

Shut down: America in the spotlight

By Christine Rifflart

A State that asks a third of its civil servants to stay home because it can't pay them is in a critical situation. When it's the United States, it's the whole world that worries.

The absence of an agreement on the 2014 budget, which was to take lawful effect as of Tuesday, 1 October 2013, shows the standoff in Congress between Democrats and Republicans. This kind of contention over the budget is not new: no budget has been passed since 2011, and the federal government has worked up to now through "continuing resolutions" that are used to release the funds needed for the government to function and operate, on a provisional basis. Today's blockage is on a different scale, and parts of the administration have had to close their doors due to lack of funds. This exceptional situation is not unprecedented: 17 shutdowns have occurred since 1976, the last two under the Clinton administration, lasting, respectively, one week (from 13 to 18 November 1995) and three weeks (from 15 December 1995 to 6 January 1996).

According to the Office of Management and Budget, of a total of 2.1 million federal government employees, more than 800,000 have been prohibited from working, while others have come to work with no guarantee that they will be paid. For example, those being told not to work include 97% of NASA employees, 93% of the Environmental Protection Agency, 87% of the Department of Commerce, 90% of the IRS, etc. Each of these received [a letter from the President](#) expressing his bitterness. In practice, this also means that some social services are no longer assured, some government call centres are closed, and the national monuments and 368 national parks are no longer open to the public. Applications for subsidized

loans, housing grants, and loan guarantees are no longer being taken, and some government services are closed:



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Vital services and programs for which funding is not linked to the vote on the annual budget (so-called mandatory spending), which account for over 60% of pre-interest expenditure and represent 12.7% of GDP, have nevertheless been spared. Some social security programs (Medicare, Medicaid), the postal service, national security, and military operations have thus been protected from shutdown, at least in so far as they are not affected by restrictions on staff whose salaries are covered in the 2014 budget.

Another political and fiscal crisis is looming: the US government could go into default from October 17 if the authorized debt ceiling is not raised. The uncertainty surrounding this situation is fraying nerves on the financial markets, and the frozen political climate in Congress does not seem to herald an honourable end to what the media are calling

a “game of chicken” [\[1\]](#). In 1995, however, Clinton emerged victorious from this crisis with the Republicans, and was re-elected in 1996, despite the Republican majority in Congress.

The economy could be seriously affected while awaiting an end to this crisis. If the salaries and benefits of federal civil servants are not paid, the loss in earnings would come to an average of 1500 dollars per week for each family affected. Given the total of 2.1 million federal employees, this would represent 0.08% of quarterly GDP. In three weeks, this would amount to a loss of 0.25% of GDP for the economy in the 4th quarter. Congress could, however, approve retroactive payment of the salaries, which is what generally took place during previous shutdowns.

But this still does not take account of the more important issue of the disorganization of the economy. Considering that on an annual basis half of the federal government’s discretionary spending (*i.e.* 37% of federal spending, or 7.6% of GDP) [\[2\]](#) is affected by the shutdown, since it is financed out of the 2014 budget, this loss in expenditure represents 0.15 GDP point per week. Given the disorganization represented by the government closures (and using a fiscal multiplier of 1.5), the impact on growth could then come to at least 0.22 GDP point per week. If the crisis lasts 3 weeks, then the impact on 4th quarter GDP would be at least 0.7 GDP point – which would mean a recession for the US economy by the end of the year!

Other estimates do exist. The Office of Management and Budget evaluated the [cost of the 1995 shutdowns](#) (from 13 to 18 November 1995 and then from 15 December to 6 January 1996) at 1.4 billion in 1995 dollars (*i.e.* 0.5 % of quarterly GDP). Based on the 1995 shutdowns, [Goldman Sachs](#) evaluates the current weekly cost to the US economy at 8 billion dollars, equivalent to an impact of 0.2% of 4th quarter GDP. Moody’s Analytic Inc. estimates that the shutdown will have an impact

of 0.35% of quarterly GDP per week.

If the budget crisis lasts only a few days, its repercussions on the French economy will be minimal, *i.e.* a reduction in US growth of 1 percentage point would cut French growth by 0.17%. But if the crisis lasts several weeks and overlaps with a crisis over the ceiling on the government debt, which is quickly approaching, then the consequences could be very different. The two crises (the blocked budget and the failure to pay the public debt) would combine and fuel one another, as is emphasized by this [New York Times post](#). It is difficult to imagine the panic this could cause on the financial markets, as interest rates soar and the dollar collapses. This would be a very different story indeed...

[1] In game theory, a game of chicken is a game of influence between two players in which neither must yield. When for example two cars are racing towards a head-on collision, the “chicken” is the driver who veers off course in order to avoid dying.

[2] A major part of spending by the Department of Defence is approved on a multiyear basis and is not subject to being blocked due to the shutdown. Over half of DoD spending is composed of this discretionary expenditure. Furthermore, mandatory outlays are not financed out of credits subject to the vote on the Budget.

Social inequality in the face of death*

By [Gilles Le Garrec](#)

The problem of inequality in the face of death has become an important topic in French public discourse in recent times, in particular in autumn 2010 during debate about raising the minimum legal retirement age by two years, by gradually shifting it from age 60 to 62. The debate became focused around a politically divisive issue: should the retirement age remain unchanged for low-skilled workers on the grounds that they enter the labour market earlier and / or have more strenuous jobs and live shorter lives? Since the socialist government came to power in 2012, two exemptions have been introduced to allow less-skilled workers to continue to retire at 60. First was the introduction in summer 2012 of an exception for a “long career”, that is to say, for those who have contributed for a sufficiently long time. This September 2013 it has also been decided to set up a “hardship” account, starting in 2015, which will allow all employees who are exposed to working conditions that reduce their life expectancy to retire earlier. Nevertheless, the issue of inequality in the face of death – a taboo subject? – involves much more than simply the retirement age; before that, there are also the issues of inequality in income, housing, access to employment, education, etc. What follows is a small panorama (statistical) on inequality in the face of death in France, its causes and the difficulty of developing a political solution due to the multidimensional factors involved.

Very old – but not very reliable – statistics

From the late 18th century [\[1\]](#), the development of censuses, which was associated with the rise of statistics, has made it

possible to build up data that show the existence of a close link between inequality in the face of death and social inequality more generally. These early studies show that inequality in the face of death is explained primarily by income (Cambois, 1999). However, the import of these studies is limited due to the low reliability of their data and methodology. It is no easy matter to develop reliable indicators on this issue. Once we have the socio-professional categories (SPC) for death statistics and censuses, we can easily calculate mortality rates by comparing the number of deaths for the year (or years) classified by SPC with the size of the population classified in the same way. For example, in France for the period 1907-1908 Huber catalogued on an annual basis the death of 129 business executives aged 25 to 64 out of a total of 10,000, compared with 218 workers. This simple and intuitive method nevertheless gives a distorted view of social inequality in the face of death, due to incompatibilities between population data and mortality data (Desplanques, 1993). The difficulty of obtaining an accurate representation of inequalities in the face of death becomes especially difficult with this method, as there is a growing trend for career paths to fragment, with alternating periods of activity and unemployment.

The longitudinal method and its lessons

To overcome this problem, France's INSEE has developed a longitudinal method that consists of regularly monitoring a group of individuals who have particular characteristics at a given point in time, and ultimately the date of their death. The permanent population sample thus obtained, which was initialized during the census of 1968, currently includes approximately 900,000 individual histories, ensuring a good representation of the French population ([Couet, 2006, for a description of this sample and how it was constructed](#)). This large-scale socio-demographic panel makes it possible to draw a relatively accurate picture of social inequality in the face

of death in France. This shows that individual lifetime varies greatly from one socio-professional category to another, especially among men (Table 1). Male executives have a life expectancy (at age 35) that is four to five years above the average for men. Excluding inactive people [2], the most disadvantaged groups are manual workers, followed by white-collar employees, with life expectancies that are, respectively, two years and one year less than the average. Another interesting point is that the overall gain of four years in life expectancy over the period did not reduce inequalities in the face of death. The relatively stable result is that at age 35 the life expectancy of manual workers is six to seven years less (and white-collar employees five to six years less) than that of corporate executives and managers. In addition, at age 35 on average the latter experience 34 years in good health [3], 73% of their life expectancy, against 24 years for manual workers, or 60% of their life expectancy ([Cambois et al., 2008](#)). While among women, the difference in life expectancy between managerial personnel and manual workers was “only” three years at the time of the last census, the differences are comparable with those for men in terms of life expectancy in good health. The conclusion is clear: numerous social inequalities persist in the face of death, including in terms of health. This conclusion holds for every country in Western Europe that has conducted this kind of study, although it should be noted that the level of inequality in France appears to be the greatest by far (Kunst et al., 2000). The ratio of “manual to non-manual mortality” in France was 1.71 for men age 45-59, whereas it is on the order of 1.35 in most other countries (Finland, second behind France in terms of inequality, is 1.53). Leaving aside issues of data comparability, alcohol consumption is, according to Kunst et al. (2000), the most important factor behind the specific situation of France. Indeed, the greatest inequalities in mortality in France are due to major differences in mortality due to liver cirrhosis and to cancer of the aerodigestive tract, both of which are

associated with excessive alcohol consumption.

**Table. Life expectancy of men and women at age 35,
By period and socio-professional category**

In years

Socio-professional category	Life expectancy at age 35			Difference with the average			Life expectancy at age 35			Difference with the average		
	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008	1983-1991	1991-1999	2000-2008
	Men						Women					
Executives/managers	43,7	45,8	47,2	+4,5	+5	+4,4	49,7	49,8	51,7	+3,3	+1,8	+2,3
Intermediary profession	41,6	43,0	45,1	+2,4	+2,2	+2,3	48,1	49,5	51,2	+1,7	+1,5	+1,8
White collar employee	38,6	40,1	42,3	-0,6	-0,7	-0,5	47,4	48,7	49,9	+1	+0,7	+0,5
Manual worker	37,3	38,8	40,9	-1,9	-2	-1,9	46,3	47,2	48,7	-0,1	-0,8	-0,7
Inactive, not retired	27,5	28,4	30,4	-12,7	-12,4	-12,4	45,4	47,1	47,0	-1,0	-0,9	-2,4
Total	39,2	40,8	42,8	-	-	-	46,4	48,0	49,4	-	-	-

Source : Blanpain (2011), based on data from the permanent demographic sample, INSEE.

The causes

Several factors have been identified to explain the difference in mortality between socio-professional categories.

First, one can easily imagine that the working conditions of manual workers are usually physically demanding and debilitating. Moreover, during the 1980s we have seen a transformation in the structure of unskilled jobs. Over this period, the increasing need for businesses to be highly responsive has led to a more widespread use of flexible and precarious forms of employment (short-term contracts; atypical schedules; development of part-time, temporary work, etc.). But the increasingly precarious nature of work, which affects low-skilled jobs above all, is contributing to a serious deterioration in working conditions. Global economic conditions may therefore play a part in explaining disparities in mortality. In any event, working conditions are not improving as quickly for manual workers as for managers. This is certainly the view that was advocated in establishing the "hardship" account that is to be implemented from 2015. So any private sector employee who is exposed to working conditions that reduce life expectancy will accumulate points that will, among other things, enable them to retire early, and potentially before the statutory threshold of 62.

It should also be noted that the most disadvantaged groups cumulate a number of risky behaviours, such as smoking, excessive alcohol consumption, poor diet and a sedentary lifestyle. In contrast, managers and the intermediate professions smoke and drink in moderation. As was already pointed out as a factor in France's poor results in Western Europe (Kunst *et al.*, 2000), these differences in behaviour show up clearly in the mortality rates associated with certain diseases. The risk of death due to a tumour in the aero-digestive tract (larynx, pharynx, lungs, oesophagus, liver) is especially high among manual workers, and is at the heart of a significant portion of the observed differences in mortality. For example, during the 1980s, among men aged 45 to 54, the mortality rate associated with a tumour of the pharynx was 11 times higher for skilled workers and labourers than for teachers and the intellectual professions (Desplanques, 1993).

A lack of access to healthcare for the most disadvantaged groups is another explanation offered for the disparities in mortality, first of all because of costs. [Mormiche \(1995\)](#) thus shows that the consumption of medical products (their quantity but also their nature) is highly dependent on income. Disparities in access to healthcare are particularly marked for care that is expensive or poorly covered (especially dental). [Herpin \(1992\)](#) points out that a reduction in income due to a loss of employment leads to an almost proportional reduction in consumer spending, including on health. The risk of death rises by 60% for unemployed men in the years following a job loss ([Mesrine, 1999](#)). A man in poor health is of course more likely to be unemployed, but unemployment, due to the development of financial stress and disorientation and to personal factors, may affect health by creating a physical and emotional distance with respect to obtaining care.

Finally, the social environment and the local context play an important role in the persistence of social inequalities in the face of death, as can be seen in Table 1. The idea that

the behaviour of individuals is influenced by their place of residence has been developed in an extensive literature in the fields of both sociology and psychology ([Roberts and DelVecchio, 2000](#)). Mechanisms through which children identify with the behaviour of the adults surrounding them highlight a collective type of socialization. However, socio-spatial polarization, which is characterized by the creation of urban areas that cumulate all sorts of social disability, has been steadily increasing since the 1980s in France ([Fitoussi et al., 2004](#)). In these neighbourhoods, the high level of concentration of groups characterized by risky behaviours may, through this process of identification, root these behaviours in the core of people's lifestyle. This phenomenon may explain why prevention policies among high-risk populations are ineffective. The financial difficulties that are giving rise to the under-utilization of medical facilities can also wind up leading to social distancing from health issues. The weak participation of women from disadvantaged strata in public programmes to screen for breast cancer is illustrative of this. Moreover, even in countries where there is effective universal health coverage, the differences in the consumption of healthcare persist.

What should we conclude?

Social inequality in the face of death is a sensitive issue. At the heart of this problem lie a multitude of more or less overlapping causes. To be effective, policies to combat this type of inequality must grasp them as components of an ensemble, with interactions throughout their economic, social and spatial dimensions. While awaiting the reduction of these larger inequalities, it would seem worthwhile to establish just social policies that take account of this inequality in the face of death. In this regard, setting up a "hardship" account that enables any employee who is exposed to working conditions that reduce their life expectancy to retire earlier is definitely a step in the right direction. Nevertheless, the

establishment of criteria is not as easy as it seems. Indeed, it is clear that a good share of social inequality in the face of death can be explained by risky behaviour. Some might reason that such behaviours are an expression of individual freedom and that it is not up to society to compensate for the consequences. Or, it could be argued, to the contrary, that these behaviours are a response to psychosocial stress caused by, among other things, difficult working conditions. From this perspective, the compensation represented by an earlier retirement would seem more equitable. But it is not certain that we can really distinguish these two cases. You can bet that the future definition of the criteria for accumulating points to meet the "hardship" criteria giving entitlement to early retirement will be the subject of lengthy negotiations...

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[1] Pioneering works that could be cited include those by [Moheau \(1778\)](#) and [Villerm e \(1840\)](#).

[2] A category that groups individuals who have never worked. For women, this means mainly “housewives”.

[3] Good health is defined by the absence of limitations on everyday activities and the absence of incapacity.

Sharing parental leave: a must for equality

By [H el ene P erivier](#)

[The bill on equality between women and men](#), approved by the Senate on 18 September 2013, includes a component aimed at modifying the arrangements for access to the allocation of parental leave [1] by introducing what is called the free choice of activity (“CLCA”). The latest [OFCE Note \(no. 34 of 26 September 2013\)](#) analyzes the consequences of this measure for gender equality and proposes other possibilities for a broader reform.

The right to the allocation of parental leave is a family right: it is allocated to a parent who cuts their working time or ceases working altogether in order to care for a child, for a maximum period of 3 years. Noting that 98% of the

beneficiaries are women, the law aims to encourage fathers to take it up: henceforth, out of the 36 months allocated for parental leave, 6 must be taken by the other parent. In other words, once the mother has taken 30 months of parental leave, the father must take over or else the family will lose the remaining 6 months. The UNAF, which opposes the reform, has published [a survey on “fathers and parental leave”](#) on its website. Arguing that the two sexes are complementary, it opposes the principle established in the law aimed at promoting the sharing of family responsibilities between mothers and fathers. Furthermore, the lack of childcare for young children is highlighted as a barrier to any modification of parental leave, on the grounds that this would accentuate the organizational constraints on parents of young children. Nevertheless, the gendered nature of parental leave is making this programme an obstacle to equality, even if some of the recipients say they use it out of personal choice. Making progress on gender equality thus requires reforming the mechanisms for access to parental leave. But will the proposed legislative changes be sufficient to shake up the boundaries of the existing sexual division of labour?

Redistributing the constraint between mothers and fathers

Given the struggle against the discrimination that affects most women, failure to make the CLCA reform would amount to introducing the freedom to use leave by some mothers and the freedom not to use it for all fathers. Parental leave is of course not the only factor responsible for gender inequality, but it is a driving force, and occupational inequalities in turn reinforce this inequality.

A policy designed to promote occupational equality cannot therefore avoid the reform of parental leave. Ending this vicious cycle necessitates major changes to this programme. Leave that is shorter and based on an individual right that is non-transferable between spouses, with compensation linked to the beneficiary's income, would undoubtedly be more attractive

to fathers and would promote equality ([Méda and Périvier, 2007](#)). While not directly egalitarian in itself, such a scheme would have the enormous advantage of ensuring women's autonomy in relation to their spouse, thereby making economic empowerment a principle of public policy. But it is not possible to shorten the duration of parental leave without having first filled the gap in childcare for young children, which is currently estimated at 350,000 places [2]. The re-organization of leave should therefore be part of an overhaul of early childhood care. Otherwise, shortening parental leave would wind up further increasing the burden weighing on parents, and mothers in particular. An ambitious early childhood care policy, featuring short parental leave paid in proportion to salary, would promote equality. This would require significant public expenditure, about 5 billion euros a year ([Périvier, 2012](#)). The trade-offs being made in the course of the government's budgetary adjustments point, however, to cutbacks in public spending.

In fact, due to a lack of funding, the proposed reform of the law is modest and will not really rebalance the sharing of family responsibilities between women and men. But it has the merit of highlighting the contradictions in society with respect to equality: without a requirement to share parental leave, this would be taken up only by women. The introduction of a period of parental leave allocated to the father will not directly increase the burden resulting from the shortage of childcare: the right to the allocation of parental leave is still 36 months for the family. It will merely spread the load between mothers and fathers. The trade-off facing fathers is the same as what mothers have faced for a long time. Given the low flat-rate amount of compensation, few fathers are likely to be tempted to take this leave. However, while the guidelines on budgetary matters are closing the door on any ambitious reform of early childhood care, women must not be the only ones to bear the consequences.

Reforming parental leave is thus imperative for equality.

[1] It is important to distinguish the allocation of parental leave as such from parental leave in terms of labour law (Labour Code Article L. 122-28-1), which, subject to certain conditions, guarantees that all employees will regain their job after taking parental leave for a period of one year, which is renewable three times. The first is paid by the CAF within the broader context of family policy, subject to certain conditions (rank of the child, past activity, etc.). The conditions of access in terms of past activity are more flexible for granting eligibility for the allocation than parental leave in the strict sense. In fact, only 60% of CLCA recipients benefit from a guarantee of re-employment ([Legendre and Vanovermeir, 2011](#)).

[2] See, in particular, the Tabarot Report, [Périvier 2012](#).

What minimum wage for Germany?

By Odile Chagny and Sabine Le Bayon

The campaign for the parliamentary elections taking place on 22 September in Germany has engendered a broad debate among all political forces about the consolidation of the welfare state. The SPD programme highlights the concept of social justice, while in its programme the CDU has taken up several of the SPD's main themes in the field of social welfare. The

role of the welfare state has never been more central to a general election campaign since 2002. Despite this, the concern is not to move towards expanding the welfare state but the need for better quality in the welfare state, by correcting some of the negative consequences of Agenda 2010 [1]. The fight against poverty at more advanced ages (through a revaluation of family benefits for older mothers and the introduction of a contributory minimum), the re-regulation of certain types of work (temporary) and the need to strengthen the minimum wage are all clearly reflected in the programmes of both the CDU and the SPD. Even the FDP, traditionally hostile to any notion of a minimum wage, has incorporated in its election platform the need for “adequate pay, even at the bottom of the wage scale”. However, behind this apparent unity, the way such a minimum wage would work varies greatly between the parties.

The weakening of the collective bargaining system

In a country where there is no statutory national minimum wage, pay scales are negotiated at the regional or national level by the social partners in each business sector. But the decline in the share of employees covered by a collective bargaining agreement (53% in 2012 in the old Länder, 36% in the new Länder, against, respectively, 70% and 56% in 1996), the weakening of the trade unions and the development of atypical forms of employment, particularly since the Hartz reforms, have led to an increase in the proportion of people earning a low wage, which is calling into question the protective role of the collective bargaining system for an entire segment of the population. In 2010, the share of low-wage workers [2] was 22.2% in Germany and 6.1% in France. The majority of the 8.1 million employees concerned ([Kalina and Weinkopf, 2013](#)) work full-time (45%), one-quarter occupy part-time jobs subject to social security contributions, and 30% are employed in “mini-jobs”. The range of workers earning a low wage (less than 9.14 euros [3]) is broad: 1.8 million

receive less than 5 euros per hour, 2.6 million between 5 and 7 euros, and 2.5 million between 7 and 8.50 euros.

The debate over the introduction of a statutory minimum wage dates back to the 1990s. For a long time, however, this was confined to a few sectors, construction in particular, based on a rationale of dealing with wage competition from businesses in the new Member States of the European Union, who sent their employees to Germany under pay conditions that were much below those provided for by collective bargaining. It was not until the mid-2000s that the first joint trade union call for a national minimum hourly wage (7.5 euros per hour) was finally made by the DGB (the German confederation of trade unions) and that concerns over income support gradually came to outweigh concerns over wage dumping. This level was upgraded to 8.5 euros as of May 2010.

SPD and CDU/CSU/FDP: Two different visions of the minimum wage

While all the major parties put forward a desire to establish a minimum wage, there is not much consensus about the practical arrangements.

The SPD is proposing the introduction of a statutory minimum wage of 8.5 euros per hour (gross), which would apply to all employees, regardless of the minimum wage agreed for any particular sector. The point is, as was noted by the SPD candidate, Peer Steinbrück, during a debate he had with Angela Merkel in early September, to put an end to the “patchwork of minimum wages that exists from sector to sector and region to region”. Some 6.9 million people would see their hourly wage revalued ([Kalina and Weinkopf, 2013](#)) by 30% on average and by over 80% for the 1.8 million employees earning less than 5 euros per hour. About one-fifth of employees would be affected, more than half of whom have a “normal” job (subject to social security contributions). This would result in large-scale shocks both to income (for households) and to competitiveness (for companies), and would pose a real

challenge to the low-wage economy that now characterizes certain sectors (agriculture, food, retail, hotel and catering, security and cleaning, etc.).

Because of this, the issue of the minimum wage is inseparable from the future of “mini-jobs”, the 7 million posts that pay less than 450 euros per month (400 euros prior to April 2013), which are exempt from employee social charges and income tax and which give virtually no access to social rights. In the case of the introduction of a national minimum wage of 8.5 euros per hour, these employees would represent nearly 40% of those whose wages would be revalued.

It should not be forgotten that one of the key measures of the first SPD-Green government led by Schröder was in 1999 to severely restrict the growth of “mini-jobs”, which were charged with 1) promoting the casualization of employment by replacing normal jobs that are subject to social charges, and 2) not offering social security coverage. Three years later, the Hartz Commission proposed facilitating the recourse to mini-jobs so as to develop sectors with low-skilled work.

Numerous studies have recently revealed blatant violations of labour law (lack of compliance with regulations on sick leave, on paid holidays, etc.) and unacceptably low hourly wages in these jobs (Bäcker and Neuffer 2012 [\[4\]](#), [Bundesministerium für Familie, 2012](#)). It is therefore not surprising that all the major parties (except the FDP) have included in their election manifestoes a commitment to reforming “mini-jobs”. But whereas the CDU is only targeting violations of labour law, the SPD programme goes further. The introduction of a minimum wage of 8.5 euros (gross) per hour would in effect limit companies' interest in making use of “mini-jobs”. Furthermore, given the monthly ceiling on the maximum payment for “mini-jobs”, setting a wage of 8.5 euros per hour would amount to introducing a time limit on these jobs of about 13 hours per week. This would not be far from the limit of 15 hours per week that was suppressed by Hartz Law II in 2003 ... as part of

Agenda 2010 [5]. More generally, the entire political economy underlying these jobs would be called into question, as their rationale is to provide extra compensation that is exempt from social security contributions for employees in sectors with low minimum wages.

The CDU proposal on the minimum wage aims both at facilitating the extension of existing agreements (that is to say, to reform the process by which a collective agreement becomes mandatory for all the companies in the sector in question) and at requiring sectors without a collective agreement to set a minimum wage. A desire to secure protection against wage competition from companies that do not adhere to collective agreements and from East European companies who post their employees in Germany [6] has led several sectors to resort to these extension procedures in recent years. However, while an extension like this is virtually automatic in France, this is far from the case in Germany, even though the procedure was simplified in 2009. The CDU therefore proposes a “least burdensome approach”, that is to say, government intervention only in cases where the social partners have failed. The aim is to deal with situations where there is an “agreement vacuum” and allow a maximum number of employees to be paid according to collectively agreed minimum wages, while enabling the social partners to fix the level, since the CDU believes that minimum wage differentials help to take into account the diversity of regional and sectoral situations.

The CDU, which is unlikely to be able to govern alone in the next Parliament, has not gone farther than this for the time being, pending the outcome of the elections. Depending on which party it will govern with, the decisions about how low wages are regulated can differ greatly.

Here it is worth summarizing the numerous limitations of the current arrangements for the State’s extension procedure, which set the context for the CDU’s proposal:

- – When the same sector has a number of different collective bargaining agreements, the extension procedure becomes more difficult, as it is necessary to determine which one is most representative and which ones could be controversial. This is what happened in the postal sector, where two competing collective bargaining agreements co-existed: one covering employees of Deutsche Post, the former monopoly in the sector, and the other covering employees of competitors for whom minimum wages were much lower. The government decided to extend the agreement signed in Deutsche Post to the entire sector, but the competitors complained, and the extension procedure was overturned by the Berlin Court [\[7\]](#).
- – Negotiations on a sector's minimum wages are renewed regularly (every six months or every one or more years). But when renegotiation fails, several months may elapse during which no minimum is in effect, and employers have sometimes seized the opportunity to hire employees at wages that are 30% below the previous minimum. This is what happened for instance in late 2009 in the industrial cleaning business ([Bosch and Weinkopf 2012](#)).
- – The minimum in a sector can vary greatly, and some of them do not protect workers against the risk of poverty. Thus, according to data from the [WSI-Tarifarchiv \(March 2013\)](#), 11% of collective agreements in late 2012 provided for a minimum of less than 8.50 euros, the threshold proposed by the SPD as the statutory minimum wage, which is below the threshold for a “low wage” (9.14 euros).

The impact of the proposals of the various parties on changes in employment is difficult to estimate from studies conducted recently in Germany ([Bosch and Weinkopf 2012](#)), if only because the studies have focused on the introduction of minimum wages in isolated sectors, covering only a limited proportion of employees. This would not be comparable to the introduction of

an industry-wide minimum wage that affected at least a quarter of employees, that was not differentiated, or even with the generalization of collectively agreed minimums. The goal is now for the maximum of employees to receive a “decent” income, even if the level of the latter differs depending on the programme. It is also to curtail certain atypical forms of employment. Notably, in a number of sectors the studies conducted show that the introduction of a minimum wage leads to a change in the structure of employment, with fewer “mini-jobs” and more “normal” jobs (subject to social security contributions), due to the regular checks conducted to ensure compliance with the minimum wages in the companies. Whatever the election results, the measures adopted will in any case point in the direction of correcting the most egregious injustices in terms of compensation, especially with respect to “mini-jobs”.

[1] Agenda 2010 includes all of the reforms implemented in Germany by the SPD-Green coalition between 2003 and 2005, which focused on labour market reform (called the Hartz reforms) (for more on this, see e.g. [Hege 2012](#), [Chagny 2008](#)).

[2] These are employees receiving less than 2/3 of the median gross hourly wage.

[3] In 2011, the median gross hourly wage in Germany was 13.7 euros.

[4] “Von der Sonderregelung zur Beschäftigungsnorm : Minijobs im deutschen Sozialstaat” [On special employment standards: Mini-jobs in the German welfare state], WSI Mitteilungen 1/2012.

[5] Not to mention the fact that as a result it would be necessary to completely revamp the support for low-wage workers provided by exemptions on employee social charges.

[6] When companies from a Member State send their workers to another State, they are required to meet the minimum standards (working time, wages). The posting of workers has been governed by a 1996 EU Directive. These postings, which are growing in number, are posing a number of problems (social dumping, unfair competition, deterioration in working conditions) ([Metis 2013](#)).

[7] For further information, see: [“Vrais et faux enjeux de la controverse sur les salaires minima légaux en RFA” \[True and false issues in the controversy over the statutory minimum wage in the RFA\]](#), Karl Brenke, *Regards sur l'économie allemande*, no. 94, 2009.

Rent control: will the ALUR law be sufficient?

By Sabine Le Bayon, Pierre Madec and Christine Rifflart

On 10 September 2013, Parliament began discussing the [bill on “Access to housing and urban renovation \[“Accès au Logement et un Urbanisme Rénové” – ALUR\]](#). This legislation will result in stepped-up state intervention in the private rental market and complements the government decree that took effect in summer 2012 on rent control in high-pressure areas. This was an initial step in the government’s effort to curb the increase in housing costs being faced by renters. [1]

The government’s willingness to regulate the excesses of the private rental market is expected to have a rapid impact on households moving into a new home. For sitting tenants, the

process is likely to take longer. In a city like Paris, we can expect that, if the highest rents decline to the ceiling set by law, average rents will fall by 4 to 6%. If through a ripple effect this then affects all rents, the deflationary impact would be greater. On the other hand, the risk of an upward drift for lower rents cannot be discarded, even if the government argues otherwise. Ultimately, the impact of the law will depend in large part on the zoning defined by the rent monitoring “observatories” that are currently being set up.

The regulatory decree: a visible, but minimal, impact

The latest [annual report](#) of the rent observatory for the Paris region [the Observatoire des loyers de l’agglomération parisienne – “OLAP”] [2] sheds some initial light on the decree’s impact on rent control. To recap, the decree holds rents upon re-letting to a maximum of the pace of the legal benchmark (the “IRL”), unless substantial work has been performed (in which case, the increase is unrestricted). Between 1 January 2012 and 1 January 2013, 51% of Paris residences offered for re-letting saw their rent increase faster than the IRL, despite the absence of substantial work. This share was lower than in 2011 (58.3%) and 2010 (59.4%), but remains close to the level observed between 2005 and 2009 (50%), prior to the existence of the decree.

The impact derived from monthly data seems a bit more conclusive. Thus, over the period from August to December 2012 when the decree was implemented, the share of rentals offered for re-letting that rose faster than the IRL cap fell by 25% on average over a year, against only 8% for the months from January to July 2012 compared to the same period in 2011.

The decree therefore does seem to have had an effect, by helping to reduce the share of rents that increased faster than the IRL cap by about 18%. However, given that if there had been full compliance with the decree no rentals would have risen more than the IRL, the impact has still been inadequate.

Several factors already identified in a [working document](#) may explain this: the non-existence of benchmark rents, a lack of information about both owners and tenants, a lack of recourse, etc. One year on, it would seem that these shortcomings had a negative impact on the measure's implementation.

A law on a larger scale

The major innovation of the ALUR law concerns the regulation of the *level* of rent in high-pressure areas, whereas previous decrees focused on *changes* in rents. Henceforth, a range of permissible rent levels will be set by law, and the decree will then regulate the maximum permitted changes [3]. To do this, every year the government sets by a prefectural decree a median benchmark rent per sq.m, per geographic area (neighbourhood, district, etc.) and per type of accommodation (one-bedroom flat, two-bedroom, etc.). So:

– For new lets or re-lettings, the rent cannot exceed the cap of 20% over the median benchmark rent, called the upwards adjusted median benchmark rent, except by documenting an exceptional additional rent (for special services, etc.). After that, any increase may not exceed the IRL, in accordance with the regulatory decree for high-pressure areas (except if there is major work);

– Upon renewal of the lease, the rent may be adjusted upwards or downwards depending on the upwards adjusted or downwards adjusted median benchmark rent [4]. Thus, a tenant (or a lessor) may bring an action to decrease (or respectively, to increase) the rent if the latter is higher (or lower) than the median rent as adjusted upwards (or downwards). In case of an increase in the rent, a mechanism for staggering this increase over time is set up. If there is a disagreement between tenant and landlord, an amicable settlement process may be initiated prior to referral to a judge within a strictly determined timeframe. Within this range, the increase is limited to the IRL;

- During a lease, the annual rent review is currently performed as now, on the basis of the IRL;
- Furnished rentals will now be covered by rent control: the prefect will set a higher benchmark rate and any change will be limited to the IRL.

The introduction of these median benchmark rents represents three major advances. On the one hand, they will be calculated from the information gathered by the rental observatories about the entire rental housing stock, and not simply from vacant housing available for rental, *i.e.* what is called the "market" rent. This so-called market rent is almost 10% above the average of all rents, which itself is above the median rent. This calculation method will therefore inevitably lead to lower rents (both market and average).

Similarly, choosing the median rather than the average as the benchmark rent should make for greater stability in the measure. In the event that all rents more than 20% above the median (*i.e.* above the upwards adjusted benchmark rent) are reduced and all other rents remain unchanged, the median remains the same. In the case of an adjustment of all rents, the median would fall, but in a lesser proportion than the average, which by definition is more sensitive to changes in extreme values.

Finally, the obligation to include in the lease both the median rent and the upwards adjusted median benchmark rent, the last rent charged and, where relevant, the amount and nature of any work performed since the last contract was signed, provides for greater transparency and a stricter regulatory framework, which should result in greater compliance with the measure.

What changes should be expected?

In 2012, out of the 390,000 residences put up for rent in Paris, 94,000 have a rent higher than the upwards adjusted

median rent (3.7 euros / sq.m more on average) and 32,000 have a rent that is more than 30% below the median benchmark rent (2.4 euros / sq.m less on average). Since only rents above the upwards adjusted median rent are to be corrected, the reduction in the average rent would be 4% to 6%, depending on the area and type of housing. This reduction, although not insignificant, would at best permit a return to the rent levels recorded in 2010, before the steep inflation seen in 2011 and 2012 (+7.5% between 2010 and 2012). This adjustment in rents could nevertheless take time. Owners and tenants could easily exercise their rights at the time of a re-letting [5], but revaluations at the time of a lease renewal may take longer to realize. Despite access to information and a regulatory environment that is more favourable to the tenant, the risk of a conflict with the landlord and heightened competition in the rental market in areas where the law applies may still deter some tenants from asserting their rights.

The issue is much more complex for the 32,000 residences with rents below the downwards adjusted benchmark rent. While the quality of some of this housing can justify the difference (insalubrious, location, etc.), it is also clear that the main factor behind the weakness of some rents is the tendency of tenants to be sedentary. Thus, according to the OLAP rent observatory in Paris, the average rent for housing occupied for over 10 years by the same tenant is 20% lower than the average rent for all lets. The question thus arises of re-valuing these rents. Indeed, during a new let or a lease renewal the law allows owners to reassess up to the level of the downwards adjusted median rent – which is also in contradiction with the decree [6]. Once this level has been reached, future changes shall not exceed the IRL.

Eventually, then, some units with similar characteristics will therefore be on the market at very disparate rents, thus penalizing landlords with sedentary tenants. In contrast,

tenants who have lived in their homes for a long time might well see significant revaluations in their rent (over 10%). The housing cost burden [7] on these households could thus rise, pushing those facing excessive budget constraints to migrate to areas experiencing less pressure.

Nevertheless, the possibility of revaluing the rent to the level of the market rent in case of an obvious undervaluation is already provided under existing law, *i.e.* the Act of 6 July 1989 (Article 17c), at the time the lease is renewed. In 2012, in Paris, 3.2% of owners made use of this article. With the new law, while readjustments should be more numerous, the inflationary impact should be weaker as the benchmark (the downwards adjusted median rent) is well below the market rent.

From this point on the issue of zoning is central: the more refined the breakdown, the more the benchmark rents will correspond to the actual characteristics of the local market. In the event of a larger division of the territory, the median benchmark rents may be too high for the less expensive neighbourhoods and too low for the more expensive ones. Meanwhile, low rents will not be re-valued much in the expensive neighbourhoods, and even less so in the others. This could lead to more “inter-neighbourhood” convergence in rents – regardless of local conditions – and less “within-neighbourhood” convergence, which would have adverse consequences for both landlord and tenant.

The impact on rents of the law currently under discussion could be all the greater given that property prices began to fall in France in 2012 and the current sluggish economy is already slowing rent hikes. But it should not be forgotten that only the construction of housing in high-pressure areas (including via densification [8]) will solve the structural problems of the market. Rent control measures are merely a temporary measure to limit the increase in the housing cost burden, but they are not by themselves sufficient.

[1] For more information, see the blog [“Rent control: what is the expected impact?”](#)

[2] The territory covered by this report is composed of Paris and what are called the “petite couronne” and the “grande couronne” (its near and far suburbs).

[3] As the rent control decree does not cover the same field as the law (38 urban areas versus 28), some areas will be subject to the control only of changes, and not of levels.

[4] While the bill is unclear on the calculation of the downwards adjusted benchmark rent, an amendment adopted in July by the Commission of the Assembly proposed that this should be at least 30% lower than the median benchmark rent. Another amendment clarifies that in case of an upward adjustment, the new rent shall not exceed the downwards adjusted median rent.

[5] In 2012, only 18% of residences on the private rental market were subject to re-letting.

[6] During the renewal of a lease or a re-letting, the rent control decree permits the owner to re-value their rent by half the gap between the last rent and the market rent.

[7] This is the share of household income spent on housing.

[8] On this subject, see the article by [Xavier Timbeau, “Comment construire \(au moins\) un million de logements en région parisienne” \[How to build \(at least\) one million residences in the Paris region\]](#), *Revue de l’OFCE* no. 128.

Shocks, unemployment and adjustment – the limits of the European union

By [Christophe Blot](#)

In an article published in 2013 in *Open Economies Review* [\[1\]](#), C. A. E. Goodhart and D. J. Lee compare the mechanisms for recovering from the crisis in the United States and Europe. Based on a comparison of the situation of three states (Arizona, Spain and Latvia) faced with a property crash and recession, the authors explore the reasons for the growing divergence observed among the euro zone countries, a divergence that is not found in the United States. Their analysis is based on the criteria for optimum currency areas, which enable the members of a monetary union to adjust to adverse shocks and to avoid a lasting difference in their unemployment rates during an economic slowdown or downturn. While Latvia is not formally part of a monetary union [\[2\]](#), its currency nevertheless has remained firmly anchored to the euro during the crisis. Thus none of the countries studied by Goodhart and Lee resorted to a nominal devaluation to absorb the financial and real shocks that they faced. The authors conclude that while Arizona dealt with the shocks better than Spain, this was due both to the greater fiscal solidarity that exists between the states of the United States and to the greater integration of the US banking system, which helps to absorb shocks specific to each state.

In addition to *de jure* or *de facto* membership in a monetary union, Arizona, Spain and Latvia also all went through a real estate boom in the 2000s, followed by a correction that began

in 2006 in Arizona and Latvia, and a year later in Spain (Figure 1). The real estate crisis was accompanied by a recession, with the same time lag persisting between Spain and the other two states. Latvia recorded the sharpest downturn in activity (-21% between 2007 and 2010). However, the downturns experienced by Arizona (-5.5% since 2007) and Spain (5% since 2008) were comparable. While the downward adjustment of the property market stopped in Arizona (recovery is underway in the US state), the recession is continuing in Spain. Overall, this difference in adjustment is reflected in a continuing increase in unemployment in Spain, whereas it has fallen by 2.8 percentage points in Arizona from the peak in the first quarter of 2010 (Figure 2).

Spain's inability to pull out of the recession along with the increasing divergence of the economies in the euro zone raises the question of the capacity of the euro zone countries to adjust to a negative shock. The theory of optimum currency areas, originally developed by Mundell in 1961 [3], can help to evaluate the conditions in which a country may have an interest in joining a monetary union. The optimality of this choice depends on the country's ability to absorb shocks without resorting to currency devaluation. Different adjustment mechanisms are involved. These consist mainly of the following: [4] the flexibility of prices and in particular of wages; labour mobility; the existence of fiscal transfers between the countries in the monetary union; and financial integration. Price flexibility corresponds to an internal devaluation mechanism. As for depreciation, the point is to become more competitive – by lowering relative labour costs – to stimulate exports and growth during a negative shock. However, this type of adjustment generally takes much longer and is more costly, as is suggested by the recent examples of Iceland and Ireland. [5] Labour mobility makes for an adjustment whenever the recession leads people to migrate from a state with high unemployment to one where it is lower. The implementation of fiscal transfers occurs when various

mechanisms in states where growth is slowing make it possible to benefit from stabilizing transfers from other states in the union or from a higher level of government. Finally, Goodhart and Lee also consider the stabilizing role of the local banking system. In this case, in the euro zone, the less the local banking system has been weakened by the real estate crisis or the public debt crisis, the greater is its capacity to absorb the shock.

The authors analyzed the adjustment of the economies in question in the light of these four criteria. They studied in particular the degree of price flexibility and labour mobility as a function of unemployment in the three states. Then they evaluated the importance of fiscal transfers and the architecture of the banking landscape. Their findings were as follows:

1. Price flexibility has played only a marginal role in adjustment, except in Latvia where rising unemployment has led to a decline in unit labor costs. These costs did not on the other hand react significantly to the rise in unemployment in Spain and Arizona.
2. Though migration is more marked in the United States than in Europe, the differences are still not able to explain the gap in the adjustment of unemployment rates. However, it appears that the role of migration as an adjustment mechanism has strengthened in Europe. Nevertheless, this is still insufficient to ensure the convergence of unemployment rates.
3. In 2009 and 2010, Arizona received substantial transfers from the federal government, whereas at the European level there is no automatic mechanism for transfers between states. Even so, Latvia received assistance from the IMF in 2009, while the euro zone countries came to the aid of Spain's banks. Nevertheless, in the absence of a more substantial EU budget, the European countries can benefit only from emergency assistance, which, while

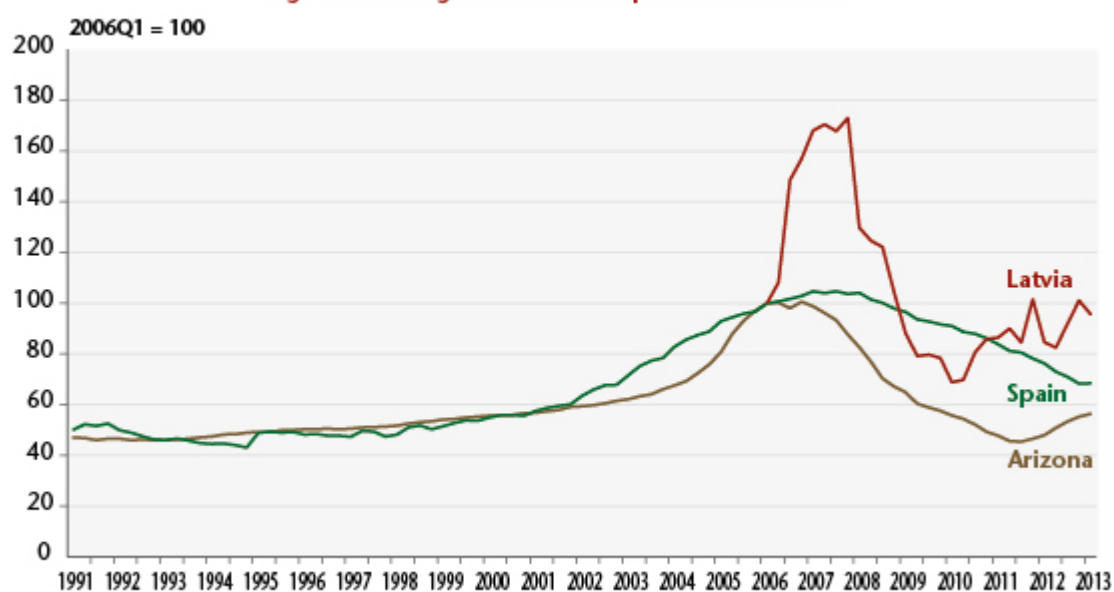
able to meet a specific need for funds, is not sufficient to play the role of an economic stabilizer.

4. Finally, the authors emphasize that the financial amplification of the shocks was on a lesser scale in Arizona in so far as the bulk of the banking business is conducted by national banks that are consequently less sensitive to local macroeconomic and financial conditions. The risk of credit rationing is thus lessened, which helps to better absorb the initial shock. In Spain, with the exception of a few banks with international operations, which enables them to diversify their risks, banking depends on local banks, which are therefore more vulnerable. This increased fragility pushes the banks to restrict access to credit, which reinforces the initial shock. Latvia is in an alternative position in that its financial activity is carried out mainly by foreign banks. The nature of risk thus differs, because local financial activity is disconnected from Latvia's macroeconomic situation and depends instead on the situation in the country where these banks conduct their principal activity (*i.e.* Sweden, to a great extent).

The crisis in the euro zone thus has an institutional dimension. From the moment the countries freely consented to surrender their monetary sovereignty, they in effect also abandoned the use of a currency devaluation to cushion recessions. However, it is essential that alternative adjustment mechanisms are operative in order to ensure the "sustainability" of monetary unification. In this respect, the article written by Goodhart and Lee is a reminder that such mechanisms are still lacking in the euro zone. Negotiations over the EU budget have not offered any prospect for the implementation of fiscal transfers to stabilize shocks at the European level. The discussion on Eurobonds has stalled. Although the European Stability Mechanism (ESM) acts as a tool for solidarity between Member States, it meets a different

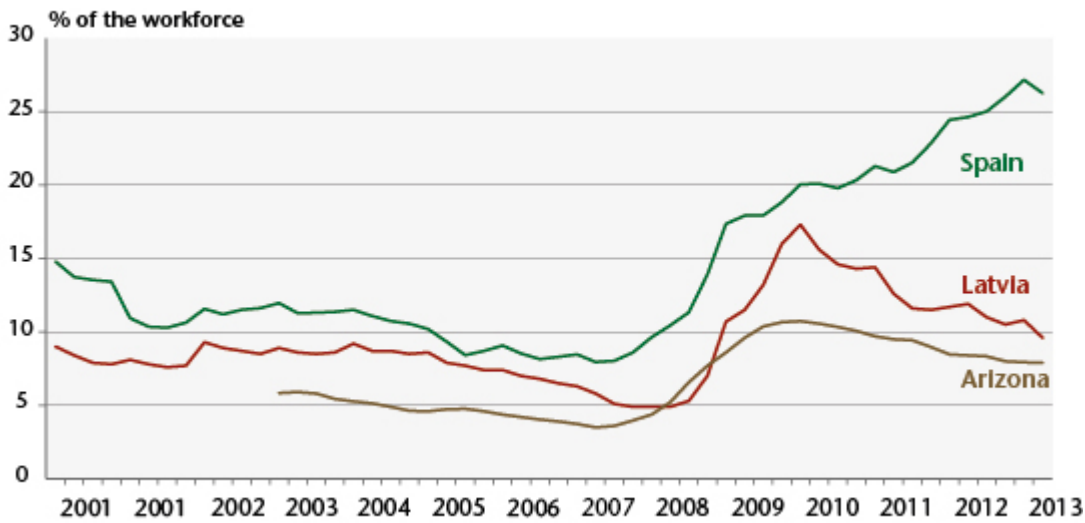
need, because it involves only emergency financial assistance and is not a mechanism for automatic stabilization. Banking integration could also help dampen fluctuations. However, the crisis has led to greater fragmentation of European banking markets. The latest report on financial integration in Europe, published by the ECB, shows a 30% decrease in cross-border bank flows in the recent period. Similarly, despite the common monetary policy, the interest rates charged by European banks have recently diverged [6] (Figure 3). Thus, despite the European banking passport created by the European Directive of 15 December 1989 on the mutual recognition of authorizations of credit institutions, cross-border banking in Europe is still relatively undeveloped. The retail banking model is based on the existence of long-term relationships between the bank and its clients, which undoubtedly explains why the integration process is taking much longer than for the stocks, bonds and currency markets. It is nevertheless still the case that a banking union could be a further step in this difficult process of integration. This would promote the development of transnational activity, which would also help to de-link the problem of bank solvency and liquidity from the problem of financing the public debt.

Figure 1 : Changes in real estate prices in real terms



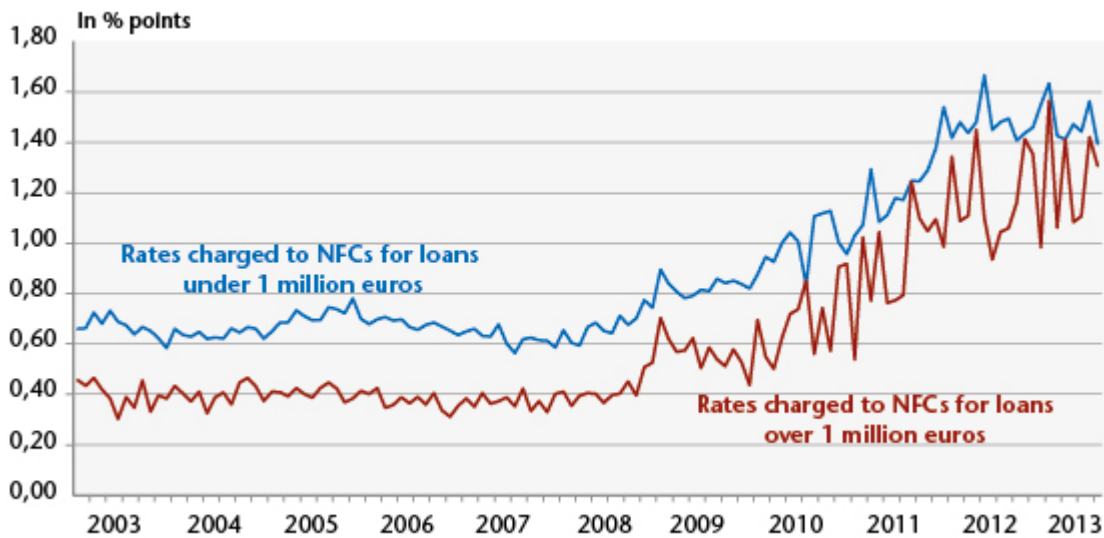
Source : Bank of International Settlements, Federal Housing Finance Agency.

Figure 2 : Unemployment rates



Sources : Bureau of Labor Statistics, Instituto Nacional de Estadísticas, Agence nationale pour l'emploi (Latvia).

Figure 3 : Dispersion of rates charged by banks in the euro zone



Source : European Central Bank. NFC = Non-financial corporation.

[1] "Adjustment mechanisms in a currency area", *Open Economies Review*, January 2013. A preliminary version of this article can be downloaded at: <http://www.lse.ac.uk/fmg/workingPapers/specialPapers/PDF/SP212.pdf>

[2] Latvia has been part of the European currency mechanism

since 2005 and is to adopt the euro on 1 January 2014.

[3] “A theory of optimum currency areas”, *American Economic Review*, vol. 51, 1961.

[4] One could also add the level of an economy’s openness or the degree of diversification of production. Mongelli (2002) offers a detailed review of these various criteria. See: [“New views on the optimum currency area theory: what is EMU telling us?”](#), *ECB Working Paper*, no. 138.

[5] See [Blot and Antonin \(2013\)](#) for a comparative analysis of the cases of Ireland and Iceland.

[6] C. Blot and F. Labondance (2013) offer an analysis of the transmission of currency policy to the rates charged by the banks to non-financial companies ([see here](#)) and to real estate loans ([see here](#)).

On cosmopolitan currency

By [Maxime Parodi](#), sociologist at the OFCE

A cosmopolitan currency is a currency common to many nations and explicitly based on a form of co-sovereignty (for a more in-depth analysis, see [OFCE working paper 2013-09, June 2013](#)). A currency like this is possible only by accepting a monetary policy and fiscal and taxation policies that are based on shared motivations, where each is responsible for the monetary commitments it makes and co-responsible for the ability of all to pursue a suitable economic policy. To be lasting, this currency requires sustained attention to macroeconomic divergences between the partners and the difficulties that each is encountering; it requires open dialogue about the

reasons for these divergences and difficulties; it requires a determination to propose possible remedies over the short, medium and long term; and finally, it requires everyone to cooperate voluntarily, so long that is as they have the ability to do so.

Of all the classical sociologists, Simmel alone could have envisaged such a currency. Indeed, he was the only one to study socialization itself, to seek to understand society in the making, whereas Durkheim always started from an already established society, from an individual who was always already socialized, and Weber started from people always already constituted, "completed", without at the same time considering them as subjects likely to influence each other and make society deliberately. Yet a cosmopolitan union is precisely a union that is always trying to make itself; it is never definitively established. This type of union is weak by nature, but at the same time it only ever appears in contexts where it is objectively necessary for its citizens. Such a union is constantly renewed, constantly re-worked, because there is an objective terrain of neighbouring or overlapping interests, and everyone therefore considers it desirable to come to the best resolution of the neighbourhood's problems. Thus, in the name of the union, it becomes possible to resolve certain conflicts fairly and to develop tighter bonds.

From this perspective, the act of adopting a common currency is not a trivial matter in a cosmopolitan union. All of a sudden, everyone is committed to respecting their monetary promises to their neighbours. This is obviously a major change, which has immediate and foreseeable consequences: the transaction costs between partners disappear, and in particular there is no longer any risk associated with holding a foreign currency, as the currency is now common and politically guaranteed. But there are also less immediate, more hidden consequences. For instance, this common commitment often calls into question the economic culture of the nations

concerned, by obliging them to explain some of the ways they operate: governments in the habit of solving their problems by inflation or a currency devaluation must now tell their citizens that it is necessary to raise taxes or spend less; banks that are “too big to fail” must now draw up wills instead of relying on the implicit guarantees of the citizens, and so forth. Finally, the cosmopolitan currency creates a new relationship between the partners, which in principle leads them to be concerned about their neighbours. In fact, the partners have made a commitment not only to keep their promises to everyone else, but also that each is able to uphold its own commitments (since trust is not divisible).

The cosmopolitan currency also introduces a kind of solidarity within the union. One must now be concerned about whether one's neighbour has the ability to meet its monetary commitments. This implies guaranteeing the latter a capacity for debt and / or a flow of investment into its territory. But unlike solidarity within a nation, this guarantee is more moral than legal: it is not entirely engraved in stone in the union, but must be discussed case by case. The risk of moral hazard is thus avoided.

The euro seems to be the paradigmatic case of a cosmopolitan currency. It is even the only case in history where cosmopolitanism actually laid the basis for a currency. This unprecedented feature also poses difficulties by upsetting national economic cultures. Since the beginning of the monetary crisis in 2008, everyone is discovering how Europe's vertical institutions (European Commission, European Central Bank) address problems and respond to them. A culture of the euro, even a jurisprudence, is thereby forged. This is, incidentally, why the European Council should consider the impact of its decisions on this emerging culture: is the euro zone in the process of adopting a custom of “immediate returns”? Is this a doctrine born of distrust? If a cosmopolitan currency is possible, it is nevertheless

necessary to accept both sides – the co-responsibility no less than the responsibility.

Solar power is cooling Sino-European relations

By [Sarah Guillou](#)

In early July 2013, yet another company in the solar industry, Conergy, declared bankruptcy. The departure of this German company, established in 1998, marks the end of a cycle for the solar industry. This bankruptcy adds to a series of closures and liquidations across every country that have highlighted the rising trade tension over solar panels between the United States and Europe on the one hand and China on the other (see [OFCE Note 32: “The twilight of the solar industry, the darling of governments”, from 6 September 2013](#)). As this tension peaked, in May, the European Commission decided to threaten China with a customs duty of over 45%. A trade war has thus concluded a decade of government involvement, as if this were a matter of saving the public money invested. But what it signifies most is the industrial failure of a non-cooperative global energy policy.

A promising, but chaotic, industrial start

Government worship of solar power, which took off in the early 2000s on both sides of the Atlantic, but also in the emerging economies (and especially China), has undoubtedly propelled solar energy to the forefront of renewable energies, but it has also fueled a number of market imbalances and serious

industrial turmoil. With the price of oil rising constantly from 2000 to 2010, the need to accelerate the energy transition along with the commitments of the Kyoto Protocol led governments to support the production of renewable energy, with solar energy being the great beneficiary. The global industry experienced a tremendous boom, with growth of more than 600% from 2004 to 2011.

Public support, together with private investment, sparked massive market entries that destabilized the price of the main resource, silicon, the amount of which could not adjust as quickly. Fluctuations in the price of silicon due to imbalances in the market for photovoltaic panels created great instability in its supply, which was exacerbated by technological uncertainties facing companies trying to innovate in the field (such as the American firm, Solyndra, which finally filed for bankruptcy in 2013).

The trade war for a star

The intensification of Chinese domination of the industry has in turn affected the competitive uncertainty. China is now the world's largest market, and the involvement of the Chinese government in the industry's development is unparalleled. Today ranked third in terms of installed capacity (after Germany and Italy), China is also the world's largest producer of solar panels. It now accounts for half of the world's output of panels, whereas it produced only 6% in 2005. Chinese producers have received massive support from central and local government, which has also helped to saturate the Chinese market.

In addition to this public support, China also enjoys a distinct advantage in labour costs, which makes the business of manufacturing solar panels very competitive – the more technologically-intensive steps are upstream in the industry, at the level of the crystallization and slicing of the silicon. In addition to this competitive advantage, Chinese

producers have also been accused of dumping, *i.e.* selling below the cost of production. Their competitiveness is thus unrivalled ... but increasingly under challenge. In October 2012, the United States decided to impose tariffs on imports of Chinese cells and modules, with anti-dumping duties varying from 18.3% to 250% (for new entrants), depending on the company.

Europe, which imports many more photovoltaic components from China than does the United States, initially opted for the approach of imposing anti-dumping duties, and launched an investigation in September 2012, triggered by a complaint from EU ProSun – a trade association of 25 European manufacturers of solar modules – on imports of panels and modules from China. In June 2013, the Commission finally decided to impose a customs duty of 11.2% on solar panels, while threatening to push this up to 47% if China does not change its position on pricing by August 6th.

The Empire counter-attacks

The counter-attack was not long in coming: in July 2013, China decided to apply anti-dumping duties on imports of silicon from the United States and South Korea. A serious threat is also hanging over the head of Europe's firms, as China is one of the largest markets for the continent's silicon exporters (870 million dollars in 2011).

This trade war essentially reflects a defensive position taken by China's industrial rivals in the face of a support policy that they consider disproportionate and unfair, during a period when China has been nibbling away at the industrial jobs of its competitors for ten years. But one could question the industrial logic underlying this trade policy.

First, this policy contradicts previous government policies promoting solar energy. The trade-off between climate change goals (developing low-cost energy transition tools) and the

profitability and sustainability of the industry seems to have been decided in favour of the latter. Second, while this now provides producers direct support, it could handicap installers, engineering firms involved in pre-installation work, and manufacturers of panels using Chinese components. Finally, this is leading to serious exposure to potentially costly trade retaliation, which could mean exporters of polycrystalline silicon or machinery used in the solar industry, or other industries such as wine or luxury cars.

Out of fear of a probable lack of approval by a majority of EU members or in order to “slay other dragons” more freely (the coming telecoms conflict), the [agreement reached in late July](#) by Commissioner Karel De Gucht and approved by the European Commission on August 2nd should not lead to trade retaliation nor disturb market supply too much. It commits nearly 90 Chinese producers not to sell below 56 cents per watt of power. This price is a compromise between what is considered consistent with the cost of Chinese production and the current average price on the market on the one hand and what is acceptable to European competitors on the other.

Finally, over the decade from 2002 to 2012 the solar photovoltaic industry has undeniably become global and highly competitive, despite clear-cut government interventionism. In reality, even the governments competed. Now they are settling their disputes by playing with international trade rules. Costly state support has propelled the growth of the sector beyond all expectations: by creating excess supply, the price of solar panels dropped sharply and accelerated the incredible boom in solar power. In 2013, solar power represented more than 2% of the electricity consumed in the European Union. This breakthrough by solar energy was accompanied by numerous entries and exits from the market, without so far giving rise to a significant business concentration. The choice of a public pull-back in favour of trade policy represents a new page in the history of this industry, which is no longer being

driven so much by energy policy or even by industrial policy. There is obviously no dusk without a future dawn. But tomorrow's dawn will certainly see the rise of a different "solar". Europe's future in the manufacture of solar panels will involve technological innovation aimed not so much at reducing costs as at improving performance.

In memoriam. Ronald H. Coase (1910-2013)

By [Vincent Touzé](#)

The American economist Ronald Coase, who died at 102 on 2 September 2013, has left us an [exceptional body of work](#) distinguished by its simplicity and relevance.

As a pioneer of the theory of the firm, Ronald Coase believed that this type of structure had an undeniable capacity to reduce transaction costs and thus to efficiently organize economic activity outside the market ("The Nature of the firm", *Economica*, 1937). The firm's dilemma is: to do it (*i.e.* to produce directly) or to get it done (*i.e.* to use the market). In the absence of transaction costs on the markets, there would be no firms but only small autonomous production units. The transaction costs result from all the expenses associated with the purchase or sale of a product: remuneration of intermediaries, acquisition of information, search for the best price, etc. When these costs are too high, there is thus an opportunity to produce the good or service oneself. However, firms also face costs to get organized. Organizational theory was born.

As a supporter of free competition, Coase attributed market

failures to the poor definition of property rights ("[The Problem of social cost](#)", 1960, *Journal of Law and Economics*, 3: 1-44). He was wary of costly regulations. He opposed Pigou (*The Economics of Welfare*, 1932, Macmillan), who recommended public intervention to deal with negative externalities. Instead, Coase called for better identification of property rights and for the role of the state to be limited to ensuring respect for these rights. This idea was synthesized as the "Coase Theorem" in 1966 by George Stigler in his book *The Theory of Price* (Macmillan). By focusing specifically on the interactions between law (the definition of property, the grounds and consequences of court decisions, etc.) and economics, Coase became one of the founding fathers of a new discipline, the economic analysis of law.

In the 1990s, the Kyoto Protocol popularized the "Coase Theorem" by proposing the establishment of trading in emission rights to regulate the amount of greenhouse gas emissions, *i.e.* the well-known "right to pollute". There were two different approaches to controlling the emission of greenhouse gases: the sale of pollution rights, or the Pigou tax. The first approach involves assigning rights to emit gases in limited quantities. To produce the gases, one must possess rights. These rights are traded on a market where the price of gas emissions is determined by the interaction of supply and demand. The second approach is to assign an ad hoc price (Pigovian tax) to the marginal social cost of the externality. This tax is paid by the companies emitting the gas. The principle of pollution rights is often seen as more demanding (and so more constraining on companies) because the price of the gas emission is endogenous and the total quantity limited. With a Pigovian tax, the reverse is true. The price is fixed (or not very endogenous in the case of progressive taxation) and the quantity potentially unlimited.

Coase, who was devoted to simplicity in making presentations, unhesitatingly denounced the use of excessive mathematical

formalism. In a [profile published by the University of Chicago](#) in 2012, he lamented that economics had “become a theory and math-driven subject”. According to him, “the approach should be empirical. You study the system as it is, understand why it works the way it does, and consider what changes could be made in order to improve the system.” He modestly concluded: “I’ve never done anything that wasn’t obvious, and I didn’t know why other people didn’t do it. I’ve never thought the things I did were so extraordinary.”

Coase’s work won him the Nobel Prize in 1991.

2013 pensions: a (little) reform...

By [Henri Sterdyniak](#)

The measures announced by the government on August 27th do not constitute a major reform of the pension system. As shown in [an OFCE Note \(no. 31 of 4 September 2013\)](#), they are essentially funding measures that are limited in scope. Pensioners are affected more than assets, and the business world has obtained a promise that it will not be hit. Fiscal equilibrium is not really assured, as it is conditioned on a strong economic recovery (by 2020), sustained growth and a net decrease in the relative level of pensions by 2040. Measures in favor of women and workers who are subjected to difficult work conditions were announced, but their implementation was delayed; the challenges are still not being met. The worst was certainly avoided (the de-indexation of pensions, a rapid change in the age of retirement eligibility, a so-called structural reform); the system is proclaimed to be

sustainable, but the (little) reform of 2013 has not done much to ensure the system's economic and social reliability.