

Impact of cyclical fluctuations on employment and unemployment in France in the beginning of XXI century - selected issue.

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Abstract— The issue of work in itself is a problem that can be analyzed on many levels and looked at through the prism of many scientific disciplines. Economics in her nature is a social science that studies the state of world economic life using mathematical methods. A fascinating issue for understanding work in economics is the business cycles, which clearly affect unemployment patterns around the world. The nature of economics, which is concerned with studying human activities in times of recession and, just as in times of prosperity, sets the course for politicians, entrepreneurs but also ordinary workers. This is made possible by analysing and observing the behaviour in the economic markets of the world. This article is leaning towards unemployment and employment in France since the beginning of the 21st century, since France is one of the leading economies, alongside Germany, in the European Union.

Index Terms— economy, business climate, France, employment,

I. ECONOMIC FLUCTUATIONS AND EMPLOYMENT AND UNEMPLOYMENT FIGURES - A THEORETICAL OUTLINE

The economic fluctuations are the wave of economic activity. They are characterised by repeated phases of development and contraction of economic activity over periods longer than one year. These fluctuations include the known 'business cycles' that are characteristic of the capitalist economy, resulting from the laws governing that economy. These are multi-annual fluctuations larger - 8 years and smaller - 4 years (Mynarski 1997 p.119). The contemporary definition of the term "business cycle" comes from two American researchers A.F. Burns and W.C. Mitchell. In their concept, business cycles are a kind of fluctuations occurring in aggregations representing the economic activity of nations that organize their production mostly in enterprises. These cycles consist of periods of expansion, occurring at the same time in many economic activities, followed by crises, stagnations or revival, which are connected with the expansion phase of the next cycle (Burns, Mitchell 1946 p.5)

Economic fluctuations can be attempted to classify by using certain criteria. The first criterion that seems natural is the classification of cycles, taking into account the duration of the cycle and its amplitude of variations and the extent of their impact. By adopting this criterion the following types of cyclical fluctuations can be distinguished (Kowalczyk 1982 pp. 46-52):

- 1) Juglar cycles (classic cycles, sometimes referred to as larger cycles); the cyclical cycle is a 6-10-year course of economic activity,
- 2) Kitchin cycles (referred to as smaller ones); the duration of this cycle is about 40 months,
- 3) Kondratiev's cycles (long cycles); 50-60-year trends occurring periodically in the global economy.

Contemporary analysis of business cycles, responding to the need to explain the sources and nature of crises of the last few decades, adapts several different definitions of business cycle fluctuations affecting the method of their isolation. In the most recent literature on the subject, the following are most frequently distinguished (Kasperowicz 2009):

- 1) growth cycles. The concept of the growth cycle was presented by I. Mintz. According to her, growth cycles are fluctuations in aggregated economic activities. They are characterized by a dynamic growth rate of most macro- and microeconomic and from an equally general period of relatively low growth, leading to a high growth phase of the next cycle,
- 2) the cycles of deviation. A concept that establishes a reference base understood as a trend in the value of the time series under investigation. Then the deviations of empirical values above or below the trend are determined. In this case the turning points are defined as the maximum or minimum deviation from the assumed form of the trend line. Representation of business cycle fluctuations as deviations from the trend line trend is the most widely accepted concept of the cycle.

The relationship between economic growth (which is the



basis of the business cycle) and unemployment is the subject of many theoretical and empirical considerations. The existence of this relationship was first documented by A. Okun (1962), who published a study presenting the relationship between national product fluctuations and unemployment rates in the American economy in the 1950s. It states that an increase in unemployment by one percentage point entails a decrease in GDP in material terms by about 2 percentage points. Later, the form of Okun's law was modified, assuming that any percentage point of excess of the unemployment rate over the natural rate entails a real GDP-to-potential gap of 3% (Kwiatkowski 2002 p. 81).

Of course, the existence of this relationship was also noticed earlier - the impact of fluctuations. The unemployment boom was a major part of Keynes' view. In this theory, cyclical unemployment is typical of business cycle fluctuations. Thus, in a phase of economic downturn, there is a general decline in demand on the scale of the national economy, regardless of other types of unemployment. On work against the background of the general weakening of economic activity, resulting in increased unemployment. This unemployment is directly linked to periodic fluctuations in aggregate demand in the commodity market, but it may also be caused by supply-side constraints, i.e. capacity barriers. Cyclical unemployment is associated with the theory of J. M. Keynes, who indicates insufficient demand for goods and services as the cause of unemployment. In a period of economic downturn, the decline in aggregate demand for goods and services and services leads to reduced production and increased unemployment. Cyclical unemployment generally declines as the economy improves (Grabowski 2001 p. 269). Other representatives of the neoclassical economy also allowed for a short-term increase in unemployment as a result of cyclical economic fluctuations. E.g., E. Hall and J. Taylor emphasized that "the negative correlation between the growth of domestic product and the unemployment rate is one of the most credible generalizations formulated by economists" (Hall, Taylor 2007 p. 211). Generally speaking, a good economic situation causes an improvement in the situation on the labour market and a bad economic situation causes a deterioration. It should be emphasized that the relationship between GDP, unemployment and employment levels is also different for different economies, and also shows variability in the business cycle.

II. ECONOMIC SITUATION IN FRANCE IN THE BEGINNING OF XXI CENTURY

France was selected for analysis. The analysis period is set at ten years and the first half of this year, i.e. from 2004 to the second quarter of 2014. Macroeconomic data used in the analysis comes from Eurostat statistics and the Institut National de la Statistique et des Études Économiques (INSEE). The last decade has been characterised by major changes in the French economy. The data on the percentage change in GDP on a year-to-year basis compiled in Table 1 (Annex) show significant fluctuations in GDP/GDP over the period under review. In 2004, GDP increased 4 compared to the previous year by 2.5%.

In the following year, GDP growth amounted to 1.8%, and in the years 2006-2007 to 2.5% and 2.3% respectively. This period can be called a period of economic growth. In 2008 there was an economic collapse and the GDP fell by 0.1% compared to the previous year. In 2009, France's GDP recorded its biggest drop of 3.1%. Between 2010 and 2011 the economy is recovering and the GDP is growing by 1.7% and 2% respectively. In 2012 the GDP of France remains unchanged in comparison with the previous year, with slight GDP growth of 0.2 - 0.3% in the following years. It can therefore be said that between 2004 and 2007 there is a period of economic growth, between 2008 and 2009 a phase of decline (with a depression in 2009), between 2010 and 2011 there is economic growth, in 2012 a decline and in the following years economic growth. Therefore, the full business cycle lasted from 2004 to 2011 (8 years). However, throughout the whole analysed period, the economic situation in France is weak. The GDP growth of several percent does not seem to be significant. Forecasts for the following years are not promising either. On 2nd December 2014 the Agency reduced growth forecasts for France. According to these forecasts the GDP of France will only increase by 0.4% this year (previous forecast of 0.5%), in 2015 the GDP will increase by 0.7% (previously forecast at 1.1%) and in 2016 it will increase by 1.2% (previously forecast at 1.6%) (macronext.pl)

Analysing the level of inflation in France, we can see its large fluctuations. Between 2004 and 2007, inflation fell from 2.3% to 1.6%. At the beginning of the downward phase of the cycle, inflation increases to 3.2% and then drops to almost zero. In 2010, the inflation rate rose to 1.7% and in the following two years to around 2.2%. In 2013, the inflation rate drops again to 1%, with a further drop to 0.6% in the first two quarters of 2014. The low level of inflation is admittedly beneficial to the economy but given the inflation target set by the European Central Bank at less than 2% (ECB, Frankfurt am Main), variations in inflation in France are a worrying phenomenon.

The poor state of the French economy is also evidenced by a worrying increase in the budget deficit and public debt. In 2004, the budget deficit accounted for 3.5% of GDP and by 2006 had decreased to 2.3% of GDP. Between 2007 and 2009, the deficit rose steadily to 7.2% of GDP. Since 2010, the deficit has been falling and at the end of 2013, it amounted to 4.1% of GDP. However, this level is still very high (0.7% higher than in the previous year), especially taking into account the euro area requirements in this respect. The level of government debt is also subject to similar fluctuations. It did not exceed 70% of GDP between 2004 and 2008. Since 2009, public debt has been growing steadily and at the end of the second quarter of 2014 it reaches over 95% of GDP. Such a high level of debt generates high costs of its service, which certainly weakens the French economy. An unfavourable phenomenon for the French economy is the trade deficit which has been persisting for several years. In the analysed period, in 2004 alone, the value of exports exceeded imports and the surplus amounted to 6.7 billion euro. In the following years, imports of goods and services significantly exceeded exports. The largest trade deficit occurred in 2011 and amounted to nearly 60 billion euro.

In the following years, the level of exports increased with a stable level of imports, and in 2013, the trade deficit decreased to 40 billion euros. The long term trade deficit means a low level of competitiveness in the French economy, and the country is not building up wealth but is only indebted (Budnikowski 2006 p. 277).

Major changes can also be observed in the French labour market. There has been a significant decrease in the level of economic activity and employment rates (The economic activity rate of the population is the percentage share of the economically active (i.e. people who are working or not, but are interested in taking up employment - the unemployed) in the total population of a given category distinguished by age, education level, marital status, etc. On the other hand, the employment rate refers to the percentage share of working population in the total population of a given category (distinguished by age, education level, place of residence, etc.). Most often and according to the LFS (Labour Force Survey), the employment rate means the share of working people in the total population aged 15 and more) (rynekpracy.pl). As can be seen from the data presented in Table 1, although the labour force participation rate of people of working age is steadily increasing, it remains at a level of about 70%. On the other hand, the employment rate of people aged 15-64 shows large fluctuations: from 2004 to 2008, it increases, then decreases and in the years 2010 - 2012 it remains stable at 63.9%, and increases slightly in subsequent periods. In the whole analysed period, however, it assumes low values. In the analysed period, however, there are two time frames for changes in the unemployment rate. In the years 2004 - 2008 the unemployment rate decreased from 9.2% to 7.4%. Since 2009, unemployment has been growing steadily, and in 2013 the unemployment rate reaches a double-digit result - 10.3%, which also persists in the first half of 2014. The situation of young people (up to 25 years) is particularly difficult. The employment rate after 2009 in this age group does not exceed 30%, and the unemployment rate increased to 24.8% at the end of 2013. In conclusion, the problems of the French economy were visible even before the global financial crisis. The main weakness is high labour costs (Kaca 2013), resulting in low competitiveness and a persistent deficit in international trade for a decade. There is also significant unemployment (about 9-10%). The financial crisis has also aggravated the budgetary deficit and increased the sovereign debt, which totalled 4.1% and 92.2% of the GDP in 2013 respectively. France is therefore due to improve its competitiveness without implementing an over-restrictive austerity policy that could further limit growth.

III. IMPACT OF CYCLICAL FLUCTUATIONS ON EMPLOYMENT AND UNEMPLOYMENT IN FRANCE

In order to analyse the impact of cyclical fluctuations on unemployment and employment in France, quarterly data were analysed. The presented data show that the dynamics of GDP changes was of great importance for the change in the number of employed in the French economy. Higher GDP growth rates were conducive to more favourable trends in the number of

people employed as depicted by the employment rate. Relatively high (as for the analysed period) GDP growth in the years 2007 - 2007 is accompanied by an increase in the employment rate. However, this relation occurs with some (mostly annual) delay. For example, the increase of GDP in 2006 by 0.7% in relation to the previous year affects the increase of the employment rate in 2007 by 0.7%.

In the years 2008 - 2009, in the period of a sharp drop in GDP, a decrease in the number of employees can be observed. For example, the 3.1% drop in GDP in 2009 resulted in a 0.8% drop in the percentage of the working population in the total working age population. On the other hand, the GDP growth of about 2% in 2010-2011 did not affect the employment rate. Only a small increase in GDP in 2013 - 2014 caused a small increase in the employment rate by about 0.5%.

The relationship between changes in the level of GDP is also found in the level of unemployment. In the period of economic growth in the years 2004 - 2008, the unemployment rate clearly decreased (from 9.2% to 7.4). The rapid collapse of the French economy causes a significant increase in the unemployment rate. However, the small increase in GDP since 2013 has not affected the decrease in the unemployment rate. This increase was too small to affect the level of unemployment in France. These unemployment figures do not mirror the variations in the GDP. The unemployment rate is less fluctuating than the GDP and its changes are delayed in relation to the national product. It should be noted that Unemployment responded much more strongly to GDP reduction during the recession than to periods of GDP growth during the recovery. It can also be observed that the adjustment of employment to economic developments is not immediate, but with some delay. Moreover, employment reduction is not the only possible type of reaction of employers to declines in production. Employers may first accept a reduction in labour productivity or shorten working time, while employment reduction occurs only with a long-term reduction in economic activity (Kryśniak, et. all 1998 pp. 15-16).

IV. MAIN PROBLEMS ON THE FRENCH LABOUR MARKET AND PROPOSALS (RECOMMENDATIONS) ON HOW TO SOLVE THE PROBLEMS DIAGNOSED

France, like many European countries, is going through a period of economic stagnation and has been trying to avoid the threat of recession for several years. At the same time, although this is not a period of greatest prosperity, both the cost of labour, wages and living standards of the French are still among the highest in Europe and the world. Moreover, rising unemployment and the ongoing decline in the competitiveness of French industry since 2004 do not affect the wage levels of the French people (Czarny&Śledziawska 2013 pp.32-33). The strong position of the trade unions and the rights protecting workers guarantee a level of remuneration, especially the minimum wage, which, despite the crisis, is one of the highest in Europe. Economists point out that policies related to high labour costs may have long-term consequences that are visible in the increase in unemployment and the declining competitiveness of the French industrial sector (rynekpracy.pl).

It should be added, however, that despite the crisis, the French remain among the most productive nations in Europe and the world. In 2012 the working a full-time French employee generated €75,000 of national income. This is above the European average, which for the countries in the euro area amounted to 65,000 euros for that period. For comparison, in Germany it was EUR 63,000. At the same time, according to the European Cities Monitor, Paris (just after London) is the best city to set up or locate a business. Paris is also at the forefront when it comes to the quality of qualified Staff (Czyżawska 2013 p. 115).

In the light of the above, it therefore appears that the French Government should introduce in particular:

- 1) reduce labour costs,
- 2) reduction of the minimum wage,
- 3) changes in weekly working hours,
- 4) changes in the unemployment benefit system.

Reducing labour costs

According to Eurostat figures the average total cost per hour of work was 34.2 euros in 2013, made up of 66% of wages and salaries and 34% of non-wage labour costs. These are some of the highest in the EU. For example, in the UK the average total cost per hour is €21.6 and in Germany €30.3. Higher costs were recorded only in Belgium (€39.3/h) and in the Nordic countries: Denmark (€38.6/h), Sweden (€39.1/h) and Norway (€44.2/h).

Reduction of the minimum wage

As of 1st January 2013 the SMIC (Salaire Minimum Interprofessionnel de Croissance) - the lowest salary in France totalled 9.43 euros per hour or 1430.22 euros gross per month. Net, this amounted to 1121.71 euros/month. After the revaluation as of January 1st 2014 it is 9.53 euros per hour gross and 1445.38 euros per month gross respectively(atermia.pl). The high minimum wage makes employers less inclined to employ people for an indefinite period of time on a full-time basis, and in the long run, the high increase in the minimum wage may reduce companies' propensity to create jobs. As a result of the rise in unemployment, state spending on fighting it and dealing with its consequences must increase. Lowering the minimum wage can reduce unemployment and increase GDP (by increasing consumption of more workers).

Changes in weekly working hours

Working time in France is one of the shortest in Europe. The statutory working time of 35 hours was approved in 2000. The reform replaced the old system based on a 39-hour working week. In 2010, according to data cited by the French economic research institute COE-Rexecode, full-time workers in France worked 1679 hours per year, 224 hours less than their German neighbours. For comparison, the Spanish worked 1798 hours in the same period, the Italians 1813 and the British 1856(rynekpracy.pl)

Changes in the unemployment benefit system

Unemployment benefit in France is one of the highest benefits granted to unemployed people in the EU. The amount of unemployment benefit ARE (Allocation d'aide au retour à l'emploi) depends on your earnings before you lose your job. The daily rate is calculated for each person individually, based

on the period worked and the salary received. The length of time the allowance is paid depends on how long you worked before you lost your job. You are entitled to a month's allowance for each month you work. The maximum time of receiving the benefit is 24 months (36 months for persons after 50 years old). Overall, the average unemployment benefit reaches 75% of the last salary. The minimum amount to be paid is 27.66 euros per day(msz.gov.pl) Such a high level of unemployment benefit and the relatively long payment period clearly discourage people from looking for a job. It therefore has a direct impact on the level of unemployment and the costs borne by the state budget.

In conclusion, the proposed measures may contribute to increasing the competitiveness of the French economy and improving its public finances and trade balance. These factors may contribute to the economic recovery of France.

V. CONCLUSIONS

The relationship between domestic product and unemployment and employment analysed in labour indicates high volatility of these relationships. During the global economic crisis, fluctuations in GDP in France had a much greater impact on unemployment than during the moderate growth phases. It appears that the key determinants of the strength of the link were: the degree of institutionalisation of the labour market and the activity of the state's economic policy.

The French economy is in difficulty and a number of structural reforms are needed to improve the current situation. The solutions proposed vary in scope and duration (some require one-off measures and others even a change of mentality in French society). The French economy is growing thanks to domestic consumption rather than exports due to high labour costs. The policy of austerity and "tightening of the belt" therefore gives rise in France to fear the threat of recession. The country must therefore undertake reforms to make its economy more competitive through austerity, the liberalisation of the labour market and the reform of the social protection systems.

It should be added that in France a debate is currently underway on the means to revive the economy and in particular to improve the competitiveness of the industrial sector. The so-called Gallois Report was published in November 2012. Its author, Louis Gallois presented the French government with an analysis of the French economic sector together with suggestions for fixing it. Reducing labour costs is one of the main proposals and at the same time an idea to find financial means to support French industry. The plan is to reduce the part of the benefits that are part of the labour costs and the benefits that employers have to pay to the state treasury. In order to achieve the expected results, the cost reduction operation should be carried out within one to two years. It has been calculated that the EUR 30 billion saved in this way would represent significant aid to the French economy in times of crisis and competitiveness loss. The aim is to increase employment and support investment in the sector (Młynarski 2012). The decisions that the French government will have to take in the short term are likely to change the shape and

functioning of the French labour market.

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