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(*Centre des Jeunes Dirigeants d'entreprise*)

FROM THE EDITOR

The June edition of VIVANT-EUROPE is exceptionally big.

It aims to show **convergences** between eminent personalities and associations about tax removal on labour and social security funding based on consumption (see below).

A fiscal system which prevents competitiveness and cripple job creation is a "**vicious circle which leads us to a disaster**" states the CJD* .

VIVANT-EUROPE - whose site records more and more subscriptions - states that Europe should liberate labour by removing its tax burden and finance the social security by taxing the consumption of goods, which are most often produced by machines.

* The « Centre des Jeunes Dirigeants d'entreprise » was founded in 1938 by a couple of young managers in order to **turn the economy into a service to people**. CJD's goal is the **promotion of new ideas** leading the enterprise to become both

more competitive and more human, and help in his mission every young manager willing to improve his personal and enterprise performance. Becoming a CJD member means **breaking his isolation** and **sharing** similar concerns with others. It also means **exchanging confidentially** ideas on corporate issues, benefit from other viewpoints and from a user-friendly network (www.cjd.net).






2. SUPPORTERS OF THE TAX ON CONSUMPTION (also called social VAT)

 <p>Maurice Allais : Prix Nobel de sciences économiques, physicien, http://allais.maurice.free.fr/</p>	 <p>Jean Arthuis : ancien ministre, président de la commission des finances du Sénat , www.senat.fr/senfic/arthuis_jean83011j.html</p>	<p>Pierre Aunac: ancien chef d'entreprise, auteur de "L'économie au service de l'homme"</p>
 <p>François Bayrou : Député www.assemblee-nationale.fr/12/tribun/fiches_id/410.asp</p>	 <p>Christian Blanc : Député www.assemblee-nationale.fr/12/tribun/fiches_id/286166.asp</p>	<p>Jean Paul Baquiast : Membre de PanEurope France</p>
 <p>Anne-Marie Comparini : Député, www.comparini.net/</p>	 <p>Nicolas Dupont-Aignan : Député, www.assemblee-nationale.fr/12/tribun/fiches_id/1206.asp</p>	 <p>Christian Gaudin : Sénateur www.senat.fr/senfic/gaudin_christian01017n.html</p>
 <p>Francis Grignon : Sénateur, www.senat.fr/senfic/grignon_francis95036h.html</p>	 <p>Henri Guaino : ancien Commissaire Général au Plan, http://notre.republique.free.fr/bioguaino.htm</p>	<p>Bertrand de Kernel : Secrétaire national, chargé des questions de pauvreté du Forum des Républicains Sociaux (FRS) et Président du Comité Pauvreté et Politique, www.pauvrete-politique.com/p_administratio.htm</p>

 <p>Hervé Le Lous : PDG des laboratoires Fournier, Juva Santé, et Urg, www.urgo.fr/fr/urgo/presentation/index .php</p>	 <p>Philippe Marini : Rapporteur à la Commission des Finances du Sénat www.philippe-marini.net/</p>	 <p>Jacques Myard : Député, www.jacques-myard.org/</p>
 <p>Alain Rouleau : Président de Rouleau Guichard (textile), président de la "F.E.E.F" (Fédération des Entreprises et Entrepreneurs de France), www.feef.org/</p>	 <p>Guillaume Sarkozy : Président de l'Union des Industries Textiles</p>	 <p>Dominique Strauss-Kahn : Député, www.blogdsk.net/</p>

On the 28 November 2005 Senate session on 9:30 pm, forty senators voted an amendment for a social VAT. They are:

Nicolas About	Jean-Paul Amoudry	Philippe Arnaud	Denis Badré	Gilbert Barbier
Claude Biwer	Maurice Blin	Didier Borotra	Jean Boyer	Marcel Deneux
Yves Détraigne	Muguette Dini	Daniel Dubois	Jean-Léonce Dupont	Pierre Fauchon
Françoise Férat	Christian Gaudin	Gisèle Gautier	Adrien Giraud	Jacqueline Gourault
Jean-Jacques Jégou	Joseph Kergueris	Pierre Laffitte	Valérie Létard	Jean-Claude Merceron
Michel Mercier	Aymeri de Montesquiou	Catherine Morin-Desailly	Georges Mouly	Philippe Nogrix
Georges Othily	Anne-Marie Payet	Jacques Pelletier	Yves Pozzo di Borgo	Bernard Seillier

 <p><u>Confédération Française de l'Encadrement</u> - G.G.C.</p>	 <p><u>L'Élan Nouveau des Citoyens</u></p>	 <p>Le Comité <u>Pauvreté et Politique</u></p>
 <p>La <u>Coordination Rurale</u></p>	<p>La <u>Fédération Nationale des Syndicats d'Exploitants Agricoles</u></p> 	 <p>La <u>Fédération des Entreprises et Entrepreneurs de France</u></p>
<p>Le <u>Parti Vivant</u> (Belgique) Le mouvement <u>Vivant Europe</u></p> 	<p>Le <u>Centre National des Jeunes Agriculteurs</u></p> 	 <p>Le <u>Parti Fédéraliste</u></p>
<p>Le site <u>gaullisme.fr</u></p> 		

3. A SOCIAL FISCAL SYSTEM SUPPORTING COMPETITIVENESS AND EMPLOYMENT

THE TITANIC SYNDROM

The French famous "social model" is leaking everywhere. Like the Titanic that we believed insubmersible, it has started sinking. We continue to praise its merits, singing on the bridge, just before it swings down to the lowest depths. Like on the most beautiful steamer of the world, everybody, unaware of the emergency, wants to keep its acquired benefits. We only start to launch the rescue boats for the first-class passengers (the private insurances), for the others, we will see later.

Let us develop the comparison. What is discussed is neither the quality of service available on the Titanic, nor the intrinsic quality of our social protection system; **it is the way they have been managed in order to face the reality**. On one side an **iceberg**, on the other *mondialisation* and its consequences.

Just because we want to keep a high level of social protection, we need to recognise that its management and funding modes are **obsolete**. We know what are the **three big icebergs** that we will hit, with No excuse of surprise. **Unemployment** (1) is a financial pit which increases the expenses and decreases the income, but also undermines people's confidence. The **Social security structural deficit** (2) finds No solution. Last **Retirement funding** (3) will soon become a problem again, despite the recent reform. An the ocean on which the icebergs are drifting is the public debt...

We can not go on this way. Titanic wreck marked the end of a society of classes, two years before the First World War. Don't wait for the day where the end of our social security will mark the end of our welfare state and the return to the laws of the jungle. However that could happen **if we are unable to engage the necessary reforms**.

If we keep the system as such and only work out small patches, we know we go straight into the (ice)wall! As we shall explain below, in front of the growing social needs, the only way out will be **more tax on labour, decreasing our competitiveness**, encouraging delocalisations, increasing unemployment, decreasing social contributions. **This vicious circle leads to bankrupt**.

Like our companies in the modern competition, our developed societies can only bank on **innovation**. We have to imagine new solutions and get rid of taboos and old mental patterns. We believe in CJD that reforms are possible when they are driven with *a correct method, based on listening, respect of peers, open-mindedness, with time, some courage and a lot of pedagogy*. We are experiencing this daily in our companies: **the only efficient changes are those that have been endorsed by the workers and have clearly shown their benefit for themselves and the community**.

We followed this approach to submit the present report on **the reform of our social fiscal system**. We did not assume that we had to save our whole social model. We wondered how to refresh the system, rebuild it so as to keep the best parts and remove what disturbs it. We believe that we just need to **rewind the vicious circle up side down**.

Lower tax on labour makes it more attractive with respect to competing countries. An improved competitiveness stimulates our companies which can then produce and sell more, innovate and create new jobs. Reduction of unemployment stimulates consumption which strengthens the inside market.

But we should of course not just request tax reductions as usual without recommendation of alternative resources. The only efficient and fair solution is to broaden the funding basis of the social protection. It is so much needed and wise that the **protection scope widely exceeds the labour scope**. Should the enterprise support the cost of, for example, people aging (health and retirement) while it should focus on activity development? **Should this not be supported by the community as a whole instead?**

We propose here the introduction of a "social contribution on consumption". We are not alone. And we do not pretend it is a holy grail. Its greatest worth is to lead us to think differently on the problems we are facing. It is the beginning of a good reform.

The Titanic was lost for sure. Wouldn't it have been lost at sea, it would have been sunk by competition with planes. It was an old answer to fast increasing transport needs. Our *Secu* is lost if it is unable to anticipate the tremendous health-care and social needs of tomorrow and bring innovative answers. It is definitely a society choice.

Françoise Cocuelle, national President of CJD

The present report is the result of the work of the Commission nationale de prospective sur la fiscalité headed by Emmanuel Vasseneix and made of Alain Aubouin, Bernard Caroff, Arnaud Chevrier, Nathalie Crouzet, Bertrand de Kermel, Bernard Poligny, Corinne Pansier, Jean-Luc Tuffier, Arnaud Villedieu.

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Abbreviations

- CSG** : Generalised Social Contribution
CRDS : Contribution on Social Debt Reimbursement
CVA : Added-Value Contribution
CSCO : Social Contribution on Consumption
OMC : *Organisation Mondiale du Commerce*
SMB : Small and Medium Business
R&D : Research and Development
VAT : Value Added Tax

A SOCIAL PROTECTION SYSTEM IN DANGER AND DANGEROUS

France is not an island. Some might believe it 20 years ago when the Tchernobyl cloud kindly stopped on our border... But today we are forced to admit that birds are not so careful. Bringing us a very remote influenza, they remind us that **our planet has become smaller** and that we can not anymore protect us against every worldwide event.

Meanwhile we behave in many areas **as it was still possible**. Worse, we are attracted by nationalist withdrawal. For example we pretend to protect the French company Gaz de France by marrying it with Suez instead of letting it be bought by Italian Enel. But is Suez any longer a French company since 75% of its turnover is made abroad? **What does that mean in a worldwide economy?**

Our leaders **are wrong in calling for a patriotic feeling** which is meaningless. Of course we need to boost our economy and our companies, but we will never succeed with autarchic and malthusian arguments. Our development is instead bound to a greater openness and a change of mentality. Let us **stop sinking** in our trench wars and jump to the offensive. A soft offensive, without aggression

towards anyone, which takes into account our real situation and attempts to bring adequate solutions.

1. A better protection

World has changed. We are almost ashamed to write something so obvious. But it does not seem so obvious to everyone, since some still see the past as a golden age which has never been.

The social security was created 60 years ago. After the war the reconstruction created full employment. The retirement age was set at 65 at a time where life hope was 62 for men, ie. the most workers. Medical technologies were scarce and unexpensive. Aspirine cured most pains.

Since then, life hope increased by nearly 20 years while the retirement age decreased by 5 years. Medicine achievements remarkably improved our life, with the help of many new drugs. The effective labour time was divided by two (considering the increases of unemployment and education time together with the labour time reduction). Family allowances support more and more needs (from RMI to accommodation), which **keeps more and more people away from misery**. And let us not forget that women labour moved many activities, previously fulfilled for free, to rewarded social workers.

2. Expensive improvements

We can only congratulate the great innovations in medical technologies that improve our welfare. But we also need to be aware of the resulting **explosion of social expenses**. Despite the cost reduction efforts, there is no hope of global reduction. Instead, people aging, higher expectations and wider services **will inevitably increase them**. Meanwhile health-care and social services will develop and become a **new source of jobs and value**. So the issue is **the support of these activities in the long-term** instead of trying to *break its development artificially*.

This was the goal of *numerus clausus* regulations in medicine education. One naively thought that less doctors would require less health expenses. The result is a serious shortage of doctors while the social security deficit still grows.

3. A tremendous deficit

«Today social and public debts amount to € 20000 per person and € 48000 per worker»

Social protection and retirement funding **is not ensured in the short term**, in spite of always heavier charges and reforms which are outdated before setup. Current **social and public debts exceed €1200 billions**, not including €800 billions dedicated to the funding of public retirement plans. It amounts to €20000 per person and €48000 per worker! The charge of interests is the second item of the national budget. Still the rates are very low. We can not imagine what would happen should they rise! Every year the government submits a budget with deficit (of some €30 billions) which increases the debt. The income of selling out State shares is an **almost dried-out source**.

If the State was a company, it would have been forced to bankrupt. Should we still increase the charges or create new taxes to save the sinking ship? Should we still charge the labour almost exclusively? **Or is there another way out?**

4. Big enterprise contributions ...

« French companies are charged more than half the € 716 billions of mandatory contributions »

Before answering the latter question, we need to understand the **composition of the mandatory contributions**. They exceed 44% of the national gross income and amount to €716 billions in 2004. G€290 are for the State, 88 for the local communities and 338 (nearly half) for the social institutions (see Insee *« les comptes des administrations publiques en 2004 »*).

French companies, producing in France, currently directly support **more than half** of this amount, through employer social contribution, income tax, professional tax, real-estate tax and others. Workers add to that their own social contribution based on their salary.

Foreign companies selling in France are charged a **much lower contribution** (10-12%) through customs taxes which will **disappear in 2013** according the new OMC regulations.

The remaining part is provided by the taxpayer (CSG, CRDS, IRPP, accommodation tax, inheritance duties) and the consumer (via the VAT, which brings G€120, or 17%), most of whom are also workers!

The highest part is therefore charged to the companies. One should note that their first role in this process is a mailbox or rather a **tax collector**. In spite of the common sense believing that the employers are forced to pay when the charges increase, they actually pay nothing. They just **include these charges in the selling price** of their products or services. At the end it is **always the customer who pays** when buying them. This important argument will be recalled below.

...which inflate the labour charge

« Today 14 millions people in the working age do not work at all, and rely on social charges payed by nearly 25 millions workers. »

Nevertheless our social security and family assistance plans are still directly funded by labour taxes (there are 26 social contribution items on a salary sheet !!!). This system was acceptable in the 30-year period of full-employment and sustained growth in a closed and protected economy. **It has become unacceptable in a country exposed to a tremendous deficit, slow growth and high unemployment.**

Today 14 millions people in the working age (between 16 and 65) do not work (unemployed, at school, early retired), and rely on social charges payed by nearly 25 millions workers. In this system, less and less working people support the joint endeavour and are therefore charged more and more.

Although it is truly consistent for a company to support the cost of labour safety or environment protection, it is less acceptable for it to also support the family assistance or health-care for people who have no relationship with it. **These costs clearly resort to the joint responsibility.**

5. Customs charges up side down

« our imports, which make 25% of our consumption, do not contribute to our social expenses. »

The situation has become **inconsistent** in an open economy where labour cost is a competition target everywhere in the world. At the end a product is nothing more that the result of a pile of

labour costs, since raw materials do not weigh much in a more and more service-oriented economy. The WallMart distribution channel accounts for 10% of US imports from China, which so provides 70% of its off-the-shelf goods. **The same is likely to happen in France in less than 10 years if nothing changes.**

We outline the following paradox: by taxing via social contributions the goods and services produced in France without taxing the imported goods (social contributions in China and most emerging countries hardly exist), our system behaves like **reversed customs duties**. On one side our exports are made more expensive. The foreign customer partly pays our social contributions with no return. On the other side our imports, which make 25% of our consumption, do not contribute to our social expenses and very little to the local ones. This did not matter in the closed economy of the fifties, but today, it **penalises the French products in favour of the imported products.**

In order to correct these malfunctions, governments have introduced tax reductions on low salaries (with side effects resulting from threshold effects) and developed assisted jobs. There is currently **2550 job assistance types for companies !!!** funded by ... mandatory contributions which raise the labour cost! Is this the right answer to the right question? not to mention the **lack of any serious evaluation** of such a system.

6. A system close to implosion

If the funding system does not change, the French economic stakeholders (craftsmen, tradespeople, companies, farmers...) **will become less and less competitive**. It will result in delocalisations, which will increase unemployment and so reduce the funding source, etc. **We will be locked in a vicious circle. The system should normally implode soon, because young people will understand they are the losers. The elders will be protected while the youth will be unemployed or forced to expatriate.**

No business manager, and even less a SMB manager, is happy to delocalise. Most of them are attached to the place where their company is installed and to the people who work for it. They only leave when there is no other choice for their business, and relocate in countries where labour cost is lower.

A recent survey (1) of CJD affiliates clearly shows the weight of this charge on companies. 86% of young managers believe that **fiscal issues are important ones** with respect to the other charges. 68% say they are a **direct hindrance** to business development, even if 56% acknowledge they are a normal contribution to public services from which they benefit.

Also 49% admit they have been **worried** by the evolution of the social contribution burden for a few years, and only 17% by the CSG/RDS, 13% by the local taxes, 12% by the income taxes. 80% believe that labour cost is a direct hindrance to their business development. Even if 6% consider delocalisation as a solution, **63% believe that a fiscal reform would be the best solution.**

7. The need to rethink the fiscal system.

It seems clear from above that the solution consists of a drastic decrease of labour cost and an increase of the contribution basis. A first step was taken with the introduction of the CSG which is applied to every income: unemployment and retirement allocations, bank savings.

Social contributions have become a tax (2) because:

- its amount is not person-specific;
- the service is not related to the charge;

- we have no choice on the offered service.

As outlined by Hervé Le Lous (see note), the regulations by the so-called peer commissions do not change the nature of the system. It is actually a tax which feeds a collective deposit and covers various expenses like unemployment, disease, police charges and justice, among other costs. **Since the social security is funded by taxes, the employer charges should be seen as salary-bounded taxes, taken prior to payment.**

(1) Survey of October 2005 on 400 young managers.

(2) Hervé Le Lous, President of Fournier, Juva Santé and Urgo Laboratories, who developed that argument, also points that the French language includes many synonyms to speak of taxes: droits, impôt, cotisation, prélèvement, vignette, contribution, remboursement...

CHANGE THE SYTEM TO SAVE IT

Above observations show the emergency of redesigning a fiscal system which is not suited to a worldwide economy and penalises competitiveness, **without covering the public and social charges**.

For CJD, a reform should be focused on three goals:

- **Maintenance** of a high-level social protection system, which is threatened of implosion;
- **Improvement of business competitiveness**, only source of wealth and employment;
- **Global performance** and long-term development for a better future.

They should be achieved via 4 priorities:

1. Recover labour sense

Labour is not only an **income** source, but also a source of **creation, social binding**, cooperation and many other intangible worths. Reducing it to a pure funding function, charging it the whole burden of social expenses, is a way of depreciating it. Labour would have no other sense than supporting living expenses and social protection.

Lowering the labour cost **with no decrease of income** would show that labour produces more than money. The workers are not the **society milch-cow**, drawn to exhaustion, but the vectors of its dynamics. They make it run by their creativity, engagement, projects, competence and initiatives.

Recovering labour sense is becoming aware of **everybody's contribution** to the community welfare.

2. Promote the creation of value by R&D, high-level skills and innovation

We will **not be able to compete** with China and the other emerging countries in the field of low-qualified manpower (salary ratio is at least 20). However it is dangerous to keep increasing (through charge proportionality) the cost of jobs which create important added value to our products and services. It applies specifically to research and development jobs.

Continuous innovation that they carry on is the only chance of sustaining our business competitiveness, our exports and our creation of value. Every business top manager should invest in a field **where machines can not replace men**. They will not be able to do so if these labour costs are **prohibitive**.

3. Create stable jobs and stop assistance

As outlined above, our system **has turned mad**: labour expensiveness prevents employment in the worldwide labour market; the State gives helps to companies for job creation; and **these helps are funded by additional charges and taxes**, which increase the labour cost.

It would be more efficient to stop this assistance, which is an additional administrative burden, and lower the labour cost. Except for a few opportunists who are no true businessmen, managers naturally prefer to help themselves by succeeding in their business and hiring the needed personnel. **The best help they need for the creation of stable jobs** is less expensive labour conditions.

4. Leverage long-term development

The public debt jeopardises the development capabilities of the future generations. Shall we keep charging our children and their children for our carelessness? It is our responsibility to find ways to **dramatically reduce** this debt.

That can only be done in a **global performance perspective**, taking everybody's interests into account, and innovating to find fair and lasting solutions. Canada spectacularly achieved that in recent years, reducing a higher debt than ours.

We should also think about the current **transport crazyness** which encourages *delocalisations*, by moving the production units more and more remote from the customer, and transporting products **all over the world**. The low transport costs enable **wild competition and pollution**. Why this activity is not charged for these consequences?

Let us recall the definition of sustained development from Brutland commission: "*a development which covers current generation needs without threatening future generation ones*".

CJD defines global performance as a fair balance between **economical, social and society (environment) performances**.

THINK THE FISCAL SYSTEM DIFFERENTLY

We have explained how inefficient and even unfair is a system which funds our family assistance and social security on almost exclusively labour-based contributions. **But on what else should it then be based?**

Every reform in fiscal matters is complex. We mentioned the **26 salary sheet items**, various rules and exoneration techniques, ceilings and thresholds: the system is an **entangled web** of embedded regulations **without any global vision**. Any change on some part could destabilise the whole. An apparently sensible change could produce negative side-effects.

Moreover we often fall into calculation problems where experts argue on figures with confusing interpretations, and justify *status quo*.

Eventually we are faced with the transition issue, **critical period where either the incomes are lacking or the taxpayer is over-charged**. So any reorganisation of the fiscal system could only be very carefully designed.

This is why we introduce below a few propositions among which we will develop only one in

details, which looks the most efficient and easy to setup. This is no panacea for clearing up the social deficits in one shot. We mainly want to show an **alternative thinking path** leading to solutions better suited to the current needs and the economical reality.

1. The contribution on added value (CVA)

This method seem to be promoted by President Chirac and the trade unions.

If we agree on the above observations, we should straightforwardly consider it as a disaster. This CVA would tax every companies, so increase labour cost globally, but would specifically penalise those who "sell" skills, innovation and research, ie those we need the most in order to keep our competitive advantage on other countries and develop exports.

2. Taxing stock incomes

CSG and CRGS are based on all incomes, including stock incomes. It is certainly acceptable to increase CSG by one or two percents. CJD is not opposed to it from an ideological point of view, since this money tends to sleep in banks. But the risk is to see it go away in foreign countries, reducing local investment. **We should thus carefully balance the benefits with the losses** (similarly as with the ISF, whose return is very poor).

3. Taxing product transport

Strong transport taxes would hit two goals.

First it would **compensate the derived costs of their excessive burden** for the community: road infrastructure, pollution, accidents, diseases... Transporters should be charged for the troubles they create, similarly as tobacco is charged for health-care expenses.

Second, an increase of transport costs would automatically improve competitiveness of low added-value, locally produced base products. It would bring production units and customers closer, and protect local employment.

Such a provision would certainly face great resistance from a business where competition is wild and which undergoes recurrent crisis. But can we let this business develop in the anarchy, often despising every social regulation? The communication channels - ground, air and sea - are almost all **saturated**. Has not time come to regulate goods traffic consistently, before the **coming oil shortage** forces us to react in the emergency?

4. The social contribution on consumption (CSCO)

CSCO is not a new concept from CJD, it is another name for the "social VAT", also called competitiveness VAT, promoted by many economic actors for several years (1). We want to avoid with this name change the confusion with the fiscal VAT, which is used by opponents who argue that such a tax penalises the poorest. As we shall see this is wrong, but often heard.

This is not an additional contribution, but just a **new calculation method for broadening the contribution basis and simplifying** the system, or a charge transfer from labour to products and services.

(1) See tva-sociale.org and the work of Bertrand de Kermel, President of the Comité Pauvreté et Politique, which have strongly inspired our thinking.

A. Working out the CSCO

The social charges are **moved from the cost price** account of the company balance-sheet into a pure tax account, **keeping the selling price** (all taxes included) of locally-produced goods **unchanged**.

CSCO accounting:

	Before	After
Raw material	22	22
Gross salaries	40	40
Social charges	18	0

Investments charges	15	15
Benefit before taxes	5	5
Selling price before CSCO	100	82
CSCO (22%)	0	18
Selling price without VAT	100	100
VAT (19,6%)	19,6	19,6
End price	119,6	119,6

B. CSCO benefits

• Improving competitiveness

Competition is based on tax-excluded prices in foreign markets while it is based on tax-included prices on the local market. Exports are therefore sustained by the decrease of tax-excluded prices. The local products are made more attractive by an increase of tax-included prices of imported products.

CSCO effect on an exported product:

	Before	After
Exported product without VAT	100	100
Exported product without VAT and CSCO	100	82

CSCO effect on an imported product:

	Before	After
Price cost without CSCO	100	100
CSCO (22%)	0	22
Selling price without VAT	100	122
VAT (19,6%)	19,6	23,9
End price	119,6	145,9

• Broadening the contribution basis

Social contributions are not only paid by workers alone, but by every customer, **young and old**, who all benefit from the social protection. The many **tourists** of our country also bring their share.

• Lowering the labour cost

This is an intrinsic benefit from CSCO which makes local manpower more attractive. It gives sense to the **relocation** of companies, particularly in manpower-intensive businesses which face the strongest competition today. It also promotes the creation of value without which we can not hope to restore full employment.

- **Increasing the income**

CSCO is charged on imported products, so foreign producers contribute to our own social protection.

C. Hindrances on CSCO setup

The following arguments are raised against CSCO, but we do not believe they are relevant:

- **CSCO is unfair**

Indirect taxes like VAT are considered unfair because they apply the same rate regardless of customer's income, from the highest to the lowest.

This argument should not apply to CSCO. Like every company charge it is part of the price cost of products and services. At the end they are all paid by the customer or the taxpayer, in any system.

Is it fairer instead that companies and workers pay for everybody?

- **France alone can not setup CSCO**

European Commission agreement is required to change a VAT rate. But we are free to organise the funding of the social security. A similar system was setup in Denmark several years ago. Germany has started the same process, and other member states will follow. (Let us recall that France "invented" the VAT, which was then applied almost everywhere in the world).

Finally the CSCO concept breaks no free-exchange principles and no OMC regulations: French and imported products are ruled the same way, so there is no disguised protectionism.

- **Company could keep the cost price unchanged in spite of the charge reduction**

They indeed could, which could create inflation and consumption decrease. But competition pressure and consensus traditions should keep tax-excluded prices unchanged, so that the CSCO-excluded prices would decrease accordingly. Believing in an inflation risk is a mistrust in competition.

- **CSCO is a fiscal revolution hard to setup**

Companies already live with the VAT system which is similar to CSCO from a management and accounting point of view. They will easily adapt, as much as after setup, everything will be simpler.

The above-mentioned survey of CJD member's opinions included a question on CSCO. 63% believed that it would favour their business (15% of negative opinions and 22% uncertain). The

first benefits from the system are thought to be company competitiveness for 24%, employment for 24%, economic growth for 23%.

So most hindrances are likely to come from politicians and mainly trade-unions. The latter see it as a questioning of the peer system, which is true. We think that the efficiency of the peer system in its current operation mode remains to be proved. We can consider that existing bodies could manage the contributions collected via the CSCO.

D. CSCO as a first step towards change.

After having investigated many alternatives, CJD is today convinced of the benefits of this system for our country competitiveness and the survival of our social protection system. We are not alone, **more and more political and economical personalities are adding support to the CSCO.**

But we know that in France we often wait for the breaking point before changing a system. The recommended reform will be difficult to explain and agree on. It asks for a **great deal of pedagogy.** It will take time to explain and persuade everybody, specifically the social partners.

It is possible to set it up step by step, **starting** for instance **by family allowance charges.** This is a simple case because they are bound to the salary without exoneration and ceiling, and make up a marginal part of the social charges.

Let us repeat that the reform would not cure everything and certainly not free us from the need to control our public expenses and individually understand the cost of our social protection. But it would at least, beside the above-mentioned benefits, **feed the debate, change our view** of our social system and **start changing our mind.**