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*].

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

Presentation by [Gérard 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^{e} 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.

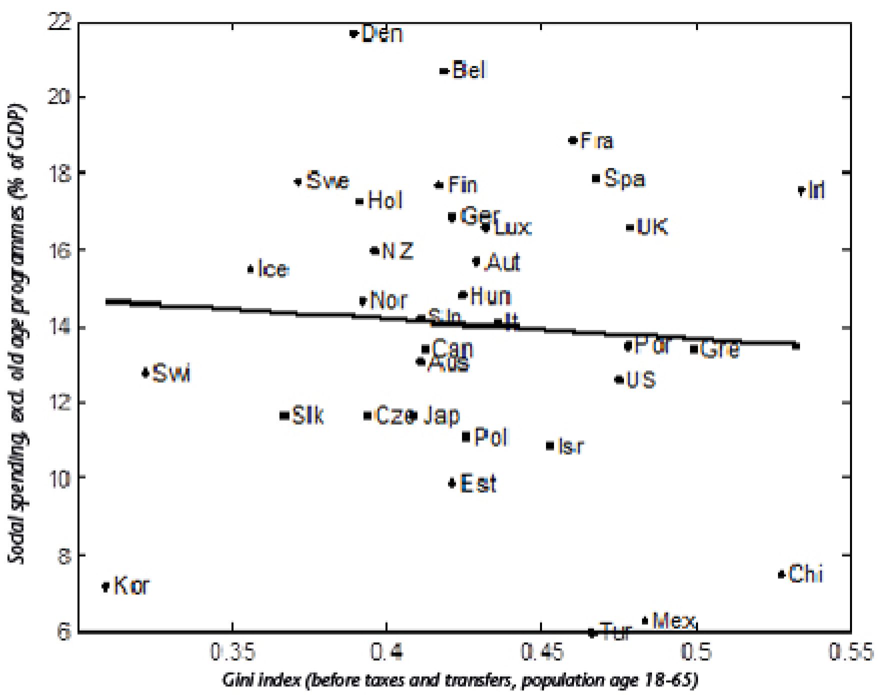
Redistributive policies and the demand for fairness

par Gilles Le Garrec

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

Starting from the premise that in a democracy a policy can be carried out only if it has the majority support of its citizens, Meltzer and Richard (1981) suggest that increasing inequality leads to an increasing demand for redistribution, not because people have an aversion to inequality, but rather because they are motivated by their own interests. Therefore the poorer the median individual becomes in terms of income [3] compared to the average population, *i.e.* as the income distribution becomes more unequal, the greater will be that individual's interest in income redistribution. In this perspective, the increasing inequality generated by the economic crisis should result in an increase in social spending. Redistribution is thus not inflicted, but instead should have the support of a majority of the citizens. Though attractive in its simplicity, this explanation suffers from a major flaw: the data does not show any positive correlation between income inequality and redistribution. Typically, the level of inequality measured by the Gini index (before taxes and transfers) is 0.46 in France with respect to the labour force, versus 0.475 in the US, where the level of social spending is only 13% of GDP[4]. More generally, and as is illustrated in Figure 1, this presumed correlation proves to be zero or even negative (see Perotti 1996 for an empirical review). To understand the possible weaknesses of the French social protection system, the analytical framework proposed by Meltzer and Richard (1981) will not be sufficient.

Figure. Income inequality and redistribution



Source: OECD, early 2010s.

This discrepancy between the observed facts and the theory has spawned several lines of research[5]. In particular, the assumption that individuals are motivated solely by self-interest has been challenged by a large number of laboratory experiments. Take, for example, the ultimatum game. In this game, two anonymous subjects must agree on how to divide a sum of money. The first participant must make an offer to share the sum. The second can then either accept or reject the offer. If he accepts, then the two share, otherwise neither gets anything. In theory, the first player, knowing that any positive offer will be accepted, should always offer the second player as little as possible. Contrary to this prediction, the results of the experiment show that many people offer 50% of the total to the second player, with an average offer of around 40%. Furthermore, any offer of less than 25% of the total has a high chance of being rejected. These results demonstrate behaviours characterized by a sense of distributive justice. When people are asked outside the laboratory setting about the reasons why someone would favour redistribution, this is the particular reasoning given. Survey data also underscore that individuals tend to give greater support to redistribution when they think that poverty is caused by factors for which the victims are not responsible (see Fong, 2001). In line with these results, the belief that luck rather than effort determines income proves to be a better predictor than income inequality of how much redistribution takes place in a country.

Thus, in order to determine the ways in which concern for others can explain the differences in redistribution observed between democracies, the theoretical literature has focused on the formation of beliefs. In the approach of Alesina and Angeletos (2005), individual preferences combine personal interest and the demand for fairness. Specifically, fairness is defined according to the principle that *each person should get what they deserve*. Knowing that income depends on both luck and the effort exerted, the authors argue that the differences between the amounts redistributed in different countries result from different self-fulfilling beliefs. Americans, expecting little redistribution, invest more in their human capital and thus create the conditions for a low level of redistribution because the role of chance is reduced in the determination of income. Conversely, Europeans, expecting strong redistribution, invest less in their human capital. Luck is thus more important in the determination of income; individuals will therefore support strong redistribution in accordance with the principle of fairness. Furthermore, assuming that Americans and Europeans share the same preferences, Alesina and Angeletos highlight an important result: the low-redistribution American model is preferred by a majority of citizens over the European model because it produces less distortion and thus results in a higher overall income. However, this does not mean that poor people do not prefer the model with strong redistribution.

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

In this context, building on the approach proposed by Alesina and Angeletos (2005), Le Garrec (2014) has offered a mechanism for the cultural transmission of the intensity of the demand for fairness. In accordance with the socialization process, a person's observation during childhood of the previous generation's inability to develop a fair redistribution policy will reduce the moral cost to that person of not supporting a fair policy later in life. When someone is socialized in an environment characterized by a fair redistributive policy, the demand for fairness remains strong in the person's preferences: a system with strong redistribution (as in France) is perennial and perpetuated from generation to generation. Conversely, if people are socialized in an environment where the redistributive decisions deviate significantly from distributive justice, the internalization of the norm "*individual success comes first*" reduces the weight of the moral imperative in their preferences. In this case, a system with little redistribution (as in the US) is also sustainable. In Le Garrec (2014), the choice of a system will therefore depend on the respective histories of the nations[6].

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

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

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

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

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

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

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

Glaeser (2004).

On debate in economics

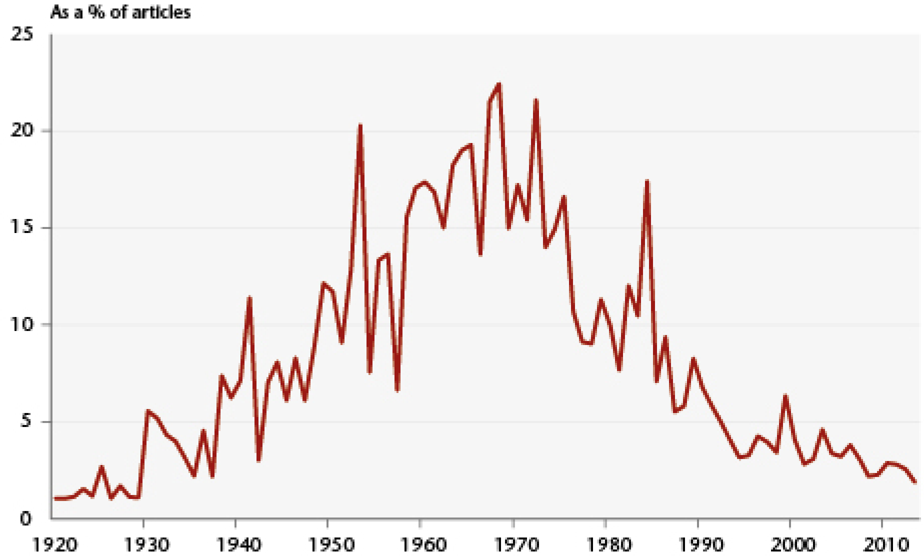
By Guillaume Allègre, @g_allegre

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 XXI^e siècle. Richesse des données, pauvreté de la théorie" [Capital in the 21^st Century – Wealth of data, poverty of theory]) and Robert Boyer ("Le capital au XXI^e siècle. Note de lecture" [Capital in the 21^st 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

[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.

Better abilities or stronger social ties? Drivers of social immobility across EU countries

par Francesco Vona

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

Economists tend to attribute cross-country differences in social mobility to the working of the educational system and its influence on the effective skills possessed by individuals coming from different family backgrounds. In particular, several empirical studies using standardized test scores show that there exist substantial background-related differences in competences and skills at a given level of educational attainment[ii]. Among OECD countries[iii], the influence of family background on test scores achievements is particularly strong in France (the second worst country after the USA in terms of intergenerational educational inequality), Germany and the UK, while it is relatively weaker in Italy and Spain. Whereas background-related differences in the effective level of skills certainly play a major role in creating persistency in socio-economic statuses, the working of labour markets is also an important, yet neglected, source of social immobility. On the one hand, labour market institutions reduce the observed level of intergenerational inequality whereby institutions compressing wages (i.e. centralized wage bargaining, high unionization or minimum wage) are present. On the other hand, family ties constitute a labour market network that can help well-off individuals in finding good jobs and obtaining promotions.

In a recent paper (Raitano and Vona, 2014a)[iv], we assess the role played by labour market networks and individual skills in the transmission of socio-economic inequalities. We argue that high levels of intergenerational inequality can be due to: 1. formal educational attainment; 2. other (empirically unobservable) dimensions of human capital affected by family background, i.e. soft skills or better quality of education;

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

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

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

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

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

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

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

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

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

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

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

Why read Piketty?

By Jean-Luc Gaffard

Thomas Piketty's book *Capital in the twenty-first century* has met with an extraordinary reception, one that is commensurate with both the empirical work performed and the political issue addressed, that is to say, the spectacular increase in inequality in the United States. Paul Krugman and Joseph Stiglitz, both of whom are concerned about current trends in American society that they consider are threatening democracy, believe Piketty's work confirms their fears.

Armed with an impressive mass of data and a solid historical knowledge reinforced by a reading of the great novels of French and English literature, Piketty foresees the advent of a second *Belle Epoque*, the decades-long period preceding the First World War. This would mean a return to a patrimonial capitalism based on inheritance, when income and capital are concentrated in the hands of the top percentile of the population and the ratio of capital to income rises significantly. More fundamentally, Piketty highlights the existence of a longstanding trend towards stagnation and rising inequality, which is reflected in a rate of return on capital that is sustainably higher than the economy's rate of growth, a little like Marx insisted on the existence of a tendency for the rate of profit to fall. The twentieth century, and in particular the period following the Second World War, was characterized by strong growth associated with decreases in inequality and in the importance of capital relative to income – but this period was merely a parenthesis that is now closed. The thesis defended is that capitalist society has returned to low growth and rising inequalities fuelled more by the transmission of wealth than by the remuneration of individual talent.

The book is nevertheless ambivalent. There is a gap between the wealth of data collected and the simplicity of the theory that is supposed to account for it. On the one hand, an overly simple, essentially a-institutional model adopts a growth rate that is ultimately exogenous and ignores the heterogeneity of capital, making distribution a technical given that does not feed back into growth. On the other hand, the wealth of the data and the insights associated with it encourage reflection about the ins and outs of the distribution of income and wealth, returning it to its central place in economic theory and restoring its social dimension.

A belief runs through the book: that, regardless of what economic policies are implemented, growth is again returning to a low level because there is no longer any catch-up going on and potential productivity gains are largely exhausted. Inheritance then begins to play a key role in the distribution of wealth and feeds the rise of inequality. This fundamental pessimism justifies the simplicity claimed for the theoretical explanation. If this pessimism is to be shared, however, the foundation needs to be improved by examining the causes and effects in the formation of rent and by breaking with a neo-classical analysis of growth that is without any real relevance to the subject at hand. There is nothing natural about the evolution of the distribution of income and wealth, which depend on political choices and social norms. The question, then, is whether the choices and norms of the years of the *Belle Epoque* still have any meaning, and whether policy can still counteract the forces of what must be called decline that threaten modern capitalist societies.

Reading Piketty thus gives rise to an implicit challenge: to develop an analysis that, following an intuition that we owe to the classical economists, is based on the idea that the growing importance of rent, as distinguished from profit, would fuel an increase in the purchase of nonperforming assets or luxury goods at the expense of the accumulation of capital, and would thereby constitute an obstacle to growth.

These various issues are examined in the *Note de l'OFCE*, no. 40 of 2 June 2014, *"Le capital au XXI^{e} siècle : un défi pour l'analyse"* [*Capital in the twenty-first century : a challenge for analysis*], which follows on from the previously published working document by Guillaume Allègre and Xavier Timbeau (see the blog here).

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 XXIe siècle : à la recherche des fondements macroéconomiques des inégalités", ***Document de travail de l'OFCE, n°2014-06***.

Part-time work

By Françoise Milewski

Part-time work as a share of total employment has increased significantly. This increase was limited in the 1970s and then accelerated in the 1980s and especially in the 1990s. During the 2000s and early 2010s, changes in the long-term trend were less pronounced. Overall, the share of part-time work more than doubled in the last forty years and now accounts for nearly one-fifth of employment.

This development is the result of a number of social and economic trends. It reflects both changes in the labour market – growth in the tertiary sector to the detriment of industry and the proliferation of categories of employment – and inequalities between women and men. It is also the fruit of public policy.

Part-time jobs are occupied mostly by women. They are also predominantly held by employees aged 25 to 49, although a trend towards part-time work has emerged among seniors. Part-time jobs are usually low-skilled. Although these jobs often involve working 15 to 29 hours a week, working times can vary greatly, with a trend towards a greater portion of shorter work weeks. Part-time employees generally are not on fixed-term contracts, so it is a stable form of employment. Whether monthly or hourly, wages are low, and part-time employees are overrepresented among minimum wage and low-wage workers. Work schedules that are atypical and which can involve multiple shifts, with fluctuating unpredictable schedules, generally mean poorer working conditions.

Part-time work is heterogeneous in terms of both the reasons given by employees who may request it as well as the ways businesses are organized in different economic sectors. There are thus multiple logics involved in part-time work (which in French leads to use of the term “des temps partiels” to account for this multiplicity).

The development of the service sector has spurred the increase in part-time work. Part-time jobs in sectors such as retailing and distribution, hotels and catering, cleaning, personal services and some public services are predominantly occupied by women. This reflects the type of training women have acquired, stereotypes about the natural aptitude they supposedly have to care for others, and their overrepresentation in low or unskilled work. The tradeoffs women make between work and family tasks reinforce these trends, either because full-time work seems incompatible, or because after parental leave they prolong the reduction in work that they have experienced. After an extended leave, it can sometimes be very difficult to reintegrate the world of work.

Increasing labour flexibility in recent decades has reinforced these trends. The multiplication of forms of employment has affected women in particular, both because they work mainly in the sectors that have been at the origin of this trend and because women are at a disadvantage in the labour market and more readily accept poorly paid jobs.

During certain periods public policy has favoured part-time employment while at others it has sought to limit its impact. At the junction between employment-related goals and family-related goals, policy has sometimes suffered from being inconsistent.

There are sometimes significant differences between countries within the European Union, as a result of specific historical developments, different social consensuses, and specific regulations on the labour market.

Analyzing the current situation and identifying the changes underway provides a glimpse of the potential changes to come and thus fuels debate about these developments and their implications for policy makers. Do part-time work and full-time work develop according to the same dynamics? Is there a trend within part-time work towards greater flexibility, or less? To what extent is women’s autonomy being challenged by the development of part-time work as a stable form of employment? Is part-time work a form of underemployment or a way of getting into the labour market and full-time work? All of these are questions that influence the development of public policy[1].

For further information, read the *OFCE Note, no. 38 of 13* December 2013.

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[1] This article summarizes a study by the Labor and Employment section of the Conseil économique, social et environnemental [Economic, Social and Environmental Council], "Part-time work ," Françoise Milewski , Les Editions des Journaux officiels, December 2013, forthcoming.

Is the French tax-benefit system really redistributive?

By Henri Sterdyniak [1]

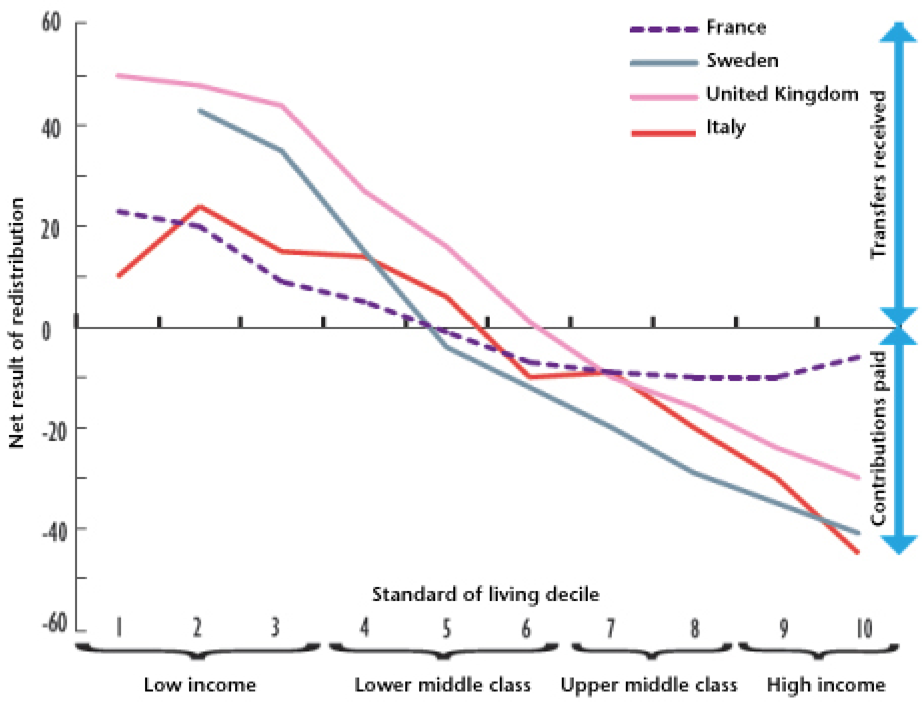
France has set up benefits such as RSA income support, PPE in-work negative income tax, CMU universal health care, the minimum pension, housing allowances, and exemptions from social security contributions for low-wage workers. From the other side, it has a tax on large fortunes; social insurance and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

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

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

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

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



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

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

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

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

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

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

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

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

Source: Euromod, 2012.

Table 3. Poverty rate (60% threshold)

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

Source: Eurostat, 2012.

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

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

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

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

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

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

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

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

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

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

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

So paradoxically, it is the generosity of the French system towards pensioners and the unemployed that makes it seem to be not very redistributive. Thus, according to Crédoc, the richest 10% receive contributory transfers representing 32% of their disposable income, which means that, in total, their net transfers represent only a negative 6% of their income. This is especially the case as Crédoc does not take into account the old-age pension contributions (*cotisations vieillesse*) incurred by businesses. If, as the INSEE does, pensions (and more generally all contributory benefits) are considered as primary income, resulting from past contributions, the negative net transfers of the richest decile increase from -6% to -38%.

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

National tax-benefit systems are complex and different. Comparisons between them need to be made with caution and rigour. To judge how redistributive the French system actually is, it is still more relevant to use the work of the INSEE, the OECD or Euromod than this (too) unusual study.

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

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

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

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

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

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

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

obligatoires reposant sur les ménages:

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

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

Never on Sunday?*

By Xavier Timbeau

** Note from the editor: This text was initially published on 10 June 2008 on the OFCE site under the heading "Clair & net" [Clear & net] at a time when working on Sundays was a burning issue. As this is once again a hot topic, we are republishing this text by Xavier Timbeau, which has not lost its relevance.*

In Jules Dassin's cult film, Ilya, a prostitute working a port near Athens, never works on Sunday. Today, according to the *Enquête emploi* labour force survey, nearly one-third of French workers say they occasionally work on Sunday and nearly one out of six does so regularly. As in most countries, Sunday work is regulated by a complex and restrictive set of legislation (see here) and is limited to certain sectors (in France, the food trade, the hotel and catering industry, 24/7 non-stop manufacturing, health and safety, transport, certain tourist areas) or is subject to a municipal or prefectural authorization for a limited number of days per year. This legislation, which dates back more than a century, has already been widely adapted to the realities and needs of the times, but is regularly called into question.

The expectations of those who support Sunday work are for more business, more jobs and greater well-being. Practical experience indicates that revenue increases for retailers that are open Sundays. Conforama, Ikea, Leroy Merlin and traders in the Plan de Campagne area in the Bouches du Rhone *département* all agree. Up to 25% of their turnover is made on Sunday, a little less than Saturday. For these businesses, it seems clear that opening on Sunday leads to a substantial gain in activity. And more business means more jobs, and since there are also significant benefits for consumers, who meet less traffic as they travel to less congested stores, it would seem to be a “win-win” situation that only a few “dinosaurs” want to fight on mere principle.

Nevertheless, some cold water needs to be thrown on the illusions of these traders. Opening one more day brings more business only if the competition is closed at that same time. This is as true for furniture, books, CDs or clothes as it is for baguettes. If all the stores that sell furniture or appliances are open 7 days a week, they will sell the same amount as if they are open 6 days a week. If only one of them is open on Sundays and its competitors are closed, it can then capture a significant market share. It is easier to purchase washing machines, televisions and furniture on a Sunday than on a weekday. So anyone who opens on their own will benefit greatly. But ultimately consumers buy children’s rooms based on how many children they have, their age or the size of their home. They do not buy more just because they can do their shopping on Sunday. It is their income that will have the last word.

It is possible that a marginally larger number of books or furniture are sold through impulse buying on Sunday, if the retailers specializing in these items are open. But consumer budgets cannot really be stretched, so more spending here will be offset by less spending elsewhere. Year after year, new products, new reasons for spending, new commercial stimuli and new forms of distribution emerge, but these changes do not alter the constraints on consumers or their decisions.

In the case of business involving foreign tourists, who are passing through France, opening on Sunday could lead to an increase in sales. Tourists could spend less in another country or after they return home. But this positive impact is largely addressed by existing exemptions.

In 2003, the strict German legislation regulating retailer opening times was relaxed. This did not lead to any change in the population's consumption or savings (Figure 1). Value added, employment and payroll in the retail sector stayed on the same trajectory (relative to the overall economy, see Figure 2). Opening longer does not mean consuming more.

The issue of Sunday opening is a matter of social time and its synchronization as well as consumer convenience and the freedom of the workforce to make real choices about their activities. Sunday work affects many employees, so expanding it is a societal choice, not a matter of economic efficiency.

Finally, the complexities of the legislation on Sunday work and its unstable character have led economic actors to adopt avoidance strategies. For example, in order to open on Sunday Louis Vuitton installed a bookstore (with travel books!) on the 5th floor of its Champs Elysées store (the other Louis Vuitton stores in Paris are closed on Sundays). Selling luxury bags thus became a cultural activity. Large food stores (which can open on Sunday morning) sell clothing and appliances, thus justifying other ways of working around restrictions by non-food retailers, who view this as unfair competition. These workarounds render the law unjust and distort competition with a legal bluff as cover.

Any change in the law should pursue the objective of clarification and not introduce new loopholes (as did the recent amendment of December 2007 to the [Chatel law of 3 January 2008](#) extending earlier exemptions to include the retail furniture trade).

Homer, a cultured American on a visit to Athens, attempted to save Ilya from her sordid fate by introducing her to art and literature. But Homer was acting on behalf of a pimp from the Athens docks who wanted to put an end to the free-spirited Ilya's subversive influence on the other prostitutes. When Ilya learned of this, she went back to her work: trading herself for money. Her dignity came from never doing it on Sunday.

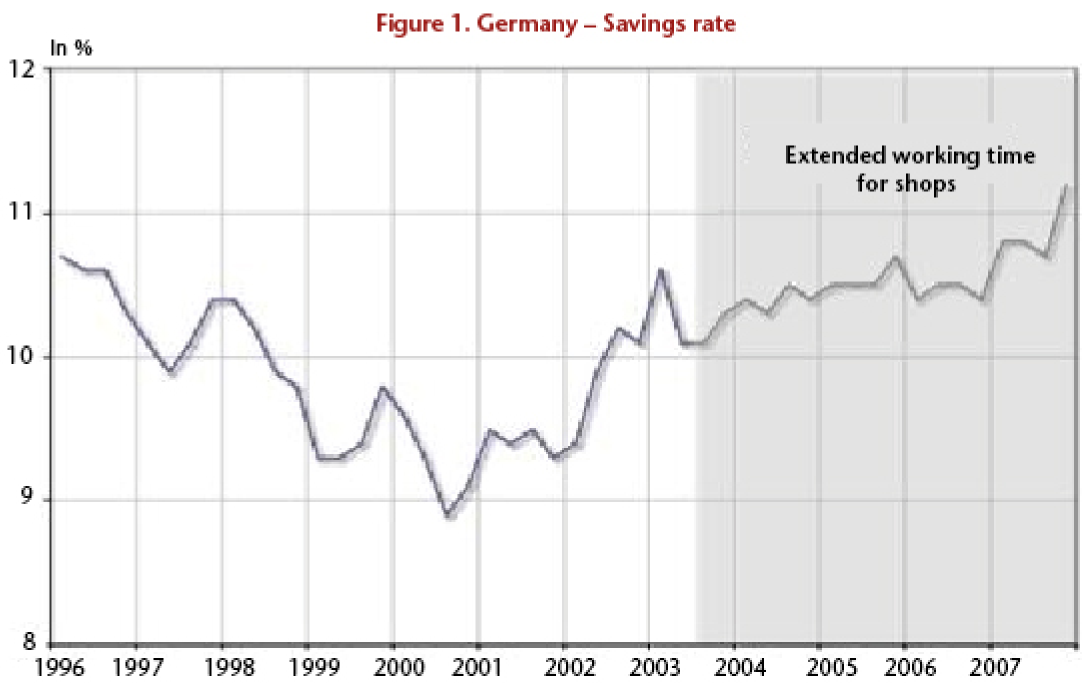
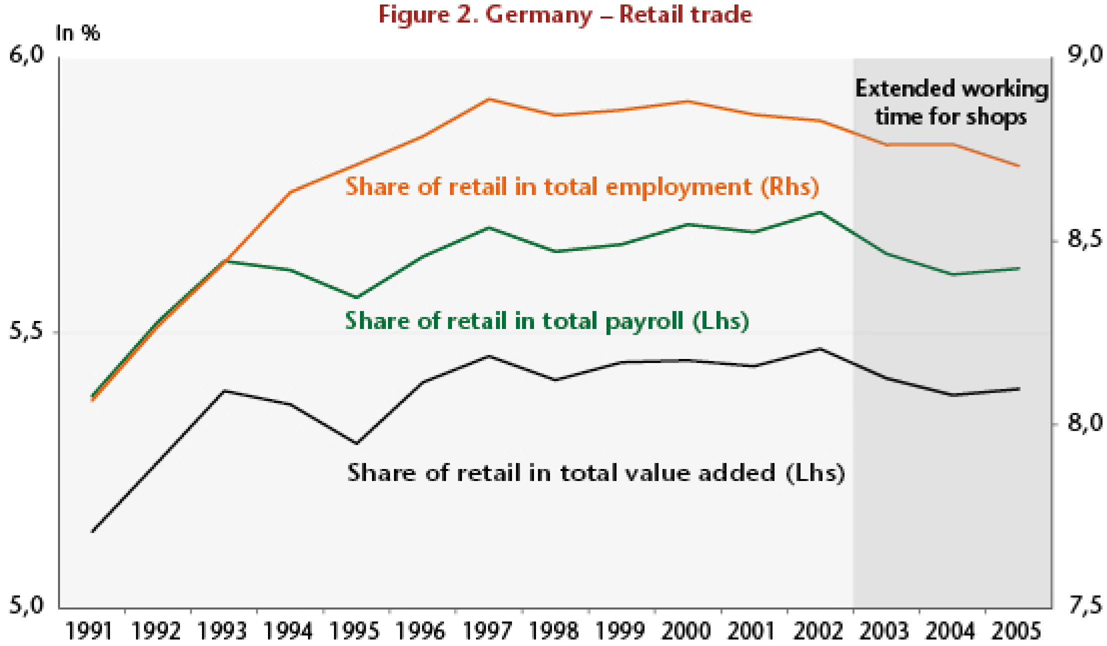


Figure 2. Germany – Retail trade



Sources : Annual accounts, Statistisches Bundesamt Deutschland. The savings rate is gross savings relative to gross disposable income. In the German classification, retailing is sector WZ-52. Author's calculations.