

AN OVERHAUL OF THE FRENCH LABOUR MARKET

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In this essay, Theophile Pastre and Killian Cogan explore the much-maligned French labour market. In particular, the problems caused by open-ended contracts and the so-called ‘threshold effect’ are discussed. The authors advocate a new model based on the Danish system of ‘flexicurity’ in order to reduce long-term unemployment and boost growth. Proposed reforms include greater firing flexibility, fewer administrative requirements for larger firms, more retraining schemes and stricter enforcement of unemployment benefit rules.

Introduction

France is the world’s fifth largest economy and is home to some of the world’s most successful and renowned companies. The French social model is also hailed for the strong public healthcare and educational services provided to its citizens. Moreover, France boasts relatively low levels of income inequality compared to other industrialised countries. However, despite these strengths, the French unemployment rate has hovered near 10 per cent for the last couple of decades and growth has been anemic. It is conventional wisdom that the French economy is burdened by excessive red tape and bureaucratic procedures. As the recent Nobel-prize winner Jean Tirole puts it, “the French system is a machine that creates unemployment”. In this essay, we highlight the deficiencies of the French labour market and present a number of reforms that would significantly spur growth and reduce long-term structural unemployment. We advocate a French version of the Danish ‘flexicurity’ model, understood as a combination of flexibility for employers and strong support for the unemployed (Boeri, 2012). The first two parts of the essay will deal with policies aimed at encouraging hiring and entrepreneurship from an employer’s standpoint, while the third part will focus on incentivising job-seeking and improving assistance from a worker’s perspective.

Greater Flexibility Within Open-ended Contracts

The French legal system recognises two main employment contracts, open-ended, full-time contracts with an unspecified duration (Hamren, 2014), CDIs (*contrats de travail à durée indéterminée*), and fixed-term contracts, CDDs (*contrats de travail à durée déterminée*), that last a limited duration. Under open-ended contracts, CDIs, firing procedures are highly regulated by rigid employment laws. Employee dismissals have to fulfill strict conditions set by the Code du travail and employers can only terminate a contract if judges deem their motives sufficiently serious (Hamren, 2014). In the case of economic dismissals such as financial difficulties, firms are only allowed to dismiss workers if the judges consider the advantage sought by the employer to outweigh the harm experienced by the employee (Hamren, 2014), a system which favours the latter. For reasons other than economic ones, i.e. concerning the behavior or performance of an employee, the law stipulates that “whenever a doubt exists as to whether the employer has proven that termination is warranted under the real and serious cause requirement, the judge should hold in favor of the employee” (Hamren, 2014: 545). Firing procedures are thus extremely burdensome and difficult for employers, often preventing them from terminating poorly performing and redundant employees (Hamren, 2014).

This lack of flexibility discourages entrepreneurship and contributes to France’s low levels of start-up activity as it raises the cost of risk taking associated with the launching of a new business (Micco and Pagés, 2006: 24). The rigidity of firing practices deters already existing firms from recruiting new workers, as employers are reluctant to hire if they can only fire with great difficulty.

Moreover, when firms do hire, they tend to prefer short-term contracts (CDDs) to open-ended contracts (CDIs), especially during times of economic downturn and adverse business conditions. Jean Tirole recently stated:

“Firms are afraid of creating CDIs. They lack flexibility if problems arise. Instead, they use a lot of CDDs and internships. Low-skilled workers go from one small job to another, and unemployment in the meantime.” (Le Monde, 2014)

The Italian economist Tito Boeri (2011) conducted a cross-national study that confirms the correlation between the rigidity of employment protection for open-ended contracts and the share of fixed-term contracts in overall hires. In 2014, CDDs accounted for more than 80 per cent of hires in France (Dares, 2014: 2). As a result, this increases unemployment in the long run and induces psychological distress for employees, as their professional position is unstable. “New entrants into the labour force as well as the least skilled and most vulnerable workers suffer from high job instability and repeated spells of unemployment, which is both economically inefficient and socially unfair” (Enderlein and Pisani-Ferry, 2014: 8).

In order to foster entrepreneurship, French policy makers should allow greater flexibility for employers by enabling them to dismiss workers more easily under open-ended contracts. Entrepreneurs face uncertain economic outcomes and need to adjust their businesses rapidly (Hamren, 2014). Relaxing firing procedures would thereby enhance business efficiency and stimulate the much-needed creation of start-up companies, which France severely lacks (The Economist, 2013). For established firms, easier and simpler dismissal procedures would encourage job creation and eliminate the preference for fixed-term contracts. Hence, a more flexible CDI would reduce long-term joblessness and bolster potential growth (Enderlein and Pisani-Ferry, 2014).

Legislation implemented in 2013 has relaxed the rigid firing procedures, yet it failed to remove one of the most significant obstacles to employer flexibility: firms still need to justify their financial difficulty to dismiss workers (Hamren, 2014). French legislators should further deregulate firing procedures. The improved competitiveness will foster long-term job creation and prevent large-scale dismissals associated with firm break-downs.

Preventing the Threshold Effect

Another hindrance to job creation is the so-called ‘threshold effect’ whereby firms do not hire more than a certain amount of workers to avoid increased administrative procedures. Once firms reach the level of 50 employees, a number of obligations start to apply, such as the requirement to have a “works council and a hygiene-and-safety council on such mundane matters as changing the office furniture” (The Economist, 2014). Firms are thus discouraged from expanding beyond 50 employees and choose to curtail their growth. As a result, we see that, “France has twice as many firms with 49 employees as it does with 50” reflecting the general effort of firms to remain below the threshold (The Economist, 2014). This means that businesses do not reach their optimal size and create unnecessary unemployment (Hamren, 2014).

Legislators in France should encourage firms to grow by reducing the bureaucratic burden incurred above the 50 workers threshold. Simplifying procedures and removing unnecessary administrative bodies beyond the threshold would incentivise companies to increase in size. For instance, the Works Council previously required for businesses above the threshold should be removed, as reforms implemented in 2013 have made it redundant. Its initial role as a mediator between workers and employer for dismissals is no longer needed. Employers can now directly negotiate an agreement with trade unions or unilaterally implement a maintenance plan, rather than having to receive the approval of the Works Council (Hamren, 2014). Other unnecessary and onerous Councils such as the CHSCT (committee on hygiene, safety and working conditions) should also be removed as they deal with tasks easily fulfilled by trade unions.

Enhancing Job Assistance and Unemployment Insurance

As we have thus far focused on the employers' side of the equation, we shall now propose a reform of France's active labour market policies and unemployment insurance schemes.

“Employment protection reform should be part of a comprehensive package that promotes better allocation of labour and adaptability in the labour market but also provides safety nets for the unemployed and effective re-employment services” (Scarpetta, 2014: 1).

Reforming protection law without the second element of this package would make a significant fraction of the displaced workers worse off, as they would remain unemployed for longer and face lower real wages in their next job. France has a governmental agency (Pôle Emploi) devoted to helping the unemployed find jobs while providing them with financial support. Though it offers job search assistance and communicates information on vacancies, the agency lacks the fundamental element of retraining. The ‘flexicurity’ model initiated by Denmark and adopted in countries such as the Netherlands and Germany not only helps the unemployed look for jobs but also enrolls them in retraining programs if needed. France could learn from Germany’s ‘transfer companies’, which provide displaced workers with courses to advance their technical skills (The New York Times, 2013). The acquisition of new skills improves the allocation of resources in the labour market as it allows workers to adjust to sectoral shifts. For instance, retraining programs are crucial in tackling the unemployment induced by the decline of certain industries such as manufacturing. The role of Pôle Emploi in France should be extended to provide effective retraining schemes in order to adapt the workforce to the shifting needs of employers and thus reduce unemployment.

Under France’s unemployment insurance system, the unemployed are eligible to collect unemployment benefits (assurance-chômage) or social assistance (revenu de solidarité active) on the condition that they seek jobs. However, fraud persists as the rules are “undemanding and rarely enforced” (The Economist, 2014). The government should address the issue of voluntary unemployment and implement stricter policies “to make those claiming unemployment benefits more active in seeking jobs” (The Economist, 2014). This can be done at a surprisingly small cost if we follow the example of developing countries which start to build robust records of who gets what: people eligible to social benefits register online in Brazil, and biometrically in South Africa. Such technology cuts administrative costs and makes it less likely that one individual benefits from overlapping schemes.

Conclusion

Based on Denmark's successful 'flexicurity' model, we lay out a number of reforms aimed at reducing long-term unemployment in France. As France already enjoys extensive social security we tend to focus more on the lack of flexibility in its labour market. First, we demonstrate that the rigidity of firing procedures under open-ended contracts as well as the 'threshold effect' act as a deterrents to business and job creation. We thus advocate greater flexibility for employers to dismiss workers in order to kick start entrepreneurial activity and encourage hiring for already existing companies. To address the 'threshold effect', we show that French policy makers should seek to reduce the bureaucratic burden incurred by firms of more than 50 employees and prove that entrepreneurship and business growth should be promoted by removing unnecessary and cumbersome regulations. In the final part of the essay, we suggest the provision of retraining programs by the governmental agency Pôle Emploi in order to match the shifting needs of employers to the skills of the unemployed. Finally, we advise stricter controls on those claiming benefits to tackle voluntary unemployment. One must however bear in mind that the effects of these policies would happen over time. In the short run, firms will possibly lay off previously overprotected and unfit workers en masse, thereby putting upward pressure on the unemployment rate. Nevertheless, unemployment will be reduced in the long run, as firms will be more inclined to hire and launch new businesses.

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