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The Distribution of Income Generated in France Between Labour and Capital

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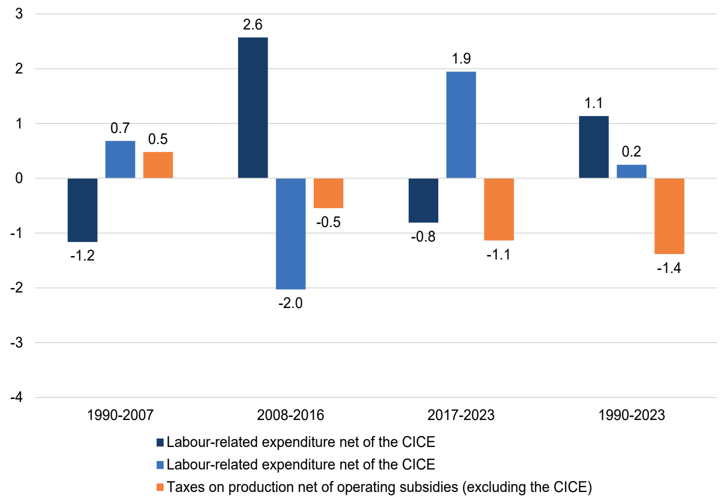
- Generally speaking, the income generated in a country is divided between labour (labour costs, meaning all expenditure connected with using the labour factor), capital (gross operating surplus) and, residually, general government (taxes on production and operating subsidies).
- For the past three decades in France the proportion of labour-related expenditure in the value added of non-financial corporations has remained fairly stable at around two thirds. Between 1990 and 2023, changes to this share can be broken down into three separate phases (see Chart). It fell between 1990 and 2007 as businesses offset rising taxes on production by limiting wages and recruitment. It then increased between 2007 and 2017 as the shock to business activity caused by the financial crisis had a greater impact on companies' gross operating surplus than on the payroll which is less flexible. From 2017 to 2023, it declined slightly essentially due to the time-lag in wages aligning with the 2022 inflationary shock, an adjustment which continued into 2024. In addition, the cut in taxes on production over the period allowed for an increase in gross operating surpluses.
- The slight rise in the proportion of labour-related expenditure in value added between 1990 and 2023 mirrors that of labour-related levies whereas the share relating to net wages (before income tax) remained stable.
- Within the capital share, net dividends increased between 1990 and 2023 whilst net interest paid out fell. The corporate savings rate and businesses' ability to self-finance their investments rose slightly.

Change to the components of value added in percentage points



Source: National accounts, Insee, DG Trésor calculations.

Scope: Non-financial corporations.

Note: (i) As regards national accounting indicators, labour-related expenditure represents employees' compensation (D1) and taxes on wages and labour (D291), less the amount of the competitiveness and employment tax credit (CICE). The gross operating surplus (B2g) and taxes on production (D292) net of operating subsidies (D39), excluding the CICE, are also presented. The shares are expressed as a percentage of gross value added (B1g).

How to read this Chart: Between 2008 and 2016, the proportion of value added attributed to labour increased by 2.6 percentage points.

1. Analysing the division of value added

1.1 Distributing income in national accounting

Gross value added (VA) at "basic prices"[1] gauges the income generated by productive organisations over a given period. With national accounting, which provides a framework for blanket quantification of France's economy, gross value added is the difference between the value of output, i.e. all the products manufactured during the accounting period, and that of intermediate consumption which encompasses goods and services processed or entirely consumed during the manufacturing process. Gross domestic product (GDP) is calculated by adding the VA of the five institutional sectors of the national economy (non-financial corporations, financial corporations, general government, households, non-profit institutions), plus taxes net of subsidies on products.

Examining VA helps study the distribution of income generated between labour (gross payroll, employer contributions, taxes on wages and labour,[2] the competitiveness and employment tax credit (CICE)),[3] capital (gross operating surplus), general government (taxes on production in the strictest sense[4] net of operating subsidies) and sole traders (see Box 1). An analysis of this breakdown can provide an understanding of how the proceeds from growth are distributed in France[5] as well as a comparison with other countries.[6]

The proportion of VA allocated to labour represents the ratio of employees' compensation, plus taxes on wages and labour, less the CICE, to gross value added. The proportion allocated to capital takes the form of the profit margin which is defined as the ratio of gross operating surplus (GOS) to gross value added.

Box 1: What makes up the shares of labour, capital and general government in national accounting?

Generated income is divided between:

- Labour-related expenditure which is super-gross compensation plus taxes on wages and labour less CICE amounts.

  – Super-gross compensation is the basic salary (including payments in kind such as luncheon vouchers), employer contributions, employee contributions, the CSG/CRDS[a] and all variable compensation items which may include bonuses and wage supplements (payment of a 13th month of salary, holiday bonuses, end-of-year bonuses, benefits in kind, etc.), overtime and additional time, compensation related to employee savings including profit-sharing, incentive plans, employer's payments into company savings plans, sundry one-off payments (short-time working payments, severance pay, etc.), refunding days on a time savings account or even payment for days not worked due to weather conditions and extraordinary bonuses (profit-sharing bonus introduced in August 2022). Most contributions are factored into earned income as they ultimately revert to workers (see below) in the shape of work-related social security benefits (pension, family, healthcare,

a. The general social security contribution (CSG) and the social security debt repayment contribution (CRDS) are taxes on income and are therefore recognised as "Current taxes on income, assets, etc." (D5) in the national accounts and not as "Employees' compensation" (D1), which is related to gross value added (B1b) so as to calculate the labour share in the breakdown of value added. These contributions, which are also deducted from employees' wages, may nevertheless be considered as being part of earned income and as requiring special treatment (see Section 3).

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(1) Here, VA is measured at "basic prices" which means that it excludes taxes net of subsidies on products, such as non-deductible VAT. Taxes on products are taxes owed per unit of goods or services produced or traded. These taxes are mainly composed of value added tax (VAT), the domestic tax on petroleum products, stamp duty and duty on alcoholic beverages and tobacco.

(2) In national accounting, taxes on wages and labour (D291) are booked to other taxes on production (D29) and revert to general government. In order to provide an approach to total labour costs, this paper will measure employees' super-gross compensation, plus taxes on wages and labour. Subsidies on wages and labour are not deducted as they are not flagged up in the national accounting aggregate "other subsidies on production" (D39).

(3) In national accounting, the amounts of the CICE are included in operating subsidies (D39), even if they contribute to reducing labour costs. This paper will measure employees' super-gross compensation less the amounts of the CICE.

(4) The taxes on production in the strictest sense covered by this paper only concern sundry taxes on production (D292).

(5) See A.S. Dufernez and L. Le Saux (2017), "Composition and Allocation of the Distributable Surplus in France since the Crisis", *Trésor-Economics*, No. 189.

(6) See D. De Waziers, C. Kerdrain and Y. Osman (2019), "The Change in the Labour Share in Value Added in Advanced Economies", *Trésor-Economics*, No. 234.

unemployment, etc.), although the benefit is sometimes indirect as some contributions are non-contributory and the social security system is not financed solely through contributions. It should also be noted that low-income workers are entitled to relief on employer social security contributions whilst having continued access to social security benefits.

– Taxes on wages and labour are paid by the employer and are assessed on the payroll and headcount (public transport contribution, contribution to financing apprenticeships, payroll tax).

– The amounts of the CICE are recognised negatively in labour-related expenditure in the same way as a reduction in employer contributions, to which they are economically similar.[b]

- Return on capital: this is the gross operating surplus (GOS) which is value added less employees' compensation and taxes on production, plus operating subsidies. It has similarities with EBITDA in corporate accounting but is not totally comparable due to statistical and conceptual differences with national accounting. The GOS has five main components: (i) net distribution of income to the owners of capital (dividends); (ii) net interest payments; (iii) savings to self-finance investments (including those made to offset depreciation), cash-flow or debt servicing; (iv) taxes on profits, essentially corporation tax; and (v) other sundry operations such as social security benefits, some of which are optional, in favour of workers (supplementary payments during maternity leave, early retirement benefits, severance pay, etc.) net of contributions received, insurance premiums net of payments received and other current net transfers.
- Sundry taxes on production: these are taxes levied on businesses' manufacturing activities and include taxes on property (business premises contribution), on turnover (corporate social solidarity contribution, C3S) and on value added (contribution on business value-added (CVAE), but not VAT which is a tax on products).
- Operating subsidies for businesses which include subsidies on wages and labour (intended to foster the hiring of candidates with specific profiles such as apprentices and the long-term unemployed), subsidies paid under the Common Agricultural Policy or those aimed at cutting pollution (tax credit for the energy retrofitting of VSEs and SMEs, grants from the Environmental and Energy Management Agency (ADEME), etc.). In the national accounts, they are recognised negatively meaning that the larger (and therefore more negative) the proportion of operating subsidies are, the greater the "slice of the cake" available for the other components.

This division is consistent with the national accounting framework but is still partly arbitrary as the distinction between labour and capital is sometimes difficult to gauge correctly for the self-employed, for instance. In addition, the labour and capital components include aggregate taxes and social security contributions for which the ultimate recipient cannot be identified with the exception of contributions to contributory schemes.

b. See Insee Conjoncture in France (December 2018), box "The transformation of the CICE tax credit into a reduction in social contributions on 1st January 2019 could have a positive – though limited and short-lived – effect on employment" (pp. 64-66).

1.2 Around a third of the value added of non-financial corporations is allocated to capital and two thirds to labour

An examination of the breakdown of value added in general government and the financial sector raises methodological issues,[7] which means that there is a preference for the analysis of the division of VA by focusing on that of non-financial corporations (NFCs) which accounted for around 58% of the French economy's total gross VA in 2023.

The VA of NFCs stood at €1,476bn, 67.3% of which was earmarked for the remuneration of labour with 32.7% for the return on capital. The proportion of taxes on production net of operating subsidies was zero in 2023 with each of these components constituting 2.7% of gross VA.

The proportions of VA allocated to labour and capital may increase at the same time when taxes on production net of operating subsidies fall. This occurred, for instance, between 2020 and 2021 due to cuts in taxes on production under the *France Relance* Recovery Plan and the rise in subsidies owing to the emergency measures introduced to address the COVID-19 pandemic. This led to an improvement in businesses' profit margins whilst the share of value added reverting to workers remained stable.

1.3 Limitations of the national accounting approach

The national accounting approach is positive in many ways (consistent accounting framework, standardised chronological series over a long period, international comparison options), but also has a number of drawbacks when the division of value added is put under the spotlight:

- For GOS, "gross" means that capital depreciation is not deducted. In theory, in order to more accurately measure the proportion of the return on capital, this depreciation would need to be subtracted to calculate the net operating surplus (NOS) and to compare it with the VA which has also been corrected for depreciation (net value added). However, reasoning on the basis of gross aggregates allows the outcomes to be compared with most existing studies, which also rely on gross aggregates, and to extend them. It should nevertheless be emphasised that factoring in net aggregates would show a higher proportion of labour-related expenditure in value added and a slightly upward trend during the period under review.
- The share of labour-related expenditure in value added may fall without that of net wages received immediately by workers also being mechanically reduced. A reduction in labour-related expenditure may also be the result of lower social security contributions or reduced taxes on wages and labour (see 3.1).
- The proportion of net wages before income tax is an immediate indicator of what aggregate workers' income represents but it does not factor in the entitlement to rights created by certain social security contributions, which is thought to have a deferred impact on an individual's income during their life cycle.[8,9] The manner in which net remuneration is structured can also have an intertemporal effect: an increase in bonuses that are not subject to contributions (such as certain profit-sharing bonuses) may reduce entitlement to certain rights for the worker and therefore alter the structure of their intertemporal income, all else being equal.
- A change in the labour share may be contingent on changes in the structure of the economy such as the growth of sectors in which the wage share is structured higher or lower.

(7) The value added of general government is partly estimated on the basis of wages paid whereas that of financial corporations is partly measured indirectly through financial intermediation services (FISIM) which represent a national accounting compilation to gauge the profit margins of financial corporations on banking intermediation transactions. In addition, the income of the self-employed is recognised in the institutional sector of households. It is the balance of the operating account for sole traders comprising two inseparable elements, namely remuneration for the labour provided by the owner and members of their family and their profits as an entrepreneur.

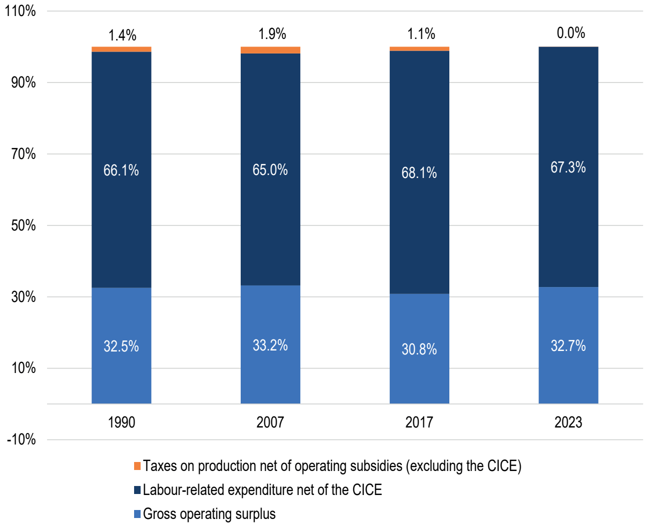
(8) There are several periods in a worker's life cycle: employment; economic inactivity; illness; retirement.

(9) Levies for which workers and employers are liable consist of non-contributory and contributory levies that fund benefits that are directly related to the contributor. Contributory levies may be comparable to deferred income or mandatory insurance for the worker rather than to a tax (see A. Herlin (2017), "Clarifying the Contributory Component of Social Protection", T*résor-Economics*, No. 200). A reduction of contributory levies in favour of an increase in non-contributory ones will further reduce the proportion of remuneration actually received by workers throughout the life cycle.

2. The division of value added has remained fairly stable during the last three decades

The share of labour-related expenditure in the value added of non-financial corporations (NFCs) has been stable overall in the last three decades. In 2023, it was higher (67.3%) than in 1990 (66.1%).[10,11] This slight 1.1 percentage point increase was due to the lowering of taxes on production net of operating subsidies (–1.4 percentage points, see Chart 1). The share of GOS (profit margin) remained fairly stable over the period (+0.2 percentage points).

Chart 1: Breakdown of the value added of non-financial corporations



Source: National accounts, Insee, DG Trésor calculations.

Scope: Non-financial corporations.

Note: The CICE amounts are approximative as the proportions by institutional sector are not available in national accounting. The national accounting aggregates used are the same as those described in the note under the Chart on the cover page.

This robust long-term stability masks more prominent short- and medium-term changes, which occurred in three stages:

- Between 1990 and 2007, the labour share fell at the same time as taxes on production rose (see Chart 2). This change appeared to reflect a strategy by businesses to safeguard their profit margins against the increase in taxes on production by granting wage hikes that were lower than labour productivity gains.[12] According to the national accounts, taxes on production[13] jumped by 130% in nominal terms between 1990 and 2007 whilst VA only increased by 90% over the same period. Possible explanations for this decline of the labour share, as flagged up by certain studies, include fewer wage demands due to the weakening of the influence of trade unions,[14] or even the replacement of labour by capital which was spurred, inter alia, by the expansion of information and communication technologies.[15] These factors nevertheless remained subsequent to 2007 during a period when the labour share recovered.

- Between 2008 and 2016, a period affected successively by the global financial crisis and the sovereign debt crisis in the euro area, the share of labour in value added increased substantially by 2.6 percentage points whilst that of capital fell sharply by 2 percentage points as did taxes on production net of operating subsidies which were down 0.5 percentage points. Capital did suffer more from the

(10) See D. De Waziers, C. Kerdrain and Y. Osman (2019), op. cit.

(11) The comparison period begins in 1990 as the two previous decades were significantly disrupted by the oil crises in the 1970s, which caused high inflation and which were followed by the 1976 austerity plan and the competitive disinflation policy which had the stated objective of restoring businesses' competitiveness by improving their margins. These policies contained measures that hamper the analysis of value added such as the price and wage freezes.

(12) J.P. Cotis and E. Rignols (1998), "Le partage de la valeur ajoutée : quelques enseignements tirés du paradoxe franco-américain", *Revue de l'OFCE*, 65, 291-344 (in French only).

(13) In particular, property taxes and the corporate social solidarity contribution (C3S).

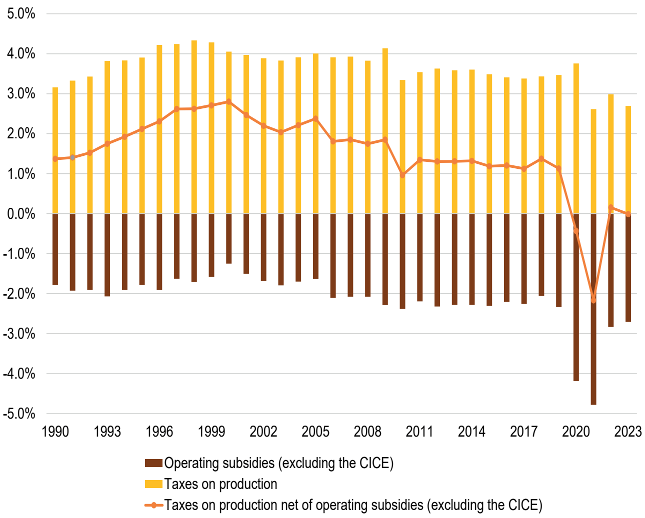
(14) See O. Blanchard and F. Giavazzi (2003), "Macroeconomic effects of regulation and deregulation in goods and labor markets", The Quarterly Journal of Economics, 118(3), 879-907 and M. Cheuvreux and C. Darmaillacq C. (2014), "Unionisation in France: Paradoxes, Challenges and Outlook", *Trésor-Economics*, No. 129.

(15) G. Cette, J. Mairesse and Y. Kocoglu (2002), "Croissance économique et diffusion des TIC : le cas de la France sur longue période (1980-2000)", Revue française d'économie, vol. XVI, no. 3 (in French only).

impact of the 2008 financial crisis: shareholders, as business owners, are paid on the basis of the company's performance and are therefore more affected by the economic shocks it suffers, both positively and negatively.[16] Between 2007 and 2013, the gross wages paid to employees of non-financial corporations rose by an average of 2.5% per annum whereas the value added of NFCs only increased by 2.0%. In the midst of the financial crisis between 2008 and 2009, value added fell by 3.9% and the payroll by a lesser 1.2%. This weak payroll elasticity to the fall in business activity was due to companies retaining employees during the cycle trough and a certain rigidity in nominal wages.[17] Indexing the statutory minimum wage (SMIC) to inflation may also have had an impact with a knock-on effect on the remainder of the wage scale.

- Between 2017 and 2023, the labour share dwindled by 0.8 percentage points but remained higher than in 2007. A major proportion of this decrease occurred in 2023 and was due to the inflationary shock in 2022 and 2023 which had a more rapid impact on value added than on wages. As, in 2024, the latter once more benefitted from adjustments based on past inflation, the recent fall in the labour share should ease. Concurrently, the capital share bounced back (up 1.9 percentage points between 2017 and 2023), but failed to return to its 2007 level. It was buoyed by the reduction of taxes on production. Changes to labour-related expenditure between 2017 and 2023 may also have been due to the lowering of labour-related social levies, especially employer contributions (see below), even if this was partly offset by the positive momentum of employment over the period.

Chart 2: Share of taxes on production and operating subsidies in value added



Source: National accounts, Insee, DG Trésor calculations.

Scope: Non-financial corporations.

Note: The indicators used for national accounting are taxes on production (D292) and other subsidies on production (D39) excluding the CICE. The shares are expressed as a percentage of gross value added (B1g). The amounts of the CICE are recognised (negatively) in the share of labour-related expenditure.

3. As a share of value added, net wages have remained stable and dividends have increased since 1990

3.1 The share of net wages has remained stable

An analysis of the division of value added using national accounting does not enable the share actually received by workers before income tax to be directly traced as the labour share also includes levies such as employee and employer social security contributions, the general social security contribution (CSG) and the social security debt repayment contribution (CRDS).

Between 1990 and 2023, the increase in the share of labour-related expenditure in value added

(16) See Martin Souchier (2023), "Salaires et profits : partage de la valeur, ou partage du risque ?", Blog de l'OFCE (in French only).

(17) P. Askenazy, A. Bozio and C. Garcia-Penalosa (2013), "Wage Dynamics in Times of Crisis", *Notes du Conseil d'Analyse Economique*, 2013/5 (no. 5), pp. 1-12.

(1.1 percentage points over the period) went hand in hand with a smaller rise in the share of net wages (0.2 percentage points over the period). This increase in labour-related expenditure was mainly due to the rise in taxes on wages and labour (1.7 percentage points over the period), which was partly offset by a 0.8 percentage point reduction in employer and employee social security contributions[18] (see Box 2).

Box 2: What impact do changes to levies on wages have on the division of value added?

Over the last 30 years levies on wages in France have changed in different manners: employer contributions have fallen under policies targeting labour costs whilst employee contributions have broadly increased despite sporadic adjustments.

For employer contributions, the changes have been punctuated by four main phases, characterised by policies aimed at cutting labour costs. Between 1993 and 1998, exemptions were geared towards reducing contributions on low wages, essentially at statutory minimum wage (SMIC) level. The second period (1998-2015) witnessed an increase in exemptions to offset the reduction of working hours to 35 hours per week. In 2015, contributions at SMIC level were cut further with the Responsibility and Solidarity Pact whilst, in 2019, the CICE was transformed into a permanent reduction in social security contributions.

On the other hand, employee contributions and social levies rose between 1991 and 2022. In 1991, the introduction of the CSG was offset by a fall in old-age pension contributions, keeping the effective rate on gross wages stable. Between 1991 and 1996, several hikes pushed up the rate of levies on gross wages from 13.6% to 16.2%. Subsequent years saw increases in the CSG that were nevertheless offset by cuts in healthcare contribution rates, levelling off the rate at 15% until 2004. Between 2005 and 2017, this levy rate on gross wages increased again due to the expansion of the CSG base on earned income and increases in old-age pension contributions. In 2018, a further increase in the CSG was partly offset by the elimination of healthcare contributions for workers which brought the rate on gross wages to 16.8% in 2022.

According to a study conducted by Bozio, Breda and Grenet in 2019,[a] changes to the rates of levies on wages can also have a differing impact on the division of value according to their contributory level. Taking three reforms,[b] they demonstrate that increases in employer contributions, when the contributory link between contributions and benefits is weak, resemble a corporate tax. Nevertheless, it is posited that increases in employer contributions with a strong contributory link have an impact on employees' wages: it is thought that, during wage negotiations, employees may agree to a reduction in their hourly wage in exchange for an increase in their pension entitlement as a result of a rise in pension contributions. In this case, the employer contribution is seen by the employee as financing deferred income. However, the fact that the French contribution system is both complex and difficult to understand, in addition to concerns about the future sustainability of the schemes, could mitigate the effect on employee behaviour.

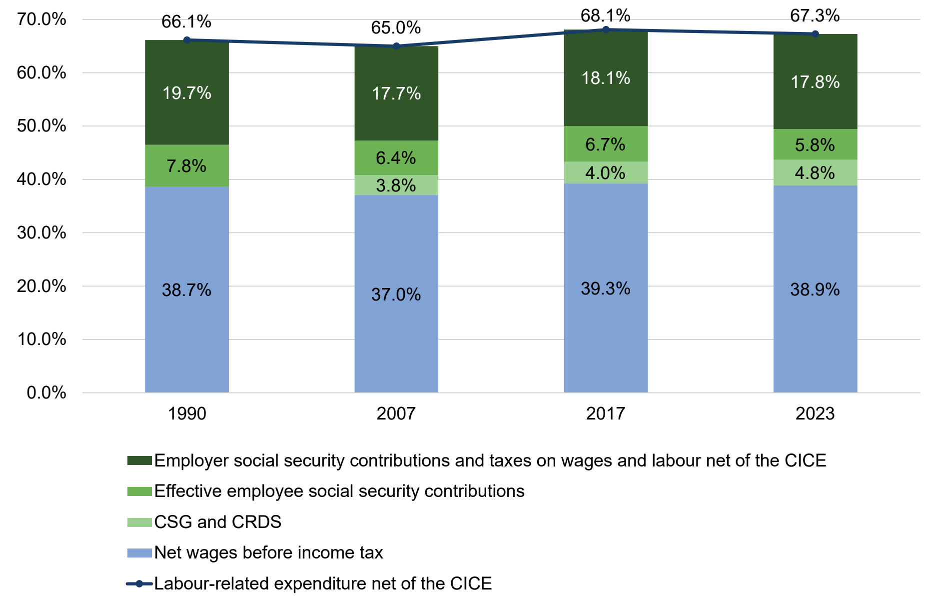
a. "Does Tax-Benefit Linkage Matter for the Incidence of Social Security Contributions?"
b. Lifting the cap on healthcare contributions in November 1981 and January 1984; lifting the cap on family allowance contributions in 1989 and 1990; increasing the threshold of wage bracket B of the supplementary pension scheme for private-sector employees (ARRCO) between 2000 and 2005.

(18) In the national accounts, no distinction can be made between the employee contributions of workers in non-financial corporations (NFCs) as they are included with those of general government and financial corporations (FCs). In order to work around this constraint, an approximate contribution rate is calculated by comparing, within the scope of the national economy, total employee contributions with total gross wages and salaries. This approximate rate is then applied to all the gross wages and remuneration of NFCs in order to estimate the amount of employee contributions paid by their employees which is then compared with the value added of these corporations. Although this method relies on an approximation and has limitations, it is backed up by the average rate of employee contributions appearing in the social security accounts.

The share of net wages before tax in value added remained relatively stable in France between 1990 and 2023, fluctuating at around 39%. However, behind this apparent stability are more or less pronounced variations in labour-related expenditure, driven by social security and tax levies, and by economic conditions (financial crisis, inflationary shock).

- Between 1990 and 2007, the increase in taxes on production caused a reduction of the share of labour-related expenditure which had a greater impact on the share of net wages before income tax due to a concurrent rise in labour-related social levies.
- Between 2007 and 2017, declining business activity as a result of the financial crisis and the rise in social levies substantially increased the share of labour-related expenditure but this hike was not passed on proportionally to net wages.
- Between 2017 and 2023, the share of labour-related expenditure fell under the combined impact of an inflationary shock (see above) and the reduction of labour-related social levies which is why the fall in the share of net wages before income tax was less significant.

Chart 3: Breakdown of labour-related expenditure in value added



Source: National accounts, Insee, DG Trésor calculations and estimates.

Scope: Non-financial corporations.

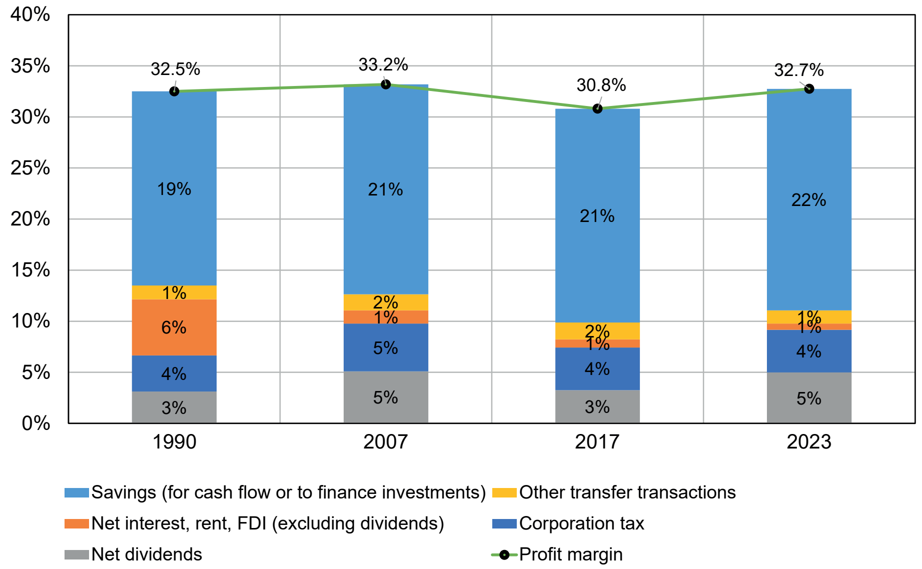
Note: As regards national accounting indicators, labour-related expenditure represents employees' compensation (D1) and taxes on wages and labour (D291), less the amount of the competitiveness and employment tax credit (CICE). The shares are expressed as a percentage of gross value added (B1g). Net wages have been reconstituted by applying (i) the share of effective social security contributions borne by employees in gross wages and salaries throughout the economy to the gross wages and salaries of NFCs and (ii) the theoretical CSG and CRDS rates (see Barèmes IPP | Institut des politiques publiques – IPP, in French only) to gross wages and salaries in the NFC account as non-contributory levies are not included in effective social security contributions borne by employees in the national accounts. Calculation of the amounts of CSG does not factor in changes to the allowance since 1990, which leads to a slight over-estimation of CSG revenue and therefore an under-estimation of the share of net wages before income tax in value added.

3.2 An upward trend for dividends, which are highly volatile, and also for corporate savings

With regard to value added, net distributions[19] of dividends by NFCs rose slightly – from 3% in 1990 to 5% in 2023 – over a long period (see Chart 4). This increase continued between 1990 and the early 2010s before a decline caused by the financial crisis which was followed by a fairly steady rise thereafter. This increase in the share allocated to dividends did not prevent a rise in the share given over to corporate savings which can be used to fund investments. Among other things, this is due to the sharp fall in the share devoted to interest payments owing to the significant reduction in rates over the period.

Dividend distribution is still highly volatile and much more so than the GOS (see Chart 5). Dividend payments are inclined to decline more rapidly than the GOS during crises (such as during the 2008 financial crisis) or as a reaction to an increase in taxes (2013 reform, see below). Conversely, they increase at a faster pace during recovery periods or when taxes are cut. For instance, net dividends fell for several years in a row, by 9% in 2011, 10% in 2012 and up to 45% in 2013, before bouncing back to 23% in 2014. This volatility in relation to the GOS may also be compounded in the national accounts owing to time-lags between the GOS and dividend distribution as part of the dividends for year y may be paid on the basis of the GOS for the previous year (y–1).

Chart 4: Breakdown of GOS in value added



Source: National accounts, Insee, DG Trésor calculations.

Scope: Entire domestic economy.

Note: The indicators used in national accounting for the NFC account are D42 net for net dividends, D51 for corporation tax, D41-D43-D44-D45 net for payments net of property income, D61-D622-D7 net for other transfer transactions and B8G for savings.

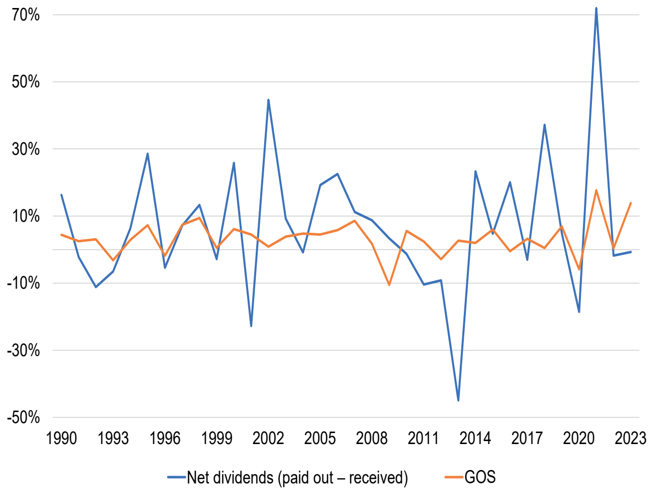
(19) An analysis of net flows of dividends, rather than gross flows, enables intra-group flows to be adjusted; they better represent the return on equity.

Moreover, a number of tax reforms have had a temporary impact on changes to dividend distribution:

- The 2013 reform, that eliminated the 21% flat-rate levy on dividends, whilst making it mandatory for them to be taxed using the progressive income tax scale, the upper band of which is 45%. This meant that the top marginal dividend taxation rate increased by 2.5 percentage points from 57.6% to 60.1% between 2012 and 2013.[20] National accounting data, and individual and corporate tax data, all show a substantial reduction in the amount of dividends paid out following this tax reform. Nevertheless, the decline of dividends paid out by businesses has been highly variable, being almost inexistant for listed companies but very pronounced for those owned by individuals which have been directly affected by changes to taxation.
- The 2018 introduction of the flat-rate tax on investment income (PFU), which was set at 12.8%, supplemented the social levies of 17.2% and brought the rate up to 30%. The PFU was the most significant change to the taxation of dividends since the 2013 reform. Data shows a sharp jump in dividend distribution in 2018, the first year in which the PFU was in force, and this is confirmed by tax data.

An examination of dividend distribution has its limitations, whether it is based on aggregate national accounting data or a panel of major corporations. In some years, sharp increases in dividend payments are mostly made by CAC40 listed companies, whose shareholder policy does not mirror that of the economy as a whole. For these companies, essentially multinationals, it may be more pertinent to compare changes to dividend distribution with that of their GOS and employee remuneration worldwide. In addition, as many shareholders may decide between French or foreign companies, dividend distribution policies may also be reined in by global financial conditions.

Chart 5: Annual growth in the GOS and dividends of non-financial corporations



Source: National accounts, Insee, DG Trésor calculations and estimates.

Scope: Non-financial corporations.

Note: The indicators used in national accounting for the NFC account are D11 for gross wages and D42 net for the net income distributed by companies (which includes dividends and levies on the income of quasi-corporations, as the latter is negligible for NFCs).

How to read this Chart: In 1990, net dividends paid out by NFCs (blue curve) were up 16.3% on 1989, whereas the GOS had risen by 4.4%.

Moreover, dividends are not the only means of paying profits over to shareholders. Share buybacks also enable transfers to all shareholders: the buyback reduces the number of shares and this increases the value of each remaining share (earnings per share, meaning a company's net profit divided by the number of shares making up its capital, rise). The choice between these distribution methods may be affected by taxation, encouraging, for instance, share buybacks in countries where capital gains are either taxed at a low rate or are tax free. Share buybacks, which are funded by the savings component of the GOS, are not directly visible in national accounting data which means that they are excluded from this paper.

(20) L. Bach, A. Bozio, B. Fabre, A. Guillouzouic, C. Leroy and C. Malgouyres (2019), "Impact Assessment of the Taxation of Dividends", *Institut des politiques publiques*, Rapport IPP no. 25 (summary in English but full report in French only).

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