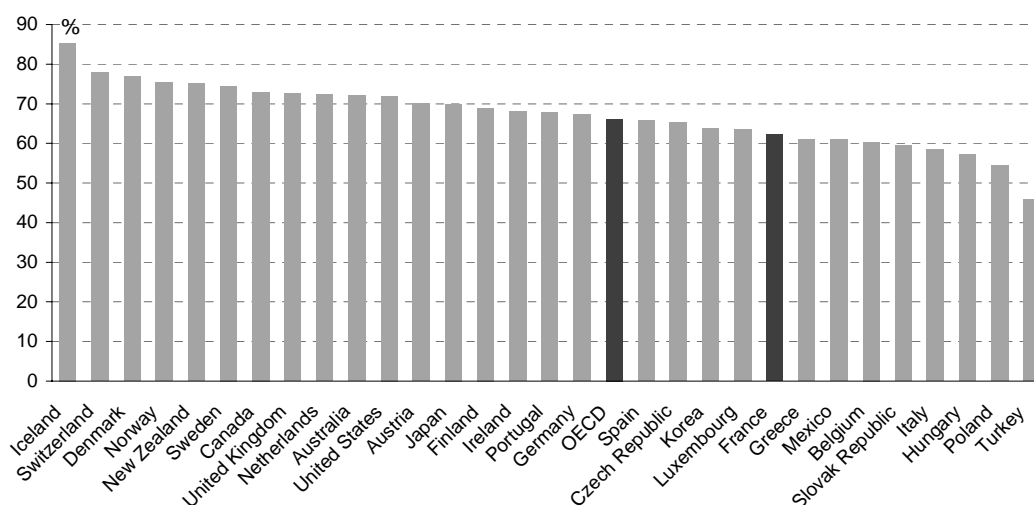


Employment Outlook 2007 – How does **FRANCE** compare?

French labour market performance has improved somewhat but the gap vis-à-vis best-performing countries remains significant. The unemployment rate has fallen since the late-1990s. Still, only 62% of people of working age have a job, compared with over 70% in the best-performing OECD countries like Australia, Denmark, the Netherlands, Sweden, the United States and the United Kingdom (see Figure 1). At 24%, the unemployment rate among youth aged 15 to 24 years is almost twice the OECD average. And only 40% of people aged 55 to 64 are working, compared with 53% on average in the OECD area.

Figure 1. **Proportion of people of working age who are employed, 2006**

Employment as a percent of population aged 15-64



Source: OECD Employment Outlook 2007, www.oecd.org/els/employmentoutlook/2007.

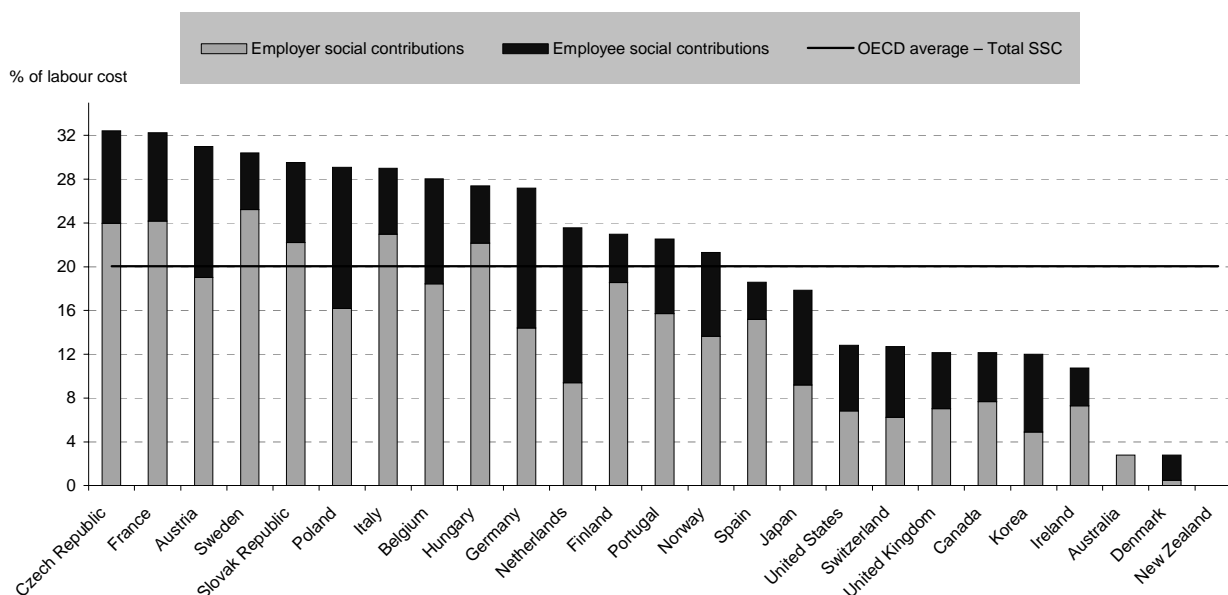
Reaping the full benefits from globalisation requires well-designed domestic policies. Trade deepening and offshoring is not necessarily associated with net job losses, but with greater job reallocation, the report says. Recent experience shows that good domestic policies can assure that workers receive their fair share of the gains from globalisation.

- First, product market regulations and job protection should support mobility, so as to enhance job creation in activities where France has a comparative advantage. Workers should benefit from adequate income guarantees in case of job loss, but should not be trapped in jobs which have no future. This calls for a new way of designing employment protection, to balance flexibility and security while minimising the negative side-effects of growing duality in the labour market. Recent OECD research highlights several interesting country innovations to resolve this dilemma.
- Second, providing effective re-employment support to jobseekers is key. This would be facilitated if France unified its public employment service with its unemployment benefit agency and offered incentives to reward good employment outcomes.

The financing of social protection relies excessively on labour taxes. At 29% of GDP in 2003, public social expenditure was 9 percentage points above the OECD average. About 60% of public social expenditure is financed through social security contributions, a very high figure by OECD standards. Reducing social security contributions, *which are almost exclusively levied on wages*, and increasing the role of other government revenues as a source of funding social expenditure would be helpful, according to the OECD *Employment Outlook*:

- First, social contributions act as a tax on labour. The report estimates that social contributions represent almost one third of total labour costs, practically the highest share in OECD (Figure 2). And high labour taxes tend to depress employment, the report says.
- Second, if nothing is done, social contributions may rise further in coming years. Indeed, population ageing puts upward pressure on public social expenditure (on pensions but also on health expenditures). This would put upward pressure on social contribution rates. Other sources of revenues must be found.
- Third, broadening the tax base for financing social protection makes good sense for social expenditures with a strong *collective* dimension, such as health. Greater reliance on general taxation like income taxes, the Contribution Sociale Généralisée (CSG) or VAT would better distribute the financing burden between workers, firms and other groups.
- Fourth, as regards employment, which of the three options (income taxes, CSG or VAT) is the best alternative to social contributions depends on a range of complex factors, and notably the wage response. Compared with other options, VAT may provide some competitive advantage to domestic goods vis-à-vis imports, at least in the short term. But this also depends on the effects of higher VAT on inflation and wages. In any case, when assessing possible policy changes, the distributive consequences of each of the three options need to be taken into account as well, with income taxes being most progressive, than CSG and, especially, VAT.

Figure 2. **Social security contributions, 2003**



SSC: Social security contributions.

Source: OECD Employment Outlook 2007, www.oecd.org/els/employmentoutlook/2007.

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