

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](#)).