

## SPRING 2017 REFORM BAROMETER – FRANCE

### European Semester - Overall assessment of 2016 cycle

	<b>To what extent do you agree with these statements:</b>		<b>Detailed comments</b>
1.	The National Reform Programme submitted by your Government (February/November 2016) is appropriate.	To a large extent	The different fields selected for the reform program were appropriate and coherent with the recommendations made by the Commission and the global situation is improving. But once again the reforms do not go far nor fast enough. There is a reduction in public deficit, but in the budget for 2017, on the one hand some expenses which will be effective in 2017 will be entered into accounts in 2018, and on the other hand, the payment of taxes due in 2018 will be anticipated in 2017. The labour market reform goes in the right direction, introducing more flexibility, but not enough. Regarding social security, the deficit reduction was obtained in particular by an increase in social contribution rather than by a deep reform of the health system. It also needs to go much further towards simplification. The health law adopted in January 2016 goes in the wrong direction, with the extension of the third-party payment system and significant competition distortion between public and private hospital.
2.	The Commission's country specific recommendations for your country are appropriate.	To a large extent	The Commission's recommendations are relevant as they address the main weaknesses of the French economy: quantity and quality of public expenses, cost of labour and labour law, link between education and labour market, services market regulation, structure of the tax system. One important issue is lacking: the Commission does not take into account the impact on companies of new rules on strenuous work, which are very complex and very costly to implement.

	To what extent do you agree with these statements:		Detailed comments
3.	The Commission assessment of reform implementation the year before is appropriate.	To a large extent	The Commission's assessment is appropriate but optimistic on some issues: reduction in red tape, assumption of a positive conclusion of social partners' agreement on unemployment benefit schemes... Moreover, some issues have not been totally identified: impact of measures concerning strenuous work (see above), implementation of withholding of personal income tax (which will represent a heavy and unnecessary burden on French companies, taking into account the French context), opposite signals on labour cost.
4.	The Commission assessment of excessive imbalances (in-depth review) is appropriate.	Yes, absolutely	The main imbalances pointed out by the Commission are totally wholly relevant: France is still losing export market shares, the level of public expenditure stays about the highest among EU member states, financed by a very high level of taxes, unemployment is still very high, in particular youth unemployment.

### Assessment of Country Specific recommendations 2016 in detail

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 1	Ensure a durable correction of the excessive deficit by 2017 by taking the required structural measures and by using all windfall gains for deficit and debt reduction. Specify the expenditure cuts planned for the coming years and step up efforts to increase the amount of savings generated by the spending reviews, including on local government spending, by the end of 2016. Reinforce independent public policy evaluations in order to identify efficiency gains across all sub-sectors of general government.	Important	Unsatisfactory	Despite the fact that efforts had been made the previous years to reduce public expenditures, the tax law and the social security law for 2017 show an objective of reduction in public expenses which is inferior to the one submitted in the Stability Programme transmitted last April (-0,7%). The objective of a decrease in the level of mandatory levies was abandoned for 2017. Moreover, some measures which will be enforced in 2017 will be entered into accounts only in 2018.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 2	Ensure that the labour cost reductions are sustained and that minimum wage developments are consistent with job creation and competitiveness. Reform the labour law to provide more incentives for employers to hire on open-ended contracts.	Extremely important	Mixed	The government sent opposite signals concerning labour costs: implementation of responsibility pact was carried on but with a three months' time lag, while social contributions for pensions continued to increase. In addition, the measures for the 3rd year of the Pact have been amended: there was no suppression of the last part of the C3S and instead the government decided an 1% increase in the CICE (from 6% to 7%) , a decrease in social contribution for independent workers, a decrease in corporate income tax only for SMEs and a measure on increased depreciation for some types of new investment, the result being a lack of visibility and a postponement of part of the expense to the year 2018. The labour law reform adopted last august goes in the right direction, but we need to go further and faster regarding simplification of lays off and to cap compensation allowed by law tribunal in order to encourage employers to hire open ended contracts
CSR 3	Improve the links between the education sector and the labour market, in particular by reforming apprenticeships and vocational training, with emphasis on the low-skilled. By the end of 2016, take action to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and to provide more incentives to return to work.	Extremely important	Mixed	Strong progress needs to be made on the alignment of skills with labour market needs, in particular to simplify access to lifelong learning process. Additionally, efficiency of long term unemployed workers access to training has to be increased. Social partners started a negotiation on unemployment benefit schemes in order to get back to a financial sustainability and to incite unemployed to go back to work faster. The negotiations failed in June 2016, but we are in the process of establishing a common diagnosis on the objectives of a potential reform.

		Q1: The recommendation is:	Q2: implementation on effort is:	Detailed comments
CSR 4	Remove barriers to activity in the services sector, in particular in business services and regulated professions. Take steps to simplify and improve the efficiency of innovation policy schemes. By the end of 2016, further reform the size-related criteria in regulations that impede companies' growth and continue to simplify companies' administrative, fiscal and accounting rules by pursuing the simplification programme.	Helpful (but not a priority)	Mixed	The Macron law started to remove barriers to activity in the services sector but once again it does not go far enough and the implementation tends sometimes to even reduce the degree of openness (e.g. for instance the reform of notaries). Regarding the size-related criteria in regulation that impede companies' growth, no real reform has been made, as government just cancelled temporarily the financial effect of some thresholds. On the simplification side, remarks are the same than last year: efforts have been done, but the flow of new measures does not stop.
CSR 5	Take action to reduce the taxes on production and the corporate income statutory rate while broadening the tax base on consumption, in particular as regards VAT. Remove inefficient tax expenditures, remove taxes that are yielding little or no revenue and adopt the withholding personal income tax reform by the end of 2016.	Extremely important	Mixed	The tax system has not been simplified: very few small taxes have been abolished, the number of taxes on production stays roughly the same. Capital taxation should be deeply reviewed. Regarding the withholding personal income tax reform, which is supposed to be ready by now, we do not believe it should be implemented as intended: if we agree on the objective to pay the tax due on year n income the same year, the method is not appropriated in the French context and too complex and costly for companies.

## Reform Progress in your Member State in 2016

How would you assess reform progress in 2016, for the following broad areas:

<b>Taxation and Public Finances</b>	Unsatisfactory
<b>Business environment (regulation/access to markets)</b>	Mixed
<b>Labour market</b>	Mixed
<b>Innovation and skills</b>	Half-satisfactory Half-mixed
<b>Access to finance and Financial stability</b>	No Reform Necessary

## Reform priorities for 2017

	<b>I. Policy Area</b>	<b>II. Concrete Recommendations</b>	<b>III. Are the proposed recommendations already in the agenda of your Government?</b>
<b>Priority 1</b>	Job Protection	To complete simplification of layoffs: to review the definition and the scope of "economic lay off"; To cap compensation allowed by law tribunal in order to encourage employers to hire open ended contracts;	no
<b>Priority 2</b>	Labour market mismatch and labour mobility	There are 300,000 unfilled jobs in France. 3 areas of action: - improvement of employers' services provided by the national employment agency, - improvement of vocational training system to better address the labour market needs, - strengthening of the controls over the unemployed (effectiveness of the job search)	Yes party

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
<b>Priority 3</b>	Tax reforms	<p>One general objective: simplify our tax system and reduce the level of taxation to the European average.</p> <p>Five specific objectives:</p> <ul style="list-style-type: none"> <li>(1) to suppress taxes on production factors;</li> <li>(2) to lower the corporate tax rate to the EU average level (21%);</li> <li>(3) to adopt a simple capital taxation which encourages companies financing: suppression of the wealth tax and adoption of a flat tax on capital gains, dividends and interests.</li> <li>(4) Suppress fiscal « niches »,</li> <li>(5) and after reforming, stabilize taxes to ensure legal security.</li> </ul> <p>An open access to public data to allow for independent assessments of public policies is also urgent.</p>	just a very small part of it.
<b>Priority 4</b>	Consolidation of public expenditures	<p>2 prior fields of action:</p> <ul style="list-style-type: none"> <li>(1) Realize 100 to 115 billion euros of savings over 5 years in order to get back in 2022 to a ratio public expenses/GDP of 48% and a level of mandatory levies of 40%. In that objective, the results of the public expenses review should be effectively taken into account. Refocus the State on its sovereign missions and reduce the number of local authorities and elected representatives.</li> <li>(2) Social contribution system has to be reformed and not be based only on wages, in order to lower labour cost, and the system has to be adapted to the new challenges (new types of work...). There is also a need to reduce social contributions on all level of wages policies. Last but not least, more efforts toward effective simplification would strongly help both reducing companies and state costs</li> </ul>	no

	I. Policy Area	II. Concrete Recommendations	III. Are the proposed recommendations already in the agenda of your Government?
<b>Priority 5</b>	Pension and health care reforms	The health sector has to be reformed in a way which preserves private sector competitiveness (rationalization of public hospital, better use of new technologies, wider use of ambulatory hospitalization, ...). A new reform of the general pension system for private sector employees (in particular the minimum retirement age which should be increased from 62 to 65) and a reform of the specific systems for public servants must be implemented.	no