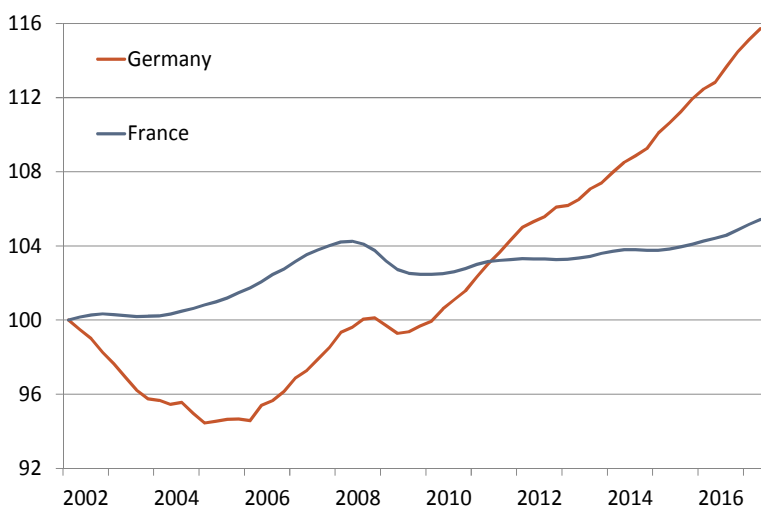


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1 September 2017

Two cheers for the French labour reforms

Jobs: Example of German turnaround after 2004 shows that reforms create jobs



German core employment subject to social security contributions, French full-time-equivalent total employment, indexed to 2002 = 100. Source: Bundesagentur für Arbeit, Bundesbank, INSEE

- **Macron gets serious:** After months of consultations, the French government has presented the details of President Emmanuel Macron's most important endeavour, labour market reforms. The 36 measures are roughly in line with the ideas Macron had outlined in his election campaign. They meet but do not exceed our expectations. Over time, the overhaul of the labour market can turn France into the most *dynamic major economy* in Europe. The French Council of Ministers looks set to pass the measures on 22 September, just ahead of the German election on 24 September.
- **Two cheers:** The French proposals are far from perfect. The French labour market will still fall short of the flexibility that many economists deem optimal. Additional flexibility for firms with 50+ workers would have helped. We thus give only two rather than three cheers for the reforms. But does that mean that they will not yield the desired results?
- **In real life, reforms do not need to be perfect:** When Germany unveiled its "Agenda 2010" reforms 14 years ago, we greeted the measures with two rather than three cheers. For example, Berlin allowed companies to circumvent rigid dismissal rules by making free use of temporary labour rather than relaxing the dismissal rules outright. Nonetheless, the imperfect reforms worked rather well. As our chart shows, the German labour market embarked on an almost miraculous rebound shortly after. Germany's current strength stems from this reform-based surge in employment.
- **More flexibility:** The French reforms will give companies significantly more flexibility to strike deals with their own workers on many workplace and some pay issues. They will streamline dismissal procedures, cap the damages that courts can award for unfair dismissal, and make it much easier for multinational companies to slim down their French workforce if their French operations are struggling even if they are doing well on the global level.
- **Towards a culture of cooperation:** The reform proposals are inspired by the Scandinavian concept of "flexicurity", more flexibility for companies in exchange for more government support for workers who need retraining. Macron is trying to change French labour relations from head-on confrontation to a culture of co-operation between unions and employers in general, and between companies and their workers on the shop floor in particular.
- **For France, a culture of shop-floor co-operation would be a revolution:** Can it work? Yes it can. That France's trade unions number one (CFDT) and number three (FO) will not join the day of protests called by the Communist-inspired CGT for 12 September is not just a sign that Macron has shied away from a Thatcherite frontal assault on French labour laws. It suggests that many workers understand the need for change. As the election of Macron has shown, France is learning the lessons from its labour market malaise. The outlook for small companies is quite encouraging.
- **Encouraging backdrop:** In a firming recovery, looser dismissal rules will not cause a surge in job losses. Chinese demand for luxury goods can help just like Chinese demand for machines and cars helped Germany a decade ago.

Economics

Chart of the week



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