Prospects

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The point of view

Beyond the political rhetoric, the truth about minimum wage earners in France

The new prime minister said in his policy speech that he's keen to "break France out of the minimum wage trap". But what's the true picture? Does France have a high proportion of minimum wage earners? What's the reality behind the message? First and foremost, there's no denying that the proportion of minimum wage earners in France has risen in recent years, for a variety of reasons. The minimum wage in France is relatively high as a proportion of the median wage. Furthermore, inflation has been high over the recent period, and perceived inflation probably higher still. This means that, despite nominal wages having risen since 2022, the average purchasing power of wages has fallen relative to the pre-pandemic period, and has no doubt fallen further still in perceived terms.

According to French statistics service DARES, the proportion of employees benefiting from an increase in the minimum wage as of 1 January climbed to 17% in 2023 (3.1 million people), up from 12% in 2021 and less than 10% in 2010. However, there have been times in the past when this proportion was just as high (it was over 16% in 2005). It also comes out lower when only full-time employees are considered (around 12% at 1 January 2023).

There are various reasons for the recent rise in the proportion of minimum wage earners. Chief among them are the mechanism by which the national minimum wage is automatically pegged to inflation and France's wage negotiation process. Wages are no longer pegged to inflation, the one exception being the national minimum wage, which is automatically adjusted each year based on a formula that takes into account consumer price inflation excluding tobacco for the lowest equivalized disposable income quintile, with further interim increases if that inflation measure increases by 2% or more relative to the last adjustment. **After an adjustment** (of which, thanks to high inflation, there have been many over the recent period), **the official national minimum wage catches up with or even overtakes agreed minimum wages in some industry sectors**. This process thereby results in an immediate increase in the total number of employees at minimum wage level. Over the medium term, however, **any increase in the official national minimum wage is likely to lead to an increase in wages at the bottom end of the distribution more generally** as negotiations between management and labour culminate in increases in agreed minimum pay levels in specific industry sectors[1]. However, this outcome is not always guaranteed, since management and labour are under no obligation to set new minimum pay levels significantly above the official national minimum wage. Nor are there any guarantees as to the timing of such increases: while minimum pay levels must be increased to bring them at least into line with the official national minimum wage, the wage negotiation process can take some time to conclude. **The upshot of all this is that recent adjustments to the national minimum wage have, in the short term, tended to push down the overall wage distribution**.

Other factors have also contributed to this decline in the overall wage distribution towards the national minimum wage. As we had already highlighted in a previous article, job creation over the recent period has driven a sharp increase in the employment rate in France, reflecting the fact that people who previously were or would have been out of work (due to inactivity or unemployment) are now in work. Since these people tend, because of their skills or the sectors to which they belong, to be in jobs that are less

[1] See in particular "Wage negotiations in a context of rising inflation", Bulletin de la Banque de France, issue 245/6 (March-April 2023).

productive than the average, one of the direct consequences is a decline in not only average productivity but also average wages. However, the fact that they have gone from being out of work to "in employment" hurts neither them individually nor the country as a whole. Moreover, social security exemptions for low wage earners may also have contributed to wages in some sectors stagnating at minimum wage level. While the form of such exemptions – in place in France since the 1990s – has evolved over time, they generally offer the maximum reduction in employer's social security contributions for employees at minimum wage level, with the amount of the reduction decreasing as wages rise before eventually falling to zero. Such a system ought to favour employment for unskilled labour, and this is borne out both in theory and empirically. **However, this positive effect on employment comes with a flip side: these measures disincentivise employers from increasing the pay of employees earning close to the national minimum wage**, since that would lead to an even bigger increase in the cost of labour as the benefit of the reduction in social security contributions is lost. There is empirical evidence for this effect but it appears to be weak. It is generally recommended that such exemptions should not be available beyond 1.6 times the national minimum wage (French Council of Economic Analysis) – clearly not the case for the current arrangement, with some reductions available up to 2.5 or even 3.5 times the national minimum wage; this does have the advantage, though, of limiting the deleterious effects of setting the threshold very close to the national minimum wage.

While the increase in the number of employees earning the minimum wage is not, on the face of it, good news, it may, as we have seen, reflect more inclusive jobs. Furthermore, **when compared with similar comparable countries, France's official national minimum wage is relatively high as a proportion of its median wage**. According to Fipeco, the minimum wage equated to 61% of the median wage in France in 2022, compared with 53% in Germany, 50% in Spain and 41% in Belgium (Italy has no national minimum wage). This means minimum wage earners earn a decent income in France, relatively speaking.

Over the four-year period from January 2020 to January 2024[2], cumulative inflation in France as defined by the Insee consumer price index totalled nearly 15%. Although inflation has been higher in some other European countries[3], that level of cumulative inflation is still very high, particularly compared with inflation in the 2010s (around 12% over a ten-year period). **Perceived inflation, which can differ from inflation as measured by Insee, has undoubtedly been higher still. Indeed, price increases have more impact on households, and when frequently purchased day-to-day products see the biggest price increases, perceived inflation tends to be higher**[4]. Over the recent period, food inflation (25.3% between January 2020 and January 2024) has exceeded average inflation; the same goes for fuel inflation, albeit to a lesser extent (the price of diesel rose 18% between January 2020 and December 2023, according to the latest available data).

Meanwhile, although nominal wages have risen significantly since 2022, they have lagged behind rising prices. The basic monthly wage, which corresponds to gross wages excluding bonuses and overtime pay, rose by more than 11% between the fourth quarter of 2019 and the third quarter of 2023 (according to DARES based on the latest available data). Despite this substantial increase, the purchasing power of wages was eroded by high inflation, with the basic monthly wage falling around 1.5% over the period. But this real-terms fall was not uniform across the wage distribution: purchasing power increased slightly over the period (up 2%) for minimum wage earners, while the highest earners on average saw a decline in their purchasing power[5]. It should be noted, however, that the basic monthly wage does not include other components of pay that may have supported the purchasing power of employees' income, such as overtime pay and bonuses. In particular, the "purchasing power bonus" up to 2022 and the "value-sharing bonus" thereafter likely contributed over the period.

[2] Based on Insee's provisional estimate for January 2024.
[3] See our recent article on inflation, "France – Une inflation toujours élevée en 2023, des chiffres annuels à relativiser".
[4] See "Perceived inflation", Économie et Statistique, issue 447, Insee (2011).
[5] See in particular "Wages in the private sector in 2022", Insee Première, issue 1971 (November 2023).

☑ **Our opinion – Over and above the human and social dimension of protecting the most vulnerable, efforts to maintain the purchasing power of minimum wage earners over the recent period have been beneficial. Indeed, low-income households, for whom energy and food account for a bigger share of expenditure, have borne the brunt of inflation. These households also spend the most as a proportion of their income.**

Since nominal wage growth remains significant, the purchasing power of average wages should pick up over the next few quarters now that inflation is on the way down. According to provisional Insee estimates, CPI inflation fell to 3.1% year on year in January 2024 – sharply down from the 3.7% seen in December.

The idea behind the political messaging is not just about restoring purchasing power to the people of France – it's also about restoring the value of work by recognising merit and effort in the workforce. It's true that intergenerational income mobility is relatively low in France, at least according to recent work published by the Institut des politiques publiques. According to the authors, this is down to inequalities in access to higher education – perhaps something the government could work on.

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