

***Joint OECD/University of Maryland
International Conference***

***Labour Activation in Times of High
Unemployment***

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A French Policy Perspective

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Outline

- 1. The pre-crisis labour market background**
- 2. Structural reforms just before and short-term policy measures in response to the great recession**
- 3. Labour market outcomes and tentative lessons**

The pre-crisis labour market outcome

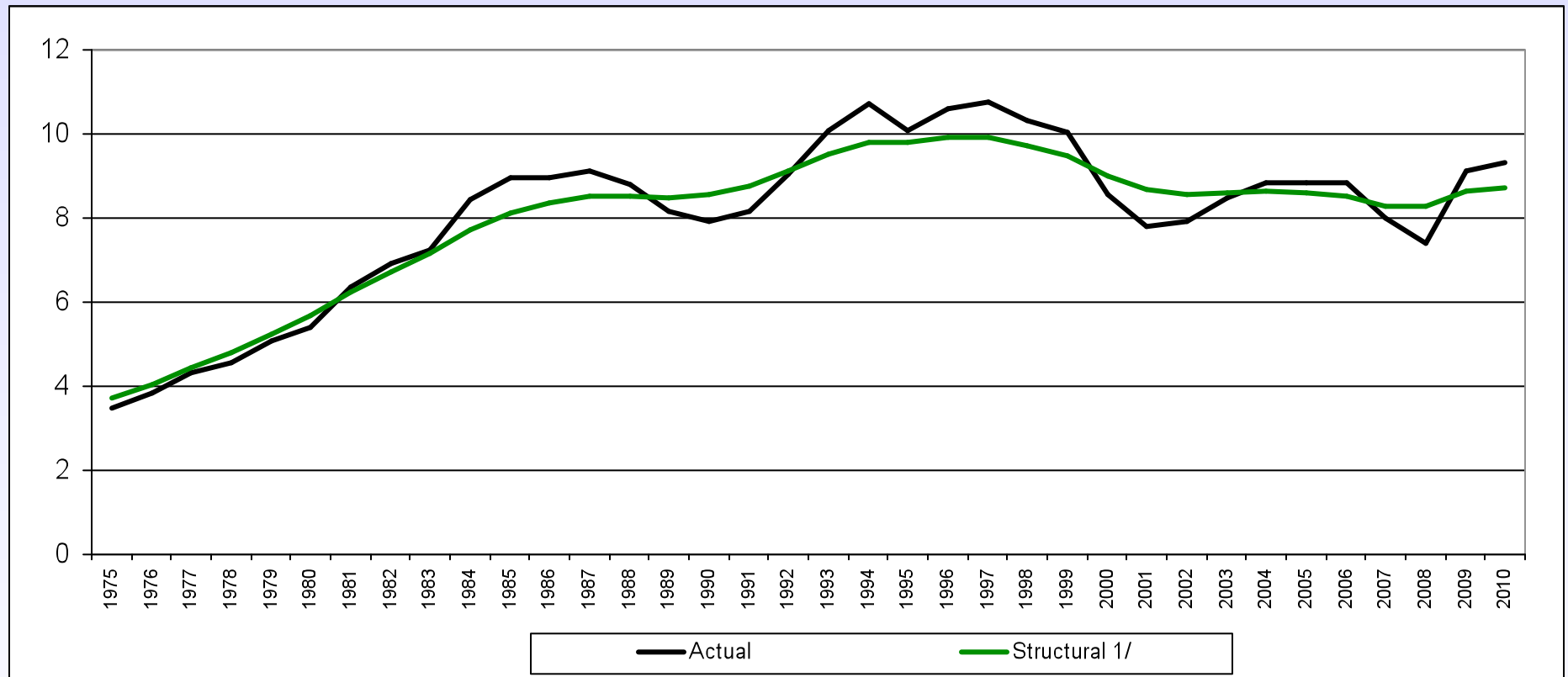
- High structural unemployment
- Low employment rates among older workers and youth
- Labour market dualism
- Low hours worked for full-time workers

Labour market policies in the 2000s

- Reductions in employers payroll tax targeted at low wage earners, introduced in the 1990s and extended in the first half of the 2000s to offset the increase in the minimum wage resulting from the 35 hours week
- Implementation and strenghtening of various in-work benefits to reduce inactivity traps (« Prime Pour l'Emploi » in 2001, possibility to combine income from work and main social assistance scheme « revenu minimum d'insertion » (RMI)...)
- Strenghtening help and monitoring of job seekers (PARE-PAP in 2001, PPAE and monthly meetings with ANPE counselors after 4 months in 2005-2006 ...), albeit in a complex organisation of the public employment service

A declining structural unemployment rate before the great recession

Actual and structural unemployment rate in France (%)



Source : OECD

1/ OECD estimates (Economic Outlook, May 2011)

Labour market policies turn in 2007-2008

- Subdued labor costs for low skilled workers (small minimum wage increases), while strenghtening in-work benefits through an overhaul of main social assistance scheme (new « revenu de solidarité active» (RSA) instead of RMI)
- Structural reforms along the lines of « flexicurity » : public employment services, unemployment benefits, vocational training, functioning of the labour market
- Targeted reforms to increase employment for older workers and better integrate the youth in the labour maket
- Structural reform and measures to strengthen social dialogue and collective bargaining (particularly at the company level)

Reforms of public employment services

- Merger of the national placement agency (ANPE, run by government) and the unemployment insurance network (Assedic, run by social partners) into new « Pole emploi »
 - ✓ Strengthening and more cost-efficient monitoring and placement of the unemployed
 - ✓ Broadening and strengthening services to people facing the greatest difficulties (including those not entitled to unemployment insurance benefits)

→ High unexpected pressure from the crisis
- Redefinition of job seekers rights and obligations
 - ✓ A new system of mutual obligations
 - ✓ Legal framework for « reasonable job offer »

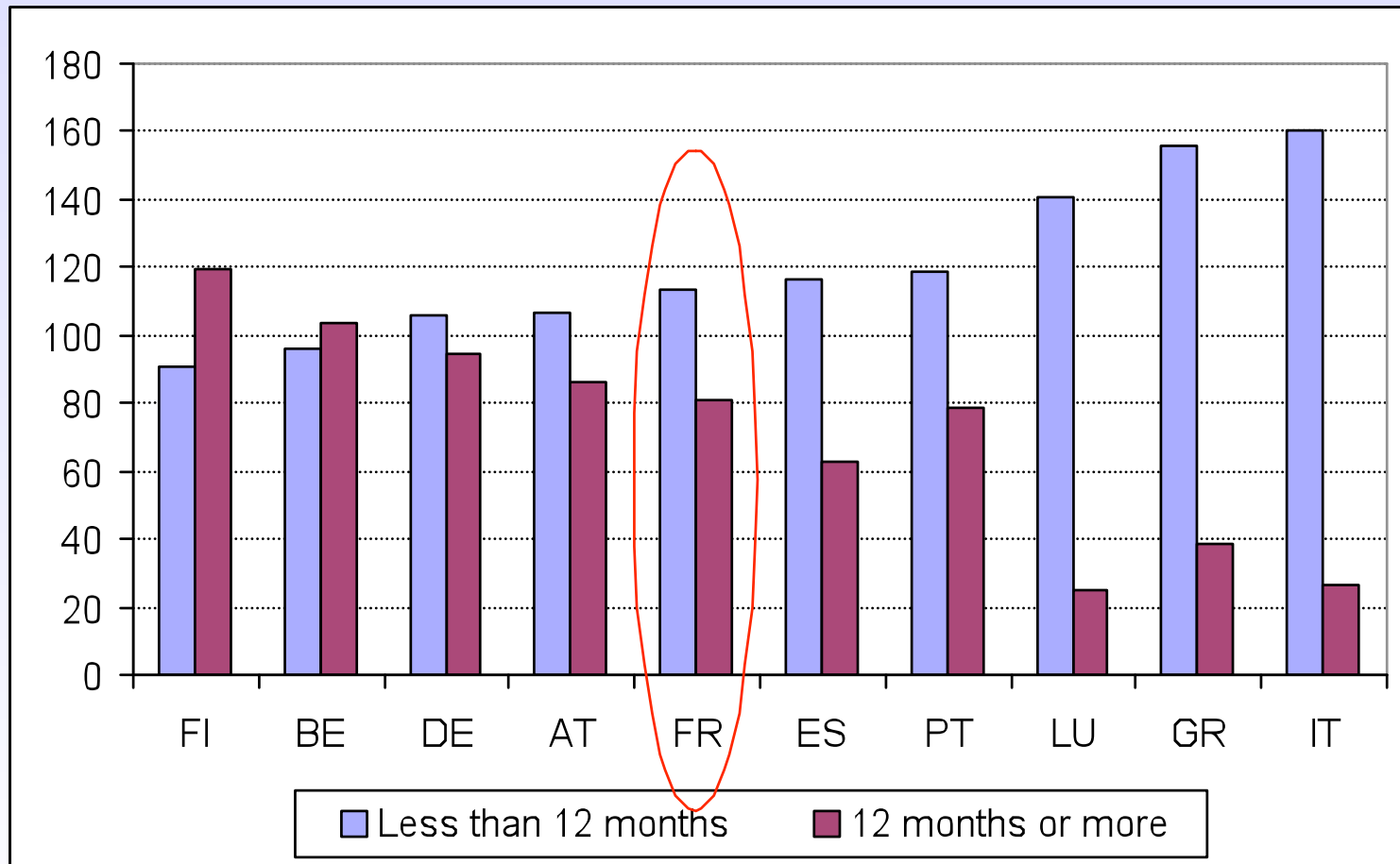
→ Partial effective implementation during to the crisis

Reform of unemployment benefits

- A three-tier system :
 - ✓ Unemployment insurance (UI) : managed by social partners, « allocation de retour à l'emploi », relatively generous
 - ✓ Unemployment assistance (UA) : managed by government, « allocation de solidarité spécifique », much lower benefits
 - ✓ Social assistance (SA) : « revenu de solidarité active »
 - Reform of the UI system :
 - ✓ New principle : insurance payment period = contribution period (instead of complex system with thresholds depending on contribution period and age)
 - ✓ Unique reference period of 28 months for workers under 50, and 36 months for workers above 50 ((22/20/)/26 and 36 months previously)
 - ✓ Maximum insurance payment period of 24 months for workers under 50, and 36 months for workers above 50 ((7/12/)/23 and 36 months previously)
 - ✓ Minimum contribution period of 4 months (6 months previously)
- Drastic simplification, better coverage of precarious workers welcome in the face of crisis

Unemployment benefits coverage

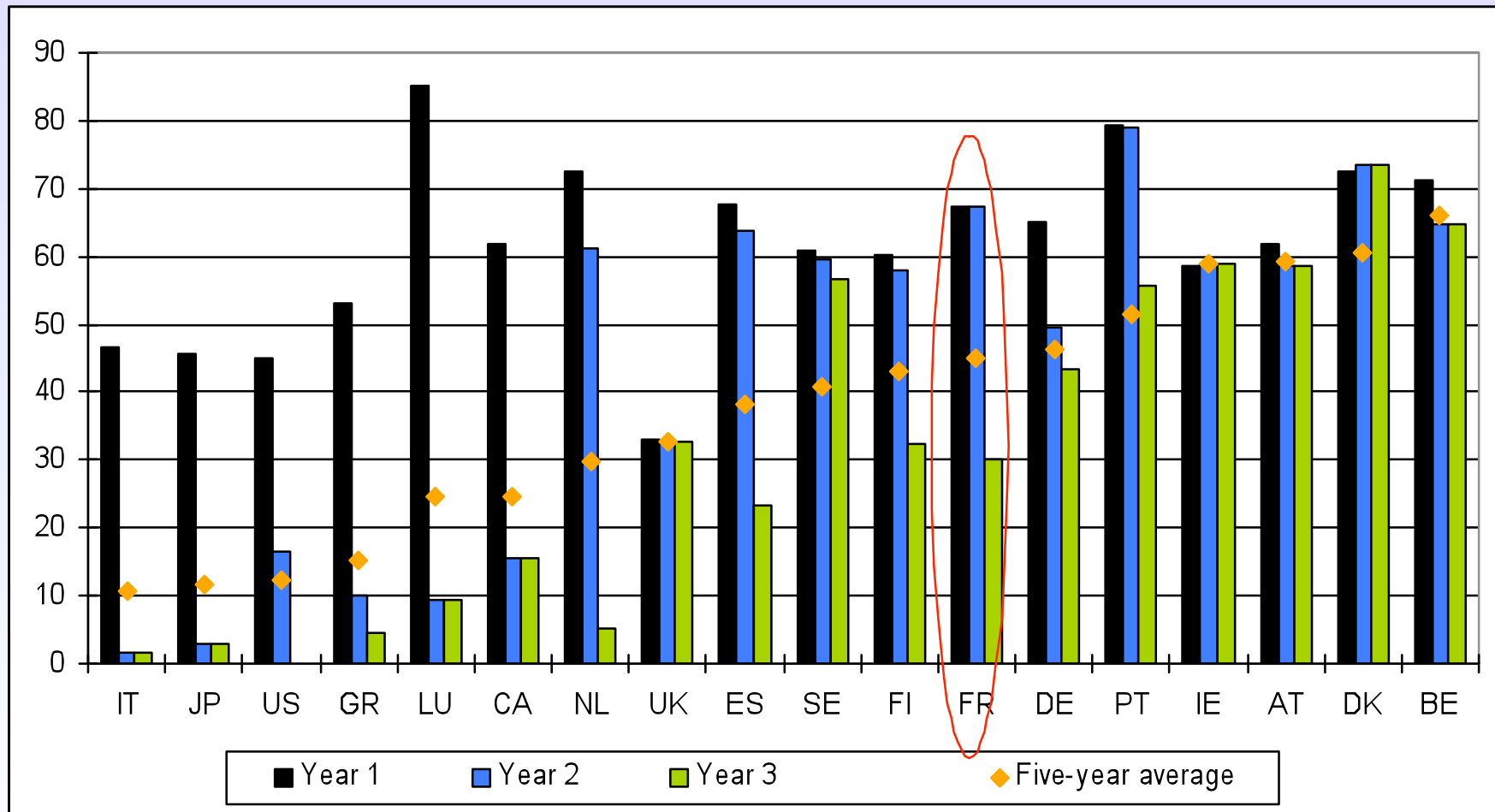
Ratio of unemployment benefit recipients to the number of unemployed persons in 2009 (%)
By unemployment duration - Ratio for all unemployed = 100



Source : OECD estimates based on the European Union Labour Force Survey

High UI replacement rate for 2 years followed by lower UA replacement rate

Level of unemployment benefits by duration of the unemployment spell :
 Net replacement rates at different points during an unemployment spell, 2009 (%)

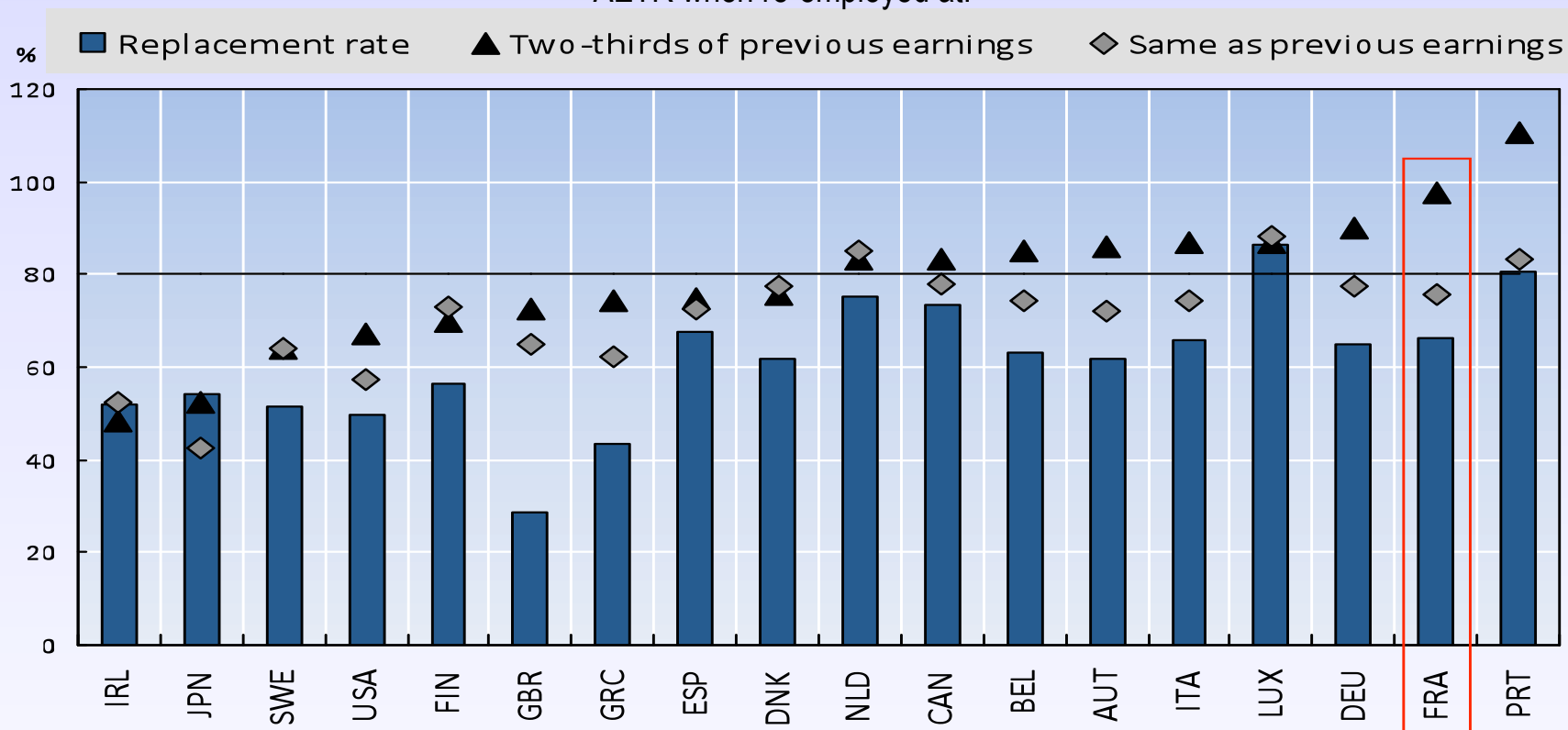


Source : OECD tax-benefit models

Low financial incentives to work for UI recipients

Average effective tax rate (AETR) and net replacement rate for an average-wage (AW) worker

AETR when re-employed at:



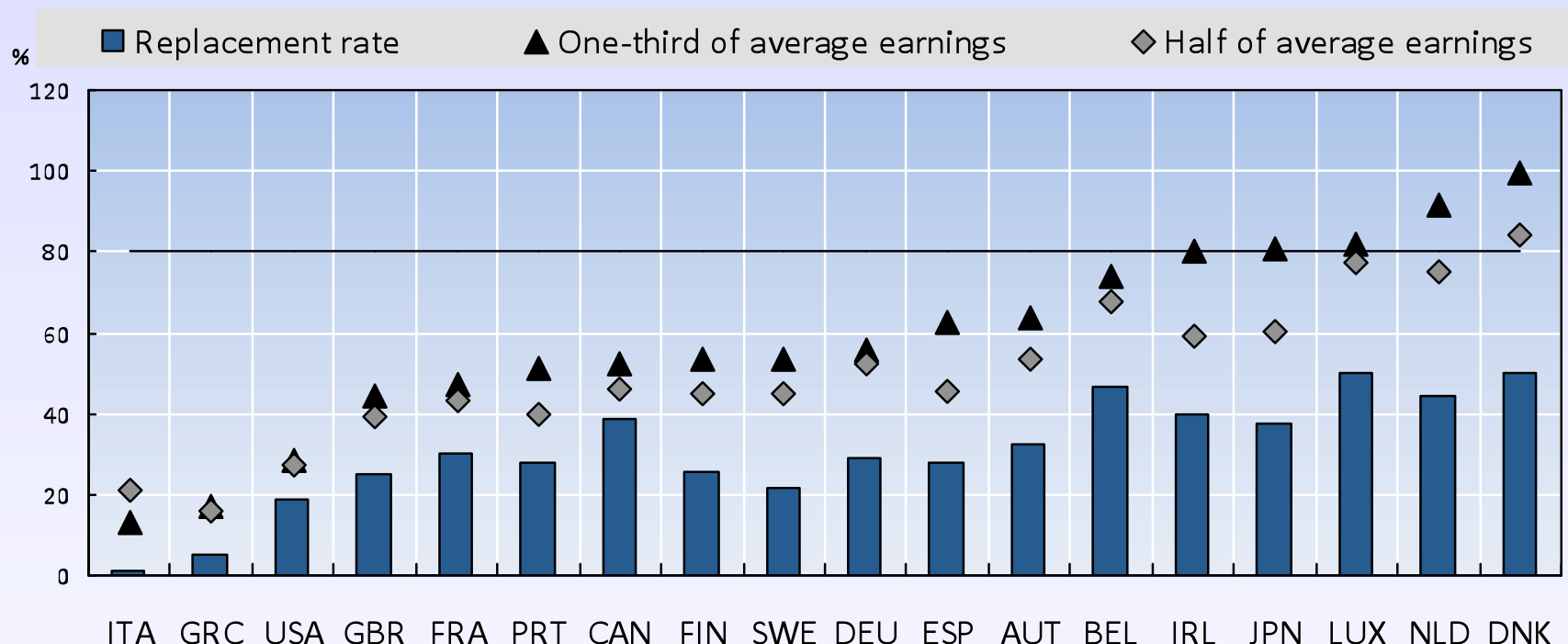
Note : The net replacement rates displayed correspond to the situation of a worker who has just become unemployed and receives unemployment benefits based on previous earnings equal to full-time employment at the average wage (AW), while the average effective tax rates (AETRs) refer to that person becoming re-employed full-time at two different hourly earnings levels : the AW and two-third of the AW. No social assistance "top-ups" are assumed to be available in either the in-work or out-of-work situation. Following the transition into employment, in-work benefits that depend on the transition are assumed to be available. The replacement and AETRs displayed are averages across three household types.

Source : OECD tax-benefit models

Higher financial incentives to work for UA recipients

Average effective tax rate (AETR) and net replacement rate for an unemployed single worker not qualifying for employment benefits

AETR when re-employed at:

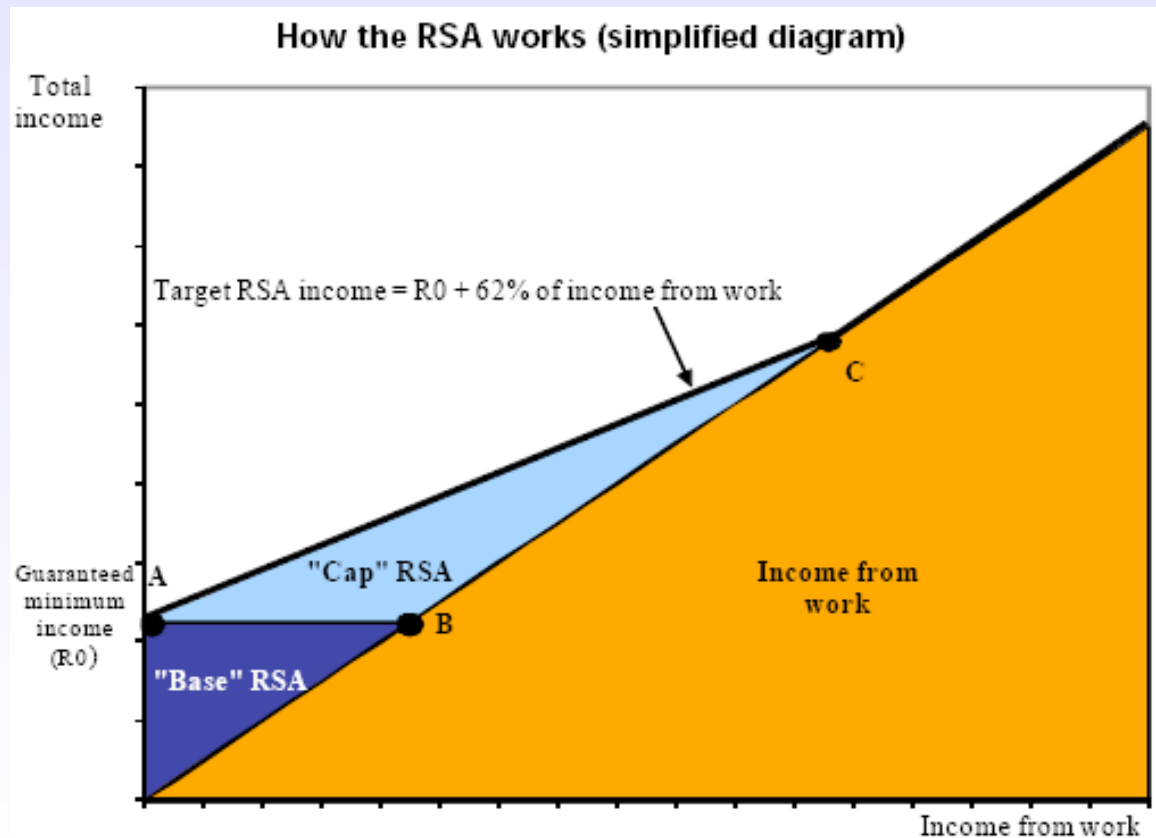


Note : The net replacement rates displayed correspond to the situation of an unemployed person receiving social assistance as a percentage of disposable income when working full at the average wage. Following the transition into employment, in-work benefits that depend on the transition are assumed to be available. Average effective tax rates (AETRs) correspond to two scenarios for becoming re-employment at relatively low levels of earnings. These AETRs correspond to the situation of a person who moves from being unemployed and receiving social assistance to becoming reemployed and earning either 33 % or 50 % of the amount that an AW worker would earn on a full time basis. In work benefits that depend on the transition into work are included, but housing subsidies are excluded.

Source : OECD tax-benefit models.

The new social assistance scheme « Revenu de Solidarité Active » (RSA)

- Main features :
 - ✓ Make any work pay
 - ✓ Rights and duties for beneficiaries able to work

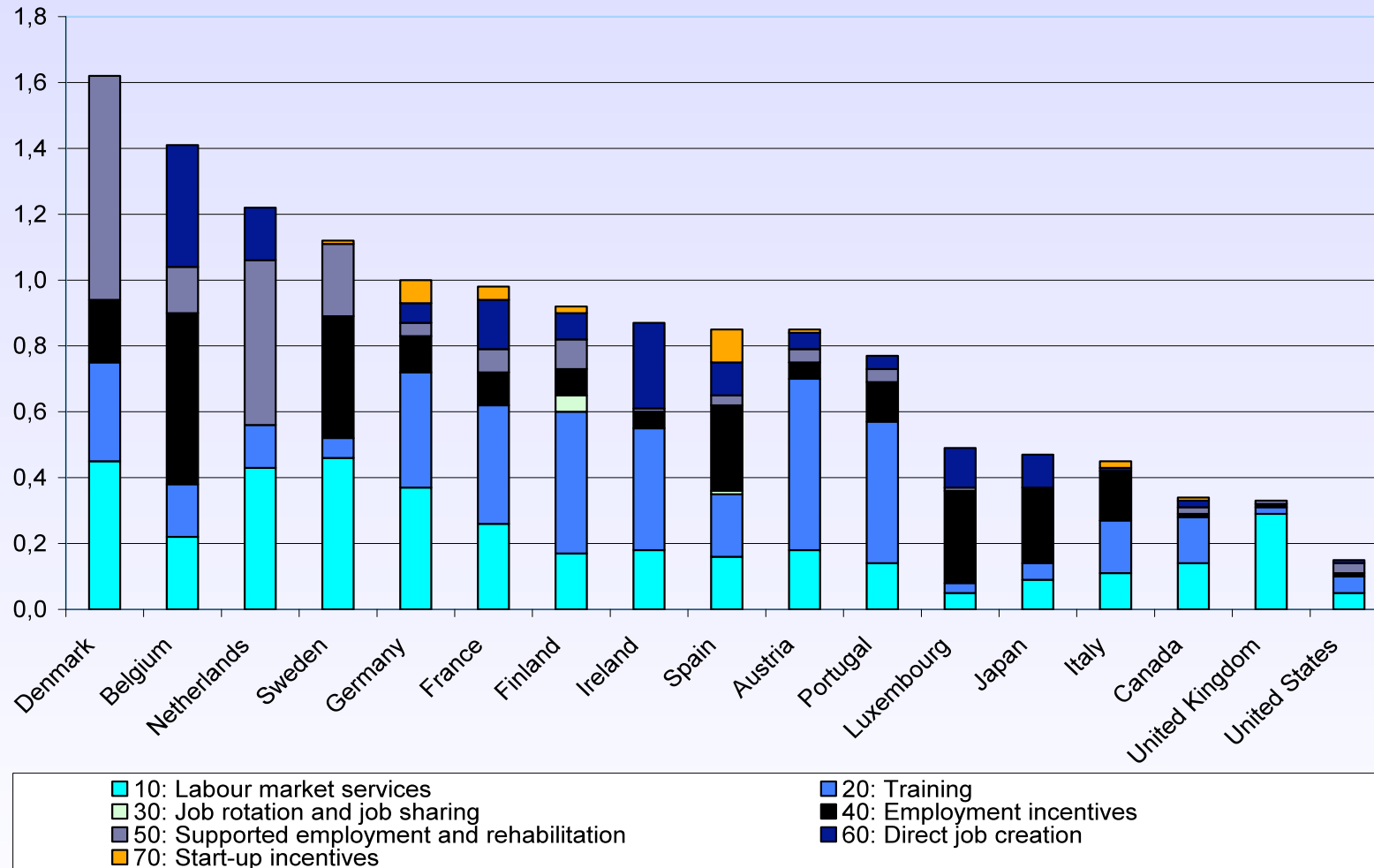


New measures in response to the crisis

- Reactivation of existing short-time working scheme (modest)
- Temporary cuts in employers social security contributions for hirings by small businesses, targeted for low wage earners
- Speeding up the installation of Pole emploi, additional temporary means, recourse to private placement operators, increased monitoring of long-term unemployed, increased training for unemployed
- Increase in subsidized employment contracts, private and public sectors (moderate by French standards)
- Expansion of existing support schemes for dismissed workers in SME (« CRP / CTP »), leading to new « contrat de sécurisation professionnelle » (CSP)
- Various measures to develop apprenticeship for the youth, including through reductions in social security contributions
- Pooling of financial resources (government + social partners) into a new temporary Fund (« Fonds d'investissement social »)

Active Labour Market Policies in the OECD

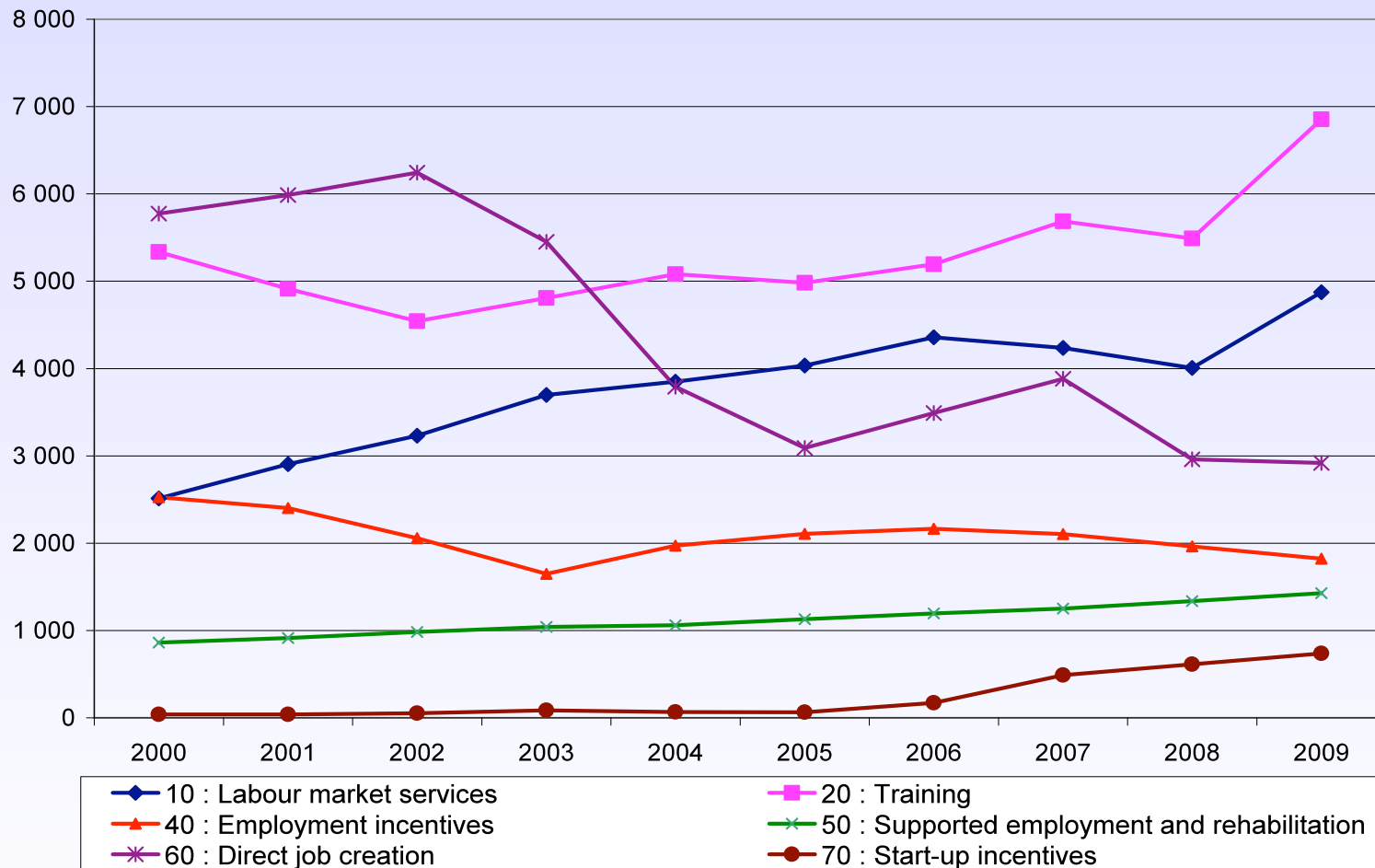
Active labour market expenditures in 2009, in percent of GDP



Source: OECD

A marked increase in active labour market expenditures in France in 2009-2010

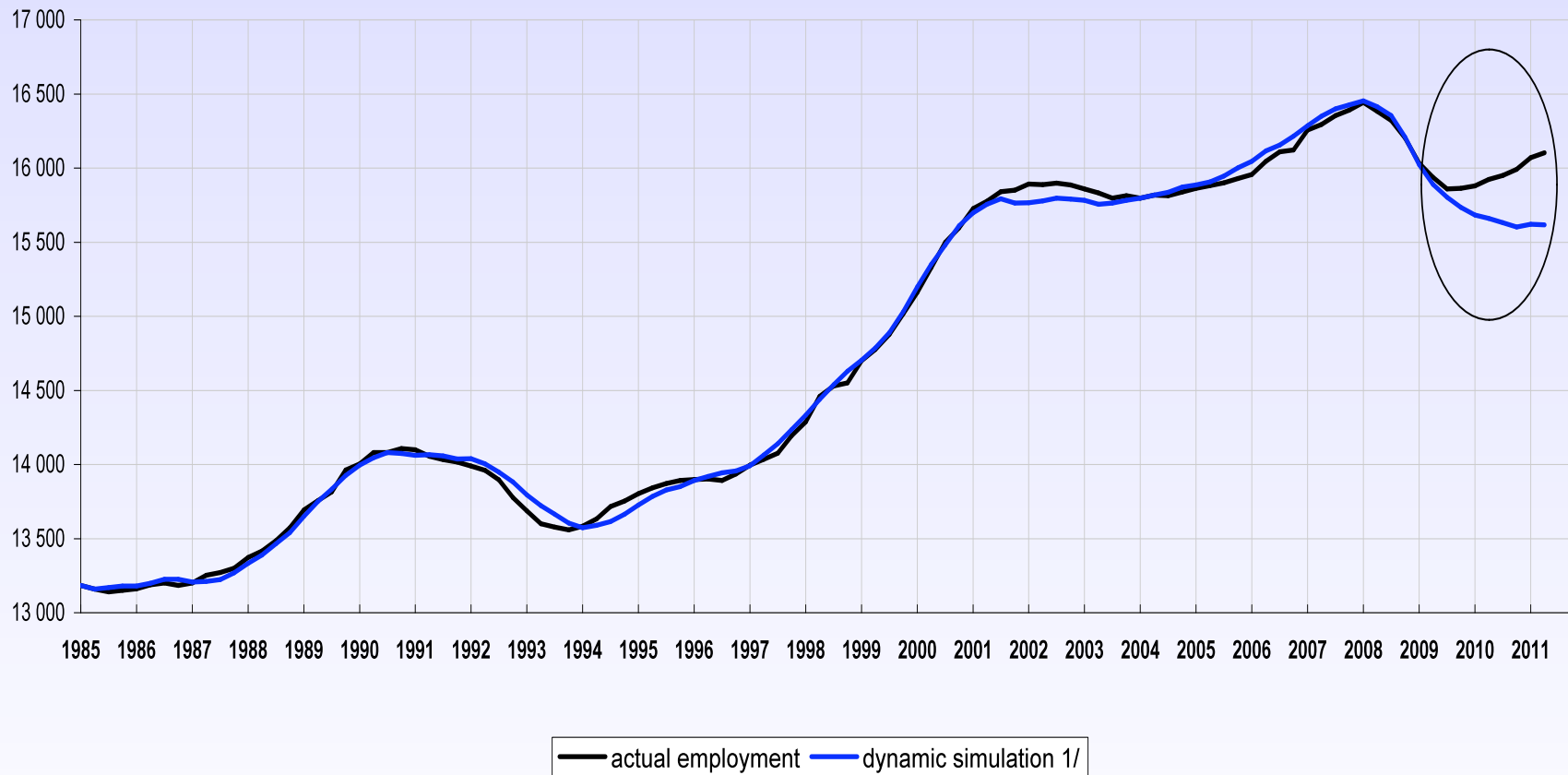
Active labour market expenditures in France, M€



Source: Eurostat

Unusual employment resilience during and in the wake of the crisis

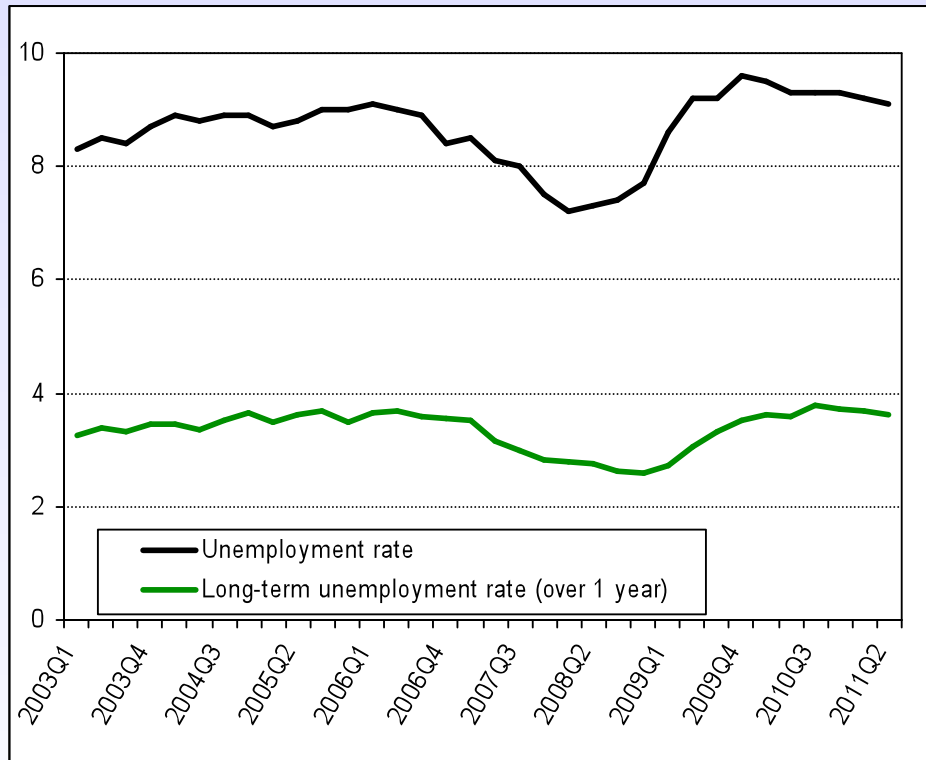
Dependent private employment, in thousands



1/ Based on our « preferred » simple model

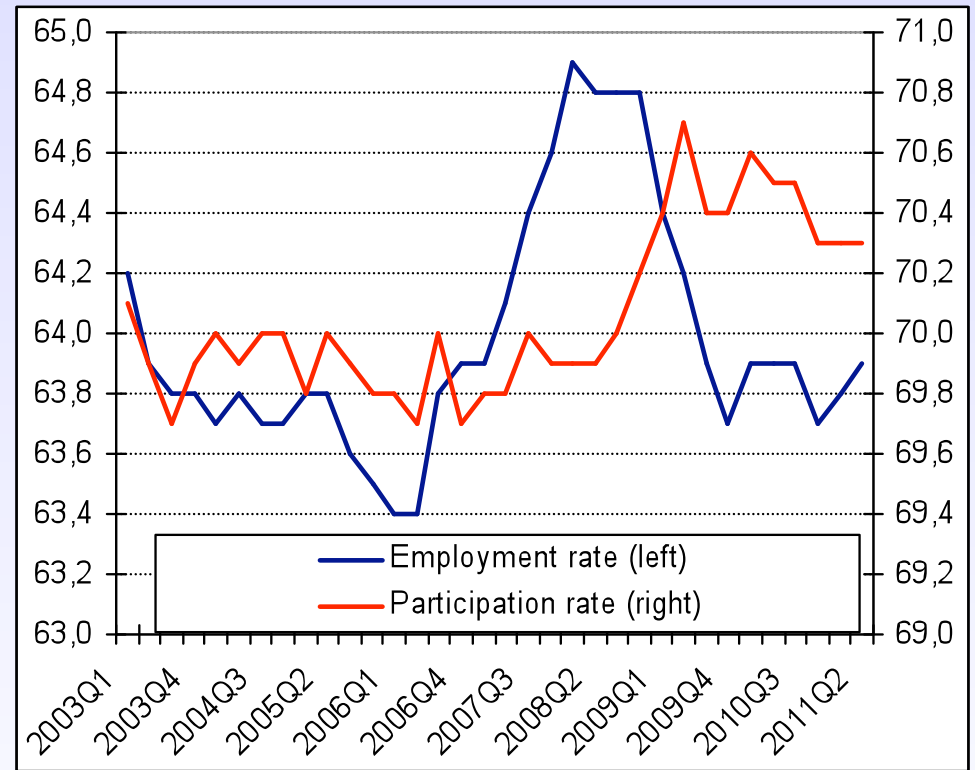
Recent labour market outcome

Unemployment rate and long-term unemployment rate (%)



Source : Insee

Employment and participation rates (%) 15-64 year



Source : Insee

A relatively favorable LM outcome : « moderate » increase in unemployment, significant rise in participation

Percentage-point changes of the ~~number~~ **rate** of persons in different labour market statuses as shares of the working age population, 2007Q4-2010Q4

France

OCDE 1/

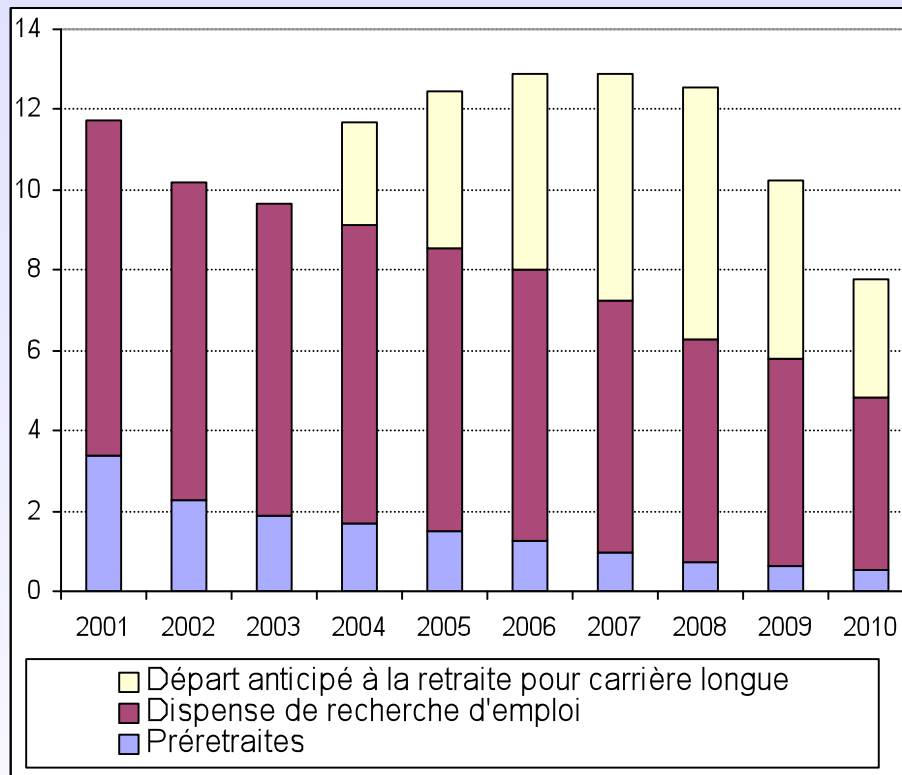


1/ The weighted average of 27 OECD countries (excluding Australia, Chile, Israel, Japan, Mexico, New Zealand and Switzerland). Data are not seasonally adjusted.

Source : OECD, Eurostat (for France)

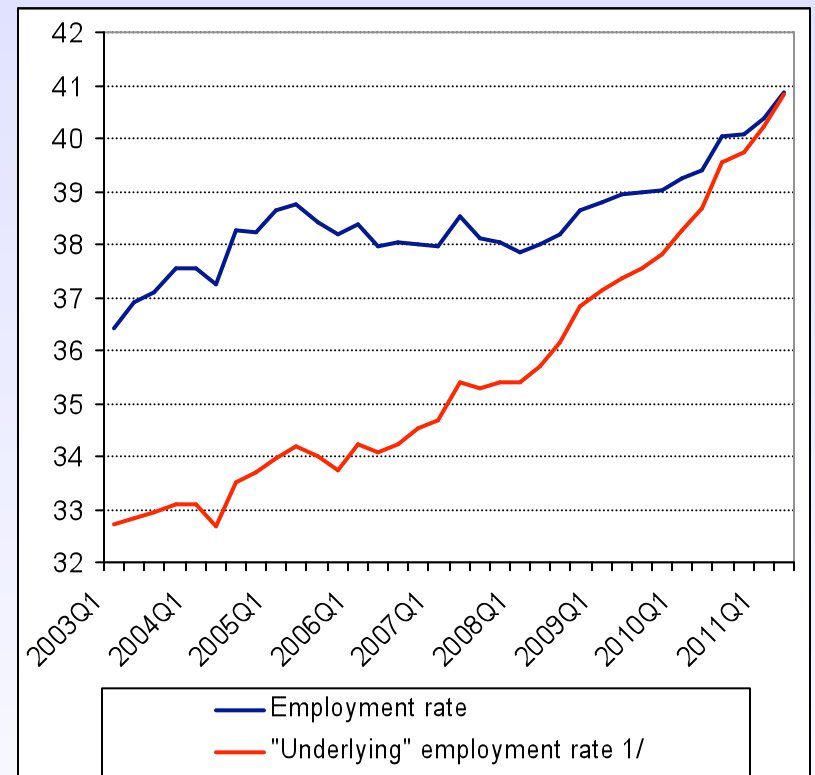
Marked increase in employment for older workers, due to a solid range of reforms

Share of 55-59 year population in early retirement schemes (%)



Sources : Dares, Insee

Employment rate for 55-64 year population (%)

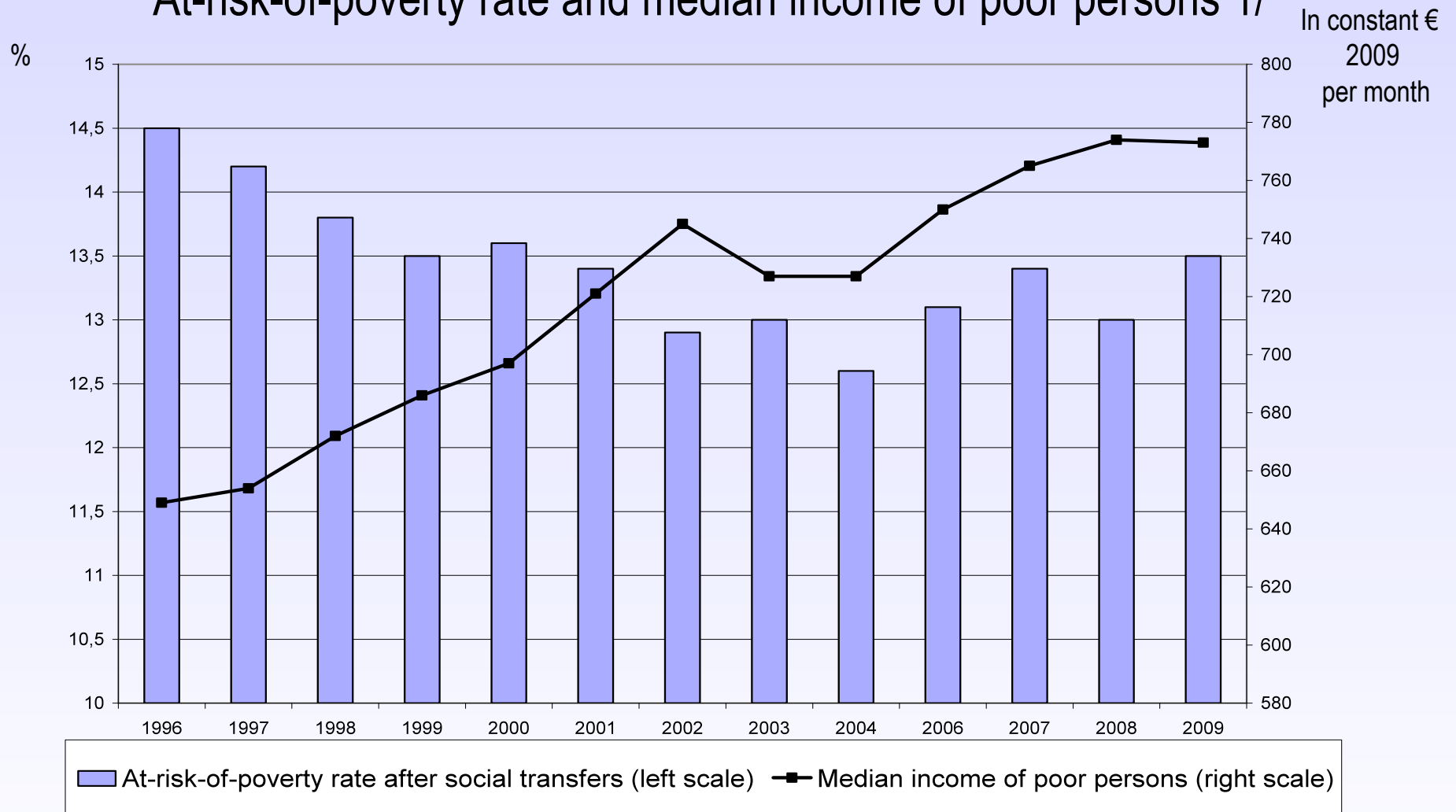


Source : Insee

1/ Non weighted mean of employment rates for each age class

A moderate increase in poverty rate in 2009

At-risk-of-poverty rate and median income of poor persons 1/



1/ EU standard definition for poverty : persons with a net income after social transfers below 60 % of the national median income

Some tentative lessons

- As in other areas, when assessing labour market institutions, attention must also be given to how they help to cope with unusual cyclical conditions
- Structural reforms aimed at strengthening labour supply can have sizeable short-term positive effects on employment, even in adverse cyclical conditions ... while measures aimed at enhancing labour demand have likely had a greater impact than expected
- Activating the unemployed is necessary for countries with generous unemployment benefit system ... and good even in very bad times
- Improved dialogue between government and social partners can help to foster reasonable policy responses in hard times
- Many pending questions however : how do different types of ALMPs compare in different cyclical settings ? with different categories of jobseekers ? ...