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WAGE REFORM IMPOSED BY THE STATE : SOME PARADOXES IN FRENCH INCOMES POLICIES

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ABSTRACT

The French incomes policies exhibits *three paradoxes*. Firstly, contrary to the German or social-democratic model, the State has had the leading role, facing rather weak unions and business associations, quite reluctant to negociate directly...and nevertheless, the related interventions have not always been inefficient at least in the short run. Secondly, the drastic reversal of economic policy in 1983 has promoted quite new principles for wage formation : desindexing, incentive to decentralize bargaining, promotion of profit sharing formula,.... Quite surprisingly, nearly a decade after this epochal change, the efficiency of such a policy has not been totally eroded, contrary to that had been observed for the previous incomes policies. Last paradox, this surprising success of wage moderation is not necessarily an evidence for a fully fledged reconstruction of industrial relations and incomes distribution : unemployment may have been a powerful disciplinary device.

DES REFORMES SALARIALES IMPOSEES PAR L'ETAT : QUELQUES PARADOXES DE LA POLITIQUE DES REVENUS EN FRANCE

Robert BOYER

R E S U M E

L'expérience française suggère trois enseignements en forme de paradoxe. D'abord, contrairement à l'Allemagne ou à la Suède, l'Etat a été contraint de jouer un rôle déterminant, face ~~à des syndicats ouvriers~~ et patronaux faibles, réticents à négocier directement. Néanmoins, ces interventions ont été relativement efficaces, tout au moins à court terme. Ensuite, le retournement de politiques inaugurées en 1983 a favorisé une nouvelle politique fondée sur la désindexation des salaires, la décentralisation des négociations, la promotion de l'intéressement,....Il est surprenant qu'une décennie plus tard, l'efficacité de cette politique ne se soit pas complètement érodée. Dernier paradoxe, ce succès dans la modération salariale n'augure pas nécessairement une reconstruction des relations professionnelles, car le chômage a constitué un élément modérateur certain, indépendamment de tout changement dans la politique des revenus.

Mots clés : Politique des Revenus - Inflation - Salaire - Intéressement - Flexibilité des salaires - France (1950-1993).

Keywords : Incomes Policy - Inflation - Wage - Profit Sharing - Wage Flexibility - France (1950-1993).

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SUMMARY

I - INCOMES POLICIES IN RETROSPECT : VARYING OBJECTIVES AND TOOLS.

How to explain the general concern for an income policy at the end of the Fifties and the early Sixties, for the first time after nearly two centuries of capitalist development? A brief retrospect of income distribution mechanisms might be helpful, in order to disantangle what is general among contemporary OECD countries and what is, on the contrary, quite specific to France.

The story begins with the long struggle of workers to strenghten their bargaining power through union organization (Sidney and Beatrice WEBB (1984), Henry PHELPS-BROWN (1987)) which nevertheless had limited effects on the processes of wage formation. For instance in France before WWI, the workers could only resist drastic contraction in the nominal wage, but not change effect of labour market competition on wages (R. BOYER (1979)). A.W. PHILLIPS (1958) showed that, in England, nominal wage variations were associated with fluctuations in the unemployment rate. Paradoxically enough, the interwar period exhibits some strengthening of unions' demands that wages should be indexed to prices, but the fluctuations in activity still play a major role in disciplining nominal wage formation, at least in France.

But the Great Depression, changed perceptions. In spite of a significant nominal wage flexibility, labour markets turned out to be unable to restore full employment. This was rather surprising, given the declining union density and bargaining power, along with the absence of any significant unemployment benefit systems. John Maynard KEYNES argued that the nominal wage was not set by pure market mechanisms but according to parity arguments and bargaining between a series of unions and firms. There was, he said in his General Theory no typical market for labor : not only, was nominal wage rigidity not the culprit for unemployment, but any attempt to make it more flexible would probably increase macroeconomic disequilibria. Meanwhile the United States and France tried to reinforce trade union organization and

TABLE 1 : INCOMES POLICIES IN FRANCE
A SHORT CHRONOLOGY

1950	Law organizing the automatic extension of the outcomes delivered by collective bargaining to the whole sector ("connective law").
1958	Rueff-Armand Report proposes a series of reforms in income formation in order to enhance competition in sheltered sectors.
1961	The Finance Minister states that wage should evolve in accordance with general economic progress.
1963	The miners' strike and the fear for inflationary pressures call for a formal and global Income Policy. Pierre MASSE creates "Collège d'études et d'appréciation des revenus" (CEAR)
1967	The trensformation of CEAR into a purely advisory and technical body : Centre d'Etudes des Revenus et des Coûts (CERC).
1969	1. After the may 1968 wage explosion, transformation of minimum wage (SMIG) into a growth wage (SMIC). 2. (December) Pionering wage formula for EDF : wages will evolve according to key macroeconomic variables and total factor productivity of the firm.
1973	Wage explosion after the oil shock, in accordance with de facto indexation and strong real wage increases inertia.
1975	Unable to enforce a direct income policy, the government passes a bill in order to implement a Tax Based Income Policy "Prélèvement conjoncturel". Any increase of wage above a given threshold allowed by total factor productivity, will be taxed.
1976 and 1978	Price and wage freeze, along with VAT reduction.
1981	(June) Reflation by public spending and minimum wage.
1982	(June) Price and wage freeze.
1983	(March) After devaluation of the Franc, the Finance Minister forbids any wage indexing with respect to past inflation. Wage should be negociated according to expected inflation.
1984	Law AUROUX promotes a larger decentralization of wage bargaining from the sectoral to the firm levels. . Wage guide lines for the public sector and nationalized firms are issued by the Finance Minister. . The SMIC is not more varied in accordance with average wage.
1986	Law promoting profit sharing, according to three methods (Intéressement, participation, actionnariat)
1989	A citizen wage is instituted (Revenu Minimum d'Insertion) in order to curb down increasing powerty.

bargaining power by legislation, during the late 1930's, through without any clear succes. After WWII, however such legal changes seem to have had a significant and lasting impact upon nominal income formation.

1. The Sixties : a method for curbing down inflation.

The three decades after 1945 exhibited an unprecedented institutionalization of wage formation, either via minimum wage policies, or by unemployment benefits or more generally the institutionalization of a welfare system (Table 1). It can be argued that this change, along with a new monetary regime and the consequence of Pax Americana upon the stability of the international regime, brought a transition from a competitive mode of "régulation" toward a monopolist or administered one. (For France see J.P. BENASSY & Alii (1979)) and for the United States M. AGLIETTA (1982), R. BOYER (1989)). Growth became faster and steadier, but with almost continuous inflation, with few or no decline in consumer prices during the mild recessions which were the closest economies come to the cumulative depression of 1929.

Enter incomes policies, in the early 60's, many OECD countries experienced long and active strikes, during which blue collar workers ask for significant wage increases. Governments fear a fuelling of inflation, in the context of which is seem as increasingly to be feared with the growth of international trade competition. The first phase of incomes policies clearly concerns *a moderation of inflation* via the direct or indirect control of the nominal wage. In most cases, in the United States and France for example, this strategy failed due to the high level of employment and thus the significant bargaining power of unions. But, even will quite accommodating monetary policies, it was possible to devalue the national currency when needed. The tools of this variant of incomes policies span from *minimum wage*, to a price and *wages freeze*, and to government *guidelines* for wage settlements (R. PENNANT-REA (1987)) (Table 2, see infra page 10).

2. The Eighties : the search for competitiveness.

A second episode took place after the first and second oil shocks, i.e. during the 70's. For the first time, since the institution of administered regulation modes, a significant and negative evolution of the terms of trade generated a large supply shock. This was no simple demand perturbation (M.D. SHAPIRO (1987)). Unfortunately most of the wage mechanisms were adapted to Keynesian demand management. Thus, a significant profit squeeze was the logical outcome of the indexing of wages with respect to consumer price, when producer prices rose more slowly, in the context of a recession of a magnitude unprecedented since the 50's. In France, reforming wage formation became the main objective of the governments (OECD (1989)). Not past inflation but *expected inflation*, export or product prices were supposed to be the only legitimate references in wage bargaining. This second brand for incomes policies aims at *flexibility, competitiveness and growth*, and sought to promote a shift in income distribution which would benefit profits, investment and hopefully production and employment. At the same time high unemployment and union weakness reduced wage-earners' bargaining power. *Statutory norms and direct interventions* into the public sector wage formation then replace exhortatory guidelines and temprorary wage freezes.

During the Eighties, the same strategy was prolonged but complemented by a series of proposals to completely redefine the pattern of price and wage formation. On the one hand, external competition became more and more acute and, world disinflation exerted strong pressure for a significant redesign of wage formation (M.J. ARTIS and P. OMEROD (1991)). On the other hand, major uncertainties about macroeconomic prospects as well as sectoral demands lead to proposals for : profit (and risk) sharing as a major alternative to a wage economy (M. L. WEITZMAN (1986)). Finally, in Europe, and specially in France, the new surge of unemployment focusses attention on the possible adverse effects of prevailing wage mechanisms : consequently, any incomes policy should address the issue of *employment* (G.D.N. WORSWICK (1987)).

Thus, this third variant of incomes policies is of broader scope, since the objectives during the 90's have changed : to *design wage principles* which would promote *adaptability, workers commitment, productivity and quality*. State interventions are less straightforward since the situation is more complex and uncertain than it used to be in the 60's. Subsidies to provide incentives for the adoption of profit sharing, and programmatic laws organizing collective bargaining at a decentralized level seem to be replacing wage norms or temporary and discretionary measures enforced by the State.

3. France : a complete repertoire for incomes policies.

These new issues call for an assessment of the French experience. : what can be learnt from nearly four decades of trial and error in the field of incomes policies ? There is a long French tradition of conflictual capital labor relations, with few explicit compromises, still less consensus. Thus, the State has been a central actor in price and wage formation, often imposing norms and rules of the game on weak business associations and reluctant unions (Section II).

In retrospect, it is quite surprising that the governments could keep under control such conflict-ridden industrial relations. Basically, the underlying reason is now clear : social conflicts used to focus upon wage increases, whatever their real origin, and this configuration fitted quite well into the Fordist growth model. Why did such a nicely organized configuration enter into crisis during the 70's ? The inflationary bias associated with this quite lax stance could no more be tolerated after 1973 and 1979, since income formation came to appear as the blocking factor, preventing the perpetuation of the prevailing "régulation" mode. An adverse evolution of profits, and so of investment and ultimately production capacity and innovation, as well as a faster French inflation rate challenged the current institutional setting (Section III).

Consequently, wage bargaining has been in institutional flux and most empirical studies seem to show some transformation, significant if not overwhelming : the whole institutional legacy inherited from the golden age

has only marginally been transformed but not totally destroyed. Has a new incomes policy emerged from the very contradictory trends observed during the 80's ? On the one hand, the firms who have adopted profit sharing, decentralization of bargaining and disindexing apparently enjoy better economic performances, and this is a good news for any neo-schumpterian analyst. But on the other side, the implementation of these new principles is far from general and does not seem to have delivered any significant improvement in structural unemployment (Section IV).

Finally, a lot can be learnt from the successive tools which have been conceived and tried to solve nearly a century of macroeconomic imbalance (Section V).

II - INCOME POLICIES ARE EMBEDDED INTO RATHER SPECIFIC INDUSTRIAL RELATIONS.

Any theoretical discussion about the merits and difficulties of any incomes policy has to take into account the idiosyncracies of the national context within which it is supposed to be implemented. Thus, the French configuration is quite specific by comparison for example with those of Denmark (T.P. BOJE, P.K. MADSEN (1992)) or Germany (W. STREECK (1993)). Within C. CROUCH 's terminology, France would be evolving from a long legacy of *State-imposed* incomes policy toward a *difficult involvement of social partners*, at a rather decentralized level (C. CROUCH (1992), p. 3).

1. A highly conflictual society.

The French economy was transformed after WWII. A modernist bougeoisie undertook to rebuild France's industrial base, but intense political and labor struggles led to an implicit and new compromise. In practice, even the more leftist unions and parties accepted the logic of modernization, while leaving the initiative almost completely in the hands of management. But the quid pro quo for this acceptance was wage increases embodied in the PARODI-CROIZAT wage schedule (R. BOYER (1984)). Thus, most labour

disputes used to end in wage demands, even if initially the strike had arisen from labor discipline, work organization, or questions of union rights. In this highly conflictual system, wage were the general expression of worker protest and aspiration (S.E. ERBES-SEGUIN (1980)).

The heterogeneity of union goals, strategies and ideologies was still reinforced these tendencies. Even if union density was quite low by international standards, the leadership fell to the more leftist unions, at least as far as the rhetoric was concerned. Overbidding in wage bargaining was the name of this quite conventional game. Symmetrically, the main business association (CNPF) was composed of a large spectrum of heterogenous firms, with sometimes diverging economic objectives and ideological visions. Sectoral or local business associations were even less efficient in expressing the will of their members, and consequently many negotiations had to take place at the national level.

Therefore, any compromise was perceived by both social partners as a transitory armistice, in a sequence of conflicts. These was alternation between periods of domination by employers and conservative policies, followed by social unrest and major advances in laws promoting benefits to wage earners and unions. Both managers and workers designed their organizations in order to lobby the State efficiently and seek its intervention in labor and industrial issues. Consequently, French industrial relations are very different from the German ones : State interference is not only tolerated, but seem as welcome and necessary by both social partners.

2. Strong and recurrent State interventions

The inability of unions and managers to reach easy and regular bilateral compromises calls for systematic and sometimes overwhelming third party arbitration. Back in the Fifties, the State played this role and has developed a complete set of tools in order to control price formation (the Direction des Prix, Ministère des Finances, was only abandoned in 1986), and wage via a series of mechanisms and incentives (Table 1, supra).

- Even if a quite limited number of firms and unions had concluded a collective agreement, a law of 1950 made compulsory the implementation of this agreement to the rest of the sector, without any further bargaining. Thus, in France the State has been instrumental in *connective bargaining*, whereas in the United States for example, the market and union strategies have been the main mechanisms for such a diffusion of key bargaining compromises.

- Simultaneously, the State has an active *minimum wage policy*. According to the pressure of social conflict and the current macroeonomic performance, the government will push the minimum wage faster than the aggregate wage, or keep it in line with other incomes, or under some circumstances keep it constant in real terms (G. ROTBART (1990)). Some econometric studies tend to suggest that this policy might have had a significant impact on average wage formation, at least during periods of fast and unexpected increases. This is one of the rare incomes policies tools which has been in constant use from 1946 until 1992, whereas most other instruments have been abandoned (for example price controls).

- The implementation of a complete *welfare system*, co-managed by business associations and unions under the active control and supervision of the State changes significantly private incomes formation, especially the wage. For example, unemployment benefits do mitigate the disciplinary impact of unemployment spells and thus reinforce the maintenance of nominal and even real wage (S. BOWLES and R. BOYER (1992)). This feature explains the smoothing out of business cycles and also the inflationary biais of private bargaining (J.P.BENASSY, R. BOYER, R.M. GELPI (1979)).

These interventions concerning incomes policies are not exceptional emergency measures, but on the contrary the conventional policies of the French State Traditionally, political elites and public opinion have been generally sceptical about the efficiency and fairness of pure laissez faire strategies based upon market mechanisms. Incomes policies belong to a long

legacy and are not emergency measures to, for example, control inflation. The permanence and the variety of incomes polcy tools are quite impressive (Table 2).

3. A large centralization of bargaining and institutionalization of incomes formation.

This state activism (R. DELORME and C. ANDRE (1983)), and its concern with income distribution has meant that, contrary to most social democratic countries, most of the innovations have been proposed and tentatively implemented by the State. The State has been, which is the leading social partner in most tripartite agreements, at least until the mid Eighties, seeking circumvent the strong antagonisms between industrialists and unions. The number of laws and decrees elaborated by Ministry of Labor is large and they have had a definite impact upon the mood in industrial relations.

- Given the strong centralization of the French State --at least until the 1982 decentralization law-- collective bargaining used to take place at the *national or sectoral levels* and only rarely within firms or plants. The exceptions were large public firms, such as RENAULT which plays a major role in wage setting in the engineering industry, and by extension for the rest of the manufacturing sector.

- To avoid the repeated strikes and social conflict in the public sector, the State has tried to design *sophisticated wage formula* which would preserve the long run viability of nationalized firms, take into account the macroeconomic context and eventually sometimes also, parity arguments aimed at reducing of wage differentials (CERC (1969), (1970), (1971)). Thus, even if explicit indexing on general macroeconomic indexes was forbidden by law, *de facto* many collective agreements use to *institutionalize* such revision mechanisms according to past inflation. It was the generalization of such formula which finally brought a significant nominal wage explosion from 1968 until 1973 (Graph 1, infra p. 12). When the first oil shock took place, these underlying mechanisms delivered a significant real wage rigidity.

TABLE 2 : INCOME POLICY : A FALSE UNITY, AN UNCERTAIN EFFICIENCY

OBJECTIVES / TOOLS	CURBING DEMAND INFLATION	STRUCTURAL COMPETITIVENESS VIA REAL INCOME DISTRIBUTION	RESPONSE TO SUPPLY SHOCKS	EMPLOYMENT
WAGE FREEZE	Transitory impact	Short run influence	Inadequate blocking of relative prices	Dubious effects
GUIDELINES	Moderately efficient if implemented before accelerating inflation	Inherent difficulties in controlling real prices	possible for small opened economies	Difficulties to design
WAGE NORMS	Will differ according to demand or supply shocks	Often implemented in the public sheltered sectors	Possible if so designed	If efficient planning or rather homogenous firms and workers
T.I.P.	Generally too complex to be implemented	No example of success	Theoretically possible, practically difficult	Possible if complex design, uneasy to implement
SUBSIDY TO PROFIT SHARING	Only indirectly	Indirect impact	Specially adequate	Indirectly, via income flexibility

° Simultaneously, the *parity argument* was frequently used in order to link wage increases from one job to another --taking as given the previously negotiated wage hierarchy-- and from one sector to another, generally from the Parisian automobile industries to the rest of the French manufacturing sector. Thus, many wage to wage, price to wage, and price to price spirals took place all over this period.Very tight cross indexations therefore propagated any initial inflationary impulse, to the vast majority of wage earners. The inflation rate could only be stabilized via a small fraction of unindexed incomes (R. BOYER and J. MISTRAL (1982))... an. The monetary policy had to be quite accommodating and included repeated devaluations of the franc.

Thus, France exhibits a quite genuine configuration for incomes formation : highly institutionalized and centralized under the auspices of the State, in contrast both with fragmented and market oriented US or UK and with social democratic countries (Sweden, Austria, and in some respects Germany). This might explain why civil servants and governments have spent so much effort and time inventing a whole spectrum of incomes policy tools in response to changing internal crises and external pressures.

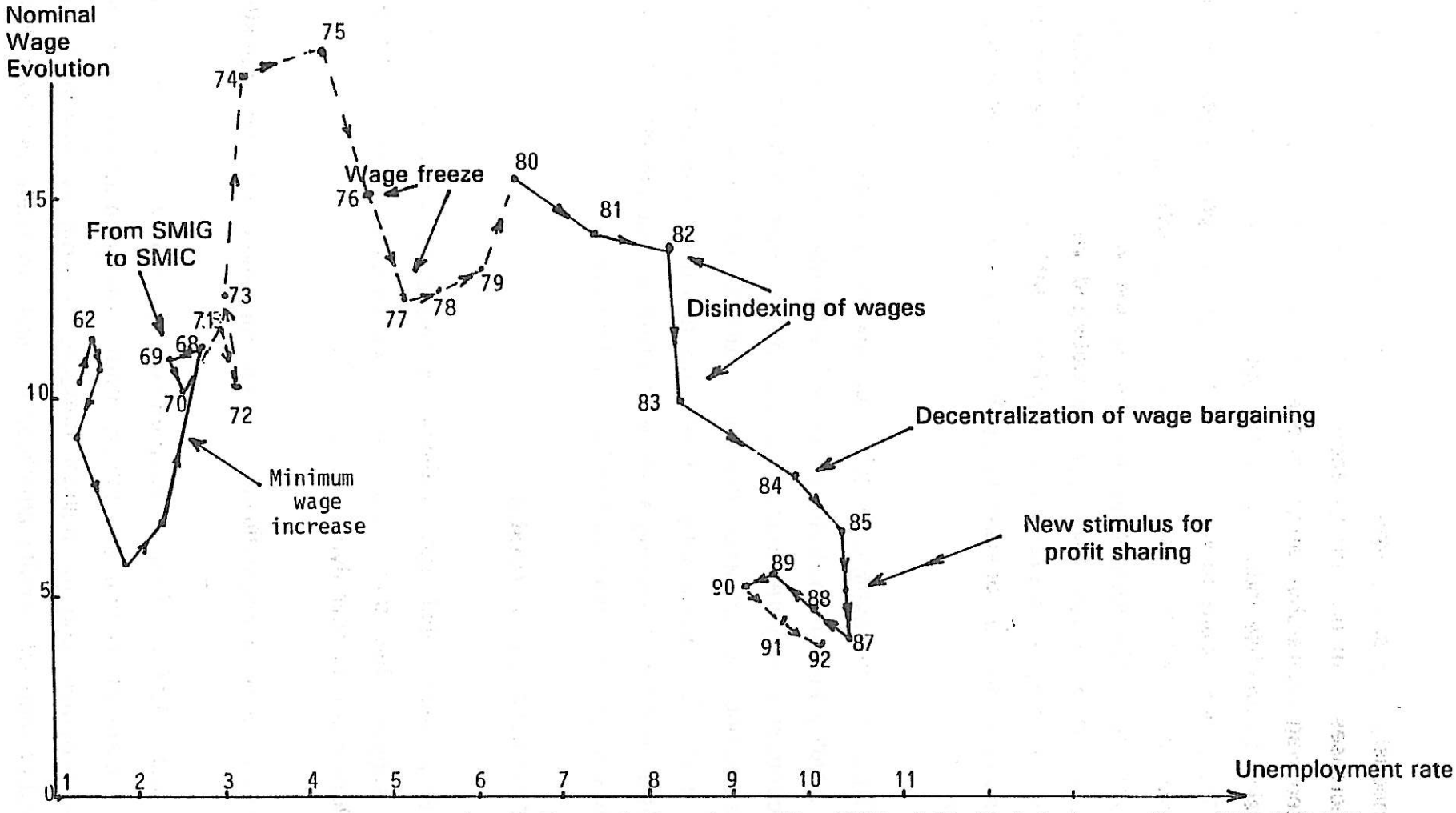
III - THREE CONTRASTED PHASES.

Both institutional and statistical analyses of wage and income formation suggest that there has been a succession of quite different configurations and economic dynamics (Graph 1).

1. 1947-1973 : a wide compatibility of wage formation with the regulation mode

Until 1973, State intervention promoted a *wave of institutionalization* of income distribution. Both large productivity increases, quasi full-employment and the political pressures exerted by workers'unions allowed and/or induced definite advances in minimum wage policy, welfare state measures and, complex wage formulae for the public sector (Table 3).

GRAPH 1 : THE THREE PHASES OF WAGE FORMATION



Source : Data from EUROSTAT : Economie Européenne, May 1992, n° 51, Statistical appendix, p. 200, 221-225.

PHASE 1 1961-1973	PHASE 2 1974-1983	PHASE 3 1984-1992
The institutionalization of wage formation, full indexation and little impact of unemployment	Slow erosion of post-WWII incomes policies under the pressure of	The reform of incomes policies : disindexing and emerging new formula unemployment

This was part of the structural reforms, undertaken under the aegis of Commissariat Général du Plan, which turned out to be rather successful until the mid Sixties. The French economy was then growing at a fast rate between 5 and 6% and was experiencing quasi-full-employment. Precisely for these reasons, the bargaining power of wage earners allows them to go on strike and get significant wage increases (the 1963 miners'strike). Consequently, the government tried to convince the social partners to be more aware of the inflationary consequences of excessive wage increases (P. MASSE, and P. BERNARD (1969).

From 1967 to 1973, the State created a series of bodies or tools in order to promote an income policy. For instance, a special center (Centre d'Etude des Coûts et des Revenus) was created in order to promote income transparency and facilitate tripartite bargaining about income formation. Unfortunately, workers unions argued convincingly that this was mainly a means for holding down wages, excluding profit or interest payments from the analysis and the bargaining process. Similarly, the nationalized firms such as EDF and SNCF have been used as laboratories for the implementation of sophisticated pay formulae linking wage increases to a complete series of factors, including the evolution of total factor productivity. The basic idea was simple enough : in order to maintain price stability, wages should not grow faster than productivity. All over the period, civil servant salaries and the public sector wage have been used as guide-line for income formation in the private sector. Nevertheless, the objective of tripartite and centralized annual bargaining over income has been progressively decaying since the famous "Accords de Grenelle" which put an end to the May 1968 social and political upheaval.

During the boom of 1968-1973, the same policies were pursued, even if inflation speeds up (Graph 1). It is not surprising to observe that unemployment no longer has any clear disciplinary effect on nominal or real wage increases (Table 3). This is the direct outcome of a rather complete embeddedness of incomes into a largely institutionalized compromise and the

TABLE 3 : THE SUBTLE DIALECTICS BETWEEN PHILLIPS CURVE AND INCOME POLICIES

A. Unemployment and nominal wage : A disciplinary role after 1973, no more during the last decades

PERIODS	CONSUMER PRICES	UNEMPLOYMENT	CONSTANT	R^2	DW
1961-1992	0,94	- 0,53	6,50	0,93	1,62
	(17,0)	(8,8)	(12,0)		
1961-1973	1,27	- 1,25	6,20	0,64	1,72
	(3,9)	(1,5)	(4,6)		
1974-1992	0,80	- 0,79	9,60	0,97	2,32
	(8,9)	(5,1)	(5,3)		
1974-1983	0,78	- 0,80	9,90	0,78	2,28
	(3,3)	(3,0)	(2,9)		
1984-1992	0,79	- 0,46	6,40	0,94	2,62
	(9,4)	(1,4)	(2,0)		

B. Unemployment has an impact upon real wage

1961-1992		- 0,51	5,74	0,72	1,63
		(8,8)	(15,8)		
1961-1973		0,82	6,40	0,15	1,37
		(1,4)	(5,3)		
1974-1992		- 0,45	5,20	0,57	1,89
		(4,7)	(7,0)		
1974-1983		- 0,65	6,20	0,54	2,40
		(3,2)	(5,5)		
1984-1992		- 0,43	5,30	0,13	2,14
		(1,1)	(1,2)		

strong bargaining position of wage earners, associated with significant job creation.

How to explain that from 1947 to 1973, the impact of large wage increases was not been detrimental to growth and employment ? The answer seems to be as follows. French firms have benefited from the related increases in consumer expenditures ; there was no decline in their profit rate and consequently their investment continued to grow. In other words, the industrial relations and wage bargaining institutions were in accordance with the macroeconomic adjustments implied by the Fordist growth regime and more specifically the administered regulation mode (R. BOYER (1979), J.P. BENASSY, R. BOYER, and R.M. GELPI (1979)). At least three major mechanisms may explain the compatibility of a relativemy unsuccessful incomes policy promoted by the State, not so successfull, along with a clear economic dynamism and good performance.

Competition was essentially oligopolistic and mainly concerned national firms ; thus almost any wage hike could be passed on into final prices so that the firms had few reasons to block wage increases, given a rather accomodating monetary and budgetary policy. Secondly, during this period, the diffusion and maturation of mass consumption stimulated the dynamism of consumers' expenditures, which turned out to be the major determinant for investment decisions by firms. Thirdly, given the rather low degree of internationalization, the national firms derived most of the benefit from thè related demand increases, a situation quite distinct from the interwar period as well as the present decade

Therefore, as long as the French economy was rather insulated from external competition and moderately open, provided that Fordist organizations could deliver significant productivity increases, the focus on wage demand by the wage earners might have played a positive role in the growth regime (S. BOWLES, and R. BOYER (1992)). The inability of State to engineer a fully fledged incomes policy was not so detrimental.

2. 1974-1983 : Rising unbalances and the progressive erosion of wage compromise.

The first oil shock triggered a series of disequilibria, first hidden but progressively perceived as quite detrimental, which led to a complete revision of the objectives of French income policies. The stagflationary property of the administered regulation mode became apparent : the deterioration of the terms of trade was passed into prices, then to wages and provoked the coexistence of an accelerating inflation along with a large increase in unemployment (Graph 1, supra). But contrary to past experience, the 1974-75 recession did not end with a recovery back to full-employment and fast growth. After 1973, the growth rate has been far lower by comparison with the previous decade.

First of all, an increase in internal demand no longer evokes equivalent production capacity increases, since productive investment suffered from declining profits, and major uncertainties both national and international. At a deeper level, RD expenditures were reduced too, while the lower investment rate inhibited the diffusion of new products, processes, equipment and organizational methods. Thus, the productivity slow-down, first interpreted as transitory and merely related to energy shortages, persisted through the Seventies and early Eigthies : real-wages could no more increase at the previous rate and this brought some revisions in income formation.

Post WWII income policy orientation was first altered around 1976, when a rather severe wage freeze was intended to suggest that the period of laxity was over and that disinflation and external competitiveness had to be given priority. Given the deflationary context, and especially after the reversal of monetary policy in the United States after 1982, all subsequent French governments have directed their incomes policies towards price stability, profit restoration and external balance. The tools have changed and holding down wages is the main objective : temporary price and wage controls, the imposition of wage norms, the call for decentralization of bargaining, or risk sharing by the workers : i.e. a kind of mild but effective social deregulation. Thus, for the first time since the 30's (R. BOYER (1979)), the nominal wage is highly sensitive to unemployment (Graph 1 and Table 3.A). Contrary to the

new classical hypothesis, the real wage is itself sensitive to unemployment nominal wages do not automatically catch up with inflation. Incomes policy might have some impact upon *real incomes* and not only their nominal components.

These major changes were confirmed and strengthened after the failure of the Keynesian reflation launched by the new governement run by socialists and communists after the 1981 election. The minimum wage was drastically increased, along with public expenditures in the hope of fighting against unemployment. But 1981-1983 was not at all the repetition of the 1968-1973 boom. Most of the extra demand went to foreign competitors, such as Germany, since the French economy was more exposed to foreign competition than during the Sixties. Difficulties were compounded financial liberalization, which spread world-wide the real interest increases initiated in the United States. Similarly, the insertion of France into the European Monetary System tended to remove the degree of freedom previously given by periodic exchange rate adjustments. Finally, a rising public deficit and chronic external disequilibria prevented governments from to compensating through by subsidies or tax reduction the erosion of direct wages. Thus, an extra pressure in favour of more drastic reform of income formation.

3. The last decade : The backlash of profit restoration and competitive disinflation.

The priorities of the government were clearly reversed and have been maintained until 1993. On one side, the slowing-down of inflation becomes the key objective in order to keep a stable exchange rate between the French franc and the Deutsch Mark. Nominal wage increases show a significant reduction from 1982 to 1987 (Graph 1). Competitive disinflation aims at enhancing competitiveness, thereby triggering an export-led recovery. At the same time higher profits are perceived as a requisite for a return to faster growth and ultimately more job creation the famous SCHMIDT's theorem : today's profits feed tomorrow's investment and hence productive capacity of the day after tomorrow which will ultimately bring new employment opportunities.

INSERT 1 - THE MID-EIGHTIES TURNING POINT IN FRENCH INCOMES POLICIES : FROM A WAGE-LED TO A COMPETITIVENESS LED REGIME ?

A. A short run macroeconomic model

Following S. BOWLES and R. BOYER (1992), let us adopt the very simplified short run macromodel for a given national economy

(1)	$C = (1 - s_w) W + (1 - s_r) R$	Household consumption
(2)	$W = wh$	w : real wage ; h : employment rate
(3)	$R = h(q - w)$	Profit, with q labor productivity
(4)	$I = i_0 + i_r R + i_h h$	Investment of firms
(5)	$X = x_0 + x_r R + x_h h$	Net exports
(6)	$D = I + X + C$	Aggregate demand
(7)	$Q = qh = R + W$	Aggregate supply

Imagine now that the real wage w is varied, due to an exogenous wage bargaining or an incomes policy. The impact upon aggregate demand D , and consequently the employment rate, assuming that labor productivity q is exogenous, will depend upon the sign of

$$D_w = \partial D / \partial w = h(s_r - s_w - i_r - x_r)$$

Thus, employment is wage led if $s_r - s_w > i_r + x_r$ that is to say if the difference in saving propensities out of profit and wage exceed the sensitiveness of investment and net export to the profit share.

B. A rather closed economy may be wage-led, but no more a largely opened one.

very crude econometric estimates for five OECD countries suggest three major provisional results

1. ***If closed, all five economies would be wage led, at least in the short run***

Provided that production capacities are sufficient, it seems that a real wage increase has a moderate impact employment, more or less positive.

INSERT 1 (follow 1) - THE MID-EIGHTIES TURNING POINT IN FRENCH INCOMES POLICIES : FROM A WAGE-LED TO A COMPETITIVENESS LED REGIME ?

TABLE 4 : The impact of real wage on demand

Countries	Estimates			$\partial D / \partial w$ Sensitivity of demand to real wage	
	$(s_r - s_w)$ (1)	i_r (2)	x_r (3)	Closed economy (4) = (1)-(2)	Opened economy (5) = (4)-(3)
France	0,28	0,25	0,07	0,03	- 0,04
Germany	0,45	0,33	0,30	0,12	- 0,28
Japan	0,69	0,53	0,25	0,16	- 0,09
UK	0,40	0,14	0,21	0,26	0,05
US	0,46	0,16	0,16	0,30	0,14

Note that these results are partial and shaky can be altered when :

1. The long run growth is limited by the production capacities growth, i.e. the pursuit of a sufficient level investment :

$$\frac{\partial I}{\partial w} = i_r \cdot \frac{\partial R}{\partial w} + i_h \cdot q \cdot \frac{\partial D}{\partial w} \leq v \cdot \frac{\partial D}{\partial w}$$

with v the capital output ratio.

2. The real wage triggers productivity increases, due to more work intensity or labor saving innovations.

3. If capital financial mobility accross nations and/or lack competitiveness does not allow national firms to capture the demand increases induced by real wage.

This last issues is specially relevant for our purpose.

2. When external trade is taken into account, the French economy would be (very midly) profit led.

It suffices to compare columns (4) and (5) in the previous table : due to external conpetition and/or international mobility of capital, France, and Germany would actually be profit led, but not UK nor US.

INSERT 1 (follow 2) - THE MID-EIGHTIES TURNING POINT IN FRENCH INCOMES POLICIES : FROM A WAGE-LED TO A COMPETITIVENESS LED REGIME?

If confirmed by more sophisticated studies, this would imply that nowadays, income policies should aim at wage moderation. It is conventionally the case for Japan (M. AOKI (1988) and Germany (W. STREECK (1992))...but not usually so in France at least until 1983, where these efforts by the government used to be defeated by unions, wage earners, with the accommodating role of Banque de France.

3. The French economy might have evolved from a wage led regime to a profit let one, due to the growing internationalization.

Imagine that the share of export is continuously growing from 0 to 1. Then for France, Germany and Japan, these exists thresholds which are converting a wage led into a profit led regime (Figure 1)

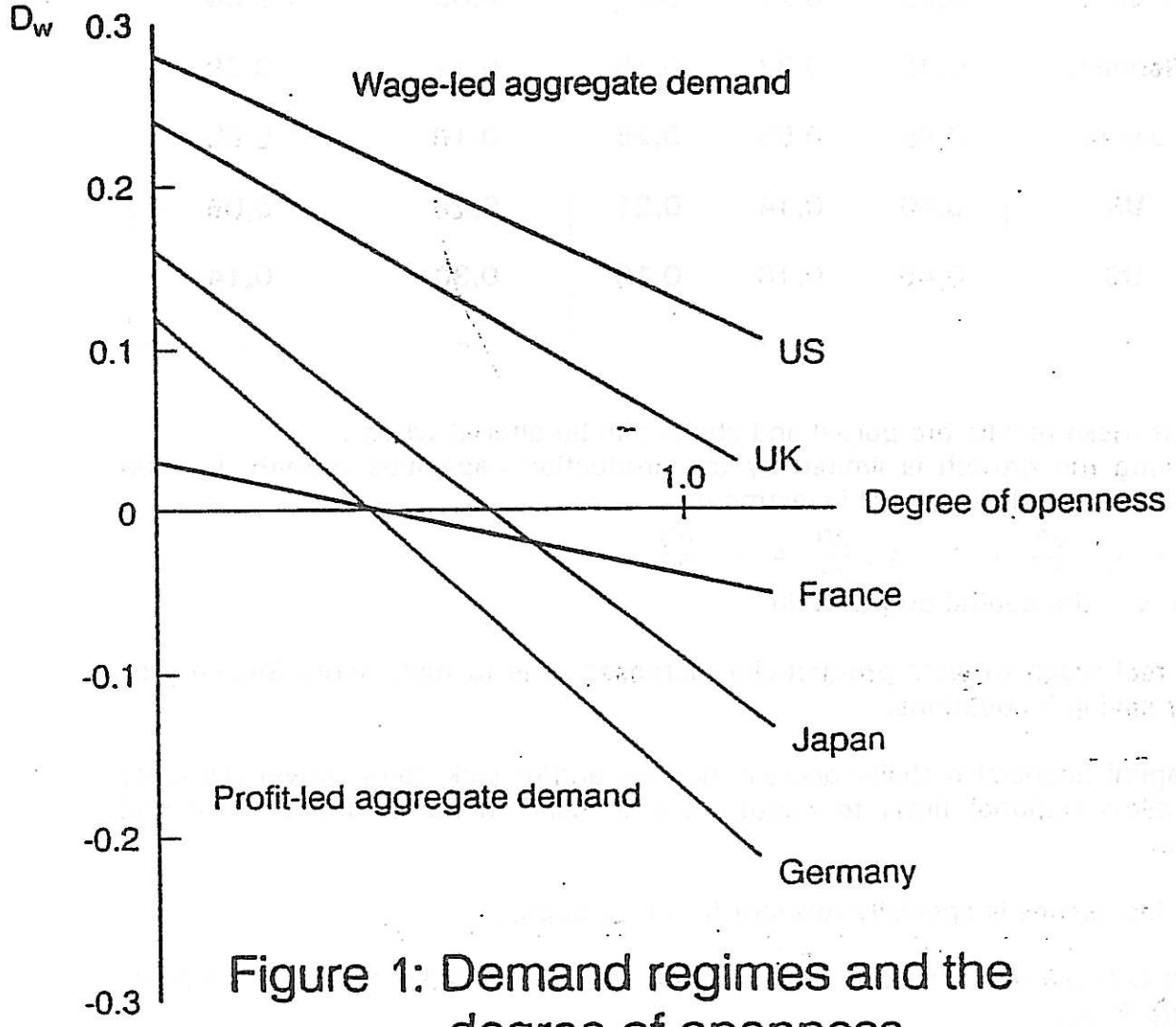


Figure 1: Demand regimes and the degree of openness

Source : S. BOWLES, R. BOYER (1992).

This might explain, specially for France, why the labour market institutions and the tentative but not very effective income policies might have not any detrimental effects when the internationalization was moderate, but turned out so during the 70's and 80's.

This is a rupture with respect to the Fordist wage led growth in favour of a more classical vision according which profit restoration and the search for competitiveness are the two ingredients for economic performance and fast growth. During the mid Eighties, France tried to implement some components of the strategy proposed in OECD reports urging the "flexibilization of labour markets". Wage were not to be indexed to past inflation. Minimum wage increases were slowed. Severe wage guide-lines were seen for the public sector and nationalized firms in order to initiate wage moderation to be diffused to the whole private sector. Job security legislation was relaxed. Welfare payments, including unemployment benefits were slimming. Possbily the growing internationalization of the French economy has played a role in such a shift (Insert 1).

In retrospect, surprisingly enough, a decade later this policy is still maintained and has delivered an impressive reduction in wage settlement increases. For instance, the German wages have increased more than the French ones since 1991 and the inflation rate has become lower in France than in Germany. The first objective of the DELORS government is finally fulfilled... but this has not delivered the expected surge in growth and employment creation. This mixed achievement may be interpreted quite differently.

- One view is that, the adverse macroeconomic environment has induced or constrained unions and wage earners temporarily to accept such a pattern, but not to accept that the rules of the game have permanently changed. Unemployment has reached unprecedented levels since the interwar period, and union density has declined to such level that among OECD countries, France is located at bottom of the unionization spectrum. No surprise if the strike activity has almost disappeared at least for the private sector, and if workers now prefer to defend employment instead of asking for more wages which could price then out of their jobs. But, on a Kaleckian lines, one could contemplate that a return to higher growth, if not full employment, would shift again the bargaining power from firms to wage-earners and might bring back a configuration similar to that observed during the 60's.

- The other view is that structural and institutional changes have taken place which have altered income formation mechanisms. Due to financial deregulation and the surge of cross-border investment, capital has become more mobile and thus multinational firms have gained an extra bargaining power with respect to labor, far less mobile than capital. Similarly, the Single Market is progressively reorganizing competition at the European level, thus inducing significant shifts in the previous division of labor among countries : the previous complementarity between strong unions and oligopolistic power at the national level is challenged, and divided national unions are generally unable to impose European collective agreements which could re-establish at a continental level the various national configurations now eroded.

Further, labor legislation, firms' human resources management and pay systems, have been significantly altered, even during the 1984-1990 boom which gave the illusion that structural problems would progressively be solved by a return to high growth. The 1992-1993 recession has challenged this optimism and suggests a deeper analysis of the current state of incomes policies.

IV - NEW PRINCIPLES, BUT STILL UNCERTAIN OUTCOMES.

By comparison with the 60's, the landscape of the 90's exhibits many unique features, which might delineate possible alternative to State-guided, centralized and highly institutionalized incomes formation mechanisms.

1. Decentralization, individualization and profit sharing.

According to a trend observed in almost every other European economy, but with some lags, French governments and firms have adopted new principles, seemingly in partial contrast with those of the Fordist era of wage formation.

Firms increasingly seek to utilize competition within all their departments, by organizing competition between internal production and subcontracting, among various plants within the same holding. They also seek

to adjust hours worked and wages to sales volume and financial results (M. AOKI (1988)). Wages come to be more determined by product that by labor markets.

From a macroeconomic standpoint, the failure of wage led Keynesian reflations has convinced many experts and governments that the profit share should be increased in order to enhance investment, innovation and thus growth. This objective is reinforced by the continuous trend towards internationalization of production (S. BOWLES, R. BOYER (1992)) : if wage are too high, the production costs will price the firm out of the market and/or induce the transnational firms to delocalize its production facilities towards low wages (but high skills) regions, within Europe or outside (South Asia,...,. Consequently, the wage bill should be minimized, quite a novelty by comparison with the ideal of income shares stabilization under the fordist regime.

A third conceptual change concerns what wage income should pay for. Previously, the industrial pay systems were based upon the ability to perform carefully delineated tasks and this ideal permeated even the services sector. Wage were linked to jobs in quite stable job hierarchies. Nowadays, blue collar work increasingly resembles white collar work with the evolution of modern technologies and the need to respond more quickly to large variations in the volume and composition of demand. Hence, individual differences in skill, ability, and commitment may play a key role in economic performance. Thus wages should remunerate individual competences and no longer standardized jobs (B. REYNAUD, and NAJMAN VI. (1992)).

These forces have triggered three major structural changes in French incomes policies

° Wage bargaining has been decentralized, largely to the firm level. Both economic and institutional forces are responsible. In the last two decades differences in performance among firms and among sectors have increased the erosion of the post WWII growth regime and the unequal impact of

SOME EMERGING PRINCIPLES FOR NEW WAGE MECHANISMS

1. *Decentralization* of collective agreements : from the sector to the firm

TABLE 5 : Number of firms'level agreement

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Total of agreements	1 955	3 849	4 889	4 890	5 966	4 891	5 346	6 233	6 600

Source : Bilans de la négociation collective 1985-1987-1991, Ministère du Travail, de l'Emploi et de la formation professionnelle.

2. *Individualisation* of wages

TABLE 6 : The distribution of wage increases according to their individual or collective mature.

Proportion of firm level agreement	1985	1986	1987	1988	1989	1990
Solely general rate increases	72	66	67	59	57	55
Solely increases awarded individually	6	8	9	12	18	13
A mix of the two	13	14	14	19	18	23
No increases	9	12	10	10	7	9
TOTAL	100	100	100	100	100	100

Source : T. COUTROT (1992), p. 25-26.

3. *Profit sharing* from *participation to interéssement.....*

TABLE 7 :

	Formules d'intéressement		Formules de participation aux résultats		
	Accords	Salariés couverts	Accords	Entreprises	Salariés couverts
1969			1 503	1 709	
1971	219		6 863	7 576	3 403 000
1974			9 291	10 443	4 666 375
1977	344	125 400	9 936	11 195	4 773 600
1980	575		10 091	11 453	4 878 937
1981	637		10 225	11 612	4 842 194
1982	845	255 800	10 360	11 795	4 832 194
1983	918	293 100	10 408	11 926	4 757 851
1984	1 086	335 200	10 483	12 090	4 698 904
1985	1 303	401 500	10 336	11 945	4 549 940
1986	2 162	589 500	10 253	12 019	4 524 282
1987	2 630	729 295	10 018	11 797	4 408 231
1988	4 600	948 811	10 111	12 001	4 478 214
1989	6 997	1 391 000	10 214	12 239	4 573 972
1990	10 717	2 000 000	10 355	12 511	4 682 566

Source : Ministère des Affaires Sociales et de l'Emploi.

Source : From D. VAUGHAN-WHITEHEAD (1992), p. 121-122.

° stiffed international competition. Thus, if employment is to be maintained, wage settlements have had to take acount of ability to pay. Secondly, the Loi AUROUX (1982) made collective negotiation compulsory at the firm level. The law was supposed to provide extra bargaining power to the weak and divided French unions, but ironically it has made it easier for managers and human resources departments to design new pay systems, quite different from those prefered by unions. Table 5 shows the rapid increase in firm-level agreements.

° From 1947 until 1975, the wage increases become less and less dependent on individual performance, job rates were what bargaining was about. During the 80's this trend was reversed. Within the same firm, incomes are more and more set according to *individual performance* or characteristics (Table 6). The intention is to induce higher productivity and quality. The bend is not universal because of differences between sectors in organization, technology and the possibility of measuring individual performance (B. REYNAUD & alii (1993)). Nevertheless, the idea that incomes should be related to individual performance is underspread among managers, both in the private and public sector. In some extreme cases, the arbitrariness of bonus payment has triggered dissatisfaction and strikes, thereby losing the projected efficiency gains.

° The third break into the past concerns risk sharing. In French labor law, the income of wage-earners is traditionally conceived as immune from the risk taken by the firm : at least during the period of a given contract, the wage paid should be independent of the firm's fortunes. Nevertheless, two laws (1959 and 1967) had organized two (modest) *forms of profit sharing, under the name of "intéressement" and participation*, not so much to respond to major economic uncertainties but as to propagate "corporatisme à la française". A third law, implemented in 1986, was directly inspired by M.L. WEITZMAN's (1986) proposal for a share economy. The aim was job creation supposed to follow from more flexible wage payments. Five times more wage-earners benefit from "intéressement" in 1990 than in 1985 (Table 7), though the prospect of total employee income involved is still small.

2. Some positive impact at the micro level but still major macroeconomic unbalances.

What have been the effects of this profit sharing. Firms which have implemented "intéressement" formula are found generally to exhibit larger productivity increases, and higher profitability and to have reduced turnover (D. VAUGHAN-WHITEHEAD (1992), V. PEROTIN (1991)). These benefits, plus the tax subsidy granted to enhance the diffusion of profit sharing compensate for any initial loss of profits.

Similarly, it turns out that "intéressement" reduces direct wage increases, but enhance total earnings, i.e. the sum of wage and profit sharing. Wage increases are more steady, but total earnings more flexible. The fluctuations of employment are dampened, as theoretical analysis would suggest (T. COUTROT (1992, p. 32). In 1985, firms with profit sharing maintained higher employment levels, ceteris paribus (D. VAUGHAN-WHITEHEAD (1992), p. 272).

But these micro-effects need to be part in a macroeconomic perspective. First, recessions --that of 1992-3, for instance-- are mainly Keynesian, reduction in wage earners' incomes is only a second best strategy by comparison with more conventional economic policies. Variation in demand remains the major determinant of employment fluctuations, whereas the elasticity with respect to wage, though significant is moderate, --around -0,33-- and the contribution to that of "intéressement", though significant is small. Wage sharing funds are still small with respect to total wage bills and wage earners' income. Even if the French system is two decades old, it does not have the importance or impact of the Japanese bonus system.

Secondly it is important to recognize the marginal nature of these effects on empty merit. When steady and long term unemployment appears, it is to late to tackle it by the reform of income formation. It takes usually several decades to build an alternative system. There are not reasons to stop profit sharing, but they warn that it is not a sufficient solution to cure unemployment, the major challenge for the French society during the Nineties.

Wage flexibility cannot be a complete substitute for adequate monetary and budgetary policies. If for instance, high real interest rates give a premium to rentiers and little to wage-earners (C.E.R.C (1993)), if these are major uncertainties about the future of Europe or trade issue which hold back investment and if strong financial constraints as during the subsequent 1992-1993 recession are the result of a previous financial bubbles it is both unfair and inefficient to ask labor to pay for the disequilibria, they are not responsible for. Labor market disequilibria may derive from financial or product market unbalances, which would have to be corrected quite independently from any flexibilization of wage formation.

Finally, some adverse consequences of the profit sharing economy should be stressed. Whereas the Fordist collective agreement used to deliver a large stability of wage hierarchies, complete decentralization and interessement at the firm level would trigger wide wage differentials, possibly cumulative, across sectors. This would offered common feelings about fairness : why should identical skills and competences receive unequal earnings ? In the long run this might be detrimental to efficiency, and some surveys already suggest that wage earners have negative feelings about the widening of income unequalities, which are only mitigated by the claim need that the new types of labor contract are neede to fight against job destruction (See R.M. SOLOW (1990) ; B. REYNAUD (1993) ; T. LACROIX (1990)).

V - A SOCIAL LABORATORY FOR ALTERNATIVE INCOMES POLICIES.

A provisional survey of the various episodes of French policy do confirm the variety of objectives and tools, experienced since 1947. This country gives almost any example of the theoretical variants of incomes policies (Table 8). Instead of a chronological presentation of these measures, it might be more enlighting and challenging to propose *seven conclusions*, quite general but some how provisional.

TABLE 8 : THE VARIOUS TOOLS OF INCOME POLICIES IN FRANCE : AN ASSESSMENT

NATURE OF THE INCOME POLICY	ASSUMED IMPACT	EFFECTIVE IMPLEMENTATION AND IMPACT
1. Minimum wage SMIG 1950-1968	To garantee a minimum standard of living	From 1955 to 1967, minimum wage lagged far behind average wage : social protests in May 1968
2. Active minimum growth wage policy SMIC 1969-1984	To promote more equity and reduce wage differentials	1. Incentive for productivity increases and labor saving innovations 2. Possible negative impact upon youth and unskilled unemployment
3. Careful use of SMIC and rationalization of unemployment benefits (1985-1992)	Try to curb down the classical component of unemployment	1. Rising inequalities and poverty 2. Less inducement to rationalization
4. Implementation of a citizen wage (Revenu Minimum d'insertion)	Couterbalance rising social exclusion by general income maintenance	1. Only 30 % of the persons finally get a job 2. No strong disincentive to work due to the low level of RMI
5. Comittee for income assessment and policy CEAR and then CERC	1. Promote income transparency 2. Institutionalize tripartite agreements 3. Curb inflation and respond to strikes	1. Technical studies more than active role in the bargaining process 2. Vocal objections by wage earners unions : what about profit ? 3. The inflationary boom at the international level relaxes the need for such difficult arrangements
6. Leading role of the wage norms set for the public sector (for example : EDF)	Design sophisticated formula in order to institutionalize wage variations according to firm's and nation wide performance i.e. total factor productivity (TFP) "Comptes de Surplus"	1. Total factor productivity is not so easy to compute 2. No diffusion outside the public enterprises 3. Temptation to breakdown the formula according to pressing economic policy issues (example : disindexing in 1983)
7. Tax based income policy (TIP) Prélèvement conjoncturel 1975	Remove from firms any interest to grant wage (and price) increases in excess of TFP evolution	1. The tax base is so complex to compute that it was never used 2. When inflation speeds up, the process of TIP is too sluggish
8. Temporary price freeze "Plan Barre 1976,1978"	1. Try to curb inflationary expectations 2. Use indirect taxes reduction (VAT) and monetary policy to check nominal income increases	1.The impact is short lived 2. If maintained the price freeze may impair production (sectoral inbalances...)
9. Solemn statement by the government about new principles for wage formation 1983 Plan Delors	1. Breaking down of any indexation of wage with respect to past inflation 2. Near stability of real wage is the initial objective 3. Ultimately,decentralize wage bargaining to the firm level, in order to preserve competitiveness and employment	1. Until now, the wage cost push inflation has been levelled off 2. Impressive restoration of profit share 3. Weak bargaining power of unions at the local level. More disparities in wage increases
10.Profit sharing 1. Loi sur l'intéressement 1959	Tax deduction for firms who negotiate bonus systems	Very limited diffusion, due to a complex legal process 1. Some success in promoting wage earners saving
2. Ordonnance sur la participation 1967	Obligation for firms over 100 wage earners to have deferred profit sharing plans	2. But little involvement in information and management of the firms 3. A very limited fraction of wage-earners income
3. Ordonnance d'Octobre 1986 Intéressement, participation, actionnariat	1. Rationalize the previous laws 2. Make wage more flexible 3. Channel savings into Plan d'Epargne d'Entreprise	1. Explosion of participation 2. Small firms are less involved 3. Still a limited amount

First Proposition : The short lived impact of wage freezes.

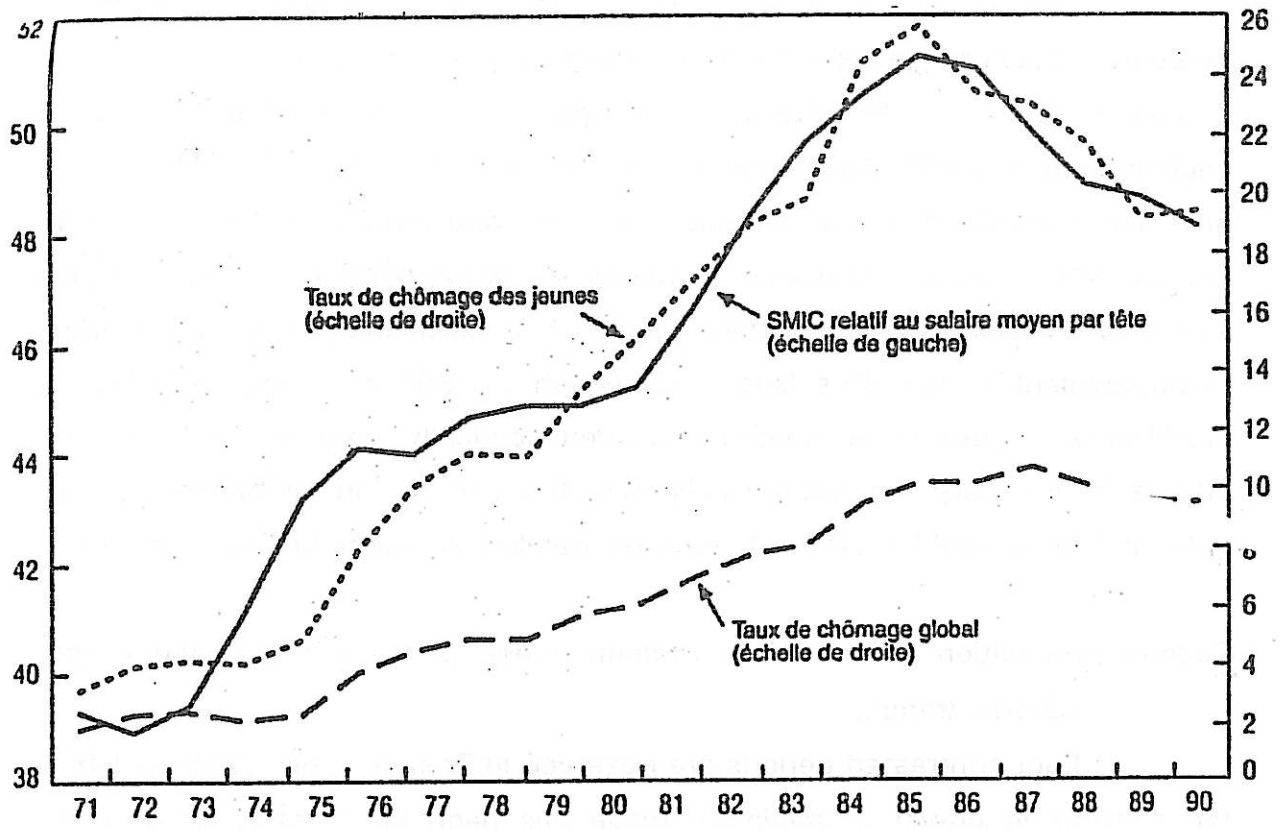
Any *price and/or wage freeze* has initially a clear impact upon inflation but usually ends up into a return to previous trends, unless some permanent rule of the game is changed. For example, all the plans implemented in 1976, 1978, 1982 finally have had *a short lived impact* : a once for all moderation was obtained, but any long term shift has been up to the transformation of institutional condition for wage bargaining. The last plan succeeded better than the former, due to the disciplinary role of the large unemployment of the 80's (see again Graph 1). Still more any long lasting blocking of relative price movements, even politically feasible would end up into sectoral unbalances and possibly scarcities worse than the speeding up of inflation (this is well known for heterodox stabilization plans in Latin-America)

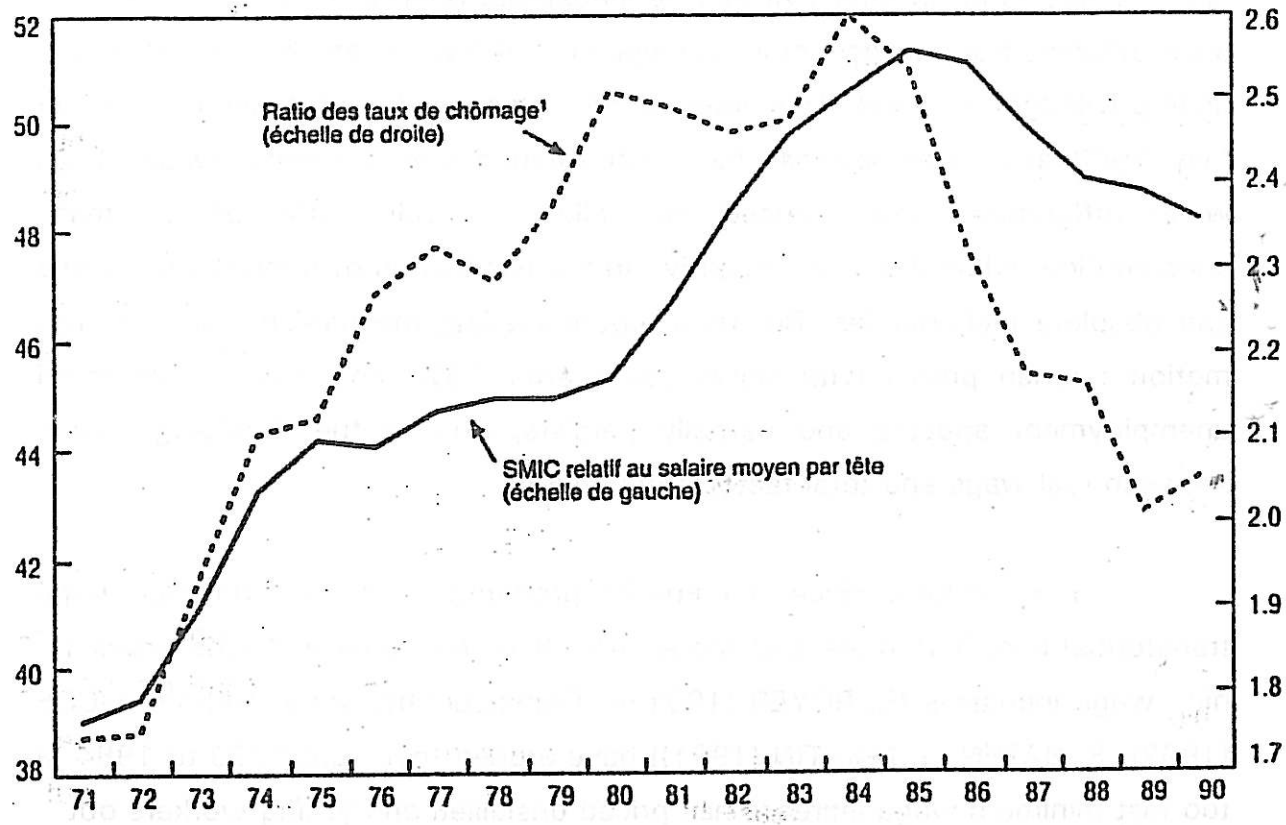
Second Proposition : An active minimum wage policy might finally trigger adverse trends.

Four contrasted periods are observed in France. From 1955 to 1967, the purchasing power of minimum wage has been kept nearly constant in order to help labor in intensive mature industries. Such a measure might have been efficient from an economic standpoint, but has arisen the protest of the underpriviledged workers. This ends up into the explosion of minimum wage in May 1968 and more basically its transformation into a growth wage. Thus wage differentials are reduced and allow a wider diffusion of mass consumption, while it was an incentive to the elimination of unproductive firms and obsolete technologies. But then, countervailing mechanisms are set into motion : when productivity slows down after 1973 and 1979, a classical unemployment appears and partially persists, due to the diverging trends between real wage and total factor productivity.

Furthermore, since the Fordist productive methods undergo large transformations, it is more and more difficult to find unskilled jobs providing high wage increases (R. BOYER (1991a)). Consequently, some authors (OCDE (1992), S. BAZEN, J. MARTIN (1991)) have argued that from 1973 to 1984, a too fast minimum wage increase has priced unskillied and young workers out

GRAPH 2 - MINIMUM WAGE POLICY MAY BE HURTING YOUTH EMPLOYMENT : TWO CRUDE EVIDENCES





1. Taux de chômage des jeunes divisé par le taux de chômage global.
Sources : INSEE et OCDE.

Source : OCDE (1991) : Etudes Economiques : France, p. 80.

of the market (See Graph 2). Conscious of these adverse effects, the government decided to have a more cautious approach about minimum wage and simultaneously unemployment benefits. But then, poverty has stricken a new fraction of the population, unable to benefit from the existing welfare system. In 1989, a citizen wage "Revenu Minimum d'Insertion" had to be designed and to be implemented just to compensate the new adverse trends generated by the incomes policies followed since 1984 (M. VILLAC (1992)). More generally, the attempt to foster market mechanisms has finally reinforced the need for an extension of income redistribution via the welfare state (D. OLIVENNES (1992)).

The core message is clear indeed : *any specific incomes policy, however adequate, may finally trigger adverse trends* challenging its basic efficiency.

Third Proposition : Informations about incomes do not replace the power to alter their institutional determinants

The new classical school and the economists who believe in rational expectations have made popular the idea that when economic information is widely disseminated, monetary illusion vanishes and everybody is bargaining in real terms. Consequently, monetary policy as well as any State intervention upon income will have no impact at all on economic activity and employment. For example, in a fully indexed economy, monetary shocks would not have any long term influence upon growth and employment. Conversely if information is asymmetric or imperfect, a State agency which would diffuse to social partners the exact figures would induce Pareto improving deals, concerning for example income distribution.

The French case brings to the forefront the importance of a clear distinction between *information and power*. For instance, XIXth century workers were clearly aware of the erosion of their standards of living during inflationary crises, but were unable to impose to firms any indexing of their wages with respect to consumer prices (R. BOYER (1979)). In contemporary France, the setting up of "Collège d'Appréciation des Revenus" was not

sufficient to enhance the emergence of a French neocorporatism. When replaced by a more modest technical body "Centre d'Etude des Coûts et des Revenus", it did not succeed in gradually promoting a consensus approach to incomes policies, via the diffusion of the relevant informations to unions and business associations. Even if information captures some power, it does not correlate with the ability to transform significantly the underlying power relations which are structuring the French society. By contrast, the German experience shows that a power divided among unions, firms and banks may on the contrary induce to compromise, even in the absence of any strong State intervention. In France, *a too strong State can be an obstacle to a contractual approach to incomes policies.*

Fourth Proposition : Some ideally designed incomes policies might not be institutionally implementable.

Some economists have proposed sophisticated tax based incomes policies (H.C. WALLICH, S. WEINTRAUB (1971)) : why not to tax any price or wage increases, up to a threshold defined by total factor productivity ? This would apparently be the definite weapon against the inflationary biais inherent to the Fordist compromise and its high institutionalization of incomes formation. The historical records do not confirm the optimism of theoreticians : apparently all the countries which tried to actually implement such a nice idea miserabily failed. France makes no exception. In 1975, an adviser of the Ministry of Finance wrote a law in order to tax severely any nominal income increase above "surplus de productivité", i.e. total factor productivity (TPF), measured in accordance with a sophisticated methodology elaborated by CERC (1973).

This TIP, commonly labelled as "Serisette" was voted by the parliament on 1975...but was never used, not so much because inflation had stopped (wage was increasing at an annual rate above 12 %) but because nobody was able to actually implement it ! On one side, it was time and money consuming to compute TPF, it was controversal to select the definiton for the volume of inputs, which is not traditionally captured by private accounting, firms were quite opposed to make such boring computations and

prefered to silently pass wage increases into their nominal prices, whereas the tax administration was totally unable to dispatch the controlers who would have computed the "Serisette" and taxed accordingly firms. Finally even the workers had not any interest in supporting this State initiative, since they usually prefered to continue to play the previous inflationary Fordist game. On the other side, even if adequately implemented, this anti-inflationary tax would have been so sluggish and so late -at least one year after price and wage decisions- that its impact upon the dynamics of inflation would have been dubious : a month to month adjustment of firms and wage earners, due to the inflationary expectations, versus a year to year taxation by the State !

Any proponent of a new tax based incomes policy should think twice about the French proverb : "le mieux est l'ennemi du bien". Once translated and adapted to our topic, this means that *an optimal device might turn totally unfeasible* in really existing economies, given the computational constraints...but also the social and political embeddedness of any tax .

Fifth Proposition : Two ingredients for success : a subtle mix of elementary tools in line with the macroeconomic and political context.

The French case could suggest a fondamental pessismism or even nihilism concerning the desirability and efficiency of *ANY* incomes policy. During the 80's, this view was largely accepted, given the wide belief about the omnipotence and omniscience provided by the free functionning of a market economy. Conversely, it was quasi definitional in new classical theories that all State interventions in economic activity would finally be detrimental to Pareto efficiency and the welfare of the society. Nowadays, theoreticians in general equilibrium theory, analysts of conservative policies failures and public opinions have come to a more balanced view : markets might be very efficient in managing short term scarcities but quite unable to inform strategic choices about education, innovation, public goods and so on... (R. BOYER (1992b)).

Incomes formation does not define an exception to this general trend. Ex ante very few analysts thought that the DELORS' 1982-1983 plan would succeed in curbing down French inflation and finally provide in 1992

and 1993 the levelling off in the inflation differentials with Germany. This success is quite paradoxical, since the austerity programs elaborated by Raymond BARRE had previously failed. At least, two converging series of factors played a role in this inflationary strategy. First of all, the State has been using all its available tools in order to convince social partners that the inflationary era had to be stopped : clear statement that only expected inflation should be taken into account during wage bargaining, imposition of such a norm to the civil servants and the public sector workers, restrictive monetary and budgetary policies in order to make explicit that the inflationary solution was no more to be contemplated. But this would not have been sufficient in the absence of structural but incremental reforms : decentralization by "Lois AUROUX" of collective bargaining, emblematic wage formula which combine a preservation of a minimum standard of living, individual merit and finally the financial situation of the firm, the sector or the national economy (J. DELORS (1974), (1981)). Last but not least, a socialist government could impose to workers' unions economic concessions which would have been refused if proposed by a conservative government. Furthermore a continuous and quite disturbing rise in unemployment had shifted the trade off between real wage and unemployment, whereas the internationalization of trade, production and investment along with unprecedented financial innovations had given to firms new opportunities abroad and consequently enhanced their bargaining position. Finally, a major unions' crisis affecting simultaneously their objectives, organizations, and membership is drastically reassessing their strategic role.

Just to use the conventional metaphor about war, *income policies are more an art than they derive from pure academic science*. The ability to turn economic constraints -for example the European Monetary System- into a weapon in order to redesign income bargaining has played a decisive role in the surprising disinflationary performance observed during the last decade.

Sixth Proposition : Changing the rules of the game is a slow process.

Two recent episodes in French incomes policy enlighten this proposition, at odds with the impatience of most economists, who for example

initially imagined that the transition of Eastern European countries to a market economy would take only a few years. Mutatis mutandis, but a lesser extent, industrialized countries are probably evolving from one Fordist-Beveridgian and Keynesian regime towards a new one, still somehow uncertain and possibly different across countries (R. BOYER (1991b)). The principles of incomes distribution are not marginal indeed in this emerging new regime.

"Lois AUROUX" was voted in order to fight against the excessive centralization of industrial relations in France and was supposed to give more power to local unions. Unfortunately, the bill was passed during a period of disarray among unions and a large loss in membership. Thus, the unions lost most of their bargaining power which they used to hold from State recognition and intervention at the national level. Therefore it is not surprising if they could not develop overnight a new organization at the local and the firms level. After all, this process took half or one century in other countries. Ironically, a law designed in order to strenghten wage earners actually debilitated their bargaining power...at least during the last decade, but not necessarily in the long run.

The history of profit sharing in France is a second example showing how long is the long run ! When General De GAULLE took power in 1958, "intéressement et participation" were buzz words in order to convince wage earners that the new political regime was not necessarily pro-capital and against labor. Initially the impact of this saving, tax deducted, was very marginal and does not seem to have played any significant role in the overall "régulation" mode. The embryo had to be reiterated by "Ordonnances sur la participation" (1967) which had some success in launching a new wave of profit sharing. But again this was not sufficient to alter significantly the economic performance of the firms. Thus a third law, pushing the same principles in a different context, was voted on 1986. Then, the debate was related to the controversy about the share economy, presented by M.L. WEITZMAN (1986) as a panacea for employment recovery. Even if the implementation of the 1986 law is still too limited to provide such a nice

THE IMPACT OF THE NEW WAGE PRINCIPLES UPON ECONOMIC ACTIVITY

1. MORE EFFICIENCY

° Intéressement has a positive ROLE on productivity, profit, sales and employment stability...along with higher wages.

TABLE 9 :

	Salaire de base (SALMY)		Intéressement (INT)	
équation de :	Coefficient	t de student	Coefficient	t de student
Productivité	0,46	3,12[b]	0,08	3,04[b]
Rentabilité	0,08	1,65[a]	0,06	5,71[b]
Croissance des ventes	0,41	4,80[b]	0,01	2,36[b]
Turnover	– 0,11	– 4,09[b]	– 0,05	– 1,84[a]

a : significatif à 95 % ; b : significatif à 99 %.

Source : D. VAUGHAM-WHITEHEAD (1992), p. 244.

2. MORE VARIABILITY OF TOTAL EARNINGS, LESS FOR EMPLOYMENT

° Interessement reduces direct wage increases, but enhances total earning (including profit sharing) and dampens employment, wage increases are more steady but total earnings are more flexible.

TABLE 10 :

Les modèles économétriques retenus

Sur l'ensemble de l'échantillon (N=12 027 établissements)

(1) HSAL =
1,155 - 0,006 INT + 0,006 VAREFF + 0,040 BTP - 0,017 BANQ
(2,2) (2,6) (10,4) (3,8)

$r^2 = 0.03$ F = 40

(2) HSALC =
1,123 -0,014 INT - 0,085 VAREFF + 0,067 BTP - 0,067 BANQ
(1,2) (7,8) (3,9) (3,5)

$r^2 = 0.02$ F = 18

(3) HREM =
1,155 + 0,022 INT + 0,006 VAREFF + 0,040 BTP - 0,017 BANQ
(8,1) (2,4) (10,4) (3,8)

$r^2 = 0.03$ F = 40

(4) CVSAL = 4,41 - 0,21 INT + 3,310 SAL - 3,210 EFF
(2,6) (16,5) (6,8)
+ 0,20 INTERM + 1,34 BTP - 0,80 BANQ
(1,8) (11,6) (5,8)

$r^2 = 0.06$ F = 74

(5) CVREM =
4,24 + 1,29INT - 3,310 EFF + 0,27 INTERM + 1,37 BTP
(15,4) (6,7) (2,25) (11,5)

$r^2 = 0.07$ F = 90

(6) CVEFF = 10.12 - 0,55 INT - 7,410 EFF - 0,83 INTERM
(1,9) (4,4) (3,6)
+ 0,48 BTP - 1,30 SERV - 1,56 BANQ
(1,9) (5,7) (4,4)

$r^2 = 0.01$ F = 14

NOTE : Le test de Fisher renseigne sur la significativité de l'équation; pour un F supérieur à 3, on rejette l'hypothèse d'indépendance entre la variable expliquée et les variables explicatives prises dans leur ensemble. Toutes les équations ci-dessus sont donc validées par ce test, bien que les r2 puissent apparaître faibles (ce qui tient pour une part au grand nombre d'observations, pour une autre part au fait qu'on ne dispose que de peu de variables explicatives, et que manquent notamment des indications sur la situation locale du marché du travail et sur la situation économique précise de l'entreprise).Par ailleurs les équations annuelles donnent des résultats similaires, confirmant la robustesse des relations évoquées.

LEXIQUE DES VARIABLES :

HSAL= hausse des salaires des salariés d'exécution de l'établissement entre janvier 1987 et janvier 1991

HSALC = hausse des salaires des cadres sur la même période

HREM = hausse de la rémunération des salariés d'exécution (salaire de base + intéressement le cas échéant)

INT = variable indicatrice de la présence d'un accord d'intéressement

VAREFF = variation des effectifs de l'établissement sur la période

SAL = niveau du salaire de base pour les catégories d'exécution (moyenne non pondérée des niveaux renseignés pour l'établissement)

EFF = effectif moyen sur la période

INTERM = Dummy sectorielle (Biens intermédiaires)

EQUIP = " (Biens d'équipement)

CONSO = (Biens de consommation)

BTP " (Bâtiment et Travaux Publics)

SERV = " (Services marchands)

BANQ = " (Banques et Assurances)

CVSAL = variabilité temporelle des salaires de base dans l'établissement (coefficient de variation du salaire de base calculé sur 5 dates , de janvier 87 à janvier 91).

CVREM = variabilité temporelle des rémunérations dans l'établissement (coefficient de variation de la variable "salaire de base + intéressement moyen " calculé sur 5 dates, de janvier 87 à janvier 91).

CVEFF = variabilité temporelle de l'emploi de l'établissement (coefficient de variation des effectifs calculé sur 5 dates, de janvier 87 à janvier 91).

Source : T. COUTROT (1992), p. 32.

outcome, some statistical studies suggest that the impact upon firms is positive : more efficiency (Table 9) and more flexibility in reaction to unexpected disturbances (P. ARTUS, F. LEGENDRE, P. MORIN (1991), D. WAUGHAN-WHITEHEAD (1992)) The larger variability of total earnings is associated with milder employment fluctuations (Table 10). But the macroeconomic impact is still rather limited in France, since "intéressement" represents only a few percent pf the total wage earners income. Clearly, *changing incomes distribution mechanisms is a matter of decades*, not of years and still less of months. Too often, politicians look for quick fixes, and get disappointed, whereas they have few incentives to work out far reaching but initially not so visible reform proposals.

Seventh Proposition : Optimality at the micro level is not necessarily sufficient to provide a return to full-employment.

A superficial look at the present French situation might deliver a quite optimistic conclusion. In 1994, many of the past disequilibria and institutional mismatches have been corrected and thus only a buoyant macroeconomic environment (due to for example to lower real interest rates) would be needed in order to get a recovery in growth and job creation. This paper proposes a more balanced view. One can not conclude from the better *performance of firms* which have adopted profit sharing, that the mere diffusion of this device will be sufficient to solve all *macroeconomic unbalances*.

Basically, most modern economic theories about the labor contract conclude that the optimal bargaining set reached by firms and workers do not necessarily deliver the wage and incomes distribution which would promote employment creation and macrodynamic stability (R. BOYER (1992a)). This is specially acute given the strenghtening of European integration : an ECU and European Central Bank, along with a single market would probably imply a drastic revision in the institutional factors governing income formation, typically for the more inflation prone countries (D. MARSDEN (1992)).

TABLE 11 : WHAT ARE THE OPTIONS FOR ALTERNATIVE INCOME POLICIES IN FRANCE ?

ASSESSMENT PROPOSAL	REACTION TO SHOCKS	ADVANTAGES	DIFFICULTIES	FEASIBILITY AND IMPLEMENTATION
Complete decentralization and individualization of wage	By average and relative wage variations	° Fast responses ° In theory, no more unemployment	° Possible overbidding if labor scarcities ° Under investment in training	° Benefits from unions' decline, but slow process ° Not necessarily sustainable in the long run : the equity issue
Profit sharing	Via bonus	° Self adjusting process ° Should bring full employment	° Generally, the firms will not adopt it spontanously ° Need for public subsidies	° A long French tradition ° A boom of profit sharing since 1985 ° Studies conclude that profit sharing has positive impacts
Scandinavian wage formation	Via exports price and productivity in the traded goods sector	° Self enforcement of external competitiveness ° Leading role with respect to the seltered sector	° Possible inflation due to productivity differentials ° A decline in real wage is not excluded ° Important wage drift	° Difficult to implement in the absence of a strong union ° Does not fit with the Swedish collapse and partially unadequate to European integration
Wage-earners investment funds	Via the saving and ultimately investment of a fraction of wage increases	° Give some power to unions ° Smoothes and makes less conflict prone wage bargaining ° Built-in stabilizers of macroeconomic activity	° Who is managing the investment funds ? ° Challenges the right to manage principles	° The system has been blocked in Sweden ° Difficult to implement when various unions might disagree
National board for income policy	Average negociated wage	° Flexible response to unexpected shocks ° Preserve fairness ° A forward looking strategy is possible : trade-off between the present wage and the future return of investment	° High degree of centralization ° Possible blocking due to conflicting interests and views ° Possible forecasting errors	° Such a body has been contemplated (CEAR) and even created (CERC) ° Opposition of the unions (in the 60's), of the firms (70's and 80's)
European Agreements	Joint evolution of wage accross	° Compatible with European ° Maintains collective bargaining ° Transposition from the national to the European level of industrial relations	° Either partial, w[illegible] in European ° Or quite difficu[illegible] to implement at the EC level	° No clear concern for this solution in the Maastricht treaty ° Lack of actors and will for such an innovation

Decentralization, disindexing, individualization of pay and the generalization of profit sharing define an interesting configuration for labor contract from the point of view of firms, but they are not necessarily up to the challenge raised by European integration. Given the externalities associated with industrial relations, some adequate and different incomes policies measures are probably needed (Table 11).

VI - VARYING OBJECTIVES AND TOOLS, THREE PARADOXES OF FRENCH ECONOMIC POLICIES

The present survey suggests some conclusions, some of them quite general and possibly applying to other European countries.

1. It would be *misleading* to conceive of incomes policy as a *single concept* , as well as to look for some optimal device which would simultaneously solve all the following problems : demand inflation, structural competitiveness, response to supply shocks and unemployment.

2. Any given incomes policy has to be related to the "régulation" mode and the prevailing growth regime. It is specially important to recognise *the embeddedness* of any such policy within the context of industrial relations.

3. France has developed a fairly *sophisticated set of technical tools* in order to cope with the inflationary bias of its post war growth regime : minimum wages, wage freezes, complex pay systems in the public sector, wage norms, incentives to profit sharing, tax based incomes policies and so on. All have been used, with greater or less success in order to cure the French inflationary disease.

4. Nevertheless, *State power* has rarely been sufficient to compensate for an inherent *lack of trust* between business associations and unions, firms and wage-earners. This is the *first French paradox*. The continuous pursuit of

incomes policies by a "strong" State has still achieved less than the broad vision of a social market economy and "the complex set of fortuitously balanced" institutions typical of Germany.

5. Any system, however perfect, brings into existence *adverse trends* which progressively erode its initial efficiency. This is obviously so for temporary wage and price freezes which do not define any viable long run incomes policy. But the same applies to another sequence typical of the French experience, i.e. the succession of : minimum wage (SMIG), then growth wage (SMIC), and citizen wage (RMI).

6. Economic policy exhibits a *clear turning point* between 1982 and 1983, due to the conjunction of the internationalization of production and investment, financial integration, European institution building and a new wave of technical change. In retrospect it is quite surprising that the new orientations defined in 1982-83 have finally been accepted, and have been effective in delivering an impressive decline in inflation rates. This is the *second French paradox*, only mitigated by the fact that unemployment is still very high despite the steady pursuit of the same strategy over a decade.

7. Do incomes policies only affect *nominal incomes*, or do they shape real wage movements ? The French experience delivers a balanced view. On the one hand, the *State-imposed disindexing* of wage in 1983 clearly turned around the previous inflationary. But on the other hand, there was also an unprecedently high unemployment rate working to weaken the bargaining power of unions and wage earners, according to what seems like on iron law existing since the emergence of the capitalist industrial order, rather independently of any income policy.

8. At the firm level, a *set of new principles* seems to have emerged : maximum decentralization of negotiations, the individualization of pay, the remuneration of competence rather than job-related pay, the search for flexibility in wages via profit sharing, the downgrading of the role of unions. Basically wages have been disindexed with respect to past inflation and

highly institutionalized and rigid formula, at the sectoral or national levels, have been decaying.

9. Both employed *workers and firms* seem to benefit from such a system which delivers a more satisfactory trade-off between employment and wages, between average income increases and their variability. Nevertheless, it remains to be seen if this new configuration of the labor contract is sufficient to solve the problems at the *macro level*. The persistance of a high unemployment and labor segmentation is specially preoccupying in France. This is the *third French paradox* : an impressive success may hide the coming crisis related to rising unequalities and mass unemployment. What happens to "Liberté, Egalité, Fraternité"?

10. Last but not least, are the new principles of income distribution sufficiently efficient to responding to the *opportunities and constraints* associated with the *European Monetary Integration* ? Will it be wage adjustments or alternatively unemployment which bear the large burden of coping with the loss of national monetary policy autonomy when the rules of the competition game are set at the European level ? This is one source of *major uncertainty* for the 90's for France for sure, and may be for other European countries too.

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