

# Climate justice and the social-ecological transition

By [Éloi Laurent](#)

There is something deeply reassuring about seeing the growing scale of climate markets in numerous countries around the globe. A section of the youth are becoming aware of the injustice they will suffer as a result of choices over which they do not (yet) have a say. But the recognition of this *inter*-generational inequality is running up against the wall of *intra*-generational inequality: it will not be possible to implement a real ecological transition without dealing with the social question here and now, and in particular the imperative to reduce inequality. In other words, the ecological transition will be social-ecological – or it will not be. This is the case in France, where the national ecological strategy, currently 90% ineffective, needs to be thoroughly overhauled, as proposed in the new [OFCE Policy Brief \(no. 52, 21 February 2019\)](#).

This is also true in the United States, where a new generation of red-green politicians is taking part in one of the most decisive political struggles in the country's history against the ecological obscurantism of a President who is a natural disaster in his own right. In a [concise text](#), which is remarkable for its precision, analytical clarity and political lucidity, the Democrat Alexandria Ocasio-Cortez has just proposed a "Green New Deal" to her fellow citizens.

The title may seem ill-chosen: the "New Deal" carried out by Franklin Delano Roosevelt from 1933 was aimed at reviving an economy devastated by the Great Depression. But isn't the American economy flourishing today? If we rely on the economic indicators of the twentieth century (growth rate, finance, profit), there's no doubt. But if we go beyond appearances, we

can discern the recession in well-being that has been undermining the country for thirty years and which will only get worse with the ecological crisis (life expectancy is now structurally declining in the United States). Hence the first lever of the ecological transition: to break with growth and count on what really matters to improve people's well-being today and tomorrow.

The second lever: coordinating the approach to social realities and ecological challenges. The New Green Deal identifies as the root cause of America's malaise "systemic inequalities", both social and ecological. Accordingly, it intends to implement a "fair and equitable transition" that will benefit in priority "frontline and vulnerable communities", which one could call "ecological sentinels" (children, elderly people, the energy insecure). These are people who prefigure our common future if we allow the ecological crisis for which we bear responsibility to deteriorate further. It is this coordination between the social and ecological that lies at the heart of the proposal by several thousand economists to introduce "[carbon dividends](#)" (an idea [originally proposed by James Boyce](#), one of the world's leading specialists in the political economy of the environment).

Which brings us to the third lever: to gain citizens' interest instead of terrorizing them. In this respect, the [detailed report](#) published by the Data for Progress think tank deploys an extremely effective argumentative sequence: the new ecological deal is necessary to preserve humanity's well-being; it will create jobs, it is desired by the community of citizens, and it will reduce social inequalities; and the country has the financial means to implement it. It's concrete, coherent, convincing.

In 1933, Europe and France were half a century ahead of the United States in terms of the "new deal". It was in Europe and France that the institutions of social justice were invented,

developed and defended. It is in the United States that the social-ecological transition is being invented today. We should not wait too long to get hold of it.

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# The dilemmas of immaterial capitalism

By [Sarah Guillou](#)

**A review of: Jonathan Haskel and Stian Westlake, *Capitalism Without Capital. The Rise of the Intangible Economy*, Princeton University Press, 2017, 288 pp.**

This book is at the crossroads of the debate about the nature of current and future growth. The increasing role of intangible assets is indeed at the heart of questions about productivity gains, the jobs of tomorrow, rising inequality, corporate taxation and the source of future incomes.

This is not simply the umpteenth book on the new economy or on future technological breakthroughs, but more fundamentally a book on the rupture being made by modes of production that are less and less based on fixed, or material, capital and increasingly on intangible assets. The digressions on an immaterial society are not new; rather, the value of the book is that it gives this real economic content and synthesizes all the research showing the economic upheavals arising from the increasing role of this type of capital.

Jonathan Haskel and Stian Westlake describe the changes brought about by the growth in the share of immaterial assets in the 21st century economy, including in terms of the measurement of growth, the dynamics of inequality, and the

ways in which companies are run, the economy is financed and public growth policies are set. While the authors do not set themselves the goal of building a new theory of value, they nevertheless provide evidence that it does need to be reconstructed. This is based in particular on the construction of a database – INTAN-invest – as part of a programme financed by the European Commission and initiated by the American studies of Corrado, Hulten and Sichel (2005, 2009).

By immaterial assets is meant the immaterial elements of an economic activity that generate value over more than one period: a trademark, a patent, a copyright, a design, a mode of organization or production, a manufacturing process, a computer program or algorithm that creates information, but also a reputation or a marketing innovation, or even the quality and / or the specific features of staff training. These are assets that must positively increase a company's balance sheet; they can depreciate with time; and they result from the consumption of resources and therefore from immaterial or intangible investment. There is a broad consensus on the importance of these assets in explaining the prices of the goods and services we consume and in determining the non-price competitiveness of products. These assets are determining elements of "added value".

However, despite this consensus, the measurement of intangible assets is far from commensurate with their importance. Yet measuring assets improperly leads to many statistical distortions, with respect to: first, the measurement of growth – because investments increase GDP – second, the measurement of productivity – because capital and added value are poorly measured – and finally, to profits and perhaps also the distribution of added value if intangible capital is included in expenditure and not in investment. The authors show in particular that the increasing importance of intangible assets can explain the four arguments underpinning secular stagnation. First, the slowdown in productivity could be the

result of an incorrect valuation of intangible added value. Furthermore, the gap between the profits of companies and their book value could be explained by an incomplete accounting of intangible assets that underestimates capital, in addition to the slowdown in investment despite very low interest rates. Finally, the increase in the inequalities in productivity and profits between firms is the result of the characteristics of intangible assets, which polarize profits and are associated with significant returns to scale.

Awareness of the measurement problem is not recent. The authors recall the major events that brought the experts together to deal with the measurement of intangible assets. They cover up to the latest reform of the systems of national accounts that enriches the GFCF of R&D, including the SNA, 2008, in particular the writing of the *Frascati Manual* (1963, 2015), which lays the foundations for the accounting of R&D activity. But even today it is not possible to account for all intangible assets. This is due in part to the fact that there is still some reluctance in corporate accounting with respect to integrating intangible capital insofar as it has no market price. So while it is simple to book the purchase of a patent as an asset, it is much more difficult to value the development of an algorithm within a company or to give a value to the way it is organized or to innovative manufacturing processes, or to its internal training efforts. Only when something is traded on a market does it acquire an external value that can be recorded, unhesitatingly, on the asset side of the balance sheet.

Nevertheless, the challenge in measuring this is fundamental if we believe the rest of the book. Indeed, the increasing immateriality of capital has consequences for inequalities (Chapter 6), for institutions and infrastructure (Chapter 7), for financing the economy (Chapter 8), for private governance (Chapter 9) and for public governance (Chapter 10).

The stakes here are critical because of the specific

characteristics of these immaterial assets, which are summarized in the “four S’s” (Chapter 2): “scalable, sunkedness, spillovers and synergies”. This means, first, that immaterial assets have the particularity of being able to be deployed on a large production scale without depreciating (“scalable”). Second, they are associated with irrecoverable expenses, that is, once the investment has been made it is difficult for the company to consider selling the asset on a secondary market, so there is no turning back (“sunkedness”). Next, these assets have “spillovers”, or in other words, they spread beyond their owners. Finally, they combine easily by creating “synergies” that increase profitability.

These characteristics imply a modification of the functioning of capitalism, which we are all already witnessing: they give a premium to the winners, they exacerbate the differences between the holders of certain intangible assets and those who are engaged in more traditional activities, they polarize economic activity in large urban centres, and they overvalue the talents of managers capable of orchestrating synergies between immaterial assets. At the same time, the prevalence of these assets requires modified public policies. This concerns first, the protection of the property rights of these intangible assets, which are intellectual in nature and difficult to fully appropriate due to their volatility. Even though intellectual property rights have long been established, they now face two challenges: their universal character (many countries apply them only sparingly) and achieving a balance (they should not lead to creating complex barriers that render it impossible for new innovators to enter, while they should be sufficiently protective to allow the fruits of investments to be harvested). Moreover, spillover effects need to be promoted by ensuring a balance in the development of cities and the interactions between individuals, while also creating incentives to the financing of intangible investments. Bank financing, which is based on tangible guarantees, is not well suited to the new intangible

economy, especially as it benefits from tax advantages by deducting interest from taxable income. It is therefore important to develop financing based on issuing shares and developing public co-financing. More generally, the public policy best suited to the intangible economy involves creating certainty, stability and confidence, in order to deal with the intrinsic uncertainty of risky intangible investments.

What emerges from this reading is a clear awareness of the need to promote the development of investment in immaterial assets, but also a demonstration that the growing immateriality of capital is giving rise to forces driving inequality. This duality can prove problematic.

More specifically, three dilemmas are identified. The first concerns the way intangible investments are financed. The highly risky nature of intangible investments – because they are irrecoverable, collateral-free and with an uncertain return – calls for investors to take advantage of diversification and dispersal. And yet, as the authors show, what companies in this new economy need are investors who hold large, stable blocks of shares so as to be engaged in the company's project. The second dilemma concerns state support. It is justified because these have a social return that goes beyond their private return and, in the face of shortfalls in private financing, public financing is necessary. However, corporate taxation has not yet adapted to this new sources of wealth creation, and states face growing difficulties in raising taxes and identifying the taxable base. Furthermore, states are competing to attract businesses into the new economy through fiscal expenditures and subsidies. The third dilemma is undoubtedly the most fundamental. This involves the contradiction between inequalities, whether in the labour market (job polarization [\[1\]](#)), in the goods market (concentration) or geographically (geographical polarization), which are caused by the rise of intangible capital, on the one hand, and on the other hand the need for strong social

cohesion, trustworthiness and human urban centres that provide favourable terrain for the development of the synergies and exchanges that nourish intangible assets. In other words, the inequalities created affect the social capital, which is detrimental to the future development of intangible assets.

It is in the resolution of these dilemmas that this new capitalism will be able to be in accord with our democracies.

[1] See Gregory Verdugo: [“The new labour inequalities. Why jobs are polarizing”, OFCE blog.](#)

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# European unemployment insurance

By Léo Aparisi de Lannoy and [Xavier Ragot](#)

The return of growth cannot eradicate the memory of how the crisis was mismanaged at the European level economically, but also socially and politically. The divergences between euro area countries in unemployment rates, current account balances and public debts are at levels unprecedented for decades. New steps in European governance must aim for greater economic efficiency in reducing unemployment and inequalities while explaining and justifying the financial and political importance of these measures in order to render them compatible with national policy choices. The establishment of a European unemployment insurance meets these criteria.

The idea of a European mechanism for unemployment compensation



is an old idea dating back to at least 1975. The idea is now being extensively debated in Europe, with proposals from Italian and French economists and policymakers and studies conducted by German institutes, with the latest [OFCE Policy Brief](#) offering a summary. The possibility is even being mentioned in communications from the European Commission. The Policy Brief describes the European debates, as well as the system in place in the United States.

The European unemployment insurance mechanism presented in this note aims to finance the unemployment benefits of countries experiencing a severe recession and draws on the US experience to do this. A programme like this would constitute a second European level, supplementing the different national levels of unemployment insurance. It would help provide the unemployed support in countries hit by a deep recession, which would also contribute to sustaining aggregate demand and activity while reducing inequality in the recipient countries. It is also consistent with a reduction in the public debt. This mechanism would not lead to permanent transfers to countries that are not carrying out reform, nor to unfair competition or the transfer of political powers that are now covered by subsidiarity. As in the case of the United States, it is consistent with the heterogeneous character of national systems.

To give an order of magnitude, an insurance system that is balanced over the European economic cycle and involves no permanent transfers between countries would have boosted growth in Spain by 1.6% of GDP at the peak of the crisis, while Germany would have received European aid from 1996 to 1998 and from 2003 to 2005. France would have experienced a GDP increase of 0.8% in 2013 thanks to such a system, as shown by the simulations conducted by the European teams.

For the complete study, see: [Policy Brief de l'OFCE, no. 28, 30 November 2017.](#)

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# The new labour inequalities. Why jobs are polarizing

By Gregory Verdugo

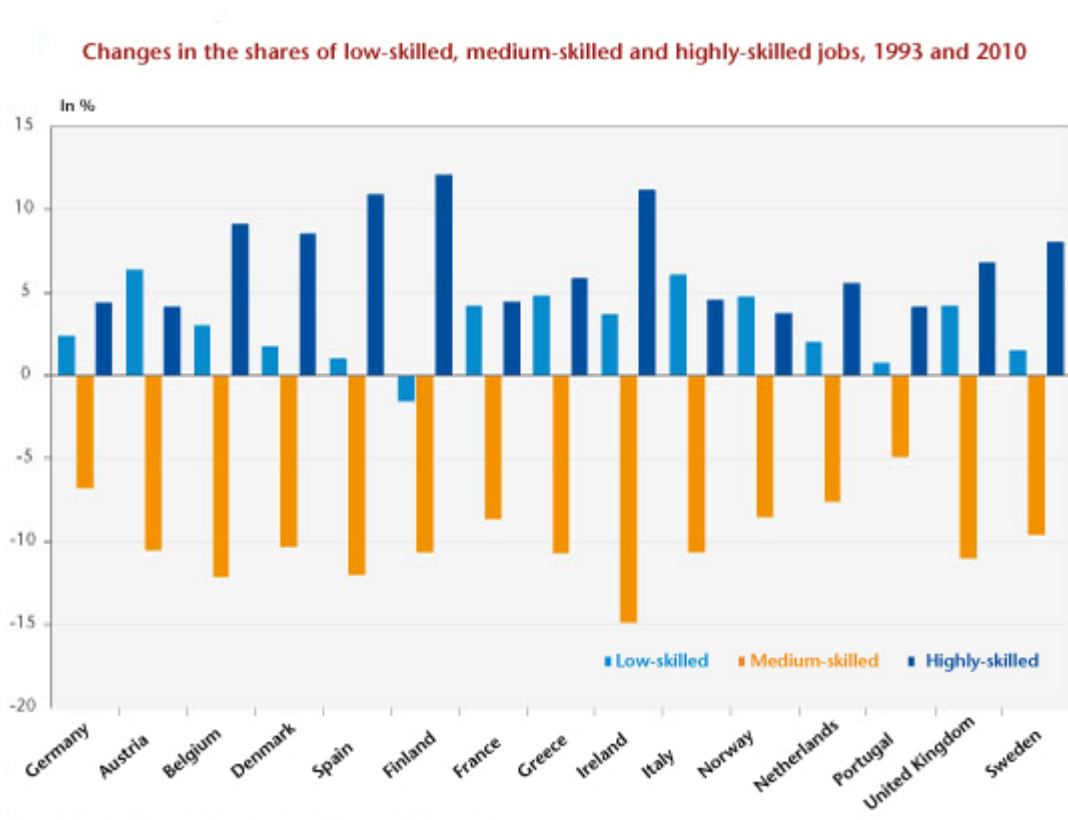
## What is job polarization?

Over the past three decades, work has taken a new turn. While the post-World War II period saw a decline in wage inequalities, since the 1980s the gaps have been getting steadily wider. Differentials are increasing throughout the wage distribution, both between low and medium wages and between medium and high wages. In countries like France where wage inequalities have remained stable, the less skilled have been hit increasingly by the risk of unemployment and precarious jobs. In addition to increasing inequality, the composition of jobs has also undergone great change. To study trends in job quality, the economists Alan Manning of the London School of Economics and Maarten Goos and Anna Salomons of the University of Utrecht explored the rich data from the European Labour Force Survey for 16 European countries over the period 1993 to 2010 [\[1\]](#). Based on the average wage observed in employment at the beginning of this period, they distinguish three main categories of jobs: low-skilled, medium-skilled and highly-skilled.

Alan Manning and his co-authors calculated how the share of these three groups in total employment is changing. Their results, presented in Figure 1, show that in most countries employment is polarizing, i.e. the share of intermediate jobs is declining sharply in favor of an increase in either low-

skilled or high-skilled work. The number of medium-skilled jobs has fallen substantially: in France, these jobs decreased by 8 points between 1993 and 2010, from 47% to 39%. This compares to 12 points in Spain, 11 points in the United Kingdom, 10 points in Sweden and Denmark, 6 points in Germany and 5 points in Portugal.

While the share of intermediate occupations is shrinking, the shares of low-skilled and highly-skilled jobs are expanding. In France, these two groups have increased in a perfectly symmetrical way, by about 4% each. Thus, for every two medium-skilled jobs that disappear, one additional highly-skilled job and one unskilled job are created. Note that, compared with Belgium (+ 9%), Denmark (+ 8%) and Finland (+12%), the growth in skilled jobs has been more moderate in France, and is closer to that of Germany, Austria and Norway.



## Winners and losers in the information revolution

The major upheaval going on in the labour market is due first to the nature of recent technological change, which has

revolutionized the organization of businesses. Because computers operate in accordance with explicit, pre-programmed procedures and rules, they have proven very adept at performing the so-called routine tasks that characterize human labour in intermediate jobs. A computer can command an industrial robot, draw up pay slips, or distribute money. Because of their efficiency and low cost, computers have replaced the elementary and repetitive human labour that made up many intermediate jobs. The jobs most destroyed by computerization were thus those held by workers on production lines that became automated as well as those of office clerks and secretaries.

Highly-skilled workers have on the other hand been the winners from technological progress. Not only are computers unable to replace their jobs, but they also make these workers more productive. By expanding the amount of information available and facilitating its search, the Internet promotes the specialization of knowledge and makes it possible to concentrate on analytical tasks. Thanks to advances in information technology, companies are increasingly demanding more highly-skilled labour, which has made it possible to absorb the arrival of large cohorts of higher education graduates without lowering their wages.

### **Has international trade polarized employment?**

International trade benefits the consumer by multiplying their choices and moderating prices. Indirectly, by freeing up income, it also stimulates demand and employment in the services sector. But behind the consumer is also a worker, sometimes with opposing interests. While international trade favours the former, its effect on the latter is more ambiguous.

It is now clear that medium-skilled jobs have fallen victim to the growth in trade with the developing countries. The quickening pace of trade with emerging economies with low

labour costs has led companies in the developed countries to specialize in the most sophisticated design tasks that draw on information analysis and creativity. In contrast, basic production tasks have been increasingly outsourced, which has led to the destruction of a large portion of intermediate industrial jobs in the developed countries.

Recent studies on the United States [\[2\]](#) and France [\[3\]](#) have shown that, as a result of the import boom that followed after China joined the World Trade Organization in the 2000s, the labour market worsened seriously in the areas facing greatest competition from China. For France, the destruction of industrial jobs linked to Chinese competition has been quantified at 100,000 jobs from 2001 to 2007, or 20% of the 500,000 jobs lost in this sector.

### **How can this market be tamed?**

Of course one should not forget that the labour market is a market where supply and demand is constrained by a set of norms and rules that are crucial in terms of inequality. Despite the important role of technology and trade, labour market institutions play a key role and have shaped each country's response to computerization and the expansion of international trade and, depending on the case, have slowed or accelerated job polarization.

Many studies have noted that a minimum wage and collective wage bargaining have influenced the way inequality and employment are impacted by technological advances and globalization. These institutions have most of all had an impact on the wages of the least skilled, those they are designed to protect. For low wage earners in France, the minimum wage has dramatically closed the wage gap [\[4\]](#). The centralization of wage negotiations at the branch level has also contributed to limiting wage inequalities by levelling wages between firms within a sector. Where such institutions have remained strong, they have kept low wages up and

moderated wage differentials.

But if these institutions are too restrictive, they have also been suspected of undermining job creation and pushing up unemployment among low-skilled workers. They have in particular not been able to curb the destruction of jobs, and excessive protection is suspected of having discouraged job creation. In the late 1990s, Thomas Piketty of the Paris School of Economics noted that the growth of service jobs had declined in France compared to the United States following increases in France's minimum wage in the 1980s [\[5\]](#). More recently, the researchers Julien Albertini of Humboldt University, Jean Olivier Hairault of Paris 1 University, François Langot of the University of Maine and Thepthida Sopraseuth of the University of Cergy Pontoise showed that the minimum wage has limited the growth of the non-routine manual services sector in France [\[6\]](#) and thus diminished the opportunities for people whose jobs were destroyed by international trade or technology. This employment deficit was particularly pronounced in activities that were intensive in low-skilled labour, such as hotels and restaurants and the retail trade [\[7\]](#). A key issue facing employment policy in the years to come is how to adapt regulations to the new situation of the labour market.

### **The jobs of the future**

Technological progress has not eliminated work. But the next wave of high-performance machines could, this time, be really different. Up to now, machines were not good at performing abstract and non-routine manual tasks, but advances in robotics and computer science could quickly change this situation. Every year has seen exponential progress in the technical possibilities for computers and robots to simulate human reasoning and intelligence: the increase in computing capabilities is making it possible to analyse and respond more skilfully to external stimuli; communication with the environment is becoming more and more sophisticated thanks to

batteries of powerful sensors, aided by software that is capable, in particular, of understanding the most subtle nuances of human language and of recognizing faces and objects; data storage capabilities have been multiplying with the development of “cloud robotics”, where each robot in the network accumulates and shares experience and information with its fellow robots[\[8\]](#).

Some researchers believe that developments in intelligent machines and robotics are likely to replace work in a large number of jobs in the years to come. In 2015, Carl Benedikt Frey and Michael Osborne, researchers at Oxford University, predicted that 47% of employees in the US hold jobs that are likely to be automated in the future[\[9\]](#). They foresee a particularly heavy impact in transport and logistics, where the progress of intelligent sensors will make driverless vehicles safe and profitable.

But the jobs of the less skilled are not the only ones under threat. The growing analytical capabilities of computers now enable them to assist in decision-making in complex tasks, especially in the medical and legal fields, where they are replacing skilled labour. At the Memorial Sloan-Kettering Cancer Center in New York, USA, a computer programme helps oncologists determine the most appropriate treatment for patients. The programme draws on 600,000 medical reports, 1.5 million patient records and clinical trials, and 2 million pages published in medical journals[\[10\]](#). It is continuously learning and improving. In the field of law, the Clearwell System uses automatic language analysis techniques to classify the masses of documents transmitted to the parties before trial, which could amount to several thousand pages. In two days, a computer is able to make a reliable analysis of 570,000 documents. The work it saves is equal to that of dozens of lawyers, saving precious time in trial preparation[\[11\]](#).

Should we fear these changes? There is no fundamental economic

law that guarantees that everyone will be able to find a well-paid job in the future. The less attractive work caused by polarization is a reminder that progress does not always improve job quality. But will it offer at least some jobs?

**For more information:** in June 2017, Gregory Verdugo published “Les nouvelles inégalités du travail: pourquoi l’emploi se polarise” [The New Labour Inequalities: Why Employment is Polarizing] at the Presses de Sciences Po, in the Collection Sécuriser l’emploi.

Link to books from Presses de Sciences Po: [http://www.pressesdesciencespo.fr/fr/livre/?GCOI=27246100938740&fa=author&person\\_id=1987](http://www.pressesdesciencespo.fr/fr/livre/?GCOI=27246100938740&fa=author&person_id=1987)

Link to books from Cairn: <https://www.cairn.info/les-nouvelles-inegalites-du-travail-9782724620900.htm>

[1] Maarten Goos, Alan Manning and Anna Salomons, “Explaining Job Polarization: Routine-biased Technological Change and Offshoring”, *American Economic Review*, 104 (8), 2014, pp. 2509-2526.

[2] David Autor, David Dorn and Gordon Hanson, “The China Syndrome: Local Labor Market Effects of Import Competition in the United States”, *American Economic Review*, 103 (6), 2013, pp. 2121-2168.

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[4] Gregory Verdugo, “The Great Compression of the French Wage Structure, 1969–2008”, *Labour Economics*, 28, 2014, pp. 131-144.



[5] Thomas Piketty, "L'emploi dans les services en France et aux États-Unis: une analyse structurelle sur longue période", *Économie et Statistique*, 318, 1998, pp. 73-99.

[6] Julien Albertini, Jean-Olivier Hairault, François Langot and Thepthida Sopraseuth, "A Tale of Two Countries: A Story of the French and US Polarization", *IZA Discussion Papers*, no. 11013, June 2017.

[7] Ève Caroli and Jérôme Gautié, *Bas salaires et qualité de l'emploi: l'exception française?*, Paris, Editions Rue d'Ulm, 2009, p. 49

[8] Gill Pratt, "Is a Cambrian explosion coming for robotics?", *The Journal of Economic Perspectives*, 29 (3), 2015, pp. 51-60.

[9] Carl Benedikt Frey and Michael Osborne, "Technology at Work: The Future of Innovation and Employment", Oxford Martin School, 2015. Retrieved from <http://www.oxfordmartin.ox.ac.uk/publications/view/1883>.

[10] Jonathan Cohn, "The robot will see you now", *The Atlantic*, 20 February 2013.

[11] John Markoff, "Armies of expensive lawyers replaced by cheaper software", *The New York Times*, 4 March 2011.

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## How do French people look at

# equality of opportunity?

By Michel Forsé (CNRS) and [Maxime Parodi](#)

Do the French people believe in equal opportunity? The Dynegal survey asked the question in 2013 to a representative sample of 4,000 individuals, whose responses were very mixed. In a [recent article in the \*Revue de l'OFCE\* \(no. 146, 2016 \[in French\]\)](#), we show that it is the middle classes who prove to be a little more convinced than others by the idea that schooling gives everyone a chance and that one's success in life does not depend on social origin. This result is in line with the thesis by Simmel that makes the middle-class the site of social mobility.

The survey also raises questions about the link between the belief in equal opportunity and social expectations in terms of recognition of merit and equality of results. As might be expected, the less one believes in equality of opportunity, the less one defends the recognition of merit, and the greater the demand for equality of results. On the other hand, French people who are perfectly convinced that everyone has the same chance of success defend not only the recognition of merit, but also equality of place. This unexpected result highlights, in fact, a risk inherent in a society that is conceived of as totally meritocratic: the risk of completely discrediting the losers and of not finding them a place in society.

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## **The American dream (finally)**

# proven?

By [Maxime Parodi](#)

In a recently published short article, Thomas Hirsch and Mark Rank (2015) give us some astonishing figures about American society – numbers that, taken seriously, would lead to a significantly more nuanced view of income inequality in the United States. Indeed, their study suggests that American society is much more fluid than we think. While Americans undoubtedly live in a very unequal society, most of them would experience wealth at some point in their lifetimes. There is, in reality, a high turnover between rich and poor, which would explain why Americans are not very critical of inequality.

According to this study, during their working lives (age 25 to 60), 69.8% of Americans have enjoyed at least one year of household income sufficient to be included among the richest 20%. And 53.1% of Americans have made it – for at least one year – into the richest 10%. An even more exclusive 11.1% of Americans have spent at least one year in the illustrious club of the wealthiest 1%.

But before accepting these outlandish figures, a more serious look needs to be taken of the study by Hirschl and Rank. It turns out that the numbers do not in fact offer a simple description of American society, but are rather the result of a modelling exercise. Behind these figures lie certain assumptions and methods that have been adopted, and which deserve discussion.

In the latest [Note de l'OFCE \(no. 56 of 12 January 2015\)](#), I show that the assumptions made are unrealistic and that the method used does not support the presence of missing data in the biography of the respondents. All in all, the results are heavily biased in favour of the American dream. It is possible, however, to partially correct this bias, yielding

the results in the table below.

**Table. Cumulative percentage by age and averages, after correction for bias, of belonging at least once in one's life to the richest 20%, 10%, 5% or 1% of households**

In %

H* age	Q20		Q10		Q5		Q1	
	Graduate	Non-Graduate	Graduate	Non-Graduate	Graduate	Non-Graduate	Graduate	Non-Graduate
25	7,6	3,4	4,1	1,4	2,4	0,7	0,4	0,1
30	19,1	8,6	10,8	3,8	6,1	1,8	1,0	0,2
35	27,6	12,7	17,2	6,1	10,2	3,0	2,4	0,6
40	33,1	15,5	22,6	8,2	14,5	4,3	4,0	0,9
45	37,2	17,6	26,9	9,9	18,4	5,6	5,4	1,3
50	39,6	18,9	30,8	11,5	21,7	6,6	6,6	1,6
55	41,0	19,7	33,2	12,5	24,3	7,5	7,9	1,9
60	41,3	19,8	34,4	13,0	25,6	7,9	8,7	2,1
<b>Average</b>	31		24		17		5	

Source : Author's calculations.

Basically, the Hirschl & Rank figures are cut in half! Thus, 31% of Americans will have a sufficient household income for at least one year (between age 25 and 60) to be among the richest 20%. And 5% of Americans will have a sufficient household income for one year to be in the richest 1%.

Given the magnitude of this correction, it is clear that the study by Hirschl and Rank distorts reality by suggesting that social destinies in the United States are very chaotic – as if the entire society were at the roulette table. Other articles by Hirschl and Rank further fill out the picture. It is not in fact the first time that these authors have come up with such figures using this method. In 2001, they examined the other end of the income distribution, evaluating the percentage of Americans who have experienced an episode of poverty during their lifetime (Hirschl and Rank, 2001). They again came up with striking figures. For example, 54% of Americans experienced an episode of poverty [1] before age 40. In 2005, they again applied this method to recipients of food stamps (food vouchers), and estimated that 50% of Americans will have made use of food stamps at least once in their lives (before age 65). This order of magnitude is, yet again, barely

credible. A less costly and more direct method would certainly be revealing: it would suffice to ask Americans whether they have ever received food stamps. While some Americans may prefer to hide such an event, this bias of omission will never be as large as that of the preceding survival analyses. Let's be clear: their method is a machine for producing the outlandish.

[\[1\]](#) The poverty threshold adopted here is 1.5 times the value of the basket of goods needed to meet basic needs.

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## **A standard contract for France: a potluck approach?**

By Jacques Barthélémy and Gilbert Cette

The debate over a single standard contract [*contrat unique*] generally arises in relation to the duality of the labour market, with on the one hand employees who are highly protected, such as civil servants and permanent employees ("CDI" contracts), and on the other hand workers shifting between periods of unemployment and poorly protected precarious jobs (fixed-term "CDD" and temporary contracts). This contrast reflects gross inequalities, and has important social and economic consequences.

To deal with this dual labour market, proposals are often made for a "single contract" that would reduce the differences in status and rights between precarious and permanent contracts.

But the concept of a “single contract” is often poorly defined. If we closely examine the major differences that exist in the content of the various proposals, it even begins to look like a potluck approach!

The three stated objectives of the proposal for a single contract are: (1) to reduce inequalities in status arising from the coexistence of so-called “precarious” contracts (fixed-term and temporary contracts) and permanent contracts; (2) to reduce the complexity and the costly uncertainties surrounding the legal treatment of redundancies; and (3) to partially internalize the social costs of redundancies. [In an article in the \*Revue de l'OFCE\*](#), we show that a single contract cannot really meet these objectives, which would be better served by other means, and that it would give rise to major legal risks.

For more information, see: [J. Barthélémy and G. Cette, 2015, « Le contrat unique: une auberge espagnole », \*Revue de l'OFCE\* no.146.](#)

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## **The redistributive effects of the ECB's QE programme**

By Christophe Blot, Jérôme Creel, Paul Hubert, Fabien Labondance and Xavier Ragot

Rising inequality in income and wealth has become a key issue in discussions of economic policy, and the topic has inserted itself into evaluations of the impact of monetary policy in the US and Japan, the precursors of today's massive

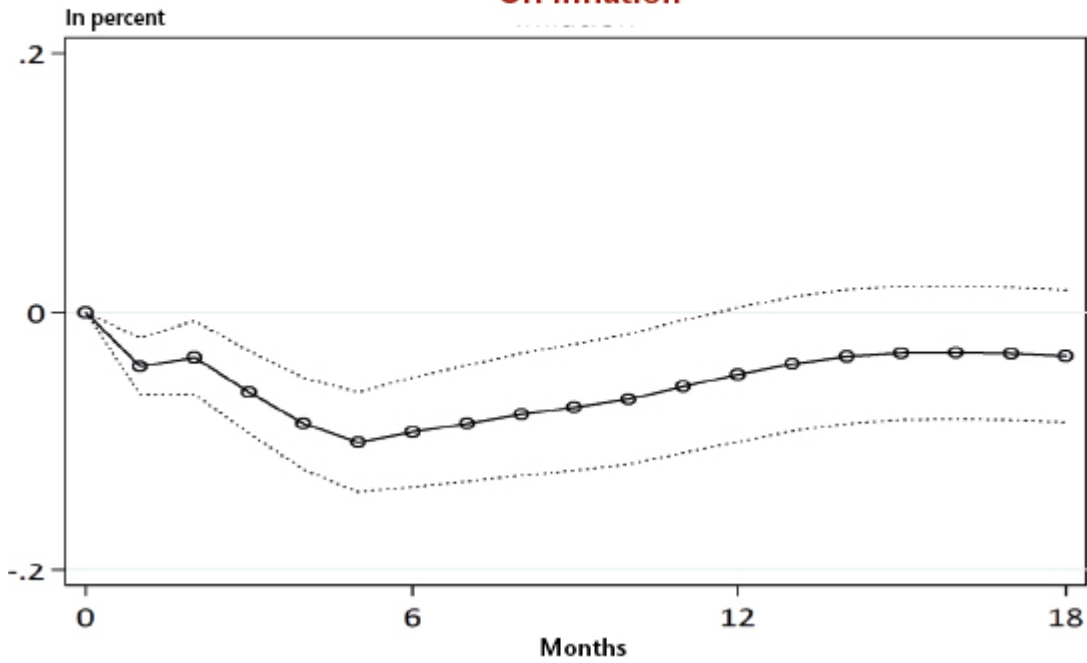
quantitative easing programmes (QE). The question is thus posed as to whether the ECB's QE policy has had or will have redistributive effects.

In a paper prepared for the European Parliament, [Blot et al. \(2015\)](#) point out that the empirical literature gives rise to two contradictory conclusions. In the US, the Fed's base rate cuts tend to reduce inequality. Conversely, in Japan an expansionary QE type policy tends to increase inequality. So what's the situation in Europe?

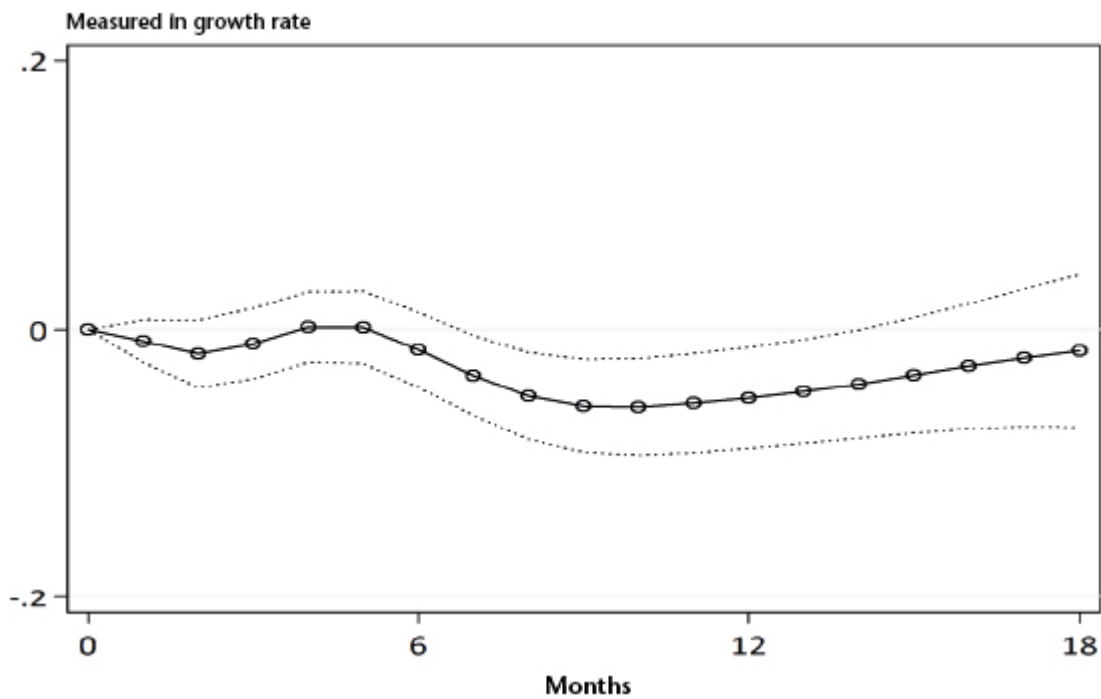
Based on macroeconomic data aggregated for the euro zone as a whole, Blot et al. (2015) show that while European monetary policy, conventional and unconventional, have indeed had an impact on the unemployment rate, the number of hours worked and the rate of inflation (see graphs), this was limited. This result suggests that the ECB's expansionary monetary policy has tended to reduce inequality, but not by much. So when the ECB finally decides to wind up its expansionary policy, we can expect a slight increase in inequalities to follow. Because of this effect, though small, Blot et al. (2015) suggest that the ECB should be held accountable not just for price stability or economic growth, but also for the impact of its policies in terms of inequality and the mechanisms needed to take this into account.

Figures. The impact of a restrictive monetary policy shock (0.2 percentage point hike in the implicit interest rate) in the euro zone...

**On inflation**

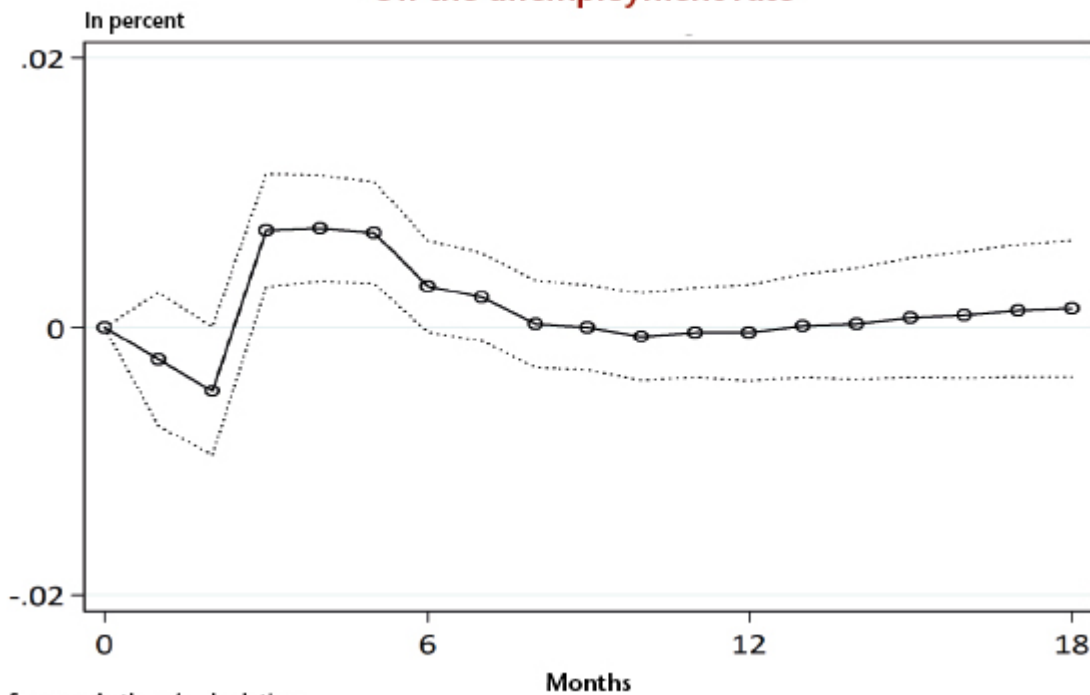


**On hours worked**





## On the unemployment rate



# On Thomas Piketty's Capital in the Twenty-First Century

Presentation by [G rard Cornilleau](#)

In 2014, the world of social science publications was marked by the appearance of Thomas Piketty's book, *Capital in the Twenty-First Century*. The book's global success, which is rare for a rather difficult work originally published in French, led to renewed debate on the distribution of wealth and income. Contrary to the widespread view that economic growth diminishes inequality and sooner or later leads to a balanced society with a large middle class (Kuznets' hypothesis), Thomas Piketty uses long-term historical data, some of it new, to show that the norm is instead a widening gap between the rich and everyone else. Periods of falling inequality appear conversely to be related to accidents of political and social

history (war, ideological upheaval, etc.). Therefore, and unless another countervailing accident were to occur, Western society seems doomed to suffer an increasingly severe imbalance in the distribution of wealth. Piketty believes that structural changes in taxation could contain this tendency, which is unsustainable in the long-term.

It is hardly surprising that this analysis has upset the applecart of the received wisdom and occasionally provoked strong reactions, and even denial that inequality is real – in other words, criticism that Piketty's analysis is overly pessimistic. It was obvious that the OFCE needed to participate in this public debate. Several OFCE researchers have contributed by offering additional insights to Piketty's arguments or critical analysis. These contributions can be found in a special dossier in [issue 137 of the \*Revue de l'OFCE on Le capital au XXI<sup>e</sup> siècle\*](#) [in French]. Jean-Luc Gaffard's observations focus on issues related to the nature of capital and the relationship between its productive component, its remuneration and the regulation of the system as a whole, which could affect pessimistic conclusions about the long-term difference between the rate of profit and the rate of growth in output. Guillaume Allègre and Xavier Timbeau seek to deepen the analysis of the nature of capital, focussing on the rise in the compensation of property rights, which has led to the emergence of a new type of technological *rentier*. They also analyse the contribution of housing wealth before concluding, as does Piketty himself, that it is a key factor in inequality.

Thomas Piketty agreed to participate in this discussion by writing a response for the [Revue de l'OFCE](#), in which he clarifies his thinking about a number of issues, such as the hybrid nature of capital, which mixes productive capital, housing wealth and intellectual property rights, whose yield has more to do with a process of social construction than with a simple technical relationship between capital and

production.

[This dossier](#) also reflects the OFCE's commitment to promote scientific debate around key issues in economics. Our thanks go to the authors who contributed to this discussion, and to Thomas Piketty who has engaged in this process of constructive criticism. Finally, we hope that this dossier will help give readers a better understanding of the importance of the issue of inequality and the role it plays in long-term social cohesion.

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# Does housing 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.](#)