

François Hollande and labour market reform

30 January 2013

Summary

January was a month of war and peace in Paris. The same day France committed military forces in Mali, a three month negotiation between France's employers' federation and its major unions produced an agreement on changes to France's labour laws. The agreement is a victory for Hollande's consensus-building approach, but how much does it actually change?

As we noted last year ([GCI12/37 François Hollande after Six Months](#)), François Hollande's call last September for the country's unions and employers to reach a voluntary agreement on labour market reform was an important test of the credibility of his strategy to seek reform without social confrontation. After three months of negotiations MEDEF, the French employer organisation, and the country's unions on January 11th reached the so-called 'Wagram accord' (named after the MEDEF headquarters on Avenue de Wagram in Paris).

The plan requires the support of three of France's five major unions to advance to the stage of being transcribed into legislation; a step that is now expected in May. However, two of the country's five unions - the left CGT and the FO - did not sign up. And, perhaps more substantively, there is a question mark about whether the planned reforms match the scale of the challenge. The country now has some of Europe's lowest employment rates for young and older workers, most new hirings are only on short-term contracts and the rate of job creation probably needs to double.

What Wagram does

Inevitably overshadowed in media coverage by France's decision to commit military forces in Mali, the Wagram accord should bring significant reform. The accord brings some streamlining and easing of the country's tight redundancy laws, while increasing employer taxes on short-term contracts, extending employees' healthcare

entitlements and increasing rights for part time workers. It also increases worker representation on corporate boards of France's largest 200-odd companies.

A significant further reform in the package is a new scope for employers to negotiate reduced wages and cut or extend working times in return for guaranteed employment for the same period, capped at two years. This is something like a French version of the German *Kurzarbeit*, although without the fillip of cash help from the government, that saw 1.5million Germans on short-time working in 2009 and helped the country avoid a significant increase in unemployment. The French version is simply legal scope for employers and workforces to strike temporary arrangements among themselves for up to two years.

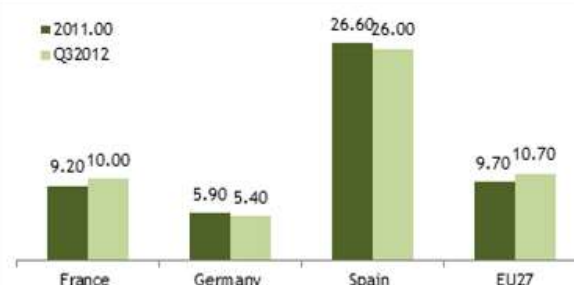


Fig 1: French and EU unemployment 2011-2012 (% working population)

Source L'Institut national de la statistique et des études économiques/Eurostat 2013

A few commentators have drawn comparisons with the Hartz reforms in Germany ten years ago. But the Hartz reforms were probably more radical, especially in tackling the total level of unemployment support provided by the welfare system. In one area the direction of French policy takes a distinctly different direction to Hartz. One of main Hartz II reforms was the creation of a category of lower-taxed, less-protected ‘mini jobs’. Wagram takes the opposite approach and proposes using employment tax disincentives on certain short-term work contracts in non-seasonal industries to encourage the creation of longer-term positions.

There is an element of politics here and an element of economics. A quarter of French workers under-24 in 2011 were employed on fixed-term contracts, along with just under one in ten of the paid workforce (Fig 2). These workers account for a tenth of the total employment market but almost half of those made unemployed in France in 2011. These young, anxious French voters were a major thorn in the side of Jacques Chirac’s attempts to weaken protections for short-term workers in 2006 and they will have Hollande worried.

But there is also an economic question hanging over the ultimate effect of the fewer-rights, short-term employment rights contracts that have become ubiquitous in Europe. There looks to be a real risk of creating pools of people on serial short-term contracts, whose skills employers have no incentive to invest in and who lack the security to make longer term consumption decisions.

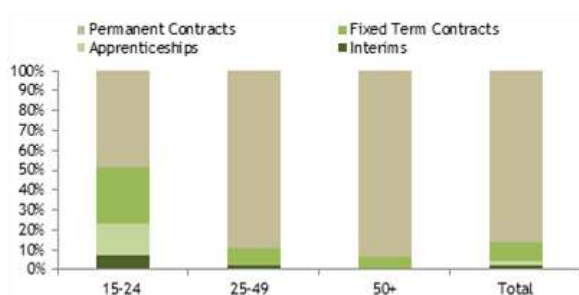


Fig 2: Structure of French labour market, by age group, 2011

Source: L'Institut national de la statistique et des études économiques September 2012

What Wagram will not do

What kind of dividend will Hollande be expecting from this package? Taking a pre-agreed deal with the endorsement of both MEDEF and the largest unions to the Assembly is a smart political move and has the potential to reflect well on Hollande’s consensus-building style. The deal was hailed by MEDEF’s Laurence Parisot as marking the “arrival of a culture of compromise after decades of social antagonism,” while the country’s Labour Minister, Michel Sapin, heralded it as a demonstration that “we are able to reform in France - and not with a civil war”. Finance Minister Pierre Moscovici clearly sees the package as a major international confidence-building boost that should reassure markets.

But Hollande’s own insistence that his aim was to address France’s unemployment rate will set a benchmark that this package is unlikely to address. By this measure and at a time when demand in Europe is stagnant or worse, the short-term impact is likely to be disappointing. The package disincentivises short-term flexible employment while eroding rather than radically overhauling the arrangements that make it expensive to offer workers permanent contracts. By changing these terms only at the margin, the accord will bring less than the ‘competitiveness shock’ proposed in a report to the government by the industrialist Louis Gallois.

It is also worth noting that the step forward on reform of French labour law will not, on its own, transform labour relations in France - not least because politicians remain so inclined to get involved. ArcelorMittal’s proposals to close two of the furnaces at its Florange plant and make seven hundred people redundant last autumn unleashed sustained and vocal opposition from the industry minister, Arnaud Montebourg as well as the French unions.

The Wagram deal itself is an interesting feature of the French political economy. French labour law guarantees French unions a central role in defining the French industrial settlement. Yet this arrangement easily conceals the fact that France,

in fact, has the least unionised workforce in Europe, at less than 10% of the working population. This is a significantly smaller proportion of the labour force than the ‘Anglo Saxon’ British and American labour markets.

Polls taken in France since the deal was announced suggest that under a barely moving 38% level of headline support, Hollande has picked up an additional measure of support among men and business owners.

Voter category	Very or largely satisfied (%)	Change Dec 2012-Jan 18 2013
Total	38	+1
Men	40	+4
Women	36	-2
18-24	41	-5
Business Owners	31	+5
Liberal Professions	40	-7
Front de Gauche Voters	44	-3
PS Voters	83	+1
UMP Voters	10	-

Table 1: Voter Satisfaction with François Hollande

Source: Ifop for the Journal du Dimanche, 10-18 January 2013

But he has also lost significant support among voters under-24 and in the liberal professions and slipped with women (Table 1). However, these numbers are as likely to reflect attitudes to the deployment of French forces in Africa as the President’s foray into labour market reform.

Hollande’s government remains a work in progress as it seeks to retain its identity as governing from the left, while charting a business friendly course of economic friendly. The Wagram agreement marks a shift in the precise terms of France’s labour market, but not a radical rewriting of the terms of the country’s labour relations, nor its

overall balance. History buffs will note that the battle of Wagram was the point at which Napoleon decisively turned the tide of Austrian resistance on the war of the Fifth Coalition. Any such decisive outcome is unlikely here.

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