

SOCIO-ECONOMIC INEQUALITY IN SWEDEN AND
FRANCE: A COMPARATIVE STUDY

by

KORINNE BREED

A THESIS

Presented to the Department of International Studies
and the Robert D. Clark Honors College
in partial fulfillment of the requirements for the degree of
Bachelor of Arts

June 2016

An Abstract of the Thesis of

Korinne Breed for the degree of Bachelor of Arts
in the Department of International Studies to be taken June 2016

Title: Socio-Economic Inequality in Sweden and France: A Comparative Study

Approved: 
Dr. Geoff Kennedy

Sweden and France have two of the highest levels of public social spending in Europe with each country exemplifying a different welfare state model. While there are some similarities in their labor market and social policies, the differences have contributed to discrepancies between the two countries in terms of socio-economic inequality. This study features the most recent data available to analyze factors contributing to socio-economic inequality, specifically income inequality, labor market policies, fiscal sustainability, and educational systems. It compares visual representations of this data to reports by governing bodies and international organizations. Findings indicate that Sweden generally has lower levels of inequality and better well-being than France, but not in all cases. Sweden faces high unemployment for the low skilled and migrants, as well as problematic educational outcomes. France's social transfers are poorly targeted. Its government has struggled to control its increasing debt, and is facing calls to reduce its social services. This research is significant because inequality is correlated with poverty, leads to social exclusion, and can even curb economic growth.

Acknowledgements

I would like to thank Dr. Geoff Kennedy for inspiring me to pursue research in the field of political economy and for his support as my Primary Advisor. I would also like to thank Dr. Ellen Scott and Dr. Barbara Mossberg for their guidance and encouragement as members of my Defense Committee.

I am sincerely grateful for the many additional faculty members in International Studies, Economics, the Honors College, and other departments whose challenging coursework prepared me to undertake this project.

A huge thanks to my supervisors at the American English Institute who have been incredibly understanding throughout my thesis writing process. I am forever grateful for the opportunities they have given me and the expertise they have shared.

I cannot imagine writing my thesis without the backing of my friends and family. Thank you for building me up, calming me down, and reminding me that I have the capability to accomplish whatever I set my mind to.

Most of all, I extend my utmost appreciation to my parents for making my college experience possible and for their unyielding faith in me. They have always pushed me to excel, and in the end what I wanted most was to make them proud. This work is dedicated to them.

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Introduction

Economic inequality has drawn wide attention in the media in the 21st century. The gap between the rich and the poor has grown at an alarming rate in the last few decades. Countries representing various models of welfare states mitigate inequality differently. However, even those which have implemented extensive welfare policies are not immune to the risks of inequality. Sweden and France exemplify two different types of welfare models. This thesis analyzes how the differences in these models have influenced the disparities in well-being of their citizens. Specifically, this study explores the impact of factors influencing socio-economic inequality in Sweden and France.

This study utilizes the models from Gøsta Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990) to explain the fundamentals of welfare states. The development of the French and Swedish welfare states is also discussed, along with some basic facts about the two countries. The study introduces the topic of welfare state retrenchment, which has the potential to lead to greater inequality. Next, the study examines data related to socio-economic inequality in France and Sweden. The thesis analyzes labor market outcomes for various vulnerable groups, including migrants, youth, and low-skilled workers. Explanation is given of certain labor market policies and reforms which impact the vulnerable groups and can exacerbate inequality. The study also reviews the contribution of governments' financial sustainability and educational systems to socio-economic inequality.

What is a welfare state?

Definition of a welfare state

A welfare state is a type of government which assumes responsibility for securing the basic welfare of its citizens (Esping-Andersen, 1990, p. 19). Esping-Andersen points out that the amount of social expenditure does not necessarily reflect a country's commitment to welfare. There are many other factors at play, such as the strength of different institutions, ideologies of political parties, and global dynamics. Asbjørn Wahl asserts that welfare states traditionally have three main components: "collective insurance schemes (the social security system), general welfare services (health care, education), [and] social benefits (social assistance, housing benefits and so on)" (2011, p. 40).

A concept that is commonly discussed in conjunction with the welfare model is de-commodification of labor. Esping-Andersen says "de-commodification occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market" (1990, p. 21-22). This is connected to the welfare model because under this system certain people receive assistance at times when they are not employed, such as after losing their job or having children. Various types of welfare systems allow different levels of de-commodification.

Categories of welfare states

Esping-Andersen identifies three categories of welfare states called liberal, corporatist, and social-democratic models. The French model exemplifies the corporatist model, and the Swedish system is an example of the social-democratic

category. The liberal model only provides assistance for those with demonstrable need (Esping-Andersen, 1990, p. 22). Esping-Andersen says this reduces some of the de-commodifying effect, and actually reinforces the market because benefits are modest and often come with a stigma. This model is the most common in Anglo-Saxon countries such as the United States, United Kingdom, and Australia. The liberal model stratifies the population into those receiving welfare and those in the work force (Esping-Andersen, 1990, p. 27).

The corporatist model is exemplified by benefits that are large but nearly entirely dependent on contributions from employment (Esping-Andersen, 1990, p. 22). Countries such as Germany, France, Austria, and Italy are examples of this model. In this model the state is concerned with upholding existing class status differences and traditional family models. Therefore, it is not very redistributive in its actions and certain areas of benefits are underdeveloped such as day care and other services for dual-income families (Esping-Andersen, 1990, p. 27).

The final model which Esping-Andersen distinguishes is the social-democratic regime. Under this model all citizens receive assistance from the state regardless of their prior earnings or position in society. Esping-Andersen explains that values of social democracy and equality made up the basis for the creation of the social democratic regime, especially in the Nordic countries. Because everyone in the society universally benefits and relies on the welfare state, they will hopefully feel inclined to contribute, especially in the form of taxes (Esping-Andersen, 1990, p. 28).

Country Background

Origins of the Swedish welfare model

Steve Valocchi notes that though social scientists disagree on exactly when the Swedish welfare state took form, he believes that "class interests and state structures during Sweden's early industrialization provided the context within which working-class welfare politics were made and remade from the 1930s to present day" (1992, p. 190). He says that Sweden's welfare policies were more interventionist and universal compared to other European countries at the same time as their industrialization. One perspective states that agrarian interests also held much political power in the early twentieth century, and this shaped pension laws into becoming more universal than in other countries.

Some members of the upper class attempted to reform social insurance laws in order to benefit only industrial workers, but farmers were able to block this legislation. In 1913 pension laws that would benefit all citizens were passed and financed through taxes (Valocchi, 1992, p. 190). This all played into the development of the Social Democratic political party which represented the values of the working class. Due to the work of the Social Democratic party and Agrarian party, the 'universal benefits' aspect of the Swedish welfare model was established by the late 1940s (Huber and Stephens, 2001, p. 119). The welfare state continued to expand through the 1980s in the form of public health, education, and welfare employment (Huber and Stephens, 2001, p. 125). These extreme expansions came with the price of some of the highest tax rates in the world.

Sweden: Essential facts

The Central Intelligence Agency's *World Factbook* says that Sweden has a population of about 9,801,616 (2016). GDP per capita on a purchasing power parity basis is about \$48,000. The labor force is approximately 5.184 million people. A total of 2% of the labor force works in agriculture, 12% in industry and 86% in services as of 2014. The CIA estimates that 14% of the population was below the poverty line in 2011. The net migration rate in 2015 was about 5.42 migrants per 1000 people. In 2014 the share of foreign-born persons in Sweden was 16.5% of the population (*Sweden: Selected Issues*, 2015, p. 6). Sweden has a well-organized process for integrating migrants and utilizes many active labor market policies, yet unemployment rates are still high for migrants and the low skilled.

Origins of French welfare model

France's welfare system developed later than Sweden's. Timothy B. Smith explains that before 1914 there was a great distrust in France of German-style social legislation due to their perceived special treatment of certain citizens (2004, p. 26). This may have prevented them from enacting certain types of welfare legislation. At this time France only excelled in child and maternal welfare. Their social programs reached only a small number of citizens; they did not reach 70% of the population until the early 1970s. National unemployment insurance policy was passed in 1958, which was already significantly later than many other European countries. However, Smith notes that this does not mean France was entirely lagging behind in its welfare policies. In fact, they spent the average amount on welfare in comparison with other European countries (Smith, 2004, p. 26).

Michel R. Gueldry explains that France's welfare state, the *Etat-Providence*, consists of two main components: The *Sécurité Sociale* and compensation for unemployment (2001, p. 91). The Social Security system was created in 1945 with "a public health plan, a retirement plan, family allowances and workers' disability compensation." Compensation for unemployment consists of a professional insurance plan that all workers contribute to and a state solidarity plan for previously employed individuals who are no longer eligible for unemployment insurance (Gueldry, 2001, p. 91). Gueldry says that *droits sociaux* (social rights) are a crucial part of French political culture alongside civil and political rights (2001, p. 92).

One aspect of the French welfare model which sets it apart from that of Sweden is that it primarily benefits the middle and upper economic classes. As Timothy B. Smith suggests in *France in Crisis*, "French social policy is not geared towards the interests of those stuck in poverty and the 2.5 million unemployed" (2004, p. 6). Money is instead channeled to the so-called "insiders," the comfortably employed, who make up the welfare state's main supporters.

France: Essential facts

According to the Central Intelligence Agency's *World Factbook*, France has a population of about 66,553,766 (2016). GDP per capita on a purchasing power parity basis is about \$41,400. The labor force is approximately 29.84 million people. A total of 3% of the labor force works in agriculture, 21.3% in industry and 75.7% in services as of 2014. The CIA estimates that 8.1% of the population was below the poverty line in 2012. The net migration rate in 2015 was about 1.09 migrants per 1000 people.

The French Directorate General of the Treasury (DG Trésor) states that “young people, blue-collar workers, and low-wage earners have been the hardest hit by the crisis” (Vincent, 2011, p. 5). The country has struggled to control its mounting governmental debt, leading to calls for the government to reduce its social spending.

Retrenchment and Inequality

Welfare state retrenchment

Welfare state retrenchment implies the cutting back of social services that commonly comprise a welfare state. Sometimes retrenchment is considered quantitative changes in expenditure, but it can also mean changes in the nature of the institutions which make up the welfare model. There is much controversy among academics over whether welfare state retrenchment indeed is a real phenomenon, or a figment of concerned socialists' imaginations.

Authors of *Development and Crisis of the Welfare State* find through a study of multiple welfare states that "the mean annual increase in almost all of the expenditure measures was higher for the 1970s than for the Golden age and then lower for the 1980s than for either of the two earlier periods" (Huber and Stephens, 2001, p. 207). Also, "a comparison of the mean annual changes indicates that expenditure was increasing much faster in the 1970s in all regime types, whereas in the 1980s average annual increases in revenue exceeded those of expenditure in all three regime types" (Huber and Stephens, 2001, p. 207). These two pieces of evidence support the claim of retrenchment.

In *Political Economy of European Welfare Capitalism*, Colin Hay and Daniel Wincott suggest that if we consider retrenchment to be a reduced share of GDP being put towards welfare, evidence shows that retrenchment does not exist. However, if "we see the welfare state as an institution...for responding to societal needs...then we are unlikely to feel able to conclude, on the basis of stable or even increasing levels of

expenditure alone, that no retrenchment has occurred" (Hay & Wincott, 2012, p. 105).

This implies that levels of and access to benefits have changed.

In *The Rise and Fall of the Welfare State* Asbjørn Wahl says that even if data doesn't show signs of retrenchment, the neoliberal ideals of deregulation and increased power of capital are slowly chipping away at the model. He discusses the increasing exclusion of people from participation in work and society at large, as well as increased inequality and poverty in European countries (Wahl, 2011, p. 9-10). Even conservative politicians are backing the welfare model or attempting to take credit for it. Wahl says we must be wary of this because they have ulterior motives.

To summarize, there is potential quantitative evidence of welfare state retrenchment in the late 20th century. Even without quantitative evidence there are signs of retrenchment or encroaching retrenchment in the form of increasing inequality, poverty, and reforms to reduce social services.

Introduction to socio-economic inequality

Socio-economic inequality is defined as “differences in a range of economic and social factors that influence well-being, including income, education and health” (European Commission, 2010, p. 9). Measures of socio-economic inequality relate to three sources of income: market earnings from paid employment, social transfers through taxes and benefits, and non-cash resources (European Commission, 2010, p. 9). Research by the European Commission shows that economic inequality and poverty are interrelated. This is one reason why studying socio-economic inequality, not just earnings inequality, is important.

A concept that is related to socio-economic inequality is social exclusion. Social exclusion is “the process through which individuals or groups become excluded from full participation in the society within which they live” (European Commission, 2010, p. 10). While poverty is defined in economic terms and focuses on material deprivation, social exclusion has economic, social, and political aspects. Welfare states can enact policies which promote greater social inclusion through redistribution of resources and other policies.

This analysis will focus on inequality for certain vulnerable groups such as youth, migrants, and low-skilled workers. According to the OECD *Glossary of Statistical Terms*, migrants are considered long-and short-term immigrants or emigrants, residents returning after or leaving for working abroad, and nomads (2003).

Methods

This research takes the form of a Small-N style comparative study with two countries as cases (Halperin & Heath, 2012, p. 208). The independent variables include the various policies enacted by the governments of the two countries. The dependent variables are the outcomes of inequality experienced by certain vulnerable groups of the populations.

The study utilizes both quantitative and qualitative sources to analyze these variables. The quantitative sources are accessible in the form of graphs and statistics. The qualitative sources provide context to the quantitative sources and give a comprehensive perspective of socio-economic inequality in Sweden and France. The results are organized into sections regarding overall income inequality, labor market policies, fiscal sustainability, and education.

Data

The graphs in the following sections highlight various aspects of the French and Swedish societies related to inequality. They show the state of each country's economy currently or over time using the most recent data available. Some of the graphs include data from other countries in the European Union or OECD for comparison. Data were retrieved from the Organisation of Economic Co-operation and Development (OECD), International Monetary Fund (IMF) and Eurostat, the official statistical office of the European Union. Some graphs were constructed by the author using data collected from the previously mentioned organizations. Other graphs were retrieved from reports written by the same organizations and other sources.

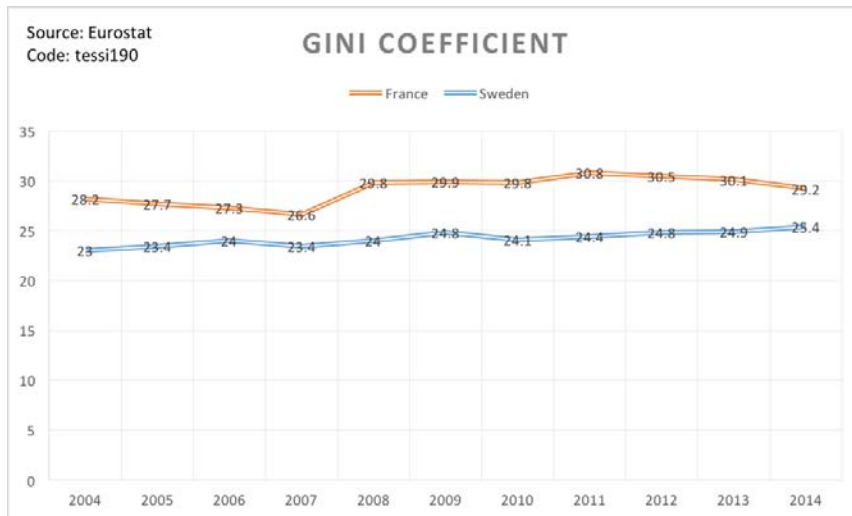
Results

Income and transfers

Gini coefficient

The graphs featured below demonstrate the change in Gini coefficient over time. The Gini coefficient is one of the most basic measurements of income inequality in a country. The European Commission defines the Gini coefficient as “the relationship of cumulative shares of the population arranged according to the level of equivalised disposable income, to the cumulative share of the equivalised total disposable income received by them” (Eurostat, 2016). A Gini coefficient of 100 represents complete income inequality (one person has all of the income in a society), and a coefficient of zero represents complete equality. The second graph shows the Gini coefficient before the effects of social transfers (with pensions). Pensions in Europe are a source of income for retired people from the state. In the second graph below pensions are considered part of social transfers, not income, therefore their effect is not included.

In comparison to other countries in the European Union, Sweden’s Gini coefficient falls in the lower half and France’s falls in the upper half (*OECD Data*, 2012). Social transfers play a large equalizing role in both countries. Sweden has a higher level of income inequality than France does before social transfers. Because of its welfare model Sweden is able to mitigate inequality to a higher degree than does France.



Gini coefficient

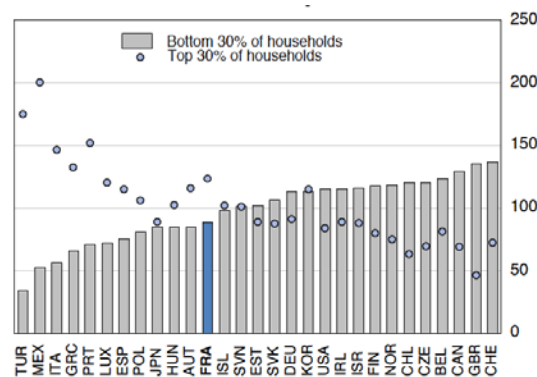


Gini coefficient before social transfers

Targeting of social transfers

As seen previously in the graph “Gini coefficient before social transfers,” social transfers play an important role in reducing inequality in Sweden and France. The IMF says that “taxes and transfers reduce income inequality [in France]...by about 40 percent. Over 60 percent of this reduction is achieved by transfers” (*France: Selected Issues*, 2015, p. 3). Even though these redistributive benefits exist, there is also evidence of very poor targeting of social transfers in France. “27 percent of social benefits (in

cash) go to the highest income quintile, and less than 17 percent to the lowest income quintile” (*France: Selected Issues*, 2015, p. 3). Explained a different way, the OECD says that as of 2010 “in France the bottom three deciles received slightly less than the average household, while the top three deciles enjoyed about a quarter more than the average” (*OECD Economic Surveys: France 2015*, 2015, p.19). This point is illustrated in the graph below.



Social transfers received compared with the average household, 2010. % of transfers to average household. France highlighted in blue.

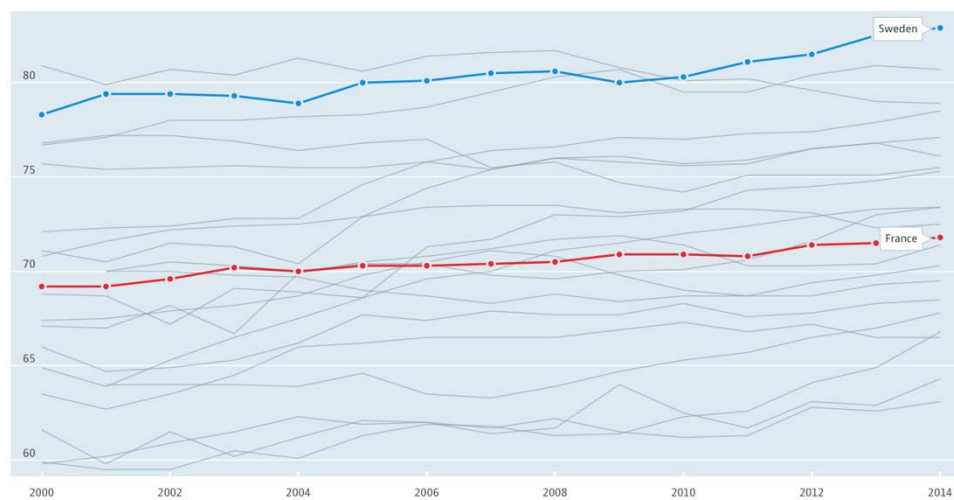
Source: *OECD Economic Surveys: France 2015*, 2015, p. 19.

This evidence is aligned with Esping-Andersen’s argument that countries following the corporatist model are more concerned with upholding existing economic class differences; whereas the social democratic model provides assistance for all citizens regardless of their social status (Esping-Andersen, 1990, p. 27-28). Esping-Andersen also mentions that just because a country spends a large amount on social expenditure, it does not mean the country is equally committed to the welfare of all of its citizens. This concept applies to the French welfare model.

Labor force statistics

Labor force participation rate

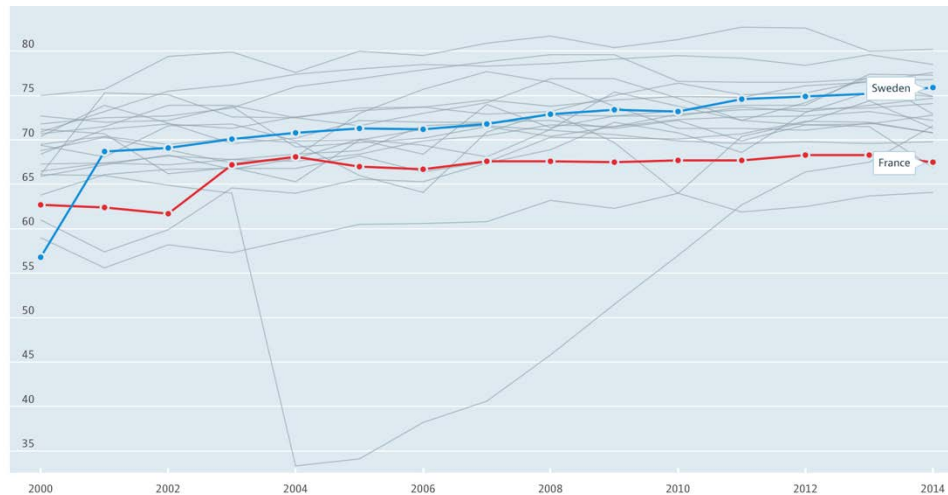
The two graphs below exhibit the native-born and foreign-born participation rates in the labor market compared to other countries in the European Union. The participation rate counts those ages 15-64 who are both employed or unemployed in the respective group (native or foreign-born) out of the total group of that age (*OECD Data, 2016*). In 2014 Sweden's native-born participation rate was 82.9% and its foreign-born participation rate was 75.9%. France's native-born participation rate was 71.8% and its foreign-born participation rate was 67.5% (*OECD Data, 2016*).



Native-born participation rates. Total, % of native-born labor force, 2000-2014.

Source: OECD (2016), Native-born participation rates (indicator). doi:

10.1787/afed6c9e-en (Accessed on 02 April 2016)



Foreign-born participation rates. Total, % of foreign-born labor force, 2000-2014

Source: OECD (2016), Foreign-born participation rates (indicator). doi: 10.1787/fa75b43e-en (Accessed on 02 April 2016)

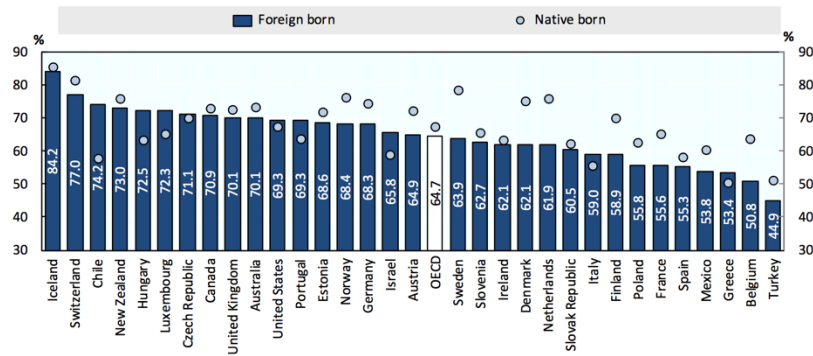
The Swedish labor force is experiencing compositional changes, especially in the form of foreigners joining the population. According to the OECD, matching workers to vacant jobs is becoming increasingly difficult, which reflects the change in labor force composition (*OECD Economic Surveys: Sweden 2015*, 2015, p. 8). Foreign born are contributing to the employment rate, but this is outpaced by their addition to the total labor supply (*Sweden: Selected Issues*, 2015, p.4). Asylum seekers take a long time to integrate into the Swedish labor market, which means “average employment gaps are higher in Sweden compared with other Nordic peers” (*Sweden: Selected Issues*, 2015, p.9).

The Migration Integration Policy Index says that about one fourth of France’s population has an immigrant background (MIPEX, 2015). The organization says that there are major problems regarding labor market integration and mobility for non-EU immigrants in France. Many potential jobs are legally closed to non-EU immigrants. Further, they often cannot access the training and study grants, or receive official

recognition for their foreign qualifications, which are needed to land a job. These are some of the reasons why France has one of the lowest foreign-born participation rates in the European Union (*OECD Data*, 2016).

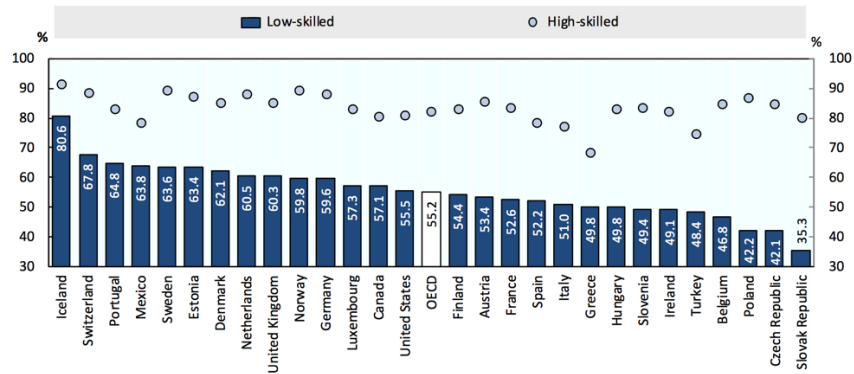
Employment

Employment rates are high for middle and high-skilled workers and low for low-skilled workers in Sweden (*OECD Economic Surveys: Sweden 2015*, 2015, p. 28). High and medium-skilled people accounted for all of the employment gains in Sweden from 2004 to 2014. There was a five percent decrease in the employment of low-skilled people in the same time period (*Sweden: Selected Issues*, 2015, p. 5). Nonetheless, Sweden has higher employment rates for the low skilled and foreign born than France as demonstrated in the graphs below. Sweden has the second highest level of spending on labor market policies in the OECD (two percent of GDP) (*Sweden: Selected Issues*, 2015, p. 13). Active labor market policies include training, wage subsidy schemes, and job matching services. These policies contribute to higher levels of employment than in France, especially for the low skilled and migrants.



Native and foreign born employment rates, 2015 Q2 (as a percentage of native or foreign born persons aged 15 to 64)

Source: OECD, *Building more resilient...*, 2015



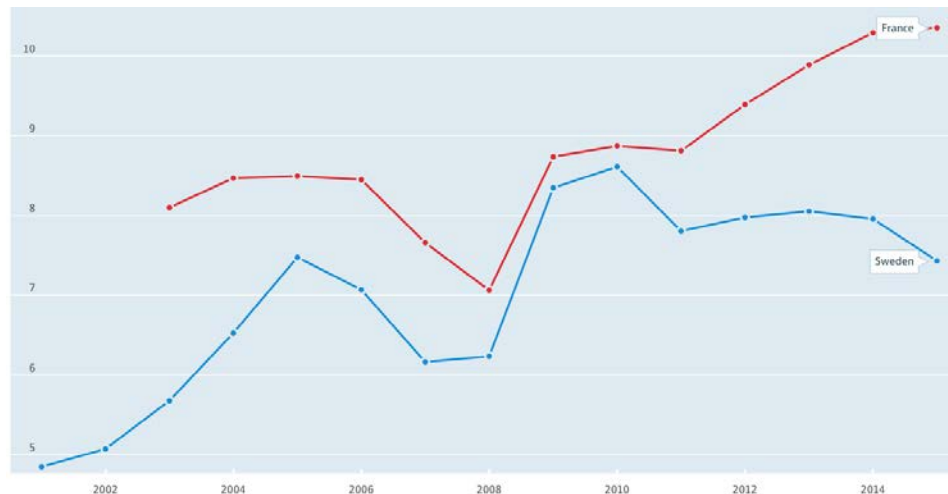
Employment rates of low and high-skilled, 2015 Q3 (as a percentage of the low or high-skilled populations aged 25 to 64)

Source: OECD, *Building more resilient...*, 2015

Unemployment

The following graph shows the total unemployment rates in Sweden and France, defined as the percentage of the labor force – not the total working age population – which is unemployed (*OECD Data, 2016*). In order to be classified as unemployed a person must have reported that they are without work and have actively been trying to

find work in the last four weeks. Neither the unemployment rate nor the total labor force include people who have become discouraged and stopped looking for work. As the OECD points out, this means that even if the unemployment rate drops or stabilizes, a country's economy may not have improved (*OECD Data*, 2016).



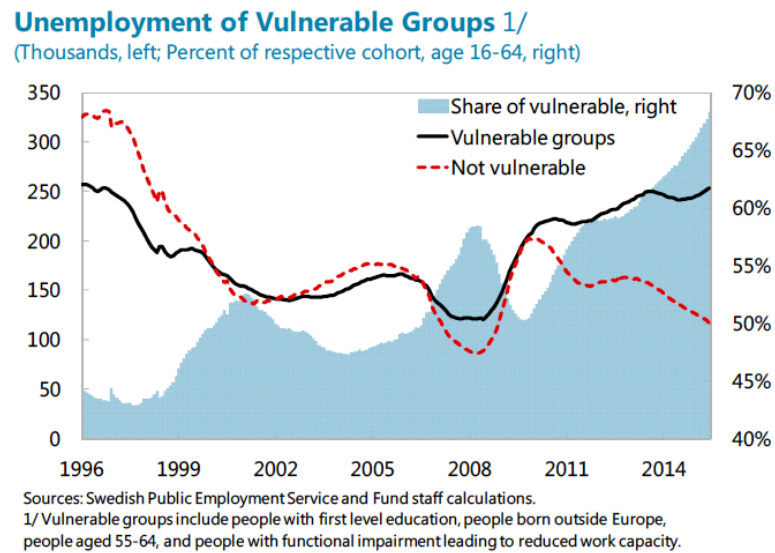
Unemployment rate. Total, % of labor force, 2001-2015.

Source: OECD (2016), Unemployment rate (indicator). doi: 10.1787/997c8750-en
(Accessed on 01 April 2016)

Sweden's overall unemployment rate was 7.4% in 2015 (*OECD Data*, 2016).

Unemployment levels are higher for vulnerable groups in Sweden. “The share of the unemployed who have been out of a job for more than one year is about half the OECD average, with low-skilled workers and immigrants affected the most” (*OECD Economic Surveys: Sweden 2015*, 2015, p. 8). The Swedish Public Employment Service (PES) says “the share of vulnerable groups among the unemployed reached close to 70 percent in April 2015” (*Sweden: Selected Issues*, 2015, p. 4). The IMF breaks this down into greater detail: “Unemployment [in Sweden] increased by more than 100,000 over the past decade, of which the low skilled accounted for about 80 percent; whereas the

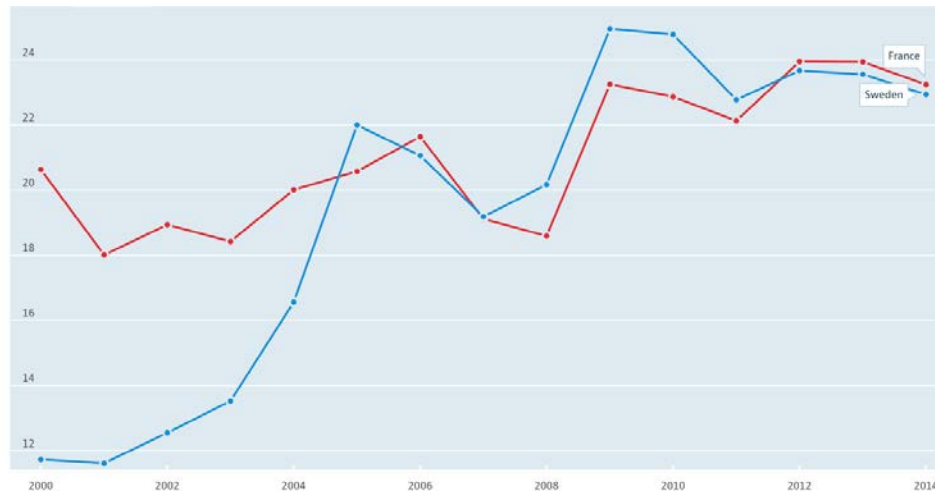
foreign accounted for more than one-third of the rise in unemployment” (*Sweden: Selected Issues*, 2015, p. 5). The graph below visualizes this inequality.



Unemployment of Vulnerable Groups in Sweden

Source: *Sweden: Selected Issues*, 2015, p. 4.

France has high levels of structural unemployment. In 2008 France’s total unemployment level was 7.5%, whereas in April 2015 it was 10.5% (*France: Selected Issues*, 2015, p. 9). Two in every five unemployed in France are out of work for over a year (*France: Selected Issues*, 2015, p. 9). The level of youth unemployment in France is slightly less than 24%. Sweden’s youth unemployment rate used to be much lower than France’s but has since increased to a similar level, as seen in the graph below. The youth employment rate is measured in the same way as the total unemployment rate except it is calculated as a percentage of the youth labor force (ages 15-24).



Youth unemployment rate. Total, % of youth labor force, 2000-2014.

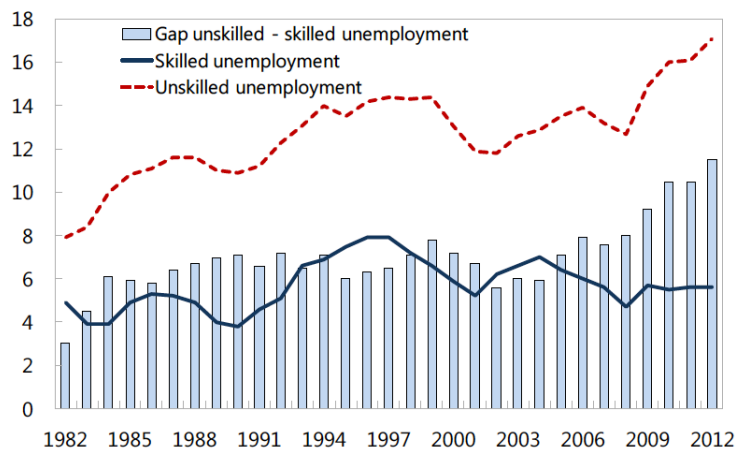
Source: OECD (2016), Youth unemployment rate (indicator). doi: 10.1787/c3634df7-en

(Accessed on 01 April 2016)

The gap between skilled and unskilled employment in France has grown over time, as shown by the graph below. In 2012 the unemployment rate of low skilled people was almost three times that of skilled workers. Ample unemployment benefits may have reduced incentives to work.

Gap between Skilled and Unskilled Unemployment

(In percent of the labor force)



Note: Skilled = Upper and post secondary education; Unskilled =No education.

France: Gap between Skilled and Unskilled Unemployment (In percent of the labor force).

Source: *France: Selected Issues*, 2015, p. 10.

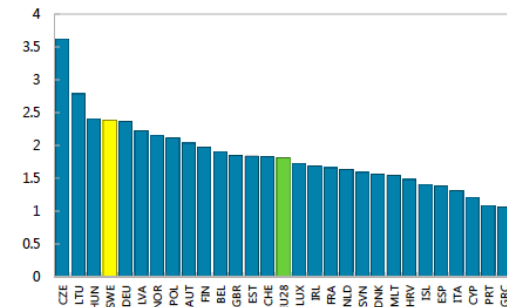
Unemployment benefits account for three percent of general government spending in France (*France: Selected Issues*, 2015, p. 5). Multiple aspects of the system reduce reliance on the market and thus have led to de-commodification of labor. French workers can receive unemployment benefits after four months of service. An unemployed person can reject their first job offer since receiving benefits, without a penalty (*France: Selected Issues*, 2015, p. 13). “The system also does not provide for a progressive reduction in benefits (degressivity) for long-term unemployed to encourage their rapid return to the labor market” (*France: Selected Issues*, 2015, p. 13). Further, the condition that an unemployment benefit recipient must be actively searching for a job isn’t always strictly enforced. In 2015 the French employment agency said inspectors would be deployed to enforce job search requirements for the unemployed. These factors, among others such as costly dismissal procedures and skill mismatches, contribute to France’s high unemployment levels (*France: Selected Issues*, 2015, p. 11).

Low-skilled and foreign born unemployment rate ratios are higher in Sweden than in France as seen in the graphs below. This could be because there is less protection for temporary contracts in Sweden than in France, and in Sweden “temporary jobs have tended to become more concentrated on vulnerable groups, especially immigrants and those with low qualifications” (*OECD Economic Surveys: Sweden 2015*, 2015, p. 30). Additionally, “Sweden’s competitiveness increasingly hinges on high-value-added services involving high skills and intangible capital intensity” (*OECD*

Economic Surveys: Sweden 2015, 2015, p. 19-20). In a knowledge-intensive economy, “employment is more polarised between highly paid professional and managerial work and more routine manual service work” (European Commission, 2010, p. 25). Because the economy is so focused on high level skills, it can be difficult for migrants and the low skilled to enter the labor force. However, once they gain the skills necessary to participate in the economy, high protection for permanent contracts might help them stay employed. This could be one reason why employment rates for the low skilled and migrants are higher in Sweden than in France, yet unemployment rate ratios are high as well.

Low-skilled Unemployment, 2014

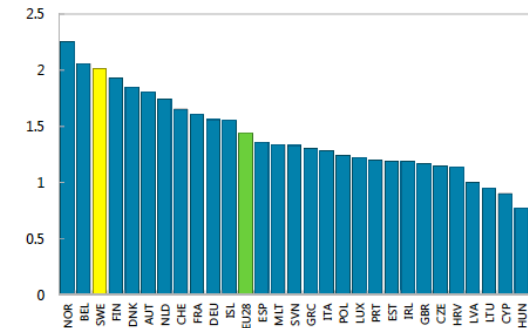
(Ratio of low-skilled unemployment rate to overall same-country unemployment rate)



1/Low skilled refers to persons with education level below upper secondary education
Sources: Eurostat and Fund staff calculations.

Foreign Born Unemployment, 2014

(Ratio of foreign born unemployment rate to overall same-country unemployment rate)



Sources: Eurostat and Fund staff calculations.

Swedish unemployment rate ratios highlighted in yellow. Note: According to the IMF, low skilled unemployment rate in 2014 was 19%. Foreign-born unemployment rate in 2014 was 16%.

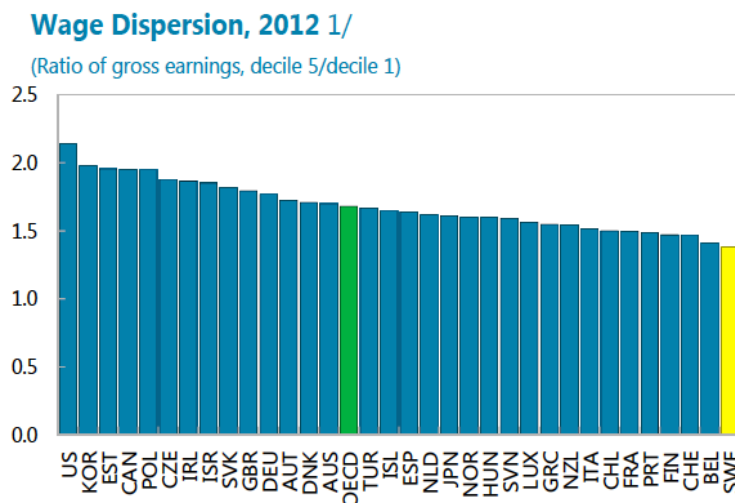
Source: *Sweden: Selected Issues*, 2015, p. 3.

Wages

Both countries have made efforts to reduce wage inequality. High entry-level wages and low wage dispersion are apparent in the data for both Sweden and France. Even though inequality has been reduced for some groups, it is controversial whether the economic outcomes have benefited those most vulnerable in the two societies.

Collective bargaining causes high entry-level wages in Sweden. Sweden does not have a national minimum wage; instead, “the roughly 600 collective agreements include multiple minimum wages that are differentiated by sector, occupation, age and experience...In 2011, these collectively negotiated wage floors were, on average, 80 percent of average wages,” which is high compared to national minimum wages elsewhere (*Sweden: Selected Issues*, 2015, p. 10). There is not much leeway to adjust for local conditions.

Because of high wages sectors that would typically employ low-skill workers are small. In general, Sweden prefers to increase workers’ skills to match the productivity and wages it is looking for instead of paying low wages for low skills and productivity (*Sweden: Selected Issues*, 2015, p. 11). As shown in the graph below Sweden has the lowest wage dispersion in the OECD. France also has very low wage dispersion.



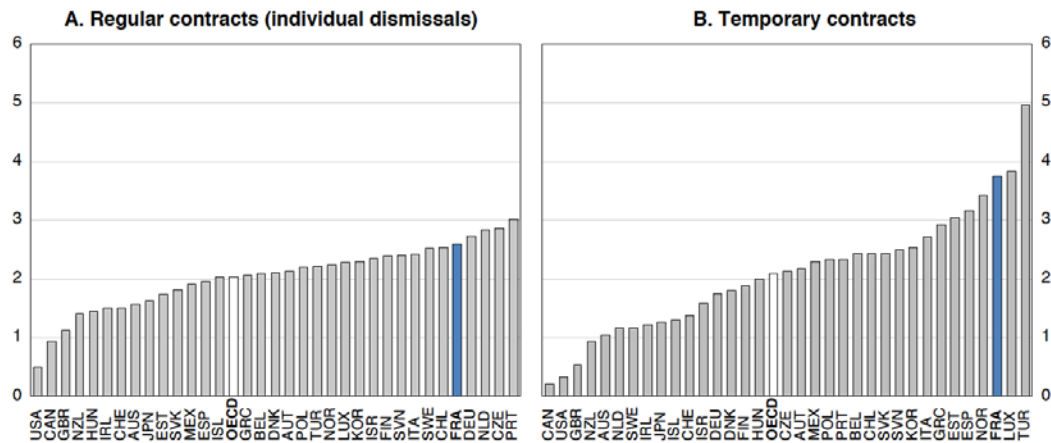
Dreger, López-Bazo, Ramos, Royuela, and Suriñach discuss the relationship between wage dispersion and income inequality (2014). Because the wage dispersion

measures the variation in wages throughout a society, a lower dispersion means greater equality. However, the authors note that there are other factors which affect income inequality. Transfers make a large difference, as seen in the earlier graph “Gini coefficient before social transfers.”

The IMF says that real wages are growing in France despite high unemployment (*France: Selected Issues*, 2015, p. 10). The French minimum wage has risen by 14% since 2007, and GDP has only grown 12% in nominal terms (*France: Selected Issues*, 2015, p. 11). The OECD argues that the high wages for unskilled labor undermine employment prospects (*OECD Economic Surveys: France 2015*, 2015, p. 28). The belief that vulnerable groups become “priced out of the job market” is extremely common in orthodox economic theory (Howell, Azizoglu, & Okatenko, 2012, p. 2).

Scholars from the New School for Social Research have challenged this perspective. They explain that France started the *salair minimum de croissance* (SMIC) in 1970, which established minimum wage increases at set intervals over time (Howell, Azizoglu, & Okatenko, 2012, p. 1). The SMIC has effectively “compressed the bottom of the wage distribution and substantially raised the hourly pay of minimum wage workers” (Howell, Azizoglu, & Okatenko, 2012, p. 2). Their findings do not show evidence of worsened employment performance as the SMIC has risen.

Job protection and dismissal procedures



Source: OECD, *Employment Protection Legislation Indicators Database*.

Employment protection, 2013, France highlighted in blue. Index: 0 least restrictive, 6 most restrictive.

Source: *OECD Economic Surveys: France 2015*, 2015, p. 24.

There is a difference in the degree of employment protection for permanent and temporary contracts in France and Sweden. The graphs above show indexes of restriction levels in OECD countries in 2013. Both Sweden and France have high levels of protection for permanent contracts. However, France has a high level of protection for temporary contracts while Sweden has a low level.

The IMF notes that protections for temporary contracts in Sweden have been reduced over time (*Sweden: Selected Issues*, 2015, p. 12). This asymmetry between permanent and temporary contracts has been shown to raise unemployment rates for migrants and low-skilled individuals. Transitions from temporary to permanent positions are fairly high in Sweden, yet “transitions from temporary employment to inactivity (and to a lesser extent to unemployment) are also common” (*Sweden: Selected Issues*, 2015, p. 12).

The large degree of protection for permanent contracts (*contrat à durée indéterminée*) leads to duality between contract types in the French labor market (*OECD Economic Surveys: France 2015*, 2015, p. 7). Despite previous reforms the French labor market is still segmented. In 2010 only 24% of French employees on fixed-term contracts transitioned to permanent positions, and “permanent contracts (CDIs) accounted for no more than 16% of new hires in 2013 (23% in 2009)” (*OECD Economic Surveys: France 2015*, 2015, p. 26). The segmentation especially hurts the most vulnerable groups in the labor force such as young people. According to the IMF, in 2012 “55 percent of workers below 25 [were] hired on a fixed-term contract” (*France: Selected Issues*, 2015, p. 9). Fixed-term contracts are often very short term.

Costly dismissal procedures discourage permanent contract job growth in France. Companies must have strong justification to dismiss an employee in order to comply with employment protection legislation (*France: Selected Issues*, 2015, p. 12). This system encourages fixed-term contracts because their termination costs are set, unlike those for permanent positions which are up for lengthy negotiation in labor courts. Mutually agreed termination, or *rupture conventionnelle*, is defined as voluntarily leaving employment with the agreement of the employer and receiving “formula-based termination compensation.” (*France: Selected Issues*, 2015, p. 12). However, the OECD notes that this improvement isn’t enough to make up for the rules and inefficiencies which are hindering labor flexibility (*OECD Economic Surveys: France 2015*, 2015, p. 2).

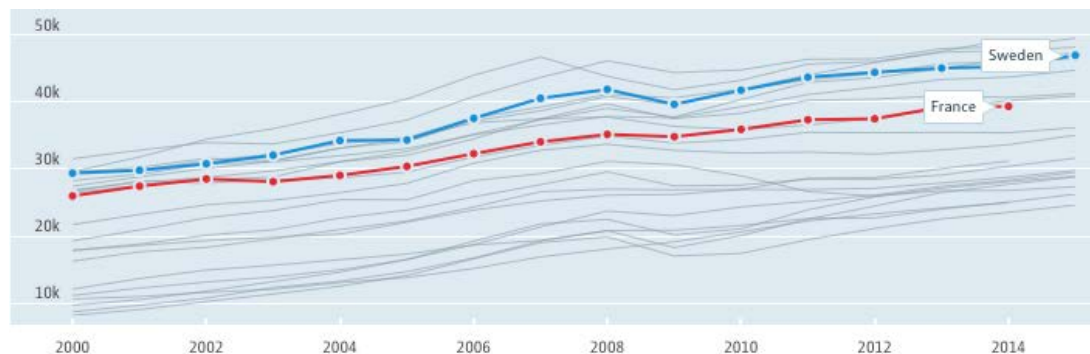
The OECD argues that simplifying lay off procedures for permanent contracts would help reduce duality in the French labor market; however, they add that “this

increased flexibility must remain associated with good income protection for workers between jobs” (*OECD Economic Surveys: France 2015*, 2015, p. 27). Reforms introduced in June 2015 attempt to promote job growth through a number of measures often pertaining to small-and medium-sized enterprises (SMEs). Bertrand Bissuel discusses the measures in the article “Le plan Valls pour amadouer les PME” for *Le Monde* (2015). One of the measures limits severance payments for employees by implementing a scale based on an employee’s seniority and the size of the company. This is supposed to make the labor market more flexible and hopefully increase employment levels.

Temporary contracts can be a beneficial approach to transition workers to permanent jobs, yet in Sweden they have “become more concentrated on vulnerable groups” (*OECD Economic Surveys: Sweden 2015*, 2015, p. 30). Moreover, in France the probability of accessing employer-sponsored training while having a temporary contract is extremely low (*OECD Economic Surveys: France 2015*, 2015, p. 26). This can make it more difficult for people in vulnerable groups to gain skills in order to transition to a permanent job. However, as Gaëlle Picut notes, not all workers with temporary contracts wish to find permanent employment. “Au contrario, au Danemark, en France, en Suisse, en Suède et au Royaume-Uni, un cinquième de travailleurs temporaires ne souhaitent pas un employ permanent” (2015). Picut says that according to OECD statistics one fifth of workers with temporary contracts do not want a permanent job.

Fiscal sustainability

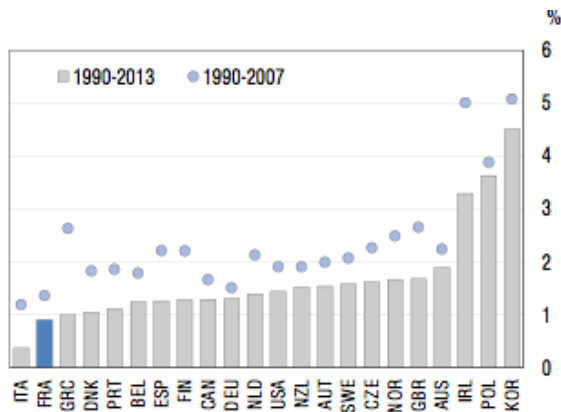
The OECD says that “Sweden is among the few countries where output is now well above its level before the 2008 global financial and economic crisis” (*OECD Economic Surveys: Sweden 2015*, 2015, p. 4). Output as a whole has bounced back but gross domestic product (GDP) per capita has not grown significantly (*OECD Economic Surveys: Sweden 2015*, 2015, p. 8). The graph below shows GDP per capita levels for Sweden and France over time.



Gross domestic product (GDP). Total, US dollars/capita, 2000-2015.

Source: OECD (2016), Gross domestic product (GDP) (indicator). doi: 10.1787/dc2f7aec-en (Accessed on 26 April 2016)

France’s real per capita GDP growth is structurally weak and one of the lowest in the OECD, compared to Sweden which is in the upper half of the OECD growth rates rankings as shown in the graph below (*OECD Economic Surveys: France 2015*, 2015, p. 6). GDP is supposed to measure the overall health of the economy, but GDP per capita does not provide a sufficient measurement of inequality. It is calculated by dividing the total GDP by the population. This is an indication of the average income level, but does not offer any information about the welfare of different economic classes.

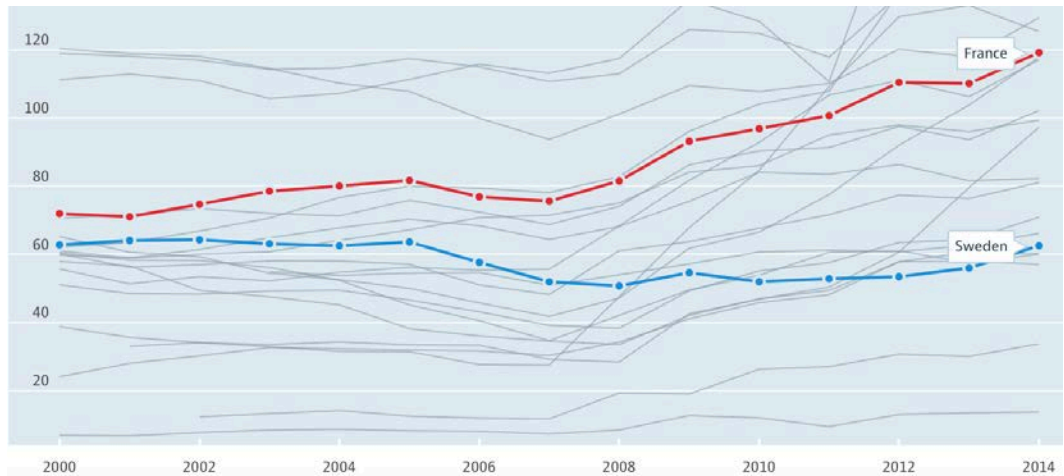


Real per capita GDP growth. Annualized growth rates. France highlighted in blue.

Source: *OECD Economic Surveys: France 2015*, 2015, p. 6.

The relationship between inequality and economic growth is complicated. According to studies conducted by the European Commission, there is “no evidence that redistributive policies adversely affects growth or that growth leads to lower levels of inequality...The projects report robust evidence that high levels of initial inequality tend to reduce growth” (2010, p. 24). This shows that it is possible for countries to value and promote equality while maintaining economic growth and financial stability. Sweden has achieved this more successfully than has France.

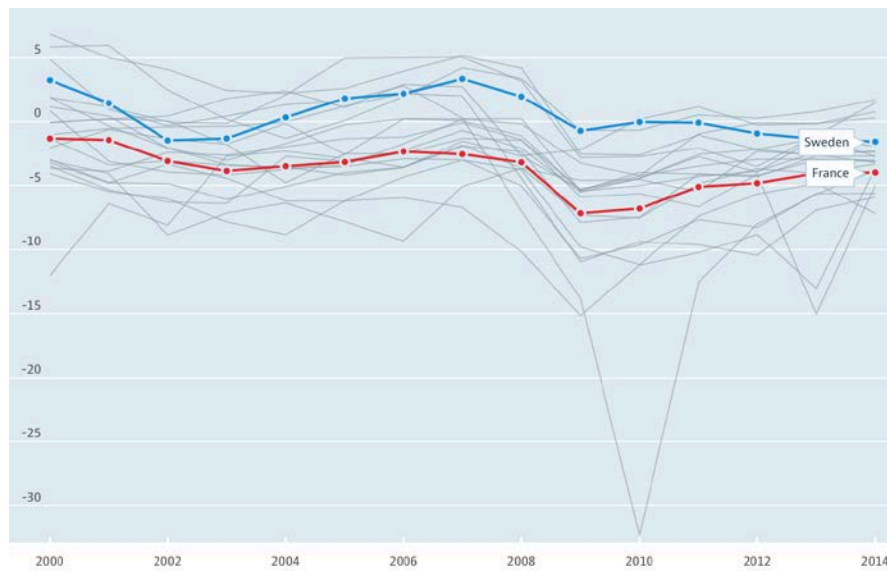
The following graphs show the general government debt and deficit for Sweden and France over time. Other European Union countries are shown in gray for comparison. The debt-to-GDP ratio demonstrates if a government’s financial situation is sustainable. (*OECD Data*, 2016). The change in debt shows the total impact of deficits. In other words, the debt shows the accrued deficits over time. As of 2014 France’s debt was 119% of GDP and Sweden’s debt was 62% of GDP (*OECD Data*, 2014).



General government debt. Total, % of GDP, 2000-2014.

Source: OECD (2016), General government debt (indicator). doi: 10.1787/a0528cc2-en
 (Accessed on 01 April 2016)

The deficit is “the fiscal position of government after accounting for capital expenditures” (*OECD Data*, 2016). The deficit can either exhibit net lending or net borrowing. As of 2014 France’s deficit was 4 percent of GDP and Sweden’s deficit was 1.6% of GDP (*OECD Data*, 2014).

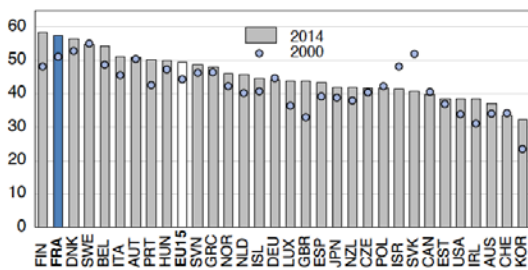


General government deficit. Total, % of GDP, 2000-2014.

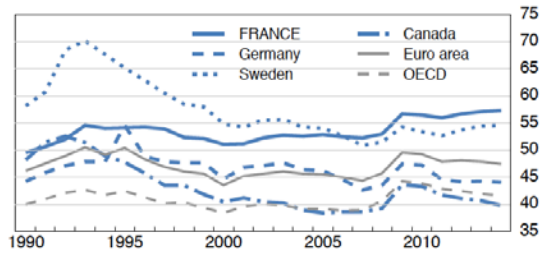
Source: OECD (2016), General government deficit (indicator). doi: 10.1787/77079edb-en (Accessed on 01 April 2016)

The OECD reports that Sweden's fiscal policy is strong and sustainable (*OECD Economic Surveys: Sweden 2015*, 2015, p. 12-13). Even though the government did not meet their desired fiscal balance due to a period of weak growth, their deficit level is within European Union regulatory limits (*OECD Economic Surveys: Sweden 2015*, 2015, p. 13).

A. Government spending by international comparison
As a percentage of GDP



B. Trends in government spending
As a percentage of GDP



Government spending. France highlighted in blue.

Source: *OECD Economic Surveys: France 2015*, 2015, p. 16.

Between 2004 and 2005 France’s government spending (as a percentage of GDP) surpassed Sweden’s and has remained higher ever since (*OECD Economic Surveys: France 2015*, 2015, p. 16). This is demonstrated by the “Trends in government spending” graph featured above. However, the countries still have two of the highest levels of spending in the OECD, as shown on the “Government spending by international comparison” graph.

What does the balance of government budgets have to do with inequality? Due to low GDP growth and high government debt which threatens the stability of the economy, various organizations are calling upon the French government to cut back its social spending. Even though Sweden exhibits similar levels of public spending, they are not receiving the same demands because their financial situation is sustainable. Cutting back social spending in France could affect the well-being of its citizens.

The OECD claims that high taxes established in order to fund public spending have put a burden on the French economy, especially on incentives for businesses to hire and people to work (*OECD Economic Surveys: France 2015*, 2015, p. 7).

Organizations like the OECD and IMF say that the current level of spending is

financially unsustainable. Pensions are France's largest social expenditure at 14% of GDP. In 2002 the effective retirement age was 58.5, which is low by international standards (*France: Selected Issues*, 2015, p. 4). France's public sector wage bill is high at 13% of GDP (*France: Selected Issues*, 2015, p. 6). Immense local government expenditure is commonly identified as a major problem.

Multiple layers (referred to as *mille-feuille*) and overlapping of government institutions have led to inefficiency in public policies and staffing (*OECD Economic Surveys: France 2015*, 2015, p. 7). Loose budget constraints and overall fiscal autonomy of local governments created this excess in spending. The French national government has attempted to contain local governmental spending yet thus far has not achieved much success.

The French government has had issues communicating reforms to the public:

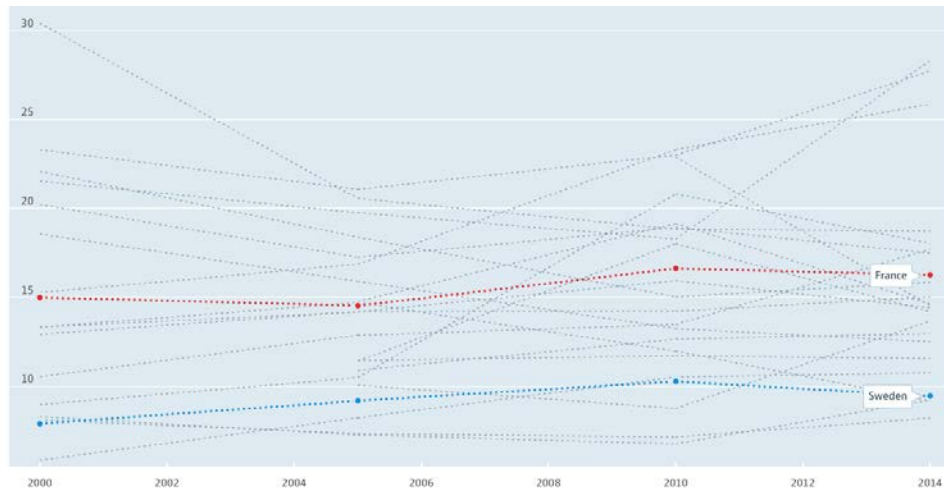
“The potential beneficiaries of the French labour market and pension reforms – i.e. the young and low skilled – have often been reluctant to support them, because their benefits are poorly understood and seen as uncertain...France has many vested interests who benefit from a variety of economic rents and privileges. Older generations who have enjoyed substantial income gains and high social mobility may well see necessary reforms as an arbitrary paradigm shift” (*OECD Economic Surveys: France 2015*, 2015, p. 22-23).

The French people are concerned about the retrenchment of social services which have been in place for many years. They question whether the reforms are truly in their best interest. It remains to be seen if these reforms will have the effect desired by the OECD and IMF, or if they will exacerbate inequalities and reduce French quality of life.

Education

The European Commission asserts that educational systems can “either contribute to social cohesion or exacerbate exclusion” (2010, p. 27). Both Sweden and France face major problems with their educational systems. The OECD says “only 5% of Swedish teachers report that their profession is valued in society, as against 60% in Finland” (*OECD Economic Surveys: Sweden 2015*, 2015, p. 26). Swedish student performance on a major international assessment has declined over the past decade. The French vocational system isn’t accessible for all citizens, and evidence shows that intergenerational educational mobility is poor. Moreover, both Sweden and France have a percentage of young people who are not employed nor in education or training (NEET).

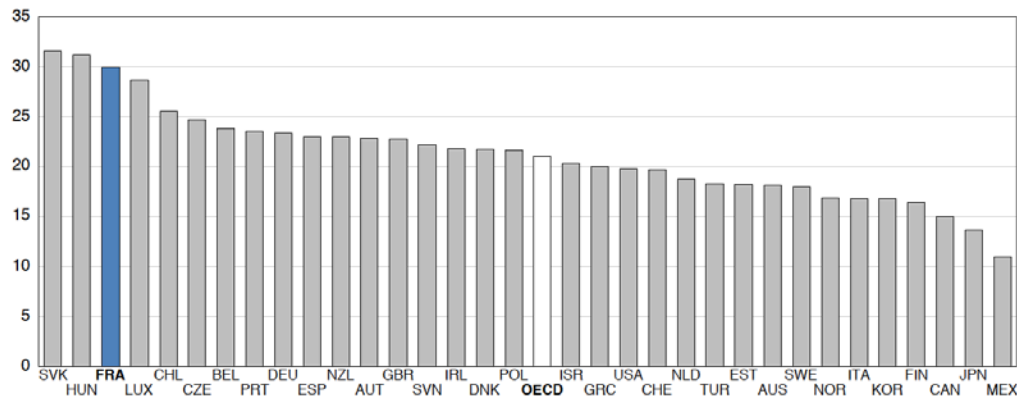
The NEET indicator measures the percentage of youth in this situation out of the total number of youth in the corresponding age group. These youths are not only at risk of poverty and social exclusion but are “lacking the skills to improve their economic situation” (*OECD Data*, 2016). The graph below shows the NEET levels in Sweden and France over time compared to other European Union countries.



Youth not in employment, education or training (NEET) 15-29 year-olds, % in same age group, 2000-2014.

Source: OECD (2016), Youth not in employment, education or training (NEET) (indicator). doi: 10.1787/72d1033a-en (Accessed on 01 April 2016)

The IMF suggests that structural change in the French economy has produced skill mismatches in the labor market. There are also major differences in skills between generations because of technological change (*OECD Economic Surveys: France 2015, 2015, p. 27*). Youth may not have the skills which are in demand, and “the professional training system, which costs about 1.4 percent of GDP, has been slow to respond to the needs of job seekers.” (*France: Selected Issues, 2015, p. 12-13*). The French vocational education system has a large amount of resources but isn’t producing results for the people most in need (*OECD Economic Surveys: France 2015, 2015, p. 7*). The OECD states that the low skilled have trouble accessing vocational training.

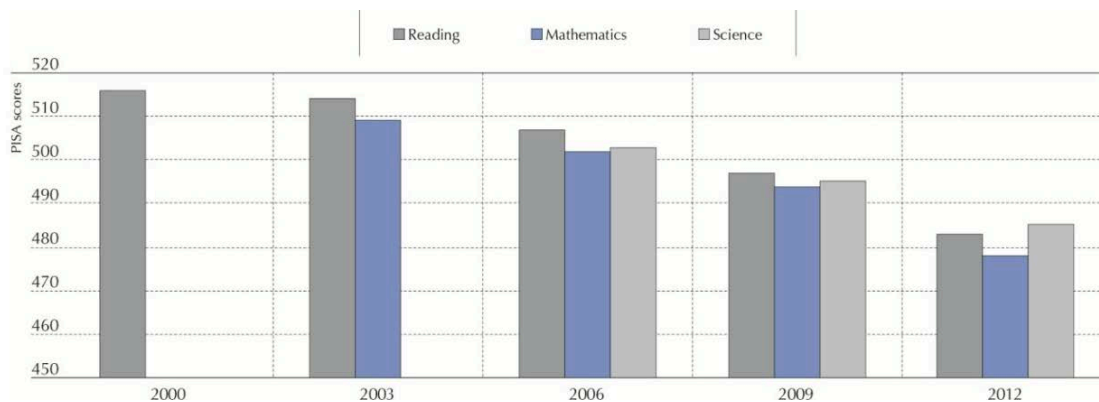


1. Percentage variance in mathematics score for children aged 15 years explained by family environment (parents' level of education and income, social and occupational status, cultural possessions, books and education resources available at home).

Influence of family background on academic success. France highlighted in blue.

Source: *OECD Economic Surveys: France 2015*, 2015, p. 23.

The graph above shows the “percentage variance in mathematics score for children aged 15 years explained by family environment” as of 2013 (based on the Programme for International Student Assessment [PISA] 2012 results) (*OECD Economic Surveys: France 2015*, 2015, p. 23). The measure is an indication of intergenerational income and educational mobility. France’s result means that a large portion of academic success is determined by one’s family background. Swedish results indicate that there is a higher degree of income and educational mobility in the country.



Sweden's performance on PISA, 2000-2012

Source: *Improving Schools in Sweden: An OECD perspective*, 2015, p. 28.

“Over the past decade Sweden has experienced the most rapid decline of all OECD countries in the performance of 15-year olds in the OECD’s Programme for International Student Assessment (PISA)” (*OECD Economic Surveys: Sweden 2015*, 2015, p. 26). The graph above demonstrates this decline over the 2000 to 2012 time period. The Survey of Adult Skills (PIAAC) results for young adults show similar weak results. Some experts claim that increased immigration is the reason for the decline in performance (Sahlgren, 2015). However, even Sahlgren admits that immigration only accounts for one third of the change in scores. Changes in the Swedish education system in the 1990s have also impacted performance.

Decentralization reforms in the 1990s added to the weakening of student results because of unclear learning targets and increased individual pupil responsibility. Budget constraints imposed after the 1990s economic crisis affected student resources and teachers’ wages (*OECD Economic Surveys: Sweden 2015*, 2015, p. 27). The reforms allowed for the public funding of private “independent schools” and for students to choose which school they wanted to attend (*OECD Economic Surveys: Sweden 2015*, 2015, p. 27). The OECD says that these reforms may “have had a minor positive impact

on results, but may have contributed to inequalities” (*OECD Economic Surveys: Sweden 2015*, 2015, p. 27). Policies starting in 2015 planned to increase support for disadvantaged schools (*OECD Economic Surveys: Sweden 2015*, 2015, p. 27). There have been problems with municipalities not allocating enough resources to “schools with a disadvantaged socio-economic mix of pupils” (*OECD Economic Surveys: Sweden 2015*, 2015, p. 27). The European Commission warns that “differential barriers to education and training relating to educational systems and styles” can widen inequalities (2010, p. 25). Sweden and France must ensure that their educational systems benefit everyone in their societies.

Conclusion

Summary of results

Overall, Sweden has lower levels of socio-economic inequality than France. This is aligned with Esping-Andersen's hypothesis about the corporatist and social-democratic models of welfare states. However, the Swedish economy still suffers from high unemployment of migrants and the low skilled. Their education system is not producing adequate outcomes for students. On the other hand, the French system of social transfers is not targeted to those most in need. France has high levels of total unemployment and labor market duality. The French government is encountering calls to reduce its social spending in the face of rising debt.

Increases in inequality can be attributed in part to labor market changes and the shift to knowledge-based economies (European Commission, 2010, p. 23). However, this kind of resulting inequality isn't inevitable; policies can counteract the effects of these changes. Nevertheless, the European Commission notes that it will take more than redistribution of resources to maintain the ideal welfare state. "Policy discussion tends to focus on narrow redistributive actions...with little attention to the broader economic and social policy tools that may reverse the increase in inequality" (European Commission, 2010, p. 24). Sweden and France must make use of all of the policy tools at their disposal in order to improve social inclusion, mitigate inequality, and sustain the high standards of living for which they are known.

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