

Chapter 9

Labour market performance and deregulation in France during and after the crisis

Tim Vlandas

1. Introduction

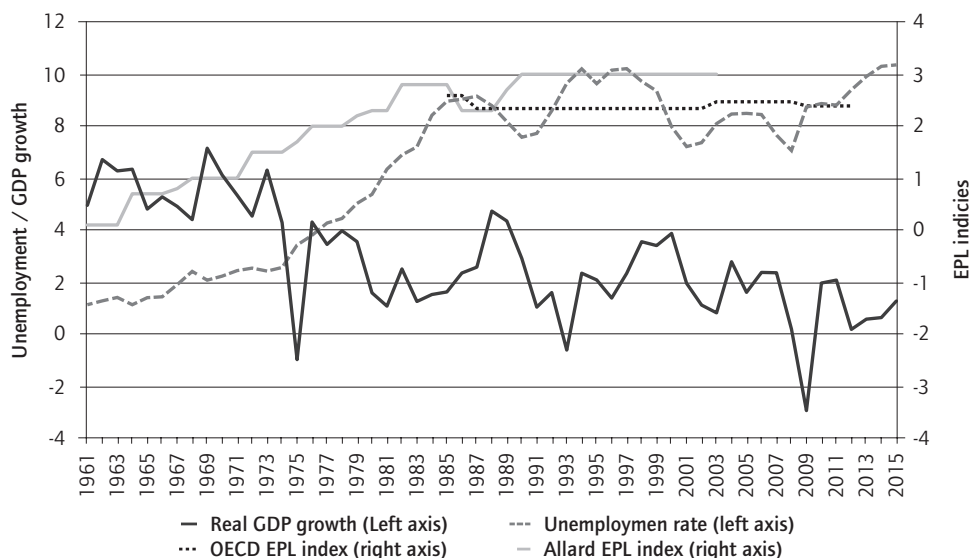
What explains the cross-national variation in unemployment rates over time? A vast literature in orthodox economics highlights the importance for unemployment of labour market institutions (e.g. Scarpetta 1996: 45, Elmeskov *et al.* 1998: 29-30, Nickell *et al.* 2005: 22). Among labour market institutions, previous literature has paid particular attention to employment protection legislation (EPL) and its political and economic consequences for European welfare states, unemployment, wages and consumption (Bentolila and Bertola 1990, Esping-Andersen and Regini 2000, Oesch 2010, Scarpetta 1996, Siebert 1997). Several studies argue that high EPL is associated with higher unemployment (e.g. Elmeskov *et al.* 1998, Nickell *et al.* 2005, OECD 1994, Scarpetta 1996, Siebert 1997).

This chapter focuses on the case of France, where there is a long-lasting concern that a 'rigid' labour market results in high unemployment, labour market dualisation and social exclusion. It analyses how the crisis has affected the French labour market and what labour market reforms have been implemented by governments during and after the crisis. France is often taken as an example that EPL leads to higher unemployment and that the appropriate solution is to deregulate EPL. For instance, the OECD notes in its Economic Survey of France that: 'The key challenge [in France] is to reform the labour market to promote job growth. Further labour market reforms should be the top priority. The strong protection accorded by open-ended contracts hinders labour mobility.' (OECD 2015: 2). By contrast, I argue that France's labour market resisted well, on average, during the crisis partly because the crisis was less pronounced than in other countries and partly because EPL insulated large parts of the workforce from the economic shock. After the crisis, EPL deregulation did not lead to a reduction in unemployment.

More specifically, my findings reveal that workers with permanent contracts have been mostly protected from the crisis while the costs of the crisis have been concentrated on more vulnerable labour market groups. The young, foreigners, those with low education and on non-standard contracts have been particularly hard hit by the crisis. This resulting higher labour market segmentation occurred despite several attempts by governments to help outsiders and reduce labour market dualism, for instance by attempting to regulate non-standard work, introducing new in-work benefits, extending the eligibility of unemployment benefits and subsidising the hiring of unemployed workers. Lowering EPL does not seem to have been an appropriate policy response to the crisis as it reduced neither unemployment nor labour market dualisation.

This chapter unfolds as follows. The next section examines the evolution of France’s labour markets before the crisis. I show that France’s employment problems before the crisis do not seem to be about high EPL but that France is struggling to adapt to deindustrialisation and the growth of the labour force, driven by the entry of more women into the labour market, and the expansion of the temporary work sector. The second section then describes the impact of the crisis and identifies how policy-makers have responded by deregulating EPL and attempting to reduce labour market dualisation. In the third section, I analyse how labour markets have evolved during and after the crisis. I show that reforms failed to reduce unemployment, while labour market dualisation increased. The final section draws some conclusions.

Figure 1 EPL, unemployment and GDP growth in France since the 1960s



Source: Real GDP growth, unemployment and the OECD index of EPL are taken from Armingeon *et al.* 2015. Comparative Political Data Set 1960-2013. The Allard index is taken from Allard (2005). Note that data for the Allard EPL index is only available until the early 2000s and data for the OECD EPL index is only available until 2013.

2. EPL, unemployment and France’s labour market in historical perspective

There is a large literature blaming high unemployment on ‘stringent dismissal regulations’, understood as high EPL (e.g. Bassanini and Duval 2006, Elmeskov *et al.* 1998, Layard *et al.* 1991, Nickell 1997, Nickell *et al.* 2005, Scarpetta 1996, Siebert 1997). Siebert (1997: 49) sums up this orthodox view by arguing that ‘job protection rules can be considered to be at the core of continental Europe’s policy toward the unemployment problem: protecting those who have a job is reducing the incentives to create new jobs.’ The effect may be particularly detrimental for disadvantaged groups. For instance, Scarpetta (1996: 63) finds from a study of 17 OECD countries that EPL is correlated with higher unemployment but that the effect is stronger on youth unemployment and long-term unemployment.

France is claimed to have a very high EPL index (European Commission 2014), though its EPL for regular contracts does not appear substantially higher than the OECD average (e.g. 2.39 versus 2.08 in 2012). However, the weighting of the different dimensions underpinning the index may be problematic. Disaggregated data for EPL as regards regular contracts in 2012 reveal that there are a number of dimensions (notification procedures, length of notice period after 20 years tenure, severance pay after 9 months tenure and the possibility of reinstatement following unfair dismissal) where France scores lower than the OECD average.¹ Whether the overall index ranks France below or above the OECD average therefore depends on the weighting that is used.²

Moreover, most of the increase in France's unemployment rate occurred before the mid-1980s. The unemployment rate has since oscillated between 7 per cent and 12 per cent for all ages – with no apparent link with changes in EPL – and between 15 per cent and 24 per cent for the 15-24 age group. Unemployment peaked in the middle of each decade, i.e. in the mid-80s, mid-90s, mid-00s and mid-2010s. The long-term unemployment rate (>1 year) has been more or less stable at around 40 per cent of the unemployed for several decades. At the same time, the civilian employment rate, as a share of the working age population in 2010, was almost as high as it has ever been since the mid-1950s (when EPL, as measured by the Allard index, was close to zero): it fell between the mid-1950s and the mid-1980s, but it has subsequently increased more or less continuously since the mid-1980s (OECD annual labour force statistics database).

Figure 1 plots GDP growth, unemployment and EPL³ since the 1950s. EPL and unemployment do, at times, trend upwards together but developments in the unemployment rate follow developments in GDP growth far more closely. Indeed, the 1960s were characterised by rising EPL but there was no notable rise in unemployment, which remained below 5 per cent until the oil shocks of the 1970s and the associated negative growth of the late 1970s. In the mid-1980s, the conservatives briefly won parliament (while the socialist party retained the presidency) and slightly reduced EPL. The 3rd July 1986 law removed administrative controls on the validity of economic necessity for an economic collective dismissal (Seguin 1986). This was followed by a fall in unemployment, but it also coincided with a period of particularly strong growth. Unemployment initially remained low when EPL was raised again as the left regained a parliamentary majority. Unemployment has varied significantly since the early 1990s, whereas the EPL index for regular contracts has remained stable (it was 2.56 in 1986, 2.34 throughout the 1990s, and increased to 2.47 after 2002). It is also notable that, despite the highest EPL ever recorded, economic growth led to falling unemployment during the socialist Jospin government (1997-2002) which introduced the 35 hour week as well as some targeted reductions in social security contributions (see Clift 2002: 332).

The average unemployment rate also hides massive compositional shifts in employment. First, the male employment rate fell from 90 per cent to 70 per cent between 1956 and 2000 (and to 67.1 per cent in 2015) while the female employment rate increased

1. See OECD Indicators of Employment Protection, www.oecd.org/employment/protection
2. See the chapter by Myant and Brandhuber on the arbitrary construction of the EPL index in this volume.
3. The OECD EPL index only starts in the 1980s and covers the period up to 2013, whereas the Allard EPL index starts much earlier but ends in 2000 – see sources of Figure 1 for more details.

from below 50 per cent to above 60 per cent in the same period.⁴ In 1956, there were 13.5 million employed men and 6.2 million employed women. By 2013, the number of men in employment had barely increased, to 13.8 million, while the number of women in employment had risen to 12.8 million (OECD annual labour force statistics database). Second, France experienced a profound deindustrialisation in which the share of employment in industry dropped from slightly below 40 per cent to less than 20 per cent of civilian employment. Third, like other developed countries, France has entered an ‘age of dualisation’ (Emmenegger *et al.* 2012: introductory chapter) where the rights and entitlements of outsiders, in unemployment and precarious work, have been reduced while insiders, in permanent employment, have, for the most part, been protected (Palier and Thelen 2010).

There has been a large expansion of precarious work. Temporary employment has been multiplied by four in the last three decades, reaching 16 per cent in 2013 (OECD annual labour force statistics database).⁵ Other factors often play a role – as the chapter by Rubery and Piasna (this volume) makes clear – but increases in EPL and changing economic structures do seem to have spurred employers to look for flexibility elsewhere. In France, the emergence of labour market segmentation is partly linked to employer responses to pushes by the labour movement for higher job security as well as to the tertiarisation and globalisation of the economy. Following the protests and strikes in 1968, labour and employers reached a compromise in the ‘*Accords de Grenelle*’. With an emboldened worker movement, several reforms later introduced further restrictions on redundancies and dismissals as well as allowing for a greater role of workers’ representatives in companies (Piore 1978: 35, 36; Emmenegger 2014: 12).

At the same time, the service sector expanded and companies faced increased competition and economic uncertainty, and experienced supply side shocks. Employers responded to this higher ‘rigidity’ and greater need for flexibility by shifting some of their activities into less rigid settings, such as companies with fewer than 50 employees where certain legislation did not apply, or in places where union organisations were less strong (Piore 1978: 38, 39). Paul Marx (2012: 711) similarly notes that: ‘enforced restrictions on the prerogative to dismiss regular workers and growing economic uncertainty inspired new management strategies.’

Employers also increasingly relied on temporary work, which was given stronger legal status in the 1960s and 1970s (Vlandas 2013b). For instance, temporary agency work (TAW) companies appeared in the 1950s, but TAW became fully legal only in 1972 (Belkacem and Kornig 2011: 10). However, this does not mean that higher EPL was the only, or even the main, factor that explained companies’ search for flexibility: intensified global and European competition, and the rise of unemployment which provided a pool

4. This compositional shift is not unrelated to the emergence of dualisation in France: there is some evidence that ‘employers actively sought out new female workers because they could be made to bear the flux and uncertainty to which the traditional labour force was becoming increasingly resistant’ (Piore 1978: 44).

5. Cochard *et al.* (2010: 185) reports that, among developed economies, France has one of the highest percentages of workers with more than 1 year seniority (nearly 12 per cent of workers), but also one of the highest percentages of those with less than 1 month seniority.

of available unemployed people searching for work, also provided companies with both the will and the ability to rely on temporary agency work (*ibid*: 11).

Growing segmentation is also linked to the changing sectoral composition of employment, consistent with temporary work being used mostly in the service sector. For instance, 69.9 per cent of temporary workers in 2000 were in the service sector, 27.4 per cent in industry and 2.8 per cent in agriculture (OECD 2002: 139). However, this aggregate figure hides an important difference between TAW and fixed-term contracts. The latter tend to be more prevalent in the service sector, while TAW is more prevalent in industry (Sauze 2006: 97; Macaire and Michon 2002). For instance, in 2000 there were 310 980 full-time equivalent agency workers in industry, compared to 186 333 in the service sector and 104 399 in the construction sector (DARES 2016c).

In sum, when the crisis hit, policy-makers had managed to reduce unemployment, after it peaked in the late 1990s, while keeping a high level of EPL, but youth unemployment rates and temporary work represented a problem. Historically, segmentation is the result of companies' strategies in the context of growing economic uncertainty and legal as well as structural changes.

3. The French crisis and labour market policy responses

3.1 The crisis: overview and policy responses

The slowdown in economic activity and the appearance of mass unemployment in the 1970s came about with the first crisis after the Second World War (Amable *et al.* 2012: 1177). The recent crisis is the third time that GDP growth fell into negative territory in the last 60 years (see Figure 1).⁶ The slow recovery from the latest crisis is consistent with long-term trends since the 1960s, in which the highest real GDP growth in each decade has been lower than that in the decade preceding. It is therefore striking that we observe only a moderate deterioration in unemployment levels, with few changes in employment (European Commission 2014, Chart 17: 36). The elasticity of labour input (i.e. the reaction of both employment and hours worked) to the output shock brought about by the recession was lower in France in this recession than in the past and also lower than in a number of other advanced economies such as the US, UK, Portugal, Spain, Canada, Finland and others (OECD 2010: 43).

Adding to the unemployment rate the share of the labour force which is marginally attached to the labour market and underemployed workers does not fundamentally change the picture: this measure increased from below 15 per cent in 2008 to about 17 per cent in 2009, higher than in Germany and the UK, but lower than in the US, Italy and Spain, and only slightly higher than the G7 average (OECD 2010: 26). Thus, if one considers the unemployed plus the marginally employed, France resisted reasonably well in the initial stages of the crisis.

6. In 2009, the economic recession was more marked than in the past: 2.6 per cent compared to 0.9 per cent in 1993 and 1 per cent in 1975 (Bardaji 2011: 1).

One reason lies with the relatively limited depth of the recession in France compared to certain other advanced economies. The recession in France was worse than previous ones, but it was categorised by the OECD as a medium GDP shock (OECD 2010: 32). France's macroeconomic aggregates did not fall significantly and recovered fairly fast. Thus, for instance, the chain linked volume index (2010=100) for gross capital formation peaked in France (110.2) in the first quarter of 2008, but the trough was reached in the third quarter of 2009 (97.2) (Eurostat 2016a). Consumption even increased during the crisis: the chain linked volume index (2010=100) for consumption expenditures increased from 96.1 in the first quarter of 2007 to 97.5 in the first quarter of 2008, 97.7 in the first quarter of 2009 and, by the first quarter of 2014, it was 102.1 (Eurostat 2016a).

Another reason is that automatic stabilisers worked fairly well during the crisis (OECD 2010: 32, 48-52). Microsimulations using information on households and government policies in 2008 show that France had the 7th highest unemployment stabilisation effect from automatic stabilisers in the EU and that, unlike other countries, a lot of this effect operated through social insurance rather than tax contributions (Dolls *et al.* 2010: 16).

Policy-makers introduced many labour market reforms between 2008 and 2013 across several policy domains identified in the LABREF tool developed by the European Commission. Table 1 reveals a surprisingly high degree of policy activism, with 81 reforms in total.⁷ The majority of these reforms concerned active labour market policies (ALMPs), followed by welfare-related benefits and job protection. Most of

Table 1 Overview of policy responses

Policy domain	2008	2009	2010	2011	2008-2011	2012	2013	2012-2013
Active labour market policies	7	2	1	4	14	3	6	9
Labour taxation	2	2	0	1	5	3	1	4
Other welfare-related benefits	2	6	0	1	9	3	1	4
Wage setting	5	0	1	0	6	2	3	5
Working time	2	2	0	0	4	3	2	5
Unemployment benefits	1	2	0	1	4	0	0	0
Job protection (EPL)	3	0	1	1	5	0	7	7
Total	22	14	3	8	47	14	20	34
President	Sarkozy				Hollande*			
Prime Minister	Fillon				Ayrault			

* Elected 6th May 2012.

Source: LABREF database, DG EMPL, European Commission. For more information, see <http://izajolp.springeropen.com/articles/10.1186/s40173-015-0038-5>

7. Even before the crisis, (Ross 2006: 317) had argued that patterns of welfare state reforms in France 'demonstrate hyper-active reformism.'

the reforms occurred at the beginning or end of the period under consideration. The European Commission also codes the direction of the policy reform as ‘increasing’ or ‘decreasing’. All reforms of ALMPs were ‘increasing’, which suggests they entailed increasing expenditures, for instance on training or direct job creation schemes. For labour taxation, the majority were ‘increasing’ reforms in the sense that they increased taxes on income. The majority of working time reforms were ‘decreasing’, while three out of four reforms of the unemployment benefit system were ‘increasing’. Due to space constraints it is beyond the remit of this chapter to review *in toto* the reforms that were passed since 2008 (for more comprehensive reviews, see Milner 2012 and 2014).⁸ Given the focus of the volume, the next section first discusses the main EPL reforms and then reviews attempts to reduce labour market dualisation.

3.2 Deregulating employment protection legislation

Between 2008 and 2013, several labour market reforms decreased EPL. These covered various aspects of EPL, including collective dismissal regulations, procedural requirements, permanent contracts and temporary work. Nicolas Sarkozy won the 2007 presidential election with manifesto commitments that emphasised reforming the 35 hour working week; tackling ‘welfare dependency’ by increasing incentives to work; promoting job quality through vocational training; and reforming EPL (Milner 2012: 290-291, Levy 2016). On 25th June 2008, his government introduced two main labour market reforms that increased flexibility in the Law concerning the modernisation of the labour market (*Loi portant sur la modernisation du marché du travail*).

The first was the so-called negotiated termination (*rupture conventionnelle*) where employees and employers can ‘mutually agree to terminate an employment contract and negotiate its end’, thereby adding an additional way – alongside resignation and dismissal – for a contract to be terminated. If the termination is not contested by the Ministry of Labour, the termination (*rupture*) is validated and the employee receives a lump sum calculated as one-fifth of one month’s pay per year of work. In August 2008, 1 692 requests for termination were received by the Ministry of Labour, among which 198 were inadmissible (*irrecevable*) and 263 were refused. By December 2011, 29 558 requests had been received, while 741 were inadmissible and only 1 708 refused; and, by July 2015, 35 984 requests for termination had been received (DARES 2016a). The second reform consisted of lengthening the probation periods for permanent employment contracts, with longer probation periods for professional and managerial staff (between three and four months) than for manual and clerical workers (between 1 and 2 months).⁹

8. For instance, the reforms aimed at rationalising employment policy are not discussed in detail. In 2008, the *Pôle Emploi* was created out of a merger of the agency previously responsible for paying unemployment benefits to the unemployed (*Assédic*) and the French national employment agency providing public employment services, previously responsible for helping jobseekers. At the time of writing there are discussions to merge the RSA with the other in-work benefit, the *Prime pour l’emploi* that provides tax exemptions to low-income workers.

9. Source: LABREF database, DG EMPL, European Commission. For more information, see Turrini *et al.* 2015.

In 2009, the government attempted to facilitate entrepreneurship through the creation of a new self-employed status, called *auto-entrepreneur*, which involved less ‘red tape’ in acquiring self-employment status and no upfront taxes to pay. In the context of increasing unemployment and limited demand, this led to an increased use of this type of contract: there were 320 000 in 2009, 350 000 in 2010, 290 000 in 2011 and 307 500 in 2012, which resulted in a total of about 1.2 million *auto-entrepreneurs* created as of 2012 (Deprost *et al.* 2013: 13). Many of the self-employed in this category earn very little, if anything: in 2012, only 48 per cent declared a positive revenue (Deprost *et al.* 2013: 14). The creation of this self-employed status may explain why France experienced an increase in the number of self-employed without employees since the crisis started.¹⁰ The number of self-employed without employees increased from 1 342 000 in 2008 to 1 616 500 in 2010, and to 1 739 300 in 2015. This contrasts markedly with trends in the number of self-employed with employees, which fell from 1 178 800 in 2008 to 1 128 600 in 2010, and then to 1 091 900 in 2015 (Eurostat 2016b).

Socialist President Francois Hollande was elected in 2012. One year later, several measures were agreed in the Law on securing jobs (*Loi portant sur la sécurisation de l’emploi*) that was voted in June 2013. First, companies with more than 50 employees were required to draft a ‘social plan’ when dismissing more than ten employees. This could, in principle, be interpreted as a tightening of the collective dismissal regulations, but it also introduced greater legal certainty for companies by reducing the lawful period in which the dismissal may be contested in court from 12 to 3 months. Second, the ‘prescription period’ – specifying the time period in which a dismissed employee is allowed to contest the dismissal – was reduced from 5 to 2 years. Third, as part of the Act on maintaining employment (*Accord de maintien de l’emploi*) under the socialist government, companies with ‘economic difficulties’ were allowed to ‘agree’ with unions an ‘adjustment of wages/working time for no longer than two years.’ This introduced internal numerical flexibility in addition to the external flexibility introduced by other reforms. Crucially, it specified that ‘those who refuse can be dismissed under individual economic dismissals’, which is easier for companies to do than to undertake collective dismissals, thereby linking external with internal flexibility.

3.3 Fighting dualisation and unemployment while preserving employment

The previous section has shown that several deregulatory reforms have been implemented. At the same time, governments have also tried to protect workers on permanent contracts by the use of short-time working arrangements, which have been shown to be efficient at preventing dismissals during recessions (OECD 2010: 68). In the case of France, the estimates for the period before 2010 is that 60 000 jobs were saved (OECD 2010: 61). In terms of hours, Calavrezo and Lodin (2012) find that, between 2007 and 2010, manufacturing firms, especially car manufacturers and the metalworking industry, were the first consumers of these schemes. More than one-third of the schemes were used by companies with more than 500 employees. From an almost

10. Source: OECD Annual Labour Force Survey, Summary tables, accessed 12th September 2015.

non-existent level in 2008, the use of this partial unemployment arrangement peaked in the third quarter of 2009 (DARES 2012:2).

Moreover, the use of the scheme continued to be promoted thereafter. One example is the introduction of a long-term short-time working scheme, which was added to the normal short-time working scheme in May 2009. This new scheme compensated up to 75 per cent of the gross income of workers experiencing lower work activity over a long time period (Bardaji 2011: 2). Another example is the 2012 national collective bargaining agreement (*Accord inter-sectoriel national*), which made it easier for companies to use short-time working. Despite this continued emphasis, France did not rely as much as it could have on these schemes, especially when compared to other countries: in February 2011, only 0.8 per cent of French employees were on short-time working compared to 5.6 per cent in Belgium and 3.17 per cent in Germany (Cour des Comptes 2011).

Surprisingly, given the expectations from the insider-outsider literature that countries with high EPL neglect the interests of outsiders and, therefore, do not spend much on labour market policies that benefit them, French governments have also been very active with labour market policies targeted at outsiders. Some policy initiatives benefited both insiders and outsiders by jointly subsidising the hiring of an outsider alongside the retention of insiders. For instance, the generational contract (*Contrat de génération* - Loi n. 2013/185, March 2013) aimed to help employers hiring a young worker between 16 and 25 years old while, at the same time, retaining an older worker above 57 years old.

Some reforms were directly targeted at the unemployed. An April 2010 agreement aimed to extend unemployment benefit duration for 325 000 unemployed people reaching the end of their eligibility. In addition, the plan specified paid training schemes for 70 000 beneficiaries (Erhel 2010: 14). Additionally, employment subsidies were directly targeted at unemployed outsiders. Thus, for instance, the government reformed existing subsidies for special contracts. The recently created future job scheme (*Emplois d'avenir*) subsidised the hiring of unemployed young people with low skills in either the public or the not for profit sector. In autumn 2008, the government announced greater spending on the 'initiative for employment contract' (*Contrat Initiative Emploi* - CIE) and 88,500 new contracts were created in 2009 (Erhel 2010: 18). Subsidised contracts have had an important mitigating impact on overall employment numbers (Bardaji 2011: 2). Some less targeted schemes also subsidised any recruitment in a company of fewer than 10 employees, by exempting all employer social contributions of employees earning up to 1.6 times the minimum wage (the SIMC), with the highest subsidy for minimum wage earners. More than 1.1 million requests had been accepted by 1st October 2010 and this helped mitigate the fall in recruitment during 2009 (Bardaji 2011: 4).

In addition, the government also attempted to help those ineligible for unemployment benefits and in low income work. In France, those that have been in unemployment for a long time or have not contributed to the unemployment benefit scheme in the past claimed from the guaranteed minimum income scheme (*Revenu minimum d'insertion*). In 1988, Rocard had introduced the scheme to provide a minimum income benefit to those not covered by unemployment benefits, but this meant that returning to work would entail a loss of benefits. In 2008, the Sarkozy government introduced a

new scheme (*Revenu de solidarité active* – RSA) that allowed workers earning below a certain income to claim benefits, thereby minimising some of the benefit loss when returning to work (for more on the politics behind the reform, see Vlandas 2013a). The RSA was later made accessible to those aged between 18 and 25 years old, which were previously excluded, but only if they had worked at least two years.

There were also attempts to improve the regulation of non-standard work. Temporary work, including fixed-term contracts and temporary agency work, had been the focus of previous labour market reforms (Vlandas 2013b). Temporary work was seen as creating precariousness (*précarité*) while not improving efficiency. For instance, Blanchard and Landier (2002) have argued that the increase in fixed-term contracts over time in France has not reduced the duration of unemployment but instead has increased turnover, leading to worse labour market outcomes for young people. In 2013, the Hollande government introduced regulations preventing interns being used instead of permanent workers while contributions to insurance funds for temporary work were stepped up. In 2014, the government further targeted interns and also introduced reforms aimed at improving the conditions for part-time work: the minimum legal pay of interns was increased and the minimum statutory hours for part-time work was raised. In 2015, the regulations surrounding the posting of workers, which can be seen adversely to affect outsiders the most, were tightened (LABREF).

In sum, unlike accounts that suggest that governments in more dualised countries were less likely to use labour market policies to help outsiders during the crisis (e.g. Rueda 2014), in France there was a continuing attempt to reduce labour market dualisation. This pro-outsider position is consistent with pre-crisis dynamics. In the pre-crisis period, both the unions (Benassi and Vlandas 2016) and the French government (Vlandas 2013a, 2013b) had attempted to combat labour market dualisation (for a contrarian view, see Palier and Thelen 2010). France pursued many policies that aimed to improve the welfare of outsiders in unemployment and precarious work, despite its high EPL and its large temporary work sector (see Vlandas 2013b for a summary of pro-temporary worker legislation). Both left and right-wing parties pursued ALMPs, for instance training schemes, direct job creation programmes and employment incentives (Vlandas 2013c).

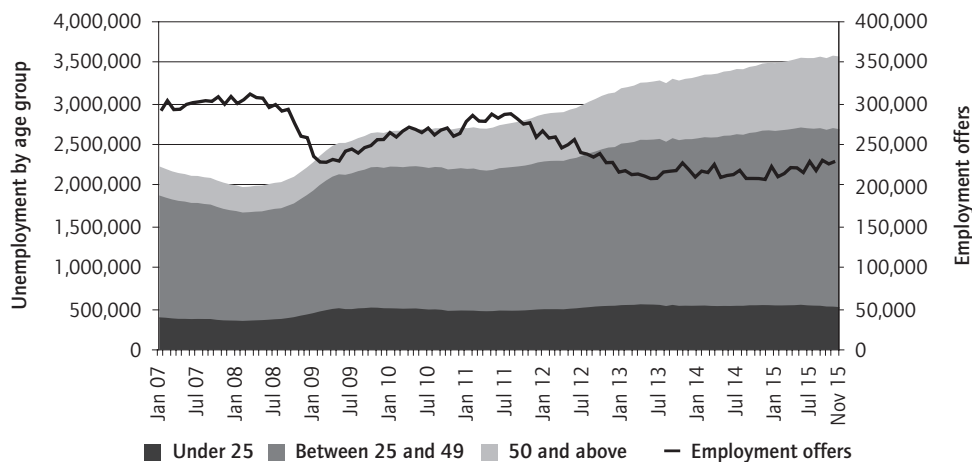
4. Labour market during the crisis

In this section, I argue that it is not apparent that these reforms fulfilled their stated aims to reduce unemployment and labour market dualisation. Indeed, unemployment continued to increase in the aftermath of the crisis as job offers fell. Few employees on permanent contracts were dismissed, but many workers in temporary agency work and on fixed-term contracts did not see their contracts renewed and the number of unemployed people managing to exit unemployment by finding a job fell. Long-term unemployment increased, many people exited the labour market altogether and the number of RSA recipients rose. Labour market dualisation also worsened as the employment of some groups was particularly affected: young and old unemployed males, non-EU28 citizens and those with low education.

4.1 Flows into and out of unemployment

We can unpack the changes in unemployment for different groups by examining the flows of jobseekers in and out of French job centres. Figure 2 shows the number of jobseekers that are asked to search actively for jobs and are currently without a job. It distinguishes between three age groups: the under 25s; those between 25 and 49; and those above 50 years. After an initial increase in unemployment of roughly 500 000 during the height of the crisis, unemployment increased much more thereafter (by another one million by December 2015). Between December 2008 and December 2010, youth unemployment increased by 42 per cent, whereas it only increased by 35 per cent for those above 50 and by 27 per cent for those between 25 and 49. Thus, after each of the main reforms mentioned in the previous section, unemployment continued to increase. At the same time, deregulation did not result in a return to the level of employment offers that prevailed prior to the crisis. In the absence of a counterfactual, one cannot conclude that deregulation had no effect on unemployment and job creation, but *prima facie* it failed to stop unemployment from rising and did not lead to job creation reaching pre-crisis levels.

Figure 2 Total unemployment numbers by age group

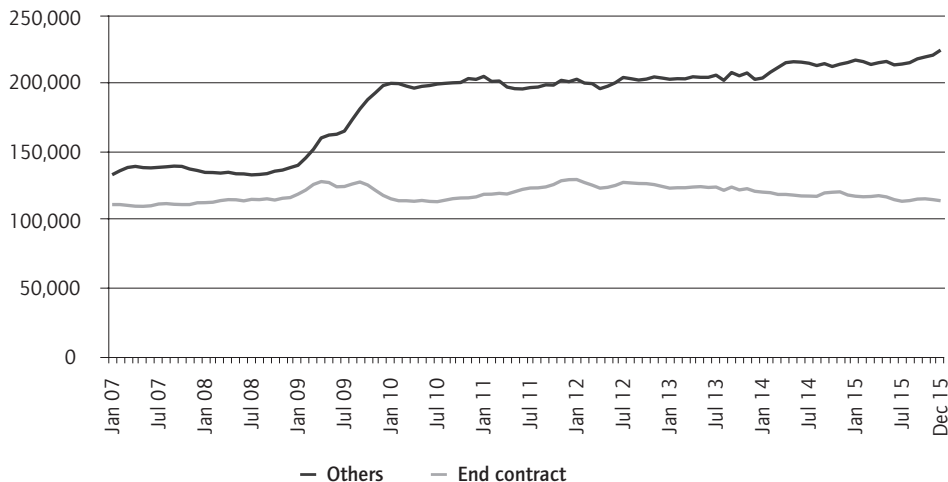


Note: This figure shows the total number of jobseekers registered at the end of the month in the French public employment agency (*Pôle Emploi*) that are asked to search actively for jobs and are currently without a job. Three different types of job offers are included: permanent employment; temporary employment; and occasional employment.

Source: data taken from the French public employment service (*Pôle Emploi*) – Monthly Labour Market Statistics, Department of Research, Studies and Statistics, Ministry of Work and Employment

Figures 3 and 4 analyse what the unemployed newly registering with the French job centre were doing before registering. Note that the figures exist only for workers actively seeking jobs, regardless of whether they have not worked in the previous month (recorded as category A in the French labour market statistics); they have worked fewer than 78 hours in the previous month (recorded as category B); or they have worked more than 78 hours in the previous month (recorded as category C). Figure 3 shows that the biggest number were those that the French public employment agency *Pôle Emploi* records as being in the ‘other’ category. This includes individuals that were working

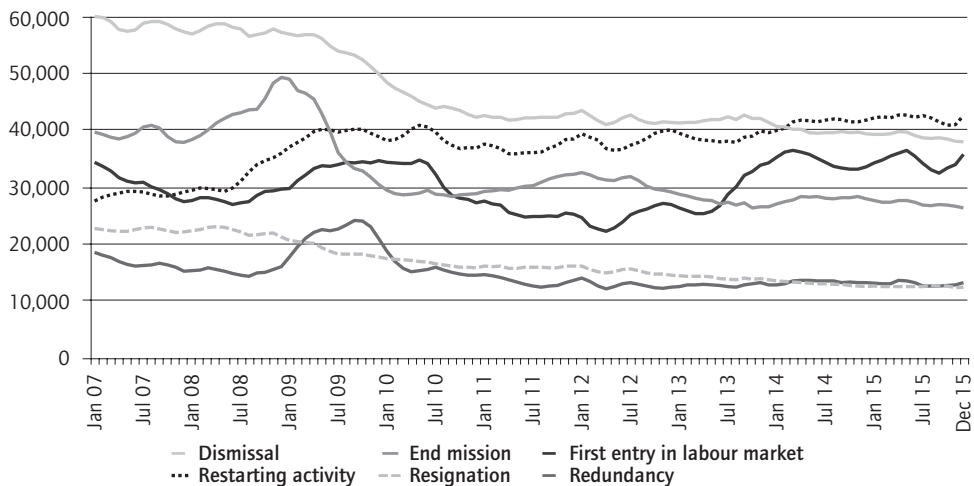
Figure 3 The two biggest sources of registration with *Pôle Emploi*



Note: Registration with the French public employment service (*Pôle Emploi*), which only reports registration numbers for all categories of unemployed (i.e. a more inclusive measure than the one used in Figure 2): those seeking work and having not worked in the previous month; those seeking work and having worked fewer than 78 hours in the previous month; and those seeking work and having worked more than 78 hours in the previous month (in French labour market statistics, these are referred to as categories A, B and C, respectively). The 'others' include: end of non-salaried work (individuals whose work is not remunerated by an income, i.e. liberal professions, traders, etc.), 'rupture conventionnelle' (see discussion above on the new method for terminating contracts), return to France, end of detention and other cases.

Source: same as Figure 2

Figure 4 Other sources of registration *Pôle Emploi*



Note: Registration with French public employment service (*Pôle Emploi*), which only reports registration numbers for all categories of unemployed (i.e. a more inclusive measure than the one used in Figure 2): those seeking work and having not worked in the previous month; those seeking work and having worked fewer than 78 hours in the previous month; and those seeking work and having worked more than 78 hours in the previous month (in French labour market statistics, these are referred to as categories A, B and C, respectively). 'End mission' refers to the end of temporary agency work.

Source: same as Figure 2

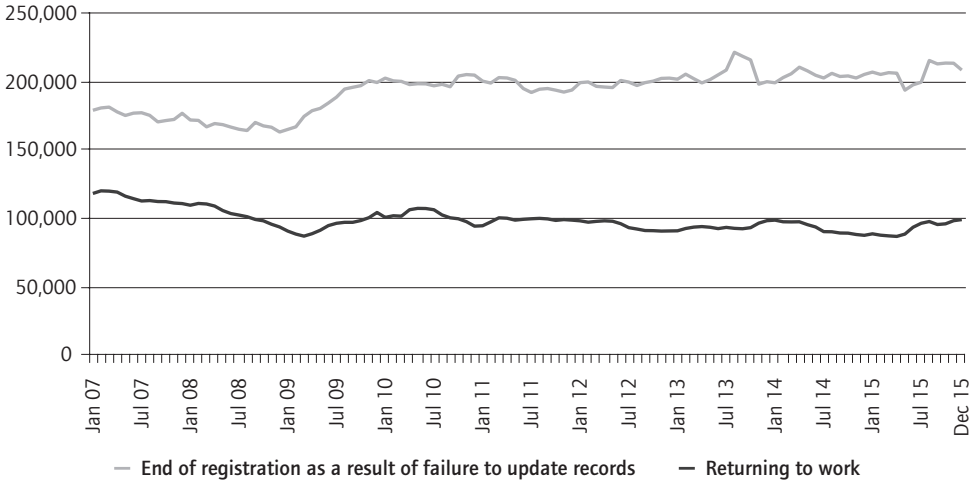
but not in paid (salaried) employment – i.e. self-employed, small shop owners or other ‘liberal professions’ – but also the ‘*rupture conventionnelle*’ (negotiated termination of contract) that was introduced in one of the reforms discussed earlier. The ‘other’ category increased appreciably in 2008 and 2010 and continued to increase thereafter. The second biggest group of people were registering with *Pôle Emploi* because their contracts had ended. This concerns, first and foremost, workers on fixed-term contracts. Figure 4 shows that workers that were engaged in temporary agency work also represented a large and increasing group of people registering with *Pôle Emploi*.

Thus, the two groups most affected by the crisis were the self-employed and temporary workers: outsiders that are the most at risk of unemployment. Similarly, the third biggest group is composed of those ‘entering the labour market’: also an outsider group at risk of unemployment given the more limited work experience. The size of this group increased between 2007 and 2009 and then fell before increasing again between 2012 and 2015. By contrast, very few of the newly-registered unemployed were formerly on permanent contracts, although this could, in principle, reflect both the protective nature of the contract type and the profile of workers on permanent contracts, for instance in terms of skills. Strikingly, dismissals actually fell during the crisis while redundancies increased only until 2009 – but fell thereafter and represented one of the smallest contributing factors to registrations.

Figures 5 and 6 show what reason was recorded for people who stopped being registered at *Pôle Emploi*. Figure 5 reveals that most unemployed exit as a result of a failure to update records. This could, in principle, also include people who have started working but failed to notify *Pôle Emploi*, although the increase in this indicator during the height of the crisis between 2008 and 2010 suggests it is more plausible that many of the failures to update records are encapsulated by people dropping out of the labour market. The second biggest reason for exiting unemployment was unemployed people who returned to work and informed *Pôle Emploi* that they had therefore stopped seeking work. We can observe that this fell over time, especially between 2007 and 2009, and never returned to pre-crisis levels. In Figure 6, I analyse other reasons: deregistration and the number that stopped searching for work fell during the crisis, whereas the numbers that were forced to take an internship increased massively.

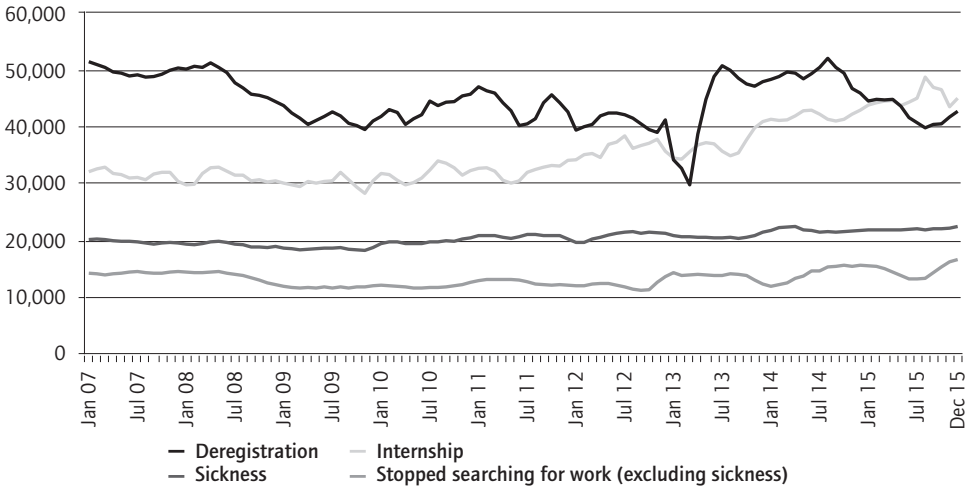
Overall, labour market flows reveal that temporary workers were particularly affected by the crisis, whereas there was actually a fall in the number of dismissals. Once in unemployment, fewer people managed to exit unemployment by returning to work. The result was that many simply stopped updating their records and dropped out, while others were forced to take internships. This evidence suggests that the impact of the crisis was concentrated on temporary workers, who were much more likely to lose their job, and the unemployed, who found it harder to find permanent jobs; insiders were, in contrast, mostly insulated.

Figure 5 Two biggest reasons for exiting *Pôle Emploi*



Note: This figure records the reason given by those exiting *Pôle Emploi*. The French public employment service does not report what caused the failure to update records.
 Source: same as Figure 2

Figure 6 Other reasons for exiting *Pôle Emploi*



Note: this figure records the reason given by those exiting *Pôle Emploi*.
 Source: same as Figure 2

4.2 Rising labour market dualisation?

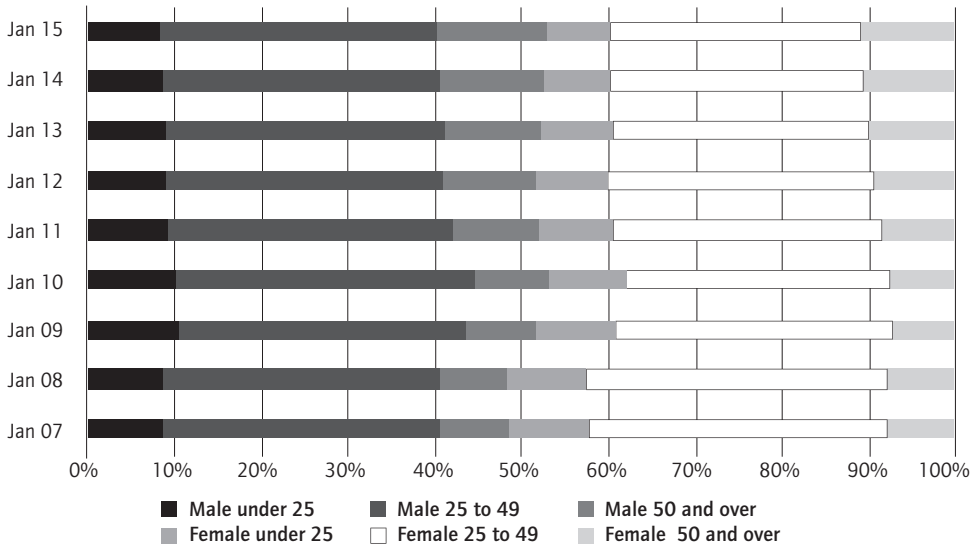
In addition to deregulating EPL, policy-makers have also attempted to reduce labour market policy dualism by introducing policies targeted at outsiders. The previous section has shown that this has failed to reduce unemployment. In this section, I analyse whether the reforms were successful in reducing labour market dualisation.

Figure 7 disaggregates unemployment figures by age and gender. During the first two years of the crisis, young males were the most adversely affected: unemployment of males under 25 increased by 22 per cent compared to only 7 per cent for those between 25 and 49, and 1 per cent for those 50 years old and above (and it actually decreased for females above 25). In the aftermath of the crisis, from January 2009 onwards, unemployment continued to increase for those under 25 (by 23 per cent for males and 19 per cent for females), but the biggest increases were for those 50 years old and over (143 per cent for males and 135 per cent for females). This worsening of the labour market position of older workers over time reflects their greater difficulty in returning to work when they lose their job. This is consistent with the massive increases in the number of unemployed registered for more than 12 months (Figure 8). If we broaden the measure to include those seeking work but having worked in the previous month (a measure that captures both the unemployed and those that are under-employed) the picture is even worse: there were around 1 000 000 long-term unemployed in parts of 2008, but almost 2 500 000 in October 2015. Even this measure is likely to underestimate the size of the problem since those that have been looking for work for a long time may lose eligibility. During the crisis, there was an explosion in the use of RSA '*socle seul*', which gives benefits to households with no income from work; this rose from 342,290 in July 2010 to a peak of 608 825 in March 2015. The number of RSA recipients that are in work also increased: from 101 228 in July 2010 to a peak of 179 090 in November 2015.¹¹

In addition to the differences between workers of different age and gender, disaggregating employment rates for different labour market groups also highlights the growing inequalities between workers depending on their origins and educational backgrounds (see Table 2). The employment rate of workers from different origins varied greatly during the crisis. The employment rate of those born in the EU-28 is now higher than it was before the crisis: it increased from 64.4 per cent in 2007 to 64.8 per cent in 2009, and 67.6 per cent in 2011. By contrast, those born outside the EU-28 had a much lower employment rate even before the crisis (55.7 per cent in 2007) and this has further deteriorated during the crisis, falling to 54.1 per cent in 2011. A similar divergence can be observed between workers with different educational backgrounds. Workers with tertiary education have seen their employment rate improve continuously, from 79.3 per cent in 2007 to 81.3 per cent in 2013. By contrast, the employment rate of workers without upper secondary education has fallen from 47.6 per cent in 2007 to 45.4 per cent in 2010, and to 42.9 per cent in 2013; while the employment rate of individuals with upper secondary education has deteriorated further: it fell from 69.3 per cent in 2007 to 66.3 per cent in 2013.

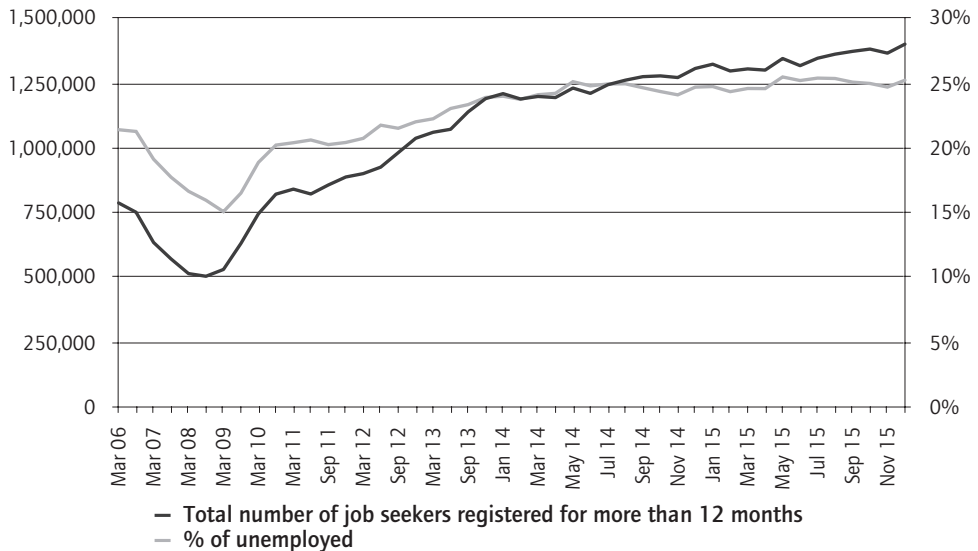
11. Source: same as Figure 3. Note: the RSA was voted in in 2008 and started in January 2009. However, detailed data are only available after July 2010.

Figure 7 Unemployment composition by age group and gender



Note: this figure differentiates the gender and age group of jobseekers registered at the end of the month in *Pôle Emploi* that are asked to search actively for jobs and are currently without a job.
 Source: same as Figure 2

Figure 8 Unemployment by duration



Note: jobseekers registered at the end of the month that have not worked in the previous month and have been registered for more than 12 months.
 Source: same as Figure 2

Table 2 Evolution of employment rates by education and country of origin

Year	Lower than primary, primary and lower secondary education	Upper secondary and post-secondary non-tertiary education	Tertiary education (levels 5-8). France	EU-28 countries except reporting country	Extra EU-28
2006	47.6	68.8	78.5	64.7	54.2
2007	47.6	69.3	79.3	64.4	55.7
2008	47.2	69.4	80.7	64.4	58.3
2009	46.1	68.3	79.9	64.8	55.3
2010	45.4	68.0	80.3	67.1	54.8
2011	45.2	67.3	80.5	67.6	54.1
2012	44.7	66.9	80.9	65.8	54.8
2013	42.9	66.3	81.3	67.7	53.4
2014	41.2	65.7	81.2	67.0	53.0

Source: Eurostat 2016

Finally, the reforms that were undertaken during the crisis, like the reforms undertaken beforehand, did not contain the rise of temporary contracts, even if temporary work initially contracted during the crisis. The exit rates for fixed-term contracts increased and temporary agency workers have been particularly hard hit: their exit rates from employment doubled in two years, from 19 per cent in 2007 to 39 per cent in 2009 (Bardaji 2011: 5). In the longer run, however, temporary employment increased from about 3 092 000 in 2005 to about 3 696 000 in 2014, an increase of nearly 20 per cent (Eurostat 2016b). This increase in temporary employment shows that firms can find flexibility in France by using temporary contracts so that the deregulation of permanent contracts is unlikely to generate new employment. Indeed, job offers for contracts of durations both above and below six months fell during the crisis but, if we examine the number of job offers by contract duration in percentage terms, we observe an increased percentage of contracts for less than six months, which rose from 55.4 per cent in 2007 to 57.9 per cent in 2011 (DARES 2016b).

Overall, labour market segmentation along several dimensions (age, gender, origin, educational background and contract type) increased even though policy-makers attempted to help outsiders and reduce 'policy dualism' (Emmenegger *et al.* 2012). Thus, reducing the protection of workers on permanent contracts did not result in falling segmentation or less precarious contracts. This paradoxical result is consistent with the argument of Tsakalatos (2004: 417) that reducing the protection of insiders affects the bargaining power of all workers and, hence, makes outsiders worse rather than better off.

5. Conclusion

There is a long-lasting concern in France with high unemployment, social exclusion and ‘excessive’ labour market ‘rigidities’. High EPL is blamed for persistent and high unemployment and labour market dualisation, in which certain groups are excluded from the labour market or relegated to jobs with low protection, poor prospects for advancement and lower job satisfaction. Following this conventional wisdom, certain policy-makers, economists and international organisations have recommended that France deregulates its EPL as a response to the crisis.

This chapter suggests these policy prescriptions are based on a problematic reading of France’s pre-crisis labour market problems. The reductions in unemployment rates prior to the crisis in the absence of deregulation show it is possible to achieve lower unemployment without lowering EPL; while high EPL can minimise the impact of recessions by making it harder to fire workers. During the initial phase of the crisis, the French labour market resisted well on average, as a result of a combination of factors: the crisis was more limited than elsewhere; automatic stabilisers mitigated the impact of the crisis; and high EPL limited dismissals and redundancies.

Conversely, the deregulation that did take place after the crisis had occurred did not result in lower unemployment. Labour market segmentation did increase, however, and those in non-standard employment were particularly hard hit by the crisis: younger, non-educated, and non EU-28 workers experienced quickly-deteriorating labour market positions, in contrast to native middle-aged workers with tertiary education. This occurred despite the government’s efforts to reduce policy dualism alongside the introduction of benefits targeted at outsiders to help them return to work – a finding that contrasts with the expectation of insider-outsider theory.

In the light of this analysis, the continuing deregulatory agenda in France appears ineffective on its own terms: it has reduced neither unemployment nor labour market dualisation. Instead, attempts to reduce dualisation without undermining the existing protections for permanent employment should be further supported. In the short-term, macroeconomic policy should focus on increasing economic growth rather than balancing budgets. In the future, a greater focus on the long-term causes of labour market problems will be necessary to address unemployment and dualisation.

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