Pay Inequality and Economic Performance: a review of the french literature
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This presentation is based on a cursory reading of twelve french journal in economics or management, along the past six-seven years. These review are representative of the french production in economics, we added articles published in english language in foreign reviews. It will not be a surprise to see that a large part of the empirical literature in the nineties relates to unemployment, by far the most important economic and political problem in France along the period. The titles are given in English but the articles are mainly written in French. We also mentioned some international comparative studies even if they only focus on wages, unemployment or bargaining system.

Research themes outlined at the first meeting:

1. Competitive and non competitive markets, decentralised bargaining and corporatism

- Effect on firm or sector performance: individual productivity (wages) or firm profitability...

Some stylised facts:

The earnings inequality does not rise as much in France as in United States but the unemployment inequality increased widely.

The impact of State policy on wage determination is significant.

Even when individual characteristics are eliminated, differences in wages persist among sectors. For example, in 1992, an employee in the financial institutions sector earned 34 %...
more than the average wage-earner with equivalent individual characteristics. Several factors are likely to explain this gap: 1) wages are higher the market share of the establishment, 2) the presence of union has a positive effect on remuneration, 3) industries seem to adopt various forms of wage incentive mechanisms, related to whether or not the employer is able to monitor staff performance. In particular, establishments appear to offer lower wages the more measurable the worker’s output, finding consistent with the efficiency wage hypothesis.

The earnings hierarchy in France is more extensive than in Germany and gives an advantage to the “Ile-de-France” inhabitants, to the oldest and to employees with a managing responsibility. In addition, the level of education plays an important role in the wage-setting.

References:


The paper measures the total factor productivity gains and performance convergence of industrial sectors in France, Germany and the other Euro-zone countries compared with other OECD economies. The results illustrate a convergence phenomenon in the industrial performance of France and Germany.


Abstract : The author puts in light three main differences between the two countries : the low level of female wage in Japan according to the discontinuity of their activity, the more compressed structure of male wages in Japan than in France, except for manual workers who benefit from a wider range of earnings progression inside the category than in France. In the last, career advancement of manual workers depends on promotion in intermediate skills positions.


3. gender inequalities and economic performance

The women are more and more present in the tertiary sector. Women are located in occupations where the relation to others is a dominant characteristic. These occupations need specific skills (patience, ability to communicate....) which are poorly recognised in terms of
qualification and salary. Controlling for segregation and participation of women to full-time jobs, the gender wage-gap is around 7% in France. The rising of schooling among the youth and the higher level of education achievement for girls than for boys is a factor of more equality on the labour market considering the wage and qualification positions attained.

References:


4. Low pay

If job with low earnings are more common in United States than in France, its proportion among the overall wage-earners has been constant during the last fifteen years, which is far from being the case in France where the increase of this type of jobs has been fostered by the development of part-time jobs.

References:

Fitoussi, J-P (2000) “Payroll taxes reductions for the low paid”, La revue de l’OFCE, n°74,
july,

*Empirical evidence suggests that reductions in taxes on labour will not solve immediately employment and distribution problems, but will, in the long run, promise progress in both.*

5. **Personnel management and incentives**

*Stylised facts:*

High turnover rates tend to decrease firm productivity but increase firm profitability for movers with short job spell durations. The individual characteristics and the establishment wage policy in France are such that the most well-paid employees are employed in companies with higher labour productivity. Also, higher wages due to the company’s own wage policy are associated with high profitability.

Abowd, Kramarz and Margolis (1994) decompose real total annual compensation per worker into components related to individual characteristics, worker heterogeneity, firm-heterogeneity and residual variation. At the level of individual, they found that person-specific effects are a very important source of wage variation in France, in any case higher than firm-effects. Overall, they reach the conclusion that person-effects explain 92 % of inter-industry wage differentials.

Following Goux and Maurin (1999), the average differential in wages paid to the same workers by different firms is about 20%-30%. In a given industry, wage policies are more favourable to workers in large, capital-intensive firms.

**References:**


The analysis of the RESPONSE survey confirms that profit-sharing improve the employee’s involvement in corporate objectives, but only if employees and their representative are aware of the existence of a profit-sharing agreement.


### 6. Training as human capital and/or as screening incentive

In 1994, 3.3 % of the total amount of wages has been devoted to company training. At the firm level, vocational training organised by firms is seen as an investment. In fact it helps to adapt manpower to technological and economical changes. Controlling for other effects, economists show that training increases the value added and the profitability of the firm when the effort in terms of spending is above the legal threshold. The amount of research and development also improves the growth of the value-added.

Absenteeism penalises the efficiency of training. It certainly creates a bad environment likely to restrict co-operative behaviours, which in turn prevents training to be correctly used.

At the individual-level, training tends to decrease external mobility and to be positively correlated with internal mobility. In fact, training is mostly allocated once the employee has been promoted than before to prepare a promotion. Firm-specific effect taken into account, its net earning return is about 2 %. But its impact on wages is no more significant when the
dimensions which explain the participation to training are controlled. In fact, the effect of training derives mainly of the particularly advantageous attributes of employees selected to receive training. Allocation of training can be taken as a form of signal addressed to people the firm wants to keep because of their high performance. In line with this interpretation, Béret and Dupray (2000) show that the sequence of training episodes is more decisive for earnings evolution than the last training received. To conclude, workers with high performance receive high wages and benefit from an easier access to training.

References:


6. Workplace industrial relations and incentives:

The policies aimed to foster a more effective participation of workers to the decisions in the firm have no impact on productivity. But firms where trade union is present are more productive than others. This outcome results from a higher labour productivity and from a
lower capital efficiency.

In France, wage bargaining takes place at two levels: a collective agreement on pay scales and the minimum wage for the branch is reached at branch level, and then within each firm annual bargaining with trade union representatives determines actual wages. To what extent, each level influences the real wage structure? Using data for six branches in 1992, Meurs and Skalli (1997) show a high degree of correlation between actual wages and minimum agreed wages. The minimum wage seems to be an initial evaluation of the employees’ individual attributes. A high wage dispersion from one branch to another, partly due to the collective agreements, is established. On average, actual wages are well above the branch wage scales. Part of this gap seems to come from the firm’s recognition of individual contribution to production; the residual may be linked to local trade union activity. However, nothing proves that local bargaining has a powerful impact on actual wages. Although, that may be due to the nature of the sample, largely made up of branches characterised by economic difficulties and low trade union membership.

References:


ABSRACTS OF SOME OF THE PAPERS LISTED ABOVE

Abowd, Kramarz, 1996 :
Compensation policies at the individual and firm levels

The authors study a merged representative sample of French firms and workers. The difference between the workers' internal and external wage rates depends upon the compensation policies of the firm and the expectation of the compensation policies of all other firms. They estimate this difference at the level of the firm and model its determinants. The results are as follows: (1) 2/3 of the firm size effect in wage differences is explained by the tendency of high paying firms to employ workers with high external wage rates; (2) 1/2 of the sectoral wage differences disappear; (3) even a biased measure of the internal/external wage difference, ignoring measurable individual characteristics, can explain a large part of the observed wage differentials.

Araï, Ballot, Skalli, 1996 :
Returns to seniority and establishment size

In this study, a rich data set is used to show that there is a size effect on the level of wages as well as on the returns to seniority. Our results indicate that for blue collar workers, the larger the establishment size the higher are the returns to seniority at the beginning of workers' careers and the more rapid is the decrease of these returns to seniority. The opposite is observed for the other categories of employees. We then discuss possible links between four alternative explanations of the seniority-wage profile and the observed size effect. We finally present evidence in support of two of these explanations.

Baradi, Dumasy and Troussier, 1995 :
Innovative Wage Agreement and Theory of Wage

This study of a sample of company pay agreements, all of which were reached in France around 1990, shows that the most innovative firms attempted to break away from the traditional link between pay and position - in order to link them to a collectively organised and negotiated process by which competence is acquired. On a theoretical level, this development can be clarified by linking together the concepts of “procedural rationality”, “common accord”, and “institution”; above all, it highlights the existence of specific wage-scale determiners, which are not directly linked to productivity, and are in any case different to those which come into play in the fixing of the absolute level of wage.

Bouabdallah and Villeval, 1997 :
Innovation and the rise in Inequalities on the Labour Market

During the 1980’s, earnings inequality increased dramatically in the United States. In France, where wages are not as flexible, the earnings inequality did not rise so much but the unemployment inequality increased widely. Two apparent paradoxes are considered. In the United States, while the less-educated workers experienced declining real wages, both relative wages and labour demand for college-educated workers rose simultaneously. In France, while new generations have got richer educational attainment, the younger
experiment higher unemployment risks. One major candidate for explaining such trends consists of a labour demand shock due to a non-neutral technological change. Innovation would be biased toward skilled labour. The paper reviews the pros and cons raised by the technological bias hypothesis and concludes to the necessity to complement it with other arguments in terms of international trade, education supply and labour institutions.

Cahuc and Zylberberg, 1997:
What Bargaining Level is good For Employment?

This paper tries to shed some light on the relationship between wage bargaining level and economic performances. We show, with a very simple theoretical model, that the hump shaped relation between unemployment and wage bargaining level, that has been advocate in many recent theoretical and empirical studies, rests on particular assumption about the degree of substitutability between the goods produced by the firms belonging to the same industry and the goods produced by the other industries. We examine the process of bargaining at the industry level in France, to show that it is very difficult to know what are the relevant assumptions on the nature of the goods produced by firms belonging to the same bargaining unit. Eventually, these results, together with the recent evolution of labour markets in the economies with a centralised wage setting lead us to conclude that there is no systematic relationship between wage bargaining level and economic performances.

Concialdi, Daniel, Tuchszirer, 1998:
Labour Costs, Competitivity and Employment: France from an International Perspective

This study uses several indicators to compare labour costs in France with those in four other countries: Germany, Sweden, the United States, and the United Kingdom. The authors reach the following conclusions:
- Relative to other countries, manufacturing in France does not suffer from a competitive disadvantage in labour costs.
- On the basis of employment data from France and Britain, this article analyses young people's current position within employment systems, highlighting the factors which determine different societal configurations. Young workers' availability depends to a great extent on how training systems are organised. In both countries, entry into the labour force is occurring later, and selection of job candidates on the basis of age and diplomas has become more stringent. Mobilisation of new workers by occupation and sector is still marked by traits specific to internal markets or professional markets which condition the level of concentration of young people's position on the labour market. Above and beyond specific national traits, the changes that have occurred over the last decade reflect differences in degree or timing rather than differences in how young people's employment is regulated.

Coutrot, 1998:
The force of the law and the realm of the contract, micro-statistical comparison of industrial relations in France and Great Britain.

Industrial relations are widely regulated by law in France, while the British system is essentially built on willingness. More broadly, there are profound differences in the structures, strategies and ideologies of social actors in the two countries. Comparative statistical results, based on two similar workplace industrial relations surveys(WIRS 90 and RÉPONSE 92),
shed light on the internal logic of each system. Our results show that while British unions, in the establishments where they still exist, certainly have more members and more formal involvement in management decisions, their French counterparts are still present in a larger proportion of establishments, and have a greater ability to mobilise workers for conflict and strikes when they find it necessary.

Faugère, 1994:
State and market in wage determination in Europe

This paper addresses the role of State in wage determination in different European countries over the last fifteen years. It shows, despite important national specificities, that the impact of State policy in wage determination, though indirect, is significant. State intervention, which depends on the intensity of the collective bargaining, in general serves to establish the framework of negotiation and influence it. Moreover, State policy in such nations as Spain, United Kingdom, Germany, goes even beyond this to actually modify the structure of the labour marker. Of particular use in understanding such developments are the theoretical approaches of the labour market centred on the features of the labour contract and the failures of market. Such approaches, with their focus on labour market contracts and rules, lead to an analysis of how State policy can correct such failures. Still it is essential to integrate the social and political dimension of state intervention on wages.

Gavini, 2000:
The Effectiveness of salary Scales: a Mixed Track Record

Salary scales are designed to set an hourly wage rate in relation to the quality of the work done. They are negotiated by staff representatives and management, who try to establish, for a given position, a minimum wage that the employer undertakes to pay. The scale not only sets the salary, but also provides a snapshot of the structure and hierarchy of the skills required to work in the industry (or firm) involved. This regulation is of crucial importance in setting salaries, especially at industry level. Salary scales remain the major reference in the wage policy of small and medium-sized firms. Yet the differences between the minimum wage at industry level and the salaries actually paid seem considerable. Moreover, identical salary scales often correspond to very different practices in terms of recruitment and career management. Firms do not always adapt their evaluation systems to the new salary scales. For both salaries and qualifications, industry-wide agreements prove to be fairly ineffectual, and sometimes are simply by-passed.

Henriot, 1997:
The impact on firms of measures to lighten the social costs levied on low wages

Measures to lighten social costs on low wages are calculated on the total number of employees and not on hiring flows, as are the so-called “targeted” measures. Their scope grants firms only a small drop in labour costs. On the other hand, firms can use the increased profitability for development purposes, which may favour employment in the medium and long term. The CREDOC study shows a relatively low short-term effect on staff numbers and divides firms into four categories according to their degree of sensitivity to the device. These categories range from a tiny minority of firms that have never heard of the measures to a similarly relatively small number of firms sensitive to them. More than half the sample was not sensitive to the measures. Sensitivity to the device comes both from the proportion of employees affected by the measure and the firm's attitude to the employment policy in general. The most sensitive firms typically belong to a low-wage sector and...
are well informed of the measure. They also use other employment subsidies and often employ more than 100 people. These firms use the measure in a thoughtful way as a means of development and it is reasonable to think that, unlike targeted measures, it will have a long-term effect on employment. Insensitive firms are not interested in measures lightening social costs and in particular underestimate the saving they represent. The device suffers from a lack of readability.

Plasman and Rycx, 2000:

Collective bargaining, macro-economic performance and poverty in OECD countries

The aim of this article is to assess the impact of systems of industrial relations on the socio-economic performance of industrialised countries since the late 1970s. In other words, we examine whether the features of collective bargaining has given rise to the “prioritisation” of some performance indicators, e.g. unemployment rate over inequality in pay levels, or vice versa. Our study, of the three periods; 1978-82, 1988-92 and 1992-96, show that the characteristics of industrial relations clearly explain the diversity of results in the OECD countries more precisely in terms of poverty than in terms of macro-economics. Moreover, there is little evidence that industrialised countries are confronted with the “prioritisation” of either macro-economic efficiency or low levels of poverty. Indeed, the economic performances of industrialised countries depend mainly on the degree of co-ordination existing within union and/or employers’ associations, whereas poverty is more a product of the preferred level at which negotiations take place, and to a lesser degree, that of the percentage of workers covered by collective agreements and levels of unionisation.