

## FRANCE 2013: TURNING POINT OR FAILURE?

*Norbert Wagner*

No doubt, this is not how President François Hollande had envisaged his first year in office: the economy stagnating, unemployment rising to record heights, trade unions on a collision course, failure to realise the reduction in the budget deficit that had been promised to the voters and EU partners. France is already being referred to as the "sick man of Europe". It appears as though even the resolute decision to send troops to Mali and the hotly disputed legislation on gay marriage including adoption rights cannot revamp the image of the achievements of President Hollande and his government in the eyes of the French.



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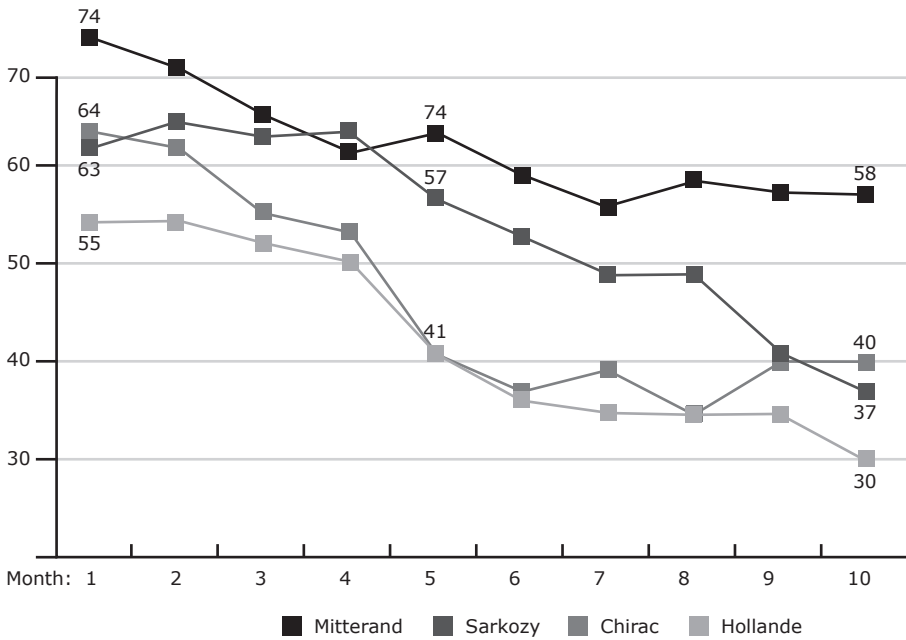
In a somewhat unguarded moment, Labour Minister Michel Sapin himself spoke of a totally bankrupt state ("C'est un État totalement en faillite"). Even though he had to tone his comments down a bit afterwards, the figures are disconcerting: The national debt in 2013 is 91.3 per cent of GDP, the budget deficit at least 3.7 per cent, and it will probably be well over three per cent in 2014 as well. The EU is even forecasting close to four per cent. The deficit in the pension funds will be 21.3 billion euros by 2017; unemployment (all categories) stands at 5.56 million, the trade deficit at 67 billion euros (2012) and government spending as a proportion of GDP at 56.3 per cent (2012).

And the negative development is set to continue. 75 per cent of the French populace declared in a survey carried out in March 2013<sup>1</sup> that they had "little confidence" where future economic development was concerned. In the period since January alone, this figure has risen by 16 percentage points, which means that confidence is at a low level

1 | "Baromètre de l'Economie Mars 2013", *Bulletin de veille stratégique (BVA)*, Paris, 7 Mar 2013.

comparable to that after the collapse of Lehman Brothers in the autumn of 2008. For many of the respondents the current crisis is something that affects them personally: 37 per cent fear redundancies at their place of work. And the French have clear ideas about what should be done to reduce debt and the deficit: 54 per cent advocate a reduction in government spending, particularly through a reduction in the number of public sector employees. Only eight per cent think taxes and contributions should be increased.

Fig. 1  
**Approval ratings for French Presidents each after a ten month's term of office**



Source: Albert Zennou, "Un record d'impopularité pour un président de la République", *Le Figaro*, 5 May 2013, <http://lefigaro.fr/politique/2013/03/04/01002-20130304ARTFIG00504-un-record-d-impopularite-pour-un-president-de-la-republique.php> (accessed 17 May 2013).

Never before in the Fifth Republic has a newly elected president crashed in the surveys as badly as François Hollande in the first few months of his term. Every president was made to contend with the gap between high expectations and the lows of reality at the beginning. But none had dropped down to a "confidence" level of just 30 per cent in national surveys within ten months of taking office.

Of course it is mainly the sympathisers of the centre-right parties who have “no confidence” in Hollande (92 per cent). But there is also a disappointed number amongst the supporters of the left (39 per cent). This includes 54 per cent of the followers of the extreme left, 46 per cent of the followers of the Greens and even 32 per cent of the followers of Hollande’s own party, Parti Socialiste (PS). These figures do not even take into account the impact of the scandal affecting Budget Minister Jérôme Cahuzac, who resigned recently; after having lied about the matter for some time, he ultimately admitted to having a bank account in Switzerland, in which he had hidden apparently untaxed earnings from his profession as a plastic surgeon and consultant.

There seems to be a sentiment among the people that these negative developments in France did not arise by sheer coincidence, but that Hollande and his government do not have the right formula or are using the wrong approach to combat the crisis. 54 per cent of the French population think the government’s reforms are not extensive enough. Added to this is the fact that the President is viewed as indecisive and the Prime Minister as overly cautious and that some ministers appear not to have quite grasped the seriousness of the situation.

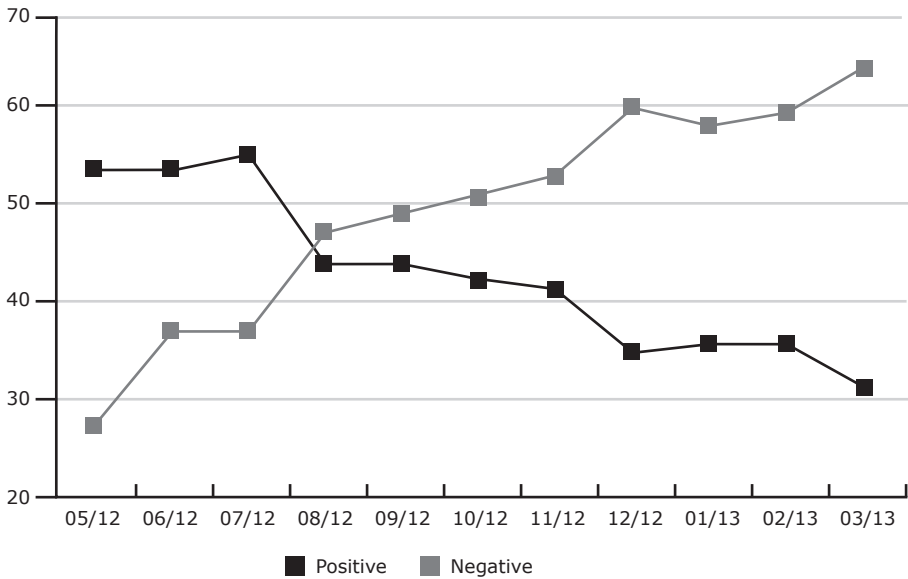
**A majority believe that Hollande will not fulfil his promises, such as the aim of achieving a three per cent budget deficit or a reduction in unemployment.**

But the French are not merely convinced that Hollande is using the wrong formulae or that his “reform zeal” does not go far enough. A majority also believe the President will not fulfil his promises, such as the aim of achieving a three per cent budget deficit, a reduction in unemployment or maintaining the level of contributions and taxes for middle income groups. Most do not believe he will succeed to do so either this year or by the end of his five-year term. Even supporters of Hollande, who believe he will fulfil his promises, do not expect this to happen by the end of 2013.

The assessment of Prime Minister Jean-Marc Ayrault demonstrates a similar curve. Consequently, observers are beginning to ask the question whether President Hollande and his government will be able to reverse this popularity slump by the end of the remaining four years. Because the disappointment reflects above all the mood amongst their

own voters and not so much an increasing mobilisation of the centre-right opposition comprising the UMP and UDI. The drop in popularity is predominantly an expression of criticism of President Hollande as a person and of his political style, but also of his politics. Large numbers of voters on the left are thus of the opinion that President Hollande is conducting poor politics. And the majority of the French think he is not conducting politics at all.<sup>2</sup>

Fig. 2  
**“How do you rate the work of François Hollande as President of the Republic?”, poll rating in per cent**



Source: “Le baromètre de l’action politique”, IPSOS, *Le Point*, 11 Mar 2013, [http://ipsos.fr/sites/default/files/attachments/rapport\\_barometre\\_politique\\_ipsos\\_lepoint\\_11\\_mars\\_2013.pdf](http://ipsos.fr/sites/default/files/attachments/rapport_barometre_politique_ipsos_lepoint_11_mars_2013.pdf) (accessed 17 May 2013).

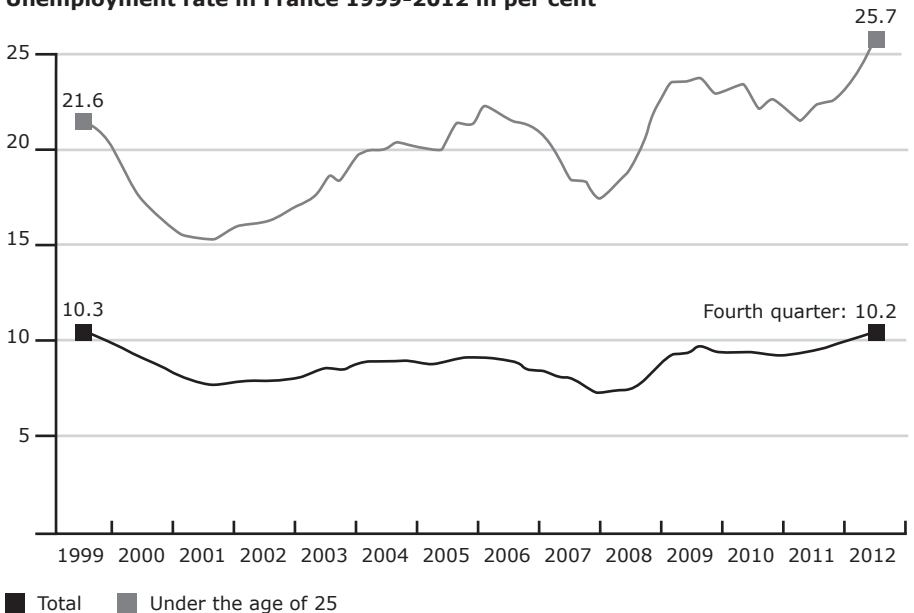
**UNEMPLOYMENT**

The greatest problem facing Hollande’s government is rising unemployment. In the fourth quarter of 2012, unemployment in France crossed the threshold of ten per cent. Including the overseas départements, the figure stood at 10.6 per cent (approximately three million). The worrying aspect is not just the absolute number of unemployed but also the rate of increase. The situation is even more

2 | Hervé Gattegno, *Le Point*, 13 Mar 2013.

serious if you take into account hidden unemployment. The national institute of statistics (INSEE) estimates the number of those who are out of work, but would like to work, at 3.7 million. According to the statistics of the employment agency (Pôle emploi), the figures are even higher. And this negative trend is continuing in 2013. By the end of February 2013, the number of people registered as unemployed was 3,187,700 (Pôle emploi, 26 March 2013), which equates to just under five million unemployed if one considers those who are unemployed or work very little. The percentage of unemployed is expected to rise to approximately eleven per cent by the end of 2013.

Fig. 3

**Unemployment rate in France 1999-2012 in per cent**

Source: "Au plus haut depuis le 2<sup>e</sup> trimestre 1999", Insee, *Le Figaro*, 7 Mar 2013.

The situation is particularly drastic among the young (those under 25). Every fourth young person was unemployed in the fourth quarter of 2012. Never, since records began in 1975, has such a high unemployment rate been measured. Once again, the rate of increase is particularly worrying.

## LABOUR MARKET POLICY

The measures the government has taken so far to combat unemployment have not shown an appreciable effect as yet, partly because their implementation is sluggish and partly because they do not reach the core of the problem.

**New jobs are to be found in the commercial sector and the non-commercial sector, but particularly in local government institutions, associations and charitable organisations.**

The Jobs of the Future programme (“emplois d’avenir”) targets young people between 16 and 25 who have poor qualifications or none at all. The new jobs are to be created in the commercial sector (*marchand*) and the non-commercial (*non-marchand*) sector, but particularly in local government institutions, associations and charitable organisations. The idea is that the jobs should be of social or environmental benefit or that the programme should provide numerous new jobs to open up job opportunities for young people for the long term.

An employer in the non-commercial sector will receive a state subsidy amounting to 75 per cent of the minimum wage (Smic: 9.43 euros an hour, 1,430 euros a month) for three years. But if the job is in the commercial sector, the subsidy drops to just 35 per cent of the minimum wage. The programme was launched on 1 November 2012. By the middle of March 2013, 10,000 corresponding contracts had been signed. The government has set a target of 100,000 *emplois d’avenir* to be created by the end of 2013.

A characteristic trait of French politics – and the “emplois d’avenir” programme represents another example illustrating this – is that it expects more from state intervention and from the state sector than from providing greater freedoms and from the private sector. There is virtually no other country that relies so strongly on publicly subsidised employment contracts (*contrats*), nor one that focuses so much on the public or non-commercial sector, although it should be common knowledge that someone who comes from a subsidised job in the public sector has much less chance of finding a “normal” job than someone who had a subsidised job in the private sector.



A poster by the programme “emplois d’avenir” that addresses young people with little or no qualification. | Source: Parti Socialiste (CC BY-NC-ND).

The *contrats de génération* are intended to provide incentives for companies to retain older employees and take on young people. Companies with fewer than 300 employees can receive 4,000 euros in state subsidies per employee for three years if they take on a young person (under 26) while keeping on an older employee over 57. The first generation contracts were signed at the beginning of March in the presence of President Hollande. The government’s target is 500,000 *contrats* by 2017. President Hollande also announced that it was his intention to reform vocational training. The government intends to submit a bill on this by the summer.

The government also has high hopes for the results of the negotiations between the social partners. It had suggested that the trade unions collaborate with the employers to find ways and means to bring greater flexibility to the French labour market. In January, the parties had agreed a

compromise (*accord national*), which was intended to give the companies greater flexibility while providing better protection to employees. The president of the employers' federation (MEDEF), Laurence Parisot, welcomed the result as "the beginning of a culture of compromise after decades of a philosophy of social antagonism". One condition for ratification by government and parliament is that at least three of the five trade unions accept the *accord national*. And that appears to be the case. However, the Confédération générale du travail (CGT, particularly radical) and the Force ouvrière (FO, communist in character, active particularly in the public sector), reject it as was to be expected.

The legislative process in the Assemblée Nationale began in March 2013. In April, the bill was passed to the Sénat. The expectation is that the law will enter into force before the summer recess. There are five points at the core of the bill:

- The possibility of wage cuts or working hour adjustments if the economy is weak: In return, the company provides employment guarantees. The agreement is made between the company and those trade unions that represent the majority of the workforce. Employees who are not in agreement can be made redundant "for economic reasons".
- Facilitating mobility within companies, taking into account the interests and personal/family circumstances of those affected: Employees who are not in agreement can be made redundant "for economic reasons".
- Strengthening of the co-determination of employee representatives in the management / supervisory board of the company: Companies with more than twelve board members must reserve at least two places on the management / supervisory board for employee representatives.
- Simplification of the process for making people redundant for economic reasons: As soon as trade unions or employees have agreed a social plan with the company or once the plan has been accepted by the works council, it can no longer be contested in a court of law.



- Improvements with respect to the payment of health insurance benefits.

It remains to be seen whether these measures will bring about the hoped-for turnaround. Even if they work well individually, they can only have a limited impact on the labour market as a whole. President Hollande promises an *inversion de la courbe du chômage* (reversal of the direction of unemployment development) by the end of 2013.

### **STRENGTH FOR REFORMS?**

During the last few weeks and months, the Cour des Comptes (Court of Audit) has examined several aspects of the labour market and made it clear that considerably more strenuous reform efforts are required. This did not go down at all well with the socialist government majority. Because the President of the Cour des Comptes, Didier Migaud, is a former socialist representative of the Assemblée nationale, who had been put in this post by President Nicolas Sarkozy.

Although the French state spends over 50 billion euros a year on furthering employment, on unemployment benefits, on working incentives, on job creation and vocational training, the Cour des Comptes considers the results of the underlying policies disappointing. Mainly because the tools have not been adapted to the changing labour market. Due to complex and bureaucratic administrative processes, short-time benefits did not have the same effect in softening the impact of the 2009 crisis in France as they had in Germany, for example. According to the Cours des Comptes, the labour policies are generally failing to achieve their objectives and not benefiting those who have the greatest need, above all those with poor qualifications, who have the worst job opportunities.

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### **UNEMPLOYMENT INSURANCE**

The system of unemployment insurance is also in urgent need of reform. Compared to other European countries, France holds a double record in this area: the shortest contribution period to benefit from unemployment insurance

combined with the highest possible unemployment benefits. In France, to be covered by unemployment insurance you only need to have paid contributions for four months during the previous 28-month period.

**Depending on the contribution period, the period during which benefits are paid ranges from four months to three years. However, only 1,600 people received the maximum amount in 2010.**

As soon as a French person is entitled to receive unemployment benefits, they can draw the highest amount within the EU, and they can do so for the longest period as well. The top rate is 6,165 euros a month compared to 2,296 euros in Germany, for instance. Depending on the contribution period, the period during which benefits are paid ranges from four months to three years.

However, only 1,600 people received the maximum amount in 2010. In 2009, the average unemployment benefits was equivalent to 67.3 per cent of the person's last salary (Germany: 61.9 per cent). But contrary to comparable states, the payments made during the benefit period under the French employment insurance system are not on a sliding scale. There is therefore no great incentive to find another job quickly. Consequently, the unemployment insurance deficit has increased massively over recent years, from a total of 6.1 billion euros in 2009 to an expected 18.6 billion euros in 2013.

One promising object of reform, but also a particularly controversial tool in the arsenal of French labour market policy, is the unemployment insurance system for artists and technicians in theatre, film and television (*intermittents*). Any artists or technicians who worked for over 507 hours during a period of some ten months can benefit from this system. It entitles them to receive unemployment benefits for up to eight months. The amount depends on the earnings and the number of hours worked. With monthly earnings of 1,500 euros, a theatre technician would receive 9,088 euros during the eight months of unemployment. In 2010, the average benefits paid to *intermittents* was approximately 12,000 euros; but there was a wide spread. The ten per cent of benefit recipients at the top end received 40,000 euros on average, while the lowest ten per cent received just 5,000 euros on average.

Table 1

**Comparison of unemployment rates and unemployment benefits in different European countries**

	France	Spain	Germany	Italy
Contribution rate (in per cent of gross salary)	6.40	7.05	3.00	1.61
Minimal insurance term until entitlement to benefits	four months within the last 28 months	one year within the last six years	one year within the last two years	two years within the last two years
Benefit period	four months up to three years	four months up to two years	six months up to two years	eight to 13 months
Monthly limits for benefits (in euros)	6,165.00	1,397.00	2,215.00	1,119.00
Unemployment rate (in per cent)	9.9	21.2	6.1	8.0

Source: Unedic, Eurostat, CAS, *Le Figaro*, 23 Jan 2013.

Not only is the insurance system for the *intermittents* of great advantage to the benefit recipients, it is also open to massive abuse in the judgement of the Cours des Comptes. Although the number of *intermittents* is not that large at some 109,000, their role within the French cultural sector gives them enormous potential to cause disruption, as several Ministers of Culture have experienced in the past. In 2003, it even got to the point that the Festival of Avignon was cancelled because of a strike by the *intermittents*, who were fighting for their privileged status.

Although it affects a relatively small number of people, the unemployment insurance of the *intermittents* has serious financial implications. In view of the precarious financial situation of the government budgets, France will not be able to avoid making savings in this system either. The *intermittents* represent one per cent of all people covered by unemployment insurance, but 3.5 per cent of those receiving benefits from the system, and they receive six per cent of the payments.

In 2011, unemployment benefits paid to *intermittents* totalled 1,270 million euros, while their contributions came only to 246 million euros. The deficit of the unemployment insurance for the *intermittents* was therefore over a billion euros – a structural deficit that has been on the balance sheet with at least this amount each year since 2003. In 2009, the deficit equalled almost the entire annual unemployment insurance deficit (1,050 million euros). In 2013, it will probably make up approximately a quarter of the entire deficit.

**The criticism by the National Audit Office was based on its lack of understanding about the logic behind an insurance scheme.**

At a hearing in the *Assemblée Nationale* at the end of February 2013, Labour Minister Michel Sapin rejected the idea that this system required reform. In his eyes, the criticism by the Cours des comptes demonstrated its lack of understanding about the logic behind an insurance scheme. The logic was that those who were most severely affected by unemployment were supported by those who did not have to fear unemployment. He gave the following assurance: “The government has no intention of calling the insurance system of the *intermittents* into question.” François Hollande had previously made a similar statement in the 2012 election. There has been no explanation to date from Minister Sapin as to how this stance tallies with the statement that France is bankrupt.

### **WAITING DAYS IN THE PUBLIC SECTOR**

Occasionally, measures that have received less attention illustrate that the government is being held back noticeably in its reforming zeal by its political character. One case in point is the waiting day (unpaid sick day) in the public sector. There are three waiting days in the private sector. If an employee of a private company becomes ill, he or she receives sick pay at a reduced rate from the social insurance system; but where there are three waiting days, this only applies from day four.

In the public sector, the Sarkozy government introduced one waiting day for the first time in 2012. Of course the hope had been to make saving with this measure, but also to reduce the number of sick days, which is rather high in the public sector (22.6 days a year in 2011). In February

2013, the minister responsible for public sector employees announced without further ado that the waiting day was being abolished because the measure was “unjust, pointless, inefficient and humiliating”. Maybe the minister also intended to calm the explosive mood among public sector employees. Because just a few days previously, she had had to confirm that yet again there would be no inflation adjustment (*revalorisation du point d'indice salarial*) for public sector employees in 2013.

### **AMNESTY LAW**

Another development illustrates the degree to which the country's left badgers President Hollande and his government and the low opinion it has of compromise and dialogue between the social partners. On 27 February, the left majority in the senate, including the votes of the PS senators, approved an amnesty put forward by the Communists (Front de Gauche) for all offences that were committed in the course of labour disputes, trade union activities and demonstrations. The amnesty means that all offences committed between 1 January 2007 and 1 February 2013, which are punishable with up to five years imprisonment, are to be exempted from prosecution. The document has now been submitted to the Assemblée Nationale for deliberation.

The French Justice Minister supports the initiative, while the Interior Minister is strongly against it. Considering the violent excesses, the wilful destruction and the vandalism, which unfortunately generally accompany labour disputes and demonstrations (for instance in the Goodyear case), the question is whether the left majority in the senate is aware of the message it is sending out with this legislative initiative. But maybe that is actually the intention.

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### **WHEN WILL THE TURNAROUND COME?**

It is unlikely that President Hollande will bring about the turnaround with the existing half-hearted reforms. The reforming measures that have been planned to date and only partially implemented are not attacking the root

causes and/or do not go far enough. The government is basing its policies on optimistic expectations of growth and prioritising increasing taxes and contributions over spending cuts. The situation will probably have to become even worse before President Hollande will be forced to jettison his socialist economic philosophy and embark on some real reforms.



Flared tempers: While President Hollande and his government majority still think they can distract the public from the country's actual problems with projects such as "mariage pour tous", the time for a change in direction is yet to come. | Source: Nils Hamerlinck, flickr (CC BY-SA).

The furore about the draft of a new motion on Europe for a PS party conference in June, which was probably leaked into the public domain in early May on purpose, made very clear what the prospects of a speedy change of direction towards effective reforms are in France. In this text, the Socialists attempt to divert attention away from their own malaise and ineffectualness. Responsibility for the current difficulties in France and Europe is assigned to the conservative Europe, the Europe of strict austerity policies and Chancellor Merkel. In the Socialists' eyes, the common EU project is being damaged by an alliance between the ideas of the British Prime Minister inspired by Thatcher and the "egotistic intransigence of Chancellor Merkel".

The authors of the motion are not concerned with reforms. The motion is part of the infighting within the PS between those opposing reforms (Bartolone, Desir, Montebourg, Hamon, etc.) and the faction favouring reforms (Moscovici, Sapin, Ayrault). The fight within the government majority and the PS about which direction to take is in full swing. Germany and the Chancellor's austerity policy are also made a scapegoat, on which the blame for the entire plight of the French economic politics is heaped.

Following the extremely critical reactions by the public and in the media, the PS is now trying to backtrack. It was only a draft, it said, which was yet to be revised. But it would have been unusual for the draft not to have also been scrutinised in the Elysée Palace before publication. The group advocating a critical stance towards Germany or, more precisely, the austerity policies of the German government (the President of the Assemblée Nationale, Bartolone, even spoke of "confrontation") indicates it is not just the opinion of a fringe group of the government camp. It is true that President Hollande responded by reiterating that Germany and France had to work together, whatever the current economic situation, the people in government and the political sensitivities of the time. But the left is not hiding the fact that it is hoping for a change in government and in policies after the elections to the Bundestag this year and for a renunciation of the austerity policy afterwards.