

Family benefits: family business?

By [Hélène Périvier](#)

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

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

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

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

spending or increase revenues?

Staying the course?

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

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

Nothing of course prevents us from changing tack by changing the relationship between these two principles. Indeed, family policy does need to be reformed: it should take into account the changes undergone by French society in recent decades (which policy now does only partially): increased numbers of women in the workforce, the rise in divorce and unmarried partnerships (today most children are born to couples who are neither married nor civil partners), new family configurations, concern for the equality of children with respect to collective care and socialization, territorial inequalities, etc. ([Périvier and de Singly, 2013](#)). These considerations on family policy need to be integrated into an

overall vision of the tax-benefit system for families –otherwise public policy risks becoming incoherent. The mission statement behind the Fragonard report highlights above all rebalancing the family branch accounts by 2016, “with a significant shift from 2014”.

Don't lose your bearings!

While staying the course on family policy, some leeway is possible. To draw on the contributions of all households, the taxation of the couple could be reviewed. Under the current system, married couples or civil partners have two tax shares; this leads to tax reductions that increase in line with the difference in the income of the two partners (the extreme case being that of Mr. Breadwinner and Mrs. Housewife, the arrangement that this type of taxation was designed to encourage). This is what is called the conjugal quotient [\[1\]](#). This “benefit” is not capped [\[2\]](#), unlike the benefit related to the presence of a child (the famous family quotient, whose ceiling was recently reduced to 2000 euros). Capping the conjugal quotient would not call into question the principle of horizontal equity, as many childless couples benefit from it, couples who, for the most part, had dependent children in the past and have benefited from a generous family policy. Doing this would spread the effort to rebalance the family branch accounts over a wide range of households, including those who do not have or no longer have dependent children [\[3\]](#). The complete elimination of the conjugal quotient (*i.e.* the individualisation of taxes) would provide additional tax revenue of 5.5 billion euros ([HCF, 2011](#)). This tax “benefit” could initially simply be capped: the yield would be greater or smaller, depending on the ceiling adopted [\[4\]](#). The distribution of the gain for couples related to the marital quotient is concentrated among the highest income deciles ([Architecture des aides aux familles, HCF, 2011](#)). Another possible tax revenue concerns the extra half-share granted for having raised a child alone for at least 5 years. Now capped

at 897 euros, this benefit could be eliminated, as it does not meet any of the principles set out above and it is doomed to disappear.

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

There is no free lunch...

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

Subjecting the family allowance to conditions would help to target wealthy families while not affecting the others. This targeting would enhance the redistributive character of the system, which would definitely be an advantage. But this requires setting income thresholds above which the amount of benefits received decreases. So families in similar situations would receive different levels of benefits depending on whether their incomes were just below or just above the

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

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

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

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

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

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

[\[2\]](#) It is, implicitly, but for extremely high levels of income, reaching the upper end of the income tax brackets with or without the marital quotient (this implicit cap limits the advantage to 12,500 euros).

[\[3\]](#) On condition that these additional tax revenues are paid

to the family branch.

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

Zero interest loans: only for the rich?

By Pierre Madec

On 1 January 2013, a new version of the zero-interest loan (*prêt à taux zéro* – PTZ) came into force. It is more restrictive than previous versions, with lower eligibility ceilings and a sharper focus on new housing (and old “HLM” council housing). Here we review the measure’s possible consequences.

Given the great pressure on today’s rental market ([Le Bayon, Madec and Rifflart, 2013](#)), the goal of facilitating access to homeownership for first-time buyers with low down payments is commendable. Nevertheless, some questions need to be asked: are the poorest households the primary beneficiaries? Does a PTZ loan trigger the purchase of a first principal residence (an incentive effect) or does it simply accompany the purchase (a windfall effect)? Has the development of PTZ loans and their long-term implementation significantly helped expand supply on the market for new properties? And is the budgetary expenditure associated with the measure cost-effective in light of the overall results?

Established in 1995 to facilitate access to homeownership for poorer households, zero interest loans have evolved since then along with budgetary constraints and political decisions. In 2005, the scheme, previously reserved for the purchase of a new home (or an existing home needing extensive renovation), was extended to include the acquisition of existing homes with no conditions on renovation in order to increase homeownership in areas with a shortage of land (including Paris). This led to doubling the number of PTZ loans granted in 2005. Similarly, in 2011, the removal of eligibility ceilings allowed the programme to set a record with the grant of nearly 352,000 PTZ loans. In the context of the fiscal and real estate crisis, the reappearance in 2012 of ceilings on income and the elimination of old dwellings (excluding HLM housing) from the programme's eligibility list reduced the number of PTZ loans to a historically low level (64,000).

On paper, the principle of this “reimbursable non-interest-bearing loan” is simple: in return for the agreement of a loan at zero interest, the banks benefit from a tax credit in the amount of the uncollected interest. This loan, which is limited to a certain loan-to-value ratio [\[1\]](#), must be associated with a mortgage, or principal loan, and can therefore be considered as a personal contribution during the acquisition of the principal residence, thus at the time the principal loan is granted.

In fact, calculating the volume of PTZ loans granted is complex, as it involves [ceilings on income](#) and on the [transaction amounts](#), which depend on the geographical area and the loan-to-value ratio. Similarly, the terms of repayment (the duration and grace period) are defined based on membership in an “[repayment bracket](#)” (*tranche de remboursement*) that is calculated based on the household's resources and composition.

Are PTZ loans stimulating the supply of housing on the market for new properties?

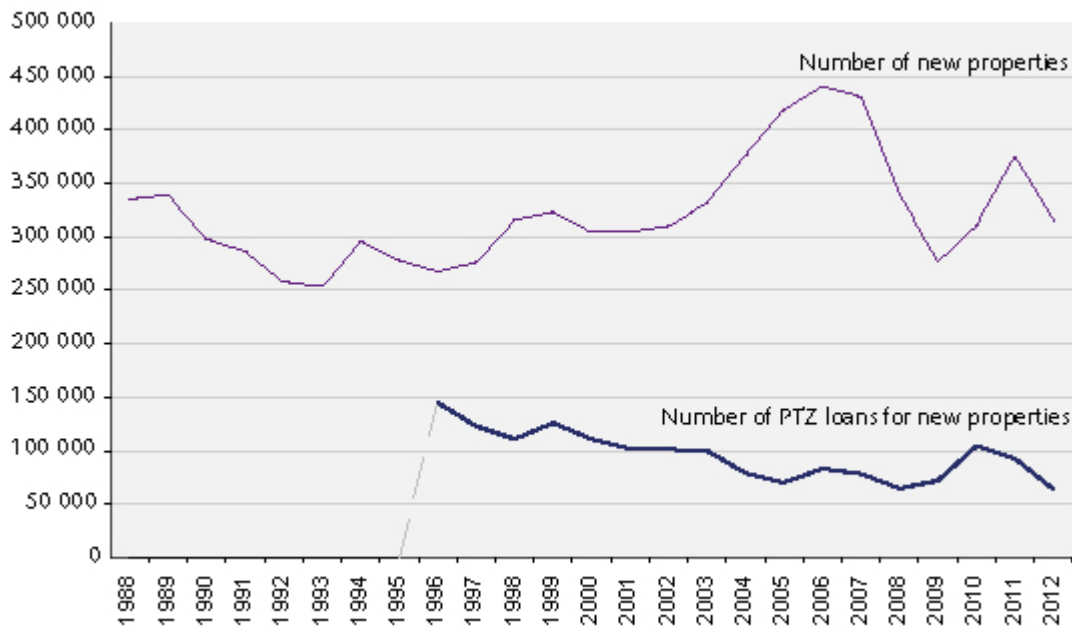
One of the stated objectives when creating the programme was to support and boost a sluggish market for new properties. It is actually difficult to assess the impact of PTZ loans on the construction market. Observing the evolution of the number of dwellings constructed before and after the implementation of PTZ loans (Figure 1), it does not appear that the 150,000 PTZ loans granted in 1996 had a significant impact on the volume of new housing units. From this quick observation seems to emerge the idea that even without the programme, and taking into account the rather mild economic situation, the housing market would have been equally dynamic. Similarly, the growth observed on the new property market over the period 1999-2007 is not attributable to the programme to facilitate homeownership [21].

According to the latest available statistics ([SGFGAS 2012](#)), as with incentive schemes for rental investment ([Madec 2013](#), [Levasseur 2011](#)), the zones established during the implementation of PTZ loans leave it very difficult to direct investment into the areas under the greatest pressure. Thus, in the third quarter of 2012, more than half of PTZ loans were granted for purchases in Zone C, that is to say, the area least susceptible to market pressures (against 15% for Zone A [31]). This is largely explained by the extreme scarcity (and high cost) of land in Zones A and B. It was in order to end this form of geographical discrimination that in 2005 the system was opened to old housing. Over the period 2005-2011, more than a million PTZ loans were granted for the acquisition of an existing dwelling, thereby betraying one of the initial objectives of the programme.

Finally, despite a willingness to promote high environmental quality housing, including through the provision of higher loan-to-value ratios for energy-efficient housing (BBC) [41], the PTZ loans have played only a small role in the construction of BBC housing, as in the third quarter of 2012 two-thirds of the loans granted were for the purchase of

housing that does not meet BBC standards.

Figure. Number of new properties built and of PTZ loans granted



Sources : Minister of Housing, SGFGAS.

Do PTZ loans facilitate homeownership for poorer households?

One of the main criticisms of PTZ loans is the poor quality of the targeting. Whereas the purpose of the programme is to help households in the greatest difficulty by financing an initial down payment, the particularly high level of the income ceilings (when they are not simply eliminated entirely as in 2011) has meant eligibility for households with no *a priori* need for the State in order to acquire property. For example, the eligibility ceiling in 2012 was 43,500 euros annually for one person wishing to acquire a principal residence in Zone A. This ceiling made 90% of households in the Paris region eligible for PTZ loans (source: INSEE) [\[5\]](#).

Furthermore, numerous studies have attempted to measure the impact of PTZ loans on household financing capacity ([ANIL 2011](#), [Beaubrun-Diant 2011](#), [Gobillon and Le Blanc 2005](#), [Thomas and Grillon 2001](#)). Gobillon *et al.* thus concluded that PTZ loans “trigger the purchase” for only 15% of homebuyers. In other words, according to the model proposed by the authors,

85% of households have access to the property with or without the PTZ. Similarly, recent studies on the profile of homebuyers ([Le Bayon, Levasseur et Madec 2013](#), [Babès Bigot Hoibian 2012](#), [INSEE 2010](#)) highlight how it is becoming increasingly difficult for poorer households to purchase a home. Thus, according to Le Bayon *et al.*, households in the lowest quartile of living standards, the households targeted by the homeownership programme, have seen their chance of acquiring a principal residence halved between 2004 and 2010. In view of these various results, it seems that the PTZ loan programme is having difficulty, at least in its earlier versions, playing a role in helping low-income households to become homeowners. This conclusion may need to be nuanced, however, if we look at the latest statistics provided by the SGFGAS. According to these data, workers and employees accounted for 25% and 33% respectively of the recipients of PTZ loans in the third quarter of 2012. Similarly, one out of three recipients belonged to the lowest “repayment bracket”. However, as the calculation of these brackets takes into account particularly high income ceilings, membership in the first repayment bracket is not really equivalent to meeting “poverty criteria”.

Finally, by increasing demand for new housing on a market with low supply elasticity and by allowing many households to acquire more expensive housing, programmes to assist homeownership have long been reproached for their inflationary effects ([ANIL, 2002](#)).

The PTZ programme: how much does it cost?

For 2012, the cost to the State for the PTZ programme was 1.34 billion euros. Given the number of beneficiaries, this may seem expensive, but, like all public assistance programmes, it needs to be analyzed in terms of efficiency.

A quick assessment can be made of the impact of the PTZ programme on housing investment. To estimate the multiplier

effect of the PTZ programme in 2012, we used the latest available statistics (SGFGAS 2012) and made the following assumptions [6]:

- 50% of the beneficiaries belonging to the lowest (*Tranche 1*) repayment bracket are what are called “triggered” households (*i.e.* 15 % of all beneficiaries);
- Thanks to a PTZ loan, “non-triggered” households increase the amount of their purchase by 3%.

Table. Breakdown of PTZ loans by repayment bracket and evaluation of the Impact on housing Investment

Repayment bracket	Membership	Membership	Average amount	Average amount	Impact of PTZ
	in %	in %	of the operation (€)	of PTZ loan granted	on investment in housing (billion €)
1	19 200	30	173 000	38 620	+ 1 711
2	6 400	10	178 000	32 077	+ 34
3	6 400	10	184 000	32 500	+ 35
4	6 400	10	183 000	29 000	+ 35
5	12 800	20	170 000	23 000	+ 65
6	12 800	20	188 000	21 000	+ 72
Total	64 000	100	179 000	29 800	+ 1 953

Source: SGFGAS, author's calculations.

Overall, therefore, according to our estimates and under the assumptions spelled out above, in 2012 the PTZ programme stimulated almost 2 billion euros in investment in housing at a tax cost of 1.3 billion euros. The multiplier effect was therefore 1.5. This is in the lower range of what has been observed in other countries with similar programmes (1.5 to 2). This multiplier could be much higher if households were targeted more rigorously. Indeed, for the “Tranche 1” repayment bracket, under the above assumptions and considering that this segment accounts for half of the tax expenditure (a generous assumption), the multiplier is 2.6. However, we are still far from the optimal theoretical multiplier of 6 estimated by Gobillon and White [7].

What about the 2013 version of the PTZ?

To deal with the various criticisms that have been raised, on 1 January the government attempted to improve the conditions for access to the PTZ programme by:

- Reducing eligibility ceilings from 17% (in zone A) to 30% (in zone C);
- Freezing ceilings on the transaction cost in new housing and ex-HLM (council) housing;
- Lowering the loan-to-value ratios;
- Re-establishing repayment deferrals of up to 15 years for households in the lowest repayment bracket.

For the most part, these measures will help to target assistance for homeownership more accurately. However, some improvements could still be made. In 2013, the income ceilings for Zone A still include about 80% of inhabitants of the Paris region. In addition, the possibility of acquiring existing HLM council housing, which is potentially very energy-consuming, seems inconsistent with the promotion of new energy-efficient housing. For low-income households in high-demand areas, would it not be better to promote the purchase of housing that, while not new, has energy characteristics closer to what is required for new housing?

Likewise, re-establishing the principle of repayment deferrals of up to 15 years could prove objectionable. Indeed, it may lead to undermining the solvency of some households by reducing the duration of their principal loan. The banks, taking into account the deferral, tend to align the duration of the principal loan with the duration of the deferral in order to avoid an excessive jump in the future monthly repayment. So, the deferral may on the contrary increase the risk of default, as, once the deferral is over, households may be hit by a surge in their monthly payments ([Bosvieux and Vorms, 2003](#)).

Finally, the freeze on transaction ceilings cannot be sustained given first, the growing gap that exists between the

ceilings and market prices, and second, the continuous increase in construction costs resulting from the normative inflation experienced by the sector.

To conclude, it is important to take note of the existence of a debate over the very need for a programme to assist homeownership: should the State encourage, assist or finance homeownership for renters? Should taxpayers help renters to become homeowners, as with tax incentives for investment in rental housing? For the poorest households, who find it impossible to come up with a sufficient personal contribution for a purchase, it may seem reasonable to assume that the State is playing its role by helping the most vulnerable to follow the standard residential trajectory, from cohabitation with parents to rental and then ownership. For others, we cannot rule out the existence of significant windfall effects, as outlined above. To avoid these problems and improve the financial positions of the households originally targeted by the programme, a thorough overhaul of programmes to promote homeownership (social or otherwise) is essential.

[1] That is, a maximum percentage of the amount of the transaction.

[2] The new property market was, for the period under consideration, boosted strongly by programmes to stimulate rental investment (see Le Bayon *et al.* 2013).

[3] Paris, the near suburbs and part of the outer suburbs.

[4] In 2012, for purchases in Zone A, the loan-to-value ratio was 38% for new energy-efficient (BBC) housing versus 26% for non-BBC.

[5] For an annual income of 43,500 euros, assuming a rate of 3.2%, borrowing capacity came to an average of 260,000 euros (excluding the PTZ loan), *i.e.* a housing unit of at least

50 sq.m in the near Paris suburbs (excluding the communes bordering Paris).

[6] These assumptions are in accord with the results of the modelling proposed by Gobillon and Le Blanc (2005). The latter found a multiplier effect for the PTZ programme on the order of 1.1 to 1.3.

[7] This multiplier was estimated by assuming perfect targeting for the programme, that is, that all the beneficiaries are “triggered” households.

In honour of Robert Castel

[Hélène Périvier](#), Bruno Palier, Bernard Gazier

It is with great sadness that we have learned of the death of Robert Castel. He left his mark on French sociology and on the social sciences more generally with his analysis of wage society and the way it's changing. In his work *les métamorphoses de la question sociale*, he highlighted the emancipatory power of “wage society”, which has endowed workers with “social property”. This concept facilitates an understanding of the challenges related to the acquisition of social rights in certain market economies. He preferred the term *Etat social*, the welfare state, to the commonly used term *Etat providence*, the provident state, as he saw in the latter the notion of □□a welfare state that had just dropped out of the sky, whereas it is the fruit of battles and negotiations and has been built over a long period of time. The flexibilisation of the labour market, the weakening of social rights and the casualisation of labour have, in his opinion, all been leading to the phenomenon of disaffiliation, as some individuals are simply beyond the reach of the welfare state's

protections.

We had the good fortune of collaborating with him on a project to redesign a new generation of social rights. Always ready to share and to learn from many-sided discussions, we also discovered a man of great humility, someone who listened to the contributions of others, but also to their criticisms – including to the feminists who pointed out his silence on the sexual division of labour. He accepted and recognized the relevance of their observations. During our discussions, he showed his concern about developments in our economic and social organization, which are shunting aside those who are most vulnerable: young people, especially those living in the most disadvantaged neighbourhoods, who are starting life with little educational preparation. He proclaimed equality as a founding principle of our social contract, but he also thought of equality as equality of opportunity. He argued for “solidarism”, as did Léon Bourgeois in his time.

In a world scarred by crisis and increasingly violent inequalities, Robert Castel was present in the public debate, and brought a long-term perspective to the failings of our social systems, as well as to the principles that could guide reform. His absence will affect the quality of this debate. While we can still benefit from the great contributions of his work, we will miss his always relevant interventions, his intellectual honesty, and his kindness to all. More than a researcher, we have lost a thinker, and a friend.

France, Germany: The nonworking poor

By [Guillaume Allègre](#)

“The ways of thinking society, managing it and quantifying it are indissolubly linked”

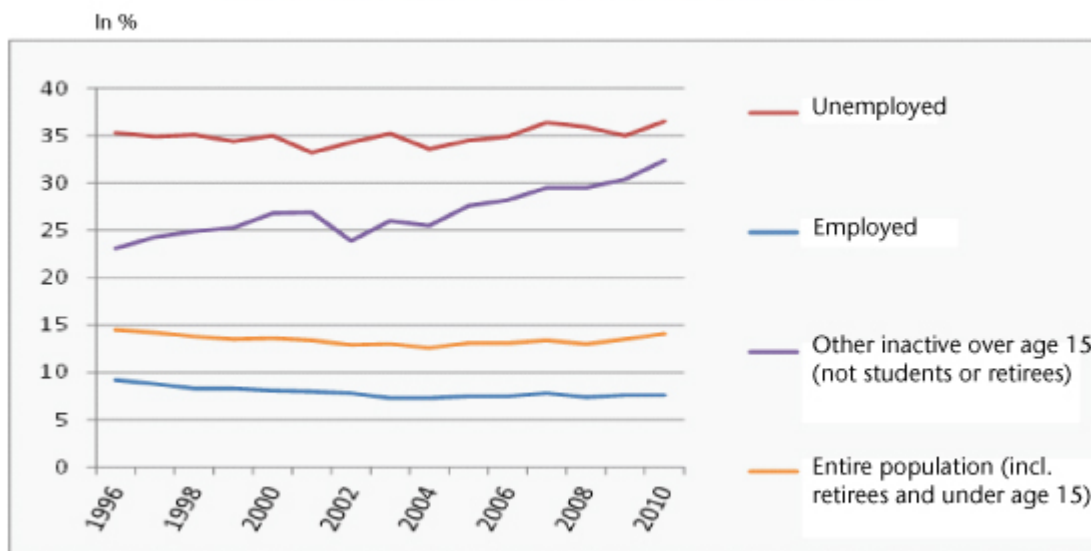
[Alain Desrosières](#), 1940-2013

The subject of working poverty emerged in Europe in public debate and academic discussion in the early 2000s, in parallel with the implementation of policies to “make work pay”. European guidelines on employment have explicitly mentioned the need to reduce working poverty since 2003, and Eurostat set up an indicator on the working poor in 2005 ([Bardone and Guio](#)). In France, policies to make work pay have taken the particular form of earned income supplements ([PPE](#), then [RSA](#)). In Germany, a series of reforms of the labour market and social welfare (the Hartz Laws) were introduced in the early 2000s with the aim of activating the unemployed. Critics of the German reforms often highlight the proliferation of atypical forms of employment ([Alber and Heisig, 2011](#)): the recourse to part-time, low-wage work and mini-jobs without social protection. In France as in Germany, this focus on workers has masked a less well-known aspect of the changing face of poverty: among working-age people, it is poverty among the unemployed (the “inactive” in France, the “unemployed” in Germany) that has been on the rise since the late 1990s.

Figure 1 shows the change in the poverty rate for individuals between 1996 and 2010, calculated at the threshold of 60% of the median living standard, according to their employment status. Two points stand out. First, poverty primarily affects the unemployed: their poverty rate was about 35% over this period. Second, economically inactive people over age 15, who

are neither students nor retired (called “other inactive”), *i.e.* the “discouraged unemployed” and men and women (especially women!) in the home, are the group most affected by the rise in poverty. Their poverty rate was 23% in 1996, but hit 32% in 2010. At the same time, poverty among people in work fell from 9% to 8%. As a result, while the economically active with jobs accounted for 25% of the poor in 1996 and “other inactive” 12%, the latter’s share of the poor rose to 17% in 2010 while the share of the active declined to 22%. The weight of the working poor among all poor people is tending to decrease, while the weight of the inactive is rising.

Figure 1 : Poverty rates according to activity status, France



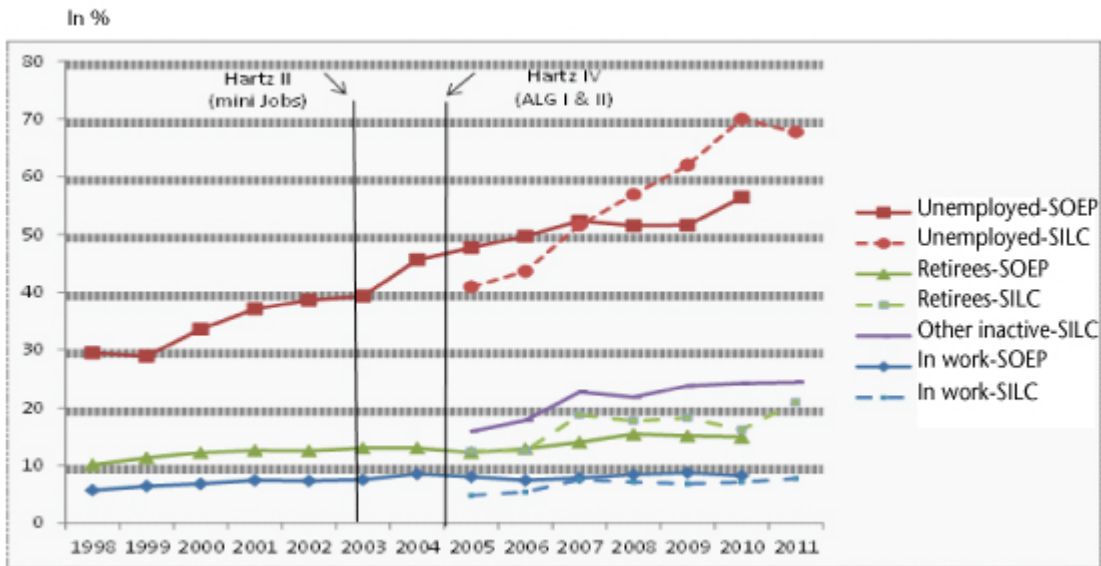
Source : Insee-DGI, Enquêtes Revenus fiscaux et sociaux rétrospectives 1996 à 2004 ; Insee-DGFIP-Cnaf-Cnav-CCMSA, Enquêtes Revenus fiscaux et sociaux 2005 à 2010.

As for Germany, the analysis of poverty rates by employment status is fraught with discrepancies attributable to the sources, in particular with regard to changes in the poverty level among the unemployed, which according to Eurostat (EU-SILC survey) is much higher than in the national SOEP survey (see Figure 2). Despite the statistical uncertainties, it is still clear that poverty affects the unemployed above all, and that their poverty rate has risen substantially: from 30% to 56% between 1998 and 2010, according to the SOEP survey, which is generally considered more reliable than the SILC ([Hauser, 2008](#)). While poverty is increasing for all categories of the population ([see Heyer, 2012](#)), it is among the unemployed that

it is most pronounced.

The increase in poverty among the jobless is the result of certain provisions of the Hartz IV laws, which are less well known than those establishing mini-jobs (Hartz II). Prior to this legislation, the jobless could receive unemployment benefits for a maximum period of 32 months, after which they could receive means-tested unemployment assistance for an indefinite period ([Ochel, 2005](#)). But unlike the ASS benefit [i] in France, the amount of this assistance depended on the net income at the last job and provided a relatively generous replacement rate (53% of net income for people without children). This system was replaced starting in 2005 by a much less generous compensation, based on the goal of employment activation. Unemployment benefit (*Arbeitslosengeld I* – ALG I) was limited to 12 months for unemployed people under age 55, and the grounds for penalties were expanded. Following this period, unemployment assistance (*Arbeitslosengeld II* – ALG II) is greatly reduced and essentially serves only as an ultimate safety net: the amount for a single person is limited to 345 euros per month, while the penalties have also been expanded and toughened [ii]. Germany's strategy to promote employment hence uses two levers: reducing income support for the unemployed, and penalties. While this policy may have contributed to lowering unemployment (see [Chagny, 2008](#), for a discussion of the controversial impact of this reform), by its very design it has had a significant impact with regard to poverty among the unemployed.

Figure 2 : Poverty rates according to employment status and source, Germany



Source : Eurostat (SILC) ; DIW (SOEP).

One paradox that needs to be examined is the only small change since the early 2000s (at least according to the SOEP survey) of the poverty rate among people in work. Indeed, during this period, the proportion of low-wage workers rose and the recourse to part-time work increased sharply, without a substantial rise in the poverty rate for people in work. In 2010, 4.9 million people (12% of people in work) held a mini-job for which they cannot receive more than 400 euros per month in earned income ([Alber and Heisig, 2011](#)). There has also been the growth of part-time work with social protection (from 3.9 million jobs in 2000 to 5.3 million in 2010). We would expect therefore to see an increase in working poverty. But this is being countered by two factors: the development of opportunities for cumulation with unemployment benefits (the third lever of the employment activation policy), and family solidarity. Indeed, part-time and low-wage jobs are predominantly held by women, who account for two-thirds of workers on low annual incomes [iii]. The income of their spouse, when they have one, often enables them to avoid poverty, as the income of all household members is aggregated to determine the standard of living and poverty. In this respect, to paraphrase [Meulders and O'Dorchai](#), the household is a fig-leaf concealing women's low incomes. Lone mothers, on the other hand, are especially affected by poverty: the

poverty rate is about 40% among single-parent families.

From the perspective of the indicators, the use of the category “working poor” thus poses several problems. First, the category hides the role of unemployment and inactivity as determinants of poverty; by its very name, it highlights one important determinant of working poverty (“work doesn’t pay”) in relation to other determinants (“small number of hours worked” or “heavy family responsibilities”). Public policies based on this approach thus run the risk of limiting the population targeted by the fight against poverty (in France, people on unemployment benefit are excluded from the RSA-activité [income supplement for the working poor]) and of focusing on strengthening financial incentives for returning to work in order to stimulate the supply of labour, even though the high level of unemployment is related to the demand-side rationing of labour. Second, the category is blind to gender inequality: women are more often poor and constitute the majority of low-wage workers, but they are less likely to be working poor! ([Ponthieux, 2004](#)) If all that we manage well is what we measure, it is necessary that the measure be easily interpreted by policy makers. Reducing inequalities in living standards (between households) and in earned income (between individuals) are two legitimate public policy goals (as explained [here](#) [in French]), which need to be measured separately, just as these two goals require the use of specific instruments.

From the standpoint of public policy, the change in poverty based on employment status in France and Germany emphasizes that an effective fight against poverty requires addressing all forms of poverty. For the working-age population, in economies where dual-earner couples have become the norm, this means putting in place policies on full-time work and full employment policies that do not foster atypical forms of work. This requires, from a macroeconomic point of view, growth or job-sharing (and the associated income-sharing) and, from a

microeconomic point of view, meeting needs with respect in particular to childcare, training and transport. While these policies are costly, more economical measures, such as strengthening financial incentives, have failed to demonstrate that they can actually reduce overall poverty.

[i] The *Allocation de solidarité spécifique* (ASS), means-tested benefits paid to unemployed persons whose right to unemployment benefits has expired.

[ii] In total, 1.5 million penalties were applied in 2009, for 2.8 million on jobless benefits, compared with 360,000 in 2004, for 4 million on jobless benefits (according to [Alber and Heisig, 2011](#), Tables 6-8, pp. 24-30).

[iii] Set at the threshold of two-thirds of median salary.

Should family benefits be cut? Should they be taxed?

By [Henri Sterdyniak](#)

The government has set a target of balancing the public accounts by 2017, which would require cutting public spending by about 60 billion euros. The Prime Minister, Jean-Marc Ayrault, has given Bernard Fragonard, President of the Haut Conseil à la Famille, France's advisory body on the family, a deadline of end March to propose ways to restructure family policy so as to balance the budget for the family accounts by 2016. Aid to families thus has to be cut, by 2.5 billion euros (6.25% of family benefits), *i.e.* the equivalent of the 2012

deficit for the CNAF, the French national family allowances fund. Is this justified from an economic perspective and a social perspective?

The CNAF accounts have been hit by the recession, as the amount of social security contributions and CSG tax that it receives has gone down. Based on an estimate that total payroll is 5% below its normal level, the loss of revenue for the CNAF can be estimated at 2.5 billion euros. The CNAF deficit as a whole is thus cyclical. Arguing that the way to cut the deficit is by reducing benefits undermines the stabilizing role of public finances. Consider a fall in private demand of 1% of GDP; assuming a multiplier equal to 1, GDP also shrinks by 1%; the deficit in the public finances will then increase by 0.5%. If you want to avoid this deficit, then government spending would need to be cut by 0.5% of GDP, which would then reduce GDP, and consequently tax revenue, thereby requiring further reductions. *Ex post*, public spending would fall by 1% and GDP by 2%. Fiscal policy would then be playing a destabilizing role. The CNAF therefore needs to be managed based on looking at its structural dimension, which was in fact balanced in 2012. On the economic front, in a situation of a deep depression, when consumption and activity are stagnant, nothing can justify undermining the purchasing power of families [\[i\]](#).

Moreover, successive governments have gradually made the CNAF responsible for both pension benefits for stay-at-home parents (4.4 billion euros in 2012) and increases in family pensions (4.5 billion in 2012). Thus, of the CNAF's 54 billion euros in funds, nearly 9 billion is being diverted into the pension scheme and does not directly benefit children.



This diversion has been possible because family benefits have risen only slightly in the past, as they are generally indexed to prices, not wages. Worse, in some years, benefits have not

even risen at the same pace as inflation. Finally, from 1984 to 2012, the monthly basis for calculating the family allowance (the BMAF) lost 5.7% in absolute purchasing power (column 1 of the table), but 25% in purchasing power relative to median household income (column 2). Should we perpetuate and even widen this growing gap?

Young people under age 20 represent 25% of the population. Using the INSEE's equivalence scale, 12.5% of household income should be provided by the family benefits that go to families with children in order to ensure that they have the same standard of living as people without children. Yet the totality of family benefits represents only 4.2% of household income [\[ii\]](#).

The RSA income support is significantly lower than the pension minimum under the pretext of encouraging RSA beneficiaries to work, but this is hurting the living standards of children, who usually live with people in the workforce, not with pensioners. The creation of the RSA *activité* [the income supplement for the working poor] could have provided significant additional resources for many families of low-wage workers, but it is poorly designed: many potential beneficiaries don't even apply for it. Moreover, it does not benefit the unemployed (and thus their children). In 2010, the poverty rate of children (at the 60% threshold) was 19.8%, compared with 14.1% for the population as a whole. At the 50% threshold, it was 11.1%, against 7.8% for the general population. This means that 2.7 million children are below the 60% poverty line, with 1.5 million even below the 50% line.

A family with three children has a lower standard of living than a childless couple earning the same wages: by 16% at the level of two times the minimum wage, and by 30% at the level of five times the minimum wage. Family allowances have become very low for the middle classes; the family quotient simply takes into account the reduction in living standards caused by the presence of children, but it does not provide specific

assistance to families. Aid to children is not excessive at any level of income. In 2010, the average standard of living was 10% lower for children than for the average population. The opposite should be the case, since children need a decent standard of living to develop their full potential, and parents who raise their children play a fundamental social role, in addition to their role in the workforce.

Should the family allowance be taxed? This would mean ignoring that the amount is already very low compared to the cost of children. Median income per consumption unit was around 1 660 euros in 2012; the average cost of a child, who represents 0.3 consumption unit, is thus about 500 euros. Yet the allowance amounts to 64 euros per child for a family with two children and 97 euros per child for a family with three children. The allowance would thus have to be at least multiplied by 5 before taxing it became a legitimate question.

Making progress toward the goals on French family policy proclaimed in the Social Security Financing Act (LFSS) [\[iii\]](#) – reducing disparities in living standards due to family structure, lifting all children out of poverty, increasing the number of places in childcare – would require devoting greater resources to family policy. This is a burden that should be borne by all taxpayers, not just by middle-class families, who are not the ones most favoured under the existing system.

Cutting the amount that the nation spends on its children by 2.5 billion euros would be a mistake in terms of both macroeconomic policy and social policy. As Charles Gide observed, “Of all the investments a country can make, it is the education of the children that is the most profitable.”

[\[i\]](#) For a similar argument, see Gérard Cornilleau, 2013,

“Should spending on unemployment benefits be cut?”, *OFCE blog*, 6 February.

[\[ii\]](#) See Henri Sterdyniak, 2011, “Faut-il remettre en cause la politique familiale française”, *Revue de l’OFCE*, no. 116.

[\[iii\]](#) See the PLFSS, 2013, *Programme de qualité et d’efficience, Famille*.

Should spending on unemployment benefits be cut?

By [G rard Cornilleau](#)

The Cour des comptes [Court of Auditors] has presented a [report on the labour market](#) which proposes that policy should be better “targeted”. With regard to unemployment benefits in particular, it focuses on the non-sustainability of expenditure and suggests certain cost-saving measures. Some of these are familiar and affect the rules on the entertainment industry and compensation for interim employees. We will not go into this here since the subject is well known [\[1\]](#). But the Cour also proposes cutting unemployment benefits, which it says are (too) generous at the top and the bottom of the pay scale. In particular, it proposes reducing the maximum benefit level and establishing a digressive system, as some unemployed executives now receive benefits of over 6,000 euros per month. The reasoning in support of these proposals seems wrong on two counts.

In the first place, the diagnosis of the system's lack of sustainability fails to take the crisis into account: if Unedic is now facing a difficult financial situation, this is above all because of falling employment and rising unemployment. It is of course natural that a social protection system designed to support employees' income in times of crisis is running a deficit at the peak of a crisis. Seeking to rebalance Unedic's finances today by cutting benefits would abandon the system's countercyclical role. This would be unfair to the unemployed and economically absurd, as reducing revenues in a period of an economic downturn can only aggravate the situation. In such circumstances, it is also easy to understand that arguments for work incentives are of little value: it is at the top of the cycle, when the economy is approaching full employment, that it makes sense to raise the issue of back-to-work incentives. When the economy is bumping along the bottom, encouraging a more active job search may change the distribution of unemployment, but certainly not its level.

The current deficit in the unemployment insurance system simply reflects the situation of the labour market. A few calculations can help to show that the system's generosity is fully compatible with financial stability in "normal" times. To establish this, we simply measure the impact of economic growth, employment and unemployment on the system's deficit since 2009. In 2008, Unedic was running a financial surplus of nearly 5 billion euros [2]. This turned into a deficit of 1.2 billion euros in 2009 and 3 billion in 2010, before recovering somewhat in 2011 with a deficit of only 1.5 billion, which then rose to 2.7 billion in 2012. For 2013, the deficit is expected to reach 5 billion. The Table shows our estimates of the impact of the crisis on the system's revenues and expenditures since 2009. The estimated revenue lost due to the crisis is based on the assumption of an increase in annual payroll of 3.5% per year (which breaks down into 2.9% for increases in the average wage and 0.6% for rises in

employment) if the crisis had not occurred in 2008-2009. On the expenditure side, the estimated increase in benefits due to the crisis is based on the assumption of a stable level of “non-crisis” unemployment, with spending in this case being indexed on the trend in the average wage.

Table. Impact of the crisis on Unedic’s accounts

In billions of euros

	Impact of the crisis...		Impact on the balance
	... on revenue	... on expenditure	
2009	-1,8	+4,1	-5,9
2010	-2,1	+5,1	-7,2
2011	-2,6	+5,5	-8,1
2012	-3,1	+6,5	-9,6

Source : Author’s calculations.

The results of this estimation clearly show that the crisis is solely responsible for the emergence of the substantial deficit run up by the unemployment insurance system. Without rising unemployment and falling employment, the system would have continued with a structural surplus, and the reform of 2009, which allowed compensation for unemployed people with shorter work references (4 months instead of 6 months), would have had only a minimal effect on its financial situation. There was no breakdown of the system, which was in fact perfectly sustainable in the long term ... so long as counter-cyclical economic policies are implemented that prevent a surge in unemployment, whose sustainability is now undoubtedly more of a concern than the finances of Unedic [\[3\]](#).

Based on a diagnosis that is thus very questionable, the Cour des comptes has proposed reducing the generosity of unemployment benefits. Since it is difficult to put forward proposals for cutting lower benefit levels, the Cour put more emphasis on the savings that could be achieved by limiting very high benefits, which in France may exceed 6,000 euros per month for executives on high-level salaries that are up to 4 times the maximum social security cap, which in 2013 was 12,344 euros gross per month. In reality, from a strictly accounting perspective, it is not even certain that this will

have positive effects on Unedic's finances. Indeed, few people benefit from these top benefit levels, because executives are much less likely to be unemployed than are other employees. On the other hand, their higher salaries are charged at the same contribution rates, meaning that they make a net positive contribution to financing the scheme. Calculations based on the distribution of wages and of the benefits currently received by unemployed people insured by Unedic show that employees who earn more than 5,000 euros gross per month receive about 7% of unemployment benefits but provide nearly 20% of the contributions. For example, we simulated a reform that would bring French unemployment insurance into line with the German system, which is much more severely capped than the French system. The German ceiling is 5,500 euros gross per month (former Länder), against 12,344 in the French system. By retaining a cap of 5,000 euros gross per month, the maximum net benefit level in France would be around 2,800 euros. Based on this assumption, the benefits received by the unemployed in excess of the ceiling would be reduced by nearly 20%, but the savings would barely amount to more than 1% of total benefits. On the revenue side, the lower limit would result in a reduction in revenue of about 5%. The existence of a high ceiling in the French unemployment insurance system actually allows a significant vertical redistribution because of the differences in unemployment rates. Paradoxically, reducing insurance for the most privileged would lead to reducing this redistribution and undermining the system's financial stability. Based on the above assumptions, shifting to a ceiling of 5,000 euros would increase the deficit by about 1.2 billion euros (1.6 billion revenue – 400 million expenditure).

This initial calculation does not take into account the potential impact on those whose unemployment benefits would be greatly reduced. To clarify the order of magnitude of this effect, which is, by the way, unlikely, we simulated a situation in which the number of recipients of the highest benefits would be cut in half (e.g. by a reduction in the same

proportion of the time they remain unemployed). Between the new ceiling and the highest level of the reference salaries, we estimated that the incentive effect increased linearly (10% fewer unemployed in the first tranche above the ceiling, then 20% fewer, etc., up to -50%). Using this hypothesis of a high impact of benefit levels on unemployment, the additional savings on benefits would be close to 1 billion euros. In this case, the reform of the ceiling would virtually balance (with an added potential cost [not significant] of 200 million euros). But we did not include the fact that the shortening of the duration of unemployment compensation for unemployed people on high benefits could increase the duration of the unemployed on lower benefits. In a situation of near full employment, it is possible to consider that the rationing of employment results from the rationing of the supply of work; in the current situation of a generalized crisis, the more realistic case involves the opposite situation of a rationing of demand for labour. Achieving budget savings by cutting high benefit levels is not credible, at least if we stick to a reform that does not change the very nature of the system.

One could of course obtain a more favourable result by reducing only the cap on benefits and not the cap on contributions. This would be very destabilizing for the system, since it would strongly encourage executives to try to pull out of a unified solidarity system that provides them with reasonable assurances today through the acceptance of a high level of vertical redistribution, while lowering the cap on benefits alone would force them to insure themselves individually while continuing to pay high mandatory fees. This type of change would inevitably call into question the basic principle of social insurance: contributions based on each person's means in return for benefits based on need.

The general economics in the Cour's report on unemployment benefits thus seem highly questionable because, by not taking into account the effect of the crisis, it winds up proposing a

pro-cyclical policy that puts additional burdens on the unemployed at a time when it is less possible than ever to make them bear the responsibility for underemployment. As for the key measure that challenges the compromise on high level benefits, it would at best be budget neutral and at worst destroy the social contract that today makes possible strong vertical redistribution within the unemployment insurance system.

[1] Unemployment insurance has a special scheme for interim workers in the entertainment industry worth a billion euros per year. It would obviously be sensible for this expenditure to be borne by the general budget and not by Unedic.

[2] Excluding exceptional operations.

[3] On economic policy in Europe and the lack of macroeconomic sustainability, see the initial [report of the Independent Annual Growth Survey project \(IAGS\)](#).

Superstars and fairness: Let the sky fall

By [Guillaume Allègre](#)

Are actors overpaid? A column by [Vincent Maraval](#) has launched a debate that is in essence ideological ... in a good way. Indeed, it seems proper that high incomes need to be justified based on arguments that can convince the largest number of people. Pay levels cannot be fair unless they are publicly

defensible. In this spirit, by drawing on an analysis of the economics of superstars, this post supports the idea that a small number of actors, and of artists in general, receive collectively constructed income, which justifies an intervention that is designed to reduce income inequalities.

How do you explain the huge revenues of a handful of singers or actors while most artists struggle to make a living from their work? The superstar effect has been analyzed by economists based on a seminal paper by Rosen ([The Economics of Superstars](#)). It is related to the structure of demand (by nature gregarious), technology (which allows broadcasting productions at a low cost) and the legal environment (which can be used to exclude stowaways or freeriders). To this we must add that the special position of entertainment stars allows them to capture a large share of the collectively constructed income. These characteristics justify a high level of income redistribution. It does not seem that this matter can be resolved satisfactorily just through the tax system: a tax rate of 75%, [which is already viewed as confiscation](#), is not enough in an economy where superstars can earn 100 times as much as the average income – not to mention the risk of tax exile. Intervening directly in the institutional environment and on pay, especially for projects that receive public funds or assistance thus seems legitimate.

Is it fair that artists who are successful are subject, for example, to a tax rate of 75% for incomes of over a million euros, or is this just confiscatory? If this question can be raised for all activities, entertainment (artistic or sports) can be considered as a case study, because there is little doubt about spectators' willingness to pay, and there is no information asymmetry or principal-agent problems. The issue of the compensation of artists does not arise in the same way as, for example, business leaders who are engaged in activities whose contribution is difficult to estimate (*i.e.* their marginal productivity), and who can exercise control

over the committees that set their pay: are the company's good results due to chance, to the work of the CEO, to the entire management team or to the effort of all the employees? Does the CEO's salary depend on their contribution or on their ability to convince the remunerations committee of their value? [In a recent note](#), Galbraith makes a distinction between the case of Depardieu and that of business leaders [i]. In his book *Anarchy, State and Utopia*, Robert Nozick uses the transparency of the entertainment industry and takes the example of a superstar of the time, the basketball player Wilt Chamberlain (the book was published in 1974), to justify very high incomes. His argument is famous: if a million people are willing to pay 25 cents extra to see Wilt Chamberlain play, and he signs a contract with a basketball team offering to pay him 25 cents per ticket, giving him an income of \$250,000, which is well above the median or average income at the time, is fair and legitimate. Redistributing this income would be immoral; freely consented inequalities must be respected.

But how do we explain the fact that many individuals are willing to pay so much for a particular artist, and nothing for most of the others? Where does this winner-take-all characteristic come from? In other markets, if a service is perceived as having a slightly lower quality, many buyers are willing to buy it for a bit less than the high-quality service, so that a range of quality levels co-exist. In contrast, in the world of entertainment, a relative handful earn astronomical sums. In a seminal article, *The Economics of Superstars* (1981), Rosen explains this phenomenon by the structure of demand and production technology. What matters is that lesser talents cannot easily replace the greater talents (people would rather watch one top show than ten mediocre shows) and that the cost of production does not increase in proportion to the quantity supplied (the effort is the same whether 10 or 1000 people are in the audience or buy the book). In fact, according to Rosen, it is technology (especially television) which explains the sharp increase in

the income of superstars. He concludes his article with these words: "What changes in the future will be wrought by cable, videocassettes, and home computers?"

The high incomes of superstars are not simply the result of a slightly superior talent (as in the model proposed by Rosen). The studios are not simply paying for the incomparable talent of the actors in *Friends* or of Depardieu in *Astérix and Obélix at the Olympic Games*. Some actors actually manage to capture an income that is built in part by them but also by chance and by the behind-the-scenes work of many other contributors to the entertainment economy. The actors in *Friends* were able to negotiate significant wage increases as the series was renewed again and again. While under the season 1 contract each actor was paid 22,500 dollars per episode, they received \$75,000 per episode in season 3, \$100,000 in the fifth, \$125,000 in the sixth, \$750,000 in seasons seven and eight and one million dollars for the last two seasons, more than 40 times higher than in the first season, whereas the audience only doubled between the first and last season (source: [Wikipédia](#)). In season 2, the pay rates were negotiated individually, but the actors, including Jennifer Aniston and David Schwimmer, whose wages were well above those of the rest of the group, quickly realized the importance of collective bargaining: while the studio might manage to dispense with any individual actor (by replacing them or killing off their character), they could not replace the entire cast. Clearly, the 40-fold increase in income is not due to any exponential increase in the actors' talents, but to the fact that they have benefited from the commitment of the spectators to the series, a commitment that was forged by the actors but also by the work of the scriptwriters, designers, and directors in the early seasons. Because they embody the series and bargained collectively, the actors in *Friends* managed to capture for themselves an economic rent that was collectively constructed.

Similarly, if Depardieu has succeeded in establishing himself

as a national figure, it is partly due to his talent but also due to the work of the many directors who have used him (and their scriptwriters, etc.). While it is difficult to explain the success of any particular cultural product, the element of chance or luck should not be overlooked. This is related to one of the characteristics of cultural products: they are generally more appreciated when the experience is shared because, as [André Gunthert](#) emphasises, cultural consumption gains meaning through its socialization (conversation, judgment, citation, re-use). Success thus breeds success, which explains phenomena of the type seen with the films *Les Intouchables* and *Bienvenue chez les Ch'tis*, whose success cannot be explained solely by the quality of the films. If in Rosen's model, we replace talent by audience (people prefer to watch one show with a large audience rather than ten shows with small audiences), a small initial advantage, which may be due to chance, but not only to chance, can turn into a phenomenon due to a snowball effect ([Adler, 1985](#)). In addition, the fact that televisions require stars to get co-financing for films, [as Maraval explains](#), shows why celebrity is self-reinforcing and leads to a concentration of wealth in the hands of a few very well-known actors. The small initial advantage in terms of reputation is not necessarily due to pure chance, as can be seen by observing the number of sons and daughters in the profession, including the offspring of producers and directors. Stardom is also a status where you can enjoy a reputation that is "ill-gotten" and [where negative buzz also provides visibility](#).

For the superstar effect to be converted into a high income, artists need to be able to exercise their intellectual property rights and exclude freeriders. The artists need a legal environment that legally recognizes and enforces their intellectual property rights [ii]. The fact that actors can capture a significant share of the income is partly a consequence of incomplete contracts and asymmetries in legislation on intellectual property. For example, California

law prohibits contracts with terms of over seven years, which explains the jump in the remuneration of actors for series with long runs. Actors can also always threaten to quit, which constitutes a credible threat if they have gained enough reputation. The studios cannot contractually retain the anticipated benefits of this reputation. The actors also benefit from the fact that other people cannot or can no longer assert their right to intellectual property. Patents on television broadcasting technology have long been in the public domain: industrial property rights are much shorter (maximum 20 years) than artistic copyrights (70 years after the author's death in France and the United States). A certain number of ideas that contribute to the success of cultural products (films, series, etc.) are not copyrightable: we do not copyright a joke, a story, a way of filming or editing, or a concept or idea for a scenario. The fact that some players in the entertainment and cultural industry can capture an income is therefore not merely the natural consequence of differences in talent or an objective way of measuring the contribution of each, but flows largely from the specific provisions governing intellectual property rights that establish what is copyrightable or not, along with the duration of the protection. It is not at all clear, for example, that we should give celebrities the exclusive right to commercially use their public image (see [Madow, 1993](#)).

In addition to the protection of intellectual property rights, government intervention in the film industry can be considered to be massive (whether in the form of subsidies or regulations): investment quotas in the production and broadcasting of French-language cinematographic works for TV channels; the artist unemployment scheme, whose deficit is financed out of general taxation; tax incentives (SOFICA, tax credits); reduced VAT; aid from local authorities (regional, departmental and municipal) for filming, festivals and local cinemas ; and the financing of the CNC (mostly from industry revenues and already partly redistributive). Moreover, [Coq et](#)

[al. \(2006\)](#) show that changes in regulations, which have favoured the goal of defending the market share of domestic films rather than pluralistic creation within the country, have led to a greater concentration of resources for expensive films, while the requirements placed on television exacerbate the superstar effect, as the networks are fond of stars.

From an economic viewpoint, two arguments thus justify redistribution of income: the capture of an economic rent constructed by many individuals and the element of chance (to which should be added the weight of public intervention in the cinema). In the presence of chance or risk, redistribution plays the role of an insurance, which can increase both the equity and efficiency of the system. From the viewpoint of equity, before the winners are revealed, risk-averse individuals would be willing to socialize the risky gains. From the viewpoint of efficiency, too much risk leads to underinvestment on the part of very talented individuals who do not want to engage in an activity where there are too few chosen (and where they have too few connections). From the viewpoint of both equity and efficiency, the structure of the entertainment economy justifies a significant level of redistribution. This redistribution can take several forms: (1) universal taxation coupled with sector subsidies, (2) insurance, for example, based on the specific status of the entertainers, (3) minimum and / or maximum wages, in particular for projects receiving public funding or support (France Television, Regional Councils, etc. [iii]). Economists generally prefer the method of taxes or social insurance over direct interventions on wages, leaving the market to operate freely before redistributing income. The tax system also helps to avoid the arbitrary effects of thresholds when setting a maximum wage. However, in practice, fiscal redistribution faces a major limitation: once gross salaries are determined by the interaction between market forces and the institutional environment, they are generally considered legitimate; a high tax rate, e.g. 75%, may then be regarded as confiscatory, or

as representing an “undue burden”, in the words of [a recent decision](#) of the Constitutional Council, even though such rates could clearly be insufficient to reduce the inequalities in a superstar economy where income differentials can reach ratios of 1 to 100. Reducing inequalities then requires direct intervention both in the institutional environment – for example, by reducing the duration of intellectual property rights – and on the determination of remuneration, which is all the more justified in a highly regulated and subsidized sector.

[i] “In reality, the case of Depardieu is very different. He grew rich thanks to his talent. This is not the case of business leaders! Their revenue comes from companies that have earned money through a collective effort.” From our perspective, there is a capture of a collectively-constructed economic rent in both cases.

[ii] In this sense, we must understand the libertarianism of Nozick as the absolute respect for individual property rights (which have a natural character). This is a long way from the libertarian liberalism that seeks to minimize external constraints, since in this case it is necessary for authority to enforce property rights. This explains why a contradictory mix of appeals to freedom and to authoritarianism stems from this doctrine.

[iii] As well as private television channels with respect to their obligations, as they benefit in return from the free use of the broadcast spectrum, which is similar to a public subsidy.

Human capital policies and inequality in recessions' times

By [Francesco Vona](#)

Not only economic crises reduce citizens' current welfare, but might as well hinder the long-run economic potential leading to an excessive destruction of physical and human capital. This long-run effect is definitely the big risk European economies are facing in this prolonged phase of recession. Economists often take a different standpoint for investments in human capital: recessions are claimed to have a positive rather than a negative effect on skill formation because higher unemployment frees up time for schooling. What they take for granted is that the choice of staying longer in school is not constrained by the increased difficulty in affording tuition fees, living expenditures and the opportunity cost of not working, particularly for less wealthy households. If this is taken into account, the likelihood that the positive effect prevails depends on public policies as public expenditures in education are needed to offset for the reduced spending capacity of households. The austerity measures imposed to countries at greater risk of default by the European institutions make it more difficult to maintain an appropriate flow of public expenditures in education.

So far, however, the standard view of a positive effect of recessions on skill formation is in line with data (Oecd, *Education at Glance 2012*). In the majority of European countries, including the most financially exposed ones, both enrollment rates at all levels of education and public expenditures in education as a proportion of public expenditures are held unchanged (or increased) one year after the crisis. Unfortunately, updated data until 2012 are not

available to evaluate long-term country responses [\[1\]](#). However, a reversal of this trend is likely to occur in next years if further budget cuts are carried out in indebted states. Signals in this direction have already emerged in budget cuts just implemented in Italy and Spain, two of the countries already with a relatively low level of subsidies for less advantaged students compared to the EU average (Usher and Cervanen, 2005). Poor households are likely to bear the costs of these cuts the most as they heavily rely on public support to overcome stringent liquidity constraints. Equity considerations in access to education are of paramount importance as students from good family backgrounds have a significantly higher probability to acquire higher degrees and to enter elite institutions in virtually all European countries (see Raitano and Vona, 2010). Even leaving aside equity considerations, it would be exceedingly difficult in this context to pursue the target of the Lisbon agenda, 'making Europe the most competitive knowledge-based economy in the world', without interventions aimed at improving the quality of European educational systems from which long-run growth crucially depends.

To make hands meet and reconcile equity with improving quality, market-based solutions have been proposed. The main goal is to drain fresh, mainly private, resources into slack educational systems and, at the same time, to increase competition as a discipline device for improving quality. *The Economist*, for instance, recently supported a voucher system that would enable students to choose between public and private institutions [\[2\]](#). For university education, another proposal under consideration in many countries (see Ichino and Terlizzese 2012, for Italy) and already adopted in many others (see Dearden *et al.* 2008) is to combine higher tuition fees, that would reduce the burden on the public budget, and a system of contingent student loans to be repaid depending on future incomes. It is claimed that such a system would increase fairness. While educational systems in Europe

certainly need substantial interventions to increase quality, it is not warranted that these reforms would go in the right direction.

On the voucher system, it should be observed that the existing quality of private schools in EU countries is not higher than the one of public schools. Considering PISA (Program for International Student Assessment) test scores as a standardized measure of quality, We estimate the impact of private schools on average test at the school level controlling for confounding factors at the school and the country level (family background, country-level policies, class size, school location, see for details Raitano and Vona, 2010). From this analysis, it emerges clearly that public schools outperform private ones in reading, science and math scores. Therefore, a simple reallocation of resources towards the private sector would lead to a decrease in overall quality. Put it differently, the private sector is not ready to take the lead for reforming the educational system in EU countries, hence creating a larger market for private schools might even be inefficient. It is also questionable whether a voucher system would really succeed in increasing the students' choices in presence of limited slots for best schools and priority given to those residents in the school neighborhood.

On the income-contingent scheme, it certainly improves loan-based schemes that tend to select out students with both low propensity to risk and self-esteem, such as typically those from marginal ethnic groups or poor family background. Indeed, conditioning loan repayments to future income reduces the uncertainty of human capital investments and so should work particularly well for disadvantaged students. However, the perception of the risks involved might not be reduced enough to induce people to invest, particularly when the loan taken is relatively large (as it would be for the increase in the fees) and when other lifelong loans such as mortgages are

expected to be undertaken in the future. In addition, since disadvantaged students make the choice of starting university in an unfavorable position in terms of existing skills and competencies, their expectations on future earnings might be so low to not justify the risk, though partial, of paying for university education. Even if these problems of income-contingent schemes can be somehow corrected, for instance in the UK they are complemented by a grant for disadvantaged students (Dearden *et al.*, 2008), they can hardly favour an effective equalization of educational opportunities.

These critiques do not imply that human capital policies and the European educational system are well designed and dynamic enough. Particularly for university education, increasing competition for scarce resources and decentralization in decision-making can help in creating highly innovative institutions, but not to increase equal access for all. In particular for the issue of equality of opportunity, it is well known that it is better achieved intervening early in the educational stream (Cunha and Heckman 2007, Heckman and Bas 2010). According to this view, policies imposing the share of less well-off students in elite universities, as it has been recently proposed for France and experimented in Brazil, seem to perform poorly both for equity and efficiency.

In times of crisis, an alternative way to make the European system more dynamic, to prevent an excessive destruction of human capital and to increase equality of opportunity is (obviously as it might be) to target the issue at the European level. However, 'inclusive' interventions to enhance the competences of less rich pupils are not at zero cost, but typically require large scale public investments in the crucial phase of pre-primary education and, later one, targeted interventions in marginal schools of poor neighborhoods. A large scale public intervention can be done launching EU bonds conditioned to certain strategic goal such as the finance kindergarten for all European kids or targeted

interventions in marginal schools. Incidentally, these 'conditioned bonds' would probably appear far more acceptable for skeptic citizens of Nordic countries. EU resources for these goals can also be drained by gradually phasing out the expensive Community Agricultural Policy, which absorbs more than 1/3 of the EU budget, and by devoting a fraction of structural funds for targeted interventions in marginal primary and secondary schools. Clearly, targeted EU policies for skill formation, especially of the less well-off, would also have a positive effect on growth by increasing the share of students with good basic skills and so the effectiveness of lifelong training policies, which crucially depends on the level of basic skills.

With these policies for increasing equality of opportunity in place, the effect of reforms aimed at increasing competition among universities using a combination of loans, higher tuition fees and premia depending on academic records can not only be fairer, but also remarkably more effective by enlarging the pool of potential candidates for good universities and enhancing the lifelong learning potential of EU citizens.

Further readings:

Raitano, M. and Vona, F., 2010. Peer Heterogeneity, Parental Background and Tracking: Evidence from PISA 2006. *Documents de travail de l'OFCE* 23-2010.

Dearden, L., Fitzsimons, E., Goodman, A., Kaplan, G., 2008. [Higher Education Funding Reforms in England: The Distributional Effects and the Shifting Balance of Costs.](#) *Economic Journal* vol. 118(526).

Cunha, F., and Heckman, J., 2007. [The Technology of Skill Formation.](#) *American Economic Review* 97(2).

Heckman, J., and Bas, J., 2009. Policies to Create and Destroy Human Capital in Europe. *IZA Discussion Papers* 4680, Institute

for the Study of Labor.

Usher, P., and Cervanen, A., 2005. *Global higher education rankings: Affordability and accessibility in comparative perspective*. Washington, Toronto: Educational Policy Institute.

[1] Eurostat has data updated to 2010, see <http://appsso.eurostat.ec.europa.eu/nui/setupModifyTableLayout.do>. As it is evident looking at the percentage of public expenditures in education as a percentage of GDP, only in Italy one can observe a timid -0.1% decline between 2007 and 2010.

[2] <http://www.economist.com/node/21564556>

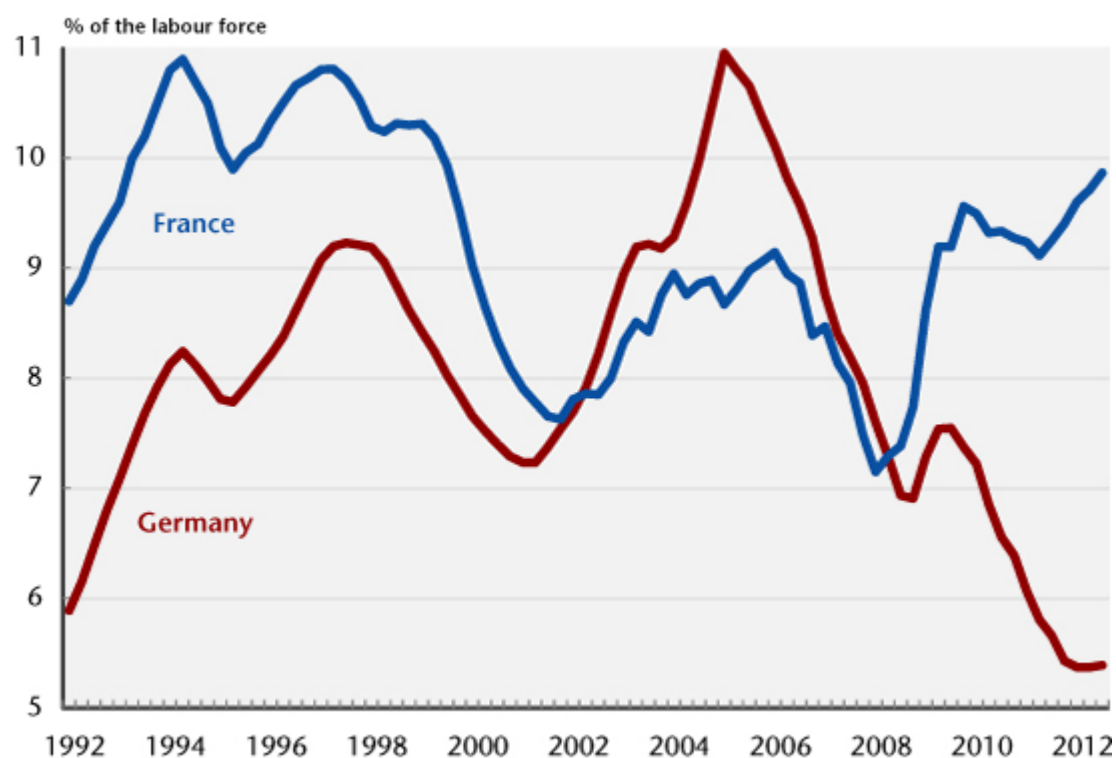
Higher unemployment in France, greater poverty in Germany

By [Eric Heyer](#)

Will France be the new Greece, as *The Economist* has argued? Should French reforms be accelerated and be modelled on those implemented in Germany ten years ago? For German public opinion, for its authorities and for a large number of economic experts, the answer is obvious. Not only does Germany

have a lower deficit, but unlike its French neighbour it has also managed to significantly reduce its unemployment rate. Starting from a similar level in the early 2000s (close to 7.7% at end 2001), the unemployment rate now stands at 5.4% of the labour force in Germany, 4.5 percentage points below the level in France (Figure 1).

Figure 1 : Changes in unemployment in Germany and France over the last 20 years



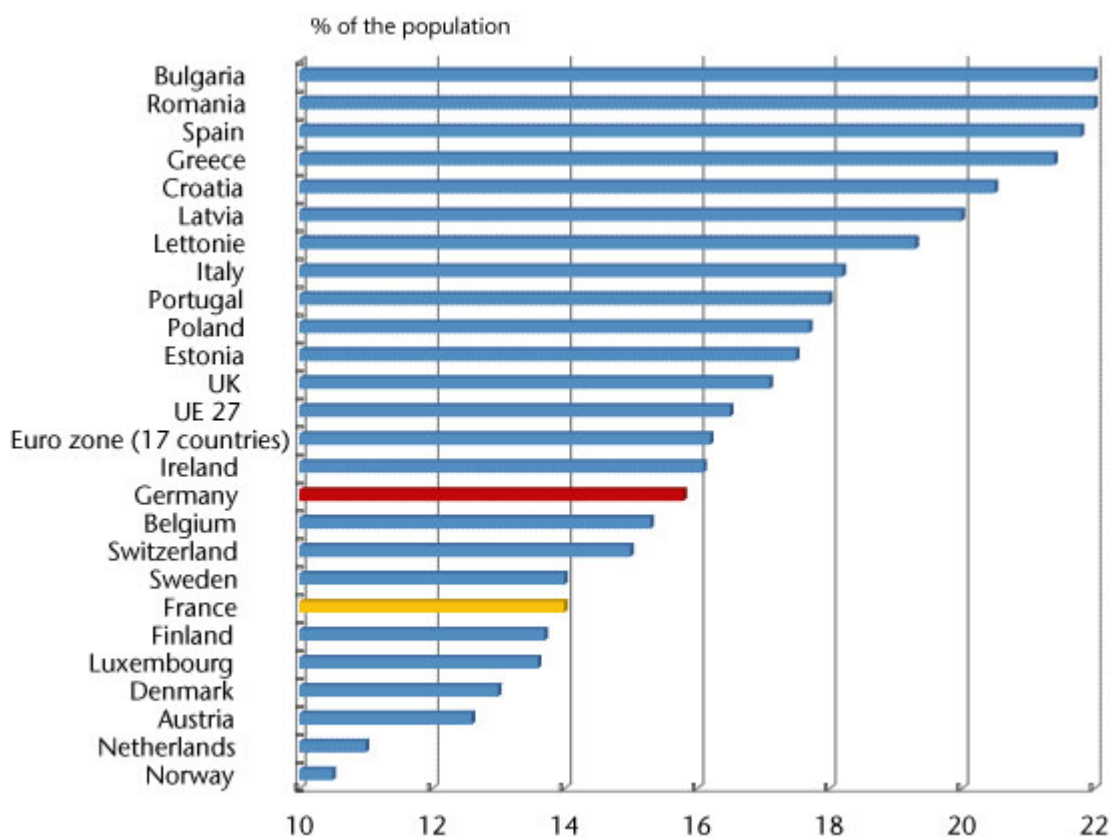
Source : ILO.

The purpose of this note is not to revisit the reasons for this difference, which have already been the subject of posts on this blog (see in particular the impact of demography, by [G. Cornilleau](#), of the reduction in working hours, by [E. Heyer and M. Plane](#), and of the rise in male-female inequalities, by [H. Périvier](#)). The point rather is simply to note that the reduction of unemployment in Germany has been accompanied by a steep rise in poverty.

According to Eurostat, over the past six years the poverty rate (measured at the threshold of 60% of median income) has

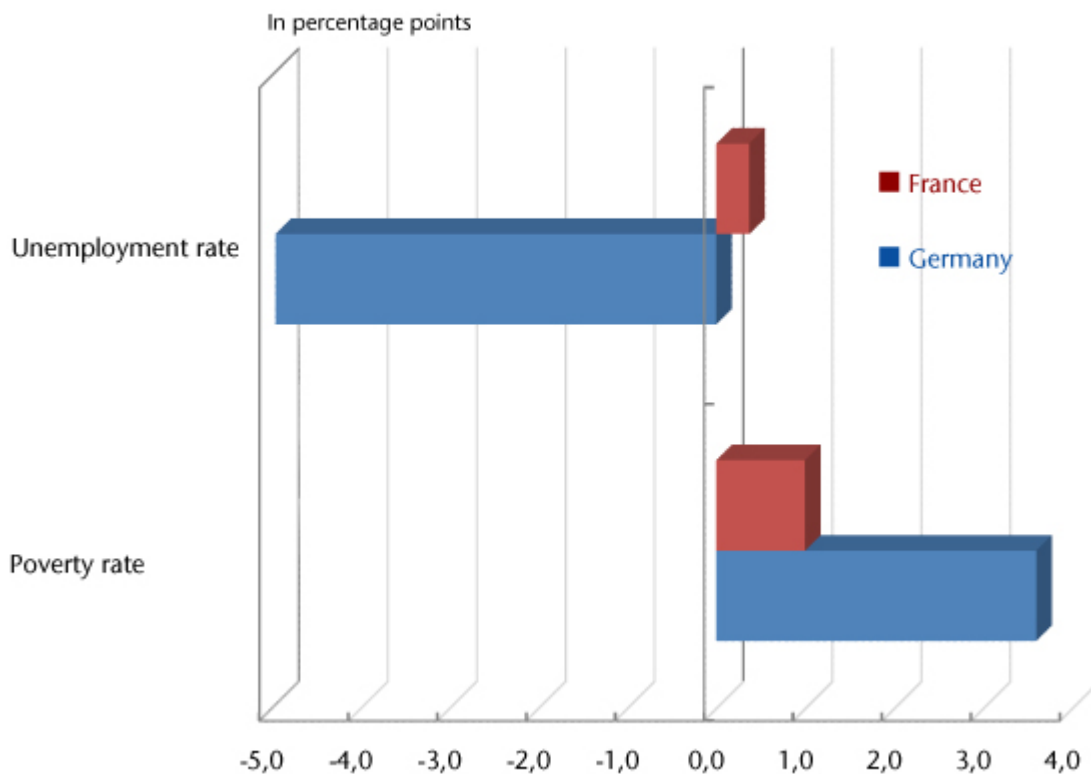
risen by 3.6 percentage points in Germany, four times more than the rise observed in France (0.9 point). In 2011, despite the sharp drop in unemployment and the large differential with France, the poverty rate in Germany was 1.8 points higher than the level observed in France, *i.e.* a difference of over 11% (Figures 2 & 3).

Graphique 2 : Poverty rate (60 % of median income) in 2011



Source : Eurostat.

Figure 3 : Changes in the unemployment rate and poverty rate (60 % of median income) in France and in Germany (2005-2011)



Source : Eurostat.

There is, therefore, a hidden side to the reforms implemented in Germany over the past ten years, which have led to lower unemployment but greater poverty.

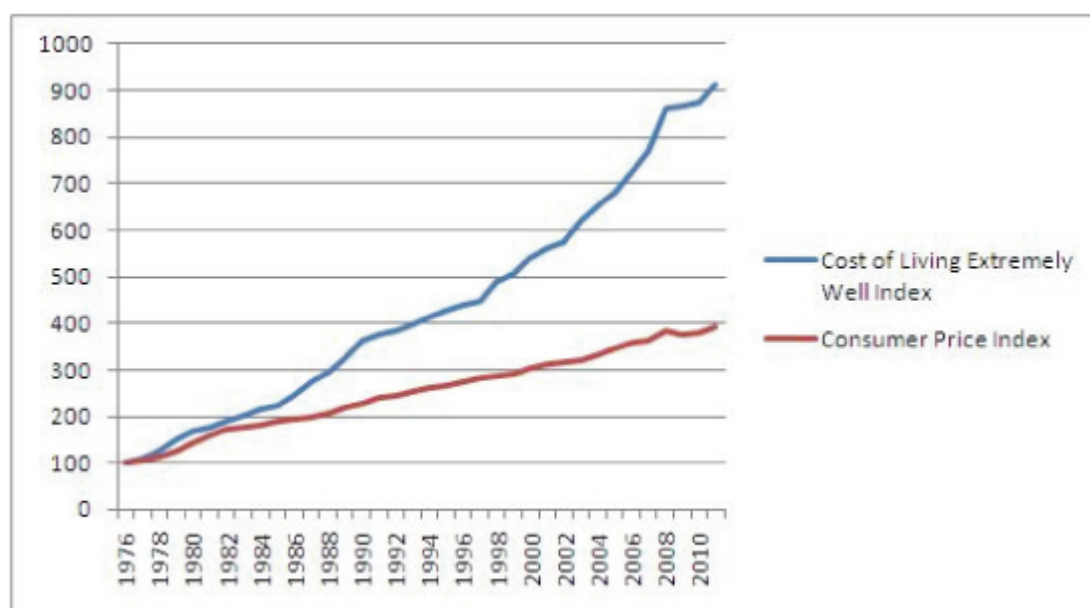
The Insolent health of the luxury sector: a false paradox

By [Jean-Luc Gaffard](#)

The luxury industry has been spared the spreading crisis, which in the media's eyes seems to be posing a paradox. This situation in fact corroborates the diagnosis that rising inequality is the true breeding ground of the crisis.

LVMH, the global leader in the luxury sector, saw its sales jump 26% in the first half of 2012. Richemont, the global number two and owner of such brands as Cartier, Montblanc, Van Cleef & Arpels and Jaeger-LeCoultre, saw its operating income increase by 20% during the second half-year ending 30th September. The Italian firm Prada announced a 36.5% increase in its turnover in the first half of 2012 (37.3% in Europe). The luxury division of PPR, the other French company in the sector, saw sales go up by 30.7% in the first half year.

These results contrast sharply with the situation in other industries. They are the result of a rise in prices that is nothing less than staggering. The price index for luxury goods as calculated since 1976 (the "[Forbes Cost of Living Extremely Well](#)") rose 800% in 35 years, compared with 300% for the price index for consumer goods.



In an article on the subject ("The more expensive the product,

the more desirable", 8 August 2012), *Le Monde* reported that the price of a Burberry gabardine raincoat has multiplied by 5.6 and that the price of a Rolex YachtMaster has rocketed from 5,488 to 39,100 euros. These soaring prices simply reflect the great and growing willingness to pay of the richest strata, for whom price is simply a mark of differentiation and desirability.

In these circumstances, the stock market success of companies in the luxury industry is hardly surprising. Nor is it surprising to see the stock market success of companies at the other end of the spectrum, those that produce low-end, cheap goods. This effect, called the hourglass effect, is starkly revealing of the reality of the crisis, which is clearly rooted in widening inequalities in income and wealth.

The healthy state of luxury firms, which are creating jobs at a time of rising unemployment, is obviously a source for rejoicing. But if we simply left things at this remark about the sector, we would be missing the essential point. First, it must be recognized that the industries in question are responding to higher demand much more by raising prices, and not the quantities produced, for the simple reason that the number of wealthy people, even if growing significantly with the arrival of the nouveaux riches in China and elsewhere, is still limited. We are a long way from the fundamental mechanism driving growth, whereby gains in productivity push prices down and have an impact on income that is substantial enough to stimulate demand on an ever increasing scale. We also have to recognize the other side of the coin of this genuine increase in inequality, namely, the fall in median income and the corresponding weakening of the large middle class, whose demand for midrange products and services was a foundation for growth.

It is also worth noting recent trends in the luxury industry, which has successfully striven to produce brands that are lower cost versions of goods that were previously reserved for

the rich. As shown by some studies, the diversification of the luxury industry is being accompanied by a sociological change indicating that middle-class households are developing a greater preference for these types of goods (see J. Hoffmann and I. Coste-Manière, *2012 Luxury Strategy in Action*, Palgrave Macmillan). This might be a long-term development if it is remembered that preferences are not homothetic, in other words, that lower incomes are not leading back to the map of preferences as it existed previously (before incomes had increased). Many households are trying to maintain the kind of consumption that they have become accustomed to, ultimately at the cost of higher indebtedness, if by chance that is permitted by the financial system. However, the business segment preserved in this way may prove to be fragile, and the performance of the luxury industry could continue to be driven by the conspicuous consumption of genuine luxury products. It is not surprising, then, to observe that, with the continuation of the crisis and its consequent impact on the consumption of the middle class, a company like PPR is planning [to hive off certain brands](#), notably FNAC, in order to focus on the luxury segment.

There is nothing paradoxical about the insolent health of the luxury industry. It goes hand in hand with the heightening difficulties facing industries and companies whose products and services are intended for those on middle-incomes. The constantly increasing divergence in performance between industries and firms depending on their positioning range is merely another sign of a deepening crisis.