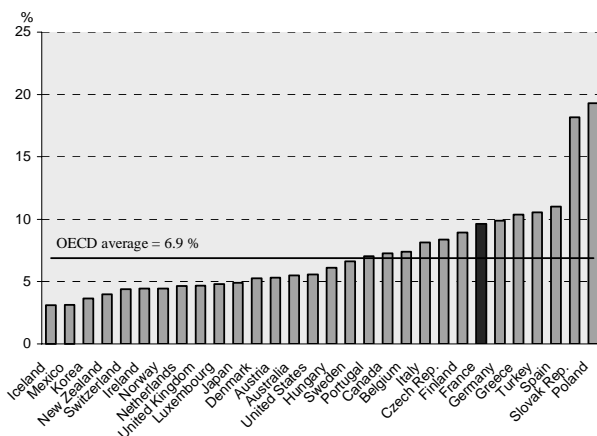


Employment Outlook 2005

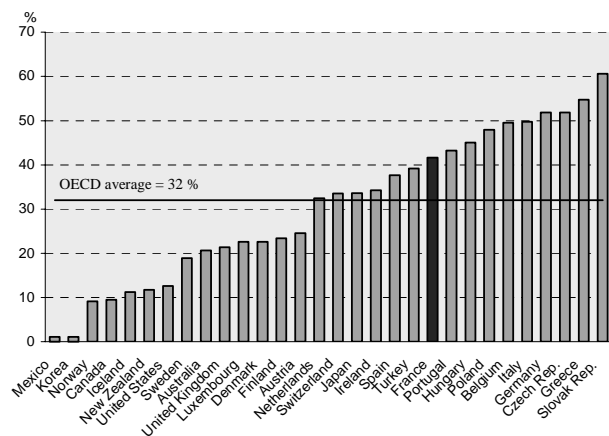
How does France compare?

The unemployment rate in France, at over 9.6% in 2004, is high by OECD standards. In addition, more than 40% of those actively seeking work have been doing so for more than 1 year – compared with an OECD average of 32%. There is consensus that this situation calls for renewed efforts to reform the French labour market and *Employment Outlook 2005* shows how certain policies might be helpful in this regard.

Unemployment rate, 2004
Persons aged 15-64 years (percentages)



Long-term unemployment rate, 2004
Percentage of total unemployment



Source: OECD (2005), *Employment Outlook*, OECD, Paris

First, as acknowledged in the ongoing debate on French reforms, providing jobseekers with intensive counselling, job-search support and participation in re-employment programmes after a certain period of unemployment is crucial. Such “activation” policies have to be seen as the counterpart for the payment of benefits – i.e. this is a “mutual obligations” approach. The higher the level and duration of benefits, the more important should be the activation component of the approach. Indeed, such a strategy lies at the heart of the success in reducing unemployment and in particular long-term unemployment in countries like Denmark, the United Kingdom and (until recently) the Netherlands. Moreover, in the absence of effective activation programmes, benefit schemes for the long-term unemployed become unsustainable or excessively costly in the long-run.

Second, it is also important to ensure that jobseekers have a financial incentive to go back to work. Generous welfare benefits tend to reduce these financial incentives, almost by definition, but it is possible to counteract this through tax-benefit reform (rather than cutting benefit levels). In particular, the study finds that the provision of re-employment bonuses or benefits conditional on accepting a job can be effective. These in-work supplements have to be sufficiently large, however – i.e. small supplements do not change work incentives enough to have a significant impact on job-seeker behaviour, while still entailing a budget cost. They also have to be targeted on the neediest families. Well-designed targeting, as well as conditions on the number of hours worked to become eligible, are effective responses to reduce deadweight losses arising from the fact that some beneficiaries would have found a job (or increased work effort), even in the absence of the scheme. Such principles could be used in France, should there be a decision to reform the “Prime pour l’emploi” – which currently represents less than 3% of wages and is not

sufficiently targeted, compared with over 30% in a country like Ireland which has managed to promote re-employment of disadvantaged groups more effectively.

But supply-side factors are only one part of the story. Policies to raise labour demand are also important. As the 2004 edition of the *Employment Outlook* shows, reforming employment protection legislation (EPL) may help young people and women enter employment. Layoff procedures for workers on permanent contracts are complex in France, which may explain employers' reluctance to hire under these contracts. Reforms in Austria show that it is possible to maintain a degree of compensation against dismissal, while reducing the perverse effects which EPL may have on hiring decisions. In addition, such measures are all the more effective when they go hand-in-hand with efforts to improve the effectiveness of the public employment service and active labour market policies. The "flexicurity" model of Denmark, which provides adequate unemployment benefits and efficient re-employment services, together with flexibility for employers to hire and fire, is an interesting alternative approach.

OECD Employment Outlook 2005 is available to journalists on the **password protected** web site or on request from the **Media Relations Division**. For further comment on France, journalists are invited to contact Raymond Torres (tel: + 33 1 45 24 9153 or e-mail: raymond.torres@oecd.org) in the OECD Employment Analysis and Policy Division.