

IZA COVID-19 Crisis Response Monitoring

## France (November 2020)

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## IZA COVID-19 Crisis Response Monitoring **France (November 2020)**

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### ABSTRACT

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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

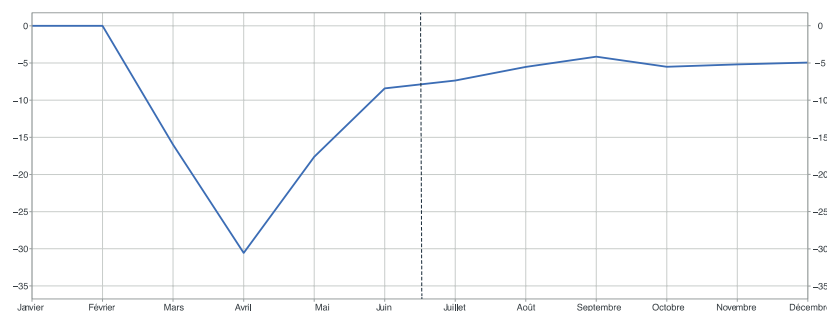
France started a rigorous lockdown on March, 17, 2020. Schools, restaurants and all shops except pharmacies and groceries were closed. Mobility was authorized for a limited list of motives explicitly listed by a decree released on 24 March.<sup>1</sup> Those who moved were required to have an authorization 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 remained closed until June 2 and schools until the end of June.

As a consequence of this very stringent lockdown, economic activity has slowed sharply in April. The estimate of the loss of economic activity linked to the health crisis is around 28% in April, as shown by Figure 1. However, the rebound in economic activity was very strong from the start of the deconfinement, in May and then in June. It continued, albeit at a slower pace, during the summer months. Overall, on average over the third quarter, the loss of economic activity compared with the pre-crisis level would have been around 5%.

At the same time, for several weeks and after a lull during the summer, the spread of the virus has intensified, particularly in large cities. The implementation of new measures to limit social interactions started in mid-October with a second lockdown, less stringent than the first one insofar as schools remain open and people can commute for professional reasons. The end of the year is characterized by a twofold uncertainty about the evolution of the epidemic in the coming months, and about the possible tightening of health containment measures. The annual GDP contraction forecast is -11% in the beginning of November 2020.

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



Source: INSEE (2020c) (estimation for dates after the vertical dotted line)

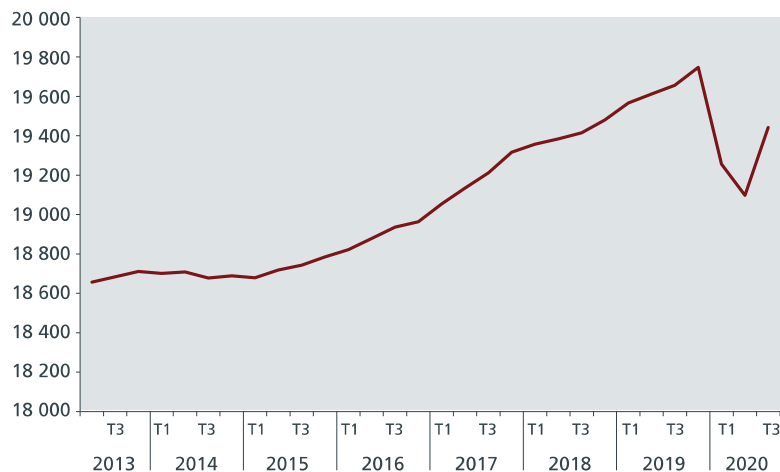
## Employment

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 (Figure 2). It has mainly

<sup>1</sup> 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.

been due to the freeze of hiring. Between the end of December 2019 and the end of June 2020, salaried employment decreased by 715,000 or -2.8%. This decline, which is unprecedented in magnitude, remains much more limited than the decline in activity (-13.8% in the second quarter after -5.9% in the first).

**Figure 2:** Dependent employment (thousand).



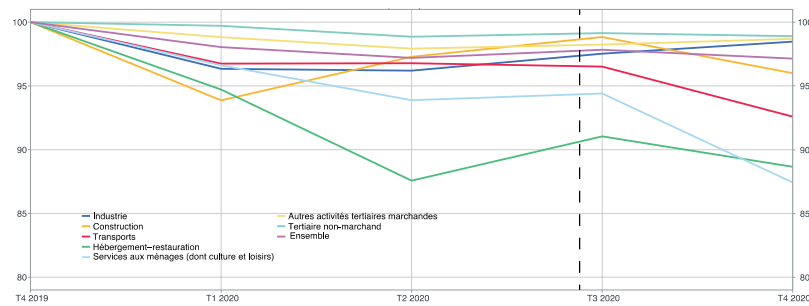
Source: Ministry of Labor.

According to the national statistical institute (INSEE, 2020c), in the second half of the year, salaried employment would increase in the third quarter and then decrease again in the fourth. In the third quarter, the rebound would be mainly due to temporary employment. Monthly data show that the rise in temporary employment, which began in May, continued at a sustained pace in July and August (about +10 per cent per month). The resumption of hiring on fixed-term contracts is also reported to have contributed to the rebound in employment, particularly in industry, accommodation and food services, and construction (Figure 4). Public employment is also expected to increase. In the fourth quarter, salaried employment is expected to decline again, mainly in those sectors that have been lastingly affected by the crisis. This is particularly the case in transportation, accommodation and restaurant services, and household services: companies in these sectors, due to worsened business prospects and/or their financial constraints, would be less able to maintain the level of employment they had maintained until the fall.

## Unemployment

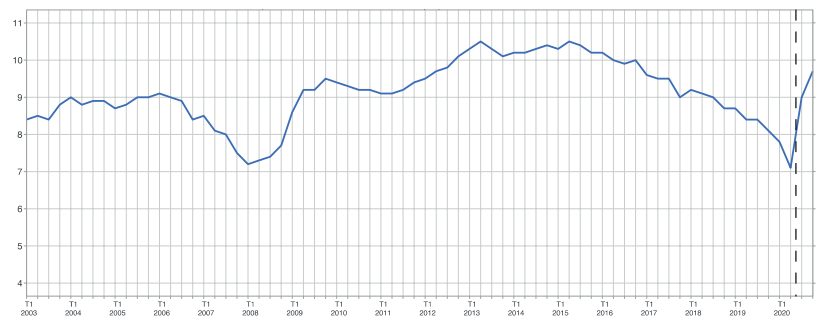
During the period of confinement, a large number of unemployed persons had interrupted their search, leading, despite the decline in employment, to a decline in the number of unemployed persons as defined by the International Labor Office. This effect would largely fade away in the second half of the year. Thus, the unemployment rate would rise sharply in the second half of the year: it would be 9.0% in the third quarter of 2020 and reach 9.7% at the end of the year, 1.6 points higher than a year earlier (Figure 4).

**Figure 3:** Employment level by sector. 100= Q4 2019.



Source: INSEE (2020c).

**Figure 4:** Unemployment rate.



Source: Labor Force Survey.

## 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.

### Workers

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 from 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.

## **Firms**

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 compared with the same month in previous year) 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.

## **Youth**

In July 2020, the government launched a “youth plan” which has two main components:

- 1) Hiring subsidies: (i) All firms get hiring subsidies equal to 4,000 euros for any young person below 26, recruited between August 2020 and January 2021; (ii) An exceptional grant of 5,000 euros to recruit a work-study student under 18 years of age (under an apprenticeship or professionalization contract) or 8,000 euros to recruit a work-study student over 18 years of age.
- 2) Funding of more than 400,000 seats in various training programs for low-skilled youth.

## **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. As for corporate failures, contrary to what many feared, the Bank of France indicates that they have fallen by 28.1% over a sliding one-year period. Admittedly, this drop is partly due to the impact of containment on the functioning of commercial jurisdictions and regulatory changes that temporarily modify the dates for declaring insolvencies. But it is also the result of record rates of access to credit by companies in connection with obtaining loans guaranteed by the State. In any event, since in normal times France has around 55,000 corporate insolvencies per year, there is a “backlog” of at least 15,000 defaults that will necessarily be made up in the coming months, not counting defaults due to the slowdown in activity.

## **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, child minders 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). 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 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 than 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.<sup>2</sup> Until June 1, there was no residual cost to the company unless it was covered by collective agreements which impose higher replacement income than those provided by law, which is scarce. Since June 1, 10% of the short-time work allowances are paid by employers except in sectors most affected by the crisis (i.e. tourism, hotels and restaurants, sports, culture, air transport, events) and those dependent on them. A further reduction in both the rate of compensation and the rate of the allowance which was expected on October 1 has been postponed.

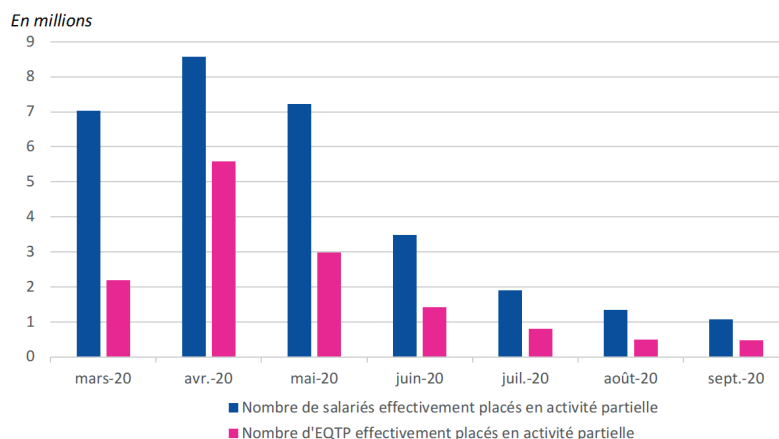
In addition, the law of June 17, 2020 introduced a specific regime for long-term short-time work, aimed at providing long-term support, up to 24 months, to companies whose activity will be permanently reduced. Entry into the scheme is subject either to the conclusion of a company-wide agreement or to the drawing up of a document by the employer in accordance with a branch agreement. This agreement or document will then have to be approved by the administration.

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

Hence, at 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) (Figure 5). 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 number of employees in short-time work fell sharply after May and June: in September 2020, 1.1 million employees would have been partially employed (slightly less than 6% of private sector employees), after 1.3 million in August, 1.9 million in July, 3.5 million in June, 7.2 million in May, 8.6 in April, and 7.0 in March. The expected public expenditure is around 1 percent of GDP. However, the exact figures will not be known before several months to the extent that employers can request reimbursement of the short-time work allowance within one year following the end of the period covered by the authorization.

<sup>2</sup> See details at the Agence de Services et de Paiement: <https://www.asp-public.fr/activite-partielle#06>

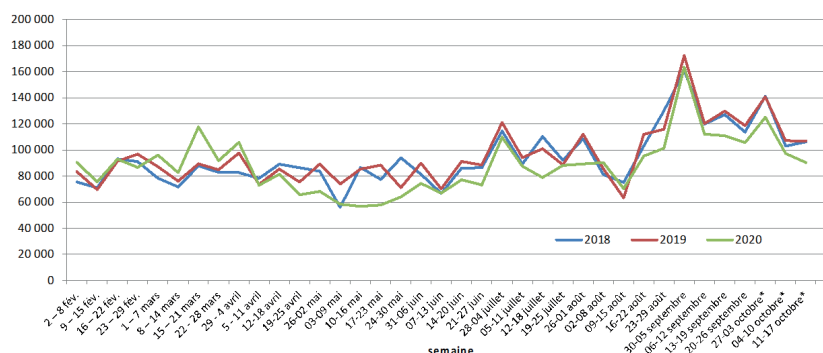
**Figure 5:** Estimated number of employees actually in short-time work, in number of persons and full-time equivalent.



Source: DARES.

The very high short-time work take-up translates into a small increase in the entries into unemployment, which raised by 31% in the week of the start of the lockdown (17 March) compared to 2018 and 2019, but decreased in the following months and become lower than in previous years after the end of April as shown by Figure 6.

**Figure 6:** Number of weekly entries into unemployment.



Source: DARES. Ministry of Labor.

## Working conditions and work organization

During April 2020, about a quarter of employees were 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 so in accommodation and catering (6% of employees), construction (12%), the food industry (12%) and transport (13%).

### Telework

However, apparently telework decreased sharply after the end of the first containment, from May 2020. Although recent statistics about the actual intensity of teleworking are not available, the mobility index published by the Citymapper application suggests that teleworking had only a very marginal impact on mobility after the end of the containment in France: New York City was only 27% of its usual mobility on September, Amsterdam 37%, Copenhagen 41%, but



Paris and Lyon, at the very bottom of the list, were respectively 92% and 100% of their usual mobility. In the first week of November, which is in the second containment, which is less stringent than the first one as teleworking is recommended but not compulsory, Paris is at 51% of its usual mobility, while Tokyo is at 9% and New-York at 27%.

### **Protective measures**

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.

### **Vacations and working time**

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. In July 2020, the government launched a “youth plan” which has two main components: 1/ Hiring subsidies. (i) All firms get hiring subsidies equal to 4,000 euros for any young person recruited between August 2020 and January 2021. (ii) An exceptional grant of 5,000 euros to recruit a work-study student under 18 years of age (under an apprenticeship or professionalization contract) or 8,000 euros to recruit a work-study student over 18 years of age. 2/ Funding of more than 400,000 seats in various training programs for low-skilled youth.

## Policy innovations and labor market trends

The government has decided to postpone 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.

Beside the expansion of short-time work in the start of the crisis, the government has created a long-term short-time work scheme (Activité partielle de longue durée, Decree, 28 July 2020)) designed to provide security for employees and business activity, which enables companies faced with a lasting reduction in activity to reduce working hours in return for commitments, particularly in terms of job maintenance. The long-term short-time work scheme can be mobilized by all companies – faced with a lasting reduction in activity – established on the national territory, without any size or sector of activity criteria. It requires a collective agreement, signed within the establishment, the company, the group, or the industry. In the latter case, the employer draws up a document that complies with the stipulations of the industry agreement. The reduction in an employee's working hours may not exceed 40% of the legal working hours per employee, over the total duration of the agreement, which may be set up within the limit of 24 months, consecutive or not, over a period of 36 consecutive months. The employee receives an hourly indemnity for hours non-worked, paid by his employer, corresponding to 70% of his gross salary, up to a limit of 4.5 times the minimum wage. The employer receives an allowance equivalent to 60% of the gross hourly wage limited to 4.5 times the minimum wage.

Moreover, in order to ensure a sustainable recovery of the French economy, the government has implemented an exceptional €100 billion recovery plan based on three main components: ecology, competitiveness and social cohesion. The French stimulus plan weighs 100 billion euros, making it the largest stimulus plan in Europe as a percentage of GDP, weighing in at 9.5%, compared with 6.9% in Germany and 8.6% in the United Kingdom. It weighs about a third of the French government's annual budget the previous year. Of the 100 billion announced, 40% comes from the 2020 European recovery plan, which will be reimbursable until 2058. The plan is intended to be structural, in order to “prepare France for 2030”, and not just cyclical.

## Next steps and fiscal viability

The current period is marked by a very high degree of uncertainty linked to the resurgence of the epidemic, which has triggered a second containment, admittedly less restrictive than the first at the beginning of November 2020, but which could evolve according to the evolution of the epidemic. This second confinement has led to the vote of a fourth draft amending budget. The public deficit will reach 223 billion euros, or 11.3% of GDP in 2020. The French debt at the end of 2020 is revalued at nearly 120% of GDP (it was 98.4% of GDP in 2019).

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