

Employment in France: past and future

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Philippe Askenazy paints a very negative picture of 40 years of employment policy in France. He does not just criticise, but strives to draw recommendations for the future and find the path towards a growth policy for France.

Reviewed: Philippe Askenazy, *Les décennies aveugles, Emploi et croissance 1970-2010*. [The blind decades. Employment and growth 1970-2010] Seuil, 2011, 307 p., 20 €.

Philippe Askenazy's book, *Les Décennies aveugles: emploi et croissance de 1970-2010* [The blind decades. Employment and growth 1970-2010] makes a highly critical analysis of the employment policies that have been established in France since the first oil crisis. He maintains that a large number of analytical errors, caused by the fact that public policy-makers did not take sufficient account of the development of a new post-Fordist economy, led successive governments to implement employment-boosting measures that had both little success and perverse effects. He invites us to become more aware of past mistakes and, if we do not wish to repeat them, to radically change the interpretive framework that we apply to the functioning of the job market and the economy.

After the first chapter, which aims to show the vital role played by information and communications technology (ICT) in the radical changes observed in organizations and the world of work, in chapters 2 to 6 the author describes the major government measures for employment support and their results (often mediocre). Chapter 7 focuses on the measures implemented by the current government. As the author points out, "the lack of historical perspective" makes it difficult to seriously analyse the flood of measures and reforms proposed since 2007. Nevertheless, they already appear to be extremely costly as well as a source of inequality. The final chapter, which is certainly the most original of the book, tries to suggest new points for consideration in order to "regain economic and social ambition for

France” (p. 308) during the current decade. A highly ambitious programme, which, unfortunately, runs into some problems.

A New Economy, Running Silently For 40 Years

In chapter 1, the author puts forward the theory that all industrialized nations have to face the same problems, and that there is no “specifically French evil”. Overall, industrialized countries are confronted with the same technical and macro-economic constraints and are therefore destined to follow very similar paths. This position opposes both the ‘culturalist’ work of Algan and Cahuc, and work on the diversity of capitalisms developed by the regulation school, and even that of Esping Andersen.

However, later in the book this theory of homogeneous industrialized nations is contradicted by the author himself, when he recalls several French specificities: a structurally high long-term unemployment rate (p. 125), lower numbers of university graduates and of women working part-time (p. 141), and a level of R&D spending that is inadequate and in decline (p. 183 and 186) in comparison with those observed in the United States and Germany.

Furthermore, the author’s theory of the homogeneity of capitalisms is based on the existence of a primary, even unique, reason for the current upheavals in capitalism: the development of information and communications technology (ICT). It makes sense for the author of *La croissance moderne* and several articles on ICT to focus on the major role played by ICT. It cannot be denied that ICT has brought about vital changes in the functioning of the economy. Even so, it should not be given excessive importance in order to explain everything at once: de-unionization, financialization, weak productivity gains and the precariousness of a section of the workforce.

Apart from this arguable assumption, Askenazy underlines the fact that industrialized nations are faced with an economy that has structurally changed in nature since the end of the 1970s. In this post-Fordist economy, the job market, organizations and engines of growth are not what they were. And yet, even though some French experts identified those upheavals very early on,¹ successive governments after 1974 did not take full account of those changes or follow the recommendations made at the time. They confined themselves to Keynesian-type policies for boosting the economy, or measures focused on labour costs or even on

¹ The author makes frequent reference to the 1967 Ortolí report on this point.

improving the balance between labour supply and demand. Chapters 2 to 7 aim to elaborate on those policies.

Taking Stock of Past Mistakes

In these chapters, the author opts for a chronological approach that describes the main measures taken in France from the Chirac-Barre governments to the Fillon government as a way of boosting growth and dealing with rising unemployment, particularly among young people. Initially, those measures focused on macroeconomic stimulation policies (under Chirac and Mauroy) or the reorganization of public finances (under Barre). Nevertheless, to address the challenges associated with helping young people into the labour market, the governments were quick to propose specific measures for this group: ‘Pactes nationaux pour les jeunes’ (‘National pacts for young people’) under Raymond Barre; ‘Travaux d’Utilité Collective’ (‘Community work schemes’) under Laurent Fabius; ‘Exo-jeunes’ (exemption from social security contributions for young people) and government-sponsored contracts under Michel Rocard; ‘Emplois jeunes’ (‘Jobs for young people’) under Lionel Jospin; and attempts to establish the ‘Contrat d’Insertion Professionnelle’ and the ‘Contrat Première Embauche’ (workforce entry schemes) under Edouard Balladur and Dominique de Villepin.

Overall, while these policies enabled unemployment to be tackled socially, they did not resolve the long-term problems young people encounter when trying to enter the workforce. In addition, these government-sponsored contracts and other subsidies had the effect of establishing the collective idea that young people under 26 were by nature difficult to employ and generally less productive than older workers. The author also reminds us, with his detailed presentation of all the youth employment measures taken, that “novelty is often ignorance of history”. Many of the new ideas that seem to be emerging among the different candidates for the upcoming presidential elections therefore run the risk of being pale imitations of past measures, which overall have little or no impact and can sometimes produce perverse effects.

The other set of policies described in these chapters focuses on reductions in social contributions. First established in 1993, the policy was continued and strengthened by Alain Juppé’s reform in 1995, Martine Aubry’s in 1998 and 2000, and then François Fillon’s in 2004, to the point where it became the biggest policy for French employment in terms of

spending.² With regard to the effectiveness of these measures, the author here adopts a consensus position that seems to be the conclusion among experts on the matter: overall, they seem to generally create jobs, but are very costly in terms of public finances.³

In passing, Philippe Askenazy recalls a historical error that is often made with regard to the development of a tax wedge⁴ that is higher in France than that observed in other industrialized nations, due to the extent of social contributions made by employers and employees. (The tax wedge measures the difference between the cost of an employee for an employer, with all contributions taken into account, and the net salary). This sharp increase in ‘super-gross’ labour costs (that is, net salary + employees’ social contributions + employers’ social contributions) indeed dates back to the end of the 1970s and the measures taken by Raymond Barre’s government, not those taken under Pierre Mauroy’s government.

More generally, Philippe Askenazy questions the relevance of this policy decision to reduce labour costs and promote the development of unskilled jobs. He notes that focusing on labour costs is perhaps a mistake, if we look at the case of Germany, which, despite having much higher labour costs than the rest of the industrialized countries, has an excellent export performance.⁵ The author believes the focus should be placed more on long-term investments in training and developing skilled labour (see below). Finally, he specifies that unskilled jobs could have been boosted in another way. In the distribution sector, therefore, it would not have been necessary to limit competition through the Raffarin law of 1996, which restricted the establishment of supermarkets.

Measures aimed at promoting flexibility in the labour market also come under the author’s scrutiny. These more recent measures stem from two effects: i) the desire to follow the example of the Danish ‘flexicurity’ model in order to obtain the same performances in the job market; ii) the development, on a theoretical and academic level, of ‘matching models’,

² In 2008, that spending totalled 30.5 million euros (Acos-Stat, 2009, December-95 edition), of which 24.2 million was earmarked for general reductions for employment creation, 2.8 was for general exemptions for extra hours introduced by the ‘TEPA’ law, and the rest linked to measures for particular sections of the public (government-sponsored contracts) or geographical areas in difficulty, whether rural, urban or overseas territories.

³ This part could have been more detailed, particularly in order to show that, paradoxically, these exemption measures, which were concurrent with high rises in the minimum wage (*Smic*), did not lead to a real reduction in labour costs.

⁴ The tax wedge establishes the gap between the total cost of a worker for the company, and the net salary that the employee receives.

⁵ On this point, see the debate on competitiveness in France and Germany on the Rexecode website: <http://www.coe-rexecode.fr/public/Espace-Presses/Coe-Rexecode-dans-les-medias/Le-rapport-Competitivite-France-Allemagne-dans-les-medias/France-Allemagne-le-debat-sur-les-chiffres-du-cout-du-travail-dans-les-medias> (in French).

which we owe to Dale Mortensen and Christopher Pissarides, who, along with Peter Diamond, received the Bank of Sweden Prize in 2010 (more commonly known as the Nobel Prize in Economic Sciences), and who have been studying the (theoretical) reasons why the link between job vacancies and available workers is not put to the most effective use. Several recent measures, such as the ‘Contrat Nouvelle Embauche’ (‘New employment contract’ – rejected by the International Labour Organization), the ANPE-Unedic employment agencies merger (carried out at the worst possible time), and contracts with voluntary termination (a measure not discussed by the author) are all part of this same approach. Overall, the author is somewhat sceptical about their effectiveness, and doubts that they will enable the real causes of unemployment to be tackled. In the final chapter, he summarises his point as follows: “flexibility in the job market has been achieved everywhere, but it has not kept its promise to improve employment opportunities” (p. 277). Overall, these chapters are highly instructive, even if the description of these measures sometimes resembles a mixed-bag inventory. The author could have focused more on the economic bases for these measures by specifying the effects anticipated *a priori* and by pinpointing the reasons for their failure. For example, with regard to the measures aimed at promoting flexibility, are their very poor results linked to a theoretical error made on the causes of unemployment, to overly timorous measures with regard to the French legal and social context, or even to an unfavourable macroeconomic context? Such details would have made these chapters clearer and easier to read.

As well as this, the author cites his analyses in imbalanced and highly subjective way.⁶ He focuses too little on two points, which are nevertheless implicit in the book:

- measures that were very similar and had a limited lifespan accumulated, were replaced and grew in number over time, making it difficult for employment agents to implement them and creating a highly unstable legal environment, which encouraged companies and economic actors to behave opportunistically;

⁶ For example, with regard to his analysis of the ‘Crédit impôt recherche’ (Research tax credit), the author cites the results of Jacques Mairesse and Benoit Mulkey (2004), which identify an extremely strong leverage effect for this measure: 3 euros per euro of subsidy. Three observations can be made on the information he presents. Firstly, it is surprising that the author concludes from these extraordinary results that this policy is “relatively effective” (p. 241). In addition, he fails to mention other work that put the scale of this leverage effect into considerable perspective (for example, those of Emmanuel Duguet (2008) – <http://leda.univ-evry.fr/PagesHtml/laboratoires/Epee/EPEE/documents/wp/08-08.pdf>). Finally, Philippe Askenazy forgets to mention the inconsistency between this microeconomic result and the macroeconomic changes in domestic spending on R&D over the period studied. If the leverage effect of 3 for 1 detected at microeconomic level corresponded to the real effect of the Research tax credit, then one should observe an important rise in R&D spending at macroeconomic level. However, nothing of the kind has been observed.

- the weak evaluation of these measures, linked to their instability and/or the lack of any political will to take stock of them, led to a situation in which generally ineffective measures were proposed repeatedly.

The last mistake that can be pointed out in these chapters relates to the numerous descriptions of the careers of the politicians and advisors responsible for these measures. These details do not contribute a great deal to the substance, and they further the theory put forward by several current politicians on the existence of an oligarchy that has been in power for the last 40 years, which, at best, lacks innovation and constantly focuses on the same proposals, or, at worst, adopts vote-catching measures that favour its voters and abandon the most impoverished. After reading the book, it is difficult to determine whether this theory is indeed the one the author wishes to disseminate.

Repositioning the Debate on Growth and Employment

The final chapter is certainly the most interesting and original. The author stresses the importance of repositioning the debate on growth and employment, both on an academic level and in the field of political debate. He focuses on two points he believes to be vital:

- i) The need to re-establish innovation in the way we perceive growth and employment. In his view, that renewal should come about through a change in method and paradigm.
- ii) The identification of specialised areas in which France has a comparative advantage and which would be useful to develop in the future.

“The paradigm must be changed”

First of all, Philippe Askenazy discusses the limitations of two methodological approaches that have been very popular in a large number of recent reports and scientific works:

- i) the ‘culturalist’ approach, which, among other things, cites France’s very deep mistrust of others as a reason for the poor performance of the French economy;
- ii) “political benchmarking,”⁷ consisting in adopting the key measures of countries that have, at some point, been taken as a model.

With regard to the culturalist approach, the author returns with humour to the methodology developed by Yann Algan and Pierre Cahuc⁸ in order to ‘demonstrate’ the opportunity that

⁷ Political benchmarking is a technique that consists in studying and analysing the policies implemented in other countries and identifying those that obtain the best results. It is then a question of using these as an example in order to define new measures most likely to have similar effects.

would present itself if France adopted a monarchic system as a way of re-establishing trust and boosting growth. This reasoning by contradiction is especially convincing, and prompts us to be wary of this state methodology of “stimulating non-maturity” (p. 256) and to avoid relying on this work in order to “adopt hasty political conclusions” (p. 255).

As regards political benchmarking, his criticism is less extreme, but the author highlights three limitations specific to this exercise, which, although well known, are often overlooked by experts.

- i) The difficulty of transposing, from one country to another, an institutional structure that is the result of a compromise negotiated between citizens.
- ii) Compliance with scales of comparison. It is inappropriate to compare countries of very heterogeneous size (such as France and the Netherlands, or England and the United States). At European level, he recommends comparing homogeneous regions, using the Nomenclature of territorial units for statistics (NUTS) as defined by Eurostat, rather than setting countries up against one another.
- iii) The effects of trends related to the temporary performances of some countries in a highly specific economic environment. The OECD gives model countries a set amount of time before making a rigorous critical analysis of them several years later.

More generally, in this chapter Philippe Askenazy calls on his peers (experts and researchers) to make an intellectual break in order to move away from purely financial and taxation measures in order to devote more effort to building a policy for growth that alone is capable of bringing about full employment. His theory is that it is vitally important to develop – as Germany did with its export industry, the United States and the Scandinavian countries with ICT, or England with its financial industry – a structuring project on which to base our economic development.

The Path Towards Growth

The author begins this exercise himself, and tries to identify the foundations of this French policy for growth. First of all, he clarifies that the French state, in a context of strong international competition, should focus much more on innovation and accumulating human capital by engaging permanently in a policy that aims to improve average training levels and

⁸ Algan and Cahuc (2007) *La Société de la défiance*, Éditions Rue D’Ulm, Paris. On this issue, see Éloi Laurent’s critique on the website of Books and Ideas : <http://www.booksandideas.net/Can-We-Trust-the-Society-of.html>

increase spending on R&D. The author rightly highlights the worrying decline in R&D spending as a percentage of GDP in relation to France's main partners, despite extremely high spending on research tax credits. He also recalls the fact that there is a persistent gap between French people's average level of training and that observed in other industrialized European nations.

Philippe Askenazy finishes his comments by identifying two areas of specialization on which France should count most: developing the health sector, and the sector he refers to as "university tourism". Regarding the latter point, given France's slow start in the race to establish a knowledge-based economy, a delay he describes in detail in the book, this specialization runs the risk of becoming (if this is not already the case) a form of 'low-cost' tourism with relatively limited knock-on effects.

More generally, the exercise to identify *a priori* the fields that will lead to growth and employment is not very new, but has already been widely explored in a country of Colbert-Gaullist tradition. This exercise has sometimes led to considerable industrial successes (developing nuclear energy, rail transportation and the aerospace industry) but has also often led to spectacular failures (the 1967 'Plan Calcul' to promote a computer industry, the 1985 'Plan Informatique pour tous' to promote information technology in schools). What is more, as well as identifying sectors that will bring about growth and employment, it is necessary to specify how the French economy can be steered in the direction of that specialization. Unfortunately, the author does not say anything on this point.

To sum up, despite a few limitations, *Les Décennies aveugles* has the merit of prompting a collective reflection with the aim of pinpointing the major needs of tomorrow in terms of growth and employment, rather than confining itself to developing highly complex technical measures that have already been tried and are often ineffective. How economic actors can be made to respond to those needs is another matter, which will also need to be dealt with at some point... or contemplated right now. So let's get to work.

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