FRANCE STRATÉGIE
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Living Standards in the 2010s in France: Increase or Decline?

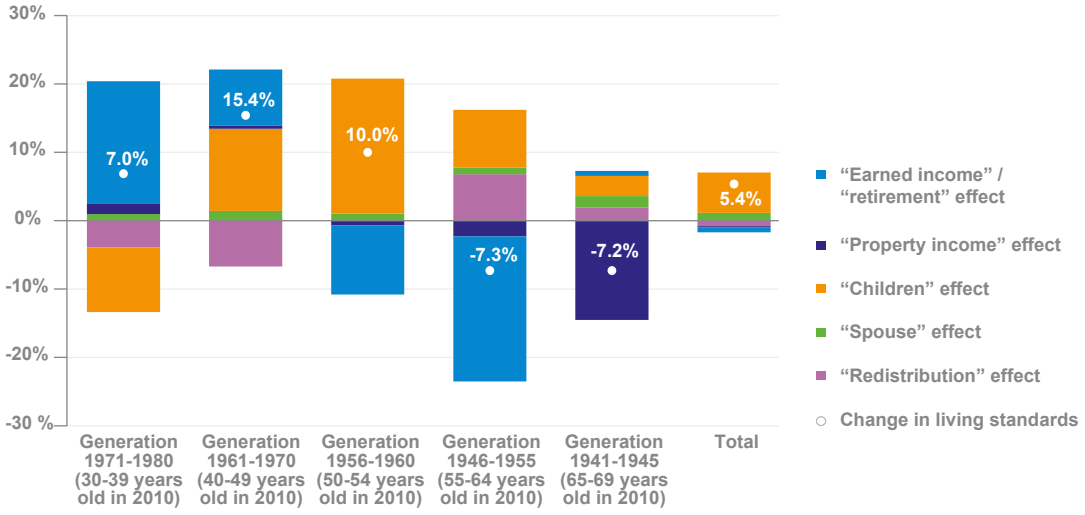
Even before the sharp surge of inflation in 2022, many French people felt their purchasing power was in decline, despite the modest gains recorded over the 2010s. This discrepancy stems partly from the fact that broad averages tend to obscure individuals' diverse experiences. We now have data that traces these individual trajectories between 2010 and 2019.

The average life cycle typically displays the following pattern: Primary income rises during the early decades of working life, then slows down as individuals near the end of their careers and transition into retirement. Household living standards are also affected by changes in family structure, such as the birth or departure of children. While redistributive policies help cushion these life cycle effects, they played only a marginal role in influencing average living standards between 2010 and 2019.

Across all age groups, purchasing power trends in the 2010s were less favorable than in the previous decade. Setting apart individuals aged 55-64 in 2010, whose purchasing power declined with their transition into retirement, the two cohorts with the least favorable trajectories were younger working people (aged 30-39 in 2010) and retirees (aged 65-69 in 2010). Younger working people, the least affluent group in 2010, saw their purchasing power rise by 7% over the decade. In contrast, those aged 65-69 in 2010—who were better off in terms of both income and wealth—saw their purchasing power decline by 7%. This decline was largely driven by a reduction in wealth-based income (this does not include unrealized capital gains).

Among retirees aged 65-69 in 2010 , incomes converged between the wealthiest and poorest retirees. While pensions remained stable overall, the significant decline in income from savings during the decade disproportionately affected the wealthiest retirees. For younger working individuals, inequality slightly increased when considering income quintiles. If we look at individual income trajectories, however, a different picture emerges. The purchasing power of individuals in the bottom 20% at the beginning of the decade grew by 23%, while that of the top 20% fell by 2%.

Breakdown of living standards between 2010 and 2019, by age group



Note: Individuals aged 30–49 in 2010 and those who reached retirement age during the decade (55–64 in 2010) are grouped into ten-year cohorts.

Comment: For individuals aged 40–49 in 2010, standard of living grew by 15.4% between 2010 and 2019. This can be attributed to an increase in earned income (+8%), the departure of children (+12%), and higher taxes (-7%).

Source: France Stratégie calculations based on EDP (Échantillon démographique permanent, Permanent Demographic Sample) and POTE (Permanent des occurrences de traitement des émissions, Permanent Panel of Tax and Income Processing Records) panel data.

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INTRODUCTION

The evolution of purchasing power has been a recurring topic of debate, particularly in the less favorable macroeconomic environment following the 2008 crisis.[1] National accounting data from INSEE[2] show that between 2010 and 2019, purchasing power increased by 9.7% in France. However, a significant portion of the French population feels that their purchasing power has decreased. This impression may stem from a slowdown compared to the previous decade[3] and from the fact that studies typically focus on average trends at the income decile level, which obscures the considerable diversity of individual trajectories. To address this issue, we analyze these trajectories by tracking the same individuals over time and distinguishing them by age and income level. Our method, leveraging underused panel data, allows us to better approximate how changes in living standards are experienced by the French people. This serves as a complement to traditional macroeconomic analyses or those that examine the effects of tax reforms on purchasing power.[4] The analysis involves monitoring the economic situation of individuals born between 1941 and 1980, who were 30-69 years old in 2010, over the course of the decade and observing changes in their purchasing power by comparing their standard of living dynamics with price trends (see Box 1).

Box 1 – Data and methodology

This study employs a birth cohort approach, in which the same individuals are monitored each year from 2010 to 2019. The total samples includes 1.1 million people. Individuals are divided into five age cohorts: three cohorts of people who were of working age throughout the period (those aged 30-39, 40-49, or 50-54 in 2010), one cohort transitioning into retirement during the period (55-64 in 2010), and one cohort of people who were of retirement age for the entire period (65-69 in 2010).

Our primary data source is INSEE's permanent demographic sample (EDP), which covers 4% of the population residing in France. The EDP makes it possible to track individuals over time and provides extensive information on households' social and fiscal situations. From this data, we reevaluate purchasing power, defined as disposable income per household consumption unit (i.e., standard of living), expressed in constant euros. Disposable income includes all income and monetary benefits received within a given year, minus taxes paid in that same year.[5]

Data from EDP's FIDELI (Fichier DÉmographique sur les Logements et les Individus) (Housing and Individual Demographic File) allows us to examine net incomes, residence tax on the primary residence, income tax, social benefits, social deductions, and employee contributions, as well as simulate property tax on the main residence for the years 2010–2018. Income, taxes, and benefits for 2019, as well as wealth tax (impôt sur la fortune, ISF) 2010–2019, are imputed from external data.[6] *The results for this year are therefore less robust than those for 2010–2018.*

The living standards of individuals analyzed in this study align with the living standards of their households. These are calculated according to INSEE's methodology but also incorporate property tax on primary residences and wealth tax (ISF).

Price trends are accounted for, and all monetary amounts presented in this report are expressed in constant 2019 euros, calculated as monthly values per consumption unit. To account for inflation and produce deflated estimates, we employ price indices differentiated by standard of living quintile, as developed by INSEE.

It should be noted that these observations on living standards do not, by definition, take into account unrealized capital gains, which have risen significantly since the early 2000s as a result of declining interest rates. These capital gains have largely benefited individuals from the oldest cohorts, particularly through increases in property values.[7]

1. This work was supported by a French government grant managed by the Agence nationale de la recherche (National Research Agency) under the Programme d'investissements d'avenir (Investments for the Future Program), reference ANR-10-EQPx-17 (Centre d'accès sécurisé aux données, CASD) (Secure Data Access Center). The authors would also like to thank Pablo Rodriguez, intern at France Stratégie, for his contribution.
2. Quarterly national accounts, INSEE.
3. Philippe Madec, Mathieu Plane, and Raffaele Sampognaro, "Une analyse macro et microéconomique du pouvoir d'achat. Bilan du quinquennat mis en perspective," Research paper 2 (2022), OFCE.
4. Two types of studies are commonly undertaken on these issues: first, analyses of the impact of specific reforms (see Cornuet *et al.* 2020), and second, comparisons of population snapshots taken at two different points in time (see Madec *et al.* 2018). For a more detailed discussion of the differences between these approaches and the methodology used in this study, refer to the Appendix available on the France Stratégie website (point 1).
5. And not for this year's income, an important distinction for income tax purposes.
6. For further details, see Appendix, point 2.
7. Property prices (new constructions and existing properties) rose by 100% between 2000 and 2009, then by 13% between 2010 and 2019, according to INSEE. Unrealized capital gains are not included in the standard of living.

This method allows us to examine the mobility of French households more closely and to better capture variations in individual trajectories. Throughout this note, the terms "purchasing power" and "standard of living" are used interchangeably, with amounts adjusted for inflation.

We then analyze the factors driving changes in purchasing power by identifying three key elements: changes in primary income,[8] changes in family composition, and changes in taxes and benefits. Together, these factors help explain how a decade that appears stable when viewed as a cross section of the overall population can reveal significant heterogeneity when we focus on individual trajectories.

First, we present the average change in purchasing power and its determinants across all tracked generations. We then examine how this evolution varies by income level, focusing on two specific generations.

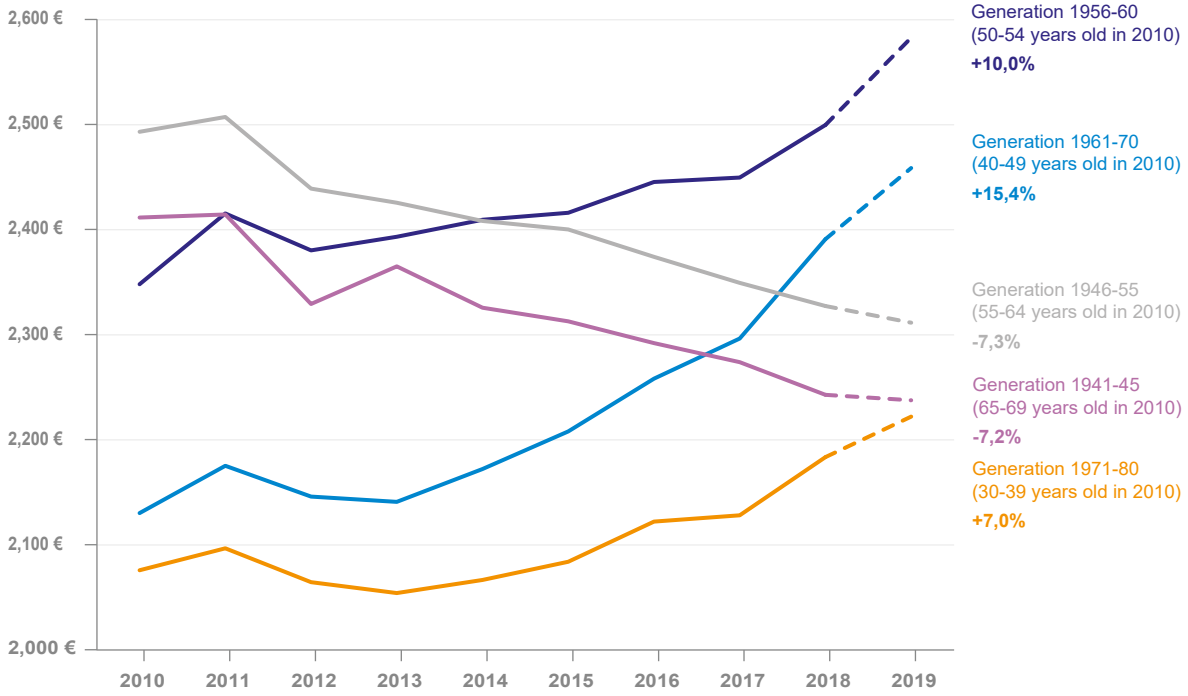
SLIGHT RISE IN AVERAGE STANDARD OF LIVING, MASKING MAJOR DIFFERENCES BETWEEN AGE GROUPSE

Increased purchasing power only for generations born after 1956

During the decade following the 2008 financial crisis, living standards increased relatively slowly.[9] The purchasing power of individuals born between 1941 and 1980 increased by 5.4% between 2010 and 2019, or an average of 0.5% per year.

However, trends varied across age groups. For example, cohorts born before 1946—aged 65 to 69 in 2010, most of whom were already retired—experienced a decline in their standard of living of more than 7% on average, from 2,412 euros to 2,238 euros per month (see Figure 1). This decline can be attributed in part to the retirement of

Figure 1 – Change in average monthly standard of living from 2010 to 2019, by age group



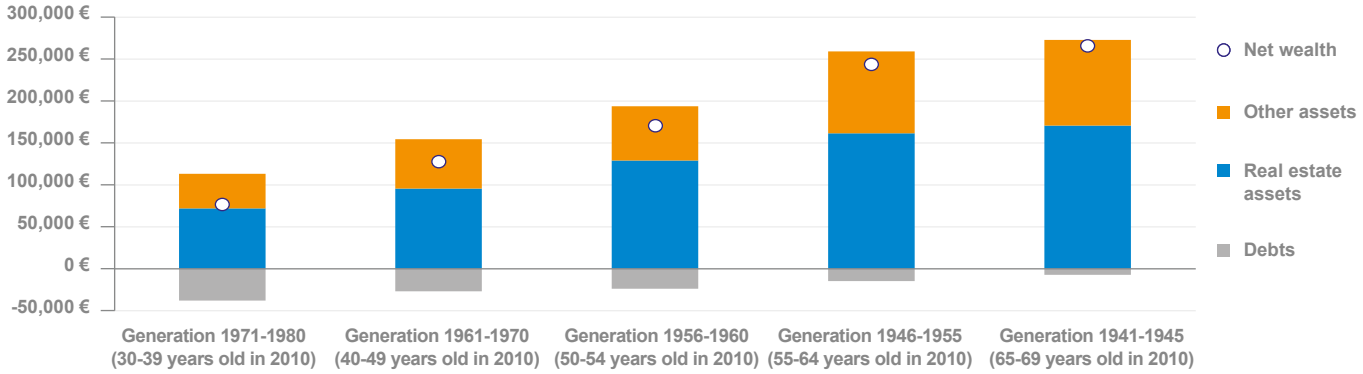
Note: Standard of living is calculated as gross income minus payroll taxes, social contributions, and taxes, plus monetary benefits, per household consumption unit, in constant 2019 euros. The year 2019 is simulated. Individuals aged 30 to 49 in 2010 are grouped into decennial cohorts. The same applies to individuals of retirement age over the decade (55–64 in 2010). For the 65–69 cohort, if we restrict ourselves to households already retired in 2010, the fall in living standards is 5.9%, rather than 7.2%.

Comment: The average standard of living for the 1971–1980 generation was 2,075 euros per month in 2010.

Source: France Stratégie calculations based on EDP and POTE panel data

8. Throughout this note, replacement income (pensions and unemployment) is included in primary income and not in social benefits. They are therefore considered part of gross income. Changes in primary income can result from many factors (wage dynamics within and between jobs, job transitions, unemployment, and inactivity), which are not analyzed in detail here.
9. Julien Blasco and Sébastien Picard, "Quarante ans d'inégalités de niveau de vie et de redistribution en France (1975–2016)," in *France, portrait social* (2019), *INSEE Référence*, accessed January 28, 2025.

Figure 2 – Average net wealth per consumption unit in 2010, by age group



Comment: The average net wealth per consumption unit of 65–69 year-olds in 2010 was more than 265,000 euros, including 170,000 euros in real estate assets.

Source: France Stratégie calculations based on data from the 2010 Household Wealth Survey "Enquête Patrimoine"

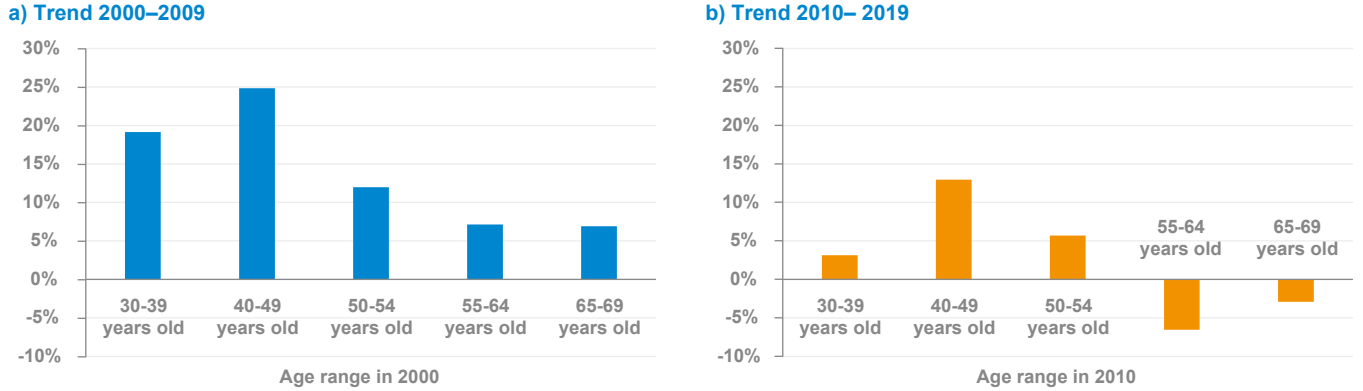
older employees and self-employed workers. When focusing on individuals in this age group who were already retired by 2010, the decrease in purchasing power is somewhat smaller, at 5.9%. In contrast, living standards increased by between 7% and 15.4% for generations born between 1956 and 1980—those aged 30 to 54 in 2010, most of whom were still working in 2019.[10] Individuals aged 30 to 39 in 2010 saw their average standard of living rise from 2,076 to 2,222 euros per month, reaching a level close to that of the 65-69 age group.

We should not let this convergence of incomes obscure the fact that 65-69 year-olds possess a far greater stock of wealth than younger generations. In 2010, average net wealth per consumption unit for 65-69 year-olds was 265,000 euros, compared to 75,000 euros for 30-39 year-olds (see Figure 2).

These differentiated trends between age groups are not specific to the 2010s, as they are largely linked to the life cycle. Working individuals, who are younger, generally experience a faster increase in their standard of living compared to retirees. According to repeated cross sections of the same age cohorts taken from INSEE's Tax and Social Incomes Survey (Enquête revenus fiscaux et sociaux, ERFS), all age groups saw their purchasing power rise in the 2000s, although the increase was less dynamic for those over 50 (see Figure 3a). The slowdown in purchasing power during the 2010s, following the 2008 crisis, affected all age groups (see Figure 3b). For younger individuals, their purchasing power grew at a slower rate, whereas for individuals over 55, their purchasing power actually decreased.

Finally, it should be noted that the situation is not uniform within each cohort. For example, among the generation

Figure 3 – Ten-year trend in living standards for individuals, grouped by age group at the start of the decade



Note: The data concern different individuals each year. We assemble a pseudo-panel using dates of birth. Individuals aged 30–49 at the start of the period are grouped into decennial cohorts. The same applies to individuals of retirement age (55–64) over the decade.

Comment: Between 2000 and 2009, people aged 30–39 in 2000 saw their standard of living rise by 20%. This growth rate is obtained by comparing people aged 30–39 in 2000, born between 1961 and 1970, in the 2000 and 2009 ERFS surveys.

Source: ERFS surveys

10. This dichotomy between older and more recent generations holds true even when analyzed using the median purchasing power of each cohort instead of the average. However, for the remainder of this note, we focus on average trends, as they allow for a clearer breakdown into various underlying effects.

born between 1971 and 1980—whose income increased on average over the 2010s—more than a third (37%) experienced a decline in purchasing power of over 5%, while 47% saw an increase of the same magnitude.

Purchasing power trajectories strongly linked to the life cycle

How can such generational differences be explained? To understand the underlying dynamics, we need to distinguish three key factors that influence purchasing power:[11]

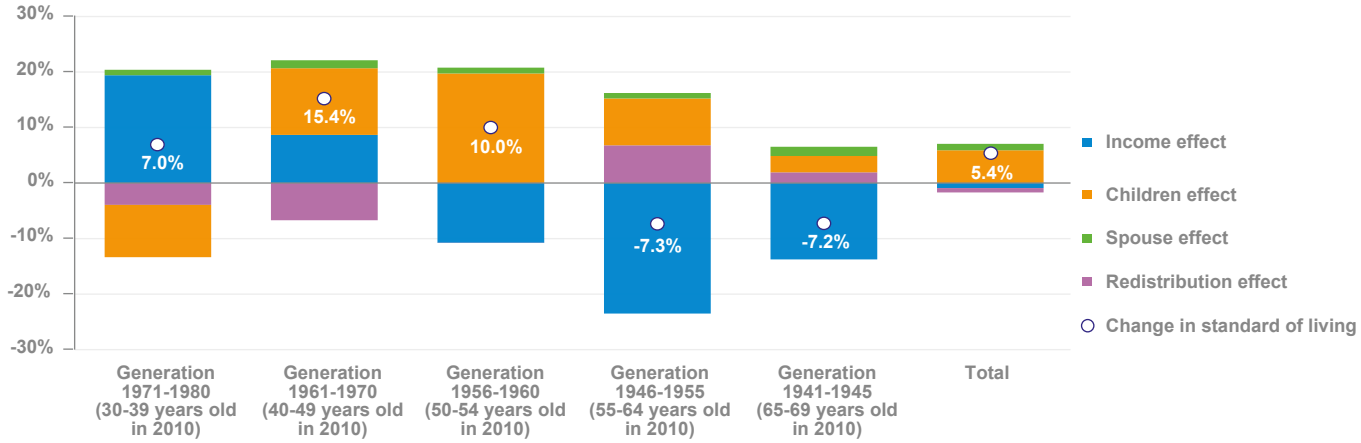
- an *income* effect, reflecting changes in living standards driven purely by variations in primary income—defined as gross income before employee contributions, direct taxes, and cash benefits;[12]
- a *family* effect, further divided into a *children* effect and a spouse effect, which involves changes in the number of consumption units within a household. Events such as the birth or departure of a child, marriage, divorce, or widowhood all affect a household's standard of living (see Appendix, point 4);[13]
- a *redistribution* effect, which refers to shifts in the balance between taxes paid and social benefits received, a.k.a. *net taxation*.[14]

In France, a great deal of attention is usually given to the redistribution effect, particularly the impact of tax and social contribution reforms on purchasing power. However, our analysis reveals that between 2010 and 2019, the income and family effects were more substantial than the redistribution effect, regardless of the generation considered.

The income effect emerges as the most decisive factor in the evolution of purchasing power over the decade for most generations (see Figure 4). The 1971-1980 generation benefited the most from this effect, with an estimated increase of nearly 17%, contributing to an overall rise in purchasing power of 7%. In contrast, older generations experienced a decline in primary incomes: For instance, the 1941-1945 generation saw its purchasing power fall by 7.2%, driven by a 13.1% decrease in primary incomes. As one would expect, the income effect is even more pronounced for the cohort transitioning from employment to retirement during this period (1946-1955).

Changes in the number of children within a household also play a crucial role in determining generational purchasing power. For instance, without the departure of children, the purchasing power of the 1961-1970 generation would have increased by only 5.9%, compared to the observed 15.4%. Conversely, the arrival of children in the households of the youngest generation (1971-1980) contributed to a decline in purchasing power of nearly 7.7%. The "spouse" effect —which refers to changes in the number of consumption units due to cohabitation, separation, or widowhood—appears to

Figure 4 – Breakdown of living standards between 2010 and 2019, by age group



Note: 2019 is simulated.

Comment: For individuals born between 1971 and 1980, the standard of living increased by 7% between 2010 and 2019. Changes in gross income contributed +19.4%, the arrival of children -9.4%, and tax increases -3.9%. Individuals aged 30 to 49 in 2010 are grouped into decennial cohorts. The same applies to individuals of retirement age over the decade (55–64 in 2010).

Source: France Stratégie calculations based on EDP and POTE panel data

11. For an accounting breakdown of changes in living standards, see Appendix, point 3.
12. Employer contributions are not included in the analysis. The effect of lower employer contributions (Crédit d'impôt pour la compétitivité et l'emploi [CICE] [Tax Credit for Competitiveness and Employment]) on purchasing power, via job creation and the effect on wages, is included in the income effect.
13. The combination of the income and family effects corresponds to what is commonly referred to as the "standard of living before redistribution" effect, a widely used concept.
14. The redistribution effect partly reflects reforms to the socio-fiscal system and partly reflects changes in the household's situation. Even in the absence of reform, an increase in income or the arrival of a child affects taxes (especially income tax and employee contributions) and household benefits (especially family benefits). The data presented in this note do not allow us to distinguish the pure effect of reforms from the redistribution effect. The latter should therefore be interpreted with caution.

be much more limited. Over the period, the proportion of individuals living in couples declined slightly (by five percentage points) regardless of generation. Compared to the children effect, the spouse effect remains marginal: it accounted for less than one-fifth of the impact of family changes on living standards.[15] Note, however, that the impact of children on perceived purchasing power can be approximated only through consumption units. Many parents of adult children, even if they have left the household, continue to face expenses related to their children. In our analysis, only alimony payments formally declared to the tax authorities are considered when calculating living standards.

Finally, the redistribution effect does play a cushioning role in the standard of living across generations: It mitigates declines in income and, conversely, reduces gains when income rises. However, this effect remains limited. Its impact would be even smaller if the mechanical effect of income changes on social contributions and employee contributions were neutralized. For the 1961-1980 cohorts, the redistribution effect is negative, reducing purchasing power by 3.9 points for the youngest generation. This is because the increase in their pretax income over the decade led to a corresponding rise in employee contributions and social contributions.

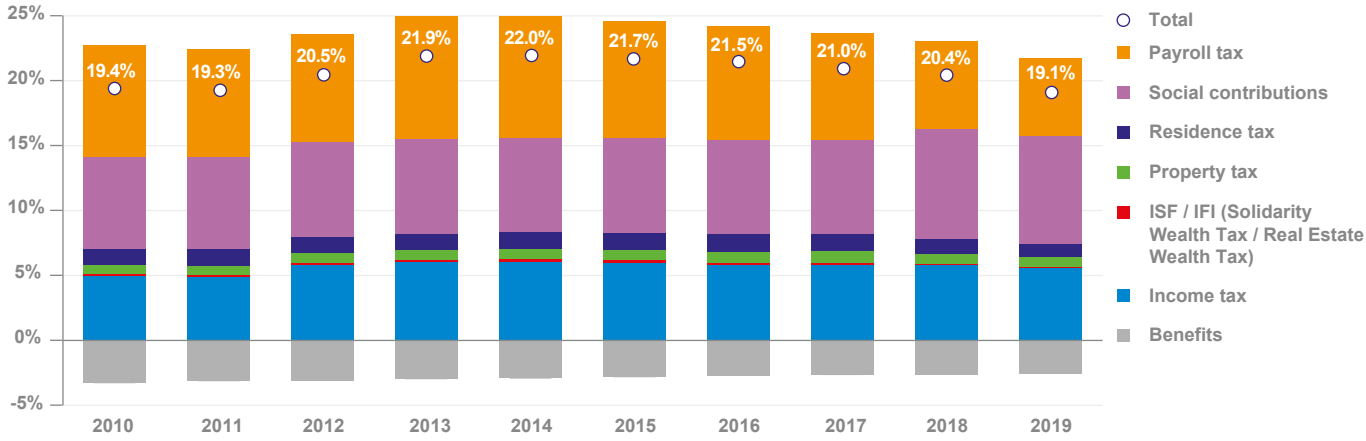
Primary income tax rate: Back to square one

The redistribution effect should not be interpreted as a change in the household tax rate per se. Rather, this effect measures only the variation in tax amounts net of benefits, expressed in constant euros. In contrast, changes in the tax rate would depend on the dynamics of taxes, benefits, and gross income (see Appendix, point 5).

For individuals born between 1941 and 1980, the tax rate—defined as the balance between taxes and social benefits relative to primary income—declined from 19.4% to 19.1%, between 2010 and 2019 (see Figure 5). At first glance, comparing only 2010 and 2019 might suggest a decade in which taxes changed little, given the limited impact of the redistribution effect on purchasing power and the small change in the tax rate. Closer examination, however, reveals two distinct phases during the decade. Between 2011 and 2014, the tax rate for individuals born between 1941 and 1980 increased by 2.6 percentage points, reaching 22%. From 2015 to 2019, the tax rate fell by approximately three points. This evolution can be attributed to the numerous tax reforms implemented during the decade, as well as the transition to retirement, which mechanically reduces the payroll tax rate. The shift from salaried income to retirement pensions accounts for half of the decline in contributions, with the remaining half stemming from the reforms themselves.

Changes in the tax rate varied by age group, reflecting both life-cycle effects—such as the arrival and departure of children, accumulation of property wealth, and changes in income—and the targeted nature of certain tax reforms. These reforms include the reduction of employee-contribution rates for workers and adjustments to the minimum old-age pension. The two cohorts born after 1960 experienced a 1.5-point increase in their tax rate over the period. This increase occurred because the reductions in the contribution rate and residence tax were insufficient to offset rising income tax, social contributions, and declining wel-

Figure 5 – Change in average tax rate (net of benefits) and its components between 2010 and 2019 for all people born between 1941 and 1980, as a percentage of gross income



Note: The tax rate (net of benefits) is calculated as the ratio between (1) gross income minus deductions plus benefits and (2) gross income.

Comment: In 2019, the tax rate (net of benefits) is 19.1%, including 5.6% income tax.

Source: France Stratégie calculations based on EDP and POTE panel data

15. In the event of separation, there is a fall in average consumption units within the household (the spouse effect), but also a fall in household income, which is included in the income effect. As a rule, the *lower income effect* prevails, resulting in a lower average standard of living for both ex-spouses (see Appendix, point 4).

fare benefits—changes primarily driven by higher income levels (see Figure 6). For individuals approaching retirement age in 2010, the tax rate fell sharply due to a reduction in payroll tax contributions associated with the transition to retirement. Those aged 50-54 in 2010 also benefited from a reduction in the employee contribution rate during 2018-2019. For the 65-69 age cohort, most of whom had already retired by 2010, the tax rate declined slightly. This reduction resulted from a combination of factors: The rise in social contributions was offset by the elimination of payroll tax contributions, as well as lower rates of wealth tax, personal income tax, and residence tax. However, if we focus exclusively on individuals aged 65-69 who had already retired in 2010 (excluding those who retired later in the decade), we observe a 0.7-point increase in the tax rate. This rise is primarily linked to an increase in social contributions (+1.8 points).

However, these divergent purchasing power dynamics across generations do not fully explain the heterogeneity of individual trajectories. Beyond belonging to the same birth cohort, a household's position within the cohort's standard-of-living scale plays a critical role in explaining the diversity of individual situations.

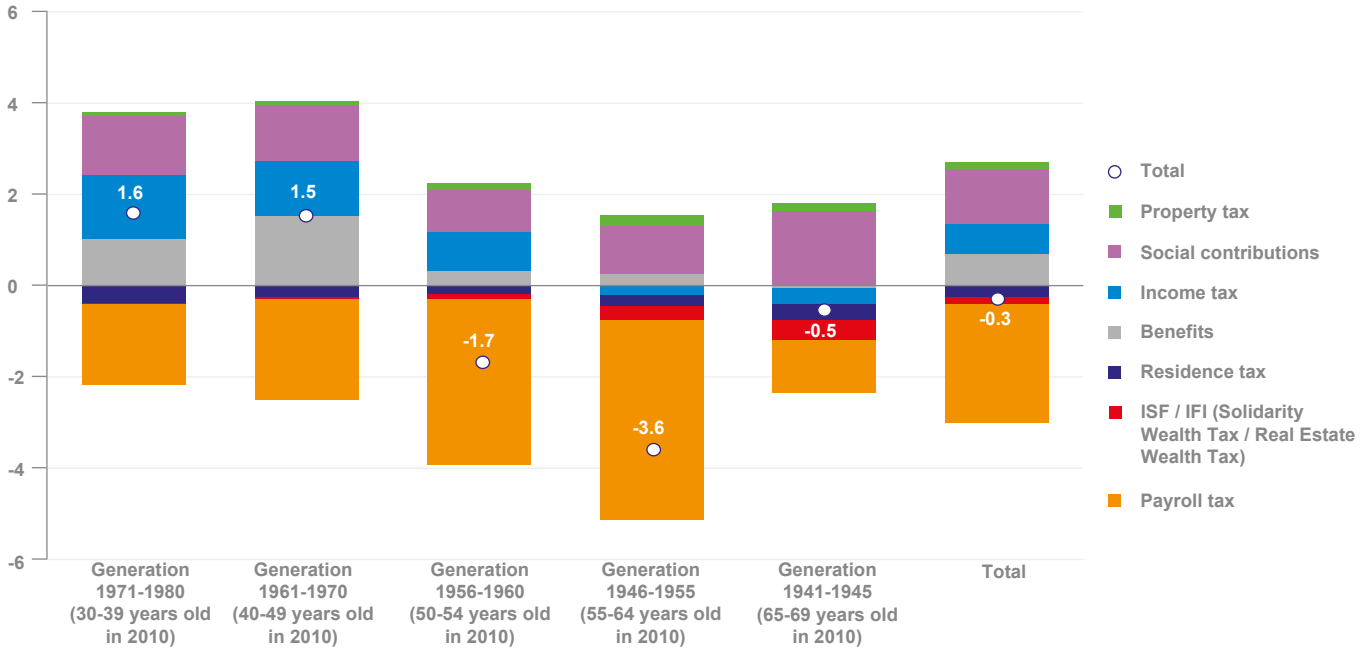
HETEROGENEOUS TRENDS ACCORDING TO INCOME LEVEL, LINKED PRIMARILY TO PRETAX INCOME DYNAMICS

Quintile convergence over time for the 1941-1980 cohort

Over the decade 2010-2019, did incomes rise more quickly at the top, middle, or bottom of the income distribution? To answer this question, we classify individuals into five quintiles: The first quintile represents the lowest 20% of the income distribution, the second quintile the next 20%, and so on, with the fifth quintile representing the highest 20% of incomes. We use two complementary methods: the panel approach and the repeated cross-sectional approach (see Box 2 next page).

The traditional repeated cross-sectional approach shows a relatively homogeneous evolution in purchasing power across quintiles of living standards between 2010 and 2019.[16] However, "dynamic" approaches reveal more contrasting trends according to income level. For the 1941-

Figure 6 – Change in average tax rate (net of benefits) and its components between 2010 and 2019, by age group, in percentage points of gross income



Note: The tax rate net of benefits is calculated as the ratio between (1) gross income minus deductions, plus benefits; and (2) gross income. The year 2019 is simulated. The tax rate in 2010 was 16.9% for 30–39 year-olds, 19.7% for 40–49 year-olds, 23.1% for 50–54 year-olds, 20.3% for 55–64 year-olds, and 15.4% for 65–69 year-olds.

Comment: For people aged 65–69 in 2010, the tax rate net of benefits fell by 0.5 points between 2010 and 2019. For this category, the reduction in the average ISF amount represents a 0.5-point reduction in the gross income tax rate.

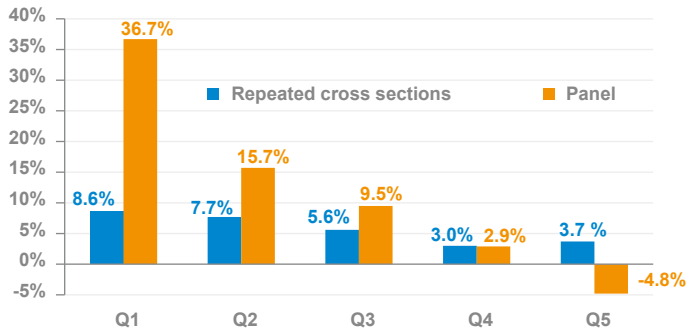
Source: France Stratégie calculations based on EDP and POTE panel data

16. Yannick Guidevay and Julie Guillaneuf, "En 2019, le niveau de vie médian augmente nettement et le taux de pauvreté diminue," INSEE Première 1875 (2021), accessed January 21, 2025.

1980 cohort as a whole, purchasing power rose more quickly at the lower end of the income distribution (see Figure 7).

When we track changes in incomes using the repeated cross-sectional approach, the first two quintiles saw an increase of around 8% between 2010 and 2019. In other words, the bottom 40% in 2019 had incomes 8% higher than the bottom 40% in 2010. At the same time, incomes in the top two quintiles grew by less than 4%: 3% for the fourth quintile and 3.7% for the fifth quintile. The middle quintile experienced a 5.6% increase. Over the ten-year period, inequalities in purchasing power between quintiles therefore declined slightly within the 1941-1980 cohort. With the panel approach, the lower the initial standard of living, the faster the increase in purchasing power. For the lowest 20% at the start of the period, purchasing power rose by 37%. Around the starting median, purchasing power increased by 9.5%. In contrast, purchasing power for the wealthiest 20% at the start of the period declined by 5%. Several simultaneous factors explain the convergence of incomes between the wealthiest and poorest individuals at the start of the period. For working-age individuals, the reversion to the mean of pretax incomes at both ends of the distribution plays a significant role. Individuals who experience exceptionally high incomes at a given point—through bonuses or capital gains, for example[17]

Figure 7 – Change in standard of living for quintiles of the 1941-1980 cohort, between 2010 and 2019



Comment: In the repeated cross-sectional approach, the wealthiest 20% in 2019 have a standard of living 3.7% higher than that of the wealthiest 20% in 2010. In the panel approach, the wealthiest 20% at the start of the period saw their standard of living fall by 4.8% between 2010 and 2019.

Scope: People born between 1940 and 1981.

Source: France Stratégie calculations based on EDP and POTE panel data

—or very low incomes, such as during a period of unemployment, often see their situation return to the average over time. This reversion to the mean is particularly pronounced for those with very high initial incomes. Individuals in the top 1% at the beginning of the period saw their standard of living fall by 15% (see Box 3).

Income convergence may also result from the mechanical effect of retirement, which generally leads to a relative increase in the standard of living for poorer individuals

Box 2 – Creating income groups when tracking individuals over time

The goal is to classify individuals into five income groups of equal size, or quintiles, ranging from the lowest 20% (quintile 1) to the highest 20% (quintile 5), in order to analyze variations in purchasing power according to income level. However, using a panel approach—where individuals are tracked over time—makes classifying individuals into income categories more complex than using the cross-sections approach. Over time, a significant proportion of individuals become wealthier or poorer, and thus change income groups. Should we reclassify individuals into new income groups each year, even if that means comparing groups made up of different people over time? Or should we assign each individual to their starting quintile for the entire decade, even if their income changes significantly? In the absence of a completely satisfactory method, we present two complementary approaches:[18]

- *The "initial quintile" or "panel" method classifies individuals based on their income level at the start of the period (specifically, their average income over the first three years). With this method, quintiles contain the same individuals throughout the period. This dynamic approach provides insights into income trends based on starting income.*
- *The "annual quintiles" or "repeated cross-sections" method classifies individuals according to their income level in each specific year. This method allows us to describe changes in the income quintiles of a cohort. It is also referred to as a "pseudo-panel" because the composition of quintiles can vary from year to year.*

The available data do not allow for an accurate simulation of pretax income changes by income quintile between 2018 and 2019. In the repeated cross-sectional approach, we apply the same aging method as for the entire cohort (see Box 1). For the panel approach, we extend pretax incomes based on the trend observed between 2016 and 2017.

17. Unrealized capital gains are not included in this analysis.
18. For a discussion of these and two other possible approaches, see Appendix, point 6.

compared to wealthier ones.[19] Changes in family structure and the socio-fiscal system may also have contributed to this trend. Additionally, a high percentage increase in living standards for poor households can often be attributed to the very low level at which they began the decade.

To better understand changes in purchasing power according to income level, the following two sections take a closer look at two specific cohorts: a cohort of retirees (born between 1941 and 1945, who are no longer working) and a cohort of young working individuals (born between 1971 and 1980).

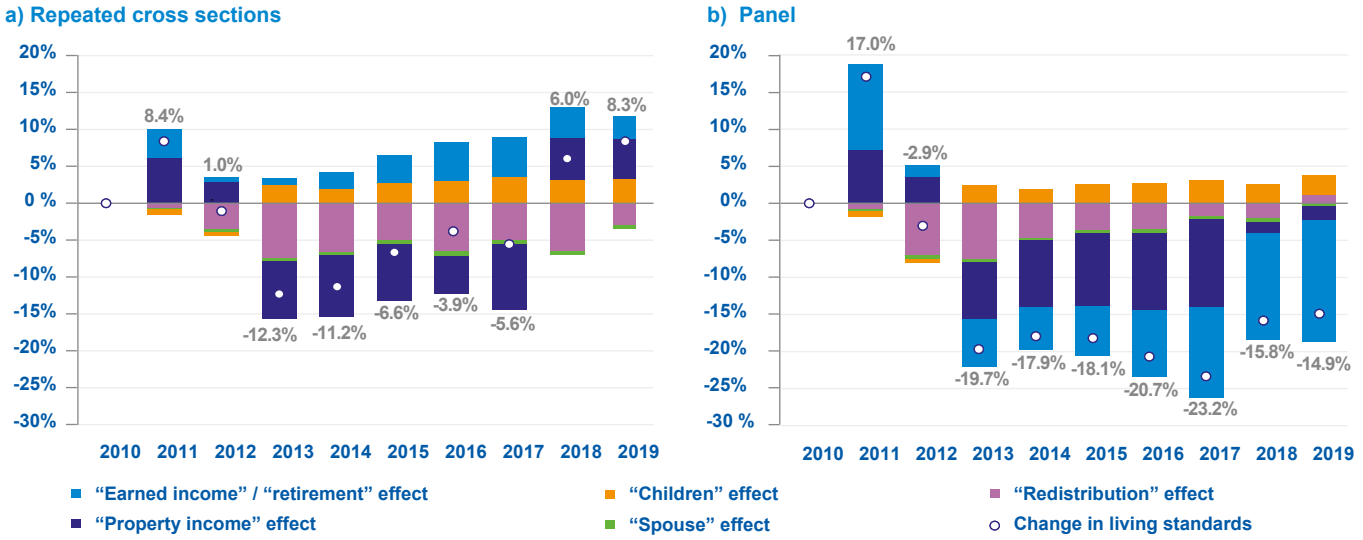
Box 3: How has the purchasing power of the wealthiest 1% changed?

Within the 1941-1980 cohort, the repeated cross-sectional approach shows that the wealthiest individuals in 2019 were wealthier than the wealthiest in 2010. More specifically, the purchasing power of the top 1% in 2019 was 8% higher than that of the top 1% in 2010 (see Figure 8a). This increase, only slightly higher than the average observed for all households, is primarily driven by higher income from assets and employment (+8.5%) and, to a lesser extent, by a decrease in the number of children (+2%). The income tax effect slightly reduces this gap (-2.5%). Notably, the tax rate for the top 1% each year remained virtually unchanged between 2010 and 2019.

In contrast, adopting the panel approach reveals a 15% decline in the purchasing power of individuals who were in the top 1% at the beginning of the decade (see Figure 8b). This decline is largely attributable to the earned income effect, while other factors remain negligible. The retirement of members of the top 1%—who were on average 52 years old in 2010 and therefore 61 in 2019—significantly weighed on their purchasing power. Furthermore, some individuals who remained active throughout the period were unable to sustain their level of remuneration over time.

Regardless of the approach used, the purchasing power of the wealthiest 1% was strongly affected by the decade's reforms on how capital is taxed, such as the 2013 barémisation of dividends (a progressive tax rate on capital income) and the 2018 prélèvement forfaitaire unique (a flat tax rate on capital income). These reforms had both a direct effect on the amount of tax paid on capital income and an indirect effect on the amount of income declared.

Figure 8 – Change in the standard of living of the top 1% of the 1941-1980 cohort compared with 2010



Note: In the graph on the left, the drop in earned income and pension income between 2017 and 2018 is explained by a composition effect due to the replacement of high-wage earners by individuals with high wealth income in the top 1%, and not by income shifting (see the 2020 report from the committee for the evaluation of capital tax reforms for a discussion of the effects of the PFU [a flat tax rate on capital income] on income shifting).

Comment: In the graph on the left, the standard of living of the top 1% in 2019 among people born between 1941 and 1980 was 8.3% higher than that of the top 1% in 2010. In the graph on the right, among people born between 1941 and 1980, members of the top 1% of incomes over the 2010–2012 period saw their standard of living fall by 14.9% between 2010 and 2019.

Source: France Stratégie calculations based on EDP and POTE panel data

19. Hassan Abbas, "Des évolutions du niveau de vie contrastées au moment du départ à la retraite," *INSEE Première* 1792 (2020), accessed January 21, 2025.

Marked convergence of incomes within the retirement cohort, due to the decline in property income of the wealthiest

Here we focus on the retired cohort, specifically individuals born between 1941 and 1945, excluding the small proportion of employees and self-employed individuals still working in 2010. The average standard of living for this cohort, already retired at the start of the period, declined by 5.9% between 2010 and 2019. However, this average conceals significant disparities that are revealed when we distinguish individuals by income level.

In this case, the cross-sectional and panel approaches produce similar results: Living standards rose for low-income earners, stagnated around the median, and fell for high-income earners.

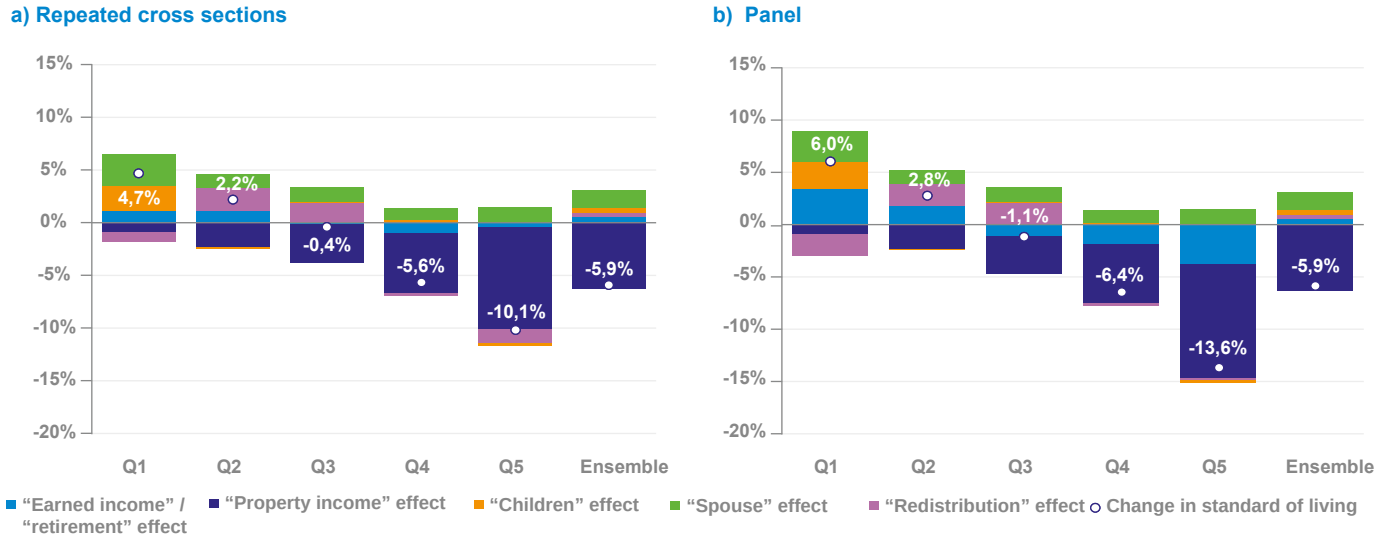
Using the cross-sectional approach, the income of the lowest 20% of the cohort in 2019 was 4.7% higher than that of the lowest 20% in 2010 (see Figure 9a). A similar but less pronounced trend appears for the second quintile, whose standard of living increased by 2.2% over the same period. Conversely, the standard of living for the wealthiest 20% of the cohort in 2019 fell by 10%, nearly double the decline observed for the cohort average. As a result, purchasing power inequalities among retirees narrowed. The ratio between the standard of living of the wealthiest 20% and that of the lowest 20% decreased from 4.1 in 2010 to 3.3 in 2019.

When we track individuals based on their starting position, we find yet again that living standards rose for the poorest, stagnated for those near the median, and fell for individuals who began the decade with high incomes (see Figure 9b). Those initially in the fifth quintile experienced a 14% decline in their standard of living, while individuals in the first quintile at the start of the decade saw a 6% increase in purchasing power.

How can we explain these differences in purchasing power across income levels? For the retired cohort, the purchasing power dynamics of different income groups can be only marginally attributed to taxation, benefits, or changes in household structure. Events such as the departure of children,[20] separation, or widowhood had virtually no direct effect on the standard of living for retirees, except in the first quintile, where these changes played a positive role. Similarly, changes in the total amount of tax paid, net of benefits received, had no decisive impact, particularly for individuals with living standards above the median.

On the other hand, the dynamics of pretax income vary significantly across income groups. The wealthiest households were particularly affected by the decline in their primary income. In the repeated cross-sectional approach, changes in pretax income led to a 15-point drop in the standard of living for the wealthiest households, while it resulted in a 2-point increase for the poorest. The differences are even more pronounced when using the panel

Figure 9 – Standard of living of retirees born between 1941 and 1945 compared with 2010, by quintile



Comment: In the graph on the left, the standard of living of the wealthiest 20% born between 1941 and 1946 (excluding wage earners) fell by 13.6% between 2010 and 2019. 10.9% of this decline is due to a drop in wealth income. In the graph on the right, individuals in the bottom quintile over the 2010–2019 period saw their standard of living fall by 14% over the period. 12.5% of this decline is due to a drop in wealth income.

Source: France Stratégie calculations based on EDP and POTE panel data

20. Intra-family transfers resulting from the departure of children are included here only if they are declared.

approach, where quintiles are defined at the beginning of the period: The first quintile saw a 10-point gain, while the last quintile experienced a 15-point loss.

The decline for wealthier households was primarily driven by a reduction in savings income, against a backdrop of significantly lower interest rates over the period.[21] Across the cohort, the drop in wealth income contributed, on average, to a 6.5% decrease in living standards. Older cohorts were mechanically more affected than others by the decline in interest rates, as they possess greater financial assets.[22] For less affluent households, the fall in wealth income had a smaller impact due to the limited share of savings income in their total income. Note, however, that while wealthier households experienced a decline in savings income, this had the mirror effect of increasing their wealth levels and the associated unrealized capital gains—assets that are not accounted for in the measurement of living standards. Contrary to popular belief, the purchasing power of retirement pensions remained relatively stable within the cohort, declining by only 1% in constant euros over the decade. Pensions kept pace with inflation over the decade, rising slightly faster at the start (due to over-indexation in 2012 and 2013) and slowing in 2014 and 2018 as a result of under-indexation. Within our cohort of retirees, the pension amounts for the least affluent 20% in 2019 were 3% higher than those of the least affluent 20% in 2010 (repeated cross-sectional approach). Meanwhile, individuals who were in the lowest 20% at the start of the period saw their pensions increase by 10 points, reflecting a reversion to the mean.

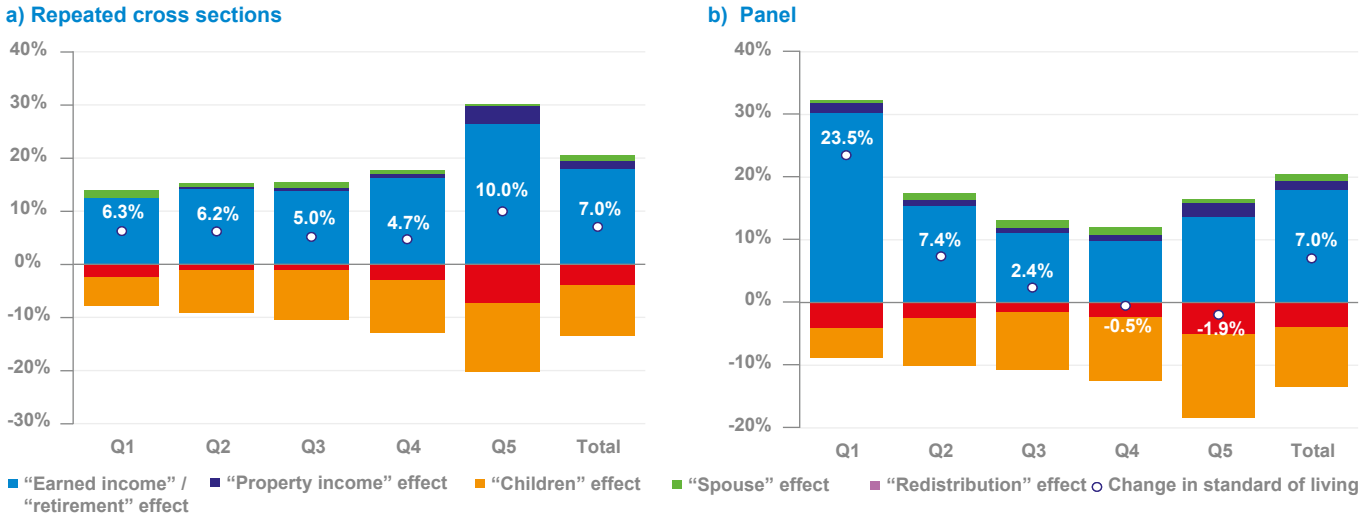
Cohort of young working people: Differences between rich and poor driven by earned-income dynamics

Here, we focus on the cohort of young working people: those born between 1971 and 1980, who were 30-39 years old in 2010. Unlike the findings for retirees, the two approaches—the repeated cross sections method and the starting quintile method—yield different results.

When we follow income quintiles each year, the trend in purchasing power is consistently positive and relatively uniform across the first four income quintiles, with increases ranging from 6.2% to 4.7% (see Figure 10a). In contrast, the wealthiest 20% in 2019 had 10% more purchasing power than the wealthiest 20% in 2010. The ratio between the average standard of living of the most affluent and that of the least affluent increased slightly over the period, from 3.9 in 2010 to 4.1 in 2019.

When we track individuals based on their initial standard of living, the income dynamics diverge more sharply, and the trend reverses: The higher the starting position, the smaller the percentage increase in purchasing power (see Figure 10b).

Figure 10 – Change in the standard of living of the 1971-1980 generation compared with 2010, by quintile



Comment: In the graph on the left, the standard of living of the wealthiest 20% born between 1941 and 1946 (excluding wage earners) fell by 13.6% between 2010 and 2019. 10.9% of this decline is due to a drop in wealth income. In the graph on the right, individuals in the bottom quintile over the 2010–2019 period saw their standard of living fall by 14% over the period. 12.5% of this decline is due to a drop in wealth income.

Source: France Stratégie calculations based on EDP and POTE panel data

21. Several sources confirm the collapse in the return on savings in the 2010 decade. Interest received by households, observable in income tax data (excluding regulated savings) since 2013, fell by 48% in constant euros nationwide between 2013 and 2019. Between 2010 and 2019, the yield on euro-denominated life-insurance policies, which account for more than three-quarters of all assets invested in life-insurance policies, fell by 56% (source: Fédération française de l'assurance [French Insurance Federation]). See also Hassan Bennani, Emeline Fize, and Henri Paris, "Baisse des taux d'intérêt et effets sur les inégalités entre ménages depuis 2012," *Focus* 61 (June 2021), Conseil d'analyse économique, accessed January 21, 2025.
22. Luc Arrondel and Jérôme Coffinet, "La dynamique des patrimoines des ménages selon l'âge et la génération en France et dans la zone euro," Revue française d'économie 33 (2018): 147–177, accessed January 21, 2025.

Individuals who began the decade in the lowest 20% saw their purchasing power rise by over 23%, from an average of 1,100 to 1,360 euros per month. In contrast, purchasing power fell by 2% for those in the highest 20% at the start of the period. Despite this significant increase for the lowest 20%, only 38% of these individuals managed to achieve a standard of living in 2019 that lifted them out of the bottom quintile. Nevertheless, incomes converged notably between individuals at the extremes of the initial income distribution.

Whichever approach is used, the dynamics of pretax earned income largely explain the changes in living standards within each income group and the differences between them. Capital income and the spouse effect have virtually no influence on these trends. The children effect is negative but relatively uniform across income groups, though it is slightly less pronounced in the lowest quintiles. The income-tax effect exerts a negative but limited pressure on all income groups. This effect is more significant for individuals with high earned incomes or those experiencing sharp increases in their earnings over the period.

CONCLUSION

Most studies adopt a static approach, which makes it impossible to track changes in people's purchasing power over time. The dynamic approach we have used does not exhaust the multiple causes of the discrepancy between measurement and perception (such as the wealth effect, changes in property values, geographical differences, changes in consumption behavior, etc.). Nonetheless, this method allows us to better analyze people's perceptions because it is based on individual trajectories.

While traditional statistics show that purchasing power increased only slightly during the 2010s, our approach reveals the variation in individuals' purchasing power trajectories. The purchasing power of younger generations rose, while that of older generations fell, in large part because of declining interest rates and a corresponding drop in wealth income. Over the decade, purchasing power inequality between quintiles widened slightly among younger generations but narrowed among retirees. At the same time, purchasing power converged between individuals who started the decade at very different income levels.

The second key finding of the study is that, based on our simple breakdown of purchasing power, the changes observed between 2010 and 2019 were primarily driven by the dynamics of pretax income and life-cycle effects, not by changes in taxes and benefits.[23]

These unprecedented results need to be evaluated in more depth. First, significant variations within each age group and quintile remain, which we are not yet able to fully interpret. Second, analyzing the progress of living standards based solely on income provides an incomplete picture. Incorporating asset holdings, which are particularly significant for older generations, would enhance the analysis.[24] Finally, the availability of data restricts our study to a nine-year period ending in 2019, which limits the scope and interpretation of the findings.

Keywords: income, standard of living, taxation, inequality, mobility

23. Moreover, the increase in the share of pre-committed spending in household living standards, particularly for the poorest, tends to exacerbate the feeling of declining purchasing power. See Pierre-Yves Cusset, Ana Gabriela Prada-Aranguren, and Alain Trannoy "Les dépenses pré-engagées : près d'un tiers des dépenses des ménages en 2017," *La Note d'analyse* 102 (August 2021), France Stratégie, accessed January 21, 2025.
24. The increase in asset values more than offset the fall in purchasing power for the 1941–1945 generation.

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