



GREAT ECONOMIC THINKERS

Is France Breaking Its Social Contract?

The shift away from a fiscal policy based on social welfare



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Introduction

- France has a long tradition of strong social welfare policies
- Recent fiscal changes raise concerns about a shift towards economic liberalization



Key question: Is this a necessary adaptation or a fundamental breach of the social contract?

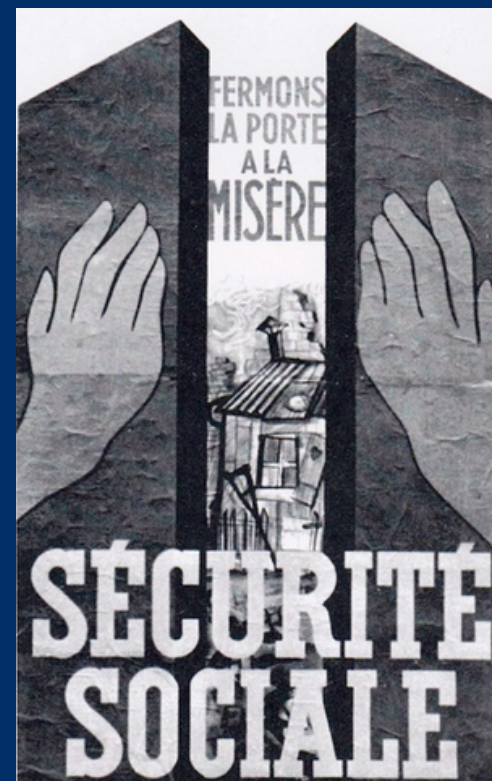
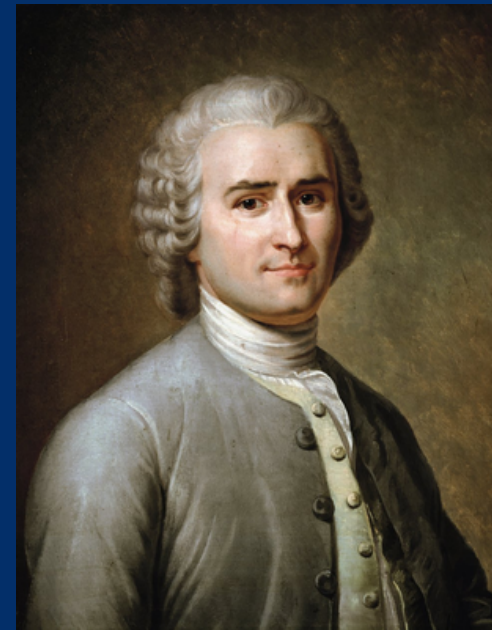
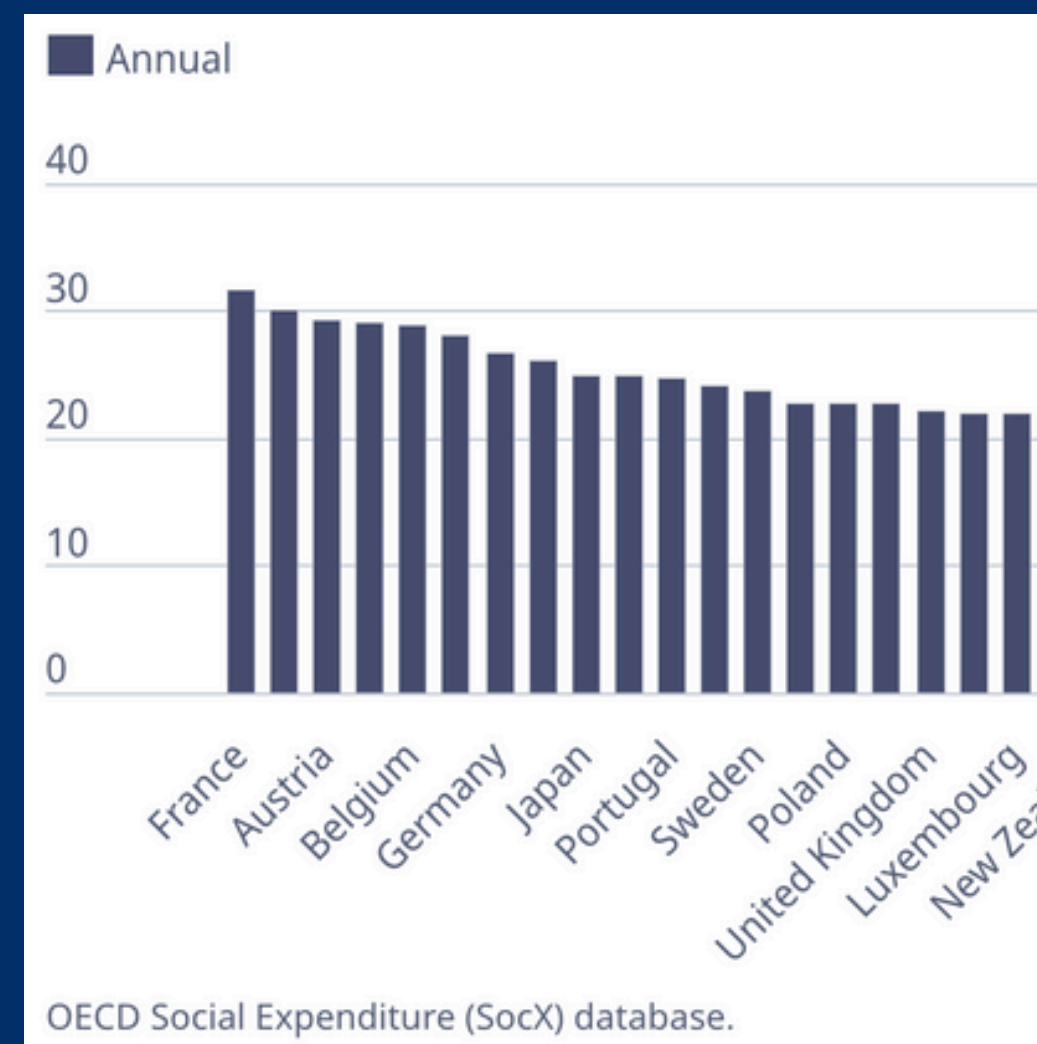
THIS PRESENTATION EXAMINES :

- 1 - The historical foundations of France's social contract
- 2 - Recent fiscal policy shifts
- 3 - Their economic and social consequences
- 4 - Alternative models and future perspectives

The French Social Contract

Public social spending

Public social expenditure as a percentage of GDP, 2022 or latest year available



ROOTED IN ROUSSEAU'S PHILOSOPHY:

The state ensures social well-being in exchange for contributions

POST-WWII WELFARE STATE MODEL:

- Universal healthcare (1945: Sécurité Sociale)
- State-funded pensions, unemployment benefits, family support
- Funded by progressive taxation, employer/employee contributions

HIGH TAXATION & REDISTRIBUTION TO ENSURE SOCIAL JUSTICE

2019: France's social expenditure = 31% of GDP (OECD highest) (OECD, 2019)

CHALLENGE:

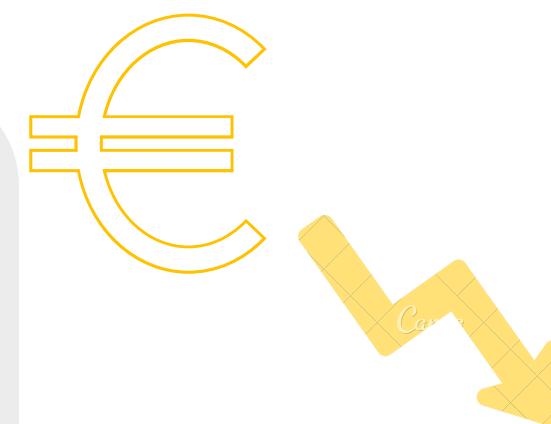
Rising costs, sustainability concerns, and economic competitiveness

	Q4 2021	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
United States	121.2	116.8	116.4	116.7	118.3	119.6
Japan	229.9	236.5	236.3	234.6	230.7	229.7
Euro area*	94.8	90.8	90.6	90.1	89.6	88.6
o/w Germany	69.0	66.1	65.6	64.6	64.7	63.6
France	113.0	111.9	112.6	111.8	111.7	110.6
Italy	147.1	140.5	139.3	140.1	137.9	137.3
Spain	116.8	111.6	111.2	111.2	109.8	107.7
United Kingdom *	105.2	100.4	99.4	101.1	100.0	101.3

Why Is Change Happening?

ECONOMIC & POLITICAL PRESSURES

- **EU & globalization:** Competitiveness concerns, pressure to lower corporate tax rates
- **Public debt:** Exceeds 110% of GDP (*Banque de France, 2023*), making welfare spending harder to sustain
- **Private investment slowdown:** High taxes historically discouraged entrepreneurship



DEMOGRAPHIC SHIFTS

Aging population --> Higher pension and healthcare costs

GOVERNMENT STRATEGY

Reduce welfare reliance, encourage private-sector growth

Major Fiscal Reforms



■ Wealth Tax Reform (2018): ISF → IFI (only real estate taxed)

- Revenue drop: From €5B (ISF) to €2B (IFI) (*OECD, 2019*)
- Objective: Stimulate investment, prevent capital flight
- Criticism: Favors wealthy, reduces state resources for social policies

■ Corporate Tax Cuts:

- From 33% --> 25% to attract investors (*Ministère de l'Économie, 2022*)
- Intended to increase business activity, but impacts public revenue

■ Social Contributions Reduction:

- Lowers labor costs --> More jobs but less welfare funding

■ Pension Reform Proposals:

- Raising retirement age from 62 to 64 (controversial)
- Projected savings: €12B annually (*Reuters, 2023*)
- Opposition argues it disproportionately affects blue-collar workers

Economic and Social Consequences



Economic Growth

- **Positive:** Business-friendly policies attract investors, job creation
- **Negative:** Risk of weak domestic demand due to lower purchasing power

Inequality & Social Unrest

- **Yellow Vests protests** (2018): Perception that tax cuts benefit the wealthy
- Gini coefficient stable at 0.29, but **income disparities growing** (*World Bank, 2022*)
- **Many fear** a weaker social safety net



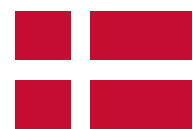
Public Perception

- 65% of French people feel the system is becoming **less fair** (*IPSOS, 2023*)
- **Increasing skepticism** towards government policies

Alternative Fiscal Strategies

Can France maintain a balance between growth and social protection?

Comparisons with other countries:



- Sweden & Denmark:



High taxation + labor flexibility --> Sustained welfare model



- Germany:

Hartz labor reforms --> Encouraged employment while controlling welfare costs



Alternative solutions for France:



- Adjust tax rates without reducing welfare
- Increase efficiency in public spending
- Encourage public-private partnerships to fund welfare programs

Private

Public



Conclusion & Future Perspectives

France is not completely abandoning social welfare but adapting to modern economic challenges



THE QUESTION REMAINS

Can economic competitiveness and social justice be balanced?

Key future scenarios

- Continued shift towards **economic liberalization** (more tax cuts, less welfare)
- Hybrid model maintaining a **strong welfare system with optimized spending**
- **Potential policy reversals** if inequality leads to greater unrest



FINAL THOUGHT

The decisions made today will determine the future of France's social contract

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