

PRIORITY TO JOBS, UNDER STRONG CONSTRAINTS

€# *The new French Cabinet has decided on a priority: wind back underemployment. However, Keynes was not the only influence in its plan to relaunch demand. In fact, the budgetary constraints would hardly allow it; however, more important, the difficulties faced by the French economy are principally structural in nature – the supply side is at fault – as proven by the quiet strong domestic demand and the worsening of trade exchanges.*

€# *In this context, the programme combines measures coming from the "social handling of unemployment" and measures that will lighten the loads on very small companies, which should improve efficiency in terms of the change in unemployment over the next few quarters. A few longer-term structural measures fill out the plan.*

After the French voted "No" to the European constitutional treaty, a sign of the disenchantment of a large section of the population, the new Prime Minister, Dominique de Villepin, set himself one central goal: to win the battle of the jobs. Never has this fight, renewed frequently over the last three decades, been fought in such difficult conditions: the economic situation is going the wrong way, with growth of near 1.5% this year, and 2% projected for 2006 if the expected decline in oil prices does occur, and not counting a renewed fall in the dollar; the electoral schedule also demands – starting now – quick results; budgetary wiggle room is practically non-existent; households' confidence and business confidence are at their lowest for a long time; a social consensus that would enable give-give reforms to be implemented has been made difficult by the features of trade unionism in France (a high number of unions, low union membership in the private sector).

These serious constraints most likely explain the pragmatism of the approach and the lack of explanation of a strategy which, working from the strengths and weaknesses of the French economy, would appear to aim to capitalise on globalisation and technological changes, rather than just put up with them. Hence the reform, fundamental in importance, of the public sector is not mentioned at this stage; the 2006 Budget, it is true, could partially fill this gap.

Priority to jobs in VSC and to youth employment

The urgency is reflected in the use of executive "orders" rather than laws, and in the desire to implement the Borloo plan for social cohesion without waiting any further, and indeed amplifying some of its measures. Hence, the number of job-support contracts (in associations and local bodies) for young people has been raised from 20,000 to 100,000; at the same time, the ANPE jobs service will find an "appropriate solution" by September for the 57,000 young people experiencing long-term unemployment. This what could rein in unemployment rate to under 10% in a short time.

Other measures in favour of youth: a tax credit of € 1000 for young people agreeing to a job in the economic sectors that have been experiencing chronic hiring difficulties (building and public works, hotels and food industry, health care); young people left out of consideration in the count of the staff thresholds of 10 and 50 employees; the gradual implementation of a special national service to train young men as one exists in the overseas territories (with a goal of 20,000 youths in training by 2007).

The measures aiming at improving the functioning of the labour market are focussed on the very small companies (VSC): the "job cheque"¹; compensation for the cost of the threshold of 10 employees; the creation of the "new hire" contact which will include a "trial period" that can last for up to two years (as opposed to the usual three to six months). This innovative employment agreement, the highlight of the programme, is based on the Danish model of

"flex-security"; its development will certainly raise discussion with the unions to define the term of the notice period and the conditions of access to unemployment benefits in the vent that the contract should be suspended, or if it did not become transformed into a permanent job.

While these measures are interesting in themselves and will be effective in the short term, since they are focussed and in some way have an experimental nature, they must, however, also find their place eventually in a revised labour code, which would be balanced and take into account the speed of the adaptations required.

Pluses: the speeding-up of privatisations and the use of public-private partnerships for investment. A reflection of the stresses on budgetary resources, there are substantial resources that could make it possible – if they are well used – to strengthen the productive apparatus in the long term (road and rail infrastructures; reform of R&D treatment; creation of the Agency for innovation as per the "Beffa Report") and, in the short term, to sustain somewhat the economic activity.

Lastly, some measures provide partial answers to the obstacles that the SMEs must overcome to expand: set aside a portion of government contracts for SMEs, following the US practice (a measure whose procedures must be discussed with the European Commission); facilitate the change in generational management of companies (as well as the tax rebate granted on the proviso that the shares are retained or the business is continued by the donor being raised from 50% to 75% in the bill in favour of SMEs).

A restricted budgetary cost for 2006

The cost of the programme is estimated, down to the last penny, at € 4.5 billion in 2006. In itself, this is a relatively low amount – one quarter of one percent of GDP – especially considering that it includes the last tranche, already announced, of the reductions in charges on low earnings that are needed to compensate the increase brought about by the 35-hour week.

COST OF THE JOBS PLAN IN 2006 (in €, billions)

Continuation of reductions in charges on the lowest earnings	2.2
Additional job-finding-assistance contracts	0.8
"Future contracts"	0.55
Assumption of the increase of the switchover to 10 employees or more	0.5
A € 1000 bonus for taking over a job in some sectors	0.15
Suitable military service	0.25
Total	4.5

Nonetheless, the budgetary equation will be particularly difficult to solve: the government has reaffirmed its intention to bring down the public deficit below the level of 3% of GDP, whereas its 2005 goal (2.9% of GDP) will be exceeded by several tenths of percent; growth will, at best, be moderate next year; the payment from EDF-GDF taken into account in 2005 (0.4 points of GDP) will no longer have any effect; the dynamic of the corporations tax will be less favourable; and lastly, some tax reductions are now already scheduled.

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¹ The bill in favour of the SMEs plans to set up a very small company "job cheque" that will function as prior declaration of hire, as the employment contract, as the pay slip and as the means of payment. It is reserved for companies with five permanent employees or fewer.

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