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# FACT SHEET

## Minimum wage system in France

### 1. Background

1.1 The Panel on Manpower (Panel) plans to undertake an overseas duty visit to study the minimum wage system in France and the United Kingdom (UK). Against this background, the Panel has asked the Research and Library Services Division (RLSD) to prepare two separate fact sheets providing some basic information on the minimum wage system implemented in France and the UK.<sup>1</sup> This fact sheet presents the minimum wage system in France.

### 2. Development of the minimum wage system

2.1 Prior to the introduction of a national minimum wage system in France, wages had been regulated primarily through collective bargaining. In the mid-1940s, most industries had collective agreements that extended to all employees, and had minimum wage rates that were legally binding.

2.2 The Minimum Wage Law was passed in 1950 to establish a national minimum wage system in France to ensure that low-paid workers could enjoy a certain level of living standard. However, the system was complicated by the introduction of a large number of minimum wage rates which varied by region and town. In addition, the minimum wage rates were criticized by labour unions for not being indexed to the inflation rate.

2.3 In view of the problems, the government attempted to reform the national minimum wage system in the 1950s and the 1960s. In 1952, the government began to adjust the minimum wage rates with reference to changes in price levels due to rising pressures from the labour unions. In 1968, the government simplified the system by merging various minimum wage rates into one single minimum wage rate. However, by the end of the 1960s, there was increasing dissatisfaction with the way in which the minimum wage rate declined relative to overall earnings<sup>2</sup>.

2.4 In the 1970 reform, a new national minimum wage (*salairé minimum interprofessionnel de croissance*) (SMIC) system was introduced with the aim of ensuring that low-paid workers would enjoy the benefits of economic growth. The current minimum wage system in France is based on the 1970 framework.

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<sup>1</sup> A fact sheet entitled "Minimum wage system in the United Kingdom" (FS18/06-07) provides some basic information about the minimum wage system implemented in the UK.

<sup>2</sup> The real value of the minimum wage rate did not fall.

### **3. Coverage of the minimum wage system**

3.1 SMIC is applicable to employees aged 18 and above in almost all sectors of the economy, including temporary and part-time workers. However, a few groups, such as professional workers and salesmen, are excluded from the minimum wage system while young workers have lower rates. Disabled workers are also not covered by SMIC.

### **4. Minimum wage rates**

4.1 In July 2006, SMIC was raised by 3.05%<sup>3</sup> to €8.27 (HK\$80.8)<sup>4</sup> an hour. (Please see Appendix I regarding the impacts of the introduction of a statutory 35-hour working week on the minimum wage system.) By law, the percentage increase of SMIC cannot be lower than the inflation rate for that year. In fact, between July 2002 and July 2005, the annual increase of SMIC was around 3% in real terms (i.e. a 5% increase in nominal terms minus 2% inflation rate).

4.2 The corresponding rates for apprentices and young workers are lower than SMIC. Those aged 17-18 are entitled to receive 90% of SMIC, amounting to a rate of €7.44 (HK\$72.7). This rate drops to 80% to €6.62 (HK\$64.7) for those below 17 years of age. However, young workers with six months or more experience in their respective trade are entitled to receive the full rate.

#### Number of minimum wage workers

4.3 In July 2006, there were about 2.5 million minimum wage workers, or 16.8% of the labour force. The recent government policy of raising SMIC in real terms has also caused the number of minimum wage workers to increase continuously.

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<sup>3</sup> Nicolas Sarkozy, the new President-elect of France, states that the rise of SMIC should be kept to 1.7% to 2% in the next few years, if both the economic situation and the social climate permit.

<sup>4</sup> The average exchange rate in 2006 was €1 = HK\$9.77.

## **5. Procedures for adjusting the minimum wage rate**

5.1 SMIC may be adjusted in two ways. First, SMIC changes in accordance with the movement of the national price index. On 1 July each year, it is adjusted to cover the movement of the national price index since the last adjustment. During the interim period, when the national price index changes by 2% or more, SMIC will be adjusted automatically.<sup>5</sup> In this way, the real value of SMIC will not fall.

5.2 Second, on top of the inflation-pegged adjustment to SMIC on 1 July each year, the National Collective Bargaining Board (NCBB)<sup>6</sup> will hold meetings in June each year to examine the relevant economic reports for further adjustment to SMIC. After the examination and taking inflation into account, NCBB would recommend an adjusted SMIC to the Council of Ministers (i.e. the cabinet) for final approval. The Ministry for Employment, Social Cohesion and Housing is responsible for publishing the final figure.

## **6. Criteria for adjusting the minimum wage rate**

6.1 The Council of Ministers and NCBB consider the following four criteria when adjusting SMIC:

- (a) the needs of workers and their families;
- (b) the average wage of manual workers;
- (c) inflation rate; and
- (d) economic factors such as the economic situation, productivity and employment levels.

## **7. Enforcement**

7.1 Labour Inspectors under the Ministry for Employment, Social Cohesion and Housing are responsible for ensuring that employers comply with the law on minimum wage. They handle complaints and carry out regular inspections.

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<sup>5</sup> RLSD has not been able to ascertain whether SMIC may be adjusted downward in case of deflation.

<sup>6</sup> NCBB is a tripartite body consisting of 40 members: four from the government, 18 from five national labour unions and 18 from employer associations. The Minister for Employment, Social Cohesion and Housing presides as the Chair of NCBB.

Penal provision

7.2 The standard penal provision of under-paying minimum wage workers is €1,500 (HK\$ 14,655).

**8. Major parties involved in the minimum wage system**

8.1 Appendix II provides a brief description of major parties involved in the minimum wage system in France.

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**Appendix I****The impacts of the introduction of a statutory 35-hour working week on the minimum wage system**

A.I.1 In the late 1990s, there were discussions in France on whether the government should reduce the statutory working week to raise the incomes of workers<sup>7</sup> and increase the employment level<sup>8</sup>. After deliberation in Parliament, in June 1998, France passed a law (i.e. the Aubry Act) reducing the statutory working week from 39 hours to 35 hours.<sup>9</sup> The Aubry Act was implemented in two phases:

- (a) companies having more than 20 employees should implement the 35-hour working week after 1 February 2000; and
- (b) companies having fewer than 20 employees and the government should adopt the 35-hour working week after 1 January 2002.

A.I.2 At the time, the government feared that the monthly incomes of some low-paid workers might fall because of the reduced statutory weekly working hours. Hence, in addition to the hourly SMIC<sup>10</sup>, the government set two "guaranteed monthly wage" rates for workers who worked 35-hour a week and 39-hour a week respectively to maintain their pay levels<sup>11</sup>.

A.I.3 In view of the wage rates, many employers raised the concerns that:

- (a) the minimum wage system was complicated as there were different rates in effect; and
- (b) the costs of running businesses in France were subsequently higher.

A.I.4 Under such circumstances, the government agreed to re-use a single hourly SMIC rate from July 2002 onwards.

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<sup>7</sup> Hours worked in excess of statutory working hours are counted as overtime. Every hour of overtime is payable at 10% – 50% higher than the normal hourly rate, depending on the cumulative total of overtime hours worked.

<sup>8</sup> The rationale was that companies might employ more people to share the jobs.

<sup>9</sup> The new President-elect of France has pledged a deluge of reforms on employment and wage system in his first 100 days in office, including plans to undermine the 35-hour working week requirement by cutting taxes on overtime and curbing labour union powers.

<sup>10</sup> The hourly SMIC rate was applied to part-time workers and full-time workers who worked overtime.

<sup>11</sup> This means that when workers switched to the 35-hour week, employees on SMIC were paid the wage that they would have received if they worked 39 hours.

## **Appendix II**

### **List of major parties involved in the minimum wage system in France**

#### **Cabinet**

A.II.1 The Council of Ministers (i.e. the cabinet) has the authority to approve the adjusted minimum wage rate.

#### **Ministry**

A.II.2 The Ministry for Employment, Social Cohesion and Housing is the authority which regulates the minimum wage system.

#### **Statutory body**

A.II.3 The National Collective Bargaining Board is a tripartite body consisting of members from the government, national labour unions and employer associations. Its main responsibility is to propose an adjusted minimum wage rate to the Council of Ministers for final approval.

#### **Employer associations**

A.II.4 The Movement of French Enterprises (Mouvement des entreprises de France) is the largest employer association in France.

A.II.5 The General Confederation of Small and Medium-sized Enterprises (Confédération générale des petites et moyennes entreprises) concentrates on promoting the interests of small enterprises.

A.II.6 The Craftwork Employers' Association (Union professionnelle artisanale) is one of the largest employer associations which plays an active role in the labour issues.

## Appendix II (cont'd)

### Trade unions

A.II.7 The French Democratic Confederation of Labour (Confédération française démocratique du travail), having 875 000 members, is the largest trade union in France.

A.II.8 The General Confederation of Labour (Confédération générale du travail), having 710 000 members, is the second largest trade union in France.

A.II.9 The Workers' Force (Force ouvrière), having 300 000 members, is the third largest trade union in France.

A.II.10 The French Christian Workers' Confederation (Confédération française des travailleurs chrétiens), having 160 000 members, is the fourth largest trade union in France.

A.II.11 The French Confederation of Professional and Managerial Staff – General Confederation of Professional and Managerial Staff (Confédération française de l'encadrement – Confédération générale des cadres), having 140 000 members, is the fifth largest trade union in France. It only organizes unions for professional employees, with higher education and/or in management or executive positions.

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