to the demand from training candidates for opportunities to finance their own projects.

Some elements of the 2014 reform enhance flexibility and may facilitate individual initiative. Access to the new personal training account (CPF; see Box 1.2) is easier than for the predecessor scheme, the individual training right (DIF). Using DIF training rights was always subject to the employer's consent. With the CPF the employer only has to agree if the training takes place during working hours. This might be of limited help in practice, though, given the present scheduling of most training offers. Unlike for the individual training right, training hours accumulated on the new personal training account are portable across different employers and can still be used when a person becomes unemployed, increasing the flexibility of the system and potentially enhancing access to training for jobseekers.

The personal training account may also improve access to training leading to a higher degree, in particular if courses could become more modular. Hours that can be accumulated on the personal training account have been extended somewhat compared to the predecessor scheme, from 120 to 150. While this in itself is still insufficient to finance training that leads to a higher qualification, employers, employees, regions and Pôle emploi can all now top up the accumulated rights with further financing, which could promote access to longer courses. Since the training account is replenished continuously, another option would be to acquire a higher qualification in several steps, by following shorter courses that build on each other. This would require more modular training courses. The government, together with social partners, has recently released a first extended list of training courses that are eligible under the CPF. This list, once integrated and completed over the year as foreseen, should avoid being too restrictive. Shorter courses should be accessible, along with longer ones, and the latter should be available in modular form, as there is no guarantee that enough financing will be available for topping up the candidates' training rights if take up is strong. Only part of the training levy funds are devoted to the CPF, with the rest earmarked to the CIF and other training schemes. It will be important to review the effectiveness and financial sustainability of the CPF and consider integrating other training schemes into the CPF, should it turn out to be a success.

An even larger attribution of training rights for lower skilled workers could be considered in addition to the planned contributions of the OPCAs, the regions and Pôle Emploi. Less skilled workers are more likely to benefit from longer training courses that lead to a higher qualification, while shorter training will likely suffice for the highly skilled. Such an arrangement would help channel more funds to the weakly skilled.

The allocation of training rights in terms of hours rather than costs should be reviewed. There is a risk that it weakens price competition among training providers, as individuals have no incentive to exercise their training rights by choosing cheaper courses. The scheme may also be regressive, as the hourly training costs for more highly qualified individuals are likely to be more expensive.

While personal training accounts can lift financial barriers to access training, behavioural and context-related obstacles need to be addressed as well. In France as elsewhere, the likelihood that a person expresses training needs increases with his/her skill level (Brousse et al., 2009). This is likely to be due to a lack of confidence of people who feel that they experienced failure during initial education (Gautié and Perez, 2012; Norman and Hyland, 2003; Fouarge et al., 2013). Lambert et al. (2012) find that workers are much less likely to declare unfulfilled training needs in firms that train little and have limited opportunities for horizontal and vertical mobility. Overcoming these barriers will require more individualised guidance and support, both for individuals, especially those with low skills, and for firms.

Good guidance services will be essential for small enterprises and individuals to identify the right training course for them. The 2014 reform allocated the responsibility for the recently created regional public guidance service to the regions. This service, introduced in 2009, is still far from being an individual career coaching support, as it is mainly limited to a website and a telephone service (Gautié and Perez, 2012). The government hopes that the regions can provide the necessary direction and leadership to develop more individualised support for career development and training choices, a service dubbed *conseil en évolution professionnelle* or CEP. Regions already had a role in

helping set up the national service, but many did not progress as fast as the central government had hoped. A few are currently developing a pilot scheme, collaborating with five services that help different groups, such as the unemployed, youths, managers, the handicapped or employees, with finding a job or training. The idea is to roll out this system in the entire country. Given the number of actors involved a good information campaign will be necessary to ensure that workers are aware of this new service and can locate their advisors. It will be important to follow up on whether regions have sufficient capacity and financial resources to take over the task of co-ordinating a well-functioning guidance service, which will certainly require training for counsellors, who now hardly focus on support for career development and training, as well as hiring new staff.

Improving information and control over the quality of providers

Quality controls for providers are relatively weak, and an effective certification process that would help training candidates and their employers choose high-quality courses is lacking. Beyond a declaration of activity and the requirement to write annual pedagogical and financial reports, applying specific accounting rules, there is no accreditation process nor specific quality control (Cahuc et al., 2011; Cours des comptes, 2008). Registry can be denied if the declaration of activity is not in line with the definition of education and training in the Labour Law, but this definition is quite broad. There is one institution that certifies larger providers, the Office professionnel de qualification des organismes de formation (OPQF). However, to qualify for certification a minimum turnover of EUR 76 000 is required, which applies only to around 30% of providers. Thus, this certification body can at best exercise quality control for a relatively small subset of providers.

It would be desirable to work towards stronger certification processes and controls and to require training providers to better document the training they offer. This would allow buyers and training candidates to get a better idea about the quality of different training choices. Since quality is hard to observe, in particular *a priori*, there can be a problem of adverse selection. Providers of higher-quality training are also likely to be more expensive and may be forced to withdraw from the market, if they cannot convince prospective buyers of their superior quality. As part of the 2014 reform the government plans to establish stronger quality control mechanisms, and there are some national and international examples that could serve as models. Some OECD countries have established strong certification mechanisms. Denmark has an independent evaluation agency for the entire education system, including vocational training. In the Netherlands the *Kwaliteits Centrum Examinering* evaluates and certifies training providers. Without its approval the provider loses its right to give exams. The UK Office for Standards in Education evaluates providers using some 10 inspectors over a week. Results are published on its website. Poor results can lead to a loss of rights to public financing. Germany has set up a system of private certifiers, with a central agency approving the certifiers. Within France, the Languedoc-Roussillon region has defined a quality charter for training providers along with other large buyers of training, the OPCAs, Pôle Emploi and the central government. A private consultancy evaluates whether providers comply with the quality criteria, and, based on this evaluation, a committee then decides whether to award a quality label. This could be a useful model to create more transparency regarding quality throughout the country. Giving OPCAs a new role in quality assurance, and perhaps in reinforced counselling in the new regional guidance service, would also make it easier to transfer the task of collecting the training levy and the apprenticeship tax to the Urssaf.

Recommendations to improve vocational education and training

Improving vocational education at the secondary level

- Provide for highly-qualified teachers and more individualised support for students lacking basic skills. Ensure that teachers who combine teaching with practical work outside education are attracted into the profession; pay them more if necessary.
- Provide for workplace trainers with suitable pedagogical preparation for all work-study programmes. Work towards closer interaction between them and school-based teachers.
- Ensure that guidance services in lower secondary schools better inform parents and students about the advantages of apprenticeships.

Strengthening basic skills training

- Train staff of the new public regional guidance service to identify people with basic skills problems and direct them to training.
- Make sure that the new personal training account gives access to basic skills training.

Simplifying financing and the governance of vocational training

- 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.
- Consider replacing the current payroll tax-based financing for vocational training gradually with revenues levied on a larger base.
- Evaluate and streamline the various subsidies and fiscal incentives for apprenticeships.

Enhancing information about the quality of training providers

- Ensure regions have sufficient capacity and financing to co-ordinate the new vocational trainee guidance service.
- Integrate all competing training schemes into the new CPF. Ensure that supplementary rights for lower-skilled workers are introduced in the CPF, while allowing higher-skilled workers to access shorter, non-qualifying training. Open the CPF to modular training offers.
- Implement the envisaged quality-assurance system, notably through the certification of training providers and strengthen requirements for them to provide clients with information about their offers.
- Improve data to better evaluate training outcomes.

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Chapter 2

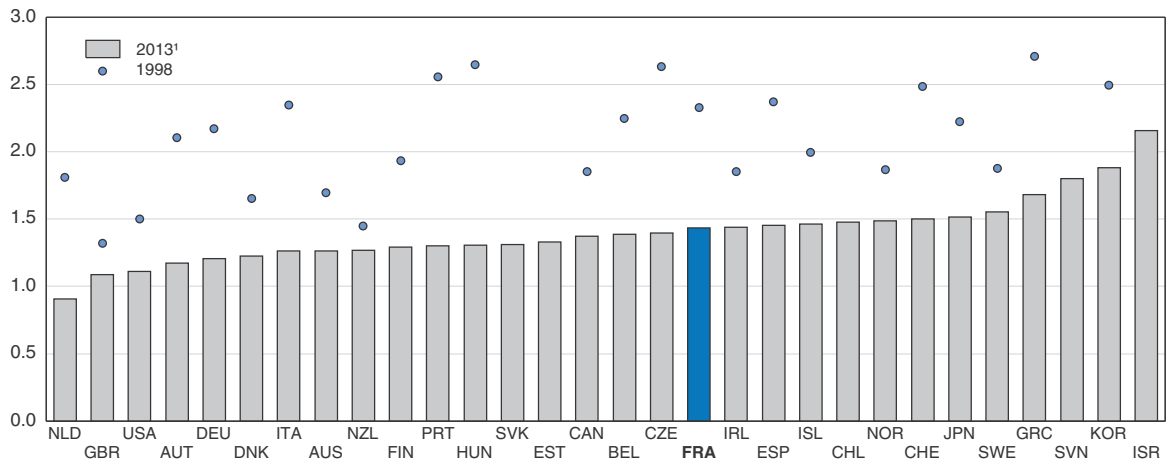
Enhancing competitiveness, purchasing power and employment by increasing competition

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.

Increasing competition by reducing burdens on French businesses would stimulate innovation, increase productivity and support growth. The public has traditionally underestimated the benefits of competition, and the government must therefore educate the public when implementing relevant measures. Over the past decade, France has made significant progress in opening up various services sectors that hitherto had little or no exposure to competition. The burden of anti-competitive regulations has substantially decreased since 1998, according to the Product Market Regulation (PMR) indicators developed by the OECD (Figure 2.1; Koske et al., 2015), and the regulatory framework surrounding competition has improved. However, the business environment remains relatively restrictive, and obstacles to competition persist in several services sectors, in retail trade and in some network industries.

Figure 2.1. **Regulatory developments in the goods and services markets**

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



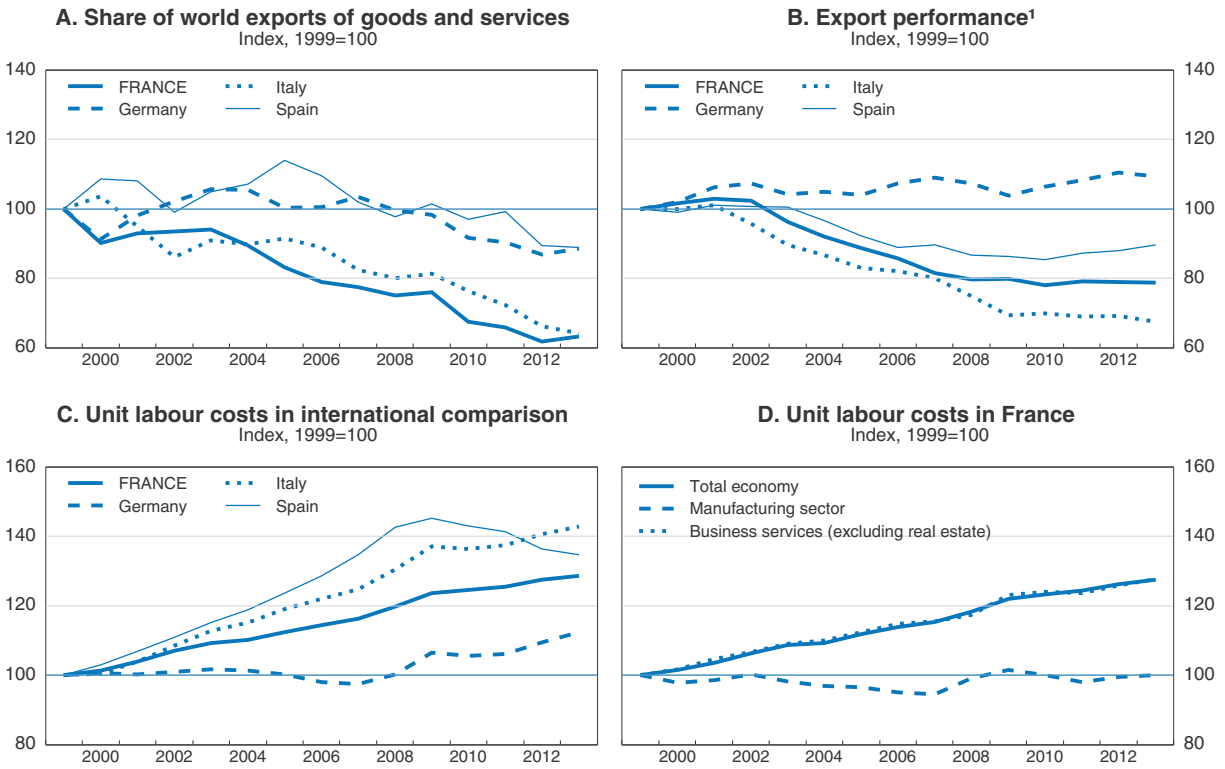
1. 2008 for the United States.

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

StatLink http://dx.doi.org/10.1787/888933192650

Increased competition in the product market would have positive potentially significant effects on competitiveness, employment, equity and well-being. Over the last decade, France's export market share losses have been slightly greater than in the main euro area countries (Figure 2.2, Panel A). This outcome is mainly due to the relatively slow growth of French exports compared to their export markets before the global financial crisis in 2008. French export market performance has thereafter stabilised like those of Italy and Spain, though German exports continue to outgrow their export markets (Panel B). At the same time, French wages increased faster than labour productivity and unit labour cost growth exceeded the corresponding German rate, even after 2008 (Panel C).

Figure 2.2. **Changes in export market shares and unit labour costs**



1. Difference between export growth and export markets' growth, in volume terms (with export markets as of 2010).
Source: OECD (2014), *Economic Outlook 96* and *Productivity Databases*.

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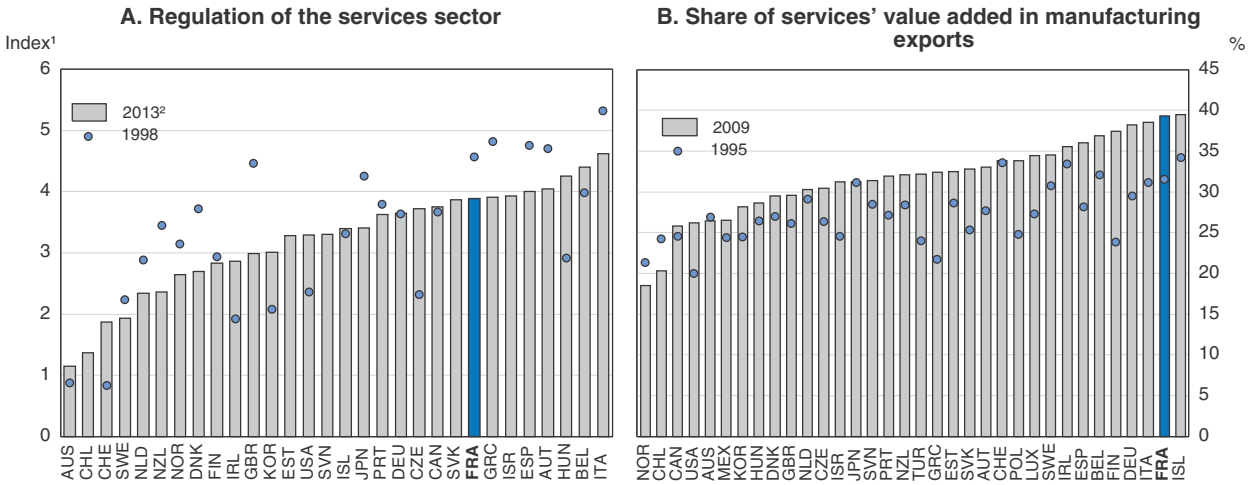
This trend is mainly explained by developments in economic sectors that are partly sheltered from international competition (Panel D). Strengthening competition in those sectors would likely increase their productivity and benefit all sectors that use them as inputs in their production process. Such reforms would not only improve the cost-competitiveness of French exporting firms, but also their profit margins and investment capacities.

In particular, France's regulations concerning services are less conducive to competition than in most OECD countries (Figure 2.3, Panel A). Though these regulations do not particularly affect foreign firms (OECD, 2014a), they indirectly affect the manufacturing sector through its sizeable purchased service inputs: services value added accounts for a large and growing share of French manufactured exports (Panel B). The services sector's low exposure to competition is also associated with low employment opportunities by international comparison, suggesting significant employment potential (Cahuc and Kramarz, 2004).

More generally, firms' size structure points to the existence of barriers to competition. The French economy is divided between large international firms that do an increasing share of their business outside France and a large number of SMEs (Figure 2.4). Intermediate-sized enterprises (ISEs) capable of innovating and developing and exporting new products are in short supply. The economy could benefit from substantial productivity gains by aligning its regulations concerning services and network industries with

Figure 2.3. **The services sector**



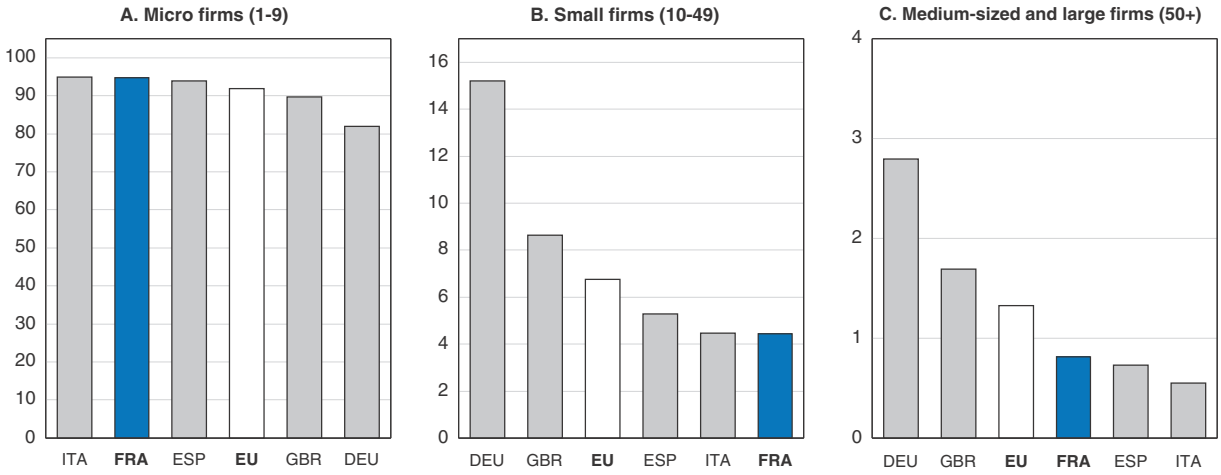
1. Index scale from 0 to 6, from least to most restrictive.
2. 2008 for the United States.

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

StatLink http://dx.doi.org/10.1787/888933192444

Figure 2.4. **Distribution of firms by number of employees**

Share in number of firms, 2011 or latest available year[1]



1. The EU group reflects the unweighted average shares of 25 countries.

Source: OECD, *Entrepreneurship at a Glance 2014*.

StatLink http://dx.doi.org/10.1787/888933192679

OECD countries' best practice (Bourlès et al., 2013; Fernández Corugedo and Pérez Ruiz, 2014). If implemented rapidly, such reforms could boost productivity by 2.5% within five years (Bouis and Duval, 2011). These reforms would push firms to adopt innovative organisational structures and technologies, particularly in the sectors currently least exposed to competition. In addition, at the macroeconomic level, such reforms would enhance the responsiveness of inflation to the economy's spare capacity (Cournède et al., 2005; Pelkmans et al., 2008), thereby improving the effectiveness of macroeconomic policies.

Besides the effects on input prices, increased competition in one sector also has an indirect positive effect on jobs in other sectors. Price reductions on certain goods help to improve households' purchasing power, thereby stimulating sales and job creation in other industries (Combes, 2011; Gabaix et al., 2012). Regulatory barriers to market entry frequently generate income concentration within pressure groups, to the detriment of the majority of consumers and enterprises (Delpla and Wyplosz, 2007). Taken as a whole, enhanced consumer purchasing power and growth potential could have significant positive effects on subjective well-being, particularly in the long term (Aghion et al., 2014).

This chapter reviews the regulatory framework surrounding competition and the administrative and legal business environment, before focusing on some specific sectors of the economy. The main results are the following:

- Despite a sound regulatory framework surrounding competition, regulations and institutions are in some respects ill-designed to increase competition and competitiveness. Stepping up the ongoing simplification efforts is needed.
- Significant progress has been made in retail trade, though urban zoning law and price-settings remain restrictive. Regulations go beyond consumer protection in many professional services.
- In network industries, telecommunications are competitive, and regulated tariffs are being progressively phased out in retail energy markets, but competition is limited in the transport sector.

The regulatory framework surrounding competition has been significantly improved

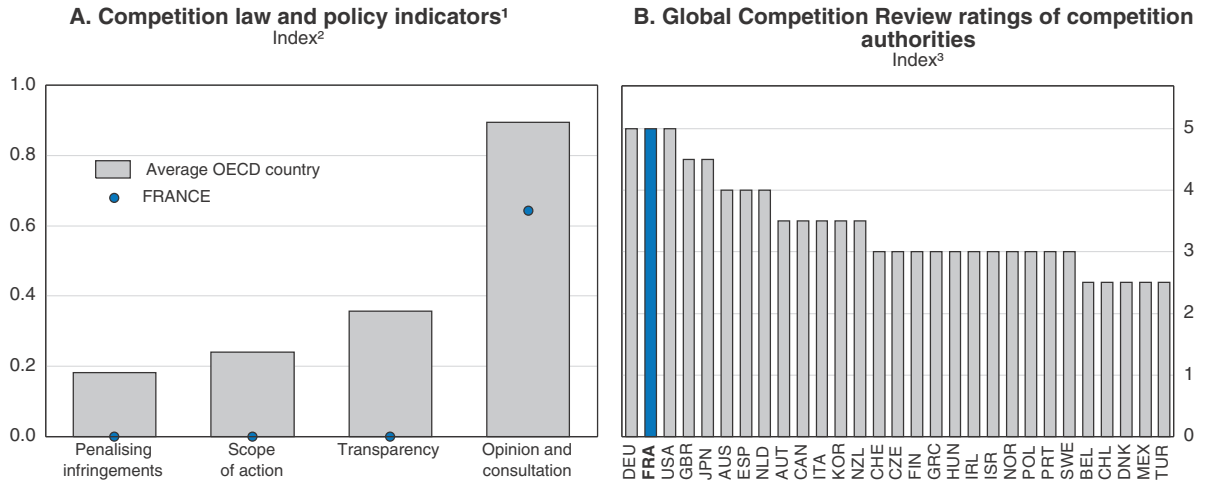
The government has recently improved the regulatory framework surrounding competition by strengthening the role of the Competition Authority and developing facilities for compensating consumers affected by anti-competitive practices.

The regulatory framework has become more efficient

The Law on Modernisation of the Economy (*Loi de Modernisation de l'Économie* – LME) reorganised competition law and established the current Competition Authority in 2008. Responsibilities are now shared between this independent institution, which replaced the Competition Council, and the Directorate for Competition, Consumer Affairs and Fraud Prevention (DGCCRF), part of the Ministry for the Economy, Industry and Digital Affairs. The LME gave the Authority more powers by transferring certain responsibilities from the DGCCRF, such as reviewing and authorising mergers and acquisitions, thereby strengthening the independence of competition law enforcement.

The Competition Authority has broad powers. According to the Competition Law and Policy (CLP) indicators developed by the OECD (Figure 2.5, Panel A; Alemani et al., 2013), the Authority's remit is wide, the imposition of penalties is systematic and the probity of its investigations is widely accepted. The Authority must be consulted for an opinion whenever a draft law or regulation seeks to regulate prices or restrict competition. Its intervention in litigation is driven by self-referrals and external referrals from businesses, organisations and external authorities such as the DGCCRF. When an anti-competitive practice is proven, it may order its discontinuation, impose injunctions and penalties, and accept commitments proposed by the parties to address its concerns. In addition, the Authority has frequently taken interim protective measures at the request of the party alleging the anti-competitive

Figure 2.5. **The Competition Authority, 2013**



1. The indicators for France are based on national provisions and those of the Directorate for Competition of the European Commission. The indicators for the French authorities alone are identical, except for opinions and consultations.
2. From the structure most (0) to least conducive (6) to competition.
3. From the lowest (0) to the highest (5) perceived effectiveness.

Source: OECD (2013), *OECD Database of CLP Indicators* (Panel A); *Global Competition Review* (2013), *Rating Enforcement 2013* (Panel B).

StatLink http://dx.doi.org/10.1787/888933192681

behaviour. Finally, it may be asked to respond to requests for advice from the government or regulators in sectors such as energy or telecommunications, or it may express competition concerns and issue opinions on measures to remedy them.

The Authority works closely with the DGCCRF, which has retained an important role in gathering information and settling local cases and has wider responsibilities, ranging from consumer protection and safety to fraud control. Co-operation with the DGCCRF allows the Authority to benefit from the local deployment of its 3 100 staff; indeed, certain minor cases, which could soak up excessive resources, are handled by the DGCCRF. The DGCCRF brings to light a large number of potentially anti-competitive practices, around 400 per year, and instructs the Authority accordingly. The Authority takes on around 30% of these cases, notably those relating to nationwide anti-competitive practices, examining indicators and possible legal action (Autorité de la Concurrence, 2013). For local cases that are not taken up by the Authority, the DGCCRF produces an initial report, based on which the Authority again decides whether to examine the case with a view to legal proceedings, although this happens only rarely (9% of reports submitted in 2012). Most local cases are therefore handled by the DGCCRF. They predominantly concern SMEs, since the turnover of each firm involved may not exceed EUR 50 million in France in the last completed financial year, and EUR 200 million for all the involved firms (EUR 100 million up to 2014). As an administrative authority, the DGCCRF has the right to order an end to the anti-competitive practices and to propose financial settlements, called *transactions*. Firms are free to refuse these settlements, and in this scenario, the Competition Authority rules on the case and may establish more substantial financial penalties.

The powers of the DGCCRF in the area of local anti-competitive practices were strengthened in 2012 and 2014. This should significantly enhance deterrence. First, financial settlements and decisions were made public and readily searchable in 2012, whereas they were previously confidential. Second, in 2014, the maximum *transaction* amount was doubled

to EUR 150 000, though it must not exceed 5% of firms' domestic turnover. In some cases, notably for firms with large turnover, the maximum *transaction* was much lower than the excess earnings generated by the anti-competitive practices (CREDA, 2011), and, in practice, firms have rarely refused the *transactions* proposed by the DGCCRF.

The Competition Authority is considered among the most effective in the OECD. The Global Competition Review (2013) awarded it the maximum rating of five stars (Figure 2.5, Panel B). Nevertheless, there is no law or regulation requiring the government to respond or explain its lack of response to the Authority's recommendations if it detects a restriction on competition due to an existing or planned regulation, unlike in Denmark or the United Kingdom. For example, it issued an unfavourable opinion on the decree proposed by the government regulating private-hire vehicles (PHVs) in order to protect the taxi driver profession (Autorité de la Concurrence, 2014a), but even so the law adopted in September 2014 prevented PHVs from using mobile booking systems (see below).

In addition, with 187 employees in 2013, its resources appear to be low by international standards, which may constrain its activity, particularly in reviewing existing regulations, detecting anti-competitive practices and following up on decisions. The draft law on "growth, activity and equal economic opportunity" (Box 2.1) would give the Authority new responsibilities to assess the effect of local zoning policies on retail competition. In some legal professions, the Authority would also examine regulated tariffs and the impact of entry on local incumbents. However, without any corresponding hike in resources, this could squeeze its discretionary activities. Furthermore, the draft law would empower the Authority to order the sale of assets in highly concentrated retail areas. These assets would have to have been acquired by external expansion and have enabled high prices or margins compared to the average of this economic sector.

The number of firms applying to the French leniency programme is similar to the average of the national Competition Authorities in the European Union. However, firms appear much more likely to apply for leniency to the European Commission and to the German Bundeskartellamt. Indeed, the European Commission can intervene in a wider range of areas, and the German leniency programme is highly attractive for cultural reasons and its coverage of administrative sanctions against individuals. In place since 2001, the French programme enables firms to report an anti-competitive practice and obtain immunity or a reduction in penalties in return for their co-operation. Firms and lawyers view it as significantly improving deterrence (Autorité de la Concurrence, 2014b). Indeed, the Authority imposed historically high fines on two cartels of home care and personal care manufacturers in December 2014 through the leniency programme. Sixteen leniency applications were received in 2013, and a total of 111 since 2002. Since the adoption of the programme, only nine decisions have been handed down, despite the publication of implementing rules in 2006 and a reform in 2009.

There are several reasons for the average take-up of the leniency programme. First, criminal penalties for individuals are not subject to the leniency programme, and this may discourage its use, even if such penalties are rare (Lemaire, 2005). Second, the programme does not cover the applications for compensation by victims. These applications, however, rarely succeed in France. The judicial procedures facing victims were recently eased (see below), but the Competition Authority has stated that it will not give access to documents gathered as part of the leniency programme for any future applications for compensation, in line with the position of the European Commission (European Commission, 2014a). For those

Box 2.1. **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 is facilitated, even if routes under 100 km will still be subject to prior authorisation and must not disrupt the financial budgetary 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 is 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 retail markets.

In addition, the bill calls for reforming the labour courts, simplifying job-saving plans, expanding employee shareholding, improving driving licence 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'activité, 2015). The estimated effects are mostly positive for employment and economic activity, though many improvements remain possible (see below).

applying for leniency gathering the evidence is a major challenge, particularly if this requires costly research and the co-operation of former employees. In principle, former employees can, as individuals, incur penalties. Therefore, they may not be interested in co-operating with the lawyers representing the firm applying for leniency (Autorité de la Concurrence, 2014a). The Authority is considering a reform of the programme in 2015, notably to take into account changes to the model leniency programme of the European competition network. In particular, this would extend the system of summary applications. This system allows firms to apply efficiently for leniency with several national Competition Authorities and, at the same time, to apply for leniency with the European Commission.

In mergers and acquisitions the government has veto and approval rights that can, in principle, be used in many circumstances. It may intervene at three stages. First, after an initial review by the Competition Authority, it may ask the Authority to undertake a thorough review if the latter does not take it upon itself to do so. Such thorough reviews have so far been undertaken solely at the initiative of the Authority itself. In addition, the Authority has argued that its independent status gives it the freedom to refuse to grant this

government request (Autorité de la Concurrence, 2014a). Second, following a thorough review, the relevant minister may make a decision on national-interest grounds, such as industrial development, business competitiveness or employment. This power to override such decisions on national-interest grounds also exists in other OECD countries, such as Germany (OECD, 2009a). It seems less appropriate in cases where the Authority has held that the transaction does not restrict competition, but it has never been used to date in such circumstances. Finally, in some sectors, takeovers of French firms by foreign investors and firms have been subject to prior government approval since late 2005. This approval applies to firms in the fields of defence and security and, as of May 2014, in the fields of water, health, energy, transport and telecommunications. Such refusals by the government should, as with the power to override Authority decisions, be exercised only in exceptional cases. Government decisions that exercise the power to override the Authority and refuse prior approval must be submitted for public justification and may be challenged before the supreme administrative court (*Conseil d'État*). However, the need to combine prior approvals and the power to override is unclear, and reviewing applications for approval (which takes up to two months) lengthens the process faced by foreign firms.

Compensation for victims of anti-competitive practices has been partially eased

In addition to public enforcement of competition law, compensation for victims and the introduction of class actions may strengthen deterrence and equity. Although an individual consumer cannot refer a case to the Competition Authority, accredited consumer groups referred around 30 litigation cases between 1997 and 2012 (Conseil de la Concurrence, 2006; Autorité de la Concurrence, 2013). These referrals are used to report anti-competitive behaviours that the Authority has to investigate. In addition, businesses, consumers and local authorities can directly seek redress for anti-competitive practices before the courts. Damages can act as a deterrent, but their use could be improved further, despite the positive changes in the 2014 Law on Consumer Affairs (see below).

Consumers and businesses harmed by an anti-competitive practice may seek redress through the courts before or after a decision by the Competition Authority. Since 2005, 16 high and commercial courts specialising in competition law have been established, including eight civil courts competent to adjudicate cases between private parties. This framework enables the judiciary to develop complex competences combining legal and economic analysis, including determining the amount of damages incurred by victims of anti-competitive practices. The 2008 LME strengthened this expertise by entrusting the specialist courts established in 2005 with adjudicating anti-competitive practices in the wholesale and retail sectors.

The 2014 Law on Consumer Affairs enhanced complementarity between procedures for seeking redress and the actions of the Competition Authority. First, the Authority's decisions now constitute indisputable evidence in applications for redress by consumers and businesses. Previously, if the Authority held that an infringement of competition rules had taken place and took action against this, its decision could help victims bring proceedings for compensation, but this would not constitute conclusive evidence of fault in such claims, unlike the decisions of the European Commission. Moreover, the five-year limitation period for claims for compensation is henceforth interrupted while the Authority is reviewing the case, whereas previously the duration of competition proceedings frequently resulted in the expiry of periods during which claims could be lodged.

The 2014 Law also reformed the procedures for class action suits by consumers, in line with most of the recommendations in previous *Economic Surveys* (2009a, 2013a). Given the low amount of damages incurred by individual consumers, SMEs and local authorities, claims for damages in respect of anti-competitive practices are rare, even though, from a collective perspective, the sums involved are substantial and may act as a deterrent. Until 2014, accredited consumer groups could, in principle, represent consumers, such as through a class action. To participate, consumers had to give consent, but consumer groups were not authorised to advertise their intention to bring an action. For example, a well-known action concerning the arrangement between mobile telephone operators was dismissed in 2007 and 2010, because the consumer group had created a website about the intended action, infringing the advertising ban (Béteille and Yung, 2010). The new law authorises consumer associations to advertise their actions, but only once the initial ruling has been handed down, and reduces costs and uncertainties by strengthening the weight of prior Competition Authority decisions. Following the recommendations of the European Commission (Commission Européenne, 2013), the new regulations are based on the opt-in principle: following the ruling, consumers who come forward are compensated, while money that has not been claimed remains with the companies found guilty. The alternative would have been a tacit consent (opt-out) system such as in the United States, or more recently in Portugal, whereby all consumers affected must be reimbursed, and the unclaimed money is paid to a public fund. Class actions on competition cases can, in principle, be assigned to one of the 160 regional courts, which will require substantial training of judges in determining damages.

Class action proceedings are still restricted for anti-competitive practices, and, so far, no anti-competitive case has been brought to courts under the new 2014 law. First, action can cover only compensation for material damage suffered by consumers, excluding SMEs. This runs contrary to the recommendations of the European Commission and the Competition Authority (Commission Européenne, 2013; Autorité de la concurrence, 2012a). Smaller local authorities could also gain from being authorised to participate in class actions if they are victims of similar anti-competitive practices. Second, some sectors, such as public health and the environment, are excluded from the scope of allowed class actions, although extensions are under consideration. The draft law on health of October 2014 would introduce class actions for health damages. Third, the procedures can be lengthy: claims for compensation must follow the completion of all appeals against a decision of the Competition Authority or of the European Commission (as recommended by the European Commission in June 2013), when all possible recourses against the established infringements have been exhausted. Finally, only 16 accredited consumer groups are authorised to bring such actions. This may give them too much power (Gabaix et al., 2012) and could ultimately limit the expansion of class actions, while there is no evidence that allowing consumers and lawyers to initiate these proceedings as soon as a decision of the Authority or the Commission is handed down would give rise to an excessive number of proceedings.

More generally, the quantification of damage by the judiciary acts as little deterrence. In France, the burden of proof of harm lies with the victims, contrary to the European Commission's proposal that it should be established by the national courts (Sénat, 2013). In addition, the enforcement of competition law is not favourable to the direct victims of anti-competitive practices. French courts rely heavily on the "passing on" defence. For equity reasons (damages are set to be compensatory and not punitive), firms convicted of anti-

competitive behaviours can ask to compensate their direct victims only up to the amount of the price premiums they were unable to pass on to their own downstream customers. This practice enables indirect victims to be compensated and is in principle more equitable than limiting compensation to direct victims, but it also limits the enforceability of compensation (Combes et al., 2011). For example, in the case of the vitamin cartel in 2006, the Nanterre commercial court ruled out any claim for compensation, even though the claimant had chosen not to increase its prices, on the basis that this option was available to it. By contrast, the European Commission, in its directive of November 2014, states that companies which had engaged in anti-competitive practices may use the "passing on" defence, but that they are responsible for providing evidence that illegal overcharges were not fully passed on to their direct victims. The French judicial system is, however, set to become much more favourable to victims and deterrence in 2016, once the European directive for antitrust damages adopted in November 2014 is implemented.

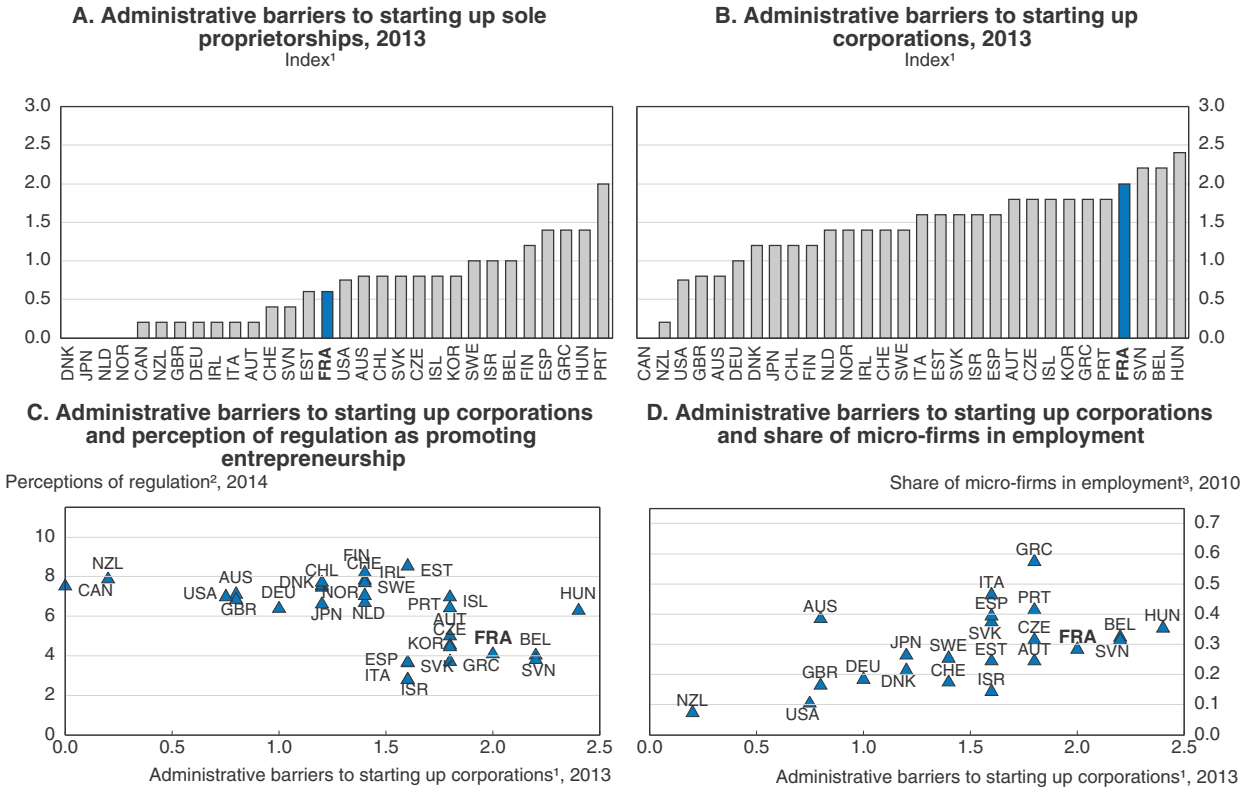
The competitive implications of the administrative and legal environment are uneven

Beyond appropriate regulation, stimulating competition requires creating an overarching administrative and legal environment that is itself conducive to corporate life, and to starting up and growing businesses. Overall, in international surveys, business leaders see the French legislative and regulatory framework as undermining competitiveness, due to a plethora of regulations and their perceived lack of transparency (World Economic Forum, 2013; World Competitiveness Center, 2014). Certain barriers prevent new entrants entering the market, while business development is constrained by a complex regulatory and fiscal environment, and investor protection appears lower than in many OECD countries. Streamlining administrative procedures, including the tax system and government support, as well as increasing funding opportunities for innovative start-up businesses, together with improving public procurement practices, would allow substantial productivity gains and growth.

The regulatory environment has begun to be streamlined

France is among the OECD countries for which administrative barriers to starting up a sole proprietorship firm are low, according to OECD PMR indicators (Figure 2.6, Panel A), while the barriers to establishing corporations are significant (Panel B). These barriers take into account the number of procedures involved and the number of institutions to be contacted to register a company, as well as filing a company name, opening a bank account or establishing a formal contract between partners, the duration and cost of these procedures and the minimum capital required. They correlate strongly, in international comparison, with entrepreneurs' perception that regulations hinder company start-ups (Panel C) and with small enterprises' relatively large share in employment (Panel D). In particular, in France, the procedures leading up to the process of registering a company are lengthy, while the registration process itself is relatively easy, according to OECD indicators and "Doing Business 2015" (World Bank, 2014). Furthermore, the number of rules that can in principle be applied is excessive (Lambert and Boulard, 2013). These rules, which are partly justified by public policy objectives, often dwell too much on the details of technical requirements, which restrict competition between enterprises, activity and productivity, and ultimately become inconsistent with technological developments.

Figure 2.6. **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 Database* (Panels A, B, C and D); *World Competitiveness Center*, 2014 (Panel C); OECD and Eurostat (2014), *Structural Business Statistics* (Panel D).

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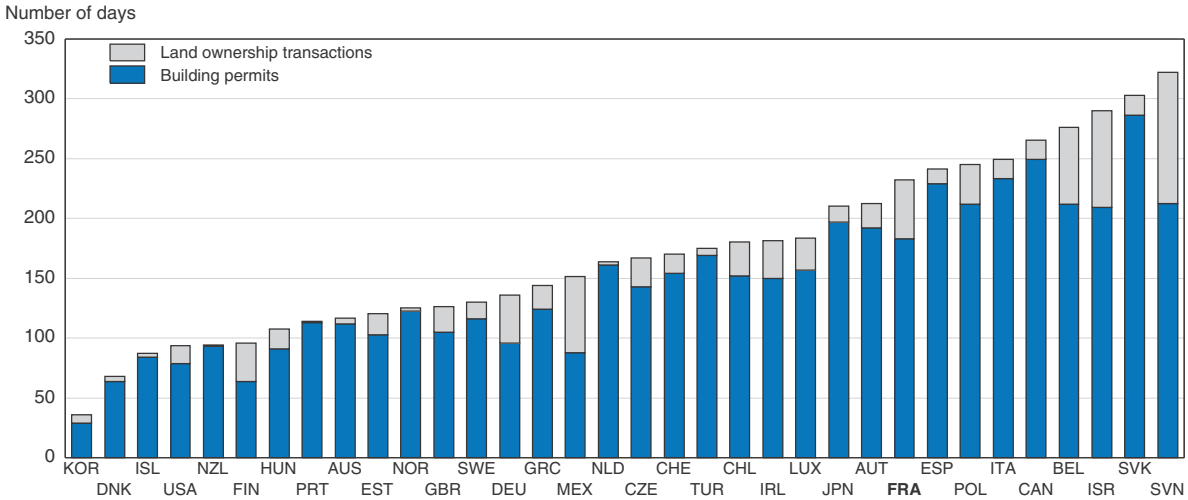
The application procedures for building permits and land ownership transfers are slower than in most OECD countries (Figure 2.7). It takes more than eight months to obtain a building permit for a typical warehouse in France, compared with less than five months in Germany or the United Kingdom. The costs of getting a building permit increased sharply in 2012 and in 2013 (World Bank, 2014), due to the impact of new rules, such as environmental standards. The government's recent commitment to reducing the duration of building permit procedures to a maximum of five months and to streamlining the 3 700 rules governing the construction of buildings and houses is welcome (Président de la République, 2014). For example, for fire extinguisher installations, though not mandatory, a national certificate was usually required and contributed to a hike in prices (Autorité de la Concurrence, 2013), while the upgrading of lifts, mandated by law, is also believed to have contributed to large price increases and added costs to tenants (UFC Que Choisir, 2008). But this streamlining should be combined with a comprehensive reform of local planning regulations, with responsibility for the latter entrusted to supra-municipal institutions that would enable competences to be shared, externalities between municipalities to be internalised and procedures for enterprises to become clearer (OECD, 2014b). The 2014 Law on Access to Housing and Town Planning Reform (Alur) has only partly strengthened the transfer of planning powers to *intercommunalités*.

Figure 2.7. **Estimated duration of procedures for building permits and land ownership transactions, 2014**



Source: World Bank (2014), *Doing Business 2015*.

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Most recent initiatives have focused on streamlining the business environment. In 2013, as part of the "*choc de simplification*" (streamlining drive), more than 100 streamlining measures for businesses were announced and are now being implemented. In addition, a new Business Streamlining Council (*Conseil de la Simplification pour les Entreprises*) was established in January 2014 and is responsible for proposing strategic streamlining guidelines to the government concerning businesses. It presented 50 new such measures in April 2014 and 50 additional measures in October 2014. It plans to propose new measures every six months. However, the introduction in 2015 of a single sole proprietorship system, i.e. "micro-enterprise", a compromise between tradesmen and micro-entrepreneurs (Grandguillaume, 2013), has created additional obligations for smaller entrepreneurs. The reform did introduce some streamlining and retains the key features of the existing micro-entrepreneur system (the *auto entrepreneurs*), but small business owners working in the craft industry, for example, must now complete a training course before starting up, register with the chamber of trades and crafts and pay tax on local chambers' fees. In addition, in 2015, all micro-enterprises will be liable for the business property tax (*cotisation foncière des entreprises* – CFE). Since three-quarters of "*auto entrepreneurs*" said they would not have started up a business without this status, and 23% said they had registered an existing grey-zone activity (Barruel and Thomas, 2012; Deprost et al., 2013), the current reform could limit start-ups and increase the size of the informal economy.

The government has taken measures to avoid excessive burdens on businesses due to new regulations. A freeze was introduced on regulations imposed on local authorities, businesses and the public in 2013. The administrative and economic burden of any new law or regulation must be evaluated through an impact study. Moreover, the administrative and economic burden of new regulations must be offset by the removal or relaxation of existing rules. However, an initial moratorium introduced in 2010 to freeze the proliferation of rules affecting local authorities failed to curb the flood of standards (CCEN, 2013). In addition, at the request of the Prime Minister, the Business Streamlining Council spoke for the first time, in June 2014, about the entry into force of a new regulation,

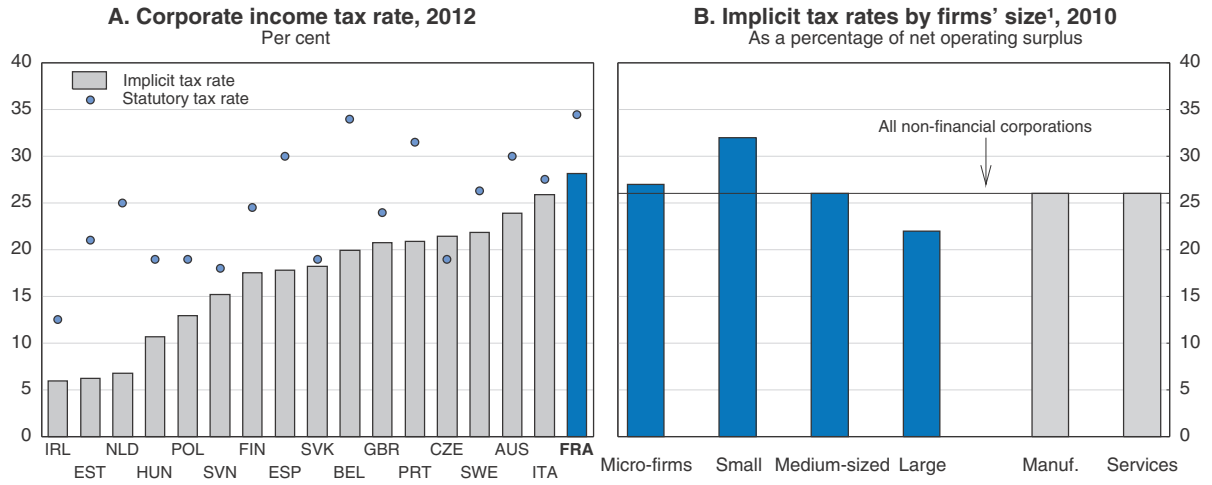
the "*compte de pénibilité*", a points-based system designed to take into account strain at work in calculating pension and training rights. Its judgment highlighted the lack of prior evaluation of the effects of such a large-scale reform. It would therefore be necessary to enhance prior economic impact studies, even though impact studies by ministries have been an institutional requirement since 2009 (OECD, 2010a). Any new rule or regulation should be subject to prior review of its necessity, and the assessment of its economic impact should be evaluated by an independent body (to ensure it can better withstand pressure groups), in line with the recommendations of the Competition Authority (Autorité de la Concurrence, 2012b) and the OECD (2010a); the government announced the creation of an independent oversight body in January 2015. More generally, the government should build on a thorough evaluation of the results of its current simplification efforts to deepen regulatory reform. It should continue to ensure an adequate contribution from all relevant stakeholders, and communicating on the positive results will be instrumental to ensure broad based support for the reform.

A systematic review of existing regulations from a competition perspective by an independent authority should also be established according to a set schedule, and then implemented rapidly. Targeting general practices, rather than specific sectors, could aid reform, even if problems specific to certain sectors and regulated professions persist (see below). The accumulation of legislative and regulatory instruments over time creates potential barriers to competition due to the resulting complexity. In this area, the OECD (2011a) developed a method to evaluate, from a competition perspective, the regulations applicable to different sectors of the economy and to identify pro-competitive alternatives. This method has been used successfully in other countries and would help the French authorities to enhance the regulatory framework and increase its consistency with the principles of competition. In line with the OECD methodology and building on its own experience, in 2012 the Competition Authority published its own guidelines to help policymakers to assess the impact of draft regulations on competition. These guidelines also set up the framework of both mandatory and optional regulation reviews that may be submitted to the Authority. Going further, a systematic review of existing regulations, together with dedicated resources, could be entrusted to the Competition Authority or to the French Court of Auditors. When this review would identify a rule that restricts competition excessively (compared to its public policy objectives), it should be systematically amended, unless the government asks the responsible agency to prepare a second opinion for public submission, to enable a final review within a pre-set deadline.

Bottlenecks persist in the tax system, in the allocation of subsidies and in social security thresholds

The tax system remains complex for firms. It contains multiple tax expenditures depending on the number of employees and turnover, and, as in other countries such as Canada, Korea or Spain, SMEs are subject to a reduced rate for the corporate income tax (15% instead of 34.4%). At the same time, large, notably multinational, companies have more opportunities to optimise their tax deductions (OECD, 2013b), and, as a result, statutory and effective rates differ markedly. The average effective tax rate is high and has a hump-shaped distribution across firm size, which may discourage the growth of young dynamic firms (Figure 2.8; CPO, 2010). Broadening the tax base by paring tax expenditures, and establishing a single, steady and lower corporate tax rate for all firms would provide stronger incentives for business growth, better align corporate taxation with the EU

Figure 2.8. **The tax system is complex**



1. The sample covers profit-making businesses only.

Source: OECD (2014), *Tax Database* and Eurostat (2014), *Taxation Trends in the European Union* (Panel A); 2013 Finance Bill, *Rapport sur les prélèvements obligatoires et leur évolution* (Panel B).

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average and limit opportunities for tax avoidance. Indeed, in France, lower statutory tax rates have been associated with stronger firm growth and an increase in the propensity to export (Bernini and Treibich, 2013).

Businesses have to meet different formal organisation criteria, such as the presence of union representatives, employee and security committees, depending on their number of employees. These create staffing thresholds that may hamper the growth of young firms and thus affect competition and competitiveness. For example, a staff representative must be elected if the business has more than ten employees; it is mandatory to set up a staff committee (*comité d'entreprise* – CE) and a hygiene, safety and working conditions committee if the business has 50 or more employees; and there are additional requirements regarding meetings of the CE if the business has 150 or more employees, and so on. In general, these staffing thresholds were designed to promote SMEs, as opposed to larger companies, while avoiding concentrating new provisions around a single threshold, which explains the multiple thresholds (Attali Commission, 2008). However, these thresholds hinder, rather than promote, young firms' growth, in comparison with large firms. According to Ceci-Renaud and Chevalier (2010), these threshold effects explain only some of the size differences between France and Germany, but structural estimates of their impact on GDP and competitiveness are significant, although heterogeneous. Gourio and Roys (2014) estimate a cost of 0.3% of GDP for the single threshold of 50 employees; Garicano et al. (2013) estimate that this same threshold could cost between 0.5% and 4.5% of GDP, depending on the degree of downward wage rigidity.

A far-reaching reform aimed at a substantial streamlining of all tax and social security obligations that may create staffing thresholds and hamper firm growth, as well as of the labour code and its enforcement, is required. The complexity of the labour code and the uncertainty surrounding the decisions of the labour courts disproportionately penalise young firms. The foreseen professionalisation of the labour courts in 2015 is likely to bring significant benefits. However, it would also be useful to harmonise the different social

security and union representation functions, by establishing a single staff council in companies with fewer than 250 employees. Furthermore, continuing to smooth out social security thresholds, as initiated by the 2008 LME would be beneficial. Experiments could be organised to assess their constraints on employment. However, a temporary suspension of some thresholds, as proposed by the government, is questionable (Bellan, 2014), because such a measure would lead to increased uncertainty.

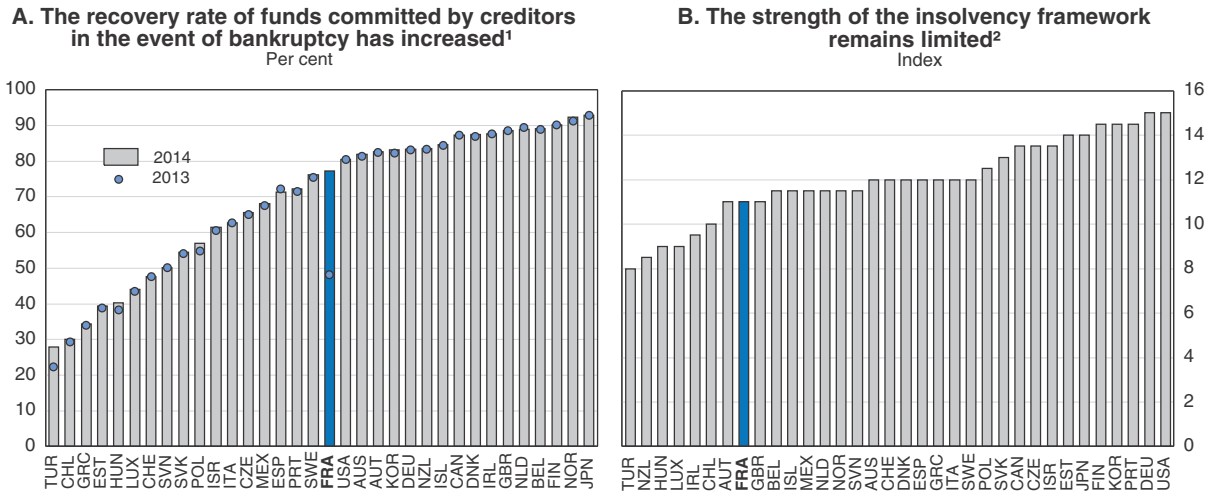
The direct subsidies and tax incentives for businesses are also numerous and of varied effectiveness. Although there is a centralised Internet portal listing support available for businesses, administrative costs are substantial and access is unequal, in part because of the different practices of the plethora of agencies and local governments in charge of the support systems. The dispersal of subsidies into multiple small grants also hinders the coordination of their different policy objectives and their evaluation. Making the region the sole decision-maker on local subsidies, as recommended by Demaël et al. (2013), would allow a better trade-off between taking into account local specificities and the need to coordinate such schemes, and strengthen the existing governance structure, as regions are already in charge of many local subsidies.

The complexity of some tax incentive schemes can also rule out young firms and SMEs. For example, introducing smaller and more targeted tax credits for R&D and reducing overall corporation tax could do more to stimulate innovation than the current generous tax credit system, which tends to favour larger firms (OECD, 2014c and 2014d). More generally, the links between the evaluation and evolution of subsidies and tax incentives need to be strengthened. For example, numerous studies have shown that some local tax-deduction schemes in deprived neighbourhoods (*Zones Franches Urbaines* or *ZFU*) were ineffective at creating local jobs, harming competition and generating significant displacement effects within municipalities (Givord et al., 2013; Mayer et al., 2013; Briant et al., 2014). The reform of ZFU in 2014 has scaled down possible corporate income tax deductions and increased subsidies for local job creation, but the schemes have been maintained up to 2020.

Enhanced protection of investors could improve business financing

The lack of financing for young firms, SMEs and ISEs could also explain their low growth and harm competition. In France, debt is the main source of business financing, particularly for SMEs. Although constraints on bank lending do not seem to weigh more heavily than elsewhere in Europe (OECD, 2013a; European Commission, 2013b), they could become more binding following the tightening of banking regulations (see the Assessment and Recommendations). French bankruptcy law stands out by international comparison due to a relatively low debt recovery in bankruptcy proceedings, according to judgements by national specialists, despite recent progress (Figure 2.9, Panel A), and, more generally, to an insolvency framework that could be improved (Panel B). Effective debt recovery rates tend to be lower than in Germany and the United Kingdom (Davydenko and Franks, 2008). This is partly explained by employees' rights, whereby the payment of salaries takes priority in the event of business failure, and by the precedence given to shareholders. However, the relatively low creditor protection may create funding problems for independent, dynamic SMEs. Their high-risk profile makes them particularly dependent on bank loans for investment and, where applicable, on buyouts by large firms (Chai and Nguyen, 2011; Chertok et al., 2009). In addition, the priority given to shareholders and employees may encourage unviable firms to stay in business. Resources allocated to such

Figure 2.9. **Business financing and investor protection, 2014**



1. As a percentage of the initial investment recovered.
2. Index scale from 0 to 16, from the system the least (0) to the most (16) able to rehabilitate viable firms and liquidate nonviable ones.
Source: World Bank (2014), *Doing Business 2015*.

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"zombie companies" could instead be devoted to starting up new businesses and boosting productivity, growth and employment (de Serres et al., 2006; Bravo-Biosca et al., 2013).

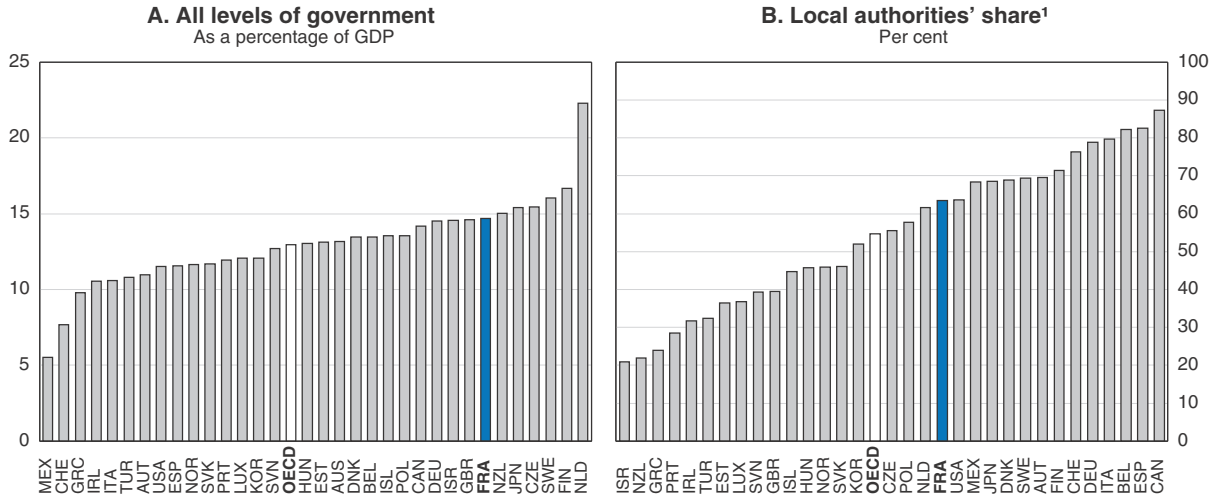
Some measures taken in March 2014 enhanced creditors' rights and the detection and prevention of difficulties facing firms. Creditors can now propose a plan to the court concurrent with that of the business managers in bankruptcy and recovery proceedings. In addition, administrative streamlining has, in principle, reduced the duration and costs of proceedings for creditors. However, improving bankruptcy proceedings would also require reviewing the rules governing access to and the method of remuneration of court-appointed administrators and curators. For example, the *numerus clausus* practice of the court-appointed curator profession restricts competition and is not based on a guarantee of expertise, which could further increase bankruptcy costs for creditors (Plantin et al., 2013).

More generally, measures to help diversify the financing of SMEs and ISEs are welcome at a time when bank financing could be scaled down (Wehinger, 2012). Since August 2013, insurance companies have been able to invest in such firms. In addition, the creation of a new pan-European stock market for SMEs in May 2013 could improve their access to financial markets. The fact that the new public investment bank (*Banque Publique d'Investissement* – BPI) set up in 2013 targets the financing of non-large firms by grouping together several existing institutions is also a step forward to co-ordinate public actions (OECD, 2014c and 2014d). However, the reactivation of the *fonds de résistance* (economic resiliency fund) in November 2013 is questionable. This fund aims to provide loans, subject to certain conditions, to struggling ISEs that apply for such support. The fund has limited resources, and the deadweight costs may be significant in situations where problems in access to credit are not proven (Fontagné et al., 2014). Continuing to increase the supply of business financing by changing tax incentives, which are now biased towards the housing sector (OECD, 2013a), in part through regulated saving accounts (such as the *livret A*) would be desirable.

Efforts to introduce more professional modes of public procurement must continue

Public procurement procedures and practices have important implications for competition, public finance and long-term growth. Public purchasing was estimated to account for nearly 14% of GDP in 2011 (Figure 2.10, Panel A), of which local authorities account for a significant proportion (Panel B). Several positive features characterise public procurement procedures. For example, the share of SMEs is considerable, at nearly 58% of contracts and 28% of their total value in 2012, without taking into account sub-contracting (OEAP, 2014), and simplification efforts in 2015 may further improve this situation. Similarly, the number of computerised and paperless procedures is relatively high (OECD, 2013c). However, the excessive formalisation of certain criteria may lead to including "best endeavours" obligations, rather than those based on results or performance, within the specifications of calls for tender, harming competition (OECD, 2009b). For example, in implementing the personal training account (see Chapter 1), awarding training contracts will require formalising the definition of one hour of training, rather than adhering to performance criteria, which may generate excessive administrative costs for large training providers, such as the unemployment agency (Pôle Emploi), and limit workers' choice. Furthermore, several specific factors limit competition in public procurement procedures.

Figure 2.10. **Size of government purchases, 2011**



1. Proportion of government purchases, excluding social security bodies.
Source: OECD, *Government at a Glance 2013*.

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Barriers to participation by foreign companies can reduce the effectiveness of tender procedures. Entrepreneurs perceive the openness of French public tenders to foreign companies as limited (World Competitiveness Center, 2014). In addition, the share of foreign businesses in public purchases appears low compared to other European countries, although international comparisons are difficult (PwC, 2014). Their participation in tender procedures is restricted by the cost of preparing bids, but also by linguistic barriers, since calls for tender are primarily published in French. Administrative barriers, where response deadlines are sometimes too short, and organisational hurdles, where social security clauses can be difficult for foreign businesses to understand and apply (Autorité de la Concurrence, 2013), are also limiting factors. In practice, contracts with social security clauses, such as the employment of local long-term unemployed or disabled workers, are

more often awarded to local candidates than other types of contracts (OEAP, 2013). Therefore, the plans to develop such contractual clauses in 2015 should take into account their potential detrimental effects on competition. Last, the territorial fragmentation of public procurement procedures can also restrict their intelligibility, as suggested by the low share of foreign businesses in contracts awarded by local authorities (OEAP, 2012), although this may be partly due to subsequent contract-monitoring obligations.

Due to the small size of local authorities, the scope for introducing more professional modes of public purchasing may be limited. Local authorities awarded nearly 54% of all public contracts in 2012 (OEAP, 2014), and municipalities' external spending rose faster than prices in 2012 and 2013 (Observatoire des finances locales, 2014). For example, fragmented local management of household waste does not encourage the development of contracts of sufficient size to curb the increase in costs (Cour des comptes, 2011a), although in some regions, such as Nord-Pas-de-Calais, joint contracts for several municipalities have been awarded. The ongoing development of a new e-procurement system by the main central public purchasing office (UGAP) may help to encourage co-ordination between the different levels of government and improve efficiency. However, introducing paperless procedures for public procurement does not guarantee greater collaboration among local authorities. Many of them are developing their own e-procurement systems. This leads to duplication and may also hamper co-operation between different levels of government, since these systems are rarely interoperable (European Commission, 2014b). A comprehensive strategy, such as recommended by the OECD (2014e), to encourage the transition to e-procurement and to co-ordinate its implementation would save money, improve transparency, reduce administrative delays and increase competition. Efforts to strengthen public procurement would also require encouraging procedures by central purchasing offices or project management support services, as recommended by the Competition Authority (2013) in the case of urban transport, and merging small municipalities and inter-municipal institutions.

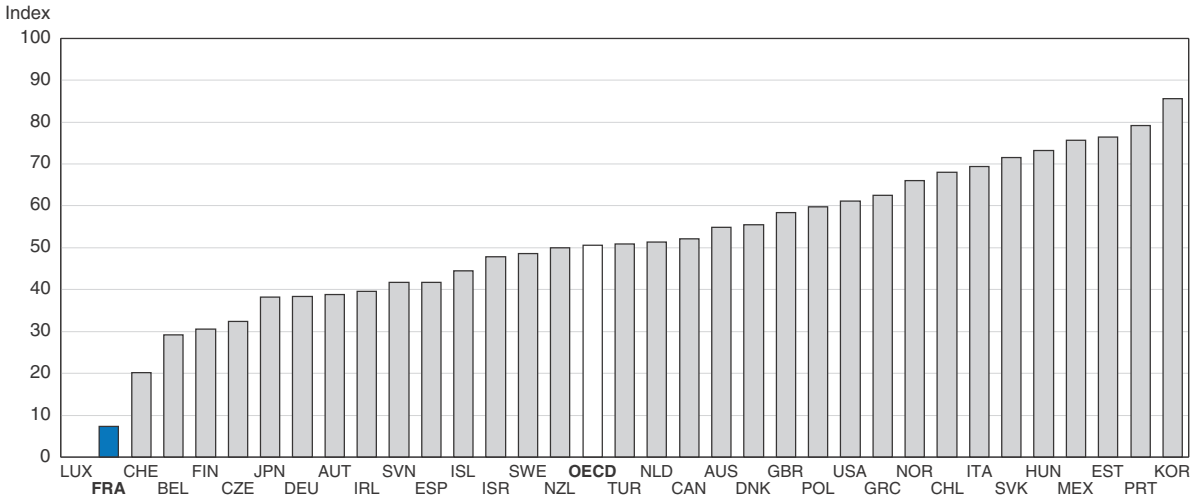
The territorial fragmentation of public procurement may also restrict competition opportunities and the enforcement of penalties for anti-competitive practices. First, some contracts in smaller municipalities do not exceed the critical thresholds required under national implementation of EU law. As such, in 2012, 26% (expressed in value) of public contracts referred by local authorities to the Economic Observatory for Public Procurement (*Observatoire Économique de l'Achat Public*, OEAP) were awarded under adapted procedures entailing more relaxed advertising and competitiveness obligations, compared with 11% for those referred by the central government and 5% for those referred by network operators. Although the reduced formalism of these procedures is adapted to the value of the contracts, it also makes auditing them more difficult. Second, the small size of the municipalities can actually prevent them from seeking redress for anti-competitive practices. Most of the 36 700 municipalities do not yet have the resources and incentives required to undertake costly legal procedures, particularly if the losses they incur individually are low, such as in the case of the mobile telephone cartel penalised in 2005. They should therefore ultimately be included in the new class action procedure discussed above to enhance deterrence.

More generally, the fragmentation of regional powers may contribute to corruption, particularly in public procurement, despite the strict procedures in place (SCPC, 2012 and 2014). Bertrand et al. (2008) identified a positive correlation between local election timelines and employment within large industrial groups, depending on their link to the

outgoing candidate. This correlation reflects the existence of *quid pro quo* for the businesses concerned. In France, six in ten companies view corruption as an obstacle to their growth, while the European average is only four in ten (European Commission, 2014b). The level of transparency required of politicians and magistrates was until recently relatively low (Figure 2.11), which is not conducive to preventing and detecting illicit conflicts of interest (OECD, 2010b; Djankov et al., 2010). Following a political scandal in early 2013, several important measures were adopted in this area. In 2013, protection for civil servants reporting corruption was enhanced, as was the required transparency of local politicians' finances. However, civil servants must always notify their superiors before reporting suspected corruption, and some local civil servants are not subject to mandatory asset declarations (SCPC, 2014). In any case, the conditions for accessing asset declarations are very strict, and easing them would surely improve how this information is used, even if close supervision is necessary to preserve privacy.

Figure 2.11. **Transparency of the assets and private interests of public decision makers, 2012**

Index scale from 0 to 100, from lowest to highest level of transparency[1]



1. Transparency covers not only the degree of declaration of assets and private interests but also the extent to which this information is publicly available. The OECD survey relates to politicians of the central government and magistrates.

Source: OECD (2012), *Managing Conflict of Interest Survey*, cited in OECD (2013), *Government at a Glance*.

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Developments in competition in various sectors: Some progress, but results are mixed

The extent of sectoral regulations varies. Some sectors, such as retail trade and financial services are competitive by nature, but the degree of competition they experience appears to be diminished by trade-distorting regulations. For example, internal regulations that are often adopted by the Ministries in consultation with professional associations frequently bolster the position of "insiders". By contrast, network industries often include segments that constitute natural monopolies, and introducing competition there is difficult (or even impossible). In that environment, the regulatory framework should be designed to ensure non-discriminatory access by third parties to the networks and competition introduced into segments that have competitive potential. The network industry where competition has made most progress is telecommunications; by contrast, there is still room for improvement in the transport and energy sectors.

The regulations and formalities are excessive in some professions

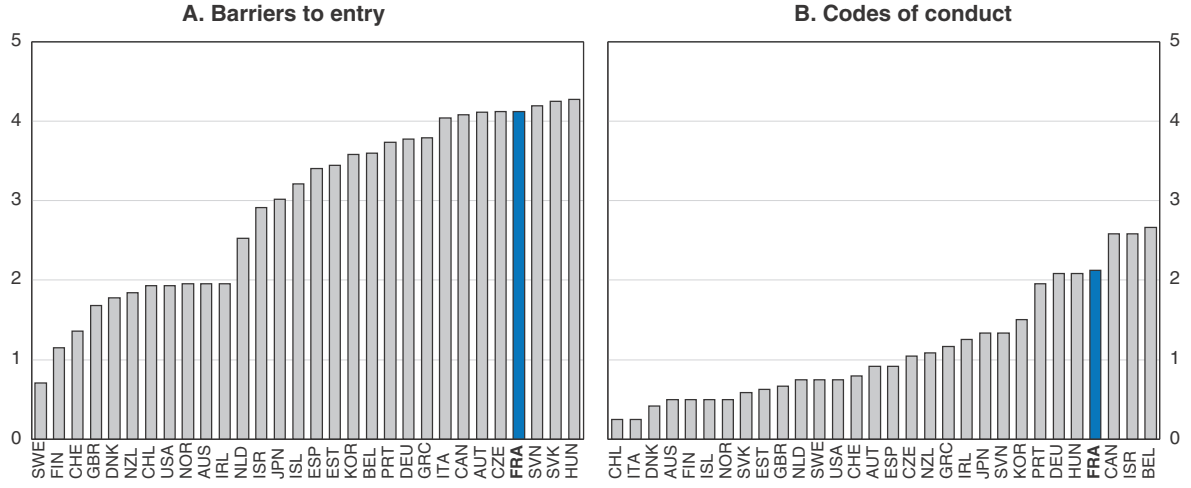
Professional services play a key role in the business services market, accounting for 12.4% of GDP and 13.5% of employment in France – more than manufacturing, without taking into account growing output of services by manufacturers (Crozet and Milet, 2014). In most OECD countries, many professional services are subject to a raft of regulations (in the form of self-regulation and/or government-imposed regulation), some of which have a direct impact on competition. The main barriers to entry include the minimum number of years of study required to pursue the profession and additional examinations for recognition as a full member or a *numerus clausus* (quota). Restrictions on practice include price controls, advertising bans and a protected framework of tasks that the professional is allowed to perform and/or the legal form of the business through which services are to be supplied. In France, the Treasury estimates that over 10% of the active population works in a regulated profession.

The various regulations can stifle competition, even if they are usually motivated by market failings stemming, for example, from information asymmetries between the professional and the client. The restrictive nature of regulatory barriers in certain professions varies considerably across OECD countries, suggesting that, in some, barriers to entry and restrictions on practice go beyond what is necessary to ensure adequate consumer protection. In particular, for architectural, accountancy and legal services, barriers to entry and controls on practice in France are among the highest in the OECD (Figure 2.12). Conversely, there are no particular regulatory barriers to entry to the engineering profession either for French or foreign companies, suggesting that it should be possible to reach a better balance between quality control, integrity and competition in architectural, accountancy and legal services.

The 2014 Law on Consumer Affairs, together with other reforms under way, will, to some extent, strike a new balance between consumer protection and competition. It ended pharmacists' monopoly on the sale of certain products (such as pregnancy tests),

Figure 2.12. **Regulations 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), *OECD Product Market Regulation Statistics*.

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restrictions on some optical products and the ban on advertising for legal professionals. At the same time, the restriction on the number of salaried notaries was eased and some requirements on own funds for accountants were removed. The draft "growth, activity and equal economic opportunity" law suggests three further improvements to the regulations of legal professions (Box 2.1). First, the framework determining the fees for some of the regulated tasks reserved for these professions would be reviewed by the Competition Authority. Indeed, regulated fees for certain tasks have changed little over time and have not been updated with technological gains. The professionals would also be able to apply some fixed discounts to all their clients, and these discounts would have to be public and transparent. Second, the Competition Authority would become the *de facto* entry regulator for some legal professions, identifying local zones where new entries could potentially be refused by the Justice Minister and examining potential demands of new installations in these zones where incumbents would be able to claim damages until six years after the creation of a new office. The possible damage claims will limit the opening of new offices, and much will therefore depend on the definition of the zones where new entry will be liberalised and on the implementation of the compensation mechanism. Third, some restrictions on participation on company boards would be lifted, as the draft law would allow joint participation in judicial and legal companies for all professions in the sector, but external investment would remain banned.

However, some regulated professions remain sheltered from competition. For example, the restricted access to external sources of funding for accountancy and veterinary practices restricts competition and deprives businesses of potential scale economies (Cahuc and Kramarz, 2004; Attali Commission, 2008). There was only limited progress in widening capital participation for accountancy practices in April 2014, when the requirements moved from a majority holding by accountants registered in France to a two-thirds holding by European accountants, and the veterinarians' code of ethics still prevent non-veterinarian investors from funding their activities. Furthermore, taxi drivers and health-care professionals still encounter significant barriers to access and practice. Some of the restrictions on advertising are too burdensome, for example in pharmacy, where they *de facto* constrain the opportunity to move into online trading (Autorité de la Concurrence, 2014a). Moreover, only certain medical professions whose activities are paid for by the taxpayer should continue to be subject to restricted access through a quota mechanism. Health professions are to be reformed in the summer of 2015, but neither significant changes to pharmacies' monopoly nor a review of existing quotas for students are likely.

Such changes must be planned without unduly harming current practitioners, who had to make a significant investment in order to enter the profession, and without undermining the rule of law. For example, becoming a taxi driver requires passing a professional examination and acquiring a licence. Although a framework is needed to ensure passenger safety and minimum service standards, the number of licences would appear to be too low. Any new licences that are issued can, in principle, be obtained free of charge from local authorities, but the waiting lists are long – 15 to 20 years in Paris (Autorité de la Concurrence, 2014a). Since the law of October 2014, new licenses are set for five years and renewable, and they cannot be sold. However, the number of taxis is low, chiefly to the benefit of licence owners, and whilst fares are regulated, price competition is limited and demand predictable. The alternative is to buy an existing licence costing on average more than EUR 200 000 in Paris and over EUR 350 000 in some towns on the Côte d'Azur, or to rent a licence. The upwards trend in prices for licences indicates growing consumer

transfers to licence holders, although the criteria governing the award of licences are less than perfect and local authorities have difficulties monitoring the existing licenses, which may lead to tax evasion and hamper the potential effectiveness of regulation (Bacache-Beauvallet and Jarnin, 2009). At the same time, the capitalisation of rents in licence prices exposes licence holders to potential policy changes and technological upheaval such as the rise of mobile Internet access and private-hire vehicles, and restricted supply encourages consumers to look for alternative solutions.

Several reforms of regulated professions have been successfully introduced in OECD countries. For example, taxi licences were withdrawn in New Zealand in 1988, and, as a result, the number of taxis rose by two-thirds in five years and, in real terms, fares fell (OECD, 2007). Payment of a partial indemnity to existing holders based on harm suffered, as in Ireland, could facilitate reform. The successful introduction of a reform of this kind would make it possible to remove restrictions that are difficult to implement, foster innovative supply and head off the temptation to introduce further regulations to reduce the distortions created by the low number of licences, such as excessive formalisation of the profession of PHV driver to protect the value of taxi licences. In that regard, relaxing taxi fare regulations, at least for advance bookings, would appear appropriate (Autorité de la Concurrence, 2014a). By contrast, whilst proportionate qualitative regulation of PHV services is justified, it should not preclude the development of low-cost suppliers, nor should restrictions on their activities be imposed. An initial draft regulation introducing a minimum period of 15 minutes between booking a PHV and client pick up was suspended by the Conseil d'État in 2014 following a negative opinion from the Competition Authority (Autorité de la Concurrence, 2014a), which was of the view that it introduced restrictions that could not be justified in the general interest. However, the Thévenoud Report (2014) proposed again to limit mobile electronic booking to taxis. The final version of the law adopted in October 2014 does not set a time constraint between the booking of PHV services and client pick up, but it forbade PHV to publish their location and availabilities through mobile devices.

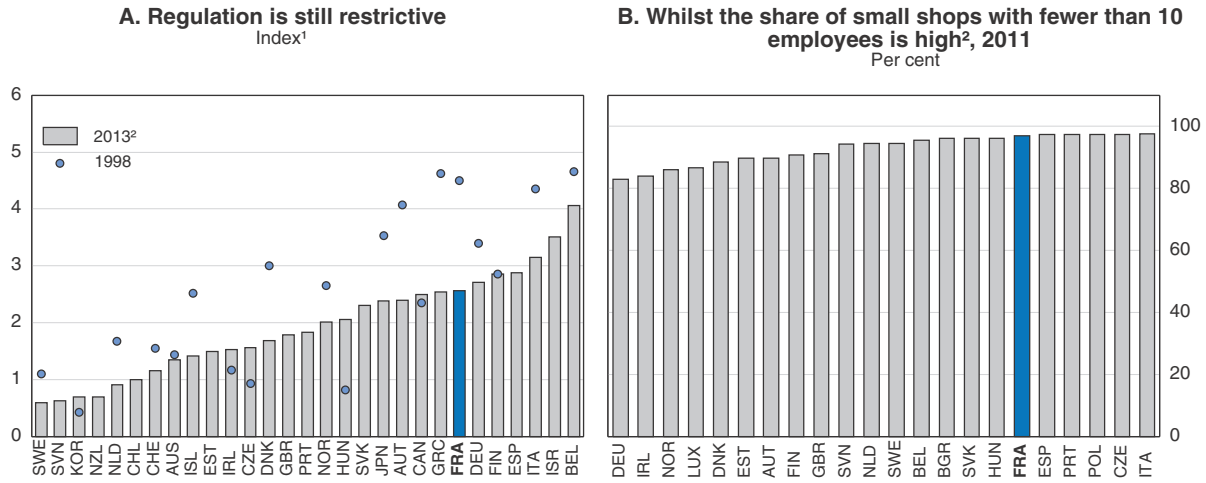
The regulatory constraints on wholesale and retail trade have been partially relaxed

France has a high level of anti-competition regulation in wholesale and retail (Figure 2.13, Panel A) and a significant number of small shops where productivity is low (Panel B). This sector accounts for 4.3% of GDP and employs 7.5% of the workforce, but the share of employment in retail is among the lowest in the OECD, despite France's attractiveness to tourists, even if the low rate is due in part to greater efficiency in French businesses in this sector. Market outcomes are influenced by restrictions on negotiations between retailers and suppliers, protective price frameworks and commercial zoning practices.

The protective framework for prices and commercial relations has been relaxed

The 1996 Galland Law provided a restrictive framework for commercial relations. The standardisation of general conditions of sale, the prohibition on suppliers adjusting their selling prices for different retailers and the imposition of a minimum sale price or resale below cost (RBC) threshold for retailers led to significant price rises. In particular, in order to ensure an acceptable income for small retailers, the RBC threshold was the price on the retailers purchase invoice minus all the financial benefits agreed by the seller (and plus specific resale charges and transport costs). That definition, especially the fact that it did

Figure 2.13. **Commercial regulations are restrictive**



1. Index scale from 0 to 6, from least to most restrictive.
2. Share of all enterprises.

Source: OECD (2013), *Product Market Regulation Statistics* (Panel A); Eurostat (2014), *Structural Business Statistics, Classification into 64 Sectors* (Panel B).

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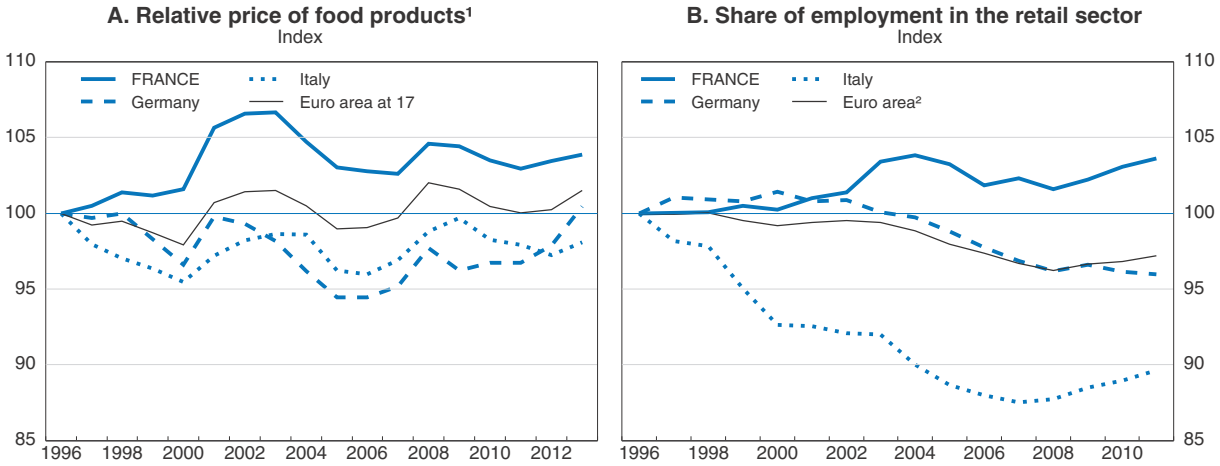
not incorporate any of the discounts not yet in place at the time of sale (e.g. discounts conditional upon attainment of certain objectives), meant that it was possible to manipulate the wholesale and retail prices. By making any discounts that were not conditional appear as if they were, it was possible artificially to raise the RBC threshold and set a high standard minimum resale price, as illustrated by the large number of cases involving vertical cartels in the distributive trades (Perrot et al., 2008).

The Dutreil (2005), Chatel (2008) and LME (2008) Laws gradually decreased the regulatory burden on commercial relations. On the one hand, they enabled a drop in RBC thresholds by taking full account of the discounts not yet earned at the time of sale. On the other hand, contracts between retailers and suppliers can now lay down different prices for different retailers, a relaxation that has resulted in favourable changes in prices and employment (Figure 2.14). Whilst between 1996 and 2003 relative food prices had risen more quickly than in the euro area and France's main neighbours and the share of employment in the sector had stagnated, the decade to 2013 saw a relative fall in food prices and an increase in the share of employment in retail trade, though the trend in neighbouring countries was downwards. In fact, retail price sensitivity to local competition has risen significantly. Additionally, price differences between distributors' and major national brands (which are subject to less competition from distributors and enjoy substantial advertising budgets and were therefore better able to benefit from the old definition of the RBC threshold) have been reduced (Biscourp et al., 2013; Biscourp, 2014).

However, retail price regulation remains relatively strict and still restrains competition between brands. Retailers are still not allowed to sell below cost, in contrast to most other European countries. Predatory pricing from a dominant market position is already prohibited under competition law; the prohibition on resale below cost is therefore superfluous. In any event, it is costly and difficult to police, and its benefits are uncertain. Moreover, sales periods, when reselling below cost is allowed, are restricted to certain dates. Even though the LME had introduced greater flexibility, the possibility for shops to

Figure 2.14. **The relaxation of commercial regulations in the 2000s was good for prices and employment**

1996 = 100



1. Price of food products corrected for general inflation.
2. Euro area of 17 excluding France, but also Greece, Ireland and Spain, for which data are missing.

Source: Eurostat, *Harmonised Price Index* (Panel A); Eurostat, *Database of National Accounts 2014, Classification into 64 Sectors* (Panel B).

StatLink http://dx.doi.org/10.1787/888933192755

set their own limited sales periods was eliminated in 2015. Finally, price competition is restricted for certain pharmaceutical products, car spare parts and books. For example, the method whereby the prices of medications that are reimbursed by sickness insurance are determined on the basis of minor technological differences is questionable (Bergua et al., 2012). Competition for non-prescription drugs is also limited by pharmacies' monopoly on many products, their low negotiation margins compared to the major laboratories and lack of consumer information (Autorité de la Concurrence, 2014a). This may help explain the steady rise in consumption of medicines until 2011 (Le Guarrec and Bouvet, 2014), which remains among the highest in the OECD (OECD, 2014f). Similarly, the price of car repairs has increased extremely fast since 2000, in part because of the legal monopoly of car producers on visible spare parts (Autorité de la concurrence, 2013). Moreover, distortions in book prices may have restricted consumption, particularly of some mass market items where the price elasticity of demand is highest (Perona and Pouyet, 2010), although since 2000 the average price of books has risen more slowly than general inflation, on a par with the European average (Besson and Morer, 2013; Eurostat, 2014a).

The commercial zoning code is complex and restrictive

The provisions of the commercial zoning code are restrictive. The Royer (1973) and Raffarin (1996) Laws attempted to halt superstore developments that would compete with small shops by preventing their construction. For example, the Raffarin Law required a trading authorisation in order to set up a shop with a sales floor greater than 300 m². These mechanisms have had negative consequences on employment and competition in the sector by restricting business growth and the number of potential local competitors (Bertrand and Kramarz, 2002). Moreover, by restricting store-brands' internal growth, the law encouraged superstores' growth by acquisition and concentrations such as the

development of chains of franchises and distributor networks to the detriment of independent traders (Sadun, 2014) of which there are currently very few (Ferrante, 2012). For example, in Paris, co-operative groupings or associations of independent traders account for less than 10% of the floor space and turnover in food retailing, although many small shops dominate the sector (Autorité de la Concurrence, 2013).

Access to the sector is still limited by discrimination on grounds of the size of commercial establishments and significant procedural delays. All shops must obtain a construction permit, but superstores also require trading authorisation from local boards. The LME introduced major changes to the trading authorisation procedure by raising the thresholds above which trading authorisation was required, increasing the independence of the boards responsible for authorisations from the local shops that were represented on them (Delpla and Wyplosz, 2007) and abolishing several authorisation criteria, such as the local market's capacity to absorb a new entrant, that were incompatible with the very principle of competition (OECD, 2009a). However, trading authorisation is still required to open a store with a sales floor greater than 1 000 m², and for smaller sales floors the local administration in a small commune can still make a reference to the local boards for an opinion when examining applications for construction permits for sales floors greater than 300 m². This discrimination on grounds of size restrains competition. First, it prolongs the procedures for establishing superstores, especially when an application for an authorisation to open a shop was dismissed, since, until June 2014, the applicant had to wait one year before submitting another request. Second, boards' make-up does not always ensure a satisfactory degree of independence from local firms. Most members are still local politicians, and this can lead to policies that stymie the establishment of foreign competitors (OECD, 2009a). Finally, each board varies depending on the project location, its field of activity and its customer catchment area. The way it is structured is a source of uncertainty and does not ensure equal treatment of applications to establish superstores in a given area, even for neighbouring communities, though there is a national committee to assess equitably complaints against local boards' decisions.

The 2014 Law on Craft Industries, Retail Trade and Very Small Enterprises contains some partial steps forward. They include a unique file for large stores' building permits and authorisations to trade. It also abolished the requirements for project backers to submit a new application for authorisation in the event of a store-brand change, along with the one-year interval required for resubmission of a project that was initially refused. However, the trading authorisation procedure is hard to justify because the criteria used by the authorising boards are very similar to those for the award of construction permits, which already take account of regional planning, zoning and environmental objectives (OECD, 2009a).

In addition to regulatory barriers, competition is also hampered by local behavioural barriers. They may be associated with store-brand network practices, local planning restrictions and local property market conditions. The Competition Authority (Autorité de la Concurrence, 2010) has complained about the length and rigidity of contracts (non-compete clauses, priority rights, etc.) that restrict the ability of independent shops to shift between rival store-brand networks, resulting in worryingly high concentrations in some customer catchment areas. The draft "Lefebvre" Law of June 2011, which aimed to strengthen consumer rights, protection and information, called for a reduction in these obstacles to store-brand competition, but the bill never passed the National Assembly. Landlords' reticence and network lock-in practices, together with poor availability of real

estate, commercial leases and their cost, may lead to levels of concentration that are not conducive to competition. As a result, the Competition Authority (Autorité de la concurrence, 2013) decided to force the sale of some shops in Paris when Monoprix was taken over by the Casino group.

In a welcome move, the draft "growth, activity and equal economic opportunity" law plans to better regulate the contractual relationships between store-brand networks and independent shops to ease the mobility between networks. In particular, the draft law would limit contract duration, ban non-compete clauses and set up common dates to break all contract agreements between an independent retailer and its network. Moreover, it would also give to government officials the possibility to mandate the Competition Authority to investigate local zoning plans to ensure that they unduly restrict competition in retail trade. However, this new responsibility of the Competition Authority should be accompanied by additional resources and it would be more effective if the Authority had the power to start such an investigation without government officials' approvals. The draft law would also empower the Competition Authority to order the divestment of assets in highly concentrated retail areas, without having to prove the existence of anti-competitive practices. This could increase judicial uncertainty and hinder firm growth, although a transparent implementation of such asset divestment schemes has been planned.

Procedures authorising Sunday opening should be further reformed

The regulations governing Sunday trading hours and the way they interact with complex exemptions also restrict competition, consumer choice and employment. Sunday trading regulations were relaxed in 2009 for shops outside tourist areas, then in 2014 for DIY stores, but the current rules are very disparate. Opening authorisations can be awarded automatically depending on the activity involved (for example for food shops) and in the tourist areas defined by local government, as well as under various procedures for exemption (Bailly, 2013; Mocquax, 2013). Derogations may refer to individual establishments or defined areas, e.g. the *périmètres d'usage de consommation exceptionnel* (PUCE – areas of atypical habitual trading). The regulations are complex and marred by many uncertainties, and there are many provisions standing in the way of fair competition. For example, some exemption procedures take a positive view of a history of Sunday trading that can result from derogations already in place or from existing retail practices that may in some cases be illegal. Furthermore, applications for authorisation are submitted to employers' and employees' organisations for approval, and their positions may differ from municipality to municipality or from one shop to another. Additionally, the various authorisations do not provide the same rewards for employees: whilst there are no pay requirements for Sunday working in tourist areas, shops trading in PUCEs must offer at least double pay on Sundays compared to other days worked. Finally, local authorisation zones distort competition between shops in the authorised and unauthorised areas within municipalities without benefit either to consumers or local governments.

The draft "growth, activity and equal economic opportunity" law plans a partial liberalisation of Sunday opening procedures in 2015. Mayors would be able to grant more exemptions (from 5 Sundays each year to 12). The draft law also creates some new specific highly touristic areas that the Ministers in charge of labour market, trade and tourism would delineate. In these zones and the existing tourist areas, negotiated firm-level agreements with staff would be the only condition to open on Sundays. Even these limited steps are welcome, as Sunday trading authorisations in OECD countries have been

associated with increased employment and turnover, with no discernible effect on prices (Genakos and Danchev, 2014). According to these estimates, France could expect further employment gains if it relaxed its Sunday trading regulations to bring them into line with Ireland, Italy or Sweden. The option to trade on Sundays, while guaranteeing a weekly day of rest and negotiated compensations through firm-level agreements, should be independent of location. This evolution would correspond to changes in working behaviour, as fewer than 50% of employees currently work standard weeks and hours (Sautory and Zilloniz, 2014).

Intermodal competition is low in transport

Competition in the transport sector is growing but remains weak. Some modes of transport, such as railways, are partially protected from competition, especially from intermodal sources.

The structure of the rail sector is not conducive to competition

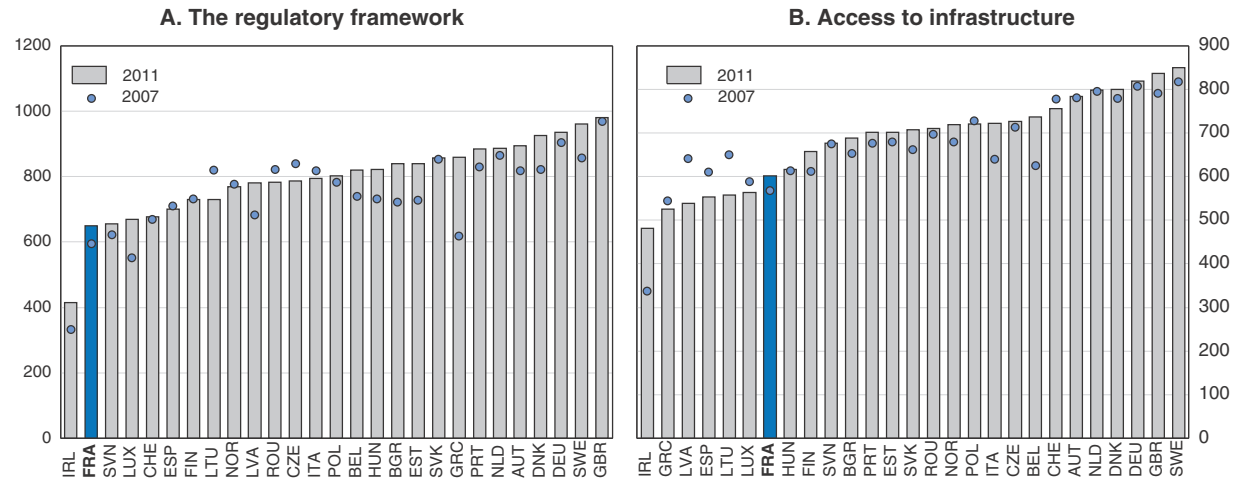
The rail sector has many striking, specific economic features that are associated with the level of investment required in infrastructure, low returns on investment, hybrid financing based both on user payments and general taxation, and the presence of several services on a single network (freight, passenger transport, high-speed lines, regional and intercity transport) that have shared costs but require different responses in terms of competition strategies. Regulations in this sector must also address public interest concerns, such as safety, regional development, the environment and affordable passenger fares, in addition to competition.

Liberalisation in this sector appears to be lagging behind that in most European countries. The regulatory framework does not provide for equal access to the network and generates costs to users and the public purse (Figure 2.15; IBM Global Business Services, 2011). Despite the legal separation between the *Réseau Ferré de France* (RFF – the French Rail Network), which has responsibility for organising and overseeing the network, and the incumbent operator, the SNCF, some overlap between infrastructure management and operation remained because the SNCF performed delegated infrastructure management on the behalf of the RFF: it was therefore both an RFF client and an RFF sub-contractor. This situation was not conducive to developing competition (Autorité de la Concurrence, 2013; OECD, 2013d). For example, the SNCF was criticised by the Competition Authority in 2012 for hampering the entry of new operators into the freight market. The railway reform implemented in January 2015 merged the RFF and the SNCF into a single body, a move that is unlikely to facilitate access by other operators.

The sector where competition has made most headway is rail freight. The SNCF's share of rail freight (32% of domestic tonne-kilometres in 2012) is comparable to the shares for incumbent operators in Germany and Poland and much higher than those for the Netherlands or the United Kingdom (CGDD, 2013b), although the share of rail in freight transport has declined to 15% in 2012 (Figure 2.16, Panel A). The declining share of rail is all the more noteworthy, given that it has remained relatively stable in Germany. Differences in the cost of road haulage between the two countries cannot explain this situation; rather it stems from the difficulties that the SNCF has had in generating returns from its rail freight activities (CGDD, 2013a), under-investment by the SNCF in information technology, making efficient allocation of service slots difficult, and the priority afforded to passenger transport (where intermodal share is rising more quickly than elsewhere in Europe,

Figure 2.15. **Liberalisation of rail services remains poor**

Index scale from most to least restrictive[1]



1. The indicators take account of freight and passenger transport services.
Source: IBM, *Rail Liberalisation LEX and ACCESS Indices*, 2011.

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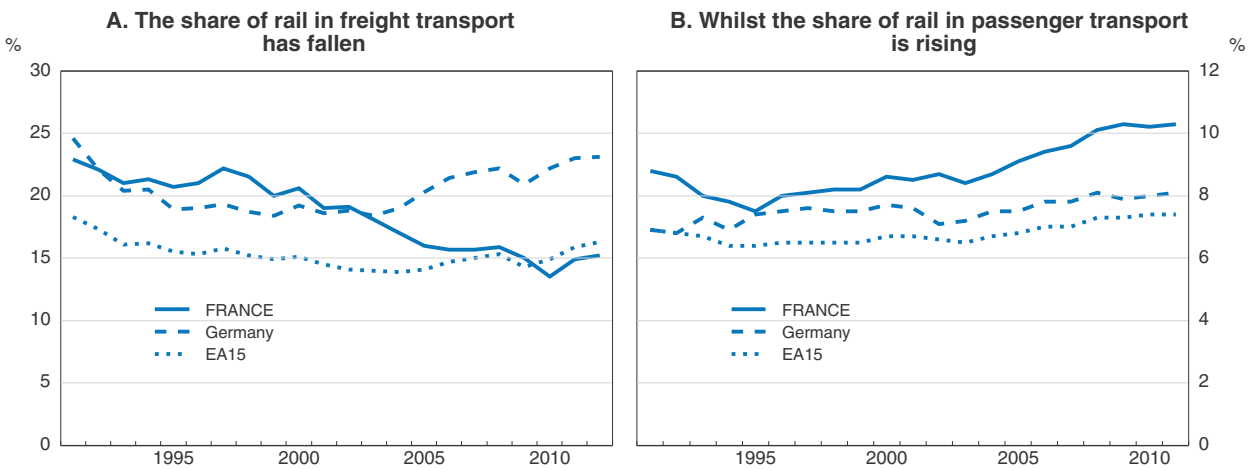
Figure 2.16. **Modal share of rail freight and passenger services**[1]



1. Percentage of total inland tonne-kilometres for freight and of total inland passenger-kilometres for passenger transport.
Source: Eurostat (2014), *Modal Split of Freight and Passenger Transport*.

StatLink http://dx.doi.org/10.1787/888933192773

Panel B). Further development of competition could temper the steady decline of the share of rail in inland freight transport (CGDD, 2013a) and could be effective in achieving the objective of a 25% non-road and non-air modal share in freight transport by 2022 set by the 2009 Grenelle Environment Forum.

The SNCF dominates the passenger transport sector. Domestic services are not open to competition, and international rail transport services are almost exclusively provided through co-operation agreements between the SNCF and neighbouring countries' incumbent operators, with the exception of one Paris-Venice service opened by the Italian operator Thello (ARAF, 2014). Additionally, for international services, the European

Commission has allowed operators to serve national stations since 2010, but the cabotage conditions are strict: the main object of the service must be an international service, and cabotage must not upset the economic balance of public service contracts that may be affected by the new service. The authorisation procedure was set out in detail by the national regulator for the sector, the ARAF, in February 2013 and utilised for the first time in October 2013. However, the service is not yet running, and the Regional Council for Provence-Alpes-Côte d'Azur has brought proceedings against the authorisation before the Conseil d'État.

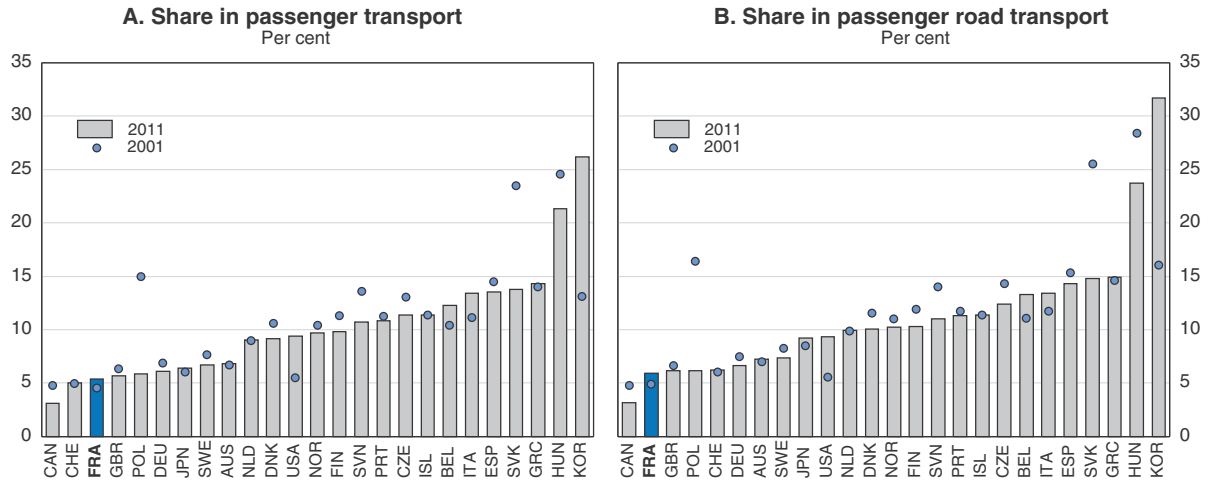
There are several barriers hampering long-term development of competition for freight and passenger transport. First, technical barriers constrain the interoperability of national networks. Second, infrastructure charges remain opaque, and giving them a higher profile, by setting a clear schedule of their medium-term changes, and improving the quality of access to infrastructure, by updating the software tools to allocate services, would encourage the entry of new operators and increase the intermodal share of rail in freight (ARAF, 2014). Third, the status of rail sector workers could slow liberalisation of potentially rival segments in the sector, as noted in the Grignon Report (2011). For example, the Court of Auditors recommended reviewing and streamlining the travel facilities for members of rail workers' families at least by bringing them within the scope of taxation like any other benefit in kind, with a view to fully opening rail transport to competition (Cour des comptes, 2014a). The German example has shown that, although delicate politically, rail worker status must be abandoned for the incumbent operator's new recruits if there is to be a level playing field. Fourth, the SNCF still enjoys privileges. For example, access to its ticket booking system is complex and costly for independent travel agencies (Autorité de la Concurrence, 2014c). Finally, merging the RFF with the SNCF into one group at the beginning of 2015 could slow the development of competition, even though the way in which they were separated in 1997 did not significantly increase it. Separating the accounts must ensure the absence of conflicts of interest between the activities of rail operator and infrastructure manager, but it must also separate the activities of network manager with a legal monopoly, such as network operation and maintenance, from the activities that are open to competition, such as network renewal and development (Autorité de la Concurrence, 2014d).

A liberalisation of the underdeveloped coach transport network is underway

Competition in the transport sector is also intermodal, and the coach network is underdeveloped (Figure 2.17, Panel A), even though it could represent a competitively priced separate option for some consumers. Fast train tickets are, on average, twice as expensive as coach tickets for the ten routes used most by coach passengers (Autorité de la Concurrence, 2014e). Although some negative external factors, particularly concerning the environment, are more typical of InterCity transport by coach than by train, the constraints that hamper development of the coach network may also disadvantage it for shorter journeys, especially compared to private vehicles. When compared at international level, the market share of rail transport is a very small part of the reason for the low market share of coach journeys (Panel B).

Scheduled inter-regional coach transport faces hefty regulatory barriers partly as a result of the historic preference for rail and the SNCF (OECD, 2005). The national transport market for coach passengers can take shape either within the framework of agreements between transport authorities (*départements*, regions and the State) and carriers, or by way of cabotage. Since 2011, the right of cabotage has allowed international carriers to supply

Figure 2.17. **The share of coaches in passenger transport is low, 2001 and 2011**[1]



1. Share of the distance travelled by passengers on domestic services, 2011 or most recent year. Modes of transport included are coaches, trains and private cars.

Source: OECD, *Trends in the Transport Sector 2012*.

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services within France on a cross-border route under certain conditions. The service may not be between two stations in the same administrative region, it is subject to prior governmental authorisation, and, once authorised, it must not account for more than half the passengers nor for more than half the turnover on a given international route. The authorisation system is lengthy and opaque. The Ministry of Transport refuses around 40% of applications to open coach routes because one of the main preconditions is that it will not prejudice the financial outcomes of a pre-existing agreed line, including a rail line. Analysis of these outcomes is a complex matter, the methods for performing it are ill-defined or undefined, and the data required are sometimes lacking (Autorité de la Concurrence, 2014e). The draft "growth, activity and equal economic opportunity" law plans to fully liberalise the opening of bus lines of more than 100 kilometres, while shorter lines would remain subject to prior authorisation by the local governments in charge of public transport which will be able to refuse their authorisation after a review of the sector regulator if the new bus lines are estimated to disrupt the financial balance of existing public transport services. This measure would provide a significant boost for the sector and inter-modal competition.

However, the development of coach services is also hampered by the low number of coach stations and difficulties in accessing them. Only 50% of French prefectures have a coach station (FNTV, 2012), and they are sometimes ill-equipped for long-distance transport, which needs specific facilities and services. The managers can be public or private and are subject to historic regulations (1945), which do not impose a requirement of equal access for the various coach operators. Moreover, partnering coach stations with SNCF stations raises questions about provision of access to potential competitors, namely coach services. It has proved difficult to separate the SNCF from its subsidiary with responsibility for stations: approval for the separation of accounts was given by the ARAF only in 2012, and the separate accounts for both entities are still not public (ARAF, 2013). SNCF executives with responsibility for station management must be given the most extensive accountancy, decision-making and financial autonomy possible to ensure a level playing field for rival operators (Autorité de la Concurrence, 2014e).

Aviation regulation could be improved

The index of service restrictions is relatively high for air transport, although France is below the OECD average (OECD, 2014a; De la Medina Soto and Ghossein, 2013). Like in other EU countries, the cap on non-Community investment for airlines is a formidable barrier to entry. However, other obstacles to competition are specifically French.

The regulator's independence has increased. Commercial air transport is subject to authorisation by the Directorate General for Civil Aviation (DGAC) under the control of the Ministry of Ecology, Sustainable Development and Energy. However, possible conflicts of interest between the Directorate's regulatory duties and the government's shareholdings in the dominant incumbent operator, Air France-KLM, and in various airports, have diminished. On the one hand, the central government reduced its stake in Air France-KLM from 44.1% in 2004 to 15.9% in 2013 (APE, 2014). On the other hand, ownership and management of the 150 state airports was transferred to regional governments, with the exceptions of the Paris airports, in which the central government retains a 50.6% shareholding, and the 10 major regional airports (managed by the Chambers of Commerce and Industry), in which the central government retains 60%. Additionally, the central government sold its shares in Toulouse-Blagnac airport in 2014 and intends to pursue further privatisations. This should eventually bolster the regulatory role of the DGAC, which is all the more important, given that some of the administrative decisions taken in the course of public service missions in the sector fall outside the purview of Competition Authority (OECD, 2005).

There is room for improvement in the framework for allocating service slots and regional airport management. First, slot allocation to air carriers is regulated in a manner that is not conducive to opening up the market (OECD, 2014a). Slot times must be obtained in advance from an independent association in order to land or take off from the larger airports. For other airports, slots are allocated by the operating companies. They set and collect fees for all airports. The fees are notified to the DGCCRF for an opinion and to the Air Transport Directorate of the DGAC for approval. Air France-KLM still benefits from low charges for airport access (Autorité de la Concurrence, 2013), and its market share of passengers departing from French airports, at 38% in 2014, is still significant. Second, local governments provide some regional airports with very high operating subsidies per passenger, and their compatibility with European state-aid law is somewhat dubious, whilst the accounting process for setting fees is sometimes inadequate, and small local airports are regularly in deficit (Cour des comptes, 2008). For example, in July 2014, the European Commission ordered two low-cost airlines to repay amounts equivalent to the benefits under service contracts concluded between the airlines and regional airports that would have unjustifiably distorted competition.

Motorway network management is set to improve in the long term

France has a well-developed, good-quality motorway network, but it would appear to be too expensive (Autorité de la Concurrence, 2014f). There are 11 882 km of motorway, of which more than three-quarters are operated under concession schemes, and seven large businesses account for over 90% of turnover in the sector. The concessionaires have developed as monopolies in certain geographical areas, and most of them were privatised in 2006. Since then, changes in concessionaires' turnover have become divorced from their costs, owing in particular to the sustained increase in traffic and toll rates, calling into question regulation in the sector (Autorité de la Concurrence, 2014f). Moreover, some concessionaires are also large public works businesses, which is not conducive to ensuring

fair competition in public works tenders and investment. Like the Court of Auditors (Cour des comptes, 2013a), the Competition Authority (Autorité de la Concurrence, 2014f) has therefore recommended a review of regulation in the sector, in particular the manner in which tariffs are set, and for that task, currently provided by the State, to become the role of an independent authority, with responsibility for the various modes of land transport. The draft "growth, activity and equal economic opportunity" law would give such responsibilities to the existing railway regulator. Yet significant improvements are likely to occur only in the long term when current concession contracts will be renewed, even if the government considers a possible cancellation of the existing contracts.

Intermodal competition for access to maritime ports is poor

Over the past 10 years, French ports have lost substantial market share in freight, and haulage to ports is dominated by road transport, while passenger transport is sometimes dominated by local monopolies. Between 2003 and 2012, French maritime freight tonnage fell by 8.2%, whereas it rose by 6.7% in the Europe of 15 (Eurostat, 2014b). All port facilities are owned and operated by French publicly owned companies. The 2008 port reform allowed modernisation of port governance and, in principle, permitted privatisation and opening of merchandise handling to competition, but it has failed to stem the downward trend in activity. Disputatious labour relations undermine the reliability of ports and act as a brake on the entry of new maintenance businesses (Cour des comptes, 2011b; Revet, 2011). Poor interconnections between ports and rail and inland waterway networks also constrain ports' catchment areas and profitability. In 2012, road haulage accounted for over 75% of transport to and from the major maritime ports, and rail and river freight for around 12% each. The 2009 Grenelle Environment Forum planned a doubling of the share of non-road freight in that market between 2009 and 2015. Achieving that target will require significant infrastructure investment, including in river ports (Blum, 2010), but multimodal competition is also hampered by the current tax system, which does not internalise the full external costs of road haulage. Where maritime transport of passengers is concerned, poor industrial relations and the importance of former local monopolies, sometimes in receipt of state aid, are not conducive to the development of competition (Autorité de la Concurrence, 2013; European Commission, 2013c), resulting in continued inefficiency in the organisation of some services.

Reforms in the energy sector

Regulated electricity and gas tariffs are being progressively phased out

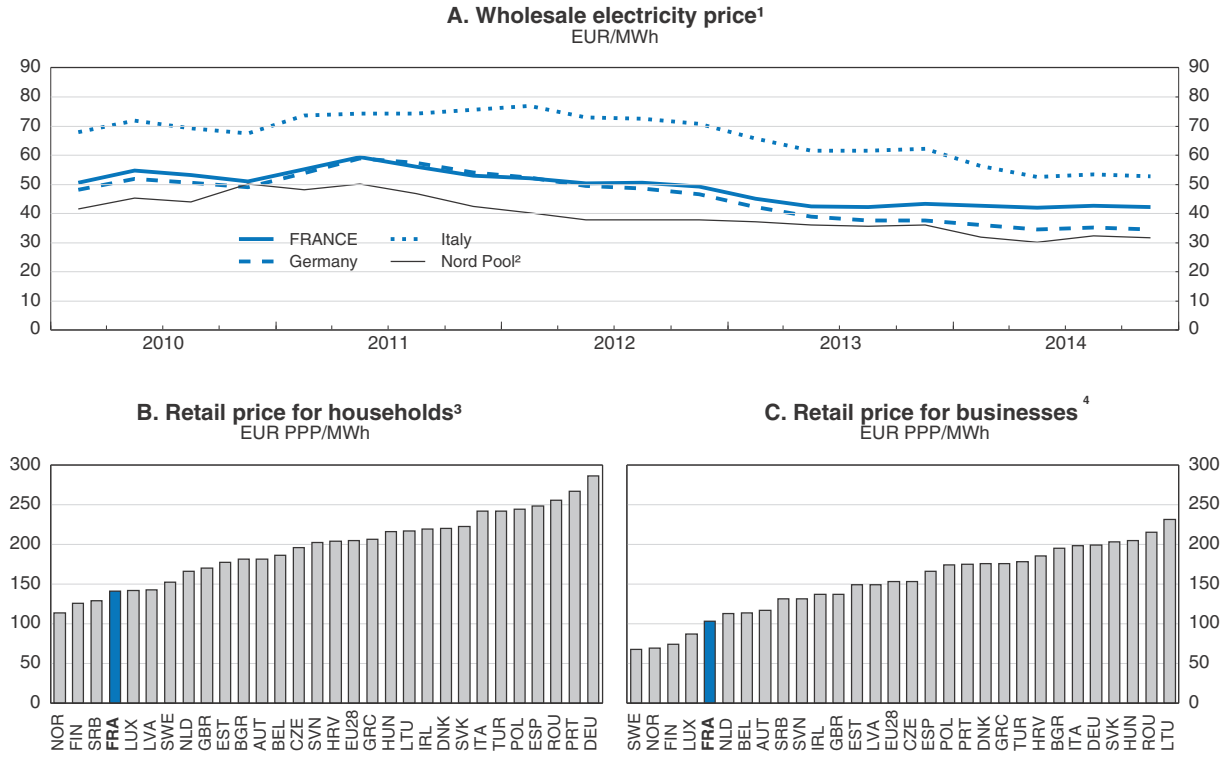
Competitive markets are also essential in the energy sector to stimulate cost control and entrepreneurial dynamism, even if marginal cost pricing in markets for non-storable goods such as electricity creates an issue for the long-term financing of fixed costs. In addition, the authorities have reason to intervene in order to protect the most vulnerable users and to ensure that market prices reflect generally recognised and measurable environmental costs such as carbon emissions. While competition can reduce costs in certain sectors of the market, such as daily dispatch, it is impracticable in others, such as the operation of high-voltage lines or distribution systems, which are natural monopolies. Nevertheless, even in these sectors, competitive tendering for multi-year concessions for infrastructure management could be considered. Additionally, competition in sales to final consumers provides retailers with incentives to purchase energy on the wholesale market at the lowest price, which increase pressure on producers while ensuring low-cost supply for the final users.

Competition has increased since the liberalisation of the energy market and the introduction of an independent regulator. Between 2000 and 2004, businesses gradually acquired the freedom to choose their energy suppliers, and since July 2007 all households have been free to choose their natural gas and electricity suppliers. Separation in accountancy and legal terms of distribution networks became a reality at the beginning of 2008 when the incumbent operators, EDF and GDF, established energy distribution subsidiaries. However, the market shares of alternative suppliers have developed differently for electricity and gas. At the end of the first quarter of 2014, penetration of alternative electricity suppliers was only 8% of sites and 15% of the retail consumption in the market for businesses and households, whereas it stood at 15% of sites and 40% of consumption for gas (CRE, 2014a). The preponderance of regulated tariffs, especially for households and the current low price of electricity sold at existing plants' historic costs rather than at replacement plants' full costs go some way to explaining the situation in terms of both the generation and the supply of electricity to households and businesses.

In order for competition to develop among generators, potential entrants must be able to produce electricity at competitive costs. However, at the current level of overcapacity and the resulting low wholesale electricity prices, no new investment is forthcoming. Indeed, France is benefiting today from the nuclear investments it made in the 1970s, which has put it in a relatively advantageous situation as far as electricity generation costs are concerned. Moreover, stable or falling demand and the availability of significant amounts of subsidised electricity from renewable sources, stemming both from domestic production and imports, explain why in France, as elsewhere in Europe, wholesale electricity prices are declining (Figure 2.18, Panel A). The current wholesale prices do not cover the generating costs of new facilities that range from 40 to more than 200 EUR/MWh depending on technology and assumptions (OECD/NEA, 2010). The energy component of the regulated tariffs on offer in the retail market to small businesses and households from the incumbent supplier is only somewhat higher than wholesale prices but does not cover the costs of electricity generation from a future power plant, whether powered by nuclear or fossil fuels. Current regulated tariffs are close to the sum of historic investment costs in nuclear and current variable costs, including costs of waste treatment and decommissioning (Cour des comptes, 2014b), although some of those costs are not fully known. Retail electricity prices are relatively low compared to other EU countries (Panels B and C).

Unless wholesale and retail prices cover a higher share of the full costs of future production, the only option that will maintain current generation levels will be to extend the life of existing nuclear power stations. This is not compatible with the 2014 draft energy bill, which foresees reducing nuclear energy's share in electricity generation to 50% in 2025, compared to 75% today. The construction of new renewables capacity (excluding possible subsidies) and new fossil fuel or nuclear plants would require significant revision of the current level of regulated tariffs. The 2010 Law on the New Organisation of the Electricity Market (NOME) will create a market for all peak-load capacity. Certification of facilities will begin in 2015, allowing trades between providers and demanders of certified capacities for the winter 2016-17. Each supplier will have to prove it has reliable sources of capacity during peak hours. The expected additional payment for such capacity could improve the returns from new power stations and encourage investment in both peak-load generation and demand management, including load shedding during critical hours. This

Figure 2.18. **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), *Wholesale Markets, Observatory for the Electricity, Gas and CO_2 Markets*, fourth quarter 2014 (Panel A). Eurostat (2014), *Energy Price Statistics* (Panels B and C).

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is particularly important in France where the widespread use of electrical heating can lead to substantially increased capacity needs during cold snaps. However, risks for wholesale market fragmentation should be closely monitored, as such national schemes may limit import competition.

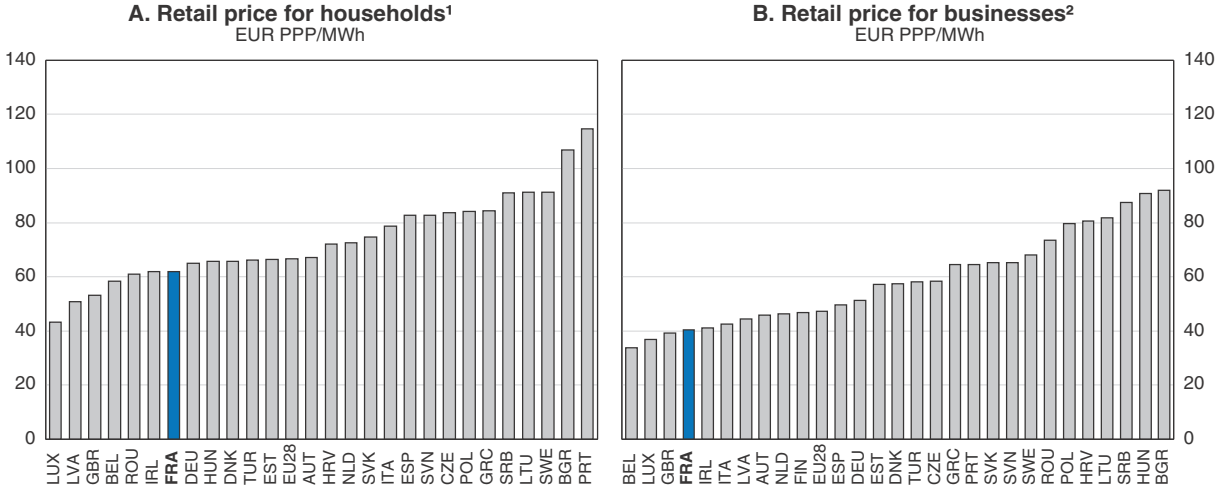
France has taken other significant steps towards retail competition with the 2010 NOME Law, but the partial persistence of regulated sales tariffs (TRVs) remains an obstacle to introducing genuine retail competition. From July 2011, alternative suppliers have had "regulated access to existing nuclear power" (ARENH) by purchasing up to 100 TWh of power from EDF, roughly 25% of France's nuclear production, at a regulated price until 2025. In line with OECD recommendations (2009a), the mechanism whereby non-residential customers who had previously opted for market prices could revert to administered rates, known as "transitional regulated market adjustment tariffs" (TaRTAM), ended with the introduction of ARENH. In principle, this partly neutralises EdF's historic advantage in the production of low-cost base-load electricity, while allowing competition in the other areas of power supply to the end consumer, namely peak power and retail services. In 2014, the sectoral regulator, the Energy Regulation Commission (CRE) came to the view that regulated tariffs allow alternative suppliers to challenge those price packages (CRE, 2014b), though this was not the case

in 2013 (CRE, 2013a). The power sector is therefore still dominated by the incumbent supplier: at the end of the third quarter of 2014, 71% of all power consumption and 93% of household consumption was supplied at regulated tariffs.

Several other welcome measures have been taken to phase out and limit the effect of TRVs. Under the NOME Law, TRVs will disappear for businesses with connections above 36 kV and local authorities by end-2015. Additionally, the remaining regulated tariff will be fixed by stacking costs, including ARENH, to enable structuring of competitive market price packages. The CRE will also become responsible for setting regulated tariffs, whereas hitherto tariffs have been set by government acting after consulting the CRE. The government, however, will always have to approve the regulated tariffs, a factor that could lead to implementation difficulties, as illustrated by the June 2014 electricity price dispute (Feitz, 2014). All regulated tariffs should gradually be withdrawn, as should the existing targeted transfers towards poor households, which could be replaced by greater redistribution through the tax/transfer system and competitive tendering for production capacity. This would help foster competition among producers and innovation, which would support the competitiveness of French businesses in the long term.

Competition is slightly more developed in the gas sector. Problems are similar to those in the electricity sector but lesser in degree. French retail prices are relatively low both for households and businesses (Figure 2.19). Regulated tariffs play a minor role for businesses (0.4% of consumption), although they still accounted for over 70% of household consumption in September 2014. Gas release programmes have boosted competition in some regions. In the event that gas sales conditions by private contract did not make it possible to develop competition, the programmes required certain suppliers in a dominant position to release a share of their gas resources to alternative suppliers by auction for a given period (CRE, 2007). However, lack of access to customer consumption histories has partially obstructed the development of alternative suppliers; the distribution of such data to all operators became compulsory only in September 2014. The incumbent operator is therefore still in a dominant position.

Figure 2.19. **International comparison of gas prices**



1. Price in the first half of 2014, for annual use of 5 600-56 000 kWh.
2. Price in the first half of 2014, for annual use of 2 778-27 778 MWh.

Source: Eurostat (2014), *Energy Price Statistics*.

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Barriers to competition persist in production and distribution

Other barriers to the development of competition persist in both the commercialisation and generation of electricity. First, on the retail market only 53% of consumers are aware that they can change suppliers (CRE, 2013b). Confusion between distribution system operators and suppliers explains part of the poor uptake of alternative suppliers. This may well be reinforced by the fact that the meters are in the incumbent operator's name, as well as the difficulty that alternative suppliers face in providing services that they can differentiate from those of the incumbent. For example, where load-management services enabling consumers to reduce their costs are concerned, the old historic monopoly has advantages such as customer data that can help to identify the potential for savings, although the recently improved access to consumer data is a move in the right direction (Autorité de la Concurrence, 2014a; CRE, 2014c).

Second, where generation is concerned, the hydroelectric concessions renewal programme (hydropower generation represents 13% of France's electricity production), which the government has agreed should be subject to the principle of open competition, has barely got off the ground: existing concessions were extended in May 2014, although this may provide the incumbent with substantial advantages over alternative producers and prejudice state revenue (Cour des comptes, 2013b; Le Billon, 2014). Finally, staff in the electricity and gas industries enjoy a special pension scheme that, by imposing higher labour costs, may hinder the development of low-cost customer packages.

Wholesale market integration in European markets has made great progress in the past three years due to the price-coupling of regions driven, in particular, by the European market maker EPEX Spot, allowing integration of day-ahead markets from Norway to Portugal, including France and Germany. Nevertheless, better interconnection and the completion of the project of the European Commission to integrate the European internal electricity market by the end of 2014 would offer even more liquid and efficient wholesale markets to develop for electricity and gas, as well as allowing renewable energies to develop. For the latter, unification of implicit and explicit carbon prices would also help to increase competition and achieve emissions targets more efficiently. Moreover, until mid-2014, the purchase price of solar power depended on whether the solar panels were produced in the European Economic Area, which put off certain foreign manufacturers and fitters, while they still depend on the type of installation (inserted into the roof or superimposed upon it), a factor that may increase installation costs. More generally, for mature technologies, using tendering procedures suited to the local context rather than buyback tariffs that have little to do with the investment cost could help producers to compete more effectively (CRE, 2014d).

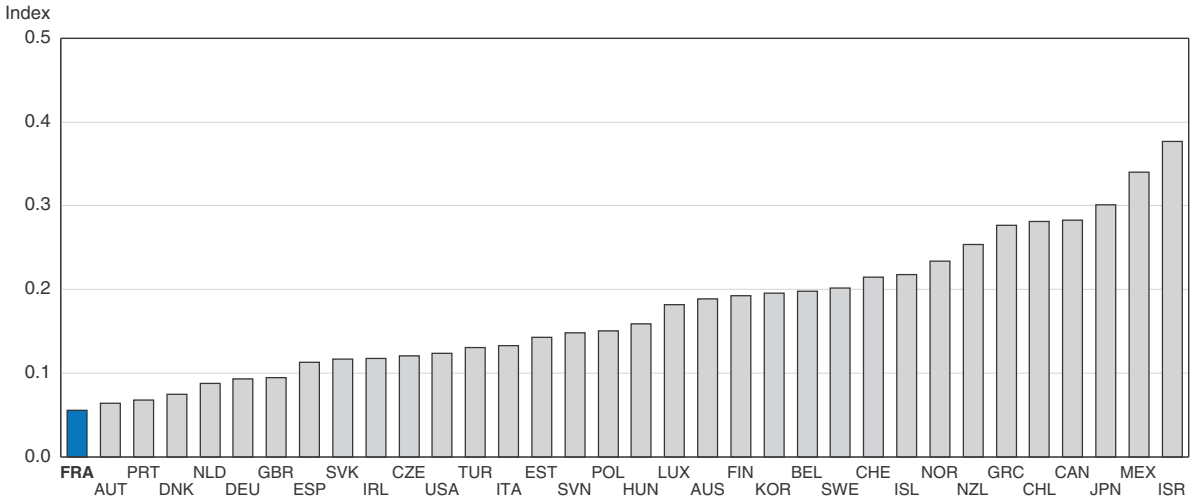
Competition in telecommunications has grown

Clear progress has been made in the telecommunications sector. There are no barriers to investment, and regulations efficiently organise competition among operators, as evidenced by the services trade restrictiveness index, which is the lowest in the OECD (Figure 2.20). All European directives have been transposed since 2004, and the level of competition is now high, while the prices of fixed and mobile telephony services and Internet services are low when compared internationally.

Consumer prices for mobile telephony have fallen sharply since operators were penalised by the Competition Authority in 2005 for operating an illegal cartel. The introduction of a fourth mobile operator, Free Mobile (an existing broadband provider),

Figure 2.20. **Regulation of the telecommunications sector**

Index scale from 0 to 1, from least to more restrictive[1]



1. Average of the market structure indicator as measured in three sectors in 2013: fixed line, mobile and fixed network services.
Source: OECD (2014), *Services Trade Restrictiveness Index* (STRI).

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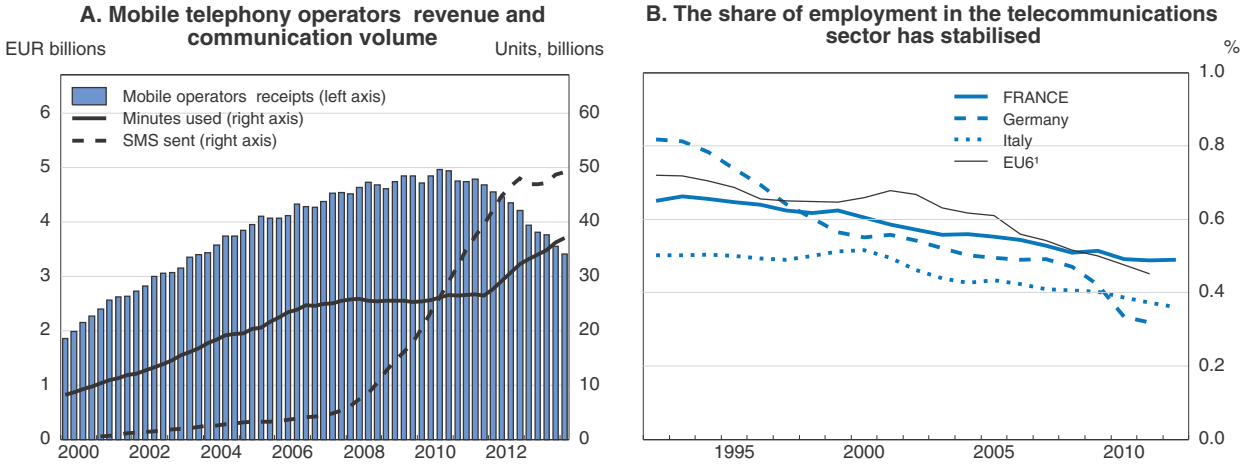
in 2012 resulted in significant benefits to consumers. This operator introduced commitment-free packages, including unlimited national and international calls and SMS, without bundling of mobile phones. France is also one of the few countries where international mobile roaming services in selected countries have been included in domestic plans (OECD, 2014g). As a result, other operators introduced similar offers, and the use of commitment-free packages is now over 45%. Operators' revenues fell sharply from 2011, and activity grew significantly (Figure 2.21, Panel A), but service quality is now very heterogeneous (ARCEP, 2014a). Additionally, in the medium term at the aggregated

Figure 2.21. **Activity has grown with competition in mobile telephony**



1. EU6 shows the unweighted average for Germany, Austria, Denmark, Finland, Italy and Norway.
Source: ARCEP (2014), *Observatoire des marchés des communications électroniques en France*, second quarter 2014 (Panel A); Eurostat (2014), *National Accounts Database, Classification into 64 Sectors* (Panel B).

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level of telecommunication services, growth in competition among operators has had no apparent negative effect on employment. Indeed, employment has stabilised at a time when it has been falling in neighbouring countries, resulting in substantial sectoral productivity gains (Panel B; OECD, 2013e). Apart from the effect on sectoral employment and rising consumer purchasing power, competition among telecommunications technologies has benefited all the other sectors that make use of such technologies in their production processes.

Competition is also significant in fixed telephony and broadband Internet access, although delivery of superfast broadband packages poses several challenges (ARCEP, 2014b). The success of unbundling (allowing third parties access to the network) after 2000 and deployment of ADSL allowed the entry of several operators with innovative and competitive packages (OECD, 2009a). However, deployment of superfast fixed and mobile packages (fibre optics and 4G) requires substantial investment that is forcing the sector towards pooling and merging. So far the Competition Authority has taken a case-by-case approach, except for the mobile network. For example, it imposed a guarantee of non-discriminatory access to the cable network and several asset sales to authorise the ongoing merger between the second largest mobile operator (SFR) and a cable operator (Altice-Numericable) in October 2014. The main challenge for the authorities is thus to establish a regulatory approach that can reproduce ADSL's success, namely avoiding the establishment of local monopolies while retaining investment incentives and minimising the cost to the public purse, including local governments. The sectoral regulator (ARCEP) has implemented a framework to connect the optical fibre network to individual customers. It distinguishes several areas: high-density areas where infrastructure competition is the preferred solution (except for connections within high-rise buildings); areas where private companies may register their interest for investment and where joint-investment between private companies is the preferred solution; and areas where public investment would be needed. At the same time, pooling fixed and mobile packages and the development of multi-product packages tends to increase the switching costs incurred by users if they change supplier. Indeed, France is one of the only OECD countries where fixed-mobile offers play an important role: all major broadband operators include mobile services in quadruple-play bundles.

Looking to the future, further telecommunication liberalisation to enable private and public organisations to issue SIM cards would support the development of the "Internet of Things", that is the connection of devices, sensors and systems to the Internet, providing large potential efficiency gains to sectors, such as transport, health and energy. At present, only telecoms service providers are allowed to issue SIM cards, providing an element of "lock-in" for large-scale users. For example, a French road toll company has cited the 15-20 year lock-in with a single mobile operator as one of the significant challenges it has in introducing new services based on mobile networks. The Netherlands has already changed its regulation, and Germany started a consultation on possible regulatory changes in this area in 2014.

The financial system is generally competitive

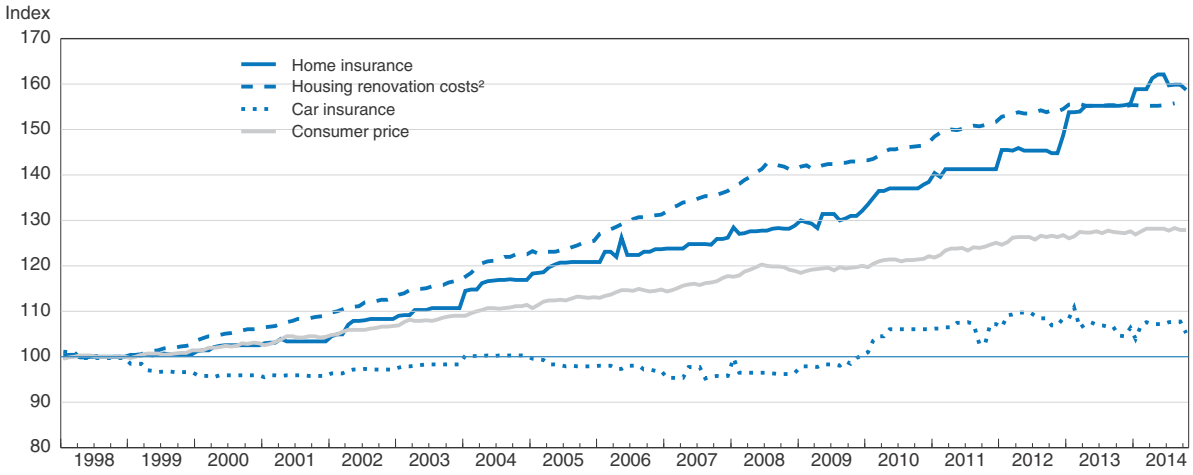
The banking system is concentrated, and the five major French banking groups accounted for 46% of assets in the sector in 2013 (European Central Bank, 2014). However, any increase in competition here should also be assessed in the light of potential consequences for financial stability (OECD, 2011b). The powers of the supervision and

resolution authority (the ACPR) were beefed up in 2013 (IMF, 2014). In the retail banking market interbank transactions were, as in the rest of Europe, dominated by MasterCard and Visa, and high fees were passed on to consumers (European Commission, 2013d). The strengthened regulation of commissions for debit and credit card transactions and their partial abolition go in the right direction (Autorité de la Concurrence, 2013). For example, fees for on-line money transfers were abolished in 2012, and merchant service charges paid to card providers were capped at 0.30% in 2013. However, it remained rare for customers to change banks, partly because they frequently turn down new customers (GfK, 2012), despite the 2014 Law on Consumer Affairs, which made mandatory services to ease customer mobility.

The Lagarde Law (2010), the Law on the Separation and Regulation of Banking Activities (2013) and the Law on Consumer Affairs (2014) have encouraged competition on insurance markets. There is either a legal obligation to take up, or in any case *de facto* widespread take-up, of home, car and borrower insurance, the latter in the case of a home loan. There is therefore a partly captive market. Home insurance prices have risen faster than overall inflation and, in particular, faster than car insurance prices (Figure 2.22), though this also reflects the evolution of construction, repair costs and disasters. Joint sale of property loans and insurance is significant but falling (Gissler et al., 2013). In a welcome move, commissioning fees that banks were able to invoice if a rival insurer was chosen have been prohibited, and, since July 2014, borrowers have been able to change their loan insurance, with the lender's agreement, within one year of taking out a home loan, provided the alternative insurance offers similar guarantees. Additionally, home and car insurance policies can now be terminated at any time after the end of the first year. The resulting increase in competition will probably improve the operation of the insurance system and result in more efficient allocation of resources within the rest of the economy (Bertrand et al., 2007), in an environment where insurance companies are being encouraged to diversify their portfolios (see above).

Figure 2.22. **Change in car and home insurance premiums**

1998 = 100[1]



1. For all households in France, products are classified according to the purpose of consumption (COICOP Nomenclature).
2. Index of production costs in the construction sector – renovation and servicing.

Source: Insee (2014), *Indices des prix à la consommation et BT50 – Rénovation – Entretien tous corps d'État.*

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The system of supplementary health insurance does not encourage competition between care providers. Many reports acknowledge the good quality of French health care, but costs would appear to be disproportionate (OECD, 2010c). Social Security covers 78% of health spending. Additionally, employers have the option of providing additional insurance (*mutuelles*) to their employees, and this will become compulsory from 2016; workers can also take out such policies individually. Joint cover using Social Security and *mutuelles* is a source of inequalities. Moreover, it does not make for efficient management of the care network or therefore for competition among providers (Dormont et al., 2014). In particular, the quality of hospital and clinic management appears poor when compared internationally (Bloom et al., 2014). The initial requirements would be to close smaller hospitals and facilitate patient mobility and reduce information asymmetries between patients, care providers and funders, by setting up mobile personal medical records and organising broader dissemination of information on service quality. The 2015 draft law on Health plans some measures to address this issue. It would organise a new system of personal medical records' transfers between health practitioners and define the information included in personal records.

Recommendations to improve competition

Improve competitiveness and the environment for doing business

- Engage an independent institution to conduct a thorough review of all existing and proposed regulations affecting firms, applying the OECD Competition Assessment Toolkit's principles.
- Implement the measures advocated by the Streamlining Council concerning existing standards. Review the consequences of reforms to *auto entrepreneurs*, and make plans to reduce administrative constraints on micro-enterprises.
- Continue to liberalise the regulated professions by: reducing entry requirements to those needed to protect the public; narrowing areas where professions have exclusive rights; eliminating regulated tariffs in potentially competitive activities; and gradually abandoning quotas.
- Facilitate access to external sources of capital by allowing third-party capital investment in certain professional practices (e.g. lawyers, veterinary surgeons).
- Reduce the number of taxation thresholds and permanently ease social thresholds. Expand and stabilise the business tax base by closing certain tax loopholes and reducing the nominal corporation tax rate. Rationalise public aids to business by streamlining the allocation process and beefing up assessment.

Reform the regulatory framework surrounding competition

- Evaluate the impact of the new class actions procedure. Consider providing SMEs and local authorities with the option to make use of them when they are the victims of anti-competitive activities and loosening the condition for class action standing.
- Improve public procurement purchasers' professional skills. Encourage joint procedures for small local authorities.

Recommendations to improve competition *(cont.)*

Specific recommendations for certain sectors

Retail trade and distribution

- Streamline burdensome permit procedures for large new stores.
- Eliminate the prohibition on loss-leader selling, and stop setting dates for discount sales.
- Liberalise Sunday opening hours together with negotiated offsetting time-off and salary compensation.
- Ease the mobility of individual shops contracting with superstore chains.

Network industries

- Ensure free competition between the regional coach and rail services, while internalising potential externalities, especially those related to the environment. Pool regulatory powers for the various modes of transport under a single land transport regulator.
- Ensure non-discriminatory access to the rail network. In particular, modernise the process of allocating service slots for rail freight and separate the rail infrastructure manager from the station manager.
- Eliminate, as planned, regulated tariffs on the electricity and gas retail markets for non-residential customers as of 2015, and reconsider these tariffs for residential customers. Ensure that the financing of new generating capacity preserves competition among power producers and suppliers alike.

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