



France pays price of liberal jobless benefits

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Generous unemployment allowances are creating low economic growth rates, threatening the lifestyle the French aspire to, writes Sandrine Rastello.

CAMILLE Grimault-Queret was fired in June as director of the 18-hole golf course in Saint-Germain-les-Corbeil, south of Paris. She wants to find more work — as long as it's the perfect job.

Grimault-Queret, 31, can afford to be picky. She will collect a monthly unemployment check worth 57 per cent of her former salary for up to 23 months, and says she won't look at anything that isn't "attractive" until November.

France's generous jobless benefits, about three times those of the US and Britain, help explain its 10.1 per cent unemployment rate — double the rates in those countries. The benefits are among a set of labour policies that may pose the biggest obstacle to President Jacques Chirac's efforts to rekindle the economy and restore his tattered popularity.

Chirac's government has proposed cutting benefits for those who turn down jobs and offering a €1000 (\$A1630) bonus to those who return to work within a year. The measures don't go far enough, says Eric Chaney, Morgan Stanley's chief European economist in London. "As long as policymakers do not question the French social model, France will continue to suffer from high unemployment," he says.

France's jobless rate held at a 5½ year high of 10.2 per cent from March to May. The persistence of high unemployment is curbing spending by companies and consumers, says Laurence Boone, a Barclays Capital economist in Paris.

"France's unemployment rate is simply not sustainable," Boone says. "Unemployment hangs over consumer confidence. It affects company investment. Soon you find yourself stuck, like Germany and Japan, in a structurally low growth rate that just isn't in line with the lifestyle the French aspire to."

Consumer spending in France fell 0.3 per cent in the second quarter, the most in more than eight years. It accounts for 55 per cent of gross domestic product. Economic growth slowed to 0.1 per cent in the quarter. The government had already cut its forecast for 2005 growth to no more than 2 per cent.

Chirac, 72, charged Prime Minister Dominique de Villepin with getting the French back to work when he appointed him on May 31. That was two days after French voters rejected the European Union constitution, partly over fears it would weaken workers' rights. De Villepin, 51, gave himself 100 days, or until September 8, to regain voters' confidence.

Chirac's approval rating hit a low of 24 per cent after the defeat, according to a TNS-Sofres poll of 1000 people conducted on May 30 and 31 for *Le Figaro* magazine.

De Villepin proposed a €4.5 billion plan to increase employment, which the government approved on August 2. The measures include loosening firing procedures for companies with fewer than 20 employees. The €1000 bonus, for people who get a job after more than a year out of work and are on welfare, takes effect from today.

He has also earmarked €1.5 billion over three years to foster investment in areas such as biotechnology and telecommunications. And the government has decreed that those who refuse a job or can't prove they have been looking face reduced or even no benefits. Such sanctions have rarely been applied until now.

Even with those changes, employees will still enjoy vast protections and benefits. Companies with more than 600 employees can't fire workers without going through administrative procedures that last an average of 106 days, according to Mouvement des Entreprises de France, the country's largest Paris-based business lobby.

Companies pay the highest payroll taxes in the 30 nations in the Organisation for Economic Co-operation and Development — 28 per cent of the average salary. That compares with 9 per cent in Britain and 7 per cent in the US, says the Paris-based OECD.

Firing a 35-year-old employee, with six years on the job and a pre-tax monthly salary of €5200 costs 2.6 times more in France than in Britain, according to a group of French executives working in Britain called Cercle d'Outre Manche, a reference to the English Channel between the two countries.

"In France, when you have to adapt your payrolls to a drop in business, it takes a lot of time, it's often costly and can quickly become dramatic and emotional," says Gael Dutheil de la Rochere, who runs the British unit of circuit breaker maker Schneider Electric SA.

In Britain, he says he doesn't hesitate to hire because he can just as easily fire. He's a member of the Cercle in London.

French unemployment isn't just bad for France. Unemployment in the 12 nations sharing the euro, at 8.7 per cent in June, is near a six-year high. The European Central Bank in Frankfurt predicts the region's expansion will slow to about 1.4 per cent this year, from 2 per cent in 2004. If it does, Europe's growth will lag that of the US for the 13th year in 14.

In a bid to spur hiring in Germany, the government reduced the level of jobless benefits and made it easier for companies to fire workers. From January 1, people

who have been without a job for a year or more now have to accept any reasonable job offer or risk benefit cuts.

Under Chancellor Gerhard Schroeder's plan, as many as 360,000 people who had been classified as social-welfare recipients had to re-register as unemployed and seek work, increasing unemployment to a post-World War II high of 12 per cent in March.

Reflecting the economic slowdown, yields on French bonds have dropped to the lowest in more than 60 years.

Chirac has tried to tinker with France's welfare state before, while rejecting the British model. In Britain, record employment has helped underpin 52 consecutive quarters of growth.

"Great Britain has another policy that is perfect for Great Britain, but which wouldn't be accepted here for social reasons," he said in a May 3 interview on France 2 television.

Over the past two years, Chirac has watered down the 35-hour working week, allowing employees to work as many as 48 hours a week for more pay. In December 2004, Parliament approved a five-year plan of tax breaks and new spending to spur hiring.

But unemployment is little changed from when Chirac first took office in 1995 and is likely to be an important issue in the lead up to the 2007 elections that may pit Chirac or De Villepin against Nicolas Sarkozy, 50, the leader of their Union for a Popular Movement party. On June 11, Sarkozy, who is now interior minister and deputy to De Villepin, has said creating jobs was an "absolute and urgent priority".

The cost of unemployment benefits has contributed to ballooning debt and budget deficits. France's debt will reach a record 66 per cent of gross domestic product, or €1.1 trillion this year, according to the Finance Ministry. Tax collections will almost equal the cost of interest in 2006 and the budget deficit has breached the EU's limit of 3 per cent of GDP for three years running.

' Finance Minister Thierry Breton, 50, speaking as he cut the country's growth forecast in June, said: "To finance our model, we need to work more."

When French people do work, they devote less time to it than their European neighbours. They work an average of 39.1 hours per week, the least among the 25 EU countries, according to Eurostat, the EU's Luxembourg-based statistics office. That compares with 42.2 hours in Britain and 42.6 hours in Poland.

Unemployment benefits in France equal 57 per cent to 75 per cent of a jobseeker's last salary, capped at €5126 a month. Benefits can last for as long as three years, and sometimes longer for people nearing retirement.

In the US, the benefits are equivalent of about half the person's last salary, up to \$US2000 a month in the highest-paying state, Washington. Benefits expire within six months in most states.

The French can expect jobless benefits and other government support, such as housing subsidies, to amount to 44 per cent of the former salary, compared with 17 per cent in Britain and 14 per cent in the US, according to the OECD. The calculations are based on comparisons of three different family situations with varying levels of earnings and duration.

The jobless rate in Britain was 4.7 per cent in June; and 5 per cent, an almost four-year low, in the US. "We must recreate the incentive to work for those who can but don't want to work, and we must lower the cost for those who wish to," says Alain Minc, head of AM Consulting in Paris and co-author of *Unemployment: Who's at Fault?* Bringing about change in France is difficult, because the French are passionate about defending workers' rights.

Chirac reversed his position and raised civil servants' salaries after a nationwide strike in March that disrupted trains, schools and hospitals. Workers at state-owned utility Electricite de France SA have gone on strike at least eight times this year to protest government plans to sell shares. Rail workers have walked out four times this year. A quarter of France's labour force is composed of government workers.

Even people with jobs, such as Gerard Re, who works for private defence electronics contractor Alcatel Space in Cannes on the French Riviera, take to the streets to protest benefit cuts. He travelled to Paris on June 9 to march against De Villepin's plans, which he says will weaken the safety net for workers by obliging them to take on several poorly paid, undesirable jobs to survive.

"It's the old recipes that have already proved to be useless," says Re, 37. "It all depends on what you seek in an economy: creating wealth for the sake of it or having people who work and are happy with their life and their job."

Grimault-Queret, who's seeking a job in sports management or public relations, says she's willing to expand her search to sales positions if necessary.

"It's normal that I have the right to receive my unemployment benefits for a few months," Grimault-Queret says. "I've always worked."

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