

# Law and economics in the French budget

Richard Bartes<sup>1</sup>

**Abstract:** The contribution deals with law and economics in the French budget. In other word, legal and economic aspects of the French budget and budgeting is mentioned in the contribution. Therefore, the contribution pays attention to the evolution of budget in France, its legal regulation and selected economic, or rather statistic data of the French budget. The contribution also explains the performance budget as a tool of performance budgeting.

**Keywords:** France, French budgetary law, French economics

**JEL Classification:** H60, K10, K34, K39

## 1 Introduction

Although law and economics are two separate and diverse disciplines, their mutual interconnection is absolutely necessary. This interconnection manifests itself especially in the area of taxes, public budgets and a control of public finance. While lawyers, or rather legislators create tax and budgetary laws, economists prepare economic prognosis or, on the contrary, prepare macroeconomic assessments. In other words, economists know which tax rate to choose and which tax exemptions to set, on the other hand lawyers know which provisions of the law to choose to apply to all or to include relevant exceptions.

The science of public finance distinguishes Anglo-Saxon, German and French conception of public finance discipline. Discipline of public finance can be examined from the point of view of economics as well as law. Differences among these conceptions consist in diverse legal construction of public finance law in relevant countries (i.e. the legal point of view), or in diverse economic thinking that reflects needs of state and society (i.e. the economic point of view). Since the paper is focused on the French budget, or rather on the French conception of public finance discipline, the author takes economics aspects (for example macroeconomic indicators and statistics in France) and legal aspects (for example budgetary law in France) into account. Given that the public finance law is primarily represented by budgetary law, it is necessary to pay attention to the legal framework of the budget in France.

In the paper, there is also mentioned non-legal and non-economics issue – the evolution of the notion of “budget”. The author also examines the historical origin of this notion and its meaning within the French framework. Budget is a main instrument of the public economic policy. For the purpose of this paper, the *budget* means the state budget, its legal regulation and its economic side. In other words, the paper deals with the state budget in France.

In this context, it is convenient to mention the government sector institutional structure. In France, from the point of view of the fiscal federalism, there are four levels of governance with own budget system. The lowest level is the municipal management level, or rather municipal budget. Another levels include departments as well as regions and their budgets. The top level is the state level with the state budget and state administration. Since the 1970s, especially in France and other European countries, the understanding of public administration as not only a power activity, but also as a production activity, providing goods and services to citizens, has begun to be promoted (Goldsmith, Eggers, 2004, 56).

This role of public administration begins to gradually increase, and the division of public administration into a power part and a part providing services is essentially preserved to this day. A logical consequence of increasing interventions in production activities on the part of the public administration is an increasing number of institutions having a so-called public-law character, i.e. public-law entities. The purpose of public-law entities is primarily to implement the economic and social policy of the state, especially in the areas of services such as healthcare, education, transport, sports, etc.

Nowadays, the State Secretary for the Social and Solidarity Economy and Associative Life represents social economy system in France at national level. The task of this crucial institution is to set and to implement policies for the development of the social and solidarity economy and to support a consumption based on a solidarity. The effectiveness of this authority is enhanced by the fact that it cooperates with the French Ministry of Economy and the French Ministry of Finance. At local government level, French regions and departments support the social economy by backing measures for increasing a social welfare.

---

<sup>1</sup> Brno University of Technology, Faculty of Civil Engineering, Institute of Structural Economics and Management, Rybkova 1, Brno, Czech Republic, 602 00, bartes.r@fce.vutbr.cz

The main aim of the paper is to present relevant economic and legal framework of the French budget. The secondary objective of the paper is to present evolution of the notion of budget in France. The hypothesis of the paper is defined as *“France was the main innovator of the budget”*. This hypothesis will be confirmed or disproved in the conclusion of the paper.

## 2 Methods

As far as the part dealing with the economics of the French budget, the paper draws information from official economic statistics as National Institute of Statistics and Economic Studies (hereinafter Insee) or Fitchratings. The part of the paper concerning the budgetary law and the notion of budget proceeds from the scientific literature, for example the French financial law literature. Authors as Michel Bouvier, Joël Molinier or Edgard Allix and their works are mentioned in the paper. The author of the paper also draws from his preceding work.

Scientific methods are compliant with the main aim of the paper. That is why the the descriptive method, method of analysis and synthesis and finally comparative method are used. For example, description method was used for presenting relevant economic data and legal framework of the French budget. Description, or rather historical description method was used for describing the evolution of budget in the history. Method of analysis and synthesis was used to draw conclusions from economic data. Comparative method helped to compare economic data, legal frameworks of various states and evolution of budget in various countries.

## 3 Research results

The chapter „Research results“ is divided into three general parts. The first part (or rather the first subchapter) is dedicated to economic data linked with the French budget. There are presented also selected macroeconomic indicators in France. The second part of the paper deals with the legal framework of the French budget (for example the kind of budget and budgeting is mentioned there). The third part of the papers occupies with the evolution of notion of budget in two selected countries – France and England.

### 3.1 Economic aspects of the French budget and its macroeconomic context

Although the economic growth in France is supported by automotive industry, sector of nuclear energy, machinery, chemicals, metallurgy, energy production or fashion, the French economy falls behind for example the German economy. Within national accounts, the French public entities are categorized under three sectors of the general government sector into (1) the state, or rather independent administrative bodies, which constitute Central Government, (2) the social security including many authorities managing benefits and (3) Local Government Sector.

The social security was founded after the Second World as autonomous public institutions with an administrative structure separate from the State. This social system has own origins in model “Bismarckian”, it means it was based on the social insurance model where workers had various allowance depending on levying mandatory contributions on employees and employers. This fact is due to the fact that in France there are many types of social benefits and the total amount allocated to social expenses is very high. From the point of view of the French budget, or rather the French public finance, the social security is one of the most important components. For example, social security spending has represented for the majority of government spending for more than 10 years, rising to 26% of GDP in 2016 (OECD).

The French structural deficit has been progressively decreasing since 2012 and the nominal deficit was at 2.6% of GDP in 2017. The problem remains in the structural deficit, which is still high, because the reduction in the nominal deficit is due to an increase in tax revenues (rather than a decrease in public spending). If we compare the year 1978 with the year 2017, the public debt in France increased from 21.2% of GDP to 96.8 in 2017. Nowadays, the French debt level is higher than the average in the Eurozone. The reason for contemporary public debt is the state, which as the only sector of the general government created a deficit, because the social security and local government generated a budget surplus (OECD).

In order to change this unfavorable development and revive the national economy, the government has undertaken several important reforms since 2017. The essence of these reforms was to reduce the tax burden, make investments in production capacities and change the functioning of public finances and public management. The specific steps taken by the French government consisted of cuts. Since 2017 salary growth in the public sector was moderated, housing subsidies were reduced and health spending was reduced. On the other hand, in order to support economic growth and the purchasing power of consumers, the government decided on large tax reliefs.

It should be written that the French budget has been in the negative for a number of years – since the first oil shock in 1975 and without regard to up-turns or down-turns of the economic cycle. For that reason, the main aim is the gradual reduction of the fiscal deficit with the help of limited spending cuts. In this context, the new budget proposal for 2024 is also being relied upon, which is based on favorable macroeconomic surmises. The continued high indebtedness to France

was the reason why France's Long-Term Foreign Currency Issuer Default Rating (IDR) was downgraded to 'AA-/stable' from 'AA/negative' (Fitchratings).

According to the proposal of the French budget for 2024, a fiscal deficit of 4.4% of GDP is indicated, which is better than in 2023, when the fiscal deficit of GDP was 4.9%. The mentioned savings are mainly achieved thanks to the termination of energy subsidies in the total value of 15 billion euros (this corresponds to 0.5% of GDP) and also due to the termination of support in connection with the Covid-19 pandemic. On the other hand, defense spending increased by 3.3 billion euros over the next two years due to new security threats. In the draft budget for 2024, you can also see a favorable assumption of employment growth, as well as an assumption of real GDP growth, which should have a value of 1.4%.

As for other key indicators and their development in the past, 57% of value added was represented by traded services. In 2022, the annual inflation in France was +5.2% (compared to 2021 when it was only +1.6% and +0.5% in 2020). Likewise, purchasing power represented by a disposable income increased by +0.2% over the previous year. This situation is caused by a demographic growth. On the other hand, the consumption of each person (consumption unit) decreased by -0.3% (Insee).

### 3.2 Legal aspects of the French budget

Budgetary law legally regulates budget as an economic and legal instrument. However, budgetary law is not an independent legal branch, but it is a sub-branch of financial law. More precisely, it is a legal branch belonging to the fiscal part of financial law (from the point of view of the Czech financial law theory). In the case of France, this area is called public financial law, or law of public finance. In France, the notion of financial law means banking law and law of financial markets (from the point of view of the Czech financial law theory, this is a non-fiscal part of financial law). It is possible to state that budget law is probably the most important sub-branch of public financial law, because it is a legal regulation of public finance drawing from public budgets (including the European Union budget). Compared to budgetary law, for example tax law has a different position in France. For the sake of completeness, it is appropriate to add that tax law in France is considered, due to its historical evolution, as a separate branch of law.

In France, budgetary law is linked with to multi-annual financial planning at all levels of fiscal federalism. It means that multi-annual financial plans are being prepared both in the case of the state budget and in the case of municipal budgets. Within multi-annual financial planning, a distinction is made between short-term, medium-term and long-term financial planning. These kinds of multi-annual financial planning are used in practice depending on how public funds are acquired and spent or how detailed the financial plan should be planned. The length of multi-year financial planning is naturally related to the needs of the relevant public administration unit.

In France, budgetary law is interconnected with the public accounting, which is considered as another sub-branch of public financial law. Public accounting is the French specialty, because its substance (including accounting standards) was adopted from corporate accounting. In other words, corporate accounting significantly inspired the French model of public accounting. Public accounting in France affects the budgets of the entire public sector (state, territorial self-governing units or public hospitals), and at the state level it mainly affects the so-called main account of the state (Bartes, 2022, 256).

As for the distinguishing features of the French budget, it can be characterized as a performance and multi-annual budget. It is very important to make a distinction between terms *budget* and *budgeting*. Whereas notion *budget* means crucial instrument for planning and managing of public finance in the state, notion *budgeting* presents whole process connected with economic activities of states or another public entity. Notion of *budgeting* includes notion of *budget* as a financial plan, but includes also a budget preparation, an implementation of budget, a control of budget (internal and external control). For that reason, it can be concluded that the term *budgeting* is a much broader and more comprehensive term than the term *budget*. According to features of budgeting, the French method of budgeting can be characterized as multi-annual, performance and programme budgeting.

The Polish important and well-known scientists T. Lubińska has defined performance budgeting as „*managing of public funds through specific and hierarchical objectives in order to achieve specific results (fulfilment of tasks), measured using a set system of indicators (so-called management by objectives)*” (Lubińska, 2007, 9). For that reason, performance budgeting as a method of planning, execution and control of the performance budget in the legal sense can only be used in countries where the performance budget has replaced the traditional budget. Such a situation occurred in France, and therefore there is no doubt that in the case of France, the performance budget is prepared, executed and controlled through the performance budgeting method (Bartes, 2019, 54). The performance budget is one of the methods of budget programming, or planning. The gradual replacement of the previously used term budget planning with the term budget programming is a consequence of the transfer of methods of modern public spending planning based on

measurement of results to the public sector. Planning and programming can be expressed by the common concept of designing or projecting, which is an integral feature of any budget, regardless of the technique used to estimate its numerical values. The key elements of the performance budget are both task-based and performance classification, which in France consists of functions, tasks and then the so-called performance part (Zawadska, 2014, 19).

The French budgetary law is based on the principle of unity. This principle means, that all revenues and expenditures of the state are included in the same law – the financial law. In France, the stated principle of unity is supplemented by a so-called time requirement. In other words, due to its predictability, the financial law must be adopted before the end of the fiscal year, i.e. before December 31 of the year preceding the year to which the budget applies. Every year, the Parliament comments on the income and expenditure of the state, which it subsequently approves. For example, in England, a certain portion of income and expenditure is approved permanently, usually during the election of the monarch to office and for the duration of his reign. The rest of the income and expenditure are repeatedly approved by the Members of Parliament. This English system was promoted in France by René Stourm, as it would allow the French parliamentarians to concentrate their efforts only on those budgetary issues, the approval of which is really necessary (Stourm, 1900, 58). As in the Czech Republic, the fiscal year in France also coincides with the calendar year (i.e. from January 1 to December 31).

The material meaning of the notion *budget* is also an interesting thing. For example, on the one hand in England, from the 19th century until 1993, the notion of budget was basically used in connection with the proposal of revenues. A use of notion of budget in connection with public expenditures was not essentially exist. On the other hand, in France, this notion refers to both income and expenditure at the same time, and several legal and doctrinal definitions can be seen. Just to name a few, *“the budget is the act by which are foreseen and authorized the annual revenues and expenditures of the State or other service which the laws subject to the same rules”* (article 5 of the Decree of May 31, 1862 concerning General Regulations on Public Accounting). In later French law the budget was defined as *“The state budget provides and authorizes, in the legislative form, the state's costs and resources”* (Article 1 of organic decree of 19 June 1956 determining the method of presentation of the State). According to the Article 2 of the Regulation of January 2, 1959, on the Organic Law on Financial Laws, *“the annual financial law (= state budget) determines and approves, for each calendar year, all resources and costs of the state.”*

### 3.3 Evolution of the notion of budget and its context

It is no coincidence that France and the budget institute are chosen for this paper. Notion of budget has its origins in the French word *bougette*, which means a small leather bag (for coins), diminutive *bouge*, i.e. the old term for sac. This term was exported to England very soon and caused the oral deformation of the French word *bowgette* (1432-1450), *boget* (1548), *boudget* or *bouget*. At first, these terms denoted a travel rucksack, pouch or money box. The word *budget* was used in such expressions as “a budget of paradoxes” or “a budget of inventions”. The financial importance was manifested, for example, in the speech of the Chancellor of the British Ministry of Finance, who became famous with the statement *“he opens his budget”*. The first official use of this term appeared together with a pamphlet called *“The Budget Opened”* published in 1733 by the then ruling garniture. Roughly 30 years later, this term was already commonly used in English and returned to France, but this time enriched with its financial meaning (Rey, 1992, 236).

After 1768 the notion of budget denoted the annual statement of public expenditure and revenue (Brittain, 1959, 23). The notion of budget in this sense did not spread in France until after the Revolution, when the term “budget” appeared for the first time in the laws of the French government from the period of the 4th Thermidor of the year X and from the 17th Germinal of the year XI (i.e. the period between the months of August 1802 and the month of April 1803), when this term replaced the previous French designation of the statement of income and expenditure (Orsoni, 2005, 207).

The basis of the French budgetary law date back to 19<sup>th</sup> century, when Baron Louis introduced his concept of the budgetary law and thus laid the foundations in France of the rule here called four alternating phases – preparation and implementation of the budget are subordinate to the government, voting and control are subordinate to the chambers of the Parliament. For almost two centuries, the entire French budget law has been governed by this cardinal rule. All publications devoted to state finances respect the mentioned budgetary procedure, whether they are publications from the first half of the 20th century (e.g. Allix, 1931) or those that touch on positive law under the Fifth Republic (e.g. Bouvier, 2004).

In 1814, Baron Louis suggest to set expenditure first, and then to set incomes. This procedure was inspired by the English budgeting tradition according to which the British Parliament approves and allocates resources and subsequently finds the necessary resources to cover them (Molinier, 1969, 65). The rule of four alternating phases has characterized English budgetary law since the Glorious Revolution of 1688, i.e. more than a century before it happened in the French budgetary law. However, it was not only a rule of four alternating phases, because overall it can be stated that the parliamentary usurpation of financial rights as such took place in England a century before France (Jèze, 1910, 46).

Likewise, the principle of consent to taxation was declared in England through the Magna Carta in 1215, while its recognition in France only resulted from the Assembly of Estates in 1314. In England, the principle of consent to taxation had to be re-emphasized after the Glorious Revolution through the Bill of Rights from 1689. In France, this happened at the time of the Revolution in 1789 through the Declaration of the Rights of Man and Citizen, i.e. again centuries later.

#### 4 Conclusions

The paper dealt with economic and legal issue of the French budget. For that reason, the author focuses on main economic indicators of the French economics and then the legal framework of the budget in France. To the above, the author added the historical evolution of the term budget and its relevant context. In these parts the author used suitable scientific methods as for example methods of analysis and synthesis, comparative method or descriptive method.

In the part which was dealing with the economics of the French budget, there were mentioned crucial macroeconomics indicators as GDP, inflation or unemployment rate. The economics data covered both previous years and the proposal of the French budget for the next year. According to general data, France has a problem with permanent indebtedness, but it is managing to slowly reduce its fiscal deficit. In the second part devoted to the legal aspects of the French budget, there was mentioned the systematics of the financial law, or rather French public financial law. Within the system of the public financial law, the position of budgetary law was determined. Subsequently, the specifics of the French budget law were presented and differences between terms *budget* and *budgeting* were pointed out. Finally, the French budget, or rather budgeting was characterized by the view of its defining features, among which performance budgeting ranks. In the third part of the paper, the author analyzed the notion of budget, focusing on etymological basis and its subsequent development. Attention was also paid to the material meaning of the term budget, when this meaning was demonstrated by comparing the French and English budgets.

It was the comparison of the concept of the budget in France and England, including the analysis of its historical context, that significantly helped to answer the hypothesis set out in the introduction of the paper. From this comparison, it was found that although the term budget is etymologically French, England was a significant innovator of its material meaning. For that reason, the hypothesis stated in the introduction as “*France was the main innovator of the budget*” was disproved. The conclusion can be stated that the main and secondary aims of the paper have been met.

#### References

- Allix, E. (1931). *Traité élémentaire de science des finances et de législation financière française*. Paris: Rousseau et Cie.
- Bartes, R. (2022). Public Accounting in France. In E. Opatrná (Ed.), *Inproforum DIGITALIZATION. Society and Markets, Business and Public Administration 2022* (pp. 254-259). České Budějovice, Czech Republic. DOI 10.32725/978-80-7394-976-1.37.
- Bartes, R. (2019). Evolution of Budget and Budgeting in France. In *Carpe Scientiam: Proceedings of the Conference*. (51-61). Moscow, Russia.
- Bouvier, M., Esclassa, M. C., Lassale, J.-P. (2004). *Finances publiques*. Paris: LGDJ.
- Brittain, H. (1959). *The British budgetary system*. Michigan: Allen & Unwin.
- Goldsmith, S., Eggers, W. (2004). *Governing by Network: The New Shape of the Public Sector*. The brooking Institute.
- Rey, A. (1992). *Dictionnaire historique de la langue française*. Paris: Le Robert.
- Lubińska, T. (2007). *Budżet zadaniowy w Polsce. Reorientacja z wydatkowania na zarządzanie pieniędzmi publicznymi*. Warsaw: Difin.
- MOLINIER, J. (1969). *La procédure budgétaire en Grande-Bretagne*. Paris: Rousseau et Cie.
- Orsoni, G. (2005). *Science et législation financière, Budgets publics et lois de finances*. Paris: Economica.
- Stourn, R. (1900). *Cours de finances. Le budget*. Paris: Librairie Guillaumin et Compagnie.
- Zawadzka, U. (2014). *Konstrukcja prawna, wdrażanie i realizacja budżetu zadaniowego we Francji i Polsce*. Krakow: edu-Libri.
- Fitchratings. Online: <https://www.fitchratings.com/research/sovereigns/france-maintains-large-2024-deficit-target-in-slow-fiscal-consolidation-plan-02-10-2023>
- Insee. Online: [https://www.insee.fr/en/outil-interactif/5543645/tableau/10\\_ECC/11\\_ECO](https://www.insee.fr/en/outil-interactif/5543645/tableau/10_ECC/11_ECO)
- OECD. Online: <https://www.oecd.org/gov/budgeting/Budgeting-in-France.pdf>