Turning the page on the pandemic in France: Towards stronger, more inclusive and greener growth

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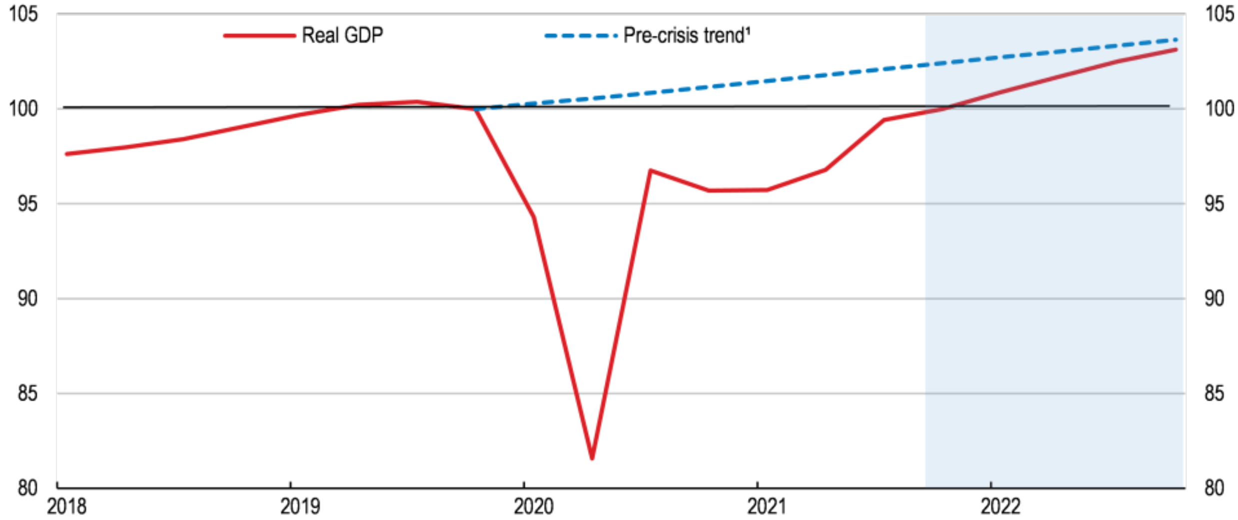
How to sustain the recovery in France and achieve stronger, more inclusive and greener growth than before the pandemic? The expected economic rebound is rapid: GDP and employment reached their pre-crisis levels in the third quarter of 2021 and the French growth is projected to reach 6.8% in 2021 and 4.2% in 2022 (Figure 1). A rapid and effective economic policy response, combined with the massive acceleration of the vaccination campaign, has helped to limit job losses and bankruptcies in 2020 and 2021.

Figure 1. The economy is rebounding rapidly

Index 2019Q4=100



The projections from November 2019 are extrapolated to 2022 using the average potential output growth in 2020-2021.
Source: OECD (2021), OECD Economic Outlook: Statistics and

Projections (database), and updates.
However, the short-term risks are significant and the COVID-19 crisis has highlighted some structural weaknesses of the French economy, particularly in terms of education, training and skills, as well as business digitalisation. Indeed, before the crisis, per capita income gains had lagged the euro area average. In the medium term, the high level of public debt combined with public expenditures that are too largely oriented towards pensions risks to weigh on more productive spending such as investment and education, and on the stabilisation of activity in the event of a new crisis.

France is facing a historic opportunity. The recovery plan (“France Relance”) and the investment plan (“France 2030”) will inject EUR 134 billion (or more than 5% of GDP) towards a more digital and greener economy. The **OECD Economic Survey of France 2021**, published on November 18, 2021, shows that it is necessary to reform the budgetary framework, in particular to strengthen the efficiency of public spending. It is also essential to continue to stimulate employment and job quality, to strengthen efforts to move towards a greener economy, and to ensure that the gains of these reforms benefit the poorest households.

I. Strengthening the public finance framework and spending effectiveness

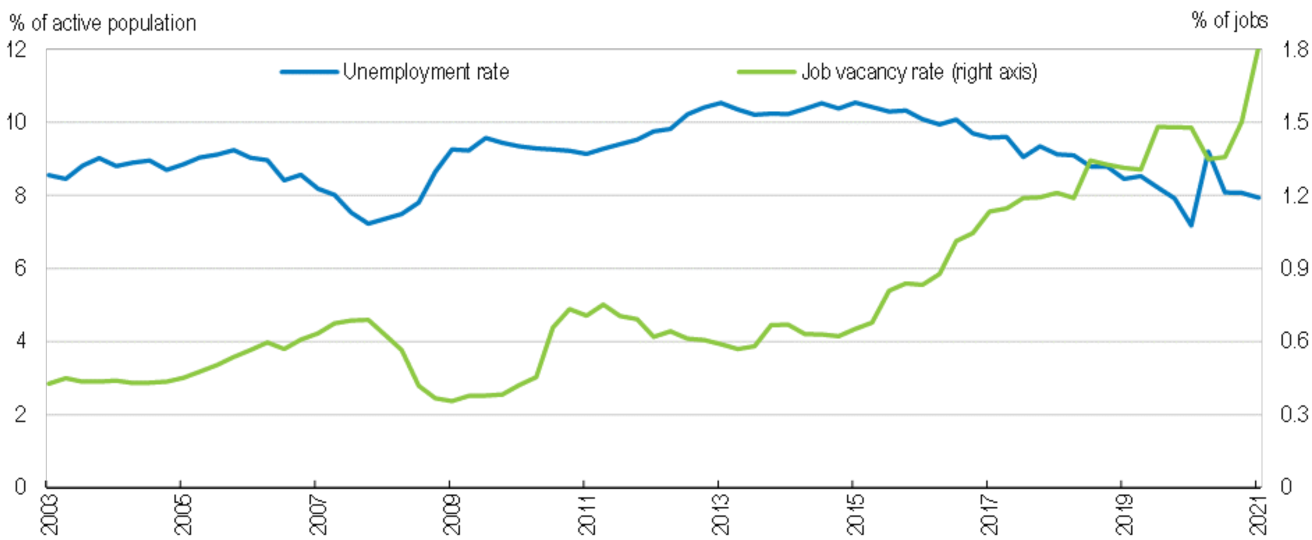
The level of public spending reached 62% of GDP in 2020 and their structure is mainly oriented towards pensions and the wage bill, while education or investment spending are closer to the OECD average, without demonstrating satisfactory effectiveness. The OECD PISA assessments, for example, show a decline in student performance.

Strengthening the fiscal framework must be a priority. The fragmented governance of public finances does not allow a comprehensive assessment of some policies. A multi-year expenditure rule applying to the entire general government, and the implementation of which would be assessed by the French fiscal council (High Council of Public Finances – HCFP), would allow to better manage public expenditures. In addition, the publication of long-term debt projections would raise citizens' awareness of the issues related to its sustainability.

II. Strengthening skills over the life course

A high unemployment rate coexists with increasing labour market tensions (Figure 2). The training plan targeted at recruitment tensions ("plan de réduction des tensions de recrutement") announced in September 2021 is crucial to support the recovery and the labour market reforms undertaken since 2017 are welcome (OECD, 2019). However, the geography of educational disparities and access to employment is very unequal and persistent, especially within large metropolitan areas where income inequalities are significant (Dherbécourt C., 2015; Goujard and Loriaux, forthcoming), which hinders growth and more equal opportunities.

Figure 2. Vacant jobs are increasing despite a high level of unemployment



Source: Dares (2021), Vacancies in the second quarter of 2021; Insee (2021), Unemployment according to the ILO definition.

Early childhood education is essential to reduce inequalities of opportunity. Disadvantaged households must have greater access to formal childcare arrangements. Reducing the risk of dropping out of school is also crucial for growth, as well as for reducing the too large number of young people not in employment, education or training “NEETs”. In this sense, the announced “Youth Engagement Contract” (“Contrat d’Engagement Jeune”) is an important step and will have to combine effectively enhanced activation and training measures with integration through employment. Strengthening the share of work-based training for apprentices would also help to develop further apprenticeship.

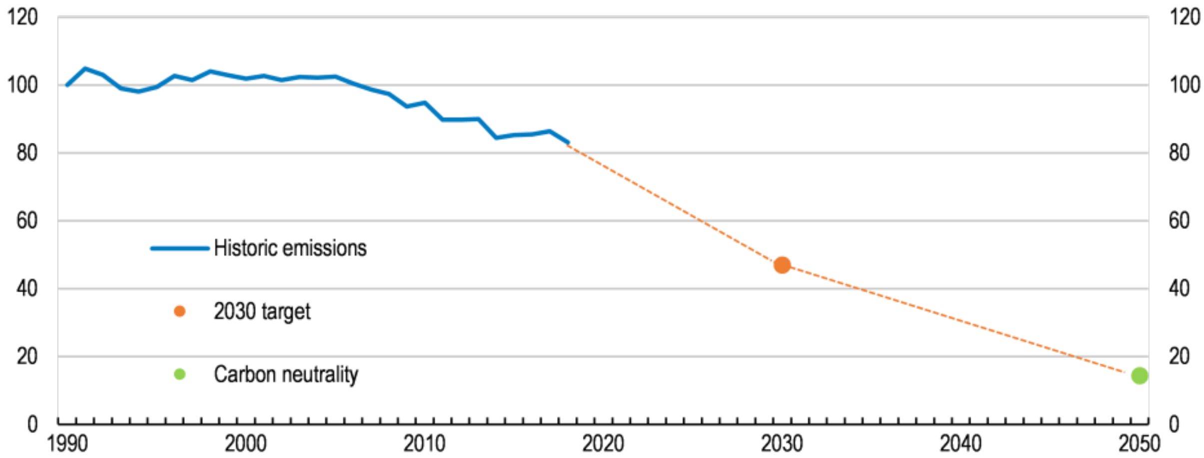
Lifelong learning should improve to enable digital transformations and longer careers. The adoption of new digital technologies is lagging behind in many small businesses that need support to train their workers. In addition, the effective age of labour market exit is the second lowest in the OECD, while life expectancy at 65 is among the highest. Raising the minimum retirement age based on life expectancy must go hand in hand with efforts to train and adapt working conditions to promote the employment of older workers.

III. Ensuring a fair and efficient transition towards a green economy

The transition towards a greener economy is essential for more sustainable and resilient growth. France must rapidly reduce its greenhouse gas emissions to meet the challenges highlighted by the COP26 and comply with its commitments (Figure 3).

Figure 3. The pace of emissions cuts must increase

Index 1990=100[1]



Note: The objectives are OECD estimations.
Source: European Commission, Energy Data (database).

Private green investments and the behaviour of households and businesses are key. The 2019 Energy and Climate Law and the Climate and Resilience Law pave the way for better governance of environmental policies, but social acceptability remains critical, as shown in recent OECD work (Dechezleprêtre et al., forthcoming).

A plan that is comprehensive, multi-annual, regularly evaluated and revised as needed, must be effectively put in place. Leveraging all available instruments is key for the transition. Gradually removing exemptions and reduced rates on environmental taxes, in a fair and equitable manner, would strengthen their incentives. To ensure its social acceptability and a socially fair transition, the carbon tax should be accompanied with complementary support measures targeted at the most vulnerable households and firms.

Sectoral policies must address the major sources of greenhouse gas emissions: transport, buildings and agriculture. In the transport sector, making the eligibility criteria for the conversion premium and the ecological malus scale more stringent would encourage the purchase of greener vehicles. Concerning buildings, conditioning public support for energy renovation to a minimum energy efficiency standard and tightening controls on major projects would increase its the efficiency. Finally, support for the agricultural sector should be reallocated towards payments for agro-environmental services.

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