FRANCE
MORE JOBS, DESPITE OECD

INTRODUCTION

The 1990's brought two very distinctive phases in the employment situation in Europe : stagnation until 1997, growth since then. France corresponds perfectly to this pattern, leading us to wonder whether we must view the improvement in the employment situation as the outcome of so-called "neoliberal" policies implemented over the past 15 years, under the dual patronage of the OECD and the European Commission. This paper will respond to this question in the negative and provide an alternative reading of the decade.

The first section describes how the labour market in France has changed since the mid-1980s. The second section shows that the recent upturn in terms of jobs can not be explained by a lower labour costs. The third section presents the specifically French story of the shorter workweek. The fourth section puts forth an interpretation of growth in jobs as a victory, albeit an indirect and fragile one, of the move to a shorter workweek.

1. THE BITTER HARVEST OF NEO-LIBERALISM

In this first part, we shall attempt to show that France has applied OECD recommendations at least to the same extent as other European countries. One way of arriving at this outcome is by comparing its performances from the standpoint of three synthetic indicators : wage share, rate of growth of GDP (Gross Domestic Product), and unemployment rate.

From the outset, we should briefly introduce two methodological points. The first bears upon the European unification process. Here the restrictions that the European countries chose to impose on themselves will be used as the reference, more than OECD recommendations. After implementing the well-known Maastricht criteria, essentially monetary and financial, and adoption of the Amsterdam treaty bringing in a new title on employment, it was agreed at the Luxembourg Jobs summit in November '97 that this strategy should be built on four main pillars : employability, entrepreneurship, adaptability and equal opportunities. Every year, a set of Guidelines are adopted for each of the pillars, which set out a number of specific targets for Member States to achieve in their employment policies. These Employment Guidelines are then transposed into concrete and administrative measures by each Member State, through their National Action Plans for Employment. Although this European Employment Strategy does not differ, in inspiration, from the OECD Jobs Strategy, a greater effort is made in relation to the former to present national policies.

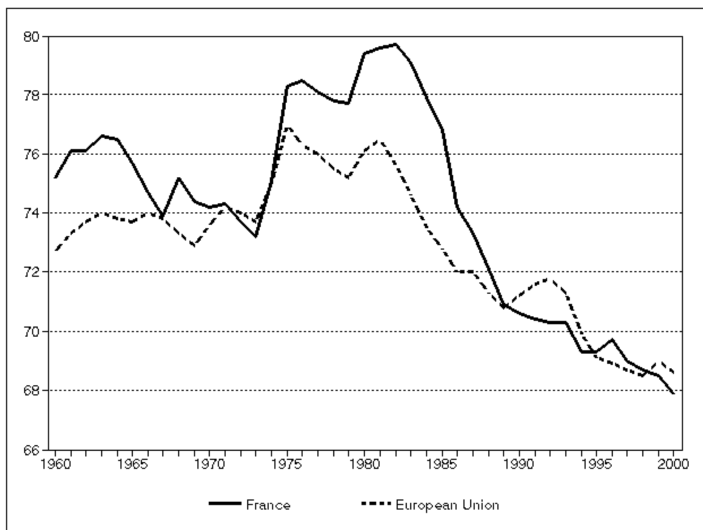
The second methodological point concerns evaluation. Most OECD recommendations making up its Jobs Strategy are formulated in qualitative terms. Let us refer to the main ones :
- make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers ;
- strengthen the emphasis on active labour market policies and reinforce their effectiveness ;
increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers ;
- set macroeconomic policy such that it will both encourage growth and, in conjunction with good - structural policies, make it sustainable, i.e. non-inflationary.

The OECD puts out a broad range of indicators we shall come back to later on. However, since we are dealing with job creation, these institutional variables will have to make their way in the field of quantitative macroeconomic variables. This means there must be entry points that must correspond to real wage costs, in other words the wage share, competitiveness and the content of job growth. In fact, OECD strategy aims to create jobs via a lower wage cost enabling competitiveness to be improved, stimulating growth and creating more jobs with a given rate of growth.

The first indicator it is useful to examine is the wage share. The second is the unemployment rate, and the third is the rate of growth of the GDP (gross domestic product). In terms of these three points, France has taken much the same course as the European average.

The wage share[1] has increased more rapidly in France than the European average during the period immediately following the 1974-75 recession and was not "brought under control" again until a bit later, with the turn to a tight budget in 1982-83 (see Figure 1). In less than a decade, the "delay" was caught up, at the cost of a drastic fall in the wage share that dropped from 79.7% of the GDP to 72.1% in 1988. This fall continued afterwards, and remained insensitive to the upturn at the end of the 1980s.

Figure 1. The wage share

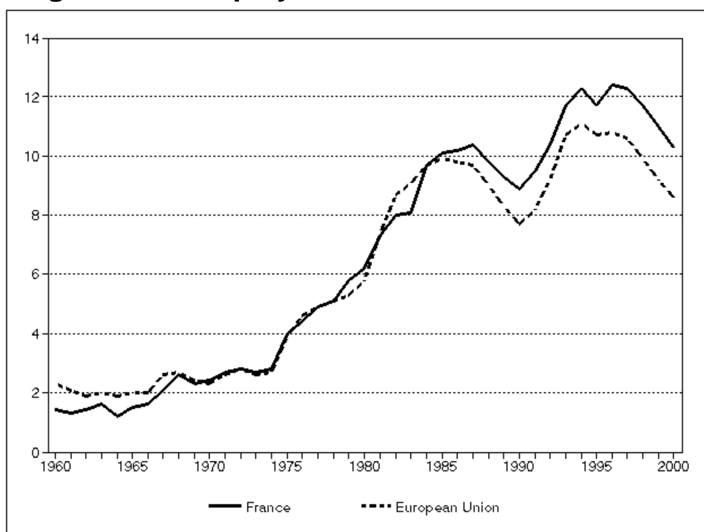


« adjusted wage share » :
share in percentage of GDP at factor cost
Source : European Commission

The unemployment rate has not undergone a course of change significantly different from the European average either (see Figure 2). From the end of the 1980s, France has registered an unemployment rate one point higher than the European average, but has followed changes in this rate very closely. Furthermore, this discrepancy can be explained by a quite markedly lower growth than the European average from 1984 to 1987, precisely at the moment the wage share fell (see Figure 3). This was only achieved at the cost of slowing down the economy, leading to excessive unemployment not made up for since.

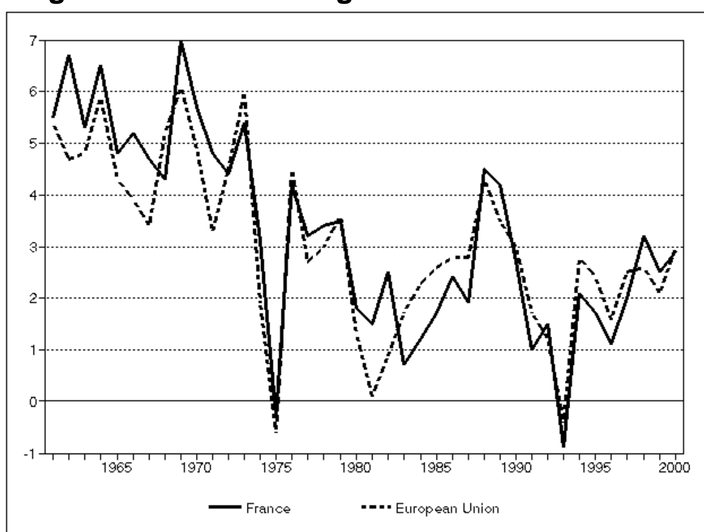
[1] We are using the statistics compiled by the European Commission, that calculates an "adjusted wage share" taking into account differences in the proportion of self-employed.

Figure 2. Unemployment rate



Source : European Commission

Figure 3. Rate of GDP growth



Source : European Commission

1.1 OECD : Give them an inch …

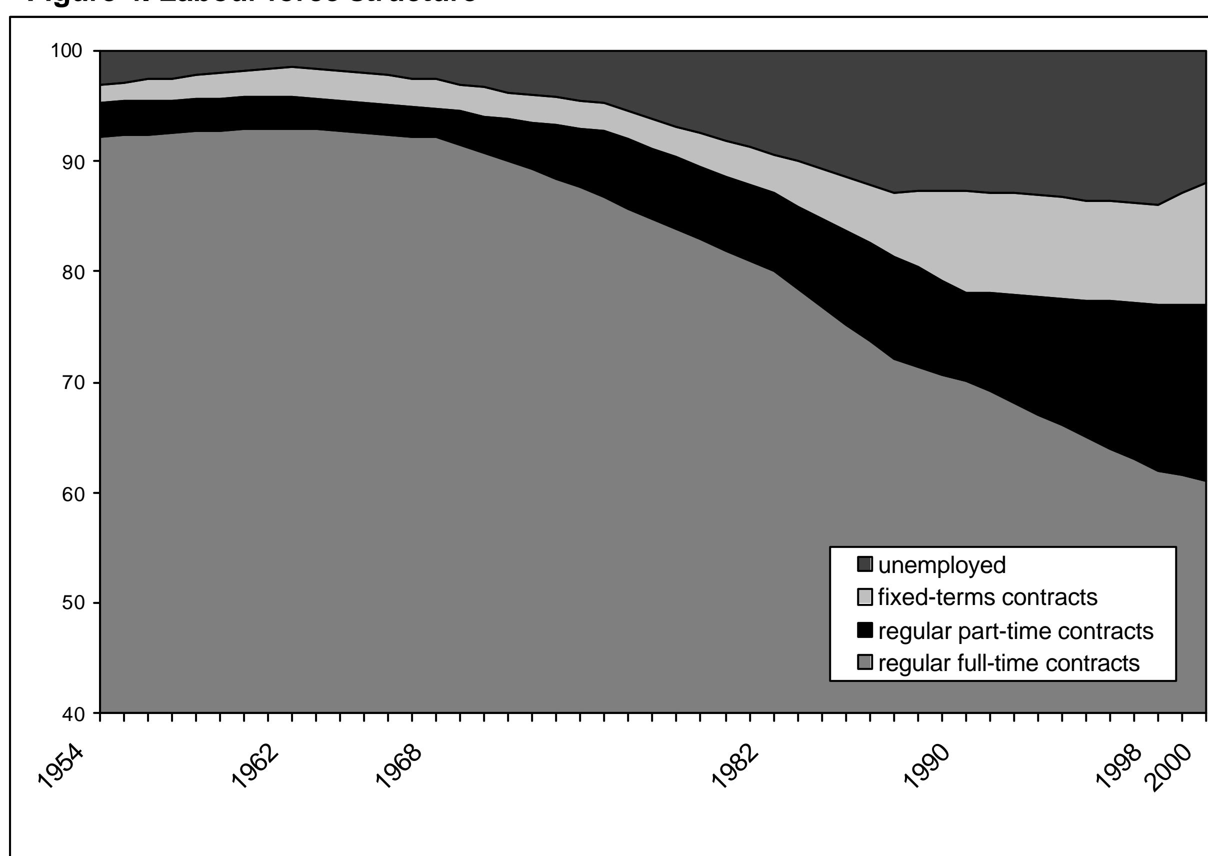
This account does not correspond to the OECD's interpretation of the evolution of the labour market in France, which views it differently. The 1997 *Economic Survey* (OECD 1997) is particularly helpful from this standpoint. It appeared in a phase when the conjuncture was turning around, after the short semesters of upturn following the 1993 recession. The situation appeared to be once more stuck in the "Eurosclerosis" that the job strategy was intended to counteract. Chapter 3 of this report gives a brief account of OECD recommendations, under the title : "Implementing the OECD Jobs Strategy".

The OECD has no choice but to recognise the reality of wage moderation : "Since the early 1980s, real wages have tended to lag behind productivity gains and the wage share has fallen to below its level of the early 1970s". But that did not suffice to improve the jobs situation. " While wage

moderation led to an improved labour market performance as of mid-1980 in the sense that employment in the private sector did not shrink further and the trend rise in unemployment became much slower, it did not turn around the unemployment situation."

How do they get out of this contradiction ? The OECD brings in an outside factor, i.e. "the sharp rise in real interest rates in the early 1980s. Higher real interest rates and the associated balance sheet restructuring are likely to have pushed up equilibrium profit margins". But this line of argument is not coherent : wasn't the rise in interest rates a means of changing the balance of power between capital and labour, so as to exert pressure on the wage share ? And isn't pushing up profit margins the whole point of this manoeuvre ? As for maintaining real interest rates at high levels throughout the 1990s, how can they not see that this is an essential lever for convergence towards Maastricht criteria ? In France, this disciplinary use of the interest rate is one important factor in the so-called "competitive desinflation" strategy, often criticised by Keynsians as a factor in unemployment (Fitoussi 1995).

Figure 4. Labour force structure



Source : INSEE, labour force survey.

The OECD also points out that "despite wage moderation since the early 1980s, the cumulated rise in real labour costs in France between 1970 and 1995 was still some 40 per cent higher than in the United States". But once again, this is an arbitrary figure. Over the same period, labour productivity increased by 30% in the United States, against 70% in France (see IRES 2000). Aligning French wages on United States productivity would have meant a highly recessive setback for wages and would have been very difficult to enforce, from a social standpoint.
The same study has no choice but to recognise the growth in precarious work. Its realistic observation is worth quoting : "Over the last decade, a multi-tier labour market has emerged, with enterprises keeping a core of employees on "typical" contracts with low turnover rates. At the same time, part-time work, work on fixed-term contracts and temporary agency work developed strongly – reflecting government incentives and the greater flexibility of such contracts. The share

of employees on fixed-term contracts rose from 3.5 per cent in 1985 to 6.4 per cent in 1995 and that of part-timers from 10.6 per cent to 15.6 per cent. In addition, the number of people enrolled in labour market programmes has risen sharply. Turnover in the labour market is heavily concentrated on people with ‘‘atypical’’ contracts which may partly explain why France is among the countries with a relatively high job and labour turnover, but that this has not translated into high net job gains”.

Figure 4 shows the distribution of the labour force by different job status, and provides a clear illustration of the lower share held by standard jobs. This change is the outcome of jobs policy measures implemented over the years, and it is worthwhile at this point to recall the major stages in these.

1.2. A brief history of job policies

Contrary to the OECD presentation, job policy followed in France has come within the logic of neoliberal recommendations, independently of the succession of left and right wing governments. Let us recall when each was in power.

1981-1986 : left
1986-1988 : right
1988-1993 : left
1993-1997 : right
1997- ... : left

The real break came in 1983, when the left gave up pushing for a policy of a Keynesian type, two years after it came to power. The turn took the form of an unequal freeze on prices and wages, leading to a very marked slowdown in the progression in real wages, and setting off a rapid decline in the wage share in national income. But, after the legal working-week was lowered to 39 hours in 1982, afterwards an across-the-board and binding cut in working hours was abandoned in favour of a contract-based and decentralised process that would actually amount to a lasting freeze on average working time. Instead of reducing working time, a preference was given to rearrangements in it, in the form of a growth of part-time work.

This is also the period during which the first measures were taken in order to limit the period of payment of unemployment benefits. These led to a drop in the proportion of job seekers compensated and to a greater tapering-off in replacement incomes for early-retirees in relation to the reference wage.

From 1984 to 1986, we observed the development of policies aimed at target-populations, firstly young people, then the long-term unemployed. The objective of bringing young people into the labour market was to take the form of a series of internship measures or assisted contracts, supposedly promoting their entry into the labour market. In December 1995, by way of example, 190 000 young people were taking part in TUC (travaux d’utilité collective – community works programmes) inaugurated in October 1984.

In 1986, the right wing returned to power and was to privilege greater flexibility in manpower management and lower labour costs for young workers. We could clearly see the idea, dear to the OECD, whereby the origin of unemployment lay at least in part in the “rigidities” hampering labour market operations. The most symbolic measure was the elimination of administrative authorisation for economic dismissals (Acts enacted 3 July and 30 December 1986). According to employers, this measure was to have a positive impact to the tune of 400 000 jobs.

The 11 August 1986 ordinance on differentiated work would make it easier to resort to fixed-term contracts, temporary work and promote part-time work. Finally, the 19 June 1987 Act broadened possibilities for modulating working hours so as to enable firms to adjust work schedules to fluctuations in demand.

At the same time, the level of wage costs began to be presented when explaining unemployment, especially in terms of workers seen as having a lower productivity. The debate on the SMIC (minimum wage) and its impact on employment tended to come up time and again but a challenge to the minimum wage was excluded. Exemptions from social contributions were to bear the costs for the measures for reduced labour costs. Job grants in the form of exemptions with no training counterpart were to regain popularity, first of all in the direction of youth, and be generalised from there.

The 1988-1993 period was marked by the return of the left and a recovery of economic activity that finally ended with a deep recession in 1993. The major novelties were the implementation of the RMI (revenu minimum d'insertion – a social welfare measure) in 1988, then the establishment of the Contrat-Emploi-Solidarité (part-time jobs paid at the minimum wage, essentially by government) grouping together activities of community interest.

Job programmes in the private sector were reinforced, in the form of new special contracts. In January 1989, a measure was brought in exempting employer social security contributions for firms hiring a first employee. This benefit was soon extended to the 2nd and 3rd employees. In late 1991, a measure was brought in to lower labour costs targeted low-skilled young workers. Then, in January 1992, assistance became available to households for employment of an employee in the home.

In August 1992, a 30% cut in employer social security contributions was brought in for new part-time contracts. The rapid growth in part-time work was able to play a real part (alongside other factors) in a modification of the link between growth and employment in the recent period. On the other hand, the INSEE (Institut de la Statistique et des Etudes Economiques – Institute for Statistics and Economic Studies) Employment enquiry also shows the importance of involuntary part-time work, since 40% of part-time workers (mainly women) would prefer to work longer hours.

In July 1992, the unemployment insurance system was thoroughly overhauled, making benefits taper off much more quickly. This reform led to a drop in the proportion of unemployed receiving benefits, especially among young people.

In 1993, the right wing came back to power in a context of economic recession and rapid growth in unemployment. From 1 July 1993, employer contributions to family allowances were eliminated for salaries lower than or equal to 1.1 times the SMIC and halved for salaries between 1.1 times and 1.2 times the SMIC. The measure corresponds to a drop in labour costs amounting to almost 4% at the SMIC level and applies to over 3 million employees. This policy would be taken further over the years, within the framework of the five-year act of 1993, then after the 1995 presidential elections.

The left returned to power in the 1997 early legislative elections. It did not challenge the exemptions in social security payments whose budgetary cost reached 40 billion francs (i.e. 0.5% of the GDP) in 1998, for 5 million employees affected by this measure. But the left would distinguish itself above all by implementing the 35-hour week, and generalising a policy already underway with the Robien Act enacted by the previous government in 1996.

1.3. “Continuing to move ahead”

This short overview should suffice to establish that in practice, successive French governments actually abided by OECD strategy. And yet, the institution continues to speak out against rigidity factors, such as the minimum wage, the bargaining system, the tax and transfers burden, unemployment insurance and assistance payments, as well as an inadequate flexibility of working time and employment. In its 1997 study, the OECD recommends “continuing to move ahead” while recognising that “some of these recommendations do not have the support of the French authorities”. We can mention the most important of these, while keeping in mind the range of factors outlined above :

“ - increase wage and labour cost flexibility ;
- further reduce both the maximum duration and replacement rates for long-term unemployed. For low-income earners, relatively high replacement rates could reduce incentives to search for a job. In addition, job search controls and benefit sanctions should be tightened ;
- reduce lay-off restrictions for collective dismissals ;
- if the minimum wage were not reduced, continue with the general reduction in non-wage labour cost for workers at the low end of the wage scale ;
- continue with reforms, which favour a close co-ordination in the management of unemployment benefits, placement services and labour market programmes.
- accelerate annualisation of working hours, if needed with legal measures.
- pursue privatisation opportunities.”

The OECD position comes down to suggesting that even more of what has already has been done should be done. The only two exceptions bear upon early retirement and associated schemes that must be “scaled back” as they are “expensive in budgetary terms” and lead to a “low participation rate of older workers”. In the same vein, the OECD proposes to “reduce incentives to offer part-time jobs” to the extent that “a large number of part-timers want to work longer hours”. Although this position is acceptable in substance, it fails to take into account the important role played by these measures in reducing unemployment. Giving them up would only make sense if compensated by an across-the-board cut in working hours, something the OECD wants no part of. This means its position shows that from its standpoint the non-regulation of working time is more important than the course taken by the unemployment rate.

On other points, the OECD proves a poor political analyst. Of course, its formulations are very prudent with respect to the minimum wage” – “it might be difficult to lower it in the current circumstances” – but the suggestions fail to take into account the French political picture. So the constant desire to differentiate it “by age and region to prevent it from harming employment prospects for young people and low-productivity regions” overlooks the government’s attempt to implement such a policy in 1994 by bringing in a 20% lower minimum age for youth. But it came up against a mass movement, at times very violent, that led it to withdraw this plan.

Despite all its efforts, France still gets just as poor marks from the OECD. In the latest Jobs Survey evaluation, France is ranked 22nd among the 25 countries studied : only Norway, Luxembourg and the United States do more poorly (OECD 1999, p. 51). Its follow-through of recommendations is only 20% with respect to the labour market reforms. Out of 15 specific recommendations in this field, France was said to have taken no action in 6 cases, that more action was needed in 6 other cases, and even that an opposite action was taken in the last 3 cases.

Could this be a dream ? How can we reconcile this general appreciation with the picture we have painted of employment policy in France, and its impact on the labour market ? Furthermore, the indicator used by the OECD is not very discriminating. A detailed examination (OECD 1999, p. 56) shows that the poor French pupil has lacklustre performance in terms of unemployment rate, but not very different from such countries as Germany, Greece, Switzerland, Italy, Austria and Denmark. This despite the fact that the latter countries had far more carefully followed OECD

recommendations, if the agency is to be believed. All of this is preposterous, and this type of ranking would be swept away with the jobs upturn, bringing France to the forefront in terms of performances.

2. THE GREAT JOBS SURPRISE

From mid-1997 on, job growth started up again quite vigorously. The 500 000 jobs created in 2000 represented an absolute record for the last 50 years. The number of unemployed officially on the books fell from 3 to 2 million. A real gap was observed in relation to job trends. Almost all European countries were affected by this movement, and France came a bit above the average in terms of job creation.

This improvement, whose scope was unexpected to a certain extent, represents an extraordinary life-size object lesson. In just a few years, it changed the mood from resignation to mass unemployment to the idea that a return to full employment is a legitimate aim of economic policy. Understanding the reasons for these better performances takes on a considerable importance from the standpoint of economic policy outlook. There are two major conflicting interpretations. The first consists of saying that this dynamic jobs picture is the late harvest of neoliberal policies carried out for several years. The second insists on the contrary on the motives for this growth and the role of a shorter workweek. We will look at the first interpretation now.

2.1. A success for the Jobs Strategy ?

The table below, drawn from the INSEE's labour force survey, describes evolutions that are hard to reconcile with the OECD's analysis of the process. It leads first of all to a clear contrast between two periods. From 1990 and 1997, job creation was almost non-existent. From 1997 and 2000, there was a sharp upswing in staff levels, at a rate of 1.6% per year. The question immediately posed is why the OECD recipe, ineffective before 1997, suddenly became accurate afterwards.

Table 1. Changes in employment structures 1990-2000

	1990	variation	1997	variation	2000
Self-employed	3460	-596	2864	-199	2665
Regular contracts, private sector	12468	164	12632	867	13499
Fixed-term contracts, private sector	1324	507	1831	440	2271
Public sector (+ contingent)	5070	35	5105	-12	5093
TOTAL	22322	110	22432	1096	23528
Part-time	2650	1077	3727	236	3963
Full-time	19672	-967	18705	860	19565
Men	12912	-359	12553	470	13023
Women	9410	469	9879	626	10505
Unemployment ILO	2254	898	3152	-526	2626

Source : INSEE, labour force survey

However, the employment stagnation period was accompanied by profound restructuring of the employment market : less self-employment, a rapid growth in non-standard jobs, a growth in part-time work and women in the labour force, increased unemployment. We can say that all these transformations go in the direction of official OECD recommendations, except for the unemployment rate, which is never "recommended" outright. In any event, job stagnation is taken advantage of to restructure employment in the direction of a total lack of job security.

The period of upturn did not result in furthering these trends. On the contrary, it meant a change in direction. In the private sector, non-standard jobs amount to only one-third of all net job creation, contrasted with three-fourths during the previous period. Reliance on part-time tended to stabilise and creation of jobs held by men to pick up, while the number of unemployed is falling significantly. The most recent data shows that these trends have continued since March 2000, the date of the most recent jobs inquiry available. We are a long way from a return to standard employment, but the observed picture is moving away from the OECD philosophy. The OECD would make the claim that following its recommendations resulted in creating many jobs. Reality is showing that things have been going other way around : the jobs recovery has made it possible to turn previous trends around, supposedly to be the most favourable to job creation. All of this seems to show that the best way to create jobs was to move away from OECD recommendations.

This embarrassing situation can be seen in the most recent *Economic Surveys*, which bring out several classic contradictions bearing upon demand factors here. Firstly, the OECD emphasises the role of export growth in setting off a recovery and ascribes it to increased competitiveness. "French firms have been able to benefit more from the recovery this time thanks to their competitiveness, as attested by a trade balance now in structural surplus". In reality, the leap forward for French (and European) exports derives from a competitive advantage resulting from the exchange rate and not wage moderation.

The OECD quite rightly shows that "the driving force of the recovery this time has shifted to a greater extent to consumption and investment. The strength of fixed capital formation can be explained in both cases by a previous latency period and favourable financial conditions". But how did consumption play a part in this dynamic picture ? The response is found in the 2000 *Economic Survey* : "the combination of job creation, a revival of households' confidence and rising disposable income boosted domestic demand (...) became the main engine of growth. Consumption thus remained on a strong growth". This growth in disposable income also impacts wage income, but here the OECD runs up against a contradiction. If the dynamic nature of wage demand explains growth, how can it refer a bit further on to a "continuing wage moderation" to explain a growth that is "much richer in jobs" ?

We get the impression that things are not going as predicted in the Jobs Strategy. The way the upturns in terms of growth and jobs joined forces does not follow the logical sequences that were supposed to lead to job creation. Here we once again find, in another dimension, the negative conclusions from two recent reports from the Conseil d'Analyse Economique, showing that there is no correlation in Europe between application of OECD recommendations and job performance (Fitoussi & Passet 2000, Freyssinet 2000). The crux of the question is to show at any cost that these job performances can only be explained by a drop in wage costs.

2.2. The spontaneous theory of wage costs

The recent Pisani-Ferry report on full employment no doubt constitutes the best introduction to this discussion (Pisany-Ferry 2000). Its starting point is a comparison between the recent recovery (1997-1999) and the previous one (1987-1989). The difference in job creation between these two periods was considerable. "More than 300 000" job creations corresponding to the growth differential must be added to the observed difference of 332 000 jobs. The recovery at the end of the 1990s corresponds in effect to an average GDP growth of 3.1% per year, as against 3.9% at

the end of the 1980s. This means that overall, this “enriched job growth” enabling this upturn to create, all other things being equal, 632 000 more jobs than the previous one must be explained. Table 2 summarises the breakdown set forth by the Pisani-Ferry report.

Table 2. Difference in job creation between 1997-99 and 1987-89

Job creations to explain	632 000
Youth employment	170 000
Reduced contributions	106 000
Reduction in Working Hours	67 000
Miscellaneous	35 000
Not explained	254 000

Source : Data from Pisani-Ferry Report (2000)

The first observation is that it doesn’t add up. The report has no choice but to admit so : “the factors identified are not sufficient to explain the scope of market job creations at the end of the 1990s”. Out of 632 000 further job creations, 254 000 are not “explained”. This is one of the high points of the report. Basically, it fails to explain a large share of the job creations. But that is beside the point ! It need merely state that the impact of the measure it had advocated is underestimated. The first idea that came to mind, and the only one it develops in depth and keeps in mind afterwards, is that “the effects of easing social contributions on low-wage earners could be under-evaluated in the usual calculations.” This is quite astonishing when we consider it. I have not succeeded in explaining what is going on, but it is the proof that the policy I advocate works even better than I had thought myself, and it would be a mistake to change it. Here, we have entered the realm of ideological, dogmatic, if not to say magical thought, eliminating the need to come up with more convincing explanations. These shortcomings do not keep the report from decreeing that the debate is closed : “labour costs at the minimum wage level have a strong and rapid influence on labour demand, and thus on jobs for employees concerned”. There is a consensus amongst economists to evaluate the impact of reductions in contributions on low wages at “250 000 jobs created in the long run”.

Obviously, the second observation bears upon the method used to evaluate the impact of cuts in contributions. This impact was actually rather modest (106 000 job creations out of 632 000). It comes down to taking as a given what we want to prove, as a detailed examination of the most recent study shows (DARES 2000). This study uses a rather classic equation on job demand, in which the adjustment in number of hours worked lags behind the level of production, according to a trend in hourly work productivity.

The main difficulty derives from bringing in the effect of labour costs on employment. The author of the study confirms a classic outcome based on French data : “the effect of the average labour cost, notably with regards to capital-labour substitution, does not generally appear significant in econometric estimations” and consequently, “the equation does not integrate it directly”. “Directly” must be emphasised here. How can one take into account an effect that is recognised as not significant ? The only way is to forcibly introduce a term intended to express the effect economic policy measures, notably reduced contributions, have on employment, calculated “with the help of an elasticity in labour costs per job of 0.6%” From then the equation can be written as follows :

$$\log L^* - emp = \log Y - \log (\alpha + \beta T)$$

L^* is the number of hours worked outside the productivity cycle
Y is the GDP
emp is the effect of jobs policies

This new and rather curious method is christened “ex ante evaluation” and leads to tautological estimations. The job creations ascribed to lowered contributions are calculated, outside econometrics, applying the fateful elasticity of 0.6 of the evolution in labour costs. This method is all the more questionable given that this elasticity “swells” the directly estimated coefficient by at least five times. Nevertheless, it is tending to be generalised, and has just been made official by the Pisani-Ferry report. Its author admits outright : “no study has yet attempted an *ex post* evaluation” and all the studies we have at hand are merely *ex ante* works. This means that, just like the one we have examined here, none of these studies are empirical studies based on statistical observation of a link between labour cost and employment. They are models whose parameters are not measured but postulated by their authors. To justify the absence of *ex post* evaluations, Pisani-Ferry claims that these measures are too recent. If this is true in terms of the reduction in working hours, reduced contributions on low wages are a very different matter. These have been on the books since 1993. Furthermore, it is difficult to imagine that these measures that cost 40 billion F in 1998, and which will reach 105 billion in 2005, have not yet been the object of any evaluation.

These difficulties are not new, and make it possible to pick up on the major econometrics findings on productivity, based on French data. Here, we are putting forth a summary, based on four estimations retained for their heuristic value (Box 1).

Equation (I) shows that the evolution of labour productivity (q/n) can be explained quite adequately (see Box 1, Figure I) on the basis of three effects :
- capital-labour substitution (k/n) ;
- the productivity cycle, throughout the growth in production (q) ;
- labour cost (s).

Labour cost has a significant effect, but its influence is weak : a one-point drop in real wages leads to a 0.1 point extra job growth. This is much less than the generally recognised elasticity of 0.6.

The other two equations make it possible to state that this evaluation is a maximum. The equation (I’) shows that the significance of real wages derives from the hypothesis of constant progression in productivity that coincides poorly with its progressive slowdown. Having retained a hypothesis of growth in productivity at a constant rate, hard to reconcile with its observed slowdown, creates a bias favourable to the significance of real wages that underwent the same evolution. But then, we run the risk of an inverse determination (Husson 1995). If we introduce time (t) and time squared (tt) then the real wage is no longer significant, without any reduction in the quality of the estimate.

Hence, we can ask where the consensus about a 0.6 elasticity came from, although it cannot be identified on the basis of the econometric art ? Pisani-Ferry refers to a “certain number of studies” based on “natural experiences rather than statistic influences”. In fact, two texts are referred to (Abowd, Kramarz, Lemieux, Margolis 1997 and Kramarz, Philippon 2000). These studies seek to establish the very negative impact of the SMIC (minimum wage) but within a very restrictive theoretical framework of perfect correspondence between individual productivity and the minimum wage. Thus, any progression in the latter would plunge a fringe layer of employees into the pit of “unemployability”. Inversely, we can refer to a recent INSEE study (Audric, Givord, Prost 1999) that leads to an awkward conclusion : “in macroeconomic series, the link between employment and the cost of unskilled labour appears more complex than it had seemed at first.”

The equation (II) makes it possible to ascertain that the rate of capital/labour substitution (k/n) can be well explained on the basis of growth in production (q, productivity cycle) and a downwards trend (t) (see Box1, Figure II). Bringing in the real wage gives no result in this equation. A simplified equation (III) also makes a reduced coefficient of the real wage appear, and is at the limit of significance. Thus, we can state that capital-labour substitution essentially depends on factors other than labour cost, and that the direct influence of the later on labour productivity is six times weaker than official studies claim.

But there is no trace of the famous 0.6. The references to this are actually older. Furthermore, we have shown (Husson 1999) after a thorough criticism of prior studies, that they all contain artefacts making it possible to get around the difficulty without resolving it. Once of these, that played a great part in the convergence towards a 0.6 elasticity (Dormont 1994) is based for example on a panel of micro-economic data and interprets what is really a relative price effect as a wage effect. The explanation by wage cost is not really backed up, and we must turn towards another explanation system in which the reduction in working time plays a major role.

Box 1

CAPITAL-LABOUR SUBSTITUTION : SOME ECONOMETRICS

Equation I

$q/n = 0.78\ k/n + 0.82\ q - 0.10\ s - 1.51$ $R^2=0.92$ SE=0.38
(14.2) (24.2) (2.9) (8.0)

Equation I'

$q/n = 0.76\ k/n + 0.83\ q + 33.41\ t - 18.78\ t^2 - 16.33$ $R^2=0.92$ SE=0.38
(10.8) (20.6) (2.5) (2.4) (2.8)

Equation II

$k/n = +\ 0.66\ k/n(-1) - 0.18\ q - 3.91\ t + 4.66$ $R^2=0.81$ SE=0.50
(8.0) (3.9) (3.7) (4.1)

Equation III

$q/n = +\ 0.51\ q - 0.12\ s - 7.53\ t + 7.77$ $R^2=0.77$ SE=0.67
(10.4) (1.5) (4.9) (5.4)

q/n	labour productivity (rate of growth, business sector)
k/n	capital per head (rate of growth, business sector)
q	GDP (rate of growth, business sector)
s	real compensation (rate of growth, business sector)
t	time

Figure I

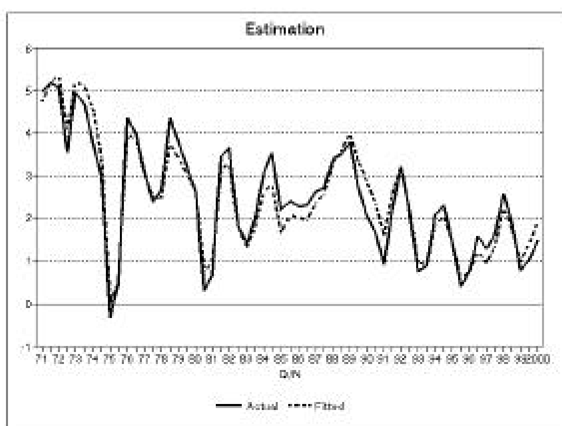
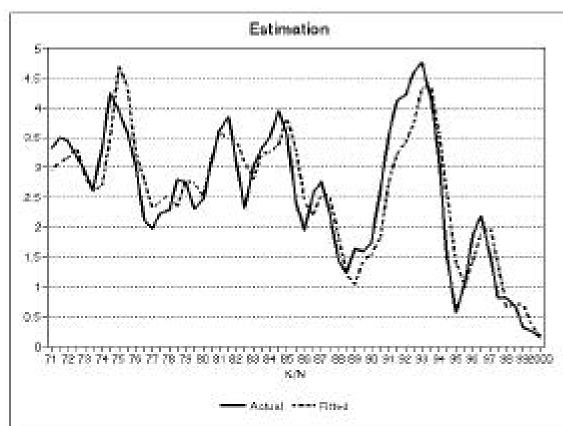


Figure II



3. THE 35-HOUR WEEK, A FRENCH STORY

One of the original features of employment policies in France is the reduction in working hours, with the enactment of the “Aubry Acts” on the 35-hour week, in 1998 and 2000. And yet, the idea of reducing working time is not new. As early as 1982, this idea was debated, often backed up by similar arguments. It closed with the approval of the 39-hour week via decree and the 5th week of paid holidays. Afterwards, the idea of reducing working time was left by the wayside. It was especially starting from 1993, a year that saw a steep rise in unemployment, that it returned to the forefront.

3.1. Impact of the law

Little by little, reducing working time became a priority for unions and left-wing parties. New social movements, such as Agir ensemble contre le chômage (AC ! – Together against unemployment) played a part in putting it forth as an effective weapon in fighting unemployment. The labour movement was directly challenged, all the more so since it jointly manages Unedic, the agency in charge of paying out unemployment benefit, alongside employer associations. Similar changes in views could be seen amongst left-wing parties, and the issue of reducing working hours played a part in making the Greens a significant player on the pluralistic left.

Growing awareness of the ineffectiveness of neo-liberal policies also played a part, and from this standpoint the 1995 presidential election represented a new turn. Jacques Chirac’s victory was secured through an appeal speaking out against “social rift”. Far from representing a turn to more social policies, the first measures taken by Alain Juppé’s government played a part in triggering the social protest movement in November-December 1995, that made the appeal for another policy ring hollow.

The combined impact of these changes made it possible to understand the paradox of the Robien Act, voted in June, 1996 by a right-wing Assembly, that normally would be hostile to such measures. By bringing in public financing of agreements on reduced working hours, the law granted a new legitimacy to this idea. This meant it amounted to a disavowal of traditional employer arguments on the political and practical levels. The first of these is profitability : reducing working time without reducing wages would have the effect of discouraging investment by firms. The answer to this argument is based on observing the facts. Over the past ten years, the wage share in the added value of French firms fell from 69% to 60%. But the investment rate did not go up and indeed, uninvested profits (and notably financial income) reaped the benefits of this wage setback. Productivity gains continued to develop during the period, at the cost of an intensification of work. However, employees derived no benefit from this : wages remained frozen solid, as did working time. As a result, the idea grew that it was fair, and economically effective, to re-establish a distribution of income more favourable to jobs, without this entailing the risk of harming lacklustre investment, caused by a stagnation in wage demand and not insufficient profits. The second argument refers to international competitiveness. Increasing wage costs would create unemployment because of the commensurate loss in market share. And yet, France’s trade surplus reduces the impact of such threats.

Perhaps, the most important obstacles came from the employee side, expressing profound misgivings. Of course, there was the whole question of the wage package. If the reduced working time had to bring along a drop in pay to the same tune, then this was merely sharing unemployment and not sharing work. It is difficult to mobilise for a planned pay cut, especially taking into account the large proportion of low salaries in France. This is why the idea of shorter working hours with no cut in pay progressively made its way and was finally taken up in Lionel Jospin’s programme. However, the main misgiving concerned whether jobs would actually be created. Reducing working hours without proportional hiring would necessarily mean a heavier workload for employees on the job. This fear of having to get the same work done in a shorter time obviously impacted their outlook.

The gist of the first Aubry Act is contained in its Article 1, enacting a cut in the legal working hours to 35 hours weekly, starting from 1 January 2000 in firms with more than twenty employees, and 1 January 2002 in firms with fewer than twenty employees. The legal length does not mean either the maximum length or an actual length. It is the threshold beyond which working hours are considered overtime. This means the lowered legal length has no direct impact on the actual length unless it is not compensated by an increase in overtime and if job creation entails specific benefits. This is why the law brings in public aid for firms that take early action on the move to 35 hours. To be entitled to such aid, these firms must combine a cut of at least 10% in working time with the creation or maintenance of at least 6% of their staff levels, depending on whether it is an "offensive" agreement or "defensive" social plan. The basic scale stands at 9000 francs per annum for each employee concerned by the agreement, plus a 1000 franc reduction per year over five years. For a firm with 100 employees that creates 6 jobs, this means the public aid would come to 106 times 9000 francs, i.e. 159 000 francs for each new job created. Based on very average wage levels, the operation might well incur no extra wage costs, at least during the first year.

On one decisive point, such a scheme is a step back from the Robien law that required a strict proportionality in hiring, 10% further jobs for 10% reduction in working time. This means the absence of proportionality implies instant productivity gains that can be evaluated at 5.1% This specification, to the decimal point, derives from the following calculation. Take a firm that employs 100 employees at 39 hours. It cuts these hours to 35 and increases its staff by 6%. The volume of work falls from 3900 to 3710 hours weekly, meaning that this firm achieves the same production with less labour time. Consequently, its hourly productivity has increased in this proportion of 3900/3710, hence the famous 5.1%

This hypothesis has played a key role in macro-economic simulation exercises and played a part in explaining whey the evaluation by the Observatoire français des conjonctures économiques (OFCE) of the content in job terms of the move to 35 hours has been quartered in relation to an earlier projection that postulated hiring proportional to the reduction carried out (Cornilleau, Hefer, Timbeau 1998). In this case, our firm's staff would increase by a proportion of 39/35, rising to 111. The instant increase in productivity brought about by the mechanisms in the law alone would have the effect of halving the impact of the cut in working hours to 35. This is a fundamental point because it makes it possible to understand why the simulation exercises in the Aubry Act have produced less optimistic outcomes than those achieved in 1993 during the 11th plan. According to the OFCE, and the Bank of France, the application of the Aubry Act would lead to a gain of between 450 000 and 700 000 jobs, but other estimates are more pessimistic still (DARES 1998). The non-proportionality in hiring is compounded by the law's scope of application being limited to the private sector. Once again this halves its impact. Actually, the civil service does not come under this law, meaning that major public companies, such as EDF (Eléctricité de France) or the Post cannot qualify for assistance. This explains why the bottom line only amounts to one-fourth of the most optimistic projections.

But even so, the agreements must actually be signed. As early as 1998, there were fears that the Aubry Act did not contain sufficient incentives. In fact, it made the choice not to bring in binding measures, to leave leeway for management-labour negotiations. Thus, the law does not change the maximum working hours, which remain set at 48 hours, nor does it reduce the annual reserve of overtime, does not modify the 25% increase paid for overtime by indicating on the contrary that in any event this is a maximum. As a general rule, the law does not include a provision limiting the precariousness of forms of work created. No measure has been taken to limit forced part-time work for women, and the exemptions brought in by the 1993 five-year act have been renewed. The different treatment for small and medium firms runs the risk of encouraging sub-contracting and creating a dual status for private sector employees. And yet, it is in the smaller firms that employees have the most fragile status and the need for legal protection is the greatest.

3.2. OECD's systematic doubt

The OECD's position on "statutory reductions in the normal working week" is based on suspicion in principle. Such a measure "may not automatically result in a reduction of the actual working week, nor does it mechanically lead to higher employment to keep total hours worked unchanged". Many factors come into play, such as "the size of the overtime premia" the degree of wage compensation, "improvements in efficiency" as well as the differences across and even within sectors and establishments. Of course, the OECD has a study at its disposal, referred to in Employment Outlook 1998, that concludes precisely saying "statutory reductions in working hours would not necessarily result in any increases in employment, largely because of the likely associated increases in labour costs".

As to the recent experiences (Robien Act and first Aubry Act), the OECD hazards an initial evaluation of the impact on employment that "seems fairly modest (some 15 000 net jobs created or preserved), while the budgetary costs of this scheme in 1997-98 and beyond are estimated to be considerable". The effect in the middle-term should not be very important and "could lead to an increase in net employment ranging from 0.3 to 2.2 percentage points relative to the baseline scenario of an unchanged working week". This pessimism recalls the OECD Jobs Study (OECD 1994) concluding "that a reduction in normal hours would not necessarily lead to any increases in employment, largely because of the likely associated increases in labour costs". Of course it would never cross the OECD's mind that this loss in competitiveness might well have only a negligible effect if the reduction in working hours took effect in a sufficiently important group of countries such as the European Union.

This position is maintained in the *Economic survey* 2000 : "Eventually, the reduction in working time could push up production costs and damage the competitiveness of firms if it is not implemented with sufficient flexibility". Despite job creations, we find the same arguments once again, although they contradict each other. The 35 hours are not "paid" twice, and it is impossible to refer in one breath to their negative effect on the profitability of firms and public finances. We can see the tendentious nature of the line of argument. The OECD never asks the question about job creation through lowered contributions. And yet this evaluation exists (DARES 1996) and proves that to obtain a job creation, business social security contributions must be lowered by a sum equivalent to 4 or 5 minimum wages.

4. AN ALTERNATIVE EXPLANATION

Thus, the upturn in growth and job creations over the past three years, in France and in Europe, seems to be a mystery for the economists who are doing the calculations and discover that we have created more jobs than foreseen. This section puts forth an interpretation that is quite different from the OECD's.

4.1. Growth : an unorthodox recovery

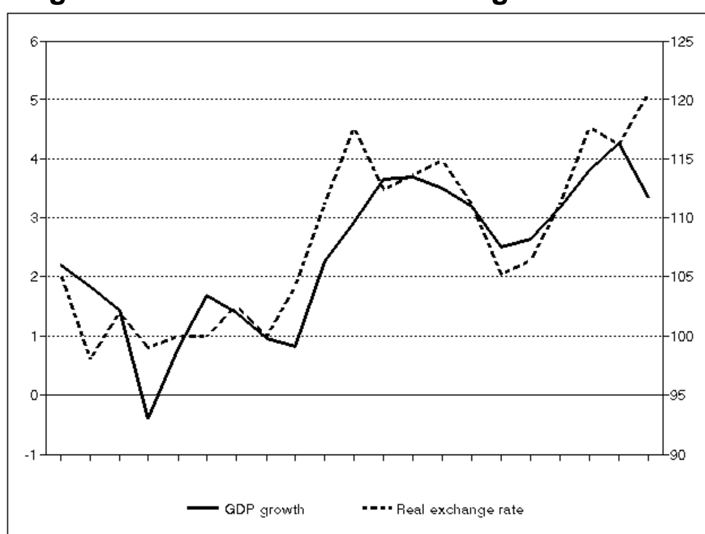
The Pisani-Ferry report devotes only two pages to this essential question. The weak growth during the first half of the 1990s was the consequence in large part of the "negative demand shock" provoked by the process of building Europe. "A sharp increase in the real interest rates (…) impact on investment of the uncertainties affecting European monetary construction (…) important simultaneous budgetary adjustments". But the success of the euro should have made it possible to loosen these fetters and relaunch growth. The report wavers between these two interpretations. For the first, Maastricht's harsh medicine was unavoidable as a precursor to union. However, in this case, we cannot refer to a "deficient macroeconomic adjustment" to explain the persistence of unemployment, since the latter was a type of transitory necessary evil.

According to a second interpretation, the means of monetary construction were unnecessarily costly in terms of jobs. Hence, they can be described as a "deficient macroeconomic adjustment". Fortunately, we have hooked up with a sound macroeconomic policy emphasising "job creation, household consumption and more generally, the development of domestic demand". But in this case, we must recognise that we had wasted a considerable amount of time due to Maastricht monetarism, and draw all the logical conclusions.

As for the OECD, it merely describes the way the recovery took place, as if it were a return to normal circumstances as a natural outcome of moving back from rigidities. In truth, the chain of events was very different. Let us recall the economic situation in 1995-96 : after the beginning of upturn following the 1993 recession, growth appeared to be getting mired down once again. This flabbiness certainly influenced Jacques Chirac's decision to dissolve the National Assembly, leading to the return to a left government in 1997. It was around this time that the economy bounced back and undertook a strong upturn movement. The causes of this rebound are easily identified and combined several factors.

Firstly, competitive devaluation. The year 1997 was marked by a leap forward for European exports pulled by a sudden rise of the dollar. Once again, it could be seen that foreign trade is extremely sensitive to the exchange rate in relation to the dollar. Figure 5 illustrates the striking link found between growth in France and the real exchange rate between dollar and franc.

Figure 5. Growth and real exchange rate



Source : OECD, *Economic Outlook*

Secondly : a boost in wages, due to deflation. Employees' buying power got a bit of a boost in 1998. This was not due to face-value wage increases, but thanks to the slowdown of inflation. This slowdown was largely imported and corresponds to the drop in world prices brought about by the 1997-1998 international financial crisis. This is when household consumption picked up, sustained afterwards by the new job creations it led to.

Table 3.
The economic picture in France 1996-1998

	1996	1997	1998
Hourly wage	2,6	2,8	2,5
Prices	2,0	1,2	0,7
Buying power of hourly wage	0,6	1,6	1,8
Staff levels	0,3	0,8	2,2
Buying power of payroll	0,8	1,9	3,4
GDP	1,6	2,3	3,2
Household consumption	2,0	0,8	3,8

Average annual growth rate in %
Effect of average qualification on the average wage
Source : INSEE, *Note de conjoncture*, March 1999.

What does table 3 really show ? We can see that in 1998, the hourly wage progressed at about the same rate as the two previous years, i.e. 2.5%. But the rate of growth of inflation was slowing down : 2% in 1996, 1.2% in 1997 and 0.7 % in 1998. This led to a rather marked increase in the buying power of wages, by 1.6% in 1997 and 1.8% in 1998, significantly greater than the half-point in previous years (0.6% in 1996). From 1999, the resumption of inflation once again ate into the progression of real wages, and their progression was once again very slight (see Figure 6).

Figure 6. Wages and inflation

Source : OECD, *Economic Outlook*

Thus, for almost two years, the French economy got the benefit of an involuntary wage boost, making it possible to measure the relevance of such a policy. Indeed, it did not spark off any of the dire consequences predicted by neoliberal dogma. Inflation remained under control, and the trade surplus that had been stimulated by 1997 exports fell only slightly. The situation of enterprises was not “worsened” either (from a profit standpoint) since the wage share stabilised at a historically very low level (59.9% in 1997 and 59.8% in 1998). The rate of self-financing of enterprises remained very high : 114% in 1998 as compared to 116% in 1997.

Without saying so or really wanting to, the French economy adopted the rule according to which wages were to grow at the same rate as labour productivity. This rule consists of saying that the wage share in the added value of enterprises would remain constant rather than falling as had been the case for fifteen years. This consumption-driven upturn created more jobs than export-driven growth does. In other words, whatever indicators are used, a policy of reviving demand proved its viability. It is a long way from a solution to massive unemployment, but it operates rather well.

Thirdly : a less stringent economic policy. The government's economic policy reaped the benefit of this great surprise upturn and was able to loosen the screws a bit. The minimum wage was raised slightly, certain taxes were lowered, the absolute priority of cutting the budget deficit at any cost was given up. The Amsterdam Treaty and the Stability Pact were signed, then, with the help of the "jackpot" on hand, the budget-cutting priority was modulated by a programme of tax cuts intended to sustain private demand. This macroeconomic policy that did not break with the principle of a desirable cut in "mandatory deductions" succeeded in not hampering recovery, but it was too timid to spark off an upturn by itself.

Fourthly : investment. Eventually the recovery boosted investment, which took off vigorously once again after long years of near-stagnation. Employers complaining about tensions over production capacity and trouble hiring staff should have anticipated this recovery. After all, it is their job and how they justify their pay. In any event, this revival in investment came later than the one fuelling the U.S. economy and did not have the same scope by any means. For the time being, there is nothing to predict that it is anything other than a cyclical upturn.

The fashionable advice nowadays is that Europe must invest if it does not want to miss the boat for the "new economy". Although the Pisani-Ferry report is more concerned with the threats of an unemployment rate falling too much than by lagging investment, this type of recommendation fails to see that the *high tech* cycle in the United States is fuelled by a giddy (and probably unhealthy) growth in consumption. Investment cannot start up again durably and result in productivity gains unless it is backed by dynamic demand. This should be an important lesson of the previous decade, but the report is absolutely silent on this. On the contrary, the report spells out "a rule of the macroeconomic game" that utterly turns its back on the balance-sheet of the 1990s, since it comes down to a claim that "it is up to the European Central Bank to pilot overall demand for the entire zone". We can only expect the worst !

The current recovery appears rich in lessons. It does a good job of exposing faulty thinking and misconceptions we must break with if we want to keep up the good show.

First misconception : a balanced budget is not a precondition for growth, and things have most clearly operated in the opposite direction. Growth is what reduced the deficit mechanically based on what we shall refer to as the jackpot effect. This is why we had to see the rather inglorious spectacle of ministers and senior civil servants concealing the growth in revenue that ran counter to their tough budget principles and spotlighted the great deal of elbow room not called upon for many years.

Second misconception : building a strong common currency was not an absolute precondition for a pro-employment policy in Europe. Once again, the opposite held true and we can speak of a real euro paradox. The euro could only come into effect on the date foreseen, 1 January 1999, because the strong rise in the dollar had "weakened" European currencies and provided a breath of fresh air … from the outside. A few months earlier, the outcome was still in doubt and there were predictions of a euro reduced to its simplest expression, while German leaders spoke contemptuously of the "Club Med" made up of the weak-currency countries of Southern Europe. Hence, the euro was not born as a strong currency, and its "weakness" played a part in energising the current recovery.

Third misconception : wage austerity is not a necessary condition for an upturn in growth and employment. Once again, the contrary proved true, since it was when the wage share stopped falling in Europe that the upturn got started, for fairly obvious reasons. It was the condition that had been missing to sustain demand, constantly pulled down by the fall in real wages.

4.2. The job content of growth or the paradoxical success of the 35-hour week

The most important question is no doubt why this recovery created more jobs proportionally than its counterpart at the end of the 1980s. Here, we would like to show that the reduction in working hours played an important but indirect part.

Research among the firms that were the first to use the mechanisms show that over two years, they had created 12% more jobs than the others (Robien) and 9% (Aubry1). Even as applied for the moment on a reduced scale, the reduction in working hours was a massive factor in job creation (almost 200 000 jobs created in mid-2000, through both Robien and Aubry1). Available studies also show that this move to 35 hours was not detrimental to the economic situation of businesses, and often actually improved it, thanks to a better responsiveness by enterprises, reduced waiting periods, and better quality products and services. These reorganisations allowed for reduced costs relating both to capital (periods equipment is used and services are open) and labour (lower absenteeism, less overtime and temporary agency work and fewer temporary jobs) far beyond the exemptions from social security payments. Hiring often makes it possible to bring down the age pyramid, and sometimes helps strengthen strategic functions for future development. All in all, implementing the Robien and Aubry1 agreements, in these firms that were dynamic and "social" from the outset, gave an extra boost to their growth without undermining profits, on the contrary.

From the employees' standpoint, an increase in free time breaks with fifteen years of considerable intensification of work. The wage question, which had broadly polarised debates about shorter working hours, no longer seemed to be a major issue. Except for defensive agreements, it was accepted that in most cases an across-the-board wage compensation was the norm, with a wage freeze or "moderation" for one or two years. Businesses understood that it would be very hard to challenge buying power after so many years of wage controls and at a time when profits posted had never been so high. All in all, most of the employees polled (60 to 80% depending on the survey) said they were generally satisfied.

This initial balance-sheet could give cause for optimism : if two million employees moving to 35-hours allowed for almost two hundred thousand jobs created, this means we could get close to two million more jobs be generalising the process to all employees. The current unemployment rate could be almost halved, taking into account that around one-third of jobs created go to people who were not seeking work beforehand. Unfortunately, from now on cuts in working hours are taking effect in firms amongst the most backward fractions of French employers, and these are a distinct majority. From 1999, Medef and employer associations in each branch, following the lead of the powerful UIMM (Union des Industries Métallurgiques et Minières – Metal and Mine Industry Union) developed a strategy intended to make reduced working hours an empty shell. By making use of a strongly modulated annualisation, increasing the overtime hours allowance beyond the legal maximum (130 hrs per employee and per annum), the development of "co-investment", in other words unpaid training time, far beyond what current legislation foresees. These are the methods designed to reduce the "hiring content" of the move to 35 hours.

Unfortunately, Aubry2 gave tacit approval to this logic. From now on, to be entitled to state assistance, it is no longer necessary to create jobs (simply "mentioning the number of jobs created or safeguarded by reduction in working hours" suffices, even if it is only one job !) nor really reduce working hours. For most employees, the move to 35 hours could well mean nothing but a manipulation of the way working hours are counted, more intensive work, poorly compensated by days off set by the firm at its own discretion.

If we move on to the macroeconomic level, it becomes harder to draw a balance sheet. The average workweek did actually get shorter, falling from 38.9 to 36.9 hours between 1997 and 2000. This is both a little and a lot. It is little, because we are still a long way from 35 hours, but its is a lot because this 2-hour drop amounts to a potential of slightly more than 5%, that is 700 000 jobs created. Yes we will not see these, due to the law's provisions, and management's ferocious resistance, which reduced this direct potential to almost nothing. They saw that the same work got done in fewer hours. This means that productivity, as calculated on an hourly and not per capita basis, took a leap forward (see Figure 7). Between 1997 and 2000, it progressed on an average by 2.4 per annum, as compared to 0.8% since the early 90s. This leap forward for hourly productivity in relation to the trend just about made up for the shorter work-week, whose direct apparent effect was much less than had been foreseen. This means this evaluation seems to confirm the pessimistic outlook on the impossibility of creating jobs by reducing the workweek.

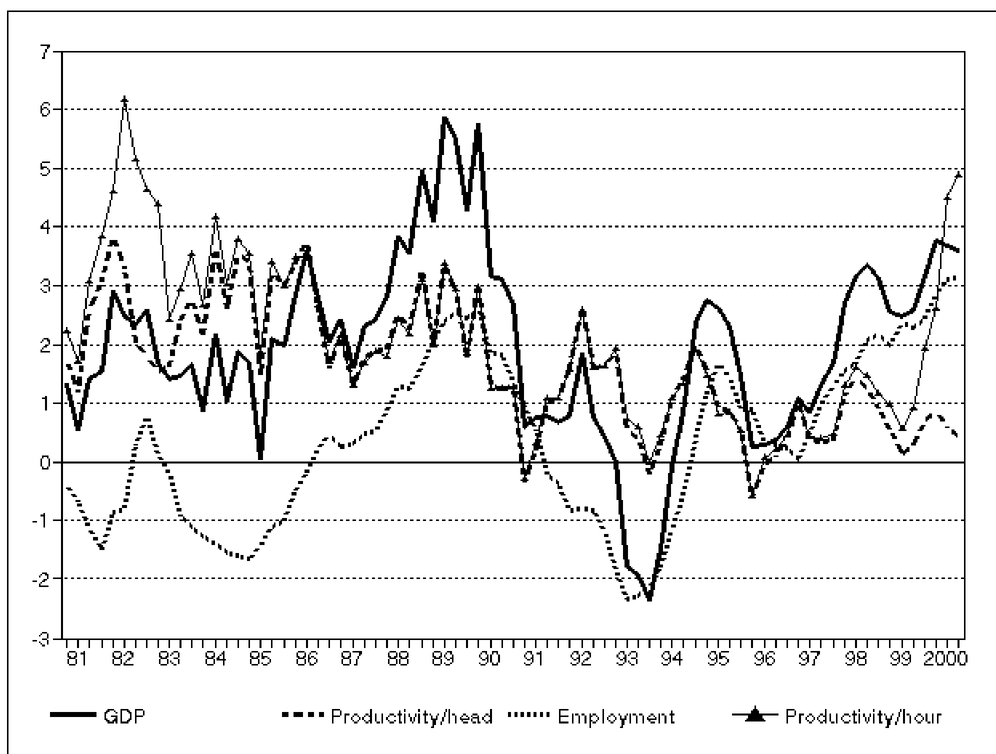
However, the overall balance sheet is more complex. The starting point is the weak growth of the 1990s. After the upturn in the late 80s encouraged declarations almost as euphoric as the ones we hear nowadays, growth stood at 2% per annum, an average for the years of neoliberalism. This lacklustre growth pulled down investment that a resurgence in profits had not succeeded in stimulating, and growth in capital inventory lined up little by little with the GDP. In short, there was little investment, and the rate of capital-labour substitution has been slowing down at a regular rate from the beginning of the 1980s. In other terms, per capita capital kept increasing, but at a slower rate. And yet, that is the ultimate source of productivity, as the U.S. example shows. The leap forward in investments in the U.S. gave productivity a fresh start.

So there is the long-term movement : weak growth is slowing down investments and hence productivity. And wages in all of this ? They are also growing at a slow rate, and this is why growth can't really take off, since the main component of demand, employees' consumer spending, is considerably curbed. All of the neo-classical economists' art consists in favouring another logical sequence. They claim that the wage freeze directly contributed to slowing down the capital-labour substitution and thus promoted job growth. This claim is absurd : until the recent upturn, growth was certainly richer in jobs, but there was no growth, so there were no new jobs. There is something Malthusian about European capitalism, which tends to favour weak growth in activity, wages and productivity. But all of this lies behind us because now we have growth and jobs. This is true, but for more complex reasons, since the shorter workweek does come into play.

In fact, the interaction of the different components of the economic situation must be looked into, making it possible to put forward the following thesis : the intensification of work allowing for a response to the shorter work-week through a growth in hourly productivity has reached its limit. Moreover, under these conditions, it was no longer possible to set the "productivity cycle" mechanism into gear. This mechanism corresponds to the fact that usually, a resumption of growth exerts a pull on a growth in productivity. And yet, one of the features of recent years has been precisely the fact that productivity has increased from 1% yearly to 3-4% without productivity per capita diverging from the rate of growth, only slightly more than 1%, while hourly productivity was taking a leap forward (see Figure 7).

This disappearance in the productivity cycle can be explained in reference to the 35-hour week. Labour productivity could not at once go through its usual business cycle and at the same time compensate for the effect of the shorter workweek on staff levels. For example, if there had been no shortening of the workweek, per capita productivity would have risen to 2% (as happened in the late 1980s) and job growth would have come closer to historical norms. The extra jobs are the indirect outcome of the pressure exerted by the shorter workweek. In any case, this is a possible schema for interpretation that obviously neo and socio-liberals ignore in principle, as it is part of their world view that jobs can only come from limits on wages.

Figure 7. Productivity and growth



Source : DARES

Look at things from another viewpoint. You are a business executive, your order books are filling up and you have to take on staff. What can explain that you are hiring more people than you usually did under such circumstances ? A cut in social security payments ? This is absurd, you aren't going to hire more staff than you need just because it has become cheaper. On the other hand, if you devote all your potential productivity to cancelling the impact of the shorter workweek at a given production level, you have to hire full-blast if production should increase. Only this juncture between growth and a shorter workweek can explain the freeze in per capita productivity and the job-rich nature of this recovery. This is truer still because the phenomenon comes into play even in industry, where staff levels have actually begun to increase slightly. This has never occurred since the mid-1970s, even during the recovery at the end of the 1980s.

This debate can only be better cleared up by putting it in perspective, as it makes it possible to take circumstances into account between the rather unusual profile of this 1996-2001 half-cycle and the more structural transformation in labour market operations. If our analysis is correct, the richer job growth is not a durable phenomenon, and we expect a return to more sustainable rates of productivity growth. Moreover, that is the official outlook.

4.3. The Outlook

One of the main messages in the Pisani-Ferry report is that the 35-hour week process must be swiftly concluded. We have seen that the role played by shorter working hours is systematically underestimated when explaining the job-rich nature of the growth. The report considers that we will not do much better and must resign ourselves to the idea that extension to small and medium enterprises (SME) foreseen for 2002 will encounter obstacles. "In this case, forecasts are more chancy due to phenomena of indivisibility (particularly acute in very small firms) and uncertainty in terms of the effective spread of the thirty-five hour week to this group of enterprises."

It is astonishing to observe to what an extent these positions come into line with OECD recommendations in its Economic Survey : "Several risks can be identified. Productivity gains may be difficult to achieve in small firms since they are often too small to adopt a new work organisation. Also, during a cyclical upswing, firms could be hampered by the new restrictions on the quota of overtime. Lastly, the acceleration of the hourly wage produced automatically by the introduction of the 35-hour week is likely to have a negative impact on firms that have not reduced the working time. These firms will have to increase the hourly minimum wage, which is indexed to the average hourly wage rate. However, they will not benefit from the wage moderation, productivity gains, or lower social security contribution linked to the 35 hours. It is thus important that the hikes in the hourly minimum wage be as moderate as possible in order not to push up labour costs, especially for low-skilled workers. In addition, the new overtime arrangements should be applied flexibly. Lastly, the application of the 35-hour week to SMEs in 2002 should be very flexible".

It is quite rare that an official report suggests that we cannot apply a law that has been approved, and we can see the influence of the employer lobby here. The line of argument about SMEs, and of course, about very small firms, is perfectly hypocritical. More than half of all SMEs are part of networks of subcontractors and are subject to the power of a single ordering customer or client. Contracting out enables major corporations to secure a preserve of production units with lower wages and social benefits, and is a means of putting pressure on their own staff. Not extending the 35-hour week would make this dangerous dual labour market more marked still. Not only would there be several minimum wage levels, there would be several legal workweeks. It is simply scandalous that a report settles this question in such a way and lends its weight to further undermining workers' rights.

"In the longer run, over the 2005-2010 period, the work-week could even get longer – and thus per capita productivity alongside it – with the hypothesis of a significant drop in the unemployment rate as DARES has put forth. The dynamics of the move to thirty-five hours will have reached its conclusion by 2005, and the average workweek could get longer, if part-time work stops increasing, if part-time hours increase, or if, in a much more balanced labour market, the use of overtime develops. In the long run, there are not reasons to see the 35-hour standard as intangible. No economic law requires working hours to continuously decrease. If it is legitimate to make use of this instrument in a period of massive unemployment, it is also true that within the coming ten years, the work-week will be set via arbitration (centralised, or more probably decentralised) between income and free time. It is not certain that this will precisely follow the pattern of the late 1990s".

This long quote contains only one positive aspect. Contrary to previous neoliberal analyses, the Pisani-Ferry report does not place much stock in the extension of part-time work, not expected to make "a significant contribution to job growth". It could be kept in line due to the shorter workweek that "mechanically affects its relative attraction" and the limitation of measures encouraging it. We could even observe a certain degree of re-absorption of forced part-time work as the labour market improves. Of course, the report does note that pro-rata measures "would simplify moves to part-time" but its forgets above all to mention that a complementary allowance mechanism would have an effect encouraging not merely extending the range of low wages but also of low-wage part-time work.

But the gist of the message in terms of giving up the path to a shorter workweek avoids the real issue. This comes down to a choice of society, between income and free time, but also between precarious full-employment and full employment for all. It fails to understand the workings of the current economic situation and makes an erroneous analysis of it, or none at all. Thus, the Pisani-Ferry report proposes to give up measures that have functioned to fall back on choices nobody, not even the authors, can prove to be effective. That is, obstinately keeping on with a policy of lowering the wage cost, which is extremely costly in terms of growth and social protection. Applying the Pisani-Ferry report would inevitably result in bringing back massive unemployment.

CONCLUSION

The neoliberal reading of the jobs decade is doubly inadequate. Up the line, it blames a rise in unemployment on continued rigidities, although this increase actually coincides with a more flexible labour market. Down the line, it does not succeed in ascribing the recent upturn in jobs to an accelerated labour market liberalisation process or lower labour costs. In the case of France, OECD wavers between two outlooks. The first of these explains that France has not adequately applied its recommendations and that the continuation of massive unemployment can be explained in this way, while the second claims that the application of its recommendations can be credited for recent job creations. These two outlooks seem all the more contradictory given that policies carried out in France have not undergone any major change since 1983.

Another reading is possible, putting the stress on the time wasted in curbing growth. It is to the extent that strict application of neoliberal precepts was somewhat deviated from in Europe that jobs were able to start up again. De facto devaluation, less budgetary rigour, a near-stabilisation of the wage share have just proven their effectiveness, and OECD has a hard time dealing with this. This is why the misunderstanding of the contributing factors in the upturn could very well lead to a return to more stringent policies that would once again have the effect of unnecessarily aggravating the scope of the next downturn.

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