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Bruno Palier

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France followed the typical “Bismarckian” trajectory of welfare reforms.

Bruno Palier
Chercheur CNRS au CEVIPOF (Centre de recherches politiques de Sciences Po).
Bruno.palier@sciences-po.fr

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DRAFT

In this paper, I would like to propose a general interpretation of welfare reforms, to be associated with changes in macro-economic policies. One can show that there has been a close linkages between Keynesian macro-economic policies and the welfare state that developed during the Trente glorieuses. The late 1970s and 1980s are years of divorce between the two realms. The 1990s and 2000s are years of attempt for reconciliation. During these, there has been three types of trajectories, (exactly as they were three worlds of Keynesian welfare capitalism).

After having done that, I would like to show that France has followed the typical Bismarckian trajectory of adaptation of its social protection system to the new economic environment. Then I will try to answer why France did not chose the social democratic way of adaptation. I will show that it has followed the typical "Bismarckian" trajectory, which in the French case look more like a combination of rigid advantages for the indisers and liberalization for the outsiders. I will eventually underly schematically the main difference between the French and Nordic contexts.

I. The history of the relationships between Macro-econmic and social policies.

I believe it is possible to see a pattern in the various reforms enacted since the early 1990s, starting from an general interpretation drawn from an analysis of the relations between economic policy and social policy. It appears, in fact, that the set of reforms carried out aimed to readjust social policies in order to bring them in line with the new, mainly supply-sided economic norms rather than the demand-sided norms of the Keynesian era. In this section, I will analyze the common features of these reforms that support this assumption. I will begin by reviewing the type of economic compromise on which the French welfare state was based during the *trente glorieuses*, then outline the reasons this compromise entered a crisis, and conclude by underscoring the economic coherence of the reforms conducted, their disparities notwithstanding.

I.1 Social protection during the *Trente Glorieuses*: product of and support for the Keynesian compromise.

I.1.1 The Golden Age of the welfare state is Keynesian.

European social protection schemes developed considerably over the course of the 1945-1975 period known as the *trente glorieuses*. During that time, economic and social policies were oriented toward the goal of full employment. This was achieved early in the period due to a serious lack of manpower and the reconstruction work required in countries devastated by war. Later on, social policies would appear as the preferred tool for maintaining full employment and supporting strong economic growth based on mass consumption.

Social protection mechanisms are a way of supporting and boosting economic growth: they create jobs (in the health care system and social protection agencies); they help support the consumer capacity of those who can no longer work, due to illness, unemployment, old age or infirmity; in that they guarantee a secure income, they prevent over-saving and allow individuals to devote a increased share of their income to spending; they are also tools for encouraging consumption (by increasing welfare benefits or creating jobs in the public social services). Economic growth in the years 1945-1975 (the *trente glorieuses*) rested largely on the virtuous interactions between the development of the mass-produced consumer goods industry, mass consumption and the extension of social protection.

If social policies have enabled economic growth, this growth (particularly the strong productivity gains in the industrial sector) freed up the necessary resources for an unprecedented development of social policy. The social transfers achieved through social policies provided a means of guaranteeing social rights for all European citizens, without making their well-being entirely dependent on the labor market. Already in the 1940s, Karl Polanyi thus identified a common feature of all social protection schemes[1]: the aim is to release individuals from the laws of the market alone, both by striving for full employment and by guaranteeing a substitute income in the event problems arise. In response to the industrialization of economies and society and the development of a market economy, collection actions were set up to prevent the individual from being totally subject to the market, in particular the labor market. Through social protection mechanisms, the work an individual performs is not a mere commodity: it is stimulated and regulated, and social transfers guarantee a substitute income in the event people are no longer able to work. As Gøsta Esping-Andersen conceptualized it, social protection schemes fulfill a function of de-commodifying individuals: “Social rights... permit people to make their living standards independent of pure market forces. It is in this sense that social rights diminish citizen's status as ‘commodities’.**”**[2]

De-commodification does not however occur outside of the economy, but is an aspect of economic and social policies themselves: social policies ensure a certain rate of consumption (and consequently outlets for companies). The expansion of social protection thus does not run counter to capitalism, but thanks to a particular form of it in which state intervention is seen as legitimate because it guarantees the level of consumer capacity of citizens/consumers/welfare beneficiaries.

I.1.2 Pierre Laroque and French *Sécurité Sociale* are Keynesian

In France as elsewhere in Europe, from the start in 1945, the contributory social insurance plan *Sécurité Sociale* was part of an overall economic policy that aiming and resting on full employment, which would later be qualified as Keynesian policy. As it is emphasized in the statement of purpose presenting the law of October 4, 1945 that introduced the social security system: “Building [*Sécurité Sociale*] depends on a complex set of measures that involve the country’s entire economic and social policy: economic measures designed to prevent recession by ensuring a permanent balance among activities, the organization of employment ensuring job opportunities for all, insurance of wage-earners against arbitrary hiring and firing, wage policies that ensure all workers enough money to live on.”[3]

Even if in the 1940s such policies were not yet labeled Keynesian, the ideas were there in simplified form: “The full employment economic policy cannot be dissociated from the policy of income redistribution precisely because income is to a large extent a function of full employment itself, and because it is the failure of full employment policy that creates the need to distribute substitute income to the unemployed...”[4]

From 1945 to 1976, Keynesian ideas dominated the conceptions of the various actors responsible for economic and social policy in France.[5] As Pierre Laroque (senior civil servant in charge of setting up the social security system in 1945) recalled in lessons given at the

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[1] See *The Great Transformation*, Boston, Beacon Press, 1944.
[2] G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Cambridge, Polity Press, 1990, p.3.
[3] Quoted by Join-Lambert (ed.) *Politiques sociales*, Paris, Dalloz, 1997, p. 376.
[4] P. Laroque, “ De l’assurance à la sécurité sociale, l’expérience française,” *Revue internationale du travail*, vol. LVII, n^o 6, 1948, p. 626.
[5] P. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France*, New York, Oxford University Press, 1986; B. Jobert, *Le social en plan*, Paris, Éditions ouvrières, 1981.

Institut d'études politiques in Paris in the 1960s: **"**The contributory social insurance plan is dominated by a concern to tax surplus buying power in periods of prosperity to revert these sums in periods of crisis, in order to guarantee adequate stability of economic growth, maintain the population's purchasing power and thereby economic activity and employment capacities. It is thus both an economic policy instrument and a social policy instrument."[6]

Welfare benefits, as a complement to full employment policy, salary policy and regulation of the labor market, enable "workers to strengthen their earning capacity."[7] Before being considered as costs, social expenditure was long considered as income that could be distributed to households. In a market-oriented economy that can no longer set wages as of the mid-1950s, governments could have an effect on household incomes not only through taxation but also by setting the rate of social contributions and welfare benefits. Thus, starting in the late 1950s, governments successively ensured a swift rise in the level of welfare benefits. The share of welfare benefits in available household income has risen constantly since 1945, going from 19.3 % in 1960 to 32.4 % in 1980 and even 36.9 % in 1985.

It is not surprising to find in the *Traité du social* (the first edition of which dates from 1977 and whose authors are known for their receptiveness to Keynesian ideas, as shown by Nicole Questiaux, Minister of Social Affairs and National Solidarity in 1981 and 1982) a defense and illustration of the economic function of social spending: "Social expenditure first of all regulates consumption. In a society in which nearly 50 % of the population is inactive, it is important for the latter to have an income that can be spent. In this regard, *Sécurité Sociale* redistributes over a greater number a minimum of purchasing power without which the consumer society could not function. In 1975 and in 1981, in talking about economic recovery, the government naturally made reference to the amounts paid to heads of households, retired persons and the unemployed: it is much easier for the government to achieve an immediate effect in this way than to increase direct incomes."[8]

French *Sécurité Sociale* thus appears as an economic policy instrument. In periods of crisis, social protection is supposed to diminish the risk of recession, it is a means of sustaining or reviving demand. In this approach, social transfers are one of the instruments of countercyclical policies. Thanks to *Sécurité Sociale*, basic needs are covered, thus creating the minimal incentives to consume and do business. Welfare benefits also guarantee the maintenance and productivity of the labor force, particularly by improving its health conditions. Social expenditure can thus also be considered as a human investment that contributes to economic growth.

The French social protection scheme was thus long conceived as being directly beneficial to employment in that it was conducive to the economic development of activity in the health care and social sector, thus encouraging job creation and structures in the tertiary sector and the third sector (hospitals, health care, pharmacy, social aid, etc.). The health sector provided 1,657,839 jobs in 1992, or 7.4 % of total jobs.[9] The general *Sécurité Sociale* fund itself employs nearly 180,000 people. That the *Sécurité Sociale* made a positive contribution to the economy in its first thirty years seems undebated. The economic growth of the 1950-1975 period was in particular buoyed by the extension of the contributory social insurance scheme, the fruits of which were redistributed: "In economic terms, the development of our social security scheme accompanied, and probably favored, the rebuilding of the French economy — in a shambles and withdrawn into itself —, as well as the considerable increase

[6] Quoted by Kerschen, " L'influence du rapport Beveridge sur le plan français de Sécurité sociale," *Revue française de science politique*: *" La protection sociale en perspective,"* no. 4, vol. 45, August 1995, p. 577.
[7] R. Castel, 1995, *Les métamorphoses de la question sociale*, Paris, Fayard. p. 375.
[8] J. Fournier, N. Questiaux, J.-M. Delarue, *Traité du social*, Paris, Dalloz, 1989 (5th ed.), p. 549.
[9] J.-F. Chadelat, "La Sécurité sociale, un acteur du soutien de la croissance et du développement de l'emploi," *Revue française des affaires sociales*, October-December, vol. 49, no. 4, 1995, p. 87-88.

of national wealth as well as the standard of living of individuals that marked the thirty years from 1945 to 1975."[10]

During this period, economic policy and social policy objectives were perfectly compatible: public spending on social protection contributed to economic growth while improving not only the population's standard of living but their living conditions. The substantial achievements obtained in France by introducing *Sécurité Sociale* could thus be outlined as follows: "A real sense of security has rightly been created and developed among the population. Old age is no longer indicative of poverty. The population, thanks to social security, has benefited from the considerable progress made in medicine since 1945, which has diminished human suffering and misfortune, particularly among children, where the mortality rate has dropped significantly."[11]

I.2 Challenges to Keynesian policies

I.2.1 The failures of the 1970s.

The 1970s were characterized by an increase in social demands, partly due to the recession, while at the same time these very economic difficulties resulted in a decrease in tax revenues and social contributions. The deficits caused by this scissors trend of expenditure and revenue became a major problem for European governments. If social deficits were seen as problematic, it was also because macro-economic analyses had changed. In the context of a Keynesian policy, temporary public deficit is an instrument for public action intended to spur consumption, which in turn should lead to economic recovery, itself leading to a rise in tax revenues that should rapidly cover the public deficit.

However, in several European countries, the Keynesian use of social policy at the end of the 1970s ended up in a serious and traumatizing failure. The two experiences of economic reflation by increasing welfare benefits that were undertaken in France in 1974/1975 and in 1981/1982 did not produce the expected results. They indeed stimulated consumption, but of imported products, and thus did not lead to an upturn in domestic economic activity or in higher tax revenues. As a result, public deficits grew inexorably deeper, the trade balance showed a huge deficit, capital left the country and exchange rates were unfavorable. To face this, the franc was devaluated several times, tax rates increased, inflation rose and the ranks of the unemployed swelled. The situation was described as stagflation, encompassing economic stagnation, unemployment and inflation. The Keynesian equation was skewed by the opening up of the French economy. The Labor government in Great Britain was in a similar position; after having implemented a reflation policy based on a hike in welfare benefits, in 1979 it ended up having to borrow from the IMF in order to repay a public debt it could no longer service.

I.2.2 New macro-economic policies.

Implementation of the standard Keynesian recipes of the past thus produced unexpected results, anomalies that posed a challenge to the general framework of public action. And so new macro-economic policies gradually became the norm in Europe. They were characterized by budgetary rigor, wage regulation, monetarism and business competitiveness. During the 1990s, the establishment of the European market (which guarantees free competition among all European firms) and the criteria set out in the Maastricht Treaty and the Stability and Growth Pact (which corresponded to a coherent vision of economic policy: reduced public debt and

[10] Rapport du Comité des Sages des états généraux de la Sécurité sociale, 1987, p. 6.
[11] Rapport du comité des sages des *États généraux de la Sécurité sociale*, 1987, p. 5-6.

deficit, curbed inflation, fixed exchange rates) denote the widespread adoption of a new economic policy model that differs from Keynesian policies. These are monetarist and neoclassical supply-sided policies that promote free trade (deregulation, flexibility) and are based on budget orthodoxy (reduced debt and deficits, low interest rates, low inflation rates).

As regards economic policy, this paradigmatic change,[12] which began in the late 1970s, took place in most European countries individually throughout the 1980s[13] and was set in stone in the European treaties in the early 1990s (opening of the Common Market in 1992, Maastricht Treaty in 1993). However, social policies long continued to function according to the Keynesian logic of the past. Such disparity with new global economic rationale plunged social policies into crisis.

In this new economic policy model, social protection expenditure and the state no longer have the same functions. Social protection schemes have had to be adapted to a supply-side policy rather than a demand-side one. If the role of the state is to be diminished, its economic objectives are also modified. Full employment is no longer a direct aim of macro-economic policies, it is conceived as the future outcome of virtuous sequences triggered by new policies: slower rise in prices and wages, gains in competitiveness and productivity, rise in business profit margins and added value not redistributed through wages, investment, job creation. In this case, it is no longer public spending, and particularly social spending, but private investment that is supposed to create jobs. Many economic analyses have therefore emphasized the weight of the state and social expenditure, its role in the rise in unemployment and the mechanisms of "stagflation": social expenditure becomes more a cost than a factor of economic growth and political and social stability.

I.2.3 New norms for the Welfare State: reduce spending, boost employment, focus on supply

The research of several economists has propagated new norms of social protection action throughout Europe. There is not room here to describe the recommendations of the various experts, particularly within international organizations such as the OECD and the World Bank,[14] but I will outline the main features of these new norms of action.

Whereas social spending was long conceived as favorable to economic growth, one of the main new orientations is to reduce public social spending in order to provoke a drop in mandatory source deductions, particularly employer social security contributions, so as to make them profitable again.

The advent of reduction policies paved the way to begin seeking new economic functions for social protection. As a rule, the basic philosophy has been to adapt social protection schemes to a supply-side rather than a demand-side policy. According to the new norms being developed, the welfare state should be placed in the service of competition (among businesses, states, individuals). The reforms should make social protection schemes more conducive to employment by reducing their cost rather than increasing social spending.

Social programs should also be more favorable to employment by increasing the incentive to work rather than to receive welfare benefits for remaining inactive. These social spending activation policies aim increasingly to condition unemployment benefits on training activities and active job hunting, "to make work pay" by creating tax credits for poor workers, attempting to increase the employment rate among young people, older people and women.

[12] See Peter Hall, op. cit..

[13] Bruno. Jobert, *Le tournant néo-libéral en Europe*, Paris, L'Harmattan, 1994.

[14] Regarding the World Bank's approach, see B. Palier, L.-C. Viossat (eds.), *Politiques sociales et mondialisation,* Paris, Futuribles, 2001 and on the OECD approach, see K. Armingeon, M. Beyerler (eds.), *The OECD and European Welfare States*, Cheltenham: Edward Elgar, 2004.

The aim is to move from a (non-market) guaranteed substitute income (de-commodification) to an incentive strategy aiming to favor return to employment and bring individuals back into the job market (re-commodification).

Another general principle, congruent with the need to curb spending, is to focus public intervention on those who need it most and no longer advocate universal social policies. The aim is also to involve all social protection actors: not only the state, but the market, the family and voluntary associations to promote a more effective and more individually-tailored social protection than what government agencies have to offer. Lastly, social protection should help develop new private, profit-making economic initiatives that foster growth and employment (pension funds, medical research and health care, personal services).

I.2.4 The three worlds of welfare reforms.

Due to path dependency phenomena, one can conclude form the recent literature that there has been three ways of adapting welfare systems to this new economic and paradigmatic environment. One can indeed identify three approaches to reform of the Welfare State. Each approach reflects the distinctive historical and institutional challenges of a particular social protection regime.[15]

The Liberal way. In Liberal countries such as the US and the UK, the policies implemented to meet the new included: increasing the role of the market in social protection (health and pensions); developing policies that targeted the most disadvantaged and the most deserving individuals; reinforcing workfare measures, and promoting labour market flexibility. All of these policies simply reinforced the social protection system's residual and liberal characteristics, not to mention the social control and repressive features of policies intended for the poor.

The Nordic Way. The Nordic countries at first set up policies to maintain full employment, introducing policies in which the State intervened as the employer of first resort. They provided sabbatical leaves (for training, taking care of children or others; these leaves were paid if they led to an unemployed person being hired), new training opportunities and greater public sector employment. However, in the early 1990s these countries were obliged to come to terms with the costs and government deficits associated with these full-employment policies. Consequently, they (and especially Sweden) came up with new policies designed to privatize, decentralize and debureaucratize certain services. These new policies were accompanied by policies to reduce social expenditures, such as restricting the eligibility criteria for benefits and lowering benefit and service levels. These have however been done in an egalitarian way (everyone suffering form the cuts, even the insiders). Following across-the-board cuts in their social expenditures, these countries tired to find the underpinnings of "working society" in their policies, especially their employment policies. So they placed new emphasis on the "activation" potential of social expenditures. By the end of the 1990s, the Nordic countries had returned to very low levels of unemployment and high employment rates, while generally observing conservative budget practices. Though their taxes are very

15 In 1996, Esping-Andersen was already pointing out that different Welfare States respond differently to the challenges raised by globalization. See G. Esping-Andersen, *Welfare States in Transition, National Adaptations in Global Economies*, London: Sage, 1996. Paul Pierson argues that one type of social protection reform dominates each regime: in liberal regimes reform is based on recommodification; in social democratic regimes reform is based on cost-containment; and in continental systems, reform is based on re-calibration, which adjusts social programs to the new risks and needs. Paul Pierson (ed.), *The New Politics of the Welfare State*, Oxford: Oxford University Press, 2001, Conclusion.

high, their populations tolerate them since everyone works, helps to finance the Welfare State and receives generous benefits.

In continental Europe, changes were rare, came later than elsewhere, and were more limited in scope. Yet for the most part these changes, too, exemplify the logic of the continental systems. Throughout the 1990s, pension reform in France and Germany primarily involved changing methods for calculating pensions, rather than changing the logic of their respective systems. Similarly, measures taken in France and Germany to control health costs remained within the framework of the institutions providing health insurance. Lastly, in 1995 Germany showed confidence in its approach to social protection by creating a new social insurance scheme for long-term care, with a design in keeping with other parts of the German social protection system.

Those welfare regimes have developed the most the “labour shedding” and “welfare without work” strategies. In social protection systems based on social insurance, the approach chosen to deal with the unemployment problem has often included encouraging women to go back home and take care of the dependent members of the family, young people to delay their entry into the labour market (for example, by extending their studies), and ageing workers to take early retirement, disability leave or extended sick leave. Germany applied this approach extensively, using early retirement (funded through the system of unemployment insurance) and extended sick leave; France took a similar approach but used various forms of early retirement (the public system or the system funded through the unemployment insurance), lowering the legal age for retirement to 60 years of age. This was also the approach chosen by the Netherlands, through a disability system that had accepted de facto the responsibility for many of the country’s unemployed. These policies led to reductions in the workforce (which finances the growing social expenditures) and therefore less people paying for welfare; the diminished workforce led to increases in payroll taxes (which discourage job creation).

However, one can assert that during the last years, Conservative corporatist welfare systems have also gone through structural reforms. Since the early 2000s, a new wave of reforms is developing in Continental Europe: the 2003 pension reforms and the 2004 Health reforms in France, the Hartz reforms and the 2010 Agenda in Germany, etc. These reforms are not only retrenching social insurance benefits, they are implementing structural adaptations rendered possible by previous institutional reforms presented above. With regard to pensions, not only are benefits planned to be reduced, but a new basic safety net is implemented in Germany, and additional, fully funded schemes are proposed for German (Riester funds), French (PERP and PERCO) and Italian citizens. In Health, more and more room is being given to competition and private actors, as with the Douste Blazy reform or again through the 2003 German changes. Activation measures are gaining force in the unemployment reforms implemented in France, Germany and other continental European countries since the early 2000s. Cheaper and more flexible jobs are being created through care policies. The accumulation of all these recent institutional and structural changes in social insurances, new employment policies (activation, making work pay) and new developments in care policies may signify a general paradigmatic change for the continental welfare states, evincing a shift away from systems aimed at income and status maintenance towards activated and employment friendly welfare systems. Such structural adaptations may appear marginal in the first place. However, the study of the national cases shows that, however trivial they may appear when introduced (being usually presented as a mere complement to the still central social insurance systems), these policies can develop little by little, to eventually form a veritable 'second world' of welfare within one country[16].

When comparing the welfare reforms in Bismarckian countries, one can see the introduction of funded schemes for pensions (as well as reductions in early pensions), the activation of the inactive population (including mothers - even lone mothers), hence the defamilialisation of care and the introduction of competition and rampant privatisation into Health insurance systems. These structural changes mean first a shift away from the typical answers to the difficulties of traditional Bismarckian welfare regimes in the 1970s and 1980s, ie the "labour shedding strategy". Governments are currently trying to escape the "welfare without work" trap. In the long run, this may also mean a structural transformation of the Bismarckian welfare systems themselves. So far, we can at least identify on-going processes of dualisation. Studies of the specific trajectory of the welfare reforms in Bismarckian systems, show that it has followed neither the Liberal nor the Social democratic way, but a specific one, based on dualisation.

A process of dualisation.

One can show that these changes within the conservative corporatist welfare systems mean a process of dualisation of the welfare system, as well as of the population protected.

It has become clear that France has now a dual welfare system. On the one hand there are 'national solidarity schemes': family benefits, health care and poverty alleviation, delivering either universal or targeted benefits, mainly financed by taxation and controlled by the state. On the other hand, pensions and unemployment/employment policies have been retained in the social insurance world, even though the meaning of social insurance is changed, becoming more reliant on actuarial and activation principles. Ferrera has shown that dualisation also marked the development of Southern European welfare states, and Bleses and Seeleib-Kaiser speak of the dual transformation of the German Welfare State.

This dualisation also means that the whole population is not covered any more by the same principles and institutions. When the insiders (with full-time permanent jobs) continue to be insured (relatively 'less well' than before, thus needing to complement their protection with private schemes), a growing part of the population is experiencing the development of 'a-typical' jobs, and more people must now rely on other type of social protection than typical social insurance (mainly assistance).

This process of dualisation, meaning a change in the welfare system itself, should be understood by the political dynamic created by the Bismarckian welfare institutions themselves. As both Daniel Clegg[17] and Nathalie Morel[18] show, it is in the name of the spirit and practices of typical conservative corporatist social policies that changes are introduced in a segmenting way. As Daniel Clegg puts it "Generally, policies have enhanced protection for 'insiders' while targeting both benefit cuts and new activation initiatives on 'outsiders'. After a quarter-century of reforms these are thus neither fully activating nor fully compensatory welfare states, but ones that combine these facets in apparent contradiction. There is a suggestive parallel – and probably a two-way causal link - here with the dualism of labour

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[16] Palier, Bruno, Martin, Claude, (eds.), 2008, *Reforming the Bismarckian Welfare Systems*, Oxford, Blackwell.

[17] Clegg, D., 2008, "Continental Drift, On Unemployment Policy Change in Bisamrckian Welfare States", in Palier, Martin, pp.62-81.

[18] Morel, N., 2008, « From subsidiarity to "free choice": child- and elderly-care policy reforms in France, Belgium, Germany and the Netherlands.", in Palier, Martin, pp.82-101.

market regulation increasingly found in much of continental Europe, where precarious employment contracts have been expanded as 'exceptions' that simultaneously contradict and reinforce the 'rule' of the standard employment relationship for core workers." In the same vein, Nathalie morel shows that "Care policies have not attempted to modify the traditional gendered division of labour in the household, and the family (or at least a family-like) environment is still considered as the best locus of care. Care policies have also tended to reproduce and reinforce the social stratification dimension of Bismarckian welfare systems: while low-income women have been encouraged to make use of long, low-paid parental leave schemes, and thus to withdraw from the labour market, various measures facilitating the use of private forms of childcare have been developed for higher income women."

We see here that everything happens as if the institutions had been changed in order to preserve the social order prevailing in the Bismarckian world of welfare! Does that mean that the future will be like the past? One can hypothesise that this dual way of reforming is the typical (conservative and corporatist) way of adapting to the new economic and social world[19], and that this segmented pathway is quite robust and will shape the future of Continental Europe. Even if the situation was already fragmented and inegalitarian, the recent trend would deepen the divisions towards a more cleaved world: a dual labour market, a dual welfare system and a society divided between insiders and outsiders. Some others may think that this period of apparent contradiction in policies (activation AND compensation, defamilialisation, conciliation policies AND maternal wages) is merely a period of transition, the old world only starting to disappear (hence its remaining traces for the old insiders) while the new one is still young (new schemes and benefits will gain in importance, the new generation will not be treated like the old one was). Since we now better grasp the direction and content of the policy changes, the next research agenda will be to analyse their economic and social outcomes, once these changes will have matured enough to show what their impacts have been.

I will now turn to the specific way France has adapted its Welfare system.

[19] These dualisation processes seem specific to the Bismarckian world since in Liberal countries, one speaks more of the squeezing of the middle class and of fragmentation (instead of dualisation) of societies, and in Nordic countries, unions, governments and their policies seem to have been able to remain encompassing.

II The gradual adjustment of French social policy.

The point here is obviously not to say that French policies are a mere application of the new international economic norms, but to point out the coherence of the content of reforms conducted in France with these general orientations. Little by little, French social policies have shifted: starting with the observation that traditional Keynesian policies have failed, new economic policies have been implemented that have become increasingly out of sync with social policies, which in turn are gradually readjusted to fit the new economic policy paradigm.

II.1 From the mid-1970s to the early 1980s: Keynesian upturn, rise in contributions, early retirement…

The initial response of the French governments to the recession of the 1970s does not fit at all within the normative framework described above (which moreover had not yet been formally outlined!). On the contrary, the social policies implemented continued to use a Keynesian framework.

As mentioned earlier, to deal with economic recession in 1974-1976[20] and in 1981-82,[21] reflation measures were enacted that relied on increasing welfare benefits. Between 1974 and 1984, in the face of rising unemployment, the rate of unemployment benefits rose.

Naturally, to deal with the recurrent *Sécurité Sociale* deficit, countless plans to rescue society security were devised from 1975 on, but I have shown elsewhere that they were less characterized by a reduction in social spending (except for a relative decrease in health insurance reimbursements; retirement payments and daily sickness allowance continued to increase) than by an increase in social contributions.[22] During the 1980s, even as they lowered income taxes, the successive French governments preferred to raise social contributions considerably in the context of plans to readjust the accounts of the *Sécurité Sociale* system rather than to lower welfare benefits, thus increasing the total amount of mandatory source deductions. The 10-point increase in source deductions between 1973 and 1984 is primarily due (9.5 points) to social contributions. Consequently, the percentage of social contributions in the GDP rose constantly, from less than 20 % in 1978 to nearly 23 % in 1985 (rate at which they have since remained stable).

To face the high rise in unemployment since 1974, successive governments first strove to preserve jobs for qualified males, thereby excluding all other workers, and especially women, from the job market. They sought to resolve employment problems by diminishing the labor supply. Companies chose a strategy based on high wages and quality production that favored qualified long-term workers at the expense of less- or non-qualified workers. Often, labor reductions were negotiated in exchange for severance packages and early retirement in the hope that the cost of these measures could be offset by proportionate productivity gains.[23]

[20] In June 1974, Jacques Chirac presented a social plan that was also a plan to stimulate the economy. Minimum wage as raised to 1200 F, family allowances were increased by 12 %, minimum old-age allowance was increased by 21 % and old-age pensions by 6.7 %. In keeping with this policy, Chirac's government announced on January 1, 1975 an 18.5% increase in the *Sécurité Sociale* ceiling, a 6.3% raise in general pension payments, lowering the retirement age to 60 for nearly 170,000 veterans and the extension of the maternity allowance to over 300,000 families as well as an increase in the orphan allowance. Social progress was still on the agenda in 1975 with the June 30 passing of the framework law for handicapped persons, creating the Handicapped Adults allowance.

[21] High increase in old-age minimum allowance, retirement age set at 60.

[22] B. Palier, *Gouverner la Sécurité sociale*, Paris, PUF, 2005 (2nd edition, collection Quadrige), chapitre quatre.

[23] M. Kohli, M. Rein, A.-M. Guillemard, H. Gunsterend, *Time for Retirement*, Cambridge, Cambridge University Press, 1991.

These strategies were endorsed by the state, which subsidized early retirement schemes substantially and maintained a high rate of unemployment benefits. It also developed a set of welfare benefits aimed to guarantee a minimal income for people not in the job market. Thus, to withdraw older workers from the job market,[24] there was a significant rise in early retirements; from 14,000 in 1971 to 84,000 in 1975, 159,000 in 1979, 317,000 in 1981 and 705,000 in 1983.[25] Retirement at age 60 also withdrew older workers from the job market.

Even if after the "pause in reforms" and the "rigueur" policy shift in 1983, an increase in welfare payments was no longer on the agenda, the social policies implemented continued to assume the social consequences not only of the recession but also the new economic policies. As of 1983, reflation measures were no longer used to try to achieve full employment, but it was hoped that the profits made would be used for future investments and ultimately create jobs. While waiting for such virtuous effects of restrictive policies (one of the immediate consequences of which was a rise in unemployment), French social policy fit within the strategy of reducing the job supply characteristic of social protection schemes across the continent. Welfare benefits were intended as "shock-absorbers" for the social consequences of the new economic policy to fight inflation, liberalize capital markets and eventually the job market, and restructure industry (particularly by closing metals industries): the number of early retirements declined only slightly, "social treatment of unemployment" measures multiplied[26] and the *revenue minimum d'insertion* (RMI) minimum income program was introduced in 1988.

It was as if the new economic policy regime, which fit within a new paradigm in the 1980s, had been delinked from the social policy regime, which remained anchored in Keynesian schemas. Three reasons can explain the persistence of this gap throughout the 1980s. First of all, institutional inertia and path dependence made any wholesale reform of social protection difficult.[27] Secondly, as has just been shown, social policies were used to soften the social consequences of economic policy shifts (particularly increased unemployment) linked to the budget and wage rigor policies and industrial restructuring. Thirdly, whereas economic policy was increasingly defined at the European level, social policies remained within the competence of national governments, making it more difficult to define a social policy that was coherent with the dominant economic policies in Europe. The 1990s would however incite the French government to cross a threshold toward the new paradigm of social policy, that of curbing, or even cutting public social expenditure.

II.2 The early 1990s: Reduce public social expenditure

It was particularly the new economic context of the 1990s that led France to alter its social protection policy once again in order to implement genuine social spending reduction policies. The common market was virtually completed and European countries were entering the preparation phase to introduce a single European currency as stipulated by the Maastricht Treaty adopted in 1992. This new context seems to have weighed particularly on the continental European countries where social protection schemes are funded by social contributions: more and more economic and political actors believe that the latter weigh too heavily on labor costs, thereby hindering business competitiveness within the common

[24] See A.-M. Guillemard, *Le déclin du social*, Paris, PUF, 1986.
[25] J. Bichot, *Les politiques sociales en France au XX^{e} siècle*, Paris, Armand Colin, 1997, p. 132.
[26] These policies were particularly meant to create subsidized jobs for young people and the long-term unemployed which often install the beneficiary populations on the margin of the normal job market.
[27] Regarding the notion de path dependence, see B. Palier, G. Bonoli, "Phénomènes de path dependence et réformes des systèmes de protection sociale," *Revue Française de Science politique*, vol. 49, no. 3, June, pp.399-420.

market, and so believe they should be curbed. Moreover, Maastricht criteria encourage member states to reduce public deficits and debt, thus encouraging checks, even cuts in public expenditure and social contributions.

In France, the resurgence of unemployment in 1991, the 1993 recession and the "need to respect the Maastricht criteria" starting in 1996 and even more so in 1997 played a significant role in the three main reforms intended to reduce the level of welfare payments: reform of unemployment benefits in 1992, reform of private sector pension schemes in 1993 and the Juppé plan to reform the contributory social insurance scheme in November 1995.

This time, the explicit aim of these three reforms was to curb increases in social spending by slashing benefits. When the single degressive allowance was set up in 1992, the amount of unemployment payments dropped considerably. Moreover, fewer and fewer unemployed were compensated by unemployment insurance: in 1992, 52.5% of all unemployed (in the ILO sense) were compensated by the national unemployment insurance scheme; they were only 50.9% in 1993, 45.3% in 1994, 44.2% in 1995, 43.2% in 1996 and 42.2% in 1997.[28] The consequences of the 1993 reform on the amount of future retirement benefits were not made immediately made clear, but indexing retirement benefits on prices led to a 0.5-point-per-year gap in the level of retirement benefits compared to salaries, and in its December 2001 report, the *Conseil d'Orientation des Retraites* figured that, taking into account all retirement schemes, the replacement rate would drop from 78% to 64% in 2040. In the field of health care, the steady increases in the various co-payments insurees were expected to pay (daily hospital charge, percentage of pharmaceuticals, percentage of medical expenses and fees) gradually reduced the rate of out-patient health care coverage by the basic national health insurance plan.

Given the drop in mandatory social insurance payments, an ever-increasing segment of the population must rely on need-base payments, particularly the minimum social allowances (*minima sociaux*). With the 1992 reform of unemployment insurance, there was an increase from 34,800 beneficiaries of the *Allocation de Solidarité Spécifique* (specific solidarity allowance) in 1992 to 467,000 of them in 1995.[29] For those not even entitled to coverage by the employment compensation scheme, the RMI minimal income scheme, introduced in 1988, comes into play as the last safety net. Thus, the number of RMI beneficiaries rose significantly in 1993 (+21.2% in metropolitan France). In general, the number of minimum social allowance beneficiaries has grown steadily since the early 1980s, from 2.3 million in 1970 to nearly 3.3 million in late 1995, or 6 million people subsisting thanks to some form of minimum social allowance, in other words approximately 15 % of French households.[30] The contracting of social insurance thus reinforces the ever-increasing role of non-contributory payments, reserved for the neediest.

The increase in the number of people directly depending on minimal social allowances (assistance) prompted the development in France of remarks and discussions on the lack of incentive to work and "poverty traps" that social protection mechanisms are said to create. As a consequence, new measures were adopted that aimed to make social protection more conducive to employment.

II.3 The turning point of the 1990s: Favoring the return to employment and activity

One of the main themes around which social policy reorientations were organized in the 1990s was employment and the negative effects social protection has on it. Two elements

[28] C. Daniel, C. Tuchszirer, *L'État face aux chômeurs, l'indemnisation du chômage de 1884 à nos jours*, Paris, Flammarion, 1999.
[29] M.-T. Join-Lambert 1997, op. cit. p.576.
[30] CERC, 1997, report cited. The figures have remained much the same since then.

were put forward: one is that labor costs are supposedly too high for companies and prevent them from hiring, the other is that welfare payments are too passive (too generous and granted with nothing demanded in return), and thus serve as a disincentive for the unemployed to return to active employment. Two typically supply-sided sets of policies have been developed to deal with this: policies to lower the cost of labor (to increase job offers), and welfare benefit activation policies (to encourage individuals to return to or remain on the job market to stimulate labor supply).

Lowered social charges. During the 1980s, a number of economists and employer associations intensified their criticisms of social contributions, claiming that they crippled company productivity and prevented businesses from hiring less qualified workers. Thus, lowering "social charges" would become a primary objective of employment policies in France during the 1990s. This new perspective required altering the way social protection is financed. This change came about very gradually. Policies to lower "social charges" were first targeted very specifically, and later came to apply to all lower wages. To make up for the drop in receipts induced by these policies, new tax sources were devised and/or raised (particularly taxes on tobacco and alcohol). In 1990, a major innovation was introduced with the creation of the *Contribution Sociale Généralisée* (CSG), a tax (deducted at the source) on all income, including indirect income and income on capital, and earmarked for social expenditure. It was originally set at a low rate (1.1% of income), but was later raised considerably higher (7.5% of income as of 1998).

Between 1993, when large-scale lowering of "social charges" was undertaken in the context of the five-year law on employment, and 1995, when a plan was launched to expand the general social contribution (CSG), a threshold seems to have been crossed leading to a deep-seated transformation in the funding of certain areas of social protection. Gradually taxes were to play an increasing role in social protection financing, particularly as regards non-contributory payments such as sickness, family allowance and minimal social allowance payments: whereas social contributions represented 80% of the funding of welfare benefits in the early 1980s, they had dropped to two-thirds by the early 2000.[31] In keeping with the objective of lowering labor costs, the structure of social protection funding was thus considerably modified, thereby changing the type of solidarity that comes into play (from work-related solidarity to a more targeted "national" solidarity) and the legitimacy of social protection actors (funding through contributions was associated with management by the social partners; funding via taxes involves management by the state).

Activation policies. Employment policies have also been affected by a change in paradigm. Throughout the Keynesian period, unemployment was primarily analyzed as having collective causes (slump in economic activity that could be largely compensated by stimulating demand); unemployment benefits were perceived as an entitlement earned by prior payment of contributions and as a means to buoy individuals' consumer capacity until they could find another job, thus preventing any economic recession from sliding into the sort of disaster that occurred in the 1930s. In other words, they were automatic stabilizing mechanisms. During the 1980s, a new interpretation of unemployment would win over people's minds, particularly because the previous analyses turned out to be incapable of explaining why reflation policies in the early 1980s had been unable to lower unemployment. The new interpretation would focus the analysis not longer on demand, but on job market supply factors: excessive labor costs, structure of the incentives created by legislation and welfare benefits. From a vision in which unemployment was primarily perceived as linked to collective causes and therefore involuntary, there has been a shift to an analysis of unemployment as resulting from individual causes, thus viewed as voluntary (individuals

[31] See B. Palier, 2005, op. cit. chapter 7.

prefer to receive unemployment benefits for doing nothing rather than working). In the wake of these new conceptions, new policies would gradually be developed, based on the activation of social policies.

The initial measures in the late 1980s aiming to foster activity of the unemployed first applied to young people and the long-term unemployed. They were later expanded with the RMI in 1988 (a job search agreement describing the beneficiary's activities conditioned remittance of the payment). They started to affect unemployment insurance in 1992 (when a new single degressive allowance (*allocation unique degressive* -AUD) was set up on the grounds that an allowance should not be paid for too long a period so as to encourage the unemployed to seek reemployment faster). Activation was finally implemented across the board with the 2001 reform of unemployment insurance schemes, the allowance paid was changed from an unemployment benefit to a job-seeking allowance (*allocation pour la recherche d'emploi* - ARE), which was necessarily accompanied with a return-to-employment action plan signed by the beneficiary (*plan d'action pour le retour à l'emploi* - PARE).

In addition, still on the basis of the idea that unemployment is voluntary (people "prefer" not to work if benefits will allow), a new measure aiming to foster employment was introduced in 2001, the "employment bonus," which aimed to "make work pay." This is a negative tax paid only to people who work, but for a low income, and the objective of which is to provide an incentive for individuals to work (in other words, they earn more by working than staying home and receiving unemployment benefits).

Through these changes in the financing of social protection, unemployment insurance and employment policies, it is possible to perceive a more global change in social protection, which, instead of stimulating demand as in the past, has gradually turned toward supply. Welfare benefits were previously perceived at the collective level as a means of buoying economic activity by encouraging individual consumer capacity (demand), and, at the individual level they were perceived as an entitlement acquired for having paid social contributions deducted from wages (wherefore the concept of deferred wages). More and more, at the collective level, public social expenditure is perceived as a cost for the economy (well illustrated in the notion of social "charges" used to refer to source-deducted social contributions) that must be curbed, and at the individual level, the new welfare benefits introduced appear less as the quid pro quo for past activity during which contributions were paid, but as the quid pro quo for current activity (job search, training) or future activity (reemployment).

Two other areas of social protection have also been affected by this new ambition to make welfare benefits encourage individuals to return to work or remain in the job market: pension reform (in part) and policies aiming to reconcile family life and work life.

Aside from natalist and/or feminist preoccupations, family policies are increasingly marked by an employment policy concern aiming to guarantee a higher employment rate for women, enabling them to reconcile family life and work life. Several measures (parental leave, increase day care facilities, reforms in the new child allowance (PAJE)) are marked by this concern, which for many will be one of the major social policy issues of the future.[32]

In a demographic context increasingly characterized by an imbalance between the active and retired population, this new orientation has also affected pension reforms, particularly since the measures taken in 2003 with the "Fillon law." They basic idea was to make employees work longer. This is why the reform provided for a reduction in pension if a worker wants to retire before the required number of years (40 years for everyone beginning in 2008, 41 years starting in 2012) and a premium rate if the worker chooses to work longer than required. At the same time, measures were enacted in attempt to curb significantly the

[32] See Esping-Andersen (ed.), 2002, *Why We Need a New Welfare State*, Oxford, Oxford University Press.

rise in early retirements, once viewed as the preferred instruments to complement economic reorganization. Here, with regard to the preferred policy orientations of the 1980s, a full turnaround has clearly been made.

II.4. We are all supply siders now!

With the development of these new activation measures, it is obvious that in France, like in other countries, the aim of welfare benefits is changing as social policies are put in service of supply.

Before, the aim was to guarantee a substitute income for people who could no longer work, temporarily or permanently, in other words to allow citizen-insurees to not be entirely dependent on market forces (particularly the labor market) for their income (de-commodification). Payments were then designed as a guarantee, an entitlement earned by making contributions at the source. This conception has more and more frequently been qualified as "passive" (receiving payments for doing nothing). The new conception seeks to "activate" social expenditure. Payments are no longer an entitlement, they no longer intend to achieve a decommodification of individuals, but are instead designed to act on their present and future behavior, encouraging them (sometimes obliging them) to adapt certain behavior, in particular to return to the job market. With the development of supply-side social policy aiming to foster a return to the labor market, welfare benefits serve today to achieve a re-commodification of individuals. Welfare benefits should allow a high level of employment not by buoying household consumption, but by giving people incentive to work as much as possible.

More generally, the aim is to create a favorable environment for private sector commercial companies and activities. The decrease in social "charges," wage control and new means of financing social protection such as the CSG (which does not burden companies but only households) have been developed to enable businesses to make or increase their profits (tomorrow's investments and day-after-tomorrow's job creation according to the new dominant economic concepts). Some social protection activities are increasingly designed as privatizable economic activities, that may be in a position to contribute to the development of post-industrial economies: pension funds, capable of attracting and developing investments; health care activities, either in medical research or insurance (a high added-value industry) or patient health care (activities not likely to be relocated). International organizations encourage governments in post-industrial countries to develop private social protection activities.

France has embarked on this path not only by organizing the development of retirement savings through tax incentives (*Plan d'épargne retraite populaire* introduced with the Fillon law) but also by gradually encouraging private organizations (mutual companies and insurance) to assume certain health care expenditures. We know for instance that the *Sécurité Sociale* reimbursement rate for outpatient health care in France is rapidly declining, thus paving the way for "rampant privatization."[33] Last, with the development of personal social services that will hopefully develop new job pools, but commercial in nature (instead of public service jobs or jobs created by the social economy sector), as illustrate recent measures to encourage this type of activity, such as the introduction of *Chèques emplois services universels* in 2005.

The French social protection system has thus gradually been put in the service of business competitiveness (decrease in social "charges," development of private social protection activities), the state (decrease in source deductions, control over the rise in public

[33] P. Hassenteufel, "Les réformes des systèmes de protection maladie entre libéralisation et étatisation," *Revue internationale de politique comparée*, vol. 5, no. 2, Summer 1998, p. 335.

social expenditure), and individuals (activation policies). It should gradually allow new economic activities to develop (especially pension funds, insurances, and medical research, as well as personal services). Should this lead to the conclusion that the French social protection scheme is becoming more and more neo-liberal? There are indeed similarities to be found in the changes noticed with the dominant practices in the United States and Great Britain. These adaptations to the new economic context can nevertheless also be identified in other countries as well, without going through the Caudine Forks of neo-liberalism. Naturally the Scandinavian countries come to mind, where social protection reforms have at once helped restore their economy's competitive edge, decreased unemployment but also maintained a far higher level of solidarity and equality than in other western countries. It is perhaps because in these countries social protection reforms were planned and negotiated well in advance, being the object of collective deliberation not only to adapt social policies to the new economic context but also to meet new social needs and make them the instrument for investing in the future. If France wants to avoid taking the liberalization of its social protection scheme too far, it would probably do well to make more explicit the underlying movements that buoy the main reforms undertaken thus far, and thus allow it to seek new, social and legitimate paths for social protection.

II.5 Why did France not choose the social democratic way out of its crisis?

Popular reluctance to follow the Nordic route:

When one proposes the Nordic paradisiacal solution to a French audience, one usually gets the following reactions, to justify the fact that one could not apply the Nordic solutions to France[34]:

- These are little countries, France is a large country, ie having more people, more (cultural, economic, social) diversity to deal with
- There is no Immigrants in these Nordic countries
- There is a cultural difference, We do not share the same values
- Social democrats are betrayers to the true Marxist/revolutionaries.
- French people (Asterix) only fights and make revolution, they do not understand what compromises are about.
- French Trade Unions are not strong enough
- The Nordic model put upfront uninteresting topics such as social services, child and elderly care, concerning only women ("Sujets de bonnes femmes")

Beyond these negative reactions, which to my view only show how much the French people prefer to complain and defend their own situation rather than trying something else, there are indeed structural differences that make it difficult to envisage a Social democratic path for France.

Among other things, one can mention

- Trade Unions : 8% of unionization, extremely divided.
- A majoritarian political system does not lead to bargaining, compromises
- Welfare state structure is highly different. Conservative corporatist system protects those who work (and their families) full time in well protected economic areas. They do not provide social rights for all citizens, do not deliver services, do not focus on the "capabilities" entitlement (education, training)…

- Following the path traced by our institutional setting, as my paper try to illustrate, we have taken the labour shedding strategy and then the dualising route, far from the universalistic one.

[34] For a complete list of reactions see : Lefebvre, Alain, Méda, Dominique, *Faut-il brûler le modèle social français ?*, Paris, Le Seuil.