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Which economic strategy for France?

This note examines nine components of France's economic strategy: government expenditure, education, taxation, decarbonisation, research and development, the regulatory framework, competitiveness, immigration and public debt.

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Government expenditure

In 2025, government expenditure is very high in France: 57.2% of GDP, against 49.5% on average in the European Union (Chart 1). This gap of 7.7 percentage points of GDP is essentially accounted for by health and social security expenditure, which represents 32.5% of GDP in France against 27% of GDP in the European Union (Chart 2). Within this total, pension and health expenditure is markedly higher in France, by 2.6 and 1.7 percentage points of GDP respectively. Other items also display significant gaps: subsidies are higher by 0.5 percentage point of GDP, and general government compensation of employees ishigher by 1.9 percentage points of GDP.

Chart 1
France: Public expenditure (as % of GDP)

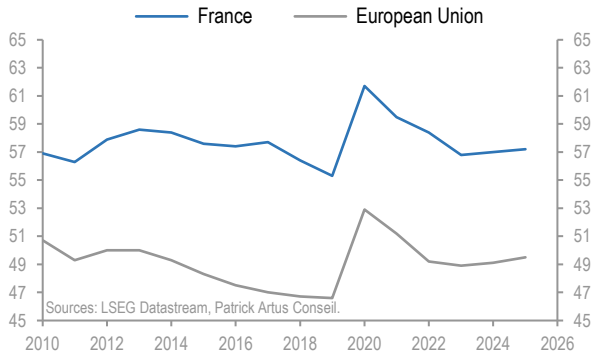
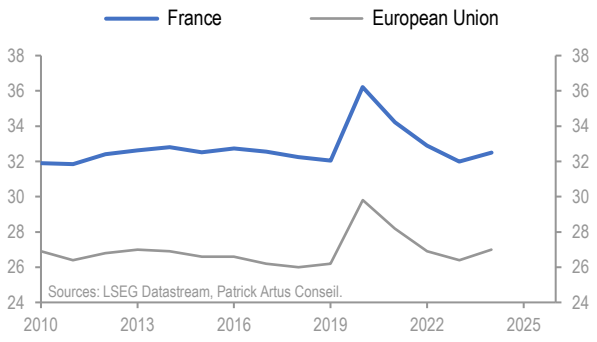


Chart 2
Public expenditure on health and social protection (as % of GDP)



A structure of government expenditure more geared towards spending on the energy transition, investment support and digital development would be more conducive to long-term growth. Such a reorientation could rely on three levers: indexing the highest pensions below inflation, further raising the retirement age and increasing the share of health expenditure borne directly by households.

Education

The PISA surveys confirm the weak performance of the French education system (Table 1). Furthermore, France is the OECD country with the widest skills gap between pupils from advantaged and disadvantaged backgrounds: in mathematics, the score gap reaches 113 points in France, against 94 points on average across OECD countries and 86 points in Spain.

Table 1: OECD PISA survey results (overall score, in descending order of the 2022 survey)

Country	2022
Singapore	560
Taiwan	533
Japan	533
Korea	524
Hong Kong (China)	520
Canada	506
Finland	495
United Kingdom	494
Germany	482
France	478

Source: OECD

The weaknesses of the French education system are well identified: insufficient education expenditure once teachers' pension outlays are deducted (4.6% of GDP in France, against 4.9% on average in OECD countries); the priority given to selecting elites at the expense of raising skill levels for the greatest number; and the limited attractiveness of the teaching profession.

Beyond initial education, vocational training does little to reach the unemployed, which delays their return to work, as well as the lesser-skilled workers and people over 55, weighing on their employment rates.

Taxation

The tax burden is very high in France (**Chart 3**), which helps contain the general government deficit (5.1% of GDP in 2025) despite **the very high level of government expenditure.**

Two difficulties arise: the structure of the tax burden, on the one hand; and the inconsistency of subsidising firms to offset abnormally high taxation, on the other.

The very heavy weight of social security contributions in France results in a particularly large "tax wedge" (**Chart 4**). The tax wedge corresponds to the difference between the total cost of an employee to the employer, including social security contributions, and the net wage received by the employee after income tax and social security contributions.

Chart 3
Tax and social contributions (as % of GDP)

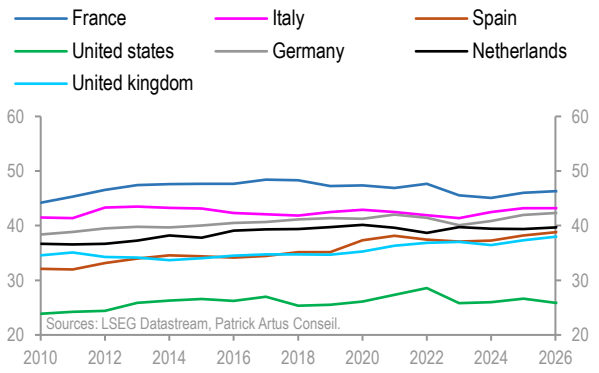
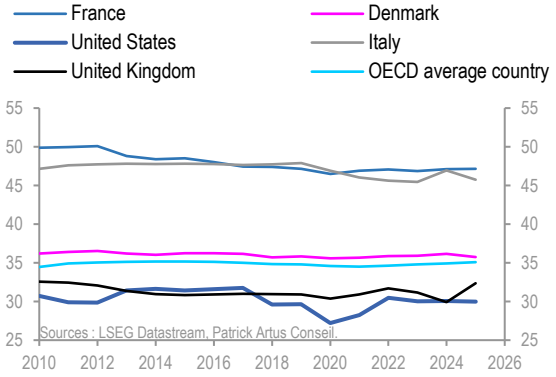


Chart 4
Average tax wedge(as % of labour costs)



A large tax wedge discourages employers from raising wages and reduces the incentive for the unemployed to return to work. Introducing a "social VAT" — that is, a cut in social security contributions financed by an increase in VAT — would reduce this tax wedge, with an overall effect comparable to that of a devaluation. It is worth noting that countries combining low social security contribution rates and high VAT rates, such as Denmark, display dynamic economies.

Firms benefit from reductions in social security contributions on wages of up to three times the minimum wage (SMIC), amounting to as much as EUR 80bn per year, while the taxes on production they pay stand at EUR 90bn, or 2.9% of GDP — a level well above that observed in Germany (0.7% of GDP). The efficiency of a system that grants contribution reliefs to offset abnormally high taxation is questionable to say the least.

Decarbonisation

In 2024, France's greenhouse gas emissions (in CO_2 equivalent) are 32% below their 1990 level. Measured by the carbon footprint — that is, the sum of emissions produced on the national territory and those associated with the production of imported goods and services — the decline is only 20%, however, as emissions linked to imports have risen by 2%.

Meeting the target of a 55% reduction in emissions relative to 1990 would require them to fall by 5% per year; yet the decline was only 3% in 2024 and 2.2% in 2025. Efforts must focus primarily on transport: since 1990, emissions from this sector have risen by 3%, while over the same period those of industry have fallen by 54%, those of residential and commercial buildings by 37% and those of agriculture by 18%. The electrification of the car fleet must therefore be stepped up.

The relevance of the effort undertaken by France and Europe can admittedly be questioned, given that global CO_2 emissions continued to rise by 1.1% per year in 2024 and 2025, with increases in 2025 of 0.4% in China, 1.4% in India and 1.9% in the United States. This effort nevertheless remains rational: Europe is developing decarbonisation technologies, and other countries will be led to reduce their emissions as the costs of global warming materialise, with available studies putting the cost of a 1°C rise in the planet's average temperature at 18% of world GDP.

Research and development

France is characterised by **the weakness of its research and development expenditure**, particularly that of firms (**Charts 5** and **6**). This shortfall can be back traced to the limited impact of French scientific output, the underdevelopment of information and communication technologies (ICT) and weak productivity gains.

Chart 5
Total R&D spending (as % of GDP)

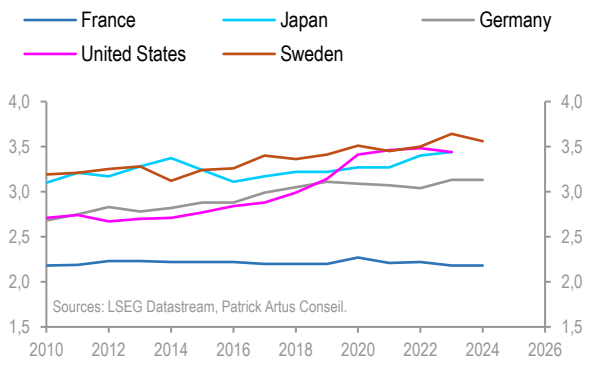
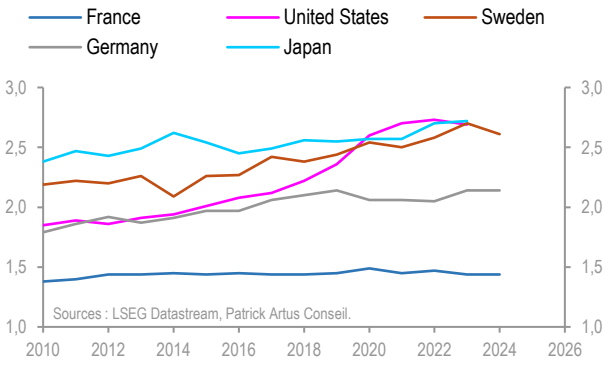
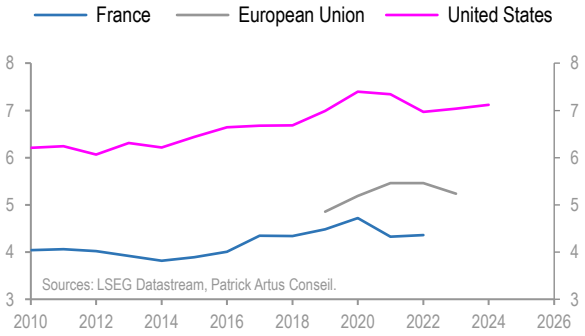


Chart 6
Corporate R&D spending (as % of nominal GDP)



The impact of French scientific publications is limited: France's share of world scientific publications stands at 2%, against 3.4% for Germany and 3.5% for the United Kingdom. Moreover, Europe accounts for only 1% of world computing capacity dedicated to artificial intelligence, against 8% for China and 75% for the United States. Finally, the ICT sector accounts for 7.2% of GDP in the United States, against only 4.5% in France (**Chart 7**).

Chart 7
Gross value added of the ICT sector (as % of GDP)



Regulation

According to the indicators of regulatory activity (*Indicateurs de suivi de l'activité normative*) published in May 2026 by the General Secretariat of the Government, the number of legislative articles contained in the construction, environment and urban planning codes and in the General Code of Local Authorities almost doubled between 2005 and 2026 (+94%). The OECD puts the administrative burden associated with regulation at 3% of GDP. The example of the CSRD (Corporate Sustainability Reporting Directive) is instructive: it requires firms to publish information on environmental, social and governance matters, involving the transmission of 1,178 data points to the administration, an obligation that comes on top of existing reporting requirements. Simplification efforts have so far systematically failed. It will now be necessary to assess the effects of the law on the simplification of economic life, enacted in May 2026, on public procurement and the implementation of strategic industrial projects, in order to gauge any reduction in the regulatory burden.

Competitiveness

France ranks among **the countries with the highest production costs** (**Table 2**).

Table 2: Average hourly labour cost per employee in manufacturing (2024, in euros)

Country	Average hourly cost (in euros)
Denmark	53,3
Germany	48,3
France	46,3
Italy	31,7
Slovenia	27,8
Spain	27,2
Slovakia	18,1
Croatia	17,0
Portugal	15,7
Poland	15,5
Hungary	14,6
Romania	10,7
Bulgaria	9,0

Source: ILO

Under these conditions, **industrial production can only be profitable in France if it is highly automated and robotised.** Yet the stock of robots in use in France remains limited, needing a considerable effort for robotisation and automation (**Table 3**).

Table 3: Number of robots installed per 10,000 employees in manufacturing (2023)

Country	Robots per 10,000 employees
South Korea	1012
China	470
Germany	429
Japan	419
Sweden	347
Denmark	306
Slovenia	306
Switzerland	302
United States	295
Netherlands	264
Austria	245
Italy	228
Canada	225
Belgium	224
Czech Republic	207
Slovakia	201
France	186
Spain	174
Finland	173

Source: World Robotics 2024

Immigration

The fertility rate continues to decline in France, standing at 1.56 children per woman in 2025. To prevent labour shortages, recourse to immigration therefore appears necessary. In 2025, 384,000 immigrants entered France. Their qualification levels are rising: in

2023, 52% of new arrivals held a higher education degree, against 41% in 2006. While large-scale recourse to immigration is accepted in Spain and Italy, it remains rejected in France for the time being.

Public debt

France's general government debt ratio stands at 117.5% of GDP in the first quarter of 2026. Stabilising it requires reducing the general government primary deficit (excluding interest payments on public debt) by 3.7 percentage points of GDP: in 2025, the primary deficit amounts to 2.9% of GDP, while the long-term real interest rate (1.7%) exceeds long-term real growth (around 1%).

Three avenues would allow this adjustment to be achieved:

- reducing social protection expenditure;
- increasing the tax burden;
- accepting persistently high inflation, without a central bank response, in order to obtain negative real interest rates.

The first option places the burden of adjustment on low- and modest-income households; the second penalises middle- and high-income households; the third penalises bondholders, in particular holders of life insurance policies.

Summary

All in all, several policy directions appear desirable:

- curbing the growth of social protection expenditure;
- improving the quality of the education system;
- shifting part of the tax burden from social security contributions to VAT;
- ending the twin logic of overtaxing and subsidising firms;
- maintaining an ambitious decarbonisation target;
- strengthening firms' research and development effort;
- simplifying regulation and reporting requirements;
- accelerating the robotisation and automation of the productive sector;
- accepting immigration that meets labour needs;
- implementing a monetary policy that delivers real interest rates below real growth.

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