

The 2013 pension reform: the implicit contribution of pensioners' purchasing power

By Stéphane Hamayon and Florence Legros

Less than three years after the official retirement age in France was raised in 2010-2011, a new pension reform was passed in early 2014.

This reform is described by its promoters as “sustainable and equitable”. However, only a few months after it passed, if we once again review the mid- and long-term balance of the pension system, we would have to conclude that this subject needs another look ([see our article in the Revue de l'OFCE, no. 137, 2014](#)). The suspected imbalance stems from a gap between the assumptions that prevailed in 2014 when the reform passed and the actual development of critical macroeconomic variables such as unemployment and productivity growth.

[Our article](#) begins with an analysis of the sensitivity of the overall balance of the pension scheme to economic variables and to the assumptions made. It shows that if the unemployment rate were to stabilize at 7.5% (the lowest rate in 30 years) and not 4.5% as in the scenario adopted by the reform, and productivity grew at a rate of 1%, which is in line with the reasonable estimates made by Caffet Artus (2013), instead of the 1.5% adopted, then this would lead to a continuing deterioration in the pension system accounts (Table 1).

Table 1. Financing needs of the pension system for private sector employees after the 2013 reform

Billions of 2012 euros

	2010	2013	2020	2025	2030	2040	2050
Central scenario (productivity 1.5% - unemployment 4.5%)	-9,7	-6,5	-2,0	-1,4	0,8	-1,6	3,2
Low growth scenario (productivity 1.0% - unemployment 7.5%)	-9,7	-6,5	-5,0	-9,3	-20,4	-36,1	-43

Source: Calculs des auteurs.

Another variable that is examined precisely: the growth rate of productivity. Because this has an impact on wages, it plays an important role in rebalancing pension systems when the indexation of pensions and wages recorded in fictitious accounts for pension calculations (*salaires portés au compte*) is based on prices and not on wages. More specifically, high productivity would help balance the accounts, as resources would grow quickly while employment grow more slowly.

The consequence, however, is a relative impoverishment of pensioners relative to the working population, especially of older retirees for whom de-indexation will have cumulative effects.

Growth in the 4th quarter of 2013, but ...

By Hervé Péléraux

According to the [OFCE's leading indicator](#), the French economy has grown by 0.5% in the fourth quarter of 2013. This result, which was anticipated, reflects the improvement in business surveys seen for about a year now. However, does this mark the return of GDP to a path of higher long-term growth? It is

still too early to say.

The improvement in the business surveys anticipated the interruption in the second recession that took place in the first half of 2011. The national accounts then validated the signal emitted by the surveys, with renewed growth of 0.6% in the second quarter of 2013 (Table). GDP did of course fall again in the third quarter (-0.1%), but on average over the last two quarters there was growth of approximately 0.2% per quarter, a rate that, though very moderate, was still positive.

At the same time, the leading indicator, which aims to arrive at an estimate of GDP growth in the very short term by translating the cyclical information contained in the surveys, also pointed to a slow recovery in activity: on average over the last two quarters, growth was estimated at 0.1%, a figure that is slightly under the assessment of the national accounts.

Table. Rate of growth of French GDP according to the national accounts and the indicator

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

	2012	2013				2014
	Q4	Q1	Q2	Q3	Q4	Q1
National accounts	-0,2	-0,1	+0,6	-0,1	-	-
Indicator	-0,1	0,0	0,0	+0,1	+0,5	+0,2

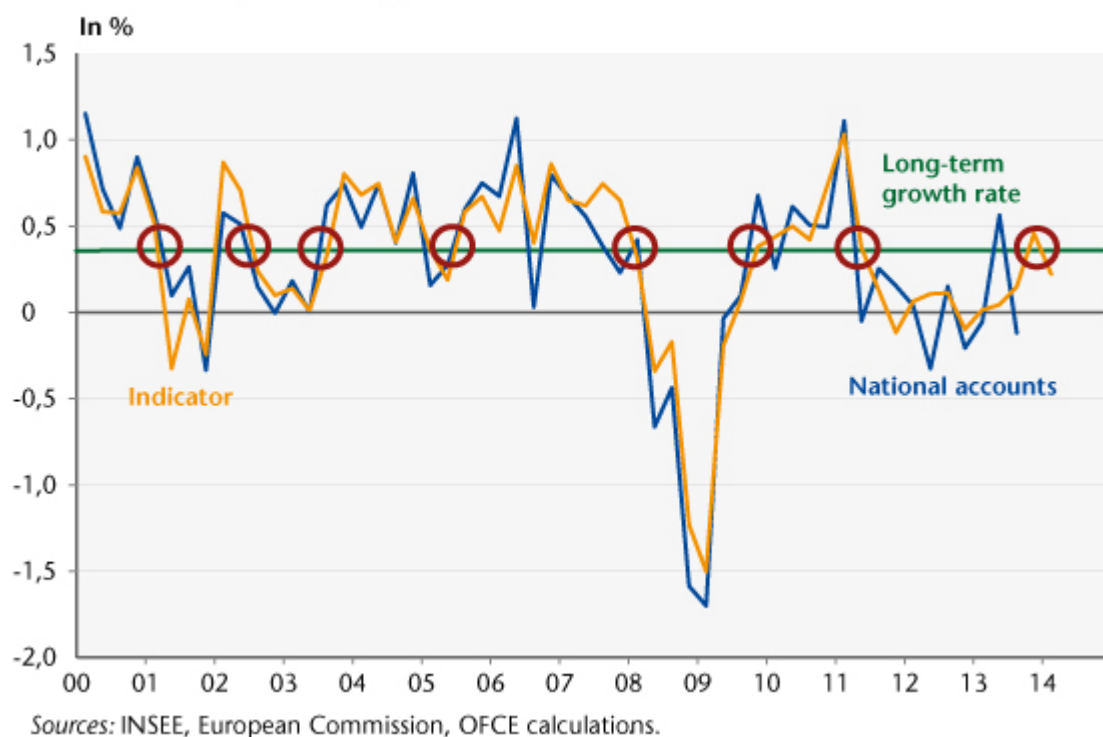
Sources: INSEE, European Commission, OFCE calculations.

In the last few months, the uncontested growth in the confidence of private agents has enhanced the outlook for the end of 2013: the debate is now focusing on the possibility for the French economy to break through a turning point upwards and for growth to settle in at a level higher than the pace of long-term growth (0.35% per quarter).

Based on past experience, when the indicator has sent out warning signs of a turning point in the economic cycle, the signal issued for the fourth quarter of 2013 is indicating that the long-term growth rate of the French economy is being

crossed (Figure). This signal is fragile: the still very partial information on the first quarter of 2014, i.e. the business surveys for January, point towards the growth rate falling below its potential. The possibility of a real lasting recovery that is able to create jobs and reverse the trend in unemployment is thus still very uncertain.

Figure. GDP growth – estimated and forecast



Note on the leading indicator:

The leading indicator aims to forecast the quarterly growth rate for French GDP two quarters beyond the latest available data. The components of the indicator are selected from survey data sets that are rapidly available and unrevised. The selection of the data series is made on an econometric basis, starting from the business surveys carried out in different productive sectors (industry, construction, services, retail) and among consumers. Two series related to the international environment are also significant: the rate of growth of the real exchange rate of the euro against the dollar, and the

real growth rate of oil prices.

Some components are at least two quarters in advance and as such can be used to predict GDP growth. Others are coincidental, or are not sufficiently advanced to make a forecast two quarters ahead. These series need to be forecast, but over a short-term horizon that never exceeds four months.

The leading indicator is calculated at the beginning of each month, shortly after the publication of the business and consumer surveys.

Important change of course at the Elysée Palace. Austerity is no longer the priority

By [Xavier Timbeau](#), Twitter: @XTimbeau

(published in [Le Monde on Thursday 16 January 2014](#), p. 17)

When he was elected François Hollande made fiscal discipline his main goal. The 2008 crisis was continuing to have an impact on the developed economies; in the face of a sovereign debt crisis, Europe's governments had been implementing austerity measures that were to cause a second recession, a "double dip", to use the language of economists. For example, when François Hollande came to power, the situation in France seemed disastrous: the public deficit was 5.2%, with a rise in the public debt of more than 600 billion euros since 2008 along with a 2-point rise in unemployment (to 9.6% of the workforce). The pressure was intense, and, the euro zone

states were falling like dominos, with Spain and Italy in danger of following Greece, Portugal and Ireland. In this context, it seemed that only budgetary discipline could help Germany to support a faltering euro zone.

Yet the worst was still to come. By underestimating the magnitude of the fiscal multipliers (the impact of fiscal policy on activity), as was eventually recognized by the International Monetary Fund (IMF) and the European Commission, and as we had pointed out in July 2012, the consequences of generalizing this unprecedented fiscal effort throughout the European Union were dismissed.

What Francois Hollande had presumed would be a painful recovery preceding a rebound that would open up new possibilities proved instead to be a period of economic stagnation, where rising unemployment went in hand with bad fiscal news. When the fiscal multiplier is high, nothing works. The budget efforts were weighing down economic activity, and there was no real re-absorption of the government deficits. If this infamous multiplier had been low, François Hollande's strategy – and that of the euro zone as a whole – would have worked. But the multiplier is not at our beck and call; it was the result of an economic situation in which the balance sheets of agents were degraded, with the banks suffocating and expectations dire.

The second part of François Hollande's five-year term, which the press conference of 14 January 2014 was to launch, is now much more complicated than expected. Instead of a recovery in public finances, the debt has barely been stabilized despite an incredible effort. Instead of a strong recovery, what we have is, in the understated language of the INSEE, a "sluggish recovery", which really amounts to continuing recession, with unemployment rising relentlessly. Our businesses are anaemic, and to try to restore their margins, the tax credit for competitiveness and employment (the "CICE"), inspired by the Gallois report, has not really injected new blood.

To lower the cost of labour without increasing the deficit, households, though exhausted, have to be hit again. The fiscal multiplier is still high, and growth, along with a reversal in the trend in unemployment, is being postponed. Worse, the commitment to Brussels to reduce the public deficit (a structural effort of 0.8 GDP point by the end of the five-years, *i.e.* 50 billion euros in total) will postpone a reduction in unemployment until after 2017. The patient may well die from the cure, and at best it will be Hollande's successor in the 2017 elections, which he's lost in advance, who might hope to reap the benefits of a policy that prioritized deficit reduction at the worst possible time.

The responsibility pact now proposed by François Hollande is setting out a different path, a different choice. Instead of austerity, a reduction in the cost of labour is to be financed not by taxes but by fiscal spending (amounting to 1 GDP point). The bet is that the growth stimulated will bring in additional revenue to meet the commitments on the public deficit. A reduction in social charges of thirty billion euros was announced, replacing the current CICE (20 billion). This means an additional 10 billion euros that can be obtained by companies that are to engage in collective bargaining under the watchful eye of a bipartisan watchdog. While this does not simplify the complex CICE, it will promote social dialogue.

On the other hand, François Hollande confirmed that the target for cutting public expenditure remains, *i.e.* 16 billion euros in 2015 and 18 billion in 2016 and 2017, for a total of 50 billion, with no increase on previous announcements. The CICE was partially funded by an increase in VAT (6 billion euros from 2014) and environmental taxes (4 billion). Replacing the CICE with cuts in social charges gives room for finesse: if companies benefit from the lower labour costs to boost their profits, then taxes on these profits will reduce the bill for the state by 10 billion euros (one-third of 30 billion). If, however, they increase employment and wages or

lower their prices or invest, then there will be an increase in activity and the financing will come through growth.

Compared with France's budget commitments to Brussels (an 0.8 point reduction in the structural deficit every year), there will be a 20 billion euro fiscal stimulus based on lowering labour costs by 2017. This GDP point could lead to the creation of 250,000 jobs by 2017 and allow a one-point drop in unemployment. This is a substantial change of course from the priority given up to now to deficit reduction. A choice has been made to focus on business and push companies to create new activity or jobs through a pact. This is a significant step, but there is still more to be done to put an end to austerity, to repair the social damage done and to take radical action to reduce unemployment.

TOFLIT18: for a better understanding of the French economy

By Loïc Charles and [Guillaume Daudin](#)*

Recurrent questions on our economies are, to quote a few: Which factors and actors are key for economic development? What private and public behaviors are particularly growth-enhancing? How important are institutions and policies in shaping trade, in promoting innovations and then growth?...There are different ways of enhancing our knowledge to answer these questions. The first way consists in laboratory experiments where a small-scale environment is created in order to understand "how the different pieces of the system work and interact" This is particularly appropriate for learning on

social preferences and dealing with welfare issues. But, as soon as questions related to growth – such those mentioned above – are concerned, laboratory experiments do not appear very suitable. One other way of enhancing our knowledge consists in analyzing what happens today in our country and, possibly, to carry out international comparisons in order to disentangle between what is “good” and what is “bad” for the economy. Once one is engaged in that direction, why stop at comparison across space? Analyzing what happened several decades or centuries ago and to learn from these past experiences for the current period can also be very fruitful.

The project “Transformations of the French Economy through the Lens of International Trade, 1716-1821” ([TOFLIT18](#)) follows this direction. The 4-year project, granted funding by [ANR](#), was launched on the 1st January 2014.

In few words, the project aims at analyzing the French economy during the period that laid the economic ground for the entry of France and Europe in the modern industrial era. Its main tools are the retranscription, the use and the diffusion of French international trade statistics.

The French administrative trade statistics are the most comprehensive and coherent source of quantitative information available for the French economy at that time. These data were produced locally and aggregated at the national level by the Bureau de la Balance du Commerce from 1716 on ([Charles and Daudin ,2011](#)). Despite several administrative reshufflings, the techniques of gathering and presenting the statistics on French foreign trade went almost unchanged up to the 1820s: they provided the total value, and sometimes the unit values, of merchandise and partner-specific trade flows; we have already photographed an almost complete series of yearly statistics. These documents are unique as they provide quantitative information on several geographical levels. As such, they can be used to study the economic effects of

international trade on the French economy as a whole, on the economy of a single region, of a port town as well as on the economic behaviors of individual agents, e.g. a merchant or a community of merchants from a single town/region. They can also be used to get a more accurate understanding of the interplay that existed between these different geographical levels.

The volume and dispersion of primary sources makes the process of collecting and putting them into a usable form both time-consuming and costly. Our [team](#) includes therefore social scientists with consolidated experience in the construction and management of large databases (notably [MARPROF](#), [NAVIGOCORPUS](#), [RICardo](#) and [SoundToll Registers Online](#)). They will bring their expertise to cross-test our dataset with other types of information on trade (shipping and merchants accounts). The collaboration of researchers who are currently working on similar set of foreign trade statistics for important economic partners of France at that period— Great-Britain and the Austrian Netherlands – will allow both crosschecking and building comparative studies.

The result database will include the bilateral value (with 20-30 different partners) of trade flows at the national level from 1716 to 1821, a merchandise (600-1000 different goods) and partner breakdown from at least 1750 onward, unit values and quantities from 1771 to 1792 and regional trade data. The project will transfer this database in the public domain and make it easily useable by the research community. The collected data can partly substitute for the lack of domestic macroeconomic series.

We will use the data to improve our knowledge of the French economy and our understanding of the economic mechanisms at work, both at the national and regional level. Two main avenues of research will be privileged. First, we will investigate the evolution of French specialization, both across French regions and in comparison to other countries.

How was it linked to the contrasted economic development of France and Britain? What does it tell us on the determinants of international trade? Second, we will study the effects of policy choices on the French economy: France went through several wars and political upheavals. It also went through stark changes in its commercial policies: from mercantilism to mitigated free trade in the 1760s with its colonial empire, to a number of free-trade treaties in the 1780s, followed by the closing up of the economy under the Empire. What were the effects of these policy choices?

All these questions resonate particularly to our contemporary ears. More importantly, the answer to these questions can provide a renewed glance on the functioning of the (French) economy, both then and now.

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Is the French tax-benefit system really redistributive?

By [Henri Sterdyniak \[1\]](#)

France has set up benefits such as RSA income support, PPE in-work negative income tax, CMU universal health care, the minimum pension, housing allowances, and exemptions from social security contributions for low-wage workers. From the other side, it has a tax on large fortunes; social insurance and family contributions apply to the entire wage; and capital

income is hit by social security contributions and subject to income tax. France's wealthy are complaining that taxation is confiscatory, and a few are choosing to become tax exiles.

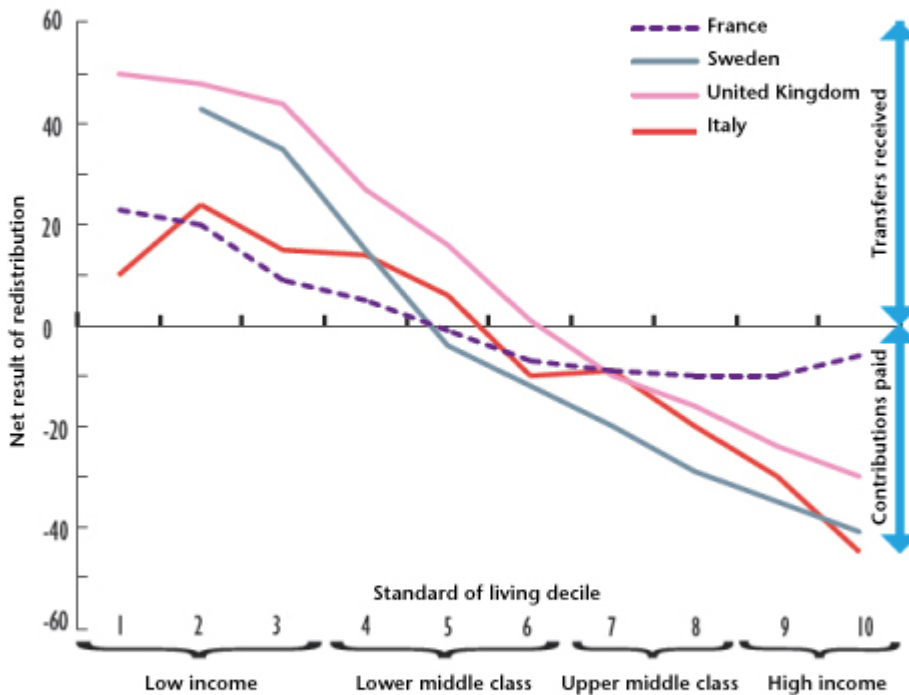
Despite this, some people argue that the French tax-benefit (or socio-fiscal) system is not very redistributive. This view was recently lent support by a study by Landais, Saez and Piketty: the French tax system is not very progressive and even regressive at the top of the income hierarchy [2]: the richest 0.1% of households are taxed at a very low rate. But redistribution through the tax-benefit system is effected not just through taxes but also through social benefits. We must therefore look at both these aspects to evaluate how redistributive the system is. This is especially true as Landais, Saez and Piketty take into account the VAT paid on consumption financed by social benefits, but not the benefits themselves, meaning that the more a poor household benefits (and spends) from social benefits, the more it seems to lose on redistribution.[3]

Four researchers from Crédoc, the French Research Center for the Study and Monitoring of Living Standards, have published a study [4] that takes benefits into account. They nevertheless conclude: "The French tax system, taken as a whole, is not very redistributive." The study uses post-redistribution standard-of-living deciles to review the benefits received and the taxes paid by households (direct taxes, indirect taxes and social contributions) as a percentage of disposable income, and compares France, Italy, the United Kingdom and Sweden. In France, net transfers (levies less benefits) represent only 23% of household disposable income in the first standard-of-living decile (the poorest), against 50% in the United Kingdom (see figure). At the other end of the scale, in France transfers lower the disposable income of the richest households by only 6%, versus 30% in the UK, 40% in Sweden, and 45% in Italy. France is thus considered to have the lowest level of redistribution, with little distributed to poor

people and low taxes on the rich.

Figure. According to the CREDOC, the French tax-benefit system is not very redistributive

Summary of transfers received and contributions paid, as a % of disposable income, by standard of living decile



Source: Credoc calculations using data from the Luxembourg Income Study, 2006.

Note: People in the lowest standard of living decile (i.e. the poorest 10%) receive a net gain from redistribution equal to 23% of their disposable income. This net gain is calculated as the difference between their social transfers (social, sickness and pension benefits) and their contributions (income tax, social charges, indirect taxes).

Yet the French tax-benefit system is considered by international institutions as one of those that minimize inequalities the most. For instance, the OECD (2011) wrote: "Redistribution through taxes and benefits reduces inequality by just over 30% in France, which is well above the OECD average of 25%".

The OECD provides statistics on income inequality (measured by the Gini coefficient) before and after transfers. Of the four countries selected by the Crédoc, it is France where the Gini is reduced the most as a percentage by transfers (Table 1), to an extent equivalent to the level in Sweden, and significantly greater than the reduction in Italy and the UK. Euromod winds

up with a substantially similar classification (Table 2).

Table 1. Gini index of income distribution (in 2010) according to the OECD

	Before transfers	After transfers	Impact of transfers
Germany	0.496	0.286	-42.3
Denmark	0.429	0.252	-41.3
France	0.505	0.303	-40.0
Italy	0.503	0.319	-36.6
United Kingdom	0.523	0.341	-35.2
Sweden	0.441	0.269	-39.0
United States	0.499	0.380	-23.8

Source: OECD (2013). The Gini index lies between 0 (perfect income equality) and 1. The distribution of income becomes more equal as the index approaches 0.

Table 2. Gini index of income distribution (in 2010) according to Euromod

	Before transfers	After transfers	Impact of transfers
Germany	0.518	0.380	-48.1
Denmark	0.443	0.334	-54.0
France	0.483	0.349	-50.1
Italy	0.497	0.373	-36.8
United Kingdom	0.524	0.477	-38.0
Sweden	0.429	0.317	-46.2

Source: Euromod, 2012.

Table 3. Poverty rate (60% threshold)

	2005	2012
Germany	12.2	16.1
Denmark	11.8	13.1
France	13.0	14.1
Italy	18.9	19.4
United Kingdom	19.0	16.2
Sweden	9.5	14.2

Source: Eurostat, 2012.

The *Portrait social* [Social Portrait] by the INSEE provides a careful summary of how redistributive the French socio-fiscal system is (Cazenave *et al.*, 2012). It seems that inequality is reduced significantly (Table 4) in France: the inter-decile ratio (D10/D1) falls from 17.5 before redistribution to 5.7 afterwards. [5] According to the INSEE, 63% of the reduction in inequality comes from social benefits and 37% from levies, which confirms the need to take benefits into account in order to assess redistribution.

Table 4. Standard of living fractiles before redistribution according to the INSEE*

	D1	Q1	Q2	Q3	Q4	Q5	D10
Average income before redistribution	4 128	7 266	15 591	21 474	28 626	55 292	72 195
Average disposable income (DI)	9 948	11 266	15 847	20 145	25 602	44 919	56 654
Net transfers	5 820	4 000	256	-1 329	-3 024	-10 373	-15 541
Net transfers as % of DI	59	36	2	7	-12	-23	-27

* in euros per year per consumption unit. D1: the 10% of people with the lowest living standard; Q1: the 20% of people with the lowest living standard, etc.; D10: the 10% of people with the highest living standard.
Source: INSEE, 2013, Portrait social.

The vision presented by Crédoc of the redistributivity of the French tax-benefit system is thus unusual... and, to put it frankly, wrong.

The study is based on data from the *Budget des familles* [Family budget] survey that is not matched with fiscal data and which is generally considered less reliable than the Euromod survey or than the tax and social security figures used by the INSEE. This may explain some important differences between the Crédoc figures and those of the INSEE: for example, according to the INSEE, non-contributory transfers represent 61% of the disposable income of the poorest 10%, but only 31% according to Crédoc (Table 5).

Like the INSEE, the Crédoc study ignores employer national health insurance contributions (which hit high wages in France, unlike most other countries) and the ISF wealth tax (which exists only in France). Furthermore, it does not distinguish between contributory contributions (which give rights to a pension or unemployment benefits) and non-contributory contributions (such as health insurance or family contributions), which do not give rights. However, low-wage workers are not hit by non-contributory contributions in France, as these are more than offset by exemptions from social security contributions on low wages.

Table 5. Redistribution for the extreme deciles
A comparison of INSEE and CREDOC

	D1		D10	
	INSEE	CREDOC	INSEE	CREDOC
Primary income (pre-distribution)	41.5	39	127.4	93
Contributory benefits		38		32
Non-contributory benefits	60.2	31	0.6	1
Social contributions	-2.1	-8	-10.1	-16
Direct taxes	0.4	0	-17.9	-10
Total: Net disposable income	100	100	100	100
Indirect taxes	-22	-36	-10	-13
Net transfers (excl. indirect taxes)	+58.5	+59	-27.4	7
Net transfers (incl. indirect taxes)	+36.5	+23	-37.4	-6

Source: Authors' calculations based on INSEE (2013) and CREDOC (2013).

Most importantly, the study contains two errors that heavily distort the conclusions. The first methodological error is that, contrary to the INSEE, the authors include contributory transfers, in particular pensions [6], in social transfers. But for retirees, public pensions represent a very large part of their disposable income, particularly in France. Since the pension system ensures parity in living standards between retirees and active employees, then retirees show up in all the standard of living deciles and the tax-benefit system does not seem to be very redistributive, as it provides benefits to wealthy retirees. And contrariwise, if a country's pension system does not assure parity in living standards between retirees and active employees, then the tax-benefit system will seem more redistributive, as it provides pensions only to the poor.

So paradoxically, it is the generosity of the French system towards pensioners and the unemployed that makes it seem to be not very redistributive. Thus, according to Crédoc, the richest 10% receive contributory transfers representing 32% of their disposable income, which means that, in total, their net transfers represent only a negative 6% of their income. This is especially the case as Crédoc does not take into account the old-age pension contributions (*cotisations vieillesse*) incurred by businesses. If, as the INSEE does, pensions (and

more generally all contributory benefits) are considered as primary income, resulting from past contributions, the negative net transfers of the richest decile increase from -6% to -38%.

The other methodological problem is that Crédoc claims to take into account the weight of indirect taxes in disposable income (which INSEE does not). This comes to 36% for the poorest 10%, 23% in the middle of the income hierarchy, and only 13% for the best-off. The highly regressive nature of indirect taxes would make the whole tax system regressive: the poorest pay more than the rich. According to the figures from Landais, Saez and Piketty (2011), indirect taxation is definitely regressive (15% of the disposable income of the poorest, and 10% for the richest), but the gap is only 5%. According to the INSEE [\[7\]](#), the weight of indirect taxes in disposable income is 22% for the poorest, 16% in the middle income range and 10% for the richest. This difference comes from the structure of consumption (the poorest consume relatively more tobacco and petroleum products), and especially the savings rate, which increases as households earn more. In fact, the difference is undoubtedly overstated in an inter-temporal perspective: some households will consume today's savings tomorrow, so it is then that they will be hit by indirect taxation. In fact, the Crédoc study heavily overestimates the weight of indirect taxes by using an extravagant estimate of the household savings rate [\[8\]](#): the overall French household savings rate is -26.5%; only decile D10 (the richest 10%) have a positive savings rate; decile D1 has a negative savings rate of -110%, that is to say, it consumes 2.1 times its income. The poorest decile is thus hit hard by the burden of indirect taxes. But how likely is this savings rate?

National tax-benefit systems are complex and different. Comparisons between them need to be made with caution and rigour. To judge how redistributive the French system actually is, it is still more relevant to use the work of the INSEE,

the OECD or Euromod than this (too) unusual study.

[1] We would like to thank Juliette Stehlé, who provided assistance in clarifying certain points in this note.

[2] See Landais C., T. Piketty and E. Saez, *Pour une révolution fiscale* [For a tax revolution], Le Seuil, 2011.

[3] See also Sterdyniak H., “Une lecture critique de l’ouvrage *Pour une révolution fiscale*” [A critical reading of the work *Pour une révolution fiscale*], *Revue de l’OFCE*, no. 122, 2012. Note also that you cannot arrive at an overall judgment on the progressivity of the system from the case of a few super-rich who manage to evade taxes through tax schemes.

[4] Bigot R, É. Daudey, J. Muller and G. Osier: “En France, les classes moyennes inférieures bénéficient moins de la redistribution que dans d’autres pays” [In France, the lower middle classes benefit less from redistribution than in some other countries], *Consommation et modes de vie*, Crédoc, November 2013. For an expanded version, see: “Les classes moyennes sont-elles perdantes ou gagnantes dans la redistribution socio-fiscale” [Are the middle classes losers or winners from the tax-benefit redistribution], *Cahiers de Recherche*, Crédoc, December 2012.

[5] Also note that the INSEE underestimates somewhat the redistribution effected by the French system since it does not take into account the ISF wealth tax. It also does not include employers’ national health insurance, which in France is strongly redistributive as it is not capped. From the other side, it does not take account of indirect taxes.

[6] And replacement income such as unemployment benefits and sickness benefits.

[7] See Eidelman A., F. Langumier and A. Vicard: “Prélèvements

obligatoires reposant sur les ménages:

des canaux redistributifs différents en 1990 et 2010” [Mandatory taxes on households: different channels of redistribution in 1990 and 2010], *Document de Travail de la DESE de l’INSEE*, G2012/08.

[8] Estimation from EUROMOD (2004): “Modelling the redistributive impact of indirect taxation in Europe”, *Euromod Working paper*, June.

The trend in unemployment: no reversal in sight

By [Bruno Ducoudré](#)

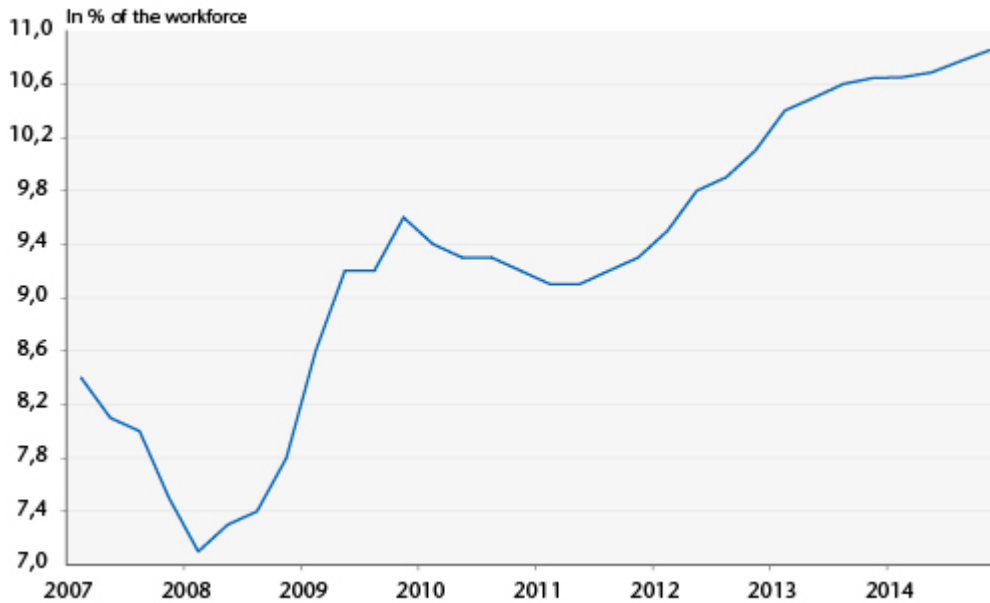
The government has announced that the trend in unemployment will be reversed by the end of 2013. The number of jobseekers registered in category A with France’s Pôle Emploi job centre at the end of September increased by 60,000. The number fell during August by 50,000, mainly due to a “bug” in sending SMS texts, which led to an unusually large rise in the number of terminations due to the claimant’s failure to stay up to date (up 72,000 over the previous month). An increase in enrolments for the month of September due to the re-registration of jobless people who had been unduly terminated was therefore expected. The number of jobseekers registered in category A thus rose by 10,000 between July and September 2013, which meant that the trend is still upwards but at a more moderate pace than earlier in the year. These large variations in the very short term in the numbers registered with the ANPE job centre make it impossible to give a precise idea of upcoming trends in employment and unemployment. Our analysis of the

labour market up to 2014, which is set out in the latest [OFCE forecasts of October 2013](#), suggests that no significant improvement in unemployment is expected by the end of 2014.

In an attempt to reverse the trend in unemployment, the government has planned for the rapid expansion of subsidized jobs in the non-profit sector (Emplois d'avenir, Contrats Uniques d'Insertion – Contrats d'Accompagnement dans l'Emploi (CUI-CAE)). Joining these programmes are the CICE tax credit for competitiveness and employment together with “generation contracts” in the commercial sector, whose impact on employment will begin to be felt in 2014. All these measures to promote employment will help to stabilize the unemployment rate by late 2013/early 2014, with continuing job losses in the private sector until the end of the year. The unemployment rate will then begin to rise again until the end of 2014, since job creation in the non-profit sector will be insufficient to absorb the increase in the labour force.

In retrospect, an initial reversal of the trend in unemployment began in 2010 and was then interrupted in 2011, as unemployment started to rise again under the impact of a series of austerity measures. The unemployment rate was creeping toward the record levels hit in 1997, rising from 9.1% in early 2011 to 10.5% in the second quarter of 2013 (Figure 1). After a bad year in 2012 (66,000 jobs lost), the labour market continued to deteriorate in the first half of 2013, as job losses in the private sector continued at the same pace as in the second half of 2012 (-28,000 jobs on average each quarter). The number of unemployed thus continued to increase (+113,000). To try to stop this downward spiral and reverse the rise in unemployment, the government is relying in the short term on expanding the Emplois d'avenir and CUI- CAE subsidized job programmes.

Figure 1. Unemployment rate (ILO definition)



Sources: INSEE, quarterly accounts; OFCE forecast e-mod.fr 2013-2014, October 2013.

The gradual introduction of Emplois d'avenir jobs has resulted in 31,566 hires between January and August 2013 in France. A total of 70,000 hires are expected in 2013 in mainland France and 70,000 more in 2014. There is, however, a deadweight loss for this type of programme: according to [Fontaine and Malherbet \(2012\)](#), 20% of the jobs created through the Emplois d'avenir scheme would have existed even in the absence of the subsidy. The net impact is thus expected to be 56,000 jobs created in 2013 and in 2014. The impact of this job creation will be especially important since these involve long-term contracts (1-3 years). People hired in 2013 will still be in their jobs in 2014, and the Emplois d'avenir jobs created in 2014 will indeed constitute net job creation.

As for the CUI- CAE programme, the number of contracts budgeted at the beginning of 2013 was the same as the previous year (340,000 for the whole of France, including 310,000 for mainland France), with 50% of these in the first half year. In order to reverse the trend in unemployment by the end of the year, in June 2013 the Ayrault government announced an extension of 92,000 contracts in the non-profit sector. This brings to 262,000 the number of contracts signed in the second half year, and 432,000 for the year. As in 2013, 340,000

contracts are planned in the 2014 Budget Bill (PLF), but the budget allocation is nearly 20% larger, which will fund an increase in the stock of CUI-CAE. These will increase until the first half of 2014, reaching 250,000 by end 2014. The government is thus reactivating the social treatment of unemployment through greater use of short-term subsidized jobs (7-12 months), but at a level comparable to that seen in 2007 and in 2010.

In contrast, there will still be significant job losses in the private sector up to year-end 2013 due to companies being overstaffed (see our [October 2013 forecasts](#)). Subsidized jobs in the non-profit sector (+82,000 in the last quarter of 2013 compared to the last quarter of the previous year) will nevertheless stabilize the unemployment rate at around 10.6% in late 2013 / early 2014.

Table. Employment and unemployment

Annual change, in thousands, at last quarter

Year on year	2009	2010	2011	2012	2013*	2014*
Observed workforce	210	45	178	200	83	116
Total employment	-321	128	130	-66	-91	41
- Private sector	-347	65	104	-64	-121	-12
- Subsidized non-profit	38	44	-74	6	82	96
- Other jobs	-12	19	100	-8	-52	-44
Unemployment	531	-83	48	266	174	75
Unemployment rate	9,6	9,2	9,3	10,1	10,6	10,9

* OFCE October 2013 forecast.

Sources INSEE and Ministry of Labour, OFCE forecasts.

Total employment began rising again in 2014 (41,000 jobs), driven by the creation of subsidized jobs in the non-profit sector, but also by the expansion of the generation contract and CICE programmes. The CICE, which is open to all businesses, will be equivalent to 6% of payroll, excluding employer social security contributions, and corresponds to wages of less than 2.5 times the minimum wage (SMIC). According to the assessment made by [Mathieu Plane \(2012\)](#) using

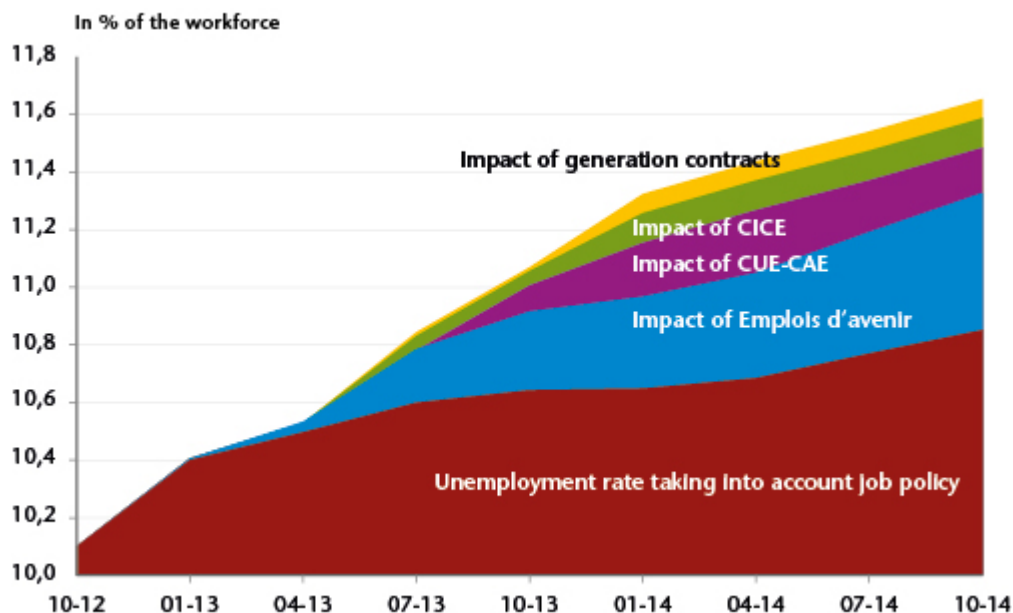
the e-mod.fr model, the CICE will decrease labour costs in the private sector by on average 2.6%, which should result in the creation of jobs, both by promoting the substitution of labour for capital and through gains in competitiveness. In total, by 2018, five years after its establishment, the CICE will have created 152,000 jobs, thus lowering the unemployment rate by 0.6 percentage point. At the horizon of our forecast, it will have created 46,000 jobs, or half the government's forecast (91,000).

The generation contract covers unemployment among both younger (under age 26) and older workers (over 57). It consists of the creation of a permanent contract (CDI) for a young person, linked to the promise of non-dismissal of an older worker for a period of 5 years. In return for this commitment, the company will receive a lump sum grant of up to 4,000 euros per year for 3 years. This type of measure runs the risk of generating significant deadweight effects.[\[1\]](#) Overall, the measure will result in 99,000 new jobs in the private sector, with the signing of 500,000 generation contracts over the 5-year period. In September 2013, 10,000 generation contracts were signed. Under the assumption of a gradual ramp-up by the end of 2013 (20,000 contracts signed), with 100,000 contracts signed in 2014, this should correspond to the net creation of nearly 4,000 jobs in 2013 and about 20,000 jobs in 2014.

Despite this, unemployment will continue to rise over the two years (+174,000 in 2013 and +75,000 in 2014 compared to the same quarter of the previous year), due to a still dynamic workforce (+116,000 in 2014 after +83,000 in 2013) and a lack of net job creation in the private sector (see the table above). Given the subsidized jobs in the non-profit sector as well as the private sector programmes, the unemployment rate in mainland France will temporarily stabilize at 10.6 % in the fourth quarter of 2013, before gradually creeping up to 10.9% of the workforce in mainland France by late 2014. By the end of 2014 it will surpass the historic peak reached in the first

half of 1997 (10.8% of the workforce), with no prospect of reversing the trend over our forecast horizon. However, without the impact of the jobs programmes, the unemployment rate would have increased much more, to 11.6 % at end 2014 (Figure 2).

Figure 2. Impact of employment measures on the unemployment rate



Sources: INSEE, OFCE forecasts October 2013.

[1] See the OFCE Note of July 2012 on [“An assessment of the 2012-2017 five-year economic plan”](#). Companies will benefit from this aid, including for the jobs they would have created even in the measure’s absence. The way the measure is implemented should limit the deadweight loss: aid linked to the implementation of the generation contract will for instance be reserved for companies with fewer than 300 employees. Companies with over 300 employees, where the risk of a windfall effect is greatest, will be obliged to set up the programme on pain of financial penalty. In addition, the lump sum of 2000 euros represents a total exemption from employer social charges at the level of the SMIC, and above that decreases in proportion to the salary. This helps to limit the windfall effect, since the elasticity of employment to labour costs is higher for low wages.

France: less austerity, more growth

By [Eric Heyer](#)

This text summarizes the [OFCE's 2013-2014 forecast for the French economy](#).

In 2013, the French economy should experience annual average growth of 0.2%, which means that by the end of the year its level of production should return to the level of six years earlier, at the end of 2007. This mediocre performance is very far from the trajectory that an economy recovering from a crisis should be on.

The French economy did however have great potential for recovery: average spontaneous growth of about 2.6% per annum over the period 2010-2013 was possible and would have allowed France to make up the output gap accumulated in 2008-2009. But this "recovery" has been hampered mainly by the introduction of budget savings plans in France and across Europe. For the single year 2013, this fiscal strategy will cut economic activity in France by 2.4 GDP points.

The understanding that the fiscal multipliers were high came late, and occurred only after the austerity plans had already had a negative impact on growth. At the end of May 2013, this awareness pushed the European authorities to give additional time to six EU countries, including France, to correct their excessive deficits. The easing of the Commission's requirements provided a breath of fresh air that enabled the

government to relax the austerity measures set for 2014. According to the budget presented in autumn 2013, the domestic impact of the austerity measures will be reduced by 0.5 GDP points between 2013 and 2014; since our partners are also relaxing their policies, a boost to external demand is also anticipated. Overall, the easing of austerity will mean the addition of almost one point of growth in 2014 compared to 2013, despite the still high fiscal multipliers.

In these conditions, growth should come to 1.3% in 2014 on an annual average. By running at a rate still below its potential, the forecast growth will add to the output gap accumulated since 2008 and will continue to hurt the labour market. The unemployment rate in metropolitan France will rise slightly, reaching 10.9% by end 2014.

As a result of the easing of austerity, the public deficit will be higher than what was initially planned. It is expected to come to 3.5% of GDP in 2014, after reaching 4.1% in 2013, with gross government debt near 95% of GDP next year.

France-Germany: is there a demographic dividend?

By Vincent Touzé

Thanks to a high birth rate, France is aging less quickly than Germany. According to Eurostat, the French population is expected to exceed the German population by 2045. France could well become a European champion. But to what extent should we be talking about a demographic dividend?

The renewal of generations is of course important. It makes it possible to maintain a workforce that is large enough to meet the social costs (pensions, health care) of senior citizens, who are living longer and longer. In this sense, France should do better than Germany. But population growth also has its share of disadvantages. Indeed, in a context of scarce resources, the size of the population is primarily a factor that splits the amounts available per capita. For example, on a rationed labour market that is struggling to keep up the positions on offer due to problems with outlets and with production costs that are not competitive enough at the global level, growth in the labour force can also be counted in the numbers of unemployed. To avoid this, a more efficient labour market that is rooted in a thriving economy is essential. The demographic dividend depends as much on the productive capacity of new generations of workers as on their size.

The latest [Note of the OFCE \(no. 5, October 11, 2013\)](#) compares the relative performance of France and Germany over the period 2001-2012. This study shows how recent economic developments have been distinctly favourable to the German economy. Despite a glorious demographic future, France is mired in weak growth and mass unemployment that is hitting young people very hard. The demographic dividend is slow in coming.

Never on Sunday?*

By [Xavier Timbeau](#)

** Note from the editor: This text was initially published on 10 June 2008 on the OFCE site under the heading "Clair & net" [Clear & net] at a time when working on Sundays was a burning issue. As this is once again a hot topic, we are republishing*

this text by Xavier Timbeau, which has not lost its relevance.

In Jules Dassin's cult film, Ilya, a prostitute working a port near Athens, never works on Sunday. Today, according to the *Enquête emploi* labour force survey, nearly one-third of French workers say they occasionally work on Sunday and nearly one out of six does so regularly. As in most countries, Sunday work is regulated by a complex and restrictive set of legislation (see [here](#)) and is limited to certain sectors (in France, the food trade, the hotel and catering industry, 24/7 non-stop manufacturing, health and safety, transport, certain tourist areas) or is subject to a municipal or prefectural authorization for a limited number of days per year. This legislation, which dates back more than a century, has already been widely adapted to the realities and needs of the times, but is regularly called into question.

The expectations of those who support Sunday work are for more business, more jobs and greater well-being. Practical experience indicates that revenue increases for retailers that are open Sundays. Conforama, Ikea, Leroy Merlin and traders in the Plan de Campagne area in the Bouches du Rhone *département* all agree. Up to 25% of their turnover is made on Sunday, a little less than Saturday. For these businesses, it seems clear that opening on Sunday leads to a substantial gain in activity. And more business means more jobs, and since there are also significant benefits for consumers, who meet less traffic as they travel to less congested stores, it would seem to be a "win-win" situation that only a few "dinosaurs" want to fight on mere principle.

Nevertheless, some cold water needs to be thrown on the illusions of these traders. Opening one more day brings more business only if the competition is closed at that same time. This is as true for furniture, books, CDs or clothes as it is for baguettes. If all the stores that sell furniture or appliances are open 7 days a week, they will sell the same amount as if they are open 6 days a week. If only one of them

is open on Sundays and its competitors are closed, it can then capture a significant market share. It is easier to purchase washing machines, televisions and furniture on a Sunday than on a weekday. So anyone who opens on their own will benefit greatly. But ultimately consumers buy children's rooms based on how many children they have, their age or the size of their home. They do not buy more just because they can do their shopping on Sunday. It is their income that will have the last word.

It is possible that a marginally larger number of books or furniture are sold through impulse buying on Sunday, if the retailers specializing in these items are open. But consumer budgets cannot really be stretched, so more spending here will be offset by less spending elsewhere. Year after year, new products, new reasons for spending, new commercial stimuli and new forms of distribution emerge, but these changes do not alter the constraints on consumers or their decisions.

In the case of business involving foreign tourists, who are passing through France, opening on Sunday could lead to an increase in sales. Tourists could spend less in another country or after they return home. But this positive impact is largely addressed by existing exemptions.

In 2003, the strict German legislation regulating retailer opening times was relaxed. This did not lead to any change in the population's consumption or savings (Figure 1). Value added, employment and payroll in the retail sector stayed on the same trajectory (relative to the overall economy, see Figure 2). Opening longer does not mean consuming more.

The issue of Sunday opening is a matter of social time and its synchronization as well as consumer convenience and the freedom of the workforce to make real choices about their activities. Sunday work affects many employees, so expanding it is a societal choice, not a matter of economic efficiency.

Finally, the complexities of the legislation on Sunday work and its unstable character have led economic actors to adopt avoidance strategies. For example, in order to open on Sunday [Louis Vuitton](#) installed a bookstore (with travel books!) on the 5th floor of its Champs Elysées store (the other Louis Vuitton stores in Paris are closed on Sundays). Selling luxury bags thus became a cultural activity. Large food stores (which can open on Sunday morning) sell clothing and appliances, thus justifying other ways of working around restrictions by non-food retailers, who view this as unfair competition. These workarounds render the law unjust and distort competition with a legal bluff as cover.

Any change in the law should pursue the objective of clarification and not introduce new loopholes (as did the recent amendment of December 2007 to the [Chatel law of 3 January 2008](#) extending earlier exemptions to include the retail furniture trade).

Homer, a cultured American on a visit to Athens, attempted to save Ilya from her sordid fate by introducing her to art and literature. But Homer was acting on behalf of a pimp from the Athens docks who wanted to put an end to the free-spirited Ilya's subversive influence on the other prostitutes. When Ilya learned of this, she went back to her work: trading herself for money. Her dignity came from never doing it on Sunday.

Figure 1. Germany – Savings rate

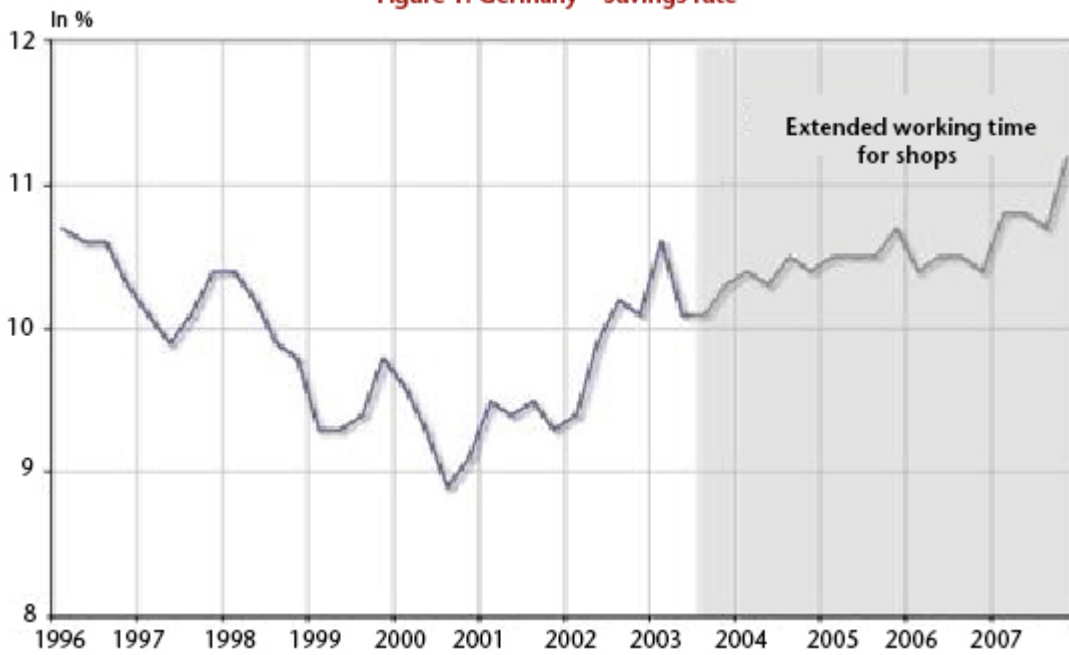
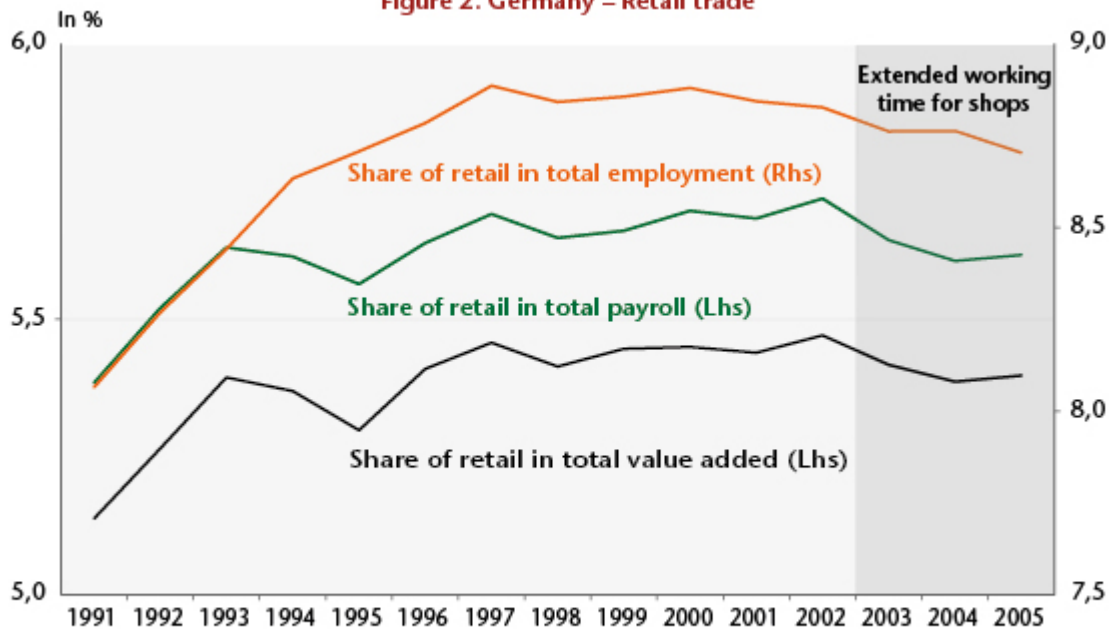


Figure 2. Germany – Retail trade



Sources : Annual accounts, Statistisches Bundesamt Deutschland. The savings rate is gross savings relative to gross disposable income. In the German classification, retailing is sector WZ-52. Author's calculations.

France, Germany: The nonworking poor

By [Guillaume Allègre](#)

“The ways of thinking society, managing it and quantifying it are indissolubly linked”

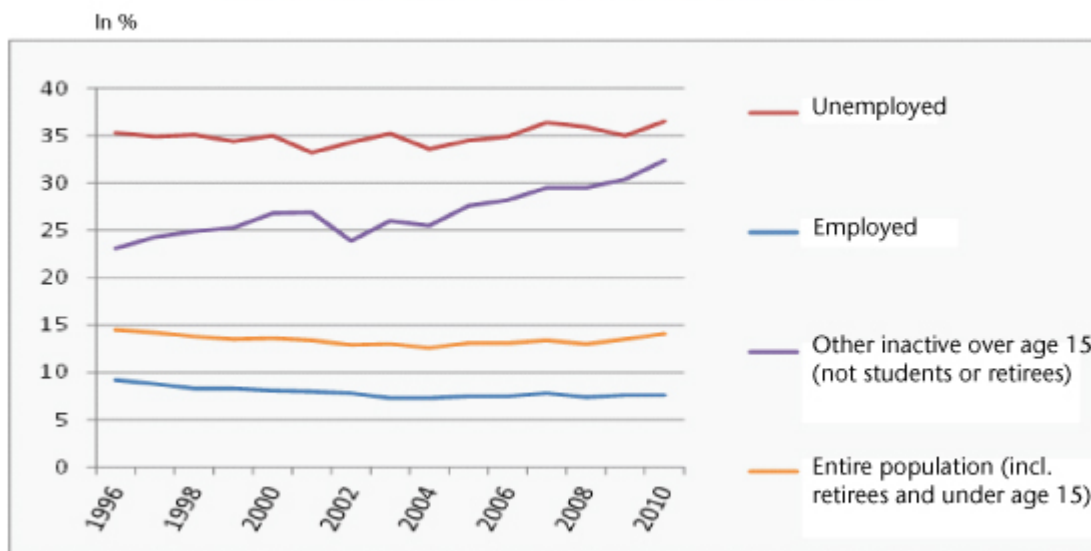
[Alain Desrosières](#), 1940-2013

The subject of working poverty emerged in Europe in public debate and academic discussion in the early 2000s, in parallel with the implementation of policies to “make work pay”. European guidelines on employment have explicitly mentioned the need to reduce working poverty since 2003, and Eurostat set up an indicator on the working poor in 2005 ([Bardone and Guio](#)). In France, policies to make work pay have taken the particular form of earned income supplements ([PPE](#), then [RSA](#)). In Germany, a series of reforms of the labour market and social welfare (the Hartz Laws) were introduced in the early 2000s with the aim of activating the unemployed. Critics of the German reforms often highlight the proliferation of atypical forms of employment ([Alber and Heisig, 2011](#)): the recourse to part-time, low-wage work and mini-jobs without social protection. In France as in Germany, this focus on workers has masked a less well-known aspect of the changing face of poverty: among working-age people, it is poverty among the unemployed (the “inactive” in France, the “unemployed” in Germany) that has been on the rise since the late 1990s.

Figure 1 shows the change in the poverty rate for individuals between 1996 and 2010, calculated at the threshold of 60% of the median living standard, according to their employment status. Two points stand out. First, poverty primarily affects the unemployed: their poverty rate was about 35% over this period. Second, economically inactive people over age 15, who

are neither students nor retired (called “other inactive”), *i.e.* the “discouraged unemployed” and men and women (especially women!) in the home, are the group most affected by the rise in poverty. Their poverty rate was 23% in 1996, but hit 32% in 2010. At the same time, poverty among people in work fell from 9% to 8%. As a result, while the economically active with jobs accounted for 25% of the poor in 1996 and “other inactive” 12%, the latter’s share of the poor rose to 17% in 2010 while the share of the active declined to 22%. The weight of the working poor among all poor people is tending to decrease, while the weight of the inactive is rising.

Figure 1 : Poverty rates according to activity status, France



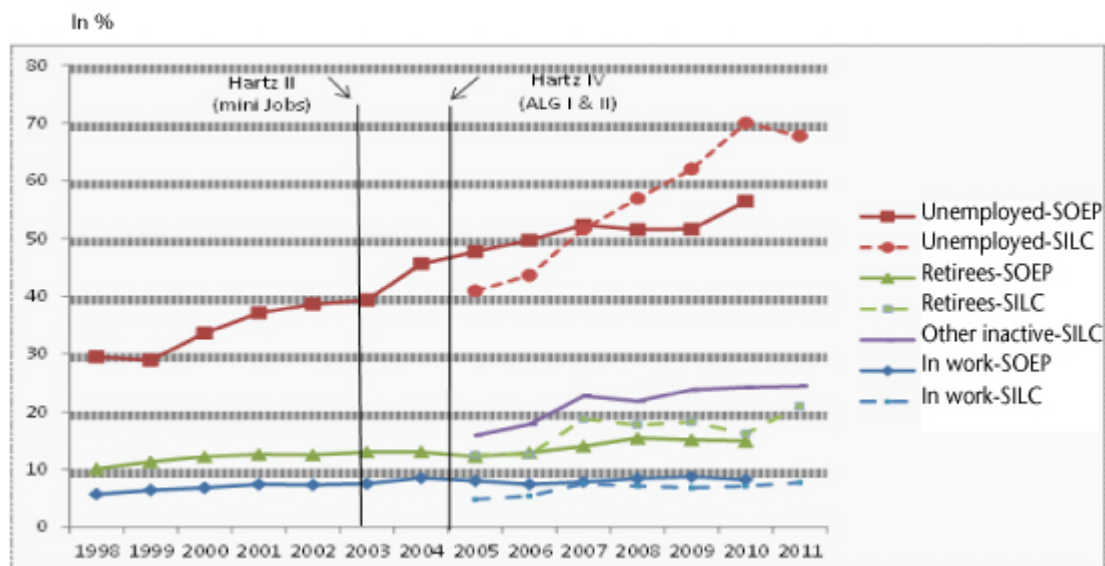
Source : Insee-DGI, Enquêtes Revenus fiscaux et sociaux rétrospectives 1996 à 2004 ; Insee-DGFIP-Cnaf-Cnav-CCMSA, Enquêtes Revenus fiscaux et sociaux 2005 à 2010.

As for Germany, the analysis of poverty rates by employment status is fraught with discrepancies attributable to the sources, in particular with regard to changes in the poverty level among the unemployed, which according to Eurostat (EU-SILC survey) is much higher than in the national SOEP survey (see Figure 2). Despite the statistical uncertainties, it is still clear that poverty affects the unemployed above all, and that their poverty rate has risen substantially: from 30% to 56% between 1998 and 2010, according to the SOEP survey, which is generally considered more reliable than the SILC ([Hauser, 2008](#)). While poverty is increasing for all categories of the population ([see Heyer, 2012](#)), it is among the unemployed that

it is most pronounced.

The increase in poverty among the jobless is the result of certain provisions of the Hartz IV laws, which are less well known than those establishing mini-jobs (Hartz II). Prior to this legislation, the jobless could receive unemployment benefits for a maximum period of 32 months, after which they could receive means-tested unemployment assistance for an indefinite period ([Ochel, 2005](#)). But unlike the ASS benefit [i] in France, the amount of this assistance depended on the net income at the last job and provided a relatively generous replacement rate (53% of net income for people without children). This system was replaced starting in 2005 by a much less generous compensation, based on the goal of employment activation. Unemployment benefit (*Arbeitslosengeld I* – ALG I) was limited to 12 months for unemployed people under age 55, and the grounds for penalties were expanded. Following this period, unemployment assistance (*Arbeitslosengeld II* – ALG II) is greatly reduced and essentially serves only as an ultimate safety net: the amount for a single person is limited to 345 euros per month, while the penalties have also been expanded and toughened [ii]. Germany's strategy to promote employment hence uses two levers: reducing income support for the unemployed, and penalties. While this policy may have contributed to lowering unemployment (see [Chagny, 2008](#), for a discussion of the controversial impact of this reform), by its very design it has had a significant impact with regard to poverty among the unemployed.

Figure 2 : Poverty rates according to employment status and source, Germany



Source : Eurostat (SILC) ; DIW (SOEP).

One paradox that needs to be examined is the only small change since the early 2000s (at least according to the SOEP survey) of the poverty rate among people in work. Indeed, during this period, the proportion of low-wage workers rose and the recourse to part-time work increased sharply, without a substantial rise in the poverty rate for people in work. In 2010, 4.9 million people (12% of people in work) held a mini-job for which they cannot receive more than 400 euros per month in earned income ([Alber and Heisig, 2011](#)). There has also been the growth of part-time work with social protection (from 3.9 million jobs in 2000 to 5.3 million in 2010). We would expect therefore to see an increase in working poverty. But this is being countered by two factors: the development of opportunities for cumulation with unemployment benefits (the third lever of the employment activation policy), and family solidarity. Indeed, part-time and low-wage jobs are predominantly held by women, who account for two-thirds of workers on low annual incomes [iii]. The income of their spouse, when they have one, often enables them to avoid poverty, as the income of all household members is aggregated to determine the standard of living and poverty. In this respect, to paraphrase [Meulders and O'Dorchai](#), the household is a fig-leaf concealing women's low incomes. Lone mothers, on the other hand, are especially affected by poverty: the

poverty rate is about 40% among single-parent families.

From the perspective of the indicators, the use of the category “working poor” thus poses several problems. First, the category hides the role of unemployment and inactivity as determinants of poverty; by its very name, it highlights one important determinant of working poverty (“work doesn’t pay”) in relation to other determinants (“small number of hours worked” or “heavy family responsibilities”). Public policies based on this approach thus run the risk of limiting the population targeted by the fight against poverty (in France, people on unemployment benefit are excluded from the RSA-activité [income supplement for the working poor]) and of focusing on strengthening financial incentives for returning to work in order to stimulate the supply of labour, even though the high level of unemployment is related to the demand-side rationing of labour. Second, the category is blind to gender inequality: women are more often poor and constitute the majority of low-wage workers, but they are less likely to be working poor! ([Ponthieux, 2004](#)) If all that we manage well is what we measure, it is necessary that the measure be easily interpreted by policy makers. Reducing inequalities in living standards (between households) and in earned income (between individuals) are two legitimate public policy goals (as explained [here](#) [in French]), which need to be measured separately, just as these two goals require the use of specific instruments.

From the standpoint of public policy, the change in poverty based on employment status in France and Germany emphasizes that an effective fight against poverty requires addressing all forms of poverty. For the working-age population, in economies where dual-earner couples have become the norm, this means putting in place policies on full-time work and full employment policies that do not foster atypical forms of work. This requires, from a macroeconomic point of view, growth or job-sharing (and the associated income-sharing) and, from a

microeconomic point of view, meeting needs with respect in particular to childcare, training and transport. While these policies are costly, more economical measures, such as strengthening financial incentives, have failed to demonstrate that they can actually reduce overall poverty.

[i] The *Allocation de solidarité spécifique* (ASS), means-tested benefits paid to unemployed persons whose right to unemployment benefits has expired.

[ii] In total, 1.5 million penalties were applied in 2009, for 2.8 million on jobless benefits, compared with 360,000 in 2004, for 4 million on jobless benefits (according to [Alber and Heisig, 2011](#), Tables 6-8, pp. 24-30).

[iii] Set at the threshold of two-thirds of median salary.