



Editorial

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Editorial

Tax and the French: what sort of tax system for what sort of society? *

It seems a long time ago that, after the Second World War and under the aegis of the welfare state, there was a shared sense to mandatory contributions, and they were seen as contributing to the general interest, the welfare of all, social solidarity. However, this alliance between taxpayer and citizen did not last longer than 30 years, and was seriously damaged by the economic crisis that hit in the mid 1970s. The general attitude towards taxation then took a dramatic turn, and was denounced as feeding a sprawling state that was paralyzing the market. The result was policies reducing the tax burden on taxpayers, in particular companies. Nonetheless, after some 40 years, despite measures taken to lessen taxation, public deficits and public debt have kept on increasing. This has created a deep feeling of incomprehension among disoriented taxpayers, and a certain distancing from the concept of taxation. The upshot today is the inability to find a common meaning in taxation, and may in time result in a loss of legitimacy. This certainly appears to be the result of the survey carried out by IPSOS, the results of which may on one hand appear worrying to those who believe that taxation is the tangible expression of a social bond, while on the other hand appearing encouraging for people who believe that it is a hindrance on investment and economic development as a whole.

In general, the survey revealed a feeling of dismay ** amongst the French public. They appear to have forgotten the meaning of taxation that had previously been held in such high esteem, at least since the

* Reflections on the Le Monde-BFMTV-FONDAFIP survey: *Tax and the French* (IPSOS survey carried out from 7-17 October with 967 people). Commentary of the poll "Thee French and taxes" (downloadable on www.fondafip.org).

** See Michel BOUVIER, "A general mobilization against tax chaos", in *Le Cercle-Les Échos* of 19 September 2013: <http://lecercle.lesechos.fr/economie-societe/politique-eco-conjoncture/fiscalite/221180102/mobilisation-generale-contre-desarroi>

French Revolution. And the upshot is an ideological blurring that affects the proponents of all sides. In a traditional sense, taxation is given a variety of functions. A political function sees it as a badge of citizenship, of belonging to a community. A social function, the pursuance of the public interest, sees it as an instrument for redistributing wealth and reducing inequality; an instrument of solidarity. Both of these functions appear to be running out of steam.

And there is a real sense that the political function could soon become obsolete. Indeed, the 57% of taxpayers who feel they are undertaking an act of citizenship seems low when we consider that 43% do not share this feeling. Furthermore, a total of 40% and 26% respectively (i.e. 66%) were unsure. What is more, the survey is not very promising for the future since only 46% of people aged under 35 considered the payment of tax to be an act of citizenship.

And the social function of taxation also appears to be disappearing. Indeed, only 19% of respondents believe that high taxes are needed to redistribute wealth, of whom only 30% are supporters of the Socialist Party (PS). And the trend in the results is the same when it comes to the financing of public services (38%), social protection (34%) and even public infrastructure (18%). Finally, 25% of respondents believe that there are no circumstances in which high-level taxation is justifiable.

It should also be noted that nearly half of respondents believe that the poorest in society should pay income tax (IR), which comes from the idea that the payment of this tax, albeit symbolic, incorporates the taxpayer into the national community, although this argument does not hold much weight nowadays since the lowest earners, French or foreign, already contribute a significant amount through VAT.

Finally, the fact that 74% of respondents believe that they “do not get what they pay for”, that their contribution is greater than the service rendered, clearly shows that the notion of taxation as an instrument of solidarity is losing ground to a more trade-based view. Taxation is seen as the price of a service much more than as a contribution to the general interest or to social justice.

The survey perfectly demonstrates the feeling of dismay among taxpayers, which we can assume is the result of successive recessions and crises in public finance. Political uncertainty about how to stop the rot, which for 40 years has recommended either lowering taxes and expenses or increasing taxes and reducing expenses, is hardly

unfamiliar. The loss of the meaning of taxation is reinforced by ideological confusion. Indeed, over the years and since the first signs of the crisis in public finance in the second half of the 1970s, it has been almost unanimously accepted that taxes and expenses needed to be reduced. And this is what has been done. More recently, it has become necessary to increase taxes to eliminate deficit and debt, while simultaneously reducing expenses. There are plenty of questions to be asked, especially since there have been years in which tax rates have been particularly high without causing the specific rejection of the tax. For example, the top rate of income tax (IR) in France reached 70% in the 1960s, 65% in 1985 and was still at 54% in 2000. With regard to tax on company benefits, the rate that has been at 33.33% since 1 January 1993, was at 50% until 1985, 45% in 1986 and 1987, 42% from 1998, 39% in 1989, 37% in 1990 and 34% in 1992. The upper rate of VAT (33.33%) was removed in 1992.

Changes in environment, globalization and the development of new technologies have also disturbed the balance of the traditional tax universe. In this new context, and in order to check the increase in public expenditure, efforts have been made – since 2006 by the French State – to apply to the public sector management methods that have been proven in business. It is not surprising that if you present public administration as a business, then taxpayers will increasingly see themselves as clients.

Furthermore, the Internet, new public management and – through them – an international culture have sprung up in the heart of the French tax system. Globalization and the opening of borders have generated a feeling of dismay in response to increasingly numerous, occasionally spectacular migrations, which are merely the product of a changing planet slowly reorganizing itself. There are many tax principles and rules that were designed for another world and that are now unable to control situations that are entirely new, in particular on account of their scale.

Simultaneously, the need to balance public finance has gradually led taxation to be conceived as and reduced to a purely budgetary function, which could quickly lead taxpayers to query its meaning and legitimacy.

When 72% of respondents believe that taxation is excessive and that the government's fiscal policy is not effective, that it does not enable inequality to be reduced (94%) or that it even contributes to

exacerbating it (54%), and that the money is poorly used (88%), we have to wonder about the reality of the legitimacy of current taxes, in particular when this rejection is combined with the aforementioned feelings of dismay and injustice. Indeed, 51% of respondents believe that many people take advantage of the system, and 35% deplore tax fraud.

Furthermore, as mentioned previously, taxation is not seen as a means of social solidarity. But it is from this perception that taxation has drawn the best part of its sociological legitimacy, allowing it to be seen as an expression and a necessary condition of solidarity and social ties, and as the best way to ensure cohesion and integration within the community, of the nation and ultimately of the State. This representation also allows it to be seen as a contribution by everyone to public expenses, and as an instrument for ensuring the general well-being. Finally, the image of a unified nation-state, with well-defined borders, has forged a largely accepted and shared fiscal symbolism, i.e. the realization of the common good through taxation, a levy understood as essential to the organization of a community.

It is quite possible that this symbolic solidarity, and the legitimacy that it confers, is now merely an illusion. A unified and relatively stable concept of society has been replaced by the image and reality of a composite, fragmented world within which time has been accelerated significantly. In this context, the meaning of taxation has changed. The strong individualism of the 1980s contributed significantly to changing the concept of taxation away from a contribution and more towards a price to be paid for services rendered by the public sector. A resource whose essentially budgetary objective stops it being a tool for social justice. Given the financial difficulties of the public sector, there is a real risk that “tax” will be replaced by “fee”, and therefore the price of the service rendered. The transformation of the tax relationship into a trading relationship not only largely modifies the meaning of taxation, but it is also liable to result in its disappearance.

Modern-day taxation was established between the late 18th century and the second half of the 20th century in contexts that no longer match the reality of contemporary society. Consequently, it can no longer be understood and constructed using mindsets that mix often contradictory theories and ideologies. This merely generates answers that are unintelligible for taxpayers. This aspect stood out clearly from the survey.

If we consider the answers relating to the fiscal policy followed under right-wing and left-wing governments, the reactions often appear superficial and betray an inaccurate knowledge of the actual situation. A summary of the major changes in French taxation demonstrates that judgements must be, if not qualified, then at least defined.

There are currently some 200 mandatory contributions (PO) in France, generating more than €900 billion, i.e. around 45% of GDP (of which more than €300 billion comes from welfare contributions). It should also be noted that France has witnessed a long-term intensification of tax-to-GDP ratio, a feature that it shares with all western countries.

From 1989 to 1993, it remained at a near constant level, before rising again to 44.9% in 1999, which was considered a record at the time. The growth of mandatory contributions in France has therefore been an on-going, long-term phenomenon. Nonetheless, this phenomenon experienced a parenthesis between 2000 and 2009, with the ratio dropping from 44.1% to 41.6%. However, the drop was only temporary, rising again to 42.5% in 2010, then 43.9% in 2011, 44.9% in 2012, 46% in 2013, and most probably more than 46% in 2014 (46.1% forecast).

Until 2011, this evolution resulted in two opposing movements: a trend towards the stabilization of State taxes on one hand, and a rapid growth of social taxes on the other. Naturally, there have been variations increasing and decreasing the tax burden in recent years, but overall the State unquestionably limited the overall tax burden, at least until 2011. It should be noted that recent tax measures should result in an overall increase in State taxes which, without spectacularly changing the tax pressure applied by the State, should increase the tax/GDP ratio by around one point.

We could also investigate whether the French public agrees with – or at least looks favourably upon – the tax policies implied by the positions taken by the parties they identify closest with. The results of the survey suggests otherwise. Indeed, the tax payers who identify closely with the Socialist Party (PS), Union for a Popular Movement (UPM) and the National Front (FN) all betray some degree of discrepancy between the arguments put forward by their parties and the opinions that they hold.

With regard to the Socialist Party (PS), and although the responses often reveal an attachment to the traditional concept of taxation, there

is a clear difference between the views held by the taxpayers who support the party and the tax policy that it pursues. For example, 60% believe that this policy has no effect on reducing inequality and 87% believe that the policies pursued by all of the parties are identical. Only 50% believe that campaign promises have been met and 31% that the money is being well spent.

For Union for a Popular Movement (UPM), responses show a clear lack of trust regarding taxation which corresponds to a general argument used by liberal theorists. However, there is a big gap when it comes to the stated willingness to reduce public deficit and debt. Indeed, supporters of this political party are little inclined to use taxation for this purpose, since only 36% of them would support high levels of taxation to achieve it.

Supporters of the National Front (FN) have remained faithful to the very anti-taxation ideology that was theirs during the 1980s and 1990s, although this is no longer compatible with the positions taken by this party in favour of reinforcing the role of the State. It should be noted that this very clear anti-tax stance in response to all of the questions posed led respondents to approve tax exiling (72%), although the National Front (FN) is opposed to globalization.

In general terms, it is worth considering whether the French public's opinion of taxation reflects a willingness to see tax reform, or a complete loss of patience with the tax system that could even lead to the rejection of tax in all forms.

Throughout history, it is very rare for the people to reject taxation in its entirety. People will refuse to pay or revolt against a specific tax or tax policy, but not against taxation per se. Nonetheless, as highlighted previously, the pressure exerted by the crisis in public finance may result in the "fee for service" model developing both locally and nationally, resulting to some extent in the disappearance of taxation. Equally, the concept of client-taxpayer will undoubtedly become more established in coming years, in particular on account of the business culture taking root in the public sector.

Furthermore, we need to understand that most mandatory contributions were conceived for a relatively closed State. We now need to reconsider the solidity and relevance thereof in a more open world. This survey should encourage us to do so, in particular because it shows – as mentioned above – the genuine disarray felt not just by taxpayers but also by the political class.

In fact, we urgently need to invent a tax system for the 21st century, and establish a new meaning for taxation. The time has come to question the pertinence and future of our tax systems, which may become increasingly obsolete in the coming years.

We also need to concentrate on the gap opening up between the scope of the challenges involved in tax reform on one hand and the related technical, reductionist approach often adopted on the other. Taxation is a social, economic and political reality, and cannot be reduced to just one of these fields. As an expression of a social bond, it should not-as it all too frequently is-be considered from a purely instrumental point of view.

We also need to remember that tax systems are operating in a rapidly changing environment marked by globalization and new technologies. The upshot of this is a degree of indecision and uncertainty dominating a vision that is both fragmented and inter-relational in a universe whose meaning and direction appears to be difficult to control. This social complexity indeed appears to prevent us from conceiving of large-scale projects, fitting all innovations and reflections into narrow, limited spaces, such that only micro-changes become conceivable.

In this context, taxation may end up seeming impossible to reform as a whole, in France and elsewhere, as the indecision we see on all sides nowadays appears to suggest. This is why contemporary tax policy fits into no coherent logical system, often involving DIY solutions applied in response to technical problems, or specific economic or social questions raised (or otherwise) by specific pressure groups. In this case, rather than reform, such action is better described as adaptation to circumstantial constraints. Such adaptations are usually unfortunate, since they serve to complicate the tax system and make it more opaque, without going into the feelings of injustice that they may generate. In particular, these measures all too often reflect a willingness to fit taxation into a movable, complex environment, without first ensuring it has been properly conceptualized. Prejudice, bias and ideology are too often used as ready-made responses in place of analysis-based solutions, which of course need time to become operational.

It is even more difficult today to determine the appropriate direction of tax policy or even tax reform since there is no coherent representation of social function and no one is proposing a project to drive it forward. As a result, the issue is reduced to fragmented problems limited to specific challenges applicable to specific groups of taxpayers, negotiating nothing more than increases and decreases of rates and

bases with absolutely no coherent concept of the whole. The pressure exerted on tax decision-making by the urgent need to respond to economic and social difficulties is increased by the fear of causing a recession triggered by tax increases combined with spending cuts.

But there is another urgent matter that needs to be considered. This matter is not directly financial or economic, but rather sociological and political. It relates to the need to ensure that taxation is seen as legitimate by the majority of taxpayers. This is the basic condition for tax profitability and social cohesion, and we should not disregard it lightly. To achieve this, we need to move the fiscal question outside the traditional circle of experts and have a real national debate.

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