

FRANCE

Priorities supported by indicators

Reduce the minimum cost of labour (2005, 2007, 2009)

Recommendations: Limit future increases in the minimum wage so as to allow the minimum cost of labour to fall in relative terms. In parallel, increase work incentives facing low-wage earners.

Actions taken: Increases in the minimum wage have been limited to the statutory adjustment since 2007, and the government has recently created an independent commission to make recommendations on minimum wage changes. The implementation of the new general scheme for social benefits (*Revenu de solidarité active*) may improve work incentives, but the coverage of the earned-income tax credit remains too broad.

► **Reform employment protection legislation (2005, 2007, 2009)**

Recommendations: Relax the rules applying to fixed-term and, especially, permanent contracts. Increase the predictability of dismissal costs.

Actions taken: Firing laws have been simplified somewhat in 2008 through the possibility of mutually agreed termination of permanent contracts. More flexible contracts for small firms (*Contrats nouvelles embauches*) were abrogated in June 2008, after having been ruled as inconsistent with legal commitments at ILO. Plans to create a similar contract for young workers and (more recently) a single employment contract have been abandoned.

► **Reduce regulatory barriers to competition (2007, 2009)**

Recommendations: Remove regulatory entry barriers in potentially competitive sectors. Ease restrictions to price competition in the retail sector, to setting-up new stores and to Sunday shop opening.

Actions taken: A new competition authority was created in 2009. In retail distribution, distributors have been granted more flexibility to negotiate prices with suppliers, and zoning restrictions have been eased somewhat. EU directives for network industries continue to be gradually implemented, reducing entry and access barriers.

► **Reduce the implicit taxes on continued work at older ages (2005, 2007, 2009)**

Recommendations: Phase out the Delalande contribution which imposes an additional penalty for firms dismissing workers over 50 years. Remove the job-search exemption when receiving unemployment benefits at older ages and improve incentives to pursue activity.

Actions taken: The Delalande contribution is being phased out, and the job-search exemption progressively removed. The number of contribution years required for a full pension has been increased and financial incentives to work beyond have been raised; however, the implicit taxes on continued work remain high.

Other key priorities

Improve the quality and efficiency of the tertiary education system (2007, 2009)

Recommendations: Boost private funding for tertiary education and extend the autonomy of universities.

Actions taken: Public funding has been raised significantly, and universities have been given more autonomy in managing budgets and staff recruitment, but they still have limited leeway on remuneration. No action has been taken on student selection and tuition fees.

Improve the regulatory environment (2005)

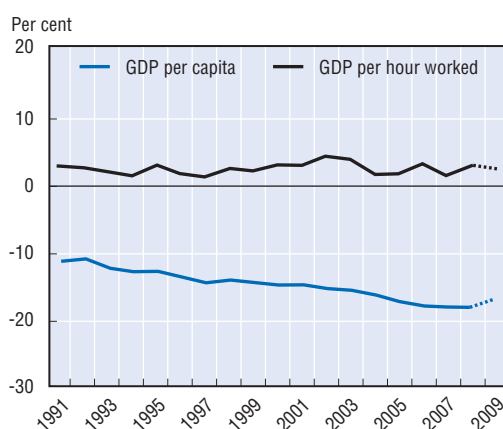
Recommendations: Simplify the regulatory structure in areas such as the administration of social welfare.

Actions taken: *Pôle-emploi*, the newly created one-stop shop for the implementation of labour-market policy, has been operational since 2009.

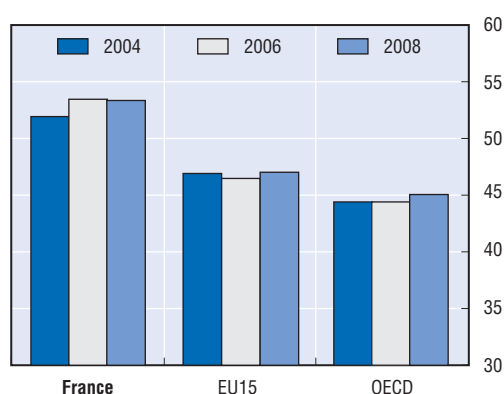
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- The income gap relative to the upper half of OECD countries has widened since the early nineties because of weak labour utilisation outcomes, especially for youths and older workers, as well as relatively short annual hours worked. The slightly positive productivity gap has been stable over the past two decades.
- In key priority areas, the rise in the (relative) minimum labour cost has been stopped, disincentives to continue working at older ages have been reduced and employment protection legislation has been eased at the margin, but labour-market dualism remains deeply ingrained. Some regulatory barriers to competition have been removed, especially in retail distribution, and universities have been given more autonomy. Overall, reforms have been broad in scope but their depth has been limited.
- Some reforms in other areas have taken place recently in local business taxation, health care, barriers to individual entrepreneurship and pre-school education.

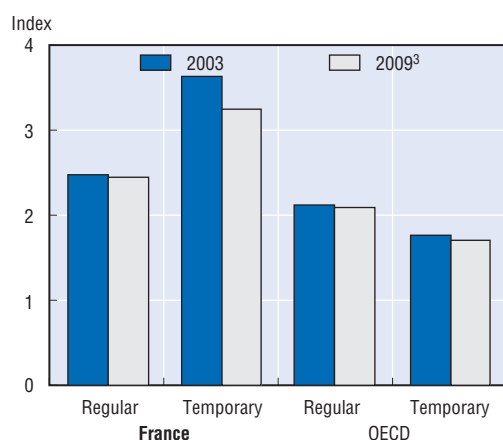
A. The gap in GDP per capita has widened
Gap to the upper half of OECD countries¹



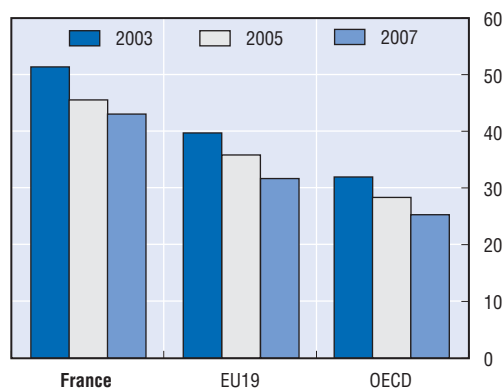
B. The minimum cost of labour is one of the highest in the OECD
Percentage of labour cost of median worker



C. Employment protection legislation has been slightly reduced²



D. Implicit taxes on continued work are still higher than in most other OECD countries⁴
Percentage of average worker earnings



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gaps for 2009 are OECD estimates, based on the OECD Economic Outlook, No. 86.

2. Index scale of 0-6 from least to most restrictive.

3. 2008 for OECD.

4. Implicit tax on continued work in early retirement route, average for 55 and 60-year-old workers.

Source: Chart A: OECD, National Accounts and Economic Outlook 86 Databases; Chart B: OECD, Taxing Wages and Minimum Earnings Databases; Chart C: OECD, Employment Outlook Database; Chart D: Duval, R. (2003), "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries", OECD Economics Department Working Papers, No. 370 and OECD calculations.

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