



Cercle d'outre-Manche

6 Months and 6 Measures
for France to overtake the United Kingdom

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www.cercledoutremanche.com

6 objectives and 6 measures that work in the United Kingdom

1. **Make government services pro-business**

The role of government services is to favour support for businesses, rather than keeping checks on them, as businesses alone are the source of the creation of wealth which can then be redistributed.

- Company creation within 48 hours by means of a single, centralised organisation (the procedure always takes three to five weeks in France, compared with only 24 hours in Britain).

2. **End the “ménage à trois” and establish direct dialogue between employers and trade unions**

- Have the guaranteed minimum wage fixed by a joint employers/unions commission, backed up by economic experts

The aim is to have, as in Britain, a guaranteed minimum wage in France which is acknowledged by both sides as optimum for employment, growth and purchasing power.

3. **Make employment law more flexible**

- Make it possible to terminate a contract of employment by mutual consent between the employee and the employer, so that redundancy is no longer a traumatic experience for the employee

This contract would create the same entitlement to severance pay.

4. **Encourage private individuals to invest in new businesses**

- Raise the investment ceiling at which an individual investor qualifies for a tax deduction at the time of the investment from €40,000 to €300,000, irrespective of the nature of the business.

The British experience has proved the effectiveness of a high tax ceiling.

5. **Develop university incubators**

- Set up a top-up fund to be called upon whenever a university obtains private financing

6. **Make a good command of English a national priority. This is a key factor for the competitiveness of management and the French economy**

- Make English one of the common-core subjects in primary education and encourage the recruitment of English mother tongue teachers from the European Union



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The opinions expressed in this document are those of their authors alone and not those of the institutions to which they belong.

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INTRODUCTION

Who are we?

Chairmen or MDs of international groups operating in various sectors of activity, our common feature is that we are French company directors running Franco-British businesses. As we are frequently asked by senior civil servants and politicians for our views on the things that make the United Kingdom attractive, we have decided to share our thoughts and experiences within the Cercle d'outre-Manche.

In 2004, when we published the report entitled "*Sous-emploi français, plein-emploi britannique : un paradoxe bien peu cordial*", the British model was at best regarded with suspicion by French public opinion, if not simply rejected with scorn. The proposals made in that first report and in our last report, entitled "*My neighbour is rich*", having been widely debated, we note today that a number of measures introduced in France are based on the British model, though this is not admitted. For example: the *Maisons de l'emploi*, the new debate about the reform of the labour code, direct dialogue between management and unions without government intervention and the merger of the national employment agency, ANPE, with Unédic, the organisation that manages unemployment benefit schemes, along the lines of the British Jobcentres Plus.

We now continue our mission of providing information and explanation by describing six symbolic measures which, in our opinion, have made the United Kingdom the European success story of the last fifteen years.

Our ambition: for France to overtake the United Kingdom within 5 years

▪ France – UK: how are they doing?

Like a business, a country must constantly compare itself with its neighbours if it is to remain competitive and attractive. Benchmarking and taking a good look at oneself are the necessary precursors to change and development.

In order to apply the recipes for things that work elsewhere, one has to have the same ingredients. Now, France and the United Kingdom have many common ingredients and it is interesting to compare these two rivals: their populations are almost the same (60.4 million in the UK, 62.9 million in France) and they have a very similar GDP structure, with 72% of national wealth coming from services in both countries and 25% and 27% respectively from industry.

Only employment and per capita wealth mark the point where the comparison of these two European neighbours starts to break down. With an unemployment rate half as low and a 10 point higher employment rate, the UK has an additional four million jobs!

Across the Channel, twice as many new businesses are created each year and above all their growth, ten years after start-up, is more than seven times that of new French enterprises. The United Kingdom today generates €76 billion GDP more per annum than France, despite having 2.5 million fewer people! GDP per capita, which amounted to 75% of France's in 1980, reached 110% that level this year, equivalent to extra wealth of €2,400 per person per year. The natural order of things is for France to be in the lead.

- **Winning the match France has been losing for 15 years**

France undeniably has some major assets: a unique geographical position, quality transport systems, effective health and education systems and skilled labour. France has the hardware of economic attractiveness, that is to say, structural assets few other countries have. The British advantage, on the other hand, lies in the software, i.e. behaviour and the economic and cultural environment. Software is, by definition, flexible. France's problem is that it tends to turn software into hardware, in other words, to make things rigid that shouldn't be.

Where France all too often seeks to protect what has been established and its "right to work", the United Kingdom tries above all to open up in order to increase the "jobs available" and thus promote economic activity in the country. Social redistribution is not possible without first creating wealth, as improved welfare stems from the results of growth. A winning social model cannot exist without a pro-business environment.

The United Kingdom today is in the same situation as France was in the seventies: it's not a matter of whether one will find a job, but which job. Not everything is rosy on the other side of the Channel: a health system which is struggling to reform and productivity that remains low but, unlike the French, the British look ahead to the future with confidence and they feel that their children will have a better life than they do.

Adjusting our economic and entrepreneurial environment, setting limits on the role of the state and having the courage to do so – those are the things that France can learn from the United Kingdom.

Comparisons may be odious, but drawing on the British model is not cheating, and admitting that is already a victory. If France can find the determination to break out of its straitjacket, its potential for resurgence is considerable. There is no doubt that it will then overtake Albion again.

"My neighbour is rich" – if the British are rich again, why can't we be?

6 objectives and 6 measures that work in the United Kingdom

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- Company creation within 48 hours by means of a single, centralised organisation (the procedure always takes three to five weeks in France, compared with only 24 hours in Britain).

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1- Make government services pro-business

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A symbolic measure

Company creation within 48 hours by means of a single, centralised organisation (the procedure always takes three to five weeks in France, compared with only 24 hours in Britain).

What the state creates is not wealth, but the environment that permits wealth creation. To each its role. The state organises, enterprises get busy. There is complete consensus on this point in Britain. The discussion therefore centres not on how wealth is created, but on how the state redistributes it. That is indeed its role: how can the market economy and free enterprise be favoured in order to create the necessary conditions for the setting up of a working social model?

One of the key aspects of a government's pro-business and pro-reform attitude is its ability to audit its accounts and assess the effectiveness of the aid granted. It would, for example, be interesting to audit the state aid for new business creation in France and to rationalise the operators responsible for allocating that aid and to follow up the results, something which is not done to date.¹ In order to assess effectiveness, it first has to be quantified.

In an international context characterised by mobility, it is particularly important for any state to put in place a simplified, attractive framework. This is a decisive factor not only in order to attract inward investment but also to hold on to one's own wealth.

Stability and clarity of tax legislation: prerequisites for economic attractiveness

The French tax system is characterised first and foremost by a high degree of complexity and a lack of clarity. This factor is often mentioned in surveys as one of the biggest deterrents. The finger is often pointed at France for constantly moving the goal posts, whereas investors are looking for some degree of stability in the medium term. The multiplicity of tax rates, their steep progressivity and the large number of rules, amendments and concessions are often cited. The French research centre for economic expansion and business development, Rexecode, sees only two main reasons for this lack of transparency:

- **The multiplicity of “social” taxes and levies**

Such complexity blurs the precise tax burden (contribution in aid of the underprivileged, social security budget deficit tax, 2% social levy, corporate profit-based levy, business rates). One need only compare payslips in the two countries to see how complex the French tax system is. Whereas a French payslip contains more than forty lines on

¹ Cf. French Audit Office annual public report for 2006

average, the British equivalent has only four: Basic Pay, Income Tax, National Insurance and Net Pay.

- **Instability of tax legislation**

By way of example, the long-term capital gains tax rate and basis of assessment in France have been altered thirteen times in the last twenty years. This instability of the French system shows the influence of changeovers of political power on taxation, whereas United Kingdom legislation is, paradoxically, more compartmentalised but is reformed in a more pragmatic, less ideological way. Before being a political instrument, a country's tax system is an economic weapon for competitiveness, and foreign investors are reluctant to make a commitment in a country that does not guarantee the visibility of their tax position in the medium term.

The British tax is more stable and more transparent by comparison. The personal taxation system, in particular, is regarded as one of the most straightforward in the world. Income Tax and Corporation Tax have only three single tax rates:

- **Income Tax² :**

- 10% up to income of £2,230 (up to €3,285)
- 22% from £2,231 to £32,370 (€3,286 to €47,683)
- 40% above £32,370 (> €47,683)

The marginal rate is one of the lowest in the European Union at 40%.

- **Corporation Tax³ :**

- 20% for companies with taxable profits of less than £300,000 (€441,833)
- 30%⁴ for companies with taxable profits of more than £1.5 million (€2.209 million).

While the British tax system is less complex and more transparent, that does not mean it is more favourable in all respects. As regards income tax, for instance, the British system is more favourable for higher incomes, whereas the French direct taxation system favours low incomes and families by means of the dependents' allowance scheme. Likewise, nearly half of French people pay no income tax, whereas almost everyone pays it in the United Kingdom. The weight of taxation should not therefore be gauged in terms of the burden of levies alone. The clarity and stability of the environment are, first and foremost, what make a tax system attractive.

Pragmatic procedure and attitude

Taxation and keeping checks on it are part of everyday life in business. Tax departments must therefore offer flexibility and pragmatism to the people they deal with and, above all, make life simpler for them. This is perhaps where the British example is most to be emulated.

- **The Inland Revenue, a service provider to businesses**

² www.inlandrevenue.gov.uk

³ Ditto

⁴ This rate is due to fall from 30% to 28% on 1st April 2008

The Inland Revenue, the counterpart of the French *Fisc*, in the United Kingdom is seen as a service provider seeking to increase its client portfolio. Businesses are regarded as clients which it is the Inland Revenue's duty to satisfy:

- Their attitude is cooperative and replies are generally given within 48 hours
- The tax authorities constantly strive to provide information and to communicate with people running businesses by, for example, sending newly formed companies a regularly updated CD Rom entitled *A Helping Hand from the Inland Revenue*.
- Relations are conducted according to a “presumption of good faith”. The tax authorities are polite, benevolent and unsuspecting of the people they deal with and a company is not “suspected of tax evasion” or treated like a naughty schoolboy from the outset.
- Reports and correspondence are personalised. The Inland Revenue follows businesses as they develop and understands the problems facing a company and the industry in which it operates, and companies deal with the same person year after year.

In France, the tax system is somewhat inaccessible and the state is therefore in charge of explaining, running and controlling it. In the United Kingdom, the service provider-client relationship imposes efficiency and rigour. The French tax authority should similarly be competitive.

To stimulate the performance of its public services, the United Kingdom has once again played its two master cards: flexibility and innovation. Methods similar to those used in the private sector in order to demand the same standard of service – except that the services provided are free of charge, accessible to all and serve the overall competitiveness of the country.

An organisation dedicated to benchmarking the public sector for the greater benefit of the citizen customer

Public sector institutions all too often operate within a monopolistic market and are not particularly encouraged to improve their services or optimise their costs. In the private sector, conversely, competition stimulates enterprises to keep on bringing out new products or services in order to satisfy consumers and avoid losing market share.

So, in order to motivate change, a way had to be found of injecting the public sector with a little dose of competition and making it produce results. The United Kingdom has therefore undertaken to impose performance targets and quality standards on all public institutions. Successive British governments have therefore also put in place a number of tools to enable each institution to manage its resources, assess its performance and profit from the exercise.

Comparison in order to satisfy the “citizen customer” is the motto of public benchmarking, British-style.

- **Setting up audit organisations: the Next Step Agencies or Executive Agencies**

These are executive organisations that control the use of departmental resources and are responsible for results (according to targets set in their business plan⁵). The Executive Agencies carry out an annual quantitative self-assessment which enables performance to be quantified and compared with standard criteria in terms of customer satisfaction, financial results and management of the services provided. For example, the Comprehensive Spending Review procedure was introduced for all agencies in 1998 and requires each ministry to detail all its expenses and show proof. Costs must be rationalised and transparent.

➤ **Introduction of quality standards: Citizen’s Charters**

Citizens’ charters establish quality standards for public services. The standards are customer-centric, i.e. very much built around the institution’s ability to meet the citizen-customer’s needs. For instance, each year the departments present an assessment of their performance in relation to these quality criteria. The assessments are posted up on the departmental websites or on the government benchmarking site (www.benchmarking.gov.uk). At a more microstructural level, standards have also been established for each sector or even for each service within sectors to allow the citizen-consumer to choose the one that best meets his needs.

➤ **Financial motivation for public sector employees and institutions: incentives**

The UK authorities have also set up a number of funds to financially reward the most deserving institutions or employees.

Under this scheme, teachers at British state schools are paid partly according to results. A maths teacher in London, for example, whose salary would normally be €4,000 per month⁶ will receive an increase of €700 per year if he or she manages to raise the level of the class in accordance with targets previously set by the school. Also, each school must prove that it is making good use of the public monies allocated and is placed in a situation of relative competition. School budgets depend to a great extent on the school roll. State schools therefore try to attract as many pupils as possible to their school. Now, to attract pupils, one has to demonstrate the quality of the school. This is the virtuous circle of public benchmarking!

Benchmarking may be summed up as assessing, comparing and rewarding the best in order to motivate the quality of the service delivered for everyone’s benefit. A company’s requirements applied to the public sector. An organisation dedicated to benchmarking the public sector in France would enable the quality of the services delivered to be assessed, for the greater benefit of the citizen-customer.

Setting up a business in France in 48 hours

Simplified table of administrative procedures in France and in the United Kingdom

	FRANCE	UNITED KINGDOM
Organisation in charge	CFE (Centre de Formalités des Entreprises / Business Formalities Centre). The aspiring entrepreneur has to contact	Companies House (single registration body for all types of business activity in England and Wales).

⁵ There are currently 138 agencies covering the whole of the public sector (armed forces, public buildings, environment, employment, roads, health, prisons, etc.)

⁶ Teachers’ pay in London varies from €33,755 to €57,100 per year depending on the school and the teacher’s performance. Source: *Teachers’ Pay 2004-06, Inner London*.

	<p>the CFE of the following organisations, according to the sector of activity:</p> <ul style="list-style-type: none"> - Chamber of Commerce and Industry for merchants - Chamber of Trade and Craft for trades - Commercial Court office for non-trading companies - Social Security contribution collection agency for the professions - Tax Department for writers and performers - Chamber of Agriculture for farmers 	<p>www.companieshouse.gov.uk</p>
Time taken	3 to 5 weeks (preparing and processing of the application)	Same Day Incorporation
Cost	<p>Cost varies according to the nature of the activity and the legal basis:</p> <ul style="list-style-type: none"> - €60 for a shop - €150 for a private limited company - €230 for a public limited company or simplified joint-stock company 	<p>Single cost for all types of business: £50 (£30 for on-line registration).</p>

If a business can be set up within a day on the other side of the Channel, why can't France shorten the time taken for administrative procedures from 3–5 weeks to 48 hours?

Modelled on the lines of the British Companies House, in 2002 France introduced the Centre de Formalités des Entreprises, a single organisation to which company formation applications are sent. However, this organisation is not centralised as in the United Kingdom. The aspiring entrepreneur in France has to contact the CFE for a particular organisation depending on the sector of activity, whereas the aspiring British entrepreneur simply has to register with Companies House. This is a *mille feuilles*, French-style: instead of replacing a cumbersome measure, another one is added in an endeavour to improve things.

In order to attain the British aim or come close to it, it would be helpful to group the CFEs into a single organisation and to centralise the present commercial registers (one per département) into one national register, as is the case in Britain. Lastly, it would be useful to set up a website for on-line registration of businesses of any type. At present, only one-man commercial businesses are able to use such a service (public and private limited companies cannot do so, inasmuch as aspiring entrepreneurs are still required by law to send in the original Memorandum & Articles in hard copy form).

2- End the “ménage à trois” and establish direct dialogue between employers and trade unions

Measure

Have the guaranteed minimum wage fixed by a joint employers/unions commission, backed up by economic experts

The aim is to have, as in Britain, a guaranteed minimum wage in France which is acknowledged by both sides as optimum for employment, growth and purchasing power.

Politicians and unions ought all to work at improving the *software*⁷ of France and agree that employment creates growth, not the other way round. In the United Kingdom, the market economy and pro-business policies are no longer a subject for discussion. The market economy allows wealth creation, and wealth enables the state to redistribute. The state must therefore enable businesses to create wealth. This is an unanswerable syllogism which should be the subject of a shared diagnosis and a national consensus in France.

Pro-business, pro-employment unions: is the company a union priority?

Contrary to the generally accepted ideas, the union movement is strong and wields a great deal of influence on the British political scene: the union density is more than three times higher than it is in France!⁸ Yet, strangely, the unions seem to have a lower profile and relations with the government appear to be calmer. How can this be explained?

The strong hand of Thatcher and Blair's gentler approach both altered the power of the unions and their corporatist nature. Taking into account in particular the steep drop in union density (15% decrease in ten years), the unions have realised that their survival depended on getting along with the employers, and they did not want to be responsible for hastening the decline of industry in the UK. They have become more pragmatic and moved into the centre, that is to say, the idea that the market economy and corporate survival are good for employment. Nowadays they therefore try to get the best deals for their members, which often means the deal most favourable to the company. Without a prosperous company, but one which can alter its job offers when it has to, the result is underemployment or no jobs at all.

Bipartite negotiations and finding a compromise

Until the Thatcher government came to power, industrial relations involved three players: the employers, the employees and the government. Relations were conflictual and, in the end, it was the government that took the decision.

⁷ The term *software* is used to describe the socio-economic environment within which businesses operate, as oppose to the *hardware*, i.e. a country's stable structures and characteristics

⁸ Union density in 2006: 8% in France, 30% in the United Kingdom

The last fifteen years have seen progressive decentralisation of collective bargaining. The government has gradually withdrawn from union-management talks and its role today is merely one of validating, or not validating, the recommendations of the unions (TUC) and the employers (CBI). The Blairist “third way” has opened the door to bipartism: the British state has given way to a “social partnership” between the employers, the unions and third parties whose role is to arbitrate and mediate in conflicts and disputes.

Tripartism worked no better in the United Kingdom than elsewhere and often led to a rather farcical situation with each side taking up extreme positions and waiting for the government to impose a solution which pleased no-one. Today, two-party dialogue requires a result. Bipartism gives power back to the two sides of industry and motivates change. The TUC and CBI representatives are delighted at this new state of affairs: apart from their shared objective of fighting for the company and for employment, they are also united by their adamant refusal to enter into tripartite negotiations.

In France, the “trialogue” still prevails. The government decrees rather than consulting and that inevitably puts it in the position of giving effect to its own wishes – a ménage à trois which is bound to be shaky if the government is the judge and a party and also carries out the orders. Trialogue results in monologues and paralysis.

Example of the success of bipartism in industrial negotiations in the UK: the Minimum Wage (British *Smic*)

In this informal, bipartite spirit the United Kingdom introduced the National Minimum Wage in 1999. The Low Pay Commission, an independent body with 9 members (3 TUC representatives, 3 CBI representatives and 3 renowned economic experts jointly selected by the other two groups) advises the government on the implementation of minimum wages.

The role of these economic experts (Economics professors from top UK universities) is to measure the economic impact (including on employment) of the minimum wage level that should be fixed in order to prevent too high a wage for the economic circumstances at the time from acting as a barrier to job creation. Their recommendations are integrated into the Low Pay Commission’s recommendation to the government.

So far, the government has always accepted their recommendations and the minimum wage in Britain, reassessed by 40% since its introduction, this year exceed the French *Smic*⁹ (€1,361/month, compared with €1,254/month in France)¹⁰. And the bosses are happy: the minimum wage is regarded as a positive development by the CBI because small shops and small firms have to obey the law, which applies to everyone, and unfair competition is thus avoided.

⁹ 1.8% of British wage-earners receive the minimum wage, compared with 16.8% in France

¹⁰ Eurostat note, 18 June 2007, “Minimum wages in the EU in January 2007”

Minimum wage in France and in the UK

	France (Smic)	UK (Minimum Wage)
Monthly minimum pay	€1,254	€1,361
% of employees on minimum wage	16.8 %	1.8 %

Sources: Eurostat note, "Minimum wages in the EU in January 2007", 18 June 2007

Rules obeyed by everyone to make concertation possible

In the United Kingdom, concertation is based on obeying a number of rules or codes of good practice that restrict the right to strike. Based on this consensus, all the players effectively acknowledge that striking is the last resort. The obligation to go to arbitration before calling a strike, via the Advisory Conciliation and Arbitration Service, ACAS, proportionality and the secret ballot strike vote are rules that are accepted and followed by everyone.

ACAS' primary role is to mediate and arbitrate in industrial disputes and to improve working relations by means of the advisory services it provides to employers, employees and their representatives. Although government-financed, ACAS is independent and is not under ministerial orders. It is run by a board made up of a president and nine members. Three of the members are appointed following consultation with the CBI and another three after consultation with the TUC. As a mediator and arbitrator, ACAS can defuse some disputes by calming the dialogue between employers and unions.

The unions and the employers negotiate with each other just as two business associates (who are both each other's customer and each other's supplier) would with the aim of together advancing their respective interests (which may be divergent). The state is in its proper place of neutral arbitrator. Politics does not interfere with the economic decision. The calm, realistic relations within which everyone plays a clear role are at the core of the device that has enabled the United Kingdom to have a 50% higher growth rate than France for the last ten years.

3- Make employment law more flexible

Measure

Make it possible to terminate a contract of employment by mutual consent between the employee and the employer, so that redundancy is no longer a traumatic experience for the employee

This contract would create the same entitlement to severance pay.

It is not possible to facilitate recruitment, and thus to shorten the intermediate period between jobs, unless the mechanisms of the employment market are free-running. The United Kingdom has successfully introduced flexible employment legislation that allows companies to adapt their workforce to economic fluctuations while at the same time giving the employee a big degree of legal protection.

So how then, for comparable employee protection, can France follow the example of the UK, which has managed to make its redundancy legislation one of the main strong points of its economic attractiveness?

Flexibility versus rigidity: convergence of protection for the employee, divergence of cost for the employer

Contrary to the image of exaggerated flexibility often attributed to the British system, both in the UK and in France a boss' freedom to dismiss his employees is limited and restricted. However, the British system is more flexible and gives weight to the reasonable nature of the company's and the employee's behaviour in the redundancy process, notably by adapting the severance pay more realistically to the employee's actual loss.

For example, if an employee has an ability problem, the employer will be required to give him genuine opportunities for improving his performance. If, on the other hand, an employee commits gross misconduct, he may forfeit all entitlement to severance pay. Moreover, since October 2004 (when the Employment Act 2002 came into force), employers must also follow a disciplinary procedure similar to that in France before dismissing an employee for personal reasons. However, this procedure does not apply if the employee has committed serious misconduct (unlike in France). Failure to follow the procedure will automatically result in the dismissal being classed as unfair.

In France, even if dismissal is justified for a genuine good reason, the company has to pay severance pay which may amount to a considerable sum, sometimes 50% higher than in the UK, as though it were compensating for an unfair act, whereas in fact the reason for dismissal is actual, proven misconduct on the part of the employee.

As far as redundancy payments are concerned, both British and French companies have to pay employees who are made redundant. However, the amount payable in France is nearly three times as high on average for a managerial employee as in the UK. A French employer will therefore be reluctant to lay people off, on the one hand, but neither will he hire when things pick up again, and pay rises will be small. Barring redundancies is anti-productive in every respect and severely penalises the overall dynamism of employment.

Simplified summary example: redundancy

Assumptions:

- redundancy
- 35-year-old manager who has been with the company 6 years
- no collective agreement applicable

	France	United Kingdom
Theoretical redundancy money	6 months	6 weeks
Weekly salary	€1,200	€1,200
Weekly ceiling	None	€455
Actual redundancy pay	€6,240	€2,730

Social approach versus economic approach: the traumatic experience of redundancy in France

The approach in France is a social one, which punishes any employer laying off an employee without an acceptable reason. Being made redundant consequently becomes a traumatic experience for the employee, the work equivalent of being the guilty party in a divorce suit. It is similarly traumatic for the employer, who is often threatened with prosecution in connection with laying off an employee when this involves an appeal based on surplus hours worked. Unduly penalising employment law has a profound impact on the employer. It is in effect a further obstacle to recruitment.

On the opposite side of the Channel, an economic approach prevails, where the employee is indemnified for his actual loss. The employee is made responsible and cannot claim redundancy money without first proving that he has made efforts to limit his loss (*duty to mitigate*). Furthermore, the payments are subject to a ceiling and while the employer does take a financial risk, that risk is limited and the penalty incurred is more weighted in relation to his actual wrongful act and the employee's actual loss. Redundancy is perceived as a much less traumatic experience in the United Kingdom insofar as it is not a barrier to finding a new job, particularly since, in the current state of tautness of the UK market, the employee can be confident of finding another job quickly (64% of the jobless cease to be unemployed within the first six months).

The calming of employer-employee relations is one of the main keys to the British success as regards employment. It makes the employment market more fluid and facilitates recruitment, retraining and employee development. On the other hand, social rigidity is out of touch with economic reality and directly curbs employment and wealth creation. In the end, the full employment created by such flexible employment law establishes a balance of power in the workers' favour, as it institutes a labour market close to a situation of total competition. The employer is faced with requirements of attractiveness. Lack of employee loyalty, difficult in holding on to workers and employee volatility are genuine concerns for headhunters in the United Kingdom, who are in competition with one another to attract the best candidates.

4- Encourage private individuals to invest in new businesses

Measure

Raise the investment ceiling at which an individual investor qualifies for a tax deduction at the time of the investment from €40,000 to €300,000, irrespective of the nature of the business.

The British experience has proved the effectiveness of a high tax ceiling.

In order to put business and employment at the heart of the market economy and the full employment and social justice process, one has to have the means to set up companies and help them to prosper.

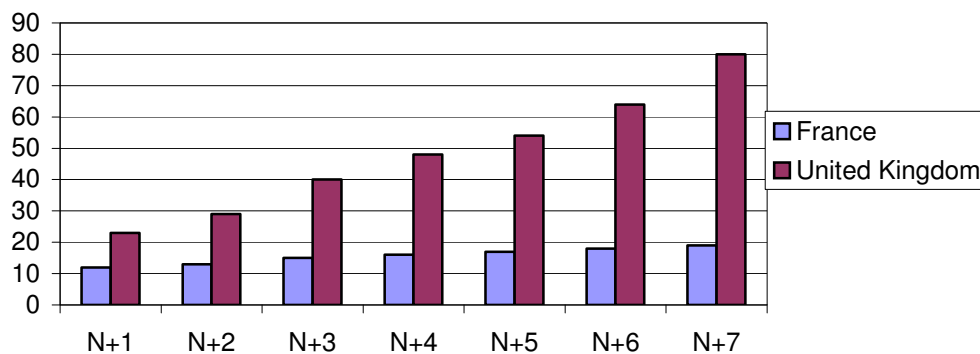
The United Kingdom created 161,400 more jobs than France did in 2005. Ten years after start-up, 2.3% of British firms have turnover in excess of €15 million, as against only 0.3% in France. Apart from favourable tax legislation and flexible employment laws, how in practical terms does the British government succeed in encouraging such vigorous wealth creation?

Job creation in France and the UK, 2004-2005

	France		United Kingdom	
	2004	2005	2004	2005
Number of jobs (millions)	24.96	25.07	28.47	28.74
Growth in the number of jobs	+112,300		+273,700	
Job creation differential France/UK	+161,400 for the UK			

Source: Eurostat

Trend for average employment per company
(Jobs with companies created in year n, with start-up share capital of at least €100,000)



Sources: pH Group in *Société civile* n.51

Business Angels: the weak link in the French financing chain

The French are no less enterprising than the British, yet once again the difference lies in the provision of efficient tools for the creation of an environment which stimulates and builds strong companies with high development potential.

Where France falls down is on access to capital. 20% of French companies regard lack of equity capital as a major obstacle to their long-term expansion plans, compared with only 2% of companies in Britain¹¹. What are the things that block access to capital in France? Firstly, France is traditionally more rooted in an industrial than a financial process. Secondly, capital-raising activities are still too close to traditional finance and are all too often a by-product of banking.

Nevertheless, France has a number of funds to finance business development, proportionally more or less the same number as the UK. Where the lack is felt is at the level of business incubators and above all, individual investors (business angels), who are involved at the start-up phase of a business with high development potential. As an illustration, the average risk capital investment in France per company is €3 million as against only €100,000 in the case of business angels, and 95% of high-potential companies are formed with less than €1 million¹². Investors neglect start-up financing in favour of investment capital: they are willing to inject millions of euros into a business which has already shown that its product is technically viable, but not to put €100,000 to €200,000 into the launch of a product or service. There is thus an investment gap in France between 'local' financing by family and friends and formal risk capital. France does not yet have a "capital community" or professional intermediaries to help promising new companies get off the ground.

The United Kingdom, on the other hand, has an estimated network of 50,000 business angels, representing investment potential of €7 billion, whereas France has only 4,000, with potential of €280 million. For the lack of capital from private investors, France is deprived of jobs – a loss of earnings estimated at €100,000 per annum¹³!

Tax exemption as the mainspring of financing

The British government has grasped the importance of business angels and their key function in lighting the job creation touchpaper and has consequently introduced a number of tax exemption measures to encourage wealthy people to invest in business, rather than in works of art.

For example, a private British investor can qualify for 30% tax relief in respect of VCTs (Venture Capital Trusts) provided that the annual investment does not exceed £200,000 (€297,000). This policy of encouraging investment bore fruit in 2005, when £800 million were raised!

Of course, France has tax cut schemes to encourage investment. For instance, the Pons Act aims to encourage investment in the overseas departments and territories. The scheme allows anyone buying a new overseas property to qualify for a tax cut of 40%, spread over five years, of the property purchase price. If such a measure is believed to encourage investment, would it not be wise also to apply it very widely to the creation of companies which, in turn, creates employment and growth? The introduction last November of a "Business Angels" status in the form of a simplified joint-stock company is

¹¹ European Business Survey, 2004

¹² BBAA and AFIP

¹³ BBAA, France Angel, Jdnet

a first step, but the ceiling for this device is still too low at €40,000, compared with €300,000 in the United Kingdom.

Even today, the French government still refuses to make good use of wealth tax. All the same, the capital amassed by company executives or entrepreneurs who for example have sold their business could more usefully be invested in business angels than in state organisations or various other investment vehicles. Direct investment would be a means of speeding up the development of new companies selected by business angels and thus of creating wealth and jobs.

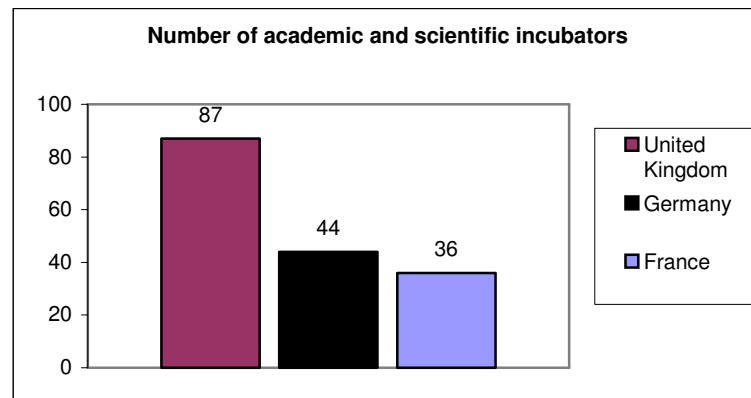
5- Develop university incubators

Measure

Set up a top-up fund to be called upon whenever a university obtains private financing

In the United Kingdom, spin-off departments and university incubators act as a driving force in new business creation based on the intellectual property developed at university research centres. In the last ten years the University of Oxford has served as the basis for the creation of more than 40 companies with a combined value today of £2 billion (€3 billion). 40% of the biotechnology companies listed on the London Stock Exchange originated in the Cambridge cluster.

The United Kingdom has nearly 90 university incubators, i.e. one academic incubator per university, whereas France has only one for every three. Moreover, French research centres like CNRS, Inserm or Inra appear to produce very few spin-offs.



Sources: Eurostat 2006

Like business angels, incubators have an important part to play in the creation and development of new businesses, by favouring spin-off. In Britain, 20% of firms subsequently receiving institutional risk capital originated in the universities, and the five most active universities (Cambridge, Imperial London, Oxford, Edinburgh and Bristol) spawned more than 150 companies between 2000 and 2006. These ventures are seen as an enrichment; teaching and research staff are encouraged to get involved in businesses while at the same time pursuing their academic career.

A permanent partnership with companies and private investors

On the other side of the Channel, private contracts account for between 30 and 40% of the resources of British public institutes, compared with only 6.7% of the resources of French public laboratories. This year the British government released €300 million for allocation to universities which secure sponsorship. This means that whenever a university finds a private sponsor, it will receive a state subsidy.

A 1986 act transferred ownership of intellectual property from the state to universities (the patents are held by the university), thus enabling them to market inventions and to

acquire interests in companies in return for licensing of the patents. Moreover, universities have been encouraged by the state to create captive funds. The biggest of these, such as Imperial College Innovation, have raised funds from private investors and managed to float on the stock exchange. Enterprises such as IP to IPO have also followed this course at the initiative of the financial sector and are able to mobilise private investors.

The British experience shows that the main thing is to succeed in creating an environment which brings together, without any barriers of status or culture, public and private sector researchers, people who set up companies, investors and executives who can become involved at the various stages of creation through to flotation. Although the United Kingdom is still far from matching the results achieved in San Francisco or Boston, the new initiatives that have stemmed from Cambridge come close and the movement has now spread throughout the regions. These centres attract not only British but also American, European and, increasingly, Asian investors.

In France, the initiatives associated with towns centred on research and advanced technology appear to be scattered and above all, they seem to lack continuity and critical size. Programmes are often put in the hands of players who set up lots of help points and develop a bureaucracy geared more to control than to innovation (poor results achieved by the French innovation agency, Anvar). A similar picture would probably have been painted in the United Kingdom a few years ago but recent progress, although not considered in the same league as results in the USA or some Scandinavian countries, shows that a sustained effort centred on the best university centres does create a virtuous circle.

6- Make a good command of English a national priority. This is a key factor for the competitiveness of management and the French economy

Measure

Make English one of the common-core subjects in primary education and encourage the recruitment of English mother tongue teachers from the European Union

France has not so far risen to the challenge of the globalisation of English. In a study published by the ETS (Educational Testing Service) in 2005, the level of English assessed in France (673 points) was found to correspond to a “basic operating level”, far behind Germany (752 points, i.e. a “higher operating level” and Portugal (718 points). The French are not yet up to standard. Nevertheless, English has become an essential means of communication in business.

Not accepting English as the common denominator of trade impairs France’s attractiveness and inevitably hampers inward investment, thus creating a deficit of several thousand jobs.

English is a working tool. French is a means of exerting cultural influence

Defending the French-speaking world and learning English are not contradictory. The French-speaking world is the result of the cultural influence exerted by France and the French language abroad, whereas English is the language of business. The defence of one is political, the use of the other is economic. Promoting French comes second to using English, once the business game has been won. Just as one cannot convert without understanding the neophyte, one cannot exert influence in a little-known area.

“Globish”, a language anyone can learn

The English needed in today’s business world is a pared-down version of the language, known as “Globish” or Global English. This by-product of the English language is very different from literary English and is within reach of everyone: it is limited to about 1,500 words, a few technical terms and some basic grammar.

To attain the ambitious but achievable objective of having 80% of the active population speaking English in ten years’ time and able to compete immediately on the international labour market, several practical solutions can be considered.

- Secondary education: spoken language from a very early age
 - Have pupils specialise in English very early, before any other language, and make English Foreign Language No. 1.
 - Develop the British international courses.
 - Emphasize the importance of the spoken language, which should be systematically assessed as part of the baccalauréat and taught by a mother tongue English speaker.

- Higher education: immersion for all students
 - The efforts made to learn English at universities and higher education institutes are necessary but insufficient: experience of living in another country is the only true way to master a language and culture.
 - Cultural immersion for all: develop and simplify the Erasmus programme by encouraging international cooperation between universities. Student exchanges are in fact the only way of avoiding having to pay tuition fees which are often quite a lot higher abroad than in France.
 - Adopt recognised international standards (e.g. TOEFL) and generalise student level assessment

- At work: in-house training
 - Learning English at school and university does not rule out the need for on-going training for business executives
 - Form multicultural human resources teams to make recruitment more flexible by reducing the significance of university education compared with experience.
 - Be willing to hire employees of different nationalities.
 - Make English a subject of group communication strategy, not a secondary option within the training policy
 - Compile an educational bilingual glossary for the particular sector of activity and train employees in using it.

80% of new entrants on to the labour market should be speaking English in 10 years' time. Secondary education can enable anyone to speak "Globish", with university education and in-job training leading to fluency in English. The measures are simple and the result would be achieved.