

OECD Social, Employment and Migration Working Papers
No. 227

Assessing recent reforms and policy directions in France: Implementing the OECD Jobs Strategy

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https://dx.doi.org/10.1787/657a0b54-en

OECD

Organisation for Economic Co-operation and Development

DELSA/ELSA/WD/SEM(2019)6

For Official Use **English - Or. English**

9 May 2019

DIRECTORATE FOR EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS
EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS COMMITTEE

Assessing recent reforms and policy directions in France

Implementing the OECD Jobs Strategy

OECD Social, Employment and Migration Working Paper No. 227

JEL codes: J3, J41, J51.

Keywords: OECD Jobs Strategy, France, taxes and benefits, employment protection legislation, collective bargaining

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JT03447209

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Acknowledgements

The authors are grateful to the French Ministries of Labour and of Economy and Finance for financial support. The authors would like to thank Marion Bachelet, Andrea Bassanini, Pierre Beynet, Sandrine Cazes, Andrea Garnero, Alexandre Georgieff, Dirk Neumann, Daniele Pacifico, and Chloé Touzet for their valuable contributions, comments and suggestions; Agnès Puymoyen for statistical support, and Natalie Corry for editing. The authors are particularly grateful to Marion Bachelet for her assistance with the tax-benefit simulations and Alexandre Georgieff for conducting the preliminary update of the OECD Employment Protection Legislation index. The authors are solely responsible for any remaining errors. The views in this paper are those of the authors and cannot be attributed to the OECD or its member countries.

This paper documents the analytical work that was carried in the context of a thematic chapter on the labour market in the 2019 Economic Survey for France. The chapter and this paper are part of a wider effort of the OECD to assist countries with the implementation of the new OECD Jobs Strategy published in 2018. For more information on the implementation of the OECD Jobs Strategy please visit: http://www.oecd.org/employment/jobs-strategy.

Abstract

The OECD actively supports countries with the implementation of the OECD Jobs Strategy through the preparation of labour market chapters in the OECD Economic Surveys. This paper provides an overview of the analytical work carried out in the context of the 2019 Economic Survey for France. The paper consists of a preliminary assessment of the French labour market reforms since 2017 related to the tax and benefit system, employment protection, and collective bargaining. These reforms are broadly in line with the recommendations of the OECD Jobs Strategy. They are likely to contribute to enhanced employment and living standards of low-skilled workers and reduce labour market duality. However, a close monitoring will be necessary to assess whether their implementation has the desired effects and additional measures are needed.

Résumé

L'OCDE aide activement les pays à mettre en œuvre la Stratégie de l'OCDE pour l'emploi en préparant des chapitres sur le marché du travail dans les Études économiques de l'OCDE. Ce document fournit une vue d'ensemble des travaux analytiques menés dans le cadre de l'Étude économique de 2019 pour la France. Le document consiste en une évaluation préliminaire des réformes du marché du travail français depuis 2017 en ce qui concerne le système de l'imposition et des prestations liés au travail, la protection de l'emploi et la négociation collective. Les réformes vont dans le sens des recommandations de la Stratégie de l'OCDE pour l'emploi. Elles sont susceptibles de contribuer à l'amélioration de l'emploi et du niveau de vie des travailleurs peu qualifiés et à réduire la dualité du marché du travail. Cependant, un suivi attentif sera nécessaire pour déterminer si leur mise en œuvre atteint les effets souhaités et si des réformes supplémentaires sont nécessaires.

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Introduction

1. Despite improving labour market performance in recent years, the French labour market continues to face a number of important challenges. First, employment rates remain relatively low, in particular among disadvantaged groups such as low-skilled youth, migrants and older workers. This reflects a combination of weak job creation as high labour costs relative to productivity weigh on competitiveness, a mismatch between the skills of workers and the skills required by employers and limited work incentives. A second challenge is the quality of the jobs that are created and the rise in labour market duality. An increasing share of the workforce is employed on very short contracts, with limited prospects of obtaining stable work in the near future. The French government has implemented a number of labour market reforms to address these challenges.

2. This paper provides a preliminary assessment of the labour market reforms that were recently introduced since 2017 in France, with a specific focus on tax and benefit measures to reduce labour costs and promote work incentives, employment protection reforms to lower labour market duality, and collective bargaining reforms to reinvigorate social dialogue.[1] It pays particular attention to how the reforms affect policy settings in France relative to other OECD member states. The assessment in this paper should be considered preliminary, given that the reforms have only recently been introduced and, in some cases, are still in the process of being implemented.

3. This paper is part of a wider effort by the OECD to assist countries with the implementation of the new OECD Jobs Strategy (OECD, 2018[1]). The OECD Jobs Strategy provides a coherent framework and detailed set of policy recommendations to help countries achieve good economic and labour market performance in a changing world of work. By doing so, the OECD Jobs Strategy goes beyond job quantity and considers job quality and inclusiveness as central policy priorities, while emphasising the importance of resilience and adaptability. To support France with the implementation of the OECD Jobs Strategy, the OECD has conducted a comprehensive review of its labour market in the 2019 Economic Survey (OECD, 2019[2]). This paper provides an overview of the analytical work on the French labour market reforms that was carried out in the context of the Economic Survey.

4. The remainder of this paper is structured as follows. Section 1 sets the scene by sketching the main labour market challenges in France. Section 2 provides a preliminary assessment of the extent to which the recent social security and in-work benefit reforms promote work incentives and job creation using the OECD Tax-Benefit model. Section 3 examines the recent employment protection reforms by providing a preliminary update of the OECD Employment Protection Legislation index and describes possible implications of the reforms for labour market duality. Section 4 discusses key reforms and recent developments with respect to collective bargaining and social dialogue. Section 5 concludes.

[1] For information on other important labour market reforms not considered in this paper, notably those related to adult training, apprenticeship and unemployment insurance, see OECD (2019[2]).

1. Main labour market challenges in France

The labour market reforms sought to address France's main labour market challenges: i) promoting employment; ii) stimulating competitiveness; and iii) tackling labour market duality.

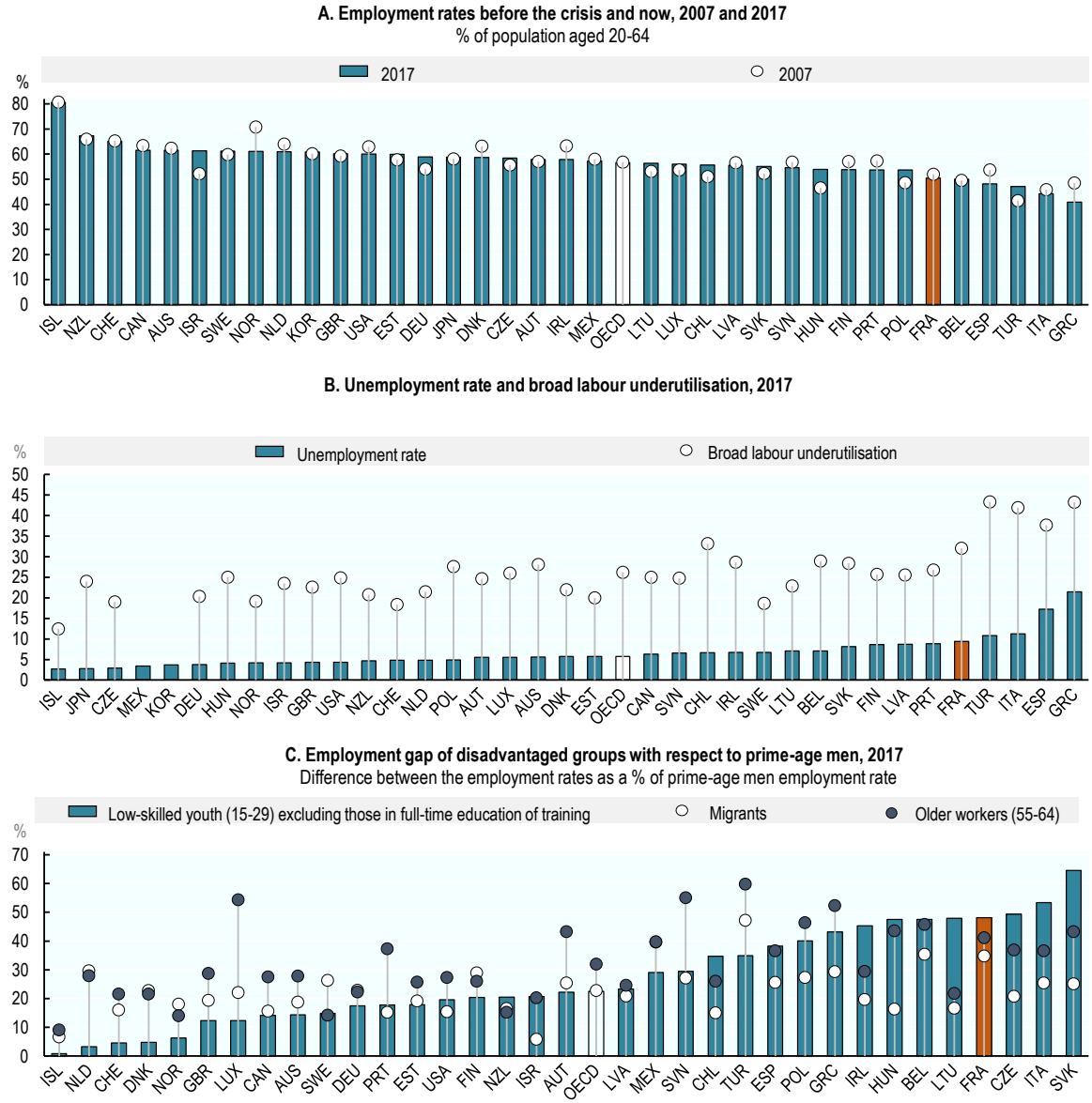
1.1. Employment is low, particularly for low-skilled youth, migrants and older workers

5. Despite favourable employment developments in recent years, low employment remains an important issue. The share of the working-age population (20-64) in employment is below the OECD average, and is only now almost back to its level at the onset of the global financial crisis (Figure 1.1, Panel A). Low employment reflects a combination of persistently high unemployment rates (9%), with over 40% of unemployed persons being out of work for one year or more, and weak labour force participation. Moreover, involuntary part-time work remains elevated, with 8% of employees indicating they would like to work more hours, which corresponds to twice the rate for the OECD average. As a result, broad labour underutilisation, defined as the sum of inactivity, unemployment and involuntary part-time, is very high (Panel B).

6. Weak employment performance not only limits individual well-being and economic progress, but also undermines labour market inclusiveness. In France, employment rates tend to be particularly low among disadvantaged groups, such as low-skilled youth, migrants and older workers (Panel C). The employment gap of low-skilled youth, migrants and older workers relative to prime-age males amounts to 48%, 35% and 41% respectively compared with 23%, 22% and 32% for the OECD average. In the absence of taxes and transfers, the weak integration of these groups in the labour market would result in above-average levels of income poverty and inequality. To keep income inequality limited, France relies on strong redistributive policies. Cash transfers and income taxes reduce income inequality by about a third in France, compared with a quarter for the OECD on average (Causa and Hermansen, 2017[3]).

7. To improve labour market performance, the OECD Jobs Strategy advocates a comprehensive approach that focuses on enhancing the employability of workers, strengthening the incentives of workers to participate actively in the labour market, and promoting the number of available job opportunities. This is particularly important for job seekers from disadvantaged backgrounds who often face multiple barriers to employment at the same time.

Figure 1.1. Employment is low particularly among low-skilled youth and migrants



Note. Panel B: Broad labour underutilisation: % of inactive, unemployed or involuntary part-timers (15-64) in population, excl. youth (15-29) in education and not in employment. Data refer to 2014 for Japan and 2015 for Chile. Panel C: Migrants refer to foreign-born population. Data refer to 2015 for Chile.
Source: OECD (2019), "Labour: Labour market statistics", Main Economic Indicators (database), https://doi.org/10.1787/data-00046-en; OECD Employment Database, www.oecd.org/employment/database; OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, https://doi.org/10.1787/9789264308817-en.

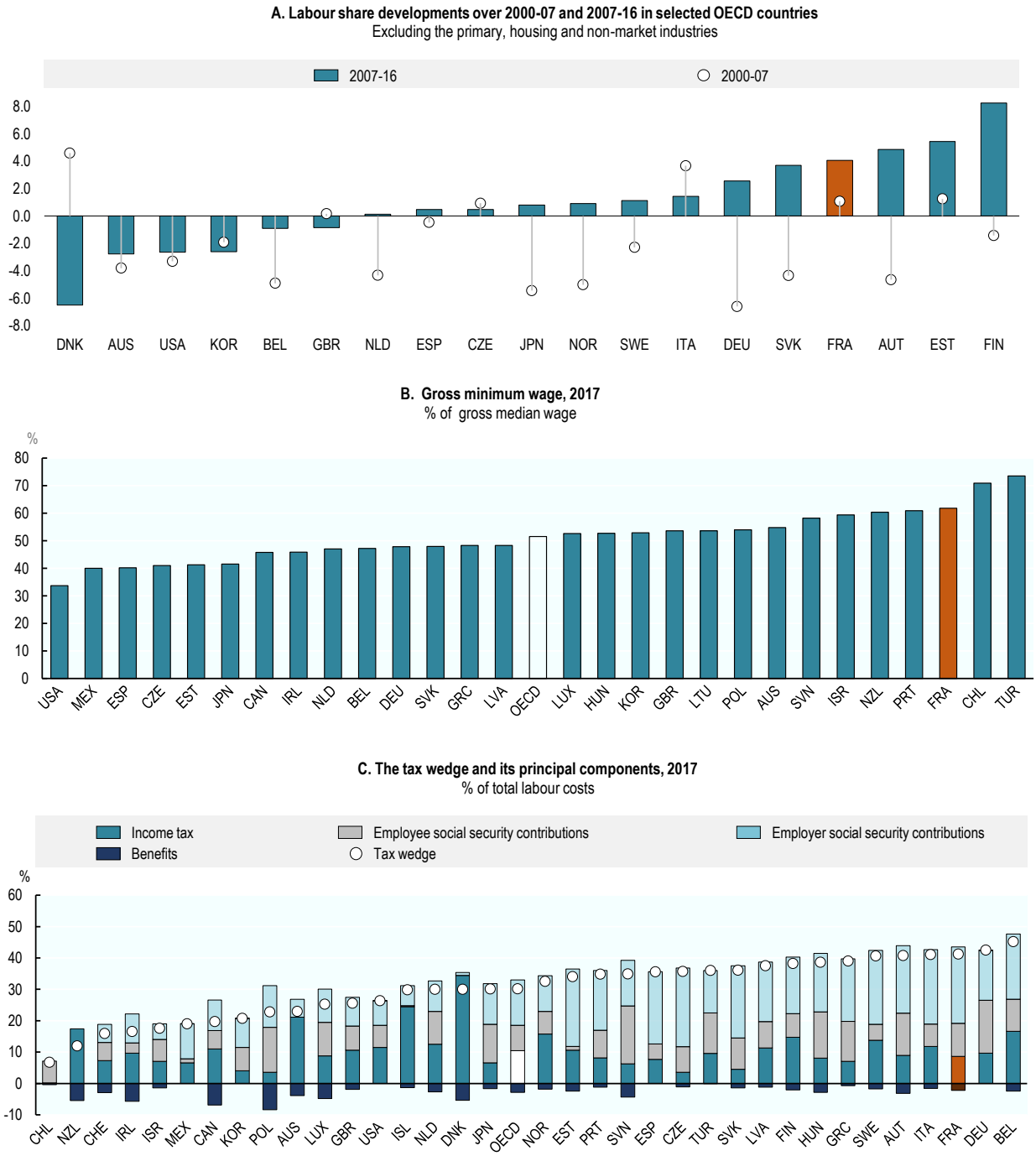
1.2. Competitiveness is under pressure due to high wage growth relative to productivity growth

8. Job opportunities in France have been hampered by weak competitiveness. To an important extent, this is due the decoupling of average labour cost growth from productivity growth since the start of the millennium as a result of the slowdown in productivity growth in combination with robust wage growth (Figure 1.2, Panel A). The gap between labour costs and productivity has widened considerably since the global financial crisis of 2008-09 (Pak and Schwellnus, 2019[4]). It has been most pronounced in sectors that have limited exposure to international competition such as hotels and restaurants and business services. A key challenge for France is to promote a return to the levels of productivity growth that were observed in the years before the crisis. At the same time, there may also be a need for a better alignment of labour costs with productivity developments.

9. France is a country with strong wage-setting institutions. These can help to ensure that productivity gains are broadly shared, but can also contribute to decoupling and undermine employment opportunities, particularly for the low-skilled, if not well designed. In France, the minimum wage was high relative to the median in 2017 (Figure 1.2, Panel B), and as a result it covers a large fraction of workers: one in nine workers earn a salary at the minimum wage. The adjustment of minimum wages is largely automatic, based on a fixed formula of price inflation and wage growth among blue-collar workers. Collective bargaining in France, moreover, covered almost the entire workforce, and was rather centralised and non-coordinated (OECD, 2017[5]): sector-level bargaining was dominant, the use of administrative extensions was widespread and largely automatic, and there was limited space for firm-level agreements to deviate from sector-level agreements. Moreover, sectoral collective agreements had a tendency to extend adjustments to the statutory minimum wage to higher paid workers in order to preserve the structure of wages across different groups of workers (Gautier, 2017[6]). As a result, wage-setting institutions in France left relatively limited scope for adjusting wages in response to economic conditions.

10. The French system of strong redistributive policies plays a crucial role in maintaining inclusive labour markets and providing high quality public services, but also led to high non-wage labour costs. The tax wedge averaged across eight household types was the highest in the OECD after Belgium and Germany in 2017 (Figure 1.2, Panel C). Successive governments have attempted to reduce non-wage labour costs for low qualified workers through the use of targeted employer social security contributions exemptions and tax credits.

Figure 1.2. Competitiveness is under pressure



Note. Panel A: 2007-15 for Japan and Korea. CICE is included. Panel B: Data refer to full-time workers. Panel C: Average over eight different household types characterised by marital status, number of children, earnings levels, and whether there are one or two wage earners.
Source: Pak, M. and C. Schwellnus (2019), "Labour share developments over the past two decades: The role of public policies", OECD Economics Department Working Papers, No. 1541, OECD Publishing, Paris; OECD (2019), "Taxing Wages: Comparative tables", OECD Tax Statistics (database), https://doi.org/10.1787/data-00265-en; OECD Dataset: LFS - Minimum relative to median wages of full-time workers.

1.3. The labour market has become increasingly segmented across contract types

11. French employers are increasingly relying on fixed-term contracts, and particularly temporary contracts of very short duration, whilst their effectiveness as a stepping stone towards more secure forms of employment is low. The incidence of temporary employment has increased from 15% in 2007 to 17% in 2017 (Figure 1.3, Panel A). Consequently, the use of temporary contracts is now among the highest in the OECD. Moreover, many of these temporary contracts are of very short duration. About one third lasts less than three months and one sixth less than a month (Panel B). The prevalence of temporary contracts with a very short duration is closely related to temporary work agencies and the increasing use of so-called *contrats d'usage* in specific sectors, which are not subject to statutory restrictions on the use of temporary contracts, and now represent about a third of all fixed-term contracts (Box 1.1). The strong reliance on fixed-term contracts is associated with very low prospects of moving to open-ended contracts: only one in three temporary workers obtains a permanent contract within three years, i.e. half of the probability observed in Germany or Sweden (Panel C).

Box 1.1. Temporary contracts exempted from statutory restrictions ("CDD d'usage")

Contrats d'usage (*CDD d'usage*) are fixed-term contracts exempted from certain statutory restrictions on the use of temporary contracts. They are allowed in a limited number of sectors of activity, mainly in the tertiary sector, but still represent a significant portion of the overall use of fixed-term contracts. The use of these contracts in these sectors reflects old and frequent practices of not resorting to open-ended contracts because of the activity exerted. Such contracts typically may be extended without limitation, without a waiting period between successive contracts, and workers are not entitled to an end-of-contract indemnity.

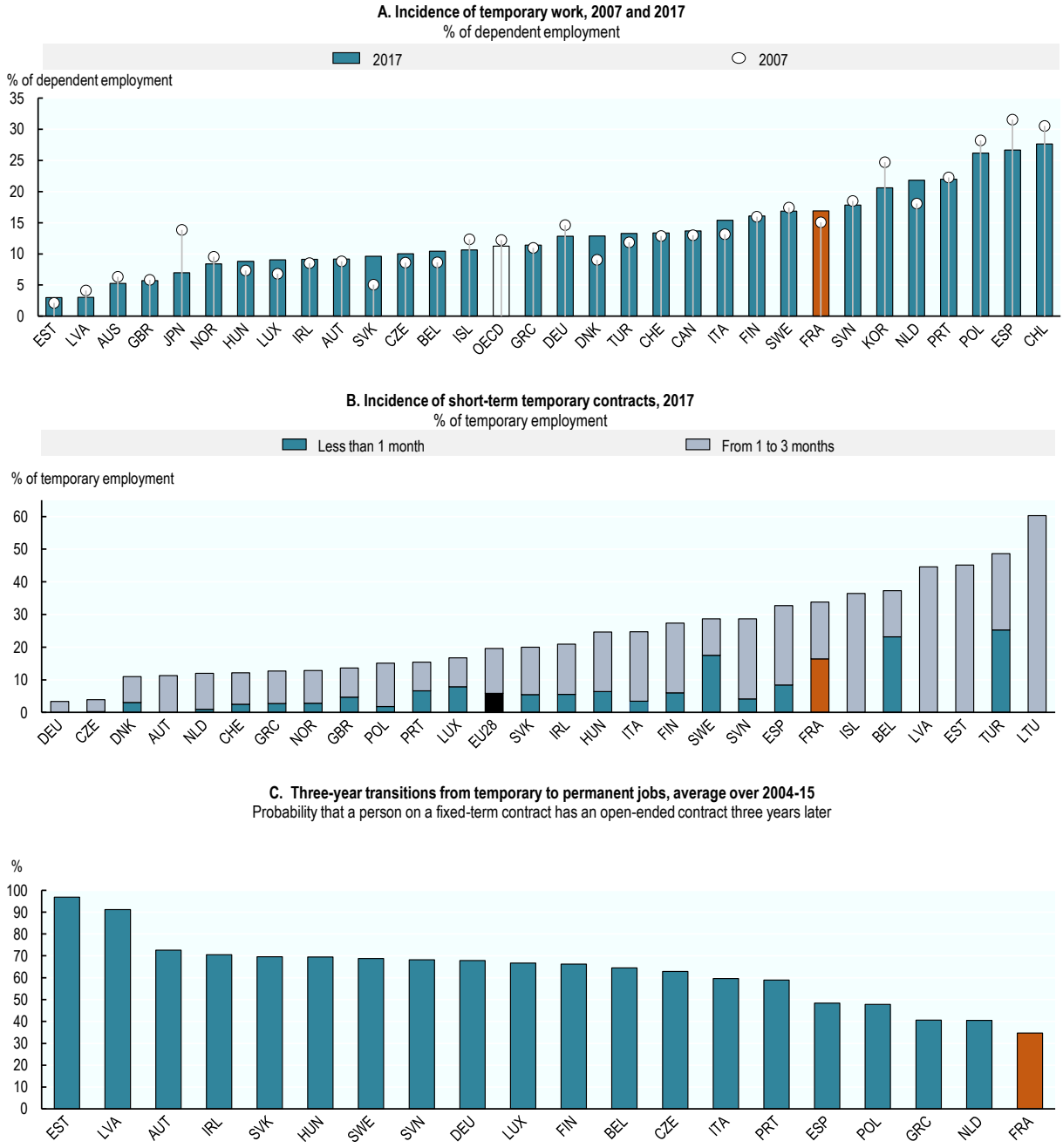
At the level of the economy, these contracts represented 5% of salaried jobs (in full-time equivalent) or one third of all fixed-term contracts and accounted for 20% of total hires in 2014 (Marie and Jaouen, 2015[7]). In the tertiary sector, their role is even more important, accounting for 7% of employment and nearly 40% of hires. Between 2000 and 2010, the sectors allowing for the *CDD d'usage* accounted for two-thirds of the increase in hires on fixed-term contracts of less than one month (ACOSS, 2011[8]). In manufacturing and construction, where the scope for *CDD d'usage* is more limited, firms rely more heavily on temporary agency work (*intérim*).

Source: Marie, E et V. Jaouen (2016), « Évaluation du contrat à durée déterminée dit d'usage (CDDU) », *Rapport de l'IGAS - Inspection générale des affaires sociales* ; ACOSS (2011) : « Les déclarations d'embauche entre 2000 et 2010 : une évolution marquée par la progression des CDD de moins d'un mois », *ACOSS-Stat*, n° 143.

12. While the OECD Jobs Strategy recognises the importance of flexibility for employers, including through the use of temporary contracts, it emphasises that an excessive reliance on temporary contracts can be counter-productive. Not only does this not carry a benefit in terms of the number of jobs, it also tends to reduce job quality as temporary contracts tend to be associated with lower wages, labour market security and quality working environments, including in the form of more limited learning opportunities (OECD, 2014[7]). An excessive reliance on temporary contracts also undermines labour market resilience by amplifying the unemployment costs associated with economic downturns. The OECD Jobs Strategy therefore recommends employment

protection frameworks with dismissal costs that are predictable, balanced across contract types and not overly restrictive, while at the same time provide effective protection for workers against possible abuses and limit excessive worker turnover.

Figure 1.3. The labour market has become increasingly segmented across contract types



Note: Panel A: Data for Chile refer to 2010 instead of 2007. Panel B: Share of temporary employment with known duration.
Source: *OECD Employment Database,* www.oecd.org/employment/database; Eurostat Labour Force Survey, quarterly detailed results; *OECD (2018), Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy,* https://doi.org/10.1787/9789264308817-en.

2. Promoting job creation and work incentives

13. This section assesses how the tax and benefit reforms that the French government implemented and announced in 2018 and 2019 affect labour costs, take-home pay and work incentives, in particular for the low-skilled. The tax and benefit reforms consisted in chronological order of cuts in employee social security contributions, increases of in-work benefits (the *Prime d'activité*) in two instances, and cuts in employer social security contributions. These recent reforms are described in Box 2.1.

14. The effects of the reforms on labour costs, net household income, and work incentives are quantified using the OECD Tax-Benefit model (Box 2.1). Given the targeting of the reforms to low-wage workers, particular attention is paid to their effects at the minimum wage level. The effects for France are put in international comparison to other OECD countries with a statutory minimum wage to obtain an idea of the importance of the reforms.

15. The simulations only quantify the direct ex ante effects and do not consider any changes in the behaviour of firms and workers in response to the reforms. In the absence of behavioural effects, changes in employer social security contributions affect labour costs, while changes in employee social security contributions and in-work benefits affect take-home pay. The ultimate incidence of tax and benefit reforms on labour costs and take-home pay depends on the relative bargaining position of workers and firms.[2] Since suitable micro data that cover the period of the reforms are not yet available, the possible behavioural effects of the reforms are discussed based on the available literature.

2.1. Reducing effective tax rates for low-wage workers

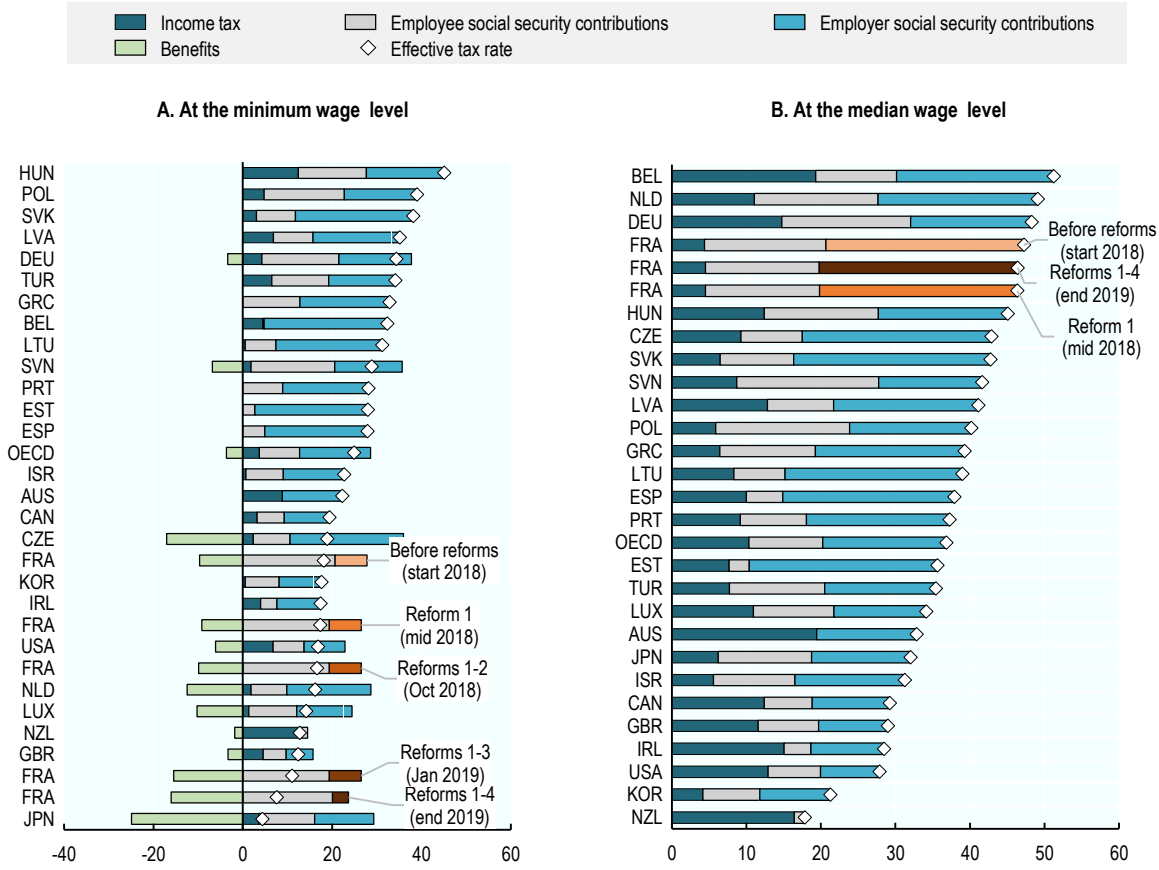
16. The simulations indicate that the reforms substantially decreased the effective tax rate on labour for low-wage workers through a reduction in labour costs and an increase in take-home pay.[3] The effective tax rate on labour at the minimum wage decreased by more than 10 percentage points from 18.1% to 7.6% of labour costs as a result of the reforms (Figure 2.1, Panel A). As a result, France now has the second lowest effective tax rate in the OECD after Japan at the minimum wage. The extension of the work bonus of the *Prime d'activité* accounted for most of the reduction in the effective tax rate at the minimum wage (the combined effect of "Reforms 2-3" in Figure 2.1). At the median wage, the effective tax rate on labour continues to be among the highest in the OECD (Panel B). The use of the tax and benefit system to support the incomes of low-productivity workers whilst mitigating their impact on labour costs and employment is consistent with the recommendations in the OECD Jobs Strategy (OECD, 2018[1]).

[2] In a perfectly competitive setting, it does not matter whether taxes and benefits are imposed on workers or firms.

[3] The effective tax rate on labour is defined as total taxes and social security contributions paid minus benefits received as a percentage of labour costs for the employer.

Figure 2.1. Effective tax rates are very low at the minimum wage

Total taxes and social security contributions paid minus benefits received as a % of labour costs.



Note: 2018 except for Canada (2017). Simulations refer to single household without children. Reform 1: employee social security contributions cuts; Reform 2: Prime d'activité lump-sum increase; Reform 3: Prime d'activité bonus increase; Reform 4: employer social security contributions cuts (more detail in Box and Annex A).
Source: OECD calculations using the OECD TaxBEN model.

Box 2.1. Simulating the effects of the French tax and benefit reforms during 2018-2019

The French government has implemented and announced in 2018 and 2019 four tax and benefit reform packages. These policy changes are discussed in greater detail in Annex A.

- Reform 1: *Employee social security contributions* went down by about 3 percentage points for all employees during 2018 and early 2019, while the *universal social contribution* (*Contribution Sociale Généralisée*), an income levy for social security purposes, went up by 1.7 percentage points.
- Reform 2: The monthly lump-sum amount of the French in-work benefit scheme, the *Prime d'activité* (see Box 2.2 for further details), went up by €20 for a single person household as of October 2018. Furthermore, the percentage of wage income taken into account was decreased from 62 to 61%, leading to a slightly steeper phase-out of the *Prime d'activité*.
- Reform 3: The individual work bonus of the *Prime d'activité* was increased in January 2019. This increased monthly net income by €90 at the full-time minimum wage level for a single person household (and €100 when also taking account of the regular revalorisation of the minimum wage).
- Reform 4: *Employer social security contributions* will be reduced in steps during 2019 by a total of about 4 percentage points at the full-time minimum wage. These new reductions will gradually phase out to zero at 1.6 times the minimum wage. Moreover, the *Crédit d'impôt pour la compétitivité et l'emploi* (CICE), a tax credit on profits equal to 6% of wages below 2.5 times the minimum wage, was abolished in January 2019 and was replaced by a reduction of employer social security contributions.

The direct effects of the reforms on labour costs, net incomes, and work incentives are quantified using the *OECD Tax-Benefit model* (TaxBEN) for a single adult aged 40 without children using 2018 earnings (see Annex A for other household types). The following assumptions are made:

- Households are assumed to obtain all their income from labour in the private sector (with a non-cadre statute for France), have no assets, and spend an equivalent amount of 20% of the average wage on housing costs;
- Taxes on wealth or property and indirect taxes, and (early) retirement benefits, sickness benefits, and in-kind transfers such as subsidised transport and free healthcare are not taken into account. Also the 2018-2020 repeal of the dwelling tax (taxe d'habitation) for 80% of the households is not taken into consideration;
- Any behavioural, distributional, and fiscal implications of tax and benefit reforms, including the possible need for offsetting measures elsewhere, are not considered.

2.2. Stimulating job creation for low-wage workers

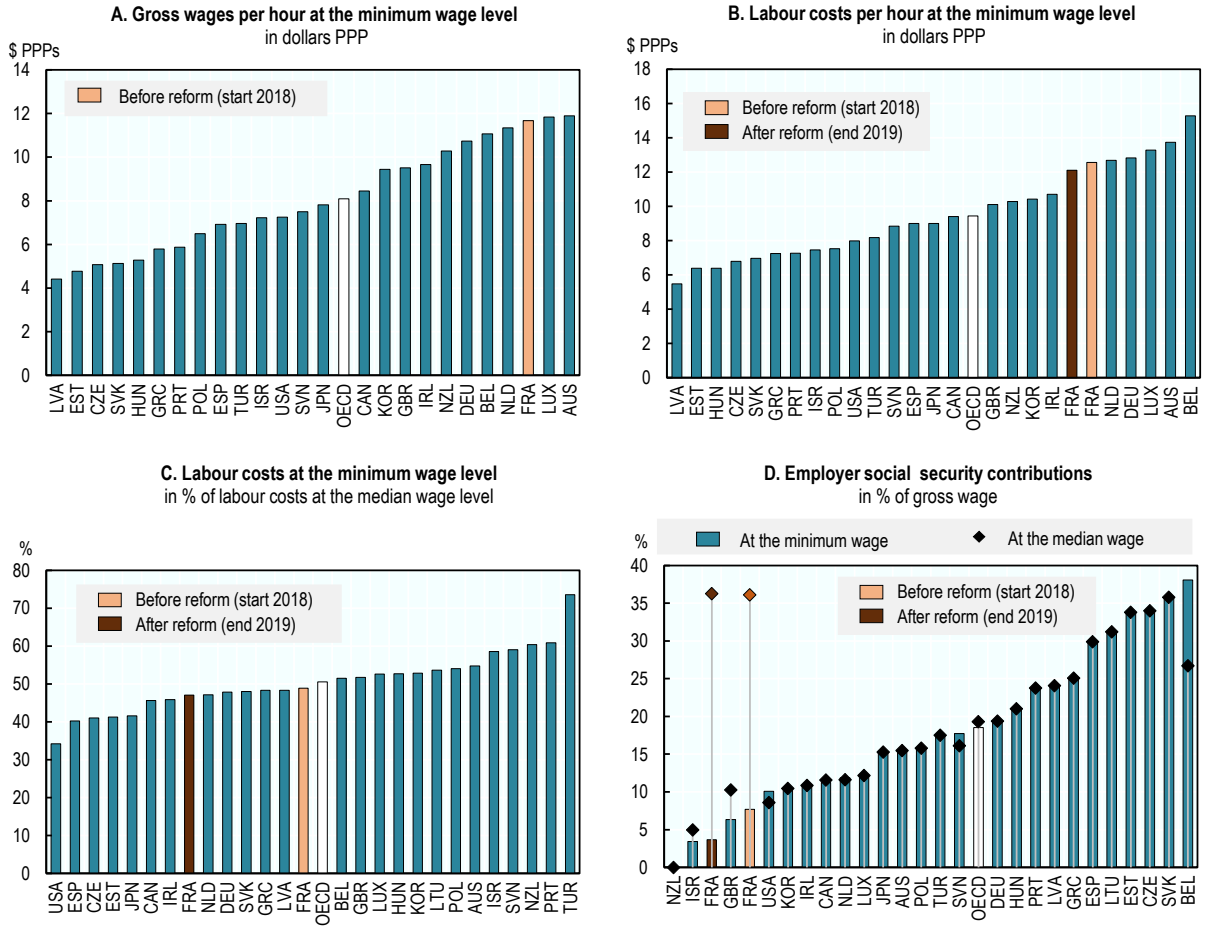
17. The reduction in employer social security contributions (labelled as "Reform 4" in Box 2.1 and Figure 2.2) supports the creation of low-skilled jobs by reducing labour costs in a targeted fashion. The reforms reduce labour costs by 3.7 percentage points at the full-time minimum wage, phasing out at 1.6 times the minimum wage for single households without children.[4] With the reform, France further strengthens its position among OECD countries as a country with strongly targeted employer social security contributions. The targeted reduction in employer social security contributions mitigates the effect of a high gross minimum hourly wage on labour costs, even if labour costs at the minimum wage remain above the OECD average (Panel A and Panel B). The effect of the targeted reductions in employer social security contributions can be seen more clearly when comparing the change in labour costs at the minimum wage with labour costs at the median wage (Panel C). Whereas the degree of targeting before the reform was similar to the OECD average, it has become considerably stronger after the reform. In fact, employer social security contributions at the minimum wage level are among the lowest in France across OECD countries, whereas they are the highest at the median wage level (Panel D).

18. The reduction in labour costs due to lower employer social security contributions for low-wage workers is likely to have a positive impact on labour demand and hence job creation. Empirical evidence generally suggests that a 10% increase in labour costs leads to a 3% decrease in the number of employees, with stronger effects for low-skilled workers (Hamermesh, 2014[9]; OECD, 2018[1]; Saez, Schoefer and Seim, 2020[10]). Labour costs tend to be a more important determinant of labour demand at lower wages since low-skilled workers can be more easily substituted by capital, whereas capital tends to be more complementary to skilled labour. Furthermore, at low wages, a reduction in labour costs tends to have stronger employment than wage effects due to the generally weak bargaining position of low-skilled workers.

19. For France, several studies found that the elasticity of employment with respect to the minimum wage is between −2 and −1 (Kramarz and Philippon, 2001[11]; Abowd et al., 2006[12]; Crépon and Desplatz, 2001[13]). This is in line with a recent study by Cahuc, Carcillo and Le Barbanchon (2019[14]) for France that evaluates the effects of temporary reductions in employer social security contributions for hires earning between 1 and 1.6 times the minimum wage in small firms and obtains an elasticity of employment with respect to wages around -1 at the minimum wage. Taking account of the savings in social benefits, this suggests that these jobs were effectively created at zero net costs. The temporary and targeted nature of the hiring subsidies is likely to be crucial for their effectiveness, since in the long-run they are more likely to induce an increase in wages, particularly among more skilled workers with a stronger bargaining position. Consistent with this reasoning, the employment effects of the broad permanent reductions in employer social security contribution in relation to workers earnings up to 2.5 times the minimum wage are found to be more limited (L'Horty, Philippe and Thierry, 2019[15]; COSAPE, 2017[16]).

[4] Employer social security contributions go up marginally at the fulltime median wage level because of the implementation of the *equilibrium contribution*, a small contribution for complementary pensions (Annex A).

Figure 2.2. Targeted exemptions in employer social security contributions mitigate the effect of the minimum wage on labour costs



Note: 2018 except for Canada (2017). Simulations refer to single person households. After reform: employer social security contribution cuts (see Reform 4 in Box 2.1 and Annex A for details).
Source: OECD calculations using OECD TaxBEN model.

20. While targeted reductions in social security contributions are likely to increase job creation for low-wage workers, the increased progressivity in labour costs may encourage firms to substitute low-skilled for higher-skilled workers, and might decrease incentives for firms to promote career development. In principle, this could translate into an increased incidence of low-wage employment with limited prospects of moving up the wage ladder – so-called low-wage traps –, although there is no evidence that low-wage traps are important in France (Rapport du Groupe d'Experts, 2018[17]). In the long-run, the increased progressivity could also distort the productive structure towards companies that are more dependent on low-skilled labour, with potentially important consequences for growth dynamics.

21. The abolishment of the *Crédit d'impôt pour la compétitivité et l'emploi* (CICE), a tax credit on profits equal to 6% of wages below 2.5 times the minimum wage, has no direct effects on labour costs of firms in the simulations since it is fully compensated by a reduction of employer social security contributions for health. However, this reform could

have potentially important behavioural effects in practice by making fiscal incentives for job creation more transparent. The CICE was generally viewed as a corporate tax credit to increase profits, whereas the social security contribution cuts are more likely to be perceived as a reduction in labour costs and as a result may play a more pronounced role in the hiring and firing decisions of employers (Bozio, Cottet and Malgouyres, 2018[18]).[5]

2.3. Increasing take-home pay and incentives to work

22. The decrease in employee social security contributions and the two reforms of the *Prime d'activité* led to a significant increase in net incomes of low-wage workers (see Box 2.1 for details of the reforms and Box 2.2 for a more in-depth discussion of the *Prime d'activité*). However, the net income impact of the reforms as well as the relative importance of the reforms differs substantially along the income distribution.

23. Net household income for single-person households at the full-time minimum wage goes up by 8.6% as a result of the reforms, with the increase of the work bonus of the *Prime d'activité* accounting for more than three quarters of this increase (78%). The remainder of the net income increase is due to the reductions in employee social security contributions (12%) and the increase of the lump-sum part of the *Prime d'activité* (10%). For part-time workers, earning half the full-time minimum wage, net household income increases by 2%, with most of the increase coming from the lump-sum part of the *Prime d'activité.* For workers with median earnings, net household income increases by 1.7%, exclusively due to the cut in employee social security contributions.

Box 2.2. The system of in-work benefits (*Prime d'activité*) in France

The *Prime d'activité* is an in-work benefit for workers consisting of two components: a lump-sum amount that varies by family composition and a work bonus based on individual earnings that phases in at 0.5 times the full-time minimum wage level, from which household income is deducted. It is designed to encourage people to work and to support the purchasing power of households with modest incomes.

The creation of the Prime d'activité

In 2016, the *Prime d'activité* replaced the *earned income tax credit* (*Prime pour l'emploi*) and the *social assistance activity component* (*RSA activité*). The objective behind this reform was to strengthen work incentives by increasing the work bonus. A second element of the reform was to better protect individuals against the risk of poverty. The *Prime d'activité* extended the target population to young people aged 18-25, who traditionally face a high risk of poverty, but are generally excluded from social assistance (Bargain et al., 2017[19]). Furthermore, an additional increase of the lump-sum amount for single parents was implemented.

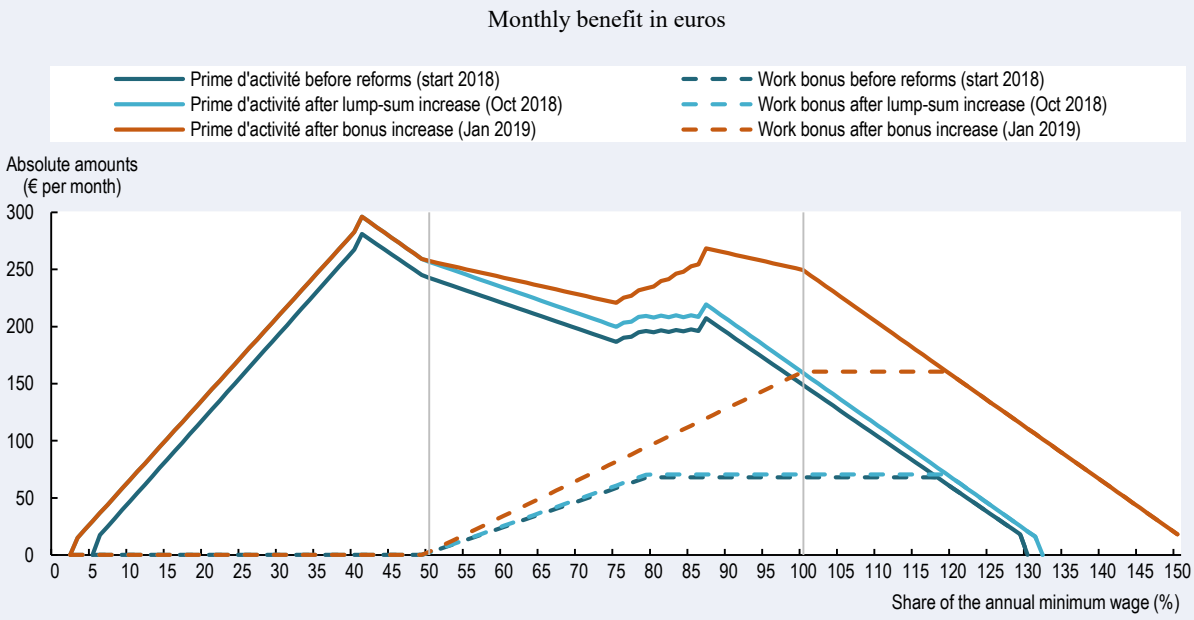
The reforms of the Prime d'activité

As discussed in Box 2.1, the *Prime d'activité* was reformed in two instances based on different design choices. The €20 increase of the monthly lump-sum amount in October

[5] The measure also leads to a transitory public deficit increase of 0.8 percentage points of GDP in 2019, as the government finances the CICE based on 2018 salaries, but receives fewer revenues because of the social security contributions cut for 2019 salaries (Bozio, Cottet and Malgouyres, 2018[18]).

2018 (labelled "Reforms 1-2") led to a progressive increase in net incomes in percentage terms (Figure 2.3). The bigger reform of January 2019 (labelled "Reforms 1-3"), which increased the work bonus and extended its phase-in from 0.8 to 1 times the full-time minimum wage, increased monthly net income by €90 at the full-time minimum wage for a single person household. As a result of the increased generosity, more individuals become eligible for the *Prime d'activité*. Single-person households with earnings up to 1.5 times the full-time minimum wage can now receive the *Prime d'activité*, up from 1.3 times before the reform. In total, 33% more individuals are estimated to become eligible (CAF, 2018[20]).

Figure 2.3. The *Prime d'activité* has been extended substantially in 2018 and 2019

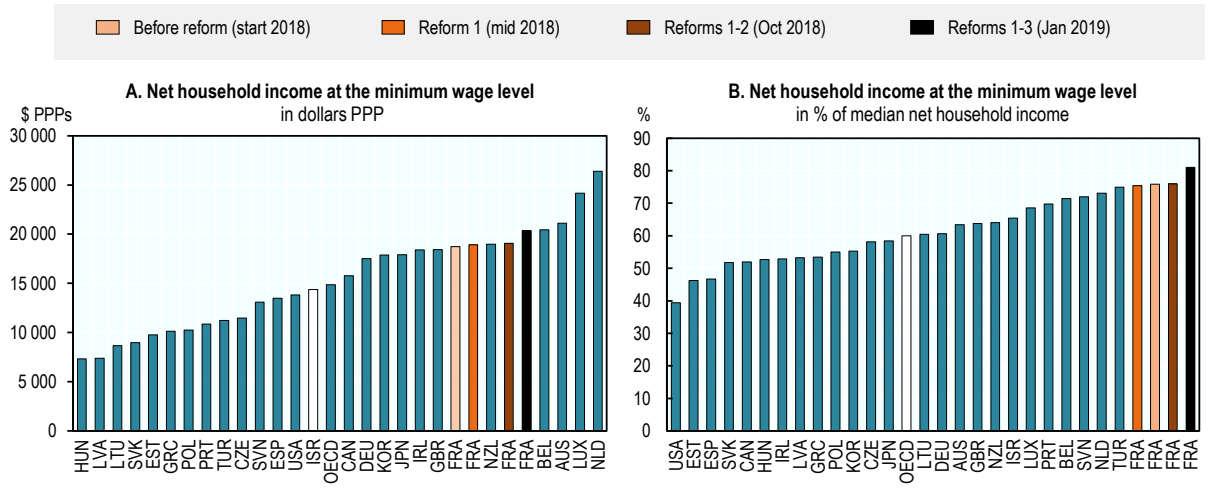


Note: Simulations refer to single household without children. Receipt of other taxes and benefits is taken into account. For a full description of the reform parameters see Annex A. The *Prime d'activité* in the baseline scenario (Before reforms) already takes into account the inflation correction of April 2018.
Source: OECD TaxBEN.

24. With the reforms, France reinforces its place internationally as a country providing one of the highest living standards at the minimum wage. In absolute PPP levels, net annual household income at the minimum wage level increased as a result of the reform, moving France further to the right in the comparison with other countries (Figure 2.4, Panel A). Relative to the median, France already stood out as offering the most generous net income at the minimum wage (Panel B), which highlights the strong targeting of employee social security contributions and in-work benefits at the minimum wage in France.[6]

[6] The reduction in employee social security contributions (reform 1) lowers the ratio of the minimum wage to the median, as this reform increases net income more at the median than at the minimum wage level. The reform has lower net income effects lower in the earnings distribution because of partially offsetting effects on housing, family, and in-work benefits as well as social assistance.

Figure 2.4. Net household income has increased substantially at the minimum wage

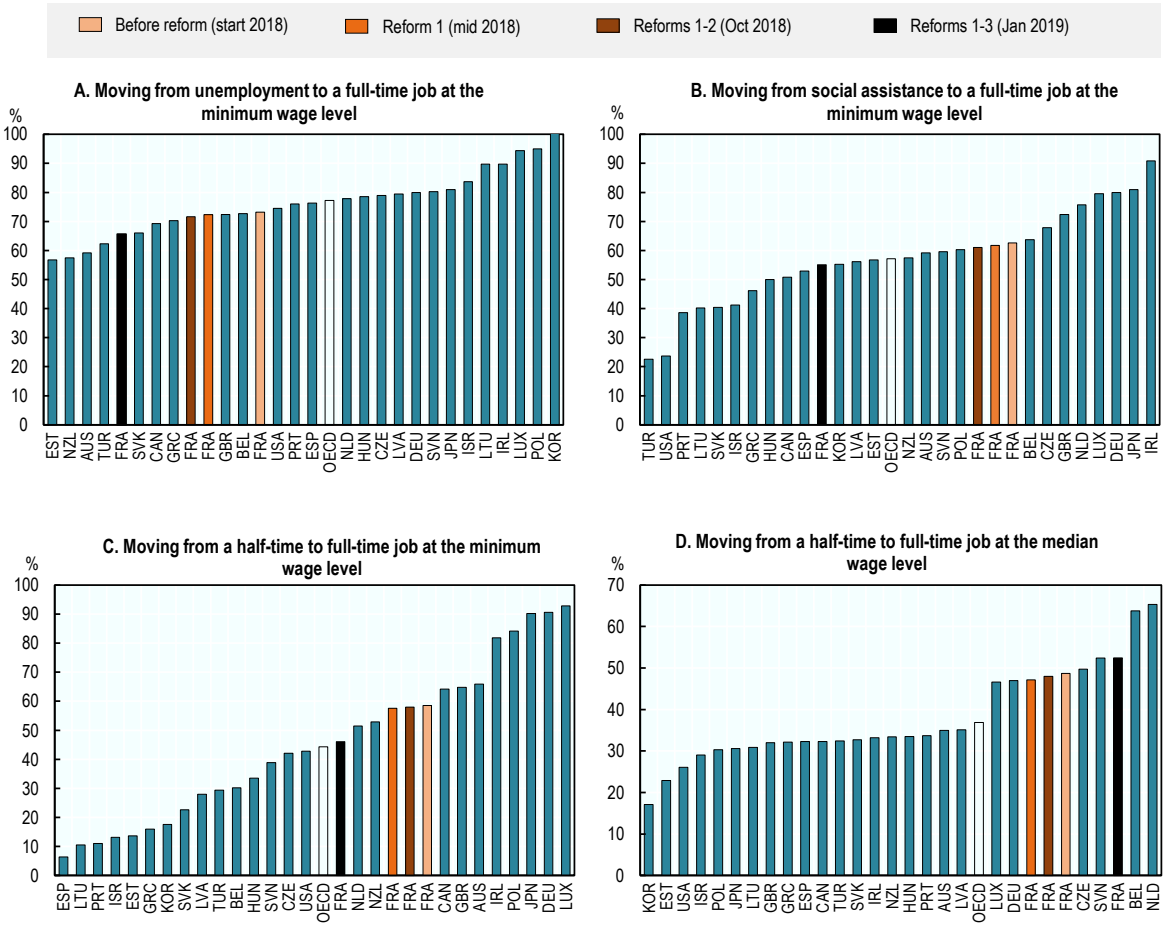


Note: 2018 except for Canada (2017). Simulations refer to single household without children. Reform 1: employee social security contributions cuts; Reform 2: Prime d'activité lump-sum increase; Reform 3: Prime d'activité bonus increase (more detail in Box 2.1 and Annex A).
Source: OECD calculations using OECD TaxBEN model, OECD Employment Database.

25. The reforms strengthen work incentives for jobless individuals receiving unemployment or social assistance benefits by increasing take-home pay relative to out-of-work benefits. The participation tax rate, measuring the percentage of additional income lost by higher taxes or lower benefits when taking up a full-time job at the minimum wage, goes down by 7.6 percentage points for individuals receiving unemployment benefits (Figure 2.5, Panel A) as well as for individuals on social assistance (Panel B). The strengthening of work incentives at the minimum wage in France can also be seen in international perspective. For unemployment benefit recipients, France shifts from an average to a top position in the OECD area (associated with a below-average participation tax rate in Panel A). For social assistance recipients, for whom work incentives were below the OECD average before the reform, France moves to the top half of the OECD countries with a below-average participation tax rate (Panel B). Incentives to take up full-time employment also increase at higher wage levels: the participation tax rate declines by respectively 5.8 percentage points for workers taking up employment earning 1.25 times the minimum wage and 1.2 percentage points for those taking up employment at the median wage level (see Annex A).

Figure 2.5. Work incentives at the minimum wage level have increased

Participation tax rates (% of additional income lost due to higher taxes or lower benefits)



Note: 2018 except for Canada (2017). Simulations refer to single household without children. Reform 1: employee social security contributions cuts; Reform 2: Prime d'activité lump-sum increase; Reform 3: Prime d'activité bonus increase (see Box 2.1 and Annex A for details). The figures show the percentage of additional income lost because of higher taxes or lower benefits when taking up fulltime employment for an individual who has been unemployed for 2 months with full benefit contribution record (Panel A), in social assistance (Panel B), or moving from a half to full-time job (Panel C) at the hourly minimum wage level. Any temporary benefits that individuals may receive when taking up employment are ignored (which do not exist for France but may exist in other countries).
Source: OECD secretariat calculations using OECD TaxBEN model.

26. While the incentives for non-employed persons (the extensive margin) improve at all earnings levels, the incentives for employed individuals to increase total earnings, either by increasing hours worked (the intensive margin) or by increasing hourly wage, strengthen at lower wage levels, but worsen for particular groups at higher wage levels.[7] This pattern is a consequence of the increased benefit levels targeted around the full-time minimum wage level, leading to a relatively larger loss of benefits for individuals who increase their

[7] Incentives to work more hours at the minimum wage go down slightly after the increase of the lump-sum amounts of the *Prime d'activité* (reform 2). This is because the reform increases net income more at the 0.5-time than at the full-time minimum wage earnings level.

earnings beyond that level. For instance, while the participation tax rate associated with moving from a half-time to a full-time position at the hourly minimum wage level decreased by 12.5 percentage points, placing France in a position close to the OECD average (Panel C), the tax rate increased slightly by 3.8 percentage points at the median hourly wage level (Panel D).

27. Strengthening work incentives for low-wage workers, mainly through the extension of the *Prime d'activité*, is likely to promote labour supply, although formal evaluations of such effects of the *Prime d'activité* have not yet been published.[8] The positive effects of the reform on increased work incentives on the extensive margin are likely to dominate any possible negative effects on the intensive margin. The reason for this is that the responsiveness of labour supply decisions to changes in work incentives tends to be much larger on the extensive margin than on the intensive margin (where labour supply elasticities tend to be close to zero) (Cahuc, Carcillo and Zylberberg, 2014[21]; Bargain, Orsini and Peichl, 2014[22]).[9] This logic is confirmed by impact studies of other in-work benefit schemes such as the earned income tax credit (EITC) in the United States (Nichols and Rothstein, 2015[23]; Meyer, 2002[24]). This is also why the OECD Jobs Strategy recommends low or even negative marginal tax rates at low income levels through the combination of in-work benefits schemes such as the *Prime d'activité* and a small guaranteed income (Saez, 2002[25]; OECD, 2018[1]).

28. The specific design of the *Prime d'activité* is likely to further strengthen its positive effects on labour supply. First, the *Prime d'activité* explicitly targets single parents, whose labour supply behaviour is more sensitive to financial incentives (Immervoll and Scarpetta, 2012[26]). Single parents receive an additional lump-sum bonus, which was not the case for its predecessors (Bargain, Orsini and Peichl, 2014[22]). They are overrepresented among households receiving the *Prime d'activité* with a share of 22% (Ministère des Solidarités et de la Santé, 2017[27]). The simulations indicate that work incentives at the employment margin increased even more for single parents at the minimum wage than single persons without children (Annex A). Second, the *Prime d'activité* is provided permanently to eligible households rather than for a limited duration, which generally strengthens labour supply responses (Van der Linden, 2016[28]). Third, take-up is fairly high, as applying for the benefit is relatively straightforward (above 70% in 2016, significantly above the 32% take-up of its predecessor, the *RSA activité* (Ministère des Solidarités et de la Santé, 2017[27]).[10]

[8] Moreover, the behavioural responses to in-work benefits can be strong. Evidence for the American *earned income tax credit* (EITC), with a more or less comparable schedule as the *Prime d'activité*, suggests that the self-financing rate of the EITC is 87%, as it encourages labour supply and increases income, which reduces the need for other transfers to households, and increases taxes and social security contributions paid by the households (Bastian and Jones, 2018[54]).

[9] For France for 2001, estimated labour supply elasticities at the extensive margin lie around 0.05 for married men, 0.09-0.12 for single women and men, and 0.28 for married women, whereas elasticities at the intensive margin are around 0 except for married women (0.05). Elasticities at the extensive margin still significantly dominate those at the intensive margin at higher income levels for all four groups (Bargain, Orsini and Peichl, 2014[22]).

[10] The incomplete take-up rate of the American *earned income tax credit* (EITC) is estimated to be around 25% (Bhargava and Manoli, 2015[57]). Take-up rates should be compared with prudence across programmes and countries given the difficulties in estimating take-up rates accurately.

29. The *Prime d'activité* is also found to be an effective instrument for combatting in-work poverty, as it targets working households with low incomes.[11] In 2016, 81% of the households receiving the *Prime d'activité* had monthly household earnings below €1,500. Its creation in 2016 was estimated to be the main factor behind the decrease in poverty and inequality between 2015-2016 (Ministère des Solidarités et de la Santé, 2017[27]). Importantly, its effectiveness in raising net incomes is also enhanced by the fact that France has high binding wage floors, which prevent employers from capturing in-work benefits through lower wages (OECD, 2018[1]).

2.4. Better coordinating and simplifying social support

30. France has a complex and fragmented system of low-income support, with ten programmes that provide support to four million beneficiaries based on different eligibility rules, requirements, and manners to account for family composition. Because of this complexity, non-take-up is substantial, diminishing their anti-poverty effects (Sirugue, 2016[29]; Cloarec-Le Nabour and Damon, 2018[30]). Moreover, complex interactions between taxes and benefits complicate the design of reforms to tackle poverty and promote work incentives. It may also limit the desired labour supply responses as the work incentives embedded in such a complex system can be very difficult to understand by beneficiaries (Pitollat and Klein, 2018[31]; Chagny et al., 2018[32]). The fragmented nature of the system with different eligibility rules for different income-support schemes can further create in important non-linearities, resulting in sometimes significant income differences between beneficiary groups as well as income jumps for households that, in some cases, are difficult to justify. This not only can be unfair, but also suggests that the efficiency of the system can be enhanced through a better targeting of income-support benefits.

31. Integrating the separate social-support programmes into a unified benefit programme could simplify the system substantially for both beneficiaries and policy-makers, while enhancing its fairness and efficiency. The programmes to be merged into a single means-tested basic income could include the basic social assistance (*Revenu de solidarité active*), employment assistance (*Allocation de solidarité spécifique*) in-work benefits (*Prime d'activité)*, the housing benefits (*Allocations logement*), and possibly also family benefits (*Allocations familiale*), which all serve working-age individuals. A more ambitious reform would also include the disability and old-age assistance programmes (*Allocation aux adultes handicapés* and *Allocation de solidarité aux personnes âgées*) that could act as top-ups of the basic income (Bargain et al., 2017[19]). The ultimate objective is to arrive at a social minimum programme that automatically provides beneficiaries support based on unified rules and up-to-date household income and asset information.

32. The current government has taken important steps in this direction, including by strengthening taxation at the income source (*prélèvement à la source*) which can facilitate automatic benefit provision and by promoting debates on the integration of programmes in the proposed *Revenue universel d'activité*. Key issues for the development of a single benefit scheme are its articulation with benefits allocated by local authorities related to education, transport and other public services as well as its articulation with social housing (OECD, 2019[2]). Another major issue is to what extent such a benefit could be made

[11] OECD TaxBEN simulates incomes of "typical" household cases, and does not contain actual population or income data. Therefore, it cannot be used to assess redistributive effects of programmes at the country level.

available for youth who are currently excluded from a number of important benefits, most notably social assistance (*RSA*).

33. Few countries have developed fully integrated income-support schemes. A major exception is the United Kingdom which recently introduced a single benefit scheme in the form of *Universal Credit* (Box 2.3).

Box 2.3. The experience with *Universal Credit* in the UK

Universal Credit merges the six main non-contributory social benefits of the British welfare system into one social benefit: (1) income support; (2) income-based jobseeker's allowance; (3) income-related employment and support allowance; (4) housing benefits; and (5) child and (6) in-work tax credits. The merger has two objectives:

- Increase benefit take-up, by unifying and simplifying procedures;
- Strengthen work incentives, by a combination of making work pay more, removing fiscal cliffs because of different eligibility thresholds, and improving sanctioning and support by a work coach to find work or work more hours.

Universal Credit targets people of working age with low or no wages. The benefit level depends mainly on earnings, age and household composition, with a number of top-ups including for people with children, disabilities, or with housing and childcare expenses. The benefit is phased in gradually: while in December 2018, there were 1.4 million recipient households, there are expected to be 7 million recipient households once it is fully rolled out in 2023.

It is still early to assess the employment effects, and the implementation has proven to be more complicated than anticipated. Work incentives are likely to strengthen following the additional budget allocated to the work bonus part of the benefit as announced in the 2018 Budget, which have reversed the vast majority of previous cuts in the 2015 Budget. *Universal Credit* is also expected to reduce poverty, by increasing take-up by an additional 700,000 households, although certain household types are also worse off. In addition, the integration of information and support systems has resulted in delays, with substantial administrative costs, and payment errors, which have fuelled public debates.

The British example suggests that the move to a single benefit can potentially lead to a system that is more transparent, fair and more effective in reducing poverty, but the complexity of unification should not be underestimated.

Source: Gonthier, P. (2017), « Fusion des minima sociaux : Les défis du Universal Crédit britannique », DARES document d'études no. 206 ; Finch, D. et Gardiner, L. (2018), « Back in credit ? Universal Credit after Budget 2018 », Resolution Foundation Briefing

3. Tackling labour market duality

34. Multiple reforms have been implemented in France in 2016 and 2017 with the objective to reduce labour market duality and promote productivity growth by decreasing the legal and financial risk associated with hiring individuals on a permanent contract (Box 3.1). The 2016 *Labour law*[12] and the September and December 2017 *Ordonnances*[13] specified conditions for the economic dismissal of employees on permanent contracts for economic reasons, further clarified the definition of procedural breaches in the dismissal process and reduced legal uncertainty around the level of compensation in case of unfair dismissal as advocated by the new OECD Jobs Strategy (OECD, 2018[1]).

Box 3.1. The employment protection legislation reforms of 2016 and 2017

The 2016 *Labour law* and the September and December 2017 *Ordonnances* reformed employment protection in France in a number of ways:

- *Establishment of a schedule for compensation for unfair dismissal*. The *Ordonnances* implemented a schedule – called *barème* – for the compensation of workers in the case of unfair dismissal. The maximum level of the schedule corresponds to about one month of salary per year of tenure up to 10 years of tenure, with a smaller rise for workers with higher tenure up to a maximum of 20 months. The minimum level of the schedule increases with tenure and firm size up to a maximum three months of salary. The schedule is not applicable in cases of discrimination or harassment.
- *Clarification of procedural breach*. The *Ordonnances* clarified the definition of procedural breach. The cap for compensation for a procedural breach was kept at one month. Furthermore, the State Council has been tasked to develop templates that the employer can use to proceed with the notification of a dismissal to prevent procedural breaches.
- *Reduction in the maximum period to challenge dismissal in court.* The maximum period to challenge a dismissal for personal reasons in court decreased from 24 to 12 months in the *Ordonnances* and is now the same as for dismissals for economic reasons.
- *Increase in mandated severance pay*. The *Ordonnances* reduced the minimum tenure to qualify for legal severance pay from 12 to 8 months, and increased the level of severance pay from 1/5 to 1/4 of monthly salary per year of tenure for the first 10 years of tenure.
- *Clarification of the definition of real and serious cause for dismissal for economic reasons*. The *Labour law* introduced objective criteria for the definition of economic difficulties and whether these give sufficient ground for dismissal for

[12] *Loi relative au travail, à la modernisation du dialogue social et à la sécurisation des parcours professionnels du 2016*.

[13] *L'ordonnance de septembre 2017 relative à la prévisibilité et la sécurisation des relations de travail* and *L'ordonnance n°2017-1718 du 20 décembre 2017*

economic reasons in the form of a substantial reduction in at least one of several economic indicators listed in the law, such as sales. Before the reform, the determination of a sufficient ground for dismissal for economic reasons was at the discretion of the labour court. The *Ordonnances* further limited the scope of assessment of economic difficulties to companies of the same group operating on the national territory only (thus excluding foreign companies of the same group).

- *Introduction of the collective scheme for termination by collective agreement* (*rupture conventionnelle collective*). The *Ordonnances* introduced the possibility of breaks of permanent contracts by means of a collectively agreed voluntary departure plan. This is the equivalent of the widely used individual schemes for termination by mutual agreement (*rupture conventionnelle individuelle*) implemented in 2008, which gives right to severance pay and unemployment benefits. Collective schemes for termination by collective agreement have to be approved by the Ministry of Labour. Employees that leave the firms under such an arrangement are entitled to both unemployment benefits and severance pay.

Source: 2016 Labour law and the September and December 2017 Ordonnances.

3.1. Making employment protection less rigid

35. To help assess the consequences of these reforms for the employment protection of permanent contracts, an interim update of the OECD Employment Protection Legislation index (OECD EPL index) was carried out for France as well as other OECD countries that have implemented major reforms in this area since 2013.

36. The *Ordonnances* have made the employment protection of permanent contracts more flexible, whereas the use of temporary contracts remained strictly regulated despite a minor decrease in 2015[14] (Figure 3.1), except in specific sectors with deviating regulatory regimes (Box 3.2). As a result of these reforms, the OECD EPL index for individual dismissals of workers on permanent contracts decreased for France, bringing it down four places, surpassing countries such as Germany, Sweden, and Italy (Panel B). This decrease is even larger when considering the specific components of the index related to the difficulty of dismissal for permanent contracts for which France moves from close to the top to the average (Panel D).

[14] In 2015, the maximum number of successive temporary contracts was increased from two to three by means of the *LOI n° 2015-994 du 17 août 2015 relative au dialogue social et à l'emploi*, which lowered the OECD EPL index of temporary contracts.

Figure 3.1. Employment protection in France has become less rigid



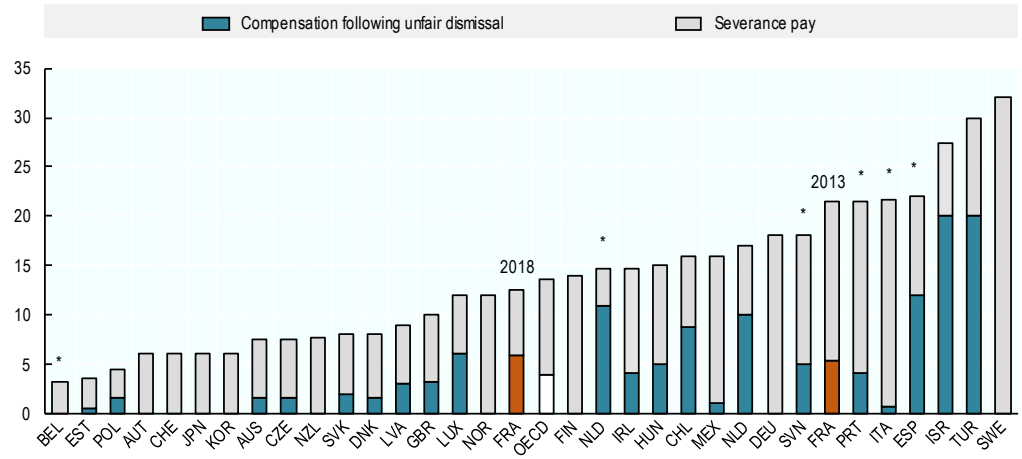
Note: Higher values indicate more stringent legislation. Data refer to 2013 and 2018 (preliminary updates are indicated with an asterisk *). The index of the difficulty of dismissal in Panel D is a sub-component of the overall indicator in Panel A, and consists of: i) procedural inconveniences for employers engaging in a dismissal process, such as notification and consultation requirements; ii) notice periods and severance pay in the case of fair dismissal; and iii) difficulty of dismissal, which relates to the permissible grounds for dismissal and the repercussions for the employer if a dismissal is found to be unfair. For Panel D, estimates are not available for Canada, Greece, Iceland and the USA.
Source: OECD indicators on employment protection (database), www.oecd.org/employment/protection.

37. The OECD EPL index for permanent contracts has evolved towards greater flexibility because of two aspects of the reforms: i) the establishment of a binding schedule for compensation for unfair dismissal and the clarification of procedural breaches; and ii) a reduced maximum period to challenge dismissals. A third aspect, the increase in legal severance pay, led to an increase of the EPL index.

38. The largest change in the OECD EPL index for permanent contracts is a result of the reduction in compensation in the case of unfair dismissal through the introduction of a binding compensation schedule and the clarification of procedural breaches. Both seek to reduce legal uncertainty and lower firing costs. The binding schedule is not applicable in cases of discrimination, harassment, or violation of fundamental rights. Whilst the *Ordonnances* capped compensation levels, severance pay eligibility was extended, and levels of severance pay were increased for individuals dismissed for no fault of their own from 1/5 to 1/4 of monthly salary per year of tenure for the first 10 years of tenure. This generates a slight increase in the EPL index for permanent contracts. Taking severance pay, the binding compensation schedule, and the clarification of procedural breaches together, the *Ordonnances* reduced total firing costs after unfair dismissal, bringing France to a position close to the OECD average (Figure 3.2).

Figure 3.2. Total costs after unfair dismissal went down

In monthly wages



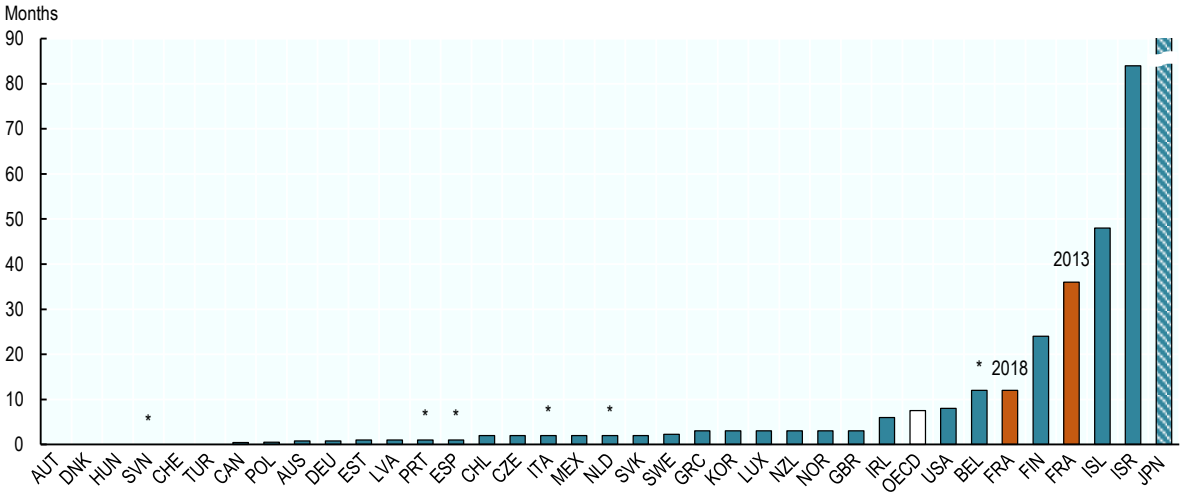
Note: Assuming a worker aged 55 with 20 years of tenure. The scales exclude cases of discrimination or harassment. Data refer to 2013 and 2018 (preliminary update indicated with an asterisk). Estimates are not available for Canada, Greece, Iceland and the USA.
Source: OECD indicators on employment protection (database), www.oecd.org/employment/protection.

39. The *Ordonnances* also shortened the maximum period during which a dismissal for personal reasons can be challenged in court from 24 to 12 months, resulting in a modest decline in the EPL index for permanent workers. In an earlier reform in 2013, the maximum period was reduced from five to two years.[15] The maximum period to challenge dismissals

[15] The 2013 reform, implemented in the *Loi relative à la sécurisation de l'emploi*, was not sufficient to lead to a shift to a lower bracket of the EPL indicator and therefore did not lead to a change in the

for economic reasons was kept at 12 months during both reforms. As a result, the maximum period for challenging dismissals in court on average across dismissals for personal and economic reasons – the definition of the corresponding component of the EPL index – decreased from 36 to 12 months between 2013 and 2018.[16] Despite the sharp decline, the maximum period in France remains high among OECD countries, where the maximum period for challenging dismissals in court is typically less than or equal to three months (Figure 3.3). This long period can entail substantial uncertainty for the employer, with limited benefits for workers. There appears therefore scope for reducing the maximum duration further.

Figure 3.3. The maximum period to challenge a dismissal in court was shortened but remains elevated



Note: The maximum period to challenge a dismissal starts from the contract termination date. For France, the (unweighted) average between the maximum period for dismissals for economic and personal reasons is taken. Japan has no maximum duration and is excluded from the OECD average. For the Netherlands, only the maximum period for the public employment services route is taken into account. Data refer to 2013 and 2018 (preliminary update indicated with an asterisk)
Source: OECD indicators on employment protection (database), www.oecd.org/employment/protection.

40. The reforms of 2016 and 2017 contained additional elements aimed at lowering legal uncertainty of dismissal procedures for employees and employers, which are not captured by the OECD EPL index. Most prominently, the reforms clarified the definition

value of the index. In other words, the maximum duration during which dismissals can be challenged in court remained very long by OECD standards even after this reform.

[16] This refers to the unweighted average of the maximum duration between dismissal for personal and for economic reasons. This unweighted average may underestimate the overall economic impact of the decrease in the maximum period to challenge a dismissal, since dismissals for personal reasons are much more prevalent than for economic reasons. In 2017, 13 times more individuals were dismissed for personal than for economic reasons in firms with more than 50 employees according to DMMO-EMMO data. For the value of the EPL index for France it does not matter whether an unweighted or weighted average is used.

of real and serious cause for dismissal for economic reasons, and introduced the collective scheme for termination by collective agreement (*rupture conventionnelle collective*). These reforms further lower legal uncertainty, without affecting the indicator of employment protection, since they do not pertain to dismissal.

41. At the same time, some aspects of the French employment protection legislation that affect the index – such as requirements before an economic dismissal can be considered to explore whether a worker can be transferred to another job in the same firm, including by retraining the worker to match the skill needs of vacant jobs (*obligations d'adaptation et de reclassement préalables*) – have been kept largely in place.[17] One possibility to make the French system potentially more flexible in these areas, without necessarily inducing a significant reduction in the degree of protection for workers, would be to allow for sectoral derogations downwards with respect to employment protection for permanent workers in collective agreements. A number of countries, including Austria, Germany, and Sweden, allow for this possibility. Derogations in collective agreements from employment protection laws effectively introduce the possibility of bargaining over the way the costs and benefits of flexibility are distributed. This can include trading off legal requirements in the case of dismissal related to notification, severance pay and the selection of dismissed workers against the efforts of employers to explore alternative solutions and develop social plans for dismissed workers. The main downside of collectively agreed deviations from national laws is that they render the system less transparent and predictable, and, as a result, could increase legal uncertainty for employers and employees. Box 3.2 discusses the role of sectoral derogations for permanent workers in the context of the Swedish system of Jobs Security Councils.

Box 3.2. Sectoral derogations for permanent contracts and the system of Jobs Security Councils in Sweden

In Sweden, sector-level collective agreements can derogate from statutory law, including by establishing levels of employment protection for permanent contracts that are lower than those foreseen in the law. This possibility allows employment protection rules for permanent contracts, which are among the strictest in the OECD, to be in practice considerably more flexible. Such derogations typically take the form of Collective Transition Agreements, which cover the large majority of workers in Sweden. Transition agreements re-regulate the process of dismissal, while at the same time provide additional benefits to dismissed workers in the form of income-support or re-employment services. They are implemented through Job Security Councils and financed through contributions from employers. Job Security Councils provide a potentially valuable complement to the public employment services by intervening early during the period of notification and focusing on workers with recent work experience (OECD, 2018[33]; Engblom, 2019[34]).

In principle, France could import the Swedish model of Collective Transition Agreements and Job Security Councils, as France seems to satisfy the main conditions that are needed to make such a system work:

[17] Transfer requirements for employers have been eased slightly, but not sufficiently to reduce the OECD EPL index. The 2015 *Macron law* has limited the transfer requirement to companies of the same group operating on the national territory (thus excluding foreign companies of the same group). Furthermore, since the *Ordonnances* employers can send a list of available transfer possibilities to all employees instead of having to tailor transfer possibilities to particular individuals.

- widespread sector-level bargaining, to allow for the pooling resources across employers and ensure that Job Security Councils have sufficient demands on them to justify their permanent operation;
- relatively strict statutory employment protection (despite the recent reforms), to provide clear incentives for employers to engage in collective transition agreements;
- a relatively long notification period, enhancing the potential of job security councils to intervene early before workers leave the firm; and
- moderately high worker representation in the workplace (although not as high and well organised as in Sweden) to ensure the proper implementation of transition agreements.

To allow for the establishment of job security councils in France, a legal reform would be needed that allows for the derogation from statutory law in the area of employment protection. This could be made conditional on the presence of a collective transition agreement and be limited to specific aspects of employment protection.

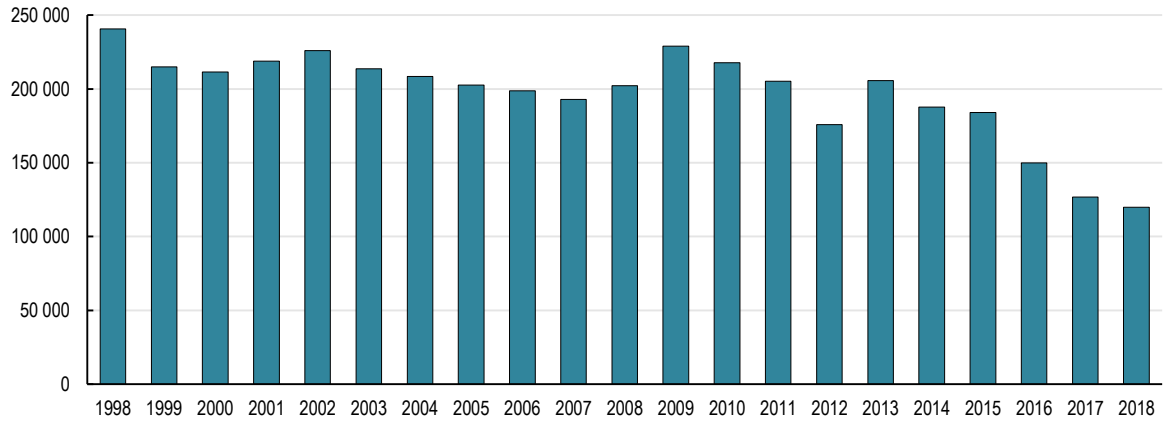
3.2. Lowering legal uncertainty and firing costs

42. The number of dismissal cases in courts has declined considerably in France over time (Figure 3.4). Traditionally, a large share of dismissals is challenged in court in France; about 14-20% of dismissals compared to less than 7% in other OECD countries a decade ago (OECD, 2004[35]; Serverin and Valentin, 2009[36]).[18] The introduction of the individual scheme for termination by mutual agreement (*rupture conventionnelle individuelle*) at the end of 2008 played a major role in instigating the downward trend (Bouvier, 2019[37]). Moreover, there was a sharp drop of 32% in the number of court cases between August 2016 and July 2017 compared to the previous year following the 2016 decree. This is likely a consequence of the 2015 *Macron law*, which introduced the requirement that challenges are clearly motivated and accompanied by complete files. The decline in the number of court cases has continued since the introduction of the 2017 *Ordonnances* with a 6% decrease between 2017 and 2018. At this point it is difficult to determine whether the *Ordonnances* had an impact on this aspect (France Stratégie, 2018[38]).

[18] Between about 1-2% of dismissals for economic reasons and 17-25% of dismissals for personal reasons were challenged in court in France in 2006 (Serverin and Valentin, 2009[36]). In the same year, dismissals for personal reasons were about 4 times as prevalent as for economic reasons, suggesting a range of about 14-20% of dismissals being challenged in court. Comparable data for around 2002 suggests that 7% or fewer of dismissals are challenged in court in Australia, Finland, Germany, Ireland, Italy, New Zealand, Norway, the UK, and the US. For Germany, the estimated figure was 23% (OECD, 2004[35]).

Figure 3.4. The number of dismissals challenged in court is decreasing

New dismissal cases brought to labour courts in first instance



Note: Cases challenged in *Conseils des prud'hommes*. The last four months for 2018 are estimates
Source: Ministère de la Justice-SDSE.

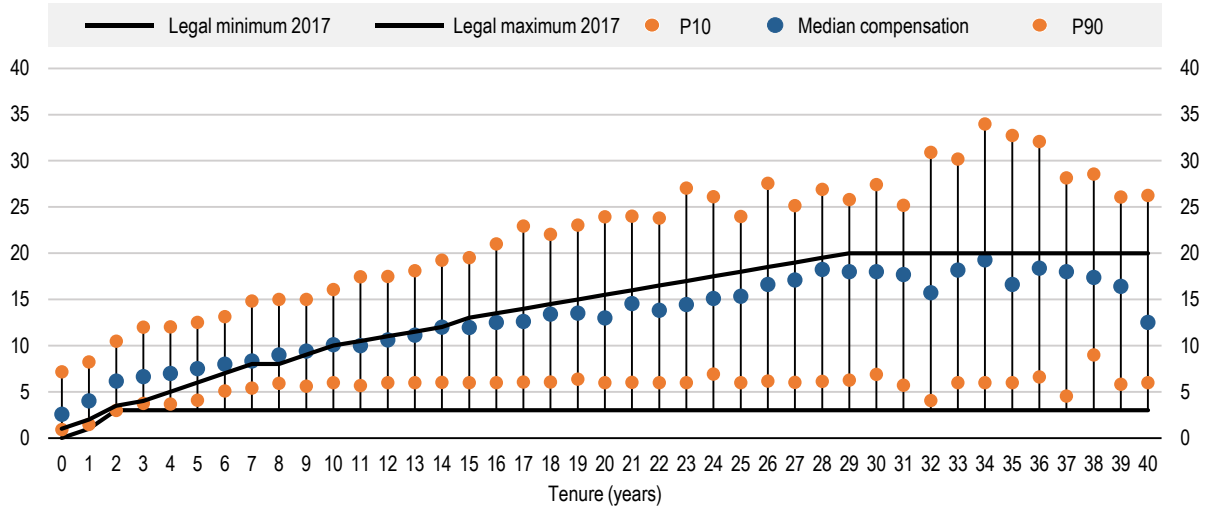
43. The compensation schedule introduced by the 2017 *Ordonnances* is likely to significantly reduce the expected level and the variation of compensations granted after unfair dismissal. Although it is too early to provide an ex-post evaluation of its impact, pre-reform data for the period 2006-2016 indicate that the granted amount by judges in appeal courts exceeded the maximum level in 71% of cases and was below the minimum level introduced by the *Ordonnances* in 5% of the cases when compensation was awarded (Figure 3.5).[19] Moreover, there is wide variation in the awarded level of compensation, and this appears to be partly attributable to the discretion of judges: 67% of the variation in dismissal compensation by appeal courts cannot be explained by key observable characteristics of the employee, firm, or the case in first instance (Cahuc, Carcillo and Patault, 2018[39]).

44. Recent evidence suggests that the introduction of a maximum schedule may have a positive impact on the performance of small businesses, but not on other firms (Cahuc, Carcillo and Patault, 2018[39]). This suggests that high firing costs or legal uncertainty may be a particularly important issue for small firms.

[19] The verdict of appeal courts rather than courts of first instance gives a better picture of the (variation in the) level of compensation to be paid by the firm. Appeal courts confirmed the level of compensation in 53%, raised it in 36%, and decreased it in 12% of the first instance cases during 2006-2016. Between 60-67% of the decisions in first instance were appealed during 2004-2013 (Cahuc, Carcillo and Patault, 2018[39]).

Figure 3.5. The compensation schedule in the case of unfair dismissal will likely reduce compensation levels

Compensation following unfair dismissal during 2006-16 and minimum and maximum levels of compensation in the 2017 *Ordonnances* in total monthly wages



Note: Based on 29,000 appeal court decisions between 2006-2016 for firms with 11 or more workers.
Source: Cahuc, P., Carcillo, S., Patault, B. (2018) "Are pro-worker judges detrimental to firm survival and employment?", *Mimeo*

45. However, it is still uncertain whether the schedule will be fully implemented, as its legal validity has been challenged by a few labour courts of first instance. In a number of court cases, judges have concluded that the restrictive schedule contradicts with France's international commitments to award an adequate compensation to an unfairly dismissed worker as laid down in ILO Convention No. 158 and the European Social Charter.[20] At the same time, other courts have concluded that the schedule is in line with international commitments. Legal limits on the level of compensation for employees in case of unfair dismissal exist in many countries, including in countries that have ratified ILO Convention 158 or the European Social Charter (Box 3.3).[21] In Italy, the Constitutional Court ruled that its system of fixed compensation amounts was in violation with the European Social Charter (Alessi and Sachs, 2018[40]).[22]

[20] In two of the court cases where the schedule was successfully contested (by the Lyon and Troyes labour courts), the worker had less than four years of tenure, implying limited discretionary space for judges to set a level of compensation (see Figure 3.5).

[21] For Spain and Portugal it is unclear whether the schedules have been successfully contested.

[22] The decision by the Italian Constitutional Court to rule that its system based on a fixed schedule for worker compensation violates the European Social Charter does not necessarily imply that the same will happen in France. First, the Italian scale prevents judges from having any discretionary space to take the extent of unfairness of dismissal into account, whereas this is still possible within a bandwidth with the French schedule. Second, the Italian legal system has a history of emphasising the "right to work", while in French legal history the "general interest", including employment

Box 3.3. Legal limits on worker compensation in the case of unfair dismissal

Legal limits on the level of compensation that can be granted by judges in case of unfair dismissals (excluding cases of discrimination or harassment) exist in many OECD countries. Like France, Spain, Portugal, Finland, and Sweden impose restrictions on the level of compensation in the case of unfair dismissal and have also ratified ILO Convention no. 158 and the European Social Charter on termination of employment.

- *Spain*: 33 days of salary per year of tenure with a maximum of 24 months of salary for contracts signed since the 2012 labour market reform.
- *Portugal*: between 15 and 45 days of salary per year of tenure with a minimum of 3 months.
- *Sweden*: workers are entitled to reinstatement after unfair dismissal and compensation. Instead of reinstatement, the employer can provide an allowance of 16 months of salary for employees with less than 5 years of tenure, 24 months between 5 and 10 years, and 32 months for more than 10 years. The additional compensation is not subject to a cap in principle and therefore allows discretionary space to labour courts.
- *Finland*: between 3 and 24 months of salary, depending on several factors including tenure, the age of the employee, the length of unemployment period, or the loss of income. Finland has been condemned by the European Committee of Social Rights for violation of the European Social Charter.

There are also OECD countries that have implemented binding compensation schedules and have ratified the European Social Charter, but not ILO Convention 158:

- *Italy* went the furthest with the introduction of the Jobs Act in 2014 by specifying a fixed scale according to the employee's tenure, preventing judges from any discretionary space to determine the level of compensation. The Italian Constitutional Court overruled this regulation in 2018.
- *Belgium*: between 3 and 17 weeks of salary, with no legal link with tenure.
- *Denmark*: maximum 1 year of salary for blue-collar. For white-collar workers, compensation goes up to half of the wages received during the notice period, with a maximum of 3 months for employees under 30, 4 months if more than 10 years of service, and 6 months if more than 15 years of service.
- *Netherlands*: schedule depends on age and tenure; 1/2 month of salary per year of tenure up to 35 years old, 1 month per year of tenure between 35 and 45 years old, 1.5 month per year of tenure between 45 and 55 old, 2 months per year of tenure beyond 55, to which a correction factor can be added depending on the exact

growth, traditionally receives more emphasis. Third, compensation after unfair dismissal in Italy has a strong deterrence function to avoid abuse, for which high and unpredictable compensation levels can serve a purpose, while in France, it serves mainly to compensate workers for inflicted damage. Fourth, in the Italian legal tradition, a fixed schedule is an infringement of equality as it leads to the homogenous treatment of people in different situations. This concept of equality is not recognised by the French Constitutional Council (Alessi and Sachs, 2018[40]).

situation in rare cases, which further gives discretionary space to labour courts. Severance payments are deducted from these amounts.

- *United Kingdom*: for employees with more than two years of tenure compensation consists of two components: (i) a basic allowance depending on tenure, capped at £ 14,670, and (ii) a compensatory allowance capped at either one year salary or £ 83,682 for 2018.

Finally there are a number of countries that make use of an indicative schedule:

- *Germany*: the indicative schedule depends on tenure with a maximum of 12 months of salary. This maximum is increased to 15 months if the worker is more than 50 years old and has more than 15 years of tenure, and 18 months if more than 55 years old with more than 20 years of tenure.

Source: Cahuc, P., Carcillo, S., Patault, B. (2018) "Are pro-worker judges detrimental to firm survival and employment?", *Mimeo.*

46. Legal uncertainty could be reduced further through an enhanced professionalisation of first-instance labour courts and conciliation efforts. With almost two in three decisions in first instance labour courts appealed in 2017 and only half of the rulings upheld in the appeal court, there seems to be space to improve the quality of first instance labour courts (Cahuc, Carcillo and Patault, 2018[39]). France is together with Mexico the only country to rely solely on non-professional judges in first instance labour courts. France has already taken steps towards a further professionalisation of labour courts with the 2015 *Macron Law* that strengthened their ethics and training possibilities but could go further. For example, the support and guidance of labour court judges by legal experts could improve the quality of verdicts. The initial conciliation could also be strengthened if parties that do not appear in person are sanctioned, for example by imposing a financial penalty as is the case in the United Kingdom (Yazidi and Darmaillacq, 2014[41]).

3.3. Re-considering the regulation of temporary contracts

47. The emphasis of reform during the past few years has been on reducing incentives for the use of temporary contracts rather than taking regulatory measures to curtail their use.

48. To further reduce incentives for the use of temporary contracts, and particularly those of very short duration, various reforms to the system of unemployment insurance are currently being considered. A first option involves modifying the rules for partial unemployment insurance that allow combining partial benefits with employment while accumulating new entitlements. The current rules create incentives for the use of short-term contracts, possibly in combination with receiving partial unemployment benefits, alternated with periods of full unemployment benefits (Gonthier and Vinceneux, 2017[42]; Cahuc and Prost, 2015[43]).[23] A second option involves the use of financial incentives by varying the employer unemployment insurance contributions with the duration of the contract. This would help ensure that employers internalise the social costs of using temporary contracts in terms of productivity and training as well as an increased reliance on the unemployment insurance system. The *bonus-malus* system could take the form of regressive contributions

[23] The scope for this type of behaviour was further extended in 2014.

with tenure for certain contracts or an experience-rating system where employer insurance contributions are linked to separation rates (Cahuc and Nevoux, 2017[44]; Cahuc et al., 2016[45]; Nicholson and Needels, 2006[46]).[24]

49. Beyond incentives, there may also be a need to review the rules for the use of *CDD d'usage* (Box 1.1) and that of standard temporary contracts. At present, in a number of sectors hiring on *CDD d'usage* is allowed by decree or collective agreement, effectively exempting firms and workers from statutory rules that regulate the use of temporary contracts. Whereas France scores among the highest in the OECD after Luxembourg and Turkey on the regulatory restrictiveness with respect to the use of temporary contracts (Figure 3.1, excluding temporary agency work), the regulation of *CDD d'usage* – which may account for up to a third of temporary contracts in France – is quasi absent. In terms of the OECD EPL index for temporary work (excluding temporary agency work), the rules of the *CDD d'usage* would be comparable to those existing in Canada and the United States. A major difference with Canada and the United States, however, is that in France protection of permanent workers will remain relatively restrictive, providing strong incentives for the use of *CDD d'usage* and other forms of non-standard work.

50. To reduce the gap in regulation between the *CDD d'usage* and standard temporary contracts, while allowing for more customisation in the design of rules in line with sectoral needs, the *Ordonnances* have created the possibility for collective partners to provide more flexible rules regarding the use of temporary contracts than foreseen by the law through the use of derogations in sector-level agreements. The derogations can apply to the maximum number of successive contracts, their maximum cumulative duration and the cooling-off period between two successive contracts. Furthermore, the *Ordonnances* allow sector-level agreements to define conditions for the use of temporary contracts without predetermined duration that will terminate upon completion of the project (*contrat de chantier* or *contrat d'opération*) related to firm size, type of work, training provisions and termination. The social partners have so far only made modest use of the possibility to negotiate more flexible rules for the use of temporary contracts.[25]

51. While sectoral derogation possibilities can help making labour markets more adaptable by addressing specific needs, they also risk deepening labour market duality, in a similar way as is currently the case with the *CDD d'usage*. Concerns about duality related to the *CDD d'usage* and derogations in sector-level collective agreements could be addressed by specifying in the law the maximum degree of flexibility in terms of the number of consecutive contracts by the same worker in a given company, and their

[24] France introduced a form of taxation of temporary contracts between 2013 and 2017, when employer unemployment insurance contributions were increased by three percentage points (from 4% to 7%) for temporary contracts of less than one month and 1.5 percentage points for those under three months. However, the available evaluations show a limited or even counterproductive impact of this policy as many contractual exemptions were allowed (Cahuc et al., 2016[45]).

[25] As of 1 November 2018, the Ministry of Labour has received three sector-level collective agreements related to the use of temporary contracts (France Stratégie, 2018[38]). Collective agreements in the metal and cleaning industries reduced or even supressed the cooling off period between two successive temporary contracts. In addition, the agreement in the cleaning industry extended the cumulative duration of temporary contracts to two years. Another agreement in the metal industry created the possibility of using temporary contracts for a specific project lasting at least six months for all firms in the sector irrespective of their size, provided salaries exceed the collectively agreed minimum by at least 10% and appropriate training provisions are in place.

cumulative duration that is allowed for either *CDD d'usage* or sectoral derogations, similar to the case of the Netherlands (Box 3.4).

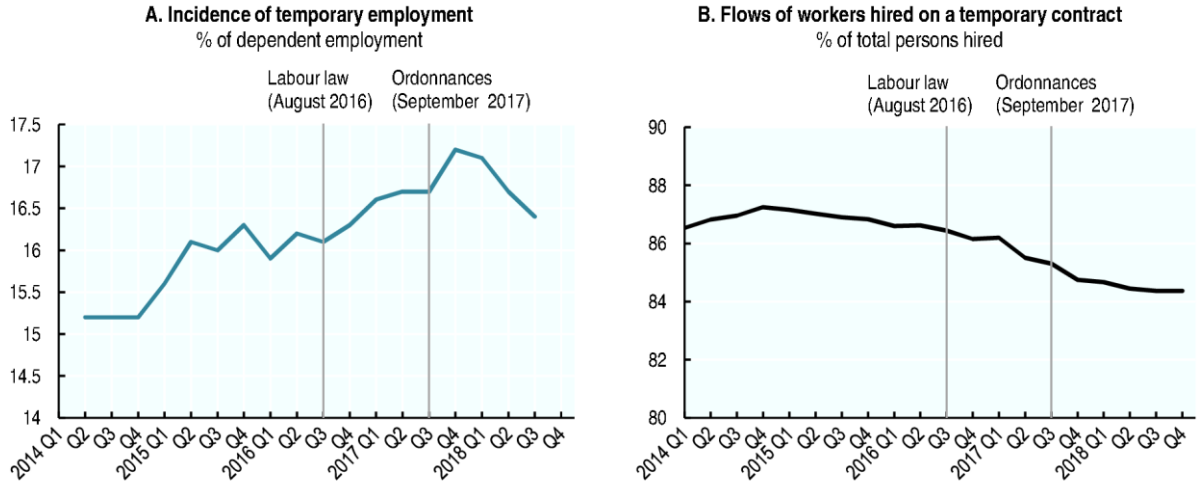
Box 3.4. Sectoral derogation for temporary contracts in other OECD countries

The possibility of negotiating collective agreements with more flexible rules for the use of temporary contracts exists in several OECD countries, including in most of the Nordic countries as well as the Netherlands and Italy. Since 2015, Dutch law stipulates that chains of temporary contracts can consist of at most three contracts and have a cumulative duration of no more than two years. Sector-level collective agreements can deviate from this rule by allowing for chains of at most six contracts for a total duration of four years. Almost half of sectoral collective agreements signed in 2017 include derogations from the chain rule for certain groups of workers or activities. In the majority of those agreements, deviations relate to employees that are following a development track or older workers above the retirement age. Activities to which deviations have been applied include seasonal work, project-based work and temporary agency workers. General deviations for all employees are relatively rare. In Italy, collectively agreed deviations on the use of temporary contracts can also be negotiated at the firm level. In the Nordic countries, the law typically does not stipulate limits to the number of renewals of temporary contracts or their cumulative duration.

3.4. Are the reforms working?

52. Recent trends suggest that the use of temporary contracts may have peaked in France. The incidence of temporary contracts in dependent employment has started to decline since the beginning of 2018 from 17.2 to 16.7% (Figure 3.6, Panel A). The share of hires on temporary contracts (excluding temporary work agencies) has also decreased, from its peak of 87.2% at the beginning of 2015 to 84.4% at the end of 2018 (Panel B). It is, however, too early to determine whether the recent reforms – including the *Ordonnances* of 2017 – have contributed to these developments.

Figure 3.6. Temporary employment has gone down recently



Note: Panel A: 15-64 years olds. Panel B: Seasonal adjusted data. Temporary agency contracts ("CDD interim") are not included; "CDD d'usage" are included.
Source: Panel A: Eurostat (2018) EU Labour Force Survey. Panel B: Acoss – URSSAF. https://www.acoss.fr/home/observatoire-economique/publications/acoss-stat/2019/acoss-stat-n282.html

4. Enhancing the quality of collective bargaining and social dialogue

53. The French government has taken steps to facilitate social dialogue at the sector and firm level and to ensure that economic conditions and sectoral heterogeneity are better taken into account in collective agreements (Box 4.1).

Box 4.1. The collective bargaining reforms of 2016 and 2017

Branch level

Procedure for administrative extensions. The *Ordonnances* changed procedures for extending sector-level collective agreements by: (i) requiring collective agreements to include specific provisions for small firms with less than 50 employees or a justification for their absence; (ii) allowing for the possibility to refuse extension requests if they are deemed to undermine competition or vulnerable workers or firms; (iii) soliciting the advice of a newly established group of experts on the economic and social effects of extensions.

Reduction of number of branches. The 2016 *Labour Law* set the objective to reduce the number of professional branches to 200 by 2019 and put in place specific procedures to achieve this objective. The *Ordonnances* gave the government the power to actively reduce the number of branches by merging branches in absence of negotiations by the social partners.

Sector-level level bargaining. With the *Ordonnances*, the branches have obtained the possibility to provide more flexible rules regarding the use of temporary contracts than foreseen by the law through the use of derogations in sector-level agreements. Furthermore, the branches maintain the exclusive competence in 11 main subjects, including wage floors, while retaining the possibility of limiting further negotiation at lower level through the introduction of specific clauses on other subjects.

Firm level

Negotiation at the firm level. Since the *Labour law*, firm-level agreements take precedence over sector-level agreements in the areas related to working time arrangements. While firm-level agreements can only increase but not reduce collectively-agreed wage floors by the branches, the 2017 *Ordonnances* have made the allocation and level of bonuses the exclusive competence of firms, which should allow companies to adapt remunerations better to economic conditions.

Collective bargaining in small firms. The *Ordonnances* have introduced the possibility in firms with fewer than 20 employees to conclude a firm-level collective agreement in the absence of a union delegate, provided that at least two-thirds of employees support the agreement through a referendum. In firms with 20 to 50 employees, the *Ordonnances* introduced the possibility to negotiate with an elected representative of staff not mandated by the unions.

Merger of staff representative bodies. The *Ordonnances* also mandated the establishment of a single Economic and Social Council (*Comité Social et Économique*, CSE) in all firms with more than 10 employees by January 2020. The CSE replaces and regroups various existing instances that represent the interests of workers within the firm, related to

collective or individual complaints or grievances, the implementation of statutory or collectively agreed provision and the promotion of occupational health and safety.

Source: 2016 Labour law and the September and December 2017 Ordonnances.

4.1. Restructuring sector-level bargaining

54. As part of a larger effort to promote collective bargaining and social dialogue, successive French governments since 2014 have put in motion a process to reduce the number of *branches professionelles* which define working conditions and regulate competition between firms in a sector (Antonmattei, 2018[47]).[26] Reducing the number of branches can help promote collective bargaining negotiations and the quality of collective agreements, as small branches often lack dynamism and resources that are needed to engage in quality negotiations (Box 4.2). The merging effort is particularly important for small and medium enterprises for whom it is often more difficult to conclude collective agreements at the firm-level, as well as for branches with few firms which struggle to pool sufficient resources for the provisions of collective provisions related to adult learning and social protection.

55. The *Ordonnances* gave the French government means to speed up the process initiated by previous governments to reduce the number of branches to 200 as of 2019. Since the *Ordonnances*, the government can merge branches in the absence of negotiations between the social partners in a number of specific cases, including when branches are small (< 5000 employees), dormant (no new agreements in last 10 years), regional, or with a low level of employer organisation. Alternatively, to encourage the social partners in their efforts to restructure collective bargaining, the government could threaten to refuse requests for the extension of collective bargaining agreements based on its increased discretionary powers in this area (see further below).[27] The available evidence suggests that the number of branches at the start of the restructuring process in 2015 was indeed relatively high in comparison with other OECD countries who also have predominantly sector-level bargaining and high collective bargaining coverage.[28] The number of branches ranged from 150-250 branches in Germany and the Netherlands to 600-700 branches in France and Sweden and close to 900 in Italy (Figure 4.1).[29] The relatively high number of branches in France reflected the presence of many small branches: more than half of branches covered less than 5000 employees. At the same time, about one third of branches were dormant, i.e. did not sign a new agreement in the past decade. Essentially all dormant cases were small branches (CEDAP and Avocats, 2018[48]). The strong link between branch size and

[26] The text will refer to branches and sector-level collective agreements interchangeably.

[27] The *Ordonnances* also provided the possibility to the government to enlarge the scope of branches to geographic areas or economic activities previously not covered by collective bargaining.

[28] Data on the number of branches for other countries are not readily available and tend to be difficult to compare in practice. The number of sector-level agreements can be below the number of branches if sector-level bargaining is limited to a small range of economic activities. On the other hand, the number of sector-level agreements can be higher than the number of branches if branches can conclude several agreements, for instance for different occupations (e.g. white versus blue collar) or if several trade unions and/or employer associations are active within a single branch.

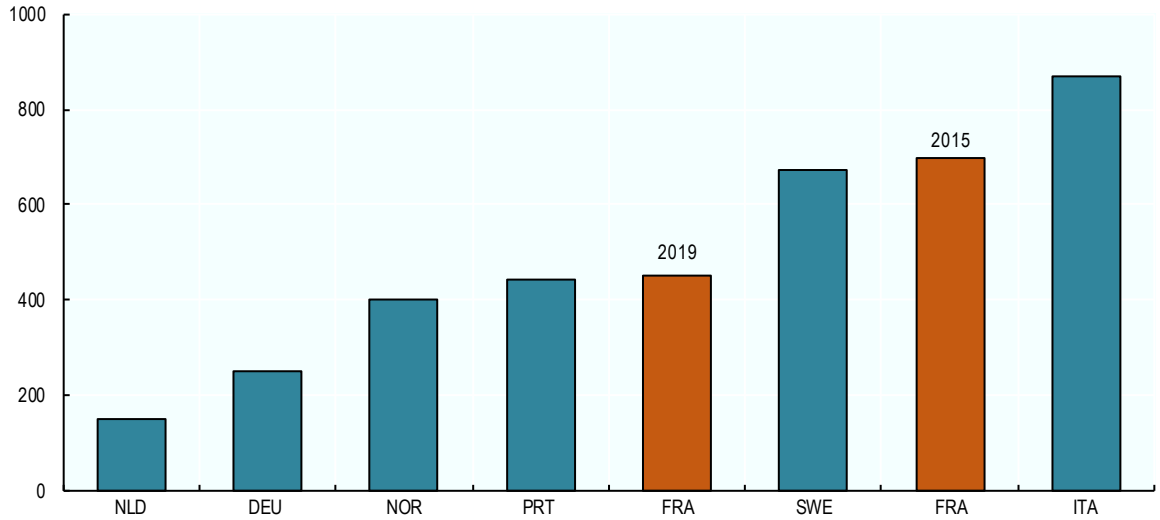
[29] The number of 150 branches in Germany for instance appears in (Portier, 2018[55])

collective bargaining dynamism highlights the importance of resources for engaging in effective negotiations.

56. Since the start of the restructuring process, significant progress has been made, with 450 branches as of February 2019. Most of the decrease has come from branches covering a low number of employees.[30] The decrease has been largely achieved by the social partners themselves, although the government has started to use its new powers to merge and enlarge branches directly (JORF, 2018[49]).

57. The government-driven approach to restructure branches appears be unique in the OECD. Rather than restructuring the number of branches, countries have attempted to promote collective bargaining dynamism and reduce the number of dormant schemes by imposing limits on the continued validity of collective agreements beyond their termination date (ultra-activity) by law or collective agreement (OECD, 2017[5]). In France, as in some other OECD countries, collective agreements do not expire until they are replaced by new ones. This ensures the continuity of the system and prevents gaps when collective agreements expire. This is particularly important in countries where the law leaves large room for collective bargaining (e.g. countries without a statutory minimum wage). To promote incentives for collective bargaining and avoid having outdated collective agreements, most countries impose some limits on ultra-activity either by law or through collective agreements. Introducing limits to ultra-activity in France now could risk reducing bargaining coverage since dormant branches tend to be small and weakly organised. However, introducing some limits to ultra-activity could be considered once the restructuring process of the branches is complete.

Figure 4.1. The number of branches in France has been reduced by about a third



Note: The figure concentrates on countries where sector-level bargaining is predominant and collective bargaining coverage is high.

[30] https://travail-emploi.gouv.fr/IMG/pdf/idccjanvier19.xls.pdf. There remained 218 departmental and 94 regional agreements.

Source: DARES Conventions collectives nomenclatures : liste des IDCC février 2019, https://travail-emploi.gouv.fr/dialogue-social/negociation-collective/article/conventions-collectives-nomenclatures; WSI Collective Agreement Archive, https://www.boeckler.de/wsi-tarifarchiv_3396.htm; Consiglio nazionale dell'economia e del lavoro (CNEL) ; Dutch Ministry of Labour and Social Affairs; National expert estimates for Norway; Ministério do trabalho, solidariedade e segurança social, Centro de relações laborais; Swedish National Mediation Institute.

Box 4.2. Economic rationale for decreasing the number of branches

The optimal number of branches for social dialogue and labour market performance is a priori unclear and is likely to differ across countries.

- *Economies of scale.* A minimum branch size may be required in order to have sufficient resources for signing high-quality collective agreements. In France, almost all dormant branches had fewer than 5000 employees, highlighting the link between branch size and collective bargaining dynamism. This suggests there may be economies of scale to collective organisation and collective bargaining.
- *Legal space.* The optimal number of branches may depend on the degree of social organisation among the social partners. Despite having a similar number of branches in Sweden, sector-level bargaining has remained much more vibrant, in part because employment and social policies leave much more space for collective bargaining, resulting in stronger incentives for collective organisation among firms and workers and high rates of employer-association and trade-union density. Bargaining space in France is relatively limited because of the presence of relatively detailed legal provisions in relation to for example the minimum wage and employment protection in combination with the favourability principle according to which collective agreements can only be more favourable for employees than the law.
- *Flexibility.* The number of branches may also have important implications for the extent to which collective bargaining systems can take due account of macro-economic conditions and business conditions at the local level (OECD, 2017[5]). On the one hand, reducing the number of branches may facilitate wage coordination across sectors, and hence taking account of macro-economic conditions, although in practice, the scope for enhanced wage coordination in France may be limited due to the role of the minimum wage. On the other hand, reducing the number of branches might complicate taking account of local economic conditions. Allowing for more flexibility at the firm-level *within* sectoral agreements through a process of "organised decentralisation" could mitigate this concern (Traxler, 1995[50]; OECD, 2018[33]). Organised decentralisation can take the form of controlled opt outs as in Germany or the use of framework agreements that leave space for further adaptation at the firm level of broad principles set at the branch level, as in Denmark (OECD, 2018[1]).

4.2. Rendering administrative extensions less automatic

58. A key feature of the collective bargaining system in France is the relative importance of administrative extensions through which the coverage of sector-level collective agreements can be extended to non-signatory firms and their workers in the same sector (OECD, 2017[51]). In 2014, extensions increased collective bargaining coverage from

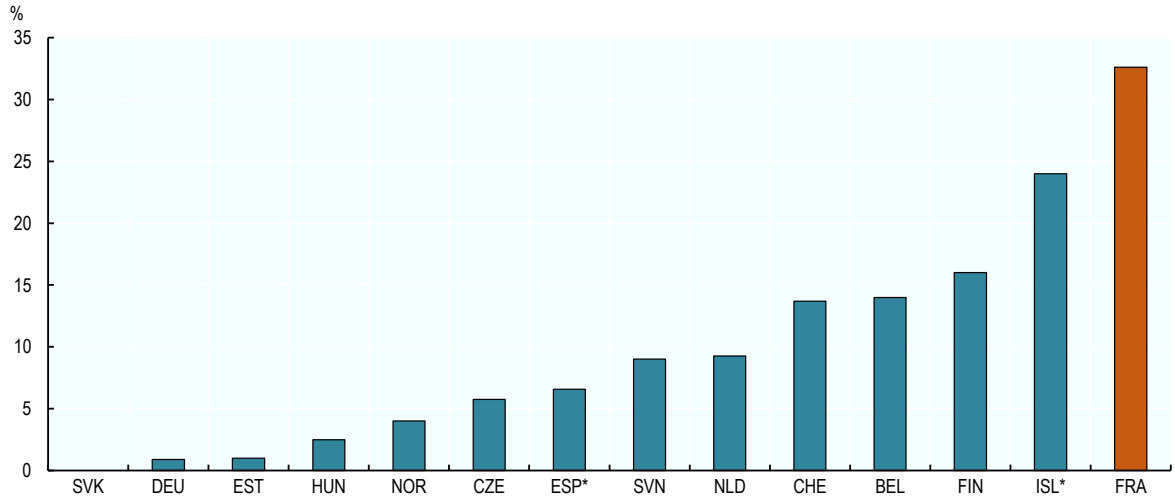
about two thirds to close to 100% in France, more than in any other OECD country for which data are available (Figure 4.2).

59. While extensions ensure that workers and firms in the same sector are subject to the same rights and obligations, they need to be well-designed to avoid that extensions undermine employment and economic dynamism (OECD, 2018[1]; Langevin, 2018[52]; Hijzen and Martins, 2016[53]). Extensions can undermine dynamism when the signatory parties of collective agreements fail to take sufficient account of the interests of those not or under-represented at the negotiation table, such as small or new firms, who are less likely to be affiliated to employer associations and more likely to employ vulnerable workers. Yet, unlike most other countries where extensions are common, such social and economic considerations did not until recently play a role in the decision to extend collective agreements in France. The French system imposed essentially no conditions on extension requests, beyond the legal validity of collective agreements, rendering the process of extension quasi-automatic.

60. The *Ordonnances* sought to give more attention to economic and social considerations in the extension process. To be eligible to extensions, collective agreements henceforth need to differentiate between large and small firms. This recognises the fact that coverage extensions disproportionately relate to new firms, small firms and vulnerable workers (Langevin, 2018[52]). New and small firms are less likely to be affiliated to employer associations and more likely to employ vulnerable workers. The new provision therefore helps ensure that the interests of these groups of firms and workers are reflected in collective agreements. Moreover, extension requests are no longer granted (quasi) automatically. Extensions can now be rejected if they are deemed harmful to vulnerable groups of firms and workers or risks undermining market contestability. A commission of experts has been established which can be solicited in the case of specific extension requests to support the government in assessing the social and economic effects of extensions.

Figure 4.2. Administrative extensions play an important role in France

Additional bargaining coverage achieved through administrative extensions in % of dependent employment, 2015 or latest year available



Note: Asterisk (*) indicates that no formal administrative extensions but functional equivalents are in place.
Source: OECD (2017) Les extensions administratives des accords de branche en France : Effets et pistes de réformes, OECD Publishing. France: *Les extensions des accords de branche : quels sont les entreprises et les salariés concernés ?* Dares analyses n° 2018-053.

61. These reforms have the potential to bring about substantial improvements in collective bargaining practices by ensuring that they take account of the interests of vulnerable workers, smalls firms and potential market entrants, and as such, are broadly in line with the recommendations given by the OECD (2017[51]; 2018[1]). However, to have a significant effect on the quality of bargaining practices, it is important that the reforms are credible and effectively implemented. This requires that extension requests related to collective agreements that not take sufficient account of the interests of vulnerable workers, small firms and potential entrants may need to be rejected or postponed until appropriately revised. To limit the adverse effects on collective bargaining coverage it is important to implement the reforms gradually, provide clear information on the criteria for extension and technical support to the social partners to enhance the quality of collective agreements and the welfare effects of extensions.

62. The approach by the government to the changes so far has been cautious. As of December 2018, no extension request has been rejected, and the committee of experts has not (yet) published an advice on an extension. Moreover, collective agreements that have been extended so far do not substantially differentiate between small and large firms, but instead typically include a clause stating that differentiation is not warranted in the present context. The apparent lack of action may reflect the need for reflection and debate to determine which criteria should be considered for the assessment of extension requests, how they should be evaluated by the government or the commission of experts and how the inclusion of differentiated provisions by firm size in collective agreements enters the picture. To support the public debate on extensions more research on their economic and social implications is needed.

4.3. Promoting social dialogue in the workplace

63. Alongside reinforcing sector-level bargaining, the current government is also actively seeking to strengthen social dialogue in the workplace. In particular, the *Ordonnances* have introduced the possibility in small firms with less than 20 employees to conclude a firm-level collective agreement in the absence of a union delegate, provided that at least two-thirds of employees support the agreement through a referendum (France Stratégie, 2018[38]; OECD, 2018[33]). As of October 2018, about 400 firm-level agreements or revisions have been approved by referendum in firms with up to 10 employees, and 125 new or revised agreements in firms with between 11 to 20 employees.[31] The large majority of these agreements relate to working time. While these new agreements so far concern only a limited a number of employees, their use is likely to grow further as knowledge of the new rules increases across firms and workers.

64. The *Ordonnances* also mandated the establishment of an Economic and Social Council (*Comité Social et Économique*, CSE) in all firms with more than 10 employees by January 2020. The CSE replaces and regroups various existing instances that represent the interests of workers within the firm, related to collective or individual complaints or grievances, the implementation of statutory or collectively agreed provision and the promotion of occupational health and safety. The CSE is consulted about issues related to the introduction of new technologies, work organisation, and training. As of October 2018, only two CSE's have been established (France Stratégie, 2018[38]). The lack of more progress might reflect a combination of relative complexity of merging, given the expertise needed and organisational needs, and the fact that firms still have more than a year before the CSE should be in operation.

[31] Note that in the latter case it is not clear to what extent these can be attributed to the reform since no information is available about the presence of a trade union representative.

5. Conclusions

65. This paper provided a preliminary assessment of some of the labour market reforms that have been introduced since 2017 in France, with a specific focus on tax and benefit measures to reduce labour costs and promote work incentives, employment protection reforms to lower labour market duality, and collective bargaining reforms to reinvigorate social dialogue.

- *Taxes and benefits.* To enhance the position of low-skilled workers, France has embarked on a series of reforms to make work pay and stimulate job creation. Take-home pay at the minimum wage level has increased by 8.6%, by reducing employee social security contributions and extending in-work benefits. Moreover, employer social contributions for low-wage workers have been cut by 3.7 percentage points to lower labour costs and promote job creation. As a result, France now has the second lowest effective tax rate on labour at the minimum wage in the OECD area. Effective taxes for the median worker remain however well above the OECD average.
- *Employment protection.* In recent years, France has implemented a number of reforms to tackle labour market duality by lowering the cost of dismissing workers on permanent contracts. This has resulted in a significant reduction in the OECD Employment Protection Legislation index for individuals on permanent contracts. According to this index, employment protection is now more flexible in France than it is in Germany or Sweden. The reduction in employment protection is primarily driven by the reduction in compensation in the case of unfair dismissal through the introduction of a binding schedule and the clarification of procedural breaches as part of the 2017 *Ordonnances*. This is expected to substantially reduce legal uncertainty for employers and employees, given the high degree of variation in granted compensation before its introduction, and to entail a significant reduction in firing costs.
- *Collective bargaining and social dialogue.* The recent reforms subject requests for the extension of sector-level agreements by the government to a number of conditions to ensure that they do not undermine competition and the prospects of vulnerable workers and small firms. At the same time, a number of measures have been taken to reinvigorate collective bargaining and social dialogue through the restructuring of professional branches, the devolution of competences in the area of temporary contracts to the social partners and the increased scope for collective bargaining at the firm-level.

66. While the French labour market reforms introduced since 2017 have the potential to promote employment, enhance living standards and tackle labour market duality, it is too early to say whether these positive labour market effects will materialise, and to what extent. It therefore remains important to continue evaluating the labour market consequences of the reforms over the next few years.

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Annex A. Additional information regarding the tax and benefit reforms

The tax and benefit reforms of 2018 and 2019 in greater detail

67. The French government has implemented and announced in 2018 and 2019 four tax and benefit reform packages. These reforms were announced in the Finance Act for 2018 on 30 December 2017 (*Loi n° 2017-1837 du 30 décembre 2017 de finances pour 2018*) and in the Economic and Social Emergency Act of 24 December 2018 (*Loi n° 2018-1213 du 24 décembre 2018 portant mesures d'urgence économiques et sociales*). Four reform packages and a baseline model have been simulated using the OECD TaxBEN model.

Baseline model

- The model departs from the tax and benefit system as in place as of January 2018, with the *Prime d'activité* inflation adjustment as of March 2018 incorporated and the employee social security contribution rates as of end 2017.

Reform 1: Employee social security contribution cuts

- Employee social security contributions were abolished for health insurance as of 1/1/2018 (from 0.75%) and for unemployment insurance, the latter in two steps, from 2.4 to 0.95% as of 1/1/2018, and to 0% as of 1/10/2018. Contributions for unemployment insurance are set to 0% in the simulations of this reform;
- Contributions for complementary pensions for employees with a non cadre status increased marginally by about 0.2 percentage points as of 1/1/2019. The increase consisted of the introduction of an equilibrium contribution of 0.14% (contribution d'équilibre technique) and a rise of the existing for complimentary pension from 3.9% to 4.01% for incomes below the social security ceiling (€3,311 per month in 2018) and from 8.98% to 9.72% for incomes above this ceiling;
- The rate of the universal social contribution (Contribution sociale généralisée, CSG), an income levy, was increased by 1.7 percentage points. The reduced rates for low-income benefit recipients were left unchanged.

Reform 2: Increase of the lump-sum amount of the Prime d'activité

- The monthly lump-sum amount of the *Prime d'activité* went up by €20 for a single person household as of October 2018;
- Furthermore, the percentage of wage income taken into account was decreased from 62 to 61%, leading to a slightly steeper phase-out of the *Prime d'activité*.

Reform 3: Increase of the work bonus of the Prime d'activité

- The individual work bonus of the Prime d'activité was increased in January 2019. The reform consisted of an extension of the phase-in of the bonus to 1 times instead of 0.8 times the full-time minimum wage level. Furthermore, the slope of the bonus was made substantially more generous;
- The reform was designed to increase net monthly income by €90 at the full-time minimum wage level for a single person household (and €100 when also taking account of the regular revalorisation of the minimum wage).

Reform 4: Employer social security contribution cuts

- The so-called Fillon reduction, which reduces contributions in firms with more than 20 employees, is announced to increase from 28.49% to 32.6% at the minimum wage level as of 1/10/2019;
- Contributions for complementary pensions for employees with a non cadre status have increased by about 0.4 percentage points as of 1/1/2019. The increase consisted of the introduction of an equilibrium contribution of 0.21% (contribution d'équilibre technique) and a rise of the existing scale for complimentary pension from 5.85% to 6% for incomes below the social security ceiling (€3,311 per month in 2018) and from 13.45% to 14.6% for incomes above this ceiling;
- Employer social security contributions for health insurance were decreased by 6 percentage points (from 13 to 7%) for wages not exceeding 250% the minimum wage. This fully compensates the abolition of the Crédit d'impôt pour la compétitivité et l'emploi (CICE) that is accounted for as lower employer social security contributions. Both have been implemented as of 1/1/2019.

68. As of January 2019, the gross minimum wage went up by 1.5% in January 2019. This is conform to its automatic revaluation based on inflation and past wage developments (Rapport du Groupe d'Experts, 2018[17]), and therefore this is not treated as a reform. Simulation results with the minimum wage revaluation incorporated are available upon request.

Simulated effects at different income levels across different household types

69. The direct effects on net income, work incentives, and labour costs have been simulated using OECD TaxBEN for multiple earnings levels. Table A.1 displays the simulated effects for a single person household without children, which is the household situation discussed in the main text. Table A.2 shows the results for a single parent with two children, aged four and six. Table A.3 plots the equivalent results of a couple with the 40-year-old spouse earning the full-time minimum wage, with two children, aged four and six. The following conclusions can be drawn by comparing the simulated results across the three household types:

- Net incomes also increase substantially for single parents and working couples. As with single person households, the increases are the largest at the full-time minimum wage level, although they are more spread for working couples since the spouse working at the minimum wage also benefits from the increase of the *Prime d'activité*. The stronger results on net household income for single parents and couples with children are a consequence of the fact that the lump-sum amount of the *Prime d'activité* is higher for households with children, in particular for single parents.
- Work incentives at the extensive margin for individuals on unemployment benefits and social assistance increase even more for single parents and generally also for working couples than for single person households.
- Work incentives at the intensive margin increase across the earnings distribution for single parents. For working couples, the results are comparable to those for single person households, with stronger incentives to move from a half-time to full-time job at the hourly minimum wage but weaker at the hourly median wage.

- For labour costs, the results are very comparable across household types since the reduction in employer social security contributions, the only reform with a simulated impact on labour costs, is calculated at the individual earnings level.

Table A.1. Simulated effects of tax and benefit reforms for a *single household, no children*

	Income level	0. Baseline (start 2018)	R1: Employee SSC (mid 2018)	R2: *Prime d'activité* (Oct 2018)	R3: *Prime d'activité* (Jan 2019)	R4. Employer SSC (end 2019)	T: Total
A. Net household income	0.5 MW	1011	0.5	1.4	0.1	0	2.0
	0.75 MW	1135	0.6	1.2	1.8	0	3.6
	MW	1322	1.0	0.8	6.7	0	8.6
	1.25 MW	1468	0.7	0.5	6.1	0	7.4
	Median (1.8 MW)	1952	1.7	0.0	0.0	0	1.7
B. Participation tax rate unemployed	MW	73	-0.8	-0.7	-6.0	0	-7.6
	1.25 MW	78	-0.5	-0.4	-4.8	0	-5.8
	Median (1.8 MW	78	-1.2	0.0	0.0	0	-1.2
C. Participation tax rate social assistance	MW	63	-0.8	-0.7	-6.0	0	-7.6
	1.25 MW	62	-0.5	-0.4	-4.8	0	-5.8
	Median (1.8 MW	56	-1.2	0.0	0.0	0	-1.2
D. Participation tax rate half to full-time	MW	59	-1.0	0.5	-11.9	0	-12.5
	1.25 MW	58	-0.6	0.6	-8.5	0	-8.5
	Median (1.8 MW	49	-1.5	0.9	4.5	0	3.8
E. Labour costs	0.5 MW	807	0	0	0	-3.7	-3.7
	0.75 MW	1210	0	0	0	-3.7	-3.7
	MW	1614	0	0	0	-3.7	-3.7
	1.25 MW	2301	0	0	0	-1.5	-1.5
	Median (1.8 MW)	3699	0	0	0	0.1	0.1
F. Effective tax rate	0.5 MW	-25	-0.6	-1.8	-0.1	-5.0	-7.5
	0.75 MW	6	-0.5	-1.1	-1.7	-3.8	-7.1
	MW	18	-0.8	-0.7	-5.6	-3.5	-10.5
	1.25 MW	36	-0.4	-0.3	-3.9	-1.0	-5.7
	Median (1.8 MW)	47	-0.9	0.0	0.0	0.1	-0.8

Note: In monthly levels for Column 0 (€ for Rows A and D, % for B, C, and E), in changes relative to the column before for Columns R1-R4 and relative to Column 0 for T (% for Rows A and D, ppt for Rows B, C, and E). Rows B-D show the fraction of additional earnings lost because of higher taxes or lower benefits when taking up fulltime employment for an individual unemployed for 2 months with full benefit contribution record (Row B), in social assistance (Row C), or moving from a 17.5 to 35 hours work week (Row D) at the given hourly wages levels.
Source: OECD secretariat calculations using OECD TaxBEN model.

Table A.2. Simulated effects of tax and benefit reforms for a *single parent with two children*

	Income level	0. Baseline (start 2018)	R1: Employee SSC (mid 2018)	R2: *Prime d'activité* (Oct 2018)	R3: *Prime d'activité* (Jan 2019)	R4. Employer SSC (end 2019)	T: Total
A. Net household income	0.5 MW	1839	0.5	2.0	0.0	0	2.5
	0.75 MW	1997	0.4	1.8	1.0	0	3.2
	MW	2091	0.4	1.6	4.2	0	6.3
	1.25 MW	2176	0.7	1.4	4.1	0	6.2
	Median (1.8 MW)	2553	0.9	0.9	3.5	0	5.4
B. Participation tax rate unemployed	MW	64	-0.8	-2.2	-6.0	0	-9.1
	1.25 MW	69	-1.2	-1.6	-4.8	0	-7.7
	Median (1.8 MW	70	-0.8	-0.9	-3.3	0	-5.0
C. Participation tax rate social assistance	MW	63	-0.5	-2.2	-6.0	0	-8.7
	1.25 MW	66	-0.8	-1.6	-4.8	0	-7.2
	Median (1.8 MW	62	-0.8	-0.9	-3.3	0	-5.0
D. Participation tax rate half to full-time	MW	66	0.1	0.5	-11.9	0	-11.3
	1.25 MW	73	-1.1	0.6	-8.5	0	-8.9
	Median (1.8 MW	64	-1.2	0.8	-2.2	0	-2.6
E. Labour costs	0.5 MW	807	0	0	0	-3.7	-3.7
	0.75 MW	1210	0	0	0	-3.7	-3.7
	MW	1614	0	0	0	-3.7	-3.7
	1.25 MW	2301	0	0	0	-1.5	-1.5
	Median (1.8 MW)	3699	0	0	0	0.1	0.1
F. Effective tax rate	0.5 MW	-128	-1.0	-4.6	-0.1	-9.1	-14.8
	0.75 MW	-65	-0.6	-3.0	-1.7	-6.6	-11.9
	MW	-30	-0.5	-2.1	-5.6	-5.4	-13.5
	1.25 MW	5	-0.7	-1.3	-3.9	-1.5	-7.4
	Median (1.8 MW)	31	-0.6	-0.6	-2.4	0.1	-3.6

Note: In monthly levels for Column 0 (€ for Rows A and D, % for B, C, and E), in changes relative to the column before for Columns R1-R4 and relative to Column 0 for T (% for Rows A and D, ppt for Rows B, C, and E). Rows B-D show the fraction of additional earnings lost because of higher taxes or lower benefits when taking up fulltime employment for an individual unemployed for 2 months with full benefit contribution record (Row B), in social assistance (Row C), or moving from a 17.5 to 35 hours work week (Row D) at the given hourly wages levels.
Source: OECD secretariat calculations using OECD TaxBEN model.

Table A.3. Simulated effects of tax and benefit reforms for a *couple with spouse earning minimum wage with two children*

	Income level	0. Baseline (start 2018)	R1: Employee SSC (mid 2018)	R2: *Prime d'activité* (Oct 2018)	R3: *Prime d'activité* (Jan 2019)	R4. Employer SSC (end 2019)	T: Total
A. Net household income	0.5 MW	2298	0.9	1.2	3.9	0	6.0
	0.75 MW	2504	1.0	1.0	4.3	0	6.5
	MW	2697	0.9	0.9	6.6	0	8.5
	1.25 MW	2878	1.0	0.7	6.1	0	8.0
	Median (1.8 MW)	3410	1.7	0.0	1.4	0	3.1
B. Participation tax rate unemployed	MW	68	-0.3	-1.6	-12.0	0	-13.9
	1.25 MW	72	-0.4	-1.1	-9.6	0	-11.1
	Median (1.8 MW	72	-1.4	0.0	-1.8	0	-3.1
C. Participation tax rate social assistance	MW	56	-1.2	0.6	-6.0	0	-6.6
	1.25 MW	55	-1.1	0.7	-4.8	0	-5.3
	Median (1.8 MW	49	-1.9	1.2	1.6	0	0.9
D. Participation tax rate half to full-time	MW	47	-0.6	0.5	-11.9	0	-12.0
	1.25 MW	51	-0.6	0.6	-8.5	0	-8.4
	Median (1.8 MW	43	-2.5	1.8	7.6	0	6.9
E. Labour costs	0.5 MW	2421	0	0	0	-3.7	-3.7
	0.75 MW	2824	0	0	0	-3.7	-3.7
	MW	3228	0	0	0	-3.7	-3.7
	1.25 MW	3915	0	0	0	-2.4	-2.4
	Median (1.8 MW)	5313	0	0	0	-1.1	-1.1
F. Effective tax rate	0.5 MW	5	-0.9	-1.1	-3.7	-3.9	-9.6
	0.75 MW	11	-0.9	-0.9	-3.9	-3.7	-9.4
	MW	16	-0.8	-0.7	-5.6	-3.5	-10.6
	1.25 MW	26	-0.7	-0.5	-4.6	-2.0	-7.8
	Median (1.8 MW)	36	-1.1	0.0	-0.9	-0.7	-2.7

Note: In monthly levels for Column 0 (€ for Rows A and D, % for B, C, and E), in changes relative to the column before for Columns R1-R4 and relative to Column 0 for T (% for Rows A and D, ppt for Rows B, C, and E). Rows B-D show the fraction of additional earnings lost because of higher taxes or lower benefits when taking up fulltime employment for an individual unemployed for 2 months with full benefit contribution record (Row B), in social assistance (Row C), or moving from a 17.5 to 35 hours work week (Row D) at the given hourly wages levels.
Source: OECD secretariat calculations using OECD TaxBEN model.