Henri Lagarde, Getting France Out of the Rut : How the French Can Draw Inspiration from the 10 Phoenix Countries


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Getting France Out of the Rut
Henri Lagarde

Getting France Out of the Rut

How the French Can Draw Inspiration from the 10 Phoenix Countries

Translated from French by Richard Robert and Daniel Cochin

Presses des Mines
Phoenix: in the Greek mythology, the Phoenix was a long-lived bird that cyclically regenerated by arising from its ashes.
To my wife Denise,

to my children Nathalie, Nicolas and Stéphanie, 
to their spouses Elisabeth Lagarde, Henri Biestro 
and Arno Van Wouve

and to my grandchildren Jacques, Hannah, Daphné,  
Roxane, Hector, Chloé, Olivier and Thomas,

who showed support while enduring 
my time of maturation and writing...
Give any entrepreneur a chance to make it happen, 
and he’ll do even more than you expected.

Poul Schlüter, Prime minister of Denmark (1983-1990),
a precursor of Phoenix Countries

Producing value means producing wealth. 
Consuming value is destroying wealth.

Jean Baptiste Say, 
Cours complet d’économie politique pratique, VII, 1837
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This book started with an observation: the French economy is not doing well.

Even though it is likely to worsen the situation, one should not blame the terrible health crisis that we are currently experiencing and whose consequences we are just beginning to comprehend. The evil is older, its roots deeper. In many ways, this decline is due to two crucial factors.

The first is the irresistible integration of the world economy since 1945. A globalized economy means global competition, which compels us to take into account, first and foremost, the differences in competitiveness between countries. For not having done so, France finds itself in a very tight corner today.

The second factor has to do with the fateful choices made in 1944-1945 in the unique context of the post-war period and amplified in the years that followed, particularly in 1974, 1981 and, last but not least, in 1998-2000 with the 35-hour week. In a nutshell: for decades, France has stubbornly persisted in financing its social policy — one of the most generous in the world — and its public spending — again among the highest in the world — by drawing on corporate resources. Taxation on businesses, i.e. social security contributions, taxes on production, and corporate taxes, is the highest within OECD countries.

By favouring demand policies — i.e. stimulus through consumption geared towards raising household purchasing power — rather than supply policies giving priority to improving business competitiveness, France has condemned itself to a decline, the effects of which we are now witnessing.

For decades, French governments have been obsessed with consumption. Forgetting Jean-Baptiste Say’s famous maxim — “Producing value is creating wealth, and to consume is to destroy it” — they seem to assume that consumption is a production of wealth and that it is therefore advisable to safeguard or even boost it by all possible means, so that it irrigates the rest of the economy.

The mechanical effect of this unbalanced choice has been to increase imports while weighing on the nation’s capacity to export, thus accelerating the decline of the nation’s production system: first manufacturing, then commerce and now even the distribution industry,
which is facing the rise of Internet merchant sites installed abroad. The comparison with Germany, but also with the other “Phoenix Countries\(^1\),” is eloquent: because it has been relying on its industry ever since the end of the war to rebuild itself and has consequently favoured supply-side policies, Germany has experienced, better than any other European country, an economic miracle that has enabled it to find its way back to the position of the continent’s leading economic power. Germany owes its prosperity in large part to its ability to export its products all over the world. The gap between France and Germany has continued to widen until today.

Yes, France is doing badly. Not only its manufacturing industry, as we shall see in detail, but also its agriculture and even commerce. Only non-competitive activities such as luxury products (perfumes, leather goods...), avionics, some very specific product niches such as fine wines, spirits or luxury food, and a couple industrial niches (fine machining in Savoy, etc.), all monopolistic or oligopolistic activities with no real competition for the moment, have been able to escape decline! The French public is largely unaware of how severe this situation actually is.

Lulled into illusions by the electoral and soothing speeches of their political leaders and still convinced that their country, “the sixth economic power in the world” — but is it so sure? And for how long? — is envied throughout the world for the quality of its social model, expecting everything from the State, from which they demand more and more, convinced at last that France has plenty of money and that it is enough to tax companies (and the “rich”) to solve all problems, the French have not come to terms with their economic decline.

And yet many indicators are flashing red! Unemployment, taxes, public spending, foreign trade, social spending, deficits, public debt, average wealth per capita... In almost every area, we are doing worse than our European neighbours and even most OECD countries. Why do we perform so poorly?

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\(^1\) “Phoenix Countries” since these old industrial countries have managed to rise from their industrial and economic ashes. Denmark, Finland, Sweden, the Netherlands, Germany, Austria, Ireland, New Zealand, Australia and, more marginally, Canada, not to forget Mrs. Thatcher’s Great Britain, have all greatly reduced their corporate taxes and transferred them to VAT. It should be noted that Switzerland is not a Phoenix Country: it is a rich and frugal country that has supported its industry for over a century.
The origin of all these evils can be summed up in three words: poor adaptation to globalisation, loss of product/price competitiveness and, as a result, deindustrialisation. Since the mid-1970s, France has been experiencing the collapse of its industrial sector, particularly its manufacturing industry. As a result, our economy has lost more than half of its industrial potential to contribute to wealth creation. Granted, all industrialized countries have experienced a decline of their industrial sector, reflecting the changes in industry and the rise of emerging countries. But certainly not on such a scale!

To understand this French specificity, it is necessary to come back to the economic policies and their effects on firms. Forced to finance numerous economic stimuli based on demand, which obeyed mostly electoral motives, French firms are subject to punishing taxes, with high rates and absurd calculation methods. And corporation tax is not, by far, the end of it, as we shall see. As a result, the French industrial fabric, failing to remain competitive, has seen its margins laminated and has progressively crumbled.

In order to maintain market shares or conquer new ones, many French companies have had to redefine their products towards the middle or lower end of the range, compensating, through lower quality, for constantly rising production costs due to taxes and social contributions. The case of the automotive industry illuminates this trend: in search of more favourable taxation and labour costs, car producers have chosen to offshore most manufacturing activities and to produce medium or low-range vehicles in foreign countries. Car manufacturers, like so many other industries, have had to lay off labour in France. Other sectors have simply disappeared.

An appalling vicious circle has thus come into existence in France: the disappearance of thousands of companies, SMEs, mid-size companies, so crucial to the prosperity of a nation, agricultural companies and, from now on, also large commercial brands, has logically led to a massive increase in unemployment which had to be dealt with socially, mechanically increasing social expenditure and with it public expenditure... As tax revenues soon became insufficient to meet growing needs, it became necessary to resort to indebtedness, which continued to grow. Since 1974, never once has the government presented a budget surplus.

Nonetheless, one could remember that from 1932 to 1959 (27 years!), all the budgets of the French government were in deficit; but in one single year, under the aegis of Charles de Gaulle, Louis Armand, Jacques Rueff and Antoine Pinay put everything back in balance... Where there is the will, there is a way, as we shall see. But ever since
1974, in a now totally globalised economy, France has had to import more and more foreign products, due to both a lack of competitive producers and a continuous boost of demand. This has contributed to a regular imbalance in its trade balance — now seriously in deficit — and has accentuated its industrial decline.

In this economic Waterloo, only large companies, those with monopolistic or oligopolistic situations and who can both benefit from the innumerable tax niches and escape French taxes thanks to their international presence, have managed to pull through, along with a few companies benefiting from specific assets — patents, technologies, unique products. For the others, it was a rout. And it’s not over yet.

The deindustrialisation of France, its causes and consequences, but also the means to put an end to it, are the central subject of this book. In 2011, I wrote a book in which, based on my experience as an entrepreneur, I made a pro forma comparison between France and Germany, our neighbour that is always cited but never imitated. In this book I was raising a question: why are German, or Danish, companies more competitive than their French counterparts, enabling them to invest, export and create jobs? I had no doubt about the answer, and my conviction has only grown stronger: the secret of companies from the other side of the Rhine or northern Europe lies not in better management or more efficient products, but in the rules of the game, especially fiscal and social rules, which are much more conducive to profitability than those applied in France. I also pointed to the continuing decline in the share of manufacturing industry in the country’s total GDP, a share that was already then — in 2010 — only 12%. Almost ten years have passed since this book was published and little or nothing has changed — except that the situation has worsened.

It is true that since then some reforms have been made, particularly with regard to the taxation of companies and entrepreneurs. Elements of a supply-side policy, still very timid despite all the controversy it has generated, have been implemented since 2014. France has become slightly more attractive (abolition of the wealth tax, lower cost of capital) in the eyes of foreign investors, and its privileged geographical position has enabled it to attract more direct investment. We can only rejoice in this. But most of the indicators have, alas, continued to deteriorate; as for deindustrialisation, it has not been reversed and in a number of sectors it continues at a worrying pace.

In writing this book, I therefore want, once again, to draw attention to the seriousness of our situation and make the French people glimpse the precipice towards which we are heading collectively. Starting from this diagnosis, I want to go further and propose real remedies.

I am convinced that industry is the key to our recovery. One industrial job generates two to three other jobs, particularly in services. Only a far-reaching reform of the tax system that weighs on all companies (industrial, agricultural or tertiary sector), accompanied by a whole series of urgent social measures, will make it possible to improve their competitiveness and thus initiate a sustainable reindustrialisation, allowing for a real drop in unemployment and a long awaited improvement in public accounts.

The solutions I propose to achieve this objective are not a figment of my imagination. They have been successfully tested by several countries, including — the list is not exhaustive — Denmark, Sweden, Finland, the Netherlands, Germany, Austria and, on the other side of the world, New Zealand and Australia. I call “Phoenix Countries” those nations that have managed to return to sustainable growth and rise from their industrial ashes. Some of them are surveyed in this book.

Declining industry, endemic mass unemployment, the burden of social spending and heavy taxes, public deficits, public debt... All these countries have experienced the situation we are in today. To put an end to this infernal cycle, all of them have reduced the tax burden on their companies in order to improve their competitiveness. To make up for the loss of income, they have also chosen to direct part of the tax burden towards households, not through income tax (except in Denmark), but through an increase in VAT.

Contrary to a stubborn legend to which we shall return at length with supporting evidence, taxing consumption does not cause inflation, as the International Monetary Fund has found. Coupled with an equal reduction in corporate taxation and a few targeted measures, a VAT increase is on the contrary likely to provoke a competitiveness shock from which the whole country will benefit: less taxes and social contributions on companies means higher margins, consolidated investment capacities, more jobs (and so fewer unemployed!), less social spending and more tax revenues, greater public investment capacity and less public debt... A virtuous circle that, as we shall see, all the Phoenix Countries have already experienced.

This major tax overhaul must be accompanied by a social “new deal.” To me this is an essential subject. For decades, French employers and trade unions have been staring each other down: the former refuse
to share the slightest bit of power and to communicate the slightest piece of information — or else truncated, sometimes false, and almost always after the fact — with the latter who, for their part, too often favour conflict to advance their demands. We must put an end to this sterile and harmful butting of heads, we must open the doors of the boards of directors more widely to employee representatives or create other forums for dialogue to involve them in the major decisions affecting the life of the company and the definition of its strategy. My personal experience, at Thomson, then at Guyomarc’h and Royal Canin, has proved to me that this is possible. I’ll come back to this later. And in this field too, certain Phoenix Countries have paved the way.

Giving companies some air, as well as signing a new productive pact associating the employees and their unions, is urgent! The coronavirus crisis revealed various shortages and it brought to light the dysfunctions of the “workshop of the world.” It has thus opened a fundamental debate on industrial reshoring. There is talk of repatriating factories currently located in China to France, particularly in the pharmaceutical industry, opening new ones, concentrating production that was previously scattered around the world, and even creating new industrial clusters (for example in active ingredients for medicines, or batteries).

The question is not entirely new: for several years, “Made in France” has been favoured by the public authorities, and sometimes even by the general public. But can one claim to defend “Made in France” and, at the same time, handicap French companies with a tax system unknown elsewhere in the world? Today, the French government seems to be ready to go a step further, no longer just safeguarding what remains of the national industry, agriculture and trade, but putting an end to the excessive offshoring that has characterised French industry for several decades, through shortening value chains that we now realize are too complex to manage, strengthening price competitiveness, and reshoring a whole series of industries considered strategic. These are laudable objectives. But they should not make us forget the real subject: the taxation cocktail associating not only corporate tax, but also social contributions (company share) as well as the innumerable and thus uncontrollable production taxes, notably local ones, which ended up by almost annihilating our industrial fabric.

Taxation, as we shall see, is indeed the mother of all battles.

Let’s make no mistake about it! If its fiscal system undergoes no real aggiornamento, France will not magically see new industrial companies flourish on its soil. As for those that exist and have left abroad,
they will have no interest in coming back. If they don’t stay in China, they will settle in South-East Asia, Russia, Morocco, South America, Eastern Europe... As long as we haven’t re-established fiscal equality with other developed countries, any plan for reindustrialising France will be met with failure. Only a few industries will come back, after being constrained and forced by government; in exchange for their “sacrifice,” they will benefit from (well hidden) public subsidies, tax niches, reductions on social contributions, or just a steering wheel of public orders. The bulk of companies that have offshored most manufacturing activities will look twice before taking the plunge. As it has done so well in the past, government will then be content to put in place, by means of industrial plans, large industrial clusters consuming a lot of taxpayers’ money with no overall effect on employment.

This book, I would like to make it clear, is not a pamphlet. My purpose is neither to blame nor to shame, but, on the basis of an objective observation, to share convictions and make proposals. This is not yet another ultra-liberal hotchpotch, but an exploration, in depth and based on indisputable figures, of the weaknesses of the French economy.

What makes me think I have the legitimacy for this attempt? I am not a theorist but a hands-on person, a man of products and marketing, but also an industrialist who has had and still has many opportunities to understand the daily realities of companies in the field, in France and abroad.

A word about my career path. Very early on, first as a field salesman at Philips, traveling for ten years, then by having radio sets manufactured in Singapore, and for seventeen years at Thomson Électroménager (Thomson Home Appliances), first in the International Affairs department and then as VP Sales for large household appliances, I came to realize the penalizing nature of taxation on French companies and the deadly risks it poses to them.

I was already passionate about the challenges facing the industry and I even came close to accepting Claude Jouven’s proposal to succeed him at the head of the Directorate General for Competition and Consumer Affairs (DGCC). We were both convinced that France should implement the principle of “Tarifautonomie” in force in Germany, which states that the government should never intervene in relations between trade unions and industrial branches, or between manufacturers and distributors. I will come back to this point.
The man who should have been my minister — Jacques Delors — left for Brussels in the summer of 1984. I finally decided to pursue my career in manufacturing. In 1986, I was appointed CEO of Thomson Électroménager (TEM). Representing six brands, with a turnover of six billion francs and 5,000 employees, Thomson Électroménager was a subsidiary of the then nationalised Thomson Group. One of my priorities was to improve product quality, notably by deploying a Total Quality approach. I decided to take our cooking brands Sauter and Thermor out of all hypermarkets, where their prices were squeezed while sales remained at mediocre levels. It was a resounding success. Sauter and Thermor, hitherto ignored by kitchen designers who were clearly discouraged by the prospect of zero margins, became market leaders: Sauter moved from fourth place with 4.3% of the oven market in 1984 to national market leader with a 14.2% market share in 1993.

Above all, in October 1992, we launched a major “Five Year Guarantee” campaign on all spare parts for all our appliances, in order to better understand (that is to say, without the distribution filter) the true quality of our products and to be able, if necessary, to immediately improve what needed to be improved, but also, and above all, so that our company be the quality guarantor in the eyes of consumers. By then TEM was already Nr. 1 in quality on the washing machines market and Nr. 2 for dishwashers and cooking ovens, though we were doing bad on refrigerators and scandalously bad on freezers. This move was extraordinarily profitable: in 1993, in just one year, the Brandt brand experienced a growth of more than 40% of its sales volume (from 805,456 to 1,142,045 appliances!), something which had never been seen before in the industry!

All these actions, including a 630 million francs free of charge cashback during our “30 days on the terms of payment of our 2,300 French customers” operation, as well as the even stronger offer of a five-year free spare parts guarantee, the cost of which was 1.7% of the French turnover (a cost largely recovered in a simultaneous price increase of our six brands), must first of all be credited to my right hand and alter ego, Bruno Vendroux, TEM group’s general commercial director.

By then Thomson Group (now Thales) was planning to concentrate on its military activities, and it didn’t have much to do with its household appliances branch: internally, we were considered as simple wages or working conditions, so as not to see these extremely pragmatic problems turn into ideological religious wars.” (Ludwig Erhard, German Finance Minister in the 1950s).
“sheet metal benders”! This profitable branch\(^1\) was therefore sold, at the end of 1992, to the Nocivelli brothers, small Italian industrialists. This sale I opposed in vain — but very clumsily, it must be said — and, one thing leading to another, after two flamboyant years (1993 and 1994), poor management led to the liquidation of the company in 2001. What was left of the company assets was first bought in court by an Israeli who, two years later, sold it at a high price to the Basque group Fagor. At the end of 2005, Fagor, in turn, was forced to put the former Thomson Home Appliances into liquidation. End of the story.

As soon as June 1993 I had been ousted from my post. I joined the Guyomarc’h food group as CEO. A new adventure was beginning. Controlled since 1990 by Paribas Affaires Industrielles, Guyomarc’h was still 70% present in pet food, its original business. It had also diversified into ready-made meals (with the Père Dodu brand for breaded escalope, and Chip Long for Asian dishes), natural ingredients (Diana brand) and dog food (Royal Canin brand). The group had many strengths but its products were, for many of them, mediocre, and most of its activities were in loss.

The turnaround of the Guyomarc’h group was an exciting challenge for me and my team — including Jacques Paquin, former Scientific Director, then Managing Director, and some former Thomson employees. We had to sell off activities, for example, pâté en croute (pork pie) or birdseed in the United States, launch new products, invest in factories (for example at Père Dodu, with Alain Guillemin who made an extraordinary turnaround there), install new equipment, deploy a Total Quality approach and lean production methods... I won’t go into the details of this story. Suffice it to say that within Guyomarc’h, I was increasingly interested in Royal Canin, whose potential seemed considerable to me and whose direct presidency Paribas asked me to take over in 1996. This adventure was just as exciting.

Within a few years, we made this brand, which until then had specialised in dog food and whose results were mediocre, the world leader in “Health Nutrition” for dogs and cats... and above all an extremely profitable company. We achieved this result, among other

\(^1\) Thomson Électroménager was Nr. 3 in Europe in terms of operating results, behind German companies Miele and Bosch-Siemens, but the Thomson group charged it with a 14% rate for financial expenses, while it could have obtained a 7% rate on the banking market as early as January 1993. Thomson Électroménager was nevertheless profitable, even after these intra-group financial expenses. It was sold for 1.3 billion francs (the turnover was by then 6 billion francs).
things, by launching, with the help of my alter ego, Alain Guillemin, who had become its general manager, new, revolutionary products for dogs (the Size range was a radically different concept from what our competitors were doing, and very scientific in the canine universe\(^5\)), by creating a purebred dog and cat nutrition range, and by developing a double and very broad veterinary range, as well as a range dedicated to breeders. So much so that when Paribas sold Royal Canin to the American group Mars, in 2001, the latter confirmed me at the head of the company and even welcomed me to its board of directors. In seven years (1994-2001), we had already multiplied by 15.4 the value of Royal, today the leading world brand in its sector of activity: it had gone from 700 million francs (104 million euros), the price proposed in 1993 by one of the world leaders in agro-food, to 1.6 billion euros, the price paid by Mars Inc. in 2001. I remained at the head of Royal Canin until 2004, the date of my retirement. But until 2008, I was a director of Mars Inc. in the United States, a position in which I learned a lot about the industry around the world. After retiring I was a shareholder and director of several industrial companies, whose development I accompany on a daily basis. I continue to be passionate about the industry and to think about its future.

This experience has taught me a lot. It has made me aware, in a very concrete way, of the constraints French industrialists are undergoing. I see at least three of them.

Firstly, those generated by France’s competition law: since their publication in 1969, the Fontanet decrees prohibiting any refusal to sell, whatever the cause, have been handing over manufacturers and major brands to the mass retail sector — an “inflation killer,” as it was believed at the time: we’ll come back to that. By way of comparison, the Germans have a completely different approach, based on the balance between manufacturers and distributors; it works perfectly (distribution margins are much lower, from 5% to 8% at least, in pet food as well as in household appliances or leisure electronics, mutual respect between manufacturers and distributors, etc.).

Second constraints: those caused by corporate taxation, the central theme of this book. We hold, by far, the world record for compulsory levies on companies (social contributions + production taxes + corporate tax). The consequences, as we shall see, are terrible.

Third constraints: those arising from our social law and the be-

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5. See at the end of this book the description of Size, which between 2003 and 2015 has become a universal concept!
haviour that accompanies them. The French state is omnipresent and interferes in almost all negotiations, turning the company into an ideological battleground. Here again, this is very different from what is practised in Germany, where the principle of “Tarifautonomie” has prohibited government from interfering in this type of negotiation since the early 1950s (see appendix at the end of the book).

Competition law, corporate taxation and social law: these are the three major causes of France’s economic decline, and more specifically its industrial decline. I have been a direct witness to the latter for more than 45 years (since 1974 to be exact). A long familiarity with industrial products has enabled me to know in detail the structure of their costs and, in so doing, to measure the disproportionate place occupied by taxes, social contributions and levies in the production process at each of the industrial stages (raw materials cost almost nothing in most industrial trades, pretty much all of it is added value, on wages, finance and taxation), as I indicate in the appendix to this book).

As an industrialist, I have been able to realise the devastating effects of our social model on employment, but also the impasse in which social dialogue within our companies very often finds itself. Having done it myself, three times, at Thomson Electroménager, Guyomarc’h and especially Royal Canin, I saw that it was possible to rally trade unions and employees to the real issues of the company, as long as we managers put all the cards on the table and never lied. In this book, I will relate three of these experiences. Having built up several economic world leaders and joined the board of an American multinational finally allowed me to compare the French situation with those of other countries and to discover that some of these countries had implemented solutions that worked better than those of the all-powerful and omniscient bosses that we sometimes see in France. I could also see that the average GDP per capita of these Phoenix Countries, countries that were incidentally more democratic, ecological and consensual, especially on the problem of taxation, was much higher than ours.

The book you are holding is the fruit of this experience. After analysing the causes of an industrial decline — which will lead us to travel through history and explore France’s “founding choices” — and having measured the extent of this decline, I propose solutions and avenues for reform.

One conviction has guided me throughout this work. It can be summed up in one sentence: there is no such thing as inevitable decline.
An overview of the French economy

Let’s start with a quick review of the French economy.

In 1973, at the request of the French government, the Hudson Institute (created by the American futurologist Herman Kahn) carried out a study on “The wealth of France and the future of Europe” which led to the publication of a remarkable report: *L’Envol de la France. Portrait de la France dans les années 1980* (*Take-off in France: A portrait of France in the 1980s*).

It is fascinating to reread its first pages today.

“Today’s France, the authors wrote, has the most dynamic economy in Europe, the fastest growing one, with the most favourable prospects for continued strong growth. Within ten years, France can hope to be the most powerful European economy in terms of total output. If France’s growth continues at the rate of the past decade, and it seems likely that it will, in 1985 the French will enjoy a level of wealth per capita far higher than that of Sweden and America today. By 1990, the French will have surpassed Sweden in wealth and they shall enjoy the highest standard of living in Europe. In addition, France will be the largest economic power in Western Europe...”

In a comparison with Germany, the authors continued a few pages later: “France’s economy is stronger than Germany’s in terms of per capita production and it will soon have a significant economic advantage. It will surpass Germany’s total economic output over the next decade.” Carried away by their demonstration, the authors noted that France had many advantages over its neighbours, including “a more laborious, better educated, more productive per capita workforce, an efficient bureaucracy and a general climate favourable to investment.” In passing, the report prophesied a shift in the European economy from the countries of the North and North-West to those of the South. “The traditional centre of economic power in Europe, moving away from the

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5 1973 was the last year of the “Gallic rooster.” One year later, an economic plan to revive the economy by boosting consumption was launched by Prime Minister Jacques Chirac and President Valéry Giscard d’Estaing. See next chapter.
old industrial nations of the North Atlantic, is shifting southwards,” the authors said.

This great changeover never happened. Above all, France has not become “the most powerful European economy in terms of production.” It has not surpassed Germany, neither in the 1980s nor in the decades that followed. Quite the opposite! In fact, things took a radically different turn: one year after the release of the Hudson Institute’s optimistic report, the French economy was in decline, and in some areas it looked like it was in a state of complete collapse. 45 years later, the situation has become critical. I have already outlined the reality of this decline in the previous pages. Allow me a few numerical reminders to better grasp the reality and thus flesh out the decor.

Let’s start with wealth, as measured by GDP per capita. With 41,464 dollars in 2018, France ranks 14th among European countries, behind Switzerland, Norway, Eire, Denmark, Sweden, the Netherlands, Finland, Germany and Belgium (along with two city states, Luxembourg and Lichtenstein. It is (almost) on a par with the United Kingdom and ahead of Italy, Spain and Greece. Worldwide, France ranks 33rd. This ranking places it among the richest countries on the planet. But we can also give pause and consider another reading, which is just as valid: its GDP per capita is lower than that of the most dynamic countries of Northern Europe, whose decline the Hudson Institute recklessly prophesied. Norway, Denmark, the Netherlands, Sweden, Germany, Finland, Belgium and, of course, Switzerland are doing better than us in terms of GDP per capita, as are New Zealand and Australia, the Phoenix Countries of the South Pacific.

France’s GDP per capita, all things considered, is modest compared to the role it intends to play on the world stage and the confident statements of its leaders. France is undoubtedly rich. But not as rich as the French believe. Worse still: since 2008, according to the French Institute of Public Statistics (INSEE), their standard of living has even declined\(^7\). In 2016, the average disposable income per household (in constant euros) for the poorest 17% of households was 1.2% lower than in 2008. It was only in 2019, as a result of fiscal measures taken by the government, that it began to recover. But not for long, given the likely devastation that the Covid-19 crisis will wreak on GDP, and therefore

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\(^7\) Source: World Bank, 2018 data.

\(^8\) INSEE, *France, portrait social*, 2018 and *INSEE Analyses* 49, October 2019. The term ‘poor’ refers to people whose standard of living is less than 60% of the median standard of living, i.e., in France, approximately 1050 euros per month for a single person.
purchasing power. It is true that, thanks to a particularly generous —
and therefore particularly costly — redistribution policy, France is suc-
cceeding in limiting poverty. But what would it be without the smoothing
made possible by social policies? There is a good chance that we would
be well above this average.

Table 1. GDP per capita in 2018 (US$)
(Source: World Bank)

France ranks 14th among European countries and 33rd in the world for
GDP per capita. Its GDP per capita is, all in all, quite mediocre for a coun-
try that takes pride in being the world’s sixth largest economy. It is also
lower than those of all Phoenix Countries. The de-industrialisation that
began in 1974 and the mass unemployment that accompanied it have
had a negative impact on the country’s general prosperity.

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>82,828</td>
</tr>
<tr>
<td>Norway</td>
<td>81,734</td>
</tr>
<tr>
<td>Eire</td>
<td>78,582</td>
</tr>
<tr>
<td>Denmark</td>
<td>61,390</td>
</tr>
<tr>
<td>Australia</td>
<td>57,395</td>
</tr>
<tr>
<td>Sweden</td>
<td>54,651</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>53,022</td>
</tr>
<tr>
<td>Austria</td>
<td>51,499</td>
</tr>
<tr>
<td>Finland</td>
<td>50,175</td>
</tr>
<tr>
<td>Germany</td>
<td>47,501</td>
</tr>
<tr>
<td>UK</td>
<td>42,964</td>
</tr>
<tr>
<td>New Zealand</td>
<td>42,330</td>
</tr>
<tr>
<td>France</td>
<td>41,464</td>
</tr>
<tr>
<td>Italy</td>
<td>34,488</td>
</tr>
<tr>
<td>Greece</td>
<td>20,516</td>
</tr>
</tbody>
</table>

Should we see this lacklustre prosperity as one of the reasons for
our mediocre propensity for happiness? Perhaps. In 2019, France
ranked 25th overall in the World Happiness Report, published each year
by the United Nations to measure the happiness of people. Is it a coincidence that the first eleven countries — Denmark, Finland, Norway, Iceland, the Netherlands, Sweden, Ireland, New Zealand, Canada, Austria, Australia — almost all belong to the group of Phoenix Countries?

Let’s keep surveying the figures. While France sits within a respectable average — but no more than that — in terms of prosperity and GDP per capita, on the other hand, it is lagging behind when it comes to employment.

Table 2. Unemployment rates in Europe, January 2020.
Category A jobseekers, as % of the labour force (source Eurostat)

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Netherlands</td>
<td>3.0</td>
</tr>
<tr>
<td>Germany</td>
<td>3.2</td>
</tr>
<tr>
<td>Norway</td>
<td>3.7</td>
</tr>
<tr>
<td>UK</td>
<td>3.9</td>
</tr>
<tr>
<td>Austria</td>
<td>4.3</td>
</tr>
<tr>
<td>Eire</td>
<td>4.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>4.9</td>
</tr>
<tr>
<td>Finland</td>
<td>6.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>7.0</td>
</tr>
<tr>
<td>France</td>
<td>8.2</td>
</tr>
<tr>
<td>Italy</td>
<td>9.8</td>
</tr>
<tr>
<td>Spain</td>
<td>13.7</td>
</tr>
<tr>
<td>Greece</td>
<td>16.5</td>
</tr>
</tbody>
</table>

The persistence of mass unemployment is, moreover, along with the 35 hours working week, which we will have the opportunity to discuss, one of the reasons for our low level of GDP per capita. With 8.2% category A jobseekers (but 19.7% if we include categories B to E⁹) in

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⁹. Category A jobseekers: 2,260,000 = 8.19% of a 27,600,000 labour force. Categories A to E jobseekers: 5,450,000 = 19.7%.
December 2019, just before the coronavirus crisis, France is performing poorly within the European Union, ahead of Greece (16.5%), Spain (13.7%) and Italy (9.8%) but far behind the Germans (3.2%), Danes (4.9%), Belgians (5.3%), Swedes (6.5%) or Finns (6.6%), not to mention the United States (3.6%) or the United Kingdom (3.9%)\textsuperscript{10}. Here again, a comparison with Germany is instructive: France was more than five points behind Germany in terms of unemployment rate.

For decades, France has been plagued by mass unemployment with a deleterious effect, which it has not been able to shake off. It has also been undermined (or more precisely laminated) by record fiscal pressure. With 46.1% of GDP, France is the world champion in tax revenues\textsuperscript{11}. The OECD average, it should be recalled, is a little over 34% and the European average is 39.7%. According to The International Tax Competitiveness Index published by The Tax Foundation (Washington, DC) for the year 2018, France ranked last — 36th out of 36 — for the weight of its taxes, all tax categories combined, and 35th out of 36 for corporate taxes, behind Japan. We will have the opportunity to come back to this point in detail, just as we shall go over public spending: with 56.4% of GDP, the latter, according to a recent study\textsuperscript{12}, is eight GDP points higher than that of other European countries.

So much tax and spending, for what results? Accelerated impoverishment of public services — the glaring shortages of masks, tests, gowns and medicines in hospitals revealed by the coronavirus crisis have tragically illustrated this, while Germany, which like us spends 8.1% of its GDP on hospitals, has found itself in a much better situation — entire territories forgotten or abandoned, social tensions of all kinds, of which the Yellow Vests movement is only the most recent example... In order to address all those who have been left by the wayside — the unemployed, people in precarious situations... — and to avoid a general breakdown of the social fabric, the State has for years been opening wide the floodgates of welfare benefits. Today, social spending accounts for 31.2% of GDP. A record, once again, within the OECD where the average is 21%.

We could go on throwing figures. Foreign trade, for instance, is the real Achilles’ heel of our economy. In 2019, our trade balance deficit amounted to 58.9 billion euros, a slight improvement which has provoked a wave of laudatory comments from our leaders but which looks really quite dull next to the surpluses of our neighbours, be they Ger-

\textsuperscript{10} Eurostat data for Jan. 2020.
\textsuperscript{12} France Stratégie, Jan. 2019.
man (227.8 billion), Dutch (65 billion) or Italian (52.9 billion). For more than twenty years in fact, the contribution of foreign trade to growth has been negative: we continue to buy much more products abroad than we sell. For example, exports only amount to 31.3% of the French GDP, compared to 47.4% in Germany. This is a direct consequence of our demand policies and the concomitant collapse of the productive system. We could also speak of the public debt which has kept being called to the rescue since 1974 to make ends meet. In 2019, it exceeded 100% of GDP and it is unfortunately likely that the coronavirus crisis will have pushed it up to at least 115% by the end of 2020. Within the European Union, only Greece, Italy, Portugal, Belgium and Cyprus are currently doing worse. In 2019, the United Kingdom’s public debt accounted for 85.3% of its GDP, Germany’s for 61%, the Netherlands’ for 50.9% and Sweden’s for 36.3%.

Let’s say it again since this assertion is the guiding thread of this book: deindustrialisation, which has characterised France since the mid-1970s, is the culprit for the descent into hell of its economy and its massive unemployment. From 1960 to 1973, France boasted one of the world’s best performances in terms of employment, with just 3.0 to 4.0% class A jobseekers.

Two further figures, two further world records, here again, shall help us take the full measure of this de-industrialisation: in 1974, the share of manufacturing industry in France’s total GDP was 23.5%. In 2017, it was but 10%\(^{13}\). Today it would be 9.3%\(^{18}\). This is the worst score within the OECD: in Europe, the share of manufacturing industry in total European GDP ranges between 15% and 25% today. The best scores are Switzerland and Germany with 27%. The United States, on the other hand, sits at 18%. If we now take as a reference the weight of all industry (and not just manufacturing industry) within GDP, the situation is barely better: with 12%, France is well below the European average (24.8%\(^{14}\)) and the OECD average (22.3% in 2017\(^{15}\)). It pays a high price for its economic choices and the blindness of its leaders.

Let us face the facts: for decades, political leaders have made consumption the alpha and omega of their policies; in their view, too, GDP growth in the near future was going to rely more and more on services


\(^{15}\) World Bank, Industry (including construction), value added (% of GDP), 2017-2018 data.
and less and less on manufacturing. This idea was the main argument of the French economist Jean Fourastié in his books *Le Grand Espoir du XXe siècle* and *Les Trente Glorieuses*, published in 1949 and 1975 respectively, and which generations of civil servants have been feeding on. In their 1973 report, the Hudson Institute economists themselves welcomed the rise of services in France and the concomitant decline of the secondary sector (industry) as a sign of the modernisation of the French economy and the main driving force for its development in the years to come. What did it ultimately matter that industry was declining, since it was, in many ways, a survival of the past and France could import what it needed?

What a tragic mistake! By implementing the wrong strategy — a strategy of demand (consumption), instead of a strategy of supply (production), as all the Phoenix Countries have done, and by dealing mortal blows to its industry through aberrant taxation, France has seen all its indicators switch to red. Failing to create sufficient wealth, it has created unemployment and has been relying more and more on public spending, i.e. taxes and debt. There is indeed a direct correlation between the fall in industrial production and the increase in social spending and, in general, public spending. As the economist Claude Sicard has so well encapsulated it, “behind the obesity of the State lies the deindustrialisation of France.”

The central postulate of this book is that this French case of extreme deindustrialisation can be explained by the profound difference between the taxes borne by households and those borne by business.

Let us start from an observation: the taxes and duties (social contributions + production taxes + corporate taxes) weighing on French companies are the highest in the OECD countries, and among the highest in the world.

Taxes on production alone (72 billion euros in 2017) are four times higher, in relation to the value added, than in Germany. If we add corporate tax (35.5 billion euros in 2017) and social security contributions (365.3 billion euros for industry alone), we come to an amount unparalleled among industrialised countries. In the 2019 ranking of The International Tax Competitiveness Index cited above, France

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was 35th out of 36 (until 2019, when the Japanese decided to transfer certain business charges on VAT).

A few years ago I asked the Frankfurt office of the international law firm Simmons & Simmons to set up a pro forma table comparing the operating account of two companies, with equivalent business lines and productivity. The French one would pay 2.5 times more taxes and charges (compulsory levies compared to the company’s EBITDA) on a pro forma basis than its German counterparts (and 3.5 times more than a Danish company!)\(^{20}\). In addition to its heaviness, the taxation that weighs on production is characterised by its absurdity: social contributions and taxes on production are independent of the profitability of companies, and taxes on production — the precise number and total cost of which are often unknown in France — are set in absolute value and not as a percentage of the EBITDA. Thus, in France, a company may have a zero or negative EBITDA and still be subject, beyond social contributions\(^{21}\), to a wide and diverse range of taxes and contributions on wages and production.

French corporate taxation is all in all doubly vicious: because it weighs on their competitiveness, thus accentuating industrial decline. But also because at the end of the day it hits households themselves.

Here is my fundamental observation, which is completely counter-intuitive for many French people: any company faced with a tax increase will indeed have the choice between two strategies. Either a price increase strategy (within the limit of the price that the consumer is willing to pay), if the company in question is in a monopoly or oligopoly situation (which is the case, for example, in perfumes, spirits, world-famous wines or champagne), or if its products are protected by patents or provisionally unique know-how. Or, barring that, a strategy consisting of tightening its margins, redefining its products, implementing a productivity plan and then reducing its workforce, if the company wants to resist competition, or simply avoid disappearing... A vicious circle which, moreover, risks strongly discouraging all potential young entrepreneurs... and increasing unemployment rate.

Because the loss of one industrial job in turn generates the disappearance of two jobs in services and an increase in social spending, the impact on households is staggering in total. The high level of the

\(^{20}\) See the appendix at the end of this book.

\(^{21}\) Which, in some countries, are no longer borne by the company (Denmark, New Zealand, Australia) and which, in others (Germany, for example), have been directly allocated in to the State budget (taxes on transport, housing, payroll taxes...), which amounts to subsidising (or less handicapping) companies.
French unemployment rate shows that this chain of events is unfortunately not a figment of the imagination. In addition to income tax, VAT, and various local taxes, French households end up paying a dire price for the country’s dramatic industrial decline, not only with lesser opportunities but also with high unemployment contributions, whose direct wage deduction can be read on their pay slip!

Let’s conclude this broad overview of the figures at stake. We will have the opportunity to come back in detail to the various points mentioned in these pages. The reader, at this point, will have understood that a large part of the taxes that hit French companies are absolute nonsense and that there is an urgent need to put the whole system back on track. This is exactly what the ten Phoenix Countries have done, all of which are now richer than France in terms of GDP per capita and especially in terms of industrial GDP. But before going any further, we must try to understand when — and why — France embarked on a dead-end road. The time has come to make a little comparative history.
The French disease and its sources: choices with far-reaching consequences

"Some see private enterprise as a predatory target to be shot, others as a cow to be milked, but few are those who see it as a sturdy horse pulling the wagon."

Winston Churchill

To understand the French disease, one has to go back to the years following the end of World War II. Some decisions were taken which, amplified later on, were going to have serious consequences on the French economy. This was also when the process of disengagement with Germany began, which was not going to stop growing until today.

When it recovered its sovereignty in 1944, France made a double choice. Firstly, a generous social policy financed largely by employers; secondly, monetary laxity. These choices, which were in stark contrast to those made at the same time by the Germans, had a lot to do with the political context of the time, and in particular with the weight of the Communist Party. In 1945, the Communist Party was indeed the “first party of France,” obtaining 26% of votes in the Parliament elections. With their double status of resistance fighters and winners — the German-Soviet pact of 1939 was well forgotten by then — communists had a powerful influence on political and social choices. It was they, among others, who inspired the famous programme of the National Council of Resistance (CNR), adopted in March 1944 and from which the major post-war reforms were born, from the creation of Social Security to the nationalisation of whole sections of the economy.

These reforms’ main objective was to re-found democracy and establish a “welfare state” (État social) in order to defend and protect workers who came out from the conflict in a state of bloodshed. These objectives, it should be pointed out, are not unique to France; other countries were subscribing to them at the same time, starting with Great Britain which invented its own version of the “Welfare State.” What is peculiar to France, however, is the role that employers would...
be called upon to play in the financing of these social reforms, against their wish.

Here again, the context explains a lot. At the end of the war, business had bad press. General de Gaulle blamed industrialists for the failures of rearmament before the war and, above all, for their prudence during the Occupation. “I didn’t see any of you gentlemen in London,” he told a delegation of business leaders he met shortly after the Liberation. The Communists too blamed them for having collaborated with the Germans. Apart for this damaged reputation, it is also possible that the Government, deprived of means, simply made the politically and socially less risky choice to puncture businesses rather than households, which had been hard hit by the conflict. The bottom line is that employers were entrusted with a major share of the financing of the social measures put in place from 1944-1945 onwards. Family allowances, that would be financed by employers, were thus increased substantially: they rose from 12% to 16% of wages between 1946 and 1948. The same development applied to contributions to health and old-age insurance. The employer’s share alone now accounts for 75% of the amount paid to the health insurance funds, a much higher proportion than elsewhere in Europe, particularly in Germany, where firms pay around half the French equivalent of social security contributions. And that’s not all: French companies were also required to finance health and safety committees, occupational medicine, and the company councils (comités d’entreprise) set up in 1945-1946. At the end of the 1940s, according to the January 1951 issue of the magazine Industrie, all company contributions totalled 26% of wages in France, compared with just over 10% in Germany, less than 10% in the Netherlands and less than 5% in Finland, Switzerland or Denmark.

Things accelerated again at the turn of the 1950s. In 1948, a payroll tax of 5% of the wage bill was imposed on companies; they also had to pay a new tax, which weighed on profits: corporation tax. Its history is enlightening: since 1914, there had been a profit tax with a rate of 24%, which applied to all companies — including personal companies — the BIC Tax (Business and Commercial Profits Tax, cédule sur les bénéfices industriels et commerciaux). This is what the corporate tax replaced. By instituting a specific corporate tax, was the Government’s goal to make it possible to gradually increase the tax burden on large companies? In any case, that is how things unravelled. Initially maintained at 24% of profits, the corporate tax rate never stopped increasing.

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afterwards: 34% in 1951, 36% in 1954, 41.8% in 1956, 50% in 1958...

Personal companies, on the other hand, were subject to a rate of 18%...

The burdens weighing on larger companies kept increasing through other ways.

In 1950, the introduction of the guaranteed interprofessional minimum wage (SMIG), common to all branches of activity, added further rigidity. (One can consider it is indeed legitimate to protect the weakest; modern economists, though, have shown that the less qualified workers are simply evicted from such a rigid labour market.) Then came, in 1953 and in a context of housing crisis, a 1% levy (called “1% logement”, “1% housing”) on the wage bill to finance the construction effort, a new travesty in a world of international competition. Finally, on January 1st, 1959, all employers were obliged to join Unedic, the unemployment insurance scheme created at the end of the previous year. The employer’s share for this insurance amounted to 0.8% of the gross salary (4.05% today).

Let’s stop this overview for a moment. Other social contributions, taxes and duties were to come into play later, adding further weight. We’ll talk about them later. But the conclusion is already indisputable: in the years following the end of the war, companies were called upon to take care not only of the social protection of the French workers but also, more widely, of the increase in public revenue. This way of financing the increase not only of the social protection of the French people, but also of social benefits and public expenditure through ever more varied and increasingly burdensome levies on companies was to be, until today, one of the most striking and lasting features of the French social model.

The impact on business competitiveness was dramatic, in an ever more globalised economy where competition would soon no longer be national: under constant pressure, French firms saw their margins — i.e. their capacity to invest, and therefore to be able to develop, innovate and conquer new markets — cut back methodically. From the immediate post-war period to the present day, these “company share” levies were constantly higher than the European average. Here again, a comparison with Germany is instructive: throughout the 1950s and 1960s, the margin rate of French companies ranged between 26 and 29 percent compared to 40 percent in Germany. And this was not the worst period for French companies.

Social reforms, whose merits are understandable, but which were carried out at the expense of employers: this equation constitutes the first fateful choice of the post-war period. It is a major driver of the
Franco-German divergence and one of the historical causes of France’s industrial decline. The second fateful choice is that of monetary laxity.

Here again, the main issue was played out at the end of the war, and more precisely in June 1945 during the exchange of banknotes. For the Government, it was a matter of fighting galloping inflation, identifying black market profiteers, establishing a “land register” of fortunes and, incidentally, of withdrawing from circulation the provisional banknotes issued by the Americans when they entered France. The story is well known but deserves a brief reminder. In the circles of power, two conceptions clashed: the one embodied by Pierre Mendès-France, Minister of the National Economy, and the one represented by René Pleven, his colleague in the Finance Department. Mendès-France pleaded for the exchange not to take place at par — that is to say 1 franc for 1 franc, and part of the sums contributed by the French would be withdrawn from circulation. It was the only way in his eyes to reduce the money supply and stop inflation. This would be, as we shall see, the Germans’ choice. Pleven, for his part, pleaded for an exchange at par in order not to choke the French any further, and not to frighten future subscribers to the public loans that were about to be launched. De Gaulle finally opted for Pleven’s solution. It is a perfect illustration of a well-known Schumpeterian adage: it is easier to make the “electors-entrepreneurs” pay, for they are far fewer in numbers than the “electors-consumers.”

By thus refusing an authoritarian restriction of the money supply, i.e., in the end, by choosing monetary laxity, France seriously handicapped its recovery. By deciding that the exchange of banknotes would take place on a 1 for 1 basis — which had the result of allowing black market money to continue to circulate — the Government actually threw the towel in the fight against inflation, thereby hindering the country’s future. During the decisive years of reconstruction, inflation was therefore going to be one of the structural weaknesses of the French economy, making imports more expensive, encouraging over-stocking and creating artificial price disparities between types of products. Above all, it will create a real-monitoring right — or, to put it better, veritable “drawing rights” — for employees, trade unions and pressure groups of all kinds, including exporting companies, over public finances, each one engaging in bidding wars to preserve its share of income.

In order to curb and conceal price rises, but also to maintain social peace, the Government opened the floodgates of subsidies and encouraged companies to raise wages, which in turn contributed to further eroding business margins. Everything holds together here: the pressure on margins due to a generous social policy and monetary laxity with deleterious effects were two facets of the same priority given to the sat-
isfaction of the needs of the population (households, consumers) over those of the producers. French companies, and with them the French economy as a whole, were going to pay a high price for these founding choices. All the more so as other challenges, equally fraught with consequences, were facing them at the same time. Namely, the issue of social relations within companies.

It was then, in the immediate post-war years, that a specific French model was put in place. Three words can sum it up: fragmentation, conflict and omnipresence of the Government. They were to leave a lasting mark on industrial relations.

Trade union fragmentation and a high propensity for conflict run through the French social history right up to the present day, making France the European champion of strikes. Let us simply recall that, for the period 2008-2016, France underwent on average a yearly 118 days of strikes per 1,000 inhabitants, compared with 16 per 1,000 in Germany... Here again, one of the drivers is undoubtedly the weight of the Communist Party in the aftermath of the war. In 1943 the French Communist Party managed to take control of CGT, the main labour union. This move blocked the trade unions unification that was underway elsewhere (with the Christian union CFTC refusing to unite with CGT) and led to further fragmentation of the union landscape, and to all kinds of one-upmanship. Since then, it would be quite difficult for labour unions to reach “unity of action,” be it only in demonstrations: each union would carry its own demands and define its own programme, in a spirit of competition with others.

This ideological fragmentation was soon compounded by an increasing political radicality. The main event took place in 1947, when the dismissal of the communist ministers of the Ramadier government, along with the announcement of the Marshall Plan and the beginnings of the Cold War opened up a time of tension. The French communists, who up to then and without doubt following direct orders of Stalin had shown unquestionable moderation and played the game of the “Battle of Production” — made famous by the “let’s roll up our sleeves” slogan — engaged in increasingly violent, even insurrectional social movements, of which CGT was the spearhead. Having become the right hand of the Communist Party, CGT made all the political demands of the former their own, most of whose were dictated by the USSR. The temporary patriotic union of was thus followed by an excessive class struggle and the denunciation of “American imperialism.” The works committees, initially very consensual, became social weapons. As a result, trade union fragmentation became more pronounced and was increasingly based on political differences. In addition to CGT, there was now

Chapter 2
CGT-Force Ouvrière which was created in December 1947 with the probable help of the CIA, the General Confederation of Professional and Managerial Staff (CGC), various independent unions and even a small anarchist confederation (CNT). And in 1964 CFTC would split into CFDT and “CFTC maintenue.”

Let us not go any further into the history of French trade unionism: that is not the topic of this book. Let us only underline the lack of consensus and the difficulty of dialogue (except at local level, as we shall see), which has characterised the French unions since the 1940s and which had the effect of encouraging one-upmanship. As one could have expected, radicalisation and union fragmentation had also the effect, from 1947 onwards, of driving employer stiffening. With some skill indeed, but also a lack of strategic vision, employers managed to play one union off against the other in order to limit social conflicts and limit their impact. The almost instinctive mistrust between employers and representatives, which is so damaging to both parties, largely stems from this situation.

The turning point in 1947 also had the effect of emptying works committees of their substance. Their creation in February 1945 had raised many hopes within labour. Against the wishes of industry representatives, the unions had obtained a right to information and consultation on the employer’s choices, along with an autonomous management of the firm’s charitable works. But after the CGT’s change of line and the consequent stiffening of the employers’ representatives, works committees merely focused on managing employee benefits, provoking a discernible disenchantment among the employees.

Just like employers, the Government too first benefited from the crumbling and politicisation of unions. This is undoubtedly the other major flaw in the French social system. In their top-down logic, the drafters of the CNR programme had from the outset assigned to the Government, alongside the labour unions, a major role in the management of social relations. There would be no real autonomy for the social partners. 1947 took things even further: the radicalisation of CGT in fact pushed the public authorities to interfere more and more in industrial relations. The latter gradually became an issue of general policy and fell prey to the political or electoral positions of political leaders. The first victim was employee participation in the management of public enterprises, which had been introduced during the nationalisations of 1944-1945. Just as the employers at the same time with the works committees, the Government strengthened its role on the boards of directors at the expense of the unions, limiting the latter’s influence to the management of employee benefits — often with large budgets —
and to defining some promotion and recruitment rules. Just like their private sector counterparts, employees in national companies largely felt that they had been cheated.

The history of relations between trade unions and employers in the post-war years is a series of missed opportunities. For essentially political reasons, unions embarked on the path of fragmentation, giving employers, and above all the Government, the keys to the system and opening the way to a culture of social conflict rather than discussion. Without being really involved in the management of the firm or the elaboration of its strategy, employees had no other choice than to go on strike — or threaten to do so — if they wanted to make themselves heard. Enterprises became a closed field of rivalries between the main unions. One can dream of the turn things would have taken if France had embarked on the German path of “Tarifautonomie” and if the unions, playing together, had managed to keep the Government at large. Everyone, employees, employers, trade unions, and the Government itself would have gained in exchange. We’ll come back to this.

Let us conclude. As soon as 1945, a “French model” was set up. It would be characterised by generous social benefits, the financing of which was largely left to employers, by a lax monetary policy with deleterious effects, and by a method of managing social relations which made it difficult — if not impossible — to reach any form of consensus and which left no real autonomy to the social partners. For political reasons peculiar to France, the Government made some structuring choices that would have serious economic consequences. The most serious is that, far from backtracking on these options, our country persisted in the wrong direction throughout the 1960s and especially from 1974 onwards. But before mentioning this point, we must, by way of comparison, make a brief detour into Germany. On the other side of the Rhine, at the end of the war, major, radically different decisions were taken, which account for the country’s current economic performance in more ways than one.
Schumpeter’s logic applies perfectly to a comparison between France’s choices at the end of the war and those made at the same time by Germany. While the French decided to give priority to the “voter-consumer,” Germany decided to favour the “voter-entrepreneur,” with all the positive consequences that this implies, including for employees and labour unions. Let us briefly examine this point.

In 1945, the situation in the former Reich was truly dramatic. The country was occupied, the cities were in ruins; there was no longer a people, a nation or a leader to lead it — quite the opposite to France celebrating Victory and managing to establish itself in the club of victors. The German identity was reduced to the very negative image that the Allies had of it. Everything had to be rebuilt. A first, major step was taken in 1948. It concerned money. In June of that year, even before the creation of the Federal Republic of Germany (FRG), the country adopted a new currency: the Deutsche Mark. It replaced the Reichsmark, Hitler’s currency. In a context of very high inflation, it was all about starting again on a healthy basis. Contrary to what France had done when it exchanged its banknotes in June 1945, Germany turned its back on the “1 for 1” rule: 100 Reichsmarks gave only 6.5 new Marks.

This was not an easy decision and it came with a high price for the German households. The public loans that they had been strongly encouraged to subscribe to by the Nazi authorities were exchanged at a tenth of their value or simply cancelled, as was part of the state debt; savings accounts and bank deposits were devalued by 93.5%! Holders of capital in the form of large denominations were ruined. It was an actual euthanasia of the annuitants and savers. But the reform had a double advantage: it killed black market profiteers whose Reichsmark notes lost all value in one night, and it stifled inflation.

Inflation: from the outset, it has been a true obsession in Germany. Traumatised by the two hyperinflation episodes of the 1920s and 1945-1948, the Germans made monetary stability the core of their monetary and economic policy. Preserving the value of the currency, avoid-
ing at all costs the crazy price rush (which led to Hitler): such was the
mission of the Bundesbank, created in 1948 and independent of political
power from the outset.

Though it came at a high price for annuitants and savers, the cre-
ation of the Deutsche Mark benefitted the holders of real property and
means of production. It gave a tremendous boost to industrialists who
were able to produce goods. The monetary reform had an immediate
positive effect on economic activity, by restoring the essential function
of money, which had become scarcer. The risk of a totally uncontrolled
inflation of the kind that had occurred in 1922 was averted, and busi-
ness resumed. The black market dried up. The long empty stores
started to fill up with goods.

What Germany actually chose in 1948 was to base its recovery on
business. Occupied by allied forces, denied any political role, Germany
could only rely on its industrial and commercial power to assert itself
on the international scene. “We had to export,” wrote Konrad Adenauer,
Chancellor from 1949 to 1963, in his memoirs23 — all the more so,
should we add, since the country was now split in two, which has the
effect of greatly reducing the size of the domestic market. It is thus be-
yond the seas that Germany, “a bigger Switzerland,” would seek the
paths to its recovery. Industry and business then became the essential
instrument for Germany’s rehabilitation in the eyes of other nations.
Far from fearing international competition, the country as a whole,
companies, investments and consumption started adapting. When a
stronger Deutsche Mark threatened to undermine the price competi-
tiveness of German companies, they relied on the very high quality of
their products.

Ever since the end of the war, the policy of the German leaders
has therefore been very clear: for international re-conquest to be suc-
cessful, everything must be done, and will be done, to preserve business
competitiveness. The employer’s share of social security contributions
mentioned above illuminates this point: slightly over 10%, Germany’s
rates in the years following the war were already much lower than
those in France. This remains true today. Germany was also spared the
blossoming of taxes, levies and other social contributions weighing on
production, which France, as we saw in the previous chapter and as we
shall see again in the next, proved to be fond of very early on. Nor, until
2014, was there a minimum wage in Germany. The only exception is
the corporate tax in force in Germany. Although it has fallen steadily
over the decades, its rate remained much higher than the French rate

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until the 1990s (more than 60%, then 47% and then 40%) and it was not until the end of the 1990s and in the 2000s — in particular with Gerhard Schröder’s famous Agenda 2010, which clearly distinguishes between corporate and consumer taxation — that the nominal rate of corporation tax fell rapidly (33%, then 25% and finally, since 2008, 15%\(^{24}\)). Insofar as German companies did not have to bear the cost of ever more generous social measures, the very high level of corporate tax never weakened their competitiveness.

At this point, is there still anyone who cannot see the fundamental difference with France? In 1945, our country chose to let inflation run its course, favouring consumption and taxing companies, thereby reducing their investment capacity. Unable to rely on consumption, that had literally dried up financially as a result of the 1948 reform and who made any demand policy futile, Germany gave priority to monetary stability, to entrepreneurs and their production tools. To rebuild the country, it made a strong commitment to supply policy. This has driven a number of attitudes, such as the emphasis on apprenticeship as a guarantee of quality and the transmission of know-how, the strong preference for “in-house” management and the virtual absence of regulation when it comes to transfer businesses. Most were inherited from the Bismarck era. In a nutshell, the great Franco-German divergence lays in one policy choice: company, versus households.

In that respect fiscal policy was just one part of a broader scheme, which also included the labour code and social relations.

Another fundamental difference between France and Germany took shape in the aftermath of World War II. This time it concerned social relations. The key date is 1949, when Ludwig Erhard, a university professor, director of economics in the western occupation zones and future minister under Chancellor Adenauer, outlined a concept that has remained one of Germany’s distinctive features to this day: the social market economy (Soziale Marktwirtschaft).

The idea was to reconcile market economy, private initiative and social progress. In concrete terms, this means that the German company was encouraged to share the fruits of its success with its community, i.e. with its employees. The Socialist MP and future Minister of the Economy Karl Schiller set out the key formula of the social market

\(^{24}\) A corporate tax rate of 30% for Germany can still be found in some international comparisons. This figure includes the tax on profits (15%), along with a solidarity contribution of 0.825% and the trade tax, which varies between 7% and 17.15% depending on the municipality, and which is no longer deductible in the calculation of corporation tax.
economy: “as much market as possible, as much state as necessary,” a formula which appears in the famous Bad Godesberg programme (1959) in which the social-democrat party (SPD) embraced market economy principles.

In 1951 the principle of Tarifautonomie was supplemented by another key concept: co-management. In line with the social market economy, the aim is to involve, or at least to inform employees about the management of the company and to discuss it with them. In large companies with supervisory bodies (in particular a supervisory board), employees elected at a general meeting may, on the proposal of their unions, have half of the representatives. In supervisory boards, they have the same powers as the representatives of the shareholders, including appointing and dismissing members of the management board, controlling management and authorising certain operations, including strategic ones. These powers may be counterbalanced by those of the other shareholders, but this is a rule that applies to all board members; the chairman of the supervisory board has a casting vote. The influence of the employees is no less real: they know the company’s strategy and can express themselves. In addition, all large companies also provide for the creation of a joint economic commission to examine production issues. Finally, and in application of the principle of Tarifautonomie, it is recalled that the Government cannot in any way intervene in parity-based management.

The interest of the German system of Tariff autonomy and co-management is obvious: it makes the social partners responsible. Expecting nothing from the Government, they are naturally inclined to discussion, dialogue and the search for consensus. Far from confining themselves to a conflict culture as in France (where conflict quite often aims to bring the public authorities into the game) the German unions position themselves and decide on the basis of the interests of the company, the economic feasibility of its projects and the safeguarding — or improvement — of its competitiveness on its market in relation to its international competitors.

The German system is all the more effective since German unions, unlike the French, succeeded in unifying, thus avoiding the dangers of fragmentation and strife. In 1949, partly on the initiative of the Allies, who wanted to prevent a communist takeover, but partly also on the initiative of the unions themselves, the main German unions came together in the Deutsche Gewerkschaftsbewegung (DGB). Bringing together all political sensitivities, from communists to Christians, this confederation has no links with any political party. It is independent and only determines itself according to the interests of the employ-
ees and the prosperity of the company, always favouring realism over ideology.

1948-1951. It is exactly between these two dates that the German system was set up. Making the company — and the social dialogue within it — the backbone of the German economy, it was to be at the origin of the famous “German economic miracle” partly based on export performance, the effects of which are still being felt today.

The time has now come to return to France and look back on the turning point of 1974. That year new options were taken, that would amplify the post-war choices and accelerate economic decline.
During the 1960s, France experienced very rapid growth, with an average of 5.9% per year. It was the time of material well-being and comfort, of the refrigerator, washing machine and television, of the car for all, of supermarkets and soon of hypermarkets. It was also time for incentive plans... With industrial plans and other policy tools, the Government defined priorities, organised production, created major industries in aeronautics (the Caravelle, then the Concorde, and soon Airbus), IT, civil and military nuclear power, railways (with the high-speed TGV train)... Celebrated as the architects of the modern world, engineers who graduated from the grandes écoles — another French specialty — enjoyed their heyday and dished out technical prowess after technical prowess. Just like Citroën’s futurist car, DS, launched in 1955, the French industry progressed through brilliant innovations around which a few technological flagships were built, embodying “French greatness.” But far from operating in synergy with the rest of the national industrial fabric, these flagships worked independently. This is quite the opposite of the German approach, based on collaborations between large groups and smaller companies, but also between branches. As a result, in France, a whole series of industrial sectors started to disappear because they could not find their place in the new industries. This was the case, for example, of machine tools. As early as the 1960s, the sector was already largely dominated by German industry, which exported its products all over the world.

Above all, the structural weaknesses of the French economy were still at play. France, in particular, continued along the path opened in 1944-1945, with business directly financing its social policy — and a large part of the nation’s budget. This trend gained momentum in the wake of 1968, when companies had to pay new social charges. In the midst of a period of customs dismantling, these charges hit domestic companies but spared imports, thus constituting actual “reverse customs duties.”

In 1970 a “social solidarity contribution of companies” was introduced (contribution sociale de solidarité des sociétés, C3S), based on
turnover, with the aim of financing certain social protection schemes for the self-employed. The following year, an additional levy of 1 to 1.75% of the wage bill was added, in order to finance public transport: the *versement transport*, a mobility payment tax. Also in 1971, the “1% formation” was introduced in order to finance training, while the Boulin laws (1971 and 1972) substantially increased the value of pensions. This increase was initially financed exclusively by a large increase of the employer’s contribution.

Wages were not forgotten: after 1968, many collective agreements re-established price-indexation of wages, which had been abolished in 1958. In order to raise low wages, the minimum wage was indexed to the growth of the average wage. The boom continued in the early 1970s: between 1972 and 1973, the purchasing power of the minimum wage (SMIC) — i.e. the minimum wage adjusted for inflation — increased by 19%; within companies, the hourly wage jumped by almost 15%. These were all false gifts for the “consumer-voters.”

The “entrepreneur-voters” were at a disadvantage. Blinded by the steady growth of previous years, governments did not measure the side effects of their decisions on businesses. Faced with their increased contributions, companies had only two options (offshoring production came later). The first was to increase their selling prices (which is possible when they are in a position of virtual monopoly or oligopoly, a position that was to be structurally eroded with the opening up of trade under the EEC or GATT agreements, and then under the EU and the WTO). The second possibility, for a company fully subject to competition, is to lower its margins (the third one is offshoring production).

In both cases, the company loses out: either it increases its selling prices and, beyond a certain threshold, its market share will inevitably decline, whether in France or abroad (except in the case of a world monopoly or oligopoly as in perfumes, champagne, spirits or a few industrial niches); or it cuts back on its margins, which means it cuts back on the means the means to finance capital expenditure and research, i.e. to prepare for the future. In an increasingly open world, it is the second solution — cutting back on margins — that most companies were forced to choose.

The quality of “Made in France” products was directly affected. Entire sectors were locked into low-and medium-range production, the only way to compensate for increasing costs. This is particularly true of the automobile industry: with a few exceptions manufacturers focused on small and medium-sized cars, leaving the field open to foreign competition for the top of the range. Revealingly, most of the attempts...
made to launch top-of-the-range models (by Peugeot, Renault, Simca or a small, now forgotten manufacturer such as Facel Vega) ended in failure: companies simply did not have the means to invest massively in quality and in such global top-of-the-range models.

In a still discreet way, profound and far-reaching changes began to affect the French industrial fabric throughout the 1960s: the margin rate of companies slowly but surely declined from 31.6% to 30% between 1960 and 1972, and even experienced a real plunge between 1961 and 1968 (from 30.5% to 28.3%). Equally worrying was the decline in the share of manufacturing industry in GDP: between 1960 and 1972, it fell from 30% to 23.5%. While the people of France were totally unaware of the fact, France was on the path of deindustrialisation.

Who, moreover, was actually aware of this? Certainly not the OECD experts who, in 1973, praised the dynamism of the French economy. Nor those of the Hudson Institute, who that same year, as we have seen above, predicted a bright future for France, even seeing it return to its “state of great Western power, as in the eighteenth and early nineteenth centuries.” It is at the very high point of such high hopes, in October 1973, that the Yom Kippur war between Israel and Egypt and several Arab countries caused a sudden increase in the price of a barrel of crude oil: between November 1973 and January 1974, it rose from $2.90 to $11.60. Six years later, in 1979, under the effect this time of the Iranian revolution and the Iran-Iraq war, it jumped to 40 dollars. The shock was brutal: in 1975, France was technically in recession. Behind the “accident” lay a structural trend: the average growth rate of the French GDP went from 5.9% in the 1960s to 4.1% in the 1970s.

Confronted with a sharp rise in costs along with a drop in consumption, companies started cutting their budgets, reducing production capacities, closing sites and laying off staff. For France, the time had come to make choices. How to react and avoid a collapse of the economy? How to avoid factory closures and growing unemployment? To these high-stakes questions, the country’s leaders were going to respond with a series of errors whose consequences would prove disastrous.

For France, the year 1974 was to become a fateful turning point in the long and sad history of our decline. From the outset, President Valéry Giscard d’Estaing — a great admirer of Willy Brandt — and his Prime Minister Jacques Chirac chose to revive France through con-

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25. The same occurred, for a while, to Willy Brandt’s Germany — yes, once in a while Germans too make big mistakes! From 1976 onwards, however, Helmut Schmidt made the Germans literally weep with his austerity plan, thus saving his country’s economic dynamism.
sumption. In his memoirs \(^26\), the former reconsidered this choice, trying in passing to minimise his responsibility. “The collective choice of the country, imposed by social pressure and previous habits, despite repeated warnings from the government and myself\(^27\), consisted in maintaining the progression, however strong, of the purchasing power of private individuals and in making companies bear the totality of the oil levy,” he wrote. One cannot say it better! In this case, lack of courage is second only to small electoral calculations: it is much less risky politically to put companies to work than to attack the purchasing power and income of households...

1974 also inaugurated the seizure of political power by the “enarchs,” as we call alumni from Ecole Nationale d’Administration: Valéry Giscard d’Estaing, Jacques Chirac and most of the senior civil servants of the major ministries, particularly the Ministry of Finance, came from the “ENA.” In the long run it was a deadly evolution. Let us note it: Phoenixes Countries did not need enarchs to recover. Quite the contrary!

Presented in September 1975, the recovery plan concocted by the President and his Prime Minister was emblematic of this blindness: five billion francs were planned for the benefit of the elderly and families; following the wage increases of 1973 (+18.1% in value) and 1974 (+23.2%), the minimum wage was increased by 16.9%. At the same time, tax niches granted through specific VAT rates and subsidised rate credits were granted to households, the retirement age for manual workers was lowered, unemployment benefits were raised, layoffs were subjected to increased control... The French had every reason to rejoice: in the midst of the crisis, France was one of the few industrialised countries whose purchasing power continued to increase! For companies, on the other hand, the bill was a big one, since they were directly financing most these social measures. To make matters worse, that same year 1975, as part of the financing of the recovery plan, the “\textit{patente},” renamed professional tax, was increased. It particularly impacted activities with expensive equipment, i.e. the industrial establishments, sparing the importers that were working for their competitors!

The consequences of this recovery plan on the industrial fabric\(^28\),


\(^{27}\) The President and his Prime minister were solely responsible for these choices. The President even described as “imbecile technocrats” the few senior officials who drew his attention to the risks of this policy.

\(^{28}\) For the record, this plan frightened me so much that I made it the subject of a seminar with the managers of Thomson Grand Public (Thomson Con-
and beyond that on the whole French economy, were dramatic. The priority given to household purchasing power (i.e. demand) had indeed a chain of consequences.

The first was a very sharp increase in levies on companies. Generally speaking, all the increase in public expenditure was mainly financed by an increase in company taxes, notably taxes on production. Once production subsidies are factored in, one can observe they rose from 0.5% of gross added value of non-financial corporations in 1970 to 5% in 1980, i.e. a tenfold increase in ten years.\(^{29}\)

This lead to a decrease of profit rates and corporate margin rates. The margin rate thus went from 30% in 1972 to 24.8% at the end of 1981. This evolution mechanically led to a reduction in the investment and innovation capacities of companies. This has been, until today, one of the major handicaps of the French economy.

As a result, the deindustrialisation process, which had begun very slowly in the years 1968-1973, gained momentum. From 1975 onwards, the increase in costs and the squelching of profits that it entailed had a profound effect on the French industrial fabric. This is reflected in the number of company failures. Between 1968 and 1973, this number was around 10,000 per year. In 1975, there were 18,000. The manufacturing sectors were the most affected with an increase of + 64% over the period 1974-1977 compared to 1968-1973.\(^{30}\) As a result, between 1974 and 1981, the share of manufacturing industry in GDP fell by three points (from 23.5% to just over 20%).

The mechanical consequence was a sharp rise in unemployment. Between 1973 and 1978, the number of unemployed people rose from 400,000 (2.7%) to 1.3 million (5.7%). At the end of 1981, with the implementation of Socialist President François Mitterrand’s “Programme commun” (a joint programme with the Communist Party), the number of jobseekers rose to 1.9 million, i.e. almost 7% of the active population. Industry was particularly affected: between 1973 and 1981, it lost one million jobs.

In turn, deindustrialization, the increasing number of the unemployed — i.e. of unemployment benefits and, incidentally, the contribu-


tions that finance them — and the need to finance the social measures of the recovery plan had side effects that continue to plague the French economy today, with various consequences.

The first consequence was a rapid increase in public spending, which rose from less than 38.5% of GDP in 1971 to more than 46% at the end of 1981.

The second consequence was a continuous deterioration of public finances. France’s public accounts were in surplus or close to balance until 1974. At this date, the public balance in France represented +0.1% of GDP. This would be the last balanced budget – ever! Between 1975 and 1981, the average balance was -1.5% of GDP with peaks of almost -3% in 1975 and 1981-1982.

The third consequence was a marked deterioration in the “social accounts,” (the Welfare State’s budget), largely due to the increase in unemployment: between 1970 and 1981, social expenditure rose from 19.2% to 27.4% of GDP!

The fourth consequence was the increase in public debt. Despite the continuous increase in compulsory levies — 33.1% of GDP in 1971, 40.2% in 1982 — public revenue was no longer sufficient to finance social measures. It was therefore necessary to resort to debt. It has kept growing over the years: between 1974 and 1981, the debt/GDP ratio rose from 14% to just over 20% of GDP. Just before the coronavirus crisis it was almost at 100%.

The fifth consequence was a degradation of our foreign trade. The various taxes that hit companies degrade the competitiveness of French products, whether on the domestic market or for export. On the other hand, they have no effect on imports, which have increased spectacularly since the second half of the 1970s. The increase in the purchasing power of the French consumers (which mechanically leads to an increase in the share of imported products) and deindustrialisation (which has the effect of reducing the supply of French products) aggravated this phenomenon. The government has thus been reduced to communication expedients, such as the “Battle of Poitiers,” a blockade set up by Prime Minister Laurent Fabius in 1984 to prevent an invasion of the French market by Japanese video recorders! It goes without saying that it did not help national production.

In any case, there was no such thing as French-made, or even Western-made, VCRs at that time... Although the measure did lead to a drop in VCR imports for a few months, it proved to be totally ineffective in the longer term, as French manufacturers considered that the differences in production costs between France and Japan were too
great anyway and that the effort was not worth it. The rest is well known: the consumer entertainment electronics sector (in this case, not televisions, more than 95% of which had hitherto been produced in France, but above all video recorders, then optical disc players...) has never really taken off in France\(^{31}\). If I may indulge into a personal anecdote, I do remember seeing a remarkable optical disc player at the Philips stand at the Berlin professional fair in 1972. I knew that 100% of the patents on this type of device were held by Philips and especially Thomson (Corbeville laboratory), but no firm, in France and throughout the West, enjoyed the sufficiently favourable wage and tax context that could have enabled it, better than the Japanese, to create and support such an innovation. Some tried it, like Philips with its V 2000 video recorder... But most firms, in the end, preferred to buy products in Japan, then in Korea, Hong Kong or Singapore, and today in China. The irony of the situation is that the Japanese themselves, since 2012, can no longer produce colour TVs in their own country. Is this a coincidence? In The Tax Foundation’s ranking, Japan was, until the second quarter of 2019, on a par with France in terms of the compulsory levies on companies.

1974 was therefore a turning point. By implementing, in order to face the crisis and mainly for electoral reasons, a very costly policy of economic revival through consumption, France precipitated the decline of its economy, that had already been handicapped by post-war decisions. The fatal mistake was to sharply degrade the competitiveness of companies in order to maintain and even increase (but only in the short term, and therefore only apparently) the purchasing power of households...

Sadly, today that very same purchasing power of French households, after various taxes (income tax, VAT, various taxes...) is far behind that of households in the ten Phoenix Countries, which have opted for supply-side strategies.

The deindustrialisation process that resulted from this recovery policy switched all the lights to red. France was practically the only country to make this choice: at the same time, almost all the other industrialised countries started implementing austerity policies.

Facing similar problems — notably a drop in production and an increase in unemployment — in 1975 Helmut Schmidt’s Germany made a strong choice to preserve the competitiveness of its companies and

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\(^{31}\) Nor elsewhere in Europe or the United States. The Japanese, the Chinese and then the Koreans played the card of innovation and low-cost production to get a firm grip on this market.
thus its international market shares, as well as curbing public spending and limiting the progression of household purchasing power: in 1975, wages across the Rhine increased by 5.5%, while in France the rise was between +15 and +17% depending on the sector. This austerity policy (which was a supply-side policy), implemented in Schmidt’s SPD government and later by Kohl’s CDU government, made it possible to compress imports, preserve the industrial fabric and keep unemployment within relatively acceptable limits: 6% in Germany at the end of 1981 against 8.1% in France. Although it did not escape the crisis, Germany thus put all the assets on its side for a rapid recovery. In fact, this began as early as 1980-1981. At the same time, France chose to persist in the wrong direction... and even to aggravate its situation, with the nationalisations of the finance industry and whole sections of its manufacturing sector, as well as wage increases, reductions in working time (from 40 to 39 hours per week, but also over the course of life with retirement at 60).

Raymond Barre, an economist appointed Prime Minister in 1976, had certainly understood that it was necessary to reverse consumption policies and implement new ones, supporting competitiveness and the supply side. This was the objective of his 1976 austerity plan. This brave, lucid attempt nevertheless proved to be quite incomplete: the taxes on households were indeed increased, but those weighing on production did not fall, a fatal error that further accentuated the fragility of the industrial fabric. Above all, this effort was prematurely interrupted.

In May 1981, François Mitterrand came to power. Electoral promises forced a second recovery plan, implemented by Prime Minister Pierre Mauroy. And what a plan! In June 1981, the State hired no less than 55,000 civil servants; in July, the minimum wage was raised by 10%. The minimum old-age pension, as well as disabled, family and housing allowances, were all increased in turn by 20% to 25%. Working hours were reduced, the retirement age was lowered from 65 to 60, and a fifth week of paid leave, plus three extra days for taking the five weeks of fragmented leave, was granted to the French workers. A total of almost 10 billion francs were injected into the economy (1% of GDP). The aim was to boost consumption in order to achieve full employment. Needless to say, it was a complete failure. Forced to bear the bulk of the financing of these social measures, the industrial fabric continued its descent into hell: in 1982, there were more than 1800 business failures per month, more than 21,000 per year. Overburdened with social

contributions, companies underwent the deterioration of their margins and profits worsen. Public deficits, social spending, unemployment, all the indicators deteriorated. As for the external deficit, it exploded: Pierre Mauroy and his advisers should have understood that opting for a revival through consumption, when the productive apparatus was too weakened or incapable of producing more because of under-investment and French ‘sub-work’, could only lead to a massive increase in imports... As a result, the almost bankrupt state was reduced to borrowing several billion francs from Saudi Arabia.

To sum up: the consumer stimulus plans implemented in 1974-1975 and 1981 euthanised the competitiveness of French companies, leading to a cohort of economic and social problems which have continued to drag the country’s economy down to this day. France was to never really give up on this policy geared towards the “voter-consumer.” During the 1990s, 2000s and 2010s, it navigated between supply policies (quite lacking) and demand policies (targeted at low incomes), thus preventing itself from halting the decline of its industry. Worse still, companies endured new burdens and constraints.

Emblematic in this respect are the 35 hours work week. The idea of reducing the working week — set at 39 hours since 1981 — had been tested in 1996 by Minister of Labour Gilles de Robien (center right), on a voluntary basis and in return for a certain number of compensations — notably a reduction in social contributions. It was implemented in 1998 by his successor Martine Aubry, but it is to her colleague Dominique Strauss-Kahn that we owe the relaunch of a measure that was already included in the “110 proposals” of candidate Mitterrand in 1981. It was Strauss-Kahn who, during a dinner in a Parisian bistro, launched the idea of a reduction of working hours from 39 to 35 hours, this time compulsory for all companies and without reduction of salary. In his eyes, it would enable the Socialist Party to trap the right in a debate with high electoral risk. The “35 heures” were included in Lionel Jospin’s programme in 1997, and they were implemented by Martine Aubry between 1998 and 2000.

This reform was supposed to lead to the creation of hundreds of thousands of jobs. As we know today, it turned out to be disastrous. It instilled in the minds of the French the idea that it was possible to work less while earning as much, or even more, a first in the history of humanity. Above all, by decreeing that employees would henceforth work 35 hours instead of 39 hours without any reduction in monthly pay, the 35-hour week led to an immediate increase in hourly pay of 11.4%, further degrading the already mediocre competitiveness of French companies. Contrary to the triumphant prophecies of the government of the
time, no foreign country wanted to follow our example... Despite forecasts on the use of equipment, the progress in productivity did not allow, of course, to absorb this decrease in working time.

With the exception of low-wage activities, where it was compensated for by reductions in social security contributions, the 35-hour working week caused a reverse competitiveness shock. From 1999 onwards, hourly labour costs in manufacturing industry in France rose twice as fast as in Germany. The most seriously affected industries were the exporting ones, which lost markets or had to squeeze their self-financing resources even further. The result was an acceleration of the deterioration in foreign trade. And that was not the end of it! By granting additional rest days to managers and professionals — the biggest winners of the reform — the 35-hour working week extended the time needed to develop new products and affected reaction times to customer demands. The reputation of French products suffered as a result, reducing their presence on foreign markets. The 35 hours week is a typical example of a senseless measure that remained a French exception...

Let’s go no further. The aim of this book is not to survey every detail of France’s economic history. The main point is: in 1974- 1975 and again in 1981, France dealt mortal blows to its industry, and to its agriculture for that matter (see annex 7). Not only would these fateful choices never be called into question afterwards, but certain measures would even aggravate them...

It is now time to leave history behind and to evoke the present by taking a more precise measure of the French decline.
Measuring decline, 1
The collapse of French industry

The observation, alas already old, is today unanimous or almost unanimous: France is experiencing a collapse of its industry. The same business leaders qualified as “the best industrialists in Europe” by the Hudson Institute in 1973 are vilified on all sides nowadays... There are countless official reports, public statements, surveys and press articles on the issue. By highlighting serious shortcomings in the production of medical equipment — test devices, masks, gowns, respirators... — the coronavirus crisis has made it topical again. As if he suddenly became aware of a phenomenon that had been going on for years and which had become worrying, President Emmanuel Macron promised: France is going to reshore companies that have left abroad!

If it were to happen, this development would be welcome: France has treated its industry badly for way too long. For some it is too polluting, too noisy, with working hours that are not always easy to deal with — especially for young people who are increasingly reluctant to make a career in manufacturing. For others it is a symbol of the exploitation of “workers” for others — especially for certain left-wing politicians who still think they live in Zola’s time. For others still, it is obsolete and doomed to give way to services or start-ups specialised in artificial intelligence. The industry has long crystallised all sorts of criticisms that have largely contributed to its decline.

Apart from being very real and very precisely quantifiable, as we shall see below, deindustrialisation is the source of most of the ills that affect the French economy, whether it be unemployment, social spending, public deficits or debt. We shall return in a later chapter to the main cause of this development, the burden of compulsory levies on companies and its consequences on their competitiveness. For the time

34. The difficulty for companies to hire engineers in factories is one of the manifestations of this phenomenon.
being, let us just try to describe, measure and qualify the French version of deindustrialisation.

As we have seen above, the destruction of our industrial fabric began in 1974 when a demand policy geared towards households and consumers was put in place, a policy that was never really to be questioned but purely and simply aggravated. Forty-five years later, the figures are indisputable: in 1960, the share of manufacturing industry in GDP was around 30%. In 1973, it was still over 23%. It fell to 20.8% in 1979, 17.7% in 1989, 15.7% in 2000, 12.7% in 2007, 11.2% in 2014, 10% in 2017 and finally 9.3% in 2018.35

Industrial employment has experienced the same slump. Between 1949 and 1970, manufacturing accounted for about 25% of employment. By the mid-1990s, it accounted for only 15% and 13% in 2018.36

In just over forty years (1974-2017), France has lost half of its potential to contribute to wealth creation and more than 45% of its industrial jobs (5.9 million people in 1974, 3.1 million today).37

Table 3. Share of the manufacturing industry in France’s GDP (%)

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<td></td>
<td>30</td>
<td>23</td>
<td>20.8</td>
<td>17.7</td>
<td>15.7</td>
<td>12.7</td>
<td>11.2</td>
<td>10</td>
<td>9.3</td>
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It is enlightening to compare the evolution of the workforce in the manufacturing industry with that of other sectors. The INSEE study mentioned above provides us with valuable clues for the period 1975-2009.38 While the manufacturing industry lost 2.8 million jobs between 1975 and 2009, agriculture lost 1.4 million and construction 117,000. The tertiary sector as a whole (“services”) created eight million jobs. A cursory reading might suggest that job losses in industry, agriculture and construction were more than offset by job creation in services. In reality, this is not the case. Within services, according to INSEE (France’s National Institute of Public Statistics), a distinction must be

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made between three areas of activity: the first is the “productive tertiary sector,” which includes goods transport, wholesale trade and business services. This sector has remained dynamic with 3 million jobs created between 1975 and 2009. The second area of activity is the “residential tertiary sector” which includes retail trade, crafts, passenger transport and services to individuals. According to INSEE, it remained almost stable between 1975 and 2009. The third area of activity is the public sector, which is mainly financed by compulsory levies. Since 1975, it has seen a phenomenal leap forward, with a gain of 4.5 million jobs, whether it is the responsibility of the State or the local authorities. Between 1975 and 2009 its share of the total workforce rose from 18% to 31%... without any real qualitative progress in our administration!

The lessons that can be drawn from these figures are clear.

First lesson: de-industrialisation concerns overwhelmingly the manufacturing industry (that of factories and production workshops), and much less that of services.

Second lesson: in terms of jobs, the dynamism of the productive tertiary sector barely manages to compensate for the losses in manufacturing industry. This means that France, for more than 40 years, has not created any more production jobs. Productivity gains, which are more significant in the industry than in other sectors, are partly responsible for this. But the main reason is the collapse of the manufacturing industry. And if we add to its losses those of agriculture and construction, the balance becomes even more negative. We are thus witnessing a progressive deformation of the structure of jobs, with the relative dynamism of services not compensating for the sluggishness of the core production activities.

Third lesson: the public sphere has prospered on de-industrialisation. In fact, the public sphere has accounted for more than half of the job creation in the tertiary sector since the mid-1970s, with all the consequences that this implies (increase in compulsory levies, but also the multiplication of standards and controls, etc.). Have public services improved to the same extent? This is an essential point to which we shall return later.

The collapse of the French industrial sector has affected almost all activities, with the exception of a few sectors with a global monopoly or oligopoly — such as luxury goods, aeronautics, fine wines and spirits

— and a few industries with very specific know-how or unique patents — such as avionics or fine machining in Savoy. We will return in more detail, in another chapter, to the fiscal reasons for this distinction. But let us return to the business sectors concerned. None is spared, which does not prevent spectacular differences depending on the activities: between 1980 and 2007 in total, intermediate goods accounted for 41.3% of the total fall in industrial employment, consumer goods 29.4%, capital goods 18%, automobiles 7.3%, energy 3.7% and the agro-food industry 0.3%.

It should come as a surprise that intermediate and consumer goods industries are the most affected: since they are not competitive, companies operating in the intermediate goods sector, where the “brand image” effect plays a much less important role, have not been able to resist foreign competition; as for companies specialising in consumer goods, they have been squeezed by imports of products manufactured at low cost.

An important detail is the size of the companies: much more than the large units, it is first and foremost the small factories which have been the most affected by the deindustrialisation movement. According to a study by consulting firm Trendeo for the period 2009-2012, the average size of closed sites is in fact 71 employees. These myriads of small closures never make the headlines the way the closure of a large shipyard or factory could. But a veritable hecatomb of SMEs has occurred in France. However, it is not only small and medium-sized enterprises that are affected. Other companies have also been hit hard by the process: the intermediate-sized companies, better known in France under the acronym ETI.

First of all, let us recall what it is all about: according to official terminology, ETIs cover all companies having between 250 to 4999 employees and a turnover between 50 million and 1.5 billion euros. Mostly owned by individuals or families (which is the case for 48% of them), they account for a little over three million employees and are particularly active in the industrial sector: one in three ETIs is an industrial enterprise, compared with one in ten for all enterprises; moreover, 41% of ETI employees work in industry compared with 25% for other enterprises. With a strong international presence, ETIs are also established

42. Institut Montaigne, “ETI, taille intermédiaire, gros potentiel,” January 2018. See also “Si la France avait autant d’ETI que l’Allemagne,” interview with Fré-
throughout France (78% of production sites are outside the Paris larger area), thus structuring the activity on a regional scale. They provide a quarter of research expenditure and 26% of business investment and represent a third of our exports. Between 2009 and 2016, they have created 130,000 jobs in France.

For France, ETIs are therefore of strategic importance. In 1981, there were as many French ones as German ones. Forty years later France only has 5,400, compared with 12,500 in Germany, 10,000 in the United Kingdom and 8,000 in Italy. Various factors have been pointed out for this difference, from the “social thresholds” that discourage the growth of the workforce to the weakness of private equity in France, not to mention the disproportionate place of large companies that capture public policies and do not always treat their subcontractors very well. But two major factors remain: the taxation of capital — very recently reformed by President Macron — and above all the weight and absurdity of social contributions, taxes on production and corporate tax.

ETIs and especially SMEs are two categories of enterprises that have particularly suffered from deindustrialisation. Since they now represent 53% of employees (compared to 29% for large companies), 52% of total turnover (35% for large companies), and 49% of the added value of all companies (31% for large companies), we can imagine what the French economy would be if, like their counterparts in the German Mittelstand, ETIs and SMEs had benefited from more favourable conditions.

Deindustrialisation is not a French specificity. It has spared no industrialised country. But it is in France that the phenomenon has been most widespread. Let us recall a few figures: with a manufacturing industry GDP less than 10% total GDP, France is far behind the European average (19.1% in 2018). For manufacturing industry alone, Ger-

déric Coirier, co-president of Mouvement des entreprises de taille intermédiaire (METI), La Tribune, October 25th 2017.

43. Updated figures provided by METI. In 2018, the Montaigne Institute estimated them at 5,800, a difference undoubtedly due to counting methods.

44. One thinks in particular of the wealth tax, the perverse effects of which are still to be fully measured. This is notably the case in the skiing sector where France had excellent know-how. Companies such as Dynastar, Salomon and Rossignol were sold by their shareholders who could not transmit or keep their shares. The result: closed or restructured factories.


many sits at between 18.5 and 19%, Belgium at 16.2%, Denmark at 18.2%, the Netherlands at 15.2%, Austria at 22%, Finland at 20.5% and Sweden at 18.7%.

If we take as a reference the weight of all industry (manufacturing, construction and services outside the public sphere) in the GDP, the situation in France is barely better. At around 12%, France is well below the European average (24.8%\textsuperscript{47}) and the OECD average (22.3 percent in 2017\textsuperscript{48}). All the Phoenix Countries do better: Germany sits at 27.5%, Switzerland at 25%, Australia at 24.1%, Austria at 25.7%, Canada at 24.8%, Denmark at 21.2%, Finland at 24.5%, Ireland at 36.8% and New Zealand at 19.2%.

This French lag can also be seen in the per capita industrial production figure: 4,500 dollars in France against 6,000 in the Netherlands, 7,700 in Germany, 8,300 in Sweden, 8,600 in Japan, 8,800 in Finland and 12,400 in Switzerland\textsuperscript{49}.

### Table 4. Share of total industry in total GDP (%)

(Sources: OECD and World Bank, 2018 data)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>12</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>17.9</td>
</tr>
<tr>
<td>United States</td>
<td>18</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.5</td>
</tr>
<tr>
<td>New-Zealand</td>
<td>19.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>21.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>22.5</td>
</tr>
<tr>
<td>Australia</td>
<td>24.1</td>
</tr>
<tr>
<td>Finland</td>
<td>24.5</td>
</tr>
<tr>
<td>Austria</td>
<td>25.7</td>
</tr>
<tr>
<td>Switzerland</td>
<td>27</td>
</tr>
<tr>
<td>Germany</td>
<td>27.5</td>
</tr>
<tr>
<td>Norway</td>
<td>32</td>
</tr>
<tr>
<td>Ireland</td>
<td>36.8</td>
</tr>
</tbody>
</table>

\textsuperscript{47} Toute l’Europe, “Politique industrielle : que fait l’Union européenne?,” 2020.

\textsuperscript{48} World Bank, “Industry, added value in % of GDP,” 2017-2018 data.

When we consider the industry as a whole, it appears that one of the specificities of Phoenix Countries is that they have been able to preserve their industry, which explains their good economic performance (N.B. Ireland and the Netherlands are partly tax havens). But it is even more striking when you consider just manufacturing industry.

**Table 5. Share of manufacturing industry in total GDP (%)**
(Source: OECD, 2018 data)

<table>
<thead>
<tr>
<th>Country</th>
<th>Share (%)</th>
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</thead>
<tbody>
<tr>
<td>Austria</td>
<td>22</td>
</tr>
<tr>
<td>Finland</td>
<td>20.5</td>
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<tr>
<td>Germany</td>
<td>19</td>
</tr>
<tr>
<td>Sweden</td>
<td>18.7</td>
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<tr>
<td>Denmark</td>
<td>18.2</td>
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<tr>
<td>The Netherlands</td>
<td>15.2</td>
</tr>
<tr>
<td>France</td>
<td>9.3</td>
</tr>
</tbody>
</table>

In Chapter 1, through several indicators, we have outlined the consequences of this deindustrialisation on the French economy. Let us now put these figures into perspective.

First and foremost, there is an impact on general prosperity.

Except for a few countries that are highly specialised in financial services (such as Luxembourg and, to a lesser extent, the United Kingdom) or have a very powerful technology-intensive service sector (the United States comes to mind, of course), there is a direct correlation between industrial production per capita and GDP per capita. France’s GDP per capita amounts to 41,464 dollars, which is less than the European average (45,086 dollars in 2018). Overall, France ranks 11th in terms of GDP per capita among EU countries (and 33rd in the world). Its per capita industrial production ranks France 20th out of 2850.

By way of comparison, the European countries with the highest GDP per capita (Germany: $47,501, the Netherlands: $53,022, Austria: $51,499, Denmark: $61,390, Sweden: $54,651 and, outside the EU, Switzerland at over $82,000!) are also those with the highest industrial GDP per capita. Many of these countries belong to the group of Phoenix Countries, which have risen from their industrial ashes.

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The conclusion is obvious: industry is key to prosperity. Through de-industrialising, France has eroded the very base of its own prosperity. A strong industry goes hand in hand with a positive balance, with high value jobs, with better managed social accounts which weigh less on the nation’s accounts, on the cost of labour and on the nation’s competitiveness.

Second point, there is an impact on the Welfare State’s budget. Let us have a closer look at the unemployment rate, which amounts to an important part of this budget — especially in France. Before 1974, its unemployment rate was often below 3%, one of the best in the world. It is no longer the case today: with 8.2% category A unemployment in February 2020, France is ranked 25th out of the 28 countries of the European Union, ahead of Greece, Spain and Italy. As a reminder, the Phoenix Countries, with variations, were doing much better (before the Covid 19 crisis): the Netherlands was at 3.4%, Germany at 3.1%, Austria at 4.5%, Ireland at 5%, Denmark at 5%, Finland at 5%, Canada at 5.6%, Australia at 5.2%, New Zealand at 4.1%.

Table 6. Unemployment rate in France and Phoenix Countries

(% of the active population. Source: World Bank, 2019 data)

With 8.2% of category A unemployed in February 2020, France was ranked 25th out of the EU28. All the Phoenix Countries were doing better.

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate</th>
</tr>
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<tbody>
<tr>
<td>Germany</td>
<td>3.1</td>
</tr>
<tr>
<td>Australia</td>
<td>5.2</td>
</tr>
<tr>
<td>Austria</td>
<td>4.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>5</td>
</tr>
<tr>
<td>Finland</td>
<td>5</td>
</tr>
<tr>
<td>France</td>
<td>8.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>5</td>
</tr>
<tr>
<td>New-Zealand</td>
<td>4.1</td>
</tr>
<tr>
<td>Norway</td>
<td>3.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.3</td>
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<tr>
<td>The Netherlands</td>
<td>3.4</td>
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For France, before the Covid crisis, the official figure was 8.2%. But it should be noted that this represents category A alone; the real unemployment rate is 19.2% if we include categories B to E. This figure,
no doubt tainted by fraud which probably overestimate the real number by a few points, suggests that at least 15% of the working population is under- or non-employed. This is a waste, of which the unemployed are obviously the first victims, and which results in a loss of skills and human capital: our whole collective capacity is weakened, and the fiscal and social base on which our social protection system is based is too narrow. This makes our welfare state dangerously fragile.

Rather than dwelling on these figures, and without ignoring the weight of factors such as training or labour market rigidities (two areas that have undergone major reforms in recent years), let us indulge in a bit of economic fiction. If France had followed the path adopted by Germany, the Netherlands or Austria, it would now have 1.8 million more people employed in the industrial sector. Given that each job in the industry generates two jobs in the services sector (outside the public sphere), there would be an additional 3.6 million people working in services. In total, France would therefore have 5.4 million more workers. Unemployment would then be reduced to around 4% of the working population, and the working population rate, which today is only 43.6% — a very low figure which reflects the state of our economy — would be over 50%, which is more or less equivalent to the European norm (Germany is at 52.4% and the Netherlands at 53.3%). Yes, I’m rewriting history. But it would have become reality if France hadn’t methodically let die its industrial sector. The French people as a whole would be much richer today.

Thirdly, with regard to our foreign trade. As we have said above, it is first of all deindustrialisation — and the lasting preference given to maintaining or even increasing the purchasing power of households — which has unbalanced France’s trade balance: on the one hand French companies which could afford it have favoured setting up abroad (this is a significant difference compared to our German neighbours), and on the other hand the preference given to demand has boosted imports. Admittedly, the balance of trade with non-EU countries remains slightly in surplus. But it is clearly in deficit vis-à-vis our trading partners within the EU. As long as we use the same currency, this is not unsustainable. But it leads to relative impoverishment: our economy has been slowing down for a long time, while that of our neighbours is growing significantly, and part of the wealth we create ends up abroad. Thus we end up with a smaller GDP per capita, within which gaps are now significant.

The countries with the largest surpluses are, in order, Germany, the Netherlands, Ireland, Italy, the Czech Republic, Belgium, Denmark, Hungary, Poland, Sweden and Finland\(^52\). Here again, among the good EU performers are, of course, the Phoenix countries\(^53\). The same observation can be made for the Phoenix Countries outside the euro zone: Australia, New Zealand and Canada also boast a surplus (Australia and Canada have certainly benefited from the commodities boom over the last ten years or so).

France’s lower capacity to export is a real handicap: in 2018, exports represented only 31.3% of the French GDP compared to 47.4% for Germany, 55.6% for Denmark, 66.1% for Switzerland and 84.3% for the Netherlands\(^54\). The industry export rate is only 42.7%\(^55\). By way of comparison, the German industry is around 50%.

Let’s resume our economy-fiction exercise: if France had 1.8 million more workers in industry, its exports would be increased by about 260 billion euros. Our trade surplus would then be around 150 to 200 billion euros\(^56\) — a figure to be compared with the deficit of 58.9 billion euros recorded in 2019.

Among industrialised countries, the choice in favour of deindustrialisation — let’s call a spade a spade — is a French speciality. Forty-five years of mistakes and hazardous choices have led to the unravelling of the French industrial fabric, starting with the manufacturing industry which provided life and activity for many regions and, as a consequence, contributed to the very existence of countless commercial and service activities. This programmed destruction of both industry and the activities that made a living from it first plunged the northeast and, to a lesser extent, the industrial north into crisis. It would later contribute to the “small town crisis” now impacting the whole nation. It has also had the mechanical effect of fuelling public and social spending, and ultimately public debt. This is the subject of the next chapter.

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52. INSEE, “Solde de la balance commerciale dans quelques pays de l’Union européenne, données 2019,” Apr. 20th 2020. It should be noted that Finland, which was in surplus continuously from 1984 to 2010, was back to a small surplus in 2019 after almost a decade of weakness.

53. In 2019, however, Austria had a small deficit.

54. World Bank, 2018 data.

55. INSEE, “Tableaux de l’économie française, 2020.” The export rate measures the percentage of international sales made by a given sector.

Here again, the figures are striking: in 1960, public expenditure in France represented 34.7% of GDP. By 1973, it had risen to 39.3%. It reached 52.3% in 1985 and 55.2% in 1993. After a peak in 2009 (57.2% of GDP), public spending has fallen back very slightly. It amounted to 56.4% of GDP in 2017 and 56% in 2018\(^57\). But it is clear that the Covid crisis will reverse this fragile, recent trend.

**Table 7. Public spending in France (% of GDP)**
(Source: INSEE)

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<tr>
<td></td>
<td>34.7%</td>
<td>39.3%</td>
<td>52.3%</td>
<td>55.2%</td>
<td>57.2%</td>
<td>56.4%</td>
<td>56%</td>
</tr>
</tbody>
</table>

In this area, as in many others, France is alas accumulating world records. And the very timid improvement recorded in recent years does not change anything: France is the European Union’s biggest spender, just ahead of Finland (55% of the GDP). Its total public spending is 10 points higher than the average of Eurozone countries (46.8% in 2018) and, more broadly, of the European Union member countries (45.6%). Needless to say, all these countries have levels of public services comparable, if not better.

France has long suffered from the obesity of its state, which manages directly or owns 80% of the hospital system, 80% of education, 20% of housing, 100% of rail transport and a major part of air transport\(^58\). All the sectors under its control suffer more or less from the same ills: chaotic management, absenteeism, low productivity... The mask crisis that recently occurred during the Covid 19 pandemic highlighted to the point of absurdity the flaws in the system: France discovered, stunned, that the public authorities were incapable of acquiring or of scrambling


\(^{58}\) Yves Buchsenschutz, “Pourquoi la France est-elle championne des dépenses publiques,” Contrepoints, March 28\(^{th}\) 2018.
to manufacture the millions of masks needed to protect the French people. But that’s not all: by constantly legislating, controlling and producing standards, the state has succeeded in eliminating competition from entire sectors of the economy. Worse still: the inflation of public charges has been passed on to the private sector, hampering its competitiveness and ultimately suffocating the entire economy.

But the state is only one part of the vast continent of public spending, and within this vast continent, social spending makes up the largest share. In 2017 it accounted for 58% of public spending, compared with 45% in 1990. Its share in GDP has been steadily increasing: 14% in 1960, 18.3% in 1973, 27.1% in 1986 and 29.6% in 2006. It now accounts for 31.2% of GDP, the highest figure in the European Union (27.5% of GDP on average). Old-age pensions account for the largest share of social expenditure (45%), followed by sickness risk (35%), maternity-family benefits (8%), unemployment (6%) and finally poverty-exclusion (3%). Old age and sickness insurance alone therefore account for 80% of social expenditure in France. It should be noted in passing that the unemployment risk rose from 0.5% of GDP in 1970 to 3% in 1985 before falling back to 2% in 2017.

Table 8. The increasing weight of social spending (in % of GDP)
(Source: INSEE)
Social spending now accounts for 58% of public spending in France. This proportion is unique in Europe: for more than four decades, the French society has chosen to devote its enrichment primarily to collective solidarity spending. This choice is largely financed by a toll on business and has contributed to accelerating deindustrialisation.

<table>
<thead>
<tr>
<th>Year</th>
<th>1960</th>
<th>1973</th>
<th>1986</th>
<th>2006</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP%</td>
<td>14 %</td>
<td>18.3 %</td>
<td>27.1 %</td>
<td>29.6 %</td>
<td>31.2 %</td>
</tr>
</tbody>
</table>

How can we explain this surge in social spending, a French exception in Europe and within the OECD? There are, of course, objective reasons such as an ageing population — and the increase in health spending that it induces — as well as the massive retirement of baby boomers and the generalisation of supplementary pensions. But these are developments common to most industrialised countries: OECD experts point out that pensions and health are the main items of public

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59. INSEE, “Tableau de l’économie française 2017.”
61. OECD, Social Spending data.
social expenditure and that they continue to increase steadily\textsuperscript{63}. However, the fact that France is so different from other developed countries raises questions. One can identify two main explanatory factors.

The first is collective preferences. For years, France has opted for the collectivisation of risks and a very generous approach to social protection — with an inflation of new rights as evidenced by the lowering of the retirement age or the reduction of working time (weekly with the 35-hour week and annually with the 5\textsuperscript{th} week of paid holidays) without any salary reduction.

In total, the compulsory levies financing social protection represent more than 31\% of GDP\textsuperscript{64}. Since the 1970s and until very recently, the growth of social expenditure has almost always been higher than that of GDP. In the words of the essayist Patrick Aulnas, “the French society has chosen to devote its enrichment, as a priority, to collective solidarity spending\textsuperscript{65}.” The problem is not so much making such a choice as financing it primarily by taxing business, which has seriously harmed competitiveness, weakening the French economy as a result.

In effect, we have reallocated resources that could have been used to achieve our growth potential.

Part of the taxes and social charges levied on companies would have been better used to create wealth (investment, R&D, higher quality products), which could have ultimately benefited households and public services.

Choices in favour of social protection have also been made to the detriment of public investment in the areas of infrastructure, transport, education and even health. What a difference from the years 1960-1973 which had been marked by their boom in major national projects: TGV, motorways, Concorde, then Airbus, nuclear power stations, military nuclear capability, hospitals! Generally speaking, the quality of all public services has deteriorated over the last few decades.

In the end, the successive arbitrations in favour of collective solidarity spending have had an impact on the standard of living. As showed in Chapter 1, France’s GDP per capita is now 14\textsuperscript{th} in Europe and 33\textsuperscript{rd} in the world, which is ultimately quite modest for the world’s sixth largest country. All the Phoenix Countries have overtaken it.

\textsuperscript{63} OCDE, “Le point sur les dépenses sociales,” 2019.


\textsuperscript{65} “Les dépenses sociales explosent, le modèle social français implose,” \textit{Contre-points}, March 1\textsuperscript{st} 2019.
France devotes far too many resources to social benefits. If we compare this spending with similar figures in other EU and OECD countries, it should be around 25 or 26% of GDP. This is more than five GDP points of social expenditure in surplus, amounting to a yearly 125 billion euros. Yes, France spends too much, and it spends badly.

Deindustrialisation and its contribution to mass unemployment is the second factor explaining this very high level of social spending. More than the unemployment rate, it is the employment rate and the active population in relation to the total population that should be considered. On these two points, collective trade-offs made decades ago (on pensions in 1981, on working time at the end of the 1990s) continue to weigh on our social accounts in two ways: the cost of benefits, on the one hand, but on the other hand (and above all) the contributive capacity, in other words the fiscal and social basis that carries the levies necessary to pay the benefits.

Deindustrialisation, perceived as a fatality but actually accelerated by these collective choices, is one of the elements that have contributed to the paralysis of the French economy. The destruction of 2.8 million jobs in manufacturing industry between 1975 and 2009 has obviously weighed on the drift of the social accounts. In addition to taking direct care of the unemployed, over the years the State has invented all sorts of ways as dubious as ineffective in preventing their exclusion, restoring their purchasing power or bringing them back to work: Employment Bonus, Activity Bonus, RSA (a minimum allowance vaguely linked to job-seeking), assisted employment... This “social treatment of unemployment,” which is very commendable per se, has in fact proved as ineffective as it is ruinous for public finances. And by weighing heavily on companies, it has contributed to further weakening the economy, especially the industrial sector.

The level of social expenditure and the share of industry in GDP are not always correlated. Denmark’s level of social expenditure is close to France’s, and its industry is doing very well. But Denmark has been able to invent a modern, responsive and empowering social model where the French model is not exemplary, contributing instead to the creation of social traps such as long-term unemployment or benefit dependency. Elsewhere in Europe or in the OECD, there is generally a correlation, albeit imperfect, between the share of social expenditure

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and that of industry in GDP. One need only look at the Phoenix Countries: social expenditure accounts for 14.4% of GDP in Ireland, 17.8% in Australia, 18.9% in New Zealand, 23% in the Netherlands. And the most generous countries (26.6% in Austria, 28% in Denmark, and 28.7% in Finland), which are also renowned for their ability to keep a balanced budget, remain below 30% when France exceeds 31%. All these countries have managed to maintain, or recover, the share of industry in their GDP. Ireland, as is generally ignored, is both a champion in the share of industry in GDP (over 36%, part of which is artificial, derived from the country’s role as a re-invoicing hub) and an extremely frugal country in terms of social protection (less than 15% of GDP).

Table 9. Deindustrialisation and weight of social spending in 2018
(Sources: World Bank and OECD)

<table>
<thead>
<tr>
<th>Country</th>
<th>Industry % of GDP</th>
<th>Social spending % of PIB</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>12</td>
<td>31.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>21.2</td>
<td>28.7</td>
</tr>
<tr>
<td>Austria</td>
<td>25.7</td>
<td>26.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>22.5</td>
<td>26.1</td>
</tr>
<tr>
<td>Germany</td>
<td>27.5</td>
<td>25.1</td>
</tr>
<tr>
<td>Norway</td>
<td>32</td>
<td>25.0</td>
</tr>
<tr>
<td>Finland</td>
<td>24.5</td>
<td>23.0</td>
</tr>
<tr>
<td>New-Zealand</td>
<td>19.2</td>
<td>18.9</td>
</tr>
<tr>
<td>Australia</td>
<td>24.1</td>
<td>17.8</td>
</tr>
<tr>
<td>Canada</td>
<td>24.8</td>
<td>17.8</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>17.9</td>
<td>16.7</td>
</tr>
<tr>
<td>Ireland</td>
<td>36.8</td>
<td>14.4</td>
</tr>
</tbody>
</table>

The conclusion is obvious: it is because France is not creating enough wealth that its public and social spending has soared... and it is because its public and social spending has soared that it is no longer creating enough wealth. The constant increase in the social treatment of unemployment and social exclusion is a reflection of an impoverishing society.

Let us stop this litany of figures. The main point is to understand the vicious circle in which France has been trapped for more than 40

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68. OECD data.
years: by choosing to devote a considerable part of its resources to collective solidarity expenditure, it has condemned itself to an explosion of its public and social expenditure, while at the same time putting a strain on its capacity to create wealth.

Creating wealth is indeed the crux of the problem. For decades now, France has been “milking the cow,” to plagiarize Winston Churchill, beyond the bounds of reason. The weakening of its productive system and the record share of social spending in GDP are two sides of the same coin. This is why it is crucial to look specifically at corporate taxation.
Killing the goose that lays the golden egg
An introduction to the French corporate tax system

Since 1974 and in many respects, since 1945, often for electoral reasons and out of convenience (entrepreneurs don’t take to the streets!), France has financed its public through an increasing toll on from the wealth produced by businesses.

A quick historical review is enlightening: in 1970, the compulsory levies weighing on French companies represented a little over 12% of GDP. In 1975, they exceeded 15%, before reaching, ten years later, almost 17% of GDP. Today they amount to 19.3% of the GDP! Even so, these figures only concern corporate income tax and taxes on production, leaving aside a third element, which is in fact the most important element of the compulsory levies weighing on companies: the employer’s share of social security contributions. Nevertheless, the trend is already clear.

France thus stands at 50% over the European average (13.6%). After Sweden (22.4%) and Croatia (20.1%), it is among the European countries in which compulsory levies (notwithstanding social contributions) on companies are the highest as a proportion of GDP.

Its performance on a global scale is scarcely any better: according to the 2019 edition of the International Tax Competitiveness Index, which takes as its reference the top marginal tax rate on profits, France is ranked 36th out of the 36 OECD countries. This or that methodological point can be discussed, but the observation is indisputable: the compulsory levies weighing on French companies are among the highest, if


71. A yearly publication by the Tax Foundation, the International Tax Competitiveness Index provides a ranking of countries according to their tax system.
not the highest, in the world in each of the three categories: social contributions, production taxes and corporate income tax. This is confirmed by other rankings.

Table 10. Compulsory levies in France and in European Phoenix Countries (as a % of GDP)
(Source: Eurostat, taxation in 2018)

The compulsory levies in the table below do not include social security contributions. In total, France breaks European (and world) records in all categories of compulsory contributions. It is also one of the European champions in terms of taxation (Taxes on Production) levied on businesses. Only Sweden does worse. But the Swedish rate of social contributions (employer’s share) ranges between 25 and 31% of the wage bill (CLEISS, Les Cotisations sociales en Suède) while in France it ranges between 35 to 38%. As for Denmark, the employer’s share of social security contributions is 0%. The figures below are in % of GDP.

<table>
<thead>
<tr>
<th>Country</th>
<th>Compulsory levies (all categories)</th>
<th>Compulsory levies on business (corporate tax and taxes on production)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>22.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Germany</td>
<td>38.1</td>
<td>13.4</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>38.7</td>
<td>15.3</td>
</tr>
<tr>
<td>Norway</td>
<td>39</td>
<td>17.6</td>
</tr>
<tr>
<td>Austria</td>
<td>42.1</td>
<td>16.8</td>
</tr>
<tr>
<td>Finland</td>
<td>42.6</td>
<td>16.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>43.8</td>
<td>25.6</td>
</tr>
<tr>
<td>Denmark</td>
<td>44.8</td>
<td>19.1</td>
</tr>
<tr>
<td>France</td>
<td>46</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Note. The employer’s share of social contributions is ignored in international comparisons, which distorts representation: in France, it is the first item of compulsory levies. Abroad, the State or households take charge of all or part of these contributions.

When discussing the situation of corporate taxation in France, most journalists or commentators are content to refer only to corporate income tax (CIT). Let us recall that today, according to turnover and profit and before any tax niche or optimisation thanks to foreign subsidiaries, the basic rates of corporation tax are 15% of profits for “TPEs” (very small businesses); 28% for SMEs/SMIs and ETIs (intermediate-
sized companies), and 31% for large companies. Before the Covid crisis it was planned that the higher rates would be reduced to 25% as from the fiscal year starting on January 1st, 2022. It remains to be seen whether this provision will be maintained when the response to the pandemic has made the search for new tax revenues urgent.

In any case a rate of 25% would still be too much: in the Phoenix Countries, the downward trend in corporation tax began thirty-six years ago (with Denmark, at 15% as of 1984), bringing the corporation tax rate closer to 15%. Currently in France, even after deduction of absurd tax niches, the actual rate is between 25 and 28% for SMEs. Large companies manage to escape, with an actual rate of corporate tax paid in France in the order of 8 to 10% thanks to tax optimisation through their foreign subsidiaries. In Phoenix Countries, the corporate tax rate is 27% (Sweden), 20.5% (Netherlands) and above all 15%, or even lower (12.5% in Ireland, etc.).

But the compulsory levies on companies are by no means limited to corporation tax.

They are divided into three main families. The first is corporate income tax, the second is taxes on production. In the national accounts, two sets of taxes are recorded as “taxes on production.” These are the operations classified in D291, “Taxes on wages and labour” (including notably the tax on wages, apprenticeship tax, transport payment, social lump-sum payment and the tax for the benefit of the National Housing Assistance Fund) and the operations classified in D292, “Miscellaneous taxes on production,” which include a good twenty local taxes, contributions, participations... Of particular interest among taxes on production are the contribution on the added value of companies (CVAE), the tax on built and non-built land, the company property tax (CFE), the social solidarity contribution for companies (C3S), the flat-rate tax on network companies (IFER), the tax on commercial surfaces (TASCOM), the tax on water purification and the tax on the removal of rubbish and other waste. According to some authors, there are a total of some 200 possible taxes on production. This figure is yet not certain...

The third family is the employer’s share of social contributions. Commentators rarely include them in the compulsory levies on companies. They are, however, a heavy burden on production and, as such, do indeed constitute an essential part of compulsory levies, most often even the first tax burden on the company. In France, they represent be-

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72. TPE: very small companies with less than 10 employees and less than €2 million turnover. SME / SMI: small and medium-sized companies / industries: 10 to 250 employees, and less than €1.5 billion turnover. ETI: medium-sized companies: 250 to 4,999 employees and less than €1.5 billion turnover. Large companies: more than 5,000 employees and more than 1.5 billion € turnover.
between 35% and 38% of the wage bill. To this must be added the levies of classes D291 and D292 which relate to salaries but are classified as “taxes on production,” whereas they are based on salaries. In total, the social contributions on the company side are therefore much higher than the simple rate of social contributions would indicate. They are thus much higher in France than elsewhere: for example, 20.6% in Germany (again, this is the basic rate, reduced in the end to between 17.5% and 18% by the ceiling on contributions), 9.5% in Ireland and even zero in Denmark and New Zealand where the State and employees bear these costs.

In France, production taxes are even much more harmful than corporation tax: most of them are in fact paid in absolute terms and not as a percentage of the EBITDA. It is very different in Germany (7 to 17.25% depending on the location of the companies, i.e. on average 14% of the EBITDA for the Gewerbesteuer, which groups together 17 of our 21 production taxes in a single line) or in Denmark (14% of the EBITDA, again) for example. A French company must therefore pay taxes, even if its EBITDA is zero or negative. In Denmark or Germany, on the other hand, a zero or negative EBITDA reduces this Gewerbesteuer to 0 euros. Moreover, these taxes are very easy to increase in France, since they are innumerable and arrive in a really scattered order in companies that are often unable to calculate them accurately.

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73. Above €45,000 and €56,000 of salary per year, there is no longer any compulsory social security contribution in Germany: it is up to the employee to finance his or her insurance by himself or herself. Another factor is the large number of apprentices in Germany (1.6 million compared with 485,000 in France), which is less costly in terms of social security contributions.

74. Let’s be precise: the Gewerbesteuer is based on EBITDA plus 20% or 50% of the financial costs above a deductible of €24,500. The actual Gewerbesteuer is 14% on average (from 7 to 17.25% of EBITDA), and its base is the EBITDA increased by everything that can correspond to financial “speculation.” As such, the EBITDA used as a basis for the calculation is increased by 20% of the financing costs (loan interest; i.e. financial costs + banker’s or lender’s administrative costs), 20% of the leasing costs of movable investment goods, 20% of the costs of leasing premises, and 50% of the costs of premises for financing real estate, and dividends. In order to exempt SMEs from the surcharges, an excess of 100,000€ is applied. Certain costs are then deducted from the tax base in order to avoid multiple effective taxation: 1.2% of the tax value of the land; profits from shareholdings in companies abroad; dividends from German or foreign companies, when the shareholding exceeds 15%; operating profit from an establishment abroad. To summarise, the Gewerbesteuer is calculated as follows: (operating profit before reduction for losses: operating profit + supplements above — deductions above) — (losses from previous years + excess of €24,500 for partnerships or self-employed persons) = (tax base) x 3.5% x municipal rate = tax payable.
correctly. Let us add that taxes on production also include, as we have said, social contributions (social housing, transport costs classified in D291 and D292). Again, this is only the business share.

Social security contributions (employer’s share), production taxes and corporate income tax are the three main elements that make up the compulsory levies on companies in France. This tax system is mainly based on a system of social security contributions, which are levied on a company’s income, not on its profits. In order to properly measure their weight and their deleterious consequences on the competitiveness of companies (and therefore, by a knock-on effect, on deindustrialisation), we must go into even more detail.

Let’s start with the so-called “employer’s share” of social contributions. These are taxes, insofar they finance something other than the social benefits of the company’s employees. They are therefore clearly not just mutualised costs. Social contributions are often the heaviest of the three categories of compulsory levies. Within the industry sector, they represent between 35 and 38% of the wage bill, a world record. They penalise both gross wages and the competitiveness of companies, both in France and abroad, and, as a result, employment. And yet there are also, among taxes on production, other social charges and other very important compulsory levies (housing, transport, etc.).

After social contributions, let us now consider taxes on production, and in particular these 17 to 21 local taxes that are levied on businesses (see the example of the pro forma in the appendix). With a total amount of 72 billion euros in France, taxes on production represent 3.2 points of the total French GDP, a level that has no equivalent in Europe and the OECD\textsuperscript{75}. They represent, for example, 25.8% of current profit before tax, in the pro forma in the appendix to this book, for a company that is already comfortably profitable (with an EBITDA representing 13.1% of the turnover). Then again this is without equivalent among the industrialised countries. And that’s not all!

French taxes on production are not only the highest in the world. They are also absurd. The 21 local taxes, contributions and participations are all fixed in absolute terms and accounted for before the EBITDA is even established. This means that companies have to pay them even if they are in loss... Let’s add that these taxes, because they are multiple and very dispersed, are very easy to increase from year to year.

A June 2019 note from the Conseil d’analyse économique (Economic Analysis Council) clearly states all the absurdity and perverse

effects of these taxes. “By taxing companies at the top of their operating account, taxes on production increase their break-even point and can explain, along with other factors, the relative atrophy of the French productive sector and, in particular, the VSEs and SMEs,” the document underlines. The Conseil d’analyse économique is also prioritising these taxes according to their harmfulness to competitiveness. Three levies seem to be particularly devastating in their analysis: CFE (6.5 billion in revenue) and CVAE (13.3 billion), both resulting from the 2010 reform of “taxe professionnelle”, and “C3S” (3.6 billion), a turnover tax created in the 1970s to finance the pensions of the self-employed. According to the Conseil d’analyse économique, it is the C3S that has the most negative effects on business competitiveness. “No other OECD country has introduced such a turnover tax because it has a serial effect on the entire production chain,” the paper says. The study stresses in particular the “cascade effect” linked to the fact that each company passes on the tax to its customers by increasing, when it can, its prices, which heavily penalises companies producing in France. All in all, C3S “reduces the competitiveness of companies by acting like a tax on exports and a subsidy on imports,” the study concludes. One cannot say better...

This fragmented approach to the countless taxes on production must be firmly opposed, because it is very easy, as has already happened, to split a tax in two (as was the case, for example, with the business tax in 2010 (split into CVAE — on the added value of companies, and CFE — business property tax), or to lower one tax here but raise two or three others elsewhere. In Germany or Denmark, these taxes, or their equivalent, are grouped together in a single line. In Germany, the Gewerbesteuer represents 7 to 17.5% of EBITDA, i.e. 14% on national average; in Denmark, the “regional tax” amounts to 14%. This system has four advantages.

The first is that the cost of these taxes is indexed to the results of the financial year.

The second is that it promotes a symbiotic relationship between businesses and local elected representatives, who therefore have direct information on the financial health of businesses in their electoral district.

The third is to avoid any insidious, and often local, increase in this or that tax sector: it is in fact easier to monitor a single tax rate than twenty or twenty-five taxes, contributions, shareholdings or contributions... arriving in the SME, in a scattered manner, under this or that name, throughout the year.

The fourth is to give both the elected representatives and the company a precise budgetary framework.
After social security contributions and taxes on production, let’s finish our tour with the corporate tax (CIT). For SME/SMIs (and for intermediate-sized companies) which are at the heart of the industrial fabric, corporation tax represents 28% of EBITDA. For large companies, its nominal rate is 31%. This is, in both cases, a world record.

This is not without consequences, particularly for small, medium and medium-sized companies. The vast majority of SMEs and SMIs produce 100% of their output in France. Because they do not benefit from inter-country tax optimisation systems and certain tax niches, they pay 100% of corporate tax in France. Large companies, on the other hand, make the bulk of their turnover abroad and thus benefit from all sorts of tax niches: they pay only 8% tax on average in France, to which must of course be added the taxes paid abroad (where taxation is much more advantageous). This leads us to the paradox — and even to this economic nonsense — that the SME/SMIs, so essential to the economy, pay the highest tax rate in the world, whereas the large companies largely escape it... This is a first factor — but not the only one, as we shall see — of the weakening of our SME/SMI fabric.

It is interesting to compare in detail the situation in France with regard to compulsory levies on companies with that of Germany. May the reader forgive us for referring once again to our neighbour across the Rhine. However, we feel it is appropriate to focus here on the case of Germany since it is the most often cited — and envied — country and is our main economic partner.

In Germany, there are five main categories of business tax:

1. Social security contributions (employer’s share), which represent 20.6% of basic wages, but in reality 16.5 to 18.5% on average (because they are capped for wages above 44,000 and 56,000 euros per year and for apprentices, who are very numerous across the Rhine).

2. Four small taxes on executive cars, fuel, electricity and any real estate transactions carried out during the year, i.e. in total about 1% of EBITDA.

3. The “local tax” or Gewerbesteuer (word for word: “commercial tax”) which represents between 7 and 17.25% of EBITDA depending on the region (and 14% as a national average).

4. The corporate tax (Körperschaftsteuer), which represents 15% of EBITDA.

5. And finally a “solidarity tax” (Solidaritätszuschlag), introduced in 1991 at the time of German reunification. It represents 5% of all income for individuals and 0.75% of EBITDA (5% x 15% of the tax) for companies. The comparison of these two rates (0.75% and 5.0%) is particularly interesting: it is a spectacular demonstration of the priority
given by Germany to supply-side strategy.

It should also be pointed out that in Germany, with the exception of social security contributions and the four small taxes mentioned in point 2, taxes paid by companies are fully variable and proportional to EBITDA (see the pro forma in the appendix, by way of example). This is not the case in France.

To sum up: what do these figures mean for two heads of companies of the same trade with comparable results located on either side of the Rhine? In the appendix to this book, we propose a practical example which gives a good idea of the differences between the compulsory levies in the two countries. In total, the French manager of a SMI with 13.7% pre-tax current profit will pay the equivalent of all the EBITDA in respect of the three categories of compulsory levies, while his German counterpart will only pay a little over 40% in total for the five categories described above.

Taxation weighs heavily on cost competitiveness, which is a key condition to access the international markets. German companies are subject to much lower levels of tax and social security contributions than their French counterparts and will be able to invest much more, for example in the development of their commercial network, new technologies or the quality of their products.

Enough with the figures, let’s draw an overall picture. There are three conclusions to be drawn.

First of all, except for large French and foreign companies (which benefit from all sorts of tax niches and above all a much lower tax burden abroad), producing in France is not very profitable and not very competitive... except if you are in a world monopolistic niche.

Secondly, the very high level of compulsory levies weighing on French companies (and in particular on SME/SMIs) penalises them on international markets (export), as on the French market, because of their excessive costs and their record tax burden, which drags down their products and reduces their capacity to develop (commercially and technologically) and invest. It is no coincidence that investment in new information and communication technologies in France is much lower than the average for the euro zone: a little over 0.6% of GDP compared with nearly 1.2% in 2016.

The levels of compulsory levies weighing on French companies are indeed one of the major causes of the collapse of the industry sector (especially SMEs and ETIs) but also, as a consequence... of the decreas-

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ing return of the corporate tax system over the last few decades!

We have already mentioned above the infernal spiral in which the destruction of its industrial fabric has led France: mass unemployment, explosion of public and social expenditure, trade deficit, indebtedness...

With this chapter, we have, in a way, “come full circle.” Starting, in chapter 1, from the real situation of the French economy, we have identified, first, the main cause of difficulties (deindustrialisation), then the effects that, combined with other factors, it has had on our economy (endemic unemployment, public spending, multiple deficits, debts, and impossible general prosperity...) and, finally, what has caused this slow agony of the French industrial fabric (compulsory levies as high as they are absurd, which also hit all the suppliers and subcontractors at every stage of the industrial process). Knowing moreover that, very often, more than 95% of a product is added value, at each of the industrial stages. It is essential for the reader to understand that, in this case, it all makes sense.

The time has now come to open a new page. The time for observations must now be followed by the time for proposals and solutions. What can be done to turn the tide? And at what cost? How can this cost be financed without penalising households through price inflation? This is the subject of the following chapters.

77. See the appendix to this book for a breakdown of the price of raw materials already produced and the value added in the industrial cost price of a washing machine, including the cost of each raw material, and the value added by all suppliers and subcontractors.
Solutions for a recovery

Forty-five years of economic errors, inspired by ease and lack of courage, if not outright demagoguery, have led France into a dead end fraught with threats. This is certainly a serious situation.

But let’s say it straight away: there is no fatality to this decline. France can still get out of the infernal spiral in which it has locked itself. The condition is to recover its industry, which means taking strong and courageous decisions.

The question of compulsory levies weighing on French companies, this mix of social contributions, production taxes and corporate tax, is absolutely central. No sustainable recovery will be possible without a complete overhaul of the compulsory levies that first and foremost hit SMEs — the heart of any industrial fabric — but also, all the same, large companies and, ultimately, households. What France must aim for is fiscal parity with the best practices in the European Union and the OECD, and especially with these Phoenix Countries, whom we have already met on several occasions and whom we will have to talk about again. Whether it be social contributions, taxes on production, or corporate income tax, we have a huge gap to make up with these countries.

A point of method to begin with. Because of the stakes involved — particularly in terms of financing but also in terms of social relations, as we shall see later — any in-depth reform of the compulsory levies weighing on our companies presupposes a few prerequisites. First of all, it requires real political, or at least economic, leadership, i.e. a leader with strong credibility, whose vision is not limited to the horizon of his or her re-election and who is assured of the confidence of the French people. It is up to this leader to make them adhere to the necessary reforms. A credible and visionary leader capable of getting an ambitious reform programme accepted: this is what Denmark experienced with Poul Schlüter from 1983 to 1990. He was a conservative, but his results were so remarkable that his left-wing successors not only maintained but even completed his reforms in 1992, instituting, for example, the financing by employees of the 10% supplementary pension (10% deductible from tax revenues). This was also the case in Ger-
many with the Agenda 2010 of Gerhard Schröder, a left-wing man whose reforms were also implemented and completed by his conservative successor Angela Merkel, thus enabling the country to achieve reunification and dramatically restore its competitiveness. There is no reason why what was possible in Denmark, Germany, and eight other Phoenix Countries, all very different, should not also be possible in France.

The other prerequisite is that the French develop a clear awareness of the issues at stake. When the press worries about the situation of the French economy, it often confines itself to mentioning — quite rightly, moreover — the inordinate role of the State in our country, the weight of compulsory levies, the explosion of public and social spending, the astronomical amounts of public debt and, of course, the unemployment situation. That’s already a lot. But it is not enough.

Such far-reaching reforms will only be possible if the French accept the need for them, which presupposes first of all that they have a clear and complete vision of our economic situation, of the chain of causes and effects that has brought us to where we are today, and of the possibility of reversing the trend through courageous medium-term measures.

France must embark on ambitious reforms without delay. It must do so all the more so since the Covid-19 crisis has put a whole series of major issues back on the table: reshoring of some industries, the weight and inefficiency of the State, the risk of cascading bankruptcies (and in particular of SME/SMIs), the explosion of unemployment, the soaring public debt... All the vices that have been affecting our economy for 45 years and risk becoming even steeper and definitively relegating France to second league. There is an urgent need to act.

Taking inspiration from the Schröder experience, I propose to call “Agenda 2025” (or 2030) the package of reforms to be carried out. The priority is to tackle the compulsory levies weighing on businesses. The taxes on French companies have led almost all large companies to relocate a large part of their production, and to practice tax optimisation on a large scale, even beyond all necessities: locating factories abroad, moving head offices to more favourable tax horizons (think of Schneider, Vallourec, and Criteo to name but a few), locating profits outside France by inflating transfer prices, using invoicing centres and tax havens in Ireland or the Netherlands, etc. For their part, SME/SMIs, which make the bulk of their sales in their domestic market, have had no choice but to pay their taxes in France. These practices have caused considerable damage, including the permanent narrowing of the tax base, the disappearance of industrial sites or administrative headquarters, record endemic unemployment, not to mention, in recent years,
the departure abroad of many young graduates... This is why a reform of these compulsory levies must be at the centre of the 2025/2030 Agenda.

We propose to summarise this reform by a simple equation: $3 \times 15\%$. What is it all about? In a word, to align the compulsory levies weighing on our companies to levels relatively close to those of the least favourable Phoenix Countries.

1. Limiting the employer’s share of social contributions to 15% of the wage bill

The total payroll (gross salary + employer’s share of social contributions) represent, in the various stages of manufacture of an industrial product in a labour-intensive sector, 96.5% of the cost price (internal cost + external cost: factory exit price of a finished product, such as a washing machine). The material already processed — for example copper sheet or wire — represents on average only 3.5% at most of the cost price. This is enough to understand the overwhelming weight of social security contributions in France. The objective is to reduce the overall rate of these contributions to 15% of the wage bill, including those hidden in taxes on production. It would thus be slightly lower than the German rate (20.6% as a basic rate, and 17.5% as an average real rate, after taking into account the ceiling on social security contributions for high earners and lower contributions for apprentices), and still much higher than the rates applied in Denmark and New Zealand (0%!), but also in Great Britain and the United States (between 8 and 12%), Ireland (9.5%) and the Netherlands (19%). A rate of 15% would represent a significant reduction in the compulsory levies weighing on French companies compared with the current 35/38%. It should be remembered that social security contributions are the heaviest of the three compulsory levies.

2. Limiting taxes on production to 15% of EBITDA

It should be remembered that in today’s France these taxes represent a very variable percentage of EBITDA: 23.6% of the EBITDA of the company studied on a pro forma basis (a company whose EBITDA amounts to 13.5% of turnover, which is rather a performance in France)

78. See Henri Lagarde, “Analyse du prix de revient industriel d’une machine à laver,” Politique industrielle, summer 1989, an extract of which appears in the appendix of this book. Of course the figures have changed since 1989, but the trend remains the same: in the labour-intensive sectors, wages and charges represent the largest part of the cost price of an industrial product.

79. See the pro forma comparison, in the appendix. 662 K€ / 2 810 K€ = 23.5%.
and that the majority of taxes on production are calculated in absolute terms, independently of the company’s own results. By adopting a rate of 15%, France would thus return to the high average of the Phoenix Countries. It would even be still higher. But a clear evolution would be initiated. Above all, the EBITDA would henceforth be calculated, as in almost all countries, before payment of taxes and taxes on production and would therefore mechanically be higher than it is today. To put it another way, companies would finally be taxed on their real results. Taxes on production would also be grouped under one heading and calculated as a percentage of the EBITDA, thus fairer and easier to control.

3. Limiting the corporate tax to 15% of EBITDA

Let’s recall that for thirty-five years, and even more so for fifteen years, the rate of corporate tax on company profits has been falling sharply everywhere in the world: even the United States and India, which previously had rates close to or higher than France, have been applying rates of 21.5% for the past two years; Germany is at 15% (56 and 39% previously), Denmark at 15% since 1984, Ireland at 12.5% since 2002... It’s time for France to speed up on this path. Despite a very slight rebound over the last two years, our country does not attract enough foreign investors, especially foreign multinationals, and discourages French companies.

What this 3 x 15 % equation proposes in total is a global strategy resolutely turned towards supply and not, as has been the case for decades, towards demand. We shall see below what this paradigm shift means for households. For the time being, it is important to measure the effects that such a reform of the tax burden on companies would have on the country.

It would doubtless lead fairly quickly — five to ten years — to a renewal of our industrial fabric which would benefit both the manufacturing industry and the tertiary sector (1 industrial job = 2 jobs in services) also allowing to this same tertiary sector, by the same token, to cope with competition from the digital giants without needing to cheat. Many leaders in industry or the tertiary sector would then come, without hesitation, to set up in France, as they did in Ireland.

It would boost growth, in particular by enabling companies to reinvest.

In doing so, it would lead to an increase in tax revenues.

Above all, it would substantially reduce the unemployment rate.

It would consequently lead to a reduction in social spending (unemployment and multiple benefits, etc.) and, more generally, in public
spending. In turn, it would lead to a public debt reduction.

It would contribute to rebalancing trade balance, as products made in France would become more competitive both in France and on foreign markets.

Finally, it would enable the State to control its budgets and abandon the humiliating posture of constantly calling for help from our most virtuous European partners — Germany, the Netherlands... — without much hope of being really heard... or asking them to raise their taxes, which they will never do.

Because of the beneficial effects it would have in the medium term — and the positive signal it would send to our partners — the 3 x 15% equation is the “mother of all reforms.” But it is far from being the only measure that should be taken in the framework of the Agenda 2025/2030. Many other projects will have to be launched, which will make life easier for companies and free up energy.

Among other things, we should mention the simplification and unlocking of the labour code: it is currently 3,000 pages long, including case law, making it one of the most complex and least flexible in the industrialized world; some recent measures are moving in the right direction, such as the exceptional 60-hour maximum work week. But we must extend flexibility further and draw inspiration from our trade partners which, as we well know, face the same problems as we do.

Another crucial subject, the abolition or reduction of standards: France has around 400,000 standards, with an estimated cost of 80 billion euros per year. Sometimes, reflecting our bureaucratic mindset, they boil down to a simple hike of European standards, penalising French industries at the benefit of foreign industries.

We will also have to overturn the economic heresy of the 35-hour week. According to the OECD, France is, in general, the country with the lowest amount of work per capita. The data collected by Eurostat show that a French full-time employee in the private sector works 199 hours less per year than his or her German counterpart. This repre-

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80. According to OECD, the administrative burden in France represents a cost of between 3 and 4% of GDP, i.e. between 60 and 80 billion euros. According to the World Economic Forum’s Global Competitiveness Report (2016-2017), France ranks 115th out of 140 in terms of administrative “burden.” This situation is improving, but far too slowly: the last three rankings placed France 115th (2015-2016), 121st (2014-2015) and 130th (2013-2014) respectively. At national level, it has been estimated that a 25% reduction in administrative burdens could generate savings of around €15 billion for businesses. (Source: Ministry of the Economy and Finance, Directorate General for Enterprise)
sents more than five weeks of work each year. Other projects to be opened include raising the retirement age. President Macron recently tried this reform. But it seems that the Covid-19 crisis has postponed it... Now we must take up the matter again and push back the retirement age to 65 years as quickly as possible... especially since the public debt will soon exceed 120% of the GDP!

Another reform is a much more effective fight against absenteeism, particularly in the local civil service where, in 2017, the absenteeism rate was 9.8% (in a system that is already based on 35-hour working hours, or even less!)

To these reforms, one could add the abolition of the National School of Administration (ENA). Let me explain: all the enarchs I know are honest, intelligent, and quite nice... But what has France achieved since 1974, when the enarchs came to power (Giscard d’Estaing and Chirac, paving the way for so many others at the Ministry of Finance and elsewhere)? And how have so many other countries managed to achieve so many reforms when we have experienced only failure and decadence? This suppression of ENA is in fact just an old idea that has been evoked since Jacques Chirac’s presidency, but never followed up: in this affair, ENA and its former students are doing a formidable and effective job of lobbying for the status quo. The quasi-systematic recruitment of our political leaders within ENA — and the cooption between alumni of the school which goes hand in hand with it — has led to the constitution of an elite totally cut off from the economic realities of the country and almost assured of impunity in case of proven fault (which is very rare, let’s admit it). Their unspoken rule is first of all to never deviate from the opinion of the majority of the elders... How do the Phoenix Countries, I repeat, manage to succeed better, without the help of ENA? Do we want to establish a system of mandarins, comparable to the one that has blocked China’s social and economic evolution for three centuries?

Another reform, it seems to me, is vital. This time it concerns relations between manufacturers and distributors. Some readers may think it’s a marginal question. It is not! Indeed, these relations reveal to the point of absurdity the harmful involvement of the State in relations between economic players and the choice of our leaders in favour of a consumer-oriented demand policy, a policy which has had the consequence of contributing to the destruction of our industrial fabric.

81. See appendix 7.
82. Sofaxis, “Premières tendances 2017 des absences pour raison de santé dans les collectivités territoriales”.
In order to understand this point, we need to take a step backwards. For a long time, our leaders and the French administration had a marked preference for large-scale distribution. In their minds, it had an unstoppable virtue: it allowed them to kill inflation (the indomitable monster of the 50s, 60s and 70s), an idea that no other country, by the way, shared. Indeed, it should be remembered that, between the end of World War Two and the beginning of the 80s, France lived with inflation. It could be relatively low, as was the case in the 1960s, or very high, as was the case after the oil shocks of 1973 and 1979 — where it was aggravated by consumer stimulus packages. But it was always there, and the government always kept close tabs on it...

This fear of inflation had a very concrete consequence: it provoked a real explosion of discount, knock-down prices. These had always existed, even in the Middle Ages. But after 1964, when the first Carrefour supermarket opened in Sainte-Geneviève-des-Bois, they became the norm. With a certain genius, the founder of the Carrefour chain, Marcel Fournier, a former wholesaler from the Grenoble region, associated with the Defforey brothers (Lyon retailers), applied to his shops the recipes they had learned from the seminar of Bernardo Trujillo, the pope of the new American distribution, recipes that can be summarised in two famous formulas: “No parking, no business,” which favoured the establishment of hypermarkets on the outskirts of towns, and “an island of losses in an ocean of profit,” which marked the birth in France of knock-down prices. “Bait and switch” was the new motto: “Bait the customer with a few discount prices and sell them the rest at the regular price.”

This idea spread to all the food superstores that set up shop on the outskirts of the cities. They applied it to all sorts of products, especially household appliances, expensive and durable goods whose prices were easily memorable. It had astonishing effects. In 1968, I remember seeing a specialist retailer (household appliances) in Hossegor, in the south-west of France, buying fifteen “Table Top” (130-litre refrigerators) at cost price at Carrefour in Anglet (between Biarritz and Bayonne) and reselling them at a profit in his own small specialist shop. Another souvenir, that of the Auchamp hypermarket in Avignon, breaking the prices of Brandt and Vedette washing machines, and causing all the household appliance retail distribution in the Vaucluse department to switch to the German brand Bauknecht, which was both more expensive and of lower quality. I had made a textbook case of it, with lots of figures and precision, but the journalists were not very interested.

Other supermarket chains, such as Leclerc or, later, the Germans Lidl and Aldi, proposed another concept: they opened smaller shops — 1,000 square metres on average -, mainly specialised in food but which, due to certain specificities — minimal fittings, articles presented in pal-
lets or boxes... — benefited from very low overheads (10 to 12%, compared to 20% for hypermarkets), which in return allowed them to reduce their margins without risk. The objective was the same: to offer items at ever lower prices. Let’s specify that I have never criticised these second shops that cut prices on all products, because their overheads are much lower than those of food superstores or specialised shops.

Blinded by their electoral bias in favour of the consumer, French political leaders believed that there was nothing better than mass distribution to fight inflation, this endemic evil of the French economy. As usual, the government began to interfere in the relations between large retailers and industrialists with the aim of not hindering the development of the former in any way. The turning point in this matter was the Fontanet circular of 1969, which forbade any refusal by manufacturers to sell to supermarkets. Our neighbours, especially the Germans, were careful not to go down this road: they remained faithful to articles 82 and 83 of the Treaty of Rome, which authorised refusal of sales to retailers in very specific cases. France, in short, blithely violated one of the key provisions of the Treaty of Rome, without anyone finding fault with it... German manufacturers of household appliances benefited from this: as they were not widely distributed in France, they did not suffer from comparison with their French counterparts and their prices were almost never knocked down, whether by hypermarkets or specialised discounters such as Darty, whose average gross margin was 30 to 35%, compared with 20 to 25% in Germany.

Contrary to what politicians and officials thought, the Fontanet circular had only perverse effects. It profoundly unbalanced relations between manufacturers and distributors to the benefit of the latter. Compelled to respect the provisions of the Fontanet circular, French manufacturers, especially those whose brands were the most widely distributed in France, had to run the gauntlet of distributors. In certain sectors such as household appliances, all the products of the major French leaders were sold at a clear loss (margin of around 0% to 15% for the department), once their overheads were taken into account; but they were not concerned. Selling a washing machine at a loss enabled them to attract consumers who left with their shopping trolley full of other products... paid at the regular price! Other chains specialising in household appliances and leisure electronics, such as Darty, with their image of after-sales service or the five-year guarantee, cut the prices of the most popular brands, but diverted sales towards less popular German brands or towards products reserved for them, known as “specific products” of the big French brands. In any case, it was the French manufacturers who paid the price. Their profits were squeezed and many were forced to close up shop, further accelerating the deindustrialisa-
tion, linked to the additional tax costs, which was hitting France\textsuperscript{83}. Let us add that ironically the margins practised by German distributors, a country that has remained faithful to Articles 82 and 83 of the Treaty of Rome, were already, and have been for a long time, much lower than those of their French counterparts: they are, in Germany, 25\% of the price before tax for household appliances (compared with over 30\% in France), and 20\% in the dog and cat food sector compared with 25 to 28\% in France. Once again, this is a fine example of the absurdity of a measure imposed without nuance by an invasive and incompetent administration. The conclusion is self-evident: detrimental to businesses, the repeal of the Fontanet circular should feature prominently in the Agenda 2025 / 2030... be it only to apply Articles 82 and 83 of the Treaty of Rome, articles to which so many countries have adhered without ever having any inflation out of line. Quite the contrary.

Many other reforms would undoubtedly be indispensable. The ones I mention in this chapter, starting of course with the 3 \times 15\% rule, are in my opinion an absolute priority. They would have a knock-on effect that would benefit the entire French economy.

Of course, the central point remains: how to finance these measures? It is this major question that we are now going to answer.

\textsuperscript{83} To understand how distribution works in the household appliance sector, see the excellent book by sociologists François Dupuy and Jean-Claude Thoenig: \textit{La Loi du marché, l’électroménager en France, aux États-Unis et au Japon}, 2004. The hypermarkets’ margins were around 12\%, but these stores were in fact selling at a loss... They were losing a lot of money on these products and ultimately stopped selling these items... after having ruined French industrial and specialised distributors.
The virtues of VAT
How to finance Agenda 2025/2030

The massive reduction in compulsory levies weighing on French companies, as we propose in Agenda 2025/2030, will of course have a significant cost for public budget. How to finance it? This is an important question. Several sources of funding can be identified, three of which are essential.

1. Resources generated by industrial growth

The first source of financing will come from the revenue generated by industrial growth and its virtuous effects: a drop in unemployment (jobs in services as well as in manufacturing), an improvement in foreign trade, an increase in tax revenue... all things made possible by the reduction in compulsory levies on companies.

We should reject here any “granular” approach consisting in lowering such or such tax. It should be recommend instead to use the global approach adopted in all Phoenix Countries, based on the three pillars that make up the compulsory levies on companies: social contributions, taxes on production and corporate income tax, indexing them to the EBITDA. Only then will industrial growth come back, and with it new revenues. These revenues are, admittedly, difficult to quantify.

However, Agnès Verdier-Molinier recently estimated\(^84\) that a reduction in 30 billion euros in production taxes and of 10 billion euros in social contributions (which would still be very insufficient in my opinion and would remain very granular), would make it possible to create more than 420,000 jobs by 2024, significantly reducing our social spending. This is something to be put on record. Still, considering what has been achieved in the Phoenix Countries, France could be much more ambitious, both economically, politically, and regarding trade unions. Only dramatically new rules of the game could lead to real changes in mentality.

\(^84\) Agnès Verdier-Molinier, “La reconstruction de le France ne doit pas être un énième plan de relance,” Les Échos, 18 mai 2020.
2. Resources generated by the elimination of tax loopholes

The second source of funding will come from the elimination of tax niches. This is, in my view, a key point. France today has no fewer than 468 tax niches for all categories (companies and households)! The year before its replacement in January 2019 by a reduction in social contributions, the Tax Credit for Competitiveness and Employment (CICE, introduced in 2014), represented 20.1 billion euros. Today, the total amount of tax niches is estimated at 90 billion euros, including 40 billion for companies. The abolition of CICE has been “compensated” by new niches (e.g. the deduction for companies investing in refrigeration and air treatment equipment using fluids other than hydrocarbons or the exceptional deduction for ships, boats or equipment meeting ecological challenges).

The perverse effects of these tax niches on companies have already been underlined above: they essentially benefit large companies, leaving SMEs / SMIs, working in France, with the bulk of a stifling and ultimately deadly tax burden. Nothing better illustrates the absurdity (and uselessness) of this system than the CIR (credit impôt recherche, research tax credit), undoubtedly the most popular of our tax niches. At the time of its creation in 1982, France was devoting 1.61% of its companies’ turnover to R&D, and Germany — which has not, and has never introduced a system equivalent to CIR — only 1.39%... In 2017, after 38 years of CIR, France sat at 1.38% and Germany at 2.08%! In addition, major R&D projects are directly subsidised, on a case-by-case basis, by certain German organisations. Lacking sufficient margins (literally siphoned off by the compulsory levies), French companies therefore invest less and less in research and development, despite CIR, the annual cost of which exceeds six billion euros, and above all gives political leaders a clear conscience!

Costly and largely unnecessary, tax niches benefiting companies (i.e. €40 billion) should be completely eliminated, as would certain tax niches benefiting households. Together, these could save the state around €50 billion a year.

As things stand at present, MEDEF (the French branch of Business Europe) is resolutely hostile to any questioning of the tax niches benefiting companies. “A suppression of tax credits (tax niches) for companies is totally unacceptable and amounts to increasing taxes at a time when French companies have the highest rate of compulsory levies in

86. Projet de loi de finances 2020.
87. Sénat, Projet de loi de finances pour 2019: Recherche et Enseignement supérieur.
the OECD countries”, as stated in a press release of April 2019. It is understandable: in the eyes of entrepreneurs, tax niches play a role as a “shock absorber” for taxation. They have the merit of alleviating a fiscal pressure that has become unbearable. Any elimination of these niches should therefore be accompanied, simultaneously, by a massive reduction in compulsory levies. This is what the core of our Agenda 2025/2030. In any case, it is much better for a manufacturer to do without these tax niches and pay only 15% on each of the three main categories of taxes, or even, in the first place, on only one of these three families, and to reduce our state bureaucracy at the same time. The game would no longer benefit only to smart players, or big companies well equipped as specialists in the tax niche...

3. Resources generated by an increase in the basic rate of VAT

The third source of funding for Agenda 2025/2030 will come from a two-step increase in the basic rate of value added tax (VAT). This point is even more essential than the previous one. It is at the heart of Agenda 2025/2030, and it has been at the heart of all the measures taken in Phoenix Countries. It consists of profoundly changing the system of compulsory levies by shifting part of the tax burden from businesses to households. I am, of course, aware of the outcry that such a proposal is likely to provoke. It is, however, based on a counter-intuitive observation that I have already mentioned above and that I must briefly recall here.

Let’s summarise this observation in a few words: far from having spared households, the French choice to make companies bear so many compulsory levies weighs very heavily on them, both directly and indirectly. In price increases first of all: faced with new record levels of compulsory levies, companies benefiting from a monopoly or oligopoly (the case of luxury goods, perfumes and cosmetics, world-famous wines or champagne, but also certain companies with specific know-how), tend to increase their prices, within the limit of the price acceptable to consumers, in the event of a new increase in their tax burden, an increase which is of course borne by the consumer. For other companies, which are confronted daily with cost-competition, and therefore prices, on their market, and especially for SME/SMIs, it is the drama of unemployment that households will have to bear, and more generally fewer and less advantageous employment opportunities. Confronted with a tax burden that is eroding their margins and handicapping them on international markets, these companies have no other choice but to try to improve their productivity even further, to cut back on their products (and therefore lean towards the lower end of the range), and to be cautious in hiring when they are not forced to cut jobs or relocate.
The loss of one industrial job in turn generates the disappearance of two jobs in the services sector and an increase in social spending, so we can measure the impact on households! In addition to the taxes they have to pay — income tax, VAT, various local taxes — they pay a high price for our industrial decline: by unemployment and the drop in income it causes, by social marginalisation and hidden costs, by the slow impoverishment of French society as reflected in the now poor level of our GDP per capita, or by the abandonment of entire territories (provincial, industrial and social) by a State that has become impecunious and which must redirect a growing share of its resources towards social benefits at the expense of essential expenditure (security, health, education, investment in infrastructures, etc.).

The hidden costs of unemployment are rarely estimated and very difficult to establish. There is no doubt, however, given the prosperity of consumers in Phoenix Countries, that they are considerable and that households are more affected than businesses, whether or not they are directly affected by job loss.

The idea of shifting part of the tax burden that currently weighs on businesses to households by increasing VAT therefore meets a precise objective: it aims to revitalise our industrial, agricultural and tertiary fabric as a whole and, in so doing, to put the unemployed back on the road to employment, to recreate wealth and prosperity from which everyone will benefit, households first and foremost, as can be seen throughout the Phoenix Countries.

What do we prefer in the end? A France doomed to see its businesses, jobs, public services, wealth and prosperity gradually disintegrate, or a France that has returned to growth, creating jobs and wealth and likely to return to prosperity? What households would “lose” with an increase in VAT (this loss itself is disputable as we shall see), they would recoup in income, prosperity and easy access to revitalised public services. This is an eminently political choice, calling for clear decisions that can quickly bring benefits. The increase in the average VAT rate is one such decision. The average VAT rate in France today is 13.2%, which is significantly lower than in many European countries, particularly the Phoenix Countries. This is a point that we will come back to later. The idea would be to raise this basic rate in two or three stages, to 25%. Only a few product families — such as medicines, education, ecological public transport — would retain a preferential rate. This increase in the base rate would bring in between €70 and 100 billion a year for the state.

I have seen for myself how difficult it would be for the business community to understand the virtuous chain that would result from a VAT increase, especially if it were accompanied by a simultaneous re-
duction in taxes on production. Allow me to tell a personal anecdote.

In March 1981, during a meeting of GIFAM (Groupement des industries françaises des appareils ménagers, Association of French household appliance industries), the assembly was to vote a motion addressed to our supervising minister (Industry) to obtain a revival of our market... via a three point drop in VAT on household appliances (from 18.6 to 15, 6%)... I had proposed a “counter motion,” asking on the contrary the French government to raise this VAT by three points (from 18.6% to 21.6%), which would have brought the State 450 million francs, against the abolition of a calamitous business tax (taxe professionnelle) for all Gifam members (300 million francs). This measure would have resulted in a tax gain of 150 million francs for the French government, and would above all have allowed national producers (60% of the French market at the time) to be placed on an equal footing with importers. This iconoclastic proposal was, of course, torpedoed by all the importers (international groups + small importers)... and even by certain French industrialists who altogether failed to grasp the point... Implementing it, in fact, would have required a much more active mobilisation with the Ministry of Industry and certain major French industrialists, such as Jacques Calvet, who the following year was to become CEO of Peugeot. Perhaps then I could have obtained, for all our industrial companies, a reduction in all the compulsory levies weighing on them — social contributions, or production taxes — against a general increase in VAT. Foreign products would then, like French products, have undergone the same increase in VAT as ours; but only French products would have benefited from the reduction of taxes on production, which would finally have reversed, in our favour, the veritable handicap imposed, even today, on our national producers, who are still much more heavily taxed than their foreign competitors. But I was still a simple commercial executive of the Thomson Group, and I certainly lacked the interpersonal skills, the global vision, and the support to engage in such a fight... Irony of fate: a few years after my departure, Thomson Home Appliances, victim of foreign competition benefiting from a much more favourable tax system than ours, purely and simply disappeared along with its 4800 employees...

Here we have to do something about an idea that is very widespread in France: VAT — a French invention — would be inflationary and would ultimately weigh on the purchasing power of households, especially the most modest ones who spend a larger fraction of their income. To put it bluntly: the idea that an increase in VAT translates into a significant increase in prices is a myth that must be resolutely combated. A study led by the International Monetary Fund\textsuperscript{88} comparing the

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results of VAT rate increases around the world has indeed demonstrated without any possible dispute that, out of thirty-five countries that have increased their VAT rates, only three had experienced a real inflationary surge. Even then, these countries had made the mistake of indexing a large number of expenses — including wages — to their new VAT rate, leading to a sharp rise in prices. Four other countries had experienced a small inflationary surge, also due to partial indexation of some expenses. The other 28 countries had not experienced any price increases... Recent history, particularly that of the Phoenix Countries, has shown over and over again that there is no link between well-managed VAT increases and inflation.

In fact, it is quite the opposite! In 2008, with new elections approaching, the British government lowered VAT to 15% in the hope of boosting consumption. This measure caused prices to rise almost immediately. In 2009, inflation rose by +2.2% against 0.3% in the eurozone. By way of comparison, in 2007, Germany had raised its VAT rate by three points (from 16 to 19%), causing a slight increase in prices (1.4%) over the first six months of the year, yet inflation was lower than in all neighbouring countries over the whole of 2007.

**Graph 1. VAT and inflation**

The four examples strongly suggest that an increase in VAT has no positive effect on inflation (sources: OECD and TradingEconomics for VAT rates).

1. **France.** VAT and inflation in reverse phases? There is a correlation between a rise in VAT and a fall in inflation, and vice versa.

   - 1996-97: VAT rises by 2.0 points (Chirac), inflation drops (0.78 point).
   - 2000: VAT drops by 1.0 point (Jospin), inflation slightly rises (0.12 point).
   - 2013: VAT rises by 0.4 point (Hollande), inflation slightly drops (0.45 point).
2. **United Kingdom**: VAT and inflation are clearly in reverse phases. Prime Minister Gordon Brown’s decision of lowering VAT from 2008 to October 2010 to counter the potential inflation reached exact the opposite effect.

1992: VAT rises by 5.0 points, inflation drops by 5.3 points over three years.
2008: VAT drops by 2.5 points (Gordon Brown, elections in sight), inflation rises by 1.1 point.
2010-2011: VAT rises by 5 points in two years, inflation drops by 2.3 points between 2010 and 2013.

3. **Denmark**. Again, VAT and inflation seem to be in opposite phases. It should be noted in passing that the regular increases in the VAT rate do not seem to have harmed the Danish prosperity...

VAT rises to 22%, then 25 % in 1992, along with a reduction of compulsory levies weighting on business. Economic success, broad social and political support for these reforms.
4. Germany. Again, there is an inverse correlation between VAT rates and inflation rates. Note the impact of reunification on inflation. As in Denmark, the two VAT rate increases in 1998 and 2007 do not seem to have harmed German prosperity

| 1998: VAT rises by 1.0 points, inflation drops (1.03 point). |
| 2007: VAT rises by 3.0 points, inflation drops |

The conclusion is clear: an increase in the basic rate of VAT, coupled with an at least equal reduction in corporate taxation, would have no impact on inflation, and would not have inflationary effects in the medium term. Coupled with an even greater reduction in the compulsory levies weighing on companies and the elimination of the tax niches from which large companies in particular benefit, it would even cause a “competitiveness shock” that could lead, within ten years, to the creation, in France, of two million jobs and a spectacular improvement in our economic indicators, including, of course, the GDP per capita (i.e. the general prosperity of the country), which has been undermined by decades of erroneous economic choices.

Above all, it would considerably strengthen our competitiveness against imports, by restoring a form of equity between domestic and foreign producers in terms of compulsory levies. Eliminating tax loopholes, raising VAT: these two measures alone would generate additional resources of €120 to 150 billion, and moreover, additional revenue from industrial growth. This extra revenue is more difficult to estimate and quantify, but its is certainly substantial, if we refer to the history of all the Phoenix Countries when they carried out this very reform. To these resources one could add possible savings over several years on the operating and production costs of public services\(^{89}\).

\(^{89}\) Agnès Verdier-Molinié, “60 milliards d’économies,” 2013. The author esti-
Some new tax provisions could also be added, such as taxes on non-ecological products (fossil fuel vehicles, chewing gum, confectionery, plastic packaging, disposable containers, chemical weed killers, etc.). Such taxes have been successfully introduced in Denmark. They would help to really change the culture and morals of our citizens and businesses with regard to ecology and responsible growth (“Laws can change behaviour,” wrote Montesquieu in *The Spirit of the Laws*, chapter XXVIII.). In addition, we could increase the progressivity of income tax, as has been done in almost all Phoenix Countries, by adding one or two new brackets, thus demonstrating a greater concern for social justice.

A massive reduction in compulsory levies through the 3 x 15% rule on the one hand, the elimination of many tax niches and an increase in VAT on the other hand, and in the medium term a reduction in the State’s operating costs: at the heart of the Agenda 2025/2030 that we are calling for, these measures are the main pillars of a major strategic reorientation. In order to recover and return to sustainable growth, to recreate jobs and wealth, France must resolutely turn its back on policies aimed at reviving consumption that it has stubbornly pursued for years since 1974, adopting in reverse a supply-side strategy geared towards producers and aimed at improving the competitiveness of businesses.

The Phoenix Countries have made these choices successfully, sometimes for a long time. We shall see this in a future chapter. But first of all we must mention another point that I consider essential: the simultaneous implementation, within the framework of Agenda 2025/2030, of a new social contract between entrepreneurs, employees and the trade unions that represent them. In this area too, the time has really come to rethink everything...

mates the possible savings at the State level at 18.5 billion, at the level of local authorities at 11.6 billion and at the level of social expenditure at 29.9 billion.
To put it bluntly: social dialogue in France is in a profound state of decline. Everyone can see it: at SNCF (Railways), La Poste (Postal service), in the National Education system, every year brings its share of strikes and social movements. Although they hit mainly the civil service and some public companies, social conflicts do not spare the private sector, although they are less conspicuous and mobilise fewer people. These conflicts concern working conditions, remuneration, the organisation of workshops or services, the reorganisation of production... In 2015 the German institute WSI carried out a study on the number of working days lost in Europe because of strikes. France was largely in the lead, with 132 days per 1,000 employees against 117 in Denmark, 104 in Canada, 84 in Finland, 16 in Germany, nine in the Netherlands, two in Austria and one in Switzerland. France truly deserves its reputation as the world champion in strikes.

Beyond the raw figures, and whatever the intensity or duration of these conflicts, what they reveal is a deep mistrust between employees and their representatives on the one hand and company managers on the other. This mistrust is even deeper in state-owned enterprises.

In chapter 2 I have tried to explain the origin of this situation. One reason was the dominant weight of the Communist Party in the immediate post-war period and its consequences on the social movement — ideological polarization and fragmentation of the trade union movement. Another reason was the omnipresence of the state, which, for often electoral reasons, subjected social relations to its own political agenda. But the poor state of social relations in France is also due to entrepreneurs themselves, who have all too often confined the unions to managing employee benefits and estranged them from any involvement in the company’s management or strategy, unable even of simply involving employees, letting them share objectives and informing them in earnest about the issues at stake. The employees and their represen-

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90. Wirtschafts und Sozial wissenschaftliches Institut, Jahresbericht 2015.
tatives then had no other choice than to go on strike — or threaten to go on strike — to make themselves heard.

It’s time to get out of this archaism in this time and age, for it ensures everyone is the loser. Companies, employees, trade unions and even the state, obliged to manage repeated social crises often enamelled with violence and degradation, nobody has anything to gain from this generalised mistrust between social partners. Agenda 2025 / 2030, should include a total overhaul and a profound modernisation of social relations, with a win-win deal that would benefit everyone and offset the reduction in compulsory levies on companies, for the benefit of employees.

Any overhaul of social relations should involve, as is the case in Germany, a stronger presence of employee representatives on company boards of directors. In such a scheme, the chairman of the board of directors would retain, among other prerogatives, a double voting right. However, social dialogue would be made compulsory, in a spirit of increased participation. The time has come to give French employees a much more important role in the management of their company and to set up a real co-determination system, as is the case in Germany and Sweden. In such a system, the employees and their representatives, without having a right of veto (except in exceptional cases), would have a say in the company’s strategy and in the decisions taken by the management, decisions of which they would be informed in advance and which could thus give rise to debates. Clear and transparent information is, in my view, one of the keys to a peaceful social dialogue.

This is not about sharing power within companies, which would inevitably lead to a general paralysis of the decision-making process. Rather, it is about putting in place a model for balancing the interests of the various stakeholders (shareholders, management, employees). Indeed, a company does not belong only to its shareholders, even if the role and prerogatives of the latter must obviously be protected. A company is a working community operating for the benefit of all. The fact that employees can be associated with the elaboration of its strategy is therefore neither shocking nor revolutionary. It would help to restore trust between social partners.

In addition to the establishment of a co-determination regime, a broader reform of union representation is needed. The election of union representatives could be carried out through a list vote, which would allow only one union — two at most — to emerge per company or industry. This would mechanically increase its representative role. The winning union would be more effective, more powerful and now well
represented on the board. It would be less likely to engage in the constant bidding war that is now being waged by competing unions within companies — again for what are generally purely electoral reasons — and would be more attuned to company strategy. In total, it is highly likely that the trade unions — which today represent 8% of employees with permanent contracts in the private sector and 13% in the public sector — would gain an additional audience and credibility...

Some readers may object that this is a fancy of mind: whether or not they have greater power on boards, unions will never stop demanding, their culture of protest is too entrenched to change. I strongly disagree: it’s all about people. Let me mention two personal experiences.

At the beginning of 1984, Thomson Grand Public inherited CEPEM, Alstom’s subsidiary specialising in cooking appliances (cookers, ovens, hobs...). In exchange, Alstom received the telephone business of the Thomson group. Based in Orléans, CEPEM produced and marketed its appliances under the Sauter and Thermor brands. For Thomson, which until then had purchased these products in Italy and Spain, the transaction made sense. However, with more than 1,620 employees, CEPEM had been losing money for several years, which made the president of Thomson’s consumer branch say that it had “no chance of ever being profitable.” Then general manager of the Vedette brand, I was asked to establish dialogue with the CEPEM unions in order to explain to them the different possible scenarios for turning the company around. Four unions were represented: CFDT, CGT, FO and CGIC.

From the outset, I made it clear to my interlocutors that I would not hide anything about the difficult situation CEPEM was in and that I would not lie to them about the state of the company or the options available. At that time we estimated that the number of excess employees at CEPEM amounted to 800, or 50% of the workforce! With the help of an HR team from Thomson led by Pierre Macé, a truly exceptional manager, we undertook to find a solution for each of the employees, either by using the early retirement scheme, or by outplacing the employees in companies in the Orleans region. In order to implement this plan, we decided to organise a half-day meeting at least once a week with the four trade unions represented at CEPEM. From the first meeting, Pierre Macé and I made it clear that no subject would be taboo. Everything would be on the table and all questions could be asked.

From the outset, I was struck by the intelligence of certain staff representatives, including CFDT’s Michel Anger. I announced to my interlocutors that I intended to remove as soon as possible all the “built-in” items (ovens, hobs, hoods and dishwashers under the Sauter and
Thermor brands) from the shelves of the food superstores where these items were selling very poorly and where, moreover, these products were discounted at very low prices. Only cookers would remain in superstores, and only if their price was not more than 15% off.

These announcements caused a real outcry: CEPEM had an urgent need for production volumes and removing the insert from the superstores risked reducing them sharply. During the fourth meeting, however, I managed to obtain the unions’ assent to my “strategic clarification” measures and to the painful social plan which accompanied it (812 departures, in the end, out of 1,605 employees). At the same time, I announced that the magnificent CEPEM head office, situated in the centre of Orléans, would be sold and that the general management of the Cooking department would move to the factory itself, on the city outskirts. Finally, I announced the launch of a new range of products, some of which were very innovative (induction hob, a world first, etc.), which were indeed to make us leaders in our market. What happened during our discussions was particularly enlightening: initially hostile to our plan, the employee representatives accepted it when they understood that it was essential for the company’s survival. Classic ideological postures had given way to a clear awareness of what was at stake. A climate of trust had been established between Pierre Macé, myself and the CEPEM unions.

Six years later, the Cooking department (mainly CEPEM), led by Jean Paludetto, “the man who talked to his sheet metal bending presses,” then by René Guillemin, who came from Singapore and brought to Thomson Electronics all his know-how in lean management, had become the most prosperous department of the group, and above all the one where you found the most autonomous, happiest, and most fulfilled employees of the group. Thanks again to these two great gentlemen.

Let me give you another example, again drawn from my personal experience. This time it is about the “branch committees.” At Thomson, they were set up by the CEO, Alain Gomez, and his HR Director, Paul Calendra. At the end of 1987, they decided that three times a year each of the group’s branches would organise a “branch committee” with their trade union leaders. For half a day, the strategy of each branch would be discussed. With Michèle Chéron, a remarkable HR director of the branch, I was led to lead these tri-annual committees on behalf of Thomson Home Appliances of which I had become the CEO. Fifteen trade unionists were present. From the first session, I proposed a few simple rules: we could tell each other everything but I expected total confidentiality from each of us. There would also be a few “reserved
areas” that I would refrain from discussing in these meetings, either for personal reasons — not to hurt or overpass someone — or for reasons of confidentiality.

One day, in 1990, one of the members of the committee asked me a surprise question: why had the CEO of the German group AEG been spotted in the microwave factory of the Thomson Home Appliances group? The unionist obviously suspected something. Rather than lying or kicking him out, I decided to put my cards on the table: I replied that we had the — still secret — plan to set up a joint venture with AEG in the field of microwaves, for reasons I set to explain. The information was confidential and I was taking the risk that it would be linked. It never was. The members of our committee, including the fifteen trade unionists, did not breathe a word of it to anyone until it was made public.

Among the trade unionists who attended our meetings, there were two, from the Lyon region and La Roche-sur-Yon, who used to stand on radical positions. At the end of 1991, as we were talking about our competitors, a member of the commission asked me a direct question: De Dietrich, who made cooking appliances, was apparently going to be put up for sale. Why, then, would Thomson Electroménager not buy it back? I replied that it was indeed a hypothesis to be considered (discussions were even underway), but that such a takeover would be very likely to lead to a redundancy plan in our CEPEM factory in Orleans. I then asked one of the trade unionists at CEPEM Orléans what he thought of it. After a period of reflection, he replied that this operation had to be carried out, if only to avoid a takeover by a competitor, such as the American Whirlpool for example, resulting in a redundancy plan at De Dietrich. And that’s what we did: Thomson Appliances bought out De Dietrich. As the operation significantly increased our market share, there was no redundancy plan, either at De Dietrich or at CEPEM.

Situations like the ones I’ve just described, I’ve experienced many of them in my career. I don’t claim to draw generalities that could apply to everyone and everywhere. But they have nevertheless taught me one thing, which I believe is essential: clear, unvarnished and undisguised announcements, coupled with the search for effective and above all well-argued solutions – solutions not asserted according to the principle of authority and suffering no discussion — are very often enough to establish a climate of trust between the unions and the managers, from which the whole company can benefit. Employee representatives are far from being radical leftists. This is particularly true of the company branch of unions, which have a sharp understanding of real situations.
The trade union representative of a company or an industrial site often has a much clearer and more lucid view of the reality of the company than the national management, who are certainly competent, but difficult to reach, and more frequently trapped in their political or even ideological postures. Employee representatives are ready, sometimes eager to play their part in the game, and even to endorse difficult decisions, as long as they are kept informed of what is at stake and they are involved in strategic thinking. This is indeed the challenge of the win-win deal that I am hoping and praying for in the framework of Agenda 2025/2030. By making employees and their representatives full-fledged partners within companies, France will probably gain from a calmer and more constructive social dialogue. Is it really that difficult?

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91. This is why we must look very carefully at the developments that have been taking place over the last fifteen years or so, which see the company level recognised as increasingly legitimate for social dialogue. For precise and enlightening analyses of this evolution, see Guy Groux, Martial Foucault, Richard Robert (dir.), *Le Social et le Politique*, CNRS Éditions, 2020.
Yes, we can!
The Phoenix Countries proved it

We have chosen ten, ten industrialized countries, some of which have been showing remarkable economic performances for years, even decades. This was not always the case: each of these countries was, at some point in its history, confronted with serious difficulties. Lack of competitiveness, unemployment, sluggish growth, low GDP per capita and even poverty for some of them, such as Ireland, record levels of compulsory levies, public spending and debt... They experienced, to varying degrees, what France is experiencing today. They could have given up. They did not. Under the leadership of courageous and visionary leaders, they undertook profound reforms, managed to rise from their ashes and found their way back to growth. This is why I have called these nations “Phoenix Countries”, in reference to that mythological bird capable of being reborn after being consumed. They are located in Europe but also elsewhere in the world. They are Denmark, Finland, Sweden, Norway, the Netherlands, Germany, Austria, Ireland, New Zealand and Australia.

Other countries have also been able to get back on their feet: we could mention Canada or the United Kingdom, for example, and we will say a word about them because Margaret Thatcher’s pro-market reforms have aroused a torrent of negative reactions in France. We could also have talked about Switzerland, but since 1850 at least it has always been a frugal, virtuous country, and therefore does not really fall into the category of the Phoenix Countries, risen from their industrial ashes. Lastly, Japan could have been mentioned. But a choice had to be made, in order to avoid redundancy. So we selected ten of them.

What do these countries have in common? They have successfully implemented the solutions I propose in the framework of Agenda 2025/2030. In stark contrast with France, which has been stubbornly putting its money (literally!) since the mid-1970s on demand-led recovery policies, they have tackled the problem by going in the right direction. By committing themselves to a supply-side policy, they have given priority to restoring the competitiveness of their businesses, accompa-
nying measures to this end with a gradual increase in household taxes — including those on business owners — in particular through an increase in VAT and, often, greater progressivity in income taxes. They have been able to shift the tax burden from companies to households and individuals, along with introducing flexibility in labour law. Their companies are now much more competitive than their French competitors. The virtuous effects of these reforms were not long in coming: in terms of GDP per capita, the Phoenix Countries are today richer, and sometimes much richer, than France; they have managed to straighten their public accounts; their trade balance is balanced or in surplus; their unemployment levels are low; let us add, and this is essential, that their democracy is both peaceful and effective, far from the polarising and constant fighting that characterise France and a number of southern European countries.

Why talk about Phoenix Countries to end this book? Because they are proof that the reforms recommended in Agenda 2025/2030 are effective. Owing to a lack of courage, of vision, or just demagogy, France has never tried them, contenting itself, at best, with half-measures never followed by effect — a little supply policy here, a lot of demand policy there — and constantly adding new constraints to businesses. This confusing policy has had disastrous effects. The figures below, some of them already mentioned in this book, are sufficient proof of the virtuous effects of a supply-oriented policy. They show that France has everything to gain by adopting them as a model.

Why and under what circumstances did Phoenix Countries decide to implement supply-side policies? What was their situation before doing so and what were the results? In short, how did the Phoenix Countries manage to rise from the ashes? This is what we shall now see, focusing on a few particularly telling examples.

**Germany**

“Today’s profits are tomorrow’s investments and tomorrow’s jobs.” Helmut Schmidt

Let’s start with Germany. The reader may be surprised to see it among the Phoenix Countries. But it was not always the dominant economic power in Europe. At the beginning of the 1970s, its economic performance in many areas was similar to that of France. Even though its post-war recovery was based on business and the conquest of foreign
markets — which enabled it to consistently boast a trade surplus — it ended up adopting Keynesian measures under the aegis of Willy Brandt, which focused on households and offered them new social benefits. Germany was hard hit by the two oil shocks. Between 1973 and 1985, a period during which oil prices remained very high, its annual GDP growth remained consistently below 3% — 2.6% from 1973 to 1979, 1.3% from 1979 to 1985 — compared with an average 5% in the 1960s. Like France, Germany also experienced high inflation and rising unemployment (from 1.6% to 3.7% between 1974 and 1975).

But that is where the convergence ends. From 1974 onwards, while France launched its first consumer stimulus plan (with the consequences that we know), Germany chose the opposite, an austerity policy resolutely oriented towards the supply side. It is rather full of pungent irony to note that this very business-friendly policy was conceived and implemented by a left-wing politician, Chancellor Helmut Schmidt (SPD), when, at the same time, it was a centre-right politician, Valéry Giscard d’Estaing, who, in France, covered households with gifts. Helmut Schmidt opted for a resolutely anti-inflationary supply-side policy combining very high interest rates, a reduction in the number of public service employees and a strengthening of corporate competitiveness. This policy was so resolute that some German entrepreneurs — as I witnessed — had tears in their eyes when they explained to us the harshness of Helmut Schmidt’s policy! At the same time, the Chancellor froze any extension of social guarantees before inaugurating a selective but consequent policy of reducing social benefits, which made it possible to keep social accounts under control without, however, compromising the supply-side policy. Indeed Helmut Schmidt chose the “entrepreneur-voter” over the “consumer-voter”, convinced (rightly) that the former held the keys to Germany’s recovery.

Helmut Schmidt summed up this founding choice in a now famous aphorism: “Today’s profits are tomorrow’s investments and tomorrow’s jobs.” These words record Germany’s early renunciation (as early as 1974) of a demand-driven recovery policy and its conversion to a supply-side policy designed to preserve the competitiveness of German companies. Schmidt’s successors followed the same path. As Chan-

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92. There is no need to go into details of German economic history here. However, in the second half of the 1960s, particularly at the initiative of Chancellor Willy Brandt, West Germany experienced a quantum leap in the welfare state, marked by a series of key reforms in the field of employment support and unemployment protection. The Labour Promotion Act (Arbeitsförderungsgesetz) of 1969 significantly improved the compensation of the unemployed through a substantial increase in benefits.
cellor until 1982, Helmut Schmidt deregulated business activities, privatised many companies including Volkswagen, VEBA and Messerschmitt, reduced the tax burden on companies and promoted industry agreements to extend working hours.

These orientations were even given a new lease of life at the end of the 1990s. When Chancellor Gerhard Schröder came to power in 1998, Germany, which had just completed its costly unification with the GDR in 1990, was regarded as the “sick man of Europe.” Growth stagnated, GDP was lower than it had been at the beginning of the decade and the unemployment rate had reached almost 9% of the working population. Reunification was largely responsible for this situation due to the social drain, unemployment, lower productivity and de-industrialisation in the new Länder that had emerged from the former GDR. All other things being equal, the situation in Germany at the end of the 1990s was somewhat equivalent to that in France today.

Gerhard Schröder could have returned to a Keynesian view of the economy. But at the end of 1999, he announced a reduction in social security contributions (employer’s share) from 25% to 20.6% in base (about 17.5% to 18% in real terms), thanks to the assumption of part of these costs by the State, and a massive reduction in corporation tax from 40% to 25%. The latter would be lowered to 15% in 2018, by Angela Merkel. At the same time, in 2003, the Chancellor launched a vast programme of renovation of the German social system, “Agenda 2010.” Conceived in a team with Peter Hartz, former head of human resources at Volkswagen (where he had negotiated flexible working hours agreements), Agenda 2010 aimed to restore the German economy competitiveness through a more flexible labour market, the reduction of social benefits and a pension reform. Trade unions and companies were strongly encouraged to agree on a programme of moderate wage increases, lower social security contributions and the abandonment of certain reductions in working time, not only at industry level but also at company level. Gerhard Schröder was betting on the flexibility of labour law and the reduction of compulsory levies on companies in order for his country to rise from its ashes. This policy was not called into question by Angela Merkel, who even took the decision in 2007 to increase VAT by three points (from 16% to 19%). This increase in VAT was also intended to finance the two-point reduction in social security contributions on unemployment benefits (from 6.5% to 4.5%), to be divided equally between employers and employees. Added to this is a drop of corporate tax from 25 to 15% of EBITDA, along with a drop of the Gewerbesteuer (“commercial tax,” in fact taxes on production) which, depending on the region, fell to 7.25 / 17.25% of EBITDA (14% on national average).
Since the mid-1970s, with Helmut Schmidt (SPD), Helmut Kohl (CDU), who had to deal with the immediate shock of reunification, and Gerhard Schröder (SPD), the tax and social reforms carried out in Germany have had the same objective: to alleviate the burden on companies, even if it meant gradually and in a controlled manner increasing the burden on households and individuals. With the employer’s share of social contributions at 20.6% (and even 17.5-18% in the end, once you take into account the contribution ceiling), production taxes averaging 14% of the EBITDA and a corporate tax rate of 15%, competitiveness and employment, are clearly priorities for German governments on both the right and the left. This is a remarkable unanimity that our leaders would be well advised to emulate.

**Denmark**

Among Phoenix Countries, Denmark is clearly a champion and forerunner. It was in the early 1980s, under the leadership of Poul Schlüter (a conservative, in a traditionally socialist country), Prime Minister from 1982 to 1993, that the country undertook major reforms that enabled it to initiate a spectacular recovery of its economy. At the beginning of the 1980s, Denmark was in dire straits: the inflation rate was above 10% per year, the unemployment rate was high (10%), public deficits were severe and the balance of payments was in the red. As soon as he came to power, and after extensive consultation with the nation’s “driving forces” — trade unions, business circles, entrepreneurs, etc. — Poul Schlüter implemented major tax reforms aimed at restoring the competitiveness of companies (for details see a pro forma operating account p. 137).

- Increasing the VAT rate from 8% to 25%, including for food products, with only five major sectors maintained at the initial 8% rate: health, education, financial services, public transport, daily press and sporting events. This very significant increase in VAT did not induce any inflation, and till today it enjoys broad support from the Danes.

- Elimination of all social charges (employer’s share) weighting on production costs. Since this reform, the employer’s share of social contributions in Denmark is 0%! It is now the State — and employees in the case of supplementary pensions — who finance social security contributions.

- “Regional” taxes (actually taxes on production) reduced to 14% of EBITDA and corporate tax reduced to 15% of EBITDA.

- Gross and net salaries still high or even increasing.
. Significant increase in personal income tax: the first bracket is now 36% and the extreme bracket 62.5%. One of the effects of this reform is that it has created a feeling of fiscal justice and exemplary behaviour throughout the country.

. Introduction of new, very high taxes — up to 100% of the sales price! — hitting certain luxury goods and all kinds of “non-ecological products” (punktagifter), such as cars, alcohol, tobacco, insecticides, chemical herbicides and other products harmful to the environment, chewing gum, liquorice, confectionery, etc.

. Drastic reduction in the expenses of the state and the fifteen regions.

. Elimination of almost all tax niches, with the exception of two of them (deduction of income from pension contributions and interest on loans linked to the acquisition of the principal residence);

. In 1992, a supplementary pension was introduced, payable by the employee (10% of salary), but deductible from income on the tax return.

. Tax exemption for interest paid for the purchase of one’s principal residence.

The results of this policy are spectacular: from 1988 onwards, the trade and balance of payments balance became positive again; inflation, which exceeded 10% at the beginning of the 1990s, was brought down to 2% in 1992; the public deficit, which was around 8% of GDP per year, fell to 2.6%, while the budget, from 1998 onwards, generated growing surpluses which enabled the public debt (before the 2008 crisis) to be reduced from 82% to 27%. It should be noted that the public debt has increased slightly since then and just before the Covid 19 crisis it stood at 33.6% of GDP.

As for unemployment, it fell from 10% to just under 8% between 1982 and 1988. In the early 1990s, however, the unemployment rate rose sharply, peaking at 12% in 1993. This evolution is due to purely cyclical reasons and not to a structural weakness of the Danish model: at the end of the 1980s, the Danish government was indeed led to take measures to reduce domestic demand (what a lesson for us French!) in order to avoid an “overheating” of the economy. Then came the economic crisis provoked at the beginning of the 1990s by the first Gulf War, a crisis from which Denmark did not escape.

The reforms carried out by Poul Schlüter were continued by his successor Poul Nyrup Rasmussen, Prime Minister (Social Democrat) from 1993 to 2001. Between these two dates, unemployment fell from 12% to 5% of the active population, a rate which is still the same today.
The explanation for this spectacular fall can be summed up in one word: “flexicurity.” In gestation since Poul Schlüter, it was implemented by Poul Nyrup Rasmussen during the 1990s. The aim was to enable companies to hire and fire easily while guaranteeing individuals sufficient income and retraining in the event of job loss.

Let’s not go into the details of this flexicurity which fascinates the whole of Europe. Suffice it to summarise the main principles: redundancies are made easier and employees receive no or very limited redundancy pay. In exchange for these measures, which make the labour market more fluid, the unemployed benefit from personalised and effective monitoring, punctuated by numerous training courses, which often dissuade employees from becoming “professionally unemployed.” If they have received at least 29,405 euros over the last 36 months, they receive a generous compensation from the State for two years: 90% of their salary.

However, this amount is not due: in order to receive it, the unemployed person must actively seek work, attend compulsory training courses and be interviewed regularly. The job search is also highly supervised: the counsellor systematically checks that the job search corresponds to the needs of the market and the profile of the unemployed person. If the unemployed person refuses a job, they may lose their benefit. Last but not least, the introduction and success of flexicurity owes much to the quality of social dialogue in Denmark. There is permanent consultation between the trade unions and company managers. It is up to them in particular to negotiate, every two to three years, the labour rules, even if this means flirting with the threat of strike action.

Fiscal measures in favour of business competitiveness, state reforms and labour market flexibility combined with strong incentives and financial sanctions to encourage the unemployed to return to work, drastic limitation of unemployment benefits for P&Ms beyond a certain period (it then returns to the level of compensation of those of other employees): these are the main pillars of the major reforms implemented in Denmark during the 1980s and 1990s. In about ten years (with the exception of an air pocket in the early 1990s), the country was able to return to growth and establish itself as one of the most dynamic countries in Europe.

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93 There is no severance pay for employees with less than twelve years’ seniority. Compensation is equivalent to one month’s salary for those with between 12 and 15 years’ service, two months’ salary for those with between 15 and 18 years’ service and three months’ salary for those with more than 18 years’ service.
This entire economic, social and fiscal system meets with an astonishing popular consensus (more than 85%), even though the renewal of branch contracts can give rise to strikes.

### The Netherlands

A diplomat whose name I have forgotten summed up the Dutch mentality in one sentence: “When I want to gain time in a negotiation, I choose the Dutch middle way: I have a better chance of winning general agreement.” In his book *The Logic of Honour*, Philippe d'Iribarne makes a very interesting distinction between the different ways of conducting a negotiation: in his view, France is part of a “logic of honour,” dating back to the pre-Revolution time. This logic is adversarial, which in turn explains the high number of strikes and social conflicts in France. On the other hand, the United States is the country of the contract: what is signed must be respected, even in cases of flagrant injustice. There will always be time, if need be, to go to the end of the contract, then negotiate hard, and sign a new contract to end it. As for the Dutch, explains Philippe d'Iribarne, they give an essential place to compromise and consensus. Listening and the ability to reach a collective agreement play an essential role.\(^{94}\)

With the exception of William of Orange in the XVII\(^{th}\) century, providential men are rare in the Netherlands. In the field we are interested in, there is no real figure embodying the reforms alone, as was the case in Denmark with Poul Schlüter or in Germany with Gerhard Schröder. Reforms are a collective process. As a people of merchants and traders, the Dutch have never forgotten that the prosperity of each was one of the conditions for the prosperity of all. Reforms are therefore based on a body of ideas that are agreed upon and likely to be accepted by all.

This is what happened after the 2008 crisis. Important reforms were initiated at that time. They continue to have an impact today. No doubt Prime Minister Mark Rutte (centre-right liberal), elected in 2010, re-elected twice in 2012 and in 2017, is playing a key role in the design and implementation of these reforms. But they are the result of a general consultation and are rapidly gaining consensus among all the country’s economic actors. Several measures were then taken. The most significant of these are as follows:

- Reduction of corporate taxation. Priority was given from the outset to improving business competitiveness. Social contributions now ac-

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count for around 19% of the wage bill and production taxes around 9% of EBITDA. As for the corporate tax, it amounts to 20% of the EBITDA and even 0% for dividends between a parent company and its subsidiary, thus explaining the Netherlands’ role as a “tax hub.”

. VAT increase. In 2014, the standard rate increased from 19% to 21%, while in 2019 the reduced rate increased from 6% to 9%.

. Reform of the labour market. The labour market is considerably more flexible: employers can, for example, freely dismiss an employee for two years after hiring them, while employees have more incentives to return to work quickly. With 3.4% unemployment, the country is now at full employment (before the coronavirus crisis).

. Raising the legal retirement age from 65 to 67. The contribution period has been extended, resulting in 19.4% more working years per individual than in France (even before taking into account some French employees’ special status and the impact of the 35-hour working week: 40 hours/35 = 14.2% difference in the private sector, and in local public services where people work 33 hours: 40/33 = 21.2% difference with the Netherlands). We understand their performance and their general enrichment!

. Reduction of public spending. They have thus decreased from 48% in 2010 to 43% in 2017. This “austerity cure” of the civil service has led in return to a sharp reduction in public debt from 62% in 2009 to 50.9% before the impact of Covid 19.

The Netherlands is now doing much better than France in all areas. This was not the case in 1973. For some time the Netherlands has benefited from natural gas revenues from North Sea fields. At the end of the 1990s, they amounted to around EUR 10 billion a year, EUR 13 billion in 2015, but EUR 5 billion in 2015 due to declining production and falling gas prices (source: OECD Economic Studies, Netherlands, 2004 and following years). For a time, in the years following the first discoveries, the Netherlands was tempted to live off its gas rent. The welfare state literally exploded and one million people were classified as “state-supported invalids.” This drift in social benefits became known as the “Dutch disease95.” The Netherlands learned its lesson. The share of industry in the Netherlands GDP is now 17.9% when France is at 12%.

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95. Dutch Disease: “curse” of a country brutally enriched by the boom in its raw materials: e.g. 16th century Spanish gold, oil and gas in Algeria, the Middle East or Nigeria, phosphates in Nauru... so much wealth which, apart from the risk of creating a cash economy, leads to an overvaluation of the currency, higher wages and a loss of competitiveness in industry and agriculture.
Ireland

Ireland is a typical example of a country that based its renaissance on a supply-side policy. It owes much to Thomas K. Whitaker, Secretary of the Irish Ministry of Finance in 1956, then Governor of the Central Bank of Ireland (1969-1976) and a leading thinker on the country’s economic development.

In the mid-1950s, Ireland was a poor country that seemed to have all the handicaps. The annual GDP per capita was $3,914 — compared to $6,300 for France, $7,826 for Great Britain and just under $11,000 for the United States. Because of its poverty, the country underwent a negative migratory balance of approximately — 40,000 people each year. All its budgets were in deficit and its debt was close to 130% of GDP. Between 1955 and 1957 alone, Ireland’s GDP declined by 1.7% per annum.

Shortly after his appointment to the Ministry of Finance, Thomas K. Whitaker set up a working group to propose ways forward for Ireland’s economic development. The result was an ambitious programme of economic expansion published in 1958. It proposed to abandon the protectionist measures that had been in use until then, all of which had failed, and to integrate the country further into the world economy through free trade. Whitaker and another influential political leader, Sean Lemass, suggested several measures.

- To put an end to the “protectionist nationalism” practised from 1922 to 1960. Valera, President of Ireland from 1959 to 1973, had been a strong supporter of protectionism; he would now adhere to, and even actively support, the ideas of Whitaker and Lemass.
- Abolish the majority of state-funded social programmes.
- Open up the country internationally, in particular by inviting multinationals (telecommunications, financial services...) to invest in Ireland; these companies were granted very favourable tax conditions.
- Develop outward-looking infrastructures (ports, airports...).
- Develop a national industry, notably by subsidising export-oriented companies.

These measures, to which President Valera subscribed from the outset, were directly responsible for the “Irish miracle” which blossomed from the 1960s onwards and was given a new lease of life with the accession to the EEC in 1973. It marked the abandonment of Keynesian measures giving priority to demand (consumption) in favour of a supply policy resolutely oriented towards the producers of goods and services.
This miracle was based first and foremost on a particularly competitive corporate tax system. Indeed, its corporate tax rate, which had been 10% of EBITDA ever since 1961, was raised to 12.5% in 2002; the employer’s share of social contributions amount to 8.5% of the wage bill, the main part of the social charges being financed by the State or the employees; taxes on production are at very low levels (1 to 6% on the sale of property, property taxes ranging from 0.18 to 0.25% of the property value); VAT has been gradually increased to 23%.

All these advantages have led many multinationals (GAFAM and many others) to use the Irish territory as a hub in order to consolidate all or part of their profit figures. This “tax haven” dimension explains both the importance of the industry in the Irish GDP (36%) but also the country’s GDP per capita (USD 78,806.43 in 2018, source World Bank). It should be noted that Irish GDP per capita represented 62% of French GDP in 1950. Today it represents 189% of French GDP.

In terms of statutory levies, Ireland is one of the most business-friendly countries in the world. With an unemployment rate of 5%, controlled public and social spending and a public debt below that of virtuous Germany, Ireland is also one of the most prosperous countries in Europe. A typical case of a phoenix country... although a bit of a “tax haven.”

Finland

Here is a country that has been particularly successful in its rebirth. This was essentially accomplished in two stages.

At the beginning of the 1990s, the Finnish economy was on the verge of collapse. The end of the USSR, for which the country was the main commercial gateway to the West, dealt it a tough blow. The rise in European interest rates in the wake of German reunification dealt a second blow. The Finnish government was then faced with a sharp drop in its revenue (GDP fell by 6.5% between 1989 and 1991), an explosion in unemployment (18% in 1993) and a staggering deficit: from a surplus in 1989, the State budget went to a deficit of 7% of GDP in 1992 while the public debt rose from 10% of GDP in 1990 to over 70% in 1996!

In order to boost the local economy, the country, under the leadership of Finance Minister Iiro Viinanen, embarked on a rigorous policy of budgetary austerity based on the reduction of public spending. Whole

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96. In January 2020, Apple was officially rewarded by the Irish government in recognition of its 40 years of investment in the country.
sections of the welfare state, built in the 1960s, were liquidated. At the same time, Finland deregulated its economy. The state abandoned the sectors affected by the crisis to their fate. In addition, a major tax reform was implemented to favour companies that invested, particularly in research. As soon as the mid-1990s, Finland returned to high growth levels: +4.28% on average per year between 1994 and 2000.

The second act of the Finnish renaissance took place in 2015. In full recession since 2012, Finland took a series of measures to reduce labour costs by 5% by 2019. For example, leave for civil servants was reduced by eight days and overtime pay was cut by 50%.

Since the early 1990s, Finland has chosen to restore the competitiveness of its enterprises by reducing the tax burden on production and labour costs. The corporate tax rate has been lowered to 20% of EBITDA and the employer’s share of social contributions is 20.4%, compared to 35-38% in France. By ceasing to subsidise uncompetitive sectors and relying on the booming sectors of electronics and information technology, Finland has asserted itself as a genuine “start-up nation.” With quality education that prioritises group work and the learning of basic skills in science, mathematics and reading, the country is one of the most competitive in the world in terms of innovation.

Australia and New-Zealand

We have grouped together these two countries which are emblematic of the capacity of the Phoenix Countries to rise from their ashes. Besides being located in the same area (Asia-Pacific), they have experienced similar developments.

Let’s start with Australia. Until the 1970s, the country’s prosperity was based on the export of raw materials and agricultural products. Its industry, whose workers benefited from a developed system of social protection and high wages, was protected by tariffs.

But in 1973, the UK joined the EEC. It represented 40% of Australia’s trade! Some of Australia’s markets closed abruptly, plunging the country into a serious economic crisis. In 1983, the ruling Labour government decided to turn the country around. Its objective was to diversify the economy and open up to the world. A pro-market policy was then implemented, the principles of which were deregulation and flexibility. Privatisation of companies, specific reforms in some industries

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97. In the OECD-led PISA surveys, Finland consistently tops the rankings for all dimensions of learning.
(particularly the banking sector), abolition of wage indexation, reduction of customs duties... Australia became more welcoming to international investors while the last foundations of the administered economy put in full swing after the Second World War were dismantled.

John Howard, Australia’s (centre-right) Prime Minister from 1996 to 2007, followed the same path. The deregulation was amplified while the labour market became more flexible. At the same time and in order to put public finances on a sound footing, public spending was sharply reduced and thousands of civil servant positions were cut.

But the main reform was about taxation. In 2000, VAT was officially introduced in Australia under the name “Goods and Services TAX” (GST). It amounted to 10% and applied to most goods and services. The introduction of VAT was accompanied by a gradual reduction in the compulsory levies on businesses. Today, corporate tax remains high at 30%. The employer’s share of social contributions, on the other hand, represent between 9.7% and 20.6% of the wage bill depending on the risks. As for taxes on production, they represent a maximum of 17% of EBITDA.

Introduction (in one go) of VAT, reduction of tax burdens on companies, reform of the State: here comes the virtuous mix that has allowed most Phoenix Countries to rise from their ashes. Here too, the results are spectacular. Since 1991, Australia’s GDP has been growing at an annual rate of more than 3% (before the coronavirus). Since then, it has not experienced any recession. It is also the country that has had the highest median wage growth among OECD countries since 1991, without affecting the competitiveness of its companies. After more than three decades of reform, Australia has become a prosperous and globally oriented country that aims to be a key player in the Asia-Pacific region.

New Zealand has undergone a somewhat similar evolution. In the 1980s, for reasons quite similar to those of Australia (the entry of Great Britain into the EEC), New Zealand was on the verge of bankruptcy. Its economy was over-protected, its labour market regulations were burdensome and public spending exceeded 35% of GDP. New Zealand was caught in an administrative straitjacket that stifled the economy and literally killed individual initiative.

Upon taking office in 1984, (Labour) Prime Minister David Lange and Finance Minister Roger Douglas immediately launched major re-

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98. I will here draw inspiration from the excellent analysis of economist Frédéric Sautet published in July 2017 in the French newspaper *L’Opinion*. 

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forms. These reforms affected all sectors of New Zealand’s economy. Among the many measures adopted at the time, three are particularly important:

**Tax reform.** Inheritance tax was abolished and a flat rate VAT of 10% was introduced. Income taxes were also significantly reduced (the maximum income tax rate is capped at 33%) and the tax base was broadened.

**Labour law and state reform.** In 1991, the government reintroduced freedom of contract, ending the rigidity of the labour market. Industry-specific collective agreements were abolished. In 1990 unemployment exceeded 11%, by 1996 it was only 6%. It is now 4.1%. Civil servant status was virtually abolished. This allows the government to hire private workers, while state employees can easily move to the private sector.

**Public spending.** Two laws passed in 1989 and 1994 impose limits on public spending and principles of transparency and long-term accountability. As a result, the budget has been in surplus between 1993 and the 2008 crisis, and again since 2015.

As in all Phoenix Countries, the reforms implemented have given priority to business competitiveness. Today (2020), corporate tax (CIT) stands at 28% of EBITDA, a relatively high level. On the other hand, companies do not pay any employer’s share of social contributions and taxes on production are essentially limited to a tax on social benefits (between 42.8% and 49.2% of the amount of these benefits) and a property tax levied by the regions.

**United Kingdom**

Let’s finish with the United Kingdom. Firstly, because it fully embodies the capacity of Phoenix Countries to rise from their ashes; secondly, to do justice to Margaret Thatcher, who was constantly vilified in France.

Let us remember the starting point. Since the mid-1950s, the UK had been faced with serious economic problems: trade and balance of payments deficits, public debt, galloping inflation and under-productivity: the country was then called the “sick man of Europe.” Its average growth rate was 2.8% in the 1960s, while France and Germany recorded growth of 5%. During this period, successive Labour and conservative governments implemented stimulus policies, which led to a resurgence of inflation, followed by austerity policies to curb inflation. This stop and go strategy stifled business investment.
At the end of the 1970s, after having been hit hard by the 1973 oil shock, the United Kingdom was in ruins. Its situation was so serious that it took a $4 billion loan from the IMF in 1976 to prevent it from going bankrupt altogether. Inflation peaked at 16% and the industry was moribund. Unemployment was only 6%. But this good figure was only due to the massive recruitment of civil servants and protected employees in public companies (steelworks, electricity, telecom, coal, railways, water, etc.). In 1979, nearly 30% of the working population was working in the public sector! A victim of Keynesian policies, the United Kingdom literally suffocated under the weight of public interventionism and compulsory levies: the maximum tax bracket on capital income reached 98% and that on salaries 83%. This was both a confiscatory income tax for the wealthy and one to plunge the most modest salaries into misery. These rates were at the time a world record that made France look like a tax haven. To make matters worse, the UK was literally taken hostage by the unions. The country went from strike to strike and from power cuts to various shortages. During the famous “winter of discontent” (1978-1979), England found itself totally paralysed for long weeks.

Appointed Prime Minister after the parliamentary elections of May 1979, Margaret Thatcher remained in power for eleven years. She immediately engaged in a power struggle with the unions. Limitation of the trade union monopoly on hiring and wages, control of the right to strike and repression of “wildcat strikes”: at the price of very hard social movements (including the miners’ strike in 1984-1985), their influence was broken. At the same time, Mrs. Thatcher launched a wave of privatisations which affected all the major sectors nationalised from 1945 to 1951 (coal, railways, air transport, steelworks, telecommunications, gas, electricity, etc.). A total of 29 companies with 800,000 employees were privatized. The “Iron Lady”, as she has been called since she broke the miners’ strike, also deregulated finance. Capital movements were freed up and foreign groups were allowed to buy up 100% of the shares of British listed companies. The internationalisation of the British economy then accelerated, and the City established itself as one of the world’s leading stock exchanges. Finally, Margaret Thatcher reduced the tax burden: corporate tax was reduced from 53% to 33% and the marginal income tax rate fell from 83% to 40%.

This resolutely pro-market policy went hand in hand with a consolidation of public accounts. From a deficit of 2% in 1980, the budget balance was in surplus by 1.7% ten years later. Privatisation certainly played a major role, as did the revenue from the exploitation of hydrocarbons from the North Sea. But these are not the only reasons: the
drop in public spending, one of the strong points of Margaret Thatcher’s policy, also played a major role: between 1980 and 1990, it dropped from 45 to 35% of GDP. As a result, public debt was reduced from 46% of GDP in 1980 to 32% ten years later.

This policy certainly had a social cost: massive privatisations and the disappearance of many uncompetitive companies or those operating in old sectors provoked a surge in unemployment which, at the beginning of the 1980s, climbed to more than 11% of the working population. But in 1990, it fell back to 6.9% (8.9% in France), proof that Margaret Thatcher’s policies had borne fruit.

Let us stop here. High levels of public and social spending, deindustrialisation, record unemployment, public deficits, over-indebtedness, all Phoenix Countries have, at some point in their history, experienced the economic problems that France is facing today. In order to get back on track, they have implemented major reforms based on three pillars: reduction of tax burdens on businesses (accompanied in most cases by an increase in VAT), drastic reduction in public spending, and relaxation of labour law. It is these three main thrusts (to which must be added some strong measures such as the elimination of business tax niches) that we propose to implement in Agenda 2025/2030. The Phoenix Countries prove that these measures make it possible to break out of the infernal circle in which we have locked ourselves. The time has come for France to find a Gerhard Schröder, a Thomas K. Whitaker or a Poul Schlüter...
“The reconstruction of France must not be yet another spending plan,” stressed economist Agnès Verdier-Molinié in a recent article, as she explored possible exit strategies for the Covid crisis, calling for a “massive plan to reduce production taxes and corporate expenses”\textsuperscript{99}. We share this conviction to a large extent.

Since the great crisis born of the 1973 oil shock, France, through blindness, lack of courage or outright demagoguery, has systematically chosen strategies to revive consumption in the vain hope that the distribution of purchasing power to households (in the form of wage increases and credits of all kinds, lower VAT or higher benefits) would mechanically lead to a return to growth and full employment. Each time, the very opposite happened... “We have tried everything against unemployment,” former president François Mitterrand famously said. Everything... except the very cornerstone of it all, namely the restoration of business competitiveness through a supply-side strategy!

To finance these recovery strategies, France has chosen to massively increase the compulsory levies on companies. It’s an easy choice, since taxing the “elector-entrepreneur” proves to be much less risky, from an electoral point of view, than taxing the “elector-consumer,” who is always quick to take to the streets or to vote for your competitor. But the consequences of this choice are far-reaching: by making companies the adjustment variables of ever-spending public policies, France deeply degraded their competitiveness, provoking deindustrialisation, massive unemployment, a deterioration in the living standards of the French people, an increase in public and social spending, a public deficit and debt, and contributing year after year to the loss of market shares abroad and a widening of the trade deficit. As a result, in almost every area France has been left in the dust by other industrialised countries.

Yet, no decline is inevitable. France can get back on track, if it abandons the policies to boost consumption and implements a supply policy giving priority to business and to improving competitiveness. This supply-side policy must take the form of a massive reduction in the compulsory levies weighing on companies — the “3 x 15\%” rule —

\textsuperscript{99} Agnès Verdier-Molinier, “La reconstruction de le France ne doit pas être un énième plan de relance,” \textit{Les Échos}, May 18\textsuperscript{th} 2020.
accompanied by a step-by-step increase in VAT, the elimination of all business tax niches, a major overhaul of labour law to make it more flexible and adaptable, and a thorough reform of trade union representation within companies in order to create the conditions for a serene, balanced and mutually beneficial dialogue between social partners. Only an ambitious supply-side policy, allowing for a reindustrialisation of the country and, consequently, a reduction in unemployment and a rebalancing of public accounts, will enable France to break out of the vicious circle in which it has trapped itself since 1974.

These reforms are possible. As we have seen, all over the world they have been successfully carried out by countries whose initial situation was as difficult, if not much worse, than the one we are facing today. What they had in common was that they had all, for years, given priority to Keynesian consumer stimulus policies that had brought them to the brink of bankruptcy. In order to rise from their ashes, they all implemented a supply-side policy whose central pillars were the reduction of compulsory levies on businesses, a step-by-step increase in VAT and a profound reform of the state. These “frugal” countries are now among the most prosperous in the world. Their unemployment rate is low, their public spending is under control and their overall public accounts are in balance. Moreover, democracy is much more peaceful there than it is in France, and social consensus is the rule.

The most striking aspect is that these countries have managed to preserve their industrial fabric. Industry, and manufacturing in particular, is the key to wealth creation and general prosperity. The Phoenix Countries have understood this. As a result, their net GDP per capita is now much higher than France’s. And their GINI coefficient, which measures the level of inequality in income, wealth and living standards, is better too (with the exception of New Zealand and Australia). As the table below shows, France’s situation in this area is not really bad. However, there is one important difference: income inequality in France is partly smoothed out by the very high level of compulsory contributions and by the extent of redistribution, particularly in the form of social benefits, which contribute to distorting the GINI index.

In the aftermath of the Covid 19 crisis, the situation in France has reached a critical point. The structural defects of its economy have worsened, not to mention the outstanding level of public debt. Accustomed to deluding themselves, the French think that Europe will pay, that debts will be cancelled or at least mutualised and that “magic money” will flow, dispensing them from carrying out the necessary reforms. The return to reality is likely to be brutal, and even terrible.
Table 14. GINI coefficient for France and Phoenix Countries


The Gini index (or coefficient) is an indicator of inequalities in wages, income, wealth or living standards. It varies between 0 and 1, and the closer it is to 0, the more a country’s situation tends towards equality. The closer it is to 1, the more unequal the situation. The most unequal country in the world is South Africa (index 0.62) and the most egalitarian countries are Iceland and the Slovak Republic (0.24). Note that Switzerland is at 0.30.

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini</th>
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<tbody>
<tr>
<td>Denmark</td>
<td>0.25</td>
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<tr>
<td>Norway</td>
<td>0.26</td>
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<tr>
<td>Finland</td>
<td>0.27</td>
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<tr>
<td>Austria</td>
<td>0.28</td>
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<tr>
<td>Sweden</td>
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<tr>
<td>The Netherlands</td>
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<tr>
<td>France</td>
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<tr>
<td>Germany</td>
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<tr>
<td>Ireland</td>
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<tr>
<td>New-Zealand</td>
<td>0.32</td>
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<tr>
<td>Australia</td>
<td>0.33</td>
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</tbody>
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Let’s make no mistake about it: if nothing is done, if France persists, as it has done for ages, in distributing purchasing power to households in the hope of reviving its economy while adding a few drops of supply-side policy, things will go from bad to worse. Not only will the industrial reshoring that our elected representatives on all sides are calling for result in a bitter failure, but the descent into hell will continue. What is likely to happen then is probably not, alas, a figment of the imagination: quashed by increasingly heavy compulsory levies, competitiveness will continue to crumble, and the industrial fabric will continue to shrink. Unemployment will continue to rise — with some periods of decline or stabilisation when global growth gives us some breathing space — and with it public and social spending. As the government finds it increasingly difficult to balance its budgets, it will continue to run up debts until being cornered by the inevitable rise in interest rates. Faced with the erosion of its tax revenues, France will then give up on whole sections of its territory — this is already the case — and will stop investing in its infrastructures, its health system, its education or its security. The mechanical result will be an accelerated...
deterioration in the standard of living of the French people. We will be, and already are, the Mezzogiorno of Germany but also of Central and Northern Europe. No one knows what can come out of such a descent into hell. Populism? Serious public unrest? Confrontations? Revolution? The worst is never certain. But neither is it totally impossible.

Without always being able to pinpoint their causes, the French know that these developments are already at work. Everyone can see the desperate state of a growing number of our outlying territories, where every factory has disappeared and where public services are disappearing one by one. Everyone can see the poor results of our education system, the slow decline of our health system — once one of the best in the world —, the poor state of our national roads or the pitiful state of our police stations. During the Covid-19 crisis, everyone could see the complete discrepancy between public statements and the reality on the ground, especially the inefficiency of public administrations. As a result, French democracy today is undermined from the inside; political parties and trade unions are discredited; distrust of the elites — economic, political and media — is widespread, as demonstrated by the broad support for the Yellow Vests movement.

It is time to tell the French the truth. It is time to tell them that there will be no lasting recovery — and therefore no return to general prosperity — without a competitive industry, a competitive tertiary sector and a competitive agriculture that create wealth and jobs. It is time to tell them that bold but unfashionable reforms (such as raising the VAT, wrongly blamed for all sorts of shortcomings, or creating one or two additional income tax brackets) must be implemented without delay. It is time to make them understand that France too can rise from its ashes as the Phoenix Countries have managed to do.

To do so, the French public must be sensitized to the meaning and importance of a return to competitiveness and a strategy of competitive supply. Beyond this point, one couldn’t stress enough the importance of economic literacy: only citizens capable of understanding basic economics can truly understand and support these reforms. The ministry of Education clearly has to take its part in this effort. But both economists and journalists should also play a crucial role by explaining and bringing to the public the examples of the revival of Phoenix Countries.

Let’s encourage them to talk more about these countries and help the French understand the benefits of an industrial renaissance. Otherwise, France might have to accept being Europe’s new Mezzogiorno, envious of its prosperous, ecological and democratic neighbours.

Let’s hope that this book will have contributed to this awareness.
Appendix 1
After the Covid crisis: why VAT should be increased

How can the debt accumulated during the crisis be repaid without killing recovery? The best solution is to boost GDP growth in a sustainable way. At the same level of taxation, since we have a social model to support and a debt to repay, this can be done by lowering the compulsory levies on businesses and simultaneously raising VAT.

Such an increase will mark the long-awaited shift towards a real supply-side policy, which is the only way to unlock France’s growth potential. Efforts have been made since 2014, in matters of taxation everything remains to be done. As is often the case, good ideas come from the north of Europe: Denmark and Sweden, then on the verge of economic asphyxia, paved the way in the 1990s by shifting their tax system from supporting demand to a real supply policy. In 1991, Denmark raised its VAT rate by five points (from 20 to 25%) while reducing the compulsory levies that weighed on its companies. Germany did the same in January 2007 (+3 points of VAT), which helped it to get through the crisis that was about to erupt. These countries experienced an industrial renaissance.

Compared to those of its neighbours and trading partners, French companies are subject to compulsory levies (corporate income tax, production taxes) so heavy that they put France in 36th place out of 36 in the ranking established by the Tax Foundation. The same is true, the OECD points out, for the employer’s share of social charges. In an open economy, this is unsustainable. The OECD also points out the weakness of the French “VAT ratio” (the rate actually applied to all goods and services), given the numerous reduced rates.

Such a model is subsidising demand at the expense of the productive system. Maintaining lower VAT rates and high compulsory levies on businesses in France has the adverse effect of subsidising foreign producers.

An increase in VAT would raise the public prices of the latter’s products or lead them to reduce their margins. Foreign producers would thus cease to be offered a stowaway effect on a platter, since they pay much less tax at home today than those we pay in France, and their goods are instead made available to the French consumer without cus-
toms duty, while benefiting from the same low VAT rate.

A switch to VAT would therefore have the effects of a devaluation, without its disadvantages; and to those who would point out that such a policy would be uncooperative, it should be remembered that France would simply be the last to carry out such an internal devaluation in Europe. It would simply be a question of allowing French producers to fight on equal terms with their foreign competitors.

But, it will be objected, isn’t the time inappropriate for a raise now? Two objections may arise.

The first one is retail. Hard hit by the crisis, the retail sector would be affected by an increase in VAT. Let’s start by reminding them that they too will be affected by the reduction in compulsory levies on businesses. Secondly, they currently benefit from support measures: this gives the public authorities greater latitude to change the rules of the game, even if it means providing temporary support to smooth out some of the negative effects of the increase. It should also be noted that the announcement of an increase can boost demand, particularly for the most expensive goods. The announcement of a VAT increase on 1 July would give a boost to car or furniture sales in the first half of the year.

The second objection is that the most modest households would suffer more than others from the effects of the increase. This is a common misconception, which hardly stands up to analysis.

First of all, the reduced rates, on which a large part of the increase could be concentrated, relate mainly to services and goods for which big consumers are in fact the more advantaged households.

Secondly, modest households do not ‘consume’ all their income: most also pay rent, insurance, etc. A study by the National Institute of Statistics and Economic Studies (INSEE) on the consumption of the poorest households brings the immediate effects of a five-point increase in VAT (to Denmark’s level) to their rightful extent: out of 400 euros spent, this represents 20 euros. Which might be a significant sum for some households at the end of the month. But which can also be compensated for, starting with the drop in cost prices, which will inevitably have an effect on prices.

Moreover, numerous studies show that a VAT increase only partially impacts the prices of consumer goods: this is known as ‘pass through’, the effects of which, in our proposal, would stack with the deflationary effects of the reduction in compulsory levies on businesses.

Finally, the poorest are the first victims of under-employment and
mass unemployment which, if we count categories B to E of Pôle Emploi (the revamped National Employment agency), far exceeds the official figure of 8.3% at the beginning of 2020. They will also be the first beneficiaries of a supply-side policy in terms of employment and employment conditions (wages, opportunities, end of forced part-time work that is exploitative).

Conclusion: let’s raise our VAT rates, and lower the taxes and contributions weighing on our cost prices. France has a historic opportunity to join the “Phoenix Countries.” Let’s not miss it.

The original version of this article was published in Les Echos, France’s reference economic and business newspaper, on December, 19th 2020.
Appendix 2
The French public budget: where does the money come from?

“In order to fulfil their missions, public administrations (the public services provided by the State, social security and local authorities) need to be financed. The main public resources are what are known as compulsory levies: taxes, contributions and fees, amounting to 1,038 billion euros, or 45.3% of GDP.

Compulsory levies are divided into four main categories: factors of production, indirect taxation, taxes on income and profits, and other direct taxes on households.

The most important ones are the levies on the factors of production, whether local taxes based on added value or on land base, or levies based on labour. This category accounts for 45% of all compulsory levies, i.e. €453 per 1,000.

The second category is made up of indirect taxation, mainly VAT, internal consumption taxes on energy products, and taxes on property transactions, on tobacco or on alcohol. This category accounts for 26% of all compulsory levies, i.e. €261 per 1,000.

The third category is income and profit tax. It includes contribution sociale généralisée (general social contribution, a tax on all personal revenues) and associated social contributions (mainly contribution au remboursement de la dette sociale, the contribution to the repayment of the social debt), income tax and corporate tax. This category accounts for 23% of all compulsory levies, i.e. €227 per 1,000.

The last category is made up of direct taxes on households with a base other than income, in particular wealth. It includes property tax, housing tax and taxes on donations and inheritances. This category accounts for 6% of all compulsory levies, i.e. €59 per 1,000.

Source: impots.gouv.fr
Appendix 3. Germany’s *Tarifautonomie*: the autonomy of social partners and the freedom to negotiate on wages

*Tarifautonomie* means that collective agreements are discussed exclusively by the parties involved in the negotiations: the employees’ trade union organisations and the employers’ organisations.

Influence by the cabinet, the administration, the legislature or the judiciary is not permitted. Government agencies must maintain their neutrality, thus avoiding political and economic religious wars. *Tarifautonomie* is constitutionally and legally guaranteed. These agreements are binding for both employees and managers of a given company, but they may adjust the terms and conditions.

This system has the advantage of introducing negotiation and thus tensions outside the company, between experts from the trade union and employer organisations.

The first measures were introduced as early as the 1950s under the aegis of Ludwig Ehrard and Ludger Westrick.
Appendix 4. Normative value of conflict in France and in Germany

For those involved in the economic and social reality of employment within the company, the difference between France and Germany is based on the following evidence.

. The search for consensus is the norm for all action in Germany. It underpins the power of the only two players that have the prerogative to negotiate: employer and employee representation.

. The practice of conflict has a normative value in France. It feeds on the very multitude of parties involved and the continuous interference of the State and its multiple actors.

In Germany, conflict is a failure that social system dynamics help to avoid. Social peace is the legal norm during the period of validity of an agreement.

. Mediation in the event of disagreement during negotiations is legally compulsory.

. The entry into conflict (strike or lock-out) after failure of mediation requires the agreement of 75% of the workers.

. Ending the conflict requires the agreement of 50% of the workers.

In France State interference can at any time, through various public bodies, impose a new economic and social reality in the company: cancellation, temporising, new content altogether.

Source: Clément Kopp, Eurotriade GmbH
Appendix 5. France-Germany, the competitiveness gap (with a touch of Denmark)

At the microeconomic level, the gap in competitiveness between a French SME and its German competitor is flagrant. We have measured its extent by comparing the operating accounts (for the year 2015) of two comparable companies: a chemicals company located in Brittany (changing actual company names, let’s call it Frenchy), and its direct German competitor located in Lower Saxony (let’s call it Baxie). Both have the same productivity. The accounts of the two companies have been converted into pro forma by the Frankfurt firm Simmons & Simmons to make the comparison relevant.

There is no doubt that social and tax laws greatly penalise the French SME. It pays, at a minimum, twice as much in compulsory levies as its German counterpart.

When this pro-forma was made in 2015 (without Denmark, which has been added for this book), it included a tax deduction for all companies with employees: CICE (crédit d’impôt pour la compétitivité et l’emploi, i.e. tax credit for employment and competitiveness). Since 2019, CICE has been transformed into a permanent drop of social contributions (meaning that it is applied on year $n$ and not $n+1$). It has been criticized for targeting low cost employees and thus benefitting more to supermarkets than to high-value manufacturing.

**Frenchy (French Company)**

In 2015, Frenchy generated €2,810,000 in profit before tax (EBITDA), representing 14.1% of its €20 million turnover.

The company’s compulsory levies were as follows:

- Social contributions (employer’s share) / on salaries: 1,370,000 / 3,903,000 = 35.1% of payroll (or 48.8% of EBITDA).
- Local taxes on production: 726,000 (or 26.4% of EBITDA)
- Corporate (after two tax niches): 827,000 (or 30.1% of EBITDA)
Baxie (German Company)

With the same productivity, Baxie achieved a pre-tax profit (EBITDA) of €5,633,000, representing 28.1% of its turnover of €20,000,000.

The company’s compulsory levies were as follows:

Social contributions (employer’s share): 18.9% of a payroll of 3,784,000 = €629,000 (the equivalent of 11.2% of EBITDA).

Five little taxes in absolute value: 55 000 (1.0% of EBITDA)
Corporate tax (Körperschaftsteuer): €844,000 (15.0% of EBITDA)
Taxes on production (“Gewerbesteuer”): 788,000 (14.0% of EBITDA)
Solidarity tax (Solidaritätszuschlag): €46,000 (0.82% of EBITDA).

The German accounting firm also added, in their pro forma, the difference on the variable (“External purchases = Variable costs”):

- the tax gains of German suppliers and subcontractors which can be estimated at 5% of EBITDA;

- gains induced by subcontracting in Eastern European countries (Poland, Czech Republic, Hungary, etc. where wages represent between 37% and 24% of German wages and where social contributions are 10%), i.e. 5% of EBITDA.

- gains linked to the use of “seconded employees” from Eastern Europe whose salary/contribution costs are 50% lower than those of German employees, i.e. 2.5% EBITDA.

All things considered, the German company therefore benefits from at least 12.5% of gains on its external purchases through the use of less costly subcontractors, in addition to the 64.5% of gains on the RCAI generated by taxation alone. This represents a minimum of 77.0% of gains on EBITDA.

This means that the German company is much better equipped than its French counterpart to invest and upgrade its products.

For the English version of this book, I have added a third column, Danemark, which shows even more spectacular differences.
<table>
<thead>
<tr>
<th></th>
<th>France</th>
<th>Germany</th>
<th>Denmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net turnover (in K€)</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Gross wages</td>
<td>3,903</td>
<td>3,784</td>
<td>3,784</td>
</tr>
<tr>
<td>Social contributions</td>
<td>1,370</td>
<td>629</td>
<td>0</td>
</tr>
<tr>
<td>As a % of gross wages</td>
<td>35.1%</td>
<td>16.6%</td>
<td>0%</td>
</tr>
<tr>
<td>As a % of EBITDA</td>
<td>49.9%</td>
<td>11.2%</td>
<td>0%</td>
</tr>
<tr>
<td>Gross wages + social contributions</td>
<td>5,337</td>
<td>4,413</td>
<td>3,784</td>
</tr>
<tr>
<td>Variable costs (materials, inputs...)</td>
<td>9,770</td>
<td>8,549</td>
<td>8,549</td>
</tr>
<tr>
<td>Taxes on production</td>
<td>726</td>
<td>55</td>
<td>60</td>
</tr>
<tr>
<td>As a % of EBITDA</td>
<td>26.4%</td>
<td>1.0%</td>
<td>0.95%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,421</td>
<td>1,350</td>
<td>1,350</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td><strong>2,746</strong></td>
<td><strong>5,633</strong></td>
<td><strong>6,377</strong></td>
</tr>
<tr>
<td>Corporate tax on profit</td>
<td>827</td>
<td>844</td>
<td>1,493</td>
</tr>
<tr>
<td>As a % of EBITDA</td>
<td>30.1%</td>
<td>15.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Gewerbesteuer (equivalent of tax on production, l. 8 and 9)</td>
<td>-</td>
<td>788</td>
<td>893</td>
</tr>
<tr>
<td>As a % of EBITDA</td>
<td>-</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>German solidarity tax</td>
<td>-</td>
<td>46</td>
<td>-</td>
</tr>
<tr>
<td>As a % of EBITDA</td>
<td>-</td>
<td>0.82%</td>
<td>-</td>
</tr>
<tr>
<td>Net earnings</td>
<td>1,922</td>
<td>3,959</td>
<td>4,467</td>
</tr>
<tr>
<td>Total compulsory levies</td>
<td>2,915</td>
<td>2,332</td>
<td>1,910</td>
</tr>
<tr>
<td>As a % of EBITDA</td>
<td>106.4%</td>
<td>41.4%</td>
<td>30.0%</td>
</tr>
</tbody>
</table>

The total compulsory levies represents:
- in France 106.4% of EBITDA
- in Germany 41.4% of EBITDA (2.57 higher in France)
- in Denmark 30.0% of EBITDA (3.55% higher in France).

Let’s take a machine sold for 1880 francs (ex-works price).

Raw materials: 67.7 francs (or 3.6% of the ex-works price)

Added value: 1812.3 F (between 67.7 F and 1,880 F everything is just added value, at the different industrial stages, i.e. 1,880 — 67.7 = 1812.3 F)

Labour cost: 1 196 F

In this added value, the labour force (excluding raw materials), represents 66% taking into account the different industrial stages between the raw material (70.8 kg and 67.7 F) and the finished product (70.8 kg and 1,880 F) (1,812.3 x 66% = 1,196 F).

Social contributions: 35.1% of 1812.3 = 419.8 F per machine of social contributions, employer’s share (i.e. 419.8 / 1,880 = 23% of the ex-factory price)

239.2 F in social security contributions, employee share (20% x 1,196 F)

Source: Henri Lagarde’s article in Politique industrielle, n. 12, summer 1988.
Appendix 7. Actual working time in France

The issue of working time in France is the subject of much ill-informed debate. One wrong way of looking at the problem, for example, is to use a magnifying glass effect and consider the week as a measuring rod. In 2018 (source: Eurostat), France could thus boast a working week of 37.3 hours, above the European average (37.1 hours) and above countries such as the United Kingdom (36.5 hours) and Germany (34.9 hours). But when you look at the time worked over the course of a year, the very same perspective is reversed. In 2016, Coe-Rexecode Institute carried out a study (based on 2014-2015 data, but little has changed in this respect) which clearly showed that the actual working time confirms France’s atypical position in Europe.

Coe-Rexecode asked Eurostat to calculate annual working hours in Europe for the different categories of workers and by sector of activity for the years 2014 and 2015. This work broadly confirmed the results of previous surveys. It can be summed up in one sentence: the effective annual working time of full-time French employees is the lowest in the European Union. The effective working time of French full-time employees was then 1646 hours, down by 14 hours compared to 2013. The gap with other European countries had generally widened. The 199-hour gap with Germany was explained by a higher usual working week in Germany, but above all, for the most part, by much longer absences from work (annual leave and RTT i.e. Reduction in Working Hours) in France.

Another important point is that in France the working hours of full-time employees in the public sector are significantly below the national average. The average effective annual working time of full-time employees is close to the economy-wide average in industry (1649 h) and construction (1665 h) and higher in market services (1718 h). But with an annual total of 1569 hours, the working time of full-time employees is significantly below the average in non-market services. This has a direct impact on the competitiveness of French companies, since the lower working hours of civil servants and contract workers in the civil service have a cost which is directly reflected in the compulsory levies... and therefore in the taxation which weighs on companies.

It should also be noted, and contrary to what is happening in the salaried world (and especially in the civil service), the working hours
of French self-employed workers, which are slightly down, remain among the highest in Europe. From 2,335 hours in France in 2015, it was 42% longer than that of the average full-time employee. “An atypical gap in Europe,” the study noted.

Appendix 8. Levies on agricultural business

It is wrong to speak of “the property tax” (la taxe foncière) because, within the same municipality, the singular hides sometimes spectacular differences in rates. The example of the farms, whose economic fragility is well known to everyone today, is overwhelming in this respect.

Here one must consider not only the differences, but also the dynamics. Each year, in March or April, the different rates are set by the municipal council. A local city council which, anxious to win the favour of as many people as possible (the “consumer voters” mentioned in this book) strikes first and foremost at the “producer voters,” who are fewer in number and — it should be added — less mobile, all the more so in the case of farmers.

Here are the figures that can be found in a town of the South-West, which are in the middle range for the chosen tax system (property taxes). This rural municipality is home to about 26 farms (142 people), out of a total population of about 6,500 inhabitants.

<table>
<thead>
<tr>
<th>Property tax rates in this town</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbuilt property tax</td>
<td>125.64</td>
<td>127.14</td>
<td>130.99</td>
<td>132.24</td>
<td>132.24</td>
</tr>
<tr>
<td>Built property tax</td>
<td>28.29</td>
<td>29.79</td>
<td>30.68</td>
<td>30.99</td>
<td>30.99</td>
</tr>
</tbody>
</table>

This table speaks for itself: as a proportion of their rental value, farm businesses pay four times more than individuals and businesses. And the differential is steadily increasing.

To give an order of magnitude of what this represents economically, the annual tax on built-up land represents one and a half months’ rent on the property, whereas for farmland, the same tax represents five or more months’ rent.

*Source: data provided by Gabriel Dizard, farmer, Albias*