Does growth in the euro zone really depend on a hypothetical German fiscal stimulus?

By Christophe Blot and Jérôme Creel

The debate on economic policy in Europe was re-ignited this summer by Mario Draghi during the now traditional symposium at Jackson Hole, which brings together the world's main central bankers. Despite this, it seems that both the one side (Wolfgang Schaüble, Germany's finance minister) and the other (Christine Lagarde, head of the IMF) are holding to their positions: fiscal discipline plus structural reforms, or demand stimulus plus structural reforms. Although the difference can seem tenuous, the way is now open for what Ms. Lagarde called "fiscal manoeuvring room to support a European recovery". She is targeting Germany in particular, but is she really right?

In an interview with the newspaper *Les Echos*, Christine Lagarde said that Germany "very likely has the fiscal manoeuvring room necessary to support a recovery in Europe". It is clear that the euro zone continues to need growth (in second quarter 2014, GDP was still 2.4% below its pre-crisis level in first quarter 2008). Despite the interest rate cuts decided by the ECB and its ongoing programme of exceptional measures, a lack of short-term demand is still holding back the engine of European growth, mainly due to the generally tight fiscal policy being pursued across the euro zone. In today's context, support for growth through more expansionary fiscal policy is being constrained by tight budgets and by a political determination to continue to cut deficits. Fiscal constraints may be real for countries that are heavily in debt and have lost market access, such as Greece, but they are more of an institutional nature for countries able to issue government debt at historically very low levels, such as France. For Ms. Lagarde, Germany has the manoeuvring room that makes it the only potential economic engine for powering a European recovery. A more detailed analysis of the effects of its fiscal policy – both internally and spillovers to European partners – nevertheless calls for tempering this optimism.

The mechanisms that underlie the hypothesis of Germany driving growth are fairly simple. An expansionary fiscal policy in Germany would boost the country's domestic demand, which would increase imports and create additional opportunities for companies in other countries in the euro zone. In return, however, the impact could be tempered by a slightly less expansionary monetary policy: as Martin Wolf argues, didn't Mario Draghi ensure that the ECB would do everything in its power to ensure price stability over the medium term?

In a recent OFCE working document, we have tried to capture these various commercial and monetary policy effects in a dynamic model of the euro zone. The result is that a positive fiscal impulse of 1 GDP point in Germany for three consecutive years (a plan involving 27.5 billion euros per year [1]) would boost growth in the euro zone by 0.2 point in the first year. This impact is certainly not negligible. However, this is due solely to the stimulation that would benefit German growth and not to spillovers to Germany's European partners. Indeed, and as an example, the increase in Spain's growth would be insignificant (0.03 point of growth in the first year). The weakness of the spillover effects can be explained simply by the moderate value of Germany's fiscal multiplier [2]. Indeed, the recent literature on multipliers suggests that they rise as the economy goes deeper into a slump. But based on the estimates of the output gap retained in our model, Germany is not in this situation, and indeed the multiplier has dropped to 0.5 according to the calibration of the multiplier effects selected for our simulations. For an increase in German growth of 0.5 percentage points, the effect of the stimulation on the rest of the euro zone is therefore low, and depends on Germany's share of exports to Spain and the weight of Spanish exports in Spanish GDP. Ultimately, a German recovery would undoubtedly be good news for Germany, but the other euro zone countries may be disappointed, just as they undoubtedly will be from the implementation of the minimum wage, at least in the short term, as is suggested by Odile Chagny and Sabine Le Bayon in a recent post. We can also assume that in the longer term the German recovery would help to raise prices in Germany, thereby degrading competitiveness and providing an additional channel through which other countries in the euro zone could benefit from stronger growth.

And what would happen if the same level of fiscal stimulus were applied not in Germany, but rather in Spain, where the output gap is more substantial? In fact, the simulation of an equivalent fiscal shock (27.5 billion euros a year for three years, or 2.6 points of Spanish GDP) in Spain would be much more beneficial for Spain but also for the euro zone. While in the case of a German stimulus, growth in the euro zone would increase by 0.2 percentage points over the first three years, it would increase by an average of 0.5 points per year for three years in the event of a stimulus implemented in Spain. These simulations suggest that if we are to boost growth in the euro zone, it would be best to do this in the countries with the largest output gap. It is more effective to spend public funds in Spain than in Germany.

In the absence of any relaxation of the fiscal constraints on Spain, a stimulus plan funded by a European loan, whose main beneficiaries would be the countries most heavily affected by the crisis, would undoubtedly be the best solution for finally putting the euro zone on a path towards a dynamic and sustainable recovery. The French and German discussions of an investment initiative are therefore welcome. Hopefully, they will lead to the adoption of an ambitious plan to boost growth in Europe.

Table. Impact of a fiscal expansion in Germany and in Spain

In percentage points

	Fiscal expansion in Germany			Fiscal expansion in Spain		
	German growth	Spanish growth	Euro zone growth	German growth	Spanish growth	Euro zone growth
2013	0,5	0,0	0,2	0,0	4,9	0,5
2014	0,6	0,0	0,2	0,0	5,8	0,7
2015	0,5	0,0	0,2	0,0	2,8	0,4
2016	0,0	0,0	0,0	0,0	-0,7	-0,1
2017	-0,6	0,0	-0,2	0,0	-2,6	-0,3
2018	-0,8	0,0	-0,2	0,0	-3,0	-0,3
2019	-0,7	0,0	-0,2	0,0	-2,9	-0,3

Source: iAGS model.

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[1] The measure is then compensated in a strictly equivalent way so that the shock amounts to a transient fiscal shock.

[2] Recall that the fiscal multiplier reflects the impact of fiscal policy on economic activity. Thus, for one GDP point of fiscal stimulus (or respectively, tightening), the level of activity increases (respectively, decreases) by k points.

Better abilities or stronger social ties? Drivers of

social immobility across EU countries

par Francesco Vona

A high level of income inequality is commonly regarded to be more acceptable when associated with high social mobility. Empirical evidence has however shown that unequal countries are rarely able to ensure high social mobility to their citizens. On the contrary, countries that rank high in the level of inequality are also the worst in term of social mobility[i]. The simple reason is that a given level of social immobility is amplified when rewards to individual characteristics, which are transmitted from parents to child, are larger. For instance, when the earning advantage for the high skilled is large, intergenerational inequality (that is: the correlation between parent and child incomes) increases because, on average, high skilled workers come from better family backgrounds.

Economists tend to attribute cross-country differences in social mobility to the working of the educational system and its influence on the effective skills possessed by individuals coming from different family backgrounds. In particular, several empirical studies using standardized test scores show that there exist substantial background-related differences in competences and skills at a given level of educational attainment[ii]. Among OECD countries[iii], the influence of family background on test scores achievements is particularly strong in France (the second worst country after the USA in terms of intergenerational educational inequality), Germany and the UK, while it is relatively weaker in Italy and Spain. Whereas background-related differences in the effective level of skills certainly play a major role in creating persistency in socio-economic statuses, the working of labour markets is also an important, yet neglected, source of social immobility.

On the one hand, labour market institutions reduce the observed level of intergenerational inequality whereby institutions compressing wages (i.e. centralized wage bargaining, high unionization or minimum wage) are present. On the other hand, family ties constitute a labour market network that can help well-off individuals in finding good jobs and obtaining promotions.

In a recent paper (Raitano and Vona, 2014a)[iv], we assess the role played by labour market networks and individual skills in the transmission of socio-economic inequalities. We argue that high levels of intergenerational inequality can be due to: 1. formal educational attainment; 2. other (empirically unobservable) dimensions of human capital affected by family background, i.e. soft skills or better quality of education; 3. family and social ties affecting labour market outcomes and occupational sorting. Our main idea is to use intergenerational occupational mobility to distinguish between two types of association between family background and child earnings. A standard type emerges because, especially in top occupations, the well-off child should have a higher level of human capital (a glass ceiling effect) due to the fact that he attended top schools or inherited better soft skills. In contrast, the second type is associated with insurance for the children of the well-off ending up in bottom occupations (a parachute effect), who clearly display a low level of skills for a given level of education. To implement this idea, we use the 2005 module on intergenerational mobility of the EUSILC dataset and examine these two effects in eight EU countries characterized by different levels of intergenerational inequality and belonging to different welfare regimes. Our empirical analysis is motivated by the claim that returns to upward and downward social mobility could arguably stem from different sources. A glass ceiling of upward mobility is likely to depend on both network effects and unobservable skills that are positively correlated with family background. Conversely, it is hard to believe that the parachute effect can be associated with better unobservable skills; hence, in this case, family networks should be of paramount importance.

By way of an example, imagine that a child is in the first tercile group (low social position) of its distribution but that his father was in the third tercile group (high social position). This individual clearly has a good background, but his relative position signals that he has a low ability. In this case, a positive association between family background and earnings (i.e., a parachute effect) would depend on the family network rather than on unobservable skills related to the child's background. Conversely, it is not easy to infer the true unobservable skills of individuals who maintain their positions and earn more than others while sharing the same occupation but coming from a worse background. Hence, the identification of the glass ceiling effect is more problematic.

We find that family ties can create a considerable earning advantage for Spanish and Italian workers[v]. In these two countries, the high observed intergenerational inequality is mainly explained by a parachute effect for the well-off worsening their social position. In Italy, this parachute effect is particularly high: all else equal, the child of the well-off who worsens its social position earns annually 12% more than the child of the worse-off who stays in the same position. This result is consistent with a sociological view of social mobility where families play a key role both in the allocation of workers to jobs and in determining earning increases within a job[vi]. Interestingly, this result does not hold for other immobile European countries, such as the UK and to a lesser extent France. In these cases, the earning advantage of the well-off is fully driven by a penalty for those climbing the social scale, i.e. glass ceiling effect. While this result seems consistent with the classical human capital view of intergenerational inequality (where access to elite educational institutions is highly dependent on family background), our study cannot discriminate between the two explanations because a glass ceiling at the top could also be engendered by social networks. However, since the glass ceiling effect is widespread across all countries, including more equal ones (i.e. Germany, Finland, Ireland and Denmark), this effect is most likely due to unavoidable features either of the educational system or of the cumulative process of skill formation, at least in countries where students with similar socio-economic backgrounds are sorted into the same school.[vii]

Overall, our study suggests that intergenerational transmission of inequality strongly depends on the features of the country's labour market, especially in Mediterranean countries where family ties are extremely important in finding good jobs. Further research is required to understand which part of intergenerational inequality emerges during the educational period and which part emerges during the working career, accounting for the learning advantage possessed by high skilled individuals and thus for their steeper earning profiles. In future research[viii], we aim at decomposing the two effects in a more precise way for a cohort of Italian workers that we observe during their entire careers.

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[i] See: Corak, M., 2012. How to Slide Down the 'Great Gatsby Curve': Inequality, Life Chances, and Public Policy in the United States. Center for American Progress, December. Available at https://milescorak.files.wordpress.com/2012/12/corakmiddleclass.pdf.

[ii] See: Fuchs T., Wößmann, L., 2007. What accounts for international differences in student performance? A re-examination using PISA data, Empirical Economics 32.

[iii] See: http://www.oecd.org/centrodemexico/medios/44582910.pdf.

[iv] Raitano, M., Vona, F., 2014a. Measuring the link between intergenerational occupational mobility and earnings: evidence from eight European countries, Journal of Economic Inequality forthcoming.

[v] The results are obtained running regressions for samples of representative individuals for each country.

[vi] See: Ganzeboom, H., Treiman, D., 2007. Ascription and achievement in comparative perspective, Russell-Sage University Working Group on Social Inequality, University of California-Los Angeles.

[vii] Mixing students from different background in the same schools tends to reduce the influence of family background on individual student achievement without having negative effects for the average student achievement in the school. See: Raitano, M., Vona, F., 2013. Peer heterogeneity, school tracking and students' performances: evidence from PISA 2006, Applied Economics 45.

[viii] Raitano, M., Vona, F., 2014b. From the Cradle to the Grave: the impact of family background on carrier path of Italian males, mimeo.

Following the decision of

France's Constitutional Council: the impossible merger of the RSA and PPE social welfare programmes

By [Henri Sterdyniak]

In June 2014, the government had Parliament approve a new provision for the gradual reduction of employee payroll taxes intended to boost the purchasing power of low-wage earners. Henceforth an employee on the minimum wage (SMIC) would benefit from a 3-point reduction in their contributions, representing a gain of 43 euros per month, *i.e.* a 4% increase in net income. The discount would then decline with the level of the hourly wage and terminate at 1.3 times the SMIC. On 6 August 2014, the Constitutional Council (*Conseil Constitutionnel*) barred this provision. There are three reasons to welcome its ruling.

As noted by the Constitutional Council, employee contributions fund retirement and replacement benefits, social insurance programmes that are reserved for those who have contributed and which depend on contributions. The parliamentary measure goes against the logic of a contributory system, since employees would have been able to enjoy benefits without having fully paid.[1] The Constitutional Council emphasized the specific nature of contributory social contributions, underscoring a sound principle of our social security system. Note, however, that the Constitutional Council did not oppose the measures exempting employer social contributions for pension contributions, which are also based on a contributory logic. On the other hand, the exemptions on family or health insurance contributions are more legitimate, since these contributions do not confer individual rights. But it's never too late to correct one’s oversights.

The new measure planned by the government once again led to reducing the resources of the social security system. Exemptions from social security contributions have become the weapon of choice against unemployment, to the expense of the very purpose of the contributions: to fund social security. The State would of course have offset these exemptions, but social security would have become even more dependent on government transfers, particularly since this measure came on top of the extension, for the years 2013 and 2014 alone, of employer payroll tax cuts and transfers of resources from the taxation of family pension increases and the reduction of the family quotient.

Finally, this exemption would have introduced a new complication for pay slips, which already count twenty lines for contributions. In addition, employers must calculate digressive exemptions on employer contribution, from 28 points at the SMIC level up to 1.6 times the SMIC, and in addition the competitive employment tax credit (CICE) of 6% for wages under 2.5 times the SMIC. From 2016, family contributions will be lowered by 1.8 points for wages under 3.5 times the SMIC. Is an even more digressive system really needed, with a new ceiling of 1.3 times the SMIC?

Despite the Council decision, the government has not abandoned its goal. Thus, in an article in *Le Monde* dated 21 August 2014, President François Hollande announced a reform “that will merge the *Prime pour l’emploi* (PPE) and the *Revenu de solidarité active* (RSA) to promote the return to work and improve the situation of precarious workers”. Would a reform like this fulfill the President’s objectives? To answer this question it is useful to review the existing arrangements.

The current situation

France has set up a particularly complicated system that aims at two somewhat contradictory goals: to help poor families and to encourage unskilled workers to find jobs.

Aid to the poorest households includes the *Revenu de solidarité active* (RSA – a family-based income supplement for the working poor), the *Prime pour l'emploi* (PPE – an individual in-work tax credit to promote employment), housing benefit (a family-based allowance) and means-tested family benefits (family income supplement, allowance for school). Despite the efforts of Martin Hirsch, the RSA's promoter, it does not include the PPE and housing benefit. It consists of a basic allowance: the base RSA (*RSA socle* – a minimum income that depends on family composition), which is reduced by 38 euros per 100 euros of earned income. The RSA is paid monthly on the basis of a quarterly income statement. As for the PPE, it is paid automatically on the basis of the income tax return, with a one year lag. The RSA is deducted from the PPE, meaning that a household that does not ask for the RSA automatically gets the PPE.

Three mechanisms are specifically designed to encourage low-wage workers to find jobs: exemptions from employer contributions, which reduce the cost of labor at the SMIC level; and the PPE and the RSA, which increase the gain from employment for unskilled workers.

A single person paid the SMIC is entitled to the PPE, but not the RSA (Table 1). It costs the company 1,671 euros (for 35 hours); the person's salary incurs 540 euros in unemployment and retirement contributions, representing deferred wages; the person receives a net transfer of 140 euros (PPE + housing benefit – CSG-CRDS [CSG wealth tax and CRDS debt contribution] – national health insurance and family contributions); their disposable income thus comes to 1,271 euros. There is therefore no net tax burden; their health insurance is offered. The exemptions of employer contributions are higher than the non-contributory contributions. By making use of all the existing schemes, it is possible to dissociate the living standard accorded to workers on the SMIC from the cost of their work.

On the other hand, a single-earner family (Table 2) benefits from the RSA so long as the household income does not exceed 1.65 times the SMIC (Table 2). The RSA increases the incomes of the poorest households: it increases the gains from employment for the first earner, but slightly reduces those of the second (Table 3). The PPE benefits dual-earner families that are above the poverty line (defined as 60% of the median income).

Table 1. Formation of the monthly income of an unmarried employee earning the SMIC (July 2014)

Wages (gross)	1,445 euros	
	Employee	Employer
CSG-CRDS	114 (7.86%)	
Health insurance-family charges		294 (20.33%)
Retirement-unemployment charges	203 (14.05%)	337 (23.33%)
Low income exemption		-405 (28%)
Net wages	1,128	
Total wage cost (or super-gross)		1,671
Income tax (IR)	0	
PPE supplement	79	
Housing benefit (AL*)	64	
Disposable income	1,271	
Net tax	-140	
Contributory charges	540	
Rate of taxation	-12.4%	

* The rent is assumed to be 450 euros. The median income (MI) in 2014 can be estimated at 1642 euros per consumption unit (CU) – the SMIC provides 77.4% of the median income.
Source: URSSAF data, author's calculations.

Table 2. Couple with two children (2.1 consumption units – CU)

	RSA	Single-earner household			Dual-earner household	
		0.5 SMIC	SMIC	1.5 SMIC	1.5*SMIC	2*SMIC
Net wage	0	564	1,128	1,692	1,692	2,255
RSA	900	543	343	128	–	–
PPE	–	–	–	–	158	164
AF/ARS	63	129+63	129+63	129+63	129+63	129+63
Housing (AL*)	483	483	353	182	185	
Total	1,446	1,782	2,016	2,194	2,225	2,611
% MI per CU	41.9	51.7	58.4	63.6	64.6	75.7
PPE**			92	13		
Total**			1 765	2 079		
% MI per CU			51.1	60.3		

* The rent is assumed to be 600 euros. The children are aged 7 to 12. MI = median income; CU = consumption unit.
** If the household does not demand the RSA activité supplement.
Sources: CAF, author's calculations.

Table 3. Gain from becoming employed. Couple with two children

	Recourse to RSA	Without recourse to RSA-activité
First working age		
RSA up to 0.5 SMIC	336 (60%)	–
0.5 SMIC up to SMIC	234 (41%)	–
RSA up to SMIC	570 (50%)	319 (28%)
SMIC up to 1.5 SMIC	178 (32%)	314 (56%)
Second working age. First working age earning SMIC		
Inactif up to 0.5 SMIC	201 (36%)	462 (82%)
Inactif up to 1 SMIC	595 (53%)	846 (75%)

Source: Author's calculations.

The limits of the existing system

– *The reduction of employer contributions*: The PPE and RSA create a class of poorly paid employees whose salary increases are very costly for the employer and not very profitable for the employee. A 10% wage hike for a worker on the SMIC (145 euros) costs the company 242 euros and brings the employee 53 euros. Companies are encouraged to create specific unskilled jobs, with no prospects for progress for the employee, who is stuck in a low-wage trap. The reduction in charges on low wages does not promote the employment of skilled workers, who are also experiencing some unemployment. Not do the jobs created match up with the increasing qualifications of young people. The consistency of the system as a whole therefore needs to be reviewed. However, the persistence of a large mass of unskilled workers and the desire not to lower the living standards of the working poor currently make it hard to take the risk of eliminating the existing mechanisms.

– *The calculation of the PPE is complicated*: It is paid only after a year's delay, meaning that the incentive effect is probably very small. This supplement benefits employees above the poverty line rather than the poorest families. At the same time, eliminating it would decrease the living standard of those on the SMIC by 6%, which is not an option.

– *The rate of non-take-up of the RSA-activité is very high* (about 68%)[2]. Low-wage workers refuse to be subjected to ongoing monitoring just to receive a relatively small amount of benefit. Given some stigmatization of those receiving the RSA, these workers do not want to be confused with people receiving the base RSA (*RSA-socle)*.

– *The RSA provides a benefit of around 110 euros per child for families with 1 or 2 children* receiving the minimum wage, a benefit that fills a gap in our system, which was not very generous for families of the working poor. But this benefit is not paid to unemployed families. This 110 euro allocation should be paid in the form of a family supplement to all poor families with 1 or 2 children (families with 3 or more children already have a family income supplement and more generous benefits) regardless of the source of income.

– *The RSA is not paid to people under age 25*, even though this age group has particular difficulty finding jobs.

What is to be done?

As France has such a large number of social benefits and charges, it is possible to target the measure precisely depending on the objective. Several measures can be envisaged:

Increase family benefits

If the goal is to increase the purchasing power of poor families, the easiest way to do this is to significantly increase family and housing benefits. Instead, the government has decided to suspend their indexation in 2014 or 2015, inflicting a loss of purchasing power, which fortunately will be limited by low inflation. But the prevailing view today is that it is essential to encourage employment, and thus to increase net wages rather than benefits.

Lower income tax

As poor families do not pay income tax, lowering it will not affect them.

Make the CSG wealth tax progressive

As shown in Table 1, a minimum wage worker pays 114 euros in CSG-CRDS and receives 79 euros in PPE. Wouldn’t it be possible to offset the removal of the PPE by making the CSG progressive, which would exempt workers on the SMIC and increase the wages they receive each month? The Constitutional Council rightly considers that any progressive tax must be family based and take into account all the family income. A genuinely progressive CSG is thus virtually impossible to implement, as employers and financial institutions would need to know the marital status of their employees and customers and all of their income, making everyone repeat the work of the tax authorities. This would only make sense in the context of a CSG-income tax merger, which is not feasible in the short term.

Furthermore, only limited progressivity would be feasible. Each person would be entitled to an exemption of around 1,445 euros per month on the amount of income subject to the CSG-CRDS; a spouse without their own resources could transfer their exemption to their partner; dependent children would be eligible for a half exemption. In return, the PPE would be eliminated; pensioners and the unemployed could be subject to the same CSG as employees. But this exemption would have a huge cost, and in return the rate of the CSG would need to rise to 15% on income above the exemption. This possibility thus must be abandoned.

The merger of the PPE and RSA

The fusion of the PPE and RSA is the path proposed by the President of the Republic. But the devil is in the details, in how to fashion the merger.

In 2013, the report of MP Christopher Sirugue proposed a reform that would create an activity bonus (*Prime d' activité*) to replace the RSA-activité and the PPE (see the critical analysis of Guillaume Allègre, *Faut-il remplacer le RSA-activité et la PPE par une Prime d'activité? Réflexions autour du rapport Sirugue, 2013*). However, as the base RSA would continue to exist, families with very low wages would need to seek two benefits – the base RSA and the *Prime d'activité* – confronting them with a complicated system. The benefit schedule for *Prime d' activité* set out in the Sirugue report was arbitrary, with slopes and a peak at 0.7 SMIC that had no justification. The resulting system was more complicated and more arbitrary than the RSA, and did not represent any major improvement over the existing system. The proposed measure was costly for single-income families (some lost 10% of their income). The risk was that the *Prime d'activité* would suffer from the same lack of take-up as the PPE and that some families would lose the PPE without wanting to use the *Prime d'activité* [3].

A merger that would result in a family-based benefit paid by France's Family Allowance Fund (CAF) would run the risk of a high rate of non-take-up and would generate losers among dual-earner households with children. A merger that would result in an allowance paid on the pay slip would not take into account children and the spouse, and would hurt part-time workers, raising questions about consistency with the base RSA.

In short, the merger is tricky to implement (if not impossible).

Increase the SMIC[4]

If the goal is to increase the living standard of low-wage earners, the obvious measure is to raise the level of the SMIC. An increase of about 10% would make it possible to eliminate the PPE and provide minimum-wage workers an increase in income equivalent to that under the measure overruled by the Constitutional Court. Assistance aimed specifically at part-time workers would be abandoned, as with the PPE, but this specific assistance is too complicated to have any incentive effect at all. An increase in net earnings is undoubtedly better.

Note, however, that an increase in the minimum wage would not provide enough support for poor families with one or two children, especially the families of the unemployed. The families of the working poor (between the base RSA and 2 times the SMIC) need specific support, by introducing a family supplement of about 80 euros for one child and 160 euros for two children.

The *RSA-activité* should be maintained, since it ensures that any activity actually results in higher disposable income, but its role would be reduced and, thanks to the extension of the family income supplement, non-take-up would have less impact on families with children.

It is also necessary to create an employment integration allowance, in the amount of the RSA, for young people seeking work, without a right to unemployment benefit, a benefit subject to pension contributions.

Nevertheless, in the current situation, where lowering labor costs is a top priority for government policy, the cost of unskilled labor cannot be increased, leaving two possible approaches.

Either compensation for employers would take place through an increase in exemptions on charges on low-wage workers (which are to rise from 28% to 34.6%), which would not introduce an additional scheme. However, the exemptions on employer contributions would focus on contributory contributions, which could arouse the ire of the Constitutional Court.

Or the increase of the SMIC would take place through a PPE listed on the pay slip: it would be explicitly recognized as a supplement, which implies that the compulsory tax burden would increase, but also that the Constitutional Court could not oppose it, with the drawback that the supplement would fall with the level of the hourly wage, thus representing an additional administrative burden for business.

It seems obvious that there are no simple solutions.

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[1] The Constitutional Court wrote, "… a single social security system would continue under the provisions in question, to finance, for all of its stakeholders, the same benefits despite the absence of payment by nearly one-third of them of all the employee contributions conferring entitlement to the benefits paid by the system; that, therefore, the legislature has created a difference in treatment, which is not based on a difference in the situation of those insured by the same social security scheme, and which is unrelated to the purpose of employee social security contributions."

[2] According to P. Domingo and M. Pucci, 2012, "Le non-recours au revenu de solidarité active et ses motifs", Annex no. 1 of the *Report of the Comité national d'évaluation du Rsa.*

[3] The *Rapport sur la fiscalité des ménages* by François Auvigne and Dominique Lefebvre, 2014, also points out deficiencies in the project.

[4] This is already the strategy recommended by Allègre (2014).