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► **To cite this version:**

Matthieu Lemoine, Gerard Cornilleau, Paola Veroni. The French labor market and the labor policies. Franco-German Conference: Frankreich - ein Vorbild für Deutschland? Allemagne - un exemple pour la France?, Macroeconomic Policy Institute (IMK); Observatoire Français des Conjonctures Économiques (OFCE), Jun 2008, Berlin, Germany. hal-03592402

**HAL Id: hal-03592402**

**<https://hal-sciencespo.archives-ouvertes.fr/hal-03592402>**

Submitted on 1 Mar 2022

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# The French labor market and the labor policies

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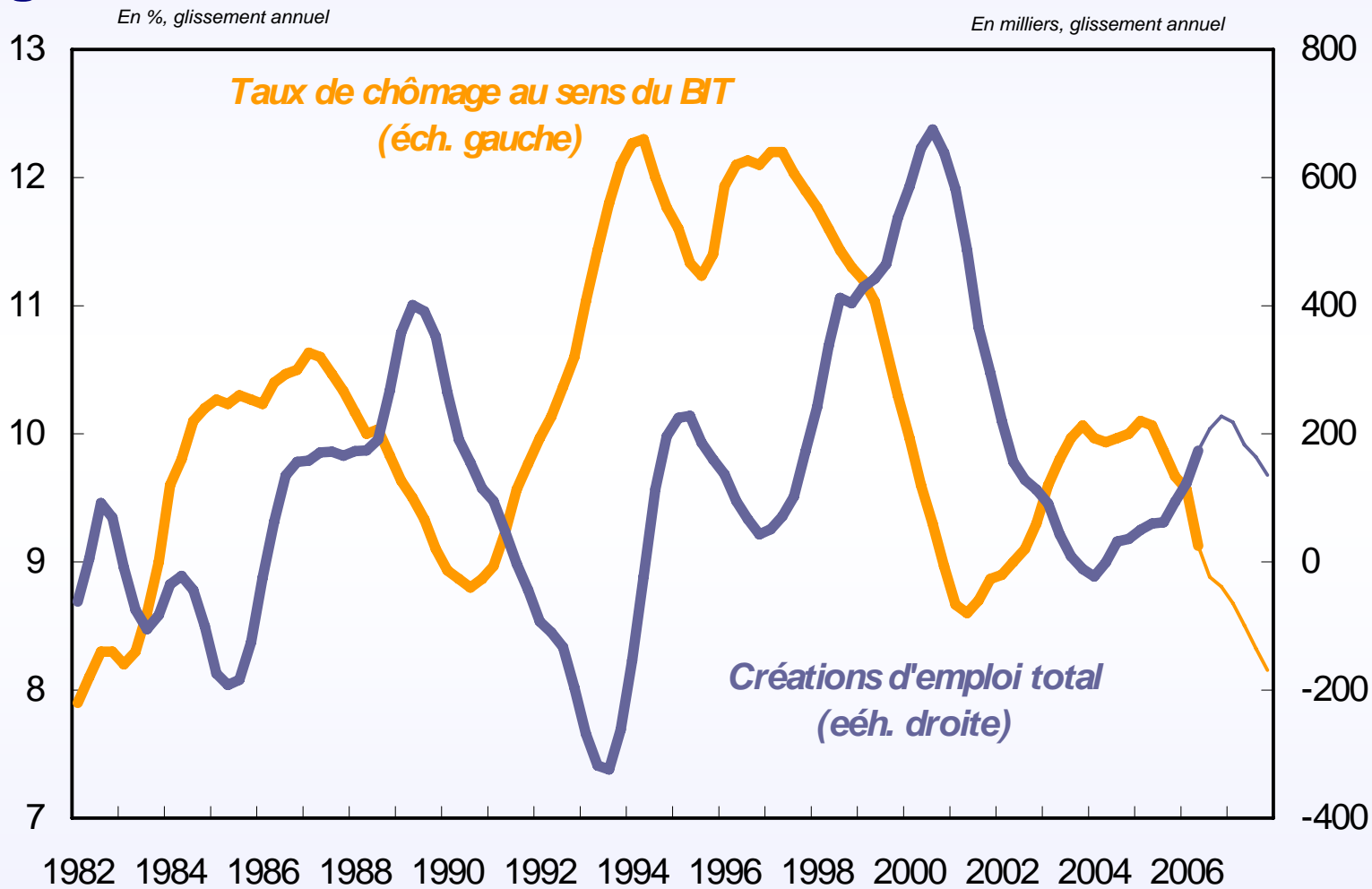
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**Paola Veroni**, Sciences Po, OFCE, Paris, France

- Why unemployment has decreased in France
- Why unemployment has decreased in France less than elsewhere
- Traditional employment policies
  - Early retirement
  - Special employment programs
  - Reduction of the labor costs
- From « 35 heures » to « Travaillez plus pour gagner plus » (Work more to earn more)
- The strategy for low wage worker
- An econometric mesure of flexibility

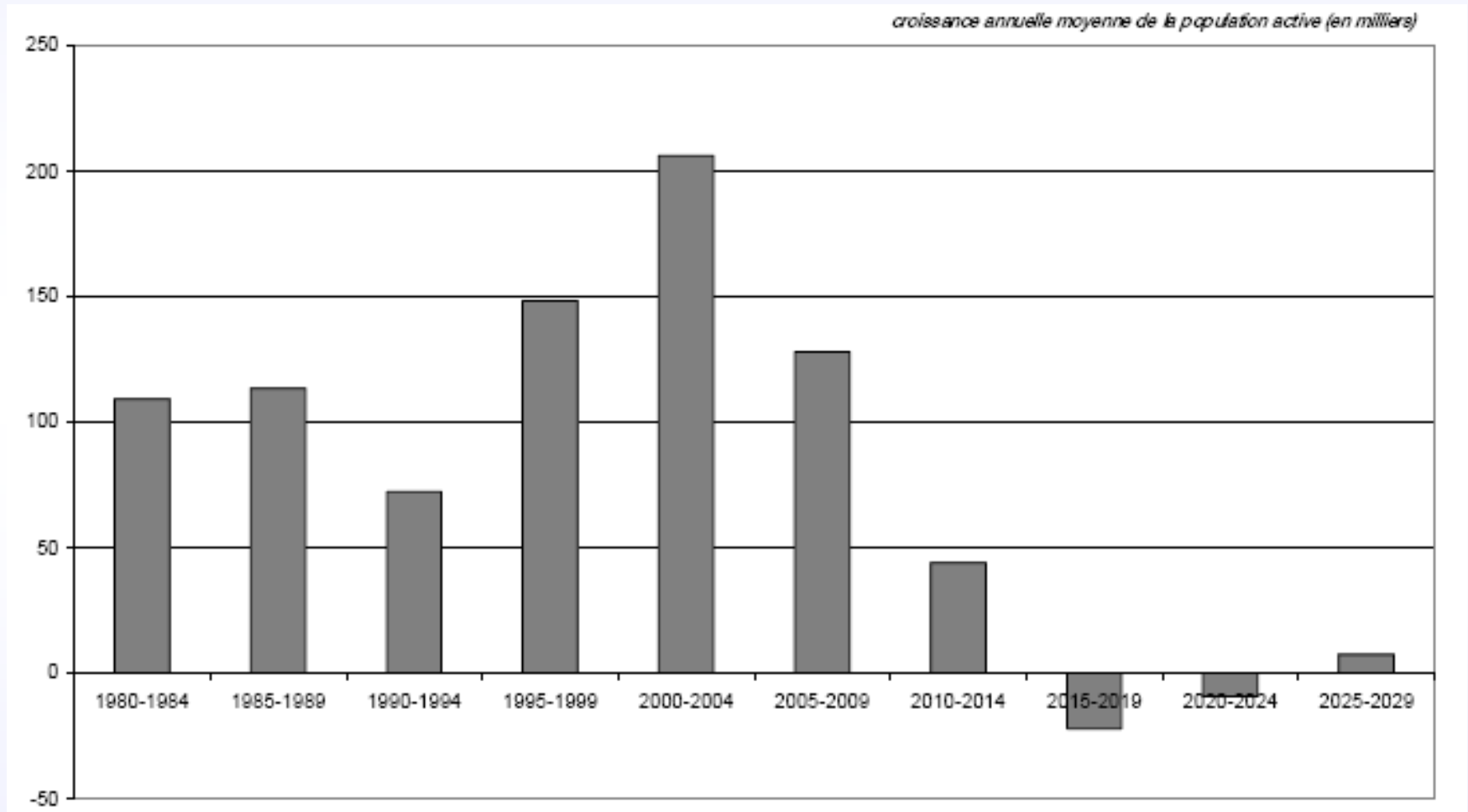
# Why unemployment has decreased in France ?

# Why unemployment has decreased : employment growth



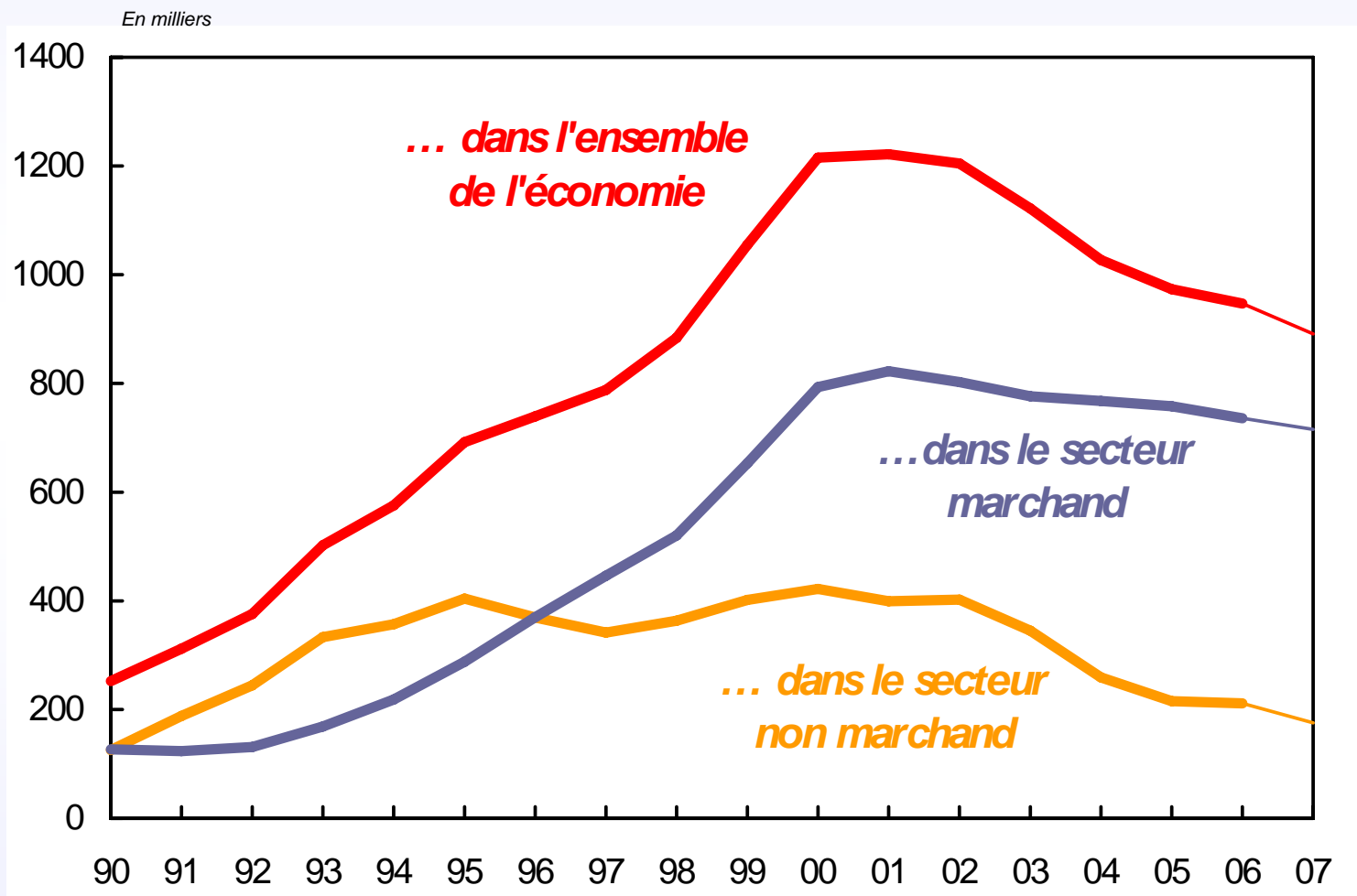
Sources : INSEE, comptes trimestriels ; prévision OFCE, modèle *e-mod.fr* à partir du troisième trimestre 2006

# The demographic context : the end of the expansion of labor force



Source : INSEE

## The employment policy : cumulative number of special employment programs



Sources : DARES ; prévisions OFCE

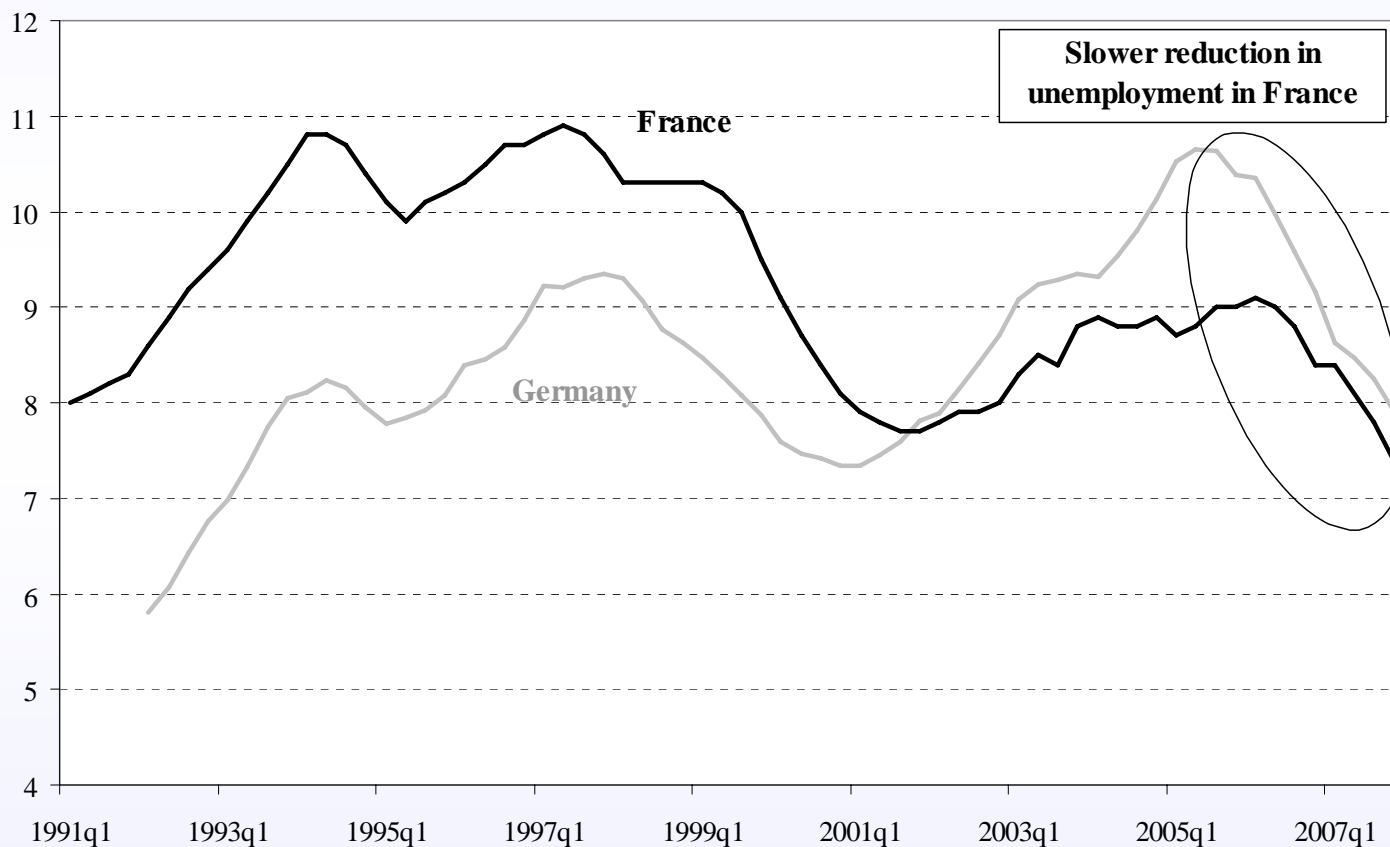


# Why unemployment has decreased less than elsewhere ?



# Unemployment : Does France perform worse than Germany ?

Year-to-year growth rate, in %



Source : Eurostat.

# Growth and demography are more dynamic in France

## Reference period

- Significant fall in unemployment in Germany since 2005, but strong increase between 2001 and 2005 ;
- More significant fall in France on the entire cycle, that is since the beginning of the slowdown (in 2001q2).

Changes in points for the unemployment rate, in % for the other variables.

Period	Country	<i>U</i>	<i>Lf</i>	<i>Y</i>	Prod	<i>L</i>	<i>D</i>
Slowdown 2001q2-2005q1	France	1.0	2.5	6.3	4.9	1.3	-2.1
	Germany	3.2	2.1	1.0	2.5	-1.4	-2.1
Upturn 2005q2-2007q4	France	-1.4	1.3	5.6	2.7	2.8	0.2
	Germany	-2.7	-0.2	6.7	3.7	2.9	0.8
Total 2001q2-2007q4	France	-0.4	3.8	12.2	7.7	4.2	-1.9
	Germany	0.5	1.9	7.7	6.3	1.4	-1.3

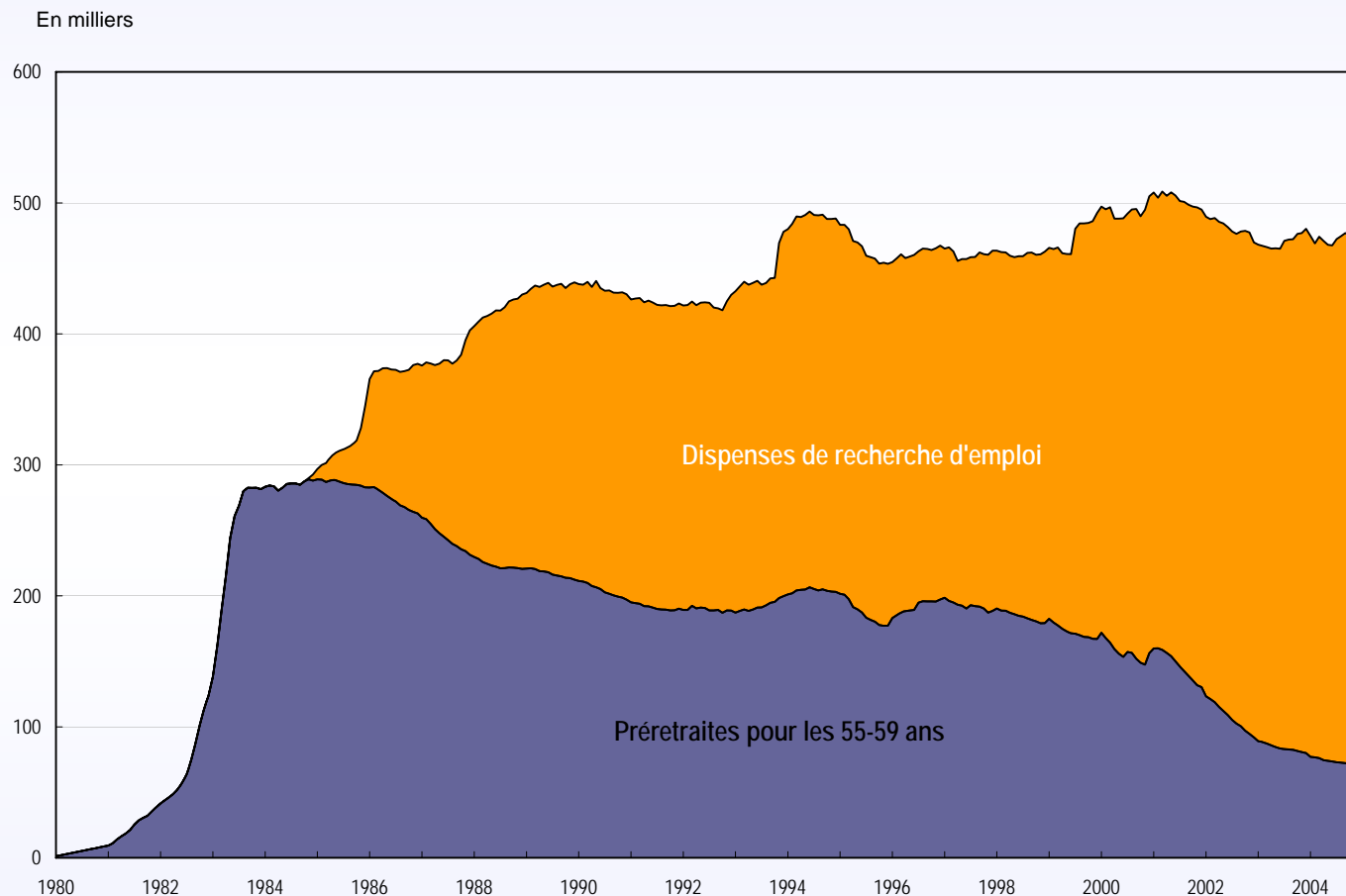
*Notations : unemployment (U), labour force (Lf), GDP (Y), productivity (Prod), employment (L), working-time duration (D).*

*Sources : Eurostat, National Accounts comptes nationaux, calculations OFCE.*



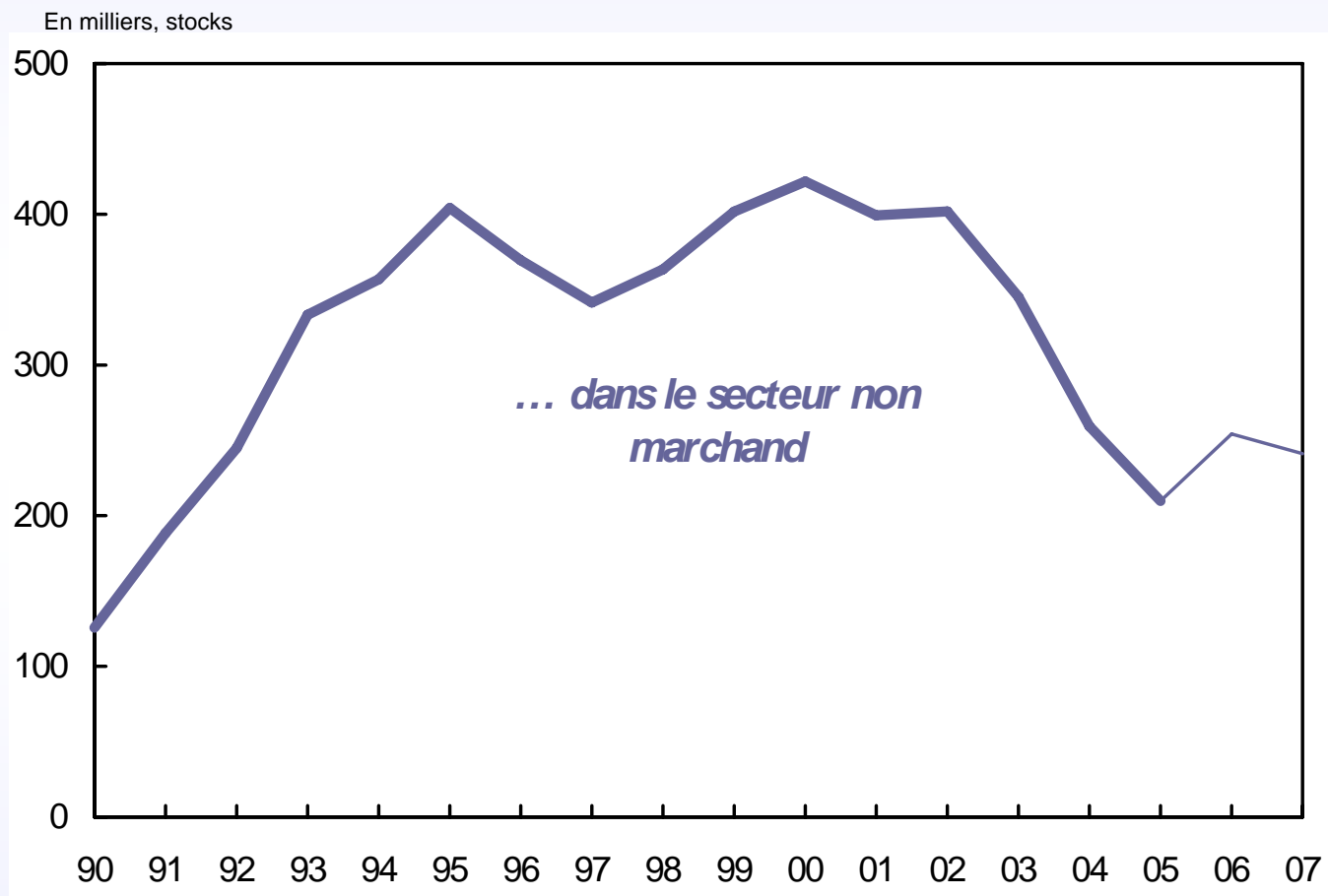
# Employment Policies

# Early retirement program and « dispenses de recherche d'emploi »



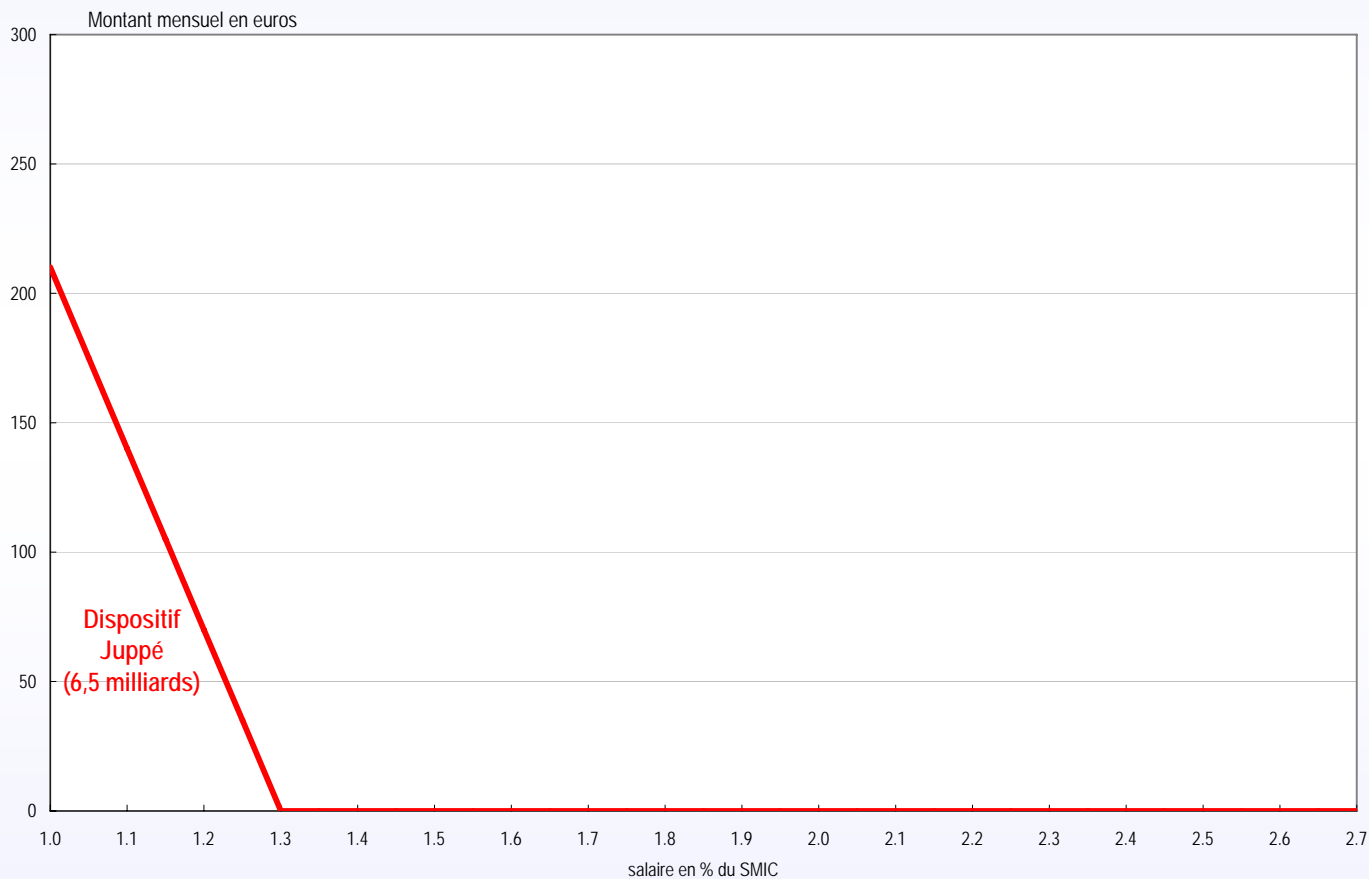
Source : DARES

## Employment program in public and non-profit sector ...



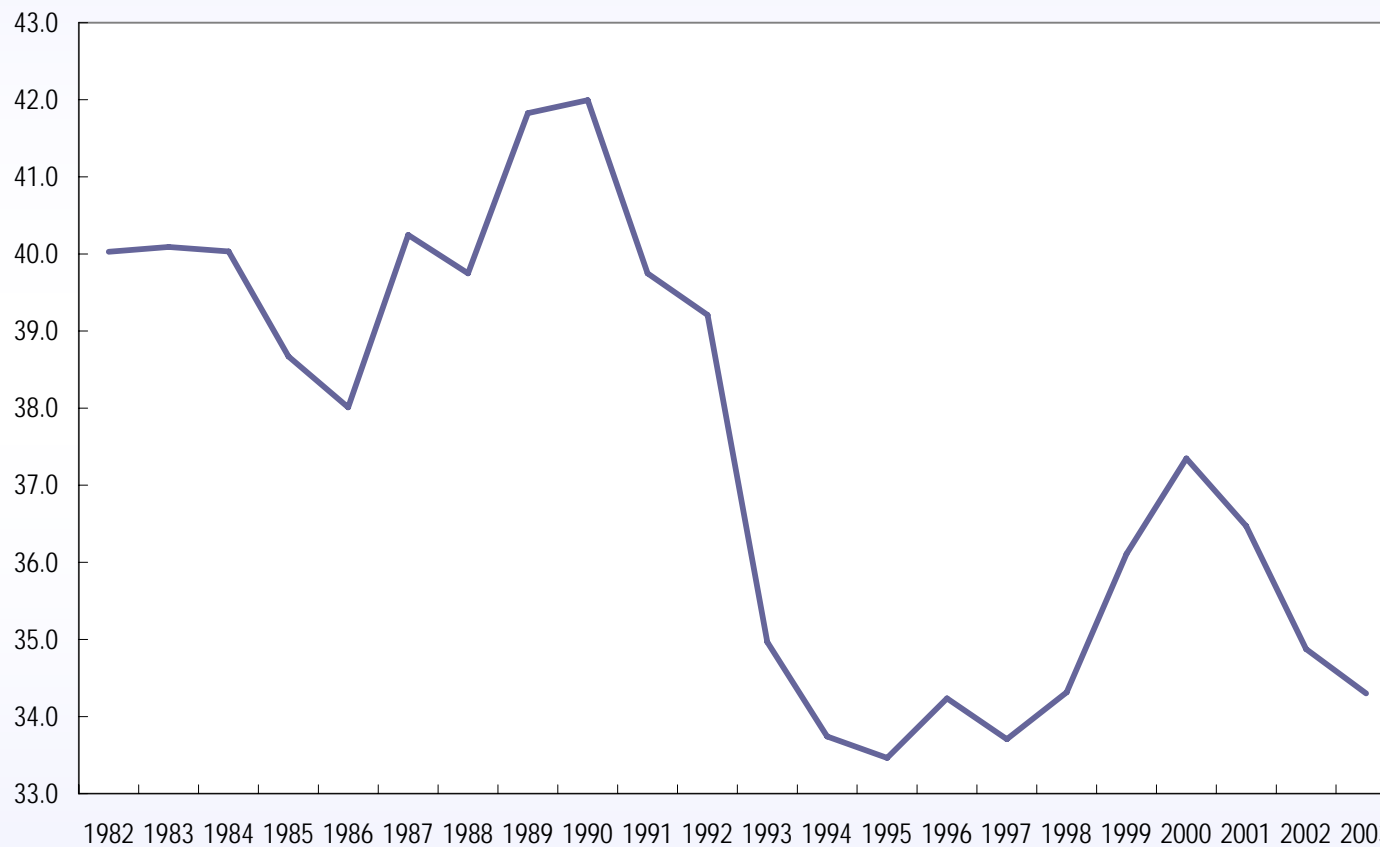
Sources : DARES, calculs OFCE

## Reduction of social contribution on low wages



## Share of un qualified in total unemployment

En % du chômage total



Source : INSEE, enquête emploi, calcul de Lemoine (2005).

Légende : Les catégories socioprofessionnelles non-qualifiées regroupent les ouvriers non-qualifiés, les employés de commerce et les personnels des services directs aux particuliers.

# Les 35 heures : Consequence on French Economy?



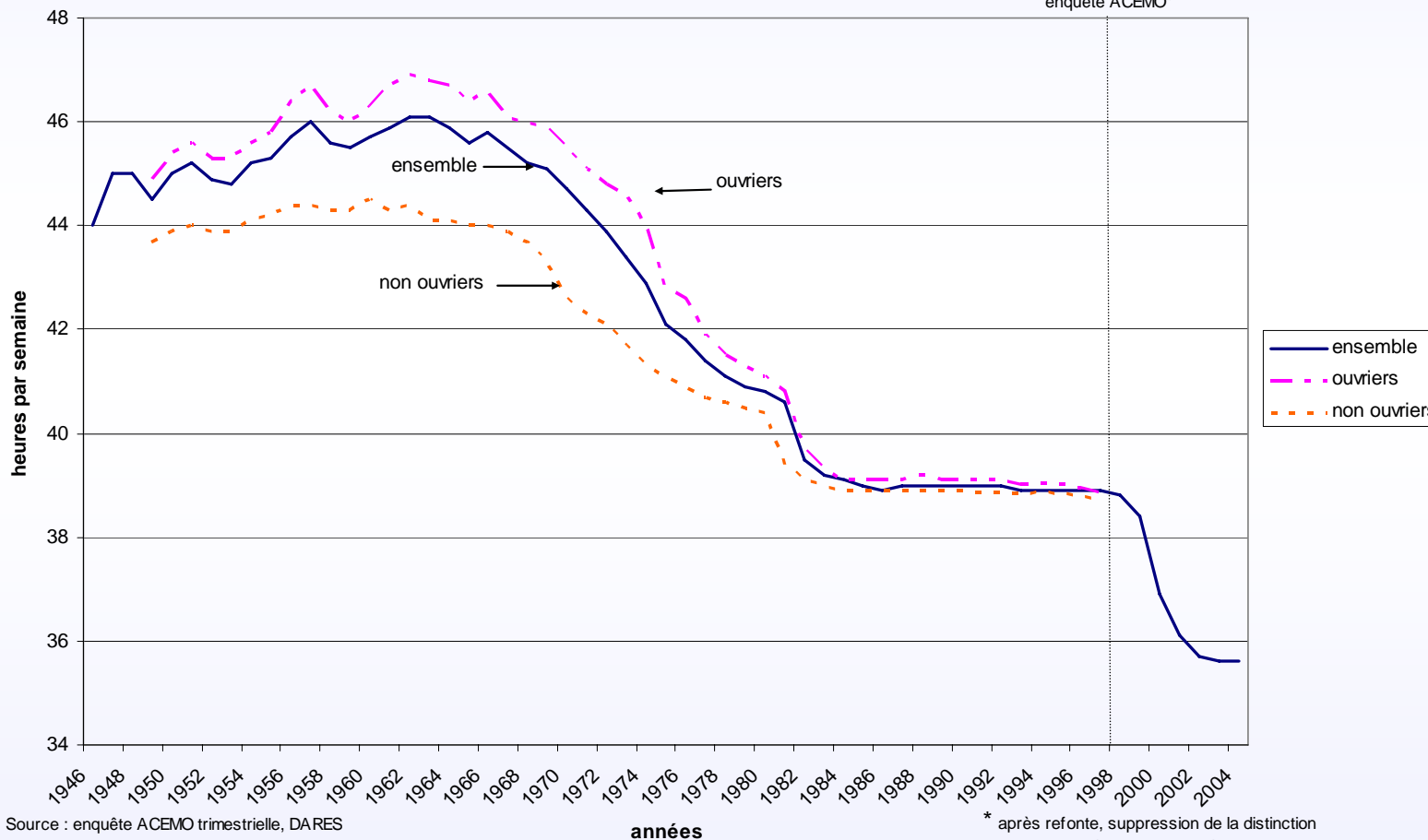
# Les 35 heures : consequence ?

- **Aubry I et II legislation : macroéconomic outcome**
  - What consequence on Employment ?
  - What consequence on Budget ?
  - What consequence for the Costs of production and French competitiveness ?
- **Fillon 2003 legislation**
  - Increase of authorized supplemental hours
  - Decrease of over-paiement of supplemental hours
  - No more link with reduction of working time
- **2007 : « Travailler plus pour gagner plus »**

# Reduction of working time : a long story with some historical move back !

**Evolution de la durée collective hebdomadaire (en moyenne annuelle) depuis 1946**  
**dans les entreprises de 10 salariés et plus du secteur marchand non agricole**

refonte  
 enquête ACEMO\*

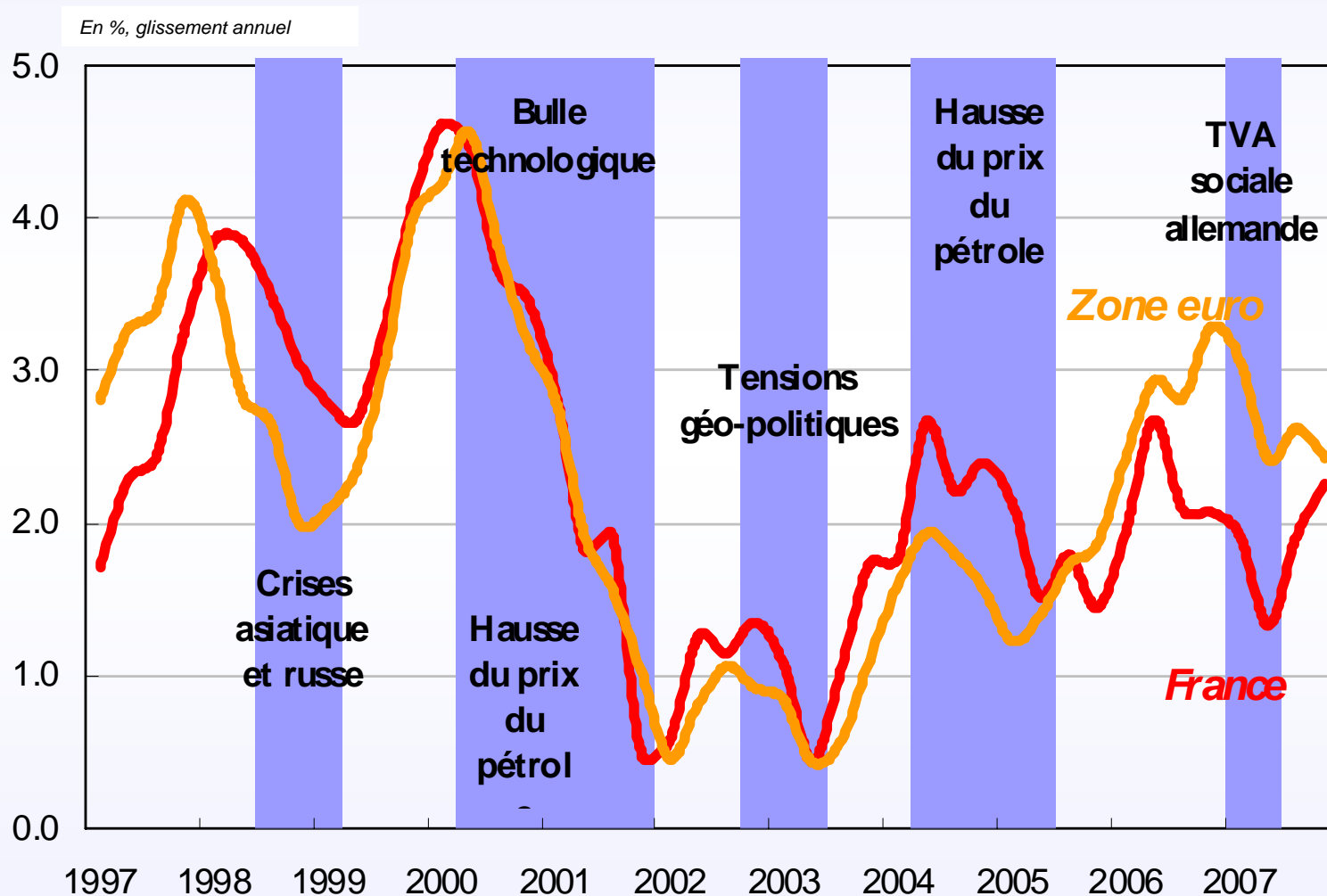


Source : enquête ACEMO trimestrielle, DARES

Champ : entreprises de 10 salariés et plus du secteur marchand non agricole

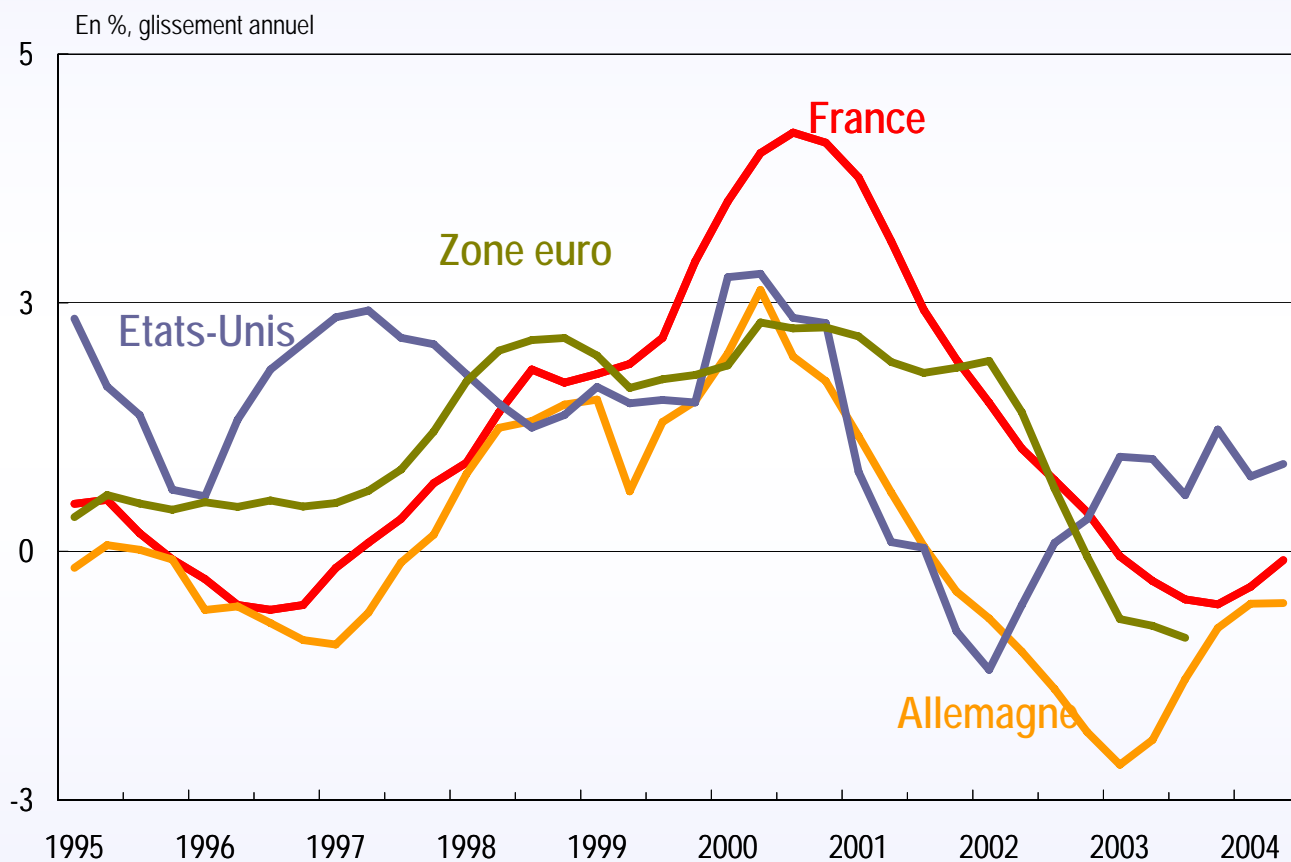
\* après refonte, suppression de la distinction ouvriers et non ouvriers

## Economic growth was not shocked by 35H regulation



Sources : INSEE, comptes trimestriels

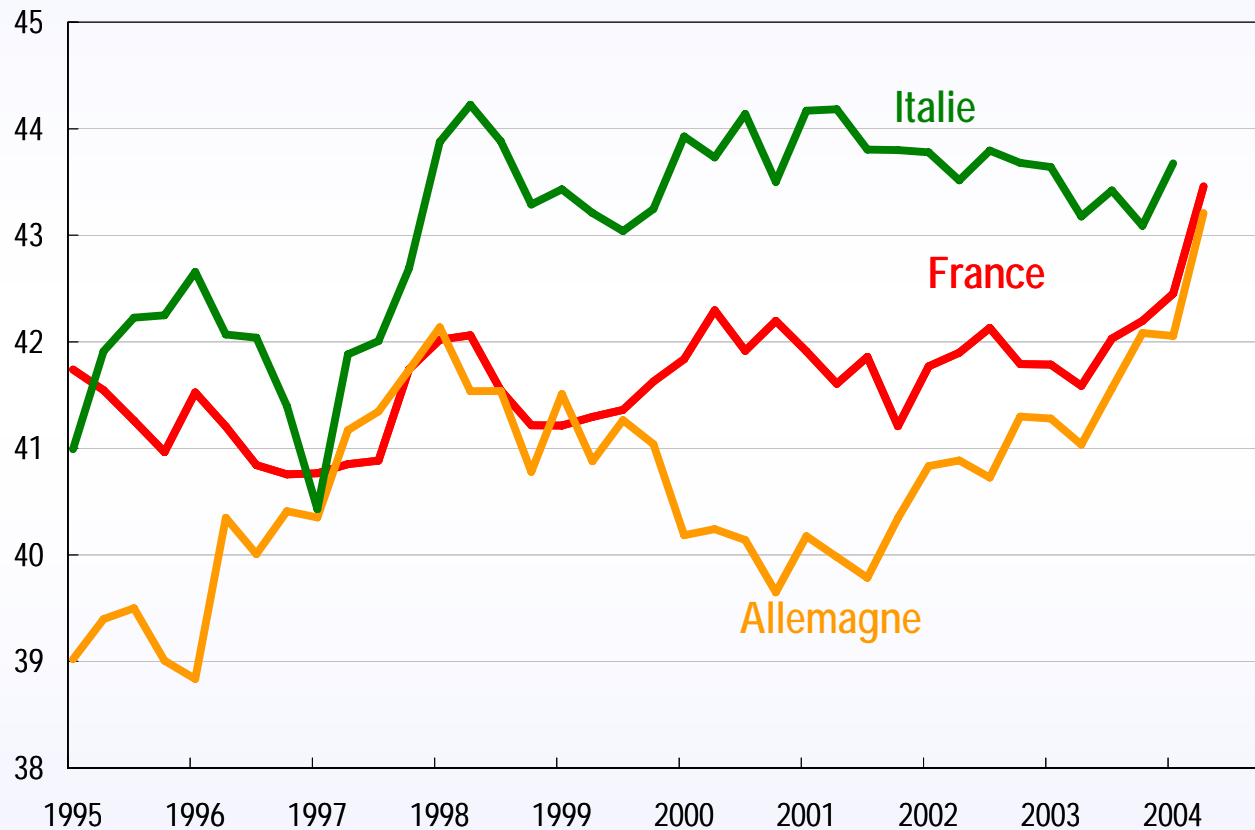
## 1997-2002 : Rapid Increase of Employment in France



Source : Eurostat

## No change in the profit share

EBE / VA, en % glissement annuel

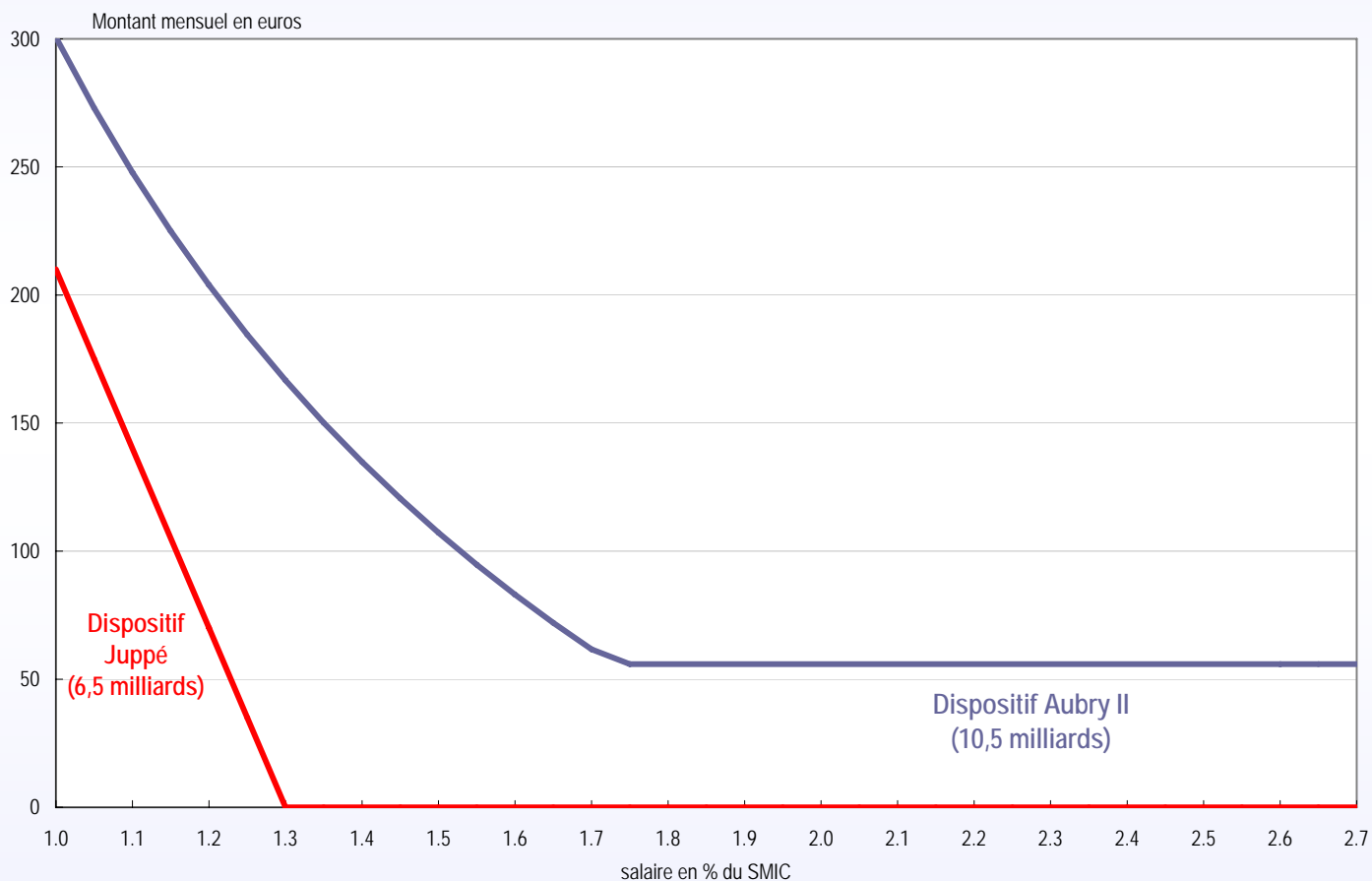


Source : Eurostat

## Why No Visible Consequence on Costs ?

- 35 Hours were paid 39  
 But this was compensated :
  - Wage freeze (On average 18 Month)
  - Work Organisation
    - ⇒ Increase in labor and capital productivity
    - ⇒ Duration of Work Calculated on an Annual Basis (Less supplemental Hours)
  - Subsidies

# The Reductions of Social Contributions under 35h Legislation





# Fillon 2003



- Increase of authorized limits for overtime hours

- With an annual limit of 130 hours

- 37,8 Hours per Week

- With an annual limit of 240 hours

- 39 Hours + 60 suppl. hours

- Reduction of over payment of overtime hours

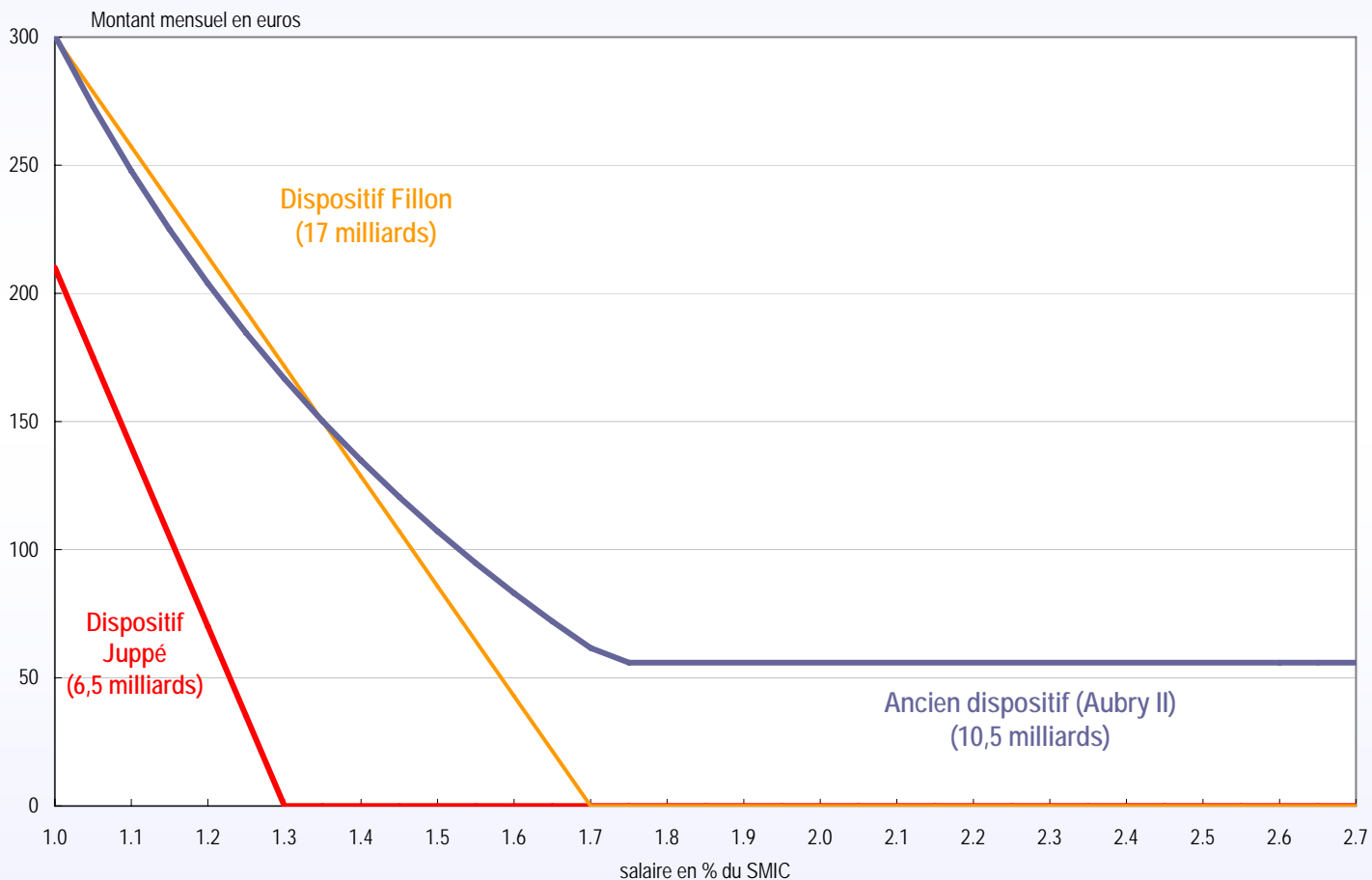
- 25 % for the first 8 overtime hours, 50 % over.

- Exception for entreprises of 20 or less than 20 persons : Until 2005, december 31 the first 4 hours the over pyment is limited to 10 %.

- Break of the link between subsidies and 35 H

- Uniformization of minimum wage

# The final system for Reduction of Social Contribution on Low Wages





# « Travailler plus pour gagner plus », 2007

- **Lump Sum of Reduction of Social Contribution payed by the Firms**
  - 1,5 € per Supplemental Hour in the firms of less than 20 persons and 0,5 € in the firms of more than 20 persons.
  
- **Harmonization of the over payment of supplemental hours**
  - 25 % every where for every supplemental hours.
  
- **Supplemental Hours Are Free of Taxes on Revenue**
  
- **Reduction of Social Contributions payed by the employees**
  - No charges on supplemental Hours

## The New System for Supplementary Hours in 2007

En %

<b>Salaire en proportion du Smic</b>	<b>1</b>	<b>1.1</b>	<b>1.2</b>	<b>1.33</b>	<b>2.0</b>
<b><i>Surcoût d'1 HS</i></b>					
<i>Entreprises de &lt; 20 salariés</i>	-5,2	-3,0	-1,2	0,6	8,0
<i>Entreprises de &gt; 20 salariés</i>	-11,2	-10,3	-9,6	-7,8	-1,7
<b><i>Différence de coût entre HSet HN</i></b>					
<i>Entreprises de &lt; 20 salariés</i>	2,2	5,4	7,8	10,1	18,8
<i>Entreprises de &gt; 20 salariés</i>	11,0	12,1	13,0	15,3	22,9
<b><i>Surcoût d'1 HC</i></b>					
<i>Entreprises de &lt; 20 salariés</i>	-15,4	-13,2	-11,6	-10,0	-6,2
<i>Entreprises de &gt; 20 salariés</i>	-5,0	-4,3	-3,8	-3,3	-2,1

Source : Calcul OFCE

## *Some hypothesis about the Impact of the new System for overtime Hours*

	PIB	Emploi (milliers)	Chômage	Déficit (milliards)
$\Delta h = 0,8 \%$	0,4	-38	0,1	-3,8
$\Delta h = 1,6 \%$	0,5	-157	0,6	-5,1
$\Delta h = 2,0 \%$	0,6	-231	0,8	-5,9
$\Delta h = 3,0 \%$	0,7	-383	1,4	-7,7



# Developping low wage jobs

## A common challenge: mass unemployment

- In France growth has become richer in labour in the 1990s, thus limiting unemployment growth
- In Germany productivity growth has even speeded up in the 1990s



## Two different philosophies

- A more interventionnist stance in France
- A minimalist intervention in Germany until recently as labour market policy falls into the domains of social partners.
- Reasons for change: failure of Schroeder's « Pact for Labour » and further deterioration of the labour market situation

## Similarities

- **Passive labour market policies focussing on early retirement and withdrawals from the labour force**
- **Subsidized jobs:**

**France: social contributions exemptions for young workers in vocational training, CEC, public utility jobs and non-profit sector**

**Germany: SAM and ABM, public utility jobs and non-profit sector**

# Differences

## France

- Minimum wage (SMIC) and minimum income (RMI)
- Generalised reduction in employer's social contributions
- Reduction in employer's social contributions focussed on low-skilled/low-wage workers
- Individual incentives to go back to work

## Germany

- No minimum wage, minimum income (Sozialhilfe)
- Late generalised reduction in employer's social contributions (eco-tax and VAT increase)
- Late reduction in employer's social contributions focussed on low-skilled/low-wage worker (mini/midi jobs)
- Late Individual incentives to go back to work (Kombilohn, Hartz laws)

## Focus on the low-skilled

- Unskilled workers face a specific unemployment issue: competition from low wage emerging countries Technical progress and capital/labour substitution lead unskilled jobs to disappear in industrial sectors and more and more often in some service sectors
- A targeted measure is more efficient than a global measure in terms of job creation to budget costs ratios. It is less costly to create low wage jobs than higher wage jobs.
- Lowering the cost of unskilled jobs would allow to create jobs in the *services to people* sector (domestic care, shops, hotels-cafes-restaurants) that are underdeveloped in France and in Germany (Benchmarking Group Report), due to the excessive cost of unskilled work.

# Differences in low-skilled unemployment

- Low-skilled unemployment was initially lower in Germany than in the EU average.
- Job destruction in industry in the 1990s increased low-skilled unemployment to more than EU average
- In France early policy measures lowered low-skilled unemployment, which is still higher than EU average

	1995	2000	2007
<b>Germany</b>			
Harmonized unemployment rate	8.2	7.9	8.6
Low-skilled unemployment rate	<b>12.8</b>	12.5	<b>17</b>
Share of long-term unemployment	48.7	51.5	56.6
<b>France</b>			
Harmonized unemployment rate	11.9	10.2	8.0
Low-skilled unemployment rate	<b>15.9</b>	15.4	<b>12.3</b>
Share of long-term unemployment	40.3	39.7	40.2
<b>UE</b>			
Harmonized unemployment rate	10.8	8.4	7.2
Low-skilled unemployment rate	14.2	11.6	10.9
Share of long-term unemployment	47.8	45.5	42.8

# Reduction in social contributions: France

## Prevailing philosophy reducing labour costs

- Social contribution cuts on low wages have been progressively implemented since July 1993.
- Since June 1996, specific social contributions rebates were introduced for companies implementing working-time reduction while creating jobs (Loi Robien, June 1996, Loi Aubry 1, June 1998)
- In January 2000, all companies having signed an agreement on the 35-hour week were given contributions' rebates. The objective was to compensate partly for the rises in wage costs resulting from lower working time.
- Since 2003, the cut was no more linked to the 35-hour working week: a single cut was introduced, decreasing from 1.7 to 1 since 1.7 (then 1.6 SMIC). In 2005, it benefited 10.5 million employees.

## Individual incentives: France

- In 1987, introduction of a minimum income, the RMI, a differential benefit for the unemployed accounting for their family situation. In principle, the RMI is entitled only to people who make efforts to be back on employment, but this restriction does not apply in practice.
- The gap between wage and insurance benefits incomes is very small for unskilled workers, especially when only part-time jobs are available. Thus, unskilled workers can fall into an “inactivity trap”. As the SMIC aims at ensuring a minimum living standard for workers, the RMI cannot be significantly lower. So a worker married and earning 0.5 SMIC has a lower income than the RMI: his work does not pay.

## Individual incentives: France

- In 1998 a first measure aiming at making work pay on a transitory basis was introduced: the RMI incentive (the *intéressement*). This system entitled a RMI earner to continue to benefit from part of the RMI in the first year after starting a job, as only half of wage earnings were taken into account for the calculation of the RMI.
- A working tax credit (Prime pour l'emploi (PPE)) has been introduced in 2001 in addition to employers' contributions cuts. In the same time, housing allowances, dwellings taxation, income taxation were modified to allow low-wage workers to be entitled to benefits previously entitled to RMI earners only.



# Reduction in social contributions: Germany

- Development of mini-jobs (part-time work with monthly wage lower than 400 euros) with reduced employers' social contributions
- Hartz II (2003) further development of mini jobs and introduction of midi-jobs (between 400 and 800 euros) with progressive cut in employers social contributions

Reduced pension rights and no unemployment insurance as cuts are not completely financed by general taxes.

# Individual incentives: Germany

Prevailing philosophy of getting people back to work rather than reducing labour costs

- Mini jobs with total exemption of employees' social contributions
- Midi jobs with total and partial and degressive exemption of employees' social contributions in order to avoid a low-wage trap
- Pilot experience of KombiLohn (CDU supported), combined wage for supporting wages below conventional levels. A social security subsidy covers part of the employees' social contribution and family allowances complete it.
- Talks on introduction of the minimum wage (SPD supported)

# Individual incentives: Germany

Prevailing philosophy of getting people back to work rather than reducing labour costs

- 2003 Law and Hartz IV (2005): tougher criteria for job refusal
- 2003 Law: reduces duration of unemployment benefit (from 32 to 18 months)
- Hartz IV (2005): merges long-term unemployment benefits and social aid



# An Econometric Measure of Labor Market Flexibility

# German performances based on precarious job creations

## OECD approach

OECD indicators, called Labour Market Regulation indicators, are usually used to synthetise the rules, which constraint the use of regular/temporary contracts. Not convincing in the French case.

## Temporary jobs

Strategy of flexibility and thus insecurity “at the margin” by creating a two-tier labour markets (temporary jobs and in involuntary part-time work).

	France		Germany	
	2001	2006	2001	2006
Temporary work (as a % of total employees)	14.9	12.9	12.4	14.2
Involuntary part-time work (as a % of total employment)	2.5	3.8	1.9	4.2

Sources : Eurostat, National accounts,, calculations OFCE.

# Comparison of employment flexibility in France and Germany

- Labour flexibility:
  - adjustment dynamics of the labour to output fluctuations
  
- EC models with a time-varying coefficient
  - estimated by the Kalman filter.
  
- Dataset
  - Sample: 1980q1-2007q4.
  - Source: OECD.

## France: EC model of the labour

- Long term equation of the labour productivity

- Annual growth rate: 2.7% in the 1980's, 1.8% in the 1990's

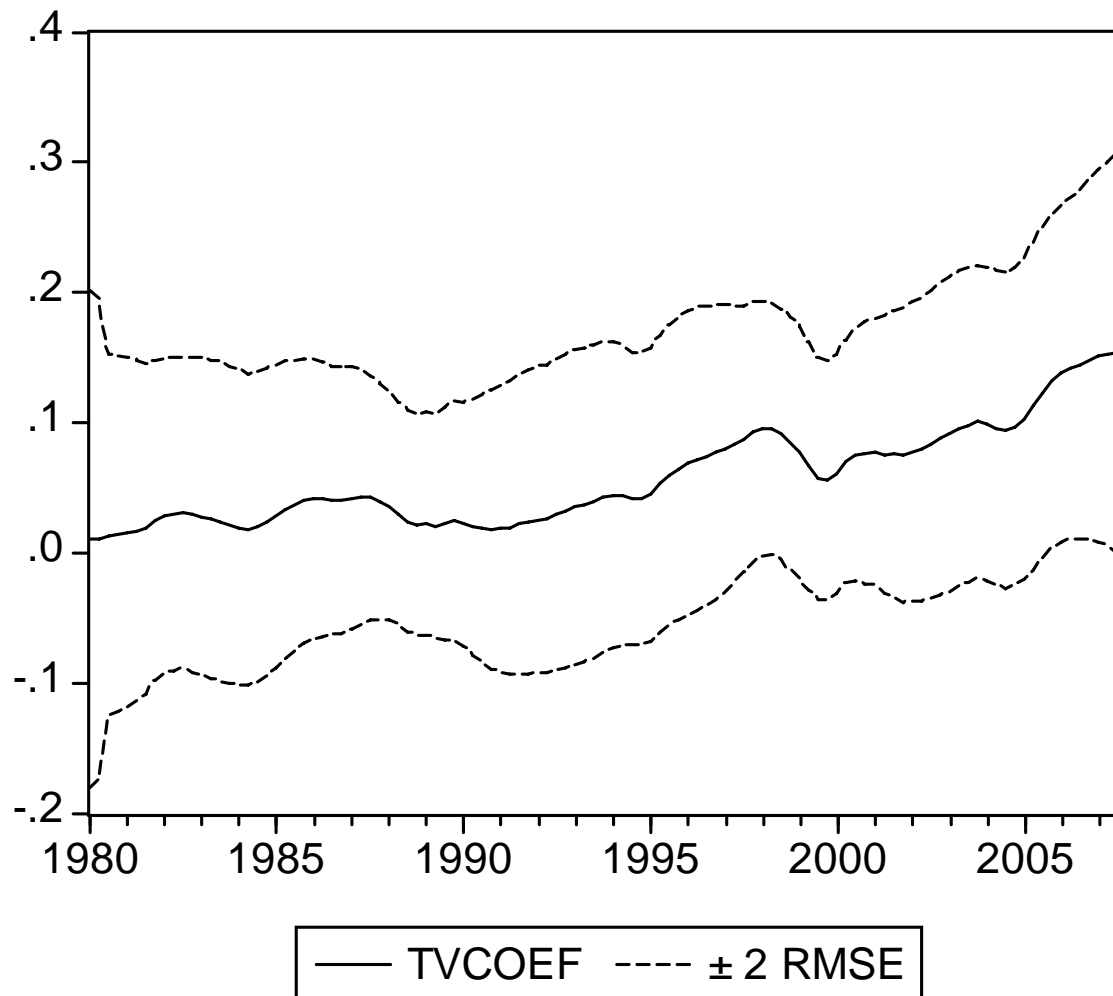
$$\log(Y / NH) = \underset{(-425.4)}{-4.33} + \underset{(74.6)}{0.68\%} \cdot t - \underset{(-15.9)}{0.23\%} \cdot t' + U$$

- Short term equation of the labour adjustment to the output fluctuations

$$\Delta \log(NH) = \underset{(-1.5)}{-0.03\%} + \underset{(14.9)}{0.84} \cdot \Delta \log(N_{-1}H_{-1}) + tvcoef \cdot \Delta \log(Y_{-1}) + \underset{(1.7)}{0.03} \cdot U + V$$

# France: time-varying adjustment

Smoothed TVCOEF State Estimate





# Germany: EC model of the labour

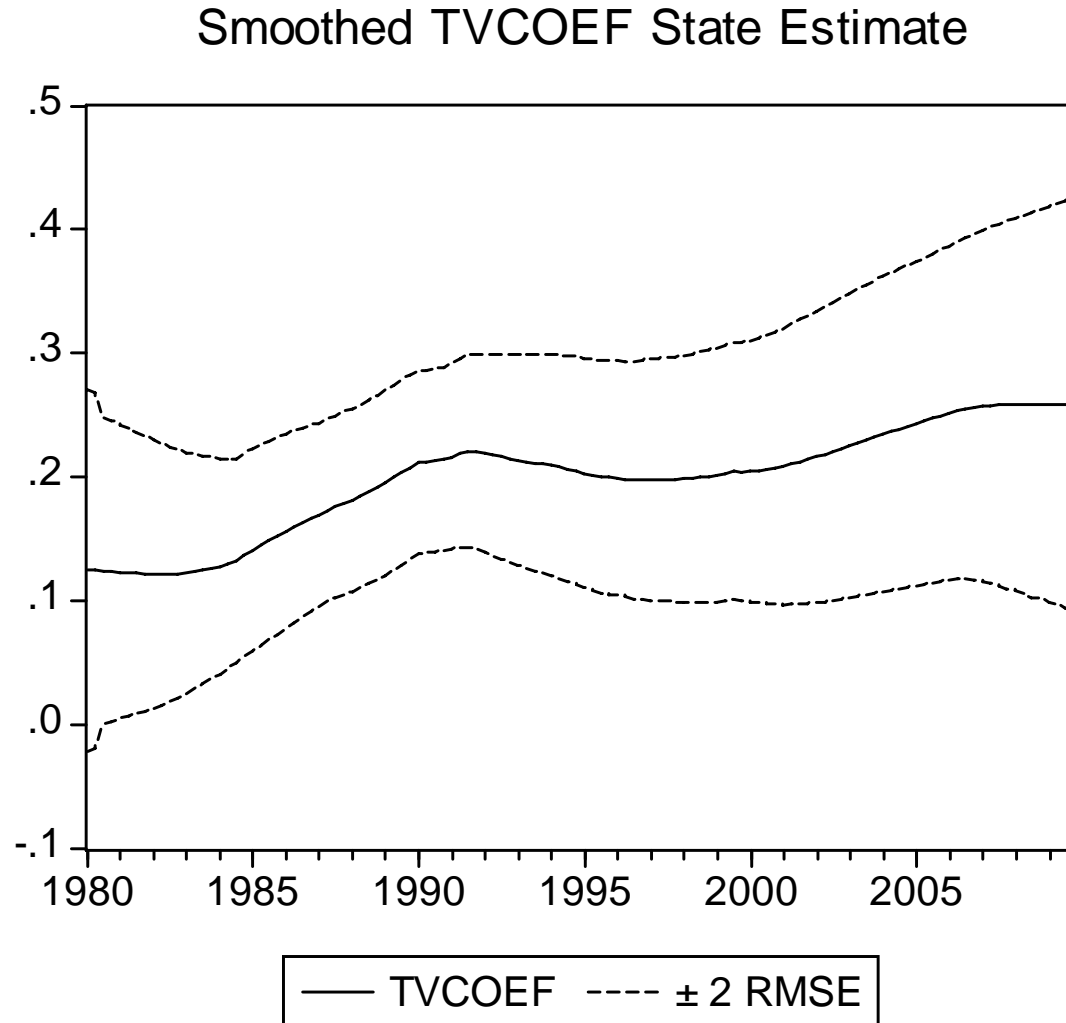
- Long term equation of the labour productivity
  - Annual growth rate: 2.7% in the 1980's, 1.9% in the 1990's

$$\log(Y / NH) = \underset{(-316.6)}{-4.38} + \underset{(54.8)}{0.68\%} \cdot t - \underset{(-10.3)}{0.20\%} \cdot t' + U$$

- Short term equation of the labour adjustment to the output fluctuations

$$\Delta \log(NH) = \underset{(-4.0)}{-0.1\%} + \underset{(7.6)}{0.52} \cdot \Delta \log(N_{-1}H_{-1}) + tvcoef \cdot \Delta \log(Y_{-1}) + \underset{(1.5)}{0.01} \cdot U + V$$

# Germany: time-varying adjustment



# Comparison of the tv-coefficients

