The participation rate and working hours: Differentiated impacts on the unemployment rate

By Bruno Ducoudré and Pierre Madec

In the course of the crisis, most European countries reduced actual working hours to a greater or lesser extent through partial unemployment schemes, the reduction of overtime or the use of time savings accounts, but also through the expansion of part-time work (particularly in Italy and Spain), including on an involuntary basis. In contrast, the favourable trend in US unemployment has been due in part to a significant fall in the labour force participation rate.

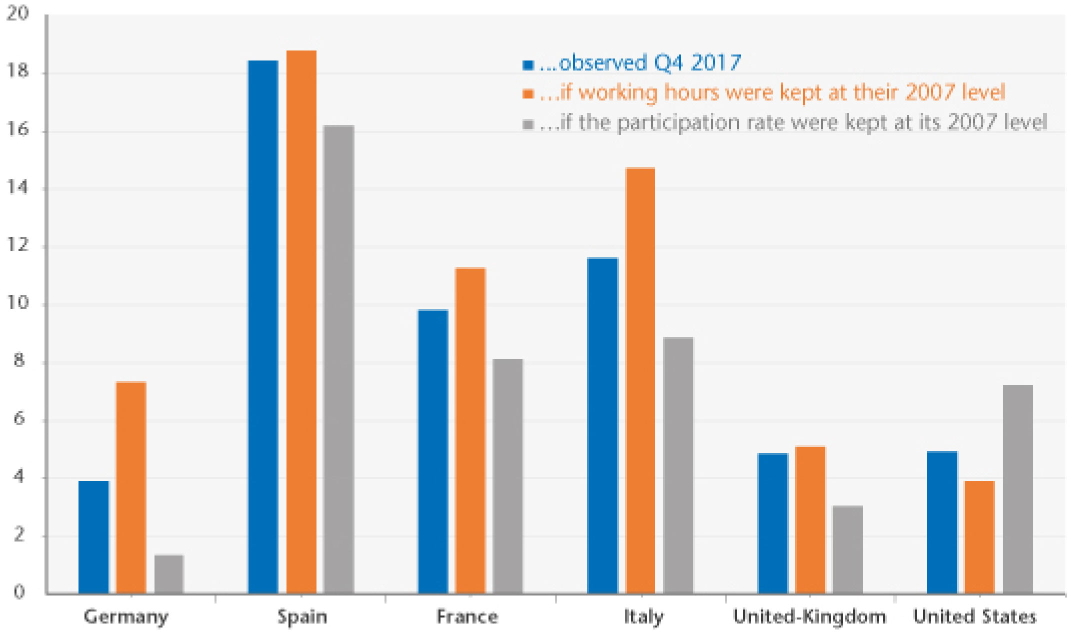
Assuming that a one-point increase in the participation rate leads, holding employment constant, to a rise in the unemployment rate, it is possible to measure the impact of these adjustments (working hours and participation rates) on unemployment by calculating an unemployment rate at constant employment and checking these adjustments. Except in the United States, the countries studied experienced an increase in their active population (employed + unemployed) that was larger than that observed in the general population, due among other things to the implementation of pension reforms. Mechanically, without job creation, this demographic growth would have the effect of pushing up the unemployment rate in the countries concerned.

If the participation rate had remained at its 2007 level, the unemployment rate would be lower by 2.3 points in France, 3.1 points in Italy and 2 points in the United Kingdom (see figure). On the other hand, without the sharp contraction in the US labour force, the unemployment rate would have been more than 3.2 percentage points higher than that observed at the end of 2017. It also seems that Germany has experienced a significant reduction in its unemployment rate since the crisis, even as its participation rate rose. Given the same participation rate, Germany's unemployment rate would be … 0.9%. However, changes in participation rates are also the result of structural demographic factors, to such an extent that the hypothesis of a return to 2007 rates can be considered arbitrary. For the United States, part of the fall in the participation rate can be explained by changes in the structure of the population. The figure for under-employment can also be considered too high.

The lessons are very different with respect to the duration of work. It seems that if working hours had stayed at their pre-crisis levels in all the countries, the unemployment rate would have been 3.7 points higher in Germany and 2.9 points higher in Italy. In France, Spain, the United Kingdom and the United States, working time has fallen only slightly since the crisis. If working hours had remained the same as in 2007, the unemployment rate would have been slightly higher in all of these countries.

Note that the trend for working time to fall largely preceded the 2007 economic crisis (table). While this pre-crisis trend has continued in Germany and even been accentuated in Italy, working time has fallen to a lesser extent in France, Spain and the United States. In the United Kingdom, the reduction in working hours that was underway before 2007 has been cut short.

Figure. Unemployment rate observed at Q4 2017 and unemployment rate under the hypothesis of…



Sources: National accounts, OFCE calculations.

Table. Change in number of hours worked before and after the 2007 crisis

	Germany	Spain	France	Italy	United Kingdom	United States
1997-2007	-5.3%	-2.4%	-4.0%	-2.9%	-3.5%	-2.6%
2007-2017	-5.4%	-1.2%	-1,6%	-5.7%	0.0%	-0.6%

Sources: National accounts, OFCE calculations.

Working hours and economic performance: What lessons can be drawn from the Coe-Rexecode report?

By Eric Heyer and Mathieu Plane

Do people work less in France than in the rest of Europe? Is France the only country to have reduced working hours in the last decade? Is the 35-hour work week really dragging down the

French economy? The report published on 11 January by the Coe-Rexecode Institute provides fresh material for answering these questions.

We have produced a note on the main conclusions of the report, which can be summarized as follows:

1. People work fewer hours in France than in the rest of Europe.

- TRUE for full-time employees,
- FALSE for part-time employees,
- FALSE for non-salaried employees,
- UNDETERMINED for the total.

2. Working hours have fallen more in France than in Germany over the last 10 years.

- FALSE

3. "The shorter work week has failed to meet the goal of job creation and work-sharing" in France.

- FALSE

4. "The shorter work week has undermined per capita purchasing power" in France.

- FALSE

Should tax breaks on overtime be reversed?

By Eric Heyer

Among the savings plans announced on 24 August 2011 by French

Prime Minister François Fillon figures a change to the system of tax reductions on overtime hours and their exemption from social contributions,[1] a scheme that has been in force in France since 1 October 2007. This provides an opportunity to take another look at some of the main conclusions of the work carried out by the OFCE (French version) on this subject.

1 – An article to be published soon in the *Oxford Review of Economic Policy*[2] explains how the impact of this scheme will differ depending on the position of the economy in the cycle at the time the measure is applied.

- In a favourable economic climate, an increase in working hours prompted by lower labour costs and the elimination of payroll taxes would seem appropriate. The measure is of course not funded (the public deficit deteriorates), and financing it through higher levies would radically change its nature, even though this would not call into question its positive impact on employment and unemployment.
- However, this measure is poorly suited to the kind of economic downturn that the French economy is going through today. In a situation of mass unemployment, an increase of 1% in working hours has a negative impact on employment (-58,000 jobs at 5 years and -87,000 at 10 years). The unemployment rate would increase slightly (0.2 point at 5 years, 0.3 point at 10 years). The measure would have a small impact on growth (0.2 point at 5 years and 0.3 point at 10 years) and is not funded: the deficit would deteriorate by 0.5 point at 5 years (0.4 point at 10 years).

2 – This corroborates the results of a recent study published in *Economie et Statistique*[3]. The authors examined data on 35 sectors of the French economy and estimated that a 1% increase in overtime would destroy about 6,500 jobs in the commercial sector (*i.e.*, 0.04% of commercial jobs), three-quarters of which would be temporary jobs.

Thus, in a context of a severe economic crisis, it seems that an incentive to work longer hours would hurt employment, especially temporary employment.

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[1] The government decided to reintegrate overtime hours into the general schedule of tax reductions while maintaining specific advantages on taxes and social welfare charges. Concretely, this measure will not change anything for employees: net remuneration will not be reduced, and income tax will not be increased. As for employers, they will continue to benefit from exemptions on charges for declared overtime hours, but will see smaller breaks on charges on low wages. This will take effect next January 1st and, according to the government, will generate 600 million euros in revenue from additional social contributions.

[2] Heyer É. (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*, forthcoming.

[3] Cochard M., G. Cornilleau and É. Heyer (2011): "Les marchés du travail dans la crise", *Economie et Statistiques*, no. 438-440, June.