FRANCE

Relatively weak growth in labour utilisation and productivity has resulted in a further widening of the GDP-per capita gap vis-à-vis *the best performing countries. The gap reflects low labour utilisation.*

Priorities supported by indicators

Reduce minimum cost of labour

Compared with other OECD countries, the minimum cost of labour is high relative to the median, lowering demand for labour, especially for young and low-skilled workers.

Actions taken: No reductions in social security contributions have taken place since those associated with the implementation of the 35-hours legislation. However, in late 2006, the government proposed further reductions for 2007.

Recommendations: Limit future increases in the minimum wage so as to allow the minimum cost of labour to fall in relative terms. If possible, given budgetary constraints, proceed with the proposed cuts in social security contributions or with increases in the earned-income tax credits to improve net income for low-wage workers.

Reform employment protection legislation

Procedures for dismissals of permanent workers are complex, especially in comparison to those of temporary workers, and the required legal justifications are strict, making outcomes difficult to predict. Also, obligations for firms to help redundant workers to find a job are burdensome. All this discourages hiring of workers on permanent contracts, with particularly detrimental effects on the jobs prospects of specific groups, such as youth, creating a segmented labour market that may erode efficiency in the long run.

Actions taken: The government introduced special contracts (the "*Contrats Nouvelles Embauches*") for firms with up to 20 employees that give them wide flexibility to terminate the contract during the first two years, although severance payments in this period are quite high.

Recommendations: Continue efforts to ease EPL and move towards a simplification of the legislation and an increase in the predictability of dismissal costs. Promote the creation of a single contract where the degree of protection increases with length of service.

Reduce regulatory barriers to competition

In a number of sectors, mainly retail distribution and some network industries, competition is restricted by the regulatory framework, thereby reducing productivity growth and also hindering the development of employment.

Actions taken: Retail price regulation has been modified to alter the definition of illegally selling below cost, so as to lower prices to consumers, although the new definition is more complex. Action in the electricity sector has been limited to the implementation of EU directives.

Recommendations: Promote consumer welfare as the principal objective of competition policy and regulatory reform, and do not allow special-interest groups to define the goals. Abolish restrictions on selling below cost, which impede price competition in the retail sector, as existing rules on abuse of dominance should be sufficient. Remove regulatory entry barriers to potentially competitive sectors and enforce non-discriminatory access in the non-competitive components of network industries.

Other key priorities

- Reduce the implicit tax on continued work at older ages. Implement plans to suppress the *Delalande* contribution, which imposes an additional penalty for firms dismissing workers over 50 years, and to improve incentives to continue working at older ages. Remove the job-search exemption for older workers receiving unemployment benefits.
- Raise funding for tertiary education by allowing public higher-education institutions to charge cost-related fees (not necessarily full-cost recovery) for all students; while expanding the provision of means-tested grants to maintain accessibility. A student loan scheme should also be introduced, but with income-contingent repayments.

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