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

By Bruno Ducoudré and Eric Heyer

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

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

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

25 generally have less incentive to register at the job centre [2].

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

1000s

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

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

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

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

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

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

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

Source : INSEE, labour survey.

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

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

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

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

the end of the job contract.

Unemployment figures: the chill returns in April

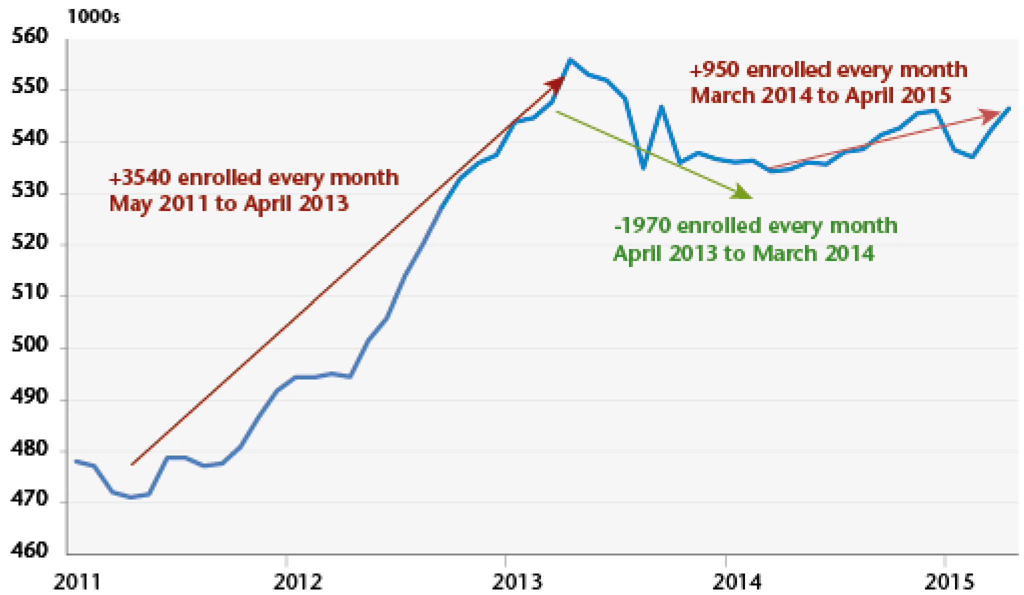
By Analysis and Forecasting Department (OFCE-DAP)

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

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

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

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



Sources : DARES, Pôle Emploi, OFCE calculations.

Which companies are investing in France?

By Sarah Guillou

At a time when investment has become a priority for the European Union, the IMF and France, at a time when the French government is preparing legislation to boost business investment, it is urgent to look into who is actually investing in France's physical capital[1].

Physical investment in France's commercial sector is concentrated in certain sectors: manufacturing, trade, transport, real estate, information and communication, along with the generation of electricity and gas. These "big contributors" totalled 72% of all tangible investment in 1997, and 70% in 2011. This temporal stability obscures two major changes: the manufacturing and real estate sectors saw their contribution to investment change dramatically. The decline in manufacturing's share of GDP has resulted in a decline in the share of investment in machinery and tools. However, this type of investment includes investments in automation and computerization, which are major vectors for boosting productivity. Nor was this decline offset by investment in the information and communication sector, which also invests heavily in machine tools.

The steep rise in real estate and construction prices inflated construction's share of investment. It is particularly noteworthy that the increase in construction prices has captured a large share of business spending on capital investment, thereby diverting financial capital from productive destinations. While this dynamic growth in investment in construction has indeed positively influenced investment trends in physical assets, it mainly explains the dynamics of investment in the property sector. Construction prices have not fallen since the crisis, even though the volume of investment has fallen sharply.

The resilience of the investment rate France's non-financial companies is due in part to investment in construction, but this holds true especially for the real estate sector and the transport sector.

The highest investment rates are on the part of the big corporations and firms with the highest profit rates. Furthermore, the rate of investment is positively correlated with the debt ratio, exporter status, export intensity and R&D intensity. In contrast, human capital indicators such as labour productivity or average hourly earnings tend to be negatively correlated with the investment rate.

The continuation of deindustrialization and the outsourcing of manufacturing could accelerate the decline in investment in machine tools and equipment. The development of information and communication technology and of this sector more generally could offset the decline in manufacturing. Given that investment in machine tools is a source of higher productivity, maintaining a solid level of activity in the manufacturing sector and the information and communications sector is imperative.

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[1] *Note de l'OFCE no. 50 of 22 April 2015* *[in French]* characterizes the sectors and companies that invest in France.

France: Recovery … at last!

By Mathieu Plane, Bruno Ducoudré, Pierre Madec, Hervé Péléraux and Raul Sampognaro

The OFCE's forecast for the French economy in 2015-2016 is now available.

Not since the beginning of the subprime crisis has the French economy been in such a favourable situation for a recovery. The fall in oil prices, the ECB's proactive and innovative policy, the easing of fiscal consolidation in France and the euro zone, the gathering impact of the CICE tax and the implementation of the Responsibility Pact (representing a tax transfer to business of 23 billion euros in 2015 and nearly 33 billion in 2016) all point in the same direction. The main obstacles that have held back French activity over the last four years (over-calibrated fiscal austerity, a strong euro, tight financial conditions, and high oil prices) should all be out of the way in 2015 and 2016, with pent-up growth finally released. The supply policy being pushed by the government, whose impact on business is still pending, will be all the more effective thanks to the positive demand shock from foreign trade, which will allow the economic rebalancing that was lacking up to now.

French GDP will grow by 1.4% in 2015, with the pace accelerating in the course of the year (to 2% yoy). The second half of 2015 will mark the turning point in the recovery, with the corporate investment rate picking up and the unemployment rate beginning to fall, ending the year at 9.8% (after 10% in late 2014). 2016 will then be the year of recovery, with GDP growth of 2.1%, a 4% increase in productive investment and the creation of nearly 200,000 private sector jobs, pushing the unemployment rate down to 9 5% by end 2016. In this positive context, the public deficit will fall significantly, and is expected to be 3.1% of GDP in 2016 (after 3.7% in 2015).

Obviously this virtuous cycle will only take effect if the macroeconomic environment remains favourable (low oil prices, a competitive euro, no new financial tensions in the euro zone, etc.) and if the government limits itself to the budget savings already announced.

Shale gas: recovering a mirage?

By Aurélien Saussay

A report posted online on April 7 by *Le Figaro* assesses the gains that could be expected from the exploitation of shale gas in France: the report concludes that this is an opportunity to revive the French economy and cut France’s energy costs by substituting domestic production for our imports of gas. It estimates that the macroeconomic impact would be substantial: in the “likely” scenario, more than 200,000 jobs would be created, with an additional 1.7 points of GDP on average over a 30-year period.

The magnitude of these figures stems directly from the assumptions used in the report, especially in terms of geology. The production costs for a shale gas field and the volumes that could be extracted depend on the field’s physical characteristics (depth, permeability, ductility of the rock, etc.). However, without carrying out any experimental fracking, it is very difficult to make a future estimate of all of these parameters, and hence of the final production cost.

It is nevertheless possible to see how these parameters are distributed in the only territory that has extensively exploited shale gas up to now: the United States. By reviewing the production data for the US deposits accumulated over more than ten years, a realistic distribution of production costs can be modelled. This is the approach adopted to develop the SHERPA model, which is described in an OFCE working paper published today, *Can the U.S. shale revolution be duplicated in Europe?*

More than 60 shale gas deposits have been explored in the United States since it first began to be exploited in the early 2000s. But only 30 have been put into commercial production, and six of these account for over 90% of the total US output of shale gas. Based on the geological assumptions corresponding to the median of the six best deposits, the Net Present Value (NPV) of France's gas resources comes to 15 billion euros – 15 times less than the 224 billion estimated in the aforementioned report. To reach this latter figure, it must be assumed both that the cost of drilling and well completion will be similar in France and the United States, and that the French deposits are comparable to the best American field, around Haynesville, Louisiana … but the characteristics of that field are exceptional: the average output of its gas wells is nearly four times the average of the five other main deposits. While it is of course impossible *a priori* to exclude that this latter assumption would hold, it is very unlikely.

This uncertainty emphasizes the need to carry out experimental drilling to guard against overly optimistic scenarios. The case of Poland is instructive: the projections of the US Energy Information Agency (EIA) pointed to very large shale gas reserves in a country that is heavily dependent on imports of Russian gas. The Polish government, keen to strengthen its energy independence, decided to try to speed up domestic production, offering up to a third of its territory for operating concessions. The first wells were disappointing: it turned out that the rocks in the Polish deposit contained too much clay, making them too ductile and impeding good fracturing of the rock – an essential step for exploiting shale gas, regardless of which technology is used. After the trials, Poland’s substantial reserves, touted as the largest in Europe, proved to be unworkable.

This kind of evaluation should be made in a way that is public and transparent. Professional prospectors, whose main activity is to assess the geological reality of a hydrocarbon deposit previously estimated on paper, in fact have an interest in overestimating the pre-drilling assessments in order to sell their services. An example from abroad once again shows the extent of the problem: in May 2014, the US EIA reported that the estimate of the exploitable volume of shale oil in the US Monterey deposit, hitherto regarded as one of the most promising, was being slashed by 96%. After a review, it was clear that the first estimate, made two years earlier, had been based entirely on the calculations of private independent prospectors, without the intervention of the governmental services of the US Geological Survey.

To ensure a realistic assessment of France’s resources of shale gas, experimental drilling needs to be entrusted to a public body, with fully transparent results and methodology. Only an approach like this can ensure that future scenarios are objective and not unduly optimistic.

The erosion of France’s productive base: causes and remedies

Xavier Ragot, President of the OFCE and the CNRS

The deindustrialization of France, and more generally the difficulties facing sectors exposed to international competition, reflects trends that have been at work in France and in Europe for more than a decade. Indeed, while the strictly financial moment when the crisis struck in 2007 was the result of the bursting of the American real estate bubble, the scale of its impact on Europe’s economy cannot be understood without looking at vulnerabilities that have previously been neglected.

In “Érosion du tissu productif en France: Causes et remèdes”, *OFCE working document no. 2015-04*, Michel Aglietta and I offer a summary of both the microeconomic and macroeconomic factors behind this productive drift. Such a synthesis is essential. Before proposing any policy changes for France, it is necessary to make a coherent diagnosis of major trends in international trade as well as of the real situation of France’s productive fabric.

European divergences

The starting point is the surprising divergence seen in Europe. The euro zone’s two largest countries, Germany and France, have diverged in an unprecedented way since the mid-1990s. While property prices remained stable in Germany, in France they increased by a factor of 2.5, hitting the country with two negative consequences: a high cost of living for its employees, and a collapse in property investment by its businesses. Wages in Germany are now 20% lower than in France due to the wage moderation implemented to manage the former’s reunification process. Furthermore, until the crisis, real short-term interest rates (which take into account inflation differentials) were about 1 percentage point lower in France and Spain than in Germany. This change in the price of the production factors (higher real interest rates and lower wages in Germany than in France) did not give rise to a greater substitution of capital for labour in France. There was little difference between the two countries in the investment rate, which was relatively stable in both. Other indicators, such as the number of robots, indicate on the contrary that there was less modernization of France’s productive fabric. These changes in factor prices have not therefore translated into an adjustment in the productive fabric, but have instead led to an unsustainable divergence in the current accounts.

Current account balances are crucial concepts for measuring disequilibria within Europe. A positive current account means that a country is lending to the rest of the world, while a negative current account means that it is borrowing from the rest of the world. While European rules have focused attention on the public deficit alone, the proper measure of a country’s indebtedness is the current account, the sum of public and private debt. On this measure, Germany’s current account is one of the most positive in the world, meaning that it is lending heavily to other countries. While over the last three years the differences between European current accounts have been narrowing, this is the result more of a contraction in activity due to austerity measures than of a modernization of the productive base in countries with negative current accounts. The European framework for analysing macroeconomic imbalances does of course have numerous indicators, including the current account. However, in practice the multiplicity of indicators gives a crucial role to the numerical public deficit targets. So while the framework for European surveillance seems very general in its assessment of economic imbalances, it is the short-term budgetary aspect alone that dominates analysis. Don't forget that Spain's public debt was less than 40% of GDP in 2007, but over 90% of GDP in 2013. Low public debts are not therefore a sufficient condition for macroeconomic stability, just as public debts that are temporarily high are not necessarily a sign of structural problems.

The fragility of France's productive base

In this sense, corporate data can be used to gain insight into trends in the French economy. French companies did of course experience a fall in margins, but this has mainly affected sectors exposed to international competition. Corporate profitability (which finances the payment of dividends and interest and contributes to investment) fell from 6.2% in 2000 to less than 5% in 2012. Despite this decline, the investment rate held steady in all business categories during the period, in part funded by corporate savings, which declined from a rate of 16% in 2000 to 13% in 2012. The result has been a substantial rise in corporate debt, although up to now this has not led by higher debt costs due to the fall in interest rates. All these factors are inevitably fuelling concern about the health of our productive fabric: France's businesses have responded to economic difficulties, not by innovation, but by financializing their balance sheets and taking on debt.

Towards partnership in governance

To innovate, invest and upscale, France's companies must make efforts over the long term – this is the only way there will be a process of reconvergence in Europe. The point is not to maximize short-term financial returns, through for example excessive dividend payments, but rather to invest over horizons that are typically considered (too) long by companies. As a result, making improvements to France's productive fabric will require shifting corporate governance towards a model based on stronger partnerships and a more long-term vision in order to invest in employees' skills and qualifications, in intangible assets, and in new technologies. Social dialogue is not just about income distribution and tax reform but is also essential within companies in order to ensure the mobilization of our only productive wealth, men and women who are putting their all into their work.

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

By Henri Sterdyniak

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

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

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

France – the sick man of Europe?

by Mathieu Plane – Economist at OFCE (French Economic Observatory – Sciences Po)

The year 2014 was marked for France by the risk of European Commission sanctions for the failure of its budget to comply with Treaties; by the downgrade by Fitch of French government debt (following the one by S&P a year earlier); by the absence of any sign of a in the unemployment rate; by a rising deficit after four years of consecutive decline; and by the distinction of being the only country in Europe to run a significant current account deficit: economically, it seemed like the country’s worst year since the beginning of the crisis, in 2008. France did not of course go through the kind of recession it did in 2009, when the Eurozone experienced a record fall in GDP (-4.5% and -2.9% for the EMU and for France respectively). But for the first time since the subprime bubble burst, in 2014 French GDP grew more slowly (0.4%) than eurozone average (0.8%). The country’s weakening position is fuelling the view that France may be the new sick man of

Europe, a victim of its leaders' lax fiscal approach and its inability to reform. Is this really the case?

It is worth noting first that the French economic and social model proved its effectiveness during the crisis. Thanks to its system of social safety nets, to a combined (consumers, business, government) debt level that is lower than the Eurozone average, while the household savings rate that is higher, to a low level of inequality, and to a relatively solid banking system, France weathered the crisis better than most of its European partners. Indeed, between early 2008 and late 2013, French GDP grew by 1.1%, while during that same period the Eurozone as a whole contracted by 2.6%; France also avoided the recession in 2012 and 2013 that most Eurozone countries experienced. Looking at Europe for the six years from 2008 to 2013, France's economic performance was relatively close to that of Germany (2.7%), better than that of the UK (-1.3%) and well ahead of Spain (-7.2%) and Italy (-8.9%). Similarly, during this period investment in France contracted less than in the Eurozone as a whole (-7.7% versus -17%), and unemployment increased less (+3 points versus +4.6). Finally, the French economy's ability to stand up better to the crisis was not linked with a greater increase in public debt compared to the Eurozone average (+28 GDP points for both France and the Eurozone) or even the United Kingdom (+43 points).

Nevertheless, France has seen its position in the Eurozone deteriorate in 2014. This was marked not only by lower growth than its partners, but also by higher unemployment (the Eurozone rate has gradually fallen), an increase in public debt (which virtually stabilized in the Eurozone), a decline in investment (which improved slightly in the euro zone), an increase in its public deficit (while that of the Eurozone fell) and a substantial current account deficit (the euro zone is running a significant surplus). Why this divergence?

While France does have a problem with competitiveness, note that almost half of its current account deficit is cyclical due to more dynamic imports than its major trading partners, which generally have worse output gaps. Furthermore, until 2013, the country's fiscal adjustment was focused more on the tax burden than on public spending. Conversely, the focus in 2014 was more on public spending. Given France's position in the business cycle and its budget decisions, the fiscal multiplier in 2014 was higher than in previous years, so that fiscal consolidation imposed a heavy toll in terms of growth. In terms of competitiveness, French industry is caught in the middle of the Eurozone between, on the one hand, peripheral countries of the euro area, including Spain, which have entered into a spiral of wage deflation fuelled by mass unemployment, and the core countries, especially Germany, which are reluctant to give up their excessive trade surpluses through higher domestic demand and more inflation. Faced with the generalization of wage devaluations in the Eurozone, France had no choice but to respond with a policy to improve the competitiveness of its businesses by cutting labour costs. Thus, the CICE tax credit and the Pact of Responsibility represent a total transfer of 41 billion euros to the firm system, mainly financed by households. While the positive impact of these transfers will be felt over the medium-to-long term, the financing effort together with the country's fiscal consolidation effort had an immediate adverse effect on purchasing power, which goes a long way in explaining the poor growth performance of 2014. Finally, 2014 also saw a steep fall in housing investment (-7%), the largest drop since the real estate crisis of the early 1990s (excluding 2009).

There are several reasons why France's poor performance is not likely to be repeated in 2015: first, in order to halt the decline in construction, emergency measures were taken in August 2014 to free up housing investment, with the first effects to be felt in 2015. Second, the programmes enacted to improve business competitiveness will begin to take full effect from 2015: the CICE tax credit and the Responsibility

Pact will slash business costs by 17 billion euros in 2015, up significantly from only 6.5 billion in 2014. Third, the slowdown in the fiscal consolidation programmes of our commercial partners and the introduction of a minimum wage in Germany will both help French exports. In addition, the lower exchange rate for the euro and falling oil prices are powerful levers for boosting the French economy in 2015, and together could amount to one extra point of growth. Given the ECB's policy on quantitative easing, interest rates should also remain low for at several more quarters. Finally, although timid, the Juncker plan along with marginal changes in Europe's fiscal rules will favour a pickup in investment. These factors will put some wind in the sails of French growth by helping to offset the negative impact of the reduction in public spending for 2015, so that the economy finally reaches a pace that will be sufficient to begin to reverse the unemployment curve and reduce the public deficit.

While France is not the sick man of Europe, it is nevertheless still very much dependent, like all euro zone countries, on Europe having strong macroeconomic levers. Up to now, these have had a negative impact on business, be it through overly restrictive fiscal policies or a monetary policy that has proved insufficiently expansionary in the light of other central banks' action. In an integrated currency zone, deflation cannot be fought on a national basis. The choice of a European policy mix that is more geared towards growth and inflation is a first since the start of the sovereign debt crisis. Boosted by lower oil prices, let us hope that these levers will prove strong enough to halt the depressive spiral that the Eurozone has been going through since the onset of the crisis. The recovery will be European, before being French, or there won't be one.

Austerity and purchasing power in France

By Mathieu Plane

Is France implementing an austerity policy? How can it be measured? Although this question is a subject of ongoing public debate, it hasn't really been settled. For many observers, the relative resilience of wage dynamics indicates that France has not carried out an austerity policy, unlike certain neighbours in southern Europe, in particular Spain and Greece, where nominal labour costs have fallen. Others conclude that France cannot have practiced austerity since government spending has continued to rise since the onset of the crisis[1]. The 50 billion euros in savings over the period 2015-17 announced by the Government would therefore only be the beginning of the turn to austerity.

Furthermore, if we adhere to the rules of the Stability and Growth Pact, the degree of restriction or expansion of a fiscal policy can be measured by the change in the primary structural balance, which is also called the fiscal impulse. This includes on one side the efforts made on primary public spending (*i.e.* excluding interest) relative to the change in potential GDP, and on the other side the change in the tax burden in GDP points. Thus, over the period 2011-13, France's primary structural balance improved by 2.5 percentage points of GDP according to the OECD, by 2.7 points according to the European Commission, and by 3.5 points according to the OFCE. While there are significant differences in the measurement of fiscal austerity during this period, the fact remains that, depending on the method of calculation, it amounted to between 55 and 75 billion euros over three years[2].

A different way of measuring the extent of fiscal austerity involves looking at the change in the components of household purchasing power. Purchasing power can in fact be used to identify the channels for transmitting austerity, whether this is through labour income or capital, benefits or the tax burden on households[3]. Changes in the components of income clearly show that there was a pre-crisis and a post-crisis in terms of the dynamics of purchasing power per household.

Over the period 2000-2007, purchasing power grew by more than 4000 euros per household …

This corresponds to an average increase of about 500 euros per year per household [4] (Table) over the eight years preceding the subprime crisis, a growth rate of 1.1% per year. On the resource side, real labour income per household (which includes the EBITDA of the self-employed), supported by the creation of more than 2 million full-time equivalent jobs over the period 2000 to 2007, increased on average by 0.9% per year. But it is above all real capital income per household (which includes the imputed rents of households occupying the accommodation that they own) that increased dramatically over this period, rising twice as fast (1.7% on average per year) as real labour income. As for social benefits in cash, these increased by 1% on average in real terms in this period, *i.e.* a rate equivalent to the rate for total resources. As for levies, tax and social contributions from 2000 to 2007 have helped to reduce purchasing power per household by 0.9 points per year, which corresponds to about 100 euros per year on average. Breaking down the increase in levies, 85% came from social contributions (employees and self-employed), mainly due to hikes in premiums related to pension reform. Taxes on income and wealth contributed to cutting purchasing power per household by only 14 euros per year, despite a sharp increase in capital income and property prices over the period 2000-2007. During this period, taxes on households deflated by consumer prices increased by less than 2%, whereas real household resources grew by almost 9% and real capital income by 14%. The reduction in income tax, which began under the Jospin government, and was continued by Jacques Chirac during his second term, explains in large part why taxes have had so little negative impact on purchasing power during this period.

Changes in the components of purchasing power per household (in 2013 euros)

		Labour income (incl. EBITDA of IU)*	Capital income (incl. imputed rent**)	Social benefits in cash	Other resources	Total resources	Tax on income and wealth	Social contri-butions (salaried and non-salaried)	Total contribu-tions	Purchasing power per household
Cumulative change	2000-2007	2283	1376	1120	34	**4814**	-110	-668	-778	4036
	2008-2015 o/w:	-1059	-911	1502	-61	**-529**	-785	-318	-1102	-1631
	2008-10	-293	-613	1021	-1	**114**	36	-36	0	114
	2011-13	-680	-314	355	-60	**-699**	-789	-143	-932	-1631
	2014-15	-85	16	125	0	**56**	-31	-139	-170	-114
Average annual change	2000-2007	285	172	140	4	**602**	-14	-83	-97	504
	2008-2015 o/w:	-151	-130	215	-9	**-76**	-112	-45	-157	-233
	2008-10	-98	-204	340	0	**38**	12	-12	0	38
	2011-13	-227	-105	118	-20	**-233**	-263	-48	-311	-544
	2014-15	-43	8	63	0	**28**	-16	-69	-85	-57

* IU = Individual undertakings.
** The notion of an imputed or fictive rent covers the service that is rendered to the owner of an accommodation by that accommodation, that is, the rent that owners would have to pay if they were tenants.
Sources: Insee national accounts, author's calculations, France's 2015 Budget Act.

…but over the period 2008-2015, purchasing power per household fell by more than 1600 euros

The crisis marks a sharp turn with respect to past trends. Indeed, over the period 2008-2015, purchasing power per household fell, on average, by almost 1630 euros, or 230 euros per year.

Over the eight years since the start of the crisis, we can distinguish three sub-periods:

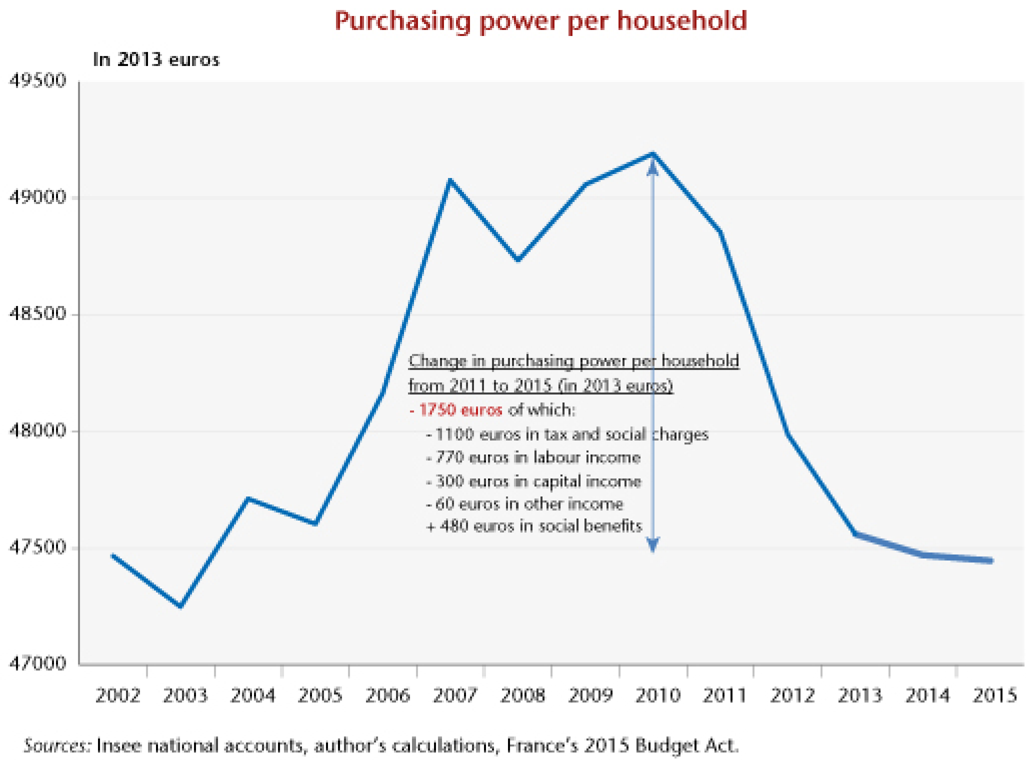
– The first, from 2008 to 2010, following the subprime crisis and the collapse of Lehman Brothers, is characterized by the relatively high resistance of purchasing power per household, which increased by nearly 40 euros per year on average, despite the loss of 250,000 jobs over this period and the sharp decline in capital income (200 euros on average per year per household). On the one hand, the sharp drop in oil prices from mid-2008 had the effect of supporting real income, including real wages, which increased 0.9% annually. On the other hand, the stimulus package and the shock absorbers of France's social security system played their countercyclical role by propping up average purchasing power through a sharp rise in social benefits in kind (340 euros on average per year household) and a slightly positive contribution by taxes to purchasing power.

– The second period, from 2011 to 2013, is marked by intense fiscal consolidation; this is a period in which the tax burden increased by about 70 billion euros in three years, with a massive impact on purchasing power. Higher tax and social security charges wound up eroding purchasing power by 930 euros per household, more than 300 euros on average per year. Moreover, the very small increase in employment (+32,000) and stagnating real wages, combined with the impact of an increase in the number of households (0.9% annually), led to a reduction in real labour income per household of almost 230 euros per year. In addition, real capital income per household continued to make a negative contribution to purchasing power from 2011 to 2013 (-105 euros on average per year per household). Finally, although social benefits were slowing compared to the previous period, they were the only factor making a positive contribution to purchasing power (about 120 euros per year per household). In the end, purchasing power per household fell by 1,630 euros in three years.

– The third period, 2014 and 2015, will see yet another slight reduction in household purchasing power, amounting to about 110 euros in two years. The weak situation of employment and real wages will not offset the increase in the number of households. Thus, real labour income per household will decline slightly over the two years (-43 euros per year on average). Real capital income will, in turn, be roughly neutral in terms of its effect on purchasing power per household. Although they are not rising as much, tax and social contributions will continue to weigh on purchasing power due to the ramp-up of certain tax measures approved in the past (environmental taxes, higher pension contributions, local taxes, etc.). In total, the increase in the rate of levies on households in 2014-15 will reduce purchasing power per household by 170 euros. In addition, the expected savings on public spending will hold back growth in social benefits per household, which will rise by only about 60 euros per year on average, a rate that is half as high as the pre-crisis period despite the worsening social situation.

While this analysis does not tell us about the distribution per quantile of the change in purchasing power per household, it nevertheless provides a macro view of the impact of austerity on purchasing power since 2011. Out of the 1750 euros per household lost in purchasing power from 2011 to 2015 (see Figure), 1100 euros is directly related to higher taxes and social contributions. In addition to the direct impact of austerity, there is the more indirect impact on the other components of purchasing power. In fact, by cutting activity through the mechanism of the fiscal multiplier, France's austerity policy has had a massive impact on the labour market, by either reducing employment or holding down real wages. While the magnitude is difficult to assess, the fact remains that real labour income per household fell by 770 euros in five years. Finally, while since the onset of the crisis social benefits have up to now acted as a major shock absorber for purchasing power, the extent of savings in public spending planned from 2015 (out of the 21 billion euros in savings in 2015, 9.6 billion will come from social security and 2.4 billion from spending on state interventions) will have a mechanical impact on the dynamics of purchasing power.

Thus, with purchasing power per household falling in 2015 to its level of thirteen years ago and having suffered a historic decline in 2011-13 in a period of unprecedented fiscal consolidation, it seems difficult to argue on the one hand that France has not practiced austerity so far and on the other hand that it is not facing any problem with short-term demand.



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[1] Since 2011, the rate of growth of public spending in volume has been positive, but has halved compared to the decade 2000-10 (1.1% in volume over the period 2011-14, against 2.2% over the period 2000-10). Moreover, in the last four years, it has increased at a rate slightly below the rate of potential GDP (1.4%). From an economic point of view, this corresponds to an improvement in the structural balance due to an adjustment in public spending of 0.5 percentage point of GDP over the period 2011-14.

[2] These differences in the measurement of austerity come from differences in a number of evaluation factors, such as the level of potential GDP and its growth rate, which serve as the benchmark for calculating the structural fiscal

adjustment.

[3] It is important to note that gross disposable income includes only income related to cash benefits (pensions, unemployment benefits, family allowances, etc.) but not social transfers in kind (health care, education, etc.) or public collective expenditures that benefit households (police, justice, defence, etc.).

[4] Here we use the concept of average purchasing power per household and not purchasing power per consumption unit.

Reforming unemployment insurance in France today: not a good idea according to OECD indicators

By Eric Heyer

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

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

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

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

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

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

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