# Flash Economics

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# The vicious circle of low growth and budgetary challenges in France

Growth in France is weak due to low productivity gains, which stem from insufficient investment in new technologies, limited corporate spending on research and development, and the low skill level of the workforce.

Because growth is weak, tax revenue increases slowly, and the low employment rate further reduces tax income. This results in a significant public deficit that is very difficult to correct.

Since fiscal policy must become restrictive to limit the rise in public debt, essential public spending—such as support for corporate investment in new technologies and funding for the education and vocational training systems—cannot be carried out. As a result, weak productivity gains and low growth cannot be addressed.

The deterioration of public finances, caused in particular by weak growth, leads to a situation where low growth becomes permanent.

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## The causes of weak growth in France

GDP growth in France has been weak since the subprime crisis of 2008–2009 (Table 1). On average since 2008, GDP has grown by 1% per year.

**Table 1: France: Real GDP growth rate (% per year)**

| Year | Real GDP growth rate (% per year) |
|---|---|
| 2008 | 0.3 |
| 2009 | -2.7 |
| 2010 | 1.8 |
| 2011 | 2.5 |
| 2012 | 0.2 |
| 2013 | 0.9 |
| 2014 | 1.0 |
| 2015 | 1.0 |
| 2016 | 0.7 |
| 2017 | 2.3 |
| 2018 | 1.6 |
| 2019 | 2.1 |
| 2020 | -7.6 |
| 2021 | 7.1 |
| 2022 | 2.8 |
| 2023 | 1.6 |
| 2024 | 1.1 |
| 2025 | 0.8 |

Source: LSEG Datastream, Patrick Artus Conseil.

This weak growth can be explained by low levels of corporate research and development (Chart 1), limited investment in new technologies (Chart 2A), the small size of the high-tech sector (Chart 2B), and the low skill level of the workforce (Table 2). All these weaknesses result in very low productivity gains (Chart 3).

**Chart 1**
**Corporate R&D spending (as % of nominal GDP)**

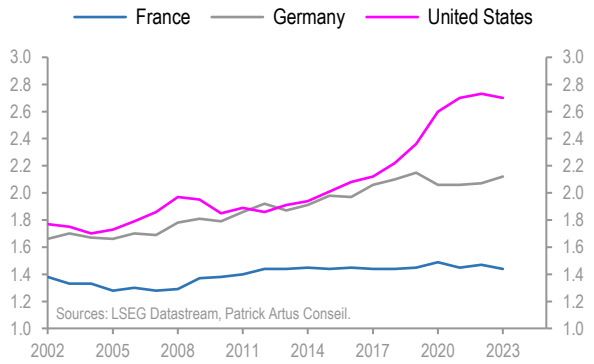



**Chart 2A**
**Investment in information and communication technologies (in value terms, as % of nominal GDP)**

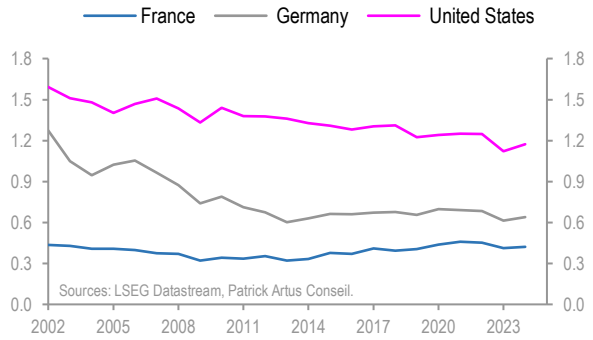



**Chart 2B**
**Gross value added of the ICT sector (as % of nominal GDP)**

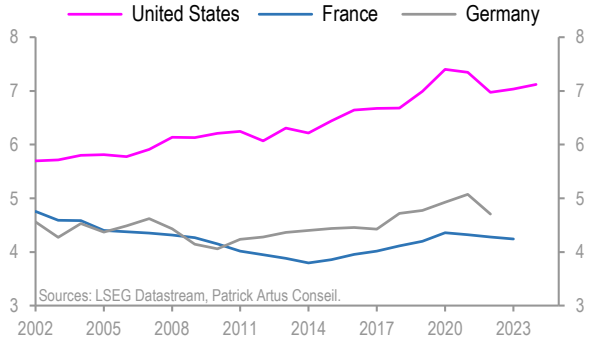


**Table 2: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)**

| Country | 2016 | 2023 |
|---|---|---|
| Finland | 285 | 289 |
| Japan | 292 | 285 |
| Sweden | 279 | 281 |
| Canada | 282 | 276 |
| Germany | 269 | 267 |
| England (UK) | 271 | 267 |
| France | 267 | 266 |
| United States | 258 | 253 |
| Spain | 261 | 251 |
| Italy | 249 | 246 |
| Finland | 249 | 240 |

*In 2016, average score in numeracy and literacy
Source: OECD

**Chart 3**
**France: Productivity per head (2002.Q1 = 100)**



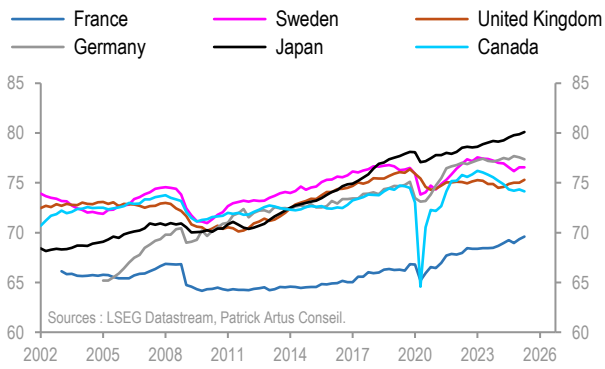

Since 2002, productivity per capita in France has increased by only 12.9 percent; since the second quarter of 2019, it has declined by 2.2 percent.

## Weak tax revenues

**France's tax revenues are weak** for two main reasons:

- the weak economic growth, as explained above;
- the low employment rate (**Chart 4**).

**Chart 4**
**Employment rate of population aged 15 to 64 (as %)**




The low employment rate stems primarily from three causes:

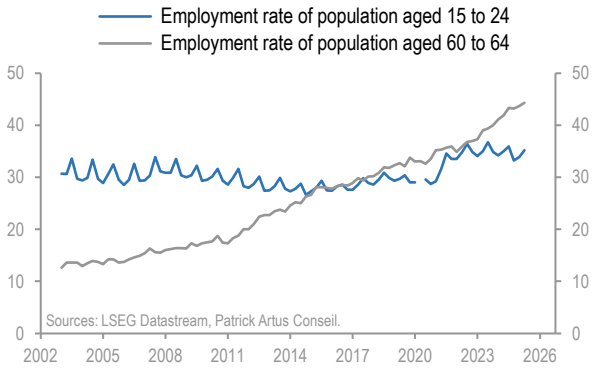
- **the poor quality of the education system** (**Table 3**), which results in a low employment rate among young people (**Chart 5**);
- **the low skill level of the workforce**, already mentioned above, which depresses the employment rate of low-skilled adults
- **the early retirement age**, which reduces the employment rate of those over 60 (**Chart 5**).
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**Table 3: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)**

| Country | 2012 | 2015 | 2018 | 2022 |
|---|---|---|---|---|
| Japan | 540 | 529 | 520 | 533 |
| Canada | 522 | 523 | 517 | 506 |
| Finland | 529 | 523 | 516 | 495 |
| United Kingdom | 502 | 500 | 503 | 494 |
| United States | n.d | 488 | 495 | 489 |
| Sweden | 482 | 496 | 503 | 487 |
| Germany | 515 | 508 | 500 | 482 |
| Netherlands | 519 | 508 | 502 | 480 |
| France | 500 | 496 | 494 | 478 |
| Spain | 490 | 491 | 482 | 477 |
| Italy | 490 | 485 | 477 | 477 |

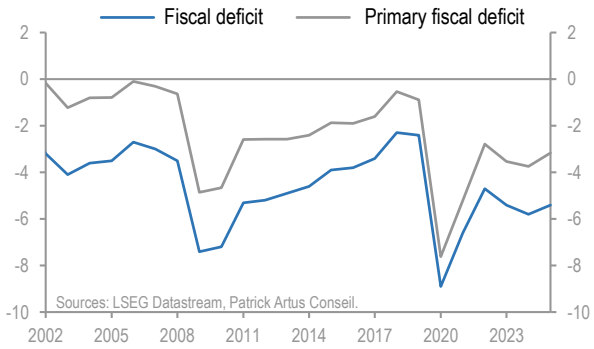
Source: OECD

**Chart 5**
**France: Employment rate (as %)**




**The low level and slow growth of tax revenues in France explain the persistence of the high public deficit** (**Chart 6**) and the difficulty in reducing it.

**Chart 6**
**France: Fiscal deficit and primary fiscal deficit (as % of nominal GDP)**



## Summary: the origin of the vicious circle of low growth

The weakness of tax revenues, and consequently the high level of the public deficit, explains why **fiscal policy must remain constantly restrictive** to limit the rise in the public debt ratio (**Chart 7**).

**Chart 7**
**France: Public debt (as % of nominal GDP)**




This necessarily restrictive fiscal policy means it is impossible to make the essential investments in new technologies (which would require a combination of public and private funding), and impossible to finance measures that would improve the quality of the education system and vocational training. As a result, productivity gains will remain low, as will the employment rate, growth will stay weak, and public deficits will remain high.

The deterioration of France's public finances thus leads to low growth and perpetuates the poor state of public finances.

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