Redistributive policies and the demand for fairness

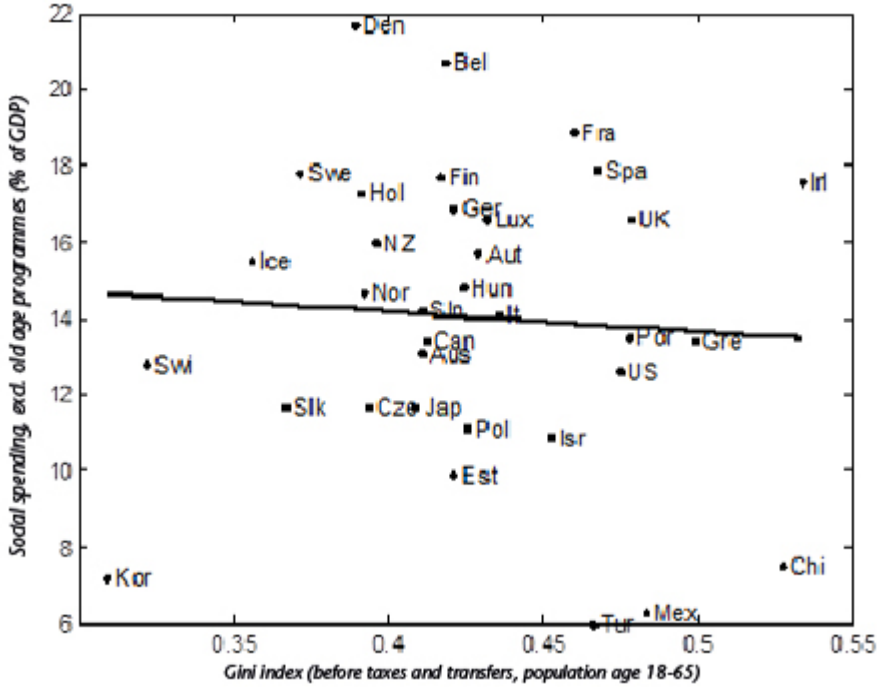
par Gilles Le Garrec

Six years after the onset of the Great Recession, France's economic situation is still gloomy: growth is sluggish, there are almost 3.5 million unemployed in mainland France, and the public debt is approaching the threshold of 100% of GDP (95.4% according to the 2014 Maastricht criteria according to the OFCE). One cause for satisfaction has been the ability of the social protection system to mitigate the increase in income inequality. The Gini index [1] calculated on the labour force (population age 18 to 65) shows that, between 2008 and 2011, inequality in market income increased by 2.9 percentage points while inequality in disposable income increased by only 1.8 points. To achieve this, social spending rose by 0.8 point, bringing it to 19% of GDP excluding old-age pension expenditures [2]. However, one of the fears associated with the crisis (due to its duration and magnitude) is that France can no longer afford to provide people with such a high level of social protection. Is this fear justified? Not necessarily.

Starting from the premise that in a democracy a policy can be carried out only if it has the majority support of its citizens, Meltzer and Richard (1981) suggest that increasing inequality leads to an increasing demand for redistribution, not because people have an aversion to inequality, but rather because they are motivated by their own interests. Therefore the poorer the median individual becomes in terms of income [3] compared to the average population, *i.e.* as the income distribution becomes more unequal, the greater will be that individual's interest in income redistribution. In this perspective, the increasing inequality generated by the economic crisis should result in an increase in social spending. Redistribution is thus not inflicted, but instead

should have the support of a majority of the citizens. Though attractive in its simplicity, this explanation suffers from a major flaw: the data does not show any positive correlation between income inequality and redistribution. Typically, the level of inequality measured by the Gini index (before taxes and transfers) is 0.46 in France with respect to the labour force, versus 0.475 in the US, where the level of social spending is only 13% of GDP[4]. More generally, and as is illustrated in Figure 1, this presumed correlation proves to be zero or even negative (see Perotti 1996 for an empirical review). To understand the possible weaknesses of the French social protection system, the analytical framework proposed by Meltzer and Richard (1981) will not be sufficient.

Figure. Income inequality and redistribution



Source: OECD, early 2010s.

This discrepancy between the observed facts and the theory has spawned several lines of research[5]. In particular, the assumption that individuals are motivated solely by self-interest has been challenged by a large number of laboratory experiments. Take, for example, the ultimatum game. In this game, two anonymous subjects must agree on how to divide a sum of money. The first participant must make an offer to share

the sum. The second can then either accept or reject the offer. If he accepts, then the two share, otherwise neither gets anything. In theory, the first player, knowing that any positive offer will be accepted, should always offer the second player as little as possible. Contrary to this prediction, the results of the experiment show that many people offer 50% of the total to the second player, with an average offer of around 40%. Furthermore, any offer of less than 25% of the total has a high chance of being rejected. These results demonstrate behaviours characterized by a sense of distributive justice. When people are asked outside the laboratory setting about the reasons why someone would favour redistribution, this is the particular reasoning given. Survey data also underscore that individuals tend to give greater support to redistribution when they think that poverty is caused by factors for which the victims are not responsible (see Fong, 2001). In line with these results, the belief that luck rather than effort determines income proves to be a better predictor than income inequality of how much redistribution takes place in a country.

Thus, in order to determine the ways in which concern for others can explain the differences in redistribution observed between democracies, the theoretical literature has focused on the formation of beliefs. In the approach of Alesina and Angeletos (2005), individual preferences combine personal interest and the demand for fairness. Specifically, fairness is defined according to the principle that *each person should get what they deserve*. Knowing that income depends on both luck and the effort exerted, the authors argue that the differences between the amounts redistributed in different countries result from different self-fulfilling beliefs. Americans, expecting little redistribution, invest more in their human capital and thus create the conditions for a low level of redistribution because the role of chance is reduced in the determination of income. Conversely, Europeans, expecting strong redistribution, invest less in their human

capital. Luck is thus more important in the determination of income; individuals will therefore support strong redistribution in accordance with the principle of fairness. Furthermore, assuming that Americans and Europeans share the same preferences, Alesina and Angeletos highlight an important result: the low-redistribution American model is preferred by a majority of citizens over the European model because it produces less distortion and thus results in a higher overall income. However, this does not mean that poor people do not prefer the model with strong redistribution.

In contrast to this result which is based on the assumption that Americans and Europeans share identical preferences, Corneo (2001) showed that West Germans incorporated collective motivations into their preferences, whereas Americans were motivated only by their own interests. The intensity of a collective motivation is thus culturally determined.

In this context, building on the approach proposed by Alesina and Angeletos (2005), Le Garrec (2014) has offered a mechanism for the cultural transmission of the intensity of the demand for fairness. In accordance with the socialization process, a person's observation during childhood of the previous generation's inability to develop a fair redistribution policy will reduce the moral cost to that person of not supporting a fair policy later in life. When someone is socialized in an environment characterized by a fair redistributive policy, the demand for fairness remains strong in the person's preferences: a system with strong redistribution (as in France) is perennial and perpetuated from generation to generation. Conversely, if people are socialized in an environment where the redistributive decisions deviate significantly from distributive justice, the internalization of the norm "*individual success comes first*" reduces the weight of the moral imperative in their preferences. In this case, a system with little redistribution (as in the US) is also sustainable. In Le Garrec (2014), the choice of a system

will therefore depend on the respective histories of the nations[6].

In light of the way the canonical model of Meltzer and Richard (1981) has been extended, based on the demand for fairness observed at the individual level, can we understand the concerns expressed about the future of the French social welfare model, that is to say, a model characterized by strong redistribution? First note that in the later developments of the model, since individuals are motivated in part by their own interests, the Meltzer-Richard effect continues to exist. Rising inequality tends to increase the level of redistribution, and this receives majority support in both Europe and the United States. However, based on the Alesina-Angeletos approach, the depth of the economic crisis could weaken the French model if it leads people to believe that it can no longer be financed. In this situation, the belief could become self-fulfilling and eventually lead to a sharp reduction in the generosity of the welfare system, with a shift towards a US-style system. This interpretation of the Alesina-Angeletos model (2005) is all the more credible as the low-distribution American model seems to be preferred by most Europeans. The exposure that could result from the crisis could then serve to change beliefs. This perspective, however, is not present in Le Garrec (2014), and rightfully so as preferences co-evolve with the social protection system. A French person will (on average) prefer strong redistribution because his or her preferences express a strong demand for fairness. From this point of view, the high redistribution model, like the low redistribution one, seems very durable. Nevertheless, in Le Garrec (2014) the sustainability of the high redistribution model requires a minimum consensus in society on the causes of injustice in order to ensure a moral standard that is relatively strong. However, the economic crisis in Europe is characterized precisely by strong disagreement about its origins: excessive debt on the part of households or government, fiscal austerity, monetary

conservatism, divergence in competitiveness with a single currency, a lack of solidarity among nations, etc. From this perspective, the crisis could jeopardize the French model by weakening moral standards. Ultimately, in contrast to the approach of Meltzer and Richard (1981), the approaches of Alesina and Angeletos (2005) and Le Garrec (2014), which go more deeply into people's motivations, offer keys to a different and complementary understanding of the potential dangers that could face the French social security system as a result of the economic crisis.

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[1] The Gini index is based on a comparison between proportions of the population and their combined income. A value of 0 represents perfect equality, a value of 1 complete inequality.

[2] As the pension system is not aimed at reducing income inequality, but at providing deferred wages on the basis of what has been paid in, it is best to remove these expenditures in order to properly assess the capacity of social spending to reduce these inequalities.

[3] 50% of individuals have an income that is higher than this person’s, and 50% lower.

[4] Social spending (and taxation) is also less progressive in the United States than in France. Thus, social spending of 1% of GDP would reduce the Gini index by 1.74% in France compared with 1.46% in the United States.

[5] See Alesina and Glaeser (2004) and Acemoglu *et al.* (2013) for an overview of the various extensions made to the canonical model.

[6] It is beyond the scope of this note to analyze the historical facts that would help explain the convergence towards one type of social protection model rather than another. For this, please refer to the work of Alesina and Glaeser (2004).

Is the French tax-benefit system really redistributive?

By Henri Sterdyniak [1]

France has set up benefits such as RSA income support, PPE in-work negative income tax, CMU universal health care, the minimum pension, housing allowances, and exemptions from social security contributions for low-wage workers. From the other side, it has a tax on large fortunes; social insurance and family contributions apply to the entire wage; and capital income is hit by social security contributions and subject to income tax. France's wealthy are complaining that taxation is confiscatory, and a few are choosing to become tax exiles.

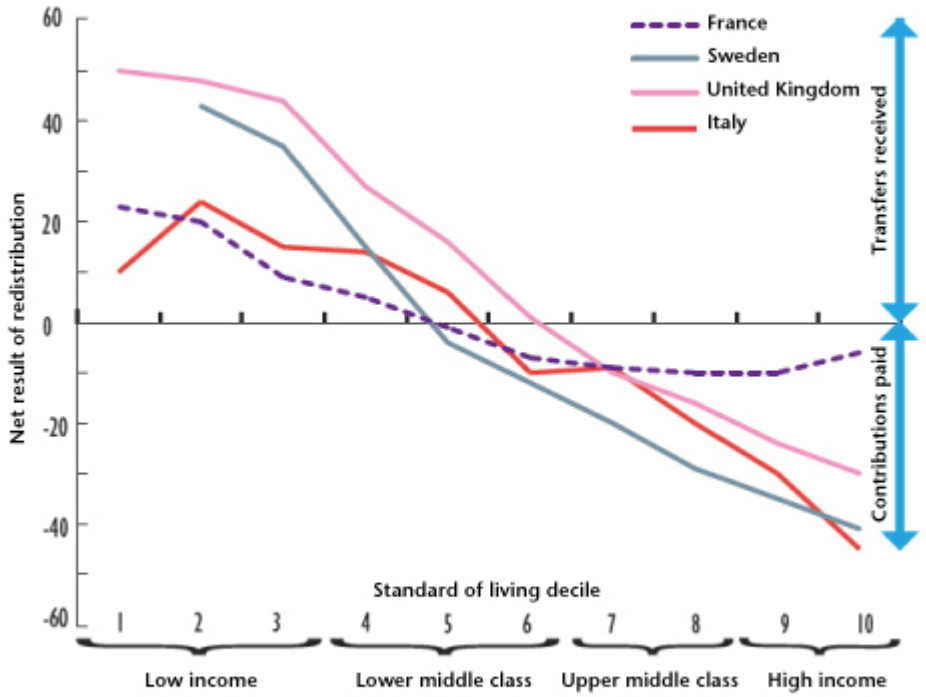
Despite this, some people argue that the French tax-benefit (or socio-fiscal) system is not very redistributive. This view was recently lent support by a study by Landais, Saez and Piketty: the French tax system is not very progressive and even regressive at the top of the income hierarchy [2]: the richest 0.1% of households are taxed at a very low rate. But redistribution through the tax-benefit system is effected not just through taxes but also through social benefits. We must therefore look at both these aspects to evaluate how redistributive the system is. This is especially true as Landais, Saez and Piketty take into account the VAT paid on consumption financed by social benefits, but not the benefits themselves, meaning that the more a poor household benefits (and spends) from social benefits, the more it seems to lose on redistribution.[3]

Four researchers from Crédoc, the French Research Center for the Study and Monitoring of Living Standards, have published a

study [4] that takes benefits into account. They nevertheless conclude: “The French tax system, taken as a whole, is not very redistributive.” The study uses post-redistribution standard-of-living deciles to review the benefits received and the taxes paid by households (direct taxes, indirect taxes and social contributions) as a percentage of disposable income, and compares France, Italy, the United Kingdom and Sweden. In France, net transfers (levies less benefits) represent only 23% of household disposable income in the first standard-of-living decile (the poorest), against 50% in the United Kingdom (see figure). At the other end of the scale, in France transfers lower the disposable income of the richest households by only 6%, versus 30% in the UK, 40% in Sweden, and 45% in Italy. France is thus considered to have the lowest level of redistribution, with little distributed to poor people and low taxes on the rich.

Figure. According to the CREDOC, the French tax-benefit system is not very redistributive

Summary of transfers received and contributions paid, as a % of disposable income, by standard of living decile



Source: Credoc calculations using data from the Luxembourg Income Study, 2006.
Note: People in the lowest standard of living decile (i.e. the poorest 10%) receive a net gain from redistribution equal to 23% of their disposable income. This net gain is calculated as the difference between their social transfers (social, sickness and pension benefits) and their contributions (income tax, social charges, indirect taxes).

Yet the French tax-benefit system is considered by international institutions as one of those that minimize inequalities the most. For instance, the OECD (2011) wrote: “Redistribution through taxes and benefits reduces inequality by just over 30% in France, which is well above the OECD average of 25%”.

The OECD provides statistics on income inequality (measured by the Gini coefficient) before and after transfers. Of the four countries selected by the Crédoc, it is France where the Gini is reduced the most as a percentage by transfers (Table 1), to an extent equivalent to the level in Sweden, and significantly greater than the reduction in Italy and the UK. Euromod winds up with a substantially similar classification (Table 2).

Table 1. Gini index of income distribution (in 2010) according to the OECD

	Before transfers	After transfers	Impact of transfers
Germany	0.496	0.286	-42.3
Denmark	0.429	0.252	-41.3
France	0.505	0.303	-40.0
Italy	0.503	0.319	-36.6
United Kingdom	0.523	0.341	-35.2
Sweden	0.441	0.269	-39.0
United States	0.499	0.380	-23.8

Source: OECD (2013). The Gini index lies between 0 (perfect income equality) and 1. The distribution of income becomes more equal as the index approaches 0.

Table 2. Gini index of income distribution (in 2010) according to Euromod

	Before transfers	After transfers	Impact of transfers
Germany	0.518	0.380	-48.1
Denmark	0.443	0.334	-54.0
France	0.483	0.349	-50.1
Italy	0.497	0.373	-36.8
United Kingdom	0.524	0.477	-38.0
Sweden	0.429	0.317	-46.2

Source: Euromod, 2012.

Table 3. Poverty rate (60% threshold)

	2005	2012
Germany	12.2	16.1
Denmark	11.8	13.1
France	13.0	14.1
Italy	18.9	19.4
United Kingdom	19.0	16.2
Sweden	9.5	14.2

Source: Eurostat, 2012.

The *Portrait social* [Social Portrait] by the INSEE provides a careful summary of how redistributive the French socio-fiscal system is (Cazenave *et al.*, 2012). It seems that inequality is reduced significantly (Table 4) in France: the inter-decile ratio (D10/D1) falls from 17.5 before redistribution to 5.7 afterwards.[5] According to the INSEE, 63% of the reduction in inequality comes from social benefits and 37% from levies, which confirms the need to take benefits into account in order to assess redistribution.

Table 4. Standard of living fractiles before redistribution according to the INSEE*

	D1	Q1	Q2	Q3	Q4	Q5	D10
Average income before redistribution	4 128	7 266	15 591	21 474	28 626	55 292	72 195
Average disposable income (DI)	9 948	11 266	15 847	20 145	25 602	44 919	56 654
Net transfers	5 820	4 000	256	-1 329	-3 024	-10 373	-15 541
Net transfers as % of DI	59	36	2	7	-12	-23	-27

* in euros per year per consumption unit. D1: the 10% of people with the lowest living standard; Q1: the 20% of people with the lowest living standard, etc.; D10: the 10% of people with the highest living standard.
Source: INSEE, 2013, Portrait social.

The vision presented by Crédoc of the redistributivity of the French tax-benefit system is thus unusual… and, to put it frankly, wrong.

The study is based on data from the *Budget des familles* [Family budget] survey that is not matched with fiscal data and which is generally considered less reliable than the Euromod survey or than the tax and social security figures used by the INSEE. This may explain some important differences between the Crédoc figures and those of the INSEE: for example, according to the INSEE, non-contributory transfers represent 61% of the disposable income of the poorest 10%, but only 31% according to Crédoc (Table 5).

Like the INSEE, the Crédoc study ignores employer national health insurance contributions (which hit high wages in France, unlike most other countries) and the ISF wealth tax (which exists only in France). Furthermore, it does not distinguish between contributory contributions (which give rights to a pension or unemployment benefits) and non-contributory contributions (such as health insurance or family contributions), which do not give rights. However, low-wage workers are not hit by non-contributory contributions in France, as these are more than offset by exemptions from social security contributions on low wages.

Table 5. Redistribution for the extreme deciles
A comparison of INSEE and CREDOC

	D1		D10	
	INSEE	CREDOC	INSEE	CREDOC
Primary income (pre-distribution)	41.5	39	127.4	93
Contributory benefits		38		32
Non-contributory benefits	60.2	31	0.6	1
Social contributions	-2.1	-8	-10.1	-16
Direct taxes	0.4	0	-17.9	-10
Total: Net disposable income	100	100	100	100
Indirect taxes	-22	-36	-10	-13
Net transfers (excl. indirect taxes)	+58.5	+59	-27.4	7
Net transfers (incl. indirect taxes)	+36.5	+23	-37.4	- 6

Source: Authors' calculations based on INSEE (2013) and CREDOC (2013).

Most importantly, the study contains two errors that heavily distort the conclusions. The first methodological error is that, contrary to the INSEE, the authors include contributory transfers, in particular pensions [6], in social transfers. But for retirees, public pensions represent a very large part of their disposable income, particularly in France. Since the pension system ensures parity in living standards between retirees and active employees, then retirees show up in all the standard of living deciles and the tax-benefit system does not seem to be very redistributive, as it provides benefits to wealthy retirees. And contrariwise, if a country's pension system does not assure parity in living standards between retirees and active employees, then the tax-benefit system will seem more redistributive, as it provides pensions only to the poor.

So paradoxically, it is the generosity of the French system towards pensioners and the unemployed that makes it seem to be not very redistributive. Thus, according to Crédoc, the richest 10% receive contributory transfers representing 32% of their disposable income, which means that, in total, their net transfers represent only a negative 6% of their income. This is especially the case as Crédoc does not take into account the old-age pension contributions (*cotisations vieillesse*) incurred by businesses. If, as the INSEE does, pensions (and

more generally all contributory benefits) are considered as primary income, resulting from past contributions, the negative net transfers of the richest decile increase from -6% to -38%.

The other methodological problem is that Crédoc claims to take into account the weight of indirect taxes in disposable income (which INSEE does not). This comes to 36% for the poorest 10%, 23% in the middle of the income hierarchy, and only 13% for the best-off. The highly regressive nature of indirect taxes would make the whole tax system regressive: the poorest pay more than the rich. According to the figures from Landais, Saez and Piketty (2011), indirect taxation is definitely regressive (15% of the disposable income of the poorest, and 10% for the richest), but the gap is only 5%. According to the INSEE [7], the weight of indirect taxes in disposable income is 22% for the poorest, 16% in the middle income range and 10% for the richest. This difference comes from the structure of consumption (the poorest consume relatively more tobacco and petroleum products), and especially the savings rate, which increases as households earn more. In fact, the difference is undoubtedly overstated in an inter-temporal perspective: some households will consume today's savings tomorrow, so it is then that they will be hit by indirect taxation. In fact, the Crédoc study heavily overestimates the weight of indirect taxes by using an extravagant estimate of the household savings rate [8]: the overall French household savings rate is -26.5%; only decile D10 (the richest 10%) have a positive savings rate; decile D1 has a negative savings rate of -110%, that is to say, it consumes 2.1 times its income. The poorest decile is thus hit hard by the burden of indirect taxes. But how likely is this savings rate?

National tax-benefit systems are complex and different. Comparisons between them need to be made with caution and rigour. To judge how redistributive the French system actually is, it is still more relevant to use the work of the INSEE,

the OECD or Euromod than this (too) unusual study.

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[1] We would like to thank Juliette Stehlé, who provided assistance in clarifying certain points in this note.

[2] See Landais C., T. Piketty and E. Saez, *Pour une révolution fiscal [For a tax revolution]*, Le Seuil, 2011.

[3] See also Sterdyniak H., "Une lecture critique de l'ouvrage *Pour une révolution fiscal*" [A critical reading of the work *Pour une révolution fiscal]*, *Revue de l'OFCE*, no. 122, 2012. Note also that you cannot arrive at an overall judgment on the progressivity of the system from the case of a few super-rich who manage to evade taxes through tax schemes.

[4] Bigot R, É. Daudey, J. Muller and G. Osier: "En France, les classes moyennes inférieures bénéficient moins de la redistribution que dans d'autres pays" [In France, the lower middle classes benefit less from redistribution than in some other countries], *Consommation et modes de vie*, Crédoc, November 2013. For an expanded version, see: "Les classes moyennes sont-elles perdantes ou gagnantes dans la redistribution socio-fiscale" [Are the middle classes losers or winners from the tax-benefit redistribution], *Cahiers de Recherche*, Crédoc, December 2012.

[5] Also note that the INSEE underestimates somewhat the redistribution effected by the French system since it does not take into account the ISF wealth tax. It also does not include employers' national health insurance, which in France is strongly redistributive as it is not capped. From the other side, it does not take account of indirect taxes.

[6] And replacement income such as unemployment benefits and sickness benefits.

[7] See Eidelman A., F. Langumier and A. Vicard: "Prélèvements

obligatoires reposant sur les ménages:

des canaux redistributifs différents en 1990 et 2010" [Mandatory taxes on households: different channels of redistribution in 1990 and 2010], *Document de Travail de la DESE de l'INSEE*, G2012/08.

[8] Estimation from EUROMOD (2004): "Modelling the redistributive impact of indirect taxation in Europe", *Euromod Working paper*, June.

Financing higher education: Should students have to pay?

By Guillaume Allègre and Xavier Timbeau

Is it necessary to ensure that a greater portion of the cost of higher education is borne by students in the form of higher tuition fees, which might or might not be coupled with loans? It is often argued that financing higher education through taxes is anti-redistributive. We show in a working document that from a life cycle perspective proportional taxation is not anti-redistributive.

While raising higher education fees is not on the political agenda in France, it is a subject of intense fighting, not only in Quebec, but also in Spain and Great Britain, where student protests erupted at the end of 2010. Reports in France regularly propose raising tuition fees: recently (2011), in a note by the Institut de l'Entreprise [in French] on the role of business in financing higher education, Pierre-André Chiappori proposes "lifting the taboo on tuition fees". In a contribution to Terra Nova [in French] published in 2011, Yves

Lichtenberger and Alexandre Aïdara propose raising annual university tuition fees by about 1000 euros. Paradoxically, the authors also propose creating a study allowance that could be used anytime in a person's life. The authors are attempting to deal with two contradictory economic dynamics. On the one hand, a study allowance would help raise the general level of education, a factor in innovation and growth, while simultaneously fighting against social self-selection in higher education:

In countries that have adopted it [the study allowance], disadvantaged social strata may have an opportunity to undertake lengthier studies even though their social origins have predestined them to short-term courses that provide quick entry into salaried employment. This is an important means of raising the general level of education and the qualifications of young people, which is a central concern of this report. (Lichtenberger and Aïdara, p.82)

But on the other hand, education benefits better-off strata, and being free makes it anti-redistributive:

The fact that public higher education is virtually free leads, first, to a transfer of resources (the public cost of education) to young people who are in education the longest. This overwhelmingly means young people from better-off strata. This transfer is reflected ultimately in private returns to the beneficiaries: higher wages and then pensions, which benefit the most highly educated throughout their lives…. As things stand, higher education's free character has no redistributive value and even aggravates inequalities. (Lichtenberger and Aïdara, p.84)

Indeed, even if the anti-redistributive character of free higher education is not the only argument made by advocates of higher tuition, it is one of their main arguments. This argument relies on a static and familialist vision of redistribution. We adopt a life cycle perspective instead.

As highlighted in the second excerpt above, on average the beneficiaries of education spending enjoy a significant private benefit: they will have higher wages and pensions

throughout their lives. Even assuming that tax (on income) is proportional to income (which is not the case: in reality, it is progressive), they will pay much more tax, in absolute terms, than individuals who have completed shorter studies. Above all, tax allows for the financing of education by individuals who actually receive significant private benefits, and in proportion to this benefit. People who suffer discrimination in the labour market or who were oriented towards less profitable sectors and benefit from low returns to education reimburse society a lesser amount through their taxes than those who benefit more. Financing through income tax leads people with higher incomes to contribute even when they have not had a lengthy education. The injustice would therefore lie in the transfer between persons with high incomes who are not highly educated and those who are highly educated. But if education is characterized to a great extent by significant social returns, thanks to its impact on growth (see Aghion and Cohen), then people with high incomes are actually beneficiaries of spending on education, whether or not they are highly educated themselves (for instance, self-taught entrepreneurs benefit from the availability of skilled labour).

Adopting a life cycle perspective, we show in a working document that financing spending on non-compulsory education (beyond 16 years) by a proportional tax represents a net transfer from those with higher incomes during their careers to those with lower incomes during their careers. From a life cycle perspective, free non-compulsory education financed by taxes does not benefit individuals with more affluent parents (the transfer from individuals from better-off households to those from poorer households is not significantly different from zero). If individuals from the poorest households react to the increase in tuition fees by reducing their investment in education, even when this is financed by loans, then there can be little doubt that they will be the first victims of this type of reform. Advocates of tuition increases generally argue for small increases in tuition fees and exemptions based

on means-testing the parents. But recent developments in Australia, the United Kingdom and Canada show that, once the fees have been introduced, it is difficult to prevent governments that are seeking new funds from increasing the fees and reducing the exemption thresholds.
In higher education, the leading injustice is the lack of access to people from modest backgrounds. The surest way to ensure equity in education is still to fund it through income tax and to reform education so that it is targeted at academic success for all rather than at selection.

In defense of France's "family quotient"

By Henri Sterdyniak

At the start of 2012, some Socialist Party leaders have renewed the claim that the "family quotient" tax-splitting system is unfair because it does not benefit poor families who do not pay taxes, and benefits rich families more than it does poor families. This reveals some misunderstanding about how the tax and social welfare system works.

Can we replace the family quotient by a flat benefit of 607 euros per child, as suggested by some Socialist leaders, drawing on the work of the Treasury? The only justification for this level of 607 euros is an accounting device, *i.e.* the total current cost of the family quotient uniformly distributed per child. But this cost stems precisely from the existence of the quotient. A tax credit with no guarantee of indexation would see a quick fall in its relative purchasing power, just like the family allowance (*allocation familiale* –

AF).

With a credit like this, taking children into account for taxation purposes would lose all sense. As shown in Table 1, families with children would be overtaxed relative to childless couples with the same income (per consumption unit before tax), and their after-tax income would be lower. The Constitutional Council would undoubtedly censor such a provision.

France is the only country to practice a family quotient system. Each family is assigned a number of tax parts or shares, P, based on its composition; the shares correspond roughly to the family's number of consumption units (CU), as these are defined by the OECD and INSEE; the tax system assumes that each family member has a standard of living equivalent to that of a single earner with revenue R/P; the family is then taxed like P single earners with income R/P.

The degree of redistribution assured by the tax system is determined by the tax schedule, which defines the progressivity of the tax system; it is the same for all categories of households.

The family quotient (QF) is thus a logical and necessary component of a progressive tax system. It does not provide any specific support or benefit to families; it merely guarantees a fair distribution of the tax burden among families of different sizes but with an equivalent standard of living. The QF *does not* constitute an arbitrary support to families, which would increase with income, and which would obviously be unjustifiable.

Let's take an example. The Durand family has two children, and pays 3358 euros less than the Dupont family in income tax (Table 1). Is this a tax benefit of 3358 euros? No, because the Durands are less well off than the Duponts; they have 2000 euros per tax share instead of 3000. On the other hand, the

Durands pay as much per share in income tax as the Martins, who have the same standard of living. The Durands therefore do not benefit from any tax advantage.

The family quotient takes into account household size; while doing this is certainly open for debate, one cannot treat a tax system that does not take into account household size as the norm and then conclude that any deviation from this norm constitutes a *benefit*. There is no reason to levy the same income tax on the childless Duponts and the two-child Durands, who, while they have the same level of pay, do not enjoy the same standard of living.

Table 1. Family size and income taxation in euro

		Monthly wages / by tax share	Annual income taxation	Disposable income by consumption unit
Dupont	Couple	6 000/ 3000	8 472	2 526
Martin	Couple	4 000/ 2000	3 409	1 858
Durand	Couple + 2 children	6 000/ 2000	5 114	1858
Durand*	Couple + 2 children	6 000/ 2000	7 258	1798

* with a uniform tax credit.
Source: author calculations.

In addition, capping the family quotient [1] takes into account that the highest portion of income is not used for the consumption of the children.

Society can choose whether to grant social benefits, but it has no right to question the principle of the fairness of family-based taxation: each family should be taxed according to its standard of living. Undermining this principle would be unconstitutional, and contrary to the Declaration of the Rights of Man, which states that “the common taxation … should be apportioned equally among all citizens according to their capacity to pay”. The law guarantees the right of couples to marry, to build families, and to pool their resources. Income tax must be family-based and should assess the ability to pay of families with different compositions. Furthermore, should France’s Constitutional Council be trusted to put a halt to any challenge to the family quotient? [2]

The only criticism of the family quotient system that is socially and intellectually acceptable must therefore focus on its modalities, and not on the basic principle. Do the tax shares correspond well to consumption units (taking into account the need for simplicity)? Is the level of the cap on the family quotient appropriate? If the legislature feels that it is unable to compare the living standards of families of different sizes, then it should renounce a progressive system of taxation.

Family policy includes a great variety of instruments [3]. Means-tested benefits (RSA, the “complément familial”, housing benefit, ARS) are intended to ensure a satisfactory standard of living to the poorest families. For other families, universal benefits should partially offset the cost of the child. The tax system cannot offer more help to poor families than simply not taxing them. It must be fair to others. It is absurd to blame the family quotient for not benefitting the poorest families: they benefit fully from not being taxed, and means-tested benefits help those who are not taxable.

Table 2 shows the disposable income per consumption unit of a married employed couple according to the number of children, relative to the income per consumption unit of a childless couple. Using the OECD-INSEE CUs, it appears that for low-income levels families with children have roughly the same standard of living as couples without children. By contrast, beyond an earnings level of twice the minimum wage, families with children always have a standard of living much lower than that of childless couples. Shouldn’t we take into account that having three or more children often forces women to limit their work hours or even stop work? It is the middle classes who experience the greatest loss of purchasing power when raising children. Do we need a reform that would reduce their relative position still further?

Table 2. Living standard of a family according to the number of children and employment status relatively to a couple without children

In euro per month by CU in 2009

Adult 1	MI	MW	MW	MW	2 MW	3 MW	4 MW
Adult 2	Inactive	Inactive	½ MW	MW	1 MW	2 MW	4 MW
1 child	99.9	99.4	89.9	85.0	84.9	85.5	85.2
2 children	102.6	97.5	87.1	79.9	77.1	76.2	75.7
3 children	105.8	98.4	93.6	84.0	75.7	70.6	70.5

MI: minimum income; MW: minimum wage.
Source: author's calculations.

The standard of living of the family falls as the number of children rises. Having children is thus never a tax shelter, even at high income levels. So if a reform of family policy is needed, it would involve increasing the level of child benefit for all, and not the questioning of the family quotient system.

Overall, redistribution is greater for families than for couples without children: the ratio of disposable income between a couple who earns 10 times the minimum wage and a couple who earns the minimum wage is 6.2 if they have no children; 4.8 if they have two children; and 4.4 if they have three. The existence of the family quotient does not reduce the progressivity of the tax and social welfare system for large families (Table 3).

Table 3. Income distribution is more equal between families

	10*minimum wage/ minimum income	10*minimum wage/ 1*minimum wage
0 child	9.2	6.2
1 child	7.8	5.3
2 children	6.8	4.8
3 children	6.0	4.4
4 children	5.7	4.2

Source: author's calculations.

Consider a family with two children in which the man earns the minimum wage and the wife doesn't work. Every month the family receives 174 euros in family benefits (AF + ARS), 309 euros for the RSA and 361 euros in housing benefit. Their disposable income is 1916 euros on a pre-tax income of 1107 euros; even taking into account VAT, their net tax rate is negative

(-44%). Without children, the family would have only 83 euros for the PPE and 172 euros in housing benefit. Each child thus "brings in" 295 euros. Income is 912 euros per CU, compared with 885 euros per month if there were no children. Family policy thus bears the full cost of the children, and the parents suffer no loss of purchasing power due to the presence of the children.

Now consider a large wealthy family with two children where the man earns 6 times the minimum wage and the woman 4 times. Every month this family receives 126 euros in family benefits and pays 1732 euros in income tax. Their disposable income is 7396 euros on a pre-tax income of 10,851 euros; taking into account VAT, their tax rate is a positive 44%. The French system therefore obliges wealthy families to contribute, while financing poor families. Without children, the wealthy family would pay 389 euros more tax per month. Its income per CU is 4402 euros per month, compared with 5819 euros if there were no children. The parents suffer a 24.4% loss in their living standard due to the presence of the children.

Finally, note that this wealthy family receives 126 euros per month for the AF, benefits from a 389 euro reduction in income tax, and pays 737 euros per month in family contributions. Unlike the poor family, it would benefit from the complete elimination of the family policy.

It would certainly be desirable to increase the living standards of the poorest families: the poverty rate for children under age 18 remains high, at 17.7% in 2009, versus 13.5% for the population as a whole. But this effort should be financed by all taxpayers, and not specifically by families.

No political party is proposing strong measures for families: a major upgrade in family benefits, especially the "complément familial" or the "child" component of the RSA; the allocation of the "child" component of the RSA to the children of the unemployed; or the indexation of family benefits and the RSA

on wages, and not on prices.

Worse, in 2011, the government, which now poses as a defender of family policy, decided not to index family benefits on inflation, with a consequent 1% loss of purchasing power, while the purchasing power of retirees was maintained. Children do not vote …

I find it difficult to believe that large families, and even families with two children, especially middle-class families with children, those where the parents (especially the mothers) juggle their schedules in order to look after their children while still working, are profiting unfairly from the current system. Is it really necessary to propose a reform that increases the tax burden on families, especially large families?

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[1] The advantage provided by the family quotient is currently capped at 2585 euros per half a tax share. This level is justified. A child represents on average 0.35 CU (0.3 in the range 0 to 15 year old, and 0.5 above). This ceiling corresponds to a zero-rating of 35% of median income. See H. Sterdyniak: “Faut-il remettre en cause la politique familiale française?” *[Should French family policy be called into question?], Revue de l’OFCE*, no. 16, January 2011.

[2] As it has already intervened to require that the Prime pour l’emploi benefit takes into account family composition.

[3] See Sterdyniak (2011), *op.cit.*