Macron-omics

The French President's Labor Reforms Are Necessary, but Outpacing Employment Safeguards

- Meghan Rowley

In late March 2018, French rail workers went on strike, causing massive delays to the country's subway systems. Hordes of Parisian commuters could be seen exiting overcrowded cars as they returned from work hours late. This is just one of many protests in the past few months from civil servants and union members alike in France. Since passing labor reforms in August 2017, the romanticized popularity of President Emmanuel Macron has been thrown for a loop. Although he was elected by a wide margin, thousands have opposed the job-for-life guarantees and retirement benefit plans of his more flexible labor laws. This uptick in protests and firings does not necessarily mean the reforms have been unsuccessful. On the contrary, his efforts to overhaul the indecipherably complex French labor code are overdue, and already improving growth. Employee and benefit cuts are expected to immediately accompany these newest reforms. However, the National Assembly must also improve unemployment programs to ensure fair firing practices and improve long term economic stability.

A notoriously thick book symbolic of France's historical socialist republic, the Code du Travail is lauded by unions but loathed by employers. France's largest unions see the 3,324 page code is key to protecting employees from exploitation since 1910. Yet employers are often paralyzed by the Code's dirigisme (regulatory interventionism), which demands a costly process to hire and fire employees. Modern companies see these conditions as partly responsible for the Euro's moderate performance, France's stagnant GDP, and its consistently high ten percent unemployment rate. Youth unemployment rates are even higher, long standing near 25 percent. Macron took on labor reform last August as a way of revitalizing the French economy, successfully passing a bill that overhauls exceedingly rigid restrictions.

Macron was right to do so, as all of the laws he supports aim at encouraging employers to hire and fire when necessary, without any fear of excessive cost. Ultimately, these changes look to promote productivity, competitiveness, and more employment opportunities. For example, the reforms in question cap previously unlimited firing costs to one month's wage per year of service. In unfair dismissal cases, the new law bounds the previously unlimited payouts to three month's salary per every two years of service. These provisions provide clarity to an inconsistent and unpredictable system that favors massive payouts, eliminating employers' fear of firing. The new labor code also allows small businesses to hire more employees under individual contracts, as opposed to union contracts. This ensures that conditions serve individual firms, rather than holding them to ill-fitting, sector-wide standards, allowing for greater employment.

The law also permits businesses of any size to fire under terms of economic hardship. Previously, the French Chamber of Commerce denied applications for multiple fires if the firm was making a profit. But the overhaul now takes global competitiveness into account, a reason many firms have shut down in recent years. This will allow companies to downsize and stay in business, rather than forcing companies to choose to stay in an unprofitable business or to shut down indefinitely. Finally, the overhaul slashes requirements for firms with more than fifty workers, such as the need for multiple employee safety councils. Barring high-risk industries, the law folds multiple councils into a single structure, cutting costs and encouraging hiring beyond fifty employees.

The law has already proven effective. Since the reforms passed, French economic growth has increased 1.9 percent after five stagnant years, having drawn the interest of large foreign investors and praise from the International Monetary Fund. Companies like Toyota and Amazon have discussed their excitement to open new factories and distribution centers that will create thousands of local jobs. And the benefits are not exclusive to France. The Eurozone economy also grew by 2.5 percent following the revamp, its best performance in a decade otherwise plagued by stagnation and various economic crises.

But while business is booming—and desperately needs to—Macron has yet to uphold the second part of the overhaul bargain. Along with rising growth and foreign investment, numerous French companies have announced plans to downsize, leading to thousands of firings by some of the country's largest employers. Granted, large layoffs should not be a surprise in times of transition, nor should they be taken as a foreboding sign. Economists and politicians agree that a more flexible job market with more frequent layoffs and fewer opportunities for one-job careers ultimately increases stability, jobs, innovation, and growth. But while the law will create jobs in the long term, immediate results are showing greater firings than hirings.

Macron has promised to invest €15 million in programs that offset these shocks. Policy proposals include expanding unemployment compensation, offering attractive buyouts to older workers, and bolstering retraining services. But existing programs take years to show results, and are only moderately effective. Meanwhile, French lawmakers will not vote to approve secondary measures until late April 2018, as they are hard-pressed to raise funds amidst tax cuts to the top ten percent. In the interim, they have left older, low-skilled employees vulnerable to a huge wave of layoffs without safeguards. Macron's administration has effectively allowed employers to profit off of the overhaul before it is even complete.

This disconnect is problematic for many reasons, not least of which includes the political fallout from French unions and the Eurozone, should the labor market not recover. Even more important is the sustainability of the French economy. In order to be stable in the long-term, the Code du Travail needs to balance protecting essential unemployment programs and freeing employers from onerous hiring restrictions to ensure short-term unemployment stays short. Without revitalizing key programs, it cannot hope to do so, nor can it achieve its larger political goals.

Macron campaigned on the French economy to be more flexible, but he also promised stability. His recent labor reforms were long overdue, and have freed-up the French economy to achieve growth and innovation necessary for the country's well-being. But great shake-ups have even greater fallouts, and without investing in effective unemployment programs, Macron's reforms could stand to benefit employers much more than employees. ■