

FRANCE ATTRACTIVENESS SCOREBOARD

Cost of labor and taxation

COST OF LABOR AND TAXATION

The level of the cost of labor, the taxation regime on businesses, as well as the productivity of the workforce all have a strong impact on the competitiveness of an economy and its attractiveness.

Labor costs in France have recently been above the average in the countries in our sample. However, labor productivity per employee remains very high, close to the average among OECD countries.

France is noteworthy for its relatively high level of compulsory social security contributions, which fund the country's system of public services (see Quality of Life booklet). Nevertheless, France has significantly reduced the taxes that businesses have to pay, with a tax rate that is lower than that in the Netherlands and Germany.

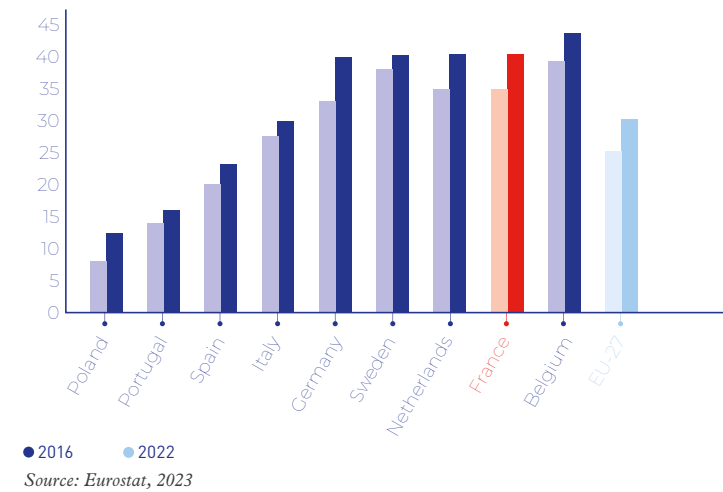
1. Labor costs

Labor costs are one of the determinants of an economy's attractiveness for foreign investment. This cost is part of a set of factors, including labor productivity, which makes up an economy's output, as determined by the workforce used. Changes in labor cost indicators over time is of paramount importance in international competition.

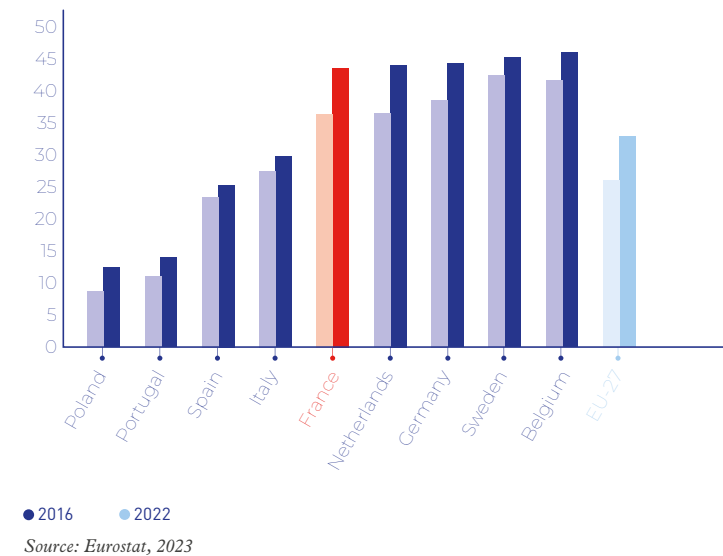
In 2022, labor costs in France remained among the highest in the countries in our sample. The hourly labor cost stood at €40.80, compared with Germany (€39.50) and Belgium (€43.50). In terms of industry, France was in the middle of the countries in our sample, with an hourly labor cost of €43.50. This figure was lower than that of Germany (€44.30), but it exceeded the EU-27 average of €30.70. Considering labor costs across the economy as a whole, France was ranked in eighth place within our sample and fifth in industry.

FIG. 1

HOURLY LABOR COSTS, TOTAL ECONOMY
(EXCEPT PUBLIC ADMINISTRATION, DEFENSE AND COMPULSORY SOCIAL SECURITY)
€

**FIG. 2**

HOURLY LABOR COSTS
INDUSTRY (EXCEPT CONSTRUCTION)
€

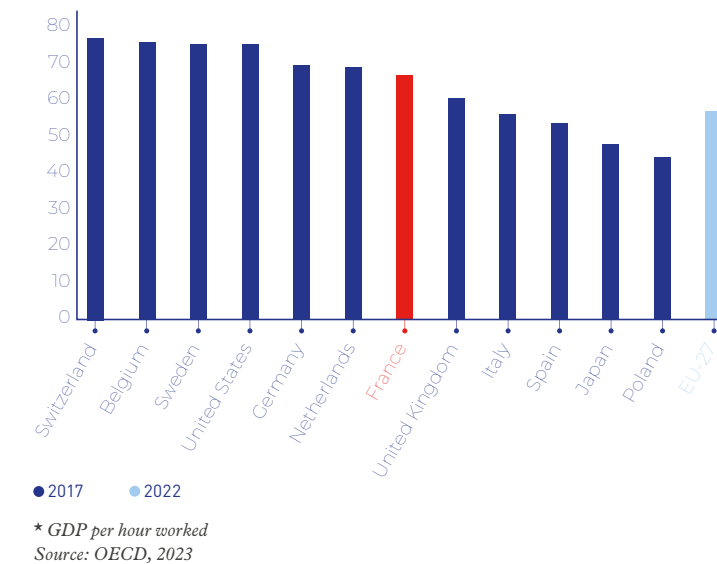


Nonetheless, labor costs must be appreciated in relation to labor productivity, which is very high in France. In 2022, hourly labor productivity was €65.60 in purchasing power parity (PPP),¹ compared with €68.60 for Germany, a level of productivity well above the EU-27 average of €55.60. France is therefore ranked seventh in our extended sample, which includes the United States and Japan, ahead of the United Kingdom.

In terms of labor productivity per employee, France is ranked eighth in our sample, with a figure higher than the EU-27 average.

FIG. 3

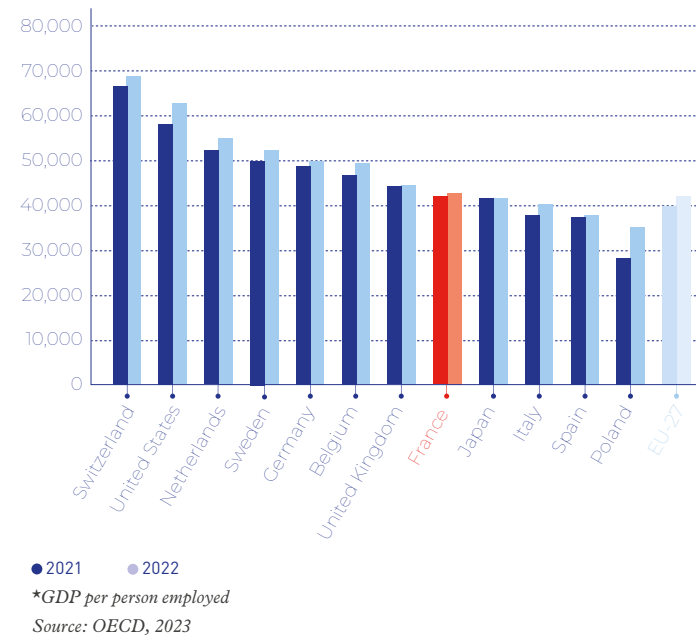
HOURLY LABOR PRODUCTIVITY* (2022)
US\$ PPP 2015



¹ Purchasing power parity is a monetary conversion rate that aims to equalize the purchasing powers of different currencies by eliminating differences in price levels between countries. (OECD.org)

FIG. 4

LABOR PRODUCTIVITY PER EMPLOYEE*
US\$ PPP



Over the last twenty years, hourly labor productivity in France has tended to stagnate. In fact, labor productivity growth tends to slow in developed economies.

In 2022, France saw its hourly labor productivity decrease by 1.6% compared with 2021, the United States by 1.1%, Italy by 0.3% and, more broadly, OECD countries by 0.5%.

Labor productivity per employee, however, remains strong in France. While it had suffered from the Covid-19 crisis and short-time working measures, **it returned to its pre-crisis level in 2022 with growth of 2.2%**. This growth rate is close to the OECD country average (2.4%) and higher than that in Germany (1.1%).

METHODOLOGY:

UNIT LABOR COSTS AND COMPETITIVENESS INDICATORS

Cost competitiveness compares unit labor costs (ULC) between different countries. Unit labor costs correspond to the cost of labor weighted by productivity. The notion of unit labor cost allows for the labor cost per unit of value added produced to be measured. Changes in unit labor costs will depend both on the variation in labor remuneration – an increase in this will lead to an increase in unit labor costs – and on the variation in productivity – an increase in productivity will lead to a reduction in unit labor costs. If the increase in productivity is faster than that of remuneration, then unit labor costs will decrease.

Cost competitiveness is defined as the ratio between the unit labor costs of competing economies and those of France. Costs are measured across the entire economy, covering both the most exporting sectors and those less open to international trade. For France, it includes the competitiveness and employment tax credit (CICE).

Export price competitiveness is defined as the ratio between the export price of foreign goods and services and that of exports of French goods and services.

In these two cases, the data from competing countries are aggregated using a weighting based on (i) the importance of the market for France (weight in French exports) and (ii) the share held by the competitor on this market.

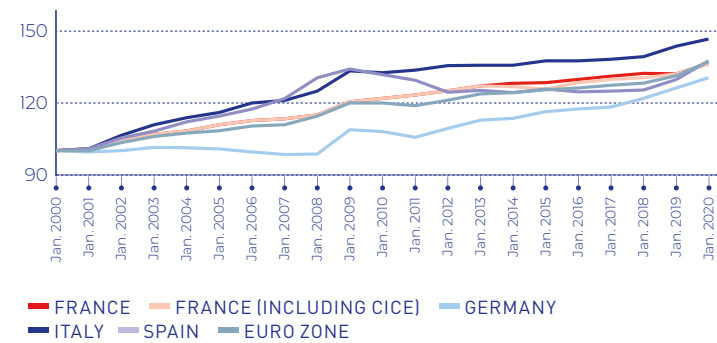
French price competitiveness improves when French prices increase less quickly than foreign prices expressed in a common currency, which therefore includes the effect of the exchange rate. In addition to the exchange rate, the difference between the evolution of cost competitiveness and price competitiveness lies in the evolution of business margins. Taking advantage of a fall in costs, businesses can in fact rebuild their margins before translating it into lower prices.

Two sets of competing countries are used; on the one hand we have our main competitors in the OECD, and on the other hand, in a more targeted way, we have our main competitors within the euro zone.

Unit labor costs (the cost of labor weighted by productivity) increased less rapidly in France (+0.8% per year on average) than within the European Union (+1.2%) and in Germany, where growth was particularly strong, at +2.2% per year on average between 2011 and the end of 2019.²

FIG. 5

COMPARISON OF TRENDS IN UNIT LABOR COSTS, TOTAL ECONOMY INDICES (BASE 100 = Q1, 2000)



Source: Eurostat
Calculations: DG Trésor, 2023

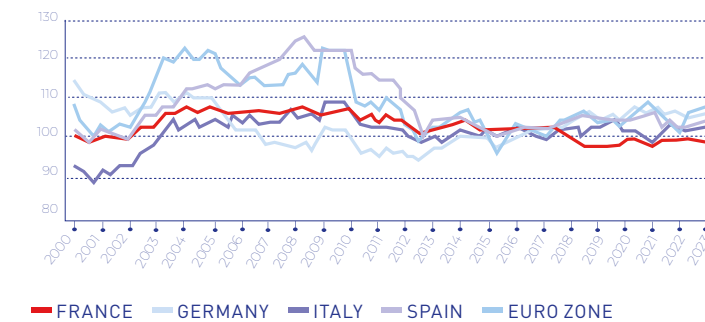
Between 2015 and 2022, France gained in competitiveness, producing at lower wage costs and selling at lower prices than its trading partners. A negative index reading indicates an improvement in competitiveness. We note negative index readings of -3.2% for cost competitiveness and -3.4% for price competitiveness.

For comparison, over the same period for the average of euro zone countries, cost competitiveness deteriorated (+2.26%) and did price competitiveness (+0.98%). Among the European Union countries studied, France is ranked first in terms of price competitiveness, and second after Sweden in terms of cost competitiveness.

² Changes in 2020, 2021 and 2022 were not significant because they were affected by emergency measures (notably short-time working). They are therefore not presented here.

FIG. 6

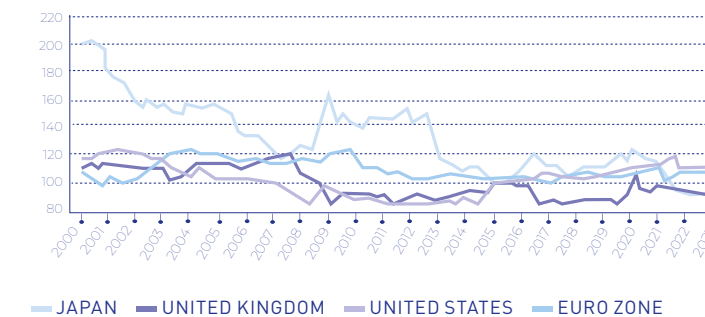
TRENDS IN COST COMPETITIVENESS INDICES (BASE 100 = 2015)



Source: OECD, 2023

FIG. 7

TRENDS IN COST COMPETITIVENESS INDICES (BASE 100 = 2015)

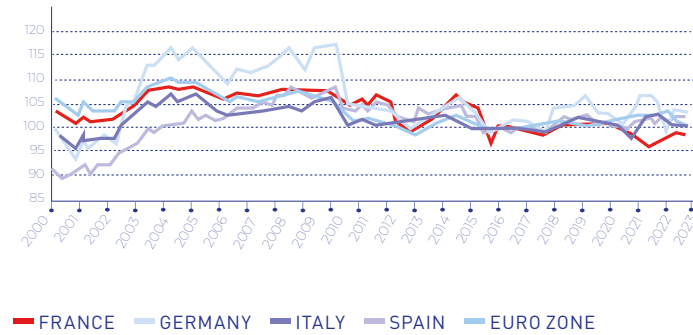


Source: OECD, 2023

NB: Increases in the indices represent declining cost competitiveness

FIG. 8

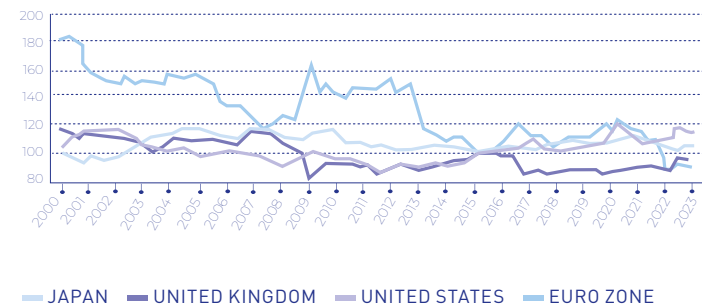
TRENDS IN PRICE COMPETITIVENESS INDICES (BASE 100 = 2015)



Source: OECD, 2023

FIG. 9

TRENDS IN PRICE COMPETITIVENESS INDICES (BASE 100 = 2015)



Source: OECD, 2023

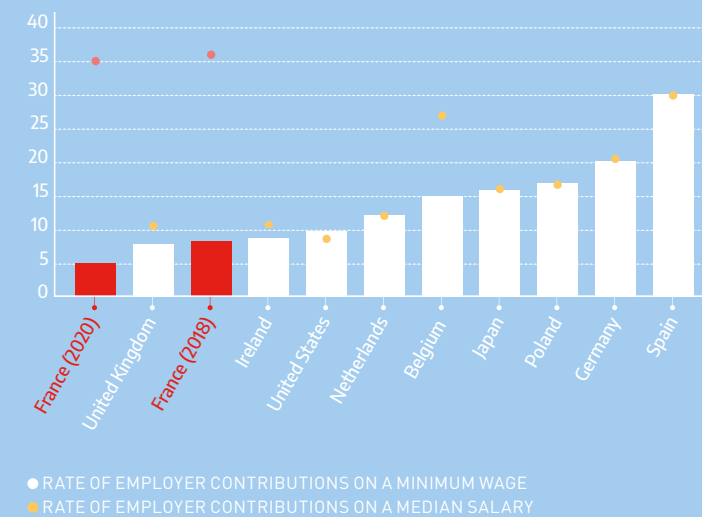
NB: Increases in the indices represent declining price competitiveness

With regard to the minimum wage, the rate of employer contributions in France is among the lowest by international standards. Reductions in employer contributions have been stepped up in France in recent years, particularly for low-wage earners. In 2015, the Responsibility and Solidarity Pact (PRS), and then in 2019 the transformation of the competitiveness and employment tax credit (CICE) into a permanent reduction of employer contributions, replaced on October 1, 2019 by further lowering of contributions, have resulted in significant reductions in the cost of labor, in particular at the minimum wage level.

These measures put France in an unusual position in international comparisons for labor costs: for median wages, France has one of the highest employer contribution rates, but this is not the case for low-wage earners, who benefit from these tax relief measures.

FIG. 10

RATE OF EMPLOYER CONTRIBUTIONS AT MINIMUM WAGE AND MEDIAN SALARY LEVELS (2020) % OF GROSS SALARY



Source: OECD, for the experts group on the statutory national minimum wage.

NB: The situation for France in 2020 is after the general relief was further simplified (October 1, 2019).

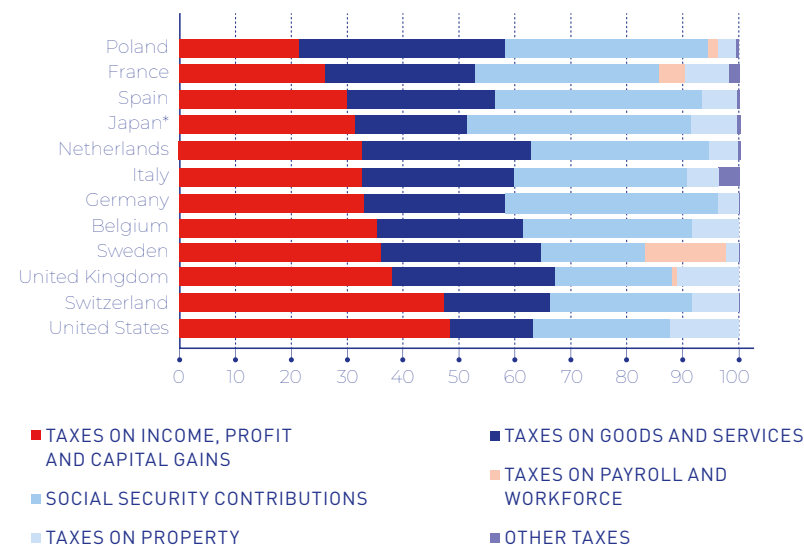
2. Taxation

The structure of compulsory deductions in France is dominated by social security contributions, which represent 32.8% of tax revenue. Although this ratio is high, it remains close to that in Italy (31.2%), lower than that in Poland (35.4%) and in Spain (35.6%), and close to the average of our sample (30.5%). Furthermore, these figures reflect the importance given to public services in France, largely financed by social security contributions (see Quality of Life booklet).

In terms of the weight of taxes on income, profits and capital gains (for individuals and businesses) in the structure of tax revenues, France has the second lowest share of the sample studied after Poland. This amounts to 26.6% of withdrawals for France and 21.7% for Poland in 2021.

FIG. 11

STRUCTURE OF TAX RECEIPTS (2021)
% OF TOTAL RECEIPTS

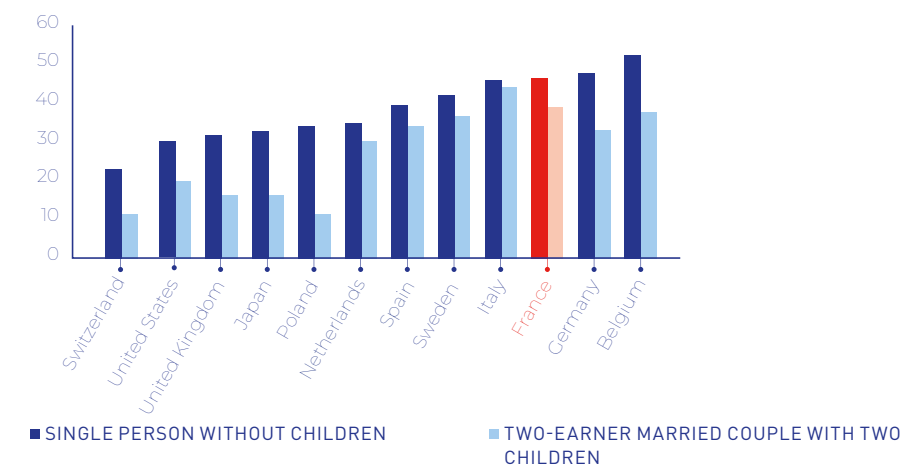


* Data for 2020
Source: OECD, 2023

In terms of taxes on income, a single person without children earning 100% of the average salary in 2022 bore a lower tax burden in France (47%) than in Germany (48%) or Belgium (53%). As for a married couple with two children with a salary equal to 100% of the average salary, France (39%) exerts a tax burden slightly higher than that of Belgium (38%) or Sweden (37%), but lower than that of Italy (44%).

FIG. 12

AVERAGE TAX WEDGE* AT 100% OF AVERAGE EARNINGS (2022)
% OF LABOR COSTS



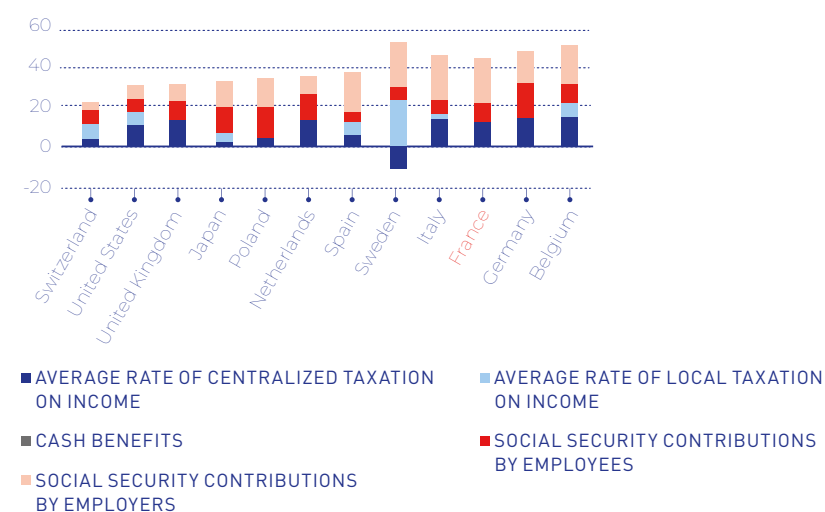
Source: OECD, 2023

* The 'tax wedge' on labor corresponds to the difference between gross labor costs for employers and employees' take-home pay (after taxes and social security deductions). Above, it is equal to the sum of income tax plus employee and employer social security contributions, less social protection benefits, as a percentage of total labor costs.

Social security contributions represent the largest tax item on salaries in France. **These are largely borne by employers before the payment of the salary (26.74%)**. This is not the case in Germany, where employees must bear more of the tax burden (16.94% in Germany, compared with 8.38% in France). In sum, **tax pressure remains higher in Germany than in France**.

FIG. 13

AVERAGE TAX WEDGE (SUM OF COMPONENTS) FOR A SINGLE PERSON EARNING THE MEDIAN SALARY (2022)
% OF LABOR COSTS



Source: OECD, 2023

The highest marginal rate of corporate taxation in France has decreased significantly in recent years, from 33.3% in 2018 to 25% in 2022. This reduction places France slightly above the sample average (23.7%) and below the rates in force in Germany (29.9%) and the Netherlands (25.8%). It is also at a similar level to the corporate tax rate in the United Kingdom, which increased from 19% to 25% in 2023 for large businesses.

In France, the 25% rate does not apply to small and mid-size businesses (SMEs), which meet certain conditions. These benefit from a preferential rate of 15% up to the threshold value of €42,500 of profits, beyond which the rate is standardized at 25%.

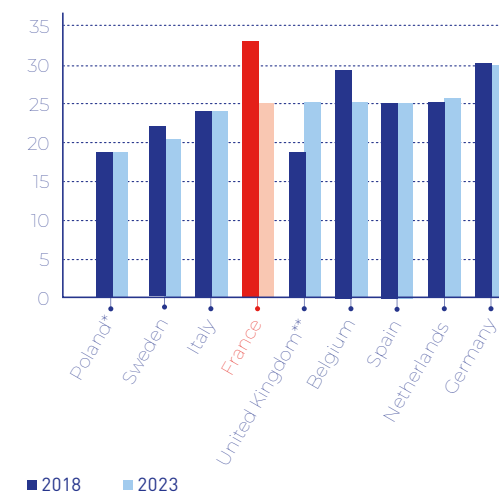
⁴Concerning SMEs, pre-tax revenues should be lower than €10 million and capital gains should be entirely distributed and held on at least 75% by private individuals (or by a company fulfilling this criteria). (Service-public.fr)

The statutory highest marginal rates of corporate tax in France have fallen in recent years, reaching an average level among our sample. With a maximum corporate tax rate of 25.8% in 2022, including any exceptional surcharges, France is ahead of Germany (29.8%) and Italy (27.8%). The government has reduced its corporate tax rates in the last few years. The reference rate is now 25% and the reduced rate for SMEs, subject to conditions, is 15% of taxable income.

Moreover, in a move led by the OECD, 136 countries have agreed to implement a worldwide tax of 15% on the profits of multinational businesses from 2023.

FIG. 14

HIGHEST MARGINAL RATE OF CORPORATE TAX INCLUDING EXCEPTIONAL SURCHARGES %



* For Poland, data compared are for 2018 and 2022

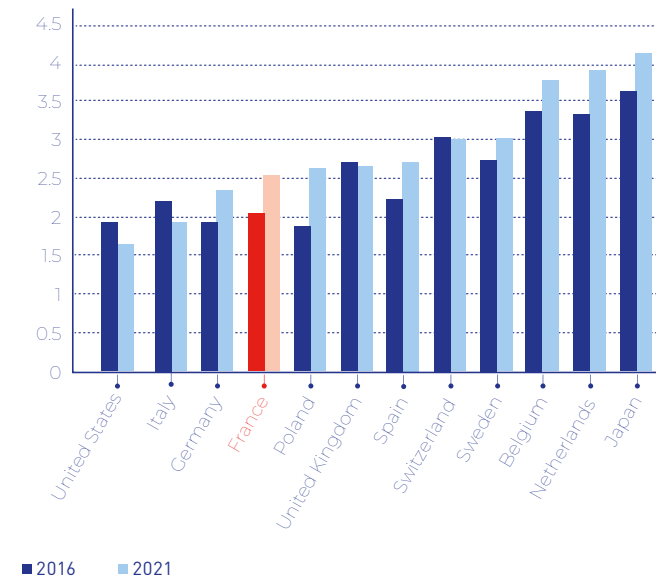
** Data from the Government of the United Kingdom (gov.uk)

Source: European Commission, DG Taxation and Customs Union, Taxes in Europe database; IBFD, 2023

Corporate tax accounts for 2.5% of GDP in France, so it is lower than the average of the sample studied (2.9%) and the average of OECD countries in 2019 (3%) (OECD, 2023).

FIG. 15

CORPORATE TAX RECEIPTS
% OF GDP



Source: OECD, 2023

HARMONIZATION OF TAX ON MULTINATIONAL FIRMS

In 2021, the OECD announced that it had concluded a tax agreement with 136 countries, whose objective was to harmonize the minimum tax rate on multinational firms at 15%.

The countries of the European Union adopted this minimum tax rate in December 2022, with the measure coming into force in 2024. Although other countries have started to study the text, the European Union is the first to have approved the legislative framework for this reform.

This development concerns multinationals whose revenues exceed €750 million, which represents 8,000 firms worldwide.

Sources: OECD.org and europa.eu

END OF THE BUSINESS VALUE-ADDED CONTRIBUTION (CVAE)

The French National Assembly announced in its draft Budget Bill for 2023 that it would end the business value-added contribution (CVAE) by 2027. This decision forms part of the current government policy of strengthening the competitiveness of French businesses.

The CVAE tax rates will be halved starting in 2024, before disappearing completely in 2027. The measure will lower the production taxes of all French businesses earning annual revenues of more than €500,000 excluding tax, regardless of their legal status, activity or tax regime.

Some 530,000 businesses will benefit from the change in legislation. The share of the gain for VSEs and SMEs will amount to 20% of the total amount. Moreover, industry will be the area that will benefit the most from this measure.

The reduction in the CVAE adds to the efforts already made by the French state to reduce business taxation and increase France's attractiveness: the maximum corporate tax rate in France was lowered to 25% in 2023. France therefore has a tax rate below the rates in force in Germany (29.9%) and the Netherlands (25.8%), and one similar to that of the United Kingdom.

In addition, since 2021, a reduction in production taxes has been applied. This concerns the CVAE but also the halving of corporate property contributions and the reduction from 3% to 2% of the cap rate of the local economic contribution (CET). This first wave of reductions in production taxes represents a total of €10 billion in production taxes per year for businesses.

Sources: gouvernement.fr, economie.gouv.fr



Methodology

Economic attractiveness can be defined as the ability to attract new business and mobile factors of production (capital, skilled labor, etc.) to a specific destination. This ability is related to a wide range of macroeconomic criteria.

This booklet takes its place in a set of themes that address different determinants of attractiveness in the form of a comparison of the main European economies competing with France: Belgium, Finland, Germany, Italy, the Netherlands, Poland, Spain, Sweden, Switzerland and the United Kingdom, as well as Japan and the United States.



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