

## FRANCE

Despite improved employment rates, unemployment remains high. GDP per capita has not grown strongly enough to narrow the income gap vis-à-vis the United States.

### Priorities supported by indicators

#### **Reduce implicit tax on continued work at older ages**

A low official retirement age, high implicit tax rates on working longer, state-funded early-retirement and extended unemployment-insurance (UI) programmes contribute to very low employment rates of older workers.

**Actions taken:** Retirement ages are being raised in line with life expectancy. Private-sector rules have been changed to increase the net income of those working beyond the official retirement age. Early-retirement programmes have been scaled back. Using the UI system as a form of early-retirement has been made more difficult.

**Recommendations:** Phase out special early-retirement schemes. Further tighten access to extended unemployment benefits. Increase the pension increments for longer contribution periods to actuarially fair levels.

#### **Ease employment protection legislation**

Rules governing large-scale layoffs, high statutory severance payments, restrictions on the use of fixed-term contracts and limitations on working time raise both labour and layoff costs, thereby reducing hiring.

**Actions taken:** The temporary suspension of legislation significantly tightening employment protection was extended for a further year.

**Recommendations:** Rules designed to restrict the use of fixed-term contracts should be relaxed and regulations concerning “social plans” (mass layoffs) amended. Limit the role of the judiciary system to intractable cases.

#### **Reduce minimum cost of labour**

Compared with other OECD countries, the minimum labour cost is high relative to the average cost, lowering demand for labour, especially for certain groups such as young and low-skilled workers.

**Actions taken:** Large cuts in social contributions for low-paid workers during recent years succeeded in markedly reducing the relative minimum labour cost, but this trend has slowed as the minimum wage increased (and is set to increase in 2005) with the harmonisation of the various legal minima that were generated by the legislation on the 35 hours week.

**Recommendations:** Limit future increases in the minimum wage so as to allow the relative minimum labour cost to decline further. Expand on-the-job training opportunities at less than the minimum wage.

### Other key priorities

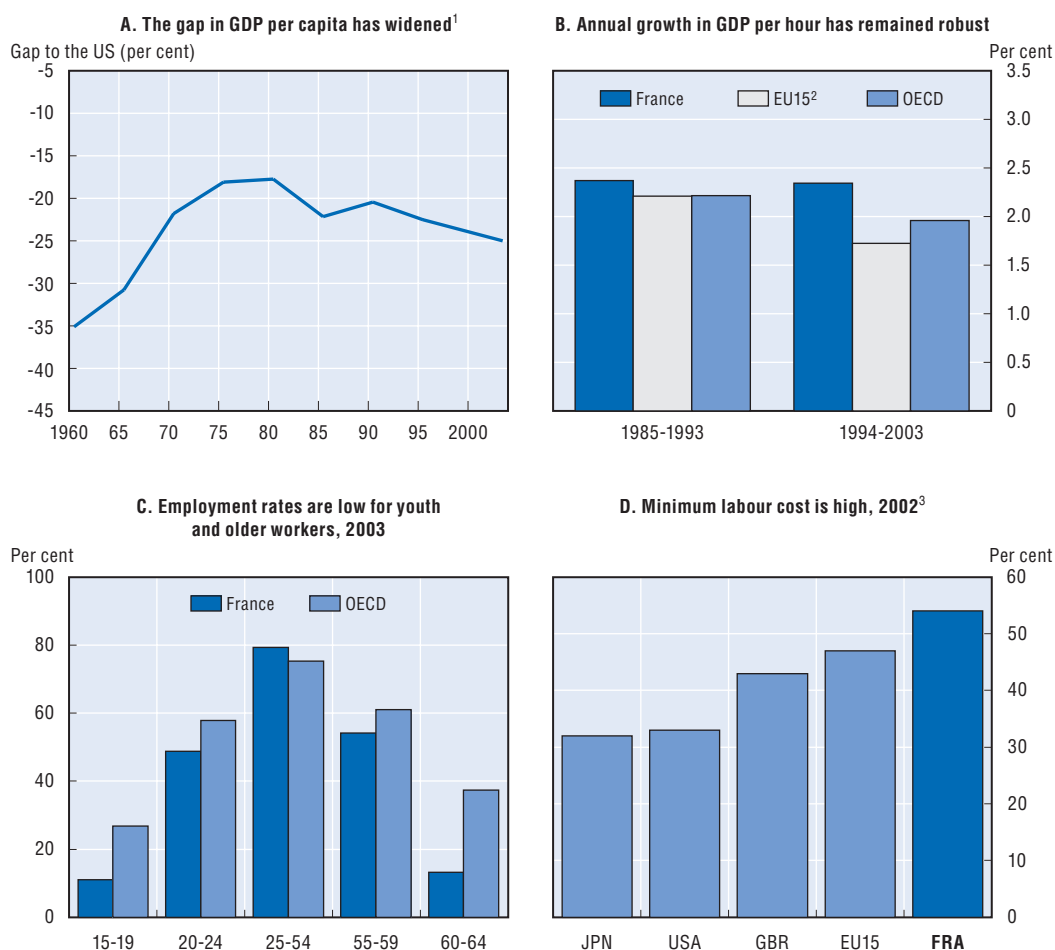
- Reduce barriers to entry in network industries that contribute to higher prices and limit choice. Introduce competition in rail transport and secure non-discriminatory third-party access in telecommunications and air transport.
- Ease the regulatory environment by simplifying the compulsory social security system, replacing the administrative approval of retail outlet locations with zoning requirements and scaling back pricing rules in place between producers and retailers.

## FRANCE

## Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	1.4	1.4	1.9	1.6
Trend employment rate	60.5	60.7	63.0	63.5
Trend participation rate	66.7	67.8	69.4	69.8
Structural unemployment rate (NAIRU)	9.3	10.4	9.2	9.1

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

3. Minimum labour cost as a percentage of labour cost of average worker.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Labour Force Statistics, 2004; Chart D: OECD Employment Outlook, 2004 and OECD Taxing Wages, 2004.