A C T A U N I V E R S I T A T I S L O D Z I E N S I S
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PRIORITIES AND RECOMMENDATIONS OF FISCAL STABILITY PROGRAMMES IN FRANCE AND GERMANY

1. INTRODUCTION

The recent financial crisis made the European Union and the governments of its Member States rethink their fiscal policy objectives. It is also true for such countries, like France and Germany. Even though they are ranked among the strongest economies in the world, the financial crisis had a negative effect both on the situation of their public finance and long-term growth potential. Discretionary measures applied by these countries in support of the banking sector contributed to the public deficit increase. High deficits resulted in rocketing of the public sector debt. However it has to be underlined that debt-to-GDP ratios exceeding 60% are not only the legacy of the financial crisis. They are also the consequence of certain fiscal policy decisions enacted in the last 30 years.

This article reviews fiscal stability programmes implemented in France and Germany in order to reduce excessive deficit and lower public debt. Above all, it describes their targets, means and potential consequences. Moreover it contains a diagnosis of the situation of the public finance sector in Germany and France. While analyzing this situation particular attention is given to factors that contributed to the current debt-to-GDP ratios, inter alia fiscal policy decisions in regard to revenues and expenditures.

2. PUBLIC SECTOR DEBT IN FRANCE AND GERMANY – SCALE, SOURCES AND IMPLICATIONS

The economies of France and Germany are regarded as to some extent homogenous. They are ones of the largest economies in the European Union and are strictly related to each other. The similarities may be seen in the values of the

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most important macroeconomic indicators, including the GDP or the general consumption rate per citizen, the changes in the business cycle as well as the implemented model of the social policy. Detailed analysis reveals, however, that there are also notable differences between these economies. For example, export and industrial production play in Germany more important role as economic growth stimulators than in France [*Les prélèvements fiscaux...*, 2011: 17–20]. In Germany, enterprises are to a larger extent specialized and have a more developed network of foreign subsidiaries and branches; they offer products which are pricewise more competitive in the world markets. The last is basically related to the state's policy of slow pace of wage increase continued since the 1990s [Aghion et al. 2011: 18]. Also, the consequences of the last crisis for the socio-economic situation have been different in France and in Germany, just as different are the anti-crisis instruments, the fiscal policies and the resulting condition of the public finance sectors in both countries after the crisis.

The basic indicators taken into account in the analysis of the public finance condition are: the deficit-to-GDP and the debt-to-GDP ratios. In 2000–2012, the French deficit-to-GDP ratio was oscillating between –1.5 to –7.5% (table 1).

Table 1

Public deficit/surplus and public debt in France and Germany in the years 2000–2012

Year	Public deficit/surplus				Public debt			
	France		Germany		France		Germany	
	millions of Euro	% GDP	millions of Euro	% GDP	millions of Euro	% GDP	millions of Euro	% GDP
2000	–21 020.0	–1.5	23 280.0	1.1	826 392.0	57.3	1 232 252.3	60.2
2001	–23 172.0	–1.5	–64 650.0	–3.1	851 577.0	56.9	1 243 137.9	59.1
2002	–48 700.0	–3.1	–82 010.0	–3.8	910 874.0	58.8	1 295 303.4	60.7
2003	–65 390.0	–4.1	–89 150.0	–4.2	1 003 351.0	62.9	1 383 766.8	64.4
2004	–59 576.0	–3.6	–82 510.0	–3.8	1 076 932.0	64.9	1 454 115.8	66.2
2005	–50 368.0	–2.9	–73 880.0	–3.3	1 145 354.0	66.4	1 524 802.0	68.5
2006	–41 066.0	–2.3	–37 910.0	–1.6	1 149 937.0	63.7	1 573 816.0	68.0
2007	–51 557.0	–2.7	5 760.0	0.2	1 211 563.0	64.2	1 583 660.5	65.2
2008	–64 299.0	–3.3	–1 860.0	–0.1	1 318 601.0	68.2	1 652 597.6	66.8
2009	–142 223.0	–7.5	–73 180.0	–3.1	1 493 385.0	79.2	1 768 919.4	74.5
2010	–136 779.0	–7.1	–103 440.0	–4.1	1 594 977.0	82.4	2 056 088.9	82.4
2011	–105 392.0	–5.3	–20 230.0	–0.8	1 716 887.0	85.8	2 085 181.3	80.4
2012	–98 196.0	–4.8	4 090.0	0.2	1 833 810.0	90.2	2 166 278.4	81.9

Source: *Government deficit/surplus...*

France seems to be running a permanent deficit. It has continued in this country since 1975 and concerns mostly the central government subsector (*administrations publiques centrales – ODAC*). The self-government subsector (*administrations publiques locales – APUL*) in 2000–2002 achieved a surplus and in 2003 and 2011 – a budgetary balance, whereas the social insurance subsector (*administrations de sécurité sociale – ASSO*) closed in the periods of 2000–2002 and 2005–2008 with surplus [*Déficit des administrations* ...].

High budgetary deficits are also the case in Germany. Nevertheless, in 2000 and 2007 the country's public finance sector achieved a surplus. In the first of these years, the surplus was visible in the federal government (*Staat*) and self-government (*Gebietskörperschaften*) subsectors, whereas the social insurance subsector (*Sozialversicherung*) achieved a budgetary balance. The first of these subsectors achieved also an insignificant budgetary surplus in 2007 and 2012, whereas the last one achieved it in 2006–2008, 2010–2012 and closed the year 2004 with budgetary balance [*Entwicklung der Finanzierungssalden...*, 2013: 4].

During the last financial crisis, budgetary deficits of both countries increased. While in Germany the deficit-to-GDP ratio in 2009 reached –3.1%, in France it achieved as much as –7.5%. In both countries the increase was the result of the application of support instruments for the banking sector and the implementation of plans for the economic recovery. Both in France and in Germany the deficit of the public finance sector is mostly structural. The structural deficit is however much lower in Germany than in France. For example, in 2011 the structural deficit in France was –3.7, whereas in Germany it was only –0.8 [*EU Fiscal Compact...*, 2012: 36].

The continuing budgetary deficits are the most important cause of accruing public debt. In 2000, the debt-to-GDP ratio was by 2.9 percentage points higher in Germany than in France. The pace of the public debt increase in 2000–2012 was, however, faster in the latter (table 1). As a result, in 2012 the debt-to-GDP ratio in France was as much as 8.3 percentage points higher than in Germany.

The analysis of the relevant literature shows that while in the case of Germany, the reasons for the debt should be looked for mostly in public expenditures related to the reunification of the country, in the case of France – the debt results mostly from excessive expenditures on public administration and social care. This causes more expenditures – on repaying the debt. In the case of France the public debt service costs reached 48.8 billion Euros in 2012, whereas in Germany – it was 54.5 billion Euros [*Projet de loi de finances pour 2013...*].

3. LEVEL AND STRUCTURE OF PUBLIC REVENUE IN FRANCE AND GERMANY

The reasons for the lack of balance in the public finance sector may be related to both insufficient public revenue and excessive public spending. The comparison of the share of the public revenue in the GDP in France and in Germany shows that in 2000–2012 the percentage was higher in the first of these countries by – on average – 5.8 percentage points (table 2).

Table 2

General government revenue in France and Germany in the years 2000–2012

Year	France			Germany		
	millions of Euro	euro per inhabitant	% GDP	millions of Euro	euro per inhabitant	% GDP
2000	722 179.0	11 892.7	50.2	946 640.0	11 518.0	46.2
2001	747 901.0	12 227.9	50.0	936 130.0	11 369.1	44.5
2002	765 106.0	12 419.6	49.6	940 320.0	11 400.3	44.1
2003	783 001.0	12 621.4	49.3	951 580.0	11 531.5	44.3
2004	821 884.0	13 152.1	49.6	951 040.0	11 527.6	43.3
2005	869 391.0	13 809.0	50.6	969 330.0	11 754.6	43.6
2006	909 840.0	14 352.3	50.6	1 011 050.0	12 275.1	43.7
2007	940 719.9	14 749.2	49.9	1 062 300.0	12 913.5	43.7
2008	965 400.0	15 053.1	49.9	1 088 620.0	13 256.5	44.0
2009	927 955.0	14 396.1	49.2	1 071 740.0	13 090.0	45.1
2010	958 276.0	14 792.6	49.5	1 087 380.0	13 300.1	43.6
2011	1 012 653.0	15 551.8	50.6	1 154 890.0	14 122.1	44.5
2012	1 052 356.0	16 082.9	51.7	1 194 080.0	14 576.5	45.2

Source: *Government revenue, expenditure...*

The most important source of revenue for both of the countries are public levies. The OECD data shows that in 2011 the share of public levies in the GDP of France reached 44.2%, whereas in Germany it equaled 37.1% [*Revenue Statistics 1965–2011*, 2012: 20]. In France, in comparison to other Member States of the European Union, the share of social insurance contributions in the GDP is relatively high (16.9%). However in Germany, in 2011, this share was only by 1.4 percentage points lower. Taxes are the most important source of revenue of all public levies. The share of taxes in the public levies in France was in 2011 as high as 61.6%, whereas in Germany – it reached 59.9% [*Taxation Trends...*, 2013: 174]. The comparison of the tax systems of the analyzed countries demonstrates that the French system includes a number of taxes which have no equivalents in the German tax system (e.g. *taxe d'apprentissage*, *taxe sur les surfaces commerciales, taxe générale sur les activités polluantes*). This concerns mostly taxes imposed on enterprises and entities running business activities. The reverse situation takes place only in the case of a few taxes.

The Eurostat data show that in both countries labour taxes have the highest share in state's revenue (over 50%). In France the role of capital taxes in the public revenue is much greater than in Germany, whereas in Germany a more important source of the public revenue are consumption taxes. The most important tax in France is VAT – its share in the revenue from public levies reaches about 15.5%, and in the tax revenue – up to 50%. The share of the personal income tax itself in the revenue from public levies equals only 5.5%, but in the tax revenue – as much as about 20% [Bouvier 2010: 73, 99]. In Germany, the fiscal importance of these two kinds of taxes is similar. The shares of both of them in tax revenue equal about 34% each [*Entwicklung der Steuerquote...*, 2012: 7]. The other taxes play a significantly smaller role as sources of the public revenue in both of the countries. In France, other relatively efficient taxes include inter alia: corporate income tax (*impôt sur les sociétés)*, the tax on developed and undeveloped land properties (*taxe sur le foncier bâti et non bâti)*, the internal tax on petroleum products (*taxe intérieure sur les produits pétroliers)*, the housing tax (*taxe d'habitation)* and payroll tax (*taxe sur les salaires)*, whereas in Germany these taxes include: the corporate income tax (*Körperschaftsteuer*), the business tax (*Gewerbesteuer*), the tax on mineral oils (*Mineralölsteuer*), the tobacco tax (*Tabaksteuer*), the solidarity surcharge (*Solidaritätszuschlag*) or the insurance activity tax (*Versicherungssteuer*).

In both France and Germany, in 2000–2011, there was a slight decrease in the public levies imposed on business entities and households. Also, the share of the tax revenue in the GDP decreased in both of these countries by 1.1 percentage points. In France, the decrease was related especially to the reforms introduced in the period of 2000–2004 and in 2007, which involved the modification of the personal income tax scale [Tinel and Pucci 2010: 10]. They account for the loss of revenue amounting from 33.0 to 41.5 billion Euros (depending on the estimates). In Germany, the loss of revenue was the result of the implementation (in 2000–2005) of lowered income tax rates but was partly compensated by the broadening of the tax base of income taxes and increasing the VAT rate in 2007. The total share of other public revenues in the public sector revenue in both countries remains insignificant. In 2011 it was 10.3% for France and 14.7% for Germany [*Dépenses et recettes...*; *Statistisches Jahrbuch...*, 2012: 258].

4. LEVEL AND STRUCTURE OF PUBLIC EXPENDITURE IN FRANCE AND GERMANY

Similarly as in the case of public revenue, the share of public expenditure in the GDP is higher in France than in Germany. In 2000–2012 the difference between the shares of public expenditure in the GDP in the analyzed countries was between 4.1 to 11.6 percentage point and it was an increasing trend (table 3).

This resulted from a significant increase in public spending in France [Lechevalier 2011]. In the analyzed period, the public spending increased by 54.7% in France and by 28.9% in Germany. In France, a fast increase in public spending was recorded in particular in the period of 2001–2007, while in 2010–2012 the pace of the increase slowed. In Germany, the high rate of the increase in public spending was recorded in 2001 and in the period of 2008–2010.

In most cases, the share of the public expenditures related to executing specific functions of the state in the GDP is higher in France than in Germany (table 4). The exception are economic affairs, in the case of which the share is similar in both of the countries. The most significant part of the expenditures is earmarked for the health and social protection. However, the share of these expenditures in public spending is, in total, higher in Germany than in France.

In Germany, more resources are earmarked for general public services, economic affairs, health and social protection. In France, more resources than in Germany are earmarked for education, housing and community amenities, recreation, culture and religion, defense and environment protection.

Table 3

General government expenditure in France and Germany
in the years 2000–2012

Year	France			Germany		
	millions of Euro	euro per inhabitant	% GDP	millions of Euro	euro per inhabitant	% GDP
2000	744 115.0	12 253.9	51.7	923 360.0	11 234.7	45.1
2001	772 645.0	12 632.5	51.7	1 000 780.0	12 154.2	47.6
2002	815 804.0	13 242.6	52.9	1 022 330.0	12 394.6	47.9
2003	847 955.0	13 668.4	53.4	1 040 720.0	12 611.7	48.5
2004	881 765.0	14 110.3	53.3	1 033 600.0	12 528.3	47.1
2005	920 348.0	14 618.4	53.6	1 043 450.0	12 653.4	46.9
2006	952 566.1	15 026.3	53.0	1 049 290.0	12 739.4	45.3
2007	992 618.8	15 562.9	52.6	1 056 760.0	12 846.1	43.5
2008	1 030 025.0	16 060.7	53.3	1 090 460.0	13 278.9	44.1
2009	1 070 585.0	16 608.8	56.8	1 144 740.0	13 981.6	48.2
2010	1 095 602.0	16 912.5	56.6	1 190 970.0	14 567.2	47.7
2011	1 118 728.0	17 177.5	56.0	1 174 540.0	14 362.4	45.3
2012	1 151 157.0	17 592.8	56.6	1 189 880.0	14 525.3	45.0

Source: *Government revenue, expenditure...*

Table 4

General government expenditure by function (COFOG)

Function	Millions of Euro		% of total		% GDP	
	France	Germany	France	Germany	France	Germany
General public services	128757.0	159780.0	11.51	13.60	6.4	6.2
Defence	36174.0	27640.0	3.23	2.35	1.8	1.1
Public order and safety	34959.0	41290.0	3.12	3.52	1.8	1.6
Economic affairs	69895.0	91610.0	6.25	7.80	3.5	3.5
Environment protection	21126.0	17270.0	1.89	1.47	1.1	0.7
Housing and community amenities	37934.0	14500.0	3.39	1.23	1.9	0.6
Health	164882.0	182510.0	14.74	15.54	8.3	7.0
Recreation, culture and religion	28014.0	21310.0	2.50	1.81	1.4	0.8
Education	120787.0	110360.0	10.80	9.40	6.0	4.3
Social protection	476200.0	508270.0	42.57	43.27	23.9	19.6
Total expenditures	1118728.0	1174540.0	100.00	100.00	56.0	45.3

Source: *General government expenditure by function...*

In France in the period of 2000–2012 expenditures in each of the analyzed groups increased significantly, including the greatest increase rate in expenditures on social protection, recreation, culture and religion, health and public order and safety. In Germany since 2000 public expenditures on housing and community amenities were reduced, and the increase rate in the case of other expenditures was significantly lower than in France, with the exception of expenditures on general public services and economic affairs.

5. PROVISIONS OF FISCAL STABILITY PROGRAMMES IN FRANCE AND GERMANY

The breaching of the deficit threshold of 3% of the GDP resulted in the initiation of excessive deficit procedures against France (by the EU Council Decision of 27 April 2009) and Germany (by the EU Council Decision of 19 January 2010) [*Council Decision of 27 April 2009...*: 19; *Council Decision of 19 January 2010...*: 38]. Both countries designed and implemented financial stability programmes. The budgetary medium term objectives specified within the countries' strategies to lower budgetary deficits are subject to the evaluation of the European Commission and the Economic and Financial Committee. These programmes are updated annually. It must be noticed that the procedure of excessive deficit against Germany was ceased by the decision of the EU Council of 22 June 2012 [*Council Decision of 22 June 2012...*: 17]. The excessive budgetary deficit has not taken place in this country since 2011. In 2012 the country's public finance sector achieved even an insignificant surplus. In the updated version of the financial stability programme of 2013 for Germany for the years 2014–2015 the achievement of the budgetary balance is planned and for years 2016–2017 – even a small budgetary surplus (table 5). At the same time, it is estimated that in the period of 2012–2017 the debt-to-GDP ratio is to be decreased by 12.9 percentage points.

In the case of France, the situation is more preoccupying. The excessive budgetary deficit in this country will begin to be lowered only from 2014. For the period of 2012–2017 the debt-to-GDP ratio is to be decreased by only 2.0 percentage points. The share of this debt in the GDP will, however, remain relatively high – at the level of 88.2%.

In the stability programmes implemented since 2009 both countries included more than hundred measures aimed to increase public revenue and decrease public spending. Moreover, in order to ensure the financial stability in the long run, a number of reforms have been implemented aiming at creation of the proper conditions for quick and sustainable economic growth.

Table 5

Objectives of fiscal stability programmes in France and Germany

Indicator (%)	Country	2012	2013	2014	2015	2016	2017
Total revenue/GDP	France	51.8	53.2	53.5	53.5	53.5	53.2
	Germany	45.2	45.0	45.0	45.0	44.5	44.5
Total expenditure/GDP	France	56.6	56.9	56.4	55.5	54.7	53.9
	Germany	45.0	45.5	44.5	44.5	44.5	44.0
Public deficit/GDP (public surplus/GDP)	France	–4.8	–3.7	–2.9	–2.0	–1.2	–0.7
	Germany	0.2	–0.5	0.0	0.0	0.5	0.5
Public debt/GDP	France	90.2	93.6	94.3	92.9	90.7	88.2
	Germany	81.9	80.5	77.5	75.0	71.5	69.0

Source: *Programme de stabilité de la France 2013–2017* [2013: 15]; *Deutsches Stabilitätsprogramm für die Jahre 2012–2017* [2013: 26–33].

In Germany, increasing the public revenue was possible thanks to tax reforms, including the introduction of the nuclear fuel tax (*Kernbrennstoffsteuer*) and the aviation tax (*Luftverkehrsteuer*). According to the estimates of the Federal Ministry of Finance, as a result of the implementation of these taxes, the annual tax revenue will increase in the future respectively by 1.3 and 1.0 billion

Euros. An important instrument aimed at counteracting the increase in the indebtedness of the public finance sector is the principle called the debt brake (*Schuldenbremse*). It is referred to in the Art. 115 of the Constitution [*Grundgesetz in der Fassung der Bekanntmachung vom 23. Mai 1949...*]. The principle assumes that the net amount of the incurred public debt may not exceed 0.35% of the GDP. Exceptions to this rule are acceptable only in the case of natural disasters and crisis situations which cannot be controlled by the state and which constitute a significant burden to the state's finances. It will be in force from 2016 with respect to the federal budget and from 2020 with respect to the budgets of states.

France, in order to increase public revenue, introduced a tax on financial transactions (*taxe sur les transactions financières*; in force since 1 April 2012). According to the estimates of the Ministry of Economy and Finance the consequence of applying this tax will be the increase in the public revenue by about 1.6 billion Euros. At the same time, as part of the reform of financing the local self-government units, as of 1 January 2010, the business tax (*taxe profesionelle*), which had previously been one of the most significant sources of this units' revenue, was replaced by a new public levy – a local economic contribution (*contribution économique territoriale)*. One of the aims of this modification was to decrease the tax burden imposed on enterprises, and at the same time to support their investment activities, whereas the consequence of the reform was the decrease in public revenue. In order to decrease public spending, measures have been taken to reduce excessive employment in public administration, including through the application of the principle of replacing two retiring employees with just one new.

Moreover, in order to stimulate the economic growth, both countries increased expenditures on investments in the public sector, including infrastructure investments, as well as spending on education and research, implemented the modifications of the tax systems aimed at its simplification and introduced reforms of the social insurance systems.

6. CONCLUSION

The level and structure of the public finance sector debt in France and Germany depend on a number of determinants – related to both the economic situation and the structural factors. In the case of Germany, the increase of this debt was to a large extent associated with the expenditures incurred in relation to the reunification. Nevertheless, since the 1990s Germany has attempted to limit the scale of the indebtedness. In France, the reasons for the indebtedness are related to the rapid increase in public spending and to the expensive reforms of the tax system, which only to a limited extent increased the attractiveness of this country as a location for direct foreign investments.

Both in the period preceding the financial crisis and during the crisis Germany showed a greater budgetary discipline than France. The fiscal policy conducted by the state was more restrictive. Measures taken by France and aimed at reviving the economy after the crisis brought only limited effects. The pace of the economic growth has for several years been lower in France than in Germany. Balancing the public finance sector in Germany will make it possible to the country to significantly reduce the debt within the upcoming 5 years (from 2012), while in France even the stability programmes assume neither the achievement of the budgetary balance nor any significant reduction of the public debt.

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PRIORITIES AND RECOMMENDATIONS OF FISCAL STABILITY PROGRAMMES IN FRANCE AND GERMANY

Restoring public finance sustainability in the European Union after the recent financial crisis requires the application of diversified fiscal policy measures. These measures are indicated in fiscal stability programmes designed by the European Union Member States. This article discusses such programmes implemented in France and Germany. The author presents scale, sources and implications of public sector debt in these countries, analyses structure of revenues and expenditures and examines objectives, reform agendas, selected means and expected outcomes defined in these programmes.

PRIORYTETY I REKOMENDACJE ZAWARTE W PROGRAMACH STABILNOŚCI FINANSOWEJ WE FRANCJI I NIEMCZECH

W celu przywrócenia stabilności w sektorze finansów publicznych niezbędne jest zastosowanie szeregu zróżnicowanych instrumentów. Instrumenty te zostały wskazane w programach stabilności przygotowanych przez poszczególne państwa członkowskie strefy euro. W artykule omówiono programy stabilności przedstawione Komisji Europejskiej przez Francję i Niemcy. Zaprezentowano wysokość, przyczyny i implikacje długu publicznego w tych państwach, zanalizowano strukturę dochodów i wydatków publicznych oraz wskazano cele, założenia, środki i przewidywane skutki planowanych reform sektora finansów publicznych.