Is it possible to experiment with a universal income?

By Guillaume Allègre, @g_allegre

In a blog entitled "Revenu universel, l'impossible expérimentation" [Universal income, the impossible experiment], I underlined the limits of current and future experiments with a universal income[1]: samples that are too small and unrepresentative; the limits intrinsic to a lottery (absence of balancing effects on the labor market; an absence of "peer effects"[2]). Clément Cayol responded to my piece on the website of the Mouvement Français pour un Revenu de Base [French Movement for a Basic Income] ("M Allègre : les expérimentations de revenu de base sont un chemin possible vers l'instauration [Mr Allègre: Experiments with a basic income are one possible path towards establishing it]. Cayol proposes experimenting with a universal income on "saturation sites" (for example, an employment catchment area). The idea would be to select certain employment catchment areas as a treatment group (e.g. Toulouse and Montbéliard) and to use areas with similar characteristics as control groups (Bordeaux and Besançon?). By comparing differences in behaviour between the two groups (in terms of employment, part-time work, wages, etc.), we could identify the impact of a universal income. An experiment like this has taken place in a Kenyan village.

The idea of experimenting on a saturation site may seem attractive and does meet some of my criticisms (we can measure balancing effects on the labor market and peer effects). But it does not respond to others: an experiment like this is by its very nature temporary (and people will not react in the same way to a temporary incentive as to a permanent incentive); the financing side of a universal income cannot be tested (and a universal income is expensive: it will have to be financed by, for instance, income tax, which will have an impact on financial incentives to return to work).

Experimenting on a saturation site has its own limits: it is necessary to find a control group with characteristics similar to those of the treatment group; migration has to be controlled (could I benefit from the universal income by moving from Montbéliard to Besançon?). And above all it poses legal and ethical issues [3]: can we give 500 euros per month to all the inhabitants of Toulouse and Montbéliard and have the French taxpayer finance this experiment[4]? The law allows local authorities to experiment, but only for the purpose of extending the scale of a trial, yet extending a universal income to the entire French territory is not on the cards.

[1] Also see Guillaume Allègre, 2010: « L'expérimentation du revenu de solidarité active entre objectifs scientifiques et politiques », [Experimenting with France's RSA in-work income benefit between scientific and policy objectives], *Revue de l'OFCE*, no.113.

[2] Here the peer effect refers to the fact that an individual will stop working more easily if their friends also stop working: my leisure time is complementary to that of my friends.

[3] See: https://www.senat.fr/rap/l02-408/l02-40810.html

[4] It is not easy to believe that experimentation creates losers among the treatment group, so funding is necessarily national.

France's RSA income support: 35% lack of take-up?

By Guillaume Allègre, @g_allegre

The lack of take-up of France's RSA income supplement benefit is often invoked as an argument for reforming the system for assisting people on low incomes (such as a Universal Income or establishment of a single social benefit that would merge the RSA, the in-work *Prime d'activité* benefit and Housing benefit). According to the CNAF, the lack of take-up of the base RSA benefit (*RSA-socle*) is 36% (CNAF, 2012). To arrive at this estimate, the CNAF relies on a quantitative survey conducted over the phone with 15,000 households selected from their tax returns. The RSA quantitative survey was specifically designed to replicate an eligibility test for the benefit. However, some households who are ineligible for the RSA claim they are benefitting from it. This category represented 524 households in the survey, i.e. 11% of the beneficiaries. This could result from a reporting error at the time of the survey, or from an approximation of the survey's eligibility test. In any case, the existence of this category shows that it is difficult to estimate the lack of take-up of a benefit using a survey, even a specific one. In addition, the Secours catholique association estimates the lack of take-up of the base RSA at 40% (out of all the households they encountered in 2016) [1].

There is another way to estimate the lack of take-up of the RSA. Recently, the INSEE and DREES have opened up access to the INES micro-simulation software. The INES can be used to simulate the socio-fiscal legislation by using the ERFS (Survey of Tax and Social Income). The ERFS is based on tax declarations; the survey – based on administrative data – is therefore very exhaustive (households are required to report their income every year). The ERFS, however, has limitations:

it concerns only so-called ordinary households. It excludes people who do not have a residence (the homeless) and people who live in institutions (army, retirement homes, etc. [2]). The survey field is metropolitan France. The tax returns are annual, but the resource base of the RSA are quarterly revenues, which implies, to simulate the RSA, rendering income "quarterly" on the basis of ad hoc assumptions.

According to the simulation done on the INES (2015 legislation), the number eligible for the base RSA in the fourth quarter of 2015 should be around 2,000,000 households, while according to the CNAF the actual number of beneficiaries of the base RSA (RSA-socle) in December 2015 was 1,720,000[3]. According to the ERFS survey (and microsimulations), the lack of take-up of the base RSA would be 14%[4].

So is the lack of take-up of the base RSA 14% or 36%? The truth undoubtedly lies in between, but at what level? The lack of take-up of housing benefits is estimated at 5% (Simon, 2000). But the two benefits (RSA, housing benefits) have similar target groups. The lack of take-up of the RSA is certainly higher than that for housing benefits (the target population is poorer, the administrative procedures are more extensive for the RSA). On the other hand, the difference between 5% (estimated lack of take-up for housing benefits) and 36% (lack of take-up estimated by CNAF for the RSA) is difficult to explain.

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[1] Source: 2017 report by Secours catholique : https://www.secours-catholique.org/sites/scinternet/files/publications/rs17_0.pdf

[2] But this is not important for the RSA as people over age 65 are eligible for another means-tested benefit, the ASPA.

[3] Base RSA + Base RSA and RSA activité in-work benefit, metropolitan France. CAF+MSA Sources : http://data.caf.fr/dataset/foyers-allocataires-percevant-le-revenu-de-solidarite-active-rsa-par-caf

http://statistiques.msa.fr/wp-content/uploads/2017/01/Situation-du-RSA-au-regime-agricole-a-fin-2015.pdf

[4] This result varies by a few percentages depending on the year, which shows that the model is – like any model – imprecise. The INES team (INSEE-DREES) considers that the model cannot be used to measure the lack of take-up, in particular because the ERFS does not capture very low incomes well (the estimated lack of take-up using the INES would thus underestimate real non-take-up). Historically, the ERFS is not considered very good for estimating the eligibility for the base RSA. It is true that as RSA beneficiaries are by construction not taxable, they do not risk a penalty in case of misrepresentation. This problem has been solved (partially) by using pre-filled declarations.

Trends in labour force participation rates in Europe during the Great Recession:

The role of demographics and job polarization

By Guillaume Allègre and Gregory Verdugo

In Europe as in the United States, employment fell considerably during the Great Recession. Moreover, over the last few decades, the labour markets in both regions have been reshaped by the forces of automation and globalization. However, the response of labour force participation to these changes has varied from country to country. One of the most significant developments in the US labour market over the past decade has been the decline in labour force participation. Between 2004 and 2013, the labour force participation rate for the group aged 25 to 54 fell by 2.6 percentage points (from 83.8% to 81.1%), a decline that has persisted well beyond the end of the Great Recession. In the EU-15, on the other hand, the participation rate for this age group increased by 2 percentage points during the same period (from 83.7% to 85.6%), despite low growth and the persistence of high levels of unemployment.

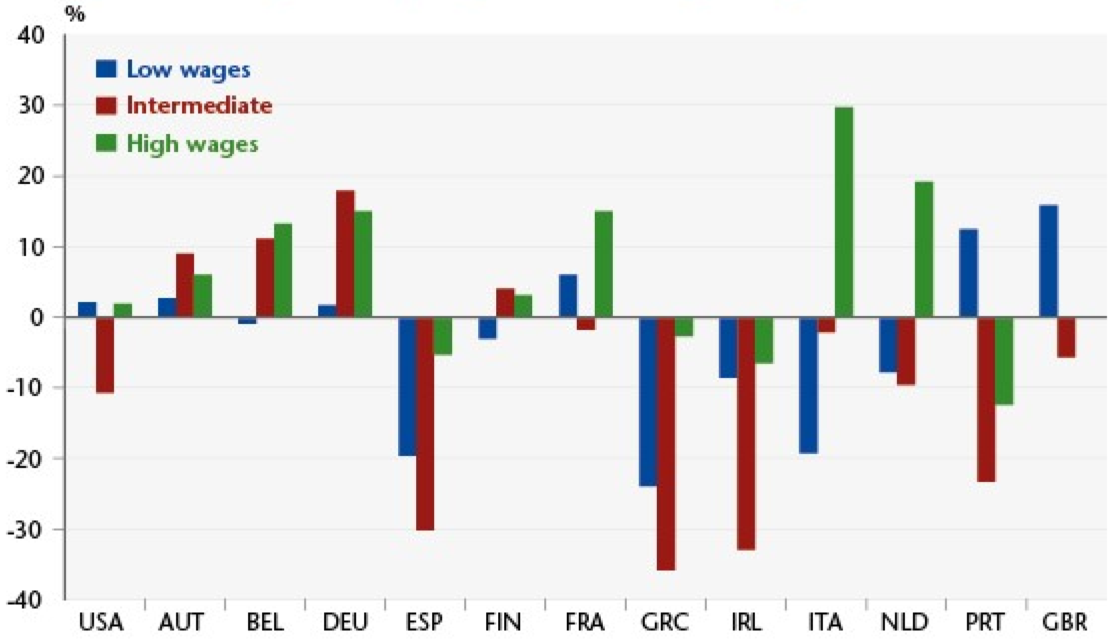
What explains these differences on the two sides of the Atlantic? To answer this question, we examine here the determinants of the evolution of labour force participation over the last two decades in twelve European countries and compare this with the United States.

Consistent with previous work on the United States, we found that recent demographic shifts account for a substantial share of cross-country differences. The share of retired baby boomers increased more rapidly in the United States and triggered a sharper decline in participation rates there than in Europe. Over the past decade, the rate of increase in the number of higher education graduates was twice as high in Europe as in the United States, especially in southern Europe and in particular for women. Women with higher levels of education are more likely to join the workforce, and they have contributed dramatically to the rise in labour force participation in Europe.

However, these changes do not explain everything. For the population with a diploma below the level of the high school baccalaureate, men’s labour force participation rates have fallen in all countries. For women, they have increased rapidly, especially in the countries hit hardest by unemployment. In Spain, Greece and Italy, the participation rates for women with a diploma below the baccalaureate level rose by 12, 5.5 and 2 points, respectively, between 2007 and 2013, while these economies were in the midst of a deep recession.

To explain these facts, we investigated the role of changes in patterns of labour demand in recent decades and in particular during the Great Recession. We show that, as in the United States, job polarization (which denotes the reallocation of employment towards the lowest and highest paying occupations at the expense of intermediate professions) accelerated in Europe during the Great Recession (Figure 1). Due to the greater destruction of jobs in intermediate occupations, the recent polarization has been much more intense in Europe.

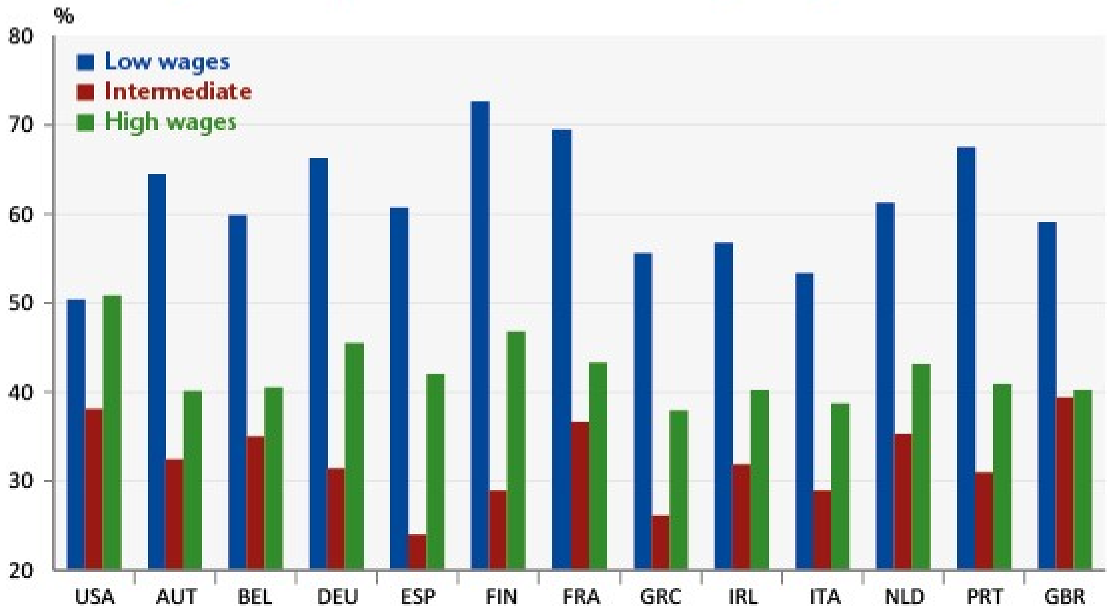
Figure 1. Changes in employment according to wage level, 2007-2013



Source : EU-LFS, CPS (US).

Another important difference with the United States is that occupational segregation between men and women is more pronounced in Europe. The intermediate jobs that are rapidly disappearing are much more likely to employ male workers in Europe, whereas the expansion of low-skilled occupations is disproportionately benefitting women (Figure 2). As a result, in Europe, more than in the United States, job polarization and the destruction of intermediate jobs has led to a decline in labour market opportunities for men that is more dramatic than the decline for women. We find that these asymmetric demand shocks between the genders accounted for most of the increase in labour force participation rates for women with the lowest educational levels during the Great Recession.

Figure 2. Proportion of women according to wage level, 2007



Source : EU-LFS, CPS (US).

For further information: [Gregory Verdugo, Guillaume Allègre, "Labour Force Participation and Job Polarization: Evidence from Europe during the Great Recession", *Sciences Po OFCE Working Paper*, no. 16, 2017-05-10]

Inequality in Europe

By Guillaume Allègre

In the preamble to the Treaty establishing the European Economic Community, the Heads of State and Government declare that they are "[r]esolved to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe". Article 117 adds that "Member States agree upon the need to promote improved working conditions and an improved standard of living for workers, so as to make possible their harmonisation while the improvement is being maintained”. Sixty years after the Treaty of Rome, what is the state of economic and social inequality in Europe? How did this change during the crisis?

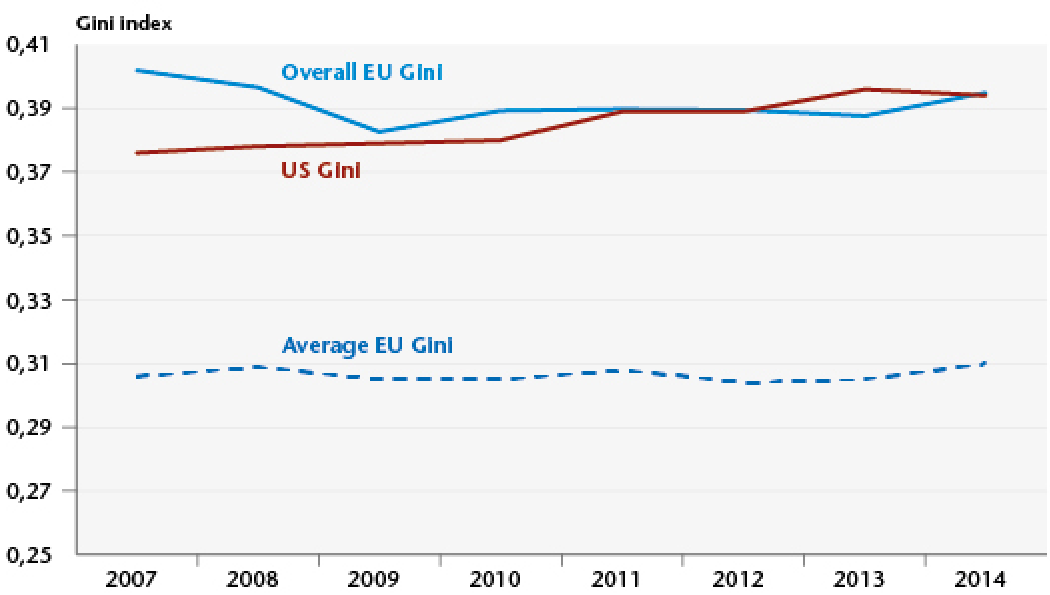
Every year Eurostat measures inequality in the different EU Member States. The Great Recession has led to widening inequality within the countries of Europe. The Gini index of equivalent disposable income rose from 30.6 in 2007 to 31 in 2015 on average in the 28 EU Member States. However, part of the increase is due to large breaks in the series in France and Spain in 2008. Inequality is thus clearly lower in Europe than in the United States: for 2014, the Gini index of disposable income is estimated at 39.4 in the United States, while in the European Union it ranges from 25 (Czech Republic) to 37 (Bulgaria). The United States is therefore more unequal than any country in the EU and much more unequal than most countries.

However, the presentation of an average Gini index in the European Union may be misleading. Indeed, it takes into account only inequalities within the European countries and not inequalities between countries. However, there are significant inequalities between European countries. In the national accounts, household income based on EU consumer purchasing power in 2013 ranged from 37% of the European average (Bulgaria) to 138% (Germany), i.e. a ratio of 1 to 4.

At the European level, Eurostat calculates an average of national inequalities, as well as the international inequalities. On the other hand, Eurostat does not calculate inequalities between European citizens: what would inequality be if national barriers were eliminated and European inequality was calculated at the European level in the same way that one calculates inequality within each nation? It might seem legitimate to calculate inequality between European citizens like this insofar as the European Union constitutes a political community with its own institutions (Parliament, executive, etc.).

The EU-SILC database, which provides the equivalent disposable income (in purchasing power parity) of a representative sample of households in each European country makes such a calculation possible. The result is that the overall level of inequality in 2014 in the European Union is the same as that in the United States (graph). What conclusion should be drawn? If we look at the glass as half-empty, we could emphasize that European inequality is at the same level as in the world's most unequal developed country. If we look at the glass as half-full, we could emphasize that the European Union does not constitute a nation with social and fiscal transfers, that it has recently expanded to include much poorer countries and that, nevertheless, inequality is no greater than in the United States.

Figure: Inequality in disposable income in Europe and the United States, 2007-2014



Source: EU-SILC, Eurostat, OECD.

Overall inequality in the European Union can be seen to decline slightly between 2007 and 2014. The Theil index, another indicator of inequality, can be used to break down the change in European inequalities between what comes from changes in inequality between countries and what comes from changes within countries. Between 2007 and 2014, the Theil index fell from 0.228 to 0.214 (-0.014). Inequality within countries was generally stable (+0.001) whereas inequality between countries declined (-0.015). These developments are similar to what has been observed by Lakner and Milanovic at the global level ("Global Income Distribution: From the Fall of the Wall to the Great Recession"): rising national inequalities and declining inequalities between countries (in particular due to China and India catching up).

So far, the main instrument used by the European Union to reduce inequality in Europe has been the opening of borders. But while opening up borders can help the EU's less affluent countries (notably Bulgaria and Poland) to catch up, it can also have an impact on inequality within countries. However, Europe does not as yet have a social policy. This sphere falls above all within the competence of the States. But opening up the borders is exacerbating social and fiscal competition. For instance, the higher marginal rates of personal income tax (IRPP) and corporate income tax (IS) have dropped significantly since the mid-1990s, while the VAT rate has increased (A.Bénassy-Quéré et al., "Reinforcing tax harmonization in Europe" [in French]).

In France, the government has committed to lower the corporate income tax rate from 33.3% to 28% by 2020. This follows a trend towards lowering taxation on business but raising it on households. The impact on inequality has so far been counterbalanced by the fact that the rise in taxation has focused on the wealthiest households. However, the French Presidential candidates Fillon and Macron advocate a substantial reduction in the taxation of capital income (withholding tax and the reduction of the ISF wealth tax on real estate for Macron; elimination of the wealth tax for Fillon) in the name of competitiveness. The dangers of fiscal and social competition are thus beginning to make themselves felt.

What is a Left economics? (Or, why economists disagree)

By Guillaume Allègre

What is a Left economics? In an opinion column published in the newspaper *Libération* on 9 June 2015 ("la concurrence peut servir la gauche" ["Competition can serve the Left"], Jean Tirole and Etienne Wasmer reply that to be progressive means "sharing a set of values and distributional objectives". But, as Brigitte Dormont, Marc Fleurbaey and Alain Trannoy meaningfully remark ("Non, le marché n'est pas l'ennemi de la gauche" ["No, the market is not the enemy of the Left"]) in *Libération* on 11 June 2015, reducing progressive politics to the redistribution of income leaves something out. A Left economic policy must also be concerned about social cohesion, participation in social life, the equalization of power, and we could also add the goals of defence of the environment and, more generally, leaving a fair legacy to future generations. Paradoxically, if the Left must not *a priori* reject market solutions (including the establishment of a carbon market), the de-commodification of human relations is also part of core left-wing values. The authors of these two columns insist that it is the ends that count, not the means: the market and competition can serve progressive objectives. This is not a new idea. The merchants of the 18th century had already understood that holding a private monopoly could allow them to amass great fortunes. Tirole and Wasmer draw on more recent debates, including on the issues of taxis, housing, the minimum wage, the regulation of the labour market, and university tuition fees. Their conclusion, a bit self-serving, is, first, that more independent evaluations are needed, and second, that our elected representatives and senior officials need to be trained in economics.

Does the Left define itself by values? To accept this proposal, we would need to be able to distinguish clearly between facts and values. Economics would be concerned with facts broadly speaking and would delegate the issue of values to politics. Disagreements about facts would be exaggerated. Political differences between the Left and the Right would be only a matter of where to put the cursor on values or preferences, which would be independent of the facts. According to this viewpoint, the instruments need to be designed by trained technicians, while the politicians just select the parameters. The Left and the Right would then be defined by parameters, with progressives more concerned about reducing inequality and conservatives more concerned about the size of the pie. In this scheme, disagreements among economists would be focused on values. Paradoxically, the examples used by Tirole and Wasmer are the subject of important controversies that involve more than just values: economists are very divided over the liberalization of the taxi business, the level of the minimum wage, and the possible introduction of university enrolment fees. There are important disagreements, even among progressive economists.

Why the disagreement? There are fewer and fewer disputes over the facts, strictly speaking. The system of statistics has made considerable progress. However, pockets of resistance remain. For example, on taxis, it is difficult to know who holds the licenses and the prices at which they were acquired, even though these are very important issues. If the vast majority of licenses are held by people who received them for free, then increasing the supply via private cars with drivers

(“VTC”) poses no real problem of fairness. On the other hand, if most licenses were acquired on the secondary market at exorbitant prices (up to 240,000 euros in Paris), then the question of compensation arises. Buying 17,000 licenses at 200,000 euros apiece would cost the State 3.5 billion euros just for the licenses in Paris. This problem cannot be dismissed with a simple, “of course these are often expensive” (see “Taxis vs chauffeur-driven private cars: victory of the anti-innovation lobby?”).

While the facts are in little dispute, the disagreement often comes down to what matters. Should we put the emphasis on a lack of equal outcomes or a lack of equal opportunity? Should we count real estate gains when examining inequalities in capital? Should we be concerned about relative poverty or absolute poverty? Should we worry about inequality between households or between individuals? All this reflects that disagreements are not just a matter of where you put the cursor, but the prioritization of goals that are sometimes complementary and sometimes contradictory. The very way the system of statistics is constructed is not to produce pure facts but instead results from a logic that dictates that what you measure is the representation of a norm. But this norm is in fact reductive (it excludes others), so much so that the measure has meaning only from when we agree on the norm’s value: the measure is never neutral vis-à-vis values.

This vision of an economic science that can distinguish facts from values is too reductive – it is often difficult to distinguish between the two. For example, depending on whether we measure the impact of tax policy on individuals or on households, the policy may be characterised as redistributive or as anti-redistributive. Often there is no easy solution to this problem, because it is difficult for the statistician to know how incomes are actually being shared within households. The current solution for measuring living standards and poverty is to assume that resources are fully shared within the household, regardless of the source of the income (labour income from one or another member, social welfare, taxation, etc.). Yet numerous studies show that for many households this assumption is false: empirical studies show that spending depends on who provides the resources, with women spending a larger portion of their income on the children.

Does the free character of the higher education system make it anti-redistributive? To public opinion this is obvious: the students come from wealthier families and will receive bigger salaries than those who don't study, while everyone pays taxes, including VAT and the CSG wealth tax. This seems to be true if we think about it at time t. On the other hand, if you consider the life cycle the issue becomes more complicated: many students do not get high-paying jobs. School teachers, artists and journalists are often highly educated but make lower-than-average wages. For them, paying income tax is more advantageous than paying enrolment fees. Conversely, many people who have little education receive large salaries. Over the life cycle, having higher education paid for through income tax is redistributive (see "Dépenses publiques d'éducation et inégalités. Une perspective de cycle de vie" ["Public expenditure on education and inequality. A life cycle perspective").

Should we measure income at the household level or individual level? Over the life cycle or at a given point in time? These examples show that what is measured by economists usually depends on a norm. This does not however mean that the measure is completely arbitrary and ideological. In fact, social science measurement is neither entirely normative nor merely descriptive: facts and norms are intertwined.

Economists do not reason simply with raw facts. They develop and estimate behavioural models. They do this to answer the question, "What if …?" What if we increased the minimum wage, what would be the impact on employment and wages at the bottom of the scale? You could classify the answer to such questions as facts. But unlike facts in the strict sense, they are not directly observable. They are generally estimated in models. However, the disagreements over these “facts” (the parameters estimated in the models) are very important. Worse, economists tend to greatly underestimate the lack of a consensus.

The parameters estimated by economists have meaning only within a given model. However, the disagreements between economists are not just about the parameters estimated, but the models themselves, that is to say, about the selection of simplifying assumptions. Just as a map is a simplification of the territory it represents, economic models are a simplification of the behavioural rules that individuals follow. Choosing what to simplify is not without normative implications. The best map depends on the degree of accuracy but also on the type of trip you want to make: once again, facts and values are intertwined. Differences between policies are not simply parametric, but arise from different representations of society.

Thus, contrary to the conclusion of Tirole and Wasmer, economic evaluations cannot be simply left to objective experts. In this respect, economists resemble other social scientists more than they do physicians: in fact, agreement on what constitutes good health is easier than on what constitutes a good society. Economic evaluations must therefore be pluralist, in order to reflect as much as possible the diversity of views in a society. What separates us from implementing the reforms needed is not a pedagogical deficit on the part of the experts and politicians. Nor is it simply a problem of educating the elite. There is obviously no agreement among the experts on the reforms needed. However, the economic reforms are often too technical to submit to a referendum and too normative to be left to the “experts”. To resolve this problem, consensus conferences and citizens’ juries seem relevant when the subject is normative enough to care about the representativeness of the participants and technical enough that we need to seek informed opinions. In economics, these kinds of conferences could deal with the issue of the individualisation of income taxes or carbon offset taxes. In short, economists are more useful when they make the trade-offs explicit than when they seek the facade of a consensus.

Does housing wealth contribute to wealth inequality?

par Guillaume Allègre and Xavier Timbeau

In a response to *Capital in the twenty-first century*, Odran Bonnet, Pierre-Henri Bono, Guillaume Chapelle and Etienne Wasmer (2014) attempt to show that the conclusion of the book in terms of the explosion of wealth inequality is not plausible. They point out what they see as an inconsistency in the thesis: according to the authors, the capital accumulation model used by Piketty is a model of accumulation of productive capital, which is inconsistent with the choice to use housing market prices to measure housing capital. To correctly measure housing capital, one should use rent and not housing prices. By doing this, the authors conclude that capital/income ratios have remained stable in France, Britain, the United States and Canada, which contradicts the thesis of Piketty.

In *OFCE briefing note n°9* ("Does housing wealth contribute to wealth inequality? A tale of two New Yorks"), we show that the authors minimize the contribution of housing to inequality. In particular, we do not believe that trends in housing prices have "second order redistributive effects". As is often the case, the disagreement is in part due to a lack of consensus on what really matters when discussing inequality: wealth inequality or income inequality or consumption inequality? If we follow the authors, only the consumption from wealth income should matter. We emphasize a theoretical inconsistency in the authors' main argument. In fact, they value housing capital as the sum of the present values of rents, under the assumption that what matters is the housing service, then they use a dynastic model in which what matters is the transmission of wealth and not the discounted value of the housing service.

In short, our conclusion is that with regard to inequality, wealth matters, housing wealth is in fact wealth, and should be measured in a manner consistent with the measure of other types of wealth. By doing so, one finds that housing wealth does contribute to the growth of wealth and consequently, Piketty's thesis is not refuted.

For more on this, see: Allègre, G. and X. Timbeau, 2015: "Does housing wealth contribute to wealth inequality? A tale of two New Yorks", *OFCE briefing note, n°9,* January.

On debate in economics

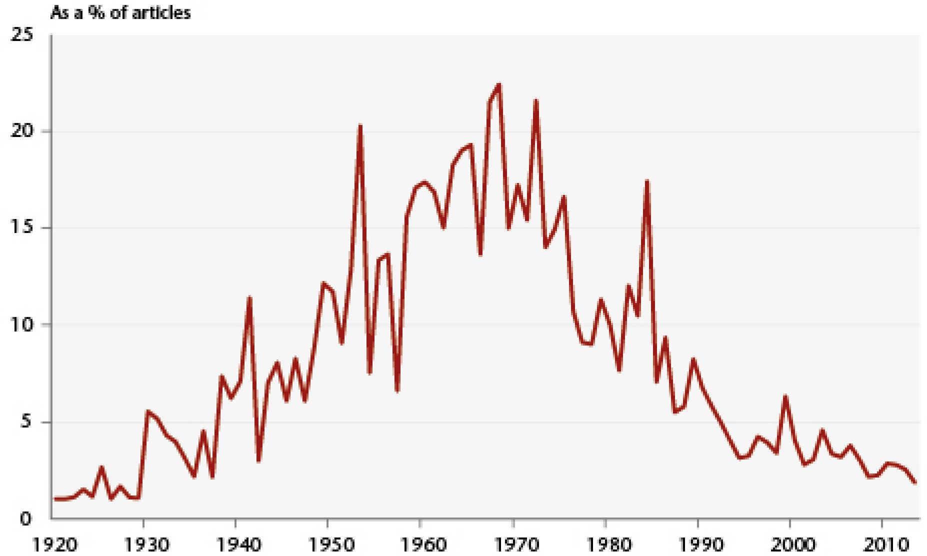
By Guillaume Allègre, @g_allegre

To Bernard Maris, who nurtured debate on economics with his talent and his tolerance

You have reasons for not liking economists. This is what Marion Fourcade, Etienne Ollion and Yann Algan explain in an excellent study, *The Superiority of Economists*, with the main conclusions summarized in a blog post: [”You don’t like economists? You’re not alone!”]() Although the study mainly concerns the United States, it is also applicable to Europe. It presents an unflattering portrait of economists, and in particular elite economists: they have a strong sense of superiority, are isolated from other social sciences, and are comforted by their dominant position of economics imperialism. The study also shows that the discipline is very hierarchical (some economics departments are “prestigious” and others less so) and that internal controls are very strong (in particular because the vision of what constitutes quality research is much more homogeneous than in other disciplines). This has an impact on publications and on the hiring of economists: only those who have sought and/or been able to accommodate this “elitist” model will publish in the infamous top field journals, which will lead to them being recruited by the “prestigious” departments.

This would not be all that serious if the job of economists were not to make public policy recommendations. Furthermore, the “superiority” of economics is based largely on the fact that the discipline has developed tools to make quantitative evaluations of public policy. Economics is thus, in part, a science of government, while the other social sciences have adopted more critical postures towards established categories, structures and powers. The consequence of all this – the discipline’s hierarchies, the internal controls and the lack of appetite for critical positions – is that debate is now virtually banned in academic economics (another reason not to like economists?). The figure below shows that the number of articles written in response to another published article has dropped dramatically since the 1970s: while these then represented 20% of articles published in the five major academic journals, today they represent only 2%. Debate and criticism are virtually absent from the major journals, as are heterodox paradigms. These are relegated to the supposedly less prestigious journals, which does not lead to being hired into the top departments. However, there is also a strong sense in the discipline that debate and criticism must be engaged at the academic level, a level where criticisms are subject to peer review (with effects on selection, reputation, etc.). You have to be crazy and ask permission to publish a criticism, but no madmen are applying for permission, so no criticism is published. The Anglo-Saxons use the term Catch-22[1] to describe this type of situation.

Figure: Debate in the five main economic journals, 1920-2013



Note: The series shows the percentage of articles in the five main economics journals containing the words "comment", "reply" and "rejoinder". The five journals (Anglo-American) are: *Economic Review, Econometrica, Journal of Economic Literature, Journal of Political Economy, and Quarterly Journal of Economics.*

Source: Joe Francis, "The Rise and Fall of Debate in Economics", http://www.joefrancis.info/economics-debate/

If there is no longer any debate in academic journals, is it taking place elsewhere? In France, Thomas Piketty's *Capital in the Twenty-First Century* seems to be the tree that is hiding the forest. The book's success globally has pushed a number of people to take a position, but can we really speak of a debate in France and Europe? [2] In the face of Piketty's success, Michel Husson ("Le capital au XXIe siècle. Richesse des données, pauvreté de la théorie" [Capital in the 21st Century – Wealth of data, poverty of theory]) and Robert Boyer ("Le capital au XXIe siècle. Note de lecture" [Capital in the 21st Century – Reading notes"]) have made some interesting criticisms based on, respectively, a Marxist and a regulationist approach. However, despite the quality of these critiques, it is apparent that this is not the focus of today’s debate: if the global or European tax on capital proposed by Piketty does not come into being, it will not be because Marxist and / or regulationist arguments have carried the day. It is rather arguments based on the tax incentives for growth and innovation that are more likely to convince the authorities. This line of argument is supported by Philippe Aghion, among others. With regard to the taxation of savings and wealth, and despite the similar partisanship of these two French economists (they both signed calls for Ségolène Royal in 2007 and then François Hollande in 2012), Aghion and Piketty and their co-authors do not agree on anything (which André Masson demonstrates in a forthcoming issue of the *Revue de l’OFCE*). Piketty proposes a highly progressive wealth tax and a new tax merging the CSG wealth tax and the income tax (IR), which would tax investment income, including capital gains, as well as labour income. Aghion proposes the exact opposite: he would rely more on VAT, avoid merging the IR and CSG taxes (a “bogus good idea”), and set up a “dual capital/labour system” with a “progressive tax on job income and a flat tax on income from productive capital”. It’s a good subject for debate, which will nevertheless not take place in the scientific journals, or elsewhere.

In fact, Piketty and Aghion are addressing the issue of the taxation of wealth from opposite angles: Aghion approaches it in terms of growth, while Piketty approaches it in terms of inequality. Why their models differ is understandable: they are not trying to explain the same phenomenon. Piketty’s concern is to explain changes in inequality, whereas Aghion is trying to explain changes in growth. Although they deal essentially with the same phenomena, the two approaches do not so much oppose each other as go off at right angles. Yet from the perspective of policy makers, a confrontation between the two is essential: otherwise how is it possible to choose between the different recommendations of Piketty and Aghion?

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Part of this post was published on the blog of *Libération*, L'économe :http://leconome.blogs.liberation.fr/leconome/2014/12/de-la-sup%C3%A9riorit%C3%A9-des-%C3%A9conomistes-dans-le-d%C3%A9bat-public.html

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[1] The expression is taken from a novel by Joseph Heller with the same name. The novel takes place in wartime, and to be exempt from combat missions you have to be declared crazy. To be declared crazy, you have to apply. But according to Article 22 of the regulations, the very act of applying proves that the applicant isn't crazy.

[2] In the United States, on the other hand, there was debate about the book. For example, Greg Mankiw (pdf), Auerbach and Hassett (pdf) and David Weil (pdf) all made recent critiques.

Doesn't real estate capital really contribute to inequality?

By Guillaume Allègre and Xavier Timbeau

In a response to *Capital in the twenty-first century*, Odran Bonnet, Pierre-Henri Bono, Guillaume Chapelle and Etienne Wasmer (2014) attempt to show that the book's conclusions regarding an explosion in wealth inequality are "not plausible". The authors point out an inconsistency in Thomas Piketty's thesis: the model of capital accumulation is implicitly a model of the accumulation of productive capital, which is inconsistent with the decision to include real estate capital at its market value in measuring capital. If valued correctly, the ratio of capital to income would have remained stable in France, Britain, the United States and Canada, which contradicts the thesis of Piketty's work.

In *OFCE Briefing Note,* no.9/2015 ("Does housing wealth contribute to wealth inequality? A tale of two New York"), we respond that the authors minimize the contribution of housing to inequality. In particular, we do not believe that trends in real estate prices have "second order effects (actual distributional effects) that are attenuated". As is often the case, the disagreement is due in part to a lack of consensus about what kind of inequality actually matters: inequality in wealth? Income? Consumption? The potentially divergent dynamics of these inequalities? The disagreement is also due to the type of model used. The authors use a dynastic model in which property is passed from parents to children and grandchildren. In this model, changes in real estate prices do not have any real effect. This model is not relevant to accounting for inequalities generated by property in a society where people are mobile and have different life projects from their parents.

The housing bubble could fuel the development of inequality. Home ownership in the world's metropoles is more and more becoming a closed club for the wealthy, which partitions young people between those with social, educational or financial capital, who can acquire property, and those who can only rent or move to less prosperous areas, with the consequence of further reducing their access to different types of capital. Would it not be better to build enough for everyone to find housing at a price that is in line with the amenities offered?

Isn't it apparent that this latter situation is more egalitarian than the former?

For more on this, see: Allègre, G. and X. Timbeau, 2014 : "*Welcome to Nouillorc* : Le capital-logement ne contribue-t-il vraiment pas aux inégalités?", *Note de l'OFCE,* no. 42 of 25 June 2014.

The critique of capital in the 21st century: in search of the macroeconomic foundations of inequalities

By Guillaume Allègre and Xavier Timbeau

In his book *Capital in the 21st Century*, Thomas Piketty offers a critical analysis of the dynamics of capital accumulation. The book is at the level of its very high ambitions: it addresses a crucial issue, it draws on a very substantial statistical effort that sheds new light on the dynamics of distribution, and it advances public policy proposals. Thomas Piketty combines the approach of the great classical authors (Smith, Ricardo, Marx, Walras) with impressive empirical work that was inaccessible to his illustrious predecessors.

Thomas Piketty shows the mechanisms pushing towards a convergence or divergence in the distribution of wealth and highlights how the strength of divergence is generally underestimated: if the return on capital (r) is higher than economic growth (g), which historically has almost always been the case, then it is almost inevitable that inherited wealth will dominate built-up wealth, and the concentration of capital will reach extremely high levels: "The entrepreneur inevitably tends to become a rentier , more and more dominant over those who own nothing but their labour. Once constituted, capital reproduces itself faster than output increases. The past devours the future."

The book thus seeks the basis for inequality in macroeconomics (r> g), whereas the usual suspects are found at the microeconomic level. In [*OFCE Working document no.* 2014-06 [in French]], we argue that this macro-foundation for inequality is not convincing and that the same facts can be interpreted using a different causality, in which inequality arises from the operation of (imperfect) markets, scarcity rents and the establishment of property rights. It is not r>g that turns entrepreneurs into rentiers, but the establishment of mechanisms that allow the extraction of a perpetual rent that explains the historical constancy of r>g.

This different interpretation of the same phenomena has consequences for public policy. The *ex post* taxation of capital, where necessary, can only be a second-level choice: first the constraints of scarcity have to be removed and the definition of property rights and the rights of owners and non-owners must be defined. Are landlords going to be free to charge any rent they like? Can they limit other construction around their property? How much protection is labour law going to give workers? To what extent can they influence managerial decisions within the company? In our opinion it is the answers to these questions that determine the relationship between economic growth and the return on capital, as well as capital's weight in the economy. The point is to prevent owners of capital from exploiting a favourable balance of power. In this respect, while its shape has changed, capital in the twenty-first century is much like it was in the late nineteenth century. Dealing with it will require more than a tax on capital.

For more information, see: "La critique du capital au XXI^{e} siècle : à la recherche des fondements macroéconomiques des inégalités", ***Document de travail de l'OFCE, n°2014-06***.

How many euros per job created?

By Guillaume Allègre, @g_allegre

The Responsibility Pact, the CICE competitiveness tax break, reductions on social security charges … is it possible to reduce the evaluation of such measures to the cost in euros of each job created? While such an assessment is obviously important, the final figure is often subject to misinterpretation or misuse in the public debate, sometimes in perfectly good faith. For some commentators, a very high cost per job created, generally higher than the average real cost of a public (or private) job, represents a waste of public money that would be better used elsewhere, for nurseries, education or the national police.

This kind of logic is based on a misinterpretation of the billions involved. To understand this, let's do the following thought experiment: take two tax measures, *A* and *B*, which are intended to reduce the cost of labour in order to generate jobs. Measure *A* creates 200,000 jobs and costs the State and government *ex post* (that is to say, after taking into account the jobs created and interaction with the social security and tax systems) 20 billion and 1 euros. The cost per job created is thus 100,000 euros, which seems excessive. Measure *B* creates 180,000 jobs and has an *ex post* cost of 20 billion euros, 111,111 euros per job, which is even worse. At first glance, there's no point in implementing either Measure *A* or *B*: the cost per job created is far too great. Now, suppose it is also possible to enact Measure –*A* or –*B* which, conversely to *A* and *B*, push up the cost of labour (through higher payroll taxes) with symmetrical effects on employment. Suppose also that the impact on employment and the cost are additive when two measures are implemented at the same time. It now seems clear that we should implement [*A*–*B*][1]: reducing the cost of labour by *A* and increasing it by –*B* would create 20,000 jobs for a cost of 1 euro, or 0.00005 euros per job created! The ratio of the cost of a job created between Measure *A* and Measure [*A*–*B*] is 2 billion to 1 (= 100,000/0.00005)! Someone not paying attention might then say: Measure *A* must certainly not be implemented.

	Number of jobs created	Ex post cost of the measure	Cost per job created
A	200 000	20 000 000 001	100 000
B	180 000	20 000 000 000	111 111
[A-B]	20 000	1	0,00005

Since Ricardo, economists have known that it is often the relative advantages that count and not the absolute advantages: alone, *A* is not of much interest, but combined with –*B* it is very powerful, just as in poker a 2 of Hearts in a hand does not have the same value when it is with Jacks as when it is with the 2s of Spades, Clubs and Diamonds. Economic policy measures cannot be evaluated in isolation: they must be evaluated in their interaction with all the instruments that have already been implemented or are simply there.

In addition to the failure to take into account macroeconomic dynamics and the financing, another limitation of reasoning in terms of cost per job created is that it does not always consider the questions: who pays the bill, and who gets what? Expenditures by the State (for childcare, education or the national police) are not equivalent to tax expenditures: if they are funded, the former reduce the disposable income of households, while the latter do not (they are a transfer between households, between businesses or between households and businesses). As a consequence, it is misleading to compare the two types of expenditure only in terms of jobs created. In effect, the jobs created are simply an indirect consequence of a tax expenditure (the direct effect is the transfer from the State to households and businesses); if the measure is funded, as in [*A*–*B*], the jobs created are a second-order effect related to the different behavioural responses to *A* and –*B*. In contrast, a structural increase in government spending (and therefore in the tax burden) has the first-order effect of increasing the consumption of public goods and reducing the consumption of private goods. If you reason only in terms of jobs, there is a risk of ending up with full employment but in a completely socialized economy. To evaluate this type of transfer, parameters other than job creation also need to be considered. In particular it is necessary to take into account well-being (what is the utility of nurseries or spending on education and national police versus private spending?) and incentive effects (what is the effect of higher social contributions on economic incentives to meet consumer needs?). It is also necessary to think in terms of the tax burden. [*A*–*B*] can create jobs only by organizing transfers within households and / or businesses. The relevant questions are therefore: who are the *ex post* winners and losers (taking into account the jobs created and changes in prices and wages)? Do these transfers reduce or increase inequality? Do they violate horizontal equity (equal taxation on equal abilities to pay)? Are they likely to affect long-term growth (via the structure of employment, capital-labour substitution, etc.)?