

# Replacing the “Prime pour l’emploi” benefit by a reduction in employee social security contributions on low wages

By [Guillaume Allègre](#)

Nicolas Sarkozy has announced plans to replace the “prime pour l’emploi” benefit (“PPE”) by lowering the social security contributions of workers earning between 1 and 1.3 times the minimum wage (“SMIC”). The reduction on contributions would amount to 4 billion euros and would benefit 7 million low-wage workers. The gain announced (just under 1,000 euros per year) would necessarily be regressive. The elimination of the PPE (2.8 billion euros according to the [2012 Budget Bill](#), p. 76) would be supplemented by higher taxes on financial income.

This proposal is very similar to the original proposal of the Jospin government in 2000 that provided for a reduction on the CSG social contribution for workers earning less than 1.4 times the SMIC. That reform, which was passed by Parliament, was blocked by the Conseil constitutionnel because the decline in the CSG provided to low-income earners depended on wages alone, and not on individual family circumstances. As the CSG is considered a tax, the high court held that progressivity required taking into account taxpayers’ ability to pay, and therefore their family responsibilities. To deal with this ruling, the Jospin government created a new instrument, the PPE benefit, which closely resembled the CSG reduction, but which was calculated, to a very small extent, on the family situation (high income ceiling at the household level, with a small increase for children). But unlike the CSG reduction,

the impact of the PPE does not show up on the pay-slip: the benefit is calculated from income tax returns and reduces the tax payable by the household, with households who do not pay tax receiving a cheque from the Treasury. This means that there is a one-year lag in the receipt of the benefit. The PPE was approved by the Jospin government and then increased under the Villepin and Raffarin governments, and by 2008 amounted to 4.5 billion euros ([2010 Budget Bill](#), p. 53). At that point a full-time employee on the minimum wage received 1,040 euros per year. The PPE was then frozen by the Fillon government. This freeze, together with the fact that the RSA benefit was deductible from the PPE benefit, led to a 1.7 billion euro reduction in the value of the PPE between 2008 and 2012, from 4.4 billion euros to 2.8 billion. By 2012, a full-time employee on the minimum wage now received only 825 euros a year. Moreover, the lack of a boost in the minimum wage has greatly reduced the number of households eligible for the full rate (as well as the number of employees eligible for the full-rate reduction on employer contributions). This effect comes on top of the impact of rising unemployment, which is reducing the number of eligible employees. A 4-billion euro scheme, for which the maximum gain would be just under 1,000 euros, would amount to a little less than the PPE did in 2008. If we add in the cost of the RSA income supplement (1.6 billion in 2012), and if we take into account the previous RMI and API-related incentive schemes (600 million), we conclude that these various support mechanisms for low-income employees would total 5.6 billion euros in 2012, against 5.1 billion in 2008, an increase that barely exceeds inflation: the new policies that have been proposed since 2008 have been funded mainly by shuffling instruments targeted at the same population.

The replacement of the PPE by a reduction in social contributions would represent progress in administrative terms, since the government would cease to levy contributions and then repay a smaller tax credit to the same people 6 to 12

months later. The benefit of lowering contributions would be immediate and strongly linked to employment. This would also clarify the fact that low-paid employees are contributors to and not beneficiaries of social assistance. The proposed merger of the CSG tax and income tax (with the PPE as one element) has precisely the same goal. This reform nevertheless raises several questions. What would happen if the Constitutional Council were approached? And, employees working part-time currently benefit from an increase in the PPE; will this be renewed?

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## Fiscal policy honoured

By [Jérôme Creel](#)

“The size of many multipliers is large, particularly for spending and targeted transfers.” Who today would dare to write such a thing?

The answer is: 17 economists from the European Central Bank, the US Federal Reserve, the Bank of Canada, the European Commission, the International Monetary Fund, and the Organization for Economic Cooperation and Development, in an article published in January 2012 in the [American Economic Journal: Macroeconomics](#).

They continue in the abstract: “Fiscal policy is most effective if it has moderate persistence and if monetary policy is accommodative. Permanently higher spending or deficits imply significantly lower initial multipliers.”

What are the values of these multiplier effects, and what

about the significant reduction in such effects if fiscal policy is expansionary over the long term? According to these 17 economists, based on eight different macroeconomic models for the US and four different models for the euro zone, the conclusion is clear: a fiscal stimulus that is in effect for 2 years, accompanied by an accommodative monetary policy (the interest rate is kept low by the central bank) produces multiplier effects that are well above one both in the United States and in the euro zone (between 1.12 and 1.59) if the stimulus plan targets public consumption, public investment or targeted transfers. For other instruments available to government, such as VAT, the effects are smaller, on the order of 0.6, but still decidedly positive.

What if the stimulus is continued? The multiplier effects of a permanent increase in public consumption dwindle, of course, but they remain positive in the euro zone, regardless of the model used and regardless of the assumption made about the monetary policy pursued. Rare cases of negative multiplier effects are reported for the United States, but these depend on the model used or on assumptions about monetary policy.

Finally, a comment and a question raised by this recent article.

The comment: the choice of an optimal fiscal policy in the euro zone is well worth a few moments of reflection, reading and analysis of current work, rather than a truncated and distorted vision of fiscal policy that is judged without fair consideration as harmful to economic activity.

The question: an expansionary fiscal policy has ... expansionary effects on gross domestic product; must we really deprive ourselves of an instrument that is, after all, effective?

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# Is our health system in danger? The financing of health insurance and the crisis (1/4)

By [Gérard Cornilleau](#)

Health is one of the key concerns of the French. Yet it has not been a major topic of political debate, probably due to the highly technical nature of the problems involved in the financing and management of the health care system. [An OFCE note](#) presents four issues that we believe are crucial in the current context of a general economic crisis : the first concerns the financing of health insurance, which is being undermined by a lowering of revenue due to the crisis; the second relates to access to care, which could become more complicated due to a temporary reduction in the number of doctors; the third involves the poor management of changes in the way reimbursement is divided between social security and complementary health insurance organisations in the context of a rise in non-reimbursed expenses (in particular higher surcharges by doctors); and finally, the fourth problem concerns hospital management, which has experienced major disruptions by the introduction of charges on this activity.

## **The financing of health insurance: A new source to explore**

The crisis has further intensified the difficulty of financing health insurance, which is feeding concern about the sustainability of the health system and about public

responsibility for healthcare costs. However, an analysis of the main trends in spending and financing shows that in the event of a return to a "normal" macroeconomic situation, the financial difficulties should be contained and only a limited structural effort would be needed to achieve a balanced situation; the initial deficit is relatively small (about 0.6 GDP of the total deficit, which is divided roughly into two equal halves of 0.3 point for the structural deficit and 0.3 point for the cyclical deficit), and there are only moderate prospects for a further rise in spending (with an increase in the expenditure / GDP ratio of around 0.1 percent of GDP a year). An increase in the CSG wealth tax and realistic efforts to control spending (of around 1 to 2 billion euros per year relative to the spontaneous trend) should be sufficient to ensure the financial sustainability of the system.

If the macroeconomic climate remains very bad for a long time, the health insurance deficit could increase, in which case the issue of cutting expenditure could be posed more acutely. There would then be two options: either to accept a new increase in the deficit, as only a radical change in European policy would solve the issue of funding; or to put off a return to growth, which would mean adjusting the financial configuration of health insurance. Three variables could be used to adjust the accounts: to shift spending downwards; to raise taxes; or to lower reimbursements. In the bleak scenario of a halt in growth, it is likely that governments would seek to make use of these three variables. It is difficult to envisage a downward trend in spending at a time when needs will be increasing due to population growth and aging, and the spontaneous trend is already moderate. It would be possible to increase charges, but this would compete with tax increases to finance other government spending. As for lowering reimbursement rates, it would be difficult to do this uniformly when coverage of expenditure on primary care physicians is already very low.

The only path that has not yet been taken is means-testing reimbursement, which would lead to a large increase in the financial co-payments of the wealthiest households. This would undoubtedly reduce the deficit, but it would weaken the system, as public care would become increasingly expensive for the wealthier strata, which would lead them to support moves towards a private insurance system that excluded any redistribution between rich and poor.

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## The 35 billion euro man

By [Henri Sterdyniak](#)

Sarkozy has cost France 500 billion. This is the central point of the book *Un quinquennat de 500 milliards d'euros* [A 500 billion euro five-year term] by Melanie Delattre and Emmanuel Levy. According to the authors, out of the 632 billion euro rise in France's debt between late 2006 and late 2011, only 109 billion can be attributed to the crisis, while the remaining 523 billion are the price of the five-year reign of Nicolas Sarkozy. Of this total, 370 billion is said to be due to a failure to correct past mismanagement and 153 billion to wasteful decisions taken during his 5-year term in office. Should we take these figures seriously?

Let's start with an international comparison. From late 2006 to late 2011, the debt of France increased by 21.4 percentage points of GDP, that of the euro zone by 21.5 points, that of the United Kingdom by 40.6 points, and that of the United States by 29.2 points. There is no French specificity, no "Sarkozy effect". France's debt has increased in line with the average for the euro zone, that is to say, by 500 billion

euros, representing 20 percent of GDP. Can it be argued that without Sarkozy the country's debt would have been stable as a percentage of GDP, even though it was increasing without him everywhere else?

In fact, according to the government's latest [economic report](#), from late 2006 to late 2012 French public debt will have increased by 620 billion euros. This increase can be broken down as follows: 275 billion from interest payments, 310 billion due to the economic crisis, 30 billion from the stimulus policies implemented in 2009-2010, and 60 billion in tax reduction policies; but on the other hand, policies restricting public spending (fewer officials, no automatic increase in their wages, rigorous management of social benefits, etc.) has saved 55 billion euros. Sarkozy's responsibility is thus sharply reduced, to at most 35 billion.

The tricky part is measuring the impact of the crisis. To do this, we need to measure the gap between GDP as it has actually evolved and GDP as it would have evolved without the crisis. In our opinion, in the absence of the crisis, GDP would have continued to grow at an annual rate of about 2%. Using this estimate, the loss in output due to the crisis was 6.8% in 2009, which would have caused a tax loss of 4.4% of GDP. The authors use an [estimate by the Cour des comptes](#), which in turn comes from an assessment by the European Commission: the loss of output due to the crisis in 2009 was only 2.8% and the loss of tax revenues was only 1.4%. According to this calculation, the share of the deficit caused by the crisis is relatively low. But this assumes that in 2007-2009 structural GDP declined by 4% from its trend growth. Why? Is this really not linked to the crisis? According to the calculation by the Cour des comptes, the structural decline in GDP caused a significant increase in our structural deficit, which the authors blame on Nicolas Sarkozy. Is this legitimate? Following the Commission's logic, this 4% is lost forever; we must accept this and adjust by reducing the



deficit. In our opinion, it would be better to recover this loss through the use of expansionary policies.

In 2006, the year before Nicolas Sarkozy came to power, the public deficit was 2.3%, which was entirely structural. This deficit was “normal” since it ensured debt was stable at 60% of GDP and it corresponded to the volume of public investment. In 2012, with a deficit of 4.5% of GDP, the cyclical deficit is 4.3% of GDP while the structural deficit is only 0.2% of GDP. Overall, from 2006 to 2012 Nicolas Sarkozy will have increased the level of compulsory taxation by 0.7 point (as the large increases in 2011-12 more than offset the declines in the earlier period) and decreased the share of public expenditure in potential GDP by 1.2 point.

Above all, throughout this entire period, France was in crisis, with a shortfall in demand. An expansionary fiscal policy was necessary to avoid economic collapse. Can we blame Nicolas Sarkozy for the 30 billion euro cost of the stimulus plan? Can we blame him for not having adopted a restrictive fiscal policy to “correct past mismanagement”? No, but what we can call into question are the tax cuts that do little for growth (inheritance tax, the *bouclier fiscal* tax cap, overtime) and the cuts in certain vitally needed public expenditures (downsizing staff levels in schools and hospitals, for example).

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# The irresistible attraction to recession

By [Hervé Péléraux](#)

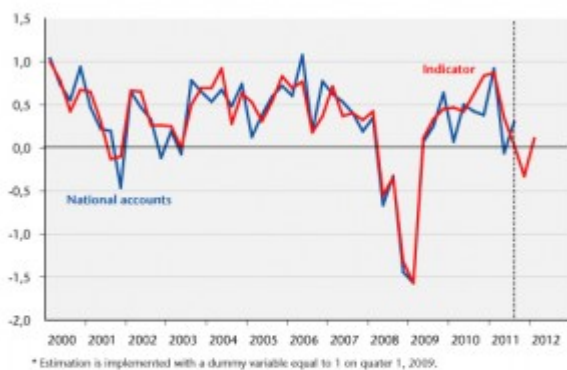
Here is the leading indicator for the French economy, updated to 30 January 2011.

The February forecasts of the leading indicator significantly worsened the outlook for the French economy at the turn of 2011 and 2012.

On the one hand, GDP is expected to have fallen more than expected in the fourth quarter of 2011, by -0.3% instead of the -0.2% estimated last month. On the other hand, the pick-up in growth in the first quarter of 2012 observed in January is fast disappearing, with GDP rising by 0.1% and not 0.3% as in the previous estimates. In total, GDP will contract by 0.2% over the two quarters. The uncertainty hanging over a forecast of GDP over two quarters, which we have pointed out [earlier](#), is gradually being lifted in an unfavourable sense as the negative information builds up. In particular, the climate in industry continued to worsen in January at a higher rate than expected last month.

The deteriorating business environment is taking precedence over the more positive elements that up to now blunted the impact of the sovereign debt crisis on growth, namely, the decline in the euro against the dollar in the third quarter of 2011 and the interruption of the dive by the CAC40 stock market index in the fourth quarter. If this same dynamic repeats in February and March, France would be unlikely to escape a recession in the usually accepted meaning of the term, *i.e.* the occurrence of two consecutive quarters of falling GDP.

The GDP growth rate based on the national accounts and the leading indicator \*



In %, Q/Q-1, chained index, 2005 base

	2010		2011			2012
	Q4	Q1	Q2	Q3	Q4	Q1
National accounts	0,4	0,9	-0,1	0,3	-	-
Indicator	0,8	0,9	0,4	0,0	-0,3	0,1

Sources : INSEE, OFCE forecasts and calculations.

Next update on 29 February 2012

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# Austerity is not enough

By André Grjebine and [Francesco Saraceno](#)

It is certainly possible to question whether the role acquired by the rating agencies in the international economy is legitimate. But if in the end their message must be taken into account, then this should be done based on what they are really saying and not on the economic orthodoxy attributed to them, sometimes wrongly. This orthodoxy is so prevalent that many commentators are continuing to talk about the decision by Standard & Poor's (S&P) to downgrade the rating of France and other European countries as if this could be attributed to an insufficiently strong austerity policy.

In reality, the rating agency [justifies](#) the downgrade that it has decided with arguments opposed to this orthodoxy. For

instance, the agency criticises the agreement between European leaders that emerged from the EU summit on 9 December 2011 and the statements that followed it, making the reproach that the agreement takes into account only one aspect of the crisis, as if it "... stems primarily from fiscal profligacy at the periphery of the euro zone. In our view, however, the financial problems facing the euro zone are as much a consequence of rising external imbalances and divergences in competitiveness between the EMU's core and the so-called 'periphery'. As such, we believe that a reform process based on a pillar of fiscal austerity alone risks becoming self-defeating, as domestic demand falls in line with consumers' rising concerns about job security and disposable incomes, eroding national tax revenues."

Based on this, S&P believes that the main risk facing the European states could come from a deterioration in the fiscal positions of certain among them "in the wake of a more recessionary macroeconomic environment." As a result, S&P does not exclude a further deterioration in the coming year of the rating of euro zone countries.

So if the European countries do indeed take into account the explanations of the rating agency, they should implement economic policies that are capable of both supporting growth and thereby facilitating the repayment of public debts while at the same time rebalancing the current account balances between the euro zone countries. This dual objective could be achieved only by a stimulus in the countries running a surplus, primarily Germany.

### **Unsustainable debt**

The budget adjustments being imposed on the countries of the periphery should also be spread over a period that is long enough for its recessionary effects to be minimised. Such a strategy would accord with the principle that in a group as heterogeneous as the euro zone, the national policies of

member countries must be synchronised but certainly not convergent, as is being proposed in some quarters. Such a policy would boost the growth of the zone as a whole, it would make debt sustainable and it would reduce the current account surpluses of some countries and the deficits of others. The least we can say is that the German government is far from this approach.

Didn't Angela Merkel respond to the S&P statement by calling once again for strengthening fiscal discipline in the countries that were downgraded, that is to say, adopting an analysis opposed to that of the rating agency? Given its argumentation, one begins to wonder whether the agency wouldn't have been better advised to downgrade the country that wants to impose austerity throughout the euro zone rather than wrongly to give it a feeling of being a paragon of virtue by making it one of the few to retain its AAA rating.

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# **The economic crisis is a crisis of economic policy**

By [Jean-Luc Gaffard](#)

The simultaneous increase of inflation and unemployment in the 1970s indicated that Keynesian theory and policy had run into a wall. No longer was it simply possible to arbitrate between the two evils and fine-tune economic activity by acting solely on aggregate demand through the budget channel. This failure together with the persistence of high inflation eventually

convinced policymakers of the need and urgency of prioritising the fight against inflation.

The economic theory devised by the new classical school came in support of this policy decision with the claim that inflation and unemployment were distinct phenomena that should be handled with distinct methods. If inflation takes off, it is because of a lack of monetary discipline. If unemployment rises, it is due to increased rigidities in the functioning of the markets. The famous Phillips curve, the basis for arbitrating between the two, theoretically becomes vertical, at least in the long run. Macroeconomic policies thus become dissociated from structural policies: the first are intended to stem inflation, the second to curb unemployment. The only relationship that they have with each other is that cyclical policy does not allow the economy to escape for long from the position determined by structural policy, a position that reflects the so-called natural unemployment rate. One attraction of this theory is the simplicity of its recommendations to government. Policymakers can (and should) meet a single target, inflation, by using a single instrument wielded by a central bank that is now independent, especially as hitting this target also ensures that the natural employment level will be achieved at the lowest cost in terms of inflation. If by chance the unemployment rate is considered too high, policymakers should take the view that this reflects dysfunctions in the markets for goods and labour, and they can then decide to introduce a well-organised set of structural reforms designed for market liberalisation. In this wonderful world, reducing the budget deficit is always profitable. The basic model teaches that, after such a reduction, income and employment decrease initially, but then, thanks to a reduction in interest rates, private investment quickly increases and with it income and employment. The new medium-term equilibrium may even correspond to a higher level of income and employment, as private investment expenditure is considered to be more efficient than government expenditure. An independent

central bank and financial markets that are deemed efficient play the role of disciplining the government by punishing any inappropriate budget deficits.

Europe has been a prime testing ground for this theory. Monetary policy is in the hands of a central bank, and its governing treaties ensure that it is independent and that its sole objective is price stability. Structural policies and reforms are a matter for the states, which are responsible for choosing the natural unemployment rate that they consider acceptable or, if they consider unemployment to be too high, they can impose reforms. If unemployment is higher in one country than in another, in the medium term, this can only be due to structural differences, in other words, to the existence of greater rigidities in the way the markets in this country operate. Once the recommended reforms are implemented, things will get back to normal. The theory thus formulated is expected to survive the crisis: for Europe to regain its lost coherence is a simple matter of policy choices. Excessively indebted countries need to reduce their budget deficits and make the structural reforms that they have put off for too long in order to restore growth, full employment and price stability. At most, some are proposing that debts be pooled in return for a commitment to implement structural reform. Germany, which has preceded the others down this particular path to virtue, has nothing to fear from this scenario, since the renewed growth of its partners will ensure the long-term viability of its commercial outlets. Furthermore, the European Central Bank does not need to concern itself with financial stability, as markets punish impecunious States and force them into fiscal austerity by driving up the interest rates paid on their borrowings.

This entire beautiful structure rests on assumptions that are not very robust, in particular that any increase in market rigidities, particularly on the labour market, e.g. due to an increase in unemployment benefits, redundancy costs or

employee bargaining power, shifts the long-term equilibrium position of the economy and inevitably produces an increase in the "natural" unemployment rate. It is, of course, always possible to compare long-run equilibria that are distinguished only by the value of certain structural data. It is riskier to deduce the path that leads from one to another. We should have learned from the experience of the 1930s that rigidities in prices and wages are a way to stem rising unemployment in a depressed economy, that is to say, when it becomes important to block reductions in prices and wages that are increasing the burden of private debt and putting downward pressure on aggregate demand. It should also be clear that structural reforms intended to reduce the natural rate of unemployment often lead immediately to a redistribution and reduction in income, which leads in turn to higher unemployment. But nothing says that this increase will only be temporary and will not trigger a chain reaction through the channel of aggregate demand. Rigidities remain a factor in reducing the risk of instability inherent in any structural change, whether this involves reforms in market organisation, the emergence of new competitors on the market or technological breakthroughs. A better allocation of resources may justify calling these rigidities into question, but care must be taken to avoid the inherent risk of instability. Certainly, when structural reforms aimed at introducing more flexibility undermine domestic demand, the latter can then be boosted by stimulating external demand with lower prices. The unemployment rate may then fall. But it is actually exported to countries that might well not yet have undertaken such reforms, where unemployment thus inevitably exceeds the level deemed natural. "Every man for himself" begins to prevail over solidarity.

Europe is currently going through this scenario. Germany, in particular, carried out the structural reforms required by the prevailing theory, but at the cost of the segmentation of its labour market and the growth of low-paid insecure jobs, which resulted in turn in a slowdown in domestic demand. The



improvement in Germany's export performance, based on the quality of its goods as well as on the international fragmentation of the production process, has been offsetting the slowdown and helping to contain or even reduce the budget deficit. The unemployment rate has been rising in many other European countries in parallel to their budget deficits. The correction required by the experts (and in fact imposed by the financial markets), which involves simultaneously reducing public spending, raising taxes and making structural reforms, will very likely further reduce domestic demand in these countries, increase their budget deficits and ultimately hit German exports. [Recession, if not a general depression, lies at the end of this path.](#) The cause is a series of internal and external imbalances. And things could get even more complicated if performance gaps in the countries concerned widen even further and lead to divergences in their goals and interests.

Economic policy is unfortunately more complex than modern macroeconomics would have it. The long term is not independent of the short term; and the goals pursued are not independent of each other, and not always inter-compatible. Policies that are categorised as cyclical and structural are not really independent of each other, nor can they be targeted exclusively at a single goal. If there must be structural reforms, they need to be accompanied by expansionary cyclical policies to counteract the immediate recessionary effects that they may amplify. Even so, cyclical policies are not sufficient in themselves to ensure strong, steady growth.

It is unrealistic and dangerous to expect to break free of the current impasse [through generalised fiscal austerity](#) in Europe. Compromises are needed that involve the acceptance of some disequilibria in order to alleviate others. The only way out is to accept budget deficits for a while longer. [Without a recovery in the balance sheets of both firms and households, there will be no positive outcome](#) from the rebalancing of

public accounts, if indeed that even occurs.

There is of course no doubt that we must achieve greater harmony in the fiscal positions of countries belonging to the same monetary zone. Fiscal federalism is necessary to deal with monetary federalism. But federalism does not stop with the actions of a central bank that has been stripped of its basic functions and is unable to carry out common national fiscal contractions. It demands genuine budget solidarity, including to intervene to prevent the insolvency of States that are facing exorbitant interest rates. It also involves structural policies that not only refrain from reforms that could exacerbate fiscal and social competition, but also promote industrial and technological projects funded by a common European budget that has been strengthened through the establishment of a federal tax. State budget deficits will not be contained and the objectives and interests of states will not converge without the implementation of the cyclical and structural policies needed for a general recovery of growth.

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## **Competitiveness at the expense of equality?**

By [Hélène Périvier](#)

Working time has made its appearance in the presidential campaign, and the idea that people work less in France than elsewhere is gaining ground. This is the subject of a report by [COE-Rexecode](#), which unfortunately does not take into

account the sexual division of labour.

The employment policies being implemented by European governments are not, however, gender neutral, and ignoring this gives a distorted view of the reality of how work is divided up in our economies: an integrated approach to equality (or “gender mainstreaming”), which requires thinking about the differential effects of public policies on women and men, is far from automatic.

The counteranalysis to the Coe-Rexecode report proposed by [Eric Heyer and Mathieu Plane](#) emphasises the importance of not just looking at full-time workers when trying to compare working hours and their impact on the labour market dynamics of the major European countries. Indeed, part-time workers represent 26% of all employees in Germany, against 18% in France, so it is misleading to exclude them from the analysis.

It is well known that the distribution of full-time and part-time jobs is gender-biased: throughout Europe, women work part-time more than men do. While in France about 30% of women employees work part-time, the rate is 45% in Germany, and in both countries the part-time rate for men is below 10%. The gendered nature of part-time work is a factor in inequality: recall for example that in France working time explains about half of the wage gap between men and women (see in particular [Ponthieux, Meurs](#)). The issue of working time is central to the promotion of occupational equality.

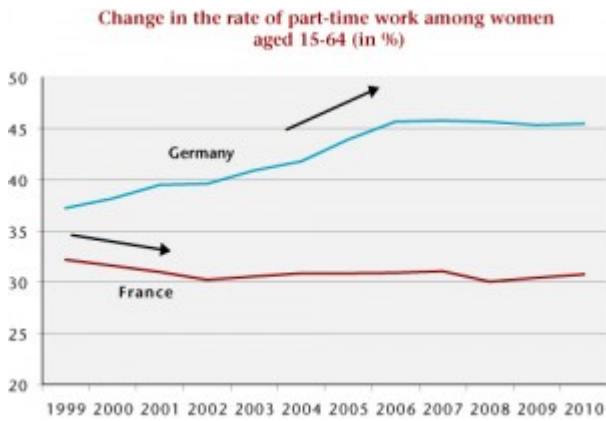
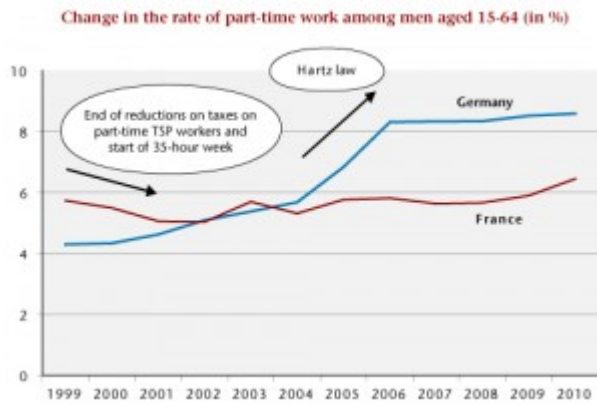
According to the methodological note to the Coe-Rexecode report, “The annual data provided by Eurostat and published by Coe-Rexecode in the paper, “La durée effective du travail en France et en Europe” [“Average effective working time in France and in Europe”] are the only data on average annual hours of work that is comparable between European countries.” It is unfortunate that in its order to Eurostat, Rexecode did not see fit to ask for a gender breakdown of its data. This would have provided a cost-effective way of determining trends

in working hours by gender in both countries. Despite this omission, is there anything that can be said about changes in working hours from a gender perspective in the two countries during the last decade, based on the data available to us? How were the adjustments in the labour market divided between women and men?

The changes over the period studied are instructive in terms of the employment policy approaches adopted in the two countries. In the early 2000s, the introduction of the 35-hour work week in France put an end to the reductions in charges that had made hiring part-time workers attractive and which had been driving the ramp-up of part-time employment in France, without significantly affecting the employment conditions of men. Since then, the rate of part-time employment has been stable for women as well as for men (see figure). In Germany, the implementation of the Hartz law (effective as of April 2003) introduced “mini-jobs” [\[1\]](#), which basically meant the creation of part-time precarious employment. This affected both men and women, but while the part-time rate of German men rose by 4.3 points, the rate of German women rose by 8.2 points (Figure). German women were thus significantly more affected by part-time employment than were German men, or French women. Furthermore, the average working time for part-time jobs was slightly over 4 hours less in Germany than in France (according to the Eurostat data).

French women were of course more affected by the increase in part-time work than were French men, but this increase has been limited, since new part-time jobs accounted for only 21% of the total jobs created between 1999 and 2010. In contrast, in Germany, part-time work has been the driving force in employment during the period, with German women being the main ones concerned by the individual reduction of working time: they represent 70% of the battalion of part-time workers added during this period. Thus, not only did France create more jobs than Germany between 1999 and 2010, but the choice of a

collective rather than an individual approach to reducing working time led to a more balanced distribution of employment between men and women.



Source : Eurostat [\[lfsa\\_eppga\]](#)

Share of part-time jobs in the growth of employment between 1999 and 2010 in France and Germany, by sex

	Change in employment	Share of part-time jobs in the growth of employment	Share of female part-time jobs in the growth of employment
Germany	6,1	130	93 (or 70 % of 130 %)
France	12,2	21	15 (or 76 % of 21 %)

Source : Eurostat [lfsa\_eppga].

# Working hours and economic performance: What lessons can be drawn from the Coe-Rexecode report?

By [Eric Heyer](#) and [Mathieu Plane](#)

Do people work less in France than in the rest of Europe? Is France the only country to have reduced working hours in the last decade? Is the 35-hour work week really dragging down the French economy? The report published on 11 January by the [Coe-Rexecode](#) Institute provides fresh material for answering these questions.

We have produced [a note on the main conclusions of the report](#), which can be summarized as follows:

## **1. People work fewer hours in France than in the rest of Europe.**

- TRUE for full-time employees,
- FALSE for part-time employees,
- FALSE for non-salaried employees,
- UNDETERMINED for the total.

## **2. Working hours have fallen more in France than in Germany over the last 10 years.**

- FALSE

## **3. “The shorter work week has failed to meet the goal of job creation and work-sharing” in France.**

- FALSE

## **4. “The shorter work week has undermined per capita purchasing power” in France.**

- FALSE
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# Estonia: a new model for the euro zone?

By [Sandrine Levasseur](#)

In the wake of the Swedish and German models, should Europe now adopt the Estonian model? Despite Estonia's *success story*, the answer is no. Here's why.

Estonia has been a source of continuous surprise in recent years. First, it wrong-footed those who, in the autumn of 2008, thought the country had no alternative but to abandon its [currency board](#) and massively devalue its currency. However, Estonia chose a different path, as it strengthened its monetary anchor by adopting the euro on 1<sup>st</sup> January 2011. The winter of 2008 saw another surprise when the country decided on a significant reduction in civil servant salaries in the hope of creating a "demonstration effect" for the private sector, particularly for businesses exposed to international competition. The government's objective was clearly to help the economy to become more competitive. This strategy, called an "internal devaluation", worked in the sense that the total wage bill actually declined, with wage losses that could reach up to 10% to 15% at the peak of the crisis. Surprisingly, this decline in wages, which affected every sector of the economy, was relatively well accepted by the population. It was met by only a few strikes and demonstrations, even when the government decided to introduce more flexibility into the labour market (easier redundancy procedures, lifting administrative authorization for the

reduction of working time, etc.). Finally, [the ultimate surprise](#) was undoubtedly GDP growth of around 8% in 2011, a fall in the unemployment rate to less than 11%, and a trade deficit of only 2% of GDP (versus 16% before the crisis). Estonia's public debt was contained at 15.5% of GDP, and for 2011 the country even recorded a budget surplus of 0.3% of GDP! This is the stuff of dreams for the other euro zone countries!

Despite all this, the strategy adopted by Estonia cannot be turned into a model for the other euro zone countries. In fact, Estonia's success story is due to a convergence of favourable factors, with two conditions being critical:

1. A strategy of lowering wages makes it possible to become more competitive relative to a country's main partners only if it is conducted in isolation. If in Europe, particularly in the euro zone, every country were to lower its wage bill, the result would simply be sluggish domestic demand, with no positive impact on the countries' exports. To date, among the members of the euro zone, only Estonia and Ireland (two "small" countries) have played the card of lowering wages in the context of the crisis. We can scarcely imagine the impact on the euro zone if Germany or France ("large" countries) had drastically lowered wages at the height of the crisis. In addition to weak demand, this would have inevitably led to a trade war between the countries, which ultimately would not have benefited anyone.

2. A strategy of lowering wages is good for the country that implements it only so long as its major trading partners are on a trajectory of growth. In this regard, the upturn in Sweden and Finland partly explains Estonia's good export performance. In 2011, GDP increased by 4.1% in Sweden and 3% in Finland (against "only" 1.6% in the euro zone). We might expect that exports from Estonia would have been less dynamic (+33% in 2011!) if the growth rate of its two major trading partners had been lower, since between them Finland and Sweden



represent 33% of Estonia's export markets.

But does this mean that a slowdown in activity in [Sweden](#) and [Finland](#) – as can be anticipated for 2012 or 2013 – would negate the efforts made by Estonia's workers in terms of pay concessions? In other words, with respect to the long-term prospects of Estonia's economy, has the reduction in wages been in vain? The answer is no, it hasn't. In Estonia (as well as in the other Baltic states), the decline in wages was in fact necessary to offset the strong wage hikes granted before the crisis, which were largely disconnected from any gains in productivity. The loss of competitiveness of the Estonian economy that resulted could be seen in the winter of 2007, when GDP decelerated significantly and the trade deficit reached an abysmal level. By the spring of 2008, it had become clear that the growth model of Estonia (and of the other Baltic states), based on the equation "consumption + credit + greatly expanded construction", was [unsustainable](#) and that "adjustments" were inevitable in order to reorient the economy towards exports.

A detailed analysis of the adjustments made in the Estonian labour market during the economic crisis (see [here](#)) helps to measure the impact on business competitiveness of the pay cuts, the reduction in working time and the massive layoffs. Overall, the [real effective exchange rate](#) (measured by the unit labour costs of Estonia relative to those of its trading partners) has depreciated by some 23% since 2009. The loss of purchasing power suffered by Estonia's workers is estimated at 9% (in real terms) since 2009, or even at 20% of the gains in purchasing power obtained in 2004-2008. Among the institutional and societal factors that led Estonians to accept the wage cuts and a more flexible labour market, the absence of strong union representation seems to be an important explanatory factor. For example, in Estonia, fewer than 10% of employees are covered by collective bargaining agreements (against 67% in France). The other key explanatory

factor seems to have been the desire to join the euro zone. In these difficult times for the single currency, if this willingness seems surprising, it is nevertheless still [relevant for a certain number of EU countries](#) that have not yet adopted the euro.