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Table of contents

Basic statistics of France, 2016 8
Executive summary 9

Assessment and recommendations 13
The French economy has many strengths but also faces important challenges . . 14
Making taxes more favourable to employment and productivity while maintaining social protection 22
Strengthening productivity growth 34
Enhancing employment and access to high-quality jobs 39
Improving life in poor neighbourhoods 47
Bibliography 56

Annex. **Progress in structural reform** 61

Thematic chapters

Chapter 1. **Promoting economic opportunities and well-being in poor neighbourhoods** 67
Poor neighbourhoods in France 69
The evidence for neighbourhood effects and policy implications 72
Promoting economic activity in poor neighbourhoods 73
Promoting employment in poor neighbourhoods 75
Providing children in poor neighbourhoods with greater skills 81
Housing and urban-renewal policies to improve living conditions 87
Prisons 94
Recommendations to improve life in poor neighbourhoods 95
Bibliography 96

Chapter 2. **Improving the efficiency of the health-care system** 103
Improving the governance of the health-care system 109
Improving prevention and the organisation of health-care provision 118
Containing pharmaceutical spending 130
Investing in prevention and adopting healthier lifestyles 135
Recommendations for improving the efficiency of the health-care system 141
Bibliography 142

Boxes

1. Key features of the programme of the new government and a preliminary assessment . . . 17
2. The benefits of competition in France . . . 38
1.1. Priority education in France . . . 81
1.2. Social housing in France . . . 89
2.1. Future health and long-term care spending needs . . . 105
2.2. Budgeting of public health spending and annual spending targets (ONDAM) . . . 110
2.3. Hospital payments and the diagnosis-related group (DRG) system . . . 128

Tables

1. Macroeconomic indicators and projections . . . 18
2. Events that could lead to major changes in the outlook . . . 20
3. Composition of public spending by main component . . . 23
4. Past OECD recommendations to reduce the weight of public spending and boost its efficiency . . . 25
5. Past OECD recommendations for a tax system promoting sustainable growth . . . 32
6. Past OECD recommendations for improving competition and the business environment . . . 37
7. Past OECD recommendations for improving training . . . 41
8. Past OECD recommendations to strengthen employment . . . 44
9. Past OECD recommendations on housing . . . 55
1.1. Schooling outcomes in urban policy neighbourhoods . . . 71
2.1. Projected increase in public health spending in France, 2010-60 . . . 105
2.2. Structure of financing of different medical goods and services, 2006-15 . . . 114
2.3. Structure of health-care expenditures, 1995-2015 . . . 120

Figures

1. The average person has enviable well-being in France . . . 14
2. France has many strengths . . . 15
3. The country also faces many challenges . . . 16
4. Macroeconomic indicators . . . 19
5. Structure of trade in goods, 2016-17 . . . 20
6. Without policy changes the debt-to-GDP ratio is set to increase further . . . 21
7. The size of government is large . . . 22
8. Average effective age of labour-market exit in 2014 . . . 24
9. Health outcomes are good, but spending is high . . . 26
10. Health outcomes and access to care are unequal . . . 26
11. Spending on prevention is low . . . 27
12. Spending on pharmaceuticals and prescriptions is high . . . 28
13. Hospital admissions and spending on in-patient care are high . . . 29
14. High corporate tax rates go along with low revenues . . . 30
15. Taxes on labour remain high . . . 30
16. Structure of tax revenues, 2015 . . . 31
17. Taxes have limited effectiveness in reducing income inequality . . . 31
18. VAT revenue shortfall due to tax breaks . . . 32
19. Green growth indicators: France . . . 33

20. TFP growth has slowed 35
21. The use of employment contracts shorter than one month has risen steadily . . . 35
22. The share of adults with no knowledge of ICT is high 36
23. Better management and labour relations would support technology adoption . . 36
24. Estimated gains to the level of labour productivity from policy reforms that reduce skills mismatch 37
25. Communications prices have declined much faster in France than elsewhere . . 38
26. The lag in R&D investment is partly attributable to the productive structure . . 39
27. The minimum wage is high, 2015 40
28. Despite recent cuts in labour costs, employment in low-wage services sectors is relatively modest 40
29. Access to apprenticeships and job-search assistance should improve 41
30. Fixed-term contracts are widespread across all qualification levels and seldom lead to stable jobs 43
31. Employment Protection Legislation appears to be restrictive overall 44
32. Unionisation is weak, while coverage of collective agreements is pervasive . . 45
33. Lack of trust in trade unions and fear of reprisals hinder stronger unionisation. . . 46
34. Residents of poor neighbourhoods face various social handicaps 47
35. Population structure in poor neighbourhoods, 2014. 47
36. Whatever their education, poor neighbourhoods' residents are more likely to be unemployed, 2014 48
37. More disadvantaged children still show weaker educational outcomes, 2015 . . 49
38. Pedagogical training and teacher teamwork are weak 49
39. Joint teaching and adapting teaching to heterogeneous abilities are underdeveloped 50
40. Grade repetition is high. 51
41. Housing tenure across households by income decile 53
42. Price responsiveness of housing supply 54
43. Increase in the prison population and overcrowding 56
1.1. Poverty and social problems in France 68
1.2. The concentration of income groups in neighbourhoods of OECD metropolitan areas. 69
1.3. Population structure and unemployment in poor neighbourhoods, 2014. 70
1.4. Inhabitants of poor neighbourhoods report more problems than others 71
1.5. Skill test scores for adults are relatively poor, especially in the case of immigrants 76
1.6. Participation rates in early-childhood education 79
1.7. The minimum wage is high, 2015 80
1.8. Despite recent cuts in labour costs, employment in low-wage services sectors is relatively modest 80
1.9. Teachers feel not well prepared in pedagogy, while access to continuing training is weak 82
1.10. Teachers' involvement in teamwork is limited 83
1.11. Joint teaching and adapting teaching to heterogeneous abilities are underdeveloped 84
1.12. Grade repetition is high. 86

1.13. School segregation is significant, and outcomes in disadvantaged schools are weak . . . 87
1.14. Social housing tenure and household expenditure on housing across OECD countries . . . 88
1.15. Housing tenure across households by gross income decile . . . 90
1.16. Price responsiveness of housing supply . . . 90
1.17. Increase in prison population and overcrowding . . . 95
1.18. Suicide rates in penal institutions in EU countries . . . 95
2.1. Life expectancy and population ageing . . . 104
2.2. Selected indicators of health-care quality . . . 106
2.3. Health spending . . . 107
2.4. Health disparities . . . 108
2.5. The financing of health-care spending . . . 109
2.6. Public health spending . . . 111
2.7. Special scheme for long-term diseases (ALD), 2014 . . . 112
2.8. The health system is redistributive . . . 112
2.9. Access to complementary health insurance schemes . . . 115
2.10. Access to complementary health insurance schemes by age groups . . . 117
2.11. Health administrative spending is high . . . 118
2.12. Selected indicators of prevention and co-ordination among health-care providers . . . 121
2.13. Selected primary-care outcomes . . . 123
2.14. Density of physicians and payments . . . 124
2.15. The hospital sector, 2015 . . . 127
2.16. Hospital use . . . 129
2.17. Pharmaceutical consumption and prices . . . 131
2.18. Retail sales of pharmaceuticals . . . 132
2.19. Consumption of generics . . . 133
2.20. Tobacco consumption . . . 135
2.21. Alcohol consumption and prices . . . 136
2.22. Prevalence of overweight individuals and food diet . . . 137
2.23. Occupational risks . . . 138
2.24. Sick days and days missed for occupational accidents and diseases . . . 139
2.25. Urban air pollution . . . 140

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

The economic situation and policies of France were reviewed by the Committee on 13 July 2017. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 1 August 2017.

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BASIC STATISTICS OF FRANCE, 2016

(Numbers in parentheses refer to the OECD average)*

LAND, PEOPLE AND ELECTORAL CYCLE

Population (million)	65.0		Population density per km^2	105.4	(37.2)
Under 15 (%)	18.1	(17.9)	Life expectancy (years, 2015)	82.4	(80.5)
Over 65 (%)	19.2	(16.6)	Men	79.2	(77.9)
Foreign-born (%, 2015)	12.3		Women	85.5	(83.1)
Latest 5-year average growth (%)	0.5	(0.6)	Latest general election	June 2017	

ECONOMY

Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	2 465.5		Primary sector	1.6	(2.5)
In current prices (billion EUR)	2 222.9		Industry including construction	19.6	(26.7)
Latest 5-year average real growth (%)	0.8	(1.8)	Services	78.8	(70.8)
Per capita (000 USD PPP)	42.0	(42.1)			

GENERAL GOVERNMENT[a]

Per cent of GDP

Expenditure	56.5	(40.8)	Gross financial debt	123.3	(112.5)
Revenue	53.0	(37.9)	Net financial debt	79.0	(73.6)

EXTERNAL ACCOUNTS

Exchange rate (EUR per USD)	0.904		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.796		Machinery and transport equipment	40.7	
In per cent of GDP			Chemicals and related products, n.e.s.	17.4	
Exports of goods and services	29.5	(53.9)	Miscellaneous manufactured articles	12.4	
Imports of goods and services	31.2	(49.3)	Main imports (% of total merchandise imports)		
Current account balance	-0.9	(0.3)	Machinery and transport equipment	38.2	
Net international investment position (2014)	-17.8		Miscellaneous manufactured articles	16.0	
			Chemicals and related products, n.e.s.	13.7	

LABOUR MARKET, SKILLS AND INNOVATION

Employment rate for 15-64 year-olds (%)	64.2	(67.0)	Unemployment rate, Labour Force Survey (age 15 and over) (%)	10.0	(6.3)
Men	67.6	(74.7)	Youth (age 15-24, %)	24.6	(13.0)
Women	61.0	(59.3)	Long-term unemployed (1 year and over, %)	4.5	(2.2)
Participation rate for 15-64 year-olds (%)	71.5	(71.3)	Tertiary educational attainment 25-64 year-olds (%, 2014)	33.5	(34.3)
Average hours worked per year	1 482	(1 766)	Gross domestic expenditure on R&D (% of GDP)	2.2	(2.4)

ENVIRONMENT

Total primary energy supply per capita (toe, 2015)	3.8	(4.1)	CO_2 emissions from fuel combustion per capita (tonnes, 2014)	4.4	(9.4)
Renewables (%)	8.8	(9.6)	Water abstractions per capita (1 000 m^3, 2012)	0.5	
Exposure to air pollution (more than 10 µg/m^3 of $PM_{2.5}$, % of population, 2015)	80.7	(75.2)	Municipal waste per capita (tonnes, 2015)	0.5	(0.5)

SOCIETY

Income inequality (Gini coefficient, 2014)	0.297	(0.311)	Education outcomes (PISA score, 2015)		
Relative poverty rate (%, 2014)	8.2	(11.3)	Reading	499	(493)
Median disposable household income (000 USD PPP, 2014)	25.3	(22.9)	Mathematics	493	(490)
Public and private spending (% of GDP)			Science	495	(493)
Health care (2015)	11.0	(9.0)	Share of women in parliament (%)	26.2	(28.7)
Pensions (2013)	14.4	(9.1)	Net official development assistance (% of GNI)	0.38	(0.39)
Education (primary, secondary, post sec. non tertiary, 2013)	3.8	(3.7)			

Better life index: *www.oecdbetterlifeindex.org*

a) 2015 for the OECD average.

* 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.

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.

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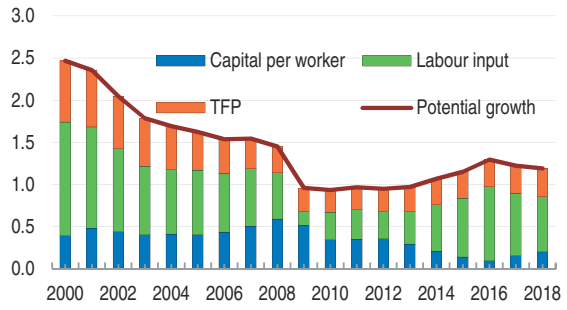
Executive summary

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

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

Weaker productivity gains have slowed potential growth



Source: OECD Economic Outlook 101 Database.

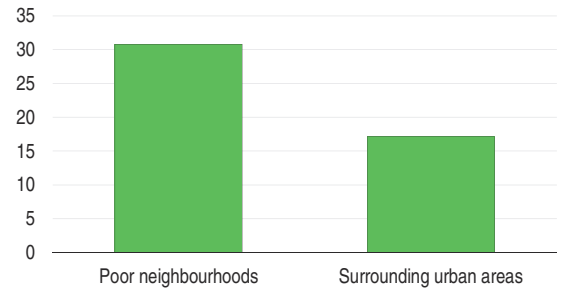
StatLink http://dx.doi.org/10.1787/888933578465

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

Too many people are excluded from the labour market

Likelihood of unemployment by place of residence[1]

15-29, %



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

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

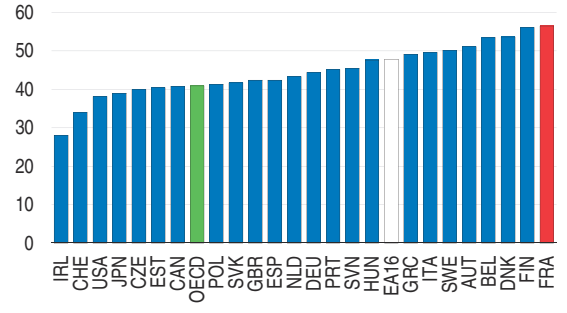
StatLink http://dx.doi.org/10.1787/888933578484

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

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

Public spending is high

Per cent of GDP, 2016[1]



1. Or latest year available.

Source: OECD Economic Outlook 101 Database.

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

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

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

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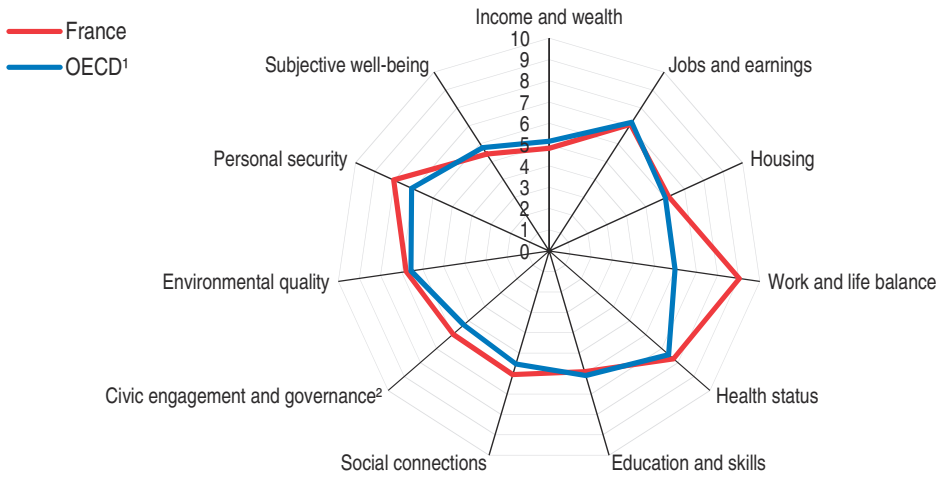
Assessment and recommendations

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

The French economy has many strengths but also faces important challenges

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

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

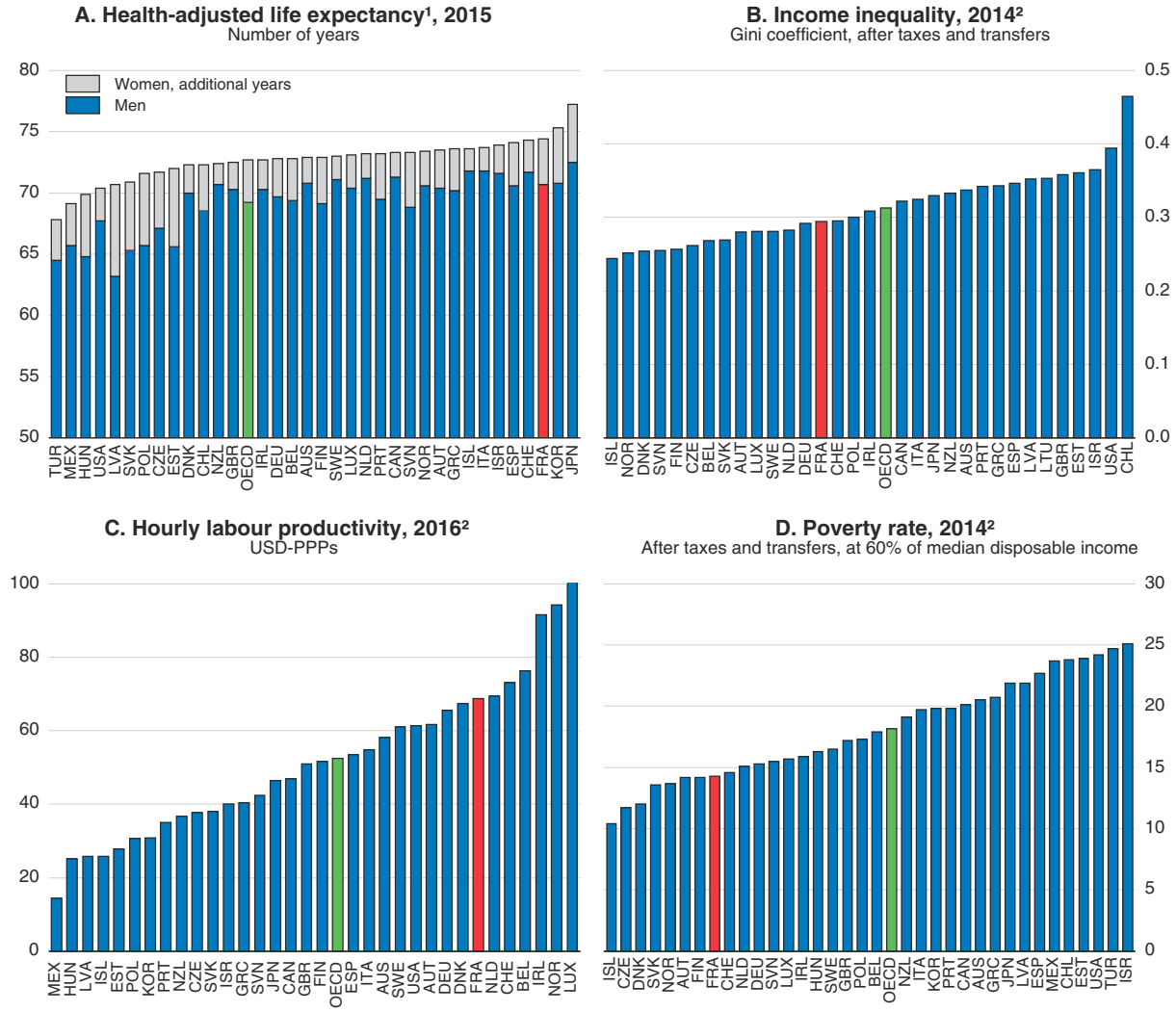


1. Unweighted average.
Source: OECD Better Life Index, www.betterlifeinitiative.org.

StatLink http://dx.doi.org/10.1787/888933576964

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

Figure 2. **France has many strengths**



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

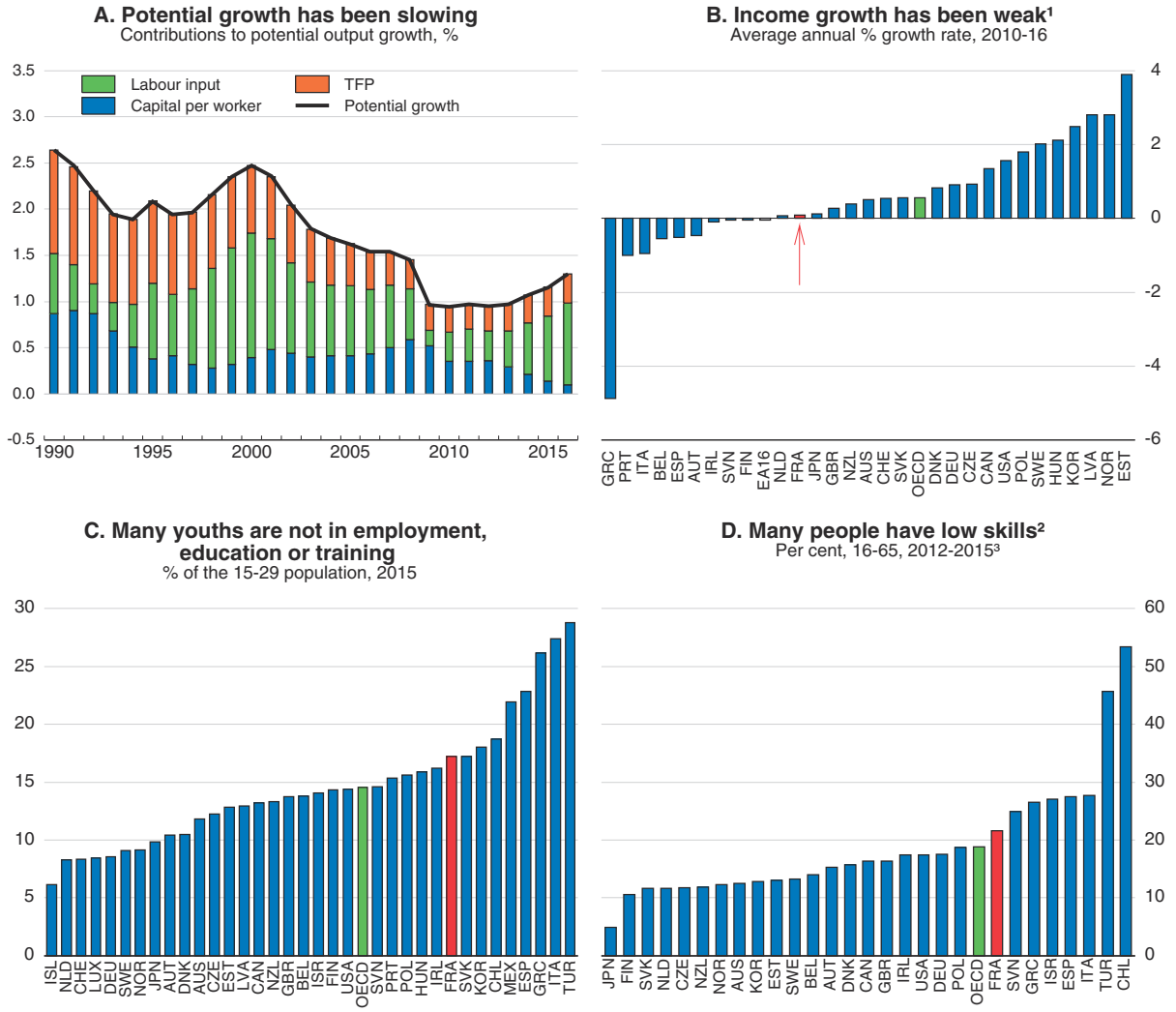
Source: OECD (2017), *Family, Economic Outlook 101* and *Income Distribution and Poverty Databases*.

StatLink http://dx.doi.org/10.1787/888933576983

Against this background this Survey has four main messages:

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

Figure 3. **The country also faces many challenges**



1. Real net household disposable income per capita.
2. Share of adults 16-65 scoring below level 2 in PIAAC's reading proficiency scale.
3. The data are based solely on Flanders for Belgium and England and Northern Ireland for the United Kingdom.

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

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

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

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

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

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

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

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

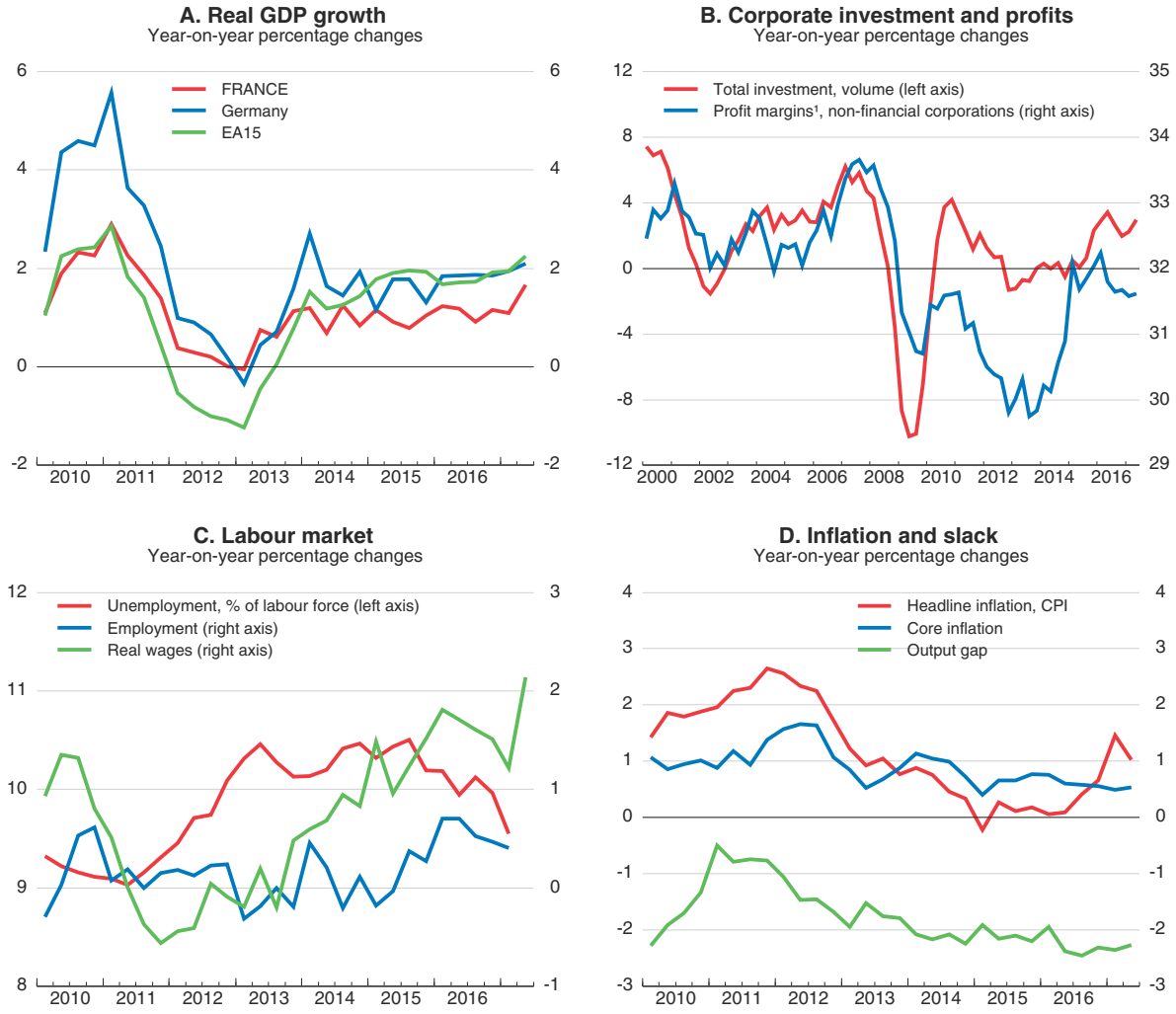
Table 1. **Macroeconomic indicators and projections**

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

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of potential GDP.
3. As a percentage of the labour force.
4. As a percentage of household disposable income.
5. As a percentage of GDP.

Source: OECD STEP 101 Database (and updates).

Figure 4. **Macroeconomic indicators**



1. As a percentage of gross value added.

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

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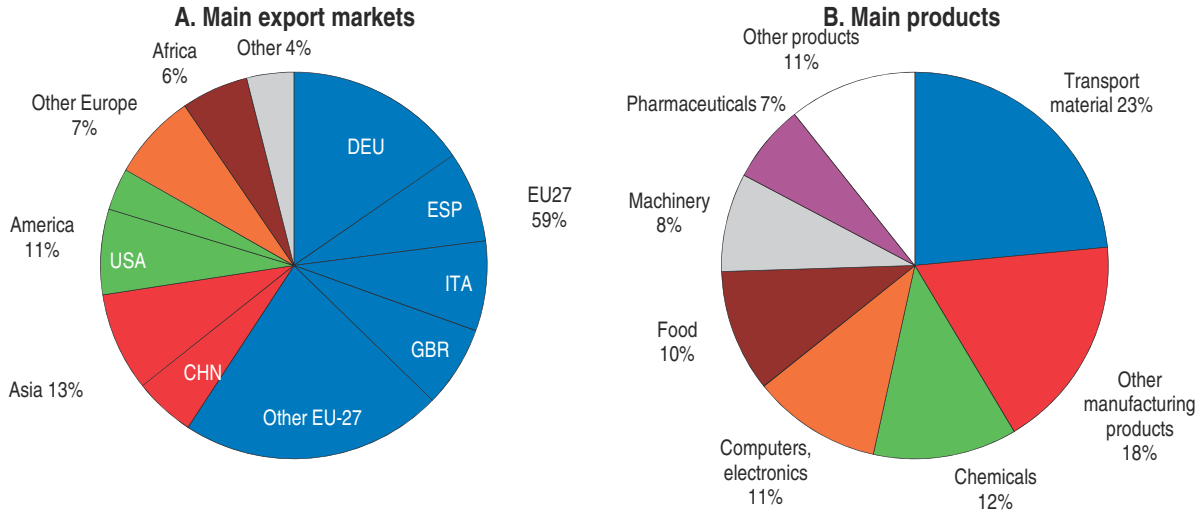
France, non-price competitiveness is hampered by weaker innovation than in the best-performing economies, whereas research spending is mostly directed at industries that are in decline in terms of their share of value added. After the sharp fall observed at the beginning of the 2000s, France's export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

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

Figure 5. **Structure of trade in goods, 2016-17**[1]



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

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

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

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

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

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

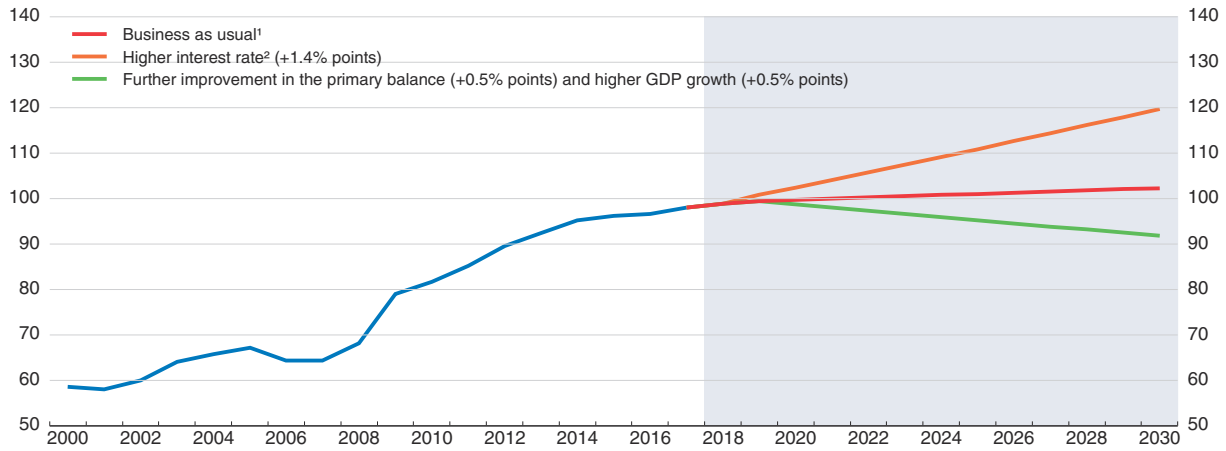
Financial-sector vulnerabilities appear contained, and the French banking sector seems to be resilient to adverse economic developments (EBA, 2016). The level of non-performing loans remains low, at 3.9% on average in 2016, compared to 5.7% on average in OECD countries. The ECB's bank lending survey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

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

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

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

Per cent of GDP



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

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

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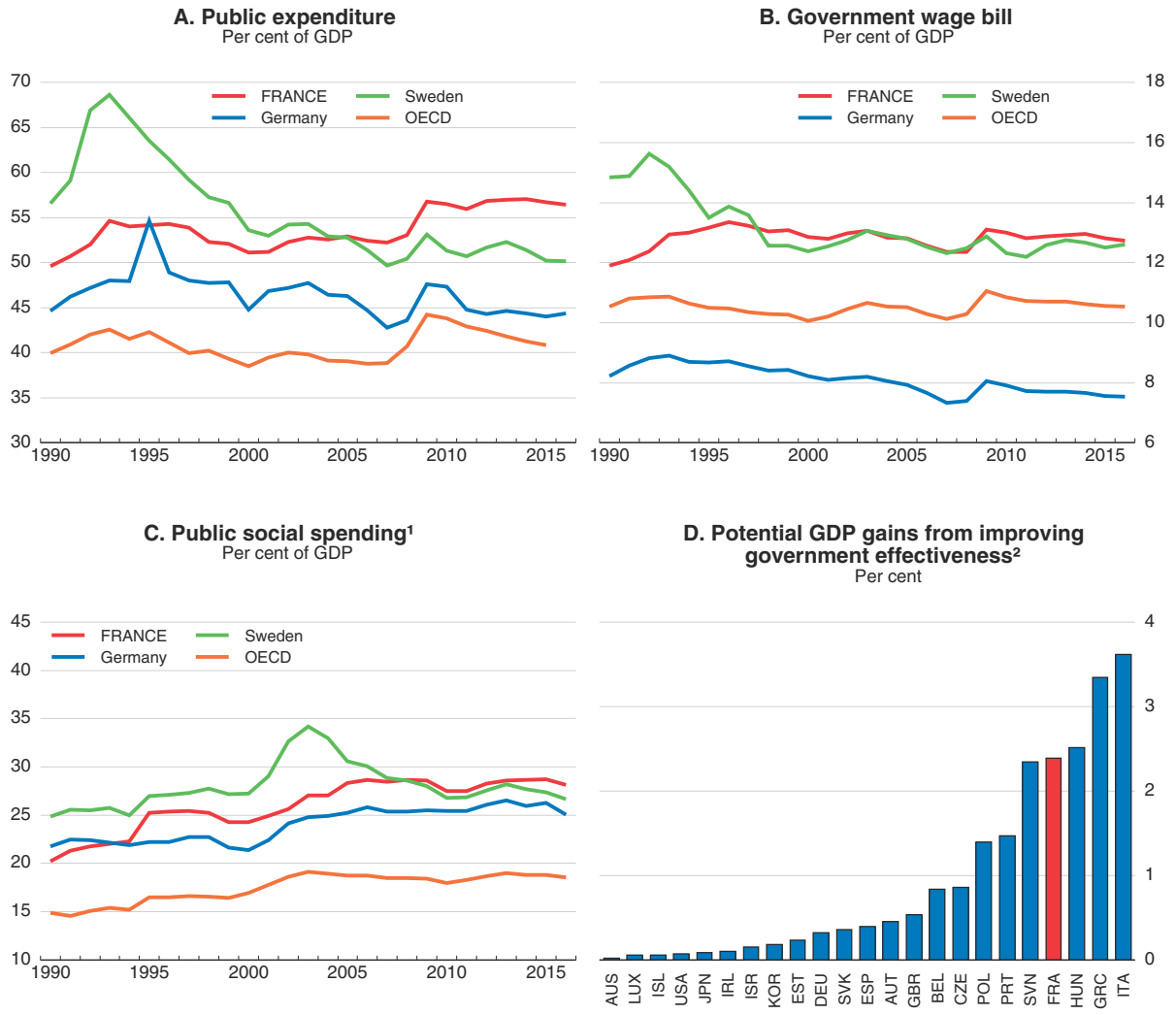
Making taxes more favourable to employment and productivity while maintaining social protection

Sustainable spending reductions

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

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



1. Data from 2014 onwards are estimates.
2. Effect after 10 years of a reform phased in over 10 years. In countries where the effectiveness of government is below the average of the top half of the countries, the government effectiveness will gradually converge to this level. See Fournier and Johansson (2016) for details. No potential GDP gains are foreseeable for Canada, Denmark, Finland, New Zealand, the Netherlands, Norway, Sweden and Switzerland, which were already found to be at the frontier of government effectiveness.

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

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

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

Table 3. **Composition of public spending by main component**

As a percentage of GDP

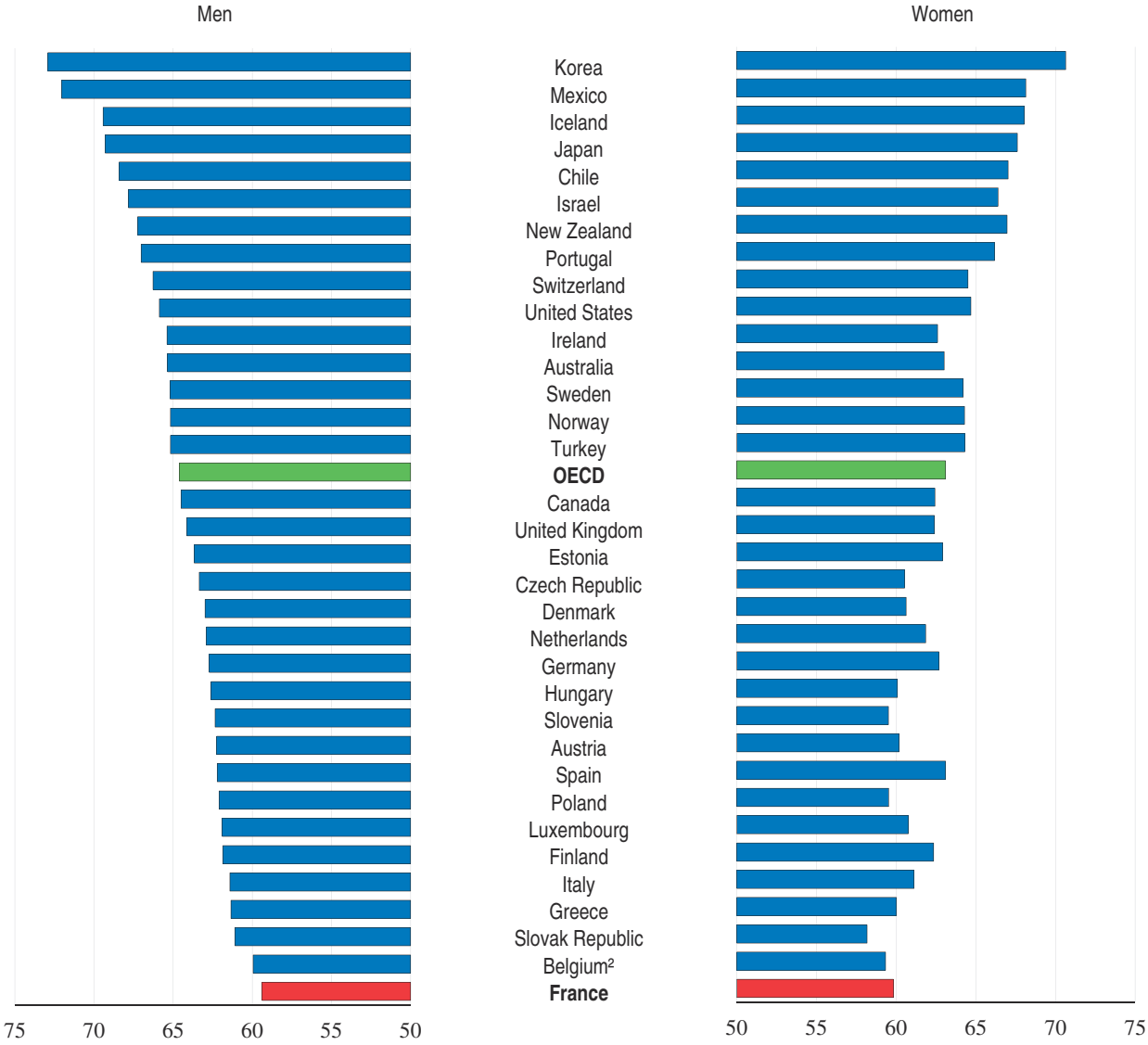
	Year	France	Germany	France vs. Germany		Sweden	France vs. Sweden	
				Difference[1]	Share in total difference (%)[1]		Difference[1]	Share in total difference (%)[1]
Total public spending	2013	57.0	44.6	12.4	100	52.3	4.7	100
	2016	56.4	44.4	12.0	100	50.2	6.2	100
Wage bill	2013	12.9	7.7	5.2	42	12.8	0.1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

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

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

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

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



1. The effective retirement age shown is for the five-year period 2009-14. The official pension age is shown for 2014, assuming labour market entry at age 20.
2. Belgium introduced a certain number of measures in 2015 to raise the effective age of labour market exit, focusing on conditions for accessing early retirement.

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

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

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

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

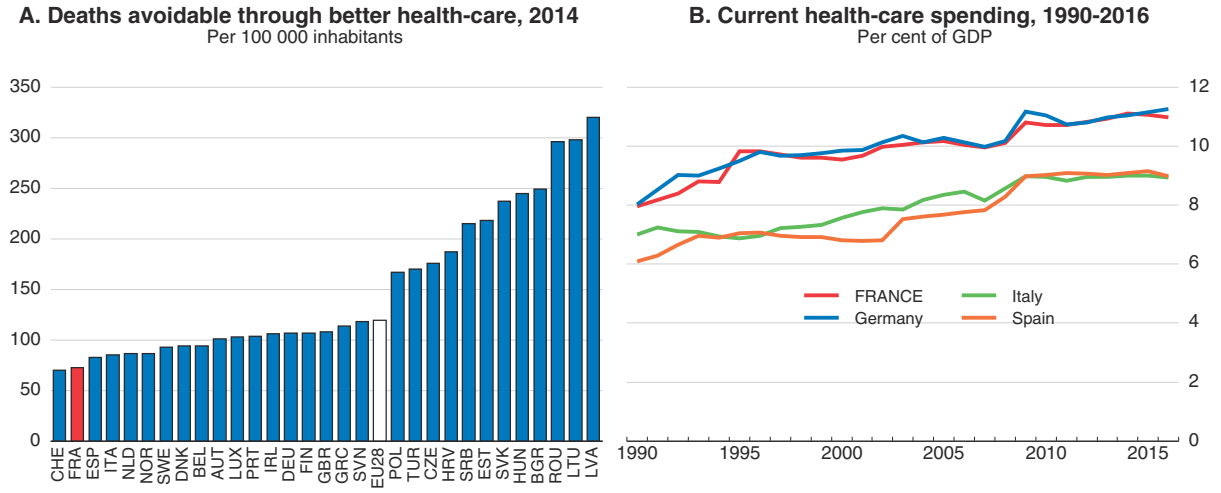
Local government expenditure represents about 20% of overall public spending. The many layers of government with overlapping competencies and the unusually small size of municipalities generate inefficiencies. Further streamlining local governments could lead to substantial savings over time (Table 4).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

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

Improving efficiency and equity in health care

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

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



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

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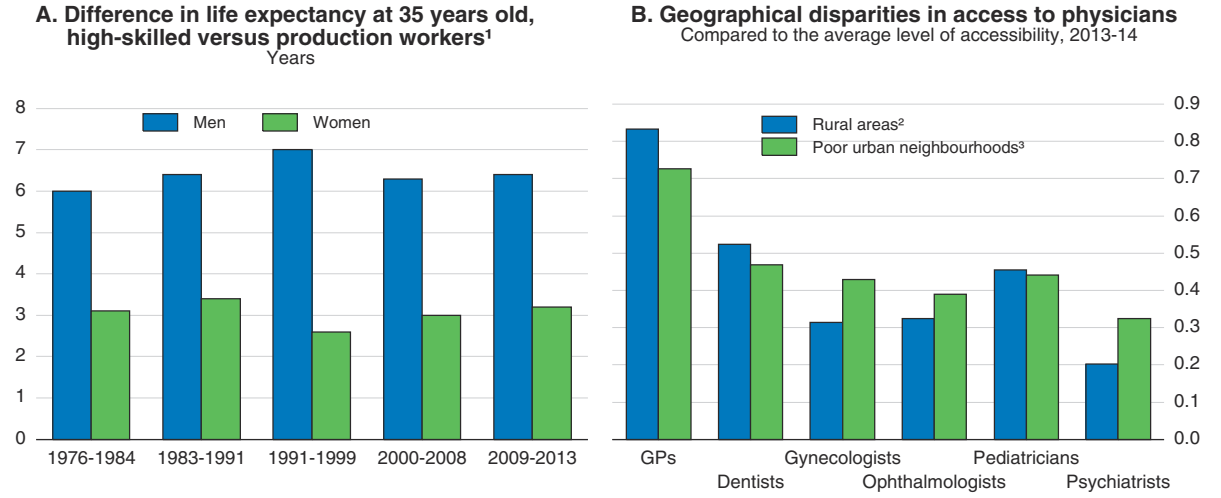
Figure 10. **Health outcomes and access to care are unequal**



1. High-skilled workers include white collar and highly qualified workers, such as managers, researchers and industry experts. Production workers refer to both unskilled and less than highly-skilled employees doing mainly manual work.
2. Ratio of accessibility index in rural areas to the index in France. Rural areas are weighted according to their population in 2011.
3. Ratio of density per inhabitants in poor urban neighbourhoods (quartiers prioritaires de la ville) to density in metropolitan France.

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

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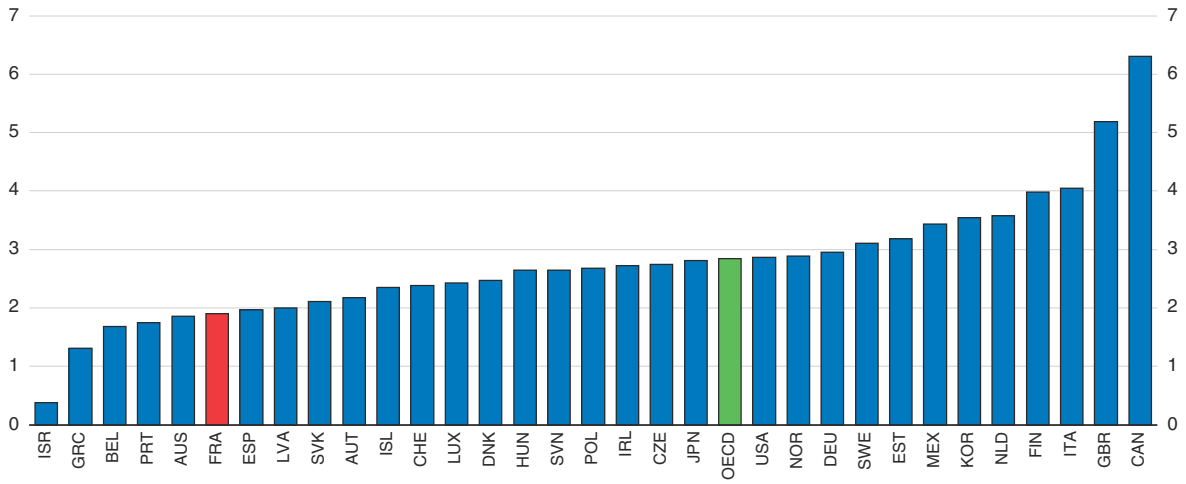
Panel A) and shows no sign of converging, and there are fewer providers in rural areas and poor neighbourhoods (Panel B). The governments' plan to increase the number of health centres gathering different providers is one way of improving access to care in these areas. The centres would also be helpful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

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

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

Figure 11. **Spending on prevention is low**[1]

Per cent of health-care spending, 2015[2]

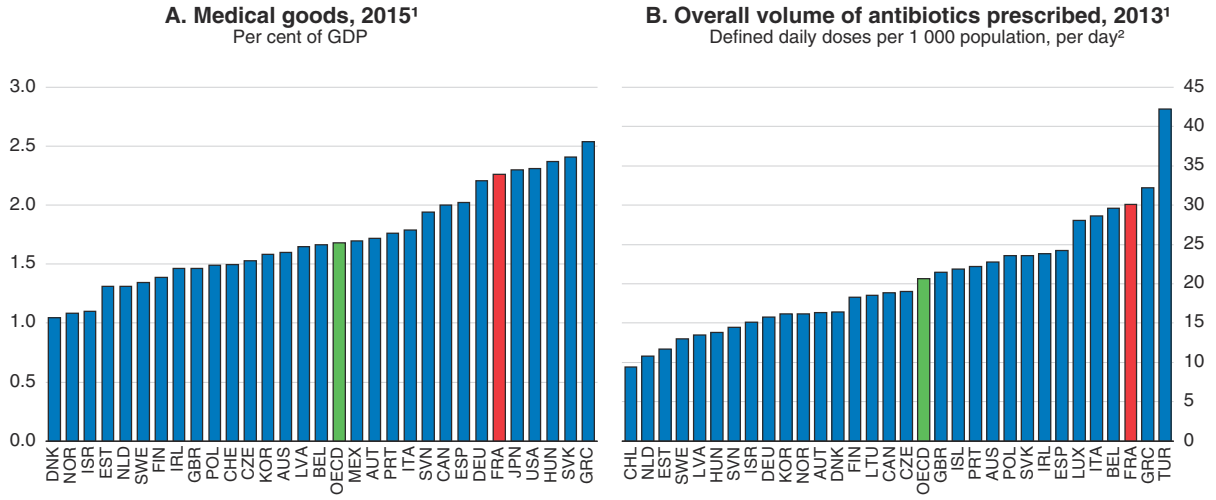


1. The scope of institutional spending is different from the entirety of spending on prevention in France, especially for ordinary consultations, which amount to 9.3 billion euros in 2014 according to Drees, i.e. 3.9% of health spending, compared to 2.0% in 2014 according to OECD figures.
2. Or latest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

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

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

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



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

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

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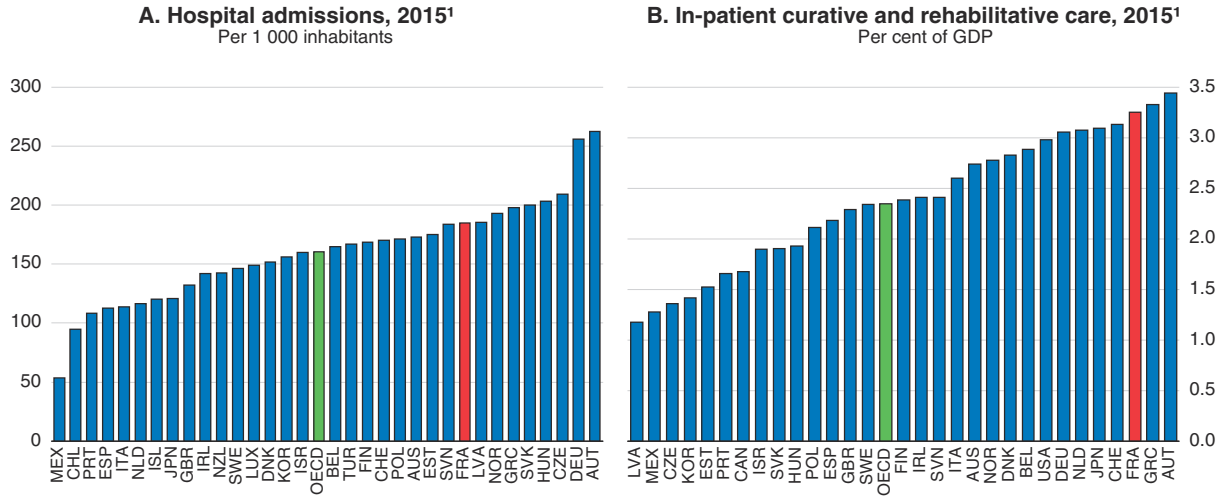
health records between primary-care providers would also aid in co-ordination and limit wasteful expenditures (OECD, 2017a). Strengthening the assessment of clinical and cost effectiveness and safety of new medications would also help (Polton, 2015).

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

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

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



1. Or nearest available year.
Source: OECD (2017), *OECD Health Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933577192

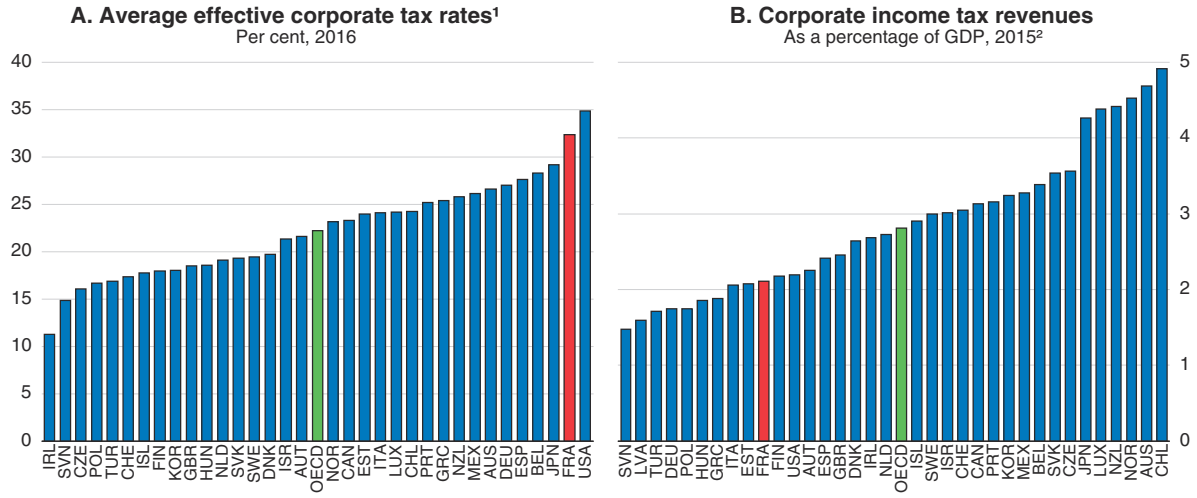
Simplifying the tax system and the framework of environmental regulation

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

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

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

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

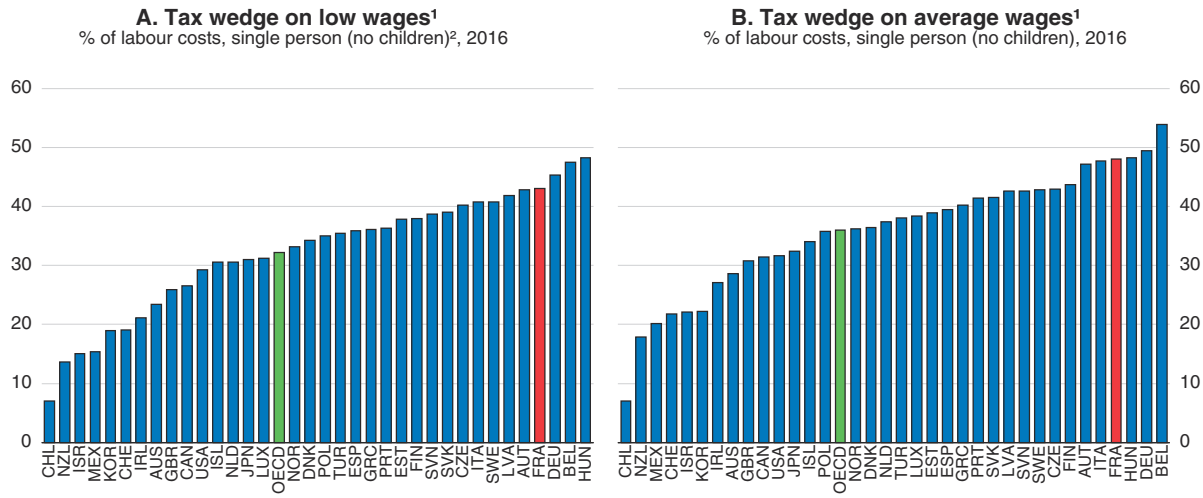


1. Difference between the pre-tax and post-tax net present values of a one-period investment in each country, computed by taking into account existing tax allowances and statutory rates and assuming a given rate of return, scaled by the present value of the income stream. The one-period investment is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

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

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

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



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

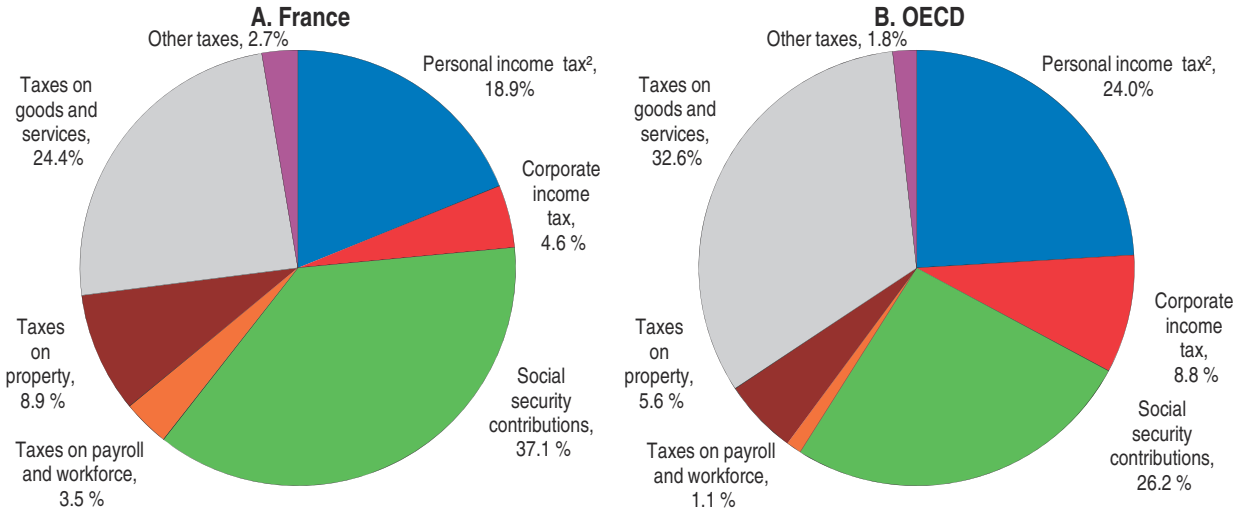
Source: OECD (2017), *OECD Taxing Wages Database*.

StatLink http://dx.doi.org/10.1787/888933577230

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

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

Figure 16. **Structure of tax revenues, 2015**[1]



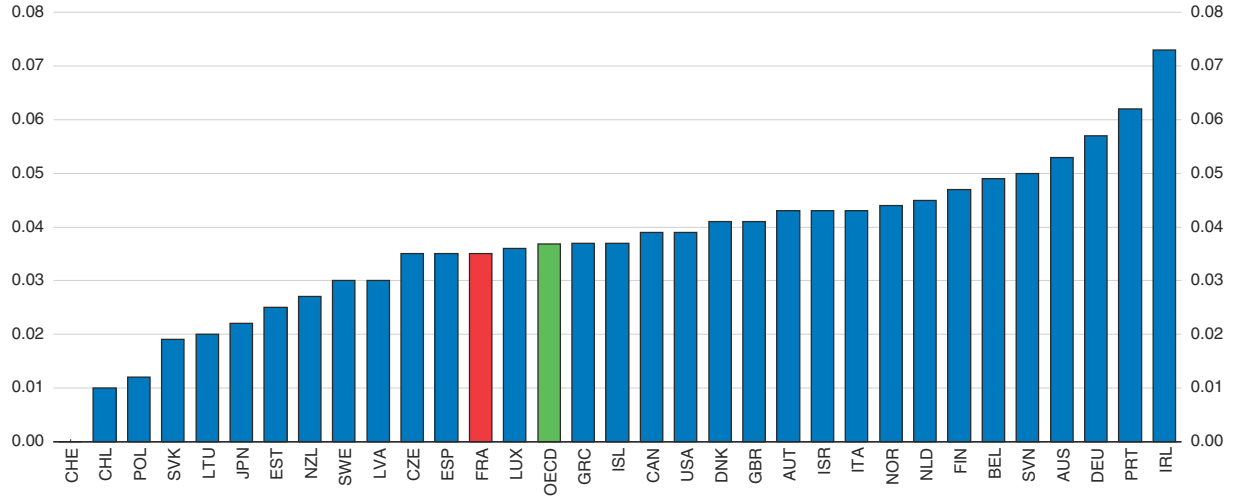
1. 2014 for the OECD.
2. Including the *contribution sociale généralisée*.

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

StatLink http://dx.doi.org/10.1787/888933577249

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

Reduction in gross income inequality[1] due to household taxes, Gini coefficient points, 2014[2]



1. After social transfers.
2. Or latest year available.

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

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

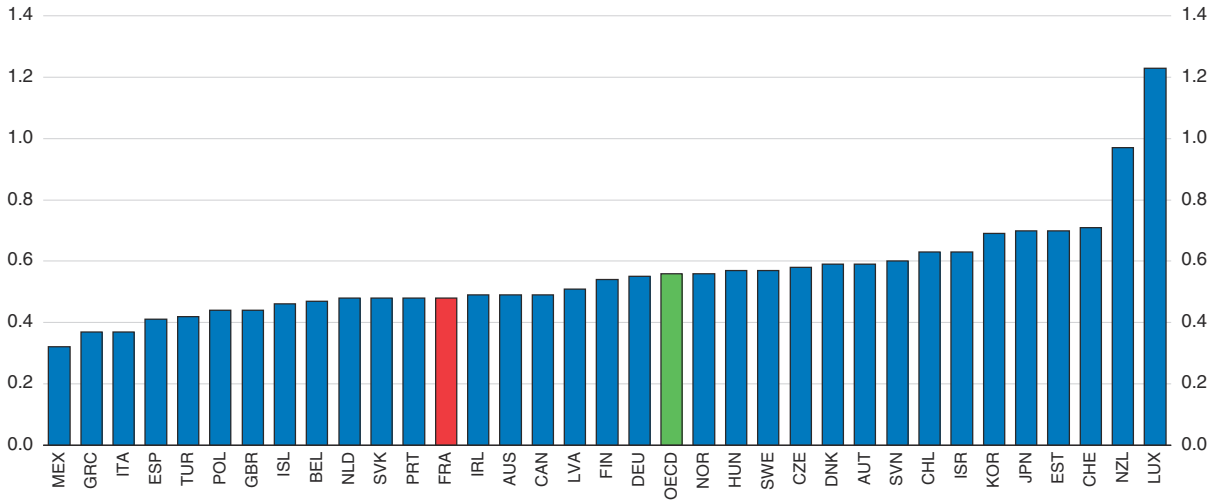
proportional PIT. But the tax system would gain in transparency and equity by giving a more important role to the progressive PIT, for example by further reducing tax expenditures that benefit mainly higher-income households. The new government plans to tax capital income at a single 30 per cent flat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

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

Main recent OECD recommendations	Actions taken since the 2015 *Survey*
Pursue the development of an efficient environmental tax system by aligning the tax structure for fossil fuels with their carbon emissions and other externalities.	The tax differential between diesel and petrol cars was reduced, and the new government plans to align the taxation of diesel with that of petrol by 2022. The trend in the carbon tax, which was written into the law with a target of 100€/t CO_2 by 2030, is on track. The new administration intends to accelerate this rise.
Free up the property market by cutting transaction costs.	Registration fees increased in most *départements*.
Enhance the neutrality of capital taxation across and within asset classes, in particular by ending preferential tax treatment of certain investment income.	No action taken.

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

VAT revenue ratio[1] (%), 2014



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

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

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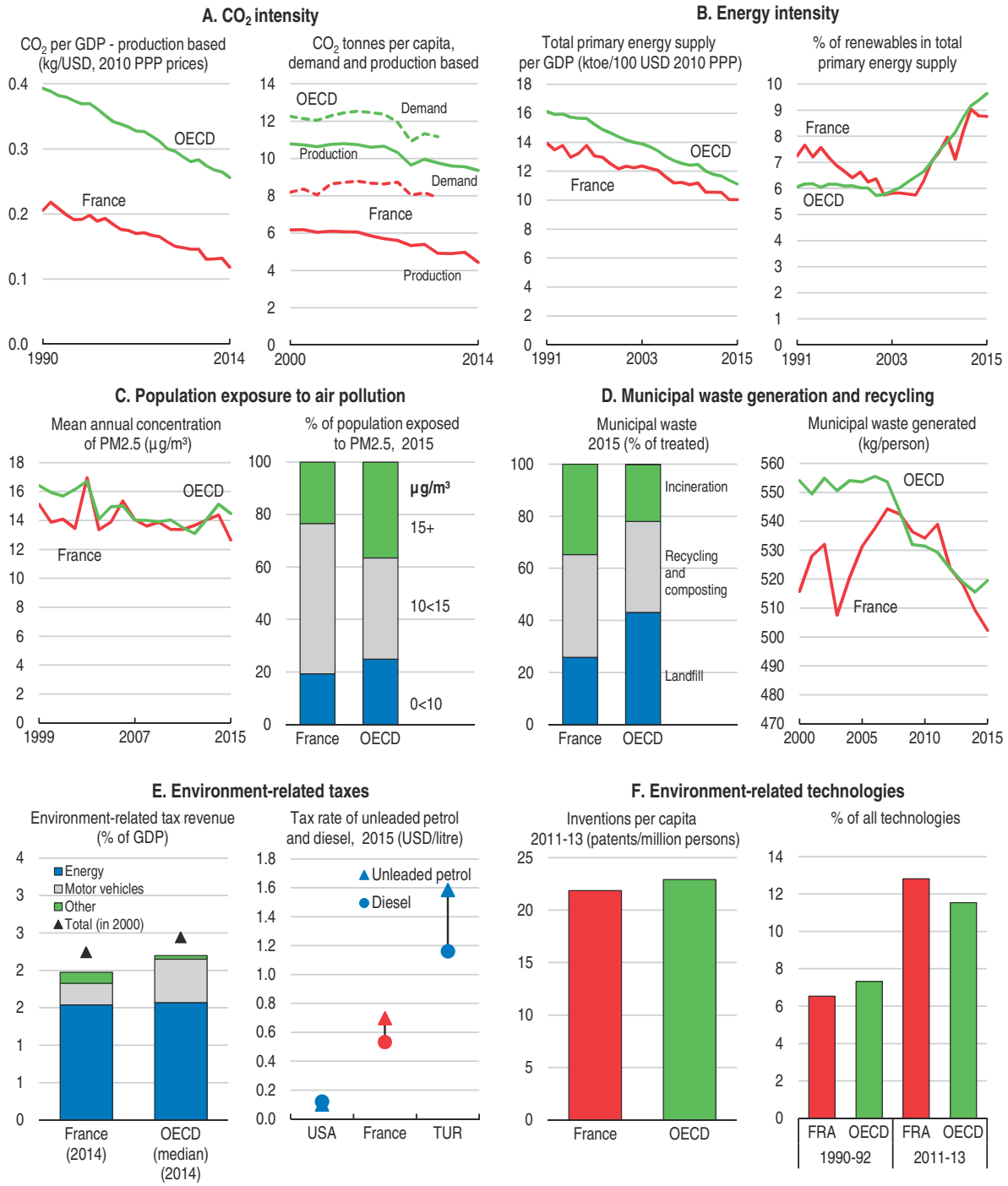
Value added taxes account for a relatively low share of revenues, reflecting exemptions and reduced rates (Figure 18). The effect of these is often regressive, for example in the case of hotels and restaurants (Ruiz and Trannoy, 2008), yet a stronger role for VAT could still reduce the progressivity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

Figure 19. **Green growth indicators: France**



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

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Increasing environmentally related taxes would yield extra revenues, while helping to address environmental challenges. Environmentally related tax revenues are low compared to the OECD average (Figure 19, Panel E), reflecting in part low CO_2 emissions (as France relies heavily on nuclear energy) but also low average effective tax rates on heating and process energy and on CO_2 by international standards (OECD, 2015a). The increase in diesel taxation to bring it closer to petrol taxes is encouraging and could be expedited. Diesel has long enjoyed preferential treatment in terms of vehicle and fuel taxation, but taxing it more leniently than petrol is not justified, given the fact that it pollutes more by most measures such as fine particles and NO_2 (Harding, 2014). The share of private diesel cars almost doubled to 62% from 2000 to 2014, one of Europe's highest rates, and many people are exposed to dangerous amounts of particulate matter (Panel C). The government has announced its intention to equalise the taxation of diesel and petrol before the end of the current administration. The incorporation of a carbon component into fossil fuel taxation in 2014 was a significant step. It could be made more effective by further removing environmentally damaging fuel tax exemptions, for example for road haulage, agricultural machinery and public works, which cost more than 2 billion euros per year. Other pollutants should also be taxed more, such as mineral fertilisers, which are an important source of environmental damage in France. The government should continue to raise its carbon tax, as it has been doing, to its target of 100 euros per tonne of CO_2 in 2030 to strengthen France's efforts to reduce greenhouse gas emissions, in accordance with the trajectory set out in the Energy Transition for Green Growth Act. This trajectory must be at a minimum respected or raised.

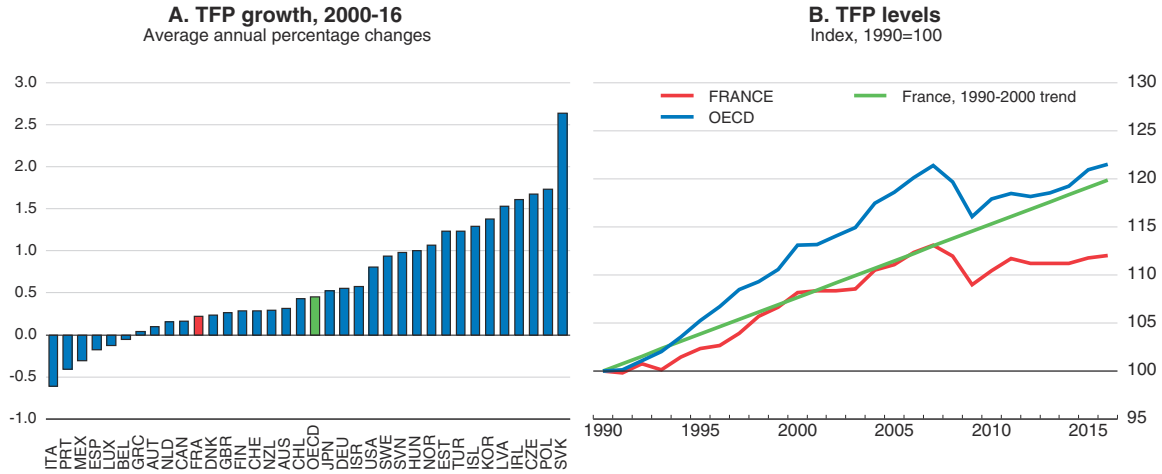
Beyond taxation, the quality of environmental regulation needs to improve. The 2015 Energy Transition for Green Growth Act established ambitious objectives to shift electricity generation towards renewables (Figure 19, Panel B). Yet, there are many targets that are difficult to reconcile, and regulations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

Strengthening productivity growth

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

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

Figure 20. **TFP growth has slowed**

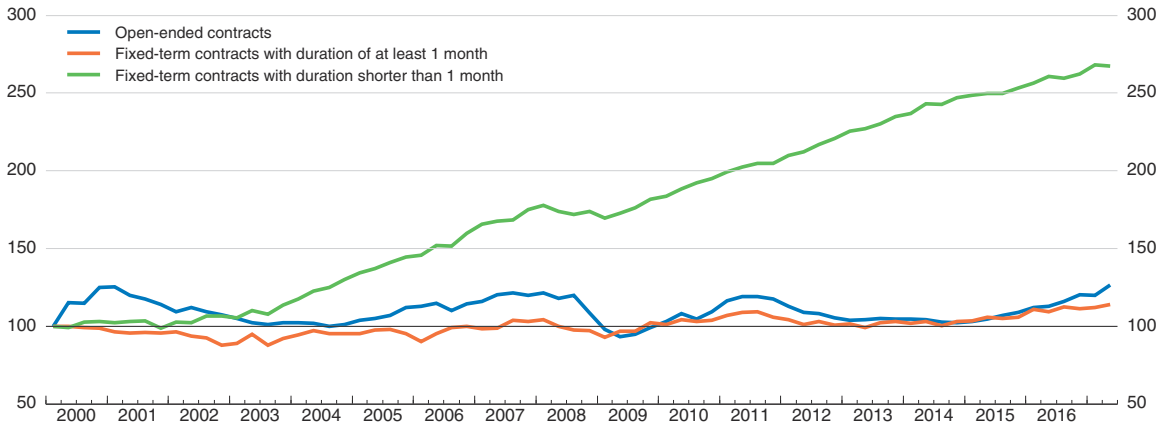


Source: OECD (2017), *OECD Economic Outlook 101 Database*.

StatLink http://dx.doi.org/10.1787/888933577325

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

New hires by type of contract, index 2000 Q1=100



Source: ACOSS-URSSAF.

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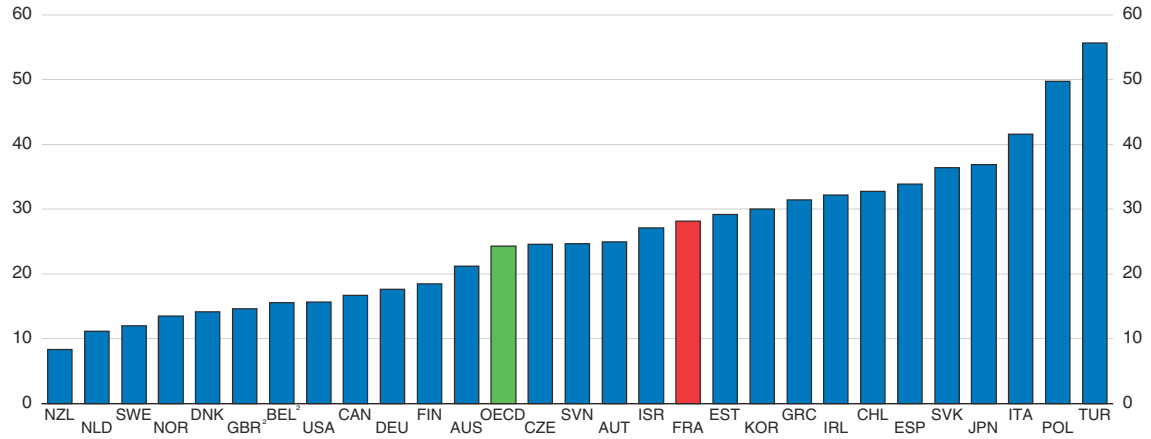
necessary to adopt new technologies. But France has a larger share of poorly managed firms than the United States and Sweden (Figure 23, Panel A), which explains more than half of its shortfall in total factor productivity *vis-à-vis* the United States (Bloom et al., 2016). Stronger competition would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

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

Figure 22. **The share of adults with no knowledge of ICT is high**[1]

16-65, 2012-15

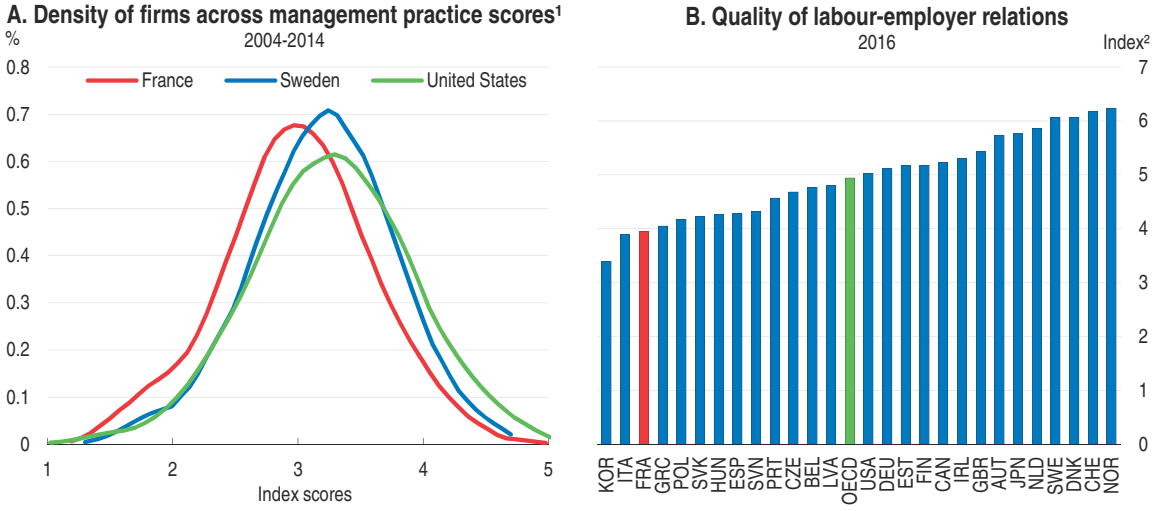


1. Share of adults who declared a lack of any ICT experience, opted out of the PIAAC computer-based assessment or failed the ICT core test.
2. The data are based solely on Flanders for Belgium and England and Northern Ireland for the United Kingdom.

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

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

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



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

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

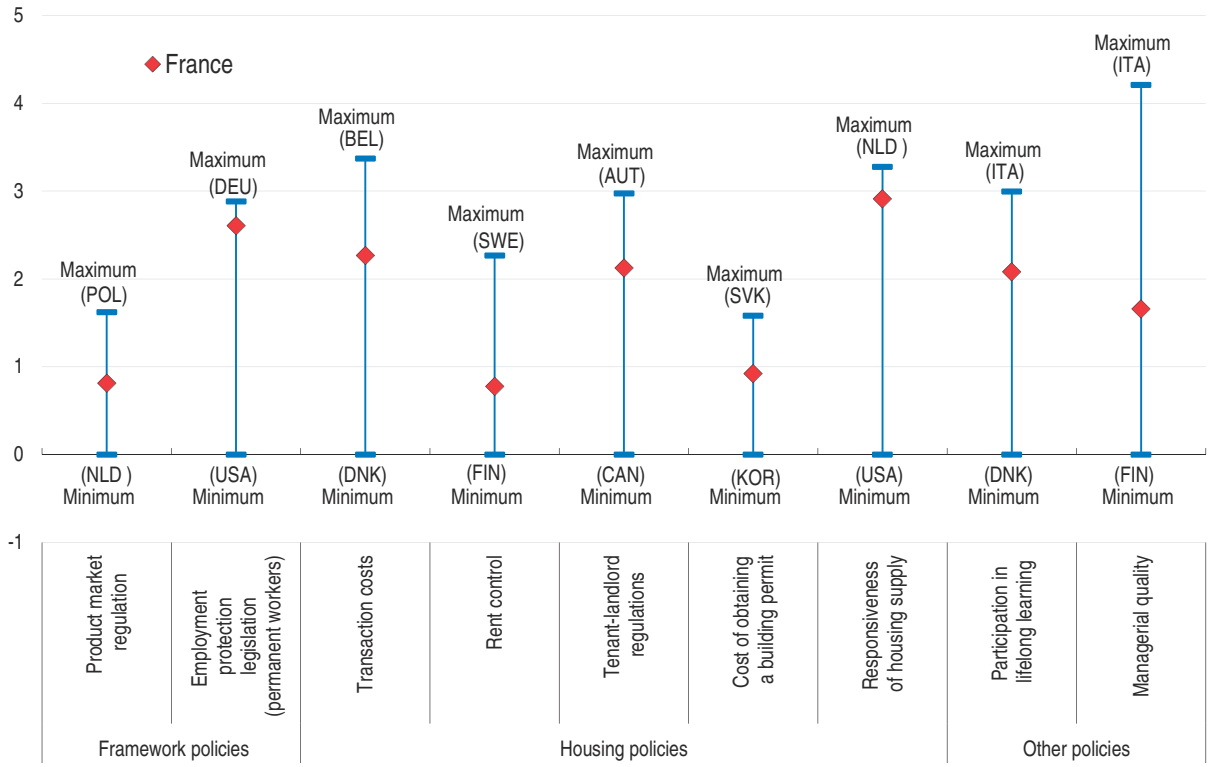
StatLink http://dx.doi.org/10.1787/888933577382

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

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

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

Per cent increase in labour productivity associated with aligning policies to best practice



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

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

StatLink http://dx.doi.org/10.1787/888933577401

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

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

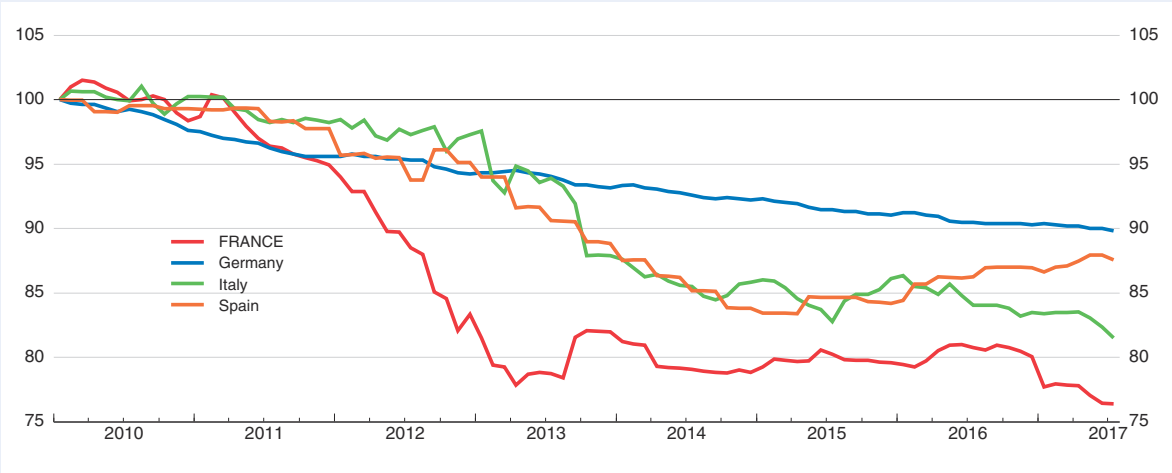
professional practices remain among the highest in the OECD for accountancy and architectural services and in rail transport. More non-prescription health-related products could be made available outside of pharmacies. Sunday opening differs by locality and type of store, which can create unequal competitive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

Box 2. **The benefits of competition in France**

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

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

Harmonised CPI index for communication prices, January 2010 = 100



Source: Eurostat.

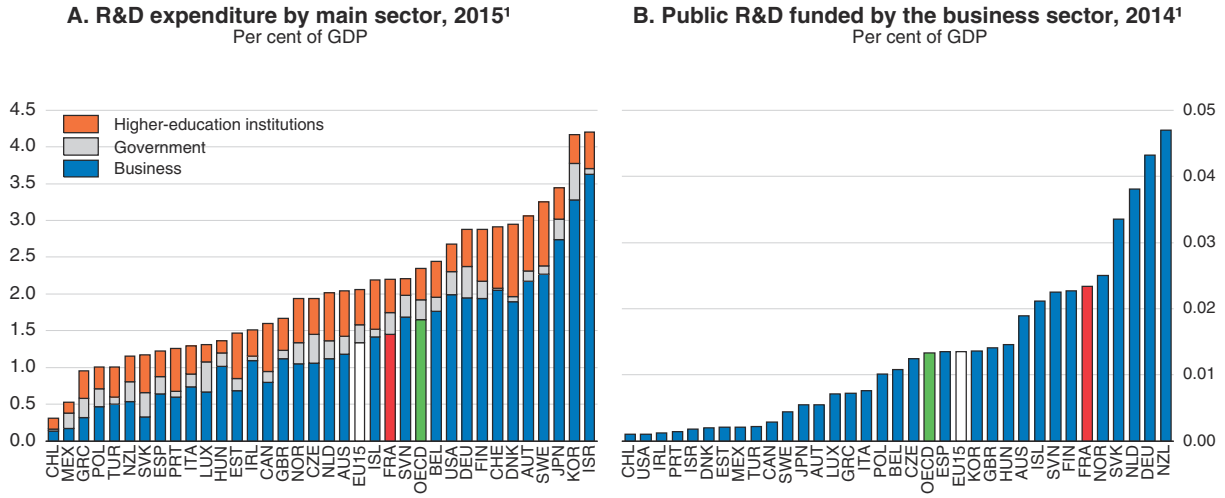
StatLink http://dx.doi.org/10.1787/888933577420

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

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

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

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



1. Or latest year available.

Source: OECD (2017), *OECD Research and Development Statistics*.

StatLink http://dx.doi.org/10.1787/888933577439

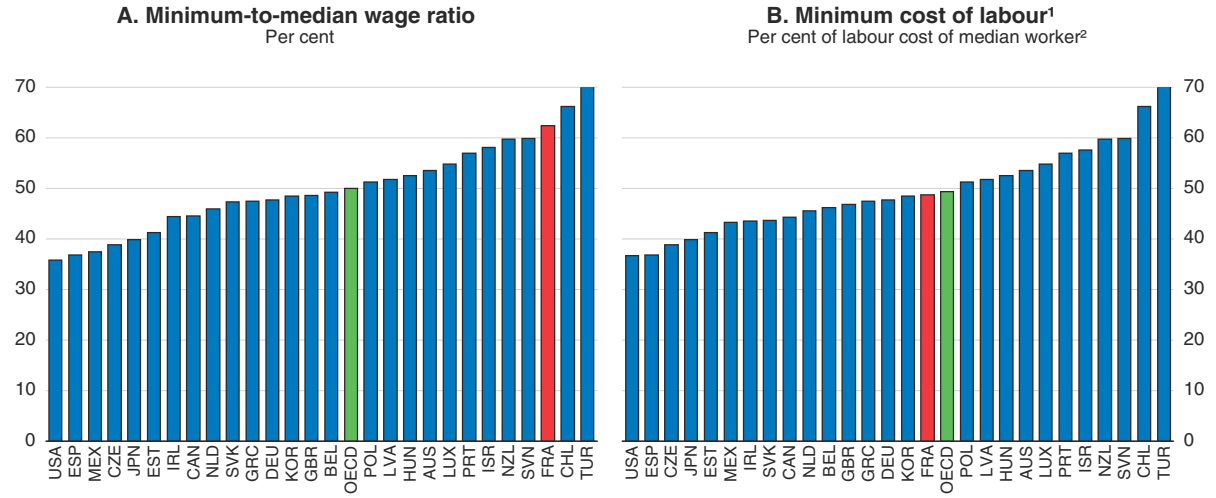
medium-high tech sectors are under-represented in comparison with the economies of leading countries such as Germany. In terms of competitiveness, the main challenge for the French economy is therefore to encourage the expansion of the productive structure to more technology- and R&D-intensive sectors.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

Enhancing employment and access to high-quality jobs

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

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

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



1. The cost of labour is the sum of the wage and the corresponding social security contributions paid by employers.
2. Excluding the Competitiveness and Employment Tax Credit (CICE) in France

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

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

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

Average 2012-15

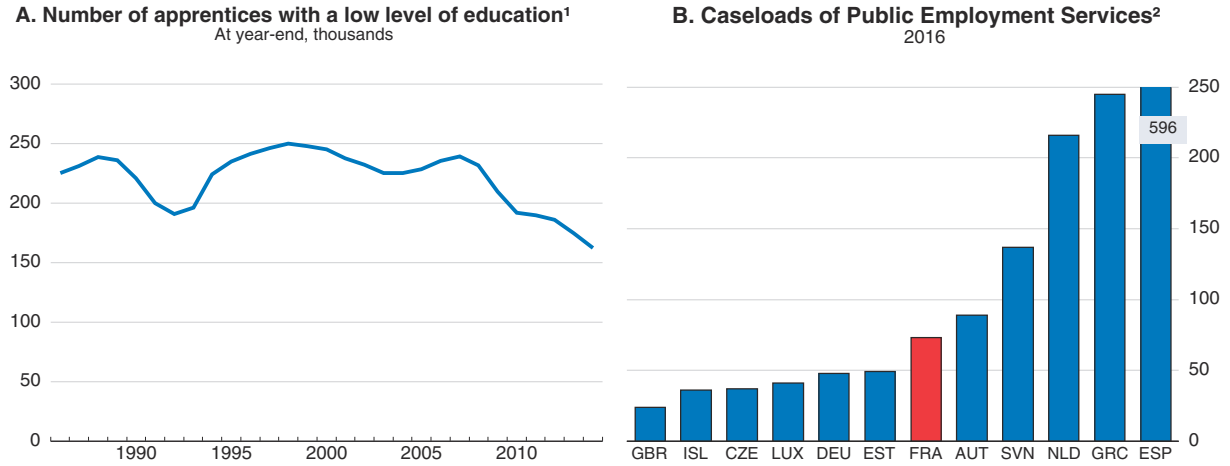
1. Including repair of motor vehicles and motorcycles.

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

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

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

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



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

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

StatLink http://dx.doi.org/10.1787/888933577458

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

Table 7. **Past OECD recommendations for improving training**

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

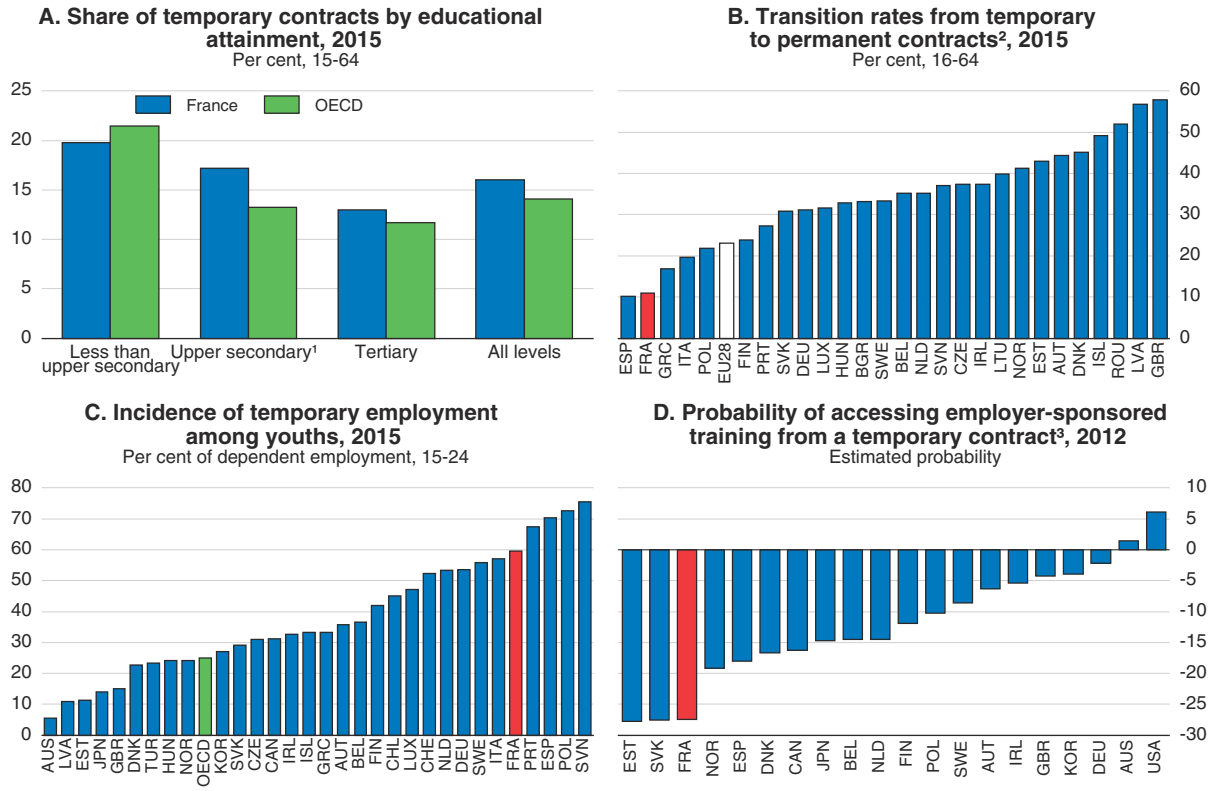
The training system's complexity makes access thereto more difficult for low-skill workers. Online personal training accounts introduced in 2014 co-exist with many competing measures (Table 7). But they have been little used to date, mainly by higher-skilled workers, owing to their complexity and the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

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

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

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

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



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

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

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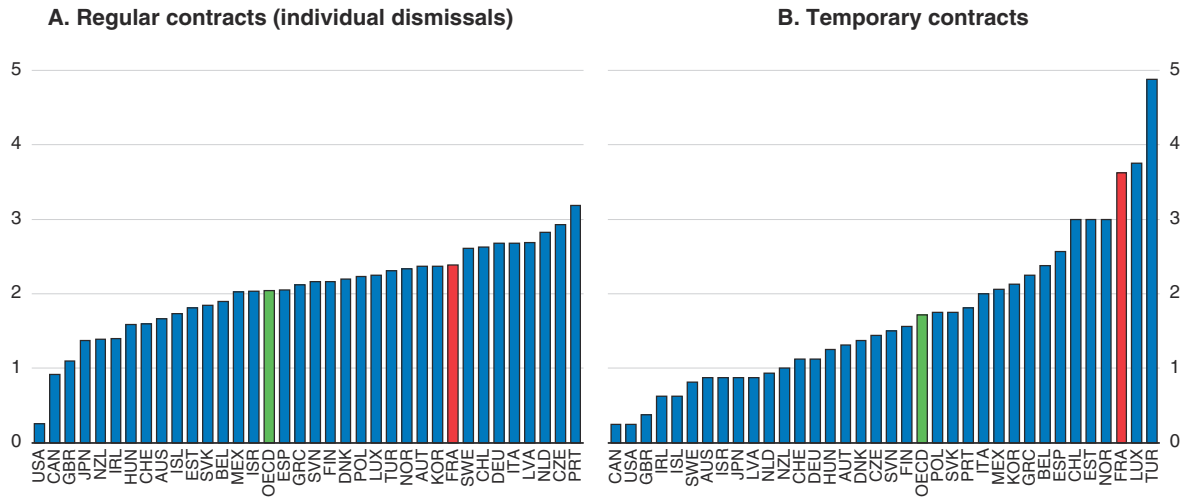
flexible would also facilitate better job matches (see Figure 24 above) and the mobility of high-ability workers towards innovative firms (Adalet McGowan and Andrews, 2015).

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

Figure 31. **Employment Protection Legislation appears to be restrictive overall**

Index scale of 0 to 6, from least to most restrictive, 2013[1]



1. Or most recent available year.

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

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

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

Giving more space to collective negotiations

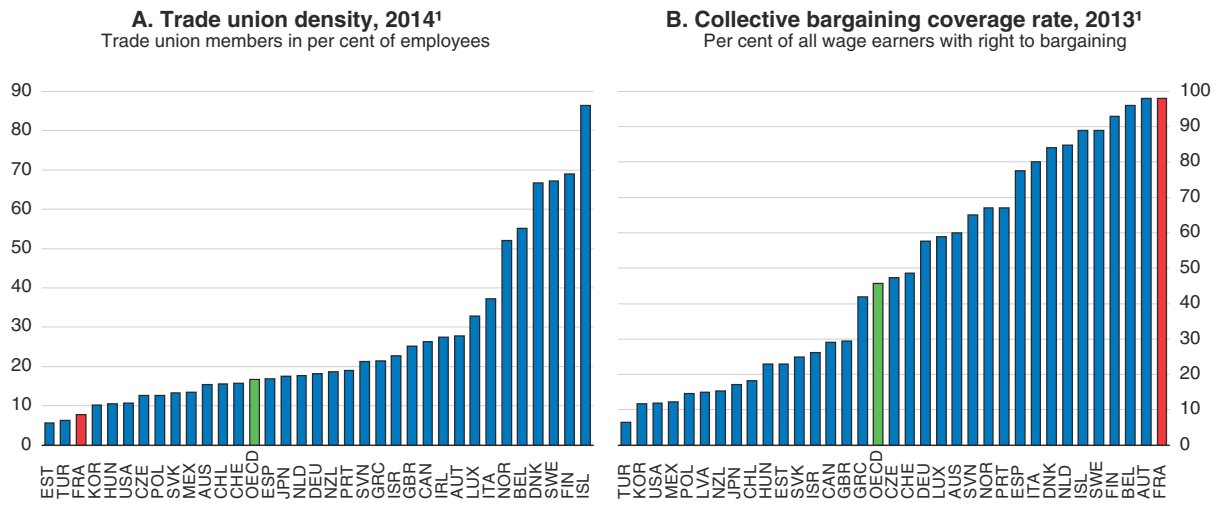
French labour law is often not well adapted to the diverse nature of the concrete situations of firms and their employees. Giving a greater role to sectoral and firm-level negotiations instead to determine wages and working conditions would help to increase flexibility to adapt wages to productivity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

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

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

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

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



1. Or latest year available.

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

StatLink http://dx.doi.org/10.1787/888933577515

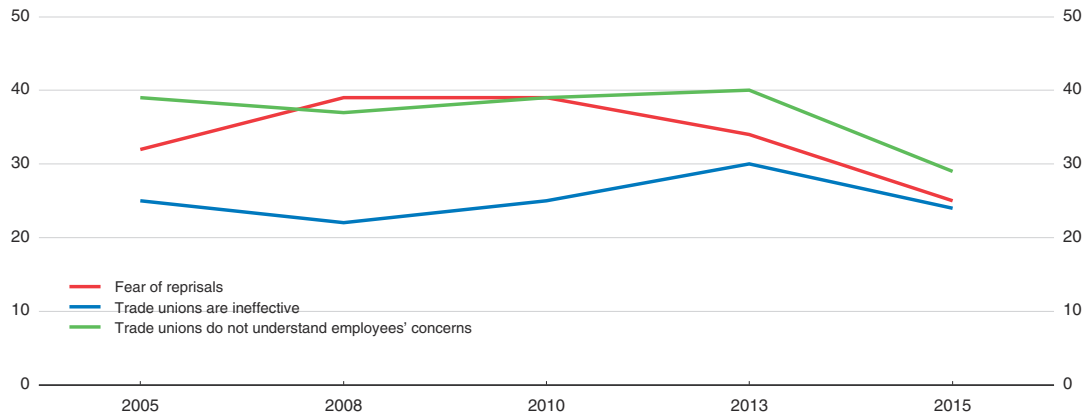
The new government plans to increase the scope for firm-level agreements to deviate from sectoral agreements. In general, firm-level agreements are allowed to be only more favourable for employees. Exceptions to this rule, such as the job preservation agreements (*accords de maintien en emploi*) and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

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

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

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

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



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

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

StatLink http://dx.doi.org/10.1787/888933577534

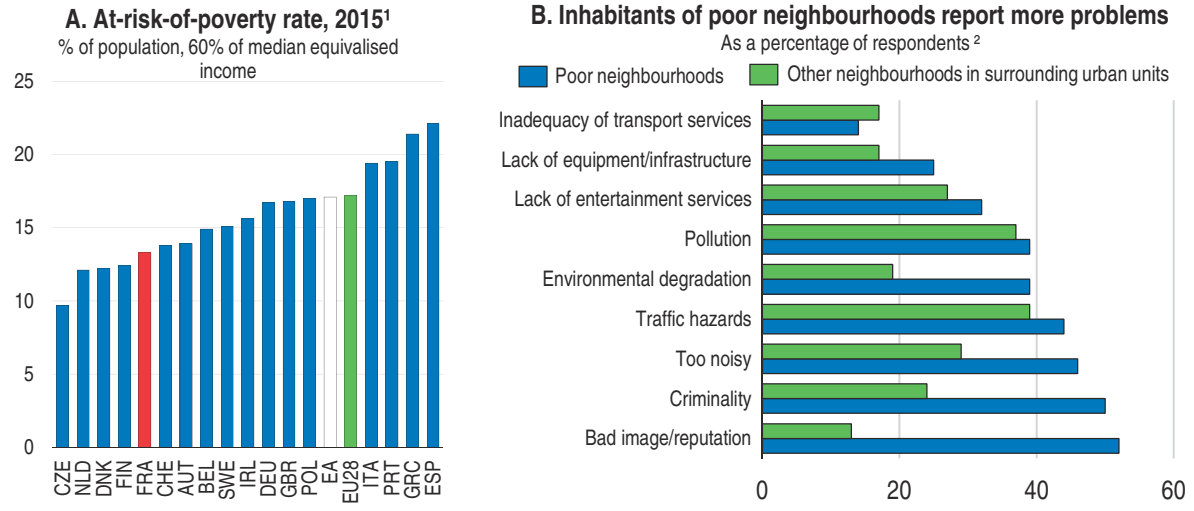
Although trust in unions is high overall, many employees say that they fail to understand their concerns. A 2008 reform has improved participation in elections of worker representatives and trust, while reducing the number of unions in individual firms on average (Askenazy and Breda, 2017). The reform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

Improving life in poor neighbourhoods

Poverty is low overall, but highly concentrated in some neighbourhoods

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

Figure 34. **Residents of poor neighbourhoods face various social handicaps**



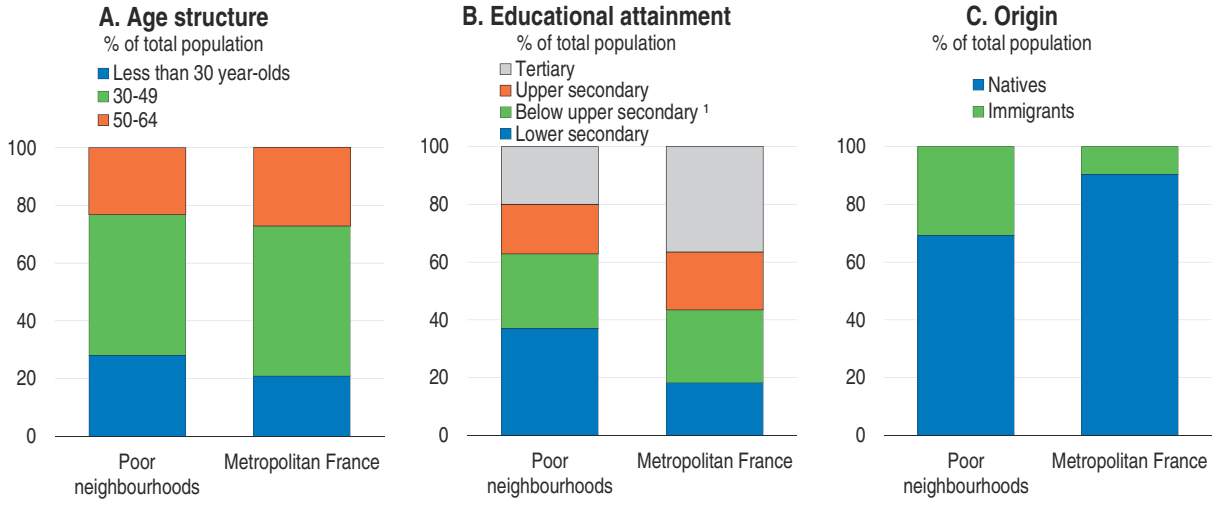
1. Or latest year available; 2014 for France.
2. Share of residents who answered their neighbourhood is concerned by the listed issues.

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

StatLink http://dx.doi.org/10.1787/888933577553

Figure 35. **Population structure in poor neighbourhoods, 2014**

15-64



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

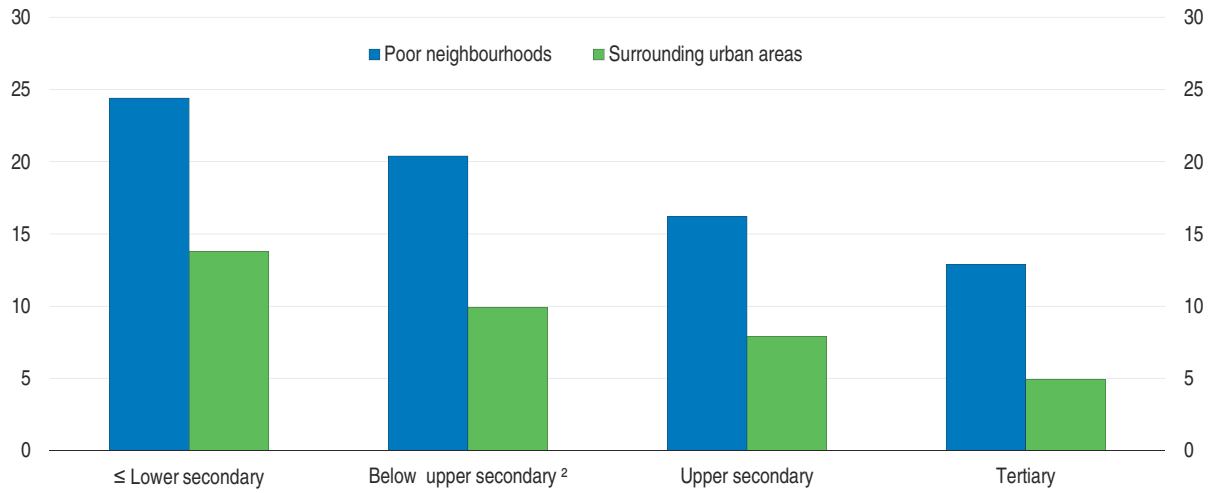
Source: ONPV (2016), *Rapport annuel 2015*.

StatLink http://dx.doi.org/10.1787/888933577572

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

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

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



1. Percentage point gap in the odds of unemployment for poor neighbourhoods' residents versus residents of surrounding urban areas; employed native-born women aged 30 to 49 with a *baccalauréat* only are identified as the reference group.
2. Refers to post lower secondary education vocational qualifications such as: *Certificat d'aptitude professionnelle* (CAP) and *Brevet d'études professionnelles* (BEP).

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

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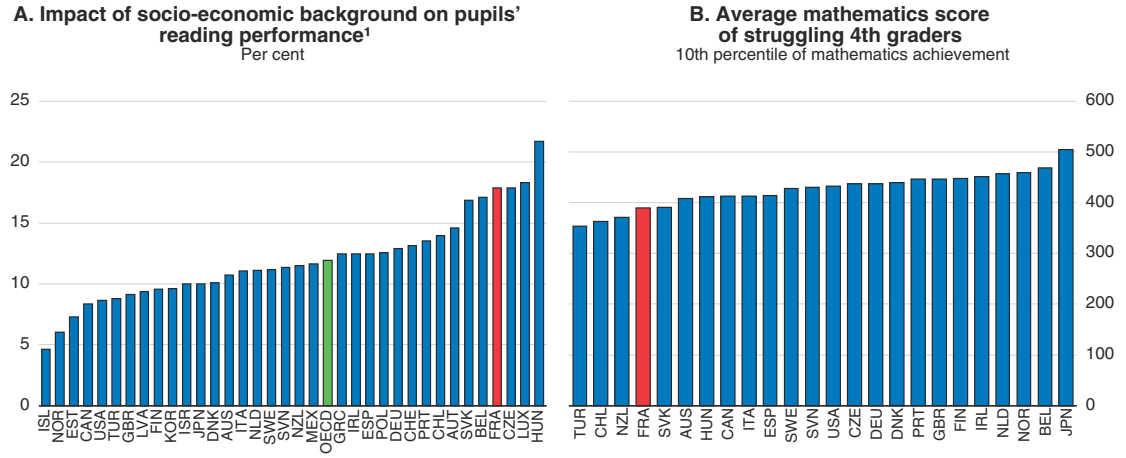
Improving learning outcomes of disadvantaged children

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

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

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



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

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

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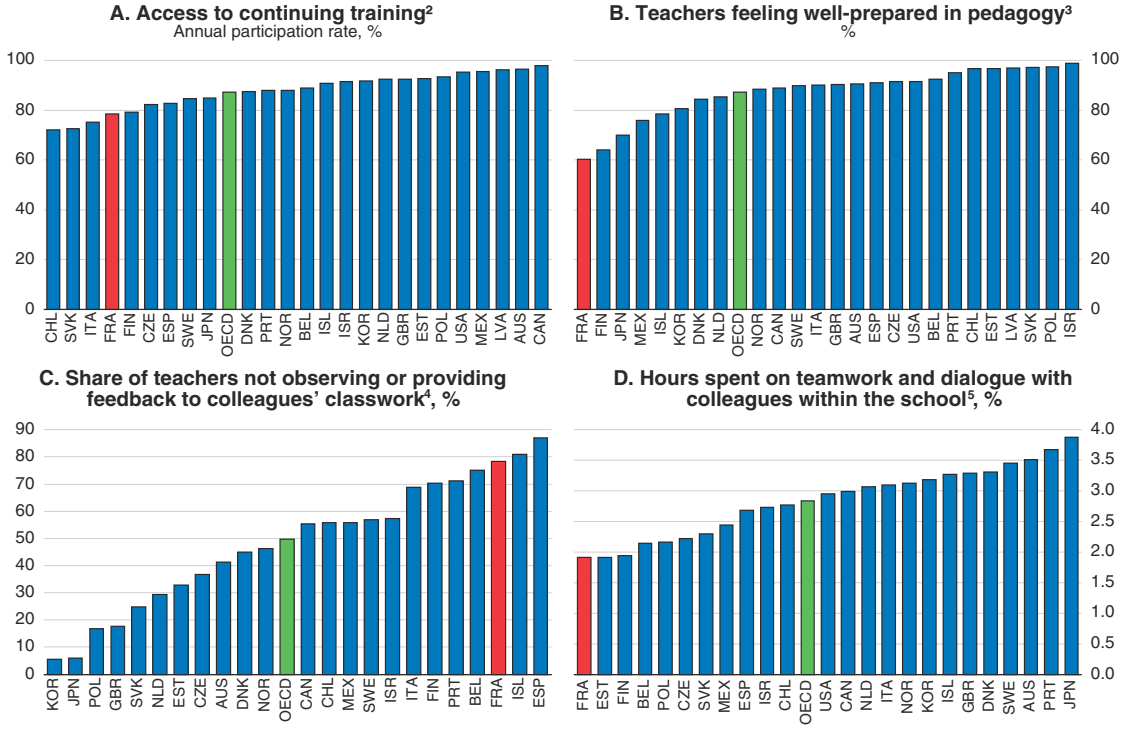
Figure 38. **Pedagogical training and teacher teamwork are weak**

Teachers in public lower secondary education, 2013[1]



1. Belgium, Canada and the United Kingdom refer to, respectively, only Flanders, Alberta and England.
2. Share of public lower secondary education teachers who participated in professional development over the previous year.
3. Share of lower secondary education teachers who feel well or really well prepared in the pedagogy of subjects being taught.
4. Share of lower secondary education teachers who report never doing the mentioned activities.
5. Average number of 60-minute periods that lower secondary education teachers report having spent on the mentioned activities during the most recent complete calendar week (not shortened by breaks, public holidays, sick leave, etc.).

Source: OECD, *Talis 2013 Database*.

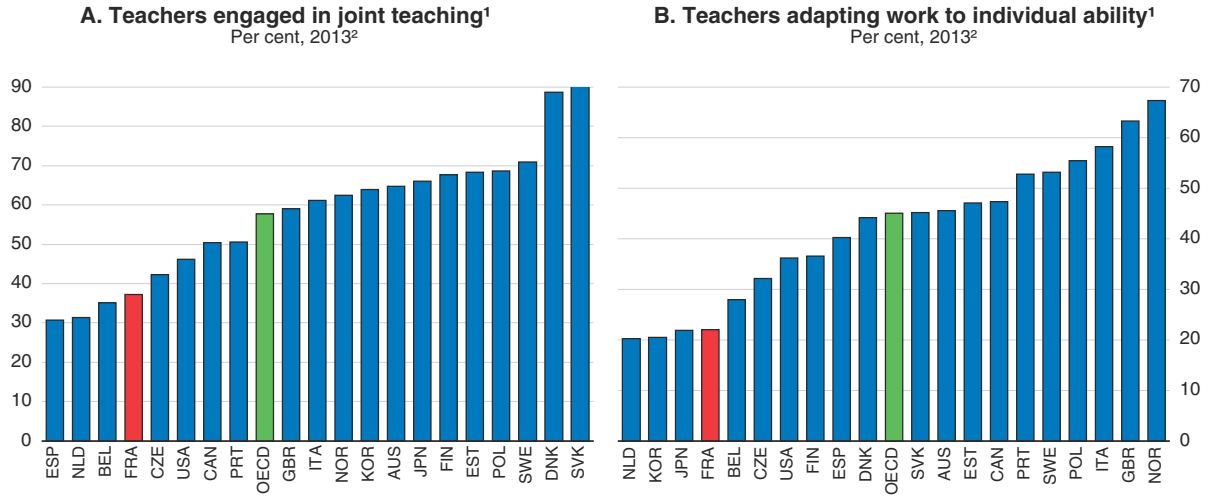
StatLink http://dx.doi.org/10.1787/888933577629

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

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

Figure 39. **Joint teaching and adapting teaching to heterogeneous abilities are underdeveloped**

Teachers in public lower secondary education



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

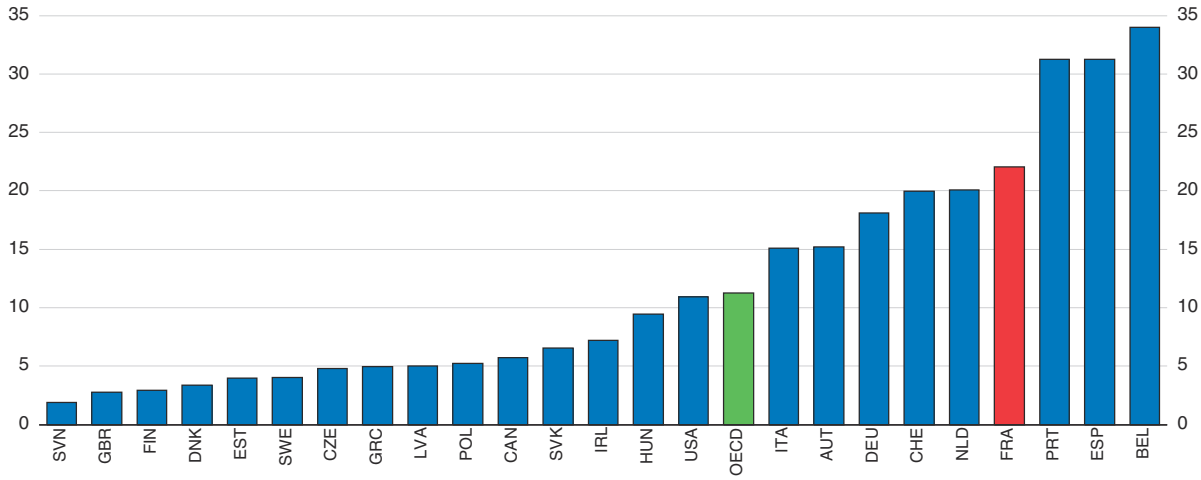
Source: OECD, *Talis 2013 Database*.

StatLink http://dx.doi.org/10.1787/888933577838

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

Figure 40. **Grade repetition is high**[1]

Per cent, 2015[2]



1. Share of students reporting having repeated a grade at least once in primary, lower secondary or upper secondary school.
2. This figure shows the grade repetition of students throughout their academic career, and therefore does not fully reflect the new regulations in France under which grade repetition should be used only in exceptional circumstances.

Source: OECD (2016), *PISA 2015 Results: Policies and Practices for Successful Schools*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933577857

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

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

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

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

Investing more and more effectively in poor neighbourhoods

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

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

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

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

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

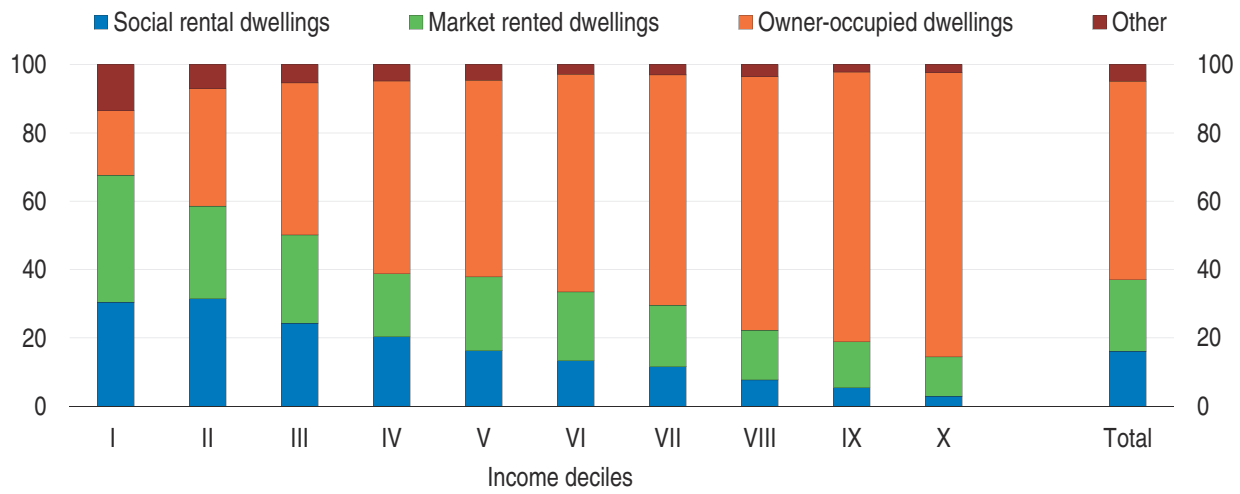
evaluations. Continuing these efforts and adding diversity training and information campaigns for recruiters would be useful to raise their awareness. Personal contact with candidates from poor neighbourhoods has been shown to help overcome prejudice. Job-seekers at risk of discrimination should be given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

Improving access to higher-quality housing for the poor

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

Figure 41. **Housing tenure across households by income decile**[1]

Metropolitan France, primary residences, 2013



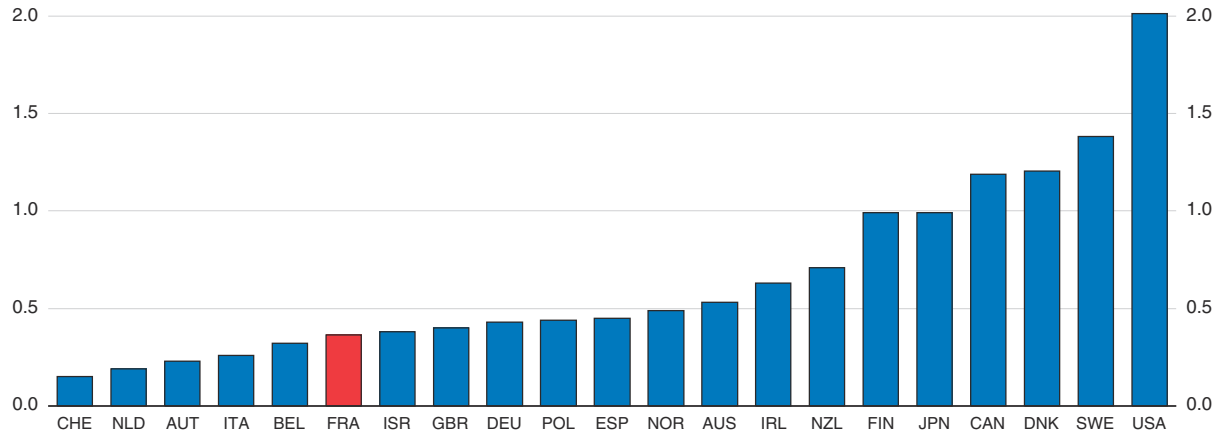
1. The first income decile includes households with average annual income below EUR 8 000, while the 10th decile refers to households with average annual income above EUR 39 000.

Source: INSEE, *Housing Survey 2013*.

StatLink http://dx.doi.org/10.1787/888933577914

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

Figure 42. **Price responsiveness of housing supply**[1]



1. Estimates of the long-run price elasticity of new housing supply where new supply is measured by residential investment.
Source: Caldera Sánchez, A. and Å. Johansson (2011), "The Price Responsiveness of Housing Supply in OECD Countries", *Journal of Housing Economics*, Vol. 22, Issue 3, September, pp. 231-49.

StatLink http://dx.doi.org/10.1787/888933577933

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

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

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

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

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

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

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

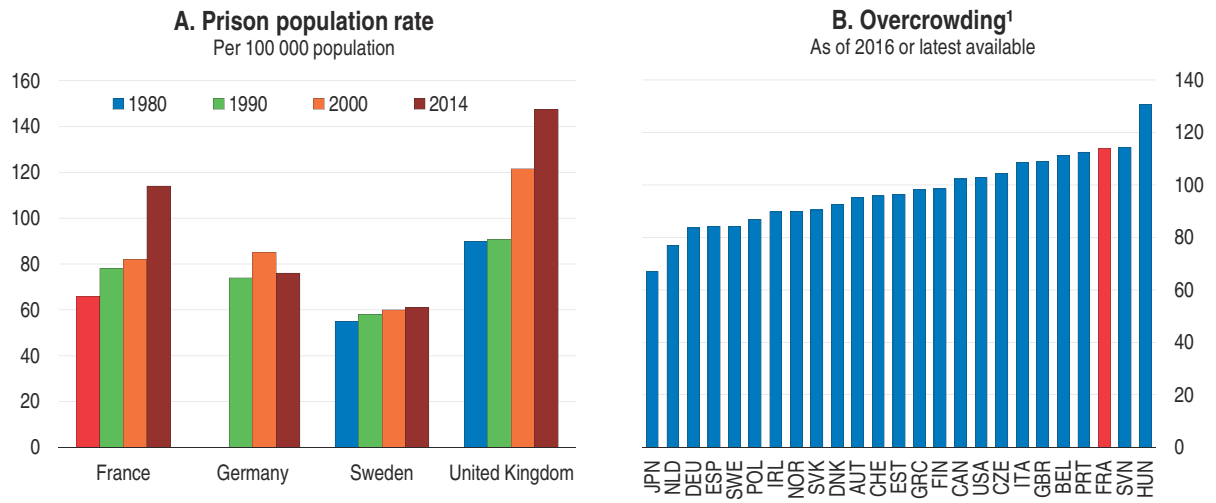
mid-1970s – and reconstruction of smaller buildings with a mixture of tenures. The idea has been to attract the middle class and thus provide for more social mixing. The programme has helped to modernise housing and other urban infrastructure, and the neighbourhoods are often better integrated into their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

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

Incarceration

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

Figure 43. **Increase in the prison population and overcrowding**



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

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

StatLink *http://dx.doi.org/10.1787/888933577952*

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

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ANNEX

Progress in structural reform

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

Labour market policy

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

Management of public finances

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

Education policy

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

Research and innovation policy

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

Competition and regulatory reform

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

Environmental policies

Recommendations	Action taken since previous *Survey* (March 2015)
Abolish the favourable tax treatment given to diesel compared with petrol. Review fuel tax reliefs for agricultural vehicles and fishing boats with a view to reducing them, and abolish tax relief for heavy goods vehicles and taxis.	The tax differential between diesel and petrol cars has been reduced and the new government plans to align the taxation of diesel with that of petrol by 2022. The scope of the general tax on polluting activities (TGAP) has been extended, and rates have been increased. The annual tax on company vehicles has been modified to take into account emissions of CO_2 and other pollutants.
Fully implement the polluter-pays principle for farmers where their use of water causes pollution. Raise water prices for industry and farming to cover both operating and capital costs. Apply the standard VAT rate to water.	An experimental certification system for reduced agricultural use of plant protection products (*certificats d'économie de produits phytosanitaires*) was implemented in 2017 to encourage a decline in their use.

Thematic chapters

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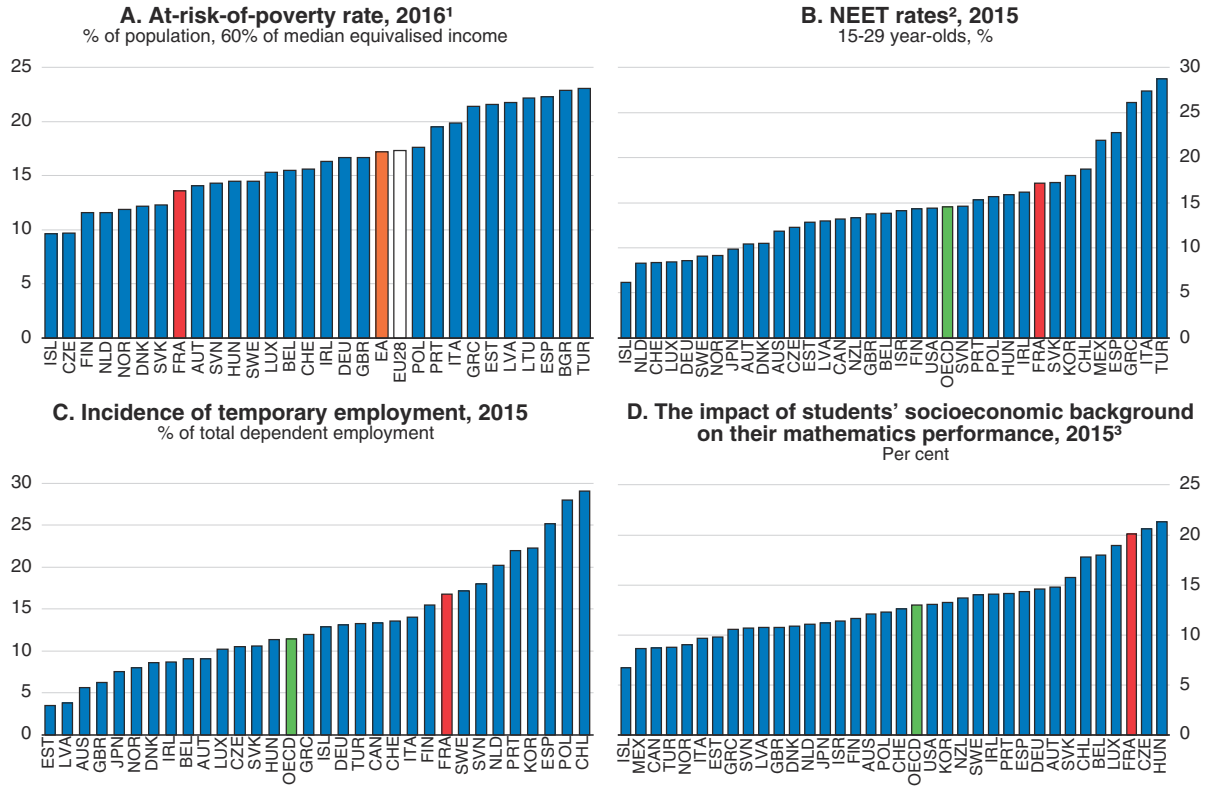
Chapter 1

Promoting economic opportunities and well-being in poor neighbourhoods

Thanks to a highly developed welfare state, poverty is moderate on average in France, but – as in other countries – highly concentrated in some neighbourhoods. Their residents face many social disadvantages, including high unemployment and inactivity, schools with many struggling children, often run-down housing and urban infrastructure, and a lack of local enterprises, services and amenities. The government focuses a wide array of policies on these areas to promote better schooling outcomes, employment and local economic activity. Urban renewal and public housing policies aim explicitly at promoting social mixing, often presented as an anti-ghetto policy. Evidence suggests that targeted investment in transport and housing infrastructure as well as education and training could go a long way to improving economic opportunities and well-being in poor areas. In contrast, special economic zones with tax breaks to attract business to these areas have a mixed track record at best. Greater social mixing is difficult to engineer, and it is far from clear if this by itself would improve the lives of the poor. There is a need to better link urban, social and judicial policies favouring alternative sentencing and support for offenders to integrate into society to avoid vicious circles of social disadvantage and crime.

France enjoys high living standards. The average poverty rate is relatively low, thanks to a well-developed welfare state. Inequality remains slightly below the OECD average. Yet, unemployment is an acute problem. A high share of youngsters is not in education, employment or training (NEET), and many can find only short-term jobs. Labour market problems are related to inequalities in education, and learning results in school are more strongly linked to parental background than in almost any other country, resulting in intergenerational transmission of inequality (Figure 1.1).

Figure 1.1. **Poverty and social problems in France**



1. Or latest year available; 2015 for France.
2. Youths aged between 15 and 29 years not in employment, education or training.
3. Percentage of the variance in PISA math scores explained by the student's socio-economic background, measured by the ESCS Index (PISA index of economic, social and cultural status).

Source: Eurostat; *OECD Education at a Glance 2016 Database*; OECD Labour Force Statistics; OECD (2016), PISA 2015 Results (Volume I): Excellence and Equity in Education, PISA, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933577648

In some neighbourhoods the poverty rate can be very high, well above 40%, with widespread unemployment and many children struggling in school. Housing infrastructure is often poor in these neighbourhoods; many people are cut off from their urban surroundings through various physical barriers, such as main roads or rail links,

poorly connected to transport infrastructure and lacking in services and amenities. Relationships between the police and some youngsters from immigrant backgrounds can in certain circumstances be relatively conflict-ridden. Since the early 1990s so-called urban policies (*politique de la ville*) aim at improving life in poor neighbourhoods. Education, safety and business policies all have neighbourhood-based components, and the government aims to limit the geographical concentration of poverty and promote social mixing through public-housing policies and a large-scale urban-renewal programme launched in 2003.

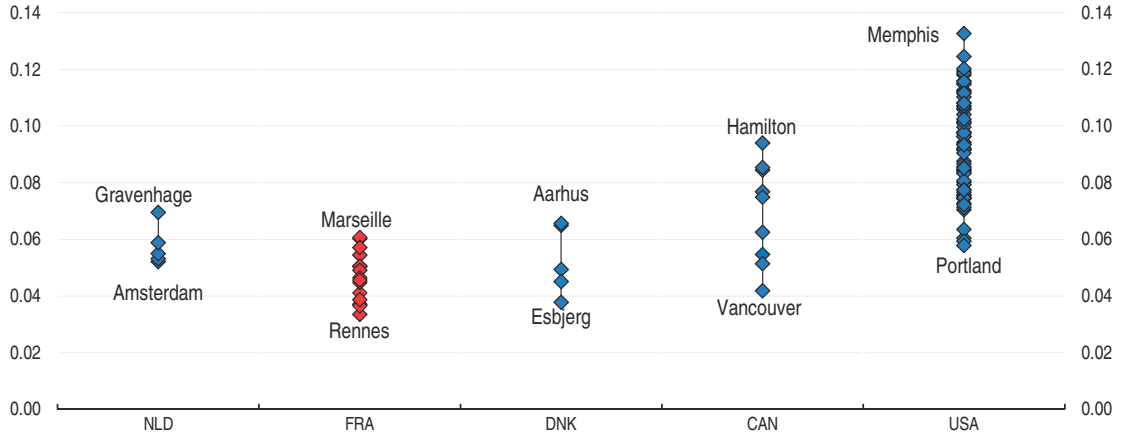
This chapter reviews policies to improve economic opportunities and well-being in France's poor neighbourhoods. The next section describes living conditions in poor neighbourhoods. Evidence on whether a concentration of poverty in some areas may by itself impinge on economic opportunities and well-being is discussed thereafter, along with policy implications. In this light the following sections discuss business, employment, education, social housing and urban-renewal policies to improve life in poor neighbourhoods. The chapter concludes with a discussion of judicial policies.

Poor neighbourhoods in France

As in other countries poverty and social problems are highly concentrated in particular neighbourhoods. Almost 80% of France's poor population live in the large metropolitan areas, mostly in the city centres or nearby suburbs; 20% live in the Paris region, home to both some of the richest *départements* in France and to the poorest, Seine-Saint-Denis. While poverty rates are high on average in remote rural areas, only 5% of the total poor population live there (Aerts et al., 2015). To better target its policies on the poorest areas, the government redefined so-called urban policy neighbourhoods (*quartiers de la politique de la ville*) in 2014, using low average household income as the only criterion. Urban agglomerations are home to most of these 1 300 neighbourhoods. Their poverty rate – defined as the share of inhabitants with less than 60% of the median disposable per capita income – was above 40% in 2012 on average (Renaud and Sémécurbe, 2016). However, less than a quarter of France's poor live in these neighbourhoods.

Figure 1.2. **The concentration of income groups in neighbourhoods of OECD metropolitan areas**[1]

Spatial ordinal entropy index measuring the difference of the share of income groups across neighbourhoods[2]



1. Data refer to 2014 for the United States; 2013 for Denmark; 2011 for Canada and France and 2009 for the Netherlands.
2. The spatial ordinal entropy index measures neighbourhood segregation (by income) as the sum of differences between each income group's share in the population of neighbourhoods and that in the entire city. It is zero if the income group's share is the same in each neighbourhood and is higher the more the shares differ across neighbourhoods. It is computed based on the use of grid cells data that are then compared with those of the so-called local environment; say a 1 000 m area surrounding each single grid.

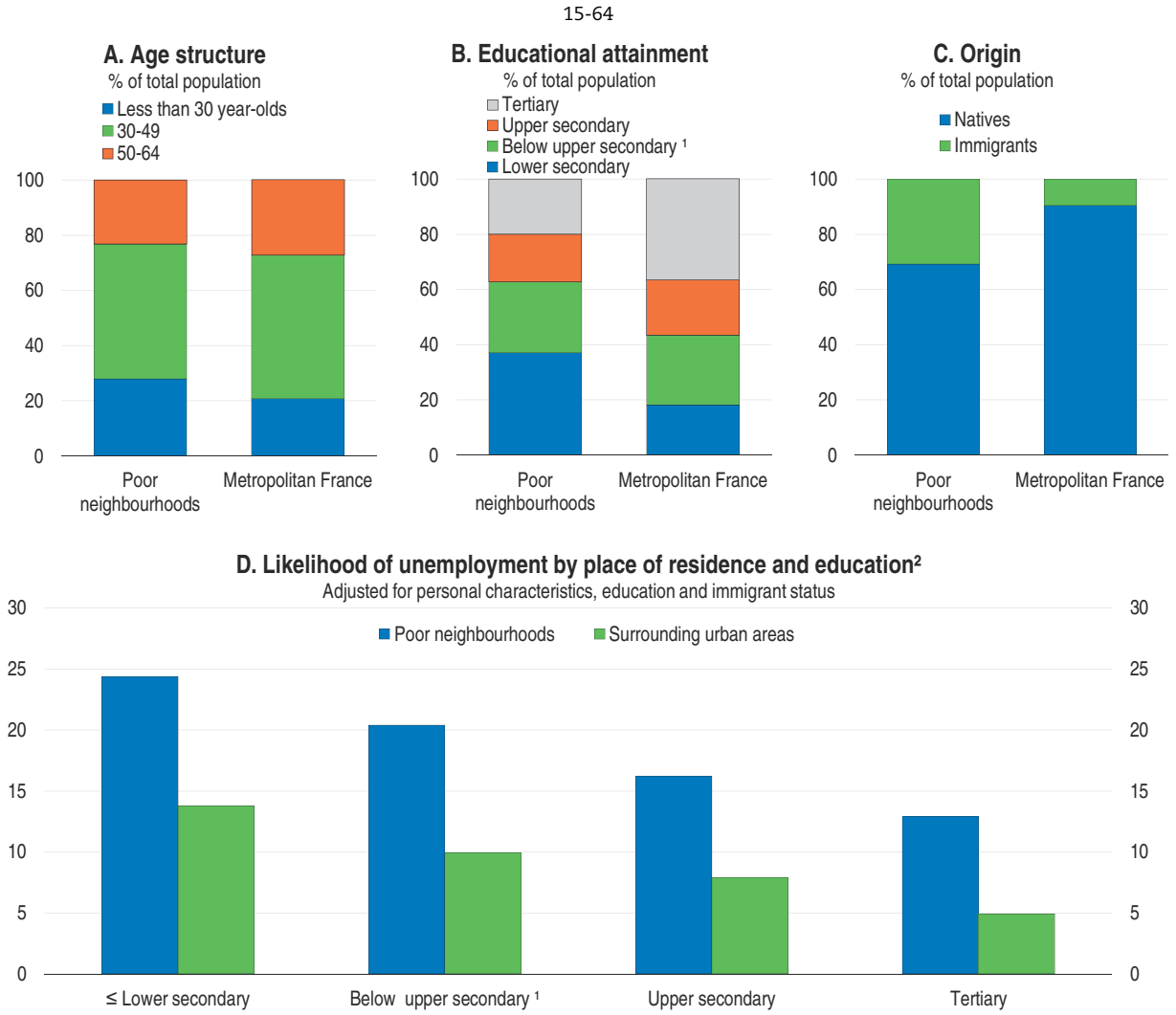
Source: OECD (2016), *Making Cities Work for All – Data and Actions for Inclusive Growth*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933577667

Concentration of poverty in individual neighbourhoods is not specific to France. Indeed, spatial segregation by income is much higher in North American cities, as shown by an index measuring the extent to which the distribution of income groups in individual neighbourhoods differs from that in the entire city (Figure 1.2). The index thus increases with the concentration of income groups in space and with residential segregation.

Unemployment is high in poor neighbourhoods, and employed workers tend to have low earnings. In part, this is linked to social structure, as the population is younger on average than elsewhere and has lower qualifications (Figure 1.3, Panels A and B). The share of immigrants and single parents – mostly women – is high (Panel C). But inhabitants of poor neighbourhoods are more likely to be unemployed or have unstable jobs, with fewer responsibilities and lower earnings, than inhabitants elsewhere with similar characteristics

Figure 1.3. **Population structure and unemployment in poor neighbourhoods, 2014**



1. Refers to post lower secondary education vocational qualifications such as: *Certificat d'aptitude professionnelle* (CAP) and *Brevet d'études professionnelles* (BEP).
2. Percentage point gap in the odds of unemployment for poor neighbourhoods' residents versus residents of surrounding urban areas; employed native-born women aged 30 to 49 with a *baccalauréat* only are identified as the reference group.

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

StatLink http://dx.doi.org/10.1787/888933577686

(Panel D; ONPV, 2016). Their monthly median earnings are on average almost 20% lower than those of residents of other neighbourhoods, and more than 20% of this gap is not explained by differences in qualifications, age or experience. Many residents of poor neighbourhoods have earnings close to the minimum wage. The average number of enterprises per inhabitant is less than half that in other neighbourhoods (ONPV, 2016).

Many children in poor neighbourhoods struggle in school. More than 20% had repeated a grade at least once in 2014, compared to 11% in other neighbourhoods (Baccaïni et al., 2014). Pupils in schools with many children from poor neighbourhoods have a much lower probability of passing their final middle school exams (*diplôme national du brevet*) than others (Table 1.1), and the gap in the success rate in final upper secondary schools exams, the *baccalauréat,* is similar. Children with many classmates from poor neighbourhoods are also much more likely to be referred to vocational education (Table 1.1), which is less valued in France than general and technological studies. Vocational graduates have much poorer chances of finding employment and moving on to tertiary studies (OECD, 2015a).

Table 1.1. **Schooling outcomes in urban policy neighbourhoods**

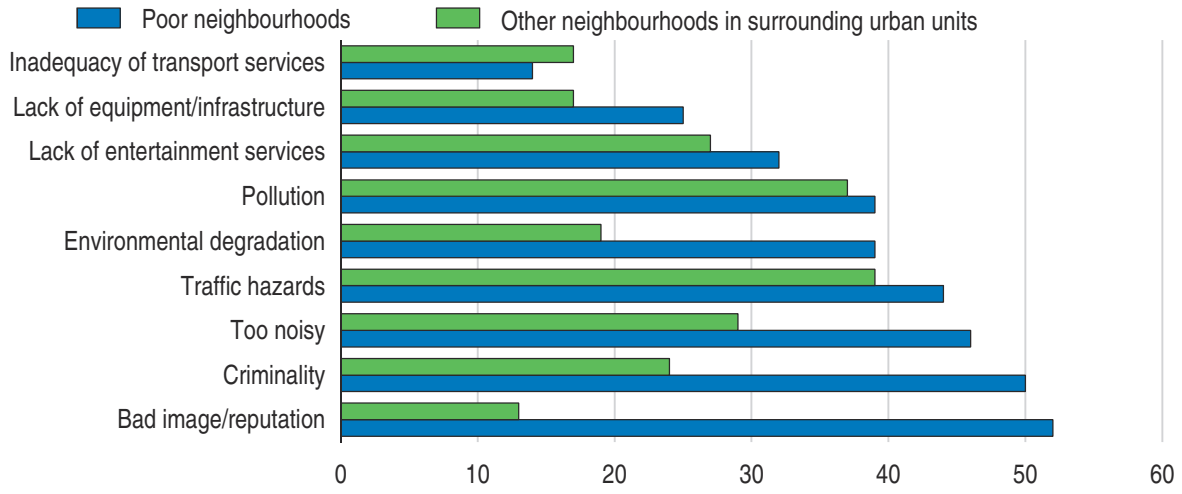
	Schools with more than 25% pupils from poor neighbourhoods	Schools with less than 10% pupils from poor neighbourhoods
Success rate: *diplôme national du brevet*	75.6%	85.7%
Students in vocational education 2 years after *collège*	28.4%	16.2%

Source: Observatoire national de la politique de la ville (2016), *Rapport annuel 2015*, Paris.

Residents report that life in poor neighbourhoods is characterised by a bad reputation, crime and noise (Figure 1.4). Environmental degradation is much more often perceived as a problem than elsewhere. While residents of these neighbourhoods do not report significantly more incidences of theft, physical violence or insults, they are almost twice as likely to have witnessed drug trafficking or consumption (ONPV, 2016).

Figure 1.4. **Inhabitants of poor neighbourhoods report more problems than others**

As a percentage of respondents,[1] 2015



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

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

StatLink http://dx.doi.org/10.1787/888933577705

The evidence for neighbourhood effects and policy implications

Social mixing and other policies targeting poor neighbourhoods are based on the idea that a concentration of poverty can reinforce and reproduce economic disadvantage. Recent US evidence lends some support to this idea. Through a lottery, the "moving to opportunity" experiment offered vouchers and assistance to help families move from run-down housing projects to wealthier neighbourhoods. College attendance rates for children who left before age 13 increased, and they had higher earnings later on (Chetty et al., 2016). Similar findings emerge from a follow-up of children who moved from run-down public housing estates in Chicago to wealthier neighbourhoods after demolition (Chyn, 2016) and of a larger set of families who moved across the United States (Chetty and Hendren, 2015). Yet, these results do not necessarily carry over to the European context, as poverty is much higher in the United States and the social safety net weaker (Galster, 2007). Some European studies find neighbourhood effects on labour market outcomes and earnings (Musterd et al., 2008; van der Klaauw and van Ours, 2003), but there are counter-examples, and a Canadian study finds no such effects (Oreopoulos, 2003). Overall, it remains unclear whether poor households' economic opportunities would benefit from being moved to wealthier neighbourhoods or from attracting more middle-class households to where they live.

For France there is some evidence that living in a poor neighbourhood has a negative impact on job opportunities and that focusing on better connections with transport infrastructure is one answer. Gobillon et al. (2012) find that average unemployment duration is longer for workers living in neighbourhoods with a high concentration of immigrants and lower-qualified individuals. Goffette-Nagot et al.'s (2012) research suggests that physical distance to jobs explains 40% of the higher unemployment in France's poor neighbourhoods. Korsu and Wenglenski (2010) find that living in a Parisian neighbourhood with few job opportunities in reasonable commuting distance increases the risk of long-term unemployment, while owning a car reduces it. Finally, Briant et al. (2015) show that tax reductions have much more favourable effects on business creation and employment in poor neighbourhoods when they are well connected to transport infrastructure.

Another explanation for neighbourhood effects on the job market is discrimination in recruitment. Experimental studies reveal that candidates with Arab sounding names and residents of poor neighbourhoods have much lower chances of obtaining a job interview than others with identical résumés (Bunel et al., 2016; L'Horty et al., 2011; Petit et al., 2016). While social-mixing policies – if successful – might improve the reputation of poor neighbourhoods in the long run, it would not address discrimination based on names. Policies that address discrimination more directly appear more promising, as discussed in more detail below.

Neighbourhood effects can also work through a high concentration of poverty among children in a given school, as this can undermine good learning conditions. Indeed, living in a poor neighbourhood can reinforce the negative effect of individual poverty and low parental education or occupational status on schooling outcomes, according to French studies (Goux and Maurin, 2005; Baccaïni et al., 2014). Research from Finland and Sweden suggests that such neighbourhood effects work mainly via the school environment (Kauppinen, 2008; Brännström, 2008). Yet, overall, the evidence for peer effects at school is mixed. Roughly half of the studies that try to measure the effect of the average socio-economic background or ability of schoolmates on children's learning outcomes find no impact; the other half finds a small, positive effect (Sacerdote, 2014). Results as to whether

student heterogeneity promotes or impedes learning are conflicting – compare, for example, Hoxby and Weingart (2005) to Vigdor and Nechyba (2007). There is relatively clear evidence, however, that a high concentration of children with low ability or immigrant background at school can impact negatively on learning conditions. Teachers have been shown to avoid such schools both in the United States and in France (Prost, 2013; Hanushek et al., 2004). This calls for endowing them with extra resources to attract good teachers and provide their students with additional support. Teacher quality has been shown to be essential for students' success in school and later in life (Chetty et al., 2014). It can also be worth trying to improve social mixing through policies that allow poor children to go to schools in wealthier neighbourhoods or that make schools in poor neighbourhoods an attractive choice for students from diverse backgrounds. Yet, social mixing is difficult to engineer, and there is little evidence that it would by itself improve learning results of poor students. That said, it seems clear that people from different backgrounds need to meet somewhere to create a cohesive society, and school is a good place to start.

A number of studies from other countries point to peer effects regarding crime. Links between inequality and crime are strong but complex and probably driven partly by the relative deprivation of the poor (Pickett and Wilkinson, 2011) and partly by a tendency of more severe legal consequences, prosecution and sentencing for offenses that are typically committed by them (Hagan, 2010). But the influence of peers also plays a role. Damm and Dustmann (2014) show that young immigrants in Denmark who live in neighbourhoods with a high share of people convicted of violent crimes are more likely to be convicted themselves. Exposure to violence in the neighbourhood increases the likelihood that young American men engage in violence themselves (Aliprantis, 2014). In turn, moving to an area with less poverty can reduce violent, criminal behaviour (Ludwig et al., 2001). Neighbourhood effects on crime can be further strengthened through severe sentencing, creating a vicious circle, as imprisonment has also been shown to promote criminal behaviour (Bayer et al., 2009). Overall, this is some evidence in favour of social mixing policies, but judicial policies also need to take these network effects into account, for example by favouring alternative sentencing and promoting good relations between citizens and the police.

Promoting economic activity in poor neighbourhoods

Area-based tax breaks have had a limited impact on employment opportunities

For close to 20 years the government has tried to revive entrepreneurship and employment in areas with high poverty and unemployment through special enterprise zones called *zones franches urbaines*. This involved exemptions from local business, property and corporate taxes, as well as from social security contributions for low-wage employees. The policy has been successful in attracting enterprises and creating jobs locally, but this has been roughly offset by negative effects on surrounding areas (Givord et al., 2013; Mayer et al., 2015), limiting additional employment opportunities for residents of special enterprise zones, which are typically small. In fact, the job-finding rate for locals increased only slightly and faded already after three years (Gobillon et al., 2012). Overall, the policy has not been able to durably attract new firms and generate a positive dynamic based on agglomeration effects, as socio-economic outcomes in the targeted areas have continued to deteriorate (Gofette-Nagot et al., 2012).

Given the policy's limited effectiveness, the government has appropriately reduced the tax advantages associated with these zones. Only the exemption from corporate income

taxes has been maintained until 2020, although with the maximum yearly benefit halved to 50 000 euros. Local retailers with fewer than 11 employees are still exempt from property taxes.

Tax breaks have worked much better in areas that are better connected to transport infrastructure (Briant et al., 2015). Integrating poor neighbourhoods into their urban surroundings and reviving local real estate and commerce through urban renewal as well as connecting them to transport infrastructure is likely to be the most effective strategy both to attract new business and to improve job opportunities for local residents. Urban renewal should be well integrated with local economic development, and the strategic plans for poor neighbourhoods targeted by urban policy (*contrats de ville*) are a good opportunity to ensure that renovation projects and brownfield developments plan for opportunities to develop local commerce and services. EPARECA (l'Établissement public national d'aménagement et de restructuration des espaces commerciaux et artisanaux), a public body responsible for improving and restructuring commercial and artisanal spaces, rehabilitates dilapidated shopping centres in the absence of private initiatives. It is currently managing around one hundred projects.

To the extent that tax breaks are maintained, it may be worth trying to limit them to tradable activities, as the "business stealing" effect might then affect areas that are further away or even abroad. Criscuolo et al. (2016) find significant job-creation effects of area-specific investment subsidies for manufacturing firms in the United Kingdom, which are not due to displacement from neighbouring areas. In the French enterprise zones the business-creation effect has been particularly large in medical and business services, for which the local market is fixed in size, and this has often involved displacement from neighbouring areas. It should be noted that targeted areas in the United Kingdom are much larger than in France. Given that the ultimate goal is to create better job opportunities for residents of poor neighbourhoods, it would make sense to target larger areas that roughly correspond to the labour market within reach from these neighbourhoods.

To develop new business in poor neighbourhoods with employment opportunities for local residents' good training is needed. Since surveys suggest that firms in these enterprise zones have had trouble finding local workers with the right qualifications (Givord et al., 2013), the regional governments and the public employment agency, Pôle emploi, together with enterprises benefitting from the tax breaks, should work out training measures for local unemployed workers. Beyond that, the government has tasked an agency, Agence France Entrepreneur, which brings together different organisations financing and supporting entrepreneurship, to develop a strategy and a website for promoting entrepreneurship in poor neighbourhoods.

Product market regulation affects economic activity and employment in poor neighbourhoods

Regulatory policies can have an important impact on employment chances for low-skilled people. For example, given tight restrictions on the number of taxi licences, there is strong pent-up demand in Paris (Thévenoud, 2014). Ride-sharing services have therefore grown strongly, and a recent study commissioned by one of these providers indicates that this has helped many unemployed young men from poor neighbourhoods find stable employment (Landier et al., 2016). As in other OECD countries there is a debate about whether drivers should be considered dependent employees, which would increase tax obligations, and whether their licences should be more tightly regulated. Any reforms

should carefully consider the impact on employment opportunities, but also working conditions. Likewise, the 2015 reform of the micro-entrepreneur (*auto-entrepreneur*) regime, which imposed additional tax and training obligations on them, should be evaluated in terms of its impact on low-skilled workers' earnings and employment. It has been particularly successful in poor neighbourhoods, where around half of all firms were created under this regime in 2014 (ONPV, 2016).

More generally, there is a need to review market entry regulations with respect to their impact on employment opportunities for low-skilled workers. As an example, local restrictions on large retailers have been shown to increase retailer concentration and reduce employment (Bertrand and Kramarz, 2002). Regulations have been relaxed to some extent in recent years, but they remain heavy (OECD, 2015a). The 2015 Macron law eased Sunday trading in designated tourist zones subject to union approval. This should be extended to other areas, given the potential boost to employment opportunities for low-skilled workers. Equal treatment of retail trade in different areas would also help avoid distortions to competition.

Promoting employment in poor neighbourhoods

Public investments are needed to ensure access to jobs and public services

There has been progress in connecting poor neighbourhoods to transport infrastructure, but more is needed. Inequalities in distance to job opportunities have been reduced in the Lyon area through better public transport infrastructure (Bouzouina et al., 2014), and Bordeaux neighbourhoods that were connected to a new tramline experienced more favourable labour-market developments than other places (Sari, 2012). The Grand Paris Express, an extension of the Paris metro network to and through the suburbs, will better connect some high-unemployment areas to employment centres, although those who are furthest out will see few benefits (L'Horty and Sari, 2013). But transport services in poor neighbourhoods also need to better accommodate atypical working hours, which are common for less qualified workers. There have been efforts to connect poor neighbourhoods better to Paris' Charles de Gaulle airport, which offers many employment opportunities. But there are still poor neighbourhoods close to the airport which are poorly connected.

Many inhabitants of poor neighbourhoods need better access to car transport. They are more likely to have jobs in peripheral areas that are often difficult to reach by public transport. Close to 90% of workers drive to reach such jobs (Bouzouina et al., 2014), but inhabitants of poor neighbourhoods are about half as likely as others to own a car or have a driver's license (CGET, 2016). A trial programme subsidising driver education had positive effects on the employability and leisure opportunities of young people, although initially there were negative effects on employment, given the unusual length of the procedure, locking participants into training (L'Horty et al., 2012). A 2015 reform had reduced the time and potentially the costs to obtain a driver's license, but the effectiveness of this measure needs to be evaluated. The government intends to set up advice on transport options in poor and rural areas and training for people to learn how to drive or ride a bicycle and set up car-sharing arrangements as well as find financing to buy a vehicle or organise collective transport. These efforts need to continue.

The government should also assess the distance of key public services from poor neighbourhoods. It reacted to a 2012 report of the Court of Auditors criticising an insufficient presence of public employment agencies in or near poor neighbourhoods by establishing 75 centres there, focusing on strengthened job-search assistance (Cour des comptes, 2016).

This is welcome, but it remains an open question whether excessive distance to job-search assistance and to other key services, including agencies handling social transfers (Caisses d'allocations familiales), utilities and banks (see, for example, André, 2006), has been sufficiently addressed.

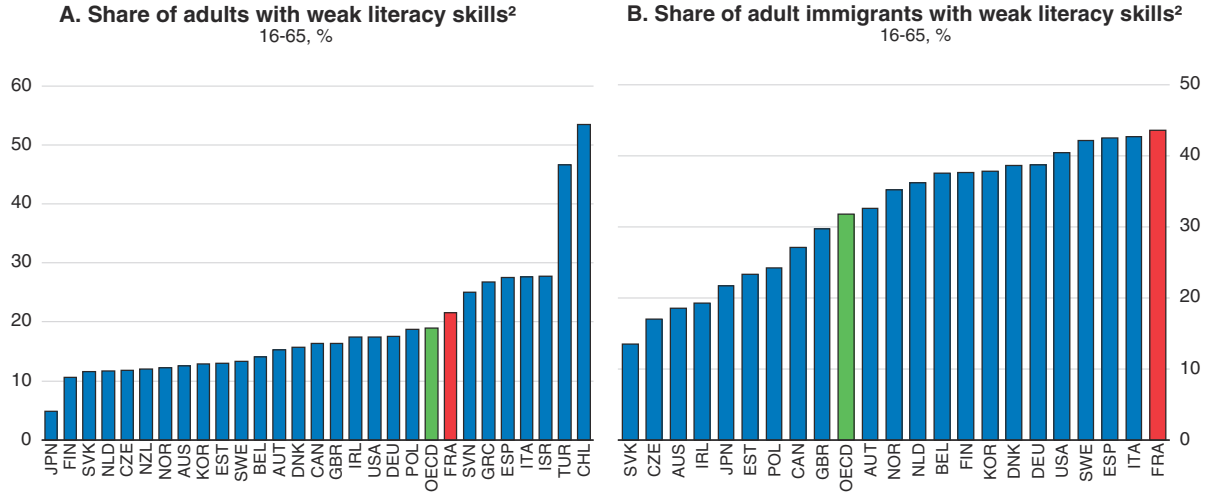
The government should systematically collect data on distance to jobs and key services in poor neighbourhoods and conduct surveys on the adequacy of transport services. It would be useful to set out a timeline and quantitative goals to address urgent needs, and associated public spending should be published and evaluated. Despite the existence of a cross-cutting policy document, there is no information regarding public spending to improve employment and well-being in poor neighbourhoods, and the steering mechanisms are incomplete.

Training should be tailored to low-skilled workers' needs

Many adults in France have weak basic skills according to the OECD's PIAAC data (Figure 1.5, Panel A), and the problem is particularly pronounced among immigrants (Panel B). More French language and basic-skills training is needed in poor neighbourhoods and more generally for immigrant and low-skilled workers. The recent doubling of jobseeker training offers to one million per year should be used as an opportunity to create basic-skills training combined with work experience, which can help to motivate participants.

Figure 1.5. **Skill test scores for adults are relatively poor, especially in the case of immigrants**

2012-15[1]



1. The data are based solely on Flanders for Belgium and England and Northern Ireland for the United Kingdom.
2. Share of adults scoring at or below level 1 of the PIAAC scale of numeracy proficiency.

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

StatLink http://dx.doi.org/10.1787/888933577724

Some aspects of the 2014 training reform should be reviewed. The full set-up of guidance and quality-assurance systems, in particular, should proceed quickly to make it easier for candidates to find high-quality training suitable for their needs. Unemployed workers received rights to additional training hours on their personal training accounts (*Compte personnel de formation*, CPF) in both 2015 and 2016. However, the accounts give access only to a limited list of training measures that are linked to a formal qualification. Yet, short training measures can also have very positive effects, for example to update specific skills in a profession already exercised or for quick adjustment to a new job (Lechner et al., 2011).

In fact, French job-search assistants reported that shorter measures worked better for candidates with little attachment to the labour market to maintain their motivation.

More should be done to strengthen job-search assistance and improve collaboration among the different government agencies involved. Officially only Pôle emploi provides job-search assistance, but the mandate of several local-government-run agencies is so similar that it requires better co-ordination. This holds for Youth Centres (*missions locales*), which support young people with social and job-market integration, and *maisons de l'emploi*, responsible for local economic development and training. Significant measures have been taken to improve collaboration, but co-ordination could be enhanced with a common information technology infrastructure, notably to share job offers. It should also involve local working groups comprising all agencies within the same local labour market to promote co-operation across France's exceedingly small municipalities (Assemblée nationale, 2013). This would help to jointly engage with firms, tailoring training measures to their needs and encouraging them to fill their job openings with local jobseekers. Some *maisons de l'emploi* have a great deal of experience in this area, which should be exploited when rolling out the government's expansion of training offers for jobseekers. Efforts to increase the number of counsellors and improve their training also need to be stepped up. A caseload of not more than 30 jobseekers per counsellor has proven to work well in some French experiments with reinforced assistance, as well as abroad. But, despite efforts to lower the caseload, the ratio is often closer to 100:1 in France (Cahuc et al., 2013).

Apprenticeships in secondary education need more intense promotion. Young people in poor neighbourhoods have a much higher chance to be oriented towards vocational education irrespective of their academic results (Guyon and Huillery, 2014). School-based vocational education in *lycées professionnels*, where two-thirds of vocational students are enrolled, suffers from a poor reputation and limited chances to find a job or continue with tertiary education. Apprenticeships based on employment in companies and more compressed theoretical study fare much better in this respect (OECD, 2015a). Apprenticeship-type training should be promoted in vocational *lycées,* where it remains a marginal phenomenon. Regional governments, which are responsible for apprenticeships, should work with their Youth Centres and *maisons de l'emploi* to engage local employers and schools to offer such training. Several of them already organise apprenticeship fairs, where young jobseekers and employers can meet, as well as pre-apprenticeships and coaching for candidates to help them find the right training and present themselves better. In 2015 the government launched a programme (Réussite apprentissage) to help prepare 10 000 youngsters from poor neighbourhoods for apprenticeships. This is welcome, as an earlier similar trial programme had proven successful (Bourdon et al., 2012). To finance more such measures the various apprenticeship subsidies should be streamlined and concentrated at the level of secondary education, as this is where apprenticeships have been most difficult to develop (OECD, 2015a).

Subsidised jobs are now better focused on youngsters from poor neighbourhoods, as these have been identified as one of the groups that should have priority, but evaluations are needed to assess their effectiveness. In 2014 close to 20% of all jobs-for-the-future contracts (*emplois d'avenir*) and 13% of all subsidised contracts were signed with youngsters from priority neighbourhoods. However, the vast majority of subsidised contracts are in the non-market sector (ONPV, 2016), which often fails to produce a lasting impact on employment prospects (OECD, 2013). Should the foreseen evaluation of jobs-for-the-future contracts confirm shortcomings in this respect, redirecting some of the funds to pre-apprenticeship programmes should be considered.

The government should continue to evaluate and improve the "Youth Guarantee" programme, while ensuring easy access for youngsters from poor neighbourhoods. The programme combines intense counselling with a cash transfer similar in size to social assistance, for which people younger than 25 are not generally eligible in France – an atypical situation in OECD countries. After a trial period in a number of Youth Centres, the 2016 labour reform included access to the measure for all young people not in employment, education or training. The Youth Guarantee integrates lessons from an earlier programme that had similar features but only a limited effect on beneficiaries' financial independence, employment and training participation (Aeberhardt et al., 2014). The cash transfer of the Youth Guarantee is therefore higher and withdrawn more slowly when participants start to earn money, but, unlike in the earlier programme, it is conditional on active job search. There are additional financial resources for Youth Centres and training for counsellors in rapid activation, group counselling and techniques to identify basic-skills deficiencies.

Evaluating experimental programmes before rolling out such measures is good practice and should continue. A fund set up to assess measures supporting young jobseekers, the Fonds d'expérimentation pour la jeunesse, has proven very useful. As an example, direct assistance and counselling for struggling youngsters to set up a business have proven ineffective (Crépon et al., 2014). By contrast, a more innovative programme, which supported their intrinsic motivation and initiative, promoted financial independence and investment in training (Algan et al., 2016). It involved group work, leaving it to participants to define their business project and later assess its potential to succeed.

Public services need to address the specific needs of citizens in poor neighbourhoods

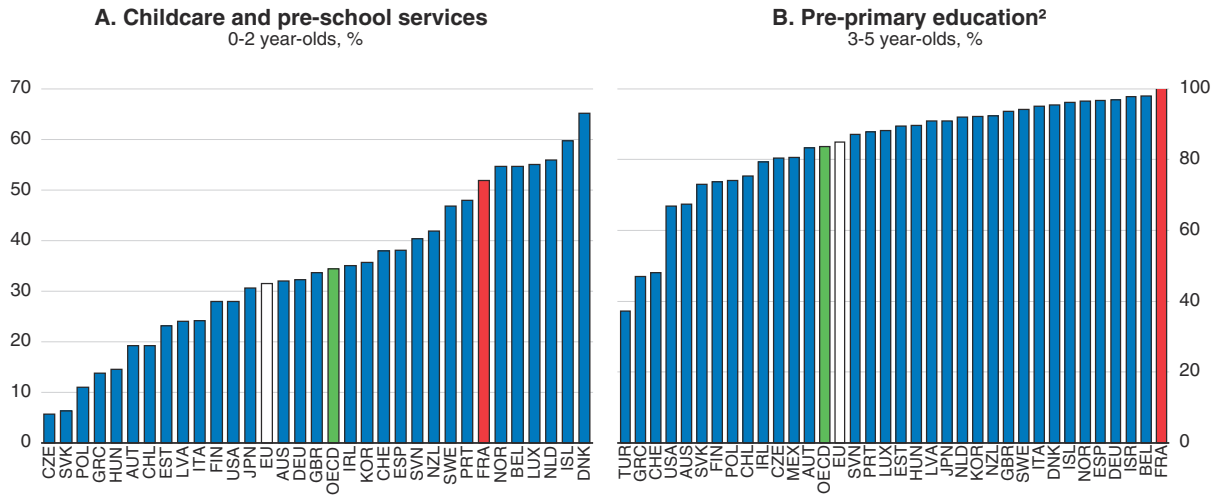
The government is rightly promoting e-government, but in poor neighbourhoods this should be handled with care. Too many people there have weak basic and digital skills and insufficient access to computers. Local public-service providers reported clients struggling with online public-service provision. The government envisages setting up special service points in rural and suburban areas (*maisons de services au public*) to assist citizens with using digital public services, and Pôle emploi intends to engage young people to do the same for its clients as part of their *service civique*, a temporary voluntary activity serving the public good. All of this is laudable, but in the poorest neighbourhoods it seems safest to ensure local personal service delivery.

Childcare services should be stepped up. Overall, France is well-placed in international comparison in this respect (Figure 1.6), but many French poor-neighbourhood parents are single, and a lack of childcare is often cited as a reason for not looking for work (ONPV, 2016). In France, as elsewhere, lower-income and single parents in general are much more likely to take care of their children at home (Ananian and Robert-Bobée, 2009). Territorial data on childcare offers are needed and should be used to guide new supply. This can also create attractive employment opportunities for local residents as caregivers. Efforts to significantly increase the number of children under three who can go to state-run pre-schools in poor neighbourhoods are welcome.

Discrimination against immigrants and inhabitants of poor neighbourhoods needs to be addressed. The government's experiment with an "anonymous" CV, not showing candidates' name or address, actually reduced chances for immigrants and candidates from poor neighbourhoods to obtain a job interview (Behaghel et al., 2011). The reason could be that participation was voluntary, leading to a selection of employers whose recruitment personnel is sensitive to the difficulties facing candidates from poor neighbourhoods. In that

Figure 1.6. **Participation rates in early-childhood education**

2014[1]



1. 2011 for the United States.
2. Data refer to children in pre-primary education (both public and private), but in some countries also to children enrolled in compulsory primary education.

Source: OECD (2017), *OECD Family Database*.

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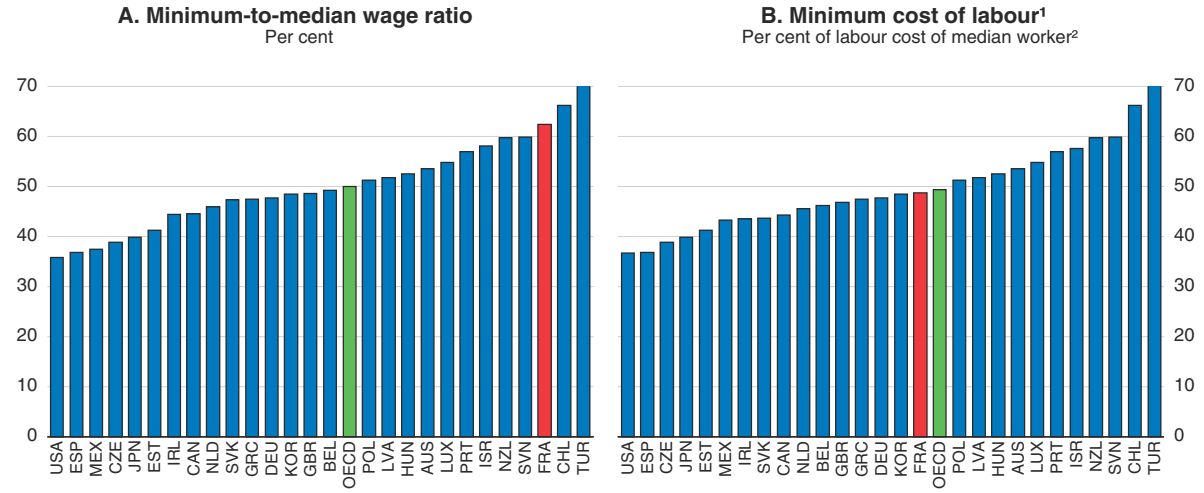
case knowing about their background might have led recruiters to view their applications more favourably. Diversity training and information campaigns for recruiters would be useful. Additional information about candidates from poor neighbourhoods, for example through videos and personal contact, can also help overcome prejudice. Pôle emploi provides mentoring and coaching for candidates from poor neighbourhoods and reports good results in particular for those with advanced degrees. The recent expansion of training offers for jobseekers should be used to give workers at risk of discrimination a chance to gain work experience and to establish personal contacts in firms.

The cost of low-wage labour is important for employment chances in poor neighbourhoods

Given that many workers in poor neighbourhoods have few qualifications, policies that affect the minimum wage and more generally the labour costs for low-wage workers are relevant for them. France's minimum wage is relatively high, although a series of recent cuts in social security contributions and new tax credits have brought overall labour costs for minimum-wage workers down almost to the OECD average (Figure 1.7). Studies show that reducing labour taxes for low-wage workers in France is successful in promoting employment (Cahuc et al., 2014; Bunel et al., 2010). But labour costs remain higher than in the United Kingdom, Spain, Germany and the United States, where a larger share of the working-age population finds employment in sectors offering many jobs for low-skill workers (Figure 1.8). This is particularly striking for tourism, given that France has the largest number of visitors in the world. As long as unemployment remains high, the government should avoid discretionary increases in the minimum wage that go beyond the regular rules-based adjustment.

Social contribution reductions should be streamlined. The combination of reductions for different wage levels and tax credits as a compensation for high labour costs makes the

Figure 1.7. **The minimum wage is high, 2015**



1. The cost of labour is the sum of the wage and the corresponding social security contribution paid by employers.
2. Excluding the Competitiveness and Employment Tax Credit (CICE) in France.

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

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Figure 1.8. **Despite recent cuts in labour costs, employment in low-wage services sectors is relatively modest**

Average 2012-15

1. Including repair of motor vehicles and motorcycles.

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

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system very costly and complex. Moreover, progressive social contributions can limit increases in take-home pay as minimum-wage workers start to earn higher wages, potentially limiting incentives to invest in skills or look for better job matches. Broad-based cuts in social security contributions would be preferable. This should be financed by expenditure reductions and a change in the tax structure. Many expenditures for which social contributions and payroll taxes are currently earmarked benefit society as a whole, rather than only salaried employees, and would be better financed from the general budget. Employer contributions for family allowances have been reduced but still account

for more than 5% of payroll. Contributions for health care do not finance spending only for employees, but also for pensioners and otherwise inactive people (see Chapter 2). Payroll taxes for vocational and continuing training, social housing and public transport amount to more than 3% of payroll. Removing tax expenditures, such as reduced VAT rates, and preferential social contributions for pensioners, increasing environmental taxes and taxing real estate more in line with actual market values are all options to raise higher revenues from other sources (OECD, 2013 and 2015a). The new government plans to lower employees' contributions for health-care and unemployment benefits, while increasing the proportional income tax.

Providing children in poor neighbourhoods with greater skills

Since the early 1980s France has run a programme that allocates more resources to schools in poor neighbourhoods, so called priority education networks (*Réseaux d'education prioritaire, REP*) (Box 1.1). However, evaluations have shown repeatedly that the effects on learning results have been limited (Bénabou et al., 2009; Armand and Gille, 2006). In response the policy has been reformed on numerous occasions, but the impact of parents' socio-economic background on schooling outcomes in France remains one of the largest in the OECD (see Figure 1.1 above) and, in fact, has been increasing. Although average class size is somewhat smaller in priority education, overall learning conditions are poorer, with less well prepared teachers, fewer teaching hours due to both teacher and student absenteeism and a greater problem of lack of discipline and violence (CNESCO, 2016).

Box 1.1. **Priority education in France**

The French priority education initiative to target more resources at schools in poor neighbourhoods dates back to 1981. While the measure was originally thought to be temporary, the share of students in priority primary schools has since more than doubled to around 20%. Additional resources were mainly intended to shrink class sizes and provide extra teaching hours and incentives for teachers. While average class size is smaller in priority education, the additional resources have had a very limited impact on academic performance.

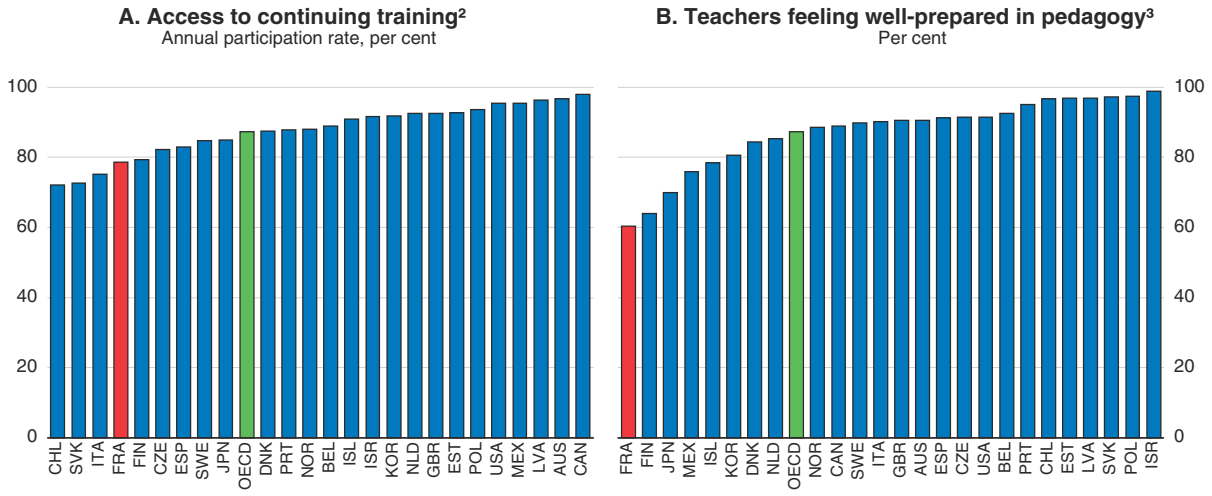
There are two different types of school networks (*Réseaux d'éducation prioritaire*, REP) whose students have different degrees of social disadvantage and which work out a common teaching strategy. These networks include one middle school (*collège*, 6th to 9th grade) and a number of primary and/or pre-schools.

Previous priority education reforms have lacked both sufficient guidance for schools and professional development for teachers to improve pedagogical practices. Education reforms since 2013 appropriately focus on improving initial and continuing pedagogical training and practices. Teachers in France do not feel well prepared in pedagogy, and access to continuing training is poor (Figure 1.9).

Reforms of initial teacher training since the 1990s have been numerous, sweeping and often controversial, but none has succeeded in integrating subject content, pedagogical and practical training. The 2013 reform was intended to achieve this in new institutions for initial teacher training at universities (Écoles supérieures du professorat et de l'education; ESPE). The training includes internships in schools and puts more emphasis on practical

Figure 1.9. **Teachers feel not well prepared in pedagogy, while access to continuing training is weak**

Teachers in public lower secondary education, 2013[1]



1. Belgium, Canada and the United Kingdom refer to, respectively, only Flanders, Alberta and England.
2. Share of public lower secondary teachers who participated in professional development over the previous year.
3. Share of public lower secondary teachers who feel well or really well prepared in the pedagogy of subjects being taught.

Source: OECD, *Talis 2013 Database*.

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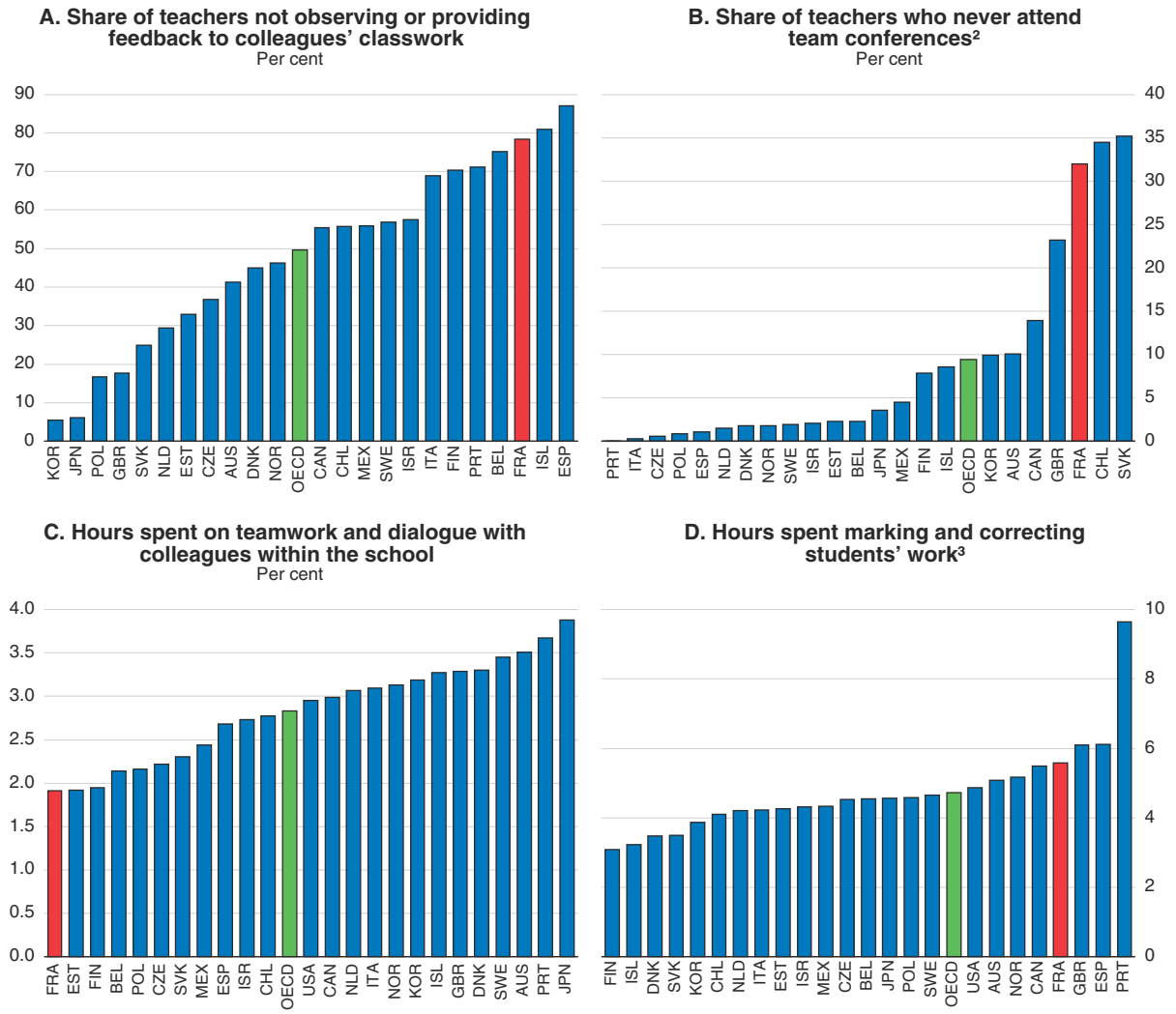
pedagogical skills and presents research and international comparisons to students to make them familiar with innovative teaching techniques. This reform is very welcome, but it will take time to build the necessary human resources to provide more integrated teacher training and improve teaching practices. Priorities in the ESPE curricula should be diagnosis and treatment of learning difficulties as well as teaching heterogeneous students.

Professional development has long been weak in France (see Figure 1.9 above), and the government's efforts to improve upon this are welcome. Two hundred teacher trainers were deployed in priority education in 2015. Explicit reservation of time for teamwork among teachers in the priority schools is an important innovation, as teachers in France spend a higher proportion of their time on classroom teaching and correcting students' work than in other countries (Figure 1.10), leaving less time for planning and teamwork. Research shows that co-operation among teachers to develop common techniques can be very effective in improving results (Vescio et al., 2008; Saunders et al., 2009).

Under the label "more teachers than classrooms" (*plus de maîtres que de classes*), the 2013 reform also involves hiring more teachers to facilitate co-teaching. Joint teaching is underdeveloped in France (Figure 1.11, Panel A), although it has proven very effective in helping students with difficulties, for example in Finland (OECD, 2007). Professional development to help teaching teams develop effective techniques will be needed; this should be one focus of the new teacher trainers. Extra teachers and efforts to establish individualised support have been envisaged in priority schools for a long time, but this has not led to the development of effective pedagogical techniques. Too many measures were introduced that were sometimes overlapping, incoherent and not underpinned with sufficient guidance for teaching staff for effective implementation (CNESCO, 2016). Many teachers tend to help students solve tasks, but without teaching them how to master them by themselves. Moreover, individual support has focused on remedial education during additional teaching

Figure 1.10. **Teachers' involvement in teamwork is limited**

Lower secondary education teachers,[1] 2013



1. Belgium, Canada and the United Kingdom refer to, respectively, only Flanders, Alberta and England.
2. Share of lower secondary teachers who report never doing the mentioned activities.
3. Average number of 60-minute periods that lower secondary education teachers report having spent on the mentioned activities during the most recent complete calendar week (not shortened by breaks, public holidays, sick leave, etc.).

Source: OECD, *Talis 2013 Database*.

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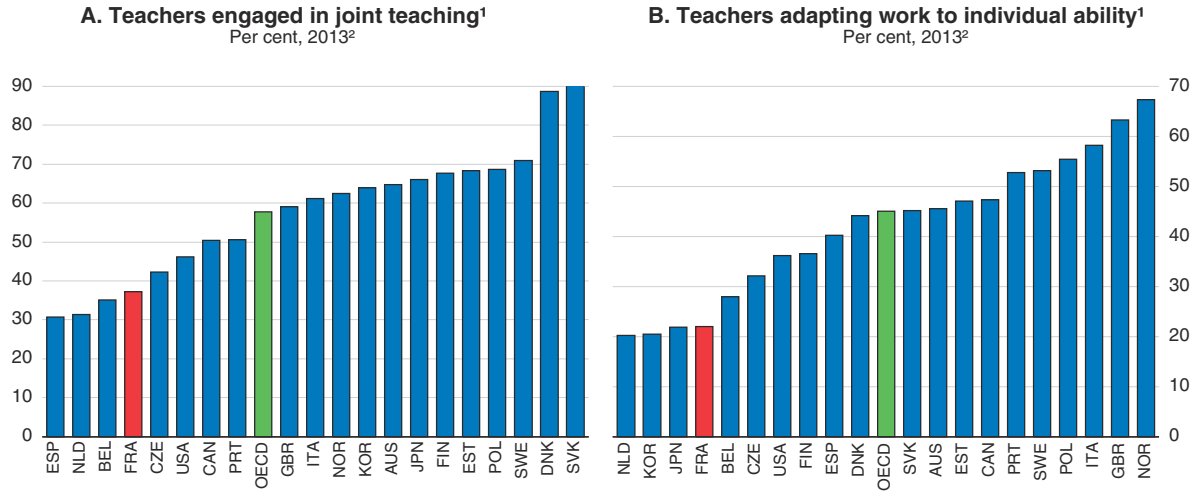
hours, and extra teachers have often been used to remove students with difficulties from their classes, teaching them different material, rather helping them to catch up within the joint classroom (Armand and Gille, 2006; CNESCO, 2016). Methods such as differentiating teaching practices for students depending on their learning ability are rare in France (Panel B).

The 2013 reform also extends state-sponsored pre-school education (*école maternelle*) for poor children under three, aiming to reach an ambitious 50% by 2017. Nationwide participation for this age group had fallen from 35% in 2000 to 11% in 2012, although more children go to municipal *crèches*. In poor neighbourhoods, the enrolment rate in pre-schools by those under the age of three stood at 20% in 2015. The reform is welcome, as high-quality

Figure 1.11. **Joint teaching and adapting teaching to heterogeneous abilities are underdeveloped**



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

Source: OECD, *Talis 2013 Database*.

StatLink http://dx.doi.org/10.1787/888933577838

early childhood education is important to help poor children improve their learning outcomes (OECD, 2012). It should be accompanied by efforts to extend municipal *crèches*. Many children in poor neighbourhoods are not exposed to French at home, and pre-schools and *crèches* with good language training can be particularly beneficial in those cases (Wilson et al., 2013). Efforts to reach out to parents to promote early enrolment were launched in 2016, and good training for teachers will be needed.

Financial incentives for teachers in priority schools have been increased, but more might be necessary. Teachers in schools with many children from poor neighbourhoods are on average younger and less experienced than others; 35% have had less than two years on the job, compared to 30% in other schools (ONPV, 2016). Inexperienced teachers perform less well (Harris and Sass, 2011), and teacher turnover has a negative effect on learning results, particularly for weak students (Ronfeldt et al., 2012). Until a 2013 reform, the bonus for priority network teachers was of the order of 5% of average salary, but the current 10% is still lower than the 30-50% research has shown is required to convince teachers to stay in disadvantaged schools (Hanushek et al., 2004). The 2013 reform also introduced a new pay grade for teachers who spend a long time in priority education. These are certainly good moves. However, the bonus is a lump sum, making it more attractive for younger teachers with lower salaries. Making the bonus proportional to teachers' pay would likely be more effective in attracting experienced personnel.

School financing formulae have been better aligned with students' socio-economic backgrounds. The allocation of base financing is non-transparent and until recently depended mostly on the characteristics of school districts (*rectorats*), which are quite large, rather than on schools' characteristics. As a result, priority education schools, depending on their district, could receive fewer resources per student than schools with more privileged students (Cour des comptes, 2012). Since 2015 the allocation formulae have been reformed for primary schools, and a similar reform is being prepared for secondary education.

Financing is now linked to indicators capturing the socio-economic composition of the municipality, which is more closely linked to the characteristics of schools. There is also a new smoothing mechanism (*allocation progressive*) to prevent schools similar to those in the priority network from receiving significantly less funding.

But more is needed to align schools' funding with their needs. The funding formula determines the number of teachers available to schools, not their human resources budget. It often leads to lower financing in priority education, where teachers tend to be younger, less experienced and thus less well paid. Also, important determinants of schools' resource needs, such as the number of children with French as a second language, are not taken into account. A funding formula that determines schools' human resources needs – not just the number of teachers but their level of experience and skills – based on students' socio-economic background and language preparation would better align the quantity and quality of schools' personnel with their students' needs. Publishing the formula along with schools' actual budgets would improve transparency and accountability. The 2006 reform of priority education has not resulted in the expected reduction in class size, probably because heads of school districts (*recteurs*) used their considerable discretion to assign additional teachers to schools outside of the priority network as well (Beffy and Davezies, 2013). With a transparent funding formula and budgets this could be avoided.

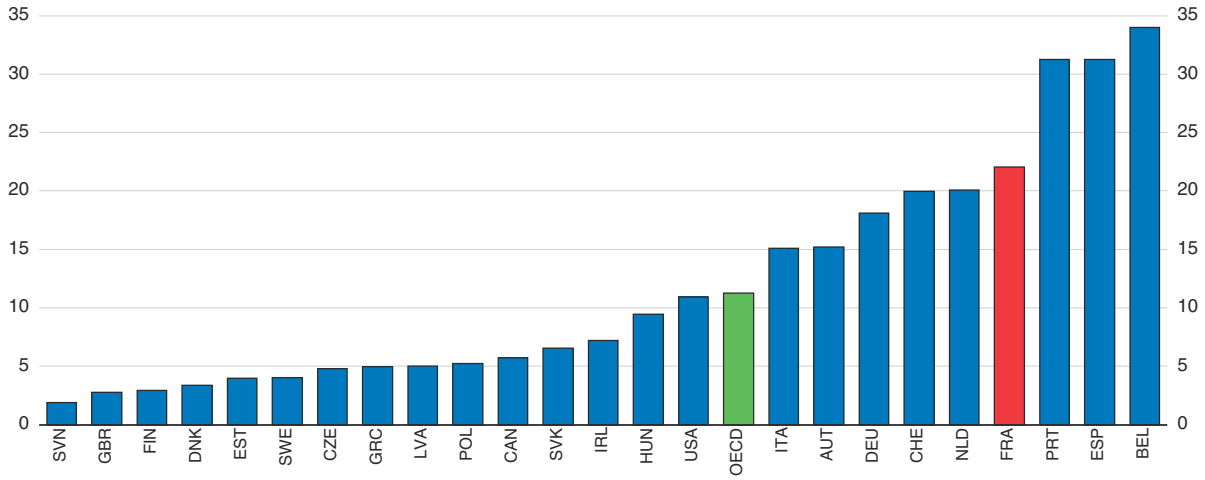
Adjusting career advancement is also important to make teaching in high-poverty schools more attractive. Priority network teachers enjoy an accelerated accumulation of points, which are decisive for chances to move to a different school of their choice. This actually creates incentives for junior teachers to join priority education, when their main aim is to transfer to a school in a different area (O'Brien, 2007; Beffy and Davezies, 2013). A better way to make careers in priority education more attractive would be to create new intermediate leadership positions for good teachers and faster promotion to principal. New positions could include responsibility for organising replacement of teachers on sick or maternity leave or for guiding teacher teamwork for professional development. Information is already available to move in this direction in school inspectors' regular reviews of teachers' pedagogical aptitude. Research shows that students of teachers who are assessed positively in this review experience faster progress in learning results in middle school than others, with a particularly strong effect for disadvantaged students (Benhenda, 2014). This information could be used to identify good teachers, who could then qualify for fast-track promotion and higher salaries, particularly when they teach many poor children. Teachers' formal level of qualifications in pedagogy acquired in initial or continuing training could also be a criterion determining their pay and career advancement.

Some reports suggest that the priority education label seems to carry stigma, which could reinforce segregation, while turning teachers away. Assigning a school to the priority network increases the number of teachers with non-standard degrees (Beffy and Davezies, 2013) and reduces their average experience (Ly, 2010). Not only has it resulted in high teacher turnover, it has also led to a reduction of pupils in priority network schools. More advantaged students tend to move to private schools or try to obtain a waiver to join public schools outside of their neighbourhoods (Fack and Grenet, 2013; Davezies and Garrouste, 2014). Abandoning the priority label seems worth considering. Families might try to avoid schools with a high concentration of poverty either way, but using a formula-funding approach can ensure without a priority label that all schools receive funds in line with their students' starting position. This approach is also common in other countries (OECD, 2015b; Cour des comptes, 2013).

There are ways to make room for greater financial incentives in schools with many poor students. Currently, teacher salaries are highest within post-secondary programmes offered at *lycées* that prepare students to enter one of France's elite universities, the *grandes écoles* (Cour des comptes, 2013). In fact, these programmes involve a much higher per-student funding than at general university and certainly higher than in priority education. Other OECD countries have excellent universities without offering additional preparation, and the government should rethink this costly scheme. France's efforts to reduce grade repetition will also help to create more resources for students with learning difficulties. Grade repetition is ineffective in improving the learning outcomes of weak students (OECD, 2012) and very expensive: it costs around 2 billion euros per year, according to Benhenda and Grenet (2015). It has been used extensively in France (Figure 1.12), in particular for children from poor neighbourhoods. However, grade repetition has fallen significantly, especially since the start of the 2015 academic year, following a 2014 decree which stresses that grade repetition should be used only in exceptional circumstances.

Figure 1.12. **Grade repetition is high**[1]

Per cent, 2015[2]



1. Share of students reporting having repeated a grade at least once in primary, lower secondary or upper secondary school.
2. This figure shows the grade repetition of students throughout their academic career, and therefore does not fully reflect the new regulations in France under which grade repetition should be used only in exceptional circumstances.

Source: OECD (2016), *PISA 2015 Results: Policies and Practices for Successful Schools*, OECD Publishing, Paris.

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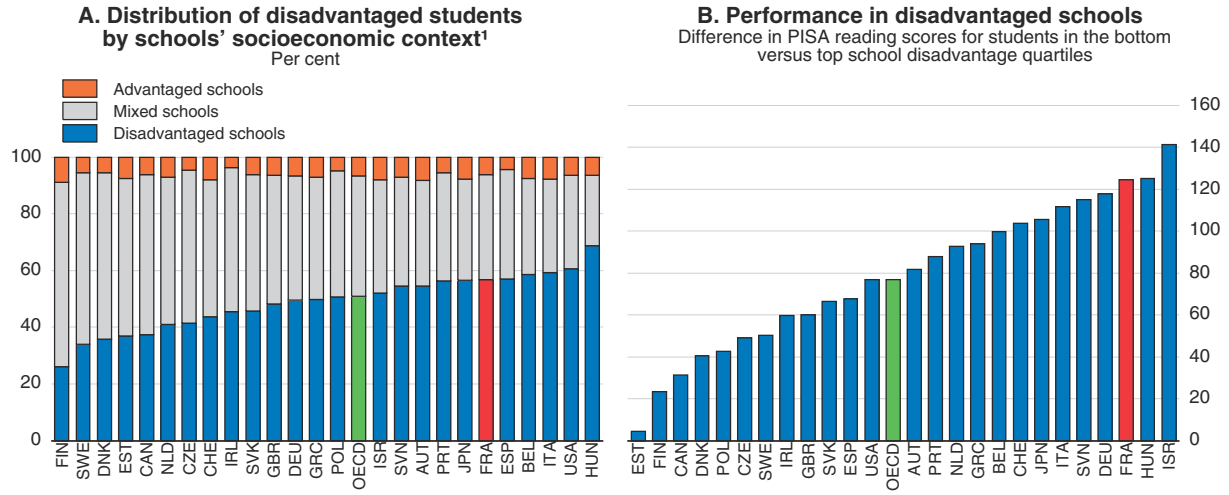
Reducing very high concentrations of poverty in some schools might be worth trying, but it is not sufficient, and there are pitfalls. Around 10% of French middle-school students are in institutions where two-thirds of their classmates have inactive, unemployed or blue-collar parents (CNESCO, 2015). PISA data, although a bit dated, show that poor French children are especially likely to study with many other children from a low-income background, and their results are particularly weak (Figure 1.13). Given the difficulties to retain good teachers in schools in underprivileged neighbourhoods, allowing students from these areas to join schools with a more conducive environment may be appropriate. A recent study of enhanced school choice in Paris with preference for students receiving means-tested scholarships suggests that such measures can promote more social mixing (Fack and Grenet, 2014), although the effect on results is unknown. Some caution is called for when planning the assignment of children to schools, though, as another French study shows that

Figure 1.13. **School segregation is significant, and outcomes in disadvantaged schools are weak**

2009



1. The average socio-economic background of students is around the national average in mixed schools, above it in advantaged schools and below it in disadvantaged schools. Socio-economic background is measured with an international index of social, cultural and economic status (ESCS), using students' reports of their parents' education and occupations and their home possessions (availability of a desk, number of books, etc.).

Source: OECD (2012), *Equity and Quality in Education: Supporting Disadvantaged Students and Schools*, OECD Publishing; OECD (2012), *Education at a Glance 2012*, OECD Publishing, Figure A5.5, based on PISA 2009 results.

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poor students with weak school results who join a school with richer children achieve better outcomes when they are assigned to a class where they know at least one classmate (Ly and Riegert, 2013). The government plans to engage in an experimental study of changes in social mixing at school to gain a better understanding of its effects, a useful move.

There is evidence of prejudice against poor students limiting their choices irrespective of where they study. Poor children are much more likely to join the vocational track, even when their school results are the same as those of wealthier peers (Guyon and Huillery, 2014). This effect is, if anything, stronger in schools outside of priority education. A combination of low self-confidence and teacher prejudice seems to be at work, and that needs to be addressed through teacher training and better guidance and support for students and parents. An initiative to enhance dialogue with parents (*mallette des parents*) was successful in involving parents, motivating students and reducing violence in schools (Avvisati et al., 2014). It has now been rolled out in the first year of roughly a quarter of middle schools and primary schools in the priority network.

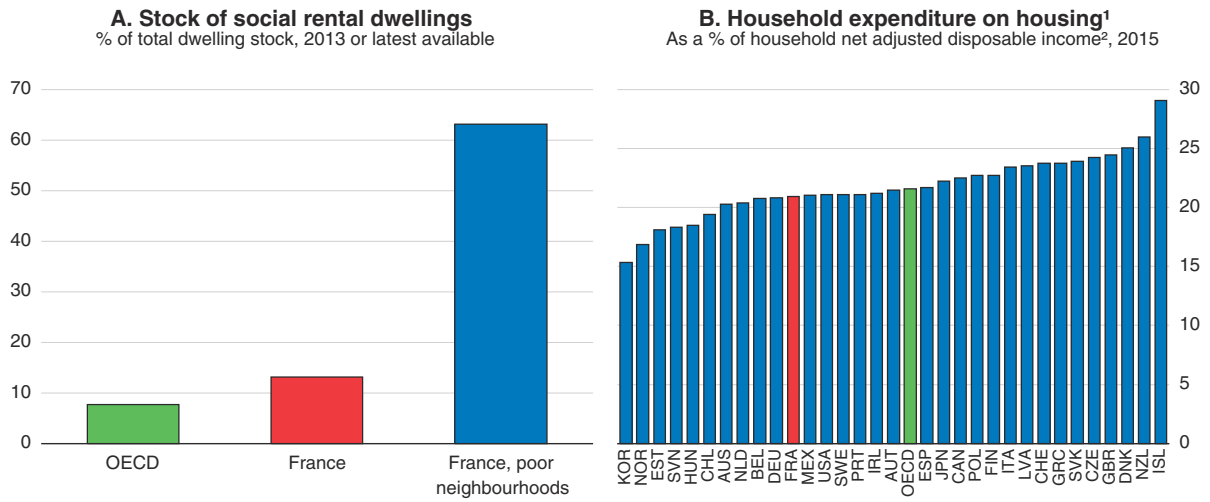
A national agency to evaluate education policies (Conseil national d'évaluation du système scolaire, CNESCO) was created in 2013. It disseminates its evaluations, including international comparisons. Its follow-ups on the implementation and effects of reforms should be very helpful.

Housing and urban-renewal policies to improve living conditions

Improving access to higher-quality housing for the poor

The social housing sector is relatively large in France and continues to grow, along with home ownership, while the private rental sector has been shrinking. The share of social housing tenants in poor neighbourhoods is particularly high (Figure 1.14, Panel A).

Figure 1.14. **Social housing tenure and household expenditure on housing across OECD countries**



1. Including furnishing, household equipment and routine maintenance.
2. Disposable income plus net social transfers received in kind minus the change in net household equity in pension funds.

Source: OECD calculations based on the OECD Questionnaire on Affordable and Social Housing 2014; ONPV (2016), *Rapport annuel 2015*; OECD (2017), *National Accounts Database*.

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Continued emphasis on social housing is partly motivated by a doubling of real house prices between the mid-1990s and the mid-2000s and particularly high prices in the Paris region. The average share of household income devoted to housing is not very large in international comparison (Panel B), but it is substantial for the lowest income households, in particular those who have to resort to the private rental sector. Within this group 50% of households spent more than 30% of their gross income, including social transfers, on housing in 2010 (Arnault and Crusson, 2012).

Despite broad eligibility (Box 1.2) the social-housing sector has increasingly benefitted lower-income households, although many still have to resort to the more expensive private sector. The share of the lowest income quintile among social housing tenants increased from 21% in 1973 to 50% in 2013 (Cour des comptes, 2017). Yet, households from the lowest income decile are still more likely to live in private rental housing (Figure 1.15). There are housing benefits, but they do not distinguish between the social and the private sector and thus do not make up for the substantial difference in rents between the two (Box 1.2). Residential mobility of social tenants is low (CGDD, 2009) and depends inversely on their rent advantage compared to the private sector (Trevien, 2014). This has a negative impact on their labour mobility and employment prospects (Costes and El Kasmi, 2013).

To provide households with more affordable housing – private or social – the government needs to pay more attention to the limited flexibility of supply (Figure 1.16). In the Paris region, where prices are particularly high, the production of new housing has not kept pace with increases in population (Trannoy and Wasmer, 2013a). Studies show that the main effect of some building and housing support, for example the APL housing subsidies (*aides personnalisées au logement*) and subsidies for rental housing, has been to increase prices (Grislain-Letrémy and Trevien, 2015; Bono and Trannoy, 2012), although this finding is contested by other research (ongoing work by the CGEDD, 2016). In fact, there is evidence that social housing construction crowds out private construction, perhaps even fully (Chapelle, 2015).

Box 1.2. **Social housing in France**

A large share of citizens is eligible for social housing. Around 30% of the population qualifies for "very" social housing with the lowest income ceiling, 65% for standard social housing and around 80% for social housing that targets middle-income groups. Yet, social housing is severely rationed, as private sector-rents are around 30-40% higher on average, and close to 50% higher in the Paris area (Trevien, 2014). Once a household has entered the social-housing sector, though, it has a lifetime right to stay there, including after family break-up.

Social-housing providers are either public (*Offices Public de l'Habitat*, OPH) or private non-profit corporations (Entreprises sociales pour l'habitat, ESH). They are all local, and there is no competition among them. They receive a broad array of subsidies in return for offering below-market rents. Social housing rents are determined by historical production costs and thus the subsidies received at the time of building. Hence, they can differ a great deal in a given area, with a very loose relation to market rents at best.

Spending on social-housing policies is substantial – around 17.5 billion euros in 2016 or almost 1% of GDP – involving many different goals, schemes and actors. Total spending on housing policies is more than twice as high. Homeowners and providers of private rental housing and of social housing can all receive tax breaks and/or subsidised loans in exchange for lower rents. The financing of social housing is particularly complex. Tax-free savings accounts with interest rates set by the government are partly centralised by a public bank (Caisse des dépôts et consignations, CDC) to finance loans to social-housing providers at different rates depending on the income group targeted with the new buildings. Employers contribute to financing with a social contribution of 0.45% of wages and local authorities with land or cash. This comes on top of VAT breaks for construction and further subsidies for urban renewal.

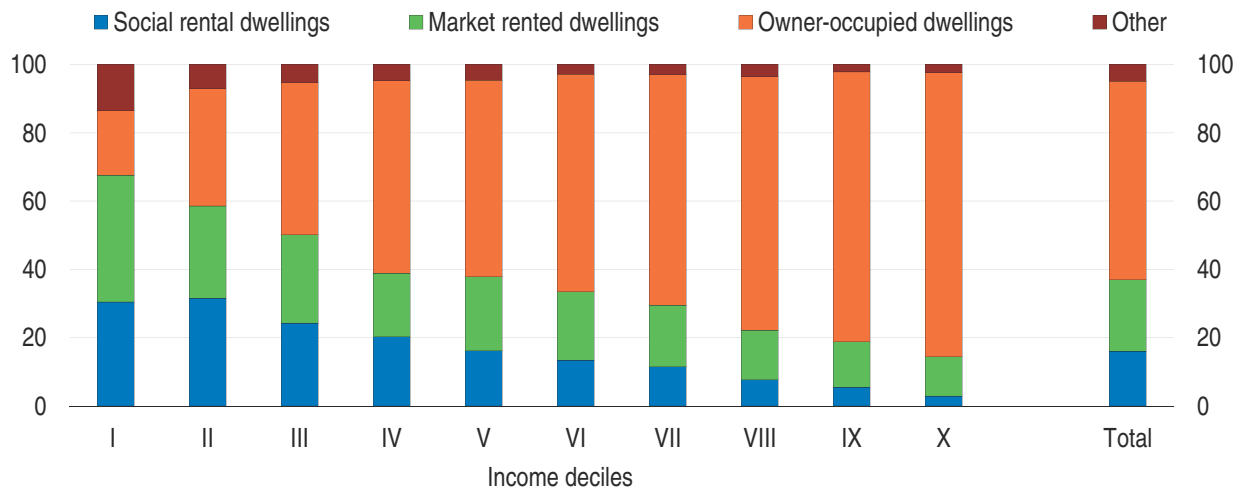
In return for their contribution to financing, committees run by the social partners can reserve up to 50% of the places in social housing. Mayors reserve 20% of the places and prefects – local representatives of the central state – reserve 25% for the neediest and a further 5% for state employees. Each player uses different criteria, and procedures can be cumbersome and non-transparent. A final decision is made by social landlords. They reject only 1-5% of applicants, but often those with the greatest need (Scanlon and Whitehead, 2011). Moving within the social housing stock is complicated by the fact that providers are all local, so they cannot easily relocate their tenants to other areas.

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

Reforming land taxation would also help. Taxing the transfer of housing and land, while applying relatively low taxes on property, as in France, promotes land hoarding, inhibiting its

Figure 1.15. **Housing tenure across households by gross income decile**[1]

Metropolitan France, primary residences, 2013

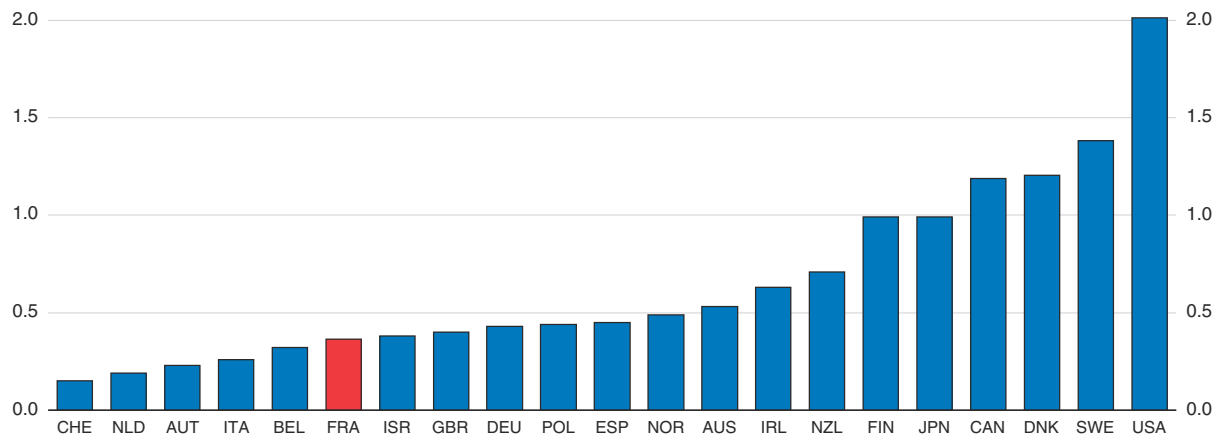


1. The first income decile includes households with average annual income below EUR 8 000, while the 10th decile refers to households with average annual income above EUR 39 000.

Source: INSEE, Housing Survey 2013.

StatLink http://dx.doi.org/10.1787/888933577914

Figure 1.16. **Price responsiveness of housing supply**[1]



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

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

StatLink http://dx.doi.org/10.1787/888933577933

more efficient use and residential mobility. Registration fees should be eliminated and recurrent property and land taxes increased by gradually aligning their base with market values. This would provide an important incentive for land owners to sell land for building (Trannoy and Wasmer, 2013a; Figeat, 2016).

Withdrawing inefficient subsidies would help reduce the costs of housing policies and make room for spending that helps poor households more effectively. The zero-interest loan, the main measure promoting home ownership, involves large deadweight losses, as 85% of beneficiaries would have bought a home without it (Gobillon and Le Blanc, 2005). The government should gradually withdraw subsidies to promote home ownership, as they can

reduce residential and labour mobility and employment outcomes (Costes and El Kasmi, 2013). Benefits are questionable, in particular for lower-income households in a context where prices have been rising fast for some time and could fall sharply, exposing buyers to substantial risk, in addition to the danger that some already face from unstable incomes. Lease-to-buy arrangements seem more appropriate (Trannoy and Wasmer, 2013a). Other subsidies, such as those to promote private rental, should also be reconsidered, given their limited effect on housing quantity or quality.

In fact, the financing of social housing (Box 1.2) and subsidies for private rental could be streamlined to improve efficiency. The state could team up with local governments to offer direct budgetary support to builders in public tenders for the construction of housing in return for rents below market prices depending on the targeted income group. As in other OECD countries this bidding could be opened up to private builders alongside social housing providers to allow for competition and efficiency gains. Public social housing bodies have been merged at inter-municipal level. This trend could be continued to reap economies of scale and combine local experiences, a model that has been followed successfully in the United Kingdom and the Netherlands (Scanlon and Whitehead, 2011). This could also help to facilitate moving to other urban areas within the social-housing sector, which is difficult today (Box 1.2).

Social mixing policies

The social-housing sector contributes to residential segregation, reducing the well-being and employment chances of already disadvantaged persons. Almost 40% of social housing of the surrounding urban areas is in poor urban neighbourhoods (Renaud et Sémécurbe, 2016). This is typically the older stock, often large, sometimes dilapidated estates built before the mid-1970s. Social housing in wealthier and more central urban areas is often in better condition. It has more desirable features, such as balconies and cellars (Laferrère, 2011; Jacquot, 2007). Access to high-quality social housing seems to be unequal, while social-housing rents vary little with the quality of dwellings or neighbourhoods. In Paris and well-to-do suburbs in the nearby Yvelines *département* the average income of successful applicants is more than 30% higher than that of candidates on the waiting list (Gaullier et al., 2015). Higher income applicants can refuse or leave lower-quality social housing in less desirable neighbourhoods, but tend to hold on to high-quality housing, given that social-housing tenants have a lifelong right to stay (Laferrère, 2011). This perpetuates segregation, impacting negatively on the housing conditions of lower-income households and their employment opportunities, as they are more likely to live in remote areas from which jobs are difficult to reach. Research suggests that about a quarter of the gap in the unemployment rate between native French workers and immigrants of African descent is explained by the fact that the latter receive housing offers involving longer commuting times (Gobillon et al., 2014).

The government is making efforts to provide more social housing in better areas for lower-income households. A 2017 reform foresees that not only prefects (Box 1.2), but also social partners and mayors will have to allocate 25% of all places outside poor neighbourhoods to the neediest. Tenants will have to leave when their income is for two years in a row 150% above the eligible revenue ceiling for housing financed through a social housing loan, compared with 200% before the amendments of the law on equality and citizenship. Given the levels of income ceilings for social-housing eligibility, rent supplements could very well apply as soon as tenants' income increases beyond them and

should gradually align rents with market prices. The currently foreseen overall rent ceiling of 30% of the social-housing tenants' income irrespective of quality, size and local market conditions is hard to justify.

To reduce the concentration of deprivation in poor neighbourhoods the government launched an extensive programme of urban renewal in 2003, worth around 45 billion euros. The programme has been carried out by the National Agency for Urban Renovation (Agence nationale de rénovation urbaine, *ANRU*), and implementation of the first phase of the programme will probably continue at least until 2020. There is a follow-up programme to renovate more neighbourhoods, although with only roughly half the funding. The largest share of investment, around 65%, has been devoted to renovation or demolition and reconstruction of the social-housing stock. Other investments include private housing and urban infrastructure, such as schools or roads and cycling and pedestrian paths to better connect the neighbourhoods to their urban surroundings. Neighbourhoods that benefit from urban renewal combine high poverty (an average share of around 45%) with a heavy incidence of social housing – 65% of the stock on average (Guyon, 2016).

Social housing is also explicitly used as an instrument to improve social mixing. Since 2000 most municipalities have been obliged to increase their share of social housing to 20% or face fines, which were increased substantially in 2014 and can now reach up to 7.5% of the municipal budget. Also, the required share of social housing has been increased to 25% for municipalities in areas with tight housing markets. The policy has made a small contribution to increasing the social-housing stock (Bono et al., 2012) in municipalities that started with a low share. In those places social housing now seems to be a bit less segregated, possibly thanks to a recent tendency to opt for mixed developments (Gobillon and Vignolles, 2016).

The effects of the urban renewal programme on social mixing are questionable overall. New buildings on the sites of demolished housing estates tend to be smaller with a mixture of tenure types, including owners and private-sector tenants, to attract the middle class. Roughly half of the demolished social housing has been rebuilt in other neighbourhoods. Given the focus on demolishing sites with particularly poor inhabitants, the share of the poorest has decreased somewhat in renovated neighbourhoods compared to similar ones without a renovation programme (Guyon, 2016). But experience with demolitions in France and elsewhere suggests that displaced households often end up in other high-poverty neighbourhoods (Posthumus et al., 2013), while the departure of somewhat wealthier tenants is accelerated (Lelevrier, 2013a). Being forced to move can disrupt social ties (Clampet-Lundquist, 2007). While social landlords have set up teams to assist families affected by demolitions, overall relocations have been guided by the urgency of finding new shelter. A strategy to better address social and sanitary needs of affected families and support their employment has not been developed, much less put in place (Comité d'évaluation et de suivi de l'ANRU, 2009). Better follow-up is needed on the fate of displaced households and on the evolution of their living conditions.

Mixing tenure types through urban renewal or quotas for social housing in rich neighbourhoods does not necessarily lead to social interaction between different groups. Studies of other countries suggest that richer people often spent much of their time outside of the neighbourhood (Atkinson and Kintrea, 2000; Beckhoven and van Kempen, 2003), for example because they commute to work and engage in leisure activities in that area. Research in France shows that new buildings in poor neighbourhoods, often built on the fringes of demolished estates, can be an opportunity for local tenants to improve their

housing situation. They tend to mix with social-housing tenants, as do newcomers who have experience with living in high-poverty social housing elsewhere. But new arrivals without such experience have very little contact with their poorer neighbours. Physical distance between new and old buildings reduces contact, as does a high income difference between residents, which also tends to increase the likelihood of conflict (Lelevrier, 2013b). When it comes to moving poor tenants into rich neighbourhoods, there is little evidence that this will help them build better networks and improve access to jobs (Atkinson and Kintrea, 2000; Beckhoven and van Kempen, 2003), but local goods and services may be out of reach for them due to higher prices.

The government should assess the costs and benefits of its social mixing policies carefully and consider more efficient alternatives. Building in richer municipalities is expensive, which should be weighed against possibilities to expand the housing stock faster in cheaper areas, while connecting them to transport infrastructure to ensure access to high-quality jobs and schools. Limiting efforts to increase social housing to areas with housing shortages and delegating the responsibility for planning to *intercommunalités*, groups of municipalities ideally covering an entire urban area would be a better option. Subsidies could be linked to improvements in well-defined housing quality and social mix indicators, including accessibility of jobs from social housing.

Focusing urban renewal on improving living conditions in poor neighbourhoods

Beyond social mixing, the urban renewal programme has helped to modernise housing and other urban infrastructure, and the neighbourhoods are often better integrated into their urban surroundings than before. Overall, a large majority of residents of renovated neighbourhoods are satisfied, although this is less the case for the younger generation, who often view the demolitions as an attack on their lifestyles and an attempt to chase them from their neighbourhoods (Comité d'évaluation et de suivi de l'ANRU, 2014; ONZUS, 2013). In fact, attempting to change the social mix of neighbourhoods directly through relocations is not only unlikely to work, but it can also undermine public acceptance for urban renewal, as locals may view it mainly as an attempt to make them leave a neighbourhood to which they are often attached (Kirszbaum, 2010).

Urban renewal programmes would benefit from a greater focus on improving the living conditions of existing residents. This would involve programmes closely linked to improving neighbourhoods' connections to transport infrastructure and services, and careful location choice of decentralised government services, such as unemployment and family-benefit agencies and the postal bank, with a view to improving access to jobs, services and leisure activities. More social mixing may then be a beneficial long-run result of renewal, as fewer residents with rising incomes are tempted to leave.

Limited participation of citizens concerned by urban renewal was one of the weaknesses of the first phase of the programme. Consultation consisted mainly of informing them and collecting their reactions without allowing them to influence the project's course. In 2014 the government created citizen councils (*conseils citoyens*), consisting of local inhabitants and representatives of associations. They contribute to diagnosing their neighbourhoods' needs and drafting strategy documents for urban policies (*contrats de ville)* to address them, and they are also consulted about planned renovation projects.

To ensure that urban renewal responds to citizens' needs, they should be systematically surveyed at the outset of any project. Citizen councils as well as tenants concerned by renovation should be involved in the decision process about its nature. Demolition should be

allowed only if a majority of affected tenants votes for it, and there should be a right to return after renovation. This is now standard in US Choice Community programmes, following lessons learned from earlier forced dislocations (Kirszbaum, 2013).

Softer forms of rehabilitation should be explicitly considered. Tenants should be allowed to opt for receiving materials and professional assistance to improve their buildings themselves. This can build a sense of ownership and help save funds for investments in other infrastructure or services that may be more important to them, such as a *concierge* to address safety concerns. Strong resident participation in designing and implementing renovation projects has been practiced successfully in Germany (Blanc, 2013) and more recently in the United States (Kirzsbaum, 2013). Neither model aims to change the socio-economic composition of neighbourhoods through renovation. In the German case direct participation of tenants in the work is quite common. Self-directed rehabilitation exists in some cases also in France. It would in fact be an opportunity to set up apprenticeships and other training programmes for inhabitants interested in working in the construction sector.

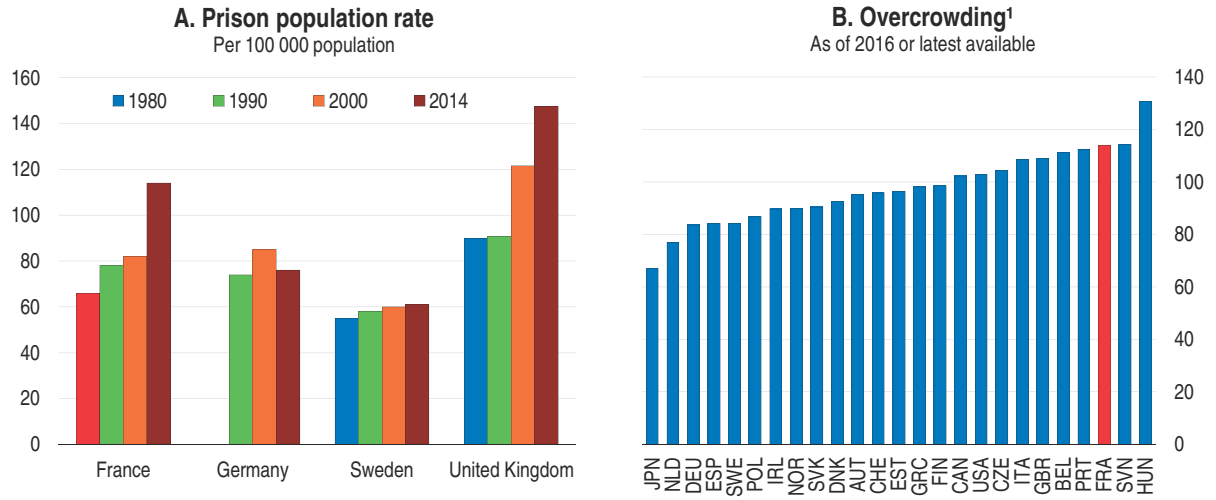
The first wave of urban renewal focused almost exclusively on town planning, with little regard for social and employment policies to improve life in poor neighbourhoods. The new citizen councils and their contribution to urban policy strategy documents is an opportunity to close this gap. The documents need a quantitative assessment and targets regarding distance to jobs and services, as well as training needs. The government's large-scale urban renewal programme could be used as an entry point to offer basic skills and language training to affected residents, as they need to be consulted in any case. The renovation projects include local employment clauses requiring that a certain number of hours worked involve locals. These clauses should be strengthened and used to offer more apprenticeships alongside work experience combined with basic-skills improvement. Experience has shown that basic-skills training works particularly well when it is integrated in candidates' daily lives (OECD, 2015a).

Prisons

There is a clear link between social deprivation and imprisonment. Prisoners are overwhelmingly young men from low-income families. They are disproportionately hit by unemployment, inactivity and low-paid work, and they often lack family ties and a place to live (Kensey, 2012). All of this increases the likelihood of pre-trial confinement as well as the severity of the sentence (Kensey, 2012), limiting access to probation. The prison population has increased markedly, in particular since 2000, and there is serious overcrowding (Figure 1.17). This undermines the well-being of prisoners and their ability to exercise their basic rights (Contrôleur général des lieux de privation de liberté, 2014). Suicide rates among prisoners are high compared to other countries (Figure 1.18). In spite of evidence of network effects in prisoners' home neighbourhoods and in jail, there are no data or studies on these issues in France. Yet, they are needed to develop a coherent strategy for urban policy along with police and judicial reform.

Efforts to favour alternative sentencing and address overcrowding in prisons need to continue. Alternative sentences, such as community work and electronic bracelets, have been shown to reduce recidivism (Kensey and Benaouda, 2011). The government envisages building more modern prisons and has started reforms to promote alternative sentencing and probation, while ensuring better support for ex-convicts to facilitate their re-integration into society. These efforts need to continue.

Figure 1.17. **Increase in prison population and overcrowding**



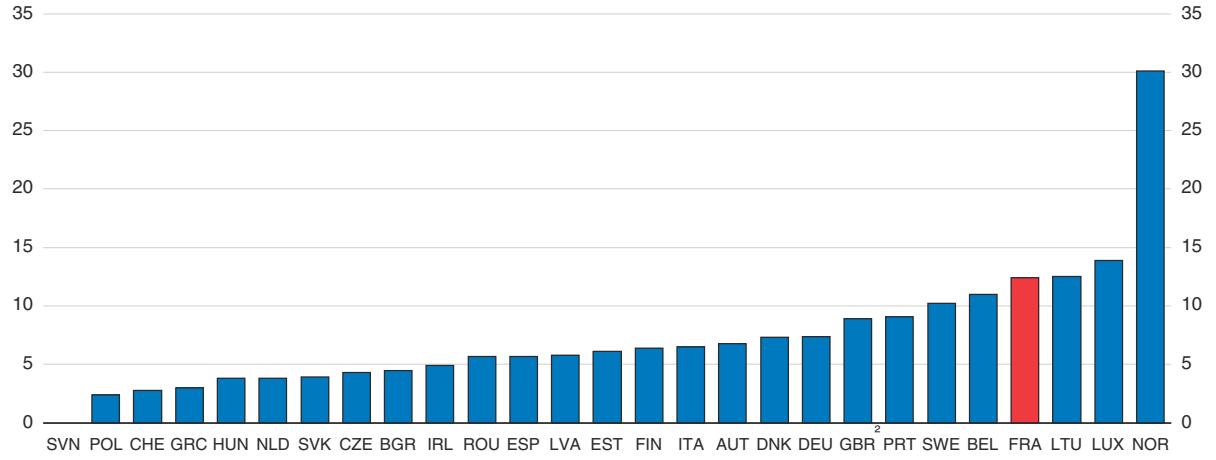
1. Ratio of total prison population to official capacity of the prison system in per cent.

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

StatLink http://dx.doi.org/10.1787/888933577952

Figure 1.18. **Suicide rates in penal institutions in EU countries**

Per 10 000 inmates,[1] 2013



1. Data comparability across countries is limited by varying national standards as to the inclusion of suicides committed in community hospitals and during periods of prison leave or of absence by permission.
2. Data refer to England and Wales only.

Source: Council of Europe (2015), *Annual Prison Statistics*, SPACE 1 – Prison Populations Survey 2014.

StatLink http://dx.doi.org/10.1787/888933577971

Recommendations to improve life in poor neighbourhoods

- Steer public investment and urban renewal spending in line with quantitative targets to reduce the distance from poor neighbourhoods to jobs and key public services.
- Step up basic-skills and language-training programmes combined with work experience in poor neighbourhoods. Ensure that the personal training account can be used to pay for such training.

Recommendations to improve life in poor neighbourhoods *(cont.)*

- Improve the collaboration of different agencies contributing to job-search assistance and training of counsellors. Reduce caseloads, especially when dealing with residents of poor neighbourhoods.
- Promote apprenticeships in vocational *lycées* by engaging employers.
- Continue to improve initial and continuing teacher training in pedagogy. Focus on teaching techniques for heterogeneous classes with struggling students.
- Link teacher pay to pedagogical qualifications and excellence in teaching. Consider a proportional bonus, rather than a lump sum, for teaching in disadvantaged schools. Offer faster promotion to leadership positions for teachers with a proven track record of helping disadvantaged students progress.
- Bring schools' human resource budgets into line with the number of their students, with top-ups for poor and foreign-language children. Publish both budgets and underlying formulae.
- Systematically transfer the competency for local land-use plans and building permits to *intercommunalités*. Eliminate registration fees, and increase recurrent taxes on immovable property.
- Increase social housing only in areas with shortages, leave social-housing planning to *intercommunalités*, while tying central government funding to improvements in indicators on social mixing and distance from jobs and services.
- Integrate urban renewal with social and employment policies, for example by using renovation as an entry point to offer basic skills and language training combined with work experience, as well as apprenticeships.
- Continue efforts to improve consultation on urban renewal. Allow demolition only if a majority of tenants votes for it, and establish a right to return to the same site after reconstruction. Supply tenants who wish to do renovations themselves with materials and professional help.
- Evaluate network and neighbourhood effects of crime, and continue to favour alternative sentencing and greater support for prisoners to re-integrate into society.

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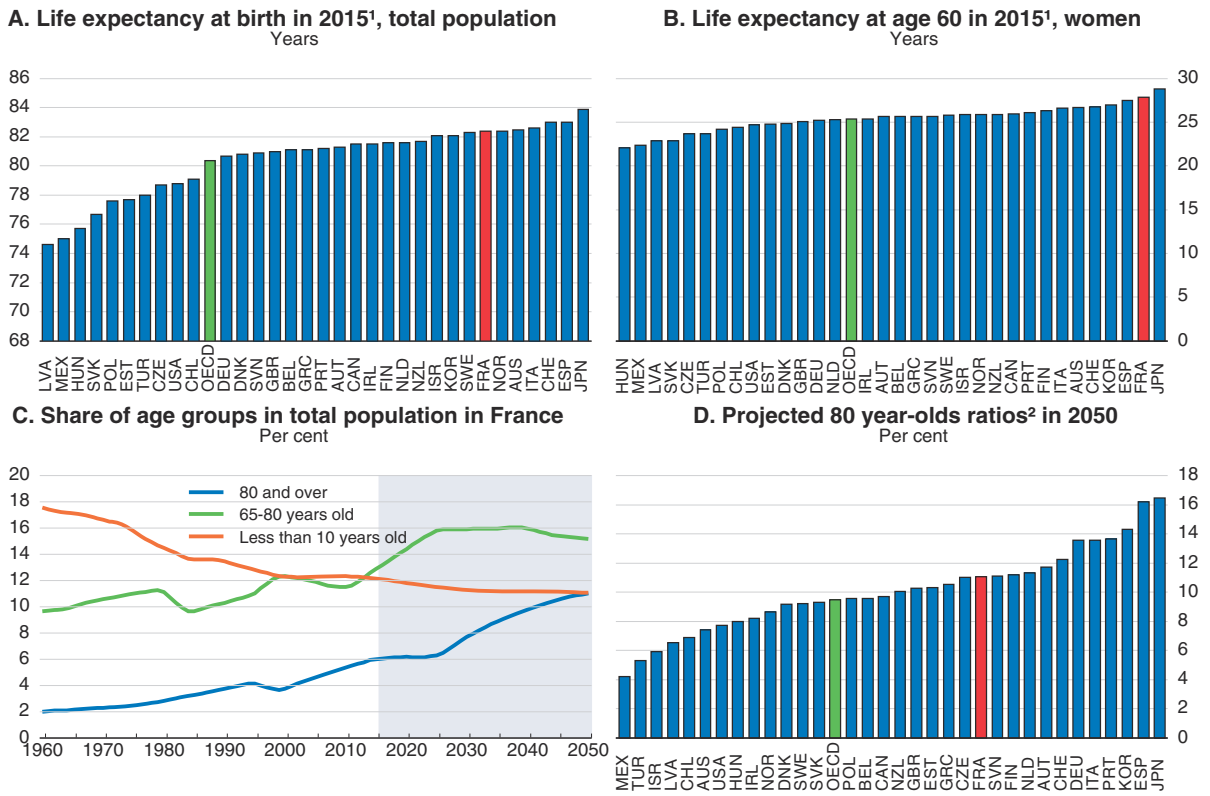
Chapter 2

Improving the efficiency of the health-care system

France's health-care system offers high-quality care. Average health outcomes are good, public satisfaction with the health-care system is high, and average household out-of-pocket expenditures are low. As in other OECD countries, technology is expanding possibilities for life extension and quality, and spending is rising steadily, while an ageing population requires substantially more and different services. The main challenges are to promote prevention and cost-efficient behaviour by care providers, tackle the high spending on pharmaceuticals, strengthen the role of health insurers as purchasing agents and secure cost containment. Good-quality information and appropriate financing schemes would ensure stronger efficiency incentives. Disparities of coverage across social groups and health services suggest paying greater attention to co-ordination between statutory and complementary insurance provision. Ongoing reforms to improve prevention and co-ordination among care providers are steps in the right direction. However, progress in the development of capitation-based payment schemes, which can reduce the incentives to increase the number of medical acts and encourage health professionals to spend more time with their patients, and performance-based payment schemes in primary care need to be stepped up to respond to the increasing prevalence of chronic diseases and curb supplier-induced demand and social disparities in access to care.

France's health outcomes are good. Various measures of life expectancy are among the highest in the OECD, notably for women (Figure 2.1, Panels A and B), and France has one of the highest Health-Adjusted Life Expectancies in the European Union (WHO, 2016). These measures have also shown steady improvement (Blanpain, 2016). However, its system will come under pressure as population ageing is set to accelerate after the mid-2020s, with a strong increase in the share of people over 80 – the biggest recipients of health and long-term care per capita (Panels C and D; Albouy et al., 2009). Price developments and technical progress could also lead to increasing upward pressure on health spending (Fall et al., 2014). Macro- and micro-simulations show significant increases in public health expenditures until 2060, though the scale of the extra spending varies widely (Box 2.1). At the same time, additional years of life in good health open the possibility that people may wish to continue to work at older ages. Giving older people the opportunity and incentives to work longer would raise their material well-being and long-term growth (OECD, 2014a).

Figure 2.1. **Life expectancy and population ageing**



1. Or latest available year.
2. Population 80 years and over divided by total population.

Source: OECD (2017), *OECD Health Statistics database*; OECD (2017), *Historical Population Data and Projections Database* (1950-2050).

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Box 2.1. **Future health and long-term care spending needs**

Future health and long-term care needs are highly uncertain, as illustrated by the large differences in projected outlays under different sets of assumptions. This will notably affect public spending, which represents a substantial part of this expenditure (Table 2.1). In addition to demographic and economic trends, health-care spending will depend on:

- More or less healthy ageing, that is: how much of the life expectancy gains will be spent in good health, which will depend notably on medical progress and changes in preventive practices and lifestyles. OECD projections assume fully healthy ageing, while the European Commission (in its "reference" scenario) assumes only "half healthy" ageing.
- The effect of technological progress on the cost of health-care services, both in terms of lowering the price of existing services and creating new potentially costly services. The latter effect has been dominant over the past few decades, contributing to higher spending.
- The income elasticity of health-care demand (by how much an extra 1% of income will increase health-care spending). There is no consensus in the literature, and OECD projections assume a lower elasticity (0.8) than the European Commission (1.05 on average over the projection period).
- The tendency of wages in the health-care sector, as in other service sectors, to grow as fast as in the rest of the economy despite slower productivity gains, leading to relative price increases for health-care services (the so-called Baumol effect).
- Societal changes, such as evolving willingness of family members to provide informal long-term care for their relatives.
- Reforms, such as changes to the follow-up of long-term diseases and payments to health-care providers that would contain expenditure growth as in the OECD cost-containment scenario.

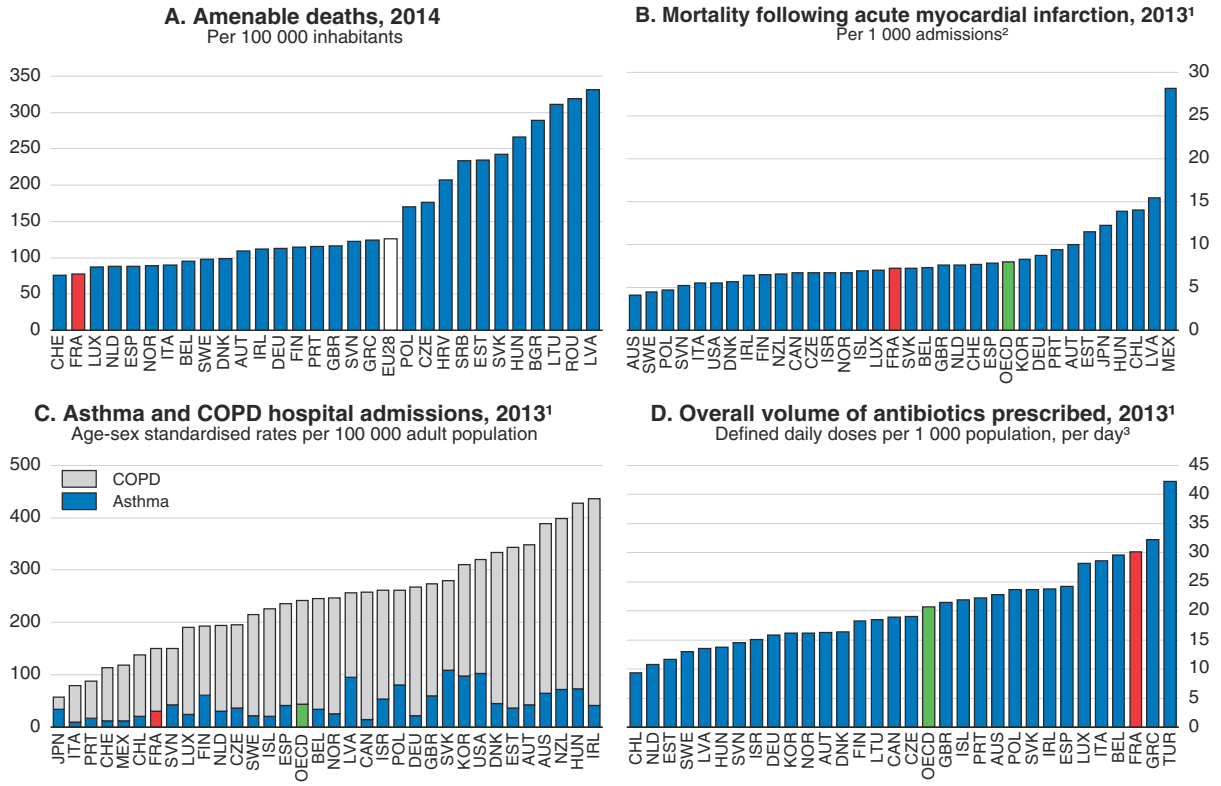
Table 2.1. **Projected increase in public health spending in France, 2010-60**[1]

Change in percentage points of GDP		Health care	Long-term care
OECD, 2013	Cost-containment scenario	2.2	0.6
	Cost-pressure scenario	6.1	1.0
European Commission, 2015	Reference scenario	0.9	0.8
	Risk scenario	1.6	2.7
DG-Trésor – PROMEDE, 2013	Reference scenario	2.0 (Public spending)	
	Reference scenario	2.5 (Public and private spending)	

1. For the European Commission, increase is between 2013 and 2060. For Promede, increase is between 2011 and 2060.
Source: de La Maisonneuve, C. and J. Oliveira Martins (2013), "Public spending on health and long-term care, a new set of projections", *OECD Economics Department Working Papers,* No. 1048; European Commission (2015), *Ageing Report*; Geay, C. and G. de Lagasnerie (2013), "Projection des dépenses de santé à l'horizon 2060, le modèle PROMEDE", *Documents de travail de la DG Trésor,* No. 8.

The health system delivers good-quality care, but potential cost-efficiency gains are significant. Deaths that could have been avoided if the health-care system had offered more timely and effective access to high-quality services are low in international comparison (Figure 2.2, Panel A). The quality of hospital care, as measured by the survival rate of patients admitted to hospitals for stroke or surviving a heart attack, is above the OECD average (Panel B). As a result, public perceptions of the quality of health care are high (European Commission, 2014). The low level of preventable hospital admissions for asthma and chronic obstructive pulmonary diseases (COPD) also tends to show that proper prevention and primary care interventions are in place (Panel C). However, some preventive practices are lagging: avoidable hospital admissions for diabetes are comparatively high, and vaccination rates for risky populations have declined (OECD/EU, 2016). At the same

Figure 2.2. **Selected indicators of health-care quality**



1. Or latest available year.
2. Thirty-day mortality after admission to hospital for acute myocardial infarction. Age-sex standardised rate of adults aged 45 years and over based on admission data.
3. In hospital and primary care. Defined daily doses are the assumed average doses per day for drugs used for its main indication in adults (e.g. 3 grams for oral aspirin). They are constant across countries.

Source: Eurostat (2017), Amenable and Preventable Deaths Statistics. OECD (2015), *Health at a Glance 2015: OECD Indicators*, OECD Publishing, Paris. OECD (2017), OECD *Health Statistics Database*.

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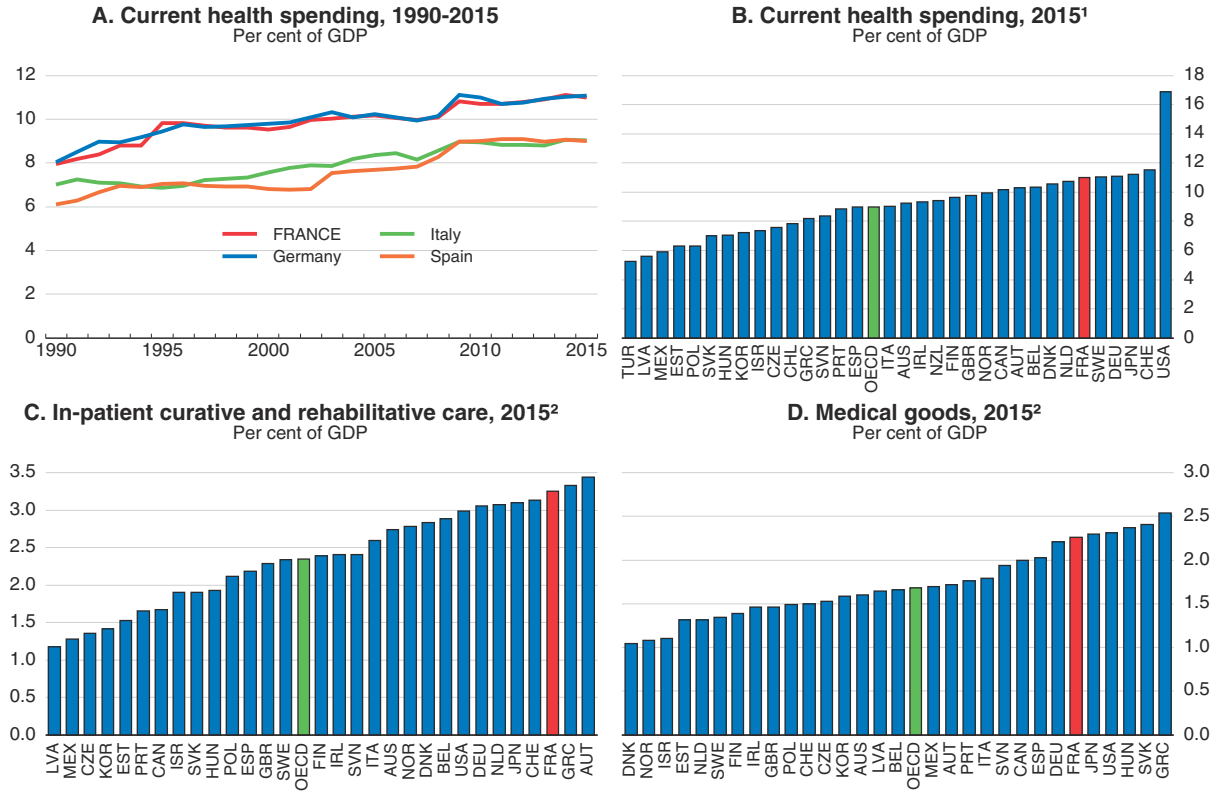
time, the overall volume of prescribed antibiotics is among the highest in the OECD (Panel D), and the use of hospital emergency rooms has risen excessively: nearly 20% of such visits could have been prevented by effective and accessible primary health care (OECD, 2016a).

Public and private expenditures on health care are relatively high. Expenditures have increased steadily relative to GDP in line with other European countries' over the past two decades and reached 11% of GDP in 2015 (Figure 2.3, Panels A and B). Spending on in-patient curative and rehabilitative care and on medical goods, notably pharmaceuticals, are higher than the OECD average (Panels C and D). The authorities have undertaken several measures to improve controls on health spending and its efficiency. However, until 2012 spending restraint mostly targeted the reduction of public expenditures, which may have had limited coverage for the most vulnerable groups that did not have access to complementary private insurance schemes and reduced control over overall health spending over the medium term (Askenazy et al., 2013; Bozio and Dormont, 2016).

Social and geographical disparities in health outcomes are significant, despite good aggregate outcomes. Disparities in life expectancy according to educational attainment have fallen steadily over the past 20 years and are below the OECD average (Figure 2.4, Panels A and B), but differences in life expectancy by socio-economic group have not converged

Figure 2.3. **Health spending**



1. Estimated values for some countries.
2. Or latest available year.

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

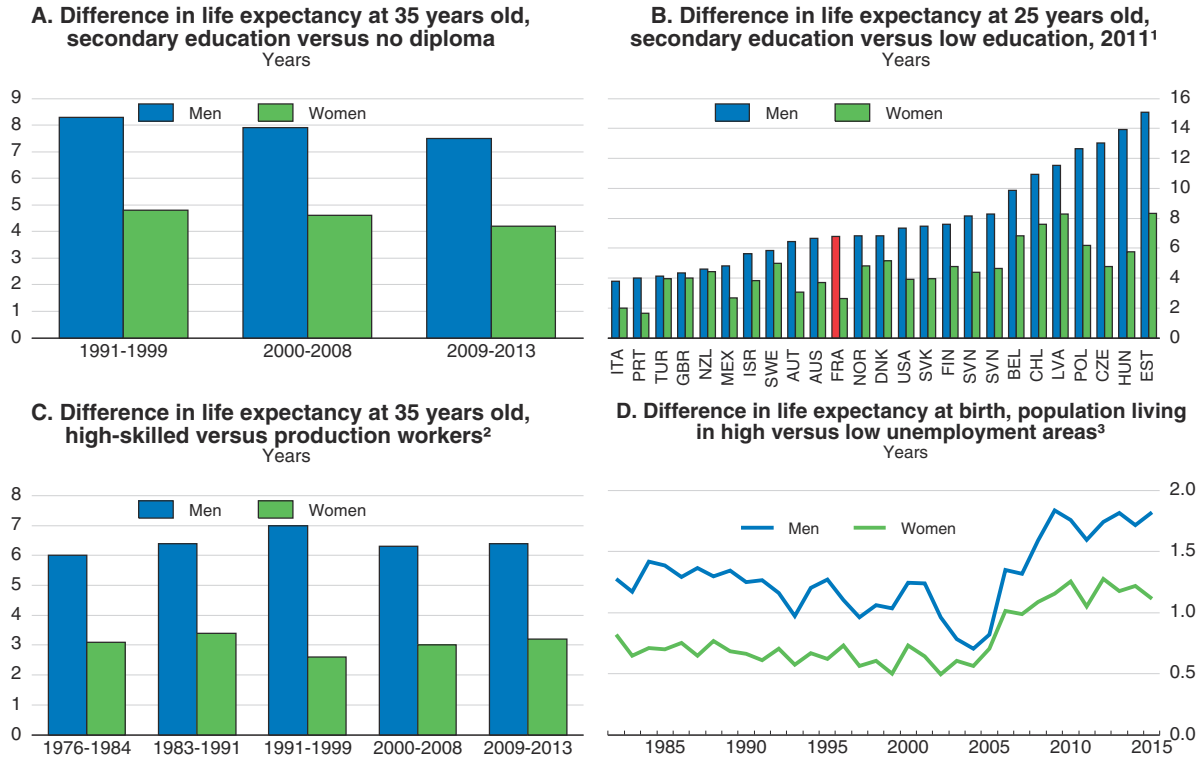
StatLink http://dx.doi.org/10.1787/888933578028

(Panel C), and the self-reported health status of low-skilled groups is poor (Pisarik et al., 2017). Differences in mortality rates between manual and non-manual workers appear large by international comparison (Kunst et al., 2000), and health disparities are significant from a very young age (Chardon et al., 2015). France suffers from a high rate of premature male deaths from accidents and unhealthy habits such as smoking and alcohol consumption, which are the most common causes of avoidable mortality. Regional disparities also remain substantial: the difference in life expectancy between those living in the areas with the highest and lowest unemployment rates has increased by half a year since the mid-2000s (Panel D).

Disparities across socio-economic and geographical groups are partly explained by different lifestyles and the design of the health-care system. Differences in access to health-care services across regions and neighbourhoods, high out-of-pocket expenditures for some households, heterogeneous medical practices, notably among hospitals, and the low focus on prevention all play a role. Waiting times for specialists in certain regions are particularly long (Vergier, 2016). As well, primary care access is less developed in poorer neighbourhoods (ONPV, 2016), while the quality of hospital care remains heterogeneous (Gobillon and Milcent, 2013 and 2016). Low spending on prevention may lead to lower well-being for disadvantaged populations and higher fiscal costs in the longer term.

Achieving the objectives of accessible, high-quality and affordable health care in the long run will require that overall budget control be complemented by appropriate micro

Figure 2.4. **Health disparities**



1. Low education regroups those with no diploma, primary and lower secondary education.
2. High-skilled workers include white collar and highly qualified workers, such as managers, researchers and industry experts. Production workers refer to both unskilled and less than highly-skilled employees doing mainly manual work.
3. Regions are defined as metropolitan *départements* and are weighted by their populations. High (low) unemployment areas include one third of the population.

Source: Blanpain, N. (2016), "Les hommes cadres vivent toujours 6 ans de plus que les hommes ouvriers", *Insee Première*, No. 1584; Murtin, F., J. Mackenbach, D. Jasilionis and M. Mira d'Ercole (2017), "Mortality Inequality across OECD countries", *OECD Statistics Working Papers*, No. 2017/02, OECD Publishing, Paris; INSEE (2017), *Macroeconomic database;* OECD calculations.

StatLink http://dx.doi.org/10.1787/888933578047

incentives for efficient supply, while meeting the challenge of a growing elderly population. This chapter reviews the regulatory framework surrounding the health-care system before focusing on some specific aspects. The main results are:

- The French system produces good aggregate health results, but with significant social disparities and constrained funding. France is also facing the challenge of ageing and rising chronic diseases, making strengthening prevention and outpatient care a priority. Beyond the health-care system, reforming the organisation of long-term care will be crucial (Bozio et al., 2016; OECD/EU, 2016).
- The health-care system is complex and comprises funding and services delivered through the public and private sectors. Despite a sound fiscal framework surrounding the public system, a lack of co-ordination between statutory and complementary insurance provision limits control over expenditures, creates disparities in coverage and access to care and generates high administrative costs.
- Further progress is called for to increase cost control by care providers. Consumption of pharmaceuticals in general and antibiotics in particular are high, and some regulations and payment schemes could further encourage appropriate care and the development of

multi-disciplinary group practices for care providers. Stepping up the ongoing efforts to increase prevention and co-ordination among care providers would promote healthier lifestyles and improve medium-term health outcomes. More efficient management of human resources and equipment purchases in hospitals would also generate savings.

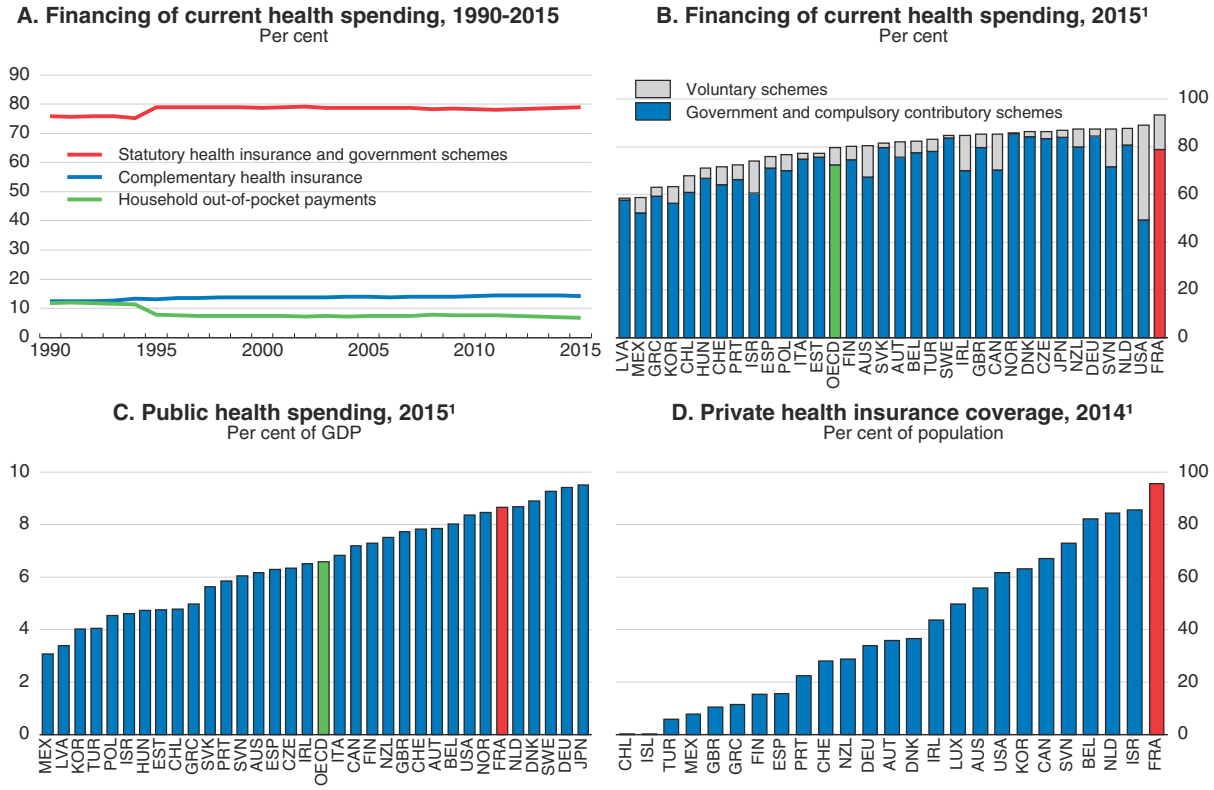
Improving the governance of the health-care system

The French insurance system is based on universal statutory insurance and complementary insurance plans that provide good overall accessibility. Households face limited average out-of-pocket expenditures thanks to publicly funded schemes covering long-term diseases and the poorest households. However, out-of-pocket expenditures are uncapped, and disparities among population groups remain significant, notably for the unemployed and older workers, while a better split between the respective reimbursements by statutory and complementary insurances could provide an incentive for greater efficiency.

Improving the funding of health-care spending

The social insurance system and complementary health insurance plans play a significant role in financing health-care expenditures (Figure 2.5, Panels A-C). Statutory health insurance covers the whole resident population through several schemes. The main one is the Caisse nationale de l'assurance maladie des travailleurs salariés (CNAMTS). It covers 85% of the population, mostly salaried workers and the unemployed, and is complemented

Figure 2.5. **The financing of health-care spending**



1. Or latest available year.
Source: OECD (2017), *OECD Health Statistics Database*.

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by other specific schemes, the main ones being the scheme for agricultural workers, and the scheme for the self-employed. The CNAMTS plays a central role in payments to and management of care providers: it is entrusted with three-quarters of health-care payments and most schemes for low-income households and long-term diseases. Its director also heads the association of the different statutory insurance schemes. In addition, 96% of people use complementary health insurance, through employer-based collective schemes, individual insurance plans or, for around 6%, a non-funded solidarity scheme (Panel D).

Public spending growth has declined slightly since the fiscal framework was strengthened. The authorities introduced yearly public spending targets, known as the National Objective for Health Insurance Spending (ONDAM or Objectif national des dépenses d'assurance maladie) in 1996. Statutory health insurance and health providers use the ONDAM as a target for spending and savings objectives. The monitoring of objectives has steadily improved as recommended by the OECD (2011a), and effective spending growth has been close to the ONDAM since 2009 (Box 2.2; Figure 2.6, Panel A). Overall, the fiscal framework appears sound (OECD, 2015a). However, the methods used to set the spending trends that

Box 2.2. **Budgeting of public health spending and annual spending targets (ONDAM)**

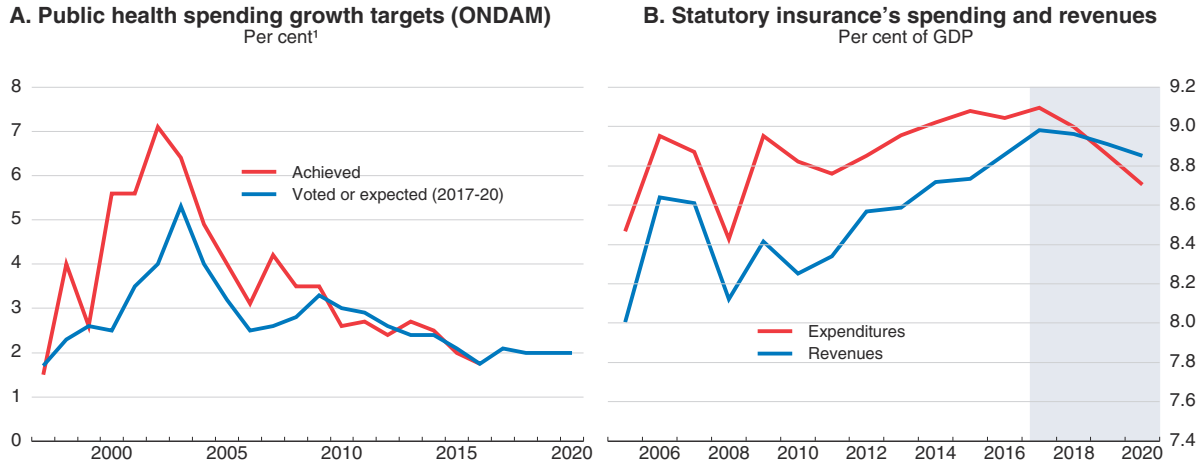
The French parliament votes annual Social Security Finance Acts (LFSS or Lois de financement de la sécurité sociale) and the National Objective for Healthcare Spending (ONDAM). The ONDAM covers spending of the statutory health insurance system and the State, which is around 78% of the total. Since 2014, and until 2017, six specific targets had been defined for: ambulatory care, hospitals' spending related to case-based payments, other hospital spending, elderly care centres, centres for the handicapped, and other items. Since 2017, the two categories of hospitals' spending related to case-based payments (T2A) and other hospital spending have been combined into a single category of hospital spending. The ONDAM targets remain indicative, except (in part) for hospitals, as multiple stakeholders are taking decentralised spending decisions.

A process for monitoring spending and ensuring compliance with the ONDAM was put in place to respond to the regular overshooting of the ONDAM in the early 2000s. Since 2004, an alert committee has informed the parliament, the government and the health-insurance funds whenever spending may exceed the ONDAM by an amount equal to a percentage of the target (alert threshold). Since 2013, this percentage has been set at 0.5% of the overall target. If the alert procedure is triggered, the health-insurance funds and the government propose corrective measures.

Precautionary savings for allocations are set aside at the beginning of each year, and health practitioners have been increasingly engaged in the management of health spending since 2010. The institutions concerned (hospitals, regional intervention funds (FIR), etc.) receive the precautionary savings (at least 0.3% of the ONDAM agreed in the 2014-2019 public finance programming law) depending on whether the target has been reached at the end of the year. A steering committee meets monthly to foster co-operation between the Health and Budget Ministries and the health-insurance funds, and to avoid warnings from the alert committee.

Based on: OECD (2015a), *Fiscal Sustainability of Health Systems, Bridging Health and Finance Perspectives*; PLFSS (2015), *Projet de loi de financement de la sécurité sociale pour 2016,* Ministère des Finances et des Comptes publics et ministère des Affaires sociales, de la Santé et des Droits des femmes; Drees (2016), *Les dépenses de santé en 2015 – Résultats des comptes de la santé*.

Figure 2.6. **Public health spending**



1. Nominal values.

Source: Commission des comptes de la sécurité sociale (2016), *Les comptes de la sécurité sociale : Résultats 2015 et prévisions 2016*, June; *Loi de financement de la sécurité sociale (LFSS) 2017*.

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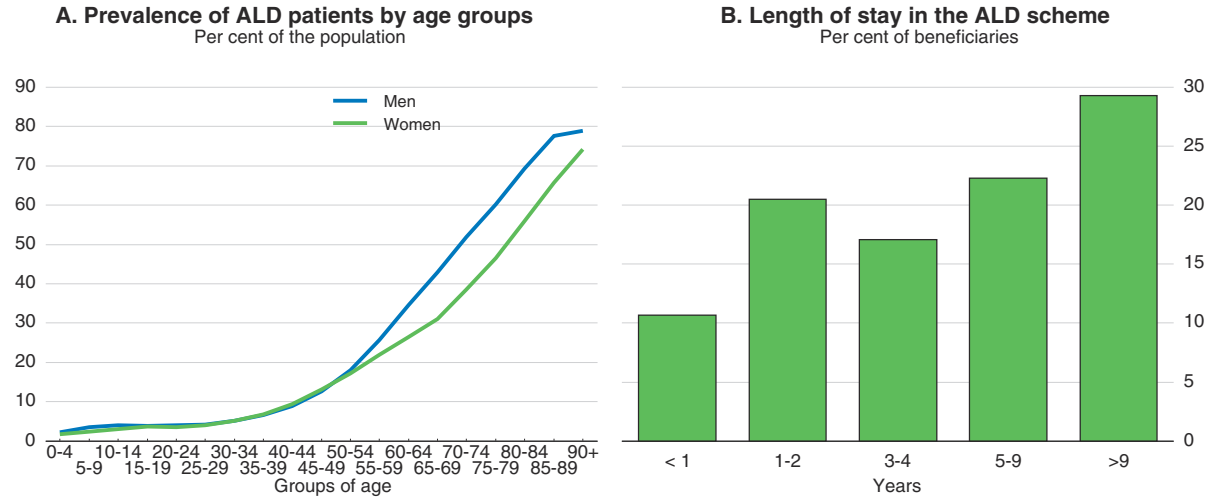
determine the savings to be made remain insufficiently documented by sub-objective according to the Cour des comptes (2015), and the ONDAM does not include maternity and paternity leaves, which are paid by the health insurance and whose high cost warrants close monitoring.

The government expects to hold the ONDAM to a historically low growth rate in 2017-20. This spending restraint would help close the CNAMTS deficit in 2019 (Figure 2.6), if the expected significant pickup in employment and wages, which would in turn raise revenues, materialises (Le Gouvernement, 2016; HCFI-PS, 2017a). The 2016 Health Law (Loi de modernisation de notre système de santé) includes several ways to hold down spending: developing outpatient care, improving the efficiency of hospitals' expenditure, continued efforts to lower drug prices and promote generic drugs, strengthening incentive-based payments, and improving the effective and appropriate use of primary care and hospitalisation. This approach is welcome, as it could increase the sustainability of spending restraints.

Health spending of households with long-term diseases entails significant fiscal and equity risks over the medium term. The statutory health-insurance scheme fully covers any spending related to a chronic condition on a medically determined list of long-term illnesses (ALD or *affections de longue durée*). The prevalence of ALD is particularly high for those over 70 (Figure 2.7). Health spending of ALD patients for their chronic conditions and other goods and services reached 4.4% of GDP in 2014 (PLFSS, 2016). However, the ALD scheme covers fully only those expenditures that are directly related to the long-term disease, which is no more than around 14% of ALD beneficiaries' total expenses (Caby and Eidelman, 2015). As a result, patients with long-term diseases tend to have high out-of-pocket expenditures: ALD beneficiaries represented a third of the households with the highest (top 5%) out-of-pocket expenditures in 2010 (HCAAM, 2013).

The financing of statutory health insurance is based on both contributions and taxes. Wage-based contributions (primarily levied on employers) have progressively declined (Figure 2.8, Panel A). A broader tax, the CSG (*contribution sociale généralisée*), has gained in importance and is levied on income sources including wages, income from financial assets

Figure 2.7. **Special scheme for long-term diseases (ALD), 2014**



Source: Païta, M., S. Rivière, S. Tala and A. Fagot-Campagna (2016), "Les bénéficiaires du dispositif des affections de longue durée en 2014 et les évolutions depuis 2005", *Points de repère*, No. 46; Sécurité sociale (2016), *Répartition des personnes en ALD au 31 décembre 2014 selon l'ancienneté de leur ALD*.

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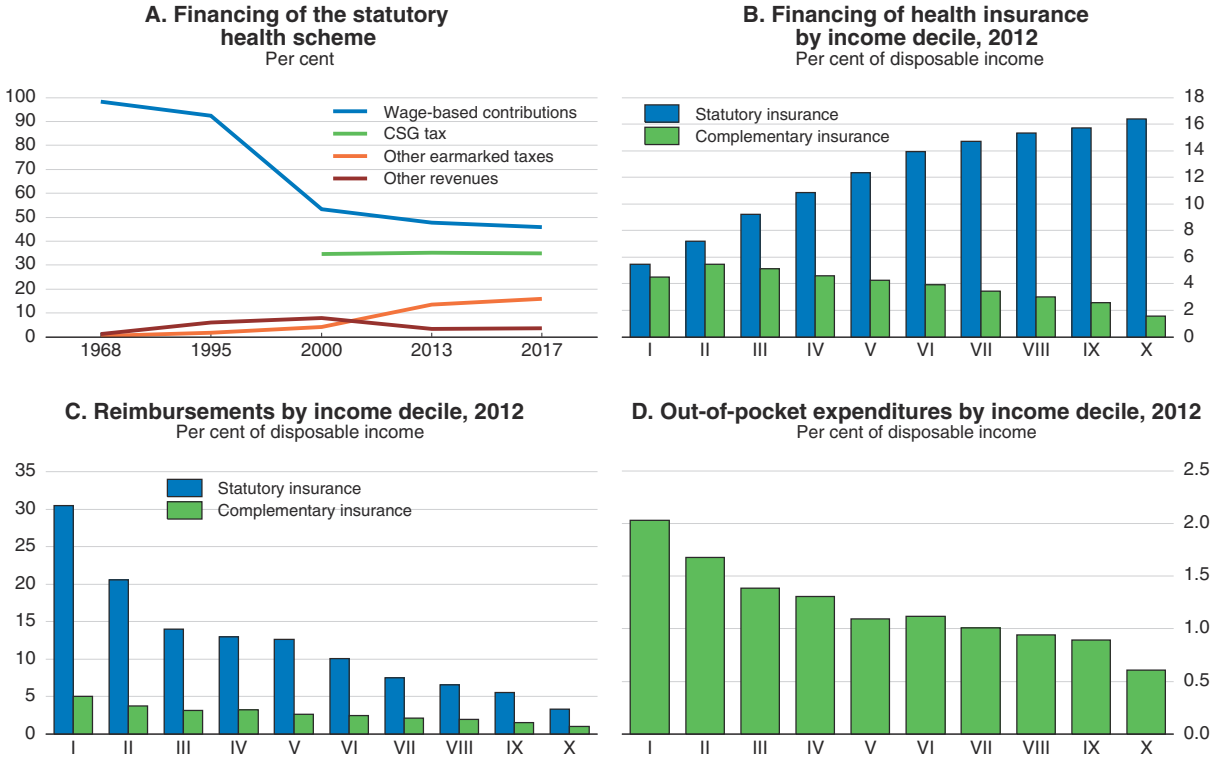
Figure 2.8. **The health system is redistributive**

By disposable income deciles from I (lowest) to X (highest)



Source: Drees (2016), *La complémentaire santé : acteurs, bénéficiaires, garanties – édition 2016* and *Les dépenses de santé en 2015 – Résultats des comptes de la santé*; Commission des comptes de la Sécurité sociale (2014, 2016 and 2017), *Les comptes de la Sécurité sociale. Résultats 2014 ; Les comptes de la Sécurité sociale. Résultats 2015* and *État des lieux actualisé du financement de la protection sociale – janvier 2017*.

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and investments, pensions, unemployment benefits, disability benefits and gambling proceeds. More than 20 earmarked taxes on relatively narrow bases, including taxes on harmful consumption, such as smoking and drinking, also finance health care (OECD, 2015a). This mixture of revenues limits transparency for firms and households (HCFI-PS, 2015), while it increases the administrative burden for firms, as they face many institutions collecting different taxes and social contributions, even if simplified e-procedures are in place, such as the electronic payroll reporting statement (DSN) which was rolled out in January 2017 to increase transparency and reduce the administrative burden (see below). Simplification measures designed in particular to lower the tax/social wedge could be implemented (such as the abolition of employees' health insurance contributions). After that, further simplification would be possible with a view to, on the one hand, unifying the various behavioural taxes and, on the other hand, increasing the financing based on the very broad CSG tax in the place of contributions based solely on the labour factor. Such financing would in particular help reduce disparities in coverage between employees, the unemployed and independent workers (HCFI-PS, 2017b).

Complementary insurance plans insure against residual health costs after reimbursement by the statutory insurance schemes. For some types of service, given the relatively low reimbursements by the statutory insurance system, complementary insurance coverage is key to ensuring access to care. In contrast to many other European countries, complementary insurance covers all or part of the residual costs after the intervention of statutory insurance (Askenazy et al., 2013; Paris et al., 2016). Some complementary insurance plans are private, for-profit companies, while others are non-for-profit organisations (*mutuelles* and provident institutions). In the current framework, complementary insurance companies tend to act as residual payers for many services, and have little impact on the organisation of care provision. They have developed limited networks of care providers only for specific expenditures that have a low statutory reimbursement rate, notably optical care, dentures and hearing aids (HCAAM, 2013). Indeed, they cannot contract with GPs (Pierron, 2016).

The aim of the complementary insurance plans and the authorities is to make the pathway to care more efficient, using financial incentives and the enhanced role of treating physicians. As recommended by the OECD (OECD, 2000; Imai et al., 2000), the authorities have introduced various forms of co-payments, deductibles and flat rates and reduced some statutory reimbursement rates to limit public expenditure growth. For example, patients have to pay 1 euro per medical consultation (which cannot be reinsured by state-approved complementary insurance policies (*contrats solidaires et responsables*), reflecting a policy of co-ordination between statutory and complementary insurers), and the reimbursement rates of some medical services depend on the chosen pathway to care. In particular, the statutory health insurance regime reimburses a lower share of dental and optical care and consultations with specialists engaging in extra billing. Hospital charges also apply.

Coverage by statutory and complementary insurance plans varies significantly across providers and treatments. In particular, the main source of funding for primary care is statutory health insurance (64% in 2015) (Table 2.2). Since the reform of state-approved contracts (*contrats responsables*) in 2014, complementary insurance plans, except in rare cases, cover all forms of co-payment. While the numerous levels of co-payments may reduce the transparency of the system for households, the systematic acceptance of co-payments by state-approved contracts helps reduce the number of people foregoing treatment. In addition, access to care is facilitated by the fact that use of the direct payment system (*tiers payant*) is obligatory when dealing with fragile populations (CMU-C (complementary

Table 2.2. **Structure of financing of different medical goods and services, 2006-15**

	Share of spending	Statutory health insurance		CMU-C and State[1]		Complementary insurance		Households	
	2015	2006	2015	2006	2015	2006	2015	2006	2015
Hospital care	55.2	92.0	91.3	1.1	1.2	4.4	5.2	2.4	2.3
Public hospitals	42.9	92.5	92.0	1.4	1.4	4.1	4.8	2.0	1.8
Primary care	44.8	63.9	64.2	1.6	1.6	20.0	20.4	14.5	13.8
Medical services	21.9	63.4	64.7	1.9	2.0	21.0	21.7	13.8	11.7
Dental care	2.4	35.7	33.4	3.0	3.6	34.7	40.3	26.6	22.7
Medicines	16.0	68.5	68.8	1.5	1.5	16.5	12.8	13.6	17
Other medical goods[2]	4.1	41.7	43.1	0.8	0.8	32.6	39.0	24.9	17.3
Transportation	2.8	92.7	93.1	0.8	0.9	3.9	3.8	2.6	2.2
Health Spending	100.0	76.8	76.8	1.4	1.4	12.8	13.3	9.0	8.4

1. CMU-C and State spending are government schemes aimed at supplementing statutory insurance and complementary insurance schemes for the poorest households and immigrants.
2. Optics, prostheses, orthotics, invalid carriages, and other small equipment.

Source: Drees (2016), *Les dépenses de santé en 2015 – Résultats des comptes de la santé*.

universal health coverage), ACS (vouchers) and AT-MP (occupational risks), but also ALD (long-term illnesses) and persons receiving maternity care since 2017).

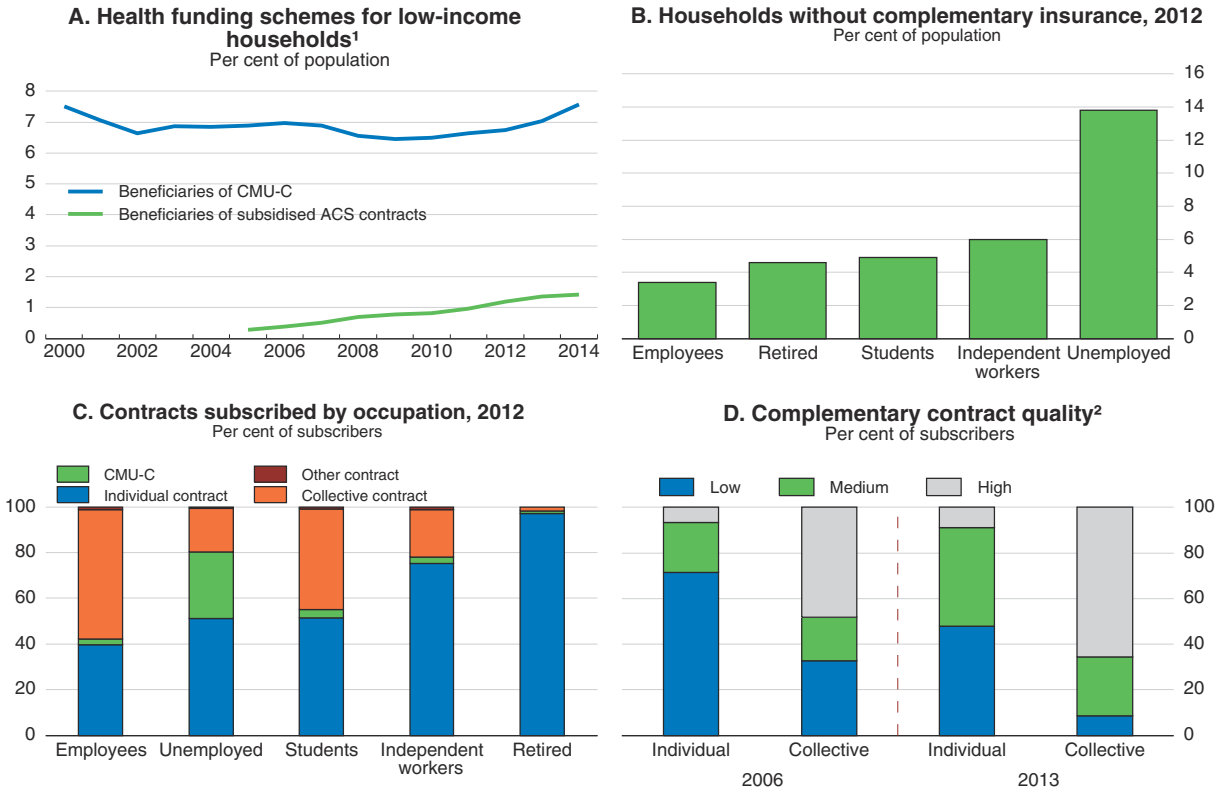
The health system generates significant redistribution among income groups, mostly through its financing. It reduces inequality of household disposable income, as measured by the Gini coefficient, from 0.30 to 0.25 according to Ministry of Finance simulations (Duval and Lardellier, 2012). Complementary insurance premiums only decrease slightly in relation to income (Figure 2.8, Panel B). At the same time, reimbursements by statutory and complementary insurance are also progressive, although the share of out-of-pocket expenditures in the disposable income of low-income households is higher than for other households (Panels C and D).

Reducing disparities in coverage and improving incentives for health providers

Three main schemes help poor households and immigrants access health care. Direct government funding (AME or Aide médicale d'etat) covers a wide range of health services for illegal residents. In addition, two other schemes ease access to complementary insurance. The poorest households (7.6% of the population in 2014) are eligible for complementary universal health coverage (CMU-C). The scheme offers free complementary cover to those on low incomes, and its income cap was significantly increased in 2013. People in other disadvantaged socio-economic groups may benefit from vouchers (ACS) to finance their complementary insurance premiums. However, the ACS scheme has had a particularly poor take-up. In 2014, the rate of utilisation was somewhere between 30% and 43% (Bruant-Bisson and Daudé, 2016) and, even among households who managed to receive the vouchers, 20% did not use them (Figure 2.9, Panel A).

Access to complementary insurance plans is unequal. Unemployed workers, new labour-market entrants and older workers have had lower access (Figure 2.9. Panel B). They also rely more on individual contracts than on collective employer-sponsored plans, which are more generous (Panels C and D). At the same time, generous tax exemptions have supported firm-level collective contracts that offer, on average, more extensive coverage with reimbursements recently capped at a high level (Bruant-Bisson and Daudé, 2016). In addition, collective employer-sponsored plans became mandatory for private-sector

Figure 2.9. **Access to complementary health insurance schemes**



1. The series for the beneficiaries of CMU-C is back-casted in 2000-05 based on Eco-santé data
2. The Ministry of Health assesses contract quality based on the level of reimbursements for a given basket of goods: from A (highest reimbursements) to E. Low-quality contracts correspond to types D and E, medium to C, and high-quality contracts to A and B.

Source: Drees (2016), *La complémentaire santé : acteurs, bénéficiaires, garanties – édition 2016*; Eco-santé online database; OECD calculations.

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employees in 2016, enabling care coverage to be extended. The separation of individual from collective contracts, however, limits risk pooling between employees and riskier households. Indeed, the generalisation of collective plans for employees concentrates individual contracts on higher-risk households. There is a possibility that the portability of rights may limit this phenomenon in the long term, despite the fact that it currently entails a sharp increase in the cost of contracts for policyholders when they retire.

The authorities have taken some steps to increase access to complementary insurance plans for the retired and poorer households. They recently expanded eligibility to assistance schemes facilitating access to care (CMU-C and ACS) for poorer households. The reform of the ACS vouchers led to the selection of specific complementary insurers that offer specific standardised reimbursements, and suppressed direct payments by eligible households (*tiers payant*). Employers' complementary insurers have had to propose coverage to newly retired and unemployed workers since 2008. In addition, tax incentives encourage state-approved collective complementary insurance contracts (*contrats solidaires et responsables*) that do not discriminate by age and guarantee minimum and maximum reimbursements. At the same time, discrimination by health risks is not authorised for either individual or collective contracts.

These measures have led to an increase in the share of the population with complementary insurance, but their effects have been ambiguous for some vulnerable

populations. For example, corporate and personal income tax breaks for collective plans have encouraged extra billing by professionals, despite capped reimbursements. This raises costs for those less well covered who have to finance extra-billing through out-of-pocket expenditures. Phasing out tax breaks for collective plans would save 2.35 billion euros (0.1% of 2014 GDP) (Bruant-Bisson and Daudé, 2016), but could also increase labour costs. Additional reforms could also improve access to complementary insurance for low-income households and their health in the medium term (CNAMTS, 2016a), notably by promoting the use of existing administrative data on income and other social spending to determine and verify access to ACS vouchers. Indeed, past experiments have shown that eligible households, mostly long-term unemployed and retirees, may be difficult to reach through information campaigns (Guthmuller et al., 2012). The sustainability of the ACS scheme could be improved in part by reviewing the eligibility conditions (Cour des comptes, 2015).

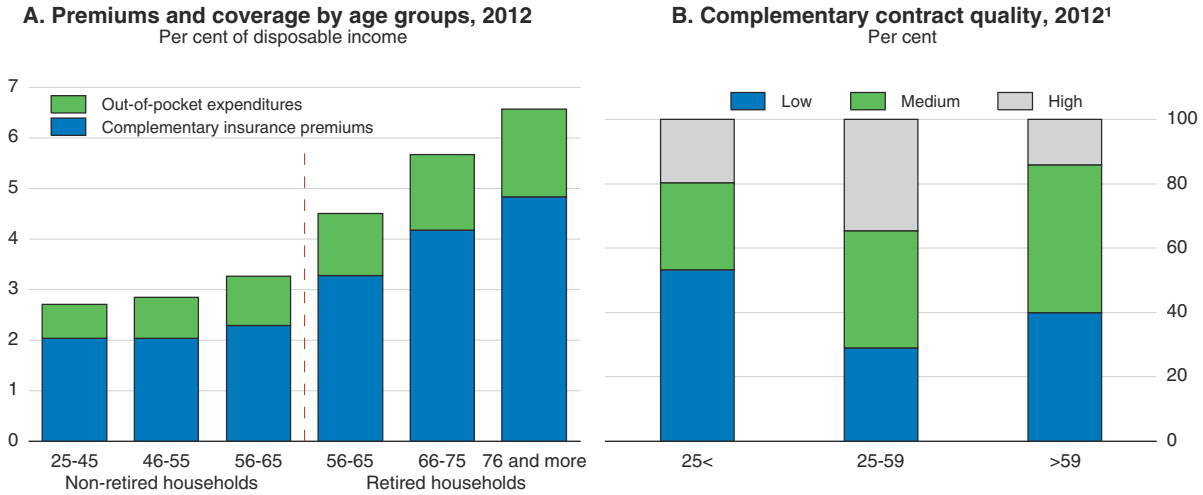
Complementary insurance plans limit cost-sharing for spending over which patients have some control, such as some medicines and consultations with high-fee doctors. This may in turn spur expenditure growth and prices, excluding more vulnerable groups. Indeed, the joint reimbursements by statutory and complementary insurance plans for the same basket of medical goods limit incentives for more efficient health-care spending, as households cannot easily distinguish reimbursement rates and as some complementary contracts also cover all forms of co-payment (Table 2.2). Better coverage by complementary insurance plans appears to have increased demand for high-fee specialists (Dormont and Péron, 2016). Similarly, the recent decreases in statutory reimbursement rates for medicines and sick leave have not led to lower use, which suggests that these health-care expenditures are not price-sensitive in France (Davezies and Toulemon, 2015; Pollack, 2015).

To increase the effectiveness of cost-sharing arrangements, the independent National Health Authority (HAS or Haute Autorité de santé), in charge of evaluating health goods and procedures, is empowered to define a list of drugs, medical devices and procedures that would be reimbursed by statutory health insurance and their reimbursement rates. This would need to strengthen the link between reimbursement rates and the assessment of clinical and cost effectiveness of new medications (see below). As a first step the statutory insurance could stop reimbursing authorised pharmaceuticals with uncertain medical effects that now have low statutory reimbursement rates. A more ambitious reform of the insurance system could separate medical goods and services covered by statutory and complementary insurances (Askenazy et al., 2013). This could ease negotiations with care providers for goods and services. Complementary insurance plans would then specialise in "supplementary" medical goods and services, such as optical care, some dental care and hearing aids. However, if the statutory insurance were to withdraw from sectors in which its funding only covers a minor share of expenditures, such as eye and dental treatment and hearing aids, this would raise sensitive issues such as the risks of adverse selection, price increases and loss of control over the related spending.

The authorities should also further tighten the standards for the *contrats responsables* of complementary insurance plans, and make them easier to understand in order to boost competition. At present, the complementary insurance plans can potentially use indirect methods (different types of contract) to segment their clients by risk group despite the ban on discrimination by health risks. This stricter framework would lower incentives for consumption by healthier individuals and extra-billing by capping complementary reimbursements at lower levels and benefit older and lower-income populations. Indeed,

insurance companies have favoured healthier populations by applying different premium structures: the result is that households' health-care costs rise sharply with age (Figure 2.10; Drees, 2016a), even among the non-profit *mutuelles* (Leduc and Montaut, 2016). A system with more constrained contractual terms could limit risk selection and push complementary insurers to compete on premiums for different groups of risks and populations. In such a system insurers would have to contract with care providers and organise more effective health-care pathways. This would require risk pooling, such as a system of equalisation across insurers based on their patients' risk profiles to ensure health-care coverage and limit the potential rise in insurance premiums, while making allowance for the free choice of services.

Figure 2.10. **Access to complementary health insurance schemes by age groups**



1. The Ministry of Health assesses contract quality based on the level of reimbursements for a given basket of goods: from A (highest reimbursements) to E. Low-quality contracts correspond to types D and E, medium to C, and high-quality contracts to A and B.

Source: Drees (2016), *La complémentaire santé : acteurs, bénéficiaires, garanties – édition 2016.*

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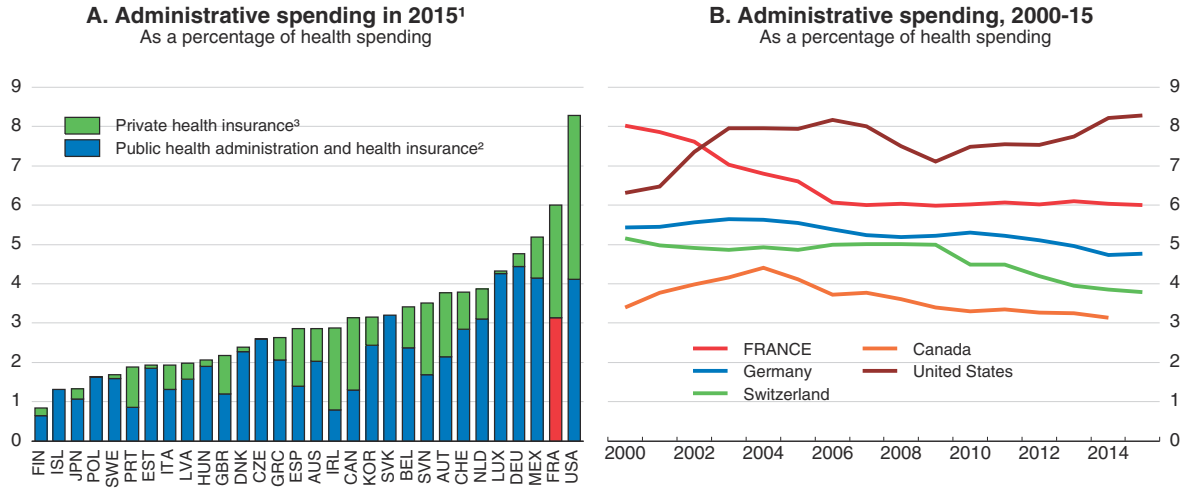
In the context of an ambitious reform of complementary insurance plans, introducing a limit on household out-of-pocket expenditures could improve equity and efficiency. The upper limit for these out-of-pocket payments could be fixed in relation to household income as in other OECD countries (Paris et al., 2010) and would replace the ALD scheme. In contrast to the ALD, the cap would not rely on the patient's specific diseases. It would also be independent of the insured's employment status, which currently affects complementary insurance premiums and reimbursements, thereby offering better protection against health risks and limiting the potential negative effects of low income on access to care. However, a low cap would threaten the attractiveness of complementary insurance policies and require a broad reform of the system.

Lowering administrative costs

The joint reimbursements of health spending complicate claim processing and the management of health funding. French health-care management costs are higher than in most other OECD countries (Figure 2.11). Administrative costs of the statutory and complementary insurances are roughly equal, but complementary insurance finances a much smaller share of total health spending. Its comparatively high costs are mainly

Figure 2.11. **Health administrative spending is high**



1. Or nearest year.
2. Including compulsory health insurance provided by private insurers.
3. Refers mainly to voluntary health insurance schemes.

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

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explained by marketing and search costs, as their costs of health-care case management are – at 5.4% of spending – close to the 3.5% of the CNAMTS (Auvigné et al., 2013), and the large number of relatively small private insurance companies does not allow the achievement of available economies of scale.

Unifying revenue collection and improving the management of local statutory insurance agencies would allow some savings. To this end, universal health coverage was strengthened in 2016 in order to simplify and unify administrative management. The local organisation of statutory insurance remains fragmented, though payments to providers for the different statutory schemes were unified in 2016 (Auvigné et al., 2013; Cour des comptes, 2016a). Some statutory schemes have their own networks for revenue collection and may combine the management of health insurance and other social security spending (e.g. occupational risks, pensions and some family benefits). The local agencies of the CNAMTS provide reimbursements to patients for medical services, audit patient claims and perform other administrative tasks. However, they are sometimes in charge of very large populations and territories and have mixed results (Auvigné et al., 2013). Beyond the convergence of the different administrative structures to best practices, lowering the number of special regimes would reduce complexity, thereby improving efficiency and co-ordination, notably in revenue collection (Cour des comptes, 2015).

Improving prevention and the organisation of health-care provision

A new approach to the organisation of health-care supply based on meeting patients' needs could help accommodate pressures from population ageing and the rising prevalence of chronic diseases, while lowering disparities in access to care. Recent OECD cross-country evidence suggests that both supply-side aspects, such as payments to health practitioners and regulations, and demand-side features, such as gatekeeping and cost-sharing, can play a key role in regulating health-care expenditures (de la Maisonneuve et al., 2016). Well-trained GPs and specialists, evenly distributed across the country, are also

crucial to ensure an adequate supply of outpatient care and co-ordination with hospitals and other primary-care providers (OECD, 2016b).

Better co-ordinating the supply of care

France has a public and private care delivery system with patient freedom of supplier choice. Management of health-care supply is partly decentralised, and complementary insurance, hospitals and ambulatory-care professionals are encouraged to co-ordinate patients' pathways at the local level through several measures such as the development of care homes and health centres, regional support platforms and care projects, and the PAERPA scheme for improving the co-ordinated care of frail elderly people. Organisational outcomes are mixed despite the launch of national action plans. Hospital and primary-care spending have been rising faster than total health spending (Table 2.3), while spending on prevention is lagging (Figure 2.12, Panel A). Moreover, hospital admissions for asthma and chronic obstructive pulmonary diseases are relatively low, but those for diabetes that could be safely treated at the primary-care level are above the OECD average (Panel B), and the use of hospital emergency departments has increased over the last 20 years, reflecting in part the failure to organise sufficient round-the-clock outpatient services and the misuse of the hospital care system by patients (Panel C). In 2013 the share of long-term care recipients aged 65 and over receiving care at home was below the OECD average (OECD, 2015b).

The authorities are planning several reforms of health-care supply. They had planned to raise home-based long-term care to 1.2% of hospital stays by 2018. However, it remains less developed than in most other comparable countries, and past measures have failed to raise the level of home care and to reach a balanced geographical supply (Cour des comptes, 2016b). Similarly, because some forms of ambulatory surgery remain relatively less developed than in other OECD countries (Figure 2.12, Panel D), the government aims to increase its share from half the total in 2015 to more than two-thirds in 2020, which will require a well-trained network of GPs and nurses, formal co-ordination between primary-care providers and hospitals (implemented in 2016 with the enactment of the Health Law (Loi de modernisation de notre système de santé), and adaptation of existing payments and regulations (Bert et al., 2014; ATIH, 2016).

The co-ordination of health-care supply at the regional level has made progress. Regional Health Authorities (ARS) unified previously separate entities for hospital and outpatient care in 2010. The ARS are responsible for ensuring that regional actors meet the needs of the population by improving the co-ordination between the primary and hospital sectors and health- and social-care services, while respecting the official national spending growth ceiling. The ARS have some control over the organisation of hospital services, notably capacities. The government plans to support more integrated care pathways across hospitals and primary-care practitioners. The 2016 health law created a framework for developing primary-care teams and aims to strengthen local health communities that are in charge of co-ordinating ambulatory care with monitoring by the ARS through the creation of regional support platforms. However, the ARS' influence on primary and ambulatory care will remain limited, as most payments and regulations depend on national decisions. Giving the ARS more autonomy in contracting with health providers to co-ordinate pathways would help to raise co-ordination across local health-care providers. The ARS should be able to manage the organisation of primary care in their region, which could be financed based on the regularly estimated requirements of their regional populations. They would then have more leeway to co-ordinate primary care, hospitals and medico-social services, in particular if they were

Table 2.3. **Structure of health-care expenditures,[1] 1995-2015**

	1995	2000	2007	2010	2012	2013	2014	2015
A. Expenditures as a share of GDP								
1-Hospital care	3.9	3.6	3.7	4.0	4.0	4.1	4.1	4.2
Public hospitals	2.9	2.8	2.9	3.1	3.1	3.1	3.2	3.2
Private hospitals	1.0	0.8	0.9	0.9	0.9	0.9	0.9	1.0
2-Primary care	3.9	4.1	4.4	4.7	4.7	4.7	4.7	4.8
Primary services	2.1	2.0	2.1	2.2	2.2	2.3	2.3	2.3
Transport	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Pharmaceuticals	1.4	1.6	1.7	1.7	1.7	1.6	1.6	1.6
Other medical goods[2]	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.7
3-Long-term care	.	0.5	0.7	0.9	0.9	0.9	0.9	0.9
4-Sick pay	.	0.6	0.6	0.6	0.6	0.6	0.6	0.6
5-Other spending for patients	.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6-Prevention	.	0.3	0.3	0.3	0.3	0.3	0.3	0.3
7-Spending for the health system	.	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Research	.	0.4	0.4	0.4	0.4	0.4	0.4	0.3
8-Management costs of the health system	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7
Consumption of services and goods (1+2)	7.9	7.7	8.2	8.7	8.7	8.7	8.8	8.9
Current health expenditures (1+…+8)[1]	.	10.2	10.9	11.8	11.8	11.9	12.1	12.0
Current health expenditures – OECD definition	9.8	9.5	10.0	10.7	10.8	10.9	11.1	11.0
B. Expenditures, annualised real growth rates								
1-Hospital care	.	0.5	1.7	2.9	2.6	1.9	2.3	2.1
Public hospitals	.	1.1	1.4	2.9	2.7	2.0	2.1	2.0
Private hospitals	.	-1.3	2.4	3.0	2.2	1.7	2.9	2.2
2-Primary care	.			2.8	2.9	2.4	3.8	2.8
Primary services	.	2.5	3.6	3.4	3.2	3.3	1.5	2.7
Transports	.	3.1	5.9	4.0	2.9	2.7	6.6	3.6
Pharmaceuticals	.	5.0	6.9	3.9	4.5	3.6	3.9	4.1
Other medical goods	.	8.1	6.7	2.9	2.6	1.9	2.3	2.1
3-Long-term care[3]	.	.	5.7	6.2	2.6	3.0	1.9	1.4
4-Sick pay[3]	.	.	1.9	3.4	-0.5	-0.4	3.6	1.6
5-Other spending for patients[3]	.	.	.	5.9	10.9	6.0	0.0	-2.5
6-Prevention[3]	.	.	2.1	0.8	-1.0	1.7	-0.8	-1.6
7-Spending for the health system[3]	.	.	2.6	1.6	1.1	2.0	-1.3	0.1
Research[3]	.	.	.	-0.5	-0.5	0.1	-0.3	-0.6
8-Management costs of the health system[3]	.	2.4	1.6	2.4	1.6	2.9	0.3	-1.9
Consumption of services and goods (1+2)	.	2.3	3.6	2.8	2.8	2.2	3.1	2.5
Current health expenditures (1+…+8)[1, 3]	.	.	2.7	2.1	1.4	1.3	1.9	0.9
Current health expenditures – OECD definition[3]	.	2.3	2.5	2.1	1.6	1.6	2.0	0.6

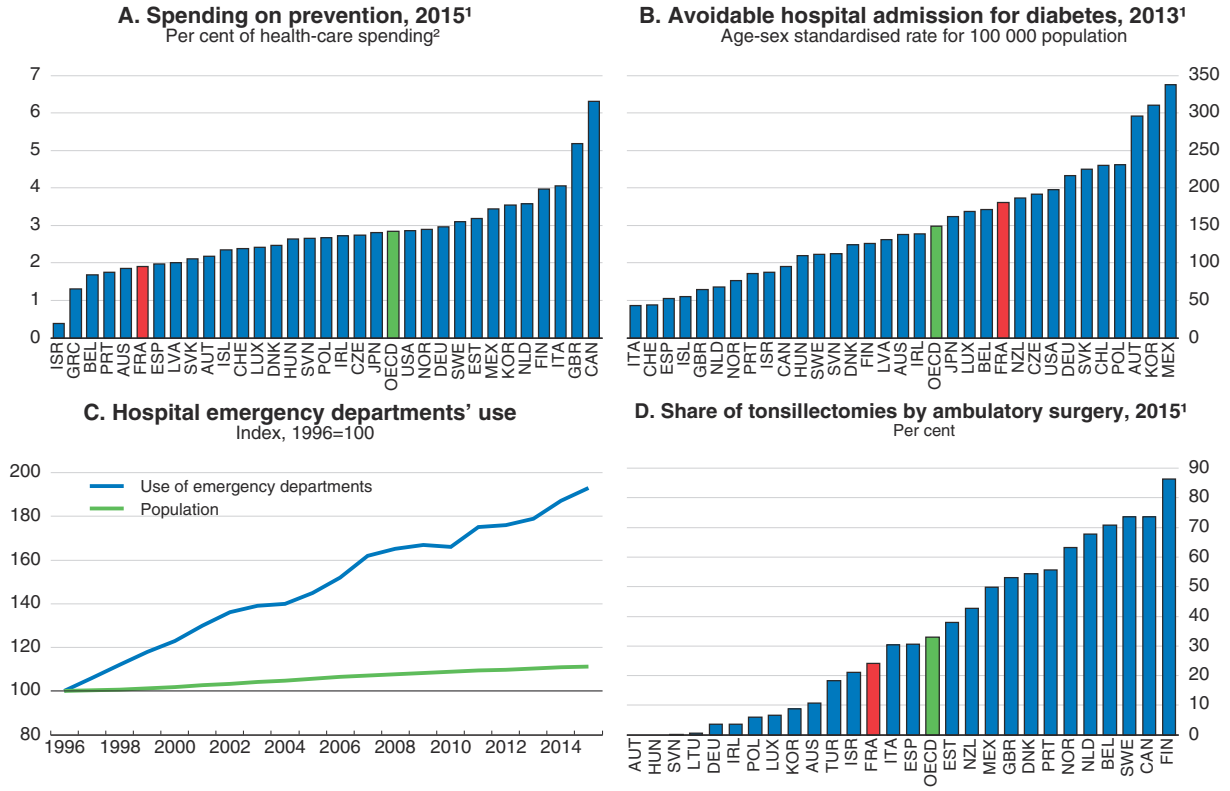
1. Current health expenditures, national definition.
2. Optics, prostheses, orthotics, invalid carriages, and other small equipment.
3. Deflated by the GDP deflator.

Source: OECD calculations based on Comptes nationaux de la santé en bases 2000, 2005 et 2010; Le Garrec, M.-A., M. Koubi and A. Fenina (2013) "60 années de dépenses de santé", *Études et résultats*, No. 831, Drees; *OECD National Accounts Database*; OECD (2017), *OECD Health Statistics Database*.

allowed to carry over their annual savings for their own purposes. For example, the ARS could set funding of medico-social services through bundles of goods and services for a network of providers and develop payments for joint structures to encourage co-operation.

Electronic health information sharing, currently being developed through the shared personal medical file (*dossier médical partagé* or DMP) or through other measures such as encouraging care homes to set up shared IT systems, should be strengthened. The implementation of a paper-free health system and shared electronic health records has

Figure 2.12. **Selected indicators of prevention and co-ordination among health-care providers**



1. Or nearest year.
2. The scope used for institutional spending differs however from global spending on prevention in France, notably for regular consultations, which according to the Drees amounted to 9.3 billion euros in 2014, i.e. 3.9% of health-care spending compared to 2.0% in 2014 according to OECD data

Source: OECD (2017), *OECD Health Statistics Database*; Drees (2017), *Les établissements de santé – édition 2017*; OECD (2015), *Health at a Glance 2015: OECD Indicators*, OECD Publishing, Paris.

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progressed slowly. Hospitals are developing their IT systems (DGOS, 2016), and electronic pharmaceutical records (DP) are widespread in pharmacies, but the implementation of shared DMP designed to promote prevention, quality, continuity and co-ordinated patient care due to take place in 2014 has been delayed, with only 600 000 records by end-2015. More generally, a few years ago France was lagging many European countries in the take-up of personal electronic health records and exchange of information between professionals (European Commission, 2013a), and its overall readiness to adopt e-technologies remains low (OECD, 2017a). A single phone number has been in place to co-ordinate out-of-hours services since 2015, but progress remains partial. The 2016-20 e-health strategy plans to give priority to investment in co-ordination tools across health providers and to the development of integrated IT solutions that would simplify patient procedures and adherence to medical guidelines by health professionals.

Further use of available health data and development of e-records could improve service quality and cut administrative costs. Increased use of performance reporting would incentivise providers to concentrate on aspects of quality that give rise to genuine improvements in patient outcomes. The available administrative data could be better used for additional *ex post* medico-economic evaluations, notably by independent institutions and researchers, or to improve the detection of abuses and fraud. Over the longer term

e-records in primary care could also usefully include information on pathologies and care to improve evaluations, including those regarding practices. Training for public and independent experts would also be needed, notably in using data, as the exploitation of administrative data for evaluation has been limited to date (Cour des comptes, 2016c). Moreover, the national health authority (HAS), which develops medical guidelines, focuses on clinical trials and developing *ex post* evaluations of treatment strategies, and additional data analyses could help adapt its recommendations. Such information can significantly improve physicians' lifelong learning and ensure independence from the pharmaceutical industry; however, HAS budget restrictions have prevented the implementation of the structures necessary for this work.

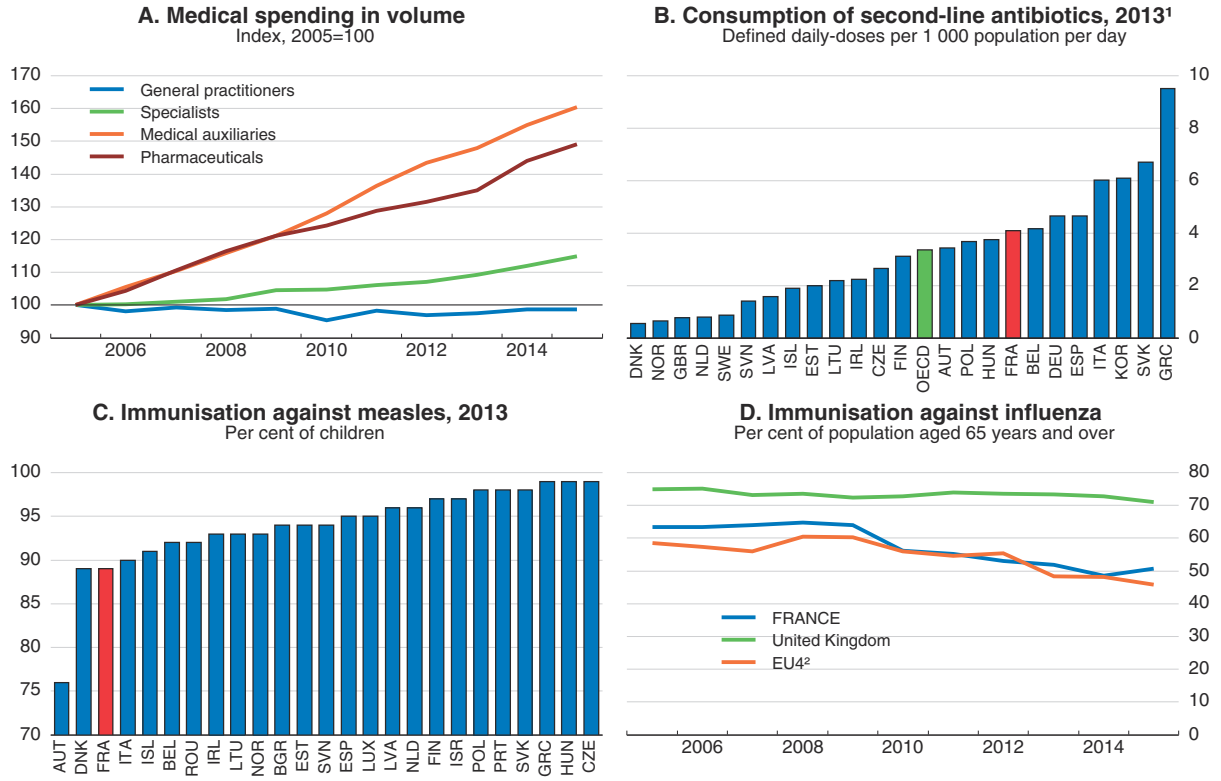
Reforming primary care and hospitals would help address co-ordination failures. For example, hospital emergency departments tend to be used for routine needs, which could be dealt with by a GP. They are perceived as accessible "one-stop shops", while 55% of patients reported out-of-hours access difficulties to GPs in 2011 (Berchet, 2015; Berchet and Nader, 2016). A single phone number has been in place since 2015 to co-ordinate out-of-hours services. Other measures would also help. Developing out-of-hours primary care, for example through new forms of organisation, such as out-of-hours GP services, and continuing to raise the public's and doctors' awareness are crucial. However, incentives for hospitals to limit the use of their emergency departments or downscale them will also be needed, as their emergency fees are determined by past and current use and independent of pathologies treated (Cour des comptes, 2014a). At a minimum, the financial contribution of policyholders should be modulated according to the care received.

The lifelong training of professionals in primary care and hospitals, which also improves work practices, was strengthened in the 2016 Health Law. Since 2009 lifelong training has been mandatory for health professionals (every three years), but there is no significant penalty for non-compliance. Training is organised through a single system for all health professionals. However, the quality of training providers is insufficiently monitored, funding is limited to less than 0.01% of GDP (Drees, 2016b), and take-up could be improved: only a quarter of all medical personnel undertook any training in 2014 (Deumie et al., 2014). Additional joint training throughout their careers would allow better co-ordination among care providers and could help them adapt best practices in terms of care pathways and prescriptions (see below).

Adapting the primary-care network and its payment systems

Fee-for-service (FFS) payments remain the main source of outpatient care providers' incomes, despite an upward trend in the proportion of performance- and capitation-based payments. Together with limited out-of-pocket expenditures and low public trust in some preventive measures, such as vaccines (Larson et al., 2016), this may be reflected in France's very high per capita prescription drug consumption. This may also raise drug prescription and consumption, and primary-care spending (Figure 2.13, Panels A and B), even if the decline in health practitioner density in the face of growing demand for care may limit these impacts (Albouy and Deprez, 2008). FFS payments are unlikely to be appropriate in fostering co-ordinated care for chronic diseases and for patients who require proactive and co-ordinated care with an emphasis on preventive aspects (OECD, 2016c). Moreover, immunisation rates among children against measles are relatively low (Panel C), and immunisation against influenza has declined among older people and remains well below 40% for some risky populations, despite an official target of 75% (Panel D; PLFSS, 2015).

Figure 2.13. **Selected primary-care outcomes**



1. Or nearest available year.
2. EU4 is the average of Denmark, Germany, Italy and Spain.

Source: OECD (2017), *OECD Health Statistics Database*; Drees (2016), *Portrait des professionnels de santé – Edition 2016*; World Health Organisation, Europe (2017), CISID database (*http://data.euro.who.int/CISID*); Drees (2017), *L'état de santé de la population en France – Édition 2017*.

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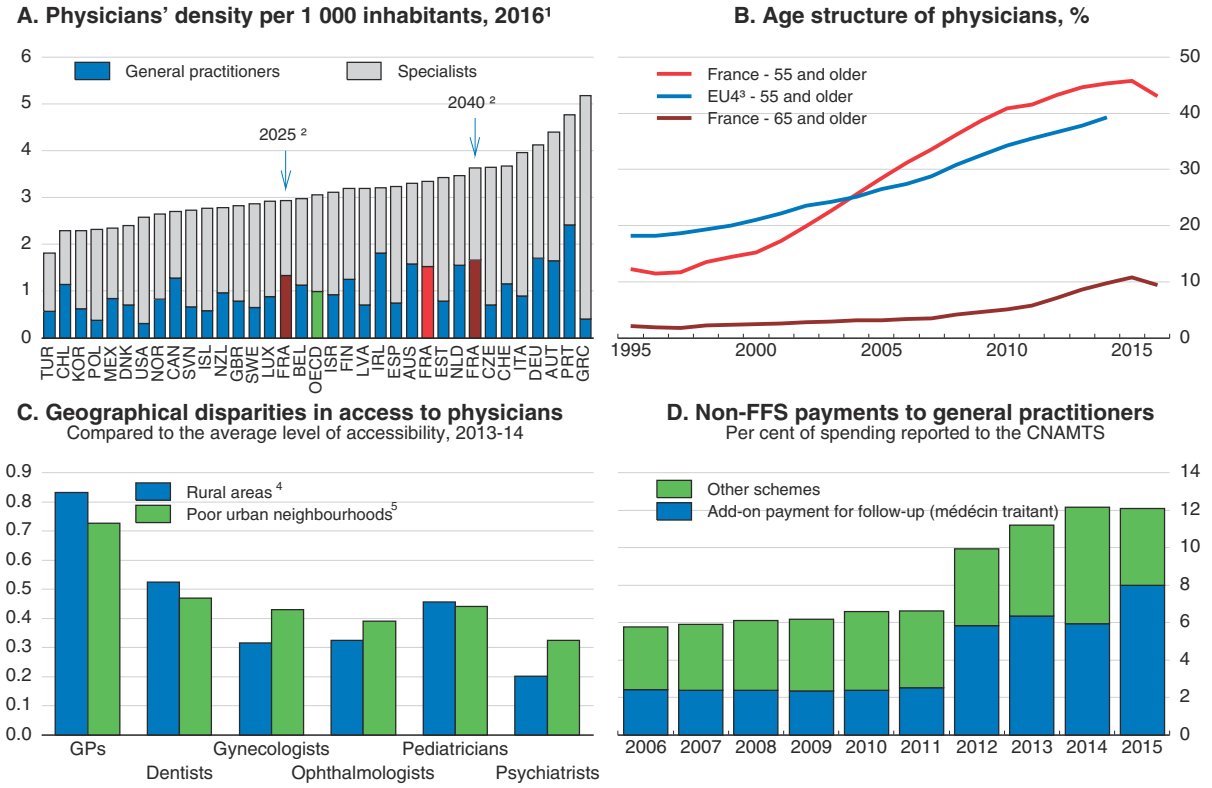
General practitioners (GPs) are often the first point of contact with the health system. The authorities formalised their role as gatekeepers in 2004 by incentivising all patients to register with a treating physician, as recommended by the OECD (OECD, 2000; Imai et al., 2000). Patients face higher cost-sharing for consultations if they do not register with a GP or if they consult a specialist without a referral. In addition, the statutory reimbursement rate for consultations out of the "co-ordinated care pathway" was progressively reduced to 30% by 2009 (except for patients visiting gynaecologists, ophthalmologists and young people receiving psychiatric treatment). Following that reform, direct access to specialists fell rapidly to less than 9% of total specialist consultations in 2014.

There are widespread local disparities in the density of health-care workers, and primary care supply could be better aligned with local needs. The number of GPs per capita is set to decrease temporarily below the current OECD average around 2025, due to their unfavourable age structure and historically tight restrictions on the number of medical students (Figure 2.14, Panels A and B; Drees, 2016b; Bachelet and Anguis, 2017). This may possibly reinforce local shortages (excluding the impact of more GPs continuing to work after retirement or an increased inflow of foreign physicians), as older GPs are predominant in rural areas and poor neighbourhoods where access is already constrained (Panel C).

Figure 2.14. **Density of physicians and payments**



1. Or nearest available year.
2. Projection of Drees (2016), central scenario.
3. EU4 is the average of Denmark, Germany, Italy and Spain.
4. Ratio of accessibility index in rural areas to the index in France. Rural areas are weighted according to their population in 2011.
5. Ratio of density per inhabitant in poor urban neighbourhoods (Quartiers Prioritaires de la Ville) to density in metropolitan France.

Source: OECD (2017), *OECD Health Statistics database*; Drees (2016), *Portrait des professionnels de santé – Edition 2016*; OECD calculations based on ONPV (2016), "L'offre de soins dans les quartiers prioritaires de la politique de la ville, en 2014", *Rapport annuel de l' Observatoire National de la Politique de la Ville 2015;* Vergier, N. (2016) "Accessibilité aux professionnels de santé libéraux: des disparités géographiques variables selon les conditions tarifaires", *Etudes et Résultats*, No. 970, Drees; Brutel, C. and D. Levy (2011), "Le nouveau zonage en aires urbaines de 2010", Insee Première, No. 1374; Drees (2016), *Les dépenses de santé en 2015 – Résultats des comptes de la santé*.

StatLink http://dx.doi.org/10.1787/888933578237

Geographic disparities are especially pronounced for specialists and self-employed paramedics, as many specialists are free to set their tariffs and tend to practice in wealthier urban areas where people can afford these additional payments (Vergier, 2016; ONPV, 2016). Indeed, households in poor neighbourhoods were only half as likely as the general population to have complementary insurance in 2012 (ONZUS, 2015), despite the CMU-C and ACS schemes, and this could have effectively limited their ability to afford extra billing (which moreover is forbidden for this category of patient). In addition, the CMU-C and ACS schemes limit physicians' tariffs and exempt households from co-payments, and the outcomes of several discrimination tests indicate that households covered by CMU universal health coverage are frequently refused medical appointments, in particular by specialists who extra-bill (Baudis, 2014; Desprès et al., 2009).

The authorities have increased significantly the number of training places in general medicine and created additional incentives to encourage practicing in underserved areas. France, like other OECD countries, does not limit physicians' choice of location but provides incentives to locate in some areas (Ono et al., 2014). Since 2010 medical students may receive

monthly subsidies (CESP) if they commit to practice for at least two years in underserved areas. As well, the authorities introduced a guaranteed annual income for recently qualified GPs in the first two years after the establishment of their practice in rural and underserved regions in 2012. The 2016 medical agreement added to these measures, for example by introducing an installation contract to help GPs set themselves up in practice. Moreover, each medical student has to spend at least one of his/her six semesters of training in a GP's practice as from 2017.

These are steps in the right direction. However, CESP subsidies were given to only 236 students, including 172 in general medicine, out of 7 700 new students in 2016 (Anguis, 2017), and demographic forecasting and training capacity planning are mostly done at the national level using quotas covering the number of students admitted to medicine, pharmacy, dentistry and midwifery (and physiotherapy in part), and other health-related education programmes such as nursing and speech therapy (*numerus clausus*). In the French context education and training are provided through public universities and professionals have freedom of location choice. The centralised definition of regional *numerus clausus* for physicians and the national exams which enable the attribution of a speciality and a medical school to each student are co-ordinated with regional post openings (*internats*) to take local needs better into account. In fact universities partly determine the locations of the first internships for GPs (ONDP, 2014; Golfouse and Pheng, 2015). Regional *numerus clausus* should be linked more tightly to the teaching capacity of regional universities and foreseen needs, while initial education should include more joint training and practices among future GPs, specialists, nurses and pharmacists to improve co-ordination over the medium term. These could be supplemented by higher capitation-based payments in less served areas, which could compensate for their lower potential for extra billing and inequalities in population health and working conditions.

Sector 1 physicians contracted to the health system are paid through regulated fees, while others, sector 2 physicians, can practise extra billing. Those with little recourse to extra billing can enter into a contract with the statutory insurance system in order to obtain extra, performance-based payment. The ongoing development of pay-for-performance (P4P) payments can create some incentives for efficiency gains and more targeted treatment, but they are a small share of the incomes of self-employed GPs (Figure 2.14, Panel D). The Ministry of Health plans additional supplementary incentives to improve health-care access, limit extra billing, and foster the uptake of IT systems in practices, but P4P schemes could also be expanded further. Bundled payments could also be developed for nurses, midwives and physiotherapists, as outpatient prescriptions and spending for these care activities have increased rapidly, driven largely by hospital prescriptions (Figure 2.13, Panel A). Indeed, such prescriptions are less restrained than for other medical expenditures. Developing specific bundled (lump-sum) payments per patient for following up chronic diseases or for long-term services would help.

Curtailing extra billing, notably for specialists, would also generate savings and improve access for all income groups. This could partly affect the supply of new specialists, and care will be needed in the adjustment. Around 45% of specialists are allowed to extra-bill patients, except CMU-C and ACS recipients. Extra billing has increased rapidly to 18% of the remuneration of all specialists in 2015 (worth 0.1% of GDP), while add-on and P4P payments still represent less than 1% (Drees, 2016c). The authorities offered voluntary contracts to some specialists guaranteeing, in particular, partial coverage of their social contributions if they limited extra billing, but they have had a modest take-up. Since 2015

complementary insurance schemes have to cap their reimbursements of extra billing to 125% (100% in 2017) of the regulated tariffs in order to benefit from some tax breaks. However, the number of specialists' consultations has also risen relatively fast (Figure 2.13, Panel A), and extra billing is concentrated on specific forms of care and geographical areas, generating inequalities. Introducing an adjustable price system for overall tariffs and extra payments for all providers with a capped budget, as in Germany, could be more effective at curbing expenditure growth and induced demand (Bozio and Dormont, 2016); alternatively, the rate of extra billing per act could be capped.

Organisational innovations would help address shortages and improve co-ordination among providers. French GPs spend a large amount of time on non-medical tasks (Jakoubovitch et al., 2012). Though most physicians and nearly 40% of nurses work in group practices (Drees, 2016b), the development of structures for out-of-hours consultations with local non-hospital doctors and other health professionals could offer better geographic coverage, around-the-clock availability and continuity in the course of treatment. A system of Maisons de santé pluridisciplinaires (MSPs) was introduced in 2007 and strengthened by the 2016 Health Law. They allow physicians and other health professionals to operate group practices while remaining self-employed. MSPs and health centres appear to have led to better working conditions and greater accessibility for patients and some efficiency gains (Mousquès and Daniel, 2015a and b).

However, there is room for the further development of joint professional services firms (HCAAM, 2014). Additional public payments encourage the development of MSPs. In addition, the composition of health professionals as well as financial investment in MSPs and common GPs' practices are restricted by different legal constraints and ownership criteria (OECD, 2016b and c). Uncertainty about the remuneration of joint services and global payments has also been a barrier, and the April 2017 inter-professional agreement could ease collaboration among professionals. However, further simplification of administrative structures and requirements could also help (FFMPS, 2017), as well as lowering restrictions from self-regulations (see below) and increasing the sharing of responsibilities among doctors, nurses and other professionals. The government intends to facilitate the financing of joint professional services teams in 2018, and to double the number of MSPs by 2022.

Developing new health-care professional missions for nurses and pharmacists and e-health solutions would increase efficiency. Current legislation defines in specific terms what each health professional can and cannot do (Delamaire and Lafortune, 2010), and financial incentives to develop new provider missions are low. For example, nurses' medical activities remain circumscribed, despite the co-operation protocols authorised by the 2009 law (Loi hôpital, patients, santé, territoires). In addition, the 2016 self-regulation (*code de déontologie*) has further constrained competition and the size of medical practices (Autorité de la concurrence, 2016a). Though the 2016 Health Law expanded midwives' roles somewhat, a more general definition of the scope of activities of different professions, for instance in terms of general "missions" rather than specific tasks/acts, would provide greater flexibility. For example, private-hire vehicles could be allowed to transport autonomous patients and complement the services of taxi drivers, and optometrists could be authorised to prescribe some medical goods, such as glasses (IGF, 2013).

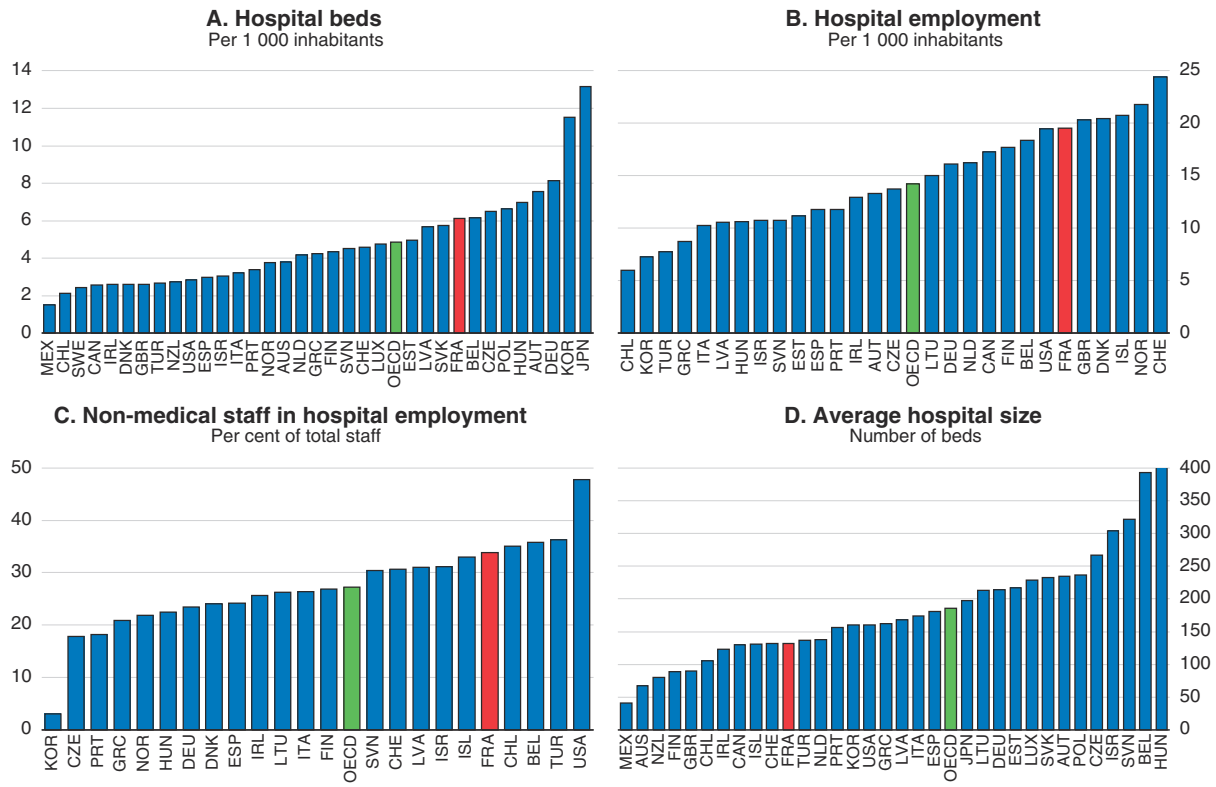
The development of telemedicine to remotely connect patients and doctors when needed could also hold potential for savings, better follow-up of chronic diseases and increasing monitoring of treatments (Compagnon and Lopez, 2015). Coverage of telemedicine by the

statutory health insurance will be implemented in 2018. Similarly, on-line sales of over-the-counter drugs remain particularly restricted (on health grounds), as is investment in pharmacies, despite a partial easing of the regulations in 2016 (Autorité de la concurrence, 2016b).

Modernising hospital management and services

Reducing hospital costs could generate important savings. Hospital expenditures have risen steadily to 40% of current health spending (4.4% of GDP) in 2014 (OECD, 2016d). The number of hospital beds per inhabitant is relatively high, their occupancy rate is only average, and hospital employment is above the OECD average, notably among administrative and support staff (Figure 2.15, Panels A to C). France's hospital facilities comprise public institutions, private non-profit hospitals and for-profit institutions. Their average size is relatively small (Panel D), and the number of small hospitals is high, despite their relatively lower efficiency and fewer innovative practices (Gobillon and Milcent, 2013 and 2016). According to OECD evidence, the average costs of some surgical acts are 23% higher than in other European countries (Koechlin et al., 2014).

Figure 2.15. **The hospital sector, 2015**[1]



1. Or nearest available year.
Source: OECD (2017), *OECD Health Statistics Database*.

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The introduction of an activity-based payment system (*tarification à l'activité*, T2A) has led to some improvements. As in many other OECD countries (OECD, 2016c) and in line with OECD recommendations (OECD, 2000), a diagnosis-related group (DRG) payment scheme was phased in during 2004-08, replacing the previous system of global grants and daily allowances. It is complemented by volume-based payments, such as fees for

emergency services or the use of innovative treatments, and add-on payments, such as investments for teaching, research and innovation, the maintenance of emergency units, prevention and treating risky and low-income patients. Using DRGs has led to lower cost variability across hospitals (Milcent, 2016a) and to an increase in the surgical activity of those public hospitals that are exposed to private-sector competition (Choné et al., 2014).

Box 2.3. **Hospital payments and the diagnosis-related group (DRG) system**

French acute-care hospitals, excluding psychiatric hospitals, are financed by a diagnosis-related group (DRG)-based payment system, which allocates funding according to the number of stays, patient pathologies and tariffs. The main statutory insurance scheme assigns each stay to a DRG. Hospitals then receive a sum that depends on the number of their patients in each DRG group and the associated tariffs.

The Ministry of Health sets DRG tariffs that reflect the average costs of treatment of a DRG group in a sample of hospitals and the annual global budgetary ceiling for hospitals (Box 2.2) and some incentives. Tariffs correspond to the relative average costs of treatments in each DRG group rescaled to ensure that the annual global budgetary ceiling is met. They also aim to encourage some activities such as ambulatory surgery. Therefore, tariffs may not reflect changes in average hospital costs. In addition, lower tariffs are applied to days of care above and below standard duration thresholds within each DRG group. Tariffs also vary between public and non-profit and private hospitals, where physicians' fees are paid separately.

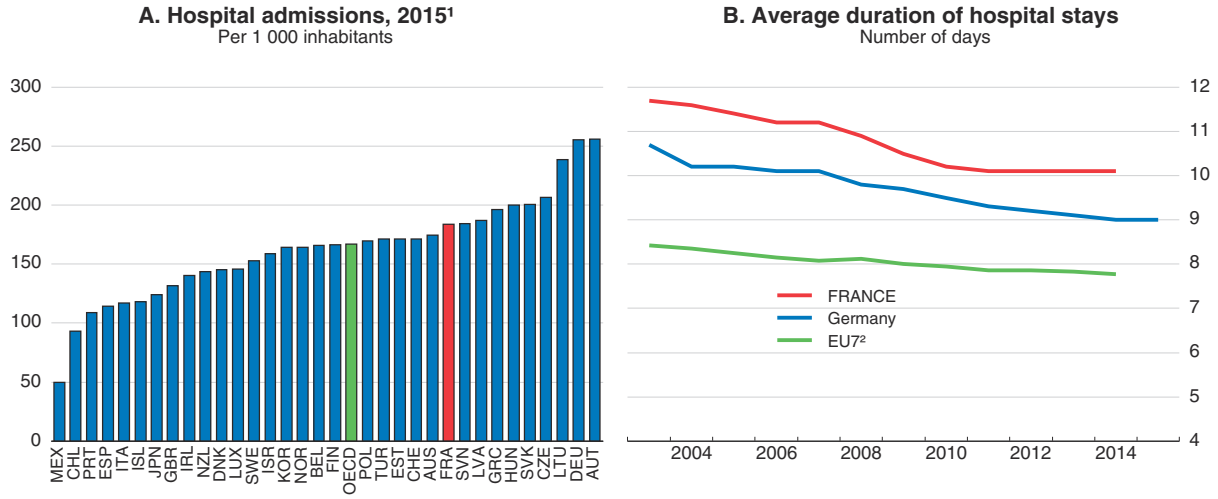
The DRG scheme has been reformed many times since its introduction in 2004. In particular, the number of DRG groups increased from 700 in 2004 to about 2 300 in 2009, and duration thresholds have been regularly adjusted. For example, since 2010, some short stays are paid using a fixed fee and a daily tariff.

Payments differ from one hospital to another. DRG rates differ between public and private hospitals, and do not account for the payment of health-care professionals in private hospitals, which prevents any rate convergence. Moreover, public hospitals have some leeway to adjust the amounts charged to complementary insurance plans and households, such as the per-diem tariffs (*tarifs journaliers de prestation*). Such differences blur the incentives of public payments and do not ensure equal treatment for patients. It would be preferable to increase the add-on payments for difficult cases to progressively eliminate these disparities, as DRG payments could allow only a partial reduction of the heterogeneity of patients across establishments (Milcent, 2016a; Véran, 2016).

DRG payments that are based on average costs may increase efforts to select patients, specialise in more profitable procedures and reduce concerns about quality within DRG groups. They may also give incentives to optimise the reporting of activity and overstate the difficulties of each patient. In France, DRG groups capture less than half of patients' heterogeneity (Milcent, 2016b), and up-coding (i.e. deliberately overstating the case-mix) appears significant, as in the United States (Milcent, 2016a and 2016b; Dafny, 2005). Moreover, as in primary care, the payment structure provides little incentive for prevention and co-ordination between care providers. Indeed, the number of hospital admissions is high, and the duration of stays remains relatively long (Figure 2.16).

Since 2012 the authorities have taken additional steps to reform hospital payments and reduce the negative incentives of DRG payments. Adjustments for care quality have been

Figure 2.16. **Hospital use**



1. Or nearest available year.
2. EU7 is the average of Austria, Belgium, Denmark, Germany, Italy, Portugal and Spain.
Source: OECD (2017), *OECD Health Statistics Database*.

StatLink http://dx.doi.org/10.1787/888933578275

piloted and scaled up, though their amount remains below 0.5% of the participating hospitals' medical spending. In 2017 grants for acute-care equipment increased to better take into account fixed maintenance costs. In addition, the authorities plan to develop bundled payments for acute care and rehabilitative services to improve pathways for patients with chronic illnesses. At the same time, the 2016 law guaranteed the financing of small local hospitals (*hôpitaux de proximité*), which have been receiving grants since 2014, while focusing their missions on primary care and patient follow-up. These reforms may lead to a more flexible payment system, but they will require the ARS to closely monitor hospitals' efficiency gains to guarantee the effectiveness of incentives to raise productivity and avoid hindering the reorganisation of hospital services, as payments are becoming more and more variable across hospitals.

Managing public hospitals is difficult. Their debt was around 1.4 % of GDP in 2015 following massive investment programmes with varying returns at the beginning of the 2000s (Cour des comptes, 2014b), and the sector often remains in deficit, partly due to high debt service (Drees, 2016d). The wage bill amounts to 60% of public hospital spending and could be used for spending adjustments, but managers have little impact on hiring decisions, careers and wages of public servants and doctors. Proxies for the quality of human-resource management appear weak in international comparison (Bloom et al., 2014). For example, France's 35-hour workweek, the announced general increases in civil servant base wages and the taking into account of bonuses in pension rights in 2016 raised spending and long-term liabilities. At the same time, rewards to doctors or nurses taking additional management or medical responsibilities are tightly constrained, and medical personnel have limited accountability for the spending effects of their prescriptions either within hospitals or in outpatient care (Cour des comptes, 2016d).

Strengthening human resources management would improve patient care and working conditions. Staff management rigidity, mainly in terms of physicians' pay, has led in particular to a rise in the costly recourse to temporary contracts with independent health

practitioners (Véran, 2013), potentially worsening patient outcomes (Bartel et al., 2014) and working conditions (Coutrot and Davie, 2014). In addition, university hospital governance is complicated by the different affiliations of their staff to universities, other hospitals and research centres and the lack of co-ordination among them. For example, doctors can cumulate teaching, care and research responsibilities with different public bodies.

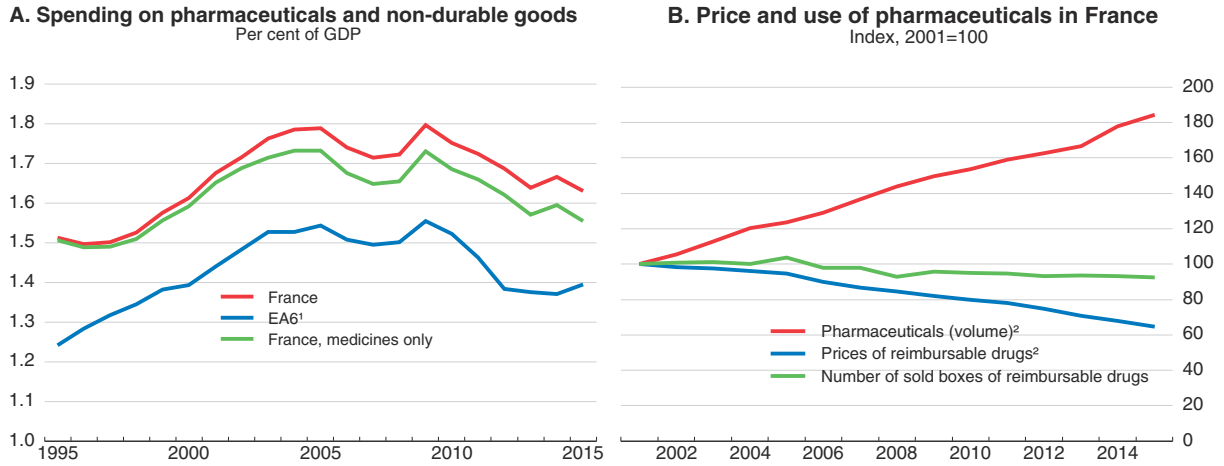
Strengthening the autonomy of public hospital managers and improving co-ordination among establishments could ensure more equal access to hospital care. Public managers have little autonomy regarding investment decisions, which may be an obstacle to an effective implementation of the DRG payment system, as this hinders the restructuring of public hospitals and the potential to realise efficiency gains (Bruant-Bisson et al., 2012). Local political interventions in the management of public hospitals have also led to overstaffing and inefficiencies, notably in high unemployment areas (Clark and Milcent, 2011 and 2015). It might seem desirable for local politicians not to have the right to manage hospitals' supervisory boards or intervene in the nomination of their directors. At the same time, the creation of local hospital clusters encourages co-ordination among hospitals, with a view to limiting geographical disparities in access to innovative services (Drees, 2016d).

The 2016 Health Law seeks increased synergies among public hospitals. Local hospital clusters (GHT) should allow the creation of joint medical services, notably for public procurement, and some efficiency gains. In addition, the generalisation of the 2016 financial incentive scheme for quality improvements to hospitals in the medical, surgery or obstetrics services sector (*médecine-chirurgie-obstétrique*), which was extended in 2017 to follow-up care and rehabilitation units, is welcome: it rewards hospitals for their excellence (outcomes obtained) and their efforts (developments observed) according to national indicators of quality and safety of care (for example, those relating to health-care associated infections, specific care services provided, satisfaction of hospitalised patients), indicators from the national "digital hospital" programme (for example, those relating to digital patient records, e-prescriptions) and HAS certification of health-care establishments. The maximum top-up is worth 0.6% of their activities (capped at 500 000 euros a year). However, much will depend on implementation, and stimulating effective co-operation will require DRG payments and the recent specific small-hospital payment scheme to be modified. Additional independent econometric research using hospital-level data would also help identify best practices and potential efficiency gains.

Containing pharmaceutical spending

The growth of outpatient pharmaceutical spending as a share of GDP has been successfully restrained since the mid-2000s, but its level remains significantly higher than in other euro area countries (Figure 2.17, Panel A). The increased use of generics and the end of patents on some widely used drugs contributed to the drop in pharmaceutical spending until 2014, which was also helped by holding down the regulated prices and sales of reimbursable products. However, the financing of expensive treatments has not prevented the sustained increase in volume of use (Panel B). Over the longer term the rise in chronic diseases and the arrival on the market of innovative but costly new drugs will put additional pressures on pharmaceutical spending (OECD, 2015b). Moreover, the volume of use of drugs poses significant health issues for older people (Jardin et al., 2012). Strengthening the use of medico-economic drug evaluations, increasing the share of generics and further reducing the volume of prescriptions could allow additional savings, improve health outcomes, lower medical waste and maintain incentives for pharmaceutical innovation.

Figure 2.17. **Pharmaceutical consumption and prices**



1. EA6 is the average of Austria, Germany, Italy, the Netherlands, Portugal and Spain.
2. At constant quality, excluding new drugs and innovations. The retail price indices (national definition) include reimbursements by the statutory insurance schemes.

Source: OECD (2017), *OECD Health Statistics database*. Drees (2016), *Les dépenses de santé en 2015 – Résultats des comptes de la santé*; Comité économique des produits de santé (2015), *Rapport d'activité du CEPS 2015*.

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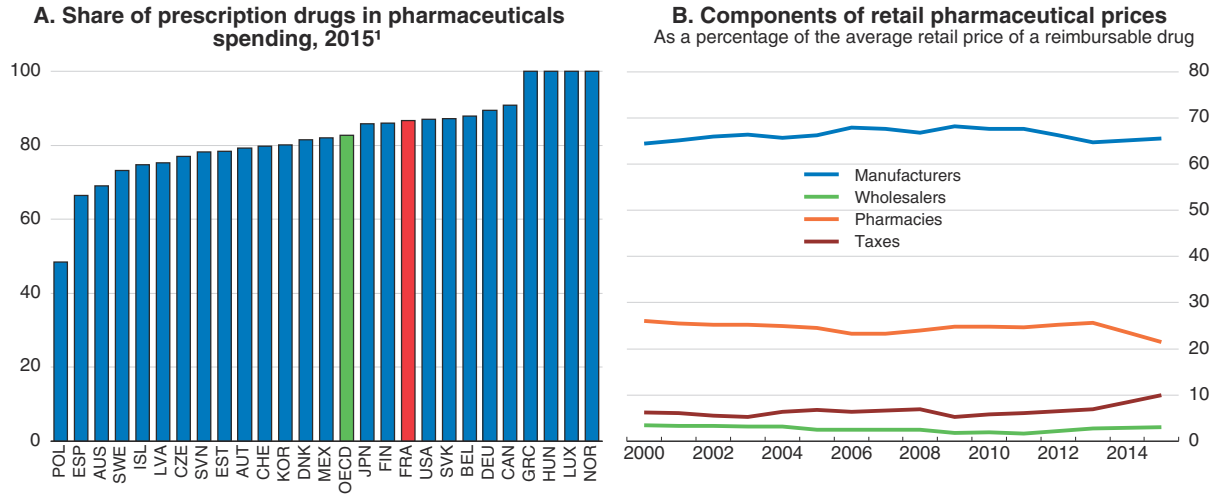
Regulated prices, margins, specific taxes and reimbursement rates influence the consumption of most pharmaceuticals. Households can purchase some reimbursable drugs without a prescription, but the statutory insurance does not cover such spending or the costs of non-reimbursable drugs. Prescription drugs and reimbursable drugs hold more than 87% and 90% of the retail market, respectively (in value) (Figure 2.18, Panel A; Drees, 2016c). Nine specific taxes are levied on pharmaceutical companies, of which three aim at reducing excessive consumption (Baulinet et al., 2012). In particular, as in Belgium and Italy, specific volume clauses are automatically imposed on pharmaceutical firms to offset budget overruns on some drugs. They were increased in 2015 and 2017 and limit the share of retail sales proceeds going to manufacturers (Panel B), but they do not directly tackle excessive prescriptions in outpatient care. Specific taxes are also levied on wholesalers and pharmacists. By contrast, reduced value-added tax rates on pharmaceuticals encourage consumption. Reduced rates on drugs should be phased out.

French statutory reimbursement rates, and the retail prices of reimbursable pharmaceuticals are linked to their medical efficiency. More specifically, the reimbursement rate depends on the effectiveness of the drug and the severity of the illness, and the price of the drug depends on its relative effectiveness compared to other products already on the market. The Health Ministry authorises the reimbursement of drugs based on the advice of the National Health Authority (HAS). The HAS uses both the estimates of mandatory cost-effectiveness tests and its assessment of medical improvements to make its recommendations. Before the final reimbursement decision, the CEPS (Comité économique des produits de santé) negotiates prices based in particular on the HAS evaluation. The CEPS also takes into account the market situation (target population size and data available regarding the international market). Moreover, the association of statutory insurance plans (UNCAM) sets reimbursement rates using the HAS evaluation, which takes account of the severity of the cured conditions. The regulatory framework includes mandatory drug re-evaluation by the HAS every five years, which can in some cases lead to the termination of reimbursement. At

Figure 2.18. **Retail sales of pharmaceuticals**



1. Or nearest available year.

Source: OECD (2017), *OECD Health Statistics database*; Ecosante.fr; and LEEM (2013 to 2016), *Les Entreprises du médicament en France*.

StatLink http://dx.doi.org/10.1787/888933578313

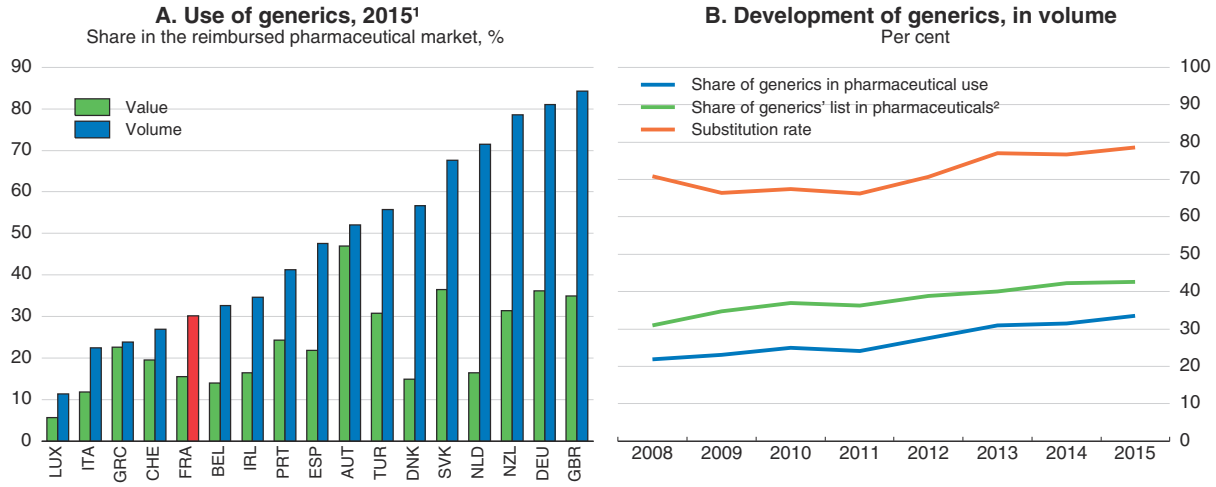
the same time, frequent re-evaluation of the effects of most individual drugs and their alternatives helps improve the setting of reimbursements.

Strengthening the link between drug evaluations and their reimbursement and retail prices would limit inefficient uses. The statutory reimbursement rates could be more tightly linked to the outcomes of the cost-effectiveness tests. Low-effectiveness drugs have an average reimbursement rate of 38%, well above the recommended reimbursement rate of 15% (Polton, 2015). In addition, homeopathic items benefit from a 30% reimbursement rate, despite weak evidence of their effectiveness (OECD, 2011b). Moreover, some innovative costly drugs that are sold through hospitals (*liste en sus*) are not automatically re-evaluated.

Developing the use of generics would cut costs further (Figure 2.19, Panel A). The French authorities have defined the drugs for which generics may substitute based on the generic drugs directory, which is more restrictive than in other countries as clusters are based on products with the same active ingredient, the same dosage and the same method of administration, rather than the active ingredient alone for example (Caby and Zafar, 2017). Generics are available only if they are registered in the directory (the share of authorised generics classes among prescribed drugs reached only 43% in volume terms in 2015), while other OECD countries – such as Germany – have allowed a broader use of generics by defining different clusters not only for products having the same active ingredients but also for products that have comparable therapeutic effects. As a result, the overall share of generics in pharmaceutical use in France remained around one third in 2015, despite a substitution rate close to 80% within authorised classes of drugs (Panel B). Adopting a broader list of drugs for which generics may substitute and, more generally, allowing greater use of generics, would be helpful (Cour des comptes, 2014c). Indeed, the authorities plan a limited expansion of the list of drugs that generics may substitute (ministère des Affaires sociales, de la Santé et des Droits des femmes, 2015).

As in many OECD countries, the French authorities tend to regulate the price of generics at market entry by reference to the price of the patented product and fixed discount rates. Tendering for new generics could allow more downward price pressure to

Figure 2.19. **Consumption of generics**



1. Or latest available year. Share in the reimbursed pharmaceutical market.
2. Share of sold pharmaceuticals that are associated with a potential generic substitute.

Source: OECD (2017), OECD *Health Statistics database*; Comité économique des produits de santé (2015 and 2016), *Rapport d'Activité du CEPS 2014/2015* and *Rapport d'Activité du CEPS 2015*.

StatLink http://dx.doi.org/10.1787/888933578332

be exerted. Generics manufacturers would bid on the price of a given pharmaceutical, and pharmacies would have no choice but to stock the product of the winning manufacturer. These competitive processes have been used in New Zealand, the Netherlands and Germany with some success.

Increasing the share of generics would require further reforms in primary care. Pharmacists have been the main force for the promotion of generics since 1999 (Autorité de la concurrence, 2013). They are free to propose generic substitutions that are in the authorised list, and regulations ensure them the same margins (in absolute value) for generics and their alternatives, despite the lower retail prices. In addition, they may charge back significant resale costs to wholesalers that cannot exceed 40% of sales prices for generics compared to 2.5% for other pharmaceuticals. This creates risks of collusion between pharmacists and wholesalers and price-fixing agreements (DGCCRF, 2016). The CNAMTS has also paid bonuses to pharmacists for high shares of generics use on some pharmaceuticals since 2012 in the form of add-on payments. As a result, the incentive mechanisms for generics are costly (Cour des comptes, 2014c).

Reforming pharmacists' payments would be beneficial to the development of generics and encourage quality improvements in their services. Re-balancing part of the current support for generics towards more payments to pharmacists for care-services such as counselling, co-ordination between care providers, patient monitoring and coaching, would reduce the dependence of their income on pharmaceutical sales and would reward their counselling function. This could be associated with further expansion of their public health-care missions, notably for following up patients with chronic diseases, as foreseen in a 2009 law (Loi hôpital, patients, santé, territoires), which remains to be fully applied.

Strengthening GPs' incentives to prescribe generics would also help. The CNAMTS introduced such incentives through their pay-for-performance scheme in 2009 and enhanced them somewhat in 2012. However, information on generics and less costly pharmaceutical alternatives should be developed further, notably by targeting providers

through promoting planned clinical guidelines (ministère des Affaires sociales, de la Santé et des Droits des femmes, 2015). In addition, developing prescriptions using International Non-proprietary Names (INNs), which were rare in 2013 (Cour des comptes, 2014c) but became mandatory in 2015, is also expected to ease generics use (Belloni et al., 2016).

A reform aimed at creating greater incentives for patients to use generics and biosimilars could lower pharmaceutical spending. Since 2003 capped reimbursement amounts (TFR or *tarif forfaitaire de responsabilité*) apply to all pharmaceuticals in the equivalence group of generics that do not achieve a substitution rate of over 80% after 30 years in the generics' market: patients have to pay the difference between the TFR (near the cheapest generic price) and the price of non-generic or more costly generic alternatives. In practice, laboratories align their prices with the TFR so that there is no surcharge for patients (Caby and Zafar, 2017). In addition, since 2010 patients have had to pay in advance for their drugs and get reimbursed later when they refuse a generic substitution. These are steps in the right direction. However, TFR was applied only to 16% of generics in 2015 (Drees, 2016c). They should be applied much more widely.

More generally, stepping up information provision and targeting incentives for care providers could lower potentially inappropriate prescribing and excessive antibiotic use. France's prescription rate is one of the targets of add-on payments to physicians who can compare themselves to regional averages (CNAMTS, 2016b). Moreover, the 2016 antibiotics strategy aimed at reducing resistance to antibiotics foresees additional information campaigns, training of health-care professionals and higher spending on research and monitoring (CIS, 2016). However, this feedback to physicians and information campaigns could be better focused, as practitioners and patients are broadly targeted. Indeed, in the case of the United Kingdom, feedback practices focusing on physicians with the highest prescribing rates for antibiotics were effective in reducing their use, while patient-focused information campaigns had limited effects (OECD, 2017b).

Beyond primary care, significant efforts have to be made to improve the use of pharmaceuticals in hospitals. Hospitals represent around a quarter of overall pharmaceutical sales in France, and the share of generics use there was only 2.3% in value in 2013 (ANSM, 2014). This low share is partly explained by different patient pathologies and hospitals' heavier and more innovative treatments (OECD, 2015b), but producers also often sell branded drugs at discounted prices to gain a wider market (Dahan, 2016). Indeed, hospital prescriptions tend to have broader implications as patients tend to have similar treatments after their stay (Cubaynes et al., 2011). The authorities' plans to increase co-ordination of prescriptions between hospital and outpatient care and to better integrate spillovers to outpatient care in hospital procurement decisions are welcome (ministère des Affaires sociales, de la Santé et des Droits des femmes, 2015).

Strengthening the independence of care providers from the pharmaceutical industry would also help. Declarations of conflict of interests are insufficiently monitored and updated, and the funding of research activities, lifelong training and other relationships by industrial firms should be clearly identified (Cour des comptes, 2016e). For example, the group of Parisian hospitals (AP-HP) created an independent agency to fund its joint research activities with industry, and this initiative could be generalised. The ongoing development of joint public hospital procurement is likely to limit potential conflicts of interest for hospital doctors and other providers and institutions, but there should be greater recognition of expertise in medical products and public procurement in medical researchers' careers and compensation.

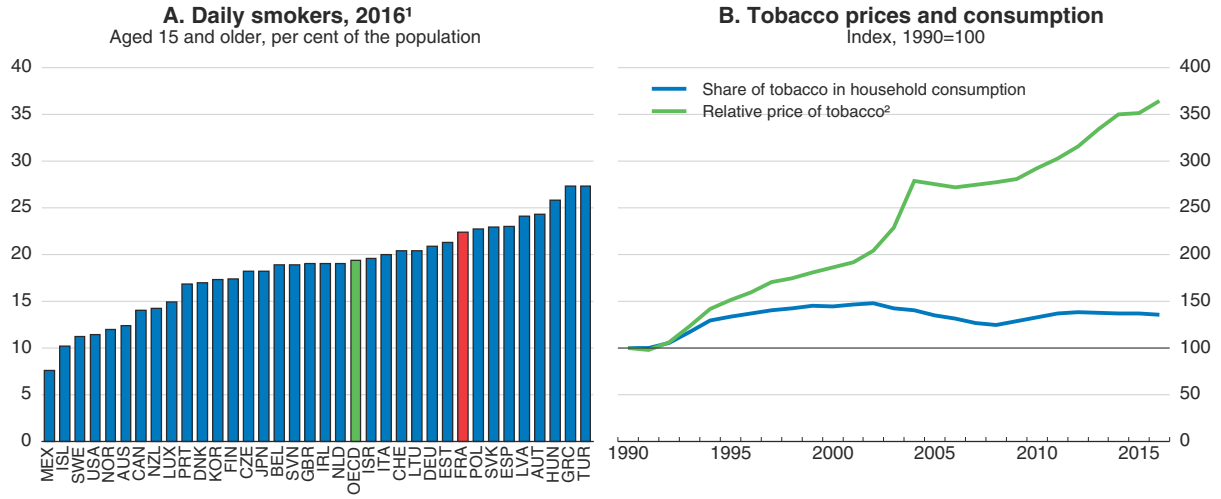
Investing in prevention and adopting healthier lifestyles

France suffers from a high rate of premature male deaths from accidents and of unhealthy habits such as smoking and harmful alcohol consumption, which are the most common causes of avoidable mortality. Tackling excessive drinking and tobacco consumption would also improve health outcomes and allow significant long-term savings on health expenditures and could help reduce social disparities. Indeed, alcohol and tobacco use and obesity are more frequent among the lowest-income households. Nevertheless, new methods specifically targeted at this population are required, given that they are the most difficult to reach through traditional prevention campaigns. However, addressing long-term unemployment and social mobility issues are also key determinants of longer-term health outcomes (Persson and Rossin-Slater, 2016). At the same time, improving environmental outcomes and reducing occupational risks would have significant benefits.

Improving prevention and addressing risky behaviour

The prevention of tobacco and alcohol addiction, as well as the prevention of obesity in young people, are among the commitments that are agreed between physicians' associations and health insurers. The percentage of the population that smokes daily in France remains well above the OECD average, notably for women (Figure 2.20, Panel A). Daily smoking remains widespread among youth (Spilka et al., 2015), and tobacco consumption causes some 78 000 deaths per year (Ribassin-Majed and Hill, 2015). The authorities have elaborated several plans to confront this problem, in particular by regularly raising tobacco taxes (Panel B); the new government intends to pursue this measure by gradually raising the price of a packet of cigarettes to 10 euros. In addition, the 2014 national programme and the 2016 Health Law stepped up information campaigns and prevention, notably for youth, enforced public smoking bans, and made plain packaging mandatory. However, these measures could be usefully complemented by taking into account the follow-up of tobacco-dependent patients in GPs' remuneration and developing e-coaching strategies (CNAMTS, 2016a).

Figure 2.20. **Tobacco consumption**



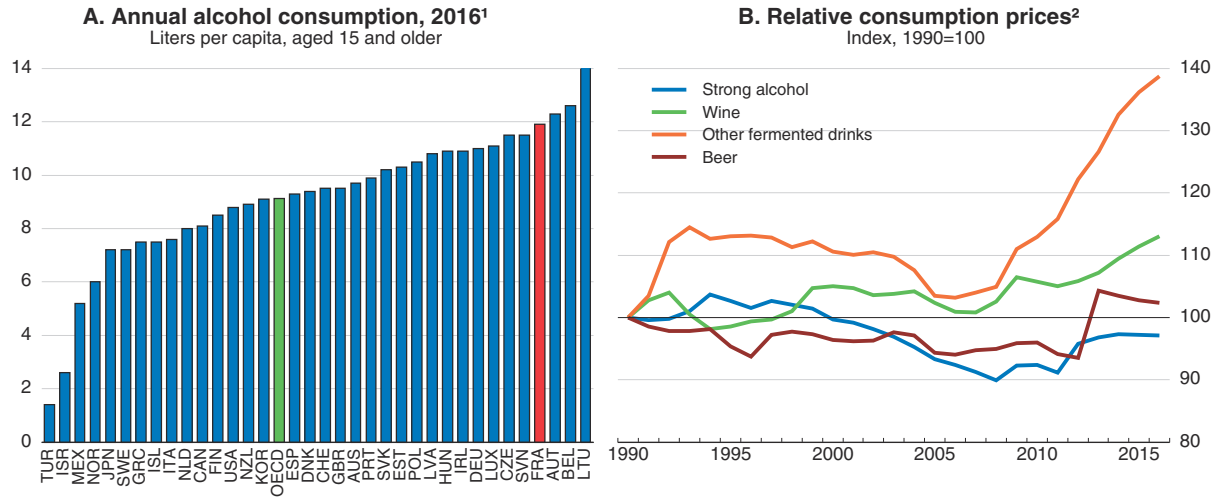
1. Or latest available year.
2. Changes relative to the overall Consumer Price Index (CPI).

Source: OECD (2017), *OECD Health Statistics Database*; INSEE (2017), Macroeconomic database.

StatLink http://dx.doi.org/10.1787/888933578351

Alcohol consumption has declined over the past 30 years in France but remains among the highest in the OECD (Figure 2.21, Panel A). It causes about 49 000 deaths per year in France (Guérin et al., 2013) and involves a large number of avoidable hospital admissions (Paille and Reynaud, 2015) and heavy external costs imposed by drinkers on others, such as traffic fatalities and higher domestic violence. The government has adopted a wide range of measures to restrict the promotion of alcoholic beverages and on- and off-premise sales of alcoholic beverages (e.g. to minors and in petrol stations). However, compared to other OECD countries, France maintains lower levels of tax on alcohol, particularly on wine (OECD, 2015c). It is also noteworthy that taxation has been independent of the degree of alcohol since 1990 (Panel B). Beyond higher taxation, more effective bans on alcohol advertising could decrease total alcohol consumption, with likely larger effects for heavy drinkers (OECD, 2015c). Banning advertisements on digital media, strengthening prevention and monitoring of vulnerable populations, beefing up sanctions against illegal sales and developing technologies preventing drunk driving would significantly lower the social costs of alcohol consumption (Cour des comptes, 2016f).

Figure 2.21. **Alcohol consumption and prices**



1. Or latest available year.
2. Changes relative to the overall Consumer Price Index (CPI).

Source: OECD (2017), *OECD Health Statistics Database*; INSEE (2017), Macro-economic database.

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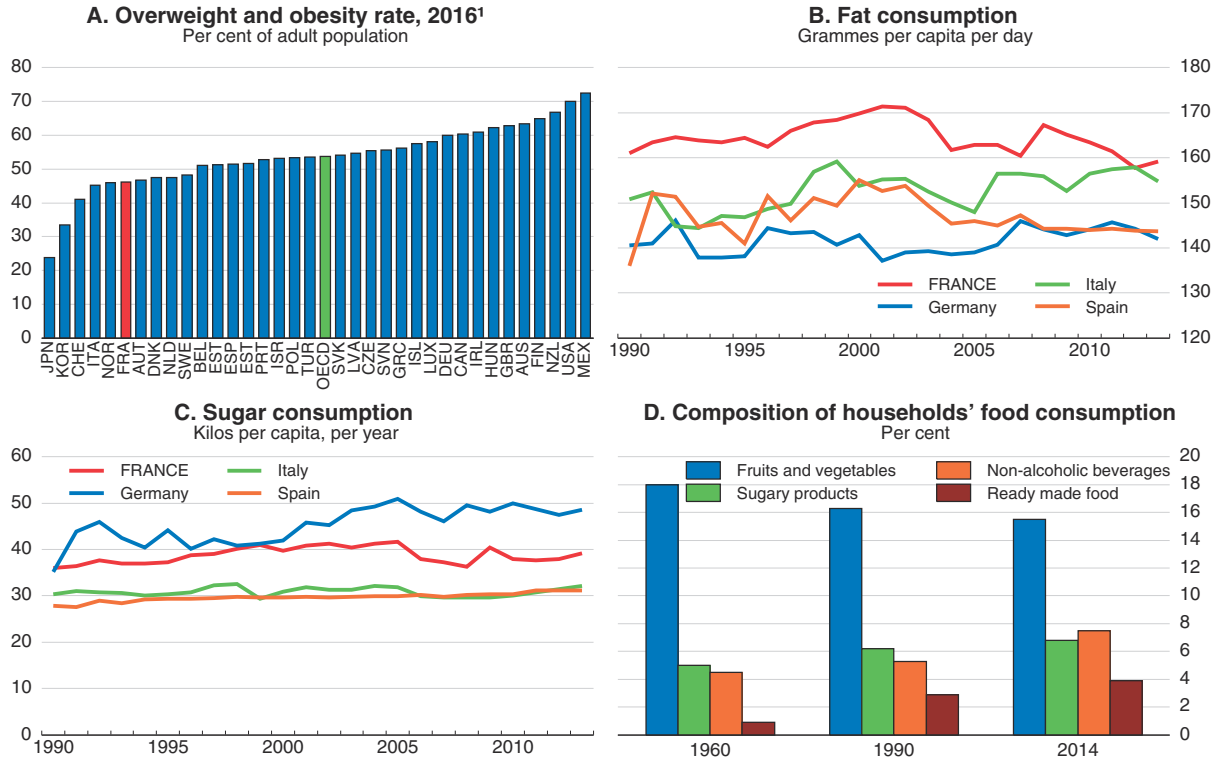
The social costs of the overweight population are also high. France's overweight and obesity rates have been increasing rapidly (OECD, 2014b), though they remain among the lowest in the OECD (Figure 2.22, Panel A). The annual social costs of the overweight population are roughly comparable to those from tobacco and alcohol consumption (Caby, 2016). Sugar consumption per inhabitant has increased over the past 20 years, as household consumption shifted towards sugary products and ready-made food, though fat consumption has been overall stable at a high level (Panels B to D). Raising the prices of sugary products with judicious tax levies could promote healthier diets, as the consumption of such sugary products appears to have had a high price elasticity in France over the past 50 years (Larochette and Sanchez-Gonzalez, 2015; Sassi et al., 2013). The French tax on sugary and artificially sweetened beverages introduced in 2012 could be fine-tuned and expanded to other products. Indeed, it is based on the value of selected products rather than

Figure 2.22. **Prevalence of overweight individuals and food diet**



1. Or nearest available year. The overweight and obesity rate is self-reported in some countries.

Source: OECD (2017), *OECD Health Statistics Database;* Larochette, B. and J. Sanchez-Gonzalez (2015), "Cinquante ans de consommation alimentaire : une croissance modérée, mais de profonds changements", *Insee Première*, No. 1568.

StatLink http://dx.doi.org/10.1787/888933578389

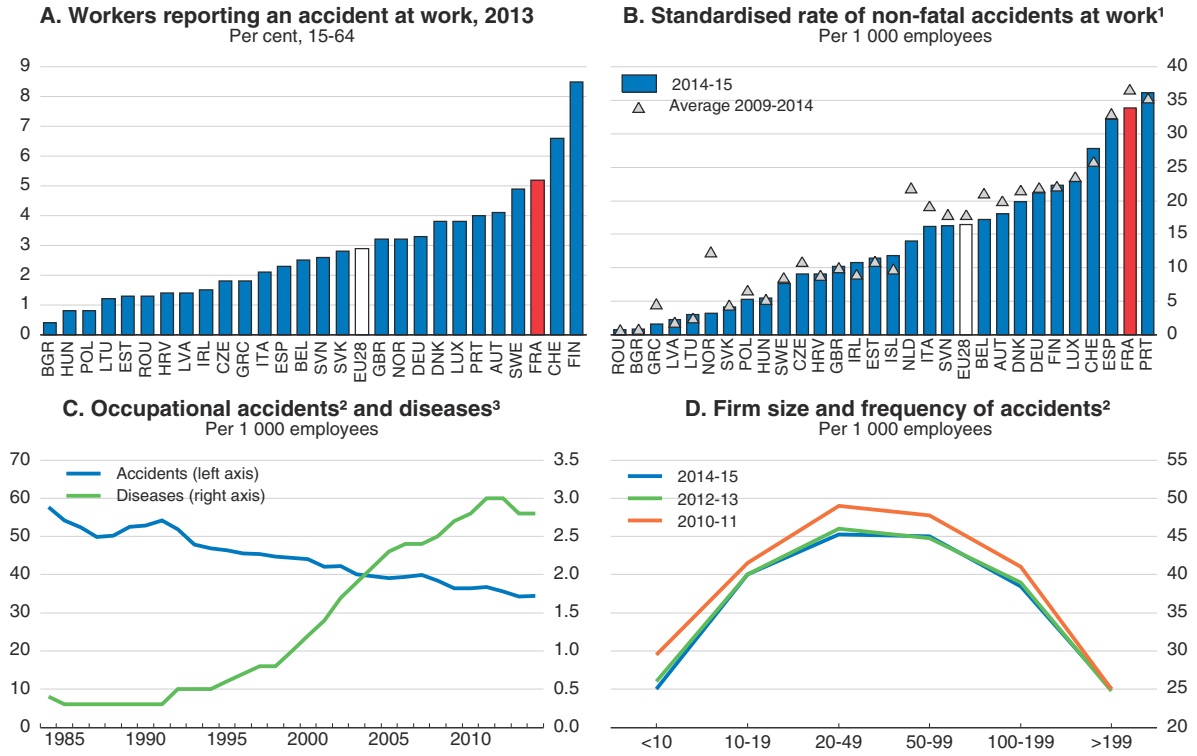
their sugar content, which may limit its pass-through to consumers and efficiency (Bonnet and Réquillart, 2013; Berardi et al., 2016). Integrating this approach with the national programme to promote healthy eating (PNNS or Programme national nutrition santé) and the 2017 voluntary health-based labelling of food would raise consumer awareness. Moreover, the treatment of children aged 3-8 at risk of obesity will be trialled in 2017-18.

Reducing workplace risks

Compared with other European countries, declarations of accidents at work are relatively frequent, even after controlling for differences in industry structure (Figure 2.23, Panels A and B). However, accidents at work have decreased steadily (Panel C), albeit at a slower rate than in other European countries (Premier Ministre, 2011). At the same time, official data show that the prevalence of musculo-skeletal disorders and other occupational diseases has increased rapidly, even if underreporting remains common (Drees, 2015). Progress has been heterogeneous across firms, and the frequency of accidents remains high in many SMEs (Panel D).

Absenteeism due to occupational and health-related issues has increased. Days missed per worker for occupational accidents and diseases have risen by 25% over the last 15 years (Figure 2.24, Panel A), and indemnities for occupational risks as a share of GDP have increased by 15% since 2007 (Panel B). The under-reporting of occupational diseases and accidents (Sécurité sociale, 2014) probably reduces firm incentives for prevention. The

Figure 2.23. **Occupational risks**



1. Declarations of accidents at work are corrected for industry structure. The standardised incidence rate assumes that the economic sectors in each country have the same relative size in terms of reference populations as the sectors at EU level.
2. Occupational accidents are accidents resulting in a missed day of work.
3. Data cover only employees affiliated with the main statutory occupational scheme and metropolitan France from 1984 to 1999, and all workers in the following years.

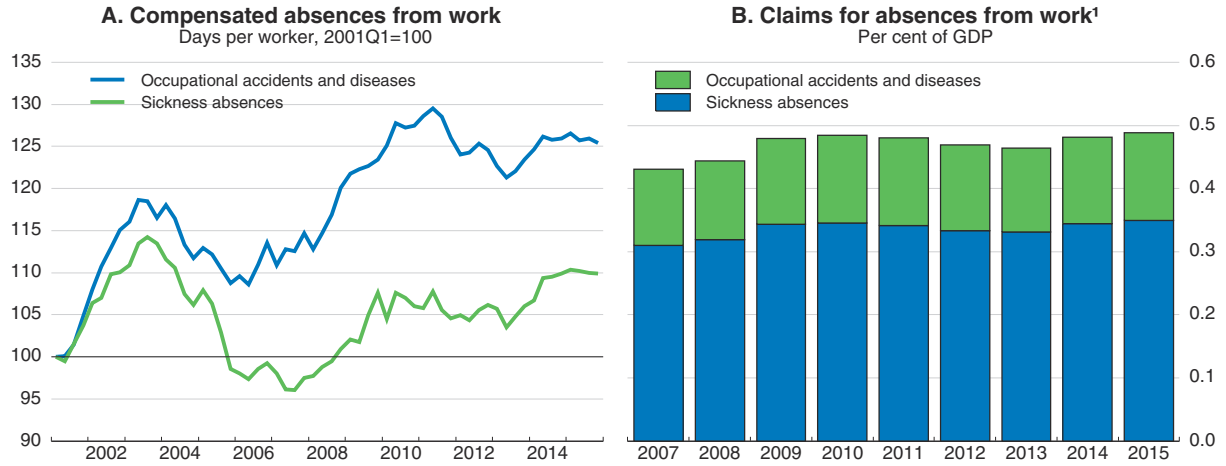
Source: Eurostat (2017), *Accidents at work and other work-related health problems*; Assurance-Maladie Risques Professionnels (2016), *Bases de données: principaux indicateurs AT, 2010 à 2015*, www.risquesprofessionnels.ameli.fr/.

StatLink http://dx.doi.org/10.1787/888933578408

CNAMTS has managed the main scheme for occupational risks (AT-MP), partly based on firm-level experience rating, and statutory insurance covering health-related absenteeism (IJ). Absenteeism due to injuries that are not clearly tied to a work accident may be billed under either scheme: around 20% of claims due to occupational accidents and diseases may be diverted towards health-related statutory insurance schemes (Askenazy, 2006; Cour des comptes, 2012). Indeed, the experience-rating part of the AT-MP scheme may also have negative side-effects, by discouraging reporting accidents and health issues and by reducing the employability of vulnerable populations, such as disabled and older workers.

Better targeting and monitoring of prevention programmes could lower occupational risks. This is the aim of the third national 2016-20 occupational health plan, which has made primary prevention a priority. Work accidents follow an inverted U-shaped relationship with firm size, with a downswing starting around 50 employees, even after controlling for the severity of accidents (Garoche, 2016). However, some subsidies for the prevention of risks are available only to SMEs with fewer than 50 employees (Cour des comptes, 2013), and firm-level committees on health, safety and working conditions conditions (CHSCT) are frequently lacking in firms with over 50 employees, even though they are mandatory (Breda, 2016).

Figure 2.24. **Sick days and days missed for occupational accidents and diseases**



1. Claims on the statutory insurance regime (CNAMTS), excluding costs covered by other statutory schemes, notably for civil servants, agricultural and independent workers, and by complementary insurance plans.

Source: Drees (2016), *Les dépenses de santé en 2015 – Résultats des comptes de la santé*.

StatLink http://dx.doi.org/10.1787/888933578427

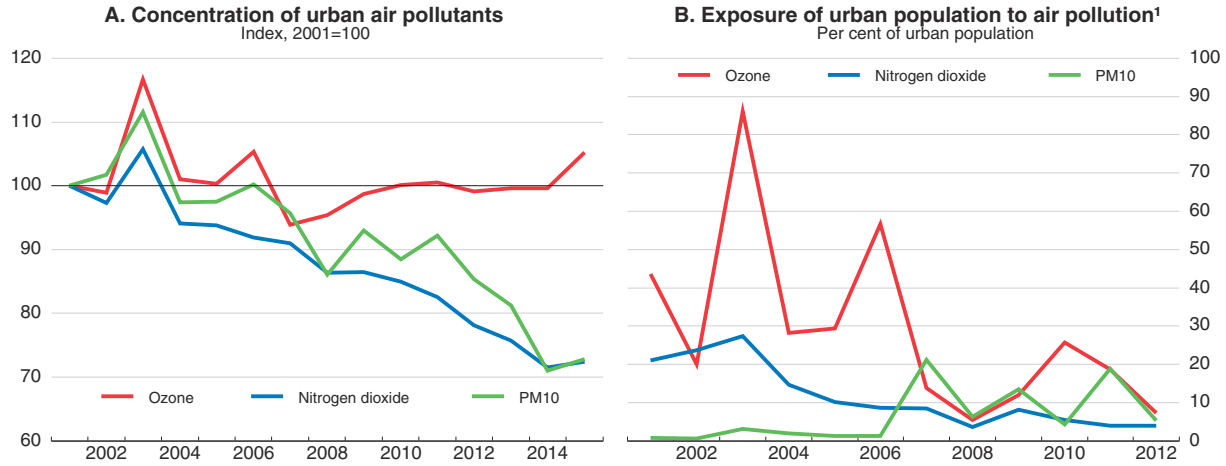
Small firms and local governments implement few preventive measures. In 2013 only 60% of employers had taken any measures over the last 12 months, and less than half of all firms had prepared the mandatory plans to identify occupational risks (Amira, 2016). Focusing prevention on SMEs as foreseen in the national 2016-20 occupational health plan is welcome. Indeed, the introduction of CHSCTs in SMEs is associated with better knowledge of health risks (Coutrot, 2009). The 2016 labour law could also help raise prevention. It has made it possible for time to be devoted to preventive action in the workplace by creating an information and prevention visit, and by allowing the increased involvement of multidisciplinary teams.

Reducing occupational risks and absenteeism in the public sector would also allow some budgetary savings. Public schemes covering occupational risks for public hospitals and central and local governments offer few incentives for prevention. At a minimum, convergence of rules towards the AT-MP scheme would have beneficial efficiency and equity effects, as that scheme already covers non-civil servants who work for health-care establishments and local governments. At the same time, human resources management could be stepped up in local governments, for which absenteeism is high, and many contracts have less statutory working time than the legal workweek, increasing the wage bill (Cour des comptes, 2016g). Improving management practices and reducing overstaffing and duplications in local governments could play a positive role. Indeed, public employees reporting having less autonomy or conflictual relationships at work are more frequently absent, even after controlling for age, occupation and education (Davie, 2015).

Ensuring healthy environmental conditions

France performs well in terms of overall environmental quality, though air pollution peaks in some cities have negative health effects. Atmospheric small particle (PM10) pollution is considerably lower than the OECD average and has fallen steadily (Figure 2.25, Panel A; OECD, 2016e), though levels are much higher in some cities. Ground-level ozone concentrations have risen and are regularly above recommended health thresholds in some cities during warm periods (Panel B), which could boost the incidence of respiratory

Figure 2.25. **Urban air pollution**



1. Air pollution is defined as a concentration of a given chemical above European regulatory thresholds (daily PM10 concentrations exceeding 50 µg/m^3 for more than 35 days a year, daily 8 hour mean O_3 concentrations exceeding 120 µg/m^3 for more than 25 days a year, and annual average NO_2 concentrations above 40 µg/m^3).

Source: Commissariat Général au Développement Durable (2017), *Chiffres clés de l'environnement Édition 2016*; European Energy Agency (2014), *Percentage of urban population resident in areas where pollutant concentrations are higher than selected limit/target values, 2000-12 (EU-28)*.

StatLink http://dx.doi.org/10.1787/888933578446

diseases. Recent estimates suggest that local air pollution peaks could cause around 48 000 deaths per year in France (9% of overall deaths) and reduce life expectancy at age 30 by more than two years (Santé publique France, 2016). Road transport is a major contributor to these trends: raising the tax burden on diesel fuel, a major source of PM10 pollution, as planned, would be appropriate.

Better integrating local and national air-quality policies would help reduce local air pollution. The European Commission (2013b and 2017) has opened proceedings against France for its alleged failure to reduce local concentrations of PM10 and nitrogen dioxide. Regional governments, large cities and metropolitan areas have had to develop air-quality plans since 1996. Though such plans authorise central government to limit new installations of polluting activities, some have been mostly indicative (OECD, 2016e). The preparation of strategic sub-national documents is not fully co-ordinated, and there have been few evaluations of local measures and their fiscal impacts (Cour des comptes, 2016h). The former government proposed a draft strategy for 2016-20, notably including an increase in taxes on diesel, additional support and monitoring of local governments, annual progress reports and further impact evaluations. These measures should all be rapidly implemented. At the same time, the taxation of diesel and other heavily polluting vehicles that benefit from subsidies and tax rebates, such as taxis, public transport vehicles and some heavy-weight vehicles, should increase further in line with their environmental and health damages.

France is also one of the world's heaviest users of pesticides, which pose significant potential risks to health, the environment, biodiversity and ecosystems. Pesticide use increased by 29% in France from 2008 to 2014 (OECD, 2016e), and many farmers suffer from associated long-term diseases. While additional studies are needed to distinguish the effects of different pollutants (ANSES, 2016; Cour des comptes, 2016h), policy needs to encourage a transition to greener agriculture. The 2014 elimination of the reduced VAT rate on fertilisers and pesticides is welcome, and integrating air- and water-quality effects in the procedures to authorise new fertilisers would also be useful (Husson and Aïchi, 2015). These effects should

also be reflected in the existing taxation of phytosanitary products and the levy on diffuse pollution. It is encouraging that organic farming has increased by over 60% over the past five years (Eurostat, 2016).

Recommendations for improving the efficiency of the health-care system

Improving the funding of health spending

- Evaluate more frequently the effectiveness of pharmaceuticals and treatments and associated tariffs. As planned, strengthen the link between evaluation outcomes and reimbursement rates. Promote monitoring and analysis of health-care quality.
- Remove corporate and personal income tax breaks for joining collective complementary insurance plans, taking account of their impact on the cost of labour. Instead, ease access to health care for low-income households by using administrative data to determine their eligibility for different programmes offering aid for complementary health plans. Continue the convergence of the different statutory schemes so as to ultimately move to a single scheme.
- Reconsider the separation of goods and services covered by the statutory insurance and complementary insurance plans, respectively. By ensuring that the scope of the health-care covered by complementary schemes is not too targeted, in order to avoid adverse selection.

Promote the appropriateness of care and cost containment

- Increase health practitioners' remuneration for prevention and complex chronic diseases, which would help reduce the volume of treatments, prescriptions and drug sales.
- Strengthen co-ordination among health professionals by developing electronic health records.
- Make it easier for insurers to contract with group practices in order to improve staffing in underserved areas.
- Increase opportunities for joint initial and lifelong training of health professionals in particular through the development of a common complementary training platform to improve co-ordination between health-care professionals. Enhance the role of nurses and pharmacists as practitioners. Consider a wider reform of regulated health professions by defining their activities in terms of general objectives.
- Adjust the activity-based system for hospital funding (Diagnosis Related Groups) to increase rewards for efficiency and quality in public and private hospitals.
- Strengthen the autonomy of public hospital managers, by increasing their independence from local governments and allowing them to develop their own human resource policies, subject to regional supervision.
- Lower pharmaceutical spending by increasing the use of generics, developing targeted information for hospitals and primary-care providers to promote appropriate prescribing and applying capped reimbursement amounts to a wider range of drugs.

Invest in prevention, healthier lifestyles and environmental protection

- Increase excise taxes on alcohol and information campaigns targeted at drinkers. Reform the excise tax on soft drinks to reflect their sugar content, and extend it to other food products.
- Continue to increase taxation on diesel fuel and heavy polluting vehicles. Integrate assessment of air- and water- quality impacts in the authorisation process for agricultural inputs.

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