

## **Analysing the persistence of unemployment: the French experience**

Marc Lombard\*

### **1. Introduction**

Since the early 1970s and the advent of stagflation, unemployment has again become a major economic preoccupation in most OECD countries. Numerous studies have tried to understand its causes and isolate the key factors responsible for its increase. The problem with studies involving international comparisons is that factors that are significant in some countries may have a much lesser impact in others, which distorts the real weight of a given variable as a universal determinant of unemployment. Moreover, it is also difficult, in multi-country studies, to account for particular social and institutional differences that may impact on labour market outcomes.

This study concerns only France and attempts to isolate the relative utility of the major theories explaining the rise of unemployment. France is a very interesting case for studies on unemployment because it is unique in the OECD countries in having experienced a continuous rise in unemployment from 1970 to 1987 (see Tables 1 and 6). In 1990, after only a marginal fall of 1.5% in the previous 3 years, the French unemployment rate resumed climbing to a high of 11.6% in 1993. In 1970, it was (at 2.5%) approximately half that of the United States. Since 1984, however, it has been exceeding the US rate, as well as the G7's, the EC's and the OECD's. Also, the youth unemployment rate (see Table 2) has constantly been more than twice the overall national rate between 1979 and 1990 (reaching 23% in 1987), while the female unemployment rate has fluctuated between 30 and 45% above the national one, during the same period. This latter pattern is not unlike the American one for that decade.

The fourth largest economy in the world, with a relatively large population (56 million), France has had to address most of the factors which have been blamed for generating unemployment and thus well reflects the problems associated with persistent unemployment in industrialised countries. This paper will review the role played by various factors on the persistence of French unemployment. It will argue that the determinant factor has been low economic growth due primarily to restrictive economic policies aimed both at curbing inflation and at maintaining the parity of the franc within the European Monetary System.

\*School of Economics and Financial Studies, Macquaria University, NSW 2109, Australia. I thank Gianni Zappala and C. William Junor for useful comments.

**Table 1.** Standardised unemployment rate (per cent) for seven industrialised economies: 1973–1992

	1973	1979	1987	1989	1990	1991	1992
United States	4.8	5.8	6.1	5.2	5.4	6.6	7.3
Japan	1.3	2.1	2.8	2.3	2.1	2.1	2.2
Germany	0.8	3.2	6.2	5.6	4.9	4.3	4.8
<b>France</b>	<b>2.7</b>	<b>5.9</b>	<b>10.5</b>	<b>9.4</b>	<b>8.9</b>	<b>9.4</b>	<b>10.2</b>
United Kingdom	3.0	5.0	10.3	7.1	6.8	8.9	9.9
Italy	6.2	7.6	10.9	10.9	10.3	9.9	10.5
Canada	5.5	7.4	8.8	7.5	8.1	10.2	11.2

Source: OECD, *Economic Outlook, Employment Outlook*

**Table 2.** Unemployment rate (per cent) in seven industrialised economies for youths and women: 1973–1991

	Youth <sup>a</sup>						Female					
	1973	1979	1987	1989	1990	1991	1973	1979	1987	1989	1990	1991
United States	9.9	11.3	11.7	10.5	10.7	12.9	6.0	6.8	6.2	5.3	5.4	6.3
Japan	2.3	3.4	5.2	4.5	4.3	—	1.2	2.0	2.8	2.3	2.2	2.2
Germany	0.9	3.4	8.1	—	—	—	1.2	4.5	8.8	8.1	7.4	6.3
<b>France</b>	<b>4.0</b>	<b>13.3</b>	<b>23.0</b>	<b>19.1</b>	<b>19.3</b>	<b>—</b>	<b>4.6</b>	<b>8.5</b>	<b>13.5</b>	<b>12.6</b>	<b>12.0</b>	<b>12.3</b>
Italy	12.6	25.6	35.5	33.6	31.4	—	11.4	13.1	18.5	18.6	17.4	16.7
Canada	10.1	12.9	13.7	11.3	12.8	16.2	6.7	8.7	9.3	7.8	8.1	9.7

<sup>a</sup>15–16 to 25 age group.

Source: OECD, *Economic Survey of France*, 1992.

## 2. The causes of unemployment: Theories and the French experience

Three theories have dominated the debate on unemployment this century: the neoclassical approach of inappropriate real wages, the Keynesian aggregate demand deficiency, and the natural rate theory of the Monetarist and the New Classical school that encompasses structural and frictional factors such as technological changes, unemployment benefits, hiring and firing rules, and non-wage labour costs. Additional factors, such as the supply of labour, trade-unionisation and productivity, will also be examined. Hysteresis is not examined here, as it attempts to explain current unemployment as the result of previous unemployment levels instead of determining the original causes of unemployment.

### 2.1. Wages

The oldest theory attempting to explain unemployment is the classical view that unemployment simply results from inappropriate wages. In recent times, the notion of wages has been refined to add further employment-related costs (such as payroll and fringe benefits) to total earnings, expressed now in real terms, and takes productivity into account. Under this new form, wages, now called RULC (real unit

**Table 3.** *Real unit labour costs in France: 1970–1986*

	1970	1975	1980	1981	1982	1983	1984	1985	1986
A	102.7	101.5	102.1	102.4	102.1	101.2	99.5	98.0	93.6
M	102.3	103.0	102.4	104.5	104.2	101.7	101.4	99.1	93.6
T	103.6	99.7	100.8	100.4	101.7	102.0	99.5	99.5	95.0

Average for the period = 100

A = all trading industries; M = manufacturing industry; T = tertiary industry.

Source: OECD, *Employment Outlook*, 1991.

labour costs), are used to measure the real wage gap (the gap between the wage rate and labour productivity, divided by the price of value added).

Although the theory of inappropriate wages is very attractive as an explanation of rising unemployment (through the process of capital-labour substitution and the erosion of the profit margin), the reality is that it does not explain the persistence of unemployment in France in the 1980s. As shown in Table 3, real unit labour costs in both the manufacturing and tertiary industries fell over a number of years from 1981 and 1983 respectively, while unemployment was rising. The same applies to the wage share of GDP that fell continuously between 1981 and 1989 (OECD, 1990). This fall of 9% was accompanied by a rise of 27% in the unemployment rate. The slowing down in labour costs had been principally due to the replacement in France of automatic full wage indexation, first by delayed indexation and then by partial indexation.

Furthermore, empirical evidence suggests that it is precisely those countries which have created more jobs over a 10-year period (between 1979 and 1989) that have experienced the fastest rise in salaries in the private sector (see OECD, 1990). A study by Husson (1991) shows that there has been a strong positive relationship not only between real unit labour costs and employment in 17 of the 18 major OECD countries he surveyed, (the exception being Portugal), but also between real unit labour costs and growth. This is in direct contrast to the neoclassical theory. For France, there is indeed a positive relationship between growth and RULC in the sense that they are both low.

Most of the studies purporting to establish a link between wages and unemployment have often been disappointing empirically. Considering the neoclassical approach of least-cost combination of resources (substituting capital for labour as wages increase), the findings of the Métrickx model (Allard 1988) concludes that the elasticity of substitution, for the French experience, is virtually nil. The MIMOSA model (CEPII-OFCE 1990) which looked at the long-term relationship between employment and relative factor cost in France reached the same conclusion. The same applies to a study by Maurel (1990) that examines both short and long-term relative cost and concludes that the coefficients are not significant.

Similar findings are also obtained by Artus (1987) who tested the relationship between changes in employment and wage reduction. It has been found that substantial wage cuts are needed to foster only a moderate increase in employment, firms being more sensitive to costs other than labour. Explanations for this

phenomenon range from the strong interaction between capital and labour in the short term (the fall in the price of one factor having virtually no effect on the demand for that factor, given constant production levels), to the social and institutional labour context that makes employment a rather permanent feature and thus inhibits firms from easily increasing their labour intake.

These views are not new. Earlier studies by Moore (1971) and Lovell (1972) pointed in the same direction. Examining unemployment in OECD countries in recent times, Argy (1994) shows that whatever measure is used, the real wage gap cannot explain the level of unemployment of the 1980s.

Despite these numerous econometric studies showing a poor correlation ratio between wages and employment, wages are still widely regarded as the major determinant of unemployment. Stegman (1987) appropriately wrote that: 'The belief in the prime importance of relative wages in reflecting and affecting employment levels is remarkable in its resilience to confrontation with contrary empirical evidence'.

### 2.2. *The natural rate of unemployment and related factors*

The second major theory of unemployment to focus on supply-side factors emerged in the late 1960s and predominantly reflects the socio-technological revolution of the time. It is, indeed, more an amalgam of different causes of unemployment (besides the Classical and Keynesian ones), which are embodied in Milton Friedman's concept of the natural rate of unemployment (Friedman, 1968). The natural rate was to replace the traditional neoclassical notion of full employment level with an incompressible unemployment rate above zero. The 'natural rate' intends to explain the inevitability of (increasing) unemployment in our present time. This perception of inevitability, however, led some economists to replace the term 'natural rate of unemployment' (NRU) by the more technical NAIRU (non-accelerating inflation rate of unemployment) although the concept is virtually the same (see, for instance, Layard *et al.*, 1991). Commenting on the choice of the term, Solow (1986) wrote: 'a natural rate that hops around from one triennium to another under the influence of unspecified forces, including past unemployment rates, is not "natural" at all. Epiphenomenal would be a better adjective.'

Originally, the NRU, or NAIRU, encompassed two broad aspects of unemployment: structural and frictional unemployment. The first (also called 'mismatch') primarily reflects the effect of changing technologies on unemployment while the second (also called 'search unemployment') involves the new entrants and re-entrants to the labour market (time lapse between jobs). Nowadays, frictional unemployment in Europe is incorporated in a wider concept called Eurosclerosis which examines the effects of increased welfare and labour market rigidities on unemployment.

(a) *Structural unemployment.* Structural unemployment or 'mismatch' can be illustrated diagrammatically by an outward shift of the Beveridge curve showing the inverse relationship between vacancies and unemployment. Technically, however, the shifting of the curve can be due to factors other than an increased absence of matching skills. As Argy (1994) points out, an increase in unemployment benefits,

**Table 4.** Standardised unemployment rates (per cent) for occupational categories in France: 1975–1991

	1975	1982	1987	1991
Farmers	0.2	0.2	0.4	0.6
Craftsmen, traders and entrepreneurs	1.3	2.0	3.3	2.5
Senior management and professionals	1.7	2.5	2.9	3.0
Intermediate-category professions	2.1	4.1	5.1	4.2
Non-manual workers	4.5	8.9	12.4	11.6
Manual workers	4.1	9.6	14.8	11.6
<i>of which:</i>				
Unskilled	—	11.3	18.8	18.8
Skilled	—	6.7	11.2	7.2
Total (including the unemployed who have never worked)	3.7	7.8	10.7	9.0

Source: OECD, *Economic Survey of France*, 1992.

improved eligibility conditions or employment protection legislation could all trigger the same shift. It is relatively easy to dismiss the mismatch theory as the key determinant of unemployment on the basis of the large discrepancy between the number of vacancies and the number of job seekers. According to OECD (1992), France's vacancy rate is poorly measured. Nonetheless the figures provided show an enormous gap between vacancies and unemployment. In 1990, for instance, there were 76,200 registered vacancies for an unemployment rate of 8.9% (the French labour force in 1989 was 24.484 million, for an unemployed:jobs ratio of 326:1). Had everyone the required skill and the desire to work, a substantial percentage of the workforce would still have been left out of work.

Mismatch nonetheless explains a certain percentage of the overall unemployment level and is a reminder of the importance of education and job training in the fight against unemployment. Doeringer and Piore (1971) described a dual market, separating those who have the necessary skills, and who are remunerated with high salaries, from those who have not; the secondary market being characterised by lower wages, lower job security and lower productivity. This process of separation is still taking place. As shown in Table 4, the categories of workers hardest hit by unemployment over the period 1982–1991 have been the unskilled workers whose rate of unemployment increased from 11.3% to 18.8% compared to an increase of the national rate from 7.8% to 9.0%. Table 5 shows the unemployment rate by level of educational attainment. France follows the OECD and European trend whereby there is a positive relationship between a lower level of education and unemployment.

Structural unemployment, however, also addresses the question of whether technological change can create unemployment. It may be that the discrepancy between vacancies and job seekers is not solely a problem of matching skills but rather a reflection of the fact that structural changes mean fewer jobs need to be created. This idea of changing technologies being responsible for unemployment is not new. Last century predictions of massive unemployment, following the appearance of the first LSD (labour-saving devices), were in abundant supply. Yet, not

**Table 5.** *Unemployment rates (per cent) for the adult population in 1989 by level of educational attainment<sup>a</sup>: France and Europe*

	Pre-primary and primary	Lower- secondary	Upper- secondary	Higher-education non-university	Higher- education university	Total
France	11.8	10.5	6.6	3.4	3.0	8.1
Simple average of European countries	11.9	8.7	5.7	3.3	3.6	6.5

<sup>a</sup>Adult population aged 25–64 in 1989.

Source: OECD, *Economic Survey of France*, 1992.

only have unemployment rates decreased in the Western world as technological changes proliferated, but some of the countries with the highest level of technology and with extensive robotisation (e.g. Japan, Sweden) are also among those countries which have the most enviable unemployment record (both countries had an unemployment rate below 3% and 4% respectively, throughout the 1980s).

There are direct and indirect effects of technological changes. Considering the direct effects first, studies (see OECD, 1986) have shown that technological changes only create unemployment (in the short run) if these changes improve the production process (increased productivity producing redundancies). If, on the other hand, technological changes lead to the creation of new products, then it is further employment which is expected to take place in the short run (e.g., the mass production of cars in the USA early this century). As for the indirect effects, technological changes result in increased employment in the long term via the multiplier effect of increased investment and via the price effect (increased productivity leading to increased economic activity) which would increase income, output and employment.

A final aspect of structural unemployment is foreign competition. Reviewing the causes for the insufficient demand for labour, Malinvaud (1991) names not only the restrictive policies pursued in France following the oil shocks and the changed world economic conditions of the 1980s, but also points to the competition provided by the New Industrialised Nations (NIC) and Japan. Krugman (1987) also refers to the increasing competition provided by the NICs as a determinant of unemployment. This has prompted calls for greater protectionism.

The age-old arguments against increased protection have come to the fore again—the spectre of retaliatory measures, the creation of unemployment in import-based industries, the need for specialisation and the undesirability (cost-wise) of competing in industries where one is inefficient—despite the fact that France has actually a trade surplus with both Hong-Kong and Taiwan (the latter, being illustrated recently by the Mirage aircrafts sale). Despite the high profile given the NIC competition in the media, and despite the fact that jobs are lost because of foreign competition, therein does not lie the cause of France's persistent unemployment. Jobs have always been lost to foreign competitors and while the reduction of protection levels does have an impact in the short run, its contribution to total

**Table 6.** *Unemployment benefits in nine industrialised countries*

	Maximum duration	Single	Married with:	
			Wife working	Dependent wife
France	30m	59	59	59
Germany	12m	58	58	58
Italy	6m	15	15	15
UK	52w	16	16	26
Sweden	60w	90	90	90
Switzerland	50w	70	70	70
Australia	—	24	0	43
Japan	30w	48	48	48
USA	26w	60	50	50

Rate and duration maximum; initial benefits as a percentage of an average wage earner in 1988.

m=months; w=weeks.

Source: OECD, *Employment Outlook*, 1991.

unemployment is negligible. It is indeed the opposite, the erection of trade barriers at the time of the Great Depression, that aggravated the unemployment problem.

In conclusion, there is little evidence to support the claim that structural unemployment plays a major role in overall unemployment (see Gordon, 1988).

(b) *Eurosclerosis*. Eurosclerosis, as its name indicates, is specifically directed at explaining the persistence of unemployment in Europe in general and the EC countries in particular. Basically, it refers to rigidities associated with the welfare state (i.e. states with greater government intervention, where public expenditure is around 50% of GDP, as compared to, say, the United States, Japan or Australia where expenditure is in the mid-30% of GDP). The three major aspects of Eurosclerosis concern the generosity of unemployment benefits (illustrated by the replacement ratio: the ratio of disposable income while unemployed to disposable income while employed), restrictive hiring and firing rules, and the growth and importance of non-wage labour costs, such as social insurance and payroll taxes.

Referring to unemployment benefits in France, Malinvaud (1988) wrote that 'replacement ratios are such that, should the person "work the system", incentives to have a job are on the whole rather small for a family man'. One of the effects of unemployment insurance is, of course, to reduce the cost of unemployment and possibly to reduce the search intensity of the unemployed worker.

In France, like other European countries and unlike the US or Australia, it is not uncommon for some unemployed people to earn more than some who are employed since unemployment benefits represent a percentage of past salary (see Table 6). This argument, however, must be tempered by the fact that re-entry into the labour market is much more difficult after a spell of unemployment, as indicated by the substantial increase in long-term unemployment (due not only to the erosion of skills in the hysteresis process but, more importantly, to the stigma attached to the

**Table 7.** Long-term unemployed<sup>a</sup> for seven industrialised nations

	1973	1979	1987	1989	1990
United States	3.3	4.2	8.1	5.7	5.6
Japan	—	16.8	20.2	18.7	19.1
Germany	8.5	28.7	48.2	49.0	—
<b>France</b>	<b>21.6</b>	<b>30.3</b>	<b>45.5</b>	<b>43.9</b>	—
United Kingdom	26.9	29.5	45.9	40.8	—
Italy	—	51.2	66.4	70.4	—
Canada	—	3.4	9.4	6.8	5.7

<sup>a</sup>Proportion of those unemployed for more than one year in total unemployment.

Source: OECD, *Employment Outlook*, 1991.

'outsiders' of the labour market, from the employers' perspective—see Lindbeck and Snower, 1988).

Yet, with an initial unemployment benefit representing 59% of an average wage earner in 1988 (see Table 6), France was no more generous than the United States (60%), Norway (62%) or Switzerland (70%), and much less than Sweden (90%), all countries which had a better unemployment record than France throughout the 1980s. On the duration side of the benefits, however, France with 30 months (compared to only 26 weeks for the US, for instance) was among the most generous countries and could lend support to those associating high unemployment benefits and long-term unemployment. The latter has been much more severe in France than in the US, for instance (see Table 7).

In 1989, only 5.7% of the total unemployed in the US (and 6.5% in Sweden) had been unemployed over 12 months compared to a staggering 44% in France (up from 30% in 1979). In Australia, it was 23% (18% 10 years earlier). France was not the worst case, though, as several EC countries had a long-term (i.e., over 52 weeks) unemployment rate of more than 50% and up to 76% in the case of Belgium.

It is for that reason that Lindbeck (1992) argues for a change in the unemployment benefits paid in the EC countries. Lindbeck suggests either the US system of a low benefits level and short duration of benefits, or the Swedish-Norwegian system with high benefits of a fixed duration but where the authorities have the right to terminate benefit payment if the worker repeatedly refuses to accept offered jobs or retraining. Lindbeck argues that the system prevailing in the EC countries of a long or indefinite duration of benefits without any compulsion on unemployed workers to accept offered jobs or retraining is the one more likely to create long spells of unemployment.

However, while the more generous benefits of the EC may add to search unemployment and might encourage the substitution of leisure for work, the fact is that they have decreased in relative terms throughout the 1980s without producing an improvement in the performance of the EC labour markets.

The impact of restrictive hiring and firing rules is difficult to determine, as they tend to limit unemployment on the one hand (firms are reluctant to take on extra labour unless the demand for it is long-lived).



**Table 8.** *Non-wage labour costs<sup>a</sup> in France*

1970	1980	1985	1987	1988	1989	1990
23.9	26.1	27.9	28.1	28.2	28.2	28.0

<sup>a</sup>Employers' social security contributions as a percentage of total wages.  
 Source: OECD, *Economic Survey of France* 1992.

Studies of European labour market regulations (Emerson, 1988) show hiring and firing costs to be relatively high in the EC compared to the US or Japan. This evidence is emphasised by Lindbeck and Snower (1988) who argue that unemployment in the 1970s and 1980s was reinforced by the appearance of more stringent regulations. Argy (1994), however, stresses the fact that although hiring and firing rules are more restrictive in Europe than in Japan, Japan does have cultural factors which act along the same lines by discouraging dismissals. Bean (1992) also points out that high firing costs cannot be considered a major determinant of unemployment on the basis that they cannot account for the large outward shift in the unemployment–vacancy relationship.

Non-wage labour costs (Table 8), measured by the OECD as employers' social-security contributions as a percentage of total wages, are certainly a hindrance to job creation but their role in France in accounting for rising unemployment does not seem to be significant. They increased by less than 2% over the last decade, remaining virtually unchanged in the second half of the 1980s. Furthermore, although non-wage labour costs are higher in the EC than in many other OECD countries, their rate of increase has not been comparatively greater and cannot therefore explain the unemployment discrepancy of the 1980s between EC and other OECD countries (see Table 8).

On the overall subject of Eurosclerosis, Fitoussi (1990) points out that the very country embodying all the features of Eurosclerosis, Sweden, a country which should, as a result, be expected to have a high rate of unemployment, was, in fact, one of the world's best performers on the labour market. Fitoussi sees the real problem facing the EC countries as one due to the absence of political independence. The EC is seen as a mosaic of open economies which nevertheless keep fiscal and monetary freedom in the midst of the European Monetary System.

Recent econometric studies on OECD countries (Layard *et al.*, 1991) have isolated two major factors as responsible for changes in unemployment patterns: wage bargaining arrangements (which include the effect of unionisation) and employment policies (which include the effects of the duration of unemployment benefits and of the replacement ratio) with an outcome attributing approximately half of the change in unemployment to the first factor and half to the second. Similar conclusions were obtained by Jackman *et al.* (1990). The study, however, is not without its critics (see Phelps, 1992) who point out that it did not include the effects of some major macro-economic variables (for instance, the interest rate). Moreover, inter-country studies are fraught with difficulties and their outcome in terms of

**Table 9.** Trade union membership in OECD countries: 1970–89

	Unionisation rate <sup>a</sup>				
	1970	1975	1980	1985	1988
USA	—	22.8	23.0	18.0	16.4
Japan	35.1	34.4	31.1	28.9	26.8
Australia	—	51.0	49.0	46.0	42.0
France	22.3	22.8	19.0	16.3	12.0
Germany	33.0	36.6	37.0	37.4	33.8

<sup>a</sup>Union members as a percentage of total employment.

Source: OECD, *Employment Outlook*, 1991.

responsible variables might not necessarily be applicable equally to all countries. Such is the case for France.

The degree of trade unionisation, for instance, cannot be seriously considered as a major cause of unemployment in France (see Table 9). Only 12% of the employed workforce in 1988 were members of a trade-union (down from 19% in 1980) (OECD, 1991A). This compared with 85% in Sweden (up from 80%), 57% in Norway (same as in 1980), 34% in Germany (down from 37%), 27% in Japan (down from 31%), 26% in Switzerland (down from 31%) and 16% in the USA (down from 23%), all countries with a more enviable record of unemployment than France.

As pointed out by Bean (1992), however, density *per se* does not seem the appropriate measure because it does not really capture the extent to which union power is exploited. The question is more whether the industrial relation system is adversarial or co-operative. Yet, regardless of this, the extent of the difference in trade-union density between France and better labour market performers is such that unionisation can also be ruled out as a major determinant.

The other variables mentioned in Layard *et al.*, explain the differences in unemployment patterns between countries rather than the causes of unemployment *per se*. As such, these different aspects of the 'natural rate' and of Eurosclerosis can only account for a small proportion of unemployment in France.

### 2.3. Unemployment and the supply of labour

Substantial increases in the supply of labour (whether through immigration, demographic changes or a rise in the participation rate) are sometimes mentioned as a possible cause for rising unemployment. In France, for instance, the unemployment situation has warranted the government to call for a zero-immigration level. While changes in the size of the labour force can adversely affect unemployment (when the increase in the size of the workforce cannot be absorbed by an equivalent increase in employment), empirical evidence on the relationship between changes in the supply of labour and unemployment levels rules out the former as a major determinant of the latter. Between 1980 and 1989, for instance, the French labour force increased by only 0.4% (the combination of a 0.84%

**Table 10.** *Growth of the workforce in ten industrialised nations and OECD and EC nations*

	Total		
	1960-70	1970-80	1980-89
Canada	2.6	3.2	1.7
United States	1.7	2.5	1.6
Japan	1.3	0.9	1.2
France	0.7	0.9	0.4
Germany	0.1	0.4	0.7
United Kingdom	0.3	0.6	0.7
Australia	2.8	1.9	2.4
OECD Europe	0.3	0.7	0.9
EC	0.3	0.7	0.8
Total OECD	1.0	1.4	1.3

Source: OECD, *Employment Outlook*, 1991.

**Table 11.** *Labour participation rate (per cent) in seven industrialised nations*

	1973	1979	1983	1988	1989	1990
Australia	69.8	69.2	69.3	72.1	73.4	74.2
France	67.8	68.4	66.4	65.6	65.7	65.9
Germany	68.8	66.8	67.5	68.9	68.5	68.9
Italy	58.7	60.2	60.1	60.9	61.2	61.4
Sweden	75.5	80.5	81.3	82.3	82.8	82.7
United Kingdom	73.0	74.3	72.4	75.5	76.9	77.3
United States	68.4	72.1	73.1	76.1	76.9	76.8

Source: OECD, *Employment Outlook*, 1991.

increase in population and a fall of 0.46 percentage points in the participation rate). In comparison, the US workforce increased by 1.6%, Japan's by 1.2%, Switzerland's by 1.2% and Germany's by 0.7% (see Table 10). Yet, all these countries were better performers on the labour-market than France.

Table 11 shows the labour participation rate for a few selected countries. Unlike Australia where the rise in the unemployment level is associated with a rise in the participation rate, France's labour participation rate actually declined throughout the 1980s (from 68.4% in 1979 to 65.9% in 1990). The United States' and Sweden's labour participation rates, on the other hand, increased during the same period while their unemployment rate fell (the US recording nearly a 5-point increase in the participation rate while their unemployment rate fell from 7% in 1980 to just over 5% in 1989). This conflicting pattern shows that no simple explanation can be provided but, more importantly, that each country's performance must be judged separately.

**Table 12.** *Productivity growth 1979–89 in nine industrialised nations*

	Average annual percent change
Belgium	2.0
Finland	2.7
France	2.1
Italy	2.1
Japan	3.0
Germany	1.6
Norway	2.6
United Kingdom	1.7
United States	1.0

*Source:* Husson (1991).

#### 2.4. *Productivity and unemployment*

Productivity, simply defined here as output per unit of labour input, is regarded in some circles as a major cause of the persistence of unemployment in France. Commenting, for instance, on the high level of unemployment in France in 1990, an OECD study notes that ‘labour productivity growth was “too high” given the excess of the supply of labour’ (OECD, 1991).

The theory behind this argument is as follows. In an accounting sense, changes in employment levels are the difference between changes in output and changes in productivity, everything else being constant. Assuming that output is a function of demand and productivity is a function of technology, then more jobs would need to be created if demand (thus output) increases while productivity remains the same. The same would apply if productivity lapses. This, however, implies that output and productivity are basically independent of each other, which they are not.

In reality, a slow-down in productivity is likely to be accompanied by a reduction in growth because of lost competitiveness. A fall in productivity means a rise in costs and hence prices. The fall in competitiveness leads to a decrease in market share and thus in employment. The long-run effect of a reduction in the profit share would also be conducive to increased unemployment. Layard *et al.* (1991), however, argues that since productivity affects wage and price setting equally, unemployment is independent of productivity in the long run.

Between 1979–1989, the productivity growth rate for the OECD countries listed in Table 12 varied within a range of 1% for the United States to 3% for Japan. Empirical evidence on the correlation between growth and productivity is not always decisive. If we consider the rates of growth and productivity for selected OECD countries over the last decade (Table 12), it is true that some of the highest productivity rates were achieved by fast-growing economies (Japan, Finland, Norway), but the US and Canada were examples of countries with high growth and low productivity, while France and Belgium were examples of countries with relatively high level of productivity and mediocre growth.

Meanwhile, the French concern with increasing productivity and cost-cutting measures has had adverse repercussions on consumers in general, in the form of a

deterioration in the quality of services. The retrenchment of personnel in areas of contact with the public (for occupations which are regarded in France as being low on the social ladder) has led to the disappearance of many services and shortages in others (illustrated, for instance, by the decreasing ratio of employees to consumers in the telecommunications, transport, banking and health industries). While some commentators have questioned whether productivity achieved via a deterioration of services, as exemplified by longer queues of customers in post offices and banks, the reduction of the number of mail deliveries, or the virtual disappearance of employees at railway stations, can still be considered productivity, there is an overall resigned acceptance among the public at large that these cost-cutting measures are necessary for France to maintain a competitive edge. Going against this national trend of widespread cost-cutting measures in the name of higher productivity, some economists have tried to draw a distinction between cost-efficiency measures in protected areas as opposed to non-protected areas (Albert, 1993). Their argument is that these sectors of the economy which are not directly threatened by foreign competition should not be exposed to drastic labour cuts but should, as in the case of the public housing industry, generate more jobs.

### 2.5. *Economic growth*

The last major theory, the second in chronological order and the only one not to focus on the supply-side, is that of Keynesian demand deficiency, whereby the demand for labour is a derived demand for goods and services. It underlines the importance of government stimulus to increase economic activity in times of recession. Born at the time of the Great Depression in response to the inability of the Classical theory to explain low wages with massive unemployment, Keynesian policies were followed with success by most Western countries until the advent of stagflation in the early 1970s. The coming of the oil crises and their sequels, a situation where the major source of energy was in the hands of minor economic players (the relatively small Arab nations of the Middle East and North Africa) created havoc in established macroeconomic thinking. These nations were able to fuel cost-inflation in the Western world without a comparable rise in consumer demand, thus generating stagflation, a situation not envisaged in Keynesian times.

To consider this theory, we then turn to demand. Changes in aggregate demand can be easily measured via changes in real gross national product, i.e. economic growth. Comparing France with other OECD countries over a 10-year period (see Table 13) we can see that France's average annual growth rate was only 2%, behind Italy with 3%, the United States with 2.6%, and the United Kingdom with 2.2%.

Two observations can be drawn from Table 14 on the relationship between growth and unemployment. First, there is, in the case of France, as in the EC and the OECD, a negative relationship between growth and unemployment for all periods considered, as expected. Second, while the French pattern of growth is similar to that of the EC and the OECD, there is some dissimilarity in the response of the labour market to changes in real GDP. A quick calculation on the elasticity of unemployment to growth for the two halves of the 1980s give a coefficient of  $-0.58$  for the OECD,  $-0.22$  for the European Community and only  $-0.12$  for France. While growth does reduce unemployment in France, as everywhere else, its

**Table 13.** *Economic growth in six industrialised nations (annual percentage change)*

Year	France	Germany	Italy	UK	US	Austria
1979–80	3.0	3.5	6.6	0.1	0.9	2.4
1980–81	0.4	-0.3	-0.2	-1.9	0.6	3.4
1981–82	2.7	0.1	2.4	0.1	-0.3	1.6
1982–83	1.4	-0.2	—	2.4	-0.6	-1.4
1983–84	0.8	2.9	2.7	3.2	6.8	5.5
1984–85	1.3	2.5	2.7	2.5	4.5	5.4
1985–86	2.2	2.4	2.8	3.5	3.5	4.5
1986–87	1.9	1.8	2.5	3.9	2.3	2.2
1987–88	3.2	3.0	3.7	4.8	4.9	4.7
1988–89	3.3	4.0	3.5	3.0	3.5	3.6
Average annual growth rate:	2.0	1.97	2.97	2.16	2.6	3.19

Source: OECD, *Main Economic Indicators*, 1990.

**Table 14.** *Labour-market outcomes: an international comparison*

	France			EC			OECD		
	1970–1980	1980–1985	1985–1990	1970–1980	1980–1985	1985–1990	1970–1980	1980–1985	1985–1990
Standard unemployment rate (end-year)	6.3	10.2	9.0	6.4	10.9	8.4	5.8	7.8	6.1
Real GDP growth	3.3	1.5	3.0	3.0	1.5	3.1	3.3	2.4	3.3

Source: OECD, *Economic Survey of France*, 1992.

impact is less than in the EC or the OECD. The reasons for this slower response in France are reviewed below.

It is important to highlight that the moderate growth experienced by France in the 1980s (an average of 2.3%, see Table 15) has been a serious hindrance to a reduction in unemployment. Unemployment is only reduced in the period 1988–90 when for the first time France's economic growth was above 3% (4.2% in 1988 and 3.9% in 1989). The fall in the growth rate below the 2% level brought back rising unemployment in 1991.

Estimates on how much growth is needed to reduce unemployment in France have varied in recent years. The commissariat Général du Plan (1990) estimated that France should experience economic growth in excess of 3.5% for unemployment to be reduced, while lately the OECD has estimated the real growth rate necessary to stabilise employment, given France's productivity level, to be in the 2% range (OECD, 1992: 18). Based on the empirical evidence above, the first estimate seems to be more realistic.

**Table 15.** *Unemployment and economic growth in France: 1981–1990*

Percentage change from previous year	Average										
	1981–90	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP	2.3	1.2	2.5	0.7	1.3	1.9	2.5	2.3	4.2	3.9	2.8
Unemployment as a per cent of civilian labour force	9.3	7.5	8.2	8.4	9.8	10.2	10.4	10.5	10.0	9.4	8.9

At constant 1980 prices.

Source: OECD, *Economic Survey of France*, 1992.

While France experienced an annual average economic growth rate of about 2% in the 1980s, her average annual unemployment rate remained at 9%, nearly 3 percentage points higher than it was at the beginning of the decade. This was not unlike Germany's experience, which with a similar growth rate just under 2% had an unemployment rate of 6%, also 3 percentage points above its rate at the beginning of the period.

There is obviously no denial that France's poor unemployment performance has been assisted by her lacklustre performance in economic growth. Some studies however question economic growth as a major determinant of France's persistent unemployment. Sibille (1991) uses an 18-year series of unemployment and economic growth rates to point out that France's average growth rate at 3% was in excess of the US's 2.5% for that period, while the employment growth rate in France increased by only 0.3% compared to 2% for the US. The explanations then given for France's poor record are a higher growth rate of productivity in France compared to the US (a thesis supported by a number of French economists; see, for instance, Vesperini, 1985), coupled with higher real wage growth in France.

This is, of course, a subject of debate as the longer time period in consideration allows for some distortions in the direct cause-effect relationship of the two variables. For instance, it is only in 1980 that France's unemployment rate caught up with the US's (10 years earlier, the French rate, at 2.5%, had been half that of the US's). Therefore, the lack of job creation in France (and the deterioration of the unemployment differential between France and the US) occurred principally in the last decade (and more specifically towards the end of the period) at the time when the French growth rate was already trailing that of the US. Second, although equivalent rates of growth in both countries have produced more jobs in the US than France, this does not detract from the proposition that economic growth reduces unemployment. It simply indicates that other factors should be taken into account when comparing the performance of different labour markets as seen earlier.

The importance of economic growth as a major determinant of labour market performance is illustrated by Muet (1991). Using two long periods separated by the first oil shock (1960–1973 and 1973–1985), Muet examines the relationship

between growth and employment. While the average annual rate of change in growth had been 5.6% between 1960 to 1973 it had dropped to 2.3% between 1973 to 1985. At the same time the creation of jobs fell from an annual average of 0.7% for 1960–1973 to 0.2%. The French coefficient of elasticity employment to growth thus obtained (0.15) is nonetheless inferior to most EC countries (e.g. the UK's=0.25), a phenomenon already observed in the growth-unemployment relationship above and which will be discussed later. It is, however, superior to the US (0.03). Muet explains the low US coefficient by the absence of large fluctuations. The US had experienced the smallest reduction in growth among the industrialised countries along with a reduction of similar proportion in its productivity level. This maintenance of a high growth rate may be attributed to expansionary fiscal policy along with greater labour market flexibility.

Low economic growth in France has been primarily due to the restrictive economic policies aimed both at curbing inflation and at maintaining the parity of the franc within the European Monetary System. In 1981, Mitterrand, who had been critical of the disinflation policies followed by the Barre government, was elected president on a platform of stimulating the economy in order to reduce unemployment. Yet, less than two years later the expansionary programme was abandoned, mainly because of external constraints (see Lombard, 1994). Faced with the choice between either a further devaluation while pursuing the expansionary policies and a possible suspension of the EEC agreements or strictly adhering to the European Monetary System (EMS) guidelines, as advocated then by Jacques Delors, Mitterrand chose the latter. The supporters of the EMS and of a policy of austerity had won, helped by the fear of a sinking franc and the political ramifications on European unity of pulling out of the EMS. As Halimi, Michie, and Milne point out (1994, p. 108): 'Once the political decision had been taken to put the ERM (Exchange Rate Mechanism) . . . above all other public policy goals. . . the commitment to the narrow band of the ERM meant no independent fiscal and monetary policy could conceivably be followed'.

In 1988, the 'franc fort' was introduced. The then-Treasurer, Mr. Pierre Beregovoy, declared that if Germany was to revalue its currency so would France. Since then, the franc has remained tied to the mark despite further increases in German interest rates triggered by the reunification process and the need for international capital.

Monetary policy has been particularly damaging to the prospects of reducing unemployment. Real interest rates in France have been steadily climbing since 1985 (see Table 16) from an annual average of 3.1% for the short-term rate to 7.2% in 1992: a 130% increase. In comparison, the US's real interest rates have been declining since 1989 to reach a low 0.6% in 1992. The interest rate differential between France and Germany which was 0.7 percentage points in 1985 had reached 1.8 percentage points in 1992. In nominal terms, the French rate was forced to be above the German one throughout that period, to maintain the parity of the franc with the mark. In 1992 at 10.1% it was well above that of the USA at 3.9%.

Aside from their restrictive effect on consumption and investment, high interest rates have also contributed directly to increasing unemployment by favouring productivity at the expense of capacity. Faced with increased borrowing costs, firms



**Table 16.** Short-term interest rates: per cent per annum<sup>a</sup> in France, Germany and USA: 1985–1992

Period	Nominal			Real <sup>b</sup>		
	France	Germany	USA	France	Germany	USA
1985–86	7.2	4.6	6.7	3.1	3.8	3.5
1986–87	8.3	3.7	6.9	5.6	4.7	3.3
1987–88	7.4	3.9	7.5	4.5	3.3	3.0
1988–89	9.0	7.0	9.2	5.8	4.6	4.9
1989–90	10.0	8.3	8.3	6.5	5.6	3.4
1990–91	9.7	9.0	6.0	6.3	6.1	0.6
1991–92	10.1	9.7	3.9	7.2	5.5	0.6

<sup>a</sup>France's rates are 3-month interbank loan rate, Germany's rates are 3-month loans rate and the USA's rates are 3-month treasury bills.

<sup>b</sup>Real rates are calculated by subtracting CPI's percentage change from previous year from nominal rates.

Source: OECD, *Main Economic Indicators*, 1990, *Economic Outlook*, 1991 and *Economic Survey of France*, 1992.

**Table 17.** Structural budget in France: fiscal policy settings as percentage of GDP

	1980	1981	1982	1983	1984	1985	1986	1987	1988 <sup>a</sup>	1989 <sup>a</sup>	1990 <sup>a</sup>
Change in the structural deficit (on a cyclically adjusted basis) <sup>b</sup>	1.1	-1.3	-1.0	0.4	0.9	0.3	-0.0	0.3	0.3	-0.4	-0.2

<sup>a</sup>Projections

<sup>b</sup>Covers discretionary policy, fiscal drag, changes in the cost of the debt service and income from natural resources, as well as other special factors (changes in foreign exchange accounts). A (+) sign denotes a restrictive movement; a (-) sign denotes an expansionary effect.

Source: OECD, *Economic Survey of France*, 1991.

are encouraged to retain their profit margins via cost-cutting measures rather than expansion, hence further unemployment. Gisclard (1991) has calculated that for the years 1989–1990, firms' profits had increased by 5 to 6% while their repayment costs, on the other hand, had increased by 15%.

Finally with regard to fiscal policy, Table 17 illustrates the fiscal restraint exercised by the French government throughout most of the 1980s. Even at the peak of the Mitterrand expansionary programme, the structural budget deficit was only a moderate 1.3% of GDP. Since then structural budgets have been relatively balanced when not in outright surplus. It is indeed the restrictive French policies, aligned with those of the EC's, and high interest rates in particular, which by stifling growth have caused unemployment to soar. Illustrating this point, Fitoussi (1989) concedes that while fighting inflation was unavoidable, there occurred a major change in the attitude of government in the 1970s and 1980s in accepting mass

unemployment but no longer tolerating inflation or external deficit. This situation led governments to take credit for fighting inflation effectively while increased unemployment was presented as a constraint against which economic policies are impotent.

There is little doubt that the 1970s and the 1980s have shown a shift in economic thinking and accepted orthodoxy. This has been the age of disinflation and rationalisation where the overriding influences have been cost-efficiency, deregulation and privatisation. Cost-cutting measures have dominated over increased sales as the major means by which to achieve increased profits, hence retrenchments.

### 3. Conclusion

Empirical evidence has been used to assess the relative validity of the major theories of unemployment and of a few other possible determinants of unemployment in the case of France. The findings provide little support for theories based on: wages; structural and frictional unemployment; labour market rigidities such as hiring and firing rules, non-wage labour costs or the extent of trade-unionisation; the generosity of unemployment benefits and other aspects of Eurosclerosis; or changes in the supply of labour or increases in productivity. While these factors may or may not add to the unemployment problem, their total contribution to unemployment in France remains peripheral. There is, on the other hand, ample evidence to show that France's poor unemployment performance has been assisted by her lacklustre economic growth. It can indeed be argued that low economic growth has been a key determinant of labour market performance, and low economic growth has been primarily the result of restrictive fiscal and monetary policies which originated some 20 years ago to stifle inflation following the first oil shock. These policies, aligned with those of the EC, have then been pursued also in defence of the franc within the European Monetary System. After a brief attempt in 1981–83 to follow an independent path, France has had to accommodate the rigid guidelines imposed by the EMS. The subsequent necessity of imposing high interest rates in order to maintain the parity of the franc with the German mark has been particularly damaging to the chances of reducing unemployment. It has quelled investment as well as consumption. In that respect, France's economic policies have been in line with the new orthodoxy of the 1970s and 1980s of considering the fight against inflation as the major macroeconomic objective.

### Bibliography

- Albert, M. 1993. Tocsin pour trois millions de chômeurs, *L'Expansion*, vol. 18, no. 2, 46–52
- Allard, D. 1988. Présentation du modèle Métrix, *Economie et Prévision*, no. 85
- Argy, V. 1994. *International Macroeconomics: Theory and Policy*, London, Routledge
- Artus, P. 1987. Salaire réel et emploi, *Revue économique*, vol. 38, no. 3, May
- Bean, C. 1992. European Unemployment: A Survey, ESRC Research Centre, (London) Discussion Paper No. 71, March
- Blanchard, O. and Diamond, P. 1989. The Beveridge curve, *Brookings Papers on Economic Activity*, no. 1, 1–60
- CEPII-OFCE. 1990. MIMOSA, une modélisation de l'économie mondiale, *Observations et Diagnostics Économiques*, OFCE, no. 30, January

- Commissariat Général du Plan. 1990. L'économie française: diagnostic à moyen terme, La documentation Française, June
- Doeringer, P. and Piore, M. 1971. *Internal Labor Markets and Manpower Analysis*, Lexington
- Emerson, M. (with Andre Dramais). 1988. *What model for Europe?* Boston, MIT Press
- Fitoussi, J.-P. 1989. L'Europe, le chômage et 1992, *Pouvoirs*, no. 48
- Friedman, M. 1968. The role of monetary policy, *American Economic Review*, vol. 58, 1-17
- Gisclard, J. M. 1991. Pour on contre le franc fort, *Capital*, no. 1
- Gordon, R. J. 1988. Back to the future: European unemployment today viewed from America in 1939, *Brookings Papers on Economic Activity*, no. 1, 271-304
- Halimi, S., Michie, J. and Milne, S. 1994. The Mitterrand Experience, in Michie, J. and Grieve Smith, J. (eds), *Unemployment in Europe*, London, Academic Press
- Husson, M. 1991. Dynamiques comparées de l'emploi: la décennie 1979-1989, *La Revue de l'IRES* (Institut de Recherches Economiques et Sociales), no. 6
- Jackman, R., Pissarides, C. and Savouri, S. 1990. Labour market policies and unemployment in the OECD, Centre for Economic Performance, Discussion Paper No. 11, ESRC, November
- Krugman, P. 1987. Slow growth in Europe: conceptual issues, in Lawrence, R. Z. and Schultze, C. L. (eds), *Barriers to European Growth: A Transatlantic View*. Brookings
- Layard, R., Nickell, S. and Jackman, R. 1991. *Unemployment: Macroeconomic Performance and the Labour Market*, Oxford, Oxford University Press
- Lindbeck, A. 1992. Macroeconomic theory and the labor market, *European Economic Review*, vol. 36, 229-35
- Lindbeck, A. and Snower, D. 1985. Explanations of Unemployment, Institute for International Economic Studies, University of Stockholm, no. 280
- Lindbeck, A. and Snower, D. 1988. *The Insider-Outsider Theory of Employment and Unemployment*, Cambridge, MA, MIT Press
- Lombard, M. 1994. A re-examination of the failure of Keynesian expansionary policies in France 1981-83, *Cambridge Journal of Economics*, forthcoming
- Lovell, M. C. 1972. The minimum wage, teenage unemployment and the business cycle, *Western Economic Journal*, vol. 10, 414-27
- Malinvaud, E. 1988. *Mass Unemployment*, Oxford, Blackwell
- Malinvaud, E. 1986. Les causes de la montée du chômage en France, *Revue française d'économie*, vol. II, no. 3
- Malinvaud, E. 1991. *Voies de la recherche macroéconomique*, Editions Odile Jacob
- Maurel, F. 1990. Dynamique de l'emploi et tendance de la productivité dans les années quatre-vingt, *Economie et statistique*, no. 237-238
- Michie, J. and Grieve Smith, J. (eds) 1994. *Unemployment in Europe*, London, Academic Press
- Moore, T. G. 1971. The effect of minimum wages on teenage unemployment rates, *Journal of Political Economy*, vol. 79, 897-903
- Muet, P.-A. 1991. Croissance, emploi et chômage dans les années 80, *Observations et diagnostics économiques*, OFCE, January
- OECD. 1986. Technology and jobs, *Science Technology Industry Review*, no. 1, Autumn
- OECD. 1990. *Main Economic Indicators*, Paris, OECD
- OECD. 1991A. *Economic Outlook*, Paris, OECD
- OECD. 1991B. *Employment Outlook*, Paris, OECD
- OECD. 1991C. *Economic Survey of France*, Paris, OECD
- OECD. 1992. *Economic Survey of France*, Paris, OECD
- Phelps, E. 1992. Unemployment: macroeconomic performance and the labour market: a review, *Journal of Economic Literature*, September
- Plihon, D. 1990. Les grandes explications macroéconomiques du chômage, *Cahiers Français*, no. 246
- Sibille, H. 1991. Les mécanismes de la création d'emplois, *L'exemple américain*, OECD
- Solow, R. 1986. Unemployment: getting the questions right, *Economica*, vol. 53

- Stegman, T. 1987. Incomes policy: some issues, in Stegman, T. *et al.* (eds), *The Future of Income Policies in Australia*, University of New South Wales, Centre for Applied Economic Research, CAER Paper no. 24, February
- Vesperini, J.-P. 1985. L'Economie de la France, *Economica*