Transforming the French Welfare State: From Bismarck Plus to Liberal Plus

I. Introduction: Theories of Welfare States: Theoretical Context

1. The literature on varieties of advanced capitalist welfare states is closely linked to the "varieties of capitalism" literature pioneered by David Soskice (see Hall and Soskice; also Kitschelt et al). However, the varieties of welfare state literature has received somewhat less attention. The major theoretical inspiration derives from Esping-Andersen's pioneering work. The empirical cases that populate the theoretical cells are quite similar, although the theoretical foundation of the two bodies of literature is quite different. Esping-Andersen focuses on welfare states; Soskice and Hall, on modes of coordination among firms.

2. Esping-Andersen identifies three varieties of welfare states:

    i. universalistic universalistic/egalitarian/social democratic—coordination by state, generous provision distributed on universalistic basis, financed from tax revenues.
    ii. Conservative/corporatist/Bismarckian—coordination by social actors within society, generous provision distributed on basis of position in labor market, and financed by payroll taxes levied on employers and employees.
    iii. Residual/liberal—coordination by state and market; targeted, minimalist provision distributed on means-tested basis; financed by payroll taxes, with a significant proportion privately purchased insurance for sickness, retirement, etc. Plus a means-tested distribution of assistance for the very poorest segment of the society.

3. Qualifications to his approach: (a) welfare states may not fit comfortably into one of the dominant modes; (b) they may also vary internally, with different sectors operating according to different logics; (c) there are important political struggles around these questions; and (d) welfare states may undergo changes in overall character over time. While, as Pierson and others have emphasized, change may itself be path-dependent, this isn't necessarily the case, and incremental changes that are off-path may eventually produce a change in the overall character of a given welfare state.

4. These qualifications are not intended as an abstract commentary on Esping-Andersen. They are made with the French case in mind: (a) the French welfare state has been a hybrid since its formation in 1945; (b) the character of the French welfare state has been the object of intense political struggles; and (c) it has been transformed in fundamental respects in the past decade—initially in incremental ways but the cumulative

impact of specific changes has produced a very different kind of welfare state in the current period.

5. The basic shift has brought the French welfare state closer to the liberal/residual/market friendly U.S. model. But will this reduce Franco-American conflict? Perhaps in the long run. But in the short-medium run, the impact may well be in the opposite direction.

II. The Trajectory of the French Welfare State: Three Phases

1. The Golden Age of the Trentes Glorieuses: Creation and Expansion of the French Welfare State—1945-75: Bismarck Plus

a. Born from prewar mutual aid societies; corporatist/conservative model. Major programs--health, retirement, later unemployment insurance—financed by employees and employers (payroll taxes, or cotisations sociales). France has had the highest proportion of social expenditures financed by payroll taxes. (See Palier, p. 321, fn 2; and much of this empirical material and analysis has been enriched by Palier's important book. Also see my article in Goldberg and Rosenthal, 2002.) The Social Security system was co-managed by employer associations and unions, a critically important source of power, legitimacy, and patronage for French trade unions—whose membership has traditionally been proportionately among the lowest of the OECD countries.

b. The French welfare state conformed to the Bismarckian social insurance model, in which programs covering workers and their families, as well as other programs, which provided universal access and coverage (such as family allocations), are financed mainly by payroll taxes on employers and workers. In this model, access to benefits and their level, are based on the length and extent of contributions (linked to income levels). This contrasts with the more universalistic coverage with relatively equal levels of benefits in the social democratic welfare state model.

c. In one important respect, the French pattern did not conform to the classic conservative/corporatist model: French welfare provision has been women friendly. The result contrasts with the "classic" corporatist model (Germany), in which social provision aims to provide a family wage for the male breadwinner and to encourage women to remain at home. An extensive system of free, low cost, or subsidized crèches and pre-school facilities have enabled a relatively high proportion of French women to work in the formal economy. This is one reason France is often considered an anomaly and not included within the group of conservative/corporatist welfare states (see, for example, Esping-Andersen, Pontussen).

d. The French welfare state exemplified the classic Keynesian/Fordist class compromise: social spending was widely regarded as contributing to economic redistribution and growth, i.e., the welfare state represented a motor force propelling economic well-being. As such it was universally popular. As Swenson and others have described for welfare state development elsewhere, the French welfare state was not created by the labor movement over the objections of business interests. Instead, it was generally supported as a key element in the postwar political economy. In good measure this was because the bulk of social spending contributed to fuelling economic expansion and maintaining labor peace. In a full-employment economy, expenditures on unemployment insurance, for example, were low. (In fact, unemployment insurance was created only in 1958.)

e. Given its popularity and the existence of steady economic growth to generate resources, the welfare state steadily expanded during the postwar period to cover a variety of sectors, notably, family allocations, retirement, health, and unemployment insurance. Eventually, France ranked among the countries with the highest proportion of GDP devoted to social spending. For example, it was 6th among 18 OECD countries in 1980, with 21.1%, and tied for third in 1998, with 27.5 percent—significantly higher than the Nordic countries' average social spending of 27.1 percent. (OECD figures, cited in Pontussen, 2003, ch. 6, p. 35.) Thus, there was more extensive social provision in France than in several of the social democratic regimes, which are reputed to have the largest expenditures on social programs.

2. Stagflation and Crisis of the Welfare State: Divergence between the Social and Economic Spheres, and the Impossible Attempt to Square the Circle—1975-90: The Bismarckian Welfare State Under Stress

a. Slow growth, rising unemployment, and high inflation beginning with the OPEC price rise in 1975 created intense strains on the model of welfare state activity created in the postwar period. For example, higher unemployment added to the expense side while depriving unemployment insurance coffers of new payroll taxes. As a result, Social Security programs began to run annual deficits for the first time.

b. Given the universal popularity of welfare state programs, it was politically unfeasible to cut benefits. In order to eliminate deficits, the characteristic option chosen was to raise social cotisations (payroll taxes). This was the origin of the frequent *plans de redressement* during this period.

c. However, this proved to be only a short-term fix. As time went, notably, during the 1980s and concomitant with the Reagan-Thatcher (counter) revolution, some economists and business interests began to challenge the basic terms of the postwar Keynesian class compromise and resultant welfare state formula. They claimed that, rather than social spending contributing to economic growth, it constituted a drag on French firms' performance. Especially because the bulk of social spending was financed by payroll taxes, it was claimed that Social Security raised labor costs and left French firms less competitive in Europe and beyond. Thus, rather than the social and economic goals being compatible, these critics argued that they were mutually exclusive and that France mistakenly squandered resources on social spending.

d. The obvious solution to this dilemma (especially as deficits in social accounts persisted) was to reduce social spending, as opposed to the initial pattern of raising payroll taxes. There were extensive attempts to do so, in a variety of spheres. For example, medical copayments were increased, a levy (forfeit) created for hospital stays, eligibility for unemployment insurance benefits tightened, and so on.

e. These attempts created intense popular resistance and fuelled endless strikes and demonstrations. (Cf the classic analyses of this pattern, developed in an earlier period, by Crozier, *La Societe Bloquee*, and Philip Williams, *Crisis and Compromise*.)

f. The result was that most reform attempts failed, and those that were implemented did not solve the financial crisis: by the early 1990s, Social Security deficits soared and cumulated to become debt, i.e., deficits could not be eliminated from one year to the next. While the state intervened to bail out the system on a short-term basis with payments from general tax revenues (as opposed to the usual mode of financing Social Security expenditures from payroll taxes), the situation became increasingly untenable. The result was a crisis of the Social Security system in the early 1990s that has produced a structural change in the current period.

3. The Social and the Economic Realms Reconciled: Structural Transformation of the Welfare State; Bismarck-Minus or Liberal Plus: 1990s-Present

a. Whereas during the 1970s and 1980s, reform attempts focused on saving the Secu—mainly by raising payroll taxes and containing costs—a new and more ambitious project developed beginning in the 1990s: to restructure the French welfare state along very different lines: those of the liberal/residual model exemplified by the United States. The new model is far from having replaced the former Bismarckian mode for several reasons: first, reform attempts have often failed; second, there is no serious plan to eliminate the former mode of social insurance persists. Rather, a new sector of social provision and financing has developed piecemeal alongside a (reformed) social insurance sector. One result is that it is even more difficult to classify the French welfare state according to the dominant typology developed by Esping-Andersen.

b. The impetus for launching major new (and different) reform efforts: in addition to the problems of stagflation from the 1970s and 1980s, France began to experience new strains:

(i) demographic: an aging population;
(ii) technological: downsizing and deindustrialization;
(iii) economic: international recession and inflation, particularly severe in Europe as a result of German reunification;
(iv) political-economic: the EU's moves toward a single market, single currency, convergence criteria, stability and growth pact, etc.
(v) the "discovery" of new social problems and groups not reached by traditional social provision: the new poor, the excluded, youth, long-term unemployed, immigrants, urban slum dwellers, school leavers and others without educational or vocational skills.

The result: the former pattern became ever-more untenable of expanding social insurance programs to address new problems, as well as attempting to plug financial deficits by a combination of increased payroll taxes and state bailouts from general tax revenues.

c. Elements of the new pattern:

(i) reducing benefits in the traditional sectors of social provision (health, retirement, and unemployment insurance). Examples:
--reducing payments,
--restricting eligibility (introducing means-testing)
--lengthening the period of mandatory contributions to qualify to receive retirement benefits,
--increasing medical co-payments);

(ii) reorienting social benefits in traditional sectors **from** correcting market dysfunctions, countering risks, and economic redistribution in an egalitarian direction **toward** market-promoting goals, including improving the functioning of labor markets, equipping workers to find jobs, improving the competitivity of firms and the entire French economy. These reforms aimed to close the gap between the social and economic spheres. The new logic was opposite from the Keynesian goal of reconciling the two spheres by maximizing demand via social spending to promote economic growth; it consisted of using social spending to improve the supply and quality of labor, at least cost, and thus subordinating goals of social equality and equity to economic efficiency.

(iii) Creating the possibility of supplementary, private, voluntary insurance schemes to compensate for the increasingly meager public benefits provided by social insurance programs of medical care and retirement. The most recent plan (which begins this year), as part of a major reorganization (and rationalization) of the retirement system legislated in 2003, is a system of private pension funds financed by tax-free contributions (plan d'epargne populaire—PERP).

(iv) restructuring governance: the traditional system of administering social provision in France was for bipartite (business-union) governance of the major sectors, with the state as ultimate but distant arbiter. As a result of the Juppe government's 1995 reform (legislated in 1996), the state intervened more forcefully and continually. The reform, that involved a constitutional amendment, mandated parliament to vote annually to establish a budgetary ceiling on Social Security expenditures. This institutionalized state oversight and replaced the frequent plans de redressement that were necessitated periodically in previous decades as a result of deficits in the Social Security system.

(v) Many attempts at reforming the major sectors of social insurance have encountered intense opposition. The French Social Security system is enormously popular. Recent reforms go far beyond—and in an opposite direction—from past attempts at saving the Secu: they are (accurately) regarded as attacking it. They are opposed by beneficiaries of social programs, of course. They are also opposed by professionals who administer the programs, such as health care workers. They are opposed by unions, who have been a pillar of the traditional system and stand to lose considerably when programs are developed in new sectors where unions are not established and where control over traditional sectors is transferred from bipartite administration to the state.

(vi) Last, but far from least: a new sector of social provision, very different from traditional social insurance, has burgeoned since the late 1980s. Programs have been created or expanded to address problems and social categories of the population outside the traditional domain regulated by social insurance. (See 3bv above) The new programs reflect a logic of solidarity and/or economic efficiency rather than a logic of social insurance. They are wholly financed by state-generated revenue (taxes) rather than social insurance payments.

Among the most important:

(a) The RMI: a minimum income program created by unanimous vote of parliament in 1988 and financed from general tax revenue;

(b) Couverture Medicale Universelle (CMU): a program of publicly financed medical insurance for the small (and poorest) proportion of the population not covered by the traditional program of health insurance.

(c) expansion of means-tested programs of payments known as social minima for housing, old age, etc.

(d) The Contribution Sociale Generalisee (CSG), an income tax levied both on "earned" income and on capital-generated personal income (dividends and interest), earmarked to finance deficits in the Social Security system and new programs described in this section.

The new programs began small but have quickly ballooned both in the numbers of beneficiaries and cost. For example, the RMI covered about 100,000 in its first year; it presently provides payments to nearly one million people. This means that roughly two million people are beneficiaries (when children and other dependents are included). The CSG was levied at a rate of 1 percent when first created; the present level is over 7 percent; it generates more revenue than all personal income taxes! (One reason for the increase is that the CSG has replaced payroll taxes for health insurance.)

(vii) The new programs have an ambivalent character (an important reason why they received widespread support when adopted). On the one hand, they reflect a logic of solidarity, by providing assistance financed by the entire population to the most vulnerable, impoverished, and vulnerable members of society. On the other hand, they provide a means-tested, targeted form of assistance reminiscent of the liberal, residual welfare state mode. They are typically animated both by the attempt to provide a small amount of assistance to those without other resources and as a means to equip recipients to enter or return to the labor market.

IV. Conclusion: A Hybrid (Triple) Welfare State

Here is an important case where one cannot claim that: plus ca change… The recent history of the French welfare state contains many failed attempts, admittedly, but more important is that the cumulative impact of the reforms that have succeeded is fundamental transformation. What is the result?

The French welfare state now can be considered even more of a patchwork than in the past. It consists of three sectors: traditional social insurance, privately financed and privately controlled supplementary social insurance, and a means-tested cluster of programs for the worst off and excluded.

Notwithstanding the complex array of sectors and programs, can one detect a clear and dominant logic to the current welfare state? On the one hand the three sectors identified above may be interpreted as reflecting conflicting logics, with the French social provision house divided against itself. On the other hand, at the least the direction of change is quite clear, even if one cannot reduce the incredible array of social expenditures to a single neat orientation. With that said, one might venture the claim that the French welfare state has moved a considerable distance from Bismarck plus in the post-war period in the direction of a liberal-residual welfare state.