

FOCUS · French labour reform: Emmanuel Macron's soft revolution

France's new *Loi Travail* is now in force. After four months in office, the French President has managed to get approval for one of his key campaign promises: a labour reform to make the rigid French job market more flexible. The aim is to reduce the proportion of temporary jobs and make French firms more competitive. So to what extent will it achieve its goals?

To increase the flexibility of the labour market, the approved reform concentrates on increasing the legal certainty of dismissals, gives priority to collective bargaining at company level and promotes social dialogue between owners and workers. Regarding dismissal procedures, costs for unlawful dismissal, previously decided by the *prud'hommes* courts on a case by case basis, are now established by law with a minimum and maximum based on the worker's time at the firm. On the other hand, severance pay has been increased, going from 20% to 25% of the monthly salary each year for the first 10 years worked (around eight days per year worked).

To improve companies' internal flexibility, the reform prioritises collective bargaining at company level for most aspects of labour relations, such as working time or salary and other bonuses. However, there is still collective bargaining at a sector level for certain aspects such as establishing the minimum wage, training and rules for hiring temporary and permanent employees.

Finally, the reform has also introduced new social dialogue measures by merging, in a single committee, the workers' and health and safety committees for companies with more than 50 employees. Companies with fewer than 50 employees can also negotiate directly with the workers' representative (without trade union presence). In this way, the labour reform, in this and other aspects, makes small and medium-sized companies more flexible.

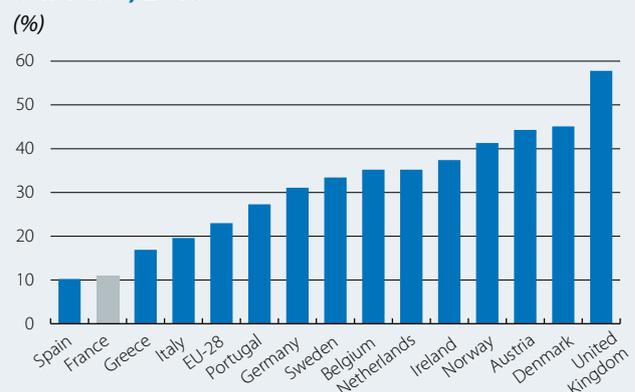
The labour reform's impact may be very positive in terms of creating jobs and increasing competitiveness in the medium and long term. On the one hand, greater legal certainty in dismissal procedures will encourage companies to hire workers on permanent contracts, which should particularly benefit low-skilled workers as they tend to have a higher rate of temporary employment. It should also make it easier to reallocate production resources, which could boost growth in productivity. On the other hand, the changes in collective bargaining and social dialogue make companies more flexible internally and more able to adapt to changes in technology or demand. They also bring wage rises more

in line with productivity. Nevertheless, in the short term the reform could lead to job losses, so it is particularly important that the reform is implemented during the current expansionary phase. In fact, employment growth is still expected to post positive figures.¹

The increase in severance packages and the maintenance of collective bargaining at a sector level for certain areas have helped to secure support for the reform from two of France's major trade unions, the CFDT and Force Ouvrière.²

What will be the reform's ultimate effect? The key lies in the practical application of all these changes, which has yet to begin, and how social agents adapt to these new circumstances since the new framework is designed for owners and trade unions to work cooperatively, like the Nordic labour relations model. In fact, the inspiration for Macron's project is largely the Danish model, based on what is known as the golden triangle of flexicurity. The labour reform already approved corresponds to the first side of the triangle, which makes both hiring and firing more flexible. But its ultimate impact also depends on reforming the second side of the triangle, namely unemployment benefits to give workers a safety net, and the third side, active employment policies which prepare workers for change. The plan is to carry out both reforms in the coming months. Macron's project is certainly not lacking in ambition.

Transition rates from temporary to permanent contracts, 2015 *



Note: * Employees aged 15-64 on a temporary contract in 2014 but declaring having been hired on a permanent contract in 2015.

Source: CaixaBank Research, based on data from the OECD (OECD Economic Survey France 2017).

1. IMF (2016), «Time for a Supply-Side Boost? Macroeconomic Effects of Labor and Product Market Reforms in Advanced Economies», Ch. 3, World Economic Outlook.

2. France's second trade union, the CGT, has strongly opposed the reform.