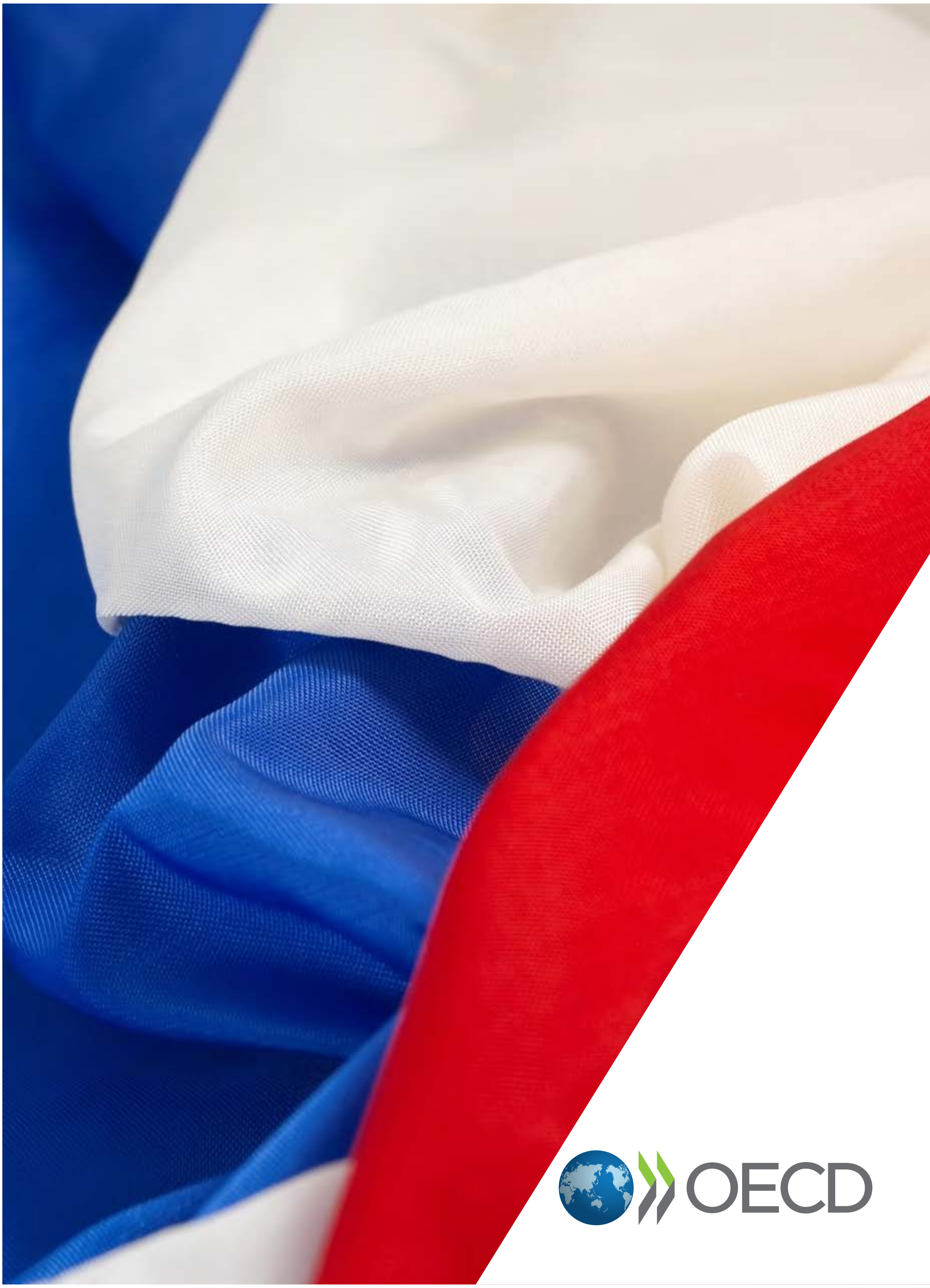
“Better policies” Series

FRANCE

Restoring competitiveness

November 2013



Better Policies

France: Restoring Competitiveness

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Restoring competitiveness

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Foreword

As the world economy, and Europe in particular, continues its slow recovery, efforts to revive growth and employment are at the forefront of economic policy priorities. In this context, a number of European countries – Spain, Italy, Portugal and also the United Kingdom – have given new impetus to their reform agendas.

Over the past year France too has committed itself to the pursuit of structural reforms designed to support growth and employment. Particular priority has been given to restoring the competitiveness of the French economy, an essential condition for returning to growth, reducing unemployment, and consolidating the public and external accounts. Success on this score is essential if France is to benefit fully from the globalisation of trade and investment while preserving its greatest assets, namely the quality of its public services and the most important features of its "social model". The recent adoption of the tax credit for competitiveness and employment and the law that resulted from the labour market accord reached by the social partners are welcome policy developments. Equally important are policy proposals to modernise the education system and recent progress in the area of innovation policy which builds on earlier reforms.

The challenge of competitiveness has many facets. Cost-competitiveness depends on the relative performances of labour costs and productivity. Productivity has been particularly sluggish over the last decade, while wages have been rising steadily. Non-cost competitiveness relates to such factors as product quality, innovation efforts and the quality of human resources. Enhancing the productivity and competitiveness of the French economy will demand action on innovation and research, competition, education and vocational training, as well as on the functioning of the labour market, on public-sector efficiency, and on fiscal policy. The efforts now under way must be viewed within a broader and more coherent strategy of in-depth reforms to boost productivity and restore the competitiveness of France's productive fabric.

The OECD stands ready to work with the French authorities to support these reforms and to help strengthen the French economy through the implementation of better policies for better lives.

Angel Gurría
Secretary-General of the OECD

CHAPTER I. OVERVIEW

While the declining competitiveness of the French economy can be traced to many sources, relating both to cost and to non-cost factors, the weakness of productivity growth over recent decades has played a major role. The retreat in competitiveness must be seen, above all, as the symptom of underlying economic weaknesses. It relates not only to the issue of the country's export performance but more generally to its productive capacity and its growth potential.

Productivity is high but not dynamic enough to sustain growth

France weathered the financial crisis better than many of its trading partners. Its hourly labour productivity is among the highest in the OECD area (figure 1.1), and it is a world leader in several key sectors such as aerospace and transport.

France’s economic performance in recent decades has however been very modest. Income per capita has been growing more slowly than in the OECD countries with the highest per capita GDP (figure 1.2). French GDP growth has averaged half a percentage point less than the overall OECD rate. This weak growth in incomes reflects the sharp cut in the average number of hours worked, a cut that has been barely offset by hourly productivity gains, where growth again has fallen short of the OECD average.

Labour productivity in France has been rising only slowly over recent decades (figures 1.3 and 1.4). This can be laid above all to disappointing gains in multifactor productivity, which have been modest in comparison to other OECD countries (figure 1.5).

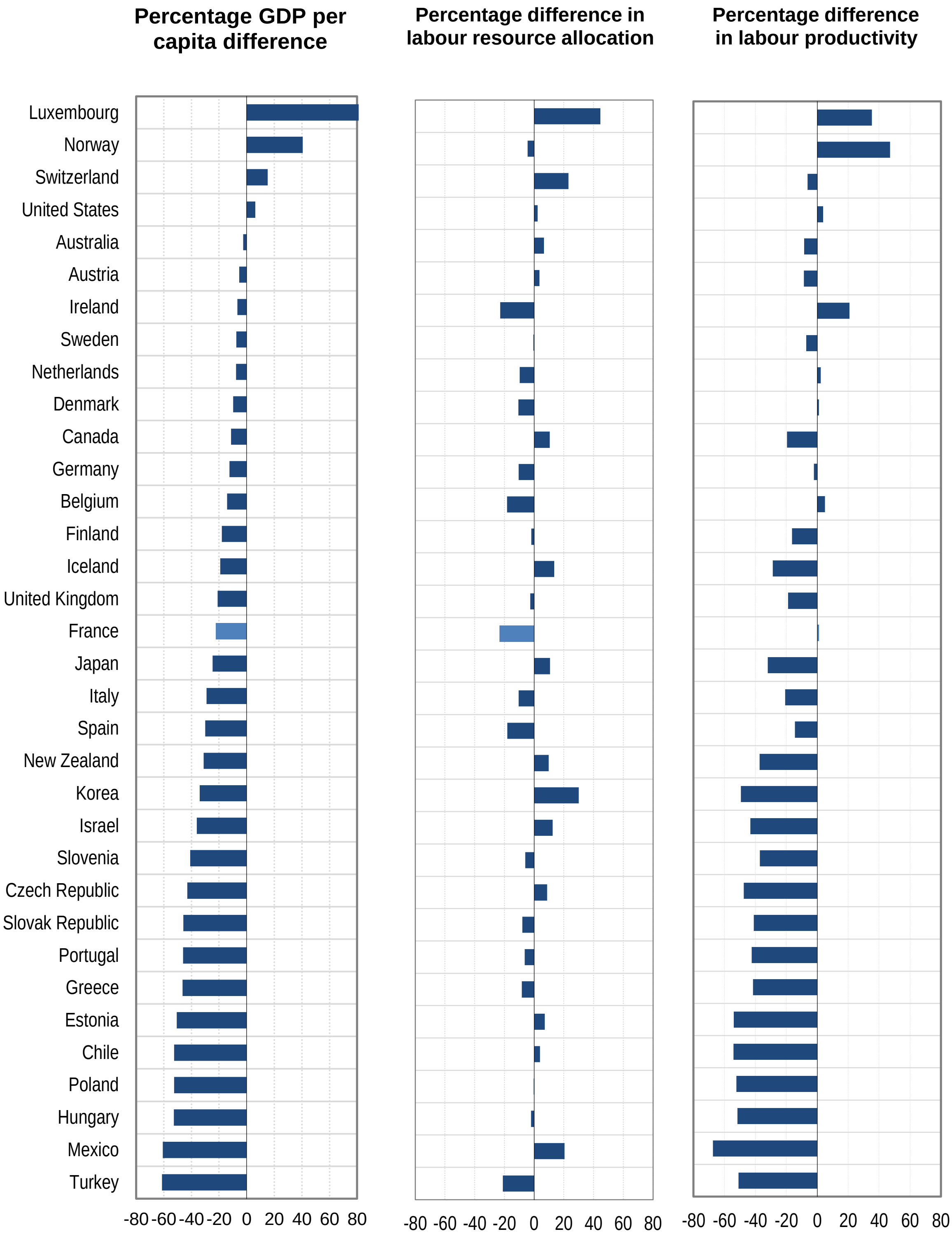
Moreover, while productivity gains are important for supporting the growth potential of the French economy and improving French living standards, it is just as important to make greater use of the labour factor: the gap in living standards between France and the wealthiest OECD countries can be blamed to a large extent on under-use of this factor (figure 1.3, middle column). Boosting employment rates, which are especially low for older persons and the young, and reducing part-time work will be essential for improving France’s economic performance.

The growth of labour productivity in non-agricultural business activities has on the whole been close to that of the European Union, the euro zone and Germany. Yet a more detailed analysis shows that some sectors have performed better than others (figure 1.6). In particular, while productivity growth in French manufacturing has been close to the average for EU countries, notably Germany, the information and telecommunication sector as well as professional, scientific and support activities have outpaced the average. By contrast, productivity gains in mining, utilities and construction have been more modest.

In addition, while wholesale and retail trade as well as accommodation, catering and transport services have not done badly against the European average, there is considerable room for improvement vis-à-vis Germany.

Figure I-1. Factors behind income variations in OECD countries

Compared to the average of the highest 17 OECD countries in terms of GDP per capita in 2013, based on purchasing power parities



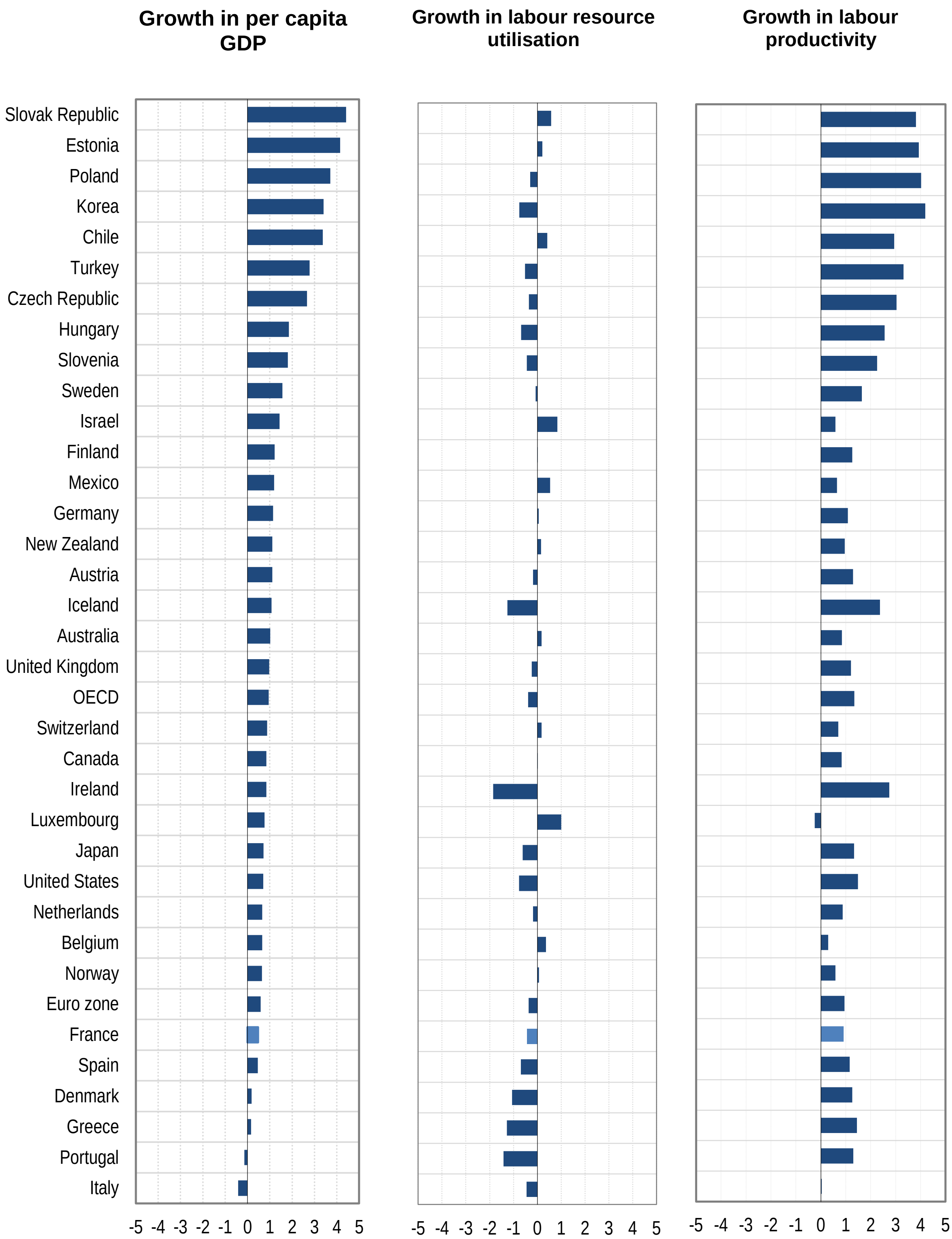
a. Labour resource utilisation is measured as the total number of hours worked per capita.

b. Labour productivity is measured as GDP per hour worked.

Source: OECD Economic Outlook Database and OECD Productivity Database, August 2013.

Figure I-2. Factors behind per capita income trends in OECD countries

Average annual growth 2000-2012

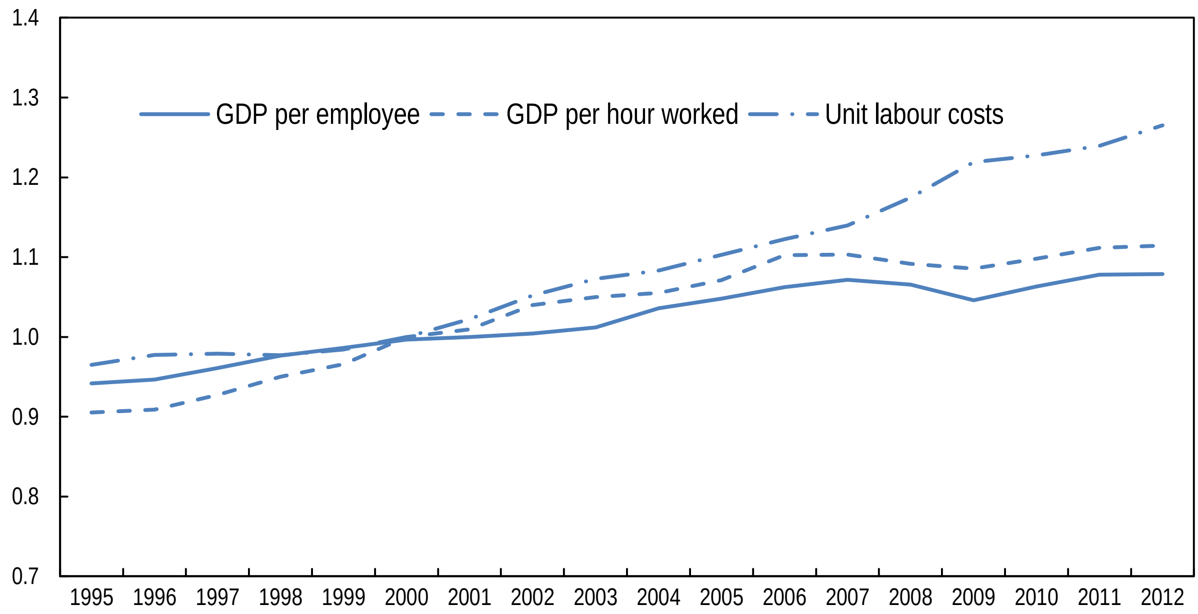


a. Labour resource utilisation is measured as the total number of hours worked per capita.

b. Labour productivity is measured as GDP per hour worked.

Source: *OECD Economic Outlook Database and OECD Productivity Database, August 2013.*

Figure I-3. Productivity and unit wage costs in France (2000=1)

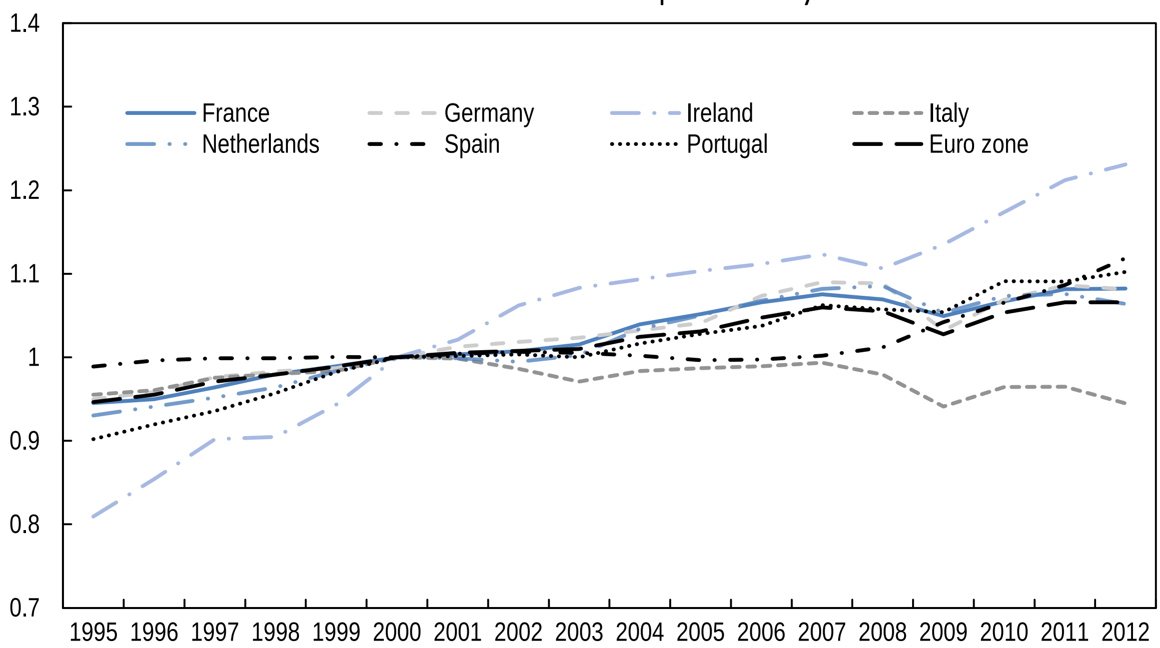


Note: Total economy. Productivity measured as GDP per employee. Hourly productivity measured as GDP per hour worked.

Source: OECD Economic Outlook Database and OECD Productivity Database.

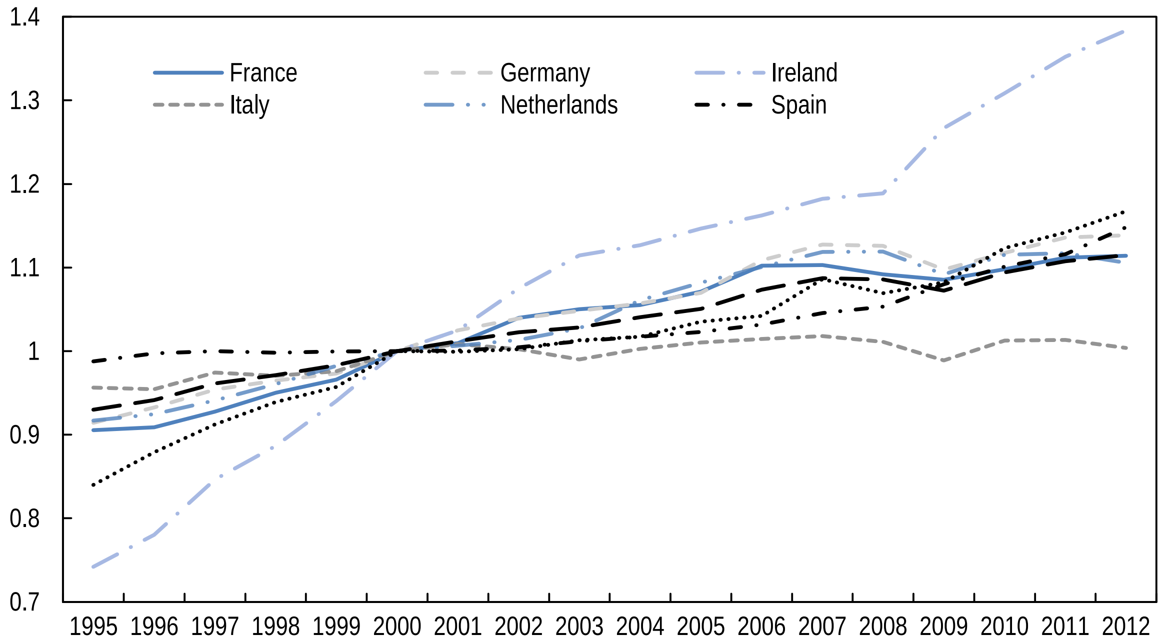
Figure I-4. Labour productivity trends (2000=1) in Europe

A. Total labour productivity



Note: Total economy. Productivity measured as GDP per employee.

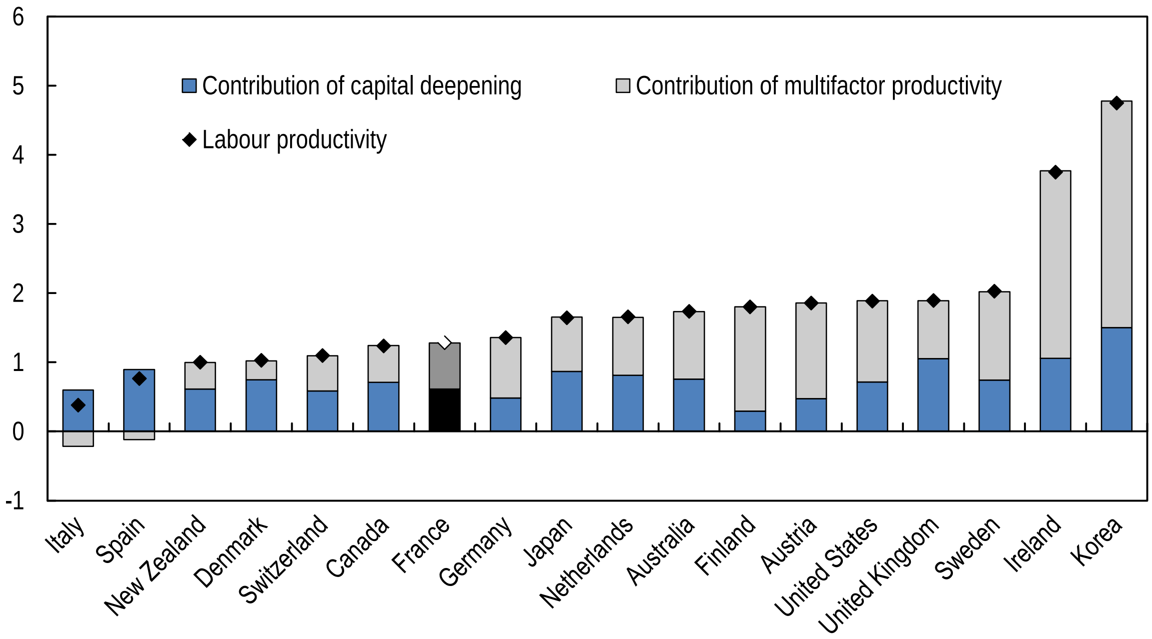
B. Hourly labour productivity



Note: Total economy. Hourly productivity measured as GDP per hour worked.

Source: OECD National Accounts Database; OECD Productivity Database, August 2013.

Figure I-5. Decomposition of labour productivity growth (average annual growth 1995-2011)[1]



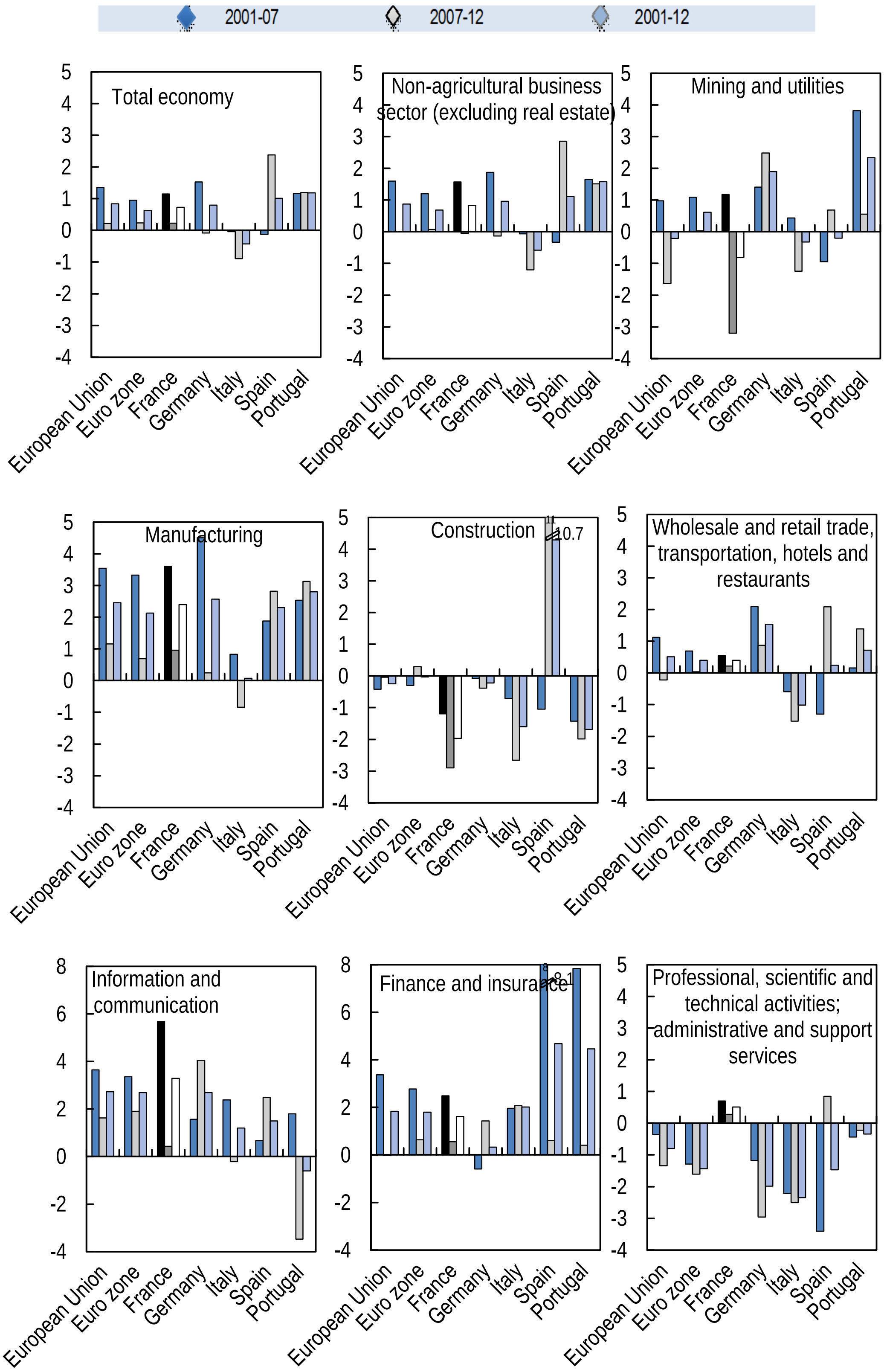
1. 1995-2010 for Italy, Japan, Portugal and Switzerland; 1995-2009 for United Kingdom; 1995-2008 for Australia; 1995-2007 for Austria and Denmark.

Source: OECD Productivity Database, August 2013.

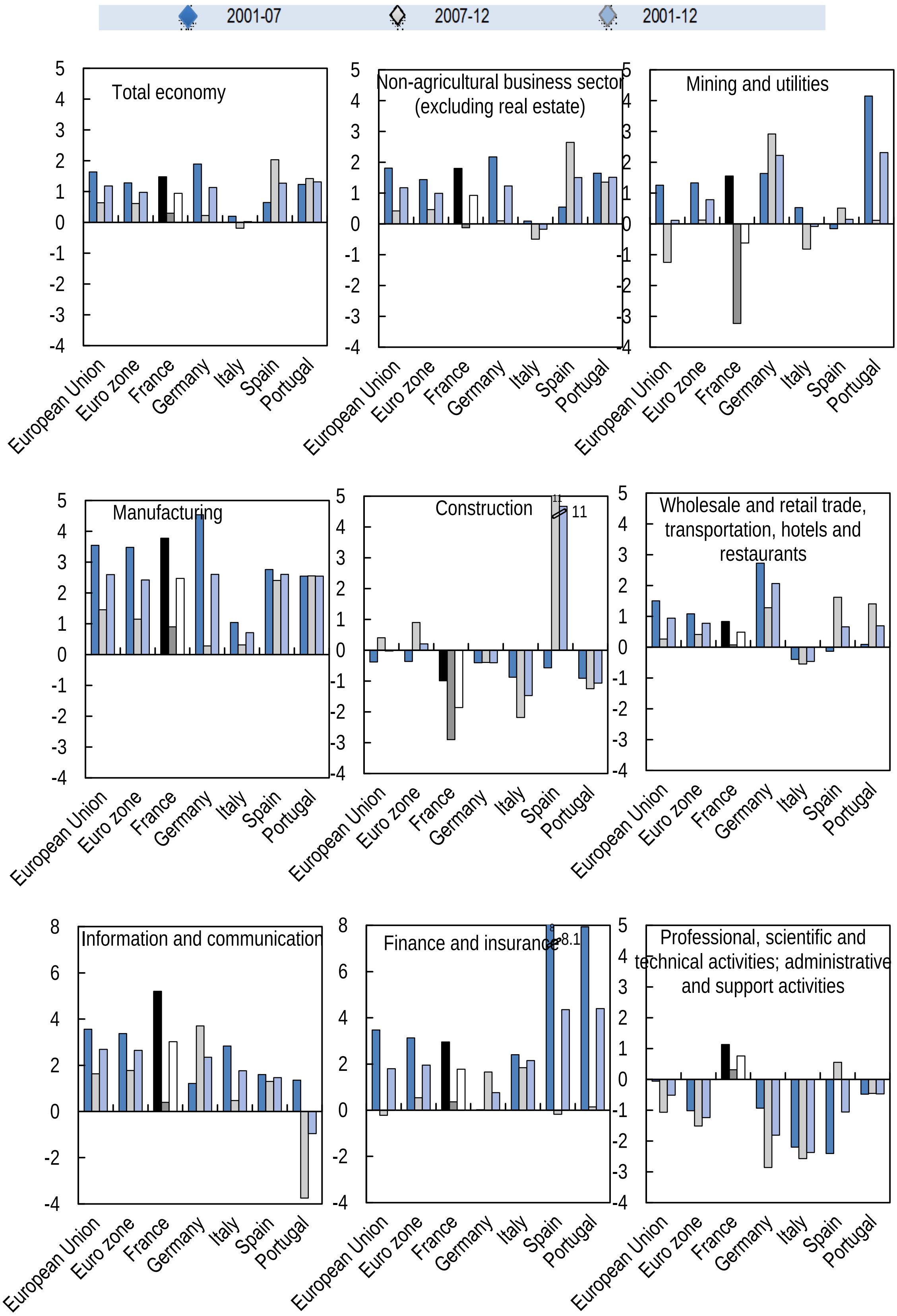
Figure I-6. Labour productivity by sector in selected European countries, 2001-12

Average annual growth rate

A. Labour productivity (volume of output per employee)



B. Hourly labour productivity (volume of output per hour worked)

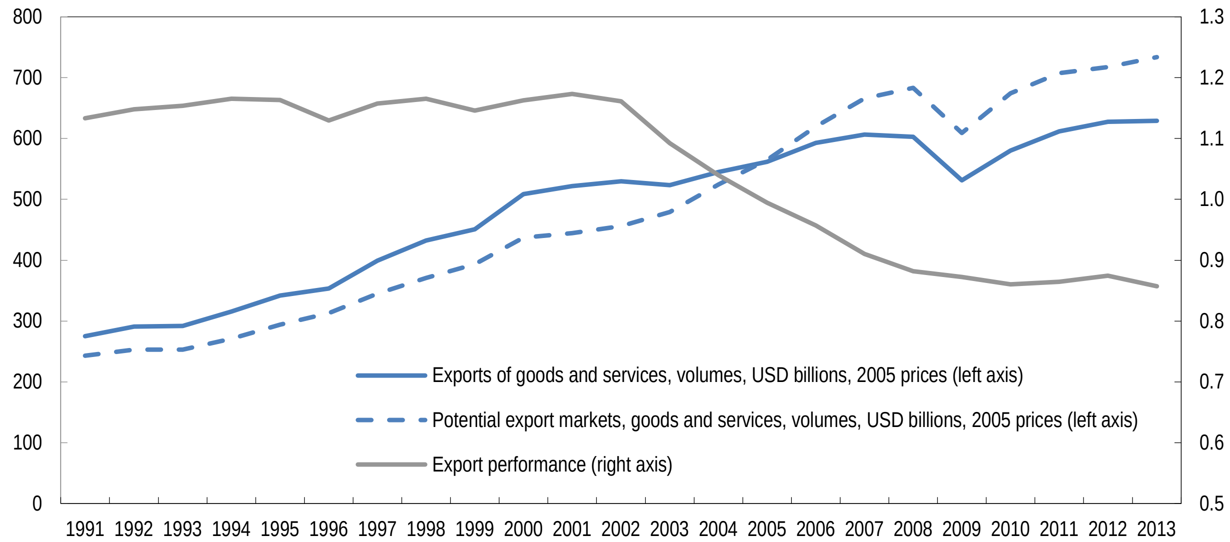


Source: *OECD calculations; OECD National Accounts Database.*

A structural deterioration in competitiveness

Sluggish productivity growth is reflected in the declining competitiveness of the French productive economy, and difficulties in adapting to the growing globalisation of trade and investment. These difficulties have caused significant loss of market share (figure 1.7), a sharp drop in the weight of French exports in global as well as European trade, and a deterioration of the trade balance.

Figure I-7. Export performance of France



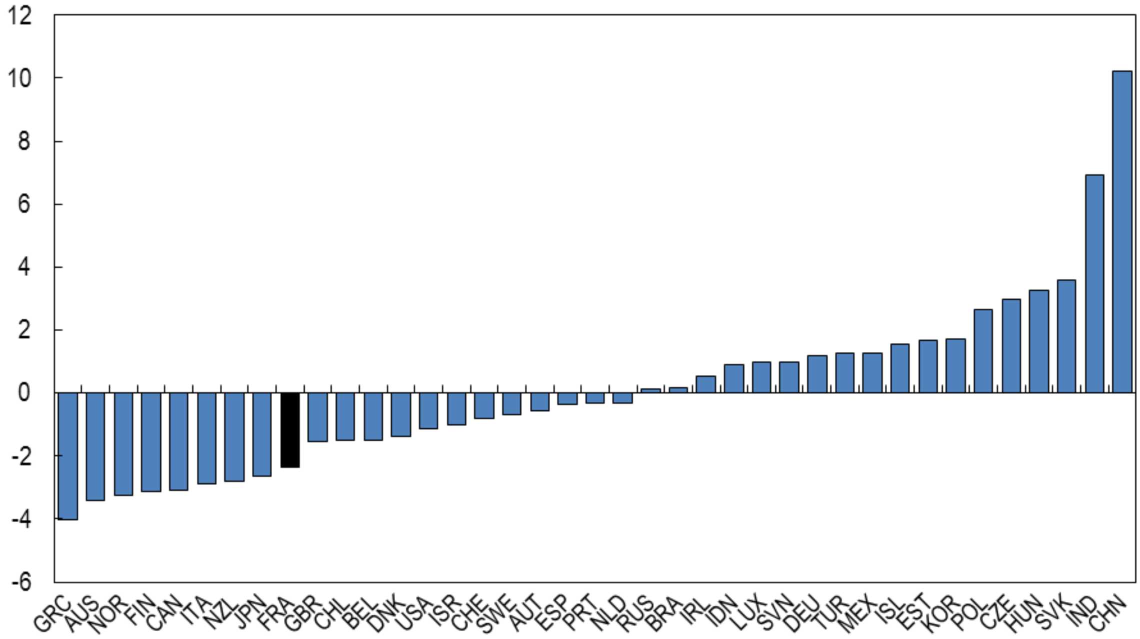
Note: The potential export market for French goods and services is defined as domestic exports that would be expected if market shares by volume remained at their value for the reference year, here 2005. Export performance is defined as the country's share of world exports.

Source: OECD Economic Outlook Database.

With the notable exception of Germany, all advanced economies have been losing market share over the last 10 years, due in particular to the growing presence of China in world markets (figure 1.8). Despite moderately favourable conditions in terms of sector specialisation (see Annex 1 for an analysis of the strengths and weaknesses of France in global value chains) and the geographic focus of its trade, France has had trouble selling abroad, and it has lost market share at a faster pace than many other major economies since the beginning of this century.

Figure I-8. Export performance

(average annual gain/loss of market share 2000-2012)



Source: OECD Economic Outlook Database.

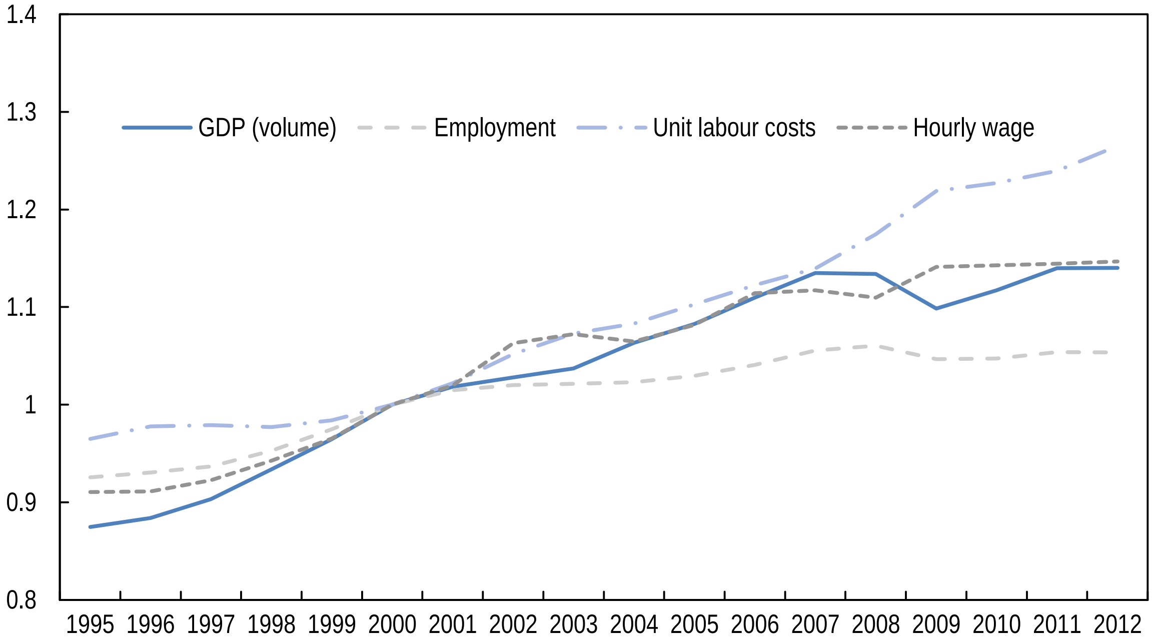
Enhancing the competitiveness of the French economy is now one of the prime concerns of the French authorities. It is in fact essential for improving the performance of the French economy in terms of growth and employment, for halting the decline in the French share of world exports, and for rebalancing the country's external accounts.

Yet this lack of competitiveness is but a symptom of underlying economic weaknesses. These relate not only to the export capacity of France but, more broadly, to its productive capacity and its growth potential. Beyond improving competitiveness within the strict meaning of that term, the challenge is to make better use of the factors of production as the basis for stronger growth.

The relative decline in France's cost-competitiveness, which has contributed to its poor export performance, reflects the fact that wages have been rising faster than productivity (to the end of the 1990s, especially), with the resulting steady increase in unit labour costs (figures 1.3 and 1.9). This increase has been particularly marked in the services sectors (Annex, figures A2). Unit labour costs have followed a path similar to the average for the euro zone, but that average masks some significant differences between Germany, on the one hand, where these costs have remained stable or have fallen slightly, and other countries of southern Europe, where they have been rising even faster than in France (figure 1.10). Such divergences have contributed greatly to the imbalances that sparked the crisis in the euro zone.

Several European countries have been making significant adjustments in recent years by speeding up the adoption and implementation of essential reforms. Yet there has been no such adjustment in France. In contrast to other countries, France has recorded no significant improvement in its external position since the crisis. Real hourly wages fell in 2008, only to start rising again in 2009, while hourly productivity continued to shrink. This has affected French market shares in Europe and elsewhere and, more broadly, it has made France less attractive for investors.

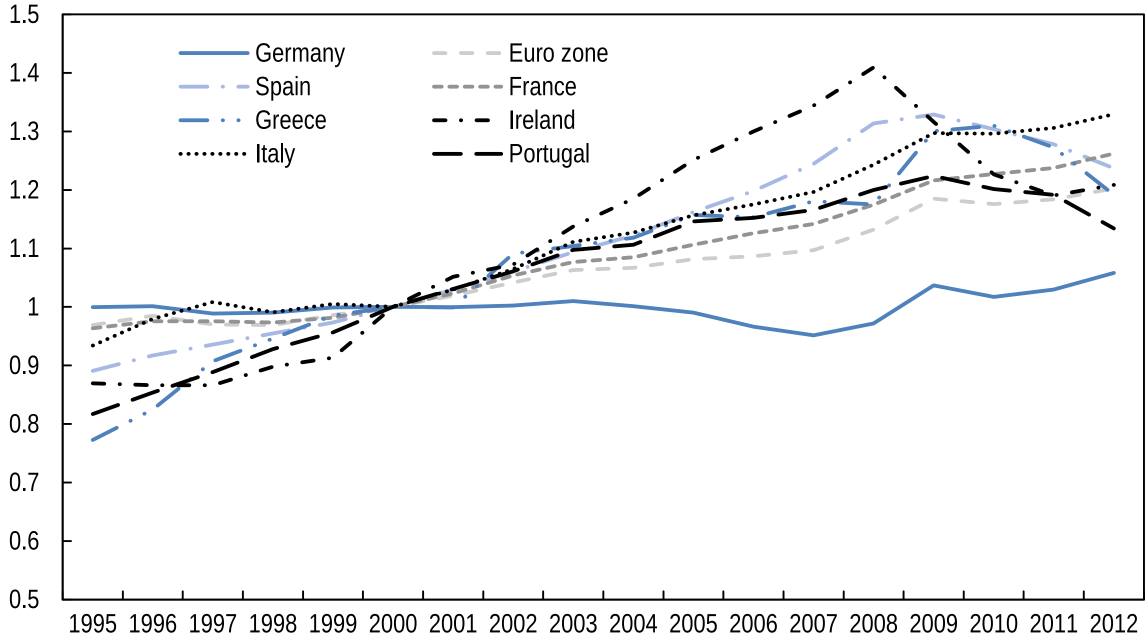
Figure I-9. Growth in GDP, unit labour costs, employment and wages in France[a], 1995-2011



a. The hourly wage is the total payroll deflated by the consumer price index (base 100 in 2005) and divided by the total number of hours worked. Unit labour costs are the ratio of total labour costs to the volume of output.

Source: *OECD National Accounts Database; OECD Productivity Database, August 2013.*

Figure I-10: Unit labour costs (2000=1)

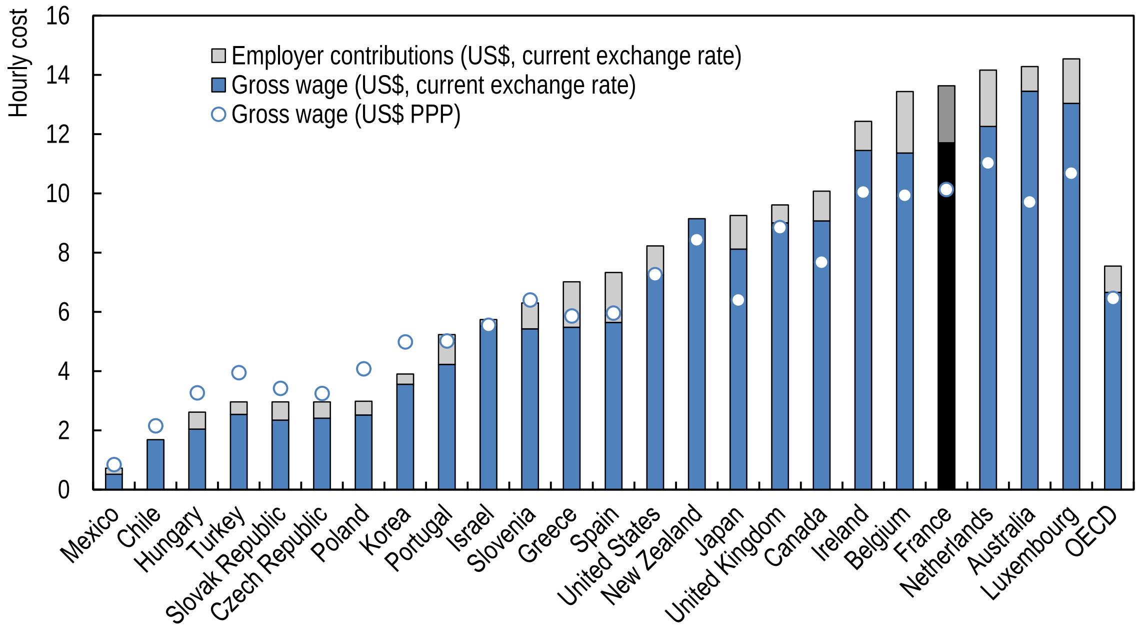


Source: *OECD National Accounts Database; OECD Productivity Database, August 2013.*

To boost its cost competitiveness, then, France must first improve its productivity, which would make it possible to rein in unit labour costs within a context of wage moderation.

France must also address the issue of high labour costs, particularly with regard to the minimum wage (figure 1.11). In 2010, France had the fourth-highest legal minimum wage among OECD countries that had such a provision: in fact, it is 80% higher than the OECD average. In Australia and the Netherlands, where the minimum wage is higher than in France, there are specific exemptions that apply broadly to young people. This high cost not only constrains the price competitiveness of French firms but also dampens the demand for labour on which potential growth depends.

Figure I-11. Minimum hourly cost of labour and minimum wage for full-time workers in 2010



Source: OECD calculations.

It is not only relative costs that are undermining France's competitiveness and, more broadly, its economic performance. Price competitiveness alone cannot explain the problems that France encountered in servicing foreign markets in pre-crisis times. A number of explanations on the supply side have been advanced, including: (i) lower profit margins because of head-on competition with Germany; (ii) mediocre non-price competitiveness of French export goods; (iii) offshoring of entire production runs (especially in the automobile industry); and (iv) the problems faced by French manufacturers in achieving critical scale for export.

These factors betray inadequacies in innovation and human capital, and a fiscal and regulatory framework that saps the dynamism of firms and discourages the emergence of a true entrepreneurial culture, thereby depressing productivity.

Economic policy considerations

The weak competitiveness of the French economy can be traced to many problems. To overcome that weakness will require action on both cost- and non-cost competitiveness, two dimensions that are intimately linked to the trend in business profit margins. Various levers will have to be deployed simultaneously to stimulate innovation, to strengthen human capital, to improve and simplify the regulatory environment, to promote competition on product markets, to reform the tax burdens that now weigh upon SMEs and that distort the allocation of savings, and to make the public sector more efficient. Steps are also needed to reduce the duality on the labour market, which constitutes an obstacle to the development of human capital and limits the economy's capacity to adapt to shocks (or places that adaptation entirely on the shoulders of a vulnerable population). The reforms to come, particularly in the financing of pensions, will also have to address the need to restore competitiveness to the French economy and avoid increasing the burden of taxation on income from work.

Drawing upon experience in its member countries, the OECD has in the course of its work identified a number of policies that could support productivity and competitiveness in France. Some of these were already presented in the 2012 Better Policy Series report on France, entitled "*Promouvoir la croissance et la cohésion sociale*" ("Promoting growth and social cohesion")

The principal recommendations for supporting productivity and competitiveness in France are detailed in the following chapters:

- The first step should be **to boost research and innovation**, which are key determinants of productivity and competitiveness. By international comparison, French efforts at R&D and innovation seem to be weak, unbalanced and relatively ineffective. In particular, there is too little R&D performed by businesses, especially SMEs, and the links between private and public research are tenuous. Innovative entrepreneurs tend to be scarcer in France than in the rest of the OECD. These weaknesses reflect the failure of the French economy to stitch together a dense fabric of SMEs. The many reforms and experiments attempted over the last decade, however, bespeak a renewed policy for research and innovation in France: those efforts are beginning to bear fruit and they deserve to be pursued and reinforced. They must also be properly evaluated so that they can keep evolving**. Chapter II** looks at the research and innovation situation in France and proposes ways of strengthening it.

- Next, **stronger competition** would encourage innovation and help increase productivity, to the benefit of growth and unemployment alike. Despite considerable progress, obstacles to competition continue to hamper economic growth and the ability of French firms to thrive in an increasingly competitive global economy. Product market regulation in France is still tighter than the OECD average, particularly for network industries and retail trade, two sectors where the French productivity performance compares poorly with other economic sectors. There are also constraints on competition in the provision of services to businesses as well as in certain liberal professions. The high costs and inefficient service delivery resulting from such regulations can be a competitive disadvantage for French businesses and can have a dampening effect on the economy. **Chapter III** offers an overview of the challenges facing competition policy, particularly in retail trade and the energy sector. That chapter also discusses the problem of class action lawsuits.

- The **public sector also needs to be made more efficient**. Given its considerable weight in the French economy and society, the performance of the public sector must feature prominently in any analysis of French productivity. The constraints on productivity gains in the public sector are many, and are rooted in the rigidities in the way it manages its resources, the impact of institutional compartmentalisation, and excessively complex internal rules and procedures. To take advantage of the latent potential for productivity gains in the delivery of public services, public employees must be better motivated, and government activity must be judged in terms of performance. France falls well short of the OECD average in its use of performance-based management tools. There is also a need to reduce the regulatory deadweight that affects government as much as businesses and individuals. This will mean simplifying the organisation of decentralised authorities in France and rationalising the multiple layers – the "*millefeuille*" – of administrative and territorial arrangements. The new decentralisation law proposed by the government could constitute progress from this point of view**. Chapter IV** explores ways of making the public sector more efficient, reducing the regulatory burden, and fostering the development of local strategies for productivity and growth. It also looks at efforts to promote transparency and integrity in public life, which are essential for sustaining policies while restoring the trust of citizens and businesses in the public sphere.

- **Tax reform** would help to bolster investment and employment. The labour tax "wedge" (including social charges) needed to support public social security spending in France is among the biggest in the OECD. This heavy taxation of labour has an adverse impact on employment and, combined with a minimum wage that is relatively high by international standards (both in absolute terms and as a percentage of the median wage) and for which there are few exemptions, imposes a heavy penalty on unskilled workers of low productivity by reducing their employability. Generally speaking, the efficiency, the transparency and the fairness of the French tax system, as it applies both to individuals and businesses, have suffered from a plethora of distortions and exemptions that need to be rationalised. **Chapter V** suggests some paths for reform in this area.

- **Labour market reform** remains a cornerstone of any strategy to restore growth and competitiveness in France. In effect, France faces the twin challenges of a weak employment rate for the young and for older persons, and severe long-term unemployment, which are holding back both actual and potential economic growth, widening inequalities and undermining the public finances. The segmentation of the labour market also limits the economy's capacity to adapt to shocks, through the constraints it imposes on the reallocation of capital between businesses and sectors of activity, and thus on productivity. It exacerbates the low employment rate and places most of the burden of labour market adjustment on the shoulders of the most vulnerable. All of these challenges are addressed in **Chapter VI** of this report.

- **A skilled and well-trained labour force** is one of the key drivers of competitiveness, productivity and long-term growth. Education levels in France have progressed strongly over recent decades. Yet the French education system has seen a widening of performance disparities between good students and those in difficulty. French students' academic success also seems to be increasingly determined by their social and occupational background. A growing number of young people are failing at school and are dropping out of the education system with no qualifications. Moreover, as in many OECD countries, there is a shortage of vocational training of the kind needed to prepare young people for the world of work and to allow adults to learn new skills in the course of their working life. The supply of training is also haphazard and ill-suited to the needs of individuals (there is no basic training available in certain geographic areas) and businesses (shortage of workers in certain specialties), and from the viewpoint of potential jobs (too many applicants in certain locations and specialties). **Chapters VII and VIII** examine policies designed to develop human capital by strengthening the education system (Chapter VII) and vocational training (Chapter VIII).

- Lastly, **housing policies** must take into account their possible impact on the competitiveness and the export capacity of the economy. Subsidising the demand for housing tends to inflate property prices and to expand the real estate sector by diverting a certain amount of capital and labour away from export activities. This mechanism seems partly to blame for the relatively poor performance of French exports over the last ten years. Housing policies have played a role in this phenomenon. **Chapter IX** explores links between competitiveness and growth in the housing and construction sectors.

CHAPTER II. BOOSTING RESEARCH AND ENCOURAGING INNOVATION

France is a world leader in certain sectors, yet its overall performance is lagging in terms of R&D carried out by businesses – and by SMEs in particular – and the links between private and public research are tenuous at best. The many reforms undertaken since the late 1990s, however, bespeak a renewed policy focus on research and innovation, one that is beginning to bear fruit. These reforms deserve to be pursued and reinforced. At the same time, the country needs to create underlying economic conditions that are more conducive to mobilising and disseminating innovation. These conditions, which are closely linked, in particular, to the development of human capital and to the functioning of labour and product markets, will be addressed in other chapters.

France has a powerful edge in several high-tech sectors, but its innovation system is not very effective

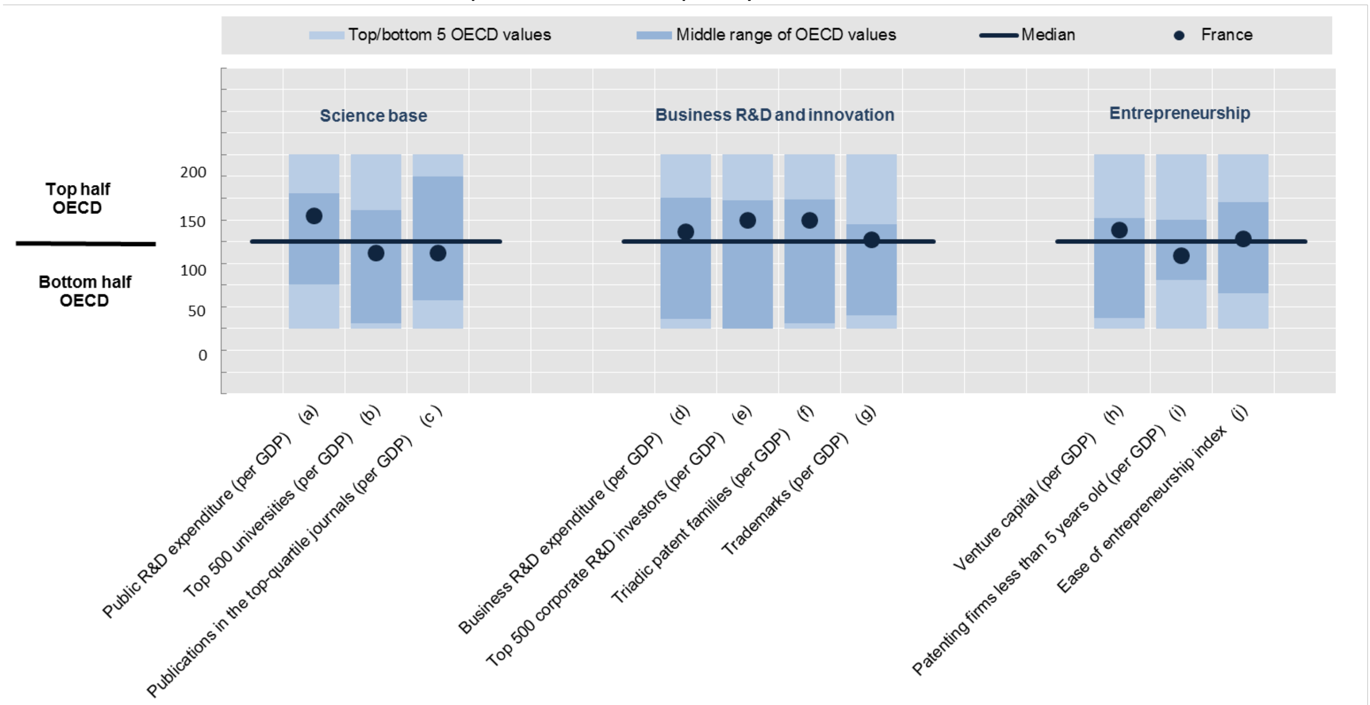
A world leader in several knowledge intensive sectors

France is one of the five leading economies in the world in terms of its GDP, thanks notably to several highly knowledge-intensive sectors (high- and medium-high tech manufacturing, defence and financial services). Some industries (aeronautics, railways, nuclear power) have a durable technological advantage and several pharmaceutical, aeronautical and nuclear enterprises rank among the biggest private investors in R&D worldwide (Figure II.1A). In the public sector, universities and public research establishments (PRE) are very active when it comes to PCT patent filings and emerging technologies (Figure II.2). There is also a regular flow of new PhDs in science and engineering (Figure II.1B).

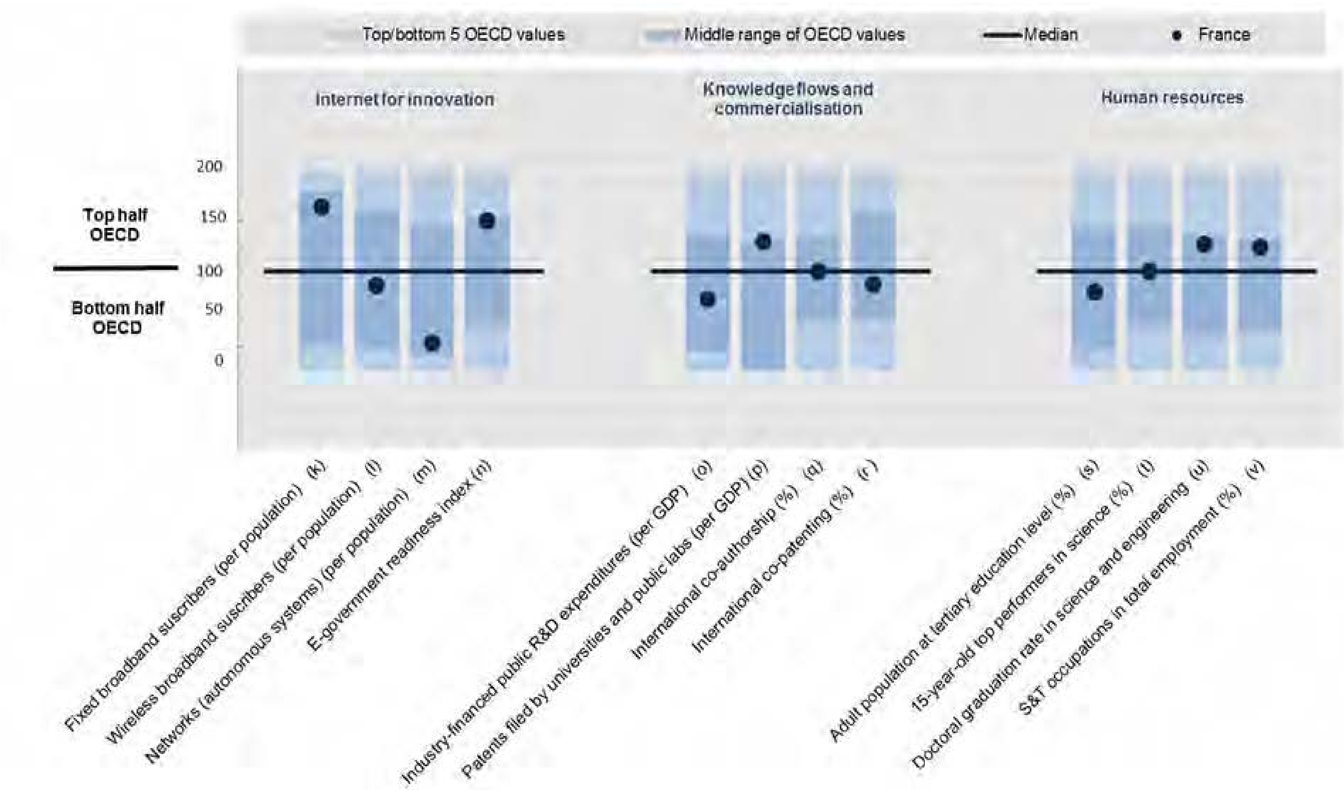
France is one of the few OECD countries (along with Denmark, the United States, the United Kingdom, Finland and the Netherlands) where business investment in intangible assets (including data, software, R&D, intellectual property, economic competencies etc.) exceeds their investment in physical assets (Figure II.3).

Figure II-1. Comparative performance of national science and innovation systems, 2011
Standardised performance index compared to median OECD values (median index = 100)

A. Competences and capacity to innovate



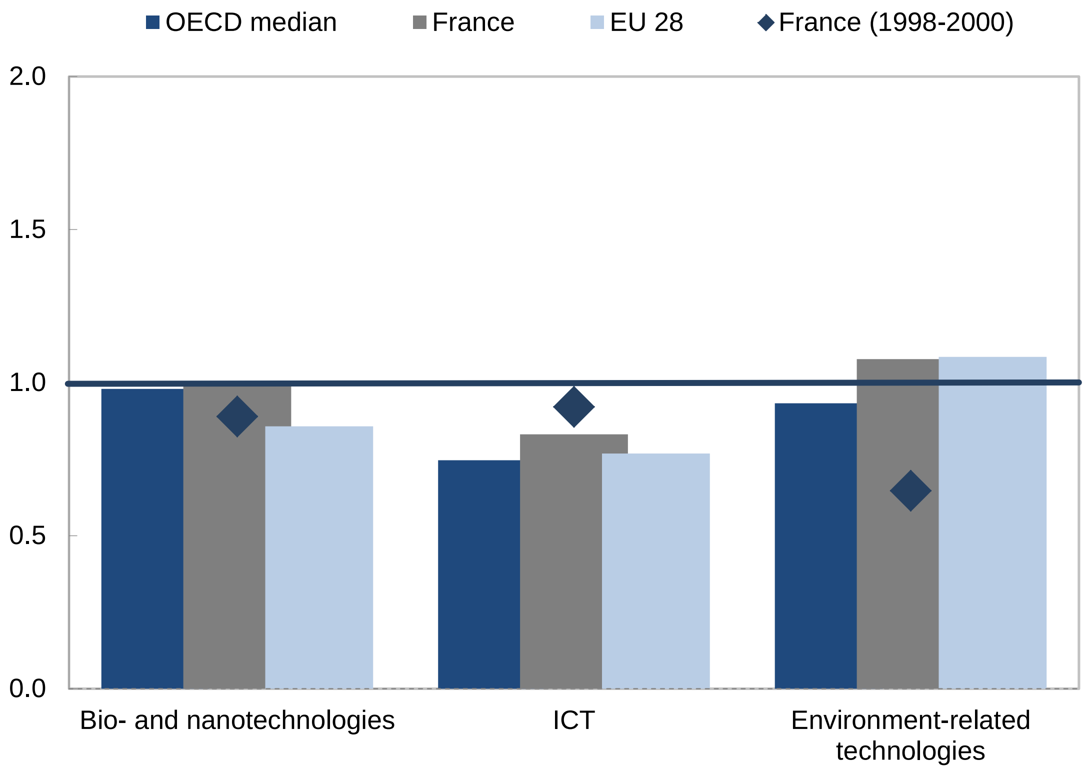
B. Interactions and human resources for innovation



Source: *OECD Science, Technology and Industry Outlook 2012.*

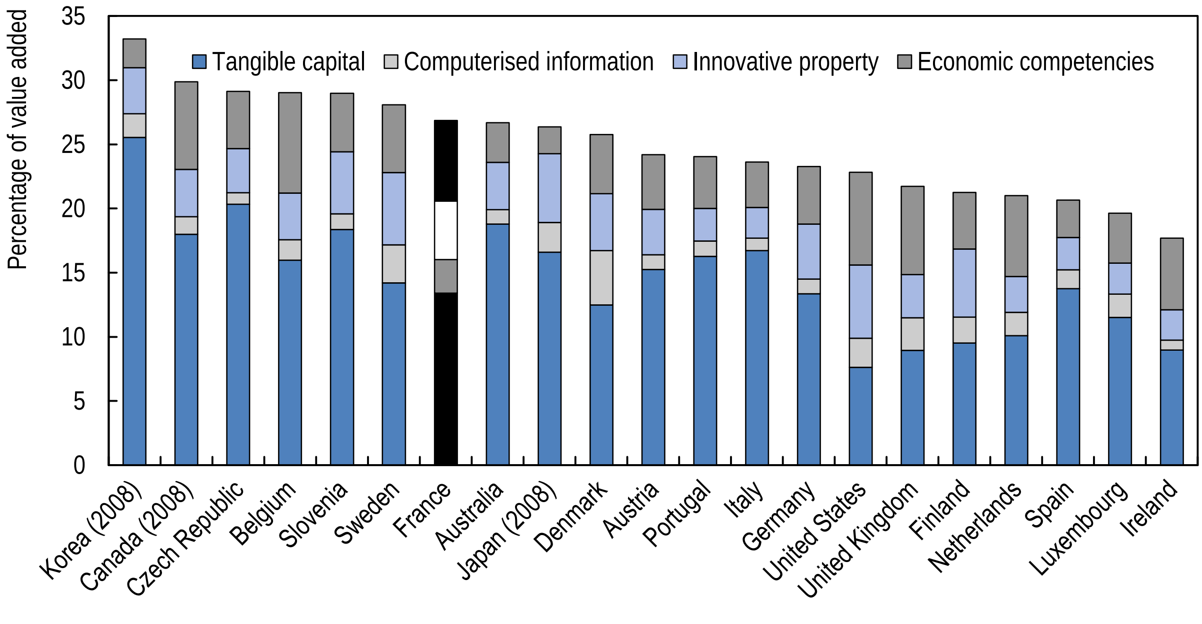
Figure II-2. Revealed technological advantage in selected fields, 2008-2010

Index based on patent applications filed under the PCT



Source: *OECD Science, Technology and Industry Outlook 2012.*

Figure II-3: Investment intensity, 2010



Source: *OECD calculations.*

The national R&D and innovation effort is weak, unbalanced and not very effective.

R&D performed by French businesses is inadequate. R&D spending by French businesses rose by 1.2% a year in real terms between 2002 and 2010, compared to a world average of 4.4% a year. The intensity of BERD (Business Enterprise Expenditure on Research and Development) remains low, at 1.42% of GDP (Figure II.4).

- Growth in BERD, which comes primarily from industry, has been limited by the decline in manufacturing value-added, due to the persistent crisis and to France's overall loss of competitiveness.
- French specialisation also tends to weaken business spending on R&D. French industry is, for example, less oriented than German industry toward medium-high tech sectors, and as the French manufacturing sector is only half the size of its German counterpart, its effective R&D level is much lower.
- French industry's commitment to innovation is also constrained by the problems facing intermediate-sized enterprises (IEs) because of the heavy twin burdens of taxation and regulation in France (see following chapters). While there are exemptions and generous assistance schemes for young businesses or small firms, and large companies have access to government procurement and are highly internationalised, intermediate firms feel the full weight of these burdens. This reduces the incentive and the ability of small firms to grow, resulting in a patchy fabric of innovative IEs.
- The growth of BERD is limited, lastly, by the fact that the country's many SMEs play only a minor role in the research system (21%: see Figure II.5). SMEs account for a much smaller share of R&D than in other countries, and the public sector's share is much greater than the OECD average.

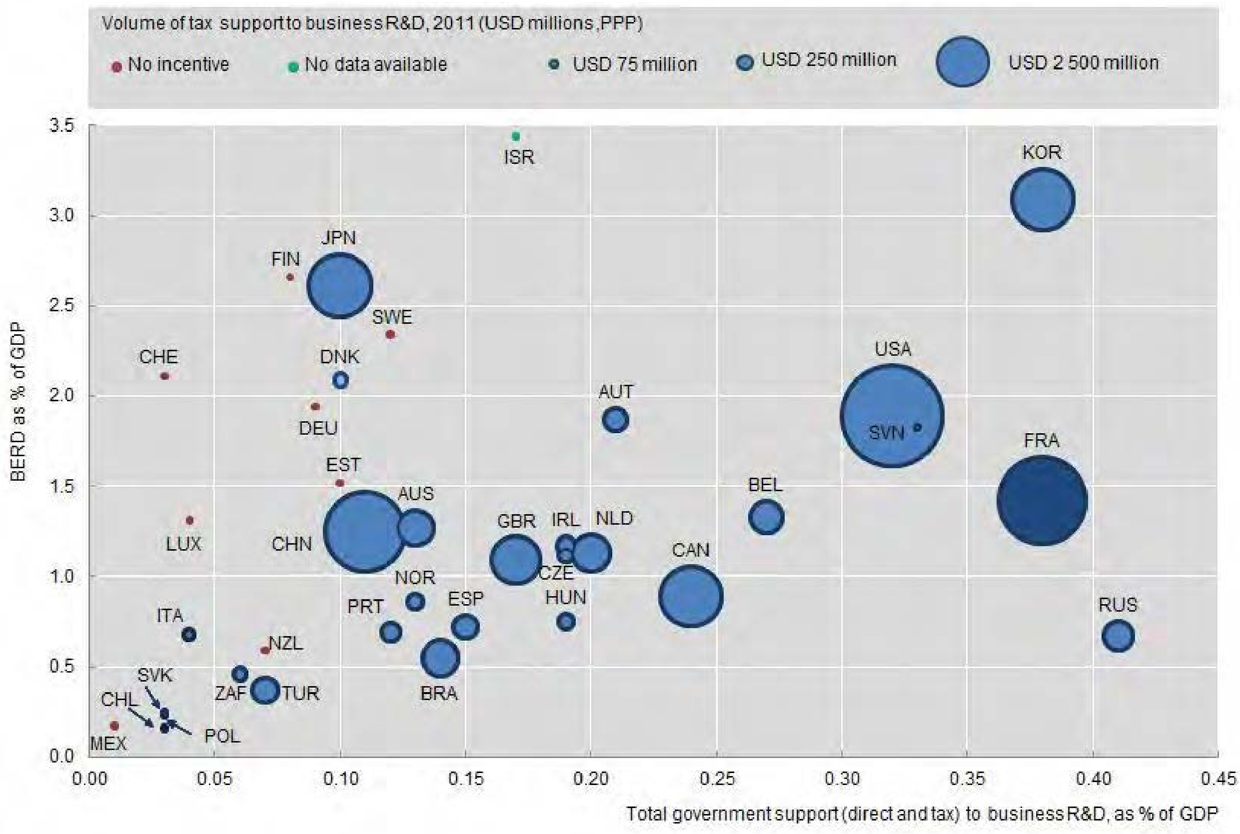
The links between the private sector and public research are tenuous. Industry, in particular, finances little in the way of public research (Figure II.1). The higher education system (including CNRS, the National Scientific Research Council) has forged only limited relationships with businesses, as can be appreciated from the low level of business-sourced funding for research carried out in higher education institutions, the meagre value of public-sector intellectual property, and the low level of entrepreneurship flowing from public research. In addition, Innovative entrepreneurs are few and far between: France falls below the OECD median in terms of patent filings by young enterprises (Figure II.1A).

Public research is not very effective. In many fields, the productivity of French public research is relatively low and bears little relation to the needs of society or the economy. Thus, despite considerable public spending on R&D (0.85% of GDP in 2010), the system produces few articles for publication in the major scientific journals. The French university system, for its part, is fragmented: it has only recently improved its research profile[1], and relatively few institutions appear in international university rankings.

One consequence of these shortcomings is that, despite recent progress, French research, and French industry downstream, are lagging behind in promising fields such as nanotechnology and biotechnology.

[1] In the French public research system, which is a dual system, PREs perform less than half of public R&D, and this ratio is moving further in favour of the universities.

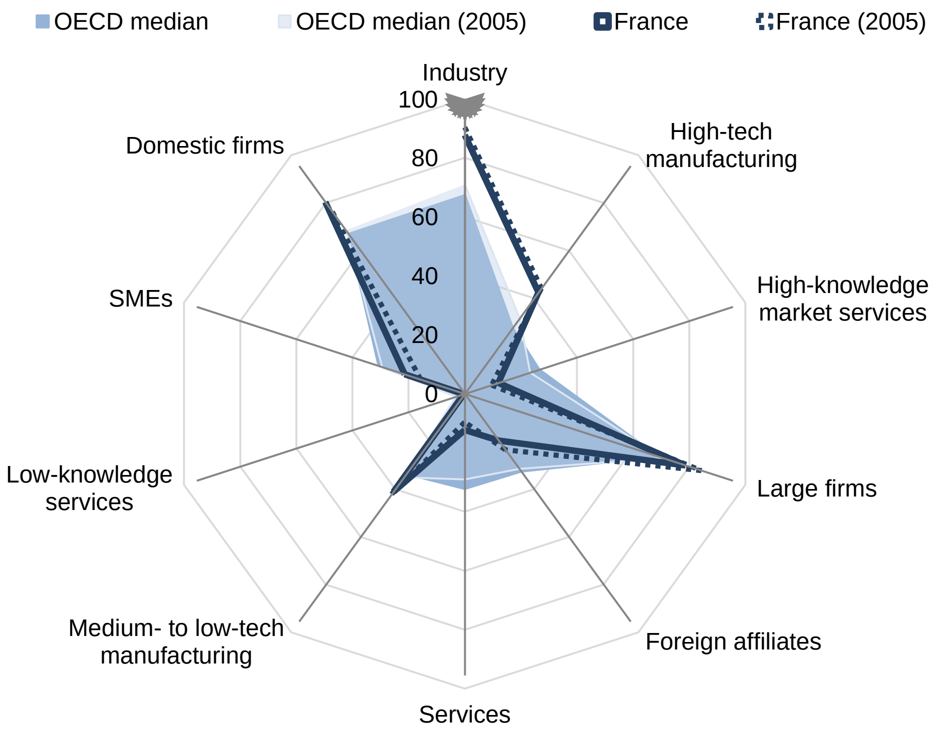
Figure II-4. Business R&D intensity and government support to business R&D, 2011 (% of GDP)



Source: *OECD Science, Technology and Industry Scoreboard 2013, based on data from the OECD questionnaire on tax incentives for R&D, public sources, and the OECD Main Science and Technology Indicators Database, www.oecd.org/sti/pist, June 2013.*

Figure II-5. Structural composition of BERD, 2009

% of total BERD



Source: OECD Science, Technology and Industry Outlook 2012.

Recent reforms and policies should be pursued but also evaluated

The many reforms and initiatives launched since the late 1990s attest to the renewal of research and innovation policy in France (see Box II.1). These reforms are intended to renew and reinforce the French system of research and innovation, and they have begun to bear fruit. They have resulted in a trend toward more thematic research, competitive financing for projects, and an expanded role for the universities. It is important to pursue these reforms and to evaluate them.

The government has also confirmed its commitment to further reforms in the area of research and innovation, taking due account of lessons from past experience. This is reflected in the new Act on research and higher education adopted by Parliament in July 2013.

Box II.1. The renewal of research and innovation policies in France in recent years

There has been a concerted effort on research and innovation spending. With the adoption of the Research Act and the allocation of additional financing, GERD (gross domestic expenditure on R&D) exceeded €35 billion in 2006. The "Investments for the Future Programme" (*Programme des investissements d'avenir*, PIA), launched as part of the 2010 recovery plan, has speeded the deployment of new Science, Technology and Innovation (STI) capacities with the injection of some €35 billion over 10 years to promote research, higher education, innovation and sustainable development.

The priorities in the **National Research and Innovation Strategy (SNRI, 2009-12)** have been geared precisely to strengthening research capacities, scientific performance and the conditions for development of new enterprises, as well as the transfer of knowledge between public research organisations and businesses (SMEs in particular).

The governance of research and higher education has recently gone through some profound reforms, including a ministerial reorganisation, the creation of agencies to finance research (ANR) and to evaluate research and higher education (AERES, replaced by HCERES in the Act of 2013, with similar responsibilities); greater autonomy for the universities (the universities reform act, LRU) and the "*Plan Campus*" designed to strengthen the universities; the pooling of activities through the creation of research and higher education clusters (PRES), replaced by the "university communities" in the 2013 Act; the reform of public research establishments such as the CNRS and INSERM and the introduction of contractual relationships between the State and research institutes. The implementation in 2009-2010 of thematic partnerships (in energy, health, ICT, environment, and the humanities and social sciences) is an additional step in improving co-ordination and programming. The 2013 Act has reinforced co-operation between the partnerships and the ANR. Budgetary measures taken in 2013 have enhanced the weight of the research institutes vis-à-vis the ANR.

The emphasis has been on reinforcing interaction between public and private players in research and innovation, especially in the context of the reform of universities and public research (with the creation of the "Services to accelerate the transfer of technology", SATT) and, previously, in the course of creating the competitiveness clusters (2004) which have since become an essential policy tool for strengthening innovation partnerships. The 2013 Act provides for such leverage.

Business R&D has also been a priority for the public authorities, particularly in the context of the SNRI. Public funding in this area has increased substantially. Indirect financing via the research tax credit has been reinforced by a major overhaul of the mechanism in 2008, while direct financing through the innovation agency (OSEO) and ANR was cut back, but to a lesser extent. Indirect financing increased from one-third to two-thirds of total public funding between 2005 and 2011, underlining the reversal of the policy mix over that period (Figure II.6). To consolidate the cash flow of businesses during the crisis, an immediate refund of tax relief claims for research was introduced for 2009 and 2010. For SMEs, the immediate refund was made permanent in 2011.

Continue the reforms of universities and public research

The independence of universities, including their control over their budgets and the hiring and remuneration of staff, should be further increased. Moreover, project-based financing by the National Research Agency (ANR) could be developed further. This mode of financing allows for thematic guidance and the promotion of excellence in research. For this reason it has been pursued vigorously throughout the OECD. It is also important to see that the allocation of human resources within the research organisations is consistent with the allocation of funding by the ANR, so as to absorb the pockets of short-term contracts that have been created in recent years. The ANR should also increase the average size of the projects it finances, and should provide more funding for administrative costs associated with research. It is also important that the new High Council for the Evaluation of Research and Higher Education (HCERES) pursues the work begun by the Agency for the Evaluation of Research and Higher Education (AERES), to help universities and research organisations allocate their resources in accordance with the level of excellence of their research units. This will entail some changes in the procedures followed by AERES, which were often excessively bureaucratic.

Strengthening the competitiveness clusters

Since 2005, competitiveness clusters have been an important instrument of French innovation policy. They have helped to encourage co-operative projects for research and innovation, involving large or small firms and public research organisations. However, the proliferation of financing mechanisms that differ according to their source, their rules and their allocation procedures has created unnecessary complexity. This situation should be corrected. It is also important to distinguish more clearly between the clusters that are primarily of local or regional interest and those with global ambitions: national support should be focused on the latter. Stakeholders in the clusters should be encouraged to pursue co-operation not only locally but also globally, in order to maintain a presence in international networks where the most inventive ideas circulate. Lastly, the governance of the clusters should make more room for small and new firms with high growth potential, as opposed to large, well-established companies. The clusters should be managed as ecosystems, in which each stakeholder has a role to play.

These objectives should be taken into account in implementing the "New Industrial France" action plan, unveiled by the government on 12 September 2013. The plan sets out a series of priorities for industrial development in innovative, high-growth sectors where French firms are well positioned. The government expects the action plan to lead to the creation of about 480,000 jobs over 10 years. Most of the 34 projects identified to date place the emphasis on technologies that promote green growth. The plan is still at an early stage of development, but it will be essential to conduct a careful assessment of the potential means of government support. The government should focus on policies that will sustain innovation and market growth, while encouraging competition in these sectors. The plan will have to be co-ordinated with other recent government initiatives, such as the "Strategic agenda for research, transfer and innovation" (*Agenda stratégique pour la recherché, le transfert et l'innovation*) published in June 2013, and with the significant commitments already undertaken in the context of the "Investments for the Future Programme". Any new public R&D investments will have to be closely aligned with the needs of the high-tech sectors identified in the plan. Entrepreneurs and SMEs should also be involved, in addition to the major players that are currently market leaders.

Continue the policy of encouraging innovative entrepreneurship

Mechanisms such as the "Innovative young enterprises" (*Jeunes entreprises innovantes*, JEI) have demonstrated their capacity to spark new business creation. The national start-up fund (*Fonds national d'amorçage*), a "fund of funds" created as part of the PIA, is another of these mechanisms. It would seem, however, that among these new enterprises very few have seen any significant growth in their first years of life. This reflects administrative barriers to growth (social regulation thresholds, size-dependent government subsidies, etc.) as well as difficulties in accessing private finance – the banks have become even more reluctant to lend to small or newly established firms in the wake of the 2008 crisis. It would be desirable, then, to make subsidies to JEIs more selective over time, so as to focus public funding on enterprises that are on a real growth path. This is the route taken, for example, by the Small Business Innovation Research programme (SBIR) in the United States, and it has also been adopted by venture capital funds. It is important, as well, to rebalance public subsidies, which are currently focused on very large companies, toward smaller firms. The Public Investment Bank created in 2013 to assist SMEs should make innovation one of its main criteria for the award of funding. Other measures could also be considered. For example, to encourage a deeper market for SME financing, government could offer first-loss guarantees on loans to SMEs that are securitised and sold to institutional investors.

On 6 November 2013, the government unveiled the broad lines of an innovation plan that seeks to promote a culture of entrepreneurship and innovation in higher education and proposes tax advantages for investment in SMEs.

Governance of research and innovation policies: co-ordination and evaluation

In order to take full advantage of the reforms made in recent years, they must be evaluated. Evaluation mechanisms need to be more systematic and thorough than is currently the case and, of course, their conclusions and recommendations need to be acted upon. Next, the policy framework should be consolidated and better co-ordinated, and the structures and mechanisms deemed redundant or ineffective should be eliminated or merged.

Public action should be co-ordinated more closely across all territories and levels. Better co-ordination of regional efforts and national policies should also be sought, with a particular focus on management of the competitiveness clusters and the workings of the new "university communities". The fact that the SATTs have a territorial scope unrelated to that of those communities or the competitiveness clusters makes co-ordination more complicated. Creation of the General Investment Commission (*Commissariat général à l'investissement*, CGI), reporting to the Prime Minister and responsible for steering the PIA, represents a new and useful body for co-ordinating national and regional programmes, provided its role vis-à-vis the many parties involved is clearly defined and recognised (otherwise there would be a risk of further deterioration in the coherence of public action).

In terms of **high-level evaluation**, one possibility would be to give the HCERES a role in continuous monitoring and horizontal evaluation of the French research and innovation system, drawing on national as well as foreign expertise. The recent evaluation of the ANR by the AERES (the predecessor of HCERES) is a move in this direction. The CGI will need to adopt an evaluation system commensurate with the complexity of the PIA, for which it is responsible.

The effectiveness of public spending on innovation and R&D should be systematically evaluated. Thus, while the fiscal cost of the research tax credit (CIR) grew by nearly €4 billion between 2007 and 2011, business spending on R&D rose by only €3 billion: it is important to examine the CIR arrangements in order to make them more effective, particularly with respect to large firms that are by far the main beneficiaries. As well, there must be assurance that the massive budgetary measures of recent years (the research tax credit, the "Investments for the future" plan) do not further undermine the share of private firms in the financing of R&D and innovation (Figure II.4).

The OECD is currently contributing to the evaluation of recent reforms, through a national survey of research and innovation policies in France. Drawing upon the example of other OECD countries that have undertaken reforms of this kind, that survey will lay the basis for more specific recommendations to the French government.

The OECD could also support the evolution of regional integration systems to make them economically more effective, while contributing to debate over the decentralisation reform now under way and building on the experience acquired from a significant number of partner countries and regions on this issue (references: OECD Territorial Reviews; OECD 2011, OECD Reviews of Regional Innovation: www.oecd.org/gov/regional/innovation). These initiatives could be part of the follow-up to the territorial review of France, which in 2006 included the recommendation to rationalise the policy regarding competitiveness clusters and to achieve better co-ordination between European contracts and project contracts (e.g. plan contracts) (OECD, 2006: Territorial Review of France).

CHAPTER III. STRENGTHENING COMPETITION AND THE REGULATORY FRAMEWORK

France can do much to encourage innovation, enhance factor productivity and boost growth by taking steps to reinforce competition and reduce the restrictions and charges that now weigh upon businesses. This chapter presents an overview of the challenges in the area of competition policy, and offers a more specific analysis of competition issues in selected key sectors.

Overview

The administrative burdens that weigh upon businesses as well as the many obstacles to competition continue to hold back economic growth and they hobble the ability of French enterprises to thrive in a global economy that is becoming increasingly competitive.[2] In particular, there are still a number of obstacles to competition in the regulations governing the provision of services to businesses and in some liberal professions. The high costs and inefficient service delivery that result from those regulations can compromise business activity and have a throttling effect on the economy. **According to a recent OECD study, if France were to improve regulation of its product markets it could achieve a significant increase in overall factor productivity over the next 10 years** (Bouis and Duval, 2011).

Product market regulation in France is particularly restrictive in **the network industries** and in **retail trade**, two sectors in which productivity performance has fared poorly in comparison to other sectors of the French economy (cf. Chapter I).

Stronger competition would encourage firms to deploy their physical capital and their workforce as efficiently as possible, to acquire leading-edge technologies, and to innovate in order to preserve their technological advantage and their competitiveness. Together with a reduction in the constraints and charges that now burden businesses, stronger competition would encourage innovation, boost productivity, and thereby support growth.

Action on the following fronts is called for, in particular:

- Institute a regulatory strategy that ensures coherence among the initiatives now under way to make the business environment more favourable.
- Sift through existing regulations in certain key sectors of the economy in order to eliminate or significantly reduce obstacles to competition.
- Strengthen local government capacities in the area of regulatory policy.
- Alleviate the regulatory obligations associated with the social thresholds in firms.

2 See OECD (2011), Product Market Regulation Database; Woefl, A. et al. (2010), "Product Market Regulation: Extending the Analysis Beyond OECD Countries", OECD Economics Department Working Papers, No. 799.

More generally, **the OECD recommends that governments should consider whether their regulatory objectives require restraints on competition**, and if they do not, that they should review the regulations in question, with input from their competition authorities. On this point, President Hollande declared during the election campaign that he was ready "to examine case-by-case what France might gain from greater openness in regulated professions, and what would be the risks in terms of employment and quality of services". To assist governments in such a process, **the OECD has developed the Competition Assessment Toolkit to evaluate, from a competition viewpoint, the regulations applicable in different sectors of the economy, and to identify pro-competition alternatives.** The French authorities could use this method to improve the regulatory framework and bring it more closely into line with the principles of competition.

Strengthening competition in retail trade

Competition is particularly weak in the retail trade sector, with harmful consequences not only for consumer purchasing power but also for employment. For example, retail mark-ups are among the highest in the OECD, and they have risen since the 1990s. The scarcity of competition in retail trade also reflects the structure of the market: the five biggest central purchasing agencies account for nearly 90% of consumer goods and fresh produce sales[3], and the five biggest retailers hold 70% of the market between them. Retail market concentration, however, is very similar in Germany.

Market structure and the effective degree of competition have been strongly influenced (as has their impact on prices) by commercial zoning rules and restrictions on the terms and conditions negotiated between retailers and their suppliers. Restrictions on "loss leader" sales in supermarkets (under the Galland law), together with obstacles to entry designed to curb rivalry (the Raffarin law) have prevented the emergence of real competition. The Raffarin law has further tightened an already restrictive regulatory regime that limits access by new entrants to the retail sector.

The Economic Modernisation Act adopted in 2008 relaxed these two regulations but did not completely do away with them. While prices can be negotiated more freely than before, the prohibition on selling at a loss is still in force. Predatory pricing by firms with a dominant market position is in most cases already prohibited under competition law. The outright ban on selling at a loss is therefore superfluous, especially now that the new competition legislation is in place and the Competition Authority is an effective and respected body. This ban deprives consumers of potential advantages and restricts competition by forbidding retailers, and new arrivals in particular, from making full use of the price formation instrument to establish their position in the market.

Economic analysis has shown, moreover, that in many sectors productivity gains come primarily from the entry of new players who bring with them better production techniques and can steal a march on existing suppliers. Consequently, to restrict access whenever it would cause existing operators to lose market share, as the law indicates, is likely to penalise productivity and efficiency.[4] The entry of new players and the introduction of competition in retail trade would lower prices for consumers and would also create jobs and boost production, as the development of supermarkets in many countries has demonstrated.

Other obstacles to competition in the retail sector can be found in specific markets. For example, price competition is prohibited in bookstores. Similarly, and despite some recent relaxation, store opening hours are still highly regulated, particularly when it comes to Sunday trading. Lastly, measures limiting entry to many professions (such as pharmacy) are needlessly strict.

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3 OECD (2009), Economic Survey: France, OECD Publishing.

4 See Bertrand and Krammarz (2002) and Jodar-Rosell (2009).

Finally, in addition to regulatory barriers, the creation of new stores is constrained by behavioural barriers. The Competition Authority (2010) has complained about the length and rigidity (non-compete clauses, priority rights, etc.) of contracts that restrict the ability of independent shops to shift between rival brands, resulting in high concentration in some local markets. The draft "Lefebvre" law of June 2011 aimed at strengthening consumers' rights, protection and information, and called for reducing these obstacles to competition among brands. Although it was adopted by the Senate in December 2011, it has not yet been given second reading in the National Assembly.

Strengthening competition in the transport sector

Rail transport is another sector in which France lags behind most European countries in terms of liberalisation and competition, a situation that generates extra costs for users and for the public purse. The incumbent operator (SNCF) was sanctioned in 2012 for practices that hindered new entry on the freight market. The government's recent decision to merge the rail network manager (RFF) and the SNCF is a step backwards, even if the 1997 separation was handled in a way that did not sufficiently strengthen competition. Looking ahead, the operational and legal separation of train stations from the SNCF is advisable. The German example has shown that the special status of railway workers for the incumbent operator's new recruits must also be abandoned if there is to be real competition in the sector.

Finally, competition in transport is also inter-modal, and the entire sector - including air and road transport - should be placed under a single independent regulator. For example, insufficient interconnections between ports and the railway network as well as the poor quality of industrial relations and the low level of competition in port activities are often cited to explain the substantial decade-long loss of market share that French ports have suffered.

Strengthening competition in the energy sector

Government intervention in energy markets is in order to protect vulnerable population groups and to ensure that market prices reflect the environmental costs of certain forms of production. But it is essential to promote competitive energy markets. There are of course some activities in the power sector where competition is not possible or even desirable, such as the operation of high-voltage lines, which constitutes a natural monopoly. Nonetheless, wherever competition is possible, as in the area of power production, it can lower costs just as effectively as in other sectors. Competition in retail sales to final consumers, by encouraging wholesalers to purchase energy from the lowest bidder, would help to exert pressure on producers while ensuring that the final consumer will benefit from greater competition.

In France, electricity prices are relatively low by comparison with other countries, but the real cost of electricity would not necessarily be so low if all the costs of producing nuclear power, including waste treatment and the dismantling of decommissioned stations, were imputed to the sector. Moreover, stronger competition would allow the entry of new players and would exert downward pressure on the cost of new installations.

Between 2000 and 2004, businesses gradually acquired the freedom to choose their energy supplier. With the full opening of gas and electricity markets to competition for domestic customers in 2007, France has taken a great leap forward. All domestic customers have been free since July 2007 to choose their electricity and natural gas supplier. The accounting and legal separation of distribution networks became a reality at the beginning of 2008, when the historic operators, EDF and GDF, created distribution subsidiaries.

It is too early to assess the impact of these reforms on domestic consumers. Nevertheless, **although competition seems to have gained some ground, it is still weak** for several reasons:

- Ownership of the networks has remained in the hands of the historic operators, EDF and GDF.
- The coexistence of regulated tariffs and market prices is still a major obstacle to real competition on the retail market for electricity.
- EDF continues to dominate the wholesale market, and this does little to enhance competition.

The government's initial response to consumer concerns about energy prices was to declare its intention to reduce those prices. Price controls are not however a lasting solution, as demonstrated by the staged increase in power prices that was recently announced. A study of energy market operations by the Competition Authority may lead to more effective solutions, as experience in certain OECD countries suggests. In this area, the OECD can offer its support by placing the results of the domestic study in perspective, and encouraging the exchange of experience with respect to analyses and remedies.

Class-action lawsuits

When the OECD competition committee examined the issue of class action suits in 2006 (before the reform of French competition law and establishment of the Competition Authority), a consensus emerged that, by offering consumers and small enterprises a mechanism of recourse, **class actions could bolster the deterrent effect of administrative penalties in antitrust procedures**. Representatives of several countries, however, expressed concern over the preponderant role played by lawyers in such lawsuits, and the secondary importance often accorded to consumer interests, particularly where triple damages and interest are allowed (as in the American procedure) and if the payment of legal fees is conditional upon the success of the suit. Moreover, **in some cases, class-action suits can actually harm consumer interests,** particularly if such recourse ends up with "coupon settlements" whereby each member receives some modicum of compensation but is barred from taking further action. Nevertheless, it seems clear that more and more countries are seeking to facilitate class actions and to broaden their scope to include infringements of competition law.

The OECD has long recommended reforms to facilitate class actions in France for competition law infringements. In its 2013 economic survey of France, the OECD recommends introducing class-action lawsuits on behalf of consumers, notably in cases of anticompetitive practices. The Economic Analysis Council (*Conseil d'analyse économique*, CAE) has also called for reform of the class-action mechanism in France, as part of a broader set of measures to protect consumers. In particular, the obstacles to action of this kind should be removed, either by adopting a tacit consent rule according to which consumers are automatically included in a class action unless they decide to exclude themselves, or by retaining the current rule of voluntary adhesion, together with stepped-up publicity for actions of this kind.

Consumers could take advantage of class actions in various fields, including competition law, which could constitute an interesting test case, as **private actions (generally brought by companies) are now possible in France**. Although the Competition Authority has the power to impose sanctions and corrective measures in cases of anticompetitive practices, the injured parties can also try to obtain reparations through the courts. Since 2005, 16 competition law-specific tribunals have been established, including eight civil jurisdictions competent to rule on cases involving private parties. For this reason, judges are becoming increasingly specialised in competition law and in determining damages and interest.

In March 2010, the French court of appeals (*Cour de cassation*) issued a landmark ruling in the case of Lectiel v. France Telecom, confirming the possibility of a new procedure in which the parties could cite a decision of the Competition Authority to demand reparations. A subsequent ruling on the international lysine cartel served to specify the applicable framework. **In France, however, there is no obligation to**

produce documents comparable to the "discovery" rule[5] in force in the United States, and this situation may limit the effectiveness of private actions, including class actions.

The French consumer code already contains provisions that foresee the possibility of class actions. The associations concerned may represent consumers, including through a joint representation action. To have standing, consumers must give their consent. However, it is difficult for them to do so, as the consumer associations are not authorised to make public their intent to launch such an action. The most emblematic action to date was brought (pursuant to a judgment confirmed by the *Cour de cassation*) because the *UFC Que Choisir* consumers' association had published a notice at its website violating a publicity ban. As the CAE report stresses, it is possible then to make relatively minor amendments to the rules limiting class actions as contained in the consumer code in order to enhance the chances of bringing such actions in the competition field, without necessarily opting for a system of tacit consent, which is rare in Europe.

The Senate's adoption, on 13 September 2013, of class action in the context of the draft consumer law is an important step. This measure opens the way for consumers to seek redress from firms that violate the consumer code (abusive or fraudulent practices, misleading claims) as well as anticompetitive practices. Consumers gain a route of collective recourse for economic damages, which will be taken over and organised by authorised consumer associations. These will organise and prepare the case for trial, thereby sparing consumers the cost and effort implied by such action.

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[5] Discovery is a technique whereby the defendant firm is obliged to produce evidence. It includes the possibility of "fishing expeditions", a technique that involves gathering claims from all potential victims for any damages they may have suffered with a view to constituting evidence against the defendant firm, which is obliged to supply all the information at its disposal.

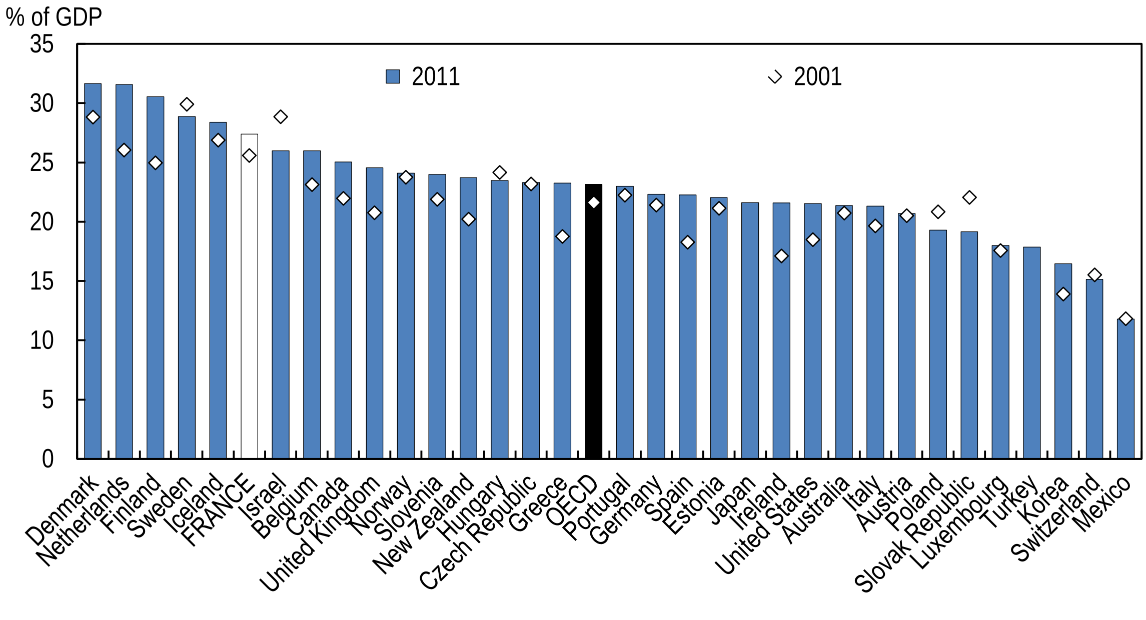
CHAPTER IV. MAKING THE PUBLIC SECTOR MORE EFFICIENT

The public sector plays a considerable role in the French economy and in French society. The French model is however characterised by great rigidity in the management of human and material resources. This hampers its ability to adapt to technological trends and the shifting demands of users, generates additional operating costs, and makes it more difficult to implement structural reforms.

Public spending represented 55.9% of GDP in 2011, the second-highest ratio among OECD countries after Denmark. Under these conditions, the search for productivity gains within the French economy cannot be limited to private market activities, and any global analysis of French productivity will have to pay attention to productivity in the public sector. Productivity gains in this sector would help to revive French competitiveness as well as to restore balance to public finances.

The cost of producing public services – defined as the sum of compensation of government employees, outsourcing of goods and services used and financed by general government, and consumption of fixed capital – represented 27.4% of GDP in 2011, placing France in sixth position among OECD countries, behind Sweden and Iceland (Figure IV.1). A deliberate effort to reduce public sector production costs by 1% a year over four years, then, could yield savings of slightly over one percentage point of GDP, or the equivalent of €20 billion. This figure, while theoretical, makes it possible to appreciate what is at stake.

Figure IV-1. Production costs of public services (2001 and 2011)



Source: OECD (2013) Government at a Glance 2013.

The constraints on productivity gains in the French public sector are many, and can be traced to rigidities in the internal management of resources, the impact of institutional compartmentalisation, and the great complexity of internal rules and regulations.

To address this situation, France should:

- favour a strategy of identifying priorities within each field of public activity and assessing the way the public sector performs in accomplishing its mission;
- reduce "regulatory inflation" in the public sphere; and
- take greater advantage of decentralisation policies by making them more effective and developing local growth strategies.

Moreover, as in all OECD countries, if government modernisation policies and growth strategies as a whole are to be successful, steps must be taken to restore trust in government.

Recent efforts at modernising the public sector

The reform effort that was initiated by the previous administration under the generic term "General Review of Public Policies" (RGPP) represented an important step forward in modernising the State. The RGPP was inspired in part by foreign experience with government reform, including measures to reform and optimise structures, to merge services, to reform internal governance and management, and to improve the quality of service. Of the 500 measures planned, however, only a third have been implemented. That reform also suffered from limitations in terms of internal communication and commitment and support for human resource management. The reforms were confined, moreover, to central government and gave little thought to broader, cross-cutting issues such as the role of local governments and public operators.

At the end of 2012, the government launched a plan for the "modernisation of public action" (MAP). It was aimed at all levels of government and sought to identify reforms that would produce the public expenditure savings needed to achieve the budgetary goals of the government's five-year term of office while improving the quality of services to citizens (see Box IV.1). The broad thrust of the plans adopted in December 2012 indicated the following priorities:

- Simplification of administrative rules and procedures.
- A roadmap for making "e-government" available to citizens.
- An *overall evaluation of public policies* to enhance their effectiveness and to renew public services.

All the government's partners are to be involved in these efforts, in particular the associations representing local governments, management and labour. Parliament will also be intimately associated, and close co-ordination among public officials and personnel organisations is planned in order to specify the forms of social dialogue that must accompany the modernisation of government.

Box IV.1. Progress in modernising government [“action publique”]

Interministerial committees of April and June 2013

In April 2013, on the occasion of the second Interministerial Committee for the MAP (CIMAP), the government presented the results recorded since December 2012 and announced 30 new decisions taken during the first quarter of 2013 to strengthen and prolong the modernisation and simplification initiative.

For the year 2013:

- 40 public policies will have been screened, representing €250 billion or more than 20% of annual public spending (€1 120 billion) – the rest will be reviewed by the end of 2017.

- 101 advisory boards will have been abolished.

- 15 operators will have been merged, re-integrated into the central administration, or eliminated.

- Savings of €2 billion on procurement and €2 billion on subsidies to business through 2015 will have been identified.

- 9 new evaluations will have been undertaken, together with a general moratorium on rule-making, and new simplifications will have been identified.

In July 2013, the government issued the third CIMAP report, announcing a new series of measures to give substance to its plans for reform and renewal. They include:

- A €3 billion reduction in the deficit as of 2014.

- Reform of aids to business, based on four priorities (investment, innovation, industry and international), in this way freeing up €1.5 billion in 2014 (half of the total reductions planned) thanks to this reform and its related measures for administrative simplification.

- 200 administrative simplification measures for citizens, government and enterprises (including an extension of the validity of the identity card from 10 to 15 years and the dematerialisation of restaurant licenses).

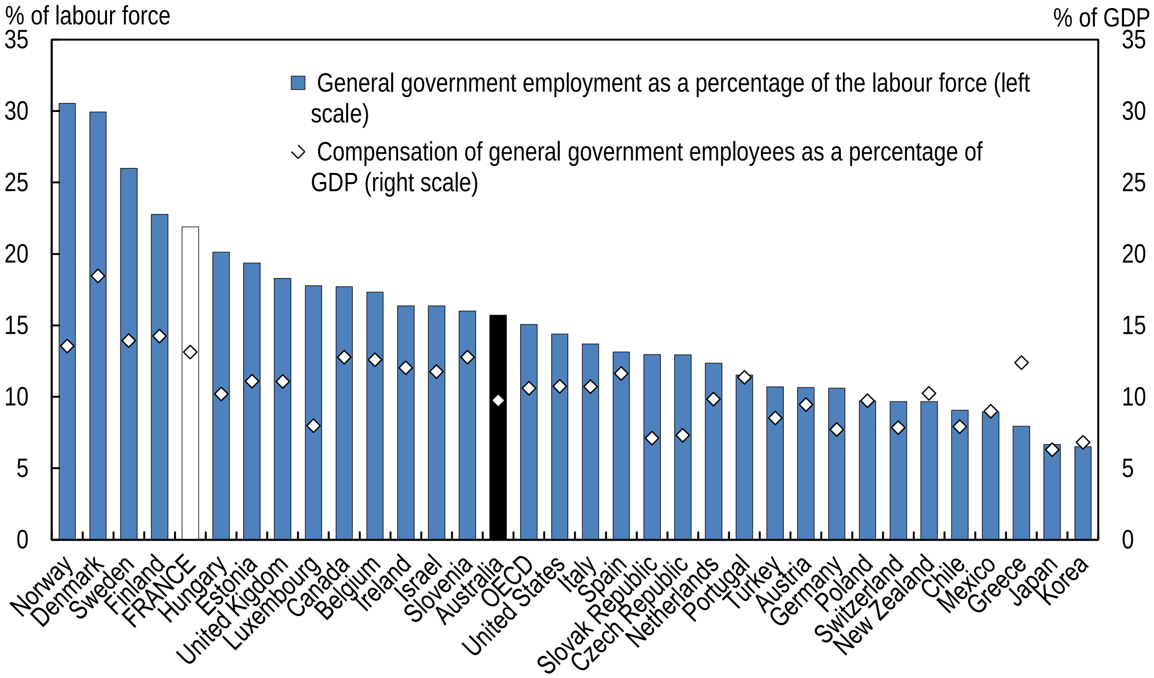
- A commitment to continue the simplification effort for three years, in close co-operation with the private sector, central government, local authorities, and citizens.

- Measures to reinforce the role of the local authorities (see below).

These measures represent significant progress, but they overlook some structural issues, related in particular to the growth in public employment. A good part of the savings achieved relate to spending on government interventions and transfers, in the context of the announced reforms to family assistance policies and aids to business following the public policy reviews. In structural terms, the efforts focus primarily on public operators and public procurement. In terms of levers for reducing the deficit, an important feature is the announced freeze on the wage adjustment index for the civil service, which is key to a gradual restoration of structural competitiveness, even if payrolls continue to rise automatically with "wage drift" due to seniority and promotions. In a low-inflation economy, however, this offers only limited intervention levers.

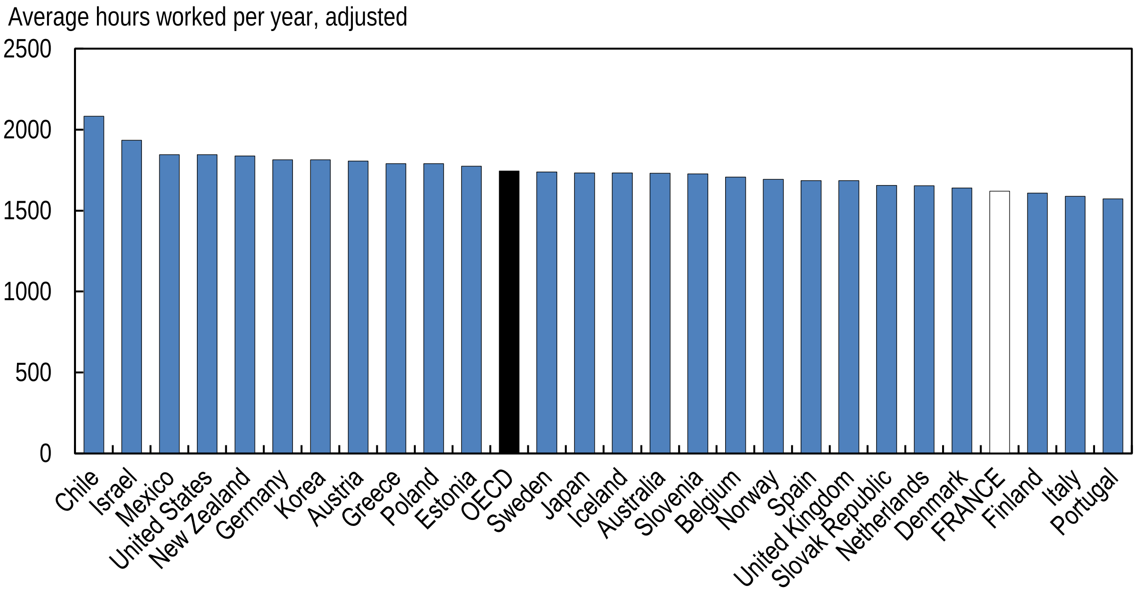
Any consideration of productivity in the public sector must sooner or later address the question of the structural change in public employment, which represents 21.9% of the national workforce, well above the OECD average, at a cost of around 13% of GDP, which is close to the OECD average (Figure IV.2). The average unit cost per employee, then, appears to be somewhat below the OECD average, a fact explained in part by the number of hours worked per employee, which is among the lowest in the OECD (except for Portugal, Italy and Finland: see Figure IV.3).

Figure IV-2. Employment in general government and expenditure on remuneration of general government employees (2011)



Source: *OECD (2013) Government at a Glance 2013.*

Figure IV-3. Average annual working time of central government employees (2011)



Source: *OECD (2013) Government at a Glance 2013*

The budget as a tool for making better use of staff

The progressive implementation of the "Budget Framework Act" (*Loi organique relative aux lois de finances*, LOLF) has led to increased use of performance-based budgetary management tools, at least within central government. But there is still room for employing them more widely to facilitate the needed long-term adjustments.

To realise latent productivity gains in the production of public services, **staff will have to be better motivated,** and public action will have to be formulated in terms of performance. Also, undifferentiated rules of general application should be eschewed in favour of a **strategy for identifying specific priorities within each field of public action, and assessing performance in the achievement of public service missions.** Setting objectives and introducing a culture of evaluating their achievement should be a guiding theme of a cultural change within the civil service that will enlist employees in a strategy for change.

Reducing the regulatory burden on the economy, including the public sphere

The sheer volume and complexity of regulation is a significant obstacle to productivity gains in the French public sector, and in the economy as a whole. Efforts have been under way for some years now to better appreciate the impact of regulatory inflation and to reduce the administrative burden that weighs upon businesses and citizens (the Warsmann report). Barometers have been established to gauge the perception of public services, and specific actions have been taken to facilitate day-to-day transactions by citizens. These efforts have yielded some real improvements, and they will be pursued in the context of the "simplification shock" announced in July 2013 (see Box IV.1). Some 200 new simplification measures have been announced, including tacit consent and integrated, Internet-based management of certain procedures.

However, despite the notable improvements made, these measures tend to rely on sporadic efforts without any permanent institutional framework for appreciating upstream regulatory inflation. Moreover, little thought has been given to assessing the impact of regulatory inflation within the public sphere. This is a very important aspect, as much for the deconcentrated administrations as for public corporations and local governments. This burden has never been evaluated, nor has there been any specific effort at simplification. This field demands an additional effort, along the lines of those made in the countries of northern Europe, such as Denmark and the United Kingdom. A broadening of administrative simplification efforts should make it possible to discern latent productivity gains in the public sphere. These efforts could benefit from the work done at the OECD in the area of regulation within governments. A 2008 OECD report, *Regulation Inside Government*, provides a theoretical and conceptual framework for such action. As well, the 2010 report on administrative simplification identifies clearly the issues at stake at the sub-national levels.

Administrative simplification also requires better articulation of regulatory governance policy at the sub-national level, and clarification of responsibilities between that level and central government. Enhanced consultations with local authorities during the process of preparing regulations would make it possible to appreciate the local impact of proposed laws and decrees, and to evaluate the impact more broadly, beyond its financial aspect. This point is in fact reflected in the framework of reforms now under discussion for modernising government at the sub-national level. It would be desirable to broaden the responsibilities of the Advisory Board for Regulatory Evaluation (CCEN), the purpose of which is to ensure that proposed regulations at the central government level take into account their downstream financial effects (so as to avoid "unfunded mandates": OECD 2010, *Better Regulation in Europe*, France). A number of good practices in this area have been identified internationally and could be put to use in France.

Making decentralisation work better

Enhancing the transparency and effectiveness of decentralisation policies

Decentralisation policies seek to redistribute powers between central government and local authorities in order to enhance the effectiveness of public action and promote grassroots democracy. There have been successive waves of decentralisation in France, from the first moves in 1982-1983 (Decentralisation Act I) through Act II (2003-2004), the law of 15 December 2010 and the successive budget laws that overhauled the local taxation and equalisation system, to the reform that is currently being completed (Decentralisation Act III).

The result is a territorial political and administrative organisation that is very complex. In particular:

- Local fragmentation is unequalled in OECD countries, as evidenced by the number of municipalities (36 700 in metropolitan France in 2012), often of small size: 92% of French communes have fewer than 3 500 residents, and the average municipal size is among the smallest in the OECD (1 780 residents in 2012). In addition to the communes, there are nearly 2 500 "intercommunal" groupings of municipalities with their own taxation powers, 101 departments and 27 regions.
- The lack of clarity in the distribution of powers among the different levels of sub-national government is the source of much overlapping and confusion in decision-making. There is in fact no clearly identified lead entity. A further issue is the spread of "hybrid" entities, the "*intercommunalités*" (intercommunal groupings), which have significant resources and taxation powers but are not elected by universal suffrage.
- There are still some important deconcentrated structures of central government at the regional and local levels, despite the strengthening of sub-national governments as the result of successive decentralisation policies.

The crisis led many OECD countries (for example, Greece, Portugal, United Kingdom, Finland, Netherlands, Italy, Spain) to reform their territorial organisation and the relations between the different levels of government. In France, despite the growing pressures on local budgets, as a result of the crisis and the stiffening of budgetary consolidation policies (freeze on transfers to local authorities, policies for achieving savings and sharing responsibilities, there is a good deal of resistance to territorial reform. Thus, a portion of the 2010 territorial reform (which instituted common "territorial councillors" for departments and regions) has been repealed, while the "new communes" (merged communes) formula has not produced the anticipated results. The proposal to merge the region of Alsace with its two component departments to constitute a single "territorial collectivity" was voted down in a recent referendum.

Furthermore, at the central government level, recent reforms to make the deconcentrated administrative structures more efficient have yet to result in any redefinition of State missions in the regions, although this would help to clarify local responsibilities and to eliminate a large number of duplications. Such clarification would produce gains in efficiency and productivity, while making it possible to define economic, social and environmental development strategies at a less fragmentary and more meaningful scale.

In this context, the new decentralisation reform launched in May 2013, in the form of three draft laws on "decentralisation and reform of public action," is championing a new approach, based on "recognising the diversity of territories within the unity of the Republic" or, in other words, adapting modes of organisation and policies to the distinctive characteristics of territories and on an appropriate scale, as well as authorising experimentation.

The first draft law on the "modernisation of territorial government and affirmation of metropolises" organises responsibilities around the concepts of "lead entity" (*chef de file*) and the “territorial governance pact.” It also establishes 10 large “metropolises” (and reinforces their governance, responsibilities and resources. In particular, the metropolitan areas of Paris, Lyon and Aix-Marseille-Provence will be given a special status, adapted to each territory. The second draft law, on "mobilisation of regions for growth and employment and promotion of territorial equality", concerns tools for economic development, employment, youth and regional planning. Lastly, the third draft is devoted to the development of "territorial solidarity and local democracy", and establishes a "High Council of the Territories" for dialogue between local authorities and the central government.

Improving the institutional organisation of the territories and fostering dialogue with central government are crucial for achieving productivity gains. This assertion holds not only from a general point of view but also in terms of sector-specific policies, as can be appreciated in various projects for evaluating public policies launched recently by the government. Water policy is a prime example: despite resounding success in terms of watershed organisation and cost recovery, questions of water governance are still a problem (OECD, *Water Governance in OECD Countries*, 2012).

In the current context of tightly constrained local resources, while it is essential to adjust sub-national spending, it is just as important to preserve sub-national investment. Local authorities are responsible for more than 73% of public investment in France, versus an OECD average (unweighted) of 64%. Within Europe, sub-national public investment dropped by nearly 20% over three years, from 2010 to 2012. However, the efficiency of public investment, which is a responsibility shared among all levels of government, also depends on the quality of its governance: enhancing that quality will require co-ordination across levels of government and policies, adapting policies and institutions to the appropriate scale from the economic, social and environmental viewpoints; enhancing management and learning capacities, especially at the sub-national level; and having in place a solid regulatory, financial and public procurement framework (OECD, "Draft OECD Recommendation on Principles for Effective Public Investment – a Shared Responsibility across Levels of Government", 2013-2014).

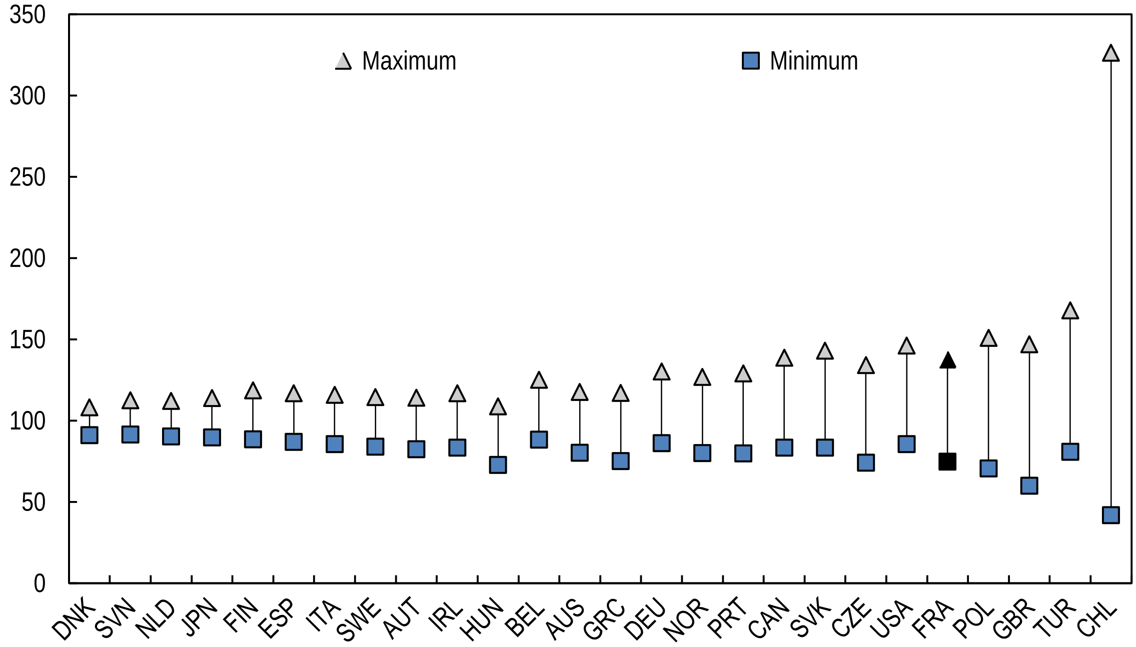
Developing local strategies for productivity and growth

A revised framework of action and better articulation of the role of local authorities would do much to revitalise the contribution of local governments to growth policies. There can be no uniform responses in a country like France, where regional productivity disparities are so great. Taking GDP per worker as an indicator, France ranks fifth among the OECD countries where these discrepancies are greatest. GDP per worker in Normandy or Brittany, for example, was a approximately 60% of that of a worker in the Ile-de-France region in 2010, and around 80% of the national level (Figure IV.). The crisis has only deepened those inter-regional disparities (see OECD *Regional Outlook* 2011).

Uniform national regulations or policies are bound to have only partial, and perhaps inappropriate, effects unless this territorial variety is taken into account. While it is true that 4% of regions, essentially metropolitan regions, account for a third of aggregate growth in OECD countries, the remaining two-thirds of that growth comes from intermediate and rural regions. The levers for future growth must therefore preserve the driving force of the more productive regions but must also allow the potential of other regions to be realised. It is through a strategy for national growth and mobilisation of regional and local decision-makers that the State can exploit this diversity to the full.

Figure IV-4. Range in regional GDP per worker

(as a percentage of national average, 2010 or latest available year)



Source: OECD Factbook 2013: Economics, Environmental and Social Statistics.

Territorial strategies are crucial for policies that seek to reinforce labour qualification, support businesses, and strike a proper balance between industrial specialties and innovation capacity. This was the approach taken by the United States in the 2012 budget, for example, with its emphasis on "place-based policies" targeting metropolitan and rural areas and encouraging public action across sector lines and traditional institutional boundaries. [6] Synergy between different public policies can only be achieved when the policy mix is geared to the appropriate territorial level, in particular that of the regions.[7] The decentralisation reforms now under way are designed to seek out the potential for "investment, training and innovation in French territories".

Innovation is even more concentrated in territorial terms than is industrial output. The regional authorities could play a pivotal role in economic development by co-ordinating efforts between metropolitan, periurban and rural areas and taking an active part in preparing strategies for the future. Thus, a public investment bank could be created and through its regional funds it could support SME development and conversion to green growth. Refocused and more effective regional authorities could co-ordinate productivity strategies at the sub-national level, in renewed partnership with the central government.

In the OECD there is recognised expertise in promoting innovation through regional development policies (OECD Territorial Reviews; Regions and Innovation Policies; www.oecd.org/gov/regional/innovation; etc.). These initiatives could be part of the follow-up to the 2006 territorial review of France, which recommended rationalising policies for the development of competitiveness clusters (see chapter devoted to innovation).

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6 http://www.whitehouse.gov/sites/default/files/omb/assets/memoranda_2010/m10-21.pdf.. The "clusters" approach is also promising. OECD (2007) "OECD Reviews of Regional Innovation. Competitive Regional Clusters. National Policy Approaches".

7 OECD 2013, "Redefining Urban".

Promoting integrity and transparency in public life

The promotion of transparency and integrity in public life is one of the key themes on the agenda of President Hollande. As in other OECD countries, action on this front is essential to support policies for exiting crises, by restoring the trust of citizens and businesses in the workings of government.

An advisory panel (the Sauvé Commission) was established in 2011 to conduct a survey of regulatory and institutional frameworks for preventing conflicts of interest in public affairs. The commission's recommendations, however, have yet to result in any reforms. To revive work in this area, a commission on "renewal and ethics in public life" was created on 16 July 2012. Chaired by Lionel Jospin and comprising individuals recognised for their knowledge of public life, that commission had the task, among others, of "*making proposals for preventing conflicts of interest both among parliamentarians and members of the government and among senior civil servants, as a means of guaranteeing transparency in public life, through the definition of ethical rules.*"[8]

On the basis of the recommendations from the Sauvé and Jospin commissions, the Prime Minister presented draft legislation (a framework law and an ordinary bill) concerning transparency in public life. The draft calls for taking a preventive approach to conflicts of interest, and defines the purpose clearly: "*to prevent any interference between a public interest and a private interest that might compromise the independent, impartial and objective exercise of a public function*".[9] The law provides for recusal mechanisms, requiring government members and public officials in a situation of conflict of interest to abstain from taking part in public decision-making processes. It also institutes a system for placing in trust the financial assets of government members and senior civil servants involved in the economic domain. The draft law would institute a senior authority for transparency in public life, to replace the current commission on financial transparency. Senior political and administrative officials will have to submit an assets disclosure at the beginning and at the end of their mandate, along with a declaration of interests. Criminal penalties for breach of these disclosure obligations will be reinforced. The draft bill is still under debate in the National Assembly and the Senate, and its scope of application has yet to be defined.

Among the questions that are still to be resolved (and that have been a matter of sharp debate within the French political class) are the implementation of the High Authority for Transparency in Public Affairs and publication of the asset declarations.

The 2003 OECD Recommendation on management of conflict of interest in the public service, as well as the practices implemented by member countries, have shown that asset disclosures are a key instrument for managing the risk of conflicts of interest. However, to be effective, such disclosures must contain as much information as possible for managing those risks. Members of the French government are required today to declare only their financial assets/debts and loans, and not their other private interests such as income, other employment, gifts or previous employment. Compared to other OECD countries, France seems to have set the bar rather low when it comes to declaring private interests (Figure IV.5), and declarations are given only a limited degree of publicity.

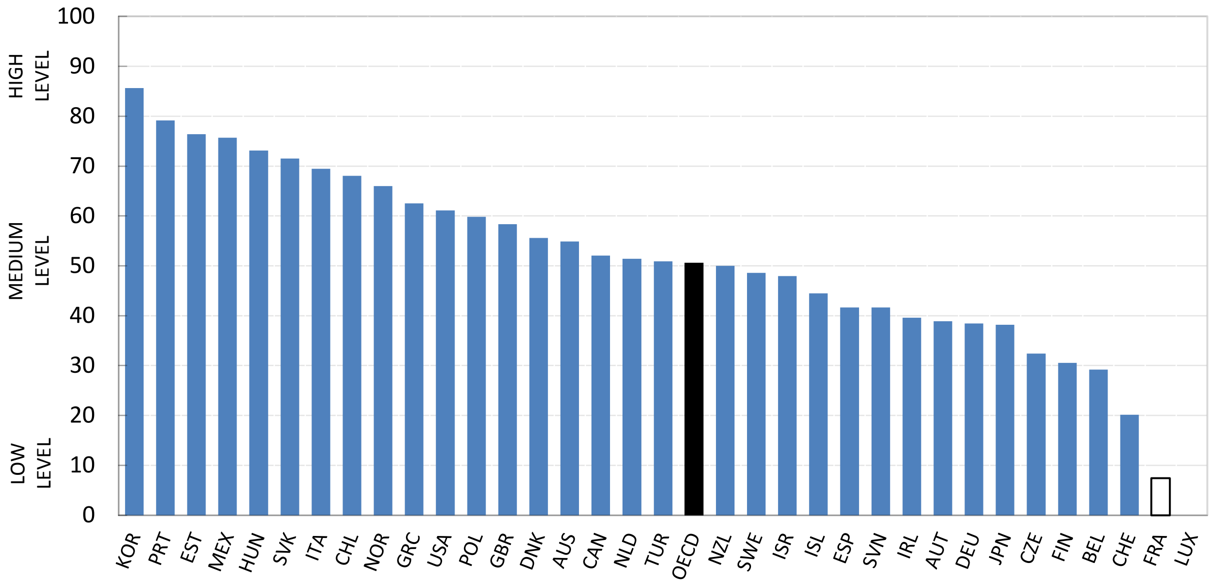
With respect to the degree of publicity for asset disclosures, it is important to strike a balance between the protection of decision-makers' private data and the demands of public transparency. To allow the competent authorities to access declarations is one solution envisioned for reinforcing control. The other solution would be to make publicly accessible any information that does not violate the filer's privacy. The institutional architecture is a determining factor for the ability to monitor the obligation to file disclosures.

[8] Decree No. 2012-875 of 16 July 2012 creating a commission on renewal and ethics in public life.

[9] *Dossiers législatifs - Projet de loi organique relatif à la transparence de la vie publique*

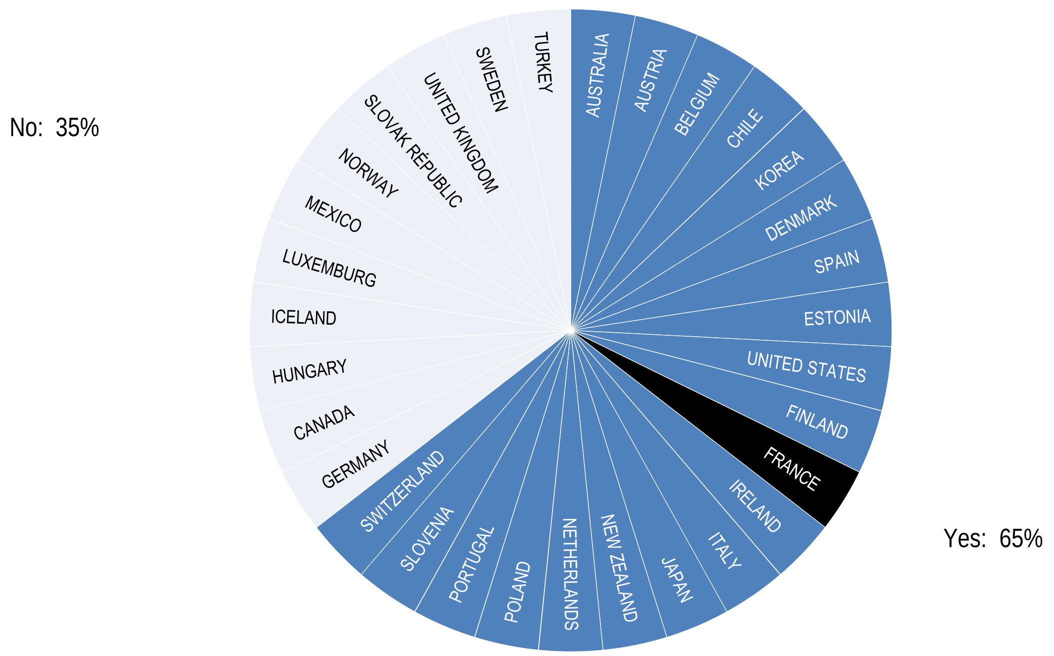
Thus, according to the 2012 OECD survey on managing conflict of interest, 65% of OECD member countries have established an office dedicated to monitoring disclosures.

Figure IV-5. Asset disclosure: level of disclosure of private interests and public availability of information (2012)



Source: *2012 OECD Survey on Managing Conflict of Interest.*

Figure IV-6. Is there a central body (not necessarily an independent agency) responsible for developing and maintaining the system for disclosing private interests?



Source: *2012 OECD Survey on Managing Conflict of Interest.*

In order to reinforce the integrity and transparency of political life in France, it is essential that these actions under way should be part of an overall framework for preventing corruption and promoting integrity in the public service. On this point, and as was stressed by the Sauvé and Jospin commissions, other supplementary measures should be introduced, such as these:

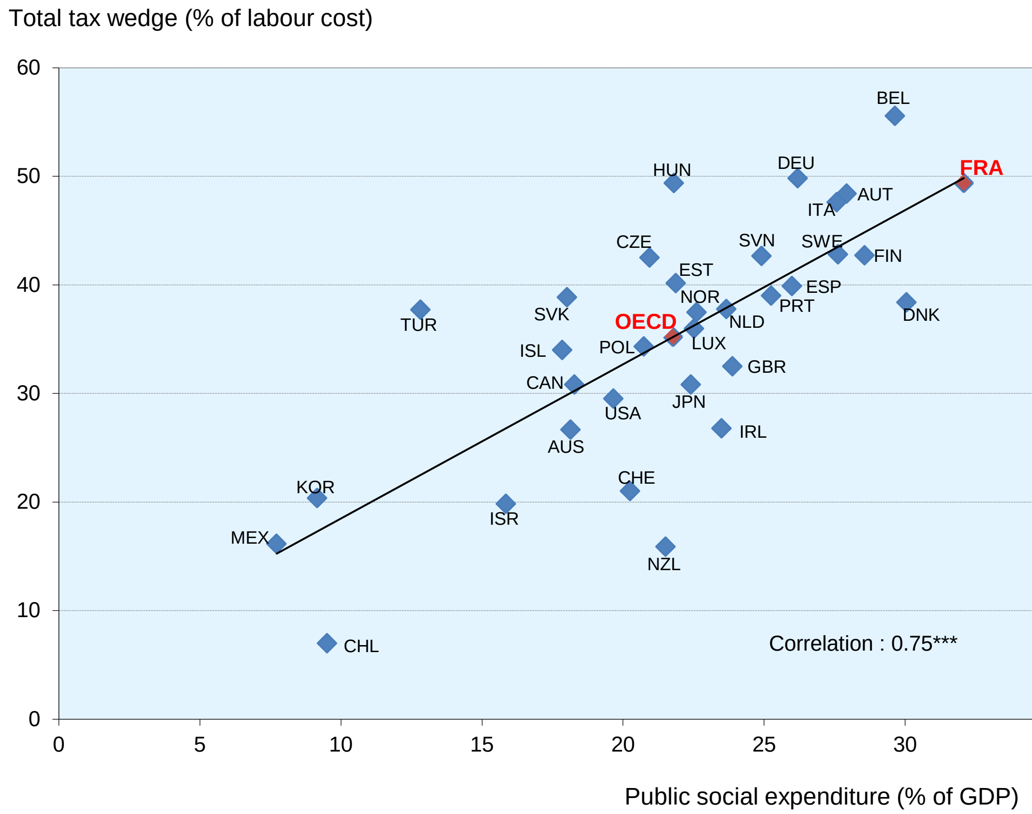
- Adopt charters and codes of ethics for implementing the principles set by law in each administrative unit, and for defining the principles that guide public action.
- Define the rules of incompatibility applicable to public officials.
- Prohibit the simultaneous holding of ministerial and parliamentary mandates with other, local mandates.
- Introduce a publicly accessible "ethical alert" device, with protection for whistleblowers.

An institutional framework that ensures follow-up and punishment when these rules are violated, together with training programmes and publicity for the rules among public officials, should also be established in order to guarantee that these measures are effectively implemented.

CHAPTER V. REFORMING TAXATION TO PROMOTE EMPLOYMENT AND INVESTMENT

The level of public spending on social protection in France is the highest in the OECD. Such high spending is reflected in a labour tax "wedge" (including social charges) which is among the biggest in the OECD (Figure V.1).[10] A single person earning an average wage gets to take home just over half of what it costs the employer, and employer contributions are very high. This big tax wedge in France applies regardless of the wage level (Figure V.2), whether it is measured in average or marginal terms (Figure V.3).

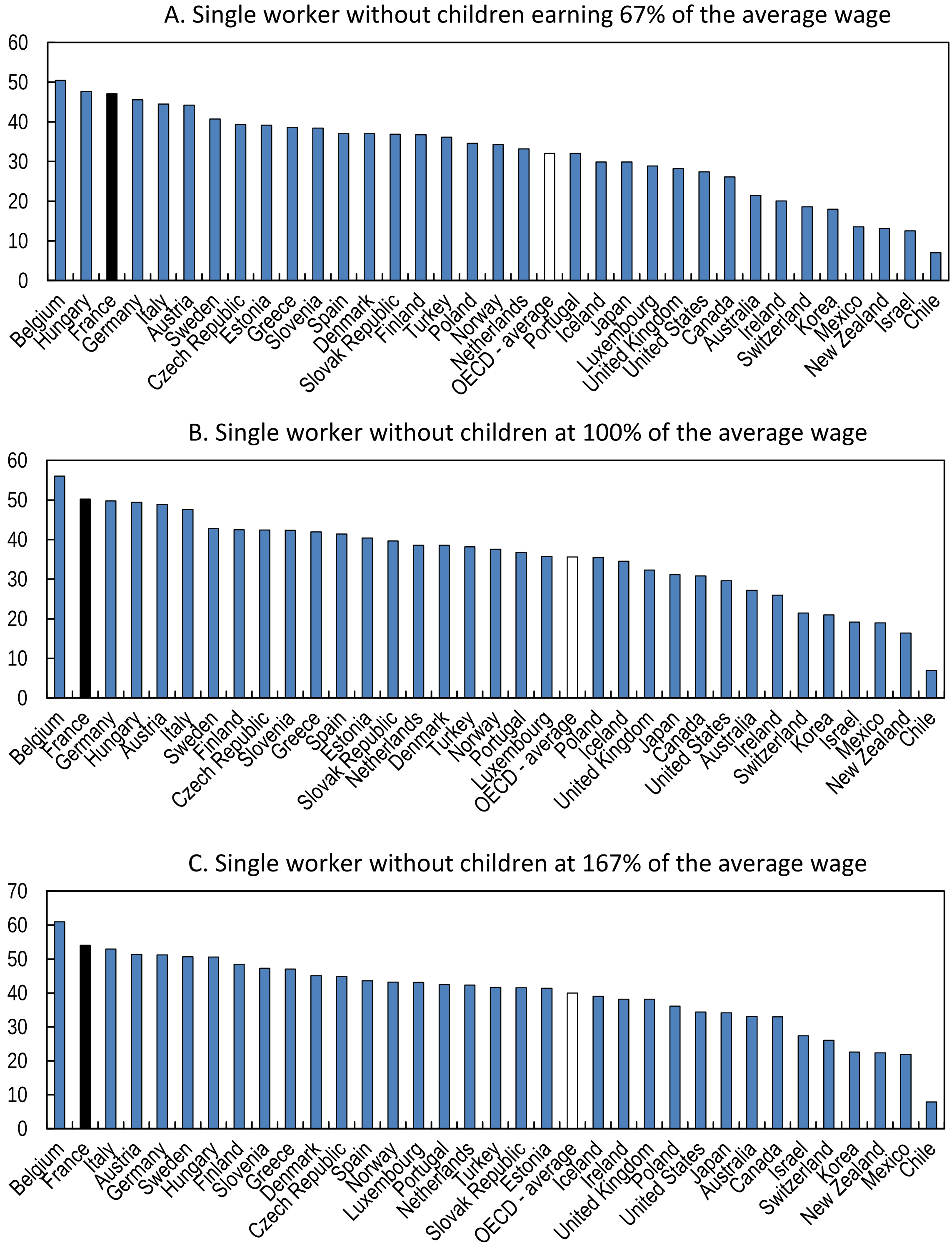
Figure V-1. Tax wedge and public social expenditure, 2011



Source: *Estimates using the OECD Social Spending Database and OECD (2012), Taxing Wages.*

[10] It should be noted, however, that private spending on social protection is high in several OECD countries. Under these conditions, differences in the level of the tax wedge may also reflect the degree to which social protection spending is "socialised".

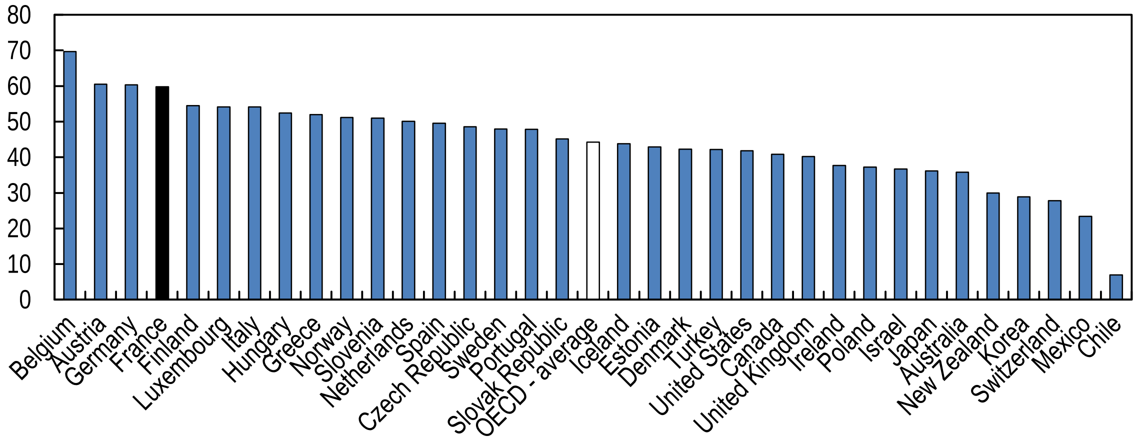
Figure V-2. Average tax wedge 2012 (income tax and social security contributions)
As % of labour costs, for a single worker earning the average wage



Source: OECD, Taxing Wages (2013).

Figure V-3. Marginal tax wedge 2012 (income tax and social security contributions)

As % of labour costs, for a single worker earning the average wage



Source: OECD, Taxing Wages (2013).

Taxing labour discourages employment

The impact of the tax wedge on labour supply and demand (and hence on an economy's potential growth as well as on the competitiveness of its firms) depends on many factors, including the way labour taxes impinge on real wages. This elasticity is itself dependent on the institutional features of the labour market in question. Wage negotiation arrangements and the relative bargaining power of employers and workers can affect how real wages respond to an increase in the tax wedge. Moreover, the existence of a higher legal minimum wage combined with a sizable tax wedge can impose a particular penalty on the employment of unskilled workers, particularly younger ones, who are typically paid at close to the minimum wage. If the minimum wage is set at a high level, a hike in social contributions cannot be absorbed, even partially, by a downward adjustment of wages net of social charges.

A high *marginal* tax wedge, for its part, constitutes a disincentive to work more and can in this way reduce the supply of labour. It also discourages risk-taking and entrepreneurship, with adverse impacts on the economy's long-term performance and on the demand for labour.

The makeup of the tax wedge – i.e. the distribution of levies between social contributions, income tax and consumption taxes on households – is also important in estimating the impact on labour costs. In fact, the base on which these taxes are levied will vary in its breadth, and the size of the average tax wedge, expressed as a percentage of gross wage, will depend on the structure of fiscal and social charges.

Despite the many factors that determine the nature of the employment impact of the tax wedge, and despite the technical and methodological problems in evaluating that impact[11], most empirical studies, including those conducted by the OECD[12], point to an **adverse employment impact of labour taxation, and especially of social charges**, the negative effect of which is nearly always statistically robust (in contrast to that of income tax or consumption taxes). These studies also tend to confirm that high labour taxes have a

[11] It is a complex matter to evaluate the impact of a tax wedge increase "in general equilibrium" and not only "in partial equilibrium", i.e. taking into account not only its direct impact on labour supply and demand but also the indirect economic effects of an increase in labour taxation. Moreover, very few evaluations estimate the differentiated impact on employment of the different components of the tax wedge (income tax, SSC, consumption taxes).

[12] See in particular Bassanini and Duval, 2006, and OECD Employment Outlook 2007, Chapter 4.

particularly depressing impact **on unskilled employment, when combined with a high and inflexible minimum wage** (that is, one with few exemptions). For higher wages, an increase in labour taxation is in part offset by a decline in net after-tax pay, and the impact on the cost of labour is only partial.

The characteristics of the French system suggest that labour taxation is particularly detrimental to employment:

- The minimum wage is set high by international comparison, and there are very few exemptions. Under these circumstances, the tax wedge on low-wage earners is particularly detrimental for unskilled workers, inasmuch as the high tax wedge in France applies to pay levels that fall between the SMIC and the average wage (see Figure V.2A). This impact is however greatly attenuated for wages near the SMIC (between 50 and 67% of the average wage) by reductions in employers' contributions. On the other hand, at 67% of the average wage, that reduction is relatively minor. The progressivity of the tax wedge is somewhat weaker in France than the average of OECD countries for remuneration between 67% and 167% of the average wage (Figure V.4), but is above the average for very low wages.[13]
- In France, the high tax wedge is associated with relatively generous replacement incomes for persons who are inactive or unemployed, provisions that in themselves offer little incentive for unskilled persons to return to work (the introduction of the "active solidarity income"– *Revenue de Solidarité Active*, RSA - has however improved the situation considerably). In other words, a high tax wedge tends to reduce even further the opportunity cost of unemployment or inactivity compared to employment, especially for unskilled jobs.
- The relative bargaining power between employers and employees may exacerbate the impact on labour costs of an increase in the tax wedge. In effect, an increase in the tax wedge may lead to a hike in wages and hence in the cost of the labour factor. Generally speaking, a high tax wedge is even more problematic in France because the downward rigidity of real wages is especially pronounced.

The corporate tax rate is relatively high, but its base is narrow

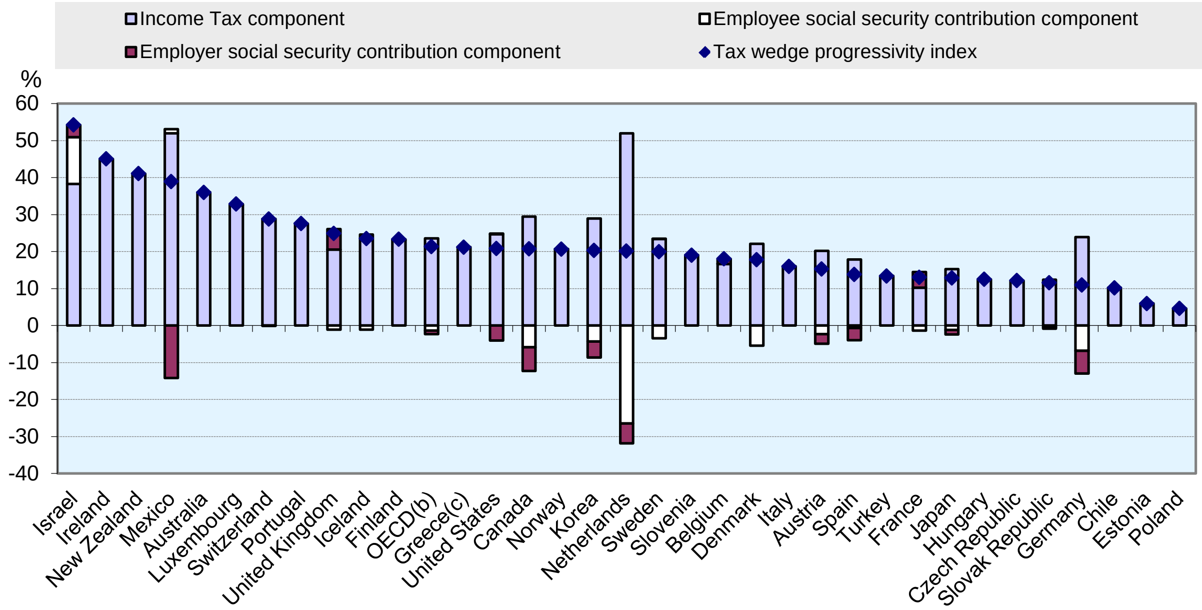
Labour taxation is not the only concern. The nominal tax rate on corporations is also comparatively high, at 34.4% in France (or 36.1%, considering the temporary increase for businesses with turnover exceeding €250 million). The government has proposed a surtax, raising the overall rate to 38%, compared to 30.2% in Germany, 27.5% in Italy, and 23% in the United Kingdom (where a cut to 20% by 2015 has been announced). However, French corporate tax revenues represented only 2.4% of GDP on average between 2007 and 2011, one of the lowest figures among OECD countries.

The primary explanation of this paradox is that businesses benefit from a narrow tax base. This is partly a result of "tax loopholes" that tend to favour large corporations and certain sectors, thereby creating distortions to the productive apparatus. In addition, France has tax base rules that are favourable to firms (depreciation rates are among the most advantageous in the OECD, and there are generous loss carry-forward and transfer provisions).

[13] Paturot, Mellbye and Brys (2013) "Average Personal Income Tax Rate and Tax Wedge Progression in OECD Countries", OECD Taxation Working Papers, No. 15.

Figure V-4. Progressivity index of the tax wedge from direct labour taxation

Relative tax wedge difference between 167% and 67% of AW, single worker without children, 2011



Notes:

a) *The progressivity index of the tax wedge is calculated as (CF167 - CF67) / CF167 where CF167 and CF67 is the tax wedge for workers at 167% and 67% of average wage, respectively.*

b) *OECD unweighted average.*

c) *Data for 2010. The average wage for Greece 2011 was not available during final compilation of the publication Taxing Wages 2011.*

Source: *OECD Taxing Wages Database.*

Reforming taxation to support investment, employment and competitiveness

The main ingredients of a tax reform in France

A tax reform that will support business investment, employment and competitiveness presupposes:

- A reduction in the overall tax burden, which will require a sharp reduction in public spending.
- Closing of tax loopholes that create distortions to the productive apparatus, and simplifying the taxation of savings, as is now planned.
- Alleviating the taxation of labour, and in particular of unskilled labour: this will mean an overall reduction in taxation, but also a revenue-neutral revision of the tax structure. This could entail:

1. A change in the composition of the tax-cum-SSC (Social Security Contribution) wedge, designed to reduce levies that weigh directly, heavily and exclusively on labour, to increase levies on a broader base including income other than from work (such as consumption taxes), and to expand the income tax base. Such a transfer, handled in a revenue-neutral manner, would mean a substantial alleviation of wage taxation. The positive effect on

employment of such a shift will be even stronger because the employment rate is relatively weak (and wage taxes thus fall on a narrow base).

2. Making the tax wedge more progressive by granting relief from supplementary charges on low wages, offset by an increase in the income tax (which is progressive). Eventually, an increase in the CSG (Generalised Social Security Contribution) rate on unemployment allowances could be considered. Such a transfer would have the dual impact of reducing the cost of labour for unskilled workers while boosting the opportunity cost of unemployment and inactivity: it would thus have an impact on both the supply of and demand for unskilled labour.[14]

3. Increasing the opportunity cost of inactivity and unemployment by shifting a portion of social contributions to consumption, which would amount to taxing a portion of replacement incomes (although the positive impact of employment could be offset by higher inflation or upward adjustments to wages).

- Shifting the structure of taxation towards less "distorting" taxes (reassessment of reduced VAT rates and exemptions, improvements to property taxation, increase in environmental taxes and succession duties).
- Once the public finances have been rebalanced, giving consideration to a cut in corporate taxation and employer contributions. In the meantime, the government has taken some welcome steps to close tax loopholes and to rationalise the corporate tax loss carry-forward mechanism and the deduction of loan interest. This last measure, in particular, would reduce the tax bias in favour of debt financing. When the government's fiscal situation so permits, the authorities should consider reducing the nominal corporate tax rate in order to encourage business investment and competitiveness.
- To support fiscal reform in France, the OECD could assist by examining experience in other countries and identifying best practices in tax policy, with a view to reconciling fiscal consolidation, economic efficiency, and social justice.

Recent measures

The government has decided that an increase in compulsory levies, primarily for the better-off households and for businesses, will play a major role in restoring the public finances. On this point, the decision to close several inefficient tax loopholes that are costly and often regressive (changes to transfer and inheritance taxes, limits on employer exemptions under payroll savings plans, an end to exemptions from social contributions on overtime pay) is welcome. Measures are also proposed to counter abusive tax planning by companies.

On the other hand, marginal tax rates on high incomes are very steep (even without the global bracket of 75% on incomes exceeding €1 million, planned as part of the 2014 budget). The new top rate of 45% for the IRPP (the personal income tax), combined with the exceptional tax on high incomes, the CSG and the CRDS ("contribution for repayment of the social debt", and social contributions by workers and employers, implies a marginal rate of around 62% to 65%. The effect of these rates on tax revenues and on the economic behaviour of high income earners (in terms of work ethic, entrepreneurship, emigration) will have to be closely monitored.

[14] Increasing the progressivity of the income tax could however pose other problems and create other types of disincentive.

With the "national pact for growth, competitiveness and employment" of November 2012, the government intends to alleviate the cost of work by more than 4% on average for wages below 2.5 times the minimum wage (SMIC), through a corporate tax credit ("tax credit for competitiveness and employment"). The purpose of this measure, in effect since 1 January 2013, is to reduce levies on labour by one percentage point of GDP: one half of this measure would be financed through public spending cuts and the other half through an increase in the VAT (more particularly, by raising the reduced intermediate rate from 7% to 10%) and through environmental taxes that have yet to be defined. This reform is consistent with OECD recommendations, and would go about halfway to closing the gap between the labour tax wedge at the median wage in France and the OECD average. It would be preferable if it included a phase-out range around the ceiling (2.5 times the SMIC) to avoid a “trap” at that level.

Lastly, the reforms to come, in particular the planned overhaul of pension financing, should focus on reducing expenditure and avoiding any increase in the tax burden on income from work. At the end of August 2013, the government announced the broad lines of a new reform to the pension system that would restore balance to the general regime for the private sector by 2020. The proposed reform is an important new step in restoring the financial sustainability of the French pension system. By rebalancing the general regime, it should serve to cover around a third of the anticipated deficit in 2020 for the pension system as a whole (estimated at 0.8% of GDP in 2020, adjusting the estimates made by the Pension Guidance Council at the end of 2012 for changes to the supplementary private sector regimes decided in March 2013 by the social partners, who are responsible for managing it). The reform does not however cover either the special regime for the civil service or the supplementary regimes of the private sector, which each account for a third of the estimated 2020 deficit. The measures prolonging the increase in contribution times after 2020 and the reduction of pension levels (taxing of certain benefits, six-month freeze in 2014) are welcome. The planned reform, however, includes increases in uncompensated contributions (employee contributions, financing of provisions for difficult working conditions), which will depress the purchasing power of households and the competitiveness of businesses.

More generally, given the relatively early retirement age, the high level of total spending on pensions and the high level of social contributions burdening labour costs in France, more ambitious measures should be considered in the short term, focused on reducing expenditure (see Figure V.1). Such measures could include lower indexing of pensions, a more prompt extension of the contribution period, an increase in legal retirement ages, and lower pensions for the equivalent length of contribution for those claiming their entitlement at a younger age (see OECD Economic Survey of France). Lastly, the reform could also address the issue of fragmentation in the current system, a source of much inefficiency and unfairness. Recent OECD economic surveys of France have recommended a universal regime that would enhance pension transparency and fairness, promote labour mobility (by choice), and facilitate management of the system, and would at the same time produce potentially substantial savings.

CHAPTER VI. REFORMING THE LABOUR MARKET

The labour market is fundamental to any growth strategy in France. The crisis affecting it has accentuated the structural problems and made it more necessary than ever to carry out fundamental reforms to favour job creation. France is faced with the twofold challenge of low employment among younger and older people and significant long-term unemployment – factors which hamper economic growth, deepen inequalities and markedly worsen the state of the public finances.

The segmentation of the labour market also limits the economy's ability to adapt to unforeseen adverse situations because it slows down the process of redistributing capital between different businesses and sectors of the economy and thus slows down productivity. It is part of the reason for low employment rates, and it requires adjustments on the part of those least able to cope with them. At the same time, it provides powerful safeguards for those workers who have open-ended contracts (CDI). The procedure for mutually agreed termination of the CDI, introduced in 2008, has done little to change this system: open-ended contracts are still too unattractive to employers, and this mechanism is likely to favour redundancies portrayed as "early retirement" and to cost a great deal in unemployment benefits.

In addition, the high level of levies and charges on employment and wage rigidities hit both supply and demand for labour and damage competitiveness (Chapter V).

Since the start of talks between the social partners at the first Grand Social Conference of July 2012, important progress has been made towards improving the position of younger and older people, and more generally towards improving the functioning of the labour market. Collective bargaining with a view to greater security of employment led, in January 2013, to an agreement by the social partners to reform the labour market. This marks a decisive phase in structural reforms to encourage an efficient jobs market which will benefit everyone. The second Grand Social Conference held in the second half of June 2013 again highlighted the need for immediate and generalised action to promote jobs.

Once these measures take effect, the government should introduce a system of rigorous assessment of their impact on the groups concerned, to gain insights into what works and what does not work for them. It is also essential to press on with structural reforms to improve the functioning of the labour market. If employment rates in France are to improve, a wide range of reforms must be implemented, and these also have implications for public spending, taxation, regulation, education and the ability to be competitive on various product markets (see other chapters).

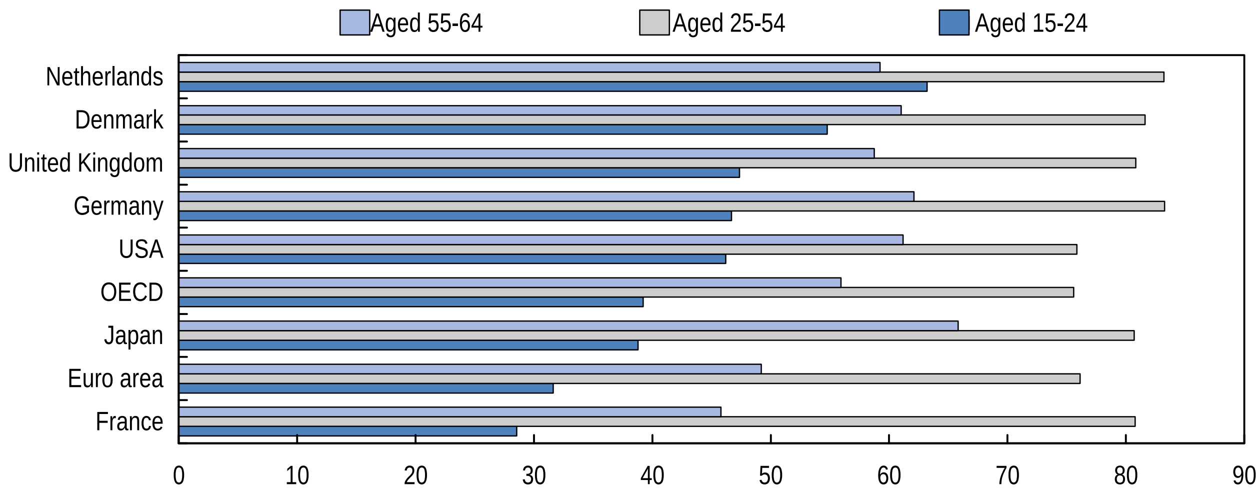
Underperformance of younger and older people on the labour market and a more marked duality

France has a **persistently high level of unemployment**: harmonised unemployment grew from 8.6% of the active population at the time of the cyclical trough in the first quarter of 2009 to 10.9% in May 2013 and may reach 11.2% at the end of 2014, according to the *OECD Employment Outlook 2013*. Unemployment is slightly lower in France than in the euro area (this was 12.2% in May 2013, dragged down by the situation in Greece and Spain), but it is high compared with the OECD average (8.0% in May 2013), with unemployment continuing to decline in a number of countries (Germany, the USA, Canada and Japan, for example).

Long-term unemployment was already high in France prior to the crisis: in 2009, about 35% of unemployed persons had been out of work for more than a year, compared with the OECD average of about 29%. In 2011, that figure was 42%. It is harder to find jobs for the long-term unemployed, and they make the unemployment rate less responsive to any new upturn in the economy. The challenge is thus to stop this excessive unemployment from again becoming persistent, which would put increased pressure on the social security system by limiting the ability to cut the unemployment insurance deficit, which has spiralled due to the crisis and the generous level of benefits paid. Furthermore, the long-term unemployed, once they have exhausted their entitlement to unemployment benefits, swell the ranks of those receiving the “specific solidarity allowance” (ASS) and the “active solidarity income” (RSA) whose numbers have risen steadily since 2008 and are difficult to keep down. All in all, France spends about 2% of GDP on pensions and benefits other than retirement, disability and survivors’ pensions, not counting lost earnings from social security contributions.

Young people in France are especially badly off, with an unemployment rate 2.7 times higher than adults at the end of the crisis. In August 2013, 25.5% of young people of working age were unemployed, as against the OECD average of 16.0%. This situation is the result of the crisis but also of traditional difficulties in finding employment due to a lack of skills and the way in which the labour market is organised. Youth employment is particularly low in France. In the last quarter of 2012, only 28% of young people aged 15-24 were in work, compared with the OECD average of 39% (Figure VI-1). In 2011, 16.4% of young people aged 15-29 were not in employment, education or training (NEETs), a figure just above the OECD average.

Figure VI-1: Employment rate by age group, Q4 2012



Source: OECD, Short-Term Labour Market Statistics.

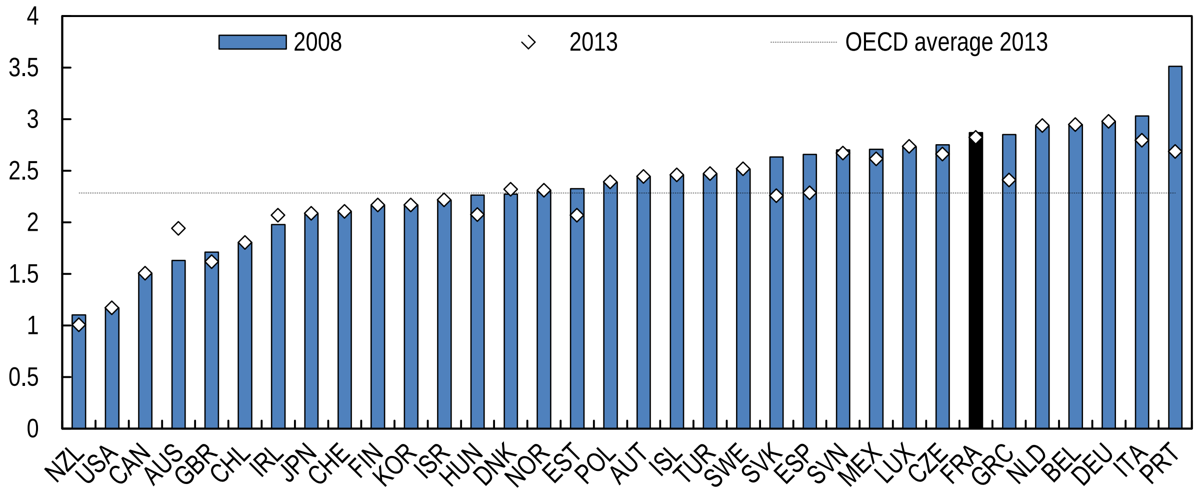
The employment rate for older people remains low, though it rose over the past decade and during the crisis. The employment rate for older people aged 55-64 in France was around 46% in the second quarter of 2013 (up 8 percentage points since 2007), well below the OECD average of 56% and Germany’s 63%. But France has made progress on two fronts: women and younger “seniors” (aged 55-59). Firstly, the employment rate for women aged 55-64 was virtually the same as for men in the same age group, which is by no means the case on average across the OECD countries. Secondly, employment of younger “seniors” rose faster than for the OECD countries as a whole, to 67.1% in 2012, a level higher than international averages (EU average 63.3%, OECD average 65.8%). For persons in France aged 60 plus, however, progress has been minimal. The employment rate for those aged 60-64, which almost doubled over 10 years, was well below international averages in 2012 (21.7% in France compared with the EU average of 32.2% and the OECD average of 41.0%). In addition, there are very few people over the age of 65 who are in work.

For many older people in France, the move from work to retirement still happens early and is problematic. France is near the bottom of the list of OECD countries when it comes to the actual age at which people cease to be economically active (or retire). In 2012, it is reckoned to be 59.7 for men and 60.0 for women, compared with 64.2 and 63.3 for the OECD countries as a whole. Employment of older people is a major economic and social concern at a time when attention is focused on how to fund old age pensions, and when the ageing of the active population renders the issues of older workers' employability and terms of employment more acute.

The marked duality of the labour market – temporary and fixed-term contracts on the one hand and open-ended contracts on the other – has become ever more pronounced since the 1990s. The indicators of employment protection in January 2013 set out in the *OECD Employment Outlook 2013* (Figure VI-2) show that France still had strict rules for open-ended contracts and that recruitment of temporary workers and the ending of fixed-term contracts (CDD) accounted for the majority of gross labour flows. In 2011, for example, 78% of recruitments and 71% of employment terminations were occasioned by the start or end of a fixed-term contract.

Those who suffer most from the flexibility of this system are those in the most vulnerable categories – young people and the relatively unskilled, as became apparent during the crisis. The procedure for mutually agreed termination of the CDI, introduced in 2008, has done little to change this system: it makes open-ended contracts no more attractive to employers than before, and it means an extra risk for unemployment insurance (it may spawn a new form of "early retirement" for persons aged 58 plus who can claim unemployment benefit up to pensionable age).

Figure VI-2: Protection of permanent workers against individual and collective dismissal



Source: OECD Employment Outlook 2013, OECD Employment Protection Database.

Lastly, despite considerable attempts to reduce contributions, and in the absence of any wage increases in excess of inflation since 2007, **the labour cost for low-skilled workers has remained particularly high in France** (USD 13.6 per hour in 2010, just behind the Netherlands, Australia and Luxembourg, and well above the OECD average of USD 7.6). That affects the employment of young people and the low-skilled, and not only in sectors directly exposed to international competition. The minimum wage is an instrument poorly suited to combating poverty and uprating the purchasing power of families in work. In order to be effective, targeted and favourable to employment, redistributive tools such as the "activity RSA" should be used.

Support the employment of young people

As a response to the enduringly bleak prospects for young people, notably those leaving school with poor skills and no qualifications, the Government has launched a programme of 150 000 subsidised work contracts separate from the dual system of training or "*alternance*" (which combines classroom and workplace learning) for 2013 and 2014. These "**jobs for the future**" are designed for young job seekers aged 16-25, who have few or no qualifications. The idea is to give this group, structurally vulnerable and especially hard hit by the crisis, an entry into the world of work. They differ from traditional subsidised work contracts in the non-market sector in that they are for longer periods of time, impose strict requirements on the employer to provide mentoring and training, and at the same time provide support from the public employment service, features which supposedly help the recipients to find work more easily.

The criteria for awarding these contracts, which some employers deem overly restrictive, minimise the windfall effect and prevent them from being snapped up by better qualified young people for whom subsidised work contracts are not the solution. They will also, ultimately, enable this mechanism to be more effective, compared with youth jobs that were not sufficiently well targeted. But they doubtless explain why take-up of these "jobs for the future" has been rather slow. As of 1 July 2013, only 33 000 of the 100 000 contracts available from now to the end of the year had been signed. However, given that they are not very effective as a gateway to stable employment, schemes of this kind should be used only for emergency counter-cyclical action, and emphasis should be placed, as the Government has done, on the training component which is part of them. Use of subsidised work contracts in the non-market sector should also be reduced as the economy recovers, because these contracts are expensive, and there is evidence that they have no effect on people's chances of returning to regular employment.

The "**youth guarantee**" was launched in Octobe 2013 in ten pilot regions, helping young people who are farthest away from employment (NEETs) through a process of reciprocal commitment (allowance payable for participation in an active measure and/or training). This type of guarantee is intended to give unemployed young people appropriate income support until such time as the labour market improves, conditional on rigorous mutual undertakings. The Government has also entered consultations with the social partners, regional stakeholders and chambers of commerce on the development of dual-system training prior to legislating on the matter at the end of 2013 (see Chapter VIII).

In support of these reforms the OECD published a structural chapter on youth employment in its Economic Survey of France (March 2013). This work adds to the OECD report on the transition from school to work in France (Jobs for Youth: France, 2009). This report lists the main barriers to employment for young people and assesses the relevance and effectiveness of existing measures to improve the transition from school to work. It also offers a series of policy recommendations for public authorities and the social partners. In addition, in May 2013, the ministers of the OECD member countries adopted the **OECD Action Plan for Youth** and undertook to intensify their efforts to tackle the problem of high youth unemployment and strengthen their education systems in order to prepare young people better for the world of work. This Action Plan brings together and draws on the huge body of OECD analytical work on training, skills and youth employment policy, plus a number of international initiatives, notably the 2012 ILO Resolution on youth employment, commitments of the G20 to youth employment and the "Youth Guarantee" schemes established by the Council of the EU. The imperative, now, is to apply this framework at national and local levels.

Support the employment of older people

In the current crisis, there is a particularly pressing need to get unemployed **older people** back into work. Public policies have been introduced to keep people working for longer, but there are few incentives for older people to return to work. Reforms aimed at keeping people working for longer include, in particular, reforms to the pension system since 2003, the abolition of early retirement, the ending of forced retirement before the age of 70, improvement of the delayed pension bonus (*surcote*), easing of the rules on working while drawing a pension (*cumul emploi-retraite*), and employer agreements for the retention and recruitment of older people (*accords seniors*). In effect, more older people are now staying in work for longer.

Even so, unemployment among older people has increased during the crisis, and there are few mechanisms to help them back into work. In effect, demand from employers is often constrained by high labour costs, and, for the unemployed, the exceptionally long period during which unemployment benefit is paid[15] makes them less eager to return to work. So the priority should be to establish incentives to tempt unemployed older people back into work, while at the same time continuing the policy of keeping people at work for longer.

The "generation contract" (*contrat de génération*), introduced this year, is designed to foster the employment of young people on open-ended contracts and the retention of older people through a system of aids to businesses with fewer than 300 employees which hire a young person on an open-ended contract and retain on the payroll an older person aged 57 plus. This measure can cut the cost of employing young people and seniors, although that is not the Government's primary stated objective for it. But the fact that it does not specifically target low-paid jobs may make the measure less effective, and the possibility of unintended windfall effects cannot be excluded.

Systematic implementation of the pension reform will continue the various strategies for prolonging working life and making the French pension system fairer and more transparent.

The OECD, as part of its review of policies to improve the employment prospects of older people, will be publishing a report entitled "Age and employment in France: a better deal" at the end of 2013. Existing obstacles in France, both for the older person and the employer, will be analysed and compared against the situation in other countries, and key avenues of possible action will be identified.

Reducing the duality in the labour market and labour costs

The "national inter-sectoral agreement (ANI) on protection of jobs", which was voted through by Parliament and became law in May 2013, is a step in the right direction, creating new aids to flexibility which should enable more jobs to be created over the medium term. However, there is still much to be done if the duality of France's labour market is genuinely to be reduced.

The text adopted gives new rights to employees and greater flexibility to employers. The most notable advance comes from "**job preservation agreements**" whereby legally guaranteed company agreements may be negotiated which, in the event of serious economic difficulties, allow pay and working times to be adjusted for a period of not more than two years so that redundancies can be avoided. Once an agreement of this kind has been signed, an employee who refuses to abide by it may be laid off.

The rules on **partial unemployment** will also be simplified, and those on internal mobility and dismissal (collective dismissals especially) will be made more flexible in order to reduce uncertainties and the length of legal proceedings – a very clear break with the past in that the procedure for collective dismissals has been increasingly rigorous and complex since the 1970s. The agreement seeks to facilitate consultation when redundancies do occur, setting a reference scale which stipulates a flat-rate amount of compensation according to length of service. Nevertheless, the procedure envisaged is still a lengthy and complex one compared with procedures in other countries.

The agreement will also further enhance the generosity of the **unemployment benefits scheme** by allowing workers to build up their entitlements over time, but without exceeding a standard ceiling of two years. While this measure was put forward as a way to improve incentives to go back to work, its overall impact on labour supply and on unemployment insurance finances is unclear. It is therefore important that it is

[15] The maximum period of eligibility is three years for older people aged 50 and over, who can claim the "2013 transitional solidarity allowance" (ATS) introduced by the Government in March 2013 to take account of the situation of some job seekers who, after the statutory pensionable age was raised, did not qualify for any benefits during the interval when their entitlement to the "retirement equivalent allowance" (ARE) had ended but their entitlement to draw the full retirement pension had not yet begun.

combined with adjustments in the benefit system in order not to put further strain on the budget. The agreement also includes a limited increase in employers' unemployment contributions for some temporary contracts (from 4% to 5.5% for contracts shorter than three months and to 7% for those lasting less than one month). This measure can help to internalise the social costs of overusing temporary contracts and reduce labour-market dualism.

On the social protection side, compulsory complementary health insurance would be extended to all workers, with the objective of reducing inequality among workers in terms of health-insurance coverage. However, such an extension will be financed by an increase in employers' and employees' social contributions, equally split, thereby reducing the benefits of the Competitiveness Pact.

Overall, this reform would be an important first step in removing labour-market rigidities. Short-time work schemes contributed importantly to the resilience of labour markets during the crisis, especially in Germany and Japan, even though their negative effect on necessary long-term restructuring is still being debated. Much of the impact of the reform will depend on how the social partners seize the opportunity to improve both internal flexibility and social dialogue at the firm level, and on the effective legal simplifications in case of dismissals. On the other hand, this reform is likely to have a limited effect on OECD indicators of Employment Protection Legislation, which do not include regulations related to firm-level bargaining.

If duality in the labour market is to be further reduced, additional easing of employment protection for individual dismissals would serve the purpose. A large number of OECD countries have recently eased regulations on permanent contracts (the Czech Republic, Estonia, Greece, Hungary, Italy, New Zealand, Portugal, Slovakia, Slovenia, Spain and the United Kingdom; see Table VI-1 for those countries for which the OECD has already assessed the changes).

Table VI-1. Scope of recent reforms easing regulation on labour market contracts in selected countries

	FRA	ESP	GBR	GRC	ITA	PRT
Reduce severance pay for permanent contracts				X		X
Reduce red tape for individual dismissals	X				X	X
Extend probation periods for new hires		X	X			
Expand the definition of fair dismissal	X	X				X
Improved functioning of courts in dismissal cases	X	X	X		X	
Reduce compensation for unfair dismissal		X				X
Reduce regulation on collective dismissals	X	X	X	X		X
Reduce regulation on non-permanent contracts				X	X	X
Increase regulation on non-permanent contracts		X			X	

Source: OECD Employment Outlook (2013).

The new **unemployment insurance convention** will be negotiated in 2014. Following the "national inter-sectoral agreement on protection of jobs", it will incorporate transferrable accrued rights (*droits rechargeables*) and the scaling of contributions for short-term contracts and will try to meet the requirement of simpler and more transparent rules for users.

In addition, reorganisation of the **public employment service**, begun in 2008, will continue in order to create margins of efficiency which are essential to the provision of effective job search guidance and oversight as a right and as a duty. The work of the national employment agency *Pôle emploi* in particular will focus on returning unemployed people to work on a lasting basis.

Lastly, this summer, the social partners began talks on **training**, with a view to rapid conclusion of a national inter-sectoral agreement so that a bill can be laid before Parliament before the end of the year (see Chapter VIII). Work with the regions and *Pôle emploi* will produce an action plan on the times allowed for job seekers to enter training. A shared national strategy against illiteracy will also be redefined by the end of the year under the aegis of the National Council for Lifelong Learning (CNFPTLV).

Better co-ordination of employment policies nationwide

It is also important to foster synergies between national measures and economic development and job creation initiatives pursued at grassroots level. A recently completed OECD study entitled *Local job creation in France: Enhance the impact of labour market policy and training* identifies ways in which employment and training services can give better support to economic development and job creation measures in the regions.

At present in France, policies on employment, training and economic development involve a large number of players, but there is no clear breakdown of their roles. Decentralisation has caused the regions to be included as essential stakeholders because of their duty to provide training for unemployed and young people, while moves to encourage smaller municipalities to band together has added intercommunal groupings as a further tier of action on employment issues. A lack of organisation is observed as regards the tools used for monitoring, diagnosis and evaluation and work with employers.

There are different ways of easing these difficulties. Firstly, state-funded mechanisms should ideally be made more flexible so that they can be co-ordinated better at grassroots level and can yield better results in terms of jobs. Greater flexibility can be achieved without radically changing administrative structures, by opting for management by objectives (*e.g.* a percentage cut in unemployment), rather than management by mechanism (targets for the uptake of a specific measure). In this way, objectives can be set in consultation with local stakeholders, while the measures taken to attain them must meet the same expectations regarding their efficacy. A survey by the OECD and *Pôle emploi* as part of this job creation study showed that over 70% of *Pôle emploi*'s local branches wanted more room for manoeuvre to allow them to pursue a more strategic approach in the regions.

It would be hard to achieve coherent employment and training policies which help to create jobs without the involvement of employers. In many countries, employers play a key role in guiding the decision-makers at local level, and it would be a pity not to make use of this expertise in the current state of the French labour market. This employer involvement might be incorporated through employment and training councils which could be grafted onto existing structures, either of the *Maison de l'emploi* type or others, without creating new structures, in cities and consolidated intercommunal groupings. As in most countries, it is no easy matter persuading employers to participate in policy initiatives. But if employers are given an important role in the definition of targets, this may encourage them to invest in employment and training.

Key recent OECD recommendations for a more efficient labour market

The principal recent recommendations of the OECD on how to improve the functioning of the French labour market, some of which are already being implemented or considered, may be summarised as follows:

- Implement an **Action Plan for Youth**, prioritising the development of apprenticeships and dual-system training contracts (classroom + work-based) for young people with no qualifications, focusing aid on this target group. Develop training for unskilled young people. Provide a youth guarantee. Reduce subsidised work contracts in the non-market sector.
- Subsidise the recruitment of least-skilled **older people**, continue to assist employers in developing occupational training and mobility for persons aged 45 and over. End all forms of early retirement, notably via unemployment benefits, and make phased retirement more attractive. Combat ageism.

- **Reform employment protection** in such a way as to reduce the duality between temporary and permanent contracts, while allowing employers greater flexibility in their economic restructuring operations.
- **Cut labour costs**, by the following measures:
  - → Continue the policy of containing increases in the minimum wage and give preference to redistributive tools such as the "activity RSA" to improve the purchasing power of families in work. One possibility might be to finance an increase in the activity RSA by reducing or abolishing the tax credit (*prime pour l'emploi*) which does not motivate people to seek work.
  - → Encourage the social partners to make levels of pay scaled according to length of service a focus of their discussions, in the civil service too.
  - → Continue to let the minimum cost of labour fall compared with the median cost.
- Continue with the reorganisation of the public employment service and employment and training mechanisms:
  - → Make state-funded mechanisms more flexible so that they can be co-ordinated better at grassroots level.
  - → Entrust strategic policy tasks to the local and intercommunal levels.
  - → Involve local employers.

CHAPTER VII. IMPROVING THE PERFORMANCE OF THE EDUCATION SYSTEM

A skilled workforce is one of the key drivers of competitiveness, productivity and long-term growth. The education level of the French population has risen considerably over the past few decades. But France's overall performance in PISA, a programme which assesses the level of knowledge and know-how essential to everyday living acquired at the end of compulsory schooling, has not improved for 10 years and still hovers around the OECD average. Our recent Survey of Adult Skills (PIAAC – Programme for the International Assessment of Adult Competencies) also confirms that, of all the 24 countries taking part, France is one of those in which literacy and numeracy skills differ most markedly from one level of education to another.

The conclusions of the Government's consultation process on education suggested a number of measures in October 2012 (financial investment in primary education, personalised teaching, changes to the school day and school year, revision of teacher training, strengthening of the common skills base), designed to reduce school failure, right from the primary school stage. Some of these measures were included in an educational reform bill that was voted through by Parliament in March 2013 and are broadly in line with the main OECD recommendations set out in this chapter.

At the same time, objectives were set for higher education, to provide fairer access and improve young people's pathway to university. The Government might usefully draw on some of the OECD recommendations in this endeavour.

Good results by and large but increasing inequalities

Over the past 40 years, France has made up the ground separating it from many OECD countries in terms of the education level of its population. The French education system deserves due credit for the significant increase in the proportion of youngsters leaving school with a baccalaureate or equivalent, and the huge success in the 1980s in boosting the number of students going on to higher education, following the creation of the university institutes of technology (IUT) in 1966 and the expansion of the universities and *grandes écoles*.

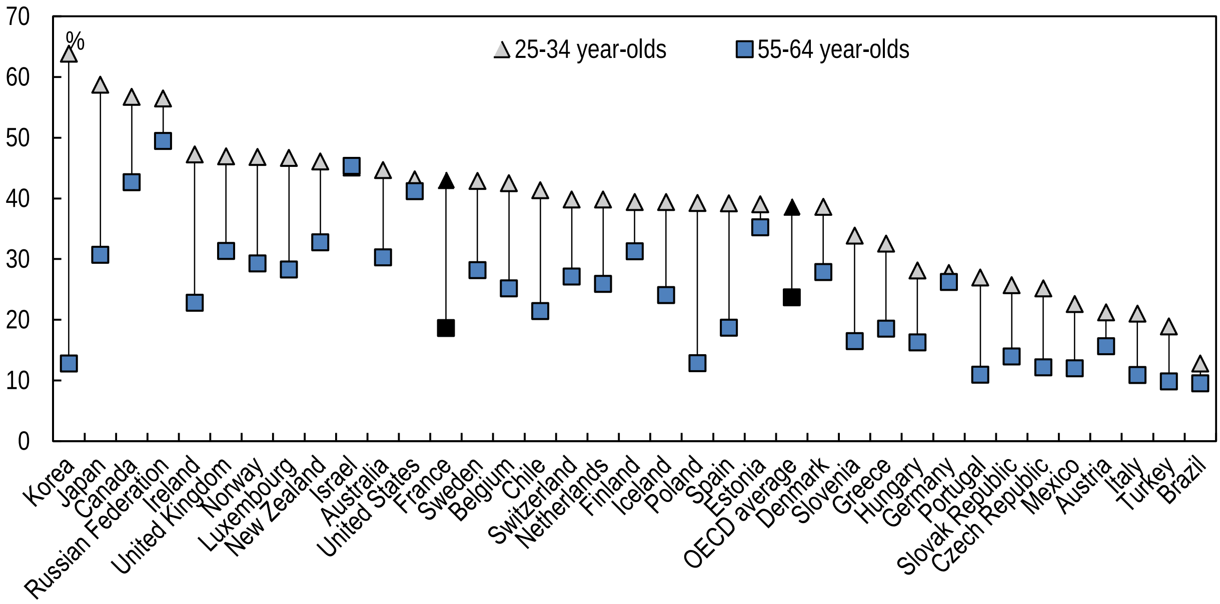
The percentage of higher education graduates has risen significantly over the past 30 years. In France, 43% of 25 to 34-year-olds (compared with the OECD average of 39%) have a higher educational qualification as against just 19% of those in the 55-64 age group (OECD average 24%) (see Figure VII-1). Despite these advances, however, the proportion of those holding a doctorate in France remains below the OECD average.

But these results cannot conceal anxieties over current trends in the French education system. Thus, finding a job is especially problematic in France for the 10% of youngsters aged 15-19 who are not following formal education, but also for all youngsters aged 15-29 who left school without qualifications. Moreover, pupils from disadvantaged families are three times more likely to fail at school – a percentage that has risen from 15% to 20% in 10 years (see Figure VII-2).

The PISA study reveals not only a level of performance equal to the average for the OECD countries, but an **education system of increasing dichotomy**. The impact of parental social background on children's performance in mathematics increased significantly between 2003 and 2006, and has remained one of the most marked in the OECD countries ever since. Good students make up about a third of 15-year-olds, compared with the OECD average of 28%. On the other hand, there are more and more students who struggle. Every year, 150 000 youngsters leave school without any degree (40 000 of them leave after the first part of secondary schooling, at around age 15, without any specific qualification), and they are thus at a great disadvantage when it comes to finding employment. Today, 16.6% of young people aged 20 to 24 have no qualifications. Of these, 21% are the children of manual workers and clerical or equivalent staff and only 8% are the children of managerial staff and teachers.

Figure VII-1. Population that has attained tertiary education (2011)

Percentage, by age group



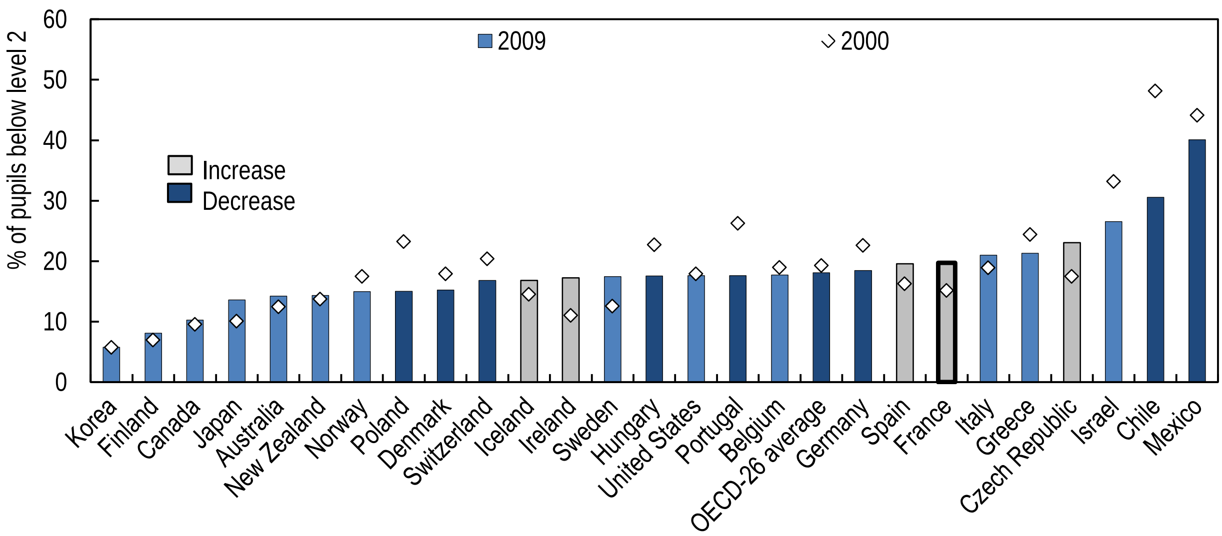
Source: OECD – Education at a Glance (2013).

Young people have no access to a **system of "second chance" education** (or even to welfare if they have not already worked for two of the last three years), and they have insufficient access to apprenticeships (especially if they lack qualifications). At the same time, the labour costs for low earners are still too high for employers to want to hire unskilled workers.

All studies are unanimous in showing that the inequalities and difficulties seen in France begin at nursery school level and continue throughout compulsory schooling and, of course, beyond. And yet, while spending per pupil in French secondary education is 21% higher than the OECD average (USD 10 877 compared with the average of USD 9 014), spending at primary level where these inequalities take root is 17% below the OECD average (USD 6 622 compared with the average of USD 7 974).

These difficulties are accentuated by the widespread practice of **repeating a year**, which international research has shown to be both expensive and inefficient, and by a school day and school year which leave struggling students little time to catch up. The French system is notable for having one of the longest school days of all the OECD countries, because a large number of teaching hours have to be squeezed into a small number of weeks. If we compare the Netherlands and France, for example, the number of hours is more or less the same in both countries, the school year in the Netherlands is spread over 40 weeks compared with 36 weeks in France and an average of 38 in the OECD countries as a whole.

Figure VII-2. Percentage of pupils below baseline level on the reading scale, 2000-2009



Source: OECD PISA 2009 database, Table V.2.2.

In higher education, there is room for improvement in a number of respects, notwithstanding the success of the *grandes écoles*, the breadth of opportunity offered by short, technical training of the IUT type and the successful move towards greater independence for universities in their management. Failure rates during the first few university cycles are still too high. Only 68% of young people entering university graduate without switching courses, while 14% have to choose a different path before succeeding and the remaining 18% drop out completely. 75% of all the students beginning their studies for a Bachelor's degree in a technical subject do not reach graduation. And some degrees create few job opportunities. Overall, only 40% or so of those with a first or postgraduate degree are in top jobs (business executive, teacher, company boss) five years after obtaining their qualification, while for those graduating from a *grande école* or holding a doctorate the figure is close to 70%.

French universities are underfunded, both in comparison with other forms of higher education and with the average for the OECD countries. They are financed chiefly out of public funds, with employers and households making little contribution. There are marked social inequalities. It is less likely that an adult aged 20-34 will go on to higher education if the parents have not completed the second cycle of secondary education. In the OECD countries, young adults whose parents have little formal education have a less than 50% chance of entering higher education, given the percentage of this type of household in the population. The probability of these young people entering higher education is 38% in France (as against more than 50% in nine countries – Denmark, Iceland, Ireland, the Netherlands, Portugal, Spain, Sweden, Turkey and the United Kingdom).

Improve the quality of teaching and the imparting of knowledge in primary and secondary education

Review primary and secondary school teacher training

Teacher training in France is often too academic. France stands out, in Europe, with professional training given after the teacher qualification examination, whereas formal and professional training in other countries is often provided at the same time by combining coursework with practical work experience. In Finland, for instance, teachers' capacity to transmit knowledge and adapt their lessons to students' levels is an integral part of the programme and is one of the key elements explaining the success of the system.

Create incentives to encourage experienced teachers to work in failing schools

Teaching quality has a major impact on pupil performance; failing schools are not best-favoured and often do not have highly experienced teachers. There are various measures to improve the calibre of the teaching staff in these schools: providing specialist training to equip teachers with the skills and knowledge necessary for work with disadvantaged and/or struggling pupils; supporting school directors and teachers through in-service training and mentoring programmes; offering them working conditions which will make them more effective and more likely to stay; and offering financial incentives and interesting career prospects to attract and retain the best staff.

School funding mechanisms should take account of the fact that some of them need more resources to carry out their educational remit: this happens in the Netherlands, for example, where the funding a school receives is weighted according to the number of disadvantaged pupils enrolled.

The United Kingdom has introduced generous bursaries to attract future graduates into the teaching profession. Similar policies are in place in Shanghai, where the best teachers and school principals are assigned to the most challenging schools. More than two-thirds of OECD countries raised teachers' salaries over the period 2000-2011. In France, the statutory salaries of primary and secondary school teachers are below the OECD average, both for newly qualified teachers and those with 10 or 15 years' experience in the profession. Salary levels fell, moreover, between 2000 and 2011 despite efforts to increase the numbers entering the profession in 2011.

Rethink the hours of teachers in secondary education

Only in the Czech Republic, France, Greece, Israel and Korea do teachers provide at least 30% more hours of teaching a year in primary education than in the first cycle of secondary education. In France, primary school teachers spend an average of 936 hours a year in the classroom, 146 more than the OECD average of 790 hours. The picture is very different when one looks at teaching hours at secondary level in the OECD countries. In France, teachers with a secondary education teacher's certificate (CAPES) spend just 648 hours a year in the classroom (18 hours over 36 weeks of lessons) at the two levels of secondary education, while teachers who have passed the *agrégation* exam give 540 hours of lessons a year (15 hours over 36 weeks of lessons). These figures for France are well below the OECD average and call for a rethink of the structure of working time in secondary education.

Better action to prevent school failure

Act to prevent school failure right from the nursery school stage

France has a good structure of pre-primary education compared with many OECD countries. Belgium, France, Iceland, Italy, Norway, Spain and Sweden have the highest enrolment rates in pre-primary education among three-year-olds: in these countries, more than 90% of children of this age are enrolled.

Policies designed to ensure, right from the nursery school stage, that all pupils attain at least a minimum level of competence by the end of secondary education are essential if people are to progress in life. Focusing school programmes on the definition and acquisition of a common skills base, and helping pupils learn to read from the final year of nursery school are important ways of reducing school failure and ensuring that difficulties are addressed at the earliest stages of learning. Germany adopted this approach in 2005–2006 and defined a common base of knowledge and skills which all pupils must acquire in the course of their compulsory schooling.

Limit repeat years and focus more on personalised teaching

In France, by age 15, 38% of pupils have repeated a year at least once, compared with an OECD average of 13%. Repeating a year is not only expensive – it costs nearly EUR 2 billion a year in compulsory education (or about 4% of total annual spending for these levels of education) – but also ineffective in remedying learning difficulties over the longer term: a student who fails to keep up loses several months of the school year and often repeats the same mistakes the following year. And repetition tends to stigmatise struggling students, thereby adding to drop-out rates.

Thought should thus be given to alternatives to repeating a year, remedying shortcomings as and when identified during the year by supporting struggling students, adapting teaching methods and programmes to work in small groups, and making stakeholders – teachers, school councils, parents, etc. – aware of the negative implications of this practice.

Such initiatives require establishments to have more independence than at present so that those in charge can, as in other countries, tailor programmes, teaching methods, support and assessment to the specific needs of their students. To that end, school principals should receive training to equip them for these responsibilities. Assessment criteria should also be applied to measure the efficacy of policies in place.

Review the school day and school year

The four-day week is too short and tiring for primary school children, as borne out by studies on biorhythms. Such short weeks also do not allow students who fall behind to catch up. It is recommended to change to a four-and-a-half-day week (the half-day being Wednesday morning), reduce the number of hours per day and consider shortening the school holidays, following the pattern in most OECD countries. These changes would inject greater flexibility into the organisation of the school day and would enable individual support sessions to be given at better times – for example, during the lunch hour.

The Government has already introduced a different length of school week for primary education. Almost a quarter of pupils at state primary schools switched to the four-and-a-half-day week in September 2013. It is too soon to judge how well the reform has worked, but, importantly, a steering committee will in 2013 identify cases of good practice in the organisation of the four-and-a-half-day week. This committee may produce a body of recommendations which will bring greater efficiency to the introduction of these new timetables for all primary school pupils from the start of the 2014 academic year.

Introduce mechanisms to encourage pupils to complete their *lycée* (high school) education

Each year in France, some 150 000 youngsters leave school without qualifications, and of these, 40 000 leave after the *collège* (middle school) stage. These youngsters find it very hard to obtain a vocational training place or a formal qualification by the VAE ("validation of job experience") route, as is possible in many OECD countries. Across the OECD countries as a whole, the average percentage of young adults without qualifications in the 25-29 age group who are in training is 7%, compared with just 1% in France. This proportion is over 10% in Denmark, Finland, Germany, Iceland, the Netherlands, Portugal, Slovenia and Sweden. Other ways of improving success rates in secondary education should be considered – improving the quality of vocational training, developing pre-apprenticeships and making sure that the general and vocational options are equivalent (see next chapter). Student guidance services should also be enhanced and targeted particularly at young people from disadvantaged backgrounds, who are more likely to abandon their studies, so that they are encouraged to persevere.

Set rules for school choice in such a way as to prevent segregation and increased inequalities

In France, the rule is that pupils attend schools near to where they live, but steps were taken in 2007 to make the "school map" for secondary education more flexible. More than 100 000 parents applied for an exemption from the rule for the 2009 academic year, and 72% of those requests were granted, in respect of nearly 9% of new enrolments. If parents are completely free in their choice of school, this can lead to pupils being segregated by socio-economic status. So it is important to have a balanced social mix in schools, for example by encouraging the most sought-after schools to accept pupils from disadvantaged backgrounds.

Improve the equity and efficiency of higher education

There are still major funding differences between the various categories of higher education establishments – the *grandes écoles* and the classes that prepare for entry to them, university institutes of technology (IUT), higher technical training centres (STS) and universities. While the universities accept anyone who has passed their baccalaureate, the *grandes écoles* and IUT have greater freedom to select their intake, which exacerbates the duality of the system.

The system would be more efficient if the universities were given greater independence in their financial management, human resources and teaching (including student selection and tuition fees). It is important that extension of the Law on the freedoms and responsibilities of universities (*Loi LRU*), adopted in 2007, should promote optimum management of resources and encourage closer partnerships with the private sector and research institutions. Corporate funding of higher education establishments is 10% or more in Australia, Canada, the Czech Republic, Israel, Japan, Korea, the Netherlands, Slovakia, the United Kingdom and the USA. France could usefully take note of these examples. An approach of this kind would require the universities to have stronger managerial skills.

Public funding of establishments should also be rebalanced in favour of the universities in a way that is budget-neutral (see *OECD Economic Surveys: France 2013)*. A policy of tuition fees differentiated and scaled according to the job opportunities opened up by different types of training, combined with government grants (scholarships, study loans) might also make for greater fairness and efficiency in university education. The OECD surveys suggest that student finance systems which combine loans repayable above a certain income and means-tested grants provide easier access to higher education and greater fairness, not only prior to study but also afterwards, by improving student success. Australia and New Zealand, for example, have used this approach to cushion the impact of their high education costs, encourage pupils from disadvantaged backgrounds to pursue higher education and reduce the risk of debt from student loans. Other OECD countries which offer means-tested grants and loans repayable above a certain income include Chile, the Netherlands, the United Kingdom and the USA, though in some of these countries it is up to the borrower to apply if he or she wants to make loan repayment conditional on a certain level of earnings. In all these countries, tuition fees also vary depending on the field of study and the likely job opportunities later.

Efforts to improve the performance of higher education must also take on board the need to correct the fragmented and complex nature of the system. The Law on higher education and research (*Loi ESR*) enacted in July 2013 seeks to simplify the university system by forming “university communities”, grouping a number of establishments (universities and *grandes écoles*) and research institutions which will replace the “higher education and research clusters” (PRES) created in 2006 (see also Chapter II). This measure is intended to produce economies of scale and a higher international profile, through the promotion of multidisciplinary clusters of excellence. It is important here to ensure that the new measures are guided effectively and that incentives are put in place to strengthen these communities.

Lastly, if the Government’s target of a higher education qualification for 50% of people in each age category is to be achieved, it is vital to pursue initiatives to prevent undergraduate failure. Progress has been made on guidance with career choices, notably through the establishment of university careers advice offices (BAIP), but more work is needed prior to that stage, to bridge the current gap between secondary education and university. Some provisions of the *Loi ESR* attempt to achieve this.

Ease the transition from school to work

In France, as in other OECD countries, there is the challenge of how to translate *better* skills into *better* economic and social results. Vocational training is a key tool for achieving the transition from school to work. It is addressed in the next chapter.

The OECD is also in the process of mapping labour markets in France, identifying levels of skills supply and demand. From this, it will be possible to pinpoint imbalances and to direct skills training and development mechanisms more effectively towards specific regions. This diagnostic tool is part of the local job creation study (mentioned earlier), which identifies ways in which France's education, training and employment systems can do more to improve business productivity, through the better use of skills. The report produced by this study provides a benchmark for French policy and practice on skills provision and compares them against those of other countries, highlighting the methods most relevant to France.

CHAPTER VIII. IMPROVING VOCATIONAL TRAINING

High-quality vocational training is fundamental to preparing young people for the world of work and improving the skills of adults already in work or seeking employment. In many OECD countries, including France, vocational training is often neglected and marginalised in public debate, eclipsed by the importance given to traditional education. But, as the example of Germany shows, apprenticeships can offer a robust qualification and a set of skills which meet the requirements of the labour market and thus facilitate the transition to work. In addition, policies to enhance adult skills can do much to reduce the economic and social inequalities in employment by improving the career prospects of the least qualified workers and ensuring a better match between the skills base and any new requirements of employers. Such policies should play a major role in strengthening France's productivity and competitiveness.

The importance of this issue for France is borne out by the recent OECD assessment of adult skills (PIAAC). This survey shows that French literacy and numeracy skills are among the poorest of the 24 participating countries. The survey also shows that French employers are among those who rely most heavily on the numeracy skills of their workforce.

In 2012, national spending on vocational education and training (VET) in France was EUR 32 billion, or 1.6% of GDP (similar to the annual spending on unemployment benefits). Of this expenditure, 42% was for workers in private-sector jobs, 25% for young people, 20% for public-sector staff and just 12% for job seekers (see Finance Bill for 2013: Vocational Training).

Reform of the in-service training system, launched in 2009 by the new Law on lifelong guidance and vocational training, followed in 2011 by the Law on the development of apprenticeships and greater employment security (Cherpion Law) is a first response aimed at strengthening vocational training. The Government is now calling on the social partners to deliberate further, inviting them to talks on vocational training to improve the security of employment and the competitiveness of companies. The focus is on the training needs of young people and the unemployed, and it may result in a new law on vocational training by the end of the year. The reform of vocational training launched in July 2013, introducing the **individual training account** (CIF), will seek to broaden the range of training opportunities for those in work and those seeking work, with priority given to the least skilled.

Identify adult skills and employer requirements

The first OECD **Survey of Adult Skills (PIAAC)** identified a big skills gap among French adults aged 16-65, between generations, and between persons with different levels of education and training, social backgrounds and countries of birth. Intergenerational skills differences are quite marked in comparison with the other countries in the survey, with France's poor performance largely explained by the results for the 45-65 age group; scores for the 16-44 age group are closer to (though below) the average.

The differences in results by level of training are also among the most marked of the countries that took part in the survey. The results for individuals who did not complete the second cycle of secondary education are 14 percentage points below the OECD average, while those for persons who completed higher education are very close to the average.

The survey also showed that, at the workplace, French workers read, solve complex problems and use information and communications technology less frequently on average than those in the other countries. On the other hand, they write more often and, to an even greater extent, use their numeracy skills more often at the workplace than workers elsewhere.

In general, the low level of skills and the fact that they are little used at the workplace mean that the discrepancy between these two variables and the average for the countries taking part in the survey is relatively small. Excessive competence in literacy – the percentage of workers with skills greater than their jobs requires – is 6.7%, compared with an average of 10.3%. But inadequate competence in literacy – the percentage of workers with skills below the level their job requires – is 3.6%, a result very close to the average.

Against this background, the need for an effective system of training accessible to adults with poorer skills becomes more pressing. Low-skilled workers are more likely to lose their jobs, but they are also less keen to take part in training programmes. In all countries, there is a strong correlation between adult take-up of training and literacy skills. Thus low-skilled adults find themselves trapped in a vicious circle: they benefit less from available training and their skills deteriorate over time – making it even harder for them to take part in new training activities. Despite the relatively high national spending on vocational training, the percentage of low-skilled adults in training in France is one of the smallest of all the countries studied in the PIAAC survey (Figure VIII-1).

Strengthen initial vocational training

As discussed in the previous chapter, each year, some 150 000 French youngsters leave school without any qualification (40 000 of them leave after *college*, at around age 15, or during the first year of vocational training). The drop-out rate from initial vocational training schemes is higher than from general education.

These young people find it particularly hard to find work thereafter: in 2011, according to *Education at a Glance* (2013), 72% of young people not in education and aged under 20 were jobless or inactive, compared with the average of 57% for the 34 member countries of the OECD. These young people have little chance of re-entering training and completing their studies. Second-chance schools (E2C), designed for youngsters aged 18-25 with no qualifications and no vocational skills, enable 60% of youngsters who complete this cycle of training to find a job (open-ended or fixed-term contract), an apprenticeship contract (*contrat de professionnalisation,* CP) or to enter a form of training that will give them a skill or qualification. In 2012, these schools had an intake of 13 036 young people. Even so, the drop-out rate is high (19%), which makes this mechanism expensive and difficult to extend to all unskilled young people.

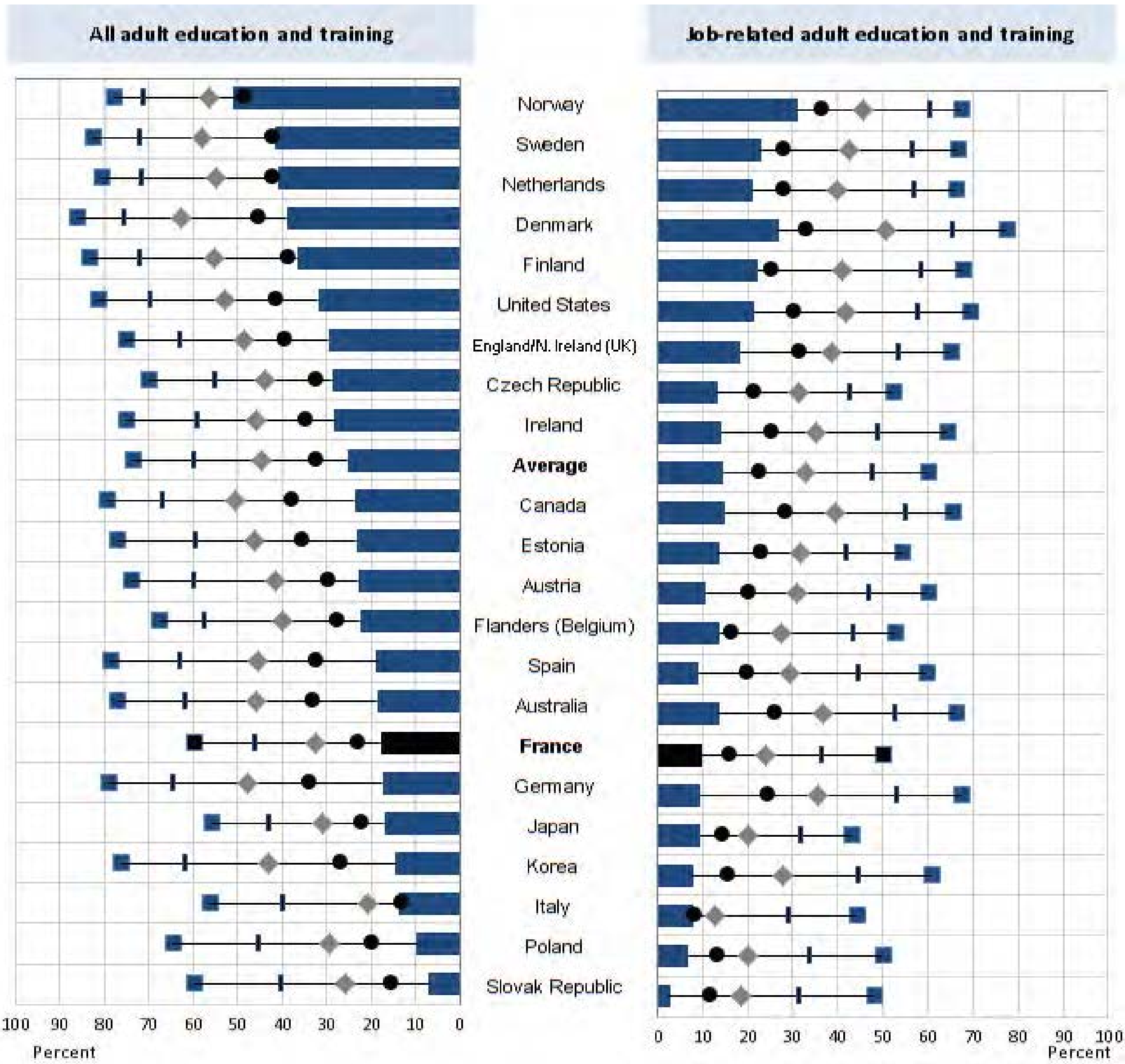
The percentage of young adults aged 25-29 in training is also relatively low: 5% in France compared with the OECD average of 16% and more than 20% in Denmark, Finland, Iceland, Israel, the Netherlands, Slovenia and Sweden, which give higher priority to encouraging adults to resume their studies. The proportion of unskilled young people aged 25-29 in training is just 1%, compared with the OECD average of 7%.

All in all, 16.4% of young people aged 15-29 are not in employment, education or training (NEETs) and this proportion, which was 14.0% in 2008, increased during the crisis (Figure VIII-2). By way of comparison, only 11.0% of German 15 to 29-year-olds were in this position in 2011.

Chief weaknesses of the vocational route in secondary education

In France, pupils study a common curriculum up to age 16, after which they opt for either the general or the vocational pathway. In 2011, just under half of secondary school pupils were following the vocational route. Educational counselling for pupils is viewed negatively, meaning disciplines are chosen largely by default. In the *lycée* (high school), the general route is seen as a “prestige” pathway compared with the vocational route. The weakest pupils are almost systematically steered towards the vocational specialties in least demand, often in the services sector, which have available spaces in the vocational high schools but very rarely correspond to the pupils’ personal desires.

Figure VIII-1. Percentage of adults who participate in adult education and training during year prior to the survey, by level of literacy proficiency

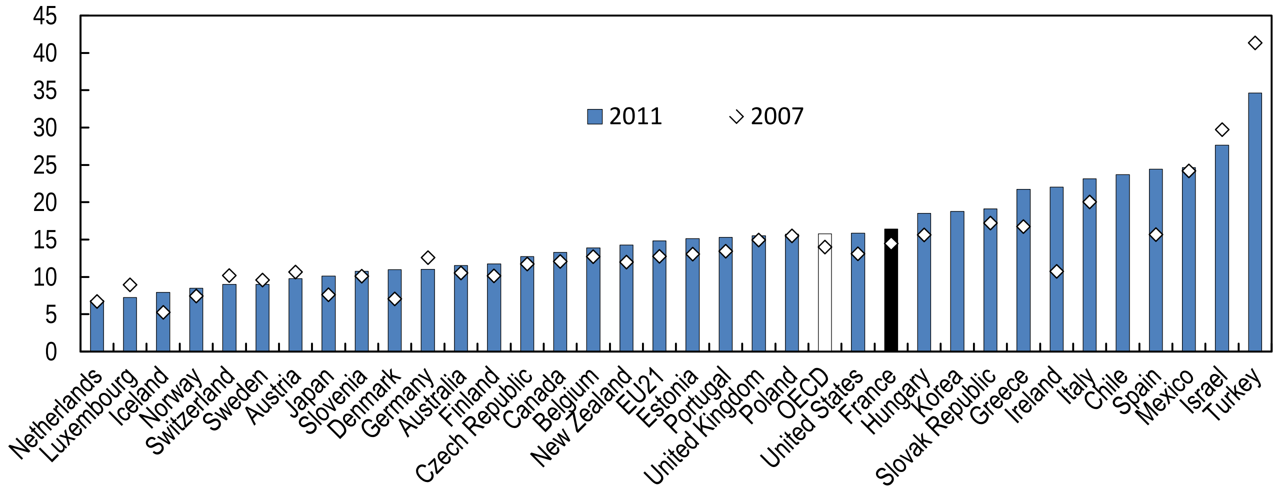


Countries are ranked in descending order of the percentage of adults scoring below Level 1 in literacy in adult education and training during year prior to the survey.

Source: Survey of Adult Skills (PIAAC) (2013).

Figure VIII-2. Growth in the proportion of young people not in employment, education or training (NEETs)

Percentage of the population aged 15-29[a], 2007-2011[b]



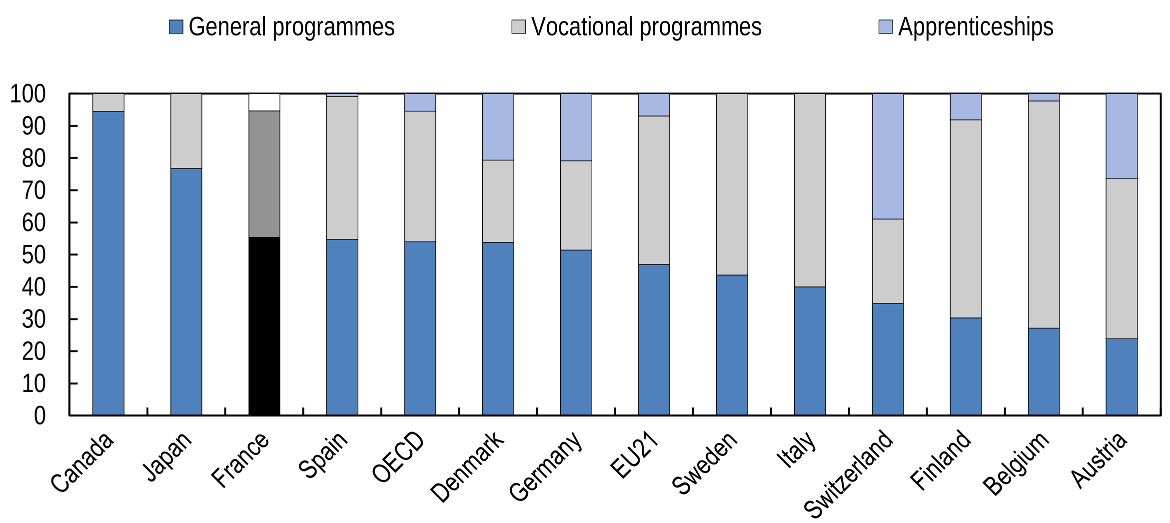
a. Young people aged 15-24 for Australia and Japan.

b. Q2 2007 – Q2 2012 for Australia and Q1 2012 for Japan.

Source: OECD estimates based on national Labour Force Surveys and Eurostat, Dashboard of EU Youth Indicators.

Furthermore, the vocational route at secondary school is spent too much in the classroom and not enough at the workplace. Fewer than 5% of pupils following the vocational route have an apprenticeship, compared with over 20% in Austria, Germany, Denmark and Switzerland (Figure VIII-3). The recent growth in apprenticeships (Box VIII.1) is due largely to take-up by young people who already have a qualification. It has expanded primarily, in the last few years, in higher education. The number of apprentices has virtually doubled over 20 years, but the number of the lower-skilled has remained stable.

Figure VIII-3. Breakdown (%) of pupils enrolled in the second cycle of secondary education, 2011



Source: OECD (2013), Education at a Glance, OECD Publishing, Paris.

In higher education, the trend towards vocationalisation is moving in the right direction. Thanks to the coexistence of short training pathways – the Higher Technical Certificate (BTS), and the University Institute of Technology Diploma (DUT) – and longer pathways (vocational Bachelor's and Master's degree), vocationalisation in higher education is well able to meet the requirements of employers and is genuinely popular with students.

Box VIII-1. Apprenticeship with an employer in France

The **apprenticeship contract** (*contrat d'apprentissage*) is designed for young people aged 16-25 who have completed compulsory schooling. Apprentices undergo general training, theoretical and practical, which gives them vocational skills recognised by a vocational or technical qualification, engineer's diploma or other recognised diploma. They are paid a salary scaled according to their age and how long they have been part of the scheme. Employers receive a number of benefits: total or partial exemption from social security contributions, lump-sum compensatory payment from the Region, tax credit, etc. The young persons must be mentored by an apprentice supervisor who has a duty to help them acquire the skills they need in order to obtain the intended diploma or qualification.

The **skilling contract** (*contrat de professionalisation*), introduced in 2005 by the social partners, is for young people aged 16-25 but also for job seekers and persons with certain benefits or contracts. Its purpose is to enable them to acquire a vocational skill or to add a further skill to their initial training to equip them for a specific job with the employer. Subject to certain conditions, this contract entitles the employer to exemption from paying its share of social security contributions (cover for sickness, maternity, disability, old age pension, death benefit).

Vocational options in the higher education sector need to be better targeted to those with a vocational baccalaureate. Vurrently, they are largely taken up by those with a general baccalaureate. While apprenticeship contracts are aimed chiefly at low-skilled men, skilling contracts do not specifically target unskilled young people: in 2011, only 6% of young people with a skilling contract were unskilled. As many as 75% of young people under 26 who gained a skilling contract in 2011 were educated at least to baccalaureate level (compared with 37% of young people starting an apprenticeship).

Lessons from the experience of other countries

The OECD policy reviews Learning for Jobs (2008-2010) (Box VIII-2) and Skills beyond School (2011-2013) stress that quality vocational training programmes must reconcile two imperatives: teaching students a set of very specific vocational skills, so that they are immediately employable and productive and can find a job more easily, but also equipping them with a wider body of transferrable skills (such as good literacy and numeracy, team working, good communication skills, flexibility and the ability to learn new skills).

The "apprenticeship countries" (Austria, Denmark, Germany, the Netherlands and Switzerland) have been the most successful in providing quality training for all, with help from the social partners, acting early on in the transition from school to work. Germany organises pre-apprenticeship training for young people with poor educational achievement, giving them support to ensure that they do not end up with no skills. There has, since 2005, been a common base of knowledge and skills which all pupils following all pathways must acquire by the end of their compulsory schooling.

Policymakers must involve employers and unions in the design and implementation of adequate measures to promote high-quality and well-targeted training. National rules on certification and assessment will ensure that the range of training options available is coherent and of good quality. It is important also to collect, analyse and disseminate data on the labour market outcomes for persons gaining a training qualification.

Box VIII-2. Recommendations of “Learning for Jobs” (2010)

The policy review “Learning for Jobs” (2008-2010) sought to bridge the gap between school and work, by establishing how vocational training programmes for young people might be improved to provide a better response to labour market requirements. National policy reviews were conducted in 17 countries. The comparative report on “Learning for Jobs” makes recommendations on five different subjects:

Theme 1: Provide the right mix of skills for the labour market.

In practice, this means thinking about the cost of training: share the cost between government, employers and individual students according to the benefits obtained; provide a mix of training places that reflects both student preferences and employer needs, to be achieved through provision of workplace training and through planning and incentive mechanisms; involve employers and unions in curriculum development; do not neglect the generic skills (numeracy, literacy) which support career development and mobility.

Theme 2: Reform career guidance to deliver effective advice for all.

Thought should be given to the profession of careers adviser and its links with the world of work (this profession is different from that of educational psychologist); provide pupils with access to advice and services which change as the world of work changes; ensure an independent base to support objective and reliable guidance on careers and courses; build partnerships with employers; ensure that career guidance initiatives are properly evaluated.

Theme 3: Ensure teachers and trainers combine good workplace experience with pedagogical and other preparation.

Recruit enough teachers and trainers and ensure that they keep their knowledge of employer requirements up to date, by encouraging them to spend part of their time working in business or industry; recruit persons with business experience to the teaching staff; provide teachers and trainers with appropriate pedagogical preparation; encourage interchange and partnership between training institutions and industry.

Theme 4: Make full use of workplace learning.

To ensure that workplace-based training (internship, apprenticeship and skilling contracts) is as beneficial as possible, ensure that schemes allow both trainees and employers to have a voice; ensure that training is of good quality; ensure a good balance between time spent at work and time spent in the classroom.

Theme 5: Support initial vocational training with tools to engage stakeholders and information to promote transparency.

Recent advances which should be continued

Recent years have seen a succession of subsidies for the recruitment of young people under apprenticeship schemes, including the “contribution-exempt apprentice”. The youth employment action plan launched in April 2009 introduced three subsidies for recruitment under an apprenticeship or skilling contract concluded up to the end of 2010. A new measure granting exemption from social security contributions was then introduced for trainees recruited between March 2011 and 30 June 2012. And to increase the number of placements with employers, a “bonus-malus” system was introduced in 2011 and strengthened in 2012. The quota of trainees in companies with 250 or more employees has thus risen from 3% to 4%, and it will be 5% by 2015. Employers who fail to meet the quota must pay the supplementary apprenticeship contribution (CSA). By way of a “malus”, the rate of the CSA is scaled according to the effort the employer has put in to the provision of dual-system training. The “bonus” is applied to companies with 250 or more employees which have more than the 4% quota of trainees.

However, the apprenticeship system showed signs of fragility in 2012 due to the crisis in employment. During the first quarter, the number of contracts was 6% lower than in the same period of the previous year, with 106 446 contracts as against 113 313. Even the ending on 30 June of the “contribution-exempt apprentice" mechanism, used by companies with fewer than 250 employees to recruit additional trainees, did not boost recruitment during the final month of its application.

It is essential to rebalance these mechanisms in favour of those young people who need them most, the unskilled. For this reason, France must, at the same time as promoting a greater number of training places, develop more mechanisms to prepare unskilled young people for apprenticeships. Thus, careful management is needed of the "Dima" mechanism of entry to trainee jobs introduced in the "Cherpion Law" of 28 July 2011 on the development of apprenticeships and greater employment security, access to which has been broadened to include new types of employment (temporary jobs especially) and to pupils leaving school after the *collège* (middle school) stage of their education, thereby lowering the required age for starting an apprenticeship. Young people without skills should also be targeted by training programmes under the Future Investment Programme (PIA), part of the "Grand Borrowing" of 2010. Projects may be submitted to the end of 2014, and the budget for the programme is EUR 500 million.

In September 2013, moreover, the Government will be consulting with the social partners, regional stakeholders and chambers of commerce on the development of apprenticeships prior to legislating on the matter at the end of 2013. One intention is to create an apprenticeship contract with a guaranteed job at the end of it. An experiment was launched in September in ten regions, with the aim of preventing the apprenticeship contracts of young people who find it hard to find a job from being terminated.

In order to further strengthen initial vocational training, the OECD suggests the following recommendations:

- **Train young people for an occupation, not forgetting the importance of generic skills**. In France, as in most OECD countries, an increasing number of jobs require sound generic skills. Since sectors and technologies develop at a fast pace, the ability to learn is crucial, and the generic skills underpinning this ability are highly valued by employers. Some pupils following vocational pathways are seriously deficient in these skills, and it is a major handicap to them.
- **Overhaul the way guidance functions in secondary education and better co-ordinate educational guidance and vocational guidance.** Middle and high school students (*collégiens*, *lycéens*) and apprentices should be better informed about the many vocational specialties and gateways that exist, so that they can plan their educational and vocational pathway better.
- **Give priority to apprenticeship and skilling contracts to unskilled young people** and develop pre-apprenticeships to prepare this group and motivate them for full apprenticeships.
- **Improve access for pupils with a vocational baccalaureate to the short higher education routes** (BTS and DUT).

Improve in-service vocational training

Offering the low-skilled a "second chance at a qualification" enables in-service vocational training to correct the inequalities inherited from school. In France, however, access to vocational training for people already in work is inegalitarian. In 2007, 35% of adults in the 25-64 age group took part in formal and/or informal training activities, compared to 40% in the OECD on average. As in most OECD countries, the vocational training system, far from correcting original inequalities, makes them worse: those with poor basic skills are far less likely to continue their training as adults. The 2009 OECD review *Jobs for Youth: France* pointed out that take-up of continuing vocational training among those aged 20-29 is three times higher for persons with a higher educational qualification than for young people of the same age with no qualifications. But a second chance is essential for those who lack basic education and skills, through in-service training and also through the validation of job experience (VAE).

The OECD study *Local job creation in France: Enhance the impact of labour market policy and training*, published in September, also points to explosive growth in existing training options, though they are not always appropriate to the needs of their target groups (lack of basic training in some geographical areas), to employers' needs (shortage of manpower with certain skills), or in terms of the chance of employment later (over-supply of certain occupations/skills).

Some instances of good practice should be noted, however: in the Rhône-Alpes Region, expenditure on training is shared under a co-operation agreement between the State, the Regional Council and the regional directorate of *Pôle emploi*. Regional employment training contracts (CTEF) have been introduced, with 27 employment training zones (see Box VIII-3). Each zone conducts a shared diagnostic exercise every year and defines a strategy (issues and objectives). This has improved the transparency of the range of training options available.

Box VIII-3. Regional employment training contracts (CTEF), Lyons

In 2012, the public employment service in the Rhône-Alpes Region merged its departments with those of the Region, dividing the Region into 27 employment training zones each governed by a regional employment training contract (CTEF). Operating as a partnership between the Region, the State and the social partners, the system's principal objectives are to:

• co-ordinate training, economic development and land use policies;

• maintain close links with target groups and the business world in order to provide a better response to skilling and recruitment issues;

• give regional stakeholders in employment and training responsibility for identifying issues and devising solutions;

• deciding who is to fund what, between the Region and other bodies which finance employment and training, primarily the State and the social partners.

Each zone conducts a shared diagnostic exercise every year and defines a strategy, potential challenges and objectives. This strategy translates into annual action plans which decide the use to be made of funds from the Region (funds for regional projects whether from the budget or not), and from the State and other partners in employment and training, such as the Fund Management Organisation for the Professional Integration of People with Disabilities (AGEFIPH), General Councils, Local Plan for Insertion and Employment (PLIE), etc.

Source: http://www.territoires.rhonealpes.fr/ and OECD LEED report ***Local job creation in France: Enhance the impact of labour market policy and training*** (2013)

There is also very little co-ordination on the ground with employers. Various agencies and organisations compete to get their job candidates placed or their training options taken up. To avoid multiple approaches, or the absence of any contact, it would be necessary to co-ordinate existing initiatives and searches (at all levels) by means of file-sharing.

Improved co-ordination would not only provide a better response to employer demand but also help employers to plan their need for skills and use them better, which could improve productivity. Measures to help employers make better use of skills are especially important in areas where a high proportion of jobs are low-grade positions. In some regions, employers use primarily low-skilled and low-paid labour, so demand for skills is low, adversely affecting the productivity of the local economy.

The OECD LEED Programme has developed a statistical diagnostic tool which gives an insight into the differences between local labour markets, in terms of supply and demand for skills. This methodology allows local economies to be categorised in four different ways: regions with a balance of poor skills and poor productivity, regions with skills gaps and shortages, regions with a skills surplus, and regions with a balance of good skills and productivity. Using this tool, the OECD has produced a map of labour markets in France which may help to identify areas in which special effort is needed to improve employers' use of skills in order to boost productivity. Working with employers requires not only excellent co-operation on the ground but also sound capabilities which are not always there. This objective might also be helped by the formation of employer groupings (especially in a predominantly small business environment).

The efficacy of the adult training system must be strengthened, and unemployed people and low-skilled adults must be encouraged to take part

During 2011 as a whole, 20.3% of unemployed persons as defined by the ILO began some form of training, a drop of 0.7 percentage points from 2010 (Dares, 2013). A 2009 Dares survey of job seekers starting training in 2006 found that 38% were in employment one month after completing their training, 56% six months after and 64% eighteen months after. Returns to employment remain fragile, however: within two years of completing their training, 68% of trained job seekers who found a job had left it. And 15% had not found a new job in the two years after completing their training. These results suggest a need to strengthen guidance and support for trained unemployed people to support their acquisition of relevant skills.

At the same time, every year a large number of requests for training from jobless people are not met. Job seeker training in 2010 accounted for only 12.5% of total spending on training. Yet a period of unemployment is a time that should be spent undergoing training, where necessary. And it is essential to activate job seekers in countries with a generous system of unemployment benefits. To do that, the amount of funding earmarked for job seeker training must be increased and deployed in programmes taking a rights-and-responsibilties approach. In 2009, a joint career security fund (FPSPP) was formed. This seeks to fund training for job seekers and the least skilled people already in work, and it should be expanded.

The reform of vocational training initiated in July 2013 set as a target that half of all unemployed people should be given a training offer within two months of losing their jobs.

More should also be done to encourage employers to train their least skilled employees. In 2010, employer funding provided about 42% of the total spending on training in France, or EUR 13 billion, EUR 11 billion of which was for adult training. Employers can meet their obligation to develop in-service vocational training in two ways: by funding training measures for their workforce themselves (in-house or outsourced) or by making a payment to an authorised joint collection body (OPCA). But this "train or pay" system often means that training is given to employees who already have skills. A more redistributive system providing correct incentives is needed. This may potentially involve subsidies for the least skilled employees, funded by employer contributions.

The iptake of the individual right to training (DIF) continues to be slow: in 2010, 6.4% of employees availed themselves of it, as against 6.2% in 2009 and 5.5% in 2008. Recent reforms should broaden the scope of this training option for employees and job seekers, following the law of November 2009, which made the DIF portable, and following the very recent decision to create an individual training account giving access to lifelong vocational training. Everyone starting work will be given an individual training account, but it is not yet known how this will operate. Here too, better access to training for the least skilled is an imperative.

There is also a need to strengthen access to qualifications and to all professional diplomas in other ways, in particular by the validation of job experience (VAE). This is possible in the healthcare and social sector which has, since 2002, embraced an approach of more broadly recognised vocational qualifications which relies heavily on VAE and now covers one-third of all job applicants to that sector. Since the mechanism of validating skills and knowledge gained through experience remains underused, an interministerial working group has been set up to look at ways of broadening and smoothing routes to certification.

Reform of the OPCA network (authorised joint collection bodies) and their inclusion in an attempt to improve performance and reporting have led to the creation of large sectoral bodies which are better able to co-ordinate training policy for specific sectors. Nevertheless, the management of private-sector training providers should be made more transparent, by clear tendering procedures and performance-based contracts with remuneration scaled according to the profile of the trainee group and the achievement of measurable objectives. Training outcomes must be systematically assessed and publicised to help funding providers make better choices. The examples of Australia and the Netherlands are worthy of attention here. Lastly, greater incentives are needed to persuade employers to prioritise training for their least skilled employees.

All in all, for the further strengthening of in-service vocational training, the OECD makes the following recommendations:

- **Create a deferred right to vocational training for young people who have left the school system** without basic skills, a qualification and/or a diploma. Young people dropping out of school should be given the chance to acquire at least basic skills during their working lives by establishing a deferred right to training, to be financed mainly by contributions for vocational training collected from employers and as part of the skilling contract.
- **Increase the amount of funding earmarked for job seeker training in programmes taking a rights-and-responsibilties approach.** A period of unemployment is a time that should be spent undergoing training, where necessary. And it is essential to activate job seekers in countries with a generous system of unemployment benefits. More of the funding earmarked for vocational training should be spent on job seekers.
- **Strengthen the efficacy of the adult vocational training system, with systematic assessment of training outcomes and a greater emphasis on measures to help the least skilled employees.** A system of regular assessment of vocational training should be introduced; the existing "train or pay" system should be reviewed, to create better incentives to train the least skilled employees.
- **Set up a single system of information on training programmes and ensure greater involvement by employers.** An information tool should be created, easily accessible (on the Internet), which lists the training opportunities and policy mechanisms for employment and support for economic development that are available regionally or locally. A system of this kind should also allow better co-ordination with employers' training programmes.

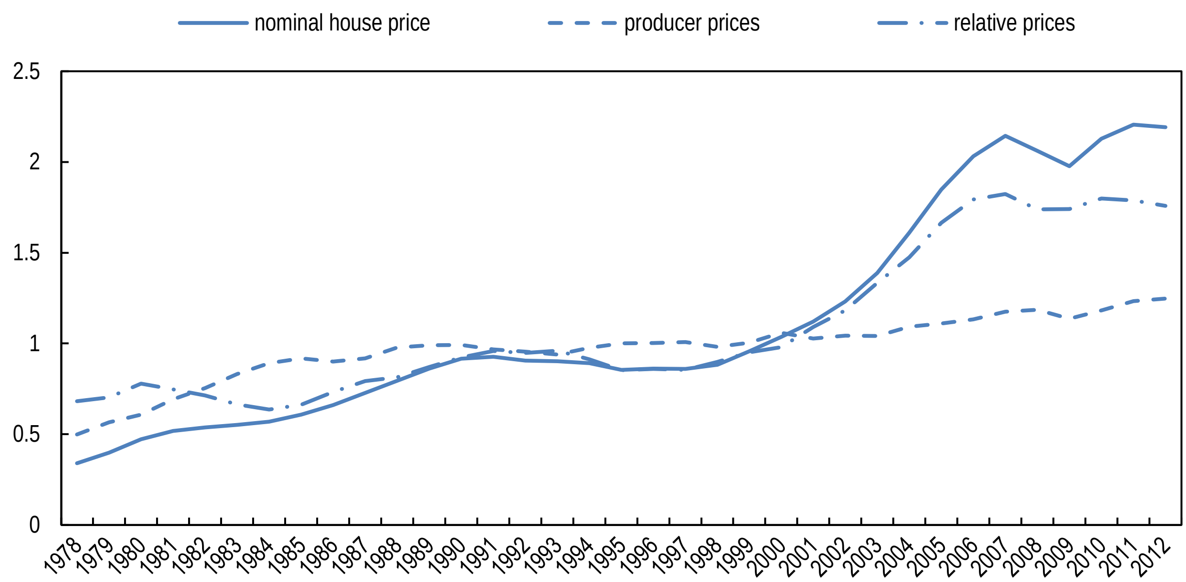
CHAPTER IX. IMPROVING THE FUNCTIONING OF THE HOUSING MARKET

An excessive channelling of resources into the construction industry damages business competitiveness

Property prices can have an impact not only on consumer purchasing power and social inequalities but also on business competitiveness. The boom in the property sector seems to have been a factor in the relatively poor performance of French exports in the past 10 years. According to Égert and Kierzenkowski (2010)[16], strong profitability in the construction industry, fed by rising house prices, might have diverted a portion of capital and labour resources away from export activity in France and a number of other countries. During the first decade of the new millennium, house prices in France, as in a number of other countries, trended sharply upwards relative to manufacturing-sector production prices (see Figure IX-1). Empirical studies on OECD countries confirm that higher real estate prices can trigger an inter-sectoral reallocation of labour (Bover and Jimeno, 2007). Conefrey and FitzGerald (2009) also provide evidence that the housing boom in Ireland and Spain could have pre-empted resources from more productive uses, with housing investment reaching as much as 14% of GDP in the former and 9% in the latter in 2005.

Figure IX-1. House prices and producer prices in the manufacturing sector

Index, 2000=1



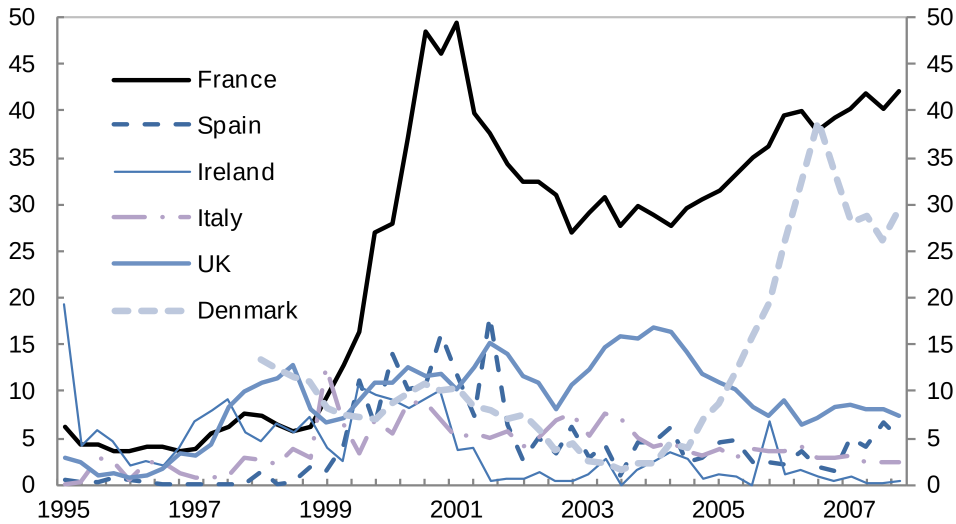
Source: OECD.

Between 2000 and 2007, the French construction sector faced a tight labour market, with one of the most acute manpower shortages of all the big European Union countries (Figure IX-2). This caused the earnings

[16] Égert, B. & R. Kierzenkowski (2010), "Exports and property prices in France: are they connected?", *OECD Economics Department Working Papers No.* 759, OECD, April 2010 (English only).

of construction sector workers to rise relentlessly: as a result, the basic hourly earnings of construction workers rose faster than in other sectors (Figure IX-3).

Figure IX-2. Labour supply as a constraint on activity



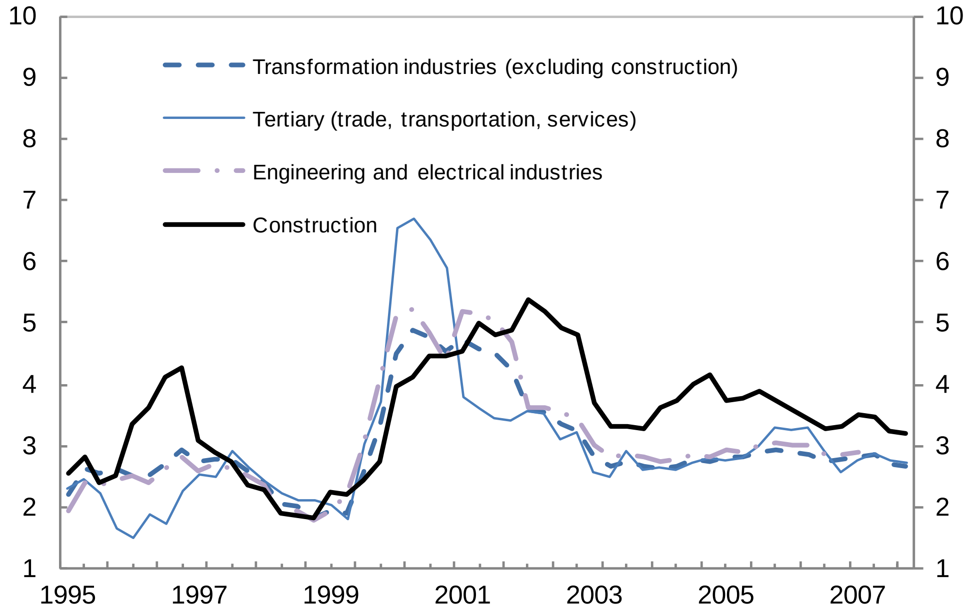
Note: Proportion of respondents pointing to the shortage of the labour force as the main factor limiting building activity.

Source: European Commission.

This divergence from the general trend in earnings has led to a shift in labour away from other sectors, even though the skills required are not necessarily the same. From 2000 to 2007, jobs in construction as a proportion of total jobs increased by more than 1 percentage point to just above 7%, and one in four new jobs created in the French economy during this period was in the construction sector. In effect, the construction sector "sucked in" labour from the primary and tertiary sectors, not just from manufacturing.

Labour would not have been able to migrate so massively to the construction sector if capital had not done the same. In effect, operating margins here were the highest in the whole of the economy (28%), compared with an average of just 10.5%. INSEE data on business start-ups appear to confirm this trend: between 2000 and 2007, the number of construction firms rose by about a quarter, and it more than doubled in the property sector. In the manufacturing sector, however, the number of firms remained stable overall.

Figure IX-3. Basic hourly wages of manual workers in France



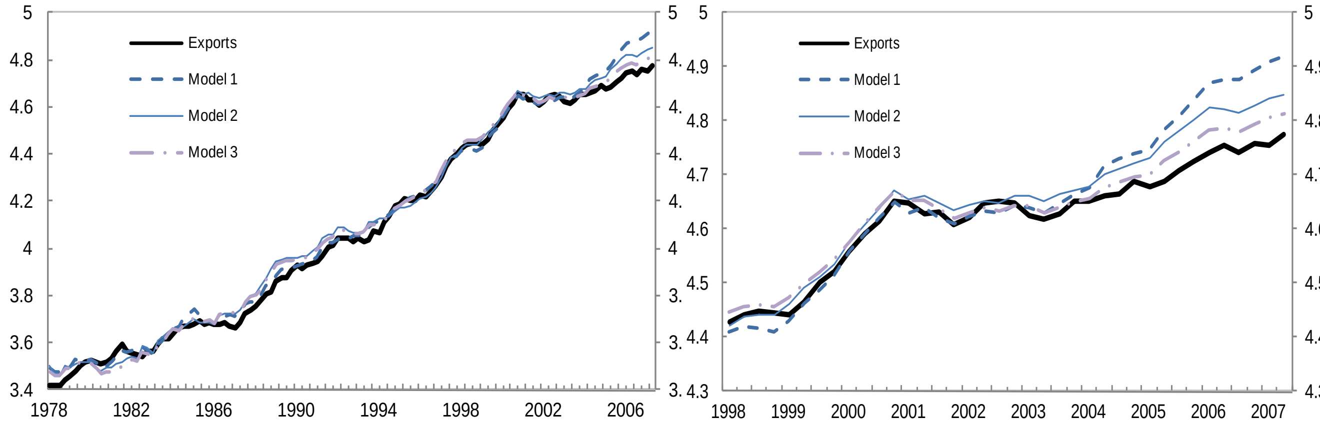
Source: ACEMO Quarterly Survey.

Estimation of the impact of house prices on exports

The relative price of housing, as part of standard export equations, carries an estimated coefficient of about -0.15, so a 1-percentage-point rise in relative house prices means a fall of 0.15 percentage points in exports. In concrete terms, this elasticity suggests that the rise of over 80% in relative house prices recorded between 2000 and 2007 will have been matched, all things being equal, by a dip in exports of 12% to 13%, about half the total loss of market share. Figure IX-4 shows that taking account of relative house prices improves the fit of the export model (model 3), although France's mediocre performance on exports remains partly unexplained.

There are therefore good reasons to suppose that the recovery in housing construction happened, to some extent, at the expense of manufacturing exports, and that the scaling down of some incentives to stimulate housing demand may have a positive effect on trade performance over the medium term.

Figure IX-4. Observed and estimated exports



Source: Égert and Kierzenkowski (2010).

The role of housing policy

The effect of policies to promote investment in rental housing and home ownership (since the authorities feel that the population is poorly housed) has been to sustain demand for housing, pushing up prices. Various measures of this kind were introduced and others strengthened, helping to keep the property market buoyant during the expansion phase of the cycle. Some of them have been abolished or scaled down recently, but **sizeable distortions persist in the housing sector**. These could lead to excessive investment in and over-consumption of housing, potentially feeding through into higher property prices, at least in some areas such as the Paris region or Côte d'Azur where supply is already tight.

These distortions include (i) generally favourable tax treatment: there is no capital gains tax on main residences and, in certain circumstances, secondary residences; (ii) home ownership is favoured over renting, since imputed rents are not taxed but actual rental income is; and (iii) VAT on renovation and maintenance work is charged at a reduced rate, one objective being to support the building industry.

Parliament is currently studying the terms of a reform which might make distortions in the sector worse. The main measure entails tighter scrutiny of rents in areas where demand exceeds supply. The initial intent to transfer town planning responsibilities from the municipalities to the larger intercommunal groupings was a welcome development, but it allows numerous exemptions and it could go further by including the granting of building permission.

OECD estimates seem to indicate that, in France, the long-run price-elasticity of new housing supply is less than in other OECD countries (Sanchez and Johansson, 2011).[17] That paper's estimate of a long-run elasticity of 0.4 for France seems high enough to generate substantial additional supply in response to rising house prices and redirect resources away from other sectors and into housing construction. Despite such elasticity, prices have risen, a sign of healthy underlying demand relative to supply.

The rise in house prices relative to producer prices in the manufacturing sector may also have exacerbated the effect of resources being diverted into construction at the expense of exports: higher relative prices

17 Sanchez, A. & A. Johansson (2011), "The Price Responsiveness of Housing Supply in OECD Countries", OECD Economics Department Working Papers, No. 837 (English only).

boost the relative profitability of the construction sector, making it more attractive and enabling it to draw in resources (see Figure IX-2).

Housing policies must thus be changed to increase the responsiveness of supply and reduce property costs. The OECD 2011 *Economic Survey* of France[18] made recommendations for improving the coherence of housing policies, improving the responsiveness of supply, promoting better resource allocation and improving the fluidity of the housing market. Action on most of these is still required.

To improve the functioning of the housing market, the OECD offers the following recommendations:

- **Update the registry of property values** and implement a mechanism for periodic revaluation.
- **Broaden the responsibilities of the intercommunal groupings** (*intercommunalités*), in particular with regard to building permits and local land use plans, and raise local land use coefficients.
- **Ensure greater tax neutrality** by reforming various tax arrangements (taxing of rental income, capital gains, VAT on maintenance and renovation expenses, home savings plans, shifting transaction taxes to property tax).
- Eliminate the *numerus clausus* for notaries, reduce transaction delays between pre-contract signature and finalised sale and remove the current system of administered fixed prices.

[18] OECD (2011), *OECD Economic Surveys: France 2011*, Chapter 3: *Making the housing market work better*. OECD Publishing.

Annex 1. Position of France in global value chains: first lessons from the TiVA database

The OECD and WTO together have developed an ambitious and innovative project for analysing international trade using an approach based on the measurement of trade in value added (TiVA), rather than in gross value terms as is usually the case, and on the identification of global "value chains". In effect, world trade is increasingly structured around "global value chains", which identify all the countries involved in a product, from its conception to the R&D stage, its distribution and end use by consumers worldwide.

First results from this approach provide an interesting insight into France's position within these value chains and changes in its international specialisation.

Box A1. The OECD inter-country input-output (ICIO) model

The findings set out in this paper are taken from the international input-output tables compiled by the OECD to map the new reality of world trade in goods and services as part of the project measuring trade in value added (TiVA). In their version of May 2013, these tables record flows between 37 industries and 57 countries (plus the "rest of the world"). Because they are compiled from national data and harmonised by adjusting trade statistics, the model is built on a number of hypotheses which can provide estimates only, depending on the quality of the original data.

Using this model, a number of indicators were constructed (some taken from the TiVA database): (1) an index measuring the length of value chains (average number of production stages for each industry); (2) an index showing the country's position in the global value chain (upstream or downstream); (3) measurements of revealed comparative advantage from trade in value added, and (4) a breakdown of the foreign added value in French exports, by country or region of origin (figures from the TiVA database). A brief description of these indicators, calculated for France, is given in this Annex.

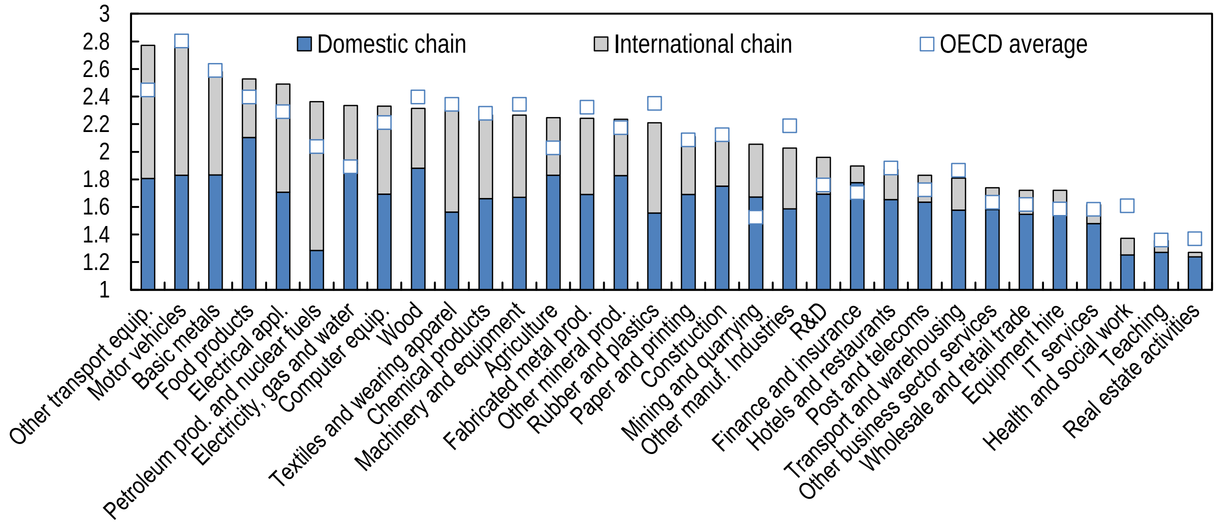
Length of value chains and French specialisation

France is involved in relatively sophisticated international value chains, particularly in the following manufacturing industries: transport equipment, motor vehicles, basic metals, food products and electrical machinery and apparatus (Figure A1-1). The most heavily internationalised industry (with the longest international part of the chain) is the petroleum products and nuclear fuels industry.

Services are generally less fragmented, with less vertical specialisation. Construction is one of the longest value chains; production in other services such as R&D or finance and insurance is also fragmented and international.

The results for France differ little from the OECD average, with chain length more industry-dependent than country-dependent (the model captures all production stages in all countries, and variations in length are attributable only to differences in production circuits between one country and another). These data show clearly that the **production of goods and services in France is increasingly dependent on foreign inputs** and the use in other countries of French intermediate products.

Figure A1-1. Length of value chains (domestic and foreign), 2009
(France and OECD average)



Source: OECD ICIO model.

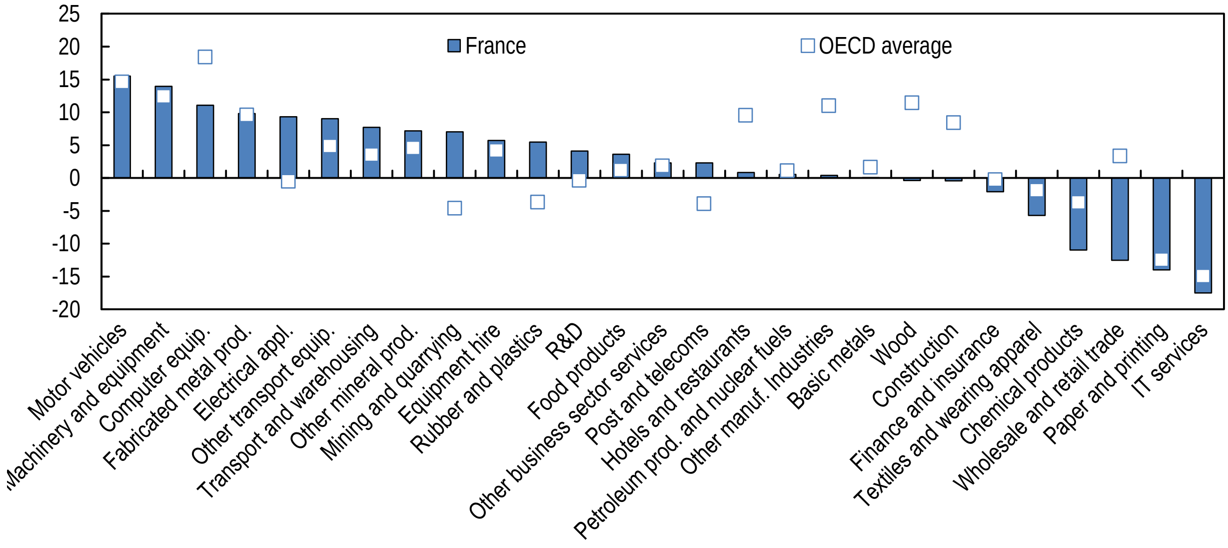
Position of France in global value chains

Like most OECD countries, France has tended to specialise more in production in the upstream section of value chains, producing more intermediate goods and services (Figure A1-2). This is, in principle, a positive development, since added value is captured predominantly in the upstream section of the value chain (R&D and design, for example) or the downstream section (distribution, marketing, branding, etc.).

Between 1995 and 2009, the index (which is 1 for a country that produces only a final good and greater when the specialisation is further upstream) showed the biggest increase in motor vehicles, machinery and equipment, and in office, accounting and computing machinery. Since the index is an average for the industry, the inference is that more French companies produce intermediate goods and services used by other countries further down the chain.

In three areas of manufacturing, however, French production is closer to the final stage of processing: textiles and wearing apparel, chemical products, and paper products and printing; and likewise in two service activities: wholesale and retail trade, and IT services. In these sectors, France is most prominent in distribution and services to end users. On average in the OECD countries, almost all industries are fragmented, which lengthens the value chain and automatically pushes them further upstream than they were 10 years ago.

Figure A1-2. Distance to final demand, index change 1995-2009 (France and OCDE average)



Source: OECD ICIO model.

It is interesting to look at the difference between France and the OECD average. For example, in rubber and plastics products, electrical machinery and apparatus, and especially in mining and quarrying, France's position is more clearly upstream, as these sectors represent, in part, manufacturing industries that are "in decline" and have seen major relocations of production, principally of the "core" sections of these value chains (in other words, actual product manufacture, or extraction in the case of the mining industry).

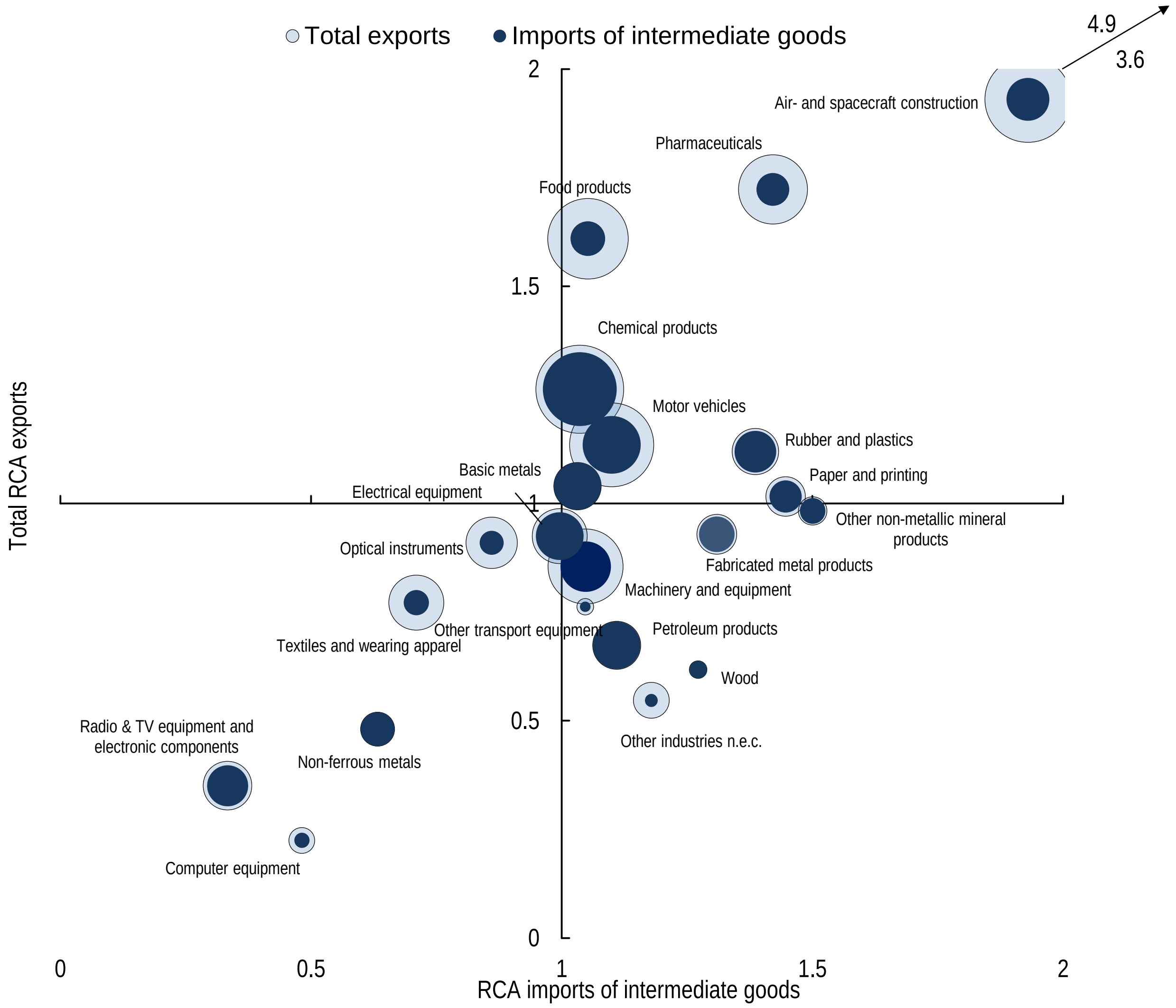
The global value chains approach thus offers a different perspective on shifting specialisation in France: the country has relocated much of its production but has specialised in intermediate goods or services and is thus further upstream in the relevant value chains. The automotive industry is another example, with the most marked movement towards upstream activities.

Revealed comparative advantage

One indicator which measures the specialisation of economies and is often used in writings on trade is the revealed comparative advantage (RCA). This compares exports of a given product as a proportion of a country's total exports, measured against the same proportion for the rest of the world. This indicator is no longer relevant in a world of vertically fragmented production, unless account is taken of imported intermediate products (the value of which is embodied in gross exports).

A first way of getting round this obstacle is by looking simultaneously at the RCA from exports and an RCA from imports of intermediate products (Figure A1-3). France's comparative advantage in industries such as pharmaceuticals or air- and spacecraft construction is then seen to derive largely from its ability to import. French competitiveness depends on efficient international supply strategies. The only industries in the upper left quadrant where France has a comparative advantage are those which also import a relatively higher volume of intermediate products. Once again, this confirms the internalisation of production streams and the role of trade in competitiveness.

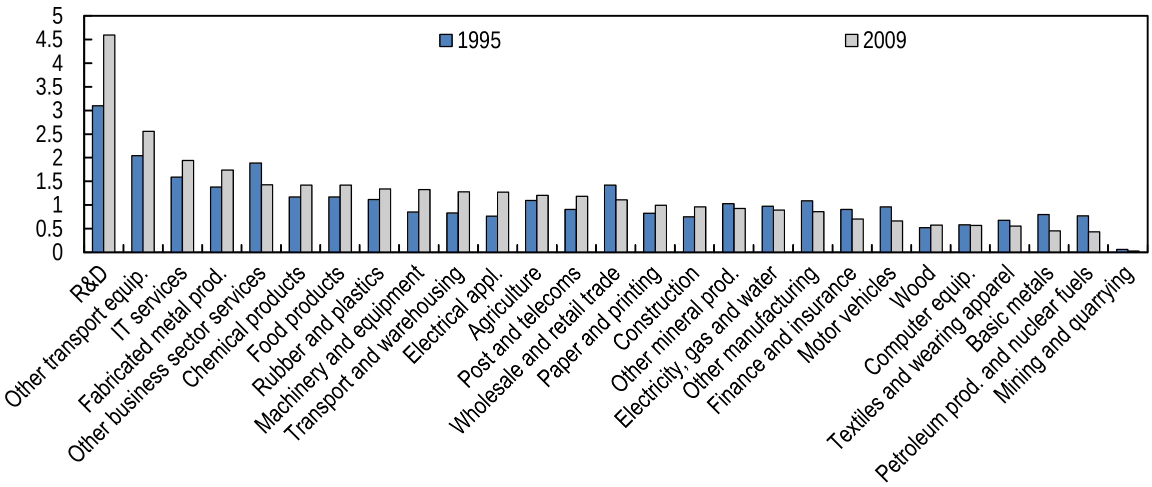
Figure A1-3. Revealed comparative advantage (total exports and imports of intermediate products), 2010



Source: OECD BTDIxE Database.

OECD work makes it possible to calculate an index of revealed comparative advantage based on value added (showing exactly where the domestic advantage of the economy arises). France strengthened its comparative advantage between 1995 and 2009 in sectors such as R&D or information technology and generally remains strong in business sector services (Figure A1-4): **it is from service activities that France derives its highest RCA in value added terms**. But aircraft construction (other transport equipment) is also prominent, as the previous figure shows.

Figure A1-4. Revealed comparative advantage in value added terms, 1995 and 2009



Source: OECD ICIO model.

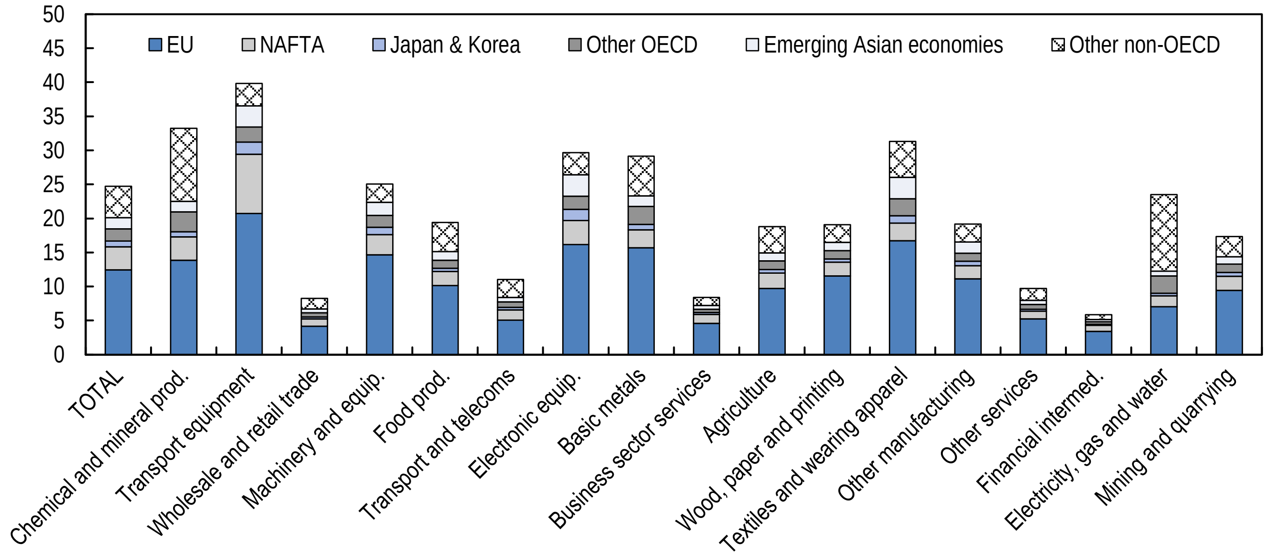
The RCA is also high (above 1) in other manufacturing industries such as fabricated metal products, chemicals or food. **In value added terms, France thus has advantages in industries sometimes seen as less competitive** because analysis focuses on those production stages which are no longer ones of specialisation. The "global value chain" approach again offers a different perspective and new and more positive insights into the competitiveness of the French economy. But it also highlights its weaknesses: France is losing ground in sectors such as the automotive industry or financial intermediation.

Origin of value added embodied in exports

Another useful indicator is the decomposition of the value added embodied in French exports (data from the OECD-WTO TiVA database) (Figure A1-5).[19] For example, almost 40% of transport equipment (chiefly motor vehicles and aircraft construction) consists of foreign inputs, chiefly from other EU countries (21%) but also from the NAFTA countries (Canada, USA and Mexico, 9%) or the emerging Asian economies (3%).

[19] The total for each industry (shown from left to right in order of their contribution to total exports and as a percentage of gross exports) indicates the proportion of foreign value added in imports of intermediate goods and services which is embodied in French exports.

Figure A1-5. Origin of foreign value added in French exports, as % of gross exports, 2009



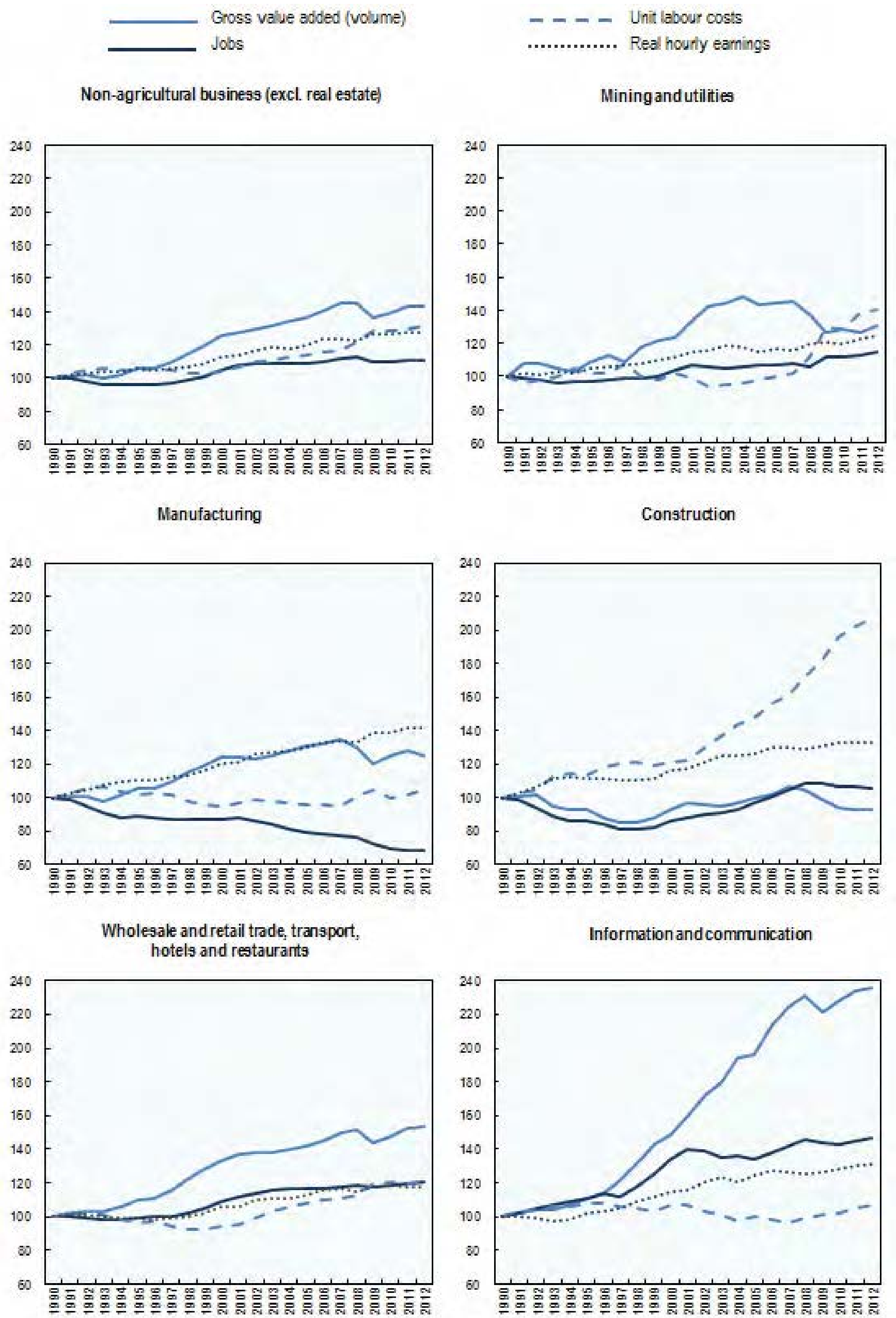
Source: OECD ICIO model.

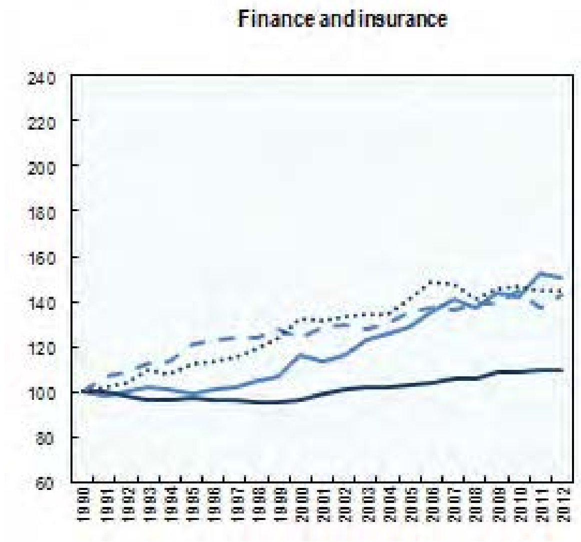
Service activities, the very area in which France has a revealed comparative advantage (Figure A1.4), tend to rely less on imports of intermediate goods and services, one example being business sector services (which here include R&D and IT). So France tends to specialise in activities further upstream where exports are less dependent on imports – exports of manufactures (chemical and mineral products, transport equipment, machinery and equipment, electronic products, basic metals) have a significant content of imported inputs.

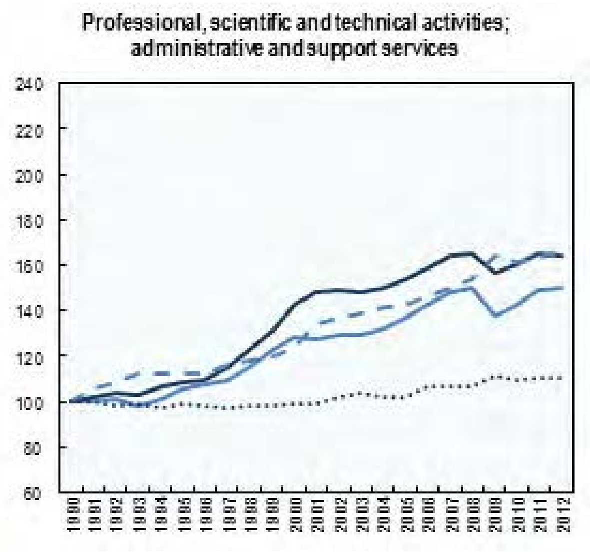
Geographically, it is regional value chains that predominate, with intermediate imports chiefly from other OECD countries, though the recent trend has been towards a higher level of imports from the emerging Asian economies.

Annex 2. Sectoral information

Growth in gross value added, unit labour costs, jobs and earnings, 1990-2012







Note Hourly earnings are total wages and salaries deflated by the consumer price index (base 100 in 2005) and divided by the total number of hours worked. Unit labour costs are the ratio of total labour costs to total production.

Source: OECD Calculations, OECD National Accounts Database.

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