

# G20 Country Briefs



International  
Labour  
Office

## FRANCE'S RESPONSE TO THE CRISIS

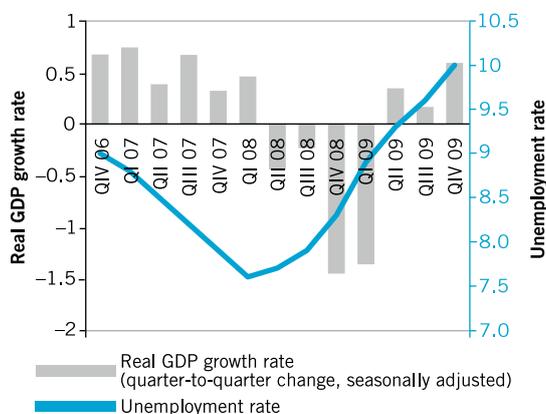
### Relatively resilient labour market

After a number of consecutive years of relatively consistent growth, the French economy began contracting in the second quarter of 2008 and continued declining through the last quarter of that year (-1.5 per cent) and the first quarter of 2009 (-1.4 per cent). In 2008, gross domestic product (GDP) grew by only 0.4 per cent, compared to 0.6 per cent for the euro zone. It was sustained by domestic demand alone, particularly household consumption. The decline in competitiveness continued to depress the balance of payments and growth. In 2009, GDP fell by 2.2 per cent, despite the fact that growth resumed in the second quarter and accelerated in the fourth quarter. Domestic demand fell back sharply, although it remained positive, at 0.3 per cent during the second quarter, as a result of the drop in disposable household incomes. Investment was hit by the impact of the recession on the real estate market and of the investment cycle. In the second quarter of 2009, the benefits of the recovery plan started to be felt, for example through fairly buoyant car sales.

Despite rather modest GDP growth in 2008, employment increased by about 1 per cent as a result of job creation, apart from temporary jobs, throughout the first six months. Employment, however, fell back progressively from the beginning of the second quarter of 2008 with the onset of the economic contraction. The economic downturn was reflected from mid-2008 onwards by a marked fall in temporary employment – both “interim” jobs and fixed-term contracts – followed by a fall in recruitment. The reduction in overtime hours and the use of short-time working arrangements<sup>1</sup> came six to nine months later. From the fourth quarter of 2008 to the same quarter in 2009, the unemployment rate showed a steady increase from 8.3 per cent to 10 per cent.

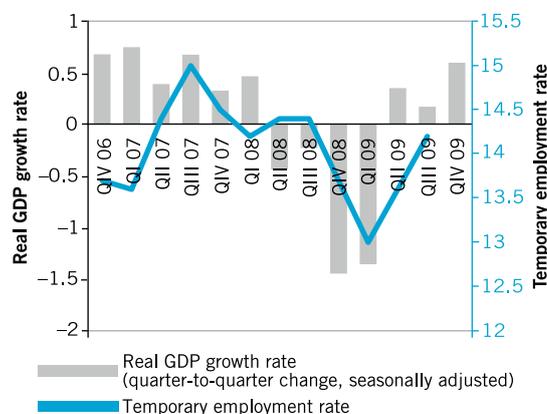
As in most other European countries, it is young people, and especially young men, who have been hardest hit by the crisis. In the course of the recession, youth unemployment grew at twice the rate of total unemployment, and in 2009 approximately one young person in every four was without work, compared to one in ten for the working population as a whole.

**Figure 1. Unemployment rate and real GDP growth rate by quarter, fourth quarter 2006 to fourth quarter 2009 (percentage)**



Source: ILO, based on official country information (Eurostat).

**Figure 2. Temporary employment rate and real GDP growth rate by quarter, fourth quarter 2006 to fourth quarter 2009 (percentage)**



Source: ILO, based on official sources (Eurostat).

Most of the unemployed are in the 25 to 49 age group, with some 400,000 (250,000 of them men) registered as unemployed for one year, compared to 130,000 in the under-25 age group and 110,000 in the over-50 age group.

## Stimulus package – Planning for recovery

The recovery plan announced on 5 November 2008 originally envisaged a total aid package of €26 billion, which was intended mainly for public investment. The government has since added €7 billion to that package as well as new measures. In the labour market, apart from boosting part-time work arrangements, packages involving assisted contracts have been enhanced in both the commercial and non-commercial sectors, and enhanced vocational support schemes have been extended, including the system of “occupational transition contracts” (*Contrats de Transition Professionnelle*). The government also announced that as of 2009, social contributions would be waived for each newly hired worker in enterprises employing fewer than 10 workers.

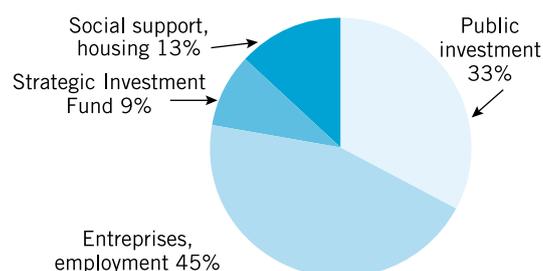
The recovery plan should help to create between 80,000 and 110,000 jobs, according to the Ministry of the Economy, Finance and Industry. According to the OECD, “automatic stabilisers” have played an especially important role in France, and the coefficient which measures their impact has been estimated at 0.53.<sup>2</sup> This is one of the highest values for any of the OECD countries, for which the average is 0.45. A far-reaching reform, which merged the public employment service and the unemployment insurance scheme, has been complicated by the crisis but has nevertheless started to show some positive effects in terms of simplified procedures for registering and paying benefits to laid-off workers.

**Size:** The recovery plan amounted to €26 billion in 2008, or about 1.3 per cent of that year’s GDP. In absolute terms, the French plan was among the ten largest for the G20 countries. Moreover, measures adopted to support the financial sector totalled about 19 per cent of GDP.

**Composition:** The largest part of the package, or 45 per cent, was €14.9 billion to support enterprises and employment, mainly through reductions in taxes, followed by €10.8 billion in public investment, or 33 per cent. In addition, €4.3 billion went for social support and housing, or 13 per cent and €3 billion for the strategic investment fund, or 9 per cent.

Other measures to support economic activity, equivalent to an estimated €50 billion, were adopted in addition to the recovery plan. They included reductions in compulsory wage deductions of €10 billion, improved social benefits including the creation of the “active solidarity income” (RSA) described below, and other initiatives to support economic activity and employment. There was also the creation of the Social Investment Fund (Fiso), launched by the government and the social partners in February 2009.

**Figure 3. Breakdown of the recovery plan (percentages of total expenditure)**



This innovative measure is intended to coordinate and enhance efforts to promote employment and vocational training initiatives involving the state and the social partners. It is primarily a cyclical response measure<sup>3</sup> and will in particular coordinate action to promote the integration of young people in the world of work, improve support and retraining for workers, and promote part-time work arrangements combined with training, as well as provide support to particular regions in difficulty.

## Reforming unemployment insurance

On 19 February 2009, the social partners responsible for administering the unemployment insurance scheme adopted a new agreement on unemployment benefits. This reform was viewed as necessary both to adapt the system to changes in the labour market and to protect workers from the effects of the crisis. In France, the unemployment insurance system has an annual budget of about €30 billion, or 1.5 per cent of GDP, making it the largest single policy influencing the labour market. The last major reform of unemployment insurance took place in 2001. That reform reduced the number of tracks, toughened eligibility conditions and eliminated the progressive reduction in benefits over time, while imposing more stringent requirements on seeking employment. Since then, only minor adjustments had been made following two renegotiations of the unemployment insurance agreement (2004 and 2006).

The number of jobless people covered by the insurance system fell progressively, either because they exhausted their entitlements without finding a job, and were thus covered by the special social allowance (*allocation de solidarité spécifique*), or because new forms of employment, such as fixed-term contracts and part-time arrangements, made it difficult for workers to meet eligibility criteria. Overall coverage of the unemployment insurance system was less than 45 per cent. Apart from these access difficulties, jobless people who were eligible were covered unequally. The “short-term” tracks provided protection for shorter periods, while other unemployed people enjoyed better coverage. Lastly, the rules had become complicated to the point of being barely comprehensible to the intended beneficiaries, and thus largely had lost the power of incentive.

One consequence of the 2009 reform is the extension of the maximum period of benefits by one month to a total of 24 months. This will allow more people

to be covered, in particular those in the most precarious situations, by improving their entitlements,<sup>4</sup> and will in general bolster household consumption by maintaining incomes.

Of the most vulnerable groups of workers who go through a succession of fixed-term contracts and find it difficult to become established in employment, it is young people who are a priority target group. The aim in their case is to provide a secure and supportive way of gradual integration in the labour market. In addition, to support the most precarious of the unemployed during the crisis, a bonus of €500 will be paid until April 2010 to unemployed persons who have worked for between two and four months, and are thus not eligible for unemployment insurance benefit. Moreover, the reforms aim to make the system more cost-effective by improving coverage for the unemployed who are already eligible, by covering more unemployed persons (an increase of between 100,000 and 200,000 per year) and by allocating resources more fairly between these groups. This key reform has been coordinated with other labour market reforms, such as the introduction of the “active solidarity income” (RSA).

#### Box 1. Principal changes introduced under the new unemployment insurance reform

- Extension and standardization of the reference period for which entitlements are calculated, making access easier. Henceforth entitlements are based on the 28 preceding months, instead of 22, 20 or 26 months.
- Improved coverage for short contracts as a result of more flexible eligibility criteria: benefits payable after four months of contributions, instead of six months.
- Establishment of a single rule – “one day of benefits for every day worked” – from the fourth month of work, instead of more than 20 different rules, making the protection enjoyed by workers exactly proportional to the length of time they have worked. Small differences in terms of membership of the scheme are reflected by proportional differences in entitlements. In comparison, for example, the rules previously allowed 12 months of benefits for 15 months in employment, but 23 months of benefits for 16 months in employment.

#### Impact

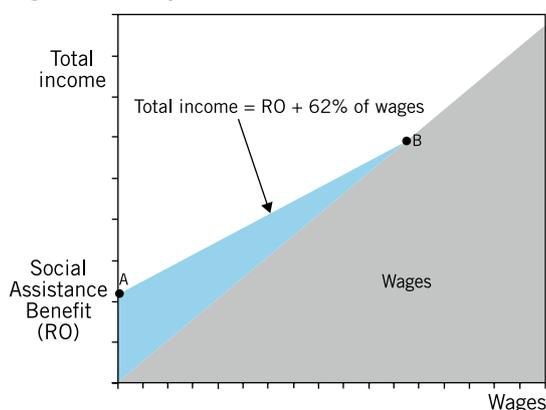
The new unemployment insurance agreement came into force in April 2009. It is therefore too early to evaluate its effects, and in particular to disentangle trends regarding unemployment benefit that are due to the crisis from those that have resulted from improved support measures for the unemployed. The available data so far show that the unemployment insurance system provides benefits for more than 82 per cent of the unemployed receiving benefits, compared to 80 per cent at the start of 2008, with the coverage rate increasing almost two points in one

year. The effect of this development, which could be related to the economic cycle, is reduced by the use of part-time employment arrangements (formerly referred to as “partial unemployment”), because the unemployed who benefit from this scheme are no longer included in the statistics of the unemployment insurance system or, therefore, in figures for unemployed in receipt of benefits.

#### Active solidarity income (RSA)

The purpose of this benefit is to supplement income earned from work for those in need of it, to encourage work, to combat exclusion and to simplify the minimum social benefit entitlements. It replaced, modified and extended the previous income support scheme, known as *Revenu Minimum d'Insertion (RMI)*.<sup>5</sup> This reform is linked to the reform of unemployment benefits in that it offers a supplementary income to unemployed people who have exhausted their insurance entitlements, or have not acquired sufficient entitlements to receive benefits. It is a differential allowance aimed at raising a household's income to a guaranteed level that depends on the composition of the household and a proportion of its occupational earned income (figure 4). For 2009, the additional expenditure arising from the creation of the RSA was €800 million. This covers a seven-month period, given that the scheme came into effect on 1 June.

Figure 4. Simplified RSA scheme



Source: Ministry of Economy, Industry of Employment / DGTPE.

The RSA has been extended to cover young people to give them better protection from the effects of the crisis, which has placed them at a further disadvantage when trying to enter the labour market. This key change makes the RSA available to all under 25-year-olds who have worked for more than two years out of the last three. As a result, the young people in question will be covered first by unemployment insurance and then by social insurance, from which they were previously excluded. Extending the right to the minimum income to this group will reduce the risks of exclusion as they become established in employment. An additional €250 million is being earmarked for this initiative, which will be launched between June and September 2010.

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## Impact

It is estimated that about 30 to 40 per cent of RMI beneficiaries were registered jobseekers and therefore entitled to social support benefits, rather than unemployment insurance benefits. The key change is that the system of incentives for re-entering employment under the RMI has been made permanent, instead of being limited to a 12-month period. Depending on family status, someone receiving the social minimum income will also receive a supplementary allowance up to a monthly amount equivalent to the statutory minimum wage (SMIC) or more, depending on the structure of the household in question. Eventually more than 3 million homes should receive the RSA (which will thus benefit about 7 million individuals), or more than twice the number covered by the old RMI (1.2 million) and single parent allowance (API) (0.2 million).

These reforms create greater security and support for people in their working lives by establishing more generous entitlements, and are backed up by stronger support measures through the reform and merger of the unemployment benefits system and public employment service. This gives unemployed people access

to one and the same service, whether or not they are in receipt of benefits, and makes them subject to the same obligation to accept "valid offers of employment" as defined in 2008.

## Outlook and challenges

The French response to the crisis included a number of employment promotion and labour market support measures, both cyclical, such as extension of short-time working arrangements, as well as more structural ones, such as unemployment insurance reform and the introduction of the active solidarity income, both described above. The aim has been to make the labour market more accessible and create a more secure and supportive framework for people in the labour market, by improving their entitlements in return for actively seeking employment. The latter is a key element of policies to combat long-term unemployment, which will be a major challenge in the future.

The rise and possible persistence of long-term unemployment risks generating increased tensions, with large numbers of people coming to the end of their entitlements and possibly becoming discouraged. Furthermore, these measures require public services to help people find employment or training opportunities and provide jobseekers with adequate support. Lastly, growing public deficits may restrict or even threaten some of the early crisis-response initiatives. Such budgetary constraints make certain reforms all the more urgent, including reforms in the area of pensions and the employment of older people.

<sup>1</sup> The "short-time" working scheme (*activité partielle*) was reformed in December 2008 and January 2009 (the duration was extended and benefits improved). Some 143,000 people were enrolled in the scheme in the third quarter of 2009.

<sup>2</sup> That is, a coefficient reflecting automatic variations in the budget balance (as a percentage of GDP) associated with a one percentage point variation in the output gap. Source: Girouard and André (2005).

<sup>3</sup> The Fiso should operate for two years (2009–11).

<sup>4</sup> Such effects are rarely mentioned in implementing policies, but have been documented in the relevant literature since Mortensen (1977). See Ortega and Rioux (2006).

<sup>5</sup> And the single parent allowance (API) which was merged with the old RMI.