Sixty Five Years of National Minimum Wage: Assessing the French Experience
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1. Overview of the presentation

The presentation will aim at providing an overview of the French minimum wage (MW) institution and policy, with some comparison with the United-States experience. It will pick up elements from previous work (Caroli and Gautié (eds), 2008; Gautié 2009; Gautié and Schmidt, (eds.), 2010; Gautié, 2015), and will also rely on two ongoing complementary research programs (still in a very early stage):

- The comparative history of the economic debates over the MW in France, the United-Kingdom and the United-States since the beginning of the XXth century up to nowadays. This research not only relies on a contextualized history of economic thought, but also adopts a sociology of science and expertise perspective, to better understand the interrelations between the academic field in economics and the “politico-administrative field”, through the evaluation “industry” or other channels.
- The history of MW institution and policies in France (but also with some comparisons with the UK and the US). This research adopts a political economy perspective. It aims at highlighting the role of the different actors in the making of the MW policies, and the nature of the political process that mediates the influence of these actors. It also intends to analyze the MW policies as one dimension of the broader institutional system which shapes the “variety” of capitalism in each country (in particular analyzing the interactions between MW and industrial relations / MW and Welfare and social policies).

The presentation will be structured as follows:

- The first section will give a very brief overview of the MW policy in France since 1950, just focusing on key episodes one needs to have in mind to understand the current institution and policy: the reform of 1970 introducing the current “SMIC”; the adoption since the 1980s of policies to offset the potential negative impact of the MW on employment (active labor market policies targeted at youth; general exemptions on employers’ social contributions on low wages).
- The second section (“the tale of two countries”) will be focused on the comparison with the US experience. It will compare the “constituencies” (i.e. the individuals who are directly concerned as MW earners), the “stakeholders” (i.e. the collective actors / groups of interest who have some interest in MW policy), and the political process that drives the making of the policy.
- The third section will present a brief overview of the evaluation studies of the impact of the MW on the French labor market; it will try to draw some conclusions concerning what can be learnt from the French experience.
References

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Inclusiveness through the SMIC: achievements and criticisms
The minimum wage: from a wage-floor to a solidaristic wage policy tool.

It is only in 1950 that the freedom of collective bargaining over wages has been restored in France. Wages were frozen when WWII started, and since 1943, they were unilaterally fixed by the Ministry of labour. The fear, during the aftermath of the war, was that restoring competition in the labour market would induce a fall in wages. As a consequence, the 1950 law introduced two safeguards. First, industry collective agreements had to fix an industry minimum wage to be legally extended to the whole industry. Second, for workers who were not covered by these collective agreements, a national legal minimum wage was introduced (the "interprofessionnal guaranteed minimum wage", "salaire minimum interprofessionnel garanti", the so-called SMIG). It was conceived as a wage floor, a living wage to provide the workers with a "normal life, decent and fully human". But, because of the employers’ organisations pressure, the standard was set rather low (Metz, 2006). In 1952, the SMIG was indexed to the consumer price index.

Until 1968, the SMIG increased much less than the average wage (see graph 4). As a result, wage inequalities increased notably, and the D9/D1 wage decile ratio increased notably, up to about 4.1, about the same level as in the United-States. When the 1968 social events erupted, the widespread feeling was that the lowest paid workers had benefited much less than the others from the tremendous growth period since WWII. After the big wave of strikes, the SMIG was increased by 35.1% at the end of 1968. And it was decided to reform the fixing mechanisms of the minimum wage, because, as the member of parliament supervising the law debated in the National Assembly, "the SMIG failed to accomplish its mission, and it did not play the role of a social wage, and even less, of a civilization wage".1

A new legal minimum wage was created in 1970, the "minimum interprofessionnal growth wage ("salaire minimum interprofessionnel de croissance") - the SMIC, replacing the SMIG. Two important innovations were introduced as compared to the former fixing mechanisms: first, the legal minimum wage was now indexed (indirectly) to growth, and not only to consumer price; second, the

1 "Le SMIG n’a joué que très imparfaitement son rôle, et n’a pas rempli son rôle de salaire social, et encore moins, de salaire de civilisation", Pierre Herman, rapporteur of the law, during the 1969 debate in the National Assembly, quoted by Metz, 2006:34.
2 The level of the SMIC, which is defined, as the SMIG, on an hourly basis, is indexed to inflation and growth (more precisely, wage growth): 1) Every time the consumer price index 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; 2)
law stipulated that the government may increase the SMIC more than what results from the automatic indexation mechanisms, in order to prevent an increasing (negative) gap between the evolution of the SMIC and the evolution of other incomes. This discretionary boost is called a "coup-de pouce".

And indeed, in the following years, because of the combined effects of the new indexation mechanisms and the "coups de pouce", the SMIC increased much more than the average wage (graph 4), the government pushing for the catch-up process.

Graph 4: Evolution of the average wage and the minimum wage since 1951

Source: INSEE, 2013. The full-time reference taken as reference here is the 39 hours weekly working time.

During the 1980s and up to the mid-1990s, the pace of SMIC growth was lower than during the previous decade, but it increased again from the end of the nineties, because of a higher GDP growth and a more active minimum wage policy, but also as a direct consequence of the "35 hours law" (see below).

As a consequence, the minimum wage was no more simply a wage floor for marginal workers. Whereas the proportion of employees whose base wage was the SMIG was about 1.5% in the beginning of 1968, the average proportion of workers whose base wage was the SMIC had increased to about 10% from the 1980s, and fluctuated from then around this level, with a peak of 16.3% in 2005, following the important increase due to the "35 hours law".

The choice of solidarity

From the 1970s, the SMIC had become one of the cornerstones of the French social model, to which workers and unions were highly attached. This explains why it was preserved even when important reforms of the labour market took place, such as during the 1990s.

the SMIC must be raised annually by at least half the increase in the purchasing power of blue collar workers’ basic hourly wage.

3 The law stated that every year, after consultation with the National Collective Bargaining Commission where social partners are represented, but which is in fact only formal, the government sets the new rate by cabinet decree to take effect as of 1 July. The government may grant a higher increase than implied by the legal requirements fixing the “automatic mechanism” by giving a “coup de pouce”, that is, a “boost”
From the late eighties and the beginning of the nineties, because of the big increase in unemployment, and in particular along youth and low skilled workers, the potential negative impact on employment of the SMIC became a serious concern. As a consequence, the “Five years law on employment” ("Loi quinquennale sur l’emploi") adopted in 1993, chose to introduce a general reduction in employers’ social contributions at low wage level, compensated by a public subsidy from the State to the Social Security Funds. This mechanism allowed to decrease the labour costs without affecting the purchasing power of minimum wage earners.

When the “35 hours weekly working time laws” were adopted at the end of the nineties, the choice was made to maintain the level of the monthly full-time SMIC, which meant about an 11% increase in the hourly SMIC, also (partially) compensated by extra social contributions exemptions. From 2005 the complex system of exemptions was harmonized: the maximum wage threshold at which employer’s social contributions reductions were possible was 1.6 SMIC, and the reduction amounted to a maximum of 26 per cent of gross wages at the SMIC level, and decreases progressively to 0 at 1.6 SMIC.6

From the perspective on the French social model, the consequence of this policy is that, since the beginning of the 1990s, the tax payers subsidize low wage workers in France, by taking in charge part of the social contributions on his/her wage. And the cost of this subsidy is high: about 1% of GDP at the end of the 2000s.

**Remarkable achievements in terms of inequalities**

As a consequence, when comparing France to the other OECD countries, the striking fact is that while in most of the latter wage inequalities increased from the 1980s (in the US and the UK for instance) or from the 1990s (in other European countries, such as Germany), they continued to decrease in France until the 2008 crisis. Wage compression is particularly high at the bottom of the wage distribution - see Table 11.

**Table 11: Gross earning inequalities (for full time dependant employees) in some European countries in 2009**

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<th></th>
<th>Denmark</th>
<th>France</th>
<th>Germany</th>
<th>Italy*</th>
<th>Netherlands**</th>
<th>Spain</th>
<th>Sweden</th>
<th>United-Kingdom</th>
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<tbody>
<tr>
<td>D5/D1</td>
<td>1.60</td>
<td>1.46</td>
<td>1.85</td>
<td>1.45</td>
<td>1.65</td>
<td>1.71</td>
<td>1.36</td>
<td>1.81</td>
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<tr>
<td>D9/D1</td>
<td>2.72</td>
<td>2.89</td>
<td>3.29</td>
<td>2.27</td>
<td>2.91</td>
<td>3.37</td>
<td>2.28</td>
<td>3.60</td>
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**Source:** OECD; * 2008 for Italy; ** 2005 for the Netherlands

Another indicator is the very low share of low wage workers (i.e. earning less than two-thirds of the median hourly wage). In 2010, their share amounted to only 6.1% in France, as compared to more than 22% in Germany and the United-Kingdom - Table 12.

**Table 12: Share of low wage workers in 2010**

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<tr>
<td></td>
<td>7.7</td>
<td>6.1</td>
<td>22.2</td>
<td>12.4</td>
<td>18.1</td>
<td>14.7</td>
<td>2.5</td>
<td>22.1</td>
</tr>
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**Source:** Eurostat, 2012; low wage workers are those who earn two thirds of the national gross median hourly wage or less.

**The SMIC under criticism, but so far minor changes**

The achievements of the SMIC in terms of low inequalities and inclusiveness are in a way impressive, in particular when comparing to other countries (Gautié and Schmitt, 2010). Nevertheless,

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4 As weekly working time was cut from 39 hours to 35 hours.
5 The rate is 28.1 per cent if the firm has fewer than 20 employees.
6 The exact formula is: Reduction = coeff x monthly gross compensation (MGC); with coeff = (0.26/0.6) x [1.6 x (monthly SMIC/MGC) – 1]; and coeff cannot be less than 0 and higher than 0.26.
there has been a growing concern about the potential negative impact of the SMIC, and the active policy associated.

The first criticism focuses on the potential negative impact on employment, both in quantitative and qualitative terms. 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 partially) to a problem of labour demand directed to low skilled workers and to a deficit of jobs at the lower end of the wage distribution, especially in the service sector (retail, hotels and catering), and household activities (Freeman and Shetktat 2002). The excessive labour costs at low wage levels was pointed out as the villain. The direct negative impact of SMIC hikes on low wage worker was also pointed out (Abowd, Kramarz and Margolis, 1999). Since the mid-1990s, the reduction in employers' social contributions (see above) had a significant impact on labour costs. 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 over (gross) median wage ratio. But at the end of the 2000s, as compared to other countries, labour costs at minimum wage level was still high in France in both absolute and relative terms.

Another concern is that hikes in the SMIC may have had a negative impact on wage careers and profiles. For the more recent period policies to alleviate labour costs at low wage levels may 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 costs the employer much more than x per cent in terms of labour costs. 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).

Another concern is the potential "crowding-out" effect of the SMIC on collective bargaining, and, beyond, its potential negative impact on unions and labour relations(Aghion, Algan and Cahuc, 2008). Whereas in "coordinated market" economies collective bargaining is predominant and there is no legal national minimum wage (as in Denmark, Sweden or Germany), in both liberal market economies (such as the USA or the UK), and “state led” economies (such as France), there is such a wage. The weakness of collective bargaining in those countries may appear as the main cause, 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 last decade – may contribute to “crowd out” collective bargaining over low wages. The fact that many branches have wage levels in their pay scales under 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. The fear of such a crowding-out effect explains why, in Northern European countries such as Denmark and Sweden, and, until recently Germany, unions were opposed to the introduction of a legal national minimum wage. The empirical evidence of

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7 Another issue pointed out above, but for which empirical evidence is weaker, was that the high level of minimum wage might have contributed to work intensification and a correlated degradation of working conditions - i.e. meaning a negative impact on job quality (Caroli and Gautié, 2008).

8 A 10 per cent increase in the gross wage from the SMIC level induces an about 14 per cent increase in labour costs. Along the same lines, when a worker is “caught up” by a minimum wage increase (that is, his or her 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 this worker (see L’Horty 2000). According to L’Hommeau and Remy (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 therefore have contributed to the low wage trap. The impact is statistically significant, but limited.

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10 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.
such a crowding-out effect in mixed in France (see for details, including case studies evidence, Gautié, 2009).

In spite of all these criticisms, because it was considered as one of the key pillar of social cohesion, there has not been any radical reform of the SMIC. From 2007, the minimum wage policy became less active - i.e. the "coups de pouce" almost disappeared. At the end of 2008 a new law was adopted that created a Commission of independent experts (five economists, form public administrations and the academy), to render official advice each year on the annual SMIC increase (“coup de pouce”), taking into account the economic context. In all its report, the commission's advice was that the SMIC hikes should not exceed the consequences of the indexation mechanisms, and that other tools (such as the low income tax credit) should be used to redistribute towards low income working families. The SMIC came into debate in 2012, and a reform was adopted in the beginning of 2013, but introducing minor changes, and rather favorable to the SMIC earners\textsuperscript{11}. The new elected government also announced that it would restore "coups-de-pouce", but the increases in the SMIC in 2012 and 2013 remained modest.

Overall, the French experience is quite interesting in term of "social model". Even if there are still some debates about its adequate level, there is a strong consensus about the principle of relatively high minimum wage. In the French perspective, a decent wage must be appreciated not only in absolute but also in relative terms - i.e. as compared to the average or median wage. The SMIC is indeed seen as a cornerstone of social cohesion. And this implies on financial solidarity: as we emphasized, from the 1990s the choice was made to make the tax payer pay (by taking in charge the employers' social contributions exemptions) for the maintenance of high minimum wage and the social rights attached to it.

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\textsuperscript{11} The indexation to inflation is now based on the CPI calculated for the households of the two lowest household income deciles (instead of the CPI for the whole population before), to better take into account the impact on the purchasing power of low income households; and the SMIC is now (partially) indexed also to the blue collar and clerks average wage increase (instead of only the blue collar average wage increase before).