# Long-Term Unemployment After the Great Recession:
## Causes and remedies

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# 6 Long-term unemployment in France

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## Introduction

Following the Great Recession and its aftermath, the unemployment rate in France reached 10.5% in 2015 – a 20-year peak point. With hindsight, the recession has not been as dramatic in France as in many other European countries, however, France has been suffering from high and persistent unemployment rates since the early 1980s. As a result, long-term unemployment (LTU) has been a recurrent problem, especially for some disadvantaged groups. This chapter investigates the situation for these groups, the structural factors pertaining to high persistence rates of joblessness, and the recent policies implemented to solve this issue.

## The facts

The LTU rate is high in France, compared with the OECD average. It is close to the EU28 average, as shown by Figure 1. It increased during the recession. If we take a long-run perspective, it turns out that, before the crisis, the incidence of long-term joblessness was similar in France to the one observed in its aftermath.

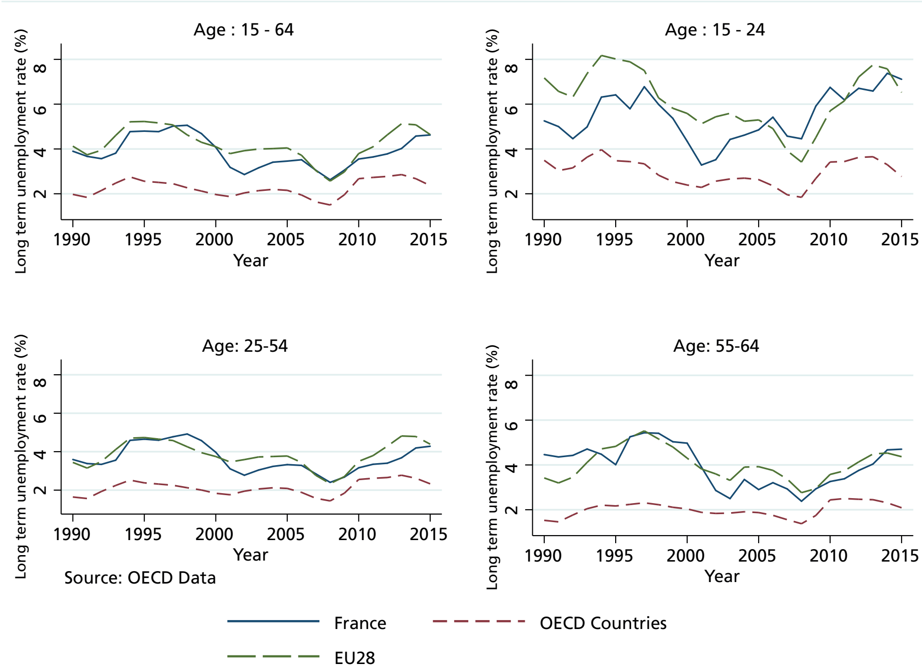
Almost one in two of the unemployed in France has been deprived of work for more than 12 months (44%). In the OECD countries, only one in three of the unemployed was in the same situation in 2015. But the situation is very diverse across age-groups.

1 We thank Pauline Carry for helpful research assistance.

- The young unemployed (15-24) are less likely to be long-term unemployed than other age-groups. However, about 29% of unemployed young people are so, and this is still 1.5 times the rate observed in the OECD. Because youth unemployment is so high in France (24.5%, compared with 13% in the OECD), the LTU rate of young people – which is the ratio of the number of long-term unemployed over the youth labour force – stands at 7.2% for 2015, which is three times as high as the OECD average. The youth LTU rate increased dramatically during the recession, jumping from 4.3% to more than 7%.
- Unemployed seniors (55+) are more likely to become long-term unemployed. About 64% of unemployed seniors are so. Similar to the youth age-group, this is 1.5 times the rate observed in the OECD for the same age-group. Since the unemployment rate of senior workers stands at 7% (compared with 5% in the OECD), this represents a LTU rate of almost 5% in 2015, which is more than twice as high as the rate observed in other countries.
- About 46% of the middle-aged unemployed (25-54) remain so for more than 12 months, which is 'only' 1.25 times the OECD average rate. Still, the LTU rate stands at 4.5%, which is also twice as high as the rate observed for the rest of the OECD in 2015.

This situation is not surprising – unemployment mirrors employment and participation. Actually, the French labour market appears well performing, if we limit our analysis to the middle-aged group, comprising 25-54 year-olds. Almost eight out of ten people in this group are employed, and almost nine in ten are active, which is well above the OECD and EU averages, and similar to those observed in the best-performing countries, notably the Nordic countries. But employment and participation rates are well below international standards for both young and older people, and this has been the case for decades. In France, only the experienced and more productive workers can secure work at all times. Other groups are excluded from the labour market more than elsewhere, resulting in a lower probability of exiting unemployment and securing permanent employment.

**Figure 1.** Long-term unemployment rate from 1990 to 2015.




## Main factors

Many characteristics of the French labour market contribute to this under-performance. These characteristics explain why exit rates from unemployment here are lower for some groups than in the best-performing countries. These characteristics are shared with other countries having high LTU, notably those in Southern Europe.

### Downward wage rigidity

One of the most salient features of the French labour market is the level of the minimum wage and its incidence. The labour cost at the minimum wage in France is among the highest in the OECD – just after Belgium and the Netherlands – and is 1.6 times higher than the cross-country average. This is the result of three decades of discretionary increases above inflation and productivity gains. Since the 1990s the minimum wage has increased about twice as fast as the average wage.

The minimum wage has reached high and constraining levels – about 12% of wage earners are paid at the floor. Moreover, about 80% of the three million unemployed people have no post-secondary or tertiary education and can be considered low-paid workers. The minimum wage exerts a constraint that goes well beyond the lowest wages. Collective agreements set at the professional branch-level have to re-adjust regularly to comply with this rising national floor. On top of that, most collective agreements are automatically extended to all workers in the branch, implying a coverage equal to 90% (See Ministry of Economics and Finance 2014), whereas the union density amounts to 7.7% only. In practice, firms use these wage schedules as references for their own wage policy. Fougère *et al.* (2016) estimate that an increase by 1% of the real minimum wage raises branch-level wage floors by about 0.25%. In the same vein, Aeberhardt *et al.* (2015) find that an increase in the minimum wage leads to significant, but declining, effects on the wage distribution up to the seventh decile. As a result, the bottom of the wage distribution has been compressed.

This feature might partly explain why French base wages have continued to increase despite recent rising unemployment. High and rising wage floors make downward real-wage adjustment difficult to achieve, especially in periods of low inflation. This bears, in turn, on hiring within the most disadvantaged groups. Other countries, like Portugal and Spain, shared a similar institutional arrangement until recent reforms.

### Strict employment protection

The second main feature of the labour market in France is the high level of employment protection for permanent contracts (so called *Contrat à Durée Indéterminée*, CDI). Laying off people for economic reasons is particularly complex and risky for the employer. Judges have the capacity to appreciate if the economic situation of the firm justifies, or not, the layoff.

Furthermore, administrative costs are substantial. About 30% of all layoffs are contested before the courts, and delays are very long (16 months on average for the decision, in first instance), moreover employees win in 75% of the cases. The level of compensation awarded by courts in the case of unjustified layoff is quite difficult to predict and reaches on average 18 months of gross wage for employees with seniority above 20 years (Patault 2016). Contrary to the practice in other OECD countries, there is no precise schedule, nor any ceiling, set by law for the compensation decided by the judge.

As a consequence, the share of workers hired under temporary contracts is very high (about 85% of all hires), resulting in a dual labour market where permanent contracts are reserved for the most experienced and productive workers.

Typically, dual labour markets feature LTU, since temporary contracts are only an imperfect substitute for permanent contracts from the employers' side. This dualism is shared with other Southern European countries such as Spain, Italy and Portugal, which have all undergone major reforms in this area over the last five years.

## Generous unemployment insurance

The third important institutional component to explain the incidence of LTU is the generosity of the unemployment insurance scheme, which alters labour-supply behaviours.

- The maximum duration of benefits reaches two, and even three, years for people over 50. This is among the longest periods observed in the OECD.
- For people reaching the normal age of retirement (62), but who are only entitled to a reduced pension due to insufficient contribution periods, the duration of benefits is automatically extended until the full pension rate is reached, usually 67.[2] This constitutes, de facto, an unemployment tunnel to retirement.
- Moreover, the level of benefits is quite comfortable. The net replacement rate varies from 90% for low wages to 66% for average wage-earners. The maximum monthly benefit is set at 6500 euros.
- Unemployed people can also combine benefit receipt and some work (e.g. a few days every month), which allows them to work part-time only and get an income close to their previous full wage, whilst also renewing their unemployment insurance entitlements.

2 Indeed, the unemployment insurance scheme contributes to the pension system for its beneficiaries. See Cahuc *et al.* (2016).

It is well established that generous unemployment insurance may generate disincentives to work (Cahuc *et al.* 2014), unless a number of activation policies are implemented in order to make sure that those who can work accept job offers. In France, sanctions for insufficient job search or refusal to participate in an active programme are, de facto, non-existent. The system of control and sanctions is so complicated that it is almost never applied. Active programmes such as training or intensive counselling are available, but always optional, for the unemployed. Temporary suspensions are quite frequent, but they concern people who miss their appointments or do not declare their unemployment status and, even in such cases, benefit payments can resume after the situation is clarified.

This situation is not likely to change in the near future, since social partners, who set the rules for the unemployment insurance scheme, have been unable to agree on any change that would foster the incentive to accept job offers. In 2016, the current rules, described above, have been extended for an indefinite period.

## Policies

Over the past eight years, since the onset of the crisis, there have not been any effective attempts to fight LTU in France – only partial and sometimes counterproductive reforms.

### Temporary public contracts for youth

Temporary contracts in the public sector have been the main policy of the current government to fight youth long-term unemployment. About 350,000 temporary contracts in the public sector are signed every year with those young people who register with the public employment service.[3]

Unfortunately, there is substantial evidence that this strategy is a dead-end for young people. Job creation in the public sector is more often ineffective than other interventions and even appears detrimental, with negative treatment effects (Card *et al.* 2015). A specific study by the French Ministry of Employment (Bénoteau 2015) revealed that

3 See: http://www.senat.fr/rap/l15-164-332/l15-164-33218.html

the impact of such contracts on the chances to get subsidised jobs in the private sector is null. Possible reasons are the fact that the skills acquired in the job do not match the employer-needs of the private sector, the stigma attached to having worked on such jobs, and the lack of targeting of this programme on the most disadvantaged groups.

### Imperfectly targeted wage subsidies for firms

To cut the cost of labour at the level of the minimum wage, successive French governments have introduced, and expanded over the years, social contribution reliefs for employers. These exemptions cost about 20 billion euros / year (1% of GDP) and have been tightly targeted at low wages (90% of spending is on jobs paid at below 1.3 times the minimum wage). About half of this spending stems from the relief that was provided to firms following the introduction of the 35-hour week. Despite this significant effort, the cost of low paid jobs is still one of the highest in an international comparison.

To further lower the cost of labour, the government introduced, in 2013, a tax credit based on the payroll. The *Crédit d'Impôt Compétitivité Emploi* (CICE) will cost another €20 billion in 2017, and will make up 6% of gross wages. However, its main drawback is that it is not targeted at low wages. On the contrary, it affects all jobs paid between the minimum wage and 2.5 times the minimum wage, which represents 85% of all salaried workers.

In these conditions, there is a high risk that the rebate will increase wages more than employment. Empirical studies show that a 1% decrease in social contribution at the median wage level translates, on average in the OECD countries, into an increase of only 0.25% in employment (Chetty *et al.* 2011), and thus an increase of 0.75% in wages, assuming an elasticity of labour demand equal to -1. This is easy to understand in the French context since, as already mentioned, most of the unemployed are unskilled. For workers paid about 1.5 times the minimum wage, the level of unemployment is about only half the national average.

## New rules on layoffs for economic reasons

In August 2016 the government passed the law 'El Khomri', which, notably, reforms the regulation of layoffs. This law clarifies the rules of redundancies. Layoffs for economic reasons will be legitimate if turnover or orders are down for four quarters, in comparison to the same quarters from the previous year, for companies with 300 or more employees; for three quarters, for companies of between 50 and 300 employees; for two quarters, for companies between 11 and 50 employees, and for one quarter only, for companies with fewer than 11 employees. Furthermore, redundancies will be legitimate if a business is operating at a loss. This law was inspired by the Spanish reform and, as with Spain, objective criteria have been introduced. This reform could indeed lower the cost of laying-off for economic reasons and, in turn, make 'permanent' contracts more attractive for firms, especially small ones, whilst reducing the turnover generated by an excessive recourse to temporary contracts (OECD, 2013).

However, a number of aspects of the current regulation have not been changed by the law, which will continue to hinder hiring. For instance, the appreciation of the company's economic difficulties is based on its operation worldwide, and is not restricted to the French territory. Also, the perimeter comprises all companies within the group, not only the unit where economic difficulties occur. Obviously, this is an important point in favour of France, from the perspective of foreign investors. France is one of the few countries where the jurisprudence appreciates the economic situation of a company in this way. Among the major countries, only Italy and Spain consider the situation of the group as the perimeter for assessing the economic situation. But even in these countries the geographical scope is national. Since 2012, Spain has further limited the scope of assessment to the company, not the group of companies.

Initially, the draft law also introduced a maximum tariff, which varied with seniority, for compensation in the case of unjustified layoffs. This was inspired by the 2014 'Jobs Act' reform in Italy and also by the practices of most other European countries. But this aspect of the reform was dropped at the request of the labour unions. The schedule will be only indicative, not binding, for the judges.

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