

FRANCE

The income gap relative to the upper half of OECD countries has widened since the early nineties due to weak employment outcomes, especially for youth and older workers, as well as relatively short annual hours worked. The government has enacted reforms in recent years to strengthen innovation and reduce tax disincentives to investment, but additional measures are still needed, especially in the areas below.

Priorities supported by indicators

Reduce labour market dualism

The deeply engrained segmentation reduces the ability of firms to adjust to shocks and puts pressure on outsiders to fulfil the adjustment needs of the economy, hindering productivity.

Actions taken: Apart from the development of combined work-study schemes through tax incentives and subsidies, no action taken since 2009. Mutually agreed separation has been possible since 2008.

Recommendations: Given the difficulty to promote a single, more flexible labour contract, address labour market dualism by broadening the definition of economic redundancy, simplifying layoff procedures and reducing firms' redeployment obligations. Moreover, target the work-study schemes more on the less skilled, and evaluate their efficiency regularly.

Reduce the labour tax wedge and the minimum cost of labour

High labour taxes undermine employment and the high relative minimum wage reduces job opportunities for certain labour market groups, especially young people and low-skilled workers.

Actions taken: A commission of experts was created in 2009 to provide annual advice on minimum wage increases to both social partners and the government. Consistent with its recommendations, the rise in the minimum wage has been limited to the minimum legal requirement.

Recommendations: Continue to allow the minimum cost of labour to fall relative to the average. Make the tax structure more favourable to growth by reducing direct labour taxes while cutting public spending and the least cost-effective tax expenditures, and increasing consumption, real property and inheritance taxes. Encourage social partners to put the question of age-related pay increases at the centre of wage negotiations.

Continue to reduce disincentives to work at older ages

Significant progress has been made recently, but additional actions are needed to promote seniors' employment.

Actions taken: The 2010 reform of the pension system includes an increase of 2 years in the legal retirement age and will increase participation. Companies have been induced to conclude agreements to promote seniors' employment, which might change both employers' and workers' attitudes towards working and training at older ages.

Recommendations: Work disincentives at older ages should be further reduced by: i) a continued phasing-out of all forms of early retirement, including through the unemployment benefit scheme; ii) a further increase, and an automatic link to life-expectancy gains of the contribution period; and iii) strengthening the return-to-work strategy by reinforcing the link between benefits, job search and participation in active measures relying on efficient employment services.

Other key priorities

Improve the quality and efficiency of the tertiary education system

The tertiary education system is segmented with universities contributing to high student drop-out rates and lacking funding although their new autonomy provides more opportunities to seek new sources of finance.

Actions taken: Public investment projects to create regional universities as "centres of excellence" have been approved.

Recommendations: Rebalance public resources between universities and *grandes écoles* and allow universities to select students. Raise tuition fees while developing income-contingent student loans, adjusting means-tested grants as necessary to ensure equitable access. Incorporate information on labour market prospects into career guidance and expand vocational education to address skill mismatches.

Reduce regulatory barriers to competition

Competition is restricted by the regulatory framework, hindering productivity and employment.

Actions taken: A fourth mobile telecommunications operator license was granted in late 2009, and contractual restrictions for mobile virtual network operators (MVNOs) were eased.

Recommendations: Remove regulatory entry barriers in potentially competitive segments of network industries. Further ease restrictions in the retail sector, especially to setting up new stores.

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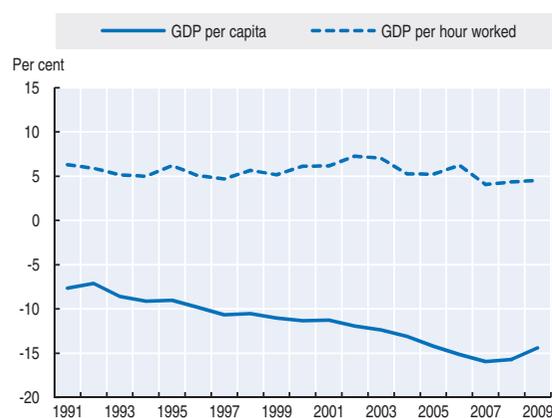
Structural indicators

Average annual trend growth rates, per cent

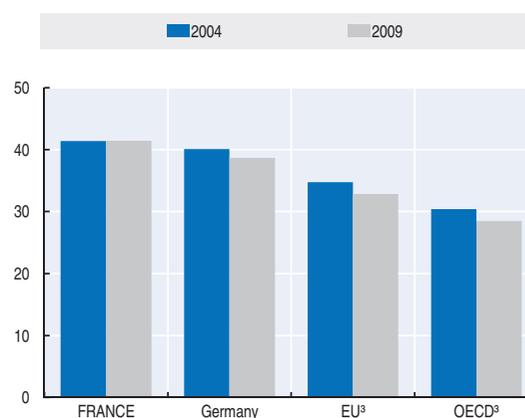
	1999-2009	1999-2004	2004-09
GDP per capita	1.2	1.6	0.9
Labour utilisation	-0.2	-0.3	-0.1
of which: Employment rate	0.2	0.3	0.0
Average hours	-0.4	-0.6	-0.2
Labour productivity	1.5	1.9	1.1
of which: Capital intensity	0.8	1.0	0.7
Multifactor productivity	0.6	1.0	0.3

Source: Estimates based on OECD (2010), OECD Economic Outlook No. 88: Statistics and Projections Database.

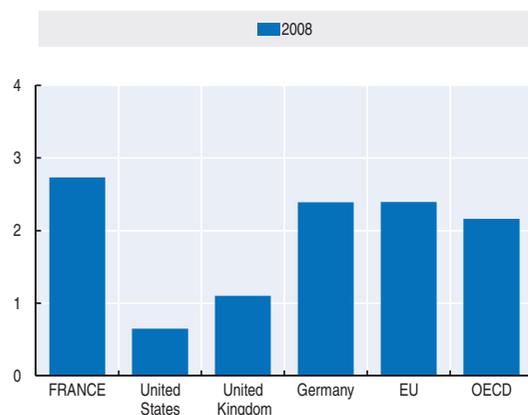
A. The gap in GDP per capita widened until the recession
Gap to the upper half of OECD countries¹



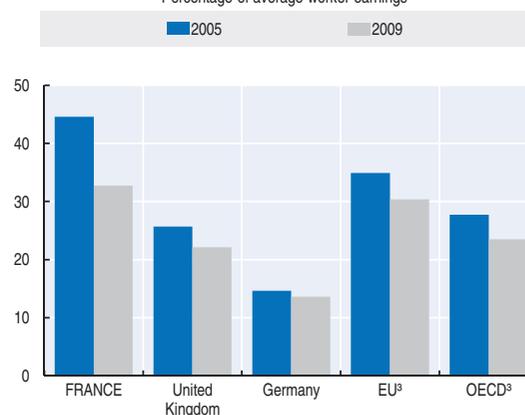
B. The average tax wedge on labour income is high
Percentage of total labour compensation²



C. Overall employment protection legislation is strict⁴
Index scale of 0-6 from least to most restrictive



D. Despite some progress implicit taxes on continued work remain above the OECD average⁵
Percentage of average worker earnings



1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. At 100% of the average worker earnings, couple with two children. Average of three situations regarding the wage of the second earner.
3. Average of European countries in the OECD. EU and OECD averages exclude Chile, Estonia, Israel and Slovenia.
4. Overall EPL is computed as a weighted sum of sub-indicators for regular contracts, temporary contracts and collective dismissals. Year 2009 for France.
5. Implicit tax on continued work in early retirement route, for 55 and 60-year-olds. Year 2010 for France.

Source: Chart A: OECD, National Accounts and OECD Economic Outlook No. 88 Databases; Chart B: OECD, Taxing Wages Database; Chart C: OECD, Employment 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.

StatLink  <http://dx.doi.org/10.1787/888932373837>