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It is conventional to define low pay as less than 2/3 of the median wage. The low-wage share US employment has been stable at around 30 percent since the 1970s, a level far higher than any other wealthy country. This stability has masked enormous increases in low-pay incidence for young workers, including those with more than a high school degree. In contrast, French labor market policy over the same period has been committed to eliminating low pay, mainly via large and steady increases in the minimum wage, and the French low-wage share has dropped to just 10 percent. Does the French evidence suggest that the US minimum wage cannot be raised substantially without “pricing-out” of their jobs large numbers of vulnerable workers? We find no support in the aggregate data for this conventional prediction. French unemployment and employment rates show stability or improvement as well as strong convergence to U.S. levels since the mid-1990s. At the same time, US and French adequate employment rates (AERs) - the share of the population employed with a wage above the low-wage threshold and not working involuntarily part-time - show a steady and substantial divergence in France's favor, and this appears most dramatically for young less educated workers: a sharply falling (worsening) AER for 20-34 year old US men with just a high school degree (55 to 45 percent), and sharply rising AER for similarly educated young French men (44 to 60 percent). France has shown that the minimum wage can be designed to all but eliminate low pay without worsening aggregate employment outcomes for less-skilled workers.

JEL codes: E24, J21, J23, J31, J38

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The rapid growth of good jobs between the late 1940s and the 1970s was central to the extraordinary increase in average incomes over this period. The middle class experienced an unprecedented expansion, and while household incomes improved across the distribution, the biggest gains went to those in the lowest paid jobs (Goldin and Katz, 2008). But this ‘golden age’ of American Capitalism was short-lived. Wage growth has been stalled since the mid-1970s, which helped fuel income inequality and shrink the middle class – a process known as “polarization” (Bluestone and Harrison, 1990; Acemoglu and Autor, 2012). The stagnation in the middle of the distribution is easily documented: the average hourly wage for production and nonsupervisory workers peaked at $17.88 in 1972, fell steadily to just $16.13 in 1992, and did not return to it’s 1972 level until 2006, when it reached $17.83 (in 2009 dollars). Trends in compensation, which include employment-related benefits, have also been unimpressive, showing essentially no change until the late 1990s followed by just a small increase between 1999 and 2006 (from $20.91 to $21.98), due mainly to rising health care costs.

It is not that the American economy has stopped growing. Although still suffering from the greatest economic collapse since the Great Depression, the real value of output per capita in 2010 was 75 percent higher than it was in 1980 (Stiglitz, 2012, p. 24). The fact is that the last three decades of American productivity growth has not been shared with wage earners. “It is not that the American economic engine has lost its ability to produce. It is that the way the American economic engine has been run has given the benefits of that growth to an increasingly small sliver at the top – and even taken away some of what had previously gone to the bottom” (Stiglitz, ibid.). Efforts by low and moderate income Americans to maintain living standards through housing speculation and the accumulation of mortgage, credit card and student debt – a solution greatly facilitated and encouraged by financial interests – was at the root of the 2007-9 economic crisis.

Faced with this massive U-turn in the way American economic growth has been shared, one response might have been to redistribute income from the top to the middle and bottom through the tax and spending system. But American policy makers have, if anything, chosen the opposite path by reducing the progressivity of taxes and by shrinking income transfers to working age people (as health and retirement transfers to the elderly greatly increased). But even if American politics could ensure decent incomes for all families with a full-time worker via redistributive policies, there are good reasons to prefer the labor market route. As Robert Solow (2008, p.1) has argued, “...in a society that values self-reliance, and in which productive work confers identity and self-respect as well as the respect of others, income redistribution unconnected or wrongly connected with work is not the best solution except in special cases. In that kind of society, ours for instance, the persistence of low-wage work is felt as a social problem on its own.” If the standard for good labor market performance is the ability of workers with full time jobs to support themselves and their families at socially acceptable levels of material well being, it is necessary to put a much higher priority on adequate compensation from work.

In this regard, France is the US’s mirror opposite, having written into law a social commitment to combat low pay and rising inequality by intervening in the labor market, mainly by legislating a steadily rising minimum wage. This has been done in two stages, the first under the “salaire minimum interprofessionnel garanti” (SMIG) established in 1950, and the second under the “salaire
minimum de croissance" (SMIC) established in 1970. As a French government agency has recently put it: “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 nations.'³

It has been the international convention to define "low pay" as below two-thirds of the median wage (OECD, 2006, pp. 174-78; Appelbaum et al., 2010, p. 3). Below this level, even full-time work is not considered sufficient to provide workers and their families with a socially acceptable level of resources, understood as that which is necessary for full participation in their communities. Different labor market policies go a long way towards explaining the incidence of low pay across countries. Comparing 20 rich countries using a low-wage threshold of two-thirds of the overall median wage for 2009, John Schmitt (2011, figure 1) reports that the US low-wage share (24.8%) was higher than all others except Korea (25.7%). While Germany, Canada and the UK reported rates just over 20 percent, France came in at 11.1 percent, Norway at 8 percent, and Belgium at 4 percent. As we report below, using the OECD's threshold of two-thirds of the full-time median wage, we calculate the low-pay incidence in the US and France in 2009 as 31.3 and 10.1 percent respectively. It is well established that the explanation for this vast range in the incidence of low-wages among rich nations is found in the nature of the prevailing wage-setting institutions, like collective bargaining and the minimum wage, that protect those with the least bargaining power (Bosch et al., 2010).

France and the US offer two strikingly different labor market models. This is especially the case for employment in jobs at the bottom of the wage distribution. The US model relies mainly on employment-at-will contracts, little or no collective bargaining in most workplaces, and a minimum wage that is so low that it applies to a tiny sliver of the workforce (4-5 percent; see Autor et al., 2010), the French model relies on strong employment protection legislation, collective bargaining (although union membership is, like the US, very low), and perhaps the highest national minimum wage in the developed world. Remarkably, the French minimum wage rose above the standard low-wage threshold in 2005, which means that since then France has all but outlawed low-wage work.

In conventional thinking governments cannot eliminate low pay by establishing high wage floors without pricing many of these workers out of the labor market. Countless reports from organizations like the IMF and OECD and published papers by mainstream economists, reinforced by the message embedded in nearly all introductory economics textbooks, have argued that enforcing labor market regulations (like the minimum wage) that limit the payment of low wages is a sure path to declining employment and increasing unemployment for less-skilled workers.⁴

This chapter is concerned with the consequences of alternative institutional and regulatory regimes for the wage and employment outcomes of young, less-educated workers - those most vulnerable to low pay and unemployment. More specifically, it explores the implications for US labor market policy of the choice France has made to pursue policies that effectively eliminate very low paying
jobs. Does the French evidence suggest that the US minimum wage cannot be raised without substantially “pricing-out” vulnerable workers from employment? As the relative levels of the French and US legal minimum wage have sharply diverged, have aggregate indicators of employment performance shown the predicted increase in US advantage?

Our contribution to the understanding of the consequences of alternative labor market policies for the returns to work for vulnerable workers consists of three sets of findings. First, the evidence is clear that the far less regulated US labor market has produced an incidence of low-wage jobs about three times larger than France (32 versus 10 percent), and the gap is even larger for young, less-educated workers. The stability of the US low-wage share at around 30 percent over the last three decades has masked enormous increases in low-pay incidence for young workers and especially for young men.

After decades of increasingly sophisticated empirical studies, the professional literature has failed to produce compelling evidence that minimum wage increases of the size typically mandated have any negative employment effects, much less large ones. But with its high and steadily increasing minimum wage, the French case offers an extreme example, so if there are negative aggregate employment effects, they should be easily visible in the standard French employment indicators. Our second main finding is that standard employment indicators offer no suggestion that the timing of the rising value of the French “SMIC” corresponds to falling employment rates or rising unemployment rates, even for young less-educated French workers. Of course, perhaps these indicators might have shown more impressive performance but for the large increases in the SMIC. But there is at least no suggestion in the aggregate data that French labor market performance has worsened as the SMIC has shot upwards.

Third, as the value to workers and the labor cost to employers of the SMIC has risen over the last two decades to levels above nearly all other rich countries, and far above the US level, we find that France has if anything more than held its own relative to the US, even for young, less-educated workers: standard unemployment and employment rates have narrowed; unemployment-to-population rates have tracked one another closely, with substantially higher rates for the US since 2007. In terms of overall labor market performance, the adequate employment rate (AER: the employed share of the population, minus low-wage and involuntary part-time workers) shows clear French superiority. For example, as the AER for US 20-34 year old high school graduates has fallen sharply, the French AER has risen, so that by 2007 the French-US gap in favor of France had risen to 12 percentage points for men (60% for France, 48% for the US) and 20 points for women (44% for France, 24% for the US).

We begin with a brief description of the differences between the French and US labor market models and the conventional wisdom about employment effects. Section 2 outlines the contours of low-paid work in the U.S. and France. Section 3 describes the evolution of the French SMIC and the US minimum wage. Section 4 begins with a brief overview of what theory has to say about predicted employment effects and then describes recent trends in a variety of aggregate employment indicators for France. Section 5 compares France and the US with a variety of employment performance indicators and we conclude in Section 6.
1. Low Pay and Institutions: Lessons from France?

Why is the share of low-wage jobs so high in the U.S.? The Russell Sage Foundation (RSF) recently completed a major study of low pay in rich countries. The results appeared in six volumes – five country case studies and a concluding volume. Their conclusion was that the incidence of low wages in rich countries is not explained by “economic structural factors”, such as production technology, skills, and trade/globalization. There is, in fact, no relationship between the gross national product and the low-wage share (Schmitt, 2011). Rather, the incidence of low pay is determined by “pay setting institutions” like collective bargaining, minimum wage legislation, and labor and product market regulations. The key is the effective presence of “inclusive systems” that “extend outcomes of bargaining by employees with strong bargaining power to those with weaker power” (Bosch, Mayhew and Gautie, 2010, p. 91-2).

In many respects, France has adopted a labor market model diametrically opposed to the relatively unregulated US model, primarily by legislating a high and steadily increasing national legal minimum wage (the ‘SMIC’), extending collective bargaining outcomes to entire sectors of the economy (as in the US, very few French workers are actually union members), provision of relatively generous unemployment benefits (both in terms of the payment and the duration), and by enforcing fairly stringent employment protection laws (although Caroli et al. (2008) argue that there is actually a surprising degree of flexibility in the local enforcement of these laws).

The consequences can be seen in a wide variety of other measures of inequality. Overall, for 23 countries, the OECD (2011c, Figure 1.2) shows that next to Poland and Hungary, US wage inequality increased the fastest from 1979 to 2007 while apart from Spain only France showed a decline (measured by the 90/10 ratio). The difference between the US and France was equally large for household income inequality.5

This modest level of wage inequality relative to most other rich nations reflects in large part a choice by French citizens to dramatically reduce inequality by raising the pay of those paid the least. The main mechanism has been the SMIC, which by the mid-2000s had effectively outlawed the payment of low wages. According to Caroli and Gautie (2008, p. 18), “at the end of the 1960s, France suffered from record wage inequalities among the OECD countries…. The implementation of the SMIC relied on a political and social consensus according to which a decent wage should be defined not only in absolute but also in relative terms and thus low wages should benefit from growth and be indexed to the average wage increase. This is a major difference with the American minimum wage.” By the mid 2000s, the purchasing power of the SMIC was estimated at 45 percent higher in France than the US, but remarkably “most French workers believe that the purchasing power of the minimum wage is still too low” (Ibid.).

It is widely accepted that the French have paid dearly for this collective attack on wage inequality. Low-wage workers with jobs may be relatively better off, but many must have been “priced” out of the job market. Indeed, even Robert Solow (2008, p. 11) in his introduction to the Russell Sage volume Low-Wage Work in France asserts that “The SMIC has been set at a fairly high level, and one
consequence of this has been the disappearance of some unskilled jobs, to be replaced by unemployment (especially long-term unemployment), participation in active labor market policies, and withdrawal from the labor force." According to The Economist (2005, Nov. 12, p. 11), “Over the last decade the British and American economies have generated impressive growth and plenty of new jobs; the French economy has failed on both counts. Why? The main answer is that the French labour market is throttled by restrictions such as the 35-hour week, a high minimum wage, and tough hiring and firing rules.”

2. Low Pay in the U.S. and France

2.1 Low Pay in the US

Figure 1 shows the low-wage share of employment from 1979 to 2010 by age group. For the entire 16-64 workforce low pay has fluctuated around 30 percent between 1979 and 2007. This stability also characterized the teen (16-19, not shown) and 35-54 low pay rates. But substantial long-run increases can be seen for young workers: those 20-24 (from 41 to 60 percent in 2007) and 25-34 (from 20 to 32 percent). At the same time, the incidence of low pay decreased modestly for those 55-64 between the late 1990s and 2007.

The explanation for the stability in the overall low-wage share at a time of large increases for young (20-34) workers is mainly demographic: these younger groups with rising low-wage incidence have been decreasing in relative size (from 16 to 10 percent of total employment for 20-24 year olds and from 28 to 23 percent for 25-34 year olds). The increasing size of 55-64 year old group, which has experienced declining low-wage shares, has helped offset the rising incidence for much younger workers. At the same time, the largest group of workers by age group (35-54) has shown stable low-wage incidence and, by increasing substantially in size since 1979 (from 36 to 48 percent of all workers), has also helped produce a stable overall low-wage share.

Table 1 reports the distribution of low-wage workers by age, gender and educational attainment for five dates between 1979 and 2010. These include four business cycle peaks (1979, 1989, 1999 and 2007) and 2010, the most recent year for which the data were available. The rates shown measure those employed with hourly wages below two-thirds of the median full-time wage as a share of all wage and salary workers in the relevant demographic category (we exclude self-employed workers). We report results for all workers ages 16-64; for total, male and female workers ages 20-34, as well as for all 20-34 year olds with more than a high school degree; and the same for those ages 25-54 along with these workers who have at least a high school degree. We use ages 25-54 because it is the convention for ‘prime-age’ workers. With limited space in this chapter, we chose to focus on adult workers most likely to be heads-of-households and not marginally attached to the labor force, so we excluded both teens (16-19) and older workers (65+). This also facilitates comparisons with France, whose institutions (schools, retirement policies) are designed to strongly discourage employment for workers in either of these age groups. Since the conventionally measured prime-age group does not include 20-24 year olds, and because 25-34 year olds can reasonably be considered ‘young’ workers, we created another category for those 20-34 (and thus overlapping with the conventional 25-54 category).
The first column repeats the low-wage share for the entire 16-64 age group that appears in Figure I and highlights the effects of the recent economic crisis: the low pay rate increased from 29 to 32 percent between 2007 and 2010. Column 2 reports that the incidence of low pay for young workers rose fairly steadily from 28 percent in 1979 to 43 percent in 2010. Even more striking has been the increase of 22 percentage points for young male workers (from 18 percent in 1979 to 34 percent in 2007 and 40 percent in 2010) shown in column 3, increases that took place entirely during the 1980s and the 2000s. These increases nearly closed the entire gap with young female workers (column 4), whose low pay rate increased only in the 2000s (from 40 to 47 percent).

The results for prime-age workers are similar to those for young workers: a rapid increase in low pay incidence in the 2000s; large increases for prime-age men in the 1980s (from 9 to 15 percent of all prime-age male workers) and 2000s (from 15 to 18 percent from 1999 to 2007, to 21 percent in 2010).

As columns 5 and 9 indicate, there has been a fairly steady rise in the low-wage share of workers with more than just a high school degree. For these better-educated young workers, the low pay incidence rose from 22 to 34 percent; for prime-age workers, the above high school incidence of low pay rose from 11 to 17 percent.

Whereas Table 1 reported the low-wage shares for each demographic group, Table 2 reports the distribution of low-wage workers among these groups. The low wage workforce became increasingly male over this period: from 15 to 22 percent for young men (20-34), and from 11 to 25 percent for prime-age men. For both age groups, all the increase in low-pay rates took place in the 1980s and 2000s. This table shows a strong convergence between male and female low-pay rates, especially for young workers: a gap of 12 percentage points in 1979 (15 percent compared to 27 percent) fell to 1 point in 2010 (22 and 23 percent). Also of note is that there have been large increases in low-pay rates for those with more than a high school degree. By 2010, almost one-quarter (24 percent) of low-wage workers (ages 16-64) were prime-age with more than a high school degree, an increase from just 11 percent in 1979.

### 2.2 Low-Wage Incidence in France and the US

Our comparison of the low-wage share of employment in France and the US, using comparable data (the main household survey in each country), a definition of low pay that follows the OECD (less than 2/3 of the median full-time wage), and the same population (wage and salary employment). As noted above, we use two-thirds of the full-time median as the low-pay threshold, both because it is the international convention and because it is arguably a better reference point for the minimum socially acceptable wage (OECD, 2006, pp. 174-78). The use of the full-time median also facilitates cross-country comparisons, since the part-time share of employment and the ratio of full- to part-time pay vary considerably across countries.

It should be noted that the French wage figures must be calculated by dividing reported monthly earnings by estimated hours of work, while the US Current Population Survey asks respondents directly for their hourly wage (in the ‘outgoing rotation group’ surveys). For estimating hourly
wages, the latter method undoubtedly increases the accuracy of the data. As will be discussed below, one of the reasons for finding any low-wage workers in France since the mid-2000s when the SMIC moved above the low-wage threshold is the measurement error in responses to the hours of work question (how many hours were worked versus how many were paid may not be identical; there is some evidence that small French employers often do not pay the overtime hours workers are owed, especially in the case of undocumented foreign workers).

Our US-France comparisons are shown in Figures 2-4. Figure 2 reports the annual low-wage share time series for workers for the US (1979-2010) and France (1993-2010). The US trend is the same as appeared in Figure 1: stability around 30 percent. In contrast, the French low-wage share has fallen since 1997, and quite dramatically between 2002-7. Notably, the increases since the 2007 crash have been large for the US and barely visible for France.

Figure 3 shows that behind the aggregate stability in the US low-pay share there has been a huge long-run increase in the share of young less-educated (ages 20-34, high school degree only) workers paid low wages between 1979 and 2010. The increase in low-pay incidence in the US has been much larger for young men (about 32 percentage points, from 17 to 49 percent) than women (about 20 points, from 46 to 66 percent). These are certainly long-term trends, but interestingly, the entire increase between 1979 and 2010 for both men and women took place during and shortly after each economic downturn: 1981-83, 1992-94, 2001-03, and 2009-10. The performance of the French labor market for young less-educated workers could not have been more different: steady declines in the share paid low-wages between 1997 and 2007 (from 25 to 18 percent for women and from 20 to 11 percent for men), and again, essentially stable low pay shares since the onset of the global recession.

Figure 4 reports French and US low-pay rates for young workers by gender and educational attainment for 2010. The chart shows huge differences in the incidence of low pay. For example, 86 percent for US female workers with less than a high school degree were paid low wages against just 24 percent for similar French workers; for female high school graduates, the US-France low pay gap was 47 percentage points (66 percent versus 19 percent); for female workers with some college, 57 percent were paid low wages in the US compared to only 7 percent in France. The gaps are only slightly less gigantic for male workers.

3. Low Pay and the SMIC

Although the magnitudes of these extraordinary differences in the incidence of low pay may be surprising, there is little controversy over the cause: the aggressive intervention by the French state in wage-setting through a national legal minimum wage. The SMIC was established in 1970 to replace a much weaker minimum wage law, political support for which reflected the recognition that the French collective bargaining system was incapable of protecting workers from the payment of unacceptably low wages (Caroli et al., 2008, p. 46).7 “According to the law, the SMIC aimed at ensuring ‘workers with the lowest pay a guaranteed purchasing power and participation in the economic development of the nation’” (Ibid. p. 46). The 1970 law relied on three mechanisms for
establishing a SMIC that have progressively eliminated the payment of low wages: automatic adjustments for changes in the cost of living; automatic increases reflecting a portion of the inflation-adjusted increase in average blue-collar pay; and the “coup de pouce” – discretionary power by the government to set the SMIC at higher levels (Gautie, 2010, pp. 150-51). Part of the explanation for the rapid rise in the SMIC between 1997 and 2005 reflects the commitment by the government to keep the weekly earnings of minimum wage workers from falling (via the “coup de pouce” mechanism) with the reduction in work hours from 39 to 35 hours per week mandated by the Aubry laws I and II (Ibid. p. 53).

In contrast, there are no automatic mechanisms designed to maintain, much less increase, the value of the minimum wage for US workers. Changes in the Federal minimum wage take place only by congressional vote. The consequences of these different approaches to setting minimum wage levels are reported in Figures 5a and 5b. In terms of purchasing power in 2010 dollars, Figure 5a shows that the US minimum wage has fallen while the French SMIC has shown a steady increase: the US minimum wage was above $8 in 2010 dollars, compared to just over $3.00 for France, but since the early 1980s the US minimum has ranged between $6 and $7 as the French SMIC rose from about $6.50 to $10. In 2010, the French SMIC was over 40 percent higher than the US Federal minimum wage – a gap of about $3. As Figure 5a shows, adjusting the Federal minimum for the higher minimum wages legislated by individual States makes little difference for the overall trend and gap with France; the main effect was to reduce the decline in the value of the Federal minimum between 1999 and 2008.

Equally dramatic has been the opposite trends for France and the US in the Kaitz index – the value of the minimum wage relative to the median wage. While the US Kaitz index fell from 50-55% in the 1960s to below 35 percent between 2000 and 2008, the French index shows a strong and steady increase, from about 34 percent in the mid-1960s to around 60 percent in the late 2000s.

Not surprisingly, this long commitment by France to an increasing absolute and relative value of the minimum wage has sharply reduced the incidence of low pay. Figure 6 plots the value of the SMIC and the French low-wage threshold (two-thirds of the median full-time wage) in inflation-adjusted Euros. The SMIC shows a substantial and fairly steady increase, from 5.4 euros in 1993 to just under 7 euros in 2010, whereas the threshold remained between 6.50 and 6.75 in the 2000s. Remarkably, this figure shows that since 2005 the SMIC would – if universally applied and enforced – effectively outlaw the payment of low wages. But as Figure 2 showed, the French household survey data produce a low-wage share of over 10 percent in recent years, a discrepancy that reflects in part exemptions for teens (a lower minimum applies to 16-17 year olds) and apprentices, as well as measurement error (inaccurately reported hours and wages by survey respondents) and systematic violations of the law by employers who do not pay for overtime, a problem that appears most commonly for immigrant workers in small hotels and retail stores (Gautie, 2010, p. 151). The 3rd trend line shown in Figure 6 presents our calculation of the average wage for those earning below the low-wage threshold.

The relationship between the low-wage threshold and the minimum wage in the US is entirely different. As Figure 7 reports, the low-pay threshold fluctuated around $11 (2010 dollars) between
1979 and 1997, rose to $12 in 2002 and stayed at that level until the onset of the economic crisis in 2007 (the subsequent increase probably reflects the disproportionate job loss in the bottom half of the distribution). This figure shows that the Federal minimum wage was set at a much lower level and fell sharply in the 1980s. Unlike the French case, there is no suggestion in these data that the minimum wage has converged to the low-wage threshold. Quite to the contrary, the minimum wage fell from 77 to 50 percent of the low-wage threshold between 1979 and 2007, and consequently the hourly wage of large numbers of low-wage workers in the US is far below the threshold wage. Figure 7 shows that the average wage paid to low-wage workers has ranged between $8 and just over $9 since 1979.

Because the SMIC is set so high relative to the median wage (Figure 5b), it affects a large share of the French workforce. French workers with a base hourly wage set by the SMIC accounted for 13-16 percent of total employment in the mid-2000s, about three times the share of minimum wage workers in the US (Gautie, 2010, p. 152). It should also be noted that not only has this base SMIC become far greater than the US minimum wage, but many SMIC base wage workers actually have much higher earnings due to a variety of premiums and bonuses. “As a result, the effective (total) hourly compensation of many minimum wage earners is well above the hourly SMIC. For instance, in 2002 the hourly earnings of 26 percent of minimum wage earners were at least 30 percent above the hourly minimum wage” (Gautie, 2010, p. 152).

4. The SMIC and French Employment Outcomes

The French minimum wage has compressed the bottom of the wage distribution and substantially raised the hourly pay of minimum wage workers. If these pay increases also raised labor costs per hour similarly, the conventional textbook model would predict corresponding strong declines in employer demand for labor. Under these circumstances, the consequences should be declining employment, rising unemployment, and perhaps rising nonemployment as well (as discouraged workers drop out of the labor force). These negative effects should disproportionately affect young workers entering the labor market or with little seniority.

Concerned with the possible impact of rising labor costs caused by increases in the SMIC on employment, the government has reduced social contributions (like the US social security tax) since the mid-1990s for all low-wage workers, defined as those with wages up to 1.3 times the SMIC. Still, according to the OECD (Immervoll, 2007, figure 2), the minimum labor cost for full-time minimum wage workers in 2005 was the 3rd highest among 21 OECD countries, at about $11.40 (in 2005 US dollars at market exchange rates), up from about $10.60 in 2000; the comparable figure for the US in 2005 was about $5.60, down from about $6.25 in 2000.

In this section, we review the relevant theoretical literature on minimum wage effects and then turn to recent trends in a variety of aggregate employment performance indicators for France.

4.1 Minimum Wage Employment Effects: Theory-Driven Facts?
“The French, it seems, would rather live with nearly 25 percent youth unemployment than see the minimum wage or rigid job protection for incumbent workers eroded. And many are unwilling to see any connection between the two” (Taylor, 2012).

Underlying the orthodox prediction of the necessity of negative employment effects is a vision of competitive labor markets and perfect information in which employers pay a wage equal to the value of what the worker produces. With the real world imagined in this way, interventions that impose a legal minimum above market clearing levels must decrease employment and increase unemployment.9 A good example of how deeply rooted this conventional thinking is in economic policy analysis can be found in the OECD’s bi-annual Country Survey reports for France.

- The 2005 report (OECD, 2005, p. 34) asserts without any supporting evidence that it “is clear that the SMIC is high relative to the potential productivity of a significant part of the workforce.” The implication is that unemployment rates for young workers can be reduced only by reducing labor costs at the level of the SMIC.
- Indeed, this claim is made explicit in the next issue of the Survey of France (OECD, 2007, p. 117): “given the limited fiscal room for maneuver, the only way to further lower low-skilled unemployment is likely to be to reduce the SMIC relative to the average wage, e.g., by blocking any real increase in the SMIC in the coming years.”
- The 2009 Survey (OECD, 2009, p. 45) justifies its recommendation that “the SMIC should grow at a much slower pace” by repeating the (unsupported) belief that “because of steep hikes in the past, it (the SMIC) has risen faster than the productivity of unskilled workers.”
- The 2011 Survey (OECD, 2011b) asserts, again without supporting evidence, that “While the minimum wage helps to smooth out wage inequalities for full-time workers, it is demonstrably ineffective for addressing income inequalities, because it leads to part-time work and unemployment for young and low-skilled workers.”

The same message appears in the OECD’s annual Going for Growth volumes. Again, with not so much as a single empirical reference, France is grouped with Greece, Indonesia, Slovenia and Turkey as countries that “should limit the increase in their minimum wages” to increase “the jobs available for young workers and the low-skilled (OECD, 2011a, p. 37).

Remarkably, perhaps the most compelling challenge to this minimum wage orthodoxy can be found in the OECD’s own annual Employment Outlook, which is aimed at a more professional audience. At least since the mid-1990s, the Employment Outlook has argued that employment impacts are theoretically indeterminate; only evidence can settle the question. The OECD’s examination of the economic effects of the minimum wage in their 1998 chapter underscores the naïve quality of the simple textbook neoclassical model and emphasizes the potential positive employment effects that can be generated by more realistic (monopsony, efficiency wage, and endogenous growth) models. It is worth quoting the chapter (OECD, 1998, p. 44) at length:

These theoretical considerations have several implications for the empirical study of the employment effects of minimum wages. First, it is important to allow for the possibility of both positive and negative employment responses. Second, there may be a certain degree of non-linearity in employment responses, with positive effects
occurring for minimum wages below a certain level, but job losses occurring thereafter. Third disemployment effects may vary according to a worker’s age, skills, industry and region of employment. In particular, the possibilities of substitution between workers of different skill levels imply that aggregate job losses may be more muted than for specific groups of workers. Finally, it is important to distinguish between short-run and long-run employment effects.

Similarly, an important study by Dolado et al. (1996, p. 330) comes to a similar conclusion: “The key point is that economic theory has no unambiguous prediction about the employment effects of minimum wages. Empirical research is required” (see also Kaufman, 2010).

4.2 Recent Empirical Evidence on Minimum Wage Effects

In fact, the empirical evidence does not offer compelling support for strong employment effects of minimum wages. The strongest results are from early studies that found modest negative effects for less-skilled teenagers (OECD, 1998, pp. 47-8). As the OECD (2006, p. 86) put it in their 2006 Employment Outlook assessment, “pinning down the size of employment losses that result from minimum wages has proven to be difficult and there is considerable uncertainty concerning how many jobs might be lost due to minimum wages set at the levels actually observed in different countries.” The OECD’s own cross-country study failed to find any impact of minimum wages on the aggregate unemployment rate (Bassanini and Duval, 2006).

Some of the most careful recent work on employment effects has been done using US data. Examining effects using differences across US state borders, Dube et al (2010a, p. 962) conclude, “These estimates suggest no detectable employment losses from the kind of minimum wage increases we have seen in the U.S.” (p. 962). Further analysis fails to find effects even for teens: “In this paper we show that the absence of a disemployment effect generalizes beyond the restaurant sector, and holds also for teenage workers...” (Dube et al., 2010b, p. 28).

The UK’s Low Pay Commission also found no significant negative effect of the minimum wage on employment, which was introduced in 1999 (Vaughan-Whitehead, 2010, p. 26). A recent comprehensive review of the evidence across European Union countries by the International Labour Organization concluded that “While the minimum wage – under the condition that it is adjusted in a progressive and regular manner – has not been found to adversely affect employment”, it has unquestionably reduced the incidence of low-pay and wage inequality; in some countries it has increased consumer demand and female labor force participation by ‘making work pay’ (Vaughan-Whitehead, 2010, pp. 26-29).

If there are meaningful minimum wage employment effects, they should be readily apparent in post-1970 France, but even the French evidence is mixed. According to Dolado et al. (1996), “So low-wage regions did relatively well in the period 1967-85, a period when minimum wages were raised very dramatically.... In conclusion, French evidence suggests that the substantial rise in the SMIC to the mid-1980s had no adverse effect on employment” (p.343). The OECD’s (1998, p. 48) cross-country results “suggest” a negative effect on teenage employment in general, but find
“negligible” effects for young adults and no effects on prime-age adults: "In France... the teenage employment-population ratio declined by over 18 percentage points between 1975 and 1996, but the rise in the minimum wage relative to average wages accounts for less than half a percentage point of this decline." The authors then point out that an even larger decline took place in the teen employment rate for Spain despite a declining relative value of the minimum wage.

At the same time, there is also some supporting evidence for the orthodox prediction. In an unpublished study “Minimum Wages and Employment in France and the United States,” Abowd, Kramarz, Margolis, and Philippon (2006) ask “What's the effect of changes in the real minimum wage on an individual's employment status?” They conclude that, “movements in the American real minimum wage are associated with no employment effects, whereas movements in the cost of French minimum wage workers are associated with very strong negative employment effects.” Their explanation is that “it appears to depend upon the level of the real minimum wage rate inclusive of both employer and employee payroll taxes, which is much higher in France...” (p. 19).

If the Abowd et al. results stand up for France, our question is: do these immediate effects of minimum wage increases for the employment probabilities of individuals paid at the old minimum wage have consequential effects on the aggregate indicators? As the real absolute and relative cost of the SMIC has risen, all but eliminating low paid jobs as conventionally measured, do we observe any evidence of a corresponding worsening of employment and unemployment rates for those workers most likely to be “priced out” of the labor market? After all, the complaint about the high French minimum wage is that it is responsible for poor aggregate outcomes: employment rates are lower and unemployment rates are higher than they should be.

4.3 The SMIC and Aggregate French Employment Performance

Does the timing of the trends in key aggregate employment indicators lend support to this conventional account? Figures 8 and 9 plot the standard unemployment rates for 15-19 and 20-24 year olds, separately for males and females, from 1990 to 2010. As these figures indicate, over this period the ratio of the SMIC to the median full-time wage rose from 51% to 60%, the highest among OECD countries. At the same time, real labor cost in both absolute terms (US dollars) and relative to the average earner, increased between 2000 and 2005, even though France was already among the highest in the OECD on both indicators (Immervoll, 2007, figure 2). Despite high and rising labor costs, figures 8 and 9 show that the male and female unemployment rates for these two age groups (15-19 and 20-24) were lower in 2008 (before the current global crisis hit France) than in 2000, and about the same (for males) or lower (for females) than in the early 1990s. As the SMIC rose dramatically over this period, we see no evidence in these figures of the predicted increases in youth unemployment.

It is true that by the standard measure of unemployment – the unemployed share of the labor force - youth unemployment remains very high by international standards. But Figures 10 and 11 show that a very different story is told by another unemployment indicator: the unemployment-to-population rate (UPOP). Figure 10 reports that the UPOP has remained quite stable since 1989,
fluctuating between 3 and 5 percent and well below the US rate. As the figures shows, this compares to the much higher levels of 20-40 percent over this period for the standard unemployment rate. Similarly, Figure 12 reports that the UPOP rate for French 15-24 year olds ranged between 8-10 percent, well below the 18-28 percent range of the conventional unemployment rate (also shown in Figure 11). In sum, the UPOP shows long term stability at much lower levels than the standard labor force measure (we discuss the striking similarity between French and US UPOPs below).

Why is the UPOP rate an appropriate measure of youth unemployment? The answer is that employment rates for young people enrolled in school will depend not just on job opportunities, but also on school hours and social norms regarding working while in school. As it turns out, French teens rarely work while enrolled in school. With much lower employment, the denominator of the standard unemployment indicator (the labor force, equal to the employed plus the unemployed) will be smaller, automatically raising the rate. So the conventional unemployment rate is as much a measure of employment as unemployment. As Howell and Okatenko point out (2010, p. 340), while similar shares of 15 to 19 year olds in France (83.8 percent) and the United States (82.9 percent) were enrolled in school in 2003, their employment rates were strikingly different. In the U.S., 23.1 percent were working (generally part-time), compared to only 1.8 percent of these French teenagers. The stability of the employed share of enrolled students in France over the last four decades, spanning periods of very low unemployment, suggests that these low employment rates are not just a reflection of the lack of job opportunities.

Trends in employment rates over the last two decades also offer no support for the orthodox view on the employment effects of the SMIC. As the value (and costs) of the SMIC were rising sharply, Figure 12 reports that the employment-to-population (EPOP) rate for young (20-34 year old) male workers with just a high school degree rose fairly steadily from about 55 percent in the mid-1990s to over 68 percent just before the 2008 global crisis. Young, less-educated female workers also show a substantial increase in employment, from about 51 to 56-58 percent over this period.

Finally, if the rising value and cost of the SMIC is pricing young, less-educated workers out of the labor force, their employment rate should not be just falling in absolute terms, but also falling relative to the employment rates of prime-age workers, whose employment is not directly affected by the SMIC (no study we are aware of has ever found negative employment effects of the SMIC for prime-age workers). But here too there is no supportive evidence for the conventional wisdom. We took the simple ratio of the EPOP for 20-34 year old males with just a high school degree (see figure 12) to the average EPOP for prime-age workers (25-54). This ratio of the young less-educated to the prime-age EPOP for males increased from 60.3 percent in 1994 (52/86.2) to 78.1 percent in 2007 (69/88.3). For women, this ratio fell slightly (from 76.6 to 75 percent), not because of a decline in the EPOP for young less-educated female workers (which increased from 51 to 57 percent), but because of the large increase in the prime-age female EPOP (from 66.6 to 76 percent).

In sum, we find no evidence that the rising value of the SMIC has reduced either absolute or relative employment performance of young, less-educated workers: standard unemployment rates have fallen; unemployment-to-population rates have been stable at very low levels; employment rates have risen substantially; and the ratio of the employment rates of young less-educated workers to
prime-age workers has increased dramatically for male workers (and fallen only slightly for female workers because of a huge increase in prime-age female employment rates). Of course, these indicators of employment performance might have been even more impressive but for the large increases in the SMIC. But this evidence at least shows that the French effectively eliminated low-wage work while maintaining or improving employment performance for their most vulnerable workers.

5. A Comparison of French and US Employment Performance

As the real value and the relative labor costs of the French SMIC increased from very high levels, the value and relative costs of the US minimum wage fell from very low levels. According to the OECD, US labor costs for minimum wage workers fell from about $6.25 in 2000 to about $5.50 in 2005; relative to the labor cost of an average earner, minimum wage worker costs fell from 40 to about 34 percent (Immervoll, 2007, figure 2). Have standard indicators of employment performance for young less-educated American workers been superior to those for their French counterparts?

Figures 10 and 11 present standard unemployment and unemployment-to-population (UPOP) rates for young French and US workers. Figure 10 shows that although the UPOPs for US teens (15-19) has fallen from roughly the 8-12 percent range in the 1980s and early 1990s to the 6-8 percent range in the early 2000s, and clearly converged to the substantially lower French UPOPs, between 2007 and 2010 the gap began to widen as US UPOPs increased sharply. For a broader range of young workers (15-24), Figure 11 shows a strong convergence between US and French unemployment rates since the early 1990s, from about 15 percentage points in the mid-1990s to just around 5 points in 2008-10. At the same time, the UPOPs for young workers have tended to be quite similar, especially since 2000. There is no evidence in either of these figures that employment outcomes are worsening for young French workers compared to their US counterparts as the relative cost of employing them has increased.

More comprehensive indicators of employment performance would take into account not just the quantity of employment or unemployment, but the quality of employment, measured in terms of adequate pay and hours of work (Howell and Okatenko, 2010). Instead of an unemployment-to-labor force measure, an “underemployment rate” (UER) could measure the number of unemployed, low paid, and involuntary part-time workers as a share of the labor force. Similarly, instead of a simple employment rate, we could measure employment performance by the “adequate employment rate” (AER): the share of the working age population employed at jobs that pay more than the low-wage threshold and exclude those working involuntarily part-time.

How do France and the US compare on the share of the working age population with adequate jobs – the AER? (We do not consider the UER for reasons of space; see Howell and Okatenko, 2010.) Figure 13 shows the AER for 20-34 year old French and US workers with only a high school degree, separately for males and females. By this measure, the French labor market has been by far the better performer.
The AER for young US men with just a high school degree fell drastically between 1979 and 2007, from 74 percent to just 48 percent. It has since fallen further, to 34 percent in 2010. In contrast, the comparable French male AER rose from 43 percent (1994-97) to 60 percent in 2007, before falling during the Great Recession to 55 percent. So at the 2007 peak, the French labor market outperformed the US for young less-educated men by 12 percentage points (60 versus 48 percent); two years later, this gap had increased to 19 percentage points (55 versus 36 percent).

Figure 13 also shows that the AER for young US women with only a high school degree remained nearly unchanged between 1979 and 2001 at around 30 percent but has declined steadily since to 24 percent in 2007 and 18 percent in 2010. The French female AER, on the other hand, increased from 36 percent in 1995-6 to 44 percent in 2007 before falling slightly in the recession to 41 percent. So for young women, the labor market performance gap in France's favor rose from 6 percentage points in the mid-1990s to 20 points in 2007.

6. Conclusion

Since the late 1960s, the French electorate has demanded labor market policies designed to increase earnings and reduce inequality at the bottom of the wage distribution. Chief among these policies is the national minimum wage – the “SMIC”. The value of the SMIC has risen steadily both in buying power and relative to the median wage, partly because it is by law indexed to the consumer price index and to blue-collar wages, but also because of the discretionary increases (the “coup de pouce”) imposed regularly by government policy makers. In stark contrast, low-wage workers in the US have had neither an effective national minimum wage nor collective bargaining mechanisms to push the wage floor anywhere close to the low-pay threshold (conventionally defined as 2/3 of the median full-time wage).

As a result, since the early 2000s minimum wage workers in France have earned over 40 percent more than their counterparts in the US. (Figure 5a) and are paid about 60 percent of the median wage compared to 33-37 percent in for US minimum wage workers. This striking difference in minimum wage regimes has been the main reason the incidence of low pay in France has fallen to around 10 percent of wage and salary employment while the US remains locked into a low-pay rate of 30 percent (figure 2). Of perhaps greater significance is the large and still expanding gap between French and US low-pay incidence for young (20-34) less-educated (high school only) workers in the decade between 1997 and 2007: the low-pay share for young less-educated US men rose by 32 percentage points, from 17 to 49 percent, but fell for comparable French men by 9 points, from 20 to 11 percent; for young less-educated women, the US low-pay rate rose by 20 points, from 46 to 66 percent; for French women, it fell by 7 points, from 25 to 18 percent (see Figure 3).

In conventional thinking, the SMIC together with relatively strict employment protection regulations have been disastrous for employment performance, whether measured by unemployment or employment rates. Concerned with these potential employment effects, the French government has greatly reduced the “social contributions” (social security taxes) paid by employers for workers whose wages are below 1.3 times the SMIC. Despite the substantial cost of
these low-wage subsidies, labor costs at the level of the SMIC have remained among the highest in the rich world, and more than twice that incurred by US employers for minimum wage workers (see Section 4).

As the cost of employing a French worker at the SMIC wage has grown to twice that of US minimum wage workers, do aggregate employment performance indicators offer support for the conventional view that young less-educated French workers have been increasingly “priced-out” of the labor market? Our results show that standard aggregate employment indicators for young, less-educated workers have been stable or improved since the mid-1990s. For example, the employment rate for 20-34 year old French men with just a high school degree increased fairly steadily from 54 percent in 1995 to over 68 percent in 2007 (Figure 12); there is no evidence of a long-term, secular increase in the unemployment rates for teens or 20-24 year olds (Figures 8 and 9) and the 15 percentage point gap in unemployment rates for 20-24 year old workers between France and the US in the mid-1990s narrowed to 5 points since the early 2000s (Figure 11). Unemployment-to-population rates for 15-24 year old workers have tracked one another since the early 1990s at between 6 and 10 percent, with the US rate higher in 2001-3 and 2008-11 (Figure 11).

The closest we have to an employment-based standard of living indicator is our own adequate employment rate, since it measures the share of the workforce paid adequate wages and not working involuntarily part-time. By this indicator, French labor market performance is unequivocally superior, and its superiority has been growing over time. The AER for young US men with just a high school degree fell calamitously from 74 percent in 1979 to just 48 percent in 2007, while the young French male AER rose from 43 percent (1994-97) to 60 percent in 2007. Similarly, for young less-educated women, the adequate employment gap in France’s favor rose from 6 percentage points in the mid-1990s to 20 points in 2007. These male and female gaps have grown still larger during the recent crisis (see Figure 13).

Economists and policy makers have long preferred supply-side solutions to low pay, believing that it is possible to educate and train our way out of bad jobs. But the last five decades of experience shows no support for this path: as the evidence just reported demonstrates, the incidence of low-pay incidence for young workers has steadily increased despite rising educational attainment. And this will continue: according to the US Bureau of Labor Statistics, most employment growth over the coming decade will be in what are now very low skill and poorly paid jobs: four of the top six jobs with the largest projected growth between 2010 and 2020 paid a median annual wage of under $21,000 in 2010.11

In our view, a far more promising path is to take a lesson from France and directly increase the quality of jobs in the bottom half of the wage distribution, a goal that cannot realistically be achieved within the next decade without a large increase in the Federal minimum wage, preferably in conjunction with a more generous earned income tax credit (Wicks-Lim and Pollin, 2012). According to the Economic Policy Institute, raising the federal minimum wage to $9.80 (which would still be far below the low-wage threshold and far below the equivalent value of the French minimum wage) would increase wages for some 28 million workers, and increase aggregate wage incomes by $40 billion (Hall and Cooper, 2012). If we are concerned about improving the standard of living of the bottom one-third of wage earners through work, it is necessary to challenge
conventional thinking about the employment effects of a substantial increase in the national minimum wage with real-world evidence, part of which should come from the recent French experience.

References


Table 1: Incidence of Low Wages by Age-Sex-Education Group in the US, 1979-2010*

<table>
<thead>
<tr>
<th></th>
<th>16-64</th>
<th>20-34</th>
<th>25-54</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>29%</td>
<td>28%</td>
<td>18%</td>
</tr>
<tr>
<td>1989</td>
<td>31%</td>
<td>34%</td>
<td>28%</td>
</tr>
<tr>
<td>1999</td>
<td>29%</td>
<td>34%</td>
<td>29%</td>
</tr>
<tr>
<td>2007</td>
<td>29%</td>
<td>38%</td>
<td>34%</td>
</tr>
<tr>
<td>2010</td>
<td>32%</td>
<td>43%</td>
<td>40%</td>
</tr>
</tbody>
</table>

*For example, the 18% figure in column 3 for 1979 should read: “18% of all young workers were paid low wages in 1979.”

Source: Authors’ calculations using CPS Outgoing Rotation Group Uniform Extracts prepared by CEPR.

Table 2: Distribution of Low Wage Workers by Age-Sex-Education Group, 1979-2010*

<table>
<thead>
<tr>
<th></th>
<th>20-34</th>
<th>25-54</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>42%</td>
<td>15%</td>
</tr>
<tr>
<td>1989</td>
<td>47%</td>
<td>21%</td>
</tr>
<tr>
<td>1999</td>
<td>41%</td>
<td>18%</td>
</tr>
<tr>
<td>2007</td>
<td>44%</td>
<td>21%</td>
</tr>
<tr>
<td>2010</td>
<td>45%</td>
<td>22%</td>
</tr>
</tbody>
</table>

* For example, 27% in column 3 for 1979 should read: “27% of all low-wage workers (ages 16-64) were young females in 1979.”

Source: Authors’ calculations using CPS Outgoing Rotation Group Uniform Extracts prepared by CEPR.
Figure 1: The Low-Wage Share of U.S. Employment by Age Group, 1979-2010

Source: Authors’ calculations of CPS Outgoing Rotation Group Uniform Extracts, downloaded from the Center for Economic and Policy Research (CEPR).

Figure 2: Incidence of Low Wages for U.S. (1979-2010) and French (1993-2010) Workers

Source: Authors’ calculations for US based on CPS Outgoing Rotation Group Uniform Extracts prepared by CEPR and for France based on French Labour Force Survey [Emploi (en continu) version FPR (1990-2002, 2003-2009, and 2010), produced by INSEE, distributed by Centre Maurice Halbwachs]. Note: French LFS underwent a major re-design in 2003 when the annual survey usually conducted in March was replaced with a continuous one providing quarterly results. Caution is required when comparing trends before and after 2003.
Figure 3: Incidence of Low Wages for Male and Female U.S. (1979-2010) and French (1993-2010) Workers Ages 20-34 with only a High School Education

Source: Authors’ calculations for US based on CPS Outgoing Rotation Group Uniform Extracts prepared by CEPR and for France based on French Labour Force Survey [Emploi (en continu) version FPR (1990-2002, 2003-2009, and 2010), produced by INSEE, distributed by Centre Maurice Halbwachs]. Note: French LFS underwent a major re-design in 2003 when the annual survey usually conducted in March was replaced with a continuous one providing quarterly results. Caution is required when comparing trends before and after 2003.

Figure 4: Low Wage Shares for Educational Groups of Ages 20-34 for US and France in 2010

Figure 5a: Purchasing Power of the U.S. and French Minimum Wage, 1960-2010

Source: Authors’ calculations using nominal minimum wage data series denominated in national currency and purchasing power parity series from OECD.stat and values are deflated using the CPI-W from the BLS. State minimum wages are taken from Autor, Manning and Smith (2010) the Current Employment Statistics Survey is the source for state employment levels. The effective minimum wage is calculated using state-specific employment as weights.

Figure 5b: Relative Values of the Minimum Wage (the “Kaitz Index”) for France and U.S., 1960-2009

Source: Authors’ calculations based on data from OECD.stat
Figure 6: The French Low-Wage Threshold, Low-Wage Mean, and the Minimum Wage (SMIC), 1993-2010

Source: Authors’ calculations using French Labor Force Survey (Enquête Emploi) [Emploi (en continu) version FPR (1990-2002, 2003-2009, and 2010), produced by INSEE, distributed by Centre Maurice Halbwachs]. Note: French LFS underwent a major re-design in 2003 when the annual survey usually conducted in March was replaced with a continuous one providing quarterly results. Caution is required when comparing trends before and after 2003. The minimum wage is provided by the National Institute of Statistics and Economic Studies (INSEE) and is deflated with the consumer price index from the International Monetary Fund (World Economic Outlook Database, September 2011).

Figure 7: The US Low-Wage Threshold, Low-Wage Mean, and Federal Minimum Wage, 1979-2010

Source: Authors’ calculations using CPS Outgoing Rotation Group Uniform Extracts prepared by CEPR. The federal minimum wage is taken from the Department of Labor (http://www.dol.gov/whd/minwage/chart.htm). State minimum wages are from Autor, Manning and Smith (2010). Minimum wages are deflated with the CPI-W from the BLS. The Current Employment Statistics Survey is the source for state employment levels. The effective minimum wage is calculated using state-specific employment as weights.
Figure 8: The French Minimum Wage (Kaitz ratio) and Unemployment Rates for Male and Female French Workers Ages 15-19, 1990-2010

Source: The Minimum Wage/ Median of full-time wages are from OECD.stat; the age-specific unemployment rates are the authors’ calculations based on data from OECD.stat.

Figure 9: The French Minimum Wage (Kaitz ratio) and Unemployment Rates for Male and Female French Workers Ages 20-24, 1990-2010

Source: The Minimum Wage/ Median of full-time wages are from OECD.stat; the age-specific unemployment rates are authors’ calculations based on data from OECD.stat.
Figure 10: Unemployment-to-Population Ratios for Male and Female Workers Ages 15-19, France and the US, 1983-2010

Source: Authors’ calculations based on data from OECD.stat.

Figure 11: Unemployment to Labor Force and Unemployment to Population Indicators for France and the U.S., Ages 15-24, 1983-2010

Source: Authors’ calculations based on OECD.stat
Figure 12: The French Minimum Wage (Kaitz ratio) and the Employment to Population ratio for Male and Female French Workers with only a High School Education Ages 20-34, 1993-2010

Source: The Minimum Wage/ Median of full-time wages are from OECD.stat; the age, gender and education-specific employment-to-population ratios are authors’ calculations based on French Labour Force Survey [Emploi (en continu) version FPR (1990-2002, 2003-2009, and 2010), produced by INSEE, distributed by Centre Maurice Halbwachs]. Note: French LFS underwent a major re-design in 2003 when the annual survey usually conducted in March was replaced with a continuous one providing quarterly results. Caution is required when comparing trends before and after 2003.

Figure 13: Adequate Employment Rates* for Male and Female, French and U.S. Workers with only a High School Education Ages 20-34, 1979-2010 (US) and 1993-2010 (France)

*Employed but not earning low wages (<2/3 of the full-time median) and not working involuntarily part-time as a share of the civilian population (ages 20-34).

Source: Authors’ calculations for US based on CPS Outgoing Rotation Group Uniform Extracts prepared by CEPR and for France based on French Labour Force Survey [Emploi (en continu) version FPR (1990-2002, 2003-2009, and 2010), produced by INSEE, distributed by Centre Maurice Halbwachs]. Note: French LFS underwent a major re-design in 2003 when the annual survey usually conducted in March was replaced with a continuous one providing quarterly results. Caution is required when comparing trends before and after 2003.
The real wage increased to $18.63 in 2009, but this was largely due to composition effects – workers paid low wages were more likely to be unemployed during the Great Recession of 2007-09.

From the Economic Policy Institute’s State of Working America, downloaded July 24, 2012


For the leading mainstream text, see Layard, Nickell and Jackman (2005); for an alternative theoretical perspective, see Manning (2011); on the empirical evidence, see Howell (2005) and Howell et al. (2007).

Whether measured by cash disposable income or as “extended income” (disposable income adjusted by the money value of services in education, health care, social housing, and the care of children and the elderly), household income inequality was far higher for the US than France: of the 27 countries examined, only Mexico’s was higher than the US, while France was nearly as low as Norway and Denmark and only modestly above the lowest, Sweden (OECD, 2011c, figure 11, p. 39). Between the mid-1980s and the late 2000s, household incomes in the bottom decile rose three times faster in France than the US (1.6 vs .5 percent) and grew less rapidly in the top decile (1.6 vs 1.9 percent) (Ibid, table 1, p. 23).

Interestingly, the RSF volume Low-Wage Work in France actually offers no evidence in support of this claim. The authors chose not to directly explore the question of minimum wage employment effects.

“... (S)ince the beginning of the 1970s, via SMIC increases, the law and the government have become the driving forces in the growth of low wages in France, whereas the role of collective agreements has almost disappeared” (Caroli and Gautie, 2008, p. 46).

“...Some de factor 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 firms, and therefore the absence of a countervailing power to ensure that the regulations are respected (Gautie, 2010, p. 151).

The Institut economique Molinari puts it perfectly clearly. “Simply through its existence, the minimum wage creates unemployment. This has to do with the very nature of labour contracts. A labour contract provides for an association between two persons who each find an advantage in it. An employer can hire people only if the product of their work, in the employer’s eyes, is worth more than what these people must be paid. By imposing a minimum wage, lawmakers close off access to employment for any workers if what they produce is worth less than the value of the minimum wage, payroll taxes included. This exclusion works to the detriment of the least productive workers (IEM, June 2008, p. 2).

“It might be argued that the extremely low employment rates (and high conventionally defined unemployment rates) for French teenagers were due to the lack of job opportunities, but the data suggest otherwise. In the early 1970s, when the French male youth unemployment
rate was just 3-4 percent, about the same share of 16-19 year old students held jobs as in 2000-2 (less than 1%), when the standard unemployment rate was hovered around 22-23 percent” (Howell and Okatenko, 2010, p. 340).

11 [http://www.bls.gov/emp/ep_table_103.htm](http://www.bls.gov/emp/ep_table_103.htm)