

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”

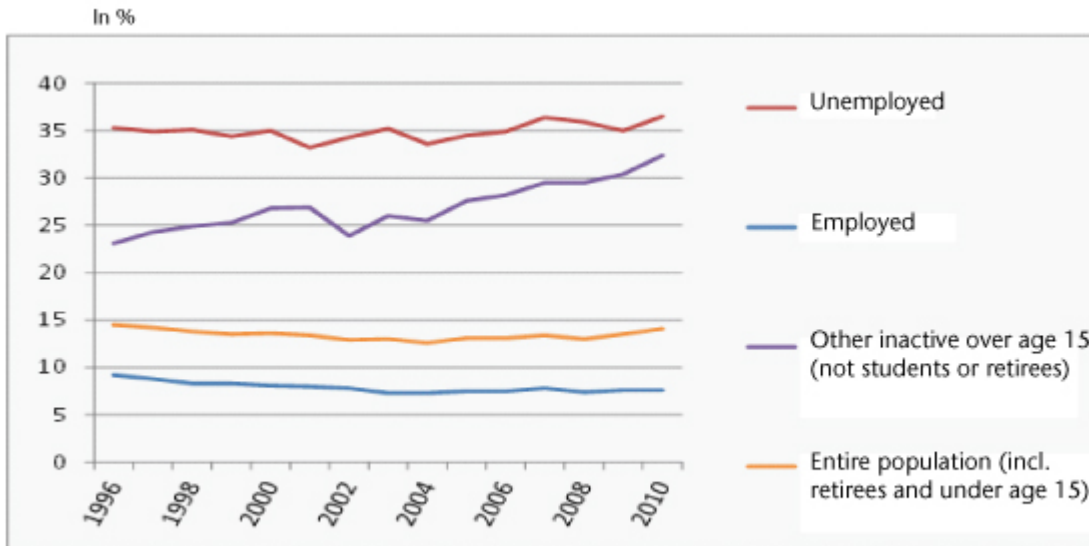
[Alain Desrosières](#), 1940-2013

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



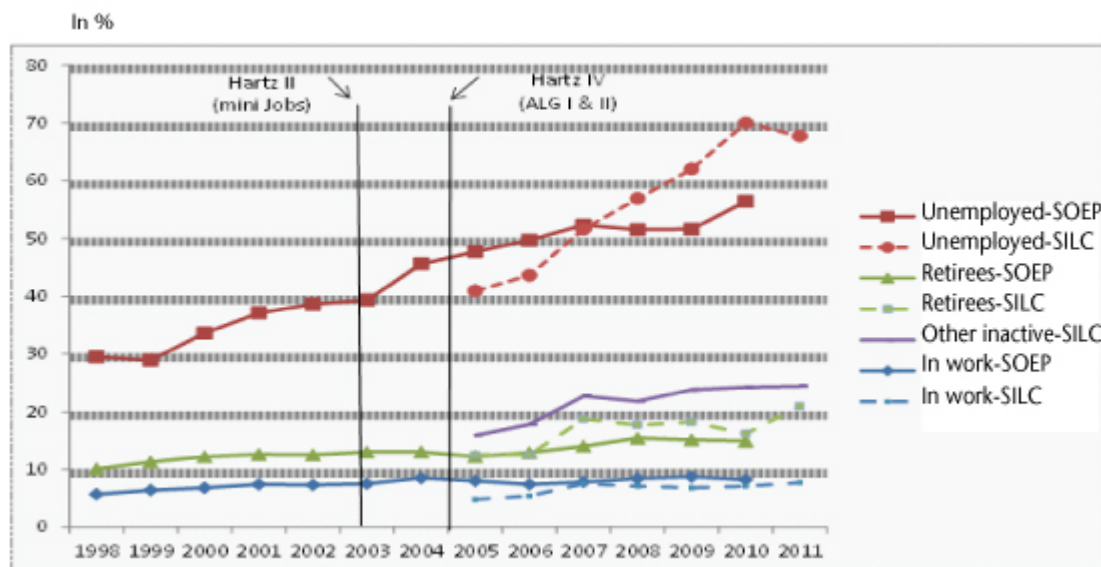
Source : Insee-DGI, Enquêtes Revenus fiscaux et sociaux rétrospectives 1996 à 2004 ; Insee-DGFIP-Cnaf-Cnav-CCMSA, Enquêtes Revenus fiscaux et sociaux 2005 à 2010.

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.

An homage to Alain Desrosières, statistician, sociologist, historian and philosopher of statistics

By [Françoise Milewski](#) and [Henri Sterdyniak](#)

Alain Desrosières has passed away, at the age of 72. An administrator at the INSEE, he had been editor of the journal *Économie et statistique*, then head of the Department of social studies, before working on the comparative analysis of Europe's statistical systems.

He was the troubled conscience of official statistics in France.

Alain's many books and articles traced the birth and growth of statistics. His articles discuss their scientific and social foundations. They highlight the links between statistical standards and the production of statistics, between the history of economic policy and statistical methods and categories, in the face of the trend to "naturalize" them. "The ways of thinking society, managing it and quantifying it are inseparable", he declared. Statistics cannot be separated from its use, and it evolves with changes in public policy. And so, for instance, he raised questions about "the quality of quantity".

Alain passionately lived and studied the contradictions of statistics, a tool for knowledge and a tool for governing. Are statistics in the service of democracy, helping society to better understand itself, or of the State, helping it to

better achieve its goals? And this State, which organizes and finances the statistical system, itself has two faces: the welfare state, an instrument of resistance to market forces, as well as a State in the service of a social formation shaped by capitalism.

Statistics measures and classifies. But is it a neutral scientific discipline, or does it express the vision that society has of itself at a given point, especially since it must rely on administrative sources that are themselves not neutral? Should it base itself on people's everyday experience, or, on the contrary, challenge this in the name of science?

Can we account for different societies using the same categories? Alain has devoted great attention to the statistical harmonization that the European Union implies, with its risk of negating differences between societies.

He questioned the policy on indicators implemented by the Open Method of Coordination (OMC) and France's organic law on budget bills (LOLF). Policies define indicators that statisticians are supposed to measure, and then set targets for these indicators. But this practice is dangerous, as these indicators become the focus of the analysis even as the policies aim to improve the indicators, which tends to cause them to lose their significance.

Below we reproduce some snippets from his articles, as an invitation to read them in their entirety. The myth of the data that is indisputable because impartial, the unconditional respect in the face of indicators that, because quantified are thus indisputable, regardless of the methods, standards and conventions underpinning their calculation – all these are a constant threat for the social sciences, particularly economics. And for society.

Alain Desrosières took part in numerous meetings of

statisticians in order to give his colleagues food for thought about their practices and their methods (see in particular the conference of 30 March 2011: "[Official statistics as a unique public good](#)", Workshop 3). He developed fertile links between statistical practice and sociologists, in particular Pierre Bourdieu and Bruno Latour.

He showed the influence of nomenclatures on the constitution of statistical information and, through that, on the structuring of society (*Les Catégories socioprofessionnelles*, co-authored by Laurent Thévenot, La Découverte, Repères collection, 1988).

Alain leaves us a number of major works: *La politique des grands nombres, histoire de la raison statistique* (Editions La Découverte, Paris, 1993) and *L'argument statistique*, in two volumes: I: *Pour une sociologie historique de la quantification*, and II: *Gouverner par les nombres* (Les Presses des Mines ParisTech, Sciences sociales collection, Paris, 2008).

He leaves us his most recent work: "[Est-il bon, est-il méchant ? Le rôle du nombre dans le gouvernement de la cité néolibérale](#)" (*Nouvelles perspectives en sciences sociales*, volume 7, no. 2, May 2012).

Alain set an example as a modest but demanding intellectual who sought to put his professional experience and scientific efforts in the service of democracy.

A few short excerpts from his writings:

"How can the contradiction be resolved between the ethos of the statisticians and taking feedback into account, even when it seems to them just an annoying obstacle to their mission, which they conceive of as 'providing unbiased reflections of reality'? It is not possible to isolate a moment of

measurement that is independent of its uses, in particular the conventions that are the first step in quantification. The training of statisticians needs to be decompartmentalized and supplemented with the study of history, political science, the sociology of statistics, econometrics, probability, accounting and management. This program, inspired by the achievements of *Sciences Studies* (Pestre, 2006), could facilitate the inclusion of quantitative tools in social debates, without winding up in either a *a priori* rejection or unconditional, naïve respect for 'facts that are indisputable because quantified'."

[Est-il bon, est-il méchant ? Le rôle du nombre dans la cité néolibérale](#). Conclusion of a presentation to the seminar *L'Informazione Prima Dell'Informazione. Conoscenza E Scelte Pubbliche*, Milan Bicocca, 27 May 2010, *Nouvelles perspectives en sciences sociales*, volume 7, no. 2, May 2012.

"Quantification has become a sign of objectivity, rigor and impartiality that is mobilized in a variety of situations, from political debate to scientific demonstration, and including business indicators and the measurement of public opinion. However, quantification, in its various statistical formats, is not content merely to provide a reflection of the world, but also creates new ways of thinking, representing, expressing and acting on it, through the power of its models and its procedures, its broad dissemination and its use in argumentation. This book shows how 'statistical argument' is historically constructed, and what the cognitive and social effects of quantification systems are today."

[Pour une sociologie historique de la quantification](#), Volume 1 of *L'argument statistique* (Les Presses des Mines Paris-tech, Sciences sociaux collection, Paris, 2008), back cover.

“Governments of men use and abuse the ‘argument of statistics’. With the emergence of a neo-liberal state, public policy is increasingly relying on quantitative indicators that provide evaluations of the performance of different policy actions. The various ‘winners’ are broadcast widely (often under the Anglo-American rubric of ‘benchmarking’), ranking high schools, universities, even nations. This rite of quantification, far from providing a neutral image of phenomena, transforms and performs them. This book offers specific case studies, surveys of family budgets, planning commissions, local statistics and national accounts, analyzing the production of official statistics and their use by the public authorities. And it will be seen how statistics has imposed itself as both an evidentiary tool in the empirical sciences and a tool of government, in accordance with the intuition that Foucault had already presented in the 1970s under the name of ‘governmentality’.”

[Gouverner par les nombres](#), Volume 2 of *L’argument statistique* (Les Presses des Mines Paris-tech, Sciences sociales collection, Paris, 2008), back cover.

“Major crises are of course times when statistics are mobilized intensively to express the gravity of the situation. But they are also times of great debate, during which the role of the state in the regulation and control of the economy is completely rethought. To each of these crises corresponds the emergence of new ways of quantifying the social world. New models of action imply new variables and new systems of observation.

Economic and political history from the 1880s to the present day has offered at least three (if not four) examples of such configurations, combining ways of thinking society, ways of acting on it, and statistics adapted to the times. The crisis of the 1880s prompted the great statistics on labour and

employment. The crisis of 1929 was the source of Keynesian macroeconomic policies and national accounts. The crisis of the 1970s was thought about in the neoliberal categories of microeconomics, and led to state reforms focusing in particular on performance indicators. Finally, the two crises of the 2000s, ecological and then financial, will perhaps give rise to radically new ways of thinking and quantifying public action. A review of the way that a few somewhat older crises were experienced, and their impact on the use of official statistics, may be useful for thinking about the magnitude of the changes that may result from these two recent crises.”

[“Crises économiques et statistiques, de 1880 à 2010”](#), *ParisTech Review*, 30 August 2010.

Why France is right to abandon the 3% public déficit target by 2013

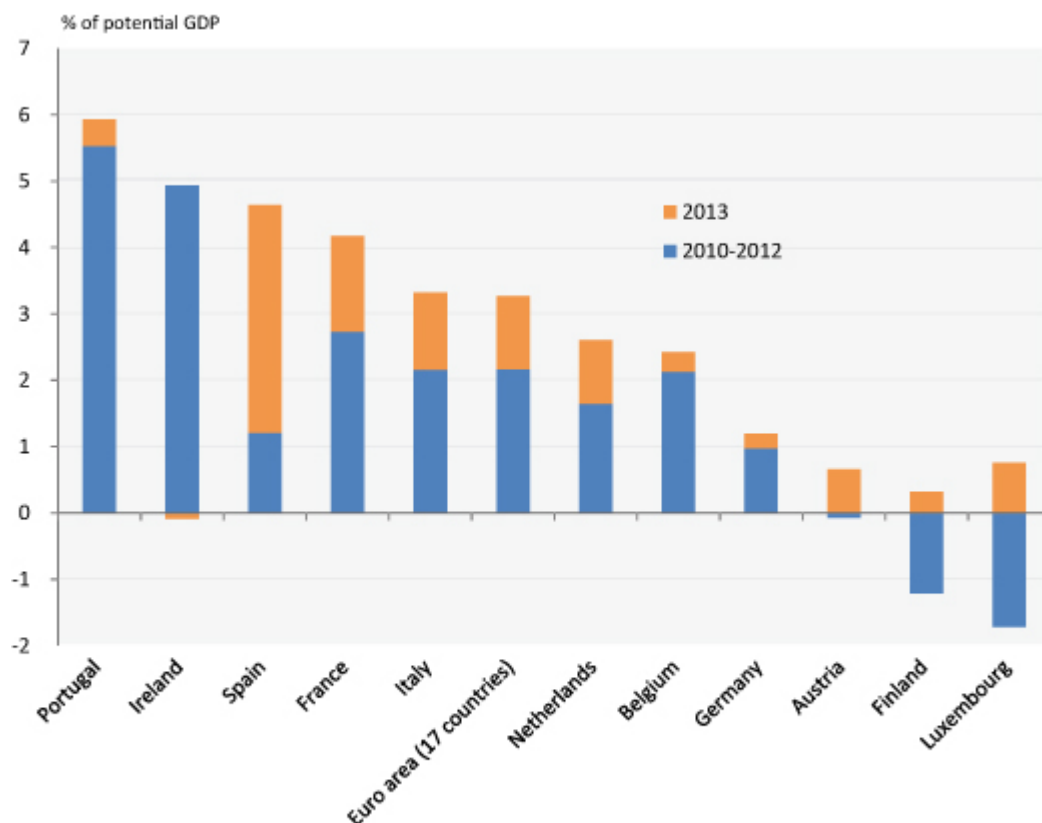
By [Mathieu Plane](#)

Given the statements by the Minister of Economy and Finance, the government seems to have reached a decision to abandon the goal of a deficit of 3% of GDP by 2013. In addition to the change of tack in the policy announced up to now, which was to bring the deficit down to 3% by 2013 “whatever the cost”, we can legitimately conclude that France is right to abandon this goal, and we offer several arguments for this. While in this post we do not review [the economic consequences of the fiscal policy being undertaken in France and the euro zone](#), which has been dictated by nominal targets for the deficit that do not take into account the way it breaks down structurally /

cyclically and that have a dangerously pro-cyclical character, we nevertheless present several arguments that the European Commission may find of value:

1 – According to the latest figures from the European Commission on 22 February 2013^[1], of the euro zone countries making the greatest fiscal adjustment in 2013 from a structural viewpoint, France, with 1.4 GDP points, comes behind only Spain (3.4) and Greece (2.6). For the 2010-2013 period, the reduction in France's structural deficit represents 4.2 GDP points, which makes France the euro zone country which, alongside Spain (4.6 GDP points), has carried out the largest budget cutbacks of the major countries in the zone, ahead of Italy (3.3 GDP points), the Netherlands (2.6) and of course Germany (1.2) (Figure 1).

Figure 1. Change in the structural deficit of the euro zone countries*



* For reasons of scale, we have not put Greece in the figure. Over the 2010-2013 period, Greece's structural fiscal adjustment came to 16.9 GDP points, including 2.6 in 2013.

Sources: European Commission, OFCE calculations.

2 – In 2007, before the crisis, according to the European Commission France had a structural public deficit of -4.4 GDP points, compared with an average of -2.1 for the euro zone and -0.9 for Germany. In 2013, this came to -1.9 GDP points in France, -1.3 for the euro zone, and +0.4 for Germany, which represents an improvement of the structural deficit of 2.5 GDP points for France since the start of the crisis, *i.e.* three times the average for the euro zone and twice that for Germany (Table 1). Leaving aside public investment, France's structural public deficit in 2013 was positive and higher than the euro zone average (1.2 GDP point in France, versus 0.8 for the euro zone average and 1.9 for Germany). Note that France is spending 3.1 GDP points on public investment in 2013 (0.2 GDP point less than in 2007), against a euro zone average of only 2 points (0.6 point less than in 2007) and 1.5 in Germany (equivalent to 2007). However, public investment, which has a positive impact on potential growth, and which also increases public assets, while not changing the public administration's financial situation, can reasonably be excluded from the calculation of the structural public deficit.

Table. Public deficit and structural deficit with and without public investment

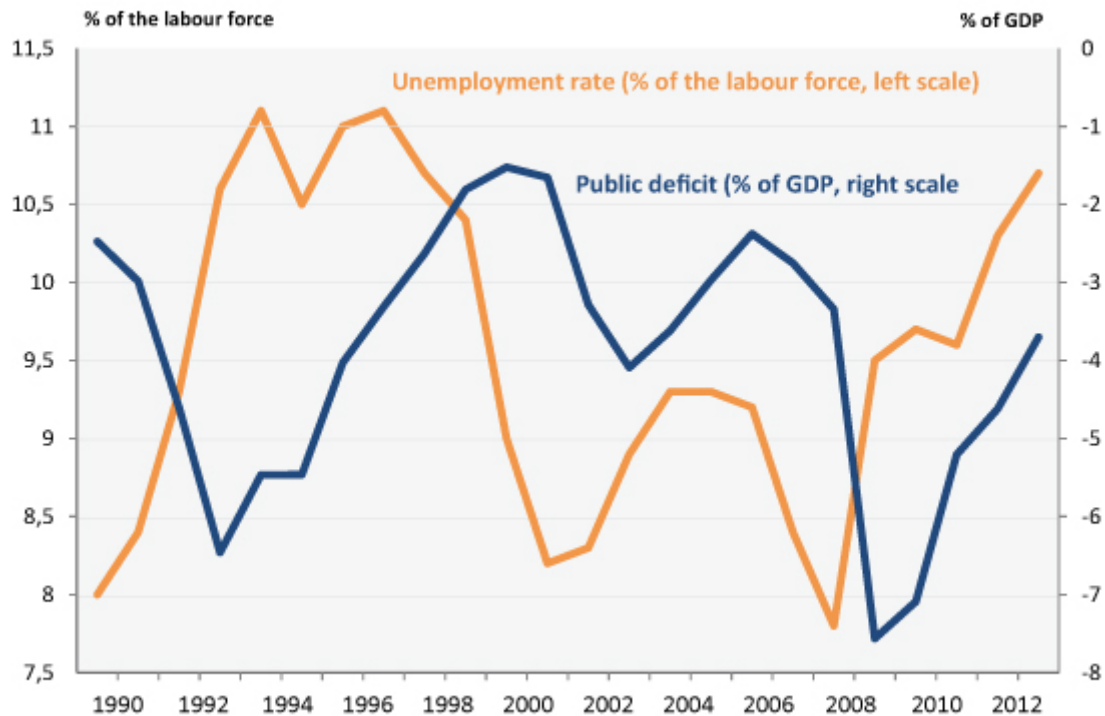
In GDP points	Public balance				Structural public balance				SPB w/o public investment			
	FRA	DEU	EZ	FRA-EZ diff.	FRA	DEU	ZE	FRA-EZ diff.	FRA	DEU	EZ	FRA-EZ diff.
2007	-2.8	0.2	-0.7	-2.1	-4.4	-0.9	-2.1	-2.3	-1.1	0.6	0.5	-1.6
2013	-3.7	-0.2	-2.8	-0.9	-1.9	0.4	-1.3	-0.6	1.2	1.9	0.8	0.4
Change 2007-2013	-0.9	-0.4	-2.1	1.2	2.5	1.3	0.8	1.6	2.3	1.3	0.3	2.1

Sources : European Commission, OFCE calculations.

3 – In 2013, the public deficit, even at 3.7% of GDP according to the European Commission, is once again at a level close to that of 2008, similar to that of 2005, and below that of 2004 and of the entire 1992-1996 period. The public deficit figure expected for 2013 corresponds to the average over the past

thirty years, and thus no longer seems so exceptional, which is easing the pressure that France could experience on the financial markets. In contrast, according to the European Commission the unemployment rate in France in 2013 will reach 10.7% of the workforce, which is very close to its historic peak in 1997 (Figure 2). With an unemployment rate in 2013 that is 1.3 percentage points higher than the average over the last thirty years, an exceptional situation now characterizes the labour market more than it does the government deficit. While new austerity measures would help to reduce the deficit, however painfully, due to the [high value of the fiscal multiplier in the short term](#) they will lead on the other hand to going well beyond our historic unemployment peak. Indeed, as we showed in our [latest forecast in October 2012](#), if France really tries to meet its budget commitment for 2013 “whatever the cost”, this will require a new fiscal tightening of over 20 billion euros, in addition to the [36 billion euros already planned](#). This would lead to a recession, with GDP down -1.2% and 360,000 job losses (instead of expected growth of 0% and the loss of about 160,000 jobs), with the unemployment rate reaching 11.7% of the labour force by late 2013.

Figure 2. Public deficit and unemployment rate



Source: European Commission.

To restore its public accounts since 2010, France has undertaken a historic fiscal effort, well beyond the average of its European partners, which has cost it in terms of growth and employment. Adding another layer of austerity in 2013 to the already historic build-up of austerity would lead us this year straight into a recession and an unprecedented worsening in the labour market. If there is a choice, are a few tenths of a point in the public deficit worth such a sacrifice? Nothing is less certain. It is thus essential to put off the goal of reducing the deficit to 3% of GDP to at least 2014.

[1] We have a different evaluation of the level of the structural deficit. For example, for 2013 we evaluate the improvement in France's structural public deficit at 1.8 GDP points, but in order not to prejudice the analysis we are

using the figures provided by the Commission.

The taxation of family benefits – is this the right debate?

By [Hélène Périvier](#) and François de Singly

Debate on the taxation of the family allowance has begun once again. Faced with a deficit in the government's family accounts of about 2.5 billion euros in 2012, the idea of taxing the allowance has resurfaced as a way to refill coffers that have emptied, in particular as a result of the economic crisis. The debate often pits an accounting logic that aims to make up the deficits quickly against the logic of a conservative family policy. This post offers a broader perspective that goes beyond this binary approach to the issue.

From family accounts that were balanced...

In the current period, dealing with the budget involves squaring a circle: less tax revenue and greater social spending because of the economic crisis. The temptation is to solve this equation by reducing social spending to make up for declining revenues. It is in this context that the proposal to subject the family allowance to income tax has resurfaced.

During economic crises, the automatic stabilizer role played

by social welfare, including family policy, is fundamental. It limits the effects of the crisis on the living standards of those who are most at risk, and therefore also helps to contain the rise in inequality. By supporting household income, it prevents a collapse of economic activity. During the kind of economic downturn we are experiencing today, cutting social spending is not desirable and can be [counter-productive macroeconomically](#).

However, it is not absurd to try to balance the budget for family expenditure over the medium and long term, as this ensures that public action to support families will be sustainable. The deficit in the family accounts comes to 2.5 billion euros. But this is mainly because of the crisis and the consequent reduction in revenues, and is thus cyclical. Mechanically, with legislation unchanged, the family accounts should balance again within a few years if economic growth returns (these assumptions are based on [an annual growth rate of 2% from 2014](#)). Although a debt would still exist due to the accumulation of deficits in 2012 and the following years [\[1\]](#), this could be gradually eliminated using the surpluses generated after the return to equilibrium. But the outlook changes if there is no return to growth or if recovery takes longer than expected, in which case questions about the family budget allocation could be raised with regard to its redistribution or its level. The CNAF pays more than 12 billion euros for the family allowance [\[2\]](#), regardless of the parents' income. Families with two children receive 127 euros per month for the two children and 163 euros for each additional child. These family benefits are not taxed. Taxing them would reduce the amount of post-tax benefits paid to families, progressively in line with income. This would generate additional tax revenue of approximately 800 million euros. It might seem fairer if families with higher incomes bore more of the burden of budget cutbacks than families on lower incomes. But this issue is more complex than it appears.

The taxation of family benefits might seem to be a way to make up for the loss in the progressivity of the tax system that has occurred over the years, which is mainly due to lower marginal rates in the income tax system, and thereby make things more equitable. But this answer is only a race to the bottom socially, a headlong rush by our welfare state that would lead to reducing its scope of action.

Taxing the family allowance reduces the level of transfers from households without children to families with children, *i.e.* it violates the principle of horizontal equity. Of course, it also helps in particular to increase the level of transfers from the best-off families with children to those less well-off. But to strengthen the overall degree of vertical redistribution (that is to say, to increase the level of transfers from the richest households to the poorest), the tax system has to be made more progressive, which is what was done with the latest fiscal adjustments ([introduction of a 45% tax bracket in particular](#)). In this context, the universality of family allowances could then be maintained, which has the advantage of consolidating the support of high-income households for the principle of the welfare state: they pay more taxes, but they receive the same amount of family benefits when they have children.

The taxation of the family allowance is not simply an adjustment in family policy, it also affects its values — and in particular the principle of horizontal equity. While it may be necessary to rethink the objectives of family policy, which are now outdated in many respects, as we show in the next section, the current period is probably not the best for conducting this debate, because the urgency of the situation and the desire to find more room for fiscal manoeuvring would lead to the adoption of a short-term vision, whereas family policy is intrinsically long-term policy.

...to a balanced family policy

Nevertheless, this debate on the relevance of taxing the family allowance should not lead to policy paralysis. The principles of current family policy were established based on the way society was viewed over 70 years ago. Although adjustments have been made, the principles remain. Yesterday's objectives do not reflect tomorrow's challenges. It is thus essential to renegotiate the foundations of family policy. How should the welfare state's family activities be reoriented? What compass should be followed? This is the question we need to answer.

One of the goals of contemporary family policy is to prop up the birth-rate. State support increases with the birth order of the child, for example, by granting an additional one-half personal allowance on taxation per child, starting from the third child. When considering how to redeploy spending on family policy, removing the one-half personal allowance should be a top priority for proposals to rebalance the accounts. Similarly, the family allowance is paid only from the second child. France is one of the only countries in Europe not to grant an allowance from the first child. But the dynamic fertility rate found in France is not the result of pro-childbirth family policies like this; instead, it has more to do with the support given for working women with children: kindergarten, extracurricular childcare, care in early childhood, as well as support for mothers in the workforce (rather than stigmatizing this, as is the case in Germany). Family policy needs to be reoriented towards an objective that respects the rights of every child regardless of their birth order. It should focus on the social citizenship of the individual (that is to say, a more individually-based method of acquiring social rights) from birth to death (while taking into account longer life spans).

A renovated family policy would reflect the principle of equality between children and equality between women and men, including in particular an overhaul of early childhood

support, a massive increase in childcare and changes in the system of parental leave. The cost of dealing with early childhood support would be about [an additional 5 billion euros per year](#). Furthermore, the latest publication of the OECD, [Education at a Glance 2012](#), shows that in France children's academic success is strongly correlated with the level of the parents' education. Finally, the [level of child poverty is disturbing](#). These are all major challenges we must meet.

The rise of partnerships outside marriage but also of divorces (and separations more generally) and family recompositions are a sign of greater individual freedom with regard to life choices. This constitutes a progressive step in the way our society functions. But separations are often accompanied by a decline in living standards and often are not financially possible for individuals on low incomes. In addition, the economic consequences when the couple breaks down hit women harder than men. [\[3\] Single-parent families](#), most often mothers with the children in their care, are more exposed to poverty than other households. A family policy that is more in line with these new living arrangements, and which would accompany changes in the family structure over the life cycle, needs to be considered.

It is necessary to redefine the content and contours of our future family policy, but the desire to balance the family accounts cannot be the sole engine driving this process. We must stop thinking about this kind of change in a narrow way, as we need to reform the very foundations of the system based on new needs and on the principles of justice and solidarity that underpin our social welfare state.

[\[1\]](#) In 2011, the debt in the family accounts was transferred to the Caisse d'amortissement de la dette sociale (CADES), ([Organic Law 2010-1380 – in French](#)).

[2] Which represents about 15% of the total amount of benefits paid out of the family accounts.

[3] Jeandidier Bruno and Cécile Bourreau-Dubois, 2005, “Les conséquences microéconomiques de la disunion”, In Joël M.-E. and Wittwer J., *Economie du vieillissement. Age et protection sociale*, Ed. L’Harmattan,, Vol. 2, pp. 335-351.

And what if Italy’s elections turned out to be an opportunity for Europe ?

By [Franscesco Saraceno](#)

The whole of Europe is currently fretting about the election results in Italy. The Centre-Left coalition won a narrow majority – because of an [electoral law](#) that everyone denounces, but no one seems to have the knowledge or ability to change – which gives it an absolute majority only in the Chamber of Deputies. Due to the way bonuses are attributed for majorities won on a regional basis, no coalition in the Senate has a majority. With its system of “perfect bicameralism”, Italy now finds itself in a situation where there is no possibility of forming a government with a political majority. This note explores one possible scenario for the coming few weeks and its economic consequences for Italy and Europe.

Aside from the spectacular political resurrection of Silvio Berlusconi, whose stated goal from the beginning was to prevent the victory of the Left rather than to secure a

majority, the two startling results of this poll are on the one hand the defeat of the incumbent Prime Minister, Mario Monti, and on the other the progress of the Five Star (*Cinque Stelle*) movement of the former comedian Beppe Grillo, who now heads the leading party in the Chamber of Deputies.

The defeat of Mario Monti is a stinging repudiation of austerity policies that Italy's citizens view as imposed by Europe and Germany. In Monday's [New York Times](#), Paul Krugman called Monti a "proconsul installed by Germany to enforce fiscal austerity on an already ailing economy". Called in November 2011 to the bedside of a country left prostrate by the Berlusconi government, Monti has failed to offer anything other than austerity policies which, unsurprisingly, [did not deliver the growth promised](#). The support the former European Commissioner initially enjoyed slowly eroded as the memory of the problems marking the end of the Berlusconi era faded, and especially as Italy sank deeper and deeper into economic crisis. Mario Monti undoubtedly expected to play a decisive role in the formation of a majority in the Senate, and thus to be able to negotiate his reappointment as Prime Minister. But his gamble failed, and he is now condemned to numerical insignificance.

Beppe Grillo, in contrast, rode to a remarkable success on a tidal wave that now makes him key to the formation of a new government. Thanks to a masterful campaign conducted in the media as well as the street, his movement is the leading party in the Chamber and in the Senate in several regions. He managed to capture the exasperation of the Italians against the "political caste", and he brought almost nine million voters into a campaign that tapped into right-wing populism (e.g. on several occasions he made remarks on immigration and the euro that are not reflected in his programme). He has also played on key concerns of the traditional Left, such as the rejection of austerity, environmental issues, the reduction of working hours, a national minimum income scheme, the

regulation of conflicts of interest, limited terms for elected officials with no cumulation of mandates, and the ineligibility of those sentenced by the courts.

What will happen in the coming weeks? All Europe is wondering, and the initial reactions of the markets seem to betray nervousness about future developments. For institutional reasons, a new election in the very near term is not an option. President Giorgio Napolitano, who is at the end of his term, cannot dissolve Parliament; invoking this option would mean waiting until May for his successor (who is chosen by the MPs elected yesterday). Moreover, it is not certain that the Parliament chosen in any new elections would lead to a political majority.

The majority electoral law gives the Democratic Party an absolute majority of the seats in the Chamber of Deputies, which makes it indispensable to the formation of a new government. This means there are only two possible scenarios: firstly, a broad coalition between Left and Right (with or without Mario Monti's party). This seems unlikely, firstly, because of the ideological divide between the two parties, which has been aggravated by the return of Silvio Berlusconi; and secondly, because it would be perceived by the voters as ignoring the outcome of the election, which saw the two major parties lose over 11 million votes since the 2008 election.

The second solution would be a minority government of the Centre-Left, which could seek out votes from Beppe Grillo's MPs on a programme that was limited in scope and duration. In this case it would be worth considering what possibilities might exist for a convergence between the Five Star movement (whose programme can be downloaded [here](#) [in Italian]) and the Pierluigi Bersani coalition. There would certainly be a consensus on some very popular measures for dealing with the ongoing political crisis (abolition of the provinces, limits on the terms and multiple mandates of parliamentarians, ineligibility, reducing the cost of the political machinery,

etc.), and for fixing some of the most vexing problems from the two decades of Berlusconi (reforms on conflicts of interest and corruption, judicial reform).

The environmentalist wing of the Centre-Left could also find convergences on incentives for energy efficiency and on investment in renewable energy.

In economics, some of Beppe Grillo's key measures could also see a convergence with the Centre-Left, for example on the adoption of a national minimum income scheme or minimum wage, themes which, as has been shown in the [French debate](#), are not necessarily populist or unrealistic.

It would be difficult to agree on any convergence between the Centre-Left and Beppe Grillo within the framework of the current fiscal consolidation, so it's worth repeating that a prerequisite for this would be calling into question the austerity policy repudiated by the voters. This would inevitably pose problems for the Democratic Party which, like the Socialist Party in France, has gone in for austerity. Negotiations with the Five Star movement would imply abandoning the ambiguous position that the Democratic Party has long held on austerity. This would in turn have an impact throughout Europe. In the coming few weeks, Europe's leaders may be faced either with the lack of a government in the third-largest economy in the euro zone or with a government that is likely to turn its back on austerity. Europe could then be forced to rethink its own economic strategies, and some countries that have been tightening up only reluctantly (like France?) could seize the opportunity to call into question the model of growth through austerity.

The law on the separation of banking activities: political symbol or new economic paradigm?

By [Céline Antonin](#) and [Vincent Touzé](#)

Imprudence, moral hazard and systemic gridlock were key words for the banking crisis. Governments that were unhappy to have had no choice but to come to the rescue of the banks are now trying to regain control and impose new regulations. The regulations with the highest profile concern the separation of trading activities (trading on own account or for third parties) from other banking activities (deposits, loans, strategic and financial consulting, etc.). These are expected to have the advantage of creating a tighter barrier between activities, with the idea that this could protect investors if bank operations go badly on the financial markets. On 19 February 2013, the French Parliament passed a law on the separation of banking activities. Although the initial targets were ambitious, the separation is only partial, as only proprietary financial activities will be spun off. As these cover less than 1% of bank revenues, this measure tends to be symbolic. However, by giving legal force to the principle of separation, the State is demonstrating its willingness to take a more active role in supervision.

The idea of compartmentalizing banking activities is not new. In the aftermath of the 1929 crisis, the United States adopted the Glass-Steagall Act (1933), which required a strict separation between commercial banks (specialized in lending and in managing deposits) and investment banks (specialized in financial activities). France followed suit with its own banking law of 1945 [\[1\]](#). The expected benefits of separating

banking activities are twofold. On the one hand, customers' deposits would be better protected, because they could no longer be asked to absorb the potential losses of market activities; on the other hand, in case of bankruptcy, State aid would be limited, because only the retail part of the bank would be covered by a government guarantee.

Forty years later, in the wake of the major wave of deregulation in the 1980s-1990s, France was one of the first to abolish this distinction, with the Banking Act of 1984, thus establishing the principle of universal banking. This principle leads to grouping activities with high needs for liquidity (the financing of the economy) with those that make it possible to gather liquidity (deposit activities). This grouping has the undeniable merit of giving the banks a more solid financial foundation. Other benefits also flow from this: greater leverage; the size factor leads to economies of scale; and the banks' ability to internationalize allows them to join the "too big to fail" category. Across the Atlantic, these arguments certainly worked in favour of the abolition of the Glass Steagall Act in 1999 by the Clinton administration.

Since 2008, the banks have been hit by a number of shocks: the subprime crisis; the fall in financial stocks; the slump in economic growth; and fear of defaults on sovereign debt (for banks in the euro zone). These shocks have shown that some of the advantages of universal banking could turn into disadvantages if leverage is used too systematically and if large banks in difficulty begin to pose a systemic risk. Many voices then began to be heard advocating a new Glass-Steagall Act, based on a view that separating market activities [\[2\]](#) from other banking activities is a way of preventing large-scale banking crises. Trading on own-account activities concentrates the bulk of bank malfunctions, in particular reckless risk-taking and the occasional "mad" trader [\[3\]](#). This compartment has thus now become the focus of increasing attention by the regulators.

The Dodd-Frank Wall Street Reform and Consumer Protection Act [\[4\]](#) adopted in the United States in 2010 did not establish the separation of banking activities in a strict sense, but adopted the “Volcker rule,” which prohibits banks from “playing” with depositors’ money. This led to a virtual ban on the speculative proprietary activities of banking entities as well as on investments in hedge funds or private equity funds. In addition to this rule, this Act also represented a major reform in favour of the tighter regulation of all financial agents (banks, insurance companies, hedge funds, rating agencies, etc.) as well as closer monitoring of systemic risks.

Europe is in turn planning legislation on the separation of banking activities. At the request of European Commissioner Michel Barnier, the group of experts led by the Governor of Finland’s Central Bank, Erkki Liikanen, presented a [report](#) on 2 October 2012. It advocates a strict bank compartmentalization [\[5\]](#) but also reviews the remuneration of financial managers and traders, with a view to overhauling the current arrangements, which tend to “push people into crimes” such as excessive speculation, in order to make these arrangements more compatible with long-term objectives. If this report is turned into a European directive, it will then have to be transposed into the national law in each Member State. However, this Europe-level approach is likely to be overtaken by the legislative processes in several European countries. In Germany, a bill on banking regulation [\[6\]](#) was introduced by the government on 6 February 2013, and could enter into force by January 2014 (with implementation by July 2015). The United Kingdom stood out in 2011 with the publication of the Vickers report [\[7\]](#), although the British government is in no hurry to implement its recommendations, with a probable deadline of 2019. France, with its [“law on the separation and regulation of banking activities”](#), has not been left behind.

A MODEST FRENCH ACT ...

The French law has several components. In addition to establishing the principle of separation, it also provides for measures to protect bank clients and to strengthen the supervision and control of the banks. It does this in several ways:

- Each bank will be forced to develop a preventive recovery plan [8] for dealing with a crisis and a resolution plan in case it is failing (a bank testament). The resolution plan will be submitted for the appreciation of the Prudential Control Authority (ACP), which becomes the Prudential Control and Resolution Authority (ACPR).
- The Deposit Guarantee Fund (FGD) becomes the Deposit Guarantee and Resolution Fund (FGDR), with an increased capacity to intervene in the event of a bank failure.
- Macro-prudential supervision is strengthened by the establishment of the Financial Stability Council (CSF).
- The rights of bank clients are enhanced (transparency on the cost of loan insurance, free choice of loan insurers, right to a bank account, etc.).

However, the flagship measure in the reform is the separation between “activities useful to the economy” and speculative activities. Banks are to confine their proprietary or “own account” activities in an ad hoc subsidiary that is subject to specific regulation and funded independently. These subsidiaries will be prohibited from practicing certain speculative activities that are deemed “too risky or that may be harmful to the economy or society”, such as activities on the markets for derivatives whose underlying assets are agricultural commodities, or high-frequency trading. Many activities will nevertheless be spared, such as providing services to customers, market-making activities, cash management, and bank investment or hedging operations to cover

its own risks.

This law separating bank activities, which was initially presented as ambitious, will ultimately have only a limited impact. The universal banking model is not called into question. The admission of the head of the Société Générale bank could not be any clearer [\[9\]](#): less than 1% of revenues are concerned. We are therefore a long way from how banking was compartmentalized prior to 1984. The criterion for separation is ambiguous. In fact, the border is porous between hedging risk and pure speculation: the law advances a fuzzy principle of “economic relevance”, and the banks may be tempted to play around in this legal vacuum. As for market making [\[10\]](#), it is difficult to distinguish between speculative proprietary activities, which have to be spun off, and activities to promote market liquidity: high-frequency trading is for instance usually practiced under the guise of market-making agreements, so the law may be no more than a sword slashing water if the status of market maker is not defined more precisely [\[11\]](#).

The law also provides for prohibiting a banking group from holding shares of a speculative type, like a hedge fund. However, the loans granted by banks to hedge funds are always accompanied by guarantees. From this point of view, the law will also have little impact.

... BUT COULD IT GO FURTHER?

Finding a new financial paradigm for a banking model is a complex exercise. In practice, it is not easy to separate banking activities purely and simply without causing problems, and there are generally many limits to banking reform.

First, limiting investment banks' access to deposits as a source of liquidity, or eliminating this outright, would lead them to resort to more debt financing, which might be

difficult to reconcile with the constraints set by the Basel III prudential regulations, which took effect on 1 January 2013. It is already very demanding in terms of equity levels.

Furthermore, it is important to note that banking risk is not inherent just in market activities. There are many other recent examples. Mortgage lending has also been an important source of risk: in Spain, falling house prices and the insolvency of borrowers virtually bankrupted the banks; in the United States, the subprime crisis is a crisis of real estate loans that affected the markets through sophisticated securitization mechanisms that allowed the banks to take the risk off of their balance sheets (at least ostensibly); in the UK, Northern Rock is a retail bank that specialized in mortgages and was hit hard by the credit crunch and the housing crisis. To some extent, universal banks have played an important role in saving banks that were too specialized, for example, JPMorgan Chase (Universal) took over Washington Mutual (savings and loan) and Bear Stearns (business), and Bank of America (universal) rescued Merrill Lynch (business).

In addition, the separation is supposed to wall off banking activities more tightly. But what happens if the subsidiary that manages the proprietary speculation goes bankrupt and causes heavy losses to the parent? In the past, two of the four major French groups, Crédit Agricole and BPCE, had insulated their market activities in their respective subsidiaries, Natixis and Cacib, but nevertheless had to come to their rescue in 2008 and 2011, respectively. The insulation seems to be very permeable.

In a context of financial globalization, compartmentalization may never be very effective. By its very principle globalized finance makes it possible to connect everything. This is in particular the role of the interbank markets [\[12\]](#).

In practice, it is difficult for a government to reform its banking sector in the absence of coordination with other

countries. The domestic banks have foreign subsidiaries that may not be subject to the regulations. And above all, the profitability of rival foreign banks might improve, which would weaken the competitiveness of the domestic banks. At the European level, national interests differ, and each country may be tempted to impose its own bill. If the Liikanen report is turned into a Directive, then each Member State will be required to transpose it into their legal system. For the moment, the legislation of Germany and France is taking the lead. It is possible that these changes will influence any future directive.

If the effort to compartmentalize goes too far, there is also a risk of shifting the interconnections to less visible levels. It is essential to avoid falling into the trap posed by the dangerous illusion of thinking that we have eliminated a risk, when in fact it has just been moved.

Finally, too much regulation can sometimes kill regulation. In the financial sector, regulatory constraints may serve as a basis for speculation. So if a bank is having difficulty meeting certain regulatory constraints, the markets will be encouraged to speculate in order to provoke its failure and then profit from this. Caution is therefore needed before introducing new regulations.

Trying to apply the principle of separation too strictly could also lead to not supporting a commercial bank that is facing significant liquidity problems. However, according to the principle of "too big to fail", such a decision is not always wise. The failure to support Lehman Brothers was punished in a way that had a significant long-term impact, as its collapse hit the entire economic and financial network.

It is also worth noting that taking banking and financial regulation to be a miracle cure could have deleterious effects on individual and collective responsibility. People think that the law can resolve any problem. Yet at the same time, it is

very likely that the vectors of the next financial crisis will manage to circumvent the regulatory constraints, hence the importance for the supervisory authorities to remain vigilant and adopt a critical approach at all times.

GOING BEYOND THE POLITICAL SYMBOL

The government undeniably has little leeway to separate banking activities, because too much regulation may be ineffective or even dangerous. As a consequence, this law separating banking activities is not radical and will have a moderate effect on the banks. For its part, the government may have a clear conscience for having done something along the lines of its foreign counterparts. The bankers in turn are probably not unhappy at having given the impression of serving the public interest, especially at such a low cost.

Some will view this as just a poor political symbol. Others will try to go further and view this as giving hope that this reform will be seen as a strong signal to the banking world. This hope may not be in vain, as the principle of separation is now enshrined in law, and future governments will have plenty of time to strengthen it.

In practice, a change in economic paradigm that would lead to harmful speculation becoming increasingly rare will not result simply from a separation of activities. Banking laws should not be too complicated, because the devil has a tendency to hide in the details. The supervisory authorities must constantly keep a critical eye on the functioning of the markets, and the law needs to allow them some flexibility in determining when and how they should intervene. On these issues, Volcker's statement in 2011 is unambiguous [\[13\]](#): "I'd write a much simpler bill. I'd love to see a four-page bill that bans proprietary trading and makes the board and chief executive responsible for compliance. And I'd have strong

regulators. If the banks didn't comply with the spirit of the bill, they'd go after them." It is also worth examining various measures to make financial professionals (managers and market operators) more responsible. In this respect, the Liikanen report proposes revising the pay systems for bank executives and financial managers in order to make these systems more compatible with a long-term vision. It is also necessary to explore the possibility of increasing the criminal liability [14] of financial leaders. The permeability of the interface between careers in the regulatory sector and in the regulated sector also needs to be examined. In this regard, there are certainly ways to make the system less permeable. After all, recent history has shown that it is possible to go from being Chairman of the Fed to being a trusted advisor for a rich and powerful hedge fund...

[1] Law 45-15 of 2 December 1945 provided for the specialization of financial institutions by classifying the banks in three categories: deposit banks, business banks and long-term and medium-term lending banks (Articles 4 and 5).

[2] Asset management can be exercised:

– for one's own account (*proprietary trading*): the bank buys or sells financial instruments that are funded directly out of its own resources. These resources include not only the bank's capital, but also savers' deposits and loans. This means that, in addition to its own funds, the other categories involved in the bank's financing, including customer deposits, indirectly bear a risk.

– or on behalf of third parties (*non-proprietary trading*): unlike proprietary trading, the market or borrowing risks are borne mainly by the client. However, on certain products, the bank could face significant operating risks.

[3]

http://lexpansion.lexpress.fr/economie/trading-pour-compte-pro-pre-la-face-cachee-des-banques_233686.html.

[4] Title VI of the Act proposes improving regulation and is considered to be an application of the “*Volcker Rule*”, <http://useconomy.about.com/od/criticalissues/p/Dodd-Frank-Wall-Street-Reform-Act.htm>.

[5] The report recommends a separation of proprietary market activities but also of certain other activities on the financial markets and derivatives for third parties.

[6] Germany is also preparing a bill, under which the German banks will be obliged to wall off their proprietary trading. As in France, the universal banking model will not be called into question. http://m.lesechos.fr/redirect_article.php?id=reuters_00495696&fw=1.

[7] In September 2011, the Vickers Report recommended separating retail banking services from investment activities, by ringfencing retail banking services in subsidiaries, along with the requirement of a 10% equity cushion for retail banks. The British government is committed to introducing the reforms into law by 2015, with implementation set for 2019.

[8] This plan provides for different possibilities for recovery (recapitalization, a savings plan, restructuring, etc.) and excludes any call for public financial support.

[9] “We believe that, while in 2006-2007, 15% of activities could be considered market activities, 15% to 20% of which could be classified as disconnected from the customer, and consequently transferred to a subsidiary, this proportion is now less than 10%, and ranges from 3.5% to around 5% on average.” Frédéric Oudéa, 30 January 2013, at a hearing before the Finance Committee of the National Assembly, <http://www.assemblee-nationale.fr/14/pdf/cr-cfiab/12-13/c1213060.pdf>.

[10] Market-making corresponds to the permanent presence of an operator who provides liquidity to the market.

[11] In this respect, we should mention the amendment tabled by Karine Berger, who wants Bercy [the Ministry of the Economy] to set the threshold above which market activities must always be spun off.

[12] Since 2008, the crisis of confidence in the banking market has posed great difficulties for access to liquidity in some banks, even though they are perfectly solvent, which has forced the central banks to intervene and take the place of the interbank market.

[13] 22 October 2011,
http://www.nytimes.com/2011/10/22/business/volcker-rule-grows-from-simple-to-complex.html?pagewanted=all&_r=0.

[14] In this respect, the American authorities have not hesitated to take action against financial institutions that have failed to meet their obligations. See, for example, the recent action taken against Standard & Poor's, <http://www.bloomberg.com/news/2013-02-06/s-p-lawsuit-portrays-cdo-sellers-as-duped-victims.html>. See too the proceedings taken against a former employee of Goldman Sachs: <http://www.sec.gov/litigation/complaints/2010/comp-pr2010-59.pdf> and <http://dealbook.nytimes.com/2013/01/31/trader-accused-of-misleading-clients-leaves-goldman/> or the investigation into the infamous "London whale": <http://www.reuters.com/article/2013/02/15/us-lehman-jpmorgan-londonwhale-idUSBRE91E00W20130215>.

So far so good ...

By [Christophe Blot](#)

The euro zone is still in recession. According to Eurostat, GDP fell again in the fourth quarter of 2012 (-0.6%). This figure, which was below expectations, is the worst quarterly performance in the euro zone since the first quarter of 2009, and it is also the fifth consecutive quarter of a decline in activity. For 2012 as a whole, GDP decreased by 0.5%. This annual figure masks substantial heterogeneity in the zone (Figures 1 and 2), since Germany posted annual growth of 0.9% while for the second consecutive year Greece is likely to suffer a recession of more than 6%. Moreover, taking all the countries together, the growth rate will be lower in 2012 than in 2011, and some countries (Spain and Italy to name but two) will sink deeper into depression. This performance is all the more worrying as several months of renewed optimism had aroused hopes that the euro zone was recovering from the crisis. Were there grounds for such hope?

Although it is very cautious about growth for 2012, the European Commission, in its [annual report](#) on growth, noted the return of some good news. In particular, the fall in long-term sovereign rates in Spain and Italy and the success on the financial markets of the public debt issues by Ireland and Portugal reflected renewed confidence. It is clear now however that confidence is not enough. Domestic demand has stalled in France and is in freefall in Spain. All this is hurting trade within the zone, since a decline in imports by one country means a decline in exports from others, which is amplifying the recessive dynamics afflicting the countries in the zone as a whole. As we noted in our [previous forecasting exercise](#) and on the occasion of the publication of the [iAGS](#) (independent Annual Growth Survey), a recovery cannot in any case rely solely on a return of confidence so long as highly restrictive fiscal policies are being carried out synchronously throughout

Europe.

Since the third quarter of 2011, the signals have all confirmed our scenario and showed that the euro zone has gradually sunk into a new recession. Unemployment has continued to rise, setting new records every month. In December 2012, according to Eurostat 11.7% of the euro zone working population were jobless. However, neither the European Commission nor the European governments have adjusted their fiscal strategy, arguing that fiscal efforts were needed to restore credibility and confidence, which would in turn lower interest rates and create a healthy environment for future growth. In doing this, the Commission has systematically underestimated the recessionary impact of the fiscal consolidation measures and has ignored the increasingly abundant literature showing that the multipliers rise in times of crisis and may be substantially higher than one (see the post by [Eric Heyer](#) on this subject). Advocates of fiscal austerity also believe that the costs of such a strategy are inevitable and temporary. They view fiscal consolidation as a prerequisite for a return to growth and downplay the long-term costs of such a strategy.

This dogmatic blindness recalls the final comment in the film *La Haine* (directed by Mathieu Kassovitz): “This is the story of a society that is falling, and to reassure itself as it falls constantly repeats, so far so good, so far so good, so far so good ... what’s important is not the fall, it’s the landing.” It is time to recognize that the economic policy in force since 2011 has been a mistake. It is not creating the conditions for a recovery. Worse, it is directly responsible for the return of recession and for the social catastrophe that is continuing to deepen in Europe. As we have shown, other strategies are possible. They do not neglect the importance of eventually making the public finances sustainable once again. By postponing and reducing the scale of austerity (see the note by [Marion Cochard, Bruno Ducoudré](#)

[and Danielle Schweisguth](#)), it would be possible to make more rapid progress in restoring growth and cutting unemployment.



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*.

What monetary policy for the ECB in 2013?

By Paul Hubert

After the monthly meeting of the Board of Governors of the European Central Bank on 7 February 2013, the ECB decided to hold its key interest rate at 0.75%. The analysis of the economic situation by Mario Draghi made during the press conference afterwards pointed to contrasting developments justifying the status quo. In a recent study, we showed that the inflation forecasts of the ECB can shed new light on future trends in interest rates.

The status quo can be explained by a number of mutually offsetting factors. The banks have started to repay some of the cash obtained through the LTRO facility (140 billion euros out of 489 billion), which reflects an improvement in their financial position, while at the same time lending to non-financial firms is continuing to contract (-1.3% in December 2012) and consumer loans are still at very low levels.

From a macroeconomic viewpoint, the situation in the euro zone is not giving clear signals about future monetary policy: after shrinking by 0.2% in the second quarter of 2012, real GDP in the euro zone fell another 0.1% in the third quarter, while inflation, as measured on an annual basis, decreased from 2.6% in August 2012 to 2% in January 2013 and is expected to drop below the 2% mark in the coming months based on the figures for GDP growth and for current and anticipated oil prices.

Furthermore, the inflation expectations of private agents, as measured by the *Survey of Professional Forecasters*, remain firmly anchored around the ECB's inflation target. In the fourth quarter of 2012, expectations were for 1.9% inflation for the years 2013 and 2014. Given that the target of "below but close to 2%" has now been reached, and with a euro zone in recession and unemployment at record levels, the ECB could give a boost to real activity. However, it anticipates that economic activity should gradually pick up in the second half of 2013, partly due to the accommodative monetary policy being followed today.

Given expectations, and in light of the historically low levels of key interest rates and the lag in the transmission of monetary policy to the real economy [\[1\]](#), a future rate cut seems very unlikely. One final element is sending out mixed messages: the recent rise of the euro – though it is still far from record levels – could nip in the bud the weak economic recovery that is underway, and could in the eyes of some justify support for export sectors [\[2\]](#).

In a recent [OFCE working paper](#) (No. 2013-04), we discuss how the ECB could use its inflation forecasts to improve the implementation of its monetary policy. We propose a new element to shed light on future developments in interest rates, based on the macroeconomic projections published quarterly by the ECB. In this study on the effects of the publication of the ECB's inflation forecasts on the inflation expectations of private agents, we show that a 1 percentage point reduction in the ECB's inflation projections is associated with a key interest rate cut by the ECB of 1.2 percentage points in the next two quarters. We conclude that the ECB's inflation forecasts are a tool that helps to better understand current monetary policy decisions and to anticipate future decisions.

The latest inflation projections, published in December 2012, were 1.6% and 1.4% for the years 2013 and 2014, respectively.

The publication on March 7th of new projections could provide a further indication of the direction monetary policy is likely to take in 2013.

[\[1\]](#) On average, a change in the key rates is estimated to have an impact on inflation after 12 months and on GDP after 18 months.

[\[2\]](#) Remember, however, that about 64% of trade in the euro zone is conducted with euro zone partners, and thus is independent of fluctuations in exchange rates.