Still no halt to the rise in unemployment

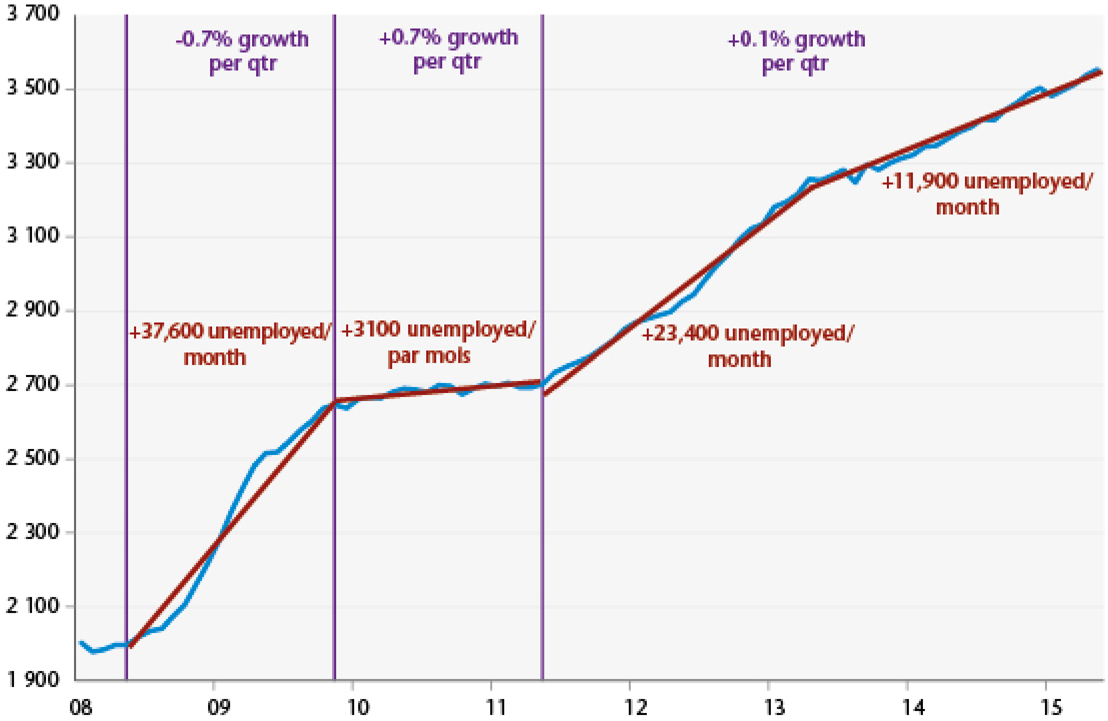
OFCE Analysis and Forecasting Department

The unemployment data for the month of May once again show a rise in the number of job seekers registering at the Pôle Emploi job centre in Class A, up 16,200. Although this is certainly fewer than in April (26,200), it still leaves no glimpse on the horizon of a reversal in the unemployment curve. This continuous increase in unemployment, despite some initial shoots of recovery, is not surprising. The renewed GDP growth in the first quarter (+0.6% according to the detailed accounts published by the INSEE Thursday morning) has yet to have an impact on employment, which has stagnated. For the moment, companies are taking advantage of the pick-up in activity to absorb [the excess labour they inherited from the crisis](#) (in English see the [post introducing this study](#)). Only once the recovery has proved to be sustainable will an increase in employment translate into a reduction in unemployment. The time it takes employment to adjust to economic activity, i.e. about three quarters, does not point towards a turnaround in the labour market in the short term.

The last period of growth in France just following the 2008-2009 recession was moreover too brief to lead to a decline in the number of job seekers. With average growth of 0.7% per quarter from Q4 2009 to Q1 2011, the number of unemployed stabilized at best (Figure 1).

Since Q2 2011, growth has fallen to a very low level (0.1% per quarter), and unemployment has started rising again. However, a shift occurred in early 2013, with the monthly increase halved on average thanks to a renewal of the social treatment of unemployment through the creation of about 100,000 subsidized jobs in non-market sectors, as well as through enriching the growth in employment due to the implementation of the CICE tax credit and the Responsibility Pact.

Figure 1. Number of Jobseekers recorded in Class A at Pole Emploi



Source : Pôle Emploi.

As growth gradually accelerates and the various measures to boost employment begin to kick in, a (slow) improvement will be seen in the second half of 2015.

The spectacular decline in exits from the Pôle Emploi agency

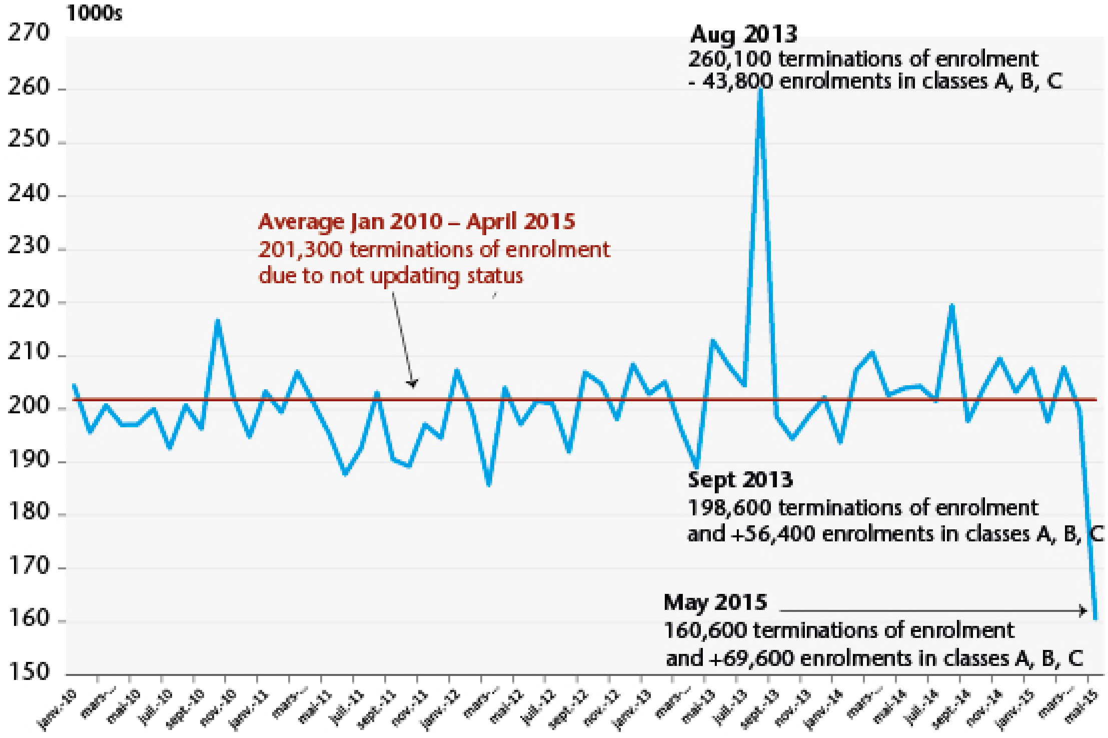
The 69,600 increase in the number of jobless registered with Pôle Emploi in Class A, B and C in the month of May, which is the worst figure recorded since the depths of the recession in April 2009, is surprising. The number of the unemployed broadly speaking, i.e. including unemployed people but also those working reduced hours, has been affected by unusual changes in the numbers of those exiting the job centre. About 43% of exits from the job centre are attributable to a termination of enrolment due to the non-renewal of the monthly job application for unspecified reasons, but which may be related for example to a resumption of activity, discouragement, temporary unavailability or even simply an oversight.

On average over the last five years, every month there were 200,000 terminations of enrolment due to this failure to renew. Some months, the grounds for termination can vary sharply, temporarily throwing off the unemployment statistics. For example, in August 2013, the “SFR bug” (Figure 2), i.e. a computer failure at the mobile phone operator, prevented many jobseekers from updating their status, which resulted in a sharp rise in the terminations of enrolment (+260,100). Due to the effect of a very high flow of exits from Pôle Emploi, the number of job seekers in Classes A, B and C fell by 43,800 in August 2013. The following month, as the number of terminations of enrolment returned to a level that was close to its long-term average, the unemployment figures logically rose sharply (+56,400 in September 2013), correcting for the effect of the artificial fall in the previous month.

In terms of the figures for May 2015, the phenomenon was the opposite of what happened during the SFR bug in August 2013. In fact, having noticed that the number of job seekers who updated their status following the normal reminder was significantly lower than usual, Pôle Emploi issued two additional reminders, which led to an unusually low level of terminations of enrolment (+160,600) compared with the historical trend (201,300). This mechanically increased the numbers in class A, B and C, at a rate that Pôle Emploi calculates at between 28,000 and 38,000.

But if next month the number of terminations of enrolment returns to a level close to its long-term average, this would wind up lowering the number of job seekers in class A, B and C without this reduction being the result of any change in the labour market. We must therefore insist on the need for caution in making any month-by-month interpretation of the unemployment data.

Figure 2. Terminations of enrolment at Pôle Emploi in classes A, B and C



Source : Pôle Emploi.

Greece: an agreement, again and again

By [Céline Antonin](), Raul Sampognaro, [Xavier Timbeau](), [Sébastien Villemot]()

… La même nuit que la nuit d'avant […The same night as the night before

Les mêmes endroits deux fois trop grands The same places, twice too big

T'avances comme dans des couloirs You walk through the corridors

Tu t'arranges pour éviter les miroirs You try to avoid the mirrors
Mais ça continue encore et encore … But it just goes on and on…]

Francis Cabrel, Encore et encore, 1985.

Just hours before an exceptional EU summit on Greece, an agreement could be signed that would lead to a deal on the second bail-out package for Greece, releasing the final tranche of 7.2 billion euros. Greece could then meet its deadlines in late June with the IMF (1.6 billion euros) as well as those in July and August with the ECB (6.6 billion euros) and again with the IMF (0.45 billion euros). At the end of August, Greece's debt to the IMF could rise by almost 1.5 billion euros, as the IMF is contributing 3.5 billion euros to the 7.2 billion euro tranche.

Greece has to repay a total of 8.6 billion euros by September, and nearly 12 billion by the end of the year, which means funding needs that exceed the 7.2 billion euros covered by the negotiations with the Brussels Group (i.e. the ex-Troika). To deal with this, the Hellenic Financial Stability Fund (HFSF) could be used, to the tune of about 10 billion euros, but it will no longer be available for recapitalizing the banks.

If an agreement is reached, it will almost certainly be difficult to stick to it. First, Greece will have to face the current bank run (despite the apparent calm in front of the bank branches, more than 6 billion euros were withdrawn last week according to the *Financial Times*). Moreover, even if an agreement can put off for a time the scenario of a Greek exit from the euro zone, the prospect of exceptional taxes or a tax reform could deter the return of funds to the country's banks. Furthermore, the agreement is likely to include a primary surplus of 1% of GDP by the end of 2015. But the information on the execution of the state budget up to May 2015 (published 18 June 2015) showed that revenue continues to be below the initial forecast (- 1 billion euros), reflecting the country's very poor economic situation since the start of 2015. It is true that the lower tax revenues were more than offset by lower spending (down almost 2 billion). But this is cash basis accounting. The monthly bulletin for April 2015, published on 8 June 2015, shows that the central government payment arrears have increased by 1.1 billion euros since the beginning of 2015. It seems impossible that, even with an excellent tourist season, the Greek government could make up this lag in six months and generate a primary surplus of 1.8 billion euros calculated on an accrual basis.

A new round of fiscal tightening would penalize activity that is already at half-mast, and it could be even more inefficient in that this would create strong incentives to underreport taxes in a context where access to liquidity will be particularly difficult. The Greek government could try to play with tax collection, but introducing a new austerity plan would be suicidal politically and economically. Discussion needs to get started on a third aid package, including in particular negotiations on the reduction of Greece's debt and with the counterparties to this relief.

Any agreement reached in the coming days risks being very fragile. Reviving some growth in Greece would require that financing for the economy is functioning once again, and that some confidence was restored. It would also require addressing Greece's problems in depth and finding an agreement that was sustainable over several years, with short-term steps that need to be adapted to the country's current situation. In our study, "Greece on the tightrope [in French, or the English-language post describing the study at http://www.ofce.sciences-po.fr/blog/greece-tightrope/]," we analysed the macroeconomic conditions for the sustainability of the Greek debt. More than ever before, Greece is on the tightrope. And the euro zone with it.

Investment behaviour during the crisis: a comparative analysis of the main advanced economies

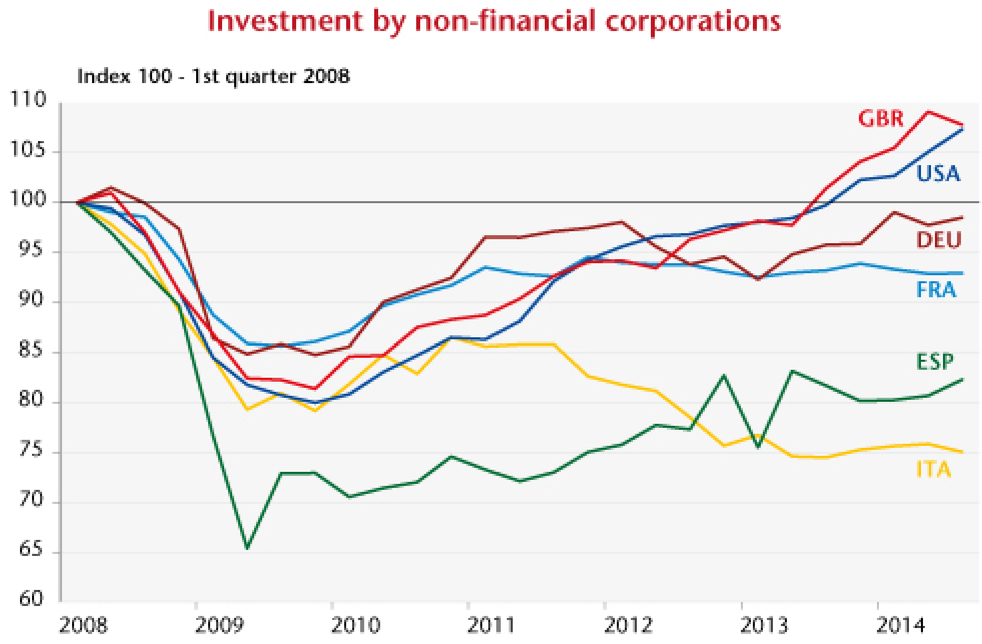
By Bruno Ducoudré, Mathieu Plane and Sébastien Villemot

This text draws on the special study, Équations d'investissement : une comparaison internationale dans la crise [Investment equations : an international comparison during the crisis], which accompanies the 2015-2016 Forecast for the euro zone and the rest of the world.

The collapse in growth following the subprime crisis in late 2008 resulted in a decline in corporate investment, the largest since World War II in the advanced economies. The stimulus packages and accommodative monetary policies implemented in 2009-2010 nevertheless managed to halt the collapse in demand, and corporate investment rebounded significantly in every country up to the end of 2011. But since 2011 investment has followed varied trajectories in the different countries, as can be seen in the differences between, on the one hand, the United States and the United Kingdom, and on the other the euro zone countries, Italy and Spain in particular. At end 2014, business investment was still 27% below its pre-crisis peak in Italy, 23% down in Spain, 7% in France and 3% in Germany. In the US and the UK, business investment was 7% and 5% higher than the pre-crisis peaks (Figure).

Our study estimates investment equations for six major countries (Germany, France, Italy, Spain, the UK and USA) in an effort to explain trends in investment over the long term, while paying particular attention to the crisis. The results show that using the traditional determinants of corporate investment – the cost of capital, the rate of profit, the rate of utilization of production capacity and business expectations – it is possible to capture the main developments in investment for each country in recent decades, including since 2008.

Thus, since the onset of the crisis, differences in decisions on taxation and on how tight to make fiscal policy and how expansive to make monetary policy have led to differences between countries in terms of the dynamics of the economy and real capital costs and profit rates, which account for the current disparities in corporate investment.



Sources: National accounts, authors' calculations.

Save Greece by Democracy!

By Maxime Parodi @MaximeParodi, Thomas Piketty (Director of research at the EHESS and professor at Paris School of Economics), and Xavier Timbeau @XTimbeau

The newspapers have been full of the Greek drama since Syriza's election to power on 25 January 2015. Caught in the noose of its loans, Greece's government is defending its position by threatening to leave the euro zone. The situation today is at an impasse, and the country's economy is collapsing. As bank deposits flee and uncertainty mounts about the times ahead and the measures to come, no-one is really able to think about the future.

Europeans, for their part, are wondering what has led to this state of affairs. There has been a diagnosis of Institutional incompleteness, with proposals to reinforce the construction of the euro zone. But what is emerging is not up to the challenges facing Europe.

So let's take the problem by the other end of the stick and give European democracy a chance to evolve. Let's entrust the resolution of the Greek debt crisis to a body of representatives of the euro zone's national parliaments, that is to say, an embryo of a true parliamentary assembly for the euro zone.

Such an Assembly would arbitrate the conflict between the creditors and the Greek government, shifting the debate and decision-making to the big questions: what responsibility should the younger generation bear for the debt of their elders? What about the creditors' rights? How have other large public debts been resolved historically, and what lessons can we draw for the future?

As any agreement reached would be legitimated by a formal assembly that would also act as its guardian, it would no longer be in danger of being denounced – once again – on the morrow. Since what's at stake is to resolve a debt and to not reach an agreement through force, the first step would be to suspend Greece's debt for the time needed. This step is a matter of common sense and the ordinary practice during the resolution of private debt in nearly all the world's countries.

A lasting agreement

This would require leaving the IMF out of the discussion by letting Greece reimburse this institution. It would be necessary at the same time to eliminate the possibility of Athens leaving the euro zone. By accepting the principle of negotiations, Greece and the other European countries would take this option off the agenda and pledge to accept the agreement reached. This embryonic Assembly would periodically review the situation and monitor the contingencies of the Greek economy. This is in effect what is already being done today, but now this would be explained and legitimated.

The technical institutions (the Commission, the European Central Bank) would continue to assess and support the reforms envisaged. They would inform the Assembly and answer to it. The Assembly would be a body set up to arbitrate, whenever necessary, any conflicts. Nor would there be any reason not to involve the European Council and the European Parliament. But clarifying the issue of legitimacy would open the door to a solution that was both more constructive for Greece and the other heavily indebted countries and fairer to the taxpayers of the euro zone.

We would be experimenting with a scheme for the resolution of sovereign defaults within the euro zone by building a political union – while remembering one thing: that Europe was reconstructed starting back in the 1950s by investing in the future and forgetting the debts of the past, in particular Germany's.

Finally, this Assembly would be competent to establish a common fund for euro zone debt, to undertake its global restructuring and to establish democratic rules governing the choice of a common level of public deficits and investments – which would help to overcome today's Do-It-Yourself approach to our euro zone.

The free movement of Europe's citizens in question

By Gérard Cornilleau

The British election has reignited the debate on the free movement of EU citizens within the Community. The fact that in less than 10 years the number of people originating from Central and Eastern Europe (mainly Bulgaria and Romania) has increased tenfold in the UK, rising, according to Eurostat, from 76,000 in 2004 to 800,000 in 2013, is undeniably behind this new unease around intra-European migration.

Further fuelling this debate over permanent migration is the issue of the free movement of seconded workers who travel to take up jobs in a country other than their country of residence with no justification other than the possibility of reducing labour costs by avoiding paying social security contributions in the host country.

EU legislation on the movement of citizens within the Community is ambiguous. On the one hand, workers have an absolute right to free movement, but this right is limited for the inactive population because in principle it should not lead to social expenditures by the destination States. European populations must thus remain socially connected to their State of origin. In theory, “social benefits tourism” is impossible, and not only are the Member States in no way compelled to take in hand intra-EU migrants, they are even entitled to expel them if their stay lasts more than 3 months and does not exceed 5 years. This was the holding of the European Court of Justice in a ruling on 11 November 2014, in the Dano case, named after a Romanian national living in Germany who was denied social assistance for herself and her son. The European Court held that she could not herself meet her own needs or those of her family and she was not looking for work. In these circumstances she did not have a right to residence in Germany or to the benefits of social assistance. The European Court recalled that European legislation on the freedom of movement was aimed at preventing EU citizens from other Member States from becoming an “unreasonable” burden on the social assistance system of the host Member State.

The available data on migration between European countries are relatively disparate and often incomplete. What is known is that there is little migration of inactive people who may be motivated by the pursuit of non-contributory social benefits. The same is essentially true for the migration of active workers. Europe remains in effect partitioned into linguistic blocs that limit the permanent movement of people between countries. Compared to the geographic mobility seen in the United States, the European Union is characterized by a low level of internal migration. While the statistics are not definitive, current assessments indicate that in the 2000s internal mobility was about 10 times lower in Europe than in the US: between 0.01 and 0.25% of the population of EU countries immigrated annually in the major European countries, in contrast to 1 to 1.7% in the US[1]. Since then, population movements have, it seems, increased a little in Europe while slowing in the US, but there has not been the kind of turnaround that would call into question the diagnosis that there is structurally less mobility in Europe.

As for the migration of inactive people, which is provoking fear of an increase in “benefit tourism” motivated by the search for generous non-contributory social assistance, the available data show that the potential for this is extremely low. A recent report for the Commission[2] estimates the population of non-active intra-European migrants at between 0.7% and 1% of the overall population in the major countries. Consequently, the share of social benefits paid to the corresponding population is extremely low. As a significant proportion of inactive migrants consist of students and retirees who have a sufficient income, the issue of benefit tourism therefore seems merely anecdotal.

While it is strict for the economically non-active, European legislation, which is very oriented towards free trade, promotes social competition between the Member States through a right to the secondment of workers from one country to another that is clearly too lax. This legislation was initially designed to promote the non-permanent mobility of corporate executives who wished to continue to benefit from the social security cover of their country of origin in the event of a long-term mission. But since the opening to Eastern Europe, some business sectors have made increasingly massive use of the possibility of hiring workers from other countries and paying low social contributions in the countries of origin, with no justification due to labour shortages or greater productive efficiency. In France, 10% of the workforce in the meat industry is now on secondment from other European countries. One hundred thousand construction workers, out of a workforce of 1.8 million workers, are in the same situation. Their labour cost is 20 to 30% lower than for nationals. In addition, due to the difficulty of checking on the payment of social contributions in their country of origin, many of these workers are in an irregular status. The Commission has of course proposed technical measures to more thoroughly verify the activity of the businesses seconding the workers as well as the payment of their contributions, but in all likelihood this will not be adequate to stem the strong growth of a movement that has its source directly in social competition.

What all these issues have in common is the demand for solidarity between European states, especially in deeds. Migratory movements, whatever their nature, tend to balance divergent developments in the labour market and the distribution of the population around the territory of the EU. There is no reason in principle to oppose greater mobility. On the contrary, given the current imbalances between European countries, increased mobility should be encouraged – without, of course, abandoning the macroeconomic, monetary and fiscal policies that represent the most effective tool for combatting economic divergences.

But an accommodative policy on mobility implies a distribution of immediate costs that cannot be accomplished without at least a minimum of convergence in the systems both for providing support to those who are worst off and for sharing a certain amount of resources. Clarifying the rules on social competition is also essential.

To avoid having mobility motivated solely by the search for lower labour costs, the principle of equal treatment of workers within a given country needs to be applied strictly. This implies that in the case of secondments, the social contributions should be levied at the rate of the country in which the employee is actually working. The amount of the contributions collected by the social security and tax authorities of the host country could be returned to the country of origin. There are two possible scenarios: if the contributions received exceed those that would have been paid without the secondment, there is no problem in financing the benefits paid to the seconded employees. In the opposite case (employees of large corporations in the richest countries seconded to poorer countries), an additional assessment could be imposed by the country of secondment. The principle of equal treatment of local and seconded workers is compatible both with a lack of direct social competition and with maintaining the rights of employees.

Lowering the barriers to the free movement of all EU citizens would on the other hand be greatly facilitated by the implementation of a plan to bring about a convergence in minimum compensations, whether we are talking about wages or social welfare. The establishment of a European minimum wage and a European minimum income would eventually eliminate social competition and do away with concerns that migration might be motivated solely by the search for non-contributory benefits. Furthermore, helping living standards catch up over the longer term would certainly be a way to strengthen confidence in the European Union project.

In the shorter term, solidarity between States must go hand in hand with loosening constraints on migration. This implies that States likely to take in citizens who are eligible for non-contributory social benefits should receive financial assistance from the Commission. This assistance could involve setting up a new European social budget that would cover the financing of a certain number of social minima. The EU budget could be increased by an additional 0.25 percentage point of GDP. Consideration should be given to whether a project like this for the partial Europeanization of social policy would benefit from such an increase in the EU budget. But other possible transfer mechanisms that would ensure financial solidarity between States for any non-contributory benefits paid to migrants could also be considered.

If we are to avoid States retrenching within their own borders and, ultimately, the long-term weakening of the European project, which was *a contrario* based on a desire for openness, it is undoubtedly time to revise a few principles and to establish a proactive programme for social convergence and for pooling the immediate costs that may result from mobility.

[1] See Mouhoud E.M and Oudinet J. (2006), "Migrations et marché du travail dans l'espace europée" [Migration and the labour market in the European space], *Économie internationale,* no. 105. Also see Xavier Chojnicki (2014), "Les migrations intra-européennes sont d'ampleur limitées et se concentrent sur les grands pays" |Intra-European migration is limited in scale and concentrated in the big countries], *Blog du CEPII*, Post from 4 September 2014. For a fuller analysis, see Ettore Recchi, *Mobile Europe, The Theory and Practice of Free Movements in the EU*, Palgrave Macmillan, London, 2015.

[2] See "Fact finding analysis on the impact on Member States' social security systems of the entitlements of non-active intra-EU migrants to special non-contributory cash benefits and healthcare granted on the basis of residence", DG Employment, Social Affairs and Inclusion *via* DG Justice Framework Contract, Final report submitted by ICF GHK in association with Milieu Ltd, 14 October 2013.

Is Emmanuel Macron approving a new industrial policy for France?

By Sarah Guillou

Support for industry is an economic issue that wins adherence from both Right and Left. The entire French political spectrum agrees on the importance of industry for the economy's future. There is also a consensus among economists, who bring together a variety of sensitivities in recognizing the leading role industry plays in driving growth, mainly through exports and innovations – the manufacturing sector is responsible for over 70% of total exports and more than 75% of total R&D spending. This consensus is even international, to such an extent that, paraphrasing Robert Reich, it could be said that, "on the battlefield of national economic ambition, industry is the new boots on the ground".

In France, everyone also agrees on deploring the decline in industrial jobs and more generally the de-industrialization that has seen industry's share of total employment fall from 25% in 1990 to 10% in 2014. Deindustrialization, which has intensified since the 2007 crisis, crystallizes all the concerns about globalization and all the reproaches made to the French fiscal and regulatory environment.

Governments in general have been quick to support industry and have set up programmes to support innovation, SMEs and R&D spending. The research tax credit (CIR) set up in 1983 has been reinforced by government after government, and perfectly illustrates the political consensus on the matter. But since then numerous programmes to aid companies have been added, creating a tangle of schemes and local and national institutions, leading a recent OECD report to label the result relatively incoherent.

Unfortunately, it is clear that France's economic and political consensus has not led to making its industry a global singularity in terms of performance. The country's industrial policy has been unable to counteract the inexorable decline of industry in the face of the service sector.

But judging industrial policy in this way misconstrues its possible objectives. To understand what industrial policy involves, we need to shed our old habits.

On the one hand, opposing industry to services is outdated and is merely a statistical artefact. The services sector is poised to take over innovation and exports, but our statistics have not yet taken stock of these changes. We are still not very clear on how to measure productivity in services or how to understand the channels for innovation in this sector, which do not necessarily pass through R&D. Note, however, that among the companies that benefit from the CIR research tax credit, the number of services firms is increasing every year, reflecting their growing contribution to private R&D spending. Services are a very heterogeneous category: the "Information and communication" category, for example, is less distant from the manufacturing sector than from the real estate business. Furthermore, exports of services are still not well measured (or declared) and are not always very distinguishable from movements of capital. Veiled behind these imperfections in statistics, globalization is not sparing the services sector, which will form an increasing share of international transactions.

Still, for the moment, it is undeniable that the manufacturing sector governs R&D's share of GDP and that the decline in France's market share reveals the productive difficulties companies are experiencing. But we must begin now to anticipate the changes taking place in the boundaries between sectors and not become locked into a reading of economic activity that is incapable of grasping the areas where added value will be created in the future. Re-industrialization in the sense of increasing the role of manufacturing (or "a return to the age of doing") is not necessarily the salvation of the economy of the future.

At the same time, industrial policy as such was not responsible for de-industrialization, nor is it able to counteract the decline in industrial employment.

The reasons for de-industrialization – beyond the important role played by technical progress – are to be found in the conditions governing the exercise of economic activity in France relative to the rest of the world: from the incentives to innovate to the incentives to invest, from taxation to regulation, from skills to productivity.

To put it another way, industrial policy was not the cause of the difficulties of Alstom, of AREVA or of Nokia's takeover of Alcatel-Lucent, and even less so of the logistics merger of Norbert Dentressangle and XPO.

It should be recognized that France's industrial policy is sometimes erroneously confused with what some call "industrial engineering". As public companies have historically been the spearhead of industrial policy, policy had the distinctive feature of combining industrial logic with the logic of the economic and political powers, and the two were not always in synch. These inconsistencies could exacerbate the difficulties facing State-owned enterprises.

Industrial policy should content itself with boosting technological trajectories and promoting business growth. The renovation of industrial policy will involve a comprehensive approach to future technologies. The mechanisms for this will include the development of public-private partnerships and the outsourcing of operations to long-term independent administrative agencies. In this respect the political consensus needs to be extended to include the means for this in order to ensure the continuity of these agencies, so as to stabilize the institutional landscape in which business operates.

Industrial policy is the expression of technological orientations. It can be more or less interventionist and can go beyond more or less simple declarations of intent based on the budgets it is given, depending on overall budgetary constraints. It is especially critical that public funds are committed or private funds are directed so as to finance the demand placed on business. But it is necessary for this public financing to correspond to a genuine request by the State, such as the need for defence equipment to meet foreign policy or the conquest of space, or to a real decision to involve society in its use, such as green energy. Furthermore, in a democracy, the State's request needs to have the support of society, which should be willing to finance, for example, green energy by paying more for carbon and fuel, along the lines of what has been done in Germany.

In this sense, Emmanuel Macron's approach to industrial policy reflects a positive development. Cutting 34 future projects down to fewer than a dozen is relevant, because it helps to clarify the State's commitments and make them more credible. In addition, the digital commitment is the transcription of a technological choice. At the moment "re-industrialization" is focused around the industries of the future, the digitization and modernization of industrial facilities. It would be more honest to dispense with the goal of "re-industrialization" since what is needed is to deal with the economy as a whole and modernize the means of production in order to make France's productive tissue out of a new stronger fabric.

However, the stated objectives are not based on very risky technological choices and do not commit many resources: a 2.5 billion euro tax benefit for companies investing in their productive facilities over the next 12 months (the accelerated capital cost allowance – *"sur-amortization"* – announced a month ago) and 2.1 billion euros in additional development loans by BPI France for SMEs and ETI over the coming two years. This will thankfully not entail creating another intermediation body for the new policy. As for the role of the State shareholder, the speech was more serene vis-à-vis globalization and more encouraging with regard to European cooperation – as has been shown in the reaction to Nokia's merger process with Alcatel Lucent. The Minister's decisions do not however seem to be departing from a full neutrality, as can be seen in the case of the double voting shares that the State has imposed on Renault.

The overhaul of industrial policy remains modest in terms of resources and goals, but it has the merit of setting objectives for policy that it might actually be able to meet.

A fall in the unemployment rate according to the ILO: the false good news

By Bruno Ducoudré and Eric Heyer

Two days following the announcement by France's unemployment agency Pôle Emploi of an increase in Class A job seeker registrations in April, which comes on top of a first quarter increase, the INSEE statistics agency has published its estimate of the unemployment rate. Under the definition of the International Labour Office (ILO), the unemployment rate in metropolitan France fell by 0.1 point in the first quarter of 2015, meaning 38,000 fewer unemployed than in the fourth quarter of 2014. But according to Pôle emploi, over this same period the number of registered Class A job seekers rose by 12,000. In one case, unemployment is falling; in the other, it is rising: this does not make for a clear diagnosis of what's happening with unemployment at the start of the year.

What accounts for the different diagnoses of the INSEE and Pôle Emploi?

In addition to differences in methodology (a labour survey for the ILO, administrative data for Pôle emploi), note that to be counted as unemployed according to the ILO, three conditions have to be met: a person must be unemployed, available to work and conducting an active job search. Simply registering at the job centre is not sufficient to meet this last condition. So someone who is registered in Class A [1] at Pôle Emploi but is not conducting an active search is not counted as unemployed according to the ILO. The ILO criteria are thus more restrictive. Historically, the number of unemployed registered at the job centre is higher than that calculated according to the ILO for persons aged 25 and over. Young people under age 25 generally have less incentive to register at the job centre [2].

Table 1. Change in the number of unemployed - first quarter 2015

1000s

Age:	15-24	25-49	50 et +	Total
Jobless as per ILO	8	-19	-26	-38
Registered with Pôle Emploi in Cat. A	-6	6	12	12
Difference	-14	25	38	50

Sources : INSEE, labour survey; Pôle Emploi-Dares.

Except for the under-25s, the unemployment figures from Pôle Emploi are therefore worse than those for the ILO and hence the INSEE (Table 1). The explanation is as follows. In labour market conditions that have worsened considerably, some unemployed people have become discouraged and are no longer actively seeking employment: they are thus no longer counted as unemployed according to the ILO. Yet they are continuing to update their status with the job centre and thus remain registered as unemployed in Class A. This results in an increase in the “halo” of the unemployed, *i.e.* people who want to work and are readily available but are not actively seeking a job. This unemployment “halo” has increased by 71,000 people in one quarter.

In first quarter 2015, the ILO-based unemployment rate fell for the wrong reasons

There are two reasons why the unemployment rate may fall: the first, virtuous reason is that people are exiting unemployment due to an improvement in the labour market; the second, less rosy reason is that some unemployed people are drifting into inactivity. The latest ILO statistics highlight that the 0.1 point fall in the unemployment rate was due entirely to the decline in the labour force participation rate – which measures the percentage of people in the population aged 15 to 64 who are active – and not to a recovery in employment, which, on the contrary, has declined. So the drop in the unemployment rate is due not to a recovery in employment, but to discouragement among unemployed people who are no longer actively seeking work (Table 2).

Table 2. Breakdown in the change in the ILO participation rate first quarter 2015

In points	15-24	25-49	>49	Total	Workforce Q1 2015 (in 1000s)
Employed	0.0	-0.4	0.2	-0.2	25 463
Unemployed	0.1	-0.1	-0.2	-0.1	2 852
Active population	0.1	-0.5	-0.1	-0.3	28 315

Source : INSEE, labour survey.

More specifically, the entry of young people into the labour market at a time when employment is declining is being reflected in a 0.1 point rise in joblessness in this category. Among seniors, the employment rate is continuing to increase (0.2 points) due to the postponement of the effective retirement age. It is true that ILO unemployment is falling among seniors, but the rising numbers in this age group enrolling at the job centre (Table 1) undoubtedly reflects a change in their job search behaviour: more and more of them are no longer making a job search and are now classified in the "halo" of unemployment.

Ultimately, the fall in the ILO-defined unemployment rate, which is marked by both a lack of recovery in employment and discouragement among some of the unemployed, is not such good news.

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[1] People registered in Class A have not worked at all, even on reduced hours, unlike those registered in Classes B and C.

[2] To be entitled to unemployment compensation and to receive back-to-work assistance ("ARE"), 122 days of affiliation or 610 hours of work must be shown during the 28 months preceding the end of the job contract.

Unemployment figures: the chill returns in April

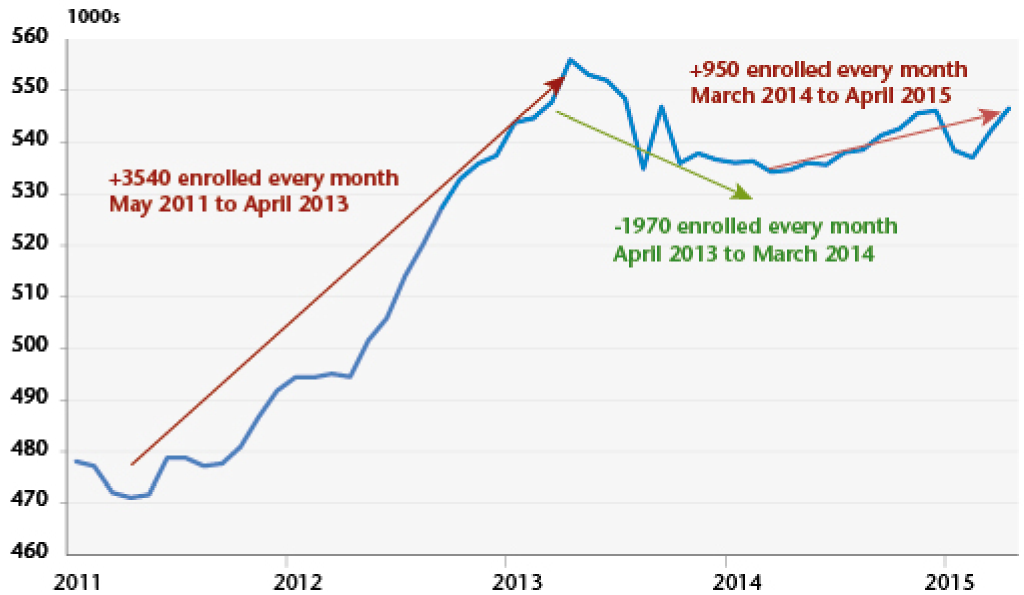
By Analysis and Forecasting Department (OFCE-DAP)

While the slowing increase in the number of job seekers registered with France's Pôle Emploi unemployment agency in the first quarter of 2015 could be seen as the premise of the long-awaited downturn in the unemployment curve, the figures released today once again cast doubt on this prospect, at least in the short term. The registration of 26,200 additional people in category A at the agency in April brings the increase in job seekers back to a high rate, well above the average over the last two years (13,400 per month) and far from the virtual stability seen in the first quarter (+3,000 per month).

While the publication of strong figures for first-quarter GDP growth (+ 0.6%) reaffirmed the prospect of a recovery, the jobless numbers are disappointing. Don’t forget, however, that employment does not immediately respond to a pick-up in activity; it will take time to reap the benefits for the labour market of the good growth experienced at the year’s beginning, when the recovery has proven to be strong, pushing employers to recruit. For now, companies are still digesting the overstaffing inherited from the period of very low growth between 2011 and 2014. The fall in unemployment that can be foreseen with the recovery will not take place until the second half of 2015. But the acceleration of job centre registrations in April sends a contrary signal.

The situation seems to be generally worsening among all sections of job seekers: men, women, and all age categories. The number of unemployed under age 25 has been rising again the last months (9,500 people). But changes like these are often volatile, and should be treated with caution: they come in counterpoint to an equivalent fall in numbers during the first two months of 2015. Over a one-year period, the increase was only 11,900, and the interruption in the rise in youth unemployment since April 2013 signalled success for the jobs policy targeted at this group (see the figure). The announcement by the Minister of Labour of the creation of 100,000 additional subsidized jobs reflects the government’s perhaps belated determination to beef up this programme at a time when the economic outlook is improving.

Figure. Young people under age 25 enrolled in category A at France's Pôle Emploi agency



Sources : DARES, Pôle Emploi, OFCE calculations.

The spirit of the letter of the law … to avoid a "Graccident"

Raul Sampognaro and [Xavier Timbeau]

The noose, in the words of Alexis Tsipras, is getting tighter and tighter around the Greek government. The last tranche of the aid program (7.2 billion euros) has still not been released as the Brussels Group (the ex-Troika) has not accepted the conditions on the aid plan. The Greek state is therefore on the brink of default. It might be thought that this is simply one more episode in the drama that Greece has been acting out with its creditors and that, once again, at the last moment the money needed will be found. But if Greece has managed to meet its deadlines up to now, it has been at the price of expedients that it is not at all certain can be used again.

While tax revenues since the start of the year have been almost one billion euros behind the anticipated targets, the expenses for wages and pensions still have to be paid each month. This time the wall is getting closer, and an agreement is needed if the game is to continue. In June, Greece must pay 1.6 billion euros to the IMF in four tranches (5, 12, 16 and 19 June). On 28 May an IMF spokesperson confirmed the existence of a rule that would make it possible to group these payments on the last day of the month (a rule last used by Zambia in the 1980s). Since it would then take six weeks for the IMF to consider Greece in default, the country could still gain a few days after 30 June before the deadline with the ECB (with 2 tranches for a total 3.5 billion euros by 20 July 2015).

Historically very few countries have failed to honour their payments to the IMF (currently only Somalia, Sudan and Zimbabwe are in arrears to the IMF, for a few hundred million dollars). As the IMF is the last resort in case of a crisis in liquidity or the balance of payments, it has, as such, the status of preferred creditor, so defaulting on its debt may trigger cross defaults on other securities, in particular, in the Greek case, those held by the European Financial Stability Facility (EFSF). This could make them due immediately. A Greek default with the IMF could well jeopardize Greece's entire public debt and force the ECB to reject Greek bonds as collateral in the Emergency Liquidity Assistance (ELA) operations, the only firewall remaining against the collapse of the Greek banking system.

The legal consequences of such a default are difficult to grasp (which says a lot about the modern financial system). An article published by the Bank for International Settlements, dated July 2013, whose author, Antonio Sainz de Vicuña, was then Director General of ECB Legal Services, is very informative about this issue in the context of the Monetary Union.

In presenting the legal framework, Sainz de Vicuña focuses on Article 123 of the Treaty on the Functioning of the European Union (TFEU), a pillar of the Monetary Union, which prohibits the ECB or the national central banks from financing government[1]. In a footnote, the author concedes that there are two exceptions to this rule:

– “Credit institutions controlled by the public sector, which may obtain central bank liquidity on terms identical to private credit institutions.” This exception appears explicitly in paragraph 2 of Article 123 of the TFEU[2].

– “The financing of state obligations vis-à-vis the IMF.”

This second aspect has attracted our attention because it is little known to the general public, it does not appear explicitly in the Treaty and it could be a solution, at least in the short term, to avoid Greece being put in default by the IMF .

In searching the corpus of European law, this exception is defined more precisely in Council Regulation no. 3603/93, which clarifies the terms of Article 123 of the TFEU, which it is authorized to do under paragraph 2 of Article 125 of the TFEU[3]. More specifically, in Article 7:

*The financing by the European Central Bank or the national central banks of obligations falling upon the public sector vis-à-vis the International Monetary Fund or resulting from the implementation of the medium-term financial assistance facility set up by Regulation (EEC) No 1969/88 (4) shall not be regarded as a credit facility within the meaning of Article 104 of the Treaty**[4]**.*

The justification for this article is that: during quota increases in the IMF, the financing by the central bank was accepted because It had as a counterpart an asset comparable to international reserves. In the spirit of the law, financing Greek borrowing from the IMF by a credit from the central bank (the ECB or the Bank of Greece) should not be permitted. The obligations falling upon the Greek state probably only concern, according to the spirit of the text, the contribution to the IMF quotas. Nevertheless, the spirit of the law is not the law, and the proper interpretation of the phrase "obligations falling upon the public sector *vis-à-vis* the International Monetary Fund" could open another door for Greece. Given the consequences of a default with the IMF – in particular the continuity of the ELA – invoking this could be justified as preserving the functioning of the Greek payment system, a role falling within the mission of the ECB.

Beyond the legal possibility of a central bank financing Greece's debt to the IMF, which would certainly be challenged by some governments, this action would open up a political conflict. A MemberState could be accused of violating (the spirit of) the Treaties, even though that is not a reason to exclude it (according to the ECB's Legal Services). But is this really an obstacle in view of the importance a default on Greece's debt would have for the sustainability of the single currency?

Greece's cash flow problems are not new. Since January, the government has been financing its expenditure through accounting transactions that allowed it to offset tax losses. In particular, on 12 May, the Greek government was able to repay an IMF loan tranche by drawing on an emergency fund that was essentially international reserves. The Eurosystem was able to use this exception to give Greece extra time in order to continue the negotiations and avoid the accident.

[1] Paragraph 1 of the article stipulates that, "Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as "national central banks") in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments."

[2] Which stipulates that, "Paragraph 1 shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the European Central Bank as private credit institutions."

[3] Which stipulates that, "The Council, on a proposal from the Commission and after consulting the European Parliament, may, as required, specify definitions for the application of the prohibitions referred to in Articles 123 and 124 and in this Article."

[4] Article 104 became Article 123 in the TFEU.

On the search to "recapture the industrial spirit of

capitalism”: From patient shareholders to shared governance

By Jean-Luc Gaffard and Maurizio Iacopetta

The government, buoyed by the law to recapture the real economy, the Florange act, which establishes the possibility of double voting for patient shareholders (who have held their shares at least two years), has just taken two significant decisions by temporarily increasing its holdings in the capital of Renault and Air France in order to ensure that in a general shareholders meeting the double voting option is not rejected by the qualified majority authorized under the law. The objective spelled out by France’s Minister of the Economy in *Le Monde* is to help “recapture the industrial spirit of capitalism” by favouring long-term commitments in order to promote investment that will foster solid growth.

Under the impulse of the Florange law, that has recently introduced the institute of the double voting for ‘patient’ shareholders (shareholders who have held their company’s shares for at least two years), the government has taken the important decision of increasing temporarily its equity shares into two major French companies: Renault and Air France.

The increased government’s stake into the two companies aims at preventing attempts of the shareholders general assembly to block the adoption of the double voting institute, which would require the approval of a qualified majority. The France’s Minister of the Economy explained in Le Monde that the government’s action is intended to help “revive the industrial spirit of capitalism” by favouring long-term commitments that promote investments and foster robust growth.

This initiative has led to renewed discussions about the governance of joint-stock companies and corporations (Pollin, 2004, 2006), to consider the problems that afflict them, possible remedies, and what one could expect from the government.

Because corporations have the ability to attract abundant savings and because of their power in choosing where to direct these savings, they are undeniably at the heart of the investment process. They can be governed in various ways, depending on the institutional contexts, which are related in turn to significant differences in productivity and growth (Bloom and Van Reenen, 2010 ; De Nicolo', Laeven and Ueda, 2008 ; La Porta, Lopez-de-Silanes, Shleifer and Vishny, 2000). So the question arises as to which governance model is best able to promote entrepreneurial activity and innovation, and thus ultimately to ensure growth (OECD 2012).

There is evidence that the big corporations do not suffer from a lack of long-term financing. The development of the stock and bond markets since the 1980s has allowed corporations to reduce their dependence on bank financing and its cyclical character. Investment problems thus mainly reflect major breakdowns in the governance of companies, whether large, medium or small, as well as in the governance of financial institutions (Giovannini *et al.*, 2015).

Traditionally, the focus has been on the ways controlling shareholders' choose managers, *i.e.* the conditions under which the capital owners get the yield on their investment that is justified by their special position as residual claimant (Shleifer and Vishny, 1997). But this ignores that other company stakeholders (creditors, employees, suppliers or even customers) also incur risk, and that the long-term performance of the company depends on the conditions in which the shareholders' engagement controls the commitment of the other stakeholders (Mayer, 2013). It is not certain, in this regard, that the distribution of voting rights between different classes of shareholders is decisive.

Control and engagement

The central issue is how capital owners affect management’s decision-making. Thus, the goals and values of family businesses reflect the interests and inclinations of the family owners, which can become inconsistent with productive efficiency, especially with the rise of rentier capitalism, when it is no longer the founders who are at the head of the company but their heirs or, more surreptitiously, a self-perpetuating caste (Philippon, 2007). While there is a positive relationship between the wealth of self-made millionaires and GDP and growth, the relationship to GDP turns negative when this concerns the wealth of millionaire heirs (Morck, Stangeland, and Yeung 2000). Faced with this potential problem, the existence of dispersed ownership would seem to be beneficial in so far as it replaces special interests with what can be likened to a collective interest.

This vision of the corporation nevertheless faces an objection formulated by Berle and Means (1932), who view the separation between ownership and control as a source of inefficiency. It creates problems of agency, meaning that the managers are likely to act in their own interests rather than in those of the shareholders, just like families or owning castes. Empirically, the Tobin’s Q (the ratio of capital’s market value to its replacement cost) increases, then decreases before increasing again as the power of the managers grows (Morck *et al.*, 1988). It is then possible that shareholders have less incentive to subscribe new shares or keep the ones they hold, resulting in lower share prices and less access by companies to external financing. The provisions that make it possible to protect large enterprises can have the effect of hindering the market entry of new businesses and introducing significant distortions into the investment decision-making of established firms (Iacopetta, Minetti and Peretto, 2015).

Solving these problems requires creating institutional arrangements to ensure that shareholders become active in corporate management.

These arrangements have involved improving the quality of audits, of risk management and of communications between the company and its shareholders. They have led to greater transparency in executive compensation policy and linking pay to performance. This process has spurred the development of “markets for corporate control” and for shareholder activism, and indeed of a particular class of shareholders consisting of investment funds, including pension funds, whose management methods (the delegation of investment decisions to fund managers) emphasizes the immediate performance of their portfolios.

In the light of the financial crisis, these arrangements seem questionable to say the least (Giovannini et al., 2015). Financial institutions, although subject to the “best” governance rules ensuring genuine shareholder control, have been scenes of conflict between shareholders who have benefited from upside positive performance and creditors (and taxpayers) who have had to bear any losses. What was true of the financial institutions also held true for manufacturing companies, which have been arenas of conflict between shareholders and the other stakeholders (creditors, employees, suppliers and customers).

The real problem is that the while arrangements that were designed to solve agency problems have strengthened the control exercised by shareholders over company management, they have also reduced the shareholders’ level of engagement (Mayer, 2013).

Notwithstanding their particular interests, family owners can ensure a stability and long-term engagement vis-à-vis other stakeholders that is not guaranteed by dispersed shareholding. The same is true of managers with delegated authority who have acquired sufficient independence vis-à-vis the shareholders to be open not only to their own interests but also to the interests of the employees (and sub-contractors). After all, the constitution of industrial empires is far from a bad thing so long as they are economically viable and do not violate the rules of competition. But the advantages conferred on managers are being offset by the development of markets for corporate control and shareholder activism, which has led to judging managerial effectiveness on the grounds of current performance. There is indeed a trade-off between the requirements of control and engagement. The problem is perhaps not so much to align the interests of managers with those of shareholders as to make shareholders responsible for what happens in the long run to the companies in which they invest.

The measure of engagement

The degree of commitment of financiers, lenders and shareholders is critical since it determines that of the other stakeholders in the company. It is reflected in the attitude chosen in response to fluctuations in performance, and more specifically in the degree of tolerance of poor business results. A low tolerance is a sign of a low degree of engagement, and usually a sign of hostile takeovers and pension fund activism.

It is also necessary to agree on the meaning of poor results. This could be the result of bad management, in which case investors' power to provide financing conditioned on management's ability to make the changes they require does not necessarily indicate a lesser degree of engagement. It may even prevent the financial crises that could result from serious agency problems – at least if consistent performance is the norm. But this is exactly not the case when the relevant industrial activities have a cyclical dimension. Companies can deal with this by offsetting the results of several activities against each other provided that their cycles are different. But the attitude of investment funds is to emphasize the diversification of their portfolio on the valuation of the diversification of their activities by the companies themselves, prompting the latter to refocus on what is sometimes described as their core business. A series of dismantling operations, in particular, in the cases of Alstom, Alcatel and Thomson, constituted one of the reasons for the deindustrialization seen in France (Beffa, 2012).

Nor does the consistency of performance prevail when companies choose to innovate by introducing new products or new production techniques and exploring new markets. Because firms incur the costs long before increased in revenue, these are irrevocable costs, that is to say, whose recovery is contingent on the success of the decision to innovate ("sunk costs"). Any form of governance that would have the effect of favouring immediate results and eliminating tolerance of a temporarily poor performance would then only hold back innovation by penalizing long-term investment. But this is exactly where the possibility of hostile takeovers and the activism of investment funds are leading.

The institutional prescriptions

The debate has thus been opened on the ins and outs of the conflict between different classes of shareholders established in relation to the volume of securities held and the length they are held (Samama and Bolton, 2012). Many companies have adopted mechanisms that financially reward shareholders' loyalty or that grant them additional voting rights in return for this loyalty. Some countries (France and Italy in particular) have legislated in this regard. It is difficult to assess the results. In theory, the principle of "one share – one vote" does not rule out the existence of several classes of shares involving different voting rights. It does of course reduce the agency problems involving the holders of blocs of shares, but it also reduces the beneficial effects of the stability that these blocs provide (Burkart and Lee, 2008). Moreover, empirical studies reach mixed conclusions, further indicating the complexity of the problem (Adams and Ferreira, 2008).

Nevertheless, numerous empirical studies do confirm that companies that have a more stable ownership structure and meet performance indicators that do not refer merely to financial capital have better outcomes in the long run (Clark et al., 2014). The existence of stable shareholder blocs or of restrictions on voting rights may be mechanisms that are likely to ensure this sustainability and strengthen the degree of commitment made by the capital providers, thereby justifying that other stakeholders – employees, suppliers and customers – do likewise in turn.

The difficulty with mechanisms for restricting voting rights is that they do not allow shareholders to indicate the length of time that they want to keep their shares and to indicate their level of engagement (Mayer, 2013). In fact, those who intend to hold their shares only briefly (possibly milliseconds in case of high-frequency trading) have the same influence on managers' decisions as those who intend to keep their shares for many years. The first bear the consequences of their votes only momentarily, unlike the latter, but both have the same influence on current decision-making, which may affect the company's performance for a long time to come. Basically, establishing different classes of shares does not necessarily substitute for the constitution of a stable bloc of shareholders that is able to deal with hostile takeovers motivated by the quest for short-term capital gains.

Things may be different when past loyalty is rewarded financially by an increase in the dividends paid, since in this case selling the shares leads to losing the financial advantage acquired. There is therefore an incentive to hold the shares even longer. Nevertheless, the payment of dividends is never equivalent to the retention of profits. The proceeds from new issues are under the control of the shareholders, whereas undistributed profits are still under the control of the managers. The higher the dividends, the more companies are dependent on their ability to draw on the stock market. There is still an issue of too much dependence vis-à-vis impatient shareholders, pulling companies towards short-term investments.

Accordingly, one potential relevant mechanism might be to establish voting rights based not on the time the shares have been held, but on the future period to which the shareholders are committed (Mayer, 2013). Under this proposal, shareholders would be able to register the period for which they intend to hold their shares and to be paid in the form of votes that are set according to the length of time remaining before they are able to dispose of them. At the moment, "loyalty and the double vote of the shares remunerate shareholders for the period the shares have been held and, consequently, fail to make them more responsible for the future consequences of their decisions. Really, since shareholders who have held their shares a long time are more likely to sell them, this potentially rewards a lack of commitment" (Mayer, 2013, pp. 208-9). It is clear, however, that it would be difficult to implement this institutional arrangement in practice, not least due to its credibility, and it would be preferable to explore other forms of governance that involve other stakeholders in the decision-making process.

On the expectations of government

In light of the analysis above, the question arises of what the government can expect from its decision to impose double voting rights. The answer is that this could be mainly to reduce, even if in a limited way, the public debt, without losing its influence in the companies in which it holds shares. The intention to revive industrial capitalism by this measure, laudable as this may be, is unlikely to have any real impact. This is true in particular because there is nothing to suggest that in the future the State would behave differently from any other shareholder, despite double voting rights, and could impose or contribute to imposing management decisions that are not necessarily in the long-term interest of the companies and their stakeholders.

Also, without wishing to neglect what the existence of several classes of action could mean for making decisions about business strategy, including possibly introducing protection against hostile takeovers, it seems a more fundamental measure would be to revise the business model as a whole.

The degree of engagement of the capital providers commands the commitment of the other stakeholders. Intermediated financing is the primary source of funds for owners who want to keep control of their business. It enables companies to innovate and grow without the need to dilute ownership. But it is necessary for such financing to exist, i.e. for banks to commit over a long term to these companies. Yet banks too are afflicted with problems of governance, leading to a conflict between the two main types of investors, shareholders and creditors (Giovannini et al., 2015). If institutional progress is to take place, it should therefore concern the financial system and be based on a return of intermediation (Pollin 2006). And if action is to be taken on the conditions of governance of the corporations themselves, this should be based on the proposals by Mayer (2013): perhaps, subject to feasibility, by instituting voting rights in proportion to the time for which shares are held in the future, but especially by establishing “boards of trustees” that set broad guidelines, acting as the guardians of values common to the various stakeholders (shareholders, creditors, employees and even suppliers and customers) instead of acting merely as representatives of the shareholders. These common values do nothing more than express the recognition of the strategic complementarities that exist between all the actors who are the source of value creation.

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