

FRANCE

Despite increased employment rates, unemployment remains high. GDP per capita has not grown strongly enough to narrow the income gap with the best performing OECD countries.

Policy priorities

Reduce implicit tax on continued work at older ages

Challenge and recommendations: To increase participation among older workers, it was recommended that early retirement schemes be phased out, that access to extended unemployment benefits be tightened, and that the return to longer periods of pension contributions be increased to actuarially fair levels.

Actions taken: Since the 2003 pension reform, no further important steps have been taken on pension entitlements. In January 2006, measures to increase the incentives to work at ages over 57 were announced.

Ease employment protection legislation

Challenge and recommendations: To increase employers' willingness to hire new workers, it was recommended that regulatory costs be reduced, in particular those associated with dismissals and with the use of fixed-term contracts, and that restrictions on working time be eased.

Actions taken: Restrictions on working time have been substantially reduced, the main remaining element being the legal requirement for an overtime premium after 35 hours per week. In 2005, a special permanent contract was introduced for new recruits to enterprises with less than 20 employees. The new contract extends to two years the trial period during which the new recruit can be laid-off under less strict conditions. In January 2006, a similar contract for people aged under 26 in companies with over 20 employees was announced.

Reduce minimum cost of labour

Challenge and recommendations: Total labour costs at the minimum wage (SMIC), measured relative to average labour costs, are high in France, reducing demand for young and low-skilled workers in particular. To improve employment prospects for such groups, it was recommended that the SMIC be allowed to fall relative to the average wage and that on-the-job training programmes, where the trainee could be paid less than the SMIC, be expanded.

Actions taken: The government has announced that it plans to pressure reductions in employers' social contributions on low-wage employment and to improve incentives for the unemployed to take low-paid jobs. This follows an increase in the SMIC in mid-2005 relative to the average wage, as planned.

Increase competition in network industries

Challenge and recommendations: In order to improve consumer choices, lower prices and increase efficiency, it was recommended that barriers to entry be reduced, and that regulators ensure non-discriminatory access to network infrastructure, such as in telecommunication and air transport. Regulators may need more power and/or independence.

Actions taken: No recent action.

Improve the regulatory environment

Challenge and recommendations: To reduce transactions costs and to increase competition, it was recommended that the regulatory structure be simplified in areas such as the administration of social welfare and local zoning policy for retailing, and that detailed rules regulating pricing between producers and retailers be abolished.

Actions taken: Plans for progressive introduction of "one-stop shops" for implementation of labour market policy have been announced. Retail pricing regulation is to be modified to allow retailers more room to set low prices.