

# Unemployment: an ambiguous fall, but an unambiguous rise in long-term jobless

Analysis and Forecasting Department (France team)

The unemployment figures for the month of January 2016 published by France's Pôle Emploi job centre show a fall of 27,900 in the number of job seekers who are not working (category A), which follows an increase recorded in the month of December (+15,800). While this fall might seem encouraging (a decline of this magnitude has not been seen since 2007), it must be qualified. First, recent changes in administrative practices made by Pôle Emploi [\[1\]](#) have resulted in an abnormal increase in exits from the jobless rolls due to failures to update (239,000, against a monthly average of 207,000 in 2015). Second, the high volatility of the monthly figures in recent months is a sign of a labour market in which job creation is insufficient to reduce unemployment on a sustainable basis.

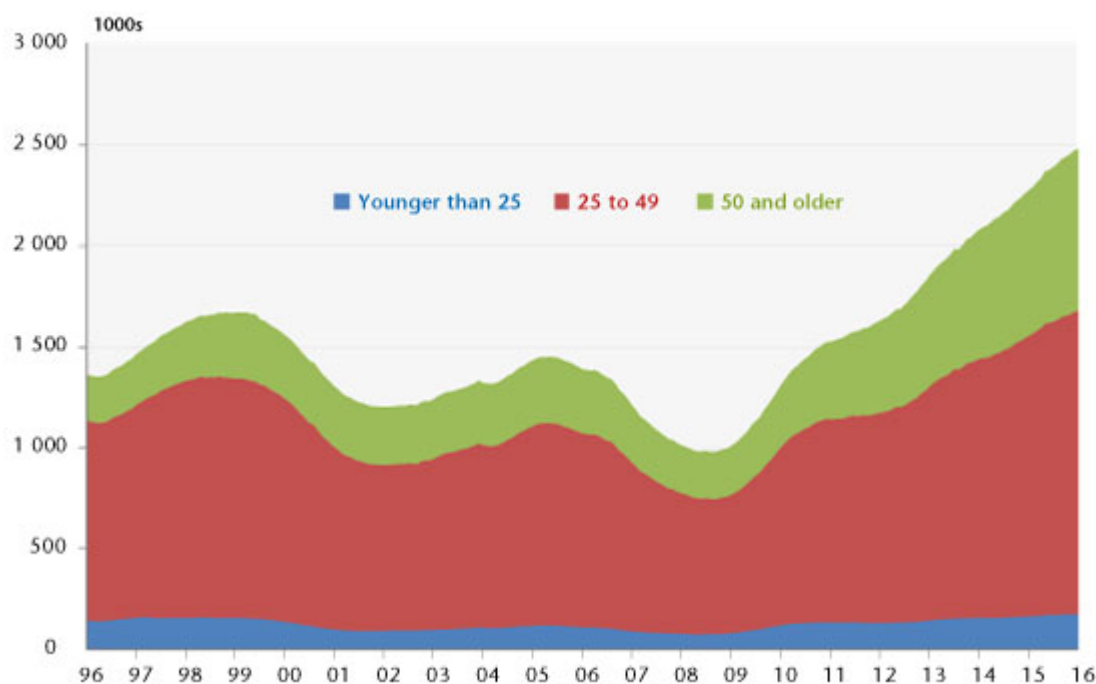
It is true that the increase in the numbers exiting the job centre due to regaining work (+ 5.1% over three months) is a positive sign, suggesting that the expected recovery is underway. Nevertheless, even though a pickup in employment has occurred, it has not been strong enough to halt the steady rise in the number of long-term unemployed (+9.1% in one year). Thus, in a context of near-zero average growth since 2008 and a continuing deterioration in the labour market, the share of the unemployed registered for a year or more in categories A, B or C has increased since mid-2009 (by 31% approximately) and is now at a historical high, representing 45.4% of all jobseekers in categories A, B or C (Figure 1).

This increase is explained by the rise in unemployment among

older workers (+ 8.9% yoy): the implementation of a series of pension reforms (2003, 2010), coupled with the elimination of job search waivers for seniors, has led to prolonging the working life and to a later retirement age. In a context of weak growth, the increase in the employment rate of older workers has been insufficient to absorb the growth in the working population in this age group, with a consequent rise in unemployment among those over age 50 (see [La suppression de la Dispense de recherche d'emploi: quand les gouvernements augmentent volontairement le décompte des chômeurs !](#) [The elimination of job search waivers: when governments voluntarily increase the unemployment count – *in French*]).

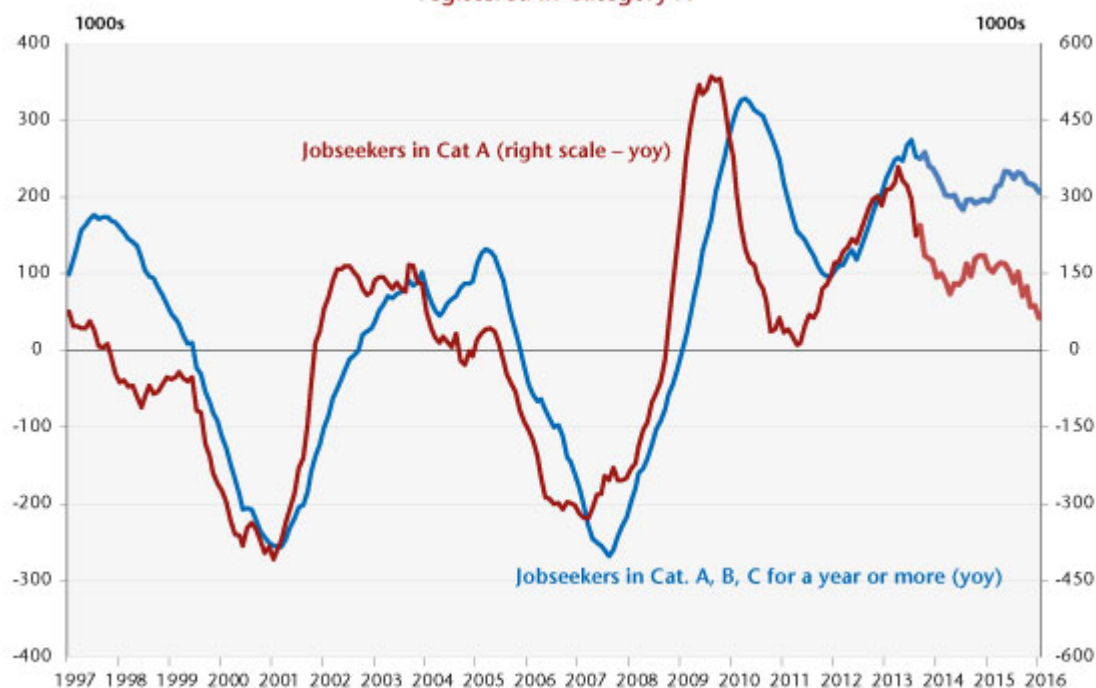
The [relative improvement in the labour market expected in the coming months](#) would stem from a slight improvement in growth and from the implementation of a training plan for the unemployed, announced by President François Hollande in [late December 2015](#). However, it will take a long time for this improvement to affect the long-term unemployed. Indeed, the time taken for a fall in the numbers of Category A jobless to be transmitted to the long-term unemployed is relatively long (Figure 2). In the late 2000s, a period that saw a significant drop in jobless numbers, it took almost a year and a half for the fall in Category A jobless to result in a significant drop in the number of the long-term unemployed. The mechanisms for a pickup in jobs are clearly subject to considerable inertia.

Figure 1. Jobseekers recorded for a year or more in Category A, B or C, based on age



Sources: Pôle Emploi job center; Dares; OFCE calculations.

Figure 2. Jobseekers registered in Categories A, B or C for a year or more and jobseekers registered in Category A



Sources: Pôle Emploi job center; Dares; OFCE calculations.

[1] Because of this change in methodology, the unemployed have had one day less to complete their updates, leading in practice to a significant increase in the number of those

struck off due to a failure to update (+1.5% in three months).

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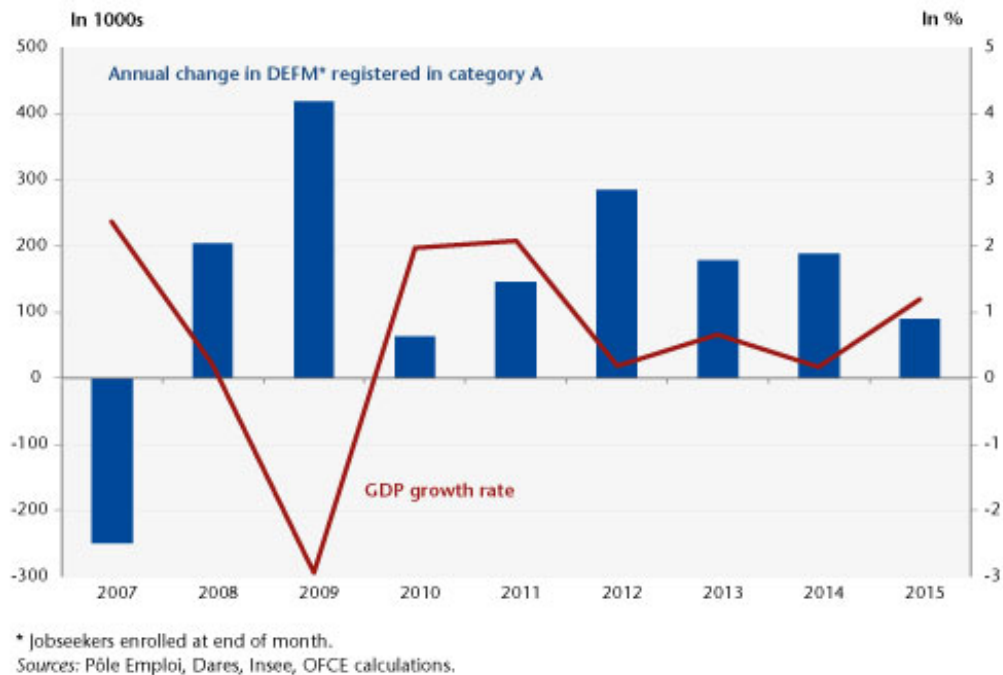
## **2015: An eighth year of rising unemployment in France**

Department of Analysis and Forecasting (France Team)

Since June 2015, the number of job seekers at the end of the month (the number of “DEFM”, in French) in Category A registered with Pôle Emploi has swung from month to month, rising and falling. This high volatility, which reflects a sluggish labour market in which there is insufficient job creation to make a long-term reduction in unemployment, is directly related to the sluggish growth in the French economy overall. So after a relatively favourable November 2015 (15,000 DEFM fewer in category A), December once again saw an increase in the number of unemployed (+15,800), offsetting the previous month's fall. In addition, for the first time since May 2015, all age groups experienced an increase in the number of category A DEFM in December.

Ultimately, the number of jobseekers registered in category A with the Pôle Emploi job center increased for the eighth consecutive year in metropolitan France. With the return of higher growth, this increase has nevertheless been less than in previous years: +90,000 in 2015, versus +200,000 on average between 2011 and 2014. The increase has massively affected job seekers aged 50 and over (+69,000 in 2015), while the numbers under age 25 were down (22,000 fewer in 2015).

Annual change in the number of jobseekers registered in category A and annual GDP growth



The implementation of successive pension reforms (2003, 2010), coupled with the elimination of exemptions on job-seeking by seniors, has led to a longer duration of economic activity and to putting off the age of retirement. In a context of weak growth, the rise in the employment rate for seniors has been insufficient to absorb the increase in the workforce for that age group, with a consequent increase in unemployment of those over age 50.

The decreasing number of unemployed young people is due to two main factors. First, the employment policies enacted since 2013 have targeted youth in particular through the Jobs of the future (*emplois d'avenir*) programme. Second, the low job creation in the market sector is mainly taking the form of temporary jobs (fixed-term CDD contracts, temping), a type of employment in which young people are heavily represented (34.2% of young people in employment are on CDD contracts or temping versus 8.4% for other age groups). This development can be compared to the observed increase in categories B and C (+170,000 in 2015 against 97,000 on average between 2011 and 2014). Thus, while some return to work has been observed, this has not resulted in exits from unemployment as measured by the

job center, and has not led to halting the continuing rise in the number of long-term unemployed (+9.5% in a year).

The year 2015 therefore did not see a reversal in the unemployment curve. Recall that it takes a GDP growth rate of over 1.4% to create enough jobs to begin to roll back unemployment, and only an extended return to growth over that threshold would be sufficient to lead to a sustained drop in the number of category A jobseekers enrolled in the job center.

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## **A standard contract for France: a potluck approach?**

By Jacques Barthélémy and Gilbert Cette

The debate over a single standard contract [*contrat unique*] generally arises in relation to the duality of the labour market, with on the one hand employees who are highly protected, such as civil servants and permanent employees (“CDI” contracts), and on the other hand workers shifting between periods of unemployment and poorly protected precarious jobs (fixed-term “CDD” and temporary contracts). This contrast reflects gross inequalities, and has important social and economic consequences.

To deal with this dual labour market, proposals are often made for a “single contract” that would reduce the differences in status and rights between precarious and permanent contracts. But the concept of a “single contract” is often poorly defined. If we closely examine the major differences that

exist in the content of the various proposals, it even begins to look like a potluck approach!

The three stated objectives of the proposal for a single contract are: (1) to reduce inequalities in status arising from the coexistence of so-called “precarious” contracts (fixed-term and temporary contracts) and permanent contracts; (2) to reduce the complexity and the costly uncertainties surrounding the legal treatment of redundancies; and (3) to partially internalize the social costs of redundancies. [In an article in the \*Revue de l'OFCE\*](#), we show that a single contract cannot really meet these objectives, which would be better served by other means, and that it would give rise to major legal risks.

For more information, see: [J. Barthélémy and G. Cette, 2015, « Le contrat unique: une auberge espagnole », \*Revue de l'OFCE\* no.146](#).

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## The labour market on the road to recovery

By [Bruno Ducoudré](#)

A look at the figures just published by France's Pôle Emploi job centre for the month of September 2015 shows that the number of job seekers who were registered and inactive (category A) has declined significantly (-23,800), following an increase in August (+20,000). While this is encouraging news, the decrease has to be compared with the increases seen in categories B and C (+25,600). So while employment has

indeed picked up, this has not resulted in the numbers of people exiting unemployment as measured by the job centre, *i.e.* it has not put a stop to the continuing rise in the number of long-term unemployed (+10.4% in one year). Nevertheless, these trends do support the conclusions drawn from current analysis which indicate that [a recovery has indeed begun](#).

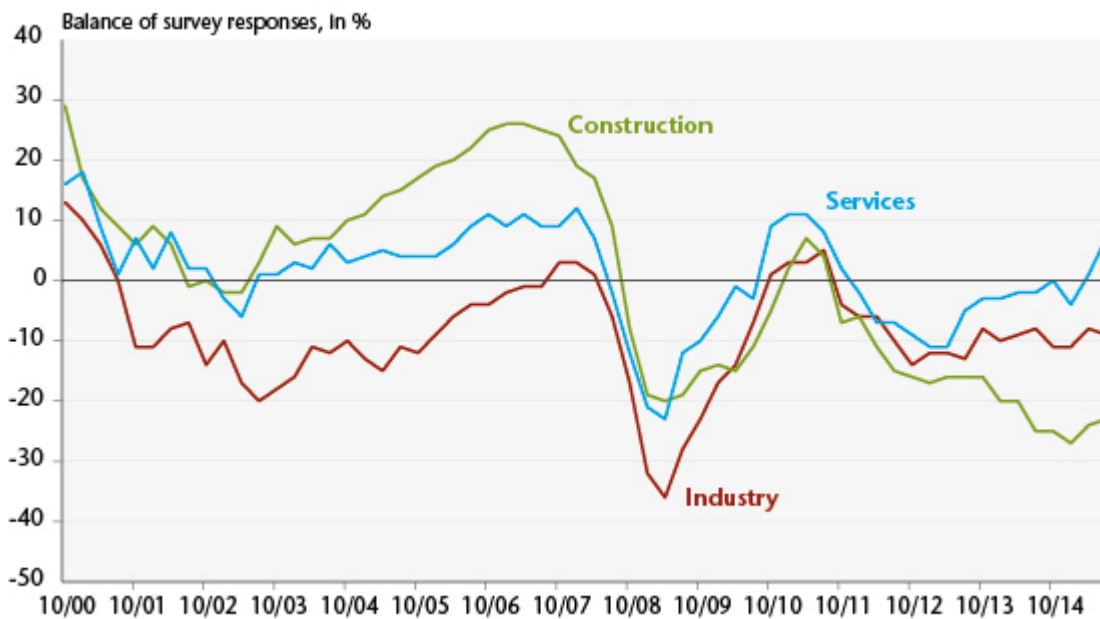
After seeing 76,000 jobs created in France in 2014 due to growth in non-commercial jobs, the first half of 2015 was marked by an increase in the workforce in the commercial sector (+26,000), which resulted in an acceleration of job creation in the economy overall (+45,000) over the first half of the year. The recently released statistics on employment confirm the accelerating trend in the third quarter of 2015: hence, over a year, declarations on job hires of over one month recorded by ACOSS rose by 3.7%, following 0.7% in the previous quarter. Business surveys also point to an increase in hiring intentions in the third quarter; these have turned positive in the service sector since the year started, which is also when the low point seen in construction was probably reached (see Figure 1).

Our analysis of the labour market up to 2017, which was spelled out in the latest OFCE forecasts of October 2015, indicates that the commercial sector will continue to generate jobs up to the end of 2015 (+0.1% in the third and fourth quarters). The pace of job creation will nevertheless remain too low to foresee a fall in the unemployment rate by year end, particularly in light of our forecast for the GDP growth rate (0.3% in Q3 2015 and 0.4% in Q4) and the existence of overstaffing in companies, which we estimate at 100,000 in Q2 2015. The unemployment rate should remain stable at 10% until year end. With GDP growth of 1.8% in 2016, job creation will pick up markedly in the commercial sector once the overstaffing has been absorbed by companies, allowing the unemployment rate to fall starting in the second quarter of



2016. This decline will continue until the end of 2017.

**Figure 1. Forecast of labour force trends**



Sources: INSEE, business surveys.

The last three years of weak growth have hurt employment in the commercial sector (-73,000 jobs between the start of 2012 and the end of 2014, cf. the Table). The strength of employment in the non-commercial sector, supported by the ramp-up of subsidized contracts (the “jobs for the future” programme and non-commercial job integration contracts) helped to offset the loss of commercial sector jobs, with total employment rising by 164,000 over the same period, which slowed the increase in the ILO unemployment rate: this figure for mainland France rose from 9% of the labour force in late 2011 to 10.1% at end 2014, i.e. a 1.1 point increase.

**Tableau. Employment and unemployment**

Annual change in 1000s, at last quarter

Year on year	2012	2013	2014	2015*	2016*	2017*
Observed labour force	265	46	203	62	134	139
Total employment	31	57	76	103	193	242
– Commercial sector	0	-38	-35	73	238	245
Employed	-63	-58	-43	60	209	216
Unemployed	63	20	8	14	28	29
– Non commercial sector	31	95	111	29	-45	-3
Subsidized jobs	5	60	21	17	-54	-4
Non-subsidized jobs	26	35	90	12	10	1
Unemployment	234	-11	127	-41	-58	-103
Unemployment rate at Q4 (%)	9,7	9,7	10,1	10,0	9,8	9,4
GDP growth rate (%)	0,3	0,8	0,2	1,1	1,8	2,0

\* OFCE forecast

Sources : INSEE and Ministry of Labour, OFCE forecasts, e-mod.fr 2015-2017, October 2015.

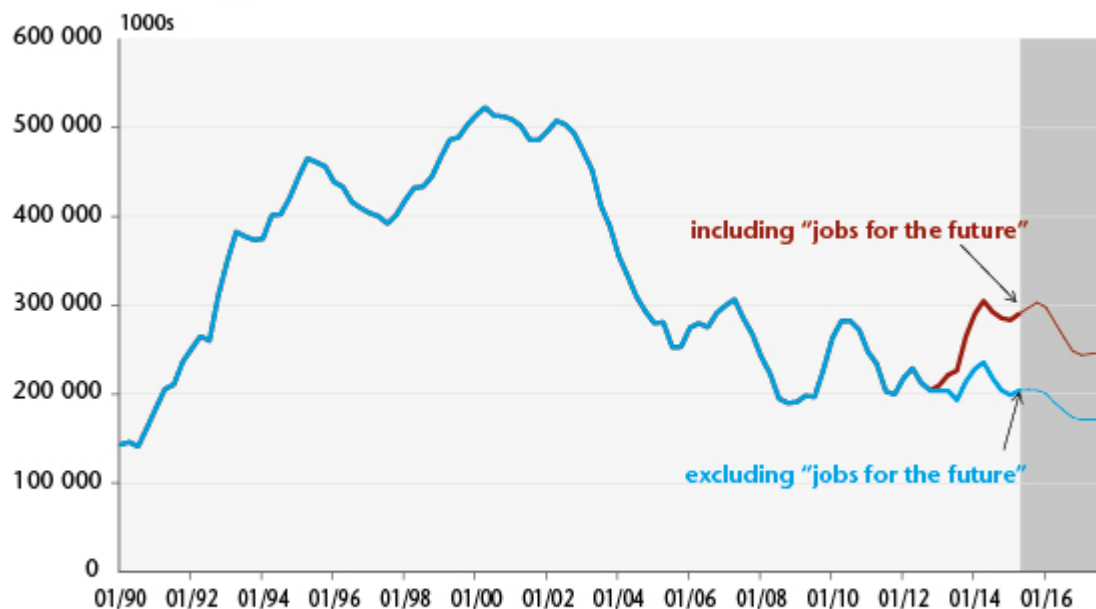
2015 is a year of transition, with a resumption of job creation in the commercial sector (+73,000 expected for the year as a whole) but less dynamic job creation in the non-commercial sector. For the full year, job creation will be boosted by the acceleration of growth (an annual average of +1.1% expected in 2015 but 1.4% yoy) and the implementation of policies to cut labour costs (CICE tax credit and the Responsibility Pact). The cumulative impact of the CICE and the Responsibility Pact, after taking into account the effect of financing, will create or save 42,000 jobs in 2015. However, job creation will be hampered by the presence of overstaffing<sup>[1]</sup>: as economic activity picks up pace, companies typically absorb underutilized labour before increasing the volume of employment.

As for the non-commercial sector, employment policy is continuing to support the labour market in 2015 through the increase in subsidized job contracts. This increase has nevertheless been slower than in previous years, with the number of “jobs for the future” contracts peaking in 2015 (Figure 2). Ultimately, total employment will increase by 103,000 in 2015, with the unemployment rate remaining stable at 10% till year end.

For 2016 and 2017, the acceleration of growth (at respectively

1.8% and 2%) combined with the ongoing implementation of policies to cut labour costs and the closing of the productivity cycle in the course of 2016 will lead to accelerating job creation in the commercial sector. This will increase, year on year, to 238,000 in 2016 and 245,000 in 2017 for the commercial sector alone, a rate comparable to what was seen between mid-2010 and mid-2011 (234,000 jobs created). However, in 2016, the number of subsidized contracts in the non-commercial sector set out in the 2016 Finance Bill will be down from previous years (200,000 CUI-CAE jobs and 25,000 “jobs for the future” in 2016, compared with 270,000 and 65,000 respectively for 2015). For 2017, we are assuming stability in the stock of subsidized non-commercial job contracts (see Figure 2). Overall, the long-term return of job creation by business will trigger a decline in the unemployment rate starting in the second quarter of 2016. Although sluggish, this fall should be sustainable, with the unemployment rate down to 9.8% of the labour force at end 2016 and 9.4% by end 2017.

**Figure 2. Subsidized contracts in the non-commercial sector**



Note: The fall in CUI-CAE contracts seen in the second half of 2014 comes from the switch from CAE job integration contracts to CDD fixed-term contracts.

Scope: Mainland France.

Sources: DARES, OFCE forecasts *emod.fr* 2015-2017, October 2015.

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[1] The presence of overstaffing in businesses derives from the gap between labour productivity and its long-term trend, called the productivity cycle. This reflects the time employment takes to adjust to economic activity. See Ducoudré and Plane, 2015, « [Les demandes de facteurs de production en France](#) » [The demand for production factors in France], *Revue de l'OFCE*, no.142.

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# The upward drift in senior unemployment continued in August

## Analysis and Forecasting Department (France team)

The figures for the month of August 2015 published by France's Pôle Emploi job centre show a significant increase in the number of people registered as Category A (+20,000), i.e. an additional 156,000 job seekers over one year, [following two months of relative stability](#). While this figure is undoubtedly disappointing, the uncertainty surrounding monthly fluctuations in enrolment at the job centre should not be forgotten. Despite the downturn in the numbers registered in categories B and C in the last month (-11,600), the number of job seekers who have carried out an active job search has risen by nearly 332,000 since August 2014.

This figure nuances the publication of the unemployment rate

as defined by the International Labour Office (ILO), which gives a less negative image of the French labour market. This statistic points to a slight fall in the unemployment rate in the first six months (-0.1 point), [largely due to shrinkage of the labor force](#) (-0.2 point).

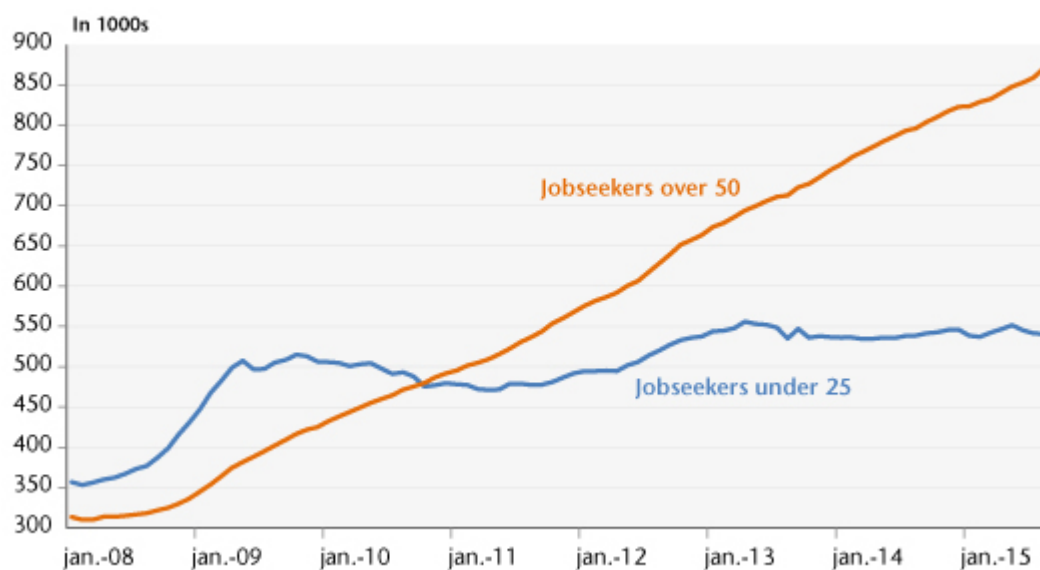
Beyond the total figure, the data published for August confirms the divergences observed between different age groups. While up to September 2010 the number of people aged 50 or over registered in Category A at the job centre was lower than for the under 25 age group, there are now 330,000 more unemployed seniors than unemployed youth (graph). The increase in this gap since 2010 is due to several factors. The implementation of a series of pension reforms (2003, 2010), coupled with the elimination of exemptions for seniors on job-seeking, has led to a longer duration of employment and a later statutory retirement age. In a context of weak growth, the rise in the rate of senior employment has been insufficient to absorb the growth in the workforce for that age group, resulting in a higher unemployment rate for the over 50s.

The weaker increase in the number of unemployed youth is the result of two main factors. First, the employment policies implemented since 2013 have targeted youth in particular, including the *emplois d'avenir* programme. Second, the weak job creation in the market sector has mainly taken the form of temporary jobs (CDD fixed-term and temporary contracts), an area in which young people are heavily represented ([34.2% of young people in employment are on CDD contracts or temping, versus 8.4% for other age groups](#)).

Finally, while seniors are unemployed less often than young people (4.6% of those aged 50-64 against 8.6% for 15-24-year-olds), they are more exposed to long-term unemployment. 62% of the seniors registered at Pole Emploi have been jobless for more than a year, against 21% of young people.

All this indicates that only a macroeconomic policy aimed at increasing the overall level of employment is capable of simultaneously dealing with unemployment among both young people and seniors. Otherwise, in a situation where employment is lacking overall, policies that are aimed at certain categories, even if effective for that specific target, may lead to adverse effects on other categories.

**Figure. Jobseekers in Category A according to age**



Source: Pôle Emploi.

## Still no halt to the rise in unemployment

OFCE Analysis and Forecasting Department

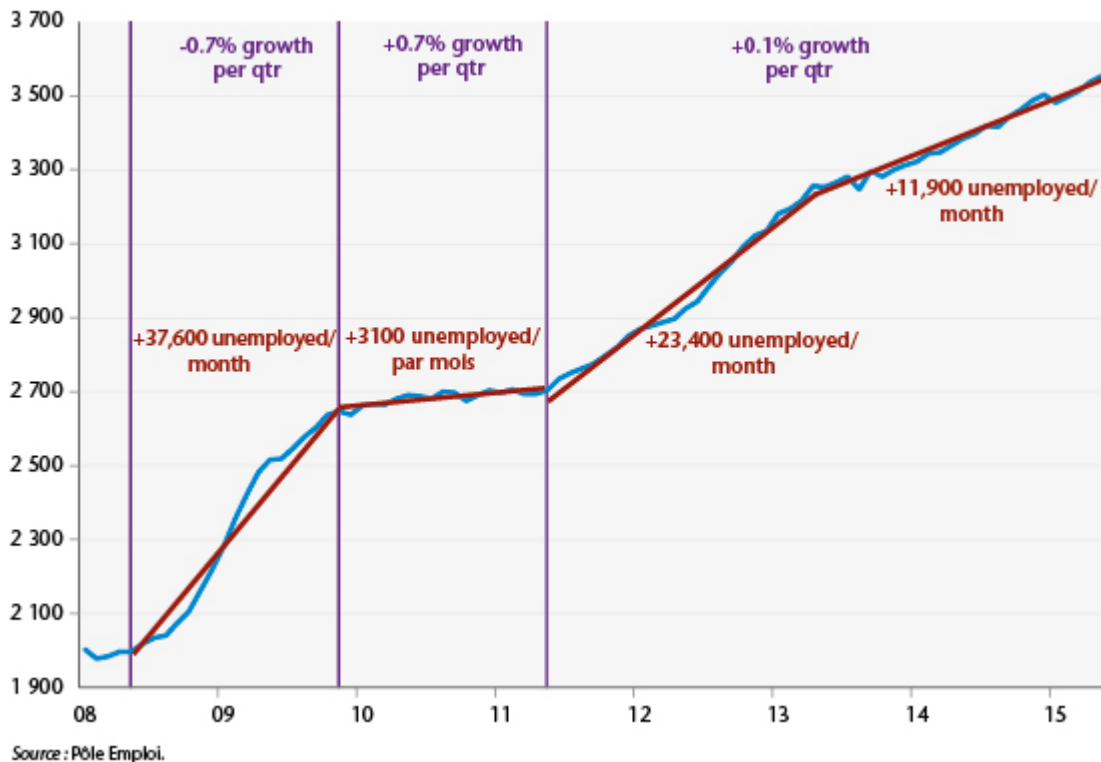
The unemployment data for the month of May once again show a rise in the number of job seekers registering at the Pôle Emploi job centre in Class A, up 16,200. Although this is certainly fewer than in April (26,200), it still leaves no

glimpse on the horizon of a reversal in the unemployment curve. This continuous increase in unemployment, despite some initial shoots of recovery, is not surprising. The renewed GDP growth in the first quarter (+0.6% according to the detailed accounts published by the INSEE Thursday morning) has yet to have an impact on employment, which has stagnated. For the moment, companies are taking advantage of the pick-up in activity to absorb [the excess labour they inherited from the crisis](#) (in English see the [post introducing this study](#)). Only once the recovery has proved to be sustainable will an increase in employment translate into a reduction in unemployment. The time it takes employment to adjust to economic activity, i.e. about three quarters, does not point towards a turnaround in the labour market in the short term.

The last period of growth in France just following the 2008-2009 recession was moreover too brief to lead to a decline in the number of job seekers. With average growth of 0.7% per quarter from Q4 2009 to Q1 2011, the number of unemployed stabilized at best (Figure 1).

Since Q2 2011, growth has fallen to a very low level (0.1% per quarter), and unemployment has started rising again. However, a shift occurred in early 2013, with the monthly increase halved on average thanks to a renewal of the social treatment of unemployment through the creation of about 100,000 subsidized jobs in non-market sectors, as well as through enriching the growth in employment due to the implementation of the CICE tax credit and the Responsibility Pact.

Figure 1. Number of Jobseekers recorded in Class A at Pôle Emploi



As growth gradually accelerates and the various measures to boost employment begin to kick in, a (slow) improvement will be seen in the second half of 2015.

### The spectacular decline in exits from the Pôle Emploi agency

The 69,600 increase in the number of jobless registered with Pôle Emploi in Class A, B and C in the month of May, which is the worst figure recorded since the depths of the recession in April 2009, is surprising. The number of the unemployed broadly speaking, i.e. including unemployed people but also those working reduced hours, has been affected by unusual changes in the numbers of those exiting the job centre. About 43% of exits from the job centre are attributable to a termination of enrolment due to the non-renewal of the monthly job application for unspecified reasons, but which may be related for example to a resumption of activity, discouragement, temporary unavailability or even simply an oversight.

On average over the last five years, every month there were 200,000 terminations of enrolment due to this failure to

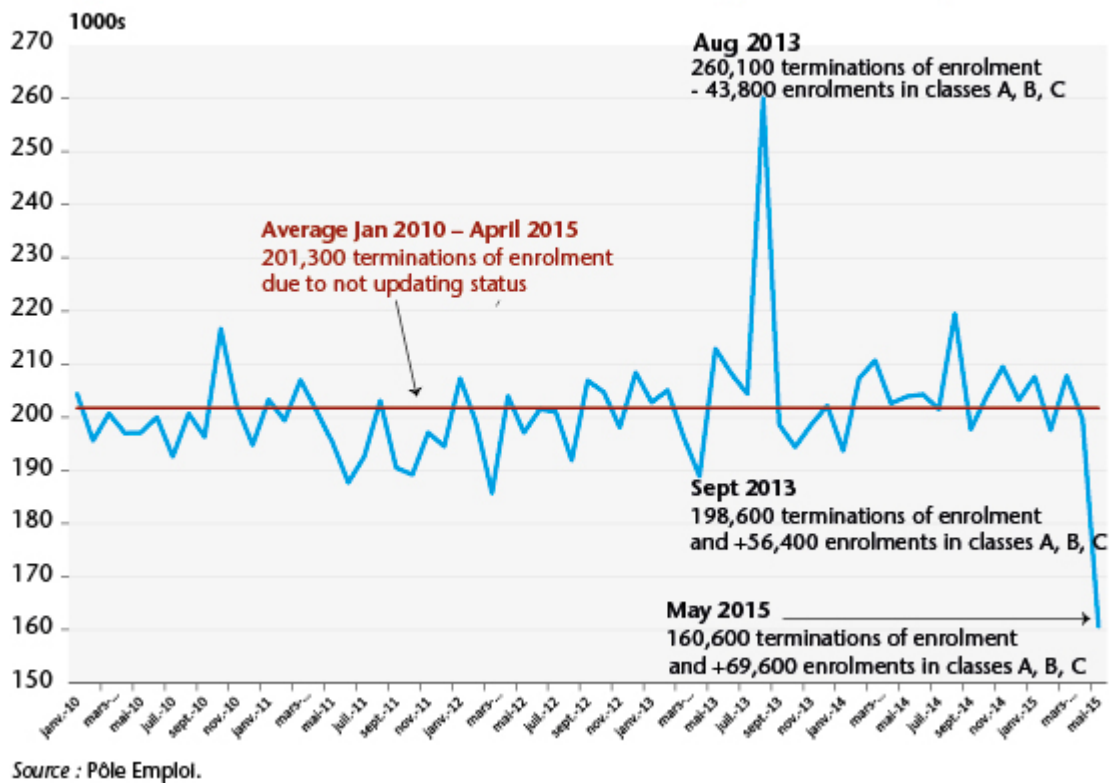


renew. Some months, the grounds for termination can vary sharply, temporarily throwing off the unemployment statistics. For example, in August 2013, the "SFR bug" (Figure 2), i.e. a computer failure at the mobile phone operator, prevented many jobseekers from updating their status, which resulted in a sharp rise in the terminations of enrolment (+260,100). Due to the effect of a very high flow of exits from Pôle Emploi, the number of job seekers in Classes A, B and C fell by 43,800 in August 2013. The following month, as the number of terminations of enrolment returned to a level that was close to its long-term average, the unemployment figures logically rose sharply (+56,400 in September 2013), correcting for the effect of the artificial fall in the previous month.

In terms of the figures for May 2015, the phenomenon was the opposite of what happened during the SFR bug in August 2013. In fact, having noticed that the number of job seekers who updated their status following the normal reminder was significantly lower than usual, Pôle Emploi issued two additional reminders, which led to an unusually low level of terminations of enrolment (+160,600) compared with the historical trend (201,300). This mechanically increased the numbers in class A, B and C, at a rate that Pôle Emploi calculates at between 28,000 and 38,000.

But if next month the number of terminations of enrolment returns to a level close to its long-term average, this would wind up lowering the number of job seekers in class A, B and C without this reduction being the result of any change in the labour market. We must therefore insist on the need for caution in making any month-by-month interpretation of the unemployment data.

**Figure 2. Terminations of enrolment at Pôle Emploi in classes A, B and C**



# Devaluation through wages in the euro zone: a lose-lose adjustment

by Sabine Le Bayon, [Mathieu Plane](#), Christine Rifflart and Raul Sampognaro

Since the outbreak of the financial crisis in 2008 and the sovereign debt crisis in 2010-2011, the euro zone countries have developed adjustment strategies aimed at restoring market confidence and putting their economies back on the path to

growth. The countries hit hardest by the crisis are those that depended heavily on the financial markets and had very high current account deficits (Spain, Italy, but also Ireland, Portugal and Greece). Although the deficits have now been largely resolved, the euro zone is still wallowing in sluggish growth, with deflationary tendencies that could intensify if no changes are made. Without an adjustment in exchange rates, the adjustment is taking place through jobs and wages. The consequences of this devaluation through wages, which we summarize here, are described in greater depth in [the special study published in the dossier on the OFCE's forecasts \(Revue de l'OFCE, no. 136, November 2014\)](#).

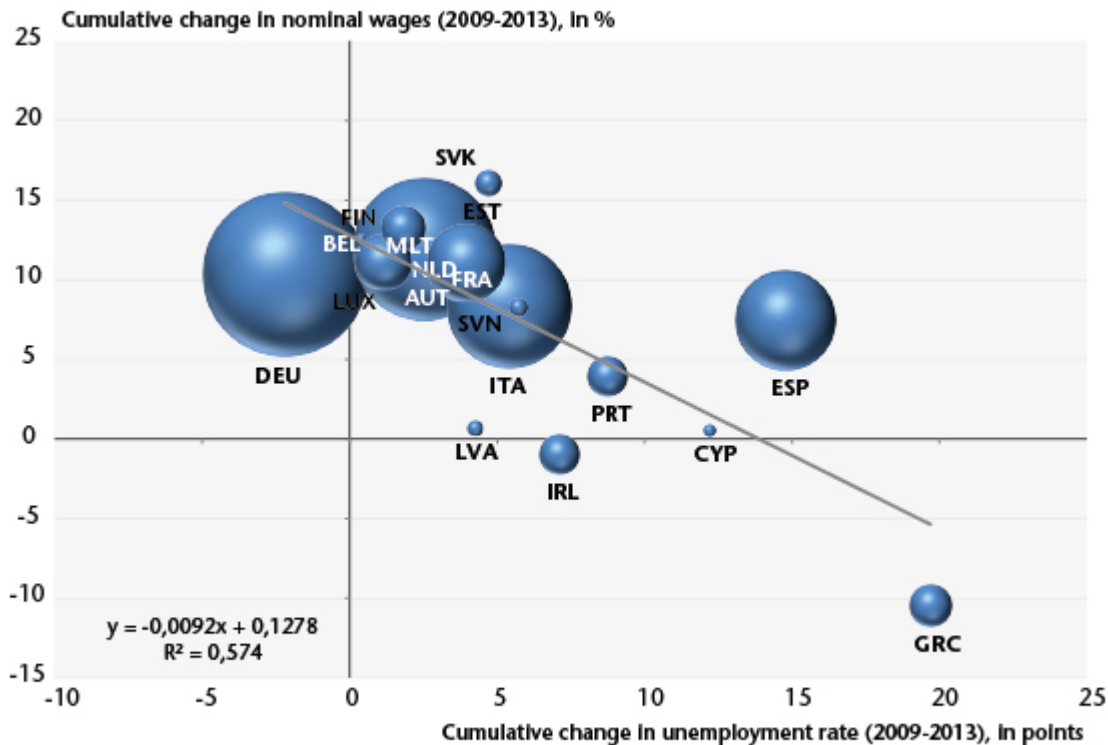
### **An adjustment driven by moderation in wage increases ...**

Faced with falling demand, companies have adapted by making heavy cutbacks in employment in order to cut costs, which has led to a steep rise in unemployment. The number of jobless in the euro zone was 7 million higher in September 2014 than in March 2008. The situation is especially glum in countries like Greece, where the unemployment rate is 26.9%, Spain (24.2%), Portugal (13.8%) and Italy (12.5%). Only Germany has experienced a reduction in unemployment, with a rate of 5.0% of the active population.

As is suggested by the Phillips curve, runaway unemployment has eventually affected the conditions governing wage increases, especially in the most crisis-ridden countries (Figure 1). While between 2000 and 2009 wage growth was more dynamic in the peripheral countries (3.8% annually) than in the countries in the euro zone core (+2.3%) [\[1\]](#), the situation reversed after 2010. Nominal wage growth slowed in the peripheral countries (0.8%), but stayed close to the pre-crisis rate (+2.6%) in the core countries. This heterogeneity is due to differences in how much unemployment has worsened in the different countries. According to Buti and Turrini (2012) [\[2\]](#) from the European Commission, reversing the trend in wage dynamics will be a major factor driving the rebalancing of

current account positions in the euro zone.

**Figure 1. Changes in unemployment rates and nominal compensation per employee**



Note: The size of the bubble is proportional to the GDP of each country in the euro zone.  
Sources : Eurostat, OFCE calculations.

Furthermore, an analysis at the macroeconomic data level masks the extent of the ongoing wage moderation, as the effects of the crisis are concentrated on the most vulnerable populations (young, non-graduate employees) earning the lowest wages. The deformation of the structure of employment in favour of more skilled and more experienced workers ([see the OFCE post: On the difficulty of carrying out structural reforms in a context of high unemployment](#)) is also pushing up mid-level wages. As can be seen in a number of studies based on an analysis of the macroeconomic data [3], wage growth after correcting for these composition effects is below the increase in the average salary.

**... that compresses domestic demand and is not very effective in terms of competitiveness**

Underlying this policy of deflationary adjustment through

wages, what is important for companies is to improve competitiveness and regain market share. Thus, compared with the beginning of 2008, unit labour costs (ULC) [\[4\]](#) fell in the countries deepest in crisis (Spain, Portugal and Ireland), slowed in Italy and continued their upward progression in the countries in the euro zone core, *i.e.* those facing the least financial pressure (Germany, France, Belgium and the Netherlands).

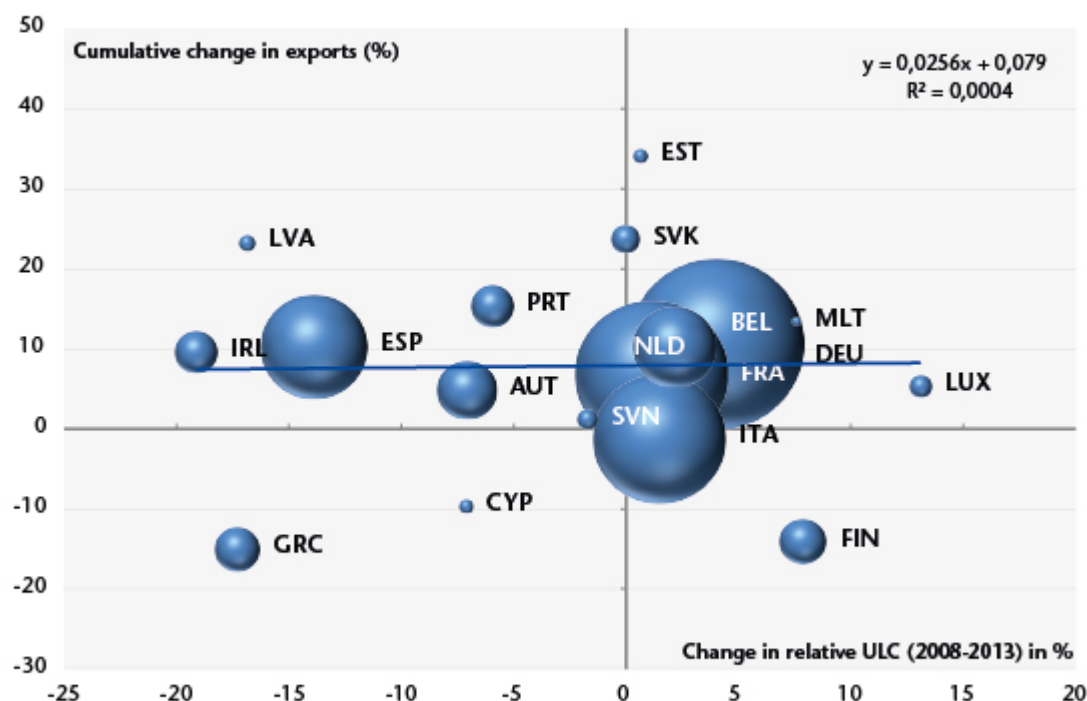
The most significant adjustment took place in Spain. Deflated by inflation, its ULC has fallen by 14% since 2008, 13 points of which are explained by the recovery in productivity, which was achieved at the expense of massive cuts in employment. Real wages increased only 1% over the period. Conversely, in Italy, the adjustment has focused on wages, whose purchasing power has fallen by 5%. However, this decline was not sufficient to offset the fall in productivity, and thus to prevent an increase in the real ULC. In Germany, after the real ULC rose in 2008, real wages continued to rise, but less than gains in productivity. In France, real wages and productivity have risen in tandem at a moderate pace. The ULC, deflated by inflation, has thus been stable since 2009 but has still worsened compared to 2008.

Even though this deflationary strategy is intended to restore business competitiveness, it is a double loser. First, as the strategy is being implemented jointly in all the countries in the euro zone, these efforts wind up neutralizing each other. Ultimately, it is the countries that carry the strategy furthest that win the “bonus”. Thus, among the euro zone’s larger economies, only Spain can really benefit due to the sharp reduction in its ULC, which reflects not only its own efforts but also some continued wage growth among its key partners. France and Italy are not experiencing any gain, and Germany has seen a deterioration in its ULC of about 3% between 2008 and 2013. Moreover, while the wage devaluation might have helped to boost activity, this will have been

accomplished through a rebound in exports. But it is difficult to find any correlation between exports and wage adjustments during the crisis (Figure 2). These results have already been pointed out by [Gaulier and Vicard \(2012\)](#). Even if the countries facing the deepest crisis (Spain, Greece, Portugal) might gain market share, the volumes exported by each of them are in the short/medium term not very sensitive to changes in labour costs. This might be explained by companies' preference to rebuild their margins rather than to lower export prices. Even in countries where the relative ULC fell sharply, the prices of exports rose significantly (6.2% in Greece, 3.2% in Ireland since 2008, etc.).

Finally, in an effort to improve their cost competitiveness, companies reduced their payroll by cutting employment and / or wages. This strategy of competitive disinflation results in pressure on household incomes and thus on their demand for goods, which slows the growth of imports. Indeed, in contrast to what is observed for exports, there is a close and positive relationship between changes in the relative ULC and in import volumes over the period 2008-2009 (Figure 3). In other words, the greater the adjustment effort in the ULC with respect to competitor countries, the slower the growth in import volumes.

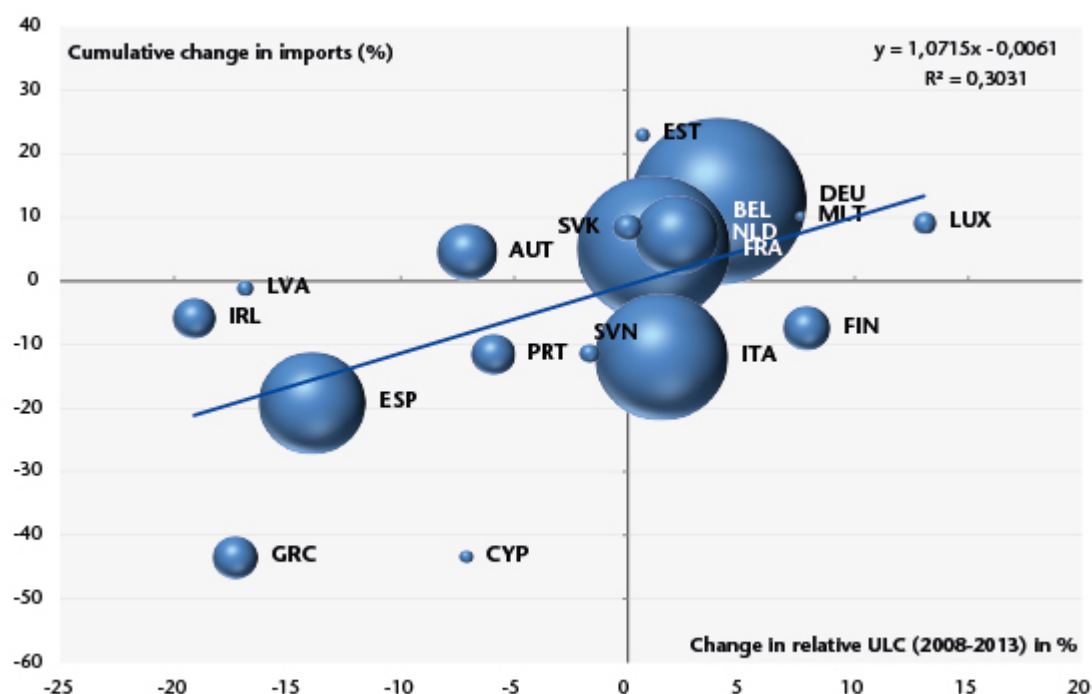
**Figure 2 : Change in relative ULC and exports, in volume**



*Note:* The size of the bubble is proportional to the GDP of each country in the euro zone.

*Sources :* Eurostat, OFCE calculations.

**Figure 3. Change in relative ULC and imports, in volume**



*Note:* The size of the bubble is proportional to the GDP of each country in the euro zone.

*Sources :* Eurostat, OFCE calculations.

This non-cooperative strategy to rebalance the current account can permanently affect an economic recovery in a context where reducing the debt of both private and public agents will become even more difficult if deflationary pressures are felt in an ongoing way (due to increases in real terms in debt and interest rates). The imbalances in the current accounts of the various euro zone countries will thus be dealt with *mainly* by a contraction of imports. The correction of such imbalances by means of a wage devaluation, as was the case in 2010-2011, is therefore doubly expensive: a low impact on competitiveness, relative to competitors, due to the simultaneous implementation of the strategy in the various euro zone countries, and an increased risk of deflation, making it more difficult to shed debt, thereby fuelling the possibility of a scenario of prolonged stagnation in the euro zone.

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[1] Germany, France, Belgium and the Netherlands. The peripheral countries include Spain, Italy, Portugal and Greece.

[2] Buti and Turrini (2012), "[Slow but steady? Achievements and shortcomings of competitive disinflation within the Euro Area](#)".

[3] For a comparison of a number of euro zone countries at the start of the crisis, see ECB (2012), "[Euro Area Labor Markets and the Crisis](#)". For the case of Spain, see Puente and Galan (2014), "[Un analisis de los efectos composición sobre la evolución de los salarios](#)". Finally, for the French case, see Verdugo (2013) "[Les salaires réels ont-ils été affectés par les évolutions du chômage en France avant et pendant la crise?](#)" and Audenaert, Bardaji, Lardeux, Orand and Sicsic (2014), "[Wage resilience in France since the Great Recession](#)".

[4] The unit labour cost is defined as the cost of labour per



unit produced. This is calculated as the ratio between compensation per capita and average labour productivity.

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# On the difficulty of carrying out structural reforms in a period of high unemployment

By Sabine Le Bayon, [Mathieu Plane](#), Christine Rifflart and Raul Sampognaro

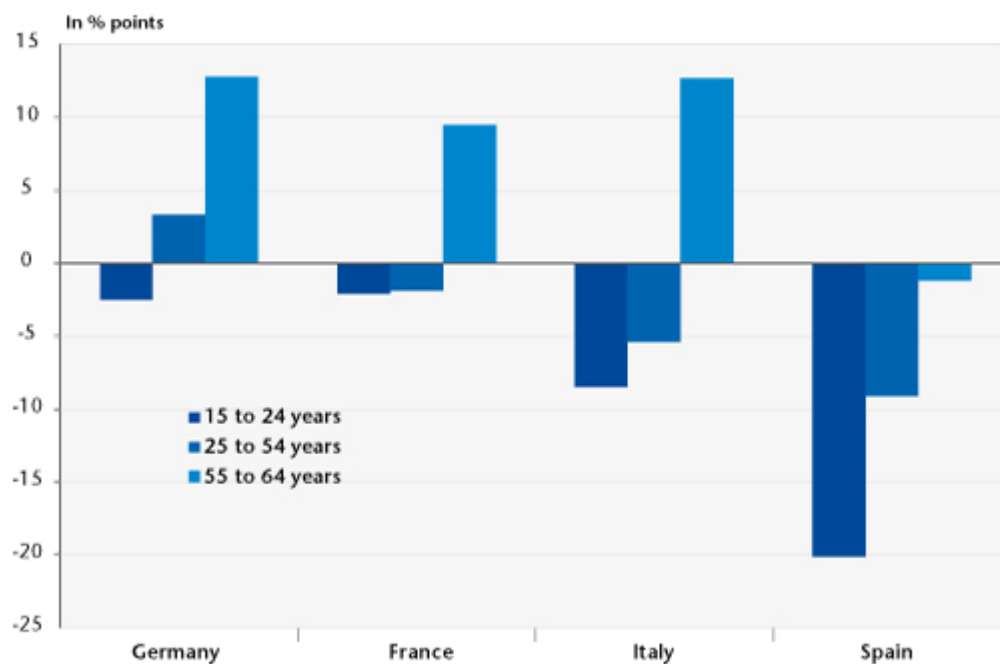
Structural reforms aimed at developing a more flexible labour market are often attributed all the virtues of fighting against mass unemployment and limiting the segmentation of the labour market between “insiders” on stable contracts and “outsiders” who are unemployed or on precarious contracts. When the economy is growing, these measures can facilitate job creation for the benefit of the outsiders, but the results are likely to be more uncertain in a context of mass unemployment and sluggish growth. Structural reforms can indeed reduce the labour market duality arising from regulatory measures but they cannot combat the duality of the labour market inherent in human capital, which is exacerbated during periods of mass unemployment: given the same qualifications it is experience that makes the difference, and given equal experience it is qualifications that make the difference. High unemployment therefore strengthens the phenomenon of “queuing” to access more stable jobs. Structural reforms aimed at streamlining the labour market will thus primarily affect employees who have less qualifications and experience without however enabling outsiders to gain access to more stable employment. This means

that inequality between workers is likely to rise, with no positive impact on employment due to the sluggishness of the economy. Only macroeconomic management that takes on board the goal of returning to full employment could lead to successful structural reform.

As we show in a special study, [“La dévaluation par les salaires dans la zone euro: un ajustement perdant-perdant” \[Devaluation through wages in the euro zone: a lose-lose adjustment\] \(Revue de l’OFCE, no. 136, November 2014\)](#), labour market segmentation has increased during the crisis despite the implementation of structural reforms in the euro zone countries. Since 2008, the employment rate [\[1\]](#) of seniors and of the better qualified has fared better than for other population groups in the four largest countries in the euro zone (Figures 1 and 2).

The sharp decline in the youth employment rate since 2008 is general – including in Germany, where the labour market has remained dynamic – and contrasts with the increase in the employment rate of older workers (or the small decline in Spain). The difference between these two categories is between 12 percentage points in France and 21 points in Italy (15 points in Germany and 19 in Spain). The adjustment in the employment rate of the 25-54 age group lies in an intermediate position. The resistance of the employment rate of older workers to the crisis is probably due to a combination of two factors: the introduction of pension system reforms in recent years (lengthening contribution periods and / or raising the legal retirement age) and the relatively higher cost of dismissing senior citizens, who more often occupy higher positions in the job hierarchy. In a crisis, it is likely that this has led to a substitution effect with the employment of older workers coming at the expense of the young.

Figure 1 : Changes in employment rate by age group between 2008 (Q1) and 2014 (Q2)

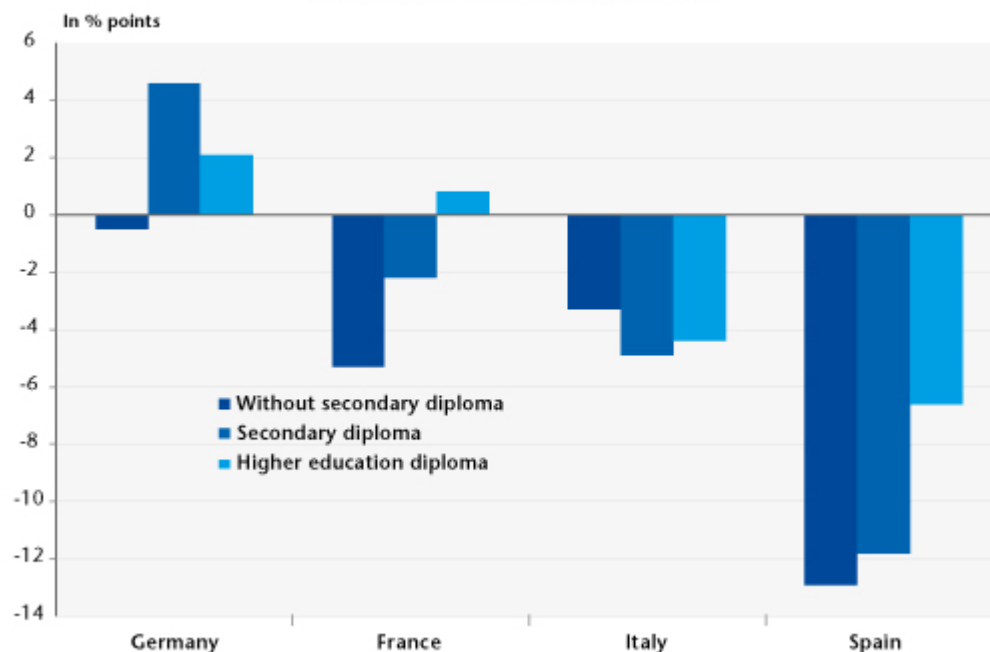


Sources : Eurostat, OFCE calculations.

The adjustments in employment rates were also more striking for people without a high school diploma, with the exception of Italy, where the diploma does not seem to provide protection from unemployment or inactivity. In France, the adjustment in the employment rate clearly decreased with the type of degree. In Germany, the employment rate for those with less education has declined during the crisis while it has increased for the other categories. In Spain, the employment rate of university graduates has withstood the crisis better than the rate of other population groups. In addition to these developments in employment rates by educational category, wage income in Italy, Spain and France has fallen for the initial income deciles. This adjustment in the wage incomes of the lower deciles is probably due to a reduction in total working hours over the year (part-time work, shorter temporary contracts or longer periods of unemployment between contracts, reducing average compensation over the year). Thus, in the countries hit hardest by the crisis, the most vulnerable populations, with the least human capital, have found themselves more exposed to a deteriorating labour market, whether this has been felt through falling employment rates or

a reduction in annual wage earnings.

Figure 2 : Changes in employment rate by level of diploma  
between 2008 (Q1) and 2014 (Q2)



Sources : Eurostat, OFCE calculations.

In the context of a deteriorating labour market, by accepting a slight downgrade the most qualified unemployed workers would be the first to find jobs, chasing out those who might otherwise have gotten it, who would themselves do the same thing at a lower level. This could explain why, at the end of the queue, it is the least skilled who are, regardless of labour legislation, the victims of unemployment and precarious employment.

The existence of a “spontaneous” segmentation in the labour market and the phenomenon of “queuing” may thus limit the success of a strategy of structural reforms and wage devaluation. In such a case, a more flexible labour market combined with a reduction in social welfare could increase inequalities between groups in the workforce without increasing the creation of full-time equivalent jobs.

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[\[1\]](#) This is the ratio of the employed to the working-age population.

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# Should we be celebrating the fall in unemployment at end 2013?

By [Bruno Ducoudré](#) and [Eric Heyer](#)

Every quarter, the INSEE publishes the unemployment rate as defined by the International Labour Office (ILO): for the fourth quarter of 2013, it **fell** 0.1 point in France, meaning 41,000 fewer unemployed. Likewise, every month the number of jobseekers registered with the Pôle Emploi job centre is reported: during the fourth quarter of 2013, this source indicated that the number of registered jobseekers in category A **rose** by 23,000. In one case unemployment is down, in the other it is up – this does not lead to a clear diagnosis about where unemployment is heading at year end.

**What explains the difference in diagnosis between the INSEE and Pôle emploi?**

Besides differences related to methodology (an employment survey for the ILO, an administrative source for Pôle emploi), it should not be forgotten that, according to the ILO, a person must meet three conditions to be counted as unemployed: being unemployed, being available for work and performing an active job search. Simply being registered at Pôle emploi is

not sufficient to fulfil this last condition. So people registered as category A at Pôle emploi who are not actively seeking work are not counted as unemployed according to the ILO. The ILO criteria are thus more restrictive. Historically, for those aged 25 and over, the number of unemployed registered at Pôle emploi is greater than the number according to the ILO criteria. For those under age 25, registering with Pôle emploi [1] is in general not as worthwhile, except during a period of active social treatment of unemployment, as was the case during the last quarter of 2013: people who wanted to benefit from a subsidized job had to be registered at the job centre.

**Table 1. Change in the number of unemployed from Q3 to Q4 2013**

1000s

Age	15-24	25-49	50 +	Total
Unemployed (ILO criteria)	-33	3	-11	-41
Registered at Pôle emploi Cat. A	-7	10	20	23
Difference	26	7	31	64

Sources: INSEE, Emploi survey, Pôle emploi DARES.

As shown in Table 1, regardless of the age group, the situation seems less favourable using the Pôle emploi figures than according to the ILO criteria: when confronted with more than 2 years of unemployment, a certain number of discouraged jobseekers stop their active job search and are thus no longer recognized as such within the meaning of the ILO, yet continue to update their status at the job centre, and therefore remain listed in Category A.

### **Is the reduction in the unemployment rate calculated by ILO criteria good news?**

The unemployment rate can fall for two reasons: the first one, virtuous in nature, is as a result of escaping unemployment due to improvements in the labour market; the second, less encouraging, is due to jobless people becoming discouraged and drifting into inactivity. The latest statistics from the ILO emphasize that the 0.1 point fall in the unemployment rate can

be explained in full by the fall in the participation rate – which measures the percentage of the work force in the population aged 15 to 64 – and not by a resumption of employment that has remained stable. The decline in the unemployment rate is thus not due to a recovery in employment, but to discouraged jobless people who quit actively seeking employment (Table 2).

**Table 2. Breakdown of the change in the labour force participation rate (ILO criteria) Q4 2013**

In points

Age	15-24	25-49	>49 ans	Total *	Labour force Q4 2013 (1000s)
Employed	0,3	-0,2	0,2	0	25 547
Unemployed	-0,5	0	-0,1	-0,1	2 784
Labour force	-0,1	-0,1	0,2	-0,1	28 331

\*The employment rate, the unemployment rate and the labour force participation rate are average rates weighted for the number of individuals in each age group. The 25-49 age group is the largest, representing about 60% of the total.  
Source: INSEE, Emploi survey.

Looking more closely, the employment policy pursued by the government – “jobs for the future”, CUI “unique integration contracts” – has had a positive impact on youth employment; the employment rate rose by 0.3 percentage point during the last quarter of 2013. Among seniors, the employment rate is still continuing to rise (+0.2 percentage point) due to the decline in the actual age of retirement. ILO-defined unemployment is of course falling among seniors, but the sharp rise in enrolment at the job centre in this age group (Table 1) undoubtedly reflects a change in their job search behaviour: more and more seniors are no longer looking for work. They are now included in the “halo” of unemployment, which is continuing to rise.

Ultimately, the fall in the ILO-defined unemployment rate, which is characterized by the absence of a recovery in employment and the discouragement of jobseekers, is not such good news.

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[\[1\]](#) To have the right to unemployment compensation and receive

assistance for a return to work, it is necessary to prove a 122 day contribution period or 610 hours of work during the 28 months preceding the end of the job contract.

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## Part-time work

By [Françoise Milewski](#)

Part-time work as a share of total employment has increased significantly. This increase was limited in the 1970s and then accelerated in the 1980s and especially in the 1990s. During the 2000s and early 2010s, changes in the long-term trend were less pronounced. Overall, the share of part-time work more than doubled in the last forty years and now accounts for nearly one-fifth of employment.

This development is the result of a number of social and economic trends. It reflects both changes in the labour market – growth in the tertiary sector to the detriment of industry and the proliferation of categories of employment – and inequalities between women and men. It is also the fruit of public policy.

Part-time jobs are occupied mostly by women. They are also predominantly held by employees aged 25 to 49, although a trend towards part-time work has emerged among seniors. Part-time jobs are usually low-skilled. Although these jobs often involve working 15 to 29 hours a week, working times can vary greatly, with a trend towards a greater portion of shorter work weeks. Part-time employees generally are not on fixed-term contracts, so it is a stable form of employment. Whether monthly or hourly, wages are low, and part-time employees are



overrepresented among minimum wage and low-wage workers. Work schedules that are atypical and which can involve multiple shifts, with fluctuating unpredictable schedules, generally mean poorer working conditions.

Part-time work is heterogeneous in terms of both the reasons given by employees who may request it as well as the ways businesses are organized in different economic sectors. There are thus multiple logics involved in part-time work (which in French leads to use of the term “des temps partiels” to account for this multiplicity).

The development of the service sector has spurred the increase in part-time work. Part-time jobs in sectors such as retailing and distribution, hotels and catering, cleaning, personal services and some public services are predominantly occupied by women. This reflects the type of training women have acquired, stereotypes about the natural aptitude they supposedly have to care for others, and their overrepresentation in low or unskilled work. The tradeoffs women make between work and family tasks reinforce these trends, either because full-time work seems incompatible, or because after parental leave they prolong the reduction in work that they have experienced. After an extended leave, it can sometimes be very difficult to reintegrate the world of work.

Increasing labour flexibility in recent decades has reinforced these trends. The multiplication of forms of employment has affected women in particular, both because they work mainly in the sectors that have been at the origin of this trend and because women are at a disadvantage in the labour market and more readily accept poorly paid jobs.

During certain periods public policy has favoured part-time employment while at others it has sought to limit its impact. At the junction between employment-related goals and family-related goals, policy has sometimes suffered from being

inconsistent.

There are sometimes significant differences between countries within the European Union, as a result of specific historical developments, different social consensuses, and specific regulations on the labour market.

Analyzing the current situation and identifying the changes underway provides a glimpse of the potential changes to come and thus fuels debate about these developments and their implications for policy makers. Do part-time work and full-time work develop according to the same dynamics? Is there a trend within part-time work towards greater flexibility, or less? To what extent is women's autonomy being challenged by the development of part-time work as a stable form of employment? Is part-time work a form of underemployment or a way of getting into the labour market and full-time work? All of these are questions that influence the development of public policy<sup>[1]</sup>.

For further information, read the [\*OFCE Note, no. 38 of 13 December 2013\*](#).

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<sup>[1]</sup> This article summarizes a study by the Labor and Employment section of the Conseil économique, social et environnemental [Economic, Social and Environmental Council], "Part-time work ," Françoise Milewski , Les Editions des Journaux officiels, December 2013, forthcoming.