Flash Economics

N° 21
September 10th, 2024

Can one further increase the tax burden in France?

The problem with a further increase in the tax burden, as advocated by some, is:

- The loss of competitiveness and attractiveness vis-à-vis other European countries;

- Giving up on improving the quality and efficiency of public services;

- Giving up also on reducing public spending, which is very high in France compared with other countries (particularly pensions).

It would be more effective and less dangerous to correct the low efficiency of public services and normalise the burden of pension spending than to accept 'kicking the can down the road' that would result from a further increase in the tax burden.

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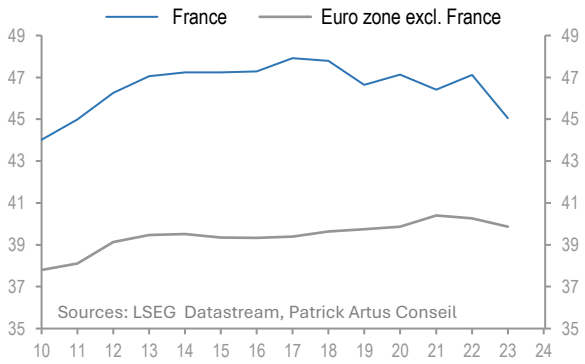
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The temptation to further increase the tax burden in France

The tax burden in France is much higher than in other eurozone countries (Chart 1).

Chart 1
Tax burden (as % of nominal GDP)



However, many proposals to further increase the tax burden are circulating, mainly by taxing wage income, capital income and companies.

Obviously, public spending needs are high, being linked to demographic ageing, support for business investment in new technologies and the energy transition. **However, we believe that raising the tax burden would be dangerous for several reasons**.

Why it would be preferable to avoid an increase in the tax burden in France

1- Loss of competitiveness and attractiveness

France is already penalised by high labour costs (Table 1) and a low-skilled workforce (Table 2).

Table 1: Hourly labour costs in manufacturing sector (including social charges, in euros, 2021)

Country	Hourly cost (in EUR)
Germany	49.56
France	**47.07**
Italy	33.83
Spain	28.39
Portugal	14.14

Source: Destatis Statistisches Bundesamt

Table 2: Results of the OECD PIAAC survey on numeracy and literacy (2016)

Country	Score
Finland	284.9
Netherlands	282.2
Belgium	277.9
Denmark	274.5
Austria	272.2
Germany	270.8
France	**258.2**
Italy	248.8
Spain	248.8

Source : OECD

Further increases in the tax burden would imply in the medium term:

- Either an offsetting rise in wages in the case of household taxes;

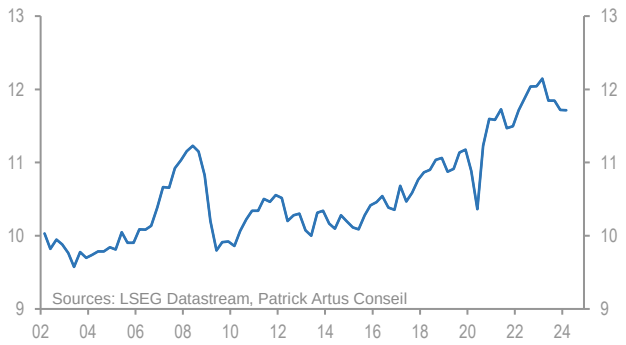
- An offsetting rise in business prices; or

- A fall in corporate profitability; or

- Or a reduction in the incentive to save in the case of taxation on capital income.

In all cases, there would either be a fall in price competitiveness or a fall in the attractiveness of investing. In particular, reversing the switch to flat tax on capital income, thereby reducing the return on savings and the incentive to save, would jeopardise the rise in the rate of business investment seen since 2017 (**Chart 2**).

Chart 2
Investment of non-financial corporations
(in value terms, as % of nominal GDP)



2- Giving up on improving the quality of public spending and the efficiency of the State

The efficiency of the State, and therefore the quality of public spending, is low in France, for example in the areas of health and education; yet the weight of spending on health and education is slightly higher than in other European countries (**Charts 3A/B**).

Chart 3A
Public spending on healthcare (as % of nominal GDP)

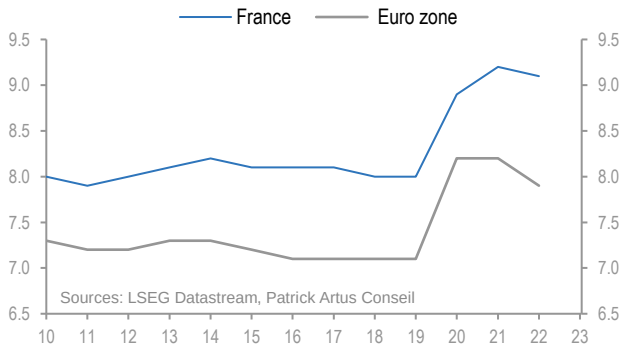
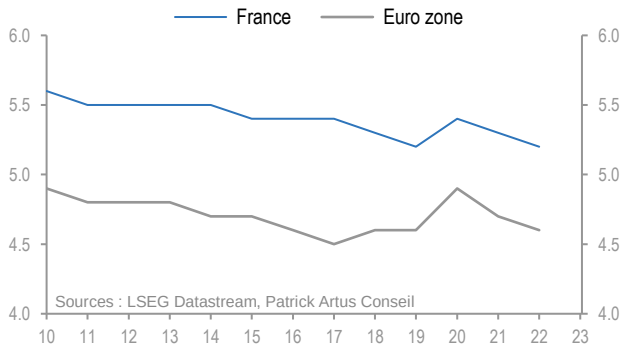


Chart 3B
Public spending on education (as % of nominal GDP)



When it comes to healthcare, France suffers from a low number of doctors in rural areas (2.7 doctors per 1,000 inhabitants in rural areas, compared with 3.8 in Sweden and 4.4 in Finland, for example). Medical deserts now affect 12% of the population; the differences in medical density (number of doctors per inhabitant) between departments are 1 to 3 for general practitioners, 1 to 8 for specialists, and 1 to 24 for paediatricians. 9% of insured people aged 16 and over do not have a general practitioner. 7 out of 10 French people have given up on healthcare at least once.

In the field of education, France suffers from low quality and a deterioration over time of the education system, which is visible when examining the PISA surveys (**Table 3**).

Table 3: Results of OECD PISA surveys (overall score, by decreasing score in the 2022 survey)

Country	2009	2012	2015	2018	2022
Finland	543	529	523	516	495
Denmark	499	498	504	501	491
Austria	487	500	492	491	486
Belgium	509	509	503	500	486
Germany	510	515	508	500	482
Netherlands	519	519	508	502	480
France	497	500	496	494	478
Portugal	490	488	497	492	478
Spain	484	490	491	482	477
Italy	486	490	485	477	477

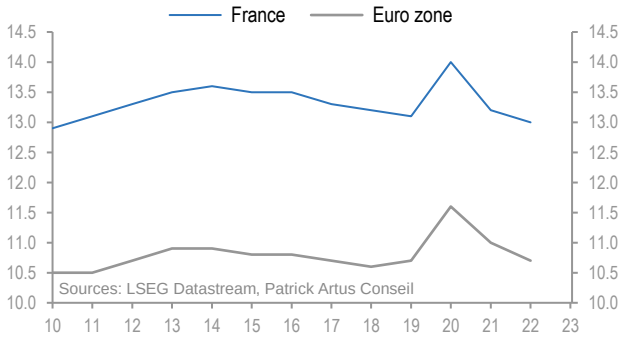
Source : OECD

Solving all problems by increasing the tax burden is tantamount to accepting the low efficiency of public services.

3- Giving up on cuts in pension spending

France's public spending is higher than the average for eurozone countries in the areas of military spending, housing spending, family spending and, above all, pension spending (**Chart 4**).

Chart 4
Public spending on pensions (as % of nominal GDP)



This situation is due to the low employment rate of the over-60s (**Charts 5A/B).**

Chart 5A
Employment rate of population aged 60 to 64 (as %)

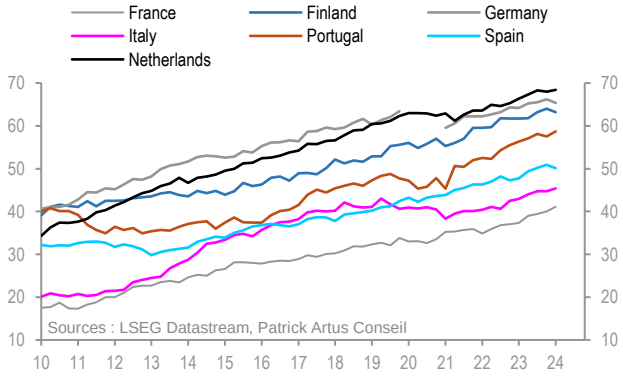
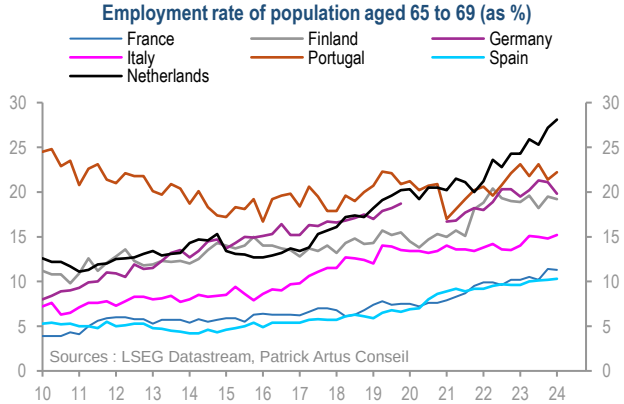
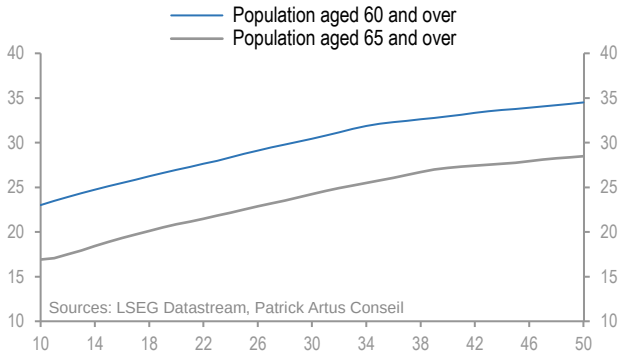


Chart 5B
Employment rate of population aged 65 to 69 (as %)



The demographic ageing process (Chart 6) will continue, making it necessary to increase the retirement age and probably to move to a mixed pension system including a dose of individual capitalisation.

Chart 6
France: Population aged 60 and over and population aged 65 and over
(as % of total population)



Giving up on reforming the pension system will obviously require a further increase in the tax burden.

Summary: the aim should be to increase the tax burden as little as possible

Given the level of the tax burden in France compared with other European countries, a normal objective of economic policy in France should be to avoid further increases in the tax burden as much as possible:

- to avoid the resulting loss of competitiveness and attractiveness;
- by improving the efficiency of the health and education systems;
- gradually reducing public spending on pensions.

Opting for a major increase in the tax burden would lead companies to shun France as an investment destination and would *ex post*, increase tax revenues far less than was anticipated *ex ante*.

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