



OECD Social, Employment and Migration Working Papers
No. 313

Low-wage employment
in France: A cross-country
perspective

**Cesar Barreto,
Stéphane Carcillo,
Jonas Fluchtmann ,
Alexandre Georgieff,
Alexander Hijzen,
Daniele Pacifico,
Eliza-Jane Pearsall,
Agnès Puymoyen**

<https://dx.doi.org/10.1787/82539f44-en>

Low-wage employment in France

A cross-country perspective

JEL classification: J31, J32

Authorised for publication by Stefano Scarpetta, Director, Directorate for Employment, Labour and Social Affairs.

Author names :

Cesar Barreto (Cesar.BARRETO@oecd.org); Stéphane Carcillo (Stephane.CARCILLO@oecd.org); Jonas Fluchtmann (Jonas.FLUCHTMANN@oecd.org); Alexandre Georgieff (Alexandre.GEORGIEFF@oecd.org); Alexander Hijzen (Alexander.HIJZEN@oecd.org); Daniele Pacifico (Daniele.PACIFICO@oecd.org); Eliza-Jane Pearsall (Eliza-Jane.PEARSALL@oecd.org); Agnès Puymoyen (Agnès.PUYMOYEN@oecd.org)

OECD Working Papers should not be reported as representing the official views of the OECD or of its member countries. The opinions expressed and arguments employed are those of the authors.

Working Papers describe preliminary results or research in progress by the author(s) and are published to stimulate discussion on a broad range of issues on which the OECD works. Comments on Working Papers are welcomed, and may be sent to health.contact@oecd.org / els.contact@oecd.org.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.



Attribution 4.0 International (CC BY 4.0)

This work is made available under the Creative Commons Attribution 4.0 International licence. By using this work, you accept to be bound by the terms of this licence (<https://creativecommons.org/licenses/by/4.0>).

Attribution – you must cite the work.

Translations – you must cite the original work, identify changes to the original and add the following text: *In the event of any discrepancy between the original work and the translation, only the text of original work should be considered valid.*

Adaptations – you must cite the original work and add the following text: *This is an adaptation of an original work by the OECD. The opinions expressed and arguments employed in this adaptation should not be reported as representing the official views of the OECD or of its Member countries.*

Third-party material – the licence does not apply to third-party material in the work. If using such material, you are responsible for obtaining permission from the third party and for any claims of infringement.

You must not use the OECD logo, visual identity or cover image without express permission or suggest the OECD endorses your use of the work.

Any dispute arising under this licence shall be settled by arbitration in accordance with the Permanent Court of Arbitration (PCA) Arbitration Rules 2012. The seat of arbitration shall be Paris (France). The number of arbitrators shall be one.

Acknowledgements

This project was funded by DARES and DG Trésor, and implemented by the OECD.

This report was prepared by the OECD Directorate for Employment, Labour and Social Affairs, under the supervision of Stéphane Carcillo. The team was composed of Cesar Barreto, Jonas Fluchtmann, Alexandre Georgieff, Alexander Hijzen, Daniele Pacifico, Eliza-Jane Pearsall and Agnès Puymoyen. Jordy Meekes (Leiden University), Trine Schack Sørensen and Rune Vejlin (Aarhus University) supported the data analysis using confidential administrative data for respectively the Netherlands and Denmark. Thanks to Marie-Aurélie Elkurd for providing publication support.

We would like to thank the teams at Dares, DG Trésor, the offices of the Prime Minister, the Minister of the Economy and the Minister of Labour, as well as Antoine Bozio, Sophie Maillard and Etienne Wasmer for their comments and suggestions.

The analysis of low-wage employment based on linked employer-employee data relies on the LinkEED 2.0 project which seeks to mobilise such data for cross-country research and policy analysis. For more details please visit: <https://www.oecd.org/en/about/projects/linkeed-200.html>.

Table of contents

Acknowledgements	3
Key findings	6
1. Introduction	7
2. Employment structure and wage paths for low-wage workers	9
2.1. The high minimum wage in France shifts the distribution of low-wage employment upwards	10
2.2. Low wages do not just reflect poor worker skills but also low firm quality	13
2.3. Low-wage workers have no greater difficulty climbing up the wage ladder in France than in other countries	16
3. Wage progression and the tax and benefit system	20
3.1. The net income of low-wage workers has increased over time thanks to the tax and benefit system	20
3.2. The tax and benefit system guarantees incentives to take up low-paid jobs but can curb wage increases for full-time minimum wage workers	25
3.3. Labour cost remains moderate at minimum wage but rises sharply with wage	31
3.4. The overall tax wedge in France is low at the minimum wage but rises sharply with wages	36
3.5. A comparative analysis of skilled occupations in France and Germany	37
4. Conclusion	42
References	43
Annex A. Annex	44

Tables

Table 3.1. In work benefits in France since 2008	21
Table 3.2. Lump sum for the <i>Prime d'activité</i>	24
Table 3.3. United States EITC scale	24
Table 3.4. Sweden EITC scale	24
Table 3.5. Universal Credit scale	25
Table 3.6. Measures to reduce employer contributions since 2013	32
Table 3.7. Wage differentials between France and Germany	38

No table of figures entries found.

No table of figures entries found.

Figures

Figure 2.1. The gross minimum wage is high and wage inequalities at the bottom are low in France	10
Figure 2.2. There is a compression of the wage distribution at the bottom in France	11
Figure 2.3. There is a compression of the wage distribution at the bottom in France compared with countries where the minimum wage is lower	12
Figure 2.4. Low wages reflect low worker skills more than firm characteristics	15
Figure 2.5. The low incidence of low-wage employment in France translates into a low number of low-paid jobs in the trade sector in particular	16
Figure 2.6. Low-wage workers have no greater difficulty climbing up the wage ladder in France than in other countries but have a lower job mobility	18
Figure 2.7. For low-wage workers, incentives to increase wages provided by the tax and benefit system are weakly correlated with actual wage progression	19
Figure 3.1. The net income of French low-wage workers has increased over time thanks to the tax and benefit system	22
Figure 3.2. France is one of the countries where the increase in net income of low-wage workers has been the strongest since 2008	23
Figure 3.3. In France, incentives to take a job at the minimum wage are preserved by the <i>Prime d'activité</i>	27
Figure 3.4. Incentives to move from part-time to full-time low-wage employment are relatively high in France	29
Figure 3.5. A significant part of wage increases at full-time minimum wage can be absorbed by benefit losses in France	30
Figure 3.6. Measures to reduce employer contributions have intensified since 2013	31
Figure 3.7. Measures to reduce employer contributions taken since 2013 have significantly reduced labour costs up to 2.5 SMIC	33
Figure 3.8. Labour cost remains moderate at minimum wage due to exemptions from employer contributions but rises sharply with wage	35
Figure 3.9. Wage increases near the minimum wage are particularly costly for employers in France	36
Figure 3.10. The tax wedge in France is low at the minimum wage but rises sharply with wage	37
Figure 3.11. Net income and labour cost for a skilled metalworker	39
Figure 3.12. Net income and labour cost for a manager in the construction sector	41
Annex Figure 2.1. There is a compression of the wage distribution at the bottom in France – Base pay	44
Annex Figure 2.2. Wage progression and mobility over five-year horizons	45
Annex Figure 2.3. Job mobility and exit from employment by age group	46

No table of figures entries found.

Boxes

Box 2.1. Data: Structure of Earnings Survey and administrative matched employer-employee data	9
Box 2.2. Disentangling workers- and firm-specific contributions to low wage	13
Box 2.3. Regression-based approach to wage progression and job mobility along the wage distribution	17

No table of figures entries found.

No table of figures entries found.

Key findings

The first part of this study documents low-wage employment in France in international comparison, based on data from the Structure of Earnings Survey (SES) and administrative matched employer-employee data for five countries: Denmark, France, Germany, the Netherlands and Portugal. It shows that:

- **The high minimum wage in France shifts the distribution of low-wage employment upwards.** It compresses the bottom of the wage distribution between the (high) minimum wage and the median wage.
- **Low wages do not just reflect poor worker skills but also low firm quality.** Still, the contribution of firm quality is about three times lower than that of worker skills, reflecting low-wage sectors and low-wage firms within sectors with equal importance.
- **Low-wage workers in France have no more difficulty than in other countries in climbing up the wage ladder.** However, France stands out for the low job mobility of these workers. There is also some evidence that low-wage workers might be at particular risk of falling into non-employment

The second part of the study documents the impact of the tax and benefit system on labour supply and demand in a comparative approach (France versus its main economic partners) and according to family configurations (single individual, one-earner couple, with or without children). The analysis is based mainly on the [OECD tax-benefit database](#) and the OECD “[TaxBEN](#)” model. It looks at policies deployed in 2023 in 8 OECD countries (Belgium, France, Germany, the Netherlands, Spain, Sweden, the United Kingdom and the United States), focusing on the lower end of the wage distribution, as well as on two skilled occupations for which French employers are experiencing hiring difficulties: skilled metalworkers, and managers in the construction sector. The results are as follows:

- **Potential low-wage traps mechanisms exist on the labour supply side.** While the incentives to take up a job or increase working hours at minimum wage are relatively high, the net gains from wage increases above the full-time SMIC are reduced by the concomitant drop in in-work benefits (*prime d'activité*). France is not the only country in this situation (e.g. Germany and the UK face similar situations).
- **Similarly, potential low-wage traps mechanisms can be found on the labour demand side.** Labour cost remains moderate at the minimum wage, due to exemptions from employer contributions, but rises sharply with wages. As a result, wage increases for workers earning the minimum wage are particularly costly for employers, despite the gradual phase out of employer exemptions from social security contributions.
- Nevertheless, analysis of individual trajectories shows that it is no less likely for low-wage workers to climb the wage ladder in France than in the other selected countries, which suggests that wage progression is still not very sensitive to low-wage traps mechanisms and/or that other factors are more important.
- Whether for skilled metalworkers or managers in the construction sector, the tax and benefit systems affect income differentials between France and Germany to the advantage of French workers, and reduce labour cost differentials between the two countries by weighing more heavily on French labour costs.

1. Introduction

Recent years have seen inflation levels not seen for decades in many European countries, including France, triggering a cost-of-living crisis. While the French minimum wage – *Salaire Minimum Interprofessionnel de Croissance (SMIC)* – has kept pace with inflation (the SMIC is indexed to inflation), this is not the case for other wages. The SMIC has therefore caught up with millions of workers paid slightly above the minimum wage, resulting in a massive increase of more than 50% in the number of individuals affected: 2 million people in the private sector on January 1, 2021, compared with 3.1 million two years later, benefited from the rise in the SMIC (Dares, 2023^[1]; Dares, 2021^[2]).

This study shows, however, that factors favouring a possible “*smicardisation*” of French workers - the process of an increasing coverage of workers at the minimum wage - have been at work for over a decade. First, the minimum wage was already relatively high in France compared with other countries, even before the inflationary shock, with the result that a large number of workers were already close to it (Section 2.1). Second, low wages reflect less the characteristics of firms or sectors than the low skills of workers (Section 2.2), the resolution of which requires appropriate education and training policies, effective over the long-term. Finally, an analysis of tax and benefit systems highlights the existence of potential low wage traps mechanisms, which are particularly significant in France compared to other countries, both on the labour supply side (i.e. via a gradual reduction in the *prime d'activité*) and on the labour demand side (via the gradual loss of reductions in employer contributions) (Part 3.).

Nevertheless, analysis of individual trajectories shows that it is no more difficult for low-wage workers to climb the wage ladder in France than in the other selected countries (Section 2.3), which suggests that wage progression is still not very sensitive to low-wage traps mechanisms and/or that other factors are more important. It should be noted that these traps can operate at job level without affecting individuals' wage progression: employers can maintain certain jobs at low wages while the workers occupying these jobs change frequently – in 2018, almost half of SMIC wage earners were no longer earning the minimum wage one year later (Dares, 2019^[3]).

As suggested by Bozio et Wasmer (2024^[4]), reducing the rate at which employer contributions fall with wages at the lower end of the wage distribution could accelerate the “*desmicardisation*” by reducing the cost of a wage increase around the SMIC (i.e., by attenuating the low-wage traps mechanisms on the demand side). This reform could be carried out without lowering contribution reductions on low wages and with a constant budget, by abolishing contribution reductions above 2 times the SMIC¹, whose effects on employment appear limited (Conseil d'analyse économique, 2019^[5]). An alternative on the labour supply side would be to use all or part of the resulting savings to mitigate the decline in the *prime d'activité* as wages rise, by shifting its exit point.

In the longer term, vocational training in France has a key role to play in addressing worker skills shortages and enabling wages to rise. Good cooperation between France Travail, training providers, social partners and policy makers is needed to assess and anticipate skills needs, and to enable adequate retraining of the workforce. On the firm side, further work would be needed to understand in detail the wage

¹ This threshold is indicative only, as a detailed study is required to determine the most appropriate profile and threshold.

determinants of low-paying firms (e.g. productivity lags or monopsony situation) and the appropriate policy responses.²

² See OECD (2021^[11]) for a discussion of the policy responses.

2. Employment structure and wage paths for low-wage workers

This part documents low-wage employment in France in international comparison. It aims to provide insights on the incidence, nature and persistence of low-wage employment. It is based on data from the Structure of Earnings Survey (SES) and administrative matched employer-employee data for five countries: Denmark, France, Netherlands, Portugal and Germany (see Box 2.1 for more details).

Box 2.1. Data: Structure of Earnings Survey and administrative matched employer-employee data

This section is mostly based on data from the Structure of Earnings Survey (SES) and administrative matched employer-employee data for five countries¹: Denmark, France, Netherlands, Portugal and Germany. SES data ends in 2018 and administrative data in 2019 (2018 for Germany). These years are therefore the reference years for the analyses. While it is likely that the structural dynamics of low-wage employment are relatively slow, analyses of wage progression and job mobility are replicated for previous periods for the sake of robustness.

The main focus is on total compensation (including basic pay and additional lump sums). For each country and data source, the analysis considers workers aged 20-65 in their main job, and is limited to firms with 10 or more employees in the non-agricultural private sector, excluding apprentices and self-employed – due to SES data limitations. For German administrative data, the sample is limited to full-time workers due to data limitations, and a 37-hour working week is assumed for the calculation of hourly wages.² The bottom and top percentile of the hourly wage distribution in each country and each year are dropped.

¹ This report is part of a broader OECD project that mobilises linked employer-employee data for cross-country research and policy analysis (LinkEED 2.0). For more details, please visit: <https://www.oecd.org/en/about/projects/linkheed-200.html>. The data used in this study are as follows: Germany: *Integrierte Erwerbsbiographien (IEB)*; Denmark : *Integrated Database for Labour Market Research (IDAN)* and other data from *Statistics Denmark*; France : Panel *DADS*; the Netherlands : administrative microdata from *Statistics Netherlands*; Portugal : *Quadros de Pessoal*.

² For the sake of robustness, comparative analyses have been replicated restricting each country's sample to full-time workers, and the results remain unchanged.

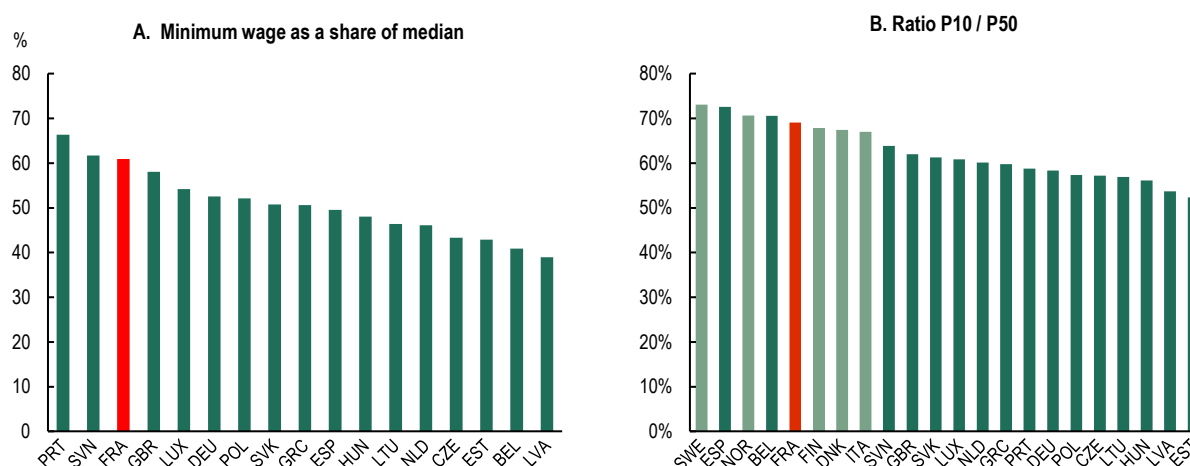
The evidence suggests that the high minimum wage in France shifts the distribution of low-wage employment upwards, by compressing the wage distribution between the (high) minimum wage and the median wage. The analyses also show that, in France as well as in the other four countries considered, low wages reflect low worker skills more than low firm quality. Still, low firm quality also plays a role, reflecting low-wage sectors and low-wage firms within sectors to about the same extent. Finally, low-wage workers in France have no more difficulty than in other countries in climbing up the wage ladder, but they may be at greater risk of falling into non-employment. France also stands out for the low job mobility of low-wage workers.

2.1. The high minimum wage in France shifts the distribution of low-wage employment upwards

The high minimum wage in France may be pushing up wages (and therefore reducing wage inequality) at the bottom of the wage distribution. At 60% of the median, the French minimum wage is among the highest of countries analysed (Figure 2.1 Panel A). At the same time, the p10/p50 decile ratio is also high compared to other countries analysed (Panel B), albeit to a lesser extent.

Figure 2.1. The gross minimum wage is high and wage inequalities at the bottom are low in France

2022



Note: Full-time workers. Light-coloured countries have no minimum wage.

Source: OECD minimum wage database and OECD earnings distribution database.

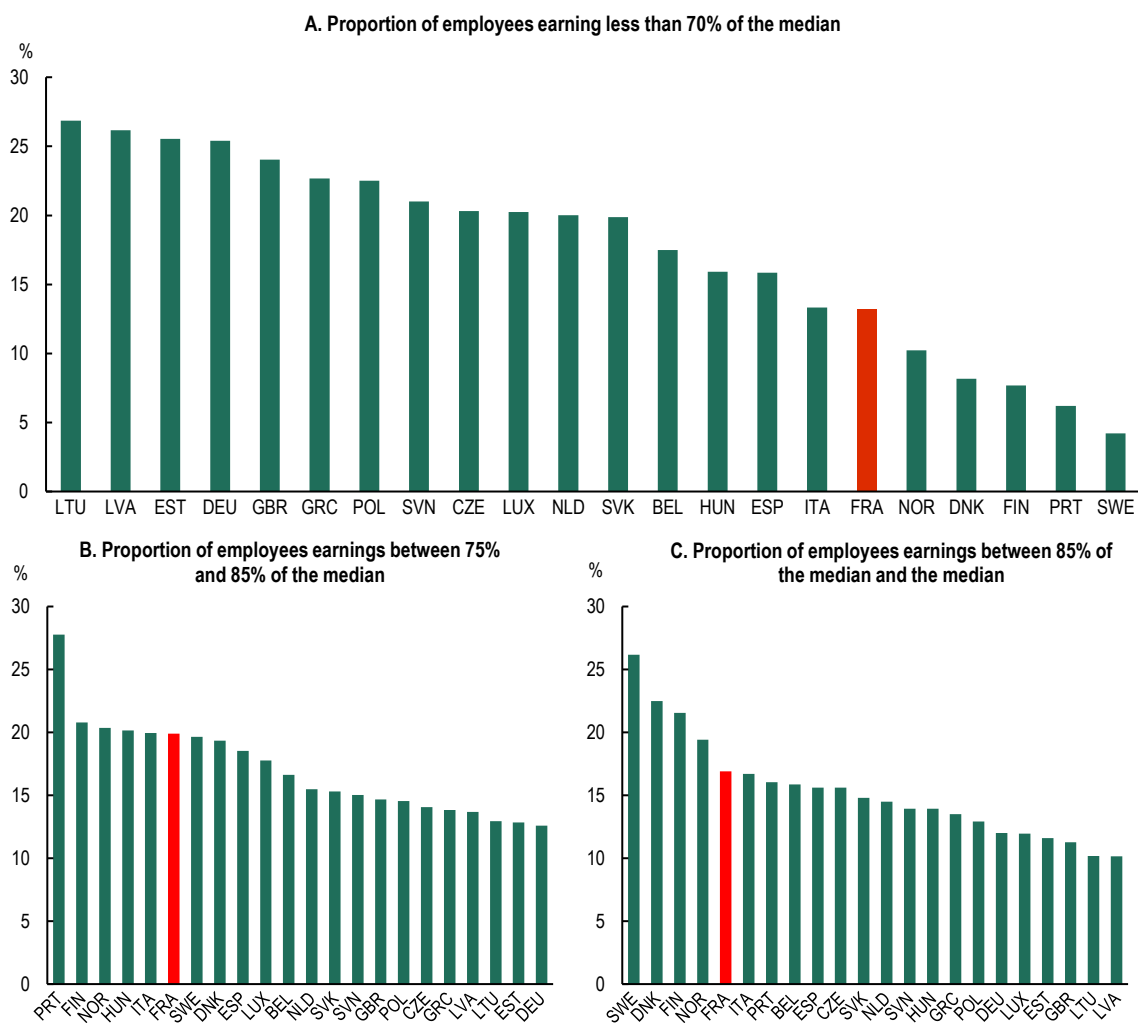
There is evidence that the high minimum wage in France compresses the bottom of the wage distribution between the (high) minimum wage and the median wage. While the share of workers earning less than 70% of the median wage is low (Figure 2.2 Panel A) – the French minimum wage is close to 70% of the median wage –, the shares of employees earnings between 70% and 85% of the median (Panels B) and between 85% and 100% of the median (Panel C) are high in France compared to the other countries analyzed. These findings remain valid whether considering total compensation (including additional lump-sum payments, e.g. bonuses) or base pay (Annex Figure 2.1).

A closer look at the wage distribution clearly shows the compression of the distribution at the bottom in France, compared with certain countries where the minimum wage is lower (as a share of the median), such as Belgium, Germany, Greece, the Netherlands and Spain (Figure 2.3). On the other hand, a similar

but stronger compression of the distribution can be observed in Portugal, where the minimum wage is also high. The shape of the wage distribution is similar in Germany for the years 2014 and 2018, before and after the introduction of the minimum wage in 2015. This is likely due to the fact that sectoral minimum wages were already in place in a number of sectors prior to the introduction of the national minimum wage. Nevertheless, there is a slight compression of the wage distribution below the median.

Figure 2.2. There is a compression of the wage distribution at the bottom in France

2018

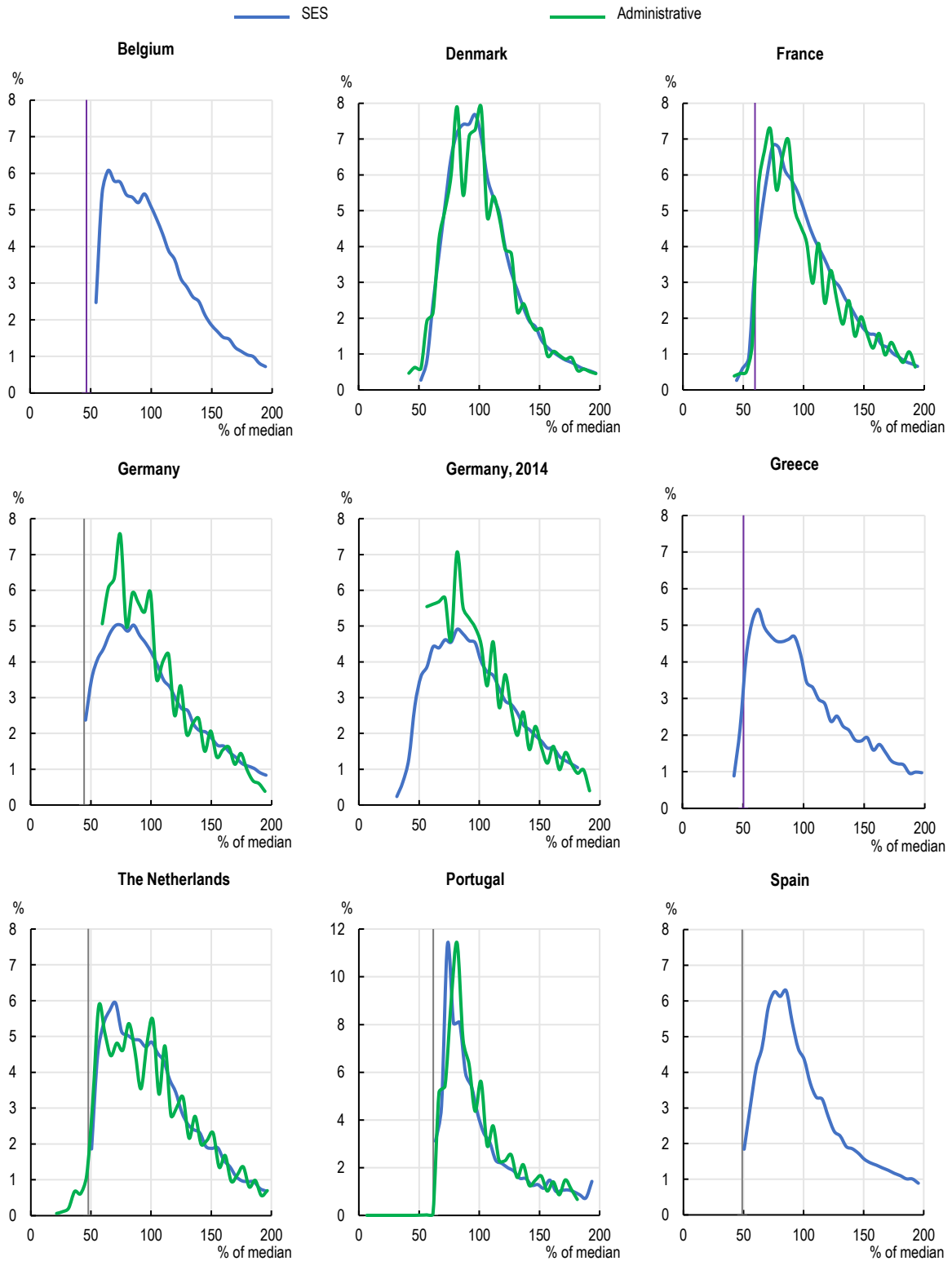


Note: Extreme values for Portugal in Panels A and B can be explained by the shift in the wage distribution induced by SES data limitations: a very steep peak in the distribution at 73.5% of the median wage (Figure 2.3) suggests that, for many minimum wage workers, hourly wage derived from SES is above 70% of the median, while it should in fact be equal to the minimum wage, i.e. 62% of the median. Therefore, the ranking of Portugal is underestimated in Panel A and overestimated in Panel B. This shift in the SES distribution can be observed in all countries, but is of particular concern for Portugal due to the remarkable steepness of the peak.

Source: SES

Figure 2.3. There is a compression of the wage distribution at the bottom in France compared with countries where the minimum wage is lower

Distribution of hourly wages in terms of percentages of the median, 2018



Note: Germany: analysis is limited to full-time workers and assumes a 37-hour working week, due to data limitations.
Source: SES, National sources mobilised through the LinKEED 2.0 network.

2.2. Low wages do not just reflect poor worker skills but also low firm quality

This section aims to understand the role played by firm quality relative to worker skills in determining low wages (see Box 2.2 for methodological details).

In France as in the other four countries considered, low wages do not just reflect poor worker skills but also low firm quality. Panel A of Figure 2.4 shows the contributions of worker- and firm-specific factors to the hourly wage differentials from the mean in different segments of the wage distribution: below 70% of the median, between 70% and 85% of the median, between 86 and 100% of the median and above the median. The contribution of worker skills to low wages in France (below 70% of the median) is about three times greater than that of low firm quality. Nevertheless, low firm quality appears to play a more important role in determining wages for low-wage workers than in higher segments of the wage distribution.

Box 2.2. Disentangling workers- and firm-specific contributions to low wage

The AKM framework (Abowd, Kramarz and Margolis, 1999^[6]) is used to disentangle the contributions of worker- and firm-specific factors to hourly wages.¹ Formally, it is based on the following regression equation:

$$w_{it} = x_{it}\beta + \gamma_j + \delta_i + \theta_t + \varepsilon_{it} \quad \text{Equation 1}$$

where w_{it} is the log hourly wage of worker i in year t , β the returns to potential labour market experience x_{it} (age), γ_j are firm fixed effects, δ_i are worker fixed effects and ε_{it} a random error term. Worker fixed-effects δ_i reflect a combination of skills and other time-invariant worker characteristics (e.g. gender) that are rewarded equally by different employers. The firm fixed effect γ_j provides a measure of firm wage premia paid by an establishment to all employees, net of workforce composition.

The contributions of worker- and firm-specific factors to the hourly wage differentials from the mean (the mean is used as reference in the AKM model) in a given segment of the wage distribution are given by the average firm component $\bar{\gamma}_j$ and the average worker component $\bar{\delta}_i + \bar{X}_{it}\beta$ in that segment of the distribution, respectively.

In a second step, the firm fixed effect is decomposed into a sector-related component and a firm-related component for a given sector. For this, the firm fixed effects γ_j are replaced with 3-digit industry fixed effects ρ_s in Equation 1. The contribution of firms within sectors is estimated by the difference between the overall firm component γ_j and the industry fixed-effect ρ_s .

¹ The AKM framework has been shown to provide a high-quality approximation to the wage structure in many countries, including France (Babé, Godechot and Palladino, 2022^[7]) and Germany (Card, Heining and Kline, 2013^[8]).

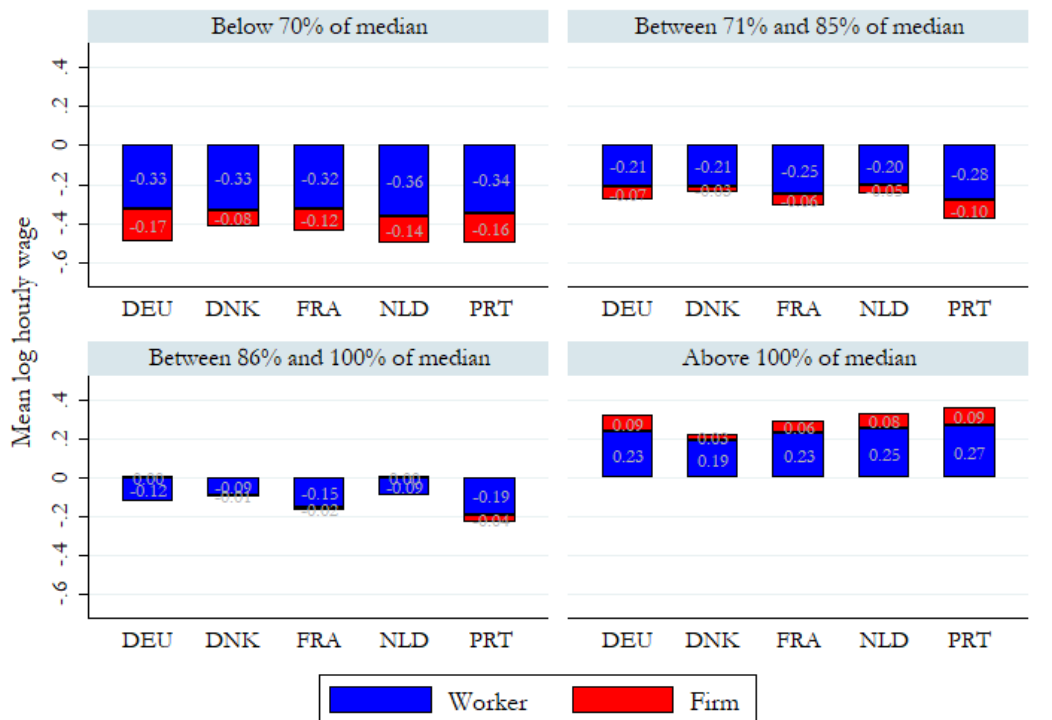
In turn, low firm quality reflects, with approximately equal importance, low-wage sectors and low-wage firms within sectors. Indeed, Panel B of Figure 2.4 shows that the *between* and *within* sector components of the firm-specific factors mentioned above (see Box 2.2 for more details) are about the same size.

At the extensive margin, the low incidence of low-wage employment (paying less than 70% of the median wage) in France translates into a low number of low-paid jobs in the trade sector in particular. While trade,

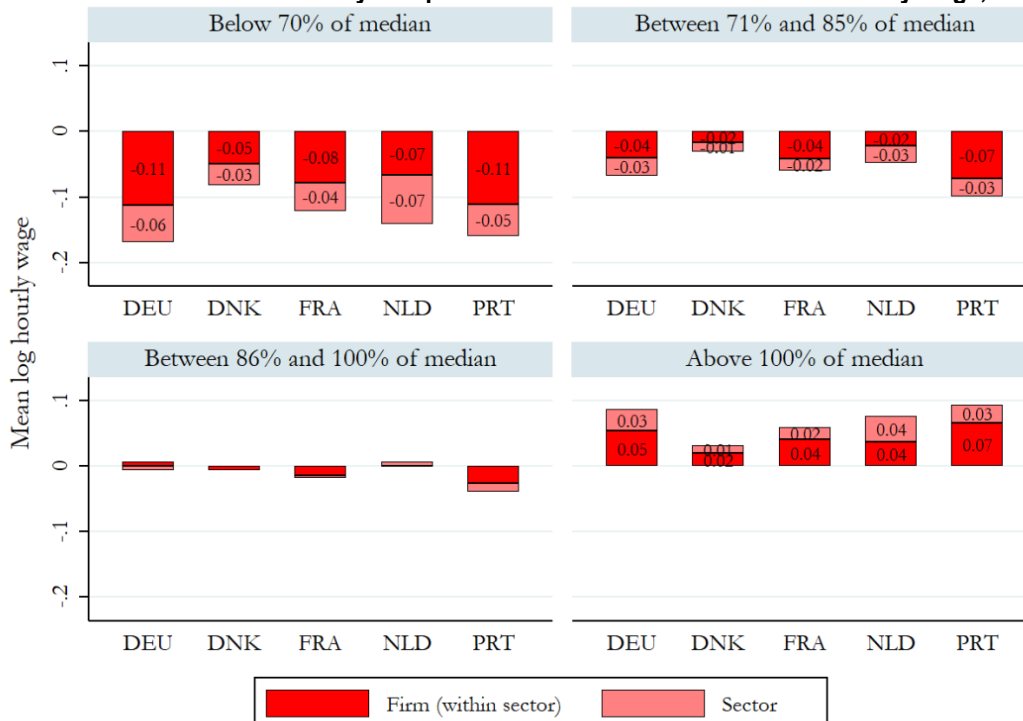
transportation, information and communication account for a large number of low-paid jobs in many countries, – particularly in the Baltic countries, ranking them first in terms of incidence of low-wage employment –, this is far from being the case in France (Figure 2.5). Still, France stands out for the relatively high number of low-paid jobs in public administration, defence, education or health. The same applies to the United Kingdom, which contributes to the country's high ranking in terms of the incidence of low-wage employment. Greece and Germany also rank highly due to the tourism and real estate sectors, respectively.

Figure 2.4. Low wages reflect low worker skills more than firm characteristics

A. Contributions of worker and firm-specific factors to hourly wage differentials from the mean, 2010-2019



B. Between and within industry components of the firm contributions to hourly wage, 2010-2019

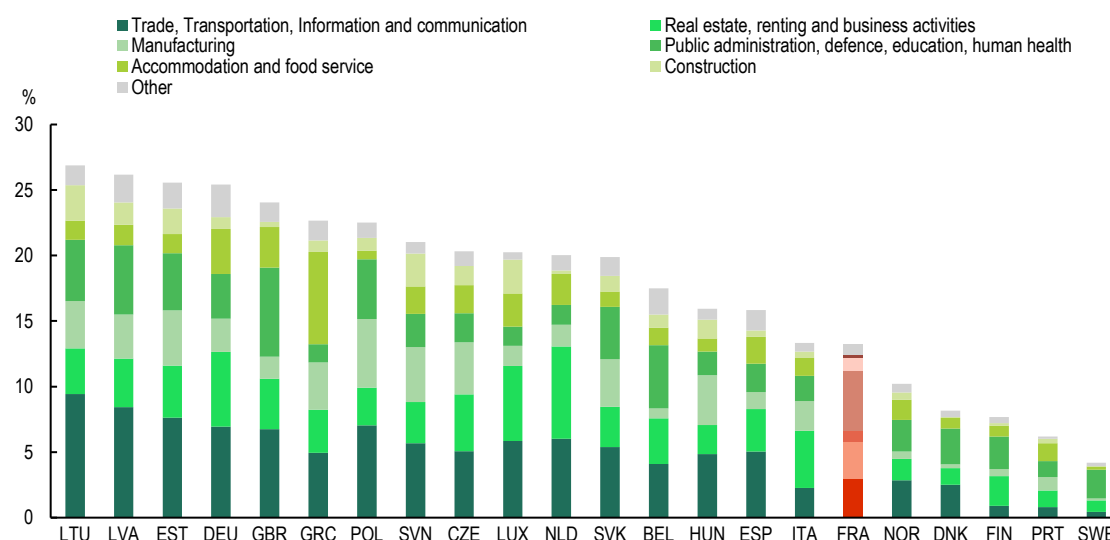


Note: AKM model estimated separately by country on the entire sample in years 2010-2019 (2010-2018 for Germany). More details are provided in Box 2.2. Germany: analysis is limited to full-time workers and assumes a 37-hour working week, due to data limitations.

Source: National sources mobilised through the LinkEED 2.0 network.

Figure 2.5. The low incidence of low-wage employment in France translates into a low number of low-paid jobs in the trade sector in particular

Proportion of employees earning less than 70% of the median wage, 2018



Note: Extreme values for Portugal in Panels A and B can be explained by the shift in the wage distribution induced by SES data limitations: a very steep peak in the distribution at 73.5% of the median wage (Figure 2.3) suggests that, for many minimum wage workers, hourly wage derived from SES is above 70% of the median, while it should in fact be equal to the minimum wage, i.e. 62% of the median. Therefore, the ranking of Portugal is underestimated in Panel A and overestimated in Panel B. This shift in the SES distribution can be observed in all countries, but is of particular concern for Portugal due to the remarkable steepness of the peak.

Source: SES.

2.3. Low-wage workers have no greater difficulty climbing up the wage ladder in France than in other countries

This section examines the link between low-wage employment, wage progression, firms' ability to restructure employment and workers' ability to change jobs. To do so, it focuses wage growth and job mobility along the wage distribution (see Box 2.3 for methodological details).

Low wage workers have no greater difficulty climbing up the wage ladder in France than in the other countries analysed. In the five countries analysed, 2018-2019 wage growth is decreasing with hourly wage (Figure 2.6 Panel A), so low-wage workers have higher wage growth than higher-wage workers. In 2018, for workers earning between 65% and 70% of the median wage³, wage growth – measured relative to that of workers earning more than the median wage – was similar in France and Portugal, and was at least 3 percentage points higher than in Denmark, Germany and the Netherlands. Wage growth is more similar across countries when considering years 2006 and 2014 instead of 2018 and extending the time horizon from one to five years (Annex Figure 2.2 Panels A and B). Nevertheless, France still does not stand out negatively using these alternative specifications. Therefore, the fact that low wage workers have no greater difficulty climbing up the wage ladder in France does not seem to be due to specific cyclical patterns.

³ The analysis focuses on low wage workers' ability to climb the wage ladder, which involves examining wage progression independent of minimum wage increases. Wages between 65% and 70% of the median do not show strong irregularities with respect to higher wage ranges (Figure 2.6), which suggests that the direct influence of minimum wage increases in this wage range is limited. This is not the case for wages below 65% of the median.

Box 2.3. Regression-based approach to wage progression and job mobility along the wage distribution

Analysis of 1-year and 5-year changes in selected outcomes is carried out along the wage distribution using regressions conducted separately for each country and time horizon based on the following equation:

$$\Delta y_{i,t+f} = \sum_k 1[b_{k-1} < w_{i,t} < b_k] \beta_k + \gamma X_{i,t} + \varepsilon_{it}$$

where $\Delta y_{i,t+f}$ is successively: annualised wage growth¹, a dummy variable for having left low-wage employment (i.e. paid less than 70% of the median wage), a dummy for having changed firm and a dummy for having moved out of work; all these changes relating to the period $[t, t + f]$ (where t is the reference year and $f=1$ or 5).

$w_{i,t}$ is the hourly wage in year t , and coefficients of interests β_k are on dummies for percentile bins of hourly wages $[b_{k-1}, b_k]$ expressed as k -% of the median and ranging from 45% to 100%. An additional $[100\%, 200\%]$ bin serves as the reference category, so that the coefficients on the other wage bin dummies should be interpreted as relative to the wage group above the median wage (wages above 200% of the median are excluded).

Controls $X_{i,t}$ include dummies for region (NUTS 2), industry (NACE 2), age groups (20-29, 30-49, and 50-64), gender, tenure (0, 1-3, 4-10, 11-20, and > 20 years), contract type (permanent or temporary), full-time/part-time status and nationality (foreign born/ native born).

Similar regressions split by age groups (20-29, 30-49, and 50-64) are conducted to explore the heterogeneity of the results according to age.

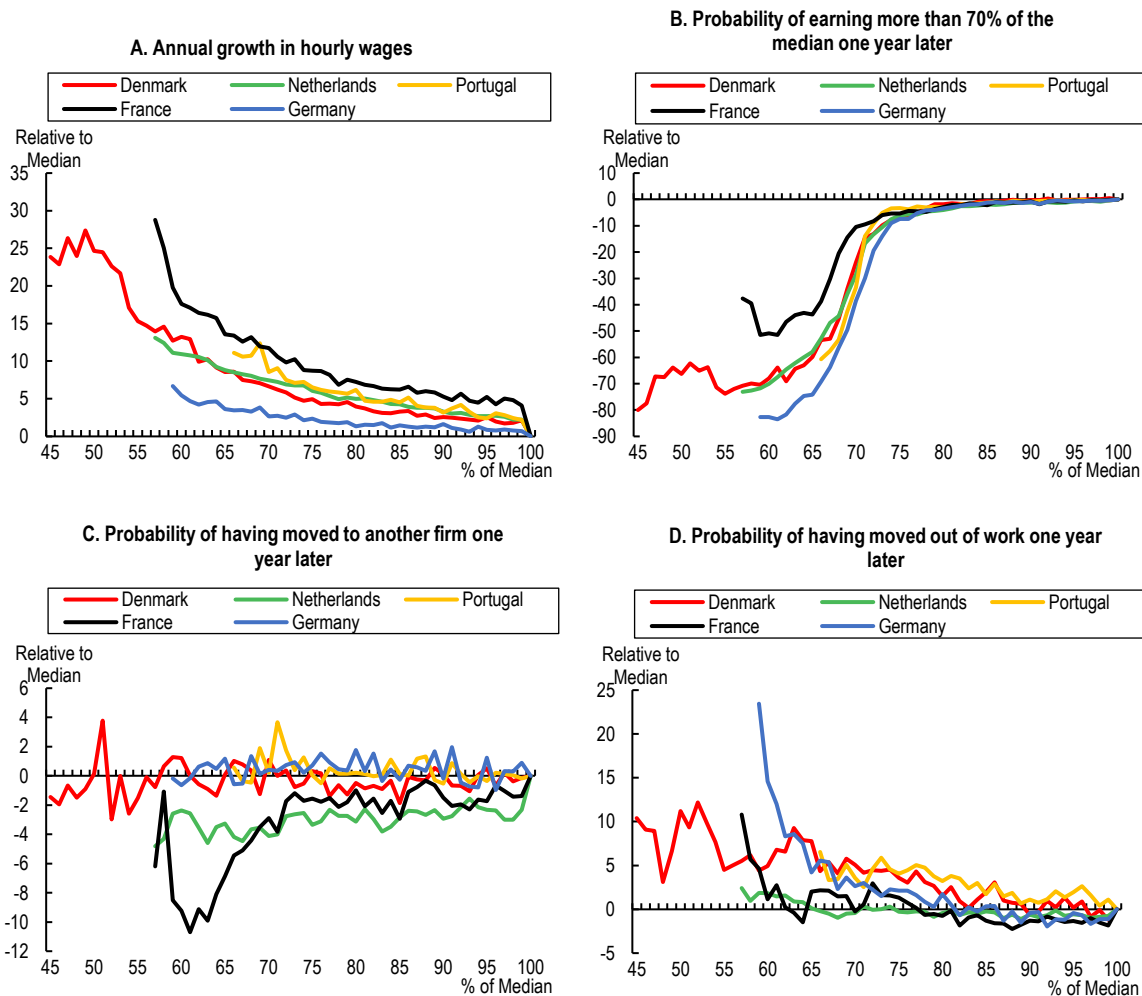
¹ Annualized growth is calculated as the wage in year $t+f$ minus the wage in year t , divided by f (therefore not accounting for non-employment spells between t and $t+f$).

In line with this, low-wage workers are not more likely to continue earning low wages in France than in other countries. In 2018, the probability – again measured relative to that of workers earning more than the median wage – that a worker earning between 65% and 70% of the median was paid more than 70% of the median one year later was even at least 20 percentage points higher in France than in Denmark, Germany, Portugal or the Netherlands (Figure 2.6, Panel B). Here again, France gets closer to the other countries analyzed when considering years 2006 and 2014 instead of 2018 and extending the time horizon from one to five years (Annex Figure 2.2 Panels C and D).

However, France stands out for the low probability of low-wage workers changing firm (Figure 2.6 Panel C). The probability for French workers earning between 65% and 70% of the median wage in 2018 changing firm between 2018 and 2019 was around 4-5 percentage points lower than for workers earning above the median, whereas it is the same for these two groups of workers in Germany, in Denmark or in Portugal. This lower job mobility in the [65%, 70%] wage interval might be primarily driven by younger workers and, to a lesser extent, prime-age workers (Annex Figure 2.3 Panels A, C and E). These findings are qualitatively robust to alternative specifications considering years 2006 (although more limited to wages around 65% of the median wage) and 2014 instead of 2018 and extending the time horizon from one to five years (Annex Figure 2.2, Panels E and F).

Figure 2.6. Low-wage workers have no greater difficulty climbing up the wage ladder in France than in other countries but have a lower job mobility

2018



Note: Outcome are presented along the distribution of hourly wages in 2018 (2017 for Germany), expressed in percentage of the median hourly wage (each bin is of width 1%). They are measured by the coefficients from the regression described in Box 2.3 and run separately by country; they are therefore relative to the countries' outcome at or above median hourly wage (100-200% of the median is the omitted group in the regressions). Coefficients are dropped for presentation if there are fewer than 10 observations in the corresponding wage bin. Coefficients corresponding to wage bins below the minimum wage are dropped (Denmark does not have a minimum wage). If there are multiple jobs in one year, the one with the highest earnings is selected. Panel D: Moving out of work can include transitions into public and agricultural sectors, self-employment, or firms with less than 10 employees. Germany: analysis is limited to full-time workers and assumes a 37-hour working week, due to data limitations.

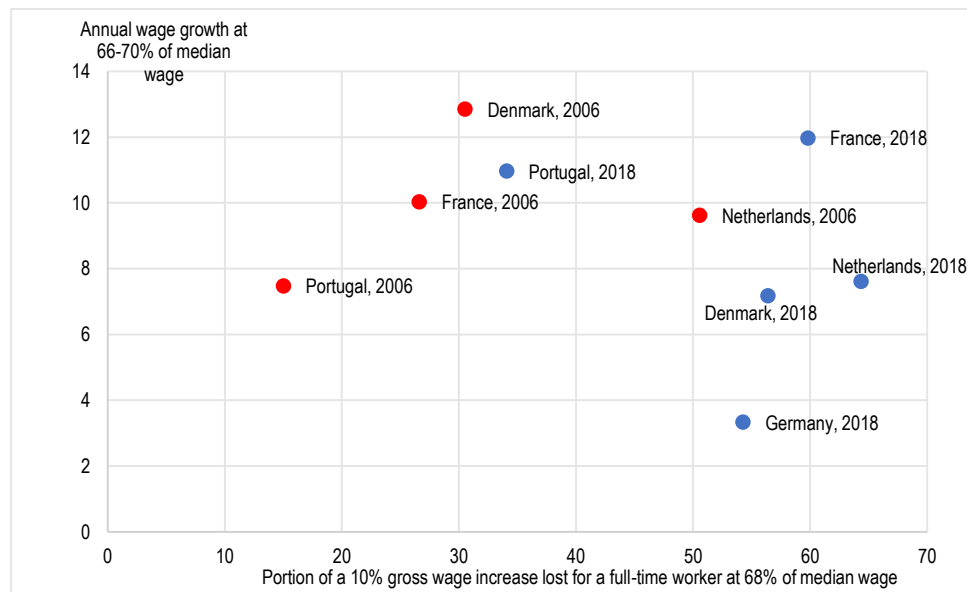
Source: National sources mobilised through the LinkEED 2.0 network.

There is also some evidence that low-wage workers might be at particular risk of becoming jobless in France compared to higher-wage workers in France (Figure 2.6 Panel D and Annex Figure 2.2 Panels G and H), but also, as far as prime-age workers are concerned, compared to low-wage workers in other countries (Annex Figure 2.3, Panels B, D and F).

The tax and benefit system might play a rather limited role in the wage progression of low-wage workers. Figure 2.7 plots annual wage growth data, averaged over 66%-70% of the median, against the share of a

gross wage increase from 68% to 78% of the median wage that is lost due to the Tax and Benefit system (i.e. the marginal effective tax rate from 68% to 78% of median wage), for years 2006 and 2018. It shows that workers in countries with very different incentive mechanisms can in fact experience similar wage growth (e.g. France and Portugal in 2018, France and the Netherlands in 2006). Conversely, countries with similar marginal effective tax rates can have very different opportunities for wage progression (e.g. France and Germany in 2018). Finally, some countries that experienced a significant reduction in incentives for workers to increase their wage between 2006 and 2018 (e.g. France or Portugal) saw wage progression increase over the period. The next part of this study looks in more detail at the potential role of the tax and benefit system in wage dynamics.

Figure 2.7. For low-wage workers, incentives to increase wages provided by the tax and benefit system are weakly correlated with actual wage progression



Note: The portion of wage increase lost is based on a wage increase from 68% to 78% of the median wage. It is averaged over three family situations: one-earner couple with two children, single individual with two children, and single individual with no children. Germany: analysis is limited to full-time workers and assumes a 37-hour working week, due to data limitations; year 2006 is excluded due to data unavailability.
Source: OECD tax-benefit policy database (<http://oe.cd/TaxBEN>) and National sources mobilised through the LinkEED 2.0 network.

3. Wage progression and the tax and benefit system

This second part documents the impact of the tax and benefit system on labour supply and demand in a comparative approach (France versus its main economic partners) and according to family configurations (single person, one-earner couple, with or without children). The analysis is based mainly on the [OECD tax-benefit database](#) and the OECD “[TaxBEN](#)” model. It looks at policies deployed in 2023 in 8 OECD countries (Belgium, France, Germany, Netherlands, Spain, Sweden, United Kingdom and United States⁴), focusing on the lower end of the wage distribution (first two sections), as well as on skilled employment (third section).

This analysis shows that potential low-wage traps mechanisms exist on the labour supply side: while incentives to take up a job at the minimum wage when unemployed, or to move from part-time to full-time work at SMIC level, are relatively high, the net gains from wage increases above the full-time minimum wage are reduced by the concomitant drop in in-work benefits (the *prime d'activité*). France is not the only country in this situation (e.g. Germany and the United Kingdom).

Similarly, potential low-wage traps mechanisms can also be found on the labour demand side: labour cost remains moderate at the minimum wage, due to exemptions from employer contributions, but rises sharply with wages. As a result, wage increases for workers earning the minimum wage are particularly costly for employers, despite the smoothing of the social contribution scale.

A comparative analysis of net incomes and labour costs between France and Germany is also carried out for two skilled occupations, for which French employers are experiencing hiring difficulties: skilled metalworkers, and managers in the construction sector. For these two occupations, the tax and benefit systems affect income differentials between the two countries to the advantage of French workers, and reduce labour cost differentials by weighing more heavily on French labour costs.

3.1. The net income of low-wage workers has increased over time thanks to the tax and benefit system

The introduction of the *Revenu de Solidarité Active (RSA)* in 2009 and its replacement by the *Prime d'Activité* in 2016 (Table 3.1. et Box 3.1) were accompanied by a significant rise in the net income of minimum wage workers, measured as a share of average wage, particularly visible for one-earner couples

⁴ The minimum wage for the United States is estimated by the sum of state-level minimum wages weighted by the number of nonfarm private sector employees in the state in 2019 from the State and Metro Area Employment, Hours, & Earnings published by the BLS. For the five states without a minimum wage (Alabama, Louisiana, Mississippi, South Carolina and Tennessee), the federal minimum wage is used. This estimate does not take into account any exemptions or derogations in force in the states.

with two children (Figure 3.1. Panel A).⁵ At 25% of total net income, in 2023 the *Prime d'activité* was the main social benefit received by this type of household.

Table 3.1. In work benefits in France since 2008

Measure	Description
2001-2015: Prime pour l'emploi	2008-2015: Tax credit for workers with a net salary of between €3,743 and €26,572.
2009-2015: RSA Activité	RSA activité (2015) = lump sum (e.g. 1 079 euros for a couple with two children) + 62% of household earned income – household resources
2016- Today: Prime d'activité replaces RSA activité and Prime pour l'emploi	Prime d'activité (2023) = lump sum (e.g. 1 250 euros for a couple with two children) + 61% of household earned income + individual bonus for every workers working at least half-time - household resources. More details are provided in Box 3.1.
2019: Revaluation of the individual bonus of the Prime d'activité	Up to €90 additional individual bonus for each worker working at least half-time.

Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

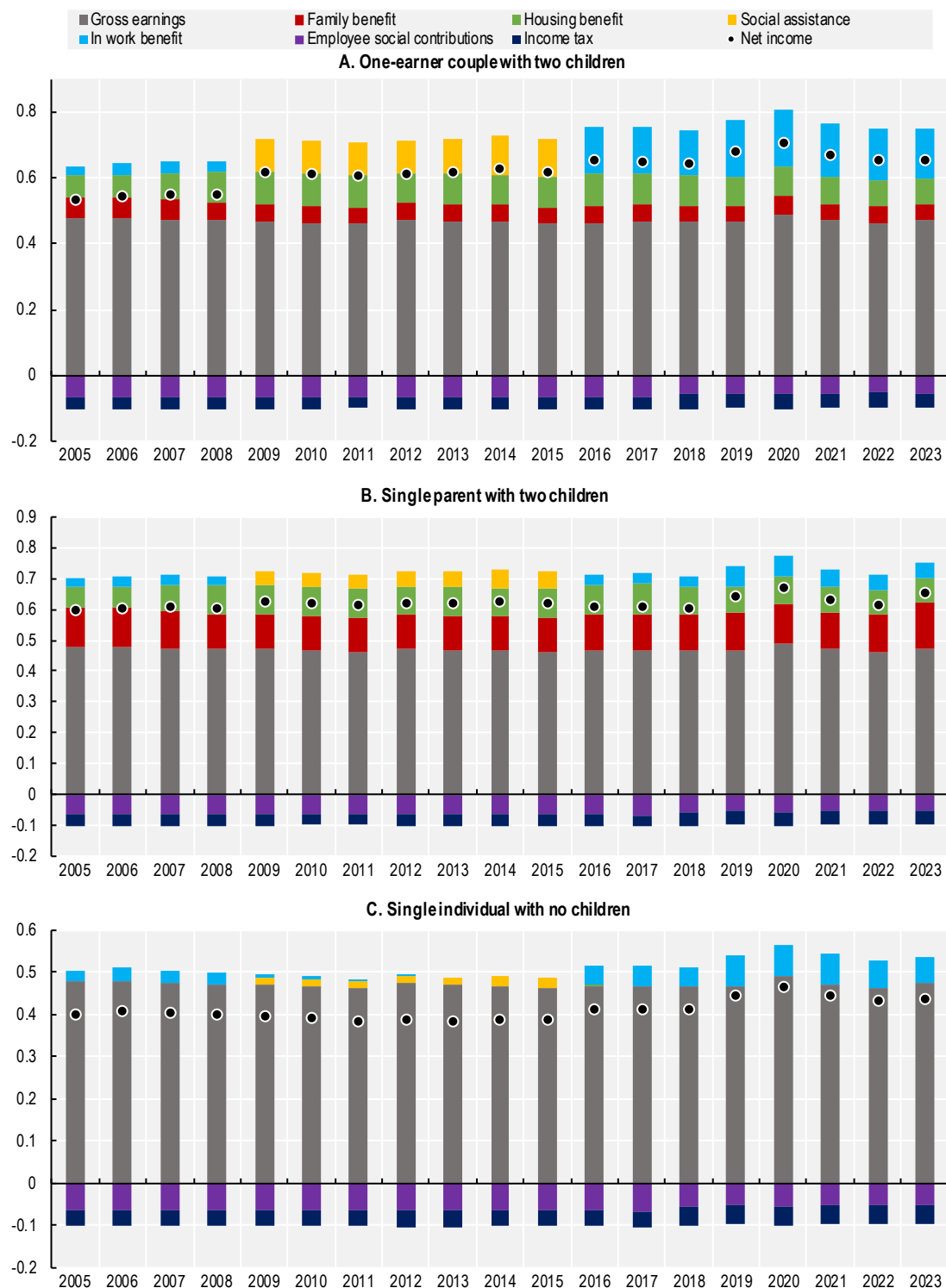
In line with this, in international comparison, France saw a sharp increase in net income for low-wage single-earner couples with two children between 2008 and 2023. For a household earning 67% of the average *gross* wage (which in France corresponds to around 1.2 times the SMIC), net income rose from 62% to 72% of the average wage between 2008 and 2023 (Figure 3.2). While the net income of low-wage workers has increased in the majority of countries studied, only Spain shows a higher increase, due to the creation of significant housing benefits (*Plan Estatal para el Acceso a la Vivienda 2022-25*) and family benefits (*Ayuda para la Infancia*) in 2022 and 2023.

For single individuals and single parents with two children, the increase in the *Prime d'activité* in 2019 has played an important role (Figure 3.1. Panels B and C). The effects of the introduction of the RSA and then the *Prime d'activité* on net income were more limited. Family benefits play a central role for single parents throughout the period studied, granting them an income close to that guaranteed by the RSA and then the *Prime d'activité* (Figure 3.1. Panel B). For single individuals with no children, the SMIC was very close to the level of income guaranteed by the RSA, which therefore remained very limited (Panel C).

⁵ Unlike the *Prime pour l'emploi* and the *Prime d'activité*, which are classified as in-work benefits, the *RSA activité* is classified as social assistance. This follows the conventions used in the TaxBEN model, which involve including the different components of the RSA in the same category.

Figure 3.1. The net income of French low-wage workers has increased over time thanks to the tax and benefit system

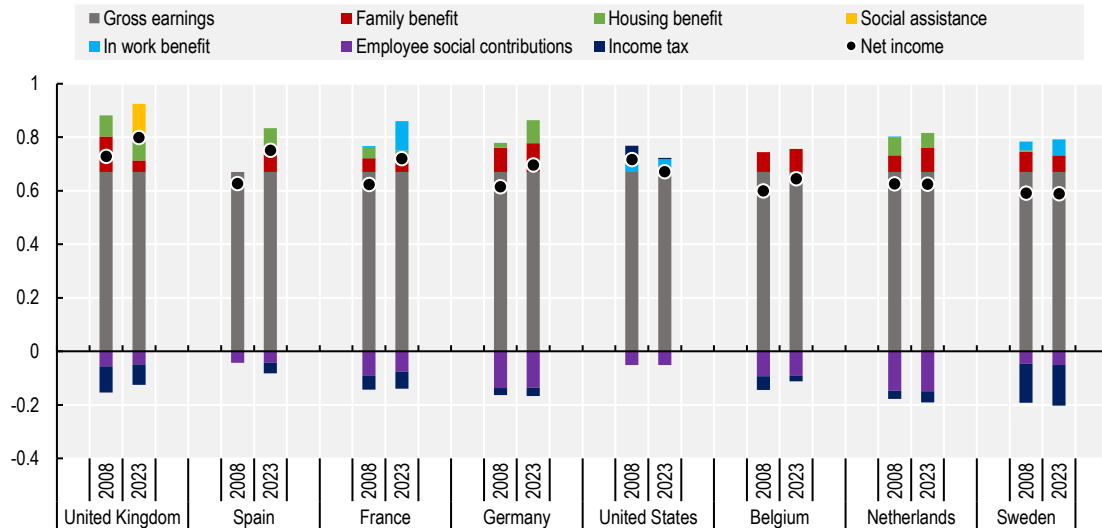
Net income at the minimum wage in % of average wage, full-time workers, France



Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

Figure 3.2. France is one of the countries where the increase in net income of low-wage workers has been the strongest since 2008

Net income in % of average wage, full-time workers at 67% of average wage, one-earner couple with two children, 2008 and 2023



Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

Box 3.1. In-work benefits in France, Sweden, United Kingdom and the United States

Prime d'activité in France

The *Prime d'activité* is a continuation of the activity component of the *Revenu de Solidarité Active* (RSA). Created in 2009, the RSA replaced existing social minima, focusing on work incentives: unlike the *Revenu Minimum d'Insertion* (RMI), and within the limit of a specific resource threshold, the *RSA activité* guarantees that a person who returns to work will see their income increase in proportion to the number of working hours. Previously, for every euro earned, there was an equivalent reduction in social minima. Only the *Prime pour l'emploi*, a refundable tax credit conditional on employment, could be combined with earned income.

The *Prime d'activité* replaces the *RSA activité* and the *Prime pour l'emploi* from January 1, 2016. Its characteristics are in line with those of the *RSA activité*, with a similar scale when the benefit was launched. Like the *RSA activité*, it supplements earned income for workers on modest incomes. It is granted to people aged 18 and over who are working or receiving compensation for partial or technical unemployment (*Chômage partiel ou technique*).

The amount of the *Prime d'activité* is equal to the difference between the lump sum (see Table 3.2), plus 61% of the household's earned income (and, in some cases, a bonus based on each worker's earned income), and the household's total resources. 61% of earned income can therefore be combined with the benefit.

Table 3.2. Lump sum for the *Prime d'activité*

April 2023

	Single recipient	Couple
No children	595.25 €	892.88 €
1 child	892.88 €	1 071.46 €
2 children	1 071.46 €	1 250.04 €
For each additional child	+238.10 €	+238.10 €

Earned Income Tax Credit (EITC) in Sweden and the United-States

Whether in the Sweden or the United States, the *Earned Income Tax Credit (EITC)* is a tax credit for working households. It increases in proportion to the household's wages, with a certain phase-in rate, until a maximum amount is reached. It then remains at this maximum amount for a certain income bracket, then gradually decreases, at the phase-out rate, to disappear above a certain income threshold. In the United States, the *EITC* is indexed to the sum of household wages, and targets families with low earned incomes (Table 3.3). Conversely, in Sweden, the *EITC* is indexed to individual wages and targets a very wide wage range (Table 3.4).

Table 3.3. United States EITC scale

Annual amounts, 2023

	Phase-in rate	Phase-in ends	Maximum amount	Phase-out begins (Single)	Phase-out begins (Married)	Phase-out rate	Phase-out ends (Single)	Phase-out ends (Married)
No children	7.65%	7,843\$	600\$	9,800\$	16,367\$	7.65%	17,640\$	24,210\$
1 Child	34%	11,750\$	3,995\$	21,560\$	28,120\$	15.98%	46,560\$	53,120\$
2 Children	40%	16,510\$	6,604\$	21,560\$	28,120\$	21.06%	52,918\$	59,478\$
3 Children and +	45%	16,510\$	7,430\$	21,558\$	28,418\$	21.06%	56,838\$	63,698\$

Table 3.4. Sweden EITC scale

Annual amounts, 2023

Phase-in rate	Phase-in ends	Maximum amount	Phase-out begins	Phase-out rate	Phase-out ends
Between 12.8% and 34%, depending on earnings and local tax rate	424,200 SEK (37,000 €)	Depends on local tax rate, approximately 33,300 SEK (2900 €) at average tax rate.	710,810 SEK (61,900 €)	3%	Depends on local tax rate, approximately 1,110,000 SEK (96,700 €) at average tax rate

Note: This scale is for individuals under 65.

Universal Credit in the United Kingdom

In the United Kingdom, Universal Credit, gradually implemented from 2013 to 2024, has replaced and combined six benefits targeted at both employed and unemployed individuals.¹ Its amount depends on the recipient's family situation (Table 3.5), and additional benefits can be received to cover specific needs.² Universal Credit is compatible with labour income, but is reduced by 55% of any additional earned income.³ It is limited by a ceiling on the total working-age benefits a household can receive: £22,020 a year for couples and lone parents (£25,323 in Greater London) and £14,753 a year for single people without children (£16,967 in Greater London).⁴

Table 3.5. Universal Credit scale

Monthly amounts, 2023

	Monthly amount
Standard allowance – Single individual	334.91£ (385 €) (over 25) 265.31 (305 €) (under 25)
Standard allowance – Couple	525.72£ (604 €) (over 25) 416.45£ (479 €) (under 25)
Additional allowance – 1st child	£290 (333 €) (if born before 6 April 2017) £244.58 (281 €) (if born after 6 April 2017)
Additional allowance – additional child	£244.58 (281 €) per child

¹ The six benefits are as follows: Child Tax Credits, Housing Benefit, Income Support, Income-Based Jobseeker's Allowance, Income-Related Employment, and Support Allowance and Working Tax Credit.

² Additional allowances may be paid to cover housing and childcare costs, as well as for people whose ability to work is limited (in the case of disability, for example) or who are caring for a disabled person.

³ The income considered is net of income tax and pension and employee contributions. A work allowance, which does not take into account a certain amount of income, may also be paid to people with childcare responsibilities or whose ability to work is limited.

⁴ Certain groups are excluded from the benefit ceiling, in particular those with a household income of at least £722 per month.

Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

3.2. The tax and benefit system guarantees incentives to take up low-paid jobs but can curb wage increases for full-time minimum wage workers

Potential low-wage traps mechanisms exist on the labour supply side. While incentives to take up a job at the minimum wage when unemployed, or to move from part-time to full-time work at SMIC level, are relatively high, the net gains from wage increases above the full-time minimum wage are reduced by the concomitant drop in in-work benefits.

Incentives to take up a job at the minimum wage can be high

In France, incentives for an unemployed individual to take up a minimum-wage job can be substantial by international standards (reflected in a low Participation Tax Rate (PTR)), thanks to the *Prime d'activité*, which partially replaces the unemployment benefits or social assistance withdrawn. This is the case, for example, for a one-earner couple with two children (Figure 3.3. Panel A) and, to a lesser extent, for a single parent with two children (Panel B) or a single individual with no children (Panel C).

Among the countries studied, and for a one-earner couple with two children, only the United States and the United Kingdom have a lower PTR than France (Figure 3.3. Panel A). In addition to relatively ungenerous unemployment insurance, incentives to take up a job are preserved by the Earned Income Tax Credit (EITC) in the United States - to which is added the Child tax credit, a refundable tax credit granted for each child under 17 - and Universal Credit in the United Kingdom, part of which can be retained when taking up a job (see Box 3.1 for more details on the EITC and Universal Credit).⁶

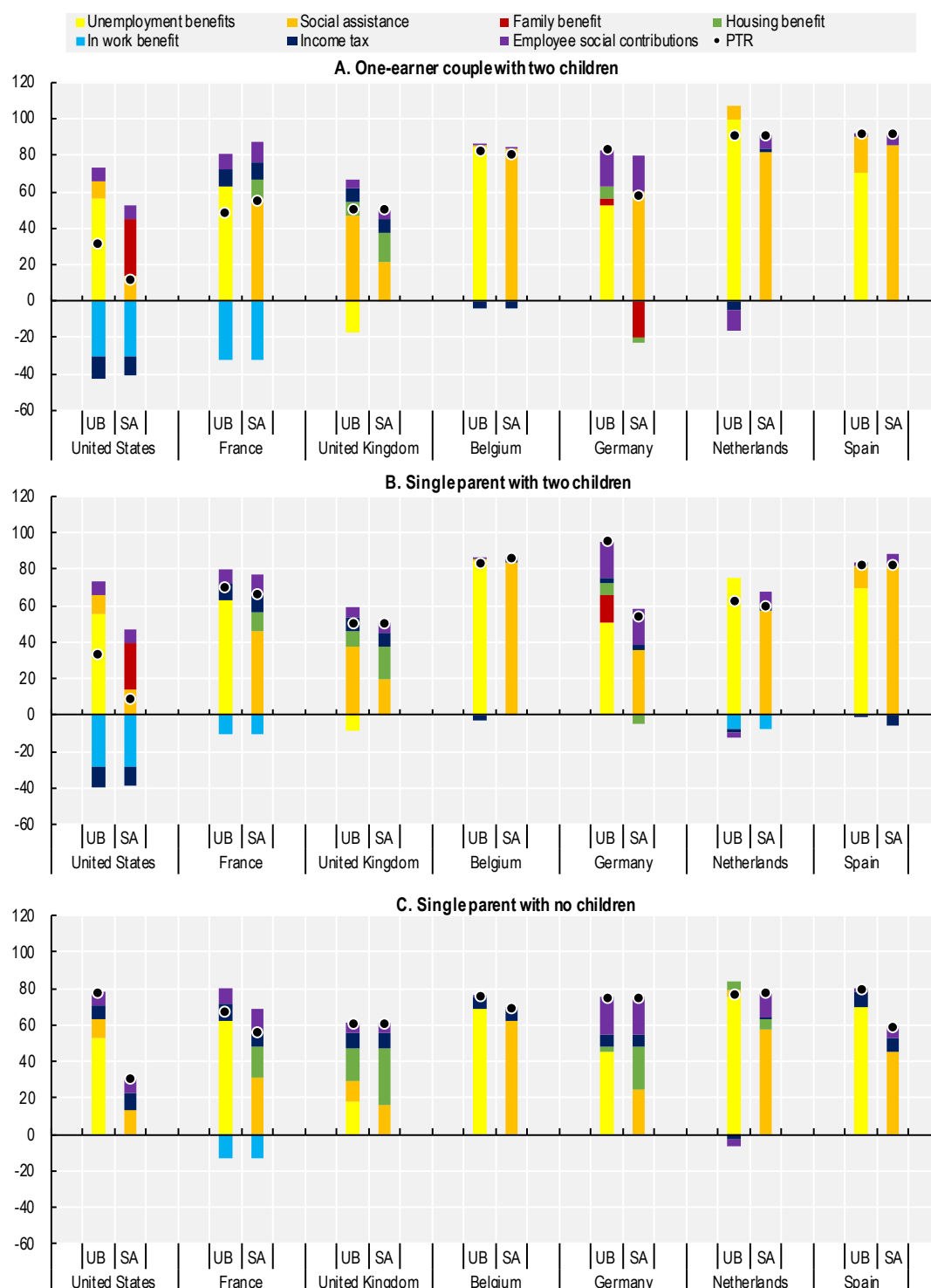
In France, incentives to take up a job at the minimum wage are similar for the unemployed who benefit from unemployment insurance and those who do not (Figure 3.3.). This is also the case in Belgium, the Netherlands and the United Kingdom. Germany has a considerably lower PTR (and therefore greater incentives) for parents of two children who do not receive unemployment insurance (Figure 3.3. Panels A et B): for one-earner couples, because taking up a job guarantees their eligibility for the child supplement (*Kinderzuschlag*)⁷; while for single parents, taking up a job is accompanied by an almost halved loss of social benefits. In the United States, the PTR is around three times higher for unemployment insurance recipients, despite a tax credit received under the EITC identical to that of non-recipients. This is due to the amount of benefits lost when a job is taken up: the amount of unemployment insurance is much higher than the sum of social benefits received by unemployed people who are not eligible.

⁶ According to the conventions used in the TaxBEN model, the EITC is classified as an in-work benefit, the Child tax credit as an income tax (credit), and Universal Credit as social assistance.

⁷ In 2023, eligibility for the child supplement required an income of 900 euros per month for a couple and 600 euros for a single parent. The income calculated to define eligibility includes wages, any disability pensions and unemployment insurance.

Figure 3.3. In France, incentives to take a job at the minimum wage are preserved by the *Prime d'activité*

PTR when entering full-time work at minimum wage from unemployment benefits (UB) or social assistance (SA), 2023



Note: The unemployment benefits considered correspond to two months' unemployment.

Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

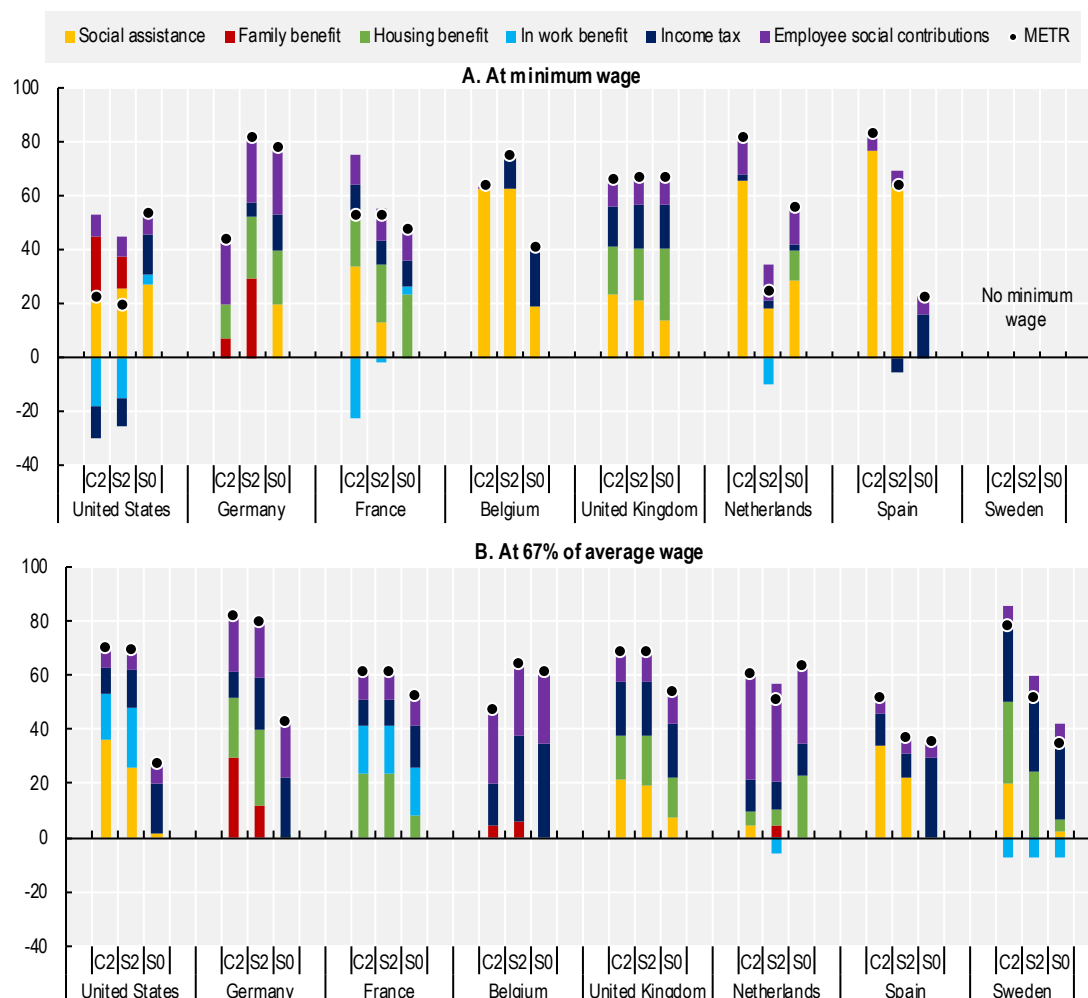
Incentives to move from part-time to full-time low-wage employment are high

The proportion of gross wage gains retained by a minimum-wage worker when moving from part-time to full-time work is high in France by international standards (reflected in a low Marginal Effective Tax Rate (METR)) (Figure 3.4. Panel A). This share is around half for the three family situations considered. Depending on the type of household, this may be due to an increase in the *Prime d'activité*, but also to a moderate reduction in social benefits (housing benefit and *Prime d'activité*) in international comparison - and/or to a smaller increase in taxes. In the United States, the incentives to go full-time are particularly high at minimum wage for a one-earner couple or a single parent with two children, for whom the EITC and Child tax credit supplements compensate for two-thirds of the substantial reductions in social assistance.

In France, the move from part-time to full-time work at 67% of the average wage is accompanied by a very gradual increase in taxes and contributions compared to the other countries studied, which preserves the incentive to increase hours worked despite a substantial reduction in social benefits (Figure 3.4. Panel B): for the three family situations considered, the move to full-time work is never accompanied by an increase but always by a reduction in the *Prime d'activité*. In Sweden, unlike the United-States, the EITC increases, albeit modestly, when moving from part-time to full-time at 67% of the average wage (see Box 3.1 for more details on the Swedish EITC).

Figure 3.4. Incentives to move from part-time to full-time low-wage employment are relatively high in France

METR when moving from half-time to full-time, one-earner couple with two children (C2), single parent with two children (S2) and single individual with no children (S0), 2023



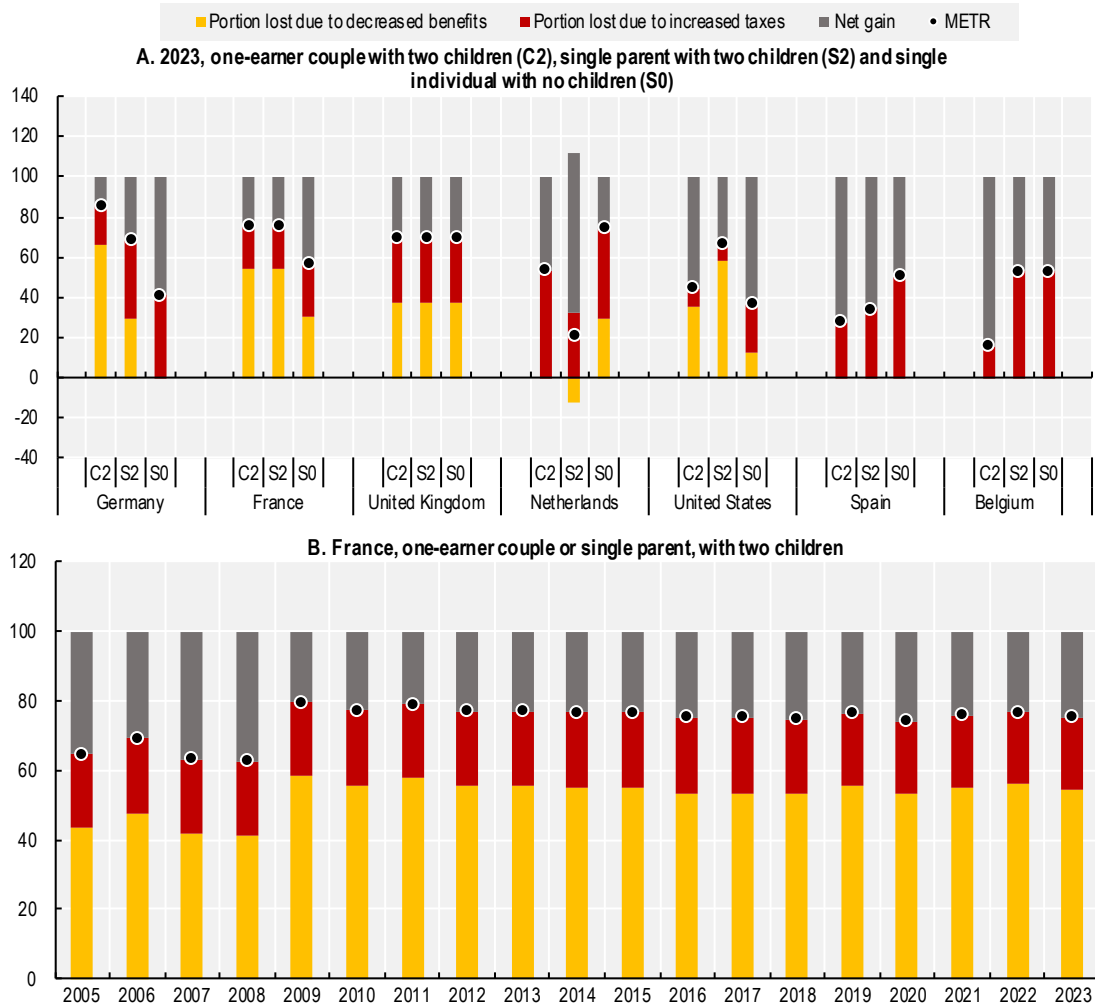
Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

A significant part of wage increases at full-time minimum wage can be absorbed by benefit losses

The benefits of a wage increase for a minimum-wage worker in France are low by international standards, particularly for a one-earner couple or a single parent with two children. For these family situations, only a quarter of a 10% gross wage increase contributes to the household's net income (Figure 3.5 Panel A), compared with at least half in Belgium and the Netherlands, and two-thirds in Spain. This proportion was over a third in France before the creation of the RSA in 2009 (Panel B). By increasing the social benefits received for wage levels close to the SMIC, the *RSA activité*, and later the *Prime d'activité*, have reduced the incentive to exceed these wage levels.

Figure 3.5. A significant part of wage increases at full-time minimum wage can be absorbed by benefit losses in France

Portion of a 10% gross wage increase *lost* for a full-time minimum wage worker



Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

The benefits of a wage increase at minimum wage are also low in Germany - for a one-earner couple or a single parent with two children - and in the UK - for all three family situations considered (Figure 3.5 Panel A) -, due to substantial benefits that decrease with wages. In Germany, the child supplement (*Kinderzuschlag*) provides support for parents on modest incomes, which decreases by 45% of earned income. In the United Kingdom, Universal Credit decreases by 55% of any additional earned income.

Incentives vary considerably according to household type in the United States, where they depend mainly on the amount of EITC lost when wages rise (and therefore on the amount received at minimum wage level): they are therefore low (and comparable to France) for single parents, but relatively high for single individuals with no children.

Similarly, in France, as in Germany and the United States, the proportion of a gross wage increase that contributes to net household income for a minimum-wage worker is higher for a single individual with no children (Figure 3.5 Panel A). This is due to the lower amount of benefits received by these individuals, for whom the benefit loss associated with a wage increase is therefore lower.

3.3. Labour cost remains moderate at minimum wage but rises sharply with wage

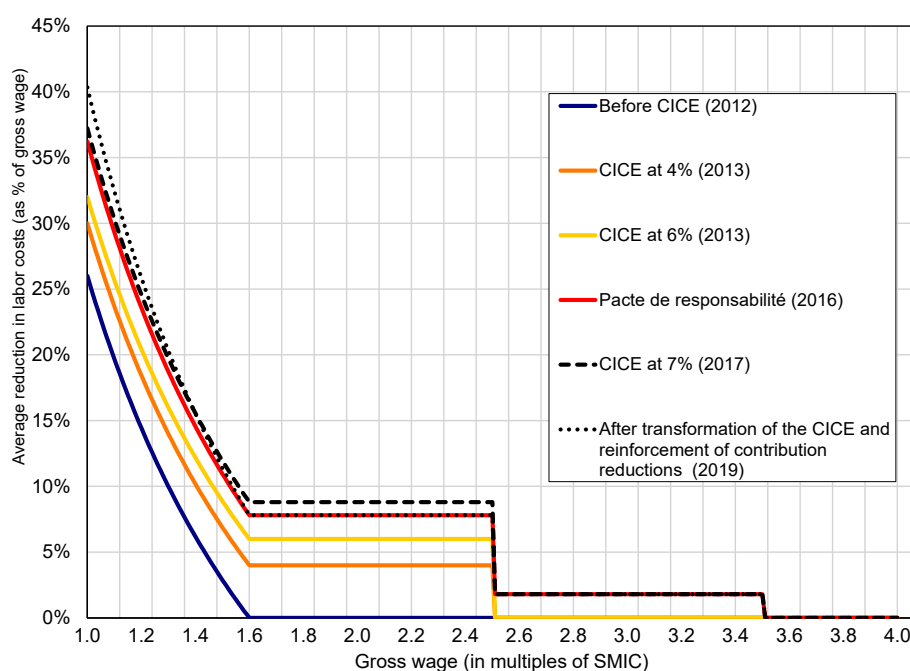
Potential low-wage traps mechanisms can also be found on the labour demand side. Labour cost remains moderate at minimum wage but rises sharply with wage. As a result, wage increases for workers earning the minimum wage are particularly costly for employers, despite the smoothing of the social contribution scale.

Measures to reduce employer contributions significantly reduce labour costs at low-wage levels

With the introduction of the *Pacte pour la compétitivité et l'emploi* in 2012, successive measures to reduce employer social contributions on low wages (Table 3.6) have helped to significantly reduce labour costs for wages up to 2.5 SMIC (Figure 3.6 and Figure 3.7). For a minimum wage worker, employer social contributions have fallen from 19% of gross wage in 2012 to 4% in 2023, keeping labour costs at the minimum wage level relatively low by international comparison (Figure 3.7 Panel C). Conversely, these contributions changed little at the 3.5 SMIC reduction threshold (Figure 3.7 Panel B).

Figure 3.6. Measures to reduce employer contributions have intensified since 2013

Measures to reduce employer contributions as a % of gross wage



Note: Corresponding to a non-executive employee in a firm with more than 20 employees.

Source: Groupe d'experts sur le salaire minimum interprofessionnel de croissance (2023^[9]), DG Trésor calculations.

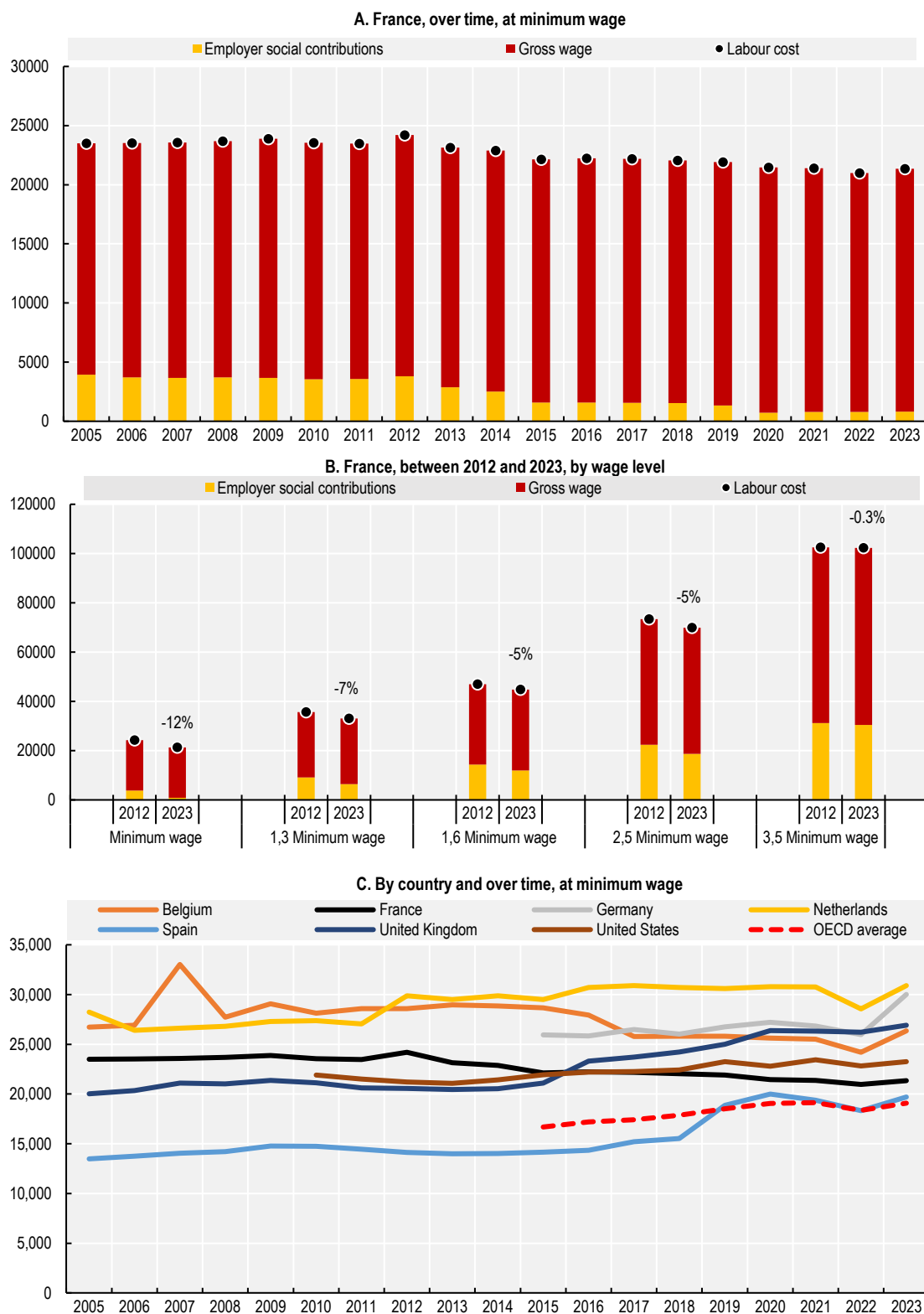
Table 3.6. Measures to reduce employer contributions since 2013

Measure	Targeted wages	Reductions
January 1, 2013: <i>Crédit d'impôt pour la compétitivité et l'emploi (CICE)</i> , now a permanent reduction in employer social contributions (January 1, 2019)	≤ 2,5 SMIC	Tax credit set at 4% in 2013, 6% from 2014 to 2016, 7% in 2017, and 6% in 2018 (in mainland France). Transformed into a 6-percentage point reduction in the social health insurance contribution rate payable by employers (January 1, 2019).
January 1, 2015: 1 st phase of the <i>Pacte de responsabilité et de solidarité</i>	≤ 1,6 SMIC	Reinforcement of general degressive reductions, leading to total exemption at the minimum wage level of contributions collected by Urssaf, excluding unemployment insurance, the non-mutualized portion of the AT/MP risk and CUFPA. 1.8- percentage point reduction in family contributions.
April 1, 2016: 2 nd phase of the <i>Pacte de responsabilité et de solidarité</i>	≤ 3,5 SMIC	Extension of the 1.8- percentage point reduction in family contributions.
2019: <i>Prime exceptionnelle de pouvoir d'achat (Pepa)</i>	≤ 3 SMIC	Employers can pay a bonus exempt from all social security contributions.
October 1, 2019	SMIC	General reductions in social contributions increased by around 4 percentage points => no employer social contributions are due, with the exception of contributions in respect of accidents at work and occupational illnesses for the portion corresponding to the company's accident rate.
January 1, 2020: <i>Loi Pacte</i>		Lower labour costs for growing firms by reducing threshold effects: - The thresholds for the <i>Participation des employeurs à l'effort de construction (PEEC)</i> and the <i>Fonds national pour l'aide au logement (Fnal)</i> have been raised from 20 to 50 employees. - In the case of Fnal, PEEC and <i>Versement transport</i>, any increase in the number of employees is now taken into account only when the threshold has been reached or exceeded for five consecutive calendar years, as opposed to three years previously.
July 1, 2021: Bonus-malus system		Modulation of employer unemployment insurance contributions for firms with eleven or more employees belonging to the seven sectors where firms most frequently separate from their employees (above 150% of the average rate). The firm pays a "malus" in contributions if its separation rate is higher than the median separation rate of its sector, and benefits from a "bonus" in the opposite case, within the limit of a floor (3%) and a ceiling (5.05%).
July 1, 2022: Reinforcement and conversion of <i>Pepa</i> into a <i>Prime de partage de la valeur (PPV)</i>		Employers can pay a bonus exempt from part of their social contributions (but not from CSG and CRDS).

Source: Groupe d'experts sur le salaire minimum interprofessionnel de croissance (2023^[9]).

Figure 3.7. Measures to reduce employer contributions taken since 2013 have significantly reduced labour costs up to 2.5 SMIC

Annual labour cost in 2023 euros, full-time workers



Note: Panel C: the OECD average is based on the 24 countries for which data are available: Australia, Belgium, Canada, Czech Republic, Estonia, France, Germany, Greece, Hungary, Ireland, Korea, Latvia, Lithuania, Luxembourg, Netherlands, New Zealand, Poland, Portugal, Slovak Republic, Slovenia, Spain, Turkey, United Kingdom and United States.

Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

In France, wage increases for minimum-wage workers are particularly costly for employers

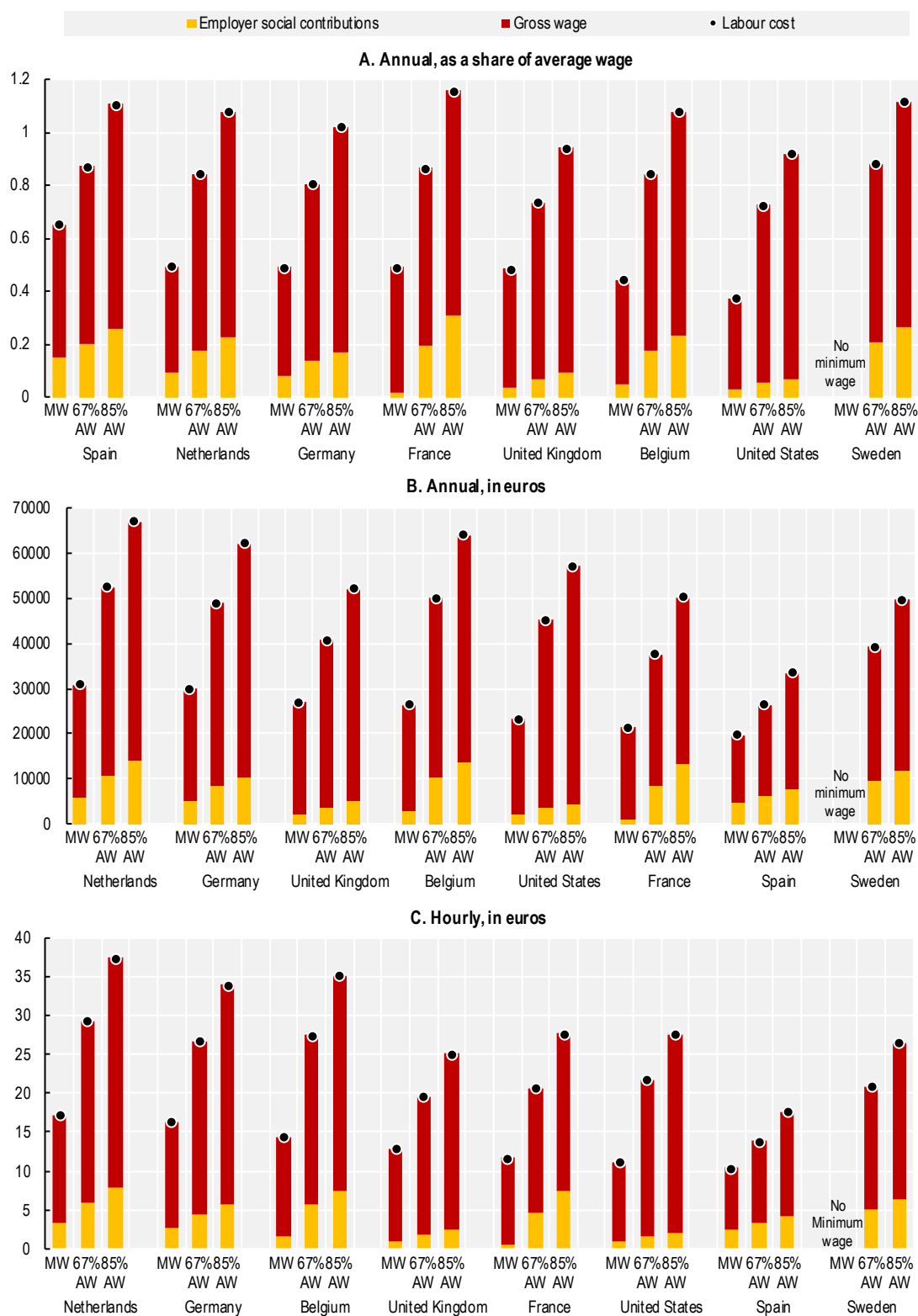
Thanks to reductions in employer social contributions on low wages, labour costs at the minimum-wage, measured as a share of the average wage, remain moderate in France by international comparison (Figure 3.8 Panel A), despite a high minimum wage. On the other hand, as the reductions are degressive, the situation is different at 67% or 85% of the average wage: France is then among the countries analysed for which the cost of labour (measured as a share of the average wage) is the highest. The situation is similar in Belgium, where employers also benefit from contribution exemptions on low wages: here again, a significant proportion of the rise in labour costs with wages is therefore due to employer contributions.

Measured in euros, the cost of labour remains particularly low at the minimum wage in France, whether in terms of annual labour costs (Panel B) or hourly labour costs (Panel C). However, despite the rapid increase in employer contributions as wages rise, annual labour costs remain moderate in France by international comparison, at both 67% and 85% of the average wage (Panel B). As for *hourly* labour costs at these wage levels, they are closer to those of the other countries analysed (Panel C).

Still due to employer contribution reductions targeted at the SMIC level, a 10% wage increase for a worker at the minimum wage is particularly costly in France, whether labour costs are measured as a share of average wage (Figure 3.9 Panel A) or in euros (Panel B). As a share of the average wage, the corresponding increase in labour costs is 9 percentage points, compared with no more than 7 percentage points for the other countries analysed (Panel A). The situation is similar at 67% of the average wage, but France is significantly closer to the other countries studied at 85% of the average wage.

Figure 3.8. Labour cost remains moderate at minimum wage due to exemptions from employer contributions but rises sharply with wage

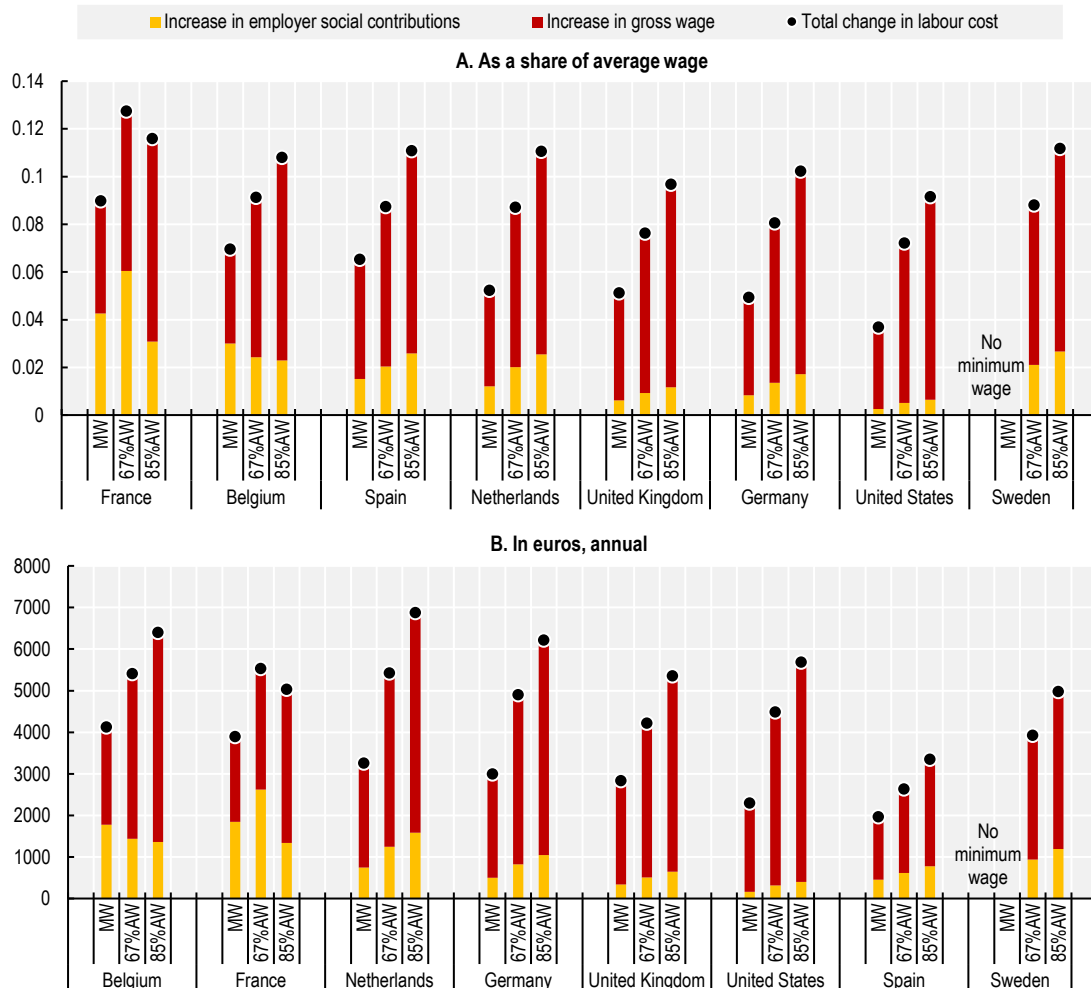
Labour cost at minimum wage (MW), 67% of average wage (AW) and 85% of AW, full-time worker, 2023



Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

Figure 3.9. Wage increases near the minimum wage are particularly costly for employers in France

Change in *annual* labour cost following a 10% gross wage increase away from minimum wage (MW), 67% of average wage (67% AW) and 85% of average wage (85% AW), full-time worker, 2023



Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

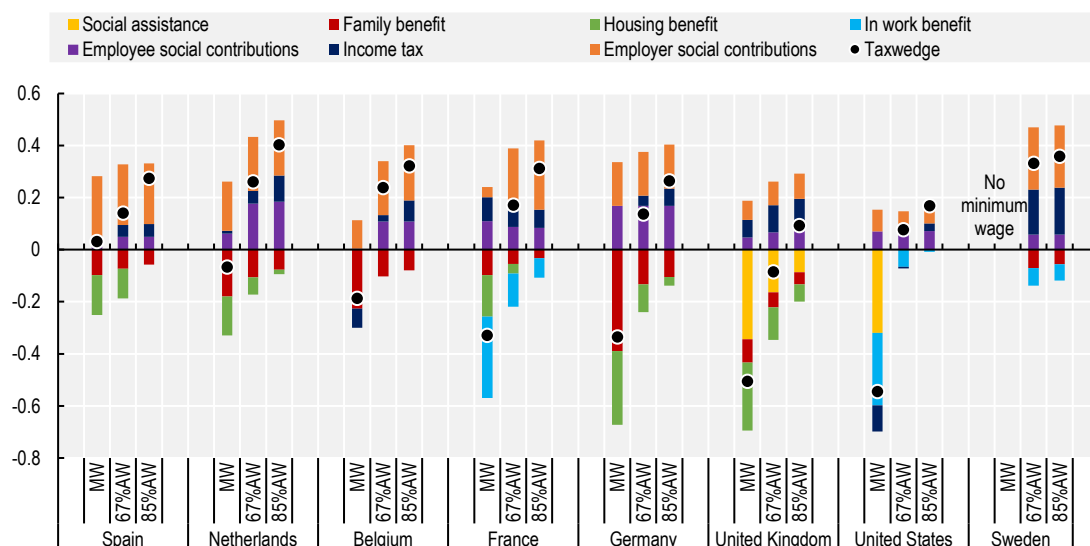
3.4. The overall tax wedge in France is low at the minimum wage but rises sharply with wages

For a minimum-wage worker, the tax wedge in France is low by international standards, thanks to significant reductions in employer contributions (Section 3.3) and significant social benefits (Section 3.2) (Figure 3.10). For example, a one-earner couple with two children receives 132% of the total cost paid by their employer. This amount is similar in Germany, due to the high level of family benefits.⁸ Countries with a lower tax wedge (the United Kingdom and the United States) also offer significant social benefits at minimum wage level (Universal Credit and EITC respectively).

⁸ German child benefit (*Kindergeld*) amounted to 250 euros per month per child in January 2023, plus a child supplement (*Kinderzuschlag*) for low-income households.

Figure 3.10. The tax wedge in France is low at the minimum wage but rises sharply with wage

Tax wedge at the minimum wage (MW), 67% of average wage (67% AW) and 85% of average wage (85% AW), full-time worker, one-earner couple with two children, 2023



Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

The tax wedge becomes comparatively higher for wages equal to 67% and 85% of the average wage (Figure 3.10). In particular, at 31% of labour costs, France has one of the highest tax wedges for wages equal to 85% of the average wage. This is not only due to lower reductions in employer contributions; the degressivity of social benefits also plays a role.

For these reasons, an increase in net salary of 100 euros for a worker at the SMIC level corresponds to a considerable increase in the cost of labour: 483 euros (or 28% of gross wage), compared with just 200 euros at the first threshold for the reduction in contributions (1.6 SMIC), for a single person with no children (Groupe d'experts sur le salaire minimum interprofessionnel de croissance, 2023^[9]). Roughly half of this 483 euro increase is due to the increase in employer contributions, while the remainder (excluding the increase in net salary) is due half to compensation for the loss of the *Prime d'activité*, and half to compensation for the increase in employee contributions and income tax.

3.5. A comparative analysis of skilled occupations in France and Germany

In this section, net incomes and labour costs are analysed in France and Germany for two skilled occupations for which French employers are experiencing hiring difficulties: skilled metalworkers and managers in the construction sector.⁹ The two occupations selected are significantly less well paid in France than in Germany (Table 3.7 columns 1 and 2). However, this is not the case when wages are expressed as a share of the average wage, which is 39% higher in Germany (columns 3 and 4).

This section shows that the tax and benefit systems affect income differentials between France and Germany to the advantage of French workers, and reduce labour cost differentials by weighing more heavily on French labour costs.

⁹ These two occupations were selected on the basis of analyses of labour market tightness carried out by France Travail (*Enquête Besoins en Main d'Œuvre*, <https://statistiques.pole-emploi.org/bmo>) and DARES (Dares, 2023^[10]).

Table 3.7. Wage differentials between France and Germany

Gross monthly wage for a full-time worker, 2022 (latest data available)

	(1)	(2)	(3)	(4)
	In euros		In % of the average wage	
	France	Germany	France	Germany
Skilled metalworkers	2800	4200	81%	87%
Managers in the construction sector	4800	5700	139%	119%

Note: In January 2022, the average gross wage for a full-time worker was 4806 euros per month in Germany and 3460 euros per month in France.

Source: Authors' calculations based on INSEE data, IAB occupational panel and the OECD tax-benefit policy database, <http://oe.cd/TaxBEN>.

Skilled metalworkers

In France, lower taxes and employee contributions and, to a lesser extent, higher benefits than in Germany (*Prime d'activité* or family benefits) more than compensate for the lower gross wages of skilled metalworkers. While gross wages as a percentage of average wage are 6 percentage points lower in France, net income is equivalent in both countries for single parents, and is even 6 to 7 percentage points higher in France for families with children and single individual with no children (Figure 3.11 Panel A).

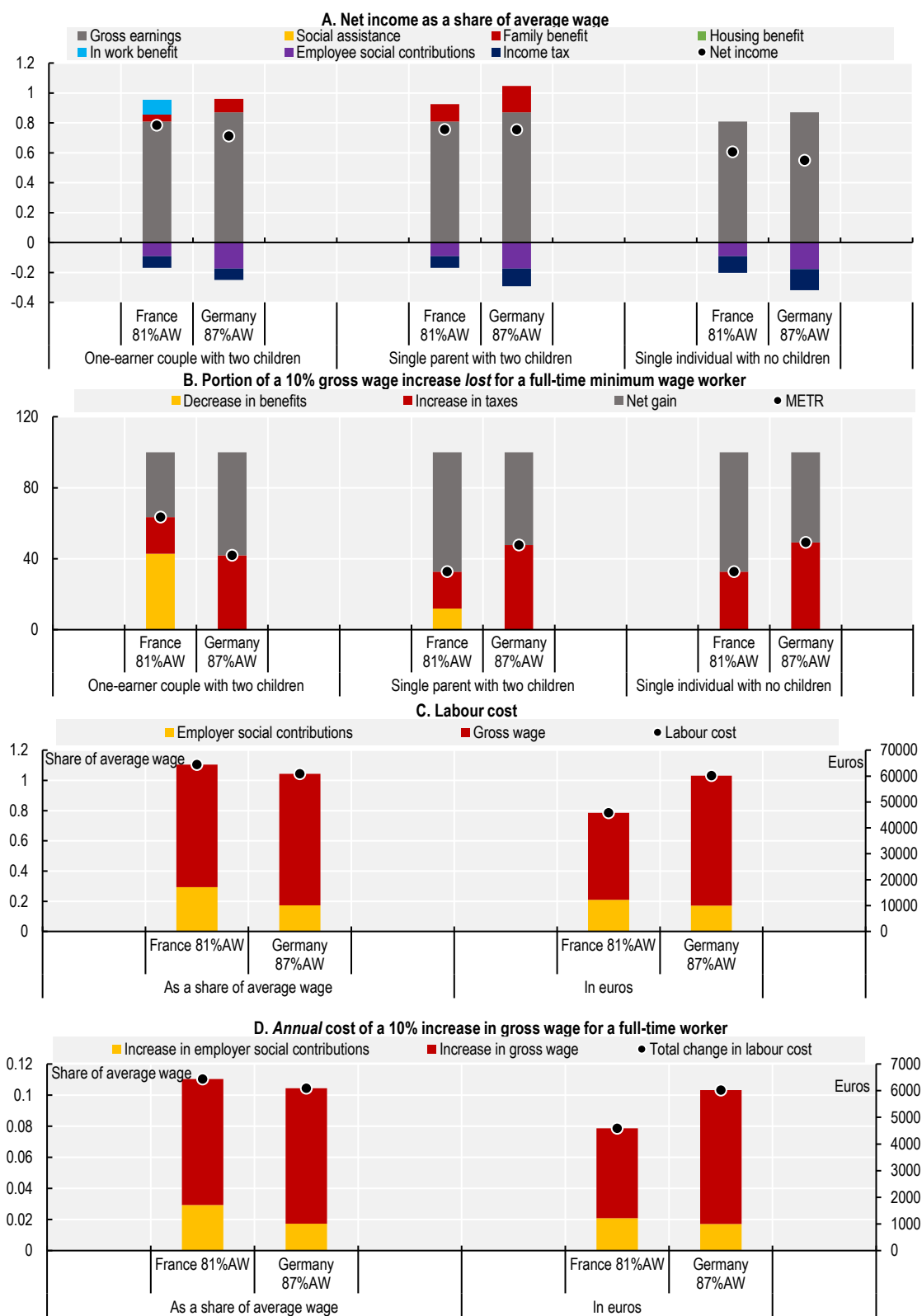
On the other hand, the gains from a gross wage increase can be significantly lower in France than in Germany (Figure 3.11 Panel B): for a one-earner couple with two children, around one-third of a 10% increase in gross wage contributes to the net household income in France, due to the reduction in the *Prime d'activité*, compared with almost 60% in Germany. However, this share is two-thirds in France for single parents with two children and single individuals with no children, who qualify little or not at all for the *Prime d'activité*, compared with 50% in Germany.

In absolute terms, the difference in gross wages between French and German workers (49% higher in Germany) is reflected in labour costs (Figure 3.11 Panel C), although attenuated by higher employer contributions in France. Thus, the annual labour cost for a skilled metalworker is only 31% higher in Germany: 60,200 euros in Germany versus 46,800 euros in France. As a share of average wage, differences in contributions even more than offset differences in gross wages, so that labour costs are 6 percentage points higher in France (Panel C).

Similarly, employer contributions mean that the cost of a 10% increase in gross wage is higher in France when expressed as a percentage of average wage (Figure 3.11 Panel D), but not in absolute terms: it is then 30% higher in Germany - 6,000 euros per year in Germany versus 4,600 in France.

Figure 3.11. Net income and labour cost for a skilled metalworker

Skilled metalworker, full-time, 2022



Note: Skilled metalworkers earn 81% of the average wage in France and 87% of the average wage in Germany (Table 3.7).
Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

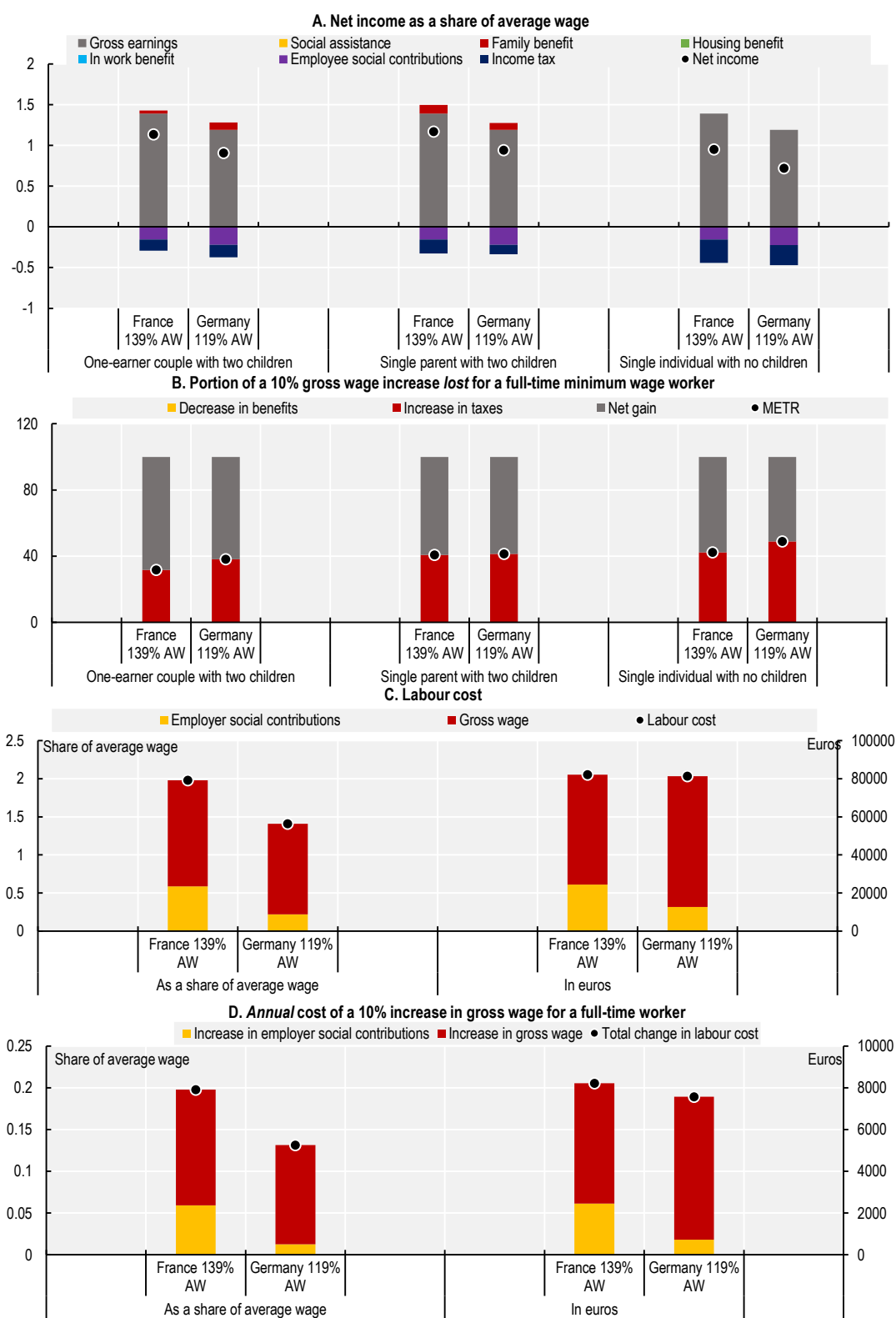
Managers in the construction sector

For managers in the construction sector, equivalent taxes and benefits in France and Germany mean that differences in net income reflect differences in gross wages: as a share of average wage, net income is 23 percentage points higher in France, compared with 20 percentage points for gross wages (Figure 3.12 Panel A). As for the share of a 10% increase in gross wages that contributes to net household income, it is comparable in both countries (Panel B).

As far as labour costs are concerned, the lower employer contributions in Germany offset the 20% higher gross wages (in absolute terms) than in France (Figure 3.12 Panel C), so that labour costs are equivalent in both countries: around 80,000 euros per year. Similarly, the differences in contributions between the two countries mean that the cost of a 10% increase in gross wage is approximately the same in both countries in absolute terms (around 8,000 euros per year). On the other hand, the cost of labour is significantly lower in Germany in relation to the average wage (Panels C and D).

Figure 3.12. Net income and labour cost for a manager in the construction sector

Manager in the construction sector, full-time, 2022



Note: Managers in the construction sector earn 139% of the average wage in France and 119% of the average wage in Germany (Table 3.7).

Source: OECD tax-benefit policy database, <http://oe.cd/TaxBEN>

4. Conclusion

The analysis of tax and benefit systems proposed in this study highlights the existence of potential low-wage traps mechanisms, which are particularly significant in France, on both the labour supply and demand sides. While the analysis of individual trajectories suggests that wage progression is not very sensitive to low-wage traps mechanisms, it is possible that the profile of contribution reductions encourages employers to maintain wages close to the SMIC in certain jobs without affecting individual wage progression; via the renewal of workers in the jobs concerned.

Future work could therefore focus on the impact of low-wage traps mechanisms on the labour demand side. Still on the basis of DADS data, analyses exploiting successive reforms of the CICE could highlight the effect of reduced contributions on low-wage employment. In the absence of a control group, the analyses could focus on relatively short periods in the vicinity of the reforms.

The impact of low-wage traps mechanisms on the labour supply side could also be studied in greater depth. A quasi-experimental analysis could, for example, seek to measure the impact of the *RSA activité* or the *Prime d'activité* on wage progression, using DADS data. The study could focus on major reforms such as the creation of the *RSA activité* in 2009, or the substantial increase in the *Prime d'activité* in 2019 - which is not taken into account here as administrative data stop in 2018 -, as well as on demographic characteristics determining eligibility or the amount of *Prime d'activité* granted (for example, age or family situation).

Beyond the tax and benefit system, other dimensions of the labour market could shed light on the determinants of low-wage employment. For example, a study of the impact of labour market concentration based on differences between geographical areas could highlight monopsony situations that influence opportunities for wage mobility. The effects of the minimum wage could also be analysed using regional price variations.

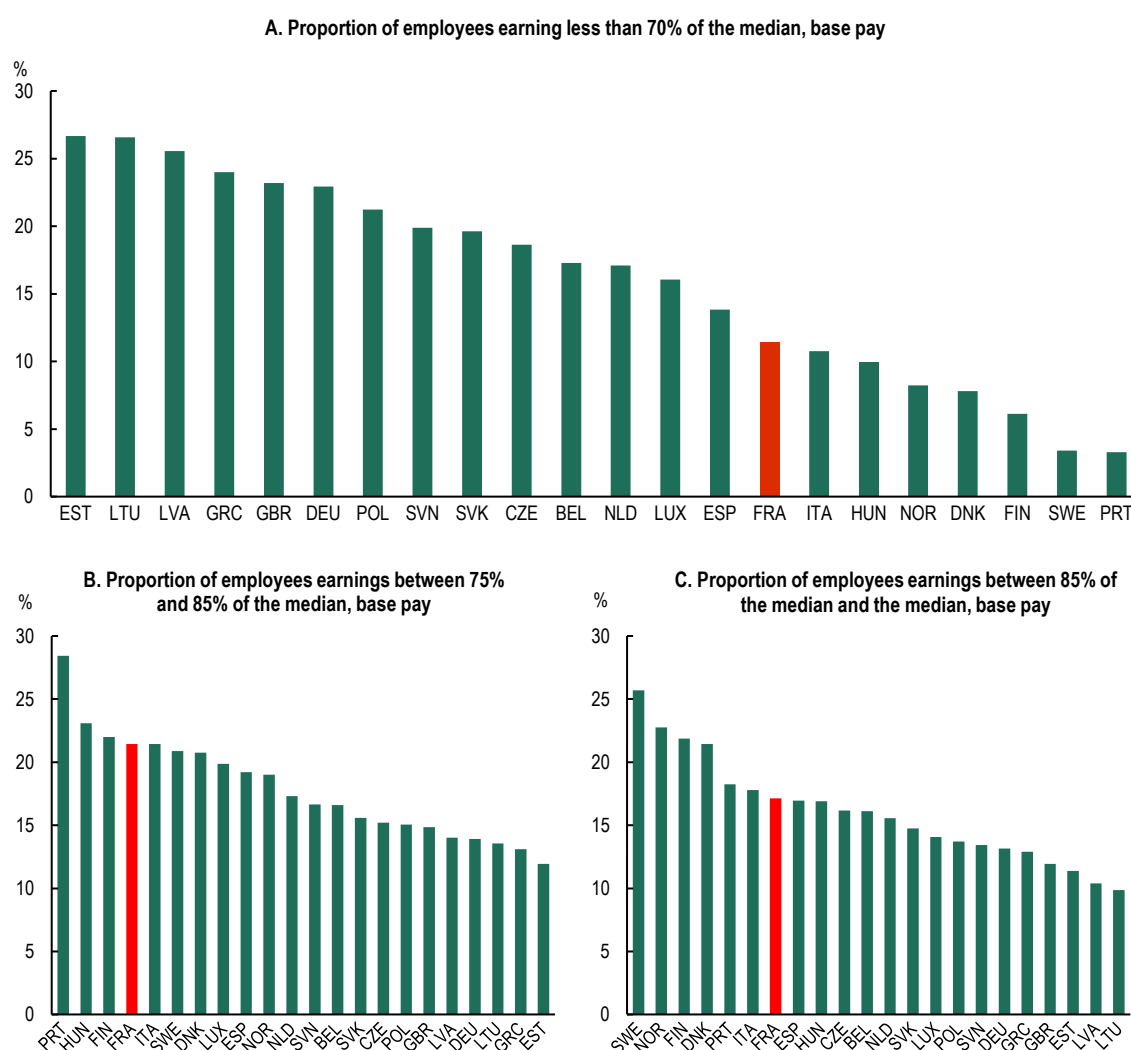
References

- Abowd, J., F. Kramarz and D. Margolis (1999), “High wage workers and high wage firms”, *Econometrica*, Vol. 67/2, pp. 251-333. [6]
- Babet, D., O. Godechot and M. Palladino (2022), “In the land of AKM: Explaining the dynamics of wage inequality in France.”. [7]
- Bozio, A. and E. Wasmer (2024), *Les politiques d'exonérations de cotisations sociales : une inflexion nécessaire*. [4]
- Card, D., J. Heining and P. Kline (2013), “Workplace heterogeneity and the rise of West German wage inequality.”, *Quarterly Journal of Economics*. [8]
- Conseil d'analyse économique (2019), *Baisses de charges : stop ou encore ?*. [5]
- Dares (2023), *La revalorisation du Smic au 1er janvier 2023*. [1]
- Dares (2023), *Les tensions sur le marché du travail en 2022*. [10]
- Dares (2021), *La revalorisation du Smic au 1er janvier 2021*. [2]
- Dares (2019), *Les salariés rémunérés au salaire minimum : une minorité le reste durablement*. [3]
- Groupe d'experts sur le salaire minimum interprofessionnel de croissance (2023), *Salaire minimum interprofessionnel de croissance – Rapport novembre 2023*. [9]
- OECD (2021), *The Role of Firms in Wage Inequality: Policy Lessons from a Large Scale Cross-Country Study*, OECD Publishing, Paris, <https://doi.org/10.1787/7d9b2208-en>. [11]

Annex A. Annex

Annex Figure 2.1. There is a compression of the wage distribution at the bottom in France – Base pay

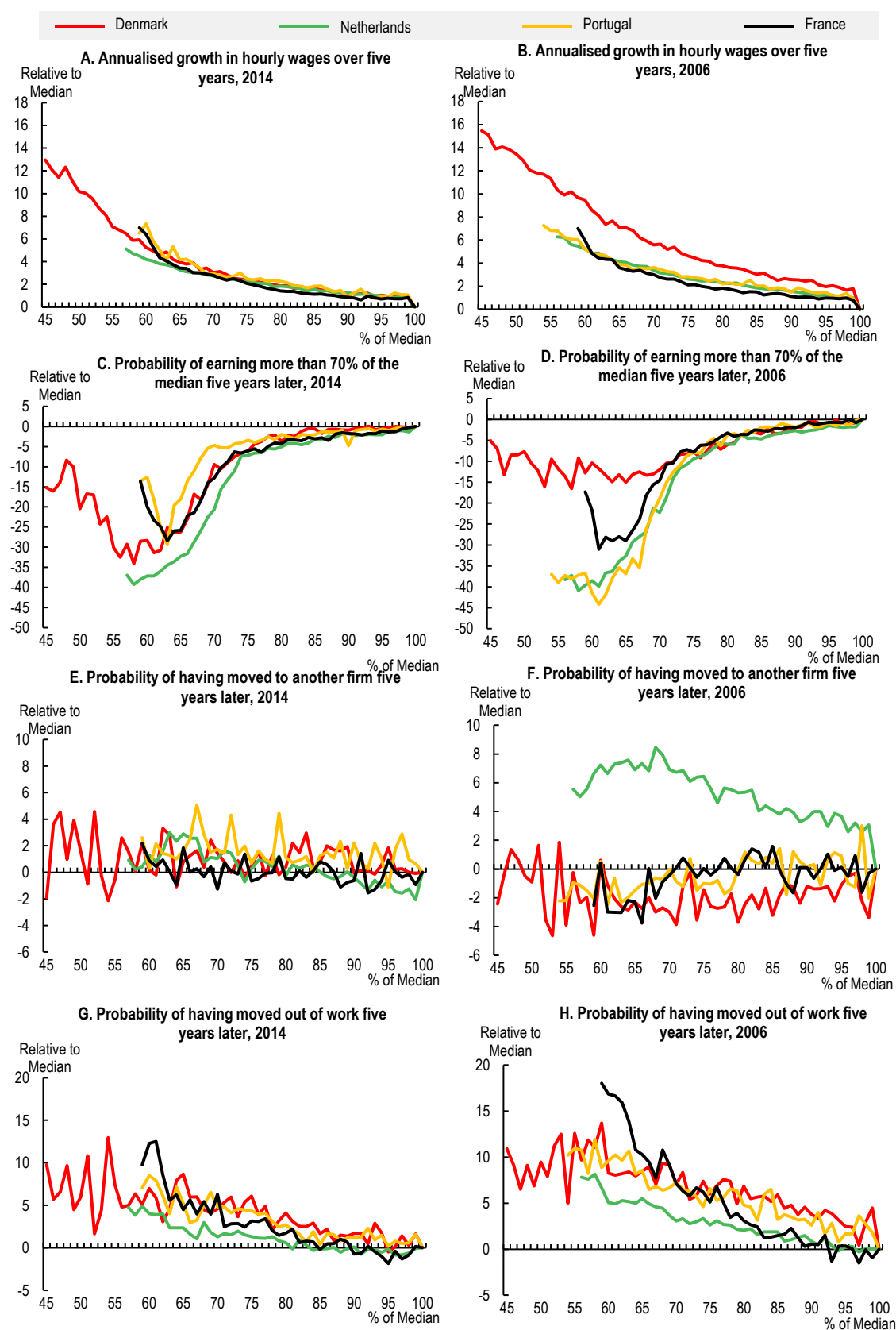
2018



Note: Extreme values for Portugal in Panels A and B can be explained by the shift in the wage distribution induced by SES data limitations: a very steep peak in the distribution at 73.5% of the median wage (Figure 2.3) suggests that, for many minimum wage workers, hourly wage derived from SES is above 70% of the median, while it should in fact be equal to the minimum wage, i.e. 62% of the median. Therefore, the ranking of Portugal is underestimated in Panel A and overestimated in Panel B. This shift in the SES distribution can be observed in all countries, but is of particular concern for Portugal due to the remarkable steepness of the peak.

Source: SES.

Annex Figure 2.2. Wage progression and mobility over five-year horizons

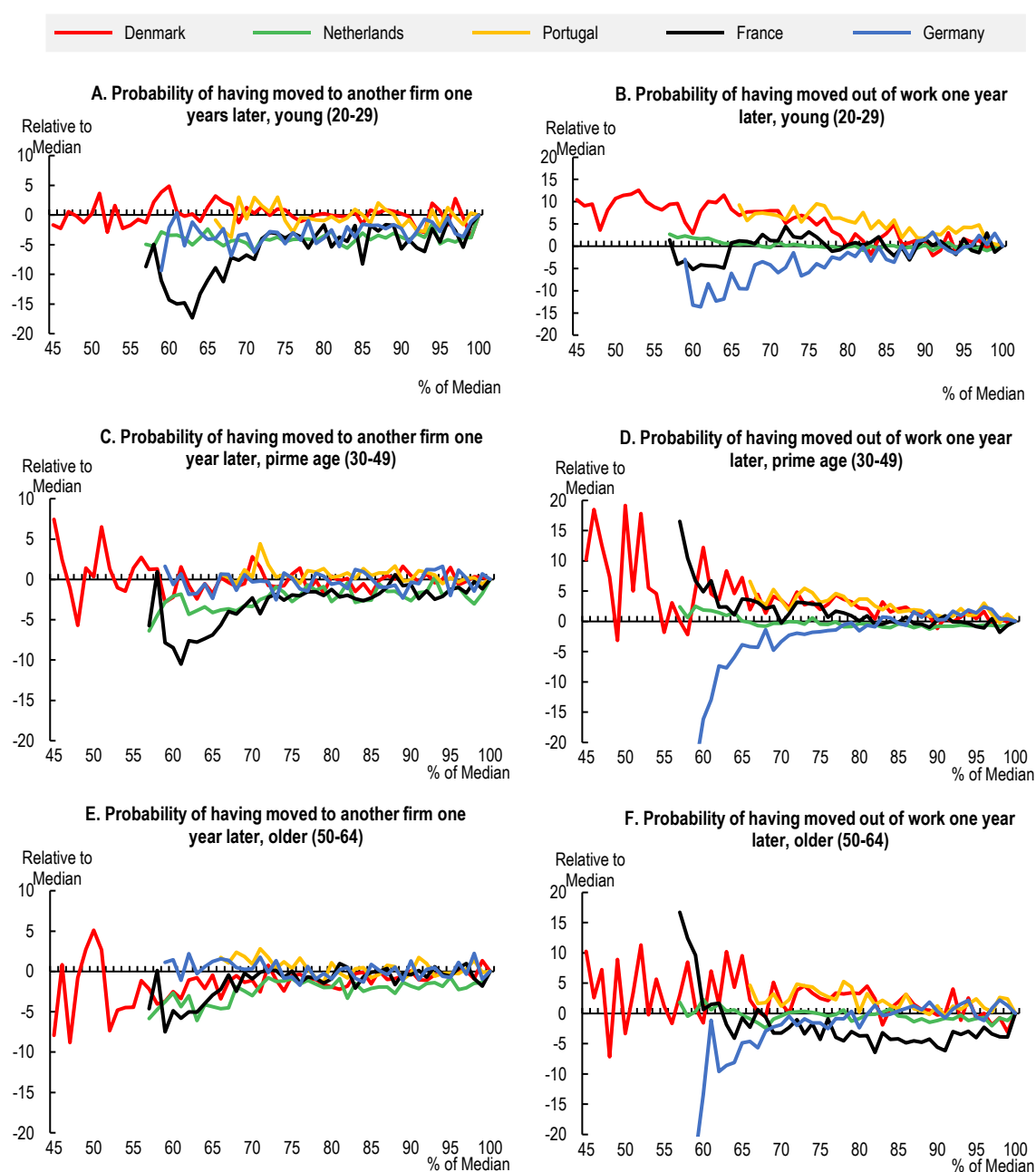


Note: Outcome are presented along the distribution of hourly wages in 2014 and 2006, expressed as % of the median hourly wage (each bin is of width 1%). They are measured by the coefficients from the regression described in Box 2.3 and run separately by country; they are therefore relative to the countries' outcome at or above median hourly wage (100-200% of the median is the omitted group in the regressions). Coefficients are dropped for presentation if there are fewer than 10 observations in a wage bin. Solid lines represent coefficients at wages that are at or above the minimum wage in the respective year, and dotted lines represent coefficients below the minimum wage (Denmark does not have a minimum wage). If there are multiple jobs in one year, the one with the highest earnings is selected. Panel D: Moving out of work can include transitions into public and agricultural sectors, self-employment, or firms with less than 10 employees. Germany is excluded due to data unavailability.

Source: National sources mobilised through the LinkEED 2.0 network.

Annex Figure 2.3. Job mobility and exit from employment by age group

2018



Note: Outcome are presented along the distribution of hourly wages in 2018 (2017 for Germany), expressed as % of the median hourly wage (each bin is of width 1%). They are measured by the coefficients from the regression described in Box 2.3 and run separately by country and age group; they are therefore relative to the countries' outcome for the considered age group at or above median hourly wage (100-200% of the median is the omitted group in the regressions). Coefficients are dropped for presentation if there are fewer than 10 observations in a wage bin. Solid lines represent coefficients at wages that are at or above the minimum wage in the respective year, and dotted lines represent coefficients below the minimum wage (Denmark does not have a minimum wage). If there are multiple jobs in one year, the one with the highest earnings is selected. Panel D: Moving out of work can include transitions into public and agricultural sectors, self-employment, or firms with less than 10 employees. Germany: analysis is limited to full-time workers and assumes a 37-hour working week, due to data limitations. Bin 59

Source: National sources mobilised through the LinkEED 2.0 network.