The realities of France's fragile economy

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It is well known that high production taxes and social contributions in France have been stifling the economy for some time. Prior to the 2020 Covid-19 pandemic, compared to the European Union (EU) as a whole, France was 35 per cent less competitive. It is hoped that the reduction in production taxes in 2021 will marginally drive net surpluses. France's burden of mandatory deductions on generating €100 of net operating surplus is nearly double that of the EU. Currently, Spain and Italy remain the most affordable countries for a business to operate in.

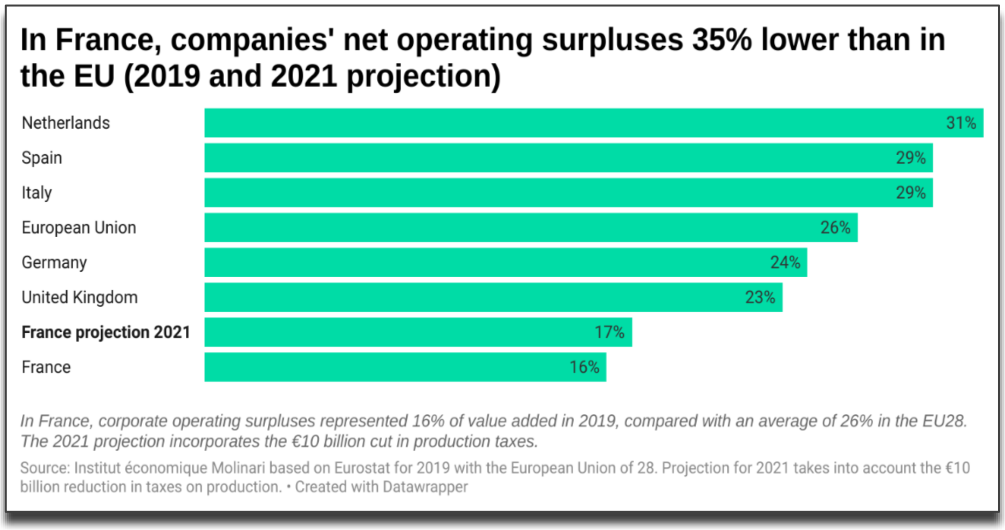
These structural issues make paying employee salaries expensive, strongly impact employee purchasing power, and promote high levels of unemployment in comparison to the rest of the EU. In relation to the six neighbouring states studied, French employees receive 7 per cent less net income. The tax burden is most significant for single wage-earners without children, whereas couples with one working member of the household and children fair better.

Introduction

Over the last twenty years, the French economy has slid into serious decline. The Molinari Institute released a report in 2022 ranking France alongside the five largest economies in the EU [including the UK] in terms of economic competitiveness. The data set utilised Eurostat figures from the year 1999 to 2019 to generate these findings. The report showed that France is 35 per cent less competitive compared to EU member states on average. An analysis of the official data set presents a bleak overall picture of the French economy, branding it as fragile. The two main contributing factors leading to this are high taxes on production and employers' social contributions.

Least profitable country

Statistics from 2019 demonstrate not only how poorly France fares in contrast to the rest of the EU, but also in comparison to other large-sized economies. In France, corporate operating surpluses represented 16 per cent of value added in 2019, compared to an average of 26 per cent in the twenty-eight EU member states. France is shown to be 46 per cent less profitable than Italy and Spain and 48 per cent less profitable than the Netherlands. Even when considering the effects of the 2021 tax reduction, France's profitability remains more than 40 per cent lower than its neighbours – Italy, Spain, and the Netherlands.



Leader in taxation on labour and wealth creation

The hindrance plaguing France's competitiveness is primarily taxation. When analysing France alongside the EU, taxation had twice the negative influence on competitiveness. To create a €100 net operating surplus, French firms had to pay €168 of compulsory levies once subsidies were deducted. Social contributions and production taxes are responsible for the knock-on effect of low operating surpluses. The average amount of mandatory deductions in the EU is €79 and the lowest is in Germany

[1] The authors of the original research paper thank Chloe Rispin who authored this briefing based on the original French publication.

at €67. Unlike France, production taxes net of subsidies are minimal in Spain, non-existent in the Netherlands, and negative in the case of Germany. Forecasts for 2022 indicate that even with a lower mandatory levy of €148, France will remain unique in its production tax burden.

Compulsory levies on companies per €100 of net operating surplus
France is the only country with more tax than surplus

	Country	Sum of compulsory levies ▼	Social contributions payable by employer	Production taxes net of subsidies	Taxes on profits and capital net of investment aid
1	France	168 €	113 €	27 €	28 €
2	**France projection 2022**	**148 €**	**107 €**	**20 €**	**22 €**
3	United-Kingdom	82 €	52 €	11 €	19 €
4	Italy	82 €	62 €	10 €	10 €
5	**European Union**	**79 €**	**54 €**	**7 €**	**18 €**
6	Spain	71 €	55 €	3 €	13 €
7	Netherlands	68 €	47 €	0 €	21 €
8	Germany	67 €	54 €	−2 €	16 €

In France, employers' social contributions, production taxes (after deduction of subsidies) and taxes on profits (after deduction of subsidies) amount to €168 per €100 of net operating surplus.

Source: Institut économique Molinari based on Eurostat for 2019, EU28. 2022 projection taking into account production and corporate tax cuts. • Created with Datawrapper

When it comes to salaries, the tax system is penalising employees with a 7 per cent net loss. Social programme contributions and high income tax indisputably weaken purchasing power. About 51 per cent of employer expenditure for an employee with a single household situation goes toward compulsory contributions. Take-home pay net of contributions and tax ends up at a mere 49 per cent in contrast to the range of 52 per cent to 64 per cent in Germany, the Netherlands, Italy, Spain, and the UK. The current situation currently disadvantages single employees the most; those who fare best in the present conditions in France are couples with only one working partner and children.

Even if France manages to significantly reduce production taxes, it is still an unattractive destination for companies due to high hiring costs.

From employer's cost to worker's salary
The average French employee forfeits 7% of net income

Single adult, industry-average gross salary

	Compulsory payslip deductions	of which Employer contribution	of which Employee contribution	of which income tax	Employee income net of contributions and taxes
France	51%	29%	16%	6%	49%
Germany	48%	17%	17%	14%	52%
Netherlands	46%	20%	17%	9%	54%
Italy	44%	24%	7%	13%	56%
Average	44%	21%	13%	11%	56%
Spain	40%	23%	5%	12%	60%
United-Kingdom	36%	12%	12%	12%	64%

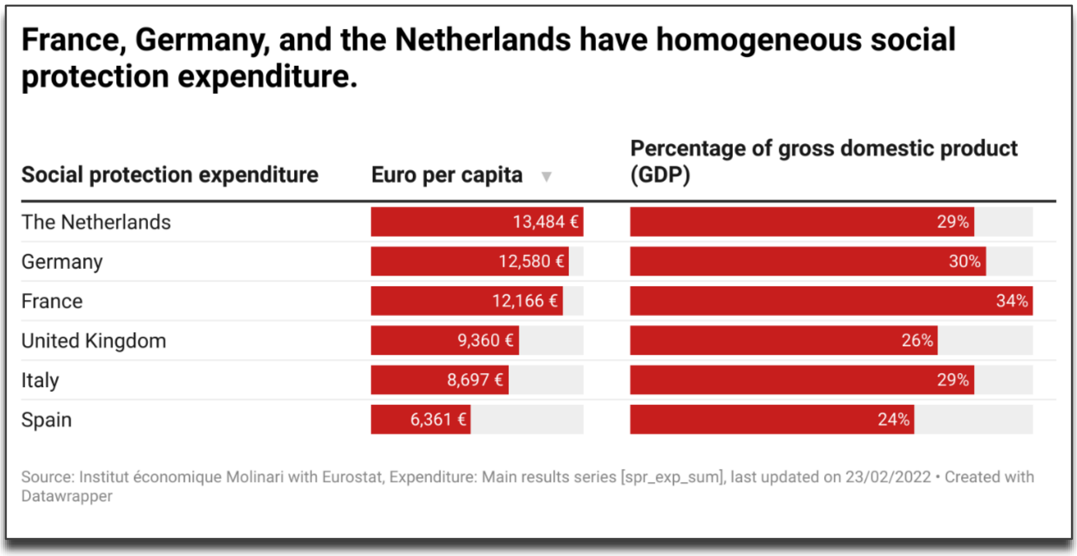
Couple, industry-average gross salary, one spouse working, 2 children

	Compulsory payslip deductions	of which Employer contribution	of which Employee contribution	of which income tax	Employee income net of contributions and taxes
France	45%	29%	16%	0%	55%
Netherlands	45%	20%	16%	8%	55%
Italy	38%	24%	7%	7%	62%
Average	38%	21%	13%	5%	62%
United-Kingdom	35%	12%	12%	12%	65%
Spain	34%	23%	5%	6%	66%
Germany	30%	17%	17%	−3%	70%

Source: Institut économique Molinari. Calculations take into account contributions to mandatory public and private schemes (mutual insurance, pension funds, etc.) • Created with Datawrapper

The role of social contributions

The purpose of social contributions is to provide benefits to the people of the concerned society at a later date. From an employee perspective, take-home pay in France is lower compared to the other big five economies. The proportion of GDP spending on social programmes and per capita spending on these programmes in France is not substantially different from that of Germany or the rest of the countries studied.



France, Germany, and the Netherlands have homogeneous social protection expenditure.

Social protection expenditure	Euro per capita ▼	Percentage of gross domestic product (GDP)
The Netherlands	13,484 €	29%
Germany	12,580 €	30%
France	12,166 €	34%
United Kingdom	9,360 €	26%
Italy	8,697 €	29%
Spain	6,361 €	24%

Source: Institut économique Molinari with Eurostat, Expenditure: Main results series [spr_exp_sum], last updated on 23/02/2022 • Created with Datawrapper

Conclusion

The French tax system is ill-constructed, which has caused structural imbalances in terms of trade balance issues, public deficits, and an increase in unemployment compared to the rest of the EU. The current situation begs for a real supply policy with the addition of tax reduction on labour and production. Businesses and employees do not need financial aid; they require a tax policy aligned with the creation of wealth, in particular, one compatible with the social model that France aspires to.

References

Institut économique Molinari, 8 April 2022. *Despite reforms, French competitiveness is still 7% lower for wages net of taxes and 35% lower for corporate profitability* (https://www.institutmolinari.org/2022/04/08/despite-reforms-french-competitiveness-is-still-7-lower-for-wages-net-of-taxes-and-35-lower-for-corporate-profitability-france-the-leader-in-taxation-on-labour-and-wealth-creation-is-the-least-pro/)