

Summary of Jacques Blanc's (2003) "Decentralisation : The Fiscal Stakes for Companies", International Benchmarking Reports, Paris, Institut de l'entreprise.

Published as part of its memos on international benchmarking, *Institut de l'Entreprise's* study was designed to assess the impact on companies' operating conditions of the economic recovery and the intensification of the decentralisation policy in France.

Initial findings call for a cautious approach: although the State has provided for costly tax relief programmes over the last two decades, that period has seen local company tax increase, leading to a situation, internationally where all of our main partners, except Italy, have deliberately cut their taxation rates in the same area, thus whittling away at France's competitiveness. As a result, between 1984 and 2000, France became the major industrialised country with the highest combined professional tax and corporate property tax (1.94% of GDP in 2000, as compared to 1.90% in Italy, 1.88% in the United States – both federal and local levels, 1.78% in Great Britain and only 1.59% in Germany). A very recent report issued by the Economic Analysis Council confirms, in terms of added value points, France's unenviable ranking.

In the Nordic countries, like Sweden, high local income taxes keep government from calling too much on enterprises; in Spain and in Germany, the dismantling of taxes on economic activity is underway, in Italy, the introduction of a regional tax on companies, offering high returns, has made it necessary to implement measures to re-balance the situation and will most likely require, based on the government's current plans, that the tax be done away with outright; in the United States, the return on "corporate income tax" is lower and lower.

At least it can be expected that, with decentralisation once again on the rise, the role of the public sector in the economy will decline, or that growth will be stimulated as well. However, the cause-effect relationship, in both cases, might well lack power, insofar as other more cultural factors seem to play a more decisive part: social entitlements might come into play, but only marginally so, and will thus not play a decisive role. With financial – and thus, fiscal – independence now incorporated into the Constitution, there might be an increase in mandatory taxation; already, reactions to the legislative bodies' right to call upon companies more intensively (partial "unlinking" between the indexation of variations in company tax rate and the local tax rate applied to voter-households), have been wary. In 2003, some 15 administrative units had no qualms about taking advantage of the opportunity, in particular with the aim of covering the cost of expenses transferred from the State (e.g., individualised self-sufficiency subsidy, APA): as a result, company tax rates went awry. This is so true that the upcoming experimentation to re-distribute powers between the State and the local authorities are very likely to cut off financing in some areas, thus increasing the burden of local taxes on companies.

Lastly, with the principle of equalisation between local authorities now in the Constitution, the issue of cost-effectiveness in public spending has come to the fore: this is because policies implemented until now have proven to be insufficiently selective (too many towns benefit from the public financing, which is scattered too widely), and in some cases, have drifted away from their original intention (most of the revenue from company taxes is channelled away from its original purpose and into the State budget). Here too, it will be particularly important to follow developments in this area.

The study's intention is not to paint a bleaker picture than is actually warranted: the advent of a locally-based Republic could hold pleasant surprises, by doing away with administrative red tape and shortening decision-making channels. However, it would be unfortunate that the risks for companies, inherent to this process, not be recognised early enough.