Business Perceptions of the new French regime on Auto-Entrepreneurship: a risk-taking step back from socialism

A. Ashta and S. Raimbault

France has a rather low rate of enterprise creation. Institutional analysis helps to explain why this is so. Nevertheless, in the last few years since 2003, France has been modernizing its legal framework to stimulate enterprise creation and this has achieved some success. A new regime of Auto-entrepreneur has recently been introduced in early 2009 as a new start up mechanism, creating a lot of buzz. This paper presents the new French regime and its accountancy and tax inputs, explaining the economic motivations of the new institution and its limitations. The paper presents results of a questionnaire administered to CEO's of small business enterprises on their perceptions of this regime. The research indicates that the entrepreneurship law is perceived to be risky for tax and social security revenues, lack of entrepreneurial capabilities, lack of social security net for failed entrepreneurs, and increased competition for small enterprises from their own employees. Future directions for research are indicated in entrepreneurship and microfinance, business regulation and globalization.

Keywords: Entrepreneurship, microenterprise, microcredit, French law, socialism, capitalism, regulatory analysis

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Abstract

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INTRODUCTION

The French have not been very creative in the field of launching new enterprises. Hurel (2000) reported that the French entrepreneurial density was half of that of Italy as shown in table 1 below, and that it underperformed both Spain and UK considerably. Table 1, extracted from his report also shows that while the French created only 177,000 new enterprises per year, the other countries created twice as many.

Table 1: Density and entrepreneurial creation rate compared between France and its immediate European partners

<table>
<thead>
<tr>
<th></th>
<th>Number of firms</th>
<th>Number of new enterprises created</th>
<th>Rate of creation (for 10,000 inhabitants)</th>
<th>Entrepreneurial density (number of firms for 1 million inhabitants)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>2 650 000</td>
<td>350 000</td>
<td>88</td>
<td>0.067</td>
</tr>
<tr>
<td>France</td>
<td>2 400 000</td>
<td>177 000</td>
<td>44</td>
<td>0.041</td>
</tr>
<tr>
<td>Italy</td>
<td>4 650 000</td>
<td>370 000</td>
<td>64</td>
<td>0.081</td>
</tr>
<tr>
<td>UK</td>
<td>3 500 000</td>
<td>393 000</td>
<td>66</td>
<td>0.059</td>
</tr>
</tbody>
</table>


Time series data from INSEE, the French Statistical Organisation, indicates that although there has been a fall in the number of new enterprises created during the 1990s, there is some pick-up in the activity during this decade (see Table 2). However, the numbers are still far short of the numbers of comparable countries.

Table 2: Creation of enterprises in France by type of establishment
<table>
<thead>
<tr>
<th>Types of creations</th>
<th>1994</th>
<th>%</th>
<th>1998</th>
<th>%</th>
<th>2002</th>
<th>%</th>
<th>2004</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure</td>
<td>182 536</td>
<td>62.4</td>
<td>164 473</td>
<td>62.1</td>
<td>176 337</td>
<td>65.7</td>
<td>223 040</td>
<td>69.7</td>
</tr>
<tr>
<td>Takeovers</td>
<td>49 629</td>
<td>16.9</td>
<td>44 362</td>
<td>16.8</td>
<td>40 084</td>
<td>15</td>
<td>41 920</td>
<td>13.1</td>
</tr>
<tr>
<td>Reactivations</td>
<td>60 682</td>
<td>20.7</td>
<td>55 766</td>
<td>21.1</td>
<td>52 038</td>
<td>19.3</td>
<td>55 040</td>
<td>17.2</td>
</tr>
<tr>
<td>Total annual</td>
<td>292 847</td>
<td>100</td>
<td>266 447</td>
<td>100</td>
<td>268 459</td>
<td>100</td>
<td>320 000</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: INSEE directory SIRENE field Industry, Construction, Trade, Non-Financial Services

In the United States the status of auto-entrepreneur or sole trader represents 76% of start-ups, while in France, being an entrepreneur accounts for only a quarter of start-ups.²

The French governments have been examining institutional factors which have been undermining their entrepreneurial activities, especially sole-traders. Among the reasons for lack of entrepreneurship are lack of financing, very high taxes, high social security obligations, strict accounting obligations, institutional factors increasing risk and the probability of losses such as administrative complexity of setting up business, and cultural factors which are responsible for high risk aversion and high loss aversion.

To overcome these barriers the French legislator has been taking out a series of laws over the last few years. A number of legislative changes have been introduced over the last six years to reduce risk aversion, loss aversion and institutional barriers to risk taking, starting with the law of 2003.³ The Table below shows that the number of net enterprises created each year has increased from 178,000 in 2000 to 280,000 in 2008. The percentage analysis is also interesting and shows an increase of about 54% in new ventures and only 33% in terminations,

² ADIE internal memo: "Le régime de l’auto-entrepreneur en bref…". ADIE is the leading microfinance institution in France).
³ These legislative changes have been ushered under the menace of a Damocles' sword: the earlier experience in promoting large enterprises as national champions misfired as these champions were willing to relocate to underdeveloped countries to take advantage of lower costs, threatening to leave France unemployed.
leading to a net increase of 58%. The increase would be even more favorable if we had taken 2002 as the base year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross creation</th>
<th>Closed</th>
<th>Net creation</th>
<th>Gross creation</th>
<th>Closed</th>
<th>Net creation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>331 736</td>
<td>50 917</td>
<td>280 819</td>
<td>154</td>
<td>133</td>
<td>158</td>
</tr>
<tr>
<td>2007</td>
<td>325 739</td>
<td>42 532</td>
<td>283 207</td>
<td>151</td>
<td>111</td>
<td>159</td>
</tr>
<tr>
<td>2006</td>
<td>285 458</td>
<td>40 156</td>
<td>245 302</td>
<td>132</td>
<td>105</td>
<td>138</td>
</tr>
<tr>
<td>2005</td>
<td>271 217</td>
<td>42 896</td>
<td>228 321</td>
<td>126</td>
<td>112</td>
<td>128</td>
</tr>
<tr>
<td>2004</td>
<td>268 996</td>
<td>42 154</td>
<td>226 842</td>
<td>125</td>
<td>110</td>
<td>128</td>
</tr>
<tr>
<td>2003</td>
<td>238 971</td>
<td>42 847</td>
<td>196 124</td>
<td>111</td>
<td>112</td>
<td>110</td>
</tr>
<tr>
<td>2002</td>
<td>214 882</td>
<td>38 040</td>
<td>176 842</td>
<td>99</td>
<td>100</td>
<td>99</td>
</tr>
<tr>
<td>2001</td>
<td>213 380</td>
<td>36 796</td>
<td>176 584</td>
<td>99</td>
<td>96</td>
<td>99</td>
</tr>
<tr>
<td>2000</td>
<td>216 056</td>
<td>38 182</td>
<td>177 874</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Adapted from INSEE Gross creations and terminations according to legal announcement

Encouraged by this success, and realizing it still has a long way to go to catch up with its European neighbors, the last\(^4\) major piece of French legislation is the Law on Modernization of the Economy (law n° 2008-776 of August 4, 2008). The law contains 175 articles on diverse issues such as encouraging entrepreneurs (82 articles), increasing competition (26 articles), increasing the attraction of French infrastructure (36 articles), increasing the availability of Finance for growth (19 articles) and diverse other matters (12 articles). The application decree for this law went into effect in 2009.

In this paper, we look at the recent change in one aspect of this French business entrepreneurship legislative framework: the newly introduced Auto-Entrepreneur regime, which is currently creating a buzz in French business and professional circles.

**BACKGROUND : THE AUTO-ENTREPRENUER LEGISLATION TO OVERCOME FINANCIAL AND CULTURAL BARRIERS**

\(^4\) It was the "last" in May 2009, at the time of writing this paper.
The legislation on new regime of Auto-Entrepreneur is contained in the first 20 articles of the above mentioned law of August 4, 2008, effective from the 1st of January 2009. This part provides a brief summary of the statute, indicating how French cultural barriers are being affected. The discussion is based on the reading of the Bill (Projet du loi 2008), its accompanying motivations (Exposé des motives) the Act (Loi, 2008) and the associated parliamentary reports in the National Assembly (Charié 2008) the Senate (Béteille et al 2008) and the Joint session (Charié & Lamure, 2008).

The new system of self-entrepreneur is for anyone wishing to practice a trade or craft as a main or supplementary activity. This AE regime is addressed in particular to people who do not necessarily want to create a commercial company to perform their new activity and want to easily start or stop their activity. These could be students, employees, staff members, the unemployed or even retired. In short, the regime is a return to the sole trader concept in a non-registered firm. This represents a volte-face from the earlier pre-occupation with encouraging limited liability companies.

To understand this volte-face, it must be mentioned that limited liability companies reduce personal risk to entrepreneurs. As a result, they theoretically encourage risk taking. However, to enable contractual parties to understand that they are dealing with a high risk player (a limited liability company), a number of legal formalities are required and therefore fees have to be paid to register such companies. These fees create barriers to entry on one-time operators or operators who do not know if the demand for their services is a short-term or long-term phenomenon. As a result, these people either operate in the informal economy ("on the black", in French jargon) or don't participate. The lack of participation translates into lack of entrepreneurial risk taking habits for the French population. Sustaining such habits across the population makes it a cultural trait, evidenced by the figures in Table 1 above.
Therefore, to encourage initial attempts to create enterprises and create the entrepreneurial habit and reflex, and hence reform French culture, it is necessary to create firms without the high registration charges. And this is what this AE regime does. There is no need to register with the Chambers of Commerce or the Professional Chambers. A simple declaration is enough. In invoices and legal documents, the Entrepreneur must mention that he is dispensed for being registered.

The transaction costs of creating a company include not only the registration fees, but also the entire gamut of operations of understanding different options, understanding the tax and social security implications, hiring lawyers and certified accountants to explain everything, and knowing all the procedures and reporting requirements. These are considered particularly complex by French people.

In the new regime, it suffices to make a declaration to the Center of Formalities of Enterprises (CFE) or to the Social Fund for Independent Workers or simply on the auto-entrepreneur website for both starting and winding up the firm. This declaration can be within three months of starting the business. The competent CFE are Chambers of Commerce and Industry, Chambers of Jobs and Artisans, and the URSSAF for professionals. Since no new legal entity is created, registration of the company is no longer required.

A third major cost of doing business in France was the high social security charges which have to be paid by entrepreneurs. To understand this, it must be kept in mind that France is a socialist democratic country, with high social benefits financed by high social security contributions. Since the French did not know how much money a new entrepreneur was making, they made an assumption that if the person is in business, he must be making profits and therefore till he stabilizes he has to pay a fixed social security charge. This minimum social security charge in fact turns out to be a barrier to entry for one time operators or
operators who don't know if the business horizon is short term or long term, a problem exacerbated by high technological change in recent years. For example, if a registered business makes no sale, it still had to pay these charges, leading again to a lack of business venturing. The new AE statute is therefore accompanied by a new Micro-social regime which indicates that social security charges and taxes will be paid by a monthly or quarterly levy calculated on actual turnover and paid after the period and not in the beginning. Without taxes, the social security charges are 12% for commercial activities and 21.3% for services.

This means that at the time of making a sale, the entrepreneur will know how much he owes the government, thus increasing transparency. Moreover, and perhaps more important, there is no charge in the absence of activity, no consequences in case of failure of the activity, unlike the conventional micro-enterprise regime.

The normal tax regime of the micro-entrepreneur will be the personal income tax regime. But if he is earning less than 25,195 Euros per tax part, he can opt for a low tax on turnover: 1% for commercial activities and 1.7% for services. In fact, the social security charges and taxes combined form 13% of turnover for commercial activities and 23% of turnover for services.

These taxes are liberating taxes in the sense that no further tax is to be paid.

The businesses are exempted from VAT. The bills need to indicate VAT not applicable. Exemption from VAT is not always a blessing because one pays VAT on purchases and does not recover these from the VAT paid by the customer. Therefore, the regime is of use where VAT able inputs are minimal. This is the case where the entrepreneur is providing services, but would not be necessarily true where he is buying and selling goods, as explained later in an example.

A three-year exemption of business tax (professional tax) has been added.
A fourth barrier to entry could be certain regimes which require a minimum of registered capital. However, in this regime, since it is not a limited liability regime, no capital is required.

A fifth barrier to entry was the French culture of separating domestic and business life. As a result, one could not start a business if one was living in an apartment building. This created a need to invest in a business address even if de facto one was operating from the residence. A few years ago, France finally allowed people to start some profession based enterprises from their residences, with approval from the local mayor, provided that there is not too much public access to the private property. In an extension of this, it has now been recognized that at least no intrusion of private life is occurring on the ground floor of an apartment. As a result, the need for authorization to use the home in the ground floor as a local professional is abolished and this is extended to commercial activity also.

A sixth barrier to entry is the complex accounting formalities required of business. The new regime therefore proposes limited accounting formalities: no balance sheet needs to be drawn up. Only a log book detailing the revenue will be required containing sales and summary details of purchases. Supporting documents for sales, purchases and services need to be retained. A Statement of total Sales is required every month or every quarter (on option).

Finally, there is no risk of losing one's personal property: the principal residence is excluded from liability and auto-entrepreneur may extend this protection to all his or her properties, not allocated to business use, by declaration with a notary authority.

All these barriers to entry are bigger for small enterprises since they do not have the economies of scale necessary take them in their stride. The effect of taking off these barriers to entry is that it allows more people a chance to play in the entrepreneurship game. However, the counterpart is that the liability of the entrepreneur is unlimited. This brings us back to the
original problem of risk aversion, notably loss aversion, which limited liability companies were to solve.

The AE law tries to limit this liability by excluding the permanent residence and all other property which is not being used for the business, with a simple declaration to the notary authority.

The AE regime is limited to commercial activity with a turnover up to 80,000 Euros and services with a turnover of 32,000 Euros.

In terms of activity, the thresholds of the micro-enterprise, which serve as reference for entitlement to the status of auto-entrepreneur, are raised to 80,000 € for the business and € 32,000 for services. These new limits will be indexed for inflation in subsequent years. In addition, one must exercise free of VAT.

Tolerances are provided. If the turnover of 88,000 and 34,000 respectively for business and for services is exceeded, exemption from registration with the RCS and the MR and the benefit of the micro-social and micro-fiscal is maintained the current year and the following year. Therefore, when the business exceeds these thresholds, the contractor leaves the regime of micro-enterprise.

This new auto-entrepreneur device is therefore designed to make entrepreneurship accessible to everyone and to allow project sponsors to test their entrepreneurial capabilities without burning their wings in case of failure.

For micro-entrepreneurs already in business, it must make its request no later than 31 December of the previous year for an application the following year. The contractor operating
prior to 1 January 2009 may still benefit from the micro-social in 2009 if he opts for this scheme by 31 March 2009.

The Appendix 1 indicates how the regime compares to the other tax and accounting regimes in France.
THE PROBLEM

Some of the problems of the new Auto Entrepreneur regime are institutional in nature affecting French customs. France is a socialist country with a large percentage of retired people. If social security charges are lowered, obviously retirement benefits would become more limited. In fact, the failure of the Pay-As-You-Go retirement system with the reduction in mortality rates and the increased longevity of people has necessitated possibilities for retired people to go on earning money. This Auto Entrepreneur System therefore allows this.

The Auto-Entrepreneur Regime, like the Microenterprise regime introduced a few years earlier seems to favor small businesses, but in fact may not do so. It may not do so because it has two very high invisible tax components. One stems from tax and social security charges on total sales and the other stems from VAT exemption. A simple example is provided to understand both. The example is for a Business-to-Business environment where the customer can deduct VAT\(^5\).

Assume that a limited liability firm has sales of 50,000 Euros net of tax, material of 30,000 Euros net of tax and that the balance would be a salary including all social charges for its lone entrepreneur of 20,000 Euros. On the entrepreneur's part of 20,000, there would be a social security charge for the employer's side and the employee's side and he would get about 10,000 Euros. On this he would pay Personal Income Tax (PIT): let's take out 10% for PIT and this leaves the entrepreneur 9,000 Euros.\(^6\)

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\(^5\) The example would not be appropriate for a Business to Consumer case nor for a Business to Business case where the second business was exempt, because the price charged by the auto-entrepreneur (no VAT) and the limited company (with VAT) would not be comparable. However, if the business customer is a VAT payer, it is indifferent to its supplier charging VAT or not.

\(^6\) There would be no Corporate Income Tax since the enterprise is breaking even.
In the new law, the social security charges and tax would be 13% of 50,000 Euros = 6,500 Euros. The entrepreneur would get 50,000-30,000 (for material) – 6,500) = 13,500 Euros.

But the story is not over. On the material of 30,000 Euros, there is VAT of 6,000. This was not counted for the firm which prepared its real accounting as it would have been recovered. But our auto-entrepreneur is exempt. He has to pay this 6,000 Euros. So, his profits are only 13,500 – 6,000 = 7,500 Euros.

In short, if material cost and outside charges are a high percentage of sales, it is not advantageous for an Auto-Entrepreneur to enter this scheme.

If he does so, it is either because he is lazy or stupid: both of which would detract from success in business. It is better for him to do some accounting and not use the auto-entrepreneur regime.

This accounting would also be required for entrepreneurs who are not sure whether they should opt for the liberating tax or not. In fact, if they are not earning much, they probably wouldn't have to pay income tax anyway. So, they need to calculate accurately, what would be their real profit if they accounted everything. In short, the person who can really choose the better option is the one who is smart enough to keep accounting records and not smart enough to do a lot of business. In any case, he should not grow enough to require any employee. In short the regime is being used only to start enterprises or part-time businesses.

According to Newsweek (dt March 2, 2009), "the government expected that 200,000 people would sign up by the end of 2009. But by mid-February, there were already 62,000 auto-entrepreneurs on the books, suggesting that the number of startups could surpass half a million by the end of the year."

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7 Alternatively, 50,000 – 36,000 – 6,500 = 7,500
Partly, this may be explained by many people moving from the black economy to honestly declaring their incomes. However, it is more likely that many of these people are those who were already declared in the French "portage" regime. This is a system where the entrepreneur registers with a portal company. This company does the invoicing to the customers and pays the entrepreneur a net salary after taking out all the social security charges. The usual "portage" company leaves the entrepreneur half the invoice amount, on which he would still pay tax. In the new regime, he pays at 13% or 23%. Therefore, these "portage-salaried" entrepreneurs would now join the rank of unemployed on the one hand, and auto-entrepreneurs on the other.

What the government is hoping is that, in addition to people from the black economy, there are also some unemployed people who are becoming entrepreneurs, and that this would compensate for the reduction of fiscal and social security revenues from the portal companies. Therefore, the law is a risk-taking initiative in more ways than one.

MAIN TOPIC: PERCEPTION OF AUTO ENTREPRENEUR REGIME BY CEO's OF EXISTING SMEs.

Based on the introduction and background explanation of the auto-entrepreneur regime, we decided to see the perceptions of existing businessmen to this law. These perceptions could be linked to Porter's five forces (Porter, 1979) from the angle of new kinds of competition which can impact existing businesses. In fact, the strategy of existing businesses is based, in part, on the perceptions of CEO's on the new forms of competition. Since the auto-entrepreneur law will involve more profitable small businesses, it is interesting to see the reactions of existing business.
Research Method

A brief questionnaire was e-mailed to business associates of the authors.

Sample Size and description

The initial sample to test the questionnaire is of ten CEOs of existing businesses. Responses have been received from six people. This first research paper is therefore an exploratory study based on these responses. The six people come from enterprises varying from 1 to 78 people, with a turnover varying from 1.5 million Euros to 14 million Euros. One of these enterprises is in fact being created but on a scale greater than this regime. Three of the respondents are in the commercial sector (wine and liquor, constructing wine cellars) and the other three are professionals (consultancy, accounting and geometric surveying). No artisan has replied.

Questionnaire

Appendix 2 provides an English translation of the questionnaire containing nine open-ended questions. Based on the responses to these questions, this questionnaire will be further developed before reaching out to a larger audience to get their perceptions.

Findings of Perceptions of existing businessmen

The first question concerned the ethics of public bureaucrats being allowed to run privately owned businesses. One person considered that it was constitutionally impossible that bureaucrats could start a business activity. The other four agreed that if they were allowed, it would create an unethical "insider trading" problem because bureaucrats have access to information for which private businesses often have to pay. Possible safeguard mechanisms suggested could be a Charter of Ethics or a written commitment from the public servant to not
contravene the rules of conduct of that sector. The last respondent considers that even if the risk exists, the dual activity is possible and even desirable, and could be well managed in order to avoid problems due to the mixing of public and private sectors. He also noted that insider trading always existed and will continue to occur and should be punished as such.

The second question concerned the motivation of the employees. With this new regime an employee of a company can start a business for himself. We wondered whether this situation would not affect the employee motivation and would not generate a reduction in productivity for the existing employer. Five people asked answered that the risk was real especially when the employee's personal entrepreneurial work is of the same nature as in his profession. This risk is even greater when employees can use internet during their working day to enhance some of their personal business. Nevertheless, one respondent consider that the risk is not a new one. In France the working week is 35 hours, so people have enough free time in a week to perform different activities, including undeclared casual work. This can be called unfair competition. He concludes that this new regime will bring visibility to activities that were carried out on the black in the past. Another respondent pointed out that when an employee is engaged in a process of running a new business for himself it means that he has already "gone away" mentally. Perhaps he considers that he is not paid enough for his job or that he receives insufficient consideration for what he does. According to this respeondent, the motivation of an employee cannot be forced by somebody else. The last respondent answered that it depends on the position of the employee in the company, in particular his level of responsibility, availability, age and years of service. But he thinks that in any case the second activity should be negotiated, conditioned and regulated very precisely in agreement with the employer. As all the cases are different and multiple, they should be studied individually.
In a third question, we considered the financial risks involved when developing a business with this new regime. Without a clear legal status, the auto-entrepreneur has unlimited liability on assets. We asked people whether this point could represent a significant risk to the family of the self-entrepreneur. All the persons contacted answered that this risk is a real one. Only one person considered that the law has to define a limit for this risk. Three people consider that entrepreneur has to take and meet this difficulty on his own. One specifies that the risk in this case is not different from the risk incurred in a business developed under other legal status, especially the status of micro enterprises in France and the risk on personal wealth of entrepreneurs. The big difference is that with the other regime an accountant is often at the side of the entrepreneur to help him with fiscal and social obligations, and could in fact help him in reducing the risk of bad deals. But since the auto-entrepreneur regime is deceptively simple, one may be tempted to avoid help from professionals. One respondent stated that the status of self-entrepreneur is probably a simple way to start a business. But once the business is viable the self-entrepreneur has to change the status. At least one person pointed out that this risk exists in any business: every economical sector has a special regulation, such as warranties on building in the construction sector. He considers that special insurance usually covers this risk. For the risk on personal property he considers that the legal status can change over time as has been the case for the owner-manager of small limited companies.

In the fourth question we asked the business people if they consider that the self-entrepreneur needed to be mentored, and if the lack of financial literacy of the general public is not an impediment to entrepreneurship, considering the fact that French school students have no
basic training in finance in their general curriculum. The six people agreed that the self-entrepreneur should be mentored, and they even consider that this should be an obligation. One respondent explained that the corporate culture is insufficient in France, and that the entrepreneurial attitude is not developed compared with Anglo-Saxons countries. But one person also mentioned that the support institutions are not lacking in France anymore and are able to absorb a larger public. He considers that awareness of the needs for training in creation has made great progress in the last ten years. He also explains that young people should be aware of entrepreneurial spirit through special workshop or institutions recently developed with French high schools. One person explained that simplification is in this case a false good idea. Indeed, it entails that the auto-entrepreneur has a good knowledge of the consequences and commitments taken, but also that he is able to differentiate from safer alternatives presented as more complex to implement. Even if the auto-entrepreneur seeks training, one person explained that a three or four day's internship will not remove the obstacle to entrepreneurship. The self-entrepreneur should be mentored for a longer period of time. One suggested that retired managers could help and coach young entrepreneurs. Finally one person explains that finance and management should be included in the general curriculum of French schools students, and as a consequence the support given to the new entrepreneur will really be on the viability of the project and not on how to deal with accounting and legal obligations. In fact this new regime will help to develop the entrepreneurial taste of young people.

With the fifth question we try to find out if the non registration of the auto-entrepreneur until the first deal is made could entail a risk for the first client or for the first supplier. One person answered that he has no opinion on that question; another explained that he is not aware of such a problem. The three people answered that this is a real problem for the first client or supplier but they don't explain why. Finally one person answered that the risk is not
acceptable and that the registration should be done simultaneously and immediately upon the signing or conclusion of the first deal.

The sixth question deals with financing a self-entrepreneur activity and which mechanisms would allow the bank to trust and grant a credit to the self-entrepreneur. One people answered that when a self-entrepreneur is mentored he has a decisive advantage. Actually in this case there will be an assessment and a validation of the project. Three people insisted that the self-entrepreneur has to provide to the bank a serious business plan, with estimates and forecasts. Moreover, one of the two explains that the banker will consider the personal account of the self-entrepreneur, and his ability to save money while managing resources more efficiently. Three people consider that at least the bank will ask for financial guarantees on the personal fortune of the entrepreneur, which leads to family financial risks seen in a previous question.

The seventh question deals with the problem of competition between existing SMEs and the new status of auto-entrepreneur. As this new status allows the auto-entrepreneur to pay reduced social security contributions, this could impact competition in the market. Four people answered that auto-entrepreneurs will be in competition with very small enterprises (sole trader for example), and not really with SMEs, as SMEs don't have the same offer to meet customer needs. In fact the auto-entrepreneur has first to convince the customer of the soundness of his offer before speaking of price. One respondent among them says that it is normal to encourage entrepreneurship with lower social and fiscal contributions, but there should be a time limit for this regime or a threshold on activity or turnover. One of them concludes that this regime could perhaps avoid work on the black especially in construction sector. One person focuses on the fact that real calculation shows that the existing status of
micro-enterprise is more complex but less expensive, and that there is no real unfair competition.

At least one person indicates that competition in labor markets is very high, for example the very visible competition between different European countries such as competition between France and Poland. Recently France granted to polish people working in France the same minimum salary as French workers. He thinks that this new regime of auto-entrepreneur is only a temporary competitive advantage and would eventually be a stimulus for competition. He hopes that this aspect will encourage political leaders to reduce further the high levies on businesses. Finally, he concludes that the impact will be stronger among SMEs even if price is not the only factor in competition alongside other factors such as relationship with customers, personal skill of the entrepreneur.

So we can see that the respondents do not agree on whether there would be some impact on SMEs or not.

In question eight, we asked what impact this new regime will have on the French socialist system. Four people conclude that the new regime is important to encourage entrepreneurship in France, and that we can judge the positive or negative impact of this regime in time of crisis to alleviate the unemployment and to stimulate economic development. One of them insists on the fact that the response was immediate and strong. As evidence, public information briefings on the self-entrepreneur regime are very popular well attended, and the number of these information briefings has been increased. He thinks that after a phase of initial curiosity, we can expect that the level of interest will be back to a reasonable threshold. One other explains that it is a first step to reduce social constraints on the accounts of SMEs. However one of them explains that this new regime adds new disparities, such as private –
public, large and small enterprises, in an already complicated system, and this leads to reduce consistency.

Two people consider that this new regime will dangerously affect the French social system as people will not make the difference between being employed, being a self-entrepreneur, and their family life. Moreover one insists on the consequences of this regime on personal wealth of people, who can lose their homes and be no longer entitled to the "French unemployed system". As a consequence auto-entrepreneurs are more likely to fail than those who follow a true course in entrepreneurship before starting a new business. Indeed this new regime is a poisoned chalice.

In a last question we asked whether starting a business at home would not be considered as a nuisance for family and neighborhood. Four people think that this depends on the activity developed, and two of them consider that this regime doesn't make any difference for this problem. Any person starting a business puts his family in danger, but working at home is a state of mind, and that it seems to be fairly good, limiting cost and time travel. Finally one people insisted that working at home requires a quiet office, because it could be hard to work with the background music of teen-agers.

**DIRECTIONS FOR FUTURE RESEARCH**

For ourselves, the next stage of research could be to fine-tune the questions to make them applicable to people who are unemployed to see how they react to this regime. Finally, once the auto-entrepreneur regime stabilizes and we can get addresses, it would be interesting to receive the perceptions of people who have actually used this regime to understand their motivations. The interaction with the small sample of respondents has raised other questions which can be addressed by future research.
A first field of research concerns entrepreneurship as well as microfinance. Yunus (2003) insists that the poor have innate entrepreneur skills and that it is sufficient to give them access to finance and they will succeed. Microfinance advocates indicate that two-thirds of micro-enterprises last beyond two years and half last beyond five years even with larger and larger loans, statistics which are comparable to start ups by educated entrepreneurs. However, in the Microfinance setting which is donor driven based on high repayment rates, some of the limited success stories are disguising the fact that new loans are in fact repaying older loans. A recent French television documentary (Envoyé special diffused on May 14, 2009) indicates that few microcredit borrowers have emerged from poverty and that most have got deeper in depth.

Therefore, we come back to question of what are the qualities necessary for an entrepreneur, in order to draw the ideal profile, thereby encouraging those who have such a profile, and discouraging those who are far from it, avoiding costly failures. Investors and Microfinance organization lending to micro-entrepreneurs would also be interested in the outcome of such research.

Another area of related research would be the nature of projects, the industry sectors and the conditions which could enhance success for such microenterprise. The research could also throw up necessary precautions to engage in this type of business.

A second field of future research could be in the regulatory field. Within this field, a first question could be what are the other complexities of French institutions, broadly defined, which could be simplified through legal reform? Second, having introduced a simple regime, how can one supervise or monitor the success of the regime without re-introducing bureaucratic procedures and associated deterrents?
A third field of research would concern globalization. Is this auto-entrepreneur regime similar to or different from other regimes in Europe and would harmonization reduce costs of doing business? At a higher level, is such a subsidized regime (less taxes) compatible and approved and authorized by the World Trade Organization?

**CONCLUSION**

The auto-entrepreneur regime is a risky step taken by the French government to encourage risk taking. Firstly, it is risky because the government risks to lose the tax and social security revenue from people who migrate from the existing portage system to this new regime which has lower tax and social security levies. Secondly, it is perceived as risky by existing French businessmen who feel that their compatriots do not necessarily have the know-how to be entrepreneurs. Thirdly, it is perceived as risky because if the entrepreneur fails, he would have no social security net to prop him back. Fourthly, it is risky because to some extent, the risk taking culture may result in less productive salaried workers to existing enterprises as they focus during work hours and off hours on their own enterprises and not on the work of their employers. Finally, it is risky because it could impact existing established businesses. However, we see that the respondents do not agree on whether there would be some impact on SMEs or not.

Nevertheless, in the wake of globalization and rapid technological obsolescence, and its devastating effects on the redistributive French socialist system, capitalism and entrepreneurship is seen as a way to allow people to earn what the State can no longer assure them.
More institutional changes will need to accompany the reform. Some directions for such institutional changes suggested by business respondents are commerce courses in high school and mentoring for new entrepreneurs.
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Exposé Des Motifs De Loi n° 2008-776 du 4 août 2008 de modernisation de l'économie

Projet de loi, (No. 842) de modernisation de l'économie

Loi n° 2008-776 du 4 août 2008 de modernisation de l'économie NOR: ECEX0808477L,

Version consolidée au 19 février 2009


### Appendix 1: Comparison of different Business Regimes in France

<table>
<thead>
<tr>
<th></th>
<th>Auto-entrepreneur</th>
<th>Microenterprise</th>
<th>Simplified Real</th>
<th>Real</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual Ceilings: Services</strong></td>
<td>32,000 Euros for services</td>
<td>32,000 Euros for services</td>
<td>230,000 Euros</td>
<td>Any amount</td>
</tr>
<tr>
<td><strong>Annual Ceiling: Sales</strong></td>
<td>80,000 Euros for trade</td>
<td>80,000 Euros for trade</td>
<td>763,000 Euros</td>
<td>Any amount</td>
</tr>
<tr>
<td><strong>Legal formalities</strong></td>
<td>Declaration to CFE</td>
<td>Inscription with CFE, Register of Commerce, Register with Social Security (URSSAF)</td>
<td>Inscription with CFE, Register of Commerce</td>
<td>Inscription with CFE, Register of Commerce</td>
</tr>
<tr>
<td><strong>Accounting Formalities</strong></td>
<td>Book of Receipts (for all), Book of Purchases (for traders)</td>
<td>Book of Receipts (for all), Book of Purchases (for traders)</td>
<td>Sales Book, Purchase book, Bank Journal, Receipts &amp; Expenses (for professions)</td>
<td>All / Detailed</td>
</tr>
<tr>
<td><strong>Value Added Tax</strong></td>
<td>Exempted</td>
<td>Exempted</td>
<td>Quarterly and annual declaration</td>
<td>Monthly and annual declaration</td>
</tr>
<tr>
<td><strong>Income tax</strong></td>
<td>1% of sales for traders</td>
<td>Standard deduction of 71%, tax on balance 29%</td>
<td>Tax on accounting profits</td>
<td>Real</td>
</tr>
<tr>
<td></td>
<td>1.7% of turnover for services</td>
<td>Standard deduction of 50%, tax on balance 50%</td>
<td>Increased by 25% if not registered with AGA or CGA</td>
<td>Real</td>
</tr>
<tr>
<td></td>
<td>2.2% of turnover for liberal professions</td>
<td></td>
<td></td>
<td>Real</td>
</tr>
<tr>
<td><strong>Social Security</strong></td>
<td>12% of sales for traders</td>
<td>Base on 29% fo sales</td>
<td>• Family welfare *: 5.4% (ex. pour les revenus annuels &lt; à 4 534 €)</td>
<td>• Basic Retirement :(Commercial and Artisans): 16,65 % jusqu’à 34 308 € de revenus</td>
</tr>
<tr>
<td></td>
<td>21.3% of turnover for services</td>
<td>Base on 50% fo turnover</td>
<td>• Illness *: 6.5 %</td>
<td>• Illness *: 6.5 %</td>
</tr>
<tr>
<td></td>
<td>18.3% of turnover for liberal professions</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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*Family welfare*: 5.4% (ex. pour les revenus annuels < à 4 534 €)
*Basic Retirement*: (Commercial and Artisans): 16,65 % jusqu’à 34 308 € de revenus

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28
<table>
<thead>
<tr>
<th>Type</th>
<th>Contribution Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professionals</td>
<td>8.60% till 29162 €</td>
</tr>
<tr>
<td>Complementary</td>
<td></td>
</tr>
<tr>
<td>retirement:</td>
<td></td>
</tr>
<tr>
<td>Artisans</td>
<td>7.10%</td>
</tr>
<tr>
<td>Commercial</td>
<td>6.5%</td>
</tr>
<tr>
<td>Professionals</td>
<td>depends on the fund</td>
</tr>
<tr>
<td>Invalid/Death</td>
<td></td>
</tr>
<tr>
<td>Artisans</td>
<td>1.80%</td>
</tr>
<tr>
<td>Commerçials</td>
<td>1.30%</td>
</tr>
<tr>
<td>Professionals</td>
<td>depends on the fund</td>
</tr>
<tr>
<td>CSG – CRDS *</td>
<td>8%</td>
</tr>
</tbody>
</table>
Appendix 2: The questionnaire

1. Does the fact that even members of the French public administration (staff of chambers of commerce etc ...) can develop an auto-entrepreneurship entail the risk that these people use inside information for personal purposes. This would be a new form of insider trading.

2. For an employee of a company, is starting an auto-entrepreneur activity not running the risk that the existing employer will suffer from a loss of employee motivation and a reduction in productivity.

3. Without clear legal status, self-entrepreneur has unlimited liability of assets. Does this not represent a significant risk to his family?

4. Does the self-entrepreneur need to be mentored? Do you think that the lack of financial literacy of the general public (basic training in finance is not part of the curriculum of young French school students) is an impediment to entrepreneurship?

5. The self-registration of contractors is not mandatory till the first business deal has been made. Does this entail a risk for the first client or for the supplier?

6. Concerning financing of the auto-entrepreneur activity, what are the mechanisms that allow you to trust and to grant credit to an auto-entrepreneur?

7. The status of auto-entrepreneur allows him to pay reduced social security contributions. What impact does this have in terms of competition in the market: what is the impact for existing SMEs?

8. What impact do you think will this have on the French socialist system?

9. If the auto-entrepreneur starts his business at home, would this be considered as a nuisance for the family and neighborhood?
Appendix 3: Details of respondents

<table>
<thead>
<tr>
<th>Activité</th>
<th>Chiffre d'affaires</th>
<th>Nombre d'employés</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Wines and Spirits</td>
<td>12 Million €</td>
<td>51</td>
</tr>
<tr>
<td>2 Expert Surveyor</td>
<td>1,5 Million €</td>
<td>20</td>
</tr>
<tr>
<td>3 Wine Producer</td>
<td>Not disclosed</td>
<td>4</td>
</tr>
<tr>
<td>4 Chartered Accountants</td>
<td>14 Million €</td>
<td>78</td>
</tr>
<tr>
<td>5 Marketing consultancy</td>
<td>New enterprise being created</td>
<td>1</td>
</tr>
<tr>
<td>6 Constructing Wine Cellars</td>
<td>Waiting for information</td>
<td>Waiting for information</td>
</tr>
</tbody>
</table>