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# The Welfare State in France

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# Introduction

This study is concerned with the extent to which modern France has become a "welfare state." The term "welfare state" is not subject to precise definition, for practically all modern governments are concerned in greater or lesser degree with the well-being of their citizens. But since the publication of the Beveridge Report in 1942, the phrase has become roughly descriptive of government activities which are redistributive in character. The welfare state, in other words, has to do with the use of government power as an instrument for the redistribution of income in society, generally with the dual objectives of greater equality in the distribution of money income, and a guarantee of some minimum standard of well-being for all citizens. These objectives may be brought about directly through a redistribution of money income, or indirectly through the provision of services to some segments of the population on some basis other than the costs of those services. However it may be managed, the existence of a welfare state means an alteration in the pattern of income distribution.

Since the end of World War II France has created machinery for the redistribution of income as comprehensive as any now existing among western nations. In some respects, in fact, France has become more of a welfare state than the United Kingdom, although the latter is perhaps more generally looked upon as the classic example of this phenomenon. In the analysis which follows, this study will be concerned primarily with two aspects of the welfare state as it functions in contemporary France. First, the study will show the extent to which the nation's social security system has become an instrument for the redistribution of income in the economy; and, second, it will analyze the manner in which the pattern of income distribution is altered as a result of welfare expenditures by the government. The study also stresses a number of important structural characteristics of the economy, and shows how these have influenced the functioning of the welfare state in France.

The study is organized as follows: Chapter 1 is in the nature of an essay on the theoretical aspects of income redistribution, and its purpose is to provide a general framework for the empirical analysis that follows. Chapter 2 describes in detail the organization and workings of the French social security system. Chapter 3 analyzes income redistribution via transfer expenditures in the French economy on an aggregate basis, and makes a comparison with similar practices in the United Kingdom and the United States. Chapter 4 is concerned with the actual distribution of money income in France, and the way in which this distribution is altered by the apparatus of the welfare state. Chapter 5, the final chapter, is in the nature of a commentary on the phenomenon of the welfare state. There is attached an appendix containing a brief comment upon sources and additional statistical data.

The major portion of the research for this study was completed in France in 1957-58, during the tenure of my Fulbright Research Fellowship. I wish to express my appreciation to the International Educational Exchange Service of the Department of State for this grant, which made it possible to take time off from teaching and other duties at the University of Nebraska for a year of study and research abroad.

WALLACE C. PETERSON

Paris
June, 1958

# I / The Theoretical Problem

In this chapter will be discussed some theoretical aspects of income redistribution so as to establish a framework for the later analysis of income and its redistribution in the French economy. Essentially, the remarks in this chapter are concerned with the means by which the state may modify the distribution of income to persons in a society. It should be fairly evident that governments do, willfully or not, affect the distribution of income in society, for the state collects taxes and dispenses various services or benefits, and usually taxes are not collected from nor services distributed to income-recipients in the same proportion. This, then, is the nub of the theoretical problem, for whenever some receive more and others less from government than what they pay to government in the form of taxes, there is a redistribution of income.

## The Meaning of Income Redistribution

Ideally, analysis of the redistribution of income should attempt to consider the effects of all government activity that in some way modifies an *initial* distribution of income. The phrase "an *initial* distribution of income" is meant to apply to a situation in which income distribution is determined on a functional basis in competitive markets, and the activities of government are "neutral" in the sense that these activities do not in any way modify the market-determined distribution of income. The idea of the neutrality of public finance implies that by some means the citizens of a community or nation, in the absence of any formal state apparatus, would have purchased the same array of goods and services as they do collectively through the instrumentality of the state. This, of course, is a purely imaginary situation, but the concept of the neutrality of public finance is a convenient point of departure for a discussion of income and its distribtuion.

But even simply as a theoretical concept, the idea of an initial distribution of income subject to modification by public activity is not free of difficulty. Actually, the existence of the state or government means that the functional distribution of income will necessarily be different from what it would be in the absence of a formal state apparatus. There are two reasons why this is likely. First, the functional distribution of income depends indirectly upon the structure of total demand, because in the market prices paid for the services of productive resources are linked to the kinds of goods and services demanded by potential buyers. And contrary to the remarks above pertaining to the neutrality of public finance, it is perhaps inevitable that the mere existence of a state will modify the structure of total demand. It is hardly likely, in other words, that citizens, in the absence of the state, would prefer exactly the same collection of goods and services that are purchased when some such collective entity as the state exists. Second, it would be naive to attribute the functional distribution of income wholly to the mechanism of the competitive market. Even a casual analysis of the economy reveals the existence of numerous conflicts and power struggles centering on the distribution of income, and these latter necessarily modify the way in which income distribtuion is shaped by market forces. The state, even if its activities are not redistributional in intent, will exert an influence simply because it cannot help but modify the outcome of power conflicts among private groups. It is thus necessary to accept the state as a part of the institutional setting of the economy, and aim the analysis, thereby, at the public activities that can be clearly identified as having redistributive effects. It is still necessary to begin with an *initial* distribution of income, but this should now be interpreted to mean the functional distribution of income that results from some given level of economic activity, including that part of the national output which originates in the public sector. More specifically, the phrase "the *initial* distribution of income" refers to the allocaton of the national income by distributive shares in the form of wages and salaries, rents, interests, and profits. These latter, the sum of which constitute the factor cost of the national output, represent claims to income based upon the contribution of such economic resources as land, labor, and capital to the market value of current output. Income redistribution, therefore, is concerned with the way in which the state may alter an *initial* distribution of income defined in this manner.

The above needs to be qualified slightly, since, from the viewpoint of income redistribution, the more meaningful concept is that of personal income. This may be defined as the money income actually received by persons or households, and it will differ from the national income because some of the factor income earned during the productive process does not actually find its way into the hands of individuals as money income received. Personal income subject to a withholding tax, or corporate earnings retained within the enterprise are examples of this. Nevertheless, the concept of the national income remains the logical point of departure for the analysis, as this represents income earned from supplying resources to entrepreneurs, including the state as an entrepreneur; thus the distribution of personal income depends upon a prior distribution of income in the functional or factoral sense. Analysis of income redistribution then becomes a study of the way in which the state intervenes to alter the pattern of personal income distribution derived from an initial functional distribution.

The public sector of the economy is engaged in two major types of activities, both of which can be measured by the expenditures incurred in carrying out these activities. On the one hand, the government provides a broad array of services to the citizens of a community, ranging from national defense to the provision of police and fire protection. In the terminology of national income accounting, the value of these services is equal to government expenditures for goods and services.[1] Many of these services are of a collective character in the sense that they are productive of benefits that are enjoyed by the recipients only through membership in the community. They are, in other words, "indivisible," and cannot, as a practical matter, be provided for by the market mechanism. National defense expenditure is a case in point, for expenditures for this purpose clearly yield benefits to the citizens of a particular country, but it is equally obvious that this is a kind of benefit that cannot be consumed or enjoyed on an individual basis. The productive character of public activities results simply from the fact that expenditure by governmental units creates

[1] These expenditures have another dimension, for they are received as income by those who sell goods and services to the government. As such, however, they simply represent factor income originating in the public sector of the economy and are no more redistributional of income per se than factor payments originating in the private sector.

values which benefit the whole community.[2] Economic evaluation of these benefits is an especially difficult problem, because they are not generally distributed through the machinery of the market. The most feasible, though not necessarily the most satisfactory, solution is to value the services and benefits associated with them at their cost to the public sector, that is, by the amount of government expenditures for goods and services.

Besides providing for a broad array of services, the state also engages in a variety of transfer activities. That is, some government expenditures are simply *transfer* expenditures in that they result only in the transfer of income from one group or person to another group or person. A transfer is distinguished from other government expenditures in that no equivalent value in either product or productive services is received in exchange. Transfers include expenditures such as old-age pensions, family allowances, unemployment compensation, veterans' benefits, interest on the public debt, etc. The common element in all such expenditures is that they do not bring a return flow of goods or services to the government. With respect to transfers it should be noted that some of the services provided by government are, in effect, nonmonetary transfers. This would be true for such services as low-rental housing or free medical care. The recipients of these services benefit through obtaining them at a price below their real cost as measured by government expenditures for the resources necessary to provide the services. But since services of this kind absorb resources in the same way as do government expenditures for services of a collective character, they should be lumped together with the latter and clearly distinguished from expenditures that result solely in a transfer of money income.

While it is important for analytical purposes to stress the differences between government expenditures for goods and services which are productive of either collective or individual values and

[2] Some economists have argued that government expenditures for goods and services should not be considered as a part of final output, rather, that these expenditures should be regarded as a type of intermediate product, because the existence of a stable and orderly society, made possible by such expenditures, is a prerequisite for all production. The difficulty with this argument, as Alan T. Peacock has pointed out, is that it could be extended to practically all forms of consumption, since consumption is, in a broad sense, a prerequisite to production. See Alan T. Peacock, "The Social Services in Great Britain and the Redistribution of Income," in Alan T. Peacock (Ed.), *Income Redistribution and Public Policy*, London: Cape, 1954.

government expenditures which merely effect a transfer of money income, it is equally necessary to emphasize certain factors common to both types of expenditure. First, we should recall that all expenditures result in benefits of either a monetary or nonmonetary nature. These benefits have their impact on the disposable real income of the consumer, either directly by augmenting his personal income, as do money transfers, or indirectly by providing the consumer with certain services at a lower price (or at no price) than would have prevailed in the absence of state action. This principle is clearly applicable for such things as free education or free or low-cost medical care, for in such instances both the recipient of the services and the real cost of the latter can be readily determined. It is less clearly apparent by what means this principle can be applied to government services that are collective in character, but it is maintained, nevertheless, that the principle has validity for all public activity. To argue otherwise would be to assert that government activity is unproductive.

The second thing to note concerning government expenditures is that they require the diversion of resources from the private to the public sector of the economy. To the extent that the government provides services—either collective or individual—real resources are diverted to the public sector as a result of the purchase of goods and factor services by governmental units. It is, incidentally, this component of total government expenditure that is a measure of the "burden" of government on the economy, because such expenditures represent the quantity of current real output being absorbed by the public sector for its purposes. Transfer expenditures do not necessitate a direct diversion of real resources from private to public use, but they do require a diversion of financial resources, generally in the form of some portion of the consumer's current money income.

The allocation of both real and financial resources to the public sector is accomplished by the process of taxation. Governments, in other words, normally depend upon taxation as the source of their revenues.[3] The more meaningful significance of this is that

[3] It should be noted that the taxation process may affect the price or resources, either directly or indirectly, and, consequently, there will be repercussions on the structure of demand. This underscores what was pointed out earlier about the difficulties inherent in the idea of the neutrality of public finance. Moreover, to the extent that the government resorts to borrowing, there may be price effects with respect to commodities and resources, which may affect indirectly both the size and composition of the national output.

the real cost of all public activity is, in the last analysis, borne by the citizens of the community in their capacity as taxpayers. If we grant this to be true, it logically follows that the real burden of taxation may vary from individual to individual and from group to group. As long as the proportion of total taxes paid by an individual or particular group differs from the proportionate share of the individual or group in total income received, the tax burden will be unequal. And what is true for taxation is equally true for government expenditure. That is to say, the benefits derived from government-provided services and money transfers will also vary from individual to individual and from group to group.

Consequently, we can state as a general principle that there will be a redistribution of income whenever the cost of public activity borne by a particular group in the economy differs from the benefits that the same group receives from public activity. An ideal study of income redistribution would involve an allocation of the total tax burden to specific groups and an allocation of the benefits arising from government expenditure to the same groups.[4] If this were done, then the difference between the total tax burden of the group and the total benefits received by the group would measure the gain or loss sustained by persons in the group as a result of public activity. In the following section we shall examine in greater detail the various means by which the state may bring about this result.

### The Means to Redistribution

There are, in effect, three broad means by which the state may directly affect the distribution of income.[5] The first concerns the unequal burden of taxation; the second the unequal distribution of money benefits or transfers; and the third the provision by government of nonmonetary services to particular groups or persons in the economy. Each of these will be discussed in turn.

The tax system will be redistributive of income if particular income or social groups hold a different proportion of the total

[4] The specific limitations of this study with respect to the redistribution of income in France are set forth on page 17.

[5] There will be indirect or secondary effects resulting from redistributional measures. In the matter of taxation, for example, the direct effect is the reduction in income resulting from the tax, while the indirect or secondary effect has to do with the repercussions of this upon subsequent flows of expenditure and income. The direct effect is subject to measurement, but the latter is not, at least in any practical sense.

money income after payment of taxes than they do before payment of taxes. If the tax system is at all progressive, there will be a redistribution of income in the direction of greater equality because the proportionate share of the upper-income groups in the total income will be reduced and the proportionate share of the lower-income groups will be raised. A progressive tax structure must bring about this result because the effective rate of taxation—the ratio of total taxes paid to income received—increases with the size of the income. This means, in other words, that the proportionate share of the total tax burden is greater for the upper-income groups, hence there will be a redistribution in the direction of greater equality.

The major problem in any attempt to determine the extent to which a given tax structure brings about redistribution of income is that of determining the incidence of taxation. Since most modern governments employ many different types of taxes to obtain their revenue, this is a problem of considerable complexity. The problem, moreover, has a dual aspect, for, on the one hand, it is necessary to identify the persons or groups upon whom the tax is nominally levied, and, on the other, to identify the income recipients who actually pay the tax. The latter is the problem of the ultimate incidence of taxation.

Analysis of the probable incidence of different types of taxes can be facilitated if we divided all taxes into three broad categories.[6] First of all there are direct taxes, i.e., taxes levied directly upon income or wealth. The personal income tax, the corporation income tax, estate and gift taxes, and social security taxes levied against employees all fall within this category. Second, there are social security taxes paid by employers, which, for reasons discussed below, warrant treatment as a separate category. Finally, there are indirect taxes, which consist essentially of taxes whose ultimate incidence is presumed to be different from the person or article subject to the tax. Excise and sales taxes are the most common type of taxes in this category.

The problem of the incidence of direct taxation is relatively simple because it is generally presumed that such taxes cannot be

[6] No attempt is made here to treat the problem of the incidence of taxation in detail. Rather, the purpose is simply to emphasize those aspects of the incidence problem that are particularly relevant to the problem under consideration.

shifted.[7] This is certainly true for the personal income tax and the social security tax paid by the employee, although the ultimate incidence of taxes on profits may be somewhat more complicated. In a purely competitive world in which entrepreneurs always operated at the point of profit maximization, a tax on profits could not be shifted. But in the imperfect real economic world this may not be true, and some shifting of such taxes may take place. The extent to which the latter actually happens is, perhaps, impossible to determine. In any event, the most realistic assumption with respect to direct taxation is that such taxes are not shifted. Then the problem becomes simply one of determination of the amount of direct taxes paid by particular income and/or social groups.

Social security taxes levied against the employer present a unique problem, for one needs to decide whether they should be treated as a direct tax on income or as an indirect tax which may be shifted in whole or in part. Theoretically, it is feasible to view the social security tax levied against the employer as a direct tax on income if the amount of such taxes is treated as income in the personal income account. In national income accounting such taxes are considered as part of the wages and salaries component of the factor cost of the national output, hence they are looked upon as part of income earned in the production process. But from the standpoint of analysis of income redistribution this approach lacks realism; it is not likely that wage-earners and other salaried persons regard these taxes as a part of their personal income. In fact, it is more in keeping with reality to view such taxes as an indirect levy against the employer which may be shifted. It is possible that these taxes could be shifted backward to the employee through a reduction in money wages,[8] but this too is not particularly realistic. From the employer's point of view social security taxes are simply a part of labor costs, and, like other costs of production, they will be borne by the consumer. This would particularly seem to be the situation when such taxes constitute a significant portion of total labor costs, as is the case in France. Moreover, in an inflationary era such as has characterized most of the post-World War II period, the

[7] Harold M. Groves, *Financing Government*, New York: Holt, 1939, p. 145.

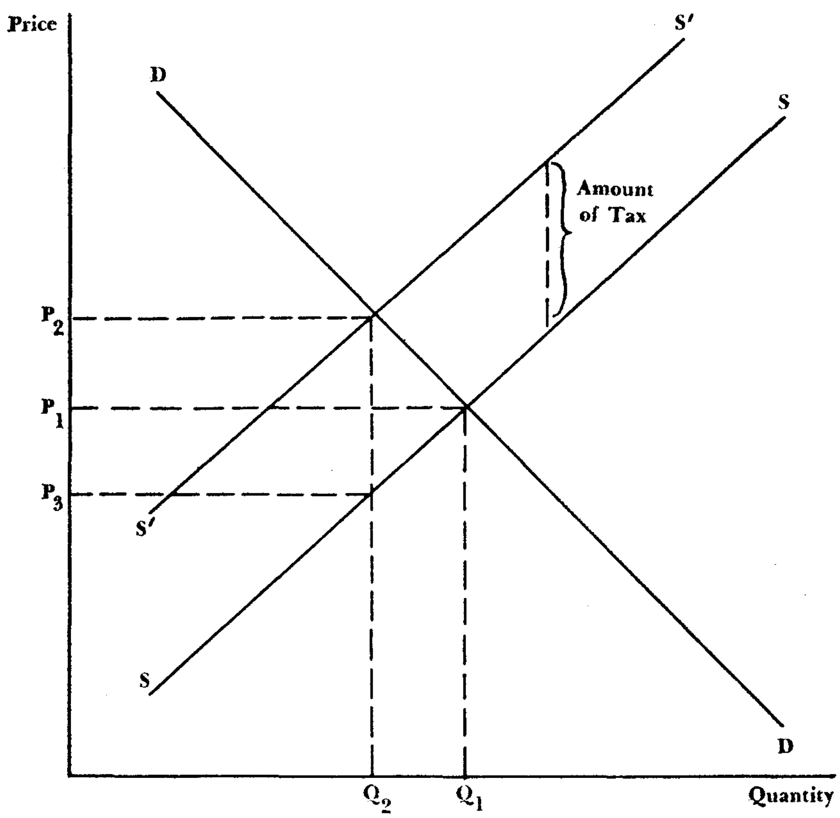
[8] In a purely competitive market situation the wage, including the employer's contribution to social security, will be equal to the marginal product of labor. Thus an increase in the employer's tax for social security, *ceteris paribus*, would be shifted backwards by a reduction in money wages. But this type of analytical model is quite remote from the reality of the labor market, particularly in an era of strong inflationary pressures and effective trade unionism.

most realistic assumption is that such taxes are shifted forward. Thus their ultimate incidence is on the consumer.

With respect to the incidence of indirect taxation, no single generalization will suffice, although there is a strong presumption that their incidence is primarily on the consumer. Producers, of course, will regard these taxes as a part of the costs of doing business, and will attempt to shift such taxes forward via price increases. The actual extent to which prices in the market change as a result of taxes on sales or production will depend upon a complex of variables, including the elasticities of demand and supply, the degree of monopoly in a particular market, and the effect of the

**Diagram I**

**The Incidence of Indirect Taxation**



taxes on consumer demand. The mechanism by which price changes as a result of an indirect tax can be illustrated with a simple diagram of price determination (see Diagram I).

In Diagram I, DD and SS represent the respective demand and supply curves before the imposition of the tax. Market price is at $P_1$ and output (or sales) at $Q_1$. After the tax the supply curve shifts to S′S′, the vertical distance between SS and S′S′ representing the amount of the tax. Since demand (DD) is less than perfectly elastic, price in the market has risen by less than the full amount of the tax, i.e., the distance $P_1P_2$. This means that the tax is borne partly by the consumer and partly by the producer; the exact manner in which the tax burden is divided between the consumer and the supplier depends upon the relative elasticities of demand and supply. In general, the more inelastic the demand the more nearly price will rise by the full amount of the tax, and the more inelastic conditions of supply, the less market price will rise as a result of the tax.

In one sense, though, it can be argued that the whole of the incidence is on the consumer, irrespective of the price change in the market as a result of the tax. This is so because the consumer will pay for a *particular* quantity of the commodity a price that is higher by the amount of the tax than he would pay for the *same* quantity in the absence of the tax. In the diagram the consumer pays the price $P_2$ for the quantity $Q_2$ after the tax, but in the absence of the tax the same quantity could be obtained at the price $P_3$. The distance $P_3P_2$ is equal to the amount of the tax.

This diagrammatic exposition of the incidence of tax-shifting oversimplifies the situation because of its essentially static character. The whole of the incidence may very well be on the consumer if, along with the imposition of the tax, there is a shift in demand. Thus it is possible that market price may rise by the full amount of the tax if the demand curve (DD) shifts significantly to the right. In an inflationary era effective demand will undoubtedly be rising, and this will make it relatively easy for producers to shift nearly the whole of indirect taxation forward. Thus we can conclude that the probabilities are that in any period characterized by strong inflationary pressures the incidence of indirect taxation will largely be on the consumer.

As noted earlier, the benefits associated with government expenditure of all types will be redistributive whenever benefits are received in a proportion different from income. Granted this, the problem then is determination of the incidence of the benefits of government activity. Benefits, like taxes, may be divided into three broad categories. First, there are direct money transfers to specific individuals or groups. Second, there are nonmonetary transfers which are directed to specific individuals or groups. Finally, there are the indivisible benefits which cannot be consumed or enjoyed on an individual basis.

The incidence problem for the first two categories of benefits is relatively simple, for it is primarily a matter of identifying the specific persons or groups which are the recipients of either money or nonmonetary transfers. Once this is done the incidence problem is solved, for there would be little logic in any assumption as to the shiftability of such transfers.[9] The incidence of indivisible benefits is, however, another matter. While it is logical to assume that these benefits cannot be shifted, there is no objective way to determine the degree to which specific individuals or groups benefit from expenditures in this category. Such benefits could be allocated on a per capita basis on the assumption that all persons benefit equally from the existence of a well-ordered and stable society. Or they could be allocated in proportion to income on the assumption that the income of a person is a satisfactory measure of the stake the individual has in the continued existence of the economic and social order. Finally, the indivisible benefits could be distributed in the same proportion as taxes paid; the assumption here is simply that the tax burden is an adequate measure of the individual's stake in the social order.[10] Actually all three techniques for the allocation of indivisible benefits are arbitrary because no objective criteria for this purpose exist. Perhaps the only way to avoid entanglement in a highly subjective argument is simply to allocate such benefits, if this must be done, on a per capita basis.

## Patterns of Income Redistribution

The foregoing section was concerned with the major means available to the state for alteration of the distribution of income. In this section we shall narrow the discussion somewhat and consider possible ways in which the functioning of a social security

[9] An exception to this are subsidies to business firms, for these, it should be assumed, are shifted to the consumer.

[10] The underlying assumption in all three instances is that all persons have a stake in a stable order, and that the latter is the end-product of general government expenditures for goods and services.

system will affect the income distribution pattern. The term "social security" is used in a broad sense to refer to all government transfer expenditures that are undertaken for welfare purposes. We shall not be concerned with the imputation of costs and benefits resulting from government expenditures of a more general character.

To analyze the way in which a social security system brings about a redistribution of a nation's national income, it is necessary to begin with the allocation of income and tax payments to different income and social classes. The simplest way to do this is to employ the techniques used in national income and social accounting, and for each income and/or social class to construct a table of income received and taxes paid, as shown below.

| *Income* | *Taxes* |
|---|---|
| 1. Factor income | 4. Social security taxes paid |
| 2. Money transfers from government | 5. Direct taxes paid for social security |
| 3. Monetary value of transfers in kind from government | 6. Indirect taxes paid for social security |

The income recipients within the group normally receive income from participation in production—i.e., factor income—and this income may be augmented by either the receipt of money transfers from government, the receipt of services from government, or both. The monetary value of all these constitutes the real income of the recipient for the period in question. On the other hand, some portion of all taxes paid by the individual income recipients will be used to finance the welfare expenditures of the government. There will be, then, a redistribution of income for members of the income and/or social class whenever the monetary value of all social security benefits differs from the sum of taxes paid by members of the group for the support of social security. In the above table redistribution takes place whenever 2 ÷ 3 is different from 4 ÷ 5 ÷ 6.

From the point of view of the group to which the individual belongs there will be a redistribution of income in favor of the group if the benefits received are in excess of the social security taxes paid; if the opposite is true there will be a redistribution of income at the expense of the group in question and in favor of other groups in the economy. Beyond this, there are a number of different possibilities with respect to the actual pattern of income redistribution that may emerge as a result of the workings of a social security system. These possibilities will be briefly explored in the following paragraphs.

First, it is possible, in theory, that welfare or social security expenditures are financed wholly by transfers from one social class to another. In other words, it is possible that the redistribution of income effected by a social security system may be wholly along class lines. The system might be so constituted, for example, that wage-earners are the chief beneficiaries, while the costs of the system fall almost wholly on other social classes. The Labour Party in Great Britain, it would seem, envisaged a system along these lines when it came to power after the war, although in actuality the workings of the British social security system turned out quite differently.[11]

A second possibility is that social security benefits are financed wholly by income transfer within the social class. This would be the case, for example, if taxation for social security was uniform within the group, but members of the group benefitted from social security expenditure in varying proportions. The family allowance feature of the French social security structure tends to operate in this fashion, as the cash benefits received are directly dependent upon the number of children in a family. The extent to which a social security system actually functions in this way depends upon the nature of the benefits and eligibility for the latter, as well as the kind of taxes imposed to finance the system. In a general sense this tendency is operative in any system in which the active population as a whole is taxed and important benefits (e.g., pensions) flow to nonactive elements of the population.

It is also possible that a system might function in such a way as to bring about a redistribution of income from the upper-income to the lower-income groups. Insofar as income groups are roughly identifiable with particular social classes, this possibility is similar to the first mentioned above. However, this is rarely the case in actuality. In any event, this particular pattern of redistribution would come about if practically all the beneficiaries of social expenditure were found in the lower-income brackets and the system were financed wholly by a progressive tax on incomes. This, of course, is not the usual practice, for most existing systems adhere to a greater or lesser degree to the principle that the beneficiaries

[11] Findley Weaver, "Taxation and Redistribution in the United Kingdom," *Review of Economics and Statistics*, August, 1950, pp. 201-213.

should contribute to the support of the system. But it is true in practice that this pattern frequently emerges with respect to more general government expenditures of a welfare character (i.e., education, public health, etc.) whenever there exists a significant degree of progression in the tax structure.

Determination of the pattern of income redistribution that results from the functioning of a system of social security cannot, of course, be separated from the general question of the incidence of taxation. This is so because the whole matter hinges, in a sense, on identification of the groups that actually pay the cost of the various social services. Some remarks, therefore, are in order at this point with respect to the possible and/or probable incidence of taxes that may be employed to finance social security expenditure.

The incidence problem would be quite simple if the system were wholly self-financed, that is, financed by direct taxes levied on the beneficiaries of the system. If this were the case it would be relatively easy to determine the extent to which there was a redistribution of income between income or social groups. But in actual practice this is seldom the case. Two difficulties in particular are likely to be encountered with respect to the finances of the system and their incidence.

First, social security taxes proper—i.e., taxes levied directly on the beneficiaries of the system—may not be adequate to cover all outlays of funds by the system. A part of the latter's costs, in other words, must be covered by the general revenue of the government. This creates the additional problem of determining what proportion of other direct taxes on individuals are to be allocated to social security expenditure. There is the parallel problem of the incidence of these taxes. Even these problems would not be especially difficult of solution if *all* government expenditures were financed by direct taxation and if the government did not incur a deficit. Unfortunately these admittedly ideal conditions seldom exist in the real economic world.

Second, difficulties of a particularly complex character will arise whenever a government depends upon indirect taxation for a part of its revenue. This is so because of the price effects that are associated with indirect taxation. The existence of indirect taxation as a major source of revenue requires both that the incidence of these taxes be determined and that the proportion of total revenue raised by these taxes that is to be allocated to social security expenditure be determined. The former requires a precise knowledge not only of income but, more importantly, of consumption patterns for all income and social groups; all too frequently such knowledge does not exist. Moreover, any allocation of tax revenue from different tax sources to social security expenditure will be arbitrary, for there is no way to determine for most government budgets the exact use of revenue from a particular source.

The difficulties discussed above as respects determination of the incidence of social security taxes suggest a final remark of a general nature about the probable pattern of income redistribution. If the system is not wholly self-financed, it is quite probable that all income or social groups in the society may experience a net gain insofar as the monetary or cash benefits of the system are concerned. That is, all groups may receive more in the way of direct money income from the system than they pay in direct taxes to support the system. This has clearly been the case in France.[12] It may be the result whenever a significant portion of total monetary benefits are financed by indirect taxation. If this is the situation, it means that a portion of the costs of the system is diffused throughout the economy by the price mechanism, and thus the final incidence of the costs is not readily determined. Under such circumstances no clear picture of the total amount of real income redistribution brought about by the functioning of the social security system is obtainable. But even if the above is the actual situation, it is also true that income and social groups will not necessarily benefit to the same degree, and it is thus possible to develop a partial picture of the redistribution of money income within a society. In a general way the net gain (or loss) experienced by members of an income or social group as a result of the social security system will be measured by the ratio of taxes paid to support social security to money benefits received. While this is not a perfect measure of income redistribution, it is one for which reasonably accurate data can be obtained, and it does provide a basis for intergroup comparisons.

### The Limitations of This Study

The foregoing discussion of income distribution and its modification by the state has stressed not only the theoretical aspects of the problem, but the quite formidable difficulties pertaining to the incidence of taxes and benefits that confront anyone attempting an empirical analysis of income redistribution in a particular society

[12] See Chapter 4.

Because of these things, this study concerns itself with the redistribution of income in France in a limited sense. Specifically, the study is limited to an analysis of the redistribution of *money* income that results from the combined effect of direct taxes on individuals and the receipt of money transfers by individuals. No attempt is made to allocate other types of social benefits to specific groups, nor to allocate the burden of indirect taxation among the same groups. In spite of these limitations, it has been possible to construct a fairly clear picture of the workings of France's social security system, and to show in particular the extent to which the system alters the pattern of money income distribution between social groups and income classes.[13]

[13] The social classes treated in this study are farmers; self-employed workers in areas other than agriculture; wage-earners, including farm laborers; and the non-active population. The latter includes all persons not actually employed for wages or salary nor engaged in a business or profession—students, retired persons, members of the clergy, etc. It also includes the population of institutions. It does not include, of course, the dependents of persons in the first three categories.

# 2 / The French Social Security System

FRANCE'S EXISTING social security structure largely resulted from the enthusiasm for sweeping social and economical reform that characterized the immediate postliberation period. In 1944 the National Council of Resistance issued the so-called "Resistance Charter," which, among other things, demanded a complete system of social security which would protect the worker against threats to his livelihood inherent in an industrial society.[1] All of the major French political parties adopted this Resistance Charter prior to the general elections of October, 1945, and as a consequence this document became the basis for economic and social policy in the early days of the Fourth Republic.

Actually the framework for a revamped social security system was created even before the Charter was issued. In an *ordonnance* of October 4, 1945, the Provisional government (the de Gaulle regime) reorganized the various existing social security schemes into a general system.[2] This, along with a second *ordonnance* on October 19, created a unified system for the administration of all social

Most of the information in this chapter has been secured directly from the Ministry of Social Affairs in Paris. Figures given for the monetary value of the various benefits are those in effect as of June, 1958.

[1] This document is reprinted in David Thomson's *Democracy in France,* London, 1946, pp. 257-259.

[2] A system of compensation for industrial accidents was first introduced in France in 1898. In 1910 an old-age pension system for workers and peasants was established. In 1930 this legislation was revised and expanded to include social insurance for illness, invalidity, maternity, old age, and death. The system, though, was limited to wage-earners whose income did not exceed a certain ceiling. Family allowances were introduced on a limited scale in 1932, and expanded to the whole population in 1939.

services, and, equally important, formulated the principle that the latter should be extended to the whole of the population.[3]

As is the case in most modern countries, the French system has two broad objectives: first, it attempts to guarantee all citizens some minimum standard of material well-being; and, second, it aims at a more equal distribution of the national income. Beyond this, France's system has been strongly influenced by the nation's demographic situation. Prior to 1940 France was faced with a continuous and increasingly serious decline in the national birth rate. Fortunately for France's future there has been since 1945 a sharp reversal of this trend,[4] but nevertheless the concern felt by many French for the gloomy population picture in the interwar period largely accounts for the significant role that the system of family allowances occupies in the postwar social security structure. Another consequence of the prewar demographic situation, and of the first world war as well, is that there are a disproportionate number of persons, particularly women, in the older age groups. This necessitates increased aid to the aged through pensions, medical care, and other forms of assistance. In fact, pre- and postwar demographic trends have combined to create a population structure in which the proportion of persons in the highest and lowest ranges of the age pyramid has sharply increased relative to persons in the middle ranges, i.e., the active population. In sum, the two major factors that have largely shaped France's present social security system have been the postwar demands for social and economic reform and the nation's demographic problems.

## The Organization of Social Security in France

France's social security system appears to be excessively complex, because there does not exist a single system for the administration of

[3] This has not been realized in practice, for the self-employed participate in the general system only with respect to family allowances. There is a special scheme to provide pensions for persons in this social class. See pp. 34-38 in this chapter.

[4] In 1920 the birth rate in France was 21.4 (per 1,000 inhabitants), and the death rate 17.2; in 1930 the birth rate was 18.0 and the death rate 15.6. By 1939 the birth rate had fallen to 14.6 and the death rate to 15.3. After the war the birth rate rose to a postwar peak of 20.9 in 1949, and then declined slightly to 18.5 in 1955. The death rate continued to decline, reaching a level of 12.2 in 1955. These changes have brought about an increase in France's population from 39.8 million in 1940 to 43.4 million in 1956. See Jean-Marcel Jeanneney, *Tableaux Statistiques relatifs á l'économie française etl'économie mondiale* Paris: Armand Colin, 1957, pp. 9, 11.

all social security benefits. The *ordonnances* of October, 1945, created a general system (*régime général*) of social security which covers about 50 percent of the active population, but alongside this general system there are a number of special systems, or schemes, notably for workers in agriculture, mining, and the nationalized industries, and civil servants. Some of these special schemes were created before the war, and because benefits are higher in some instances, workers belonging to the special schemes did not want to have the latter incorporated into the general system. Actually, there is a considerable intermingling of the general and special systems, for workers in the industries mentioned above do draw certain benefits from the general system. The discussion which follows is applicable primarily to the general system; the major special schemes will be discussed in the last section of this chapter.

The general system embraces three major types of benefits. These are social insurance proper, the system of family allowances, and an insurance program for industrial injuries and occupational diseases. Administration of the system is the responsibility of the General Director of Social Security, who is a civil servant, and whose office is a part of the Ministry of Social Affairs.[5]

*Social Insurance Proper*

Social insurance proper covers the risks of sickness and long sickness, maternity, disability, and old age. Social insurance proper applies to the whole of Metropolitan France, and to the *départements* of Guadeloupe, Guyane Française, Martinique, and Réunion in France's overseas territories. All workers employed under contract of services are covered, irrespective of the amount of earnings or the nature of the contract. Foreigners employed in France are entitled to the same benefits as French nationals. At present about 10 million workers, or 70 percent of the wage-earners, are covered by social insurance proper.

The major features of social insurance proper may be summarized as follows:

1. *Sickness Insurance:* These benefits involve the refund of medical expenses (regarded as a benefit in kind by the French authorities), and the payment of an allowance to compensate for the loss of earnings during the period of sickness. Persons covered by sickness insurance are reimbursed for the cost of hospitalization

[5] The administrative organization of the social security system is discussed in detail on pages 32-34.

and drugs and the fees of physicians and dentists in an amount equal to 80 to 100 per cent of the cost or fee, depending upon the type of treatment. Physicians and dentists are not, as is the case in England, employees of the state; a scale of fees is established by consultation between the social security administration and the appropriate professional (medical or dental) organization. Medical practitioners are not legally obligated to observe the scale of fees, so the actual extent to which a patient can recover the cost outlay in a particular illness may vary. In practice, the fees charged are largely in accordance with the income of the patient, as is usually the situation where the practice of medicine is wholly private.

The allowance paid as compensation for a loss of earnings is equal to one-half the worker's daily wage, and is paid from the fourth day following the cessation of work. After the thirty-first day of illness the allowance may be raised to two-thirds of the worker's daily wage if the insured worker has at least three dependent children. For ordinary illnesses the allowance is paid for a maximum period of six months. For long-term sickness—i.e., an illness that necessitates cessation of work for more than six months—there are special provisions. In this event the insured worker and members of his family are entitled to 100 percent reimbursement for all medical expenses incurred during the period of the illness, and the payment of the allowance to compensate for the loss of income continues for a maximum period of three years.

2. *Maternity Insurance:* These benefits are available to all employed women covered by social insurance proper; they are to be distinguished from other maternity benefits that are a part of the system of family allowances and are paid to all women during and after a pregnancy, irrespective of the fact of employment. Maternity benefits for employed women include the complete refund of all medical and hospital expenses incurred as a result of a pregnancy, although again the reimbursement of these expenses is based upon a fixed scale of fees. Dependents of the insured are also eligible for a refund of medical expense they may have incurred as a result of illness during the insured's pregnancy. The insured is also paid a daily allowance computed in the same manner as the allowance for sickness insurance for a period of six weeks before the birth of the child and eight weeks after the birth. This daily allowance, however, is paid only on the condition that the insured woman does not go back to work for at least six weeks after the birth of her child.

3. *Disability Insurance:* Benefits are paid to any person who is prevented for physical reasons from earning in any trade or profession a wage or salary exceeding one-third of the normal wage or salary for workers in the same district and in the same occupation or trade. The insured person is entitled to a complete refund for all medical expenses arising out of the infirmity that is the cause of his disability, and is entitled to full sickness benefits for any other illnesses. The disabled person also is eligible for a pension, the amount of which is generally equal to 30 percent of his average annual salary or wage for the ten years preceding his disablement. If his disablement is total, the pension is increased to 40 percent of the annual wage or salary, and may be further augmented if the disabled person requires the constant attention of two persons. At present the minimum pension for disability is 72,380 francs ($170) per year.[6] The disability pension continues until the beneficiary is 60, and is then replaced by an old-age pension of at least equal amount. As is the case with all cash benefits paid under the social security program, the disablement pension is subject to periodic review, and may be increased in the event of general rise in the level of wages.

4. *Old-Age Pension Insurance:* These benefits apply to employed persons who have attained a prescribed age and meet certain other conditions. To qualify for a full old-age pension a worker must have attained the age of 60 and must have been employed for a period of 30 years in a trade or profession covered by social insurance proper. Under these conditions the worker will receive the maximum pension, which amounts to 20 percent of the worker's annual wage or salary for the ten years prior to his retirement. In the event the insured continues to work after the age of 60 the pension, when granted, is increased by four percent of the annual basic wage during every year of employment after the age of 60. Moreover, the pension may be further increased if the insured has reared three or more children, and if the insured has a dependent wife or husband. Persons not eligible for a full pension are entitled to a partial pension, provided they have completed a minimum of 15 years' employment in a covered occupation. The

[6] The dollar value of the social security benefits is determined on the basis of the existing exchange rate (June, 1958) of 420 French francs to the U. S. dollar. Since price and consumption patterns differ widely between France and the United States, the dollar figures give only an approximation of the real value of the social security benefits.

amount of the partial pension will be one-half the normal pension for a person with just 15 years of covered employment, and will increase proportionately with the actual number of years of covered employment between 15 and 30.

Since the above provisions were incorporated into French law by the *ordonnances* of October, 1945, no workers have fulfilled the required conditions for a full pension. It may be noted parenthetically that when the full effect of the provisions for old-age pensions begins to be felt (around 1970), there will be a considerable increase in the transfer of income from the active to the nonactive population, as the amounts paid for a full pension will be relatively high. Whether the French economy, in view of the already existing high level of transfer expenditures, can sustain this augmentation remains to be seen.

Because the provisions for a full pension are not yet fully in effect, there exists a supplementary system of allowances for retired workers (*l'allocation aux vieux travailleurs salariés*). This latter is designed to provide old-age pensions for workers who cannot qualify for the regular pension because of insufficient contributions. To be eligible for this allowance a worker must have been employed in Metropolitan France for a period of five years after reaching the age of 50. This period is increased by one year for each year after 1946, up to a maximum of 15 years. Workers who may not meet these conditions are still eligible for a pension if they have had employment for 25 years. The pension is granted at the age of 65, or at age of 60 if the worker is not fit for employment after this age. It is only granted to a worker if his total income is less than 201,000 francs ($478) per year, or 258,000 francs ($614) per year if the applicant is married. The amount of the pension is 72,380 francs ($170) per year for workers living in cities with more than 5,000 inhabitants, and 68,640 francs ($163) per year for workers in all other localities, except the Paris region. Workers residing there are allowed 75,780 francs ($180) per year. As is the case with the regular pension, the amount paid may be increased if the worker is married, or has raised more than three children.

5. *Death and Survivors Insurance:* In the event of the death of a worker covered by social insurance proper, the system provides for the payment of a lump sum to the dependents of the insured worker, and, under certain conditions, payment of a pension to the widow (or widower) of the deceased. The amount of the lump sum payment, or "death grant," is equal to three months' salary

of the deceased worker, except that it cannot exceed a maximum of 150,000 francs ($357). The widow of an insured person is entitled to a pension if she is permanently disabled and not in receipt of a pension for old age. A widower incapable of work also receives a widower's pension if his wife, at the time of her death, had been the main support of the family. These pensions are only paid if the applicant is under 60, and the minimum amount of the pension is 36,190 francs ($86) per year.

### *The System of Family Allowances*

The most original and most important part of the French social security structure is the system of family allowances. The system actually originated before the war, as a decree of July 29, 1939 (*Code de la famille*), created a comprehensive system of family allowances for the whole of the active population.[7] The war, however, prevented the *Code* from coming fully into effect, and after the war the legislation was revised and the present system came into existence.[8]

The family allowance system differs from social insurance proper in that the benefits do not depend upon the actual wage or salary of the worker, and all benefits are in the form of cash payments. All persons resident in France, including foreigners employed in France, are eligible for family allowances, providing, of course, they satisfy the requirements applicable for each type of benefit. The amount of the benefits, which are tax free, is determined on the basis of a standard wage computed for each locality. At present the standard wage for the Paris region is 19,000 francs (about $45) per month, and the standard wage for other localities is computed as a fixed percentage of the standard wage for the Paris region. The family allowance system consists of the following type of benefits: (1) family allowances proper; (2) allowances to a single wage-earner; (3) prenatal and maternity allowances; and (4) a housing allowance. The chief characteristics of each of these benefits are described below.

1. *Family Allowances Proper:* Family allowances proper consist

[7] Private schemes for family allowances existed in a number of industries in France before the First World War. In 1932 (law of March 11), a system of family allowances for wage-earners, financed wholly by employers, was established. In 1939 the *Code de la Famille* extended family allowances to the whole population.

[8] Law of August 22, 1946.

of a monthly cash payment to each family with at least two dependent children. The actual amount of the allowance depends upon the prevailing standard wage in the locality and the number of children in the family. For a family with two children it is equal to 22 percent of the standard wage; for the third and each subsequent child the amount is 33 percent of the standard wage. The family allowance is normally paid with respect to each child until the age of 15, or if the child continues schooling after 15, until the age of 20. For the Paris region the amounts paid monthly would be as follows:

For two children — 4,180 francs ($10)
For three children — 10,450 francs ($25)
For four children — 16,720 francs ($39)
For five children — 22,990 francs ($54)

2. *Allowances to a Single Wage-Earner:* Family allowances proper are supplemented by the allowance to a single wage-earner (*allocation de salaire unique*) which applies to families or households dependent on one source of income from employment, or to households in which the wage or salary of one of the parents, when both are employed, does not exceed one-third of the standard wage for the locality. In this instance the payment is made to a family with only one dependent child, and the allowance available under this scheme is added to the amounts paid under family allowances proper as long as the source of income for the household is as described above. The amounts paid as a percentage of the standard wage are: 20 percent for a single child of less than five years of age; 10 percent for a single child more than five but less than ten years of age; 40 percent for two children; and 50 percent for three or more children. For the Paris region the standard wage for the allowance to a single wage-earner only is fixed at 18,000 francs per month. A family entitled to both family allowances proper and the allowance to a single wage-earner would receive the following amounts monthly:

| Number of Children in the Family | Family Allowances Proper | Allowance to a Single Wage-Earner | Total |
|---|---|---|---|
| One (younger than 5) | .................... | 3,600 ($8) | 3,600 ($8) |
| One (older than 5) | .................... | 1,800 ($4) | 1,800 ($4) |
| Two | 4,180 ($10) | 7,200 ($17) | 11,380 ($37) |
| Three | 10,450 ($25) | 9,000 ($21) | 19,450 ($46) |
| Four | 16,720 ($39) | 9,000 ($21) | 25,720 ($60) |
| Five | 22,990 ($54) | 9,000 ($21) | 31.990 ($75) |

There is also a special arrangement for families with more than three children in which the income of the head of the household is derived from a nonagricultural, professional activity, and in which the other parent devotes herself solely to the care of the children and the household. The sums under this arrangement are added to the family allowances proper, and are a percentage of the standard wage equal to 15 percent for three children; 25 percent for four; 40 percent for five; and 50 percent for six or more.

3. *Prenatal and Maternity Allowances:* These benefits consist of cash payments to a family during a pregnancy and after the birth of a child. Prenatal allowances are paid from conception to the birth of the child, provided the prospective mother submits to three examinations during the course of the pregnancy, and the amount is equal to 25 per cent of the standard wage for the locality. This allowance is separate from the daily allowance paid for women covered by social insurance proper. The maternity allowance consists of a lump sum payable after the birth of each child. The amount of this allowance is twice the standard wage for the locality for the first child, and one and one-third times the standard wage for each subsequent child. For women over 25, the first birth must occur within two years of marriage; the second within three years of the first birth or five years of marriage; and the third within three years of the second birth, or eight years of marriage. For women under 25 there are no restrictions on payment of the maternity allowance.

4. *The Housing Allowance:* This is a rental grant paid to families that spend a certain proportion of their income for rent, and live in residences that meet certain minimum conditions of health and sanitation. The amount of the housing allowance is computed on the basis of the difference between the actual rent paid by a family and a minimum standard rent established for various classes of dwellings and various localities.[9] Against this difference a percentage is applied to determine the actual amount paid; the percentage varies with the number of children in a family, ranging from 40 percent for a young married couple without children to 95 per cent for a family with four or more children. The number of families that benefit from the housing allowance is relatively

[9] There also is a ceiling on the actual rent a family may pay in order to benefit from the housing allowance. This ceiling varies with the condition of the dwelling and the number of children in the family.

small, partly because of the low level of rents in general, and partly because such a large proportion of houses and apartments in France do not meet the minimum standards for health and sanitation. Grants are also paid to persons who undertake expenditures to improve their dwellings or who move to better their living conditions. These are based on the standard wage, and range from 135 to 220 percent of the latter, depending upon the locality and the number of children in the family.

*Insurance for Industrial Injuries and Occupational Disease*

The third facet of the French social security system consists of an insurance program designed to provide care for the victims of industrial accidents or occupational disease.[10] The coverage of this program is practically the same as for social insurance proper—i.e., all employed persons—except that certain nonemployed persons are also covered, such as students in technical and vocational schools. Persons not covered by the legislation may be voluntarily insured if they register with the local social security office in their area.

Four types of benefits are provided for those eligible under this program. These are: payments for medical care; a daily allowance in lieu of wages for temporary incapacity resulting from an industrial accident or occupational disease; an annuity or pension in the event of permanent incapacity; and annuities for the dependents of the victim of a fatal accident.

All medical expenses incurred in the treatment of a physical incapacity resulting from an industrial injury or occupational disease are paid by the social security administration. Unlike the sickness insurance provision of social insurance proper, wherein the beneficiary must pay the physician himself and be refunded the prescribed proportion of the costs, the social security administration pays all costs directly to the physician or hospital concerned. The beneficiary has a free choice of both hospital and physician.

The daily allowance for temporary incapacity is paid from the first day following the cessation of work. For the first 15 days of incapacity it is paid on a daily basis, but after this is not payable for nonworking days. The payment is terminated on the date the worker returns to full-time employment, or when the disability is declared permanent. The amount of the allowance is equal to one-half the worker's daily wage, except that after the twenty-ninth

[10] Law of October 30, 1946.

day of incapacity it is increased to two-thirds of the daily wage. If the temporary incapacity lasts more than four months, the allowance may be reviewed, and possibly increased, if, in the meanwhile, there has been a general increase in wages.

The annuity for permanent incapacity provides a pension for persons totally or partially disabled as a result of industrial injury or occupational disease. The amount of the pension depends on both the degree of disablement of the worker and his annual earnings prior to the injury or illness. In fixing the amount of the pension, the worker's earnings in the twelve months prior to disablement are used as a base wage, and then against this a somewhat complicated formula is applied to determine the actual pension the worker will receive.[11] Disabled persons requiring the contant attention of another individual are eligible for a 40 percent increase in the amount of the annuity.

The dependents of the victim of a fatal accident are also entitled to a pension or annuity based upon the annual earnings of the victim, the latter being computed in the same manner as for a disability pension. For a widow (or widower) the pension is equal to 30 percent of the computed earnings, providing the marriage took place before the accident, and providing, too, that there had not been a divorce or separation. Children up to the age of 16 are entitled to an annuity to the extent of 15 percent of the computed earnings for each of the first two children in the family, and 10 percent for each subsequent child under the age of 16. Grandchildren and parents of the victim are also entitled to an annuity, provided they were dependent upon the victim. Grandchildren

[11] In computing the pension, all the worker's earnings in the prior twelve months are taken into account only if they do not exceed a prescribed amount. The portion of the annual wage between 717,746 and 2,870,894 francs counts only as one-third, and the amount in excess of 2,870,894 francs is not counted at all. The wage obtained in this fashion is then multiplied by a percentage figure computed by counting the degree of disablement under 50 percent at one-half, and the degree of disablement over 50 percent at one and one-half. Thus, for a worker with 90 percent disability, the percentage figure would be:

$$\frac{50}{2} \div \frac{40 \times 3}{2} = (25 \div 60) = 85.$$

If the worker's wage before disablement had been 800,000 francs per year, the pension would then be computed as follows:

| | |
|---|---|
| **First part** | **717,746 francs** |
| **Second part (1/3 of 800,000 less 717,746)** | **27,418 francs** |
| Total allowed wage | 745,164 francs |

Pension equals 85% of 745,164 francs or 633,389 francs.

are entitled to the same benefits as the victim's children, while parents are eligible for an annuity of 10 percent of the computed earnings. However, the total of annuities paid to grandchildren and parents cannot exceed 30 percent of the computed earnings, and, moreover, the total of annuities paid to all dependents cannot exceed 75 percent of the latter.

### The Financing of Social Security

In principle the benefits paid by the general system (*régime général*) are financed wholly by contributions from either the employees or employers. In practice this is not the case, as the social security accounts have been in deficit in recent years. Table I below shows for the period 1951-55 the proportion of total expenditures for social security, including the special regimes, covered by the tax on employees, the tax on employers, and by the general budget. The latter, of course, measures the deficit of the accounts.

TABLE I

*Financing of Social Security Benefits: 1951-55*
(in percent)

| Means of Finance | 1951 | 1952 | 1953 | 1954 | 1955 |
|---|---|---|---|---|---|
| Taxes on Employees | 14.9 | 16.3 | 16.3 | 15.5 | 15.6 |
| Taxes on Employers | 61.7 | 64.3 | 63.3 | 62.1 | 63.1 |
| State Budget (Deficit) | 23.4 | 19.4 | 20.4 | 22.4 | 21.3 |

Source: Ministère des Finances, *Statistiques et Études Financières*, No. 85, January, 1956.

Social insurance proper is financed by two taxes, one on the employer and the other on the employee. The latter pay a tax of 6 percent on the portion of their wages below the ceiling of 600,000 francs ($1,430) per year. The employer's contribution is 10 percent of all wages below this ceiling. The employee's contribution is deducted from his wages by the employer.

The contribution or tax for the system of family allowances is borne entirely by the employer; the rate at present is 16.75 percent of the standard wage, which, as already pointed out, varies with the locality. The contribution of the self-employed varies in accordance with the individual's net income on the basis of a scale established by ministerial decree.

Insurance for industrial injuries and occupational disease is financed wholly by a tax on the business firm; the amount of the contribution is fixed for each firm by the regional social security office on the basis of the risks appropriate to each firm. In recent years the average rate of contribution has been between two and three percent of the standard wage. This procedure is supplemented by a system of additional contributions and/or rebates, designed to meet either exceptional risks in particular firms or special achievements in the field of accident prevention.

In addition to these three main taxes for the support of social security, there are certain other charges of a broadly social character imposed upon the employer. Table II below shows the total of "social" charges paid by the employer as a percentage of direct money wages.

TABLE II

*Social Security Charges Levied against Employers*
as a percent of direct labor costs

| Type of Tax | 1946 | 1948 | 1950 | 1952 | 1954 |
|---|---|---|---|---|---|
| Social Insurance | 8.8 | 8.4 | 8.3 | 8.7 | 8.4 |
| Family Allowances | 9.4 | 12.1 | 13.2 | 14.5 | 14.0 |
| Industrial Accidents | 3.8 | 2.8 | 2.8 | 3.2 | 2.3 |
| Other* | 4.9 | 5.1 | 5.1 | 6.4 | 8.6 |
| Total | 26.9 | 28.4 | 29.4 | 32.8 | 33.3 |

* Includes an apprenticeship tax, a special tax for the development of workers' housing, and the cost to the employer of paid vacations, which, in France, is not treated as a part of the regular wage bill.

Source: Institut National de la statistique et des études économiques, *Études et Conjoncture,* No. 8, August, 1957.

While the detailed analysis of the transfer burden imposed on France's economy by the social security system is reserved for the following chapter, several remarks are in order at this point with respect to the financing of the system. The data in the above tables show that the bulk of social security expenditures are largely financed by the employers, and that the tax burden on the employer for welfare purposes (Table II) is, for all practical purposes, indirect in character. Employers, in other words, undoubtedly regard these charges as part of their labor costs, and expect them ultimately to be covered by the prices of goods and services sold.

This means, first, that a considerable portion of the real costs of social security are rather widely diffused throughout the economy by the price mechanism. As a consequence of this it is probable that a significant part of the real costs of social security are borne by beneficiaries of the system in the form of higher prices, although the general public in France is not much aware of this.

The indirect character of the taxes employed to finance social security expenditure also means that the impact of the system of the distribution of real income can be determined only within rather narrow limits. The incidence of the benefits of the system is readily determined, as is the incidence of direct taxes on the beneficiaries, but the same cannot be said for the incidence of indirect taxation because of the absence of detailed data on consumption patterns for social and/or income classes. At this point the only safe generalization is that the chief beneficiaries of the system probably pay enough in additional consumption (i.e., indirect) taxes to pay for the benefits—money and otherwise—they actually receive.

Finally, it can be argued with considerable conviction that the charges for social expenditure imposed on the business firm are a major factor accounting for the relatively higher prices prevailing in France for consumer goods as compared to other countries in western Europe. This is not to argue that the level of expenditure for welfare purposes in France is in any sense "too high," for this is a question of social values and priorities, but simply to emphasize that there is a real cost involved in these expenditures, and that the method chosen to finance them has various repercussions for the economy. In France the major impact of the latter has been on the price of consumer goods because of the extent to which indirect taxation is employed as a means of finance.[12]

### The Administration of Social Security

Administration of the general system (*régime général*) is the responsibility of the Minister of Social Affairs, an official of cabinet rank. Directly beneath him is the General Director of Social Security, who is a civil servant and responsible for the detailed operation of the system. Administration is decentralized, as there are 16 regional directorates in Metropolitan France, the heads of which exercise powers within each region comparable to the General Director for the whole country. These government departments constitute the essential administrative framework of the system.

In the actual day-to-day operations of the system the key organizational units are the *Caisses* (Offices or Funds), which are self-governing corporate entities endowed with financial autonomy. In

[12] Social charges as a proportion of direct labor costs are higher in France than any other country in western Europe, with the exception of Italy. Institut National de la Statistique et des Études Économiques, *Études et Conjuncture*, No. 8, August, 1957, p. 879.

a legal sense all of the *Caisses*, or funds, with the exception of the National Social Security Fund (*Caisse Nationale de Sécurité Sociale*) have the status of private organizations. They are administered by elected boards representing both the employees and the employers.[13] The essential function of the *Caisses* is the collection of contributions and the disbursement of benefits for the component parts of the social security system.

The *Caisses* form two parallel systems, one of which is devoted to social insurance proper and insurance for industrial injuries and occupational disease, and the other to family allowances. These two fund systems are linked at the national level by the above-noted National Social Security Fund. The social insurance proper system consists of, first, 122 local funds (*Caisses primaires de Sécurité Sociale*), which collect all contributions for social insurance proper and industrial accidents or occupational disease, and administer all benefits for sickness, maternity, and death, and medical benefits for temporary incapacity due to industrial injury or occupational disease; and, second, of 32 regional funds (*Caisse régionale de Sécurité Sociale*), which have responsibility for payment of all old-age pensions and pensions for permanent disability resulting from industrial injury or occupational disease. Family allowances are administered through a system of 114 funds (*Caisses d'allocations familiales*), which have responsibility for the collection of all family allowance contributions, and the payment of family benefits of all kinds to eligible persons. The National Social Security Fund has as its main function the allocation of funds among the various social security and family allowance *Caisses* so as to insure a geographical balance of receipts and expenditures.

This formal administrative apparatus is supplemented by the existence of two unions or federations that function on the national level as spokesmen for the local or autonomous funds of the system. There is the National Federation of Social Security Organizations (*La Fédération Nationale des Organismes de Sécurité Sociale*), representing the local and regional *Caisses*, and the National Union of Family Allowances (*L'Union Nationale des Caisses d'Allocations Familiales*), representing the family allowance funds of the system.

[13] The local funds for social security proper are administered by a board, of which three-fourths the membership represents employees and one-fourth employers. The boards that administer family allowances are composed of one-half representatives of employees, one-fourth representatives of employers, and one-fourth representatives of the self-employed.

These federations are without official or legal status within the system, but they participate fully in the formulation of public policy in social security matters as representatives of the multitude of local funds that are of key importance in the operation of the system.

In summary, the administration of France's complex social security system is a three-way affair. Over-all control and direction rests with the central government through the office of the Director General of Social Security in the Ministry of Social Affairs, and the 16 regional directorates, but a high degree of decentralization and local control in actual administration of contributions and benefits is achieved by the system of autonomous *Caisses* or funds. The managers of the local funds have a voice in policy formulation at the national level through the machinery of the social security federations.

## The Special Regimes and Other Forms of Social Assistance

In addition to the general system, as described in the preceding pages, there are more than 20 special schemes or regimes that provide social security benefits, but which are limited to wage-earners in a particular occupation or industry. About 30 percent of French wage-earners derive their social security benefits from these special schemes, the most important of which are those for workers in agriculture, electricity and gas, and the nationalized railroads and mines, civil servants (including military personnel), and the self-employed. The rest of the special schemes are of minor importance. The proportion of wage-earners covered by the general system and the major special schemes is shown in Table III below.

TABLE III

*Proportion of Wage-Earners Covered by Different Social Security Regimes*

| Regime | Percent of Wage-Earners |
|---|---|
| General System | 69.5 |
| Agricultural Regime | 11.5 |
| Civil Servants (including Military) | 8.1 |
| Railroads (S.N.C.F.) | 3.4 |
| Mines | 3.1 |
| Local Government | 1.9 |
| Merchant Marine | 0.9 |
| Electricity and Gas | 0.9 |
| Other | 0.7 |

Source: La Documentation Française, *Les Institutions Sociales de la France*, 1955.

The special schemes differ from the general system in a number of respects. For one thing, administrative control is frequently centered in the ministry appropriate to the industry of which the scheme is a part, rather than in the office of the General Director of Social Security. Thus, for example, the Ministry of Agriculture controls the schemes for workers in agriculture; the Ministry of Industry and Commerce the scheme for the nationalized mines; and the Ministry of Public Works and Transportation the scheme for railroad workers.

Second, there is no uniformity among the special schemes with respect to the techniques employed to finance the benefits. In general, workers and employers in the special schemes contribute to their financing, but frequently to a lesser extent than is the case with the general system. The special schemes, in some instances, draw much more heavily on either the resources of the state or the industry concerned for provision of benefits. Table IV compares the origin of financial resources for the general system and some of the more important special schemes. It may be noted in the table that, in some instances, the rate at which the worker's salary is taxed is higher in the special schemes than in the general scheme, but frequently this higher rate applies to fewer benefits, while the remaining benefits are financed by the state or industry concerned.

Third, there are important differences between the general and special schemes with respect to the value of benefits available to the participants. In the special schemes, for example, participants are usually eligible for retirement benefits at an earlier age than contributors to the general system, and, too, the amounts received in the form of a pension are generally higher.

Finally, members of some of the special schemes depend upon the general system for certain benefits, while the other special schemes have no ties at all with the general system. In particular, civil servants receive benefits in kind for illness through the general system, while employees of the nationalized French electrical and gas companies have benefits in kind for both illness and industrial accidents provided by the general system. Students in institutions of higher learning are eligible for benefits in kind for illness and maternity, as well as family allowances, through the general system, although these benefits are financed by subsidy from the central government.

Particular mention should be made of the schemes for agriculture and the self-employed. In the agricultural sector there is a

TABLE IV

*Origin of Financial Resources for Different Social Security Regimes*

| *Type of Benefit* | General | Civil Servants | Regime Electricity and Gas | Rail-roads | Mines | Students |
|---|---|---|---|---|---|---|
| Sickness (in kind) | 6%–I<br>10%–E | 2.5%–I<br>2.5%–E | 1.5%–I<br>3.5%–E | 2.95%–I<br>E | 2%–I<br>6%–E | S |
| Sickness (cash) | 6%–I<br>10%–E | ...........<br>S | ...........<br>E | ...........<br>E | 2%–I<br>6%–E | none |
| Disablement | 6%–I<br>10%–E | ...........<br>S | 6%–I<br>........... | ...........<br>E | 8%–I<br>8%–E<br>8%–S | none |
| Old-Age | 6%–I<br>10%–E | 6%–I<br>........... | 6%–I<br>........... | 6%–I<br>E | 8%–I<br>8%–E<br>8%–S | none |
| Death | 6%–I<br>10%–E | ...........<br>S | 6%–I<br>........... | ...........<br>E | 2%–I<br>6%–E | none |
| Maternity | 6%–I<br>10%–E | ...........<br>S | ...........<br>E | 2.95%–I<br>E | 2%–I<br>6%–E | S |
| Industrial Injuries | E | S | 0.3%–E | E | E | none |
| Family Allowances | 16.75%–E | S | E | E | 16.75%–E | S |

Source: La Documentation Française, *Les Institutions Sociales de la France*, 1955.
*Explanatory note*: In the table, financial resources obtained from employees are indicated by I; those obtained from business enterprises (public and private) by E; and those obtained directly from the state (i.e., subsidies) by S. When a percentage figure is given, it indicates the tax rate for social security contributions applied against the wage or salary. If a percentage is given, followed by an E or S without a percentage figure, it indicates the enterprise or state simply contributes an amount to make up any deficit, if the latter exists. When several percentage figures are repeated it simply means that this particular contribution is used to finance several different benefits.

special regime that provides family allowances and the benefits of social insurance proper for all wage-earners and salaried employees, including the employees of professional organizations and agricultural cooperatives. Social insurance proper is financed by contributions from both farm owners and/or operators and employees, while family allowances are financed by a tax on the farm owner and/or operator and subsidies from the government. The latter, in recent years, have been the most important source of finance for family allowances in the agricultural sector.[14] Industrial injuries for workers in agriculture are covered either by private insurance or insurance through an agricultural cooperative, but in either case some form of insurance is compulsory. Farm owners and/or operators, like the self-employed in other sectors of the economy, are not covered by social insurance proper, except for old-age pensions, but are eligible for family allowances. Since 1952 there has been in effect a compulsory system for old-age pensions, to which the

[14] Ministère des Finances, *Statistiques et Études Financières*, No. 99, March, 1957, pp. 282-285.

farm owner and/or operator contributes on a scale that varies with his income.[15] Self-employed persons in agriculture may be insured on a voluntary basis for illness and maternity.

The self-employed in other sectors of the economy have successfully resisted all efforts to have them included in the general system of social security,[16] and, except for an old-age pension scheme, instituted in 1948, they benefit only from the system of family allowances. Pensions for the self-employed are administered through autonomous organizations created for each of the following groups: artisans, which includes all persons following a recognized handicraft trade; self-employed in industry and commerce; and self-employed in the liberal professions.

The self-employed in each of these categories pay an annual tax for financing the old-age pension system, but the amount of the tax varies considerably both within and as between these categories. For artisans the tax is fixed by decree at an amount equal to a certain number of hours of work, each hour of work being established as a value equal to a certain percent of the minimum allowance for retired workers. Recently it has been about 15,000 francs ($36) per year.[17] For the self-employed in industry and commerce there are six tax categories, each of which is related to a given pension sum. The insured can, within the limits of these categories, choose freely the amount he wishes to contribute each year toward an eventual pension. These amounts range from 12,000 francs ($28) to 48,000 francs ($112) per year.[18] For members of the liberal professions the annual tax is fixed periodically for each profession on the basis of estimates of the average annual income for the latter. In 1954 the tax varies from 3,000 francs ($7) to 20,000 francs ($47) per year.[19]

Self-employed persons in each of these categories are eligible at the age of 65 (60 when disabled) for a basic pension of 32,000 francs ($76) per year, providing their annual income from all sources is less than 194,000 francs ($461) if single, or 244,000 francs ($580) if

[15] Law of July 10, 1952.

[16] A major reason for this is the unwillingness of the self-employed to submit to the government accurate information on their incomes, as would be required if they participated fully in the system.

[17] La Documentation Française, *Les Institutions Sociales de le France,* Paris, 1955, Vol. I, p. 225.

[18] *Ibid.*

[19] *Ibid.*

married. Beyond this, the actual pension received is a function of the total contributions made by the insured prior to retirement.

### Other Welfare Expenditures

The welfare expenditures described in the foregoing sections of this chapter are all made within the framework of France's social security system, either as a part of the general system or one of the special schemes. In addition to these expenditures by the social security organizations, there are several other types of expenditures for welfare purposes that continue to loom large in the budget of the central government. These include unemployment compensation, traditional assistance, and aid to the victims of war. Before we conclude this chapter, a brief word about each of these is in order.

In France benefits for loss of work are paid for both total and partial unemployment. The benefits are administered and paid by the local community after authorization from the Ministry of Labor. The system is a noncontributory one, as it is financed jointly by the central government and the local community. The financial participation of the latter varies between 5 to 20 percent of the total outlay. For workers totally unemployed the rate of compensation is between 225 to 330 francs per day for heads of households, and 100 to 130 francs per day for all others. A worker may receive compensation for partial unemployment resulting from a temporary shutdown at his place of employment or for a reduction in the work week below the legal maximum, providing that full unemployment in the establishment has reached at least 20 percent of the normal work force. The hourly compensation for partial unemployment is 1/80 of the total compensation the worker would receive in a 14-day period if wholly unemployed.

Traditional assistance includes welfare and charitable expenditures for such things as aid to the aged and infirm, medical care for the insane, grants to tubercular persons, and aid to children. In general, such assistance is directed to persons who, for one reason or another, are not eligible for benefits or assistance under the social security programs. Since the war a new form of assistance, aid to the "economically weak," has appeared. This is for people with low, fixed incomes who have suffered from the postwar depreciation of the franc. They receive free medical care, reduced fares for public transportation, and have access to low-cost meals in restaurants especially organized for their benefit.

Finally, there are a variety of forms of assistance to war victims and their dependents. These include not only pensions, but such things as medical care, homes for the aged and disabled, financial aid for vocational retraining, scholarships, and the care of war orphans. There are more than twenty different categories of war victims eligible for some form of aid.

# 3 / Transfer Expenditures in the French Economy

IN THE PREVIOUS CHAPTER we discussed in detail the organization of France's social security system; in this chapter we shall be concerned with the over-all importance of expenditures for welfare purposes in the economy.

There are two major facets to an analysis of the economic significance of welfare expenditures. First, it is necessary to determine what portion of the nation's income is being utilized in this way, for only if this is done will it be possible to reach a judgement about the "real" costs of the welfare state. And, second, it is essential to measure—insofar as this is possible—the effect of welfare expenditures upon the distribution of income. The latter is required because one professed objective of the welfare state is an alteration in the distribution of income. In this chapter we will examine welfare expenditures in France in relation to the national income and other aggregates, while in Chapter 4 following will be analyzed the effects of these expenditures upon the distribution of income in France. In this chapter, too, we shall make a number of comparisons between France, on the one hand, and the United Kingdom and the United States, on the other, with respect to the magnitude and significance of welfare expenditures in the respective economies of these countries.

Before proceeding to the analysis proper, it may be useful to recall that, generally speaking, expenditures for welfare purposes have the character of transfers, i.e., they transfer income (real and monetary) from one group in the economy to another. In Chapter 1 transfer expenditures were defined as outlays for which the state receives no equivalent value in goods or services in exchange. It may also be recalled that transfer expenditures, while they do not involve the use of real resources by the government, do reflect, by and large, the use of government power as an instrument for the redistribution of income. Thus the magnitude of these expenditures in relation to such aggregates as the national income, personal income, total government expenditures, etc., serves not only as a measure of the extent to which a country has become a welfare state, but also provides a way to measure the real cost to the economy of welfare activities. In a simple and direct sense the proportion of the national income—i.e., income earned in the process of production—transferred from group to group through the instrumentality of the government measures both the degree of "welfare statism" and the real cost of the latter to the economy.

## National Income in France

We shall begin the analysis by an examination of data on the national income in France for the prewar year of 1938, and the postwar years of 1952-55.[1] These data are of interest not only because they serve to underscore the impact of the welfare state upon the origins of income in France, but also because they reveal a number of other important structural characteristics of the economy. The latter, as will be shown, have an important bearing upon the particular forms that the welfare state apparatus has assumed in France.

Table V shows (in percent) the factor or functional origin of the national income. The most important change from prewar has to do with the share of labor income in the total. As compared to 1938, the labor cost of the national output has risen from 51.7 percent to 58.4 percent in 1955, a relative gain of about 13 percent. But this relatively larger share of labor income in the national income total has not resulted in a corresponding increase in the proportion of the national income actually received by workers in the form of money wages. In fact, the proportionate share of direct money outlays for wages and salaries declined from 48.5 percent in 1938 to 46.8 percent in 1955. Thus, the gain experienced by French wage-earners in the postwar era wth respect to labor's share of the national income has come about primarily because of a growth in "social wages"—i.e., social security benefits—rather than

[1] The data in all the tables in this chapter are in percent, as the major purpose of the tables is to permit comparisons. These percentage data are derived from the tables in the appendix, which present the data in absolute amount. Comments on the major sources for statistical data in France are also found in the appendix.

money wages. The social security system has had the effect, in other words, of boosting the share of labor income in the national income total, but in an indirect fashion. This is also reflected in the increase of social security taxes (on business firms) from 3.2 percent of the national income in 1938 to 9.3 per cent in 1955.

Several other observations of importance may be drawn from the data in the table. For one thing, it is evident that France's economy is still characterized by the existence of large numbers of small and medium-sized enterprises. This is reflected in the fact that in 1955, 31.3 percent of the national income still originated in the activities of unincorporated enterprises, which are, for the most part, small.[2] France, in other words, is considerably less industrialized than either the United States or the United Kingdom (see Table IX). In one sense, this means France is less able to "afford" an extensive system of welfare expenditures because, in general, real income is a function of the degree of industrialization attained by a nation. This, in conjunction with the difficulties involved in collecting taxes from many thousands of small business enterprises, helps explain the preponderant role that indirect taxes play in France in the financing of both social security and government expenditures in general. The decline in the share of the national income originating with unincorporated enterprise is a consequence, in all probability, of the impact of the modernization plans on the economy.[3] The only other change of significance to be noted here is the virtual disappearance of interest as a source of income. This is a result of the postwar inflation.

The data on personal income and outlay (Table VI) show more clearly than do the national income data the impact of the welfare state on the origins of income in France. These data pertain to money income actually received rather than income earned in the process of production. The big change to be noted here is the large increase in transfer payments as a source of personal income

[2] In 1950, for example, 69.5 percent of all industrial establishments in France had less than five employees. See Ministère des Finances, *Statistiques et Études Financières*, No. 18, 1953, p. 220.

[3] France's first modernization plan, the Monnet Plan, was put into effect in 1947 and terminated in 1952. The second modernization plan, drafted during 1953, covered the period 1954-57, and the third, for the period 1958-61, is now in effect. For an evaluation of the impact of planning on France's economic structure, see the writer's paper, "National Product and Structural Change in the French Economy," *The American Journal of Economics and Sociology*, April, 1957, pp. 251-280.

TABLE V

*National Income in France: 1938, 1952-55*
(in percent)

| Origin of National Income | 1938 | 1952 | 1953 | 1954 | 1955 |
|---|---|---|---|---|---|
| Wages and Salaries | | | | | |
| Wages and Salaries | 48.5 | 45.8 | 46.7 | 46.9 | 46.8 |
| Supplements | ...... | 2.4 | 2.5 | 2.4 | 2.3 |
| Social Security Taxes | 3.2 | 8.8 | 9.1 | 9.4 | 9.3 |
| *Total Labor Income* | 51.7 | 57.0 | 58.3 | 58.7 | 58.4 |
| Unincorporated Enterprise | 36.8 | 33.2 | 31.9 | 31.3 | 31.3 |
| Net Interest | 2.2 | — 0.1 | — 0.2 | — 0.2 | — 0.3 |
| Corporate Income | 0.3 | 9.9 | 10.0 | 10.2 | 10.6 |
| National Income | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

and, at the same time, the relative decline in the importance of factor income in the total picture. In 1938, 90.5 percent of personal income in France was derived directly from participation in the productive process, while only 9.5 percent originated from transfer payments. By 1955, however, the proportion of personal income derived from transfer payments had risen to 19.3 percent, and the share of factor income in the total had declined to 80.7 percent. The data also show there has been a shift in the character of transfers, as income in the form of social security benefits amounted to 14.8 percent of the total in 1955, in contrast to only 5.0 percent in 1938. Transfers in the form of traditional assistance payments have declined in relative importance. This reflects the fact that the expanded social security system has increasingly tended to supplant the older and more traditional forms of assistance.

These data on personal income and its disposition also confirm what was said previously about changes in the relative importance of the major sources of income in the economy. Direct wage and salary payments account for about the same proportion of the personal income total as they did before the war, while income derived from the activities of small business (unincorporated enterprise) and interest payments have declined in relative importance. These changes reflect both a decline in the importance of small-scale enterprise in an absolute sense, and the increasing significance of transfer payments as a source of personal income for all groups in the economy. As already pointed out, the decline in the relative importance of interest income is simply a by-product of inflation.

The data on the disposition of personal income do not show any startling changes from the prewar pattern, except perhaps in the matter of taxation. Consumption expenditures and personal savings absorb about the same share of the total as in 1938, but there has been a slight change in the tax figures. The proportion of personal income going for social security taxes has risen from 0.9 percent of the total to 2.9 percent in 1955, a development not unexpected in view of the postwar expansion of the social security system. The relative decline in the proportion of personal income paid out in direct—i.e., income—taxes is less easily explained, although it probably reflects the above-mentioned decline in the relative importance of individual enterprise income in the economy, and the strong propensity for tax evasion found among the small shopkeepers and artisans.[4]

The tax picture, though, is of particular significance for another reason. The latter has to do with the relationship between the contributions of individuals to the support of the social security system and the cash benefits that individuals receive from the system. Here the picture is particularly interesting, for individuals in the aggregate pay far less in the way of taxes to support the system than what they draw from the system in the way of benefits. In 1955, for example, individuals received 19.3 percent of their personal income in the form of various social benefits, but paid out in taxes only 2.9 percent of their incomes for the direct support of the system. This relationship stresses again what was said earlier about the indirect character of the system's financial support. It also helps explain why in France there is so little awareness of the real costs to the economy of the social security system.[5]

It is true that the situation would appear in a more favorable light if the data were rearranged to include social security taxes levied against the employer as a part of personal income and then include these same taxes in the total of social security contributions by individuals. If this was done with the data for 1952, social benefits would then total 16.1 percent of total income, and social

[4] According to a Ministry of Finance survey, in the agricultural sector nearly 80 percent of the taxable income is not reported to the tax authorities, while in commerce and trade the corresponding figure is 28 percent. For the industrial sector the percentage of fraud in tax returns was estimated to be about 20. See Ministère des Finances, *op. cit.*, pp. 202, 203. The data in Chapter 4 following lend additional statistical support to the view that tax evasion is widespread among the self-employed and farmers.

[5] During the writer's stay in France this point frequently arose in personal conversations. In general, the ordinary French citizen approves of the social security system and its benefits, but he sees little relationship between these expenditures and the prevailing high level of prices in the economy.

security tax contributions by individuals 9.7 percent of personal income. A case could be made for this procedure, particularly for France, because "social wages" do loom large in the personal income position of the average citizen. But at best it is not a strong case. Realism demands that personal income be computed on the basis of money income actually received by persons, and thus it is neither reasonable nor desirable to include in this total employer contributions to social security, even though these outlays eventually appear as one form of personal income received. The objective here is to show the sharp postwar increase in social benefits as a source of personal income, and this objective would be distorted if the above procedure was followed. Moreover, from the point of view of assessing the real cost and incidence of the social security system in the economy, it would clearly be a mistake to treat employer social security contributions as a direct tax, the incidence of which is on the employee. Realism requires that these taxes be treated as a part of the employer's total labor costs, which are, sooner or later, reflected in the final price of goods and services sold.

TABLE VI

*Personal Income and Outlay in France: 1938, 1952-55*
(in percent)

| | 1938 | 1952 | 1953 | 1954 | 1955 |
|---|---|---|---|---|---|
| *Sources of Personal Income* | | | | | |
| Wages and Salaries | 45.6 | 45.3 | 45.9 | 45.9 | 45.9 |
| Unincorporated Enterprise | 34.6 | 31.4 | 30.2 | 29.2 | 29.5 |
| Interest | 6.9 | 1.0 | 0.8 | 1.0 | 0.9 |
| Dividends | 3.4 | 3.4 | 3.5 | 3.5 | 3.6 |
| Abroad (net) | ...... | 1.0 | 0.8 | 0.8 | 0.8 |
| *Total Factor Income* | 90.5 | 82.1 | 81.2 | 80.4 | 80.7 |
| Transfer Income | | | | | |
| Social Security | 5.0 | 11.2 | 11.9 | 12.7 | 12.5 |
| Supplements | ...... | 2.4 | 2.4 | 2.4 | 2.3 |
| Assistance | 4.5 | 2.9 | 3.2 | 3.1 | 3.2 |
| War Damages | ...... | 1.4 | 1.3 | 1.4 | 1.3 |
| *Total Transfer Income* | 9.5 | 17.9 | 18.8 | 19.6 | 19.3 |
| *Personal Income* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| *Personal Outlay* | | | | | |
| Consumption | 86.8 | 87.0 | 87.6 | 86.4 | 85.5 |
| Taxes | | | | | |
| Income | 4.2 | 2.3 | 2.9 | 2.6 | 2.4 |
| Social Security | 0.6 | 2.6 | 2.9 | 2.9 | 2.9 |
| Total | 4.8 | 4.9 | 5.8 | 5.5 | 5.3 |
| Savings | 8.4 | 8.1 | 6.6 | 8.1 | 9.2 |
| *Personal Income* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Our conclusion at this point is simply that there is, in the aggregate, little relationship between what the French citizen pays directly in taxes to support the social security system, and what he receives from the same system in the form of cash benefits that augment his personal income. In theory, the French system, as was pointed out in Chapter 2, is wholly self-financed, either by contributions from the beneficiaries or by contributions from the employer. In practice, though, such is hardly the case because of the small proportion of direct money benefits that are financed by direct taxation. The actual pattern is one of dependence on indirect taxation, with a consequent diffusion of the real costs of the system throughout the economy via the price mechanism. Under such circumstances there may be a considerable unplanned transfer of real income between social groups in the economy, although the magnitude of the latter is not easily measured. If the above is true, it also follows that there is no assurance that the system is necessarily progessive with respect to both the incidence of its costs and benefits.

### Social Expenditure in the Government Accounts

The place that social security or welfare expenditures occupy in France's economic structure can be viewed from another perspective if we examine the aggregate of such expenditures in relation to the expenditure total of the government for its current operations and also the major tax sources for the latter's revenue. This is done in Tables VII and VIII, which show (in percent) the current expenditures of the government (including local government) for 1938 and the period 1952-55, and the major source of tax revenue for the same years. These data are also useful because they provide additional insight into important structural characteristics of the economy.

In Table VII government expenditures are presented in four major categories. These are: government consumption, or purchase of goods and services; net interest; transfer payments to individuals; and transfer payments to business firms. These four categories represent the total of French government expenditures for current operations, but they do not include certain other outlays that have a prominent place in the budget of the central government. These latter include, first, capital expenditures by the government, which, in French national income accounting, are included in the figure for gross domestic investment; and, second, lending operations by the central government vis-à-vis both the private and public sectors of the economy.[6] There is considerable logic in the French practice of treating capital expenditures by the government as a part of gross domestic investment—this may be contrasted to the U. S. procedure of treating these outlays as part of current government expenditure—and in the analysis which follows, this distinction between current and capital operations by the government has been retained. The validity of this distinction lies in the fact that it enables us to obtain a clear picture of the *current* operations of the government, as respects both transfers and the public consumption of goods and services. This, then, enables us to see clearly what proportion of both income earned in production—i.e., the national income—and the total real output is being utilized for the activities of the government. The reader is warned, however, that it is not possible to obtain a satisfactory idea of the over-all financial position of the French government from the accounts for the latter's current operations.[7] This is because the aforementioned capital and lending operations are not included in the current account for the government sector.

In Table VII the postwar growth of the welfare state is reflected in the shift in the relative position occupied by government consumption and transfer expenditures in the over-all total of current government outlays. Since 1938 government expenditures devoted to the purchase of goods and services for the more or less traditional governmental functions have declined from 48.3 percent of the total to 44.5 percent in 1955. Correspondingly, the share of transfer expenditures in the total rose from 51.7 percent in 1938 to 55.5 percent in 1955. The data for the period 1952-55 show that a trend in this direction has continued to manifest itself in the postwar economy, for in these years the share of government consumption in the total continued to decline, while tranfers rose accordingly. Thus, tranfer activities have tended to absorb an increasingly larger proportion of the government's resources being devoted to current operations. Whether or not this trend will continue in the future cannot be determined for certain, but the probabilities are in favor of its continuation simply because the

[6] During the period 1947-52, for example, 45 percent of investment expenditure (private and public) carried out in accordance with the objectives of the modernization plan was financed by the central government.

[7] During the period 1952-55 the deficit for the central government finances averaged about 650 billion francs per year. This is roughly the equivalent of $1.5 billion per year.

full economic effects of France's welfare state will not be felt until about 1970. In Chapter 2 it was pointed out that the old-age pension system will not become fully effective until around 1970, and this, in conjunction with continued pressure for improved benefits, will undoubtedly increase the proportion of government outlays devoted to welfare purposes.[8] Whether or not the French state can manage this without drastic financial reform and in view of its commitments to the European common market is problematical.

The impact of the welfare state on the structure of French government expenditures is better seen if we examine the three major categories of tranfer expenditures. The increase in aggregate transfers from 51.7 percent of total outlays in 1938 to 55.5 percent in 1955 does not tell the whole story because of the rather drastic shift in the composition of these tranfers. In 1938, for example, interest on the public debt was a major transfer item, as it accounted for 15 percent of all government outlays. But by 1955 this item had become of relatively little significance, for then it represented only 2.9 percent of total government expenditure. The postwar inflation is, of course, the major explanation for this shift. The effects of the social security system are seen most clearly in the data pertaining to transfers to individuals. Outlays for social security rose from 15.0 percent of the total in 1938 to 30.2 percent in 1955, a relative increase of about 100 percent. At the same time expenditures for traditional assistance declined from 14.2 percent of total outlays in 1938 to 7.8 percent in 1955. War-damage indemnities, an item that did not exist in 1938, account for the balance of the increase in transfers to individuals. The balance sheet for all these items shows an increase in welfare transfers to individuals from 30.0 percent of total government expenditures in 1938 to 41.4 percent in 1955.

The idea implicit in the above comments that the welfare state is, in the main, responsible for the relative increase in transfer expenditures in the government account is supported by the data pertaining to transfers to business firms. In general, there has not been any significant increase in subsidies to business since 1938. True, the total of transfers to business has risen from 6.7 percent

[8] In connection with this it should be noted that a complete integration of the approximately nine million Moslems in Algeria into the economic and social structure of Metropolitan France would impose a new and staggering transfer burden on France's social security system.

of government outlays in 1938 to 11.2 percent in 1955, but this gain is largely accounted for by payments of war-damage indemnities, again an item that did not exist before the war. The total of subsidies to business rose only slightly, from 8.3 percent in 1938 to 9.5 percent in 1955.

In sum, then, the postwar expansion of the social security system has brought about significant changes in the structure of current government expenditures in France. There has been an appreciable increase in the proportion of the government's resources devoted to welfare payments to individuals, and a relative decline in the proportion of resources being devoted to the state's traditional functions, as well as in transfers to individuals in the form of interest on the public debt. Transfers to business firms have undergone only minor modifications.

TABLE VII

*Government Expenditures in France: 1938, 1952-55*
(in percent)

| | 1938 | 1952 | 1953 | 1954 | 1955 |
|---|---|---|---|---|---|
| Government Consumption | | | | | |
| Goods and Services | 29.2 | 20.6 | 20.1 | 18.4 | 16.6 |
| Wages and Salaries | 19.1 | 29.5 | 29.2 | 28.4 | 27.9 |
| *Total Consumption* | 48.3 | 50.1 | 49.3 | 46.8 | 44.5 |
| Net Interest | 15.0 | 2.7 | 2.3 | 2.7 | 2.9 |
| Transfers to Individuals | | | | | |
| Social Security | 15.8 | 26.6 | 27.3 | 29.6 | 30.2 |
| Assistance | 14.2 | 7.0 | 7.2 | 7.3 | 7.8 |
| War Damages | ...... | 3.3 | 3.1 | 3.1 | 3.4 |
| *Total to Individuals* | 30.0 | 36.9 | 37.6 | 40.0 | 41.4 |
| Transfers to Business | | | | | |
| Subsidies | 8.3 | 7.4 | 8.6 | 8.8 | 9.5 |
| War Damages | ...... | 3.2 | 2.7 | 2.3 | 2.3 |
| Less: Current surplus of Government enterprise | — 1.6 | — 0.3 | — 0.5 | — 0.6 | — 0.6 |
| *Total to Business* | 6.7 | 10.3 | 10.8 | 10.5 | 11.2 |
| ***Total Transfers*** | 51.7 | 49.9 | 50.7 | 53.2 | 55.5 |
| *Total Expenditures* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Data on the sources of tax revenue for the public sector are contained in Table VIII. In this table the data are arranged in two different ways so as to bring out as clearly as possible the more significant characteristics of France's tax structure. In the first part of the table taxes are grouped according to the conventional categories of direct taxes, indirect business taxes, and social security taxes. But in the second part the data are rearranged so as to classify the taxes on the basis of their presumed incidence. That is, they are grouped according to whether the tax is borne directly by individuals, indirectly by individuals through higher prices for consumption goods and services, or by business firms. Analysis of the tax data in these two ways permits us to distinguish readily the impact of the welfare state on France's revenue system.

The most striking characteristic of France's tax structure is the extent to which the state is dependent upon indirect taxation for its revenues. In 1955, for example, indirect business taxes accounted for 54.8 percent of the government's tax revenue. If we add to this figure the social security contributions of the business firm—which are, as is argued in this study, another form of indirect taxation—the amount then becomes 76.8 percent of the total tax revenue. The converse of this, of course, is the relatively insignificant role played by direct taxation. Again in 1955 the personal income tax was responsible for only 6.2 percent of the government's revenue. The total of income taxes on both individuals and business firms yielded but 15.9 percent of total tax income, and even if we add to this the social security taxes paid by individuals the total becomes only 23.2 percent.

Since 1938 the tax structure has undergone certain modifications,

TABLE VIII

*Revenue from Taxation in France: 1938, 1952-55*
(in percent)

| | 1938 | 1952 | 1953 | 1954 | 1955 |
|---|---|---|---|---|---|
| | *Part I* | | | | |
| Direct Taxes | | | | | |
| Individuals | 19.7 | 6.2 | 6.9 | 6.5 | 6.2 |
| Firms | 4.9 | 9.7 | 10.7 | 9.7 | 9.7 |
| *Total Direct Taxes* | 24.6 | 15.9 | 17.6 | 16.2 | 15.9 |
| Indirect Business Taxes | 60.5 | 56.4 | 54.9 | 55.3 | 54.8 |
| Social Security Taxes | | | | | |
| Individuals | 2.6 | 6.5 | 7.1 | 7.1 | 7.3 |
| Firms | 12.3 | 21.2 | 20.4 | 21.4 | 22.0 |
| *Total Social Security Taxes* | 14.9 | 27.7 | 27.5 | 28.5 | 29.3 |
| *Total Tax Revenue* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | *Part II* | | | | |
| Taxes on Individuals | | | | | |
| Income | 19.7 | 6.2 | 6.9 | 6.5 | 6.2 |
| Social Security | 2.6 | 6.5 | 7.1 | 7.1 | 7.3 |
| *Total Taxes on Individuals* | 22.3 | 12.7 | 14.0 | 13.6 | 13.5 |
| Taxes on Consumption | | | | | |
| Indirect Business Taxes | 60.5 | 56.4 | 54.9 | 55.3 | 54.8 |
| Social Security (Firms) | 12.3 | 21.2 | 20.4 | 21.4 | 22.0 |
| *Total Taxes on Consumption* | 72.8 | 77.6 | 75.3 | 76.7 | 76.8 |
| Taxes on Business | 4.9 | 9.7 | 10.7 | 9.7 | 9.7 |
| *Total Tax Revenue* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

primarily as a result of the expansion of the social security system. In Part I of Table VIII it can be seen that both direct taxes (income taxes on individuals and firms) and indirect business taxes have declined in relative importance as a source of tax revenue. In 1955 direct taxes accounted for 15.9 percent of all tax revenues as against 24.6 percent in 1938, while indirect business taxes totaled 54.8 percent of revenue in 1955 as contrasted to 60.5 percent in 1938. This shift in the relative importance of these two tax categories is due to the increased importance of social security taxation, both for firms and for individuals. In 1955 social security taxes accounted for 29.3 percent of all government tax revenue as compared to 14.9 percent in 1938, a relative change of about 96 percent. Social security taxes levied against business firms rose from 12.3 percent of revenue to 22.0 percent between 1938 and 1955, while the contributions of individuals increased from 2.6 percent to 7.3 percent in the same period. Thus, the enlarged emphasis upon welfare expenditures in France's postwar economy has made social security taxes more important than income taxes as a revenue source. This is a reversal of the prewar situation. The other change of importance from the prewar situation to be noted is the larger role assumed by the taxation of the income of business firms. In 1955 such taxes were 9.7 percent of the total tax revenue, and only 4.9 percent in 1938. This is a consequence of the introduction of a corporation income tax in 1948. It probably reflects, too, the more industrialized status of France's economy in 1955 as compared to prewar. The modernization plans have accelerated somewhat the trend toward larger establishments.

The extent to which France's revenue system is geared to indirect taxation results from the combination of a number of circumstances. It derives fundamentally from the well-known aversion of the French for direct taxation. In its worst form this leads to outright tax evasion, a practice long recognized to be widespread among the owners of small enterprises. This hostility to direct taxation in combination with the exceedingly heavy financial commitments of postwar governments for reconstruction and modernization has forced the state to rely increasingly on indirect taxation. To these things has been added the heavy burden of welfare expenditures that require the state to transfer a large portion of the national income from group to group. Under these circumstances it is doubtful if any government, let alone the relatively feeble regime of France's Fourth Republic, could impose on its citizens direct taxes in the amount necessary to meet such a burden of commitments. Of course the real costs are there, irrespective of the system of finance, but indirect taxation has the dubious virtue of concealing these real costs from the great majority of citizens.

The data already presented pertaining to the public finances of France, as well as data to be presented later in this chapter pertaining to welfare expenditures in the United Kingdom, lead the writer to offer the following observations with respect to both the real costs and the techniques of financing the welfare state. There can be little doubt that the modern welfare state imposes a relatively heavy burden of transfer expenditures on the central authority. Granted this, and in view of the increasingly heavy commitments of modern governments in other areas, it is submitted that it is illusionary to believe that these outlays can be wholly financed by direct taxation. In the early formulation of the welfare state concept, particularly in the United Kingdom, the idea existed that it would involve essentially taking from the "classes" and giving to the "masses." This simplified view of the way in which the welfare state can be financed is, in the economic sense, an illusion, even though politically it remains an idea of considerable potency. This is not to be construed as an argument against the expansion of welfare activities by the government, for this is a question having to do with basic social objectives and values, but it is, in a sense, a plea for realism in recognizing some of the economic implications of these activities. The thesis advanced here is, essentially, that an enlargement of the state's welfare activities via the mechanism of transfer expenditures must inevitably, under modern conditions, entail a significant increase in indirect taxation with consequent price and income effects that cannot be readily determined. France's experience supports this view, for the tax burden thrust upon the business firm is a major factor in boosting French prices above competitive levels in world markets.[9] This, in turn, has aggravated France's balance of payments problem.

### Transfer Expenditures and Taxation in the Economies of France, the United Kingdom, and the United States

In the foregoing sections of this chapter we analyzed welfare expenditures in France in relation to the national income, personal

[9] The noncompetitive character of French prices in world markets is well documented in the so-called Nathan report. See Commission pour l'étude des disparités entre les prix français et étrangers, *Rapport Général,* Paris, 1954.

income, government expenditure, and taxation. In this section comparisons will be made between France, the United Kingdom, and the United States with respect to both the magnitude of welfare expenditures and the uses of national product in the respective economies of all three countries. The purpose of these comparisons is, first, to underscore structural difference between the economy of France, on the one hand, and the economies of Britain and the United States, on the other; and, second, to measure the relative significance of welfare expenditures in the economies of each of these countries.[10] This study is concerned primarily with the welfare state in France, but comparisons along the lines indicated above will contribute to an understanding of the way in which the welfare state functions within the French economy.

TABLE IX

*Gross National Product and Expenditure in France, the United Kingdom, and the United States: 1952*
(in percent)

| | *France* | *United Kingdom* | *United States* |
|---|---|---|---|
| *Sources of GNP* | | | |
| Personal Consumption | 66.8 | 66.9 | 62.7 |
| Gross Domestic Investment | 18.9 | 13.8 | 15.1 |
| Government Consumption | 16.2 | 18.3 | 22.3 |
| Net Foreign Investment | — 1.9 | 1.0 | — 0.1 |
| *Gross National Product* | 100.0 | 100.0 | 100.0 |
| *Allocations of GNP* | | | |
| Employee Compensation | 43.2 | 57.7 | 55.5 |
| Unincorporated Enterprise | 25.2 | 8.6 | 11.8 |
| Corporate Income | 4.9 | 8.5 | 11.6 |
| Other Property Income | 2.5 | 4.1 | 4.9 |
| *National Income* | 75.8 | 78.9 | 83.8 |
| Indirect Business Taxes | 16.9 | 14.5 | 8.1 |
| Business Transfer Payments | 0.2 | ...... | 0.3 |
| Statistical Discrepancy | ...... | 0.8 | 0.1 |
| Less: Subsidies Minus Current Surplus of Government Enterprise | — 3.3 | — 2.4 | ...... |
| *Net National Product* | 89.6 | 91.8 | 92.3 |
| Capital Consumption Allowances | 10.4 | 8.2 | 7.7 |
| *Gross National Product* | 100.0 | 100.0 | 100.0 |

[10] The data for 1952 are used as the basis for comparison between the three countries primarily because 1952 is the most recent year for which accurate data are available on the internal distribution of income in France (see Chapter 4). It was also a year relatively free of strong inflationary pressures in all the countries concerned. Actually it does not matter a great deal whether the comparison is made on the basis of the data for 1952 or a subsequent year, because postwar welfare institutions had largely become stabilized by 1952, and have not undergone any significant changes in France, Britain, or the United States since that time.

Table IX contains data (in percent) on the origins and disposition of the gross national product[11] in France, the United Kingdom, and the United States. With respect to the sources of the GNP—i.e., the major categories of expenditure in the economy—there are no extremely important differences in the economies of these countries. In France, gross domestic investment is somewhat higher than in either Britain or the United States, but government consumption is slightly lower. Actually, the proportion of total output being directed to both government consumption and gross investment is about the same in all three countries. The point in this is that public activity in France does not absorb a greater proportion of the economy's real output than do similar activities in the United Kingdom and the United States. The real "burden" of government on the economy is measured by the proportion of real output—i.e., GNP—absorbed by the public sector for its purposes. In national income accounting practice this is equal to government consumption, or the government's purchase of goods and services. It is true, of course, that the "burden" of government is particularly heavy in France when viewed from the perspective of *total* government outlays, but this has not come about because the government in France attempts to carry on more functions of a kind that utilize real resources than is done in either the United Kingdom or the United States. Rather, it has come about because of the volume of transfer expenditures that has been thrust on the public sector in France.[12]

When we turn to the data on the allocation of the GNP, we find several interesting differences between the economy of France and those of the United Kingdom and the United States. The allocations side of the GNP data is important because it constitutes, in effect, a measure of the "cost" to the economy of the total output realized in a particular period. The three major categories of "cost" that make up the allocations side of the GNP are factor

[11] Hereafter the gross national product will be referred to as GNP.

[12] The reader may wonder about the treatment of nationalized industry, as nationalization is more extensive in both Britain and France than it is in the United States. In national income accounting practices, nationalized industries are considered as a part of the business sector, just as is private enterprise. Hence the existence of nationalized industries does not enlarge the role of the public sector with respect to the proportion of the economy's resources absorbed by the latter for its purposes. If nationalized industries are subsidized by the state, this will appear in the national accounts as transfer expenditures by the government, and will differ in no way from subsidies to the private sector.

costs, or the total of payments made to factor owners to secure the services of economic resources for the production period in question; indirect business taxes, which are a part of the cost of the national output on the assumption that these taxes will be reflected in the price of final goods and services; and capital consumption allowances, which reflect the contribution of existing capital instruments to current output. An analysis of the allocations side of the GNP reveals much meaningful information about the economic and industrial structure of a country.

The point was made earlier in this chapter that France is less industrialized than either the United States or the United Kingdom. The data in Table IX support this contention, for as a general proposition the more industrialized a nation is, the greater will be the proportion of the national income (or GNP) allocated to labor and corporate income. This simply reflects the fact that the process of industrialization brings about a concentration of production in larger units, with a consequent growth in the number of wage and/or salaried employees and a corresponding decline in the importance of self-employment. Thus the cost allocation of the national income (or GNP) among the factors of production provides us with a set of clues to evaluate the extent of industrialization in a country.

On the basis of this criterion France is clearly less of an industrial nation than either the United Kingdom or the United States. Data in the table show that in France only 43.2 percent of the GNP is accounted for by compensation of employees—i.e., wage and salary payments—as compared to 67.7 percent in the United Kingdom and 55.5 percent in the United States. On the other hand, income accruing to the owners of individual enterprises is proportionally much greater in France than in the other two nations. In France income in this form totals 25.2 percent of the GNP in contrast to 8.6 and 11.8 percent in Britain and the United States, respectively. Corporate income, as one would expect, is of relatively greater importance in the British and American economies.

What conclusions, then, can be drawn from the data at this point? To the extent that France is less an industrial state than either Britain or America, it means, in a sense, that France is less able to "afford" an extensive system of social security than either of the other two countries. Why is this so? It is so, first, because in a general way real income per capita is a function of the degree of industrialization attained by a nation, and, second, it follows that what a nation can "afford" in the way of social benefits is, again in a broad sense, a function of the real income of its people. The latter is the case simply because the welfare state requires extensive transfers of income, and the extent to which this can be done successfully will be limited by the level of real income actually existing in a country. A poor country, in other words, cannot afford to indulge in income transfers on a large scale simply because there will be for the mass of its citizens very little income in excess of what is necessary to provide a bare subsistence standard of living. France, of course, is not poor in this sense, but since its real income is below that of both the United Kingdom and the United States,[13] the French economy is in a less favorable position to support large outlays for welfare purposes. Once again, this is not to be construed as an argument against welfare expenditures as such, but simply as recognition of the fact that the level of real income is of crucial importance with respect to the means employed to finance the welfare state. It is argued here as a general principle that the lower the level of real income, the less possible it becomes to resort to direct taxation as a means of finance for welfare expenditures. A practical consequence of this is that the beneficiaries of the welfare state will, in all probability, pay indirectly for most of its costs through higher prices for the goods and services they consume.

Two other differences between France and the economies of Britain and the United States may be noted on the basis of the data in Table IX. First, indirect business taxes absorb a larger portion of France's GNP than is true in either the United Kingdom or the United States. The difference between France and the United Kingdom is not especially large, but the contrast between France and the United States in this respect is quite significant. This, it would seem, supports the thesis already advanced about the inevitability of indirect taxation in a welfare state setting, as both France and the United Kingdom have gone further in this direction than has the United States. Second, capital consumption allowances absorb a larger proportion of the GNP in France than in either of the other two countries. This is a consequence of the greater aver-

[13] In 1955, according to a recent study of the OEEC, the per capita GNP in the United States was $2,310, that of the United Kingdom $1,470, and that of France $1,285. See Milton Gilbert, *Comparative National Products and Price Levels,* OEEC, Paris, 1957.

age age of industrial plant in France as compared to Britain and the United States, and has meant for France a somewhat lower rate of net investment, a fact which indirectly affects the country's rate of economic growth.[14]

The data on personal income and outlay provide additional evidence of important structural differences in the economies of the three countries. These data are contained in Table X. The major difference to be noted here is the much greater importance in France of transfer payments as a source of personal income than is true for Britain or America. The relative importance of transfer payments as a source of personal income is a good measure of the degree of "welfare statism" existing in a nation because, in general, these payments are transfers made for welfare purposes. On the basis of this criterion it can be argued that France is more of a welfare state than either the United Kingdom or the United States. In France 17.9 percent of personal income is derived from transfer expenditures whereas in the United Kingdom the corresponding figure is 7.4 percent, and for the United States it is but 4.7 percent.

TABLE X

*Personal Income and Outlay in France, the United Kingdom, and the United States: 1952*
(in percent)

| | France | United Kingdom | United States |
|---|---|---|---|
| *Sources of Personal Income* | | | |
| Wages and Salaries | 45.3 | 69.9 | 68.9 |
| Unincorporated Enterprise | 31.4 | 11.1 | 15.0 |
| Other Property Income | 5.4 | 11.6 | 11.4 |
| *Total Factor Income* | 82.1 | 92.6 | 95.3 |
| Transfer Income | 17.9 | 7.4 | 4.7 |
| *Total Personal Income* | 100.0 | 100.0 | 100.0 |
| *Personal Outlay* | | | |
| Consumption | 87.0 | 86.0 | 79.8 |
| Taxes | | | |
| Income | 2.3 | 9.6 | 12.7 |
| Social Security | 2.6 | 3.9 | 1.4 |
| *Total* | 4.9 | 13.5 | 14.1 |
| Savings | 8.1 | 0.5 | 6.1 |
| *Total Personal Income* | 100.0 | 100.0 | 100.0 |

The data in this table also support prior observations about the less industrialized status of France. That is, wages and salaries

[14] Commissariat Général du Plan, *Rapport sur le plan de modernisation et d'équipement de l'Union française*, Paris, 1949, pp. 9, 10.

account for a smaller proportion of the personal income total in France than they do in Britain and the United States, while income derived from unincorporated enterprises is of much greater relative importance in the French economy. Thus both the GNP and the personal income data reveal, on the one hand, that France is less industrialized than Britain or America, and, on the other, that transfer or welfare expenditures are of considerably greater significance as a source of personal income in France than is the case in the other two nations.

The data in Table X pertaining to the disposition of personal income are of interest because of the way in which they reveal a sharp contrast between the tax burden assumed by the French citizen and that assumed by his British and American counterparts. In the United Kingdom and the United States direct taxes on individuals, including social security taxes, take about the same proportion of personal incomes, the figures being 13.5 and 14.1 percent for Britain and the United States, respectively. In France, however, direct taxes are equal to only 4.9 percent of the personal income total. With respect to the personal income tax alone, the differences are even more pronounced, as in France this tax amounts to but 2.3 percent of personal income as compared to 9.6 percent in the United Kingdom and 12.7 percent in the United States. Social security taxes levied against the individual are, it is true, relatively higher in France than in the United States, but are less than those in effect in Great Britain. If we compare the relationship between transfer income received and social security taxes paid, the following figures emerge: in France direct taxes paid by individuals for the support of social security are equal to 14.5 percent of benefits received; for Britain this ration is 52.7 percent; and for the United States it is 31.8 percent. Thus it appears that it is in the United Kingdom that the beneficiaries of the social security system contribute the most to the direct support of the system. In France, on the other hand, the direct participation by the beneficiaries in this sense is least. In sum, the French consumer is better off than his British or American counterpart in the matter of the direct taxation of his income, but this more favored position is largely illusionary, once we take into account the effect of indirect taxation on his real income. This point will be developed further in conjunction with discussion of the data contained in Table XII.

In Table XI a comparison is made between government receipts and current expenditures in the countries under discussion. These data permit us to see in yet another perspective the role that welfare expenditures play in the economies of the three countries. They also point up significant differences in their tax structures. With respect to taxation, the greatest difference between the three countries has to do with the relative importance of direct taxation—i.e., taxation of the income of firms and individuals—as a source of government revenues. The United States depends the most upon direct taxes for its revenues, as the latter were equal to 58.4 percent of current government expenditures in 1952. The situation in France is in sharp contrast to this, for here direct taxes account for only 14.7 percent of government expenditure. The corresponding figure for the United Kingdom is 36.5 percent. On the other hand, indirect business taxes and social security taxes levied against both firms and individuals are of relatively greater import in both France and Great Britain than they are in the United States. It should be noted, too, that social security taxes levied against the business firm are of relatively greater weight in the French tax structure than they are in either the United Kingdom or the United States.

What conclusions can be drawn from these data? For one thing, the data in this table underscore further what has been said about the essentially indirect character of France's tax structure. The comparison with Britain and the United States simply makes this characteristic even more glaringly obvious. Second, the data lend support to the thesis advanced earlier that under modern conditions the growth of the welfare state leads to an increased dependence by government upon indirect taxation as a source of revenue. On the basis of our adopted criteria for the degree of "welfare statism"—i.e., the relative importance of transfer expenditures in the various national accounts—both France and Britain are more nearly welfare states than is the United States. And in both the former countries indirect taxation, including the social security taxes levied against the employer, is of greater relative significance than it is in the United States. In France, it is true, this situation is due partly to the French citizen's basic hostility toward direct taxation in any form, as well as outright fraud and evasion, but important as these factors may be they are not sufficient to account for the very great difference that exists between France and the United States in this respect. In the United Kingdom, moreover, the personal income tax is comparable to the American tax as respects progression in rates, and furthermore Britain, unlike

France, does not have a serious problem of tax evasion. Consequently, it is reasonable to conclude that there is a direct relationship between the expansion of welfare expenditures and the growth in the relative importance of indirect taxation in the over-all revenue structure. In this connection it is useful to recall that the data in Table IX indicate that there are no significant differences in the economies of the three countries with respect to the proportion of the national output absorbed by the public sector for what we have termed the traditional functions of government. The significant differences that exist are in the sphere of transfer expenditures.

TABLE XI

*Government Receipts and Expenditures in France, the United Kingdom, and the United States: 1952*
(in percent)

| | France | United Kingdom | United States |
|---|---|---|---|
| Government Receipts | | | |
| Direct Taxes | | | |
| Individuals | 5.6 | 27.3 | 36.6 |
| Firms | 9.1 | 9.2 | 21.8 |
| *Total* | 14.7 | 36.5 | 58.4 |
| Indirect Business Taxes | 52.1 | 46.8 | 29.7 |
| Social Security Taxes | | | |
| Individuals | 6.1 | 9.8 | 4.0 |
| Firms | 19.5 | 10.7 | 3.9 |
| *Total* | 25.6 | 20.5 | 7.9 |
| *Total Tax Revenue* | 92.4 | 103.8 | 96.0 |
| Other Revenue | 5.4 | 8.0 | ...... |
| *Total Revenue* | 97.8 | 111.8 | 96.0 |
| Deficit (+) or Surplus (—) | 2.2 | — 11.8 | 4.0 |
| *Total Expenditure* | 100.0 | 100.0 | 100.0 |
| Government Expenditure | | | |
| Goods and Services | 50.1 | 59.2 | 82.1 |
| Transfers | | | |
| Net Interest | 2.7 | 14.5 | 5.2 |
| to Individuals | 36.9 | 18.6 | 12.6 |
| to Business | 10.3 | 7.7 | 0.1 |
| *Total Transfers* | 49.9 | 40.8 | 17.9 |
| *Total Expenditure* | 100.0 | 100.0 | 100.0 |

This last observation is confirmed by the data in Table XI pertaining to current government expenditures in the three countries. In the United States government consumption accounts for 82.1 percent of total government expenditure. In the United Kingdom and France, on the other hand, transfer expenditures are of much greater relative significance. In France transfers account for practically half of all current expenditures, while in Britain they represent about two-fifths of total outlays. The contrast between the three countries is greatest with respect to transfer payments to individuals, for in France these payments equal 36.9 percent of total government expenditures, as compared to 18.6 percent in the United Kingdom, and 12.6 percent in the United States. For the United States and Britain interest on the public debt remains a transfer item of importance, although this is not true of France. In France and the United Kingdom, in contrast to the United States, subsidies to business firms are a major transfer expenditure, although again this item is of greater import in France.

This analysis of the relative importance of transfer expenditures in relation to various national income and product aggregates in the respective economies of France, Britain, and the United States can be concluded by rearrangement of the data in yet another way. This is done in Table XII. The objective here is to relate taxes and government expenditure to the national income in a manner that permits us to compare the over-all impact of both taxation and

TABLE XII

*The National Income, Taxes, and Public Expenditure in France, the United Kingdom, and the United States: 1952*
(in percent)

| | France | United Kingdom | United States |
|---|---|---|---|
| *Private Income from Production* | | | |
| From Employment | 57.0 | 73.1 | 66.3 |
| From Enterprise and Property | 36.5 | 16.2 | 19.9 |
| Corporate Income | 6.5 | 10.7 | 13.8 |
| *National Income* | 100.0 | 100.0 | 100.0 |
| *Taxation* | | | |
| Taxes on Consumption | | | |
| Indirect Business Taxes | 22.2 | 18.3 | 9.6 |
| Social Security Taxes | 8.4 | 4.2 | 1.3 |
| *Total* | 30.6 | 22.5 | 10.9 |
| Taxes on Income | | | |
| Personal Income | 5.0 | 14.6 | 13.2 |
| Business Income | 3.9 | 3.6 | 7.1 |
| *Total* | 8.9 | 18.2 | 20.3 |
| *Total Taxes* | 39.5 | 40.7 | 31.2 |
| *Government Expenditure* | | | |
| Nonredistributive Expenditure | | | |
| Government Consumption | 21.5 | 23.2 | 26.6 |
| Debt Interest | 1.1 | 5.7 | 1.7 |
| *Total* | 22.6 | 28.9 | 28.3 |
| Redistributive Expenditure | | | |
| Transfers to Persons | 15.8 | 7.3 | 4.1 |
| Subsidies to Business | 4.3 | 3.0 | ...... |
| *Total* | 20.1 | 10.3 | 4.1 |
| *Total Expenditure* | 42.7 | 39.2 | 32.4 |

government expenditure in the three countries. National income is chosen as the basic magnitude against which taxes and government expenditure are measured, for it represents the total of income earned by resource owners in the process of production. We can then determine the proportion of private income that is channeled into the government sector for public purposes, and this will yield us a satisfactory measure of the relative "burden" of government activities in the economies of the three countries. In the table, taxes are classified according to whether their presumed incidence is on consumption—i.e., prices—or incomes, and government expenditures are grouped according to whether or not they are redistributive in intent. In this way we can discern not only what proportion of private income earned in production is channeled into the public sector, but also the essential characteristics of the tax mechanism that brings about this transfer of income from private to public use. Then, the breakdown of government outlays into the categories of redistributive and nonredistributive permits us to see the relative importance of the various uses made by the government of the total financial resources placed at its disposal by the taxation process.

Let us examine first the data on taxation. In both France and the United Kingdom the tax total absorbs a significantly higher proportion of private income earned in production than in the United States. In France and Great Britain the percentage figures are 39.5 and 40.7 respectively, while the comparable figure for the United States is 31.2 percent. Thus we can say that in both the former countries the government is more deeply involved in the nation's economic affairs simply because of the larger proportion of the national income that flows through the public sector. This is not unexpected, though, because of the more extensive development of the welfare state in both France and the United Kingdom.

But even though France and Britain divert about the same proportion of their respective national incomes to the government sector for various public purposes, there are important differences between the two countries as respects the means by which this is accomplished. Taxation is, of course, the chief instrumentality through which resources (real and monetary) are diverted from private to public use, but the kind of taxes resorted to have vastly different economic effects. The taxation process diverts income to the public sector either directly by reducing the money income of the consumer, as is the case with the taxation of incomes, or indirectly by reducing his real income through price changes, as is the case with excise or consumption taxes.

Aside from this fact, there are other points of importance involved in the over-all character of the tax structure. There is, first of all, the vital question of equity in taxation. The regressive character of indirect or consumption taxes is widely recognized, and this is a factor that cannot be ignored in an evaluation of the incidence of the benefits and costs associated with the welfare state. Furthermore, the price effects allied with indirect taxation may have undesirable consequences in other sectors of the economy. We commented elsewhere in this chapter on the adverse effect that France's tax structure has on the nation's balance of payments position. Finally, it should be emphasized that indirect taxation tends to conceal the real costs of public activity, because the diffusion of these costs throughout the economy via the price mechanism makes it almost impossible for the citizen to know precisely what proportion of his income is being absorbed for public purposes. The reader will without doubt, recognize in this a preference for direct rather than indirect taxes, simply because, in the last analysis, all taxes are paid out of current real income. From the standpoint of both equity and civic responsibility it would be preferable if this fact was adhered to in matters of tax policy.

If we grant validity to the ideas discussed above, then the tax structure of France is clearly less satisfactory than that of either the United Kingdom or the United States. In France taxes on consumption absorb 30.6 percent of the national income, as compared to 22.5 percent in Britain and only 10.9 percent in the United States. Taxes on income, on the other hand, equal only 8.9 percent of the national income in France, in contrast to 18.2 percent in the United Kingdom and 20.3 percent in the United States. In comparison to both the United Kingdom and the United States the over-all tax structure in France is not only more regressive, but constructed in such a way that an important proportion of the real costs of public activity are concealed from the general public. The system, moreover, is badly adapted to combat inflation; on the contrary it is in a sense an engine of inflation, for with the large role accorded to indirect taxation, any increase in taxes will have adverse repercussions on the price level. To summarize the analysis at this point, we can say that as respects France and the United Kingdom the relative tax burden of the two countries is about the same, but the distribution of the tax burden in

France is less equitable than in Britain, while the adverse effects of the tax system on the economy are undoubtedly greater in France than they are in the United Kingdom. These same conclusions apply with respect to France and the United States, except that the over-all tax burden is significantly lower in the United States.

The data on the distribution of public expenditures between those that are redistributive in character and those that are not simply add an additional confirmation to our previous observations on the greater importance of transfer expenditures in France's economy as compared to the economies of the United Kingdom and the United States. In France redistributive expenditures equal 20.1 percent of the national income, while the corresponding figures for Britain and the United States are 10.3 and 4.1 percent, respectively. Since the percentage differences in government consumption for the three countries are not nearly so great, the conclusion is inescapable that transfer payments are the major factor responsible for the relatively larger role that the public sector occupies in the French economy.

The conclusions reached in this chapter may be briefly summarized as follows. First, all of the data that we have examined pertaining to national product, personal income, taxation, and government expenditure support the hypothesis that France has become more of a welfare state than either the United Kingdom or the United States, providing we accept as our measurement criterion the various ratios that exist between transfer expenditures for welfare purposes and other key economic aggregates.

Second, these same data show that the French economy is less industrialized than the economies of either the United Kingdom or the United States, and consequently less favorably situated from the standpoint of being able to support the real costs of the welfare state. The latter point rests upon the assumption that there exists a direct relationship between industrialization and real income, and that the real income level necessarily imposes practical limitations on the extent to which income can be redistributed without resort to indirect taxation.

Finally, the data reveal that France's tax structure is badly designed, from the standpoint of equity for the citizen and that of measurement of the real costs of public activity. It goes without saying that the latter is an inescapable necessity for responsible policy-making in a democratic society. From the point of view of the functioning of France's social security system, the excessive dependence of the state upon indirect taxation means that there is much uncertainty about the real incidence of the system's costs and, as a consequence, no assurance that the system in its over-all impact is necessarily progressive.

# 4 / The Distribution of Income in France

In CHAPTER 3 we analyzed the welfare state in France from the point of view of the impact of welfare expenditures on the budget of the state and the national income. In this chapter we shall analyze the distribution of money income in France, paying particular attention to the effect of welfare expenditures on the pattern of income distribution. As in the previous chapter, most of the data are presented in percentage form, as our primary purpose is to effect comparisons.

The actual distribution of money income in France's economy will be studied from three points of view: (1) the distribution of income between social classes; (2) the distribution of income between income classes or brackets; and (3) the distribution of income within the social classes by range of income. In each of these categories the distribution of income resulting from participation in the productive process—i.e., factor income—will be discussed, and then the impact of welfare expenditures upon this distribution will be analyzed. Within the limits of available data, the distribution of factor income corresponds to the concept of an *initial* distribution of income discussed in Chapter 1, while transfer expenditures reflect policy measures designed to alter the distribution of income.[1]

In a broad sense, redistribution of income in a society may be either vertical or horizontal. The term "vertical" refers to the redistribution of money income between different income groups, i.e., from the upper to the lower income ranges, and the usual mechanism for this is the progressive income tax. "Horizontal," on the other hand, refers to the redistribution of income among members of the same income class. Welfare benefits that accrue to persons on some

[1] See the tables in the appendix for these data in absolute amount.

basis other than their income status may bring about a horizontal redistribution. This is the case, for example, with family allowances, for they tend to redistribute income from small to large families, irrespective of the income status of the latter. As respects the distribution of income between social groups, welfare expenditures may bring about a vertical redistribution if a particular social group has a decidedly more unfavorable income status than other groups in the society and benefits to a greater extent than others from welfare expenditures. As was pointed out in Chapter 1, the actual pattern of income redistribution resulting from the functioning of the apparatus of the welfare state depends upon both the nature and incidence of benefits and the means employed to finance them.

### The Distribution of Income between Social Classes

In this section we shall analyze the distribution of income between the major social classes in France. The classes or groups treated are: farmers other than wage-workers in agriculture; the self-employed; wage and salary employees; and the nonactive population. The latter, of course, does not include dependents of persons in the first three categories, but does include all other persons receiving either factor or transfer income. The data analyzed in this section do not include either income received by nonnationals residing in France or French nationals living abroad. The groups discussed in the section are determined on the basis of the major source of income for the head of the household, and the resulting categories correspond roughly to the division of French society along class lines.[2]

Table XIII shows (in percent) both the major sources of personal income for persons in the above-mentioned social categories and the disposition made of this income. The major objective of these data is to indicate the relative importance of transfer or welfare expenditures as a source of income on a social or class basis. In Chapter 3 we examined the importance of transfer expenditures

[2] A word of caution is in order here, for there are additional and subtle class distinctions in French society within these very broad social categories. The wage-earner group, for example, lumps together wage-earners proper—i.e., "workers" —and all other salaried employees, including high civil servants and persons in the upper echelons of management. Obviously there are class distinctions of importance between such persons. In the self-employed category there are not only small businessmen in trade and commerce but artisans and, as well, members of the liberal professions. At best, then, these categories correspond only approximately to the highly stratified class structure of French society.

in the personal income account for the economy as a whole (Tables VI, X); here we are concerned with the extent to which persons belonging to a particular class or social group benefit from these expenditures.

On the basis of the data in Table XIII it is apparent that the major beneficiaries of welfare expenditures in France are to be found in the nonactive segment of the population. Persons in this category derive 57.3 percent of their money incomes from transfer expenditures, and only 42.7 percent from factor payments. This means, in other words, that the social security system functions in such a way as to bring about a significantly large transfer of money income from the active to the nonactive population. This is not surprising, however, in view of the fact that pensions for retired and disabled workers constitute one of the most important elements of the system. The actual amounts of income transferred via the mechanism of the social security system will be examined subsequently.

Wage-earners are the second most important group of bene-

TABLE XIII

*Personal Income and Outlay by Social Groups: 1952*
(in percent)

| | Farmers | Self-Employed | Wage-Earners | Non-active | Total* |
|---|---|---|---|---|---|
| *Sources of Income* | | | | | |
| From Production | | | | | |
| Wages and Salaries | 7.3 | 11.8 | 75.0 | 21.2 | 44.1 |
| Unincorporated Enterprise | 81.8 | 78.3 | 3.9 | 5.7 | 32.7 |
| Other Property Income | 2.5 | 3.8 | 3.0 | 15.8 | 4.6 |
| *Total* | 91.6 | 93.9 | 81.9 | 42.7 | 81.4 |
| From Transfers | | | | | |
| Social Security | 4.2 | 2.4 | 15.2 | 44.0 | 14.1 |
| Assistance | 2.9 | 1.4 | 2.5 | 8.9 | 3.1 |
| Other | 1.3 | 2.3 | 0.4 | 4.4 | 1.4 |
| *Total* | 8.4 | 6.1 | 18.1 | 57.3 | 18.6 |
| *Personal Income* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| *Personal Outlay* | | | | | |
| Consumption | 94.3 | 84.5 | 87.9 | 83.8 | 87.6 |
| Taxes | | | | | |
| Income | 0.9 | 4.1 | 2.5 | 1.4 | 2.5 |
| Social Security | 0.4 | 2.4 | 3.8 | 1.2 | 2.7 |
| *Total* | 1.3 | 6.5 | 6.3 | 2.6 | 5.2 |
| Personal Savings | 4.4 | 9.0 | 5.8 | 13.6 | 7.2 |
| *Personal Income* | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

* Average for the economy.

ficiaries of the social security system, as persons in this class receive 18.1 percent of their incomes in the form of transfer payments and 81.9 percent from participation in production. Farmers obtain 8.4 percent of their income from transfers and 91.6 percent from factor payments, while the self-employed benefit the least from the system, receiving only 6.1 percent of their personal incomes from transfers and 93.9 percent in the form of factor income. On the basis, then, of the relative importance of transfer expenditures as a source of personal income, our conclusion at this point is simply that the transfer mechanism of the social security system favors the non-active population and wage-earners the most, and farmers and self-employed the least.

The data on the disposition of personal income in Table XIII are of interest primarily because of what they reveal about the relative tax burden for the different social classes. In Chapter 3 we pointed out that the direct tax burden on the individual is not particularly heavy in France, especially when compared to the United Kingdom and the United States. Of equal interest and significance is the allocation of direct taxes among the social groups in the economy. From the point of view of the proportion of personal income paid out in taxes, farmers are in the most favored position in French society, as only 1.3 percent of their personal income goes for tax payments, including both income and social security taxes. Actually farmers are in a more favorable position than persons in the nonactive category, even though members of the latter group are, on the average, less well off in terms of personal income than any other group in France (see Tables XV, XVI, and XVII). The major reason for this is the favoritism accorded the agricultural sector of the economy by the tax authorities. Of equal significance is the fact that the tax situation for wage-earners and the self-employed is approximately the same, even though the average income for members of these two groups differs widely. Direct taxes take 6.3 percent of the wage-earner's income as compared to only 6.5 percent for the self-employed. Again, the chief reason for this is the widespread practice of fraud and evasion among the self-employed.[3]

The actual pattern of income distribution between the major social groups is indicated by the data in Table XIV. This table

[3] See Note 4, Chapter 3.

TABLE XIV

*Distribution of Households, Income, Consumption, and Taxes by Social Groups: 1952*
(Percent of Totals)

| | Farmers | Self-Employed | Wage-Earners | Nonactive |
|---|---|---|---|---|
| Number of Households | 14.4 | 13.4 | 51.7 | 20.5 |
| Income from Production | 17.4 | 25.6 | 50.8 | 6.2 |
| Transfer Income | 6.9 | 7.2 | 49.3 | 36.6 |
| Personal Income | 15.4 | 22.2 | 50.5 | 11.9 |
| Consumption | 16.6 | 21.4 | 50.6 | 11.4 |
| Taxes | 4.1 | 27.9 | 62.1 | 5.9 |
| Income | 5.9 | 36.7 | 50.8 | 6.6 |
| Social Security | 2.5 | 19.7 | 72.4 | 5.4 |

shows the proportion of households[4] to be found in each social class, as well as the proportion of total factor and transfer income received by members of the class. Similar data are included for consumption expenditures and tax payments. Analysis of these data permit us to see not only the income distribution pattern resulting from the productive process, but also the way in which this pattern is modified by the mechanism of transfer payments.

The first fact that emerges from the table is that the distribution of income from production is skewed in favor of the farmers and the self-employed. The latter class contains 13.4 percent of the households in the economy, but receives 25.6 percent of the income from production. Farmers, on the other hand, account for 14.4 percent of the households, and obtain 17.4 percent of the national income. Wage-earners receive approximately the same percentage share of the national income total as the proportion of wage-earner households in the economy, the respective amounts being 50.8 and 51.7 percent. The nonactive group is clearly the least-favored social class, as this category accounts for 20.5 percent of the household total, and receives but 6.2 percent of the national income. The picture is one of a relatively unequal distribution of *initial* or factor income as between social classes, with the self-employed being in the most-favored position and the nonactive in the least-favored.

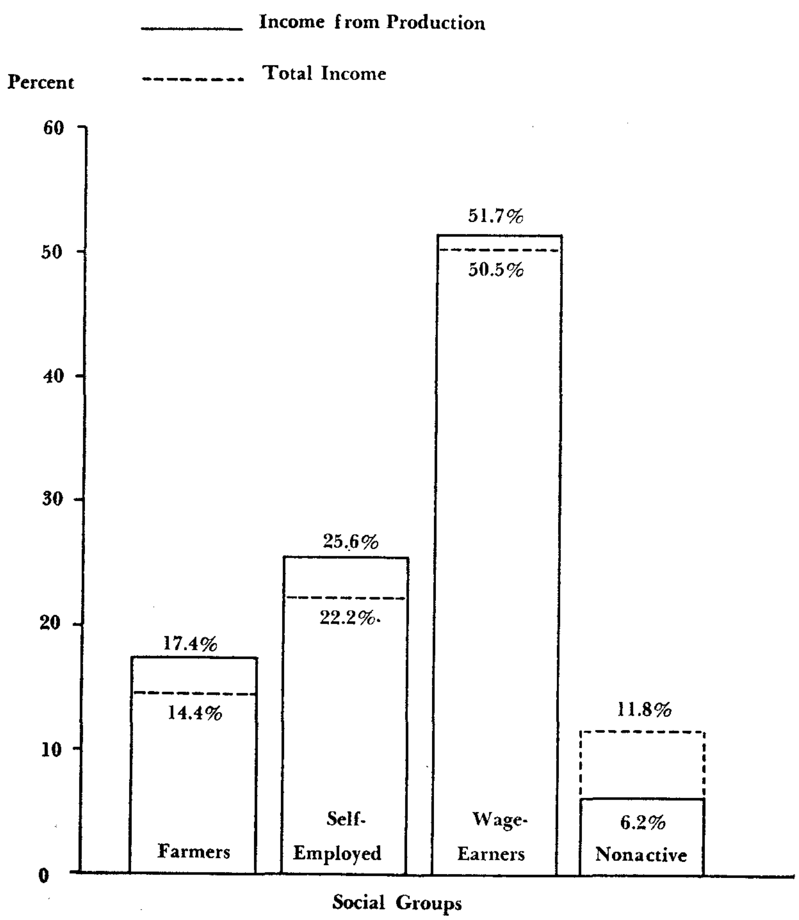
The problem now becomes one of analyzing the impact of welfare or transfer expenditures on this distribution of income. For this we must look at the distribution of transfer income among the social classes, and the effects of the latter on the final distribution of

[4] The term "household" is used to mean all persons living together who normally pool their incomes to meet the major household expenditures. The household, consequently, will not necessarily coincide with the family unit.

personal income. The data in the table show that the distribution of transfer income is skewed in the direction of the nonactive and wage-earner classes; consequently, the over-all effect of transfer expenditures is to reduce somewhat the inequality of the distribution of factor income between social classes. The nonactive population, with 20.5 percent of the total households, receives 36.6 percent of the total of transfer income, while wage-earners, with 51.7 percent of the households, receive 49.3 percent of the transfer income total. Farmers and self-employed, on the other hand, receive only 6.9

**Diagram II**

**The Proportionate Share of Social Groups in the Income Totals**



and 7.2 percent respectively of the total of transfer payments. The over-all effect, then, is to reduce the share of farmers in the total from 17.4 percent (factor income) to 15.4 percent (personal income); the share of the self-employed from 25.6 to 22.2 percent; the share of wage-earners from 50.8 to 50.5 percent; and, finally, to increase the share of the nonactive population from 6.2 to 11.9 percent. These results are shown in graphic form in Diagram II. These data also lend strength to the earlier conclusion that the workings of the social security system favor the nonactive and wage-earner segments of the population to the greatest extent. Wage-earners, it may be noted, receive the largest portion of the transfer income total, even though this does not alter the over-all distribution of income between social groups in the wage-earner's favor.

The remaining data in Table XIV pertain to the distribution of consumption expenditure and tax payments between social groups. With respect to the distribution of consumption expenditure there is little that needs to be said, as the pattern of consumption expenditure by social groups approximately parallels the pattern of income distribution. This is to be more or less expected since the average level of real income in France is low relative to, say, the United States. One would expect, however, that as the average level of real income rises the distribution of consumption expenditures would be less unequal than the distribution of income. This is so because a highly industrialized economy with its emphasis upon mass production of standardized commodities requires for its effective functioning a mass consumption of these commodities.[5]

The data on the distribution of taxes—income and social security—underscore further earlier conclusions concerning the inequities inherent in France's tax structure. Farmers, according to Table XIV, again appear as a highly favored class, as with 14.4 percent of the households and 15.4 percent of the personal income total, they pay only 4.1 percent of the total for all direct taxes. These data also show farmers to be in a more favored position than the nonactive segment of the population; the latter group receives a smaller proportion of the personal income total, but carries a larger share of the tax total. The data on the self-employed and the wage-earner classes indicate that these two groups have, in relation to their share

[5] This appears to have been the case in the United States. See Sidney Weintraub, *Income and Employment Analysis*, New York: Pitman, 1951, esp. Ch. 4.

in the income total, about the same proportion of the total tax load. Wage-earners receive 50.5 percent of the personal income total and pay 62.1 percent of the total of direct taxes, while the self-employed obtain 22.2 percent of the income total and pay 27.9 percent of the tax total.

The relative position of the different social classes with respect to taxation can be seen more clearly if we compare for each group the ratio of its proportionate share in the income total to its proportionate share in the total of taxes. If all direct taxes were levied on a strict proportional basis, this ratio would be 1.00 for each group. This is so because with proportional taxation a group receiving, for example, 25 percent of the income total would pay 25 percent of the tax total. This ratio cannot, of course, tell us anything about what should be, in the interests of equity, the degree of progression in the tax system, but it will reveal for a particular social group whether or not its share of the tax burden is proportionally greater or smaller than its share of the income total. Thus a ratio greater than 1.00 indicates that a group's share in the total tax burden is smaller than its share in the income total, and a ratio less than 1.00 indicates that the group's share in the tax burden is greater than its share in the income total. By comparing these ratios for all the social groups we can get some idea of the extent to which the tax burden for any particular group is progressive or regressive relative to the other groups in the economy.

The ratios for each social group for both the total of direct taxes, and income and social security taxes considered separately, are shown below:

| | Farmers | Self-Employed | Wage-Earners | Non-active |
|---|---|---|---|---|
| All Taxes | 3.75 | 0.79 | 0.81 | 2.01 |
| Income Taxes | 2.61 | 0.60 | 0.99 | 1.80 |
| Social Security Taxes | 6.16 | 1.12 | 0.69 | 2.20 |

The ratios demonstrate conclusively the favored position of farmers in the economy; for all three tax categories the agricultural ratio is higher than the ratios for any of the other groups. This means simply that the effective rate of taxation on personal incomes in this sector is lower than it is for persons in any of the other social classes. It means, too, that the tax structure is regressive as between agriculture and some parts of the economy. Farmers are taxed at a lower effective rate than wage-earners or the nonactive sector, even though the farmer's relative share in the income total is greater than that of either of these groups, although there are proportionally fewer agricultural households.

The ratio for the total of direct taxes is almost the same for the self-employed and the wage-earners, even though the former group receives a relatively larger share of the income total in relation to its share in the number of households. With respect to the income tax alone, the ratios indicate there is some progression in the effective rate of taxation as between the self-employed and the wage-earners, but that this difference is largely offset by the fact that for the latter group, the effective rate of social security taxation is higher than it is for the self-employed. Thus the effective rate of total taxation is seen to be about the same for the two groups, notwithstanding the large disparity in their relative income positions. The ratios for the nonactive segments of the population show that the tax structure is mildly progressive as respects the relative income position of persons in this category, but less favorable to members of this group than to persons in the agricultural sector.

The over-all picture resulting from the comparison of these ratios is one of an arbitrary and inequitable tax structure. With respect to the relative income position of the different social classes, the tax structure cannot by any stretch of the imagination be labeled progressive.[6] Farmers are an especially favored group, and the wage-earner class assumes a larger share of the total tax burden than is justified by its relative share in the income total. The self-employed, while not so favorably treated as the agriculturists, are taxed much less heavily in relation to their income status than are the wage-earners. It is only with respect to the nonactive segment of the population that the tax structure appears to be progressive in any fair sense of the term.

[6] There is, of course, no objective criterion by which the "proper" amount of progression in the tax structure can be determined. In fact it seems to the writer that the view that, in the interests of equity, progression in the taxation of incomes is necessary, rests, in the last analysis, upon a value judgement. Use of the concept of diminishing marginal utility to justify progression in income taxation no longer seems appropriate on either theoretical or practical grounds. What is left, essentially, is the fact that progressive taxation is accepted as a reasonable and equitable form of taxation in modern society, and the appropriate degree of progression must remain a matter about which reasonable men will differ. The same holds true with respect to the alleged adverse effects of progressive taxation on incentives to produce, for there is no objective criterion by means of which the point at which progression impedes incentives can be determined.

The analysis of the distribution of income between social groups will not be complete without examination of the income position of persons in each of these groups on the basis of the average income per household and per capita. The distribution of the total income among social groups does not in itself tell the whole story of the relative income position of the various groups in the economy. For this we need to make use of averages, such as income per household and income per capita, as these permit us to make a more direct comparison of the income status of persons in the different economic sectors. This is done in Tables XV, XVI, and XVII, which show average income and taxes per household and per capita for each of the social groups under consideration.[7]

TABLE XV

*Income and Taxes per Household by Social Groups: 1952*
(in francs and percent)

| Social Group | Income per Household | Percent of National Average | Taxes per Household | Percent of Income per Household |
|---|---|---|---|---|
| Farmers | 814,213 | 106.7 | 11,168 | 1.4 |
| Self-Employed | 1,266,301 | 166.0 | 81,644 | 6.5 |
| Wage-Earners | 744,721 | 97.6 | 47,059 | 6.3 |
| Nonactive | 443,010 | 58.1 | 11,469 | 2.6 |
| Average for the Economy | 762,830 | 100.0 | 39,223 | 5.1 |

In Table XV the data pertain to average income per household. The income data in the table are for total income, including transfer payments, and thus they represent an average based upon the distribution of the personal income total shown in Table XIV. As respects income per household, the self-employed are in the most favorable position, as the average income per household for families in this category is 66 percent greater than the average for the economy as a whole. Farmers have an average income per household slightly higher than the national average, while wage-earners are slightly below the national average. The nonactive segment is clearly the least favored, as the average income per household in this category is only 58.1 percent of the national average.

[7] The data in Table XVII are derived by converting the franc amounts in Tables XV and XVI to dollars at the official rate of exchange of 420 francs to the dollar. These data give only an approximation of the real value of the income figures expressed in dollars because the official rate of exchange does not necessarily reflect real differences in the purchasing power of the two currencies. Moreover, the consumption patterns of households in the United States and France are by no means identical.

The previously mentioned disparities in the tax position of the different social classes are reflected in the data in this table. Farmers are the most favored, while the direct tax burden on wage-earner and self-employed households is of about the same magnitude, even though the income of the latter is, on the average, over 66 percent greater than that of wage-earner households. Taxes as a percent of income per household are lower for the nonactive group than for either the wage-earners or the self-employed, but higher than for the farmers. Once more the evidence points to the absence of any significant degree of progression in the structure of direct taxes.

The income position of the social groups vis-à-vis one another appears in a somewhat different perspective if we examine the data pertaining to average incomes per capita in each of the social categories. These data appear in Table XVI. Income per capita is perhaps a somewhat better measure than income per household of the relative poverty or affluence characteristic of a given social class. This is because of differences in the size of the typical household in the various social groups. The average income per household may be higher for a given social class than, say, the average for the economy, but the real income level for the same class may be lower than the national average if this income is spread over a larger number of persons. This is the situation in France, as the average number of persons per household varies significantly from one class to another. Agriculture leads in this respect, with an average of 4.1 persons per household. For the self-employed the average is 3.2 persons per household, as it is for the wage-earner class. Households are smallest in the nonactive group, with an average of only 2.2 persons per household.[8]

TABLE XVI

*Income and Taxes per Capita by Social Groups: 1952*
(in francs and percent)

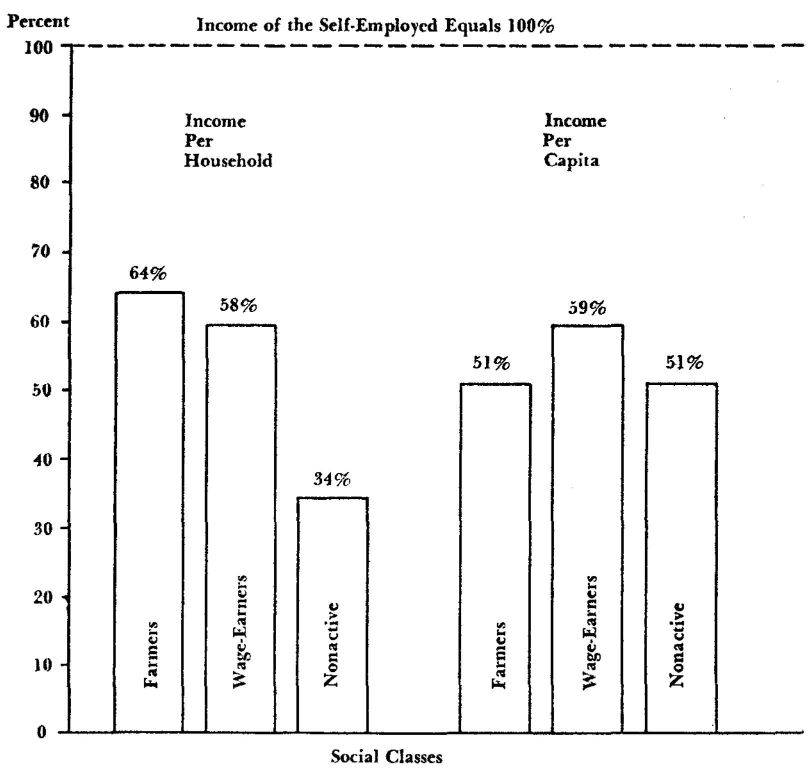
| Social Group | Income per Capita | Percent of National Average | Taxes per Capita | Percent of Income per Capita |
|---|---|---|---|---|
| Farmers | 199,254 | 81.6 | 2,732 | 1.4 |
| Self-Employed | 391,694 | 160.4 | 25,254 | 6.5 |
| Wage-Earners | 234,031 | 95.2 | 14,788 | 6.3 |
| Nonactive | 199,354 | 81.6 | 5,161 | 2.6 |
| Average for the Economy | 244,249 | 100.0 | 12,559 | 5.1 |

[8] Ministère des Finances, des Affaires Économiques, et du Plan, *Rapport sur les Comptes de la Nation,* Vol. II, Paris, 1955, p. 243.

The per capita data, consequently, change somewhat the picture of the relative economic position of persons in the different social groups. In the main, agriculture is seen as less favorably situated than is indicated by the average income per household data, while the nonactive class is somewhat better off. Essentially these data show that the two major problem areas of France's economy as far as poverty is concerned are the agricultural sector and the nonactive population.[9] Poverty in the latter group is to be more or less

**Diagram III**

**Average Income Per Household and Per Capita For Farmers, Wage-Earners, and Nonactive Population as a Percent of the Average Income of the Self-Employed**




[9] Poverty, of course, is a relative term. The word has no objective meaning, and it is used here only as a descriptive term applied to segments of France's economy that are less well off than others.

expected in any society, since retired workers and other persons not able to work cannot, for the most part, obtain incomes on a par with the economically active segment of the population. The existence of sub-par income levels among the inactive segment of the population is, to be sure, a serious economic problem in most western countries, but it is mitigated to some extent by the fact that consumption needs of persons in this category are frequently lower than the needs of persons in other sectors of the economy. The relatively low level of per capita income in the agricultural sector of France's economy is largely a consequence of technological backwardness in this sector and the relatively large proportion of the labor force still engaged in primary pursuits.[10] The real solution for agricultural poverty lies in a continuation of the industrialization and modernization programs that France has been pushing since the end of the war.

The differences just discussed between the income per household and the income per capita data as respects the relative income position of persons in the four social classes are shown graphically in Diagram III. In this diagram both income per household and income per capita for the farmers, wage-earners, and nonactive group are expressed as a percentage of these same magnitudes for the self-employed. This diagram permits us to see how the income position of these three groups compares with that of the most favored group on both a per household and per capita basis.

TABLE XVII

*Income and Taxes per Household and per Capita by Social Groups: 1952*
(in dollars)

| Social Group | Income per Household | Taxes per Household | Income per Capita | Taxes per Capita |
|---|---|---|---|---|
| Farmers | $ 2,326 | $ 32 | $ 569 | $ 8 |
| Self-Employed | 3,618 | 233 | 1,119 | 72 |
| Wage-Earners | 2,128 | 135 | 669 | 42 |
| Nonactive | 1,237 | 33 | 569 | 15 |
| Average for the Economy | 2,179 | 112 | 698 | 35 |

[10] In 1953, 30.8 percent of France's labor force was still employed in agriculture. National income per employed person is also lower in agriculture than in any other sector of the economy. See "The National Product and Structural Change in the French Economy," *op. cit.*

Before turning to the discussion of the distribution of income by income range or bracket, we need to analyze the net gain or loss of income that each social group experiences as a result of the operation of the social security system. This is done in Table XVIII, which indicates for each social class the amount of income received by members of the class in the form of social security benefits, and the amount of taxes paid by members of the class for the direct support of the social security system. The difference between these two sums measures the extent to which the group or class gains or loses income through the mechanism of the social security system. In connection with this latter point, it is important to note that if the social security system were designed to avoid all transfers of income between social groups, and if it were financed wholly by contributions from the beneficiaries, there would be neither a net gain nor loss for each of the different social categories taken as a whole. Such a system, if it could exist and function, would simply redistribute income among members of the same social class. In such an instance, the most characteristic form of redistribution would be from the active to the nonactive population, although this would be modified to some extent by the existence of a system of family allowances.

TABLE XVIII

*Net Transfers of Income by Social Groups: 1952*
(billions of francs)

| | Farmers | Self-Employed | Wage-Earners | Non-active | Total |
|---|---|---|---|---|---|
| Social Security Income | 68 | 56 | 798 | 544 | 1,466 |
| Social Security Taxes | 7 | 55 | 202 | 15 | 279 |
| Net Gain or Loss | 61 | 1 | 596 | 529 | 1,187 |

But as the data in Table XVIII reveal, this is not the case as respects the workings of the French social security system. As a matter of fact all of the social classes under consideration experience a net gain in money income from the system, although the amount of the gain is of negligible importance in the case of the self-employed. The wage-earners and the nonactive population gain the most, as these two groups receive the overwhelming proportion of the net amount of income transferred by the social security mechanism.

At first glance the data in this table may seem to be curiously paradoxical, for the statement that all social classes experience a net gain seems to suggest income is being transferred in such a way that everyone gains and nobody loses. This, of course, is manifestly impossible, for the idea of a transfer of income inherently means that some person or group in the economy receives income at the expense of some other person or group. The solution to this apparently paradoxical situation in France resides in the fact that the great bulk of these income transfers are financed by indirect taxation. As shown in Table XVIII, individuals in the aggregate pay into the public treasury only 279 billions of francs to finance social security expenditures, but they draw benefits from the treasury with a value of 1,466 billions of francs. The significance of this is that the amount of real income transferred between social groups possibly may be greater than is suggested by available data, but in the absence of accurate information on consumption patterns, the whole incidence of the costs of social security is indeterminate. We are left, too, with the probability that most of the incidence of the system is on the beneficaries because of the price effects associated with indirect taxation. Wage-earners and other major beneficiaries of the system, in other words, no doubt pay enough in higher consumption taxes to offset the monetary benefits they receive from the system.

We can summarize the major conclusions reached in this section as follows: First, the distribution of income among the major social classes in France is relatively unequal, the farmers and the self-employed being the most favored, while wage-earners and the non-active population are the least favored. Second, the mechanism of transfer expenditures modifies the distribution of personal income so as to improve somewhat the relative income position of the non-active portion of the population. The social security system, in other words, does operate to reduce inequalities in the distribution of income between social classes. Third, the data pertaining to taxes and the distribution of the total of direct taxes between social groups reveal that the tax structure is not in any sense equitable, if some significant degree of progression in the tax structure is deemed desirable from the point of view of equity. These same tax data lend statistical support to the widely held view that fraud and evasion are commonplace in France. Finally, no clear-cut pattern of income redistribution between social classes emerges because of the great extent to which the social security system depends upon indirect taxation as a source.

THE DISTRIBUTION OF INCOME BY INCOME RANGE

From the analysis of the distribution of income between social classes, we now turn to a discussion of the distribution of income by range or class of income. The framework of analysis will be similar to that employed in the previous section. First, we will determine the major sources of income for each of the income classes;[11] second, we will analyze the distribution of households, income, consumption, and taxes by income range; and, finally, we will discuss the relative position of the different income classes on the basis of the average income per household and per capita. In the previous section we were concerned with inequalities between social classes or groups; here our concern is with inequalities between individuals or households, irrespective of social class or major source of income. The analysis also permits us to see to what extent, if any, the social security system is a mechanism for a vertical redistribution of income.

Table XIX contains data (in percent) on the origins of personal income for households in four income brackets and, as well, the disposition of this income. The pattern revealed by these data as to the origin of personal income is clear-cut. Transfer payments are of greatest significance as a source of personal income for households in the lowest brackets, and of least significance for households in the upper income brackets. Households whose annual average income is less than 535,900 francs ($1,530) derive 33.1 percent of their money income from transfers, while households having an average annual income of over 1,398,000 francs ($3,944) obtain only 7.7 percent of their personal income from this source. The data show, moreover, that transfer expenditures are progressive, in that the proportion of personal income originating from transfer payments declines as one moves from the lower to the upper brackets of the income scale. There is only one other thing to note here, and this is that wage and salary income becomes increasingly less important as a source of income in the upper ranges; conversely, entrepreneurial and other forms of property income be-

[11] Unfortunately from the standpoint of more precision in the analysis, the available data permit the use of only four income classes or brackets. It is only recently that any systematic attempt has been made to measure statistically the distribution of income in France, long recognized by most authorities to be highly unequal. The data upon which this study is based constitute, to the best of the writer's knowledge, the most recent and complete information on the subject.

come more significant as an income source in these ranges. This pattern is in accord with earlier observations concerning the relative income position of the different social classes. That is to say, the largest proportion of the self-employed households are to be found in the upper income brackets, while the majority of wage-earner households are in the lower brackets (see Table XXVI). In general, too, the data in Table XIX confirm conclusions previously offered to the effect that the social security mechanism does improve the income position of households least favorably situated.

TABLE XIX

*Personal Income and Outlay by Income Range: 1952*
(in percent)

| | Income Range* | | | |
|---|---|---|---|---|
| | A | B | C | D |
| *Sources of Income* | | | | |
| From Production | | | | |
| Wages and Salaries | 47.2 | 57.6 | 43.0 | 18.5 |
| Individual Enterprise | 19.1 | 18.3 | 39.0 | 60.7 |
| Other Property Income | 0.6 | 1.4 | 4.9 | 13.1 |
| *Total* | 66.9 | 77.3 | 86.9 | 92.3 |
| From Transfers | | | | |
| Social Insurance | 25.7 | 19.0 | 9.9 | 2.1 |
| Assistance | 6.1 | 3.1 | 2.4 | 1.8 |
| Other | 1.3 | 0.6 | 0.8 | 3.8 |
| *Total* | 33.1 | 22.7 | 13.1 | 7.7 |
| *Personal Income* | 100.0 | 100.0 | 100.0 | 100.0 |
| *Personal Outlay* | | | | |
| Consumption | 103.8 | 89.8 | 84.4 | 76.0 |
| Taxes | | | | |
| Income | 0.4 | 1.5 | 3.0 | 4.9 |
| Social Security | 2.4 | 3.1 | 2.9 | 1.9 |
| *Total* | 2.8 | 4.6 | 5.9 | 6.8 |
| Personal Savings | — 6.6 | 5.6 | 9.7 | 17.2 |
| *Personal Income* | 100.0 | 100.0 | 100.0 | 100.0 |

* The income ranges are as follows:
A: Less than 535,900 francs ($1,530).
B: 535,900 to 932,000 francs ($1,530 to $2,662).
C: 932,000 to 1,398,000 francs ($2,662 to $3,994).
D: Over 1,398,000 francs (over $3,994).

The remaining data in this table pertain to consumption, taxes, and personal savings. With respect to consumption and savings, the pattern is essentially Keynesian, as the proportion of income saved increases sharply in moving from the lower to the upper income groups. In the lowest income bracket, consumption is in excess of income—i.e., savings are negative—but in the highest income bracket, savings amount to 17.2 percent of personal income.

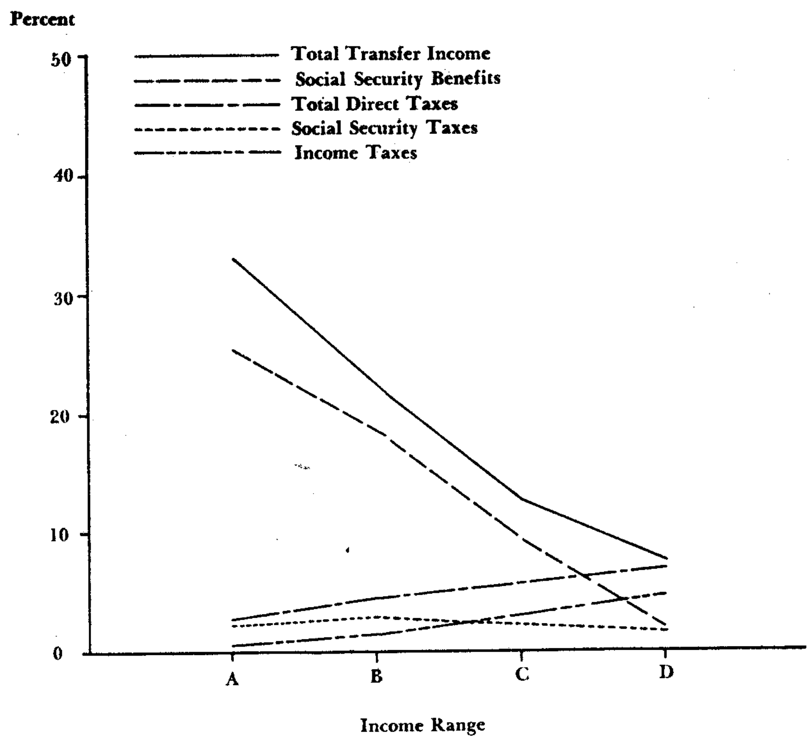
The data on tax payments lead to conclusions concerning France's tax structure similar to those reached earlier, in that the proportion of income devoted to tax payments by households in the different income brackets does not differ greatly even though there are large disparities in the money income of households in the different ranges (see Tables XXII, XXIII). In contrast to the tax position of the different social classes though, some progression is evident in the tax structure when the income data are arrayed by income class. But the degree of progession is very slight, as the effective rate of taxation (income and social security taxes) is only 6.8 percent of personal income for the highest income bracket, as contrasted to 2.8 percent for the lowest bracket. Yet the average income per household at the upper range of the income scale is more than four times larger than the average at the lower end of the scale (see Table XXII).

The effective rate of taxation for the personal income tax alone is slightly more progressive, ranging from 0.4 percent of personal income for the lowest income class to 4.9 percent for the highest income bracket. But social security taxation is regressive, and this, of course, makes the tax structure less progressive in an over-all sense.

The extent to which the structure of both transfer expenditures and tax payments is progressive is demonstrated graphically in Diagram IV. This diagram shows for each income class the proportion of personal income received in the form of transfer payments and the proportion of income absorbed by tax payments. The steepness of the slope of the appropriate lines in the diagram indicates the extent to which both transfer payments and taxes are progressive. It can easily be seen that transfer payments are relatively more progressive than direct taxes. The diagram also shows that the combined effect of transfer expenditures and tax payments does not bring about a vertical redistribution of income between income classes in France. For this to happen it would be necessary for the lines representing social security benefits and social security taxes to cross, as a vertical redistribution can come about only if some income groups pay more in taxes than they receive in benefits. What Diagram IV actually shows is a situation analogous to that which exists between the social classes. All of the income classes, in other words, receive more in the way of money income in the form of transfer payments than they pay out in the form of direct taxes.

**Diagram IV**

**Transfer Income and Taxes as a Proportion of Personal Income by Income Range**




The actual amounts of income received as social security benefits and the social security taxes paid by households in each of the income classes are shown in Table XX. These data indicate a net gain for all income ranges, although the amount of the gain is greatest for the two lowest income brackets. The gain for the highest income class is negligible in amount. The explanation for this is the same as that advanced during the earlier discussion of the fact that all social classes experience a net gain in money income from the operation of the social security system, i.e., it results from the system's dependence upon indirect taxation for the major portion of its revenues. Consequently, we cannot make any categorical statement as to whether or not the social security system brings about a vertical redistribution of real income. The monetary benefits of the system, to be sure, are directed primarily to the lower income groups, but the incidence of all the taxes that support the system remains largely indeterminate. We must of necessity, then, fall back on our earlier conclusion to the effect that the system's costs are, in the last analysis, borne largely by its beneficiaries. No other conclusion seems tenable, given the preponderant role assumed by indirect taxation in France's tax structure.

TABLE XX

*Net Transfers of Income by Income Range: 1952**
(in billions of francs)

| | Income Range* | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | Total |
| Social Security Income | 401 | 741 | 280 | 44 | 1466 |
| Social Security Taxes | 37 | 120 | 82 | 40 | 279 |
| Net Gain or Loss | 364 | 621 | 198 | 4 | 1187 |

* The income ranges are as follows:
A: Less than 535,900 francs ($1,530).
B: 535,900 to 932,000 francs ($1,530 to $2,662).
C: 932,000 to 1,398,000 francs ($2,662 to $3,994).
D: Over 1,398,000 francs (over $3,994).

The next step in the analysis is to view the proportionate distribution of income, consumption, and taxes among the households situated in each of the income classes. These data are shown in Table XXI. The statistics here show, first of all, that the dis-

TABLE XXI

*Distribution of Households, Income, Consumption, and Taxes by Income Range: 1952*
(percent of totals)

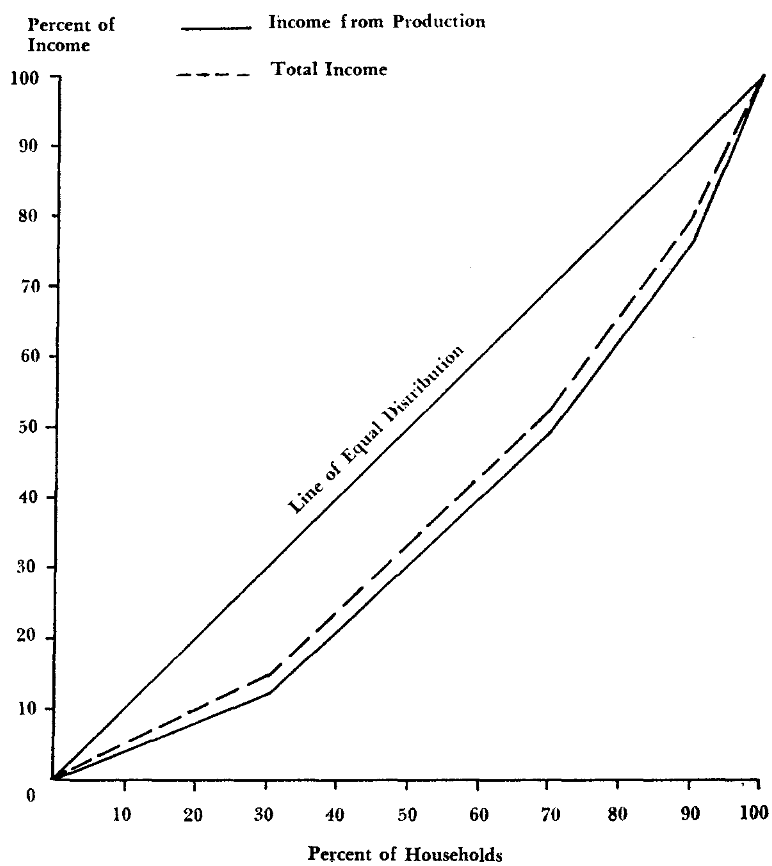
| | Income Range* | | | |
|---|---|---|---|---|
| | A | B | C | D |
| Number of Households | 30.2 | 40.0 | 20.2 | 9.6 |
| Income from Production | 12.4 | 35.6 | 28.8 | 23.2 |
| Transfer Income | 26.8 | 45.8 | 18.9 | 8.5 |
| Personal Income | 15.0 | 37.5 | 27.0 | 20.5 |
| Consumption | 17.8 | 38.5 | 26.0 | 17.7 |
| Taxes | 8.1 | 33.8 | 31.2 | 26.9 |
| Income | 2.4 | 23.8 | 33.2 | 40.6 |
| Social Security | 13.3 | 43.0 | 29.4 | 14.3 |

* The income ranges are as follows:
A: Less than 535,900 francs ($1,530).
B: 535,900 to 932,000 francs ($1,530 to $2,662).
C: 932,000 to 1,398,000 francs. ($2,662 to $3,994).
D: Over 1,398,000 francs. (over $3,994).

tribution of factor income is relatively unequal.[12] At the lower range of the income scale there are 30.2 percent of the total of households in the economy, but these households receive only 12.4 percent of the income from production. At the upper extreme of

**Diagram V**

**Distribution of Personal Income in the French Economy**




[12] Inequality in the distribution of income is, like progression in taxation, a subjective concept. There are, in other words, no objective criteria to determine how much equality or inequality in the distribution of income is a "good" thing. This again is a matter of relative values, and a statement as above to the effect that the distribution of income is relatively unequal must necessarily be an expression of the writer's judgement. But as is the case with the progressive income tax, the writer would argue that a more equal distribution of the national income has become a widely accepted social objective in western societies.

the scale there are 9.6 percent of the economy's households, and these command 23.2 percent of the factor income. The distribution of transfer income is, however, skewed heavily in favor of households in the lower brackets; hence, the major effect of the system of transfers is to reduce inequality in the distribution of money income between the income classes. The percentage share of the lowest bracket in the income total is increased from 12.4 to 15.0, and the percentage share of the highest bracket is reduced from 23.2 to 20.5. The over-all effect of transfer payments on the distribution of money income in the economy is shown graphically in Diagram V.[13] From the diagram it may be noted also that the distribution of consumption expenditure is slightly less unequal than the distribution of income.

For analysis of the distribution of the tax burden among the income classes, we will resort to the same ratios employed when allocation of the tax burden among social classes was being considered. These ratios, it will be recalled, relate the proportionate share of a group in the income total to its proportionate share in the tax total. The ratios for each of the income ranges and for both the total of all direct taxes and income and social security taxes considered separately are shown below:

| | Income Range | | | |
|---|---|---|---|---|
| | A | B | C | D |
| All Taxes | 1.85 | 1.10 | 0.86 | 0.76 |
| Income Taxes | 6.25 | 1.57 | 0.81 | 0.50 |
| Social Security Taxes | 1.20 | 0.87 | 0.91 | 1.43 |

These ratios indicate, first, that for all direct taxes the tax structure is slightly progressive, since the ratios decline in moving from the lower to the upper income ranges;[14] and, second, that the

[13] This is a Lorenz-type diagram in which the cumulative percentage of households, arrayed by size of income, is plotted on the horizontal axis, and the cumulative percentage of income received by these households is plotted on the vertical axis. The 45 degree diagonal represents the line of perfect equality, as along it the proportion of households everywhere is equal to the cumulative proportion of income received by them. The further the curves representing the actual distribution of income lie below the 45 degree diagonal, the greater is the inequality in the distribution of income.

[14] It will be recalled from the earlier discussion that a ratio greater than one indicates that the share of a group in the total of taxes is smaller than its share in the income total, and vice versa. Thus progression is indicated by lower ratios for the upper income groups.

income tax alone is more progressive than the total of all direct taxes levied against households. This difference is accounted for by the essentially regressive character of social security taxes. Thus, in contrast to the distribution of the tax burden between social groups, there is more progression in the tax structure from the point of view of the distribution of the tax total among the different income classes, but the actual amount of progression is quite mild. This latter point is apparent in the data pertaining to average income and taxes per household and per capita (see Tables XXII, XXIII). The disparities in the average income per household in each income bracket are, on the whole, much greater than the disparities in their tax burdens.

Before any further conclusions are suggested on the basis of data discussed in this section, some additional remarks are in order with respect to the per household and per capita income data. These data are in Tables XXII, XXIII, and XXIV.[15] The main purpose of the figures in these tables is to show the relative income position of households in each of the income ranges in yet another perspective. The differences between the upper and lower range are indeed great, as households in the lowest bracket have, on the average, incomes slightly less than half the national average, while households in the highest range have an average annual income more than twice the national average. The per capita data, unlike the per capita data for the different social classes, are similar in pattern to the data on income per household by income range. This is because the average number of persons per household is approximately the same for all income classes.[16] As for taxes, we need simply to point out once more that the comparative tax burdens per household and per capita contrast sharply with the comparative income averages.

To sum up the analysis to this point, we suggest that the data considered support the following general conclusions. First, the distribution of income by income range shows a pattern of inequality similar to that prevailing in the distribution of income between social classes. Second, social security benefits and other transfer

[15] The dollar values in Table XXIV are also computed by using the official rate of exchange of 420 francs to the dollar.

[16] This is so because the households in the different social classes are not necessarily concentrated in one income range. Thus even though the number of persons per household differs as between social classes, the number of persons per household is approximately the same in each of the income classes.

expenditures are directed primarily to households in the lower ranges of the income scale, hence they serve to redress some of the inequalities in the initial distribution of factor income. In other words, both the data pertaining to the distribution of income between social classes and the distribution of income by income range show that the structure of transfer expenditures is progressive—i.e., the groups least favorably situated in the matter of income benefit to the greatest extent from such expenditures. Third, and in contrast to the situation as between social classes, there is a mild progression in the structure of direct taxation as it affects the different income classes. But the degree of progression is, in any case, slight, and can hardly be termed equitable in view of the large disparities between income averages in the different income brackets. And, finally, it may be concluded that the relatively feeble degree of progression in France's tax structure means that very little—if any—vertical redistribution of income is effected in the economy. The progressive structure of benefits, in other words, may be nullified in whole or part by the indirect—and regressive—character of the tax system as a whole. As long as the overwhelming proportion of transfer payments or welfare expenditures are financed by indirect taxation, the real gains or losses that different income and social groups experience must remain obscure.

TABLE XXII

*Income and Taxes per Household by Income Range: 1952*
(in francs and percent)

| | Income per Household | Percent of National Average | Taxes per Household | Percent of Income per Household |
|---|---|---|---|---|
| *Income Range* | | | | |
| Less than 535,900 francs | 379,830 | 49.8 | 10,450 | 2.8 |
| 535,900 to 932,000 francs | 714,364 | 93.7 | 33,120 | 4.6 |
| 932,000 to 1,398,000 francs | 1,020,719 | 133.8 | 60,705 | 5.9 |
| Over 1,398,000 francs | 1,627,196 | 213.3 | 110,008 | 6.8 |
| Average for the Economy | 762,830 | 100.0 | 39,223 | 5.1 |

TABLE XXIII

*Income and Taxes per Capita by Income Range: 1952*
(in francs and percent)

| | Income per Capita | Percent of National Average | Taxes per Capita | Percent of Income per Capita |
|---|---|---|---|---|
| *Income Range* | | | | |
| Less than 172,500 francs | 122,684 | 50.2 | 3,375 | 2.8 |
| 172,500 to 300,000 francs | 226,634 | 92.8 | 10,507 | 4.6 |
| 300,000 to 450,000 francs | 329,036 | 134.7 | 19,569 | 5.9 |
| Over 450,000 francs | 519,512 | 212.7 | 35,122 | 6.8 |
| Average for the Economy | 244,249 | 100.0 | 12,559 | 5.1 |

TABLE XXIV

*Income and Taxes per Household and per Capita by Income Range: 1952*
(in dollars)

| | Income per Household | Taxes per Household |
|---|---|---|
| *Income Range* | | |
| Less than $1,530 | $1,085 | $ 30 |
| $1,530 to $2,662 | 2,041 | 94 |
| $2,662 to $3,994 | 2,916 | 173 |
| Over $3,994 | 4,648 | 314 |
| Average for the Economy | $2,179 | $112 |
| | **Income per Capita** | **Taxes per Capita** |
| *Income Range* | | |
| Less than $410 | $ 351 | $ 10 |
| $410 to $712 | 647 | 30 |
| $712 to $1,071 | 940 | 56 |
| Over $1,071 | 1,484 | 100 |
| Average for the Economy | $ 698 | $ 36 |

## The Distribution of Income within Social Classes

The final step in our discussion of the distribution of money income in France is to analyze the distribution of income *within* the social groupings discussed earlier in this chapter. This procedure not only will illuminate further some of the points already discussed, but will permit us to pinpoint more exactly the areas of relative poverty and affulence in France's economy. Data just analyzed show quite conclusively that the distribution of money income in France is relatively unequal, as respects both social classes and income brackets. But the pattern of income distribution prevailing in the economy as a whole is not necessarily duplicated within the different social groups. Consequently, our purpose in this section will be, first, to show in what parts of the economy inequality in income distribution is most pronounced; and, second, to indicate the extent to which welfare expenditures reduce inequalities within social classes.

To begin, we shall examine the major sources of personal income within the social groups treated in this study, and by range of income. These data are found in Table XXV. By and large the pattern pertaining to the origins of personal income for each social category is similar to the pattern for the whole economy. That is to say, households in the lowest income brackets in each social class derive a substantial portion of their money income from transfer payments. For households in the lowest income bracket, the proportions range from 14.8 percent in the agricultural sector to 77.6 percent for the nonactive population. For all the social classes, the proportionate share of transfer payments in the personal income total declines as one moves from the lower to the upper income ranges. This means simply that within the social classes, as well as for the economy as a whole, the transfer mechanism operates mainly in favor of the lower-income groups.

TABLE XXV

*Origins of Personal Income within Social Groups and by Income Range: 1952*
(in percent)

| | Income Range* | | | |
|---|---|---|---|---|
| | A | B | C | D |
| *Agriculture* | | | | |
| Income from Production | 85.2 | 91.5 | 93.0 | 95.7 |
| Transfer Income | 14.8 | 8.5 | 7.0 | 4.3 |
| *Self-Employed* | | | | |
| Income from Production | 66.7 | 84.3 | 96.1 | 96.2 |
| Transfer Income | 33.3 | 15.7 | 3.9 | 3.8 |
| *Wage-Earners* | | | | |
| Income from Production | 68.5 | 83.3 | 88.0 | 88.4 |
| Transfer Income | 31.5 | 16.7 | 12.0 | 11.6 |
| *Nonactive* | | | | |
| Income from Production | 22.4 | 12.6 | 48.4 | 81.9 |
| Transfer Income | 77.6 | 87.4 | 51.6 | 18.1 |

* The income ranges are as follows:
A: Less than 535,900 francs
B: 535,900 to 932,000 francs
C: 932,000 to 1,398,000 francs
D: Over 1,398,000 francs

Although the over-all pattern of transfer payments is similar for all social groups, there are, nevertheless, some differences of significance between the groups. In the agricultural sector, for example, transfer payments as a source of personal income are of less importance for all income brackets than for any other social class, with the exception of the two highest income ranges in the self-employed group. Households in the lowest income bracket for the self-employed category derive a surprisingly large proportion of their income from transfer payments, the amount being 33.1 percent. This implies a low standard of living which contrasts rather sharply with the more affluent average for self-employed households. But this is mitigated by the fact that only a very small proportion of households in the self-employed group find themselves in the lowest income range. For wage-earners, transfer payments are an important source of income for all income ranges, although their relative importance is still greatest for households in the lowest brackets. Among the nonactive population, transfer payments are the major source of income for households in all but the highest income bracket in this social category. In a general way the data in Table XXV also show that as between social classes transfer payments as a source of personal income are of greater relative significance for wage-earners and the nonactive population for all income ranges, and that within each of the social classes, transfer payments are relatively more important the lower the income level of the household.

In Table XXVI the data are arrayed to show the distribution of income before and after receipt of transfer payments within each of the social classes. These data, which also array households according to income range, permit us to see the extent to which there are important differences between the social classes in the matter of income equality. The figures also show which of the social classes have the greatest proportion of their households in the lower income ranges, and thus provide an indication of the relative poverty or affluence characteristic of the various social groupings.

TABLE XXVI

*Distribution of Households and Personal Income within Social Groups and by Income Range*
(percent of totals)

| | Income Range* | | | |
|---|---|---|---|---|
| | A | B | C | D |
| *Agriculture* | | | | |
| Number of Households | 40.0 | 34.9 | 15.0 | 10.1 |
| Income from Production | 18.5 | 32.9 | 22.5 | 26.1 |
| Transfer Income | 35.1 | 33.6 | 18.6 | 12.7 |
| Personal Income | 19.9 | 33.0 | 22.2 | 24.9 |
| *Self-Employed* | | | | |
| Number of Households | 4.9 | 15.0 | 48.1 | 32.0 |
| Income from Production | 1.4 | 12.1 | 43.1 | 43.3 |
| Transfer Income | 11.4 | 35.0 | 27.2 | 26.4 |
| Personal Income | 2.1 | 13.5 | 42.1 | 42.3 |
| *Wage-Earners* | | | | |
| Number of Households | 30.0 | 52.5 | 14.5 | 3.5 |
| Income from Production | 16.4 | 51.6 | 23.7 | 8.3 |
| Transfer Income | 33.9 | 46.6 | 14.6 | 4.9 |
| Personal Income | 19.5 | 50.7 | 22.1 | 7.7 |
| *Nonactive* | | | | |
| Number of Households | 40.1 | 29.9 | 19.9 | 9.9 |
| Income from Production | 7.2 | 9.5 | 29.3 | 54.0 |
| Transfer Income | 18.6 | 49.2 | 23.3 | 8.9 |
| Personal Income | 13.7 | 32.2 | 25.9 | 28.2 |

* The income ranges are as follows:
A: Less than 535,900 francs
B: 535,900 to 932,000 francs
C: 932,000 to 1,398,000 francs
D: Over 1,398,000 francs

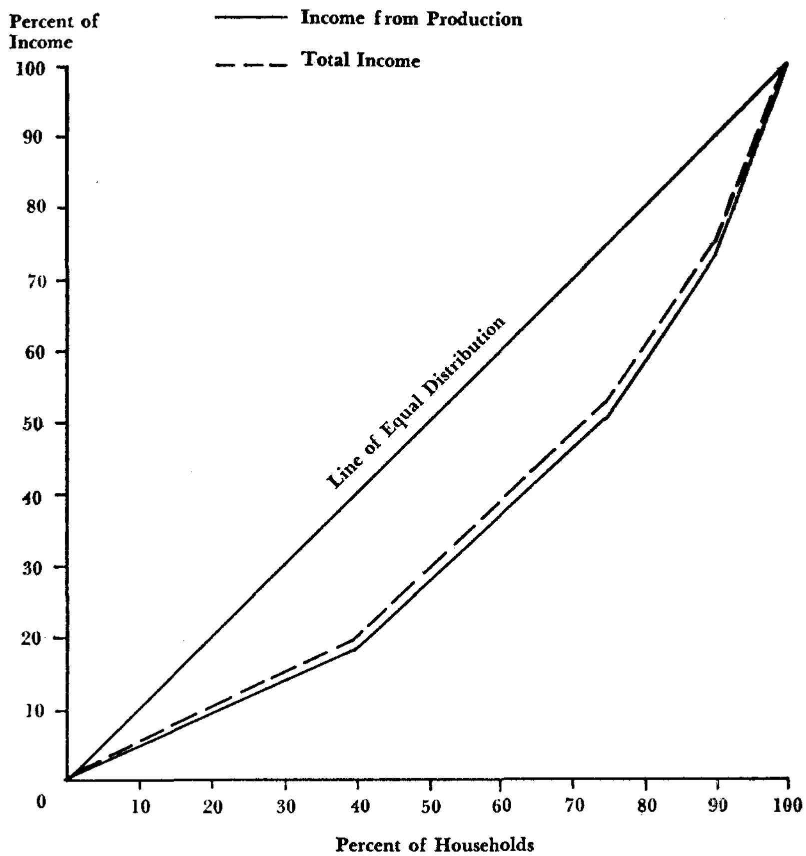
For the economy as a whole, 70.2 percent of the households have an annual income of less than 932,000 francs ($2,662). These same households receive 52.5 percent of the personal income total, including transfers (Table XXI). By comparing these figures to similar ones for each social class, we can determine in approximate fashion whether or not the distribution of income within the individual classes is more or less unequal than that prevailing in the economy as a whole.

In the agricultural sector 74.9 percent of the households are located in the lowest two income brackets, and these households receive 52.9 percent of the personal income total in this segment of the economy. The comparative figures for wage-earners are 82.5 and 70.2 percent respectively, while for the nonactive population 70.2 percent of the households are in the two lower income brackets, and they obtain but 45.9 percent of the income total. It is only in the self-employed class that we find a sharp departure from the over-all pattern, for in this category only 19.9 percent of the households are found in the two bottom income classes. These same households receive 15.6 percent of the income total for this class. For the economy as a whole, then, the concentration of households in the lower ranges of the income scale is least for the self-employed segment of the population, and greatest for the other three classes. This is in line with conclusions reached in the first section of this chapter concerning the relative income position of households in the different social classes.

The extent to which the transfer mechanism reduces income inequalities within the social classes is readily discerned from the data in Table XXVI. If we again look at the position of households in the two lowest income brackets, it is apparent that transfer payments have their greatest impact in the nonactive category. The 70 percent of the households in this class having annual incomes of less than 932,000 francs receive only 16.7 percent of the income total before transfers—i.e., factor income. But transfer payments boost the share of these households in the total to 45.9 percent. For the other three social classes the change in income distribution as a result of transfer payments is not nearly so great. In agriculture, transfers increase the proportionate share of income received by households in the two lowest brackets from 51.4 to 52.9 percent. For the self-employed the change is from 13.5 to 15.6 percent and for the wage-earners, from 68.0 to 70.2 percent. In sum, the system of transfer expenditures has its most significant impact upon the distribution of income within the nonactive part of the population. For the other social groups, it is true, there is a reduction in inequality, but it is not nearly so pronounced as for this class.

**Diagram VI**

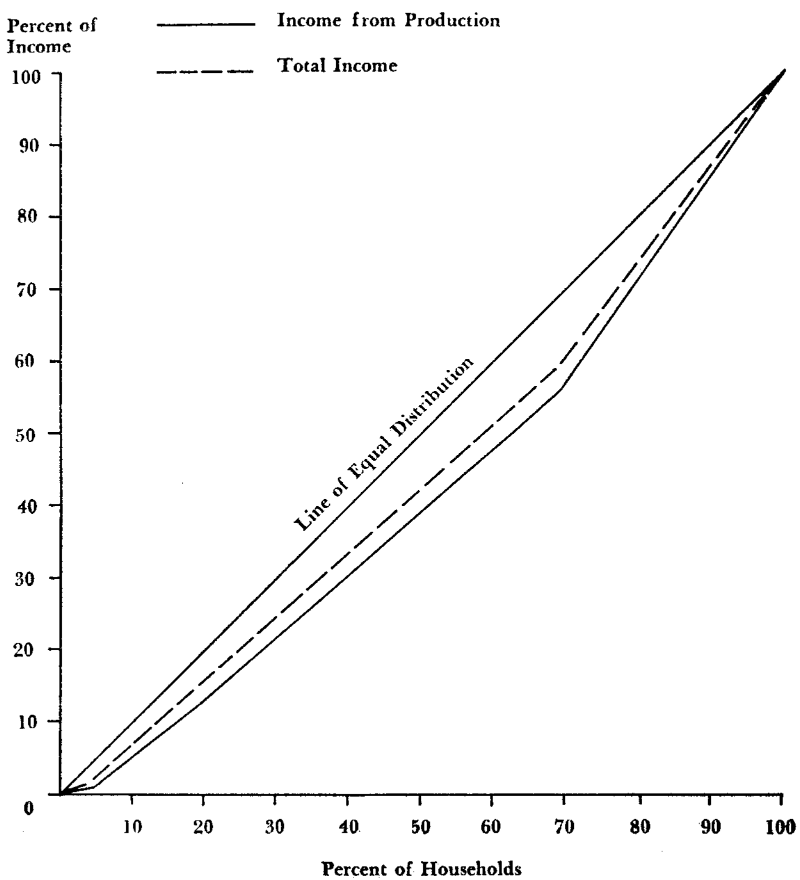
**Distribution of Personal Income: Agriculture**




The distribution of *initial* or factor income and the distribution of personal income after receipt of transfer payments is depicted graphically for each of the social classes in Diagrams VI through IX. In these diagrams, the percentage distribution of households is arrayed on the horizontal axis and the percentage distribution of income on the vertical axis. The extent to which the curves representing the actual distribution of income depart from the line of equal distribution gives us a graphic picture of income distribution before and after the receipt of transfer payments.[17] Inspection of these diagrams indicates that on a class basis the distribution of income is least unequal among the wage-earners and self-employed, and most unequal in the agricultural and nonactive sectors. The *initial* distribution of income is extremely unequal in the latter

**Diagram VII**

**Distribution of Personal Income: Self-Employed**




[17] These diagrams are constructed in the same manner as Diagram V. See Note 13, this chapter.

class. Inspection also shows that transfer expenditures do the most to reduce inequalities in income distribtuion in the nonactive population. Transfers also reduce inequalities to a considerable extent among the wage-earners, but they do not have a very great impact upon income distribution in either of the other two classes.

**Diagram VIII**

**Distribution of Personal Income: Wage-Earners**

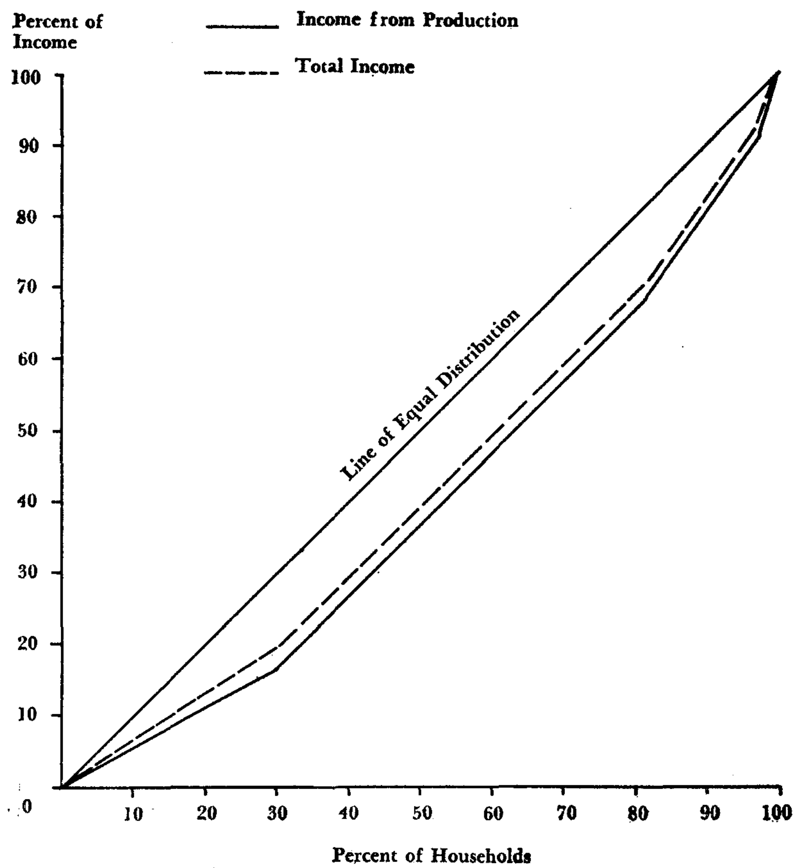
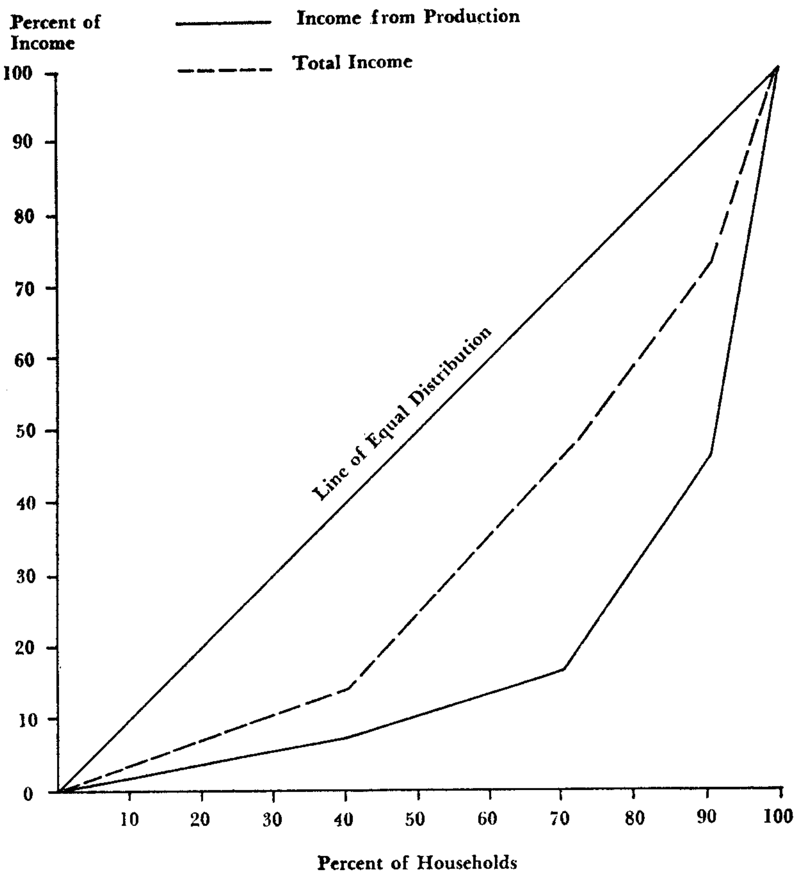


**Diagram IX**
**Distribution of Personal Income: Nonactive**




Our final comments in this section concern the net gain or loss that households in each of the income brackets and within each social class experience from the combined effects of social security benefits and social security taxes. These results are contained in Table XXVII. With the exception of the self-employed and the highest income bracket of the nonactive population, the general pattern within each income class is the same as that of the whole economy. That is to say, households in each of the income ranges enjoy a net gain in money income from the system, although again the amount of this gain is greatest in the lower income brackets.

It is only within the self-employed category that we find evidence of a vertical redistribution of income by means of the social security system. In this class, the net loss of income among households in the two upper income brackets is almost equal to the gain in income experienced by households in the two lower brackets. In the non-active class, households in the top income range have a net loss, but the amount of the latter is insignificant in comparison with the gains obtained by households in the other three income classes. The reasons for the existence of a net gain in income for both social and income classes have already been discussed, and need not detain us again. This means, though, that the conclusions reached earlier with respect to the incidence of the full costs of the social security system apply equally to the situation as it exists within the social classes.

TABLE XXVII

*Net Transfers of Income by Social Groups and by Income Range: 1952*
(billions of francs)

| | Income Range* | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | Total |
| *Agriculture* | | | | | |
| Social Security Income | 26 | 24 | 11 | 7 | 68 |
| Social Security Taxes | 3 | 2 | 1 | 1 | 7 |
| Net Gain or Loss | 23 | 22 | 10 | 6 | 61 |
| *Self-Employed* | | | | | |
| Social Security Income | 5 | 26 | 19 | 6 | 56 |
| Social Security Taxes | .... | 8 | 26 | 21 | 55 |
| Net Gain or Loss | 5 | 18 | — 7 | —15 | 1 |
| *Wage-Earners* | | | | | |
| Social Security Income | 260 | 401 | 110 | 27 | 798 |
| Social Security Taxes | 33 | 109 | 49 | 11 | 202 |
| Net Gain or Loss | 227 | 292 | 61 | 16 | 596 |
| *Nonactive* | | | | | |
| Social Security Income | 110 | 290 | 140 | 4 | 544 |
| Social Security Taxes | 1 | 1 | 6 | 7 | 15 |
| Net Gain or Loss | 109 | 289 | 134 | — 3 | 529 |

* The income ranges are as follows:
A: Less than 535,900 francs
B: 535,900 to 932,000 francs
C: 932,000 to 1,398,000 francs
D: Over 1,398,000 francs

The most important findings that have resulted from the data analyzed in this chapter have been indicated at appropriate intervals in the preceding discussion of the different facets of income distribution in France. In concluding this chapter it is appropriate, perhaps, to restate briefly the most important conclusions of the analysis. Insofar as France's major social classes are concerned, the picture is one of relative inequality in the distribution of personal income. Inequality in the distribution of factor income between social classes is mitigated to some extent by the transfer mechanism; the latter serves chiefly to bolster the income position of persons in the nonactive population. This group has the least favored income position of any social class. Social security benefits and other welfare expenditures are on the whole progressive in their effects. No such progression obtains, however, with respect to the tax burden assumed by the different social classes. In short, the tax structure cannot be said to be equitable, as farmers and the self-employed are in a privileged position vis-à-vis wage-earners and the nonactive population.

For the distribution of income between income classes, the picture is much the same. A considerable inequality in the *initial* distribution of income is modified by the system of transfer payments, the bulk of which are directed to households in the lower income ranges. That tax structure as it pertains to the allocation of the tax burden among the different income classes is seen as slightly progressive, but not sufficiently so to compensate for the large disparities between the income position of households in the various income brackets. There is no evidence to suggest any substantial vertical redistribution of income between income classes through the social security system. On the contrary, the dependence of the system on indirect taxes for most of its financing suggests, at the very least, that the beneficiaries of the system probably pay, via the mechanism of the price system, most of the latter's real costs.

Finally, we analyzed the distribution of income within each of the social groups. Within each group we found a similar pattern of inequality in income distribution, modified in greater or lesser degree by the mechanism of transfers. Interclass inequality is greatest in the nonactive and agricultural sectors of the population, and least for wage-earners and the self-employed. Social security benefits are, on the whole, progressive in their impact within the social classes, and for the nonactive population they, along with other welfare expenditures, bring about a significant reduction in income inequality. Within each social class, households in all of the income ranges enjoyed a net gain in money income, with the major exception of households in the two highest income brackets for the self-employed group. In fact, it is only within the latter category that we find any evidence of a vertical redistribution of income via the social security system.

# 5 / *Reflections on the Welfare State*

THE WELFARE STATE, as the phrase has been defined and used in this study, is largely a postwar phenomenon. In France, as in the United Kingdom, it sprang from a vague though widespread popular feeling that military victory over the Axis powers would not be enough unless it was accompanied by the creation of a more just, a more humane economic and social order. It arose, too, out of a popular revulsion against real and imagined shortcomings of prewar European capitalism, particularly the abuse of monopoly power, the exploitation of labor, and excessive and widespread inequalities in the distribution of wealth and income.

In Britain the Labour Party led in the assault on the social and economic institutions of prewar capitalism. After Labour's victory in the 1945 general election, the party began erecting a structure of socialism in the United Kingdom. The Labour Party was only able to maintain itself in power for five years, but the welfare state survived Labour's defeat, and remains, perhaps, the most durable part of the edifice erected after 1945. In France there was no single party of the left to formulate and champion demands for economic and social reform. The prewar political parties and coalitions had been discredited with the crushing collapse of the Third Republic in 1940, so the whole matter of economic change was left to the men of the Resistance. The National Council of Resistance, organized in June, 1942, united in one body the Free French movement of General de Gaulle and the major resistance groups in occupied France. After the Liberation the Council became the nucleus of the Provisional Government. The demands of the resistance movement for postwar economic and social renovation in France were formally expressed in the "Resistance Charter," issued at Algiers in March, 1944.

The Resistance demanded establishment of a "true economic and social democracy," a slogan vague enough to mean whatever particular groups and interests on the French left wanted it to mean. As for the Charter itself, it envisaged a program of economic and social reform on two broad fronts. The first need was to destroy the alleged control that the great industrial and financial trusts—the so-called 200 families of prewar fame—exercised over the whole of economic life in France. As in the United Kingdom, this was to be achieved primarily through the nationalization of key industries, and economic planning in the national interest. Under the heading of economic reform the Charter demanded the "rational organization of an economy which will assure the subordination of private interest to the general interest . . . intensification of national production along lines determined by the state after consultation with representatives of all elements in production . . ." and the "return to the nation of the great monopolies in the means of production, the sources of energy, mineral wealth, and the large banks . . . ."

The second need, in the eyes of the Resistance leaders, was the creation in France of machinery to insure all citizens of a minimum standard of well-being, and to bring about a more equitable distribution of the national income—in short, the creation of a welfare state. The phrase "welfare state" does not appear in the Resistance Charter, but the wording of the latter clearly spells out the intention of the Resistance leadership to use the restored power of the French state to effect the kind of social revolution envisaged in the idea of the welfare state.

Unlike Britain, there did not exist in France after the Liberation a single political party with sufficient popular support to become the instrument for the economic and social reform planned by the Resistance. The Constituent Assembly, elected in October, 1945, was dominated by the three big parties of the Resistance, the Communists, the Socialists, and the Popular Republicans. Even though each of these parties had endorsed the Charter prior to the general elections, they were by no means in unanimous agreement as to the actual reforms necessary to put its principles into effect. Within a year, in fact, the coalition of the Resistance parties disintegrated, and after this France, under the Fourth Republic, slipped rapidly and easily back into the old, prewar habits of government instability and shaky coalitions.

The consequence of this was to tarnish and distort the Resistance dream of a reborn France, purged of the weakness, the pettiness, and the corruption of the prewar regime. It is true that the Provisional Government wrought significant changes in the economic structure of France, but in no instance were the reforms as far-reaching as desired by the Resistance. A number of important nationalizations were carried out in 1945 and 1946, but nationalization was not carried to the point envisaged by the Resistance groups, nor, for that matter, as far as the Labour Party carried nationalization in Great Britain. Some of the nationalization in France, moreover, was purely punitive and unrelated to any comprehensive plan for economic control. Furthermore, machinery for national economic planning in the sense of centralized control over the use of the economy's resources was never even seriously considered after the Liberation. French economic planning since the war has been centered in the various modernization plans directed by the *Commissariat Général du Plan.* While the latter body can point to many remarkable achievements in modernizing and transforming the economic structure of France, its powers, save for some control over investment funds, have largely been persuasive. Finally even the welfare state, which was to have been perhaps the great social achievement of the Resistance, emerged in stunted form. The system of social security, for example, was intended to be universal, benefitting all sections of the population equally, but the bitter opposition of the self-employed above all, as well as of the beneficiaries of existing schemes, prevented this. The result, as we have seen, was a structure of extreme complexity with an absence of uniformity as respects the benefits available to different sectors of the population.

But the main theme of this chapter is not the frustration of the hopes of the Resistance for a reborn France. The concern of this study has been the welfare state in France, and our purpose now is to offer some final evaluation of this phenomenon. How well, in other words, does it work? Has the welfare state in France achieved the objectives of its architects? Has it, on balance, been beneficial to France and the French economy? These are some of the questions we must now try to answer.

At the onset one point can be disposed of rather quickly. This has to do with the permanence of the welfare state apparatus in France. In spite of what has been said above about the incomplete—if not somewhat jerry-built—structure of France's welfare state, there is no doubt in the writer's judgement that it has become a permanent fixture in French economic life. As in the United Kingdom, and to a lesser extent in the United States, the government of France, irrespective of its political coloration, is committed to a vast and complicated scheme for the redistribution of a significant portion of the national income. To many, notably conservatives, this is a fact to be deplored, but it is less than realistic to expect, short of an unprecedented social upheaval, a dismantling of the welfare state apparatus. In France, no less than in Great Britain, the welfare state has been institutionalized, and what can be expected in the future is little more than "tinkering" in the hope of improving its functioning.

The proportion of the French national income that is redistributed via the machinery of the central government is, as we saw in Chapter 3, about twice as large as it is in the United Kingdom, and almost five times greater than in the United States. Has this enormous redistribution of the national income created in France the kind of a welfare society envisaged by the architects of the idea?

In one sense at least the answer to this question is "yes." To the extent that the welfare state idea means protection for the worker against the hazards and uncertainties of contemporary economic life, France has been as successful as any other nation in establishing the necessary machinery for this purpose. In terms of the comprehensiveness of the system, the French worker is well protected against the risks of industrial life. The major uncertainties of an industrial society are those of unemployment, premature death or disability of the head of the household, prolonged illness, and old age. France's social security system provides a vast array of benefits to cope with all these risks; the system can be said to be successful in that it meets the demand of the workers, which is particularly pronounced in France, for freedom from continued anxiety about the future.

By American standards, to be sure, the amounts available for different categories of social benefits are meager, indeed in some instances pitifully meager. But this is simply a consequence of the fact that the average real income in France is lower than that of Britain or the United States. The point has been made before in this study that what a nation can afford in the way of a redistribution of income for welfare purposes is in a broad sense a function of its real per capita income. Moreover, the amount of these benefits must be viewed in their proper context, which is in this instance a society in which nearly one-third of the wage-earner households have incomes of less than $30 per week.

It would not be correct to say categorically that France's social security system provides an acceptable minimum standard of well-being for all French citizens. This, along with protection against the economic hazards of industrial life, is one of the major objectives of the welfare state. There still exist too many gaps in the system for this to be completely true. But since there are no absolutely objective standards of material well-being, what is acceptable as a minimum level is largely relative to the general standard of living prevailing in a society. If France's welfare state is viewed in this context, it is only right to say that it has achieved much of worth in this respect.

Perhaps the most important facet of the welfare state in France is the system of family allowances. This, as pointed out earlier, is the really unique feature of the system. One would hesitate, perhaps, to attribute a cause and effect relationship to the family allowance system and the postwar increase in the birth rate, but it would not be imprudent to maintain that this system has been at the very least a factor in France's postwar demographic revolution. The latter is, in the writer's view, one of the most hopeful of developments in the whole postwar picture, for France is literally a nation that is being reborn. It is on its way to becoming one of the youngest nations in Western Europe, and within the next decade or two France seems certain to be radically transformed both economically and socially as a result of the changing population picture. If the welfare state and its system of family allowances has contributed to this, then this is, in the last analysis, all to the good.

Another, and in the eyes of some the most important, facet of the welfare state concerns its impact on the distribution of income. For the Labour Party in the United Kingdom, as well as for leaders on the political left in France, a more equal distribution of the national income has been and remains one of the major objectives of the welfare state. Has this objective been satisfactorily achieved in France? There cannot be, unfortunately, any simple and direct answer to this question. As the data examined in the previous chapters indicate, the pattern of income distribution resulting from welfare expenditures is in a sense obscure and subject to varying interpretations. It is true that the distribution of money or personal income is less unequal after welfare or transfer expenditures than it is before, and this is the situation with respect to the distribution of income between both social classes and income classes. The pattern of welfare expenditures is, as we have found, essentially progressive. But these rather clear-cut results are rendered obscure by the peculiarities of the French tax system. The latter depends enormously upon indirect taxation to finance not only general government expenditures but the bulk of welfare expenditures as well. This results in confusion with respect to the real incidence of the costs of government, and thus no single generalization about the pattern of income redistribution is possible. It does seem to the writer, however, that two points of significance should be stressed. First, the data on France suggest strongly that only a limited vertical redistribution of income is brought about by the social security system. What the latter does, in general, is redistribute income within the social and income classes rather than between these classes. Second, both the data pertaining to France and those pertaining to the United Kingdom examined in this study indicate that the growth of welfare expenditures brings with it an increase in the dependence of the government on indirect taxation as a revenue source. This would imply that there does exist some limit to the extent that any government can resort to direct taxes for all of its revenue needs. Such a limit is a nebulous matter, but it is, nevertheless, real. Insofar as the welfare state is concerned, the implication of indirect taxation is clear, as it means that a considerable portion of the real costs of welfare expenditures are borne, in the final analysis, by the beneficiaries of these expenditures. Thus we must remain somewhat agnostic with respect to the efficacy of the welfare state as an instrumentality for effecting any revolutionary change in the distribution of income.

Beyond these more immediate questions having to do with the effectiveness of France's welfare state in relation to the latter's specific objectives, there lie broader issues of value that arise out of the growth of the welfare state in the postwar period. The issue of most fundamental concern is whether or not the welfare state is "good." This question has been the center of passionate controversy throughout the whole postwar period. Partisans of the welfare state idea argue that it represents the kind of social and economic transformation necessary to achieve the humane and democratic society envisaged by the liberal and socialist traditions of the West, while its opponents argue with equal vigor that the whole idea is a mistake and will lead inevitably to the totalitarian state and the extinction of all forms of human liberty. This statement is of course but an approximate resumé of the extreme positions on both sides of the controversy, and is intended solely to illuminate the basic issue in the simplest possible terms.

It is not our purpose here, however, to enter into a long discussion as to whether or not the welfare state is "good." This after all is a highly subjective matter, and there can be no final answer to the question. In fact it really does not serve any particular usefulness to put the matter in this context. The many very real problems associated with the welfare state idea will be more readily resolved if we put the matter into an entirely different context.

The thesis advanced here is that the modern welfare state is only the most recent manifestation of a powerful and perhaps irresistible trend not only in Western society but in the world as a whole. This trend is a persistent and ever-surging drive for more equality in the distribution of real income. In a most vital sense the distribution of income is a key problem in any society, and the failure of the society to solve this problem in a satisfactory manner will inevitably lead to violent and costly social upheaval. In essence Marxism is nothing more than the most violent kind of challenge to the alleged failure of capitalism to achieve distributive justice. Since the inception of capitalism, much of the social and economic history of the West revolves about the never-ceasing effort to modify existing institutions and create new arrangements to cope with this force. Today the setting is world-wide, for the cry for economic development and progress heard all over the world is, at the same time, a cry for more equality in the distribution of income. The vast disparities in wealth and income between the developed and underdeveloped areas of the world can no longer be concealed. In the West in times past such disparities were not tolerated indefinitely once general awareness of them arose, and we are witnessing today a similar phenomenon on a world-wide scale. That is to say, new institutions and new social and economic arrangements are in the making, and while their future form cannot be safely predicted, one can be certain that they are being born out of the drive for a more equal distribution of real income.

If we view the welfare state of contemporary Western society in this perspective, the question of whether or not it is "good" in some absolute sense really becomes quite meaningless. It must be viewed as an aspect—and only one aspect—of the trend discussed above. In this context the relevant problem is not one of choosing between a welfare state or no welfare state. In most Western countries, including the United States, the idea of the welfare state has taken root and has become, in greater or lesser degree, embodied in institutions of great permanence. The real problem concerns the efficacy of this particular phenomenon as a means of satisfying the pressure for more equality in the distribution of income. This again is a matter about which there can be no absolute answers, but in concluding this study the following final conclusions are offered.

First, it is held that some form of "welfare statism" is no doubt inevitable in advanced societies, particularly the advanced capitalistic societies of the West. There is, in the writer's view, nothing to be feared in this in nations with strong and lively democratic traditions. There is, in other words, nothing in recent experience to suggest that the worst fears of the opponents of the welfare state will materialize. It is further maintained that the welfare state concept is simply the latest—and not necessarily the last—social innovation that has arisen to cope with the continued demands for more equality in the distribution of income.

The second and final conclusion of our study is that the efficacy of the welfare state as a means to cope with the problem of the distribution of income is limited. In other words, the welfare state idea may achieve desirable results with respect to the distribution of income in a society up to a point, but thereafter the principle of diminishing returns sets in. The key here, of course, is the phrase "up to a point," and on this, unfortunately, we have little in the way of objective criteria. Actually this is a matter that must be left, in a sense, to the judgement of public opinion, shaped, as usually is the case, by a society's intellectual and political leadership. About all that we can suggest as a general principle is that a society must become a "welfare state" to the extent necessary to prevent disintegration and conflict over the question of distributive justice. Once this is achieved, the continuing challenge of a better distribution of income is best met by measures that raise productivity and real income for the whole society. In the final analysis, productivity remains the real key to economic well-being, but advances in productivity can only take place within the setting of a stable social order. The desirability of the welfare state must finally be adjudged in terms of its contributions to this latter goal.

# Appendix

The màjor source of data for this study has been the statistics of national income and expenditure compiled by the French government. Basic data on the French national income are published periodically by the Ministry of Finance, Economic Affairs, and Planning in the series *Statistiques et Études Financières*. Compilation of national income data is the joint responsibility of the *Service des études économiques et fiancières* (S.E.E.F.), and the *Institut national de la statistique et des études économiques* (I.N.S.E.E.), both of which are a part of the Ministry of Finance, Economic Affairs, and Planning. The work of these organizations is reviewed and approved by the *Commission des comptes et des budgets économiques de la nation,* formerly headed by M. Mendes-France.

French national income and social accounting is a postwar development, as no effort was made by the French government prior to the war to compile national income and product statistics on any systematic basis. Between 1946 and 1950 this task was delegated to the Monnet Plan administration (*Commissariat Général du Plan*), but after 1950 the responsibility was shifted to the S.E.E.F. and I.N.S.E.E.

In 1951 the *Commission des comptes et des budgets économiques de la nation* undertook a major revision of postwar national income data, the results of which were published in the April-May, 1952, issue of *Statistiques et Études Financières* under the title *Les comptes de la nation pour l'année 1949*. This is a document of key importance, as it established the basic conceptual framework employed in French national income and social accounting. The document is comparable in explanatory scope to the National Income Supplements of the U. S. Department of Commerce.

A second major revision of postwar data was published by the Ministry of Finance in 1955 under the title *Rapport sur les comptes de la nation.* Volume I presents a homogeneous series of data for the period 1949-55, and Volume II consists of a detailed report on the methods and sources utilized in French national income accounting. These two volumes have provided a large share of the statistical data utilized in this study. The source for prewar data is the report *Les comptes économiques de l'année 1938,* published in 1957 by the Ministry of Finance. This is a revision of the pioneer investigation into national income in 1938 carried out by the *Commissariat Général du Plan* in 1947 and published under the title *Estimation du revenu national français.* No comparable data on national income have yet been published by the Ministry for the postwar years prior to 1949 or for the war period, 1939-45.

The following tables present in absolute amount the most important data on income and expenditure utilized in this study. The sources for data pertaining to the United Kingdom and the United States are given in the appropriate tables.

TABLE XXVIII

*Gross National Product and Expenditure in France: 1938, 1952*
(billions of francs)

| | 1938 | 1952 |
|---|---|---|
| *Sources of GNP* | | |
| Personal Consumption | 329 | 9,442 |
| Government Consumption | 58 | 2,292 |
| Gross Domestic Investment | 59 | 2,675 |
| Net Foreign Investment | — 2 | — 270 |
| *Gross National Product* | 444 | 14,139 |
| *Allocations of GNP* | | |
| Compensation of Employees | 184 | 6,113 |
| Income of Unincorporated Enterprise | 131 | 3,564 |
| Net Interest | 8 | — 15 |
| Dividend Income | 15 | 367 |
| Corporate Income | 18 | 696 |
| *National Income* | 356 | 10,725 |
| Indirect Business Taxes | 49 | 2,384 |
| Business Transfer Payments | ...... | 31 |
| Less: Subsidies Minus Current Surplus of Government Enterprise | — 8 | — 471 |
| *Net National Product* | 397 | 12,669 |
| Capital Consumption Allowances | 47 | 1,470 |
| *Gross National Product* | 444 | 14,139 |

Sources: 1938 Data: Ministères des Affaires Économique et Finanancières, *Les Comptes Économiques de l'Année 1938,* Paris, 1957.
1952 Data: Ministère des Finances, des Affaires Économiques et du Plan, *Rapport sur les Comptes de la Nation,* Paris, 1955.

### TABLE XXIX

*Gross National Product and Expenditure in the United Kingdom and the United States: 1952*

| | United Kingdom (millions of pounds) | United States (millions of dollars) |
|---|---|---|
| ***Sources of GNP*** | | |
| Personal Consumption | 10,582 | 218,130 |
| Government Consumption | 2,898 | 77,517 |
| Gross Domestic Investment | 2,164 | 52,544 |
| Net Foreign Investment | 166 | — 235 |
| *Gross National Product* | 15,810 | 347,956 |
| ***Allocations of GNP*** | | |
| Compensation of Employees | 9,113 | 193,228 |
| Income of Unincorporated Enterprise | 1,365 | 41,115 |
| Corporate Income | 1,342 | 40,220 |
| Other Property Income | 651 | 17,066 |
| *National Income* | 12,471 | 291,629 |
| Indirect Business Taxes | 2,288 | 28,053 |
| Business Transfer Payments | ......... | 901 |
| Statistical Discrepancy | 126 | 475 |
| Less: Subsidies Minus Current Surplus of Government Enterprise | — 376 | — 63 |
| *Net National Product* | 14,509 | 320,995 |
| Capital Consumption Allowances | 1,301 | 26,961 |
| *Gross National Product* | 15,810 | 347,956 |

Sources: U.K. Data: *Cmnd. 123, White Paper on National Income, 1957.*
U.S. Data: Dept. of Commerce, *Survey of Current Business,* July, 1953.

### TABLE XXX

*Personal Income and Outlay in the United Kingdom and the United States: 1952*

| - | United States (millions of dollars) | United Kingdom (millions of pounds) |
|---|---|---|
| *Sources of Income* | | |
| Wages and Salaries | 8,587 | 188,446 |
| Individual Enterprise | 1,365 | 41,115 |
| Other Property Income | 1,433 | 31,034 |
| *Total Factor Income* | 11,385 | 260,595 |
| Transfers from Government | 909 | 11,960 |
| Transfers from Business | .......... | 901 |
| *Total Transfer Income* | 909 | 12,861 |
| *Personal Income* | 12,294 | 273,456 |
| *Personal Outlay* | | |
| Consumption | 10,582 | 218,130 |
| Taxes | | |
| Income | 1,179 | 34,645 |
| Social Security | 476 | 3,796 |
| *Total Taxes* | 1,655 | 38,441 |
| Personal Savings | 57 | 16,885 |
| *Personal Income* | 12,294 | 273,456 |

Sources: U.K. Data: *Cmnd. 123, White Paper on National Income, 1957.*
U.S. Data: Dept. of Commerce, *Survey of Current Business,* July, 1953.

TABLE XXXI

*Government Receipts and Expenditure in the United Kingdom and the United States: 1952*

| | United Kingdom (millions of pounds) | United States (millions of dollars) |
|---|---|---|
| *Government Receipts* | | |
| Direct Taxes | | |
| Individuals | 1,338 | 34,645 |
| Corporations | 449 | 20,635 |
| *Total Direct Taxes* | 1,787 | 55,280 |
| Social Security Taxes | | |
| Individuals | 476 | 3,796 |
| Business Firms | 526 | 3,762 |
| *Total Social Security Taxes* | 1,002 | 7,558 |
| Indirect Business Taxes | 2,288 | 28,053 |
| *Total Tax Revenue* | 5,077 | 90,891 |
| Other Receipts | 392 | ......... |
| *Total Government Receipts* | 5,469 | 90,891 |
| *Government Expenditure* | | |
| Government Consumption | 2,898 | 77,517 |
| Government Transfers | | |
| Interest on Debt | 708 | 4,861 |
| To Individuals | 909 | 11,960 |
| Subsidies to Business* | 376 | 63 |
| *Total Transfers* | 1,993 | 16,884 |
| *Total Government Expenditure* | 4,891 | 94,401 |
| Surplus (+) or Deficit (—) | 578 | — 3,510 |
| *Total Government Receipts* | 5,469 | 90,891 |

* Less current surplus of government enterprise.
Sources: U.K. Data: *Cmnd. 123, White Paper on National Income, 1957.*
U.S. Data: Dept. of Commerce, *Survey of Current Business,* July, 1953.

TABLE XXXII

*National Income in France: 1938, 1952-55*
(billions of francs)

| | 1938 | 1952 | 1953 | 1954 | 1955 |
|---|---|---|---|---|---|
| *Origin of Income* | | | | | |
| Compensation of Employees | | | | | |
| Wages and Salaries | 173 | 4,914 | 5,106 | 5,483 | 5,908 |
| Supplements | ...... | 259 | 270 | 284 | 293 |
| Social Security Contributions by Employers | 11 | 940 | 991 | 1,100 | 1,170 |
| *Total Labor Income* | 184 | 6,113 | 6,367 | 6,867 | 7,371 |
| Unincorporated Enterprise | 131 | 3,564 | 3,536 | 3,668 | 3,954 |
| Net Interest | 8 | — 15 | — 26 | — 30 | — 35 |
| Corporate Income | 33 | 1,063 | 1,147 | 1,197 | 1,273 |
| *National Income* | 356 | 10,725 | 11,024 | 11,702 | 12,563 |

Sources: 1938 Data: Ministère des Affaires Économiques et Financières, *Les Comptes Économiques de l'Année 1938,* Paris, 1957.
1952 Data: Ministère des Finances, des Affaires Économiques et du Plan, *Rapport sur les Comptes de la Nation,* Paris, 1955.

TABLE XXXIII

*Personal Income and Outlay in France: 1938, 1952-55*
(billions of francs)

| | 1938 | 1952 | 1953 | 1954 | 1955 |
|---|---|---|---|---|---|
| *Sources of Income* | | | | | |
| Wages and Salaries | 173 | 4,914 | 5,106 | 5,483 | 5,908 |
| Unincorporated Enterprise | 131 | 3,413 | 3,354 | 3,489 | 3,793 |
| Interest Income | 26 | 111 | 86 | 111 | 118 |
| Dividend Income | 13 | 367 | 389 | 422 | 464 |
| Net Income from Abroad | ...... | 109 | 89 | 99 | 101 |
| *Total Factor Income* | 343 | 8,914 | 9,024 | 9,604 | 10,384 |
| Transfer Income | | | | | |
| Social Security | 19 | 1,214 | 1,325 | 1,517 | 1,601 |
| Supplements* | ...... | 259 | 270 | 284 | 293 |
| Assistance | 17 | 321 | 352 | 369 | 411 |
| War Damages | ...... | 148 | 149 | 164 | 175 |
| *Total Transfer Income* | 36 | 1,942 | 2,096 | 2,334 | 2,480 |
| *Personal Income* | 379 | 10,856 | 11,120 | 11,938 | 12,864 |
| *Personal Outlay* | | | | | |
| Consumption | 329 | 9,442 | 9,746 | 10,315 | 10,996 |
| Taxes | | | | | |
| Income | 16 | 256 | 318 | 311 | 310 |
| Social Security | 2 | 279 | 321 | 343 | 367 |
| *Total Taxes* | 18 | 535 | 639 | 654 | 677 |
| Personal Savings | 32 | 879 | 735 | 969 | 1,191 |
| *Personal Income* | 379 | 10,856 | 11,120 | 11,938 | 12,864 |

* Social security benefits paid directly by public and private enterprises.
Sources: 1938 Data: Ministère des Affaires Économiques et Financières, *Les Comptes Économiques de l'Année 1938*, Paris, 1957.
1952 Data: Ministère des Finances, des Affaires Économiques et du Plan, *Rapport sur les Comptes de la Nation*, Paris, 1955.

TABLE XXXIV

*Government Receipts and Expenditures in France: 1938, 1952-55*
(billions of francs)

| | 1938 | 1952 | 1953 | 1954 | 1955 |
|---|---|---|---|---|---|
| *Government Receipts* | | | | | |
| Direct Taxes | | | | | |
| Individuals | 16 | 256 | 318 | 311 | 310 |
| Corporations | 4 | 414 | 489 | 475 | 492 |
| *Total Direct Taxes* | 20 | 670 | 807 | 786 | 802 |
| Social Security Taxes | | | | | |
| Individuals | 2 | 279 | 321 | 343 | 367 |
| Business Firms | 10 | 894 | 938 | 1,043 | 1,111 |
| *Total Social Security Taxes* | 12 | 1,173 | 1,259 | 1,386 | 1,478 |
| Indirect Business Taxes | 49 | 2,384 | 2,522 | 2,692 | 2,762 |
| *Total Tax Revenue* | 81 | 4,227 | 4,588 | 4,864 | 5,042 |
| Other Receipts* | 2 | 248 | 287 | 398 | 338 |
| *Total Government Receipts* | 83 | 4,475 | 4,875 | 5,262 | 5,380 |
| *Government Expenditure* | | | | | |
| Government Consumption | 58 | 2,292 | 2,405 | 2,408 | 2,371 |
| Government Transfers | | | | | |
| Interest on Debt | 18 | 126 | 112 | 141 | 153 |
| Social Security | 19 | 1,219 | 1,330 | 1,523 | 1,607 |
| Assistance | 17 | 321 | 352 | 369 | 411 |
| War Damages | ...... | 148 | 149 | 164 | 175 |
| Subsidies to Business† | 8 | 471 | 528 | 537 | 596 |
| *Total Transfers* | 62 | 2,285 | 2,471 | 2,734 | 2,942 |
| *Total Government Expenditure* | 120 | 4,577 | 4,876 | 5,142 | 5,313 |
| Surplus (+) or Deficit (—) | — 37 | — 102 | — 1 | 120 | 67 |
| *Total Government Receipts* | 83 | 4,475 | 4,875 | 5,262 | 5,380 |

* Including foreign aid.
† Less current surplus of government enterprise.
Sources: 1938 Data: Ministère des Affaires Économiques et Financières, *Les Comptes Économiques de l'Année 1938*, Paris, 1957.
1952 Data: Ministère des Finances, des Affaires Économiques et du Plan, *Rapport sur les Comptes de la Nation*, Paris, 1955.

TABLE XXXV

*Personal Income and Outlay by Social Groups: 1952*
(billions of francs)

| | Farmers | Self-Employed | Wage-Earners | Non-Active | Total |
|---|---|---|---|---|---|
| *Sources of Income* | | | | | |
| Farm Production | | | | | |
| Wages and Salaries | 117 | 272 | 3,938 | 262 | 4,589 |
| Unincorporated Enterprise | 1,313 | 1,811 | 205 | 71 | 3,400 |
| Other Property Income | 40 | 88 | 158 | 195 | 481 |
| *Total* | 1,470 | 2,171 | 4,301 | 528 | 8,470 |
| From Transfers | | | | | |
| Social Security | 68 | 56 | 798 | 544 | 1,466 |
| Assistance | 46 | 32 | 133 | 110 | 321 |
| Other | 20 | 52 | 22 | 54 | 148 |
| *Total* | 134 | 140 | 953 | 708 | 1,935 |
| *Personal Income* | 1,604 | 2,311 | 5,254 | 1,236 | 10,405 |
| *Personal Outlay* | | | | | |
| Consumption | 1,512 | 1,953 | 4,617 | 1,036 | 9,118 |
| Taxes | | | | | |
| Income | 15 | 94 | 130 | 17 | 256 |
| Social Security | 7 | 55 | 202 | 15 | 279 |
| *Total* | 22 | 149 | 332 | 32 | 535 |
| Personal Savings | 70 | 209 | 305 | 168 | 752 |
| *Personal Income* | 1,604 | 2,311 | 5,254 | 1,236 | 10,405 |

Source: Ministère des Finances, des Affaires Économiques et du Plan, *Rapport sur les Comptes de la Nation*, Vol. II, Paris, 1955.

TABLE XXXVI

*Personal Income and Outlay by Income Range: 1952*
(billions of francs)

| | Income Range* | | | | |
|---|---|---|---|---|---|
| | A | B | C | D | Total |
| *Sources of Personal Income* | | | | | |
| From Production | | | | | |
| Wages and Salaries | 738 | 2,251 | 1,207 | 393 | 4,589 |
| Individual Enterprise | 298 | 713 | 1,096 | 1,293 | 3,400 |
| Other Property Income | 9 | 54 | 138 | 280 | 481 |
| *Total* | 1,045 | 3,018 | 2,441 | 1,966 | 8,470 |
| From Transfers | | | | | |
| Social Insurance | 401 | 741 | 280 | 44 | 1,466 |
| Assistance | 96 | 120 | 66 | 39 | 321 |
| Other | 21 | 25 | 21 | 81 | 148 |
| *Total* | 518 | 886 | 367 | 164 | 1,935 |
| *Personal Income* | 1,563 | 3,904 | 2,808 | 2,130 | 10,405 |
| *Personal Outlay* | | | | | |
| Consumption | 1,622 | 3,506 | 2,370 | 1,620 | 9,118 |
| Taxes | | | | | |
| Income | 6 | 61 | 85 | 104 | 256 |
| Social Security | 37 | 120 | 82 | 40 | 279 |
| *Total* | 43 | 181 | 167 | 144 | 535 |
| Personal Savings | — 102 | 217 | 271 | 366 | 752 |
| *Personal Income* | 1,563 | 3,904 | 2,808 | 2,130 | 10,405 |

* The income ranges are as follows:
A: Less than 535,900 francs
B: 535,900 to 932,000 francs
C: 932,000 to 1,398,000 francs
D: Over 1,398,000 francs

Source: Ministère des Finances, des Affaires Économiques et du Plan, *Rapport sur les Comptes de la Nation*, Vol. II, Paris, 1955.

TABLE XXXVII

*Sources of Personal Income within Social Groups and by Income Range: 1952*
(billions of francs)

| | Income Range* A | B | C | D | Total |
|---|---|---|---|---|---|
| *Agriculture* | | | | | |
| Income from Production | 272 | 484 | 331 | 383 | 1,470 |
| Transfer Income | 47 | 45 | 25 | 17 | 134 |
| Personal Income | 319 | 529 | 356 | 400 | 1,604 |
| *Self-Employed* | | | | | |
| Income from Production | 32 | 263 | 935 | 941 | 2,171 |
| Transfer Income | 16 | 49 | 38 | 37 | 140 |
| Personal Income | 48 | 312 | 973 | 978 | 2,311 |
| *Wage-Earners* | | | | | |
| Income from Production | 703 | 2,221 | 1,020 | 357 | 4,301 |
| Transfer Income | 323 | 444 | 139 | 47 | 953 |
| Personal Income | 1,026 | 2,665 | 1,159 | 404 | 5,254 |
| *Nonactive* | | | | | |
| Income from Production | 38 | 50 | 155 | 285 | 528 |
| Transfer Income | 132 | 348 | 165 | 63 | 708 |
| Personal Income | 170 | 398 | 320 | 348 | 1,236 |
| *Total All Groups* | | | | | |
| Income from Production | 1,045 | 3,018 | 2,441 | 1,966 | 8,470 |
| Transfer Income | 518 | 886 | 367 | 164 | 1,935 |
| Personal Income | 1,563 | 3,904 | 2,808 | 2,130 | 10,405 |

* The income ranges are as follows:
A: Less than 535,900 francs
B: 535,900 to 932,000 francs
C: 932,000 to 1,398,000 francs
D: Over 1,398.000 francs

Source: Ministère des Finances, des Affaires Économiques et du Plan, *Rapport sur les Comptes de la Nation,* Vol. II, Paris, 1955.

TABLE XXXVIII

*Distribution of Households and Population by Social Group and Income Range: 1952*
(in thousands)

| | Income Range* A | B | C | D | Total |
|---|---|---|---|---|---|
| *Agriculture* | | | | | |
| Households | 788 | 689 | 295 | 198 | 1,970 |
| Population | 3,221 | 2,816 | 1,209 | 804 | 8,050 |
| *Self-Employed* | | | | | |
| Households | 91 | 274 | 875 | 585 | 1,825 |
| Population | 295 | 885 | 2,829 | 1,891 | 5,900 |
| *Wage-Earners* | | | | | |
| Households | 2,117 | 3,666 | 1,024 | 248 | 7,055 |
| Population | 6,737 | 11,669 | 3,258 | 786 | 22,450 |
| *Nonactive* | | | | | |
| Households | 1,119 | 836 | 557 | 278 | 2,790 |
| Population | 2,487 | 1,856 | 1,238 | 619 | 6,200 |
| *Total* | | | | | |
| Households | 4,115 | 5,465 | 2,751 | 1,309 | 13,640 |
| Population | 12,740 | 17,226 | 8,534 | 4,100 | 42,600 |

* The income ranges are as follows:
A: Less than 535,900 francs
B: 535,900 to 932,000 francs
C: 932,000 to 1,398,000 francs
D: Over 1,398,000 francs

Source: Ministère des Finances, des Affaires Économiques et du Plan, *Rapport sur les Comptes de la Nation,* Vol. II, Paris, 1955.