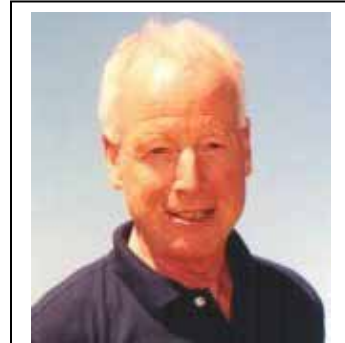


French youth unemployment in perspective

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EUOBSERVER / COMMENT - Nearly two months have passed since the huge street demonstrations in France over the CPE (*Contrat de Première Embauché*)--- sufficient time for tempers to have calmed and to revisit the empirical evidence. French youth unemployment is doubtless a problem, and employment protection legislation (EPL) can, if it is true, favour largely middle-class insiders over poorly educated outsiders. Equally, the French Government could have handled the CPE far more judiciously. But for many commentators, particularly in the UK, what lies at the heart of the matter is that French youth have been coddled and overprotected for so long that they are unwilling to 'get on their bikes' to find jobs. The conventional wisdom is that by defeating the CPE, the French have merely put off the day of reckoning. Is this view correct?



"Perhaps the millions of French youth who took to the streets were right after all!" says Professor George Irvin, author of 'Regaining Europe'.

Is French youth employment intolerable?

In the spring of 2005 at the height of the demonstrations, youth unemployment in France was regularly cited in the press as over 20%, rising to 50% in the most deprived *banlieus*; ie, uniquely high and persistent compared with other OECD countries. These figures are not wrong, but they are misleading because they do not compare like with like. This point is made succinctly in a recent article by Howell and Schmitt.¹ The above unemployment rates are derived by taking the number of unemployed (U) in the age group divided by the sum of the unemployed plus the employed (U + E) for that age group. This economics convention tends to distort the position of a country where most students remain at school until 18 and where a high proportion of 18-24 year olds stay on at state-funded universities and in consequence are not forced into part-time jobs.

Take the hypothetical example of two countries which we shall call A and F. Both countries have 100 young adults (the age group 15-24) and both have 10 young adults unemployed. The crucial difference between the countries is that in A, university is expensive and students tend to work while studying so that the number of employed youths in A is 50. In country F, university is free so only 20 are employed. If the young adult unemployment rate is calculated as $U/(U+E)$, the results are 17% in country A and 33% in country F. However, if the rate is calculated on the basis of the population (P) of 18-24 year olds (ie, U/P), the two countries have identical unemployment rates of 10% for this age-bracket.

As the reader will have guessed, countries A and F are America and France. Their respective male youth unemployment rates for 2005 when calculated the first way are 12% and 22%, but 8.3% and 8.6% when unemployment is calculated as a percentage of the young adult population. The thing to remember is that what distinguishes youth in the two countries is not so much the difference in the number of unemployed as the fact that, in America, a far higher proportion of

¹ See David Howell and John Schmitt 'Employment regulation and French unemployment; were French students right after all?' Center for Policy Research, Washington, DC.

the 16-24 age group is employed. In France, by contrast, a higher proportion of the age-group stays on at school and goes to university. The respective youth employment rates (E/P) are 62% and 33%. Since the 'employed' includes anybody working one hour a week or more, the crucial difference between the two countries seems to be that American youth have part-time jobs; eg, doing paper rounds or flipping burgers at MacDonald's.

Is education better than work?

If France has a low youth employment rate when compared to other countries, this appears to be because most young people are in university, school or in training programmes. Because education is free and unemployment benefit generous, far fewer young people need to work part-time. However, some would argue that this is a blatant example of the nanny state being overprotective. Others might point out that, compared to their Anglo-Saxon counterparts, French youth are more literate, better trained and more highly productive.

France clearly does better at keeping a high proportion of 20-24 year-olds in full-time education: over 50 percent as opposed to only about a third in the UK. But this is only preferable if French students use education to build skills and capacities rather than merely as a means of postponing job-search. As Howell and Schmitt note, the most useful statistic is that which measures the share of young adults (18-24) who are neither enrolled in education nor employed. In 2000, this figure was 14.1% in France, 14.4% in the United States and 15.4% in the UK.

Is Employment Protection Legislation to blame?

An oft-repeated argument amongst economists is that strong employment protection legislation (EPL) is associated with high levels of unemployment in general, and youth unemployment in particular; ie, employers will be reluctant to hire when it is difficult to fire. Unfortunately, the evidence for this position is weak.

To begin with, the OECD provides comparable 'scores' for its member countries for EPL in both regular employment and temporary (short-term, fixed contact) employment. For regular employment, France gets a score of 2.5, equal to or lower than a number of low unemployment countries: eg, Austria (2.4), the Netherlands (3.1), Norway (2.3) or Sweden (2.9).

More importantly, there are numerous studies on the EPL-unemployment relationship. In particular, the OECD has carried out several major studies, in 1999, 2004 and 2006. All conclude that there is no significant statistical relationship between overall unemployment and the degree of EPL strictness. Thus, although strict EPL may lead to employers being reluctant to hire extra workers, it makes them equally reluctant to sack existing workers. In short, the net effect of EPL on employment seems to be neutral. By contrast, various other academic studies suggest that a positive relationship exists between a buoyant level of domestic demand, higher growth and falling unemployment.

Were French demonstrators right?

In summary, no simple conclusions can be drawn from the French case: one can certainly not conclude from the available evidence that the CPE would have helped solve unemployment amongst French youth. For a start, whether the problem of youth unemployment is greater in France than elsewhere depends on how youth unemployment is measured. Secondly, while it is certainly true that French youth have a lower employment rate than in the Anglo-Saxon world, this fact is largely explained by the fact more of them are in secondary and tertiary education and

that state-funded education and training reduce the need to seek part-time jobs. Thirdly, although French employment protection legislation (EPL) is strict, it is apparently no stricter than in a number of other European countries. Finally, a number of large-scale studies carried out by the OECD find no significant correlation between EPL and the level of unemployment.

One is tempted to conclude that not only did Monsieur de Villepin disastrously misjudge the prevailing political climate when launching the CPE, but that the new contract would have had little impact on unemployment amongst young adults. Perhaps the millions of French youth who took to the streets were right after all!
