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IZA Policy Paper No. 64

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Pierre Cahuc  
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June 2013

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## ABSTRACT

### The Employment of the Low-Skilled Youth in France<sup>\*</sup>

Youth unemployment is notoriously high in France, in particular for the low-skilled. Within the EU, only the crisis countries of Southern Europe fare worse. This report delivered to the French Council of Economic Analysis analyzes the causes and consequences of this alarming trend. In addition, drawing on the available evidence on various measures that could improve the current situation, concrete policies proposals are derived that cover the areas of vocational education, second chance programs, job search assistance, income support, employment subsidies and dismissal protection.

JEL Classification: J24, J38, J68

Keywords: labor policy, youth unemployment, minimum wage, vocational education, employment protection, France

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By early 2013, nearly 1.9 million young people between 15 and 29 years of age, that is 17% of this age group, were neither in education nor employment nor receiving any form of training in France. Although the crisis has affected all developed countries, many of our European neighbours are experiencing youth employment rates that are distinctly higher than ours. The level of education is the key factor in determining the path the young person will take. There are currently some 900,000 young people who have left the school system without qualification, and helping these young people to integrate into the labor market is indeed a major challenge. In order to facilitate this process we would suggest two types of measures be implemented - those designed to improve training for young people and support them on their way to employment and those intended to stimulate job opportunities in the firms.

Vocational education by means of sandwich programs is still rather in its infancy in France, whereas in Germany, this system is supported by all of the agents in the sector, including employers, unions and the government. In fact, this is a path taken by half of all young Germans, as opposed to only a quarter of young French people. Furthermore, the recent increase in apprenticeships in France relates to those with qualifications, whereas efforts should be focusing on those without any qualifications. In order to avoid any additional expense, we would suggest that the funds allocated to the so called "*emplois d'avenir*" be redirected towards training young people without any qualifications, by subsidising 120,000 jobs with sandwich training in the commercial sector and funding 75,000 full-time training courses as part of 'second-chance' programs.

Support for young people in great difficulty on their way to employment, a task primarily entrusted to local initiatives, is hampered by a severe lack of means and management. The support available could, indeed, be improved by calling upon the services of external service providers, among other things. In order to encourage the young people concerned to adopt an approach that involves training and support on their route to employment we would recommend that an earned income supplement be introduced for young people in employment, payment of which should be dependent on various criteria and subject to intensive support. The success of such a system is itself dependent upon the restructuring of the support available and a threefold increase in the means allocated by the State to supporting young people.

With regards to stimulating job opportunities, the minimum wage is undeniably detrimental to the employment of the lowest-skilled of young people, which is why we would suggest introducing targeted tax reduction measures including reserving the so called "*contrats de génération*" for those on a rate of less than 1.6 times the *SMIC* (French growth-linked guaranteed minimum wage). This would result in the freeing-up of resources that could then be reallocated to supporting young people.

Finally, the rise in the number of fixed-term contracts over the past twenty or so years has resulted in a dual labour market whereby some jobs, i.e. those based on permanent contracts, are too secure whilst others, that is those with fixed-term contracts, are anything but. This segmentation affects low-skilled young people more than any other category of the working population. We would therefore recommend simplifying the termination of the employment contract for economic reasons and adjusting company contributions to reflect the number of jobs they destroy.

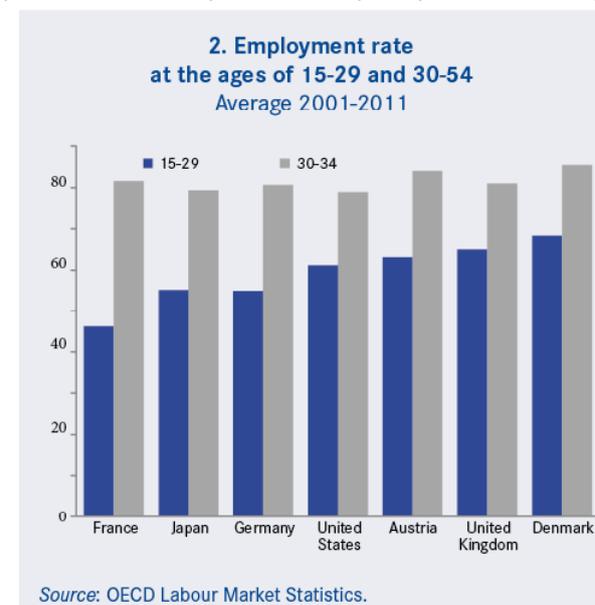
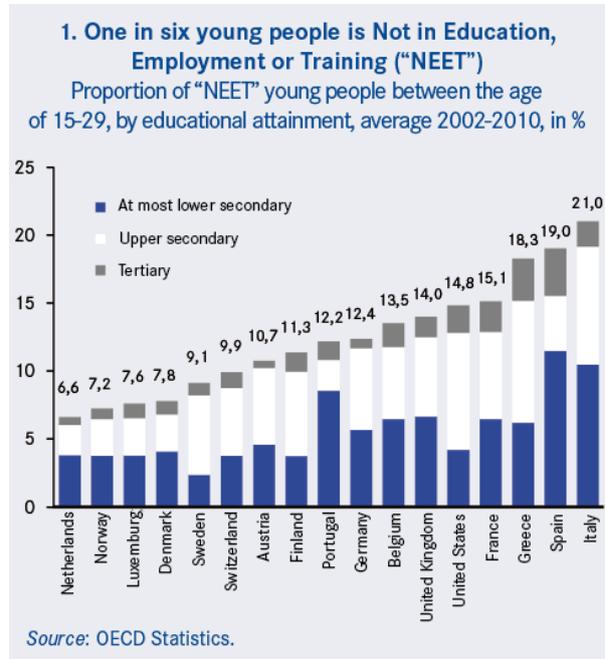
## The challenge: nearly one million young people adrift

Today, nearly 1.9 million young people between the age of 15 and 29 are Not in Education, Employment or Training (NEET). These “NEET” represent almost 17% of this age group. Although the economic crisis has considerably worsened the situation of the young in terms of employment, the proportion of “NEET” among 15 to 29 year-olds has been, on average over the last decade, the fourth highest in the OECD countries, after Italy, Spain and Greece (Figure 1). More serious still, around half of these young people, some 900,000 are not looking for employment. They are drifting.

This disastrous situation has been prevailing for almost 30 years without any policy or employment plan being able to improve it. However, foreign experience, in Europe or elsewhere, shows that nothing is inevitable: to improve the situation of the youth, we must target resources at those who are in difficulty, and fight, on a massive scale, the real barriers. *Despite the measures recently announced by the government<sup>1</sup>, employment policies for young people remain badly focused.* Unfortunately, without fresh impetus, youth employment will remain too low and their unemployment will be too high.

To understand the problem, it is useful to begin by analysing the overall situation of young people, between employment, education, unemployment and inactivity. It seems, however, that France has a specific problem with youth employment. At only 30%, the employment rate between 15 and 34 year-olds is twice as low as in Denmark; 1.5 times lower than the United Kingdom, the United States or Germany. When including young people between the ages of 25 and 29 the comparison is not much better. This disengagement does not exist for people aged between 30 and 54 for whom France is positioned above the OECD average (Figure 2). The low employment rate for young people in France can be explained as much by a lower frequency of work among youth who are still studying, as by a very large number of unoccupied youth (Figure 3). Indeed, all the young people who are not currently in employment are, unfortunately, not all in education or training. Many are unemployed or even inactive. It is this population that is in a very precarious situation and experiences the strongest difficulty in finding a job.

This employment deficit is detrimental to economic activity and public finances. It also has lasting consequences for career-paths. A recent study, that followed 800,000 German youths for 24 years, revealed that one additional day of unemployment during the first eight years following entry to the job market adds an average 0.9 day of unemployment throughout the following 16 years but can add up to 6.6 days of unemployment for people more susceptible to being affected by unemployment, such as those who are less skilled.<sup>2</sup>



Education levels play a decisive role, when looking at integration into employment. The employment rate of young people who have a higher level of education is more than 80% in the three years after leaving the education system, or practically the same level reached by “adults”, compared to 30% for those who have not gone beyond junior high school. Mirroring this, 85% of inactive young people or unemployed young people (the NEET) have not studied beyond senior high school and 42% have not gone beyond junior high school (Figure 1).<sup>3</sup> Since 2008 the economic crisis has, of course, reinforced these inequalities of access to employment among young graduates and non-graduates. It is essentially these young non-graduates who have seen their employment prospects decline, with a fall in the employment rate of 10 points upon leaving school.

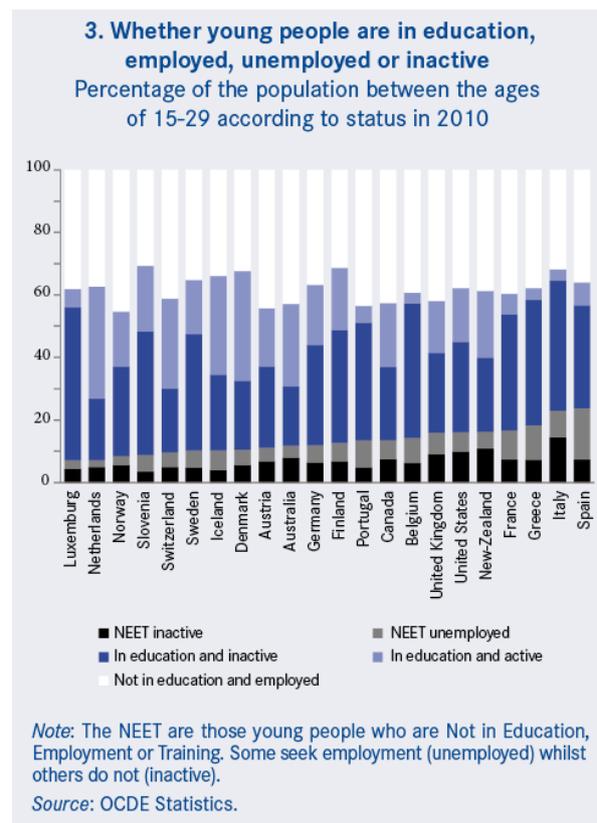
In France, the situation is all the more worrying as the school dropout rates are particularly high and are getting worse. More than 150,000 young people leave the school system each year without any qualification, or 20% per year group. Cumulatively, today there are 900,000 young people without any qualification.<sup>4</sup> To really improve the situation of young people, the school dropout rate, particularly high in France, compared with other developed countries, must eventually be reduced. This key issue is worthy of specific developments. We will focus here on low-skilled, young people and we will study the means of confronting the two major obstacles they face in their professional integration: their capacity to acquire skills and to adapt to companies’ needs and the lack of job offers from companies for them, and the segmentation of work contracts, frequently limited to overly unstable jobs.<sup>5</sup>

Placing poorly qualified young people in public or non-for-profit sector jobs does not improve their capacity to acquire skills or to adapt to the needs of companies. All studies<sup>6</sup> show this to be inefficient in terms of non-assisted return to employment and indeed it has a stigmatising effect. To give them a second chance, the following must be tackled head on:

- *The inadequacies of vocational education*, too difficult to access for unqualified young people;
- *The shortcomings of job seeking support* for the lesser qualified youth. To find a job or training program, an unqualified young person must be funded, monitored and advised extensively. Many foreign countries devote considerable resources to this activity. This is not the case in France.

In the short term, however, training and job seeking support are not enough. To quickly improve the situation of poorly qualified young people, it is essential that companies offer jobs to enable them to begin a professional career. For this, *it is not effective to target policies towards all young people, independent of their starting wage, as is the case for the newly introduced “generation contracts” (contrats de génération)*<sup>7</sup>. To improve the situation of low-skilled, young people, we must act on:

- The cost of labour on low wages and the absence of an income support for young people;
- The dualism of employment contracts which draws too tight a line between “unstable” jobs and “stable” jobs and which makes it particularly difficult for young people to access stable employment.



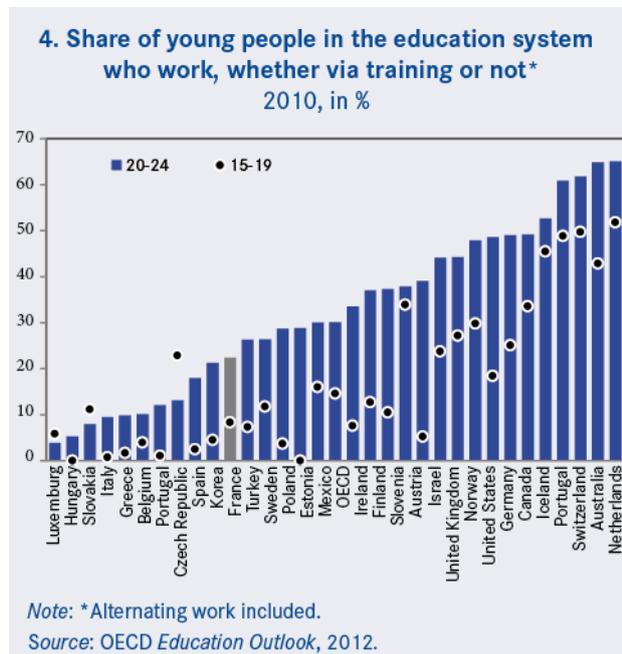
## Vocational education and a second chance

### Vocational education

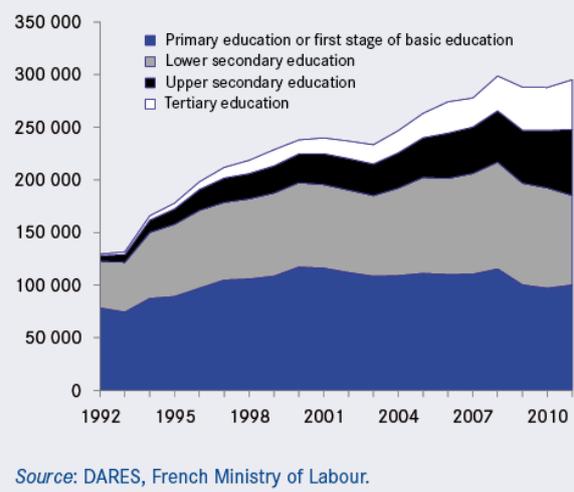
Many studies, in France and abroad, show that apprenticeship increases opportunities during the transition from the educational system to employment.<sup>8</sup> This is hardly surprising, as skills training in conjunction with employment subsidies in the private sector, is the most efficient way to eventually ensure a return to sustainable, non-assisted employment, whilst employment in the public sector has no significant impact.<sup>9</sup>

Germany, Austria and Switzerland have a dual education system: besides the standard curricula, they have a professional system which allows combining work experience, learning on the job and learning in class (*Berufsschule* in Germany). Furthermore, this training makes up the main path of transition from school towards employment. This system relies on the support of employers, trade unions and of the government for regulation and funding. It also depends on unions accepting apprenticeship contracts paid below the level of standard contracts, in exchange for a commitment from employers to offer practical training. In addition, the support of the government involves not only developing vocational schools and training teachers, but also offering preparatory training for young people who are not yet ready to begin apprenticeships. This “pre-apprenticeship” training is crucial, as it is aimed at bringing young people up to speed on the fundamentals. It helps them find a motivating path, and it is teaching them essential behaviour for acquiring an apprenticeship with a prospective employer. Vocational training via apprenticeships is therefore widely recognised by young people and their parents as a solid alternative to more traditional pathways, and is not seen as a failure.

The German apprenticeship model was developed through close dialogue with the social partners, aimed at establishing and regularly updating training courses for each type of qualification. Every detail is discussed and negotiated, including the duration of apprenticeships, requirements for the final exam, course content and pay levels. The capabilities of instructors are regularly checked, and advice given to companies and young people to guide the latter to their exams. In a more general sense, the transition from training to employment is promoted by combining studies and employment: half of students, whether on an apprenticeship or not, work during their years of study. In Switzerland, Austria and the Netherlands, the proportion is one in three, while in France it is scarcely one in four (Figure 4). There is therefore, significant room for maneuver on this front. It should be noted that the number of young people beginning apprenticeships has doubled in 20 years. However, *the increase in the number of apprenticeships in the last ten years consists entirely of people who already have an equivalent or better diploma than the secondary school leaving exam (“BAC”, see Figure 5).* Of course, apprenticeships can be beneficial to young graduates. It is however essential to significantly increase the funding of apprenticeships for unqualified young people in order to improve their



**5. Two in three people beginning an apprenticeship already have a diploma, compared to one in two 10 years ago**  
Flow of entry into apprenticeships by year and by level of education on entry



employment prospects.<sup>10</sup> In a context of tight budgetary constraint, revenues from apprenticeship tax, valued at €2bn per year, should be redirected towards unqualified young people, on whom spending is most efficient. To this end, the ex-quota apprenticeship tax attribution rules should be changed so as to finance training at a level below secondary school leaving exams.<sup>11</sup>

Direct subsidies to employers hiring apprentices are numerous today (exoneration of social security contributions, hiring bonuses, bonus for companies with over 250 employees),<sup>12</sup> which leads to a labour cost of apprentices close on average to the cost in Germany. These subsidies could, however, be better targeted at SMEs with between 50 and 250 employees, where there is a deficit of apprentices.<sup>13</sup>

The validation of vocational diplomas should also be reorganised by limiting the focus on general subjects, which hinders access to certain professions for students who are weak in such subjects.<sup>14</sup> While reading and mathematics are essential skills for the future of any professional, the proportion of academic subjects should not be a hindrance to obtaining a diploma when the purpose of the diploma is not to provide access to higher education.<sup>15</sup>

On all these issues, the social partners must be closely involved in order to offer the best reception to the young people who are the furthest removed from employment.

## Second chance programs

For teenagers and young adults who have dropped out of school, only long and intensive programs can help them get back. This has been shown by evaluations of the US program *Job Corps*, which was founded in the 1960s and aims, in a very targeted and proactive way, at helping young people who have not completed secondary education.<sup>16</sup> It offers a complete range of training, in terms of basic education and non-cognitive skills (socialisation activities), in order to obtain a certified qualification and a real chance of finding employment after a whole year of training (over 1,000 hours on average). Above all, the young people are guided and offered board. The program is expensive, at around \$16,500 per participant. The participants however fare better in terms of access to employment and pay. They are less likely to commit crimes and require less training later. Besides its intensive and targeted nature, the success of this policy is a result of its management method, which accentuates the obtaining of tangible results within each centre.<sup>17</sup>

France has been developing this type of scheme for several years, with the network of 70 second chance schools ("*Écoles de la deuxième chance*", E2C), and since 2005, with the creation of *Établissements publics d'insertion de la défense* (State training centers EPIDE, 20 centers). Via programs lasting approximately one year, these two networks offer educational refresher courses for young people who dropped out of school. The cost of the E2C training is around €10,000 per year per student. The cost of EPIDE insertion is 3.5 times higher<sup>18</sup>, notably because EPIDEs have the advantage of offering housing, like the Job Corps, as well as non-cognitive training and an income of €300 per month. However, resources remain far from sufficient: there are only 2500 EPIDE places (one eighth of the initial plan), only 11,000 young people in E2C,<sup>19</sup> and total expenditure of €200mn; the skills acquired are poorly recognised by employers and, above all, the real effectiveness of these programs has never been assessed, which limits their development. These alternatives need to be developed urgently and their results must be evaluated. These programs are costly, but when used in a targeted way, they can offer sustainable opportunities to the most deprived young people, as well as being a profitable, long-term investment for society as a whole.

As a result, to improve training for young people in difficulty, we have developed the following two proposals, aimed at redirecting expenditure for young people for an unchanged overall cost.

**Proposal 1.** Strike a new balance of apprenticeship expenditure in favour of unqualified young people, notably by changing the rules of ex-quota attribution of apprenticeship tax revenue, and minimize the proportion of general subjects in vocational skill certification.

**Proposal 2.** Keeping a constant budget, reorient and expand the 150,000 so called “*emplois d’avenir*” by aiming for, on the one hand, 120,000 so called “*emplois d’avenir*” in the private sector financed up to 50% by the state and accompanied by part-time training and, on the other hand, 75,000 full-time training positions in second-chance programs (EPIDE and EC2). Planning an evaluation of this system would be advisable.

The cost of proposal 2 is in line with the provisional budget for the “*emplois d’avenir*” of 2.4bn euro for a full year.<sup>20</sup>

Whilst waiting for this concerted development of apprenticeships and training posts, something needs to be done for the almost 2 million “NEET” between the age of 15 and 29. Indeed, employment policies should prioritize this population who is currently at risk.

## Pathway to employment: a flawed system

### Reinforce the pathway to employment for the young people in difficulty

In France, unlike other countries (Box 1), no such compulsory and specific system exists which would force the public employment service to act in the favour of young, unskilled people looking for employment, and which would really encourage these individuals to resume their studies, apprenticeships or training courses. In principle, accompanying young people aged 16 to 25 who experience difficulties in finding a job is entrusted to the “local missions” (*missions locales*) and to the orientations centers (*Permanences d’accueil, d’information et d’orientation*, PAIOs). In 2011 the network of local missions welcomed 1.35 million young people between the ages of 16 and 25, of whom almost 500,000 were seen for the first time. However this support is far from intensive: in 2008 only 11% of the unskilled had at least one interview per month, and 50% only had 3 interviews in 12 months.<sup>21</sup> This is a very unsatisfactory way to build a trusting relationship. Moreover, almost 40% of the young people having trouble finding employment wait more than a year before going to a local mission, and over 60% who have come to a local mission are still searching for a job or training post six months later. This observation is even more worrying as the local missions and PAIOs are entrusted with the implementation of the “social integration contract” (CIVIS),<sup>22</sup> a support contract towards long-term employment targeting the less-qualified.<sup>23</sup> Another worrying fact is the absence of a reliable system for reaching these cut off young people.

As we can see, the structures and methods dedicated to supporting young people in difficulty are insufficient to get the most disadvantaged individuals back on track.<sup>24</sup> The public employment service needs to be urgently given the means to take charge in a targeted and intensive manner for these young people, so that a professional relationship which looks at all aspects of employment is established (accommodation, transports, self-confidence, training, job search). The ratio must not be less than 1 advisor for every 30 young people in difficulty, as is the case in the best situations for a support system in France or abroad, and not 1 advisor for every 100 as is the case today. To obtain this ratio, the support should be based on the network of local missions and associations, and also use external service providers, where appropriate. In effect, a number of systems exist abroad where external service providers are able to intervene considerably in terms of supporting employment.

This joining of forces must go hand in hand with a frequent evaluation of these systems by independent experts examining the counterfactual situation (“What would have happened without the chosen measures?”) using modern scientific methods. In fact, the support system for the young people not only suffers from a lack of means, but also from a serious deficit in management. The state, but also the local government and the national employment agency (*Pôle emploi*) contribute to the financing of the local missions. The latter are mainly autonomous and in a *de facto* monopoly situation. The system for assessing the performance implemented by the government has highlighted a great heterogeneity across the local missions in terms of performance, which cannot be explained by the local economic situation. However the government does not have the capacity to get rid of the resulting inequalities. Absent enhanced governance, the new tools for supporting young workers will have little chance at succeeding in improving their situation.

**Proposal 3.** Reinforce the means of the public employment service for the less qualified young people, whilst relying on the “local missions” and external service providers whose interventions would be coordinated by a unique administrative body.

The financing of the targeted reinforcement of the support scheme for the less-qualified young people can be conducted, thanks to savings made on the “generation contracts” outlined in Proposition 5, see below.<sup>25</sup>

### A minimum income scheme for young people

To give the young people in difficulty real prospects, it is desirable to couple reinforced support and improved management with the possibility of entering into the minimum income scheme (*RSA basic out-of-work allowance and earned income top-up, Revenu de solidarité active, RSA*), which would offer a real opportunity to those with little means or those rejected by the education system. By keeping the minimum income scheme for people of 25 years and older, France is almost an exception amongst European countries. Almost everywhere in Europe,<sup>26</sup> young people have access to a minimum income scheme before turning 25. In France, the fear of unoccupied youths emerging has hindered the consideration that young people under 25 years old can enter the minimum income scheme. The consequence of this system is that half of the poorest 20% of the population are aged between 15 and 29 years old.

Nevertheless, the examples of foreign countries show that a minimum income assistance can not only be used to facilitate the autonomy of the young people but also to facilitate their access to employment. By really “activating” the minimum income scheme, this objective can be achieved. In this way, the minimum income scheme should be implemented from 18 years of age, but it should be made clear that there is an obligation to search for employment, or the obligation to enter intensive programs with personalized support and, when necessary, qualifying training.<sup>27</sup> For a young person entering into the minimum income scheme, this should be for a full-time position, by intensively researching a job or by training to obtain the necessary qualifications for vocational training to the required levels with a certificate of vocational proficiency. By so doing, there would be a safety net for the more disadvantaged young people. The young people who failed at school or who were unable to find a job would no longer be abandoned.

The creation of a “youth guarantee” announced by the government, which looks to give 100,000 young people not in employment, education or training and living in poverty, access into employment or training is along these lines.<sup>28</sup> However its success rests on the implementation of a tightened support, with specialist advisers and the possibility of being directed to long and costly schemes. In fact, for a young unskilled person, looking for a job with adequate training can often be a veritable obstacle course. It can be difficult to be motivated when one has lost one's confidence in one's ability to succeed and when one does not feel equipped to deal with employers (lack of skills, difficulty in expressing oneself, shyness, etc.). Support then aims at getting confidence and motivation back throughout the process of looking for a job and/or training course. Such help can be essential in the preparation for meeting with companies and training bodies, but also in finding accommodation, means of transport or dealing with administrative paperwork. In this respect, the needed support relates more to “coaching” than to typical individual interviews conducted by the national employment agency or by the local missions. This type of support requires time and further resources which must be aimed at the less fortunate ones. It is also necessary to exercise a real control over the young people's participation in these intensive programs, with the ability to suspend the minimum income benefit for those who do not fully participate. This objective is not unattainable, but it is still a long way to go. From this point of view, the recent experience of the “autonomy contract”, launched in 2008 on a small scale and which was based on most of these principles, constitutes an excellent starting point which should be analyzed properly to ascertain whether it works or not.

**Proposal 4.** Open up the possibility of getting the basic minimum income scheme (so called “*revenu de solidarité active, RSA*” from 18 years old (instead of 25), as a sort of “youth guarantee”, but conditional on the search for employment in a controlled and sanctioned manner, that the support is individualized and, when necessary, that appropriate qualified training is provided and participation compulsory.

The cost of this proposal has already been anticipated within the “youth guarantee” project, and will be approximately 0.5 billion euro for 100,000 young people.

We have so far highlighted the systems likely to improve the ability of unqualified young people to acquire skills and to adapt to companies’ needs. To significantly improve their outlooks, it is imperative to also act on job offers.

## Labour cost: a handicap for the low-skilled looking for work

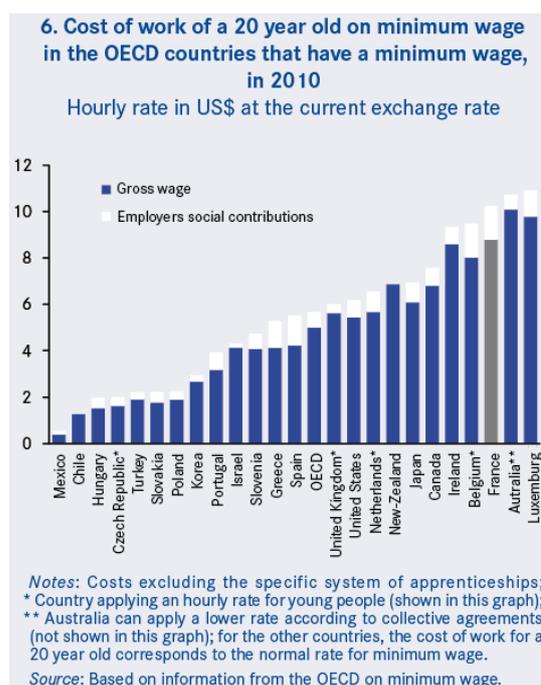
The labour cost is a barrier for low-skilled young people looking for a job. Numerous studies converge on this point and demonstrate the detrimental impact on the employment of young people of a minimum wage whose cost is too high.<sup>29</sup> As a general rule, the studies on the labour demand estimate that a 1% increase in the cost of labour reduces the employment of the less-qualified, who make up a large proportion of young people, by 1%.<sup>30</sup>

In France, the cost of a 20 year-old worker at the level of minimum wage is the highest amongst the OECD countries, after Luxembourg (Figure 6). A high legal minimum wage would not create a major difficulty if the people without qualification or professional experience in the workplace were not so numerous. A significant number of our young people are not sufficiently qualified to be able to cover their hourly rate, which limits their chances of finding a job.

Other countries that face this type of difficulty allow a reduced minimum wage for young people in comparison to adults. France has not made this choice, apart from certain exceptions (youths under 18 years old and apprenticeships). In Germany there is no national minimum wage, but minimum remunerations are negotiated by area and by profession. The government does not intervene in the pay scales. The result is that 30% of low-skilled young Germans in employment are characterized by a labour cost worth between 7 and 10 euro (Figure 7).<sup>31</sup>

Consistently, successive reports by the “Group of experts” on the minimum wage, a commission introduced in 2009, insist that it is necessary to manage the minimum wage “prudently and carefully with to the aim of supporting the income of poorer workers while controlling their wage cost. If the minimum wage evolves too quickly it poses a significant risk on employment and threats to affect those it is designed to protect.

It would therefore be desirable in the future to reduce the labour cost for low-skilled young people supported by employers, without upsetting the overall objective and to maintain purchasing power. This requires revising upward



the existing reductions in social contributions paid by employers at the minimum wage level, and upgrading the permanent in-work benefit for low paid workers (“RSA chapeau”). This process has been in place for several years and should be continued.<sup>32</sup>

Indeed, numerous studies have shown that reductions in social security contributions create many more jobs if they are targeted on lower wages.<sup>33</sup> The reduction in social security contributions on higher salaries results mainly in wage increases and has little effect on employment in general. This is why we feel that targeting lower salaries is essential to the success of the policy aimed at stimulating the creation of low-skilled jobs for young people.

**Proposal 5. Focus the subsidy of the so called “contrats de génération” on salaries below 1.6 times the minimum wage, to help hire young people on permanent contracts. The allowance of 4,000 euro will therefore focus on the employment of low-skilled young people on permanent contracts (which is currently very difficult), alongside with keeping someone older in employment.**

This focus would represent a saving of approximately 0.5 billion euro (50% of the annual cost of generation contracts for a full year), assuming the 4,000 euro allowance on the minimum wage decreases linearly to 0 at 1.6 times the minimum wage. This saving can be used to finance the additional means devoted to the placement and coaching of disadvantaged young people.

## **The dichotomy of fixed-term and permanent contracts: a system which magnifies inequalities**

Ideally, the job market should gradually compensate for inequalities deriving from education attainment by allowing non-graduates to gain on the job professional skills. This, however, is not the case. In France, unlike many comparable countries, the way the job market works is that, far from absorbing inequalities created by different levels of education, it actually tends to exacerbate them. In particular, the French job market is structured in a dualistic manner: on the one hand, employees on open-ended contracts (*Contrat à durée indéterminée, CDI*) are protected by too many rules, often too codified, leading to contentious litigation which does not effectively protect the employee and which are too uncertain for employers; and on the other hand, fixed-term contracts (*Contrat à durée déterminée, CDD*) offer terms and costs that are known in advance. This dualism has increased since the early nineties.<sup>34</sup> Nowadays, more than 90% of hirings are on fixed-term contracts.

In France, this segmentation of the job market affects young people more than elsewhere. In 2009, fixed-term employment was five times higher for young people than for adults (Figure 8). This ratio is around 3 in Denmark, the United Kingdom and the average in the OECD countries. Only in Austria, Germany and Switzerland does the ratio exceed the one in France, but this can be explained by these three countries having a long tradition of mixing studies with employment for young people (vocational training systems, see above). For young people, temporary employment does not necessarily imply job insecurity, but can be seen more often as a training period.

Historically, the development of the use of the CDD (fixed-term contract) coincided in France with the rise in the rate of youth unemployment which reached 24% at the end of 2012. In Spain, where the proportion of fixed-term employment is twice that of France, the unemployment rate is now above 20%, and above 40% for young people. The reason why systems based on a strict separation between stable jobs and temporary jobs creates such a high level of unemployment is now clearly known: essentially stable jobs prove to be “too” stable and unstable jobs “too” unstable! As terminating a stable contract is expensive and entails legal complexity which causes great uncertainty, companies will rely more on fixed-term contracts to select their staff and to absorb fluctuations in economic activity. As this type of employment is so much easier, companies are adopting it more and more. Many people therefore “turn” over short, or even very short CDDs, and, in between two CDDs, they register as unemployed at the employment office. However, finding a job takes time, especially when the public employment service is poorly equipped to cope with the permanent inflow of candidates. Thus, the intensive use of CDDs tends to also inflate unemployment figures and incidentally, unemployment insurance expenditure financed by social security contributions.

In addition to being inefficient, this system is particularly unfair as it appears that the CDD simply acts as a stepping stone towards stable employment only for the more qualified.<sup>35</sup> This scenario also causes another problem in that it is difficult to find accommodation or to get a mortgage if on a CDD, CDI holders always getting priority. In contrast to this system, in Denmark where the termination of a CDI for economic reasons has been simplified, the rate of unstable contracts among young people is twice lower than in France and the unemployment rate is two to three times lower, depending on the year.

There are several ways to substantially improve the current situation. One of them is to provide incentives to create CDIs in line with the cross-industry national agreement (*Accord national Interprofessionnel*, ANI) of 11 January 2013 on securing employment.<sup>36</sup> Article 4 of the agreement provides for an unemployment contribution surcharge for very short CDDs (less than 3 months), an incentive for companies to convert CDDs to CDIs by cancelling this surcharge in the case of CDI employment after a CDD, and a subsidy for hiring young people on CDI in the first three months. This logic must be supplemented by more ambitious mechanisms, which consist in modulating social contributions based on the cost added to unemployment insurance due to the rotation of each company's workforce, regardless of the type of employment contract.<sup>37</sup>

The job market reforms undertaken since 2007 have failed to get close to this objective. The "conventional termination", introduced in 2008, allows the employee and the employer to terminate the employment contract by mutual agreement, based on a much simpler procedure, which requires approval from the employment administration, while allowing the employee to receive unemployment benefits. The "conventional termination" has proved to be a great success. However, it has not changed the difference in status between a CDD and a CDI, as it is still expensive to terminate the CDI for economic reasons when employers and employees disagree. The simplification of the redundancy procedure set out in the ANI of 11 January 2013 will only marginally change the situation, especially for SMEs and VSEs. For several years now, many proposals have been discussed to reduce the gap between stable and unstable jobs.<sup>38</sup> Unfortunately, progress has been minimal and major reform of employment protection is still needed.

In order to move forward we must resume the dialogue in order to find a new formula for the employment contract that is supported by the social partners and is not in conflict with the Social Courts of justice.<sup>39</sup> This formula should be based on two principles which are implicit in the different proposals above mentioned, but which should be at the heart of the new system.

**Proposal 6.1.** Termination of the employment contract for economic reasons must be simplified and secured; the court should not have any say on the appropriateness or the merits of the economic reasons mentioned in support of the layoff.

**Proposal 6.2.** To avoid excessive contract terminations, employer social contributions should be adjusted according to the volume of their job destructions, making them responsible for the social consequences of their decisions and inciting them to limit the number of short term jobs.

## Conclusion

The employment of unskilled young people in France should receive special attention in terms of support, skills training and labor costs. The dualism of the French labor market, which penalizes particularly these young people, must also be corrected.

## The Employment of the Low-Skilled Youth in France

### The Proposals

**Proposal 1.** Strike a new balance of apprenticeship expenditure in favour of unqualified young people, notably by changing the rules of ex-quota attribution of apprenticeship tax revenue, and minimize the proportion of general subjects in vocational skill certification.

**Proposal 2.** Keeping a constant budget, reorient and expand the 150,000 so called “*emplois d’avenir*” by aiming for, on the one hand, 120,000 so called “*emplois d’avenir*” in the private sector financed up to 50% by the state and accompanied by part-time training and, on the other hand, 75,000 full-time training positions in second-chance programs (EPIDE and EC2). Planning an evaluation of this system would be advisable.

**Proposal 3.** Reinforce the means of the public employment service for the less qualified young people, whilst relying on the “local missions” and external service providers whose interventions would be coordinated by a unique administrative body.

**Proposal 4.** Open up the possibility of getting the basic minimum income scheme (so called “*revenu de solidarité active, RSA*” from 18 years old (instead of 25), as a sort of “youth guarantee”, but conditional on the search for employment in a controlled and sanctioned manner, that the support is individualized and, when necessary, that appropriate qualified training is provided and participation compulsory.

**Proposal 5.** Focus the subsidy of the so called “*contrats de génération*” on salaries below 1.6 times the minimum wage, to help hire young people on permanent contracts. The allowance of 4,000 euro will therefore focus on the employment of low-skilled young people on permanent contracts (which is currently very difficult), alongside with keeping someone older in employment.

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1 Announcements made on the occasion of the Interministerial Committee for Youth on February 21<sup>st</sup>, 2013, <http://www.jeunes.gouv.fr/ministere-1001/actualites-1016/evenement-1163/article/priorite-jeunesse-comite-528>

2 Schmillen A. and M. Umkehrer (2012): "The Scars of Youth", *Institute for Employment Research Working Paper* (IAB). Also see OCDE, *op.cit.*, p. 29.

3 Contrary to what could be thought, the majority of young people do not live in sensitive neighbourhoods and are not immigrants, even though the latter are over-represented in relation to their weight in the population: the rate of NEET among young immigrants is twice as high as the national average. It is the same for young people living in sensitive urban areas, where the unemployment rate reaches 45%, around twice the national average for young people.

4 See <http://www.assemblee-nationale.fr/14/projets/pl0146-ei.asp>

5 These reasons have been put forward in different reports. In particular, the report of the Conseil d'orientation de l'emploi (*Diagnostic sur l'emploi des jeunes*, February 2011) underlines the lack of training and the discrimination that makes it difficult accessing a stable job and reviews existing schemes targeted to young workers. A recent memorandum by the Conseil économique, social et environnemental – Prévost J-B. (2012): *L'emploi des jeunes*, CESE, December – emphasises the importance of smoothing the transition between the education system and employment, through modules of specific training, enhanced support, a precariousness ,bonus-malus system, and playing on the conversion rate between permanent contracts and temporary contracts.

6 Card D. and J. Kuve (2010): "Active Labour Market Policy Evaluations: A Meta-Analysis.", *The Economic Journal*, 120, November.

7 The "generation contracts" (December 2012) allow businesses with fewer than 300 employees to receive a subsidy of 4,000 euro per year to hire a young person under 26 years under a permanent contract conditional to the continuation of employment of a senior worker of 57 years or more. The subsidy is provided for three years for the young (2,000 euro), and until retirement for the senior (2,000 euro). SMEs from 50 to 299 employees must sign an agreement or establish a plan of action on how to enhance employment of "generations", or be covered by a sectoral agreement on the same topic. [http://www.assemblee-nationale.fr/14/dossiers/contrat\\_de\\_generation.asp](http://www.assemblee-nationale.fr/14/dossiers/contrat_de_generation.asp)

8 *Formations et emploi*, édition 2009, INSEE. See also Eichhorst W., N. Rodríguez-Planas, R., Schmidl, and K.F. Zimmermann (2012): "A Roadmap to Vocational Education and Training Systems Around the World", *IZA Discussion Paper*, 7110, for an overview of worldwide vocational training systems.

9 Card, Kluge and Weber (2010), *op.cit.*

10 This is not the priority laid out in the *Pact for competitiveness and employment* (article 6): "The Government hopes to develop the competitiveness of SMEs by hiring young people as apprentices for high-level technical training courses. It will encourage these companies to hire apprentices from technical levels II and I." Cf. <http://competitivite.gouv.fr/documents/commun/transversal/Dossier-presse-competitivite.pdf>

11 Apprenticeship tax, which stands at €1.9bn per year, is divided into two components: the "quota" (53%), which goes to apprentice training centres and the "ex-quota" (47%) or scale, which benefits vocational and technological training establishments. Only 40% of the ex-quota finances vocational training lower or equivalent to school-leaving exams.

12 See the report of *Inspection générale des Finances* of 2011 in tax loopholes, <http://www.economie.gouv.fr/files/rapport-comite-evaluation-depenses-fiscales-et-niches-sociales.pdf>, and the training portal, [www.alternance.emploi.gouv.fr](http://www.alternance.emploi.gouv.fr).

13 See DARES (2012): "L'apprentissage en 2011", *DARES Analyses*, no 80, December.

14 For example, the coefficient on hair cutting and styling of the lower hairdressing diploma is nine, while that of French, history-geography, mathematics and physics is five. <http://blog.groupe-pluralis.com/?p=204>

15 See the OECD report, OECD (2010): *Formation et emploi : relever le défi de la réussite*.

16 Schochet P.Z., J. Burghardt and S. McConnell (2008): "Does Job Corps Work? Impact Findings from the National Job Corps Study", *American Economic Review*, November, Vol. 98, no 5, pp. 1864-1886.

17 Heckman J.J. (2000): "Policies to Foster Human Capital," *Research in Economics*, vol. 54(1), pages 3-56, Elsevier March.

18 See the examination by the Senate of the 2010 budget (Defence Mission), <http://www.senat.fr/commission/fin/pjlf2010/np/np08/np086.html> and [http://www.epide.fr/IMG/pdf/Dossier\\_de\\_presse\\_EPIDE\\_2012.pdf](http://www.epide.fr/IMG/pdf/Dossier_de_presse_EPIDE_2012.pdf)

19 See <http://www.reseau-e2c.fr/>

20 The "Emplois d'avenir" were created by Law no 2012-1189 of 26 October 2012. They are mainly jobs in the nonprofit sector for a period of 1 to 3 years. They are subsidized up to 75% of the gross minimum wage. They target the 16 to 25 year-olds who are unemployed and have a low level of education. <http://travail-emploi.gouv.fr/emplois-d-avenir>, 2189/. 120,000 jobs in the private sector paid 1/2 the gross minimum wage and subsidized up to 50% by the government would cost approximately 5,000 euro each, to which 5,000 euro are to be added for part-time training courses, so 10,000 euro a year. This would result in a 1.2 billion euro cost for the 120,000 jobs. The 75,000 full-time training posts can be shared amongst 17,000 posts in the EPIDEs (to achieve the initial objective of 20,000 posts) and 58,000 in the E2Cs. The annual cost of an EPIDE post is 30,000 euro, so the corresponding budget is 510 million euro. The 58,000 jobs in EC2s cost 580 million euro. This results in an annual budget of 2.3 billion euro which is slightly lower than the allocated budget for the current *Emplois d'avenir* scheme. Indeed, subsidizing up to 75% the gross minimum wage of the *Emplois d'avenir*, and adding 4,500 euro for the alleviation of social contributions, makes a total of 17,250 euro per year for each *Emploi d'avenir*, hence 2.1 billion per full year for a minimum of 120,000 of these jobs. Some of these jobs should in principle benefit the private sector, with a lower subsidy (35%). Assuming 30,000 jobs which each cost the public finances 10,500 euro (taking in to account the general subsidies), this results in a cost of 315 million euro and a total budget for the *Emplois d'avenir* scheme of approximately 2.4 billion euro for a full year.

21 DARES (2010) : « L'activité des missions locales et des PAIO », *DARES Analyses*, no 23, avril.

- 22 Approximately 200,000 CIVIS were signed in 2010, which corresponds to 40% of the 500,000 young people getting in touch with the local missions each year for the first time and who are low- or unqualified. Ibid page4, and dashboard on young people's activities and employment policy, [http://www.travail-emploi-sante.gouv.fr/IMG/pdf/TBjeunes\\_mars\\_2011\\_diffusion.pdf](http://www.travail-emploi-sante.gouv.fr/IMG/pdf/TBjeunes_mars_2011_diffusion.pdf)
- 23 The CIVIS can also lead to a small compensation for young people over 18 years old, limited to 1,800 euro a year.
- 24 With almost 12,000 advisers for 1.2 million young people it is difficult for the local missions and PAIO to create a truly personalized service. A new job contract, the autonomy contract, is currently being experimented in forty priority districts. A strengthened support is needed for the private operators whose performances are evaluated.
- 25 State allowance for the local missions was approximately 180 million euro in 2012 (representing 40% of their budget). Tripling this expenditure to improve the situation for young people looking for work would cost an additional 360 million.
- 26 With the exceptions of Spain and Luxembourg.
- 27 The proposals brought forward here are recurrent in many other reports, notably the "Green book" of July 2009 by the Commission on youth policy which underlines that such systems contribute to the increase in the level of qualification of young people, improve the transition from training to employment, introduce more fairness between the generations and amongst the young people and develop the rooms for maneuver of young people from a modest background.
- 28 <http://www.gouvernement.fr/presse/plan-pluriannuel-contre-la-pauvrete-et-pour-l-inclusion-sociale>
- 29 Abowd J., F. Kramarz, T. Lemieux and D. Margolis (1997): "Minimum Wages and Youth Employment in France and the United States", *NBER Working Paper*, no 6111, and also F. Kramarz, and T. Philippon (2001): "The Impact of Differential Payroll Tax Subsidies on Minimum Wage Employment", *Journal of Public Economics*, vol. 82, pp.115-146. Neumark D. and W. Wascher (2008) : *Minimum Wages*, MIT Press.
- 30 Cahuc P. and S. Carcillo (2012): "Les conséquences des allègements généraux de cotisations patronales sur les bas salaires", *Revue Française d'Économie*, vol. 27, no 2, October.
- 31 In France, the monthly cost of labor at the minimum wage is 1,616 euro for a full-time position.
- 32 From 2008 to 2010, more than half of the hirings in VSEs under the "zero contribution" scheme have benefited young people. However, general reductions in social contributions at the minimum wage are of 2/3<sup>rd</sup> only.
- 33 See for example Cahuc and Carcillo (2012) *op.cit.*
- 34 As Luc Behagel and Fabien Postel-Vinay have demonstrated based on the INSEE Employment Study, the probability that an employee on a given date was unemployed a year later doubled in France from the late seventies to the late nineties, but only for those people who had worked for less than 5 years in their job, and almost exclusively due to the increase in fixed term contracts on the market. See Behagel L. and F. Postel-Vinay « Insécurité de l'emploi : le rôle protecteur de l'ancienneté en France a-t-il baissé ? », *Économie et Statistique*, 366(1), 2003, pp. 3-29.
- 35 Junod B. (2006): "The CDD: A Stepping Stone Towards a CDI in Two Thirds of the Cases... But not for Everyone", *DARES Working Paper*, No 117 from July 2006.
- 36 See <http://directe.gouv.fr/accord-national-interprofessionnel-du-11-janvier-2013-la.html>
- 37 See Blanchard O. and J. Tirole (2003): *Protection de l'emploi et procédures de licenciement*, Rapport du CAE, no.44, La Documentation française; Cahuc P. and F. Kramarz (2004): *De la précarité à la mobilité: vers une sécurité sociale professionnelle*, Ministry of Economy and Finance and Ministry of Labour, Gleize C. (2011): *Un CDI pour tous*, Montaigne Institute, December.
- 38 Project contract ("*contrat de projet*", see de Virville M. (2004): "*Pour un Code du travail plus efficace*", Report to the Minister of Social Affairs, single contract (« *contrat unique* », see Blanchard O. and Tirole J. (2003), *op.cit.*, Cahuc P. and F. Kramarz (2004), *op.cit.*; Camdessus M. (2004): *Le sursaut, vers une nouvelle croissance pour la France*, Official Report; Attali J. (2010): *Commission pour la libération de la croissance: une ambition pour dix ans*, Report to the President of the Republic, a generalized CDI with the possibility to introduce a specific separation motive upon signature, see Gleize (2011), *op.cit.*, or a generalization of construction contracts («*contrats de chantier*»), see Charles de Froment C. (2011): « Flexibilité responsable: dépasser le dualisme du marché du travail », *Note de l'Institut de l'Entreprise*, December.
- 39 Judicial control should be limited to verifying that dismissal was not motivated by illegal reasons, such as discrimination, or that the economic reason cited does not hide a personal reason. It could make sense to make this new procedure optional, at the start. In the Netherlands, for example, there are two ways to terminate a contract: one is less expensive ex ante for the employer, but the procedure is long and uncertain, while the other is more expensive but is quick and secure. Employers are gradually shifting towards the second procedure.

## Supporting young people in difficulty in several other countries

Many countries allocate considerable funds to supporting unemployed, young people. Since 1997 the United Kingdom has offered a September Guarantee which is a suitable training course for all young people between 16 and 18 years old and who have left school.<sup>a</sup> To implement this scheme, it was necessary to centralize all information stored by different bodies (public employment service, school, training bodies amongst others) in order to identify the “drop-outs”, share this information at a local level and coordinate the actions to be taken according to the situation and specific difficulties of each person.

Likewise in New Zealand since 2010 the *Youth Guarantee* offers training schemes and free courses to all young people who drop out of school between 16 and 18 years old in the geographic areas where the unemployment rate is high. For those not living at home with their parents, a new benefit, the Independent Youth Benefit, is offered to those who resume their studies or training course. In Denmark since 1996, every young person under 25 years old and unemployed for six months –and now for 3 months– and who has not finished his studies must complete an education program for at least 18 months or lose unemployment benefit. This system has contributed to a significant reduction in unemployment amongst young people in this country through education and training programs.<sup>b</sup>

In Germany, a vast number of training programs have been implemented. These include measures such as school training and work experience schemes to gain practical experience in the workplace. In the past decade the number of young people in job-readiness training has been comparable to the number of all entrants in the apprenticeship system.<sup>c</sup> Subsidized substitutes to apprenticeships are offered. In areas where the range of apprenticeship offers is limited, as in the majority of East Germany, almost a third of apprentices are fully financed by the government.

<sup>a</sup> OECD Jobs for young people, 2010.

<sup>b</sup> Jensen P., M. Rosholm and M. Svarer (2003): “The Response of Youth Unemployment to Benefits, Incentives, and Sanctions”, *European Journal of Political Economy*, 19(2), June, pp. 301-316.

<sup>c</sup> Report 2009 on Training-Information and the Analysis of the Development of Professional Training (Data report from vocational training report 2009. Information and analysis of vocational training), Federal Ministry for Education and Research, Berlin 2009.