

Reforming the French Labour Market

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1. Reform strategy for France

- **Main symptoms of French need for ambitious reforms:**
 - **Labour-market disequilibrium**
 - High unemployment rate (9.5%, almost 4 decades of massive unemployment)
 - **Lack of competitiveness**
 - Current account deficit (deficit of around 2% of GDP, permanent deficit the last ten years)
 - **Public finance, large intervention and large disequilibrium**
 - High public spending level (57% of GDP, the highest among OECD countries with Finland and Denmark)
 - Public-finance deficit (-3.4% of the GDP in 2016, permanent deficit the last ten years)
 - Large public debt (97% of the GDP)
 - **High level of regulation compared to other OECD countries**
 - High Employment Protection Legislation for permanent workers
 - High Non-Manufacturing Regulation

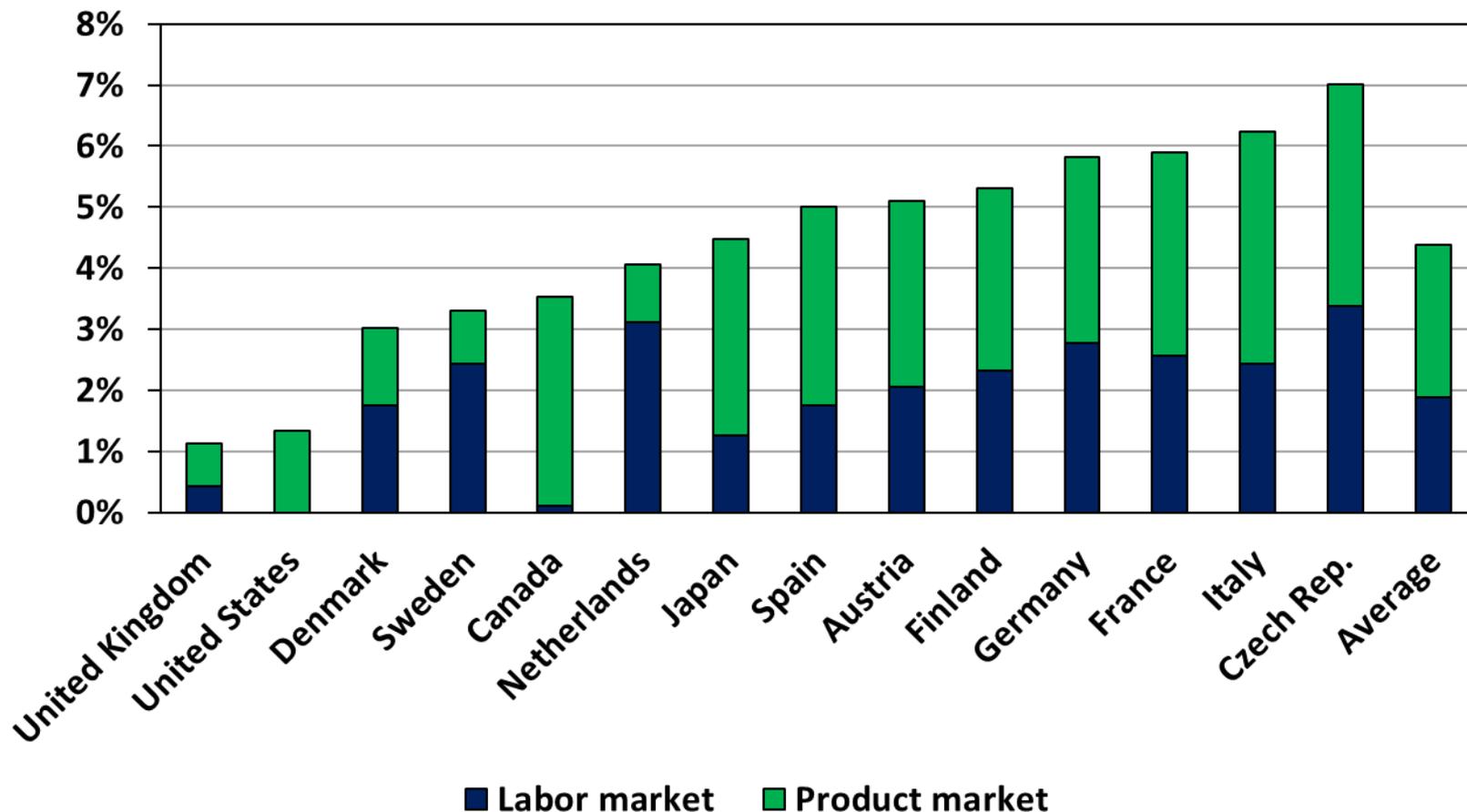
1. Reform strategy for France

- **Strategy proposed by Aghion, Cette and Cohen (2014)**
 - **Long to very long-term impact**
 - Education (all levels)
 - Innovation and tax system (growth friendly tax system)
 - **Medium to long term impact**
 - Large product market reforms
 - Labour market reform (*'social big bang'* – Barthelemy and Cette, 2013, 2015) and
 - Minimum wage reform
 - Professional training reform
 - Reform of the State and public spending review
 - Reform of the local administration
 - **Short to medium term, but transitory, impact**
 - Fiscal devaluation
 - **European negotiation**
 - Longer fiscal consolidation

1. Reform strategy for France

➤ Long term productivity impact of structural reforms

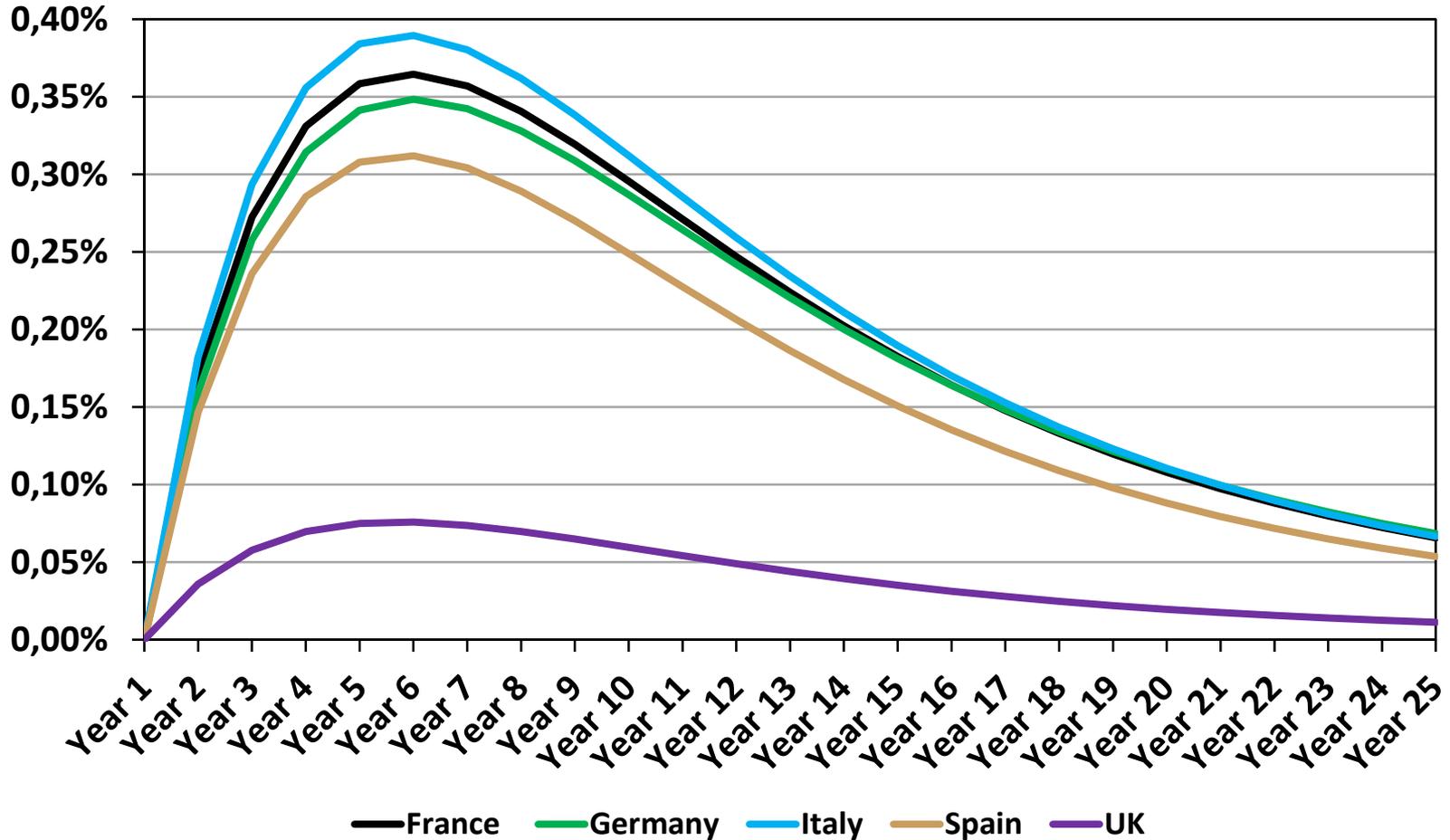
Source: Cette, Lopez, Mairesse (2016)



1. Reform strategy for France

➤ Dynamic productivity impact of structural reforms

Source: Cetto, Lopez, Mairesse (2016)



1. Reform strategy for France

- **Such large favorable impact of structural reforms was already observed in other countries (see Aghion, Cetto and Cohen, 2014):**
 - **The Netherlands**, following the Wassenaard agreement, 1982
TFP growth: 1977-1983 0.5%, 1983-2002 1.5% → **+1,0pp**
 - **Canada**, reforms from the early 1990s
TFP growth: 1974-1990 0.3%, 1990-2000 1.1% → **+0,9pp**
 - **Australia**, reforms from the early 1990s
TFP growth: 1971-1990 0.4%, 1990-2002 1.4% → **+1,0pp**
 - **Sweden**, reforms from the early 1990s
TFP growth: 1976-1992 0.4%, 1992-2008 1.9% → **+1,5pp**

1. Reform strategy for France

➤ Reforms implemented during the Hollande mandate, in summary:

- **Taxation: Fiscal devaluation** was the main axis
 - Favorable but transitory impact on competitiveness and growth

No improvement of **innovation- friendly policy**

- A lot of **structural reforms** but little progress for each
 - **Product market:** Few decreases of barriers to entry
 - **Coach and bus services liberalization** was possibly the main reform
 - **Labor market:** small labour courts reform was the main reform
 - Few other reforms (Sunday work, ...)
 - No real decrease of the **Labour Code complexity**
 - No real improvement of **professional training**
 - Nothing concerning the **minimum wage**. Little change of **minimum income**
 - No real consideration of **social mobility** dimension
 - Nothing concerning **education**
 - No real reform of the **State** (decrease the number of local administration layers)

➤ Transitory improvement from low structural reform process

2. Why are reforms not implemented more easily in France?

➤ 6 reasons that are usually brought up:

1. For each type of regulation creating anticompetitive rents, few people benefit and numerous people lose out

It means that, **from a structural reform** decreasing a specific anti-competitive regulation...

- **a lot of people gain but gain little** -> low support
- **few people lose but lose a lot** -> high opposition

2. Concerning some very qualified **regulated professions** (law professions, medical professions, ...), **high and powerful lobbying** to avoid any reform decreasing anticompetitive regulation. And these professions are **overrepresented in Parliament**

3. Concerning other regulated professions (taxis, ...) **electorally damaging threat**

2. Why are reforms not implemented more easily in France?

➤ **6 reasons that are usually brought up:**

4. **Opposition from traditional trade unions** to any State regulation decreases on the labor market
5. **Wrong representation.** For example: i) tax is the most adapted way to decrease inequalities; ii) a higher Minimum Wage decreases inequalities; iii) more labour-code rules are more protective for workers ...
To reform, we must first '*change model*' ('*changer de modèle*')
6. Concerning labour market, '***Class struggle culture***': idea that if from any change (and reform) firms win (lose) it means that necessarily workers lose (win). No possible win-win change. No culture of compromise. No potential mutual gains from collective agreements ...

3. Why reforming the French labour code?

➤ **France is characterised by:**

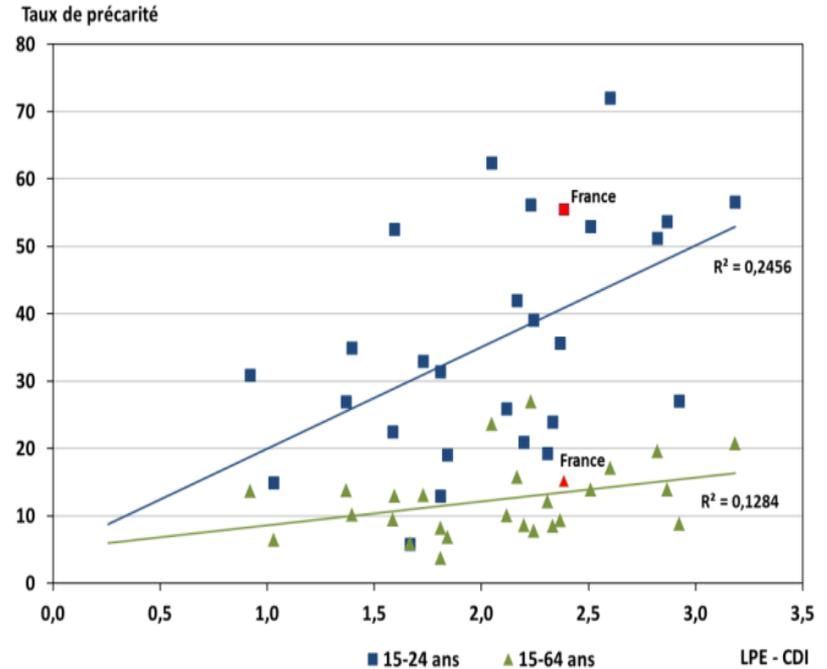
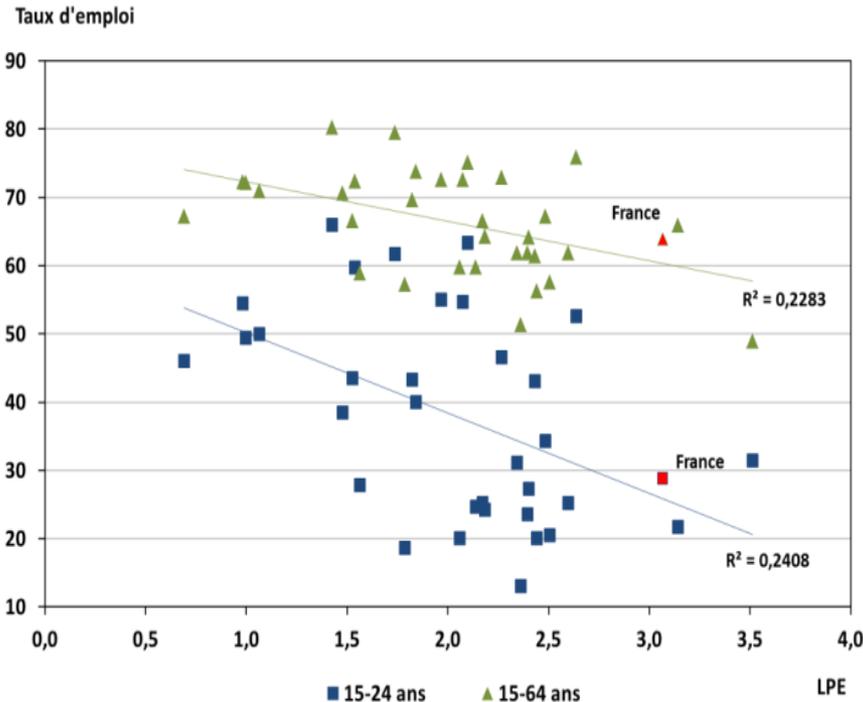
- **A heavy labour code.** Among other symptoms:
Cf. synthetic indicators, for example the EPL one from OECD
- **A small space given to social partners for decision-making**
- **A weak union membership rate**
In 2013, according to the OECD, 7.7% of employees, 17% on average in the OCDE and 18% in GE
- **High level of workers' coverage by industry collective agreement should not be misinterpreted:**
Comes from a strong public intervention through extension and enlargement

➤ **Main goals of the reform are:**

- **Widen the space given to social partners for decision-making**
- **Reduce the uncertainties of labour disputes** and better secure labour relations
- **Simplify staff-representation obligations**

3. Why reforming the French labour code?

- **Newcomers on the labour market** (here in terms of employment rate) including young people (here in terms of precariousness rate) are the main victims of a too-rigid labour code



Year 2013; Source of data: OCDE

4. The Labour code reform (main aspects)

- **Major change in the relationship between norm levels**
 - **Autonomy of collective agreements *vis-à-vis* the law**
In the limits of the principles and of the supranational law

In the domain of majority collective agreements, primacy of the firm level
Within the limits of the fundamental professional level regulation
 - **Social partners become the true actors of the effective labour regulation**
The real lever of change is collective bargaining
Without collective agreement, norms from the higher level apply
 - **This process can reconcile efficiency and worker protection:**
Economic efficiency: signature of company head
Worker protection: signature of legitimate worker representatives

4. The Labour code reform (main aspects)

- **Reduce the uncertainties of labour disputes** and better secure labour relations
 - **Cap severance pay in case of abusive lay-off** (without '*cause réelle et sérieuse*')
 - Max.: 20 monthly wages; weaker for small firms (less than 11 employees)
 - Exists in numerous countries
 - Will not apply if breach of fundamental rights and freedom (and consequently in case of discrimination and harassment)
 - In case of economic lay-off, courts have to **appreciate firms' economic difficulties in France only**
 - **Prescription period to engage a dispute reduced from two to one year**
 - **Possible to negotiate at the industry level the conditions of fixed-term contracts** (number of renewals, duration)
 - **The refusal of a collective agreement by an employee allows his non-abusive lay-off**

4. The Labour code reform (main aspects)

➤ Simplify staff-representation obligations

○ Creation of the 'Conseil Social Économique' (CSE)

The CSE, presided by the head of the firm, corresponds to the **merge of three previous bodies**:

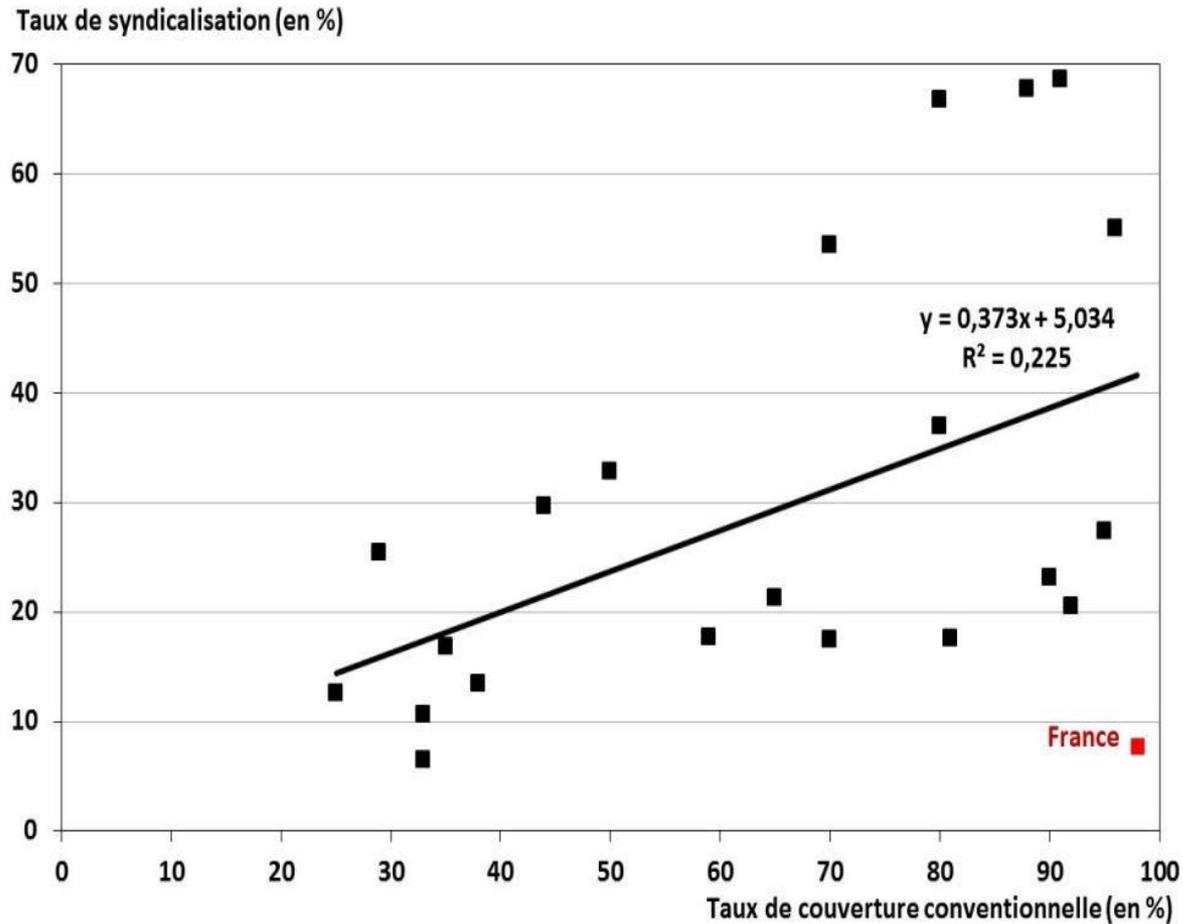
- The worker delegates (*'Délégués du Personnel'* - DP)
- The work council (*'Comité d'Entreprise'* - CE)
- The Health and Safety committee (*'Comité d'Hygiène, de Sécurité et de Conditions de Travail'* - CHSCT)

5. Global process

- **This reform takes place in a more global reform process**
 - **Of the labour market**
 - Unemployment benefit, professional training, social tax cuts,
 - Minimum wage? Labour courts (Prud'hommes)?
 - **Others in social domain**
 - Retirement pensions, social minima, ...
 - **In other fields**
 - Capital taxation, State, Institutions
 - ...
- **To reform through *Ordonnances***
 - Allows going faster, previous Governments have also used this method numerous times
 - The positive impacts of the labour market reforms are progressive: nobody wants to be the '*French Gerhard Schröder*'
- **It is all these reforms, together, and not only the labour market ones, which will tackle the massive unemployment situation in France**

Appendix

- Compared to OECD countries, **France is characterised by ...**
 - A **low unionisation rate** and
 - A **high rate of branch-level collective agreement coverage**



Year 2013; Source OECD