Unfortunately, it’s a good time for the slightly mad Lovetax Doctors, who are bandying about risky fiscal reform ideas. Their chief idea is to increase tax revenues. Thus, without wishing to name any names, Mr Piketty is championing an income tax (impôt sur le revenu or IR) with the same tax base as the Contribution Sociale Généralisée or CSG (an income-based tax deducted at source to help pay off the French social security budget deficit). Such a tax would be progressive like IR, but even more so (average taxation rate of 60% above EUR 100,000). It would include no family allowance or tax breaks and would be deducted at source. Of course, people are loudly proclaiming that “increasing income tax rates has no significant impact on economic activity”. And, not content with saying: “Let’s tax personal assets more by increasing wealth tax and/or property tax”, they hammer the point home with: “Let’s tax capital income more (corporation tax, income tax, CSG)”.

So, let’s strip back the economic arguments in favour of a rise in the taxation of capital (poison), and above all those against such taxation (antidote). According to the Lovetax Doctors, because of the 40% allowance on dividends and the various exemptions, capital income is subject to fewer deductions than other forms of income. One could claim, on the contrary, that what we collectively refer to as capital income (capital gains, dividends, interest) does not correspond to actual capital income, as any capital income must be adjusted by the proportion taken from it to cover inflation-related losses. One could add that even if it is normal for actual capital income to contribute to the financing of defence, security, justice, public facilities and redistribution to those who need it most, it should not be financing “social security” systems run by the public authorities. Under the French system, many social welfare contributions are counterbalanced by social entitlements. Deductions made by the State to personal assets do not generate any additional rights (e.g. pension, health, etc.). We are in a state of total confusion, between the logic of social welfare levies on the one hand, and public levies on the other.
“We can tax capital income more heavily with no major impact on the economy”, the Lovetax Doctors insist. To read the prose of the “Ever more tax” advocates, you would think that sheep behave in exactly the same way, however many times they get shorn and whatever the size of the resulting fleeces. Unlike sheep, however, the behaviour of taxpayers changes when they get shorn! In actual fact, the taxation of capital income well and truly leads to a double tax on savings (taxation of saved capital + taxation of income from savings), bearing in mind that the value of a financial asset only ever amounts to the updated value of its future income. This taxation leads to distorted arbitration that favours consumption at the expense of savings and investment, at a time when our country is experiencing an investment deficit, notably due to the prevalence of pay-as-you-go insurance and the absence of pension funds.... Watch out! The Lovetax Doctors pose a threat to the return of long-term growth based on savings and investment. The French tax system certainly is highly imperfect. But to reform it in depth, four imperatives must be respected.

First of all, public and social welfare spending must be lowered before envisaging any kind of new tax revenue, in a country where public spending exceeds 56% of national wealth. In any event, a rule must be fixed whereby decreases in spending are systematically proportionally greater than new tax revenues. Next, social welfare contributions, which are commutative by nature, must be clearly distinguished from public contributions, which are distributive. We need to reform both social security contributions and taxes. However, let’s not mix everything up. Let’s replace opaque fiscal and social redistributions with simple, transparent rules that tell us who pays and who receives. It is also important to converge fiscal developments in France towards foreign systems, particularly that of Germany. In an open economy, any fiscal divergence leads to losses in terms of competitiveness and attractiveness.

Finally, it is important to understand the impact that all this will have on the economic agents behind these various contributions. The Lovetax Doctors’ theory is that, however many times the teaspoons, tablespoons and ladles plunged into ever-increasing tax bases are multiplied, we will continue to fill them up as if nothing were wrong. This is a fatal mistake! If economic agents work less, save less, accumulate less, take fewer risks and leave less to future generations, the whole country will suffer.