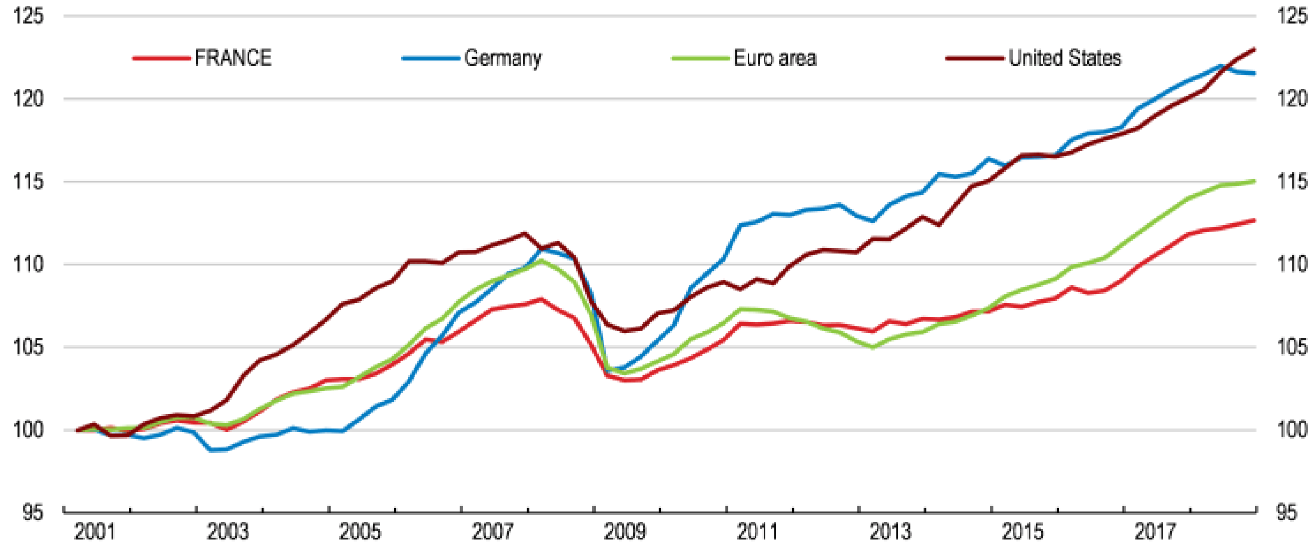
Boosting growth in France and making reforms beneficial to all

by Antoine Goujard and Pierre Guérin, France Desk, OECD Economics Department

The French economy is slowing, but less than its neighbours. The French authorities have engaged a significant reform agenda that should be complemented with particular care for inequality issues. Income per capita growth has lagged the euro area average (Figure 1). The 2019 OECD Economic Survey, launched on 9 April 2019 by the OECD Secretary General and the Minister of Finance, points that there is a need to boost growth and ensure that the gains of reforms reach low-income households.

Figure 1. Income gains in France have trailed other countries

GDP per capita[1], 2001-Q1=100



1. At constant 2010 USD PPPs.

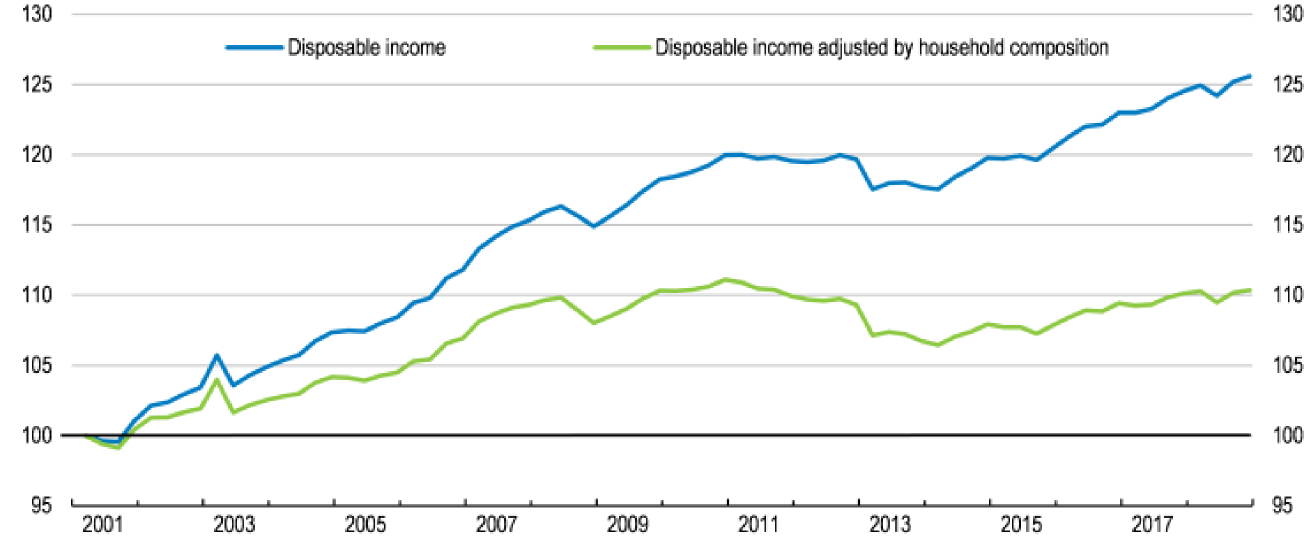
Source: OECD (2019), *OECD National Accounts Statistics* (database).

Reforms need to be beneficial to all and improve the prospects of low-income populations.

The recent “yellow vest” demonstrations have shown that gains of reforms seem elusive for part of the population. Income per capita when corrected by household composition has been flat for the past ten years (Figure 2). Employment rates, notably for the youth, low skilled and older workers are low, and economy-wide productivity has declined as in many other OECD countries. Moreover, weak social mobility tends to perpetuates economic and social situations from one generation to the next, despite the relatively low poverty rate after taxes and transfers (Boone and Goujard, 2019).

Figure 2. Disposable income adjusted by household composition has been flat

Household real disposable income, 2001-Q1=100



Source: INSEE (2019), *Pouvoir d'achat et ratios des comptes des ménages*.

What will it take to reach more sustainable growth and make sure that it benefits all?

The government's reform agenda is significant. The "PACTE" law would strengthen business dynamism and firm growth. Comprehensive labour reforms, lower business and labour taxes and a welcome productivity-enhancing public investment plan would help raise medium-term growth and boost employment. Spending reviews and a planned pension reform are set to increase the effectiveness of public expenditures and make room for tax cuts, while preserving public investment.

OECD estimates, covering a broad part of ongoing reforms and based on the experience of other OECD countries (Akgun et al., 2017; Causa et al. 2016), show that, if fully implemented, these measures could boost GDP per capita by 3.2% at a ten-year horizon and would mostly benefit middle- and lower-middle income households in the medium term (Figure 3).

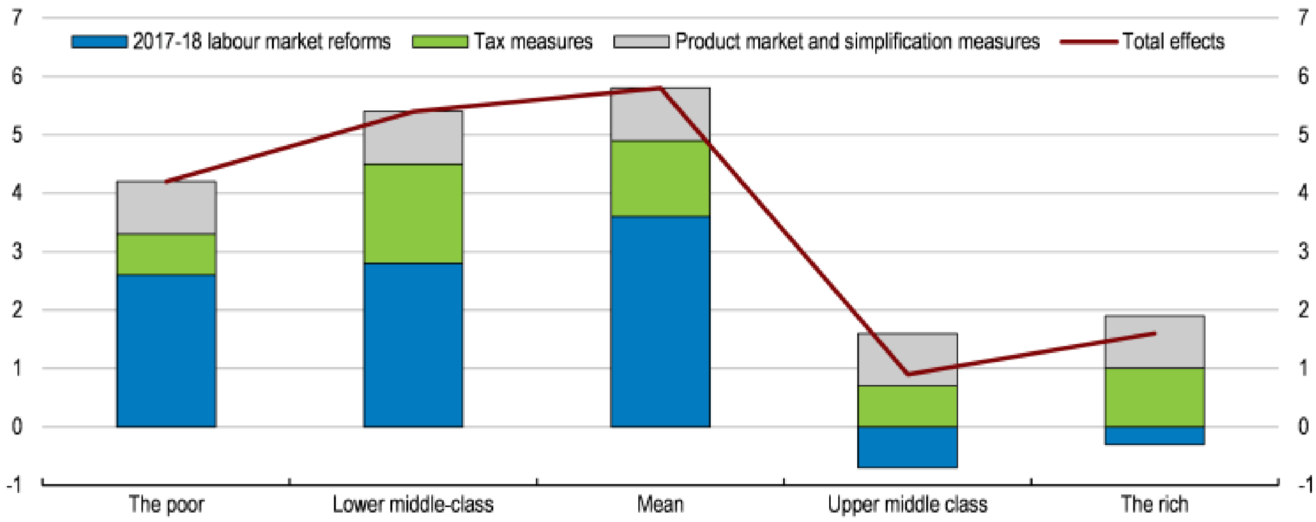
Looking forward, France should capitalise on this reform agenda and take further measures to increase high-quality jobs, improve social mobility and raise public spending efficiency. Additional measures could do much to boost employment and productivity, and to ensure higher equality of opportunity, while lifting the average annual growth rate and helping to reduce firmly the public debt-to-GDP ratio. Such measures could push GDP per capita gains to 5% at a ten-year horizon. This is among the key policy insights of the OECD’s 2019 Economic Survey of France:

- **Raising well-being will depend on strengthening skills and greater inclusion of low-skilled workers in the labour force**. This requires increasing the quality of education from an early age and reforms to ensure high-quality lifelong training programmes benefit everyone. Regularly evaluating vocational training and subsidised job programmes, will improve their quality. Increasing the relative cost of short-term hiring and reforming the unemployment insurance system would reduce incentives for recurrent short-term employment periods and unemployment spells that weigh on the career prospects of low-skilled and younger workers.

- **Continuing to reduce administrative barriers to entry and unduly restrictive regulations will raise competitive pressures and ensure favourable conditions for young and dynamic firms.** Continuing to reduce the administrative burden could ease firm entry and growth. Moreover, entry and conduct regulations remain stringent in several professional services – such as accountants, notaries and pharmacists – weighing on productivity and employment. To ensure such regulations are in the public interest, reviewing existing regulations from a competition perspective would be helpful.
- **Reducing the public spending-to-GDP ratio is needed to improve the fiscal position, and lower tax rates in the long run, particularly on labour**. Government spending policies should focus on ensuring investment and social spending are better targeted to increase efficiency. Streamlining the tax system would also support economic activity. Reviewing some narrow-based low-revenue taxes that affect businesses would simplify the tax system. VAT exemptions and reduced rates are also sizeable and some of them benefit too little low-income households.

Figure 3. Simulated long-term gains from recent reforms for different income groups

Per cent



Source: OECD Staff calculations and De Williencourt, C, Faci, A. et S. Ray (2018), « Quel effet macroéconomique du PACTE ? Premiers éléments de réponse », *Trésor-Eco*, No. 226.

References

OECD (2019), *OECD Economic Surveys: France 2019*, OECD Publishing, Paris. http://www.oecd.org/eco/surveys/france-economic-snapshot/

Boone, L. and A. Goujard (2019), *France, inequality and the social elevator*. https://oecdecoscope.blog/2019/02/25/la-france-les-inegalites-et-lascenseur-social/.

Akgun, O., B. Cournède and J. Fournier (2017), "The effects of the tax mix on inequality and growth", *OECD Economics Department Working Papers*, No. 1447, OECD Publishing, Paris, https://dx.doi.org/10.1787/c57eaa14-en.

Causa, O., M. Hermansen and N. Ruiz (2016), "The Distributional Impact of Structural Reforms", *OECD Economics Department Working Papers*, No. 1342, OECD Publishing, Paris, https://dx.doi.org/10.1787/5jln041nkpwc-en.