On the difficulty of carrying out structural reforms in a period of high unemployment

By Sabine Le Bayon, Mathieu Plane, Christine Rifflart and Raul Sampognaro

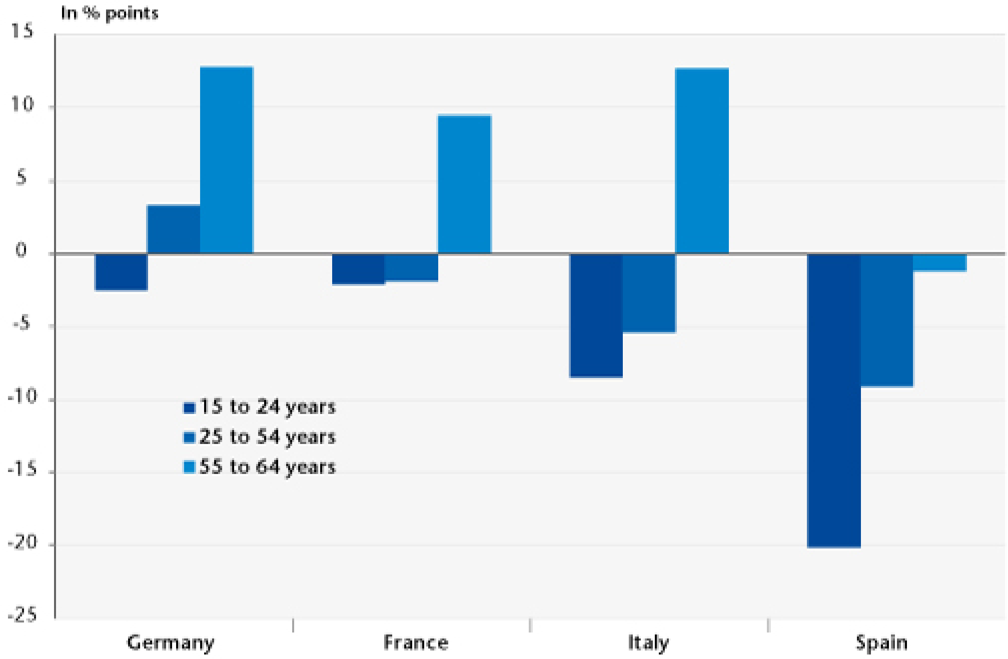
Structural reforms aimed at developing a more flexible labour market are often attributed all the virtues of fighting against mass unemployment and limiting the segmentation of the labour market between "insiders" on stable contracts and "outsiders" who are unemployed or on precarious contracts. When the economy is growing, these measures can facilitate job creation for the benefit of the outsiders, but the results are likely to be more uncertain in a context of mass unemployment and sluggish growth. Structural reforms can indeed reduce the labour market duality arising from regulatory measures but they cannot combat the duality of the labour market inherent in human capital, which is exacerbated during periods of mass unemployment: given the same qualifications it is experience that makes the difference, and given equal experience it is qualifications that make the difference. High unemployment therefore strengthens the phenomenon of "queuing" to access more stable jobs. Structural reforms aimed at streamlining the labour market will thus primarily affect employees who have less qualifications and experience without however enabling outsiders to gain access to more stable employment. This means that inequality between workers is likely to rise, with no positive impact on employment due to the sluggishness of the economy. Only macroeconomic management that takes on board the goal of returning to full employment could lead to successful structural reform.

As we show in a special study, "La dévaluation par les salaires dans la zone euro: un ajustement perdant-perdant"

[Devaluation through wages in the euro zone: a lose-lose adjustment] (*Revue de l'OFCE*, no. 136, November 2014), labour market segmentation has increased during the crisis despite the implementation of structural reforms in the euro zone countries. Since 2008, the employment rate [1] of seniors and of the better qualified has fared better than for other population groups in the four largest countries in the euro zone (Figures 1 and 2).

The sharp decline in the youth employment rate since 2008 is general – including in Germany, where the labour market has remained dynamic – and contrasts with the increase in the employment rate of older workers (or the small decline in Spain). The difference between these two categories is between 12 percentage points in France and 21 points in Italy (15 points in Germany and 19 in Spain). The adjustment in the employment rate of the 25-54 age group lies in an intermediate position. The resistance of the employment rate of older workers to the crisis is probably due to a combination of two factors: the introduction of pension system reforms in recent years (lengthening contribution periods and / or raising the legal retirement age) and the relatively higher cost of dismissing senior citizens, who more often occupy higher positions in the job hierarchy. In a crisis, it is likely that this has led to a substitution effect with the employment of older workers coming at the expense of the young.

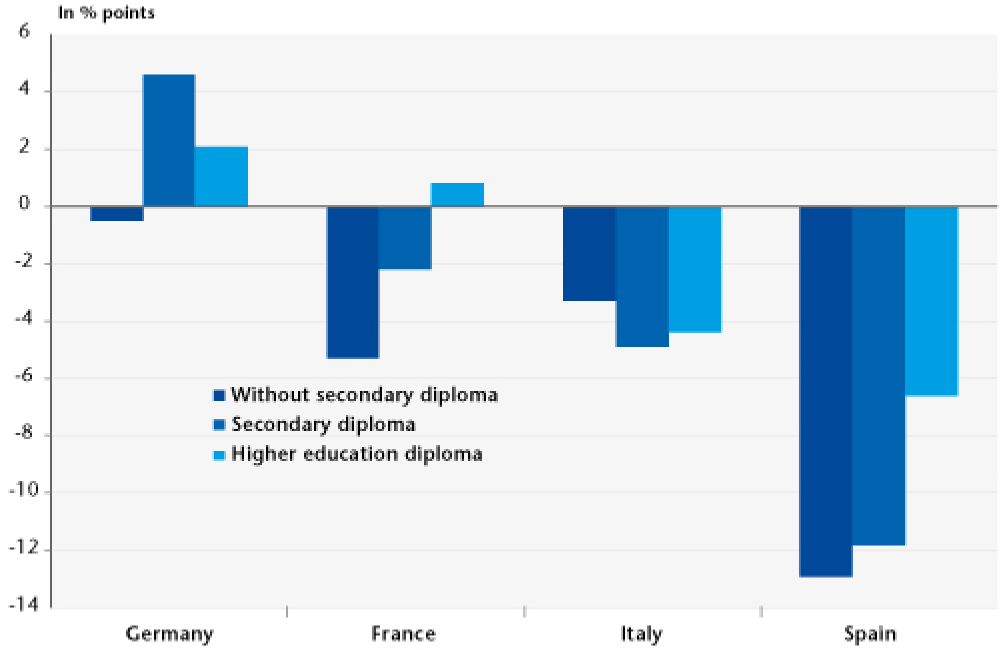
Figure 1 : Changes in employment rate by age group between 2008 (Q1) and 2014 (Q2)



Sources : Eurostat, OFCE calculations.

The adjustments in employment rates were also more striking for people without a high school diploma, with the exception of Italy, where the diploma does not seem to provide protection from unemployment or inactivity. In France, the adjustment in the employment rate clearly decreased with the type of degree. In Germany, the employment rate for those with less education has declined during the crisis while it has increased for the other categories. In Spain, the employment rate of university graduates has withstood the crisis better than the rate of other population groups. In addition to these developments in employment rates by educational category, wage income in Italy, Spain and France has fallen for the initial income deciles. This adjustment in the wage incomes of the lower deciles is probably due to a reduction in total working hours over the year (part-time work, shorter temporary contracts or longer periods of unemployment between contracts, reducing average compensation over the year). Thus, in the countries hit hardest by the crisis, the most vulnerable populations, with the least human capital, have found themselves more exposed to a deteriorating labour market, whether this has been felt through falling employment rates or a reduction in annual wage earnings.

Figure 2 : Changes in employment rate by level of diploma between 2008 (Q1) and 2014 (Q2)



Sources : Eurostat, OFCE calculations.

In the context of a deteriorating labour market, by accepting a slight downgrade the most qualified unemployed workers would be the first to find jobs, chasing out those who might otherwise have gotten it, who would themselves do the same thing at a lower level. This could explain why, at the end of the queue, it is the least skilled who are, regardless of labour legislation, the victims of unemployment and precarious employment.

The existence of a “spontaneous” segmentation in the labour market and the phenomenon of “queuing” may thus limit the success of a strategy of structural reforms and wage devaluation. In such a case, a more flexible labour market combined with a reduction in social welfare could increase inequalities between groups in the workforce without increasing the creation of full-time equivalent jobs.

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[1] This is the ratio of the employed to the working-age population.

Recovery aborted

By Christophe Blot

This text draws on the article "Le piège de la déflation: perspectives 2014-2015 pour l'économie mondiale" [The deflation trap: the 2014-2015 outlook for the world economy], written by Céline Antonin, Christophe Blot, Amel Falah, Sabine Le Bayon, Hervé Péléraux, Christine Rifflart and Xavier Timbeau.

According to a Eurostat press release published on 14 November 2014, euro zone GDP grew by 0.2% in the third quarter of 2014, and inflation stabilized in October at the very low level of 0.4%. Although the prospects of a new recession have receded for now, the IMF evaluates the likelihood of a recession in the euro zone at between 35% and 40%. This dismal prospect reflects the absence of a recovery in the euro zone, which is preventing a rapid reduction in unemployment. What lessons can be drawn?

In the short term, this sluggishness is due to three factors that have held back growth. First, fiscal consolidation, although less extensive than in 2013, has been continued in 2014 in a context where the multipliers remain high. Second, despite the reduction in long-term public interest rates due to the easing of pressure on sovereign debt, financing conditions for households and businesses in the euro zone have worsened, as the banks have not consistently passed on the reduction in long-term rates and lower inflation is leading to a tightening of real monetary conditions. Finally, the euro appreciated by more than 10% between July 2012 and early 2014. Even though the currency's rise reflects the winding down of pressure on euro zone bond markets, this has hurt exports. In addition to these short-term factors, recent data could herald the beginnings of a long phase of moderate growth and low inflation or even deflation in the euro zone.

Indeed, after a period of sharply increasing debt (see Figures), the financial situation of households and firms in the euro zone has deteriorated since 2008 due to a series of crises – financial, fiscal, banking and economic. This deterioration in the financial health of the non-financial sector has weakened its thirst for credit. Furthermore, households may be forced to cut down on their spending on consumption, and firms investment and their need for employment in order to reduce their debt. Adding to this is the fragility of certain banks, which need to absorb a high amount of bad debt; this is leading them to restrict the supply of credit, as is evidenced by the latest SAFE survey conducted by the ECB on SMEs. In a context like this where private agents prefer deleveraging, fiscal policy should play a crucial role. But this is not happening in the euro zone due to the desire to consolidate the trajectory of public finances at the expense of the goal of growth[1]. Furthermore, while many countries could get out of the excessive deficit procedure in 2015 [2], fiscal consolidation is expected to continue because of the rules in the Treaty on Stability, Coordination and Governance

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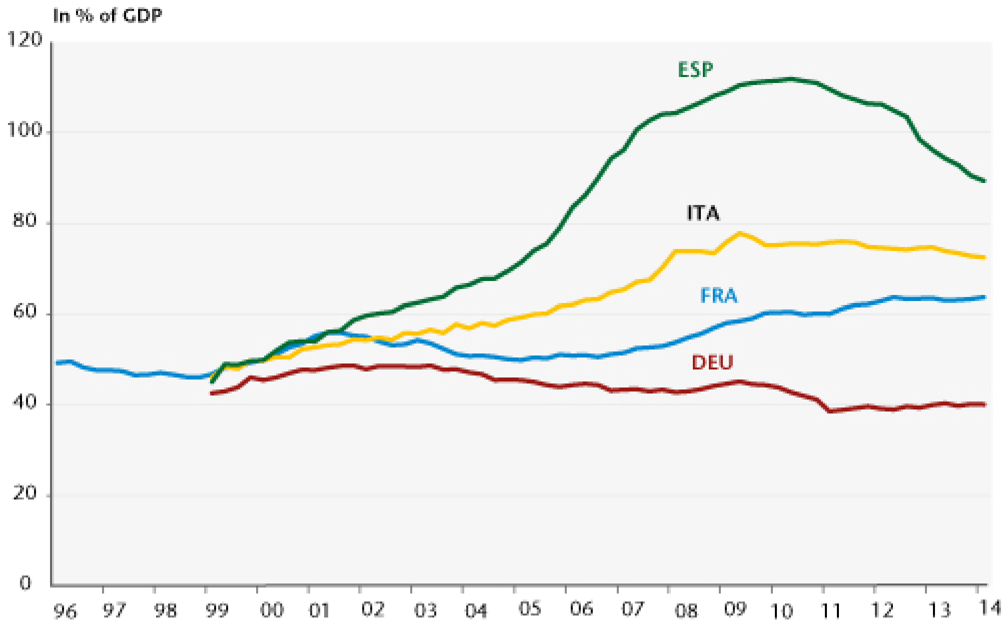
(TSCG) requiring Member countries to make fiscal adjustments to bring public debt down to the 60% threshold within 20 years[3].

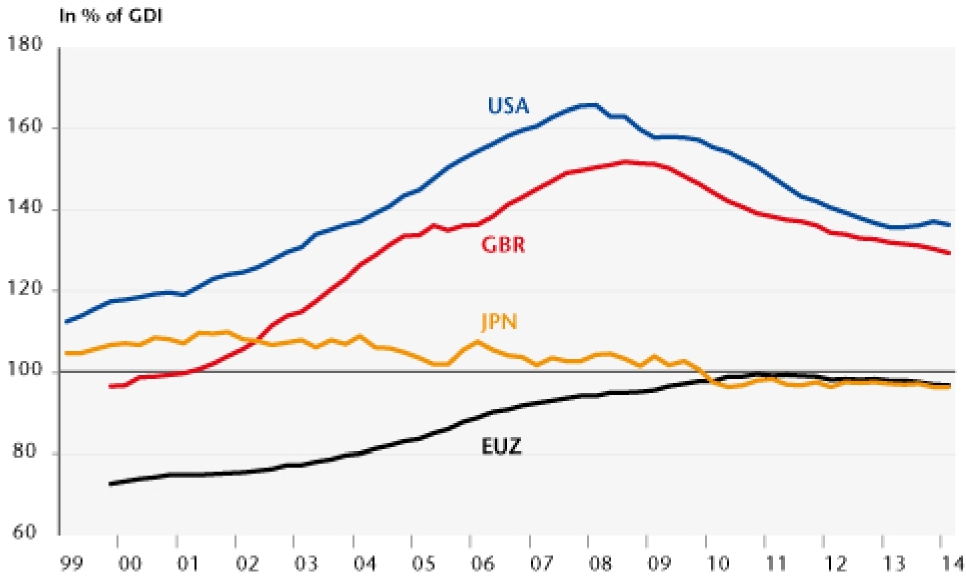
These conditions could push a recovery further down the road, and the euro zone could wind up locked in the trap of deflation. A lack of growth and high unemployment are creating downward pressure on prices and wages, pressure that is being exacerbated by internal devaluations, which are the only solutions being adopted to improve competitiveness and regain market share. This reduction in inflation is making the deleveraging process even more protracted and difficult, thus undercutting demand and strengthening the deflationary process. The Japanese experience of the 1990s shows that it is not easy to pull out of this kind of situation.

Figure 1. Debt of non-financial corporations



Source: Banque de France.

Figure 2. Household debt



Source: Banque de France.

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[1] The costs of this strategy were evaluated in the two preceding iAGS reports (see here).

[2] France and Spain would, however, constitute two major exceptions, with budget deficits of, respectively, 4% and 4.2% in 2015.

[3] See the post by Raul Sampognaro for more on the specific case of Italy.

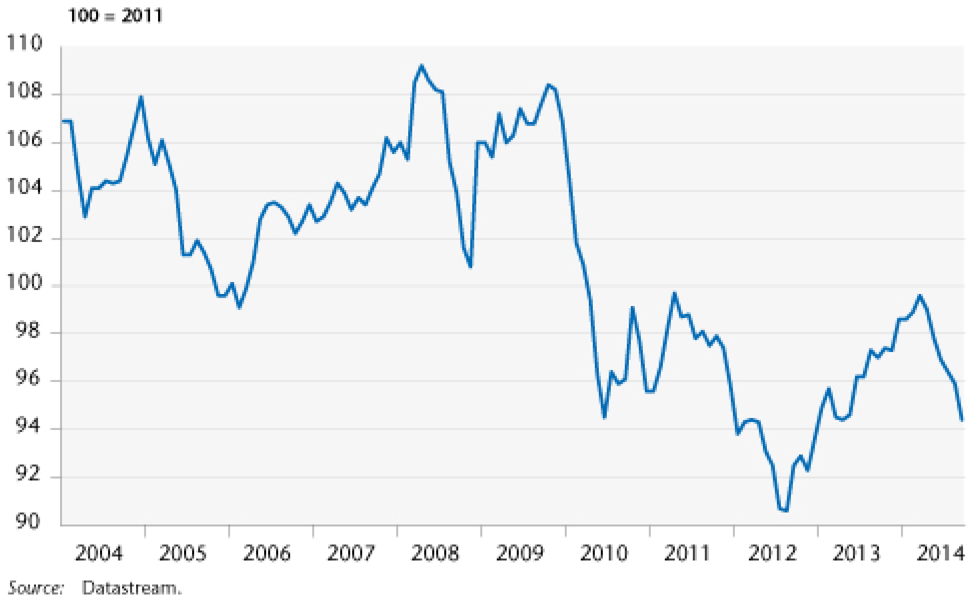
Decline of the euro and competitive disinflation: who’s going to gain the most?

By Bruno Ducoudré and Eric Heyer

For nearly two years, between mid-2012 and mid-2014, the euro appreciated against the world’s major currencies. Having reached a level of USD 1.39 in May 2014, the euro had increased in value since July 2012 by more than 12% against the dollar. During the same period, the euro appreciated by 44% against the yen and more than 3% against the pound sterling.

Since May 2014, this trend has reversed: after rising by nearly 10% between mid-2012 and mid-2014, the real effective exchange rate for the euro, which weights the different exchange rates based on the structure of euro zone trade, has depreciated by 5.2% over the last six months (Figure 1). In fact, within a few months, the euro has lost nearly 10% against the dollar, more than 3% against the yen and 4% against the British pound. The weakening against the pound sterling actually began in August 2013, and has reached over 9% today. We expect the euro to continue to depreciate up to the beginning of 2015, with the single currency’s exchange rate falling to 1.20 dollars in the second quarter of 2015.

Figure 1. Effective exchange rate of the euro



Source: Datastream.

For many business people and economics experts, this decline in the euro represents an opportunity to escape the deflation trap currently threatening the euro zone. Faced with sluggish growth in the zone and an inflation rate that is falling dangerously low, the announcement by the European Central Bank of a quantitative easing programme indicates its willingness to devalue the euro against other currencies in order to support Europe's growth and meet its inflation target.[1] The French government also expects a great deal from the euro's depreciation.[2] The Treasury Department believes[3] that a 10% decrease in the effective exchange rate of the euro (against all currencies) would increase our GDP in the first year by 0.6 percentage point, creating 30,000 jobs, reducing the public deficit by 0.2 GDP point and pushing up consumer prices by 0.5%.

The revival of short-term growth in the euro zone through a depreciation of the euro's effective exchange rate would also limit the non-cooperative policy of competitive disinflation being implemented in southern Europe (Greece, Spain, Portugal). While European countries trade mostly with each other and compete sharply for export markets, the effort to improve competitiveness through a disinflation policy is bound to fail in the euro zone if all the members adopt the same strategy. This is, however, the strategy chosen by the European Commission, *i.e.* by pushing the countries in crisis to reform their labour markets and cut labour costs. In this light, the depreciation of the euro is needed to support structural reform in Europe and support demand [4] even as fiscal austerity policies are further undermining it.

In a recent study, we attempted to assess the effects expected from the depreciation of the euro. We are interested not in the reasons for the variations in the euro (differential performance, behaviour of central banks) but in its macroeconomic implications (in particular its impact on GDP, prices and employment). To assess the sensitivity of exports to price competitiveness for six major OECD countries (France, Germany, Italy, Spain, United States, United Kingdom), we made estimates using new foreign trade equations that distinguish, within the euro zone, intra-zone trade and extra-zone trade. The elasticities obtained are consistent with the existing literature on this subject. It is necessary to make a joint estimation of the equations for export volumes and import prices: this provides a feedback loop in partial equilibrium for a change in the effective exchange rate on import volumes and export volumes. Taking into account the marginal behaviour of importers and exporters tends to limit the effect of a change in the effective exchange rate on the volumes of imports and exports when these have little market power. Simulations show that, in the euro zone, Spain would have the most to gain from a depreciation in the euro's exchange rate against other currencies, but also from a policy of competitive disinflation (case where Spain's export prices grow more slowly than the export prices of its euro zone rivals) (Table 1).

Table 1. Breakdown for the euro zone of a 10% depreciation of the nominal effective exchange rate

Long-term impact …				
… of a 10% depreciation of the euro against other currencies (in %)				
	DEU	FRA	ITA	ESP
Exports	1.3	1.1	1.1	1.7
Imports	-3.2	-2.1	-1.1	-2.3
Export prices	1.4	2.1	1.5	2.0
Import prices	4.3	2.9	2.0	2.9
… of a 10% rise in the prices of competitors in the euro zone (%)				
	DEU	FRA	ITA	ESP
Exports	1.6	1.6	2.1	2.8
Imports	-2.8	-3.3	-1.3	-4.0
Export prices	1.7	3.1	2.9	3.4
Import prices	3.4	4.3	2.3	4.7

Source : OFCE.

For the French economy, we also carried out a more detailed analysis using the OFCE's macroeconomic model *emod.fr*, with the goal of comparing our results with those obtained by the French DG Treasury with the *Mésange* model.

Our results show that a 10% depreciation of the euro against all currencies leads to a gain in price competitiveness for export to France vis-à-vis the rest of the world. The other euro zone countries experience the same gain in competitiveness across all export markets. In this case, the effect on activity would be +0.2% the first year, and +0.5% after three years. Excluding the effect due to the change in price competitiveness, the increased demand resulting from the pick-up in activity among our European partners would be broadly offset by lower demand addressed to France from the rest of the world. On the labour market, the depreciation would create 20,000 jobs in the first year, and 77,000 jobs after three years. The public deficit would improve by 0.3 GDP point in three years (Table 2).

Table 2. Impact on the French economy of a 10% depreciation in the exchange rate of the euro against all currencies

(% difference from level in reference scenario)	n	n+1	n+2	n+7
GDP	0.2	0.5	0.5	0.1
Total salaried employment (in 1000s)	20	53	77	43
Household consumption prices	0.9	1.4	1.8	3.6
Public financing capacity (in % of GDP)	0.0	0.2	0.3	0.2

Note: A depreciation of the euro would be favourable to short-term activity via an improvement in France's price-competitiveness vis-à-vis non euro zone countries. The positive effect of the euro's depreciation on the activity of our euro zone partners and the negative effect on our non euro zone partners is taken into account.
Source : emod.fr.

Finally, we simulated the effect of a 10% increase in the prices of our competitors in the euro zone on the whole of France's export markets. This 10% improvement in price competitiveness vis-à-vis the other euro zone countries would have a positive effect on activity via an increase in exports, investment and employment (Table 3). The impact on activity would be +0.4% in the first year and +0.9% after three years. It would be zero after 10 years. Nearly 130,000 jobs would be created in a period of 3 years and the government deficit would improve by 0.5 GDP point over this period.

Table 3. Impact on the French economy of a 10% improvement in France's price competitiveness relative to the euro zone countries

(% difference from level in reference scenario)	n	n+1	n+2	n+7
GDP	0.4	0.8	0.9	0.2
Total salaried employment (in 1000s)	33	90	129	82
Household consumption prices	1.0	1.7	2.3	5.2
Public financing capacity (in % of GDP)	0.0	0.3	0.5	0.5

Note: A 10% deterioration in France's price competitiveness relative to the rest of the world is understood to mean a 10% decline in the prices of all France's rivals on its export markets.
Source : emod.fr

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[1] See C. Blot and F. Labondance, "Why a negative interest rate?", *Blog de l'OFCE*, 23 June 2014.

[2] See the speech by Prime Minister F. Hollande on 5 February 2013 to the European Parliament.

[3] Economic and Social Report of France's 2014 draft budget bill.

[4] See the speech by M. Draghi "Unemployment in the euro area", Jackson Hole, 22 August 2014.

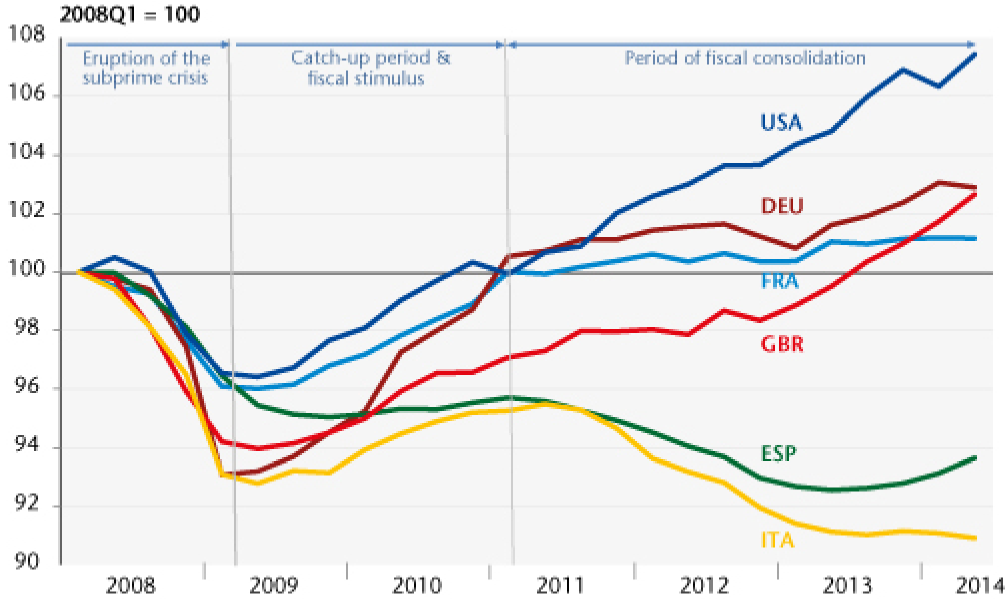
France: duty-free growth

By Bruno Ducoudré , Éric Heyer, Hervé Péléraux, Mathieu Plane

This post summarizes the 2014-2015 outlook for the French economy

In early 2011, France was one of the few developed countries to have regained its pre-crisis level of GDP. Economic growth exceeded 2%, even reaching 3% yoy in the first quarter of 2011. Since then the situation has changed: the recovery was interrupted, and while the economy is experiencing positive growth, the rate is close to zero (Figure 1). Four types of shock explain why the post-recession recovery in 2011 died out. Growth was already being battered by austerity and by deteriorating credit conditions, and was then also hit by fluctuations in oil prices and by the impact of price competitiveness in 2012 as a result first of wage deflation in France's competitors and then in 2013 of the rise of the euro (Table 1).

Figure 1. Comparative development of GDP in France and in its main partners



Sources: National accounts.

In 2014, the improvement expected on the economic front did not occur: the stimulus due to the gradual easing of austerity is being offset by the powerful brake exerted by the significant appreciation of the euro that has taken place since mid-year as well as by the collapse in consumer investment in housing. As in the previous two years, growth is expected to come to 0.4%, which is not enough to reverse the rise in unemployment or to reduce the public deficit significantly. Worse, while the public deficit has been cut by over 3 GDP points since 2009, it is now expected to rise slightly once again, reaching 4.5% of GDP (Tables 1 and 2).

Table 1. The brakes on French growth (2013 – 2015)

In points of growth

	2013	2014	2015
GDP growth	0,4	0,4	1,1
Impact on GDP of			
... changes in oil prices	-0.1	0.0	0.0
Direct impact on the French economy	*-0.1*	*0.0*	*0.0*
Impact via addressed demand	*0.0*	*0.0*	*0.0*
... price competitiveness	-0.1	-0.4	0.2
Impact of change in euro exchange rate	*-0.1*	*-0.2*	*0.1*
Effect of Intra-euro zone competitiveness	*0.0*	*-0.2*	*0.1*
... credit conditions	-0.1	-0.2	-0,1
Direct impact on the French economy	*-0.1*	*-0.1*	*-0.1*
Impact via addressed demand	*0.0*	*-0.1*	*0.0*
... austerity measures	-1.5	-1.2	-1.0
Direct impact on the French economy	*-0.9*	*-0.8*	*-0.6*
Impact via addressed demand	*-0.6*	*-0.4*	*-0.4*
Achievement	-0.1	0.3	0.1
Cumulative effect of shocks	-1.9	-1.6	-0.8
Other factors (housing investment, underestimation of accounts, declining potential, etc.)	-0.1	-0.4	-0.5
Spontaneous growth rate (excluding shocks)	2.4	2.4	2.4

Sources: INSEE, quarterly accounts; OFCE emod.fr forecast 2014-2015, made in October 2014.

In 2015, growth will pick up some, to +1.1%, due to the weakening of the negative factors that have stifled it since 2010, in particular credit conditions and austerity. Furthermore, the effect of price competitiveness, a factor that has played a very negative role in 2014, will be reversed, due first to the depreciation of the euro, and second to the rising impact of the CICE tax credit, whose primary goal is to ensure lower export prices. But with GDP growth of 1.1% next year, the path towards expansion is still a long way from what can usually be seen during a post-crisis recovery (i.e. 2.4%). As the output gap is not closing, the anticipated growth cannot be deemed a recovery. Companies will benefit from this renewed pick-up to gradually restore their financial situation. This strategy is based primarily on increasing productivity, which will help to reduce surplus capacity and restore profit margins. The unemployment rate in metropolitan France will rise slightly to 9.9% in late 2015, and to 10.3% for France as a whole. The counterpart to loosening the austerity reins is a public deficit that is higher than what was originally programmed. It is expected to be 4.3% of GDP in 2015, departing significantly from its path back towards 3%.

Table 2. Summary of forecast for 2014 and 2015

%, annual average

	2010	2011	2012	2013	2014*	2015*
GDP growth rate	2.0	2.1	0.4	0.4	0.4	1.1
Imports	8.5	6.5	-1.2	1.9	2.4	1.2
Household consumption	1.7	0.3	-0.5	0.3	0.2	1.3
Government consumption	1.2	1.0	1.7	2.0	1.8	1.1
Total investment	1.9	2.1	0.3	-0.8	-2.2	-1.6
Exports	8.6	7.1	1.2	2.4	2.5	2.6
Contribution to growth						
Domestic demand excl. inventory	1.8	1.0	0.3	0.4	0.0	0.6
Change in inventory	0.3	1.1	-0.6	-0.2	0.4	0.1
Trade balance	-0.1	0.0	0.7	0.1	0.0	0.4
Growth rate of euro zone GDP	1.9	1.6	-0.6	-0.4	0.9	1.4
Other indicators						
Inflation *(consumption deflator)*	1.2	1.8	1.4	0.6	0.6	0.7
Savings rate *(% of GDI)*	15.8	15.7	15.3	15.1	15.5	15.2
Unemployment rate	8.9	8.8	9.4	9.9	9.7	9.8
Public deficit *(GDP points)*	-6.8	-5.1	-4.9	-4.1	-4.5	-4.3
Public debt *(GDP points)*	81.5	85.0	89.2	92.2	95.4	97.4
GDP growth rate (year-on-year)	2.2	1.5	0.0	0.8	0.4	1.4

*OFCE e-mod.fr forecast for 2014 and 2015

Sources: INSEE, quarterly accounts; OFCE.

In order to meet its commitments on structural efforts and nominal deficits, the government could decide to vote to make an additional effort of 8 billion euros. This would correspond to a 1.2 point hike in the standard rate of VAT. If that happens, GDP would grow no more than 0.8% next year, and the deficit would be reduced by only 0.2 GDP point, compared to our baseline scenario (Table 3).

Table 3. Impact on the French economy of an 8 billion euro hike in VAT

In %, difference from central accounts

Impact on ...	2015
... GDP	-0.3
... General government financing capacity (% GDP)	0.2
... Market sector employment (%)	-0.1
... Unemployment rate (percentage points)	0.1

Source: OFCE emod.fr forecast 2014-2015, made in October 2014.

Austerity without end – or, how Italy found itself trapped by European rules

By Raul Sampognaro

If the budget submitted by France is out of step with the rules on fiscal governance in the euro area (see the recent posts on this subject by Henri Sterdyniak and Xavier Timbeau), Italy is also in the hot seat. The situations of France and Italy are, however, not directly comparable: the case of Italy could be far more restrictive than that of France, once again reflecting the perverse effects of Europe's new governance. While, unlike France, Italy is no longer subject to an Excessive Deficit Procedure (EDP), with its budget deficit at the 3% threshold since 2012, it is still covered by the Stability and Growth Pact's preventive arm and thus enhanced surveillance with respect to the debt criterion. The country's debt of 127% of GDP is well above the 60% level set by EU rules and, according to its medium-term budgetary objective (MTO), Italy must come close to balancing government spending.

While the French budget deficit for 2015 will be the highest in the entire euro area (excluding countries subject to a programme [1]), since the latest announcements on October 28, Italy has a deficit of 2.6%, which should not trigger a new EDP. However, the Pact's preventive arm puts constraints on changes in the country's structural balance:

– (i) in the name of convergence towards its MTO, Italy must make a structural adjustment of 0.5 percentage point per year for 3 years (i.e. cut its structural deficit by 0.5 point per year),

– (ii) if the structural deficit defined in the MTO is not sufficient to reach a debt level of 60% within 20 years, the country must make an extra effort under the *debt criterion*. According to the latest forecast by the Commission, Italy must provide an average annual structural effort of 0.7 point in 2014 and 2015.

Yet the government is counting on a *deterioration* in the structural balance of 0.3 point in 2014, followed by an *improvement* of 0.4 point in 2015.

Thus, while according to the Commission the treaties require Italy to make a cumulative effort of 1.4 point in 2014 and 2015 (for its part the Italian Government considers that this effort should instead be 0.9 point), Italy is announcing an *improvement* in its structural balance of 0.1 point during the period, a difference of 1.3 points from that demanded by the Commission. From this perspective, Italy is further from European requirements than France, and will have to justify its lack of a structural adjustment. In addition, Italy is not expected to reach its MTO in 2015, even though at the end of the European Semester in July 2014 the Council had recommended it stick to the 2015 target.

Italy is the first country to be constrained by the *debt criterion* and is serving as a laboratory for the application of the rules by showing some of their adverse effects. Indeed, the adjustment required under the *debt criterion* is changing in line with several parameters, some of which were not really anticipated by the legislator. For example, the amount of the adjustment depends on a forecast of the ratio of nominal debt / nominal GDP at the end of the transition phase. However, the fall in prices currently underway in Italy is lowering the nominal GDP forecast for the next three years, without any change in fiscal policy. Thus, the debt criterion is tightening mechanically without any government action, endlessly increasing the need for structural adjustment as the new adjustments induce more deflation. In addition, the procedures used to find deviations from the debt criterion are slower because the controls are carried out essentially *ex post*, based on the accumulated deviations observed over two years. However, the magnitude of the deviation announced by the Italian government could spark procedures based on *ex ante* control. Recall, however, that unlike France, Italy is not currently in a procedure. This would have to be opened before any sanctions could be envisaged against Italy. This preliminary and necessary step gives the Italian government time to take suitable measures or to justify its deviation from the MTO.

Furthermore, the EDP’s preventive arm provides more opportunities for deviation than the corrective arm. In addition to the clause on exceptional economic circumstances, Italy can argue major structural reforms that will improve the future sustainability of the debt. This argument, which is also raised by the French government, is not set out in the EDP text (the Commission could accept some flexibility). Here, however, the Renzi government is drawing on its reputation as more of a reformer than the French government.

Both governments have requested the application of the exceptional economic circumstances clause in order to break their commitments. The Commission could be more sensitive to the Italian request because its economic situation has deteriorated: Italy has seen 3 years of falling GDP, which is continuing in the first half of 2014. The country's GDP is 9 points below its pre-crisis peak, while in France it is one point higher. The latest survey indicators, for example on industrial production, do not augur well for recovery in the short term. Finally, Italy is suffering deflation.

In summary, while the Italian gap seems larger than that of France, it could benefit from greater indulgence. The procedures applied to each country differ and give Italy more time before any sanctions can be applied. The country's willingness to reform could win it higher marks than France from the Commission. Finally, the most important point in the discussion is that Italy's economic situation is much more serious, with an uninterrupted recession since the summer of 2011 and with prices falling.

But in both cases the reinforced pact, whether it is corrective or preventive, implies endless structural adjustment. Italy demonstrates that getting out of the excessive deficit procedure will demand continuing efforts to meet the debt criterion. If France leaves the EDP in 2017, its debt will be, according to government forecasts, around 100% of GDP. It must then continue with adjustments of more than 0.5%. Confirmation of deflation will make the Pact's rules even more recessive and absurd. Ultimately, the fiscal pact meant to preserve the euro by chasing free-riders or stowaways could lead to blowing it apart through an endless recession.

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[1] Greece, Ireland and Portugal have received European aid and thus have been subject to joint monitoring by the ECB, the IMF and the European Union. Ireland and Portugal are now out of their bailout programme.

Jean Tirole – an outstanding economist

By Jean-Luc Gaffard

Jean Tirole, this year's winner of the Bank of Sweden's Prize in Economic Sciences in Memory of Alfred Nobel, is an exceptional economist. This is reflected in the academic quality of his published works, both in the discipline's major journals and in books where he builds on his own research to engage with the major issues facing economics in the field of industry, regulation and finance. It is also reflected in his clear determination to address genuine issues that are important to an understanding of the functioning of market economies and in his concrete proposals for public policy to deal with this. It is also reflected in the way he explores these issues through developing powerful new analytical tools. And finally, it is reflected in the modesty of the judgments he renders on his results and their practical implications, a modesty befitting a true scientist.

It is fashionable in some circles to pigeonhole economists in one category or another, usually to stigmatize them. Jean Tirole is no exception to this parlor game. Detractors of the field of microeconomics, which focuses on company strategies, would have him more accustomed to frequenting the media than his research desk, and to be a defender of theses that could be termed free market if not ultra-liberal, more or less a sycophant of the markets and a fighter against government action. Nothing could be further from the truth.

Jean Tirole explores the functioning of markets populated by companies that are seeking to exploit their market power to mislead regulators whose choices are affected by a lack of information and by the existence of specific political constraints. He deals seriously with the fact that information is incomplete, that market situations and behaviors are imperfect, and that rational bubbles might even arise. If in the face of the crisis, everyone is now calling for stimulating R&D, developing vocational training, and expanding public investment, everyone should also be aware that the results are subject to the prevailing forms of organization, which are subtle and varied mixtures of competition and cooperation at the heart of the contracts between private and public actors on the various markets. This is what the work of Jean Tirole has drawn to our attention, along with the discussion that is needed about methodology and the choice of tools and standards that government should use.

Jean Tirole and his friend and co-author Jean-Jacques Laffont, who died too young, with whom he would likely have shared the prize awarded to him today, set themselves the task of analyzing the relationships that link business and State in the key sectors of telecommunications, energy and transport, while trying to determine the conditions in which these are socially efficient. These two are worthy successors of a prestigious French tradition, that of the French "economic engineers" – including Clement Colson, Marcel Boiteux and Maurice Allais – who as both researchers and engineers worked to establish the place and role of government in the functioning of a market economy. It is a tradition of public economics that the two nevertheless revolutionized by showing, through the new tools they used, that protecting the public interest assumed an ability to understand the detailed functioning of markets that differ greatly from one another and at the same time the shortcomings of a state that is neither omniscient nor spontaneously benevolent. In doing this, they emphasized the complexity of situations and, consequently, the complexity of contractual rules – complexities that it would be illusory and dangerous to ignore. They were able to highlight the true nature of a market economy in which the State, far from replacing the market, helps it to function properly through targeted interventions. In this respect, and in a domain that they made their own, that of analyzing companies and markets, they were part of a stream of social philosophy much like that developed by Keynes.

Does this mean that no criticism can be made of the work done? This is surely not the approach of the author himself, who knows that scientific progress grows out of controversy and debate so long as this is conducted according to fair play by researchers with proven expertise. The impossibility of setting out general rules is undoubtedly a weakness of an approach in industrial economics that Franklin Fisher (1991) [1] characterized as a theory that takes the form of examples and risks only producing taxonomies, which could mean that anything can happen, making it difficult to establish guidelines for public policy. This approach cannot dispense with the image of the heterogeneity that characterizes market economies, without which it is, in any event, vain to imagine effective public policy. Furthermore, many studies by Jean Tirole have the virtue of adjusting the specifications of the theoretical models to the particular configuration of the industries, businesses and technologies under study. Other approaches are undoubtedly possible, which would break with the hypothesis of agents practicing intertemporal optimization in a world of rational expectations. They would insist on the sequential nature of the choices made by trial and error in an uncoordinated economy, even in a state of bad equilibrium, due to the significance of innovation, which implies both the irreversibility of investment decisions and incomplete knowledge of the future configuration of the markets. Taking on board this aspect of industrial reality would mean recognizing that it is just as important to understand how firms acquire knowledge – incomplete knowledge at that – about the reactions of their competitors as it is to establish the impact of this. Following a line of thought that is rooted more in Marshall and Hayek than in Walras and Cournot, it would be possible to provide another perspective on the functioning of market economies and the role of collusion and of networks, which could sometimes lead to different recommendations for public policy. It would also be necessary that the approaches chosen, which would be geared more toward the issue of coordination than of incentives, would have the robustness needed to enrich if not outright challenge established theory. This is what Jean-Jacques Laffont impressed on me during a long conversation we had while awaiting our respective flights that had been delayed by a strike – a situation not irrelevant to our discussion.

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[1] See "Organizing Industrial Organization: Reflections on the Handbook of Industrial Organization", *Brookings Papers on Economic Activity. Microeconomics,* vol. 1991 pp. 201-240.

Are the macroeconomic forecasts of the central banks better than those of private agents?

By Paul Hubert

Private expectations – about inflation, growth and interest rates — are a critical component of most modern macroeconomic models, as they determine the current and future realizations of these very variables. Monetary policy has been shaped more and more by the incorporation of these expectations in central bankers' calculations and the influence they have on private expectations through interest rate decisions and the way these are communicated. The establishment by the central banks of a forward-looking policy orientation, called "forward guidance", has further reinforced the importance of central bank macroeconomic forecasts as a tool of monetary policy for influencing private expectations.

A recent article in the *Revue de l'OFCE (no. 137 – 2014)* evaluates the forecasting performance of the US Federal Reserve relative to that of private agents. This empirical review of the existing literature confirms that the Fed performs better than private agents in forecasting inflation, but not on GDP growth. Furthermore, the Fed does even better over longer forecast horizons. Despite this, its superiority seems to have been declining in recent times, though it's still significant. This article highlights the potential reasons for the Fed's superior performance, and suggests that this could stem from better information about the shocks hitting the economy rather than from a better model of the economy. The publication of these macroeconomic forecasts therefore helps to disseminate information among economic agents and boosts the effectiveness of monetary policy by allowing private agents to better foresee trends and possible developments.

The infinite clumsiness of the French budget

By Xavier Timbeau, @XTimbeau

In the draft budgetary plan presented to the European Commission on 15 October 2014, it is clear that France fails to comply with the rules on European governance and its previous commitments negotiated in the framework of the European Semester. As France is in an excessive deficit procedure, the Commission, as guardian of the Treaties, has no choice *a priori* but to reject the country's budget plan. If the Commission does not reject the plan, which departs very significantly, at least in appearance, from our previous commitments, then no budget could ever be rejected.

Recall that France, and its current President, have ratified the Treaty on Stability, Coordination and Growth (the "TSCG" came into force in October 2012), which had been adopted by the Heads of State in March 2012. There was talk during the 2012 presidential campaign of renegotiating it (which raised the hopes of the southern European countries), but the urgency of the sovereign debt crisis in Europe, among other factors, decided otherwise. France has implemented the provisions of the TSCG in Organic Law 2012-1403, for example by setting up a new fiscal council, the Haut Conseil des Finances Publiques, and establishing a multiannual system for tracking the trajectory of public finances based on structural balances (that is to say, adjusted for cyclical effects).

Everything seems to indicate that France had accepted the highly restrictive framework that had been established by the "Six-Pack" (five regulations and one directive, dated 2011, which reinforce the Stability and Growth Pact and which specify a timetable and parameters) and then reinforced by the TSCG and the "Two-Pack". France's good will was also evident when it presented its 2014 draft budgetary plan in October 2013 and a stability programme in April 2014, which more than complied. It was at a press conference in September 2014 that the French government announced that the deficit reduction target for 2015 would not be met. Low growth and low inflation were the arguments made there for a serious revision of the economic situation, which was presented as a truthful assessment. The same situation arose in 2013, with the nominal target then being set while underestimating the fiscal multipliers. However, the timing and magnitude of the adjustments had been respected, and a postponement was granted.

So until the press conference, no major difficulty had been posed to the workings of the Treaty. One of the innovations of the TSCG was in fact to no longer aim at a nominal target (3%) but to focus on the structural effort. If the economic situation proves to be worse than expected, then the nominal deficit target is not met (which is the case). In this situation, the objective is the structural effort. In the 2014-2017 Stability Programme of April 2014, the structural effort announced (page 13) is a 0.8 GDP point reduction in the structural deficit in 2015, following 0.8 GDP point in 2014. The excessive deficit procedure (also set out in a *vade-mecum* of the Commission) requires a minimum structural effort of 0.5 GDP point and that the mechanisms for achieving this be set out precisely.

It is here that the 2015 budget bill represents a concrete violation of the treaty. The effort in 2014 is now only 0.1 point, with 0.2 point announced in 2015. These figures are unacceptable to the Commission. How can such a provocative change be explained? Several factors are behind this. The first is a change in the method of booking the CICE tax credit, which means recording in 2015 the expenses generated in 2015 and paid in 2016. As the CICE ramps up, this comes to 0.2 GDP point less in France’s fiscal effort. The second is a change in the hypothesis for potential growth. Instead of 1.5% potential growth in the 2014-2017 stability programme, this is assumed to be 1.2% over the 2014-2017 period. Using a constant percentage method, the effort would have been 0.5 GDP point in 2014 and 0.6 point in 2015. The difference with the April 2014 stability programme is due to the revision downwards of inflation and to several changes in the measurements. A new presentation of the same budget, with a marginal modification of the economic situation, is marked by the absence of structural effort. Not only will the nominal target not be achieved, but furthermore the structural effort for 2014 and 2015 is abandoned – with no change in policy! Worse, this draft budget implies that the nominal target is not being achieved because the structural effort was not made in 2014 and won't be in 2015.

The government, nevertheless, pleads extenuating circumstances. Why change the assumptions for potential growth while not having kept the previous accounting standards for presenting France's 2015 draft budgetary plan? An effort of 0.6 GDP point in 2015 instead of the previously announced effort of 0.8 GDP point would not have posed any problems for the Commission, which itself had made overly high estimates of potential growth (as also in its remarks on the 2014 draft budgetary plan, which the Council did not adopt in November 2013). It would have been easy to answer that one does not change assumptions of potential growth every 6 months, and that this is furthermore the purpose of this concept and the reason for its introduction in EU Treaties and guidelines: to avoid a pro-cyclical character in fiscal policy, to avoid tightening up budgets at a time when bad news is piling up. It would have been accepted that the Commission had a lower assessment than France, but potential growth is not observed, and its assessment is based on numerous hypotheses. It is not, for instance, specified in the treaties or regulations whether potential growth is to be assessed in the short term or the medium term. But the Commission considers (in the 2012 Ageing

Report) that France's medium-term growth potential was 1.7% per year (on average 2010 to 2060) and 1.4% in 2015. Above all, nothing obliges France to adopt the hypothesis of the Commission. EU regulation 473/2011 demands that the hypotheses be made explicit, and outside opinions might also be requested. French Organic Law 2012-043 states that, "A report attached to the draft budgetary plan (LPFP) and giving rise to parliamentary approval states: … 9) The procedures for calculating the structural effort referred to in Article 1, the distribution of this effort among the various sub-sectors of government, and the elements used to establish a correspondence between the notion of the structural effort and the notion of the structural balance; 10) The hypotheses of potential gross domestic product used in planning the public finances. The report presents and justifies any differences from the estimates of the European Commission" – which gives the government good control over the hypothesis for potential growth and makes the parliament sovereign, the final judge.

Does a truth check need to be conducted on potential growth so as to significantly alter this crucial hypothesis in the presentation of the budget? Should a truth process lead to presenting a budget as almost neutral when it reflects crucial, expensive policy choices (to finance business competitiveness by cutting public spending and increasing taxes on households)? Is the Commission's hypothesis more relevant because it has been continuously revised every 6 months for 5 years now? Couldn't it be explained that the French government's ambitious programme of structural reform would help to increase potential growth in the future (unless the government doesn't believe this)? Aren't the CICE and the Responsibility Pact a sufficient pledge of the renewed vitality of a productive system that will lead to boosting potential growth? Would it be better to follow the advice of the authors of a report for the French Council of Economic Analysis (CAE) on potential growth who did not risk producing a new estimate? Isn't it the subject of growth that needs to be discussed (constructively and technically, in discreet fora) with the Commission, rather than engaging in an explicit breach of EU rules? In the 2015 draft budgetary plan, it is written (page 5): "the trajectory is based, out of caution, on a downward revision of potential growth from the previous budgetary plan, by taking the European Commission's latest estimate of potential growth (spring 2014)". What kind of caution is this that looks more like a blunder with terrible consequences? Is it the mess that the government was in at end August 2014 that permitted this state of infinite clumsiness?

It is impossible to justify the presentation made: the Commission will rebuke France, which will not react, since it is sure of its rights (as the government has already stated). The Commission will then ramp up the sanctions, and it is unlikely that the Council will stop this process, especially as the decisions are to be taken by a reverse qualified majority vote. There will be a new round of French-bashing, which will merely show the futility of the process, because France will not deviate from the path it has chosen for its public finances. This will undercut France's persuasiveness and influence at the very time that a 300 billion euro investment plan is being developed, which is sought only by France and Poland (according to rumors), which risks derailing a rare initiative that could get us out of the crisis.

In letting the muffled fury of the technocracy express its dissatisfaction with France, what will come out is the fragility of "European governance". But this governance relies solely on the denunciation of France and the consequent peer pressure. France could be fined, but neither the Council nor the Commission have any instruments to "force" France to meet Treaty requirements. This is the weakness of "European governance": it works only if the member states voluntarily adhere to the rules. It is thus governance in name only, but despite this it is the foundation underpinning the path out of the sovereign debt crisis. The European Central Bank intervened in the summer of 2012 because stronger governance of public finance was intended to solve the "free rider" problem. The (numerous) critics of the European Central Bank's intervention have broadly denounced the hypocrisy of the Treaty, which guarantees nothing since it is based on the voluntary discipline of the member states. Its violation by France and the impotence of the Commission and the Council will be such a demonstration of this weakness that there is concern that the house of cards might collapse.

France could revise its draft budget and add measures that, in the new accounting system and with a lowered estimate of potential, would enable it to fulfil its April 2014 commitment on its structural effort. This scenario is highly unlikely, and that's a good thing (see the post by Henri Sterdyniak). It's unlikely, because the almost 2 points of VAT at the full rate required to achieve an effort of 0.8% of GDP (and thus without compensating for the delay in 2014) would not be approved by the French Parliament. And it's good because this would trigger a recession (or serious slowdown) in France and a completely unacceptable rise in unemployment simply to save face for the Commission and diligently apply European legislation.

It would have been more clever to stick to the hypotheses (and methods) of the 2014 stability program, France's Haut Conseil would have protested, the Commission would have complained, but Europe's rules of governance would have been saved. They say that statistics are the most advanced form of lying. Between two lies, it's best to choose the less stupid.

French competitiveness: The object of a supply policy

By Sarah Guillou

The 2014-2015 edition of The Global Competitiveness Report [1] by the World Economic Forum sheds light on the political debate between those who like to prioritize a supply policy and those who instead make the conditions governing offer their top priority. Note that competitiveness is a key factor in future growth in mature economies that specialize in high-tech or high added-value products [2].

France ranks 23rd in terms of the global competitiveness indicator calculated by the World Economic Forum. This competitiveness indicator goes beyond conventional measures based on relative production costs to incorporate many sub-indicators (100 in total) that cover a variety of dimensions, including the functioning of product markets, labour markets, and institutions; indicators about human capital, infrastructure and innovation; and qualitative measurements from business surveys. The result is a set of dimensions that identifies a country's level of productivity in detail. The competitiveness indicator proposed is "global" in terms of both the extent of the dimensions included and the number of countries covered.

Competitiveness is measured relative to 143 countries. The weighting of the sub-indicators is deduced from the membership of countries in a category based on their level of economic development: Phase 1, governed by the availability of factors; Phase 2, in transition from Phase 1 to Phase 3; Phase 3, governed by the efficiency of the factors; Phase 4, in transition from Phase 3 to Phase 5; and Phase 5, governed by innovation. Depending on the category, the weight assigned to each sub-indicator in determining the level of competitiveness differs. This explains why the ranking does not fully reflect the traditional hierarchy of countries based on their level of economic wealth. Moreover, the diversity of the indicators that come into play can result in countries with very different economic profiles being ranked more closely: hence Russia (53rd) is nipping at the heels of Italy (49th), and the UAE comes right after Norway (11th).

With respect to the debate on supply-and-demand dynamics, it is interesting to note that the global competitiveness indicator is based on a set of sub-indicators that are not all associated with structural reforms associated with supply, and many of them result from a balanced support for demand. For example, the provision of high-quality human capital (skilled, healthy, etc.) requires not only an environment that values labour and rewards merit but also a level of security and social welfare which contributes to a quality of life that attracts and retains human capital, and therefore a certain level of public spending. This is also the case for infrastructure. More generally, the competitiveness indicator is the result of achieving a balance between the level of public spending and structural reforms in such a way that the indicators wind up complementing each other.

Switzerland's no. 1 ranking recognizes the quality of its business environment – infrastructure, human capital, institutions, trust, macroeconomic stability – which makes up for the weakness of its market size and its degree of openness and specialization in high-tech manufacturing industries [3]. Six European countries are in the top 10, which is reassuring for the European model [4]. The French economy has stabilized its position in the ranking with respect to the previous year, following four years of decline – it was ranked 16th in 2008.

Of the 144 countries ranked, France owes its position in the first quintile (the top 20%, *i.e.* the first 28 countries) to the quality of its infrastructure and educational system, its technological level and its entrepreneurial culture [5]. Competitiveness is primarily a relative concept, and in a global economy where more and more countries aspire to be in the top 10 economic powers, judgments about the French economy depend heavily on the group to which it aspires to belong. What raises questions is that France long belonged to the top 10, and its main companions historically are still there (Germany, the United Kingdom, Belgium, Netherlands and the United States). Relative to the first quintile, which includes 13 other European countries, the United States, Canada, Japan and China, France's position at the tail end is far from glorious and requires us to take a look at the indicators that rank the French economy among the least competitive. The main reasons for this result are the functioning of the labour market, the State's fiscal position, and the country's relatively poor performance in providing an environment favourable to work and investment.

More specifically, an analysis of the specific sub-indicators (from the 100) for which France's performance puts it in the bottom third of the 144 countries, *i.e.* a ranking between the 96th and 144th spots, and a comparison with its neighbours (see Figures 1-3), reveals the following points:

1) The dimensions that show the greatest contrast relative to Germany, the United Kingdom and the United States include the burden of administrative regulations, the impact of taxes on investment incentives, the impact of taxes on work incentives, cooperation in labour-management relations, hiring and firing practices and the rate of taxation as a percentage of profits.

2) France's lacklustre performance is often exceeded by that of Italy.

3) The indicators on French fiscal policy are problematic, but this is not strongly different from the situation of its partners.

The functioning of the labour market, and more generally the regulatory environment influencing incentives to work and invest, thus emerge as the dimensions pushing down the global competitiveness indicator. Note that these indicators are derived from objective measures (such as number of regulations, level of taxation, macroeconomic data) but also in large part from responses to a survey of business leaders. These leaders have to indicate on a scale of 1 to 7 their assessment of the various factors underlying the indicators. In the main the indicators thus express a felt reality. For France, the low ranking in the dimensions identified in point 1) reveals the **severity** of the judgment of these business entrepreneurs.

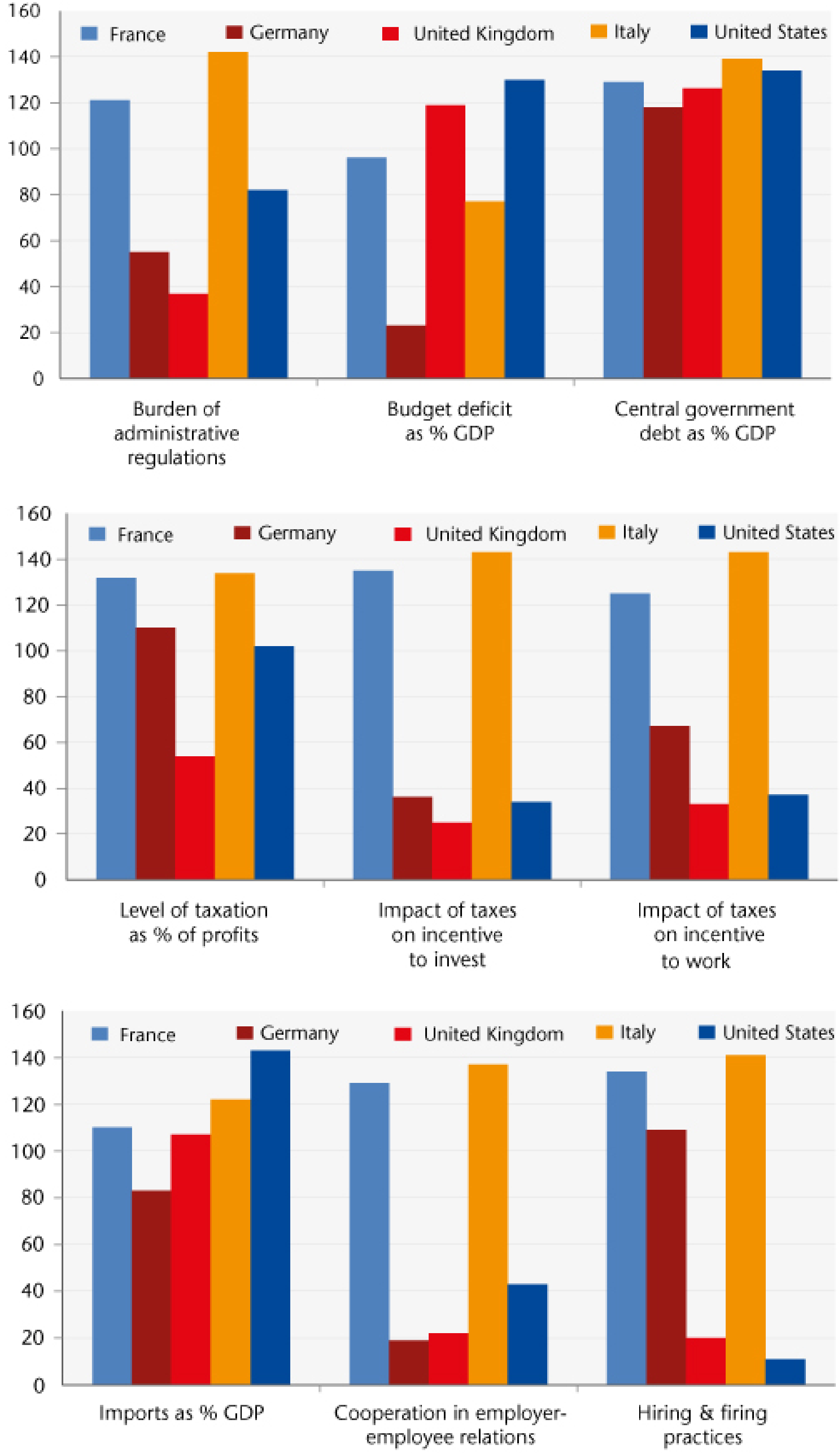
The lessons for economic policy are as follows: the scope for progress and the specific reasons for France's position lie in the dimensions outlined in point 1). The priorities for structural reform are cumbersome administrative regulations, incentives for work and investment, and the quality of labour-management relations. But what policies are needed to deal with these issues?

Administrative simplification and the Responsibility Pact are a step in the right direction, but it is questionable whether the measures taken will affect the way business perceives economic incentives in the administrative-legal environment. Moreover, nothing is being done in terms of improving labour-management relations. Finally, it would be desirable for government to adopt a neutral and stable position vis-à-vis companies, a position that neither maligns their economic rationality nor undermines their power over the industrial future. And even if the divorce between the State and business is in part "constitutional", as Jean Peyrelevade [6] argues, we cannot give up efforts to improve social dialogue and to reconcile French companies with their economic and regulatory habitat. This is one of the keys to French competitiveness.

Finally, the three lessons of this Report are 1) to keep in mind that competitiveness reflects a combination of many elements that cannot simply be reduced to facilitating the exercise of economic activity (*i.e.* tax cuts, labour market flexibility), 2) the most competitive economies are not those where public authority has retreated, as many dimensions require a State that makes effective investments (in education and infrastructure) and guides capital (for example, into renewable energy); and 3) the margin for progress towards a more competitive **France** today lies not in public investment, but in incentives for social dialogue, employment, labour and investment.

The WEF classification thus provides clear evidence that supply conditions in France can be greatly improved and that to prioritize the competitiveness of the French economy reforms in this direction are imperative.

Figures 1 to 3: Classification of France, Germany, the United Kingdom, Italy and the United States for the specified indicators out of the 144 countries ranked in the Global Competitiveness Report 2014-2015



Note: Figures 1 to 3 depict a country's ranking for each of the specific indicators, with a smaller bar indicating a better ranking.
Source: World Economic Forum, Global Competitiveness Report 2014-2015, author's graphics.

[1] The World Economic Forum began to calculate competitiveness in 1979, and since then has gradually extended its efforts to embrace more dimensions and countries.

[2] These productive activities are in effect associated with increasing returns to scale (due to high fixed entry costs, in particular R&D), which implies economic viability on a large scale: in other words, on a scale that goes beyond simply the domestic market.

[3] Likewise, political transparency is more highly valued than economic transparency.

[4] Switzerland, Finland, Germany, Netherlands, United Kingdom, Sweden.

[5] “the country’s business culture is highly professional and sophisticated” (page 23).

[6] J. Peyrelevade, *Histoire d’une névrose, la France et son économie*, Albin Michel, 2014.

Reforming unemployment insurance in France today:

not a good idea according to OECD indicators

By Eric Heyer

Six months following the signing of a national industry-wide agreement on unemployment benefits between the social partners, with new rules that normally are to apply until 2016, the French government, which wants to go further in reforming the labour market, is evoking the possibility of once again reforming the unemployment insurance system by reducing the level of benefits and the period they are paid.

It is far from clear that reforming the unemployment insurance system is in keeping with the idea that any reform must improve the "quality of life" of our citizens. This is, in any case, what is indicated by the latest publication of the OECD.

In Chapter 3 of the 2014 edition of the OECD's Employment Outlook, the international organization has implemented the recommendations of the 2009 Stiglitz-Sen-Fitoussi report by evaluating the quality of employment in the OECD countries. This new indicator supplements conventional measures of the quantity of work and should eventually lead to transforming the content of public policy by imposing new assessment criteria on the public authorities.

The OECD constructs an indicator on the quality of employment on the basis of three factors: the quality of wages, the security of the job market, and the quality of the working environment. According to the OECD, this last dimension is relatively mediocre in France: the high level of professional requirements and insufficient resources to accomplish tasks leads to a high level of on-the-job stress for French employees. As for wages, a review of both their level and distribution places France close to the average of the OECD countries. Finally, while the quality of work in the country is close to average in the developed countries, this is, according to the OECD, due mainly to a high level of job security in France, due to both the extent of social security … and the generosity of unemployment insurance.

The proposals for reforming unemployment insurance would therefore tend to deteriorate rather than improve the "quality of life" for the French, and would thus miss their target from that perspective. But would they lead to improving the quantity of work?

There is some food for thought on this subject in Chapter 1 of the Report, in which the OECD indicates that the structural unemployment rate – *i. e.* the unemployment rate depending on the impact of rigidities that prevent the labour market from functioning properly – has not increased since the onset of the crisis in France, just as is the case in many other developed countries: for the OECD, the sharp increase in unemployment seen since 2008 has a mainly cyclical component that cannot be combated by reforming unemployment insurance.

As a consequence, given the current situation of the French economy, reforming unemployment insurance along the lines suggested by the government will, if the OECD analysis is to be believed, undermine the quality of employment – and in particular the quality of life of the unemployed – without reducing the level of unemployment!