Minimum Wage in France

Michel Husson

Estelle Sommeiller

Catherine Vincent

IRES

draft, May 2012

Introduction

The wage determination process in France is affected by two institutional forces. The former is the statutory minimum wage set unilaterally by the government. The latter is a decentralized system of collective bargaining that is hard to classify in the national typology of industrial relations. The linkages between the two have changed significantly since the mid-1990s. In the aftermath of World War II, the minimum wage was a powerful tool to level social inequalities, while the social benefits collectively bargained in large companies stretched its coverage to the workers in similar branches of activity, and also, to some extent, from one sector to the others. Since the 1990s however, this virtuous circle has stopped running well given the changing economic environment. On the one hand, the casualization of labour has dampened the benefits of upgrading the minimum wage. Meanwhile, the collective bargaining has been entirely reshaped through the decentralization process so that sector-level agreements are no longer the norm, plant-level settlements are. Such a change in the French industrial relations is not without consequences on the wage distribution.

This chapter is organized as follows. The first section provides basic information on the minimum wage in France. The linkages of the minimum wage with collective bargaining are analyzed in the second section, with wage inequalities in the third part. Finally, the evolution of real wages over time is analyzed through the historical lenses of long-term dynamics.

Minimum wage in France

The minimum wage in France was first called SMIG, the "guaranteed interprofessional national minimum wage" (*Salaire Minimum National Interprofessionnel Garanti*) and was implemented in 1950 as a statutory law. Being pegged to the sole consumer price index, it does not keep pace with the average gross earnings being boosted by productivity gains, and the sharp increases decided by the government, such as in June 1968, did not reverse this trend until it was replaced in 1970 by the SMIC (*Salaire Minimum Interprofessionnel de Croissance*), the interprofessional minimum wage automatically adjusted to economic growth. While the SMIG was a guaranteed minimum income helping workers to meet the basic needs of their family, the SMIC was designed as a dynamic impulse response widening the employees' participation in the benefits of growth and narrowing wage inequalities. The rate of SMIC is set annually by the government on the first day of January (it has been so since 2010, it was on the first day of July prior to 2010). Its adjustments depend upon four indicators:

- the rise in the consumer price index (excluding that of tobacco taxation, for a urban household where the head is a worker in the manufacturing industry);

- whenever inflation goes up by more than 2% within a year (in that case, the adjustment takes place immediately and automatically);

- half of the purchasing power improvement as regards the gross hourly earnings in the manufacturing industry (*salaire horaire brut moyen ouvrier*);

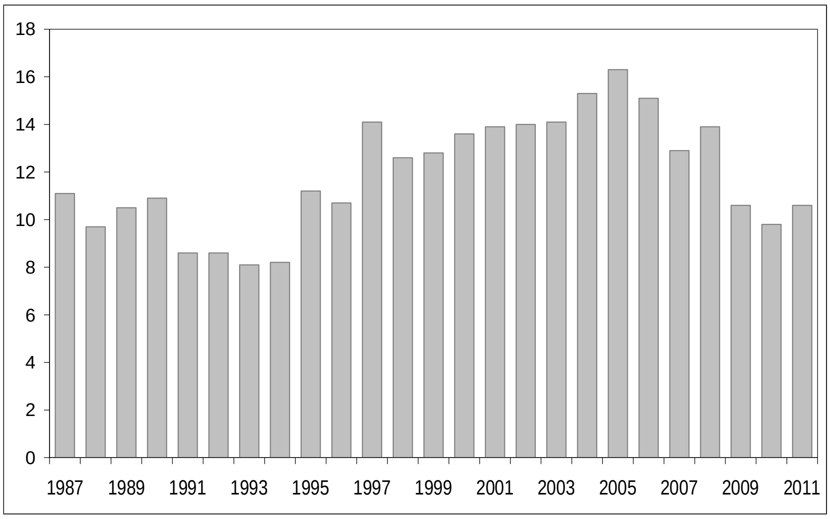
- the government's annual reviews (or the so-called '*coup de pouce*')

In 1998, the reduction of the statutory working week to 35 hours from 39 hours has established a guaranteed monthly wage (*garanties mensuelles de rémunération*) so as to maintain unchanged the monthly earnings of those already working at the minimum wage prior to the 35 hour week law, all new comers being 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 re-organized them so as to keep one only, a task performed in 2005. Since then, an equal amount of work earns the same pay, all things being equal.

Who are the SMIC recipients?

The number of SMIC beneficiaries is estimated to be the number of wage earners whose salary improves with a minimum wage upgrade (see Chart 1). Thus defined, the SMIC headcount has been following a downward trend over the past few years. This general course reflects not only the relative rise in the minimum wage but also the drop in low-qualified and low-paid jobs statistically recorded since the beginning of the economic recession.

Chart 1
Share of the minimum wage earners. France 1987-2011



Competitive sector corporations. Source: Insee

A recent study (Ananian & Calavrezo, 2010) re-assesses the minimum wage population based on a more restrictive definition and reports 7.5% as being the share of employees being compensated at or near the minimum wage level (see Table 1). This percentage is higher for women (11%), part-time workers (15%), clerks and service workers (22%), plant and machine operators (16%). The typical minimum wage earner is therefore a woman working part-time in the service sector. It essential to keep in mind that the French minimum wage is defined as an hourly rate; this is the reason why 80% of low-wage workers are female, given that women mostly work on a part-time basis.

Table 1
Profile of the minimum wage earners

Total	7.5				
Occupation		Activity status		Company size	
Professionals (*cadres*)	0.2	Working full-time	6.0	10 to 19 employees	17.6
Technicians and associate professionals (*professions intermédiaires*)	4.0	Working part-time	15.0	20 to 49 employees	12.5
Clerks & service workers (*employés*)	22.0	Age		50 to 499 employees	9.5
Plant and machine operators and assemblers (*ouvriers*)	16.0	Less than 25-year old	21.0	500 employees or more	3.8
Sex		25- to 34- year old	8.0	Economic activities	
Women	11.0	35-year and older	6.0	Manufacturing	4.5
Men	5.1			Service	8.6
				Construction	6.0

Source : Ananian & Calavrezo 2010

The minimum wage earners are under-represented in the manufacturing sector (4.5%) relative to services (8.6%) and construction (6%). Taking into account the sector size, around 11% of SMIC earners work in the manufacturing industry, 82% of them work in the service sector, and 7% in construction. This is a crucial point when it comes to assessing the effectiveness of restrictive labour-cost policies.

The connected whole formed by collective bargaining and minimum wage is falling apart

Wages in France are set at three different levels: nationwide, across industries, and on the company site. At the national level, as already seen, the government sets the minimum wage according to the strictly established rules of the annual review, but on a discretionary basis. At the sector level, trade-union and employer organizations bargain every year on the so-called 'conventional minimum wage', i.e. the wage floor an employer cannot cross for a given set of qualifications.

Finally, pay determination also occurs within a company. From the 1950s to the 1980s, wage bargaining was the matter of big companies only. Since the Auroux Act of 1982, annual bargaining is compulsory in any firm hosting a one or more labour union into its ranks, even though no pay settlement is required. In the 2000 decade, the system of collectively bargained wage, relatively plain and straightforward, is progressively becoming a complex and diversified process. The new practices are no longer associated with wage bargaining. As a result, the role of union that used to be very large has now loosened its grip over wages.

However, the linkages between the government and unions have developed into a virtuous circle in the early 1970s as regard sides of the employment policy. The latest years evidence a new course of public action combining the government's decisions to the social actors' responsibilities and a 'co-production of norms' has emerged (Freyssinet, 2011). This does not apply to pay determination, though.

Institutional features of collective bargaining

In France, social dialogue hardly exists without government intervention or without coming from an acute social crisis. Political interference in social dialogue both reflects and maintains loose links among social actors.

Unionism: still alive but in need of new members

After World War II, structural trade-union pluralism emerged in France and prevailed for several decades in a row. Its evolution reveals a surprisingly stable architecture of the leading forces at work, with five pillar organizations being granted 'nationally representative' by the government : CGT (*Confédération Générale du Travail*) scored the first success in the works council elections of 2005 (23.6%), CFDT (*Confédération Française Démocratique du Travail*) scored 20.3%, CGT-FO (*Force Ouvrière*) 12.6%, CFTC (*Confédération Française des Travailleurs Chrétiens*) 6.4%, and the professionals' union, CFE-CGC (*Confédération Générale des Cadres*), 6.3%.

Trade union membership statistics have always display lower rates in France than in other European countries, barely reaching 20% in the late 1960s. The oil shocks and recession of the 1970s worsened the narrowing of the base, and membership of trade union has been kept constant at low levels since then: 5% in the private sector, roughly 15% in the public sector. France is the worst performing European country with respect to union affiliation rate. It ranks better (10^{th} position) than Germany or the UK with respect to an alternative indicator (the on-site presence of trade-union instances measured as the share of salary workers stating that a trade union is located on their workplace). Despite its past improvement (41% in 2005, 37.5% in 1996), the latter one does not provide any piece of information on how unionization manifests itself, with a trade-union representative being in charge locally, or being further involved.

Employers' structural weaknesses

The three French employers' associations attract a minority of CEOs. Analysing their collective action leads to the paradox that exhibiting poor cohesion does coexist with exercising considerable influence over society (Amossé et al., 2011). Between 1998 and 2004, the survey on professional relationships and business negotiations ('REPONSE' by the Ministry for Employment) reveals a weakening participation rate of management representatives in employer-led organisations. Such a result is mainly accounted for by the morphological distortions in the tissue forming the industrial base: the loss of factories, operational facilities and manufacturing potential, precisely in places once famous for the economic attractiveness of their business environment; and the rapid expansion of services in France's economy.

These structural changes translate into an evolving network of executive managers where the traditional domination of large industrial corporations, such as UIMM from the metalworking industry (*Union des Industries des Métiers de la Métallurgie*) and its past influence in the Movement of the French Enterprises (MEDEF), has given ground to domestic competitors from the service sector. However, one core issue survives industrial mutations over time: the constant renewal of cost-reducing strategies.

A collective bargaining system suffering from a lack of coordination

Many observers point out the striking paradox of the French industrial-relation structure. How can it be that a country where union density is the lowest of all industrialised countries has one of the highest rate of bargaining coverage, over 90% of employees? Shedding light on this paradox requires first a short flashback on the overall background featuring France's system of collective bargaining.

Despite the steady development of common agreements, legislation still remains the principal source of regulation today. This pre-eminence is of course attributable to the well-known France’s republican tradition according to which the government is responsible for protecting workers and their individual rights. The key-role of labour law in collective bargaining adds to the outcome of a 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: since then, the contents of agreements negotiated among the large companies of a particular sector are applicable to all employers of similar activity, with or without registered membership in any professional association. This extension procedure helps to offset the weakness of labour union and employer representation as well as the employers’ lack of incentives to bargain. In the 1950s and the 1960s, such a mechanism, along with 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 the branch-activity boundaries. Later on, the social benefits from labour negotiations spread out on a macroeconomic scale at variable speed, depending upon the employers' strategy of the moment, among other things. The collective labour agreement act of 1971 legalizes the triple space where collective bargaining takes place : interprofessional field, branch of activity, and business company, in descending order of priority. The social advantages of the former take precedence over any inferior content of the latter two. In other words, the most favourable clause shall prevail over any other one being less favourable from the employee's perspective (derogation *in pejus* or 'favourability clause').

The stakeholders and the deals that were struck did not raise concerns during the entire time period when branch negotiations multiplied. However, the development of enterprise wage settlement negotiated by a single employer started to question the legitimacy of the trilogy order of the former decade and the favourability principle associated with it. To gain in flexibility, get around the domination of branch agreements, and eventually get rid of them, MEDEF has been advocating since 2000 a type of firm where the employee status has to be tied to a collective contract, with or without trade union mediation. The overhaul of collective bargaining, also desired by trade unions, finally occurs.

The act of May 2004 amended by the law of August 2008 introduces 4 main reforms:

1. Electoral success is required first before labour unions take part into collective negotiations. The minimum threshold was set at 10% of the votes in employee representative election, took effect in 2010 at the firm level and is expected to be applied to other levels by 2013.

2. A majority criterion is introduced: Any interprofessional field agreement, and any branch agreement must be supported by the majority of the labour unions whose national

representation has been formally granted. Enterprise-level agreements take effect once unions gathered 30% or more of votes at the latest elections and only if they were not blocked by the major trade union of the company.

3. The usual ordering of the collective bargaining structure has changed. Dispensations may be granted as often as possible so that the agreements negotiated at the upper levels (interprofessional or branch) do not supersede enterprise agreements, unless the contracting parties sign otherwise. Not all areas are affected by this clause; wages and salaries, career development and social insurance schemes are not subject to it and branch agreements prevail in these cases.

4. For specific topics, the possibility for a union to mandate an employee for negotiation is generalized to companies with no union representative.

Higher wages hardly spread from industry-wide agreements

The historical evolution of the French industrial-relation system progressively outlines a dual system between the central administration (the third-party arbitrator) and the company level (where executive managers advocate business negotiations). The decentralisation of collective bargaining receives strong political support, severs the ties of solidarity among the wage earners of the same professional field, and prevents the social benefits gained by trade unions to spill over into the entire sector of activity.

In quantitative terms, the number of sector collective agreements is not a representative sample of the number of employees benefiting from it. Its evolution may give the illusion of a familiar system taken for granted by all, whereas the quality of the social benefits gained is always questionable. Looking at statistical figures suggests satisfying outcomes, but a closer look at its contents dampens enthusiasm.

Sector-level bargaining strongly depends upon the government intervention and political willingness. This is true for employment-related policies, but also, as stated earlier, for wage and salary matters, though at core of what should be the basis of private autonomy, where the government intervenes through the minimum wage setting. The various branches of activity differ sharply in economic terms: about 4% of sector-level collective agreements cover 50% of wage earners. The political impulse for widening the coverage rate of collective bargaining led to the duplication of many subsectors with limited activity where the contents of collective agreements simply reproduce the Labour Law on specific matters, leaving plenty of room for individual employers to manage human resources their way. Coexisting side-by-side is the regulatory power of sector-wide agreements supposed to play a leading role in the economy : metalworking industry (1.7 million employees), construction activities, banking sector, automobile, oil energy... turns out to be extremely variable (Coutrot, Lafranchi, 1993 ; Jobert, 2003). However, the balance between sector and plant-level agreement tilt toward the latter since the 1980s, and big firms, in order to tame real earnings, negotiate wage rates as low as possible and review the compensation system through pay individualization (Barreau, Brochard, 2003). The final outcome is a widening wage gap between high-tech companies and the contents of the corresponding sector agreements.

In the 1990s, minimum wages end up being diverted from their original meaning. For most of low-qualified workers, the base pay straight from the salary grids of collective agreements lie below the SMIC floor, employers bridging the gap with tax-exempt primes and other allowances to keep it legal (Rassu, 1993). The declining influence of collective agreements on the wage distribution has narrowed the range of negotiated earnings to its lower limit. More precisely, it should be noticed that levelling revenues down to the wage floor is accounted for by the deviation from, rather than the reinforcement of the collective bargaining norm. Pushing realism to extreme limits, the argument of a standardized minimum wage for all low-skilled workers does make sense (Rassu, 1993, p. 61). By the end of the 1990s, wage data at the lower tail of the distribution displays much lower statistical dispersion than the theoretical salary grid of the collective agreement.

This downward trend of all low-wages toward the SMIC level also squeezes the income dispersion across sectors, and undermines the building of a career plan for the employees hired at a low wage rate (CSERC, 1999 ; INSEE, 2005).

In the 2000 decade, human resources management methods lay emphasis on individualized pay. Bargained wages get locked between the SMIC lower bound and the variable part of compensation (bonus, profit-sharing scheme, company savings plan...) The variable part may be subject to bargaining: 18.4% of enterprise wage settlement signed in 2008 deal with it (14.4% in 2006). These agreement are typically negotiated by workers' representatives (may it be together with union representatives), whereas base pay negotiations remain in the hands of unions' delegates. Given the standardization of individualized pay, the development of related allowances, and the decline in bargaining power (Castel, Delahaie, Petit, 2012), the trade union strategies focusing mainly on the general raise of wages seem to be at odds of what really is at stakes.

These new changes reveal a vulnerable French industrial relation system in the context of mass unemployment and low unionization rates. Collective bargaining nowadays takes place at more decentralized levels than in the past, and the scope of negotiations narrows down as new pay management methods are introduced in the system.

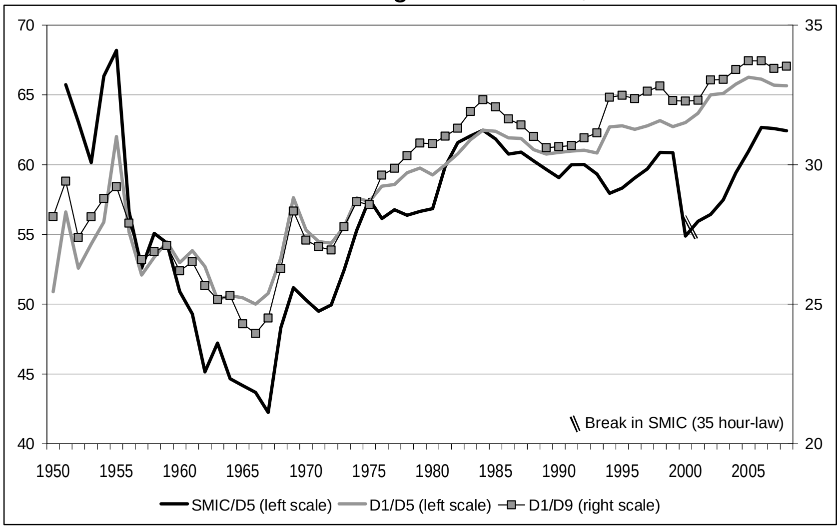
SMIC and wage inequalities

1945-1999

In the history of wage inequalities after World War II, four time periods may be distinguished: a narrowing gap from 1950 to 1968, the reversing trend from 1968 to 1982, a new phase of rising inequalities from 1982 to 1999, and the latest decade featuring growing numbers of low-wage workers as well as a new inflationary pattern of top incomes as observed until the financial crisis of 2008.

In the reconstruction years of German occupied France, euphoric economic growth recorded two-digit numbers and the hierarchical order of the domestic wage structure was largely reshaped by a combination of factors : the 'Parodi salary grid', named after its author, ties salaries to work station description, employee reward systems are implemented, among other things. In February 1950, the Parliament brings forth the so-called 'guaranteed interprofessional minimum wage' or SMIG (*salaire minimum interprofessionnel garanti*). It is indexed to inflation only, with no government intervention in collective bargaining. As its evolution is disconnected from labour productivity, the guaranteed minimum wage does not keep pace with the national median wage. Between 1951 et 1967, the purchasing power of the former increased by 22% while the latter doubled. As a result, the ratio between the two (minimum wage over median wage) dropped from 68% in 1951 to 42% in 1967 (see Chart 2).

Chart 2
Three indicators of wage distribution, 1950-2008



Sources: INSEE, DADS
D1, D9: 1st and 9th deciles. D5: median wage. SMIC: minimum wage.
Pre-tax wage income net of social contributions.
Full-time wage earners in the private sector.

The significant historical events of year 1968 mark the beginning of a new era. The Grenelle draft agreement of June 1968, named after the Parisian street where it was written, makes provision for substantial raise in the guaranteed minimum wage, and it increased by 33% in real terms between 1967 and 1969. The overall impact on the earnings distribution was limited, though: the national median wage only increased by 5% over the same time period. The guaranteed minimum wage is replaced in 1970 by a more favourable indexation system taking economic growth into account (SMIC).

The French minimum wage narrows the gap with higher social ranks between 1967 and 1982: +228% increase in real terms, +47% for the median wage, +10% for top earnings. In 1981, the newly elected government granted permission for a final push before a long period of tamed inflation began.

In 1982-1983, new economic laws put an end to price-indexation. Real wages stopped making progress, and the wage share in national output suddenly dropped, as shown by statistical records between 1982 and 1989. The SMIC does not benefit from any government support any longer, and its purchasing power remains constant, median and 9th decile alike: +2.6% for the former and +4.9% for the latter, respectively. Wage inequalities slowly widen again.

The 2000s decade

In the aftermath of the 35-hour workweek law

Reducing the working time to 35-hour a week directly raised the hourly minimum wage; so did the monthly minimum wage thanks to the guarantees associated with it (GMR). Many working time reduction agreements planned a pay freeze for a while. Overall, applying the law helped fastened the adjustment of low wage rates while higher earnings brackets did not grow much: +0.13% for the national median wage (compared to 1.14% the former decade); 0.42% for the minimum wage (see Table 2).

In an attempt to assess how minimum wage increases impact other wages, Koubi and Lhommeau (2007) find that a 1% rise in SMIC in the early 2000s almost entirely passes on the SMIC-neighbouring wages (up to 1.1 SMICs), only half of it on slightly higher wages (in the interval of 1.4 to 1.5 SMICs), and not at all for wages twice as high as the SMIC (Goarant, Muller, 2011).

Table 2
Annual growth rate of real wages

%	1990's (1989-1999)	2000's (1999-2008)
1st decile	1.46	0.65
Minimum wage	1.34	0.42
Median wage	1.14	0.13
9th decile	0.91	0.23

Sources: INSEE, DADS.

Casualization of labour

As living standards were rising since the early 2000s, employment flexibility was gaining ground. As recruiting on a part-time basis has become the norm, it now takes overwhelming proportions among low-skilled workers. According to Insee's DADS data of 2006, the share of low-wage earners is 85% among those working less than 600 hours a year; this share almost disappears among full-time employees. Women are particularly exposed to underemployment, and this labour-market situation nurtures the gender pay gap (see Box 1).

The combination of part-time work and short-term position is a powerful tool for employers to enhance flexibility at the company-level. 80% of new appointments are fixed-term contracts in 2006; two thirds of them (9 millions) are less than a month-long. In addition, 16 million contracts were issued by temporary employment agencies the same year; here again, 88% of them last less than a month, and 25% just a day (Lagarenne & Lamarche, 2008). The structural trend of employment degradation has started in the 1980s and keeps spreading over the French society stuck into mass unemployment.

Box 1
Gender wage gap

The wage differential between women and men monthly earnings is 19.2% in 2008. It narrows very slowly because its key determinants _ activity profile and job status _ are kept stable. 75% of this wage discrepancy is accounted for by differences in job characteristics, the duration of work and working hours especially. Without radical measures, further improvement is hardly expected (see table 4).

Table 4
Wage differentials between women and men in 2008

	Men	Women	Total	Women/Men
Professionals	4 372	3 348	4 081	-23.4%
Technicians and associate professionals	2 180	1 908	2 068	-12.5%
Clerks & service workers	1 491	1 405	1 432	-5.7%
Plant and machine operators and assemblers	1 561	1 288	1 523	-17.5%
Total	2 220	1 793	2 068	-19.2%

Source : Insee (2008). Net monthly wages, amounts in euros.

Taking part-time work into account drastically changes wage inequality indicators. Usually, the low-wage indicator is published for full-time employees. Part-time work is converted into full-time equivalents, so that annual earnings are equal to an hourly wage rate multiplied by the number of working hours within a year. This way, Casali and Alvarez-Gonzalez (2010) identify the low-wage earners among full-time employees as “those earning less than two-thirds of the national median wage *per year*”, and 8.8% of full-time employees are thereby considered low-wage earners in France in 2006.

To take the duration of employment into account, annual earnings are defined instead. Unlike the definition based on hourly wage, annual earnings (*revenu salarial*) sum all wages and salaries earned within a year (or during the reference period). The latter indicator thereby mirrors the impact of underemployment on low-wage earners. In 2006, the low-wage rate is no longer 8.8% of full-time employees but 22% of all workers (working part-time or full-time, being in-work for more than 6 months a year) were low-paid. Ponthieux (2010) also pointed this out. Likewise, Insee reports that in 2009, the interdecile range (D9/D1) rises from 2.9 using the full-time equivalent method to 16.3 using the annual earnings aggregate. Such a gap reveals how much work duration and working hours actually matter.

The same results appear with the Gini coefficient (Table 6). The benefit of raising the hourly minimum wage and the loss of an insufficient number of working hours cancel each other out.

Table 6
Gini index on annual personal earnings (wages and salaries)

Population units	OECD 2000[a]	EU-SILC 2007[b]	Eurostat 2008[c]
Working full-time full-year	0.28	0.29	0.30
Working both full- and part-time (more than 6 months a year)	0.32	0.33	0.35
All wage-earners (working at least one month within a year)	0.31	0.33	0.40

[a] Source: OECD (2008)
[b] Source: 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. Zero- or negative values discarded. Authors' own calculations.
[c] Hoeller et al. (2012)

At the opposite end of the earnings distribution, top wages follow a very different pattern. In 2007, the richest 1% of full-time employees (133 000 individuals) in the private sector earns 7 times what full-time employees earn in average annually (Amar, 2010). This surge in top wages, showing earlier in English-speaking countries, is now occurring in France as the most striking change recorded of the time period considered, with upper real wages being worth 120 years of SMIC (see Table 3).

Table 3
Wage income of upper-income groups and SMIC

	Top 0.01%	SMIC
1998-2005[a]	6.1%	0.3%
2001-2007[b]	8.0%	2.2%
2007 net wage (thousand euros)[c]	1480	12.5

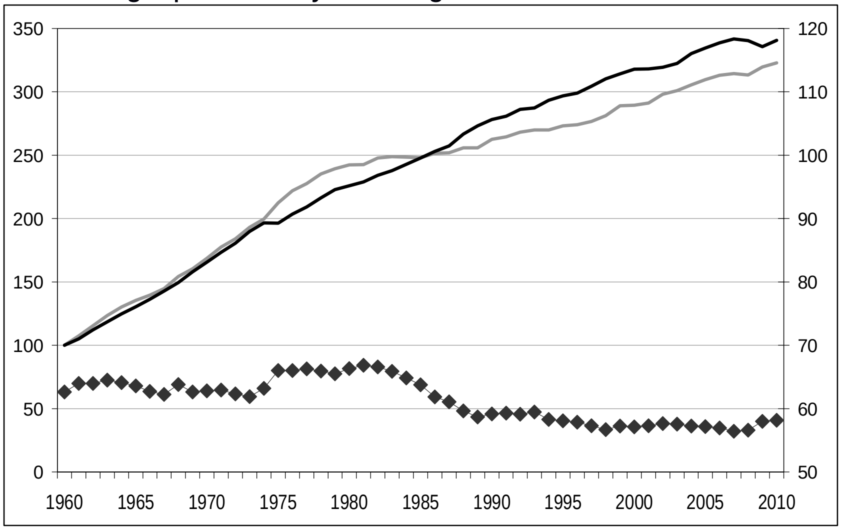
[a] Landais (2007) [b] Godechot (2011) [c] Solard (2010).
Annual growth rates and thousand euros.

Amar's results for top wages in the 2000 decade compare with the statistical outcomes by Landais (2007), Godechot (2007) and Solard (2010): all conclude to rising inequalities at the upper tail of the distribution.

Long-term dynamics

Taking a perspective of history is a useful step towards a better understanding of how wages in France evolved over time, all the more necessary because new statistical evidence has rekindled the debate on how best to measure the wage share of national income. This global approach led to draw a comparison between the long-term trends of real wages and per capita labour productivity. These two measures determine, within the margin error of relative prices, the dynamics of overall income distribution, measured as the share of wages in gross domestic product (Chart 3).

Chart 3
Real wage, productivity and wage share in France, 1960-2010



Source: Ameco database

Let us distinguish the various historical sub-periods; four of them clearly appear (Table 7):

- From 1960 to 1974, real wages grew at the same pace as the productivity rate did (5% a year and 4.9% a year respectively), resulting in a fairly constant trend of the wage share.
- The 1974-75 worldwide recession opened a transitory period of slack times in business and productivity started to slow down, recording an annual growth rate of only 2.7 percentage points. Real wages also underwent similar changes but on a lower scale, so that the wage share reached its pick in 1982.
- The 1980s featured a sharp drop (by 8 points) in the wage share, as a result of the combined effect of the sluggish growth of real wages (+0.4% a year from 1982 to 1989) in contrast with an annual growth rate of 2.2% in labour productivity.
- From 1989 to the financial crisis of 2008, the labour productivity rate slowed down again (+1.2% a year in average), but real wages did not keep up with it. The former and the latter therefore started to exercise a brake on the wage share of national income.

Table 7
Real wage, productivity and wage share in France, 1960-2010

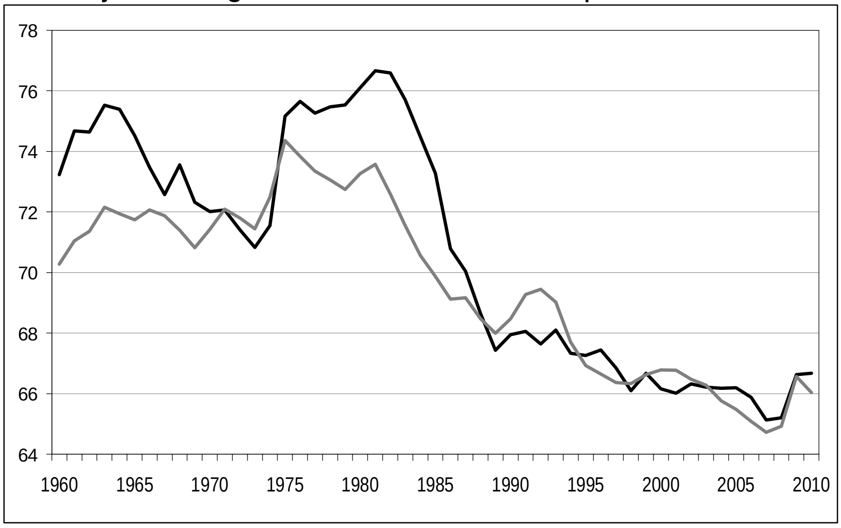
	1960-1974	1974-1982	1982-1989	1989-2008
Productivity[a]	4.9	2.2	2.2	1.2
Real wages[b]	5.0	2.9	0.4	1.0
Wage share[c]	0.5	3.4	-7.9	-2.1

Source: Ameco database
[a] Average annual growth of GDP at 2000 market prices per person employed
[b] Average annual growth of real compensation per employee, deflator GDP
[c] Variation of adjusted wage share (Compensation per employee as percentage of GDP at market prices per person employed.)

The cyclical pattern just described relates back to macroeconomic data published by the European Commission (Ameco database) whose open method of coordination implies conventional statistical principles such as the allocation of a wage income to the self-employed workers. Insee considers instead non-financial corporation's data, which necessarily produce a different picture, but the historical outline remains the same.

Even though these four time periods typical depict the wage share evolution in France, they do not significantly differ from what happened in other European countries in the long-run. The core difference relates to the 1975-1990 period: first, the French wage share grew much faster than in the European Union as a whole, then dropped back to the European average (Chart 4).

Chart 4
Adjusted wage share in France and Europe, 1960-2010.



—— France —— EU15
Source: Ameco
Adjusted wage share (total economy) as percentage of GDP at current factor cost (compensation per employee as percentage of GDP at factor cost per person employed)

Mass unemployment severs ties between wage and productivity

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

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

where *lw* is the log of real wages, *lprod* the log of productivity, and *Ulprod*, the cross product between unemployment rates and the log of productivity. The results (Table 8) support evidence for the unemployment hypothesis, and capture well the overall trend of real wages in the economy as a whole as well as in specific sectors.

Real wages got disconnected from labour productivity under the pressure of rising unemployment, with U rates revealing the labour market deterioration, and the change in social norms. Up to the 1980s, the Fordist model of production led to proportional changes in real wages and productivity, which no longer stand in the neoliberal era that followed. The sectors opened to competition are more affected than the protected ones, a possible explanation for higher productivity gains recorded in the protected sphere of the economy.

Table 8

Sectors	R^2	*Δlprod*	*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

Wages and demand (consumption-led model)

The French economy strongly depends upon private consumption, and consequently, on household demand. While the wage share is more or less constant, consumption has been rising faster than GDP since the beginning of the millennium, boosting economic growth. Capital income and public transfers explain most of it. The story is entirely different in Germany where the declining wage share causes private consumption to fall as well (see Chart 5).

Chart 5

Private consumption as % of GDP

Source : Ameco

So with a demand supporting its export drive, Germany is an “export-led” model while France is a “consumption-led” or “wage-led” model. This is a problem for the economic coherence of Europe and a fundamental choice for both countries. Several studies underlined the depressive effects of the sluggish domestic market in Germany on other European economies. The decrease in labour costs in France is not likely to change 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.

Sector dynamics and firms' competitiveness

Unit labour cost is a key-component of competitiveness, but it does not affect sectors equally. As most of international trade flows come from the manufacturing industry, three sectors may be distinguished to illustrate the basic forces at work:

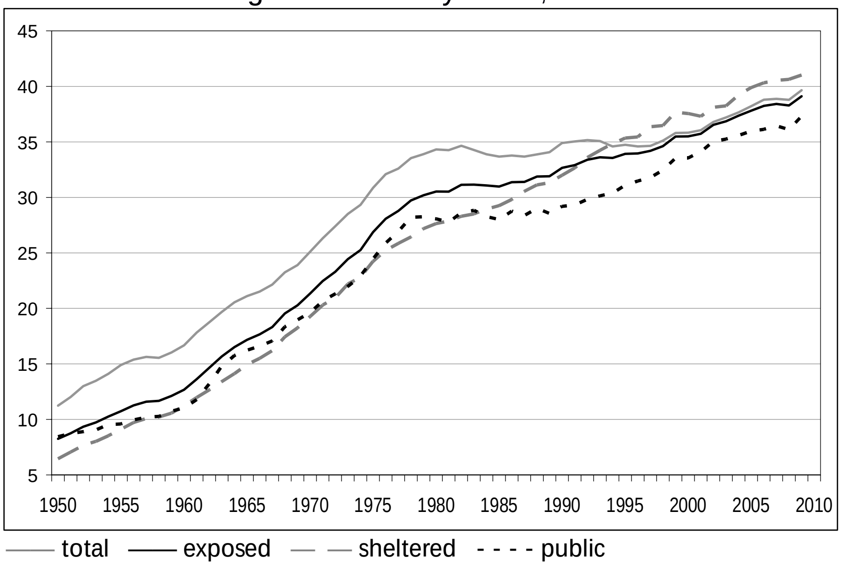
- the competitive sectors i.e. the manufacturing industry (except energy),

- the sheltered sectors include trade services and construction,

- the public sector refers to non-tradable services.

Over time, real wages evolve differently across sectors (Chart 5). After a relatively stable phase up the late 1970s, real wages started to slow down drastically in the public sector, and slowly in the exposed sector.

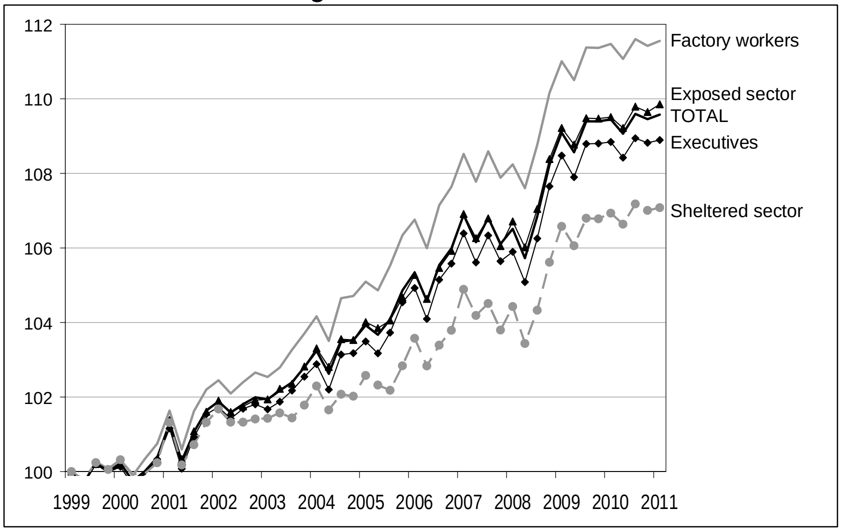
Chart 6
Real wages in France by sector, 1950-2009



Source: Insee. Thousands of 2005 euros

The various sectors over the years 1999-2009 follow the trend alike, most of them being relatively disconnected from their typical long-term determinants. So are the different employment types (see Chart 7). Close links still exist between the productivity cycle and wages in the competitive sector -productivity and unemployment in the sheltered sector- but their coefficient are not statistically significant. Overall, the dynamics of wage fixation seems to follow a new pattern where economic growth is no longer a key determinant.

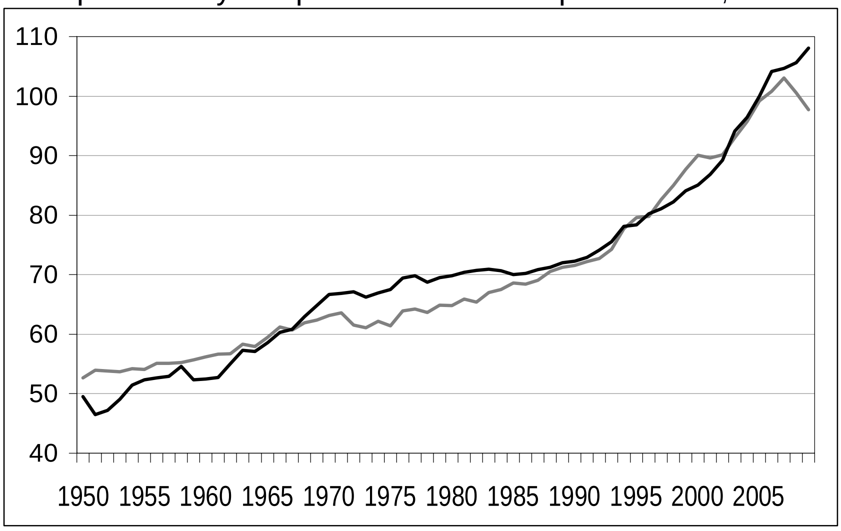
Chart 7
Real wages in France, 1999-2011



Source : Dares

To account for real wages, considering labour productivity is not enough, relative prices also matter. Relative prices affect the distribution of national wealth through profit-margin adjustments from one sector to the other. Relative prices in a given sector are inversely correlated to the productivity rate of that sector. This negative relationship is supported by empirical evidence over time (Chart 8).

Chart 8
France's productivity and price series in the exposed sector, 1950-2008



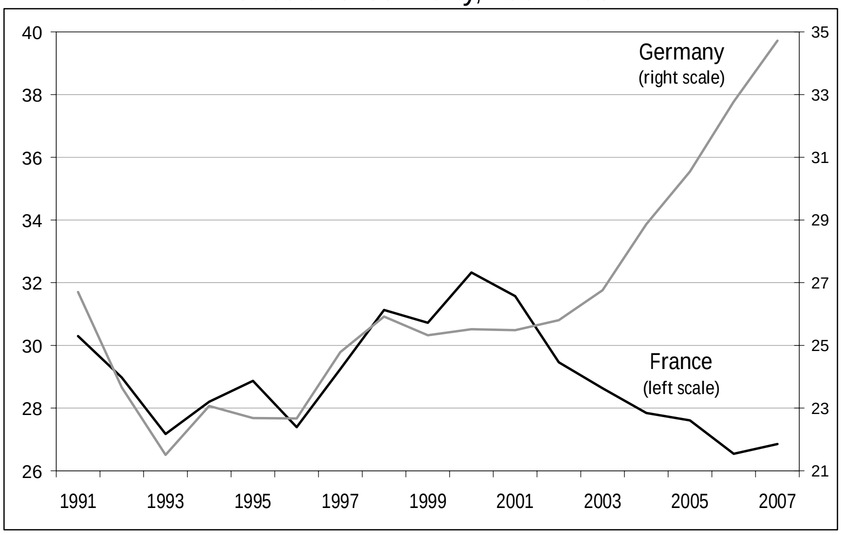
—— relative productivity —— relative price (inversed scale). Source: Insee

The sector's capacity to capture the 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, 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 i^{th}

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'.

However, the productivity gains of France's exposed sector have significantly deteriorated in the last ten years as relative prices more than offset the relative productivity gains, compared to the productivity gains of Germany's exposed sector. All things being equal, the profit margin in the French competitive sector is expected to fall, in both relative and absolute terms. From this point of view, Germany evolved in the opposite direction (see Chart 9). In France, the productivity gains generated from the exposed sector are being captured by the sheltered sector. In Germany, the exposed sector keeps its productivity gains, which is the reason why its profit margin reaches high levels. Unlike Germany, France's competitiveness depends more on relative prices across sectors than unitary labour costs. This is a crucial characteristic of the French economy.

Chart 9
Profit-margin rates in the exposed sector
France and Germany, 1991-2007

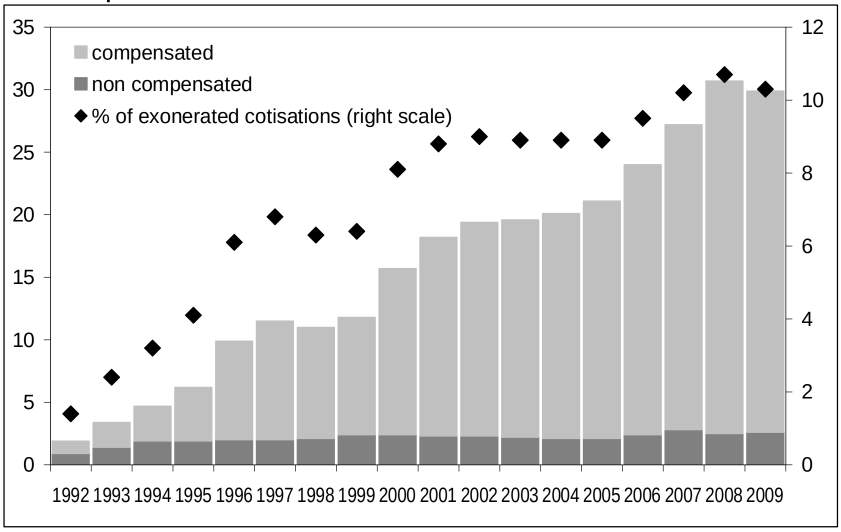


Source: STAN-OECD

Non-wage labour cost policies

Fiscal policies aiming at alleviating the social contributions levied on salaries started to develop since 1993, with an impact growing over time (see Chart 10). In 2009, these tax exemptions total 30 billion euros (10.3% of all contributions), most of it (91.3% in 2009) being offset by budgetary transfers such as 'active government expenditures' (e.g. earned income tax credit).

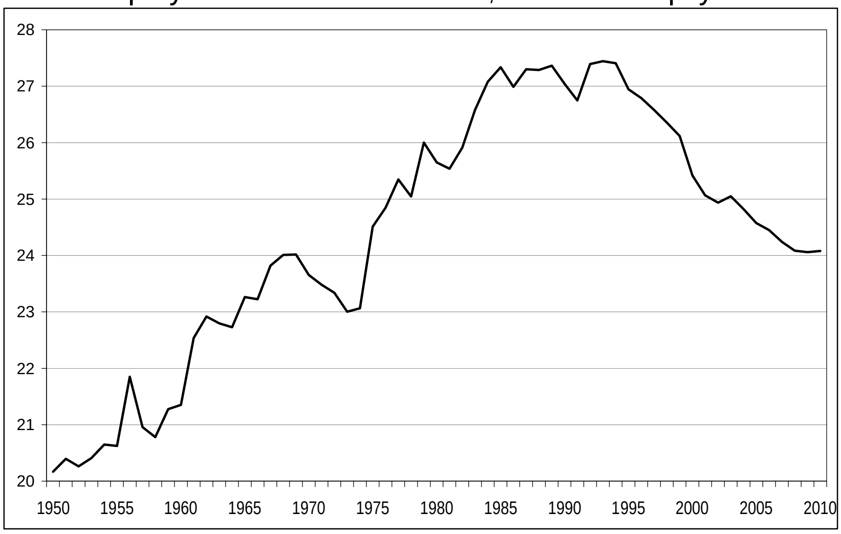
Chart 10
Exemption of social contribution taxes in France, 1992-2009



Source : Acoss (2010)

From the employers' perspective, the share of social contributions in overall payroll has been steadily declining since the mid-1990s (see Chart 11).

Chart 11
Employers' social contributions, in % of total payroll



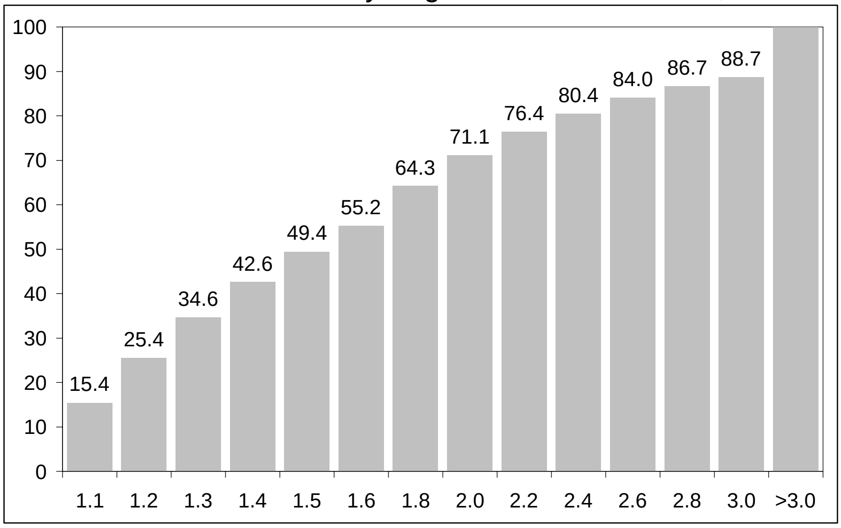
Source : Insee. Non-financial corporations

The motive adduced is threefold. First, a high degree of competitiveness must be freed from heavy labour costs, while labour regulation is not so binding elsewhere. Second, employment cannot improve as long as the unit labour costs of low-skilled workers exceed their productivity rate, leaving the social wedge issues unsolved. Third, the law on the 35-hour workweek provisioned tax exemption on the hourly minimum wage rate (for the guaranteed monthly wages to converge by the same token).

These tax exemptions have always been calibrated in SMIC shares (up to 1.6 SMICs). Today, they apply to the 55% of workers (see Chart 12). This policy has widened the gap between declining labour-costs for employers and falling net-wages for the low-skilled workers.

Chart 12

Distribution of workers by wages in number of SMIC, 2008



Source: Goarant, Muller (2011)

The evaluation of labour-cost policies fuelled a controversy over each of the three arguments mentioned earlier. As regards competitiveness, the underrepresentation of minimum wage earners in competitive sectors explains the reason why an official report highlighted that tax exemptions on labour benefited mostly the service sector that does not face international competition directly, a real godsend according to *Liaisons sociales* 2006. Meanwhile, the competitive sectors such as the manufacturing industries did not seem to benefit much from it. Moreover, the reduced social contribution taxes provisioned by the 35-hour law have fully offset the cost of its application, which has a neutral effect on competitiveness (not a negative one). At last, these policies do not promote qualifications as being a source of competitiveness.

In terms of employment, no evidence supports the argument of decreasing unemployment in the sheltered sectors. Besides, the labour cost policies did not improve the mobility of low-skilled workers (Lhommeau & Rémy, 2009), while triggering a downward spiral for the median wage.

Conclusion

The role of statutory minimum wage in France has undergone profound changes as the socio-economic environment evolved around it. In the former years of rapid economic growth, a powerful system of sector-level collective bargaining spread the sharp increases of minimum wage from one branch of activity to the other, from one firm to the others. 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 minimum wage is the last social shield of labour standards. Given the tremendous decline in sector-level agreements, the SMIC represents a gravitational pull for whatever minimum is negotiated in professional fields. It results in a downward pressure on the lower bound of the wage distribution (a growing share of minimum wage 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. Is the French minimum wage still a powerful tool improving the standards of living through incentives to adjust qualifications and productivity gains, or has it helped legitimize the low-paid jobs offered in many companies?

References

Amossé T., Flocco G., Lefèvre J., Pernot J.M., Petit H., Rey T., Tallard M. Tuchszirer C., Vincent C. (2001), *Les organisations patronales. Continuités et mutations des formes de représentation du patronat*, IRES, Noisy.

Acoss (2010), "En 2009, les exonérations diminuent sous l'effet de la crise économique", *Acoss Stat* n°118, décembre 2010.

Aeberhardt R., Pouget J., Skalitz A. (2007), "Le revenu salarial et ses composantes, évolution et inégalités de 1978 à 2005", in Insee (2007).

Amar M. (2010), "Les très hauts salaires du secteur privé", *Insee Première*, n°1288, avril.

Amar M., Prost C. (2011), "Les évolutions de l'emploi et des salaires depuis 1990", in Insee (2011).

Ananian S.,Calavrezo O. (2010), *Les trajectoires salariales des individus payés au voisinage du Smic entre 1995 et 2007*, document d'étude Dares n°156, novembre 2010.

Atkinson A. B., Piketty T. (2010), *Top Incomes, A Global Perspective*, Oxford University Press.

Atkinson A.B., Piketty T. (2007), *Top Incomes over the 20th Century, A Contrast between Continental European and English-Speaking Countries*, Oxford University Press.

Bayet A., Julhès M. (1996), "Séries longues sur les salaires", *Insee Résultats* n°457, Série Emploi-Revenus, avril.

Bozio A., Dauvergne R., Fabre B., Goupille J. & Meslin O. (2012), *Fiscalité et redistribution en France, 1997-2012*, Institut des Politiques Publiques, Rapport, mars.

Caroli E., Gautié J., dir. (2009), *Bas salaires et qualité de l'emploi : l'exception française ?*, Cepremap.

Casali S., Alvarez-Gonzalez V. (2010), "17% of full-time employees in the EU are low-wage earners", Eurostat, *Statistics in Focus*, 3/2010.

Castel N., Delahaie N., Petit H. (2012), "La négociation salariale au prisme des politiques de rémunération en France", *La Revue de l'Ires,* n°70.

Chaput H., Luu Kim K.-H., Salembier L., Solard J. (2011), "Les inégalités de patrimoine s'accroissent entre 2004 et 2010", *Insee Première*, n° 1380, novembre.

Conseil Supérieur de l'Emploi, des Revenus et des Coûts (1999), *Le SMIC, salaire minimum de croissance*, La documentation Française.

Cunningham W. (2007), *Minimum Wages and Social Policy, Lessons from Developing Countries*, The World Bank.

Friez A., Julhès M. (1998) : "Séries longues sur les salaires", *Insee Résultats*, Emploi-Revenus, n° 136.

Goarant C., Muller L. (2011), "Les effets des hausses du Smic sur les salaires mensuels dans les entreprises de 10 salariés ou plus de 2006 à 2009", in Insee (2011).

Godechot O. (2011), "Finance and the rise in inequalities in France", Paris School of Economics, *Working paper* 2011-13.

Godechot O. (2007), *Working rich. Salaires, bonus et appropriation du profit dans l'industrie financière*, La Découverte, Paris.

Hoeller, P. et al. (2012), "Less Income Inequality and More Growth – Are They Compatible?: Part 1. Mapping Income Inequality Across the OECD", OECD Economics Department Working Papers, No. 924, OECD Publishing. http://dx.doi.org/10.1787/5k9h297wxbnr-en

Insee (2005), *Les salaires en France*, Insee, édition 2005.

Insee (2007), *Les salaires en France*, Insee, édition 2007.

Insee (2008), *Femmes et Hommes. Regards sur la parité*, Insee, édition 2008.

Insee (2010), *Les revenus et le patrimoine des ménages,* Insee, édition 2010.

Insee (2012), *Emploi et Salaires,* Insee, édition 2012.

Koubi M., Lhommeau B. (2007), "Les effets de diffusion de court terme des hausses du Smic dans les grilles salariales des entreprises de dix salariés ou plus sur la période 2000-2005", in Insee (2007).

L'Horty Y. (2009), "Des hausses du Smic en trompe-l'œil entre 1999 et 2006", *Connaissance de l'emploi*, n°43, Centre d'Études de l'Emploi, juin.

Lagarenne C., Lamarche P. (2008), "L'usage des contrats de travail", in INSEE (2008), *L'emploi, nouveaux enjeux - Édition 2008*, INSEE Références.

Landais C. (2007), *Les hauts revenus en France (1998-2006) : une explosion des inégalités ?*, Paris School of Economics, juin.

Landais C., Piketty T., Saez E. (2011), *Pour une révolution fiscale, Un impôt sur le revenu pour le XXIe siècle*, Éditions du Seuil et La République des Idées.

Lhommeau B., Rémy V. (2009), "Les politiques d'allégements ont-elles un effet sur la mobilité salariale des travailleurs à bas salaires ?", *Economie et statistique* n°429-430.

Liaisons sociales (2006*), "*La Cour des comptes critique la politique d'allégements de charges", 4 septembre.

Meurs D., Ponthieux, S. (2006), "L'écart des salaires entre femmes et hommes peut-il encore baisser ?", *Economie et statistique* n°398-399.

Neumark D., Schweitzer M., Waszcher W. (2004), "Minimum Wage Effects throughout the Wage Distribution", *The Journal of Human Resources*, University of Wisconsin Press, XXXIX, 2.

OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD Publishing.

OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, OECD Publishing.

Piketty T. (2001), *Les hauts revenus en France au XXè siècle, Inégalités et redistributions, 1901-1998*, Grasset.

Ponthieux S. (2010), "In-work poverty in the EU", Eurostat Methodologies and working papers.

Rassu, F. (1993), "Salaires minima garantis et refonte des classifications de branches", *Dossiers statistiques du travail et de l'emploi*, n°87, Ministère du Travail, de l'Emploi et de la Formation Professionnelle, février.

Solard J. (2010), "Les très hauts revenus : des différences de plus en plus marquées entre 2004 et 2007", in Insee (2010).

Wolff L. (2008), "Le paradoxe du syndicalisme français, un faible nombre d'adhérents, mais des syndicats bien implantés" *Premières synthèses*, n° 16.1, avril.