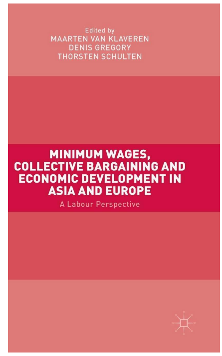
in Maarten van Klaveren, Denis Gregory and
Thorsten Schulten, eds
Minimum Wages, Collective Bargaining and Economic Development in Asia and Europe. A Labour Perspective.
Palgrave Macmillan, 2015



France

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11.1 Introduction

The wage determination process in France is affected by two institutional forces. The first is the statutory minimum wage (SMW) set unilaterally by the government, and the second is a decentralized system of collective bargaining. The linkages between the two benefitted workers for three decades in a row but have changed significantly since the mid-1990s. In the aftermath of World War II, the minimum wage (MW) was a powerful tool to level social inequalities, while the social benefits collectively bargained in large companies spread to similar branches of activity and, to some extent, from one sector to another. Since the 1990s, however, this mechanism no longer functioned well due to the changing economic environment. On the one hand, the casualization of labour has undermined the benefits of lift-ing the MW. On the other hand, collective bargaining has been gradually reshaped through a decentralization process whereby plant-level settlements have become the standard. Accordingly, the key question for us concerns the extent to which this fundamental change in French industrial relations has affected both the wage distribution over time and the long-term dynamics of wage development.

This chapter is organized as follows. Section 11.2 provides basic information on the SMW in France, including the profile of workers currently on the MW. The rather complex linkages of the SMW with collective bargaining are analysed in section 11.3. We show here how the French collective bargaining system, successful at first, has been gradually distorted. Section 11.4 shows how the SMW has impacted on the wage distribution over time, featuring a historical break similar to that observed in section 11.3. While initially improving the living standard of blue-collar workers who were catching up with the median-waged, the SMW has ceased to produce significant egalitarian effects. In section 11.5, we go into the long-term dynamics of the development of wages, considering productivity, the wage share in GDP, and demand. Tracing wages and domestic demand, we compare France with

Germany. Finally, we analyse wages in the long run as a key component of firms' competitiveness. In our conclusion, we emphasize the profound changes in the role of the SMW in France.

11.2 The minimum wage

11.2.1 The historical context

The first SMW in France was implemented in 1950 as a statutory law. It was called SMIG, the 'minimum guaranteed inter-professional wage' (*Salaire Minimum National Interprofessionnel Garanti*). Its value was set at subsistence level, regardless of industrial occupations and was weighted geographically (the lower the weight, the further the distance away from Paris). The SMIG was indexed to inflation only. This guaranteed MW came into law after a period of rapidly growing wages (1944–50) which was a response to the war. Moreover, it followed a two-decade-long quasi-stagnation of blue-collar workers' earnings dating back to the Great Depression where between 1920 and 1938 the average earnings of blue-collar workers employed full-time in the manufacturing industry fluctuated between 85 and 95 per cent of the average national wage (Piketty 2001, 684).

Being pegged to the consumer price index (CPI), the guaranteed MW did not keep pace with the development of average gross earnings. The so-called 'Trente Glorieuses' ('Glorious Thirty' years: 1945–75), a rather exceptional period in France that saw the standard of living significantly improve for many, were not that glorious for everyone. Wage inequalities between high- and low-skilled workers rose, and by the late 1960s were the highest in the OECD area (Fourastié 2004; Piketty 2014). In March 1963, facing uncertainty in their industry, coal miners responded massively with a 35-day-long strike for the wage claims jointly launched by three trade union confederations, CGT, CFTC and FO, in ten coalfields throughout the country. This event was widely supported and has long been remembered by the general public. Similarly, as sectoral- or company-level wages had remained relatively low, several other strikes took place in the manufacturing industry in 1965 and 1966. In 1966, CGT and CFDT, by then the main union confederations, signed a unity pact laying emphasis on purchasing power, labour rights, social security and unemployment benefits. Thus, the labour movement in the first half of the 1960s laid the foundations for the historical events of May 1968 when student riots erupted and turned into a popular uprising that triggered general strikes although without strong union leadership. In response to such social turmoil, the government, employer organizations and trade unions negotiated for three days at Hôtel du Châtelet (the residence of the Minister of Labour on Grenelle street in Paris) to produce the 'Grenelle agreements' of May 26, 1968. This provided a 35 per cent MW increase (in nominal terms) along with other labour rights and further steps towards reducing the full-time working week.

Although the 35 per cent MW increase was a significant improvement for low-paid workers, it barely bridged the income gap accumulated in the past and did not provide any kind of guarantee for low wages to keep up with average wage growth. For this to happen, a systematic mechanism needed to be implemented. Thus, in 1970 the SMIC (*Salaire Minimum Interprofessionnel de Croissance*) was created. While the SMIG was a guaranteed minimum income helping workers to meet the basic needs of their family, the SMIC, by contrast, was designed as a dynamic response aimed at both widening employees' participation in the benefits of economic growth and at narrowing wage inequalities. Since then, the rate of the SMIC has been set by the government, with various adjustments depending upon four indicators:

- the annual rise in the CPI;
- inflation spikes exceeding 2 per cent within a year; in that case, the adjustment takes place immediately;
- at least half the increase in the purchasing power of the gross hourly wage earned by blue-collar workers in manufacturing; and
- the government's additional 'boost', the so-called 'coup de pouce', granted or not according to the socio-economic and political context of the year under consideration.

In 1998, the so-called Aubry law reduced the statutory working week from 39 to 35 hours and established guaranteed monthly wage rates (*Guaranties Mensuelles de Remuneration,* GMR) that maintained the monthly earnings of those already working on the MW prior to the 35-hour week law, while all newcomers were paid at the new hourly rate. In 2002, up to five different rates were defined as more and more companies adopted the 35-hour week. The 2003 Fillon law reorganized these five into one rate only, a task executed in 2005.

11.2.2 Who are the minimum wage earners?

The number of MW (SMIC) beneficiaries is estimated to be equal to the number of wage earners whose salary improves with the MW upratings (see Figure 11.1). Thus defined, the proportion of all privately employed wage earners receiving the MW followed a downward trend after the high point of 2005–06 before increasing in 2010. In January 2013, 12.3 per cent of all workers in private firms were MW earners; among part-time workers, this share was much higher at 28.6 per cent (Jauneau and Martinel 2013).

Ananian and Calavrezo (2010) re-assessed the MW population based on a more restrictive definition and for 2007 reported the share of employees whose net earnings varied between 20 per cent below and 5 per cent above

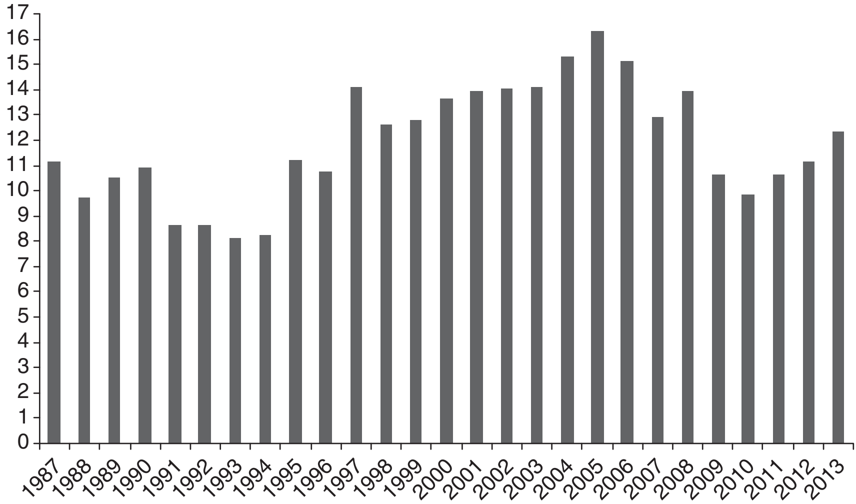

Figure 11.1 Development of share of minimum wage earners in total employees, France, 1987–2013
Source: Jauneau and Martinel 2013. Selection: competitive sector firms.

the exact SMIC value as being 7.5 per cent. This proportion was higher for women (11%), part-time workers (15%), clerks and service workers (22%), and plant and machine operators (16%). The typical MW earner is therefore a woman working part time in the service sector. Taking into account sector size, around 11 per cent of these workers could be found in the manufacturing industry, 82 per cent in the service sector and 7 per cent in construction. This is crucial information when it comes to assessing the effectiveness of restrictive labour-cost policies.

It is essential to keep in mind that the French MW is defined as an hourly rate. As women mostly work on a part-time basis, it comes as no surprise that in 2011, 75 per cent of the French low-wage workers (defined here as those earning *monthly* wages less than two-thirds of the national median *monthly* wage[1]) were female. Their risk of belonging to the low-wage category was even higher between the mid-1990s and the late 2000s, when 24.2 per cent of female workers fell into this category, against 8.0 per cent of males. In other respects, the 2011 figures for low-wage earners also showed a distributional pattern similar to that concerning the SMIC earners: the risk of belonging to the low-wage category was particularly high for workers younger than 30 years of age, service workers, workers without a diploma or a completed primary education and, most strongly, part-time workers (Demailly 2012).

11.3 Collective bargaining and the minimum wage

11.3.1 Main developments in collective bargaining

Wages in France are set at three levels: nationwide, sectoral level and company level. At national level, as noted, the government sets the MW according to the strictly established rules of the annual review, albeit on a discretionary basis. At sectoral level, trade unions and employer associations bargain each year about the so-called conventional MW, that is the wage floor an employer cannot undercut for a given set of qualifications. Finally, pay determination also occurs in companies. Such a mechanism of wage setting reflected at first a 'virtuous circle' that explains the parallel development of real wages and productivity. From the 1950s to the 1980s, industry-wide bargaining was the most common level at which collective agreements (CLAs) were negotiated; only in large companies did wage bargaining take place at enterprise level. With the Auroux Act of 1982, annual bargaining became compulsory in any firm recognizing one or more trade unions, even though no pay settlement was required. Since then, the system of collectively bargained wages, hitherto relatively plain and straightforward, has become a complex and diversified process. The new practices are no longer associated with wage bargaining. As a result, the formerly large role of the unions has diminished and, to a considerable extent, they have lost their grip on wage formation.

In the meantime, the social dialogue on employment policies between the government and the social partners has developed. Currently, employment regulation is the main multi-sector bargaining subject: no less than 20 multi-sector agreements which deal with the effects of the crisis were signed between 2008 and 2013 covering labour market rules, training, youth unemployment, and so on. A new course of public action, combining governmental decision-making with social partners' responsibilities and a 'co-production of norms', has also emerged (Freyssinet 2010) although this does not apply to pay determination.

11.3.2 The early decentralization of collective bargaining

In France, social dialogue has hardly existed without either government intervention, or, an acute social crisis. Political interference in the social dialogue both reflects and maintains the loose links between social partners. After World War II, trade-union pluralism emerged in France and has prevailed thereafter. Its evolution revealed a surprisingly stable architecture with five union pillar organizations being granted 'national representativeness' by the government. The 2008 law on union representativeness introduced a new criterion based on employee representative elections results and the Ministry of Labour collected electoral data (about work councils mainly). The unions labelled 'nationally representative' in 2013 remained the same five. Of these organizations, CGT scored highest in employee representative elections (26.8%); CFDT scored 26.0 per cent; CGT-FO 15.9 per cent; CFTC 9.4 per cent, and CFE-CGC 9.3. Union membership statistics have always displayed relatively low density rates for France, and already in the late 1960s rates barely reached 20 per cent. The oil shocks and recession of the 1970s hastened the decline and union densities have revealed constant low levels since then: 5 per cent in the private sector and roughly 15 per cent in the public sector, resulting in an overall density rate of about 8 per cent between 2000 and 2011 (Visser 2013[2]). Although France was the worst performing European country with respect to union density, an alternative indicator, namely the on-site presence of a trade union, showed France to be in the middle of the EU ranks in 2005 and was higher than both Germany and the United Kingdom on this measure. Despite its increase in France (from 37.5% in 1996 to 41% in 2005 – Wolff 2008), this latter yardstick does not provide any information on the characteristics of unionization at the workplace. However it appears that it has become more convenient for employers to have an in-house union rather than an external ‘player’ in order to minimize the uncertainty that can arise with a powerful external union force. So, employers have gradually found it to be in their interest to have unions in their company, which is a new development in French industrial relations (Lerais et al. 2013).

The structural weakness of French employers’ organizations mirrors the image of the trade unions. The three French employers’ associations recently attracted only a minority of CEOs. Analysing their collective action reveals the paradoxical outcome that their poor cohesion coexists with their exercising considerable influence over society (Amossé et al. 2012). The weakening participation of management representatives in employer-led organizations is mainly a consequence of the transformation of the industrial fabric that has undermined the industrial base of employers’ organizations. The loss of factories, operational facilities and manufacturing potential in places once famous for their economic attractiveness can be contrasted with the rapid expansion of services in the French economy. These structural changes saw the traditional domination of large industrial corporations, such as UIMM from the metalworking industry and its influence in the MEDEF, the central employers’ association, giving way to domestic competitors from the service sector. However, one core issue has survived these industrial changes, namely, the constant renewal of cost-reducing strategies.

Many observers of French industrial relations have queried how a country with such a continuously low union density can also have one of the highest collective bargaining coverage rates, embracing over 90 per cent of employees. Shedding light on this paradox requires a short reflection on the background of the French system of collective bargaining. Despite the steady development of common agreements, legislation has remained the principal source of regulation. This pre-eminence is of course attributable to France’s well-known republican tradition wherein the government is responsible for protecting workers and their individual rights. The key role of labour law in collective bargaining mitigates the long-standing mutual distrust between employers and trade unions. In order to compensate for the weakness of bargaining regulation, a specific procedure was implemented in 1936 which required the contents of sector-level agreements to be binding on all employers of similar activity, with or without registered membership of a professional association. This extension procedure helped to offset the weakness of employee and employer representation as well as the employers' lack of incentives to bargain. In the 1950s and the 1960s, such a mechanism, alongside the technical support provided by the Ministry of Labour through joint consultative committees, ensured the rapid diffusion of locally bargained benefits to the entire workforce within industries. Later on, the benefits from collective negotiations spread out on a macroeconomic scale at variable speed depending, among other things, upon employers' strategies. The Collective Labour Agreement Act of 1971 legalized the triple space where collective bargaining was taking place, namely, at the multi-industry, sectoral and company levels, in descending order of priority. The social advantages attained at multi-industry level take precedence over any inferior content of the latter two. In other words from the employee's perspective, the most favourable clause will prevail over any other less favourable clause (derogation *in mejus* or 'favourability clause').

In order to gain flexibility, and to get around the domination of sector-level agreements (and eventually to get rid of them), MEDEF has, since 2000, been advocating a type of firm where the employee status has to be tied to a collective contract, with or without trade union mediation. In July 2001, four union confederations – CFDT, CFE-CGC, CFTC and CGT-FO – and three employers' organizations including MEDEF agreed upon a 'common position' setting out their wishes for reform of the rules governing collective bargaining. The central plank of this proposed reform was the introduction of the 'majority principle'. This text did not contain a firm decision on the issue of the hierarchy of norms, which was demanded by employers' associations. The overhaul of collective bargaining, also desired by some trade unions, finally occurred in 2004. The act of May 2004, amended by the law of August 2008, introduced four main reforms:

1. Electoral success was required, before trade unions could take part in collective bargaining. The minimum threshold at the enterprise level, set at 10 per cent of the votes in work council elections, took effect in 2010 at the firm level and was expected to be applied to other levels by 2013.
2. A majority criterion was introduced meaning that any agreement would only take effect once unions had gathered 30 per cent or more of votes at the latest elections and only if that was not blocked by the majority of unions at the level concerned.

3. Plant-level agreements could waive higher-level bargaining agreements, even towards less favourable dispositions for workers, except in four areas: MWs, classifications, vocational training and supplementary social protection. At the same time, three dispositions limited the recourse to such waivers. First, the law granted the majority organizations more opposition possibilities. Second, industry-level negotiators could 'lock-up' other topics and exclude them from company-level waivers. Third, waivers could eventually be cancelled by an industry-level joint committee. In the end, this arrangement reinforced the decentralization process of the collective bargaining system.
4. Bargaining possibilities were extended by law to companies without union representatives.

11.3.3 Wage bargaining: Lack of positive spillovers

The historical evolution of the French industrial-relation system shows a dual system between the central administration (the third-party arbitrator) and the company level, where executive managers advocate business negotiations. The decentralization of collective bargaining, strengthening solidarity among wage earners in the same professional field and preventing the social benefits gained by unions to spill over to the sector at large, has received strong political support. In quantitative terms, the number of sectoral CLAs is not a good indicator of the number of employees benefiting. Their development may give the illusion of a familiar system taken for granted by all, but the quality of the social benefits gained has always been questionable. While a first look at the statistics suggests satisfying outcomes, a closer look at contents dampens such enthusiasm.

Industry-level bargaining depends strongly upon government intervention and political willingness. This is true for employment-related policies and also for wage matters where the government intervenes through MW setting. Although industries differ widely in economic terms, about 4 per cent of sector-level CLAs cover 50 per cent of wage earners. At the same time, the political impulse for widening collective bargaining coverage has led to the duplication of many small subsectors. Here, the contents of CLAs simply reproduce the Labour Law on specific matters, leaving plenty of room for individual employers to manage human resources their own way. Coexisting side-by-side is the regulatory power of industry-wide agreements that are supposed to play a leading role. Central here are the metalworking industry, construction, the banking sector, automobile manufacturing and the oil and energy sector – all with huge variety (Jobert 2003). However, since the 1980s the balance between industry-level and plant-level agreements has tilted towards the latter and to large firms, in order to negotiate wage rates as low as possible and to review the compensation system through pay individualization (Barreau and Brochard 2003). The outcome is a widening wage gap between high-tech companies and the corresponding industry agreements. Furthermore, the trend towards individualization of pay and the development of non-wage remuneration continues to increase the fragmentation of pay bargaining.

In the 1990s, MWs were diverted from their original purpose. For most low-qualified workers the base pay derived from the salary grids of CLAs was below the SMIC floor, with employers bridging the gap with tax-exempt additions and other allowances (Schulten and Vincent 2014). However, in many industries and in various occupations in the public sector, the lowest wage rates of CLAs set by job evaluation schemes were below the SMIC and many CLAs failed to increase these wages above the SMIC level (Gautié 2008). The declining influence of CLAs on the wage distribution has narrowed the range of negotiated earnings to the lower levels. In particular, levelling down to the wage floor has resulted in deviation from the collective bargaining norm. Thus, the MW has become a floor wage for all low-skilled blue-collar workers and unskilled employees in France (Rassu 1993, 61). By the end of the 1990s, wage data for the tail of the distribution displayed a much lower dispersion than could be derived from the salary grid of CLAs. The downward trend of all low wages towards the SMIC level has, in effect, squeezed the income dispersion across sectors and continues to undermine career opportunities for employees hired at low wage rates (CSERC 1999; INSEE 2005).

In the 2000s, human resources management strategies emphasized individualized pay. Bargained wages became locked between the SMIC lower bounds and the variable part of compensation: bonuses, profit-sharing schemes, company savings plans and the like. The variable part may have been subject to bargaining: 18.4 per cent of enterprise wage settlements signed in 2008 dealt with it, against 14.4 per cent in 2006. These agreements were typically negotiated by works council members, whereas the basic pay negotiations remained in the hands of union delegates. Given the standardization of individualized pay, the development of related allowances and the decline in bargaining power (Castel et al. 2012), trade union strategies focused mainly on general wage increases have become increasingly ineffective, in particular for those in the tail of the income distribution. Such changes revealed vulnerabilities in the French industrial relations system associated with mass unemployment and low union density. Collective bargaining currently takes place at more decentralized levels than in the past, although the scope of negotiations has narrowed as new management methods have been introduced. Unions are presently rather weak at the firm level and, as a consequence, their bargaining power is very low. The SMIC which in effect 'crowds out' wage agreements less favourable to workers, can be viewed as a compensating factor for a deficient bargaining process (Gautié 2008).

11.4 The minimum wage and wage inequalities

In the history of wage inequalities, basically two phases can be distinguished after World War II. The first is the period from 1950 to 1968, which showed an expanding gap followed by a sharp reversal from 1968 to 1982. Second, a new phase of rising inequalities could be seen from 1982 to 1999, that have continued into the 2000s where growing numbers of low-wage workers as well as a pattern of rising top incomes have been a feature.

11.4.1 The minimum wage: A powerful tool against wage inequalities

In the reconstruction years after 1944, double digit economic growth rates were recorded in France. The hierarchy of the domestic wage structure was initially reshaped by a combination of factors, largely the 'Parodi salary grid' that tied blue-collar employees to work station descriptions and the type of employee reward systems that were implemented. The way in which the SMIG, introduced in 1950, was disconnected from labour productivity ensured the guaranteed MW did not keep pace with the national median wage. For example, between 1951 and 1967 the purchasing power of the MW increased by 22 per cent while the median wage doubled. As a result, the Kaitz index (MW as a percentage of the median wage) fell from 0.68 in 1951 to 0.42 in 1967.

The events of 1968 marked the beginning of a new era for the MW. The Grenelle agreement provided for a substantial rise in the guaranteed MW but the overall impact of this agreement on the earnings distribution remained limited. What really made a difference was the replacement in 1970 of the guaranteed MW by the SMIC. This introduced a more favourable indexation system that took economic growth into account. As a result, the MW narrowed the gap with the higher paid between 1967 and 1982: against a 228 per cent increase of the MW in real terms, the median wage grew by 47 per cent and top earnings only rose 10 per cent. In 1981, the newly elected government granted permission for a final push before a long period of low inflation began. In 1982–83, the newly implemented policies of competitive disinflation started to reverse the SMIC trend towards wage equality. Real wages no longer increased, and between 1982 and 1989 the wage share in GDP suddenly fell (see Figure 11.4). The SMIC, however, did not benefit from government support any longer. Its purchasing power remained constant, while that of median earnings grew by 2.6 per cent and that of those in the ninth decile by 4.9 per cent (Figure 11.2).

Around the turn of the millennium, the reduction of the working week to 35 hours directly raised both the hourly and monthly MW. Although many working time reduction agreements planned a pay freeze for a while, overall, the Aubry law helped to underpin the adjustment of low wage rates while higher earnings brackets did not grow as fast. For example, between

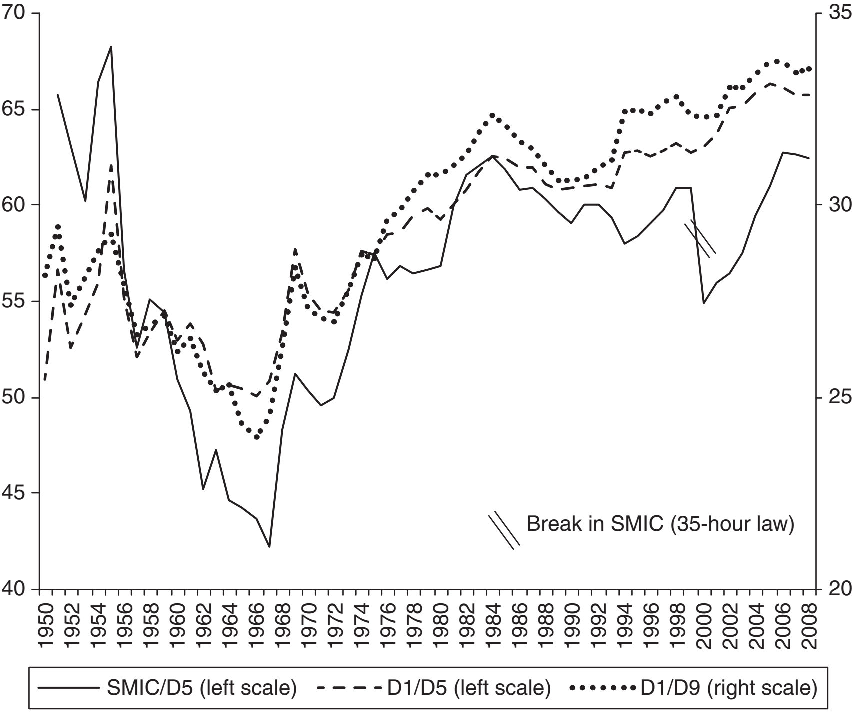

Figure 11.2 Development of three indicators of wage distribution, France, 1950–2008
Note: D1 = first (lowest) decile; D5 = median decile; D9 = ninth decile. Selection: Pre-tax wage income net of social contributions; full-time wage earners in the private sector.
Source: INSEE, DADS.

1999 and 2008 the real national median wage grew only 0.13 per cent annually, compared to 1.14 per cent between 1989 and 1999. In the latter period the real MW increased by 0.42 per cent annually, less than one-third of the growth in the first period (see Table 11.1). An effort to assess the impact of MW increases on other wages found that a 1 per cent rise in the SMIC in the early 2000s was almost entirely passed on to the SMIC-neighbouring wages (up to 1.1 SMICs), about half of it on to slightly higher wages (in the interval of 1.4 to 1.5 SMICs), and not at all to wages twice as high as the SMIC – pointing to strong wage compression (Koubi and Lhommeau 2007; Goarant and Muller 2011). Between 2006 and 2012, according to the OECD Minimum Wage Database the Kaitz index value for full-time workers stabilized at 0.50 (average wage) respectively at 0.61–0.62 (median wage) which, from a European perspective, were relatively high values. There are some serious caveats here though. The main one being that the share of those on the MW, at just over 12 per cent in 2013, was quite high relative to other countries.

Table 11.1 Growth rate of real wages (annual change in %), France, 1989–99 and 1999–2008

	1989–99	**1999–2008**
First decile	1.46	0.65
Minimum wage	1.34	0.42
Median wage	1.14	0.13
Ninth decile	0.91	0.23

Source: INSEE, DADS.

Moreover, a substantial proportion of MW earners could even be paid a basic salary below the SMIC, provided that their base pay was complemented by a varying share of compensation that in total exceeded the MW threshold.

11.4.2 Casualization of labour versus the minimum wage

As employment flexibility and casualization of labour have gained ground since the mid-1980s, the recruitment of part-timers has become the norm. It is overwhelmingly the case among low-skilled workers. According to the fiscal data used by INSEE, the share of low-wage earners was 85 per cent among those working less than 600 hours a year in 2006, whereas this share had almost disappeared among full-time employees. Women have been particularly exposed to this form of underemployment, and this nurtured the gender pay gap. According to Eurostat, in 2010 the gross hourly earnings of women in France were 15.6 per cent lower than those of men. Neither did the gender pay gap in France decrease between 1996 and 2010 (Tijdens and Van Klaveren 2012). Our interpretation of these outcomes is that the key determinants of wage differences between male and female workers – that is activity profile, job characteristics, the duration of work and working hours in particular – are stuck in the past and have failed to change. Without radical measures, further improvement is hardly expected. The combination of part-time work and short-term contracts has proved to be a powerful tool for employers to enhance numerical flexibility at company level. In 2006, 80 per cent of new appointments were on fixed-term contracts; two thirds of these (9 million) were for less than a month. In addition, 16 million contracts were issued by temporary employment agencies; again, 88 per cent of these lasted less than a month and 25 per cent just a day (Lagarenne and Lamarche 2008). This structural trend of the degradation of work that started in the 1980s has kept on spreading alongside French society's descent into mass unemployment.

It should be noted that taking part-time work into account drastically changes the most used wage inequality indicators. Officially, the low-wage indicator is published for full-time employees. Part-time work is converted into full-time equivalents (FTEs), so that annual earnings are equal to an hourly wage rate multiplied by the number of working hours in a year. In this way, Eurostat identifies the low-wage earners *among full-time employees* as those earning less than two-thirds of the national median wage *per year*. Some 6.1 per cent were thereby considered low-wage earners in France in 2010 (6.1 per cent in 2010, the latest available year: Bezzina 2012). To take the duration of employment into account, annual earnings are defined instead. Unlike the definition based on hourly wages, *annual* earnings (*revenue salarial*) are the sum of all wages and salaries earned within a year or during the reference period. Thus, the latter indicator mirrors the impact of underemployment on low-wage earners. For example, in 2006 the low wage rate was no longer 7.1 per cent of full-time employees as registered by Eurostat for France, but 25.1 per cent of all workers in Metropolitan France (INSEE 2009, 24). Likewise, INSEE (2012, 82) reported that in 2009, the D9:D1 inequality ratio rose from 2.9 using the FTE method to 16.3 if the annual earnings aggregate was used.[3] Such a gap reveals how much work duration and working hours matter in measuring wage inequality. Similar results appear using the Gini coefficient (Table 11.2). The benefit of raising the hourly MW is cancelled out by the loss of working hours.

By any yardstick, the outcomes since the turn of the century point to growing wage inequality in France, and particularly so if one takes the development of top wages into consideration. The share of the top 1 per cent, which was less than 6 per cent in the 1980s and 1990s, increased to 7.5–8 per cent in the early 2010s (Piketty 2014, 290). This surge in top wages, first emerging in the United States, is now also occurring in France. For instance, in 2007, the average net real wages of the top 0.01 per cent of earners were equal to about 120 years' worth of SMIC (Solard 2010). A sectoral approach shows that finance, accounting for just 3 per cent of private sector employees, is responsible for half the rise in inequalities at the top end of the wage distribution (Godechot 2011).

In the aftermath of the 2008 global crisis, the depressed labour market fuelled an increase in the share of low-paid workers from 14.9 per cent in

Table 11.2 Gini coefficient, annual personal earnings (wages and salaries), France, various years

Population units	**OECD 2000***	**EU-SILC 2007****	**OECD2008*****
Working full-time, full-year	0.28	0.29	0.30
Working both full-time and part-time(>6 months a year)	0.32	0.33	0.35
All wage earners(working at least one month in year)	0.31	0.33	0.40

Note: *OECD 2008. **European Union Statistics on Income and Living Conditions (EU-SILC) database using 2007 data for France (annual gross series of cash income, net of tax on social contributions, both employees and self-employed considered – authors' own calculations). ***Hoeller et al. 2012, Annex 2.

2007 to 16.1 per cent in 2011 (Demailly 2012). First, the jobs destroyed hit non-qualified males in the manufacturing industry, the construction sector, and temporary workers (*intérimaires*). As a result, the unemployment rate increased from 7.4 per cent in 2008 to 10.4 per cent in 2013. Second, the overall number of hours worked per person employed dropped sharply in response to the economic downturn. Through reduced working hours, the economic crisis directly affected labour earnings. Though the average monthly basic wage was little affected by the crisis, about 30 per cent of firms cut the variable components of compensation in 2009 (Gautié 2012, 213). A year later, large portions of the annual bonus and wage supplements were reduced, (if not fully eliminated), because of the crisis, especially the variable part of the pay-check related to company performance. In 2010, more than half of all workers did not receive any kind of variable pay (performance-based individual or collective bonuses, premiums or earnings from profit-sharing). Meanwhile, the decile of workers who most benefited from the variable component of compensation received 57 per cent of all amounts dedicated to it (INSEE 2013, 59).

11.5 Development of wages: The long-term dynamics

11.5.1 The overall picture

Taking a historical perspective enables a better understanding of how wages have evolved and anyway is necessary because new statistical evidence has rekindled the debate on how best to measure the wage share of national income. This approach is based upon a comparison between the long-term trends of real wages and labour productivity. First, we look at wage share, real wages and (per capita) labour productivity to reveal, the dynamics of overall income distribution (see Figure 11.3).

Four relevant periods appear clearly:

- From 1960 to 1974 real wages grew at the same pace as the productivity rate (5% and 4.9% yearly respectively), resulting in a fairly constant wage share trend.
- The 1974–75 worldwide recession opened a transitory period marked by a sharp slowdown in productivity, yielding an annual GDP growth rate of only 2.7 per cent. Real wages followed a similar but less marked pattern, so that the wage share reached its peak in 1982.
- The 1980s featured a sharp drop (by 8 percentage points) in wage share resulting from the combined effect of the sluggish growth of real wages (0.4% yearly from 1982 to 1989) and an annual labour productivity growth rate of 2.2 per cent.
- From 1989 until the crisis of 2008, the rate of growth of productivity slowed down again (1.2% yearly on average), whereas at 1 per cent the increase in real wages remained a bit lower, so wage share continued to decline slowly.

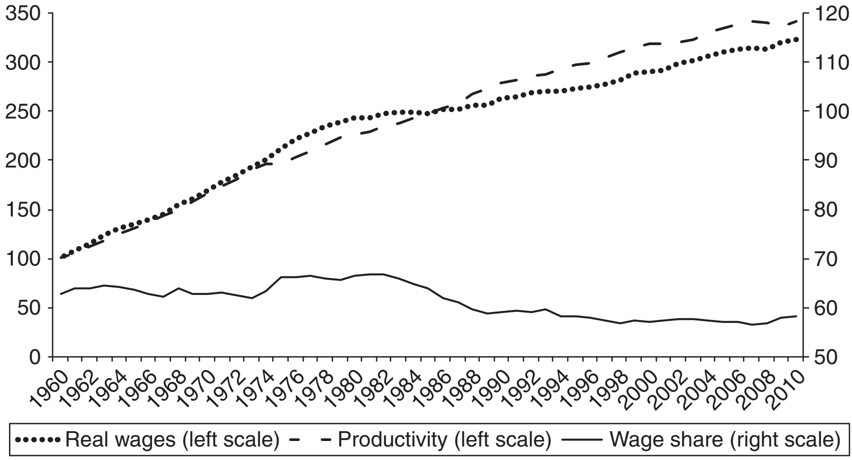

Figure 11.3 Development of real wages and productivity and wage share, France, 1960–2010 (1960 = 100)
Source: Ameco database.

The time intervals presented here are based upon data published by the European Commission (Ameco database) for the economy as a whole. An adjusted wage share is calculated by allocating an average wage to the self-employed workers. INSEE usually considers non-financial corporation data instead, which necessarily produces a different picture, but the historical pattern remains the same. This pattern while specific to France hardly differs from the long-term European average. The main difference relates to the 1975–90 period: here, the French wage share grew much faster than the EU15 average, before falling back to that average (see Figure 11.4).

11.5.2 Wages, demand and profits

Real wages evolve with labour productivity, but the linkages between the two are distorted by the unemployment rate. In a full-employment economy, real wages are strictly indexed to productivity; the two indicators disconnect whenever an increase in unemployment occurs. This hypothesis can be tested using the following econometric equation:

$$\Delta lw = a + b.\, \Delta lprod + c.\, Ulprod,$$

where *lw* is the log of real wages, *lprod* is the log of productivity and *Ulprod* is the cross product between unemployment rates and the log of productivity. The results for France (see Table 11.3) support evidence for the unemployment hypothesis, and capture effectively the overall trend of real wages in the economy as a whole as well as in specific sectors.

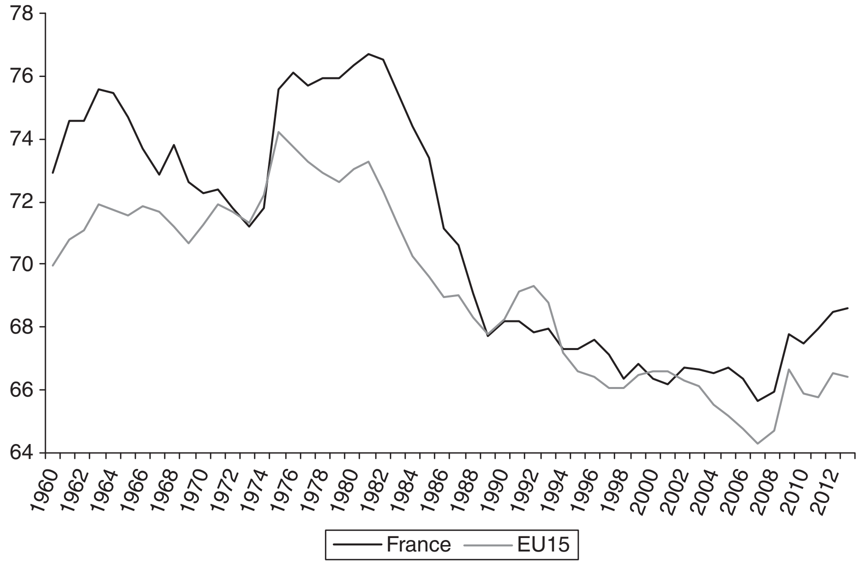

Figure 11.4 Development of adjusted wage share, France and EU15, 1960–2013
Note: Compensation per employee as percentage of GDP at factor cost per person employed.
Source: Ameco database.

Table 11.3 Regression results: Wages, productivity and unemployment in exposed, sheltered and public sectors, France, 1960–2010

Sectors	R^2	*Δprod*	**t**	***Ulprod***	*t*
Exposed	0.579	0.126	1.5	−0.115	−7.3
Sheltered	0.579	0.165	1.1	−0.098	−5.4
Public	0.571	1.056	5.6	−0.056	−2.5
Total	0.656	0.066	0.5	−0.119	−6.4

Note: Authors' calculations.

Up to the 1980s, the Fordist model of production led to proportional changes in real wages and productivity. Yet, this model no longer holds. During the 'neoliberal' era that followed, real wages got disconnected from labour productivity under the pressure of rising unemployment. The French economy is strongly dependent upon private consumption, and consequently, on household demand. While the wage share has been more or less constant, consumption has been rising faster than GDP since the beginning of the millennium, boosting economic growth. Capital incomes and public transfers explain most of it. The story is entirely different in Germany where the declining wage share caused private consumption to fall as well (see Figure 11.5).

The German economy appears to be ‘export-led’ while France shows ‘consumption-led’ or ‘wage-led’ growth. This fundamental difference between the two economies poses a problem for the economic coherence of Europe. Several studies have underlined the depressive effects of the sluggish domestic market in Germany on other European economies (see also Chapters 10 and 13). The decrease in labour costs in France is not fundamentally likely to alter the situation. Should Germany change its model and France keep its own to avoid a recessionary bias in the European economy? The debate is open.

11.5.3 Sector dynamics and firms’ competitiveness

The wage level is a key component of competitiveness – though not the only one. Most international trade flows come from the manufacturing industry, and three sectors must be distinguished to illustrate the relationship between wages and competitiveness:

- the ‘exposed’ sector, that is, the manufacturing industry (except energy);
- the ‘sheltered’ sector, that is, includes market services and construction; and
- the ‘public’ sector refers to non-market services.

In France until the mid-1970s, the trend has been relatively uniform across sectors. The slowdown followed suit and affected in particular the public and the sheltered sectors. Real wages in the sheltered sector were almost frozen between 1980 and 2000. However, it is striking that this slowdown has been much less pronounced in the exposed sector, thus, in the late 1990s, its wages caught up with and overtook the wages of the sheltered sector (see Figure 11.6).

Over the last decade, the trends in wages were similar in the three sectors and for different categories of employment. They were though relatively disconnected from their typical long-term determinants. Linkages still exist between wage and the productivity cycle in the exposed sector, and between wage and unemployment in the sheltered sector but these ties have been loosening. Overall, the dynamics of wage fixing seem to have been following a new pattern where economic growth was no longer a key determinant.

In each sector wages must be compared to productivity gains but relative prices also matter. They affect the distribution of added value between sectors and impact on sectoral profit margins. The relative price of a given sector is inversely related to the productivity of that sector, as empirical evidence shows. The capacity of a given industry to capture productivity gains carried out at the national level not only depends on its own efficiency, but also on relative prices. Let us label pQ/N the national labour productivity,

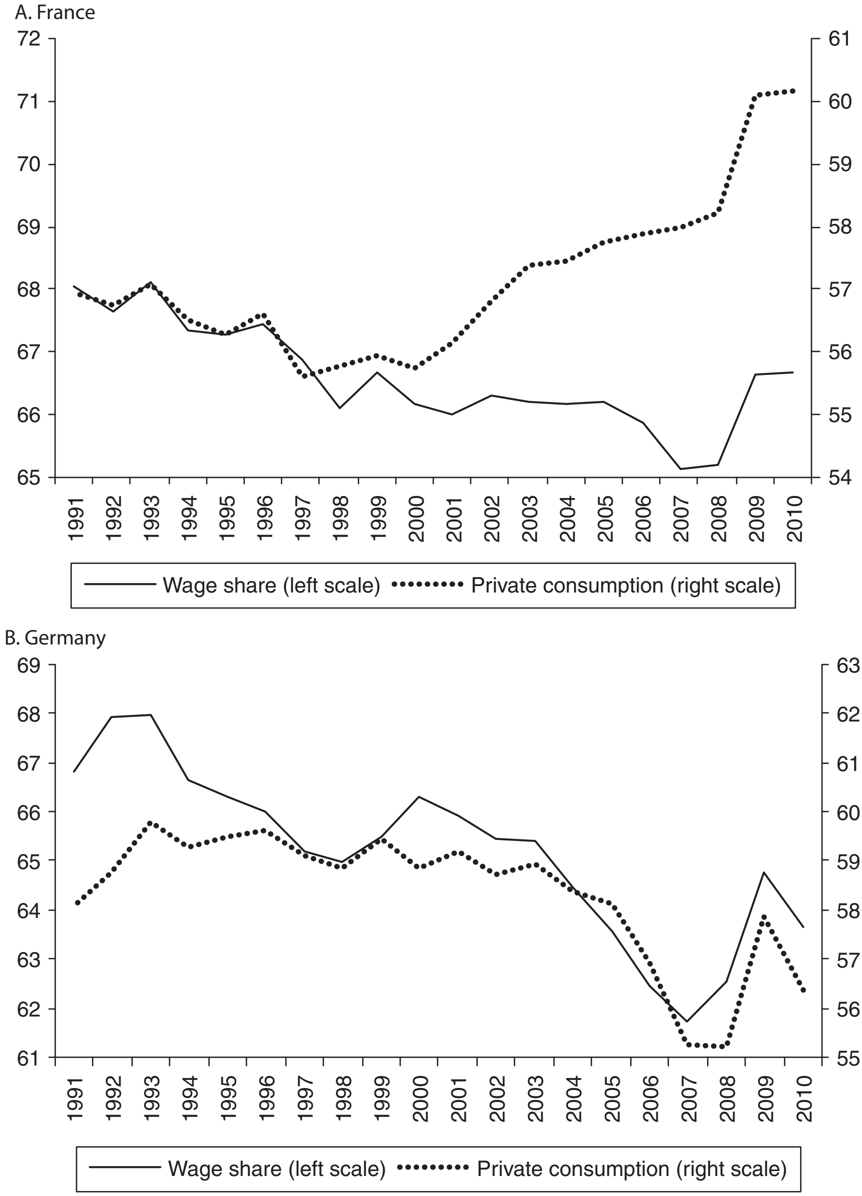

Figure 11.5 (A, B) Development of private consumption as percentage of GDP, France and Germany, 1991–2010
Source: Ameco database.

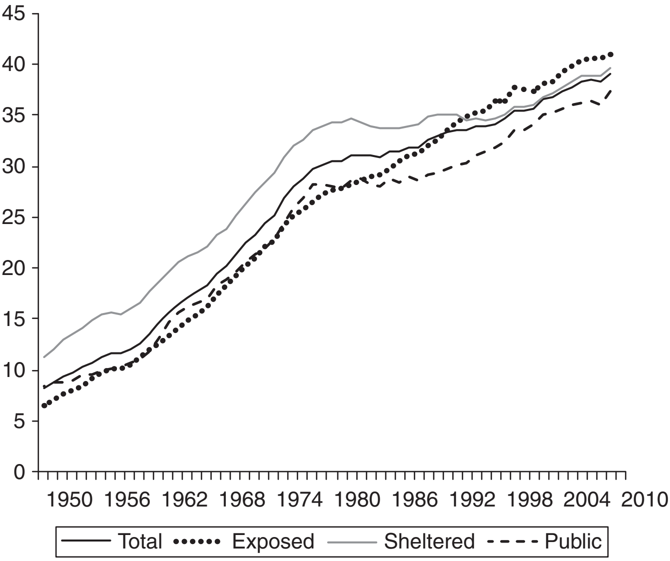

Figure 11.6 Development of real wages by sector, France, 1950–2009
Source: INSEE (in 2005 Euros × 1,000).

where p is the price index, Q is the domestic output, and N a measure of employment. The productivity gains captured by sector i may be equal to the ratio $(p_iQ_i/N_i)/(pQ/N)$, which is an increasing function of the relative labour productivity of the ith sector $(Q_i/N_i)/(Q/N)$ and a decreasing function of its relative prices (p_i/p). In comparison to other sectors, the wage share in a given sector – and therefore its profit share – depends upon labour costs, relative prices and productivity gains seized by that sector from others.

In France, the profit margin of the exposed sector has significantly deteriorated in the last decade because lowering relative prices have more than offset relative productivity gains. From this point of view, Germany evolved in the opposite direction in the pre-crisis period (see Figure 11.7). In France, productivity gains generated by the exposed sector have been captured by the sheltered sector. In Germany, the exposed sector kept its productivity gains, and for that reason its profit margins could reach high levels. Unlike Germany, France's competitiveness characteristically depends more on relative prices across sectors than on unitary labour costs.

11.5.4 Non-wage labour cost policies

In France, fiscal policies aimed at alleviating the social contributions based on salaries started to develop from 1993 onwards, with an impact growing over time. In 2011, these tax exemptions totalled EUR 28.3 billion (9.3% of all contributions), 90 per cent being offset by budgetary transfers (Acoss

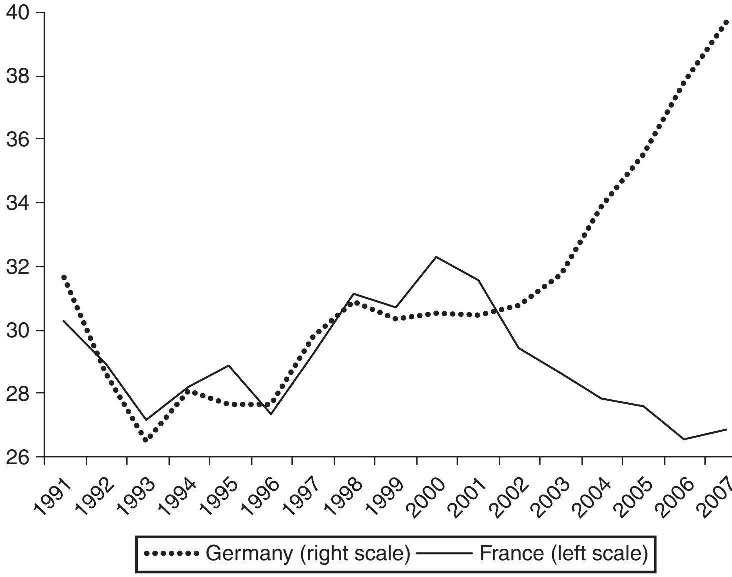

Figure 11.7 Development of profit margins in the exposed sector, France and Germany, 1991–2007
Source: OECD STAN database.

2012). From the employers' perspective, the share of social contributions in the overall wage sum has been steadily declining since the mid-1990s, from 27.5 to 24.5 per cent in 2012 (source: INSEE, non-financial firms).

Three arguments have been invoked to justify these policies. First, a higher degree of competitiveness could be achieved by reducing labour costs, since labour regulations were less stringent in competing countries. Second, the unit labour costs of low-skilled workers exceeded their productivity rate, which impeded their employment. Reductions of social contributions were, therefore, a means to close this social wedge. Third, the law on the 35-hour working week included cuts in social contributions to offset the rise of hourly wage rates resulting from the rule of maintaining monthly wages. These exemptions have always been calibrated in SMIC shares on a sliding scale up to 1.6 SMIC. Today, they apply to 55 per cent of French wage earners. The latter policy has widened the gap between labour costs for the employers and net wages, especially for the low-skilled workers. The evaluation of labour-cost policies has fuelled a controversy over each of the three arguments. As regards competitiveness, the under-representation of MW earners in competitive sectors explains why an official report highlighted that tax exemptions on labour mostly benefitted the service sector that does not directly face international competition – a real godsend (Liaisons Sociales

2006). Moreover, the reduced social contribution taxes provided by the 35-hour law have fully offset the cost of its application, ending up on a neutral effect on competitiveness (not a negative one). Thus, these policies did not promote human capital as a source of competitiveness. In terms of employment, there is no evidence showing decreasing unemployment in the sheltered sectors. Neither did these labour cost policies improve the mobility of low-skilled workers (Lhommeau and Rémy 2009), while triggering a downward spiral at median wage levels.

11.6 Conclusion

The role of the statutory MW in France has undergone profound changes as the socio-economic environment evolved around it. In the years of rapid economic growth, a powerful system of industry-level collective bargaining spread the sharp MW increases from one branch of activity to the other and from firm to firm. Since the mid-1990s this virtuous circle has been broken; wage inequalities appear within the same occupational status, blue collars and white collars alike. Today, the French MW is the last social shield for labour standards. Given the tremendous decline in industry-level agreements, the SMIC represents a gravitational pull for whatever minimum is negotiated. This results in downward pressure on the lower tail of the wage distribution (a growing share of MW earners along with the limited SMIC effects on other wages), and goes hand in hand with conservative fiscal policies lowering the social contribution taxes on labour. A major question remains: Is the French MW still a powerful tool improving standards of living through incentives to adjust qualifications and productivity gains, or, has it simply helped legitimize the low-paid jobs on offer in many companies?

Notes

1. Deviating from most comparable international low-wage data, based on hourly wage figures.
2. Assessing the number of trade union members is a tedious task in France. Besides the figures released by the unions themselves (known to be over-estimated), two data sources can be used: the continuous survey on households' living conditions published by INSEE and the decennial Census. The only data source evaluating the coverage rate of each union through a representative sample of firms is the REPONSE survey collected by the Statistics and Research Department (DARES) of the Ministry of Labour.
3. To the best of our knowledge, the low wage rate based on an annual measure of labour earnings regardless of employment status (in the working population) has not been updated since then.

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