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Stock market and employment security: the French case

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Introduction

- Stock market & employment security: through the focus on institutional complementarities (Aoki, 2001; Amable, 2003) between financialisation & wage-labour relationship
- Plan of the presentation
 1. Stylized facts of the « French model »
 2. Financialisation and institutional change in the French financial system
 3. The unachieved transformation of the French labour market
 4. Conclusion

1. Stylized facts of the « French model »

- A high growth rate for the French economy after WWII (6% a year until 1973) « trente glorieuses »
- The French model based on a large State intervention (« économie mixte »), including in the financial system (mainly a public banking system) except for ‘banques d’affaires’ (Suez, Paribas) and in labour market (law, minimum wages, public industrial firms, public sectors)

- Role of the State to « modernize »:
 - Planification
 - « National champions » policy and « grands programmes »
 - Nationalisation of large companies and part of banks
 - Cross-shareholding
 - Very weak role of financial markets
 - Control on prices



- Social welfare and employment security
 - Sécurité Sociale (1945)
 - Institution of minimum wage (SMIG) 1958
 - Full employment and relatively strong employment security
 - Relatively strong unions

- The public system played a main role for the 'élites' (high schools: ENA, X, etc.)
- Top managers shared the idea of public interest and modernisation based on negotiation between stakeholders under the leadership of the Commissariat Général au Plan (following the programme of the Conseil National de la Résistance).
- France as an ideal type of the so-called Fordist compromise between employees and managers

- This French model will not be contested by the 1970s crises, and will be reinforced by the Union de la gauche policy in 1981-83 (nationalisation).
- Since 1983-84, structural reforms have been introduced leading to large institutional changes, mainly in the financial system with contradictory impacts on employment security

- In the Fordist compromise, uncertainties were assumed by shareholders, as *residual claimers* while workers knewed a strong employment security at all levels:
 - Full employment
 - Activities and tasks defined by collective bargaining within a Taylorist division of labour
 - Income (real wage growth, minimum wage, welfare protection,...)

2. Financialisation and institutional change in the French financial system

- What is financialization? A lot of different definitions:
 - Financial innovations and de-regulation (securitization, derivatives, stock and bond market financing vs bank financing)
 - Process of institutionalization of domination and accumulation of financial capital
 - Hegemony of shareholder value ideology
 - Finance-led accumulation regime
 - ‘shareholders’ or ‘patrimonial’ capitalism
 - Krippner (2005) : « a pattern of accumulation in which profits accrue through financial channels rather than through trade and commodity production »

What is financialization?

- In France, process linked to:
 - Deregulation of financial markets (80s):
« 3Ds » + financial innovation (derivatives, securitization...)
 - Privatisations
 - Transformation of shareholding structure:
end of cross-shareholding system and
growth of foreign institutional investors
(Morin, 1998 & 2000)

Financialization's consequences

- Transformation of corporate governance
- « Financialization of strategies »: shareholder value + « downsizing and distribute »+ refocusing + outsourcing (« economy of capital ») + external growth + non financial corporation make more and more financial profit
- Decrease of wages' share in GDP and transformation of wage-labour relationship: liquidity of capital + minimum profitability norm => more flexibility and pressures on wages

Geographical distribution of ownership of CAC 40

	% of shares in 2002	% of shares in 2005	% of shares in 2006	% of shares in 2007
Residents	57.5	55.1	54.7	61.5
Non-residents	42.5	44.9	45.3	38.5
US	12.8	15	14.6	na
Euro zone	17	20	20	na

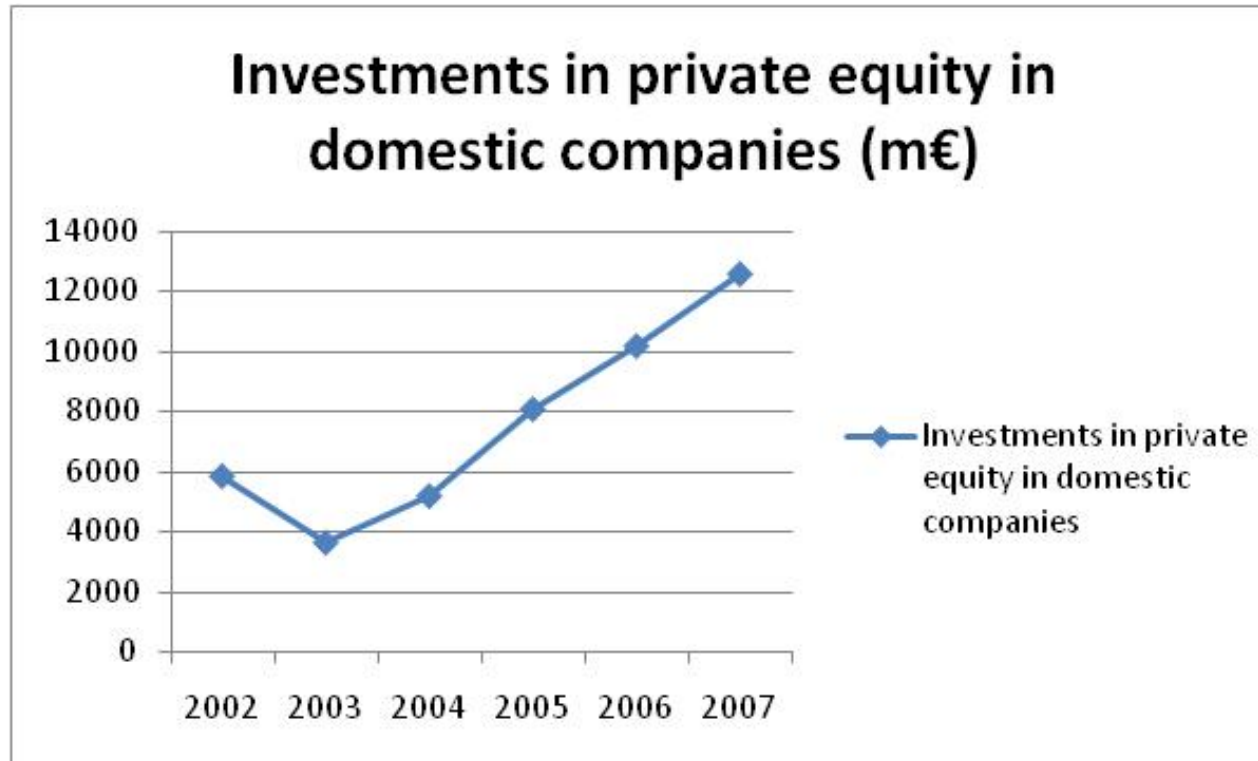


CAC 40 ownership structure

Sources :
Thomson
financials

	Gestionnaires de fonds	Holding	Corporations	Individus	Etat	Etats- Unis	Europe	dont France	Total
Accor	95,5	0,0	4,5	0,0	0,0	40,7	51,6	33,3	64,3
AGF	91,3	0,0	8,7	0,0	0,0	17,7	80,4	5,1	48,4
Air Liquide	100,0	0,0	0,0	0,0	0,0	33,8	63,2	27,1	22,6
Alcatel-Lucent	96,7	0,0	3,3	0,0	0,0	45,3	53,0	28,0	36,9
Alstom	54,3	0,0	45,7	0,0	0,0	19,8	79,0	62,0	58,5
Arcelor-Mittal	52,9	0,0	0,0	47,1	0,0	17,3	82,1	10,8	26,1
Axa	89,8	0,0	10,2	0,0	0,0	15,1	83,2	59,9	52,3
BNP Paribas	89,2	0,0	10,7	0,0	0,0	16,8	81,2	40,0	49,5
Bouygues	44,8	3,3	21,3	30,6	0,0	11,2	88,0	67,9	59,5
CapGemini	91,7	0,2	0,0	8,1	0,0	46,1	53,0	32,3	52,2
Carrefour	46,0	23,8	28,7	1,4	0,0	9,2	88,3	62,2	51,3
Crédit agricole	17,7	0,0	82,3	0,0	0,0	5,3	93,8	86,6	72,8
Danone	96,6	0,0	3,4	0,0	0,0	20,9	76,7	42,5	45,3
Dexia	61,9	0,0	38,1	0,0	0,0	2,9	96,6	22,2	70,6
EADS*	24,1	0,0	64,7	0,0	11,2	5,8	93,9	42,2	60,0
EDF	3,6	0,0	2,1	0,0	94,3	1,2	98,8	97,0	92,6
Essilor	82,9	0,0	17,1	0,0	0,0	24,0	71,4	47,4	48,0
France Telecom	45,6	0,0	6,0	0,0	48,4	14,4	84,5	64,1	56,6
GDF	7,0	0,0	2,6	0,0	90,4	1,6	97,9	95,2	88,3
Lafarge	66,0	33,9	0,1	0,0	0,0	18,9	80,2	15,6	47,6
Lagardère	72,7	0,0	27,3	0,0	0,0	37,0	51,7	40,7	68,3
L'Oréal	20,3	0,0	39,0	40,6	0,0	6,6	92,3	47,2	73,0
LVMH	27,8	72,2	0,0	0,0	0,0	9,2	90,4	80,2	65,8
Michelin	95,3	0,0	4,7	0,0	0,0	40,9	52,2	23,5	42,8
Pernod-Ricard	65,5	7,9	9,5	17,1	0,0	18,6	74,2	45,8	70,0
Peugeot	48,1	0,0	4,2	47,6	0,0	14,8	83,2	67,5	63,5
PPR	33,0	66,7	0,3	0,0	0,0	7,7	91,7	81,1	60,4
Publicis	52,1	0,0	28,3	19,6	0,0	25,7	42,7	31,8	51,3
Renault	46,8	0,0	29,3	0,0	23,8	21,0	54,3	37,7	63,0
Saint-Gobain	85,3	0,0	14,8	0,0	0,0	6,2	91,3	63,5	50,7
Sanofi-Aventis	57,9	0,0	42,1	0,0	0,0	22,5	76,6	57,0	58,9
STMicroélectronic	45,5	54,5	0,0	0,0	0,0	16,0	83,0	10,8	50,4
Suez	70,2	19,4	10,4	0,0	0,0	9,4	89,5	43,0	49,4
Thomson	89,8	0,1	10,2	0,0	0,0	36,1	62,8	28,6	49,2
Total	79,8	9,9	10,3	0,0	0,0	16,7	81,2	29,2	39,1
Veolia	77,7	0,0	22,3	0,0	0,0	23,7	75,7	63,1	62,0
Vinci	77,5	8,5	14,0	0,0	0,0	24,9	74,3	55,3	58,4
Vivendi	86,3	0,0	13,7	0,0	0,0	21,7	70,0	37,1	58,7
Moyenne	62,9	7,9	16,6	5,6	7,1	19,1	77,2	47,0	56,3

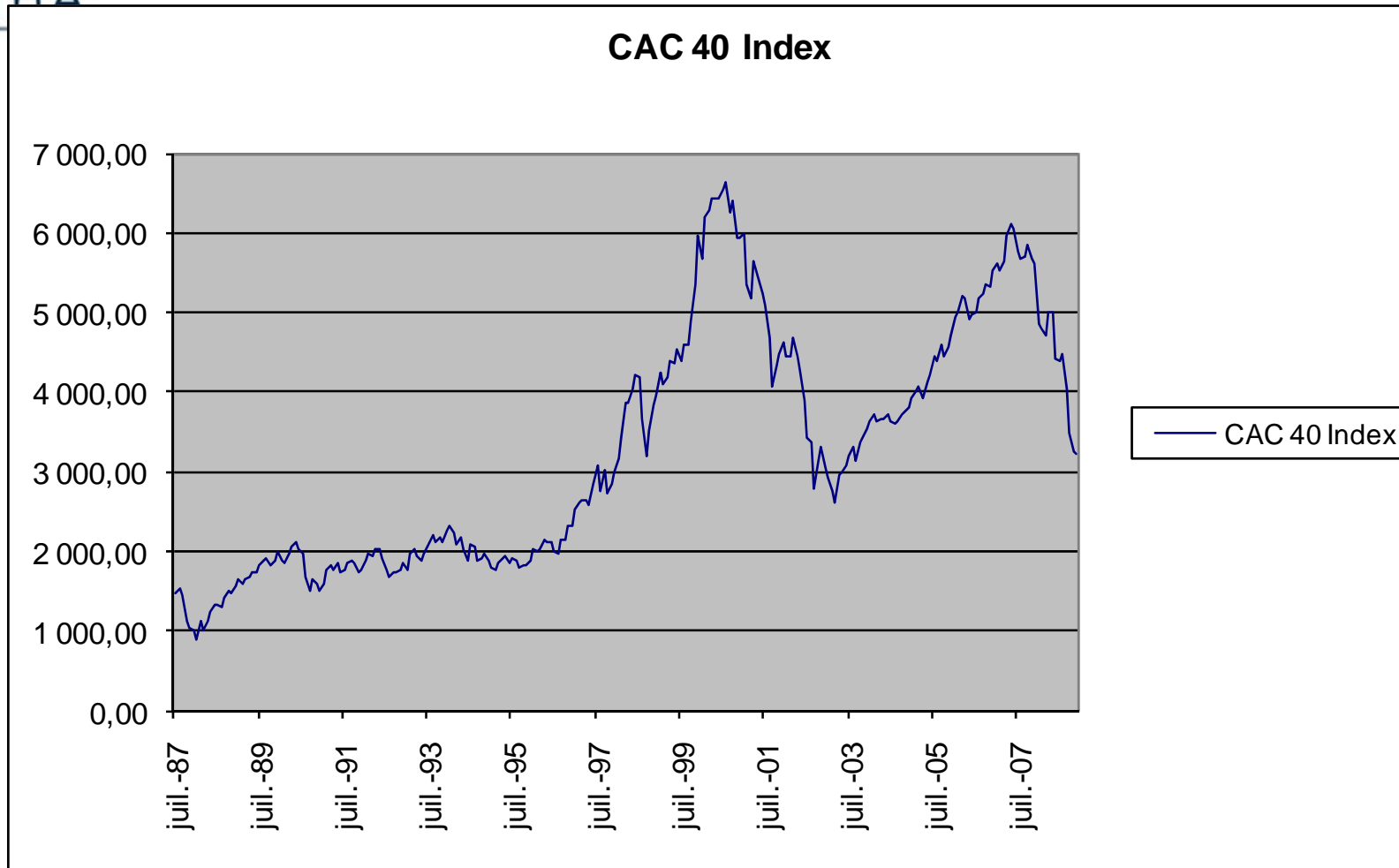
Private equity



Sources : AFIC

- Ownership (public as private) widely opened to foreign investors, especially investment advisors, mutual funds and pension funds
- End of cross-shareholding...
- ... but still blockholding
- France : second european market for private equity, especially for LBO

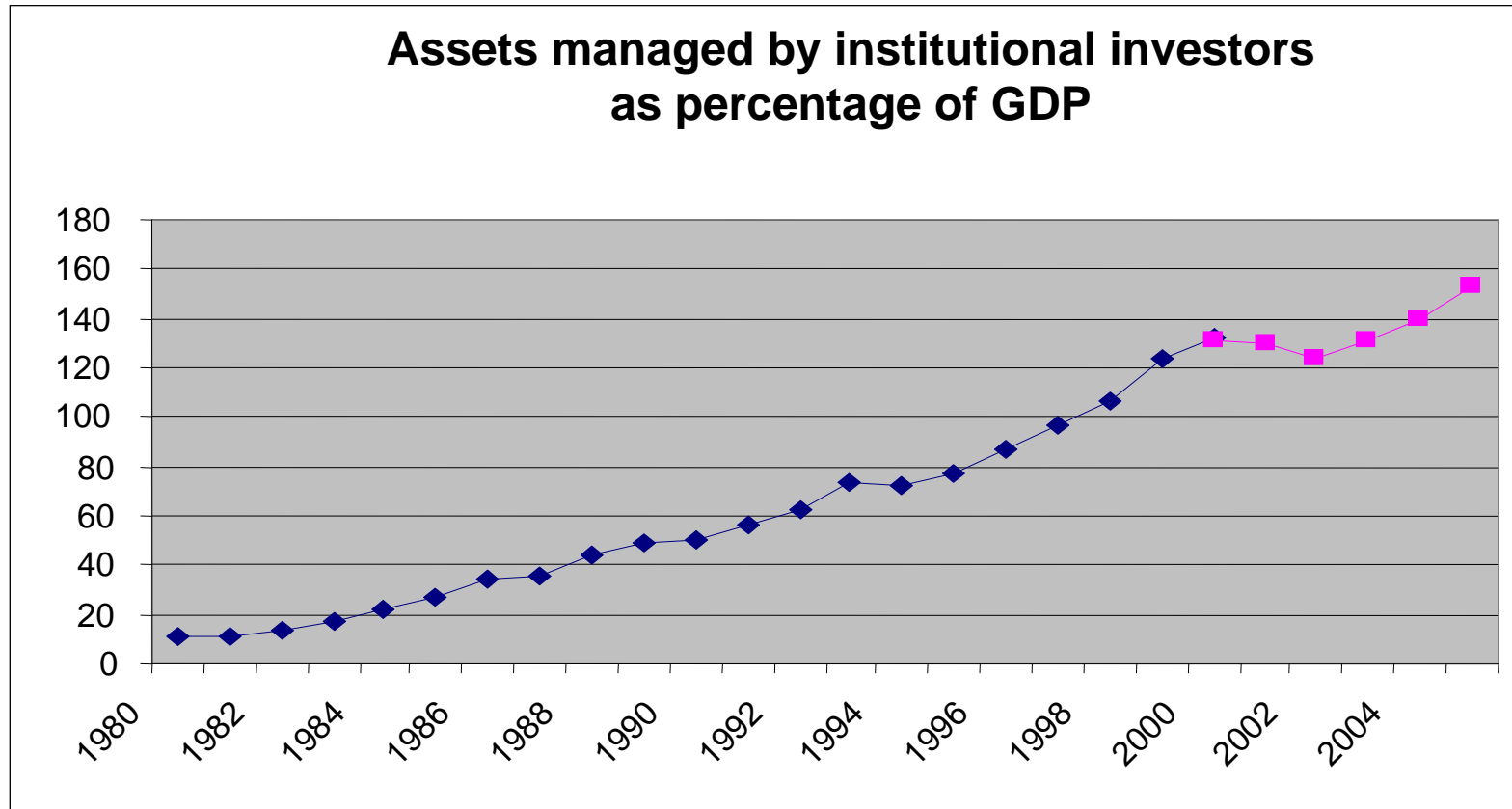
CAC 40 index - monthly



Sources : Thomson financials

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France: a 'patrimonial capitalism'?



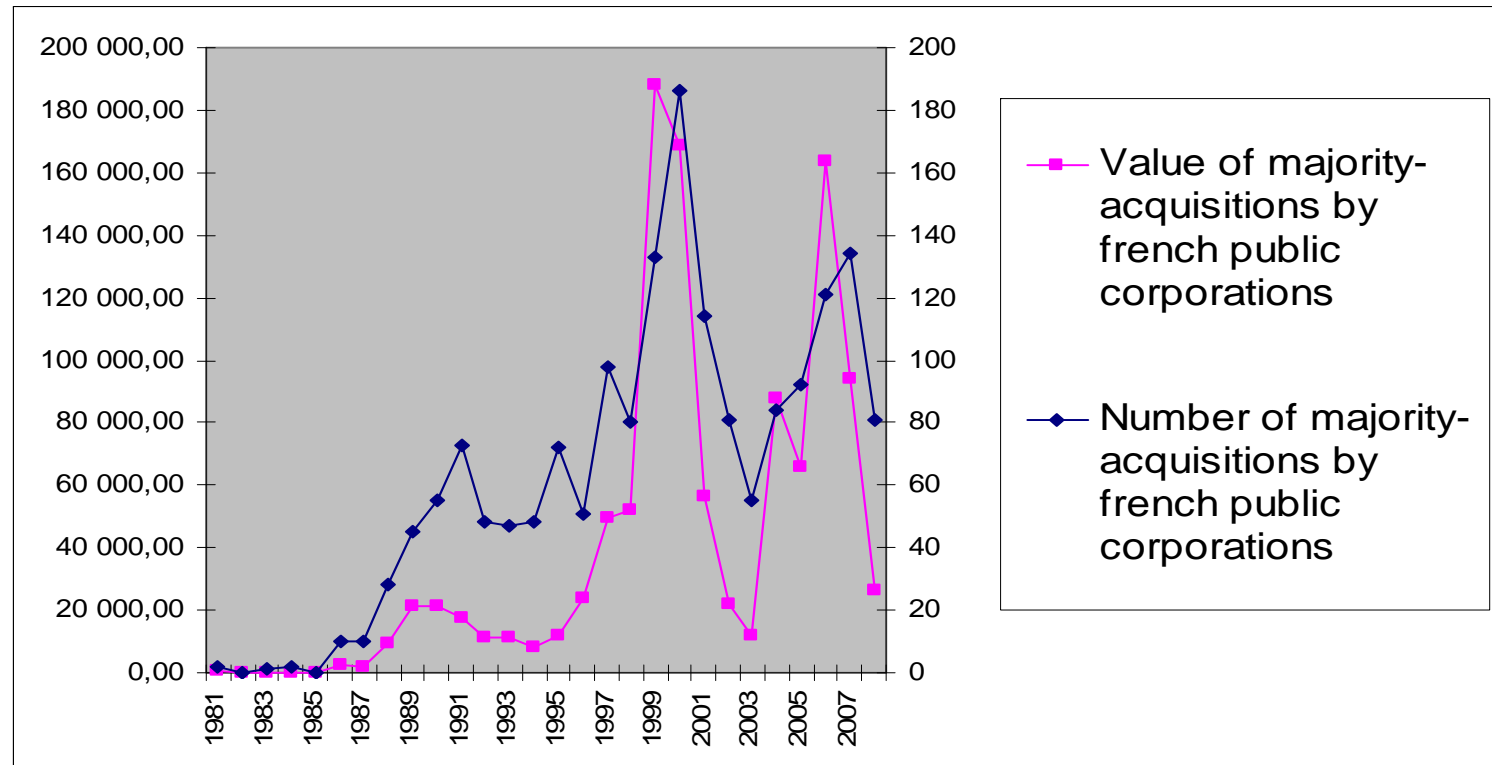
Sources : OCDE

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- Stronger importance of institutional investors and stock market
- Dynamism of stock market largely explained by foreign investors
- But no pension funds for retirement
- So, pressure for financialisation of strategies?

Corporate governance and market for takeover

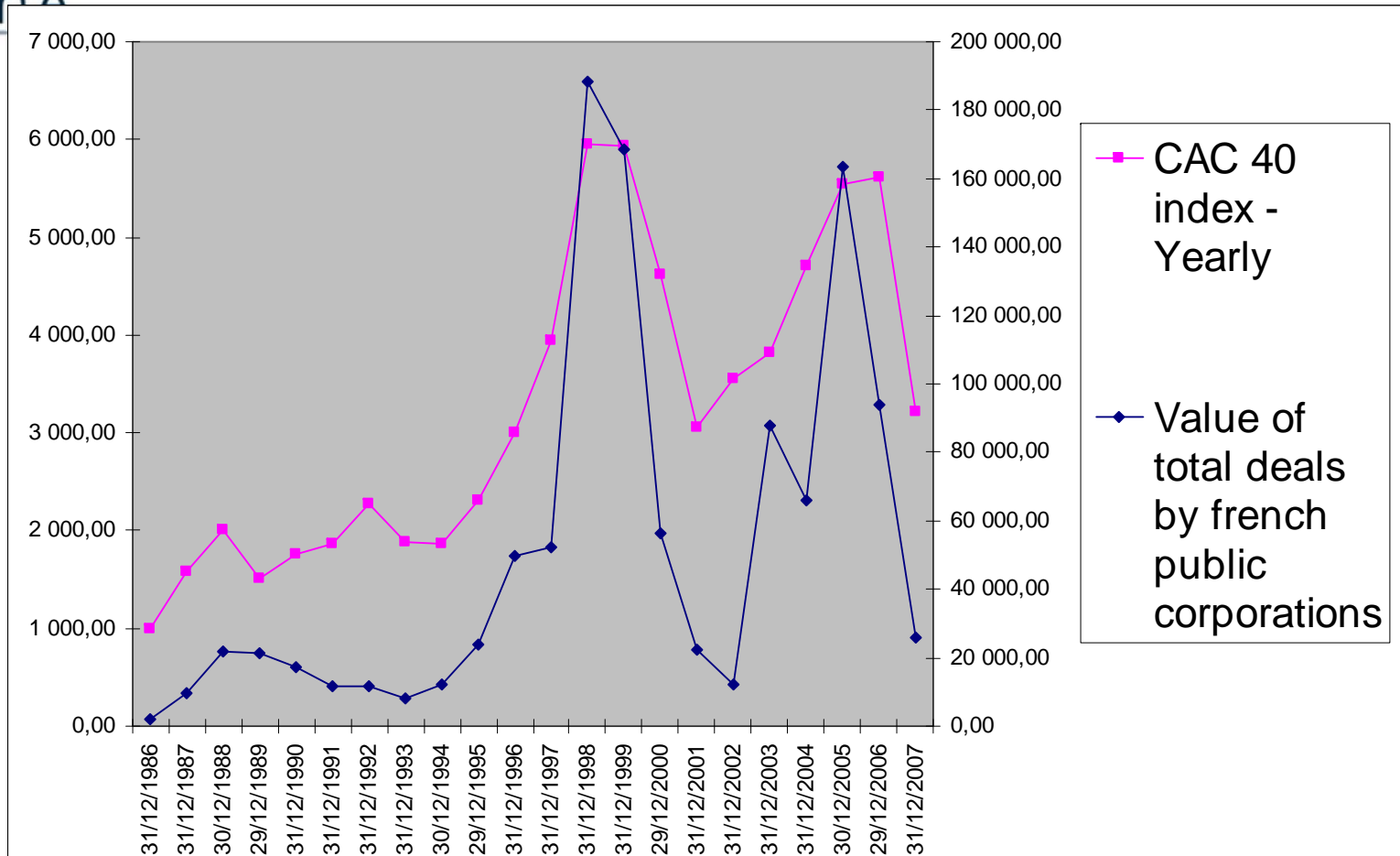
- Adoption of some rules of corporate governance (transparency of annual reports, shareholder value discourse ...) BUT:
 - Still interlocking directorates, even if there's more 'independent' directors than by the past
 - O'Sullivan (200...) and Gourevitch & Shinn have shown that French Jhal and Leaver (2007), managers have still a lot of power
 - O'Sullivan (2006) and Leaver and Montalban (2009) have shown that stock market is not a disciplinary institution, but is used by managers for international growth by M&A and compensations



Moreover :

Foreign acquisitions = 51% of majority-acquisitions;
54% in value

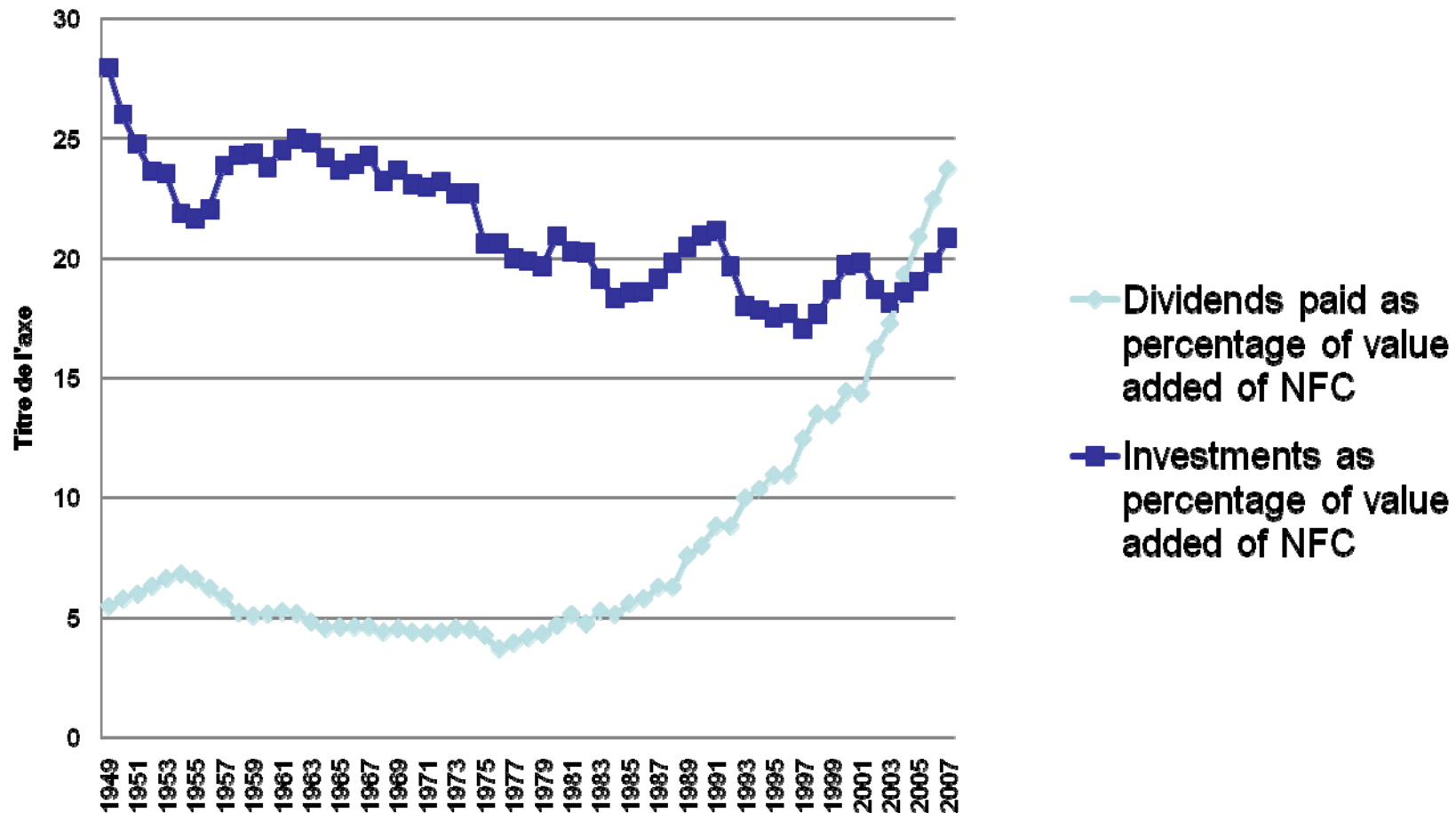
Sources : Thomson financials (calculations by authors)



Sources : Thomson financials

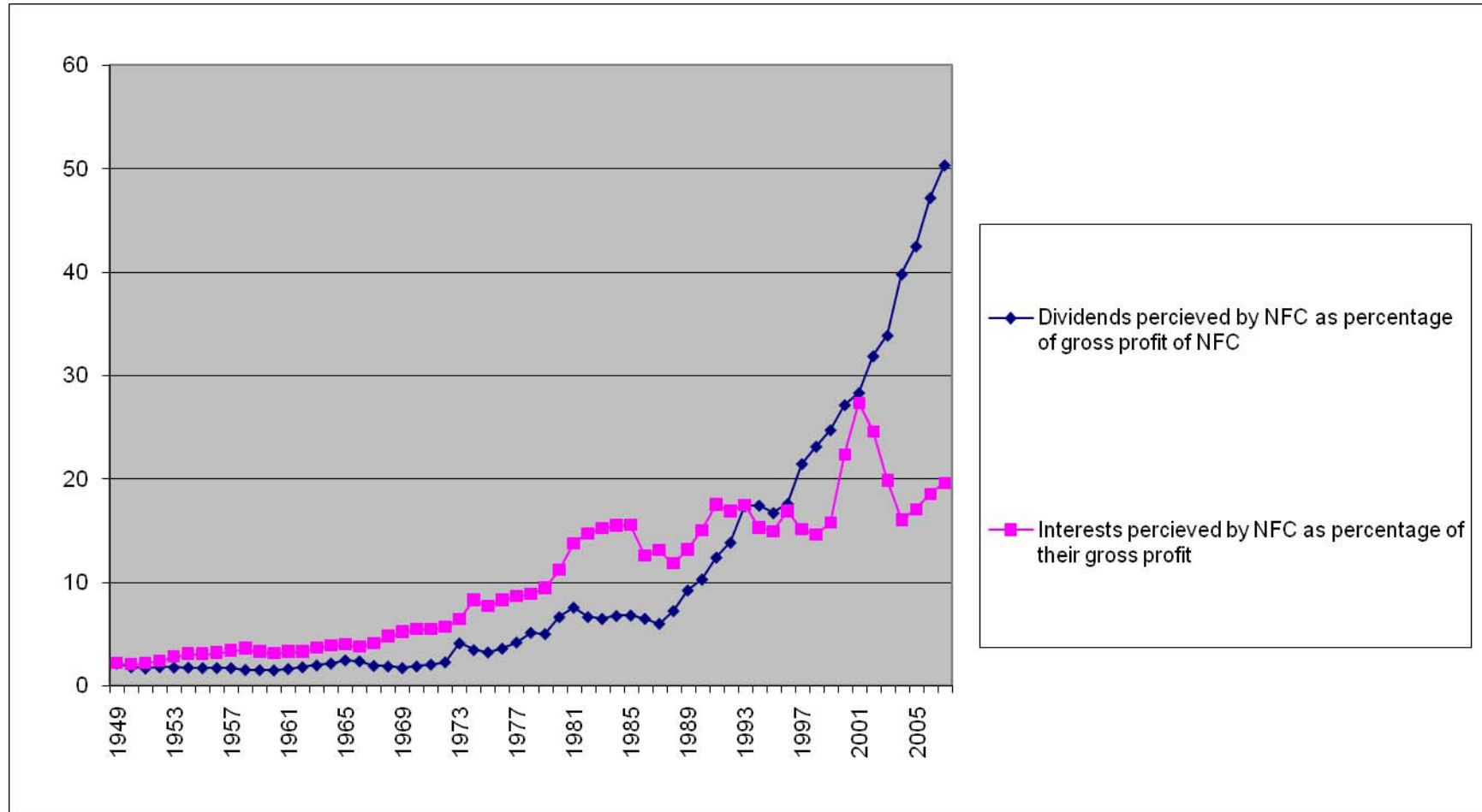
- Distribution of value to shareholders: more and more dividends, less and less « real » industrial investments (gross fixed capital formation) relative to profits
- Financial investments for foreign expansion vs real investments

Financialization of accumulation and non financial corporations : less real investments, more dividends



Sources : INSEE (calculations by authors)

Then NFC make financial profits



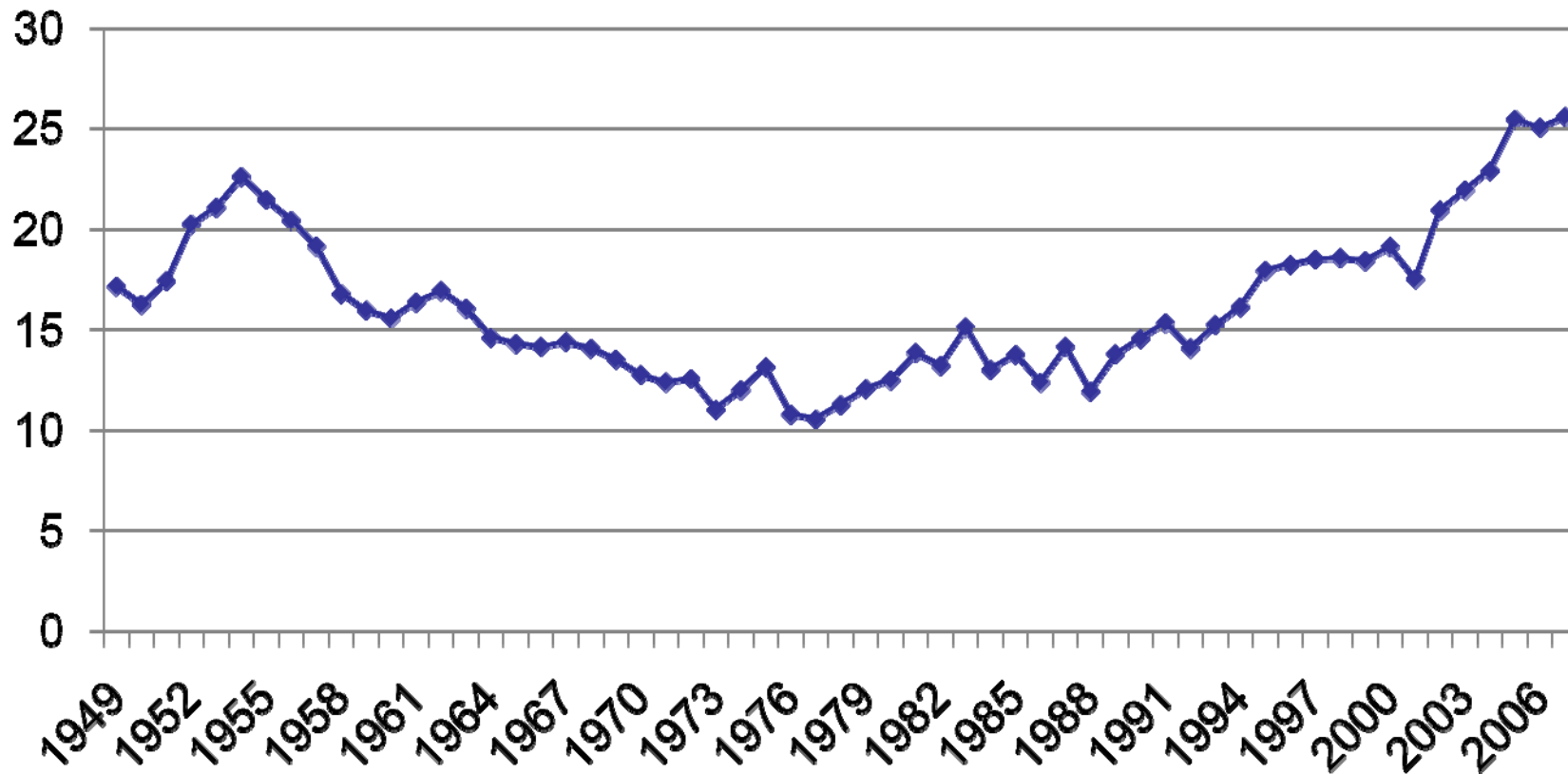
Sources : INSEE (calculations by authors)

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- Then, NFC try to capture much more financial profits (dividends and interests)
- Can be explained by:
 - Group structure and foreign dividends (complexity of measure)
 - A way for continuing growing distribution of dividends.

So, we have to see net dividends of NFC

Net dividends paid by NFC as % of gross profit

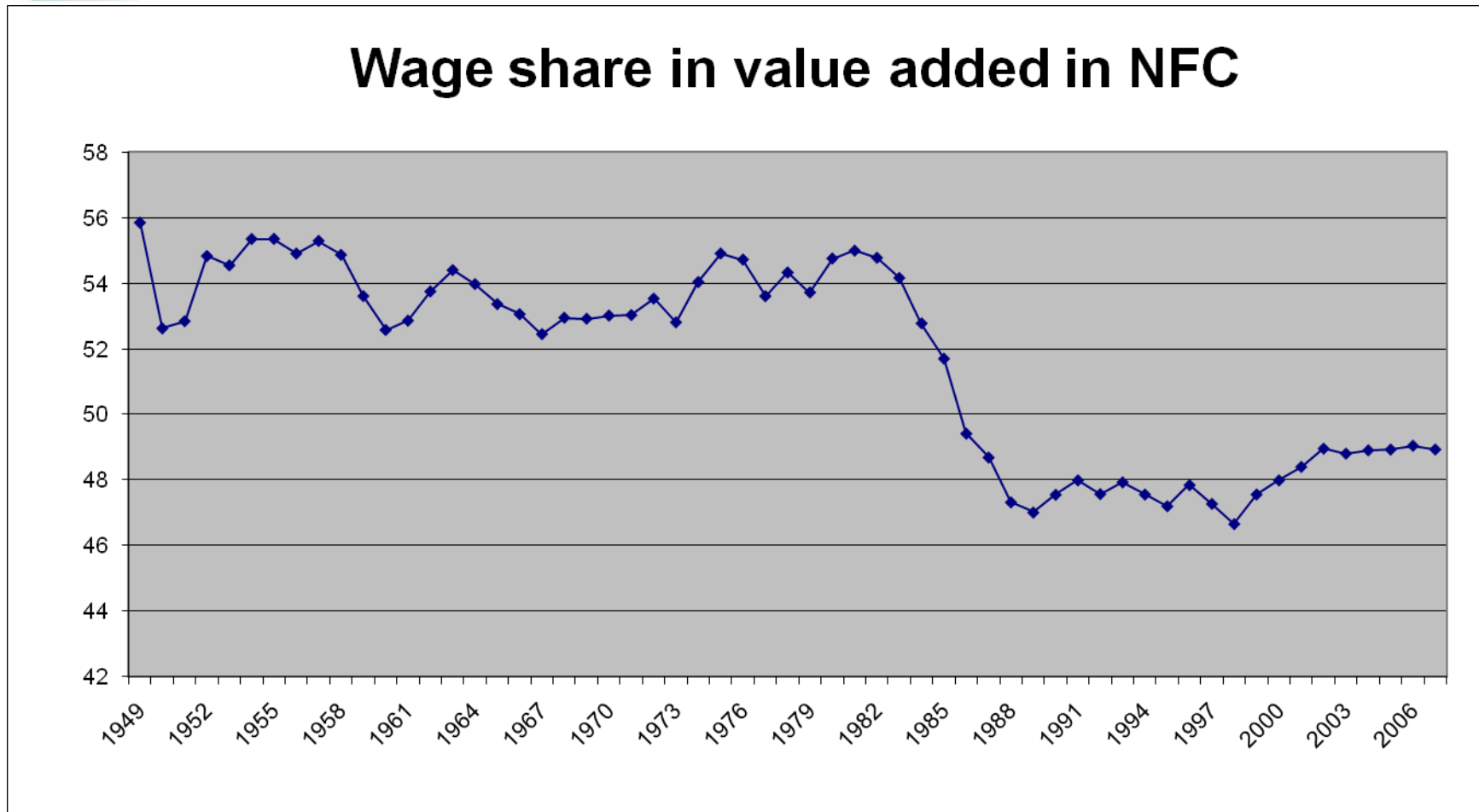


Sources : INSEE (calculations by authors)

Wages

- Decrease of wages share in gross value added
- Especially in large firms
- Even more important by adjusting to the share of wage-earners in active population
- But the fall has begun before the hegemony of shareholder value

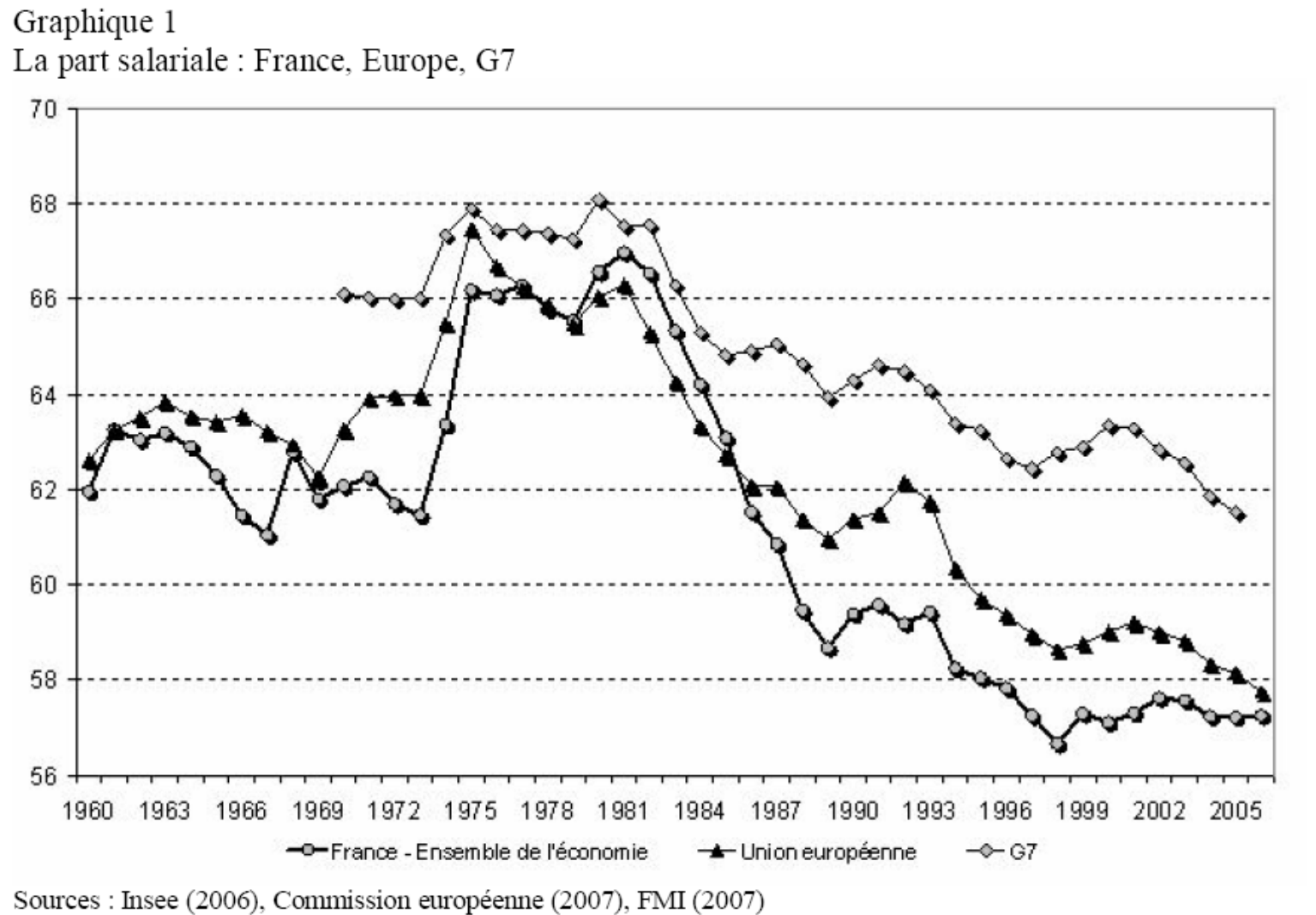
Decrease of wages' share began before financialization



Sources : INSEE (calculations by authors)



Adjusted wages share (whole economy)



Sources : Husson (2007)

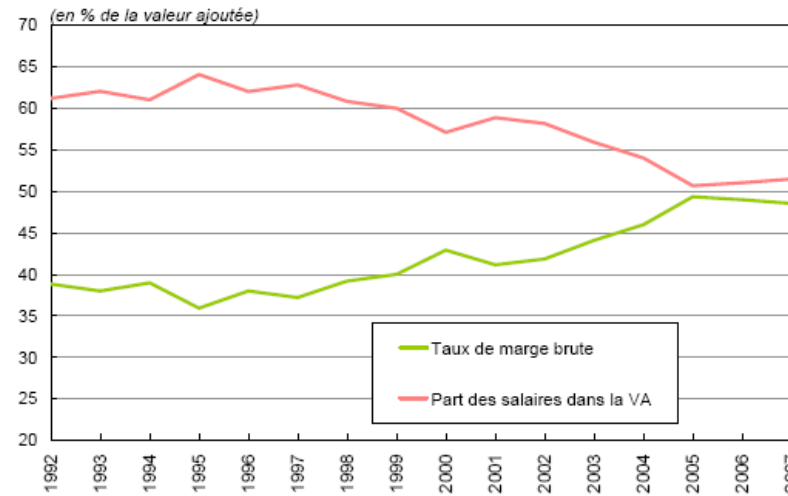
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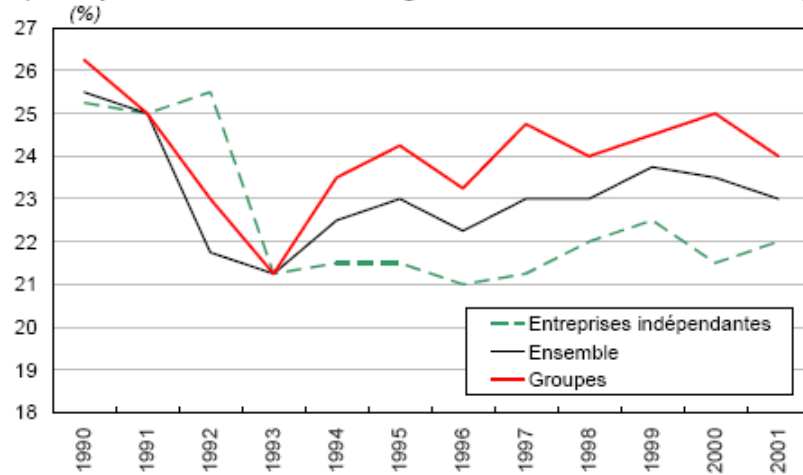
But mainly in large firms, not in small... (Cotis. 2009)

Graphique 2 : Partage de la valeur ajoutée selon les comptes consolidés des sociétés non financières du CAC 40



Source : Datastream (base de données Worldscope), calculs CAS sur un échantillon des groupes non financiers du CAC 40

Graphique 3 : Taux de marge des entreprises selon leur appartenance à un groupe, en pourcentage (entreprises soumises au régime du bénéfice réel normal)



Source: INSEE, L'Economie française 2003-2004, fichier BRN et enquête liaisons financières (LIFI)

Graphique 4 : Taux de marge des PMI (Petites et moyennes industries) selon leur appartenance à un groupe, en pourcentage



Source: Banque de France, Centrale des Bilans, données de juillet 2008.

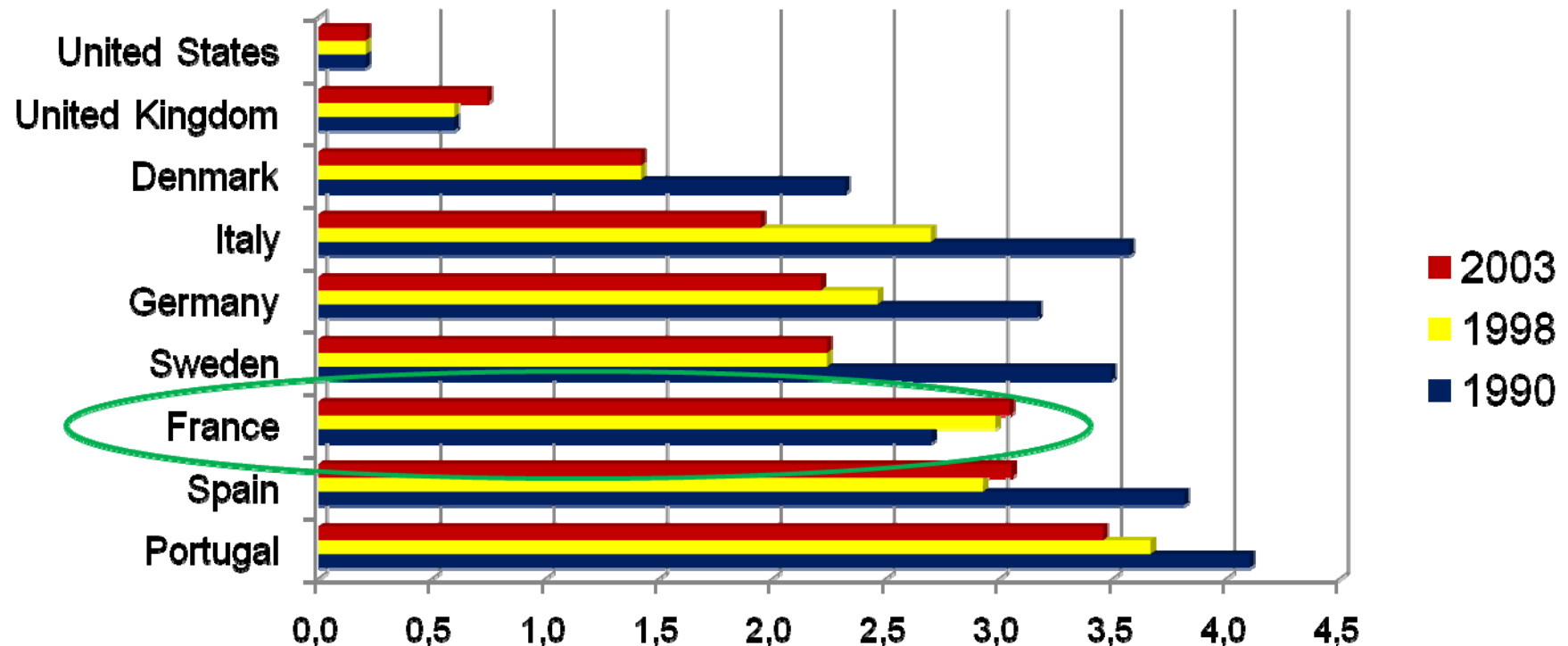
3. The unachieved transformation of the French labour market

- A first view to the institutional complementarity could be that financial liquidity would be associated to labour liquidity, i.e. flexibility in the labour market. Several factors drive to structural reforms:
 - Growing competitive pressures associated to globalisation imply more rapid adjustment to the volume and structure of the global demand
 - Acceleration in technological changes (permanent regime of innovation) needs reactivity
 - And finally, the impact of financialisation

The paradoxal evolution of the French labour market

Overall EPL strictness Index. Version 1

Source: OECD



- Nevertheless, if flexibility implies structural reforms on the French labour market, such an evolution could lead to two scenarios:
 - An impossible attractiveness of the liberal model
 - ... and of a French model of « flexisecurity »
- Neither of such forms of institutional complementarity seems likely: no clear strategies such as in the Lisbon agenda (cf. Amable, 2008) due to the lack of political alliance.

- This will be discussed regarding three dimensions of employment security
 1. Flexibility of employment volume
 2. A growing insecurity in professional activities
 3. Uncertainties on workers' income

3.1 Flexibility on the employment volume

- Claims for a minimal rate of return for shareholders imply clearly a rapid adaptation of the employment to the economic fluctuations through unstable contracts which reduces employment security (short-termed contracts, temporary workers, etc.)
- ... even if such changes is contradictory to the needs to capitalize learning and competencies associated to the knowledge-based economy.

- Another impact of financialisation is the outsourcing of non-core activities to SMEs where the employment security is lower compared to big unionized firms. As institutional investors claim for focusing on core competencies, inducing spin-off and outsourcing, financialisation would be a driving force for less employment security.
- Rationalization, cost cutting and others changes associated to M&A, LBO, etc. leading to plant closures (even only threat of) contribute to such insecurity.

French firms' internationalisation and the threat of relocation

- A clear impact of the financialisation and the growing role of foreign institutional investors in the capital of French companies could be the acceleration of their internationalisation, mainly through M&A (O'Sullivan, 2006; Johal, Leaver, 2007).
- Domestic employment share of total employment for CAC 40 firms

	1997	2004
Constituents	52,0%	39,4%
Survivors	41,5%	36,3%

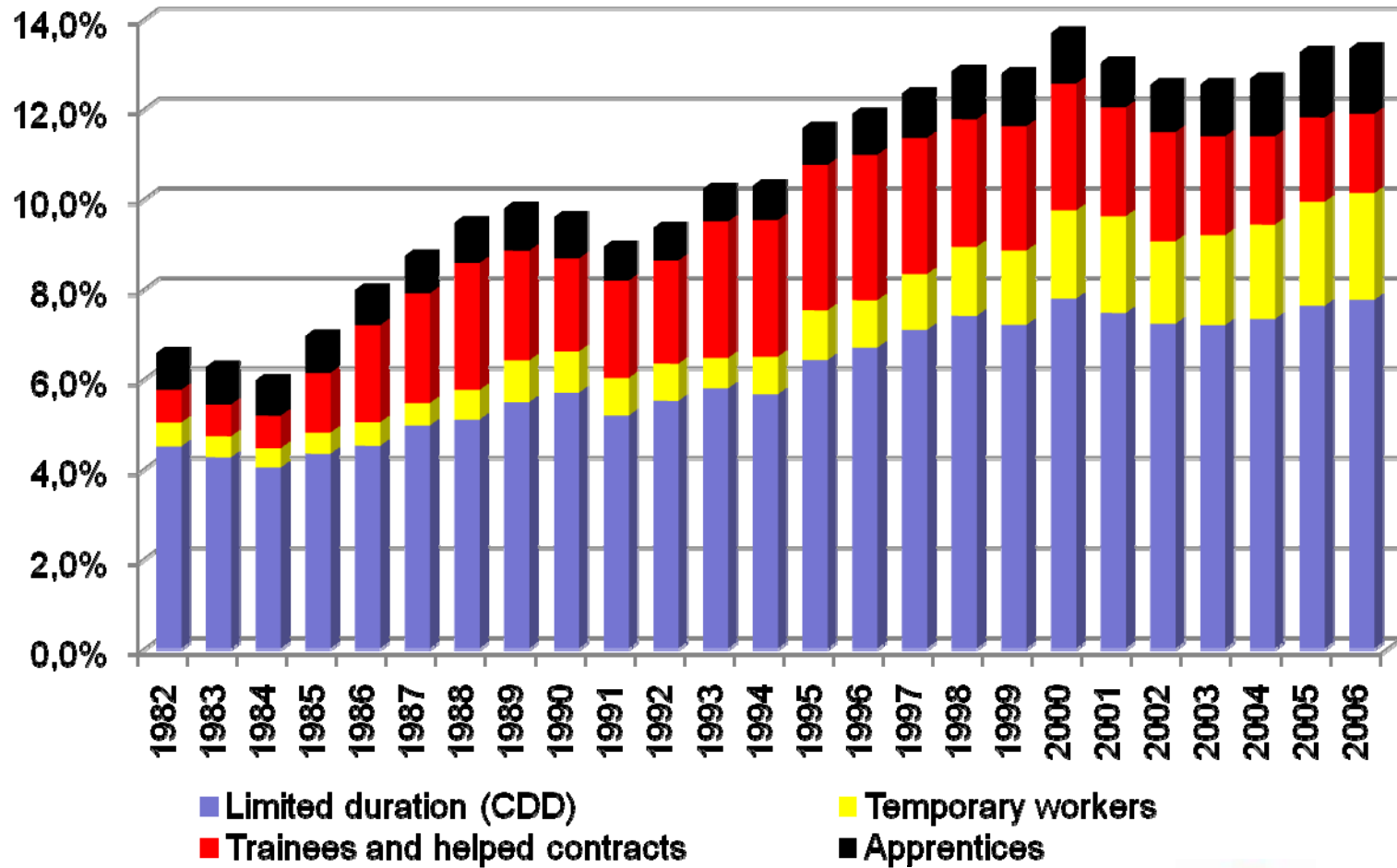
Source: Johal, Leaver, 2007

- In such a context, the effective relocation or even the threat of relocation towards overseas (mainly low cost countries) contributes definitively to the decline in employment security.

Growth of unstable employment

- Unstable employment (limited duration contract/ CDD, temporary workers, trainees and apprenticeship) grew significantly from 1.1 million of workers in 1984 to more than 3 millions in 2006 (13.3% of total salaried employment compared to 6% in 1984).
- Such changes allow a quicker adaptation to the economic crisis: salaried jobs have been reduced by 0.7% in competitive sectors, compared with a slowdown of 1.1% of the GNP during the second half of 2008.

Growing insecurity: share of temporary employment





- Nevertheless, changes remain limited
 - Stable employment remains strongest: unlimited duration contract (CDI) for 87% of salaried workers
 - Public employment (with a stable proportion of 75% of « civil servants » among public employees) remains stable with 5.25 millions of employees (22.8% of total employment).

- It is more a fragmentation of the labour force within various status rather than a global substitution of “primary market” (insiders) by “second labour market” (outsiders)

Figure 6 - Part des contrats courts¹ dans l'emploi salarié privé
en %

	1983-1985	1993-1995	2000-2002
Moins de 30 ans	7,0	17,0	23,3
30-49 ans	2,0	5,0	7,6
50-54 ans	1,0	2,9	4,1
55 ans ou plus	1,1	2,4	3,7
Ensemble	3,4	7,8	10,8

1. Hors apprentissage.
Sources : Insee, enquêtes Emploi ; calculs Dares.



3.2 A growing insecurity in professional activities

- Concerning professional activities (task to be achieved), occurring changes are oriented towards more responsibilities to workers who have to react directly to non anticipated events.
- Exposition to work's risk and harnesses from 1994 till 2003 (Coutrot et alii, 2006)

Exposure to organizational constraints	1994	2003
Have you often to stop your task to do another unanticipated task	46%	58%
Are your work's activities determined by numerical control	15%	27%
Are your work's activities under permanent control of your managerial hierarchy	28%	25%



- The management of uncertainties in a context of higher competitive pressure leads to high stress, new psychological pathologies until professional suicide which are more recognized as professional illness (qualitative employment insecurity)

JUSTICE

Suicide reconnu comme accident du travail : Renault fait appel

NOUVELOBS.COM | 23.06.2008 | 23:58

La direction a déposé un recours contre le classement comme accident du travail du premier des trois suicides de salariés du Technocentre de Guyancourt.



- Financialisation is associated to a vision of professional activities in which individual competencies dominates over collective dynamics. This reinforces the trend towards social re-individualisation associated to de-collectivisation of the employment relationships (Castel, 2008).
- The neo-classical view of the firm as a « nexus of contracts », as the theoretical expression of this trend.

- Rébérioux' econometrics results on French data (REPONSE survey in 1998):
« firms' quoted on the stock market are more inclined to develop new horizontal way of labour organisation, income's individualisation and labour flexibility » (Rébérioux, 2003)
- The view of employment relationships as a contractual bilateral relation between employers and employee based on a common will weakens workers' position. It is a factor of growing employment insecurity.

3.3 Uncertainties on workers' income

- Financialisation has also a impact on workers' income, with greater uncertainties on the level of incomes, less and less determined by institutional function and collective agreements, and more by individual performances and collective results. This is associated to:
 - Development of variable share of income: stock-options, bonus, profit sharing. (Cf. Montagne, Sauviat, 2001).
 - Individualisation of professional trajectories with growing role of individual evaluation by upper management hierarchy rather than seniority

Profit sharing practices in France

- Profit sharing, an old story in France :
« participation » (De Gaulle's discourse in 1947, Ordonnances in 1959 and 1967...)
- Three main institutional modalities:
 - Participation (compulsory for companies with more than 50 salaries by the law)
 - Intéressement (optional, collective bargaining)
 - Plan Epargne Entreprise (part of collective devices of employee savings)

And their diffusion

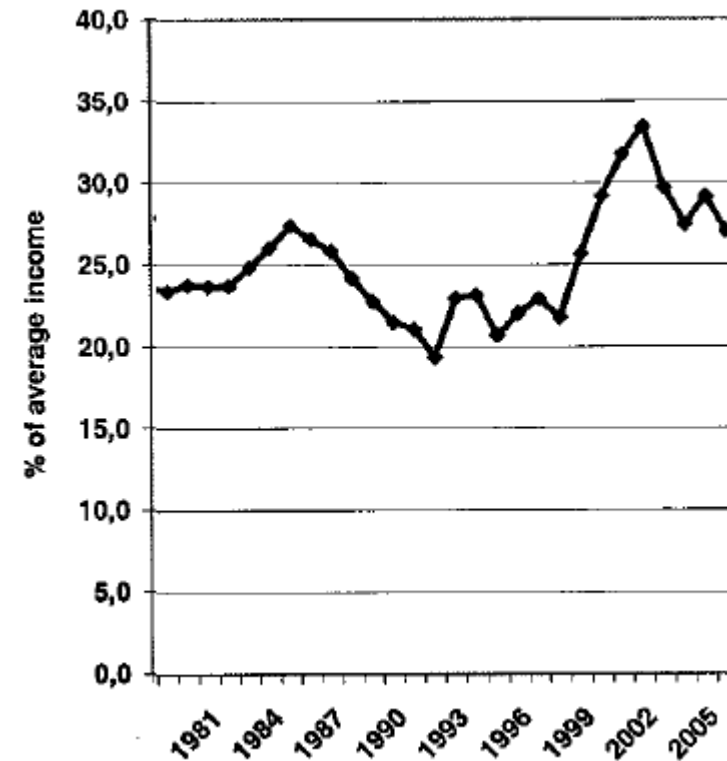
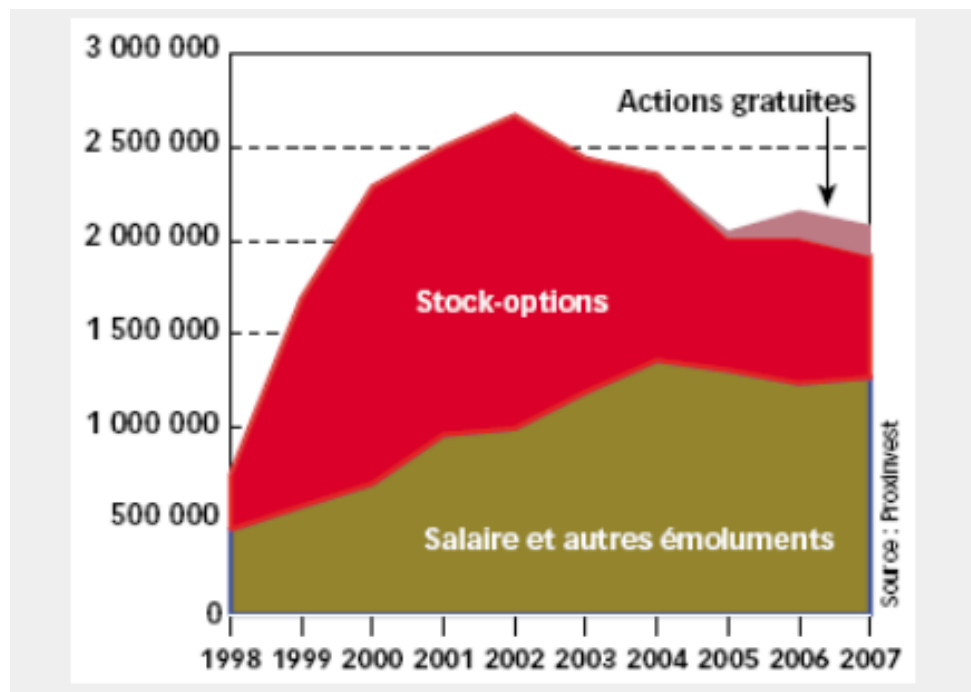
- Profit sharing (participation, intéressement and PPE) is diffusing rapidly:
 - An income of 15 billions € in 2006 vs. 9.7 billions € in 2000
 - It concerns 56.3% of employees in private sectors
- But this diffusion remains limited: this income represents only about 5.5% of the total payroll in 2007

Profit sharing practices, factors of growing income inequality

It benefits mainly to French top managers

Evolution of the share of wage income in the average income of the top 0.01% group in France

Average income for CAC40 top managers



Source: Landais, 2008



A new impulse for profit sharing in 2009?

- Three reports to be published on this issue by next summer:
 - Cotis (INSEE)
 - Cette (Conseil d'Analyse Economique)
 - and Sarkozy's party (UMP)

Insecurity due to the evaluation of individual performance

- Previously, professional trajectories were largely depending on collective agreement and the role of seniority
- More and more, individual performances evaluated by the direct hierarchy allow to determine income and progress.
- Example of French administration:
generalisation of flexible progress in job carrier, workers competing to benefit from a limited number of bonus, prime, etc.

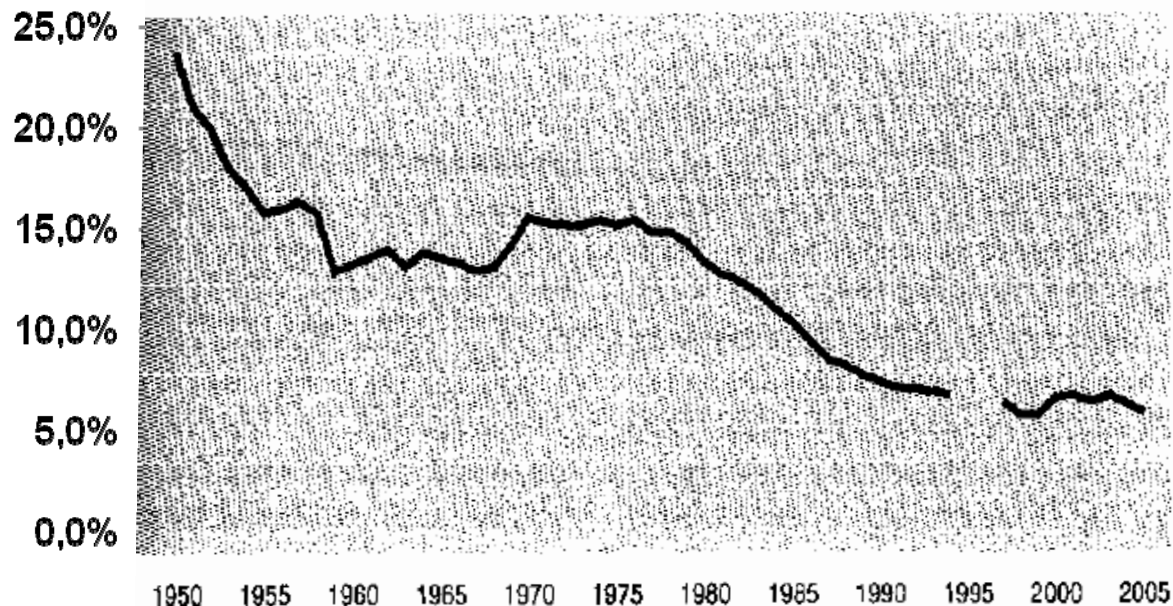
- Even if insecurity of employment has been developed, no deep convergence towards anglo-saxon or flexisecurity model: unlimited duration contracts remains the norm
- Several proposals, never purely « anglo-saxon »:
 - « Sécurité sociale professionnelle » Cahuc et Kramarz (2003)
 - Blanchard et Tirole (2003)
 - « Sécurité emploi-formation » (CGT/PCF)

- A lot of attempts of labour market reforms have been broken by social movements:
 - Contrat d'Insertion Professionnelle & « SMIC jeune » (1994)
 - Contrat Nouvelle Embauche & Contrat Premier Embauche (2005/2006)

4. Conclusion: *L'introuvable* new political alliance

- The limited structural reforms in the labour market could not be explained by unions' resistance as indicated by the clear decrease in the rate of unionization from 21% to 7%.

Percentage of workers unionized



Even if unions are more oriented towards the defence of insiders' interests

A political crisis

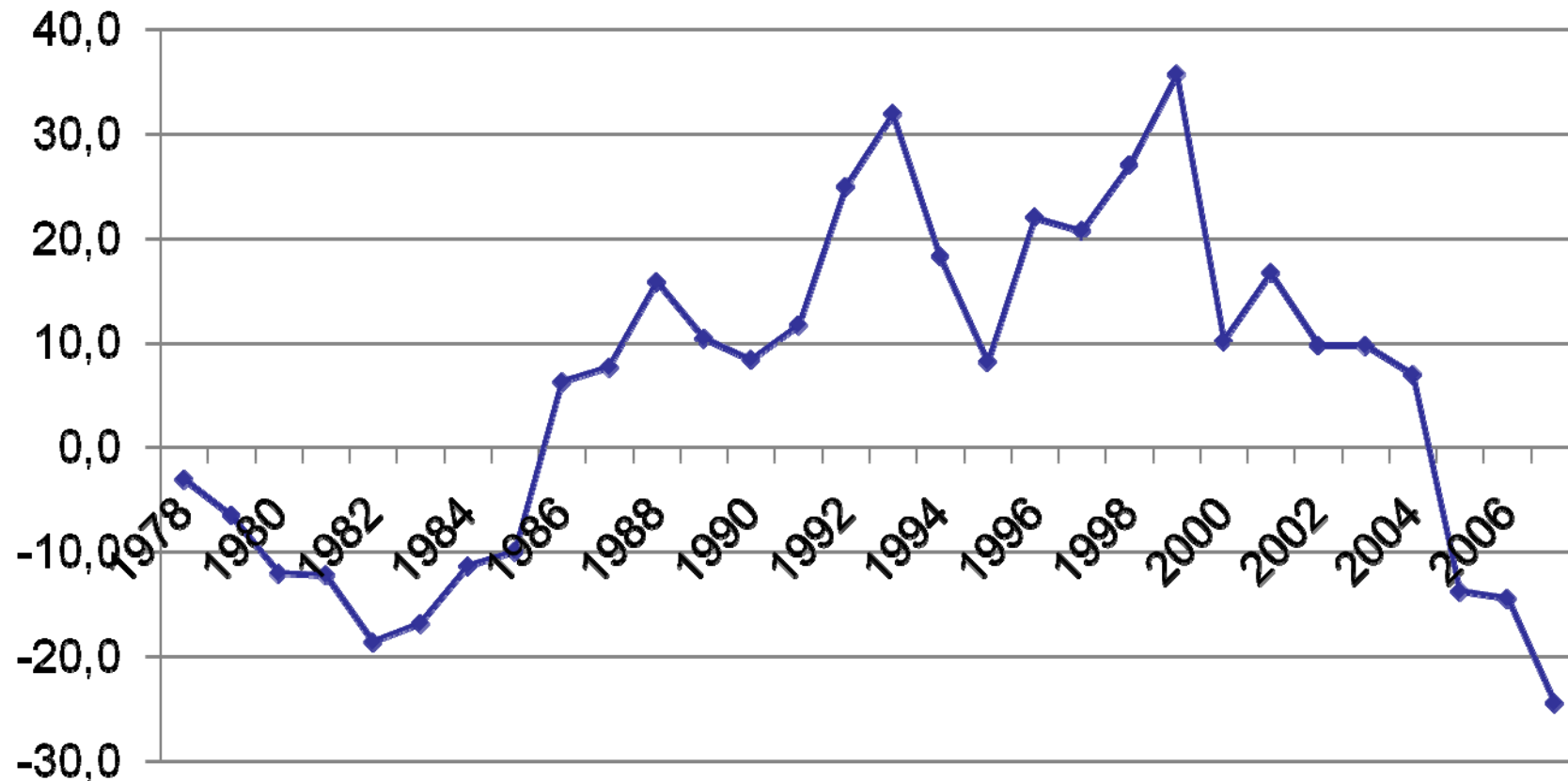
- The main explanation lies to the inability to constitute a new political alliance which could support and legitimize structural reforms.
- French political have been dominated by « cohabitation » between 1986 and 2002 and elections of rightist presidents have been based on social (non liberal) discourse by candidates (« fracture sociale » for Chirac, « revalorisation du travail » for Sarkozy).
- This impossibility of a new social coalition is a clear manifestation of a political crisis (Guillaud, Palombarini, 2007).

An economic crisis of the French model????

- For Keynes (1930) and postkeynesianism, when $I-F < 0 \Rightarrow$ crisis (companies are insolvent; devaluation of capital)
- Net retained earnings = $I-F$
- I : net investments (net fixed-capital formation)
- F : external financing
- Explained in France by :
 - Acceleration of fixed-capital consumption because of obsolescence of capital (computers...)
 - Growth of dividends
 - Small increase of wages share since 2001

An economic crisis of the French model???????

Net retained earnings of entreprises



Sources : INSEE (calculs by authors)