IZA Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

France (June 2020)

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ABSTRACT

France has implemented a very stringent lockdown which slowed down economic activity sharply, by about 30% in April and 20% in May 2020. However, the lockdown was accompanied by a large spectrum of measures sustaining households, firms and independent workers. The expected total cost of these measures is about 110 billion euros (4% of GDP) accompanied by the creation of a 300 billion euros budget to guarantee bank cash lines to firms. These measures have been quite effective at dampening the impact of the lockdown on employment, income of households and firms.

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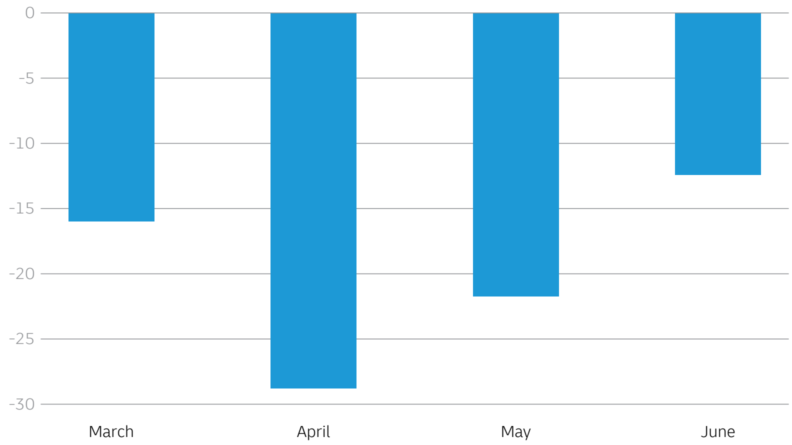
Labor market impact of COVID-19

France started a rigorous lockdown on March, 17, 2020. Schools, restaurants and all shops except pharmacies and groceries were closed. Mobility was authorized for a limited list of motives explicitly listed by a decree released on 24 March.[1] Those who moved were required to have an authorization from their employer or a sworn statement indicating the reason for the trip. Violation of these rules is liable to a fine from 135 euros to 3750 euros and 6 months imprisonment. The rules were stringent: The government announced 15 days after the start of containment that there had been 5.8 million checks and 350,000 fines.

The lockdown started to be released from May 11, but very gradually, with a limited reopening of schools and shops depending on sectors and regions. Restaurants and cafés remain closed.

As a consequence of this very stringent lockdown, economic activity has slowed sharply. According to information available as of June 17, the estimate of the loss of economic activity linked to the health crisis is around 28% in April, 22% in May, and 12% in June, as shown by Figure 1. More than a month after the start of the gradual release from containment, the loss of economic activity would be almost three times less than that estimated at the start of containment. In the second quarter of 2020 and taking into account the estimates of previous months, this scenario would lead to a reduction in GDP of around 17%, after −5.3% in the first quarter. It would be the deepest recession since the creation of the French national accounts in 1948.

Figure 1: Estimated / predicted monthly economic activity loss (% of GDP) in France.



Source: INSEE (2020c)

Household consumption is estimated overall to be 31% lower than its normal level in April (INSEE, 2020a). The post-May 11 rebound had been particularly strong (with a loss limited to 7% from the pre-crisis level, compared to −31% in April). Available data suggest that this rebound is sustainable, with a loss of consumption from normal which would be limited to 5% in June.

1 Travel between the home and the place of exercise of the professional activity, when they are essential for the exercise of activities which cannot be organized in the form of telework or professional displacements which cannot be deferred; Travel to make purchases of supplies necessary for professional activity and purchases of basic necessities in establishments whose activities remain authorized; Consultations and care that cannot be provided remotely and that cannot be deferred; Care of patients with long-term conditions; Travel for compelling family reasons, for assistance to vulnerable people or childcare; Brief trips, within the limit of one hour daily and within a maximum radius of one kilometer around the home, linked either to the individual physical activity of the people, to the exclusion of any collective sporting activity and any proximity to other people, either walking with the only people in the same home, or the needs of pets; Judicial or administrative summons; Participation in missions of general interest at the request of the administrative authority.

Thanks to a very intensive use of short-time work, which covered about half of employees at the end of April 2020, the employment drop has been limited. It has mainly been due to the freeze of hiring. At the end of the first quarter of 2020, salaried employment in the private sector fell by 2.3%. Compared with the level at the end of the first quarter of 2019, employment fell by 1.4%. The number of temporary workers fell in an unprecedented way over the quarter, by 37.0%. Excluding temporary employment, private salaried employment fell by 0.9%. Figures about unemployment (according to the ILO definition) which are available until the end of March show no increase in unemployment 2 weeks after the start of the lockdown, but an increase in the number of people declaring willing to work without looking for jobs because of the lack of job offers (INSEE, 2020b).

The effects of the crisis are very different depending on the sector of activity (INSEE, 2020a). The sectors most affected by downturns in excess of 50% are accommodation and catering (96%, of which 75% are off), followed by the manufacture of transport equipment (92%, of which 29 % stopped), construction (87%, of which 53% stopped), other service activities (68%, of which 41% stopped), mainly due to the arts and recreational activities (90%, of which 66% stopped), the manufacture of other industrial products (59%, of which 25% stopped), driven by the textile industry, and finally trade (51%, of which 22 % stopped).

Orientation and targeting of adopted measures

France has combined a strict containment policy with a large spectrum of measures to sustain households, firms and independent workers. The expected total cost of these measures is about 110 billion euros (4% of GDP) accompanied by the creation of a 300 billion euros budget to guarantee bank cash lines to firms. These measures have been quite effective at dampening the impact of the lockdown on employment, income of households and firms. They also might have contributed to reduce economic activity.

For workers, these measures include income support to sick workers and their families, to quarantined who cannot work from home, to persons losing their jobs or self-employment income and help for insecure workers to stay in their home. Unemployed people continue receiving their benefits during the lockdown and the confinement period postpones the exhaustion date of unemployment benefits. Temporary agency workers are paid for the entire duration of their assignment as initially foreseen even if they cannot work because of the confinement measures. People who quit a job for another one but could not be hired are granted exceptional access to unemployment benefits. The seasonal suspension of evictions from dwellings (evictions are forbidden form November 1 to March 31 in normal time) has been extended. The government has requisitioned hotel rooms for homeless people to be used for confinement. The emergency housing spaces that are made available during the winter period are made available all year long.

For firms, measures include deferral of payment deadlines for social and tax payments; possibility of tax rebates for firms facing very important difficulties in the framework of an individual examination of requests; deferral of the payment of rents, water, gas and electricity bills for the smallest businesses in difficulty; aid of up to 1,500 euros for very small businesses (turnover < €1M), self-employed workers and micro entrepreneurs experiencing a very sharp drop in turnover (70% loss between March 2020 and March 2019) or subject to administrative closure; creation of a 300 billion euros budget to guarantee the bank cash lines that companies may need because of the epidemic; support from the state and the Banque de France (credit mediation) to negotiate rescheduling of bank credits; simplified and reinforced short-time work programs; support for the treatment of a conflict with customers or suppliers by the Business Mediator; recognition by the public authorities of the Coronavirus as a case of force majeure for their public contracts which implies that for all state and local public contracts, the delay penalties are not applied.

Immediate liquidity support to businesses

The set of new measures implemented to support small firms and self-employed described above has been quite effective at mitigating the impact of the epidemic on firms. Data on firm bankruptcies are not available yet, but there is no sign of significant increase in bankruptcies in the beginning of May 2020. On the corporate side, there was a surge in both bank loans (+ € 34.2 billion) and deposits (+ € 40.6 billion) in March. This surge probably reflects the precautionary behavior of firms in view of the fall in their sales: the increase in their deposits largely represents the time lag between the receipt of borrowed funds and future disbursements. As a result, the next months could reveal a tighter cash position.

Support of dependent workers

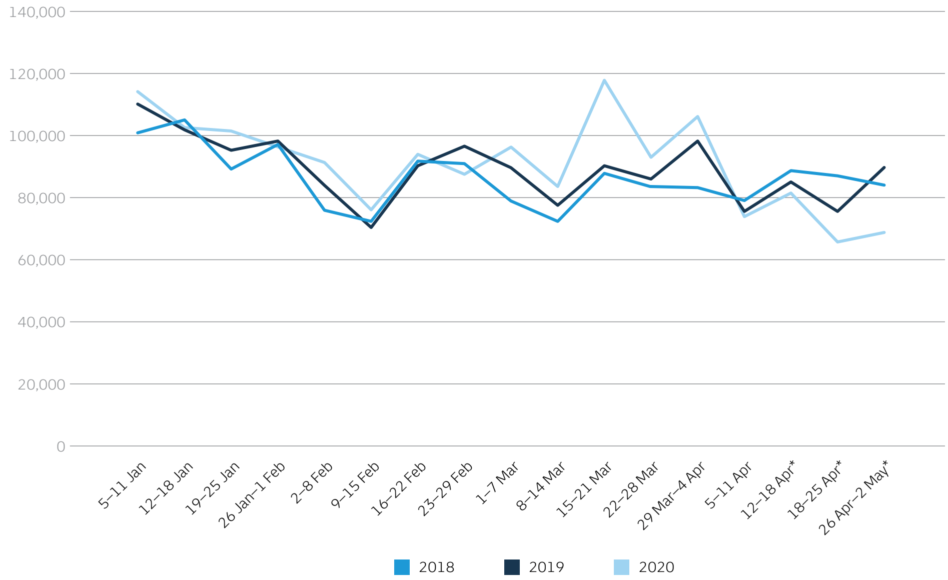
Unemployment insurance was effective at providing income to unemployed workers insofar as unemployed people continue receiving their benefits during the lockdown, and the confinement period postpones the exhaustion date of unemployment benefits. However, short-time work was the main scheme used to counteract the impact of the strict containment policy. In France, employment protection regulations require dismissal notices of several months and complex and costly procedures for most workers. Many firms whose activity has been very significantly slowed down by the lockdown would not have had enough liquidity to face these constraints and should have been liquidated in the absence of help. In this context, short-time work was the main program chosen by the government to sustain firms and to allow workers to keep their jobs. Since March 1, 2020, short-time work schemes have been extended until December 31, 2020, to certain categories of employees who were previously excluded, under specific conditions (employees whose working hours are atypical, childminders and home workers, employees of public employers carrying out an industrial and commercial activity mainly, vulnerable people and parents of children under the age of 16 unable to work, etc.). The authorization to use partial activity has been granted for a maximum duration of 12 months (compared to 6 months previously) and cannot exceed 1,607 hours per year per employee until December 31, 2020 (against 1000 hours ago). The net replacement ratio has been increased to 100% at the minimum wage and 84% for higher wages up to a maximum of 4.5 times the minimum wage, which covers more that 95% of wage earners. The cost of short-time work is borne by the administration. The short-time work allowances are paid by employers who are reimbursed within an average delay of 12 days. according to the agency in charge of reimbursements of short-time work allowances. There is no residual cost to the company unless it is covered by collective agreements which impose higher replacement income than those provided by law, which is scarce. Administrative procedures have been simplified. In particular, the authorization to use short-time work is considered granted within 48 hours after the filing of the request in the absence of a response from the administration (this period was 15 days previously).

The government also announced that collective dismissals are subject to increased scrutiny before getting the authorization from the administration during the containment period. Accordingly, the number of collective layoffs dropped dramatically: it is about three times lower in March-April 2020 than in March-April 2019.

Hence, since the start of the coronavirus crisis, the use of short-time work has experienced exceptional growth. In the beginning of May 2020, about 50% of employees have required short-time work, with on average 420 hours of unoccupied hours requested per employee (12 weeks of 35 hours per week). In normal time, about 2/3 of short-time work requests are consumed. However, there is much uncertainty about the share of these requests which will be consumed during the epidemic. The expected public expenditure is around 1 percent of GDP. However, the exact figures will not be known for several months to the extent that employers can request reimbursement of the short-time work allowance within 1 year following the end of the period covered by the authorization.

The very high short-time work take-up translates into a small increase in the entries into unemployment, which rose by 31% in the week of the start of the lockdown (17 March) compared to 2018 and 2019, but decreased in the following weeks and became lower by 12% than in previous years at the end of April as shown by Figure 2.

Figure 2: Number of weekly entries into unemployment.



Source: DARES. Ministry of Labor

Working conditions and work organization

During April 2020, about a quarter of employees was teleworking, and another quarter worked on site (DARES, 2020a). Telework is particularly frequent in the information and communication sectors (63% of employees), and financial and insurance activities (55%), in which it was already much more widespread before the crisis. It is less common in accommodation and catering (6% of employees), construction (12%), the food industry (12%) and transport (13%).

A large share of firms had to implement protective measures for their employees, which likely reduce labor productivity. Companies that have set up protective distances for most of their employees working on site represent 69% of employment. Distance measures for on-site workers are more often implemented in industry and transport and less often in accommodation and food services (28%), other service activities (45%) and construction (46 %).

When asked why they did not put in place certain preventive measures, companies most often replied that this was not necessary, given the organization of work (43% of employees), or that they did not have the necessary equipment (43%) (DARES, 2020a). 22% replied that this was not possible given the organization of work.

On 25 March, the government passed an ordinance which modified the regulation of holidays and working time until 31 December 2020.

Concerning holidays, this ordinance stipulates that during the health emergency period and subject to a company or industry agreement, the employer may exceptionally impose the taking of paid holidays, within the limit of 6 working days, respecting a notice of at least one day (instead of 1 month or the period provided for by a collective agreement). Without a company or industry agreement, the employer can require the employee, with a minimum notice of one day, to take or modify working time reduction days (RTT) and the days available on the time savings account within the limit of 10 days.

Concerning working time, companies belonging to sectors “particularly necessary for the security of the Nation or for the continuity of economic life” (the list of which is determined by a decree), may derogate from the regulation of hours of work (in particular, shift from 10h to 12h for the maximum duration of day work; shift from 8h to 12h for the maximum duration of night work; shift from 44h to 46h for the authorized weekly working time over a period of twelve consecutive weeks; shift from 48h to 60h for the authorized working time in the same week; work authorization on Sundays).

New labor market entrants

The conjunction of the economic activity slowdown and of the large short-time work program which dramatically dampens the reallocation of jobs makes the situation of new labor market entrants particularly difficult. The government is anticipating drops in the demand for apprentices and in recruitment of youths. Hiring subsidies targeted at young workers and subsidies for apprentices have been announced for the next coming months but details have not yet been set up.

Policy innovations and labor market trends

It is likely that the hike in telework will have effects after the end of the epidemic. The government has also decided to report important reforms about the pension system and about unemployment insurance. It is not clear that these reforms, which were very controversial, will be implemented in the future, contrary to what was scheduled before the epidemic.

Next steps and fiscal viability

The current policy stance evolves. To exit the rigorous lockdown implemented on 17 March 2020 and revive economic activity, the government started to reduce the lockdown on 11 May 2020 and further on 22 June, the date on which all schools reopened. To boost the restart of economic activity, the government reduced short-time work subsidies provided to firms, while keeping the replacement ratio for workers unchanged, from June 1st. The extension of unemployment benefits will also be limited. Hiring subsidies for youth and plans for sectors most strongly impacted by the epidemic have been announced without further details today (21 May).