

POLITICS



Jan-Peter Olters

“A UDACIOUS” MAY BE AN APPROPRIATE adjective to describe the plan by France’s Socialist-led government to attack its pressing unemployment problem. It has begun to push through legislation to gradually reduce the statutory working week from its current 39 to 35 hours by the year 2002, while ensuring no loss of pay to workers. Whereas the French electorate has been curiously attracted by the notion that a fairer distribution of available work could create hundreds of thousands of jobs, the employers’ reactions have been harsh and uncompromising. Rather than alleviating the unemployment problem, they fear that this policy will compromise France’s long-term growth potential and its job-creation capacity.

Beyond the Polemics of Politics

Advocates of the 35-hour week are convinced that slightly reduced working hours will result in an increase in the total number of workers required for a given level of production.

Among those, a significant number categorically rejects any proposal to adjust workers’ paycheques in line with the reduced hours. For this approach to be a convincing job-creation strategy, policy-makers must face two possible labour-market outcomes, both shown in the accompanying figure.

Co-Editor of World Economic Affairs. His e-mail address is jpolters@leacock.lan.mcgill.ca.

Some Doubts About France’s 35-Hour Week

It depicts the supply and demand curves in the labour market, represented in terms of real hourly wage rates and total hours of work (the number of workers times the average hours per worker). France’s current high-unemployment situation can be viewed as the horizontal distance between supply and demand in the labour market at the wage rate w_0 , stuck between the alternative market-clearing rates w_A^* and w_B^* . When employers advocate “flexible” labour markets with lower wage costs, they are expressing a preference for outcome *A*. The Jospin bill, on the other hand, wants to move the economy to outcome *B* by reducing per-worker hours and increasing the hourly wage rate. At point *B*, there are more workers employed than at point *A*, but each of them is working fewer

question, however, is only a secondary one.

Primary is the question of feasibility. While *A* is always an option, *B* is not. Two conditions have to be met for the Jospin outcome (at *B*) to be a real possibility. First, the labour-supply curve has to exhibit a backward-bending portion. And second, the labour-demand curve must not shift inwards in reaction to the shortening of the working week. If either condition is violated, the labour market will react as indicated by the figure’s dashed lines—indicating that the new policy may spell disaster for France’s jobless.

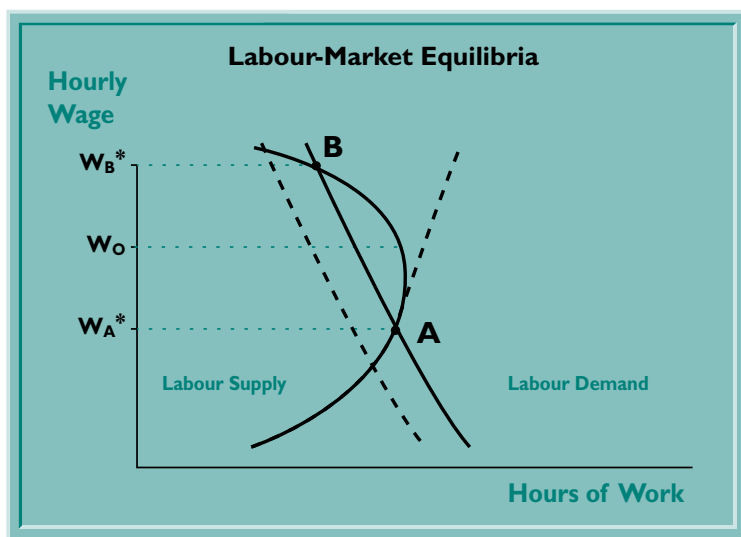
Is Labour Supply Backward-Bending?

The positively sloped portion of the labour-supply curve represents the traditional relationship seen in

economics textbooks world-wide—with higher wage rates, workers would like to work more. In its backward-bending segment, people wish to *reduce* their work effort when wages rise, which might occur if their income or wealth is already sufficiently high that they can afford to prefer “more leisure time” to “more consumption”. Such a relationship can manifest itself politically when workers instruct their unions to bargain for

a reduction of the legal working week or when they vote for a government that has promised to legislate such a change. This behavioural response also becomes visible when a large fraction of the labour force is willing to forego higher income by seeking part-time rather than full-time employment.

The example of Dutch labour-market reforms is quite helpful in evaluating the likely shape of the labour-supply



hours. Total work effort is less at *B* than at *A*.

From the workers’ perspective, point *B* has a certain appeal, as they work fewer hours for the same amount of take-home pay. Firms, in contrast, face higher unit labour costs and thus have lower profits. This tension between firms and workers naturally leads to the question of which outcome is more beneficial for society as a whole. The “social desirability”

curve. The ratio of part-time to total employment in the Netherlands, currently at around 37%, significantly exceeds the ratio of any other industrialised country. This fraction reveals more than just the workers' preference for leisure time over consumption, however. Perhaps more important is the fact that all jobs—part-time and full-time—come with social-security benefits, and part-timers enjoy the same rights and benefits as anyone else in the labour force. Unlike many countries, therefore, there are no built-in biases in the system which lead Dutch workers to seek full-time rather than part-time employment.

Labour markets in the Netherlands thus exhibit some flexibility in that they allow workers to schedule working hours around their personal lives as much as they allow firms to offer employment according to their needs. As a result, the Netherlands can now point to the creation of half a million new jobs over the last four years—despite the fact that the number of overall hours worked remained roughly unchanged. This phenomenon very nicely corresponds to the idea of a backward-bending labour-supply curve and suggests that *B* is indeed an option. The Dutch experience suggests, however, that a massive government intervention *d'une façon française* is not necessary to achieve such an outcome.

Effects on Labour Demand

It is also crucial to analyse the probable reaction of firms to government-legislated reductions in the working week. The labour-demand curve reflects the notion that firms will increase their use of labour when wage rates fall. But they have a choice as to whether to hire more workers or, instead, to ask a given number of workers to work longer hours. In the figure as shown, firms are indifferent to the split between workers and hours. For example, profits are unaffected by a firm's choice to hire 300 workers at 40 hours per week, or 400 workers at 30 hours per week. However, if it is more costly for firms to choose the latter combination, the legislated move to restrict the working week will lead firms to reduce their total demand for labour, thus shifting the labour-

demand curve inwards. In that case, *B* will remain an elusive goal.

Such a reduction in labour demand would occur if firms find it more productive (and thus less costly) to have fewer workers, even for a given number of total hours. Only if every task were sufficiently divisible and the quality of output unaffected by the number of workers involved would firms ever be indifferent. Casual observation, however, suggests that many tasks require what Nobel laureate Friedrich von Hayek called "the knowledge of the particular circumstances of time and place"—that is, the type of job-specific information that is neither measurable nor communicable. By enlarging a firm's workforce, that knowledge will be adversely affected, increasing the need for costly coordination and the risks of avoidable misunderstanding. It is therefore likely that firms have a clear preference for longer working weeks rather than shorter ones. Any government intervention working in the opposite direction is expensive, either for the firms or the taxpayers, and thus detrimental to economic growth.

There is a second reason why labour demand is likely to fall in response to the Jospin bill: the payroll taxes that employers pay *per hour worked* increase with a larger workforce. Even if workers were to agree to have their paycheques reduced in line with their hours, the average hourly payroll taxes would still be higher with more workers. This would reduce firms' need for labour—thus causing the labour-demand curve in the figure to shift inwards. Politically, it is highly doubtful that unions will agree to a wage decrease *in excess* of the hours reduction. The government could overcome this problem relatively easily, however, by amending the employment bill with a reform to social-security contributions.

Are There Superior Policy Alternatives?

The Dutch approach to sharing work simply through an upgrading of

the status of part-time work is less dogmatic, less confrontational, less costly, and has proven to be very successful. It takes into account the fact that work-place requirements, both for companies and employees, are becoming increasingly complex. Some firms need their employees to work longer hours, and many employees are willing to do so. Other firms are able to sub-divide tasks and offer part-time employment to those workers who desire it. The significant increase in jobs witnessed in the Netherlands

seems to indicate that the self-pooling process between the different types of firms and workers appears to function without the crude instrument of work-time regulations.

On that premise, it seems most promising to start job-creation programmes by reforming the method in which payroll taxes are collected and social-

security benefits distributed. By eliminating the fixed-cost element of employers' social-security contributions, they become directly proportional to the overall wage cost and independent of the number of employees. This removes the firms' disincentives to offering part-time employment, and thus removes one factor that would shift inwards the labour-demand curve. If the social-safety net is fixed beneath the entire labour market, it will offer those individuals who wish to work part-time the option of shorter working weeks. That should be sufficient to remove the legal obstacles which currently prevent a move of a substantial fraction of the labour force into part-time jobs, thereby creating a large number of additional jobs. Once this type of "two-sided flexibility" is added to the labour market, jobs will be more evenly distributed around the available number of workers. The Dutch have clearly demonstrated this through their successful labour-market reforms.

If anything, the costs of Lionel Jospin's programme seem higher than they really need to be. In the age of Maastricht, that matters. "Unimaginative" might be an equally appropriate adjective. ♦

The Dutch experience suggests that a massive government intervention d'une façon française is not necessary to achieve a shorter working week.