

THE MINIMUM WAGE IN FRANCE

A national minimum wage exists in France since almost fifty years : the SMIG, "salaire minimum interprofessionnel garanti", (interprofessional guaranteed minimum wage) was created by a law in 1950. It was replaced in 1970 by the SMIC, "salaire minimum de croissance" (minimum growth wage).

Several international initiatives increase the focus on the role of the minimum wage. Two successive increases of the US federal minimum wage were passed by Congress in 1996 and 1997. A national minimum wage was established in the United Kingdom on April 1, 1999 ; Ireland is also in the process of defining a minimum wage. In the July 1998 issue of "Employment outlook" OECD itself has underlined the fact that, under certain conditions, a minimum wage could be instrumental in employment and poverty control policy measures.

In France, the assessment of this instrument has become more opportune in the economic challenge of the transition to a 35 hour working week for the employees earning the minimum wage.

By devoting this report to the minimum wage, the CSERC pursues the analysis of the links between employment, income and inequalities undertaken in previous reports. As is usual, this report relies on statistical work and analyses by French or foreign economic administrations or research centres; it has also called upon an analytical review of the academic literature. Some specific studies were also carried out at its request.

Minimum wages and collective bargaining

In most industrialised countries, the social partners attach great value to the free negotiation of wages. But this requires players sufficiently organised to ensure a balanced negotiation guaranteeing protection to the most vulnerable wage earners on the labour market. In a first conception of the minimum wage, a State intervention is needed and acceptable regarding to the principle of free negotiation of the wages, only in so far as " no arrangement exists for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low". This concept is expressed in the provisions of the 1928 International Labour Organisation Convention on the minimum wage. But this aim may be reached by different ways. There is no statutory minimum wage in most of the northern and central European countries and minimum wages are established by collective agreement, and hence tend to vary by sector. Thus, in Germany, the Federal State does not intervene (but for one exception in 1996) in the fixing of minimum wages. In France, the same law reinstated in 1950 the free negotiation of the wages through collective agreements and created a minimum wage. The social partners were asked to agree on the level but they failed giving the State a leading role in its determination.

According to another conception, minimum wage must be the instrument of a wage policy, allowing every wage earner to participate in the general economic progress. This theme is covered by the 1970 ILO Convention. Even this conception is not in contradiction with the possibility of fixing wages within the conventional framework alone. But, it places on the social partners, a responsibility which is naturally exercised in a national interprofessional negotiation. In certain countries, collective bargaining is initiated at the Central Level (in relation with the government or independently) and lead to the determination of the interprofessionnal minimum wage as well as to wage objectives for later decentralised negotiations within branches or industry.

In a somewhat schematic manner, the first concept was reflected in France by the SMIG, whereas the second is prevailing for the SMIC. Indeed, according to the Cabinet President's report prior to the July 1950 decree, the SMIG was to be "considered as a social minimum due to any worker contributing his labour to an enterprise" whereas, under the 1970 law, the SMIC must ensure "workers with the lowest

remuneration a purchasing power guarantee and a participation in the economic development of the nation".

Both instruments, however, reveal the overall weakness of collective bargaining in France. The geographical and organisational dispersion of workers' unions, the multiplicity of employers' federations and low corporate membership lead to a low number of employees being covered by collective agreements. The determination of a minimum wage thus becomes an essential element for the protection of a significant proportion of employees. From the outset, a major role has devolved to the State because of the incapacity of social partners to agree upon a minimum wage. This, in turn, diminishes the importance of sector-wide agreements both for the determination of wages and the definition of classifications. This brings about a paradoxical situation (unknown in other countries such as the Netherlands or Belgium that have introduced a statutory minimum wage) : in most sectors, the lowest wages under the agreements reached between social partners are under the SMIC level and, therefore, are not applied.

The outcome is also a narrower applicable contractual wage scale which reduces the wage promotion prospects for the work force. This situation, already noticed in the beginning of the 1970s, has lasted and even worsened till the end of the 1990s. At the beginning of the 1990s, a correction target was adopted by the national commission on collective bargaining. But eight years later, the fact is that it has met with relative failure. This is also the reason why the intersectoral differences in minimum wage appear to be weak in France, in comparison with neighbouring countries, and do not actually reflect the economic performances of the sectors. There is a growing discrepancy between the wages actually paid by certain enterprises and the contractual levels, thus further limiting the importance of sector-wide negotiations.

Impact on earnings and employment

Does the minimum wage have an impact on employment? This question was in the midst of much controversy in France and abroad, academic arguments feeding on a large number of empirical studies.

It is often said that a minimum wage has a negative effect on employment. It would not allow the employment of persons whose productivity is weak and lower than their labour cost. Even if individual productivity is difficult to measure in a large number of complex industrial activities where it is assessed against an aggregate work force, one can not discount the risk of negative effects of higher labour costs on employment, and specially that of low-skilled workers; when these increases are too drastic or induce lasting imbalances between wages and productivity. Other wage formation theories take into account the labour market operating patterns under imperfect competition conditions and can lead to a more qualified judgement. When in a dominant position, enterprises have the possibility if underpaying the jobs they offer. The introduction of a minimum wage at a level higher than the one offered in a dominant situation may increase the overall supply of jobs. This positive effect also implies the promotion of productivity by a lower turn over and by a better motivation of employees. From a macroeconomics viewpoint, the advocates of a minimum wage emphasise the demand supporting impact, in particular during the low periods of the economic cycle, whereas, others, focus on the negative effects of transient jobs.

The outcome of this debate is that the impact of the minimum wage on employment clearly depends on its level, and more so for low-skilled jobs than overall employment.

What judgement can we pass on the current situation in France? There is obviously no theoretical method to determine with absolute certainty the transition threshold from a positive to a negative impact on employment. However, international comparisons bring out the fact that, if the average cost of labour in France, taking into account productivity differences, does not appear to be particularly high compared with large industrialised countries, the same diagnosis is not relevant for the level of the

minimum wage. In spite of lighter social contributions on low wages, labour costs at the SMIC level are among the highest in Europe. This is true in terms of level, at current exchange rates, but also in relative terms of average or median costs (Table 1).

Table 1 : Minimum and median wage cost

	monthly minimum wage cost (in ECU)	Relative wage costs in 1997 France = 100		ratio of the minimum wage cost to the median wage cost
		Minimum wage cost	Median wage cost	
Belgium	1 292	1,07	1,29	0,43
Canada	795	0,66	0,82	0,41
France	1 208	1,00	1,00	0,52
Greece	563	0,47	0,46	0,52
Luxemburg	1 295	1,07	1,01	0,55
Netherlands	1 185	0,98	1,13	0,45
Portugal	412	0,34	0,39 (c)	0,45
Spain	649	0,54	0,80	0,35
USA	803	0,66	0,88	0,39
United Kingdom	890	0,74	0,93	0,41
Germany (a)	1 503	1,24	1,32	0,49
Germany (b)	967	0,80		0,31

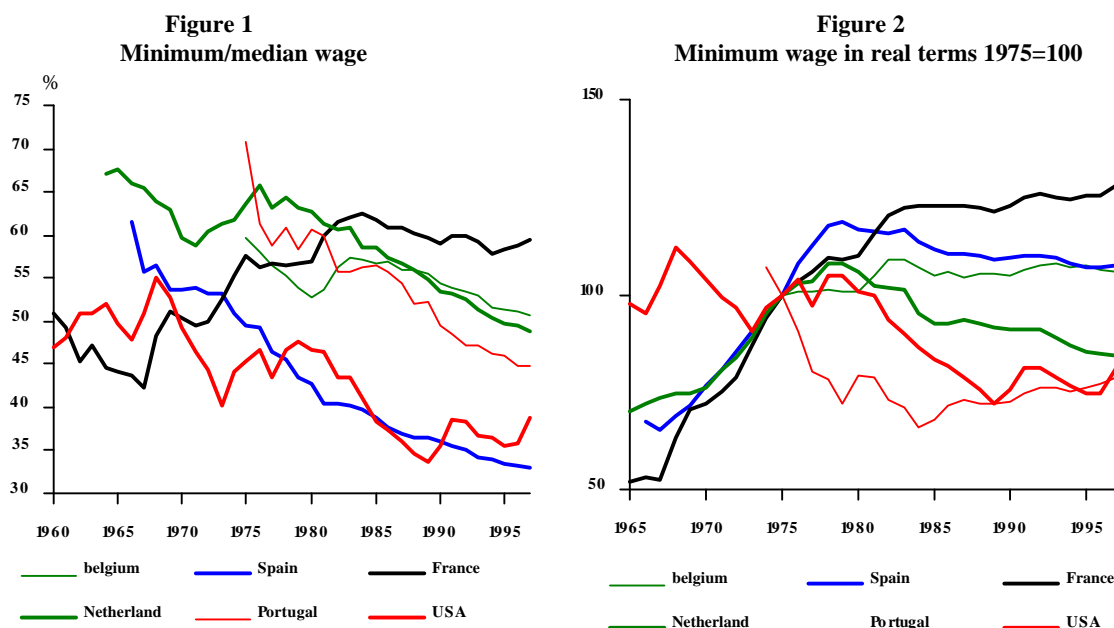
(a) &(b): For Germany, two estimations of the minimum wage are presented : the first (a) refers to the mean of the minimum wages by sector in the panel of WSI (see the appendice on Germany), the second (b) to the lowest sectorial minimum. In both cases, this refers to the western länder.

(c) For Portugal, this refers to the mean wage in the private sector.

Estimates made by the CSERC using OECD and national data.

Two further elements deserve attention. Compared with Northern continental European countries, the French labour force does not possess the highest level of qualifications : therefore, the unemployment risk for low-skilled labour is more acute. A SMIC increase policy must be flanked by a sustained long term effort in training which should be adequately focused on the least skilled labour force. Furthermore, disparities in the minimum wage evolution between France and a majority of other countries are observed: after a sharp increase between 1970 and 1983, the SMIC continues to grow at a slow pace since 1983 although the trend for minimum wages had, for the past twenty years, stagnated in real terms (Figure 1), and even decreased with regard to the median wage (Figure 2) in a number of other countries (e.g. Spain, Netherlands, Belgium, United States) .

Since some fifteen years, SMIC hikes have been in tune with the variations of the average wage and inflationary anticipations have been considerably lowered. For that reason, the pervasive SMIC impact on the average wage is limited under present circumstances; a one percent increase of the SMIC would, on the short term, lead to an approximately 0.1 % increase in the average salary with insubstantial effects on overall employment or inflation. Moderate SMIC hikes have a real impact up to an earnings threshold of approx. 1.3 to 1.5 time the SMIC and concern between 25 to 40 % of the labour force. Thus, Smic hikes increase relatively low skilled versus skilled labour costs but their impact is hardly felt in relation to the average cost of labour.



Various empirical studies using French data led to an estimation of the negative effect on employment (especially for the young) of marked increases in the minimum wage. Moreover, the share of low skilled labour in total employment is no longer deteriorating in France since 1993. Without being able to offer a complete explanation for the moment, this result may reflect policies of social contribution reductions on the lowest wages, that is, an effective link between low skilled labour costs and employment.

On the whole, these considerations lead us to estimate that the French SMIC has a negative impact on low skilled jobs. Confirmation of such a statement can be found in the various modelling exercises carried out on the SMIC impact on employment. Two approaches have been used.

The first is based on the macroeconomic models used by French Government which in their present configuration underplay the risks for low skilled jobs (by not taking into account production factors substitution). A negative effect of a SMIC increase is nonetheless apparent in the models, because competitiveness losses predominate over the effects on consumption of enlarging the purchasing power of the employees.

The second approach is based on the use of a general equilibrium model, in which two types of qualifications are differentiated and where greater weight is attributed to substitution phenomena between capital, skilled labour force and unskilled labour force. The impact of an increase in the minimum wage is, here, moderately negative. For a 1 % increase in the SMIC, the increase of low skilled labour cost can be estimated at 0.15 to 0.30 % depending on the importance of dissemination effects on similar wages and given a mitigating effect related to the reduction in employers' social contributions for low skilled jobs, thus lightening their costs. The loss in low skilled jobs that it induces on the long term would be about four to twenty thousand jobs depending on the value ascribed to the substitution elasticity.

Long term effects of a 1 % Smic hike.

Effect on the wage cost of low skilled workers	0,15 %		0,3 %	
Value of the substitution elasticity between qualified labour and low skilled labour	0,8	2	0,8	2
Effects on ...				
low skilled employees ¹	- 4 100	- 9 900	- 8 100	- 19 900
.. .skilled employees	- 100	0	- 200	+ 700

¹ in 1994 there was approximately 4 million of low-skilled employees in France
calculations made by J.P. Laffargue with his general equilibrium model (1999)

Minimum wage and income

Minimum wages have effects on income through different ways. First, a high minimum wage tends to reduce the inequality in earnings. A hike in minimum wage, faster than the average wage between 1968 and 1982, has considerably contributed in narrowing the range of wages. This range has stabilised since the middle of the eighties as the Smic grew at approximately the same pace as the mean wage.

Being paid at the SMIC level does not, however, lead to uniform earned income: of all the elements that make up the annual earned income, some are not taken into account in the base that defines the minimum wage (such as over time, seniority premiums). Therefore, (in local units with ten employees and more), less than 40% of employees at SMIC level get a total remuneration, calculated on an hourly basis, inferior to 1.02 SMIC, but over 10% get a total remuneration superior to 1.3 SMIC ; it is probable that wage supplements are lower in small local units.

What is more, in the last 30 years, the impact of the SMIC on disparities of primary income (before redistribution) has considerably diminished. On the one hand, the increase of unemployment, with or without compensation, has created a large group of persons of working age whose income is not affected by any hikes in the SMIC, because they don't manage to get salaried jobs. On the other, the discrepancies between yearly earnings have increased as a result of the growing disparity of length of work paid during the year, which is the result of the increasing number of part-time job or of unemployment spells.

Other than the effect of minimum wage on employment, these factors which differentiate the earning of wages at the SMIC level, attenuate the role of this instrument in the fight against income inequalities.

In order to assess the importance of the dilution effect, it is necessary to describe the different wage-earner categories paid at the minimum wage, in terms of their personal characteristics and those of the households to which they belong. This is one of the contributions of this document, namely to attempt to provide an updated and detailed information on employees earning the minimum wage in France.

Over 2 million employees earned the SMIC, in July 1997, according to the Ministry of Employment and Solidarity. A majority (1.5 million employees) was employed in the private sector (Table 2). Further, 200 000 employees in the domestic sector and about 350 000 employees in the public sector (Government, local communities, health sector) can be added, including employees under special solidarity contracts.

A SMIC level job is a majority in the tertiary sector (1 million employees according to the Ministry of Employment survey plus 600 000 employees in the domestic and public sectors). This type of employment is found essentially in small enterprises : most SMIC earning employees in the private sector work in local units with less than 10 employees. They are also found in sectors which are seldom

covered by collective agreements : hotels and catering for instance, where we find 40% of SMIC earning employees, had no collective agreement before 1997. Here we also have a majority of jobs held by women. Finally, the proportion of young employees in the SMIC paid category is higher than the number of young in total employment (and for this population, wage supplements amount to very little, since seniority is not a prevalent factor).

Table 2. Main characteristics of employees earning the SMIC

	Number	proportion
<i>All employees</i>	<i>2,2 millions</i>	<i>11</i>
private sector (a)	1 500 000	11
in which		
. services	1 100 000	14
<i>Retail and wholesale</i>	400 000	15
<i>Hospitality</i>	250 000	40
. manufacturing	300 000	8
. construction	100 000	8
Under ten employees in the workplace	800 000	21
Ten employees or more in the workplace	700 000	7
Male employees	700 000	8
Female employees	800 000	16
Employees aged less than 26	500 000	30
Employees aged 26 +	1 000 000	8

(a) Employees of the non agricultural market sector, *excepted* apprentices, employees in the interim sector and persons employed in private household

Source : Dares, enquête Acemo-Smic, juillet 1997.

SMIC level wages are more frequently encountered in fixed-term contracts than for the majority of the employees. It is also very common in part-time positions. For these two categories (fixed-term contracts and part-time positions) total earnings are lower than for other SMIC earning employees.

The impact of family structures

The relationship between earnings and disposable income is closely linked to the structure of the household: the number of working age individuals with a job and the level of income for each of the members of the household determine an income per consumer unit which is very diversified in households with at least one member getting a minimum wage. The size of the household is also of relevance, through social transfers and tax levies, for the standard of living as measured by disposable income per consumption unit.

This can be approached by an analysis of households where one member is a market sector employee, paid "approximately the SMIC", that is till 1,02 SMIC; this is the case for a little less than half of all SMIC paid employees.

In over half of all cases, these employees paid "approximately the SMIC" belong to households consisting of a couple where both are of working age and with a job. What is more, young SMIC wage earners continue, in a large proportion, to live with their parents. Conversely, the proportion of SMIC wage earners in households with only one person, is lower than for better paid employees. Finally, the proportion of SMIC earners, in single parent households, is large.

The diversity of these situations, combined with the diversity of work time, leads to a rather large range of salaried incomes per unit of consumption. In the scope of households studied, of which at least one member is paid "approximately the SMIC", nearly 25 % received an earned income per consumption unit lower than 3 500 FF and more than 30 % one higher than 6 000 FF. (Table 3).

**Table 3. Distribution of monthly earnings in households
where at least one member is paid approximately the Smic**

year 1996 in francs by consumption unit	Mean	D1	Median (D5)	D9	% of households earning less than 3 500 F by consumption unit
Men single	3 620	1 800	4 600	5 040	40
women single	3 840	1 500	4 500	5 100	37
lonely Parents	3 800	1 600	3 200	6 800	58
Couples two employees <i>of which 1 earning the Smic</i>	6 600	4 000	6 100	9 500	5,5
<i>of which 2 or 3 earning the Smic¹</i>	5 600	3 000	5 750	7 750	17
Couples one employee and one unemployed	3 200	1 500	2 700	5 350	79
households where at least one member is paid approximately the SMIC	5 400	2 200	5 100	8 400	25

1) In a household a member earning the Smic may be a child, still living with its parents
Source : Insee, enquête Emploi 1997.

The impact on the standard of living of households also depends on the benefit system: for a household wage corresponding to a full time SMIC, the social benefits, including housing benefits, net of direct taxes, represent approximately 45% of the disposable income for a tenant couple with 3 children and only 6% for a single person renting his dwelling.

Given the disparity of situations, the link between being paid the minimum wage and the position at a given level in the standard of living scale is not very strong. This is observed also in other countries (see for ex. OECD "employment outlook 1998) Number of studies, for example in the United States (and therefore, in a very different context of levels of employment, minimum wages and social transfers), have noted the same situation.

Over and beyond the influence of the SMIC on income inequalities, the analysis of households, one member of which is a wage earner paid "approximately the SMIC", brings forward the poverty threshold, (i.e. half the median standard of living). These situations of "working poor" are not the direct consequence of the level of the minimum wage but of the number of hours worked in a year..

Conclusions and proposals

Putting together the situations noted and the diagnosis presented here, and taking into account the conclusions and proposals contained in previous CSERC reports, namely that of 1996 on the effects of the reduction of social contributions on low wages, that of 1997 on minimum social benefits, as well as that of 1998 on work time, the following conclusions can be drawn :

In a labour based society, the minimum remuneration of a full time employee ought to ensure him and his family an adequate autonomy and an effectively guaranteed participation in the progress of the general standard of living. In terms of social cohesion, the wage has a dimension that exceeds any benefit.

The SMIC ensures the protection of the most vulnerable employees and is an efficient instrument in controlling the development of wage inequalities. But, its efficiency has become limited for the control of income inequalities. This weakening is due to three main factors : the development of unemployment, the diversity in working times and the growing diversity of family situations.

In order to control low skilled employees' unemployment, a policy aimed at a reduction of labour costs at the SMIC level has been introduced through a reduction in social contributions paid by employers on low wages. This mechanism must become well rooted. The effort deployed in France is, in this respect, comparable to those made in several European countries (Belgium, Netherlands, UK). The objective of avoiding an increase in the hourly labour cost should also be sustained in the process of the transition to a 35 hour working week for SMIC paid employees .

To reduce the occurrence of working poverty due to too short working time along the year, it will be opportune to develop flexibility inside the firms (for example in calculating the working time on an annual basis rather than on a weekly one) with permanent workers and not outside flexibility using temporary workers. This is an other stake of the negotiations in the transition to the new legal working time.

Part time employment remains a specific problem too. This status of work is a flexibility element in the management of enterprises; it is also promoting the creation of jobs and, in almost half the cases, it appears to correspond with the wishes of the employees concerned. However, when this is the sole earned income of the household, part time work does not protect from poverty and the individuals concerned wish to work more without being able to find corresponding full time jobs. Such a specific situation occurs frequently and can hardly be remedied otherwise than through income support allowances, which would ensure a more homogeneous treatment of situations of working poverty and of situations where a lasting absence of employment leads to the recourse of mean tested social benefits. Jobs, even part-time jobs, must lead to incomes higher than income from minimum social benefits, whatever the family structure may be.

Finally, we have to reconsider the singular role played by the minimum wage in wage determination in France. The relationship between minimum wage and collective bargaining is a French exception in Europe. As employment is developing in the tertiary activities and small enterprises, and, as employment status is becoming diversified, renewed emphasis and thought should be bestowed to collective bargaining at sectoral and enterprise level.