

Flexibility versus the new fiscal effort – the last word has not been spoken

By Raul Sampognaro

On 13 January, the [Juncker Commission clarified its position on the flexibility](#) that the Member States have in implementing the Stability and Growth Pact (SGP). The new reading of the SGP should result in reining in the fiscal consolidation required for certain countries[\[1\]](#). Henceforth, the Commission can apply the “structural reform clause” to a country in the corrective arm of the Pact[\[2\]](#), whereas previously this was only possible for countries in the Pact’s preventive arm[\[3\]](#). This clause will allow a Member State to deviate temporarily from its prior commitments and postpone them to a time when the fruits of reform would make adjustment easier. In order for the Commission to agree to activate the clause, certain conditions must be met:

- The reform plan submitted by the Member State must be major and detailed, and approved by the Government or the National Parliament; its timetable for implementation must be explicit and credible;
- The plan must have a favourable impact on potential growth and / or the public finances in the medium-term. The quantification of the impact should be carried out transparently and the Member State must submit the relevant documentation to the Commission;
- The Member State must make a structural budget improvement of at least 0.5 GDP point.

In this new context, France has reforms it can point to, such as the regional reform and the law on growth and activity, the

so-called Macron law. [According to OECD calculations from October 2014](#), the reforms already underway or being adopted [\[4\]](#) could boost GDP by 1.6 points over the next 5 years while improving the structural budget balance by 0.8 GDP point [\[5\]](#) (the details of the impacts estimated by the OECD are shown in Table 1).

Table 1. Impact on GDP of the reforms underway or announced

In points

Reforms	Impact on GDP at 5 years	Impact on GDP at 10 years
Reforms underway	1.2	3.0
Greater competition (administrative simplification shock and first measures on regulated professions)	0.2	0.3
Labour market reform	0.6	1.3
– including CICE tax credit and Responsibility Pact	0.5	1.1
– others (unemployment insurance reform, active policies)	0.1	0.2
Modification of tax system	0.1	0.4
Creation of “metropolises” (Paris and Aix-Marseille)	0.3	1.0
Reforms announced	0.4	0.7
Increase in competition in electricity and gas and reform of the regulated professions (reform a little broader than the Macron law)	0.4	0.7

Source: OCDE (2014), “France. Structural reforms: impact on growth and options for the future”. October 2014.

In March, the Commission will decide whether France’s 2015 Finance Act complies with the rules of the SGP. To benefit from the structural reform clause, France must then meet certain conditions:

1) The outline of the reforms needs to be clarified: [at end December 2014, the Commission felt that there were still many lingering uncertainties](#) concerning the regional reform and the content of the Macron law, uncertainties that will be resolved in the course of the parliamentary process.

2) The Ministry of Finance at Bercy must produce credible assessments of the impact of the Macron law, while the Commission will carry out its own evaluation. The Commission has already noted that the OECD’s calculations will constitute the upper bound of the impact.

The evaluation of the 2015 Finance Act may result in the imposition of financial sanctions on France, unless the government decides to go for a greater fiscal adjustment. [The](#)

[Commission warned in late November that further steps would be needed to ensure that the 2015 budget complies with the SGP.](#) Indeed, the Commission found that the adjustment was only 0.3 GDP point, while in June 2013 France had committed to an annual structural adjustment of 0.8 point in 2015 to bring its deficit below 3% in 2015[\[6\]](#).

While the Commission approves the positive effects expected from the reforms, there is a problem with the application of the “structural reform clause”: the structural budgetary adjustment is still below 0.5 GDP point, which prevents the application of the new clause. France therefore still faces the threat of sanctions, despite the new doctrine.

While this analysis of the [document published on January 13](#) shows that the Commission has given the Pact greater flexibility, it also shows that the Commission expects France to make a larger fiscal adjustment. This would be on the order of 4 billion euros (0.2 percent of French GDP) instead of the 8 billion (0.4 percent of GDP) that would have been expected back in October (the impact of a strict reading of the Pact has been analyzed [here](#)).

The Government's refrain is that it does not wish to go any further with fiscal adjustment, that this is not desirable in the current economic climate: 2015 could be a year for recovery provided that the risk of deflation is taken seriously. There is a lot of support for economic activity, including lower prices for oil and the euro, an expansionary monetary policy and the Juncker plan, even if the latter needed to go much further. However, France's fiscal policy is continuing to be a drag, and just how much so will remain uncertain until March. From now till then, with the terms of the debate clearly spelled out, everyone will need to take the risk of deflation seriously.

[1] The Commission permits subtracting investments made under the Juncker Commission Plan from the deficit calculation; it clarifies the applicability of the “structural reform clause” and moderates the speed of convergence towards the medium term objectives (MT0) for countries in the preventive arm of the Pact based on their position in the business cycle.

[2] *Grosso modo* this means countries with a deficit of more than 3%.

[3] *Grosso modo* this means countries with a deficit of less than 3%.

[4] Which goes beyond the Macron law alone and includes the CICE tax credit and the Responsibility Pact.

[5] The OECD data were used by the Prime Minister in his [October 27 letter to the Commission](#).

[6] In its 2014 autumn forecast, the Commission quantified the adjustment at 0.1 GDP point, but this figure is not directly comparable with the commitment of 0.8 point from June 2013. Once the changes in national accounting standards and the unpredictable changes in certain variables are taken into account, the corrected adjustment is 0.3 GDP point. This figure is the calculation basis for the excessive deficit procedure.

Working in the United States: longer, harder, and ... on weekends!

By Elena Stancanelli, Paris School of Economics, CNRS and Research Associate at the OFCE[\[1\]](#)

Americans now work longer hours than Europeans. Daniel Hamermesh and Elena Stancanelli show in “[Long Workweeks and Strange Hours](#)” that the lengthening of the workweek in the United States has gone hand in hand with more work at night and on weekends.

The authors’ results are based on mining a unique set of data, the American Time Use Survey and a panel of European individuals that accurately measures employee working time (weekly, week-ends, at night) as well as a range of other activities (leisure, child care, domestic work, rest periods, etc.) using daily time diaries [\[2\]](#). The individuals are interviewed about the entire day (24 hours) using ten-minute slots (144 ten-minute slots are filled in for each individual). These data are collected by the national statistical institutes for representative samples of the population, on an annual basis in the United States but much less frequently in Europe. For example, in France, the *Emploi du temps*(EDT) survey is collected by the INSEE statistics institute once every twelve years.[\[3\]](#)

In the US, over 30% of employees work more than 45 hours per week, a much higher rate than in France, Germany or the Netherlands (Table 1). The number of hours worked per person has fallen significantly in the last two decades in almost all OECD countries. The only exception is the United States, where hours worked fell by only 2% from 1979 to 2012, compared with, for example, an 18% reduction in France (Table 2). It is

therefore not very surprising that one in three American workers are working weekends, versus fewer than one in five in France, Germany and the Netherlands (Table 1). Night work, defined as working between 10pm and 6am, is even less widespread in France, as it affects only 7% of workers, compared with over 25% in the United States and 10-15% in Germany and the Netherlands (Table 1). Furthermore, weekend work is usually performed by less-qualified individuals, immigrants and women, that is to say, by those with little bargaining power (Kostiuk, 1990; Shapiro, 1995). This tends to confirm the arduous nature of weekend work and its compulsory character. In contrast, people who work nights have more varied characteristics. Even so, more educated workers are less likely to work at night, which, again, would suggest its onerous character.

Finally, a simulation shows that, even if we assume that the United States were identical to the European countries in terms of both demographic characteristics and the structure of employment (occupational sectors, type of employment, hours worked) [\[4\]](#), this still fails to explain why Americans work so much and on weekends and at night (Hamermesh and Stancanelli, 2014). What is the reason for this? The importance of cultural differences between the US and Europe? The existence of institutional differences? A complex interaction between culture and institutions? This is a wide-ranging debate that has barely begun.

In any case, one key result of this study is to highlight the socially undesirable character of work on weekends, due to the damage this can cause to family relations (Jenkins and Osberg, 2005) and to social life (Boulin and Lesnard, 2014). Food for thought for our MPs during the vote on the economic reforms in the Macron bill?

Table 1. Duration and time of work

In %

Weekly work hours	États-Unis 2003-11	France 1998-99	Allemagne 2001-02	Pays-Bas 2000, 2005	Roy.-Uni 2000-01
Hours:					
1-19	5,2	5,8	8,5	16,9	13,1
20-34	12,5	16,6	17,4	27,0	15,6
35-44	50,5	74,0	56,4	41,1	39,7
45-54	19,6	2,6	10,6	10,2	18,2
55-64	8,3	0,6	5,1	3,6	8,5
65+	3,9	0,4	2,0	1,2	4,9
Average hours of work per week:	41,0	35,7	36,9	32,8	38,6
Work on weekends:					
Percentage of employees weekends	34,3	21,8	22,3	21,1	27,3
Hours worked on weekends, on average (per day)	5,5	5,3	4,5	5,5	6,2
Work at night (10pm-6am):					
Percentage of employees working nights	26,6	7,3	13,0	10,4	21,6

Source: Daniel Hamermesh and Elena Stanca, "Long Workweeks at Strange Hours", NBER Working Paper n° 20 449, September 2014 or Document de Travail de l'OFCE, n° 27.

Table 2. Hours worked per person employed

Annual average

	Years		Change
	1979	2012	In %
Australia	1832	1728	-5,7
Canada	1841	1710	-7,1
Denmark	1636	1546	-5,5
Finland	1869	1672	-10,5
France	1804	1479	-18,0
Japan	2126	1745	-17,9
Netherlands	1556	1381	-11,24
Sweden	1530	1621	+5,95
United Kingdom	1813	1654	-8,8
United States	1829	1790	-2,1

Source: OECD Employment Outlook, 2013.

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[\[2\]](#) The authors use the harmonized version of the data made available by a group of researchers from Oxford University (see Gershuny and Fisher, 2014).

[\[3\]](#) These data are based on the average of the 2010 years for the United States and for different years in the early 2000s for the European countries. For France, we decided to use the 1998-1999 *EDT* data, as the most recent survey, for 2009-10, took place in the midst of the economic crisis, which could have affected the pace of work. In addition, teachers were visibly oversampled there, which would tend to distort international comparisons, as weightings do not perfectly

correct the distortions. It seems very unlikely that the difference between the US and the European countries has narrowed in recent years.

[\[4\]](#) For the United States, the regressions also include fixed effects for the various States, in order to capture institutional differences from one State to another.