FRANCE

France’s economic freedom score is 63.8, making its economy the 71st freest in the 2019 Index. Its overall score has decreased by 0.1 point, with a sharp drop in the score for judicial effectiveness exceeding improvements in fiscal health and government integrity. France is ranked 35th among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

The main policy challenges in France are to boost economic growth; lower high unemployment (especially among youth); increase competitiveness; improve public finances; and mitigate foreign investors’ negative views of the labor market. To do so, the government will have to rely on traditionally resilient French entrepreneurs and such institutional strengths as strong protection of property rights and a fairly efficient regulatory regime. Government spending accounts for more than half of total domestic output. The budget has been chronically in deficit and will have to be cut.

BACKGROUND: France is one of the world’s most modern countries and sees itself as a leader among European nations. President Emmanuel Macron, founder of the center-left La République en Marche (REM) and elected in 2017, is France’s youngest president since the establishment of the Fifth Republic. His party’s coalition won a majority of seats in 2017 parliamentary elections that were marked by a record-low turnout. French troops have been deployed to patrol city streets after a series of horrific terrorist attacks by Islamist militants. France’s diversified economy is led by tourism, manufacturing, and pharmaceuticals. The government has partially or fully privatized many large companies but maintains a strong presence in such sectors as power, public transport, and defense.
Property rights and contract enforcement are secure, although real estate regulation is complex and inefficient. France has robust laws protecting intellectual property rights. An independent judiciary and the rule of law are firmly established. The government actively promotes a strong anticorruption legal framework, but corruption remains a problem in such sectors as public works, defense, and wherever business and politics overlap.

The top individual income tax rate is 45 percent, and the top corporate tax rate is 33 percent. Other taxes include a value-added tax. The overall tax burden equals 45.3 percent of total domestic income. Over the past three years, government spending has amounted to 56.6 percent of the country’s output (GDP), and budget deficits have averaged 3.2 percent of GDP. Public debt is equivalent to 97.0 percent of GDP.

The overall regulatory framework remains relatively efficient, but the labor market is burdened with rigid regulations and lacks the capacity to generate more vibrant employment growth. The government maintains an extensive system of subsidies and price controls, especially for agriculture and clean energy, and opposes moves to reduce EU Common Agricultural Program subsidies.

The combined value of exports and imports is equal to 62.9 percent of GDP. The average applied tariff rate is 2.0 percent. France implements a number of EU-directed nontariff trade barriers including technical and product-specific regulations, subsidies, and quotas. Investment in some sectors is restricted. The banking sector is mostly in private hands, but the state still owns several important institutions.