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How can purchasing power in France be supported?

Purchasing power in France is rising only slowly: real gross disposable income has been falling since early 2024 and real wages are now 3.1% below their level at the start of 2019. Inflation, the cost of living and weak purchasing power are the three main concerns of the French public.

How can purchasing power in France be increased?

The first solution is to make redistributive policies more extensive (heavier taxation of high incomes and large wealth holdings, shifting social contributions from wages to VAT). The difficulty is that households at the top of the income distribution account for the bulk of saving. Redistributing income towards lower-income households would therefore lower the aggregate household saving rate, making it harder to finance both firms and the public deficit.

The second solution, which is far preferable, is to generate stronger productivity gains and use them to support incomes. These gains are nevertheless limited by weak research and development (R&D) spending, by the low level of skills in the labour force and by the small size of the information technology sector, together with the slow diffusion of these technologies.

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Weak purchasing power is the main concern of the French public

Purchasing power in France is rising very slowly. Chart 1 shows **the change in the purchasing power of aggregate gross disposable income** and **Chart 2** that in **the purchasing power of the average wage per head**.

Chart 1
France: Real gross disposable income of households
(Q1 2010 = 100)

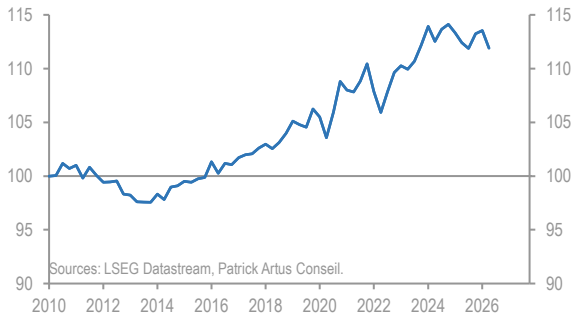


Chart 2
France: Real average wage per employee
(Q1 2010 = 100)

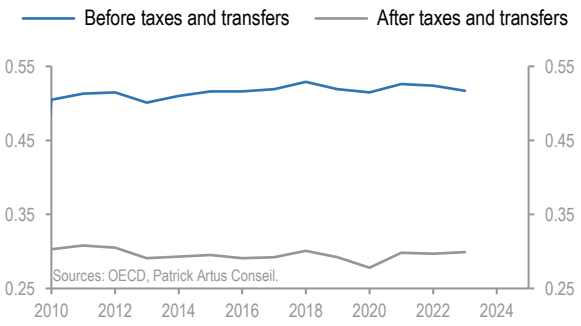


Since early 2019, the purchasing power of households' aggregate gross disposable income has risen by only 6.5%, while that of the average wage per head has fallen by 3.1%. Opinion surveys consistently rank **purchasing power as the French public's leading concern**. There is therefore good reason to examine the economic policies that could support household purchasing power.

First type of policy: stepping up redistribution

The scale of redistribution in France is already considerable, as shown by a comparison of income Gini coefficients before and after redistribution (**Chart 3**).

Chart 3
France: Gini coefficients* of income inequalities before
and after taxes and transfers



* Gini coefficient: 0 = complete equality; 1 = complete inequality

INSEE[1] finds that before redistribution the standard of living of the top 10% is 26 times that of the bottom 10%, and only 3.5 times after redistribution, once cash transfers and public services are taken into account.

[1] INSEE, 'Revenu des ménages élargi à l'ensemble de l'économie en 2023' [Household income broadened to the economy as a whole in 2023], Insee Analyses, 16 April 2026.

It nevertheless remains possible to increase redistribution further, for example:

- by taxing high incomes more heavily;
- by taxing large wealth holdings more heavily (Zucman tax, for example);
- by replacing employee social contributions with VAT, which eases the tax burden on employees and increases it for pensioners, recipients of property income and tourists.

Stepping up redistribution would nevertheless have a major adverse consequence: it would lead to **a decline in the aggregate household saving rate**. That rate stands at −29% for the first income quintile, 0% for the second, 6% for the third, 10% for the fourth and 25% for the fifth[2].

Redistributing income from higher-income to lower-income households would therefore lower the aggregate saving rate. **It would become more difficult to finance corporate investment**, hence a risk of underinvestment (**Chart 4**), and harder to finance **the public deficit**, hence a rise in long-term interest rates (**Chart 5**).

Chart 4
France: Investment by non-financial corporations (at current prices, as % of GDP)

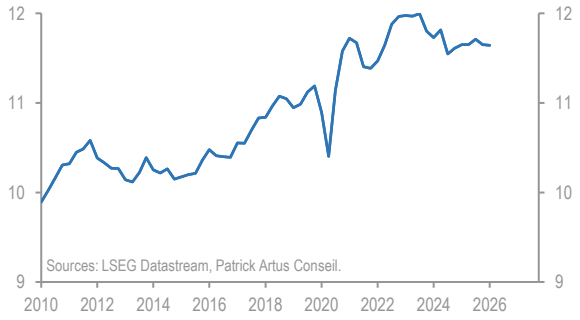
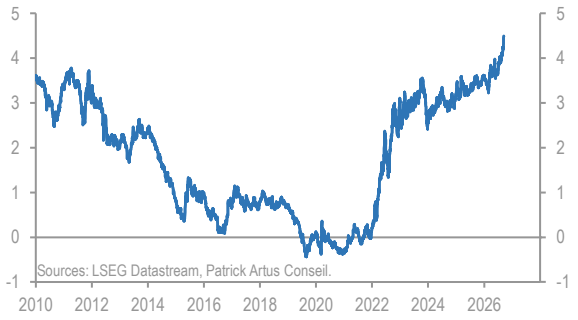


Chart 5
France: 10-year government bond yield (as %)



Second type of policy: supporting productivity

Labour productivity in France remains **below its 2019 level** (**Chart 6**). This explains **the weak growth in purchasing power** (**Charts 1 and 2** above), even though wage incomes have been supported by **the fall in the corporate profit share** since late 2023 (**Chart 7**).

Chart 6
France: Labour productivity per hour worked (Q1 2010 = 100)

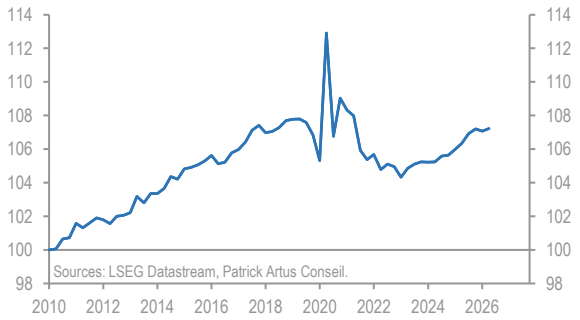
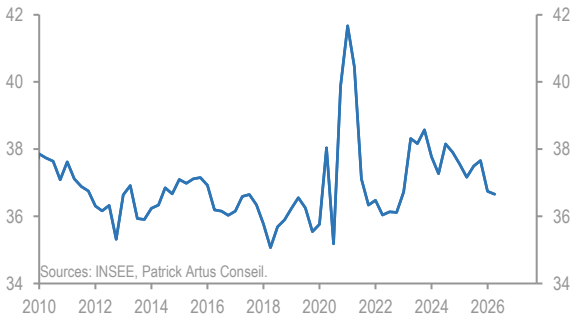


Chart 7
France: Profit share of non-financial entreprises (as %)



[2] Source: Insee Focus No. 338, 'Consommation et épargne par catégorie de ménage en 2022' [Consumption and saving by household category in 2022].

Weak productivity reflects a number of factors, in particular:

- **the expansion of apprenticeships**, which increases employment of workers with initially low productivity (**Chart 8**);
- **weak business R&D spending** (**Chart 9**);

Chart 8
France: Number of apprentices (in thousands)

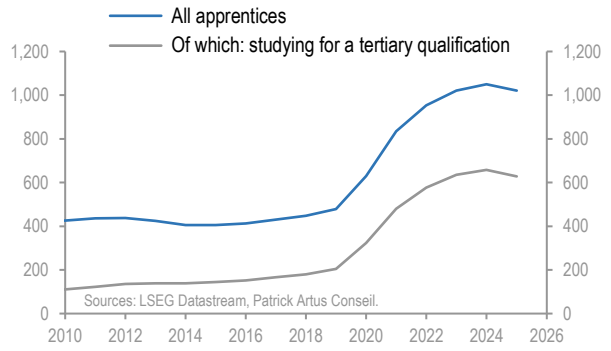
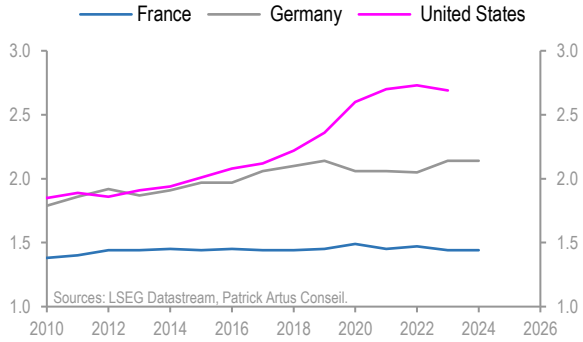


Chart 9
Business enterprise expenditure on R&D (as % of GDP)



- **the low level of skills in the labour force** (**Table 1**);

Table 1: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score)

Country	2023
Finland	289
Japan	285
Sweden	281
Netherlands	276
Canada	267
Germany	267
England (UK)	266
France	**253**
United States	251
Korea	246
Spain	246
Italy	240

Source: OECD

- **the slow diffusion of new technologies**: in 2025, firms using artificial intelligence account for 59% of employment in France, compared with 78% in the United States.

If French firms increased their R&D spending, if more firms in France adopted artificial intelligence, if the education and vocational training systems were reformed and if, as a result, the skills of the labour force improved, **productivity gains** would pick up and **could be used to raise the purchasing power of low- and middle-income households**.

Summary: what is likely to happen?

The demand for higher purchasing power among lower-income groups and the middle class is so strong that future governments, whatever their political orientation, will have to try to raise household purchasing power.

Achieving this through faster productivity growth will be difficult, since it would require more business investment in R&D, faster adoption of new technologies, and reform of the education and vocational training systems.

The most likely outcome is that future governments will rely on stepping up redistributive policies to support purchasing power. The risk would then be twofold: discouraging firms and innovators; and lowering the household saving rate, hence greater difficulty in financing firms and the government.

The better choice would therefore be to raise productivity.

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