

# On parle Cash – S3 – Episode 3: Does the fall in productivity mean that we are working less?

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## **LUCILE**

Welcome to *On parle cash*, the podcast that speaks plainly about the economy as we live it. My name is Lucile. I've been working at the Banque de France for 10 years and in this episode we ask the question, "Does it really matter if labour productivity declines?"

## **Extract from the RTL radio station: voice-over**

You are listening to RTL.

## **Extract from RTL: Yves Calvi**

François, the Banque de France has uncovered the reason behind one of the mysteries of the French economy.

## **Extract from RTL: François Lenglet**

Yes indeed. And the mystery is the fall in productivity.

## **LUCILE**

Productivity is an economics indicator. It measures the relationship between wealth produced over a given period of time and the means used to create it – particularly labour.

## **Extract from the France Culture radio station: voice-over**

6:30a.m, 9a.m., your mornings with France Culture.

## **Extract from France Culture: Marguerite Catton**

Good morning François Geerolf. Do we know if the French work more or less than their neighbours?

## **Extract from France Culture: François Geerolf**

Well, that's extremely difficult to calculate.

## **LUCILE**

There are lots of ways to calculate labour productivity. First, we have to choose the calculation's scope. It can be at the level of a company, a part of the economy, or the economy as a whole. Then we have to decide what we mean by "wealth": is it revenue or value added for a company? Or production, value added or gross domestic product for a country?

We also have to choose between two main approaches. Do we calculate productivity per

capita, dividing the wealth produced by the number of workers? Or do we measure hourly productivity, dividing wealth by the number of hours worked? And lastly, as it's not just labour that's used in production, we have to decide whether or not to adjust for other non-labour factors such as capital or machinery.

We call the unadjusted measurement "apparent labour productivity": "apparent", because productivity can be affected by changes in factors of production that are unrelated to labour.

Basically, each calculation is based on a methodological choice. For example, in a bulletin published in March 2024, the Banque de France chose to measure apparent productivity, average productivity, and per capita productivity in the market sector (i.e. excluding associations and government agencies). In other words, it divided value added in the market sector by the number of people in work, and ignored the number of hours worked. The bulletin found that labour productivity in France has been falling since 1999.

**Extract from France Culture: Marguerite Catton**

Since the Covid crisis, productivity has plunged. According to Banque de France figures, it has fallen by 8.5% compared to pre-Covid rates.

**LUCILE**

These figures were revised at the end of May 2024, though, to take account of updated value added and employment data, and the loss in productivity came to around 6% compared with pre-crisis trends. But I don't have the impression that people around me are working less than before.

**Extract from France Culture: Marguerite Catton**

It's clearly a macroeconomic measure that has very little to do with how efficient I am at the office.

**LUCILE**

So then, what does that mean?

Contrary to what we might think, productivity is not declining because workers are making less of an effort. Statistically speaking, the bulletin found no link between the fall in productivity and the rise in teleworking. It also showed that the impact on productivity of job retention schemes and sick leave, which may have had an effect during the Covid crisis, has receded, and has been insignificant since mid-2023.

**Extract from RTL: Yves Calvi**

How does the Banque de France explain it?

**LUCILE**

In reality, the causes are more complex and sometimes can even be positive. Bearing in mind that productivity is a ratio between the wealth produced and employment, the fall in productivity may also mean that job creation has been more dynamic than wealth creation.

**Extract from France Culture: Marguerite Catton**

There are two variables: the wealth produced in terms of GDP, as you said, and the number of workers. So, today there are more of us producing the same wealth, is that right?

**Extract from France Culture: François Geerolf**

Exactly. There are more of us. And growth, as economists tell us, has brought jobs.

**LUCILE**

In France, public policies such as the Labour Law of 2017, the “Professional Future” Law of 2018, which particularly encourages apprenticeships, and the unemployment insurance reforms of 2019 and 2023 have aimed to get people who are generally less qualified or excluded from the labour market back to work. As a result, between the end of 2019 and 2023, the employment rate in France increased sharply.

**Extract from the Europe 1 radio station: voice-over**

Morning on Europe 1.

**Extract from Europe 1: Dimitri Pavlenko**

Good morning Nicolas Bouzou.

**Extract from Europe 1: Nicolas Bouzou**

Good morning Dimitri. Good morning Anissa. [...] You're going to tell me that over a million new jobs created in France is obviously good news. You'd be right, but many of these jobs are apprenticeships and positions destined for people with lower levels of qualification. And though this is very good news from a social perspective, it clearly brings down the average productivity of the economy.

**LUCILE**

This is what we call the workforce composition effect. As new employees tend to be less productive than those who have been on the job for a long time, they push down average labour productivity. But their integration into the workforce is beneficial in the long-term.

Other factors, both temporary and long-standing, play a part in the decline. To a lesser extent, the lockdowns and other restrictions associated with Covid hampered the accumulation of skills and knowledge likely to drive technical progress and therefore boost lasting labour productivity for the economy as a whole.

**Extract from RTL: François Lenglet**

And on top of all that, there's the curious phenomenon of employee hoarding.

**Extract from RTL: Yves Calvi**

Employers hoarding employees? What does that mean? How does it work?

**LUCILE**

During the pandemic, certain companies chose to hold on to their employees, despite the

drop in business activity, as they anticipated a recovery. This temporarily reduced their productivity. The aeronautical industry is a good example.

**Extract from RTL: Yves Calvi**

So tell me, are other countries going through the same decline?

**LUCILE**

Other European countries have also experienced a fall in productivity, but the decline in France has been steeper. This is due to public policy choices that promote employment, even at the expense of immediate productivity.

**Extract from France Culture: François Geerolf**

So in part, it's down to government policy choices. That is, that we've chosen to make expanding employment a priority – a job for all.

**LUCILE**

This is particularly the case with subsidies for hiring apprentices, whose numbers grew from around 400,000 in 2019 to 900,000 in 2023.

**Extract from France Culture: Marguerite Catton**

So apprenticeships are the number one factor in explaining this fall in productivity.

**Extract from France Culture: François Geerolf**

In any case, it's the number one factor in what we can explain.

**LUCILE**

But looking at the US economy, we can see that under certain conditions, a high rate of employment can be achieved without eating away at average productivity. This is largely due to the very high levels of productivity recorded in the cutting-edge innovative technology sector, which attracts a great deal of investment. The bottom line is that the fall in productivity has more to do with dynamic employment growth than with a decrease in potential wealth creation.

**Extract from RTL: François Lenglet**

And the upside is that there have never been so many French people in work, even if total production remains below par.

**LUCILE**

In the long term, however, there are still many challenges to be met if we are to combine high levels of employment with high levels of productivity.

This episode was produced with the help of the Banque de France's Business Surveys, Microeconomic and Structural Analysis Directorate, whom I would like to thank. If you enjoyed this episode, don't hesitate to subscribe to the podcast and leave us comments and stars. For the next episodes of *On parle cash*, we look forward to receiving your economic questions by posting a message on the Banque de France's Instagram account or by emailing [podcasts@banque-france.fr](mailto:podcasts@banque-france.fr).