Labour-market conditions have deteriorated considerably in France since the early 1970s. After a period of virtually full employment, the unemployment rate is now running close to 12.5%, putting France well above the OECD average. Around 2.5 million people, moreover, are now enrolled in active labour-market programmes. It is the low-skilled workers who have been hit hardest. Other noteworthy features are the decline in private-sector employment, the sharp fall in the employment rate for young people and older workers, and the scale of long-term unemployment.

The rise in unemployment has come in two phases. Over the first period, extending into the mid-1980s, the number of jobs fell sharply, particularly in the private sector. In the second period, up to the present day, employment has remained relatively flat, with a slower upward trend in unemployment.

This two-stage progression is mirrored in the rise in unemployment. The structural unemployment rate passed the 10% mark in the early 1980s and a multi-speed – or, more precisely, multi-tier - labour market emerged. This is, indeed, still a strong feature of the labour market in France today. The tier structure, from top to bottom, comprises employees with indefinite-term contracts, who are well protected by the law and by collective agreements, those who go from one fixed-term contract to another without long spells of unemployment in between, people who alternate between spells of unemployment and spells on employment programmes, and the long-term unemployed and those excluded from the labour market.

As a result of the steep rise in real wages, the labour share in the value added of businesses rose, reducing their return on capital. The adverse impact on growth and employment was immediate. The structural unemployment rate passed the 10% mark in the early 1980s and a multi-speed – or, more precisely, multi-tier - labour market emerged. This is, indeed, still a strong feature of the labour market in France today. The tier structure, from top to bottom, comprises employees with indefinite-term contracts, who are well protected by the law and by collective agreements, those who go from one fixed-term contract to another without long spells of unemployment in between, people who alternate between spells of unemployment and spells on employment programmes, and the long-term unemployed and those excluded from the labour market.

There were a number of reasons for the delay in adjusting real wages. First, the government continued for a long time to hope that growth would return to its previous rate, and on several occasions attempted to kick-start the economy through wage increases, raising the minimum wage by more than the rate of productivity growth. Second, the highly centralised wage-bargaining system prevented the negotiators from considering the direct practical implications of their actions for employment. Firms in difficulty had no means of opting out of collective agreements, and a number went into bankruptcy as a result. Last, rigid indexing on inflation frustrated any ex post correction of nominal wage trends through prices.

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From the mid-1980s on, nonetheless, the rise in the average real net wage did become more moderate: 5% between 1984 and 1992, and zero if the structural effects associated with the rise in average skill content of jobs are excluded. Average skills have risen substantially, with higher numbers of senior and intermediate professionals in employment and a sharp drop in the total number of unskilled and low-paid workers. There are a number of explanations for this phenomenon: technological progress geared towards highly skilled workers, competition from low-wage countries, stronger demand for high value-added goods, large numbers of skilled workers entering the labour market (the result of a more effective education system), and the long-standing high relative cost of labour of the lowest-paid employees. This trend in skills is clearly advantageous in the long term. But the short-term effect of indirectly replacing unskilled, low-paid workers by more highly skilled and highly paid ones has been to reduce the job content of growth.

Another factor also lessened the impetus that wage moderation could have given to employment. The refraining of monetary policy, which led to a sharp rise in real interest rates in the mid-1980s, much increased financing costs for companies and compelled managers to reduce the share of labour in value added. Higher real interest rates also made investors demand

2. Between 1987 and 1992, the overall number of senior managers and professionals rose by 40%, and that of intermediate professionals by 34%, while the number of unskilled workers fell by 53%.
3. The job content of growth in the number of jobs created per percentage point of growth; the lower the growth rate required to hold employment steady, the higher the job content.
4. Social-security contributions and the minimum wage are now only 20.5% of gross salary, compared with 64.0% at twice the minimum wage.
5. For instance, the job initiative contract (CIE) for the long-term unemployed; assistance in finding young people their first job; support for unemployed persons seeking job assistance (ACRE).
6. In the private sector, 80% of part-time workers earn less than 1.2 times the minimum wage.
on employment, other sources of income were included in the basis of assessment for social-security payments through the new general social-security contribution. Successive governments then attempted to reduce indirect labour costs for those workers most at risk of unemployment. Employers’ contributions started to go down for young people in the mid-1980s, and more particularly for the lowest-paid in 1993. The social-security contribution schedule, which was regressive in the early 1980s, is now highly progressive.

Various active labour-market policies have also been introduced over the past 15 years. The number of people on these programmes has risen steeply, as has the amount of money the government spends on them. But the vast array of different schemes and the frequent changes in format have complicated provision. Recently, therefore, the government has started assessing the programmes with a view to streamlining them.

The focus then shifted again, influenced by the idea of work-sharing, the government attempted to develop part-time working, principally through the introduction in 1992 of a partial exemption from employers’ social-security contributions to complement the support for employing low-paid workers. Part-time work then really took off, with its share in total employment rising from 5.9% in 1973 to 15.8% at the start of 1996. But the budgetary outlay has been high. Moreover, part-time working is accepted reluctantly rather than chosen: in 1995, 38% of workers on part-time contracts would have liked to work longer hours, compared with 29% in 1991. Government policy has thus indirectly led to a sharing of work among the most vulnerable workers.

Finally, although the first cycle of university education is still performing unsatisfactorily, the education and vocational training system has developed considerably. Young people’s initial educational attainment has improved considerably since the early 1980s. As a consequence, the average skills of the working population seem, in fact, to have outstripped the average skill content of jobs, to the point that there has not yet been any mismatch of skill supply and demand. This strengthening of the knowledge-base, together with a continuing effort in R&D, is the dynamic element of employment policy. In this respect government action seems to be very much on the right lines since, against a backdrop of increasing internationalisation, human capital has become the real foundation of the wealth of nations.

Two periods thus emerge from analysis of the labour market in France. The transition took place in the mid-1980s, when economic agents became aware of the importance of adapting to a new pattern of growth. At the same time, government policy generally became more effective.

Even so, for the reasons mentioned, this positive change did not lead to gains in terms of jobs, although the recent focus of employment policy does seem to have been successful in increasing the job content of growth over the past two years. These policies will therefore have to be strengthened if the unemployment rate is to be lowered substantially.

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