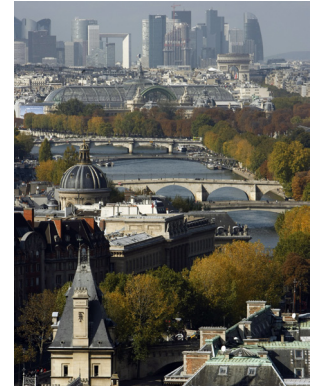


McKinsey Global Institute



March 2012

French employment 2020: Five priorities for action



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French employment 2020: Five priorities for action

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Labour market highlights in France

11th among the EU-15 countries
on per capita GDP

40% of young people are working
vs. **69%**
in the Netherlands

42.5% of seniors participate in
the French labour force
vs. **74.6%** in Sweden

Temporary workers
account for

13% of employment, but
more than **60%** of job losses
during the crisis

France ranks

4th out of the EU-15
on productivity

13.5% unemployment rate for workers
with at most a BEPC first-stage
secondary qualification

vs. **5.6%**
for those with at
least three years
post-baccalaureate
qualification

By 2020,

2.3 million

jobs shortage facing workers without
a baccalaureate-level qualification,

and

2.2 million

jobs requiring a baccalaureate unfilled or
filled with workers with the wrong skill set

240,000

net new jobs a year needed to cut
unemployment to 5.5% and reach
average EU participation by 2020—
more than double current projected rate

13 percentage points spread of
unemployment rates between
fields, independent of level of
educational attainment

Executive summary

France's labour market has been relatively resilient in the face of the global financial crisis of 2008 and 2009 and the euro crisis that gathered full force in 2011. But unemployment has begun to rise again, and further headwinds loom. The French social system is already under significant strain, and it is difficult to see how it can be sustained without a considerable boost to employment, particularly in view of the need to restore balance to the public finances in the aftermath of recession. This report finds that France needs to more than double the number of net new jobs it is creating each year compared with historical levels to meet even moderate ambitions for employment and prosperity. Complicating matters is that France is experiencing a severe structural mismatch between the supply of, and demand for, skills that will intensify and may jeopardise efforts to increase employment.

We take the view that France should set high aspirations on job creation over the next ten years and address the structural skills mismatch head-on.

The main findings of this report are as follows.

- The French labour market model may seem relatively successful in tempering the initial impact of crises compared with the United States or the average of the EU-27, but it then tends to be sluggish during economic recoveries. Analysis of past recessions shows that French unemployment was on average 0.5 per cent higher rather than lower one year after the start of the recovery than at the beginning of the recovery. Further, a bifurcation has emerged between long-term contract workers and temporary employment, the latter accounting for 13 per cent of jobs but more than 60 per cent of job losses since the onset of the crisis. Severe headwinds to growth remain, and even France's public sector, which generated 600,000 net new jobs in the 1980s, shed 40,000 jobs between 2000 and 2009.
- France has begun to lag behind other European economies in terms of its per capita GDP. Until the 1990s, France was among the leading economies of Europe on this metric but by 2010 had dropped to 11th out of the EU-15 economies—ranking higher than only the Southern European economies of Spain, Italy, Greece, and Portugal. Low labour participation¹ and high unemployment rates are the main drivers of this per capita GDP gap. France's participation rate has largely stagnated over recent decades, while the participation rate for the EU-15 as a whole has trended upward since 1996. By 2010, the gap on participation between France and the EU average had reached two percentage points—and as much as nine percentage points for seniors aged 55 to 64.

¹ Participation is defined as the share of people employed and job seekers in the total population for a given age bracket.

- Given demographic trends, even to meet moderate ambitions on employment and prosperity, France needs to more than double the annual net jobs the economy creates. Over the past 40 years, France added around 115,000 net new jobs each year on average. Official forecasts predict creation of between 95,000 and 144,000 net new jobs annually to 2020 with GDP growth rates of between 1.4 and 1.9 per cent. In a low job-growth scenario in which France creates 100,000 jobs a year over this period and stays at the current level of participation, unemployment rates would be reduced to 5.6 per cent by 2020. However, this level of job creation would be insufficient to address the issue of the widening prosperity gap. To reach median EU-15 prosperity levels by 2020—assuming that productivity develops in lockstep with the country's peers—France would have to create 370,000 net new jobs per annum. At 5.5 per cent unemployment, this would imply a 76 per cent participation rate, close to Germany's rate in 2010. This fast a pace of net new job creation is highly ambitious. France has attained this level of annual net new job creation three times in the past 30 years—in the boom years of 1998, 1999, and 2000. More recently, European economies including Finland, Sweden, and Switzerland achieved this in the years before the 2008 global economic crisis. Given the current macroeconomic context, we define a medium job-growth scenario in which the target unemployment rate is still 5.5 per cent but the implied participation rate is the EU-15 average of 72.7 per cent. In this scenario, the level of net new job creation reaches 240,000 jobs per annum—equivalent to GDP growth of 2.1 per cent.
- Compounding France's labour market challenge, the nation faces strong demand for workers with a high level of educational attainment and a significant shortfall in jobs for workers with low levels of educational attainment. At the same time, the unemployment rate of highly skilled employees is very low. Without action, this mismatch will become much more pronounced by 2020. A McKinsey model of the supply of, and demand for, labour by level of educational attainment in France by 2020 finds that there will be a shortage of 2.2 million high-skilled workers, while workers without a baccalaureate-level qualification (BAC) may face a shortage of 2.3 million jobs. A significant mismatch by specialisation also exists at all levels of educational attainment. The education system does not seem to keep pace with the transition into a knowledge economy.
- France should consider five priorities for action in its labour agenda for 2020.
 - Reform labour market conditions for seniors to increase participation rates (e.g., design of new working models for senior workers, access to continuous learning and retraining, review of the pension framework to set the right incentives).
 - Boost the overall skill level of students and workers and better adapt skills to market demands in the knowledge economy (e.g., increasing the supply of high-skilled labour in fields where there is a high risk of shortage, raising educational attainment, increasing transparency and guidance for students, creating institutions and incentives for targeted employment-oriented skill building, closing the gap to international standards on lifelong training).
 - Improve labour costs and flexibility (e.g., increased flexibility in the labour market, carefully paced deceleration of growth in the minimum wage, reduction in total labour costs).

- Support job-creating growth for both the high- and low-skilled (e.g., by facilitating the creation of businesses, ensuring the development of high-skilled jobs, and expanding labour-intensive sectors like tourism and personal services).
- Improve matching mechanisms to ensure the effectiveness and efficiency of employment spending (e.g., bringing the labour agency to best-practice levels).

In this report, we first analyse the state of the French labour market today and then set aspirations for net new job creation for the next decade through reducing unemployment and increasing participation. We stress the importance of addressing the structural challenge posed by a growing mismatch between supply and demand for skills. We conclude with five priorities for action that France could consider including in its labour agenda for 2020.

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An economy that works: Job creation and America's future (June 2011)

For the United States to return to the employment level before the 2008 recession—finding work for the currently unemployed and accommodating new entrants into the labour force this decade—the US economy will need to create 21 million jobs by 2020, according to MGI's analysis. The report analyses the causes of slow job creation in the period before the recession and during the recovery, and the implications of these forces for job growth.



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As baby boomers retire and the female labour participation rate plateaus, increases in the workforce will no longer provide the lift to US growth that they once did. To match the GDP growth of the past 20 years, US labour productivity growth needs to grow from 1.7 per cent a year to 2.3 per cent. That's an acceleration of 34 per cent to a rate not seen since the 1960s.



Beyond austerity: A path to economic growth and renewal in Europe (October 2010)

Europe faces pressures on GDP growth at a time when scope to stimulate growth from public funds is limited by high debt and deficit levels. The threat to growth is unlikely to dissipate soon, and significant imbalances in labour costs and current account positions between European economies intensify the strain. This report sets out a detailed agenda for European structural reform based on analysis of existing best practice within the region.



Meeting the 2030 French consumer: How Europe-wide trends will shape the consumer landscape (October 2010)

This research, led by the Consumer and Shopper Insights group of McKinsey's Marketing Practice, with the support of MGI, looks at longer-term trends in Europe and their impact on consumption, with detail for France as a representative case. The report finds that the European consumer market is critical and it is in the process of sweeping change, driven by three macro trends: demographic, societal, and economic change.



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Rising income dispersion in the United States and other advanced nations has become a source of concern. In an effort to provide a full explanation, MGI and the McKinsey Social Sector Office conducted a study of changes in income dispersion and their causes from 1991 to 2005, the height of the economic cycle. Its findings show that redeveloping America's human capital should be the focus of labour market policy coming out of the recession.

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