5. France: Towards the end of an active minimum wage policy?

Jérôme Gautié*

5.1 INTRODUCTION: THE MINIMUM WAGE CONTEXT

Since its reform in the early 1970s,\(^1\) the minimum wage, known since then as the SMIC ("salaire minimum interprofessionnel de croissance" – "interprofessional index-linked growth minimum wage") has played a crucial role in French wage setting institutions, along with the legal extension of collective agreements, another key pillar of the system. It has increased significantly since the beginning of the 1970s, in both real and relative terms. This may be crucial in understanding why France has not experienced an increase in wage inequalities during the past three decades, in contrast with Anglo-Saxon countries, such as the United Kingdom (until the 2000s) and the United States (where workers at the bottom of the wage distribution have experienced a fall in earnings), and also with Germany, where the share of low-wage workers has increased dramatically since the end of the 1990s (Bosch and Weinkopf, 2008).

One consequence of this is that France may be one of the countries to which the "penniless/jobless" trade-off analysed by Paul Krugman (1995) in the mid-1990s applies. Indeed, unemployment has been high and persistent over the last 25 years, and many have pointed out the potential role of high labour costs, emphasizing that France suffers from a job deficit in activities particularly characterized by low-skilled work, such as personal and household services. To counteract the potential negative impact of the SMIC on employment, several policies have been adopted since the mid-1990s, from reductions in general employers' social contributions to targeted tax credits to promote

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1. A first minimum wage had been introduced in 1950, the "SMIG" (salaire minimum interprofessionnel garanti), which was indexed only to inflation from 1952.
the consumption of household services. But the political choice was made not to decrease the earnings of the workers at the bottom of the wage distribution, and defended by all subsequent governments, regardless of their political orientation. This choice concerned not only hourly earnings (the SMIC being defined on an hourly basis), but also monthly earnings, as illustrated by the major hikes in the hourly rate at the beginning of the 2000s to compensate for the reduction in weekly working time (from 39 to 35 hours).

Despite the strong social consensus on the SMIC, the debate on its role in the French wage-setting system remains lively at the end of the 2000s. There is some evidence that the SMIC may have contributed to the weakening of the social dialogue on wages, bargaining over low wages being "crowded out" by the very active minimum wage policy. Revitalizing wage bargaining is becoming a priority in a country in which the bottom levels of pay scales in many branch collective agreements are below the SMIC and therefore not enforced. Some progress has been made in that respect since the mid-2000s.

In Section 5.2 the wage fixing mechanisms and minimum wage coverage are detailed, while Section 5.3 covers the development of the minimum wage within the global income context. Section 5.4 analyses the impact of the minimum wage on the French labour market and, more specifically, on vulnerable workers. Section 5.5 focuses on the interplay between the minimum wage and collective bargaining, and is based on two case studies.

5.2 MINIMUM WAGE FIXING MECHANISMS AND COVERAGE

5.2.1 Definition and fixing mechanisms

The SMIC is defined on an hourly basis. To comply with the law, hourly compensation must not be below the SMIC level. But the compensation taken into account here – which could be called the "reference" compensation – is not the total compensation: tips and in-kind earnings are included, but "bonuses" and "premiums" of different kinds are excluded – for example, seniority premiums and bonuses to compensate for working conditions (overtime, night work, working in a cold or hot environment, and so on); earnings from profit-sharing schemes are also excluded. As we shall see in Section 5.5, the definition of what is included in and what is excluded from the "reference" compensation is the subject of legal dispute.

The level of the SMIC is determined by two kinds of mechanism. The first kind may be labelled "automatic"; it insures the index link to inflation and growth (more precisely, wage growth):
• Every time the consumer price index (CPI) rises by at least 2 per cent, the SMIC is raised by the same percentage, as of the first day following publication of the relevant price index.
• The SMIC must be raised annually by at least half the increase in the purchasing power of blue-collar workers’ basic hourly wage.

The second mechanism is “discretionary”: the law states that every year, after consultation with the National Collective Bargaining Commission (which is in fact merely a formality, see Section 5.5, case study 2), the government sets the new rate by cabinet decree to take effect as of 1 July. The government may grant a higher increase than dictated by the legal requirements fixing the “automatic mechanism” by giving a “coup de poing”, that is, a “boost”. At the end of 2008, a new law was adopted that created a Commission of independent experts (five economists) to render official advice each year on the annual SMIC increase (“coup de poing”), taking into account the economic context. Moreover, from 2010 this increase will take place on 1 January instead of 1 July.

5.2.2 Coverage and incidence

The legal coverage of the SMIC is quite extensive. It is set at national level and covers all sectors except the public sector. Apprentices and some trainees are not covered, and there is a special rate for 16- and 17-year-olds, who can be paid 80 per cent and 90 per cent of the SMIC, respectively, if they have less than six months’ tenure.

Effective coverage differs from the legal kind. Enforcement of the minimum wage is an important issue. Unfortunately, reliable data are not available at the national level to estimate the number of workers who de facto are paid less than the minimum wage. However, industry case studies do provide some evidence. Apart from the undeclared work of illegal immigrants (such as in the construction sector, hotels and restaurants, and so on), unpaid overtime appears in many sectors to be the most common way of circumventing the legal hourly minimum wage, for instance in the retail sector (Askénazy et al., 2008a) or the hotel sector (Guégnard and Mériot, 2008).

These de facto violations of minimum wage regulations are facilitated by the low number of labour inspectors in charge of monitoring compliance, and the weakness — and often absence — of trade unions in small and medium-sized

2. There are a few exceptions, with some branches having their own minimum wage (such as hotels and restaurants until 2007).
3. In many cleaning activities, target quotas concerning the number of rooms to be cleaned per day are not feasible in normal hours (that is, when the monthly wage is divided by the actual amount of hours worked, the real hourly rate can be significantly below the minimum wage).
The minimum wage revisited in the enlarged EU

The number and share of minimum wage earners among employees in general is published every year by the Ministry of Labour. Minimum wage earners are defined as workers whose basic compensation is the SMIC—and who are therefore affected by SMIC increases. The “basic” wage does not include premiums and bonuses, and particularly excludes the seniority premium, which still plays an important role in many branches. As a result, the effective (total) hourly compensation of many so-called minimum wage earners is well above the hourly SMIC. For instance, in 2002 the hourly earnings of 26 per cent of minimum wage earners were at least 30 per cent above the hourly minimum wage (Seguin, 2006). The specific definition of “minimum wage earners” contributes to explaining why their proportion is so high in France. If we take all employees except apprentices, public sector employees, agricultural employees, temporary agency workers and domestic services workers into account, this proportion reached a peak in 2005 (16.3 per cent), before decreasing to about 13 per cent in 2007 (Figure 5.1). The variations from one year to another are directly connected to the annual increases of the SMIC:

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4. The unionization rate in the private sector is about 5 per cent in the mid-2000s—the lowest among OECD countries.
5. If only the workers who earn exactly the minimum wage were taken into account (such as in the United Kingdom, for instance, in the Eurostat data), the proportion would be much lower.
when the increase is important (as from 2003 to 2005), a number of workers are "caught up" by the SMIC, and the share of minimum wage earners increases automatically (see below). When the SMIC rise is small (as in 2006–07) the share decreases.

The proportion of minimum wage earners varies widely according to size of firm and is higher among part-timers: in 2007, 28.7 per cent of total staff (44.7 per cent of part-time staff) of firms of fewer than 10 employees were minimum wage earners, in contrast to only 5.5 per cent (20.2 per cent of part-timers) of the employees of firms with 500 or more employees.⁶

5.3 MINIMUM WAGE DEVELOPMENTS WITHIN NATIONAL WAGE AND INCOME TRENDS

5.3.1 A significant increase in the hourly rate during 1997–2005

Since 1995, the hourly SMIC has risen by almost 50 per cent in nominal terms, a little less than 25 per cent in real terms (see Figure 5.2, Table 5.1). These increases result from both the automatic and "discretionary" mechanisms (see Section 5.2.1). The size of the annual "coup de pouce" is an indication of the policy pursued by the government. The striking fact is that discretionary increases have played a crucial role since 1997, to a much greater extent than during the previous ten years (1986–96).

![Figure 5.2 Increases in the hourly minimum wage, France, 1995–2007 (1995=100)](image)

6. These data include all employees (except apprentices, public sector employees, agricultural employees, temporary agency workers and domestic services workers).
The minimum wage revisited in the enlarged EU

Table 5.1 Minimum wage, France, 1995–2008 (July of each year)

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<td>gross (€)</td>
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<td>6.01</td>
<td>6.13</td>
<td>6.21</td>
<td>6.41</td>
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<td>8.27</td>
<td>8.44</td>
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<td>108.7</td>
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<td>113.7</td>
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<td>each year)</td>
<td>100</td>
<td>102.3</td>
<td>103.3</td>
<td>104.1</td>
<td>104.5</td>
<td>106.3</td>
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<td>112.4</td>
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<td>119.2</td>
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<tr>
<td>gross (€)</td>
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<td>5.89</td>
<td>5.94</td>
<td>6.03</td>
<td>6.15</td>
<td>6.19</td>
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<td>6.87</td>
<td>7.00</td>
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<td>103.2</td>
<td>104.4</td>
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<td>106.9</td>
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<td>121.8</td>
<td>123.0</td>
<td>124.1</td>
<td>123.8</td>
</tr>
</tbody>
</table>

Source: Author’s calculations from INSEE data.

The left-wing government, in power between 1997 and 2002, is part of the explanation, but, beyond the government’s generosity, the laws on the reduction of weekly working time (the so-called “Aubry laws I and II on 35 hours”, named after the then Minister of Labour), which were adopted in 1997 and 1998, played a crucial role. The choice was made not to decrease monthly compensation – despite a reduction of around 11 per cent in monthly working time, from 169 hours (for a 39-hour week) to 151.67 hours (for a 35-hour week). However, since 2006, minimum wage moderation has prevailed: the “coup de pouce” was very low in 2006 and completely absent in 2007 and 2008. In July 2008, the monthly gross hourly minimum wage amounted to €8.71.

5.3.2 A stable minimum wage to average wage ratio despite working time reduction

Even if the increase in the minimum wage over the past ten years may seem significant, in fact it was no greater than the increase in the hourly average wage during the period (see Figure 5.3). The hourly minimum wage to average wage (of full-time workers) ratio remained more or less constant between 1998 and 2006. After a fall from 49.4 per cent in 1998 to 45.1 per cent in 2002, it jumped back to 49.1 per cent in 2006 as a result of the rapid increase in the average wage (following big hikes in the SMIC in 2003–05 to compensate for the working-time reduction). The stability of the minimum wage to average wage (gross hourly) ratio means that the increase in the hourly purchasing power of minimum wage earners was more or less de facto indexed to the increase in the hourly purchasing power of the average (full-time) worker in the private sector.

As for monthly wages, the global trend was more or less the same, but the evolution for each worker depended on the evolution of their weekly working
France

Figure 5.3 Gross hourly wages, France, 1998–2006 (in current €)

Table 5.2 Monthly average wage (AW), median wage (MeW) and monthly minimum wage (MW) ratios, France, 1995–2007*

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</thead>
<tbody>
<tr>
<td>AW (nominal) monthly gross (€)</td>
<td>1,980</td>
<td>2,070</td>
<td>2,110</td>
<td>2,080</td>
<td>2,090</td>
<td>2,140</td>
<td>2,190</td>
<td>2,320</td>
<td>2,380</td>
<td>2,440</td>
<td>2,520</td>
<td>2,580</td>
<td>2,660</td>
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<td>106.6</td>
<td>105.3</td>
<td>105.8</td>
<td>108.2</td>
<td>110.9</td>
<td>117.3</td>
<td>120.1</td>
<td>123.4</td>
<td>127.2</td>
<td>130.6</td>
<td>134.4</td>
</tr>
<tr>
<td>AW (real) monthly gross (€)</td>
<td>1,980</td>
<td>2,020</td>
<td>2,040</td>
<td>2,001</td>
<td>2,003</td>
<td>2,010</td>
<td>2,020</td>
<td>2,200</td>
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<td>2,120</td>
<td>2,150</td>
<td>2,170</td>
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<tr>
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<td>100.0</td>
<td>102.1</td>
<td>103.1</td>
<td>101.1</td>
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<td>107.3</td>
<td>108.8</td>
<td>109.5</td>
<td>111.6</td>
</tr>
<tr>
<td>MeW (nominal) monthly gross (€)**</td>
<td>1,640</td>
<td>1,670</td>
<td>1,710</td>
<td>1,700</td>
<td>1,703</td>
<td>1,730</td>
<td>1,760</td>
<td>1,870</td>
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<td>2,020</td>
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<tr>
<td>MW (39h)/AW</td>
<td>0.43</td>
<td>0.42</td>
<td>0.43</td>
<td>0.45</td>
<td>0.45</td>
<td>0.46</td>
<td>0.46</td>
<td>0.47</td>
<td>0.48</td>
<td>0.49</td>
<td>0.49</td>
<td>0.48</td>
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<tr>
<td>MW (35h)/AW</td>
<td>0.50</td>
<td>0.50</td>
<td>0.50</td>
<td>0.50</td>
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<td>0.50</td>
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<td>0.54</td>
<td>0.54</td>
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<tr>
<td>MW (39h)/MeW</td>
<td>0.58</td>
<td>0.59</td>
<td>0.60</td>
<td>0.61</td>
<td>0.62</td>
<td>0.63</td>
<td>0.64</td>
<td>0.64</td>
<td>0.66</td>
<td>0.67</td>
<td>0.68</td>
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<td>0.68</td>
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<tr>
<td>MW (35h)/MeW</td>
<td>0.52</td>
<td>0.53</td>
<td>0.53</td>
<td>0.55</td>
<td>0.55</td>
<td>0.56</td>
<td>0.57</td>
<td>0.57</td>
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<td>0.60</td>
<td>0.61</td>
<td>0.61</td>
<td>0.61</td>
</tr>
</tbody>
</table>

Notes: * The average wage (AW) and median wage (MeW) are full-time equivalent. Data from the DADS database, which is built using compulsory employers’ reports. It covers all workers in the private sector and in state-owned companies belonging to the competitive sector, but does not cover the public non-competitive sector nor household services. ** From 1999: authors’ calculations from wages net of social contributions published by INSEE (median gross wage series ended in 1998).

Source: Author’s calculation from INSEE data.
time during the period. In some cases, the firms impacted by the 35-hour legislation decided to maintain the previous 39-hour working week (on an annual basis). They therefore had to pay four hours’ overtime, that is, 25 per cent higher than the normal rate since 2007. In this case, the full-time (39-hour) monthly minimum wage to average wage ratio is even higher than indicated in Table 5.2 (the ratio being calculated for a 39-hour working week and an hourly SMIC at the normal – rather than the overtime – rate from 2000). As for the minimum wage to median wage ratio, it increased during the same period in both hourly and monthly terms, as the increase in the median wage was lower than the increase in the average wage.

5.3.3 The minimum wage and income distribution

**Minimum wage and the labour share: is there a link?**

Since the beginning of the 1990s, the labour share for the whole economy (independent workers excluded) has been quite stable following the major changes of the previous period. From 1974 to 1982, the labour share increased by about 5 percentage points, before collapsing during the following six years with a fall of about 8 percentage points (Figure 5.4).

There is no obvious correlation between the development of the minimum wage and that of the labour share – especially since the end of the 1990s the minimum wage has increased notably, while the labour share has remained more or less unchanged.

![Figure 5.4 Labour share for the whole economy, France, 1960–2006 (independent workers excluded) (%)](image)

*Figure 5.4 Labour share for the whole economy, France, 1960–2006 (independent workers excluded) (%)*

*Note: Author’s calculation from INSEE data (labour share = labour income (independent workers excluded) / [labour income (independent workers excluded) + capital income]).*
Impact on wage disparity

The relatively high value of the SMIC (compared to the median or average wage) may contribute to explaining why the wage inequalities (measured by the ratios D9/D1 and D5/D1) are less important in France than in countries such as the United States or the United Kingdom.

In the long run – that is, from the end of the 1950s to the end of the 1990s – there is a clear correlation between the evolution of the minimum wage/average wage ratio and the evolution of wage inequalities. From 1950 to 1968, wage disparity grew to reach a record high level (the D9/D1 ratio amounting to more than 4, among the highest levels in OECD countries). One reason for this growth was that the minimum wage during this period (the “SMIG”) was only indexed to inflation. The minimum wage/average wage ratio increased significantly from the end of the 1960s – following the large increase in the minimum wage after the events of 1968 (mass rallies of students and workers), and the introduction of the SMIC in 1970 – to the beginning of the 1980s, when a policy of wage moderation began to be implemented. During the same period, the D9/D1 ratio collapsed symmetrically (see Figure 5.5). These trends mainly derive from the (partial) indexation of the SMIC to the blue-collar average wage, but above all from an active policy implemented through the “coups de pouce”.

![Figure 5.5 The minimum wage and wage disparities (D9/D1), France, 1959–99](image_url)

Scope: Full-time dependant workers; from INSEE DADS database (see table 3).
Source: Atkinson et al. (2001).
Wage inequalities in the private sector have decreased slightly since the end of the 1990s, with the D9/D1 ratio (of wages net of social contributions, equivalent full-time) falling from about 3.1 to 2.9, and the D5/D1 ratio from about 1.6 to less than 1.5, whereas gender inequality has remained stable (see Table 5.3). It is not easy to disentangle the effects of the numerous factors that can affect wage inequalities. We can assume that the minimum wage increases since the end of the 1990s may have contributed to the slight wage compression witnessed during the period.

Table 5.3 Wage inequalities, France, 1995–2007 (full-time employees)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages D5/D1*</th>
<th>Wages D9/D1*</th>
<th>AW of women</th>
<th>AW of men**</th>
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<tr>
<td>1995</td>
<td>1.55</td>
<td>3.00</td>
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<tr>
<td>1996</td>
<td>1.50</td>
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<td>1.50</td>
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<td>0.81</td>
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<td>2003</td>
<td>1.47</td>
<td>2.97</td>
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<td>2004</td>
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<td>2005</td>
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<td>2007</td>
<td>1.47</td>
<td>2.92</td>
<td>0.82</td>
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</tbody>
</table>

Notes:
* From 1999, ratios are calculated for wages net of social contributions.
** Full-time equivalent.

Source: Author’s calculations from INSEE DADS database (see table 3).

5.4 MINIMUM WAGE EFFECTS

5.4.1 Impact on low wages and poverty

Assessing the spillover effect and the effect on wage compression at the bottom of the wage distribution

As noted in the previous section, the D5/D1 ratio has tended to decrease in recent years; the minimum wage increases may have been the driving factor.

This “wage compression” effect depends directly on the “spillover” effect of minimum wage hikes. More precisely, if an $x$ per cent increase in the minimum wage induces the entire wage structure to ratchet up by the same amount (that is, by $x$ per cent), the spillover effect is $100$ per cent – and therefore the “wage compression” effect is null.

Koubi and L’Hommeau (2007) give an estimation of the spillover effect for the period 2000–05, analysing the pay scales of a representative sample of firms with ten employees or more. In the short term (three months), there is some spillover, up to a wage level equivalent to twice the SMIC. The elasticity is particularly high for wages just above the SMIC: a 1 per cent SMIC increase induces about a 0.38 per cent increase for wages between 1 and 1.1 SMIC, and almost 0.20 per cent for wages between 1.1 and 1.2 SMIC. After a year, the spillover is almost 100 per cent between 1 and 1.1 SMIC (that is, a 1
per cent increase in the SMIC produces a 1 per cent increase in wages below 1.1 SMIC), and decreases while going up the wage scale, but is still about 7 per cent between 1.4 and 1.5 SMIC.

The estimation of the spillover is also important in assessing the impact of minimum wage increases on the proportion of minimum wage earners (see Section 5.2.2 above). Major hikes increase the proportion in the short run, but it tends to decrease in the longer term as wages above the previous minimum wage tend to incorporate at least part of the increase. Nevertheless, even if there is some spillover effect, it is far from being 100 per cent on wages below the median. Therefore, there is an element of wage compression.

The impact on the share of low-wage workers
Low-wage workers are usually defined as workers whose hourly compensation is lower than two-thirds of the median hourly wage. The share of low-wage workers is low in France: only about 10 per cent in 2005, if apprentices are excluded (see Askénazy et al., 2008b). The increase in the hourly minimum wage to median wage ratio clearly played a role here as, since the mid-1990s, the minimum wage has tended to converge with the low-wage threshold.7

Minimum wage and poverty
A high minimum wage in relative terms may protect workers from poverty. Indeed, the living standard of a single person working full-time at the minimum wage (net of employees' social contributions and before income tax, though the latter is very low, or even negative, at this wage level) is well above the poverty threshold (see Table 5.4). For instance, in 2005 a full-time worker (35 hours a week) who was single and earning the minimum wage had a living standard 14 per cent higher than the poverty threshold (defined as 60 per cent of the median adjusted living standard).

A member of the so-called “working poor” is someone who has worked for at least a certain period during the year and who is a member of a poor household, that is, a household whose adjusted living standard is below the poverty threshold. In 2004, only 1 per cent of full-time French workers who had worked continuously – that is, without experiencing unemployment – during the previous year were working poor, accounting for about 12 per cent of poor workers (Observatoire des inégalités, 2006).

7. There is a puzzle here. Following the major hikes during the 2000-05 period, the hourly SMIC rose above two-thirds of the median hourly wage in 2005. As a consequence there should have been no low-wage workers in 2005. As a consequence there should have been no low-wage workers in 2005. The 10 per cent estimate is based on the Labour Survey (Enquête Emploi), which contains the responses of workers concerning earnings and working time. There are two potential explanatory factors, which are impossible to disentangle: measurement errors and unpaid overtime (see Section 5.2.2.). Taking all the factors into account, 10 per cent is probably an overestimate.
### Table 5.4 Minimum wage and the poverty threshold, France, 1996–2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Real (2005 €)</th>
<th>Nominal (current €)</th>
<th>Net MW (39h)/60% threshold</th>
<th>Net MW (39h)/50% threshold</th>
<th>Net MW (35h)/60% threshold</th>
<th>Net MW (35h)/50% threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60% threshold</td>
<td>50% threshold</td>
<td>60% threshold</td>
<td>50% threshold</td>
<td>60% threshold</td>
<td>50% threshold</td>
</tr>
<tr>
<td>1996</td>
<td>720</td>
<td>600</td>
<td>1.22</td>
<td>1.47</td>
<td>1.10</td>
<td>1.32</td>
</tr>
<tr>
<td>1997</td>
<td>719</td>
<td>599</td>
<td>1.26</td>
<td>1.51</td>
<td>1.13</td>
<td>1.36</td>
</tr>
<tr>
<td>1998</td>
<td>733</td>
<td>611</td>
<td>1.25</td>
<td>1.50</td>
<td>1.12</td>
<td>1.35</td>
</tr>
<tr>
<td>1999</td>
<td>749</td>
<td>624</td>
<td>1.19</td>
<td>1.48</td>
<td>1.11</td>
<td>1.30</td>
</tr>
<tr>
<td>2000</td>
<td>764</td>
<td>637</td>
<td>1.21</td>
<td>1.45</td>
<td>1.09</td>
<td>1.33</td>
</tr>
<tr>
<td>2001</td>
<td>781</td>
<td>651</td>
<td>1.20</td>
<td>1.45</td>
<td>1.09</td>
<td>1.30</td>
</tr>
<tr>
<td>2002</td>
<td>799</td>
<td>666</td>
<td>1.21</td>
<td>1.44</td>
<td>1.08</td>
<td>1.29</td>
</tr>
<tr>
<td>2003 adjusted</td>
<td>805</td>
<td>671</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>805</td>
<td>671</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>803</td>
<td>669</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>817</td>
<td>681</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** As the poverty thresholds are adjusted disposable incomes (that is, income after income tax and social contributions) the minimum wage has been assumed to be net of social contributions.

**Source:** Author's calculations from INSEE data.
If one takes into account all those persons who engaged in work during the year, the dispersion of their annual work earnings is very wide: $D9 (€30,800 in 2005) is almost 20 times higher than $D1 (€1,580 in 2005). Within this distribution, a minimum wage earner who has worked for 12 months as a full-time worker earns little less than the median remuneration (Bouyoux 2008).

Overall, when working full-time and throughout the year at the minimum wage level, the probability of being “working poor” is quite low. The poverty risk is higher for (most often) involuntary part-timers, whose monthly earnings are lower. Poverty risk is also higher among workers who experience periods without work during the year, in particular among those who alternate periods of employment and unemployment: often, because of insufficient employment records, these workers are not entitled to unemployment benefits – in 2008, only about 60 per cent of job seekers registered at the Public Employment Service received unemployment benefit.

5.4.2 Impact on employment level, structure and quality

Several studies have pointed to the minimum wage as a causal factor in the high incidence of unemployment in France, especially among young people and low-educated workers, due to the deficit in low-skilled jobs. As a result, since the mid-1990s several public policies aimed at decreasing labour costs at low wage levels have been implemented. The concern about the potential impact of the minimum wage on job quality, in terms of wage mobility or working conditions is more recent. Each of these points is, in turn, considered in more detail below.

The minimum wage and the low-skilled jobs deficit

Some studies have evaluated the potential negative impact on employment of the minimum wage. Studies based on time series on macro data failed to find any negative correlation between the minimum wage and employment but, during the 1990s, studies based on individual panel data shed new light on the issue. According to Abowd et al. (1999), if minimum wage hikes have moderate effects on employment in general, they have a much stronger effect on minimum wage workers – especially young workers. In France, a 1 per cent increase in the real minimum wage reduces, during the following year, the employment probability of a man currently employed on the minimum wage by 1.3 per cent and by 1.0 per cent for a woman. This negative impact is found to be significantly higher than in the United States, where the minimum wage is lower.

From the beginning of the 1990s, a quasi-consensus emerged among economists and politicians: the high and persistent rate of unemployment in France was due (at least in part) to a problem of labour demand for low-skilled workers and to a deficit of jobs at the lower end of the wage distribution. Excessive labour costs at low wage levels was singled out as the main culprit. Several
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evaluation studies and reports supported or confirmed this view (Direction de la Prévision, 1998; Piketty, 1999; OECD, 2001). The French employment “deficit” derived mainly from the service sector: according to Glyn (2005), in 1999 the number of hours worked in the “distribution” sector (that is, trade, hotels and catering) per person aged 15–64 in the whole population was 304 in the United States, 239 in the United Kingdom, 217 in Germany and only 175–80 in France and the Netherlands. Overall, household activities appeared to be less “marketized” in France than in many other OECD countries (Freeman and Shettkat 2002).

Fiscal policies to reduce labour costs at low wage levels without reducing the minimum wage

Employment subsidies targeted towards young people have been implemented since the 1970s. Since the beginning of the 1990s, and notably since the “Five year law on employment” (“Loi quinquennale sur l’emploi”) adopted in 1993, a general reduction in employers’ social contributions has been introduced. As emphasized by L’Horty (2007), it was not really an “offensive” strategy to cut the labour costs of low-skilled workers. It was rather a “defensive” strategy, aimed mainly at countering the potential negative impact of increases in the minimum wage. The main point is that the choice was made to reduce labour costs at low wage levels without decreasing the gross wage received by the worker. “Low wages” were then defined as wages below 1.3 SMIC. The scheme has been modified more than ten times since 1993, notably by the introduction of the “working time laws” Aubry I and II, which also included social contribution exemptions. At the beginning of 2008, the maximum wage threshold at which employer’s social contributions reductions were possible was 1.6 SMIC, and the reduction amounts to a maximum of 26 per cent of gross wages at the SMIC level, and decreases progressively to 0 at 1.6 SMIC.

Indeed, the impact of this policy on labour costs was significant. The ratio of labour costs at minimum wage over labour costs at median wage had reverted in 2005 to the level of 1975, erasing almost 30 years of increase in the (gross) minimum wage to (gross) median wage ratio. But, in comparison to other countries, labour costs at minimum wage level are still high in France in absolute terms: even after taking into account social contributions reductions (dotted areas in Figure 5.6) – which exist not only in France, but also in Belgium, Ireland and the United Kingdom – in 2005, labour costs at the minimum wage level (in current euros) in France were the second highest among

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8. The rate is 28.1 per cent if the firm has fewer than 20 employees.
9. The exact formula is: Reduction = coeff × monthly gross compensation (MGC); with coeff = (0.26/0.6) × [1.6 × (monthly SMIC/MGC) − 1]; and coeff cannot be less than 0 or higher than 0.26.
EU countries, after Luxembourg. According to Immervoll (2007), labour costs at minimum wage level as a percentage of average wage labour costs amounted to 39 per cent in France in 2006, compared, for instance, to only 34 per cent in the United Kingdom. Overall, labour costs remain an important concern, as both the Minister of Labour and the Minister of Economic Affairs and Employment stressed at the end of 2007 (Ministres de Travail et de l’Economie, 2007).

Specific measures based on income tax reductions for consumers were implemented to develop household services (care, domestic help, and so on), in the form of the “Chèque Emploi Service” (Employment Service Check), replaced by the “Chèque emploi service universel” (CESU) in 2006.10 This measure seems to have boosted job creation in the sector of household services. About 60 per cent of the almost 190,000 jobs created in 2006 – that is, more than 115,000 – were in household services. However, the great majority were short-term, part-time jobs: of the total number of jobs created only 32,000 were full time jobs (Jany-Catrice, 2008).

10. The scheme relies on a very simplified procedure to employ a person (the ‘cheque/check’ is both a means of payment and a work contract). The user benefits from income tax reduction – 50 per cent of total labour costs (gross wage + employer’s social contribution) can be deducted from income tax, with a maximum of €6,000 (that is, corresponding to a maximum expense of €12,000), plus €1,500 for each child and each member of the household aged above 65.
Overall, all the policies implemented since the mid-1990s seem to have impacted employment at low wage levels positively and significantly. While the share of low-skilled employment was decreasing until the mid-1990s, it has since stabilized and even increased slightly. But the cost is high: in 2007, a total of €20 billion was allocated to employers’ social contribution reductions (without taking into account targeted employment subsidies), that is, more than 1 per cent of GDP.

The impact on wage mobility: a low-wage trap?

In order to assess the impact of the minimum wage on vulnerable workers, it is necessary to estimate the impact not only on their current wage, but also on their wage over the whole lifecycle. Indeed, a higher “entry” wage may be (at least partially) offset by a flatter wage profile. Employers would agree to pay more when hiring, but would get a “payback” by increasing wages less than the productivity increase during the following years. It is not easy to obtain solid empirical evidence on this point. Where basic wages are concerned (that is, without taking into account any seniority premium), wage profiles appear to be relatively flat at low wage levels in France, and particularly for many minimum wage earners. According to Seguin (2006), in 2002, more than 25 per cent of minimum wage earners working in firms with ten or more employees had at least ten years’ tenure. This means that their basic wage had been “stuck” at the minimum level since they were hired. Factors other than the minimum wage may play a role here; the first being the low accumulation of human capital in low-skilled jobs, that is, the low (if any) increase in workers’ productivity.

In a more dynamic perspective, the increase in the relative value of the minimum wage (when compared to the average or median wage) may have had a negative impact on wage mobility. According to Fougeré and Kramarz (2001), wage mobility – measured by the transitions rate of workers from a lower to a higher decile in the wage distribution – decreased notably between the end of the 1960s and the beginning of the 1980s, in parallel with the sharp increase in the SMIC to average wage ratio during the same period. The correlation is strong, but the causality remains to be proven.

For the more recent period (since the mid-1990s), policies to alleviate labour costs at low wage levels (see Section 5.4.1) may also have increased the “low-wage trap” risk. Indeed, because the social contribution reduction decreases as the gross wage increases, the cost of increasing the gross wage by $x$ per cent may increase the employer’s labour costs considerably more than $x$ per cent.11 Similarly, when a worker’s wages are “caught up” by a minimum

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11. At the beginning of 2008, applying the formula of reduction presented in note 9, a 10 per cent increase in the gross wage from the SMIC level induces a 14 per cent increase in labour costs.
wage increase (that is, their wage was above the previous minimum wage level and not superior to the new minimum wage level), the social contribution reduction increases for the employer, and can even lead to a decrease in the total labour costs of the worker (see L'Horty, 2000). This acts as an incentive for the employer to limit the spillover effect (that is, not to increase the wages of workers “caught up” by the minimum wage). According to L’Hommeau and Rémy (2008), since the end of the 1980s the social contributions reductions have impacted negatively on the monthly wage increases of workers at the bottom of the wage distribution (that is, earning less than 1.3 minimum wage), and have therefore contributed to the low-wage trap.

**What impact on working conditions?**

France has record high hourly labour productivity, when compared to other OECD countries.¹² The high relative value of the SMIC may be one of the factors that induced employers to adopt more capital-intensive processes, associated with “lean production”. When comparing some industries in France and the United Kingdom – such as food processing (Caroli et al., 2009) – French firms seem to rely more not only on automation, but also training and multiskilling than their British counterparts. However, other factors than the level of the minimum wage may play a role, such as an enhanced degree of employment protection legislation, which offers an incentive to use more functional flexibility, requiring higher skills.

Another way to increase productivity is to push for work intensification. There is some evidence that work intensification has been very important in France during the past 20 years (see Askenazy, 2004; Caroli et al., 2008). The increase in labour costs at low wage levels induced by the SMIC may also be an explanatory factor. In the United Kingdom, research done for the Low Pay Commission indicates that some minimum wage recipients have had to work harder to “justify” their higher wages, while in some cases other monetary rewards, such as bonuses, have been reduced (Denvir and Loukas, 2006). This may have happened in France too, but no empirical evidence is available to that effect.

Overall, the impact of the minimum wage on working conditions – a key dimension of employment quality – may be rather mixed; more empirical evidence is needed on this topic to enable accurate conclusions to be drawn.

¹² According to Bourles and Cette (2005), at the beginning of the 2000s, as a percentage of US productivity, hourly labour productivity in France amounted to 113, well above the Netherlands (102), Denmark (94), Germany (93) and the United Kingdom (79). Estimates at the two-digit industry level by Mason et al. (2007) show that both hourly productivity and capital intensity (measured respectively by the average value added per person/hour and the relative physical capital per hour worked in 2002) are higher in France than in the United Kingdom and Germany – and even the United States – in sectors that are intensive in low-skilled work (such as textiles, clothing and leather goods, retail, hotels and catering).
5.4.3 The minimum wage and collective bargaining: boosting or crowding out?

Whereas, in “coordinated market” economies collective bargaining is predominant and there is no legal national minimum wage (as in Denmark, Germany or Sweden, for instance), in both liberal market economies (such as the United States or the United Kingdom), and “state led” economies (such as France), there is such a statutory minimum wage. The weakness of collective bargaining in those countries may appear to be the main reason for its introduction, a legal minimum wage appearing as a necessary substitute. But, conversely, a high minimum wage and a very active minimum wage policy – as witnessed in France during the past decade – may contribute to “crowding out” collective bargaining over low wages.

Aghion et al. (2008) have developed the “crowding out” hypothesis in both theoretical and empirical work. They have constructed – from ILO and OECD databases – an index of the degree of state regulation of the minimum wage, intending to measure the degree of constraint that binds collective and individual wage bargaining. They find a negative correlation between the minimum wage index and both the unionization rate and the quality of labour relations. It must be noted that France has – by far – the highest minimum wage index, the lowest unionization rate and the lowest index of “cooperative labour relations”. One might think that these correlations are not very surprising. In countries where, for historical reasons, labour relations tend to be poor and unions to be weak, a legal minimum wage has been introduced as a substitute for effective collective bargaining, as mentioned above. However, Aghion et al. argue that the causality may be the other way round: state regulation may crowd out the possibility for workers to experiment with negotiations and learn about the true cooperative nature of participants in the labour market, and may lead to a “bad” equilibrium, with distrustful labour relations, low unionization and strong minimum wage regulation.

13. The measurement of the stringency of minimum wage legislation takes into account the existence of legal statutory minimum wages and the degree of extension of minimum wages negotiated in collective bargaining, as well as the degree of dispersion in the minimum wage across ages, qualifications, regions, sectors or occupations. In addition to stringency, the index also takes into account the minimum wage level (that is, minimum wage over median wage ratio).

14. The index is based on the responses of a representative sample of executives to the following question in the Global Competitiveness Report survey: “Are labour/employer relations generally cooperative?”; responses may vary from 1 (strong disagreement) to 7 (strong agreement).

15. Aghion et al. find some empirical evidence of this reverse causality in analysis of the diversity of minimum wage legislation between states in the United States: between 1997 and 2007, the states that implemented the highest increases in minimum wages are, on average, those that experienced the highest decrease in the unionization rate.
The fact that many branches have wage levels\textsuperscript{16} in their pay scales which fall below the SMIC level may be an indication of this “crowding out” effect – that is, the fact that there is no incentive to bargain over low wages. This is a crucial issue that will be addressed in case study 1 below. As we will see, the interplay between state regulation and collective bargaining over low wages may in fact be quite complex.

5.5 CASE STUDIES

Case study 1: Low-wage bargaining at industry level and connection with the SMIC

The intensifying debate on the potential crowding out effect of the minimum wage on collective bargaining at the industry level in recent years has prompted the focus of this case study. First, an overview of the low pay levels in the branch collective agreements in France is presented. Then the complex interaction between the SMIC and collective bargaining is illustrated by scrutinizing a branch that has been chosen not because it is representative but, on the contrary, because it is extreme and therefore makes it easier to disentangle the different mechanisms.

This case study was based on interviews with and documentation provided by social partners in the branch under study and members of the Ministry of Labour and Social Affairs in charge of analysing and facilitating collective agreements at the branch level.

Tackling the lowest wage levels under the SMIC in many branch pay scales

Every year, the National Collective Bargaining Commission (NCBC) – which includes representatives of both the state and the social partners (see Section 5.2.1) – scrutinizes the collective wage agreements of all branches and tends to “name and shame” the branches in which the lowest wage levels are below the SMIC, even if the employers’ organizations are reluctant to engage in explicit stigmatization. The work of the NCBC is based on the annual reports provided by the Ministry of Labour on the development of pay scales fixed by branch collective agreements. A total of 274 collective agreements are analysed: 158 branch agreements in the “general sector” (that is, all sectors except the metal industry and construction, building and public works), 68 in the metal industry and 48 national agreements at national level (for executives

\textsuperscript{16} Pay scales are usually based on a job evaluation scheme that classifies all the jobs in a category of occupations; each category is allocated a wage level – that is, the minimum wage that must be paid to a worker classified in the category.
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and engineers, for instance) or regional level (mainly for the construction, building and public works sector) (Ministère du Travail, 2007). At the beginning of 2005, 84 branches of the “general sector” (that is, about 53 per cent) had at least one wage level in their pay scale below the SMIC (and therefore these wage levels were not implemented and served only to fix some premia, calculated as a percentage of the wage respective level).

This was not a new situation, but the proportion of branches concerned was particularly high that year because many pay levels had been “caught up” by the SMIC which had increased significantly in previous years (see Section 5.3). However, above all, one determining factor was that collective bargaining on low wages was insufficient in these branches, so the government decided to deploy an active strategy. In branches in which social dialogue had failed, the government developed a “State–Social Partners Commission” (Commission Mixte Paritaire), headed by a government representative, acting as a facilitator, to help unions and employers to reach an agreement. Overall, this policy has had some positive results, but they are fragile. In June 2007, 31 branches of the “general sector” (out of 158) still had their lowest wage level below the SMIC. Moreover, after the SMIC increase of July 2007, 60 per cent of branches saw their lowest wage level fall under the SMIC once again.

As a consequence, the government concluded that stronger incentives had to be put in place. Since the end of 2007 there has been an ongoing discussion about introducing a mechanism to make social contribution reductions conditional on bargaining over low wages: firms that maintain wage levels in their pay scale below the SMIC level and fail to reach an agreement on wages may lose part of their reductions in social contributions. The unions favour this policy, and some of them, such as the CGT (Confédération Générale du Travail) are pushing for a quite constrictive mechanism. But others, such as the CFDT (Confédération Française Démocratique du Travail), are adopting a softer approach: “conditionality” must remain an incentive, not an obligation, and must act as a boost for collective bargaining. The main employers’ organization, MEDEF (Mouvement des Entreprises de France), is opposed to any kind of conditionality. Moreover, from its point of view, it is not a problem to have wage levels below the SMIC in a collective agreement because they serve only as points of reference to define some premiums and bonuses. Another argument is that if the lowest wage levels are pushed up to the SMIC level, this will compress the bottom of the wage distribution even further, and have a negative impact on wage mobility.

Another conclusion, however, was that the SMIC itself – not only the collective bargaining process – was part of the problem, as it may “crowd out” collective bargaining (see Section 5.4.3 on the general argument). The government officially raised the issue of whether it would be worth changing its fixing mechanisms at the end of 2007 (Ministres du Travail et de l’Economie, 2007).
Following all these debates, a new law was presented to Parliament at the end of 2008. The fixing mechanisms of the SMIC are maintained, but a new Commission of independent experts has been created to give official advice on the annual increase in the minimum wage (see Section 5.2.1). A conditionality mechanism for reductions in the employers' social contributions has also been introduced; firms that do not annually negotiate on wages can lose up to 10 per cent of their reductions.

The reduction in the social contribution rate (as a percentage of wages) should no longer be based on the SMIC, but instead on the minimum wage level appearing in the collective agreement pay scale. As a result, even if not implemented, a pay level under the SMIC should decrease the social contributions reduction of the relevant firm.

An illustration of the failure of bargaining over low wages: the case of the “Big Stores and Popular Stores” branch

Why does a branch have – and, moreover, maintain over a long period – wage levels below the SMIC? And what is the exact responsibility of the SMIC itself in this situation? To try to answer these questions (after discussions with the members of the Ministry of Labour in charge of analysing the branch collective agreements) it was decided to focus on a particularly illustrative example, the “Big Stores and Popular Stores” (BSPS) branch. This branch covers only a small fraction of the retail sector (with about 43,000 employees and about 320 firms, with five big groups employing more than 90 per cent of employees). It covers big, inner-city stores, some of them created in the nineteenth century and quite famous, such as “Printemps” and “Galeries Lafayette”. The branch does not include the big retail chains such as Carrefour, which were created after the Second World War and are located outside the inner cities because of their size and the somewhat restrictive regulations on the location of supermarkets in France. It is important to bear in mind that, in contrast to the big retailers, only a small share of BSPS activity concerns food. As a result, BSPS have a large sales staff and they are notably more “labour intensive” and consequently care more about labour costs (and therefore the SMIC) than big retailers (see Askénazy et al., 2008a). Most employees set their basic wage (that is, before adding premiums and bonuses) at the SMIC level.\(^\text{17}\)

The BSPS is interesting, not because it is representative of the retail sector but, on the contrary, because it is, in a way, an extreme case: while trade unions and employers’ organizations are represented at the branch level, there has not been a general agreement on the job evaluation scheme and corresponding wage levels for ten years. As a result, at the beginning of 2008

\(^{17}\) There are no data at the branch level on the exact proportion of minimum wage earners.
all the branch collective agreement wage levels of blue-collar workers and employees in general were below the SMIC, and therefore not implemented. The affected workers therefore earned the SMIC, and could only benefit from premiums and bonuses (if any) in the collective agreements of their firms.

In 2000, the government introduced a “State–Social Partners Commission” (Commission Mixte Paritaire) for the branch (see the previous sub-section) headed by a member of the Ministry of Labour – who was interviewed for this case study – in order to facilitate the social partners’ dialogue.

The origin of the crisis dates back to 1998. During that year, the employers’ organization at branch level and most of the big firms in the branch decided to reject the existing collective agreement. There were two main reasons: first, the job evaluation scheme relied on a fairly rigid definition and classification of jobs, which, as a result of new technologies and new consumer habits, no longer corresponded to what workers actually did, for instance, “salesperson” and “cashier” in clothing departments were classified as two separate jobs, whereas in many stores workers were required to fulfil both functions; second, wage fixing was considered too rigid. The employers wanted to abolish the seniority premium, which was considered too costly, and introduce a more performance-related form of compensation. They also wanted to “annualize” compensation, that is, to bargain over global compensation (including all premiums) on an annual basis, and to define wage levels in the pay scale on this basis – whereas wage levels were previously defined as basic wages (that is, excluding premiums), on a monthly basis.

How was a branch able to function for a whole decade without a general agreement on the job evaluation scheme and pay scales? One reason is that the overwhelming majority of workers are employed in five big groups in which collective agreements at enterprise level are usually more generous than the branch agreement.

However, the SMIC may also have played a role here. During the period in question, the hourly SMIC increased significantly (see Section 5.3) and, as a consequence, on both sides the incentive to bargain over low wages was weak, as the agreed pay levels at the bottom of the wage scales were constantly “caught up” by the SMIC. As the employers’ representative at the branch level put it: “we are incessantly being pushed around by the SMIC”. But the big hikes in the SMIC are also a key factor in understanding the pressure exerted by employers to change the compensation system in order to limit the increase in labour cost and the resulting opposition from the trade unions, which

18. In the “Big Stores” (“Popular Stores” were in a separate branch at that time), in 1998 the premium amounted to €132.38 a month for 20 years’ seniority, whereas the gross monthly SMIC amounted to €1,036.
19. “On est sans cesse bousculé par le SMIC.”
France

defended the seniority premium and were strongly opposed to “annualization”. Because of the strong divergence between the social partners it was impossible to reach an agreement.

If the employers’ organization puts forward the SMIC as a destabilizing factor in the bargaining process and the compensation system, the trade unions have a quite different view. They acknowledge that the pressure put on wages by employers is partly due to the SMIC increases,20 but they argue that the SMIC is a crucial tool in protecting the lowest paid employees. Indeed, unions are rather weak at company level in this branch (as in many others in France) and, as a consequence, their bargaining power is very limited. The SMIC does, indeed, crowd out agreements on wage levels, but agreements that would be much less favourable to the workers. In this sense, the SMIC can be viewed as a compensating factor for a deficient bargaining process.

Are the two seemingly opposite views really contradictory? Perhaps not completely: one can acknowledge that a minimum wage is necessary to compensate for the low bargaining power of the least paid workers but at the same time that major hikes and a resulting high level (in relative terms) of the minimum wage may destabilize the compensation system at the bottom of the pay scale. This view is shared by some unions (such as CFDT) which are, of course, in favour of the SMIC, but are also concerned by the potential crowding out effect induced by an overly active minimum wage policy. From this perspective, the SMIC must remain a wage floor, and the social partners have to bargain at the branch and firm levels on wage structure and wage progression. This relates to the more global debate over the role of the SMIC, which is the focus of the next case study.

Case study 2: Social partners’ views on the SMIC: diverging conceptions

Beyond the issue of its impact on branch collective bargaining, how do the social partners view the SMIC? That is the question addressed in this case study, mainly based on interviews with social partners at the national level, and also members of the Ministry of Labour and Social Affairs in charge of analysing collective agreements for the National Commission of Collective Bargaining and incorporating documentation provided by the interviewees. The study focused on the three main social partners at national level: MEDEF, the main employers’ organization; CGT, which has long been close to the Communist Party; and CFDT, which has more Social Democrat/Christian Democrat reformist traditions.

20. One trade unionist stressed that the pressure on compensation at enterprise level had indeed increased notably since 2002-03 — in parallel with the big hikes in the minimum wage (see Section 5.3).
How should the SMIC be defined?
The first strong divergence concerns the very definition of the SMIC. According to MEDEF, since its introduction, court decisions have contributed to excluding a number of important elements from the “reference” compensation which defines the SMIC (see also Section 5.2.1), and therefore have contributed to changing the very nature of the minimum wage.

This point is crucial, if a little technical. The law stipulates that the following should be taken into account: “the hourly wage which corresponds to an hour of effective work, including in-kind earnings and other earnings which are de facto wage complements, and excluding reimbursements for expenses, overpay for overtime hours, and subsidies to cover transportation costs (in the Paris region)”. The notion of “wage complements” (“complements de salaire”) is ambiguous. Legal decisions from both the Ministry of Labour and courts in the past three decades have considered that a “wage complement” is income that is a direct counterpart of the work activity. In addition, many bonuses and premiums are not considered as such: the seniority premium, for instance, is supposed to reward a worker’s loyalty, not a work activity as such. Premiums that compensate for some unfavourable working conditions (night work, cold and heat) have also been excluded because they compensate for some special-negative aspects of the work relationship, and therefore cannot be considered as remunerating a work activity. Moreover, compliance with the SMIC is assessed on a monthly basis and the monthly reference compensation cannot include premiums which are not paid in that way. For instance, in many branches there is an annual premium (often called the “thirteenth month payment”) usually paid in December. The corresponding sum cannot be divided by 12, to be counted as a component of the monthly reference compensations of the 11 other months. It can be included in the “reference” compensation only in December.21

Overall, all these restrictions have important consequences in terms of labour costs, according to MEDEF. They also help us to understand why the total hourly compensation of the great majority of SMIC earners is well above the SMIC (see Section 5.2.2). MEDEF is demanding that all compensation components be included in the “reference” compensation and that “annualized compensation” – that is, total compensation – be computed on an annual basis. The hourly compensation to be compared with the SMIC should therefore be

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21. To take an example: an employee in firm A earns a total hourly compensation of €10, from which €9 is basic wage, and €1 is from premiums and bonuses (computed on an annual basis, i.e. the amount of premiums and bonuses earned during the year divided by the total number of hours worked during the year); an employee in firm B earns €11 as an hourly total compensation, of which €8.5 is basic wage, and the remaining €2.5 due to premiums and bonuses. At the end of 2008 the SMIC amounts to €8.71. According to the French law, firm A complies with the SMIC law, whereas firm B does not – even if the hourly compensation is higher in firm B.
workers' total earnings throughout the year (all bonuses and premiums included), divided by the total number of hours worked. This might entail a large decrease in the effective compensation of workers in some branches.

The unions strongly oppose this claim. According to CGT in particular, the reference compensation must not include any premiums or bonuses. Annualization is unacceptable, and the SMIC must remain both an hourly and a monthly guarantee.

Diverging conceptions of minimum wage objectives: a simple wage floor or an important tool of an active income policy?

MEDEF's second strong criticism concerns the fixing mechanisms and, beyond that, minimum wage policy. The minimum wage increases have been too significant – with a major impact on labour costs – because the "coup de pouce" adopted by the government were driven mainly by political, not economic factors. So the "coup de pouce" should be abandoned as a fixing mechanism, and the increase in the SMIC more directly connected to increases in workers' productivity.

Overall, from MEDEF's point of view, both the evolution of the regulation and the minimum wage policy implemented by the government – with its discretionary increases ("coup de pouce") – have changed the initial nature of the minimum wage. As a consequence, reform is necessary in order to "go back to the origins". According to MEDEF, minimum wage policy has turned into an income policy, to increase wages and to reduce inequalities, distorting the initial nature of the minimum wage – which was conceived simply as a wage floor. The government should use other tools to increase the income of low-income families, especially in-work benefits (negative income taxes such as the "Prime pour l'emploi"). Following the British model of the Low Pay Commission, SMIC increases should be decided by an independent commission, on the basis of economic considerations (taking into account increases in productivity, the potential negative impact on employment, and so on). A report for the government, published in July 2008, develops a similar argument (see Cahuc et al., 2008).

At the other extreme, CGT defends a totally opposite view. The "coup de pouce" should not be replaced by indexation to the productivity increases of SMIC earners. Moreover, SMIC increases should be better connected to the developing needs of low-paid workers, whose purchasing power is poorly measured by the current consumer price index. Beyond the debate on its indexation mechanisms, according to CGT, the SMIC should be the main tool of an active income policy. First, it should constitute the main pillar of the wage fixing mechanism at all levels in the pay scale: it should remain the basic entry wage for unskilled new entrants, but all workers, according to their skill level, should benefit from a minimum wage guarantee calculated
on the basis of the SMIC. For instance, a worker with a high school diploma ("baccalauréat") should earn no less than 1.4 SMIC; a worker with a master’s degree or an engineer’s diploma should earn no less than 2 SMIC (see also Metz, 2006) for a detailed presentation of the CGT demands). Second, the SMIC must serve as the driving force of average wage growth in the economy (through spillover effects), with a positive impact on consumption and growth. Ultimately, SMIC policy should replace redistributive devices towards low-wage workers. CGT is particularly opposed to the idea that in-work benefits could complement the SMIC to constitute a decent income at low wage levels: “making work pay” implies that employers should pay decent wages.

The position of CFDT is more mixed. On the one hand, it is attached to the SMIC, and even more so since Germany and the Nordic countries – which long served as models for this union – have experienced problems due to their lack of a legal minimum wage. But, on the other hand, it acknowledges that the current system (the SMIC – driven by the “coups de pouce” – complemented by social contribution exemptions) induces potential negative effects (crowding out of bargaining over low wages, risk of a low-wage trap, and so on). Overall, according to CFDT – and at this point it diverges from the CGT’s view – income policy (in the broad sense) must not be reduced to SMIC policy, and SMIC policy should leave some room for collective bargaining. Concerning the fixing mechanisms, CFDT would not be opposed to an independent National Commission if the social partners participated in its debates. Officially, under the current system the social partners are involved, via their participation in the National Collective Bargaining Commission, in the annual decision on the minimum wage increase (the “coups de pouce” – see Section 5.2.1). Everyone we interviewed – including from the Ministry of Labour – acknowledged that the role of the social partners is actually non-existent: very often, the government’s decision is adopted (and published in the press) without waiting for the official meeting of the Commission that is supposed to give it advice.

To conclude, none of the three social partners studied here (not even MEDEF, the main employers’ organization) is opposed to the principle of a minimum wage. They even broadly agree on two current fixing mechanisms: the indexations to inflation and to the blue-collar average wage – even if, as noted above, CGT claims that the consumer price index used is a poor measure of the effective purchasing power of the workers at the bottom of the wage distribution, and if MEDEF is somewhat reluctant to accept indexation to the blue-collar wage. This proves that the minimum wage is, in a sense, deeply rooted in French interest representation, but the divergences remain strong on the subject of how the minimum wage should be defined and what its objectives should be.
5.6 CONCLUSIONS

5.6.1 What lessons can be drawn from the French experience?

When assessing the role of the minimum wage, France is a particularly interesting case, as it has one of the most stringent statutory national minimum wages in the world and has experienced a very active minimum wage policy in the past few decades. Even if the effective levels of stringency and coverage are lower than the formal ones – as seen in the consideration of the enforcement issue – the French example may still be taken as illustrative of the consequences of a strong minimum wage.

However, evaluating all the consequences of the SMIC is not easy, as empirical evidence is lacking or, at best, weak on a number of issues. It should be stressed that, since the end of the 1990s, empirical research on the minimum wage has been much less active in France than in the United Kingdom. Nevertheless, once this caveat is taken into account, some lessons can be drawn from the French experience.

On the one hand, there is no doubt that, since its introduction in 1970, the SMIC has played a very positive role in increasing and maintaining the earnings of workers at the bottom of the wage distribution – in both relative and absolute terms. From the beginning of the 1970s, wage inequalities decreased, and then remained relatively stable. This is all the more remarkable given that, during the same period, market pressures due to globalization and technical change have acted against low-skilled/low-paid workers. In many countries, such as the United States, the United Kingdom (until 1999) and, more recently, Germany, low wages have decreased in relative and, sometimes, absolute terms. The French achievement mainly derives from the (partial) indexation of the SMIC to the blue-collar average wage but, above all, from an active policy implemented by the frequent boosts (“coups de pouce”). Overall, the SMIC has prevented many French firms from adopting social dumping strategies – in sharp contrast, for instance, with what has happened in Germany in some sectors (see Chapter 6).

On the other hand, the SMIC may have had some negative consequences. There is some evidence that low-skilled workers may have been “priced out” by the increase in the SMIC to median wage ratio since the early 1970s. Since the beginning of the 1990s, policies have been implemented to offset the consequences of these increases in labour costs – mainly through employers’ social contribution reductions. These policies have managed to stop the decrease in the share of low-skilled jobs in the economy, and seem to have contributed to the fall in unemployment during the past decade. However, they do raise several issues. First, their cost is very high for the state budget, amounting to more than 1 per cent of GDP in 2008. SMIC earners are
therefore heavily subsidized by the tax payer in France. Second, the social contribution reduction mechanism seems to reinforce the low-wage trap, also apparently fostered by the high level of the SMIC in relative terms; but assessment of the low-wage trap requires more empirical evidence.

Another growing concern in recent years has been the potential “crowding out” effect of the SMIC on collective bargaining. Our first case study has shown that the evidence is, at best, mixed concerning this issue. On the one hand, the major increases in the hourly SMIC since the second half of the 1990s may have weakened the incentive to bargain over low wages in some industries – the agreed lowest wage levels being constantly “caught up” by the annual SMIC increases. The consequent increase in labour costs also seems to have pushed employers (in some sectors) to try to dismantle the traditional compensation system – by annualizing total compensation and suppressing some premiums that used to be paid on top of the basic wage. On the other hand, in industries where unions are particularly weak – especially at the firm level – the SMIC has acted as a substitute for agreements which would induce much less favourable conditions for workers deprived of bargaining power.

Overall, one may conclude that the balance of the French experience is rather mixed. Nevertheless, one general conclusion may be drawn. The French case seems to illustrate that threshold effects may play a crucial role when assessing the effects of the minimum wage. More precisely, when the minimum wage is not too high in relative terms (that is, compared to the median wage) it may have only positive effects – especially by increasing low wages and reducing inequalities without having a negative impact on employment. But, beyond an optimal level, negative effects may emerge. Apparently, the minimum wage in France may have gone beyond this optimal level – in contrast to the British minimum wage.

The “optimal” level may be very difficult to determine. This would be a strong argument for the kind of very pragmatic policy implemented in the United Kingdom: the Low Pay Commission’s decisions are based on extensive empirical research and the National Minimum Wage continues to increase so long as there is no empirical evidence of any negative impact (especially on employment).

5.6.2 Divergences and ongoing debates about the nature and objectives of the minimum wage

As case study 2 has shown, although there is a strong consensus on the need for a legal minimum wage in France, there are still – and even, in recent years, increasingly – divergent opinions about what exactly its objectives should be.
On the one hand, employers' organizations and many economists argue that the minimum wage should remain a wage floor; that it must not become a tool of a more global income policy – to stimulate hikes in the average wage or to reduce inequalities with a redistributive function.

On the other hand, some unions – and notably CGT – consider that, on the contrary, the minimum wage is a key element of the whole wage determination process, and the main tool of an active income policy.

The big increases in the SMIC may appear to constitute an active income policy during the past decade. In fact, they were mainly induced by the “35-hour law”, the SMIC hikes intending to compensate for the reduction in monthly earnings resulting from the reduction in working time. Since 2005, the “coups de pouce” have almost disappeared, and it is likely that this policy will continue in the coming years.

Since the mid-2000s, the debate has been more about the crowding-out effect than about the negative impact on employment – which is considered to be counterbalanced by the reduction in social contributions. While it may somehow encourage collective bargaining the brutal suppression of the minimum wage could only have a damaging effect on low wages. But brutal suppression would certainly have a damaging effect on low wages. It might be years before a significant change takes place in terms of unionization and collective bargaining: the SMIC is not the only, and not even the principal, reason for their weakness, but to a certain extent it helps to compensate for it.

Overall, it is not the principle of a minimum wage, but rather minimum wage policy, which is under debate in France. However, it is paradoxical that, while “coordinated economies” such as Germany and Sweden are debating the introduction of a legal minimum wage or wages, the French SMIC has not been under so much pressure since its creation almost 40 years ago.

The law adopted at the end of 2008 maintains the fixing mechanisms of the SMIC (especially the indexation mechanisms). But is there not a danger that, by introducing a Commission of independent experts to give official advice on the annual SMIC increase, the law will put an end to the very active minimum wage policy witnessed over the last 30 years?

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