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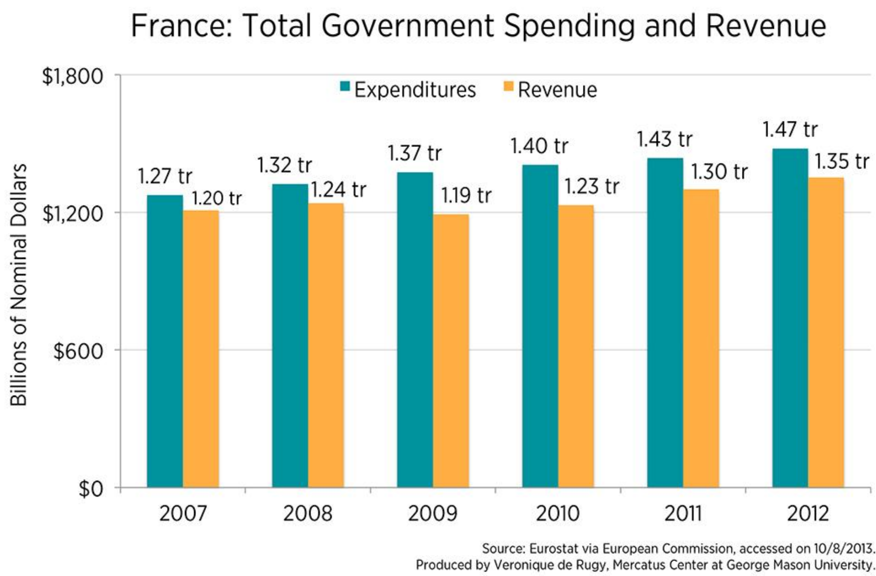
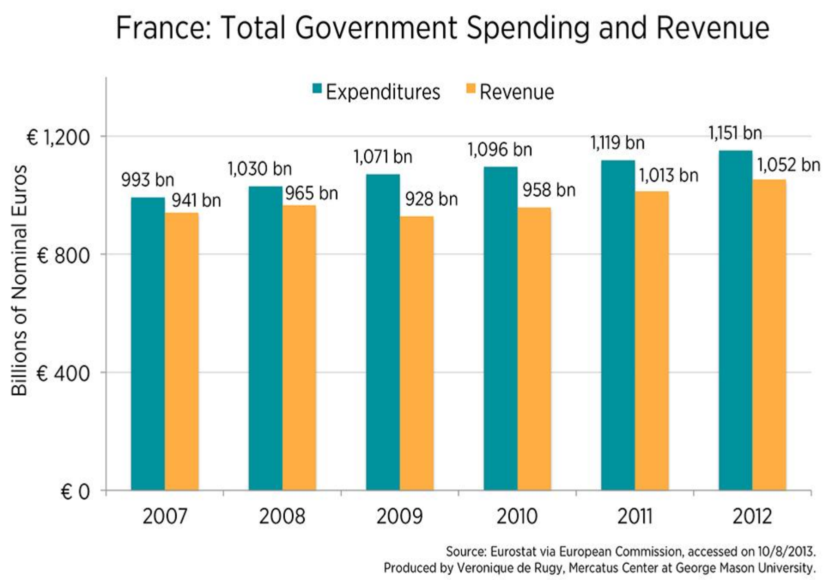
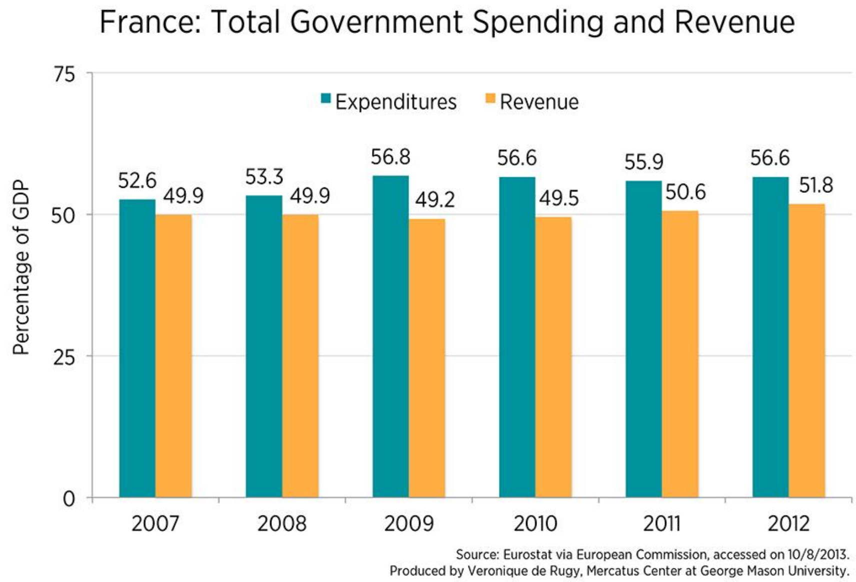
The Only Thing Austere About France's Budget Is Taxes



Elected amid a wave of anti-austerity sentiment, French President François Hollande promised to reverse the course of former President Sarkozy's allegedly draconian spending cuts. A look at the data shows that there is very little that is austere about France's recent spending and a large number of tax increases under both Sarkozy and Hollande.

This week's chart and table use data from the European Commission's Eurostat database to highlight the French fiscal situation between 2007 and 2012. These charts display total government spending and revenues in France nominally and as a percentage of GDP. The accompanying tables break down fiscal policy changes during this period.





French Spending

In 2012, French public spending reached 56.6 percent of GDP, up from 52.6 percent in 2007. Nominal government expenditures likewise jumped 13 percent, from $1.370 trillion in 2007 to $1.588 trillion in 2012. The table below outlines the various policies that boosted government spending during this period:

French Stimulus Policy, 2008–2012		
Year	**Program**	**Amount**
October 2008	Bank bailout	$496.80 billion
February 2009	Recession stimulus package	$46.92 billion
March 2009	Auto stimulus	$1.24 billion
May 2013 (announced)	Infrastructure stimulus	$37.60 billion
July 2013 (announced)	Technology stimulus	$16.56 billion

Sarkozy’s so-called austerity differs from Hollande’s preferred spending program mostly in terms of rhetoric. In fact, the data show that Sarkozy’s main response to the financial crisis took the form of stimulus spending bills to jump-start the economy. Hollande’s recent announcement of a planned $16.56 billion in stimulus spending for 2013 signals his intention to continue this tradition.

French Taxes

France has relied heavily on tax increases to contain the deficits exacerbated by stimulus spending. In 2007, total revenue stood at 49.9 percent of GDP, but it has since increased to 51.8 percent. Nominal revenue collection increased 10 percent during this time, from around $1.29 trillion in 2007 to $1.45 trillion in 2012—but France is still running deficits of about $138 billion in 2012.

Between 2007 and the end of 2012, taxpayers were subjected to 205 separate increases in their tax burden, from excise levees on televisions, tobacco, and diet sodas to multiple increases in the capital taxes and a wealth-tax hike. The table below outlines some major French tax policy changes between during this period:

French Tax Policy, 2008–2012	
Year	**Tax Changes**
2008	- Imposed taxes on medical franchise and pharmaceutical distributors - Imposed a tax on stock options and shares - Imposed a tax on retirement benefits - Removed the tax exemption for industrial accidents and occupational diseases
2009	- Many of the transfers in the 2009 stimulus package were engineered through the tax code, but pro-growth rate reductions were not included - Imposed a tax on vehicle registration - Increased health insurance industry tax from 2.5 to 5.9 percent - Imposed a tax on vehicle pollution by CO_2 emissions and commercial road transport
2010	- Increased tobacco tax by 6 percent - Imposed several new taxes on health insurance - Imposed new 50 percent tax on bonuses to French traders in financial instruments above $37,950 - Extension of 15-year "temporary" social security tax
2011	- Extended capital gains tax eligibility for second home to 30 years - Removed some deductions for corporations and wealthy individuals - Partially reversed 2007 overtime pay tax exemption - Increased the reduced VAT rate from 5.5 to 7 percent - Imposed new 7.5 percent hotel room tax
2012	- Lowered ceiling on the inheritance tax exemption from $219,420 to $138,000 per child - Imposed new 3 percent surcharge on cash dividends - Imposed a new 75 percent payroll tax on the newly created top tax bracket of those earning above $1,380,000 annually - Imposed Europe's first financial transaction tax (FTT) on share purchases - Imposed a new wealth tax for 2012 using a progressive scale between 0.55 and 1.80 percent - Imposed a new 15.5 percent "social tax" on income and gains from vacation homes, paid on top of the usual 20 percent income tax and 19 percent capital gains tax - Increased dividends withholding tax rate to 21 percent - Raised income tax rate on residents of noncooperative states to 55 percent - Substantially increased cigarette tax
2013 (projected)	- Amended the new 75 percent payroll tax on salaries over $1,380,000 (only levied on corporations in 2013 and 2014) - Announced a new carbon tax and nuclear power levy (projected cost: $37.26 billion a year) - Announced that flat tax rates on stock options and share grants will be replaced by a progressive tax scale
2014 (projected)	- Proposed to increase highest VAT rate from 19.6 to 20 percent - Proposed to increase intermediary VAT rate from 7 to 10 percent - Proposed to decrease lowest VAT rate from 5.5 to 5 percent - Proposed to cut "family quotient" income tax exemption - Proposed to increase mandated pension contributions - Proposed to increase transfer tax on property acquisition from 3.8 to 4.5 percent - Proposed to abolish various tax deductions, including one for school costs

Experience and research demonstrates that fiscal adjustments based on spending cuts are more successful than those based on tax increases, as is the case in France. France cannot tax its way out of its fiscal problems. For France to return to secure fiscal footing, they must stop relying heavily on tax increases and implement real spending cuts to contain its huge deficits.

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