

The 2013 pension reform: the implicit contribution of pensioners' purchasing power

By Stéphane Hamayon and Florence Legros

Less than three years after the official retirement age in France was raised in 2010-2011, a new pension reform was passed in early 2014.

This reform is described by its promoters as “sustainable and equitable”. However, only a few months after it passed, if we once again review the mid- and long-term balance of the pension system, we would have to conclude that this subject needs another look ([see our article in the Revue de l'OFCE, no. 137, 2014](#)). The suspected imbalance stems from a gap between the assumptions that prevailed in 2014 when the reform passed and the actual development of critical macroeconomic variables such as unemployment and productivity growth.

[Our article](#) begins with an analysis of the sensitivity of the overall balance of the pension scheme to economic variables and to the assumptions made. It shows that if the unemployment rate were to stabilize at 7.5% (the lowest rate in 30 years) and not 4.5% as in the scenario adopted by the reform, and productivity grew at a rate of 1%, which is in line with the reasonable estimates made by Caffet Artus (2013), instead of the 1.5% adopted, then this would lead to a continuing deterioration in the pension system accounts (Table 1).

Table 1. Financing needs of the pension system for private sector employees after the 2013 reform

Billions of 2012 euros

	2010	2013	2020	2025	2030	2040	2050
Central scenario (productivity 1.5% - unemployment 4.5%)	-9,7	-6,5	-2,0	-1,4	0,8	-1,6	3,2
Low growth scenario (productivity 1.0% - unemployment 7.5%)	-9,7	-6,5	-5,0	-9,3	-20,4	-36,1	-43

Source: Calculs des auteurs.

Another variable that is examined precisely: the growth rate of productivity. Because this has an impact on wages, it plays an important role in rebalancing pension systems when the indexation of pensions and wages recorded in fictitious accounts for pension calculations (*salaires portés au compte*) is based on prices and not on wages. More specifically, high productivity would help balance the accounts, as resources would grow quickly while employment grow more slowly.

The consequence, however, is a relative impoverishment of pensioners relative to the working population, especially of older retirees for whom de-indexation will have cumulative effects.

A minimum wage in Germany: a small step for Europe, a big one for Germany

By Odile Chagny (Ires) and Sabine Le Bayon

After several months of parliamentary debate, a minimum wage will be phased in between 2015 and 2017 in Germany. The debate led to only slight modifications in the bill introduced last

April, which came out of the coalition agreement between the Social Democrats and the Christian Democrats. The minimum wage will rise in 2017 to 8.50 euros gross per hour, or about 53% of the median hourly wage. In a country that constitutionally guarantees the social partners autonomy in the determination of working conditions, this represents a major rupture. Overall, the importance of the introduction of the minimum wage lies not so much in the stimulus it will be expected to have on growth in Germany and the euro zone as in the turning point it represents in how the *value* of labour is viewed in a country that has historically tolerated the notion that this can differ depending on the status of the person (or persons) carrying it out [\[1\]](#).

The introduction of a statutory minimum wage in Germany represents the culmination of a long process initiated in the mid-2000s that has led to a relative consensus on the need to better protect employees from the wage dumping taking place in certain sectors and businesses. Unlike in France, where a statutory minimum wage was established in 1951 (the “SMIG”, followed by the “SMIC”), Germany has had no “interprofessional” or industry-wide minimum wage. The introduction of the minimum wage by the State, though contrary to the principle of the social partners’ autonomy, is a sign that the various stakeholders explicitly recognize that the collective bargaining system is no longer able to guarantee decent working conditions for a growing number of employees, including both those not covered by collective agreements as well as those who are working in areas where the trade unions have grown so weak that the sector’s minimum floor is too low.

The State’s intervention thus constitutes a genuine revolution in the system of industrial relations. The intention, however, is for this to be a one-off measure. The social partners are in effect to retain a major role, for a number of reasons:

- By the end of 2014, they can negotiate sectoral agreements aimed at bringing sector minimums that are

below 8.50 euros per hour up to this threshold by end 2016^[2].

- Once the law is in force, it is a bipartisan commission of the social partners that will decide on changes in the minimum wage every two years. The commission will meet for the first time in 2016 and if needed the first adjustment will take place in 2017.
- Furthermore, sector-wide agreements that set working conditions (pay scales, holidays, maximum hours, etc.) will be more easily extended to all the workers in a sector (because the minimum wage law also aims at strengthening the procedures for extending collective agreements, which currently are rarely used). The outcome of collective bargaining will thus cover more employees.

The application of the statutory minimum wage will proceed in stages. In 2015, only employees not covered by a collective agreement will be affected. As for the others, either this wage floor is already being applied, or it will be phased in through negotiations in the sector. This is, for example, the situation in the meat and slaughterhouse business, where in January 2014 the social partners signed an agreement to implement a minimum wage of 7.75 euros on 1 July 2014, which will be upgraded to 8.60 euros in October 2015. With respect to temping, an agreement in October 2013 increased the minimum wage to 8.50 euros in January 2014 in the old Länder, with provisions to introduce it in June 2016 in the new Länder.

The debate about exemptions was heated, but ultimately the minimum wage will cover all but a few people: some young people (apprentices, work-study trainees) and the long-term unemployed during the first six months after the resumption of employment. As for seasonal workers (about 300,000 jobs), who have a large presence in the agricultural sector, the 8.50 euro minimum will indeed apply, but the employer can deduct the cost of food and lodging. This should still limit wage

dumping in this area, even if it will be more difficult to ensure compliance with the law.

The real issue concerns not so much the exemptions being highlighted by various parties (the DGB trade union confederation, Die Linke and the Greens are criticizing these, while some employers and conservatives think there are too few) as how the law will actually be implemented.

This is because the impact of the minimum wage law will depend firstly on how remuneration and working time are defined and what they cover, two points that have been left unanswered up to now. However, depending on whether overtime and other variable elements of remuneration are taken into account, or whether the duration of work is based on the work contracted or the actual hours worked, the law will differ greatly in its coverage and impact. In 2012, depending on the definitions used, estimates of the number of people potentially affected by the minimum wage ranged from 4.7 to 6.6 million, a difference of 40%.

Furthermore, the labour inspectorate will need to have substantial resources to monitor the application of the law, because at the moment 36% of employees earning less than 8.50 euros gross per hour do not have their work hours specified in their employment contract, or perform unpaid overtime. Checks by the labour inspectorate will therefore be crucial, especially as 70% of employees earning less than 8.50 euros per hour are in enterprises without a works council [\[3\]](#), which makes enforcement of the law particularly difficult. Finally, there is a risk of seeing an increase in recourse to self-employment that is paid by the task (*i.e.* without a scheduled work time) at the expense of employees on conventional contracts or those hired on mini-jobs, jobs for which there is no longer any requirement to set the hours of work and whose employees do not pay employee social security contributions or income tax.

On a more macro-economic level, and contrary to the hopes of many of Germany's European partners, the introduction of the minimum wage will have only a limited impact on domestic demand, not only because it is far from established that the legislation will actually apply everywhere, but also due to its limited impact on household income. Following an increase in their marginal tax rates and cutbacks in social benefits, the real income of households affected by the minimum wage will rise by only a quarter of the initial increase in their wages. As for the 1.3 million "*Aufstocker*", people who combine job income and a solidarity allowance for those in need and the long-term unemployed (under the Hartz IV reform), their number will fall by only 60,000 [\[4\]](#).

The impact on competitiveness is likely to differ widely across sectors. According to [Brenke and Müller \(2013\)](#), there will be a 3% increase in total payroll. With the exception of the food industry, whose competitiveness has been based on a significant level of wage dumping, and where the introduction of a minimum wage is likely to be strongly felt (except where the law is circumvented in one way or another), industrial exporters, whose salaries are generally higher ([INSEE, 2012](#)), will not be affected much by the introduction of a minimum wage. They will however be hit indirectly, since they have outsourced a number of activities during the last decade to service enterprises that have lower costs. In many companies, high margins should nevertheless permit them to limit any rise in production costs. For labour-intensive sectors that cannot be relocated (beauty salons, taxis, etc.), prices should on the other hand increase significantly, which could limit the positive impact on the purchasing power of employees benefitting from the minimum wage.

While the impact of introducing the minimum wage should be relatively limited at the macro-economic level, in particular in terms of a recovery in the euro zone, the strong signal being sent with regard to economic policy should not be

overlooked. The establishment of a minimum wage that is broad in coverage – the exceptions will ultimately be very circumscribed – and is industry-wide – the floor will apply to all sectors – reflects above all the idea that employees must be able to live from their work and that it is not necessarily up to the State to subsidize low wages in the form of social benefits so as to maintain the competitiveness of low-skilled workers in particular. As Sigmar Gabriel, the chairman of the SPD and the Minister for Economic Affairs in the new coalition government, declared to the Bundestag in February 2014, the minimum wage is important not so much for the level or the date it takes effect as for the fact that it represents a central issue for the social market economy, that “all work must be valued”.

This note is being posted simultaneously with the publication of an article on this subject: [Chagny O. and S. Le Bayon, 2014 : “L’introduction d’un salaire minimum légal : genèse et portée d’une rupture majeure” \[The introduction of a statutory minimum wage: genesis and significance of a major rupture\], Chronique internationale de l’IRES, no. 146, June.](#)

[\[1\]](#) In accordance with the principle that a retiree, a student or a housewife does not necessarily need social security and works primarily for extra income.

[\[2\]](#) The newspaper delivery business is an exception insofar as it is the State that has mandated a gradual increase in the minimum to 8.50 euros in 2017.

[\[3\]](#) Works councils ensure the representation of employees in companies with at least 5 employees. It is they who determine how collective agreements are to be implemented.

[4] This raises the matter of the particular features of Germany's tax-benefit system: high marginal tax rates for the second earner in connection with the marital quotient; a marginal tax rate that is higher than in France for low earners; and, for beneficiaries of the Hartz IV solidarity allowance, a high tax rate (80% above 100 euros) of the job income exceeding the benefit. For more information, see [Brenke and Müller \(2013\)](#) and [Bruckmeier and Wiemers \(2014\)](#).

How can a basic income be defended?

By [Guillaume Allègre](#)

Following the submission of 125,000 signatures collected by organizations supporting the introduction of a basic income, Swiss citizens will vote in a referendum on a popular initiative on the inclusion of the principle of an unconditional basic income in the Swiss Federal Constitution.

An [OFCE Note \(no. 39 of 19 December 2013\)](#) analyses the grounds for supporting the institution of a basic income.

While a basic income can take many forms, its principle is that it is paid (1) on a universal basis, in an equal amount to all, without testing for means or needs, (2) on an individual basis and not to households, and (3) unconditionally, without requirement of any counterpart. A progressive version would add a fourth characteristic: it must be (4) in an amount sufficient to cover basic needs and enable participation in social life.

While this looks attractive, it is not easy to find grounds in terms of distributive justice that are consistent with these four characteristics of a guaranteed basic income. So long as there exist economies of scale and a political trade-off between conditionality and the level of minimum income, then in a Rawlsian perspective a system of guaranteed minimum income like the French RMI / RSA programme (family-based with weak conditionality) seems preferable to a pure basic income. In addition, the generalized reduction of working time seems more sustainable than a guaranteed basic income for achieving the ecological and emancipatory goals that are often attributed to a guaranteed basic income.

It seems that the main advantage of a guaranteed basic income is that its universality means that it does not cause any undue use or non-use and so does not stigmatize the net beneficiaries of the system. From this perspective, minimum income support could be turned into a universal benefit, which would be less stigmatizing. This allocation needs to take into account family composition and set conditions on social participation. It would involve checks on black market work and include incentives to work. It would be supplemented by specific policies to provide support for children, the elderly and disabled people, *i.e.* people who do not respond to incentives, and it would complement the insurance system (unemployment, retirement, illness). The social protection system would thus not really be simplified but transformed in such a way as to avoid stigmatization and the lack of take-up.

While a guaranteed basic income is not a stupid idea, nor is it the miracle reform pictured by its advocates, *i.e.* a veritable Swiss Army knife for reforming social welfare, a social and environmental emancipator.

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France-Germany: is there a demographic dividend?

By Vincent Touzé

Thanks to a high birth rate, France is aging less quickly than Germany. According to Eurostat, the French population is expected to exceed the German population by 2045. France could well become a European champion. But to what extent should we be talking about a demographic dividend?

The renewal of generations is of course important. It makes it possible to maintain a workforce that is large enough to meet the social costs (pensions, health care) of senior citizens, who are living longer and longer. In this sense, France should do better than Germany. But population growth also has its share of disadvantages. Indeed, in a context of scarce resources, the size of the population is primarily a factor that splits the amounts available per capita. For example, on a rationed labour market that is struggling to keep up the positions on offer due to problems with outlets and with production costs that are not competitive enough at the global level, growth in the labour force can also be counted in the numbers of unemployed. To avoid this, a more efficient labour market that is rooted in a thriving economy is essential. The demographic dividend depends as much on the productive capacity of new generations of workers as on their size.

The latest [*Note of the OFCE \(no. 5, October 11, 2013\)*](#) compares the relative performance of France and Germany over the period 2001-2012. This study shows how recent economic developments have been distinctly favourable to the German economy. Despite a glorious demographic future, France is mired in weak growth and mass unemployment that is hitting young people very hard. The demographic dividend is

slow in coming.

2013 pensions: a (little) reform...

By [Henri Sterdyniak](#)

The measures announced by the government on August 27th do not constitute a major reform of the pension system. As shown in [an OFCE Note \(no. 31 of 4 September 2013\)](#), they are essentially funding measures that are limited in scope. Pensioners are affected more than assets, and the business world has obtained a promise that it will not be hit. Fiscal equilibrium is not really assured, as it is conditioned on a strong economic recovery (by 2020), sustained growth and a net decrease in the relative level of pensions by 2040. Measures in favor of women and workers who are subjected to difficult work conditions were announced, but their implementation was delayed; the challenges are still not being met. The worst was certainly avoided (the de-indexation of pensions, a rapid change in the age of retirement eligibility, a so-called structural reform); the system is proclaimed to be sustainable, but the (little) reform of 2013 has not done much to ensure the system's economic and social reliability.

Pensions: the Moreau report's poor compromise

By [Henri Sterdyniak](#)

Under pressure from the financial markets and Europe's institutions, the government felt obliged to present a new pension reform in 2013. However, reducing the level of pensions should not now be a priority for French economic policy: it is much more urgent to re-establish satisfactory growth, reform the euro zone's macroeconomic strategy, and give a new boost to France's industrial policy as part of an ecological transition. Establishing a committee of senior officials and experts is a common practice that is used these days to depoliticize economic and social choices and distance them from democratic debate. In this respect, [the Moreau report](#), released on 14 June 2013, seems like a bad compromise. Although it does not call into question the public pension system, it weakens it and does not give itself the means to ensure the system's social viability.

Do the social security accounts have to be balanced during a depression?

The deficit in the pension schemes in 2013 was mainly due to the depth of the recession, which has reduced the level of employment by about 5%, causing a loss of about 12 billion euros in funding for the pension schemes. The central objective of Europe's economic policy should be to recover the jobs lost. Unfortunately, the Moreau report proposes continuing the strategy of a race to the bottom that is being implemented in Europe and France: "the pension schemes must contribute to restoring the public accounts and to France's international credibility" (page 82). The report forgets that lower pensions lead to a decline in consumption, and thus in GDP, and to lower tax revenues and social security

contributions, especially since all the euro zone countries are doing the same thing.

The report recommends reducing the deficit in the pension system relatively quickly by increasing the taxes paid by retirees. It adopts several well-known proposals uncritically. It would align the rates of pensioners' CSG wealth tax with those of the employed. At one time, unlike employees, pensioners did not pay health insurance contributions. They have been hit by the establishment and then increase in the CSG tax. They already pay an additional contribution of 1% on their supplementary pensions. They are suffering from the retreat of the universal health scheme in favour of top-up health insurance. Increasing their CSG rate from 6.6% to 7.5% – the same as for employees – would bring in 1.8 billion euros. But shouldn't it be necessary in exchange to eliminate the 1% contribution on supplementary pensions and make their top-up health insurance premiums (which are not paid by the companies) deductible?

Pensioners are entitled, like employees, to a 10% allowance for business expenses, but with a much lower ceiling. Even for employees, this allowance is much higher than actual business expenses; it offsets to some extent the possibilities of tax evasion by non-employees. The removal of the allowance would lead to 3.2 billion euros more in tax revenue to the state and a 1.8 billion reduction in certain benefits, linked to the amount of taxable income. Retirees would lose 2% of their purchasing power. But it is hard to see how this 5 billion would make its way into the coffers of the pension programmes.

Taxing pension family benefits (which would yield 0.9 billion) is certainly more justifiable, but again it is unclear how and why the product of this tax would go to the pension funds, especially as family benefits are the responsibility of the CNAF (National family benefits fund).

On the other hand, with regard to increasing contributions the

report is very timid in at best proposing an increase of 0.1 percentage point per year for 4 years, *i.e.* ultimately 1.6 billion euros in employee contributions and 1.6 billion in employer contributions.

Most importantly, the report intends to increase the highest pensions (those who pay the full rate of CSG tax) only at the rate of inflation: 1.2 points for 3 years, thereby hitting them with a reduction of 3.6% in their purchasing power. Pensions subject to the reduced rate of CSG would lose only 1.5%. The lowest pensions would be spared. While this disparity in efforts may seem justified, the reliability of the public pension system would be seriously undermined. How can we be sure that this de-indexation will last only three years, that it will not become a more or less permanent management tool, which would especially hit older pensioners whose standard of living is already low? As the pensions received by a retiree are not all currently centralized, it is difficult to have the indexation of pensions vary in accordance with their level. The solution advocated by the report – to take into account the situation of the pensioner *vis-à-vis* the CSG – is hard to manage; making someone's pension level depend on their family's tax situation is just not justifiable. Pensions are a social right, a return on the contributions paid in, and not a tool for adjustments. How can we justify a 3.6% decline in the purchasing power of part of the population while GDP per capita is expected to continue to rise? Should the purchasing power of pensioners be cut when it has not benefited from an increase since 1983, even during periods of wage growth? Respect for the implicit social contract that underpins the pension system means that pensioners should make the same efforts as employees, no more, no less.

Furthermore, in times of economic recession the refrain that *efforts need to be equitably distributed* is dangerous. If everyone makes an effort by accepting less revenue and then

reducing their expenditure, the inevitable result will be a drop in overall consumption, which, given spare production capacity, will be accompanied by a decline in investment and thus in GDP.

Guaranteeing a fall in pensions

In the medium term, the report's main concern is to ensure a decline in the relative level of pensions. Indeed, because of the Balladur reform, since 1993 wages recognized in the general pension scheme have been re-valued based on prices, and not on the average wage. The replacement rate (the ratio of the first pension payment to final salary) falls in line with strong increases in the average wage: at one time the pension system's maximum replacement rate was 50%, but this drops to 41.5% if real wages rise by 1.5% per year, but only to 47% if they rise by 0.5% per year. The mechanism introduced will lead to lowering the average level of pensions by 31% if the real wage increases by 1.5% per year, by 12% if it grows by 0.5% per year or by 0% if it stagnates. However, in recent years, wages have been rising by only 0.5% per year. The relative level of pensions might then recover. It is necessary therefore to increase wages to reduce the relative level of pensions.

The committee of experts gathered around Mrs. Moreau have therefore made two alternative proposals:

- – Either the wages used will be re-valued only as: price + (real wages less 1.5%), which means that, regardless of the wage increase, the maximum replacement rate for general pensions would fall to 41.5%. The relative decline in pensions would therefore be definitively consolidated. On the technical side, the increase in wages recorded will become a tool for adjustment, whereas, objectively, it should be used to calculate the average wage over the career; the oldest wages would be sharply devalued. However, the report acknowledges (page

107) that the current level of pensions corresponds to parity in living standards between active employees and pensioners, and that the proposed change would lead eventually to lowering the standard of living for retirees by 13%. Nevertheless, it considers that “this development is acceptable”. Is this a judgment that should be made by the experts or by the citizens? Moreover, it neglects that this loss would come on top of the impact of the tax reforms and de-indexation that have also been recommended.

- – Or, every year a committee of experts would propose a reduction in the level of the pensions to be paid based on a *demographic factor* that would ensure the system is balanced. In addition to the fact that this would be another blow to democracy (isn't it up to the citizens to arbitrate between pension levels and contribution rates?) and to social democracy (the social partners would merely be *consulted*), and employees would have no guarantee of the future level of their pension, especially given the memory of the precedent set by the appointment of an expert group for the minimum wage (the *SMIC*), which was fiercely opposed to any increase.

Lengthening the contributions period

The Moreau report calls for further lengthening the period of contribution payments required based on the principles of the 2003 Act (extending the contribution period by two years for every three year increase in life expectancy at age 60). The required contribution period would then be 42 years for the 1962 cohort (2024), 43 years for the 1975 cohort (2037), and 44 years for the 1989 cohort (in 2051). As the average age when vesting begins is currently 22 years, this would lead to an average retirement age of 65 in 2037 and 66 in 2051. This announcement is certainly designed to reassure the European Commission and the financial markets, but it leads above all to worrying the younger generations and reinforcing their fear

that they will never be able to retire.

Is it really necessary to announce a decision for the next 25 years without knowing what the situation will be in 2037 or 2051 with respect to the labour market, job needs, social desires or environmental constraints? Eventually, like all the developed countries France cannot escape the need to revise its growth model. Is it really necessary to do everything possible to increase production and private sector employment at a time when ecological constraints should be pushing us to decrease material output? Maintaining the possibility of a period of active retirement in good health is a reasonable use of productivity gains. Reform should not go beyond a retirement age of 62 years and a required contribution period of 42 years. So if the “long career” approach is maintained, people who start work at age 18 can retire at 60, and those who start at age 23 will stay on until 65. But working conditions and career development programmes need to be overhauled so that everyone can actually stay in work until those ages. This also implies that young people seeking their first job receive unemployment benefits, and that the youthful years of precarious employment are validated.

Taking the arduous character of work into account

The convergence of public, supplementary and private pension programmes likewise involves taking into account how arduous jobs are, by distinguishing between professions that are difficult to exercise after a certain age, meaning some kind of mid-term conversion is necessary, and jobs that are too tough, which can reduce life expectancy and thus should be phased out. For those who still have to do such jobs, periods of heavy work should give rise to possible bonus contribution periods and reductions in the age requirements. Common criteria should be applied in all the pension systems. In offering only one year's bonus for 30 years of hard labor, the Moreau report does not go far enough. This is almost insulting and makes it impossible to open up negotiations on a plan to

align the different systems.

What is to be done?

Whereas the [COR report](#) declared only a limited deficit (1% of GDP in 2040), the Moreau report proposes inflicting a triple penalty on future pensioners: de-indexation, a lower guaranteed replacement rate and the automatic extension of the contributions period required. This is no way to reassure the young generations or to highlight the advantages of the old-age pension system.

Pension reform is not a priority for the year 2013. In the short term, concern should be focused not on the financial imbalances in the regimes induced by the crisis but mainly on getting out of the depression. A strategy of a race to the bottom economically and socially, which is what de-indexation would lead to, must be avoided.

In the medium term, in order to convince young people that they will indeed enjoy a satisfying retirement, the goal should be to stabilize the pension / retirement ratio at close to its current level. The State and the unions must agree on target levels for the net replacement rate for normal careers: 85% for the minimum wage level; 75% for below the social security ceiling (3000 euros per month); and 50% for one to two times that ceiling.

To guarantee the pay-as-you-go pension system, the government and the unions must state clearly that a gradual increase in contributions will be required to bring the system into equilibrium, if necessary, once a strategy of extending the length of careers has been implemented at the company level that corresponds to the state of the labour market and actual workforce needs.

Reforming the conjugal quotient

By [Guillaume Allègre](#) and [Hélène Périvier](#)

As part of a review of family benefit programmes ([the motivations for which are in any case debatable](#)), the government has announced plans to reduce the cap on the family quotient benefit in the calculation of income tax (IR) from 2014. The tax benefit associated with the presence of dependent children in the household will be reduced from 2000 to 1500 euros per half share. Opening discussion on the family quotient should provide an opportunity for a more general review of how the family is taken into account in the calculation of income tax, and in particular the taxation of couples.

How are couples taxed today?

In France, joint taxation is mandatory for married couples and civil partners (and their children), who thus form part of one and the same household. It is assumed that members of a household pool their resources fully, regardless of who actually contributes them. By assigning two tax shares to these couples, the progressive tax scale is applied to the couple's average revenue $[(R1 + R2) / 2]$. When the two spouses earn similar incomes, the marital quotient does not provide any particular advantage. In contrast, when the two incomes are very unequal, joint taxation provides a tax advantage over separate taxation.

In some configurations, separate taxation is more advantageous than joint taxation; this is due partly to the particular way that the employment bonus and tax reduction [1] operates, and

to the fact that separate taxation can be used to optimize the allocation of the children between the two tax households, which by construction does not permit joint taxation. Tax optimization is complex, because it is relatively opaque to the average taxpayer. Nevertheless, in most cases, marriage (or a “PACS” civil partnership) provides a tax benefit: 60% of married couples and civil partners pay less tax than if they were taxed separately, with an average annual gain of 1840 euros, while 21% would benefit from separate taxation, which would save them an average of 370 euros ([Eidelman, 2013](#)).

Why grant this benefit just to married couples and civil partners?

The marital quotient is based on the principle that resources are fully pooled by the couple. The private contract agreed between two people through marriage or a PACS constitutes a “guarantee” of this sharing. In addition, the marriage contract is subject to a maintenance obligation between spouses, which binds them beyond the wedding to share part of their resources. However, the Civil Code does not link “marriage” to the “full pooling” of resources between spouses. Article 214 of the Civil Code provides that spouses shall contribute towards the expenses of the marriage “in proportion to their respective abilities”, which amounts to recognizing that the spouses’ abilities to contribute may be unequal. Since 1985, Article 223 has established the principle of the free enjoyment of earned income, which reinforces the idea that marriage does not mean that the spouses share the same standard of living: “each spouse is free to practice a profession, to collect earnings and wages and to spend them after paying the costs of the marriage”. The professional autonomy of the spouses and the right to dispose of their wages and salaries are fully recognized in the Civil Code, whereas the Tax Code is limited to an overview of the couple’s income and expenditures.

In addition, there is some dissonance between the social and

the tax treatment of couples. The amount of the RSA benefit [income support] paid to a couple is the same whether they are married or common-law partners. As for the increased RSA paid to single mothers with children, being single means living without a spouse, including a common law partner. Cohabitation is a situation recognized by the social system as involving the pooling of resources, but not by the tax system.

Do couples actually pool their resources?

Empirical studies show that while married couples tend to actually pool all their income more than do common-law partners, this is not the case of everyone: in 2010, 74% of married couples reported that they pooled all their resources, but only 30% of PACS partners and 37% of common-law couples. Actual practice depends greatly on what there is to share: while 72% of couples in the lowest income quartile report pooling their resources fully, this is the case for only 58% of couples in the highest quartile ([Ponthieux, 2012](#)). The higher the level of resources, the less the couple pools them. Complete pooling is thus not as widespread as assumed: spouses do not necessarily share exactly the same standard of living.

Capacity to contribute and number of tax shares allocated

The tax system recognizes that resources are pooled among married couples and civil partners, and assigns them two tax shares. The allocation of these tax shares is based on the principle of ability to pay, which must be taken into account to be consistent with the principle of equality before taxation: in other words, the objective is to tax the standard of living rather than income *per se*. For a single person and a couple with the same incomes, the singleton has a higher standard of living than the couple, but due to the benefits of married life it is not twice as high. To compare the living standards of households of different sizes, equivalence scales have been estimated ([Hourriez and Olier, 1997](#)). The INSEE allocates a 1.5 share (or consumption unit) to couples and a 1

share to single people: so according to this scale, a couple with a disposable income of 3000 euros has the same standard of living as a single person with an income of 2000 euros. However, the marital quotient assigns two shares to married couples but one to the single person. It underestimates by 33% the standard of living of couples relative to single people, and therefore they are not taxed on their actual ability to contribute.

Moreover, once again there is an inconsistency between the treatment of couples by social policy and by fiscal policy: social security minima take into account the economies of scale associated with married life in accordance with the equivalence scales. The base RSA (*RSA socle*) received by a couple (725 euros) is 1.5 times greater than that received by a single person (483 euros). There is an asymmetry in the treatment of spouses depending on whether they belong to the top of the income scale and are subject to income tax, or to the bottom of the income scale and receive means-tested social benefits.

What family norms are encapsulated in the marital quotient?

The marital quotient was designed in 1945 in accordance with a certain family norm, that of Monsieur Gagnepain and Madame Aufoyer ["Mr Breadwinner and Ms Housewife"]. It contributed together with other family programmes to encouraging this type of family organization, *i.e.* the one deemed desirable. Until 1982, tax was based solely on the head of the family, namely the man, with the woman viewed as the man's responsibility. But far from being a burden on her husband, the wife produced a free service through the domestic work she performed. This home production (the care and education of children, cleaning, cooking, etc.) has an economic value that is not taxed. Single earner couples are thus the big winners in this system, which gives them an advantage over dual earner couples, who must pay for outsourcing part of the household and family work.

In summary, the current joint taxation system leads to penalizing single persons and common-law couples compared to married couples and civil partners, and to penalizing dual-earner couples compared to single-earner couples. The very foundations of the system are unfavourable to the economic liberation of women.

What is to be done?

The real situation of families today is multiple (marriage, cohabitation, etc.) and in motion (divorce, remarriage or new partnerships, blended families); women's activity has profoundly changed the situation in the field. While all couples do not pool their resources, some do, totally or partially, whether married or in common law unions. Should we take this into account? If yes, how should this be done in light of the multiplicity of forms of union and the way they constantly change? This is the challenge we face [in reforming the family norms and principles that underpin the welfare state](#). Meanwhile, some changes and rebalancing could be achieved.

Currently, the benefit from joint taxation is not capped by law. It can go up to 19,000 euros per year (for incomes above 300,000 euros, an income level subject to the highest tax bracket) and even to almost 32,000 euros (for incomes above 1,000,000 euros) if you include the benefit of joint taxation for the exceptional contribution on very high incomes. For comparison, we note that the maximum amount of the increase in the RSA for a couple compared to a person living alone is 2900 euros per year. The ceiling on the family quotient (QF), which is clear, is 1500 euros per half share. A cap on the marital quotient of 3000 euros (twice the cap on the QF) would affect only the wealthiest 20% of households (income of over 55,000 euros per year for a single-earner couple with two children). At this income level, it is likely that the benefit from joint taxation is related to an inequality in income that is the result of specialization (full or not) between the spouses in

market and non-market production or that resources are not fully shared between the partners.

Another complementary solution would be to leave it up to every couple to choose between a joint declaration and separate declarations, and in accordance with the consumption scales commonly used to accord the joint declaration only 1.5 shares instead of 2 as today. The tax authorities could calculate the most advantageous solution, as households do not always choose the right option for them.

A genuine reform requires starting a broader debate about taking family solidarity into account in the tax-benefit system. In the meantime, these solutions would rebalance the system and turn away from a norm that is contrary to gender equality. At a time when the government is looking for room for fiscal maneuvering, why prohibit changing the taxation of couples?

[\[1\]](#) A tax reduction [*décote*] is applied to the tax on households with a low gross tax (less than 960 euros). As the reduction is calculated per household and does not depend on the number of persons included in the household, it is relatively more favourable for singles than for couples. It helps ensure that single people working full time for the minimum wage are not taxable. For low-income earners, the reduction thus compensates the fact that single persons are penalized by the marital quotient. No similar mechanism is provided for high-income earners.

Housing and the city: the new challenges

By Sabine Le Bayon, [Sandrine Levasseur](#) and Christine Rifflart

The residential real estate market is a market like no other. Since access to housing is a right and since inequalities in housing are increasing, the role of government is crucial to better regulate how the market functions. France has a large stock of social housing. Should it be expanded further? Should it have a regulatory role in the overall functioning of the housing market? Should our neighbours' systems of social housing, in particular the Dutch and British systems, be taken as models? On the private market, the higher prices of home purchases and rentals illustrate the lack of housing supply in the country's most attractive areas. At the individual level, the residential market is becoming less fluid: moving is difficult due to problems finding housing suited to career and family needs. It is therefore necessary to develop appropriate policies to enhance residential mobility and reduce imbalances by stimulating the supply of new housing.

Housing is also an integral part of our landscape, both urban and rural. It distinguishes our cities of today and of tomorrow. The commitments made in the framework of the Grenelle environmental consultation process demand a real revolution in land use as well as in technical standards for construction. To ensure more housing, should undeveloped land be used or should developed land be exploited more intensely? How should a housing stock that has become obsolete in terms of energy standards be renovated, and how should this be financed?

These are the challenges addressed by the contributions collected in the new book [Ville et Logement](#) in the Débats et politiques series of the *Revue de l'OFCE*, edited by

Sabine Le Bayon, Sandrine Levasseur and Christine Rifflart. With authors from a variety of disciplines (economics, sociology, political science, urban planning) and backgrounds (researchers as well as institutional players), this review aims to improve our understanding of the issues related to housing and the city.

What kind of pension reform for 2013?

In a speech on 28 March, Francois Hollande raised the 20 billion euro deficit forecast for 2020 in order to announce a further extension of the pension contributions period, while refusing to end the indexation of low state pensions and pensions in the statutory pension system. Francois Hollande and the French government also pledged to re-balance the public finances by 2017. As they no longer wish to increase the tax burden in a period of weak or even non-existent growth, this means cutting public spending by at least 70 billion euros, or about 7%. As pensions account for a quarter of public expenditure, they cannot be spared the austerity axe. There is a major risk that the goal of re-balancing the public finances will result in lowering the level of pension payments. When negotiating the supplemental pension arrangements in March 2013, the MEDEF managed to obtain pension increases of 1 percentage point below the inflation rate for 3 years, meaning a 3% loss in purchasing power. In a [recently published note](#) (*Notes de l'OFCE*, no. 26 dated 24 April 2013), Henri Sterdyniak explains that there are other possible approaches to reform.

Family benefits: family business?

By [Hélène Périvier](#)

[Bertrand Fragonard has submitted his report to the Prime Minister](#); it aims, first, to enhance the redistributive nature of family policy and, second, to rebalance the accounts of the family branch, which have recently been running a deficit, by 2016. A realignment of family benefits towards low-income families is proposed as the first objective. As for the second, the two options proposed are adjusting benefits based on means, or taxing them. How can 2 billion euros be found in today's lean times?

With the cow already thin, is it really the time to put it on a diet?

The cutbacks in spending on family policy are part of a broader economic austerity policy aimed at rebalancing the public accounts. The government deficit is of course a serious issue, which cannot simply be swept under the rug. It is bound up with the durability and sustainability of our welfare state, and as concerns the topic being discussed here more specifically, with the future of family policy. But the magnitude and timing of the fight against deficits are central to its effectiveness. The OFCE's forecasting work shows that the massive reductions in public spending being made by France will undercut growth. The lack of growth will in turn slow deficit reduction, which will thus not live up to expectations. Ultimately, you can't have your cake and eat it too, in particular if the economy isn't producing the ingredients.

If we continue down this path of trimming family policy, then how should we proceed? Who should bear the cost? Should we cut spending or increase revenues?

Staying the course?

A number of principles guide public action. They constitute a compass that helps to stay the course that we have set and to develop the tools needed to do this. With regard to family policy, the first principle concerns horizontal equity: this requires that a household should not see its standard of living fall with the arrival of a child. In other words, based on this principle, all households finance support that benefits only households with dependent children. This constitutes redistribution from households without children to those with children, whether the household is rich or poor. This sharing of the cost of children is justified by the idea that a healthy birth rate benefits everyone. Family allowances are emblematic of this principle.

The second principle concerns vertical equity: every household should participate in the financing of family policy in a progressive manner based on its income, and low-income households with dependent children should receive special assistance, such as the family income supplement [*le complément familial*], a means-tested assistance for families with three or more children.

Nothing of course prevents us from changing tack by changing the relationship between these two principles. Indeed, family policy does need to be reformed: it should take into account the changes undergone by French society in recent decades (which policy now does only partially): increased numbers of women in the workforce, the rise in divorce and unmarried partnerships (today most children are born to couples who are neither married nor civil partners), new family configurations, concern for the equality of children with respect to collective care and socialization, territorial

inequalities, etc. ([Périvier and de Singly, 2013](#)). These considerations on family policy need to be integrated into an overall vision of the tax-benefit system for families –otherwise public policy risks becoming incoherent. The mission statement behind the Fragonard report highlights above all rebalancing the family branch accounts by 2016, “with a significant shift from 2014”.

Don't lose your bearings!

While staying the course on family policy, some leeway is possible. To draw on the contributions of all households, the taxation of the couple could be reviewed. Under the current system, married couples or civil partners have two tax shares; this leads to tax reductions that increase in line with the difference in the income of the two partners (the extreme case being that of Mr. Breadwinner and Mrs. Housewife, the arrangement that this type of taxation was designed to encourage). This is what is called the conjugal quotient [\[1\]](#). This “benefit” is not capped [\[2\]](#), unlike the benefit related to the presence of a child (the famous family quotient, whose ceiling was recently reduced to 2000 euros). Capping the conjugal quotient would not call into question the principle of horizontal equity, as many childless couples benefit from it, couples who, for the most part, had dependent children in the past and have benefited from a generous family policy. Doing this would spread the effort to rebalance the family branch accounts over a wide range of households, including those who do not have or no longer have dependent children [\[3\]](#). The complete elimination of the conjugal quotient (*i.e.* the individualisation of taxes) would provide additional tax revenue of 5.5 billion euros ([HCF, 2011](#)). This tax “benefit” could initially simply be capped: the yield would be greater or smaller, depending on the ceiling adopted [\[4\]](#). The distribution of the gain for couples related to the marital quotient is concentrated among the highest income deciles ([Architecture des aides aux familles, HCF, 2011](#)). Another

possible tax revenue concerns the extra half-share granted for having raised a child alone for at least 5 years. Now capped at 897 euros, this benefit could be eliminated, as it does not meet any of the principles set out above and it is doomed to disappear.

These steps would increase tax revenue and help fund family policy. These options would unquestionably increase the tax burden on households. If we add to the effort requested the constraint to not increase taxation, then the 2 billion euros would have to be found through cuts in spending on family benefits. The room for manoeuvring becomes almost razor thin. Out of concern for vertical fairness, these cuts must be borne by the best-off families with children. But this vertical redistribution is conceived within the limited framework of families with children. Yet vertical equity generally consists of a redistribution from better-off households to poorer households. What is therefore being applied here would be a principle of vertical equity that could be described as "restricted vertical equity".

There is no free lunch...

The family allowance is clearly in the firing line in this narrow framework for family policy that excludes from its scope the taxation of couples in particular. It represents 15% of the family benefits paid, or 12 billion euros. There are two main options: the amount could be adjusted in line with the level of household resources, or the benefits could be taxed. But which? Both options have advantages and disadvantages.

Subjecting the family allowance to conditions would help to target wealthy families while not affecting the others. This targeting would enhance the redistributive character of the system, which would definitely be an advantage. But this requires setting income thresholds above which the amount of benefits received decreases. So families in similar situations

would receive different levels of benefits depending on whether their incomes were just below or just above the threshold. This would undermine the universal commitment to the welfare state. Furthermore, the thresholds could lead to a contraction in the labour supply of women in couples: the “classic” trade-off would be, “if I work more, we will lose benefits” – it is still the activity of women, and always the activity of women, that suffers. To limit these negative effects, the thresholds could be smoothed and variable income ceilings introduced based on the activity of the two partners by raising those applying to couples where both work. What would gradually emerge is a huge white elephant, a Rube Goldberg machine that generates higher management costs with extra work for the CAF service. In addition, the system would be less transparent, because it is more complex, leading to overpayments, fraud, and even more annoying, a lack of take-up (those eligible for a benefit don’t apply). Finally, selective benefits are the breeding ground for debate around a culture of dependency, with the suspicion that “the reason these people don’t work is in order to get benefits”. Note that this risk disappears if the thresholds are set at a high level.

Taxing the family allowance would get around these problems: it is simple, with no extra management costs, as the amount of benefits received would just be added to taxable income. So the progressiveness of the income tax system would apply. More affluent families with children would pay more than those on lower incomes. But targeting would be less accurate than before: many families with children would be affected, and households that were previously not taxable may become so (even if this involved small amounts). Finally, the tax burden would increase, which is politically costly.

By construction, in both cases families that have only one child would not be affected because, under a family policy designed to promote high birth-rates, they do not receive family benefits. And in both cases families without dependent

children are not required to contribute.

Don't throw the baby out with the bath water ...

Adjusting the family allowance for income is the track that seems to be preferred by the Fragonard report. The opinion of the High Council for the family (HCF) indicates that this approach has been rejected by the majority of that body's members. Overall, the measures proposed in the report are to reduce the spending on families with dependent children within the limited scope of family policy, namely benefits. The danger looming is that the guidelines proposed lead to paralysis by freezing the different oppositions and exacerbating the conservative visions for family policy. Some will justly view this as a systematic attack on family policy, since the overall budget is cut. Nevertheless, an overhaul of family assistance is needed, but it cannot involve a reduction in spending in this area as the need is so great, especially to ensure progress with regard both to gender equality and equality between children. Any reform must be based on the principles of justice and on an approach to the welfare state that needs to be reviewed and renegotiated. Even though the budget constraints are serious, we cannot reduce the amount allocated to family policy, but nor should we retreat from the in-depth reform that is needed.

[\[1\]](#) Note that mechanisms such as a tax break or incentive to promote employment tend to favour people who are cohabiting over married couples. The interactions between the multiple tax provisions complicate comparisons of the tax treatment of people with different marital statuses.

[\[2\]](#) It is, implicitly, but for extremely high levels of income, reaching the upper end of the income tax brackets with or without the marital quotient (this implicit cap limits the

advantage to 12,500 euros).

[\[3\]](#) On condition that these additional tax revenues are paid to the family branch.

[\[4\]](#) For a ceiling of 2,590 euros, the extra tax revenue from capping the conjugal quotient would be about 1.4 billion euros ([HCF, 2013](#)).