Is There A Welfare State Crisis?
A Comparative Study of French Social Policy

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Abstract

The paper proposes a theoretical investigation of the impact of welfare on the growth regimes, inspired by new growth theory and recent advances in institutional analysis. It shows the complementarity between welfare states and Fordist growth patterns. The reasons for the so-called "welfare state crisis" are identified and the evidence of systematic international comparisons used to evaluate their relevance. The French welfare system appears less state dominated than jointly managed by firms and unions. This historical pattern explains many contemporary features (the bulk of the financing is by firms, the segmentation of regimes, the absence of social contribution revolts from the citizens) and the move towards a hybridization of a basic Bismarckian financing system with some Beveridgian principles. Recent trends do not point towards privatization; on the contrary the state has implemented a form of health care planning and created a new social tax in order to sustain an unabated demand for welfare. The paper draws up taxonomy of contemporary welfare states, and suggests a series of scenarios for both France and European countries.

1. Introduction

The organization of welfare is again at the centre of discussions among developed countries' policy makers and manifests a striking paradox. The United States of America and the United Kingdom, countries that experienced the most severe rolling back of the welfare system, are now concerned by the allocation of their budgetary surplus. Some politicians propose developing health care and education as well as general infrastructures, all items that had been severely neglected during the conservative backlash (The Economist, 2000a,b). In contrast, many continental European countries still have at the top of their agenda the slimming down and rationalization of their highly developed welfare systems, frequently assumed to be the main culprit in the lagging adoption of Information and Communication Technologies (ICT).

This paper attempts to explain this contrast. Contemporary welfare systems that have developed over more than a century have become highly complex and are difficult to analyze within the very clear, but quite abstract model of pure and perfect competition. In such a framework, there is necessarily a trade-off between social justice and economic efficiency. It is thus difficult to understand why social democratic countries such as Sweden have been able to work out a modern innovation system within the context of highly developed universal welfare coverage. The first aim of this paper is to propose a simple framework that nevertheless captures the complexities of welfare and to suggest some configurations within which economic performance and social justice are no longer in contradiction. A second objective is to test alternative hypotheses against the empirical evidence obtained by a comparing the evolution of the welfare state in several countries, with a more detailed look at the French experience. A third question can then be addressed: is the issue at stake the privatization of major components of the welfare system such as health or pensions? Or is it the introduction of quasi market mechanisms among a majority of non-profit organizations that are actually delivering the vast bulk of welfare measures? This provides an opportunity to present a taxonomy of the role of the family, of firms, of society-wide solidarity and of market mechanisms.

Finally, a more prospective approach tries to diagnose the major structural factors that are shaping the future of the French welfare state. Here again, the widely held theory of convergence towards a market-led system is challenged by the experience of countries of continental Europe.

A tentative conclusion of this essay is that a hybridization between Bismarckian financing systems, based on wage earner solidarity, and Beveridgian ones, built upon society wide citizenship, is more likely to emerge than a strong commodification of health care, pensions, education, and family social security.

2. The search for an analytical framework

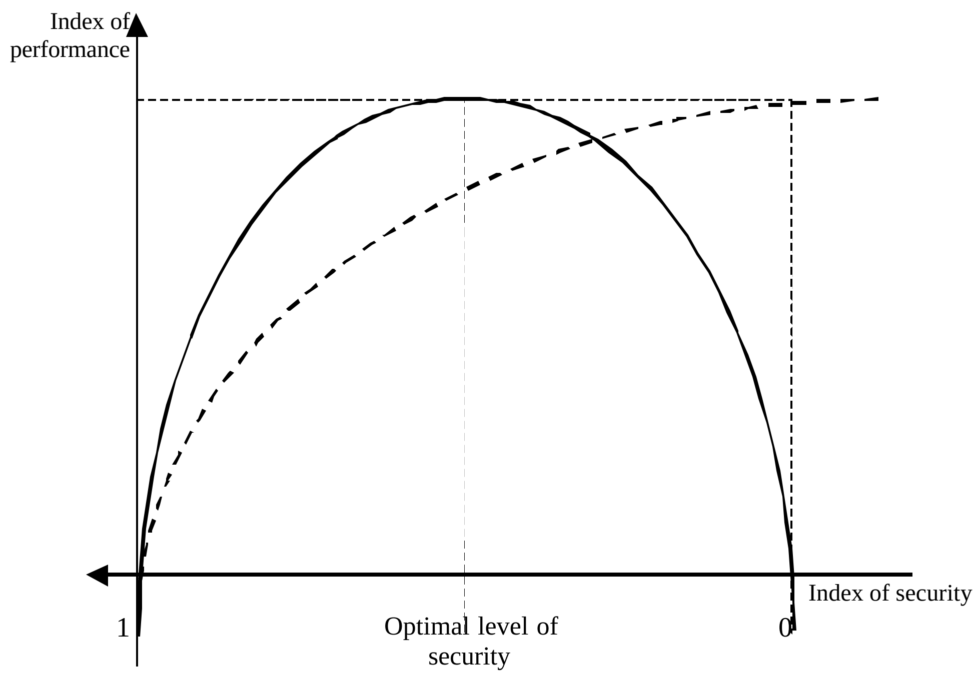
The literature on the welfare state divides along clear lines. On the one hand, economists tend to refer to a perfectly organized society with full information and to compare this ideal with actually existing welfare states, which are, of course, highly imperfect. Consequently, there is a strong temptation to infer that the existing welfare state is the main cause of unemployment, poverty and social exclusion. On the other hand, welfare specialists analyze the inner workings of each system, and, roughly speaking, conclude that every society develops a welfare system that is consistent with its values, political organization and economic characteristics.

Few conceptual frameworks take into account both these aspects - theoretical and empirical - of welfare systems, nor do they analyze the long-run impact of social security. Fortunately, renewed interest in growth theory and the recent attention paid to institutional analysis opens a third way, which this paper attempts to follow.

2.1 The inadequacy of the pure competition model

After the Second World War, the issue of social security was analyzed in a Keynesian macroeconomic framework: in a sense, the Beveridge plan was conceived as a complement to the full employment programme. Nowadays the conceptual framework is strongly embedded in the microeconomic analysis of rational agents facing a system of prices, incentives and uncertainties (Council of Economic Advisers, 1998). Thus, implicitly at least, partial or general equilibrium theory is frequently used to assess the impact of social benefits and the collective coverage of risk. If one adopts the old microeconomic theory of perfect information and no externalities, then inevitably any welfare system will introduce a distortion away from perfect competition equilibrium and a Pareto optimum. According to this framework, any welfare measure is always costly in terms of economic efficiency (figure 1).

Figure 1. Minimal versus optimum level of security



The market view: security introduces a difference with respect to the general equilibrium that is a Pareto optimum.

The institutionalist view:

Full security may be contradictory to the requirements of a capitalist economy.

No security at all may create instability in employment relations and institutional equilibrium.

In between, some security may be optimum for economic performance as well as for welfare.

Such an approach is largely unsatisfactory and in some instances erroneous. First of all, modern economic theory does not confirm a necessary convergence towards equilibrium. It has been convincingly argued that the two welfare theorems actually relate to a perfectly planned economy and not at all to a fully decentralized market economy (Benassy, 1982). If information is imperfect and the economy submitted to stochastic disturbances, a fully rational economic agent who reacts instantaneously to the price signals exhibited by the market would be worse off than a prudent agent who adjusts his strategy smoothly (Heiner, 1988). Not adjusting at all would lead almost certainly to the bankruptcy of the agent: the maximum speed of adjustment would no longer be optimum. This is a first and quite general rationale for the inverse U-shaped performance curve of figure 1.

Many other models suggest a similar result about the optimality of an intermediate level of adjustment and of security. For instance, a simple multi-sectoral model describing income distribution and effective demand shows that the same inverse U-shaped curve is observed with respect to the speed of adjustment of employment to its neo-classical efficient level (Boyer and Mistral 1982): what is gained at the micro level in terms of productive efficiency can be lost at the aggregate level by a negative impact upon effective demand. More general models inspired by modern classical theory put forward the role of corrections to various disequilibria (in the product market via inventories, in the labour market via hiring and in the financial market via investment) on the convergence towards short, medium and long-term equilibrium. Nevertheless, if the speed of reaction of firms is too fast, a bifurcation point generates two equilibria. In between there is the equivalent of a crisis, in the sense of a sudden shift of one equilibrium to another (Dumenil and Lévy, 1993). Again, the maximum speed of adjustment has adverse effects on economic performance and even threatens the existence of market equilibrium. This phenomenon also applies to financial markets: a too rapid mobility of capital in reaction to profit rate differentials may precipitate a period of fast growth and then an abrupt crisis. This pattern is explained by the lack of productive diversity to cope with new types of disturbance or stochastic shock (Eliasson, 1984).

These considerations question the hypothesis of full information in an uncertain world and lead to the suggestion that a form of insurance in order to smooth disturbances could improve macroeconomic performance.

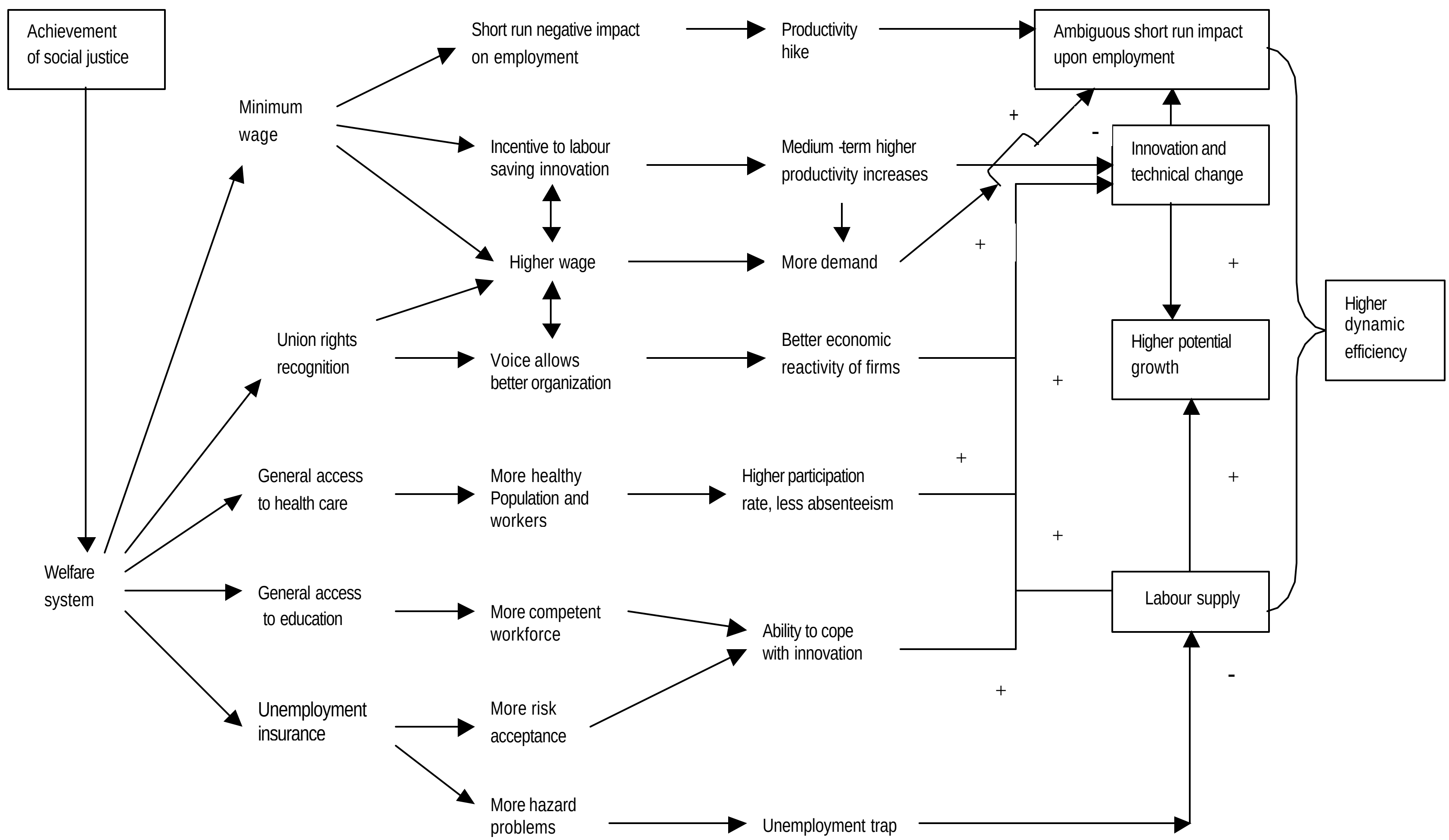
2.2 The role of externalities

A second justification for public welfare intervention is the existence of positive or negative externalities that cannot be internalized via private insurance or incentives directed towards the private sector (WHO, 2000, p.55). These are resumed in figure 2.

First, to offset the adverse effects of pure market logic upon poverty and social inequality, the state may impose a minimum wage. If this is effective, then conventional micro theory concludes that lower paid workers will be priced out of the market, creating unemployment. This, however, is only a partial equilibrium result since the measure affects the total wage bill, and hence the level of effective demand. Several studies in America conclude that recent minimum wage increases have actually benefited employment. Overall, the impact of minimum wages has in fact been positive during the Golden Age (1968-1973), as shown in the next section.

Secondly, the collective rights granted to unions for negotiating with firms can be considered in the same way. While they introduce a form of oligopolistic power into the labour market that could create unemployment as a result of higher wages, nevertheless the voice given to representatives of the workers may enhance commitment and ease the introduction of new technologies or the reorganization of the firm (Freeman and Medoff, 1984). The German and Japanese experience illustrates this complementarity between social rights and economic performance: "good" industrial relations in the 80s encouraged a high level of product quality and productivity.

Figure 2. How welfare expenditures may enhance dynamic efficiency



Thirdly, it is now increasingly acknowledged, especially by development economists (Chenery and Srinivasan, 1988), that the level of health is an important factor in the quality and size of the labour supply and thus in the productivity of workers. Even in developed countries, welfare gains associated with increased life expectancy and morbidity reduction may have overcome the gains measured in terms of conventional national accounting methods (Foundation Lasker, 2000). It is well known that significant externalities operate within the health sector, through increasing returns to scale of infectious disease control, immunization and pharmaceutical research. (WHO, 2000).

In the same vein, education is increasingly recognized as a key factor in endogenous technical change (Lucas, 1988 and 1993) and in social stratification (Bénabou, 1996). The externalities are multifaceted: the educational system delivers competent production workers, develops the ability to learn throughout the life cycle, detects and trains innovators, and so on. These gains cannot be internalized by market mechanisms, which is why many educational systems are public or subsidized and that a minimum level of education is generally compulsory.

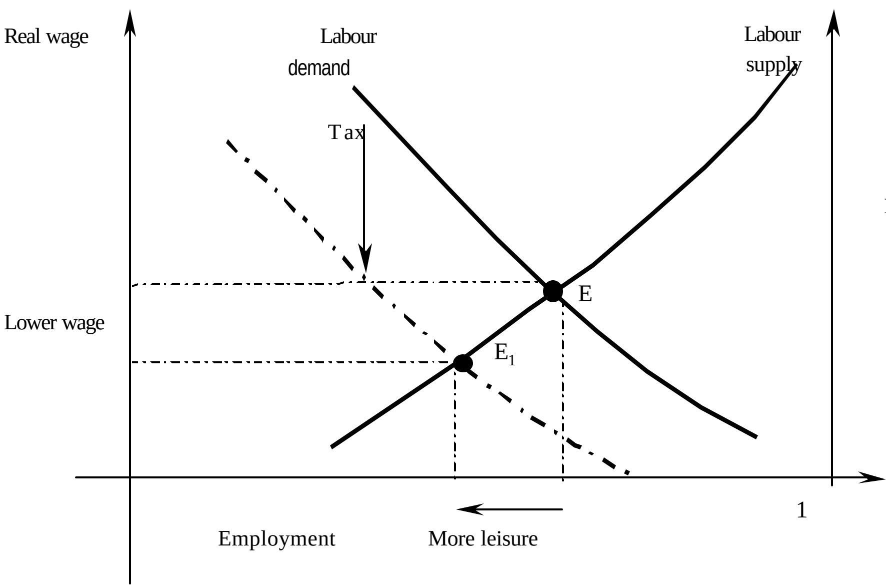
Lastly, unemployment insurance has an impact upon the speed of adoption of technological and organizational change. Whereas most analysts focus upon the negative aspects of unemployment benefits (such as an unwillingness to work), European comparisons made during the early 80s reveal a more positive feature: when workers are sure to be compensated for job loss associated with technical change, the related restructuring is more easily accepted (Boyer, 1988). Conversely, when such compensation is absent, as in contemporary Russia (Touffut, 1999), the benefits from technical change are not clearly perceived by the workers, who tend to protect the existing technologies, perceived as closely associated to the conservation of their jobs. Thus macro solidarity is better than micro egoism for the diffusion of innovations.

This realistic appraisal of externalities in decentralized economies shows that social justice is not necessarily detrimental to economic efficiency. In some cases, a synergy could emerge between a well-designed welfare state and the dynamism of innovations. A simple model presents the core of the argument in figure 3.

Let us imagine that a tax is levied to finance a society-wide training scheme. Two distinct effects operate. In the first instance, the firms pay the tax, which reduces their demand for labour in such a manner that the equilibrium wage is lower, thus inducing a shift from employment to leisure. Frequently, the reasoning stops here, concluding that a society without welfare intervention would deliver better welfare for citizens - quite a paradox indeed!

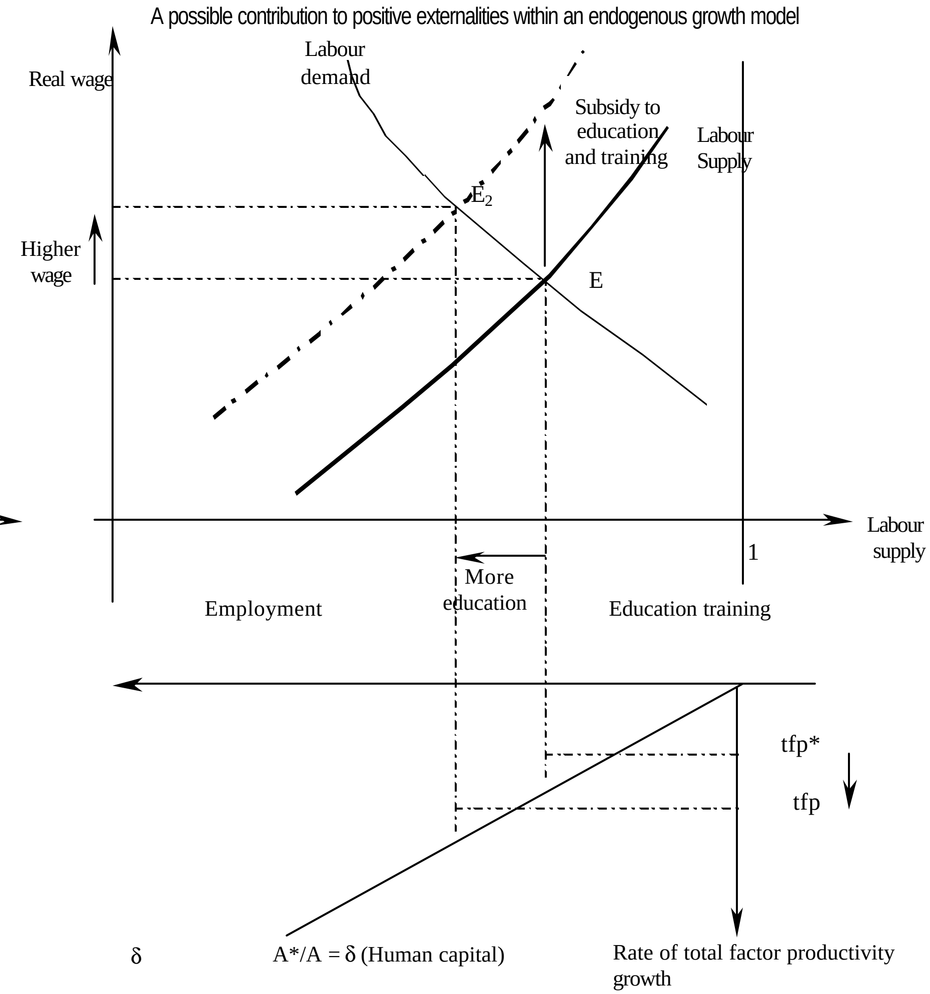
But the social tax is not only a cost, since it delivers a benefit in the form of financing training. The second effect is that productivity of labour is higher than it would be without the tax. Productive employment is lower but the fraction of the population undergoing training increases in the long-term. Thus, the steady growth path is higher than previously and ultimately this compensates the loss of productive output during the first phase. For a sufficiently low actualization rate, the economy finally benefits from the collective financing of more training and education.

Figure 3. Reconciling two visions of the impact of welfare



Accordingly to the ***first vision***, welfare financing by a tax on firms reduces both real wages and employment

According to the ***second vision***, welfare may reduce productive employment but enhance long-term productivity increases

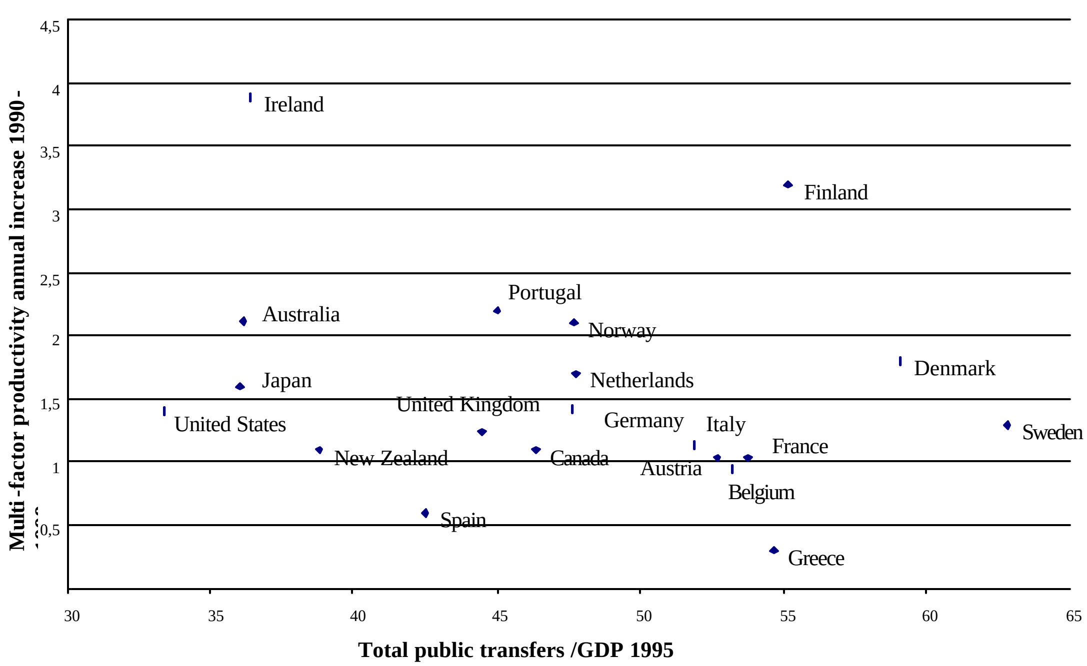


If costs were the only factor, one would expect that economies with the most intensive redistribution via welfare would be lagging in terms of macroeconomic performance. In fact, countries with leaner welfare benefits are not necessarily at the forefront of technological innovation, on the contrary, most of the small open economies with extensive welfare, such as Denmark, Finland and Sweden, have fared relatively well during the last decade, with total factor productivity increases rivalling the much admired American "New Economy" and an excellent record in terms of technological advances and the insertion into the ICT revolution. Recent research on why growth rates differed so widely during the 90s has shown that these European economies are already benefiting from the virtuous circle typical of a Knowledge Based Economy (KBE) (Bassanini et al., 2000; OECDb, 1999c; Guellec, 2000).

To sum up, a measure may have a negative effect on short-run equilibrium but may induce decisions and investments that promote innovations and growth. Such a framework, even if relatively simple, allows a rigorous assessment of the advantages and disadvantages of any component of the welfare state, without concluding *ex ante* that it is bound to be detrimental (the usual conclusion of neo-classical research) or bound to be good (as is often maintained by defenders of existing welfare states). Consequently, the assessment of contemporary welfare states is not a pure theoretical issue but above all a matter of careful empirical study (Atkinson, 1999; Tachibanaki, 2000; Tachibanaki et al., 2000).

The relationship between welfare and technical change is not simple (figure 4): to reap better benefits from the KBE, it is not sufficient to spend generously on health and education. Synergies are a matter of institutional complementarity and may also change over time (Aoki, 2001, Amable et al., 1997, Barbier and Théret, 2000b). Thus a historical view is required to understand the debate on the future of the welfare state.

Figure 4. Total public expenditures and multifaction productivity



2.3 Welfare systems during the Golden Age

The fast and relatively stable growth observed from the early 50s until the mid-70s has fed a vast literature. One major conclusion is that the welfare state is the logical complement of the Fordist labour-capital compromise. Three mechanisms explain the unprecedented rapid and stable growth (Aglietta, 1982; Boyer, 1990; Boyer and Saillard, 2001).

First of all, wages were no longer purely market-determined, but largely institutionalized through cost of living adjustment and sharing of productivity increases. This is the major reason for the synchronization of mass production along with mass-consumption. In addition, from the 50s until the mid-70s, an active minimum wage policy was pursued, thus reducing and then stabilizing wage differentials. Given firms' expectations that real wages are bound to increase at a significant rate, innovations are directed towards labour-saving devices in order to sustain both collective agreements and welfare requirements. Thus, even the least well-paid workers could afford to buy typical Fordist goods such as cars, urban housing, electrical equipment, etc.

Finally, the welfare state also has a more fundamentally structural role. After the Second World War, the drastic social changes provoked by the surge of industrialization and urbanization and by the decay of traditional agriculture called for collective solidarity previously provided within the family. Thus education, health care, housing, and old age pensions, hitherto almost non-existent for the vast majority of workers, became accessible to all. Simultaneously, increased female labour force participation and subsidies provided by family welfare regimes caused a change in the relationship between the economic and domestic spheres. Far from being an impediment to growth, the creation of the welfare state has been instrumental to social acceptance of the drastic transformation of working and urban life that took place in the 50s (Boyer, 1991).

Statistical tests indicate that during the period 1968-1973 (the heyday of the Golden Age), the investment rate was the key factor explaining growth and productivity differentials across OECD countries (Boyer, 1991). An extended review of the literature concludes that there is no clear evidence of any positive or negative impact of welfare expenditure on the major macroeconomic indicators such as growth or productivity (Atkinson, 1999, p.21-53).

2.4 The crisis of modern welfare states: the reality and the rhetoric

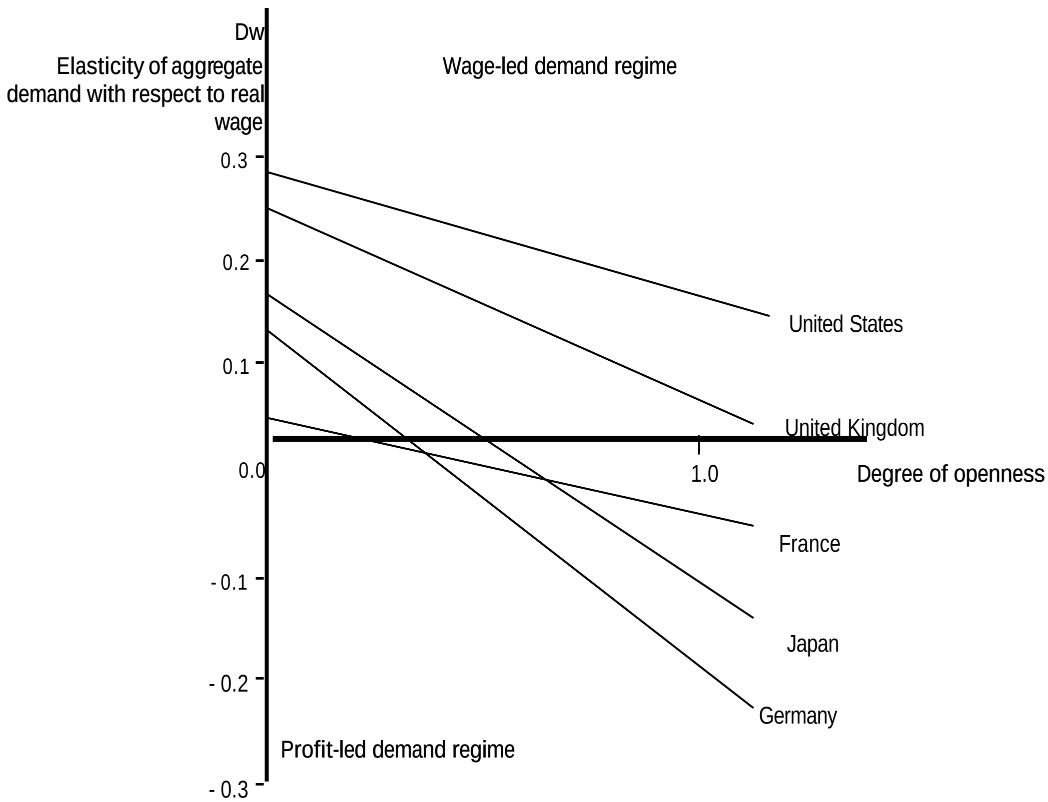
The challenge is then to explain why the Fordist coherence between a technological paradigm, a macroeconomic regime and a welfare system lost its legitimacy in OECD countries since the early 80s. A vast literature has proposed many explanatory factors that range from structural transformation to the role of purely ideological debate (Mishra, 1984; Greve, 1996; Svallfors and Taylor-Gooby, 1999; Dixon, 1998). The following sections present some reasons advanced for this loss of legitimacy.

International trade and globalization

One of the key features of the Fordist regime was its organization largely within the domestic boundaries of moderately open economies. Since the mid-60s, however, international trade has grown faster than domestic markets, as the result of the strategy of firms to find abroad the increasing returns to scale resulting originally in the domestic market. Consequently, by the end of the 70s, many firms and governments considered that real wage increases, which had in the past stimulated domestic demand, now had a negative impact upon competition and external trade.

This interpretation does not necessarily fit with empirical studies of the effects of openness on demand in major OECD countries (Bowles and Boyer, 1990). It is true, on the one hand, that the opening of an economy reduces the probability of a wage-led regime, through the positive multiplier effect of an exogenous real wage increase on aggregate total demand (figure 5). On the other hand, actual estimates for the 80s, a crucial period in the so-called emerging crisis of the welfare state, suggest that even in France and Germany, the multiplier had not become significantly negative. Surprisingly, given the strength of the conservative backlash against the welfare state in the United States of America and the United Kingdom, these two countries still exhibit a wage-led demand regime. Figure 13c below also suggests that the widely-held view that welfare states have been strongly challenged by the pressures of foreign competition may be a simplification of a much more complex set of interrelated factors.

Figure 5. Elasticity of demand in relation to real wages



Source (Bowles and Boyer, 1990).

A new productive paradigm

Industrial revolutions are fated to exhaust themselves after two or three decades. This is precisely the trajectory followed by the mass production of Fordism. The productivity slowdown was first observed in the United States of America after 1967 and spread to the rest of the developed world after 1973. This has had a negative impact upon the financing of welfare regimes. The thesis that social solidarity is in crisis arose from the severe deficits caused by the slow-down of tax and social contributions to welfare regimes.

Figure 6. The four factors affecting the transformation of welfare

Figure 6a. The Post World War II configuration

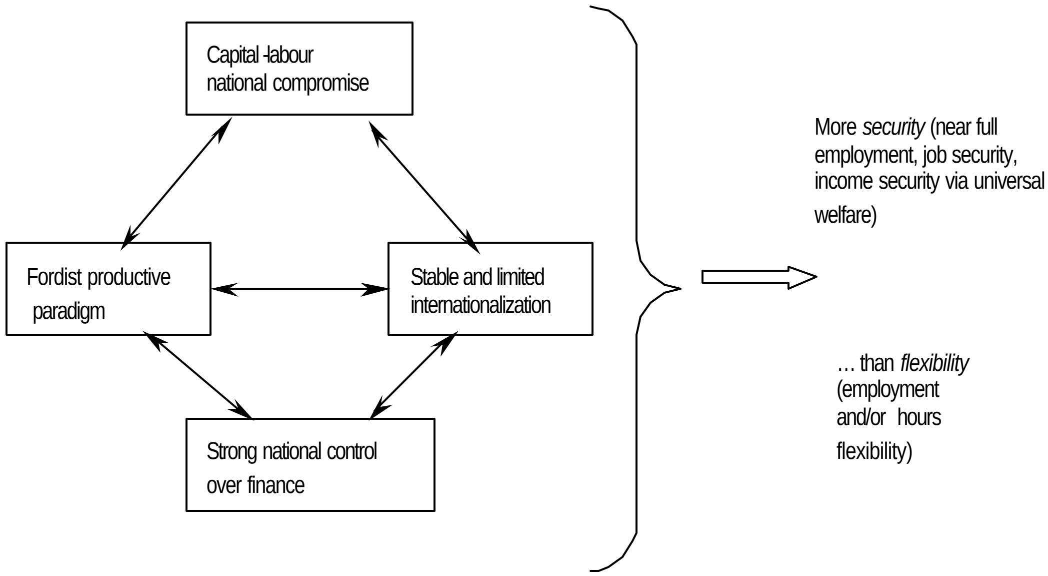
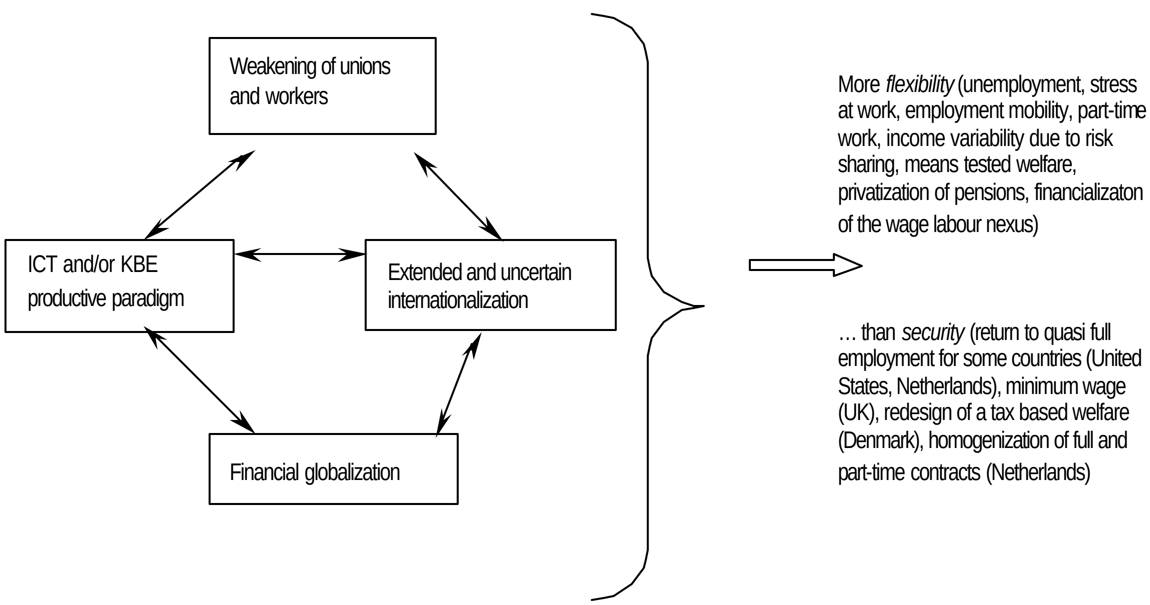


Figure 6b. The configuration of early 2000s



A more structural analysis stresses the emerging productive paradigm, built upon the intensive use of ICT, which heightens individual competences, thus eroding the relative homogeneity that was assumed to be a feature of the previous Fordist division of labour. According to this thesis, the weakening of the welfare state derives partly from the segmentation and new social stratification among wage earners.

No doubt this structural change has some impact on the difficulties encountered in the reform of welfare states, especially when social partners are weak and unable to agree upon the redesign of social security, as in France. But again, the trajectory of the Scandinavian countries mentioned in section 2.2, suggests that the disintegration of welfare is not a fatality: well-organized social partners may negotiate alternative principles and implement them (Esping-Andersen, 2000).

From pro labour to pro business governments

In the 60s, most governments were avowed Keynesian social democrats, characterized by a political coalition of large firms, wage earners and a majority of citizens. Since then, multinationals have allied with the international financial community and the core wage earners who sustain the competitiveness of the firm, rather than with domestic wage earners, with the result that Schumpeterian workfare seems to have replaced the Keynesian - Beveridgian alliance (Jessop, 1996). Today most, if not all, state interventions aim at national competitiveness through light taxation of capital, incentives to research and development and access to direct finance. In reaction to the high unemployment of the 80s, active employment policies promoting job access have replaced the simple income maintenance of unemployed workers. This drastic political shift explains three major trends in welfare systems: efforts to trim down costs, the shift of the financial burden from firms to wage earners and changes in the objectives and style of welfare policy itself.

If the challenge of welfare is to find a balance between security and flexibility, it is clear that advances towards the former have not kept up with moves towards the latter (figure 6).

The "welfare state crisis" as a rhetorical device

The political shift has been associated with new, alarmist discourses about a coming "welfare crisis". The long march of conservative think tanks has aimed both at challenging Keynesian conceptions of macroeconomic stabilization policies, and at contesting the achievement of the welfare state in terms of equality of opportunity (Dixon, 1998). Even political parties that traditionally represent workers have embarked on similar reasoning about the obsolescence of contemporary welfare systems (Dixon, 2000). Conservative rhetoric was partly based on a long intellectual tradition that surfaced again at the end of the 70s in the United States of America and the United Kingdom (Hirschmann, 1977). The problems posed by the aging of European and Japanese populations were underlined by intellectuals, sometimes associated with private insurance companies, in order to push drastic reforms in the pay-as-you-go systems that were still operating satisfactorily (Béland, 2000).

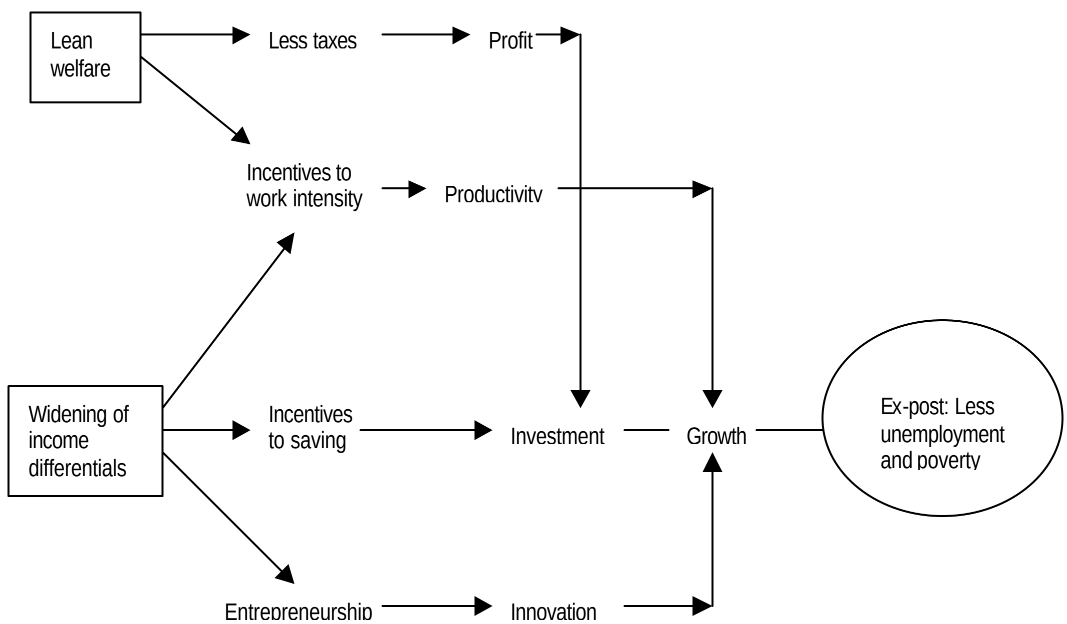
Nolens volens, some neo-classical analyses using a conventional partial equilibrium approach may have been instrumental in weakening the intellectual legitimacy of the welfare systems. In the words of a well known expert in taxation and welfare issues:

> It may be that there has been a shift in the balance of administrative power with agencies acquiring greater power and civil servants less, or there may be reduced political influence exercised by pressures groups representing beneficiaries. The dynamics of the welfare state may have been fundamentally changed by the alarms raised about the feasibility of its continuance. Calls by economists for rolling back the welfare state are themselves part of the political process. (Atkinson1999, p.187).

2.5 A new anti-egalitarian paradigm

These intellectual efforts have finally given rise to a new conventional wisdom about what is a good economic policy and what should be a fair and efficient welfare system. It is built upon the premise that firms are the core institution of society, that entrepreneurs are responsible for engineering technical change and that the opportunistic behaviour of wage earners is a permanent threat to the viability of the welfare state and the efficiency of the economic system (Sellière, 2000). The suggested macroeconomic regime is at odds with the Fordist one.

Figure 7. The anti-egalitarian paradigm of the 1980's



The anti-egalitarian paradigm, as illustrated in figure 7, concerns welfare benefits and income differentials. Welfare should be lean in order to limit costs, improve profits, sustain the income of the most innovative individuals and thus maintain strong work incentives. Welfare benefits should be means tested and control of welfare funding strict in order to curb opportunistic behaviour. The view that the complexity and inadequacy of the welfare systems themselves have generated poverty traps has gained legitimacy.

The widening of income differentials is advocated as it corresponds to the remuneration of competence: the idea of equality in the outcome is replaced by equality of opportunity, a quite different conception of social justice (Sen, 1998). Furthermore, the rich become richer but as they have a higher propensity to save, the investment rate would be higher in this frugal welfare state. Similarly, the widening of income differentials is seen as the major incentive to investment in human capital, commitment and intensity of work, another ingredient that is assumed to foster faster productivity. Finally, very low or non existent taxation of capital and financial gains, for instance via stock options or preferential tax treatment, encourage risk-prone individuals to become entrepreneurs and to look for breakthrough innovations that would make them rich and thus create many jobs for the poor. This outlook is strongly reminiscent of typical 19th century ideology.

Thus *ex post*, the slimming down of welfare and the widening of inequalities would benefit the poor and the unemployed. In accordance with a now rather widely accepted conception, this would be favourable to social justice (Rawls, 1971). Moreover, growth performance seems better when wage inequality is high and welfare transfers are modest, a significant change indeed with respect to the 1968-1973 years. Countries where welfare was the most developed have experienced more problems than in the United States of America or Japan, i.e. countries featuring a much more modest level of social transfers.

Given the conjunction of intellectual debate and macroeconomic performance, the appeal of the American and, to some extent, the British models in the redesign of welfare have led many observers to conclude that market mechanisms should play a greater role in the provision of social security.

2.6 Structural diversity of welfare systems and privatization

Welfare states derive from the conjunction of three elements: responsibility of firms concerning industrial risks, political recognition of social rights, and the role of families in providing solidarity among members. The nature of the relationships and causality between these three elements can be analyzed according to structuralist theory (Théret, 1997, p.214).

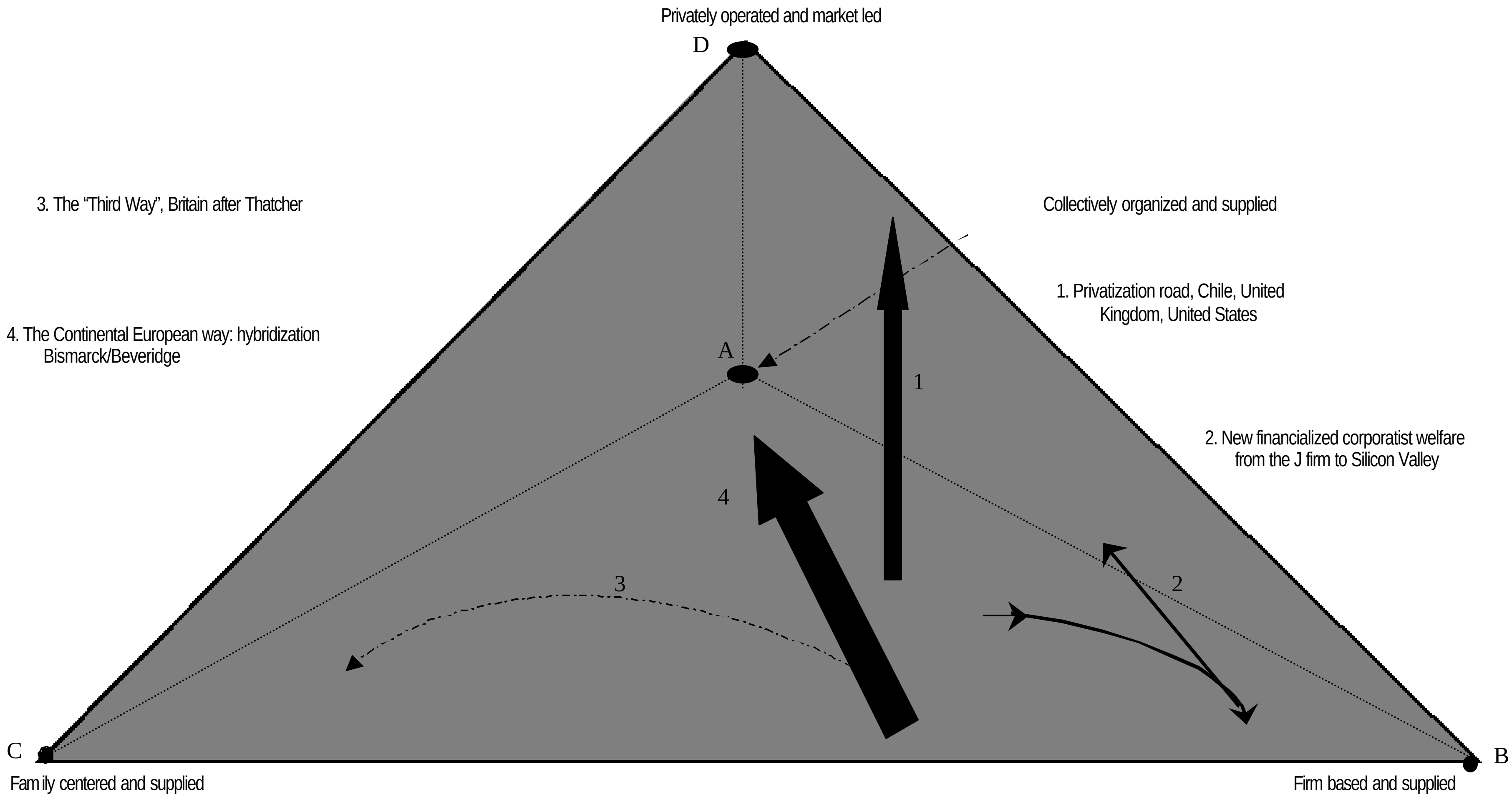
In some countries one sphere clearly predominates. The former Soviet Union was a good example of firm based welfare, since a majority of the benefits were provided by the firm, either by monetary payment or by direct provision of health, education and leisure activities. In contrast, Sweden and Denmark are typical of collectively organized welfare, with universalistic values and financing by general taxation. Southern Europe exhibits the lasting role of family centred solidarity. The ideas of New Labour in the United Kingdom suggest that this is not necessarily an archaism (Giddens, 1998) when solidarity is extended from the family to the community and civil society (Fukuyama, 1997).

Generally speaking, however, most systems combine the three sources of solidarity. In Japan, firm based social welfare goes hand in hand with an important role of the family, as well as a residual role of collective welfare. In France, the ideal of *sécurité sociale* is mitigated by the fact that the financing, and in some case the supply, of many components are provided by firms. In the United States of America, the provision of welfare is largely attached to the labour contract negotiated between workers and firms, with some limited examples of collective welfare for specific categories of the population.

Only few national social security systems display a clear move towards privatization and quasi market competition in the supply of welfare. A key reference is the strong Chilean move to private insurance, with mixed evidence about the gain in terms of efficiency and equality, for instance for health care provision (WHO, 2000, p.109). Another example is the American privatization of pensions, in a sense largely idiosyncratic to North American society (Montagne, 2000; O'Sullivan, 2000). The most intriguing trajectory relates to the Dutch case: the extension of universal social rights concerning for example the equal treatment of part-time and full-time workers, has been associated with a significant reliance on market mechanisms for the provision of welfare (De Beer and Luttikhuizen, 1998; Barbier and Theret, 2000a; Esping-Andersen, 2000).

The problem is less one of choosing between purely public or totally privatized welfare, but rather finding a way through the legacy of history, logic and existing regimes to reform of welfare provision. Figure 8 shows the four main forces shaping reform: privatisation, collective solidarity, firms and families.

Figure 8. Four strategies for reforming welfare states: contrasted national trajectories



Privatization strategy is strengthened by the emergence of a finance-led regime (Boyer, 2000b). Stock markets develop so quickly that the old pay-as-you-go systems are presented as inefficient and even unfair, since workers do not get their share of the increased financial wealth (Orléan, 2000). But the constitution of quasi markets between independent, non profit institutions competing for the supply of welfare benefit is not easy given the inertia and localization of the supply, the difficulty of entry, the poor assessment of quality, and high transaction costs of managing this competition by public bodies. Furthermore, if public authorities do not set strict rules, private firms can cream skim the market and leave the most severe risks to the public sector (Le Grand and Bartlett, 1993). The Chilean and American cases show a clear increase in inequality of access to welfare as a consequence of privatization.

New financialized corporatist welfare is also emerging in the most dynamic industries and regions, along the lines of a hybridized Japanese model. Until the early 90s, the Japanese employment system was perceived as efficient, and welfare provided by large firms was conceived as complementing the internal labour market (Hanada and Hirano, 2000). This system is now under strain due to the poor performance of the Japanese economy, but the management of some American ICT firms, for instance in the Silicon Valley, is updating this model. Japanese profit-sharing is replaced by stock options and some components of welfare are adjusted to the individual needs of employees, in order to prevent them moving to another company or launching their own start-up. Such an implicit welfare model cannot pretend to be universal, since it concerns mainly high-level professionals, holders of scarce skills in high demand on the international market.

Community based welfare is also an updating of the family centred welfare typical of some contemporary economies, such as the Asian NICs. Even in Europe, the mass unemployment affecting particularly young and older workers has brought into play family solidarity, and this still is a typical pattern in Southern Europe. Statistical surveys show an increase in intergenerational transfers, a compensating mechanism for deficient society wide welfare. In a sense, New Labour is trying to extend the notion of solidarity from the domestic circle to the wider, community level. However, this model cannot pretend to be the dominant one for many reasons. First, the movement towards the two income family and gender neutral configuration calls for a redesign of universal welfare (Majnoni d'Intignano, 1999a; Esping-Andersen, 2000; Théret, 2000). Second, the same family or community pattern cannot generally prevail throughout Europe given the diversity of the national trajectories over the last century. Third, from a theoretical point of view, the internationalization and financialization of modern economies propagate new risks that can only be insured at a wider level than the family or the community.

The modernization of universal welfare is one of the best responses to globalization and it is not an accident if small open economies are at the forefront in the redesign of such a welfare model. Contrary to a widely held belief, the negotiation by social partners of social pacts that set new rules for wage formation and welfare reforms is as efficient, or even more so, than a typical market led strategy (Fitoussi, Passet, 2000). In this respect, the Dutch model is now widely recognized as quite different from the "Third way" but no less attractive (Visser and Hemerijck, 1997).

It would be incorrect to conclude that there is a single best way for organizing welfare, be it market-led, firm based, community centred or collectively organized. The following analysis of the transformation of French social policy and a comparison with other European systems support this conclusion.

3. The lessons of French welfare state history

3.1 The emergence of the welfare state

The French welfare system emerged from the conflicts between workers and entrepreneurs during industrialization. The French revolution had forbidden business or workers associations, thought to be bad for competition and consumer welfare. Industrial workers' rights were recognized only in the 1890s when unions were legalized and the responsibility of firms in industrial accidents made explicit. Firms became responsible for industrial accidents even in the absence of a clear mismanagement and had to pay compensation to workers out of social contributions to a mutual fund for the insurance of this risk. Subsequent struggles followed the same pattern: each success of the workers brought a new responsibility to firms and the creation of a special fund to cover the related risk.

From the financial point of view, the French system is therefore close to Bismarckian principles, in the sense that social security has developed in the context of industrial relations rather than of citizenship, at least until the mid 20th century. This is borne out by the dates of major welfare state legislation, introducing minimum wages, legal working hours, industrial accidents, sickness insurance, family allowances, unemployment insurance, professional training funds and housing subsidies in the years 1919, 1936, 1945, 1968, 1981 and 1995, which correspond to times of major political and social events: the end of the two World Wars, the arrival of leftist governments, mass protests of June 1936, May 1968 and December 1995 (Dehove and Théret, 1996).

However, French trade unionism has developed towards large confederations composed of a whole spectrum of industrial unions, and so the debate on welfare became highly politicized, left wing unions struggling against conservative *bourgeois*. The recurring inability of firms and unions to agree upon social legislation necessitated state initiative and supervision in the form of *paritarisme*, the equal representation of labour unions and employers' associations in the management of each welfare regime. Thus, unlike the paternalistic model of Japan, the French welfare state has given the State the role of referee between labour and business.

3.2 Specificities of the French welfare system

This century long trajectory has had an impact upon the structure of financing, the coexistence of specialized regimes, the segmentation and overlapping of regimes and finally the endogenous dynamics of the entire welfare state.

Financing by employers and workers

Employers' contributions represented over 55 per cent of total welfare expenditures in 1981 (table 1), but this share has been declining as the bargaining power of the workers has weakened due to high unemployment and the internationalization of many large firms. Employees' contributions increased until 1996, but insufficiently to compensate the decline of firms' contributions. General taxation has not filled the gap since the share of taxes has been almost constant over the last two decades.

The difference comes from a special tax called Generalized Social Contribution, (*Contribution Sociale Généralisée, CSG*) instituted in 1991. Households pay it in addition to normal income tax but the receipts are affected to specific welfare regimes (family, health care, old age pensions). The State finances under 15 per cent of total welfare expenditures, significantly less than the British and Swedish welfare states.

Table 1. The financing of French welfare, 1981-1998 (in percent, except last line)

	1981	1993	1994	1995	1996	1997	1998
Employers' contributions	55.2	49.9	49.5	47.2	46.6	46.2	46.7
Employees' contributions	18.4	22.5	22.3	22.4	22.6	21.3	16.1
Individual workers' contributions	5.1	4.9	4.7	4.0	4.2	3.9	3.4
Contributions on benefits	0.1	0.7	0.7	0.7	0.9	0.9	0.1
Total social contributions (1)	78.8	78.0	77.2	74.3	74.3	72.3	66.0
Special Taxes (2)	2.3	5.7	4.5	7.1	7.2	9.2	15.8
Total Ratio (1+2)	81.1	83.7	81.7	81.4	81.5	81.5	82.1
State budget contribution	15.7	14.1	16.1	15.1	15.3	15.3	14.8
Other sources	3.2	2.2	2.2	3.5	3.2	3.2	3.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total in billions of French francs	852.8	2 119	2 189	2 355	2 459	2 539	2 640

Source (Barbier and Théret, 2000b, p. 11).

A series of specialized regimes

The notion of institutionalized compromise, originally used in the context of long term public spending (Delorme and André, 1983; André and Delorme, 1983) has been extended to the welfare spending (André, 1984, 1997 and 2000). Social and economic alliances differ from one regime to another, explaining why each regime follows a different path (table 2).

- The health care regime displays an inflationist coalition between medical staff and patients, along with the silent acceptance of employers to pay for the extra costs, at least until the early 90s. There is a widespread feeling that good health has no price.

- The old age pension regime is built upon a quite different compromise. The active population accept to pay out of their earnings a contribution for sustaining contemporary retirees, perceiving the issue of pensions as an expression of inter-generation solidarity. Legislation recognizes this conception *de facto* (Dehove and Theret, 1996), unlike American workers or financial market experts (Bourdelais, 1996; Davanne and Pujol, 1997).

- The family regime exhibits yet another configuration of interests built upon a pro-child compromise. Over the last century, French governments have encouraged births by significant incentives that have been maintained in spite of drastic changes in the nature of the family and the emergence of gender equality issues. The outcome does not necessarily correspond to expectations, especially with the generalization of a two-income family (Majnoni d'Intignano, 1999a).

- Unemployment insurance was conceived principally to cope with frictional and transitional unemployment, typical of the Golden Age. When unemployment rose to unprecedented levels and became a long-term situation for aging workers, the weakness of this compromise became clear. This explains the growth of benefits for unemployment and early retirement until the early 80s and then the slow erosion of this spending: the system was never conceived to deal with mass, structural and long-term unemployment.

- The minute share of spending for poverty, recently relabelled as "social exclusion" and the very modest increase in spite of the emergence of new forms of poverty (the homeless), shows that the French welfare state is mainly concerned with solidarity among employed wage earners, distinguishing it from typical Beveridgian systems. The creation of a Minimum Income for Insertion, (*Revenu Minimum d'Insertion*, *RMI*) in 1988 takes into account this discrepancy between minimum wage policy (*Salaire Minimum Interprofessionnel de Croissance*, *SMIC*) and the objective of guaranteeing a decent living for people unable or unwilling to take a job.

Table 2. The share of different regimes of French social welfare, 1981 – 1998 (per cent of total expenditure)

Regime	1981	1986	1991	1996	1997	1998
Sickness	25.8	25.9	26.0	26.6	26.4	26.6
Disability	6.00	6.3	6.0	5.2	5.2	5.2
Industrial accidents	3.2	2.2	2.2	1.7	1.7	1.6
Old age pensions	42.0	41.5	42.8	43.1	43.2	43.5
Family	12.3	10.7	9.7	10.1	10.5	10.3
Housing	2.0	2.6	3.0	3.0	3.4	3.4
Early retirement	2.0	3.7	1.5	na	na	na
Employment	6.4	6.3	7.3	na	na	na
Poverty – social exclusion	0.8	0.7	1.5	1.4	1.4	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source (SESI-DREES extract from: Barbier and Théret , 2000b, p.7).

Segmentation of regimes: the example of old age pensions

The historical legacy of social and political struggles has fragmented the system of old age pensions into ten major regimes, as well as another 26 regimes, some of which have less than 20,000 subscribers (Charpin, 1999, p.20). They differ according to the sector (public or private), and the nature of the activity (table 3). Clearly, the strong unions in the public sector get better financial conditions than the wage earners of the private sectors. Individual contributions vary from 99 per cent for electricity and gas workers to only 13.1 per cent for farmers and 15.8 per cent for civil servants.

There is also heterogeneity in the level of pensions: for instance the bonus of civil servants is not included in the pension calculation. For this reason, discrepancy across the regimes may not be as sharp as would appear at first glance. A closer examination of the ratio of pension to net wage after tax provides a more precise view, since the replacement ratio only oscillates between 60 and 67 per cent (André, 2000, Appendix, p. 12). Furthermore, some compensating mechanisms have been elaborated to correct the demographic imbalance of some regimes where the number of employees is drastically declining, and also to take into account solidarity with, for instance, pensioners who have been unable to make sufficient contributions to their pensions. These devices are insufficient, however, to fully overcome the large diversity, for instance in terms of the retirement age.

Table 3. Financing of old age pensions by scheme, 1996

Scheme	Compensation	National Solidarity Fund	Individual contributions	State contributions	Other	Deficit	Total
	Source of finance						
State civil servants	0	0	15.8	84.2	0	0	100
Local civil servants	0	0	97.7	0	2.3	0	100
Railway employees	17.8	0.1	34.0	48.1	0.1	0	100
Paris subway workers	3.6	0	34.7	61.0	0.7	0	100
Electricity and gas workers	0	0	99.0	1.0	0	0	100
Private sector wage earners	0	19.7	75.8	0.8	1.6	2.2	100
Complementary pension system	0	0	97.2	0.2	2.6	0	100
Managers' complementary pension system	0	0	92.6	0.4	4.9	2.2	100
Farmers	50.9	12.0	13.1	24.0	0	0	100
Complementary pensions for doctors	0	0	94.1	0	5.9	0	100

Source (Charpin, 1999, p. 127).

Overlapping of regimes and state coordination

The last two decades have put this complex system under severe strain and blurred the boundaries between the various regimes. For instance, early retirement measures are being introduced and are *de facto* shared between unemployment insurance and pensions. Similarly, the unemployed have been exempted from contributions to health care, pensions, family allowances and so on. These cross subsidies have provided an incentive to simplify the tax basis of the welfare state, to clarify the notion of society wide solidarity and to distinguish the sphere of collective from private insurance.

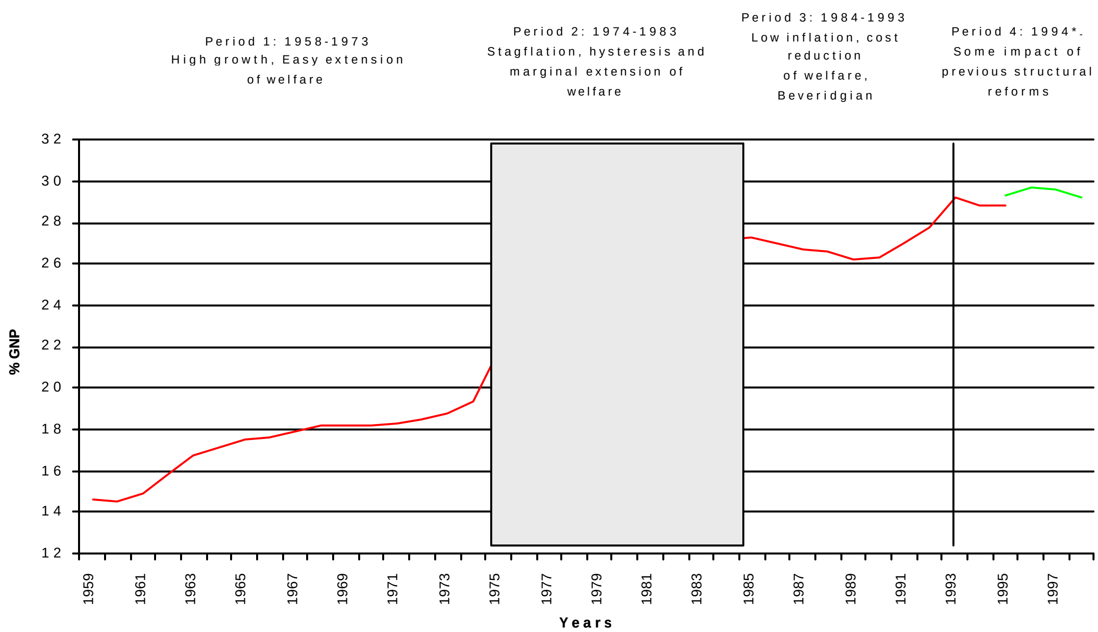
The superposition of all these regimes generates a system of income redistribution that appears both irrational and costly (Bourguignon, 1998; Bourguignon and Bureau, 1999). A much less complicated system, for example shifting employers social contributions to Value Added Tax, would be more rational (Malinvaud, 1998), but social partners strongly defend the *status quo* that gives them a say in the management of the welfare state. Since the traditional role of the state is precisely to overcome segmented interests and to ensure compatibility and fairness between the different regimes, during the last decade, the State has been involved in the design and management of welfare, frequently violating the principle of *paritarisme*.

Conclusion

The chronology of events, showing that there has been a co-evolution of the growth regime and the welfare system, strongly contradicts the view that the welfare crisis could be corrected by the introduction of more vigorous market incentives (Figure 9). The period of high growth (1958-1973) allowed productivity increases to be shared between wages and profits, while financing the universalization of social security coverage, without any significant increase in the share of social benefits in total GNP. At that time, few voices challenged the legitimacy and global efficacy of the welfare state. The sharp increase in the share of social transfers (1974-1983) was the consequence of the decline of fast growth rather than an extension of welfare. The gap between social expenditure and receipts became permanent and any extension of social benefits that did take place was marginal, springing from the belief that the Golden Age would be back again. A turning point occurred in 1983-1984, when the previous Keynesian policies were reversed into an austerity programme that aimed to restore French competitiveness through low inflation in order to keep the exchange rate with the Deutschmark constant. The years 1988 to 1992 witnessed a series of innovations in the financing and management of nearly every regime (see table 5 infra).

After 1994 the share of social benefits in GNP almost stabilized. This may have been partly due to previous reforms reducing costs, but also to the return to higher growth in 1998-1999. A final evaluation is made difficult by new accounting methods introduced after 1990.

Figure 9. The long-term evolution of social benefits in France, 1959-1998



* Change in the accounting methods

Source (Adapted from Barbier and Théret, 2000b, Figure 1).

Thus, variations of market competition in the delivery of welfare are not the cause of its financial crisis, which became serious only when the Fordist growth regime came to an end.

Moreover, compared with elsewhere, French welfare and tax systems have had a positive effect in reducing inequalities at the lower end of the income scale. Table 4 shows that France has contained extreme poverty more successfully than some other European countries, even though many economists consider that too much social redistribution is taking place compared to the result, and that more cost saving and/or Pareto improving schemes could be designed (Atkinson, 1998; Bourguignon, 1998; Caussat and Hel-Thelier, 1998; Bourguignon and Bureau, 1999).

Table 4. Income inequality: a European comparison, 1995

Country	Threshold[1]	Distribution of individuals (in per cent)							
		Income before transfers[2]				Income after transfers[2]			
		1	2	3	4	1	2	3	4
France	7 025	28	29	21	22	16	34	25	25
Germany	7 433	24	31	24	21	18	32	26	24
Italy	5 232	21	31	21	26	19	31	23	27
United Kingdom	6 720	34	22	19	26	20	30	22	28
EU 13	6 352	26	29	21	24	18	32	24	26

1. PPPS (purchasing power parity standards) are a conversion of national currencies; each unit corresponding to an identical quantity of goods and services in the different countr ies.

2. (1) Less than 60 per cent of the national income median; (2) 60 to 100 per cent; (3) 100 to 140 per cent; (4) 140 per cent and over.

Source (Eurostat, 1999 extract from Barbier and Théret, 2000b, p.19).

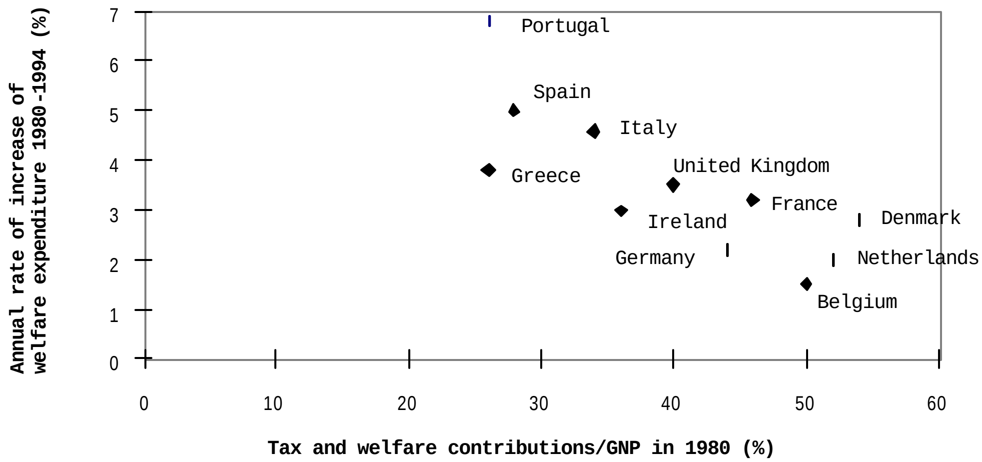
3.3 Major changes since the mid-80s

Many welfare systems suffer from their own success rather than intrinsic and structural failure, as the example of old age pension shows. Whereas in the 50s, French retirees were among the poorest, during the 90s they reached the same standard of living as wage earners. Similarly, with lengthening of life expectancy, pensions are paid longer to the retired. These factors, deriving from the very fulfilment of welfare state objectives, explain the recurring deficit of pension regimes and the need, but also the acceptance, to increase social contributions.

The scale of social transfers and cost-containment reforms

Within the European Union, there is a negative correlation between the initial size of welfare redistribution and its extension during the last 15 years (Figure 10). Two explanations can be given of this pattern. First, the growth of welfare expenditures has been higher in Southern Europe, where Portugal, Spain, Greece and Italy have been catching-up with other countries. Secondly, the more advanced welfare states (Denmark, Netherlands, Belgium and to some extent France) have undertaken an endogenous innovation process in the face of severe financial problems in order to redesign the existing system. High public deficits and large real interest rates in the period 1984-1993 have curbed previous trends in welfare spending (André, 1997, p.41; Barbier and Théret, 2000a, pp. 8-14).

Figure 10. A reaction to an excessive share of GNP…or catching-up of lagging countries

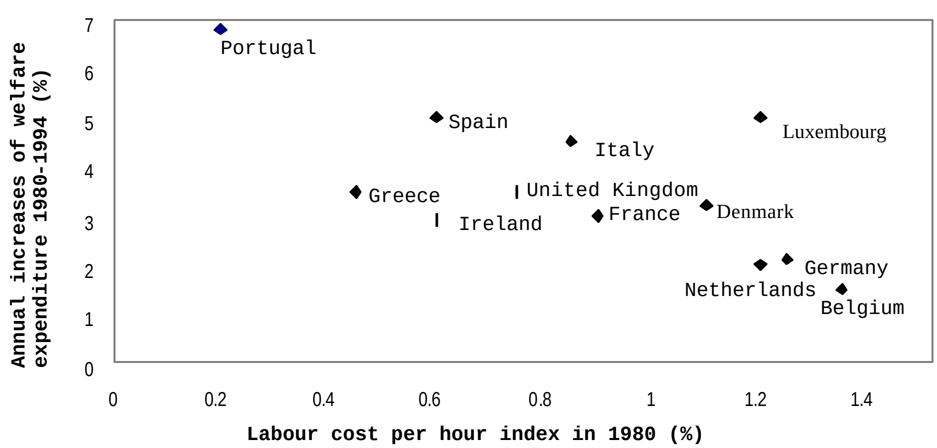


Source (André, 1997).

The fear of loss of competitiveness

Contrary to the widely held view that the welfare state has a detrimental impact on competitiveness, labour cost differentials across European economies do not seem to be attributable to the increase in welfare state expenditure (Figure 11). This may be coherent with the previously mentioned findings that few OECD countries are governed by a profit/competitive-led regime. In spite of this mitigated evidence, official French discourse has argued constantly for welfare reform in order to cope with the Europeanization of the economy. Thus, social costs of firms have been alleviated in order to promote an export-led recovery, and contributions have been re-profiled among wage earners in order to develop incentives to job creation for the low skilled workers. As a consequence, the public budget has assumed part of the costs of welfare previously paid by firms. From a conceptual point of view, this means that the French system is evolving in the direction of a more Beveridgian system, which recognizes the society-wide aspects of some components of the welfare state (Bonoli and Palier, 1995; Barbier and Théret, 2000b).

Figure 11. A detrimental impact upon labour costs?



Source (André, 1997).

The last two decades have seen a continuous process of European institution building, first under the banner of the Single Market in the mid-80s, to prepare the monetary integration and then the launching of the Euro in the second half of the 90s. This move has exerted significant effects upon the redesign of French welfare.

First, the Excessive Public Deficit clause of the Maastricht and Amsterdam treaties makes each national state responsible for the deficit of central government, regional and local authorities and social security regimes. Thus, the French Parliament approves each year the funding of welfare, which entails State intervention in the management of the system. This is a form of *étatisation* of welfare under the cover of Europeanization, and significantly alters the ideal of *paritarisme*.

But there is a second and countervailing force. The Luxembourg European summit has adopted the principle of benchmarking employment policies and by extension many components of social policy (gender equality, youth unemployment, life long learning, equal opportunity). Some scenarios contemplate the possibility of an Europeanization of welfare (Maurice, 1999), and experts in European constitutional issues (Quermone, 1999) recognize that this could help in forging an European citizenship, so necessary for the long run viability of monetary integration (Boyer, 2000d).

4. The contemporary French welfare state: between Bismarck and Beveridge

Table 5 shows that practically all regimes have undergone more or less ambitious changes in the period 1974 to 2000, with the possible exception of family and housing. Today, the French welfare state has acquired seven distinctive features that were not present in the 1970s.

4.1 More state intervention

Control of welfare expenditure by the central government has developed, in contradiction with the founding principle of *paritarisme*. Given the decentralization of welfare management, as well as the multiplicity of actors involved, the State is constrained to be more and more involved in reforming welfare, in order to make effective its top down approach to welfare spending. In 1991, The *Juppé* plan for health care aimed to curb the continuous increase of health care expenditure by the equivalent of indicative central planning. Until now, this strategy has delivered mixed results (Mougeot, 1999).

4.2 Beveridgian innovations within a Bismarckian system

Control of expenditure by the State is the corollary of its extended role in financing. In nearly all the regimes, a shift has taken place in the financing of welfare from social contributions by firms to general taxation of all incomes (table 5).

Table 5. The key reforms of the welfare state, France, 1974-2000

Date	Financing	Wage legislation	Old age pensions	Health	Family and housing	Education and training	Unemployment	Employment
1974	Periodic increases in social contributions by firms and employees	Periodic increases of minimum wage (SMIC)		Inflationist coalition (CNAM administrators, unions, employers association) Resources adjusted to spending			Increase in employment benefits	
1975					Benefit for disabled			
1976					Single parent benefit			Subsidy to part-time employment
1977-1980							States takes control of the status of the unemployed	
1981		National pact for employment			Increase of benefits			
1982			Legal retirement age reached from 65 to 60 years	Increases in patient charges		Reform in order to generalize the access to the *baccalaureate*		
1983	Call for a reduction of tax and welfare contributions / GDP %	Moderation in SMIC increases						
1984						Collective agreement on dual training system	Splitting between unemployment insurance and solidarity benefits (ASS and AI)	Creation of collective utility jobs
1985								Subsidies for youth employment
1986-1987								
1988		Creation of RMI (*Revenu Minimum d'Insertion*)						
1989		A growth pact is proposed				Credit for young workers training		Back to work incentive contracts Subsidies for new jobs
1990								
1991	A new tax (1.1%) on all incomes (CSG) replaces payroll contributions by firms			Reform of hospitals (caps on annual funding) (*Dotation globale*)	CSG tax is attributed to family regime			Tax breaks on the wage of low skilled workers (less than 1.8 SMIC)

Note: Grey rectangles indicate major reforms.

Continued on next page.

Table 5 (contd). The key reforms of the welfare state, France, 1974-2000

Date	Financing	Wage legislation	Old age pensions	Health	Family and housing	Education and training	Unemployment	Employment
1992						More training for the unemployed	Restricted eligibility to ASS and AI Decreasing benefits after 6 months	
1993	CSG raised to 2.4 %		1.3 % of CSG for pension fund Longer period for pension of the private sector (Balladur reform)	More financing by patients (30 %) (*Forfait hospitalier*)		Closer link of secondary schools with the professions required by the labour market		Decrease of the social contribution of firms to promote employment
1994		Periodic but moderate increases in SMIC and RMI						
1995	Principle of annual approval by Parliament of Social Security Bill Social security debt taken over by the state			Return to more planning, universalism under state control		Incentives to short university courses for preparation to entering the job market	Eligibility more difficult Diversification and reduction of replacement levels Protests by the unemployed	
1996			Ability to join pension funds (Thomas Act) – not implemented	Decentralization of the control and distribution of maximum hospital spending				
1997	CSG raised to 3.4 %			1 % CSG given to health care fund	Benefit to cater for people over 60 years			
1998	CSG to 7.5 %			Resources of CSG allow further drop in social contributions	Child benefits become "income tested" for few months			
1999		The negotiation on the 35-hour week deals with wage restraint	Creation of a reserve fund in order to cope with the demographic shocks	July – Universal medical coverage (CMU)		Law organizing interaction between University and firms		Law on the 35-hour week, presented as pro-employment
2000	Near equilibrium of general social security regime		March – Discussions about the reform of pay-as-you-go of principle			Law on life-long training	June – Social partners propose a reform, with strong back-to-work incentives	

Note: Grey rectangles indicate major reforms. Source (Compiled from *OECD*, 1976 to 1999 and Barbier and Théret, 2000b).

Though modest in quantitative terms, this shift implies that French welfare is no longer a pure Bismarckian system. Some doses of Beveridge have been introduced, as exemplified by the creation of the CSG in 1991 and its rapid growth. These innovations synthesize the two welfare state approaches, previously considered antithetic, but which could be more flexible and reactive than pure ideal types (Barbier and Théret, 2000b). The French experience contradicts the belief that continental European welfare states are sclerotic and unable to cope with the geopolitical and technological changes (Greenspan, 1999). Furthermore, such hybrid systems could close the gap between Scandinavian and German conceptions of welfare, if not provoke a possible convergence towards a common European model (Maurice, 1999).

4.3 Towards an integration of fiscal and social policies

The current policy mix in Europe is problematic. As well as the hierarchy of policy makers, the European Central Bank decides unilaterally the common monetary policy through its action upon short-term interest rates. The twelves members (in 2001) of the Euro then have to adjust their national budgets, under the constraints of the Excessive Public Deficits clause of the European Treaties and deal with the resulting unemployment and social inequality. The primacy of monetary and fiscal conditions can lead to unsatisfactory macroeconomic outcomes (Boyer, 2000d), but the fact that since 1995 the French Parliament has to deliberate jointly upon the public and the social budget means that at the national level, some new trade-offs could emerge. If some new welfare approaches actually contribute to innovation and growth, a more coherent financing system might emerge and overcome the possible contradiction between the Bismarckian and Beveridgian features of the present system.

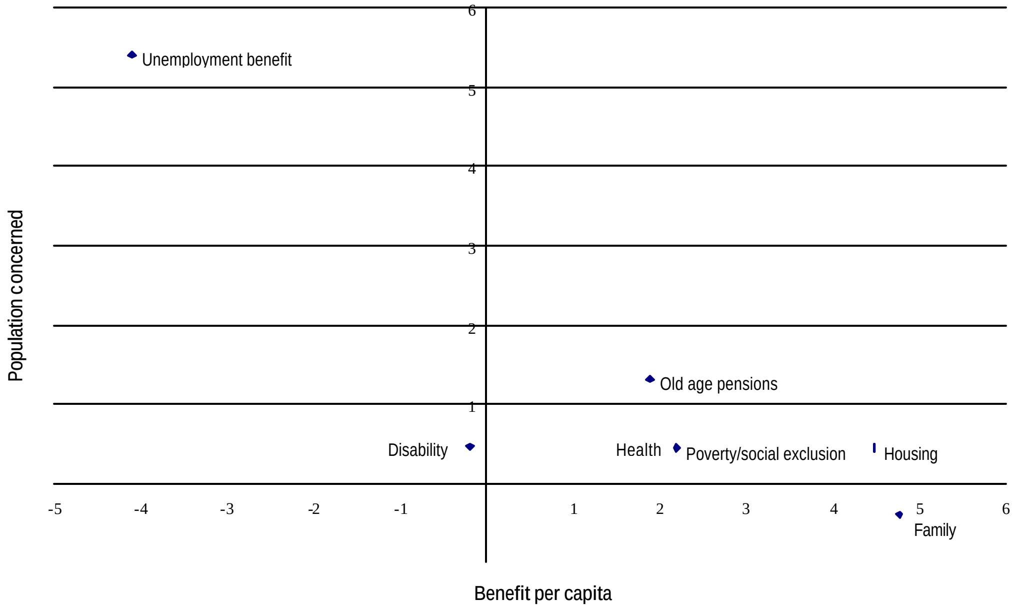
4.4 More stringent conditions for welfare

The issue of moral hazard and adverse selection is frequently invoked to explain increasing welfare costs. For instance, a too generous replacement income for the unemployed is alleged to be at the origin of rising European and French unemployment (Bourguignon, 1998, Layard et al., 1991). The French case seems to be a good counter example, showing that while such factors may exist for a fraction of the population they do not explain the major trends observed during the 90s (Figure 12).

On the one hand, if opportunistic behaviour of welfare recipients is the core determinant of increased expenditures, then the drastic reduction and stricter conditions for unemployment benefits should imply an equivalent reduction of unemployment. The converse is observed, implying that other macroeconomic and structural factors (slow growth and changing patterns of technical change and firms' organization) have to be considered. On the other, more generous benefits for other social risks have not prompted opportunistic behaviour from potential beneficiaries of health care, poverty relief and still more, for housing and family benefit. The reason for such an erroneous prognosis probably derives from the irrelevance of standard microeconomic theory concerning the rationality of agents and the existence of a Walrasian equilibrium, in which the price system conveys all the relevant information.

Figure 12. Changes in benefit per capita and number of beneficiaries, selected welfare regimes, France 1990-1997

(Average annual rate of change in per cent)



Source (Computed from André, 2000, Annex pp. 4-5).

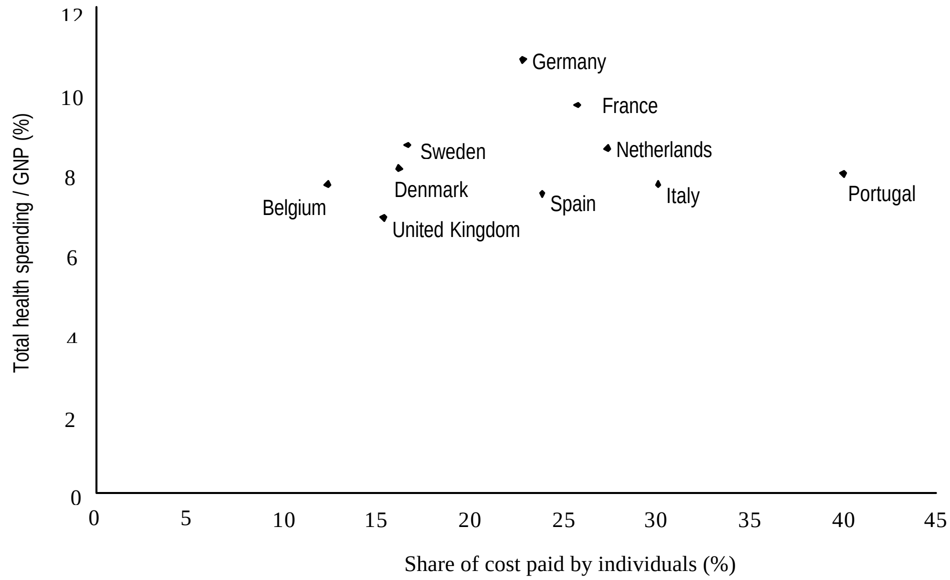
Nevertheless, the general policy of successive governments has been to slim down benefits, to make access to welfare more difficult and to try to directly control total welfare expenditures. In the French case, state intervention has replaced the market in rationing welfare expenditures.

4.5 The limits of market incentives: the example of health care

The surge of health care expenditure is frequently attributed to the lack of market mechanisms within the sector (Mougeot, 1999; Henriet and Rochet, 1999; Majnoni d'Intignano, 1999b). Simple observations do not support this view.

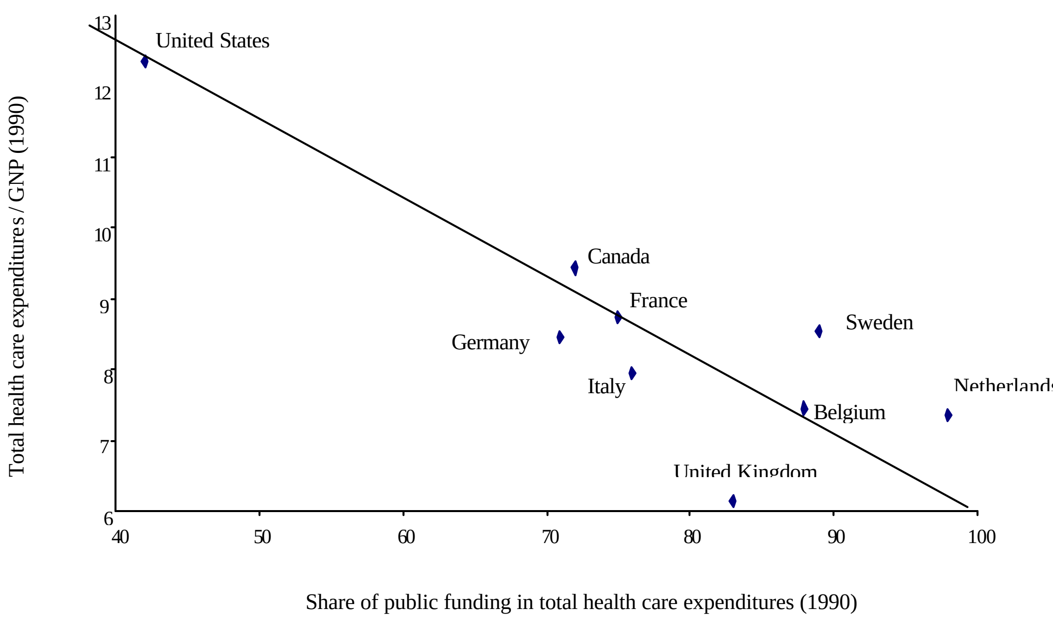
Given the technological similarities of European health care systems, spending on health should be smaller in countries where the patient pays a larger fraction of the health bill. Figure 13 indicates that the costs paid by the patient do not exert this moderating effect. In France, the majority of the population adheres voluntarily to non-profit health insurance (*mutuelles)*, private insurance representing only a modest 3 per cent in 1998. This is indirect evidence that the private sector is not overwhelmingly more efficient.

Figure 13. Patient participation in health costs and total health expenditure in selected countries (1997)



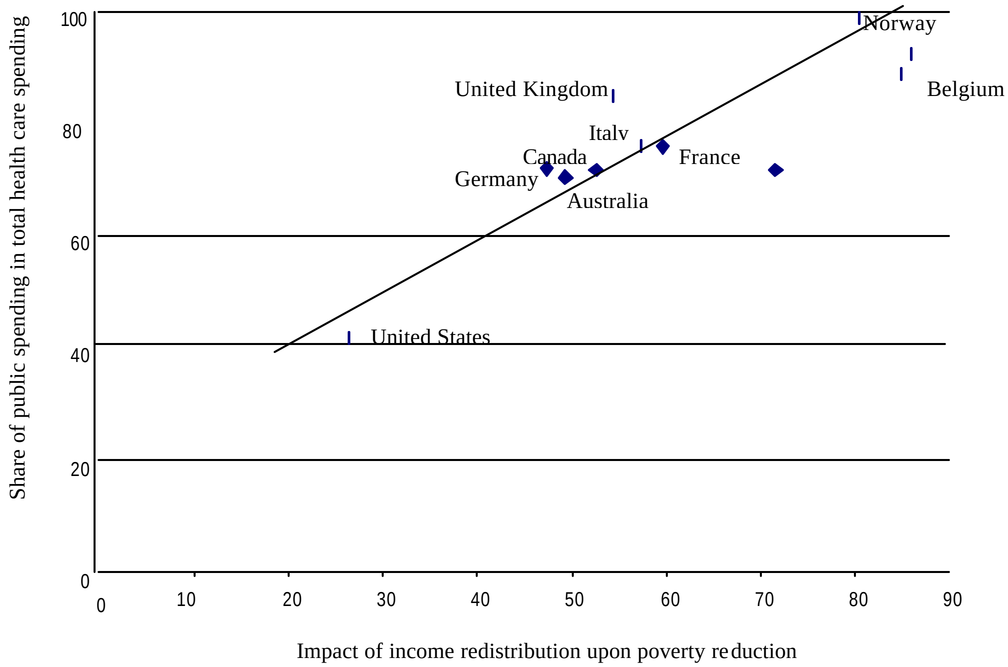
Source (André, 2000, Annex p. 6).

Figure 14. Public financing of health care and share of health expenditure in GNP



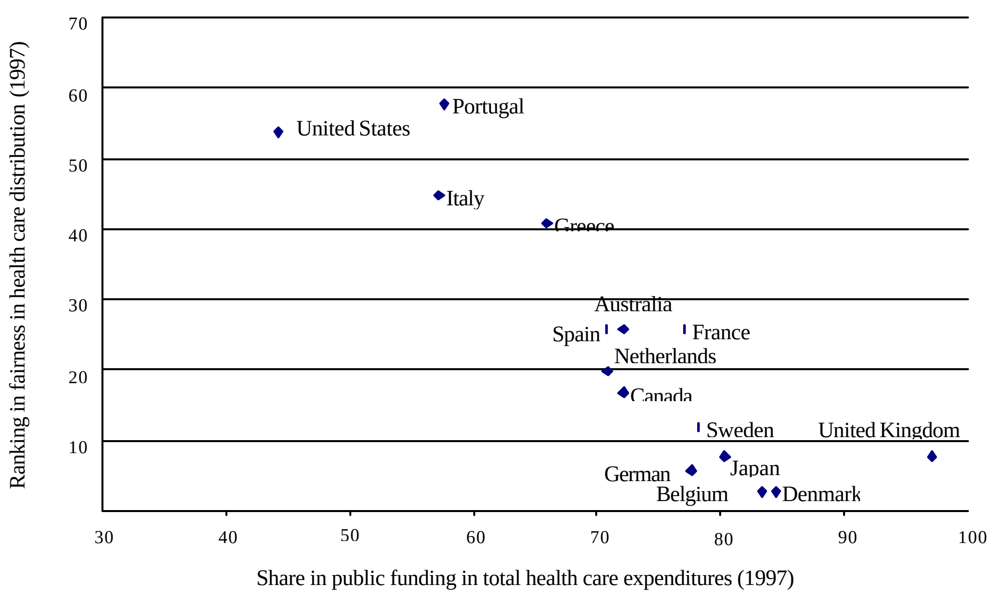
Source (CREDES. Extracted from Henriet and Rochet, 1999, p. 117)

Figure 15. A strong association between poverty reduction by public transfers and public financing of health care



Source (OCDE. Extracted from Henriet and Rochet, 1999, p.119).

Figure 16. The relationship between public financing and fairness in health care distribution (15 countries)



Source (WHO, 2000, pp. 152-155).

Moreover, as figure 14 shows, the share of public financing is negatively correlated with the share of health care expenditure in total GNP, but is on the other hand, correlated with the reduction of poverty (Figure 15) and with fairness in health care distribution (Figure 16). Again, one finds a form of synergy between a society wide solidarity, based on public financing, and the efficiency of welfare systems.

Thus, the best organization of health care does not seem to derive from the maximum use of market mechanisms. Econometric studies run for French households (Rupprecht, 1999) indicate that relative price effects explain only 23 per cent of total cost increases, and the level of collective coverage only 6per cent. By contrast, income effect explains 41 per cent of the observed increases, since the very development of modern societies brings a more rapid demand for health than for average goods or services. Finally, induced demand from the availability of doctors, hospitals and other facilities and the technical changes would explain 23 per cent of increased expenditure (table 6).

Table 6. Factors explaining changes on health care expenditure 1970-1995 (%)

	Growth rate	Share in total
Observed evolution of health care expenditure	122	100
Explained by:		
Income effect	51	41
Relative price effect	29	23
Level of collective coverage	8	6
Medical technical change	32	26
Residual	3	3

Source (Rupprecht , 1999, p. 157)

4.6 Pension funds versus national institutional complementarity

Significant pressure has built up in the last decade in favour of reform of old age pensions. Pension payments represent an increasing share of welfare expenditure, from 41.7 per cent in 1981 to 43.5 per cent; population ageing is expected to reinforce this trend. In addition, from 1984 until the mid-90s the wage share in total income has decreased, threatening the pay-as-you-go system. International organizations such as the World Bank and the OECD have strongly recommended a shift towards pension funds (Béland, 2000). Furthermore, the activity of American pension funds on the French stock market has shown the desirability of an equivalent organization for French capitalism.

For some experts, the present system will not be viable and has to be reformed (Charpin, 1999) or to be progressively completed by private pension funds (Davanne, 1998). Others point out that the same measures taken during the last fifteen years (acceptance by workers of a shift from direct wage to welfare payment, revision of the procedure of pension indexing from nominal wage to inflation, funding by the State of part of the pension fund system) are sufficient to cope with the emerging demographic disequilibria of the next two decades (Sterdyniak et al., 1999). For the proponents of pension funds, the century long historical record shows that the capitalization of workers' contributions would have delivered better results than redistribution via the welfare state, because the average rate of return of shares and bonds has overtaken the trends of labour productivity increases (Davanne, 1998), but this ignores the fact that during the last decade the real rate of return of financial assets has been exceptional. Blanchet (1998) suggests that the same constraint as for a pay-as-you-go system will prevail when present generations retire and sell their portfolio to a less numerous cohort. For some analysts, the movement towards pension funds is largely the result of strong financial actors selling the idea to a badly informed public opinion and wage earners unconscious of their own interests and unable to express their solidarity with retirees (Friot, 1998).

From the point of view of social justice, it can be argued that the strict preservation of the existing pension system is good for the present generation but unfair for the next, which will have to pay both for the retirees and for itself by privately contributing to the saving for old age, given the "unfunded" character of public pensions by then. However, the possible fairness of a pension fund system from the point of view of intergenerational equity has to be balanced against the horizontal inequality created by the juxtaposition of a minimal public pension system and private pension funds. The quasi totality of literature available concludes that this second form of inequality has been increasing wherever private pensions have been introduced: in Chile (Andrianjafy, 2000) in United Kingdom (Froud & alii, 2000) and in the United States of America (O'Sullivan, 2000).

Some favour the constitution of pension funds as a tool for workers to regain a measure of bargaining power and control over firms' management, capital allocation and more generally the style of development (Aglietta, 1998). For the time being, countries where pension funds are important have not experienced the emergence of a pro-labour development mode.

A last argument stresses that pension funds are necessary for the development of deep financial markets within the domestic boundaries, which would challenge the American and British hegemony in world financial inter-mediation (Balligand and de Foucault, 2000). This reasoning is open to challenge: it assumes that domestic savings are the key determinant of investment and this neglects the globalization of finance and the fact that the interest rates tend to be set internationally. The Japanese economy during the last decade is a good example of this divorce between savings and investment.

Thus it is no surprise that the French government has repeatedly asked for reports on the subject (Davanne, 1998; Charpin, 1999;Teulade, 2000; Taddei, 1999), but the old age pension system is so deeply embedded into a series of institutional forms and economic representations (Dehove and Théret, 1996; Bourdelais, 1996) that reform is no easy task. Since the mid-80s, the rise of the power of finance over governments has propagated a totally new conception: individuals should save and eventually pool the management of their assets in order to build their own pension through the active use of booming financial markets (Orléan, 2000). However, only specific societal and political conditions have entitled the emergence of such pension funds in the United States (Montagne, 2000): weaker and weaker unions, active strategies of the firms in order to erode collective bargaining, dynamism of financial markets and meagre tradition of society wide welfare, not to forget the federal nature of the American political system. Where a strong tradition of social democratic polity is present, it is difficult for financial markets to impose the same governance structures as in more individualistic and segmented societies (Roe, 2000).

In short, many institutional forms have spill over effects upon the welfare regime, and conversely, welfare exerts both positive and negative externalities on most other spheres of economic activity. In such a context, it is not totally unexpected that social partners tend to block a partial reform that challenges the whole architecture of the system.

In conclusion, it should be noted that no clear demand for private pension funds has been voiced by wage earners and unions, with the possible exception of the small minority of workers in the large corporations. On the other hand, the generous tax treatment of life insurance seems to provide an attractive alternative to typical pension funds. Thus the extension of the former seems the solution preferred by the French Ministry of Finance.

5. Some structural factors affecting the redesign of welfare

Since any welfare system has to respond to the diversity of forces affecting technology, social organization, political choices and globalization, it is important to examine of the most relevant factors that seem to govern the French experience and, to different degrees, a number of other European countries.

5.1 The diversification of job status

Historically, the purpose of welfare states has been to build solidarity among heterogeneous workers, who differ according to competence, localization, and industries. This homogenizing role was very evident in the Golden Age, when the Fordist employment relationship permeated industry and when social security reduced inequality. The last quarter century has seen a progressive re-composition of this system and a new stage of the division of labour has been reached. The ideal of a single labour status, common to all, is being replaced by three separate types of labour contract, depending on whether the employment relationship is designed for stable employment of polyvalent workers, for professionals or for market flexibility (Beffa et al., 1999). Each has its own specific methods of wage formation and employment conditions, and each calls for a rather different welfare system (Table 7).

Table 7. Employment relationships and welfare systems

Welfare systems	Employment relationship		
	Polyvalent stability	Employment of professionals	Market flexibility
	The firm and enterprise union	Private suppliers of welfare benefits: private insurance, pension funds	State regulation of minimal welfare standards
Old age pensions	Possible complementary scheme subsidized by the firm	Pension funds and private savings	Role of welfare in setting minimum pensions
Health	Firm-specific health acre provision	Possible private insurance	Need for universal medical coverage
Family and housing	Male breadwinner conception of family welfare	Call for gender equality	Importance of public welfare provision
Education and training	Enterprise finances on-the-job training	Individual choice of competence upgrading	Need for a minimum right to life-long training
Unemployment	Low frequency of unemployment	Choice between activity and leisure	State benefit improves the bargaining power of workers
Employment	Stability due to individual competence formation	Voluntary mobility	Need for rules governing hiring and firing

Polyvalent stability requires a solid welfare base, at least for some components such as retirement, family, and possibly health. In contrast, professionals who are in high demand do not need the protection of collective welfare, but negotiate the social benefits they think most essential. The majority opt for private insurance, direct management of saving and capital assets and adopt an individualistic approach to retirement. If this category came to represent the majority of the population, this would push towards privately operated and market-led welfare.

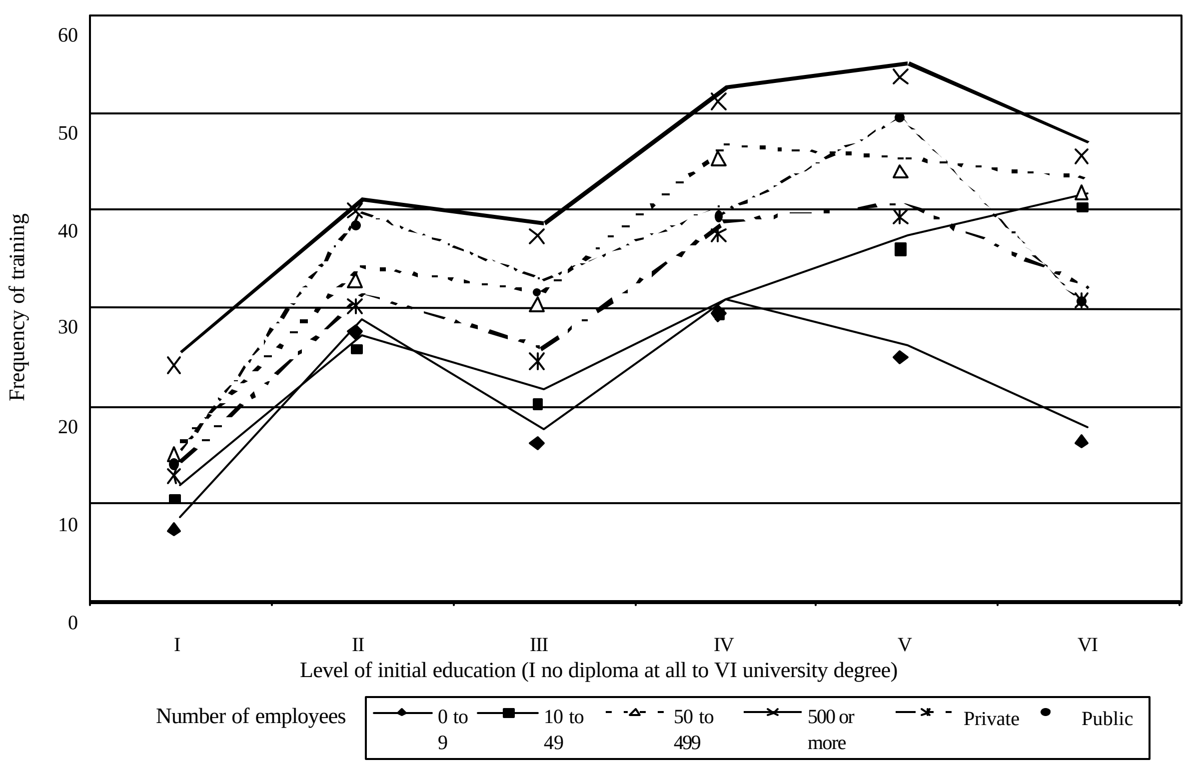
For workers in a market flexible context, society-wide solidarity is preferable since it guarantees some minimal social rights that can be exerted in spite of the generally weak bargaining power of individuals at the shop floor level. Given that this category represents a large fraction of the working population, this calls for a significant redesign of a universal welfare state.

To sum up, the heterogeneity of contemporary labour contracts severely challenges most welfare states. If social partners and governments are unable to reform them, especially to protect the most vulnerable fraction of the population, the risk is that the route to privatization will be followed. This would be a solution by default and would not fulfil the demands of the majority of the population. This scenario, for the time being, is rather unlikely, at least in Northern Europe.

5.2 The key role of education and life-long learning

The first section of this paper argued that technological forces do not directly shape the welfare system. Nevertheless, if one brings education and training into the picture, ICT development presents a threat to the French ideal of social equality. To cope with an emerging "social more than digital divide", professional training and on-the-job up grading of skills would be ideal methods for fighting this new risk, and would also improve living standards generally.

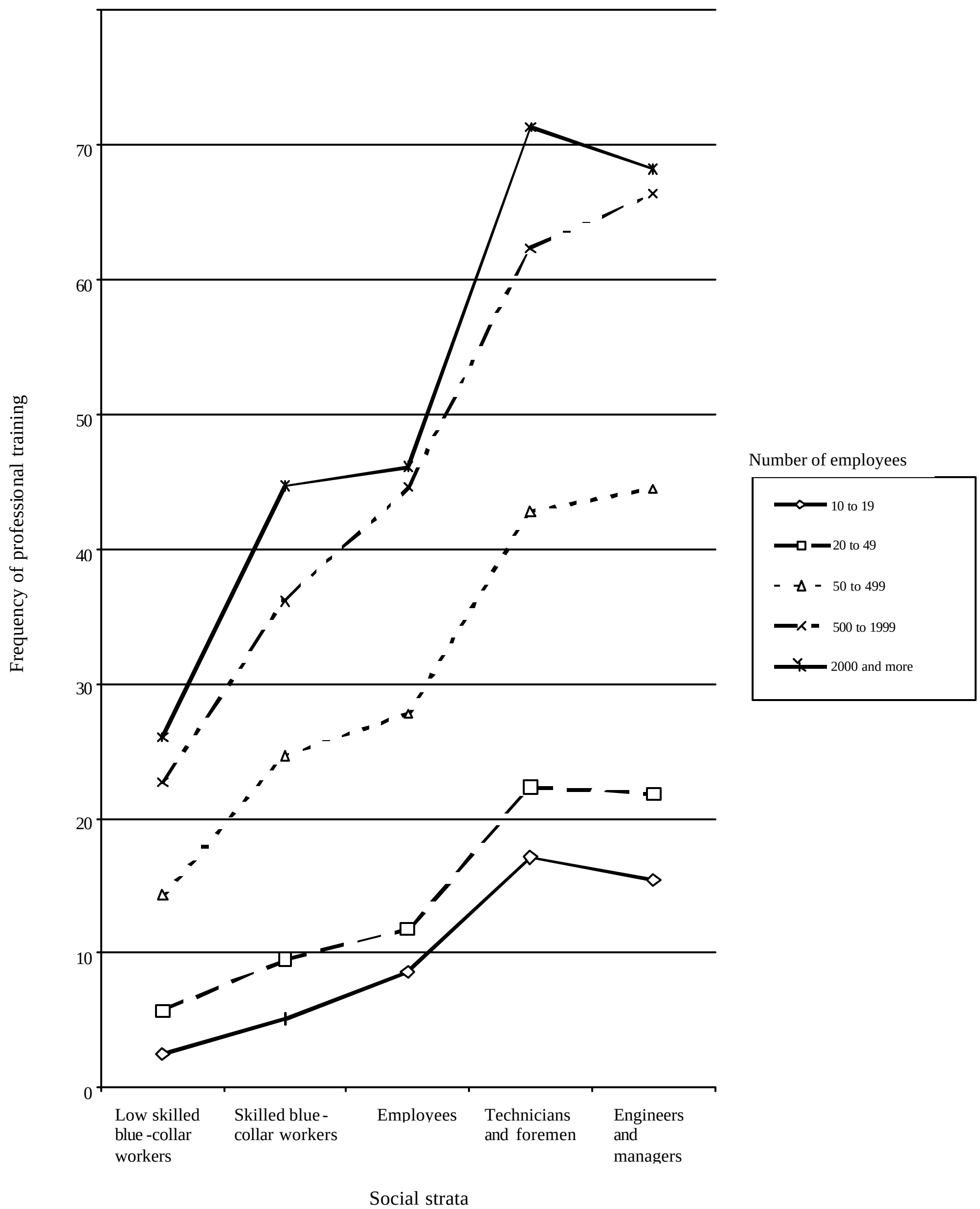
Figure 17. Professional training and initial differences in educational level



Source (Computed from *Secrétariat d'État aux Droits des Femmes*, 1999).

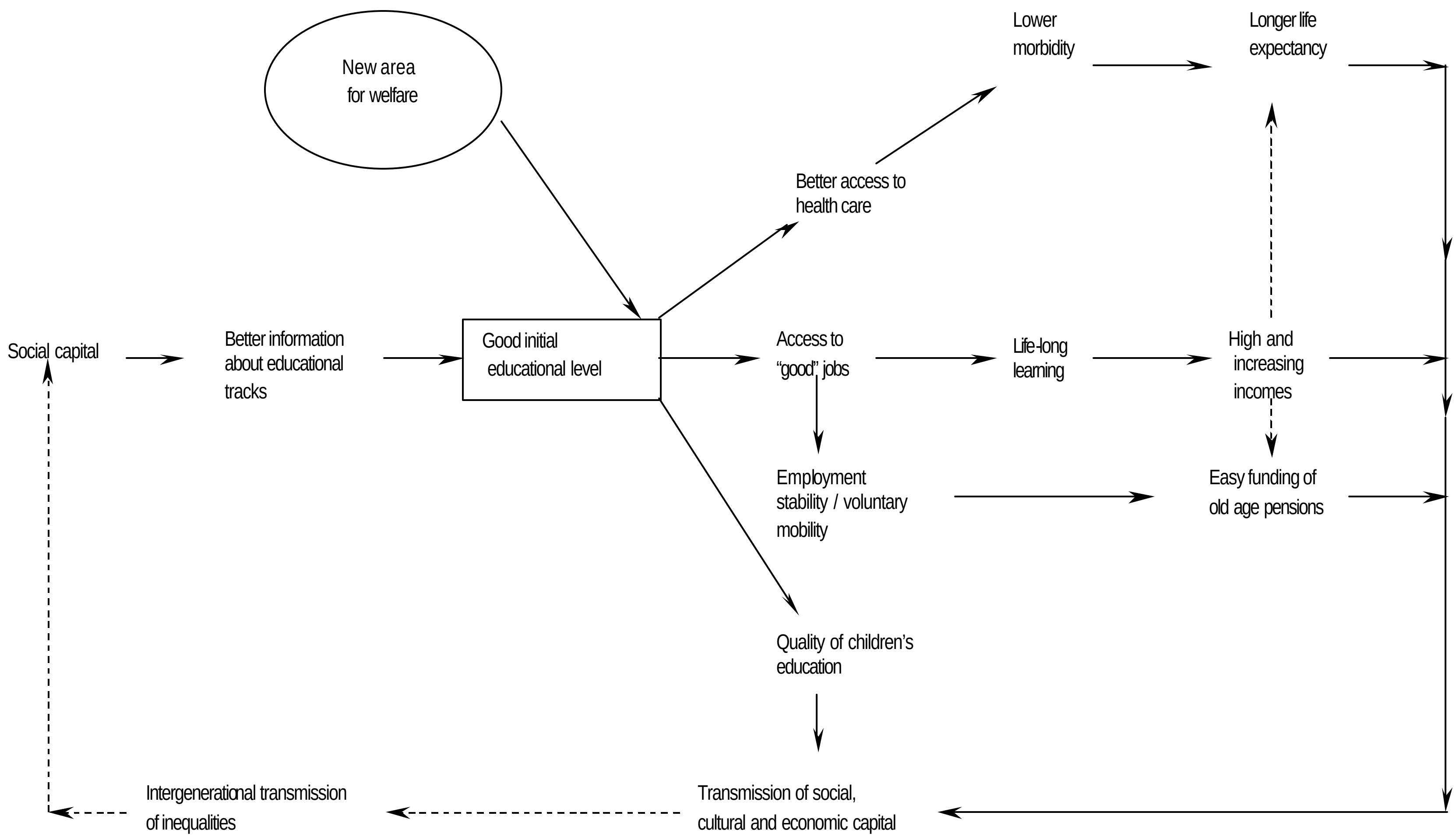
Unfortunately, this highlights one major weakness of the French system: professional training does not compensate the deficiencies of the educational system; on the contrary it exacerbates initial differences in terms of academic achievement (Figure 17). Similarly, technicians, managers and engineers get more continuous training than low skilled bluecollar workers (Figure 18). This can be detrimental to both social justice and business efficiency (Boyer, 2000c). Conscious of this problem, the French Government has recently drafted a law to reform the conditions of professional training in order to favour a more equal access. Indeed, a leading policy of the past fifteen years has been to try to close the gap between colleges, universities and enterprises, in order to facilitate entry into the job market. With ICT and KBE, it becomes more essential to learn how to learn and to develop the capacity of abstraction, instead of inculcating narrowly defined professional competence. In conjunction with social capital, this is the discriminating factor to the access of the various jobs and also to the efficient use of welfare services.

Figure 18. Professional training and employment status



Source: (Computed from *Secrétariat d'État aux Droits des Femmes*, 1999, p. 113).

Figure 19. Correcting the inter-generation inequalities linked to education



Many studies confirm that the social capital inherited by each family is transmitted to the next generation through the education system. In turn, the level of education is an essential factor for efficient use of services: better and early access to health care, favourable entry into the labour market, employment stability or voluntary mobility, greater attention paid to the upbringing of children (Figure 19). Thus, the educational system could well be the matrix of most intergenerational inequalities. Even if formally not part of the welfare state, school is a key component in the redesign of social stratification, thus of society-wide solidarity

5.3 Gender equality: a powerful factor

The Scandinavian countries have put at the top of the European agenda the objective of full gender equality, as an imperative of welfare reform. Clearly this affects social contributions, taxation, family allowances and the distribution of part-time and full-time work among men and women. This issue has triggered an ambitious reform of the Dutch welfare state and generated an unprecedented growth in female participation in the labour force.

Similarly, the aging of the European population reveals new social needs that will have to be covered by family solidarity, pure market mechanisms or the constitution of a new welfare right under the label of old age dependency. The supply of the necessary services could generate a significant growth in the employment of various skills, from medical research to simple domestic care for elderly people. Some experts conclude that the redesign of welfare in order to promote gender equality and prepare for the aging of the population could give rise to a fully-fledged development model (Esping-Andersen, 1996 and 2000; Majnoni d'Intignano, 1999a).

The major interest of such a vision lies in its potential to overcome a recurring contradiction in the strategies followed by most European governments. On one hand they declare that public opinion is highly attached to the preservation and extension of social solidarity. But on the other, they look at the American growth model and believe that the extended welfare coverage in Europe is a cost and a possible hindrance to the breakthrough innovations that are typical of the emerging ICT paradigm.

Instead of looking to such an exotic model, Europeans should consider more carefully how better to play their trump cards; clearly the welfare state is one of them. An ambitious reform of the welfare state taking full account of gender equality and aging could generate a genuine growth regime combining both social justice and dynamic efficiency. Thus the Europeans could anticipate the next anthroponomical model of development.

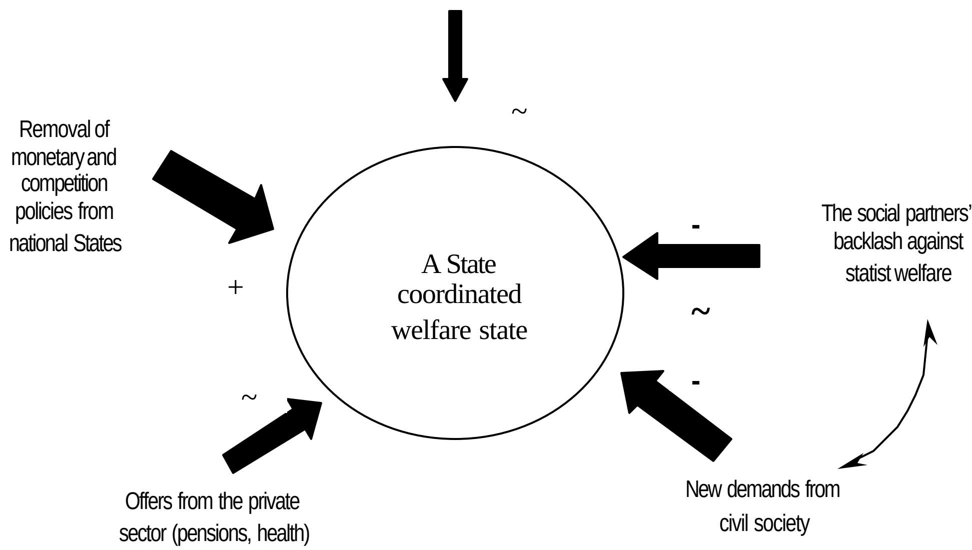
6. Conclusion

The foregoing theoretical analysis together with the historical overview of French social policy dispel some of the simplistic clichés about the welfare state, be they the irreversible crisis of social security, the antagonism of extended solidarity with technological innovation and globalization, or the need for a market-led redesign of welfare schemes. Contemporary systems are much more complex than generally assumed in the literature of neo-classical economic theory.

6.1 Forces affecting the future of the French welfare state

More specifically, the experience of France highlights the influence of a series of factors that have shaped the redesign of her welfare state. These forces range from the consequences of European integration to the transformations of contemporary society, as well the development of potential private welfare suppliers (Figure 20).

Figure 20. Five forces affecting the future of the French welfare state



The thickness of the arrow is proportional to the intensity of the impact.
- indicates that the related factor restricts the role of the state in welfare
+indicates that the related factor extends the role of the state in welfare
~ indicates that the issue is about the redesign, not the extent of welfare

The launching of the Euro and the new impulse given to the single market and financial integration drastically affect the formation of national economic policies in Europe (Boyer, 2000a and d). Similarly, fiscal policy is partially constrained by the mobility of capital across Europe and all over the world. Consequently, social policy regains unprecedented importance both in terms of political legitimacy (currently social citizenship is only expressed at the national level) and of economic efficiency (how to nurture structural competitiveness and adaptation to the new technological and economic context). The redesign of the various components of the welfare state could be a long-term task of European countries. In the case of France, this probably means the continuation of the hybridization of Bismarckian and Beveridgian financing principles.

A countervailing force might originate from the European benchmarking of employment and social policies instituted by the Luxembourg summit. Unions or political parties may use these devices to call for the construction of a social Europe, as a countervailing power to European monetary and competition policies. This factor may exert some influence in the long term, but does not necessarily imply the convergence towards a totally homogenous welfare state across member countries.

The impact of Washington's views on the introduction of market competition into the welfare state cannot be ignored, since this implicit or explicit political programme orients most research. In France the private sector has offered to compete in the provision of some welfare services such as pensions and health care, and does so already in the case of life insurance companies that propose quasi substitutes for private pension funds to the upper middle classes. The precedent created by the French group AXA has cast some doubts about the desirability of an extension of private insurance. Facing an unexpected lengthening of life expectancy of disabled children, the managers of AXA have been prone to cancel unilaterally existing insurance contracts. This suggests that, within a privatized system, the most severe risks will be left to public welfare and that privatization is not a real and complete alternative to the present organization. The structural and ethical problems that have emerged in France are quite general and mean that massive privatization all over Europe is unlikely.

A more important factor derives from the large social transformations that have taken place and will continue in the future, trends that are common to most European societies. These include affirmation of gender issues, deepening risk of social exclusion deriving from inadequate housing, insufficient urban policies and inappropriate education systems, high demand for fair access to health care, long-run consequences of population aging and integration of migrant workers. Furthermore, citizens may become vocal in demanding coverage of new social risks.

Lastly, the chronology of the transformation of French welfare suggests a creeping grip of the State over the design and management of the welfare regimes, in order to curb costs and to comply with the new responsibility attributed to central governments by the Amsterdam Treaty. In June 2000, the French business association and some workers unions rebelled against this *étatisation* of welfare and decided to negotiate bilaterally new principles for unemployment insurance. They hope to extend this breakthrough to negotiate reforms of other welfare regimes. It is too early to assess whether this agreement is merely a parenthesis in the process of tri-partite management of welfare or if it means a real policy change. Nevertheless, the State is back into social welfare even in the most Bismarckian regimes such as Germany, which should dampen excessive hopes of some social partners for social re-structuring (*refondation sociale*). The return to pure and exclusive bipartite agreements is unlikely to outcast social solidarity, at least in France, where social partners are too weak and insufficiently organized to play the same role as their counterparts in small open social democratic countries.

6.2 Some scenarios

A first scenario is the Europeanization of welfare. This is backed by some national unions but strongly opposed by European business associations, who fear that Brussels could reconstitute a rigid system that is now drastically flexibilized at the national level. An argument against this scenario is that the Maastricht and Amsterdam treaties recognize the subsidiarity principle, especially concerning employment and social policy. Some Keynesian macroeconomists reply that an explicit coordination of wage formation and welfare design could improve the European policy mix, but this opinion is not shared by the majority of economists, particularly those working for financial institutions!

The second scenario considers that the near full employment level reached by many small European economies is an argument in favour of social pacts. This could emulate the social partners of medium size countries, especially France and Germany. Diminishing state responsibility, both at the supranational level (Euro, European competition law enforcement) and at the regional level (emergence of local and regional political alliances), is seen as an opportunity for business and unions to take over some components of the welfare state. However, this would be a quite exceptional move given the French tradition of State supervision of welfare.

Many arguments of the present paper point towards a third scenario, in which progressive reforms of the financing of French welfare would continue the hybridization of the Bismarckian and Beveridge systems. Equivalent developments in European countries would facilitate, in the long run, a *de facto* convergence toward a European style of welfare, possibly rather different from the North American or Asian trajectories. The process of European integration would confirm the previous co-evolution between economic specialization and an extended conception of welfare. Finally, it would also be coherent with the objective, put forward by economists, of disentangling the notions of society-wide solidarity based on citizenship and wage-earner solidarity built upon industrial relations and collective bargaining. Furthermore, the exact mix between family, firm and collective solidarity could be left to the political choices made within each European nation, the territory of social solidarity.

No doubt the future will invent quite different trajectories; the only merit of these three scenarios is to capture the mood of the present debates in Europe.

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