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Taxation in France: Are the Gauls crazy?



KEY HIGHLIGHTS:

- France now has one of the worst budgetary situations in Europe
- Unlike all its neighbors, its public debt ratio has increased in recent years
- The budget deficit will reach 5.4% of GDP in 2025, compared with less than 3% for the eurozone
- There is collective denial about the sources of the deficits
- Politically, it is easy to point the finger at the “rich” and burden them with taxes
- The truth is that the social system has become too generous and, as a result, unsustainable



In the famous Astérix comic strip, which for decades has recounted the adventures of a village of Gauls resisting Caesar's armies, the heroes often conclude their travels by exclaiming: They're crazy, those Romans!

Nowadays, madness, at least fiscal madness, is not in Rome, nor in Berlin or Brussels. It is concentrated in the hemicycle of the French National Assembly, where for several weeks now, deputies have been competing to come up with new taxes or increase the many that already exist. The aim is to increase government revenues in order to reduce the public administration budget deficit.

In 2024, this deficit represented 5.8% of GDP; this year, it is expected to land at 5.4%. This is a small step forward. By way of comparison, the government budget deficit in the eurozone was 3.2% of GDP in 2024 and will fall below the 3% threshold on average this year. No one can deny that there is a major budgetary problem in France, but it has much less to do with revenue than with public spending.

France already has one of the highest tax rates in the world. It also has one of the most generous social protection systems. According to INSEE, the ratio between the standard of living of the richest 10% and the poorest 10% is 18 before redistribution. It falls to 3.5 after redistribution. However, left-leaning economists believe that inequalities are glaring if we move even higher up the income scale. In a note from the EU Tax Observatory last March, co-signed by the now famous Gabriel Zucman, it appears that France has 147 billionaires, a European

record ahead of Germany with 128. A small tax on their assets could bring in quite a few billion.

For weeks, the media, especially the public service media, carried out a brainwashing campaign to convince the French that a 2% “Zucman tax” on people holding assets worth more than €100 million would not only contribute to fiscal consolidation but would also be a guarantee of “tax justice.” There was then talk of a so-called “light” Zucman tax, which would increase the tax rate to 3% and extend its base to assets worth €10 million or more. Members of Parliament did not vote for the “Zucman tax,” but they did vote for many others that increase the tax burden on corporate profits, holding companies, high incomes, high net worth individuals, multinationals, etc. When the budget bill passes from the Assembly to the Senate, many of these measures will be removed, forcing a compromise that we can hope will be more reasonable.

Nevertheless, the issue of balancing the public accounts must be a priority in France. It can certainly happen in the life of a nation that a violent and unexpected shock leads the state to take large-scale corrective action involving large deficits and increased debt. This was the case after the financial crisis in 2008. It was the case again during the pandemic in 2020. Since the beginning of 2022, all European countries have made efforts to reduce their debt-to-GDP ratio: -44 points for Greece, -33 for Portugal, -14 for Spain, -10 for Italy, and -3.5 for Germany (which started from a low level). The exception is France: the debt ratio has risen by 2 points to 116% of GDP.



There are three points to remember for anyone who wants to seriously address the problem of public deficits in France, understand their origin, and try to find solutions.

Point 1 - The root cause of these chronic deficits lies largely in social spending, especially pension costs. In 2024, of the \$169 billion budget deficit, national accounts attribute almost all of it (91%) to the government. Many public finance experts consider this presentation to be misleading because, in reality, the State heavily subsidizes local authorities and social security, in particular to avoid showing a deficit in the public sector pension system. Once these accounting artifices have been corrected, the total deficit remains unchanged, but the State's contribution is reduced to 29%, and that of social security rises to 40%. This is where efforts must be focused.

Point 2 - Pension funding depends above all on the change in the number of pensioners and contributing workers. Between 1991 and 2025, the French population grew by 10 million, including 6.5 million people over the age of 65. The proportion of people of retirement age has risen from 14% to 22% of the total in the space of a generation. However, to ensure its political survival, the government agreed to suspend the 2023 pension reform, which would have raised the legal age of retirement. With a population whose life expectancy is increasing, it is inconsistent to keep the parameters of the pension system unchanged, whether in terms of retirement age, contribution duration and the ultimate taboo: pension amounts.

Point 3 - The imbalance between generations is growing. In 2025, for the first time in its history, except during periods of major wars or epidemics, France will record fewer births than deaths. With so few births, the costs of aging will weigh on fewer and fewer shoulders. All developed countries are experiencing a collapse in fertility. France, although not the worst off, is no exception. This major anthropological change puts the budget debates in the Assembly into perspective: they are

a poorly staged drama in which all parties seek expedients (new taxes) rather than tackling the root of the problem. Yet another tax on the rich or on businesses will not cover the increasing costs of a welfare state that has become too generous.

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