

**EXECUTIVE  
BOARD  
MEETING**

SM/23/10

Correction 1

January 25, 2023

To: Members of the Executive Board

From: The Secretary

Subject: **France—Selected Issues**

Board Action: The attached corrections to SM/23/10 (1/11/23) have been provided by the staff:

**Evident Ambiguity**

**Page 8 (para. 8, line 12)**

**Factual Errors Not Affecting the Presentation of Staff's Analysis or Views**

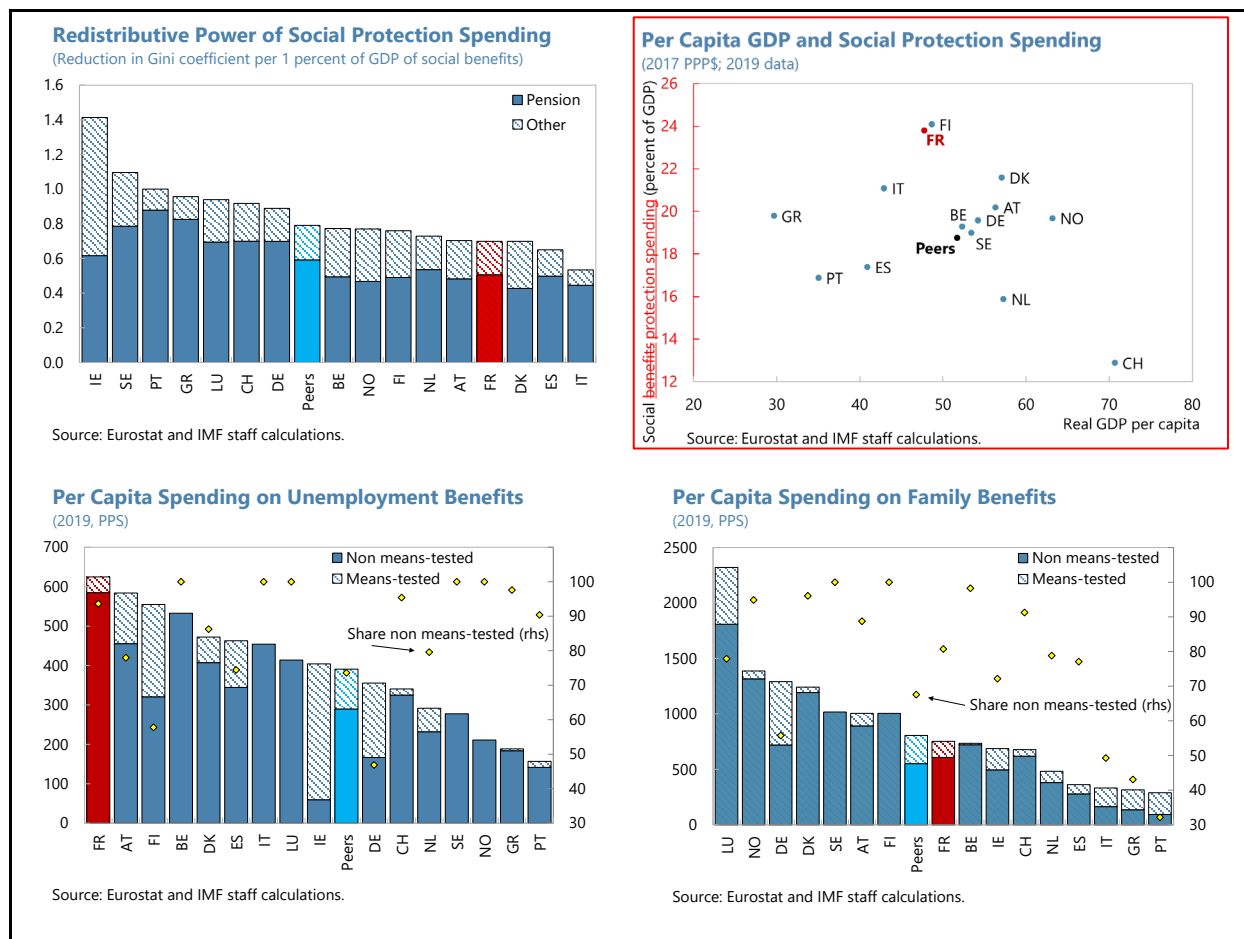
**Pages 5, 6, 8 (para. 8, lines 3, 4, 6, 13 and footnote), 18**

Questions:

Mr. Franks, EUR (ext. 36347)  
Mr. Vermeulen, EUR (ext. 30324)  
Ms. Teodoru, EUR (ext. 39322)



confirms that redistribution in France is driven more by the volume of support than targeting, thus leaving scope to further improve the redistributive efficiency of direct taxes and social spending, and—more specifically—to improve the targeting of unemployment, social exclusion, and housing benefits.<sup>6</sup>



**5. High public pension spending reflects a relatively generous and fragmented system.** At some 14 percent of GDP in 2019, public spending on pensions is among the highest in Europe (after Greece and Italy), reflecting a relatively generous system with a low effective retirement age and high replacement rates.<sup>7</sup> As a result, the disposable income of those aged over 65 is high and the

<sup>6</sup> The study shows that—measured in relative terms and using a larger sample of European countries—redistribution reduces inequality in France more than elsewhere, with this redistribution broadly evenly spread between direct taxes and non-pension social benefits despite the former being six times larger; and that the redistributive efficiency of social spending is in fact higher. For our smaller sample, the reduction in the Gini coefficient per one percent of GDP in social benefit spending excluding pensions amounts to 0.55 percent against a median for France’s peers of 0.65 percent (in absolute terms 0.19 vs. 0.22 percentage points).

<sup>7</sup> While the *normal* retirement age is in line with the peer average (65), the *minimum* retirement age (62) years is one of the lowest in Europe. Few countries allow for retirement with a full-rate pension before the age of 64-65. While discounts for those retiring before qualifying for a full-rate pension (aged between 62 and 67 with an incomplete

(continued)

incidence of old age poverty is low, both relative to peers and to the rest of the population.<sup>8</sup> The 2010 and 2014 reforms reduced generosity by tightening eligibility—raising the minimum retirement age and age for full-rate pension by 2 years to 62 and 67<sup>9</sup>, effective from 2017; and the minimum contribution period for a full-rate pension at a rate of one quarter per three years from 2020, respectively—but are not sufficient to narrow the gap with peer countries where reforms enacted a larger and faster increase in the retirement age (OECD, 2021d). In fact, a proportionality measure that links lifetime benefits to lifetime contributions to assess the sustainability and equity of pension systems shows that the pension system in France has become relatively more generous since 2008, especially for mid-career workers, and more so than for selected peers (Fouejieu et al. 2021). However, pension projections by the *Conseil d’Orientation des Retraites* (COR, 2022) show that the higher living standards that retirees currently enjoy relative to the rest of the population will erode over time as wages (linked to productivity growth and inflation) grow faster than pension benefits (indexed to inflation), putting pressure on old-age poverty rates and hence the social and political acceptability of the current system (Blanchard and Tirole, 2021). This argues for pension reform focusing more on adjusting retirement ages rather than benefits or contributions. Besides its generosity, another factor that drives up the cost of the pension system is its fragmentation, with 42 different regimes with different rules adding to its complexity (and administrative costs) while undermining equity and labor mobility.

**6. Pension reform plans aim to improve the employment rate of older workers and the effective retirement age.** At 55 percent, the employment rate of older workers (55+ years) is well-below the peer average. Under current policies, the participation rate of the oldest cohort (65-74) is expected to increase by only 15 ppts by 2070, with less than half of the increase due to reforms, which is much lower than that in peer countries like Denmark, Italy, Netherlands, Greece, Portugal, Finland, and Spain (EC Ageing Report 2021). A recently unveiled pension reform plan that raises the minimum retirement age and accelerates the increase in the minimum contribution period for a full pension<sup>10</sup>—with provisions for special circumstances (e.g., long or interrupted careers, arduous jobs, etc.)—would bring the effective retirement age closer to peers. Beyond facilitating longer careers, this would strengthen the sustainability of the system and generate significant savings. While grandfathering existing participants, the reform also envisages gradually aligning most special

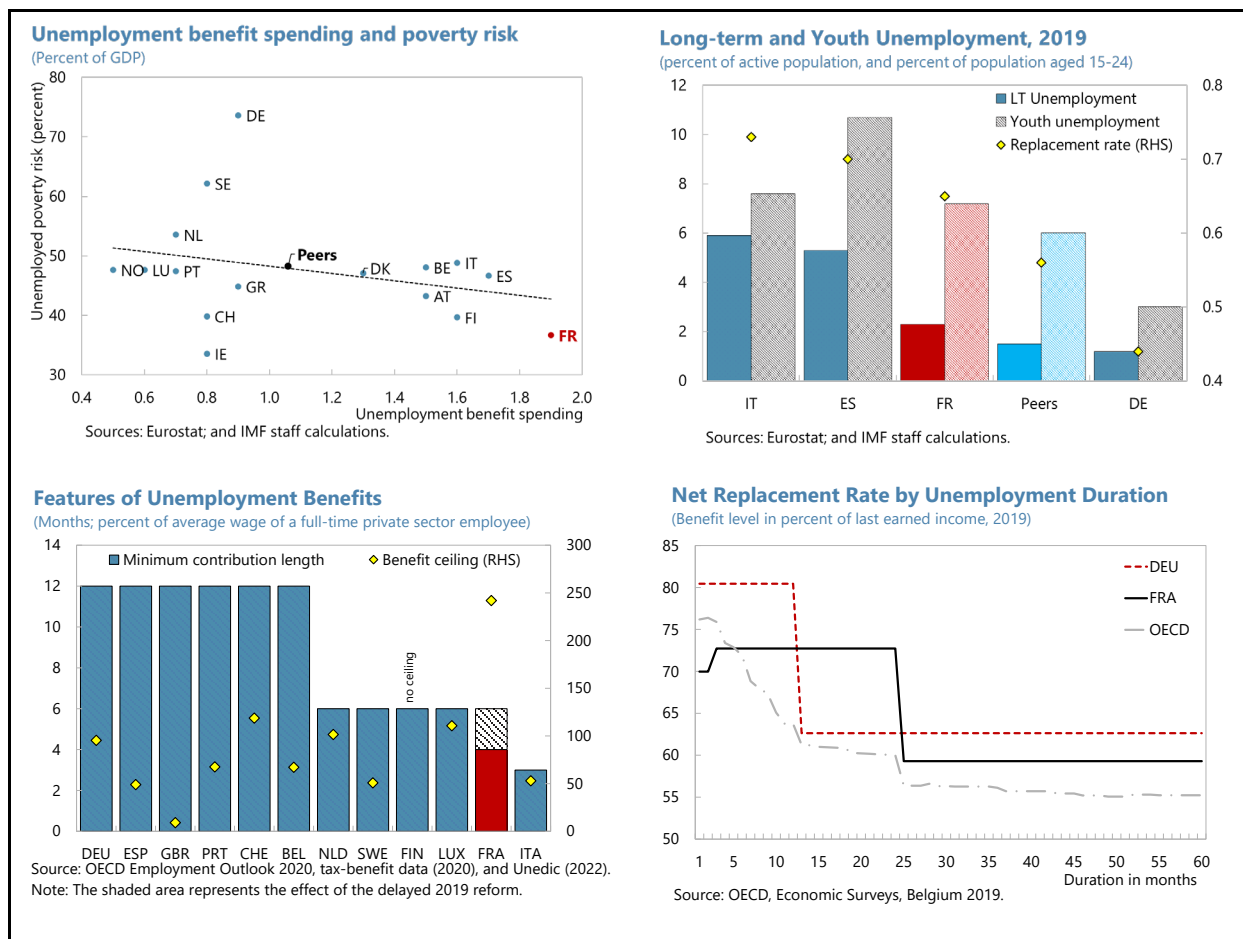
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contribution history) are actuarially fair, it does not prevent early exit, reflected in an average age of labor market exit of 60.6 years (2 years below peers). Combined with a high life expectancy (0.6 years above peer average), the expected retirement duration is the second highest in Europe (shared with Spain, after Greece).

<sup>8</sup> The disposable income gap of this age cohort has narrowed dramatically over the past four decades from 20 percent to close to zero. This compared to an average of 12 percent across the OECD.

<sup>9</sup> Those with long careers (e.g., starting before 18 years and meeting the minimum contribution requirement) and “active service” public sector employees (police, nurses, etc.) can retire before the legal retirement age. The 2010 reform also raised the minimum and full-rate retirement ages for them by 2 years to 57 and 62 years.

<sup>10</sup> The [plan](#), presented on January 10, 2023, includes raising the minimum retirement age from 62 to 64 at a rate of 3 months per year from September 2023 and minimum contribution period from ~~41.3~~ 42 to 43 years by 2027. The 2014 reform (“Touraine”) legislated a gradual increase in the minimum contribution period for a full pension to reach 43 years by 2035.



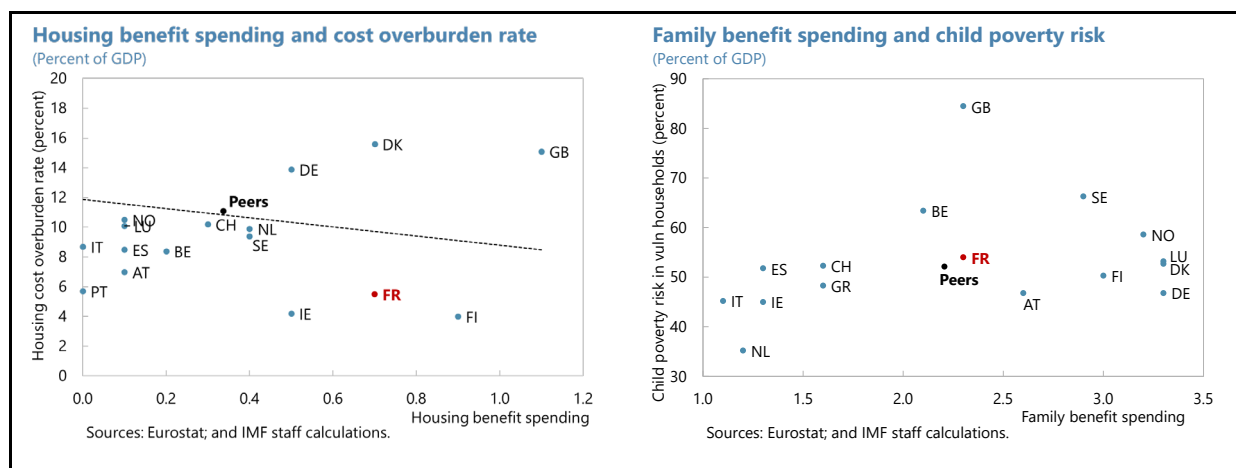
## 8. Recent reforms should improve labor market incentives and generate savings.

Specifically, the 2019 reform that was completed last year adjusted rules to calculate and accumulate benefits, tightened eligibility, **accelerated introduced** degressivity for higher incomes, and **introduced the a** modulation of employers' unemployment contribution rate under a new bonus-malus system that penalizes excessive use of short-term contracts. Building on this, a recently **adopted enacted** law<sup>11</sup> extends the application of the reform that was set to expire on November 1 until end-2023 and introduces countercyclicality in unemployment benefits (to be regulated by an upcoming decree and effective from February). The government envisages varying benefit duration with the level and change in the unemployment rate as a proxy for labor market conditions, with a 25 percent reduction in the maximum duration when the unemployment rate is below 9 percent and its quarterly rate of increase is below 0.8 ppts.<sup>12</sup> It also tightens eligibility for workers who voluntarily resign **or and for workers on fixed-term contracts who** repeatedly refuse permanent contracts. After negotiations **with of** social partners on the governance of unemployment insurance, the new rules

<sup>11</sup> The law governing emergency measures to improve the functioning of the labor market to attain full employment **adopted enacted** in **November December** 2022.

<sup>12</sup> The duration varies with beneficiaries' work history and will remain subject to a floor of 6 months and would be extended when labor market conditions deteriorate. The government considered further reducing duration (by 40 percent) when the unemployment rate drops below 6 percent but decided to postpone this to allow for sufficient dialogue with social partners and regulate it in the next interprofessional agreement (early 2024).

should apply from 2024. While the reform will reduce labor market disincentives by shortening the duration when the labor market is relatively tight, there is scope to further revisit the level and duration of benefits, which remain relatively high.



## 9. There is scope to streamline other social benefits. Specifically:

- Housing benefits:** At 0.9 percent of GDP, spending on housing benefits is ½ percent of GDP higher than in peers. This comes on top of spending on housing and community amenities—at 1.1 percent of GDP the highest among peers (averaging 0.4 percent of GDP). While higher spending is mirrored in a lower cost overburden rate, the cost burden remains high compared to peers while it doesn't lead to a lower overcrowding rate for poor households (at 22.6 percent for households below 60 percent of equivalized median income, it is equal to the peer average). High spending and limited cost control are driven by insufficient (and inelastic) housing supply in densely populated urban areas, limited turnover and accessibility of social housing (despite a large stock), and poor targeting of housing support, with one in five households receiving such support and three quarters of the population eligible for social housing (*Cour des Comptes*, 2021c). Furthermore, the complexity of housing subsidies (*aides personnelles au logement*) undermines their effectiveness while adding to administrative costs. Finally, housing-related tax expenditures are costly and regressive and could be rationalized (T18).
- Social exclusion benefits:** At 1.3 percent of GDP, France spends ½ percent of GDP more than its peers on social minima. It comprises 10 different schemes that cover about 10 percent of the population, reducing the poverty rate and intensity by 3 and 8 ppts, respectively, in 2019 (DREES, 2022). Spending is concentrated on the four largest schemes<sup>13</sup> and dominated by the *revenu de solidarité active* (RSA) that was introduced in 2009 (0.6 percent of GDP, including the *prime d'activité* that replaced the *RSA-activité* in 2016, and administration cost). At 5.8 percent

<sup>13</sup> Accounting for 95 percent of spending, this includes the *revenu de solidarité active* (RSA), *allocation aux adultes handicapés* (AAH), *allocation de solidarité spécifique* (ASS), and the *allocation de solidarité aux personnes âgées* (ASPA), providing a minimum income to those without a job, with a low-paid job, unable to work, or with insufficient pensions while fostering reintegration into the labor market and transition to work.

broadening and partially offset permanent revenue losses from the rebalancing of revenues away from labor and production taxes. Findings and policy recommendations by spending category are presented below.

**20. While France scores well on protecting its citizens from social risks, the efficiency of social protection spending could be improved.** Social protection spending explains the bulk of the spending gap with peers. Higher spending is associated with better outcomes relative to peers, as measured by poverty risk and income inequality by age, employment status, or educational attainment of parents, but the analysis shows that there is scope to improve efficiency. This is corroborated by an estimate of France’s social protection efficiency score that, though above the peer average, is well-below that of the best performers (see Appendix 16). Better targeting of social benefits and reducing their generosity would strengthen redistributive efficiency and labor market incentives while generating savings. Specifically:

- *Pension reform*: increasing the effective retirement age as envisaged in pension reform plans is a step in the right direction. Introducing automatic adjustment by indexing the retirement age to life expectancy—as in Denmark, Finland, Greece, Italy, Netherlands, and Portugal (OECD 2021d)—would further enhance sustainability. To generate savings while maintaining the same replacement rate, this should be complemented by a proportional reduction in accrual rates or extension of the minimum contribution period. Unifying and simplifying the highly fragmented system—covering all 42 schemes—would improve equity, lower administrative cost, and facilitate labor mobility. To facilitate longer careers and increase the employment rate of older cohorts, pension reform should be accompanied by measures to improve working conditions (including flexible work arrangements and partial retirement) and skills of older workers.
- *Unemployment benefit reform*: entrenching recent unemployment benefit reforms and further revisiting eligibility and generosity, especially with regard to benefit ceilings, ~~duration~~, and degressivity, would enhance labor market incentives and generate additional savings.
- *Reform of other social benefits*: strengthening means-testing of family, housing, and social assistance benefits would improve redistributive efficiency and generate savings. Simplifying and unifying social assistance schemes, while differentiating for special conditions, would reduce complexity for beneficiaries and administrators and facilitate better monitoring and control of eligibility. The sequencing of reforms is important: means-testing should be harmonized across schemes first before simplifying and unifying schemes (*Cour des Comptes*, 2021c). Likewise, while automation, digitalization, and better data exchange envisaged under the *solidarité à la source* plan may improve access, it is equally important that it is accompanied by enhanced efforts to reintegrate beneficiaries (*Cour des Comptes*, 2022b).<sup>17</sup>

**21. There is significant room for efficiency savings in health spending without compromising outcomes.** The Recovery and Resilience Plan envisages a modernization of the health care system which could achieve greater efficiency and improve outcomes, including wider

<sup>17</sup> The *Cour des Comptes* notes that the automation of payments undermines the principle of individualized support underpinning the RSA.