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# French Labour Market Segmentation and French Labour Market Policies since the Seventies: Connecting Changes

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**Abstract:** The article analyses how the changes in firm's practices and public policies since the 1980s shaped the dynamics of labour market segmentation in France. First, considering firm's human resources practices at the end of the 1990s, on the basis of statistical exploratory analysis, we were able to draw the contours of labour market structure as composed of an upper primary sector, a lower primary sector structured by renewed internal labour markets and a differentiated secondary sector. Second, the analysis of labour market policies puts high unemployment into the picture. Here, we show how public policies first aimed at preserving the 1970s pattern of internal labour markets but were subsequently focused on lowering labour cost and shortening the work-week. Regarding the labour market structure these policies finally yielded more differentiated segments rather than the promotion of transition to good jobs.

## La segmentation du marché du travail français et les politiques de l'emploi françaises depuis les années 1970 :

**Résumé :** Cet article analyse comment les changements dans les pratiques d'entreprise et les politiques publiques depuis les années 1980 ont dessiné la dynamique de la segmentation du marché du travail français. Tout d'abord, une analyse empirique des pratiques de gestion du travail et de l'emploi à la fin des années 1990 nous permet de tracer les contours du schéma de segmentation actuel comme étant marqué par l'émergence d'un secteur primaire supérieur, la persistance d'un secteur primaire inférieur et l'existence d'un marché secondaire différencié. Ces pratiques sont ensuite mises en perspective avec les politiques publiques de l'emploi conduites sur la même période. Nous montrons alors que l'action publique a d'abord cherché à préserver la place des marchés internes comme moteur d'intégration sur le marché travail. Concernant la segmentation du marché du travail, les politiques plus récentes d'allègement du coût du travail ou de réduction du temps de travail semblent avoir essentiellement eu un effet de renforcement de la différenciation et des barrières entre les segments.

**Mots Clés** : Labour market segmentation, internal labour market, public policies, employment and work policies, France.

**Codes JEL :** J4, J5, J5

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Identifying the changes affecting labour market segmentation (LMS) is a useful task in the context of "globalisation" and of the emergence of a "knowledge-based society". What kind of jobs and transitions are developing, and should policymakers foster, tolerate, or combat them? The analysis also becomes more difficult given the complex and rapid changes affecting firms' organisation and their borderlines, the extension of precarious employment and of permanent restructuring, and the intervention of state – elaborated and implemented labour market policies. The case of France is interesting as it combines strong and long-standing segmentation tendencies with persisting unemployment and with important public policy intervention.

In this contribution we intend to shed new light on labour market changes that have occurred since the seventies and the rise in unemployment which followed the two "oil shocks" of 1974 and 1979. We rely on the existing studies which either focused on the changes affecting the firms' practices or on changes in labour market policies during this period, and we shall try to connect them in order to discuss the interaction between both fields. As a conceptual framework, we mobilize here the seminal text published twenty years ago by Jean-Jacques Silvestre (Silvestre 1986), which aims at differentiating several kinds of changes and possible innovations, precisely in a segmented labour market. He proposed to identify three categories of change by referring to the dynamics of wages, qualifications and mobility of workers. Silvestre relied on previous research done about the so-called "societal effect" (Maurice, Sellier and Silvestre 1982), which underlined the durable differences in the very functioning of the labour markets between France and Germany. They traced back these differences to the domination of traditional "internal labour markets" in France, and of "occupational labour markets" in Germany, and connected them to differences in education and training institutions (e.g. the dominant place of the apprenticeship system in Germany and its secondary place in France) and to specific industrial relations. Silvestre and other researchers later described Japan as a third "societal coherence" relying on polyvalence.

Silvestre's basic insight furthers the analytical scheme already presented by Doeringer and Piore (1971) but insists on the coherence of national configurations. The dynamic interpretation is as follows. The presence in the forefront of "internal labour markets" (as in France) ensures a quick and stable "primary" integration of many unskilled workers (who come either from the elementary school or from the secondary market, and will be trained on the job), as far as a sustained growth of the concerned sector allows them to be recruited. But if growth slows down, then "primary firms" will reject these low-skilled workers sending them towards the secondary labour market, and if this market is not able to integrate them, then unemployment of this category swells. This would be a "mechanical" change, leaving the integration process and the adjustment ways of the labour market unchanged. Such an evolution could be opposed to the adjustment taking place in the German context through the apprenticeship system (as observed during the eighties). Here the slowing down of growth leads to an increased effort of integration from the social partners controlling the apprenticeship policies. Offering more places over a longer period of time allows the system to absorb, to some extent, the downturn while preparing an even more qualified workforce. So the adjustment relies on the main strength of the system, and may be termed "organic". The same perspective holds for the Japanese resorting to polyvalence (again, as observed during the eighties). Last, a "structural" change appears when policymakers or firms introduce elements of policies alien to the existing arrangements and fostering a new logic of functioning. In this line of reasoning, efforts to lower the cost of unskilled labour in a context of "internal labour markets" would bring other adjustments foreign to the managers of these

"internal labour markets" who are accustomed to use stable wage scales. If generalised, such a policy would be a "structural" change.

So, considering "mechanical", "organic" and structural" changes allows us to sketch a dynamic perspective focussed on labour market changes and considering human resources practices and public policies. Routine, path dependency and lock-in clearly appear to be a related set of concepts: a "mechanical" change is made of persistent routine facing difficulties, and may persist in a lock-in process; an "organic" change refers to a positive path-dependency (successful adjustment reinforcing the main traits of the system), while "structural" refers to a tentative or effective rupture with the previous trajectory. However quite different ruptures are possible. Differentiating new segments by creating one or several high skilled and adaptable group(s) of workers with specific career profiles would be a specific kind of rupture, quite different from the lowering cost strategy. "High way" and/or "low way": Silvestre did not explore the plurality of meanings of "structural" changes, and this will be our core point.

We start by considering firms' practices and the way they shaped and transformed the existing segmentation in France (section 1). In a second step we introduce Labour Market Policies and their interaction with the process identified and discussed in the first section, and we consider some of their consequences on workers' trajectories (section 2).

## Section 1 – Labour market segmentation dynamics in France, as seen through the change in human resources management practices

Seminal studies on LMS showed how the diversity in employment practices shaped workers' transitions in the labour market (Doeringer and Piore, 1971). The role given to employer's strategies in modelling the labour market structure is the corner stall of labour market theories. By defining a small number of categories of human resource management profiles, Doeringer and Piore could figure the contours of labour market structure. Here, we will adopt the same thought process but in a dynamic perspective: we will point out the changes in Human Resources Management (HRM) practices that took place in France since the 1980s in order to outline changes in labour market segmentation contours. Doing so, we focus on the transformation – and possible destabilisation – of labour market structures rather than that of individual trajectories[†].

Whereas the structure of French labour market was considered as dual in the 1970s (Piore, 1978), recent studies of the diversity of HRM practices enable us to identify four categories of organisation, constituting as many segments. We will consider them successively.

### 1.1 The emergence of a third way?

During the 1980s French firms looked at the Japanese economy as the way out of the economic crisis. Mostly, the focus was on its particular, Toyotist, form of work organisation grounded on internal flexibility. As a consequence, by the beginning of the 1990s empirical

[†] Our approach is in this section deliberately different from the usual focus on individual mobility. Indeed we can argue that focusing on worker's growing instability tends to mask global changes in labour market structure (Petit, 2006).

studies of HRM practices in French organisations started to point out the development of new practices expanding internal forms of flexibility.

Galtier (1996) conducted a cluster analysis on an enterprise survey run in 1992[‡]. Her classification refers to the length of time employers have in mind when managing workers. She was able to identify short term management practices and long term ones but also what she called mid term engagement. In the latter, employer engaged in employee retention programs, regarding social policy or saving schemes while maintaining a high level of pressure on workers, notably through wage individualisation. These practices were associated with more autonomy in work organisation.

These results where confirmed and elaborated by several other cluster analyses also concerning the beginning of the 1990s. Notably Coutrot (1998) and Petit (2002) conducted studies of human resource management policies based on an establishment survey run in 1992-1993[§]. Once again a profile of HRM is pointed out as allying important investment in workers (high level of training, frequent consultation and negotiation practices) with persistent pressure (with the intensive use of individualisation practices). These studies underline how such HRM practices are associated with innovative forms of work organisation: the role given to the hierarchy is weakened to the advantage of organisation schemes favouring autonomy, teamwork and mobility. Coutrot underlines that the weakening of hierarchies is not synonymous to lessened control. He showed how new forms of control emerged focusing on the result of work rather than its organisation, leading to the expansion of 'controlled autonomy'.

Lemière and *alii* (2006) propose a symmetric cluster analysis for the late 1990s. This study, based on an establishment survey conducted in 1998[**], shows that nearly one fifth of workers are in establishments with intensive training practices and highly individualised pay schemes. Teamwork and autonomy are at the heart of work organisation and are associated with an important use of new technologies. Individuals are at the heart of the firm's functioning. Besides, a multivariate analysis enables authors to call attention to the fact that these establishments are in a process of labour force reorganisation with relatively high turnover rates yielding a bias towards more qualified workers.

In the end, given the number of studies at stake (concerning different databases and time periods), we may consider that there is clear empirical evidence of the existence of a particular profile of employment policy characterised by the importance given to workers' individuality in France since the 1990s. It concerns highly qualified workers, autonomous in their work organisation and using sophisticated technologies while, on the other hand, intensive individualisation schemes brings them to assume a large share of the risks of changing productivity.

Interpreting a similar range of empirical evidence, Boyer et al. (1999) propose to name such HRM policy profile the 'profession' model. Accordingly they put it in line with the segmentationnist literature on occupational labour markets. At the start, Doeringer and Piore (1971) distinguished enterprise and craft internal labour markets. Craft markets were characterised by relatively rigid entry rules and the role unions had in organising it. In the

[‡] The exploited survey is « Coût de la main-d'œuvre et structure des salaires ». It is representative of French firms of 10 workers and more.

[§] The exploited survey is « REPONSE: Relations professionnelles et négociations d'entreprise ». It is representative of French plants of 50 workers and more.

[**] The exploited survey is the second « REPONSE: Relations professionnelles et négociations d'entreprise ». It is representative of French plants of 30 workers and more.

1970s and 1980s such notion appeared as particularly useful in explaining the British or German labour market structures and was termed as 'occupational labour markets' (OLM, see Köhler and *alii* 2006 or Eyraud, Marsden, Silvestre 1990). This type of segment is then characterized by the presence of qualified workers having external mobility patterns. It entails highly institutionalised transferable skills. To illustrate the role of transferable skills in OLMs, Marsden (1986) even looks at them as public goods. This shows the need for formal institutions as a prerequisite for OLMs, as it was the case with unions or vocational training systems in Germany or Great-Britain. And this is the point where, according to us, the French case cannot be associated with the notion of OLMs. If the new HRM practices described seem to favour external mobility of highly qualified workers, qualifications are not sustained by any institution and rather appear to be developed inside the firm through intense training and on-the-job learning. Rather than OLM it then seems accurate to associate the emerging HRM profile with another category introduced by Piore (1975), namely 'upper-tier primary sector'. External mobility here is based on skill's transferability but the individual is put forward rather than any institution as sustaining mobility patterns. The structuring of the segment is grounded in codes of behaviour internalized by actors. Rules are little institutionalised and a personalized relationship is crucial. A barrier that prevents entering is constituted by the high level of formal education. This is another aspect where the new HRM profile identified in France in the 1990s is closer to 'upper-tier primary sector' than to OLMs: qualifications are particularly high. Consistently, Lemière and *alii* (2006) underline that this HRM profile is the most concerned with the level of education when recruiting.

Next to enterprise level studies, analyses of individual mobility patterns also yield the idea that new patterns of external mobility are developing in France for qualified workers. Lefresne's work on youth insertion leads her to the idea that external mobility today is crucial to every HRM profile in the labour market, hence blurring the frontier between the notions of Internal and Occupational labour markets (Lefresne, 2002). Accordingly, Germe (2001) underlines how the instability of highly qualified young workers gives a crucial role to external mobility. Studying the case of IT consultants, Fondeur and Sauviat (2003) consider HRM practices directly based on the external process of qualification accumulation. Qualification is acquired within the firm but is most frequently valued through external mobility. Noting the crucial difference with the concept of OLM, the authors proposed to introduce the term of 'competency market' to describe this management profile. Yet, it may also directly be linked to the notion of 'upper-tier primary sector'. In the end, these studies all put forward the expansion of external mobility-career path in the French labour market by the end of the 1990s.

Be it on firm level or according to individual data, a new HRM profile has been pointed out since the 1990s in France. It may be characterised by the focus on individuals be it inside the firm, through autonomy in work organisation and pay individualisation, or outside the firm, through the focus on external mobility not supported by any formal institution. In segmentationnist terms, we argued such a segment could be interpreted as an 'upper-tier primary sector'. Should we interpret this as an 'organic' or 'structural' change (Silvestre, 1986)? In other words, does the existence of an 'upper-tier primary sector' in France date from the 1970s or 1990s? There is no obvious response to this question as there are no databases enabling us to conduct parallel studies for the two periods. Yet, given that no study of French labour market structure before the 1980s ever mentioned such a HRM profile, we can make the hypothesis that this segment is new. Therefore, its emergence would constitute a structural change in labour market segmentation. What happened then to the 'lower-primary sector' and its internal labour markets (ILMs)?

### 1.2 Are internal labour markets fading away?

Increased individual mobility[††] in the labour market has often been interpreted as illustrating a destabilisation of internal labour markets (Gautié, 2004, Germe, 2001, Lefresne, 2002). Looking at firms' employment policies we will see how such a diagnostic may be developed to construct an interpretation of the dynamic of the 'lower-tier primary sector' through changing forms of ILMS.

Concerning the beginning of the 1990s, Galtier (1996) assumes that traditional internal labour markets persist in firms where seniority pay and intense social policy schemes are widespread. Coutrot (1998), Boyer and alii (1999) and Petit (2002) put emphasis on the introduction of innovative management schemes even in this type of firm. This mostly concerns the diffusion of new forms of work organisation (autonomy, polyvalence and cooperation). By the end of the 1990s, the picture becomes clearer. Lemière and alii (2006) were able to shape a HRM profile named 'renewed internal labour market'. This profile is associated with classical ILMs given the high investment in HRM practices (regarding training, negotiation or pay) and the focus on motivation or formation rather than experience when recruiting. Yet, they depart from the traditional ILM figure for various reasons: work organisation leaves way to more autonomy and polyvalence and individualisation schemes are introduced. Hence, while there is room for internal mobility which is characteristic of the 'lower-tier primary sector', the profile at stake is different from 1970s' ILMs because HRM practices do not refer to workers as a group but as individuals. Even if individualisation is not as frequent as in the 'upper-tier primary sector' it is developed enough to drastically change the principles at the heart of ILMs. Hence, the ILM profile still seems accurate in France but its functioning changed from collective to more individual values.
Increased individualisation and the decline in collective ruling (as generalised pay hikes for instance) may be in line with a change in individuals' state of mind. Indeed, standardised management decisions at the enterprise level can be interpreted as entailing an implicit subsidy scheme among workers (Gautié, 2004): more productive workers accept to be treated similarly than less productive ones (new entrants or those whose qualification is becoming obsolete) for the sake of a stable, continuous and progressive carrier path. This is particularly manifest with indiscriminate wage increases decisions or seniority pay. We hypothesise that such collective functioning may have been less sustainable in a period of slow growth. Furthermore, it is noticeable that the staffing policies of establishments at stake tend to focus on more qualified workers (Lemière and alii, 2006). This supports the hypothesis of dissociation of fates between the more and the less productive workers.

The decline in collective ruling weakened workers as a collective force while putting forward individuals inside ILMs. These changes may explain the diagnosis of 'destabilization of the stable workers' that came forward in the 1990s (Castel, 1995). All the more so since the share of contingent work is particularly high in these establishments[‡‡] (Lemière and alii, 2006).

[††] We will not develop here the analysis of this increase in individual mobility patterns but it appears that while some authors insisted on the generalised destabilisation process (Castel, 1995, Maurin, 2002) more precise studies introduced quite important subtleties in these conclusions. The global increase in instability is associated with an increase in median tenure (Auer and Cases, 2000), which can be explained by an increase in inequality regarding job instability (Sauze, 2006).
[‡‡] Interestingly the important share of contingent work was already a characteristic of French ILMs in the 1970s (Piore, 1978).

One important question emerges here: how could this happen without sapping worker's motivation? We would expect workers' organisational commitment to be undermined by such change in HRM practices. How could managers combine workers' destabilisation and their necessary motivation in participating to the production process? Part of the response may lie in the focus on the most qualified workers for whom individualisation yielded new opportunities. But it also seems crucial to take into account the link between the internal labour market and its context. As Rubery (1994) pointed out 'external conditions provide the constraints and the opportunity which determine firms' room for manoeuvre'. This is true for the labour market conditions but also for the firm's competitive context. The degradation of labour market conditions in France since the 1970s is well known. Mass unemployment and the diffusion of contingent contracts clearly weakened workers' negotiation power and, consequently, their requirements. At the same time, the changes in the productive system and their influence on employment relations have only recently been put forward.

For the past thirty years, the functioning of the French productive system has been deeply transformed through the continuous and massive development of merger and takeover practices, outsourcing and the multiplication of affiliates. Although a substantial body of research identifies the moving structure of inter-firm relations, the mechanisms through which HRM practices are influenced is still not well understood. As a consequence of these changes, pressures originating from outside the organisation are putting into question employer's autonomy in managing work, or at least are put forward as doing so (Petit and Thèvenot, 2005). Three crucial changes in the productive system may influence HRM policies: firm disintegration and the increase in subcontracting, the role of the stock market and the multiplication of subsidiary companies.

- Being a subcontractor opens the way to external influence through trade relationships. While assigning objectives to the managers, the prime manufacturer's prerogatives influence the subcontractor's room for manoeuvre in its HRM policy decisions (Baudry, 2006). Indeed Thèvenot and Valentin (2005) pointed out how subcontractors were characterised by poor working conditions in terms of wage levels or the share of contingent work.
- Concerning capital relationships during this time, being listed on a stock market constitutes a potential external influence on HRM practices. Being listed is supposed to favour shareholder value as a way to manage a business, all the more when equity capital is predominantly held by financial institutions (Aglietta and Rebérioux, 2005). Shareholders are then in a dominant position enabling them to set specific requirements. Doing so, they influence the design and implementation of HRM practices. Such results were put forward by Conway and *alii* (2006) in a comparative study of French and British labour markets.
- The growing number of subsidiary companies also constitutes a possible external influence on HRM practices through capital relations. The parent company possibly imposes requirements on the subsidiary that may influence its HRM practices. Yet, empirical studies did not yield any clear result in this sense (Picart, 2006) perhaps because the influence of parent companies is not similar in one case or another. Case studies then would be the appropriate way to assess this hypothesis but they remain to be done.

In the end, ILM still seems to constitute an accurate analytical category today in France as constitutive of the 'lower-tier primary sector'. Indeed, some firms do offer the opportunity for an internal career where others don't, even if such careers are less systematic or linear than before. Yet, the properties of actual ILM are definitely different from thirty years ago. First, it entails individualised practices and more autonomy for the workers thus referring to

individuals rather than groups of workers. Second, given the massive reorganisation in the French productive system, it seems crucial today to take into account how trade and capital relations influence human resources management policies. In Silvestre's terminology this would be considered as an organic change.

### 1.3 The diversity in secondary labour market HRM practices

Secondary labour market is usually neglected in segmentationnist studies. Doeringer and Piore (1971) specified that where ILM were not instituted, less formal employment policies existed, without much investigating of their characteristics[§§]. The same lack of attention is perceptible in French studies. Quite a few studies engaged in an analysis of the secondary labour market so that it is difficult to precise its characteristics before the 1980s. At the same time, a particular share of the secondary labour market is constantly highlighted in the French case: contingent work. We will examine the dynamics of this share of the secondary market before turning to a more general analysis of secondary labour market policies since the 1990s.

As early as 1978, Piore called attention to the role played by contingent work as a characteristic of French labour market structure. The development of "atypical contracts" (Germe and Michon, 1979) induced the constitution of a secondary labour market at the edge of ILMs. Typically, the French segmentation frontier was passing through firms, not only between firms. Knowing that the share of contingent contracts, agency contracts as well as fixed term ones, has grown drastically in France since the 1980s,[***] it is interesting to evaluate its consequences on the segmentation structure. Such increase surely fed the growth of the secondary labour market. It is nevertheless crucial to acknowledge the internal diversity among contingent workers. Lefèvre and *alii* (2001) for instance showed how, next to the mass of short term viewed agency work, some agencies were putting in place strategies aiming at building longer term relations with workers. Therefore a sophisticated career path may also be elaborated through agency work. Workers concerned by the latter are closer to upper-tier primary sector workers than to secondary ones. Yet, such strategies are just emerging and do not illustrate the situation of the majority of agency workers. Symmetrically, among workers with fixed term contracts there is an important difference between those who are experiencing contingent work once as an integration process and those who repeatedly face such a situation. Looking at establishment data for the period 1986-1999, Sauze (2006) was able to show that, on the whole, only one fifth of fixed term contracts were converted into long term ones. The conversion rate of fixed term contracts into long term ones has cyclical variations but, overall, always oscillated around 20%. In the end, the increase in the share of contingent contracts is high enough to be interpreted, at least partly, as an increase in the share of secondary labour market jobs. Besides, it remains useful to characterise the rest of the secondary labour market jobs, those belonging to secondary labour market firms.

Cluster analyses, taking into account every type of jobs, interestingly open the way to a global description of secondary sector employment policies. Concerning the beginning of the 1990s, empirical studies estimate that a third to more than half of the workers face management practices typical of the secondary sector: quite poor HRM practices (regarding pay or training policies notably) and no innovation in work organisation (Galtier, 1996, Coutrot, 1998, Boyer

[§§] While these policies are less structured than those of firms in the primary sector, it appears excessive and misleading to associate them to a competitive functioning (which Doeringer and Piore did not do!).

[***] From 1982 to 2004, the share of temporary contract grew from 0.93% to 2.91% and fixed term contracts from 2.24% to 7.06% according to the French Labour Force Survey.

and *alii*, 1999, Petit, 2002). The same is true concerning the end of the 1990s but Lemière and *alii* (2006) point out the existence of two different profiles inside such a category.

Some characteristics are common to all secondary sector establishments: career wage progression is less frequent and rarely individualised, negotiations are infrequent and training expenses are relatively low. Besides, work organisation is less innovative than elsewhere. Furthermore, employers at stake particularly often consider that their employees are motivated in doing their job by the fear of unemployment. On the whole, in 1998 this concerns nearly 50% of jobs. Among those, 40% completely resemble the classical description of secondary labour market. In addition to a strict correspondence to the above characteristics concerning pay, training and negotiation, they are small establishments with a large share of workmen. This focus on experience when recruiting is noticeable and it illustrates the little opportunity given for internal career paths. Such a profile is close to the standard description of 1970s secondary labour market and would then characterise a 'mechanical' dynamic of this segment. Nevertheless, next to it, a new secondary profile seems to have emerged. It concerns establishments were pay progression and training expenses are not as uncommon. Furthermore, even if work organisation is not very innovative, workers are rather autonomous. When recruiting, the role given to motivation and the capacity to integrate in the group shows how important the sharing of common objectives is. This profile frequently concerns female employees working in the non-profit sector but also shopkeepers, food service and hotel industry.

Such an employment profile gives the impression of having emerged recently and may appear as a consequence of the massive arrival of women in the labour market. The materialization of a duality internal to secondary labour market may be interpreted as a "structural change" in the labour market structure. In reference to the association between the firm and workers' objectives in this last category, we may make a parallel with the 'upper-tier primary sector' and name it an 'upper-tier secondary sector'. This category only concerns a little less than 8% of workers but it is the one where workforce increases most frequently (over the last three years prior to the survey).

Eventually, the dual structure of the French labour market, distinguishing primary and secondary segments, appears as a persistent characteristic. Yet, the profiles at stake knew important changes to the point where upper and lower tiers were distinguished in each segment. In the primary sector, next to modified ILMs grounding the 'lower-tier primary segment', new practices greatly relying on individuals qualifications and initiatives grounded an 'upper-tier primary sector' that did not seem to exist before. Symmetrically, in the secondary sector, a new profile emerged where the association between workers' and the firm's objectives induced its designation as 'upper-tier secondary sector'. Within the classical duality of labour markets, the French labour market structure finally seems to have experienced, over the past thirty years, a "structural change" mainly characterized by the emergence of "upper tier" sub-segments.

## Section 2 – The interaction of labour market segmentation dynamics with labour market policies in France

While segmentation persisted and changed over time since the eighties in France, the importance of unemployment remained utterly visible and concrete, and added a strong exclusionary component to the inequalities of employees' trajectories. The overall unemployment rate never went under 8 % during the period from 1983 to 2006. It peaked at 11 - 12 % between 1994 and 1998, dropped to 8.4 % in 2001 but remained between 8.5 and 9 % between 2001 and 2006 (OECD standardised rates).

Such a permanent challenge put policymakers under pressure, and a host of different orientations and devices have been tried during the period. Rather quickly, France joined the "activist" countries group regarding labour market policies. On average, it spent between 3 and 4 % of GDP each year on helping the unemployed, either by paying income replacement or by setting placement services, subsidies and training policies. This effort is close to the German one, and quite different from the restricted use adopted in other countries, for example the U.K. However, related to the number of unemployed persons, France's position remains intermediary. With an average unemployment rate around 5 % since the middle of the nineties, Denmark chose to spend between 4 and 5 % of its GDP in labour market policies, and with a comparable official unemployment rate the U.K. remained with a budget under 1 % for these policies for most of this time. So the French effort related to the unemployment level is twice the British one but half of the Danish one.

Many studies have detailed and analyzed the specific orientations followed by these policies, and many evaluations have been presented, either of partial devices or looking at the global effects of the combined interventions (cf. DARES 1996 and 2003 for well-documented official syntheses). Our aim here is not to add to this literature, but to use its main results in order to assess how these policies can be situated in front of the segmentation dynamics studied in the preceding section. Did they combat, reinforce or transform the existing tendencies?

Beforehand, we have here to briefly justify the extension of the elementary analysis presented by Silvestre (1986) to policies: is it possible to apply this framework to policies as decided and implemented by governments, local public institutions and their officers? There is no difficulty when one considers "organic" or "structural" policies, which either develop and reinforce already existing responses, or introduce innovations belonging to a different set of functioning. But one may see a "mechanical policy" as a strange combination, or even wonder if such an expression makes any sense. However, two different reasons can be presented, justifying this use. First, one may think of short-term, adaptive decisions, taken by policymakers trying to cope with undesired consequences of a given evolution without affecting the basic ongoing processes. This could be relevant when the arising problems are felt as temporary, and accordingly governments and actors are trying to preserve the existing arrangements. Second, it could be relevant as well when governments, facing a severe and durable constraint, are looking for a lesser evil. This could especially happen in complex and segmented contexts, where protecting one category of workers or jobs may lead to possible, intended or unintended consequences regarding other categories.

We first briefly present the variety of policy answers experienced in France (2.1), and then we discuss some of their intended and unintended effects regarding segmentation and exclusion (2.2).

### 2.1 The span of policy answers in France

As it was already perceptible in the example taken by Silvestre (1986), the French policies during the seventies and the eighties were first and foremost situated in a short-term and eventually "mechanical" context. If we consider the early reactions against the rise of unemployment following the oil shocks at the end of the seventies, they were "Keynesian" in spirit, and the main effort was devoted to develop an efficient income replacement scheme by extending the unemployment insurance and making it more generous. The 1979 reform intended to guarantee 90 % of their previous wages to the "core" workers, and was quickly abandoned later because of the budgetary pressures on the Unemployment Insurance, in a context of growing evidence of durable difficulties. The development of "active" labour market policies followed this disappointment and is often analyzed as the prevalence of "targeted policies" (DARES 1996 and 2003): the main purpose was to (temporarily ?) replace firms unable to recruit the low skilled groups by developing temporary public or non-profit jobs, and some training and placement activities for these groups. This strategy has been termed since and criticized as "Traitement social du chômage", or "social treatment of unemployment".

However, another key component of this policy response quickly appeared at the end of the seventies and rapidly soared: early retirement (Courtioux 2002). In 1984, the French government was spending as much money for paying the transfers benefiting to 800000 early retirees as for the unemployment compensation of 1 million 600000 unemployed persons. This massive use of early retirement policies can easily be interpreted as a "mechanical" response to mass unemployment in a context of "internal labour market" with lessened absorption capacity. A remarkable consensus appeared at the beginning of the eighties when firms began to reject redundant workers. Very often, the sorting out process focussed on the "senior workers" with low levels of skills and high seniority. For the unions, the shortening of the working life was a key objective of the period. Even more: obtaining it for such vulnerable workers was in line with a strong social justice concern. For firms it was a way of getting rid of less productive (or deemed so) workers. Both social partners, employers and unions, converged in a hope of "priming up the pump" by replacing some of these older workers by younger ones. And the employers' hope was also to obtain a temporary compression of the wage bill. Lastly, for the state, it was an expensive but socially a very well accepted way of diminishing the level of the unemployment rate.

Another policy of similar orientation was pursued during this first period: the attempt to keep young people in school or in university courses for a longer period of time. Here again, an important trait of this policy could be termed "mechanical". Of course the main official objective was to increase the skill level of this group, but during the eighties and the nineties many teaching courses were quite far away from occupational concerns and many training "stages" (work placements) in public institutions yielded little professional content. Both policies, regarding "senior" and "junior" workers, had long-lasting effects. Compared to the EU15, France has been characterized, during the whole period under review, by very low labour force participation rates for the 15 – 24 years and 55 – 64 years groups, and these rates are only slowly increasing at the beginning of the new century.

The following table illustrates the outcome for 1983, 1994, 2002 and 2005:

| | 1983 | 1994 | 2002 | 2005 |
|---|---|---|---|---|
| Unemployment rate<br>15 – 24 | 25.3 (22.4) | 27.5 (21.4) | 20.2 (14.8) | 22.8 (16.5) |

| | | | | |
|---|---|---|---|---|
| 25 – 54 | 7.7 (8.6) | 11.2 (9.7) | 8.1 (6.9) | 8.7 (7.3) |
| 55 - 64 | 6.9 (6.0) | 7.0 (8.4) | 5.8 (6.2) | 6.8 (6.1) |
| Labour force participation rate | | | | |
| 15 - 24 | 41.0 (52.2) | 30.4 (49.2) | 30.2 (47.2) | 33.7 (47.6) |
| 25 - 54 | 67.0 (53.3) | 85.9 (80.5) | 86.4 (82.8) | 87.2 (84.3) |
| 55 - 64 | 32.7 (27.6) | 35.9 (39.4) | 41.1 (43.4) | 43.6 (46.7) |
| Employment/population ratio | | | | |
| 15 - 24 | 30.5 (40.5) | 22.0 (39.0) | 24.1 (40.2) | 26.0 (39.7) |
| 25 - 54 | 61.9 (52.3) | 76.3 (72.7) | 79.4 (77.1) | 79.6 (78.2) |
| 55 - 65 | 30.4 ( 25.9) | 33.4 (36.1) | 39.3 (40.7) | 40.7 (43.9) |

**Table 1. France's basic data on unemployment, employment and participation by age group, selected years, compared to the EU15 (source: OECD; EU15 data in parentheses)**

The cushioning effect has been remarkable, but also complex, as it can be inferred from the above statistics. Compared with the EU average, the unemployment rate for young persons remained very high in France (between 30 and 20 %) but the figure relates only to the corresponding labour force which only represents 30 to 33 % of the age cohorts. So the proportion of unemployed young people to the whole young population remained under 10 % during the entire period. However the problem was, and still is, acute because it is concentrated on certain low-skilled groups living in the suburbs with little employment prospect, as it was shown by the riots of the autumn 2005.

Regarding the older workers, their unemployment rate is very low, but the group of unemployed older workers is trapped into joblessness, and exhibits a very high share of long-term unemployment. In France, early retirement policies revealed itself as typical of a very strong path-dependency process. As soon as 1984, the French government recognized that they were not sustainable at the scale at which they were implemented, and entered into a progressive reduction of their generosity and recruitment. However, very strong resistances appeared and the reduction was not only very slow (Courtioux 2005) but also led to the creation and massive use of close substitutes: the "dispense de recherche d'emploi" (exemption from the actively seeking work rule) was implemented for the low skilled unemployed over 55 years with little re-employment prospects. With such a device, this group could benefit from some income replacement (indeed, much less generous than official early retirement) while staying officially unemployed –but was removed from the statistics because these workers were no longer looking for jobs. This largely explains why the labour force participation rate of older workers is still lagging compared with the EU15 average, while early retirement policies have been officially abandoned.

When considered simultaneously, both policies converge in what could be termed an "organic" attempt in the French context: the exits of "senior" workers could be compensated by the entries of younger workers, creating a replacement and renewal process. It would protect the traditional integrating paths of "internal labour markets" while ensuring the withdrawal of the less skilled, obsolete workers. Directly ensuring this replacement has been tried through some specific early retirement schemes, tying generously subsidized departures to replacing hires. However such schemes proved difficult to implement, the concerned firms taking the opportunity to downsize rather than keeping the same number of employees, and finally they were abandoned. Such frustrated attempts indicated an "organic" direction:

influencing the staffing decisions of primary firms through collective intervention on quantity adjustments.

In our perspective, one has to consider the well-known and controversial French policies of shortening the working week – the two "Aubry laws" (1998 and 2000) promoting the 35 hours week, as the main "organic" policy implemented during the period. Progressively prepared by a long lasting debate initiated at the end of the seventies (Barou and Rigaudiat 1983), they were first centred on big firms, and their extension to SME was stopped after 2001 with the defeat of the socialist party. In brief (Erhel and al 2003; Dayan 2003), they combined two processes, a mandatory one with a negotiated one. The mandatory process was the setting of a short timetable of two years for shortening the workweek, accompanied by transitory measures. The negotiated part, mightily helped by important subsidies, was the reconfiguration and modulation of the use of time within firms, to be settled by collective agreements. This dual nature of the laws ("aménagement / réduction du temps de travail") aimed at adapting the policy to specific firms' needs and constraints, and at keeping the additional costs under control or even enabling firms to take advantage of the changes. Annual time modulation ("annualisation") and intra - week modulation allowed firms to develop a better adjustment of workers to the workload and a better use of their capital. Far from the naïve hope of a strict compensation of shorter hours by equivalent additional hires, and avoiding wage cuts, French policymakers tried to compensate the additional costs by three gains of roughly similar magnitude in order to ensure the economic viability of the reform: one third of improved productivity of workers through the reorganisation of work, one third of subsidized additional hires and one third of better use of the firms' equipments.

This sophisticated process had several contradictory direct effects. First of all, the employers' Union strongly opposed to it, and this gave a highly conflicting tone to the French industrial relations during the period 1998 – 2001. But at the same time, the laws fostered a rapid and even spectacular rise in the number of enterprise's agreements (whose number tripled) adapting the changes in working time to local reality. Secondly, the implementation of the laws proved very complex for firms as well as for policy makers: for example they had consequences on the minimum wage, and during a transitory period no less than 13 different levels of "SMIC" coexisted. But it became standardized. While very big firms could easily elaborate a line of conduct for their own sake, medium – sized firms bought services to consulting firms in order to comply with the rules. Last, the net effect on employment remains somehow controversial. But it has been evaluated around 500 000 jobs created, the bulk of them during the year 2000. However, this effect is a once – for – all effect, the durable effects depending on the way additional jobs, initially subsidized, take place in the firms' trajectories.

This "organic" effort took place in a context dominated by quite different perspectives, policymakers trying, at the same time, other logics of intervention. The "targeted" active labour market policies, which were relying on the absorption capacity of public and non profit jobs, have been quickly criticized before, as "make – work" policies developing useless activities and crowding out the competitive jobs which could be generated in the private sector. Then the priority became progressively to directly subsidize private jobs in the for profit sector, and to influence the labour costs downwards. This is far away from protecting and feeding "internal labour markets" and their stable wage hierarchy. However the difference appeared slowly. We already saw that the 35 hours laws had an important component aiming at subsidizing low wages workers; this process started in 1993, and was first conceived as aiming at lowering the cost of labour in general. But for budgetary reasons the effort was concentrated on low wages (L'Horty 2006, p. 46) and the priority given to low-skilled

workers appeared later. In 1994, a complementary and then consensual decision in this field had been taken: subsidizing part – time workers in order to develop this employment form.

This policy became more and more important: in 2006, 11 millions workers were subsidized in this way (ibid. p. 41). However, its main characteristic should be correctly identified. Two very different strategies exist here. Strong and targeted subsidies (say, 80 % of the labour costs for a group of highly disadvantaged workers) leave the existing wage structure and level untouched, while ensuring an increase of the (full-time) placement of the targeted group. Such a compensatory strategy was implemented in Sweden during the eighties (Anxo and al 1994) and is quite different from the generalized, semi-targeted and intermediate-level subsidies (up to 30 % - 40 % of the wage costs) which where implemented in France during the nineties and aimed at reducing the wage cost of the less qualified.

The orientation was confirmed at the turn of the century by the introduction, stealthy but eventually consensual again, of the "Prime Pour l'Emploi" (PPE; see Cazenave 2006). Instead of subsidising firms, this policy device aims at subsidizing low-paid workers in order that they accept keeping their jobs. It imports two well-known institutions in France: the Earned Income Tax Credit (EITC) as implemented in the USA and the Family Credit as used in the U.K. The main difference, up to now (2007) is a difference of scale: despite several increases, the French tax credit remains quite modest.

In the end, the diffusion of this logic of subsidising jobs in the for profit sector can be interpreted as a structural change as it takes for granted that primary sector firms can no more exert an integrating role into the market. These policies take place within the "making work pay" framework as elaborated and diffused first by the OECD and later promoted, along with other priorities, by the "European Employment Strategy". Focussing on work supply and mainly on work incentives and disincentives, they aim at fighting "traps", in other words situations where work gains do not clearly dominate welfare payments. They also converge with growing concerns about the rigidities stemming (following well diffused but controversial analyses) from the Employment Protection Legislation in France, and with numerous efforts to lessen it. A conspicuous but unsuccessful one, which was in winter 2005 and spring 2006, was the attempt to introduce a new labour contract for young people, the "Contrat Première Embauche" or CPE. Inspired by another one reserved for SMEs, this contract was setting a two years probation period during which the employer could fire the new employee without giving any reason. After months of fierce popular opposition, especially from the students, the project was abandoned by the government.

"Mechanical", "organic" and "structural" policies: these distinctions give a plausible key for interpreting the major initiatives taken by French policymakers in front of mass unemployment and persisting segmentation, given the type of constraint they faced. But the key is not the same as in our first section. Indeed, the persistence of "mechanical" policies, the "organic" initiatives and the progressive introduction of "structural" attempts may be explained by choices aiming at preserving and later reforming and supplementing traditional "internal labour markets". But the "structural change" is now exploring a "low road". The transformation of these "internal markets" and of the labour markets as a whole (as analysed in section 1) now has to be taken into consideration when one comes to the main intended and unintended effects of the interaction between the segmentation process and these various and partly conflicting policies.

## 2.2 Persisting and renewed segmentation: the role of labour market policies

In order to obtain a meaningful view of the outcome, one may first rely on the figures of employment and unemployment, but also on dynamic and comparative data on the trajectories of workers during the considered period. We do have a number of more or less detailed "panels" analyses on the "transitions" performed in and around the labour market in France, for example the French studies of Céreq on the integration of young workers ("Entrée dans la Vie Active"; cf. the "Enquêtes Génération" 1998 and 2001) are quite detailed. Important statistical studies have been done on the less detailed but more general quasi-panel data derived from the "Enquête Emploi" (Bloch and Estrade 1999; Fondeur 2005). Comparative studies also exist using the European Community Household Panel (for example Calandrino and Gagliarducci 2004).

While it is not possible to get into a detailed discussion of these results, some of them are worth mentioning in the light of preceding developments. First of all, the level of unemployment remained very high as we saw. Existing evaluations of wage subsidies are quite diverse and contradictory. Their effects on low-skilled jobs creation and/or preservation range from 100000 to 600000, with considerable uncertainty (L'Horty 2006 op. cit. p. 56), while the job creation effect of the two Aubry laws has been estimated around 500000 (Dayan 2003; Erhel and al 2003). This means considerable windfall effects, which has been observed, probably concentrated in the secondary segments (the "primary" firms focusing on better qualified workers). In this context, some dynamic estimations are worth mentioning. Calandrino and Gagliarducci 2004 focussed on the transition rates between such states as employment (short term and long term contract), unemployment and inactivity, in the E.U. 15 countries from the mid – nineties to 2001. They found in the case of France quite low rates of transitions from unemployment to employment, and, weak rates of transitions between short-term and long-term employment which is even more important in our perspective. The French average yearly rate stands around 20 % while it reaches the 50 % level in Austria. The difference is enormous, it could be said that in France workers in short-term work contracts are trapped in this situation while in Austria most of them can take it as a starting point or even a springboard.

Y. Fondeur (2005) focuses on the integration process taking place during the first seven years of presence of young cohorts into the labour force. He examines the proportion of each cohort being employed after seven years, and the proportion having a stable job (the period under review is 1982 - 2002). Regarding the overall integration on the labour market, it seems to be quite the same in the eighties and the nineties, the differences stemming from business cycles finally offsetting each other. Some generations start with good initial conditions and then encounter the consequences of an economic slowdown; for other generations the reverse occurred: they started with rather hard conditions and were able to catch up later. All in all, the same very high proportion of each cohort has found a job seven years later. But the picture changes when one considers the percentage of stable (long-term) jobs. For the 1975 – 1980 generations, after seven years the proportion of workers in such a stable position reaches 95 %. From 1986 to nowadays, the proportion goes down slowly to 90 % and the trend remains in this downwards orientation. This may be interpreted as the long-term result of the interaction between the evolution of the labour market and labour market policies: a progressive accumulation of young adults trapped into less stable jobs.

Such a tendency has to be discussed together with another evolution, going in an apparently reverse direction. The figures of average job tenure have been slowly rising in

France since the eighties (Auer and Islam 2006). They remained at a position similar to Germany and Sweden between 11 and 12 years. This stability suggests that more and more well protected workers stay longer in their enterprise (possibly fearing the consequences of a mobility decision), while another group of less favoured workers is trapped into a circuit and alternate unstable jobs and spells of unemployment (L'Horty, 2004).

It is not possible in this exploratory text to get into a detailed analysis of the trajectories observed for some types of workers. We shall simply identify some domains where the consequences of labour market policies are particularly salient and could be explored further. The first has already been evoked: the slow erosion of the situation of young workers. It may be considered as a "mechanical – structural" effect of the French labour market policies. "Mechanical" because they still wait for better jobs, and "structural" because they experiment degraded jobs which are more and more numerous. These jobs tend to foster a new norm of employment, much less favourable than the preceding one, the low level of pay being partly compensated by public intervention (Lefresne 2003). A second is the emergence of the "working poor" (Concialdi 2002). The official poverty rate in France remained rather stable during the period, which was characterized by the setting and implementation of important policy measures such as the Revenu Minimum d'Insertion (RMI) in 1988, however the composition of poverty changed dramatically. The poor (defined as households living with less than 50 % of the median household income) at the beginning of the eighties were mainly out of the labour force; during the nineties, poor households with at least one member belonging to the labour force became the majority. And in this group, more and more households have one or two members engaged into paid work. What is more disturbing is that situations of poverty appear more and more for stable workers, not even in part-time contracts. We find here again the implicit emerging norm, fostered by two connected processes. First, the "structural" efforts for integrating workers focussed on a lessening of existing employment protections, seen as barriers; this has been done through the multiplication of special, dispensatory labour contracts for the newcomers; second, incentives problems appeared, notably with low - paid jobs and intermediate situations mixing some work with welfare payments. For example, the RMI's benefit is approximately half of minimum wage for one person but reaches the minimum wage level when paid to households with two adults and several children. In order to fight exclusion, the French policies largely contributed to create a new segment of disadvantaged workers: the working poor often combining low pay and transfers payments.

Another, largely unexpected policy consequence reinforcing existing segmentation has been the inequalities of treatment regarding the hour modulation stemming from the partial implementation of the two "organic – oriented" Aubry laws. As we saw, these laws organised a bargaining process at the firms' level, allowing them to introduce differentiated time uses along the week and the year, in order to adapt quickly to changing demands and to partly finance the shortening of the workweek. Seen from the point of view of workers, the outcome of this process has been quite unequal, especially for women (Méda and Orain 2002). Simply put, the more favoured workers were able to obtain a better equilibrium between their job and their domestic life, while less favoured workers often faced more constraints stemming from more volatile schedules. While the explicit connection with the new segmentation forms as analysed in our first section has not, to our knowledge, been made, it seems quite plausible that these highly differentiated outcomes took place in different segments, the "upper-tier" being quite favoured while the renewed, lower – tier primary sector being adversely hit by the opportunities created for employers.

This undesirable by-product of the law was not, of course, a fatality. It could be combated by counterbalancing measures but they were not elaborated and even less implemented because the right-wing governments set after 2001 chose first to stop the extension of the laws to small and medium firms, and later to neutralise their effects by changing the rules concerning supplementary hours. This situation by itself brought an additional reinforcing of the existing segmentation: small and medium-sized firms were not affected by the laws, therefore the existing gap between SMEs and big firms eventually widened. We may identify here a complex mix of "mechanical", "organic" and "structural" effects.

So, new aspects of the segmentation process appeared, stemming from these interactions, with more differentiated segments, corresponding to intended as well as unintended policy consequences. The variety and unintended effects of labour market policies underlines the role of employer's strategy in shaping the consequences of policies. To a certain extent, they are what they make of them. The hope of many French policymakers remains, through the lowering of barriers and of protection, to foster a better integration of the excluded. The results of preceding policies have been quite deceiving. They range from the successful integration into regular jobs for more and more skilled workers to persisting high levels of unemployment and a wide zone of situations intermediate between work and welfare, situations which tend to be durable, notably for the less skilled and less favoured workers.

## Conclusion

In this contribution we identified and connected important changes in the functioning of the French labour markets as well as in the orientation of labour market policies since the seventies. While the connection has been quite close, a major difference in what we termed "structural" changes appeared in our two interrelated fields. Regarding labour market segmentation, the "structural" change has been at least twofold: first and mainly, the emergence of a new, skilled, polyvalent and quite mobile segment; and second, the transformation of the secondary segment with the emergence of an "upper secondary tier". Regarding labour market policies, the "structural" element has been the emergence of policies aiming at lowering the wage cost of a large segment of the workforce, the low-skilled workers. So the priority has been given by policymakers to the integration of disadvantaged workers in low quality jobs, taking for granted their low level of productivity and employability. As a consequence and rather paradoxically, the changes in human resource management policies rather motivated a "high road" structural change, focused on the more qualified workers while, in parallel, public policy rather fuelled "low road" strategies mainly concerning the less qualified. In doing so, public policy reinforced the differentiation between segments rather than favoured upward mobility patterns.

If we stay inside our initial perspective, one explanation of this choice might be that policymakers looked for a substitute to the previous integrating process ensured by traditional internal labour markets. Yet, we suggested that lowering the labour costs of the less qualified mainly seems to have constituted a "windfall effect" for secondary sector firms, as primary sector ones rather chose to focus on more qualified workers. This "mechanical" effect (an increasing and polarised divide between stability and instability in the French labour market) would be in line with Silvestre's conception if we admit that the "organic" core of the French

labour market has been probably shifting over time, and while still being dominated by the (renewed) internal labour markets, it probably also relies on the new primary segment and entails more workers' controlled mobility as well as stability.

In the end, "organic", "mechanical" and "structural" changes appear to be quite complementary and intertwined. This is particularly noticeable in the case of policies aiming at shortening the work week: they were at the heart of organic change in the primary segment as well as of some mechanical changes in the secondary labour market. Here we probably reach the limits of the distinctions proposed by Jean-Jacques Silvestre, as applied to a complex process.

The debate on securing workers' trajectories and on "flexicurity" has just begun in France, and in 2006 quite diverging agenda have been presented under this label, some of them being close to mere flexibility, and others fostering negotiated and collective arrangements (Cahuc and Kramarz 2005, Auer and Gazier 2006). In line with the labour market dynamics put forward here, two challenges stand out: taking into account the persistence and weakening of the traditional "internal" labour markets which still exert a dominant influence on individuals' trajectories; addressing workers' controlled primary sector type mobility patterns at the same time as strongly constrained and instable secondary workers mobility patterns.

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