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Low employment rates, especially among youth and older workers, as well as relatively short average annual hours worked, still account for most of the gap in GDP per capita vis-à-vis leading countries. Reforms have been undertaken in recent years with the objective of raising work incentives and opportunities for specific groups, but additional measures are still needed, especially in the areas below.

Priorities supported by indicators

Reduce the minimum cost of labour

The high minimum cost of labour relative to the median reduces job opportunities, especially for young and low-skilled workers, while not effectively reducing poverty.

Actions taken: For the second year in a row, the increase in the minimum wage in 2008 was limited to the statutory adjustment, which compensates for inflation and half the increase in the basic hourly real wage, without any discretionary component (*coup de pouce*).

Recommendations: Continue to limit future increases in the minimum wage so as to allow the minimum cost of labour to fall in relative terms. Create an independent commission making recommendations on the minimum wage level, thus ending the automatic adjustment mechanism. Also, take advantage of the introduction of the new income support scheme to integrate the existing scheme in order to have a single earned income tax credit so that it is more effectively targeted on low-wage earners.

Reform employment protection legislation

Complex and strict procedures for dismissals of permanent workers, especially compared with those for temporary workers, discourage the hiring of workers on permanent contracts, fostering the development of a dual labour market with potentially adverse consequences for long-run productivity.

Actions taken: The government has transposed into legislation the agreement reached by social partners in early 2008. The main changes include the introduction of a new fixed-term contract for specific projects and a reduction in the frequency of cases requiring a court ruling, in return for higher severance payments. At the same time, special and more flexible contracts for small firms were abolished.

Recommendations: Pursue efforts to ease employment protection legislation and to further increase the predictability of dismissal costs, in particular in the case of layoffs on economic grounds, so as to limit the need for court intervention.

Reduce regulatory barriers to competition

In a number of sectors, mainly retail distribution and professional services, competition is restricted by the regulatory framework, hindering productivity growth and the development of employment.

Actions taken. A new law voted in 2008 has created a new competition authority, made the prohibition on resale-below-cost less binding for distributors, and allowed them to negotiate prices more freely with suppliers. Also, the threshold area above which special authorisations apply for setting up a new store has been raised from 300 to 1 000 square meters.

Recommendations. Ensure that the new competition authority has enough resources and investigative power to act effectively and independently, with consumer welfare as the sole objective. Eliminate (rather than merely soften) the special authorisation procedure for the setting-up of new stores, and phase out quota restrictions in a number of professions, including those related to law and medical services. Ease restrictions on Sunday shop opening.

Other key priorities

- **Old-age work incentives.** Further reduce the implicit tax on continued work at older ages. Despite the recent decision to remove the job-search exemption for older workers receiving unemployment benefits and to extend the number of years of contribution for full pension entitlements, the financial incentives to pursue activity beyond the statutory retirement age remain weak. Ease the restrictions on combining pension and work incomes.
- **Tertiary education.** Extend the autonomy of universities beyond what has been achieved in 2007, in particular in the area of budget management, recruiting and staff remuneration. Also, while access of universities to grants from private foundations has recently been facilitated, further measures to boost private funding of universities should be taken, including greater use of tuition fees, along with student loans with income-contingent repayment.

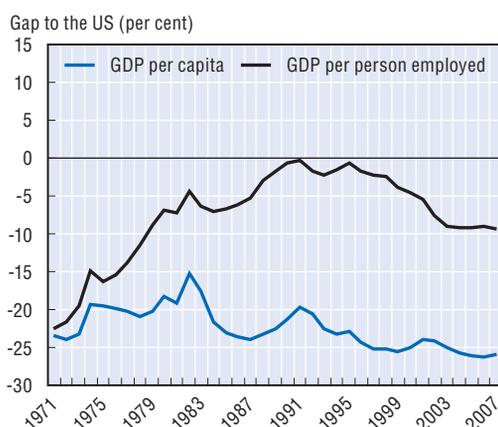
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Structural indicators

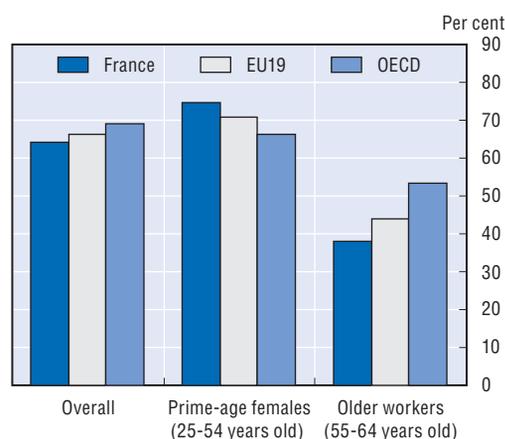
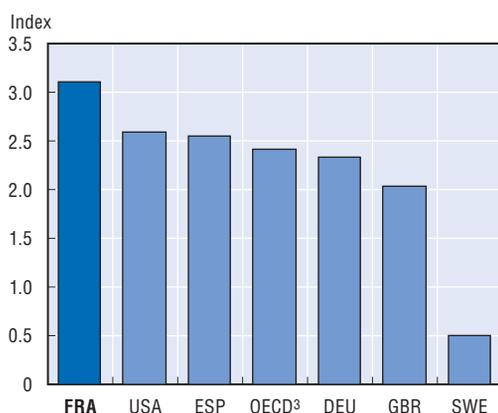
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	1.5	1.8	1.2
Labour utilisation	-0.1	-0.1	-0.1
of which: Employment rate	0.3	0.4	0.2
Average hours	-0.5	-0.6	-0.4
Labour productivity	1.6	1.9	1.3
of which: Capital intensity	0.8	0.8	0.7
Multifactor productivity	0.8	1.1	0.6

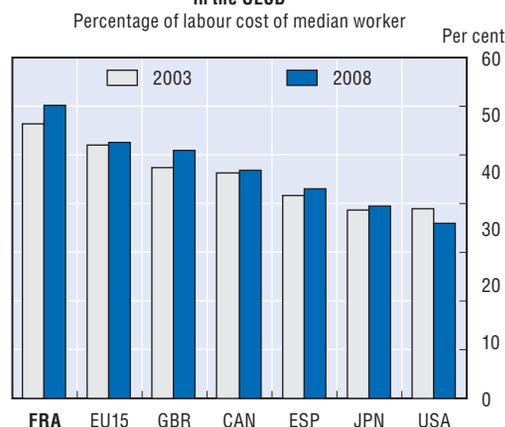
Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

A. Gaps in GDP per capita and productivity have been stable in recent years¹

B. The employment rate of older workers is very low, 2007

C. Restriction of competition in retailing is very high, 2008²

D. The minimum cost of labour is one of the highest in the OECD



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

2. Index scale of 0-6 from least to most restrictive.

3. Excluding Greece, Ireland and the Slovak Republic.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, Product Market Regulation Database; Chart D: OECD, Taxing Wages and Minimum Earnings Databases.

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