# Flash Economics

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# France: too much supply-side policy, or not enough?

It is often said that, since 2012, France has been pursuing a supply-side policy with:

- The CICE, which, in 2019, was converted into a long-term reduction in social security contributions for businesses;
- Since 2017, the cut in the corporate tax rate from 33% to 25%;
- In 2018, the capping of redundancy payments, the development of apprenticeships, the creation of the single flat-rate levy (PFU) on capital income, and the abolition of the wealth tax (ISF);
- In the Pacte Act of 2019, the simplification of social thresholds for SMEs;
- Since 2023, the reduction in the CVAE (corporate value-added contribution).

However, as a result of this policy, the public deficit has risen sharply, with a drop in tax revenues that has not been offset by lower public spending; this supply-side policy is therefore now being criticised. But should the measures mentioned above be called into question? In reality, France has essentially pursued a supply-side fiscal policy. A comprehensive supply-side policy would require:

- A reform of the education and vocational training system;
- A more comprehensive reform of pensions, in order to significantly boost the employment rate;
- A reduction in the stockpile of standards;
- Swedish-style reform of the State to reduce public spending;
- A change in the way social protection is financed;
- A shift from job safeguarding to individual safeguarding.

In reality, France is only very partially implementing a supply-side policy.

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## It is often argued that since 2012, and especially since 2017, France has been pursuing a supply-side policy

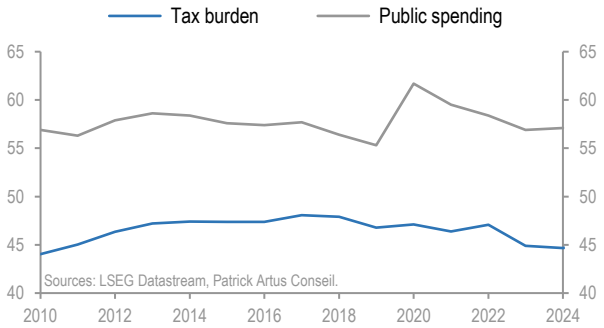
Since 2012, and especially since 2017, **a number of measures resembling a supply-side policy have been put in place in France**:

- The CICE (tax credit for competitiveness and employment), in place since 1 January 2013, which reduces the cost of labour for businesses, and which was converted in 2019 into a lasting reduction in companies' social security contributions;
- The reduction in the tax rate on corporate profits from 33% to 25% since 2017;
- The reduction in the CVAE (corporate value added contribution) from 2023, which has reduced production taxes paid by businesses from 3.7% of GDP in 2020 to 3.2% of GDP in 2023;
- The introduction of a cap on compensation for unfair dismissal since the end of 2017;
- The development of apprenticeships since 2018, with support for businesses to hire apprentices;
- The abolition of the wealth tax (ISF) in 2018, replaced by the real estate wealth tax (IFI);
- The introduction of a single flat-rate tax on capital income (PFU, at a rate of 30%) in 2018;
- The simplification of social thresholds for SMEs (in the 2019 Pacte Act).

## Consequences of this supply-side policy: lower tax revenues, higher public deficit

**The supply-side policy pursued in France has essentially been a supply-side fiscal policy**, focusing on tax cuts. The result has been **a drop in the tax burden, which has not been offset by lower public spending as a share of GDP** (**Chart 1**).

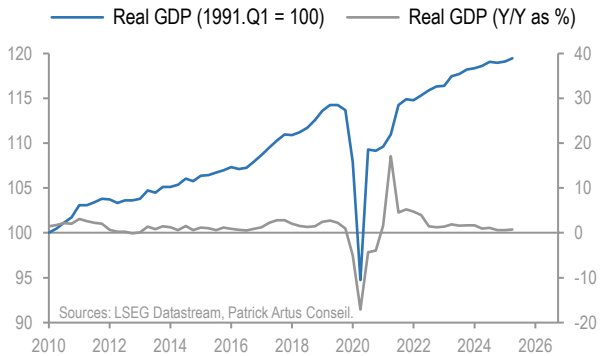
**Chart 1**
**France:Tax burden and public spending**
**(as % of nominal GDP)**




This stability in public spending as a share of GDP is the result of:

- the necessary increase in some public spending (health, military spending, dependency);
- the disappointing effect on GDP growth of the supply-side policy that has been pursued (**Chart 2**).

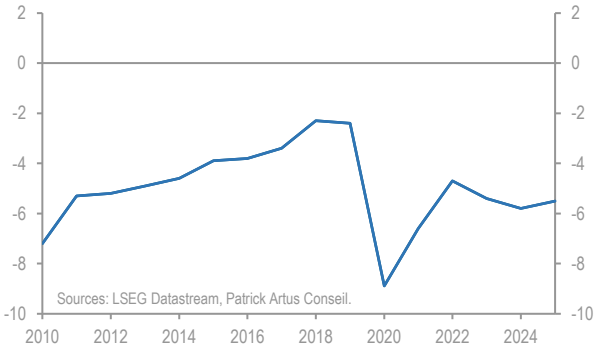
**Chart 2**
**France: Real GDP**



Since 2017, real GDP has grown by an average of 1.15% per annum, while labour productivity has fallen by one point and the employment rate has risen by three points.

Since, for these various reasons, there has been little increase in the level of tax revenues, **France's public deficit has widened** (**Chart 3**).

**Chart 3**
**France: Fiscal deficit (as % of nominal GDP)**




## Should supply-side policies be called into question?

This observation has led some economists and politicians **to question the supply-side policy** and, essentially, push **to increase the tax burden** (reinstatement of the wealth tax, increased taxation of capital income, higher taxation of corporate profits).

But the problem is that **what has actually been implemented in France is a policy of lower tax burden rather than an overall supply-side policy**.

A comprehensive supply-side policy, not just a tax-cutting policy, would have included:

- **A reform of the education system and the vocational training system**, to improve the skills of young people (**Table 1**) and adults (**Table 2**);

**Table 1: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)**

| Country | 2012 | 2015 | 2018 | 2022 |
|---|---|---|---|---|
| **Japan** | 540 | 529 | 520 | 533 |
| **Canada** | 522 | 523 | 517 | 506 |
| **Finland** | 529 | 523 | 516 | 495 |
| **United Kingdom** | 502 | 500 | 503 | 494 |
| **United States** | n.d | 488 | 495 | 489 |
| **Sweden** | 482 | 496 | 503 | 487 |
| **Germany** | 515 | 508 | 500 | 482 |
| **France** | 500 | 496 | 494 | 478 |

Source : OECD

**Table 2: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)**

| Country | 2016 | 2023 |
|---|---|---|
| **Finland** | 285 | 289 |
| **Japan** | 292 | 285 |
| **Sweden** | 279 | 281 |
| **Canada** | 269 | 267 |
| **Germany** | 271 | 267 |
| **England (UK)** | 267 | 266 |
| **France** | 258 | 253 |
| **United States** | 261 | 251 |

*In 2016, average score in numeracy and literacy
Source : OECD

- **A comprehensive reform of pensions**, in order to significantly boost the employment rate of the over-60s (**Charts 4a/b**);

Chart 4A
Employment rate of population aged 55 to 64 (as %)

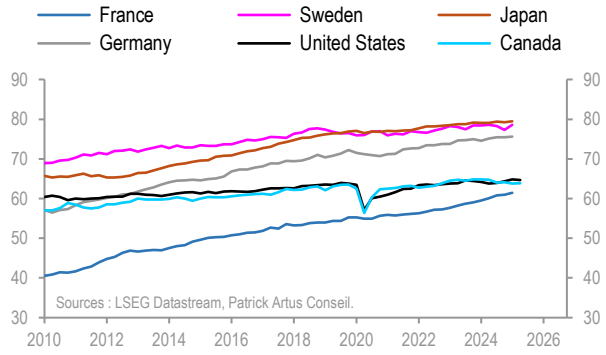
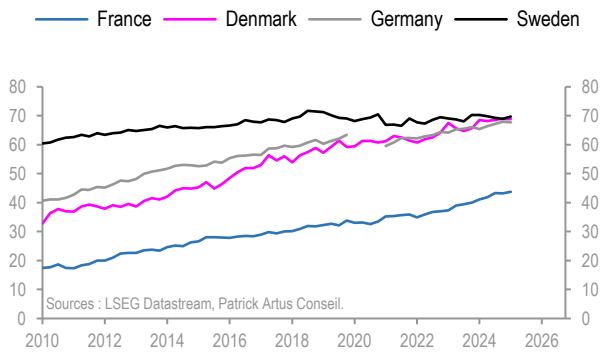
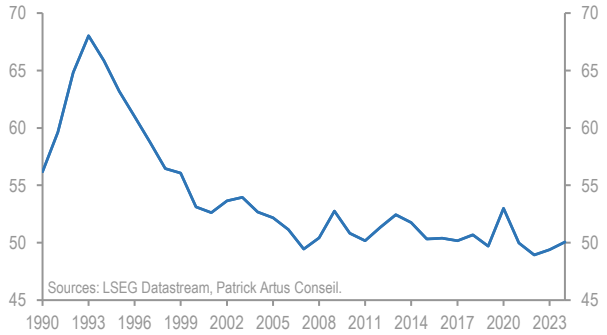



Chart 4B
Employment rate of population aged 60 to 64 (as %)



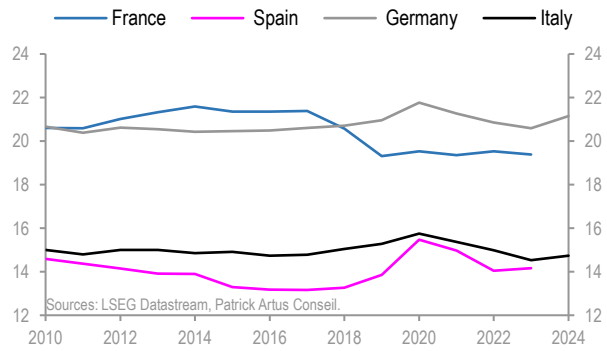

- **a reduction in the stockpile of standards** (as at 25 January 2018, the Conseil d'Etat tallied 80,267 live legislative articles and 240,191 live regulatory articles) and **a stabilisation of the legal** framework (the Conseil d'Etat noted from 60 to 80 annual updates of the General Tax Code between 2005 and 2018);
- **Swedish-style reform of the State** (with privatisations and rationalisation of the organisation of the State), making it possible to significantly reduce public spending (**Chart 5**) without compromising the quality of public services;

Chart 5
Sweden: Public spending (as % of nominal GDP)




- **a change in the way social protection is financed**, which in France relies too heavily on contributions from salaried workers (**Chart 6**);

Chart 6
Social contributions (as % of nominal GDP)




- **A shift from strong protection of employment to protection of individuals**.

The very high level of employment safeguards in France (**Table 3**) slows down mobility in the labour market and the transfer of employees from less productive companies to more productive companies.

**Table 3: Strictness of employment protection* (2019)**

| Strictness of employment protection | France | Germany | Sweden | Danemark | United Kingdom | United States | Canada |
|---|---|---|---|---|---|---|---|
| Individual and collective dismissals (regular contracts) | 2.68 | 2.33 | 2.54 | 1.94 | 1.90 | 1.31 | 1.68 |
| Collective dismissals | 3.25 | 2.61 | 2.72 | 2.18 | 2.31 | 1.33 | 1.85 |
| Individual dismissals (regular contracts) | 2.45 | 2.22 | 2.48 | 1.84 | 1.74 | 1.30 | 1.61 |
| Temporary contracts | 2.58 | 1.67 | 1.55 | 1.60 | 0.41 | 0.27 | 0.44 |

Sources : OECD

(*) Scale from 0 to 6, with values increasing with the degree of stringency of regulation

**We need to move from safeguarding jobs to safeguarding people**, which requires a major training and retraining effort as soon as someone loses their job. An example can be found in Denmark, where the average duration of unemployment is 4 months, compared with 13 months in France, and where the unemployed are immediately trained.

## Summary: rather than cancelling the supply-side policy measures that have been put in place, we should switch to a comprehensive supply-side policy

Critics of the supply-side policy implemented in France focus on the fact that it has not increased production and has therefore not resulted in additional tax revenue. But actually, since 2017, France has only pursued a very partial supply-side policy, amounting to tax cuts. Since the other obstacles to growth (low-quality education system and vocational training system, early retirement age, excessive number of standards, poor organisation of the State, financing of social protection based excessively on salaries, very strong protection of employment and no protection of individuals) have not been removed, it is not surprising that growth has remained weak. Rather than backtracking on tax cuts, it would be better to examine the nature of the obstacles to growth.

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