

French Economy: what policies to reduce unemployment and foster competitiveness?

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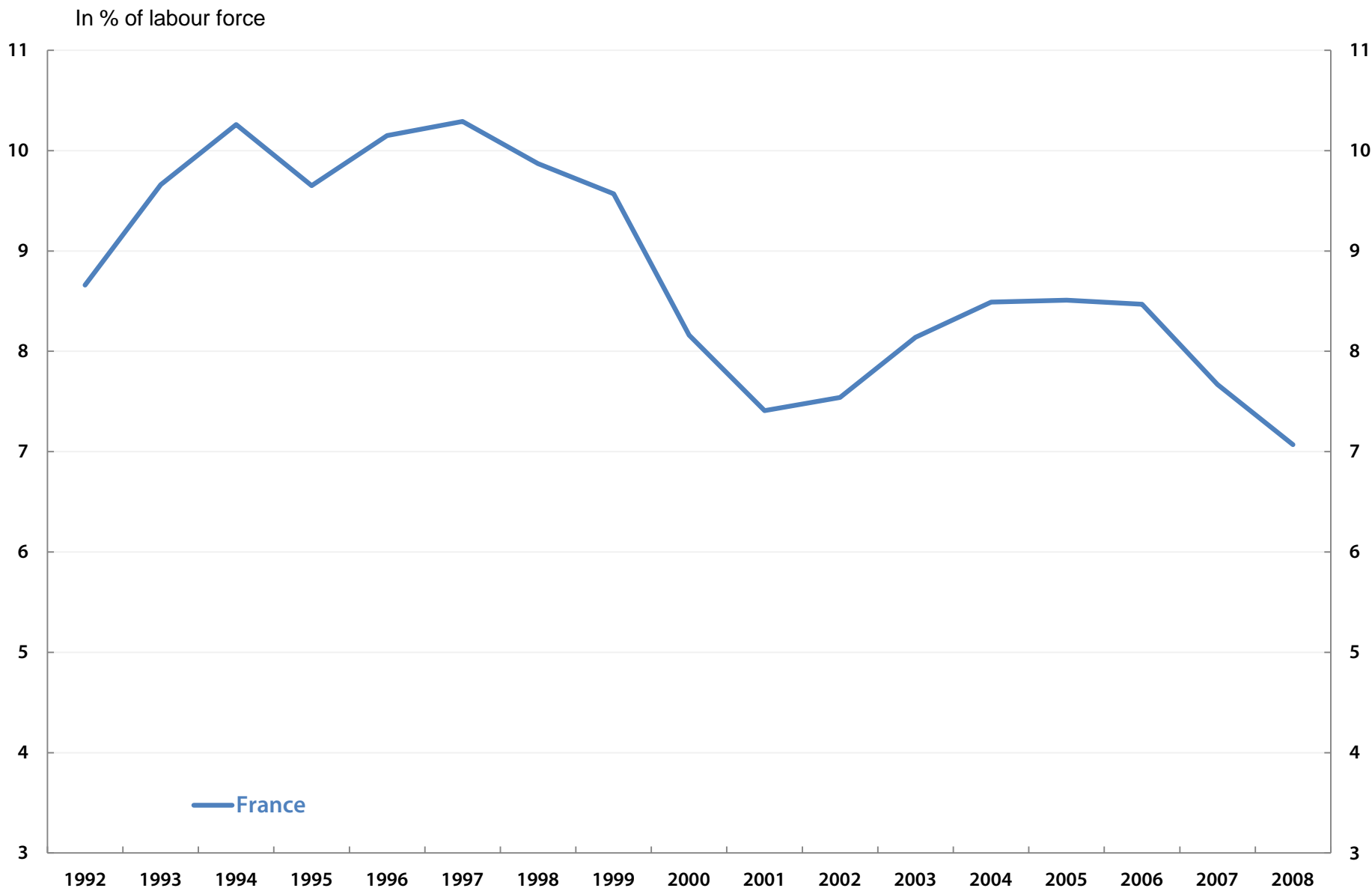
Franco-German Conference

Paris
7-8 July 2016

- In this presentation I'd like to cover three points :
 - A comparison of the situation on the labour market in the main developed countries: the stylized fact
 - How to boost French economic growth ?
 - On the Demand side
 - On the Supply side
 - What are the optimal conditions to implement structural reforms ?
 - Return to established and widespread views about the reasons of french unemployment

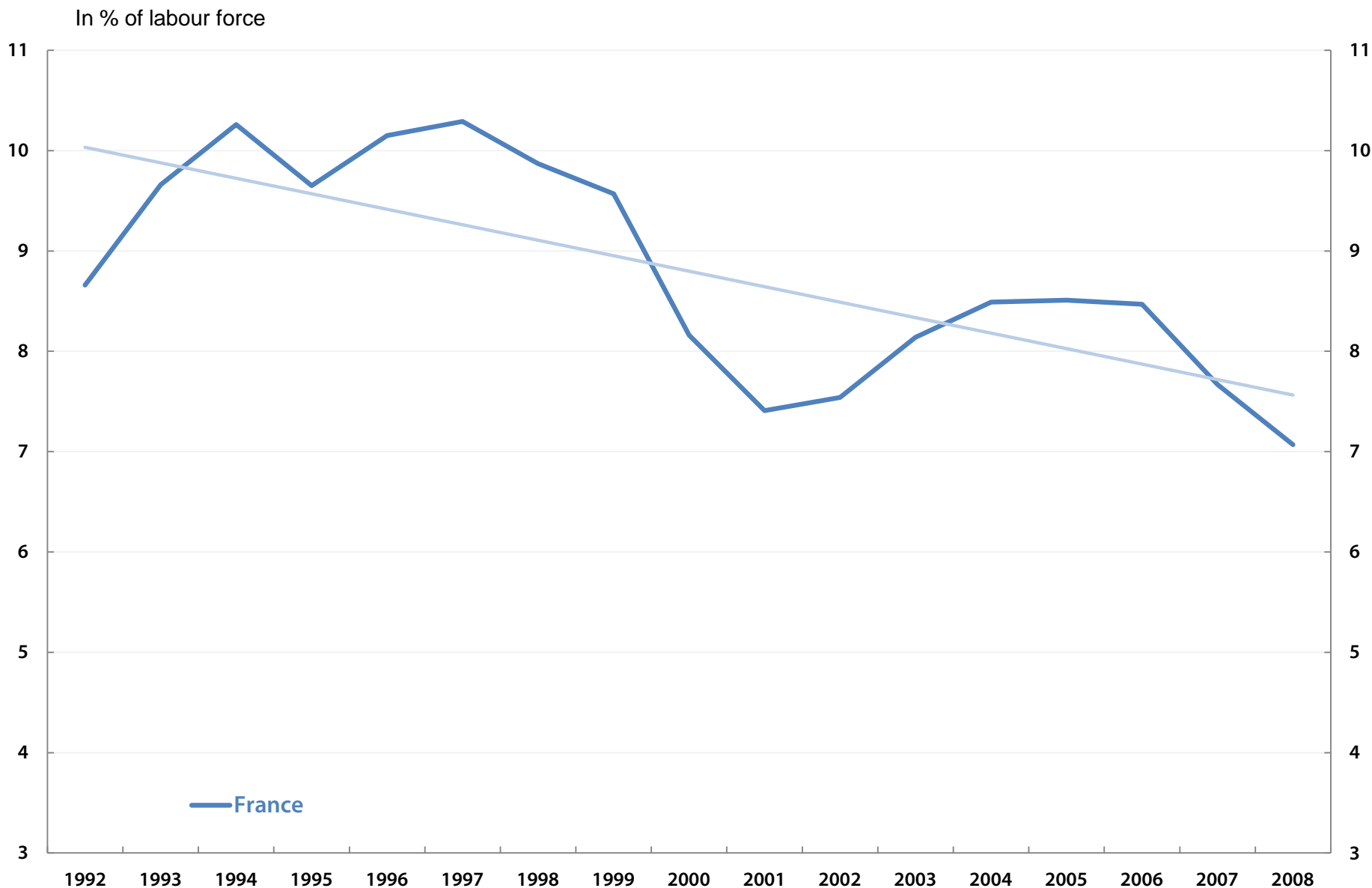
The situation on the labour market : the stylized fact

Variation of the unemployment rate over the last 17 years, based on ILO definition



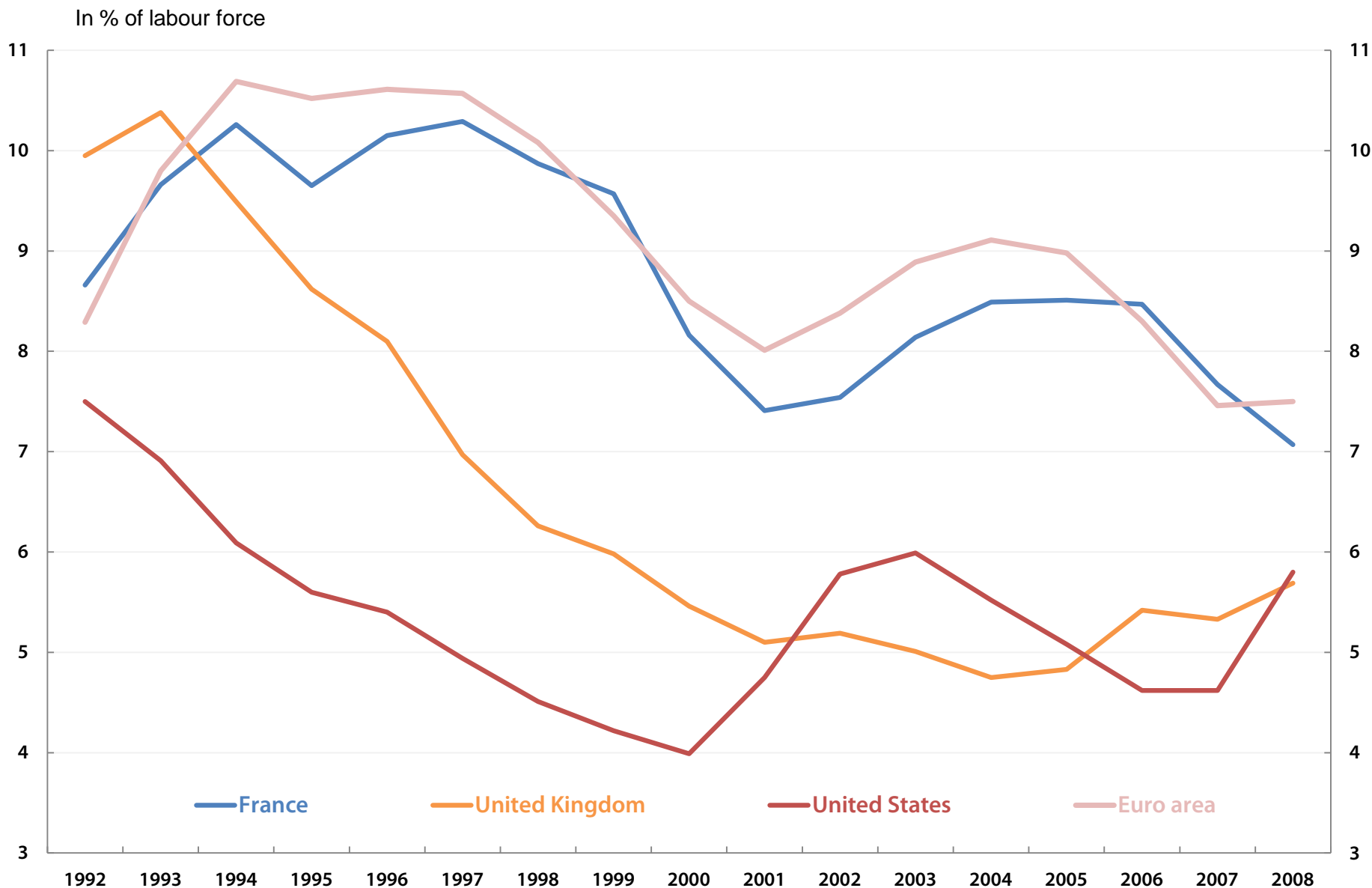
Source : OECD

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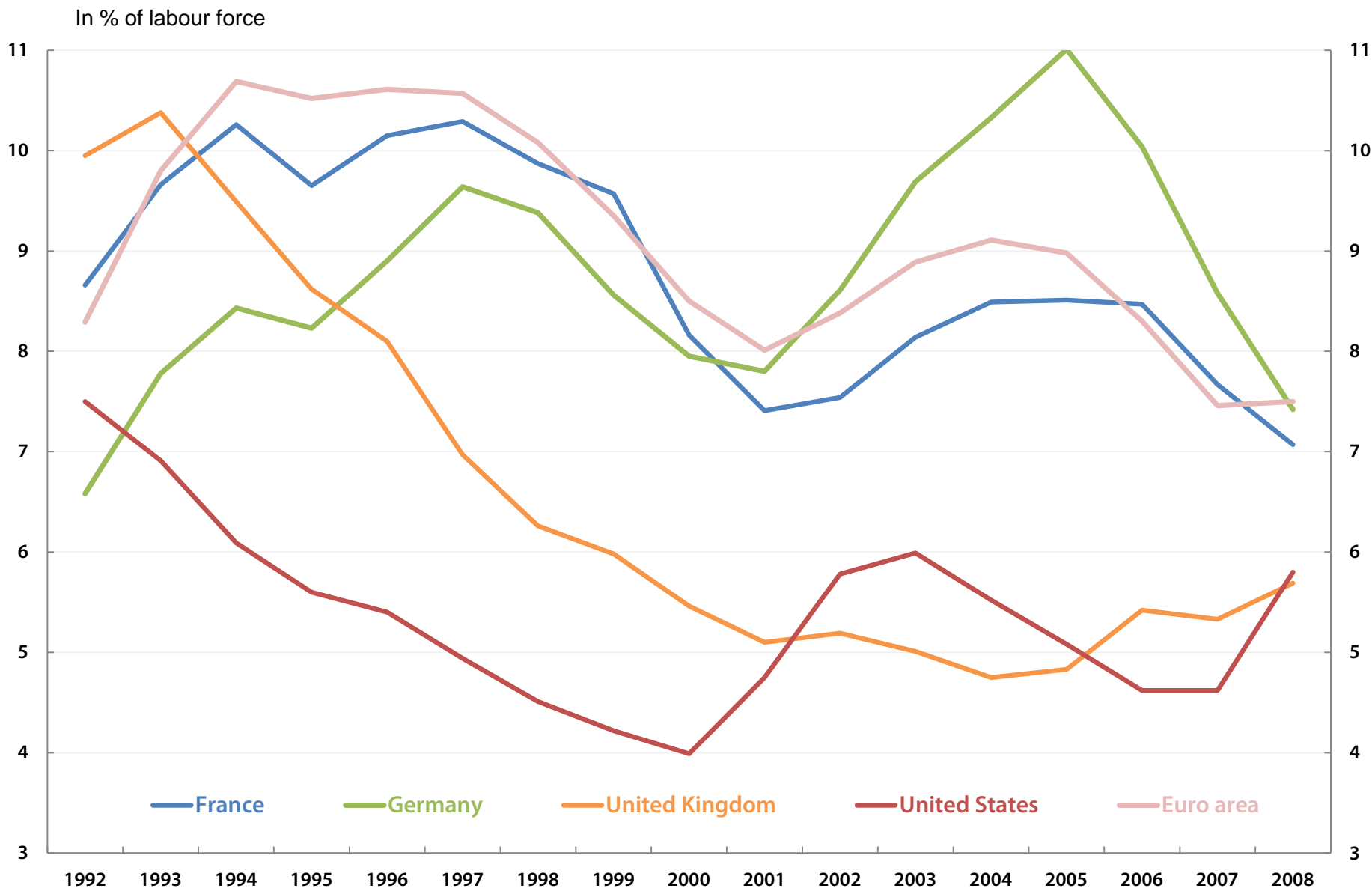
Source : OECD

Variation of the unemployment rate over the last 17 years, based on ILO definition



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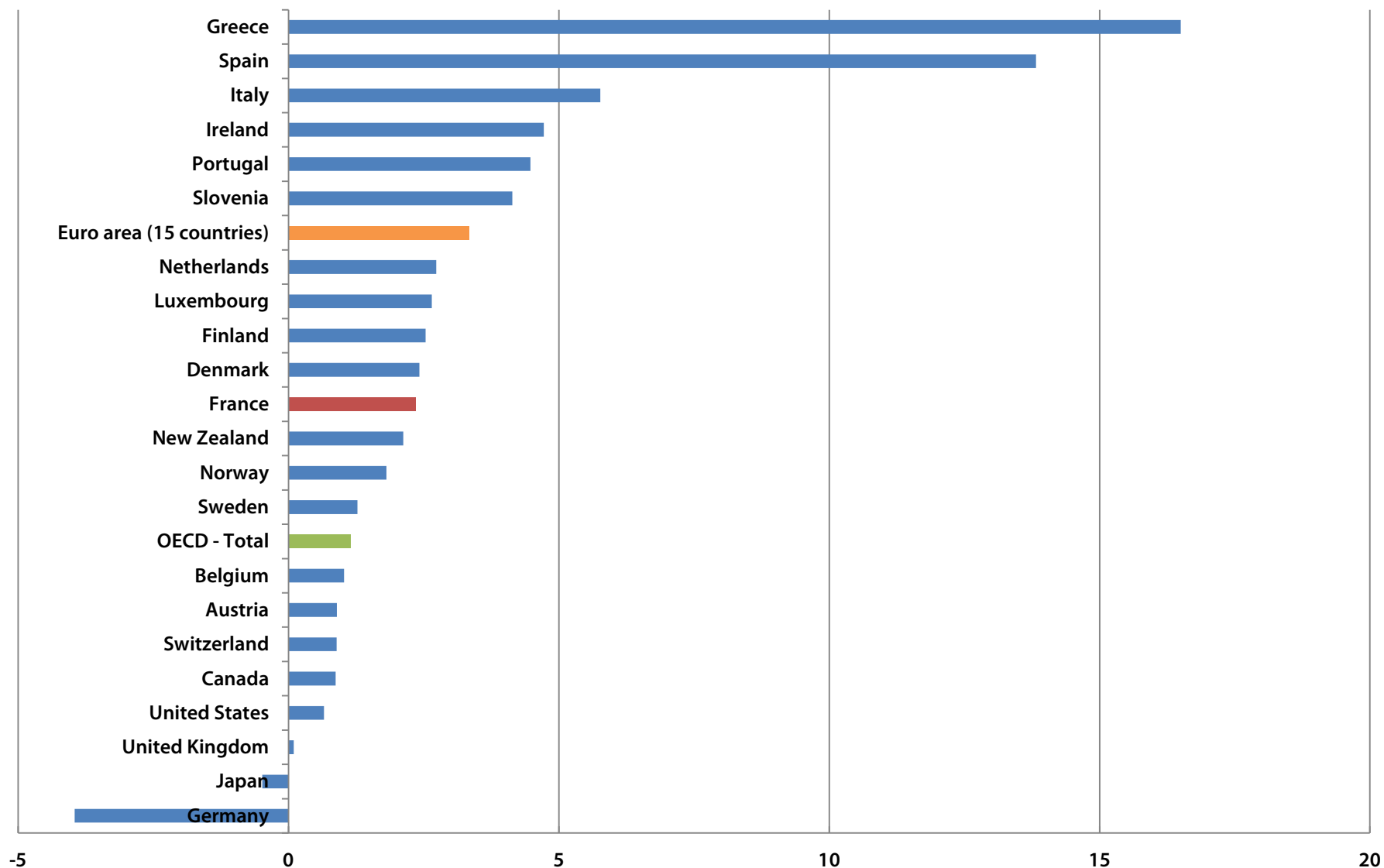
Variation of the unemployment rate over the last 17 years, based on ILO definition



Source : OECD

Variation of the unemployment rate between 2008 and 2015

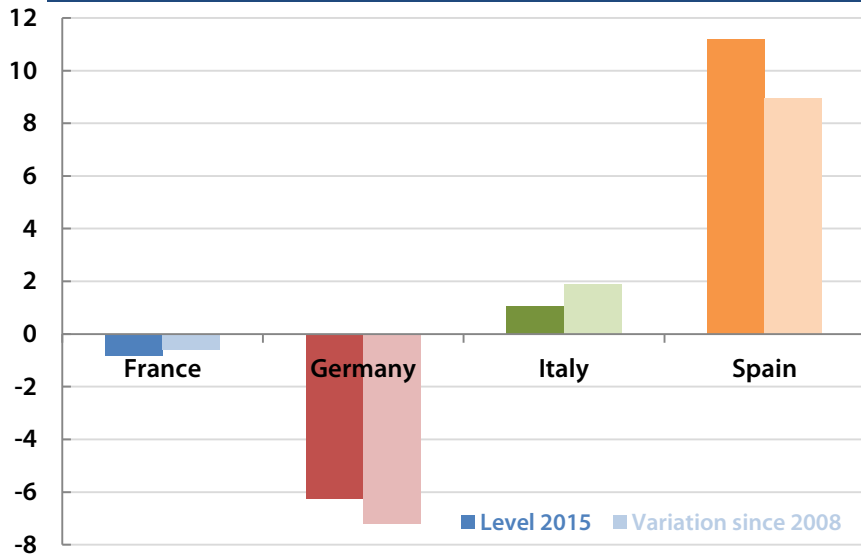
In % of labour force



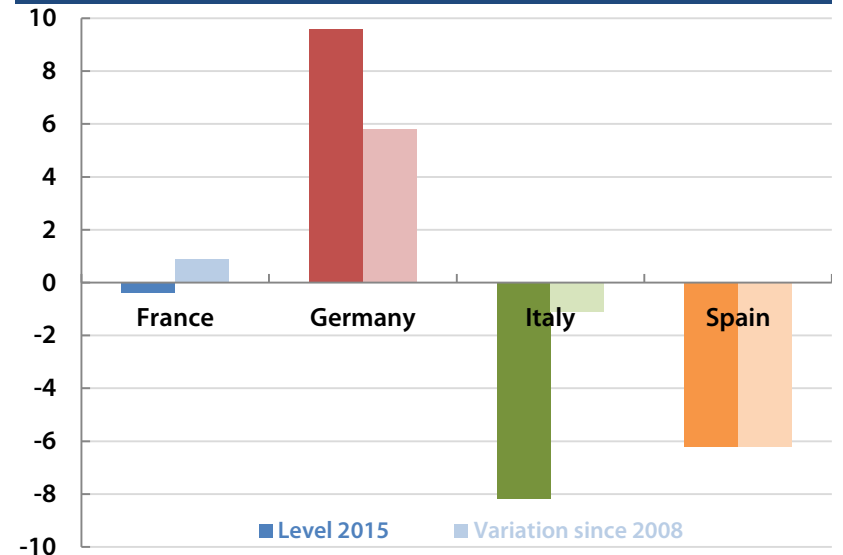
The increase in France is far from being the most significant: it is less than that observed on average in the euro zone

The situation of the labour market : comparison with that in the euro area as a whole

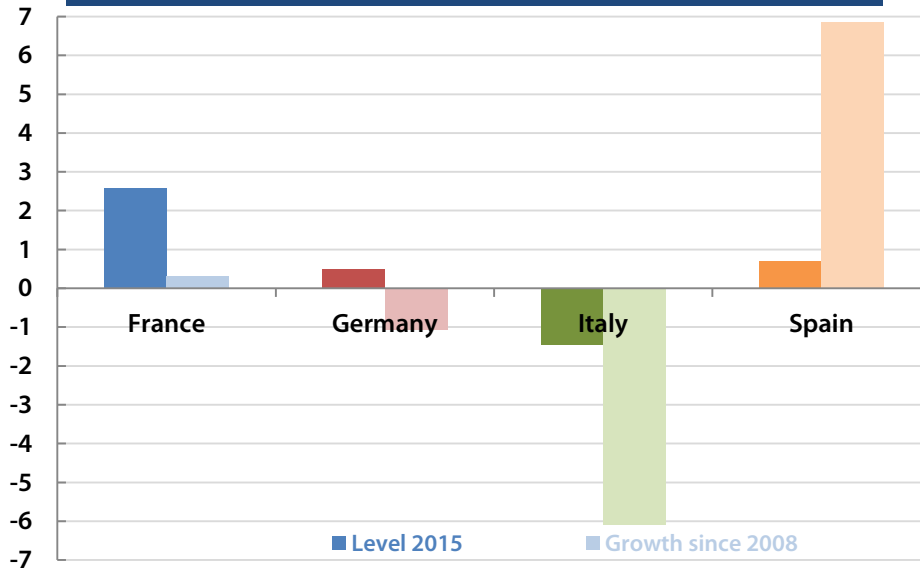
Unemployment rate



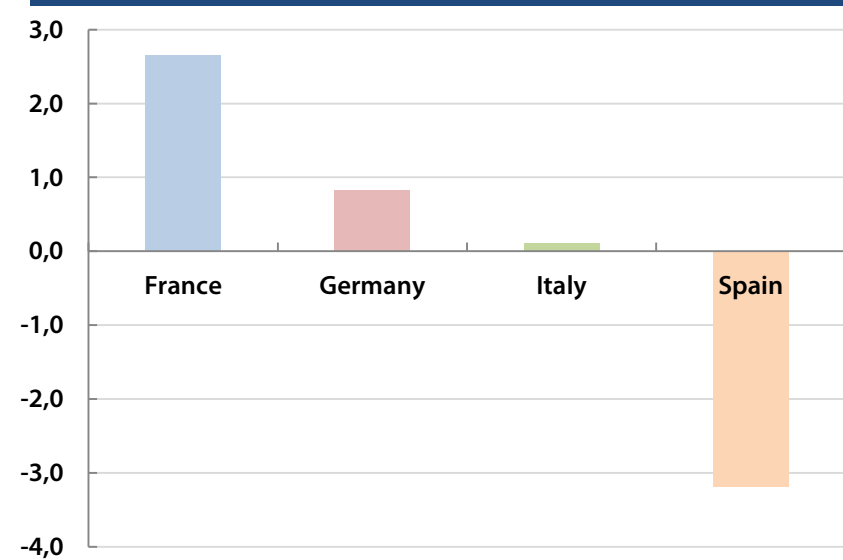
Employment rate



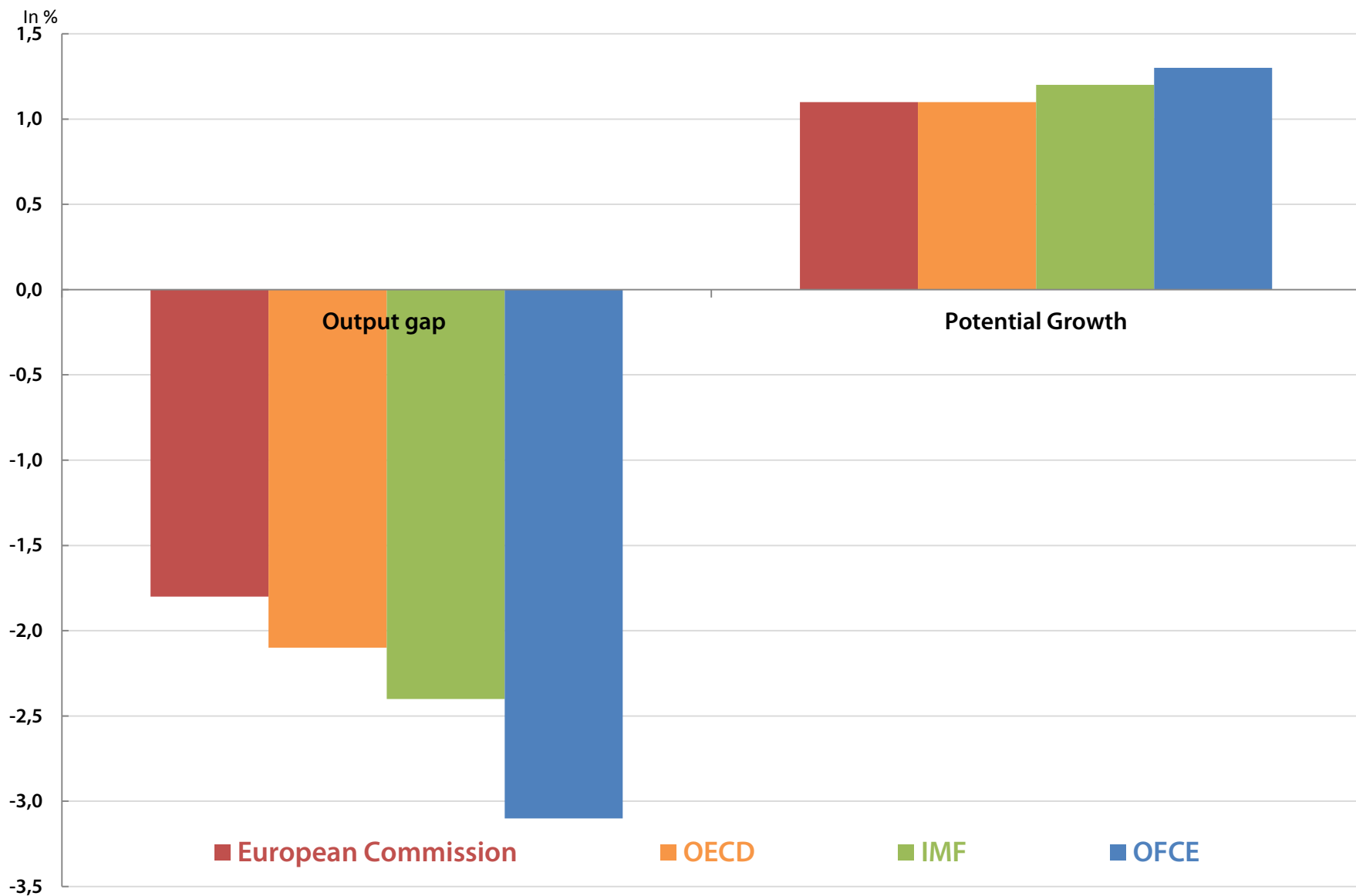
Labour productivity (hourly)



Labour force



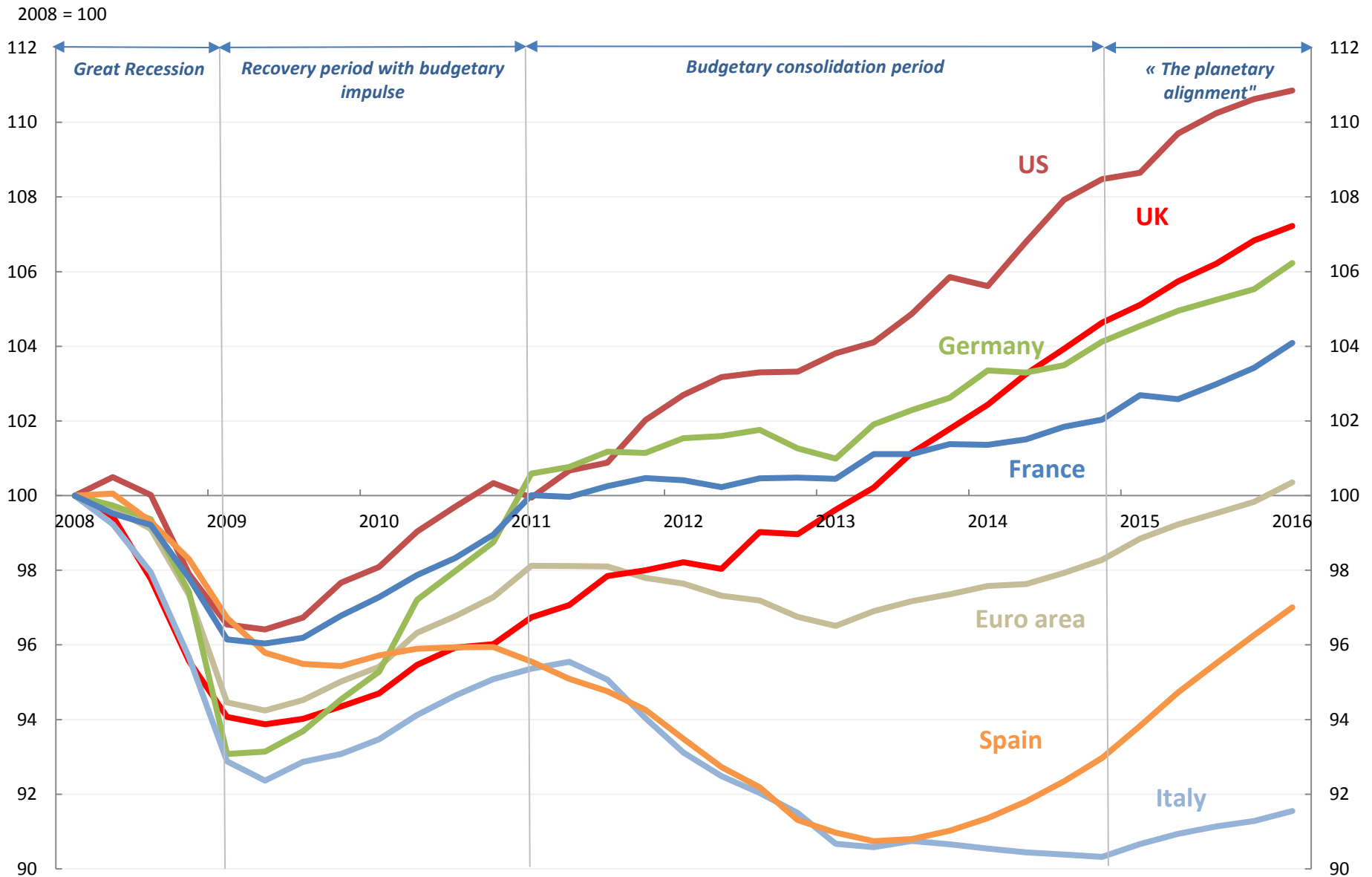
A strongly negative output gap in 2015 for french economy



If there is a consensus around the fact that the economic crisis could have an impact on both the level and growth of potential production, a consensus opinion exists around the idea on a potential rebound of French economy.

How to boost French economic growth ?

Evolution of GDP since the crisis: an international comparison



Sources : National account

An evaluation of « shocks » on the french economic performance

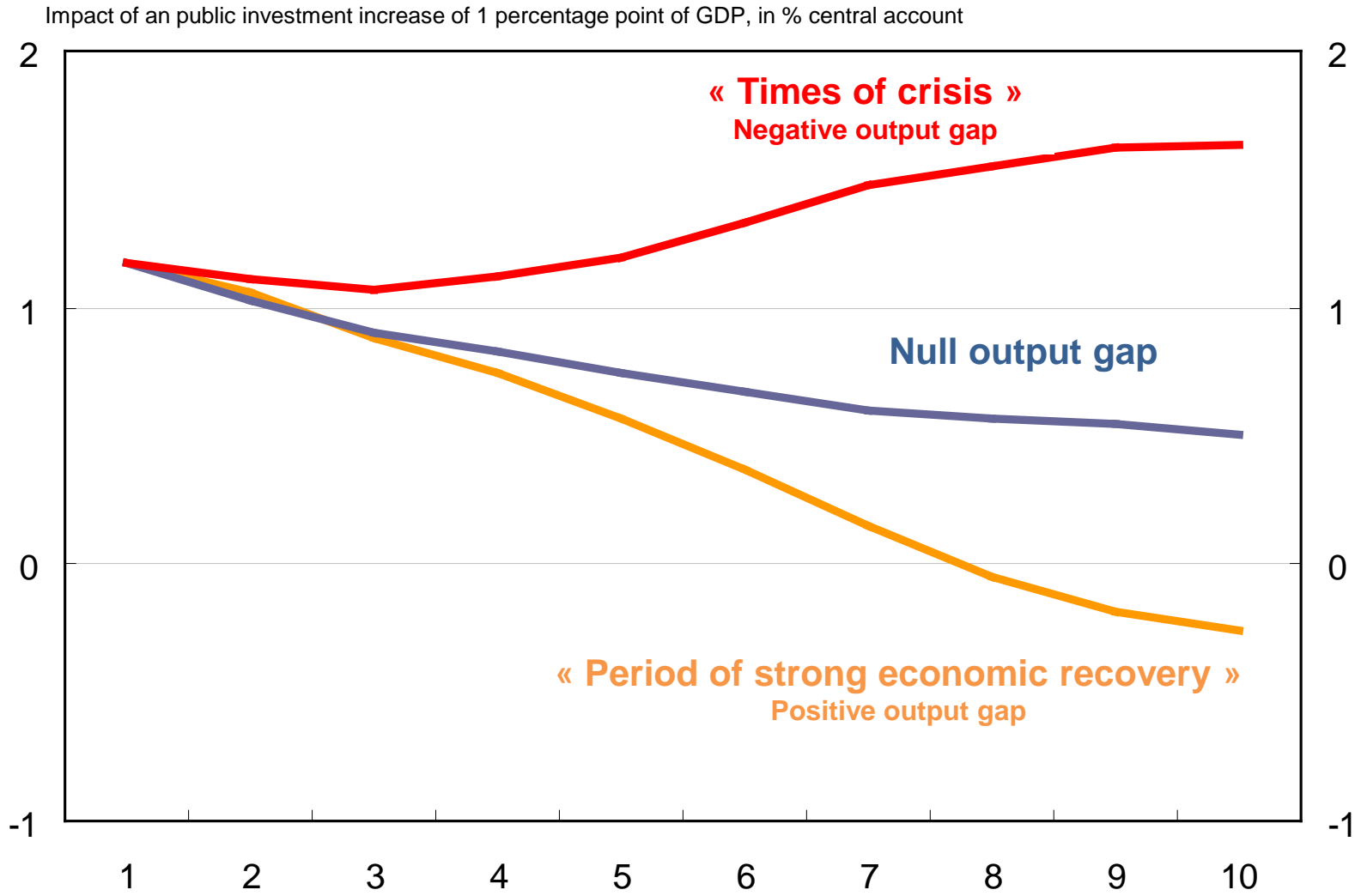
	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth	1.9	2.1	0.2	0.6	0.7	1.2	1.6	1.6
Impact on GDP due to...								
... oil prices	0.0	-0.2	-0.2	0.0	0.2	0.5	0.4	0.0
<i>direct effect on the national economy</i>	0.0	-0.3	-0.2	0.1	0.2	0.5	0.4	-0.1
<i>indirect effect through foreign trade</i>	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	0.1
... price competitiveness	0.3	0.2	0.4	0.2	-0.1	0.3	0.3	0.2
<i>Intra euro area</i>	0.2	0.1	0.1	0.1	0.0	0.2	0.0	0.1
<i>Outside the euro zone</i>	0.2	0.2	0.3	0.1	-0.1	0.1	0.2	0.1
... financing conditions	-0.2	0.0	-0.7	-0.3	0.2	0.0	-0.1	0.0
<i>direct effect on the national economy</i>	-0.1	0.0	-0.5	-0.1	0.2	0.0	-0.1	0.0
<i>indirect effect through foreign trade</i>	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0
... fiscal stance	-0.2	-0.6	-1.1	-1.5	-1.0	-0.8	-0.4	-0.5
<i>direct effect on the national economy</i>	-0.2	-0.4	-0.4	-1.0	-0.8	-0.5	-0.4	-0.4
<i>indirect effect through foreign trade</i>	0.0	-0.2	-0.7	-0.5	-0.2	-0.3	0.0	-0.1
... chinese economic slowdown	0.0	0.0	0.0	0.0	-0.1	-0.3	-0.3	-0.2
<i>direct effect on the national economy</i>	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.1
<i>indirect effect through foreign trade</i>	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Carry over	0.5	0.7	0.0	-0.1	-0.1	-0.1	0.1	0.5
Internal shocks (real estate market)					-0.1	-0.2	0.0	0.0
Sum of shocks impact	0.4	0.2	-1.7	-1.6	-1.0	-0.6	0.0	0.0
Spontaneous growth (without shocks)	1.4	1.9	1.9	2.2	1.7	1.7	1.6	1.6

It is clear from our analysis that the combination of these shocks explains a large part of the slowdown from 2011 to 2014. The impact is on average close to 1.5 point of GDP per year for this three years

Most of this impact is due to the fiscal policy

Sources : INSEE, OFCE calculations

Fiscal multiplier depends on the economic cycle : higher in "times of crisis" than in a period of strong economic recovery



Source : Jérôme CREEL, Eric HEYER et Mathieu PLANE (2011), « Petits précis de politique budgétaire par tous temps : les multiplicateurs budgétaires au cours du cycle », *Revue de l'OFCE*, n°116, January.

An evaluation of « shocks » on the french economic performance

	2010	2011	2012	2013	2014	2015	2016	2017
GDP growth	1.9	2.1	0.2	0.6	0.7	1.2	1.6	1.6
Impact on GDP due to...								
... oil prices	0.0	-0.2	-0.2	0.0	0.2	0.5	0.4	0.0
<i>direct effect on the national economy</i>	0.0	-0.3	-0.2	0.1	0.2	0.5	0.4	-0.1
<i>indirect effect through foreign trade</i>	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	0.1
... price competitiveness	0.3	0.2	0.4	0.2	-0.1	0.3	0.3	0.2
<i>Intra euro area</i>	0.2	0.1	0.1	0.1	0.0	0.2	0.0	0.1
<i>Outside the euro zone</i>	0.2	0.2	0.3	0.1	-0.1	0.1	0.2	0.1
... financing conditions	-0.2	0.0	-0.7	-0.3	0.2	0.0	-0.1	0.0
<i>direct effect on the national economy</i>	-0.1	0.0	-0.5	-0.1	0.2	0.0	-0.1	0.0
<i>indirect effect through foreign trade</i>	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0
... fiscal stance	-0.2	-0.6	-1.1	-1.5	-1.0	-0.8	-0.4	-0.5
<i>direct effect on the national economy</i>	-0.2	-0.4	-0.4	-1.0	-0.8	-0.5	-0.4	-0.4
<i>indirect effect through foreign trade</i>	0.0	-0.2	-0.7	-0.5	-0.2	-0.3	0.0	-0.1
... chinese economic slowdown	0.0	0.0	0.0	0.0	-0.1	-0.3	-0.3	-0.2
<i>direct effect on the national economy</i>	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.1
<i>indirect effect through foreign trade</i>	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Carry over	0.5	0.7	0.0	-0.1	-0.1	-0.1	0.1	0.5
Internal shocks (real estate market)					-0.1	-0.2	0.0	0.0
Sum of shocks impact	0.4	0.2	-1.7	-1.6	-1.0	-0.6	0.0	0.0
Spontaneous growth (without shocks)	1.4	1.9	1.9	2.2	1.7	1.7	1.6	1.6

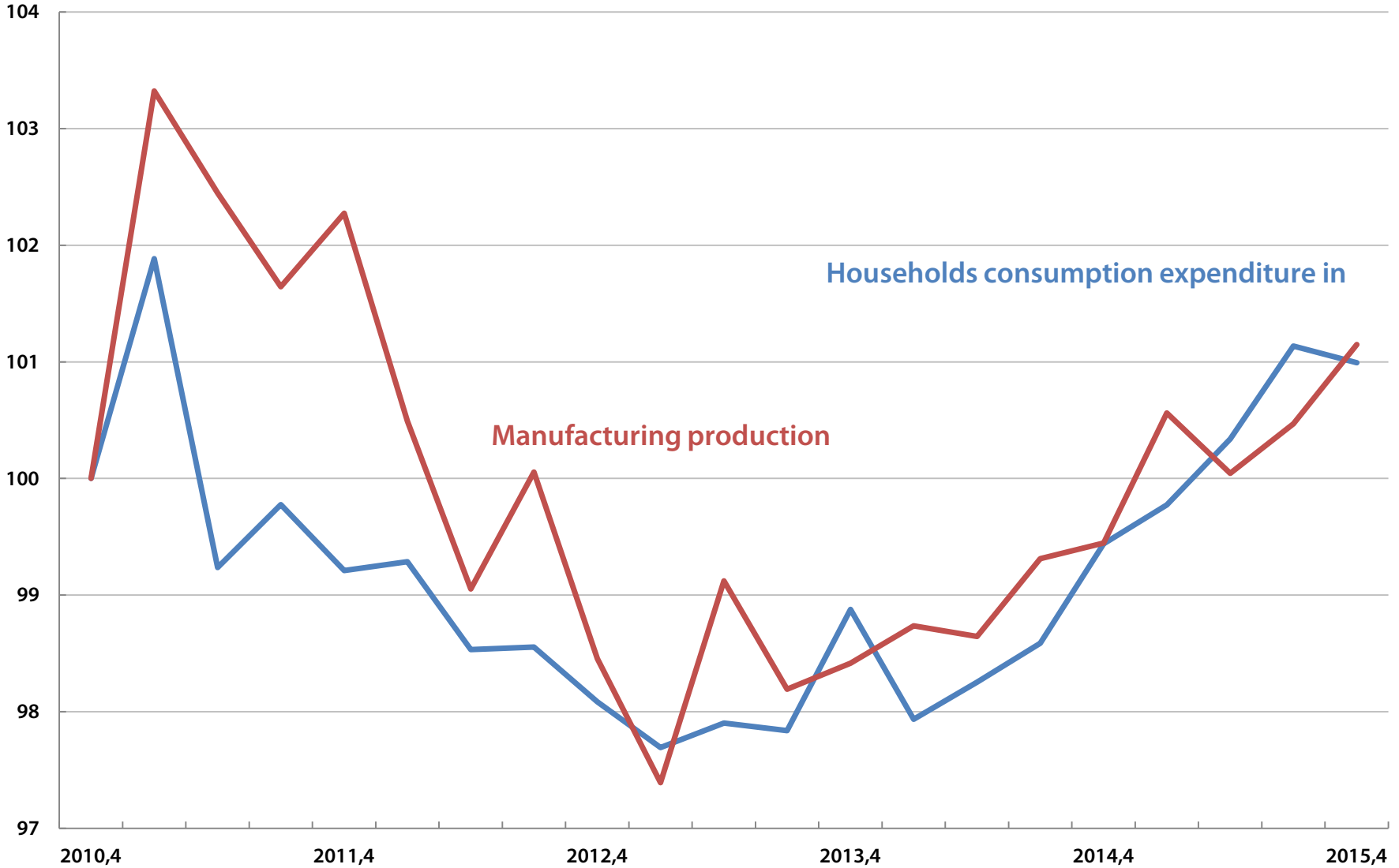
Moreover, we find that when these shocks decline, growth accelerate.

Sources : INSEE, OFCE calculations

The link between consumption and production is always a reality today in France :

French industrial firms were able to respond to a consumption surplus

Index 100 = 2010q4



When household consumption was declining, production was declining too and when it restarts, production starts again (and not only imports).

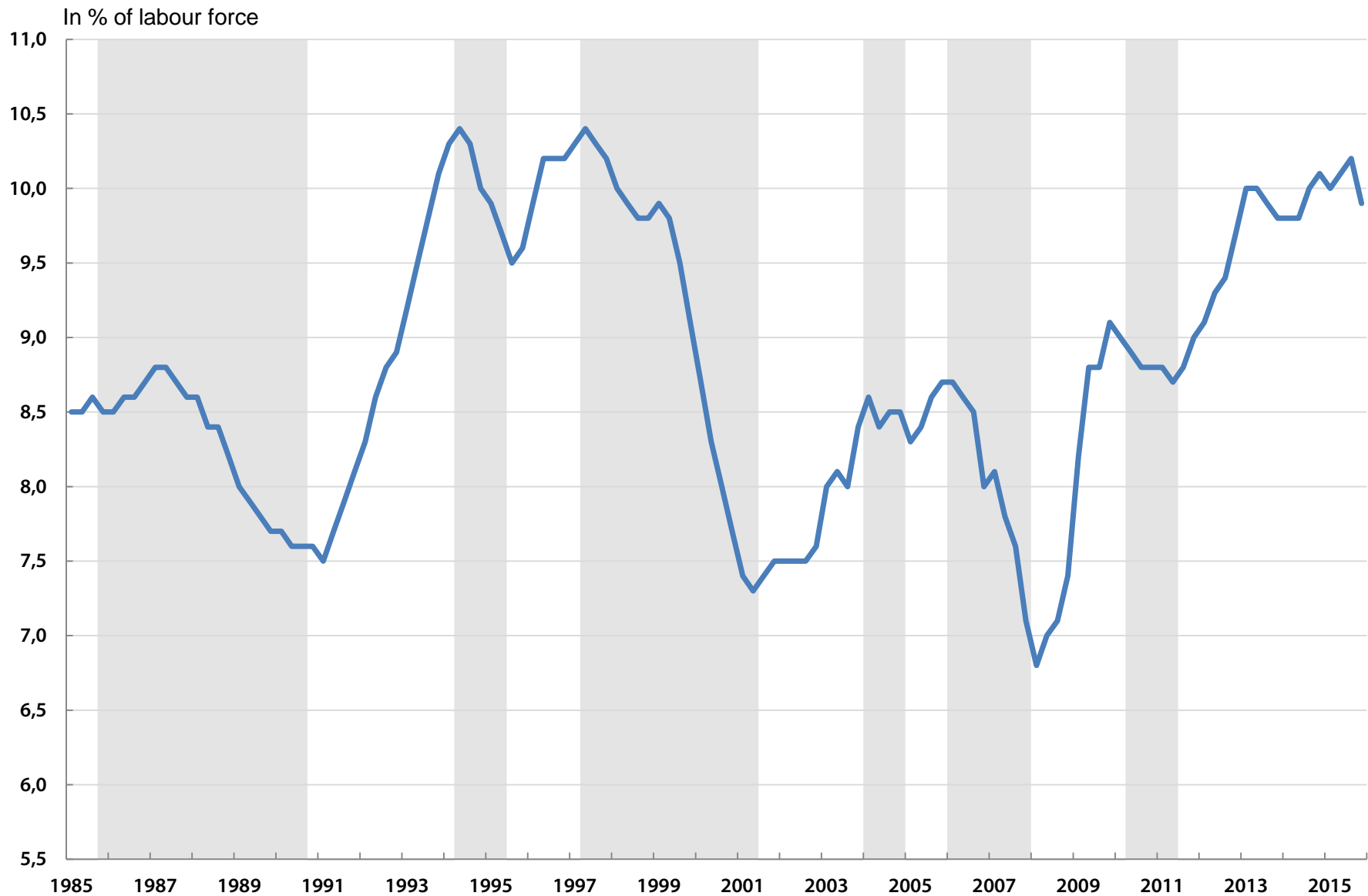
An evaluation of « shocks » on the french economic performance

	2010	2011	2012	2013	2014	2015	2016	2017
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Impact on GDP due to...								
... oil prices	0.0	-0.2	-0.2	0.0	0.2	0.5	0.4	0.0
<i>direct effect on the national economy</i>	0.0	-0.3	-0.2	0.1	0.2	0.5	0.4	-0.1
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... financing conditions	-0.2	0.0	-0.7	-0.3	0.2	0.0	-0.1	0.0
<i>direct effect on the national economy</i>	-0.1	0.0	-0.5	-0.1	0.2	0.0	-0.1	0.0
<i>indirect effect through foreign trade</i>	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0
... fiscal stance	-0.2	-0.6	-1.1	-1.5	-1.0	-0.8	-0.4	-0.5
<i>direct effect on the national economy</i>	-0.2	-0.4	-0.4	-1.0	-0.8	-0.5	-0.4	-0.4
<i>indirect effect through foreign trade</i>	0.0	-0.2	-0.7	-0.5	-0.2	-0.3	0.0	-0.1
... chinese economic slowdown	0.0	0.0	0.0	0.0	-0.1	-0.3	-0.3	-0.2
<i>direct effect on the national economy</i>	0.0	0.0	0.0	0.0	-0.1	-0.2	-0.2	-0.1
<i>indirect effect through foreign trade</i>	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Carry over	0.5	0.7	0.0	-0.1	-0.1	-0.1	0.1	0.5
Internal shocks (real estate market)					-0.1	-0.2	0.0	0.0
Sum of shocks impact	0.4	0.2	-1.7	-1.6	-1.0	-0.6	0.0	0.0
Spontaneous growth (without shocks)	1.4	1.9	1.9	2.2	1.7	1.7	1.6	1.6
				Average	1.6			

Without shocks, the french growth could have been around 1,6 % during the period from 2011 to 2014

Sources : INSEE, OFCE calculations

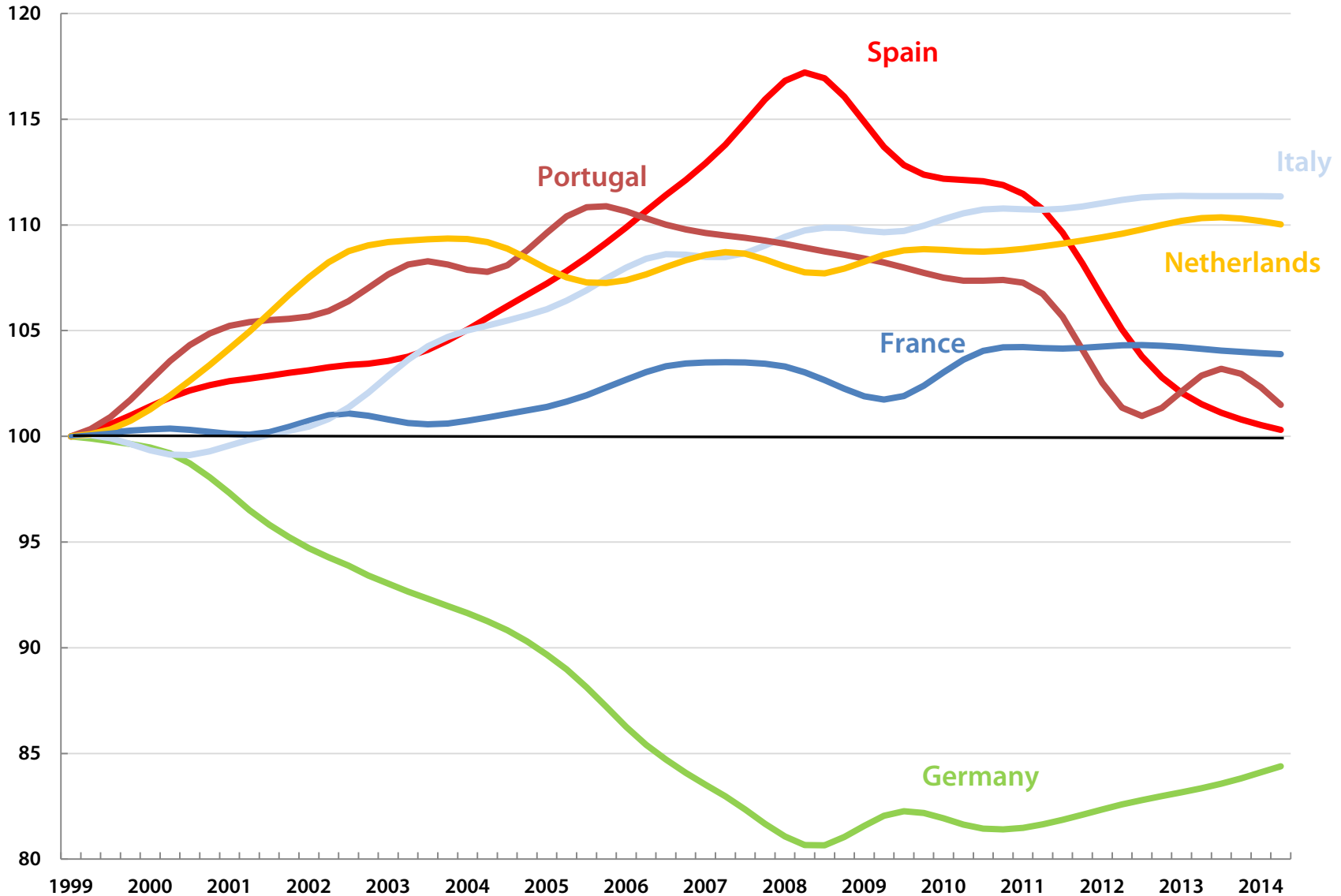
Unemployment rate in France, based on ILO definition



When economic growth exceeds 1.6% in France (gray period on the graph), the unemployment rate drops and may even decline rapidly without inflationary pressure on wages.

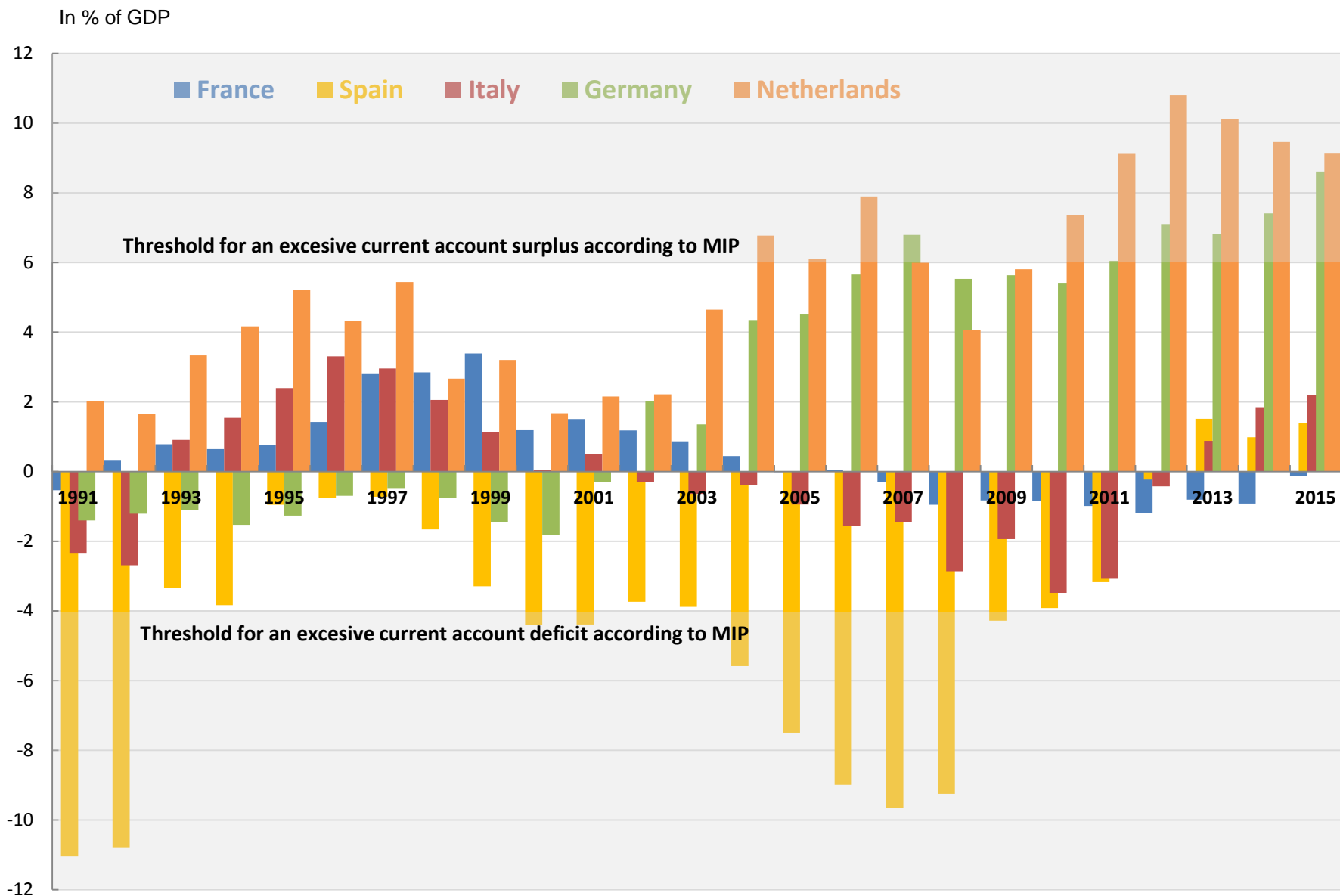
Evolution of unit labor costs compared to the average of the euro area

Index 1 = 1999, compared with the average of the euro area



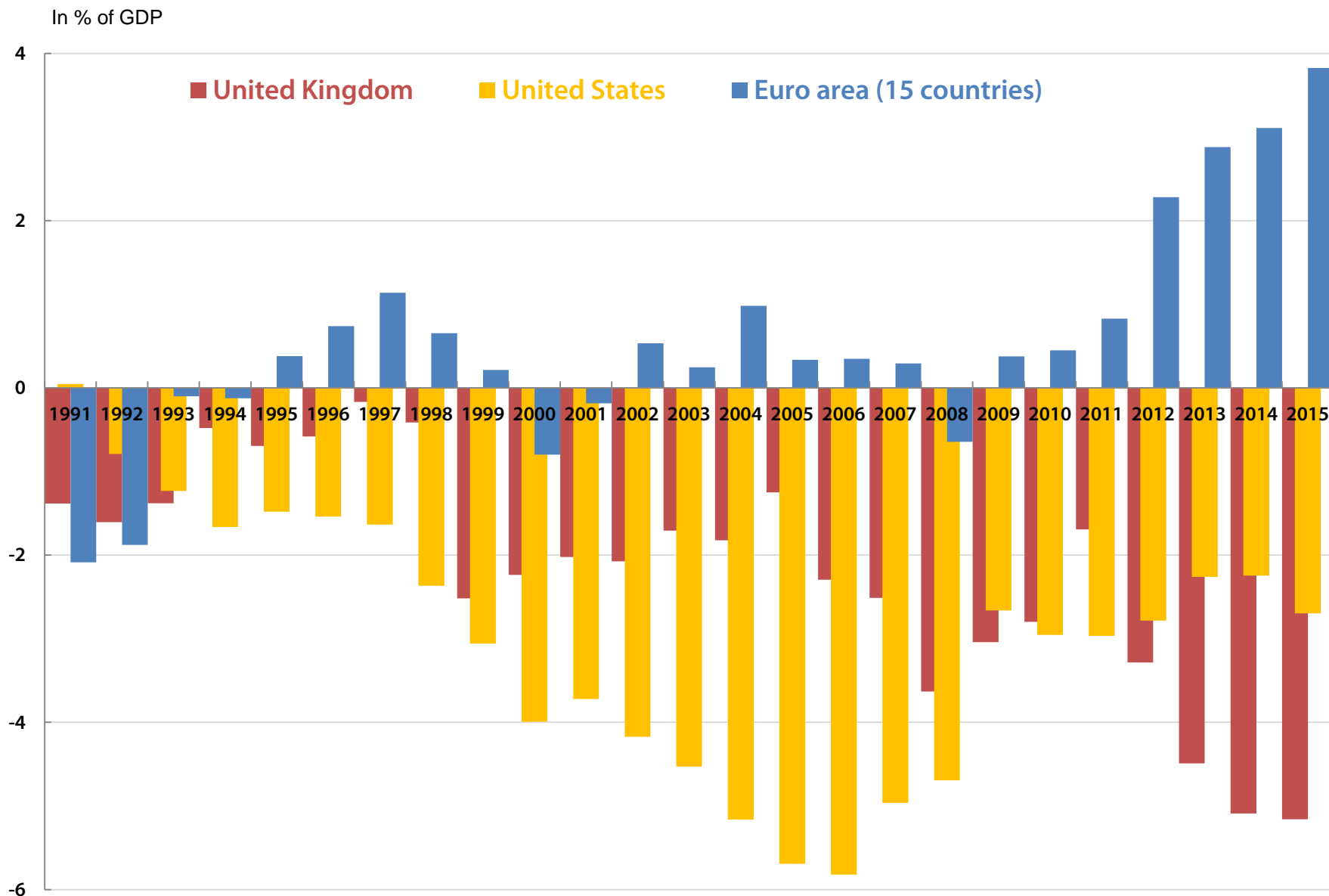
Source : European Commission

Current account balance : the emergence of strong imbalances



Source : OCDE

Current account balance : a large surplus of Europe and a strong deficit in US/UK



Source : OCDE

Dealing with external imbalances, how much adjustment of relative prices do we need ?

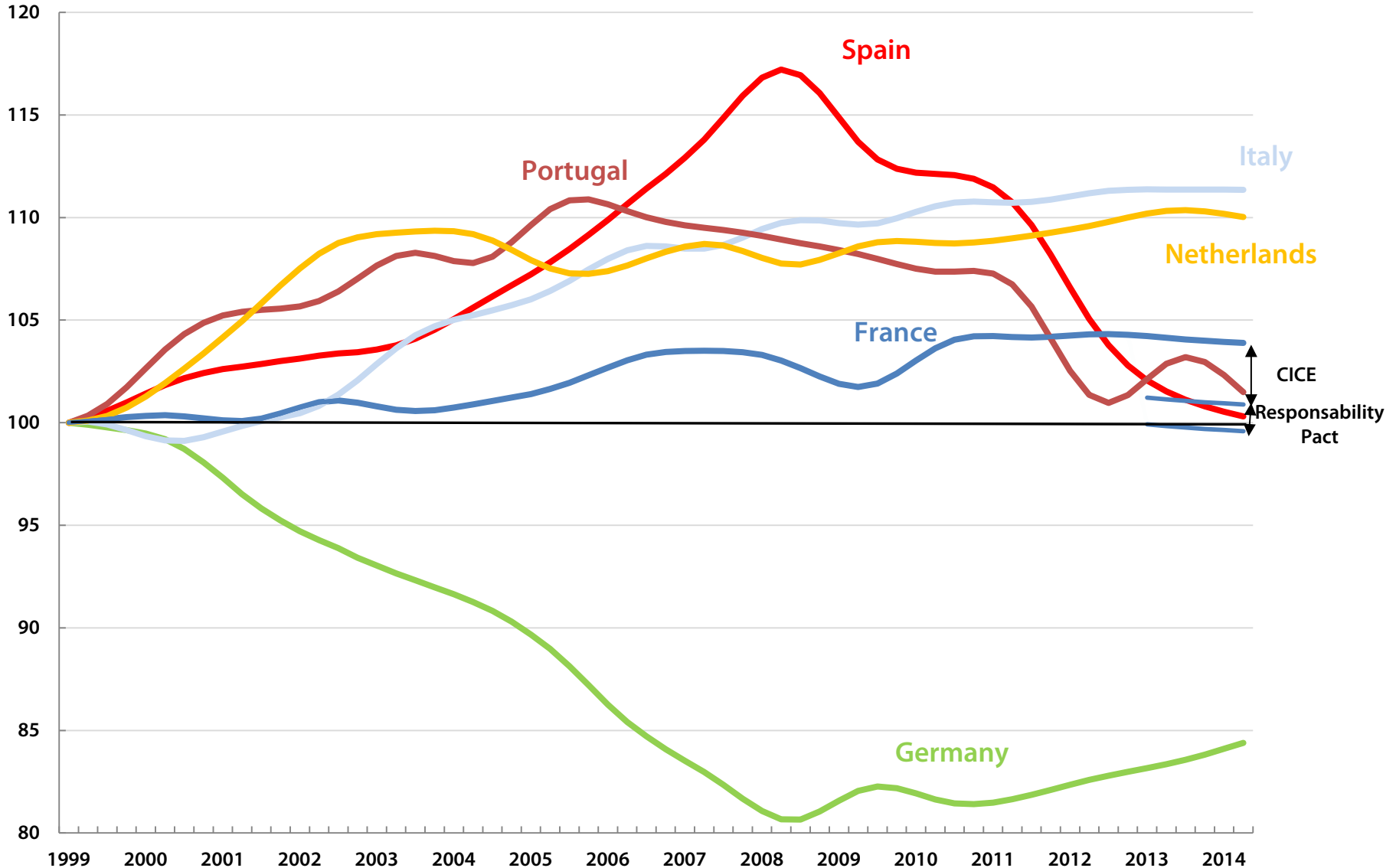
	Public debt (in % of GDP)		Structural balance (in % of GDP)		Cumulative fiscal impulse (5) 2015-35	Average output gap (6) 2016-35	Inflation rate (in %)		Current account adjustment (9) 2015-35
	(1) 2020	(2) 2035	(3) 2020	(4) 2035			(7) 2016-20	(8) 2021-35	
DEU	58	60	-1.3	-2.5	3.8	0.5	2.5	2.8	-3.1
FRA	100	60	-0.8	1.5	-5.5	-0.8	0.3	1.2	2.0
ITA	127	60	1.7	3.2	-1.6	-0.6	0.2	2.0	-2.9
ESP	98	60	-0.2	0.8	-3.2	-0.4	0.2	1.4	-0.4
NLD	63	60	-2.0	-2.4	1.1	0.3	2.1	2.7	-2.7
BEL	102	60	0.3	0.9	-2.6	-0.1	0.2	1.3	3.7
PRT	109	60	0.7	1.7	0.1	0.0	0.8	1.5	-3.2
IRL	76	60	-1.0	-1.3	3.2	0.8	2.1	2.0	-0.9
GRC	221	245	1.0	2.5	-8.7	-3.6	-3.6	-1.6	9.8
FIN	67	60	-1.0	-1.3	-1.6	-0.5	0.2	1.2	3.0
AUT	76	60	-1.6	-1.7	1.5	0.2	2.4	2.8	-2.9
EA	88	61	-0.5	-0.4	-0.6	-0.2	1.1	1.9	-1.0

Note: The adjustment of current account is computed as the change in the current account between 2015 and 2035.

Source: iAGS model

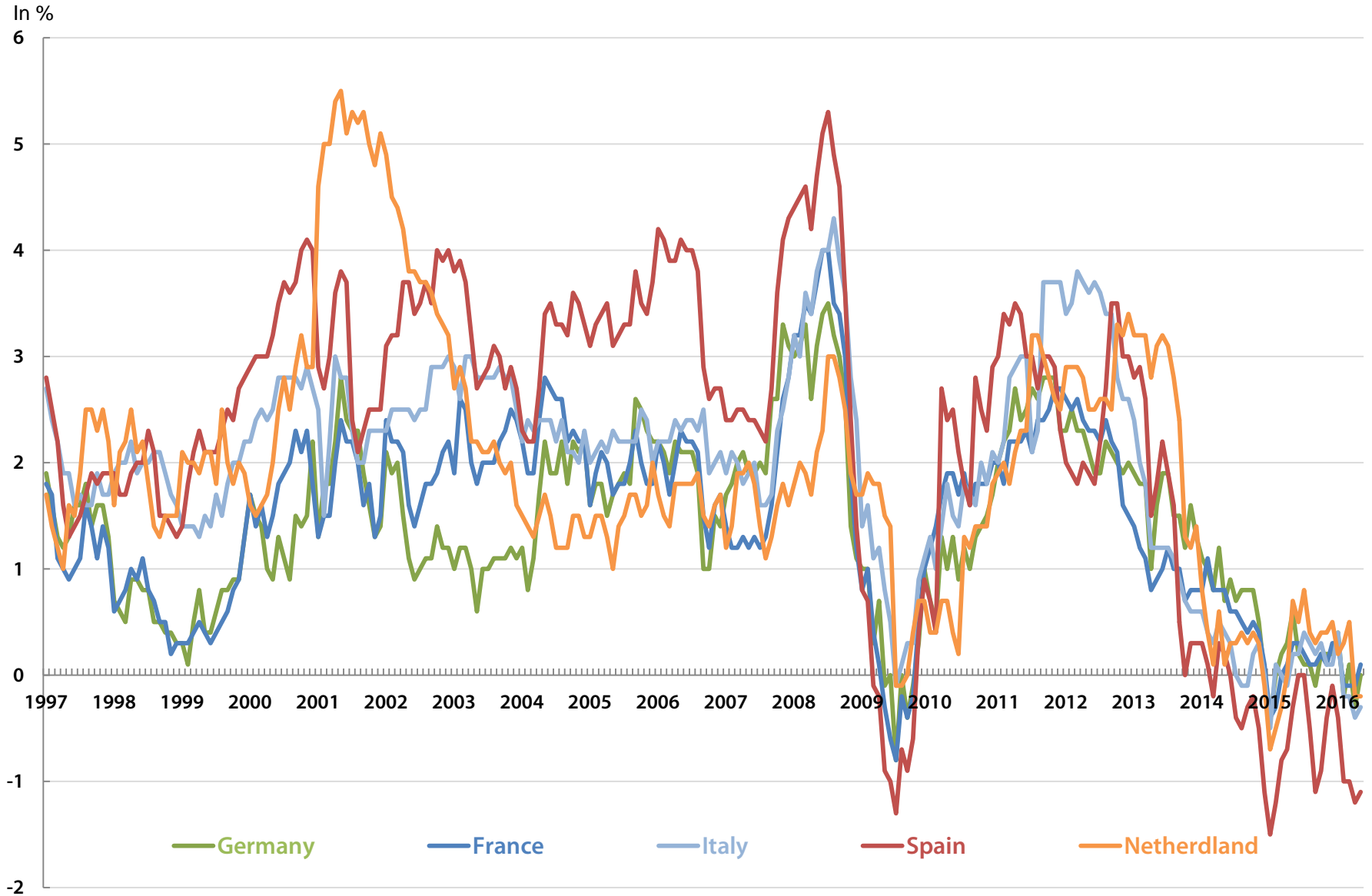
Evolution of unit labor costs compared to the average of the euro area

Index 1 = 1999, compared with the average of the euro area



Source : European Commission

Inflation rate : Germany should have more inflation



Source : Eurostat

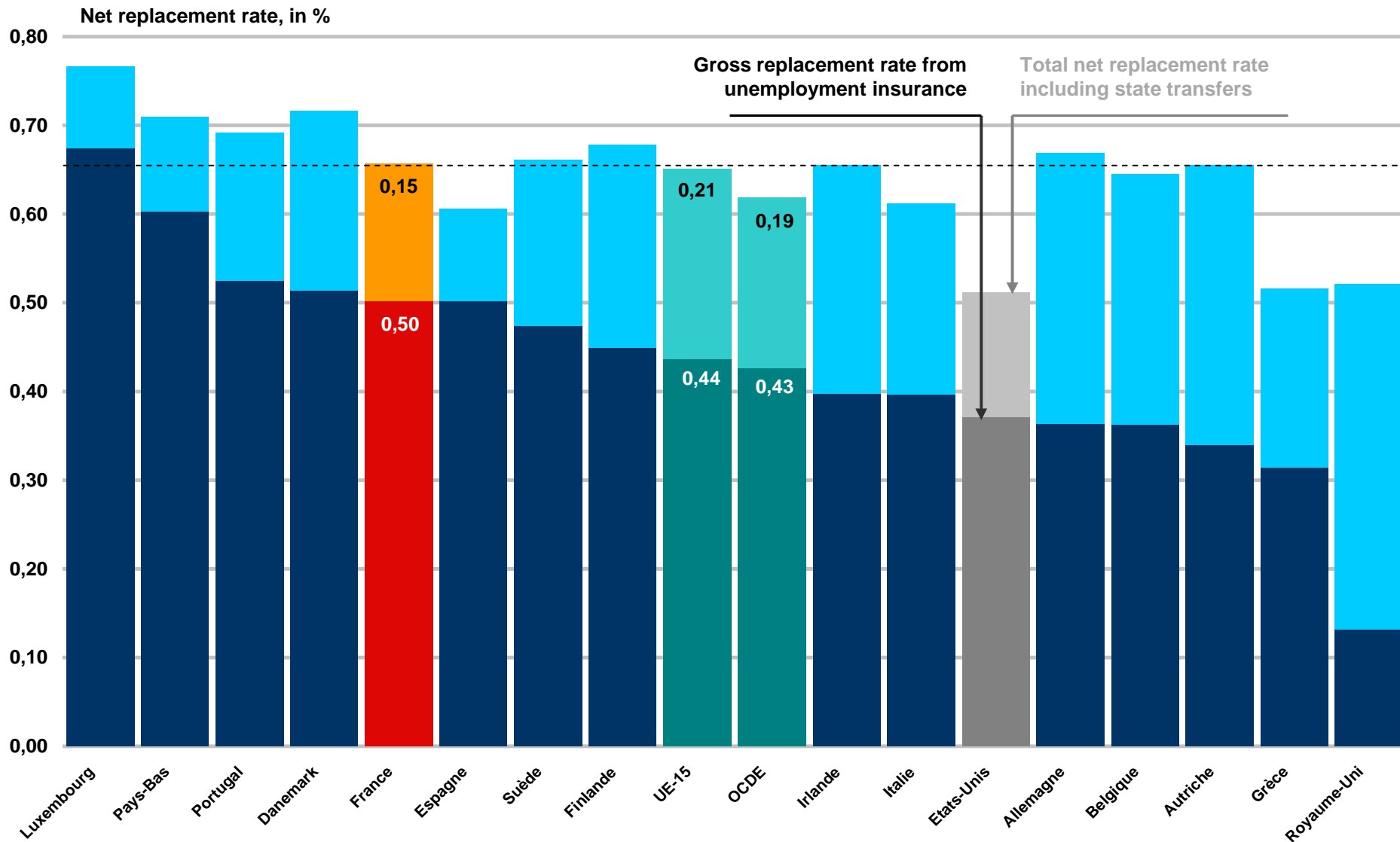
What are the optimal conditions to implement structural reforms?

- **the unemployment benefit system : is it too generous ?**

Scarpetta (1996), Nickell (1998), Elmeskov et alli (1998), Nunziata (2002), Bassanini et Duval (2006)

Net replacement rate of unemployed receiving benefits

Unemployment benefits and other state transfers



If you include the state transfers, the French system is not more generous with the unemployed than elsewhere in others developed countries

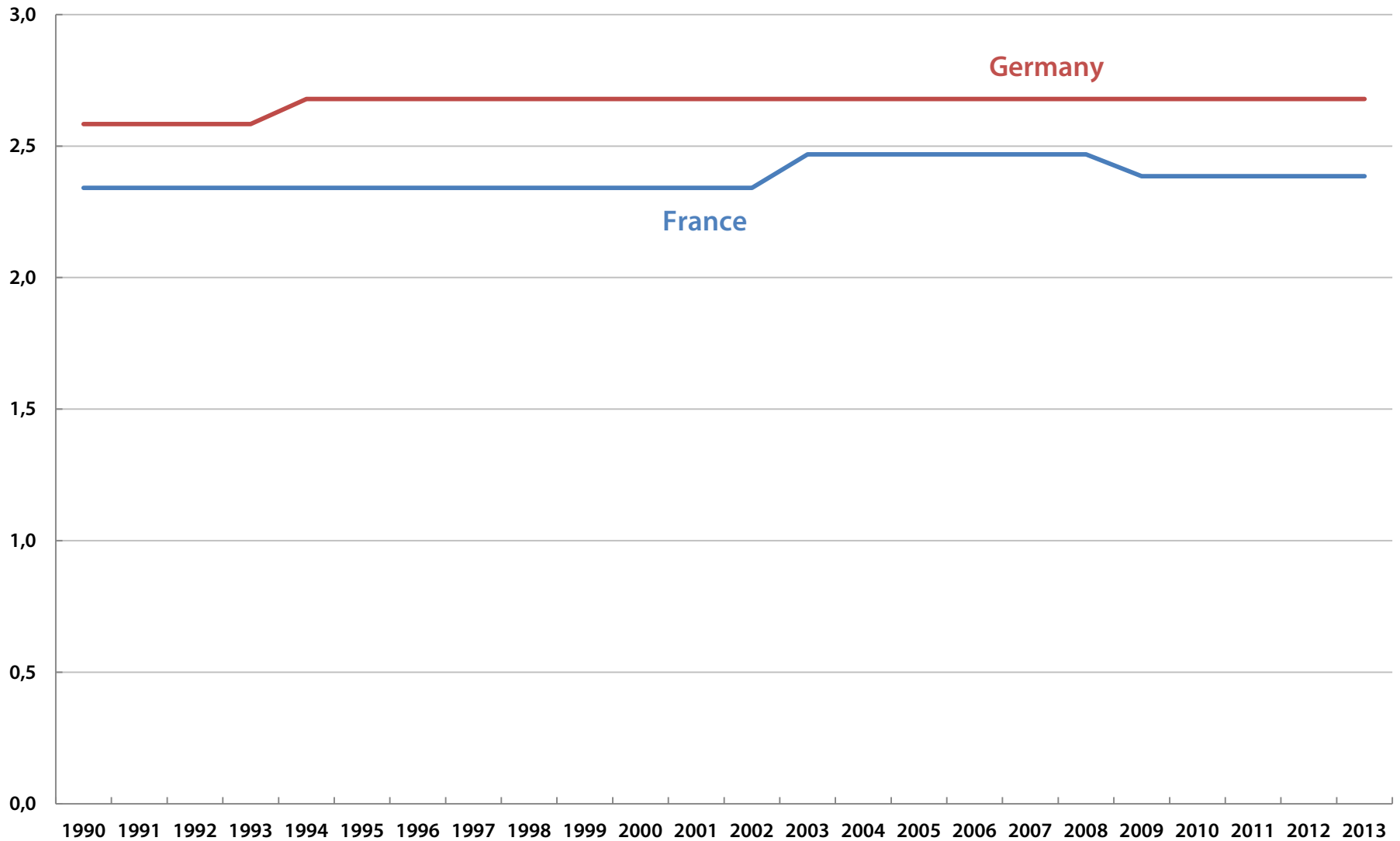
- **the unemployment benefit system : is it too generous ?**

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- **the employment protection legislation : is it too strict ?**

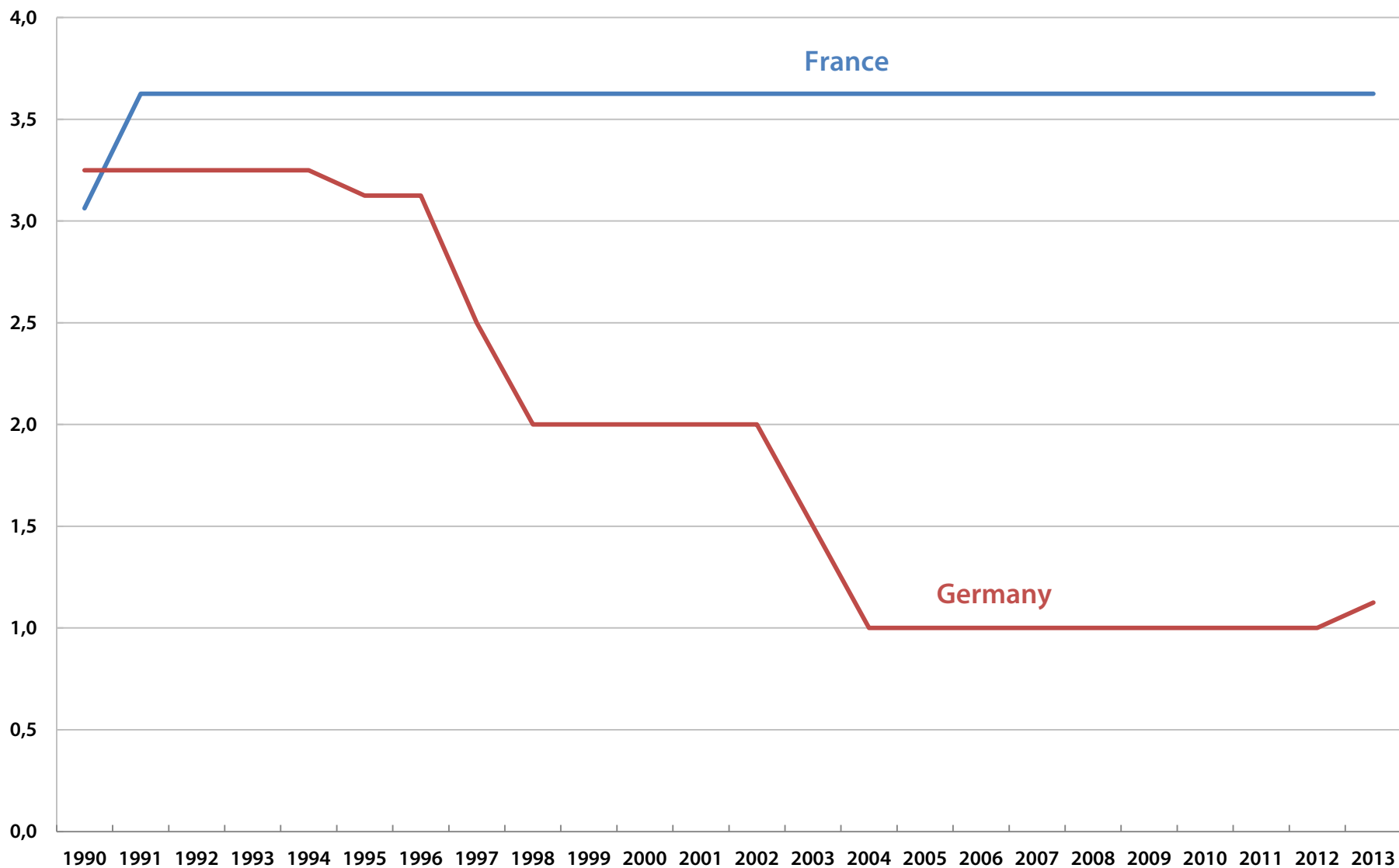
Bentolila et Bertola (1990)

Strictness of employment protection legislation : regular employment



Concerning legislation on employment, according to the OECD indicators, French law would be less protective than the German for permanent jobs.

Strictness of employment protection legislation : temporary employment



Temporary jobs are less protected in Germany than in France.

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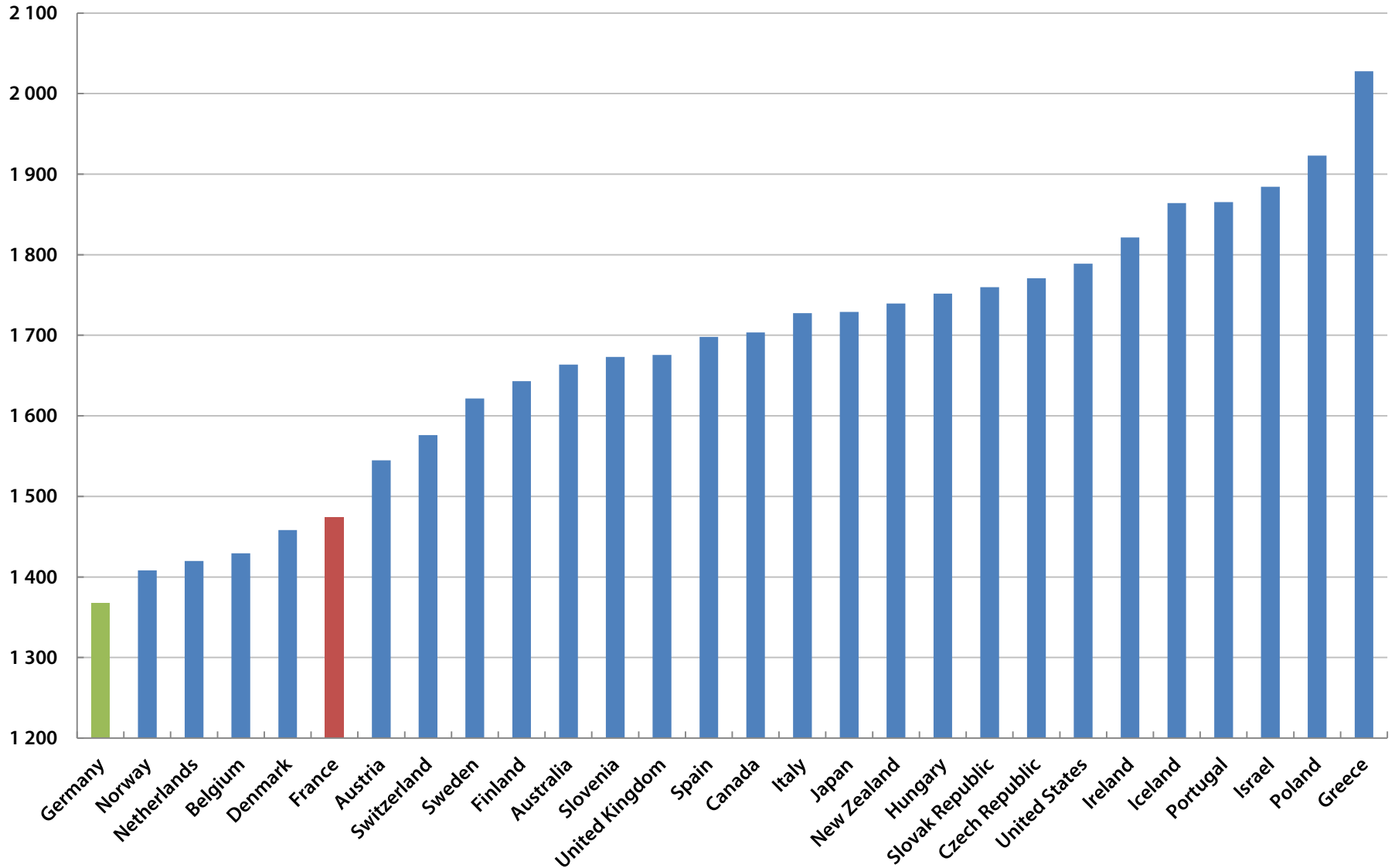
- **the employment protection legislation : is it too strict ?**

Bentolila et Bertola (1990)

- **the working time : is it too weak ?**

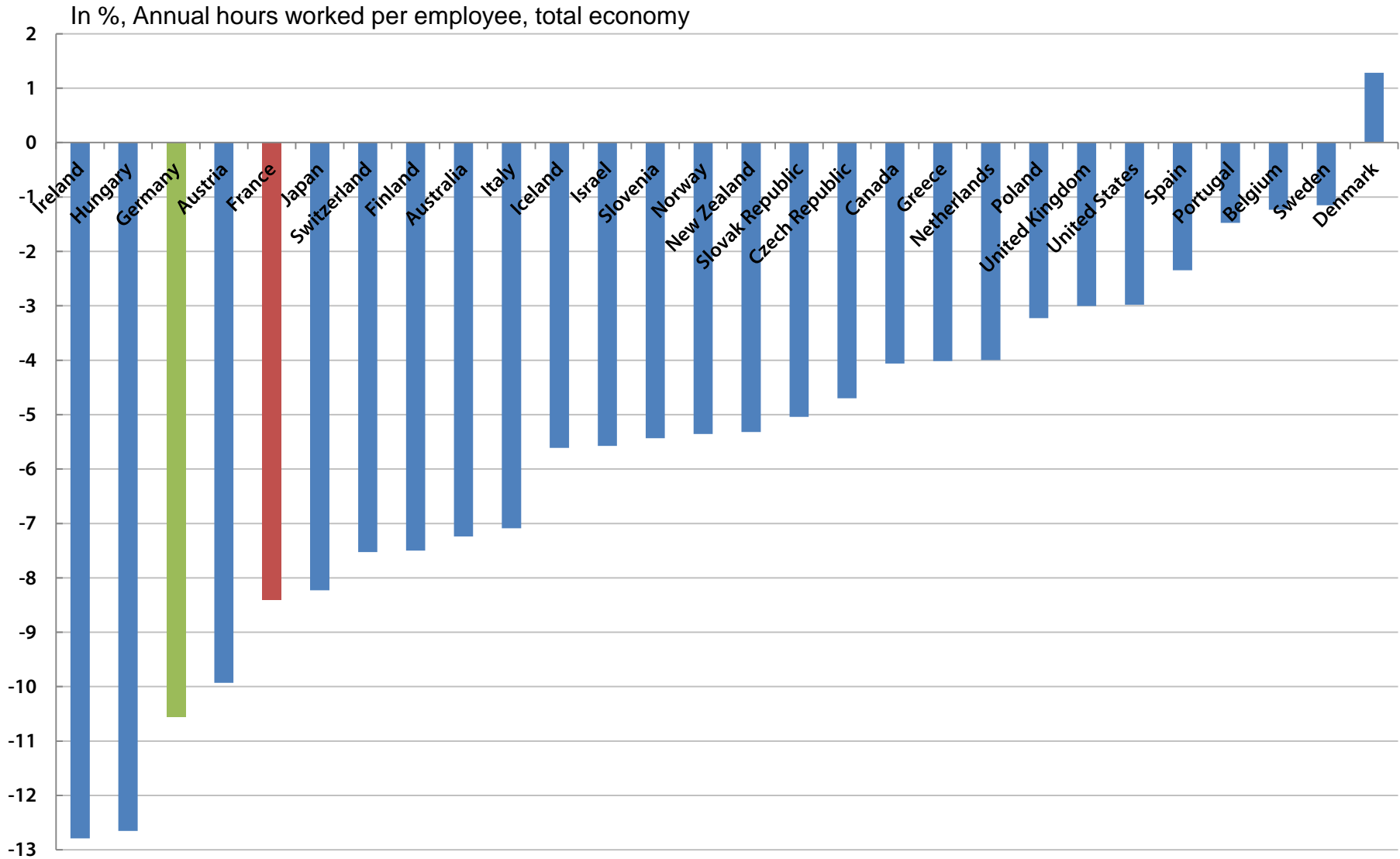
Brechling (1965), Heyer et Timbeau (2000), Chemin and Wasmer (2009), Heyer (2011)

Annual hours worked per employee, total economy, 2014



In 2014, working time in France is not very high compares with the others developed countries. But it is higher than in Germany or the Netherlands and the Scandinavian countries.

Change in working hours since 1995 : All developed countries have reduced their working hours



All developed countries have reduced their working time in 20 years (with the exception of Denmark). This reduction was greater in Germany than in France, due to a stronger use of part-time work and especially a short-hour part-time work.

The impact of change in working time depends on the economy's position in the cycle when the measure is implemented

Table 5: Summary of the impact at 5 years based on the increase in the work week (difference from the central account, %)

Increase in the work week of:		0.8%	1%	2.5%
GDP	Bottom of cycle	0.1	0.1	0.3
	Normal cycle	0.2	0.2	0.5
	Top of cycle	0.4	0.4	1.1
Employment ('000s)	Bottom of cycle	-72	-90	-224
	Normal cycle	-56	-70	-175
	Top of cycle	13	17	41
Unemployment rate	Bottom of cycle	0.3	0.3	0.8
	Normal cycle	0.2	0.3	0.6
	Top of cycle	-0.1	-0.1	-0.2
Gov't deficit(% of GDP)	Bottom of cycle	-0.4	-0.5	-1.3
	Normal cycle	-0.4	-0.5	-1.2
	Top of cycle	-0.2	-0.3	-0.8

Source : Eric Heyer (2011), « The effectiveness of economic policy and position in the cycle : the case of tax reductions on overtime in France », *Oxford Review of Economic Policy*, vol. 27, n° 2, summer.

When the economy is at the top of the cycle, increased working time is more appropriate than a decrease; However, in a time of crisis, a reduction in working time is better for economic growth and for employment.

- **the unemployment benefit system : is it too generous ?**

Scarpetta (1996), Nickell (1998), Elmeskov et alli (1998), Nunziata (2002), Bassanini et Duval (2006)

- **the employment protection legislation : is it too strict ?**

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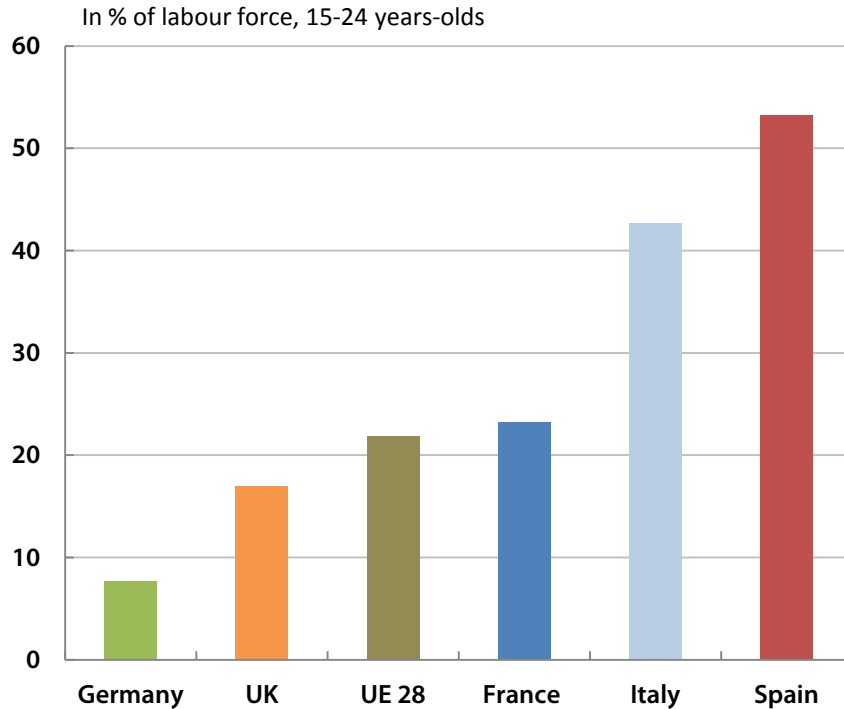
- **the working time : is it too weak ?**

Brechling (1965), Heyer et Timbeau (2000), Chemin and Wasmer (2009), Heyer (2011)

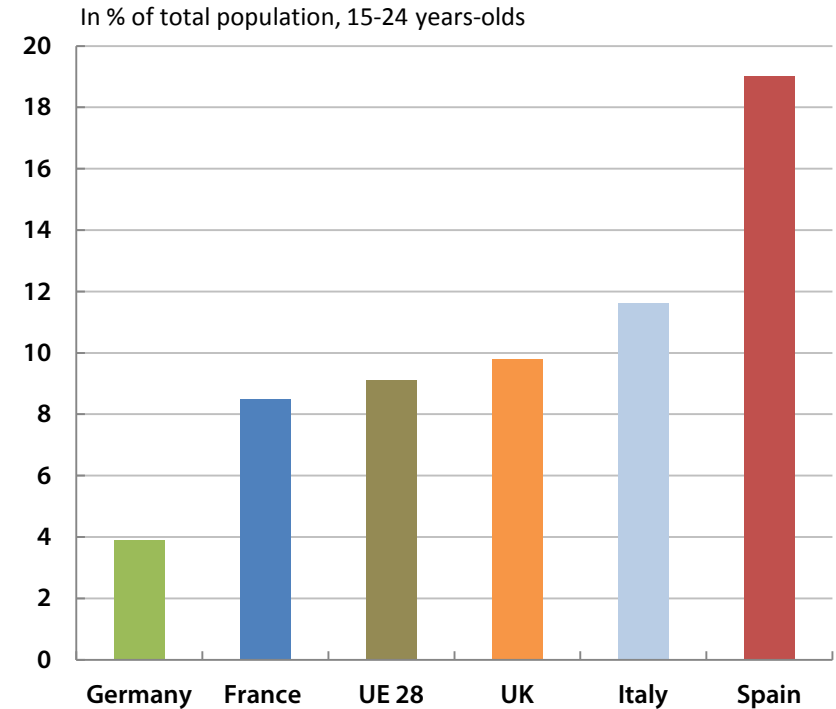
- **the youth unemployment rate : is it the highest ?**

The youth unemployment : the ratio is more appropriate than the rate !

Youth unemployment rate



Youth unemployment ratio



Source : OCDE

Note : The youth unemployment ratio is the share of unemployed youth in the total youth population

The difference is the denominator : in the rate is the labor force; the ratio is the total population.
Labour force is not representative of youth in France because two-thirds of French young people are outside the labor force.

When you are looking at the ratio, the proportion of young people unemployed in France is on the average European Union countries, even slightly lower than in the UK.

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- **the employment protection legislation : is it too strict ?**

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- **the working time : is it too weak ?**

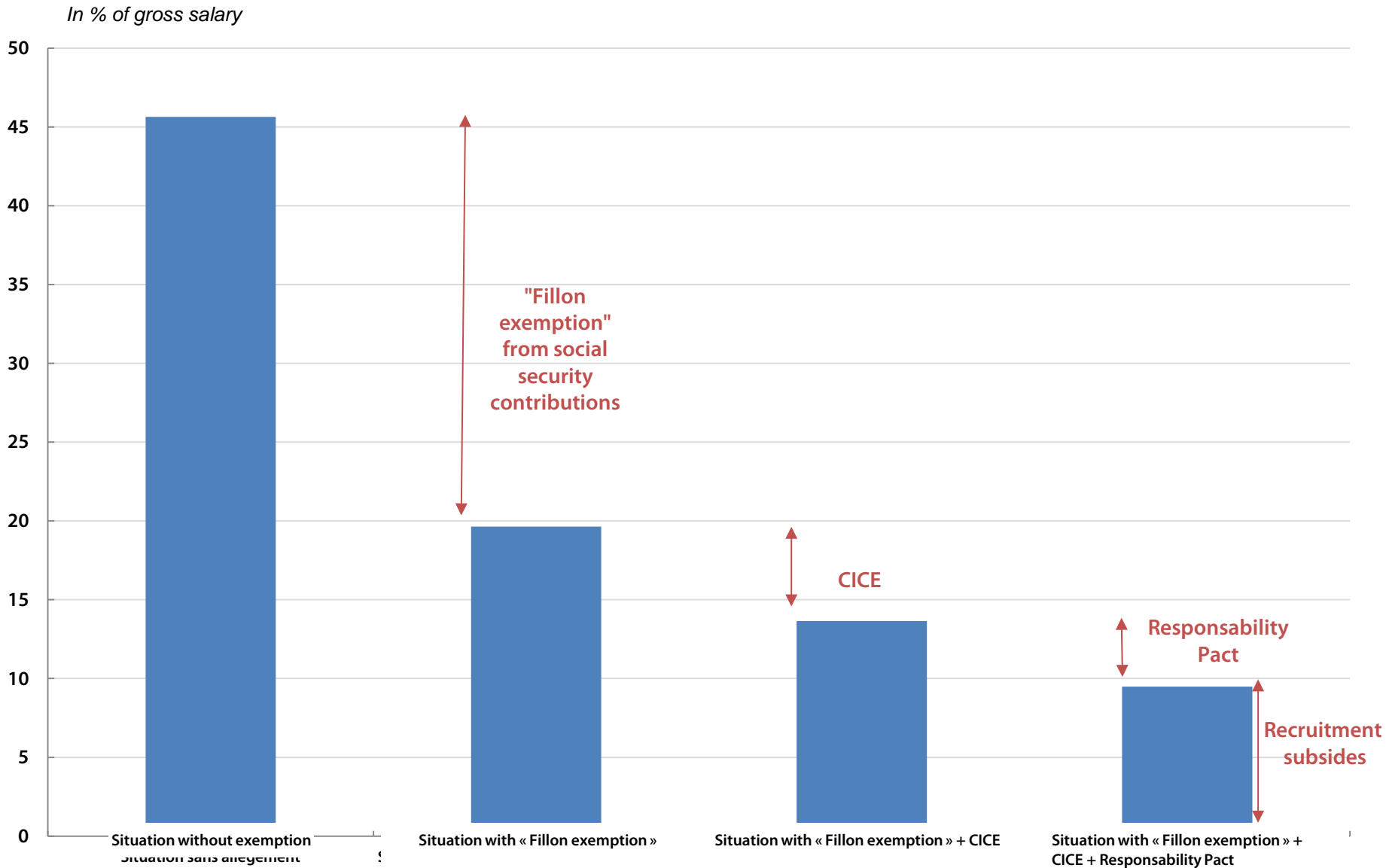
Brechling (1965), Heyer et Timbeau (2000), Chemin and Wasmer (2009), Heyer (2011)

- **the youth unemployment rate : is it the highest ?**

- **the minimum wage : is it too expensive ?**

Card et Krueger (1995), Dolado et alii (1996), Elmeskov et alii (1998), Neumark et Washcer (1999)

Rate of employer contributions at the minimum wage : there are many exemptions



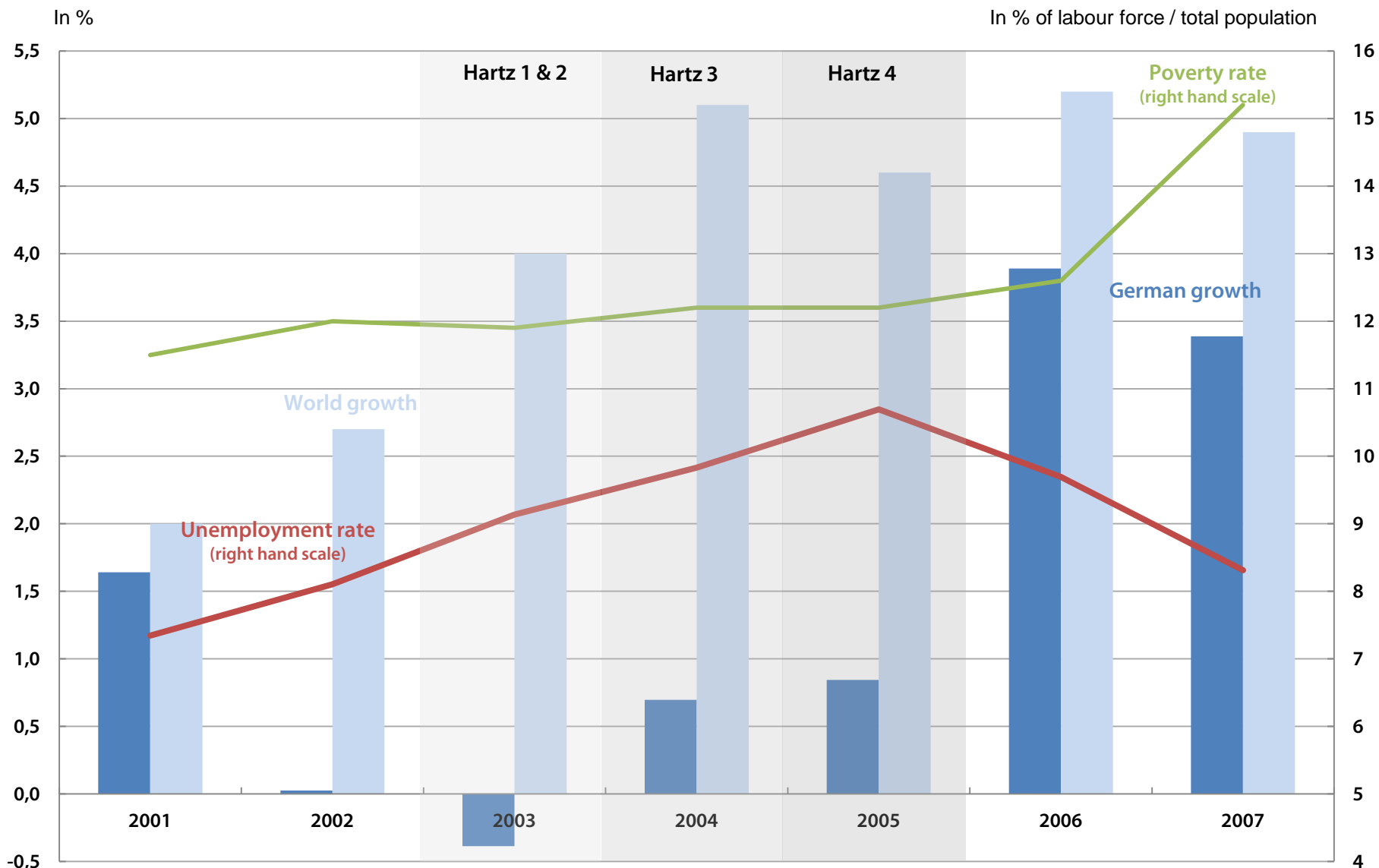
When you take into account all the exemptions, it no longer exists any employer contributions at the minimum wage
French minimum wage employees are cheaper than the Polish plumber

Public finances in Germany between 2002-2006 : we can not tighten all at once



When the Germans introduced the Hartz reforms, they decided, at the same time, to let slip their public deficits and public debt beyond the Maastricht criteria

Economic growth, Unemployment rate, poverty rate and external environment in Germany



Germany was the only one countries to implement this strategy of wage disinflation and in a context of strong global growth. Despite the extremely favorable context, it should be noted that reforms have been slow to allow the return of growth and unemployment decline (about 4 years).

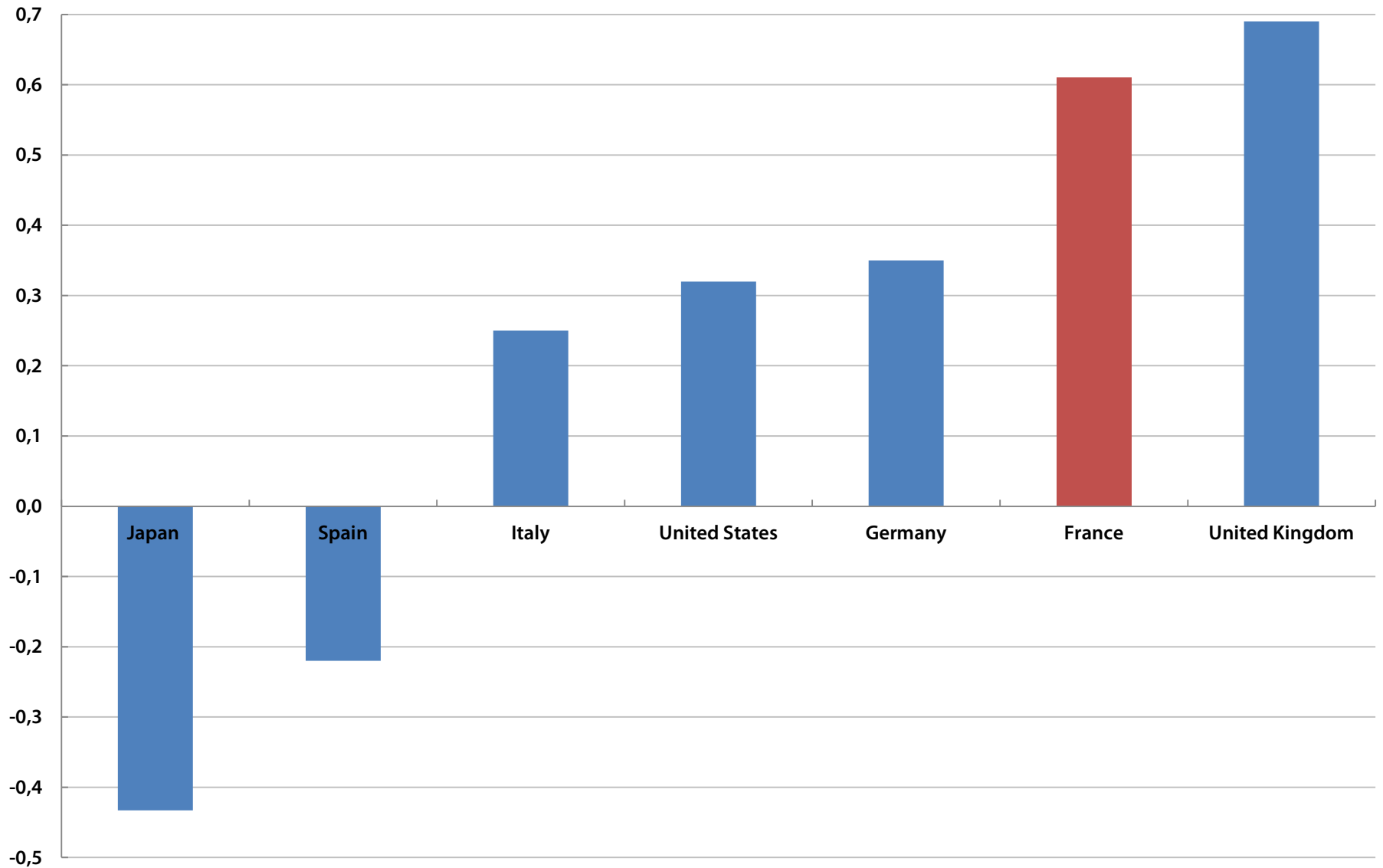
- **The conditions today are not the same :**
 - We lead this strategy all at once...
 - ... in a context of weak global growth...
 - ... and trying to reduce public deficits

- **It is likely that the results will not be as good as those of the germans**

Annex

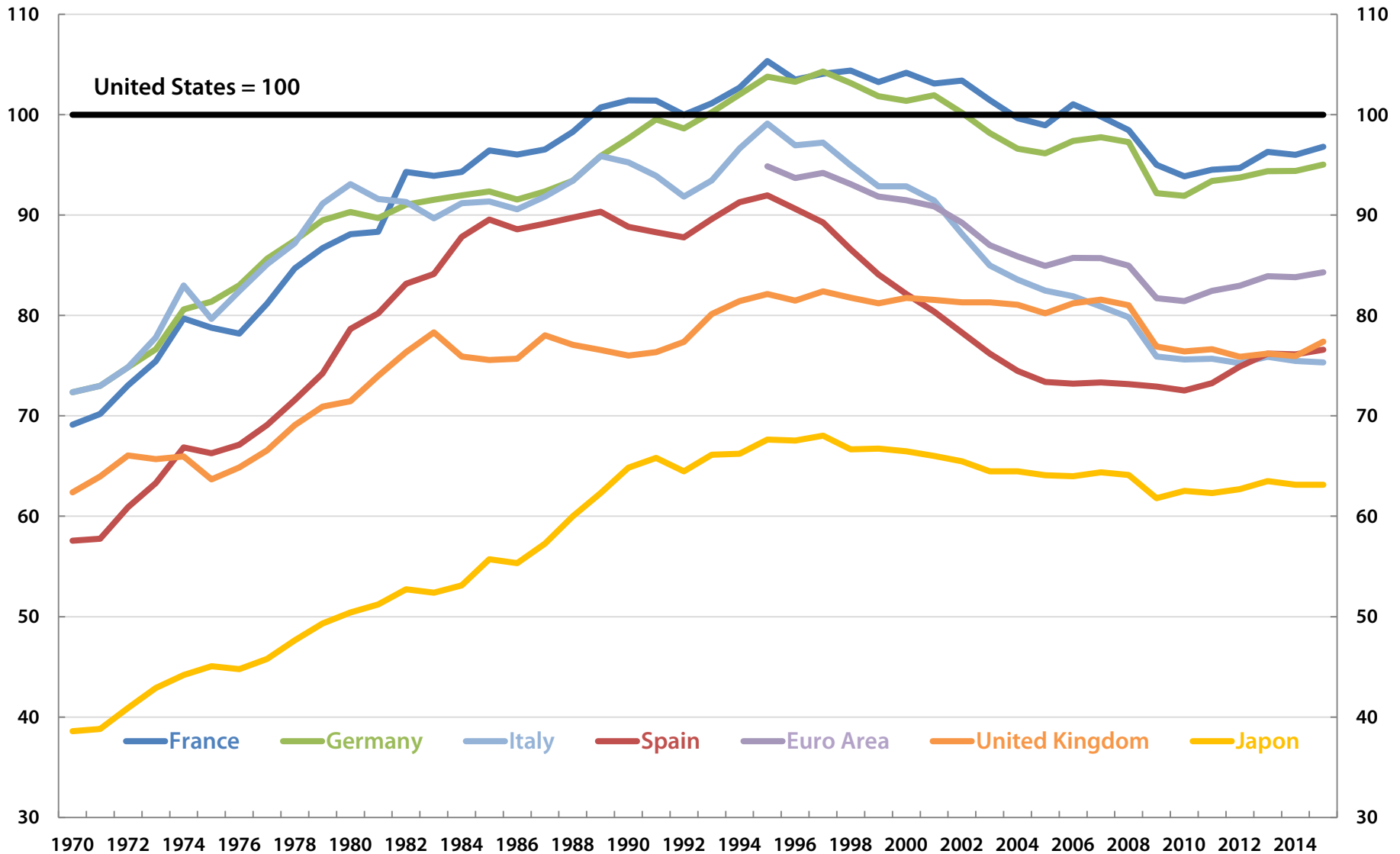
Variation of the labour force between 2008 and 2015

In %, annual average



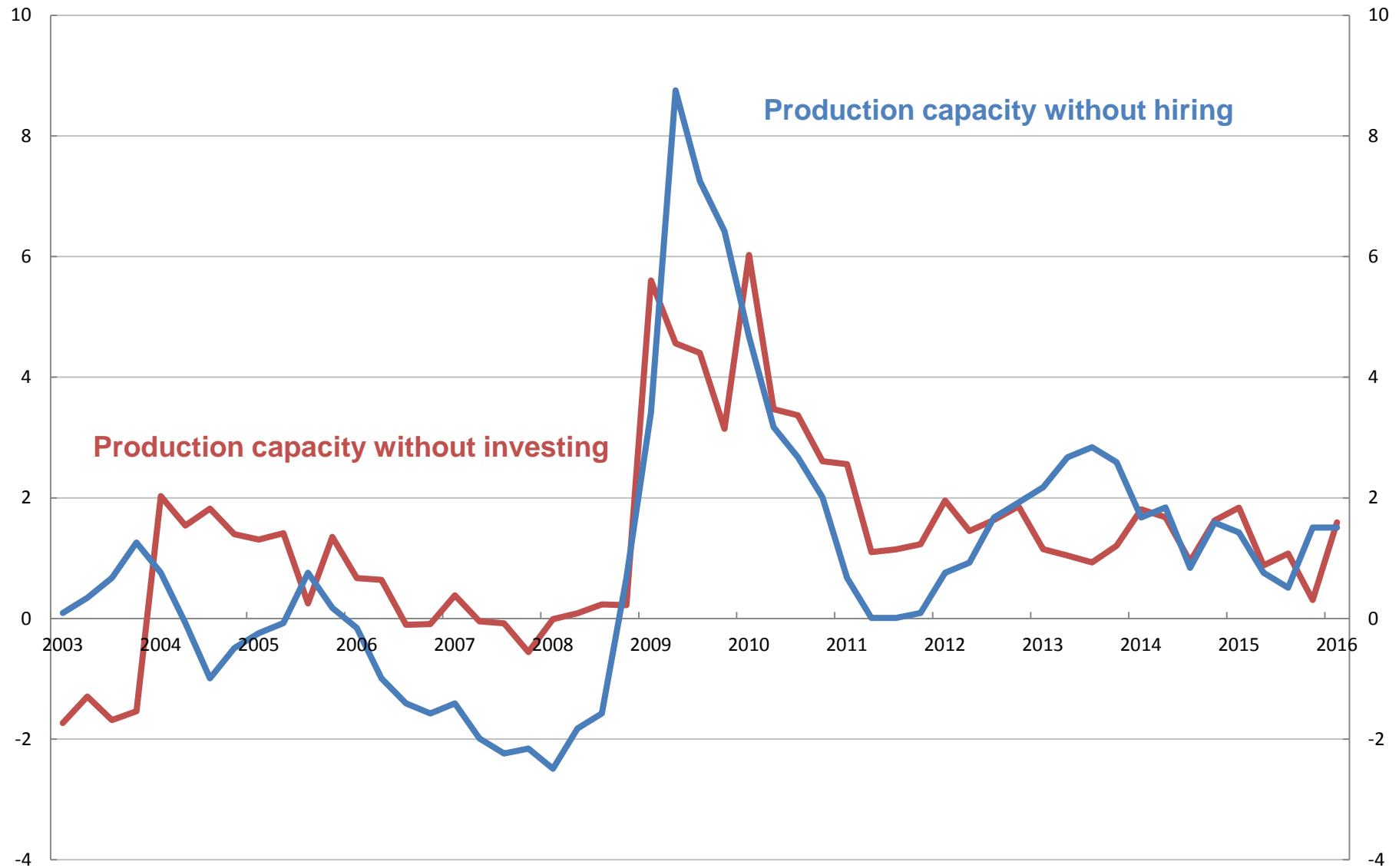
Source : OECD

A high level of the labour productivity (total economy)



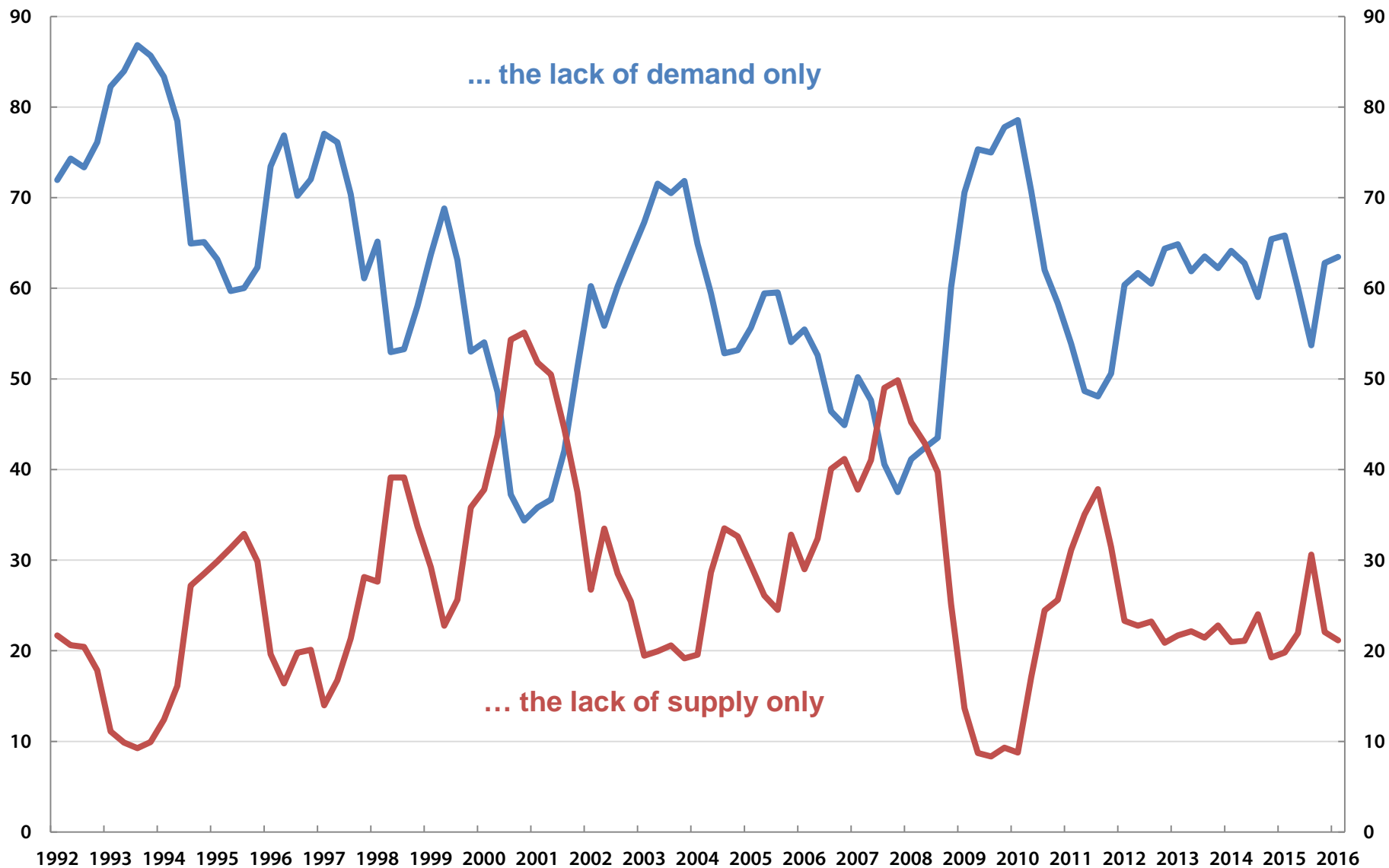
Source : OECD

Underutilization of firms production capacity (French industry)



Source : INSEE

Industry production held back by ...



Source : INSEE