

Askenazy, Philippe; Erhel, Christine

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THE FRENCH LABOUR MARKET AND THE (NOT SO) GREAT RECESSION

PHILIPPE ASKENAZY* AND
CHRISTINE ERHEL**

Introduction

The global performance of the French labour market since the beginning of the great recession is in line with that of previous recent recessions. France's unemployment rate is still far from the historical spike recorded in the mid-1990s. The number of unemployed is comparable to that of the very flexible UK labour market, and is clearly lower when it comes to youth unemployment. Cyclical policies, typical French institutions and recent structural reforms explain this fairly steady trend. The outlook, however, is alarming with a real risk of high unemployment in the long-term.

The first two sub-sections attempt to disentangle the impacts of the great recession and the associated cyclical policies on the one hand and the (non-)consequences of Sarkozy's structural reforms on the other. The final section proposes alternative policy packages.

Anti-cyclical policy and structural flexibility have limited the rise of unemployment

As in previous recessions, French automatic stabilizers, especially social security schemes, lessened the impact of the crises on households. At the same time, the government sustained both firms and consumers until the eve of 2012. To cite a few examples: at the heart of the financial crisis, the French government offered special credits to car manufacturers; in 2009 and 2010 tax credit for innovative firms was paid in

advance; and in 2009 the income tax was cut for about two million low-middle-income households. In addition to these measures, Sarkozy also kept political promises to some parts of his electoral clientele; one spectacular case was the drop of VAT on restaurant bills from 19.6 to only 5.5 percent.

The results of this policy are both a huge public deficit and a limited recession. The budget deficit reached 7.5 percent of GDP in 2009 compared to 6.4 percent on average in the Euro Zone. Sustained by consumption, GDP dropped by only 2.7 percent in 2009 compared to 4.4 percent in the UK, 5.1 percent in Germany and 5.5 percent in Italy. In 2011, the growth rate 1.7 percent was still larger than the UK's level of 0.5 percent and the Italian rate of 0.4 percent.

Trends in employment and unemployment partially mirrored these sound growth performances. Including overseas, the quarterly ILO unemployment rate remained below 2-digits at 9.8 percent in the autumn of 2011, up from 7.5 percent early 2008. However, there is a strong heterogeneity according to industries, regions, gender and age groups.

Unlike in Spain or Ireland, there was no housing bubble crash in France, so employment in construction did not see any major downturn. However, as in most countries, the manufacturing sector was particularly hurt by the recession. Net job destructions were dramatic with no significant signs of recovery. From the third quarter of 2008 to the third quarter of 2011, the number of paid workers dropped by 8 percent overall, and by up to 12 percent in the sectors producing basic and fabricated metals or the pulp, paper, printing and publishing sector, and by 17 percent in the textiles and leather goods sector.

Due to their relative industry specializations, northern and north-eastern regions saw greater weakening in their labour markets. Since manufacturing is male intensive, men were also initially the main victims. The gender unemployment gap was virtually null by autumn 2009 for the first time in four decades as a result. With the stabilization of manufacturing activity and the stagnation of market services, it has since returned to close to its pre-recession level.

* CNRS-Paris School of Economics, IZA.

** Centre d'Etude de l'Emploi, University Paris 1, CES.

Compared to the previous major recession in 1993, the collective firings of workers for economic reasons were moderate, representing “only” one percent of the workforce in private firms with ten or more workers in 2009, and returning to pre-recession levels in 2010 and 2011. Most firms were able to retain their core workforce. Human resource management, working time arrangements and flexible remuneration schemes have played a major role.

Firstly, despite the minimum wage, wages showed significant downward flexibility. Nominal wages per head in the private sector (excluding temps) increased by only 0.7 percent in 2009. In addition, specific collective bonuses and benefits linked to the performance of the medium and large firms (intéressement, participation) plunged, leading to a drop of around 0.5 percent of the total labour bill. Wage inflation was still only significant in growing sectors with tensions for specific skills e.g. health. In numerous manufacturing industries wages even declined in nominal terms, with a 1.8 percent decrease in the metallic goods sector and a 1.0 percent drop in the transport sector.

Secondly, contrary to an erroneous view, the 35-hour arrangements also gave firms greater flexibility. A common arrangement is the “time saving account”. This account helps firms to adapt days worked on a several-year basis. When the activity level is high, the firm can oblige employees to work more and save vacation days in a specific account. During downturns, workers are asked to use up these vacations, as was the case in 2009, especially in manufacturing.

Thirdly, during the recession, employers also used short-time work, essentially in the manufacturing sector. Around 1.5 percent of the private workforce was involved in this state-financed program by autumn 2009. However, as an example of the inconsistency of French labour policy, a given firm can accumulate this aid, creating incentives for increasing overtime hours (see next section)!

Fourthly, temporary workers were an immediate “variable” of adjustment. The number of temps¹ dropped from 590,000 in Q3 2008 to 440,000 in Q1 2009 and progressively recovered to 590,000 by Q3 2011. Most of this U-shape evolution was concentrated in manufacturing.

A last parameter is the uncertainty in the macro or sectoral environment faced by firms and workers. The dismissals rate plunged and is still below six percent annually. The lack of a clear human resources strategy is manifest in large companies, despite the replacement of most of their human resource directors. In view of forecasts of a slow recovery, firms have been conservative in terms of recruitment over the past 3 years. Another illustration of caution on the part of employers is the record level of very short term contracts. In 2010 and 2011², 18 million contracts were for a week or less! This suggests that the recession has created a hyper-precarious (young) workforce.

Although currently positive for permanent workers, including older employees, the caution exercised by private firms is hard on young workers. Youth unemployment rose by five points to reach 23.2 percent by late 2011; with women particularly affected. The specific benefits for the young unemployed were only transitory: the stock of “supported” youth³ was 180,000 in 2008, and rose to 230,000 in 2010, before falling to just 150,000 in 2011.

At the same time, youths were impacted by the drastic diminution of state civil servants. In order to limit public spending, the government has replaced only half of retirees, including teachers. Consequently, the permanent job opportunities for a given generation declined by about five percent, and by up to ten percent for educated young women. This policy should also explain why the rate of young school leavers with A-levels who decide to pursue a university education remains particularly low (less than 70 percent, compared to 85 percent in 1993) despite the depressed labour market for youths.

While the recession and short-term policies explain some key trends in the French labour market, other new trends, including a boom in self-employment and the convergence of the employment rate of aged workers with the European mean, are mainly caused by structural reforms.

A labour market under reform

French labour market rules and policy have been intensively reformed over the last 20 years. This reform process did not stop with the crisis, but even accelerated following Sarkozy's election in 2007. As

¹ Direction de l'animation de la recherche, des études et des statistiques (DARES), http://www.travail-emploi-sante.gouv.fr/rubrique_techinique,281/bas-de-page,2030/travail,2032/etudes-recherche-statistiques-de,76/.

² L'Agence centrale des organismes de Sécurité sociale (ACCOSS), <http://www.accoss.com/>.

³ DARES.

shown by Table 1, an impressive series of laws and reforms were passed between 2007 and 2011.

Three main trends can be identified.

Firstly, the degree of labour market flexibility has been increased as a result of the 2008 law “Modernisation of the labour market”, which authorized breaking indefinite contracts through mutual agreement (“rupture conventionnelle”). The number of these mutual agreements has increased every year since 2008, reaching 310,000 in 2011.⁴ Self-employment has also been encouraged since 2009 through the development of a specific social contribution (and fiscal) regime (“auto-entrepreneurs”). This status has proven a great success, with 360,000 “self-managed” individual enterprises created in 2010 and 290,000 in 2011 (representing over half of total enterprise start-ups).⁵ The status can be combined with a salaried job. At this stage, empirical data on these new firms are scarce, but for a number of people, this might have been an alternative to unem-

ployment, thus mitigating the impact of the crisis on unemployment trends. According to the labour force survey, while self-employment (main occupation) plummeted in Europe, it reached 2.8 million Q4 2011 from 2.5 million Q3 2008.

As a result of these reforms, the French labour market displays a far higher degree of flexibility than is usually believed, not only for atypical employment (short-term contracts, temporary agency workers, self-employment etc.), but also for indefinite contracts. The unemployment insurance reform in 2009 that extended access to UI to the unemployed with limited contribution periods (four months instead of six) mirrors this trend of increased external flexibility.

A second characteristic of recent labour market policies is their supply-side orientation, beyond the counter-cyclical reactions that have been shown in

⁴ DARES.

⁵ Institut national de la statistique et des études économiques (INSEE), <http://www.insee.fr/>.

Table 1

Labour market reforms and new employment programs since 2007

2007	TEPA law (law on work, employment and purchasing power)	Incentives to overtime hours for both employers and employees
2008	Labour market modernisation agreement	“Flexibility”: new forms of labour contracts and quits; “security”: lifelong learning, transferability of rights.
2008 (Dec.) – 2010 (June) 2012	“Zero charges” “Zero charges” targeted on youth	Total labour contribution exemptions for very small firms
2009 (Jan.)	Reform of short-time work schemes	Increase in generosity
2009	Unemployment Insurance Reform	Larger eligibility (4 months contributions in the last 28 months) but tighter links between contributions and UI duration (maximum duration: 24 months)
2009	One stop job centre: Pôle Emploi	Merging ASSEDIC (UI financing and payment) and job search assistance (ANPE)
2009	Minimum income activation Revenu de Solidarité Active	Financial incentives to work for non-employed and low wage workers
2009	Contrat de Transition Professionnelle (extended in 2009)	Extension and development of individualised transition schemes for redundant workers in restructuring industries
2011	Contrat de Sécurisation Professionnelle	
2009	Auto-entrepreneur	Self-employment scheme with specific fiscal and social conditions. Simple administrative requirements via Internet.
2010	Contrat Unique d’Insertion: targeted active labour market programmes (job creation, public and non-market sector CUI-CAE and private sector, CUI-CIE)	Merging two types of labour market schemes
2010	Pensions reform	Increase in retirement age (62) and contributions requirements
2011	Apprenticeship reform	Extension to 15 years old; incentives for firms to develop apprenticeship

Source: Own compilations.

the first section. In 2007, a law provided incentives for overtime hours, which were exempted of social contributions and of taxes. The result was a huge rise in these overtime hours at the end of 2007 and in 2008, which stabilized at a high level between 2009 and 2011. These overtime hours raise two main problems: firstly, they might correspond to a change in the declaration processes rather than to a real increase in hours worked; and secondly, they might hinder internal working time flexibility during the crisis and result in limited hiring in an upturn. As shown by Figure 1, the annual number of hours worked did not change in France between 2007 and 2009, while it decreased in several other OECD countries (Germany, Finland, Ireland, UK, US).

More generally, French labour market policy since 1993 has been characterized by the massive use of social contribution cuts as labour cost reduction devices, which are supposed to favour job creation. An important part of these measures concern low wage jobs (between the minimum wage and 1.6 times the minimum wage). This policy leverage was maintained and even extended during the crisis: new schemes for very small firms were created, exempting them from most social contributions. These incentives should have contributed to a polarization of job creation: empirical trends in French employment during the crisis (2008–10) support the idea that employment dynamics have involved increases

in both lower paid jobs (first wage quintile) and higher paid jobs, while the number of jobs in the medium quintiles decreased (Hurley, Storrie and Jungblut 2011).

On the workers' side work incentives have been reinforced through welfare reforms for some specific groups. Controls and potential sanctions for the unemployed refusing "acceptable job offers" have been reinforced since 2008. In 2009, the Revenu Minimum d'Insertion (minimum integration income) became the Revenu de Solidarité Active (active solidarity income), including a basic income for the inactive and unemployed, and an income supplement for the working poor. Initial evaluations show a low take-up rate (the rate of potential beneficiaries not claiming their RSA amounts to 35 percent for minimum income component) and limited impacts on employment probabilities (Comité National d'Evaluation du RSA 2011).

In order to increase the senior labour supply, the 2010 pensions' reform increased the retirement age and the contributions requirement. Even if causality cannot be proven, the situation of seniors on French labour market has changed quite dramatically in recent years: despite the crisis, the employment rate for 55–64 year olds continued to rise after 2007 (reaching 42.6 percent in Q4 2011, versus 38.2 percent in 2007, and 30.7 percent in 2001).⁶

Figure 1



As far as targeted labour market policies are concerned, major reforms have been institutional, with the merging of unemployment insurance structures and job search assistance services in a single one stop centre, called "Pôle Emploi" (in 2009). The implementation of the reform in a context of rising unemployment, and with very limited recruitment for Pôle Emploi (less than 2,000 employees hired in 2009), has been chaotic and resulted in a deteriorated quality of job search support. Contrary to the initial goals of the reform, the number of unemployed per counsellor did not decrease, and remains very low by international comparison (70 full time equivalents per 10,000 unemployed for guidance and counselling in France, versus 110 in the UK and 150 in Germany - IGF 2010).

In terms of policy priorities, the use of active labour market policies has fluctuated between prioritising private sector programmes (CUI-CIE and "zéro

⁶ INSEE.

charges”) (between 2008 and 2010) and public or non-market sector programmes (in 2011 and 2012).

As far as youth are concerned, apprenticeship has been considered a priority, and the minimum age of apprentices was lowered to 15 years old in 2011. However, the results are mixed both in terms of global quantitative trends (after a small rise in 2008, there was a decline in 2009), and of targeting. Indeed, apprenticeship has been extending to higher skill levels (ISCED 4 and 5, +11.8 percent in 2008–2009) whereas the number of low-skilled youth in apprenticeship has decreased (ISCED 1 and 2, -9.5 percent in 2008–2009).⁷

Deregulation and supply side labour market policies thus appear to be key components of Sarkozy’s labour market policy, despite some adaptations facing the crisis. Their efficiency in terms of job creations is not straightforward, while they induce a risk of decreasing job quality as well as lowering labour market security.

Alternative flexibility and supply stimuli

Despite the stabilizing function of economic policy and internal flexibility during the crisis, French labour market policy suffers from many inconsistencies (related to working time policy, for example), and concentrates an important share of public spending on the lower wage sector (through social contribution cuts, but also in work subsidies for low wage earners). In addition, without reforms, France is expected to face atone growth for at least two years that should worsen unemployment. Two main directions for reform might be suggested.

Firstly, flexibility in policy management should be increased in France. Contrary to widespread belief, the degree of flexibility in the French labour market is already quite high, and even employers’ organizations (MEDEF)⁸ have rather limited claims in terms of labour law issues, advocating shorter delays and simplified procedures for economic firings, without claiming for a single labour contract. However, the degree of flexibility in policy implementation remains far more limited, although labour market policy has been partly decentralised: the Regions

have been responsible for vocational training and apprenticeship since 2004, while the Departments have been in charge of integration policies for minimum income recipients since 2003. In addition some local institutions have been developed by municipalities, like for instance Missions Locales, which provide assistance for youth. However, the majority of labour market policy programmes remains controlled by national orientations (job search assistance through Pôle Emploi, targeted labour market programmes etc.). Local agencies have limited decision-making power over the design or use of programmes, and must comply with national guidelines. Besides, given the fragmentation of responsibilities between the different territorial levels, the implementation structure appears very complex, with the limited participation of social partners. It seems that local institutions (especially employment agencies) should be given more importance and autonomy, enabling them to participate in the orientation of the unemployed towards labour market and training programmes, but also to play a preventive role for workers through training and career guidance (in collaboration with regions that are in charge of vocational training). According to some recent OECD studies, labour market management flexibility (in terms of budgets, policy design, clients’ eligibility, policy networks etc.) is favourable to policy efficiency and, more widely, to the development of local job creation strategies (Giguère and Froy 2009).

A second potential direction is to modify the supply side policy. Again, since the early 1990s both conservative and socialist governments have concentrated labour policy on social contribution cuts in order to stimulate job creation. Firms are incited simultaneously to hire low paid workers, long-term unemployed, workers in high-unemployment zones etc. Seminal cuts prove some efficiency leading to the creation of low-skilled jobs. However, additional cuts at the end of the 1990s and the 2000s cannibalise themselves. The last general massive social contribution exemptions had little impact on total employment (Bunel, Gilles and L’Horty 2010). That is also the case with the zoning policy (Briant, Lafourcade and Schmutz 2012). The current yearly costs of global “stimulating” policy are above EUR 30 billion, including at least EUR 15 billion with no apparent effects.

In addition, this policy may have contributed to France’s specialization in low-skilled activities. Unlike most countries, France experienced a declin-

⁷ Direction de l’évaluation, de la prospective et de la performance (DEPP), Ministry of Education, <http://www.education.gouv.fr/cid1180/direction-evaluation-prospective-performance.html>.

⁸ Propositions for the Presidential elections, <http://besoindaire.com>.

ing trend in R&D effort. From a leadership position in 1993 (2.37 percent of GDP devoted to R&D compared to 2.28 percent in Germany or 2.14 percent in Finland), French R&D spending represented only 2.08 percent of GDP in 2007 (2.53 percent in Germany or 3.47 percent in Finland). The recession even accentuated the gap between France and new leading countries; here again, billions were wasted on an inefficient, but costly tax scheme for stimulating research (the new *Crédit Impôt Recherche*). Investments in human capital are also stagnating and the share of tertiary educated youth has not increased over the past decade. According to Eurostat, continuous training in the past 3 months concerned only 6.8 percent of workers aged 25-64 years in France in 2007 (versus 7.9 percent in Germany and 26.7 percent in Finland). Here again the recession deepened the gap (in 2010, 5.4 percent for France, 7.6 percent for Germany, 26.3 percent for Finland). In addition, training is skilled-biased: Less than 6 percent of blue-collar workers received training in the past three months, compared to 15 percent of managers.

These caveats suggest that an alternative policy needs to be adopted if France is to become a knowledge economy. Billions of inefficient labour and fiscal policies should be redirected to improve R&D through direct public investments, and to incite firms to provide training to all employees. This potentially represents a way of building a new basis for competitiveness, job creation and ultimately growth, despite strong budget constraints.

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