

# The Economy Today

## NEWS FLASH

Newsletter for Teachers of Economics to accompany Bradley R. Schiller's *The Economy Today* and *Essentials of Economics* texts.

### Securité ou Prosperité?



The French youth have set Paris ablaze. And a lot of other French cities as well. The immediate cause of the French riots is a proposed change in France's labor laws that would give employers greater flexibility to hire and fire young workers. Specifically, the new law would allow employers to fire workers under age 26 for any reason within the first two years of employment. French youth regard this proposal as a threat to their employment security. They fear French employers will be able to exploit them with low wages and dirty jobs—firing them without cause should they complain.

#### High Youth Unemployment

Ironically, the proposed law is a response to the riots by unemployed immigrant youth last year. Unemployment among young people hovers around 24 percent in France—and nearly double that among immigrant minorities (by contrast, youth unemployment in the U.S. averages 8.5 percent for youth aged 20-24 and hovers around 15 percent for teenagers). These unemployed youth took to the streets to demand more jobs last Fall.

#### Employment Barriers

The high cost of hiring new workers has been a major cause of youth unemployment. In the United States, the federal minimum wage is often cited as a critical factor in youth unemployment. Although young workers obviously prefer a high wage threshold, a lower wage increases the number of job opportunities. French employment laws have similar effects. In France, employers are burdened with exceptionally high costs for

social insurance programs and mandatory fringe benefits (including 35-hour workweeks, 6 weeks of paid vacation, profit-sharing, and early retirement at age 60). Employment-protection legislation also makes it difficult and expensive to terminate employees. As a result, hiring rates and turnover rates are both exceptionally low in France. This creates effective "lifetime job security" for French workers who *are* hired, but leaves a lot of other workers out in the cold.

The new law would reduce the upfront costs of hiring new workers, by lessening the employer's implied commitment to lifetime security. It would give French employers greater incentive to "take a chance" on hiring, training, and assessing young workers.

#### Fear of Market Insecurities

The distrust of this market-based approach to youth unemployment is symptomatic of a broader French distrust of market capitalism. A recent survey of public opinion elicited global attitudes about free enterprise systems. Of the 20 nations surveyed, France scored *lowest* in the embrace of free enterprise. Only 36 percent of the French population agrees that a free enterprise/free market system is best. By contrast, 71 percent of Americans embrace free markets as do 74 percent of adults in fast-track China.

What frightens the French are the inevitable uncertainties and dislocations that accompany free markets. Changing tastes, technologies, and trade patterns put relentless pressure on product markets. As competitive markets respond to those pressures, some firms and industries prosper while others suffer. Among workers, some get pay raises, other get pink slips. In the end, however, society benefits from more output, more jobs, and a more desirable mix of output. This doesn't mean that unfettered markets are perfect (they're not, as the whole discussion of **market failures** makes clear), but they unquestionably accelerate growth and change.

#### Heritage Study

The Heritage Foundation has been compiling evidence on the free market/growth nexus for over a decade. Each year they assess how "free" markets are in the various nations of the world. In the labor-policy arena, Heritage gives high marks on the "freedom index" to countries with low minimum wages and less employment regulation. Based on all the 50 variables assessed, the United States ranks ninth ("free") in Heritage's free-market ranking; France comes in at 44<sup>th</sup> place ("mostly free").

What makes the Heritage study interesting is its observed correlation between free markets and economic growth. The more leeway given to free markets, the higher the standard of living. Importantly, the greater the *improvement* in market freedom, the faster the rate of economic growth—a phenomenon dramatically illustrated by China, and confirmed across the spectrum of 157 nations in the Heritage study.

#### Security First?

None of these observations console unemployed French youth. Nor the *employed* French workers who have come to expect cradle-to-grave security. When given the choice between the insecurities of free markets or the security of the welfare state, the French have consistently chosen security over growth. With stagnant per capita incomes and high unemployment, however, the French are at least re-thinking the balance between security and growth. GM workers know how they feel.

#### Web Notes:

Poll results from the global survey of attitudes toward free markets are available from the University of Maryland's "Program on International Policy Attitudes" at [www.worldpublicopinion.org](http://www.worldpublicopinion.org). The Heritage Foundation's annual *Index of Economic Freedom* can be viewed at [www.heritage.org](http://www.heritage.org).