Notes and Brief Reports

Social Security Abroad

Social Security and Job-Creation Measures: Recent French Experience *

This report examines and evaluates recent steps taken in France to eliminate temporarily the employers' social security payroll tax and to introduce Government-subsidized employment training programs in an effort to open up jobs for the unemployed Much attention has been given in the United States and abroad to the problem of the sharp growth in the level of unemployment, particularly among those under age 25 Here and elsewhere, concern has also focused upon the impact of social security payroll taxes on employment levels

French employers who, during July–December 1977, hired blue-collar or white-collar workers under age 25 were granted a temporary exemption from paying their share of the social security payroll tax contribution The exemption was applicable from the date of employment through June 1978 The Government assumed responsibility for making the contributions to the social security system on the employers' behalf In addition, the Government paid monthly allowances in place of wages to workers under age 25, single women with at least one child, or widows participating in a 6–8 month on-the-job training program that began in the last 6 months of 1977

As part of the July 1977 legislative package—the National Pact for Employment—these features were designed to create jobs by partially offsetting the employers' labor costs for the 475,000 young persons expected to enter the labor force the following fall Proponents had argued that high labor costs served to deter employers from hiring young unskilled workers

Factors Leading To New Legislation

Before the 1974 recession, France, along with other Western European countries, had enjoyed relatively low unemployment rates for a number of years In France, the annual unemployment rate averaged about 2 1 percent for the 15-year period preceding the 1974 economic slowdown Since 1974, however, the unemployment rate had been climbing steadily and by 1977 had reached its highest peak in 20 years Approximately 1 million persons—or about 5 2 percent of the labor force—were jobless The situation was particularly acute in view of the fact that an additional 475,000 young persons could arrive on the labor market in the fall, as schools closed and the summer vacation ended According to economic forecasts, no reversal of the trend toward rising unemployment was to be expected

To a certain extent, the unemployment problem was an obvious and direct consequence of the world economic recession Interestingly enough, however, the immediate problem was not so much that employed workers were being laid off, but rather that the economy was not growing at a quick enough pace to open up all the jobs needed to place unskilled young individuals entering the labor market for the first time

Undoubtedly, the 1974 recession aggravated the problem of job creation for young people, but long-range demographic and economic forces also played a large role in the economy's inability to absorb new labor-market entrants The age-composition of the labor force had undergone substantial changes in the past decade The 1960's and early 1970's saw a relatively slow growth in the number of persons aged 16–25 and a rather rapid rise in the size of the school-age population As a result, a growing number of school-leavers began arriving on the labor market during the past few years Further pressure was being exerted by the increasing number of students who wanted part-time work in order to contribute toward the costs of their education

Besides demographic changes, however, long-range economic factors have been cited to explain the causes of unemployment among the young [1] Among the factors most frequently mentioned are the following (1) The

*Prepared by Lois S Copeland, Comparative Studies Staff, Office of Research and Statistics, Social Security Administration

[1] For a more detailed analysis of the causes of youth unemployment, see P Melvyn, "Youth Unemployment in Industrialized Market Economy Countries," **International Labour Review,** July–August 1977, pages 23–28, see also "Youth Employment and Unemployment," **The OECD Observer,** July 1977, pages 31–35

preference of employers for adult workers because of their skills, experience, and work discipline, (2) the job security afforded older workers as a result of legislation or collective bargaining agreements, (3) inadequate educational preparation of young people for working life, (4) a deficit of new jobs as a result of technological advances and the introduction of laborsaving machinery, and (5) the disincentive for employers to hire unskilled, less productive workers because of the high-wage and social security costs involved

An employer payroll tax provides the main source of income to the social security system [2] The insured contribute at a lower rate Employer-employee payroll taxes are assessed on annual earnings up to a specified maximum that, in 1977, amounted to 43,320 francs a year or slightly more than one and one-half times the wages of an average worker in manufacturing [3] In 1977, the employer's payroll tax contribution averaged 35 51 percent of taxable payroll and the worker's share was 8 39 percent of taxable earnings, as indicated by the figures showing contribution patterns in the tabulation that follows

Social security program	Percent of taxable payroll	
	Employer	Employee
Old age and survivors insurance	7 30	3 45
Health and invalidity insurance	13 45	4 50
Work injury	[1]4 00	
Unemployment insurance	1 76	44
Family allowance	9 00	

[1] Average rate

Many employers contribute toward the financing of mandatory private pensions, in addition to their social security contributions [4] Other legally required benefits—such as paid vacations and training—add substantially more to the cost of labor in large firms employing at least 50 workers Furthermore, in the large firms, legislation makes it expensive as well as difficult to lay off workers, who customarily tend not to change jobs

For these reasons, employers view a new worker as a major investment, not to be hired unless productivity can be increased A majority of the existing unemployed and new labor-market entrants fall in the category of unskilled workers seeking their first job who may contribute little to the firm's productivity The July 1977 legislation was directed primarily toward helping to reduce the employment disincentives stemming from the high wage and social security costs

New Legislation

Legislation aimed at creating jobs for all the young entering the labor force became effective in July 1977 The program consisted of a combination of temporary exemptions in employer social security payroll tax contributions and Government-subsidized employment training programs Relieving employers of some labor costs was to help solve the problem of the cost versus the productivity of new unskilled labor These measures were part of the Government's National Pact for Employment that relied heavily upon mobilizing employers at local levels to hire young persons looking for their first job [5]

Under the new legislation, employers were exempt from paying their share of the social security payroll tax contribution, except for the unemployment insurance contribution, for each person under age 25 hired on either a full- or part-time basis from July to December 1977 The exemption subsequently was extended through June 1978 Employers entering into formal apprenticeship or training contracts from July to December 1977 with new workers under age 25 also benefited from the payroll tax exemption for the first 2 years of the worker's training In both cases, the Government paid the employers' share of the social security payroll tax contribution To qualify for the exemption, the employer must have hired the new worker for a minimum of 6 months [6] In addition, the firm must not have made any dismissals for economic reasons from May to December 1977 and not have reduced the average annual level of his work force in 1977 from that of 1976

The new legislation also provided for two kinds of Government-subsidized employment training programs An elementary on-the-job learning program or a more sophisticated on-the-job training program, both lasting 6–8 months and starting before 1978 The Government paid a monthly allowance equal to 90 percent of the minimum wage (the equivalent of about 65 percent of the average wage in manufacturing) for participants aged 18 or over For younger persons, a prevocational training allowance equal to about 18 percent of the average wage in manufacturing was paid The training

[2] For more details on the French social security system, see **Social Security Programs Throughout the World, 1977** (Research Report No 50), Social Security Administration, Office of Research and Statistics, 1978, pages 78–79

[3] As of May 15, 1978, 1 U S dollar equaled 4 67 francs

[4] For a closer look at private pension arrangements in France, see Max Horlick and Alfred M Skolnik, **Private Pension Plans in West Germany and France** (Research Report No 36), Social Security Administration, Office of Research and Statistics, 1971

[5] The Pact contained other related programs that provided bonuses for foreign workers to leave France voluntarily and a collective agreement with early retirement features that are not discussed here

[6] The employer was required to pay his share of the contributions if the new employee was discharged without good cause If the new worker left voluntarily before the end of the 6-month period, payment was not required

was given either at the firm itself or at an employment training center

Eligible participants included young persons under age 25, all widows, and all single women of any age with at least one child Priority was given to young persons with educational and vocational skills that did not adequately prepare them for working life Throughout the training, participants were covered under the social security program

Appraisal

According to a February 1978 Labor Ministry report, 600,673 positions of all types had been offered under the tax-exemption and Government-subsidized employment training programs, with 545,563 young people accepted and placed in jobs Specifically, the results of the programs, in terms of jobs offered and jobs filled, are shown below

Type of program	Jobs offered	Jobs filled
Total number	600,673	545 563
Tax exemption	338 220	338 220
On the job training	77 247	68 652
On-the job learning	185 206	138,691

The Labor Ministry identified three major factors that led to the success of the program (1) The temporary elimination of the employer's payroll tax making the hiring of young unskilled workers more attractive to employers, especially those in small businesses and the crafts, (2) the mobilization of employers at the grassroots level, and (3) the absolute minimum of bureaucratic paperwork required by these programs, making them more acceptable to employers

In the short term, the new programs certainly helped ease the unemployment problem among young people The percentage of young persons among the unemployed dropped from 42 2 percent in January 1977 to 37 5 percent by the following January, and the total number of the unemployed also declined More than enough jobs were created to accommodate the 475,000 young individuals who had entered the labor force for the first time in 1977

As pointed out earlier, small firms that make up a large portion of France's employers are felt to be most sensitive not only to social security taxes, but also to the initial training costs involved in accepting new workers The statistics support the belief that, if the initial training and social security costs could be offset for a sufficiently long period to permit job creation, then small firms might hire new workers Sixty percent of the on-the-job trainees and learners (roughly 125,000 persons) were placed in firms with less than 50 employees, compared with 13 percent (about 27,000 persons) hired by firms with more than 500 workers

The number of permanent jobs created by these measures cannot, however, be precisely determined Many critics argued that once the tax exemption and training programs ended, the employment of these newly hired workers would also end On the basis of the available data, this criticism seems too harsh By March 1978, firm employment offers extending beyond June 1978 had already been given to virtually all the persons hired under the tax relief program, 60 percent of the on-the-job learners, and 80 percent of the trainees [7]

Yet, even in light of the apparent success of these programs, reasonable doubt exists as to whether they can be extended or expanded on a long-term basis, not only because of their direct costs (4 8 billion francs) but also because of their relationship to two basic issues The financing of social security programs and the question of economic growth [8] The payroll tax provides the chief source of revenue for the social security system According to many observers, these programs can be extended or expanded only if the Government either reduces benefits indefinitely or permanently shifts the financial burden elsewhere, presumably onto the general public, in order to cover the extra program costs In addition, it seems unlikely that the new programs can be permanently continued without being accompanied by a high rate of economic growth necessary to generate new jobs

[7] Based on March 1978 data supplied by the United States Embassy, Paris, France

[8] On July 6, 1978, a "new" Pact for Employment that extended somewhat the 1977 Pact provisions to December 1979 while concurrently shifting a large portion of the program costs from the Government to the employer was signed into law Briefly, the legislation provided for a partial reduction of the employers' payroll tax contribution for each young person hired after June 1978 by a small-to-medium-sized business Also, the Pact contained provisions for employment-training allowances equal to 90 percent (70 percent paid by the Government, 20 percent by the employer) of the minimum wage