

McKinsey Global Institute



March 2012

French employment 2020: Five priorities for action



The McKinsey Global Institute

The McKinsey Global Institute (MGI), the business and economics research arm of McKinsey & Company, was established in 1990 to develop a deeper understanding of the evolving global economy. Our goal is to provide leaders in the commercial, public, and social sectors with the facts and insights on which to base management and policy decisions. MGI research combines the disciplines of economics and management, employing the analytical tools of economics with the insights of business leaders. Our micro-to-macro methodology examines microeconomic industry trends to better understand the broad macroeconomic forces affecting business strategy and public policy. MGI's in-depth reports have covered more than 20 countries and 30 industries. Current research focuses on six themes: productivity and growth, financial markets, technology and innovation, urbanisation, labour markets, and natural resources. Recent research has assessed the reducing role of equities and progress on debt and deleveraging, resource productivity, cities of the future, and the economic impact of the Internet.

MGI is led by three McKinsey & Company directors: Richard Dobbs, James Manyika, and Charles Roxburgh. Susan Lund serves as director of research. Project teams are led by a group of senior fellows and include consultants from McKinsey's offices around the world. These teams draw on McKinsey's global network of partners and industry and management experts. In addition, leading economists, including Nobel laureates, act as research advisers.

The partners of McKinsey & Company fund MGI's research; it is not commissioned by any business, government, or other institution.

For further information about MGI and to download reports, please visit www.mckinsey.com/mgi.

McKinsey & Company

McKinsey & Company is an international management consulting firm that helps leading corporations and organisations make distinctive, lasting, and substantial improvements in their performance. Over the past eight decades, the Firm's primary objective has remained constant—to serve as an organisation's most trusted external adviser on critical issues facing senior management.

With about 8,000 consultants deployed from over 90 offices in more than 50 countries, McKinsey advises companies on strategic, operational, organisational, and technological issues. The Firm has extensive experience in all major industry sectors and primary functional areas, as well as in-depth expertise in high-priority areas for today's business leaders. McKinsey & Company also helps a diverse range of government institutions, public administrations, and nonprofit organisations with their management challenges.

McKinsey opened an office in France in 1964. Today that office is the base for over 300 professionals covering all the Firm's fields of expertise and range of industries.

McKinsey Global Institute

March 2012

French employment 2020: Five priorities for action

Eric Labaye
Charles Roxburgh
Clarisse Magnin
Jan Mischke

Preface

French employment 2020: Five priorities for action is a joint effort by the French office of McKinsey & Company and the McKinsey Global Institute (MGI), the Firm's business and economics research arm, as part of ongoing MGI research on growth and renewal in advanced economies. In this report, we look at France's opportunities to meet the structural challenges of its labour market and secure job-creating growth in the long term.

We compare France's labour market with those of other European countries, set an ambitious aspiration for employment in France, and suggest ways of meeting that aspiration. We have built a model that allows us to understand the evolution of supply and demand for labour by type of skill. Our findings have led us to develop a five-part agenda for employment in France by 2020.

Eric Labaye, a McKinsey director in Paris and chairman of MGI, and Charles Roxburgh, a McKinsey director in London and director of MGI, together with Clarisse Magnin, a partner in the French office, and Jan Mischke, an MGI senior fellow based in Zurich, led this work. Alan Parte managed the project team, which comprised Xavier Lamblin, Jaime Fernández-Galiano, and Laurent Carlino. Additional support at the initial stage of the project was provided by Julie Guedon. We would also like to acknowledge the vital input of François Bouvard, director in the French office and leader of McKinsey's public sector activities in Europe.

We are grateful for the advice and input of many McKinsey colleagues, including Jean-Christophe Mieszala, Matthieu Pélissié du Rausas, Olivier Sibony, James Manyika, Richard Dobbs, and Anu Madgavkar. The team also benefited from the contributions of Janet Bush, who provided editorial support; Julie Philpot, MGI editorial production manager; and Marisa Carder, visual graphics specialist.

Distinguished experts outside McKinsey provided invaluable insights and advice. We would particularly like to thank Vincent Champain, from GE International, who initiated the project; Jean-Philippe Cotis, director-general of the National Institute of Statistics and Economic Studies (INSEE); and Professor Jean-Hervé Lorenzi of the University of Paris-Dauphine and president of the "Cercle des Economistes".

As with all research on which MGI collaborates, we would like to emphasise that this work is independent and has not been commissioned or sponsored in any way by any business, government, or other institution.

Richard Dobbs
Director, McKinsey Global Institute
Seoul

Eric Labaye
Chairman, McKinsey Global Institute
Paris

James Manyika
Director, McKinsey Global Institute
San Francisco

Charles Roxburgh
Director, McKinsey Global Institute
London

Susan Lund
Director of Research, McKinsey Global Institute
Washington, DC

March 2012

Labour market highlights in France

11th among the EU-15 countries
on per capita GDP

40% of young people are working
vs. **69%**
in the Netherlands

42.5% of seniors participate in
the French labour force
vs. **74.6%** in
Sweden

Temporary workers
account for

13% of employment, but
more than **60%** of job losses
during the crisis

France ranks

4th out of the EU-15
on productivity

13.5% unemployment rate for workers with at most a BEPC first-stage secondary qualification

vs. **5.6%** for those with at least three years post-baccalaureate qualification

By 2020,

2.3 million

jobs shortage facing workers without a baccalaureate-level qualification,

and

2.2 million

jobs requiring a baccalaureate unfilled or filled with workers with the wrong skill set

240,000

net new jobs a year needed to cut unemployment to 5.5% and reach average EU participation by 2020—more than double current projected rate

13 percentage points spread of unemployment rates between fields, independent of level of educational attainment

Contents

Executive summary	1
1. The French labour market is facing difficult times	5
2. France needs to more than double its creation of annual net new jobs	11
3. France faces a growing mismatch of skills	19
4. Five priorities for a 2020 labour agenda	23

Executive summary

France's labour market has been relatively resilient in the face of the global financial crisis of 2008 and 2009 and the euro crisis that gathered full force in 2011. But unemployment has begun to rise again, and further headwinds loom. The French social system is already under significant strain, and it is difficult to see how it can be sustained without a considerable boost to employment, particularly in view of the need to restore balance to the public finances in the aftermath of recession. This report finds that France needs to more than double the number of net new jobs it is creating each year compared with historical levels to meet even moderate ambitions for employment and prosperity. Complicating matters is that France is experiencing a severe structural mismatch between the supply of, and demand for, skills that will intensify and may jeopardise efforts to increase employment.

We take the view that France should set high aspirations on job creation over the next ten years and address the structural skills mismatch head-on.

The main findings of this report are as follows.

- The French labour market model may seem relatively successful in tempering the initial impact of crises compared with the United States or the average of the EU-27, but it then tends to be sluggish during economic recoveries. Analysis of past recessions shows that French unemployment was on average 0.5 per cent higher rather than lower one year after the start of the recovery than at the beginning of the recovery. Further, a bifurcation has emerged between long-term contract workers and temporary employment, the latter accounting for 13 per cent of jobs but more than 60 per cent of job losses since the onset of the crisis. Severe headwinds to growth remain, and even France's public sector, which generated 600,000 net new jobs in the 1980s, shed 40,000 jobs between 2000 and 2009.
- France has begun to lag behind other European economies in terms of its per capita GDP. Until the 1990s, France was among the leading economies of Europe on this metric but by 2010 had dropped to 11th out of the EU-15 economies—ranking higher than only the Southern European economies of Spain, Italy, Greece, and Portugal. Low labour participation¹ and high unemployment rates are the main drivers of this per capita GDP gap. France's participation rate has largely stagnated over recent decades, while the participation rate for the EU-15 as a whole has trended upward since 1996. By 2010, the gap on participation between France and the EU average had reached two percentage points—and as much as nine percentage points for seniors aged 55 to 64.

¹ Participation is defined as the share of people employed and job seekers in the total population for a given age bracket.

- Given demographic trends, even to meet moderate ambitions on employment and prosperity, France needs to more than double the annual net jobs the economy creates. Over the past 40 years, France added around 115,000 net new jobs each year on average. Official forecasts predict creation of between 95,000 and 144,000 net new jobs annually to 2020 with GDP growth rates of between 1.4 and 1.9 per cent. In a low job-growth scenario in which France creates 100,000 jobs a year over this period and stays at the current level of participation, unemployment rates would be reduced to 5.6 per cent by 2020. However, this level of job creation would be insufficient to address the issue of the widening prosperity gap. To reach median EU-15 prosperity levels by 2020—assuming that productivity develops in lockstep with the country's peers—France would have to create 370,000 net new jobs per annum. At 5.5 per cent unemployment, this would imply a 76 per cent participation rate, close to Germany's rate in 2010. This fast a pace of net new job creation is highly ambitious. France has attained this level of annual net new job creation three times in the past 30 years—in the boom years of 1998, 1999, and 2000. More recently, European economies including Finland, Sweden, and Switzerland achieved this in the years before the 2008 global economic crisis. Given the current macroeconomic context, we define a medium job-growth scenario in which the target unemployment rate is still 5.5 per cent but the implied participation rate is the EU-15 average of 72.7 per cent. In this scenario, the level of net new job creation reaches 240,000 jobs per annum—equivalent to GDP growth of 2.1 per cent.

- Compounding France's labour market challenge, the nation faces strong demand for workers with a high level of educational attainment and a significant shortfall in jobs for workers with low levels of educational attainment. At the same time, the unemployment rate of highly skilled employees is very low. Without action, this mismatch will become much more pronounced by 2020. A McKinsey model of the supply of, and demand for, labour by level of educational attainment in France by 2020 finds that there will be a shortage of 2.2 million high-skilled workers, while workers without a baccalaureate-level qualification (BAC) may face a shortage of 2.3 million jobs. A significant mismatch by specialisation also exists at all levels of educational attainment. The education system does not seem to keep pace with the transition into a knowledge economy.

- France should consider five priorities for action in its labour agenda for 2020.
 - Reform labour market conditions for seniors to increase participation rates (e.g., design of new working models for senior workers, access to continuous learning and retraining, review of the pension framework to set the right incentives).
 - Boost the overall skill level of students and workers and better adapt skills to market demands in the knowledge economy (e.g., increasing the supply of high-skilled labour in fields where there is a high risk of shortage, raising educational attainment, increasing transparency and guidance for students, creating institutions and incentives for targeted employment-oriented skill building, closing the gap to international standards on lifelong training).
 - Improve labour costs and flexibility (e.g., increased flexibility in the labour market, carefully paced deceleration of growth in the minimum wage, reduction in total labour costs).

- Support job-creating growth for both the high- and low-skilled (e.g., by facilitating the creation of businesses, ensuring the development of high-skilled jobs, and expanding labour-intensive sectors like tourism and personal services).
- Improve matching mechanisms to ensure the effectiveness and efficiency of employment spending (e.g., bringing the labour agency to best-practice levels).

In this report, we first analyse the state of the French labour market today and then set aspirations for net new job creation for the next decade through reducing unemployment and increasing participation. We stress the importance of addressing the structural challenge posed by a growing mismatch between supply and demand for skills. We conclude with five priorities for action that France could consider including in its labour agenda for 2020.

1. The French labour market is facing difficult times

France's labour market has been relatively resilient in the face of twin crises—the global financial crisis of 2008 and 2009, and the euro crisis that gathered full force in 2011. But a lag effect might cause unemployment rates to continue to rise. During past economic cycles, French employment has rebounded only weakly in the period after an economic shock. Moreover, aggregate unemployment numbers mask a bifurcation between employment on long-term contracts and a proliferation of temporary work with high rotation. And significant headwinds to growth remain.

ALTHOUGH THE JOBS MARKET HAS BEEN RELATIVELY RESILIENT, UNEMPLOYMENT MAY STILL CONTINUE TO INCREASE

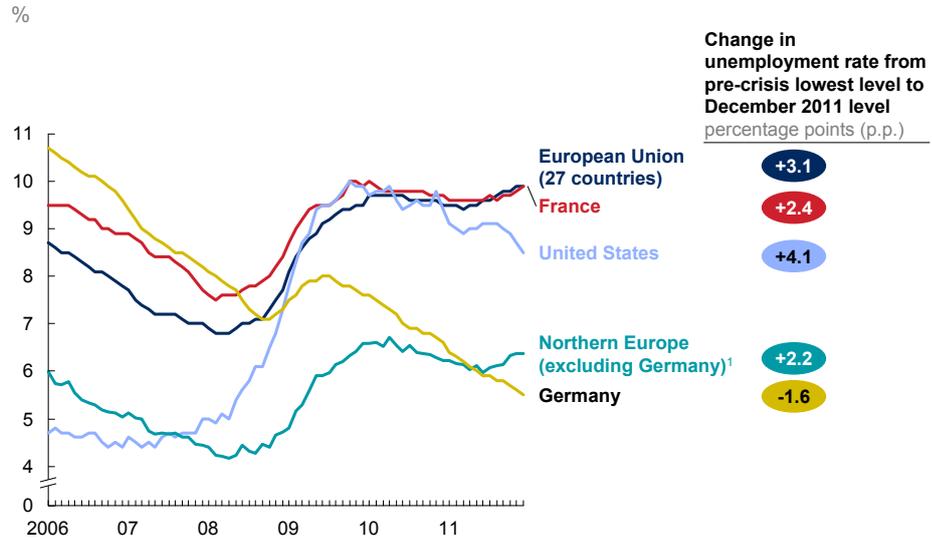
While starting from comparatively high levels of unemployment, the French labour market seems to have withstood the double impact of the 2008–09 financial crisis and the 2011 sovereign debt crisis better than the United States or the average of the EU-27. France's unemployment increased by 2.4 percentage points from its pre-crisis low to the end of 2011, compared with a rise of 4.1 percentage points in the United States and 3.1 points on average in the EU-27. However, the resilience of unemployment in France remains lower than in Northern European economies. Germany, for instance, managed to even decrease unemployment 1.6 percentage points during this period. A group of other Northern European economies—Denmark, Finland, the Netherlands, and Sweden—achieved a moderate increase in unemployment of 2.2 percentage points (Exhibit 1).

Historical patterns suggest, however, that there might be a lag effect at play in France that would cause unemployment to further increase (Exhibit 2). Analysis of the correlation between variations in GDP and its impact on unemployment in the past indicates that, given the decline in GDP in 2008 and 2009, France should have experienced a larger rise in unemployment in 2010 and 2011. According to the latest forecast from the Organisation for Economic Co-operation and Development (OECD), France's unemployment rate could continue to rise and pass the 10 per cent threshold in 2012, peaking at 10.4 by the end of 2012 before stabilising in 2013.²

2 OECD *Economic Outlook Number 90*, November 2011.

Exhibit 1

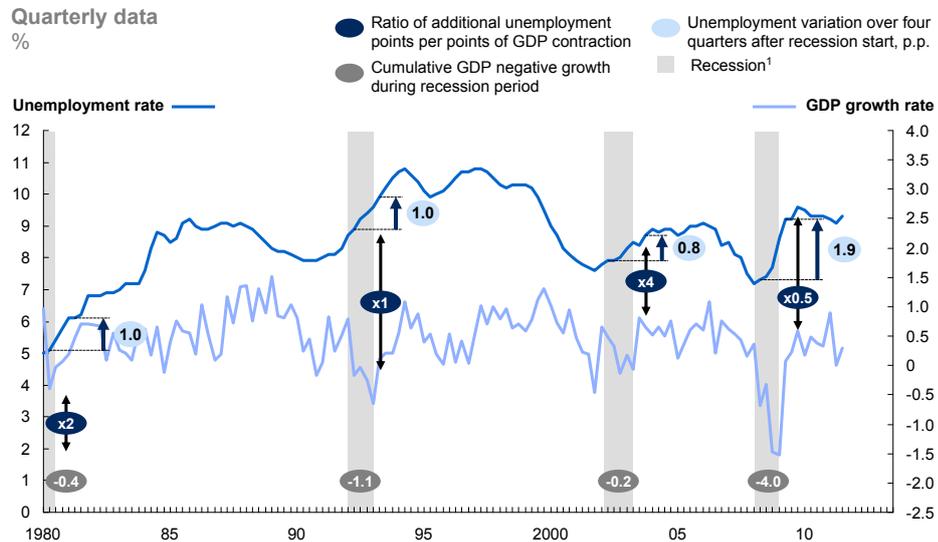
Unemployment in France has been more resilient than in the United States or the EU-27 average, but less resilient than in Northern Europe



¹ Sweden, Finland, Denmark, Netherlands (average weighted by size of the workforce).
SOURCE: Eurostat; McKinsey Global Institute analysis

Exhibit 2

French unemployment did not rise as expected in 2008–09 given the fall in GDP, so the risk of a possible lag effect in unemployment remains



¹ Recession period is defined as negative GDP variation across two quarters, either consecutive or separated by one quarter.
SOURCE: Organisation for Economic Co-operation and Development; National Institute of Statistics and Economic Studies, France; McKinsey Global Institute analysis

THE FRENCH LABOUR MARKET IS TRADITIONALLY SLUGGISH DURING ECONOMIC UPSWINGS

Historical analysis also shows that, while the French model is relatively effective at tempering the impact of crises on unemployment, it also tends to be sluggish during economic recoveries (Exhibit 3). An examination of recessions over past decades finds that the unemployment rate in France is, on average, 0.5 percentage points higher one year after the start of the recovery than at the beginning of the recovery. During recessions, France has tended to protect labour and has experienced a decline in the hours worked per worker and in productivity. This explains the relative resilience of employment during economic downturns. The downside is that, as economic activity picks up, companies tend to increase hours per worker before they expand the size of their workforce, delaying any fall in unemployment.

In countries where labour markets are more flexible, including the United States and Canada, unemployment falls much more quickly as economic activity increases. Germany’s labour market, too, reacts quickly as the economy rebounds—unemployment typically falls by an average of 0.6 per cent from the start of recovery to one year into the upswing.

Exhibit 3

France’s labour market has historically been sluggish during economic recoveries compared with those of other advanced countries

Change in unemployment one year after the start of the recovery compared with start of recovery level¹

Average of recession data points, 1972–2010 (percentage points)



¹ “Start of the recovery” refers to the first quarter after a recession. Recession defined as two consecutive quarters of negative growth. Year after recession retained only if GDP growth positive for each quarter. Countries with fewer than two data points in 1972–2010 excluded. Analysis based on available OECD data.

SOURCE: Organisation for Economic Co-operation and Development; McKinsey Global Institute analysis

A BIFURCATION IS EMERGING BETWEEN LONG-TERM, CONTRACT-BASED EMPLOYEES AND TEMPORARY WORKERS

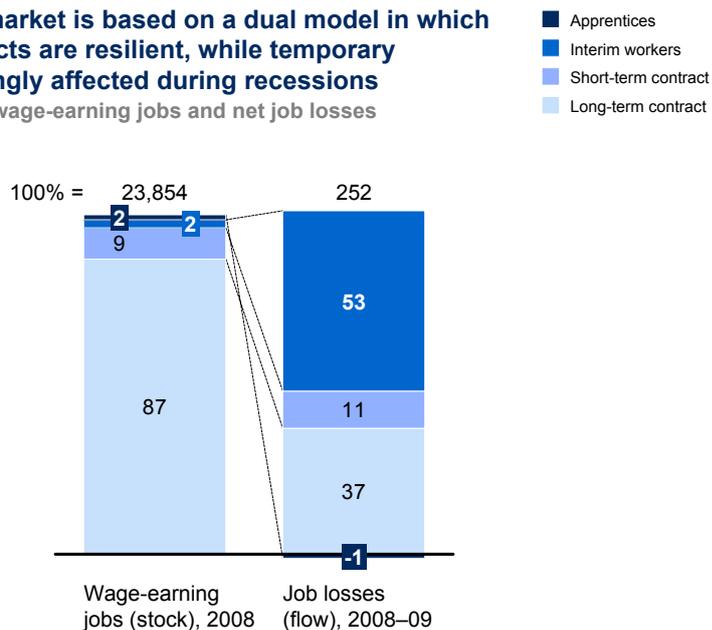
France is experiencing an increasing dichotomy in the labour market between workers in secured employment (e.g., public sector jobs, protected status jobs, and jobs with long-term contracts) and a growing share of temporary workers (e.g., apprenticeships, interim workers, and short-term contracts). While the latter group accounted for only 13 per cent of wage-earning jobs in 2008, more than 60 per cent of subsequent job losses were concentrated among this category of workers (Exhibit 4). Robust protection of labour-market insiders in France makes it increasingly difficult for people who are out of work to enter employment with acceptable conditions.

From 1990 to 2010, there was a rise in temporary jobs in France of more than 79 per cent while the number of permanent jobs increased by only 18 per cent, according to the OECD. Another sign of the bifurcation between labour markets insiders and outsiders is the emergence of employment contracts of less than one month. Between 2000 and 2010, such contracts increased by 88 per cent, according to Acoess.³ The number of contracts with a duration of less than one week increased by 120 per cent over this period.

Exhibit 4

The French job market is based on a dual model in which long-term contracts are resilient, while temporary workers are strongly affected during recessions

Breakdown of total wage-earning jobs and net job losses by type of contract
%; thousand



SOURCE: National Institute of Statistics and Economic Studies, France; McKinsey Global Institute analysis

³ Agence centrale des organismes de sécurité sociale study number 143, December 2011.

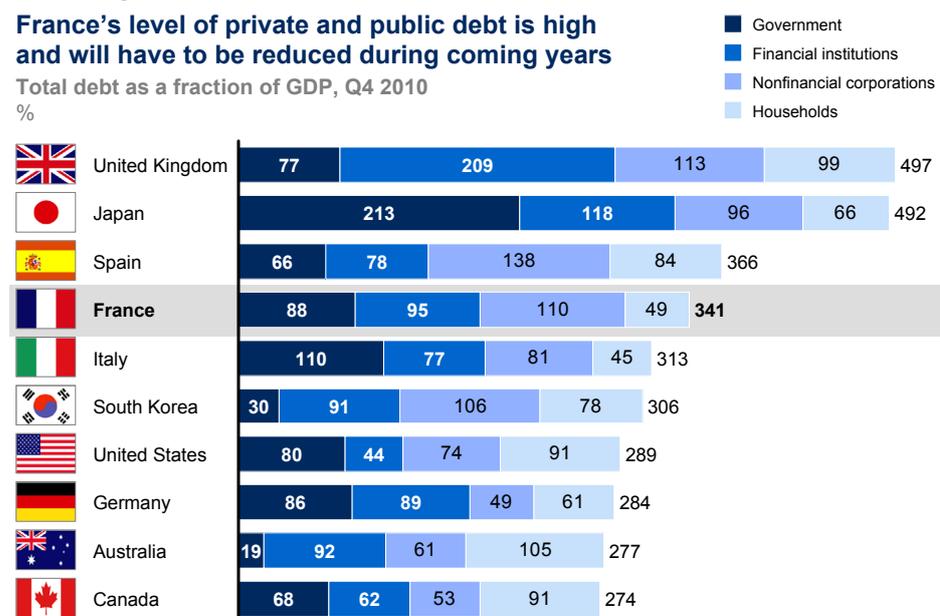
SEVERE RISKS TO SHORT- AND LONGER-TERM MACROECONOMIC STABILITY PERSIST

The sovereign debt crisis in the eurozone is likely to create a high degree of macroeconomic uncertainty for a prolonged period. France could face a further deterioration on at least three dimensions. First, French banks are highly exposed to peripheral eurozone debt. Second, France has lost some of its competitiveness on unit labour costs, particularly vis-à-vis Germany. While relatively higher wage increases supported domestic demand and dampened the peak-to-trough fall in GDP during the crisis, France's trade balance declined from a surplus equivalent to 1.8 per cent of GDP in 1999 to a 2.8 per cent deficit in 2009. The longer-term repercussions of this worsening trade position are unclear. Third, France's overall level of debt was one of the highest of any of the large, mature economies in 2011 (Exhibit 5). Deleveraging among nonfinancial corporations and financial institutions has not started in any meaningful way, suggesting that a period of paying down debt lies ahead and might constrain demand.⁴ Demand may further be constrained by the need for France to restore balance to its public finances in line with the EU fiscal pact that France signed on March 2, 2012.

Exhibit 5

France's level of private and public debt is high and will have to be reduced during coming years

Total debt as a fraction of GDP, Q4 2010
 %



NOTE: Numbers may not sum due to rounding.

SOURCE: Haver Analytics; national central banks; McKinsey Global Institute analysis

⁴ *Debt and deleveraging: Uneven progress on the path to growth*, McKinsey Global Institute, January 2012 (www.mckinsey.com/mgi).

FRANCE’S PUBLIC SECTOR WILL NOT BE ABLE TO ACT AS A LEVER FOR JOB CREATION AS IT DID IN THE PAST

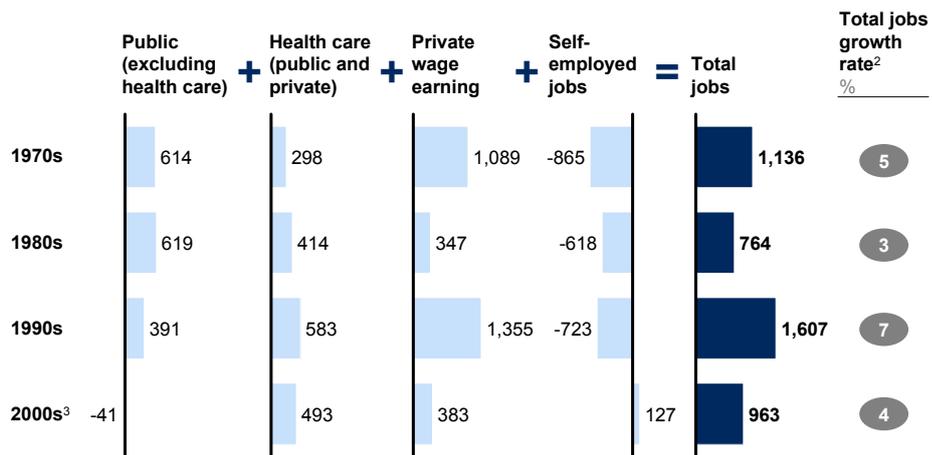
Over the past ten years, France has lost a significant lever for net job creation—public jobs. From the 1970s to the 1990s, the public sector created 400,000 to 600,000 jobs each decade. But since 2000, public sector job creation has been drying up. Today, France’s public sector has experienced a net loss of jobs overall (Exhibit 6).

And further headwinds are developing. The government has announced plans to balance the public finances that will hinder any large expansion of employment in public services, which account for a large share of employment by international standards. In 2007, the employment share in public, education, and health care was 5.5 percentage points higher than in the EU-15 average. Meanwhile, the number of self-employed workers in the private sector increased for the first time in four decades.

Exhibit 6

Public jobs stopped fuelling job creation in the decade from 2000

Net new jobs¹
Thousand



1 Consists of all employed workers in the economy: full-time, part-time, and self-employed.

2 Calculated based on employment change as a share of total employment in the base year (e.g., 1990 for 1990s).

3 Through 2009, as 2010 data not available.

NOTE: Numbers may not sum due to rounding.

SOURCE: National Institute of Statistics and Economic Studies, France; DARES; McKinsey Global Institute analysis

2. France needs to more than double its creation of annual net new jobs

France needs to more than double the number of net new jobs it creates each year to meet ambitions for employment and prosperity at a par with the European average. The nation's social system is already coming under increasing pressure, raising questions about whether it can be financed at current rates of job creation. In 2010, public social expenditure reached 32.2 per cent of France's GDP, compared with 27.5 per cent in 2000, according to France's National Institute of Statistics and Economic Studies (INSEE). To address a widening prosperity gap between France and other European economies and to prevent a further increase in the GDP share of public social expenditure and, in the long term, ensure that its social system is sustainable, the most promising—and politically acceptable—option is to get more citizens into employment. Increasing employment and participation in the labour market boosts per capita income, increases tax revenue, and reduces the need for public social spending on unemployment and pensions.

THE FINANCING OF FRANCE'S SOCIAL SYSTEM IS UNDER INCREASING PRESSURE AS DEPENDENCY RATES RISE

France's social system offers citizens broad coverage and many benefits—but at a cost. France had the highest public social expenditure rate in 2007 of all OECD economies at the equivalent of 28 per cent of GDP compared with the OECD average of 19 per cent (Exhibit 7).⁵

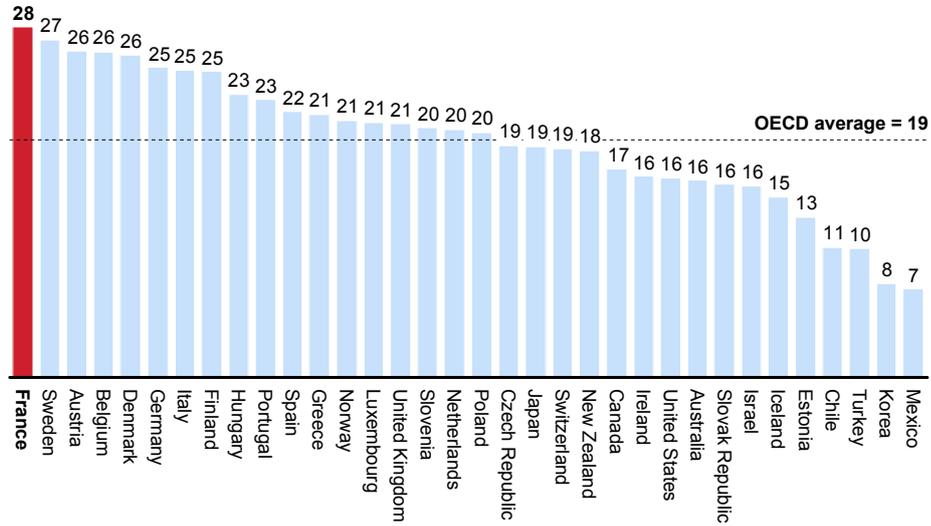
In recent years, it has become increasingly difficult for France to finance its social system. This reflects not only the short-term impact on growth and the public finances of the recent and current economic crises but also longer-term demographic trends—although these trends are more favourable in France than in other Western European countries. As a population ages, dependency rates increase. We define an effective dependency rate as the ratio of the number of people not working to the number of full-time-equivalent persons employed. On this metric, the number of nonworking people that each employed individual needs to support is set to increase from 1.77 in 2010 to 2.04 by 2030 at current employment rates. That is 17 per cent higher than in other mature economies, which include the EU-15, the United States, and Japan (Exhibit 8).

⁵ These figures are slightly different from those mentioned above because the scope of social public expenditure differs for the OECD and INSEE.

Exhibit 7

France has the highest public social expenditure of all OECD economies

Public social expenditure for OECD countries, 2007
% of GDP



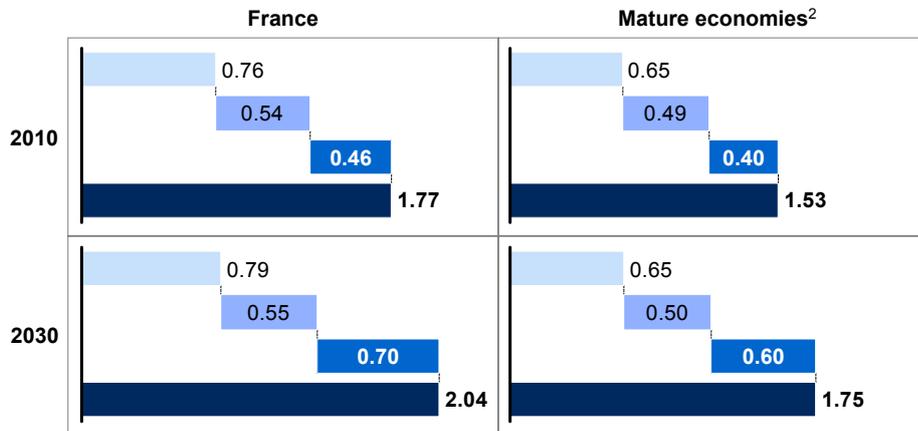
SOURCE: Organisation for Economic Co-operation and Development; McKinsey Global Institute analysis

Exhibit 8

France's already high effective dependency rate will rise further unless labour market performance improves

Effective dependency rates¹
Ratio

■ Youth (0-24)
■ Prime age (25-64)
■ Senior (65+)



¹ Assuming no change in 2010 employment rates.

² Mature economies defined as EU-15, the United States, and Japan.

NOTE: Numbers may not sum due to rounding.

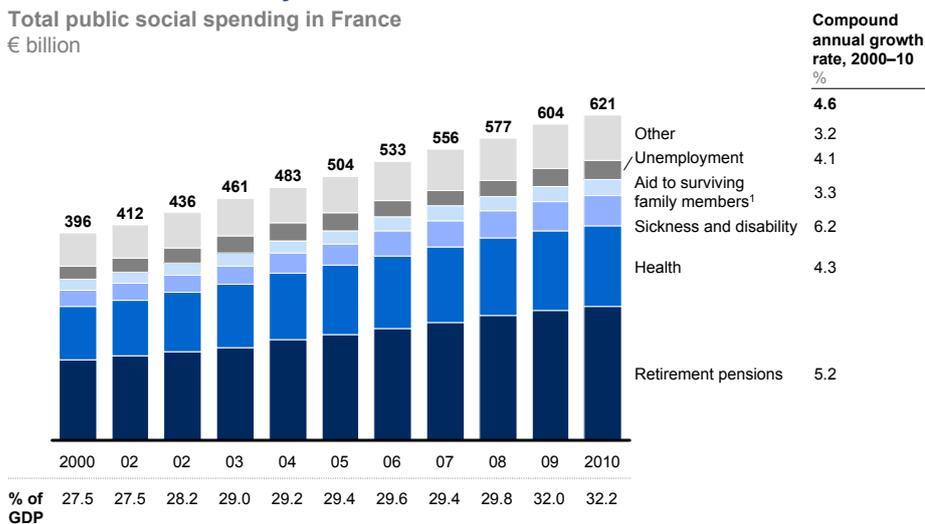
SOURCE: United Nations Population Database; Organisation for Economic Co-operation and Development; Global Insight; McKinsey Global Institute analysis

Since 2000, total public spending linked to France's social system has increased at a rate of 4.6 per cent a year, from 27.5 per cent of GDP to 32.2 per cent in 2010. This increase largely reflects spending on pensions, sickness, and disability benefits (Exhibit 9).

Exhibit 9

France's social public spending has increased from 27.5 to 32.2 per cent of GDP since 2000, driven by spending on pensions, sickness, and disability benefits

Total public social spending in France
 € billion



¹ Includes widows, orphans.

SOURCE: National Institute of Statistics and Economic Studies, France; McKinsey Global Institute analysis

FRANCE IS SUFFERING FROM A WIDENING PROSPERITY GAP

France has recently begun to lag behind other European economies on per capita GDP (see Box 1, “Components of per capita GDP”). Until the 1990s, France was among the leading economies in Europe on this metric of income and prosperity. But by 1996, France’s per capita GDP (at purchasing power parity) had dropped to the EU-15 average. Since then, a gap has opened between France and other member states of the EU. In contrast, Germany has maintained its lead over the EU-15 average (Exhibit 10). In 2010, France was 11th out of 15 economies in Europe on per capita GDP—ranking higher than only the Southern European economies of Spain, Italy, Greece, and Portugal.

Box 1. Components of per capita GDP

Per capita GDP reflects productivity, hours worked per worker, the employment rate, the participation rate, and the share of working-age population.

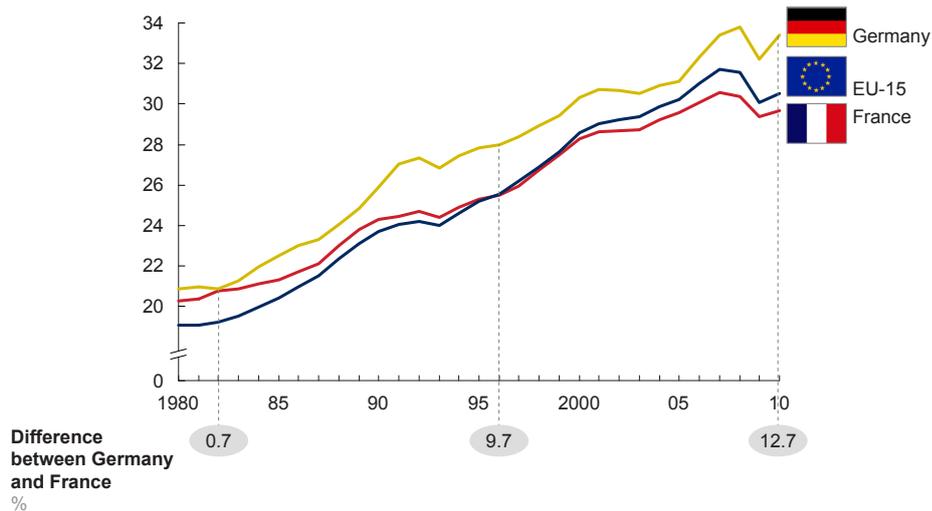
$$\frac{\text{GDP}}{\text{Population}} = \frac{\text{GDP}}{\text{Hours worked}} \times \frac{\text{Hours worked}}{\text{Working population}} \times \frac{\text{Working population}}{\text{Labour force}} \times \frac{\text{Labour force}}{\text{Working-age population}} \times \frac{\text{Working-age population}}{\text{Population}}$$

Productivity
Hours worked per employee
Employment rate (1 – unemployment rate)
Participation rate
Share of working-age population

Exhibit 10

Since the 1980s, France has lost ground on its per capita GDP relative to other EU-15 economies, falling below the EU-15 average in the mid-1990s

Per capita GDP at purchasing power parity
Constant \$, thousand



SOURCE: Organisation for Economic Co-operation and Development; McKinsey Global Institute analysis

France performs relatively well on productivity, ranking fourth in the EU-15.⁶ France built up a clear productivity advantage over the Northern European economies of Denmark, Finland, Germany, the Netherlands, and Sweden in the 1970s and 1980s as the economy substituted capital for labour, although that advantage subsequently narrowed during the 2000s. At the same time, low-skilled workers were pushed out of the labour market, leading to further productivity growth arising from the resulting skill mix improvement in the remaining labour force.

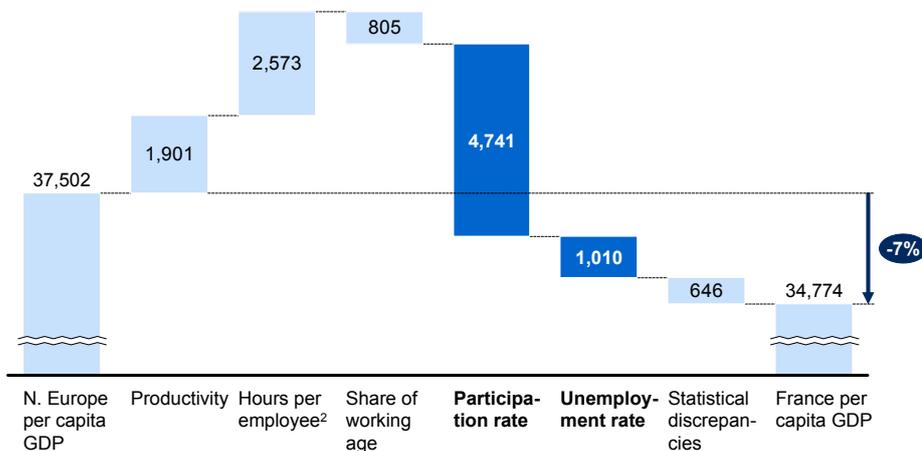
However, France has relatively low labour participation and high unemployment, and these explain the 7 per cent gap in per capita GDP with the average of Northern European countries. Interestingly, annual hours worked per employee are higher in France than in Germany or the Netherlands despite shorter working weeks and longer absence times for vacation, sickness, and other forms of leave, because the share of part-time work, particularly among women, is much lower in France (Exhibit 11).

Although an increase in participation or a reduction in unemployment may moderate productivity growth in the short term because of workers with lower than average skills entering the labour market, this should not, in itself, deter France from trying to increase labour utilisation.

Exhibit 11

The per capita GDP gap with Northern Europe could be reduced by addressing participation and unemployment

Factors explaining the difference in GDP between France and Northern Europe¹
 Per capita GDP, purchasing power parity, adjusted \$ thousand, 2009



1 Sweden, Finland, Denmark, Netherlands, Germany.
 2 High in France due to comparatively low share of part-time workers.
 SOURCE: The Conference Board; IHS Global Insight; Eurostat; McKinsey Global Institute analysis

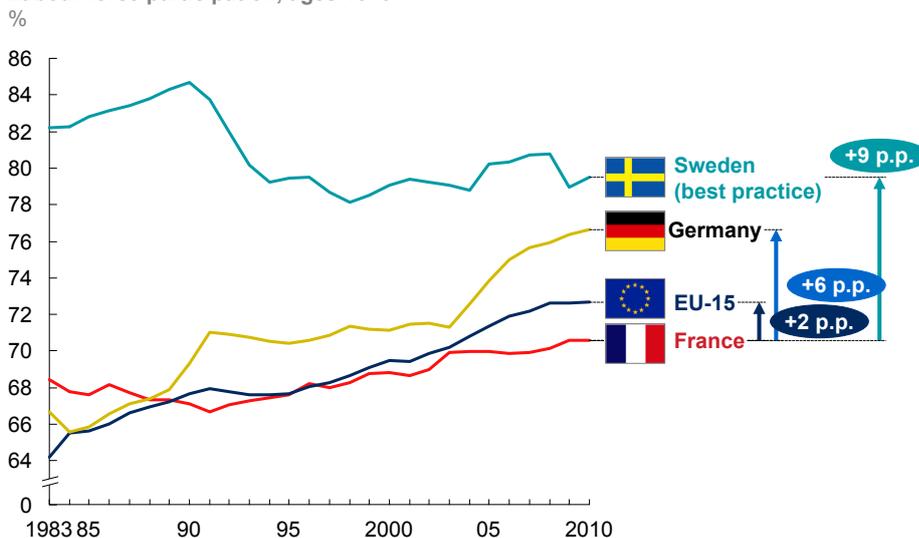
6 Eurostat data for real productivity in euro per hours worked, averaged from 2004 to 2009.

France's participation rate has largely stagnated over recent decades, while participation among the EU-15 as a whole has trended upward since 1996. By 2010, the gap in participation rates between France and the EU-15 average had reached two percentage points. The participation gap with individual economies can be very large. For instance, the current gap between France and Sweden is nine percentage points (Exhibit 12). France lags behind European best practice particularly on the participation of young people and seniors but performs strongly on men and women of prime age. For these groups, France approaches the best-practice levels achieved in Luxembourg and Sweden (Exhibit 13).

Exhibit 12

The French participation rate has been deteriorating compared with the EU-15 average over the past 25 years

Labour force participation, ages 15–64

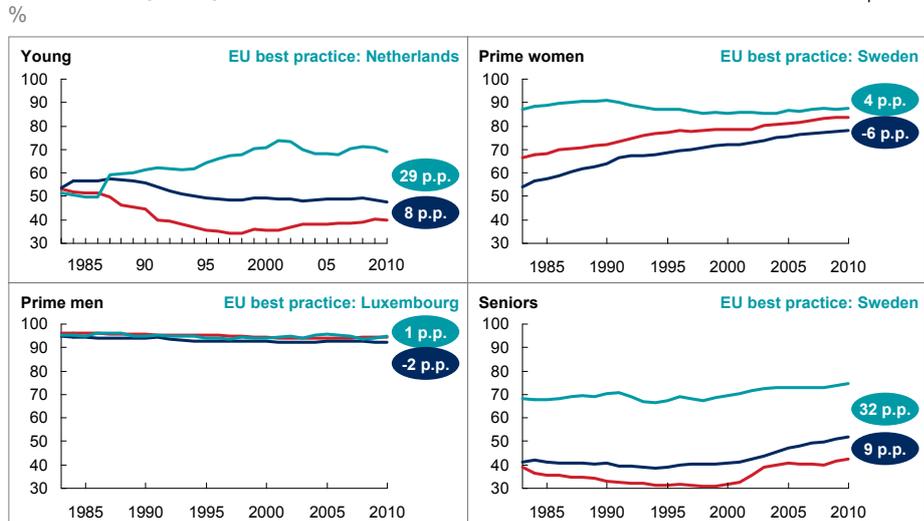


SOURCE: Organisation for Economic Co-operation and Development; McKinsey Global Institute analysis

Exhibit 13

France's low participation rate is driven mostly by the young and seniors¹

Labour force participation



¹ Young = 15–24 years; prime = 25–54 years; senior = 55–64 years.

SOURCE: Organisation for Economic Co-operation and Development; McKinsey Global Institute analysis

TO MEET EVEN MODERATE AMBITIONS, FRANCE WOULD NEED TO MORE THAN DOUBLE ITS ANNUAL NET EMPLOYMENT CREATION

Over the past 40 years, France added around 115,000 net new jobs each year on average (Exhibit 14). Official forecasts predict annual creation of between 95,000 and 144,000 net new jobs a year to 2020 with GDP growth rates of between 1.4 and 1.9 per cent.⁷ A low job-growth scenario, in which France creates 100,000 jobs annually over this period—equivalent to GDP growth of 1.6 per cent—would bring unemployment rates to a level of 5.6 per cent at current levels of participation (Exhibit 15).

However, this low job-growth scenario would be insufficient to address the widening gap in France's per capita income. To reach median EU-15 prosperity levels by 2020, assuming that the country's productivity developed in lockstep with its peers, a more rapid employment expansion of 370,000 jobs per annum—equivalent to 2.6 per cent growth in GDP—would be necessary. Considering a 5.5 per cent target unemployment rate, this high job-growth scenario implies an increase in France's participation rate to 76 per cent by 2020, close to Germany's rate in 2010. This fast a pace of net new job creation is highly ambitious. France has attained this level of annual net new job creation three times in the past 30 years—in the boom years of 1998, 1999, and 2000. More recently, European economies including Finland, Sweden, and Switzerland achieved this in the decade to 2007 before the global economic crisis.

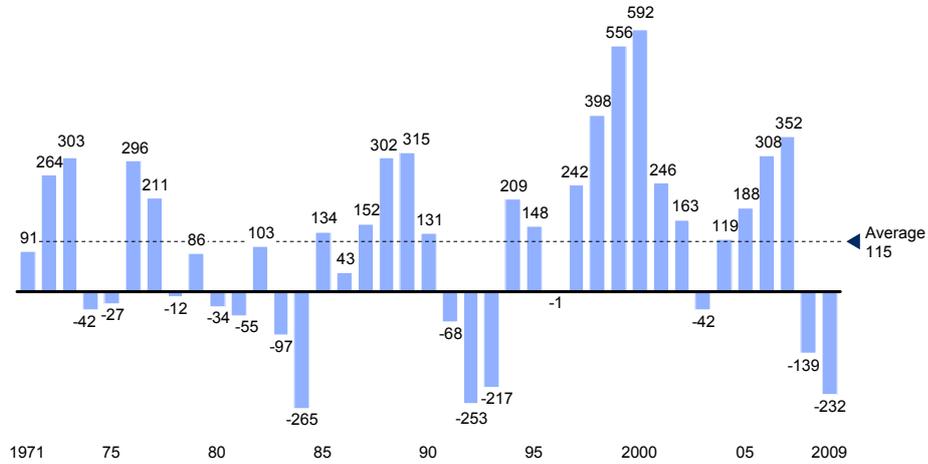
Given the current macroeconomic context, we define a medium job-growth scenario in which the target unemployment rate is still 5.5 per cent but the implied participation rate is the EU-15 average of 72.7 per cent. In this scenario, which we discuss in the next section, the level of net new job creation reaches 240,000 jobs per annum—equivalent to GDP growth of 2.1 per cent.

⁷ Centre d'Analyse Stratégique, *Les secteurs de la nouvelle croissance: Une projection à l'horizon 2030* (Centre for Strategic Analysis, *Areas of new growth: A projection for 2030*), January 2012.

Exhibit 14

Over the past 40 years, France has created an average of 115,000 net jobs a year overall

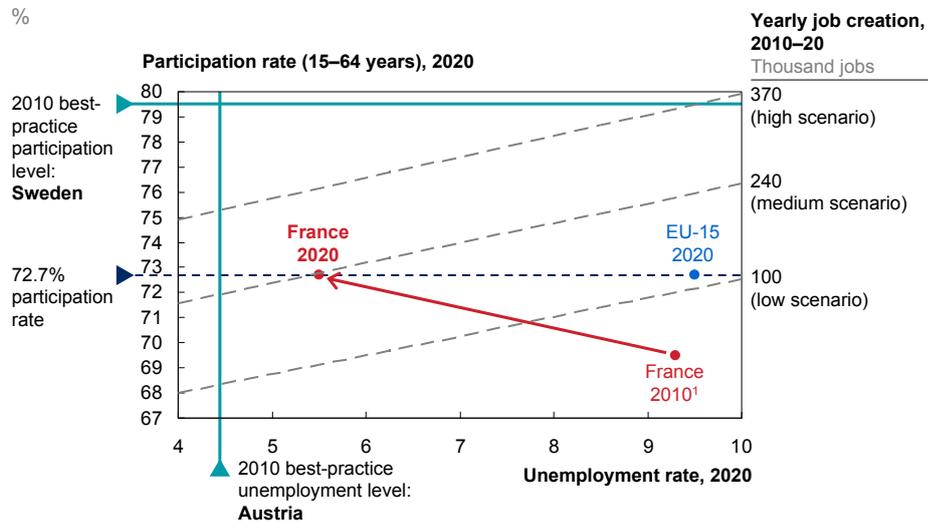
Net new jobs¹
Thousand



¹ Consists of all employed public and private sector workers in the economy: full-time, part-time, and self-employed.
SOURCE: National Institute of Statistics and Economic Studies, France; Enquêtes Emploi; McKinsey Global Institute analysis

Exhibit 15

Creating 240,000 jobs per year and aiming at 5.5 per cent unemployment by 2020 would imply a 72.7 per cent participation rate



¹ Value of France 2010 participation rate (69.3 per cent) taken from INSEE and differs from value used in EU-15 2010 average from Organisation for Economic Co-operation and Development (70.6 per cent).
SOURCE: National Institute of Statistics and Economic Studies, France; Eurostat; Organisation for Economic Co-operation and Development; McKinsey Global Institute analysis

3. France faces a growing mismatch of skills

To achieve a significant increase in labour participation and reduce the burden of unemployment, France will first have to meet a structural challenge that poses increasing risks to the efficient working of its labour market—a severe mismatch between the supply of, and demand for, skills. This imbalance is already significant today and, in the absence of any change in future patterns of work and education, is likely to intensify in the years ahead.

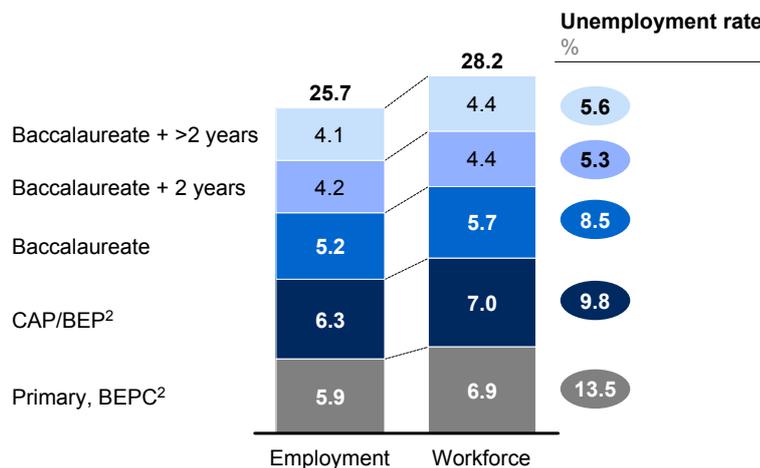
SKILL MISMATCHES WILL BECOME MUCH MORE PRONOUNCED AND AFFECT MORE THAN TWO MILLION JOBS

France faces a significant shortfall in jobs for workers with low levels of educational attainment. The unemployment rate for workers who have, at best, attained a Brevet d' Etudes du Premier Cycle (BEPC) qualification—taken at the end of the first stage of secondary education—is 13.5 per cent, compared with only 5.6 per cent for graduates from tertiary education (Exhibit 16). The low skilled also more frequently drop out of the workforce entirely. At the same time, the unemployment rate among highly skilled employees is very low.

Exhibit 16

The mismatch between labour supply and demand weakens employment

Distribution of the labour force by level of education, 2009¹
 Million



¹ 2009 year taken as distribution of workers by sector and education level not available for 2010.

² CAP: "Certificat d'Aptitude Professionnelle"; BEP: "Brevet d'Etudes Professionnelles"; BEPC: "Brevet d'Etudes du Premier Cycle".

NOTE: Numbers may not sum due to rounding.

SOURCE: Global Insight; National Institute of Statistics and Economic Studies, France; McKinsey Global Institute analysis

For decades, technology has been transforming the nature of work and raising productivity. This evolution began with the use of automated smart machines to automate routine production work such as assembly. A second wave of work redesign over the past 15 years affected jobs that involved information processing and the handling of routine transactions. Transaction jobs that could be standardised—cashing checks and taking deposits; answering a customer call; or processing a service request—were automated. Now a third wave of change is reaching people engaged in complex interactions including managers and salespeople as well as professionals such as doctors, lawyers, and teachers. For more than a decade, interaction jobs have been the fastest-growing category of employment in advanced economies. When technology has been applied to interaction jobs, it has tended to complement and extend what humans can do rather than replace them (e.g., electronic medical records). But the French educational system appears to be losing the race to boost skills sufficiently to meet such rapid changes in demand in line with the transformation into a knowledge and interaction economy. This will make it increasingly difficult to meet the demand for skills required by the market at the same time as finding employment for workers with low levels of educational attainment. Beyond the impact of economic cycles and the rigidities of the French labour market, major long-term structural forces at play could have severely negative implications for employment.

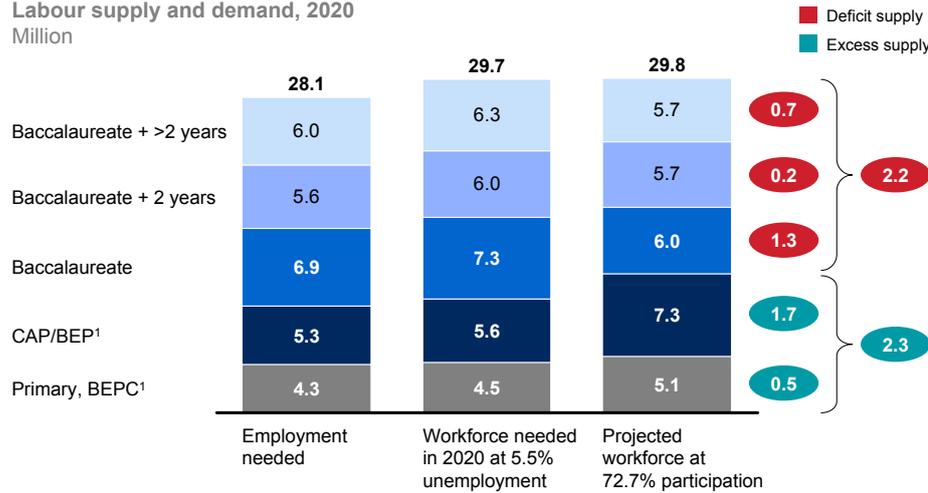
To shed more light on this issue, McKinsey has developed a model to forecast the supply of, and demand for, labour by level of education in France by 2020. Our analysis uses a medium job-growth scenario and assumes that employment will increase by 2.4 million between 2009 and 2020, bringing total employment to 28.1 million. In line with this job-growth scenario, we analyse demand for labour by level of educational attainment and for 16 different sectors over time, as well as sector GDP growth and productivity trends. Interviews with industry executives helped to calibrate our assumptions on productivity and skill mix trends. Our supply model details the evolution over time of labour supply by level of educational attainment based on official forecasts. Taking educational attainment as a proxy for skill, these models allow the comparison of the supply and demand of labour by skill level.

The results are striking. Workers without a BAC are set to face a shortage of 2.3 million jobs—yet an almost equal number of jobs—2.2 million—that require a BAC will be unfilled or filled by workers with inadequate skills (Exhibit 17). These results differ only slightly depending on which net new job creation scenario we choose.

Exhibit 17

Skills mismatches will increase, leading to a shortage of 2.2 million high-skilled workers and 2.3 million low-skilled jobs by 2020

Labour supply and demand, 2020
 Million



1 CAP: "Certificat d'Aptitude Professionnelle"; BEP: "Brevet d'Etudes Professionnelles"; BEPC: "Brevet d'Etudes du Premier Cycle".
 NOTE: Numbers may not sum due to rounding.
 SOURCE: Global Insight; National Institute of Statistics and Economic Studies, France; International Institute for Applied Systems Analysis; McKinsey Global Institute analysis

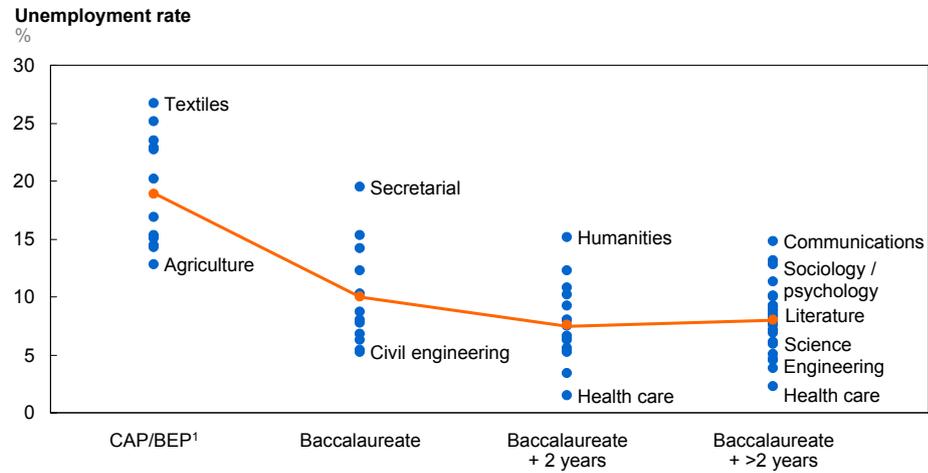
MISMATCHES BY SPECIALISATION ARE SIGNIFICANT ACROSS ALL LEVELS OF EDUCATION

Some educational fields at the school and university degree levels offer far more opportunities than others. The gap between maximum and minimum unemployment levels for each type of qualification stands at around 13 percentage points, no matter the level of education (Exhibit 18). Even among the highly educated, there is, for example, a 13 percentage point gap between the unemployment rates of those who hold a degree in communications and those who hold a degree in health care. Few people are aware of this situation when they make choices about areas in which to specialise.

Exhibit 18

Although the rate of unemployment rate falls with the level of education, the spread of unemployment by field remains high for all levels

Members of the workforce who have graduated in the past ten years



1 CAP: "Certificat d'Aptitude Professionnelle"; BEP: "Brevet d'Etudes Professionnelles"; BEPC: "Brevet d'Etudes du Premier Cycle".
SOURCE: National Institute of Statistics and Economic Studies, France, consolidation of labour surveys from 2003 to 2009; McKinsey Global Institute analysis

France will need to work simultaneously to increase the overall skill level of the workforce, trigger job creation for those with low levels of educational attainment and facilitate their routes into employment, and ensure that students specialise in, and workers are trained in, those sectors that are creating, or likely to create, the most employment.

4. Five priorities for a 2020 labour agenda

Creating 240,000 net new jobs every year over the next decade will not be easy. At a minimum, France will need to develop appropriate macroeconomic policies and drive an agenda of pro-growth structural reform if the economy is to navigate successfully through the ongoing crisis within the eurozone. However, even such an agenda will not be sufficient to address the challenge of maintaining historically high levels of annual employment creation in light of France's structural skills imbalance.

Our diagnostic suggests that France needs to consider five priorities in its labour agenda for 2020.

- **Reform labour market conditions for seniors to increase participation rates.** At the company level, this requires the design of new work models for seniors. Measures include training schemes and the sharing of best practice, linking the minimum retirement age to life expectancy, and reforming the pension system to incentivise people to work longer.
- **Boost the overall skill level of students and workers and better adapt skills to market demand in the knowledge economy.** France could increase the number of highly skilled workers by boosting educational attainment, increasing transparency and guidance of students' choice of field, and creating institutions and incentives for targeted employment-oriented skill building at the secondary school and university level. Such measures would also address the critical issue of youth unemployment. Increasing the number of highly skilled workers already in the workforce can be achieved by closing today's gap between French and international standards on lifelong training.
- **Improve labour costs and flexibility.** Measures include introducing flexi-security mechanisms in the labour market (e.g., labour protection, minimum wage setting, and hours worked); encouraging a deceleration in the increase of the minimum wage to ensure the cost competitiveness of workers with low levels of educational attainment, and reducing the total cost of labour, which disproportionately limits demand for labour of those with low levels of educational attainment.
- **Support job-creating growth for both the high- and low-skilled.** France should facilitate the creation of business; ensure the growth and performance of activities that are intensive in highly educated, technology, or cognitive skills; and enable the expansion of low-skilled, labour-intensive sectors such as personal services, home and long-term care, construction, and tourism.

- Improve matching mechanisms and the effectiveness of employment spending.** France made a major step forward in 2010 by merging the agency in charge of paying unemployment subsidies and the agency in charge of market matching (i.e., helping job seekers in their search and companies to fill open positions) with the aim of providing a single point of contact and offering a better service. In a context of increased demand for services provided by players participating in the Service Public de l'Emploi (SPE), France could simplify the organisation of the overall SPE network and enhance the efficiency and effectiveness of the new agency and main SPE player, Pôle Emploi, by improving some key operational processes and its performance management.

We now discuss these elements in turn.

REFORM LABOUR MARKET CONDITIONS FOR SENIORS TO INCREASE PARTICIPATION RATES

As we have discussed, France's senior participation rate is nine percentage points below the EU-15 average and 32 points lower than best practice in the EU-15. In 2009, the average exit age from the labour force in France of 60 was the lowest of all EU countries. Sweden had the highest average exit age at 64.3. The kind of benefits available to seniors who drop out of employment—including unemployment benefits or support for early retirement—further suppress the age at which people end their working lives. In addition, the high costs associated with laying off older workers make it unattractive for French companies to employ them.

However, by emulating best practices among European companies and governments, France could significantly boost participation by seniors. We see two priorities in this effort:

Design new working models to enable senior workers to remain active longer

There is a need for further public policy action to encourage senior participation—ensuring that the right compensation models are in place for seniors, including the ability to work part time with partial benefits, for instance. However, companies should also take the initiative. The mindset and behaviour of employers needs to evolve significantly to remove age discrimination and prevent early retirement in France. Companies can design career paths that fit seniors' skills and constraints. Some companies offer flexible arrangements and conditions for senior workers (e.g., with part-time compensation) because they know that the baby boom generation is retiring and that this demographic bump will deprive them of precious human capital in terms of skills and experience. The most thoughtful companies use their senior workers as mentors or coaches for younger employees to avoid any massive loss of know-how. Such behaviour is most common in Germany, but a number of European companies have been investing in similar programmes for a decade (see Box 2, "Company efforts to retain seniors").

Box 2. Company efforts to retain seniors¹

Several French and other European employers have already introduced progressive policies to support their older employees and encourage flexible ways for them to work. Examples of effective practices include:

- **Thales.** In 2009, the electronic systems group Thales committed to raising the number of employees over age 55 by 5 per cent each year. To achieve this, the company has implemented an integrated policy that aims to anticipate career evolution, develop vocational training and mentorship, improve working conditions, and manage the transition between work and retirement.
- **Axa.** In 2002, French insurer Axa launched its “Cap Métiers” programme, aimed at promoting internal job mobility for its staff, 34 per cent of which was over 50. While this programme was not restricted to senior workers, they were a key target because the scheme was introduced to compensate for the termination of the company’s costly early-retirement scheme. By offering nonfrontline staff a job guarantee and vocational training, and promoting the programme through success stories, Axa France reached its objective—30 per cent of its staff switched jobs between 2004 and 2006, including a large proportion of senior workers.
- **British Gas.** In 2006, the British company removed age limits on training and apprenticeships, and the average age of apprentices has risen. The company has trainees as old as 57. Older executives who were trained in the past then often act as mentors to younger members of the group.

¹ All information and data are published on company Web sites or in annual reports. Also see “Le défi de la gestion des âges” (“The challenge of age management”), *L’Express*, March 21, 2005; and “Age and the workplace”, *Financial Times*, November 2010.

Adopt an integrated approach to ensure seniors’ employability

The success in boosting senior participation in Denmark and the Netherlands shows that national programmes that simultaneously tackle legal, fiscal, cultural, and skills issues can achieve significant progress even within a few years (see Box 3, “Boosting senior participation in the Netherlands”).

France should develop a plan that removes barriers and disincentives to older working populations, promotes the adoption by employers of best practice toward seniors, and raises awareness among employees about the options available to them to work longer. Features of such a plan could include:

- **Promote best practices in older working among employers and raise awareness about options.** Public decision makers could develop and maintain a body of evidence to demonstrate the benefits and challenges of senior workers remaining on the job. The decision makers could monitor, publicise, and encourage the adoption of best practices among firms, including, for example, initiatives to reduce the impact of ageing, programmes to maintain skills, and policies to meet the changing needs of older workers through flexible hours and home working. Age discrimination

in France is a significant issue. The body that monitors discrimination in France, L'Observatoire des Discriminations, has found that age is the main discrimination factor in recruitment.⁸

- **Develop seniors' access to continuous learning and help them shape the “second part” of their career.** The government could promote initiatives to raise awareness of opportunities for older workers. Since 2009, companies have been obliged to offer workers aged over 45 a systematic career review. This was a step in the right direction and should now be complemented with real opportunities for specific training. This would help to bring forward planning for continued or flexible working, identify opportunities for retraining, and match career plans to skills. France still has a long way to go. Only 19 per cent of workers over 50 have access to continuous training each year, compared with 37 per cent in the United Kingdom, 51 per cent in Denmark, and 53 per cent in Sweden.⁹
- **Ensure the formal pension framework accommodates and incentivises older workers to remain in the workforce.** To achieve this, France needs targeted policy adjustments. First, the government should increase the legal minimum retirement age in line with longer life expectancy to ensure that participation and the costs of retirement reflect demographic trends. Since 1960, life expectancy in France has risen by 11 years but the legal retirement age has been reduced by three years from 65 to 62. As a result, France has one of the highest spreads among OECD countries between the expected age of exit from the workforce and life expectancy (Exhibit 19). However, France embarked on a path of reform in 2010, pushing back the retirement age for the first time in 50 years.¹⁰ The government has also put an end to a situation in which senior workers were not required to look actively for work in order to obtain benefits, and it has eliminated public subsidies for early retirement after the number of early retired workers increased by 70 per cent from 1995 to 2002.¹¹ People should also be encouraged to take part of their pension entitlements incrementally while continuing to work. Recently, conditions to combine pensions and earned income have been relaxed or extended, and a system of “gradual retirement” has been introduced. However, awareness of these schemes that offer greater freedom of choice for workers is low, and, where there is awareness, they are financially unattractive. According to statistics from the social security administration, few people actually benefit from these reforms.

8 *Baromètre Adia: L'Observatoire des discriminations—Novembre 2006*, L'Observatoire des Discriminations.

9 Organisation for Economic Co-operation and Development, *Pensions at a glance 2011*.

10 The 2010 reform of France's legal retirement scheme stipulated that the duration of the minimum contribution will gradually be raised to 42.5 years (with a minimum age of retirement at 62, a full-rate pension retirement age at 67, and a maximum retirement age of 70).

11 DARES, *Dossier préretraites: Premières informations et premières synthèses (Dossier on early retirement: First findings and synthesis)*, February 2009.

Box 3. Boosting senior participation in the Netherlands

The Netherlands increased the participation rate of those aged 55–64¹ by 24 percentage points within just 20 years, reaching a participation rate of 55 per cent by 2009. The Netherlands achieved this through a range of measures:

- **Pension system reforms.** The Netherlands pushed back the minimum retirement age from 63 to 65 (stipulating that, to qualify for a pension, a worker would need to have 40 years of minimal contributions). At the same time, the government changed its early retirement scheme to make it less attractive to stop working and revised its disability insurance scheme, which was frequently used as a form of early retirement.
- **Unemployment scheme reforms.** The government reduced the duration of unemployment benefits and introduced job search requirements for the older unemployed.
- **Hiring incentives.** The government initiated reforms aimed at incentivising employers to hire senior workers. Measures included the introduction of a task force to change employers’ perception of older workers, antidiscrimination legislation, and wage subsidies.
- **Increasing employability.** The government also increased training for seniors and decentralised and specialised employment services to ease the path into work for people of the older generation.

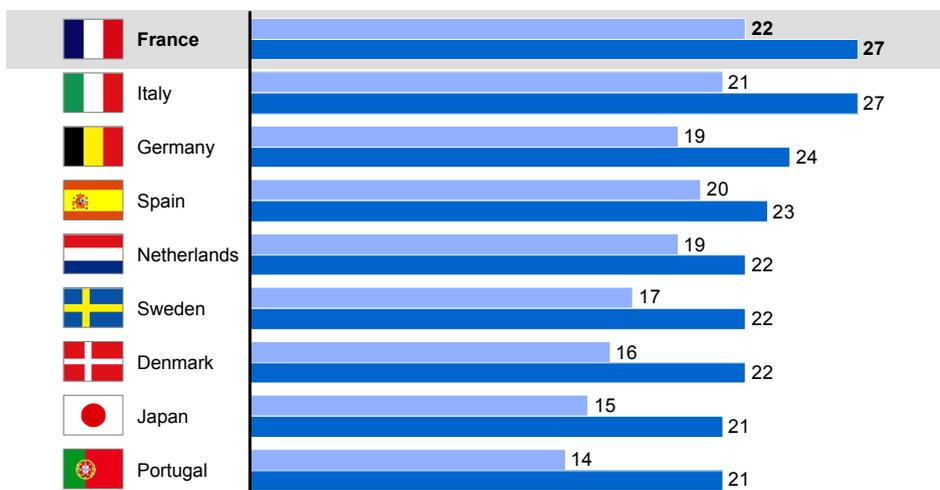
1 OECD statistics database.

Exhibit 19

The expected duration of retirement in France is one of the highest of any OECD country

Gap between life expectancy and the effective age of exit from the labour market
 Years

Men
 Women



SOURCE: Organisation for Economic Co-operation and Development, *Pensions at a Glance 2011*; McKinsey Global Institute analysis

BOOST THE OVERALL SKILL LEVEL OF STUDENTS AND WORKERS AND BETTER ADAPT SKILLS TO MARKET DEMAND

France is facing a double mismatch in the skills that it has available. It has too few graduates with high educational attainment compared with those of low attainment, and too many school leavers who are not equipped with the skills that are in demand in the job market. It is important to note that, given the expected educational attainment mix of the labour force in 2020 as described in the previous chapter, increasing by one million the number of workers with baccalaureate-level education would reduce the overall mismatch by half. But filling the vacancies at the top end of the pyramid seems even more difficult. It requires not only an additional 700,000 workers with at least a three-year post-baccalaureate degree, but also an equivalent upskilling push at each level in the educational pyramid so that the upskilling at the top does not lead to a shortage one level down. All in all, to resolve the mismatch entirely through upskilling, more than four million workers in total would need to have experienced a one level step-up in educational attainment beyond current projections to close the gap. We believe that France needs to take action on five fronts at the secondary school and university levels that would address not only the critical issue of youth unemployment but also skills issues for those who are already in the workforce. We discuss these five areas in turn.

Produce a sufficient number of high-skilled graduates for the knowledge economy of 2020

Workers with the strong cognitive, communication, and problem-solving abilities that are required for the most sophisticated types of work have seen low unemployment and increasing opportunities—the opposite of what has been happening to workers at lower skill levels. For more than a decade, interaction jobs—including both high-skill and low-skill ones—have been the fastest-growing category of employment in advanced economies. In the United States, for example, nearly all net new job creation over the last decade has been in interaction jobs. Between 2001 and 2009, nearly 5 million new interaction jobs were created—while more than 3 million production and transaction jobs disappeared. At the same time, many employers say there is a shortage of workers with specific technical skills. In 2010, 26 per cent of employers in Europe reported having difficulty filling jobs because of lack of qualified talent, particularly technicians and engineers.¹² Two-thirds of CEOs said their key challenge in the next three years is the limited supply of candidates with the right skills.¹³

In the years to come, there will be a growing need for knowledge and interaction workers. The health care sector is expected to continue to grow, creating a need not only for doctors and nurses, but also lab engineers and technicians or medical IT specialists. Statisticians and mathematicians with the ability to analyse big data, a burgeoning economic opportunity, are already in short supply,¹⁴ and there will be an increasing need for general managers, marketing and sales managers, researchers, computer programmers, as well as high-

12 See ManpowerGroup's 2010 Talent Shortage survey of 39,641 employers in 39 countries.

13 See PricewaterhouseCooper's 2011 global CEO survey of 1,201 business leaders in 69 countries.

14 See *Big data: The next frontier for innovation, competition, and productivity*, McKinsey Global Institute, May 2011.

skilled workers in business services such as strategy, marketing, or advertising.¹⁵ Unemployment rates by field for those holding a degree equivalent to at least three years of tertiary education are already below 5 per cent in science, mechanical and electrical engineering, computer/IT engineering, medical doctors, and management/finance/accounting/insurance. Tertiary educational institutions, together with the government, must dedicate a sufficient amount of financial and human resources to increase the number of graduates in these areas without decreasing the level of skill required for graduation.

Raise educational attainment by reducing dropout rates and increasing tertiary graduation rates

Some 12.8 per cent of French students left school early in 2010, according to Eurostat, above the EU 2020 target of 10 per cent. While data that allow us to compare early school leaving rates across countries are limited, it is striking that, within the EU-15, France's share was exceeded only by the four Southern European countries of Italy, Spain, Greece, and Portugal, as well as the United Kingdom. In contrast, the share of early school leavers in Austria and the Netherlands stood at 8.3 and 10.1 per cent, respectively. A high incidence of early dropout from school has repeatedly been associated with a high probability of youth unemployment. To counter this phenomenon, France should make sure to offer those pupils failing at school either intensive educational support (like tutoring) to catch up with the general-track education, or specific, personalised training to help them acquire skills that employers will value.

France also needs to improve access to tertiary education and strive to boost the share of students completing this stage to meet the increasing demand for knowledge workers. A 2011 analysis by France's Ministry of Education found that 36 per cent of people born in 1984 had not reached the BAC level.¹⁶ Moreover, 43 per cent of French people aged 25 to 34 have a university degree, lower than 45 per cent in the United Kingdom, 47 per cent in Norway, 56 per cent in Canada, and 63 per cent in South Korea.¹⁷ To ensure that the available labour force has the education levels required by business, a larger section of the population must be able to access qualifications that lead to genuine job prospects. Achieving this should be pursued not by making access to degrees easier but by providing students with more support and guidance. Teachers need to have the required time and resources to focus on providing students with the relevant skills to increase graduation success rates. This holds true at all levels of primary and secondary education.

15 Centre d'Analyse Stratégique, *Les secteurs créateurs d'emplois à moyen terme* (Center for Strategic Analysis, *The job-creating sectors of the medium term*), January 2012. Centre d'Analyse Stratégique and DARES, *Les métiers en 2015* (Center for Strategic Analysis and DARES, *Jobs in 2015*), January 2007.

16 Ministry of Education, *Repères et références statistiques sur les enseignements, la formation, et la recherche* (Ready reference statistics on education, training, and research), 2011.

17 OECD *Factbook 2011–2012*.

Increase transparency and guidance about each student's choice of field

Students do not have enough information on the sort of jobs to which the various diplomas and university courses lead. Very few universities offer prospective students statistics on which they can base their choice of what to major in, having assessed the opportunities and risks involved. This is reflected in the high spread in unemployment rates by field, independent of the level of education, that we have described. Experience elsewhere suggests that supporting students can be effective. In France's business schools, for instance, dedicated school staff members centralise internships and job offers, coach students on their résumés and prepare them for interviews. In the United States, the University of Pennsylvania uses faculty and peer advisors, as well as an advisory office, to help students identify the path to a clearly defined objective. Boston Connects is a good example of how to organise guidance given to secondary school students in a way that will help them identify their needs, skills, and aspirations, and what is likely to be the most promising and rewarding professional future for each individual. In each school, a student support team is the key point of a coordinated support. The team is responsible for identifying and addressing the needs and aspirations of students and families. The scheme incentivises teachers to participate in, and lead, meetings and uses assistance offered to schools at no cost by local agencies. France may find it useful to rethink how it uses guidance counsellors, too. These counsellors need to be able to interact with former students and older students. They would also benefit from a multichannel system including forums and the Internet to enable them to communicate with students more effectively.

In general, all the players in France's economic life should have access to analyses and decision-making tools that help them to assess employment prospects by field and by region. Education is a long process, and thorough analytics therefore need to be available, particularly in a largely public system that limits the self-regulation of markets. Students who are either following a course of studies or who wish to choose their options would be able to inform themselves about the state and current projections of the relevant part of the labour market at any given time. Universities would be able to create targeted programmes, and companies would be able to identify skills that may become scarcer in the future, perhaps encouraging them to train workers in-house.

One example of the combination of transparency and guidance that has been developed by public institutions is the O*NET programme sponsored by the Employment and Training Administration at the US Department of Labor. This programme gives the public free access to an interactive application that provides information on a large number of occupations, describes the skills and knowledge needed for each, and lists the main characteristics of the occupation. This allows workers to form an idea of whether a certain occupation would suit them or not—one step toward finding the most appropriate employment. In its 2011 year-end report, the US Jobs Council called for increased collaboration among state governments, the Department of Labor, and the private sector to extend such databases to the regional level.

Create institutions and incentives for targeted employment-oriented skill building

France needs to better prepare students for their working lives. Students in France have far less contact with the business world than their European peers. Although internships are generally compulsory in France in order to obtain a vocational training certificate (BTS), a university diploma in technology (DUT), or a “grandes écoles” diploma, they are not mandated at the university level where students more rarely do internships.¹⁸ And even more broadly, collaboration of universities with industry is low by international standards; the World Economic Forum ranks France fourth-lowest for such collaboration in the EU-15, ahead of only Italy, Spain, and Greece. In the field of secondary education, apprenticeships, sandwich courses, internships, and gap years are all useful if France is to improve the professional development of secondary school students and help them to integrate into companies. France should increase the level of mandatory professional exposure before graduation, as well as encourage the development of apprenticeships, especially for those with low levels of educational attainment. Those with the lowest skills—and therefore with the most need for employment-oriented skill building—could be identified on la journée d’appel et de préparation à la défense (JAPD), the day on which all 17-year-old boys and girls are summoned for defence preparation and are tested for illiteracy. Those tests revealed that 12 per cent of 17-year-olds have difficulty reading.¹⁹

The United States is addressing the lack of alignment between market demand and the skills of its workforce by developing partnerships between businesses and postsecondary educational institutions. Some of these partnerships are driven by the private sector. Examples include P-Tech, a partnership among IBM, the New York City Department of Education, and colleges in New York State that aims to prepare students to integrate the IT industry. Other programmes are driven by public institutions. One example is the Right Skills Now initiative, a partnership between companies and universities in Minnesota that prepares students to work in sectors that suffer from skills gaps. These sectors include health care, transportation, distribution, and logistics. This initiative allows individuals to attend an accelerated programme that will grant them college credit and national industry certification in 16 weeks. Initially designed for the specific needs of machining, the programme has broadened to developing skills in other areas of manufacturing.²⁰ Other states are now replicating Minnesota’s initiative, and this model would be just as applicable in France. Public institutions should consider examining this model and should encourage and facilitate its adoption.

Germany, too, has created a system that forges links between the labour market and its future employees, increasing the employability of students. The 1969 vocational training act provided for practical on-the-job training as well as state-run vocational training schools that offer students a theoretical and general education typically for two to three years. The aim was to prevent youth unemployment, reinforce early links between the labour market and its future employees, and establish a direct relationship between training capacity and demand for skilled labour—without the need for state planning. Employers funded the training, paying trainees up to one-third of the starting salary of a skilled

¹⁸ Organisation for Economic Co-operation and Development, *Jobs for youth: France*, 2009.

¹⁹ Ibid.

²⁰ Jobs Council, President’s Council on Jobs and Competitiveness, *Roadmap to Renewal*, 2011 year-end report.

worker. Labour offices simultaneously helped young people to find training places and gave them advice. The results have been impressive. Germany had a low youth unemployment rate of 10 per cent, compared with the OECD average of 19 per cent in 2010. Germany has 350 recognised training occupations. These offerings comply with a uniform national standard. Today, one-quarter of German companies, and more than half of those that have more than 50 full-time employees, provide training.

Foster lifelong learning

France should also consider how to ensure that lifelong training, one of the key ways to maintain the competitiveness of a country's workforce, focuses on the right sectors and people. Only 6 per cent of employees in France received such training in 2009; of EU-15 countries, only Greece had a lower share. France's share falls significantly short of Sweden's share of 22 per cent and Denmark's 32 per cent.²¹ Moreover, training is not fairly distributed in France. In fact, training is mainly directed at the managerial level of business. It is striking to see that the higher up an employee is on the company chain, the more likely that employee is to receive training. The probability of a qualified employee receiving training is 4 per cent higher than for a nonqualified worker, and executive-level employees increase their odds by an additional 7 per cent.²² Tertiary education graduates aged 20 to 29 have three times as much access to continuing vocational training as those in the same age bracket with no diploma.

France should also consider how it could use lifelong training as a lever to facilitate the transfer of workers from high unemployment sectors to sectors that have positive prospects for job creation, thereby reducing the divergence of unemployment rates among sectors. Further, France should consider whether it could introduce a system that rewards companies that train those workers with low levels of educational attainment in order to avoid free-riding of companies that do not invest in training.

Sweden offers training for nearly one-third of all adults in the country, triple the average rate in Europe. This is an example that France should consider examining. Sweden makes provision on a number of tiers. At the upper secondary level, municipalities are required to offer adults aged 20 and above an opportunity to take general and vocational courses. The higher level of vocational education is the most common in Sweden. In 2008, 35,000 were enrolled in one- to three-year courses, designed in conjunction with employers, which provide specialist training in the various sectors of the labour market. In addition, there is a Swedish system of supplementary education. This is provided outside the public education system—privately owned and managed but under the supervision of the National Agency for Education—and supplements upper-secondary education most often by focusing on a specific subject or vocational area. Secondary training also exists and is designed to give access to a higher professional level or a new profession. Finally, Sweden's public employment service commissions and finances training for the unemployed and those who are vulnerable to being excluded from the labour market such as the disabled or immigrants. Training schemes in this case tend to be relatively short and targeted to ensure fast access or return to work.²³

21 Eurostat, *Lifelong learning statistics*, 2011.

22 Sylvie Blasco, Jérôme Lê, and Olivier Monso, *Formation continue en entreprise et promotion sociale: Mythe ou réalité? (In-company training and social promotion: Myth or reality?)*, 2009.

23 European Centre for the Development of Vocational Training.

IMPROVE LABOUR COSTS AND FLEXIBILITY

The cost competitiveness of workers, especially those with the least education and training, is low in France, mainly because of the high burden of tax and social security, the relatively high minimum wage, and other significant labour market rigidities. We see three ways of enhancing competitiveness—and therefore employability:

Introduce flexi-security mechanisms into the labour market that protect individuals rather than jobs

The level of job protection in France is high. In the OECD's 2008 ranking of 40 countries, France placed 35th in terms of labour flexibility. The difficulties companies face in laying off workers with permanent contracts provides a level of security for those concerned and may delay the rise of unemployment during economic downturns. But in the long term, this practice does not encourage companies to hire. People who are unemployed, particularly those with low levels of educational attainment and the young, face a system in which the high level of job protection comes at the expense of workers currently outside of employment, who can often obtain only a temporary contract, if that, and then tend to be the first to lose their job in the event of a downturn in business or the economy. France could draw lessons from the Danish model of “flexi-security” that aims to combine higher job market flexibility—through a reduction in job protection—with improved security for people in the form of higher unemployment benefits and better access to job seeker assistance and vocational training combined with stricter job-seeking requirements. France took a first step with the introduction of the “rupture conventionnelle” in 2008, which allows termination of a permanent contract by mutual consent and grants the employee rights to unemployment benefits. France could also look at ways to simplify its labour law. This currently features many different types of contracts (e.g., permanent, fixed-term contracts, interim, assignment-based, and seasonal contracts) and as many levels of protection. One option would be to implement a single employment contract model, with a level of protection that rises with seniority.²⁴ This could reverse the increasing duality of the labour market, which today is experiencing a boom in temporary working. According to the French labour ministry, 77 per cent of new hires were on the basis of fixed-term contracts in the final quarter of 2010. In fact, companies are circumventing the rigidities of permanent contracts—and in doing so offering much less desirable conditions to newcomers to the labour market.

24 This proposal was first made by economists Pierre Cahuc and Francis Kramarz in their report *De la précarité à la mobilité: Vers une sécurité sociale professionnelle (From precariousness to mobility: Moving toward a professional social security)*, 2004. The proposal was taken up and promoted by the Commission for the Liberation of French Economic Growth, led by Jacques Attali in 2008.

Contain the level of the minimum wage and make it more flexible

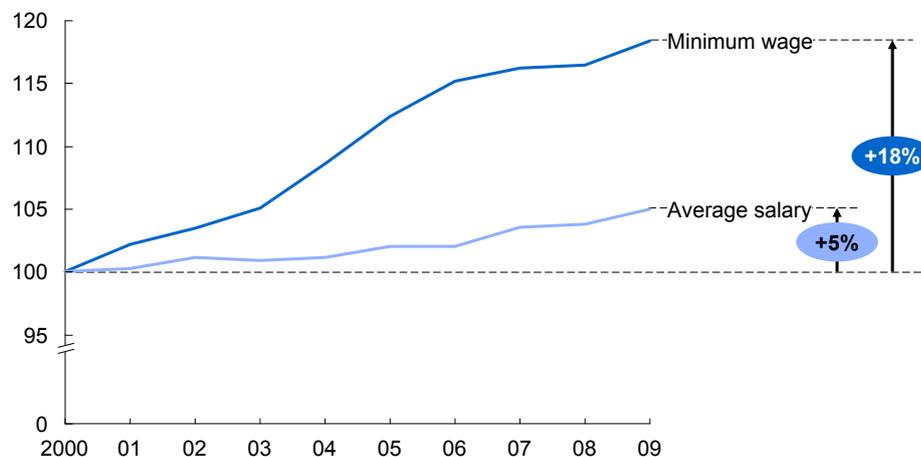
Over the past decade, growth in France's national minimum wage has significantly outpaced that of the average wage. From 2000 to 2009, while the average wage rose by 5 per cent, the minimum wage rose by 18 per cent (Exhibit 20). Today, France's minimum wage is among the highest in Europe, close behind that of Ireland, Belgium, and the Netherlands, and relative to the median wage it is the highest among all OECD countries. This has a negative impact on unemployment and on the competitiveness of workers, especially those with low levels of educational attainment and young workers. Academic research has shown the negative impact that an increase in the minimum cost of labour can have on minimum wage employment.²⁵ In the future, France should ensure that further minimum wage increases do not diverge from average wage increases or from rates of productivity growth. The timing of any such change is important if France is to avoid any negative repercussions on domestic demand during a period of difficult economic conditions that may persist. To compensate for any declines in the purchasing power of employees if wages were to fall or stagnate, France could use the Incentive for Employment (PPE) scheme or reinforce other mechanisms such as a negative income tax to support people on low incomes, without burdening their employability.

Exhibit 20

The net minimum wage increased more than three times as fast as the net average salary over the past decade

Evolution of the net annual minimum wage and the net average annual salary

Index: 100 = 2000 in constant €



NOTE: In France, the minimum wage is referred to as *le salaire interprofessionnel de croissance* (SMIC).

SOURCE: National Institute of Statistics and Economic Studies, France; McKinsey Global Institute analysis

²⁵ F. Kramarz and T. Philippon, *The impact of differential payroll tax subsidies on minimum wage employment*, September 2000. The authors study the impact of changes in total labour costs on the employment of low-wage workers in France from 1990 to 1998, a period during which steady increases in minimum costs were followed by large decreases, especially driven by an increase in subsidies in 1995 and 1996. Although no clear conclusions can be drawn regarding the transition from nonemployment to employment, the authors find that an increase of 1 per cent in the cost implies an increase of approximately 1.5 per cent in the probability of a low-wage worker transitioning from employment to nonemployment. This indicates that lower labour costs help to protect workers from becoming unemployed.

Another difficulty is that there is a high degree of rigidity in the setting of the minimum wage. One minimum wage covers all regions and sectors. Its level is governed by automatic and constraining indexation that applies to all employees and that goes beyond simply maintaining purchasing power. This system is unique among OECD countries.

Reduce overall labour costs

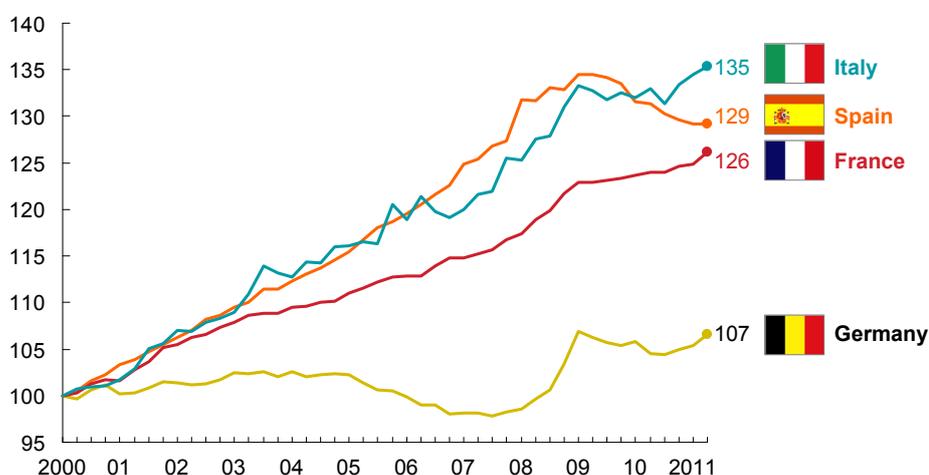
With a tax wedge of more than 40 per cent for a couple with average earnings and two children, France has the second-highest tax wedge of any OECD country. Only Belgium has a higher wedge, according to the OECD.²⁶ In the World Economic Forum's 2011 competitiveness rankings, tax rates and tax regulation were cited as the second and third most problematic factors for doing business in France, topped only by restrictive labour regulations. Academic literature has noted examples of the positive impact on employment of reducing tax wedges.²⁷

Reducing the overall cost of labour, including tax wedges, is important in order to make hiring attractive. Exposure to international competition requires careful consideration of competitiveness, particularly within the eurozone. Over the past decade, unit labour costs in France have increased by 26 per cent compared with 7 per cent in Germany (Exhibit 21).

Exhibit 21

Over the past decade, France has lost competitiveness in unit labour cost relative to Germany

Evolution of unit labour costs for the total economy, Q1 2000–Q2 2011
 Index: 100 = 2000



SOURCE: Eurostat; INSEE; McKinsey Global Institute analysis

²⁶ Tax wedge is defined as the sum of personal income tax and employee plus employer social security contributions together with any payroll tax less cash transfers, expressed as a percentage of labour costs. See *OECD Economic Survey: France 2011*.

²⁷ Bruno Crépon and Rozenn Desplatz, *Evaluation of the effects of payroll tax subsidies for low wage workers*, January 2002. The authors study the impact of payroll tax subsidies for low-wage workers on employment, concentrating on tax cuts in 1995 and 1996. The authors conclude that tax policies between 1994 and 1997 created, or avoided the destruction of, 400,000 jobs in France.

But improving the position on unit labour costs and reducing tax wedges in service sectors is equally important for employment, and could be a lever to increase employment in low-skilled, intensive service sectors. Cutting the contributions levied on low wages would automatically make a worker with the lowest level of qualifications more competitive. Reducing the costs of tax wedges to the employer would allow businesses to hire more workers with low levels of educational attainment without cutting the living standards of those workers.

Any reduction in contribution levels would need to be met through a rebalancing of fiscal revenue or a decrease in public expenditure, or both. At the same time, increasing employment will have a strong positive impact on the amount that needs to be spent on social protection.

Beyond reviewing tax wedges, France should explore how it can further decentralise wage-setting, introducing more flexibility by sector, by region, or even at the company level so that employers and employees can make important decisions collectively. However, more flexibility at the company level comes with certain obligations on the firm such as ensuring lifelong training for its workers and setting up appropriate guidance for laid-off workers.

Both Sweden and Germany have introduced mechanisms into their wage-setting systems to help contain increases in unit labour costs. Sweden's "industrial agreement" ensures that impartial negotiators support wage agreements to avoid industrial action as much as possible. Traditionally, it is export sectors that set the wage agreement ceiling for other sectors. In Germany, union representatives, employers, and policy makers have jointly agreed to limits on wage increases in exchange for job guarantees, with flexibility from sector to sector. In Denmark, the decentralisation of wage bargaining was a key component of a set of reforms that led to a steep decline in the rate of unemployment (see Box 4, "Cutting unemployment in Denmark").

Box 4. Cutting unemployment in Denmark

From 1993 to 2008, Denmark's unemployment rate for people over 25 years old fell from 8.9 to 2.5 per cent. The 6.4 percentage point reduction was far larger than the 2.2 percentage point cut achieved on average by the EU-15 during that period. Denmark already had an established tradition of flexible labour and product markets, but it was a series of labour market reforms in the 1990s that produced this large decline in unemployment. The major components were:

- **Decentralisation of wage bargaining.** During the 1990s, Denmark moved from a centralised and coordinated bargaining system to an intermediate position that allowed for local and individual variations. In 2000, 85 per cent of contracts gave scope for personal allowances or left the setting of wages to local negotiations between employer and employee, subject to minimum levels. Wage dispersion duly increased, in particular at the high and intermediate levels within firms. It is noteworthy that, despite the large decline in unemployment in Denmark, the average growth of real wages was only a moderate 1.9 per cent from 1993 to 2001.
- **Benefits reform.** Denmark also substantially tightened its unemployment benefits system but without direct reductions in transfer payments. Instead, Denmark improved the incentive structure of the system, cutting the duration of the entitlement from seven years to four years and limiting the passive collection of benefits—i.e., with no required job-seeking element—to only one year. By introducing an obligation to look for work after one year, Denmark encouraged active job search and discouraged voluntary unemployment and work in the shadow economy. At the same time, Denmark tightened the eligibility criteria for unemployment benefits, requiring applicants to demonstrate that they had been in regular work for one year within the previous three (formerly the rule was only six months within the three-year period). While the Danish unemployment insurance scheme is still very generous by international standards, the reforms are considered to have contributed to the reduction in unemployment.
- **Active labour market policies.** Denmark shifted toward more active labour market policies in the 1990s, focusing on upgrading the skills of the unemployed to equip them to take advantage of new job opportunities.
- **Taxation.** Denmark also modestly reduced marginal tax rates on labour during this period, although they remain high. At the same time that Denmark managed to reduce rates, half of the countries of the EU were increasing the tax wedge on labour.

SUPPORT JOB-CREATING GROWTH FOR BOTH THE HIGH- AND LOW-SKILLED

Given the challenge of more than doubling annual job creation at a time when there will be a 2.3 million shortfall in job opportunities for the low-skilled, it is vital that France improves the ability of the economy to create jobs overall and specifically for those citizens who have not achieved BAC level in their education. At a time of major fiscal cutbacks in France (and elsewhere), it is clear that job creation must come primarily from the business sector. Research by MGI over 20 years shows that the main driver of competitiveness and sector dynamics is sector regulation, which drives diffusion of innovation and productivity growth.²⁸ France must ensure that proper levels of competition exist in all sectors, both tradable and local.

Facilitate business creation

Facilitating the creation of businesses—and the development of “catalyst jobs” that generate more job creation—should be high on France’s list of priorities. While France has reduced the regulation of product markets from 2.45 to 1.39 on the OECD’s indicator on a scale from 1 to 5, it still remains higher than in all of France’s neighbouring countries. The 2011 World Economic Forum competitiveness rankings put France in 116th place out of 142 countries on the burden of government regulation. It takes only seven days to complete the administrative process of creating a business in France, though there is still a gap with global best practice.

While the French business creation rate is similar to that of Germany, it is only half the rate observed in the most entrepreneurial industrialised countries (among them Canada, Australia, and the United States). In the United States, companies less than five years old accounted for 100 per cent of the net jobs created between 1980 and 2005.²⁹

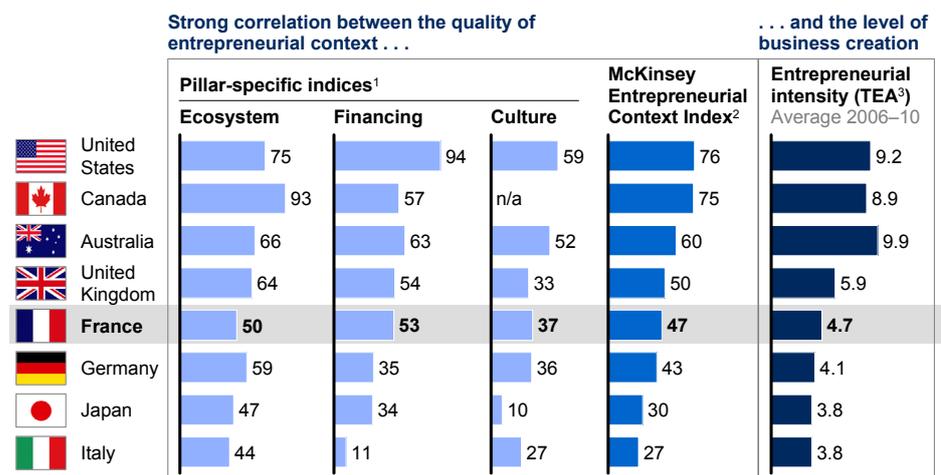
28 All MGI reports on productivity can be downloaded at www.mckinsey.com/mgi.

29 Kauffman Institute, *Business dynamics statistics briefing: Jobs created from business startups in the United States*, 2009.

Recent McKinsey research on eight advanced economies shows that the dynamics of business creation have a high correlation with the quality of the entrepreneurial context, which has three key pillars: ecosystem, financing, and culture (Exhibit 22).³⁰

Exhibit 22

France could stimulate entrepreneurship by strengthening the three pillars of its entrepreneurial context



1 Each index is the average of component subindices normalised to 100.
 2 Arithmetic mean of the three indicators.
 3 Total entrepreneurial activity = the share of working-age adults in the total population either starting or owning a company of less than 42 months old.
 SOURCE: Global Entrepreneurship Monitor; World Economic Forum; Venture Expert; Organisation for Economic Co-operation and Development; World Bank; McKinsey Global Institute analysis

While France has a sophisticated financial sector, it does not have enough players to finance entrepreneurial ventures in their early stages (e.g., business angels, venture capital, or specific loans from financial institutions). French entrepreneurship also suffers from a fear of failure that appears to be embedded in the culture of the population aged 18–64, a fear that appears to be among the highest among advanced economies.³¹ This mainly explains why, of those who are thinking of starting a business over the next three years, only 22 per cent take the plunge in France compared with 55 per cent in the United States, 60 per cent in the United Kingdom, and 46 per cent in Germany. Addressing this issue would require a substantial cultural shift in employers’ mindset. Many French companies are reluctant to hire professionals who have been involved in a failed entrepreneurial venture, while in Anglo-Saxon countries such an experience tends to be considered a mark of experience.

30 *The power of many: Realizing the socioeconomic potential of entrepreneurs in the 21st century*, McKinsey & Company, October 2011.

31 As assessed by Global Entrepreneurship Monitor, *2010 Global Report*. “The fear of failure” indicator is rated seven points higher than in Germany, ten points higher than in the United Kingdom, and 14 points higher than in the United States.

Ensure the creation of high-skilled jobs

France should work to ensure the growth and performance of sectors that are intensive in technological or cognitive skills that require high levels of educational attainment. It is such sectors that carry most of the intellectual property and associated value-added that an economy creates, and are thereby strong drivers of France's economic development. It is equally important to make sure that these sectors create opportunities for high-skilled employees and stimulate the rest of the economy, thus driving the creation of jobs suitable for other skill sets. Such a spillover effect is the main engine for wealth and jobs creation. Among these sectors are:

- **Industrial sectors that rely heavily on technology and innovation.** These are sectors that have long and heavy R&D cycles, and in which competition centers on innovation (e.g., aircraft and spacecraft, railroad and transport equipment, semiconductors, pharmaceuticals, and energy equipment), as well as sectors where brand image, sustained through continuous innovation in design and conception, is the key. In the latter, it is critical to have an in-depth understanding of consumer expectations so that these sectors can respond quickly to market developments or even shape them (e.g., luxury goods, cosmetics, and publishing).
- **Service sectors that require highly educated professionals.** These sectors are fast-growing segments of the French economy both in their value added and employment. Among them are business services (e.g., IT services and professional services such as engineering or marketing), but also health care and education. Between 2010 and 2016, around 150,000 jobs are expected to be created in the IT services and engineering sectors, while R&D staff should grow by more than 20,000 over the same period.³² Health care, the fourth least affected by the 2008 crisis in terms of its employment, appears to be a good candidate to support as the sector offers a wealth of positions for workers with high levels of educational attainment.

Success in creating such high-skilled jobs would also support more labour-intensive activities that can be pursued domestically, thus providing a wealth of work opportunities to many people with low skill attainment.

³² Centre d'Analyse Stratégique, *Secteurs porteurs*, Number 258, January 2012.

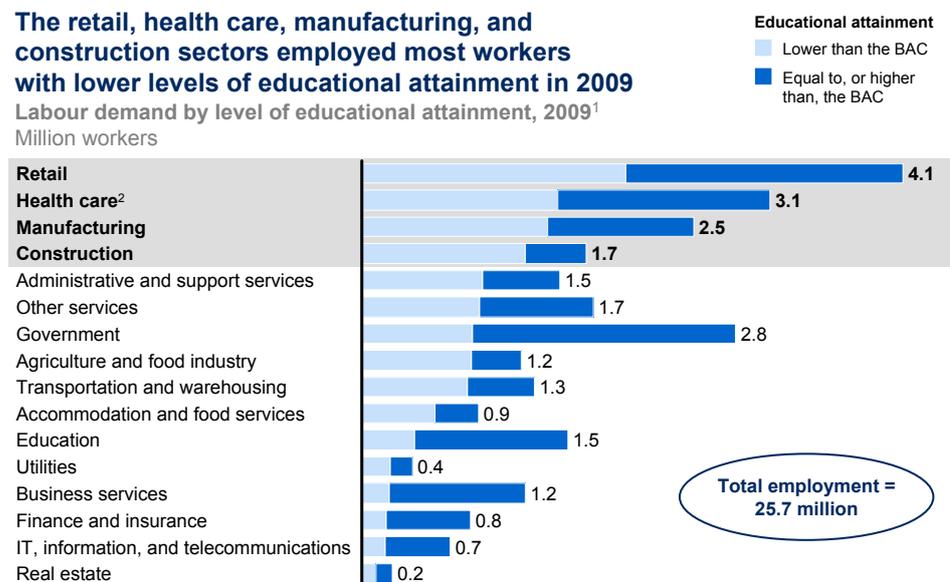
Enable the expansion of low-skilled, labour-intensive sectors

In 2009, the largest employers of workers with low levels of educational attainment included retail, health care, manufacturing, and construction (Exhibit 23). Accelerating growth in these sectors would be a major lever for creating jobs for this category of workers.

Exhibit 23

The retail, health care, manufacturing, and construction sectors employed most workers with lower levels of educational attainment in 2009

Labour demand by level of educational attainment, 2009¹
 Million workers



¹ 2009 year taken as distribution of workers by sector and education level not available for 2010.

² Includes care for the elderly as well as child care.

NOTE: Numbers may not sum due to rounding.

SOURCE: National Institute of Statistics and Economic Studies, France; McKinsey Global Institute analysis

Prospects vary from sector to sector, and some prioritisation is likely to be necessary. Agriculture and the food industry have traditionally not expanded employment even as their productivity has grown. In contrast, sectors such as operational services (e.g., cleaning), personal services, construction, retail, hotels and restaurants, which employ a high number of workers with low levels of educational attainment, are expected to be net job creating sectors in the medium term.³³

Policy makers can use a number of levers to influence the development of low-skilled, labour-intensive sectors from a light-touch approach of setting the ground rules to more activist measures that tilt the playing field in favour of these sectors.³⁴ As illustration:

- Personal services.** Adjustments to incentives, particularly in the area of tax (e.g., continued or increased deductibility from income tax) could support growth in this sector. So, too, could the introduction of service labels that would make offers more transparent to consumers, especially in such areas as home child care that are highly developed but where a majority of professionals have no certification. France’s “Plan Borloo”, named for former French minister Jean-Louis Borloo and launched in 2005, was an effort to professionalise, industrialise, and improve the structure of the personal

³³ Centre d’Analyse Stratégique, *Les secteurs créateurs d’emplois à moyen terme* (Centre for Strategic Analysis, *The job-creating sectors of the medium term*), January 2012.

³⁴ *How to compete and grow after the recovery: A sector guide to policy*, McKinsey Global Institute, March 2010 (www.mckinsey.com/mgi).

services sector. The aim of the plan was to create 500,000 jobs in three years. Although this objective was not reached,³⁵ with only 82,000 jobs created between 2006 and 2008, the sector did increase its share of total employment from 3.4 per cent in 2005 to 3.7 per cent in 2008. A second Plan Borloo was launched in 2009, but although these efforts were steps in the right direction, further effort is necessary to continue to develop personal services. In particular, France should consider how to encourage more industrialisation of the sector. In 2010, 70 per cent of the hours worked in this sector were by employees who had direct contracts with home employers.

- **Home and long-term care.** As an increasing number of baby boomers retire, the need for home and long-term care will be higher. Regulation and the models of funding of such care can have a significant impact in these areas, and France should review its system. The United Kingdom, for instance, has commissioned a review of long-term care, named the Dilnot Commission, which reported in July 2011.³⁶
- **Construction.** Given the serious pressure on the real estate market, lightening the burden of regulation of construction could give a boost to the sector. Other enablers could include improvements in building energy-efficiency regulations and incentives, and infrastructure investment.
- **Tourism.** In 2010, France topped international tourism rankings with 76.8 million arrivals.³⁷ It is important that France develops and maintains its leadership position in this sector, which employs a high share of people with low levels of educational attainment. Measures that France could take include public coordination of the various players involved in developing tourism destinations, land allocation, new investments, international promotion particularly in high-growth markets, easier access to tourist visas, and improving the attractiveness of jobs, given their seasonal nature. A gradual repositioning of French tourism away from vacation homes, camping, and two-star hotels to more labour-intensive formats such as resorts could further support growth in employment.

35 Senator Joseph Kergueris, *Information report number 589 (Rapport d'information) on the future of personal services*, July 2010.

36 The main recommendation was that individuals' lifetime contributions toward their social care costs should be capped, with a figure of £35,000 suggested as the most appropriate level.

37 World Tourism Organization (UNWTO), *Tourism highlights, 2011 Edition*, 2011.

IMPROVE MATCHING MECHANISMS AND THE EFFECTIVENESS OF EMPLOYMENT SPENDING

Public agencies, institutions, and other stakeholders that help job seekers to organise their search, identify and coordinate the need for training, and ensure that vacancies are held at a minimum level are vital. In France, it is crucial that all national and local players participating in the SPE be as efficient and effective as possible in order to minimise the length of time that people are unemployed. In 2010, the share of the unemployed returning to employment each month in France was 4.8 per cent, but 9.1 per cent in Germany and 8.2 per cent in the United Kingdom.³⁸ The performance of the SPE is not the only driver of the rate of return to employment but improving the way that the SPE works will have a positive effect on the rate. France could pull two main levers:

Simplify the organisation of the overall SPE network to boost its efficiency

A recent report presented to the French parliament by two of its members compared the performance of labour agencies in France, Germany, Portugal, Sweden, and the United Kingdom. The report highlighted the relative complexity of France's SPE system, the fragmentation of players involved in helping the unemployed, the relatively small numbers of people dedicated to placement, and the relatively weak reaction of French labour agencies to the economic context and changes in unemployment.³⁹

Enhance the quality of service offered by the main SPE player, Pôle Emploi

France's central government agency, Pôle Emploi, which was set up to assist job seekers and pay unemployment subsidies, should evolve toward providing more differentiated support to the various types of job seekers, giving them active coaching, advice, and coordinating their training in order to reduce the time they are unemployed. To achieve these objectives, Pôle Emploi should consider putting in place a range of enablers, similar to best practice in place in several European job agencies. These include:

- **Segmentation.** Job seekers need to be segmented to ensure that the most suitable support is offered to them, based on such factors as the level of qualification, the age of the job seeker, and the duration of unemployment.
- **Multichannel services.** The implementation of an effective and efficient multichannel service strategy, leveraging Internet-based contact and call centres to improve responsiveness, is crucial to reducing waiting times and cutting down on low-value-added procedures. This strategy can be achieved through the automation of administrative processes that today consume a great deal of agents' time, as well as the reorganisation of local agencies using lean principles in order to reduce the time spent in the back office, boost the amount of time spent face-to-face with job seekers, and manage the flow of job seekers more efficiently to better serve their interests. An interactive terminal together with an information desk can remove bottlenecks in the

38 Inspection Générale des Finances report, *Etude comparative des effectifs des services publics de l'emploi en France, en Allemagne et au Royaume-Uni (Benchmarking of public services for employment headcounts in France, Germany and the United Kingdom)*, 2011.

39 Parliament members Michel Heinrich and Régis Juanico, *Information report number 4098 (rapport d'information)* on the assessment of social policy performance in Europe, 2011.

scheduling of coaching sessions from agents, for instance. France can also look at examples of how such reorganisation has been carried out in retail banking and other sectors.

- **Change management and training.** Adjusting to the reorganisation of their work including new roles, new technology, and an increased flow of job seekers given rising unemployment levels will not be easy for agents. Providing support and training of agents would lead to an improved work experience for job seekers and employers, and ultimately to their higher productivity through a better quality of interactions and the better matching of individuals to the jobs available.

□ □ □

France's labour market faces many challenges, compounded by ongoing economic uncertainty in the aftermath of the 2008–09 financial crisis. But economic crises have often proved to be fertile breeding grounds for bold reform. In addition to measures designed to limit any further negative impact on employment from the Great Recession, France should turn its attention to the longer term. It should set ambitious aspirations on employment and participation that would vault the economy back into Europe's premier league of prosperity, rather than accept a status quo that is showing an increasing gap between France's per capita income and that of its European neighbours. The five areas for action that we have explored could be a useful starting point for the development of a much-needed programme of reform.

Related McKinsey Global Institute publications



An economy that works: Job creation and America's future (June 2011)

For the United States to return to the employment level before the 2008 recession—finding work for the currently unemployed and accommodating new entrants into the labour force this decade—the US economy will need to create 21 million jobs by 2020, according to MGI's analysis. The report analyses the causes of slow job creation in the period before the recession and during the recovery, and the implications of these forces for job growth.



Growth and renewal in the United States: Retooling America's economic engine (February 2011)

As baby boomers retire and the female labour participation rate plateaus, increases in the workforce will no longer provide the lift to US growth that they once did. To match the GDP growth of the past 20 years, US labour productivity growth needs to grow from 1.7 per cent a year to 2.3 per cent. That's an acceleration of 34 per cent to a rate not seen since the 1960s.



Beyond austerity: A path to economic growth and renewal in Europe (October 2010)

Europe faces pressures on GDP growth at a time when scope to stimulate growth from public funds is limited by high debt and deficit levels. The threat to growth is unlikely to dissipate soon, and significant imbalances in labour costs and current account positions between European economies intensify the strain. This report sets out a detailed agenda for European structural reform based on analysis of existing best practice within the region.



Meeting the 2030 French consumer: How Europe-wide trends will shape the consumer landscape (October 2010)

This research, led by the Consumer and Shopper Insights group of McKinsey's Marketing Practice, with the support of MGI, looks at longer-term trends in Europe and their impact on consumption, with detail for France as a representative case. The report finds that the European consumer market is critical and it is in the process of sweeping change, driven by three macro trends: demographic, societal, and economic change.



How to compete and grow: A sector guide to policy (March 2010)

Drawing on industry case studies from around the world, MGI analyses policies and regulations that have succeeded and those that have failed in fostering economic growth and competitiveness at the sector level. What emerges are some surprising findings that run counter to the way many policy makers are thinking about the task at hand.



Changing the fortunes of America's workforce: A human capital challenge (June 2009)

Rising income dispersion in the United States and other advanced nations has become a source of concern. In an effort to provide a full explanation, MGI and the McKinsey Social Sector Office conducted a study of changes in income dispersion and their causes from 1991 to 2005, the height of the economic cycle. Its findings show that redeveloping America's human capital should be the focus of labour market policy coming out of the recession.

www.mckinsey.com/mgi

eBook versions of selected MGI reports are available at MGI's Web site, Amazon's Kindle bookstore, and Apple's iBookstore.

Download and listen to MGI podcasts on iTunes or at www.mckinsey.com/mgi/publications/multimedia/

McKinsey Global Institute
March 2012
Copyright © McKinsey & Company
www.mckinsey.com/mgi

 @McKinsey_MGI

 McKinseyGlobalInstitute