Flash Economics

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France's economic policy and the economic policy that should be pursued in France

The economic policy currently being pursued in France entails:

- Supporting household income (full indexation of pensions and other social benefits, increase in the employment bonus, etc.);
- Making no effort to increase the employment rate (persistent poor quality of the education system, suspension of pension reform);
- Stabilising the public deficit by increasing corporate taxes (surcharge on corporate profits, halting the reduction in production taxes) and reducing public budgets for university and industry support.

In reality, policies entirely opposite to those currently being pursued should be implemented:

- Cuts in social spending, enabling the financing of forward-looking investments (investment in strategic industries, in digital technology);
- Priority given to improving the education system;
- Gradual raising of the retirement age;
- Support for companies' ability to invest by avoiding tax increases on businesses;
- Public deficit resulting from investment spending rather than social protection spending.

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What are the main economic policy decisions that have been taken recently in France?

1. Household income support

Household purchasing power (**Chart 1**) will be supported by:

Chart 1
France : Real gross disposable income (Y/Y as %)

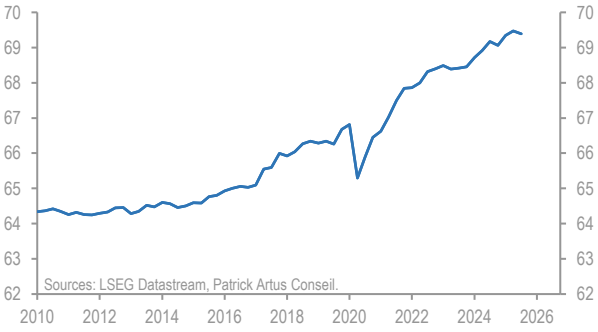


- **Full indexation of pensions** and other social benefits;
- The authorised 3% increase in healthcare spending (ONDAM) in 2026, with the social security deficit remaining at €20 billion;
- An increase in the **employment bonus** (cost: €1.5 billion) and upholding various bonuses (in particular the school fees bonus);
- The indexation of income tax brackets.

2. Lack of efforts to increase the employment rate

France's employment rate stopped growing in the third quarter of 2025 (**Chart 2**).

Chart 2
France: Employment rate of population aged 15 to 64 (as %)



We know that rising employment rates are the main source of GDP growth. However:

- **Pension reform has been suspended**;

- No measures have been announced to **improve the quality of the education system**, even though the PISA survey (**Table 1**) shows the low level of French young people, and more specifically the TIMSS survey (**Table 2**) reveals the low level of mathematics and science skills.

Table 1: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2018	2022
Japan	520	533
Finland	516	495
United Kingdom	503	494
United States	495	489
Germany	500	482
Netherlands	502	480
France	494	478

Source: OECD

Table 2: Trends in International Mathematics and Science Study, TIMSS 2023: Achievement Results in Mathematics and Science (by decreasing score)

Grade 4			
Average Mathematics Achievement		Average Science Achievement	
Country	Score	Country	Score
Singapore	615	Singapore	607
Chinese Taipei	607	Korea, Rep. of	583
Korea, Rep. of	594	Chinese Taipei	573
Hong Kong SAR	594	Türkiye	570
Japan	591	England	556
Macao SAR	582	Japan	555
Lithuania	561	Poland	550
Türkiye	553	Australia	550
England	552	Hong Kong SAR	545
Poland	546	Finland	542
Ireland	546	Lithuania	537
Romania	542	Macao SAR	536
Netherlands	537	Sweden	533
Latvia	534	United States	532
Norway	531	Ireland	532
Czech Republic	530	Norway (5)	530
Sweden	530	Bulgaria	530
Bulgaria	530	Romania	526
Finland	529	Czech Republic	526
Australia	525	Slovenia	526
Germany	524	Latvia	526
Denmark	524	Hungary	524
Serbia	523	Denmark	522
Belgium (Flemish)	521	Canada	521
Hungary	520	Slovak Republic	521
Portugal	517	New Zealand	517
United States	517	Netherlands	517
Cyprus	516	Germany	515
Slovak Republic	515	Portugal	511
Slovenia	514	Italy	511
Italy	513	Serbia	510
Armenia	513	Spain	504
Albania	512	United Arab Emirates	495
Canada	504	Albania	491
Spain	498	Belgium (Flemish)	488
United Arab Emirates	498	**France**	**488**
Georgia	498	Cyprus	487
Azerbaijan	494	Belgium (French)	481
New Zealand	490	Chile	479
Belgium (French)	489	Bahrain	475
Kazakhstan	487	Qatar	472
France	**484**	Kazakhstan	467
Average	**503**	**Average**	**494**

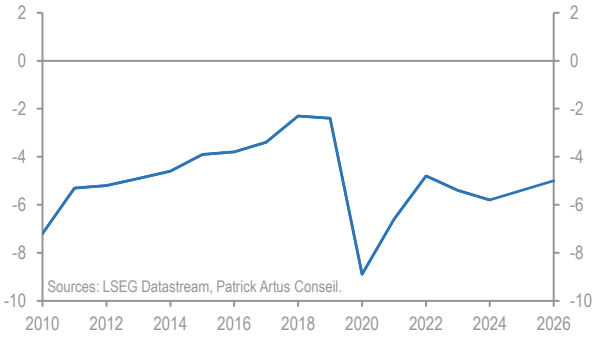
Grade 8			
Average Mathematics Achievement		Average Science Achievement	
Country	Score	Country	Score
Singapore	605	Singapore	606
Chinese Taipei	602	Chinese Taipei	572
Korea, Rep. of	596	Japan	557
Japan	595	Korea, Rep. of	545
Hong Kong SAR	575	England	531
England	525	Finland	531
Ireland	522	Türkiye	530
Czech Republic	518	Hong Kong SAR	528
Sweden	517	Czech Republic	527
Lithuania	514	Ireland	525
Austria	512	Hungary	522
Australia	509	Sweden	521
Türkiye	509	Australia	520
Hungary	506	Lithuania	519
Finland	504	United States	513
Norway (9)	501	Austria	512
Italy	501	Portugal	506
Malta	499	Malta	501
Romania	496	Italy	501
Cyprus	494	Norway	488
United Arab Emirates	489	United Arab Emirates	486
United States	488	**France**	**486**
Israel	487	Qatar	481
France	**479**	Israel	481
Average	**478**	**Average**	**478**

Sources : IEA, Trends in International Mathematics and Science Study

3. Increase in the tax burden on businesses

The target of a public deficit of 5% of GDP (Chart 3) will be achieved through an **increase in the tax burden on businesses**, in particular by:

Chart 3
France: Fiscal deficit (as % of nominal GDP)



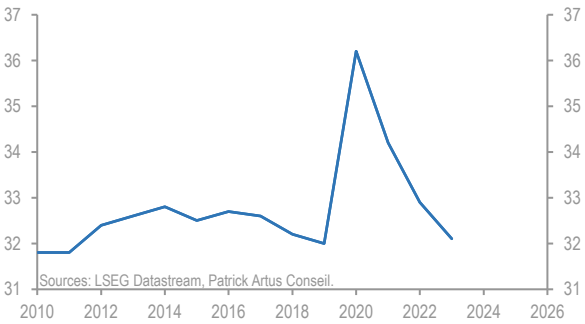
- **Maintaining the surtax on corporate profits**, affecting the 300 largest companies, with an expected yield of €7.5 billion;
- **Cancelling the reduction in the CVAE** (business value-added contribution), which was due to be cut by €1.3 billion in 2026;
- **Reducing funding for France 2030** (the program to support innovation and industries of the future).

In reality, entirely different policies should be pursued

One might have hoped that the government would implement:

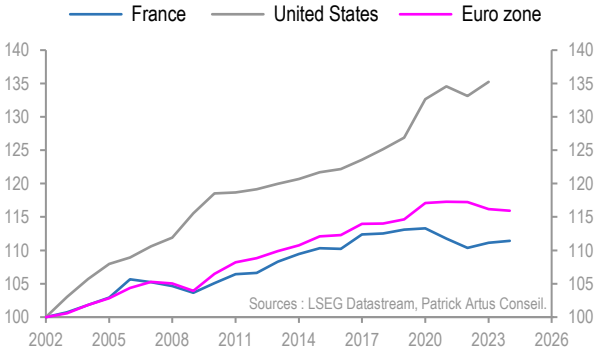
1. **Savings on social spending** (**Chart 4**), **so as to stimulate forward-looking public and private investment** (investment in energy transition, digital technology, research and development, education, and training).

Chart 4
France: Public expenditure on health and social protection (as % of nominal GDP)



We know from the Draghi report that these investments ought to increase by 4.5 percentage points of GDP for Europe (including France) to catch up with the United States (**Chart 5**);

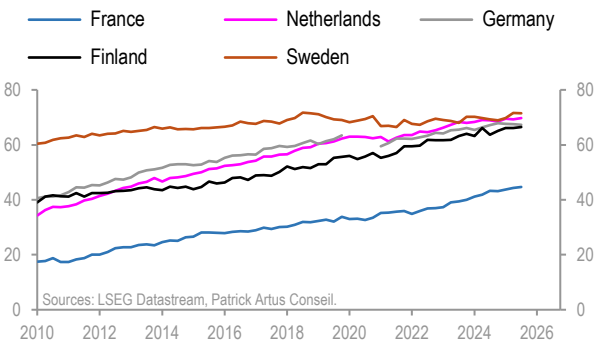
Chart 5
Real labour productivity per hour worked (2002 = 100)



2. **Priority given to improving the education system** (see **Tables 1 and 2** above);

3. **A gradual increase in the retirement age**, so as to raise the employment rate among 60-64-year-olds (**Chart 6**);

Chart 6
Employment rate of population aged 60 to 64 (as %)



4. **Support for companies' investment capacity, which is abnormally low** (**Chart 7**), while avoiding increasing the tax burden on companies. It is well known that production taxes on companies (3% of GDP in France, 0.9% of GDP in Germany) are extremely harmful to competitiveness;

Chart 7
France: Investment of corporations
(in value terms, as % of nominal GDP)



5. **A public deficit resulting from investment spending rather than social protection spending** (**Charts 8A, 8B**).

Chart 8A
Public pension expenditure (as % of nominal GDP)

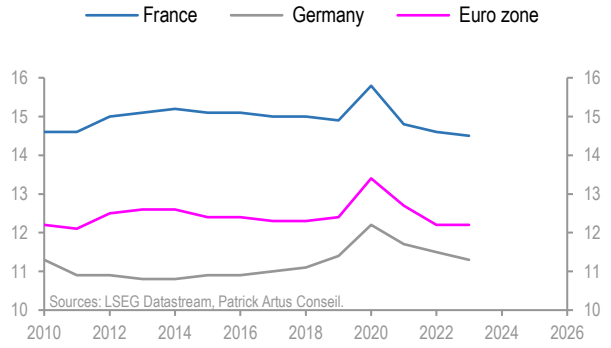
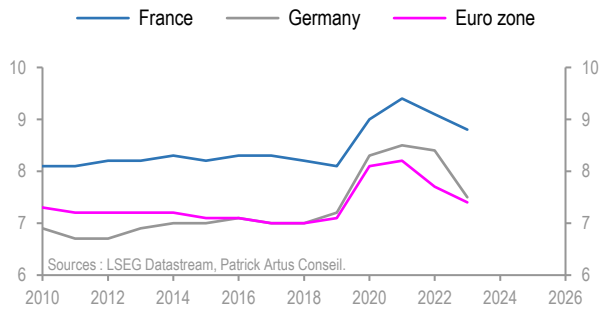


Chart 8B
Public expenditure on health
(as % of nominal GDP)



Summary: an economic policy that fails to address the fundamental problems

The economic policy currently in place in France supports household purchasing power, does not contribute to increasing the employment rate, and heavily taxes businesses.

Yet we know that social welfare spending in France is very high, while investment is too low; that the employment rate is abnormally low; and that the education system is poor. We might have hoped that the policy put in place would:

- Prioritise investment spending over transfer and social welfare spending;
- Prioritise tackling the poor quality of the education system;
- Continue to raise the retirement age in order to correct the abnormally low employment rate;
- Protect companies' ability to invest rather than overtax them.

This contrast between the policies pursued and the long-term vision for the economy reveals the short-termism of economic policy makers.

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