

Concerning the Macron law “to promote growth, activity and equal economic opportunity”

By [Henri Sterdyniak](#)

The Macron Law is certainly not the “law of the century”. It is a patchwork of about 240 provisions of varying importance. It is not some “great turn to the free market” nor does it represent a uniquely French strategy. It does nevertheless raise interesting questions about France’s economic strategy and the way the legislature works.

The latest issue of the [Note de l’OFCE \(no. 43 of 13 March 2015\)](#) examines the law’s major provisions, which oscillate between free market liberalization (let competition and the market do their work), social liberalism (certain categories of the population must be protected), economic interventionism (the state must regulate the functioning of the markets), and social democracy (the social partners must play an important role), without a clear victory for any of these. It is a compromise text that by definition cannot really satisfy anyone.

In our view, despite its title, there are few provisions in the law that will promote activity or that are beneficial to industry, to “Made in France”, to urban renewal, to the habitat, to the production of sustainable recyclable goods, or to greater employee participation in the decision-making process in their business. The law is instead in line with the myth of an economy driven by innovative start-ups, and ignores the need for industrial restructuring and an ecological transition.

Women's employment and unemployment: decreasing inequality?

By [Françoise Milewski](#)

The deterioration of the labour market since the start of the crisis has hit men and women differently. Recent trends show that adjustments are being made in different ways. Gender inequalities are producing differentiated trends in employment and unemployment, which is leading in turn to specific forms of inequality.

Since spring 2008, category A job searches [\[1\]](#) have increased for both men and women, but much more for the former (93% against 60%). The trend was more uneven for men under the influence of the business and public policy cycles, especially partial unemployment measures.

Men jobseekers have outnumbered women jobseekers since November 2008. In December 2014, men represented 52.9% of jobseekers. But this breakdown is close to their respective shares in the labour force and in employment. It is the previously existing situation that was abnormal: women, a minority on the labour market, had been a majority in category A unemployment.

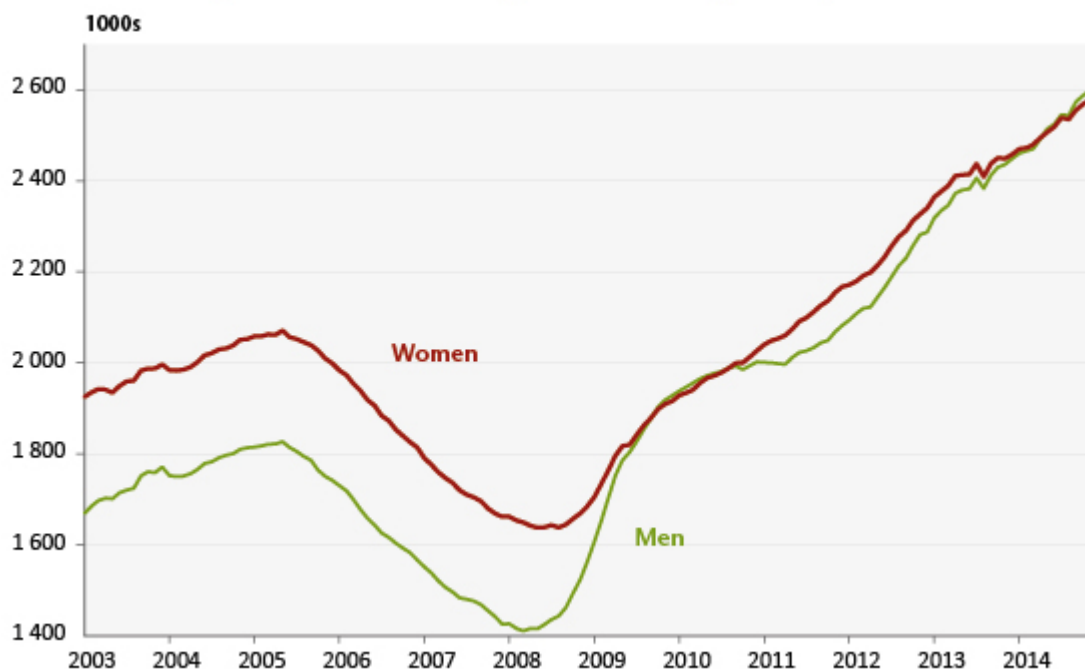
Despite this, job searches by those on low hours [\[2\]](#), that is to say, people who have a part-time job but are registered at the job centre because they want to work more, are mostly by women (55.4%); this proportion has not changed much from before the crisis. Women are also over-represented in category B, short-term low-hours jobs. The increase in job applications

from those on low hours was slower and less uneven than those in category A. It was also less differentiated by gender.

Overall, if we take into account demands for jobs from categories A, B and C, there have been slightly more men jobseekers than women since summer 2014 (50.2% in December 2014). This is a new feature of the labour market (Figure 1).

This characteristic holds true for those who are under age 25 and age 25 to 49. In contrast, more women over the age of 50 are unemployed than men, due to the high level of job applications from those working low hours.

Figure 1. Demands for jobs from Categories A, B and C



Source: DARES.

The impact of the lack of gender diversity of professions and employment sectors

These trends are due to changes in employment. Women are concentrated in the service sector, and men more in industry and construction. But the greatest job losses have occurred in industry and construction. The services, which are traditionally less cyclical, have seen fewer job losses, and even some job creation in a few years (from 2010 to 2012 and then in 2014) if interim work is reassigned to the user

sectors. This job creation has been on a small scale, but women's employment has suffered less from the crisis, or at least in a different way. It fell in 2009, then increased slightly, and then stabilized. This is of course a break in the trends for growth rates in the 1980s, 1990s and 2000s, but there is a clear difference with men's employment, which fell significantly in 2009 and again in 2012 and 2013. The 1980s and 1990s were already not favourable years for men's employment.

Single-sex trades result from the gender-biased school experience and job training, and reinforce this in return. This explains why there are such great differences in job opportunities between sectors. Service jobs, particularly personal services, are the preserve of women: their supposedly "innate" skills lead them to do in the commercial sphere what they are already doing in the family sphere: upbringing, educating, caring for others, cleaning, etc.

Inequalities in career guidance thus have a "positive" counterpart in employment, at least if we confine ourselves to the volume of jobs. But the poor quality of certain jobs and their under-valuation also stems from this.

A trend in employment rates favouring women

The participation and employment rates can be linked with the unemployment rate (according to the ILO [\[31\]](#)) in order to clarify both the differences between women and men and the profound differences by age group.

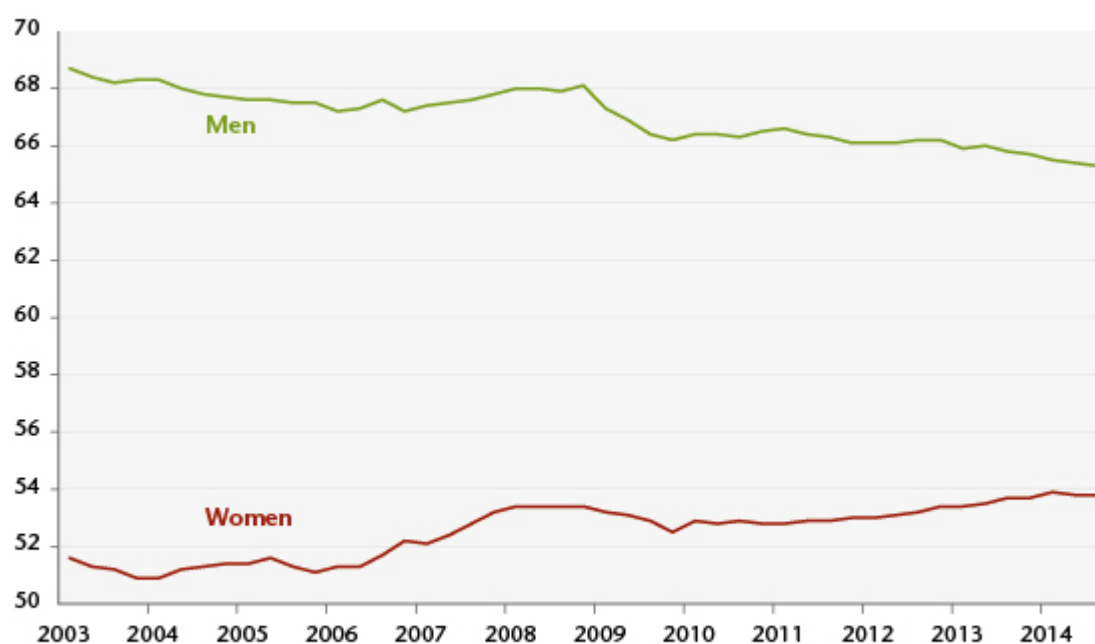
Taking all ages combined, women have increased their labour force participation rates over the period 2008-2014 (2.3 points). Their employment rate fell between 2008 and 2010 and then recovered to exceed its pre-crisis level. The unemployment rate thus rose sharply in the initial period of the crisis, then stabilized before rising again since early 2012, with the increase in the employment rate remaining lower

than in the participation rate. The full-time employment rate at first declined and then stabilized, while the rate of part-time employment rose slightly. The share of part-time employment is up from early 2008, but only by 1 point.

With respect to men, the participation rate increased very slightly (+0.6 point) while the employment rate decreased significantly (-2.1 points), resulting in the greater increase in unemployment. The decline in men's employment rate is associated essentially with full-time employment. As the level of part-time employment is still very low, its increase has had little impact on the overall picture. The share of part-time employment for men did, however, rise from 5.5% in spring 2008 to 8% in the third quarter of 2014.

The employment rate in full-time equivalents is therefore diverging: the rate for men fell over the period, while women's rate, following a decline at the start of the crisis, has been picking up at a moderate but steady pace since 2011 (Figure 2).

Figure 2. Employment rate in full-time equivalents



The employment rate in full-time equivalents is the ratio of the labour force (in jobs in full-time equivalents) to the total population.

Source: INSEE, job surveys, over age 15.

The “halo” around unemployment [\[4\]](#) has grown, particularly among men (+37.4% compared with +8.8%), but women are still over-represented in it (56.9% of the total at end 2014).

However, these averages reflect trends that differ greatly by age group. The stabilization of the male participation rate is the result of a decline for both young people and those aged 25-49 together with a rise for those over age 50. But the rise in the employment rate of older workers has not been sufficient to offset the decline in other categories. For women, only the participation rate for those aged 15-24 has been declining, and the higher employment rates of those over 50 has offset the decline in the rates for both young people and, more moderately, for those age 25-49.

Older employees have been especially affected

The labour force participation, employment and unemployment of older workers are atypical because this age group's position has been weakened by the impact of the later retirement age. The trends in unemployment rates have been similar for both genders, including in terms of volume. The participation rate has risen steeply since 2009: for men, this follows a long period of decline until 1995, then a rise due to the 1993 pension reform, followed by a renewed decline (moderate) between 2003 and 2008. The rise since 2009 petered out in 2013 and 2014 (due to the end-of-work measures affecting workers age 60 with lengthy careers, which in practice mainly affected men). For women, the increase has been continuous since 1990: after plateauing between 2005 and 2008, the rise picked up pace, without the tapering-off seen at the end of this period for men. The steadier increase for women reflected the rise of the participation rates of the younger generation in previous decades. The employment rates have not risen as steeply as the participation rates, as unemployment has increased for both sexes. The difficulty of finding a job has also pushed up part-time employment rates, especially for women. The share of part-time employment reached 10.2% for men at the end of the

period (still significantly below women's rate: 33.4%).

The unemployment rate of 25-49 year-olds increased for both sexes, especially for men, leading to a convergence in rates since end 2012. However, men's activity rate declined slightly since the beginning of the crisis, in contrast to women's rate, which on average stabilized over the period. The fall in employment rates was very marked for men (-5.2 points), and less so for women (-1.7). This was also the case for full-time employment rates. The share of part-time employment has been increasing a little for men, but is still very low (just over 5%), while it has stabilized for women. The employment rates in full-time equivalents have changed very differently: the rate has fallen steeply for men, but only a little for women. The deterioration in the volume of employment is thus hitting men in particular. But the levels are still very different.

Young women do not benefit as much from their education

The unemployment rates for men and women under age 25 converged in the early 2000s, in contrast to other age groups. Since then, they have tended to evolve similarly. The level of the labour force participation rates differs significantly, with women's rate still about 7 percentage points below that of men. The participation rates have declined in tandem since the crisis began, as have employment rates. Young people who are unable to find jobs are prolonging their education.

It is the rate of full-time employment that has declined the most, especially for young men. The part-time employment rate failed to offset this decline: it remained stable for men, except since the end of 2012, when it rose slightly, while it decreased for women (but only moderately).

It is striking to see the large difference in the respective levels of part-time employment even at this age (about 4 points). But the cause is not parental duties! The reason needs to be sought instead in the nature of the jobs

associated with different professions and industrial sectors. Part-time work as a share of all employment came to nearly 35% for women at year-end, against 17% for men. This, however, is up sharply over the last six quarters. It is too early to say that this represents a rupture with previous trends, with the crisis leading young men to take jobs that they previously refused, or that they are shifting more towards service sector work that hasn't been hit as hard.

The level of training is to the advantage of women. Yet it is clear, first, that a diploma offers protection against unemployment and the crisis (the highest unemployment rates are among those with few or no qualifications), and second, that girls do better in school and on average graduate more frequently. How then is it possible to explain that the unemployment rate is equivalent for men and women? An INSEE study on career starts was conducted in 2010 over the period 1984 to 2008 [\[5\]](#). It showed that in the early 1980s significantly more women were unemployed relative to men during the initial five years of working life, but that the gap has narrowed, with the unemployment rates converging in 2002. In 2007 and 2008, the female unemployment rate had fallen even lower than that of men at career start, thanks to the rise in their educational level. For the same level of training, young men usually fare better on the labour market: young women still tend to have higher unemployment rates and lower salaries because of the educational specialties they have chosen. The INSEE estimated that for identical degrees, specialties and job lengths, women's risk of unemployment was 7% higher than for men during their initial years of work.

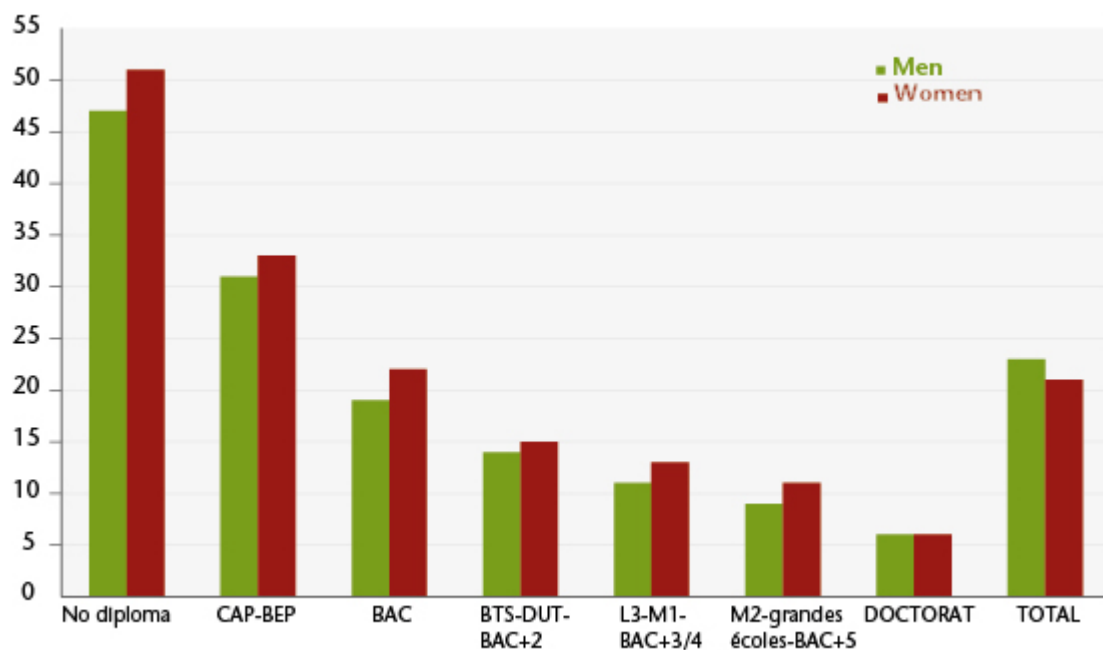
What about since the crisis? The CEREQ conducts work surveys on the future of young people leaving the education system. The last of these "Generation surveys" was conducted in 2013 on the 2010 generation [\[6\]](#). It shows a worsening situation due to the crisis and very sharp differences by degree level. In 2013, three years after leaving school, 22% of young people

were still hunting for work. This is the highest level ever seen in the CEREQ surveys. The increase over the 2004 generation was 16 points for young people without degrees and 3 points for long-term higher education graduates.

Better-educated women are standing up to the crisis better. For the 2010 generation (contrary to the 2004 generation), the employment rate for men decreased so as to match women's rate, and the unemployment rate for women is lower than that for men. Young men are more exposed to long-term unemployment. Women's relative advantage is due to their higher level of schooling, which has risen more than that for men.

But there are persistent inequalities in the labour market, to the disadvantage of women: for comparable schooling at any level (from non-graduates to high school diploma +5 years, except the PhD level), the unemployment rate for women is higher than for men (Figure 3). Thus, women's lower level of unemployment is due only to their higher level of education, which does not have a full impact.

Figure 3. Unemployment rate at 3 years for the 2010 generation



Source: CEREQ.

A reconfiguration of inequality

The inequalities between women and men are shifting, but persistent. Unemployment has increased less among women during the crisis than among men. This is due, first, to the sectoral distribution of their jobs (especially in the service sector) and to single-sex trades. Second, raising the average level of education has enabled women to withstand the crisis better, but the magnitude of this effect is lower than it should be. It is therefore not enough to wait for time to do its work: even among the young generations, there is still discrimination in hiring and in the initial years of working life. Unless, of course, we await a time (hypothetical and hardly desirable) when generations of highly skilled women will exist side by side with generations of unskilled men, and labour market inequalities finally diminish...

Job quality is also a real challenge: part-time work is spreading among men, especially the older and younger age groups, but it is still particularly widespread among women, who continue to assume most parental duties. But part-time work is also more common among women under age 25 who are not yet in this situation.

Service jobs, particularly personal services, offer opportunities for the less skilled, but often part-time. Do we really want women to more readily accept "poor" jobs?

What is taking place is, therefore, a reconfiguration: women are improving their educational level, and the increasing numbers of them with higher qualifications are becoming a stable part of the workforce. However, they benefit less from their training, not only in terms of their salary and career progression, but even when they first begin their working lives, including in terms of employment and unemployment. Less-qualified women are at a particular disadvantage and form the core of the "precarariat", which is growing. Deregulating the labour market tends to amplify inequalities by forcing those in a weaker position on the labour market to accept part-time work with reduced hours on a large scale. So it is

not enough to wait for inequalities to disappear or even diminish.

[1] Category A: Job seekers registered at the French Pôle emploi job centre who are unemployed and required to conduct a positive job search.

[2] Job seekers registered at the French Pôle emploi job centre who are required to conduct a positive job search and have worked fewer hours (78 hours or less during the month) for category B, or more hours but less than full time (more than 78 hours in the month) for category C.

[3] An unemployed person within the meaning of the International Labour Office (ILO) is a person of working age (15 or older) who has not worked, even for one hour, during the given week, is available for work within two weeks, and has begun an active job search in the previous month (or found a job that starts within three months). The unemployment rate is the ratio between the number of unemployed and the number of people in employment (employed or unemployed).

[4] The halo around unemployment includes people who do not have jobs and want to work but who are not considered unemployed by ILO standards as they are not available to work within two weeks and / or are not seeking work.

[5] “Femmes et hommes en début de carrière. Les femmes commencent à tirer profit de leur réussite scolaire” [Women and men at the start of the career. Women are beginning to benefit from their success at school], Alice Mainguené and Daniel Martinelli, *Insee Première*, no. 1284, February 2010, http://www.insee.fr/fr/themes/document.asp?ref_id=ip1284.

[6] “Face à la crise, le fossé se creuse entre niveaux de diplôme” [In the face of the crisis, the gap is increasing between diploma levels], Christophe Barret, Florence Ryk,

Noémie Volle, *Bref CEREQ* no. 319, March 2014, <http://www.cereq.fr/index.php/publications/Bref/Enquete-2013-a-upres-de-la-Generation-2010-Face-a-la-crise-le-fosse-se-creuse-entre-niveaux-de-diplome>.

Should Germany's surpluses be punished?

By [Henri Sterdyniak](#)

On the procedure for macroeconomic imbalances

Since 2012, every year the European Commission analyses the macroeconomic imbalances in Europe: in November, an alert mechanism sets out any imbalances, country by country. Countries with imbalances are then subjected to an in-depth review, leading to recommendations by the European Council based on Commission proposals. With respect to the euro zone countries, if the imbalances are considered excessive, the Member state is subject to a macroeconomic imbalance procedure (MIP) and must submit a plan for corrective action, which must be approved by the Council.

The alert mechanism is based on a scoreboard with five indicators of external imbalances [\[1\]](#) (current account balance, net international investment position, change in the real effective exchange rate, change in export market shares, change in nominal unit labour costs) and six indicators of internal imbalances (unemployment rate, change in housing prices, public debt, private debt, change in financial sector liabilities, credit flows to the private sector). An alert is

issued when an indicator exceeds a certain threshold, e.g. 60% of GDP for public debt, 10% for the unemployment rate, -4% (+6% respectively) for a current account deficit (respectively surplus).

On the one hand, this process draws lessons from the rise in imbalances recorded before the crisis. At the time of the Maastricht Treaty, the negotiators were convinced that economic imbalances could only come from the way the State behaved; it therefore sufficed to set limits on government deficits and debt. However, between 1999 and 2007, the euro zone saw a steep rise in imbalances due mainly to private behaviour: financial exuberance, securities and property bubbles, swollen foreign deficits in southern Europe, and a frantic search for competitiveness in Germany. These imbalances became intolerable after the financial crisis, requiring painful adjustments. The MIP is thus designed to prevent such mistakes from happening again.

On the other hand, the analysis and the recommendations are made on a purely national basis. The Commission does not propose a European strategy that would enable the countries to move towards full employment while reabsorbing intra-zone imbalances. It does not take into account inter-country interactions when it demands that each country improve its competitiveness while cutting its deficit. The Commission's recommendations are a bit like the buzzing of a gadfly when it proclaims that Spain should reduce its unemployment, France should improve its competitiveness, etc. Its proposals are based on a myth: it is possible to implement policies on public deficit and debt reduction, on wage austerity and on private debt reduction, while offsetting their depressive impact on growth and employment through structural reforms, which are the *deus ex machina* of the fable. This year there is also, fortunately, the European Fund for strategic investments (the 315 billion euros of the Juncker plan), meaning that the Commission can claim to be giving "a coordinated boost to

investment”, but this plan represents at most only 0.6% of GDP over 3 years; its actual magnitude is thus problematic.

For 2015, all the countries in the European Union have at least one imbalance according to the scoreboard [2] ([see here](#)). France has lost too much of its export market share and has an excessive public debt and private debt. Germany, too, has lost too much of its export market share, its public debt is excessive and above all its current account surplus is too high. Of the 19 countries in the euro zone, seven, however, have been absolved by the Commission and 12 are subject to an in-depth review, to be published in late February. Let’s take a closer look at the German case.

On Germany’s surplus

A single currency means that the economic situation and policies of each country can have consequences for its partners. A country that has excessive demand (due to its fiscal policy or to financial exuberance that leads to an excess of private credit) and is experiencing inflation (which can lead to a rise in the ECB’s interest rate), thereby widening the euro zone’s deficit (which may contribute to a fall in the euro), requires its partners to refinance it more or less automatically (in particular via TARGET2, the system of automatic transfers between the central banks of the euro zone); its debt can thus become a problem.

This leads to two observations:

1. Larger countries can have a more harmful impact on the zone as a whole, but they are also better able to withstand the pressures of the Commission and its partners.
2. The harm has to be real. Thus, a country that has a large public deficit will not harm its partners, on the contrary, if the deficit makes up for a shortfall in its private demand.

Imagine that a euro zone country (say, Germany) set out to

boost its competitiveness by freezing its wages or ensuring that they rise much more slowly than labour productivity; it would gain market share, enabling it to boost its growth through its trade balance while reining in domestic demand, to the detriment of its euro zone partners. The partners would see their competitiveness deteriorate, their external deficits widen, and their GDP shrink. They would then have to choose between two strategies: either to imitate Germany, which would plunge Europe into a depression through a lack of demand; or to prop up demand, which would lead to a large external deficit. The more a country manages to hold down its wages, the more it would seem to be a winner. Thus, a country running a surplus could brag about its good economic performance in terms of employment and its public account and trade balances. As it is lending to other member countries, it is in a strong position to impose its choices on Europe. A country that is building up deficits would sooner or later come up against the mistrust of the financial markets, which would impose high interest rates on it; its partners may refuse to lend to it. But there is nothing stopping a country that is accumulating surpluses. With a single currency, it doesn't have to worry about its currency appreciating; this corrective mechanism is blocked.

Germany can therefore play a dominant role in Europe without having an economic policy that befits this role. The United States played a hegemonic role at the global level while running a large current account deficit that made up for the deficits of the oil-exporting countries and the fast-growing Asian countries, in particular China; it balanced global growth by acting as a "consumer of last resort". Germany is doing the opposite, which is destabilizing the euro zone. It has automatically become the "lender of last resort". The fact is that Germany's build-up of a surplus must also be translated into the build-up of debt; it is therefore unsustainable.

Worse, Germany wants to continue to run a surplus while demanding that the Southern European countries repay their debts. This is a logical impossibility. The countries of Southern Europe cannot repay their debts unless they run a surplus, unless Germany agrees to be repaid by running a deficit, which it is currently refusing to do. This is why it is legitimate for Germany to be subject to an MIP – an MIP that must be binding.

The current situation

In 2014, Germany's current account surplus represented 7.7% of GDP (or 295 billion euros, Table 1); for the Netherlands the figure was 8.5% of GDP. These countries represent an exception by continuing to run a strong external surplus, while most countries have come much closer to equilibrium compared with the situation in 2007. This is in particular the case of China and Japan. Germany now has the highest current account surplus of any country in the world. Its surplus would be even 1.5 GDP points higher if the euro zone countries (particularly those in Southern Europe) were closer to their potential output. Thanks to Germany and the Netherlands, the euro zone, though facing depression and high unemployment, has run a surplus of 373 billion dollars compared with a deficit of 438 billion for the United States: logically, Europe should be seeking to boost growth not by a depreciation of the euro against the dollar, which would further widen the disparity in trade balances between the euro zone and the United States, but by a strong recovery in domestic demand. If Germany owes its surplus to its competitiveness policy, it is also benefitting from the existence of the single currency, which is allowing it to avoid a surge in its currency or a depreciation in the currency of its European partners. The counterpart of this situation is that Germany has to pay its European partners so that they remain in the euro.

Table 1. Current account balance as % of GDP

	2007	2014
Netherlands	6,7	8,5
Germany	7,5	7,7
Austria	3,5	2,5
Italy	-2,4	1,8
Belgium	1,9	-0,1
Spain	-10,0	-0,1
Portugal	-10,1	-0,2
Finland	4,1	-1,4
France	-1,0	-1,8
Greece	-14,6	-2,0
Euro zone	0,2	2,8
United Kingdom	-2,2	-4,1
Denmark	1,4	6,5
Sweden	9,3	5,9
United States	-5,0	-2,2
Japan	4,9	0,1
China	10,7	3,3

Source : European economy.

There are three possible viewpoints. For optimists, Germany's surplus is not a problem; as the country's population ages, Germans are planning for retirement by accumulating foreign assets, which will be used to fund their retirements. The Germans prefer investing abroad rather than in Germany, which they feel is less profitable. These investments have fuelled international financial speculation (many German financial institutions suffered significant losses during the financial crisis due to adventurous investments on the US markets or the Spanish property market); now they are fuelling European debt. Thus, through the TARGET2 system, Germany's banks have indirectly lent 515 billion euros to other European banks at a virtually zero interest rate. Out of its 300 billion surplus, Germany spends a net balance of only 30 billion on direct investment. Germany needs a more coherent policy, using its

current account surpluses to make productive investments in Germany, Europe and worldwide.

Another optimistic view is that the German surplus will decline automatically. The ensuing fall in unemployment would create tensions on the labour market, leading to wage increases that would also be encouraged by the establishment of the minimum wage in January 2015. It is true that in recent years, German growth has been driven more by domestic demand and less by the external balance than prior to the crisis (Table 2): in 2014, GDP grew by 1.2% in Germany (against 0.7% in France and 0.8% for the euro zone), but this pace is insufficient for a solid recovery. The introduction of the minimum wage, despite its limitations (see [A minimum wage in Germany: a small step for Europe, a big one for Germany](#)), will lead to a 3% increase in payroll in Germany and for some sectors will reduce the competitiveness gains associated with the use of workers from Eastern Europe. Even so, by 2007 (relative to 1997), Germany had gained 16.3% in competitiveness compared to France (26.1% compared to Spain, Table 3); in 2014, the gain was still 13.5% relative to France (14.7% relative to Spain). A rebalancing is taking place very slowly. And in the medium term, for demographic reasons, the need for growth in Germany is about 0.9 points lower than the need in France.

Table 2. Contributions to GDP by domestic demand and the external balance

	GDP		Domestic demand		External balance	
	1998-2007	2007-2014	1998-2007	2007-2014	1998-2007	2007-2014
Germany	1,60	0,70	0,85	0,70	0,75	0,00
France	2,25	0,30	2,60	0,35	-0,35	-0,05
Spain	3,85	-0,70	4,60	-2,10	-0,75	1,40
Italy	1,50	-1,30	1,65	-2,80	-0,15	1,50
Euro zone	2,30	-0,10	2,20	-0,55	0,10	0,45

Table 3. Indicator of relative unit labour costs

Base 100 = 1997

	2007	2013
Euro zone	99,0	105,2
Germany	86,2	90,4
Austria	94,2	98,1
Finland	98,9	109,3
France	103,0	104,5
Belgium	103,2	107,8
Italy	107,9	111,9
Portugal	110,3	101,8
Netherlands	108,2	111,9
Greece	110,5	98,3
Spain	116,6	106,0
Ireland	124,1	106,1
<hr/>		
<i>Outside euro zone</i>		
United Kingdom	122,2	104,1
Sweden	92,4	98,6

Source : European economy.

Furthermore, a more pessimistic view argues that Germany should be subject to a macroeconomic imbalance procedure to get it to carry out a macroeconomic policy that is more favourable to its partners. The German people should benefit more from its excellent productivity. Four points need to be emphasised:

1. In 2014, Germany recorded a public surplus of 0.6 percent of GDP, which corresponds, according to the Commission's estimates, to a structural surplus of about 1 GDP point, *i.e.* 1.5 points more than the target set by the Fiscal Compact. At the same time, spending on public investment was only 2.2 GDP points (against 2.8 points in the euro zone and 3.9 points in France). The country's public infrastructure is in poor condition. Germany should increase its investment by 1.5 to 2 additional GDP points.

2. Germany has undertaken a programme to reduce public pensions, which has encouraged households to increase their retirement savings. The poverty rate has increased significantly in recent years, reaching 16.1% in 2014 (against 13.7% in France). A programme to revive social protection and improve the prospects for retirement [\[3\]](#) would boost consumption and reduce the savings rate.

3. Germany should restore a growth rate for wages that is in line with growth in labour productivity, and even consider some catch-up. This is not easy to implement in a country where wage developments depend mainly on decentralized collective bargaining. This cannot be based solely on raising the minimum wage, which would distort the wage structure too much.

4. Finally, Germany needs to review its investment policy [\[4\]](#): Germany should invest in Germany (public and private investment); it should invest in direct productive investment in Europe and significantly reduce its financial investments. This will automatically reduce its unproductive investments that go through TARGET2.

Germany currently has a relatively low rate of investment (19.7% of GDP against 22.1% for France) and a high private sector savings rate (23.4% against 19.5% for France). This should be corrected by raising wages and lowering the savings rate.

As Germany is relatively close to full employment, a significant part of its recovery will benefit its European partners, but this is necessary to rebalance Europe. Any policy suggested by the MIP should require a change in Germany's economic strategy, which it considers to be a success. But European integration requires that each country considers its choice of economic policy and the direction of its growth model while taking into account European interdependencies, with the aim of contributing to balanced

growth for the euro zone as a whole. An approach like this would not only benefit the rest of Europe, it would also be beneficial to Germany, which could then choose to reduce inequality and promote consumption and future growth through a programme of investment.

[1] For more detail, see [European Commission \(2012\) : "Scoreboard for the surveillance of macroeconomic imbalances", *European Economy Occasional Papers* 92.](#)

[2] This partly reflects the fact that some of these indicators are not relevant: almost all European countries are losing market share at the global level; changes in the real effective exchange rate depend on trends in the euro, which the countries do not control; the public and private debt thresholds were set at very low levels; etc.

[3] The ruling coalition has already raised the pensions of mothers and allowed retirement at age 63 for people with lengthy careers, but this is timid compared with previous reforms.

[4] The lack of public and private investment in Germany has been denounced in particular by the economists of the DIW, see for example: "Germany must invest more for future", *DIW Economic Bulletin* 8.2013 and *Die Deutschland Illusion*, Marcel Fratzscher, October 2014.

Poverty and social exclusion in Europe: where are things at?

By [Sandrine Levasseur](#)

In March 2010, the EU set itself the target [for the year 2020](#) of reducing the number of people living below the poverty line or in social exclusion by 20 million compared with 2008, *i.e.* a target of 97.5 million “poor” people in 2020. Unfortunately, due to the crisis, this goal will not be reached. The latest available figures show that in 2013 the EU had 122.6 million people living in poverty or social exclusion. Surprisingly, the EU’s inability to meet the target set by the Europe 2020 initiative is due mainly to the EU-15 countries, the so-called “advanced” countries in terms of their economic development [\[1\]](#). Indeed, if the trends observed over the last ten years continue, the Central and East European countries (CEEC) will continue to experience a decline in the number of people living below the poverty line or in social exclusion. How is it that the countries of the EU-15 are performing so poorly in the fight against poverty and social exclusion? It is important to keep in mind that the East and Central European countries also perform better when we consider other indicators of income inequality within a country (*e.g.* the Gini coefficient, the ratio of the income of the 20% richest over that of the 20% poorest). The EU-15’s performance is troubling not only with regard to relative poverty and social exclusion, but also in terms of all the statistics concerning living conditions and income inequality.

Risk of poverty and social exclusion: what exactly are we talking about?

In order to reduce poverty and social exclusion, the Europe

2020 initiative focuses on three types of groups: people at risk of poverty, people facing severe material deprivation, and people with a low work intensity[2]. A person belonging to several different groups is counted only once.

According to Europe 2020, people are at risk of poverty when their disposable income falls below 60% of the median income observed at the national level, the median income being the level of income at which half the country's population has a higher income and half a lower one. Since the median income threshold is calculated nationally, this means for example that a Romanian individual at the threshold of the median income has an income well below that of a French person earning the median income: the Romanian median income is in fact one-fifth the French median income in terms of purchasing power parity, that is to say, when we take into account the price differences between the countries[3]. The indicator of the poverty risk used by Europe 2020 is thus a measure of income inequality between individuals *within a country*, not between countries.

Note that disposable income is considered in adult equivalents, *i.e.* incomes were first recorded at the household level and then weights were assigned to each member (1 for the first adult; 0.5 for the second and each person over age 14; and 0.3 for children under age 14). Also note that the disposable incomes in question here are *after* social transfers, *i.e.* after taking account of allowances, benefits and pensions – that is, they are after any action by the country's social system. In addition, the level used to define the threshold for the risk of poverty (*i.e.* 60% of median income) aims to take into account situations other than extreme poverty: the goal is also to take account of people who are having difficulty meeting their basic needs. For example, the poverty threshold of 60% of median income in France was 12,569 euros per year in 2013 (or 1047 euros a month). The concept of material deprivation is used to refine

the definition of unmet basic needs.

People experiencing severe material deprivation are those whose lives are constrained by a lack of resources and who face at least four out of the following nine material deprivations: an inability 1) to pay the rent or utility bills (water, gas, electricity, telephone); 2) to heat the dwelling adequately; 3) to meet unexpected expenses; 4) to eat a daily portion of protein (meat, fish or equivalent); 5) to afford a week's holiday away from home; 6) to own a car; 7) to have a washing machine; 8) to have a color TV; or 9) to have a telephone.

People living in a household with a low work intensity are those aged 0 to 59 who live in a home where the adults (aged 18 to 59) worked less than 20% of their potential capacity in the last year.

According to the latest available statistics (Table 1), 122.6 million people in the EU-28 belonged to at least one of these three groups in 2013, *i.e.* nearly one person out of every four (slightly more than 24%).

Table 1. People living below the poverty line or in social exclusion

In 1000s of people and % of the country's total population

	2005 (or 2007*)	2009	2011	2013	Change in the number of poor or socially excluded between 2005 (or 2007*) and 2013	Share in the 2013 population (%)
Belgium	2 338	2 145	2 271	2 286	-52	20,4
Denmark	921	962	1 039	1 059	138	18,8
Germany	15 022	16 217	16 074	16 212	1 190	20,1
Ireland	1 038	1 150	1 319	1 040	2	22,6
Greece	3 131	3 007	3 403	3 904	773	35,5
Spain	10 481	11 232	12 791	12 630	2 149	27,2
France	11 127	11 200	11 840	11 229	102	17,1
Italy	14 621	14 835	17 112	17 326	2 705	28,5
Luxembourg	77	85	84	96	19	17,5
Netherlands	2 705	2 483	2 598	2 648	-57	15,7
Austria	1 416	1 577	1 593	1 572	156	18,5
Portugal	2 745	2 648	2 601	2 877	132	27,6
Finland	887	886	949	854	-33	15,7
Sweden	1 325	1 459	1 538	1 602	277	16,6
United Kingdom	14 530	13 389	14 044	15 586	1 056	24,2
EU-15	82 364	83 275	89 256	90 921	8 557	22,6
Czech Republic	1 988	1 448	1 598	1 508	-480	14,3
Estonia	347	312	307	313	-34	23,8
Latvia	1 027	808	821	702	-325	35,1
Lithuania	1 400	943	1 011	917	-483	31,2
Hungary	3 185	2 924	3 051	3 285	100	33,3
Poland	17 080	10 454	10 196	9 748	-7 332	25,3
Slovenia	362	339	386	410	48	19,9
Slovakia	1 724	1 061	1 112	1 070	-654	19,8
CEEC-8	27 113	18 289	18 482	17 953	-9 160	24,7
Bulgaria*	4 663	3 511	3 693	3 493	-1 170	48,2
Romania*	9 904	9 112	8 630	8 601	-1 303	43,1
CEEC-10	—	30 912	30 805	30 047	-11 633	30,1
Croatia	—	—	1 384	1 271	—	29,9
Cyprus	188	188	207	240	52	28,0
Malta	81	82	90	99	18	23,3
EU-28	—	—	121 742	122 578	≈ -3 000	24,2

Source: Eurostat, author's calculations.

Contrasting developments between the EU-15 and the CEE countries with regard to poverty and social exclusion

While a little over 30% of the CEE population lives in poverty or social exclusion (versus 22.6% in the EU-15), what is striking is that the number of poor and socially excluded has been decreasing in the CEE countries over the last 10 years while it has been increasing in the EU-15, especially since the onset of the crisis (Table 1).

Over the past decade, the number of people living in poverty or social exclusion fell in almost all the CEE countries (with the exception of Hungary and Slovenia) and rose in almost all the EU-15 countries (with the exception of Belgium, the Netherlands and Finland). During these 10 years, the CEE countries experienced a decline of 11.5 million in the ranks of the poor and socially excluded, while the EU-15 recorded an increase of 8.5 million, *i.e.* an 85% rise since 2009. The crisis has clearly hit the EU-15 hard in terms of poverty and social exclusion. The CEE countries have, all things considered, proved fairly resilient: a number of them are even continuing to see a decrease in the number of poor and socially excluded.

What's behind these contrasting trends in poverty and social exclusion?

The main factor explaining the contrasting trends in poverty between the EU-15 and the CEE countries is that the economic situation has generally developed more favourably in East Europe than in West Europe, including during the crisis period.

Indeed, the average GDP growth rate over the last ten years (2004 to 2013) was 3.2% in the CEEC, compared with 0.8% in the EU-15. The CEE countries, though hit by the crisis, nevertheless recorded average annual growth of 0.7% in 2009-2013 (against 0.1% in the EU-15). Likewise, the unemployment and employment rates during the crisis reflected a more favourable situation on the CEE labour markets than on the EU-15 markets (Table 2).

Table 2. Employment and unemployment rates in the EU-15 and in the CEE countries

In %

	Annual average			Change in percentage points between the pre-crisis and crisis periods
	2004-2013	2004-2008	2009-2013	
Employment rate				
EU-15	70,4	71	69,9	-1,1
CEEC-10	64,9	64,2	65,5	1,3
CEEC-8	65,0	64,2	65,8	1,6
Unemployment rate				
EU-15	8,8	7,7	10,0	2,3
CEEC-10	9,6	9,8	9,5	-0,4
CEEC-8	10,4	10,8	10,1	-0,8

Source: Eurostat, author's calculations.

The risk of poverty prior to social transfers continued to fall in the CEE countries, while from 2009 it rose in the EU-15 (Table 3). Consequently, the share of people in the CEE countries living below the poverty line (out of each country's total population) *before transfers* has fallen below the level observed in the EU-15. The crisis has thus had a direct differentiated effect (*i.e.* before redistribution) on income inequality within countries: in Europe's East, income inequality has fallen, while in the West it has risen.

The workings of the social security systems in the EU-15 countries have, however, resulted in reversing (or mitigating) the differences in *post-transfer* poverty rates (Table 3). In 2013, the post-transfer poverty rate was 16.5% in the EU-15, compared with 17.2% in the CEE countries (15.4% excluding Bulgaria and Romania). The Gini coefficient, which is a more common measure of within-country income inequality, also confirms that income inequality is now higher in the EU-15 than in the CEEC[4].

Note that during the crisis the intensity of the redistribution (in % points or rates) was higher in the EU-15 than in the CEEC. However, over time the redistribution rate fell in both the East and the West, starting in 2009. Prior to the crisis, the social security systems in the EU-15 resulted

in a 37.3% reduction in the number of people living in poverty and social exclusion; during the crisis, the rate fell to 36.8%. In the CEE countries, the fall in the redistribution rate was even greater, on the order of 3.7 percentage points. By way of illustration, if the redistribution rate for the pre-crisis period had been maintained during the crisis period, an additional 1.4 million people would have avoided the risk of poverty during the crisis (0.5 million in the EU-15 and 0.9 million in the CEEC).

Table 3. Percentage of people at risk of poverty* and redistribution through social transfers

In %

	Annual average			Change in percentage points between the pre-crisis and crisis periods
	2004-2013	2004-2008	2009-2013	
% of people at risk of poverty**				
Pre-transfer (A):				
CEEC-8	24,6	26,1	23,4	-2,7
CEEC-10	25,7	27,0	24,7	-2,3
EU-15	25,8	25,5	26,1	0,6
Post-transfer (B):				
CEEC-8	15,7	16,0	15,4	-0,6
CEEC-10	17,5	17,8	17,2	-0,6
EU-15	16,3	16,0	16,5	0,5
Redistribution				
In % points: (A)-(B)				
CEEC-8	8,9	10,1	8,0	-2,1
CEEC-10	8,2	9,2	7,5	-1,7
EU-15	9,5	9,5	9,6	0,1
Rate in % [(A)-(B)]/(A)				
CEEC-8	36,2	38,7	34,2	-4,5
CEEC-10	31,9	34,1	30,4	-3,7
EU-15	36,8	37,3	36,8	-0,5

* Due to the lack of available data "before" and "after" social transfers, people at risk of social exclusion are not taken into account here.

** Number of "poor" people in the country relative to the country's population.

Source: Eurostat, author's calculations.

This brings us to the second explanatory factor. Are the austerity programmes being implemented in many EU countries to comply with the Stability and Growth Pact and / or to satisfy the financial markets responsible for the post-transfer increase in the number of people at risk of poverty that has taken place in the EU-15? And have these programmes acted to

hold back the decline in poverty rates observed in the CEE countries, which otherwise would have been even greater?

The empirical literature on this issue is clear-cut: it shows that income inequality within countries increases during periods of fiscal consolidation^[5] ([Agnello and Sousa, 2012](#); [Ball et al., 2013](#); [Mulas-Granados, 2003](#); [Woo et al., 2013](#)). Among the tools of fiscal consolidation (*i.e.* cuts in public spending, increases in tax revenues), it is the spending cuts in particular that increase income inequality ([Agnello and Sousa, 2012](#); [Ball et al., 2013](#); [Bastagli et al., 2012](#); [Woo et al., 2013](#)). Austerity programmes implemented after the onset of a banking crisis have a much greater negative effect on income inequality than programmes implemented when not in a banking crisis ([Agnello and Sousa, 2012](#)). Furthermore, small consolidations (*i.e.* involving a cut in the public deficit of less than 1 GDP point) have a bigger negative effect on inequality than large fiscal consolidations ([Agnello and Sousa, 2012](#)).

If the results of this (still sparse) literature are accepted, the timing of the fiscal consolidation implemented in recent years has not been ideal: the programmes have been introduced too early with respect to the occurrence of the crisis. Nor have they been optimal in size: they are insufficient to cut the deficit substantially but very costly in terms of increasing income inequality between individuals. While it is difficult to form a firm and final opinion on the link between fiscal consolidation and income inequality (and poverty) based on the sparse literature, the afore-mentioned studies do have a value: they raise questions about the potentially harmful impacts of the austerity policies that have been implemented in recent years.

^[1] The Europe 2020 initiative sets out poverty reduction and social exclusion targets [for each country](#). Here we are

basically interested in the different trends between the two areas: the EU-15 and the CEE countries.

[2] See the article by [Maître, Nolan and Whelan \(2014\) for a critical in-depth analysis](#) of the statistical criteria for poverty and social exclusion.

[3] In current euros, the difference in income would be even greater: in 2013, the French median income was 20,949 euros a year, and Romania's 2071 euros, so Romania's median income per year would thus be one-tenth, not one-fifth, of the French level.

[4] The difference (in favour of the CEE countries) is even more pronounced due to the exclusion of Bulgaria and Romania: the Gini coefficient after transfers is then 0.291 against 0.306 for the EU-15. The Gini coefficient can take a value between 0 and 1. As the coefficient approaches 1, an increasingly small share of the population has a larger and larger share of total income. Ultimately, when the coefficient reaches 1, a single individual has all the income.

[5] Because of the way the poverty line is calculated (*i.e.* 60% of median income), an increase in the share of people living below the poverty line definitely corresponds to an increase in income inequality between individuals.