

# Boosting growth in France and making reforms beneficial to all

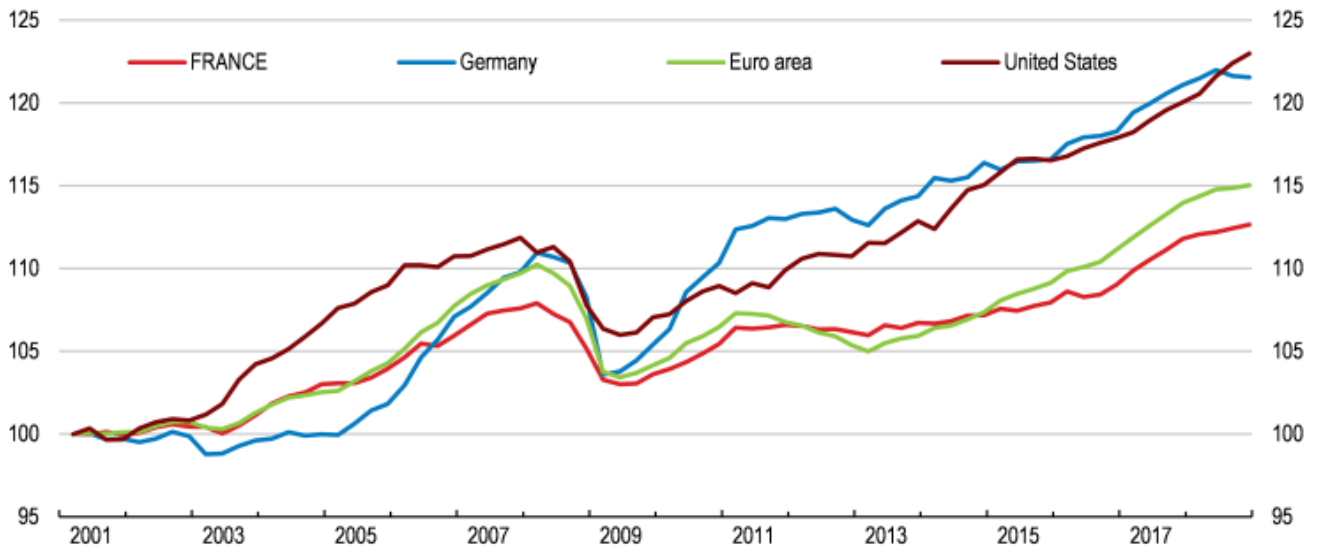
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The French economy is slowing, but less than its neighbours. The French authorities have engaged a significant reform agenda that should be complemented with particular care for inequality issues. Income per capita growth has lagged the euro area average (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<sup>1</sup>, 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.

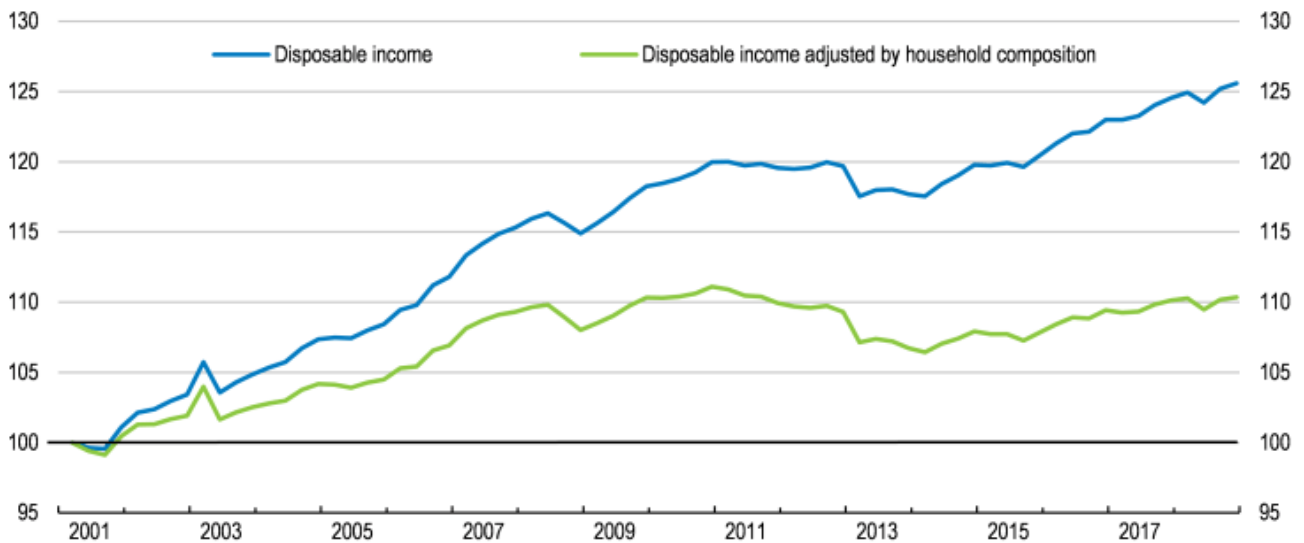
Moreover, weak social mobility tends to perpetuates economic and social

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

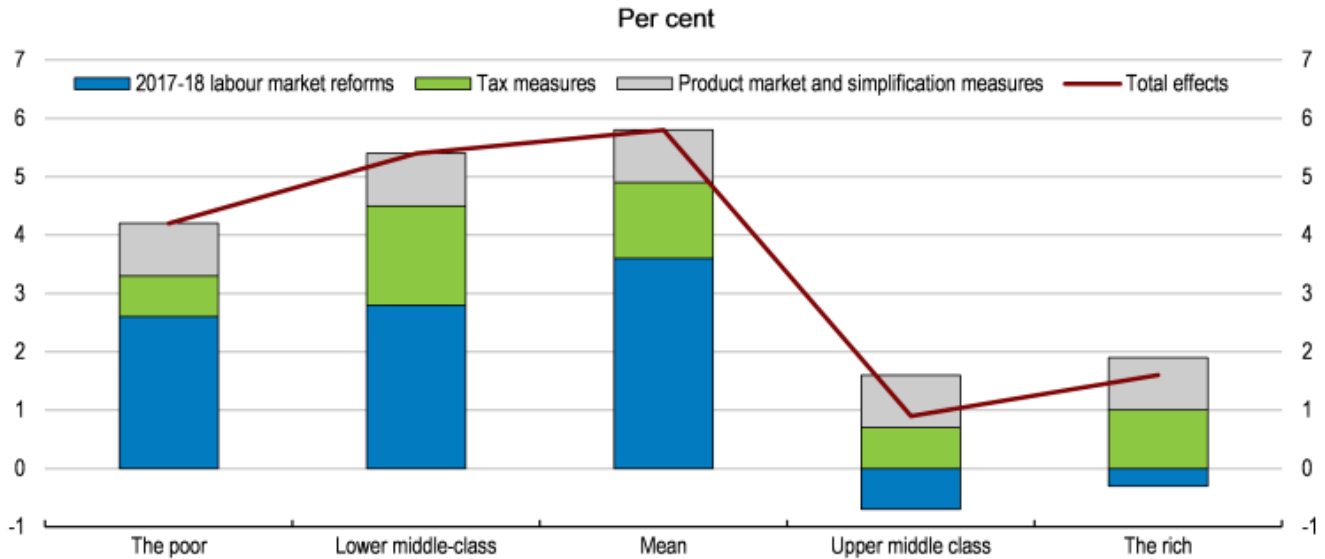
that affect businesses would simplify the tax system.

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**



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.

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