

Has the 35-hour work week really “weighed down” the French economy?

By [Eric Heyer](#)

Did the Aubry laws introducing the 35-hour work week in France between 1998 and 2002 really make French business less competitive and lead to job losses, as is suggested in the [latest report from the OECD](#)? Has France seen its economic performance decline post-reform relative to its European partners? Have the public finances been “weighed down” by these laws?

A review of our recent macroeconomic history, coupled with international comparisons, provides some answers to these questions.

Record macroeconomic performances in the private sector between 1998 and 2002...

Leaving aside an analysis of the recent Great Recession, over the past 30 years private sector activity in France grew by an annual average of 2.1%. Since the establishment of the 35-hour work week, far from collapsing, economic growth in this sector instead accelerated sharply, from 1.8% before 1997 to 2.6% afterwards, and even hit a peak during the period in which the 35-hour week was being established (an annual average of 2.9%, Table 1). Furthermore, it is noteworthy that of the five best years recorded by the French market sector over the past 30 years, three were in the period 1998-2002 based on the criterion of GDP growth, and four if the criterion used is job creation.

The global economic environment accounts for some of this good performance, but only in part: foreign demand for French

output was certainly more dynamic after 1997 than before, but this acceleration continued after 2002, and cannot therefore explain the better performances recorded between 1998 and 2002 (Table 1).

Table 1. Macroeconomic impact of the 35-hour week in the market sector

Growth rate, in % (unless specified otherwise), annual average

		1980- 2007	1980- 1997	1998- 2007	1997- 2002	2003- 2007
A	Added value	2,1	1,8	2,6	2,9	2,2
B	Hourly productivity	1,8	1,8	1,8	2,1	1,5
C	Productivity per worker	1,1	1,1	1,2	0,8	1,6
A-C	Employment...	0,9	0,7	1,4	2,0	0,7
B-C	... linked to the duration of work	0,6	0,6	0,6	1,2	0,0
In thousands over the period analyzed						
	Jobs created...	5 374	2 335	3 040	2 247	793
D	Gross wages*	4,3	5,1	2,9	2,7	3,0
E	Consumer prices	3,7	4,7	2,0	2,1	2,1
D-E	Real gross wages*	0,6	0,4	0,8	0,6	1,0
D-E-C	Unit labour cost*	-0,6	-0,7	-0,4	-0,2	-0,6
Global demand for French output		5,7	5,0	6,9	6,2	7,6

* Per capita.

Source : INSEE.

... and better than the performance of our European partners

Since the establishment of the 35-hour work week, France's performance has been superior to that of the rest of the euro zone, especially in comparison with our two main partners, Germany and Italy. For instance, over the decade 1998-2007 France's average annual growth was 1 point higher than for Italy and 0.8 point than for Germany (Table 2).

During this period, French companies and households spent more than their German and Italian counterparts. Business investment, which rose at an annual average of 0.8%, was more dynamic in France than in Germany (0.3%) or Italy (0.5%). As for households, consumption grew by an annual average of 1.4%

in France against, respectively, 0.4% in Germany and 0.9% in Italy. Furthermore, it should be noted that the continued higher consumption in France does not reflect the behaviour of household savings. The savings rate was not only higher than elsewhere in Europe, but it has also risen since 1998. The solid performance of French consumption is the consequence of greater dynamism in job creation in France during this period, especially when compared to what was taking place in Germany (Table 2).

Table 2. Main macroeconomic indicators: a comparison with our principal partners

In %, annual average

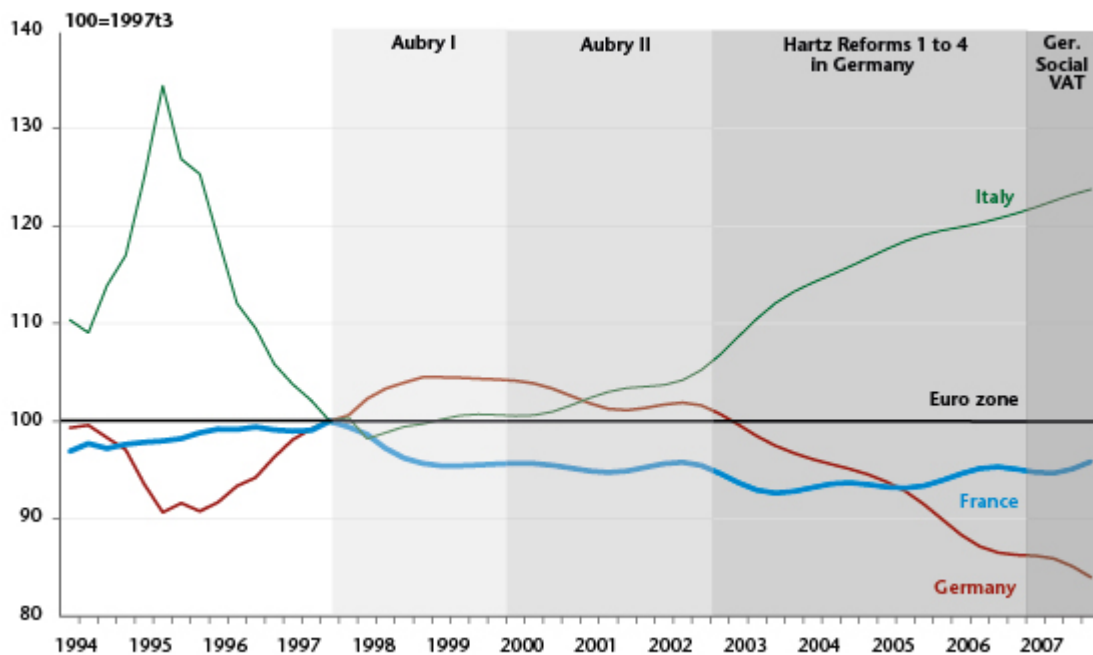
		1998-2007		
			1998-2002	2003-2007
GDP	Fra.	2,4	2,7	2,0
	All.	1,6	1,7	1,6
	Ita.	1,4	1,8	1,1
GDP per capita	Fra.	1,7	2,0	1,2
	All.	1,4	1,5	1,2
	Ita.	1,1	1,7	0,4
Total employment	Fra.	1,2	1,6	0,7
	All.	0,5	0,6	0,3
	Ita.	1,2	1,4	0,9
Current balance (in GDP points)	Fra.	1,1	2,1	-0,1
	All.	2,1	-0,4	5,0
	Ita.	-4,6	-2,6	-7,0
Public deficit (in GDP points)	Fra.	-2,7	-2,3	-3,2
	All.	-2,2	-1,9	-2,5
	Ita.	-2,8	-2,4	-3,3

Source : OECD.

Unit labour costs [\[1\]](#) under control

Considering the large countries, France has cut hourly unit labour costs in the manufacturing sector the most during the period 1997-2002 (Figure 1). With respect to labour costs for the economy as a whole, only Germany has done better than France over this period.

Figure 1. Change in hourly unit labour costs in manufacturing



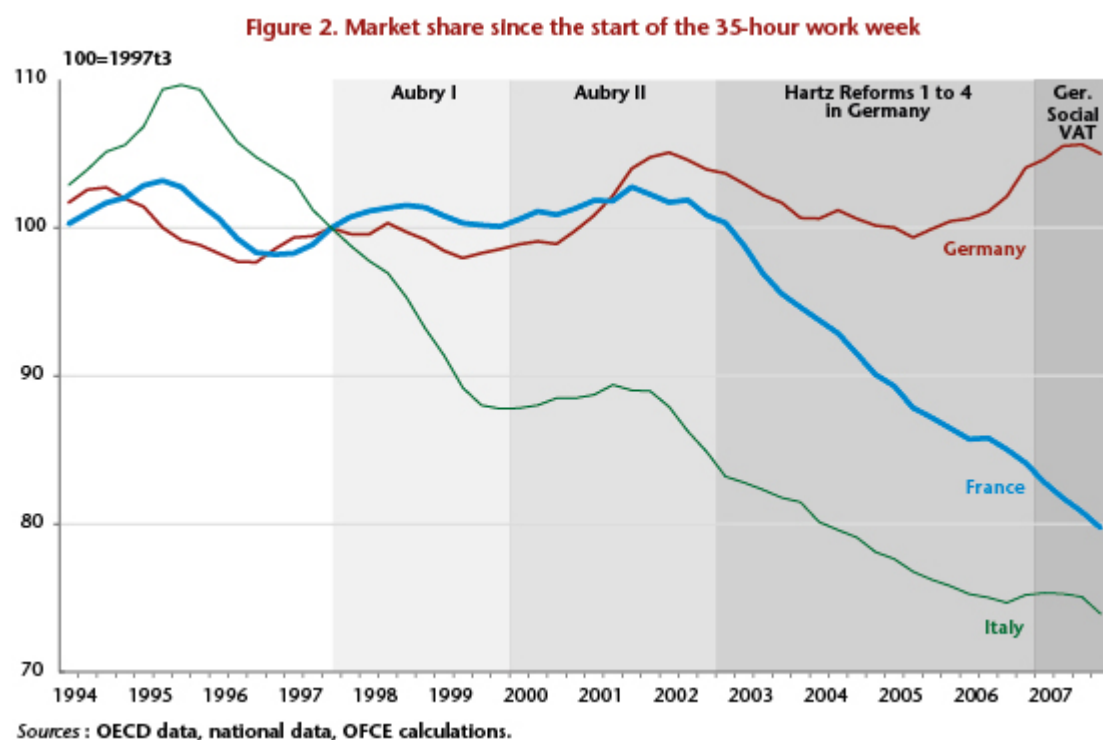
Source : European Commission.

The implementation of the Aubry laws has not therefore led to reducing the competitiveness of the French economy. The reasons why are now well known: the way the increase in hourly wages linked to the 35-hour week was offset by wage moderation; the more flexible organization of working time, which helped to boost the hourly productivity of labour (Table 1); the suppression of overtime pay; and finally State aid in the form of lower social contributions.

Between 1997 and 2002, by better controlling wage costs than most European and Anglo-American countries, France improved its price competitiveness and thereby its market share of world trade (Figure 2). The share of French exports in world trade, which was helped by the weakness of the euro and by wage moderation, reached a peak in 2001.

Since 2002, France's market share has declined considerably, for two basic reasons: first, the loss of price competitiveness of French exports subsequent to the appreciation of the nominal effective exchange rate in France, comparable to that observed in the early 1990s, and second, Germany's commitment to a policy of drastically reducing

production costs. Since 2002, Germany has engaged in a process of improving its supply by restricting income and social transfers (Hartz reforms , social VAT), which led to lower unit labour costs in absolute terms but also relative to its other European partners, including France. It is this policy that accounts for the 30% loss in market share experienced by France in the period 2002-2007.



The loss in market share is thus not peculiar to France. The policy being implemented in Germany has enabled it to gain market share in countries that are geographically and structurally close to it, *i.e.* the large European countries. In this respect, France is not the only country to have suffered from this strategy, as Italy too has lost market share during this period^[2].

In total, since the introduction of the 35-hour week, Italy has lost even more market share than the French economy (-27% for Italy against -20% for France).

A limited cost for the public purse

Since the implementation of the Aubry laws, the relief on

charges on low wages has cost general government an annual average of nearly 22 billion euros. But this amount is not attributable solely to the Aubry laws, since even before that such measures had been established by the Balladur and Juppé governments in the early and mid 1990s. The additional relief generated by the Aubry laws, which was made more long term by the "Fillon" measures, comes to nearly 12.5 billion euros per year. But this amount does not represent the cost actually incurred by general government. Indeed, as the Aubry laws have created jobs (350,000 over the period 1997-2002 according to official figures □□by the DARES and used by the INSEE), the cost for the public purse has been smaller: this job creation generates four billion euros in additional payroll taxes; this has reduced the number of unemployed, and thus unemployment benefits by 1.8 billion euros; and finally this has boosted household income, and the consequent consumption is generating additional tax revenues (VAT, income tax, etc.) in the amount of 3.7 billion euros. In sum, once the macroeconomic feedback is taken into account, the additional cost of these reductions comes to 3 billion euros annually, or 0.15 percentage point of GDP.

A review of our macroeconomic history does not therefore corroborate the thesis that the 35-hour week has "weighed down" the French economy: business growth and job creation were higher during the period from 1997 to 2007 than in the rest of the euro zone, and the competitiveness of the French economy, as measured by unit labour costs, fell by less than in the rest of the euro zone, with the exception of Germany. In this regard, it appears that the strategy conducted in Germany from 2002 (Hartz reform and social VAT) better explains the losses in market share by both the French economy and our other European partners. It is rather in the public sector, including hospitals, that the 35-hour work week has proven ineffective.

The different measures relaxing the 35-hour week

I –The Fillon law of 2003

The Law of 17 January 2003 has two main provisions:

(1) Regulation of overtime

By increasing the overtime quota from 130 to 180 hours, this law permits companies to use overtime structurally. Allowing for an additional 4 hours per week throughout the year enables companies to stay on a 39-hour week if they so wish. Specific industries also have the right to negotiate a higher amount. The Decree of 9 December 2004 brought the regulatory overtime quota to 220 hours per year.

The Law also reduces the cost of overtime. For companies with 20 employees or fewer, overtime begins only with the 37th hour, and the rate of extra pay is only 10%. For other firms, this may be negotiated between 10% and 25% by an industry agreement.

(2) Measure easing social contributions

The provisions for the reduction of employer social contributions introduced by the Aubry laws were henceforth disconnected from the length of the work week. All companies, whether or not they had shifted to the 35-hour week, now benefited. Structural aid beyond 1.6 times the minimum wage (SMIC) was eliminated.

II – The tax exemption of overtime hours in 2007

This measure had several provisions:

(1) Lump-sum reduction in payroll taxes

This measure introduced a lump-sum reduction in payroll taxes of 1.5 euros per hour of overtime worked by companies with

fewer than 20 employees and 0.50 euros in enterprises with more than 20 employees.

(2) Alignment of extra pay for overtime

This measure provided that extra pay for overtime be aligned at the minimum rate of 25% for all companies.

(3) Exemption from income tax

This measure allowed employees to exempt their pay for overtime hours from income tax, up to a limit of 25% extra.

(4) Exemption from social contributions

This measure also included a reduction of payroll taxes equal to the amount of the CSG / CRDS tax as well as all legal and contractual contributions.

For more information:

Philippe Askenazy, Catherine Bloch-London and Muriel Roger, 2004, "La réduction du temps de travail 1997-2003: dynamique de construction des lois 'Aubry' et premières évaluations" [The reduction of the work week 1997-2003: dynamics of the development of the Aubry laws and initial evaluations], *Economie et Statistiques*, no. 376-377.

Chen R., GM. Milesi-Ferreti and T. Tressel, 2013, "Eurozone external imbalances", *Economic Policy*, 28 (73), pp. 102-142.

DARES, 2003, *Les politiques de l'emploi et du marché du travail*, Collection Repères, Editions La Découverte.

Guillaume Duval, 2008, *Sommes-nous des paresseux ? et 30 autres questions sur la France et les Français*, Editions du Seuil.

Alain Gubian, Stéphane Jugnot, Frédéric Lerais and Vladimir Passeron, 2004, “Les effets de la RTT sur l’emploi: des simulations ex-ante aux évaluations ex-post” [Impact of the shorter work week on employment: from ex-ante simulations to ex-post evaluations], *Economie et Statistiques*, n° 376-377.

Éric Heyer and Xavier Timbeau, 2000, “35 heures : réduction réduite” [35 hours: the reduction reduced], *Revue de l’OFCE*, no. 74, July.

[1] The unit labour cost is the ratio of the hourly cost of [labour](#) to the hourly [productivity](#) of the [work](#).

[2] Other factors may of course explain Germany’s better performance, such as the emergence of China. For a recent version of this idea, see Chen R., G.M. Milesi-Ferreti and T. Tressel (2013).

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

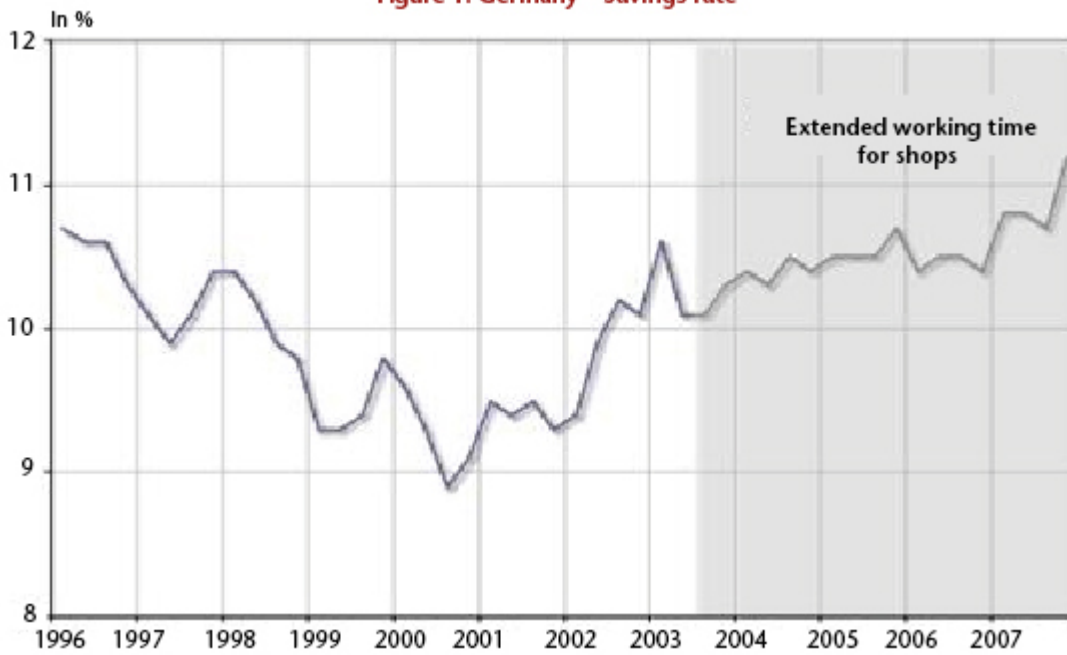
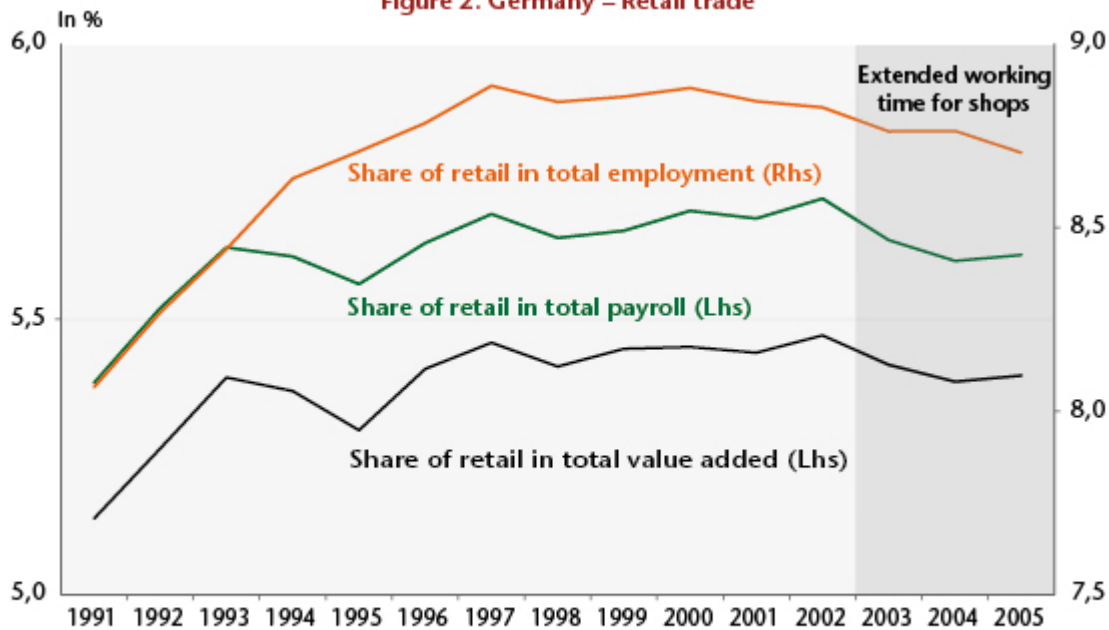


Figure 2. Germany – Retail trade



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.

What kind of pension reform for 2013?

In a speech on 28 March, Francois Hollande raised the 20 billion euro deficit forecast for 2020 in order to announce a further extension of the pension contributions period, while refusing to end the indexation of low state pensions and pensions in the statutory pension system. Francois Hollande and the French government also pledged to re-balance the public finances by 2017. As they no longer wish to increase the tax burden in a period of weak or even non-existent growth, this means cutting public spending by at least 70 billion euros, or about 7%. As pensions account for a quarter of public expenditure, they cannot be spared the austerity axe. There is a major risk that the goal of re-balancing the public finances will result in lowering the level of pension payments. When negotiating the supplemental pension arrangements in March 2013, the MEDEF managed to obtain pension increases of 1 percentage point below the inflation rate for 3 years, meaning a 3% loss in purchasing power. In a [recently published note](#) (*Notes de l'OFCE*, no. 26 dated 24 April 2013), Henri Sterdyniak explains that there are other possible approaches to reform.

France: the rise in cyclical unemployment continues

By Bruno Ducoudré

The Great Recession, which began in 2008, has resulted in a continuous and inexorable rise in unemployment in France, by

3.1 percentage points between the low point reached in the first quarter of 2008 (7.1% in mainland France) and the peak in the fourth quarter of 2012. The unemployment rate is now close to the record levels reached in the late 1990s. This rise can be broken down into a change in the rate of cyclical unemployment due to the lack of economic growth, and a change in the rate of structural unemployment. The latter gives information on the extent of the output gap, which is crucial for measuring the structural deficit. Consequently, any choice about the fiscal policy to be adopted to re-balance the public finances needs an analysis of the nature of the additional unemployment generated by the crisis. In other words, has the crisis mainly resulted in cyclical unemployment or structural unemployment?

A study of the Non-Accelerating Inflation Rate of Unemployment (NAIRU)^[1] offers one way of analysing whether the unemployment is structural or cyclical. Based on an estimate of the wage-price spiral, we propose [in the OFCE's 2013-2014 forecasts for the French economy](#) taking a look at the level of the equilibrium rate of unemployment (ERU) using a recursive estimate of the NAIRU since 1995 in order to identify the share of cyclical unemployment.

Table. Estimates of the equilibrium rate of unemployment

In %

Périod	2000-2012	2000-2007	2008-2012
NAIRU	7,2	6,8	7,7

Note : Hypotheses on exogenous factors: values observed on average over the periods 2000-2007 and 2008-2012. The productivity trend equals 1.1.

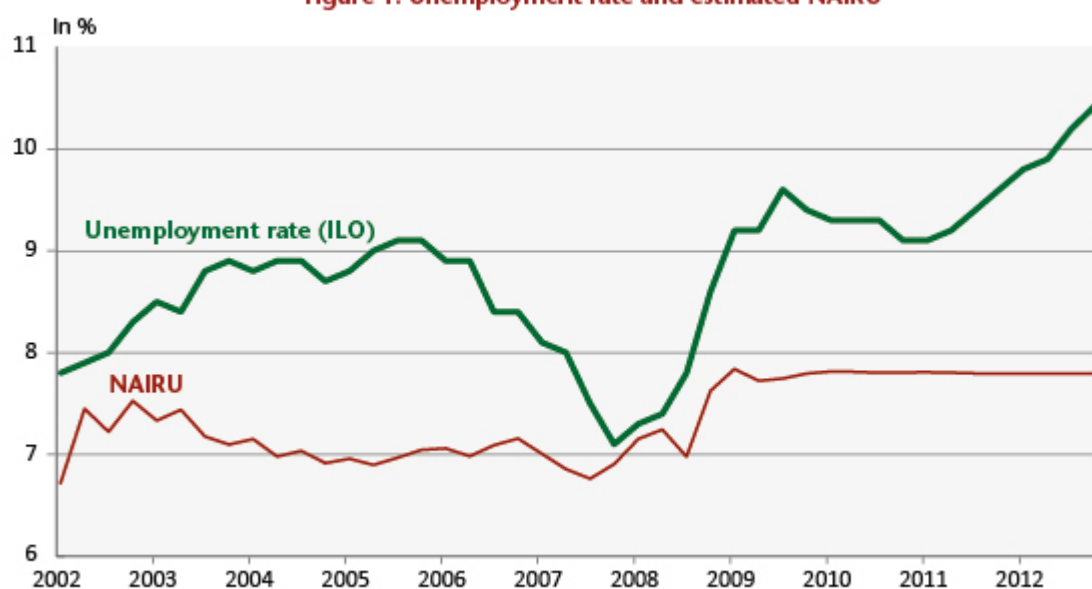
Source : OFCE calculations.

First, our estimate of the ERU takes good account of the lack of real inflationary pressures since 1995. Indeed, the actual unemployment rate is consistently higher than the ERU over this period (Figure 1). However, between 1995 and 2012 underlying inflation varies between 0 and 2%. It reaches 2% in 2002 and 2008, times when the actual unemployment rate is closer to the ERU, although this does not reflect the real

inflationary pressures. In 2012, the increase in the unemployment rate led to a wider gap with the equilibrium rate of unemployment and was accompanied by a slowdown in underlying inflation, which fell below 1% by the end of the year.

Second, the NAIRU is estimated at 7.2% on average over the years 2000-2012, with an average inflation rate of 1.9% over the period. Inflation rose to an average 7.7% over the period 2008-2012 (Table 1) and to 7.8% in 2012 (Figure 1).

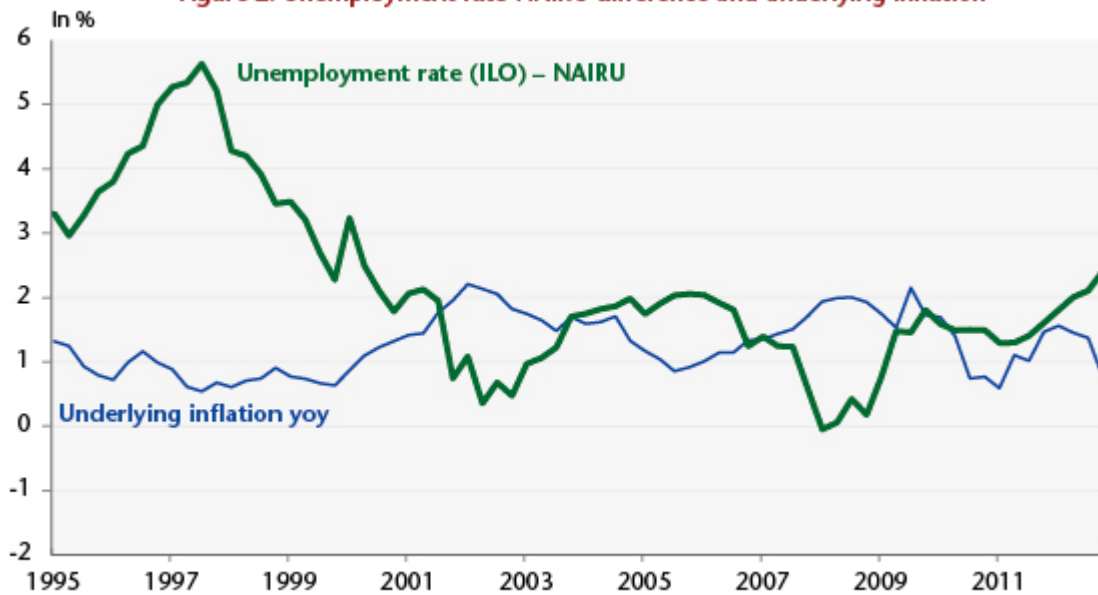
Figure 1. Unemployment rate and estimated NAIRU



Sources : INSEE, OFCE calculations.

Third, these estimates also indicate that the NAIRU has increased by 0.9 percentage points since the onset of the crisis. This explains at most 30% of the rise in the unemployment rate since 2008, with the remainder coming from an increase in cyclical unemployment. The cyclical component of unemployment would therefore represent 2.1 percentage points of unemployment in 2012. This change in the gap between the actual unemployment rate and the equilibrium rate of unemployment is also consistent with underlying inflation, which has been declining since 2009. Given our forecast of unemployment, this gap will increase by 1.5 percentage points, to a level of 3.6% in 2014 on an annual average.

Figure 2. Unemployment rate-NAIRU difference and underlying inflation



Sources : INSEE, OFCE calculations.

Estimates of the equilibrium rate of unemployment thus indicate that the gap with the actual unemployment rate has widened during the crisis. The share of cyclical unemployment has increased, with the rise in cyclical unemployment accounting for about 70% of the rise in the unemployment rate since 2008. This confirms our diagnosis of a high **output gap** for the French economy in 2012, a gap that will continue to widen in 2014 under the combined impact of fiscal austerity and a high fiscal multiplier.

This text draws on the analysis of the economic situation and the forecast for 2013-2014, which is available [in French] on the [OFCE site](#).

[1] The NAIRU is the rate of unemployment at which the inflation rate remains stable. Above it, inflation slows, which eventually makes possible an increase in employment and a reduction in unemployment. Below it, the dynamic is reversed, leading to higher inflation, a fall in employment and a return of unemployment to its equilibrium level.

Holding to the required course

By [Eric Heyer](#)

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

In 2013, the French economy should see negative annual average growth, with a fall in GDP of 0.2%, before a modest recovery in 2014, with growth of 0.6 % (Table 1). This particularly mediocre performance is far from the path that an economy pulling out of a crisis should be taking.

Table 1. Summary of the forecast for 2013 and 2014

In %, annual average

	2010	2011	2012	2013*	2014*
Taux de croissance du PIB	1,6	1,7	0,0	-0,2	0,6
Imports	8,4	5,2	-0,3	0,1	1,7
Household consumption	1,4	0,2	-0,1	0,0	0,8
Government consumption	1,7	0,2	1,4	1,2	0,2
Total investment	1,0	3,5	0,0	-1,9	-0,5
Exports	9,2	5,5	2,5	0,9	2,2
Contribution to growth					
Domestic demand excl. inventory	1,5	0,9	0,3	-0,1	0,5
Change in inventory	0,0	0,8	-1,0	-0,3	0,0
Trade balance	0,0	0,0	0,7	0,2	0,1
GDP growth rate, euro zone	2,0	1,1	-0,5	0,4	0,9
Other indicators					
Inflation (consumption deflator)	1,1	2,1	1,9	1,6	1,6
Savings rate (% of GDI)	15,9	16,2	16,0	15,6	15,2
Unemployment rate	9,3	9,2	9,9	10,7	11,4
Public deficit (GDP points)	7,1	5,2	4,8	3,9	3,0
Public debt (GDP points)	82,4	85,8	90,2	93,3	94,8
GDP growth rate (year-on-year)	1,8	1,1	-0,3	0,3	0,7

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

Four years after the start of the crisis, the French economy

has a substantial potential for recovery: this should have led to average spontaneous growth of about 2.6% per year in 2013 and 2014, making up some of the output gap accumulated since the onset of the crisis. But this spontaneous recovery is being hampered mainly by the introduction of fiscal savings plans in France and across Europe. To meet its commitment to cut the public deficit to 3% by 2014, the French government will have to hold to the course of fiscal consolidation it adopted in 2010, which was imposed by the European Commission in all the euro zone countries. This budget strategy should slash 2.6 percentage points off GDP growth in France in 2013 and 2.0 percentage points off GDP in 2014 (Table 2).

Table 2. The obstacles to growth in France during the years 2013 and 2014

In GDP points

	2013	2014
GDP growth	-0,2	0,6
Impact on GDP due to ...		
... oil changes	-0,2	0,0
<i>Direct impact on the French economy</i>	-0,1	0,0
<i>Impact via addressed demand</i>	0,0	0,0
... austerity measures	-2,6	-2,0
<i>Direct impact on the French economy</i>	-1,8	-1,4
<i>Impact via addressed demand</i>	-0,8	-0,6
... monetary conditions	0,0	0,0
<i>Direct impact on the French economy</i>	0,0	0,0
<i>Impact via addressed demand</i>	0,0	0,0
... policies on competition	0,1	-0,1
<i>Direct impact on the French economy</i>	0,2	0,0
<i>Impact via addressed demand</i>	-0,1	-0,1
Achievement	-0,2	0,1
Spontaneous growth rate	2,6	2,6

Sources : INSEE, OFCE calculations.

By setting a pace far from its potential, the expected growth will aggravate the output gap built up since 2008, with the labour market thus continuing to worsen. The unemployment rate will rise steadily to 11.6% in late 2014.

Only a shift in European fiscal strategy could halt the rise

in unemployment. This would mean limiting the negative fiscal stimulus to 0.5 percent of GDP instead of the total of 1.0 points planned in the euro zone in 2014. This reduced fiscal effort could be repeated until the public deficit or debt reaches a defined goal. Compared to current plans, because the effort would be measured the burden of adjustment would be spread more fairly over the taxpayers in each country, avoiding the pitfall of drastic cuts in the public budgets. This new strategy would lead to a slower reduction in the public deficit (-3.4% in 2014 against -3.0% in our central scenario), but also and especially to higher economic growth (1.6% against 0.6%). This “less austerity” scenario would allow the French economy to create 119,000 jobs in 2014, *i.e.* 232,000 more than in our central forecast, and unemployment would fall instead of continuing to increase.

How to reform the reduction on payroll taxes?

By Mathieu Bunel, Céline Emond, Yannick L’Horty

More than 20 billion euros are spent every year by the State to compensate the general exemptions from social security contributions, making this the leading employment policy plank in France, both in terms of the total budget and the numbers concerned – more than one employee out of two benefits from the reduction in contributions. In these times of fiscal pressure and the inexorable upward trend in unemployment, questions are being raised about the sustainability of such a scheme, whose scale, which was unified by the 2003 Fillon

reform, consists of a reduction that shrinks as the wage rises, up to the level of 1.6 times the minimum wage (SMIC). At the level of the SMIC, the reduction comes to 26 points (28 points for firms with fewer than 20 employees).

In an article published in the [*Revue de l'OFCE \(Varia, no. 126, 2012\)*](#), we evaluate the impact of a complete removal of the general exemptions as well as of a number of partial reforms of the thresholds for exemption from social security contributions, using the latest data suited to the analysis. In our estimate, the simple elimination of all general exemptions would lead to the destruction of about 500,000 jobs. We also explore the effects of reorganising the exemption thresholds, by screening a number of possibilities that would affect the various parameters that define the exemption arrangements. In every case, a reduction in the amount of exemptions would have a negative impact on employment, but the extent of the job losses would vary from simple to double depending on the terms of the reform. To ensure the least negative effect would require that the reductions in the exemptions spare the sectors that are most labour-intensive, which means better treatment for the exemption schedules that are most targeted at low wages. Since the goal is to improve the unemployment figures, it is important to concentrate the exemptions on lower wages, and thus to give a boost to the sectors that are richest in terms of labour.

However, concentrating exemptions too much in the vicinity of the minimum wage would increase the cost to employers of granting wage rises, which would be favourable neither to purchasing power nor to the quality of the jobs that condition future employment. While a new balance can always be sought in order to meet the urgent budget situation, to be sustainable it must be good for today's jobs without neglecting those of the future.

France, Germany: The nonworking poor

By [Guillaume Allègre](#)

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

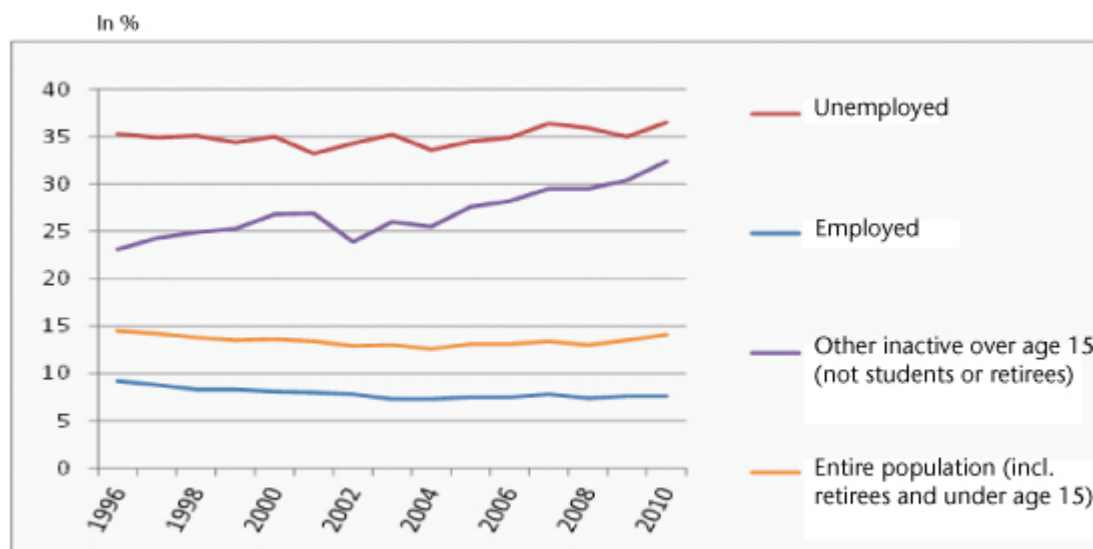
[Alain Desrosières](#), 1940-2013

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



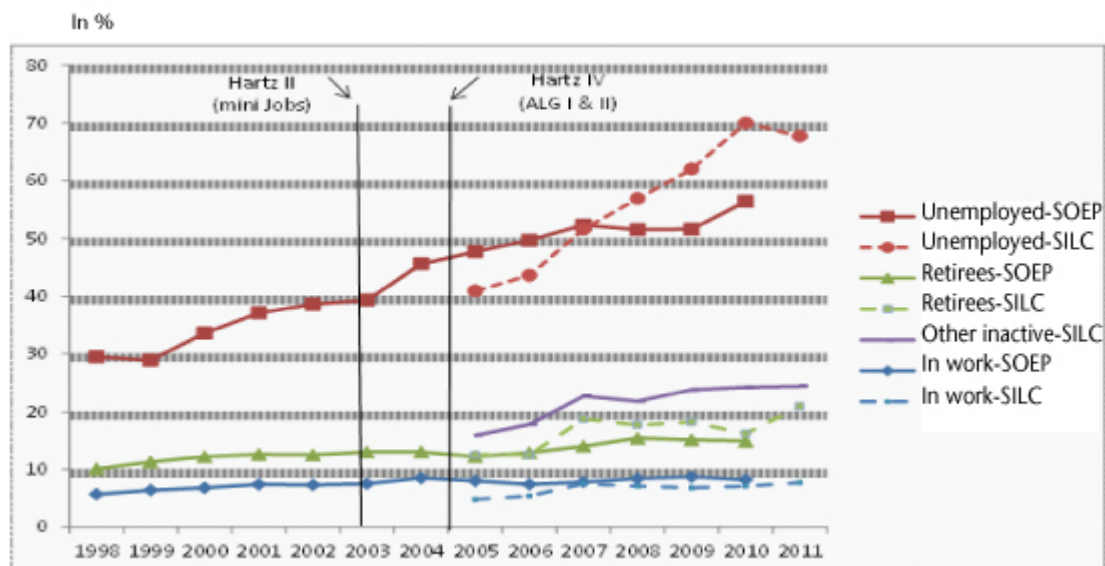
Source : Insee-DGI, Enquêtes Revenus fiscaux et sociaux rétrospectives 1996 à 2004 ; Insee-DGFIP-Cnaf-Cnav-CCMSA, Enquêtes Revenus fiscaux et sociaux 2005 à 2010.

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.

Why France is right to abandon the 3% public déficit target by 2013

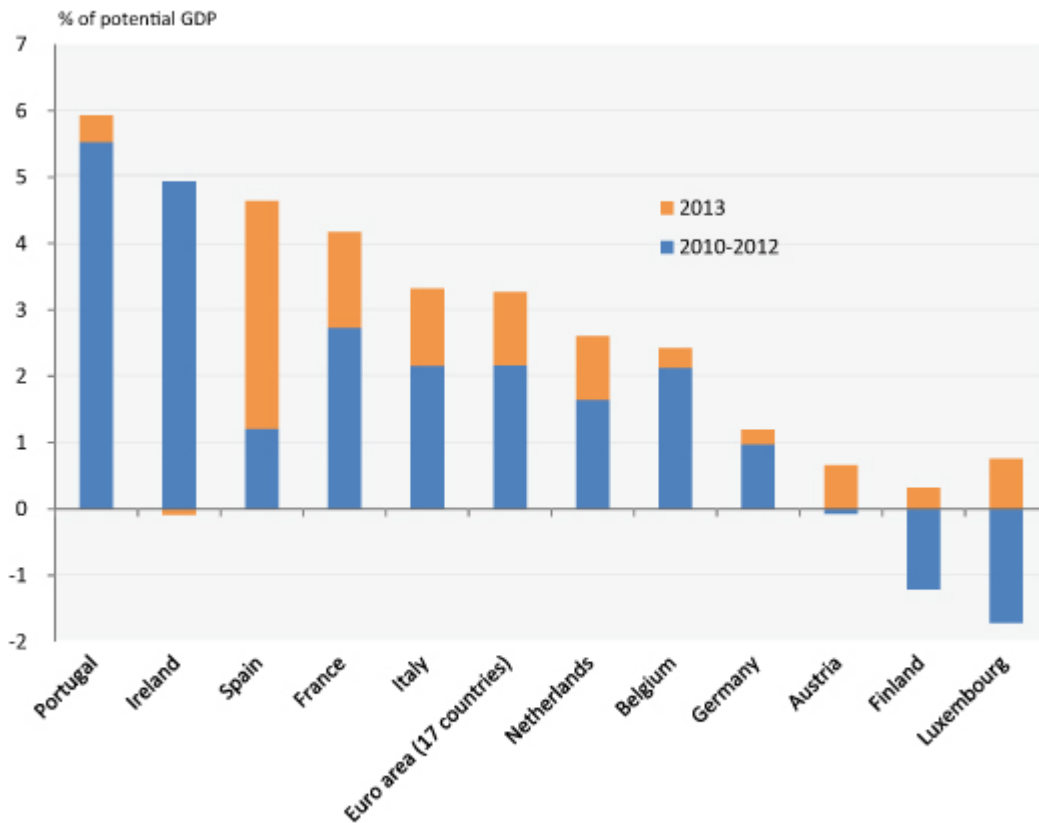
By [Mathieu Plane](#)

Given the statements by the Minister of Economy and Finance, the government seems to have reached a decision to abandon the goal of a deficit of 3% of GDP by 2013. In addition to the change of tack in the policy announced up to now, which was to bring the deficit down to 3% by 2013 “whatever the cost”, we can legitimately conclude that France is right to abandon this goal, and we offer several arguments for this. While in this post we do not review [the economic consequences of the fiscal](#)

[policy being undertaken in France and the euro zone](#), which has been dictated by nominal targets for the deficit that do not take into account the way it breaks down structurally / cyclically and that have a dangerously pro-cyclical character, we nevertheless present several arguments that the European Commission may find of value:

1 – According to the latest figures from the European Commission on 22 February 2013^[1], of the euro zone countries making the greatest fiscal adjustment in 2013 from a structural viewpoint, France, with 1.4 GDP points, comes behind only Spain (3.4) and Greece (2.6). For the 2010-2013 period, the reduction in France's structural deficit represents 4.2 GDP points, which makes France the euro zone country which, alongside Spain (4.6 GDP points), has carried out the largest budget cutbacks of the major countries in the zone, ahead of Italy (3.3 GDP points), the Netherlands (2.6) and of course Germany (1.2) (Figure 1).

Figure 1. Change in the structural deficit of the euro zone countries*



* For reasons of scale, we have not put Greece in the figure. Over the 2010-2013 period, Greece's structural fiscal adjustment came to 16.9 GDP points, including 2.6 in 2013.

Sources: European Commission, OFCE calculations.

2 – In 2007, before the crisis, according to the European Commission France had a structural public deficit of -4.4 GDP points, compared with an average of -2.1 for the euro zone and -0.9 for Germany. In 2013, this came to -1.9 GDP points in France, -1.3 for the euro zone, and +0.4 for Germany, which represents an improvement of the structural deficit of 2.5 GDP points for France since the start of the crisis, *i.e.* three times the average for the euro zone and twice that for Germany (Table 1). Leaving aside public investment, France's structural public deficit in 2013 was positive and higher than the euro zone average (1.2 GDP point in France, versus 0.8 for the euro zone average and 1.9 for Germany). Note that France is spending 3.1 GDP points on public investment in 2013 (0.2 GDP point less than in 2007), against a euro zone average of only 2 points (0.6 point less than in 2007) and 1.5 in Germany (equivalent to 2007). However, public investment, which has a positive impact on potential growth, and which also increases

public assets, while not changing the public administration's financial situation, can reasonably be excluded from the calculation of the structural public deficit.

Table. Public deficit and structural deficit with and without public investment

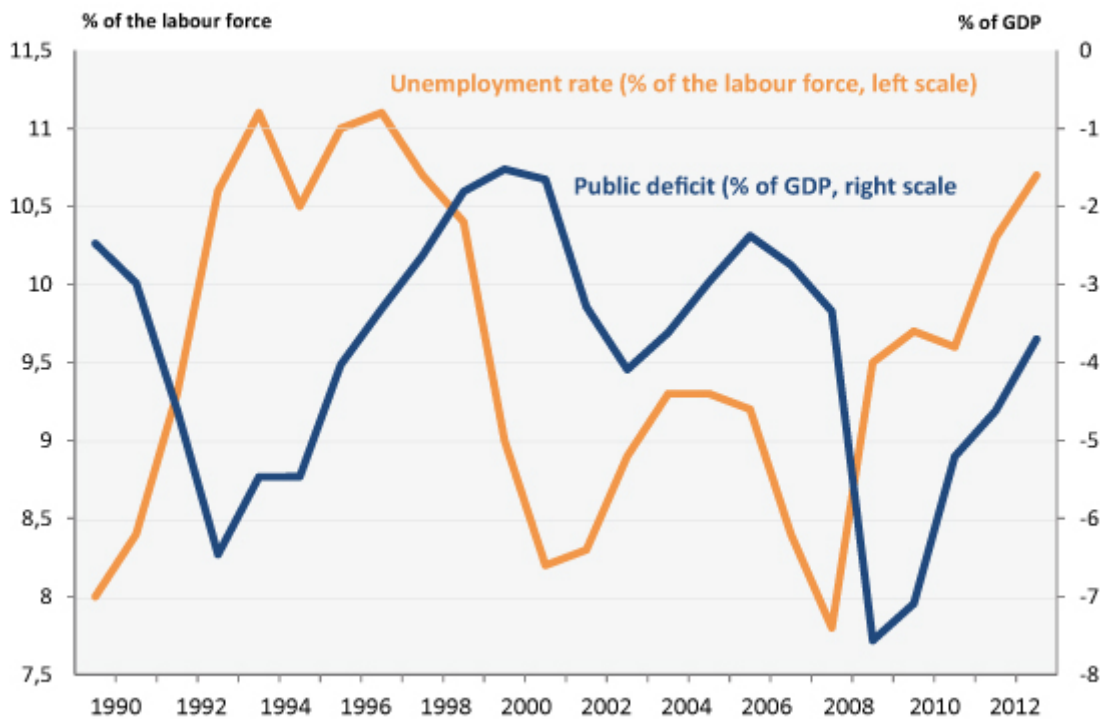
In GDP points	Public balance				Structural public balance				SPB w/o public investment			
	FRA	DEU	EZ	FRA-EZ diff.	FRA	DEU	ZE	FRA-EZ diff.	FRA	DEU	EZ	FRA-EZ diff.
2007	-2.8	0.2	-0.7	-2.1	-4.4	-0.9	-2.1	-2.3	-1.1	0.6	0.5	-1.6
2013	-3.7	-0.2	-2.8	-0.9	-1.9	0.4	-1.3	-0.6	1.2	1.9	0.8	0.4
Change 2007-2013	-0.9	-0.4	-2.1	1.2	2.5	1.3	0.8	1.6	2.3	1.3	0.3	2.1

Sources: European Commission, OFCE calculations.

3 – In 2013, the public deficit, even at 3.7% of GDP according to the European Commission, is once again at a level close to that of 2008, similar to that of 2005, and below that of 2004 and of the entire 1992-1996 period. The public deficit figure expected for 2013 corresponds to the average over the past thirty years, and thus no longer seems so exceptional, which is easing the pressure that France could experience on the financial markets. In contrast, according to the European Commission the unemployment rate in France in 2013 will reach 10.7% of the workforce, which is very close to its historic peak in 1997 (Figure 2). With an unemployment rate in 2013 that is 1.3 percentage points higher than the average over the last thirty years, an exceptional situation now characterizes the labour market more than it does the government deficit. While new austerity measures would help to reduce the deficit, however painfully, due to the [high value of the fiscal multiplier in the short term](#) they will lead on the other hand to going well beyond our historic unemployment peak. Indeed, as we showed in our [latest forecast in October 2012](#), if France really tries to meet its budget commitment for 2013 “whatever the cost”, this will require a new fiscal tightening of over 20 billion euros, in addition to the [36 billion euros already](#)

planned. This would lead to a recession, with GDP down -1.2% and 360,000 job losses (instead of expected growth of 0% and the loss of about 160,000 jobs), with the unemployment rate reaching 11.7% of the labour force by late 2013.

Figure 2. Public deficit and unemployment rate



Source: European Commission.

To restore its public accounts since 2010, France has undertaken a historic fiscal effort, well beyond the average of its European partners, which has cost it in terms of growth and employment. Adding another layer of austerity in 2013 to the already historic build-up of austerity would lead us this year straight into a recession and an unprecedented worsening in the labour market. If there is a choice, are a few tenths of a point in the public deficit worth such a sacrifice? Nothing is less certain. It is thus essential to put off the goal of reducing the deficit to 3% of GDP to at least 2014.

[\[1\]](#) We have a different evaluation of the level of the structural deficit. For example, for 2013 we evaluate the improvement in France's structural public deficit at 1.8 GDP points, but in order not to prejudice the analysis we are using the figures provided by the Commission.

Should spending on unemployment benefits be cut?

By [Gérard Cornilleau](#)

The Cour des comptes [Court of Auditors] has presented a [report on the labour market](#) which proposes that policy should be better “targeted”. With regard to unemployment benefits in particular, it focuses on the non-sustainability of expenditure and suggests certain cost-saving measures. Some of these are familiar and affect the rules on the entertainment industry and compensation for interim employees. We will not go into this here since the subject is well known [\[1\]](#). But the Cour also proposes cutting unemployment benefits, which it says are (too) generous at the top and the bottom of the pay scale. In particular, it proposes reducing the maximum benefit level and establishing a digressive system, as some unemployed executives now receive benefits of over 6,000 euros per month. The reasoning in support of these proposals seems wrong on two counts.

In the first place, the diagnosis of the system's lack of sustainability fails to take the crisis into account: if Unedic is now facing a difficult financial situation, this is above all because of falling employment and rising unemployment. It is of course natural that a social protection system designed to support employees' income in times of crisis is running a deficit at the peak of a crisis. Seeking to rebalance Unedic's finances today by cutting benefits would abandon the system's countercyclical role. This would be unfair to the unemployed and economically absurd, as reducing revenues in a period of an economic downturn can only aggravate the situation. In such circumstances, it is also easy to understand that arguments for work incentives are of little value: it is at the top of the cycle, when the economy is approaching full employment, that it makes sense to raise the issue of back-to-work incentives. When the economy is bumping along the bottom, encouraging a more active job search may change the distribution of unemployment, but certainly not its level.

The current deficit in the unemployment insurance system simply reflects the situation of the labour market. A few calculations can help to show that the system's generosity is fully compatible with financial stability in "normal" times. To establish this, we simply measure the impact of economic growth, employment and unemployment on the system's deficit since 2009. In 2008, Unedic was running a financial surplus of nearly 5 billion euros [2]. This turned into a deficit of 1.2 billion euros in 2009 and 3 billion in 2010, before recovering somewhat in 2011 with a deficit of only 1.5 billion, which then rose to 2.7 billion in 2012. For 2013, the deficit is expected to reach 5 billion. The Table shows our estimates of the impact of the crisis on the system's revenues and expenditures since 2009. The estimated revenue lost due to the crisis is based on the assumption of an increase in annual payroll of 3.5% per year (which breaks down into 2.9% for increases in the average wage and 0.6% for rises in

employment) if the crisis had not occurred in 2008-2009. On the expenditure side, the estimated increase in benefits due to the crisis is based on the assumption of a stable level of “non-crisis” unemployment, with spending in this case being indexed on the trend in the average wage.

Table. Impact of the crisis on Unedic’s accounts

In billions of euros

	Impact of the crisis...		Impact on the balance
	... on revenue	... on expenditure	
2009	-1,8	+4,1	-5,9
2010	-2,1	+5,1	-7,2
2011	-2,6	+5,5	-8,1
2012	-3,1	+6,5	-9,6

Source : Author’s calculations.

The results of this estimation clearly show that the crisis is solely responsible for the emergence of the substantial deficit run up by the unemployment insurance system. Without rising unemployment and falling employment, the system would have continued with a structural surplus, and the reform of 2009, which allowed compensation for unemployed people with shorter work references (4 months instead of 6 months), would have had only a minimal effect on its financial situation. There was no breakdown of the system, which was in fact perfectly sustainable in the long term ... so long as counter-cyclical economic policies are implemented that prevent a surge in unemployment, whose sustainability is now undoubtedly more of a concern than the finances of Unedic [\[3\]](#).

Based on a diagnosis that is thus very questionable, the Cour des comptes has proposed reducing the generosity of unemployment benefits. Since it is difficult to put forward proposals for cutting lower benefit levels, the Cour put more emphasis on the savings that could be achieved by limiting very high benefits, which in France may exceed 6,000 euros per month for executives on high-level salaries that are up to 4 times the maximum social security cap, which in 2013 was 12,344 euros gross per month. In reality, from a strictly accounting perspective, it is not even certain that this will

have positive effects on Unedic's finances. Indeed, few people benefit from these top benefit levels, because executives are much less likely to be unemployed than are other employees. On the other hand, their higher salaries are charged at the same contribution rates, meaning that they make a net positive contribution to financing the scheme. Calculations based on the distribution of wages and of the benefits currently received by unemployed people insured by Unedic show that employees who earn more than 5,000 euros gross per month receive about 7% of unemployment benefits but provide nearly 20% of the contributions. For example, we simulated a reform that would bring French unemployment insurance into line with the German system, which is much more severely capped than the French system. The German ceiling is 5,500 euros gross per month (former Länder), against 12,344 in the French system. By retaining a cap of 5,000 euros gross per month, the maximum net benefit level in France would be around 2,800 euros. Based on this assumption, the benefits received by the unemployed in excess of the ceiling would be reduced by nearly 20%, but the savings would barely amount to more than 1% of total benefits. On the revenue side, the lower limit would result in a reduction in revenue of about 5%. The existence of a high ceiling in the French unemployment insurance system actually allows a significant vertical redistribution because of the differences in unemployment rates. Paradoxically, reducing insurance for the most privileged would lead to reducing this redistribution and undermining the system's financial stability. Based on the above assumptions, shifting to a ceiling of 5,000 euros would increase the deficit by about 1.2 billion euros (1.6 billion revenue – 400 million expenditure).

This initial calculation does not take into account the potential impact on those whose unemployment benefits would be greatly reduced. To clarify the order of magnitude of this effect, which is, by the way, unlikely, we simulated a situation in which the number of recipients of the highest benefits would be cut in half (e.g. by a reduction in the same

proportion of the time they remain unemployed). Between the new ceiling and the highest level of the reference salaries, we estimated that the incentive effect increased linearly (10% fewer unemployed in the first tranche above the ceiling, then 20% fewer, etc., up to -50%). Using this hypothesis of a high impact of benefit levels on unemployment, the additional savings on benefits would be close to 1 billion euros. In this case, the reform of the ceiling would virtually balance (with an added potential cost [not significant] of 200 million euros). But we did not include the fact that the shortening of the duration of unemployment compensation for unemployed people on high benefits could increase the duration of the unemployed on lower benefits. In a situation of near full employment, it is possible to consider that the rationing of employment results from the rationing of the supply of work; in the current situation of a generalized crisis, the more realistic case involves the opposite situation of a rationing of demand for labour. Achieving budget savings by cutting high benefit levels is not credible, at least if we stick to a reform that does not change the very nature of the system.

One could of course obtain a more favourable result by reducing only the cap on benefits and not the cap on contributions. This would be very destabilizing for the system, since it would strongly encourage executives to try to pull out of a unified solidarity system that provides them with reasonable assurances today through the acceptance of a high level of vertical redistribution, while lowering the cap on benefits alone would force them to insure themselves individually while continuing to pay high mandatory fees. This type of change would inevitably call into question the basic principle of social insurance: contributions based on each person's means in return for benefits based on need.

The general economics in the Cour's report on unemployment benefits thus seem highly questionable because, by not taking into account the effect of the crisis, it winds up proposing a

pro-cyclical policy that puts additional burdens on the unemployed at a time when it is less possible than ever to make them bear the responsibility for underemployment. As for the key measure that challenges the compromise on high level benefits, it would at best be budget neutral and at worst destroy the social contract that today makes possible strong vertical redistribution within the unemployment insurance system.

[1] Unemployment insurance has a special scheme for interim workers in the entertainment industry worth a billion euros per year. It would obviously be sensible for this expenditure to be borne by the general budget and not by Unedic.

[2] Excluding exceptional operations.

[3] On economic policy in Europe and the lack of macroeconomic sustainability, see the initial [report of the Independent Annual Growth Survey project \(IAGS\)](#).

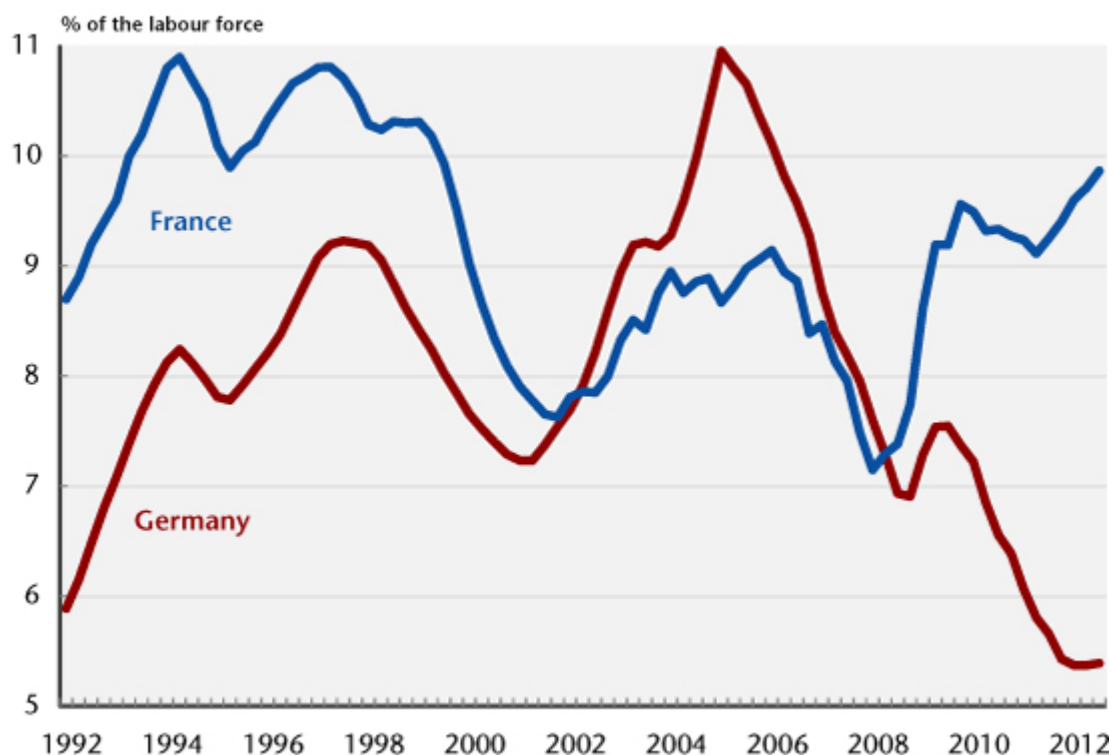
Higher unemployment in France, greater poverty in Germany

By [Eric Heyer](#)

Will France be the new Greece, as *The Economist* has argued? Should French reforms be accelerated and be modelled on those implemented in Germany ten years ago? For German public

opinion, for its authorities and for a large number of economic experts, the answer is obvious. Not only does Germany have a lower deficit, but unlike its French neighbour it has also managed to significantly reduce its unemployment rate. Starting from a similar level in the early 2000s (close to 7.7% at end 2001), the unemployment rate now stands at 5.4% of the labour force in Germany, 4.5 percentage points below the level in France (Figure 1).

Figure 1 : Changes in unemployment in Germany and France over the last 20 years

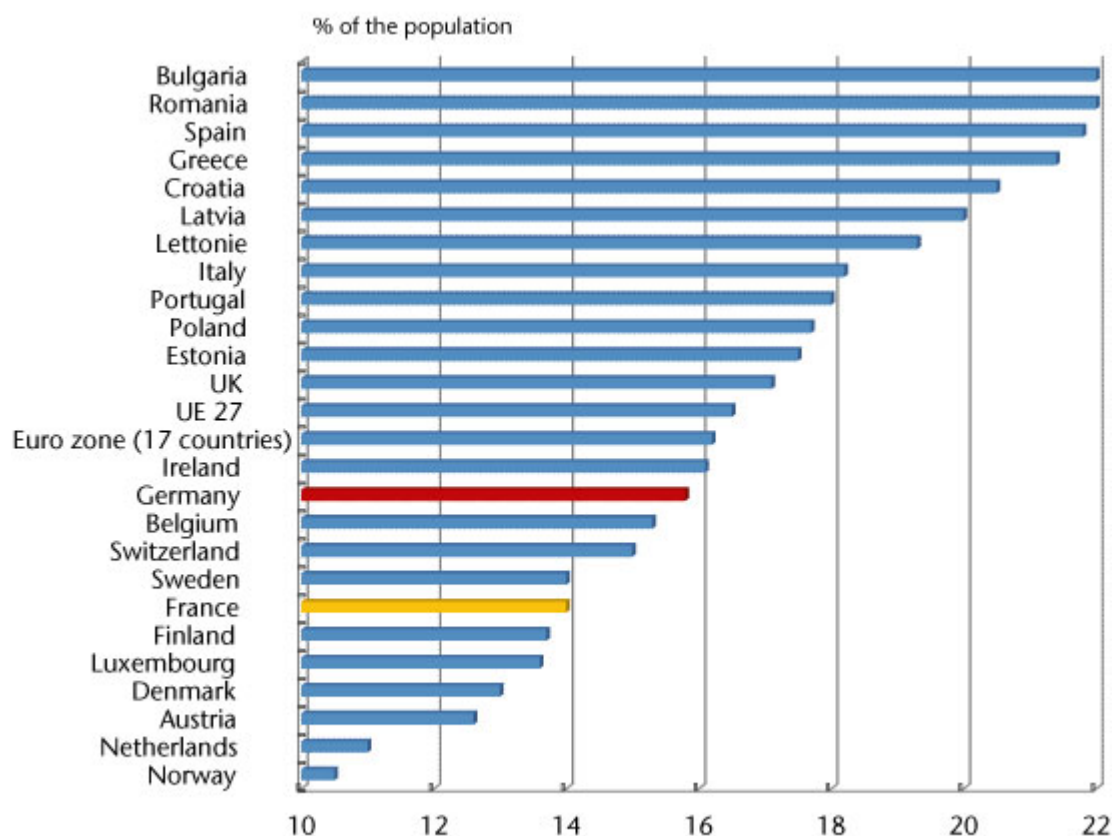


Source : ILO.

The purpose of this note is not to revisit the reasons for this difference, which have already been the subject of posts on this blog (see in particular the impact of demography, by [G. Cornilleau](#), of the reduction in working hours, by [E. Heyer and M. Plane](#), and of the rise in male-female inequalities, by [H. Périvier](#)). The point rather is simply to note that the reduction of unemployment in Germany has been accompanied by a steep rise in poverty.

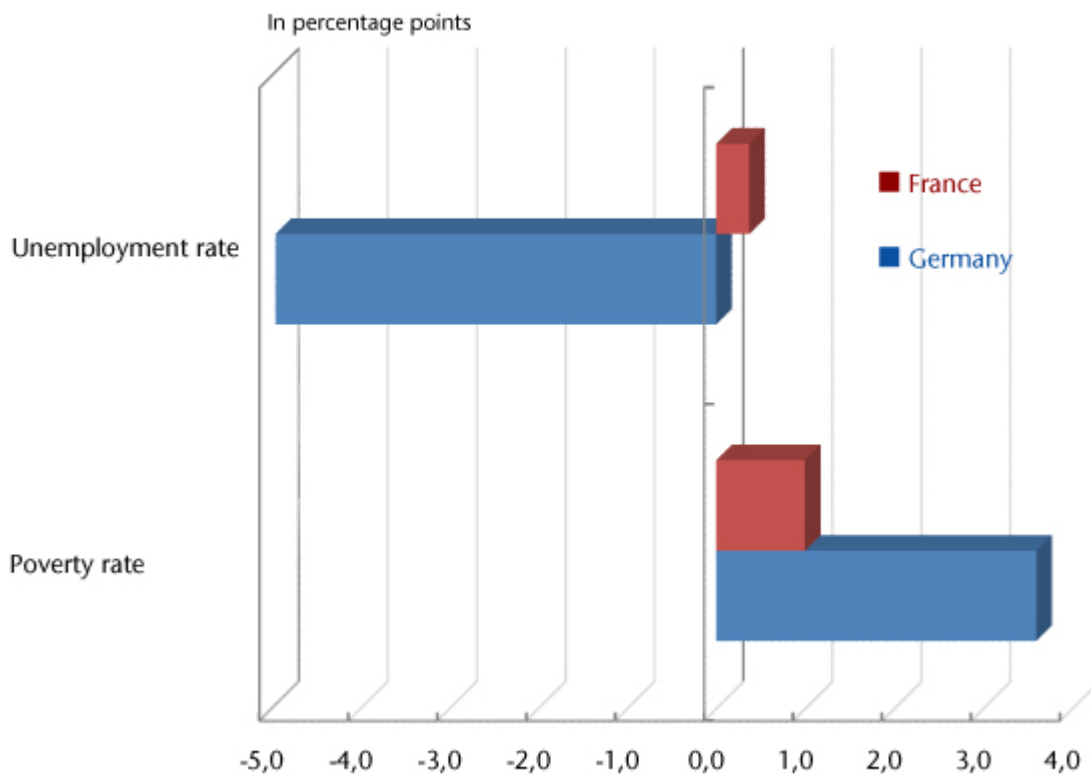
According to Eurostat, over the past six years the poverty rate (measured at the threshold of 60% of median income) has risen by 3.6 percentage points in Germany, four times more than the rise observed in France (0.9 point). In 2011, despite the sharp drop in unemployment and the large differential with France, the poverty rate in Germany was 1.8 points higher than the level observed in France, *i.e.* a difference of over 11% (Figures 2 & 3).

Graphique 2 : Poverty rate (60 % of median income) in 2011



Source : Eurostat.

Figure 3 : Changes in the unemployment rate and poverty rate (60 % of median income) in France and in Germany (2005-2011)



Source : Eurostat.

There is, therefore, a hidden side to the reforms implemented in Germany over the past ten years, which have led to lower unemployment but greater poverty.