Fiscal and Budgetary Doctrine in the French Presidential Term: A New Direction

Last Monday in France, the formal re-opening ceremony for the Court of Auditors (Cour des comptes) took place, during which the French Court President Didier Migaud called for structural reforms to public spending. At the same time, Éric Pichet, Professor, at KEDGE Business School and Director of the Specialist Master’s Programme in Wealth & Real Estate Management (IMPI), penned an article titled "Fiscal and Budgetary Doctrine in the Presidential Term: A New Direction," just published in the fourth edition of La Revue de droit fiscal (The Tax Law Journal) n°4 pp 8-28, on 25 January 2018. The article analyses the five public finance laws from 2017 that make up the new fiscal and budgetary doctrine.

The new fiscal policy, primarily exemplified in the 2018 draft finance bill, creates three major disruptive measures, with the abolition of the solidarity wealth tax, the creation of a single fixed levy of 30% on securities income and capital gains and the scheduled phasing out of housing tax. "The two tax measures, if they are sustained beyond this presidential term, are likely to boost investor confidence and therefore jobs. Meanwhile, the phasing out of the unfair and incomprehensible local housing tax, coupled with an increase in purchasing power for people in work through a reduction in national insurance contributions, should encourage employment even in low-paid work," states Éric Pichet. "The patrimonial measures give the impression that they are a gift to the rich, as the solidarity wealth tax is being replaced by a property wealth tax for which the budgetary yield will be four times smaller. It will affect just 150,000 taxpayers rather than 350,000, with 44% of the benefits from this flat tax going to help just 1% of households. Generally, the government evaluation of a €1.8 billion saving for households in 2018 (rising to €5.5 billion for a full year) from the new tax measures has been called into question by the French National Institute for Statistics and Economic Research. In December 2017, it published a report including estimates about a €4.5 billion rise in household compulsory levies for 2018, meaning a 0.3% drop in purchasing power in 2018."

According to Éric Pichet, "though European commitment has been the commonality in all budgetary policies since 1981, they all resulted in an excessive deficit during GDP growth lows and short-term wastage of exceptional income during GDP growth peaks. The finance laws voted through in 2017 ultimately demonstrate the aim to break the endless deficit cycle that saw public debt surges from 20% in 1981 to nearly 100% of GDP in 2016. We can reasonably draw up the death certificate for the "Thirty-Six Year Bust" (1981-2016). The draft legislation’s ambition, as stated in 2017, is to reduce the public debt by five points, public spending by three points, and compulsory levies by one point over five years. However, implementation appears to be more timid from reading the legislation as eventually passed. Given the favourable economic environment at the end of 2017, with year-on-year GDP growth of at least 1.3% in volume and interest rates still exceptionally low in 2018, the budget deficit should slowly decrease to below 3%, which would effectively lead to a slow but steady trend towards lowering public debt by four to five points over the presidential term. In this context, the main cause for concern is the lack of government willingness to reduce the structural deficit, which will very likely be over 3% in 2017-18, whereas it should rapidly converge around 0.4% according to EU rules. It should be noted that the challenge is not accommodating the very tolerant European Commission, but facing up to future risks."

Eric Pichet is available for any requests for reports or interviews on the topic.

More about Eric Pichet:
Eric Pichet, Professor, Director of the Specialised Masters Programme in Wealth Management & Real Estate
Management (IMPI) has a doctorate and an HDR (Research Authorisation) in Management Sciences (2008, Université du Littoral Côte d'Opale) and a doctorate in law from Panthéon-ASSAS. His teaching and his research chiefly concern the global macroeconomic environment, monetary policy, alternative assets (including real estate) corporate governance, private taxation, public finances and fiscal economics. Among other things, he has published a methodological guide, L’Art de l’HDR, intended for doctors in social sciences, La Théorie actionnariale éclairée (Enlightened Shareholders Theory: whose Interest Should be Served by the Supporters of Corporate Governance) and in 2016, La Théorie générale des dépenses socio-fiscales.

About KEDGE Business School:
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