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What strategy for raising central government and social security revenue in France without increasing the tax burden?

France's general government deficit finally reached 5.1% of GDP in 2025, of which 0.7 percentage point of GDP was accounted for by the social security deficit. The government projects only a modest reduction in the general government deficit in 2026 (5% of GDP) and a return to a deficit of 3% of GDP in 2029, with the social security deficit remaining unchanged; according to the Haut-Commissariat à la Stratégie et au Plan, the social security deficit will remain of the order of €24 billion until 2029. Given the 2026 starting point, however, the realism of the official general government deficit projection for 2029 is open to question.

Past experience (notably that of the southern euro area countries from 2010 onwards) shows that closing the general government deficit through cuts in public spending is extremely and persistently costly in terms of growth. The emphasis should therefore be placed instead on raising government revenue without increasing the tax burden. What options can be considered ?

- abolishing the reductions in social security contributions on low wages, the cost of which amounts to €88 billion; recent studies show, however, that lowering labour costs for wages below 1.6 times the minimum wage (SMIC) does support job creation;
- raising the employment rate of young people by reducing the number of young people not in employment, education or training (NEET), through a reform of the education system designed to raise the skills of all young people;
- raising the employment rate of people aged 60 to 64, by making it possible to postpone the retirement age, through the development of lifelong learning and an end to recruitment practices that disadvantage older workers;
- restoring productivity gains; research and development spending by French firms is markedly insufficient, whereas rapid productivity growth is observed in the European countries where the employment rate is very high and unemployment is low. There is therefore no contradiction between the objective of strong productivity gains and that of a high employment rate.

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The need to raise central government and social security revenue in France

France's general government deficit is very large: 5.1% of GDP in 2025 and a projected 5% in 2026; the social security deficit stands at 0.7% of GDP. The general government deficit **will be very difficult to close** in the face of population ageing, the rising interest burden on public debt (€65 billion in 2025, €74 billion in 2026 and more than €100 billion in 2030) and the planned increase in military spending. Reducing the deficit by cutting public expenditure is very costly in terms of growth and employment, as the experience of the southern European countries (Portugal, Spain, Italy and Greece) from the 2010 euro area crisis onwards has shown (**Charts 1A** to **4B**).

Chart 1A
General government surplus or deficit (as % of GDP)

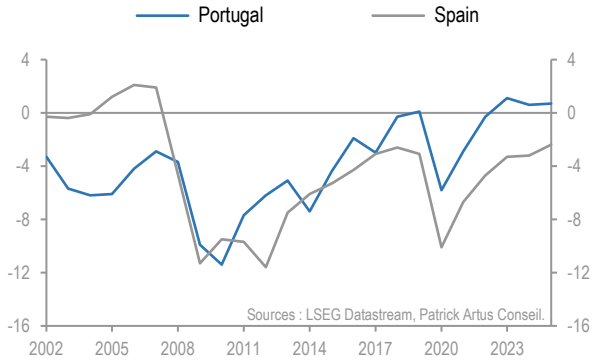


Chart 1B
General government surplus or deficit (as % of GDP)

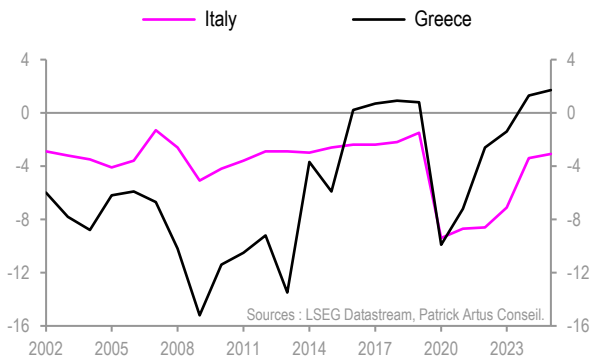


Chart 2A
General government expenditure (as % of GDP)

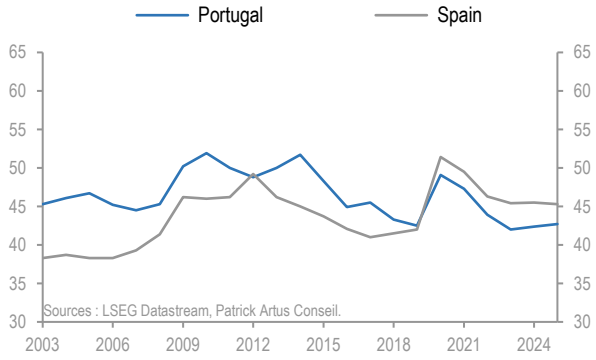


Chart 2B
General government expenditure (as % of GDP)

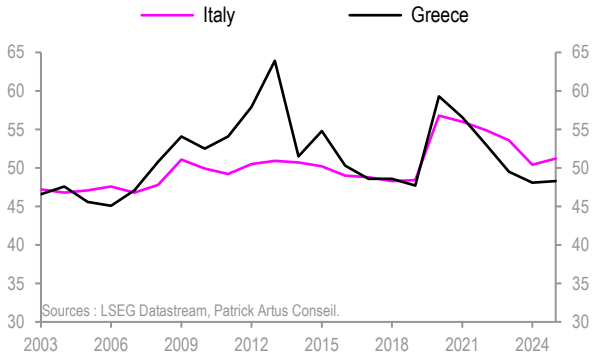


Chart 3A
Real GDP (2002 Q1 = 100)

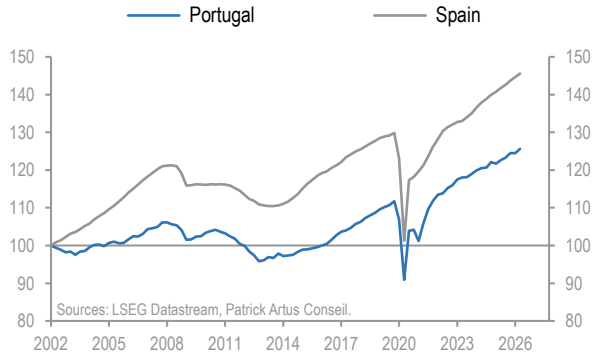


Chart 3B
Real GDP (2002 Q1 = 100)

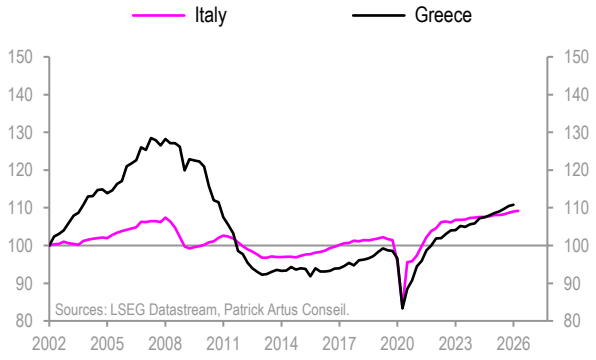


Chart 4A
Unemployment rate (%)

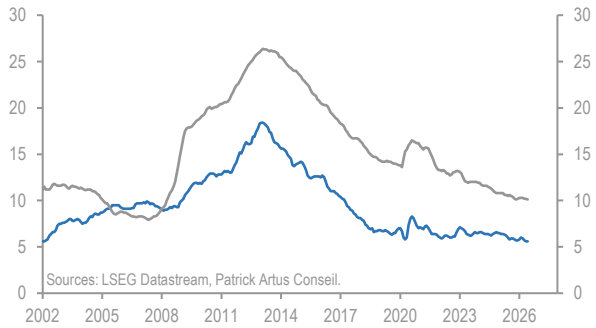
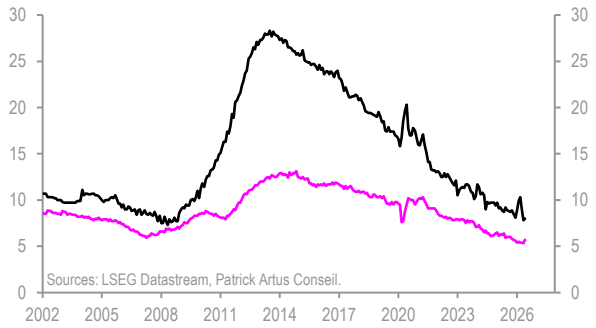


Chart 4B
Unemployment rate (%)



It is therefore preferable to **reduce France's general government deficit by raising tax revenue without increasing the tax burden**. What options can achieve this outcome?

Should the reductions in social security contributions on wages be scaled back?

The cost of the reductions in social security contributions on low wages is very high (€88 billion). Empirical analyses of the employment effects of these reductions[1] show a significant effect of lower labour costs on employment at the bottom of the wage distribution, that is, for wages below 1.6 times the minimum wage. Confining the reductions to wages below 1.6 times the minimum wage would bring their cost down from €88 billion to €39 billion.

The reductions in contributions are therefore not very effective at creating jobs for employees on relatively high wages (they currently extend up to wages of 3.5 times the minimum wage). The unemployment rate of higher education graduates is low (5% for those holding a qualification at least two years beyond the *baccalauréat*). The constraint on skilled employment is therefore one of **labour supply**, that is, an insufficient number of workers holding the qualifications sought by firms, **and not one of labour demand**.

How can the employment rate of young people be raised?

The youth employment rate is unusually low in France (**Charts 5A** and **5B**); this situation is a consequence of the shortcomings of the education system and is reflected in the high proportion of young people not in employment, education or training (NEET; **Chart 5C**, **Table 1**).

Chart 5A
Employment rate of population aged 15 to 24 (as %)

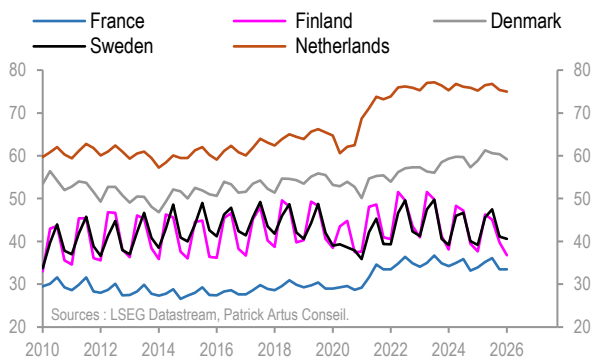
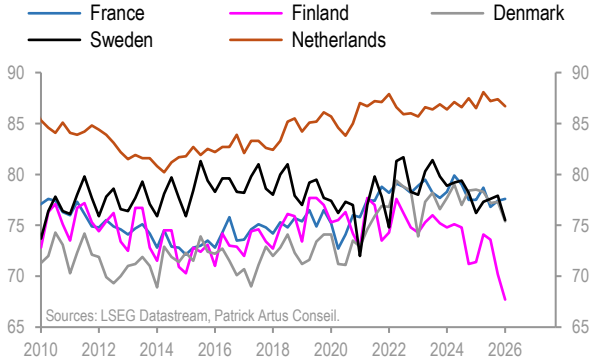


Chart 5B
Employment rate of population aged 25 to 29 (as %)



[1] Yannick L'Horty, Philippe Martin and Thierry Mayer, *Note du CAE*, No. 49, 2019; Éric Heyer and Mathieu Plane, *Revue de l'OFCE*, 2012; Antoine Bozio and Étienne Wasmer, Haut-Commissariat à la Stratégie et au Plan, 2024.

Chart 5C
Youth aged 15 to 29 not in employment, education or training (NEET, as % of the age group)

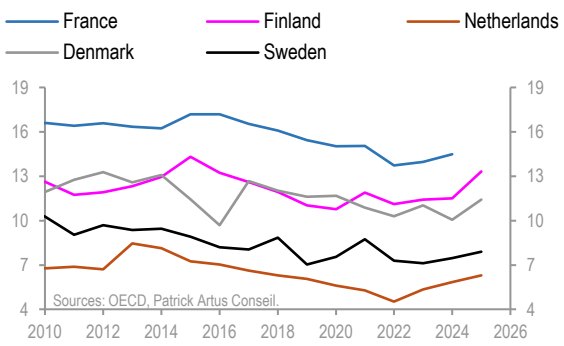


Table 1: Youth not in employment, education or training aged 15 to 29 (NEET, as %)

Country	Youth not in employment, education or training
Norway	6.2
Netherlands	6.3
Sweden	7.9
Ireland	8.2
Luxembourg	8.6
Czechia	8.9
Switzerland	9.1
Germany	10.0
Belgium	10.5
Slovenia	10.7
Estonia	11.1
Hungary	11.3
Slovakia	11.4
Denmark	11.4
Croatia	11.6
Poland	11.8
Austria	12.9
Latvia	13.0
Lithuania	13.0
Finland	13.3
Bulgaria	13.8
United Kingdom	13.9
United States	14.0
France *	14.5
Portugal	15.2
Spain	15.6
Italy	15.6
Greece	17.4

**data from 2024*

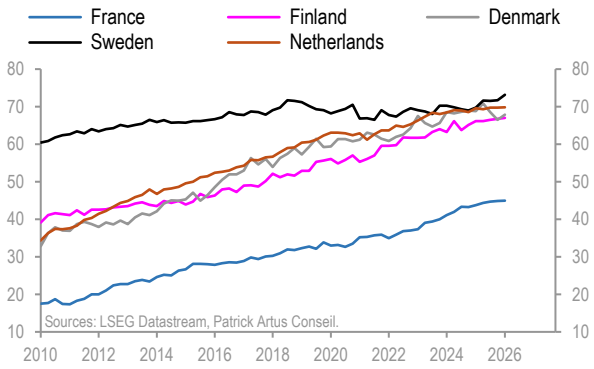
Source: OECD

The weaknesses of the French education system are well documented: very low pupil attainment in scientific subjects and disparities in attainment that are strongly correlated with social background. As in the Nordic countries, the school system should aim to raise the attainment of all pupils.

How can the employment rate of older workers be raised?

The employment rate of people aged 60 to 64 is unusually low in France (**Chart 6**).

Chart 6
Employment rate of population aged 60 to 64 (as %)



Raising the statutory retirement age is not, however, sufficient in itself to increase the employment rate of older workers. Participation in job-related training is very low among people aged over 55 (**Table 2**), **among unemployed people aged over 55 and among the lesser qualified**. If the postponement of the statutory retirement age is to translate into a substantial rise in the employment rate of workers aged over 60, **employees aged over 55 will need to have the same access to training as younger employees**.

Table 2 - Participation rate in job-related non-formal education and training by age, 2022 (population aged 18 to 69)

Age	Non-formal education and training
18-24 years	42
25-34 years	46
35-44 years	48
45-54 years	43
55-64 years	24
65-69 years	4
Total	36

Source: Insee-Dares

How can productivity gains be restored?

The experience of the Nordic countries (Finland, Sweden and Denmark) shows that it is possible to combine:

- **substantial productivity gains**;
- **a high employment rate**.

Aiming for a high employment rate does not therefore lead to stagnant productivity on the grounds that the new jobs created would be in low value-added services. **It is thus possible to pursue the objectives of rapid productivity growth and a high employment rate simultaneously**.

Chart 7A shows **labour productivity** in France, Finland, Sweden and Denmark; **Chart 7B**, **the employment rate of those aged 15-64** in these four countries.

Chart 7A
Labour productivity per hour worked (2010 Q1 = 100)

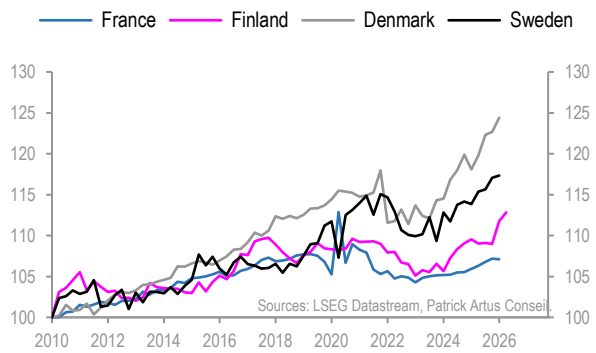
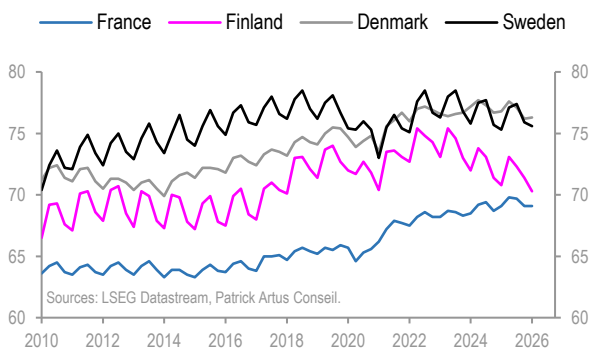


Chart 7B
Employment rate of population aged 15 to 64 (as %)



This performance of the Nordic countries is achieved **through a sustained research and development effort** (**Charts 8A** and **8B**) and through the high quality of their education and vocational training systems.

Chart 8A
Gross domestic expenditure on R&D (as % of GDP)

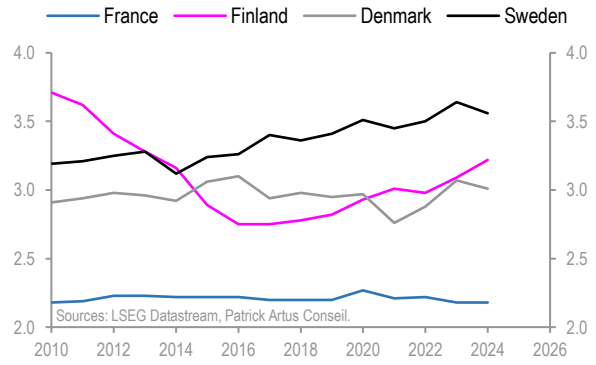
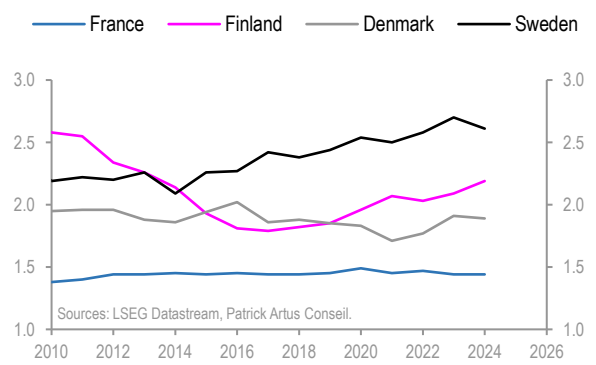


Chart 8B
Business enterprise expenditure on R&D (as % of GDP)



Summary: options for raising government revenue in France

The options examined above are the following:

- confining the reductions in social security contributions to the lowest wage levels, where a fall in labour costs does lead to job creation;
- reforming the education system so as to move to one that raises the skills of all young people, at a time when the proportion of young people not in employment, education or training (NEET) is very high and educational attainment is strongly correlated with parents' social background;
- making the postponement of the retirement age feasible through training and reskilling for people aged over 55, whose access to training is currently limited;
- increasing research and development spending by firms, a precondition for a recovery in both productivity and the employment rate.

The state of France's public finances today is attributable partly to the government (poor calibration of the reductions in social security contributions, deterioration in the performance of the education system) and partly to the behaviour of firms (weak training provision for older workers, insufficient research and development spending).

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