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Insights on the Use of Social Tax Expenditures in French Social and Employment[1] Policy

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Abstract

This article argues that situated approaches are necessary to reveal institution-specific or regime specific structures, forms and uses of fiscal welfare instruments. We base our analysis on the French case, for which we have previously built an exhaustive database of social tax expenditures (STEs) for the year 2014. We find that France displays a specific structure of fiscal welfare. Most STEs are concentrated in the fields of employment, family and health policy; most STEs concern social security contributions. We identify specific forms of fiscal welfare which might be common to other Bismarckian countries, principally centred around three types of use, i) the reduced taxation of family and couples, which is a core element of the familialist organisation of social policy after WWII ; ii) the use of STEs as a privileged instrument of employment policy in the constrained realm of minima wages and high levels of social security contributions ; iii) the use of STEs to quietly divert resources away from the sheltered social security funds and into collective private insurance plans, fuelling their development.

Keywords: Bismarckian, employment policy, fiscal welfare, France, tax expenditures, welfare regime.

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I. Introduction

In its endeavour to identify the particularities of various types of welfare institutions, the European comparative political economy literature of the last 20 years pays much attention to the outputs of welfare states (i.e. amounts of social expenditures, changes in policy design, or types of risks addressed by social policies). This article argues that paying an equal attention to the input side of the welfare state, and in particular to its revenues, allows for a more complete and adequate picture. Indeed, the revenue side of the welfare state is likely to be "a critical independent shaper of social welfare outcomes" (Hacker, 2002:294): in that regard, not only are modes of financing and the progressivity of the tax system important (Kato, 2003; Ganghof, 2006), but specific tax policies and instruments are also likely to constitute typical features of particular welfare states.

The intuition that tax instruments were relevant to the understanding of social policy is at the core of the "fiscal welfare" concept (Titmuss, 1958). Beyond the provision of social services and direct spending programs, it reintroduced into the definition of the welfare state the myriad of specific tax dispositions which fulfil a social purpose. Social tax expenditures (hereafter STEs) are an operationalization of this concept; they are tax instruments aimed not at raising revenue but at "modifying, correcting, complementing, or undoing social policy" (Morel et al 2016:6); they are equivalent to direct spending programs to the extent that they result in foregone revenue for the state which have the same effect as expenditures on public finances.

Although it has been mainly studied in the context of liberal welfare states, and in particular in that of the US, fiscal welfare instruments are found in many different institutional and political contexts (see e.g. Adema et al. 2014, Morel et al. 2016). This article argues that situated approaches are needed to reveal different structures and different uses of fiscal welfare. The underlying intuition is the following: because STEs are used to complement, modify or undo existing social policies, we can expect to find institution-specific or regime-specific structures, forms and uses of fiscal welfare in different contexts.

We base our analysis on the French case, for which we have previously built an exhaustive database of social tax expenditures for the year 2014 (Houssoy and Zemmour, 2016). Using both aggregate and scheme-specific analyses of French fiscal welfare, we show that the main components of French fiscal welfare can be described as a Bismarckian form of fiscal welfare. This finding goes beyond introducing a new nuance in the instruments already described in the literature: important aspects, regarding both the function and effects of some STEs, and the way they affect the welfare state as a whole, cannot be understood without acknowledging institutional configurations. Unlike the US, France combines a high level of social expenditures and a relatively high level of STEs (Adema et al. 2014, Houssoy and Zemmour, 2016) and can be described as a statist version of a Bismarckian welfare state. Among its other distinctive institutional traits, the French welfare state is strongly familialist, and is mostly funded through social contributions, earmarked for social security funds that are administered separately from the government budget. France also has a high minimum wage with universal coverage. This background determines a specific structure of fiscal welfare: most STEs concentrate on the field of employment, family and health policy, and many concern social security contributions. The specific use and form of certain STEs reveal a particular form of fiscal welfare, which might be common to other Bismarckian countries: i) the specific taxation of family and couples, which is a core element of the familialist organisation of social policy after WWII; ii) the use of STEs as a privileged instrument of employment policy in the constrained realm of high level of minima wages and of social security contributions; iii) the use of STEs to quietly divert resources away from the sheltered social security funds and into collective private insurance funds, fuelling their development. The remainder of the paper is organised as follows: we start by presenting a general panorama of France's social tax expenditures in 2014 (section 2) and analyse the distribution of use by policy field. Then we analyse the role of the main STEs in the French context: we analyse the contribution of fiscal welfare to the institutional familialism (section 3), to employment policy (section 4), and to the development of private social insurance (section 5). The final section concludes.

II. Fiscal welfare in France: what does it look like, and how big is it?

As of 2016, there does not exist any official synthetic dataset accounting for all the social tax expenditures contributing to social protection and employment policies in France. Since the late 1990s, the OECD has developed a comparative dataset (Adema et al., 1997 and following) on net social expenditures, which account for a part of these STEs. Yet, this dataset has a limited coverage, with some important schemes missing: for instance, STEs taking the form of reduced tax rates are not included. Neither are exemptions of social security contributions intended as incentives for job creation, or incentives for private pension plans. Generally speaking, the perimeter adopted varies regularly, as a result of more or less arbitrary decisions on the part of the national administrations communicating the data. In 2011, 27% of the schemes that were included lacked an estimation of their cost. Moreover, this data is not published at the national level.

Thus, for the present article, we rely on a dataset constructed from various administrative sources by Houssoy and Zemmour (2016), which compiles all the tax expenditures listed (although not in one place) by the administration, adding some that are missing[2]. From this dataset, we extracted all schemes fulfilling a social policy or employment purpose. As this paper aims to inquire into the extent and nature

[2] Some tax expenditures are not reported by the administration. This is either because these instruments are considered to be part of the fiscal norm (and not as a "departure" from it, cf. Surrey and McDaniel, 1985:3) as is the case for the *Quotient Familial*, which cost in 2014 is estimated around 8.5 billion euros. Alternatively, some STEs can be out of the scope of the state's monitoring: for instance because unemployment funds are handled separately by the social partners, the cost of exemptions to these funds is not reported by the administration.

of *fiscal welfare* in France, such a function-oriented approach in defining our perimeter seems warranted. Table 1 proposes a typology of STEs in the French system distributed into four types.

The costs indicated are for 2011. They are estimated in "initial revenue loss" that is to say without considering potential change in taxpayers' behaviour and without considering potential interaction between different schemes. For this last reason, the cost estimated for the four different types should not be summed.

Table 1: Social Tax expenditures by type

<table>
<tr><td colspan="2">STE’s by type (Initial revenue loss)</td></tr>
<tr><td colspan="2">Type 1: Tax break on earmarked resources for social protection (exemption and reduced rate on social security contributions etc.) €42 bn</td></tr>
<tr><td rowspan="2">Type 2 & 3: « Tax Breaks for Social Purposes » (TBSP)</td><td>of which Cat. 2: equivalent to cash benefit €21 bn

E.g. : « Prime pour l’emploi », Quotient familial</td></tr>
<tr><td>of which Cat. 3: Conditional on private expenditure [incentives]

€14 bn

E.g. : Crédit d’impôt pour l’emploi d’une aide à domicile, incitations à la souscription d’une complé-mentaire santé…</td></tr>
<tr><td colspan="2">Category 4: Reduced rate or exemption of social benefits €15 bn

E.g. : Exclusion of family benefit and minimal income schemes from the PIT</td></tr>
</table>

Reproduced from Zemmour (2013)

Type 1 STEs are included in the table, not because they explicitly fulfil a social purpose, but because they correspond to the foregoing of revenue originally earmarked for social protection financing (mostly social security contributions). As such, they directly affect the financing of social insurance funds on which a large part of the French welfare system rests. Incidentally, it is also the case that most of these schemes fulfil an employment policy purpose (reducing employers' social contributions to compress labour costs). Others aim to increase employees' purchasing power by developing additional forms of compensation characterized by no (or far less) social contributions, such as employee saving plans, luncheon vouchers, etc. In this article, in order to stick to our goal-oriented, fiscal welfare perimeter, we thus restrict our analyses to the former, i.e. Type 1 STEs with an employment policy purpose. These are thus included on two different grounds: first because employment policy fits into a comprehensive understanding of "welfare"; second, because these schemes affect a core feature of the French Bismarckian Welfare State, that is, its specific funding mechanism through earmarked social contributions.

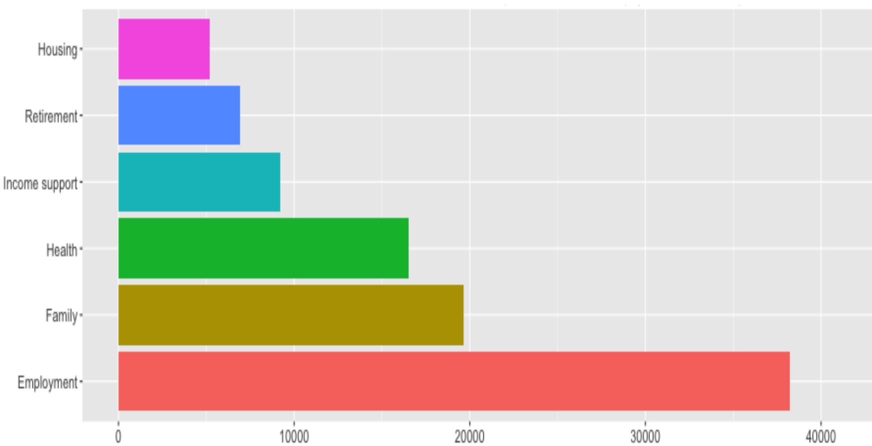
Type 2 and 3 STEs correspond to the two types of Tax Breaks for Social Purpose (TBSPs) identified by Adema et al (1997 and following). Type 2 refers to schemes that are "equivalent to a cash benefit". These STEs are conditional on the situation (realization of a social risk), status, or income of the recipient (just as cash benefits). The *Prime Pour l'Emploi,* an in-work benefit created in 2001 (and transformed into a cash benefit in 2016, see infra) and the *Quotient Familial* (see infra), an income tax reduction awarded to families depending on the number of children, are examples of Type 2 STEs.

Type 3 STEs are conditional on the purchase of private social protection. These generally take the form of tax rebates (on personal income tax, VAT, employer social security contributions or corporate taxation) proportional to the amounts spent privately. Mostly, these STEs reward the subscription to certain types of private social insurances, or the purchase of private care services.

Type 4 STEs are preferential tax rates on social benefits. For instance, exemptions of means-tested benefits from personal income tax, a reduced rate of CSG (a payroll tax earmarked for social security financing) or of housing tax for low income pensioners, would all fall in that category.

Sums involved are far from negligible: type 1 STEs amount to close to 2 points of GDP and 45% of total STEs, while categories 2 & 3 put together amount to 1.7 points of GDP and 37% of total STEs. The sheer number of STEs is also noteworthy: based on Houssoy and Zemmour (2016), we recorded no less than 153 STE schemes operating in 2014.

Figure 1 - Fiscal welfare in France: estimation of cost by main public policy (in million euros, in 2014)



The amounts presented in Figure 1 are conservative estimates: indeed, data presented in Houssoy and Zemmour (2016) is an exhaustive and corrected inventory of measures listed by the administration; yet in many cases, schemes are listed, but their cost is not estimated, potentially because it is likely to be negligible, or because the administration cannot simulate the amount involved. Of the 153 measures analyzed, 18.8 % were marked as "*non comptabilisé*", "not counted", by the administration.

Figure 1 reveals a first typical feature of French fiscal welfare, which has to do with its structure: around 40% of the total spending (in revenue foregone) is made up of STEs for employment policy, while STEs for income support, family and health policy (especially subsidizing certain form of private insurance) make up more than 45% of the total. The predominant presence of STEs in these three policy sectors appears significantly distinctive from what we know of other European countries (see Morel et al 2016), and is certainly at odds with the picture of fiscal welfare in liberal countries presented in the literature where pensions usually constitute the bulk of spending on STEs.

Beyond this general picture of the structure, a closer look within those prevalent policy sectors reveals that a sizeable share of the total cost tends to be concentrated on a reduced number of specific policies. Predominantly, these policies tend to take the form of exemptions or reduction of social security contributions. The widespread use of these specific instruments constitutes a second typical feature of fiscal welfare in France.

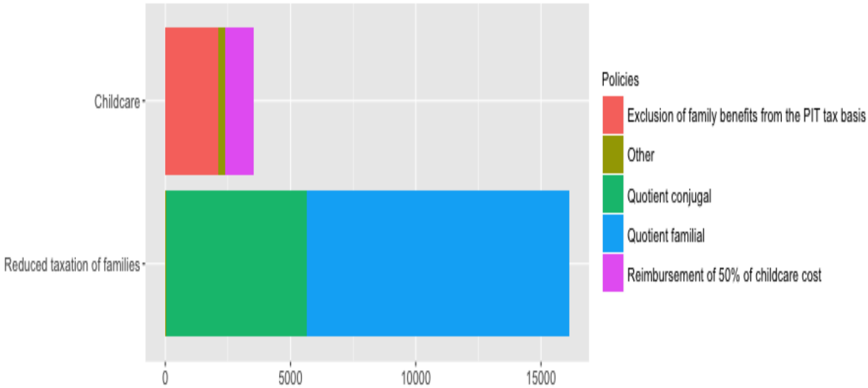
III. Fiscal Welfare as a key component of the French familialism

A first specificity of French fiscal welfare is that its use dates back to the early expansion of the French welfare state, and is deeply consistent with a one of its main aspect, namely familialism. The total cost of STEs in the field of family policy in revenue foregone is € 19.65 bn. This amount is concentrated on three specific policies the cost of which is superior to € 1bn (Figure 2): First, two specific schemes organize a reduced taxation of families (quotient familial and quotient conjugal [see below]). Second, family benefits are excluded from the PIT tax basis. Third, different tax credits on the personal income tax (PIT hereafter) reimburse half of childcare expenditures[3]. In what follows we focus on the reduced taxation of families which represents

[3] A specific tax credit (50% of expenditures, under a ceiling of 2300€ per year and per child) concerns childcare for children under six, when it is organized out of the family's home, and amounts to around €1 bn. When children are kept at home the tax credit scheme (50% of expenditures, under a ceiling of 15 000€ per year) and payroll tax exemption are the same as for any other personal services.

the lion's share and which we consider to be key in the French institutional setting.

Figure2 – Tax expenditures for family policy: breakdown by type and estimation of cost (in million euros, in 2014)



The French welfare state is known for its high level of familialism (Esping Andersen 1996). It was built on the *male breadwinner model*, with eligibility to social security benefits traditionally relying on employment status and covering the worker and his family members (spouse and children). The base unit of the core social security schemes is thus the family "headed" by a male wage-earner (including a second income earner or not). Although some of the schemes have evolved in a more universalist direction (especially health insurance), familialism and gender differentiation of entitlements (de facto and de jure) remain strongly dominant, both in the traditional social insurances and the most recent means-tested assistance schemes (minimal income and housing benefits are means-tested at household level) (Périvier 2010). From the origin of the French welfare state, the French declension of fiscal welfare fully contributed to this general orientation.

The joint taxation of spouses can be traced back to the implementation of the progressive income tax which was first introduced in 1917, as the coverage of social insurance was still very limited. Yet the preferential taxation of couples (*quotient conjugal)* and families (*quotient familial)* and the generalization of family benefits have been implemented almost simultaneously (respectively in December 1945 for the two former and August 1946 for the latter) with the creation of the Sécurité sociale.

The "Quotient familial" and "Quotient conjugal" are a cornerstone of the French progressive "personal" income tax[4]. Indeed the PIT is computed on a family basis under the following rules: i) the joint taxation of the couple applies to couples wedded or with a civil union (PACS) ii) the state applies a specific form of equivalence scale to household composition, and the marginal tax rate depends on this equivalence scale. The whole household income is divided by a certain number of "shares": 1 share for each of the first two adults of the household, 0.5 share for each of the first two children, and 1 share for the children with rank 3 or higher[5]. In certain specific situation (child over 20 but in higher education, disabled child, etc.) an additional share can be granted. The average tax rate is a growing function of the household income divided by the number of shares. The embedded logic of this system is that each household should be taxed based on its contributive capacity, and the latter should be determined not on the sole income basis but taking into account the household composition. More specifically, the idea is that the (male) head of family is taxed, taking into account its family load (spouse and children).

A consequence of the system of shares is that "the gain per child" is a growing function of household's income (Baclet et al. 2007) reinforcing thus primary income inequalities, while the "gain of being wedded" is a growing function both of household's income and on the unequal repartition of earning between spouses (Eidelman 2013). Consequently the quotient conjugal functions as a disincentive to

[4] There is a second non progressive income tax (the Contribution Sociale Généralisée) which is earmarked for social security funds. As opposed to the progressive PIT, the CSG is an individual and flat rate tax.
[5] The specific weight of children with rank 3 or higher dates back to 1980.

work for the second income earner, typically women (Carbonnier 2014).

Far from being in contradiction with the French welfare state logic, these components of fiscal welfare constitute an essential pillar of the French version of Bismarckian familialism, the other pillar being the entitlement and calculation rules of family social benefits. Functionally, these STEs reinforce the effect of the Social Welfare components. For instance, family benefits as well as quotient familial get disproportionally higher for families with more than 2 children. They also converge in cushioning or neutralizing the effect of the number of children on standards of living (Sterdyniak 2011). The two *quotients* work consistently with direct benefits to organize the gendered division of social activities. Financially, the size of this part of the French Fiscal Welfare is far from negligible as compared with social welfare. In 2014, together the *quotient familial and the quotient conjugal* amounted to €13.7 billion, while family cash benefits amounted to around €36 billion.

IV. Employment policy under institutional constraints: a trick to conciliate Bismarckian social protection and high minimum wage

Besides its familialism, a second specificity of the Bismarckian welfare state consists in its particular funding structure. Social protection expenditures are mostly funded through social security contributions, which are earmarked to Social Security funds. This, combined with a high minimum wage, has led successive governments to intensively use tax expenditures as the privileged tool of employment policy.

France is the country where social security contributions represent the largest share of social protection funding. Social security contributions are based on labour compensation and, since the 1980s, it has been strongly criticized for at least two reasons: first, social security contributions are suspected of enhancing labour costs and in turn of generating unemployment[6]; second, this funding system has been said to be appropriate only to fund statutory benefits; universal benefits (such as health insurance, family benefits) should instead be funded by taxes levied on all types of income. For this reason, the French employer association, who had formerly accepted a continuous increase in contribution rates, started campaigning in the beginning of the 1980s to cut social contributions, especially the employer part (Palier 2005). After the change of monetary regime that prevented France from adjusting its trade balance through devaluation, the conventional wisdom according to which labour costs should be diminished by cutting social contributions became a consensual view among top civil servants and major left and right wing parties.

However, for different reasons (its actuarial design and the contributory logic associated with it, the involvement of unions in the governance of social security funds, and the separation between the respective budgets of the *Sécurité sociale* and of the general government), it has long been politically unsustainable to cut either the aggregate level of social spending[7], or social security contributions, which enjoy a very high level of legitimacy (Esping Andersen, 1996).

This analysis remains relevant: between 2000 and 2013, in a repeated survey on 4000 respondents (Baromètre d'opinion Drees, 2000-2013), the assertion that "firms should pay less for social protection" receives on average 8% of favourable opinions, while 38% of respondents support a raise in employer social contributions, and 47% defend the status quo (Zemmour, 2015). Consequently, the statutory rate of social contributions reached a peak in the middle of 1990s and has been kept almost frozen since then.

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[6] Economic studies however show that the link between social security contributions, labour costs and employment is however far less direct than often argued. The essential part of the cost of contributions is in fact supported by workers (through lower net wages) rather than by employers (through labour costs); moreover the elasticity of labour demand to labour cost varies a lot for different levels of skills and different sectors.

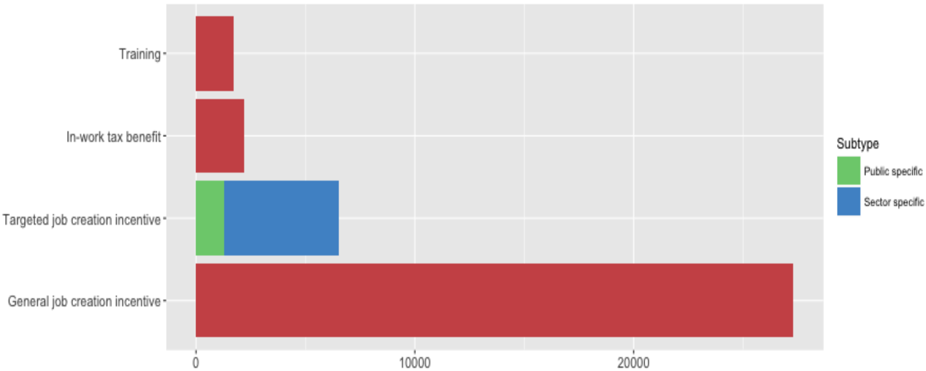
[7] Effective reduction of individual level benefits have been implemented but this effect has been more than compensated by the demographic evolution.

A second important institutional feature is the legal minimum wage, which is relatively high and covers the full employee population (with the exception of apprentices below an age limit). This minimum wage enjoys broad popularity, and governments have been compelled to raise it, on average following the growth rate. In 1994, attempts to restrain the scope of the minimum wage by introducing a different minimum for individuals below the age of 26 triggered mass demonstrations and was abandoned by the government.

The combination of a high minimum wage and a relatively high rate of social contributions, both enjoying a broad political support, and benefiting from a consensus among unions, meant that governments have had a very restricted room for manoeuvre, and a limited choice of instruments, when it came to influencing labour cost. Yet, as explained above, since the late 1980s this had become a prominent issue on the political agenda of successive governments.

In this institutional context, a different type of STEs became the main tool, for governments from the left and the right, to reduce labour costs while maintaining unchanged the statutory contribution rate, the level of social security resources, and the dynamism of the net minimum wage. Altogether, these various STEs constitute a particular and typical part of French fiscal welfare, which we argue has been developed as a tool for actively managing the labour cost, in a context where key institutions of the French Welfare System, which could not be dismantled because of the political support they enjoyed, pushed that cost upwards. Here then, fiscal welfare was designed to circumvent specific Bismarckian institutions, when reforming these upfront seemed unfeasible.

Figure 3 – Tax expenditures for employment policy: breakdown by type and estimation of cost (in million euros, in 2014)



The total cost of STEs in the field of employment policy in revenue foregone is € 37.9 bn. This amount is concentrated on 6 specific policies which cost is superior to € 1bn. (Figure 3).

IV.1 General job-creation incentives: the case of the "general exemptions" of social security contributions

The main pillar of French employment policy since the mid 1990s is called the "general exemption" of social contributions on low wages program. While social contribution rates are theoretically flat rate (at least under a certain ceiling), exemptions allow firms to pay a reduced rate of employer contribution for employees under a certain gross wage level. This has clearly a status of tax expenditure and should not be confused with a simple cut in contributions since i) the official statutory rate common to all workers remains in force ii) the state is legally committed to repaying to the Social security fund the entire revenue forgone for each concerned worker iii) contributory entitlements of concerned workers (especially to pensions) are not affected by the exemptions.

Between 1994 and 2008, France implemented no less than 8 bills reducing the effective rate of employers' social security contributions on low wages (L'Horty 2006). Initially moderate (5% of gross wage) and targeted around the minimum wage level, more than eight major reforms have reinforced the level of exemptions and broadened its scope. In 2016, they concerned more than the bottom half of the labour force of the private sector. The gap of effective contribution rate between the minimum wage and 1.6 times the minimum wage is 28 percent of gross wage. Put differently the State shoulders up to 18% of the total labour cost (i.e. €375 per month) at the minimum wage level. This policy costs the State yearly more than 22 billion euros, paid by transferring the revenue of certain general taxes to the Social security fund.

France is probably the paradigmatic example of this use of fiscal welfare to reform the labour market within a Bismarckian context, but the use of reduction in employers' social security contributions to foster job creation is found in other Bismarckian countries, especially in those with a relatively high legal minimum wage. For instance, the Belgian "reduction structurelle" is a very similar instrument.

Since 2014, a new piece of tax expenditure, Le Crédit d'Impôt Compétitivité Emploi (CICE) has been implemented to fuel employment: a corporate tax credit proportional to the wage of workers below 2.1 times the mimum wage and degressive until 2.5 times the minimum wage. It completely adopts the same design as employer contribution reductions[8], except than it is a credit on corporate taxation (discussions have started so that both schemes could be reshaped in the future into one single scheme). This program will cost in 2016 around 18bn euros.

[8] The reason why this time the government did not choose social contribution reduction was twofold : first it could benefit firms a year earlier, second more general discussions on the funding system of Social security had started with unions, preventing the government from modifying immediately the contribution system.

Altogether these two programs designed to reduce labour costs amount yearly to 2 points of GDP in the form of tax expenditure, in order to reduce unemployment[9].

IV.2 In work tax credit: life and death of the Prime Pour l'Emploi

In other types of welfare states, we observe either cuts in payroll taxes to fuel labour demand or in-work tax credits to support income and develop labour supply: this is the logic behind instruments such as the Working Tax Credit in the UK, or Earned Income Tax Credit in the US. But, interestingly, the *Prime Pour l'Emploi,* which is the French equivalent of these measures, was also partly conceived, beyond a "make work pay" incentive to work, as an alternative way to boost workers' revenue without raising the statutory minimum wage.

The PPE was a tax credit introduced in 2001 and suppressed in 2016[10]. It was targeted at low-wage workers (income thresholds for eligibility applied, which were re-evaluated in the budget law each year). The tax credit was individualized - although an income ceiling for the entire tax unit applied. It was calculated annually by the tax administration, and it either offset tax liability, or was paid out to beneficiaries. In 2008, a childless single worker in a full time job paid at the minimum wage would get €980 (the equivalent of a month of net salary paid at the minimum wage of 2008). A couple of full-time workers both paid at the minimum wage and filing jointly would get €2040 (calculated from Bonnefoy et al, 2009:89).

When introduced in 2001, the policy was estimated to cost a little under €2.5 billion (benefitting 8.7 million tax units). Expenditure reached a peak at €4.5 billion in 2007 (benefitting 9 million tax units). This development was mainly due to discretionary re-evaluations of

[9] Evaluations of this policy conclude that it has positive employment effect, but that the windfall effect is considerable. Moreover the marginal efficiency of this policy is decreasing (each new billion euro spent creates fewer jobs than the previous one) (Carbonnier et al., 2016).

[10] Revenues affected to the PPE were merged with those affected to the *RSA activité* to create the *Prime d'activité,* a social security benefit for low paid workers.

thresholds and increases in generosity, voted yearly in Parliament. Interestingly this discretionary development is not correlated with a particular party being in government: the PPE was implemented by the Jospin socialist government, but the main increases were voted under the majoritarian leadership of two conservative governments: the Raffarin government in 2003 and the Villepin government in 2006. Yet, in 2009, the Fillon government (also conservative) decided not to re-evaluate the thresholds for the calculation of the tax credit, leading to its erosion. It also introduced a new direct benefit, called *RSA activité*, which amount was deducted from beneficiaries' entitlement to the PPE. The PPE was finally taken down by another socialist government, under the Hollande presidency.

Although in 2001 and 2006 the PPE was boasted as an exemplary "make work pay" policy, the scheme has arguably much more to do with a distributive measure than an employment policy (Touzet, 2016). The target of the PPE was very wide: almost 45% of people in the 3rd decile of income, and 25% of people in the 7th decile received the PPE in 2002 (Bonnefoy et al, 2009:94); between 2001 and 2008, the yearly pool of beneficiaries represented around 35% of the employed population[11]. It was introduced in 2001, and massively enlarged in 2006, each time before presidential elections. It is thus plausible that the measure was originally conceived as a distributional scheme with a large target; while raising the minimum wage would only benefit minimum wage earners (around 2.5 million workers), the tax credit reached 9 million workers.

Both when implemented in 2001 and expanded in 2006, the PPE was indeed in part defended as a means of "sharing the benefits of growth" (Migaud, 2001); yet in France, this objective was traditionally pursued through increases in the minimum wage. The fact that governments

[11] Calculated from data on beneficiaries in France from Cour des Comptes (2005) for years 2001-2004, Bonnefoy et al (2009) for years 2005 to 2008, Projets annuels de performance, mission "Remboursement et Dégrèvements" for years 2009-2013, data on employed population from INSEE online database.

chose not to do so in 2001 and 2006, and instead opted for income top-up in the form of an in-work tax credit, signals both an attempt at a moderate path-breaking (moderate because the minimum wage was not suppressed or reduced), as well as the fact that the high statutory minimum wage was increasingly perceived as an institutional constraint, to be circumvented. This scheme may also be interpreted as a way of subsidizing what came to be perceived as the overly high cost of labour for employers: lower wages could be offered to employees since the latter could benefit instead from the PPE.

IV.3 Targeted job creation incentives: the case of the household services sector

Tax expenditures and social contribution exemptions have also been used to foster the development of specific economic sectors. One such example is the state-led development of the household services sector. Households can deduct 50% of the cost incurred for the purchase of household services from their PIT, and household services providers benefit from a reduced VAT rate as well as from employer social contribution exemptions (only on care related services). Altogether, these tax expenditures amounted to 6,9 billion euros in 2011. While low-skilled job creation has been a major rationale behind the development of this sector, responding to the growing needs for child- and especially elderly-care has also been an important objective (cf. Morel, 2015; Carbonnier and Morel, 2015). Here, the use of tax expenditures in this sector can be read both as a response to the issue of high labour costs and high minimum wage, which were understood as constraining demand for low-skilled jobs in the private service sector, but it also fits with the traditional pattern of subsidiarity and free choice typical of the French welfare state in the field of family policy. Indeed, the first measures in this field were first introduced in 1948, in the form of social contribution exemptions for elderly people purchasing care services, supplemented by a tax break in the 1960s, and expanded in 1986 to families with young children purchasing private, home-based childcare services (Guiraudon and Ledoux, 2015). The tax breaks were further expanded in 1991, when they became available to all households, independently of care needs, for a large range of household services. These tax expenditures thus respond to both employment and social policy aims.

V. Siphoning off earmarked social security revenue to fuel net earnings and private insurance: a very quiet layering strategy

The previous section shows that STEs can be used to circumvent existing institutions of the labour market. STEs have also been a convenient tool to foster the development of private health and retirement insurance markets, in a typical strategy of institutional “layering”. Indeed, existing institutional settings like earmarked resources as well as the high level of political support for public social insurances across the political spectrum meant that upfront attempts to reduce or privatize those schemes were both difficult and politically very risky. While the use of STEs to stimulate the demand and supply of private contracts is widespread across countries, we argue that this stimulation takes a specific form in Bismarckian contexts, characterized by two distinct effects: i) the targeted siphoning off of public social security funds (instead of general government revenue), and ii) the development of a neo-Bismarckian private component of social insurance, in the form of collective corporatist plans, based on industry or firm-level solidarity and regulated by the State).

In a country with a high level of social expenditures such as France in the 1990s, the demand for private services and insurance contract is crowded out in two ways: first, since most social risks are addressed with a high quality standard by public benefits, the spontaneous demand for private provision of services is almost inexistent (this was the case of pensions), or smaller than in other countries (as was the case of health insurance). Second, since these schemes are largely paid for by social security contributions levied on wages, net income from labour was relatively lower than in other countries, which reduced individuals’ ability to purchase private services. Additionally, this funding mechanism ensures a growth of resources comparable to the growth of wages (and of the economy), and it is difficult for the

State either to reduce this growth, or to divert these fiscal resources towards a different purpose.

However, in the 1990s, in the face of growing social needs and of growing costs (linked to various factors such as population ageing, increased female labour participation, or the increased cost of healthcare), a consensus emerged among policymakers according to which social expenditures should be frozen and private alternatives developed (through third pillar pensions, private health insurance, personal services, etc. (see Naczyk (2016) for an analysis of how this new paradigm developed.)

Accordingly, a specific type of STE was developed, in order to foster the development of private markets through discretely diverting resources away from the officially sheltered social security funds, and into private funds. These STEs consist of exclusions of some forms of employee compensation from the tax basis of social security contributions; namely, compensations taking the form of different occupational benefits (collective private health insurance, private pension plans, fringe benefits, collective shareholder plans…) are excluded from that tax basis.

These schemes are conceived both as “incentives” for employers to purchase such occupational benefits for their employees, as a complementary form of compensation, but they also tend to replace pay rises as a bargaining chip during wage negotiations. In effect, they allow subsidizing private occupational social services, while diminishing social security contributions funding public insurances (which partly results in the reduction of entitlements to public benefits for the concerned workers). The cost of a collective private insurance contract gets subsidized between 17,5% and 25% of its value by these exemptions of social security contributions (and up to 28% in the case of some health insurance contracts for “prévoyance” (see below). This arrangement was intentionally designed to encourage the development of private markets, which did not happen spontaneously (see Naczyk 2016 on pensions).

This mechanism also allowed the government to organize these emerging private markets, by setting the criteria for eligibility to this subsidy (since this creates huge competition distortions penalizing substitutable services that are not eligible to the exemption). This has been the case for different types of private pension plans (Naczyk 2016) as well as collective health insurance contracts, under certain conditions of quality and solidarity among the members (at the expense of the development of individual voluntary contracts) (Kerleau 2009, Turquet 2006). The case of the "responsible" complementary healthcare contracts (see below) is one example of this.

Altogether, more than 9% of the gross wage of employees of the private sector is now excluded from the basis of social security contributions, diminishing the resources of social security funds by about 23.6 billion in 2014[12] (1point of GDP). Of that amount, 33% is dedicated to collective private health insurance plans and 5.5% to private pension plans.

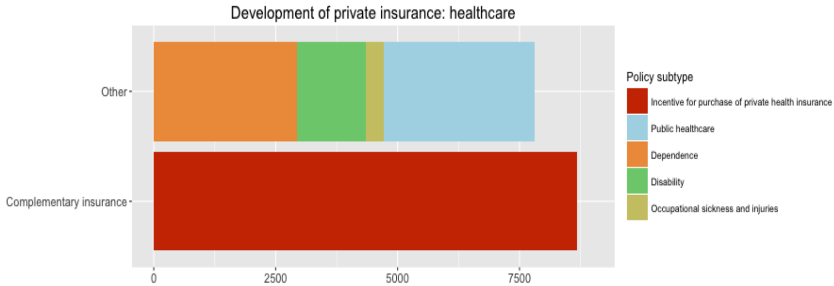
V.1. Tax subsidies for complementary health insurance

The total cost of STEs in the field of health policy in revenue foregone is € 16.5 bn. This amount is concentrated on two specific policies which cost is superior to € 1bn[13]: among these, the largest is indeed aimed at favouring the development of complementary health insurance, and incentivizes the private purchase of collective complementary health insurance (type 3 of our classification). It is particularly costly: in 2014, it led to a foregone revenue of €7.8 bn (0.4% of GDP) (figure 4). This revenue foregone for public social insurance funds is not compensated by the state.

[12] Estimation from Houssoy and Zemmour (2016), based on public reports and our own calculation. The French government systematically underestimates the revenue forgone by taking into account one single Social security fund instead of all the public mandatory funds (Zemmour 2016).

[13] The second measure is a reduced VAT rate on drugs that are eligible for reimbursement by the public healthcare system; in 2014 it amounted to €2.1 billion of revenue foregone.

Figure 4 – Tax expenditures for health care: breakdown by type and estimation of cost (in million euros, in 2014)



This measure particularly targets the development of collective and compulsory private occupational insurance against accidents and long term health issues ("prévoyance"). Employers' participation to the purchase of private insurance contracts on behalf of their employees is excluded from the tax base on which are calculated employers' and employees' social security contributions (including those supposed to accrue to the unemployment and retirement funds). This exclusion only applies to collective and compulsory contracts. Employers of more than 10 employees still pay a reduced flat rate tax of 8% on their contributions to private insurance funds, called "forfait social"; ceilings also apply to the exemption.

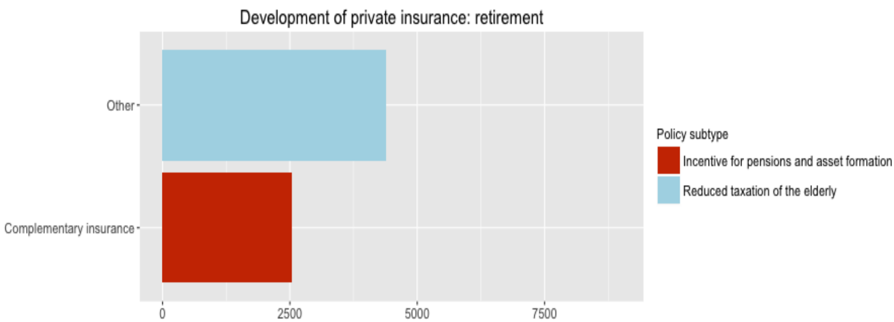
The first exemption of the sort dates back to 1979, and was capped in 1985. The measure was restricted to compulsory and collective contracts in 2003 (although the conditionality only took effect in 2009). In 2004, another criterion was added, that of the "responsibility" of the contract: "responsible" contracts are those which uphold the incentives set in the public healthcare system in order to contain the cost of healthcare. Ceilings applied to the exemption were also individualized and became dependent on individual income. According to the High Council on the future of public health insurance (HCAAM, 2013), an average subsidy of €230 per contract (which, on average, costs €800) is awarded through that STE.

Since 2016 these contracts that top up social security health insurance have become mandatory for firms of the private sectors. This evolution makes the "incentive" effect useless (since firms' behavior is now constrained by the law) and the "exemption" scheme becomes a pure instrument of public subsidization of private contracts.

V.2. Tax subsidies for occupational private pension plans

In the field of retirement, STEs amount to a total of €6.9 billion; €4.4 billion correspond to various reductions of taxation for the elderly, while more than €2.5 billion are spent in incentives for pensions and asset formation. Of the latter category, €1.2 billion favour the development of individual pension plans, while 1.3 billion are incentives for collective occupational plans (figure 5).

Figure 5– Tax expenditures for pensioners (in million euros, in 2014)



Two schemes in particular aim at developing private collective occupational alternatives to the institution of public retirement: the *"retraite supplémentaire"* (€1.1 billion in 2014) and the "*plan d'épargne pour la retraite collectif* " (PERCO, €184 million in 2014).

The main difference between the two schemes is that the first one only applies to collective and *compulsory* occupational plans, while employees can opt out of a PERCO. PERCO plans are employees' savings which they access upon retirement, and which are funded by contributions from both employees and employers; they can be implemented either at the firm level or at the industry level.

Employers' contributions to supplementary (collective and mandatory) and PERCO (collective and optional) retirement plans are excluded from the tax basis of social security contributions[14] (up to a ceiling). Since 2010, employees can also decide to affect the amounts corresponding to days off which they have not taken to their PERCO. These amounts are also excluded from the basis of employers' social security contributions. Foregone revenue for public funds is not compensated by the general government budget.

The historical development of these schemes is a good illustration of the siphoning off logic described above. Naczyk (2016) documents the strategy implemented by third party insurance providers and financial industry actors, starting in the 1970s, to push for the development of supplementary private pensions, on top of the public and occupational ones, in a typical institutional "layering" (Streeck and Thelen, 2005) fashion. Despite initial political opposition from left-wing actors and trade unions, which saw this development as a threat to the pay-as-you-go system, over time these actors managed to build a political consensus strong enough that they were able not only to favour those plans, but also to quietly de-fund public pension funds by the same token.

Thus patience, but also diversion, made for a successful layering strategy: the argument put forward originally (starting in the 1970s, 1980s) had as much, if not more, to do with favoring household savings and supplying financial markets as with reforming pension systems; the first plans of this type were created in 1987, not as part of a pension reform, but as part of a "law on savings (*Loi du 17 juin 1987 sur l'épargne*)" which aimed at boosting household savings level (Naczyk, 2016:11). The argument then evolved into a critique of pay-

[14] This includes contributions to public healthcare and retirement funds, but also unemployment funds, and complementary mandatory occupational pensions funds managed by the social partners.

as-you-go pensions as unsustainable, especially with rising life expectancy and unemployment.

Although the precise point of whether employers' contributions should be excluded from the tax basis of social security contributions was particularly contested by trade unions and left-wing parties (in particular, unions wanted employers' contributions to be subjected to contributions to public and complementary occupational retirement funds), a compromise was finally found, with the exclusion maintained and an additional special (reduced) level on employers' contribution established. Still, this special contribution does not compensate the revenue foregone for public and occupational pension funds (first and second pillars); in that way, a direct revenue diversion is established between those funds and the third pillar's supplementary pensions, through the use of STEs.

Conclusion

Fiscal welfare is present in all developed welfare states with a variable intensity. Based on the present in-depth study of the French case, it is possible to argue that in those welfare states that appear to be characterized by an intermediate level of "tax breaks for social purposes" in the OECD comparative data (Adema et al, 2014), the actual size of fiscal welfare might be seriously underestimated.

Some traits of fiscal welfare appear to be shared across contexts, from political motivations to effects. However, the present article demonstrates the relevance of developing a situated analysis of the specific uses of fiscal welfare instruments across institutional contexts.

One of the major results of scholars studying fiscal welfare in the US has been to demonstrate that ignoring it led to a misunderstanding of both the actual scope of the US welfare state, and of its patterns of institutional change. We argue that a similar analysis should be applied in different contexts, to shed light on the functioning and evolution of welfare institutions that are intrinsic to those contexts. In addition to taxation and to cash and in-kind benefits, social tax expenditures are used to fulfill situated social policy goals: sometimes, they allow complementing other policy tools (as is the case of family policy in France); sometimes they are a means of discrete institutional reform (the layering of the French social insurances is a case in point); sometimes, they are used to gain some level of freedom in a constrained policy environment (this is the case of employment policy in France). Although those patterns of use might be similar across cases, the particular goals and policy fields affected are likely to be strongly context-dependent.

In many cases, the particular overall structure of fiscal welfare (in the French case, it is characterized by the dominance of employment-related STEs), the political motivations behind the use of STEs, or the social and economic functions performed by STEs can only be grasped by integrating them into the larger understanding of welfare regime specificities. Thus, half of the French STEs concern in particular social security contributions; we have shown in this article that this particularity was explained by the specificities of the French welfare state, namely the combination of a high minimum wage and the strong political legitimacy of the financing of social protection through social security contributions. These institutional specificities lead to a circumventing strategy in the field of employment policy, and a strategy of layering in the field of healthcare and retirement, allowing to discretely use resources from social security funds to subsidize the expansion of a private insurance pillar. Although this aspect of fiscal welfare might characterize other corporatist conservative countries, it is unlikely to be characteristic of liberal countries, or in places where the minimal wage is lower or absent.

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