

Towards a major tax reform?

By [Guillaume Allègre](#) and [Mathieu Plane](#) (eds.)

Taxation is more at the heart of the current election campaign and public debate than ever before. The economic and financial crisis, coupled with the goal of rapidly reducing the deficit, is inevitably shaking up the electoral discourse and forcing us to confront the complexity of our tax system. How do taxes interact with each other? What are the effects? How are they measured? What kind of consensual basis and constraints does taxation require? How should the tax burden be distributed among the economic actors? How should social welfare be financed? Should we advocate a “tax revolution” or incremental reform? The contributions to [a special “Tax Reform” issue of the Revue de l’OFCE – Débats et Politiques](#) aim to clarify and enrich this discussion.

The first section of the special issue deals with the requirements and principles of a tax system. In an introductory article, [Jacques Le Cacheux](#) considers the main principles that should underpin any necessary tax reform from the viewpoint of economic theory. In a historical analysis, [Nicolas Delalande](#) emphasizes the role of political resources, institutional constraints and social compromises in drawing up tax policy. [Mathieu Plane](#) considers past trends in taxation from a budgetary framework and analyzes the constraints on public finances today. In response to the problem of imported carbon emissions, [Eloi Laurent and Jacques Le Cacheux](#) propose the implementation of a carbon-added tax.

The second section deals with the issue of how the tax burden is distributed among households. [Camille Landais, Thomas Piketty and Emmanuel Saez](#) respond to the important article by [Henri Sterdyniak](#) in which he recommends a “tax revolution”. [Clément Schaff and Mahdi Ben Jelloul](#) propose a complete overhaul of family policy. [Guillaume Allègre](#) attempts to shed

light on the debate over France's "family quotient" policy. Finally, [Guillaume Allègre, Mathieu Plane and Xavier Timbeau](#) propose a reform of taxation on wealth.

The third section concerns the financing of social protection. In a sweeping review of the literature, [Mireille Elbaum](#) examines changes in the financing of social protection since the early 1980s, and considers the alternatives that have been proposed and their limits. [Eric Heyer, Mathieu Plane and Xavier Timbeau](#) analyze the impact of the implementation of the "quasi-social VAT" approved by the French Parliament. [Frédéric Gannon and Vincent Touzé](#) present an estimate of the marginal tax rate implicit in the country's pension system.

Working hours and economic performance: What lessons can be drawn from the Coe-Rexecode report?

By [Eric Heyer](#) and [Mathieu Plane](#)

Do people work less in France than in the rest of Europe? Is France the only country to have reduced working hours in the last decade? Is the 35-hour work week really dragging down the French economy? The report published on 11 January by the [Coe-Rexecode](#) Institute provides fresh material for answering these questions.

We have produced [a note on the main conclusions of the report](#), which can be summarized as follows:

1. People work fewer hours in France than in the rest of Europe.

- TRUE for full-time employees,
- FALSE for part-time employees,
- FALSE for non-salaried employees,
- UNDETERMINED for the total.

2. Working hours have fallen more in France than in Germany over the last 10 years.

- FALSE

3. “The shorter work week has failed to meet the goal of job creation and work-sharing” in France.

- FALSE

4. “The shorter work week has undermined per capita purchasing power” in France.

- FALSE

What employment policy during a crisis?

By Marion Cochard

After a lull of only a year, unemployment figures started to rise again in April 2011. We are seeing a replay of the dynamics of the 2008 recession: a hiring freeze and the non-renewal of temporary and fixed-term (“CDD”) contracts, with redundancies to follow later in the year. The reason, of course, is the current economic downturn, which is hitting while French business margins are still in bad shape after the

shock of 2008-2009, particularly in industry. The weakened companies no longer have the strength to cushion the fall as they did four years ago. The French economy is thus expected to slide into recession in the fourth quarter of 2011, and we foresee a fall in activity of 0.2% in 2012. Given that annual growth of 1.1% is needed to kick-off job creation, the resumption of job losses seems inevitable. If we add the existence of a growing workforce to this bleak picture, the number of unemployed will surpass the 3 million threshold by year end.

On the eve of a tense social summit, what are the options for cushioning the impact of the crisis on the labor market? Given the urgency of the situation, the government has two main levers that are responsive and inexpensive: partial unemployment and subsidized jobs in the non-profit sector.

Partial unemployment can cushion the economic hardships faced by business and retain skills in the companies. There is substantial room to expand its use. By way of comparison, in 2009 maximum compensation for partial unemployment was extended to 24 months in Germany, versus 12 months in France. In addition, the greater level of state coverage in Germany partly explains how extensively it is taken up there: partial unemployment affected 1.5 million people at the peak of the crisis, but only 266,000 in France. Nor does this put much of a burden on public finances, as the 610 million euros disbursed by the States on partial unemployment in 2009 were offset by savings on unemployment benefits and the preservation of human capital.

But partial unemployment benefits workers in stable industrial jobs above all, while the brunt of the crisis is being borne by those in precarious employment and young people. These are the sections of the population targeted by subsidized employment. Again, the government has some leeway, because 70,000 subsidized non-profit contracts were eliminated since end 2010 and 300,000 since the early 2000s, and it is also not

a very expensive scheme. The creation of 200,000 jobs would for instance cost the state 1 billion euros – contrast this with the shortfall of 4.5 billion euros due to the tax exemption of overtime, which, furthermore, is inconsistent with the logic of partial unemployment. These programs are targeted at those among the unemployed who are most isolated from the labor market – the long-term unemployed and unskilled – and would lower their risk of dropping out of the labor market.

However, even though these tools should be used immediately, they are still just stop-gaps. Partial unemployment remains confined to 80% of industry and designed for short-term use. If today's dire economic situation continues, we know that this approach will only delay layoffs. Similarly, subsidized jobs are not intended to be long-term. These are low-paid part-time jobs intended to deal with reintegration into the labor market, and not a long-term approach.

The biggest challenge is really a correct diagnosis of the current economic situation. By focusing negotiations on the issue of partial unemployment and subsidized jobs, the government seems to be betting on a quick recovery. Yet it is precisely the combined effect of austerity plans throughout Europe that will weigh on growth in the years to come. Furthermore, the policy of reducing public deficits, which will cost 1.4 percentage point of growth in France in 2012, is expected to continue at least into 2013. It is difficult in these circumstances to expect to pull out of the stagnant situation quickly enough to avoid the looming social catastrophe. Unless there are plans for a new permanent reduction in working hours and the creation of public sector jobs, the best employment policy remains growth. It is thus the issue of macro-economic governance that is posed above all today in France and throughout the euro zone.

