



FRANCE STRATÉGIE
ÉVALUER. ANTICIPER. DÉBATTRE. PROPOSER.

FRANCE TEN YEARS FROM NOW

Priorities for the Coming Decade

Report to the President of the Republic
Under the direction of Jean Pisani-Ferry,
Head of *France Stratégie*

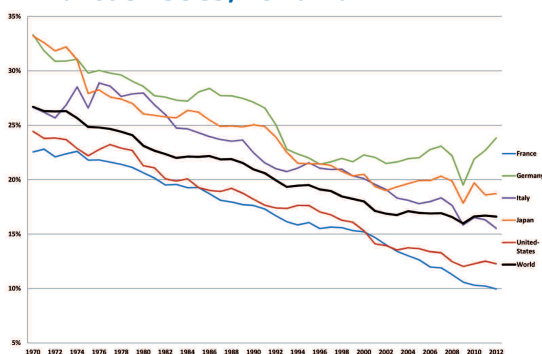
France has only belatedly recognised that the decline of its world standing is not the result of global developments but rather linked to its own deficiencies. It needs to challenge its preconceptions and reshape its political, economic and social institutions.

In Summer 2013, President François Hollande asked *France Stratégie*, the government's strategic-planning unit, to examine the prospects for France 10 years from now. Ten years -two French presidential terms- is enough time to reverse the current trends and to achieve results.

France Stratégie started then to conduct a wide-ranging debate with local and national politicians, economists, businessmen and labour leaders and the civil society on the critical issues that the country faces. Based on those exchanges, the report, released in June 2014⁽¹⁾, analyses the

current situation and sets out a series of eight strategic priorities for the next decade.

SHARE OF MANUFACTURING INDUSTRY IN VALUE ADDED, 1970-2012



Source: *France Stratégie*, from UNStats, in current dollars (World) and current domestic currencies (countries)

1. *Quelle France dans dix ans ?*, Paris, Fayard, June 2014.

FRANCE IN 2025

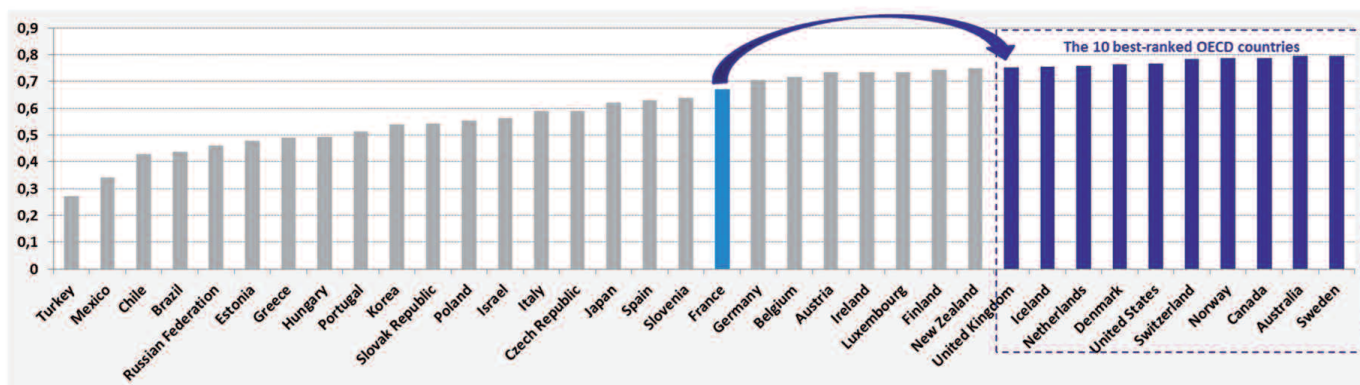
A majority of the French people expect the future to be much like the present, but worse. Life expectancy and health may improve, and technology will continue to transform the way people live. But the country will be more divided, inequalities will widen, growth will be weak or non-existent. Energy and food will be more expensive, employment less secure than today. The generous French social model will have reached its limits. Public debt will have grown to an unsustainable level. Global warming will worsen. As for the European Union, it will remain largely powerless to ensure the prosperity of Europeans.

It is possible to make this vision happen -but it is not inevitable. Other countries have succeeded in recovering from crises and reaping the fruits of their efforts. Let us, therefore, imagine what France could become by 2025 if it is able to transform itself.

Here are some key goals:

- To return to the top third of European countries for employment.
- To rank among the world's top ten countries for quality of life (Chart 1).
- To serve as a model of good citizenship, a republic that unites instead of dividing.
- To contribute to shaping the future with greater inventiveness.
- To turn France back into a country that inspires and is being emulated.

CHART 1 - TEN YEARS FROM NOW, FRANCE SHOULD BE AMONG THE TOP TEN OECD COUNTRIES, ACCORDING TO THE BETTER LIFE INDEX



Source: OECD, March 2014.

WHAT IS HOLDING FRANCE BACK

Compared to 16 countries with similar per capita GDP in 1988, France has experienced a steady decline in economic performance (Table 1). Its per capita GDP has shrunk by 6 percentage points compared to the sample average. Unemployment has consistently remained above 7%. School performance and the R&D spending-to-GDP ratio have also decreased. From a human development perspective, France's performance is better but social welfare has been protected only through a steady rise of the share of public expenditure in GDP and a consequent increase in the public debt. In short, the current path is unsustainable.

Without structural adjustment of the economy, France risks losing its place among the world's most advanced

countries and will have to scale back its social ambitions. To reverse this situation, it must embark on a transformation course and build on its strong points.

These strong points are substantial. France remains an important player on the world stage. Its culture and values convey a universalist message. Its territory is unified and its political system guarantees stability. It has a young, dynamic population -in 2030, the median French resident will be 43 years old, against 50 for most neighbours. Its infrastructure is among the best in the world, and it is a leading scientific nation. There are more French companies among the *Fortune 500* than from any other European country. Paris is an attractive world-class metropolis with untapped potential.

**TABLE 1 - VARIATIONS IN FRANCE'S RANKINGS, 1988-2012**

	<i>Between the first and last year where a full sample is available</i>		<i>Best performing countries over the period</i>
<i>Public debt / GDP</i>	- 8	<i>Significant downgrade, more than 4 places lower</i>	<i>Sweden</i>
<i>Public spendings / GDP</i>	- 5		<i>Germany</i>
<i>R & D expenses/ GDP</i>	- 4		<i>Austria, Finland</i>
<i>Per capita GDP</i>	- 2	<i>Limited downgrade, 1 or 2 places lost</i>	<i>Austria, United Kingdom</i>
<i>PISA score in mathematics</i>	- 2		<i>Germany</i>
<i>Scientific articles per 1 000 inhabitants</i>	- 2		<i>Australia</i>
<i>Share in the goods and services exports of the sample</i>	- 1		<i>Australia</i>
<i>Education level among 25-64 years old</i>	- 1		<i>Australia, Finland, United Kingdom, Sweden</i>
<i>Employment rate of 15-64 years old</i>	0	<i>Stagnation</i>	<i>Netherlands</i>
<i>Harmonised unemployment rate</i>	0		<i>Germany</i>
<i>GDP / Employment</i>	+ 1	<i>Slight improvement, 1 to 3 places gained</i>	<i>Australia</i>
<i>Business investment in machinery and equipment / GDP</i>	+ 1		<i>Australia</i>
<i>Gini coefficient, after taxes and transfers</i>	+ 1		<i>Belgium</i>
<i>Open economy rate</i>	+ 1		<i>Spain</i>
<i>Greenhouse gas emissions / GDP</i>	+ 3		<i>United Kingdom</i>
<i>Human development index (excluding income)</i>	+ 5	<i>Significant improvement, more than 4 places gained</i>	<i>Germany</i>
<i>Fixed capital investment / GDP</i>	+ 9		<i>Belgium</i>

Source: France Stratégie.

France's slide is not fatal. But recovery will require intellectual, institutional and economic investment. Placing the necessary reforms within the framework of a 10-year strategic perspective, with explicit structural aims, can help to coordinate these initiatives.

KEY DILEMMAS

French uncertainty about the country's collective choices and the institutions that embody them translates into a series of paralysing dilemmas: How to cement an increasingly diverse society? Is the French social model sustainable? Is economic growth both possible and desirable? Should the economy be protected from external competition or connected to the global economy? Is France's engagement with Europe on the right path? Each of these five dilemmas deserves to be analysed.

1) The French are no longer certain about what unites them. They view their society as diverse -mainly, but not only in terms of ethnicity and religion- and fragmented into parts that are ever less inclined toward mutual solidarity. This makes clear and even-handed application of common rules all the more essential. But a diverse society

needs more: unifying political institutions whose responsibilities are clearly defined and that are accountable. Too many French citizens have lost trust in their institutions. Only one quarter feel that inequalities are reduced through schooling. French democracy could be reinforced by renewing the political elite, streamlining overlapping political responsibilities and clarifying complex administrative systems. Access to knowledge, housing, employment, security and health care should be made more egalitarian.

2) The French are attached to their model of social protection: school for all, high-quality health care, a social safety net for employees, the elderly and the poor. But they are concerned about the system's expense and fear for its future. Compared to other European countries, France is spending more on social protection but it is often not reaping more benefits (Table 2). Inequalities in education and access to jobs and housing have increased. The French social model needs to be made more efficient, better adapted to the diversity of individual situations and increasingly oriented toward prevention through social investment and jobs rather than toward ex-post repair through social benefits.

3) French growth is stagnating. Average economic growth over the last six years has been 0.3% annually. In principle, France has major reserves for expansion: a potential new workforce of unemployed or underemployed people, and a potential for making up for lost time in implementing information technology. But harnessing this potential will involve major reforms - and the consensus on growth has eroded. Part of the population believes that economic growth should be the number one priority, ahead of environmental and social concerns. Others argue that economic growth is no longer desirable, given its effects on income distribution or on the environment. Rebuilding a consensus will require a rethink, with clarity on collective aims. Two constraints must be borne in mind: environmentally, the need to cut greenhouse gas emissions, and financially, the need to reduce France's public debt.

4) Since 2000, French industry has lost nearly a quarter of its 4 million jobs; the number of export firms declined from 132,000 to 120,000; the balance of payments fell from a surplus of 21 billion euros to a deficit of 28 billion euros in 2013. One factor is high labour costs, but another, often neglected one is rents and inefficiencies in the non-traded goods sector. Producers in the traded-goods sector tend to be squeezed between foreign competition and the high price of inputs like services, energy and land. French enterprises need to become more productive and innovative if they hope to be competitive on the global stage. In a world that has remained essentially open despite the shocks of recent years, the French cannot massively rely on jobs that are sheltered from international competition.

TABLE 2 - SOCIAL PERFORMANCE INDICATORS, 2012

	<i>France</i>	<i>Germany</i>	<i>Sweden</i>	<i>United Kingdom</i>
<i>Primary public spending / GDP</i>	54.1%	42.3%	51.1%	45.1%
<i>Social expenditure / GDP</i>	32.6%	26.3%	28.4%	25.9%
Index of monetary inequalities				
<i>Income inequality: Gini coefficient</i>	0.31	0.28	0.25	0.33
<i>Monetary poverty rate (threshold 60%)</i>	14.1%	16.1%	14.2%	16.2%
<i>Seniors' poverty rate (aged 65 and more, threshold 60%)</i>	9.4%	15%	17.5%	16.1%
Index of social performance				
<i>Index of human development (excluding income/per capita)</i>	0.92	0.95	0.94	0.89
<i>Life expectancy at birth (men ; women)</i>	78.7-85.4	78.6-83.3	79.9-83.6	79.1-82.8
Access indicators				
<i>Employment: employment rate 25-64 years old^a</i>	71.9%	78.1%	82.3%	75.5%
<i>Employment: employment rate 15-24 years old^b</i>	28.8%	46.6%	40.0%	50.0
<i>Education: schooling rate 15-19 years old (2011)</i>	84%	92%	86%	78%
<i>Education: PISA interdecile ratio^c</i>	1.70	1.66	1.66	1.66
<i>Healthcare: indicator of healthcare eligibility^d</i>	2.2%	1.6%	1.3%	1.4%
<i>Housing: severe deprivation due to housing^e</i>	2.5%	2.1%	1.7%	2.6%
Intergenerational indicators				
<i>Correlation between the earnings of parents and children^f</i>	0.41	0.32	0.27	0.5
<i>Impact of the pupils' socio-economic background on their school performance (PISA)^g</i>	22.5%	16.9%	10.6%	12.5%

a. Non-income HDI: the Human Development Index (HDI), introduced by the United Nations Development Programme (UNDP), adjusted and calculated without taking into account the component « per capita income » of the HDI. The two components of the non-income HDI are education and health.

b. Most of this low employment rate in France comes from the low employment rate of the 15-24 year olds enrolled in school. According to a 2006 study of the Centre d'analyse stratégique, only 11% of the 15-24 year olds enrolled in school in 2005, combined both work and studies, but 55% in Denmark and 30% in Germany.

c. D9/D1 Decile ratio of the average scores in mathematics, see PISA 2012.

d. Proportion of people having dropped out medical examination within the past twelve month for reasons of cost, waiting list or geographical distance.

e. This is the percentage of the population who lives in over-crowded homes, that also includes at least one of these insalubrious conditions: leaky roofs, lack of bathrooms or showers, outside toilets, or too dark housing.

f. Source: OECD.

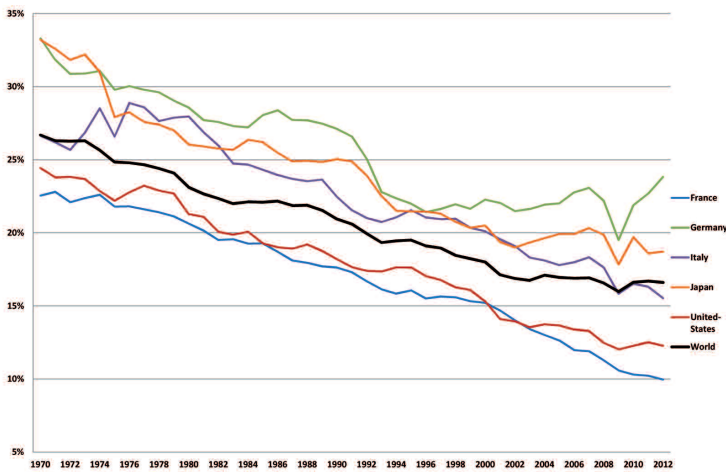
g. Variance of the socio-economic environment score, as a percentage.

For each indicator, the highest score is in blue, the lowest one in orange.

Source: France Stratégie, from Eurostat, OECD.stats, UNDP, PISA 2012.



CHART 2 - SHARE OF MANUFACTURING INDUSTRY IN VALUE ADDED, 1970-2012



Source: France Stratégie, from UNStats, in current dollars (World) and current domestic currencies (countries)

5) For more than half a century, the French have worked to strengthen the European Union. Now they are asking whether the effort was worth it. The roots of this dissatisfaction are economic. Since 2008, Europe has struggled to provide prosperity. Furthermore France has maintained a contradictory attitude toward monetary union, backing the euro but showing reluctance to open markets within the EU. Frustrated French citizens are tempted to stop investing in the strengthening of the EU, but the standby option would only lead to deeper rejection of a Europe. If Europe is not dynamic, it becomes meaningless. Within the next ten years, the European Union must revise its founding treaty, or draft a new treaty for the euro zone, and France must fully assume its role and responsibilities.

OBJECTIVES FOR THE NEXT TEN YEARS

The first part of this report analysed the obstacles holding France back. What follows is a list of eight priorities for action over the next ten years. These are not intended as problem-solving measures, but rather as strategic orientations. Each one includes statistical indicators to allow French performance to be evaluated over time.

1) A CONFIDENT DEMOCRACY

Neglecting the political dimension of the current French crisis would be a mistake. Unity needs to be reconsolidated around common values, and confidence revived in the political institutions that form the backbone of French democracy.

To restore trust in elected officials and government, the recently legislated ban on overlapping local and national mandates should be thoroughly enforced and used as an opportunity for a renewal: to narrow the gap between citi-

zens and the legislature, political parties need to bring fresh candidates before the electorate. France's double executive branch - a president and a prime minister, each with a large cabinet - needs to be streamlined, and the structure of government stabilised so that ministerial portfolios are not redefined with each cabinet reshuffle. Laws and regulations have proliferated to the point of confusion and need to be clarified and stabilised.

Citizens have the right to know what to expect from their elected officials on the local, regional and national levels, but the dovetailing of responsibilities all too often makes this impossible. A clear delimitation of competences at every level must be established. The recently announced reduction in the number of French administrative regions is a step in the right direction. France's numerous municipalities should be grouped into larger bodies, and powers now held by the French departments should be transferred to the regions that encompass them. This would help make the administrative map consistent with today's economic and social map.

Participatory democracy should be promoted through greater citizen involvement. Citizens should have greater decision-making powers on the local level, and on the national level major reforms should be preceded by town-hall or virtual public debates. Other forms of citizen involvement should also be encouraged, notably associative and volunteer work.

Ten-year objectives:

- 1) Voter participation of 70% in legislative elections.
- 2) 50% of local public spending to be carried out at the level of current intercommunal bodies.
- 3) Half of the French population involved in volunteer activities.

2) EFFECTIVE REPUBLICAN EQUALITY

Factors underlying France's crisis of confidence include the perception that equal opportunity no longer exists and fears of downward mobility, notably among youth.

To fight discrimination, testing methods should be generalised and discriminatory behaviour should be sanctioned. All children must be given the means to succeed in school, and all should have access to preschool services. Primary school teachers should be retrained and their work better compensated. The number of school dropouts, currently 140,000 a year, needs to decrease sharply. To this end, schools should be given more autonomy and there should be more differentiation in the allocation of budgetary and means among them. The dissemination of digital techno-

logy should be used as an opportunity to modernise teaching methods. Education should promote autonomous learning and critical thinking.

To fight inequality, the lifelong learning system should be streamlined. The evolution from a company-based to a worker-based system should be accelerated and workers should be endowed with training vouchers inversely proportional to their initial education. Furthermore, they should be empowered so that they actually make use of continued education rights. Gender equality in the workplace should be promoted, and equal access to education and jobs guaranteed for the handicapped.

Ten-year objectives:

- 1) Scale back the level of perceived discrimination based on ethnicity in order to move into the front ranks (first third) of European countries.
- 2) Double the number of professions exhibiting gender balance.
- 3) Cut the number of school dropouts by two-thirds.
- 4) Halve the level of adult illiteracy, which currently stands at 2.5 million people.

3) AN ENTREPRENEURIAL AND EFFICIENT STATE

To build an inclusive society, France should needs even more than in the past efficient public services that are able to reach out to deprived segments of the population. To this end, French public services need to become more entrepreneurial and agile. Cost-effectiveness is also a priority as the share of public expenditure in the gross domestic product must be reduced over and above current plans for 2015-2017.

To modernise public services, France should tap more into the digital revolution, management practices should be streamlined and civil servant careers should favour mobility within and outside state administration. A new pool of talent can also be found by broadening recruitment and by appointing non-civil servants to top management positions. Policy experimentations and evaluations should become the rule and their results should be made accessible to the public. Laws should more often include sunset clauses.

Ten-year objectives:

- 1) One-quarter of top government jobs to be filled from outside the civil service.
- 2) A satisfaction level of 80% among those using public services.
- 3) 90% of citizens using the Internet in their relations with the administration.

4) RESPONSIBLE DEVELOPMENT

To rebuild consensus on growth, France needs to embrace the concept of responsible development. This means, first, to consider the assets and liabilities that one generation is bequeathing to the next. Second, policy swings are expensive and work as a brake on investment. To unlock private investment into green development, public policy should help anchor long-term expectations.

Liabilities are first of all financial. French public debt will exceed 95% of GDP by the end of 2014 and it must be slashed over the next ten years to reduce the financial burden on future generations. Primary expenses must be decreased in order to reduce and stabilise the public debt. Budgetary policy set by the government and parliament should undergo risk assessment by an independent body. Furthermore, expenditures on pensions and family benefits should be linked to observed economic growth.

To fight environmental damage, an adequate price signal is indispensable. Green taxation should therefore be developed further. France also needs to encourage investment in low-carbon equipment and research into the technologies of the future. The reduction of greenhouse gases should be the prime objective of the next European climate and energy package. France, for its part, should clarify its transition from nuclear to renewable energies.

The French also need to change their behaviour as they transition to a more sober economy. Overconsumption and waste should be combatted through the development of a more diversified and accessible range of "green" products and services, and through policies to increase environmental awareness, particularly among the young. The acreage of rural land converted annually for urban use should be stabilised at a lower level.

Ten-year objectives:

- 1) Reduce the public debt to 75% of GDP.
- 2) Reduce the share of primary public expenditure in GDP by 6 percentage points.
- 3) Reduce greenhouse gas emissions by 30%.
- 4) Reduce the increase in urbanisation by half.

5) AN INCLUSIVE AND OPEN SOCIETY

French society needs to become more open and inclusive in order to offer opportunities to all its citizens and to participate in an increasingly interconnected world.

France needs to reinvest in higher education and research. Elite academies and research labs should be merged with universities to create world-class multidisciplinary univer-



sity poles. Education must embrace the digital revolution. More French students should study abroad, and more foreign students should study in France - which implies that fees for foreigners studying at French universities should be raised.

A better educated workforce calls for an overhaul of management practices. Employees should be given a greater say in company management. Socially responsible company policies should be promoted, and greater room for manoeuvre built into collective negotiation on salaries and working conditions.

Metropolitan areas are home to today's growth. This should be accepted. Plans to create a metropolitan "Greater Paris" by merging the capital with its surrounding region should be accelerated to make the area more dynamic and competitive.

Ten-year objectives:

1) About ten multidisciplinary world-class universities. 2) Foreign study for twice as many French young people (20%, up from 10% today). 3) An additional 200,000 foreign students in France (up from 270,000 today). 4) A level of employee satisfaction that ranks among the best in Europe.

6) AN AGILE ECONOMY

Since the introduction of the euro, French competitiveness has deteriorated steadily and the external balance has shifted from positive to negative. A policy package was introduced in 2013 to redress competitiveness but a more ambitious overhaul is needed. Over the next 10 years, economic change must be a top priority.

To make economy more agile, France needs to rely less on existing corporate champions and more on the growth potential of new, innovative companies. Market regulations, tax legislation and financing schemes should be directed towards making them able to grow faster and reach critical size. Relationship between public research and private initiatives should also be strengthened.

More generally France needs to develop capital investment, facilitate access to credit and revise its tax policies to encourage investment in business. Regulations in the services sector should be revised to spur competition. French tourism, which brings in relatively little revenue given the volume of visitors, needs to be modernised. The health-care and education sectors also hold potential for international development.

Ten-year objectives:

1) 50% of small and medium-sized businesses become innovators. 2) 2% of GDP invested in research and development. 3) 1,000 more medium-sized businesses. 4) 30,000 more export enterprises. 5) A rate of openness to trade of 75% (up from 57%). 6) A rise of one-third in tourist revenues.

7) A LEGIBLE AND INCLUSIVE SOCIAL MODEL

To make the French social model sustainable, employment must become again the focus of public policies and the benefits system should be streamlined.

Since the 1990s employment policy has relied on cuts in non-wage costs for the least-skilled workers and on efforts to promote a new flexsecurity model. It has had noticeable effectiveness but at a high cost for public finances. Furthermore schemes aiming at a reduction of taxes on labour have created excessive complexity. They should be replaced by the creation of a progressive, stable and simple contributions scale.

To allow easier access to the job market for young people, the minimum-wage policy should be recalibrated. Industry-level agreements should substitute the nationwide minimum wage so that the latter's evolutions can be more in line with the need for the unskilled youth to get access to jobs. The quality of jobs should be promoted through appropriate incentives and labour-market dualism should be reduced so that hiring on open-ended contracts become the standard again.

At the same time, social policy has become far too complex. Many people are not using available social benefits because they do not understand the system. Personal accounts should be created to allow individuals to retain their social rights if they change jobs. Public health services should be harmonised and recentered on the patient.

To improve access to housing, administrative barriers to new construction should be lifted and sales of existing homes made more attractive through a revised fiscal policy.

Ten-year objectives:

1) Double the rate of annual transition from short-term to open-ended job contracts. 2) Reduce to 20% the maximum rate of non-use of social benefits. 3) Obtain a reduction of the price of housing by 30% (in constant euros).

8) EUROPE AS A DRIVING FORCE

Europe has lost steam over six years of economic crisis – not just economically, but also socially due to mass unemployment, and politically because people have begun to question the legitimacy of the European project.

The potential of the internal market is still underexploited due to the fragmentation of markets like energy, telecommunications and financial services. To make the EU a vector of prosperity and employment, greater integration is needed. Appropriate instruments should be dedicated to help channel savings to the rebuilding of the non-traded goods sector in southern Europe. The portability of skills and social rights should be increased to facilitate mobility across borders. The principle that each country has a minimum wage should be made part of European law.

The current architecture of the euro zone lacks coherency and may become politically unsustainable. To guarantee both rigour and accountability, the European Stability Mechanism should be transformed into a European Monetary Fund with powers for negotiation and monitoring. The mandate of the European Central Bank should be broadened to include financial stability.

Finally, Europe risks being sidelined internationally. To reinforce European influence on the global stage, the EU needs to rely on its internal market to participate in standard-setting worldwide and it should be represented by a unified euro zone in international economic and financial bodies.

Ten-year objectives:

1) Divide by a factor two the dispersion of national unemployment rates in the European Union. 2) Divide by a factor two the dispersion of financing terms among euro zone members.

THE WAY FORWARD

France faces critical choices over the next ten years and needs to act on all fronts – economic, social and political. How to prioritise? The country does not need to choose between economic growth and its social model, but rather to embody its collective choices in institutions capable of achieving society's goals more effectively.

The area where action is needed most urgently is the economy. Governments have limited political capital, and current financial constraints complicate choices. The transformations outlined here will be possible only if the nation recognises their validity and embraces their objectives. To achieve this, debate and evaluation are essential.

Thinking ten years ahead means concentrating on the most important issues, envisaging the future as an investment. Policy action will be essential but not everything depends on state action and legislation. Ownership of the key objectives among civil society and the citizens should be developed through consultation and debate.

France needs ambitious goals to regain confidence in the future. It is hoped that this report will be a contribution to that broad undertaking.



FRANCE STRATÉGIE

**RETROUVEZ LES DERNIÈRES ACTUALITÉS
DE FRANCE STRATÉGIE SUR :**



www.strategie.gouv.fr



[CommissariatStrategieProspective](https://www.facebook.com/CommissariatStrategieProspective)



[@Strategie_Gouv](https://twitter.com/Strategie_Gouv)



France Stratégie est une institution rattachée au Premier ministre. Organisme de concertation et de réflexion, son rôle est de proposer une vision stratégique pour la France, en expertisant les grands choix qui s'offrent au pays. Son action repose sur quatre métiers : anticiper les mutations à venir dans les domaines économiques, sociétaux ou techniques ; débattre avec tous les acteurs pour enrichir l'analyse ; évaluer les politiques publiques ; proposer des recommandations au gouvernement. France Stratégie joue la carte de la transversalité, en animant un réseau de huit organismes aux compétences spécialisées.