Beyond retrenchment:
Differences in sequence and in patterns of welfare state changes

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DRAFT

The paper argues that despite the "globalization thesis" that assume that welfare states should all be radically retrenched and restructured in the same way, and despite the contrary approach in terms of path dependency which underlines continuities and resistances, recent European welfare states changes should be analysed in differentiating between different period of time and different types of changes introduced by governments. Certain reforms may prove to enforce continuity, some other may prove to introduce a new logic in the welfare system. A specific framework of analysis, inspired by general public policy analysis, aimed at differentiating three orders of changes, is proposed and applied to the social policy changes occurred since the late 1970's in France.
“Welfare state in transition” (Esping-Andersen, 1996), “Recasting the welfare state” (Ferrera, Rhodes, ed., 2000), “Welfare state futures” (Leibfried, ed., 2000), “The new politics of the welfare states” (Pierson, ed., 2000), these titles chosen among some of the most important recent/forthcoming publication on the welfare state show that the focus of the academic agenda has gone beyond the crisis of the welfare state to analyse the actual changes that have occurred during the last 20/25 years. Probably under Anglo-Saxon influence – Reagan and Thatcher had explicit anti-welfare agendas – first analyses of these changes have been phrased in terms of retrenchment (after the golden age of growth). They sought to discover how deep and far governments had reduced social expenditure since the late 1970s. After a couple of decades of debates on the crisis of the welfare state, and countless welfare reforms adopted throughout the industrialised world, many commentators agree on the fact that the welfare state is a much stronger achievement than what some had argued in the 1970s. To date, most welfare state analyses have concluded that the last 25 years have shown either little retrenchment and great stability or “path dependent” changes. Even if they partially reduce its expenditure on certain programmes, recent reforms do not change the nature of post-war welfare states.

In other field of state intervention, analyses show that policy changes can be more diverse and much more profound. In continuity with previous work (Bonoli, Palier, 1998) and with others’ work (for instance Visser, Hemerijck, 1997), I would like to suggest that current research on welfare state changes should go beyond the notion of retrenchment to be able to embrace the different kinds of developments that occurred. Recent European welfare states changes should be analysed in differentiating between different period of time and different types of changes introduced by governments. Certain reforms may prove to enforce continuity, some other may prove to introduce a new logic in the welfare system. And contrary to the overall notion of retrenchment, all reforms are not always implying less welfare state. A specific framework of analysis, inspired by general public policy analysis, aimed at differentiating three orders of changes, is proposed in the first part of this text, and applied to the social policy changes occurred since the late 1970's in France in the second part.

I. Proposals for an analytical framework of recent reforms of the social protection systems.

The first part of this presentation is discussing four dissatisfaction about retrenchment, path dependency, institutionalist approaches and analyse of changes. 1. To analyse all the recent reforms of the social protection systems in terms of retrenchment, as it is often done, is providing a linear reductionist (and developmentalist) view on what is going on. One has to differentiate between different reform modalities or paths. 2. When differentiating between several (usually three) paths of reform, one often concludes that the processes are path dependent, but also that the outcomes are marked by continuity: after 10 to 20 years of reforms, the different welfare states have supposedly kept nearly untouched their own logic and main features. 3. Explaining those continuities usually rely upon institutions. However, when pointing out the shaping influence of institution on problems, interests and solution, one should give an important place to the institutions of the welfare state, as independent variable and as dependent variables. 4. Emphasising continuity does not credit public policies for having important impact on the welfare state structure. There might be a need for a better differentiation between the reforms: some are reinforcing the pattern of one system, but some

1 This second part is based on Palier, 2000.
are introducing structural change. In order to identify the different kinds of reforms implemented, I propose to use some of the analytical tools developed in the broader field of public policy analysis. From this discussion, I derive a proposal for an analytical framework to study the recent (and future) social policy changes.

**Beyond Retrenchment**

Retrenchment seems to have become one of the most common terms to label the recent Welfare states developments. However, this notion leads to a developmental or functionalist model of analysis of the history of the Welfare States: Emergence (late 19th century until 1945), Growth (the golden age, mainly the 1960’s and the 1970’s), to limits (not to say crisis, the 1980’s), and then retrenchment (since the late 1980’s). We may have with this notion (retrenchment) the same problem as we had with “development”, “modernisation” or “growth” of the welfare states. These kinds of approach have been criticised for assuming a uniformity of the processes of development of the Welfare states. Saying that all the changes to welfare states occurred since the 1980’s can be termed retrenchment implies that they are all meant at diminishing the size of the welfare state. Therefore, in this framework, the main question is often to measure how much retrenchment have been applied: big or small cuts is often the question. And the focus is on spending. A lot of academic discussion during the 1990’s were aimed at showing that even if they spent the same amount of money, different welfare states were spending the money differently, under different principles, for different purposes and with different institutions.

We should keep these debates in mind when focusing on the recent changes and take for granted that different welfare states are changing differently. Even if more and more efforts are made in that sense (Esping-Andersen, 1996; Scharpf, Schmidt, ed. 2000; Pierson, ed. 2000), there is still a need for a systematic differentiation of the processes of retrenchment between the different social protection system, like there has been differentiation between the Welfare states in their golden age (Esping-Andersen, 1990).

It might even be that retrenchment is not the correct general term: some changes in some social protection systems might not be going in the sense of retrenching benefits. As the “trente glorieuses” could not be analysed only in terms of more welfare state, the current development are more complicated than only less welfare state. Firstly, data show that most of the OECD countries have increased their social spending over the last two decades. Already in 1994, P Pierson concluded that if anything, overall welfare spending went up during the years he studied. But it was to conclude that the retrenchment reforms were not successful. We may propose another point of view, showing that to face the new issues that welfare states are confronting, some governments are or were proposing more spending than less (at least during the late 1970’s and during the 1980’s, see below for the French case). Secondly, the question for governments may not be a quantitative one (more or less spending) but a structural one: how can they transform welfare state in order to promote new principles and to build up new institutions more adapted to the current situation. In that case, the measurement of the changes should not be quantitative (more or less spending, more or less generous coverage, benefits, etc.) but should provide an assessment of the degree of innovation introduced through the changes. Did the reforms introduce new institutions? New logic? New actors? However, recent analyses usually focus more on continuity than on changes.
Path dependency and continuity

In 1994, Paul Pierson emphasised the stability of (American and British) welfare arrangements when comparing Reagan or Thatcher’s ambition to the actual outcomes of their reforms. He explained this resistance to changes by the force of past commitments, the political weight of welfare constituencies and the inertia of institutional arrangements which all engender a phenomenon of path dependency. He concludes that ‘Any attempt to understand the politics of welfare state retrenchment must start from a recognition that social policy remains the most resilient component of the post-war order’ (Pierson, 1994, p.5). Broadening the scope to other developed countries in order to analyse ‘national adaptation in global economies’, Gosta Esping-Andersen (1996) came to a similar conclusion, depicting a general frozen landscape and emphasising the rigidity of the continental welfare state arrangements. He concluded that ‘the cards are very much stacked in favour of the welfare state status quo’ (p.267). Even though the conclusion was again that no dramatic changes could be (fore)seen, analyses of different welfare regimes developments did allow a differentiation of the general notion of retrenchment into different processes linked with the specific institutions of each welfare system.

However, John Myles and Gill Quadagno, among others, demonstrated later that things were not that fixed. Some changes could be identified, specifically in pension reforms. To put what they say in a caricatured nutshell, Myles and Quadagno show that retrenchment means targeting for universal benefits, reinforcing selectivity and adding conditions to already targeted benefits, and tightening the links between contribution and benefits for the contributory benefits (and going from defined benefit to defined contribution) (Myles, Quadagno, 1997, pp. 247-272). Coming back on these changes in pension, Pierson and Myles have recently argued that these changes were always path dependent changes, demonstrating more continuity than radical changes. For while they often reduce the level of benefits, all pension reforms are framed by past commitments and specific institutional arrangements. They operate differently and each perpetuates (and sometimes even reinforces) the historical logic in which the pension system has developed (Myles, Pierson, 2000).

Very recently, several research have broaden the scope of the comparison beyond pension reforms. They also point out that there are different processes of adaptation of the welfare states (Pierson, 2000; Scharpf, Schmidt, 2000). Through their empirical evidence, these comparative analyses of changes seem to meet again the three worlds of welfare capitalism. It seems that there are three paths for welfare state changes under the historical and institutional constraints created by the three world of welfare capitalism. Sharpf and Schmidt (2000) convincingly show that the three worlds do not face the same problems. Looking at the policies implemented, P. Pierson proposes that in each world a specific type of reform is performed: commodification in the liberal welfare states, cutbacks in the Nordic countries and re-calibration of the Continental systems (Pierson, 2000, last chapter).

These analyses are very convincing and provide us with a much better understanding of what is going on than those simply focusing on curtailments. They demonstrate that there are (mainly three) different ways to reform welfare state and that the differences between the welfare regimes explain the difference in the reforms. However, they still frame their approach in terms of retrenchment or adaptation, as if there was, within one country, only one single trend of reform over the last 25 years. Clearly, as Visser and Hemerijck (1997) claimed for Netherlands, there is a need to differentiate different kinds of reforms within one single country (or welfare regime) (See also Hemerijck in this conference). Governments did not
have the same behaviour in the late 1970’s as during the 1980’s or during the 1990’s. There is a need for a framework of analysis which allow to differentiate among reforms between countries, but also within countries according to the type/period of reform.

Usually, the recent comparative studies also conclude that the reforms had poor impact on the structure of the different welfare states, since the very nature of each systems is preserved. Usually, the reforms are seen as only reinforcing the logic of each welfare system: the liberal welfare states, through the different processes of marketisation of their social policies, have become even more residual and liberal. The social democratic welfare states, thanks to an egalitarian distribution of cuts (around 10% to every benefits) and a rediscovery of the workline, have come back to their traditional road to welfare (Kuhnle, 2000). Most of the continental welfare states remain the same, not only because the reforms reinforced their characteristics but also because they seem almost unable to implement any important reform (analyses in terms of eurosclerosis or frozen fordism) (See the chapter on Germany by Manow and Seils in Scharpf, Schmidt, 2000). It seems that the fundamental structures of welfare states remain to a large extent unaltered. The (neo-institutionalist) path dependence approach often leads to the conclusions of prevailing continuity.

The role of Welfare institutions : from independent to dependent variables.

In order to explain the kind of continuity revealed by recent research, one often refers to institutions. Emphasis has mainly been put on the variables of the general political system : constitutional rules, party system, veto points, State structures (federal vs unitary, strong versus weak…). However, the role of welfare state institutions themselves is rarely systematically analysed. It might be argued that welfare institutions play a major role in shaping the problems that welfare state do face, they also partly determine the kind of resources the different actors can mobilise, and they shape the kind of solution adopted to face the problems.

Explaining the continuity: the role of welfare institution

During the last ten years, research has been emphasising the importance of institutions in understanding the differences in timing in the development of the welfare states, and the difference in content of the social policies. With G Bonoli, I have argued that there is a need for more attention to the institutional dimension of the social protection system itself to understand the difference in timing and in content of the recent reforms (Bonoli, Palier, 2000).

In a previous contribution we found (following Ferrera 1996: 59) four institutional variables to be helpful in describing social protection systems (Bonoli, Palier, 1998). A welfare state scheme may be characterised by four institutional variables:

- **Mode of access to benefits**, for example citizenship, need, work, the payment of contributions, or a private contract.
- **Benefit structure**, benefits can be service-based or in cash. Cash benefits may be means-tested, flat-rate, earnings-related, or contribution-related.
- **Financing mechanisms**, which can range from general taxation, employment-related contributions to premiums.
- **Actors who manage the system**, those who take part in the management of the system can include: the state administration (central and local), the social partners (representatives of employers and employees) and the private sector.

These welfare institutions shape the politics of the reforms. Institutional factors structure debates, political preferences and policy-choices. They affect the positions of the various actors and groups involved. They frame the kind of interests and resources that actors can mobilise in favour or against welfare reforms. They also partly determine who is in and who is out of the political game around the reforms. Depending on how these different variables are set we encounter different patterns of support and opposition. The impact of these institutions is detailed for the French case below. Here is how one can expect these variables to influence the politics of social programmes in general:

**Mode of access.** This factor is crucial for shaping the politics around a given social programme, as it delimits the beneficiaries and thus the likely supporters of a scheme. The mode of access also relates to the objectives of a programme: income maintenance, poverty alleviation or equality. As a result, support for a scheme might come from groups with an ideological orientation congenial to one of these objectives. Generally, left-wing parties have tended towards equality, Christian-Democrats have supported income maintenance and liberal parties have been keener to alleviate poverty (Esping-Andersen 1990: 53)

**Benefit structure.** To some extent this variable is related to the previous one, as typically earnings-related benefits are granted on a contributory basis while universal ones are flat-rate. There are some exceptions, though, which are politically significant. For instance, the UK’s basic pension builds on a contributory basis but grants flat-rate benefits. Flat-rate benefits are less likely to be supported by the middle classes than are earnings-related ones. With flat-rate benefits, the higher someone’s income, the less the benefit contributes to his or her living-standard. Politically, a flat-rate benefit structure -- combined with a low level -- might be related to lack of programme support from the middle and upper classes. As earnings inequality increases in many industrial countries, it will become ever more difficult to set a flat-rate benefit which is at the same time affordable and significant for a majority of the population.

**Financing mechanisms.** While related to the two previous factors, this variable has some significance in its own right. If the mode of access determines the beneficiaries of a programme, the financing mechanisms reveal who is paying for it. Generally these two groups overlap, though in fact most contributory schemes are also subsidised by general taxes. The political support for a financing mechanism is likely to be stronger if those who pay for a programme are identical with those who receive the benefits. The looser the link between benefit and payment, the less likely the financing mechanism is seen to be legitimate. As a result, there is a crucial difference between tax- and contribution-financed schemes in their ability to attract public support. In a contributory system, the amounts paid in are seen as "deferred wage". From a political point of view contributions are raised much more easily than taxes, especially income taxes.

**Actors who manage the system.** This dimension determines the accountability and legitimacy of different actors. The more the state controls a system and its generosity, the more the political class is likely to be held responsible for any changes. When benefits are increased, the government is credited; when benefits are reduced it gets blamed (Pierson, 1996). When management is shared with trade unions and employers, responsibility tends to be diluted.
This variable also determines the range of actors seen as legitimately participating in welfare reform debates. In a state controlled system the debate is confined to political parties. When the management is handed to the social partners, their participation in the debate is legitimised. Then also trade unions are seen as important actors in social policy-making. They are widely regarded as defending the current system against retrenching governments. This institutional setting gives rise to tensions between governments -- often regardless of political persuasion -- and the trade unions on the control over social security. Union involvement in the management of social security grants unions a de facto veto power against welfare state reforms.

From independent to dependent variable

Reference to welfare state institution help a lot to understand in details the mechanisms of path dependency. The institutional shape of the existing social policy landscape poses a significant constraint on the degree and the direction of change. For instance, a comparison between the U.K. and France, countries that have developed welfare states with extremely different institutional features, show two particular institutional effects. Schemes that mainly redistribute horizontally and protect the middle classes well are likely to be more resistant against cuts. Their support base is larger and more influential compared to schemes which are targeted on the poor or are so parsimonious as to be insignificant for most of the electorate. The contrast between the overall resistance of French social insurance against cuts and the withering away of its British counterpart is telling. Also, the involvement of the social partners, and particularly of the labour movement in managing the schemes, seems to provide an obstacle for government sponsored retrenchment exercises (Bonoli, Palier, 2000).

However, social scientists are not the only ones who acknowledge the role of institutions in shaping, and sometimes preventing, changes. Through learning processes, Experts, Politicians also understood the role of welfare institution. And they sometimes have decided to change the institutions in order to change the political game which is blocking their project of reforms. Two particular institutional features seem to prevent welfare state from important changes: financing by social contribution and the involvement of social partners in the management of the systems (two characteristics of the Bismarckian welfare systems, well known as the most frozen systems). Some recent reforms, especially in Bismarckian countries, are aimed at modifying these institutional arrangements (changes in financing, changes in the management of the system). I develop below the case of France, but one could illustrate this case with reforms developed in other Bismarckian (See for instance the introduction of a Green tax in Germany to replace some social contribution, the privation of job services in Netherlands, etc). These development are not concentrated on the level of the benefits or on the access to it. They cannot be considered as retrenchment (neither as improvement of the generosity of the benefits), but may prove to be extremely important reforms since they are changing the very structure of the systems. One needs to have a framework of analysis which help to distinguish, identify and assess these kind of changes.

Differentiating social policy changes

The analyses which focus on the evolution of the welfare states, on the processes of adaptation tend to forget the latter kind of reforms. They emphae the inertia of internal dynamic of institutions. They do not credit public policies with having much structural impact. If integrating the path dependency phenomena in the analyses is essential, it should not prevent us to analyse the impact of the reforms on the welfare states. The recent
developments of the social protection systems are not only due to their own evolutionary dynamic, but also to the implementation of public policies.

Therefore, the analysis should also focus on the public policy aspect of the changes, not only on the evolutionary process of adaptation of the systems. It would then be useful to analyse the recent changes in using the tools of the public policy analysis, especially Peter Hall’s approach to changes².

Social policy as public policy.

Peter Hall (1993) proposes that “We can think of policymaking as a process that usually involves three central variables: the overarching goals that guide policy in a particular field, the techniques or policy instruments used to attain those goals, and the precise settings of these instruments…” (p.278)

According to Peter Hall’s approach, we can recast our understanding of welfare regimes in terms of public policies. The instruments of social policy are mainly the four institutional variables mentioned before (the mode of access, the benefit structure, the Financing mechanisms and management arrangement).

The goals are the three different political logic that can be associated with the three welfare state regimes, especially well analysed by G. Esping-Andersen (1990): centrality of the market in the allocation of resources and residuality of State intervention in liberal regime; centrality of equality, citizenship and “harmonisation” of the population in social-democratic welfare regime; centrality of work, status, occupational identity in conservative-corporatist social insurance systems.

If one reads Esping-Andersen and other comparative analysis as definition of ideal-types more than as a precise description of specific realities, then one can derived from the classic typology three major combination of these principles, logic and institutional instruments. These three combination can be seen as three different repertoires of social policies which are more or less salient in one specific social protection system. Table 1 summarises their main characteristics.

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² More and more scholars are using this framework of analysis for understanding social policy reforms. See for instance Visser, Hemerijck, 1997 or Hinrichs, 2000.
### Table 1: Goals and instruments of social policy.

<table>
<thead>
<tr>
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<th>Three Different Logic</th>
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<tbody>
<tr>
<td><strong>According to Titmuss</strong></td>
<td>Industrial-achievement</td>
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<tr>
<td>**According to Esping-</td>
<td>Conservative - corporatist</td>
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<tr>
<td>Andersen</td>
<td>Institutional</td>
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<tr>
<td>**According to Leibfried</td>
<td>“Assurantiel”</td>
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<td><strong>According to Merrien</strong></td>
<td>Residual</td>
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<td></td>
<td>Institutional-redistributive</td>
</tr>
<tr>
<td><strong>Geographic situation</strong></td>
<td>Industrial-redistributive</td>
</tr>
<tr>
<td><strong>Historical reference</strong></td>
<td>Residual</td>
</tr>
<tr>
<td></td>
<td>Social-democratic</td>
</tr>
<tr>
<td><strong>Aims</strong></td>
<td>Residual</td>
</tr>
<tr>
<td></td>
<td>Institutional-redistributive</td>
</tr>
<tr>
<td><strong>Functioning Principle</strong></td>
<td>Workers’ income maintenance</td>
</tr>
<tr>
<td></td>
<td>poverty and unemployment alleviation</td>
</tr>
<tr>
<td><strong>Technique</strong></td>
<td>Equality, an income for all, egalitarian redistribution</td>
</tr>
<tr>
<td></td>
<td>Selectivity</td>
</tr>
<tr>
<td></td>
<td>Universality</td>
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<tr>
<td><strong>Eligibility, claiming</strong></td>
<td>Status, Work</td>
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<tr>
<td><strong>principle</strong></td>
<td>Need, Poverty</td>
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<tr>
<td><strong>Entitlement based on</strong></td>
<td>Means-tested</td>
</tr>
<tr>
<td><strong>Benefit structure</strong></td>
<td>Flat-rate</td>
</tr>
<tr>
<td><strong>Proportional</strong></td>
<td>Employment-related contribution</td>
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<td>(contribution related,</td>
<td>Taxation</td>
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<tr>
<td>earnings-related)</td>
<td></td>
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<tr>
<td><strong>Financing mechanisms</strong></td>
<td>Employment-related contribution</td>
</tr>
<tr>
<td><strong>Management, control,</strong></td>
<td>Taxation</td>
</tr>
<tr>
<td><strong>decision</strong></td>
<td>Central State</td>
</tr>
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<td></td>
<td>State, Local government</td>
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</table>

If these kinds of categories cannot pretend to describe the reality of one specific social protection system on its whole and in detail (since no real system would be so consistent), they are useful to analyse (comparatively) a specific programme. Each social protection programme is made of one of these goals and a specific settings of the four institutional dimension. Therefore, these categories become marks to which changes can be assessed. If one takes the characteristics of a programme (goal and the specific combination of the four institutional variables) before and after the reform, there are objective criteria to see the changes. One can assess whether the reform did change one or several of the institutional dimension, and whether the reform implied or not a change in the goals. Did the reform only lower the level of benefits, or did it implement new modes of access or new rules of calculation, or did the reform imply new goals?

**Three orders of policy changes**

Peter Hall has elaborated his framework for analysing macro-economic policy changes (1993). He distinguishes three different types of changes.
“We can identify three distinct kinds of changes in policy... First, [a change of ] the levels (or settings) of the basic instruments. We can call the process whereby instrument settings are changed in the light of experience and new knowledge, while the overall goals and instruments of policy remain the same, a process of first order change in policy... When the instruments of policy as well as their settings are altered in response to past experience even though the overall goals of policy remain the same, [changes] might be said to reflect a process of second order change... Simultaneous changes in all three components of policy: the instrument settings, the instruments themselves, and the hierarchy of goals behind policy... occur rarely, but when they do occur as a result of reflection on past experience, we can describe them as instances of third order change.” (Hall, 1993, pp.278-279).

This approach helps to differentiate between the different impact that a reform will have, depending on whether it changes or not the instruments and the overall logic. It provides a grid for assessing the type of change beyond a pure quantitative approach (more or less retrenchment) since this grid provides a means to distinguishing the degree of innovation introduced by a specific reform. A first order change will not imply profound changes as far as historical path is concerned. It just implies a change in the instrument settings without implying a change in the general principles and logic. Second order change, usually referred to as “parametric change” in the pension literature, involve the introduction of new instruments (i.e., the introduction of new calculation rules, new kinds of entitlements or benefits). These types of change appear to be path dependent, as Myles and others have shown for pension. However, they may lead to deeper changes through their development. However, some reforms may involve more directly a change both of the instruments and of the goals (such as changes in the financing mechanisms or in the organisation of the management of the system), the question here being whether the new goals are imported from another country (the thesis of the residualisation/liberalisation of all welfare states for instance) or whether the new goals are genuine creation of new principles for social policy.

Policy learning: sequencing the approach

J. Visser and A. Hemerijck rightly underline that Hall’s approach is based on policy learning processes. First order change can be understood as the first response that a government will give to the problems it faces, which are not perceived at this stage as new problems. Changing the settings of the usual instrument, they apply the “old recipes”, do what they are used to do. Hall reminds that firstly British governments applied “traditional “ Keynesian policies (boosting demand) to face the first oil chock. Similarly, we will see that French government did just do after the mid 1970’s what they were used to do before: raising up social contribution in order to finance the growth of social expenditure, which they did not really tried to reduce. However, in something which is progressively perceived as a new context, these old recipes produce unintended effects or “anomalies”. Then governments (advised by different kinds of experts among them social policy comparativists...) get convinced that they should innovate. Two different path seem here available, either one tries to introduce innovation which are aimed at preserving the logic of the system (See the so-called “consolidation” reforms implemented in Germany at the end of the 1980’s and during the early 1990’s, or see below the French sectoral reforms) or governments decide to change some of the rules of the game as well as its goals. Here an overall change in paradigm is happening when for instance the new goal is not income maintenance any more but poverty

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3 J. Myles and J Quadagno(1997) underline that, in pension, to go from defined benefits to defined contribution means that the differed wage is replaced by savings as the model for pension for instance.
alleviation (See the introduction of RMI in France for instance). As will be shown below, this latter type of change may lead to a structural transformation of the welfare system.

The second part of the paper will then apply this framework of analysis to the French case. It will underline that this grid allows to take into account the public policy process in the analysis, to differentiate between different kinds of reforms, to focus the analysis on the role of welfare institution and to assess whether a reform follow the traditional path or implement a path shifting change.

II The French case

Among the ‘frozen’ continental European welfare states, the French social welfare system is often seen as one of the most ‘immovable object’ (Pierson, 1998, note 8 p. 558). This part will analyse most of the welfare system changes occurred in France during the last 25 years. I will argue that during this period, French governments have implemented the three different kinds of policy changes, including the third one, to cope with their welfare state problems. During the late 1970’s and the 1980’s, they have faced the Social Security deficits by mainly raising up the level of social contribution; these policies, for they only changed the level of the available instrument, introduced first order changes. In the early 1990’s appeared the second order changes with the sectoral reforms - new medical agreements in health care, a new benefit in unemployment insurance and new modes of calculation for retirement benefits. They introduced new instruments but remained within the traditional (historical and institutional) logic of French welfare system. Since these two kinds of changes appeared insufficient and since the French welfare system itself appeared to create economic and social problems (unemployment, social exclusion), governments have also decided to act indirectly in reforming the institutional causes of these problems. French welfare state was felt so resistant to changes that governments decided to introduce structural reforms so that it would become less immovable. These structural reforms - new means-tested re-insertion policies (RMI), new financing mechanisms (CSG) and a new role for the State - imply both new instruments and a new logic of welfare, i.e. third order changes. My conclusion is that the eurosclerosis or the path dependent continuity theses are neglecting certain reforms which may imply profound welfare state changes. This statement claim for the use of public policy analysis tools for the analysis of welfare state reforms, beyond the only reference to internal logic of welfare institutions.

After having rapidly sketched out the main trait of French social protection system, this part will analyse the first governmental reactions (late 1970’s and 1980’s) to Social security deficits, which implied no real changes of the French system. It will then focus on the sectoral reforms occurred in the 1990’s which introduced limited retrenchment. Thereafter, it will show that because of the limitations of these two kinds of reforms, the welfare system has been perceived not only as a victim, but also as a cause of economic and social problems. This new perception explain the occurrence of structural reforms implying a change of instruments and goals within some part of the system, which will be analysed afterwards. The final section will present the main political condition for the appearance of such structural reforms.

4 An earlier version was published in West European Politics, see Palier, 2000.
If one looks at its institutions (technique or policy instruments) and its general goal, the French social protection system is an illustration of the continental Christian democratic way to provide welfare. Its general aim is income maintenance, much more than poverty alleviation (as in liberal welfare regime) or universalistic redistribution (as in social democratic one). The main component of French welfare system clearly reflects the Bismarckian tradition of social insurance: in France, entitlement is conditional upon a contribution record, most benefits are earnings-related, financing is provided mainly by employers’ and employees’ contributions and the social partners are greatly involved in the management of the system.

The French social welfare system is mainly based on a specific set of non-state agencies called: la Sécurité sociale, built up from 1945 to the 1970s. This system is divided into a number of different sectors (branches): health care, old age, family and unemployment insurance, and highly fragmented into different schemes (régimes) covering different occupational groups. There is a set of compulsory basic schemes, to which anyone working must be affiliated, and a further set of complementary schemes (improving the coverage level), which may be compulsory or not. Schemes are made up of different Funds (Caisses) organised at national, regional and local levels. Their staff is neither paid by the state, nor under its authority. Each Fund is headed by a governing board comprising representatives of employers and employees, with a Chairman elected from their ranks, and a director of the Fund, who is appointed by the governing board in liaison with the Ministry of Social Affairs. The system is supposed to be managed by those who pay for it and have an interest in it, subject to only limited control by the State, which is supposed to have only a supervisory role called la tutelle. In French welfare system, the State is thus characterised by a very low level of autonomy, even though it generally decides the level of benefits and contributions, since the social partners did not want to do it especially when these decision became difficult to take in the early 1970’s.

THE SOCIAL SECURITY DEFICIT

In this section, I will look upon the first government reactions to the social security difficulties. I will underline that problems met by the French welfare state do not appear in exactly the same way as the ones met by the liberal or the Scandinavian ones. I will then show that until the late 1980’s, the main public intervention has been to raise up the level of social contribution, which implied only first order changes. This preference for raising resources instead of cutting benefits can mainly be understood in reference to the financing mechanisms, which are based on social contribution and not taxes.

Like anywhere else, France has encountered important economic difficulties after 1973. However, the consequences of these difficulties in the social protection area took a particular aspect. The first consequence for the Social insurance system has been the appearance in 1974 and the development ever since of a ‘Social security deficit’ (or trou de la Sécurité sociale). As the social insurance system is not part of the State in France, its budget is presented apart from the State budget. Therefore, it is possible to isolate a specific deficit which is not treated as a public deficit but as a specific problem of la Sécurité sociale. This deficit is understood as a consequence of both decreasing resources (less economic growth i.e. less wage increase,
more inactive or unemployed people who do not pay social contribution) and increasing expenses (more unemployed people, more demands in health and old age).

After years of positive balance account, the deficit of the main social insurance scheme\(^5\) budget was 2.8 per cent of its resources in 1974, 4 per cent in 1978, around 2 per cent from 1981 to 1987, between 0.9% and 1.8% from 1988 to 1992, and around 5% from 1993 to 1996. It has progressively diminished ever since to 0.3 per cent in 1999 (various reports of the Commission des Comptes de la Sécurité Sociale).

From 1975 to 1995, to face these difficulties, French governments have all adopted the same behaviour: a dramatisation of the situation of la Sécurité sociale, emphasising - and sometimes exaggerating - the importance of the deficit and the necessity to save the system in finding new resources and in reducing the expenses; following this dramatisation rhetoric, a series of measures aimed at increasing resources and diminishing expenses. As the State is not supposed to interfere in the system, and as its decision will be unpopular (either in increasing social contribution or in lowering benefits), this dramatisation work is very important to justify the decision. The whole rhetoric is based on the idea that the system is in danger and must be rescued, and not, as when the welfare system is part of the state, that it is too costly and ineffective.

The French population is very attached to its social insurance system, and any attempt to reform it is perceived as an attack of it. And the more the system is threatened, the more the population is attached to it. During the 1980’s, all polls show that more than 80 per cent of the French population would consider it very damaging if the Sécurité sociale was dismantled. This is similar to what P. Pierson has analysed for UK and USA (Pierson, 1996). However, beyond this general similarity, the politics are not the same since the legitimacy of French social protection as well as its constituencies are different from the ones associated to the liberal welfare states.

Since the early 1970’s, each member of the whole population is supposed to be covered by one social insurance Fund and is receiving quite generous benefits from it. Meanwhile, its fragmented corporatist organisation guarantees each social group that its specific interests are preserved. The French social insurance system has therefore created a large constituency among all the salaried workers. In UK or USA, the interest groups associated with social policies (retired people, patients, doctors, social workers…) are much more limited. The French salaried workers’ constituency is represented by the trade unions, who are legitimate to participate in the debate about welfare reforms since it is financed by social contribution paid on labour, and since they take part in the management of it. This particular institutional setting generates a tension between governments (regardless of political persuasion) and the trade unions. Trade unions are widely regarded as those who defends the current system against the governments who are suspected to be dismantling it when trying to cope with its deficit (Bonoli, Palier, 1996). This is in sharp contrast with the British or American case, where welfare state problems do not appear to concern trade unions.

These differences in politics partly explain why French governments’ reaction is different from the British or American ones. First, instead of developing an accusative rhetoric against the Welfare State which would provoke the whole population and trade unions, they recognise the importance of the Sécurité sociale, but underline its dangerous current situation (because of the

\(^5\) Régime général covering 60% of the population.
deficit) and present measures which are not aimed at reforming the system but only at restoring its viability. Until the early 1990’s, no French government, left or right, even with the most neoliberal one (when Jacques Chirac was Prime Minister, 1986-1988), pretended to dismantle the system, or even to change it. Second, as they have to justify their intervention to the public opinion’s eyes in dramatising the situation, they focus the attention on their intervention and do not try to hide it. If they tried to avoid blame, the French governments did it less by ‘obscufating’ retrenchment measures (Pierson, 1994) than by avoiding any decision which could appear as unnecessarily changing the system.

**Increasing Resources rather than Retrenching Benefits**

From 1975 to 1993, except if an election was on the agenda, each time a deficit of Sécurité sociale was announced, this was followed by the presentation of different measures gathered in a plan de redressement des comptes de la Sécurité sociale (programme for balancing the social insurance system’s budget), consisting typically of increases in contributions paid by employees and economising measures, mainly in health. The content of these plans show that when they try to ‘square the welfare circle’, French governments prefer to increase revenue than to reduce expenditure V. (George, Taylor-Gooby, 1996). If one refers to Vic George’s list of eight different methods used by European governments to reduce social expenditure⁶, one can only find two of them within all the plans implemented in France: progressive introduction of annual budget for the French hospital during the 1980’s, and change of the indexation method from wages to price for the family allowances (one of the rare universal flat rate benefit in the French system). Between 1975 and 1992, to save money, these plans have mainly implied an increase in users’ charges, through a slow lowering of the level of reimbursement of health care expenditure (in 1980, 76.5 per cent of the health expenditure paid by the insured person were reimbursed by the basic Social insurance funds, 74 per cent in 1990 and 73.9 per cent in 1995). During the same period, all the contributory benefits like sickness pay, old age pensions, unemployment insurance benefits have increased or at best been stabilised. Consequently, social expenditure has continue to increase rapidly until the mid 1980’s, and more slowly ever since (see table 1). The proportion of social protection expenditure in GDP grew from 19.4% in 1974 to 27.29% in 1985 and 27.75% in 1992 (Source, SESI, comptes de la protection sociale, various years).

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Table 1: development of main social protection spending
(in millions of Francs - current price - and in per cent per year)

<table>
<thead>
<tr>
<th></th>
<th>Total spending</th>
<th>Old age</th>
<th>Health care insurance</th>
<th>Family benefits</th>
<th>Unemployment insurance</th>
<th>Evolution of prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>820.643</td>
<td>332.097</td>
<td>207.065</td>
<td>117.872</td>
<td>44.316</td>
<td>11.79%</td>
</tr>
<tr>
<td>1982</td>
<td>982.833</td>
<td>389.738</td>
<td>243.528</td>
<td>139.454</td>
<td>55.668</td>
<td>+19.76%</td>
</tr>
<tr>
<td>1983</td>
<td>1104.971</td>
<td>437.362</td>
<td>270.433</td>
<td>158.504</td>
<td>53.707</td>
<td>+12.43%</td>
</tr>
<tr>
<td>1984</td>
<td>1225.303</td>
<td>484.063</td>
<td>304.865</td>
<td>173.216</td>
<td>62.747</td>
<td>+10.89%</td>
</tr>
<tr>
<td>1985</td>
<td>1325.306</td>
<td>530.811</td>
<td>325.868</td>
<td>181.940</td>
<td>65.364</td>
<td>+12.16%</td>
</tr>
<tr>
<td>1986</td>
<td>1416.907</td>
<td>568.161</td>
<td>352.379</td>
<td>190.837</td>
<td>73.189</td>
<td>+12.43%</td>
</tr>
<tr>
<td>1987</td>
<td>1473.808</td>
<td>595.850</td>
<td>363.988</td>
<td>199.341</td>
<td>79.501</td>
<td>+12.68%</td>
</tr>
<tr>
<td>1988</td>
<td>1570.661</td>
<td>639.714</td>
<td>389.748</td>
<td>210.137</td>
<td>86.324</td>
<td>+12.22%</td>
</tr>
<tr>
<td>1989</td>
<td>1669.736</td>
<td>683.435</td>
<td>426.174</td>
<td>217.063</td>
<td>89.769</td>
<td>+12.73%</td>
</tr>
<tr>
<td>1990</td>
<td>1773.818</td>
<td>732.280</td>
<td>454.857</td>
<td>224.801</td>
<td>95.309</td>
<td>+13.15%</td>
</tr>
<tr>
<td>1991</td>
<td>1886.936</td>
<td>779.586</td>
<td>484.000</td>
<td>232.346</td>
<td>111.956</td>
<td>+13.66%</td>
</tr>
<tr>
<td>1993</td>
<td>2136.365</td>
<td>878.285</td>
<td>545.346</td>
<td>261.411</td>
<td>133.681</td>
<td>+14.81%</td>
</tr>
<tr>
<td>1994</td>
<td>2202.247</td>
<td>910.472</td>
<td>561.657</td>
<td>269.164</td>
<td>129.375</td>
<td>+15.38%</td>
</tr>
<tr>
<td>1995</td>
<td>2287.462</td>
<td>954.474</td>
<td>587.952</td>
<td>280.438</td>
<td>125.417</td>
<td>+15.95%</td>
</tr>
</tbody>
</table>

Sources: SESI, Comptes de la Protection sociale and Ministère du Budget, Direction de la prévision.

However, between 1975 and 1991, these plans have reached their goal. From one year to the other, the deficit did not accumulated so as to form a debt. The increase in the expense has always been compensated by an increase in the resources. During the 1980’s, while they were decreasing the level of direct income taxation, the French governments were raising up the level of social contribution paid by employees. Among taxation, the share of social contribution has increased dramatically (see table 2) as well as their proportion of GDP: in 1978, the volume of social contribution equalled less than 20% of French GDP, and almost 23% in 1985 (this rate is stabilised at this level ever since; source: Comptes de la protection sociale, SESI, various years).

Table 2: Transformation of the structure of taxation in France (per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>state taxation (VAT, income tax, tax on companies, assets, oil tax…)</td>
<td>59.2</td>
<td>53.4</td>
<td>51.4</td>
<td>50.1</td>
<td>51.5</td>
</tr>
<tr>
<td>Social contribution</td>
<td>39.0</td>
<td>44.8</td>
<td>46.1</td>
<td>47.4</td>
<td>46.2</td>
</tr>
<tr>
<td>European tax</td>
<td>1.8</td>
<td>1.8</td>
<td>2.5</td>
<td>2.5</td>
<td>2.3</td>
</tr>
</tbody>
</table>


In France - as well as in other continental or Southern countries, governments have long preferred to raise up social contribution than to cut social benefits. This is counter-intuitive
for an Anglo-Saxon (and even a Scandinavian) point of view, where the most political risky thing to do is to raise up taxes and where the population prefers some cuts in social programmes than any tax increase. These differences are due to the differences in the type of benefits and, moreover, in the way to finance them. In France, most of the cash benefits are contributory earnings-related benefits. And the bulk of social expenditure, around 80 per cent, is financed through employment related contributions.

On the benefit side, it is more feasible to reduce flat-rate or means tested benefits than earnings-related ones. Since earnings-related benefits are expressed as a proportion a salary, there is a form of ‘automatic’ indexation on earnings, which tends to be the most generous form of indexation. In this respect, the strategy of incremental reduction of the relative value of a benefit through a shift in indexation to consumer prices, which has been used in Britain, is de facto not available to French policy makers7. When benefits indexation mechanisms are based on consumer prices, the residualisation of cash benefits occurs automatically, without the need of an active government intervention (Ferrera, 1996). In contrast, in the French case, benefits remain constant in terms of replacement rates unless cuts in the benefit formula are adopted. These are highly visible and politically difficult to implement, especially because, as they are contributory, people think that they have ‘bought’ their own social benefits through the social contribution they have paid. In France, each branche (health, old age, unemployment insurance, family benefits) has its own contribution which appears on every French employee pay slip. The link between payment and entitlement is very visible. When you pay health insurance contribution for instance, you ‘buy’ your right to health care which guarantees that you will be protected whenever sick.

The difference in the financing mechanisms is essential. Whereas taxation goes to the State, social contribution is perceived as a ‘differed wage’ which will come back when the insured person will be sick, unemployed or aged. When R. Reagan, M. Thatcher or J. Major could denounce the excessive weight of taxes and the excessive cost of the social benefits delivered to those who do nothing, it was much more difficult for French politicians to attack social insurance rights acquired by all the working population through the payment of social contribution. It was much easier to raise up social contribution, as long as it was to preserve the social rights of all and the level of their benefits. Social enquiries show that during the 1980’s, French prefer to pay more contribution than to cut their benefits (Gaxie, 1990, p.145).

Until the early 1990’s, there has been no real incentives in France to retrench social expenditure since its growth was financed through an increase of social contribution. All the plans de redressement des comptes de la Sécurité sociale, which constitute the main governmental intervention in social protection during the 1980’s, have not introduced important changes within the French system. They have only changed the settings of the disposable instruments (raising up the rate of social contribution, lowering down some benefits levels). It is only when the social security deficit has become too important to be financed through another social contribution rise (after 1992) in a context of economic recession (especially in 1993) and when the economic constraints of the European Single market and single currency became stronger, that French government decided (felt obliged) to go for retrenchment in the social protection system.

7 A similar observation is made by Pierson (1994) p. 71, with reference to a comparison between the British and the US basic pensions.
SECTORAL REFORMS

I will now turn to the main sectoral reforms, which imply the introduction of new instruments within the French social protection system: a new unemployment insurance benefit (AUD), new rules of calculation in the retirement pension system and development of ‘medical agreements’ in health care. These path dependent reforms imply continuity in the historical and institutional logic as well as in the rate of growth of the social expenditure.

Unemployment Compensation

In 1945, to build up an unemployment insurance scheme was not seen as a priority since the country was lacking of workers. The unemployment insurance has been created in 1958, outside the state, through an agreement between the representatives of employers and employees, who are responsible for setting rates of contributions and benefits. The system provided various benefits which were periodically increased from 1974 to the early 1980’s. Before 1982, the wage replacement rate was of 80 per cent for half of the unemployed during one year. In 1982, the benefits were reduced to 75 per cent for the next 9 months. From 1982 to 1992, there have been several attempts to rationalise the system and to stabilise the level of the benefits, which remained however very generous. During the 1980’s, the main problem was the number of different unemployment insurance benefits (at least five) and the difficulty to control and rationalise the evolution of the system: it was out of the control of the state and difficult to manage through agreements between the social partners.

The second trend of the policies towards the unemployed during the 1980’s has been called *le traitement social du chômage* (social treatment of unemployment). As it has been well described for Germany or Italy by Esping-Andersen (1996, 3rd chapter), the aim of these policies is to remove the oldest workers from the labour market. In 1981, the legal age for retirement was lowered from 65 to 60. There has been a massive use of early retirement: from 840,000 early retired people in 1975 to 159,00 in 1979, 317,000 in 1981 and 705,000 in 1983 (Bichot, 1997, p.132) Governments also created ‘granted jobs’ (*emplois aidés*) for the young and the long term unemployed. By the numerous contracts proposed to the unemployed, the State endorsed more and more a role of employer of second resort.

It is only in the late 1980’s, that, in the area of welfare for the unemployed, the problems started to be phrased in terms of necessary retrenchment. Since the late 1980s, the early retirement was seen as a too expensive instrument and has been limited in their use (from 705,000 early retired people in 1983 to 433,000 in 1988). The main reform of the unemployment insurance system was adopted in 1992 through an agreement between employers and some employees representatives (CFDT8). The reform meant the replacement of all the different unemployment insurance benefits by only one ‘digressive’ benefit (which decreases with time) known as the *Allocation Unique Dégressive* (AUD).

The new unemployment insurance benefit is payable only for a limited period of time, which depends on the contribution record. The amount of the benefit depends on the level of contribution and decreases with time. For instance, a person who had worked at least 14 months of the last 24 would receive full benefit for 9 months, then loses 17 per cent of the benefit at 6-monthly intervals (the intervals were 4 months between 1992 and 1996). While entitlement to the main unemployment insurance benefits runs out after 30 months, a variety

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8 Confédération Française Démocratique du Travail.
of measures exist to extend the cover provided by the unemployment insurance Funds. Most important of these is the Allocation de Solidarité Spécifique (ASS), which is subject to a means test, but is still contributory. The level and the volume of unemployment benefits started to decrease after 1992 (see table 1). As the AUD was delivering less money for a shorter period, the means tested benefits played a more important role.

In Unemployment compensation, the 1990’s are thus characterised by second order changes: the introduction of a new instrument (the AUD) allowed the insurance system to become less costly. The balance of its account were even positive after 1993, in a period of rising unemployment! However, the very logic of social insurance is still preserved, since the majority of the unemployed are still covered by the unemployment insurance scheme. The contributory dimension of the benefit is even reinforced with the new mode of calculation.

**Old Age Pensions**

The French pension system is very fragmented, since each ‘professional category’ is covered by a particular pension scheme. However, anyone with earnings below a ceiling on social security contributions, can expect a pension of around 75 per cent of final gross earnings. The basic pension is earnings-related, while second tier-provision (also compulsory) is defined contribution, even though it works on a pay-as-you-go basis. The system also provides a means-tested benefit for pensioners with incomes below a given threshold: the *Minimum vieillesse*. The number of recipient of the *Minimum vieillesse* has decreased constantly since the 1960s, as a result of the expansion of social insurance.

In France, the 1980’s have seen a growing concern over the issue of financing pensions. Between 1985 and 1993 a series of government mandated reports were published. All of them take a rather pessimistic view of the future of pension policy in France, and call for saving measures to be adopted. The reform of pension, though, is widely perceived as a politically sensitive issue, so that throughout the 1980’s, governments are inclined to procrastinate. In France, due to the institutional design of both basic and supplementary pensions schemes, Governments have to negotiate their reforms with the trade unions for each different professional schemes. They have to confront a strong popular opposition to any retrenchment proposal. It is only in 1993 that the newly elected right-wing government managed to adopt a reform of the main basic pension scheme, covering private sector employees. This was made possible by a carefully designed reform package, which included both cuts and concessions to the trade unions with regard to their role in the management and control over pensions. It was only through political exchange that the government was able to reform pensions (Bonoli, 2000).

With the 1993 reform, a *Fonds de solidarité vieillesse* has been created, which has the task of funding non-contributory benefits through state resources. This *fonds* appeared as a concession to trade unions against some retrenchments: the qualifying period for a full pension has been extended from 37.5 to 40 years; the period over which the reference salary is calculated, has been extended from the best 10 years to the best 25. These are being introduced gradually over a ten-year transition period. Finally the indexation of benefits has been based on prices (as opposed to earnings).

According to projections by the administration of the old age insurance scheme (CNAVTS), without the 1993 reform contribution rates in 2010 would have had to be increased by around 10 percentage points. With the reform, this figure could be between 2.73 and 7.26 percentage
points. The 1993 reform will have an impact on the amount of pensions as well and on actual age of retirement. Because of the extension to 40 years of the qualifying period, it is expected that some employees will delay their retirement in order to receive a full pension despite the reform. The extension of the period over which the reference salary is calculated will have an impact on the level of pensions. The impact of this measure is a reduction in benefits by 7-8% for high salaries, but does not affect those on the minimum wage, as they receive the minimum pension (minimum vieillesse), which has not been modified by the reform.

In 1995, the Juppé government attempted to extend these measures to pension schemes of public sector employees. Contrarily to Balladur’s method, this measure was kept secret with no negotiation with the trade unions. The result was a massive protest movement, led by a rail workers strike, which forced the government to abandon its plans. The current Jospin government is still studying the best way to reform the public sector schemes. A recent report written for the Prime Minister and published in April 1999 (rapport Charpin) has suggested that all employees (including the public sector) should contribute during 42.5 years to be able to obtain a full pension. The only fact to propose this has provoked strong opposition by the trade unions, which show that further reform of the pension system is still controversial. Yet, the government is announcing formal proposition for 2000, which will probably prolong the period of contribution and include the creation of voluntary full funded pensions schemes, managed by the social partners.

In the area of pensions, France shows a strong resistance of the (non-state) contributory pensions schemes and a stabilisation of the (state-controlled) minimum pension. No one could say that the French resistance to change is due to a better financial situation of pension than in Britain for instance, who introduced reform in 1986. In contrast, it is the strong public support for the social insurance system combined with a strong involvement of the social partners in the management and the defence of the pensions schemes that can explain the different timing of reform and the less profound cuts in France.

Health care

The government has no direct control over health expenditure. French health insurance is managed by the social partners; services are provided by public and private hospitals, and by independent doctors. The fees for medical care and treatment are decided through agreements negotiated between the social security Funds and medical practitioners’ professional organisations. There is no limited budget, but a system of reimbursement of health care expenditure first paid by the insured person. For medical and pharmaceutical expenses, the insured person initially settles the bill out of his/her pocket and is then partly reimbursed. Medical care and treatment are reimbursed at up to 75 per cent of the charge at maximum. The remainder (co-payment), known as the ticket modérateur, varies between 20 and 60 per cent of the total expense; it has to be paid by the patient. This system is supposed to encourage people to moderate their demands. However, complementary insurance (Mutuelles) very often reimburses the cost of the ticket modérateur. Today, 85 per cent of people pay for a complementary health care insurance.

The rising of health expenditure is seen as one of the main reasons for the social Security deficit. The proportion of health care expenditure in GDP has increased from 7.6 per cent in 1980 to 9.7 per cent in 1994 (compared to 5.8 per cent in 1980 and 6.9 per cent in 1994 for
UK\(^9\). During the 1970’s and 1980’s, governments relied on plans for balancing the *Sécurité sociale* budget to cope with the difficulties. Since the early 1990’s, a new tool has been elaborated: agreements with the medical professions in order to contain the health care expenditure.

The numerous ‘plans’ implemented during the late 1970’s and the 1980’s (see above) have not been successful in limiting the unstoppable growth in demand for health care. After 1990, it was decided to force the medical professions, the Health Insurance Funds and the State to elaborate ‘*convention médicale*’ (medical care agreement) which could help to control the evolution of expenditure. The medical care agreement is an instrument for budgetary control, as it sets a provisional target for the evolution of the health care spending, practitioners’ remuneration and additional expenses. The agreement has to be negotiated and signed by the social partners, but the 1995 plan Juppé has planned that the State can replace the social partners when the latter are not able to reach an agreement.

The new instruments (medical agreements) developed in the early 1990’s were not sufficient to stop the health expenditure increases (see table 1). In 1999, sick pay for instance has increased of 7 per cent. In 1999, the deficit of the health care insurance Fund is still of 12 milliards (around 2 per cent of its resources, when the deficit of the whole *Sécurité sociale* is 0.3 per cent of its resources). In order to introduce a real mastering of the evolution, the state is more and more interfering in this area, as the coming analyses of the structural reforms will show.

France has introduced sectoral reforms which imply ‘second order changes’ in the French social protection system: new instruments, but same logic of social insurance. As far as the sectoral developments are concerned, the French case confirms the recent analyses of welfare state changes which emphasise path dependent continuity. In accordance with the links the system has with the realm of employment, the only changes which have been possible were those that the representatives of employees and employers accepted to negotiate. As a result, the new instruments reinforce the very logic of the system: all these reforms are based on a ‘rationalization’ process (Myles, Pierson, 2000) which separate insurance benefits (kept by the social partners) and assistance benefits (given back to the State). The social insurance system is even more than before ruled by a contributory logic: the new employment insurance benefit AUD as well as the new calculation rules of pensions strengthen the links between contribution and benefits.

**FROM VICTIM TO CAUSE OF THE PROBLEMS**

The following section will show that the social security system, which was sought to be victim of the economic crisis, has progressively been understood as on of the main causes of the crisis, because of its insurance technique and its financing and management arrangements.

The reforms presented above did not allow a real containment of social costs. The *Sécurité sociale* deficit still exists, some important social expenditure (in pension and health care) are still increasing faster than GDP (See table 1). No real change in the structure, poor improvement in the results, this frozen landscape can be analysed as an effect of the institutional arrangement, which create obstacle for deep changes: the entitlements (earned by work) are very legitimate and thus the benefits more difficult to reduce than others; the social

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insurance benefits are more generous than others and their reduction is more visible; the financing mechanism (social contribution) is more legitimate than taxes and thus easier to raise up; the management rules create a specific political configuration, where the government parties (left or right) appear as the system breakers when the trade unions appear as the system defenders and are able to mobilise strong opposition to governments reforms.

The institutional configuration of social insurance systems appeared thus to play as obstacle to needed adaptation. Furthermore, social insurance became accused to be partly the causes of some economic, social and political problems through three broad mechanisms: the weight of social contribution prevents job creation; the contributory nature of most social benefits reinforces social exclusion; joint-management of the system by social partners engenders irresponsibility and a management crisis of the system.

Since the late 1970s, France has known an important increase in unemployment. The social insurance system set up in 1945 was not made to tackle with mass unemployment. This predominantly contributory system is unable to deal with those who have never been involved in the labour market or who have been removed from it for a long period. Because they have not contributed to social insurance, or because they are not contributing any more, young unemployed or long-term unemployed have no access to social insurance rights. Therefore, social insurance is seen as doubling labour market exclusion and as reinforcing social exclusion. The number of ‘excluded people’ has kept increasing during the 1980’s, so that it became one of the most pressing social issue in the late 1980’s.

Not only the system was seen as reinforcing social exclusion, but it was said to be producing unemployment. We know that in France, 80 per cent of social protection is financed through employment related contributions. We know that the weight of social contribution has been increased during the 1980’s. The high level of contributions is seen to have an overall negative impact on the country’s economic competitiveness and to be responsible for the high rate of unemployment. The argument is that social insurance contributions inhibit job creation, since they have a direct impact on the cost of low skilled labour. Consequently, the weight of ‘charges sociales’ has become a central issue in the French debate. Any report on the financing of the French social protection system underlines the necessity to lower labour cost in decreasing the level of social contribution.

The management arrangement is also criticised. In 1945, the management of the social insurance system has been given to the social partners in the name of democracy (démocratie sociale) and in order to avoid bureaucratisation and the subordination of social policy efficiency to purely budgetary consideration. As budget control has become an important issue during the 1980’s, the devolution of the management of social insurance to the social partners has become problematic: the government is accusing the social partners of having hijacked the Social security Funds, of abusing their position within the system at the expense of the general good, of not taking their responsibility in not containing cost increases. We know that the strongest opposition to changes are not coming from political confrontation, but from trade unions and social mobilisation when governments try to implement important reforms. Within governmental sphere, the social partners’ involvement in social insurance is nowadays considered as a source of inefficiency whereas the State would be better in containing expenditure increase.

The basic institutional settings of the French Social protection system cumulate problems, they impede important reforms, they cause economic and social difficulties. These
demonstration served to support a change in political discourses and agenda around the late 1980s-early 1990s: from rescuing the Sécurité sociale, the aim of governmental intervention became to transform it. This has been done through several structural reforms which are most often neglected in the analyses of welfare retrenchments. These are incremental reforms aimed at changing the politics of social protection, often marginal in the beginning (Bonoli, Palier, 1998). After several years of development, we can now assess the importance of these structural changes.

STRUCTURAL REFORMS

This section will focus on the development of three main structural reform: a re-insertion policy (RMI), a new social tax and the new distribution of power within the system. These non-marginal reforms introduce both new instruments and a new logic in the French welfare system: means test, taxation and more State autonomy.

Structural change in the entitlement and the type of benefits

A number of new programmes designed to cover those who did not have access to the labour market and therefore to social insurance have been introduced since the early 1980’s in response to growing social exclusion. The first ones were the employment policies where the state proposed specific contracts to those excluded from the labour market. As their number grew even more by the late 1980s, it appeared necessary to create specific social benefits, delivered through new social policies, aimed at re-insertion (politiques d’insertion). These policies contrast with the traditional features of social insurance, emphasising the inadequacy of the former system. While the social insurance system is centred on employees, these new policies target the socially excluded. Instead of treating all sorts of situations with the same instruments, social re-insertion policies are geared towards specific groups and are designed according to local needs, with a high degree of devolution to local authorities. In addition, instead of treating social risks separately (old age, sickness, unemployment), re-insertion policies address a whole range of relevant social problems in an integrated manner (poverty, housing, vocational training…)

The creation of the RMI (Revenu Minimum d’Insertion) is the most important of these new social benefits. This new non-contributory scheme, meant for those having no or very low income, was introduced in December 1988. Its main features are the guarantee of a minimum level of resources to anyone aged 25 or over, which takes the form of a means-tested differential benefit. The basic rates in January 1999 were FF 2,502.30 for a single person, and FF 3,753.45 for a couple, plus FF 1000.92 per children. In addition, the RMI has a re-insertion dimension, in the form of a contract between the recipient and ‘society’. Recipients must commit themselves to take part in re-insertion programme, as stated in a contract, signed by the recipient and a social worker. Such programme can be either job-seeking, vocational training or activities designed to enhance the recipient’s social autonomy.

When it was created, this new benefit was supposed to be delivered to 300 000 to 400 000 people. In December 1998, 1,112,108 persons were receiving RMI. Including spouses and children of recipients, 2.117 million people were covered by this scheme, i.e 3.5% of the French population (Palier, 2000). Since the Unemployment insurance benefits have become more contributory, more people are depending on RMI which has been more and more playing the role of income support in UK. Beside RMI, France has now seven other social minimum income. In 1995, 3.3 millions of household, more than 6 millions of persons, i.e.
more than 10% of the French population was receiving one of these minimum (Palier, 2000). This means that through the development of new social policies and the development of minimum income benefits, part of the French social protection system is now targeting specific population in using new instruments (means tested benefits delivered according to needs, financed through state taxation and managed by national and local public authorities), with reference to a new logic (to combat social exclusion instead of to guarantee income and status maintenance).

Structural Changes in Financing

We have seen that for coping with financing difficulties, the different French governments have often raised up the level of contributions paid by the employees - while the rate of contribution paid by the employers is decreasing over the last 25 years. The rate of contributions (below the ceiling) paid to the general scheme by employees went up from 17,2% in 1970 to 44,4% in 1992 (Join-Lambert, 1997, p.339). Meanwhile, since the late 1970s, governments of different political orientations have adopted contribution-exemptions for employers in order to encourage job creation. These measures are usually targeted on some particularly disadvantaged groups, such as the long term and young unemployed, or on small companies, which are considered to be the most affected by the relatively high cost of unskilled labour.

In order to generalise this movement of lowering down labour cost by reducing the level of social contributions, governments have progressively replaced some contribution by taxation. A new tax has been created in December 1990: the *Contribution Sociale Généralisée* (CSG) originally aimed at replacing the social contribution financing non-contributory benefits. Unlike insurance contributions, it is levied on all types of personal incomes: wages (even the lowest ones), but also capital revenues and welfare benefits. Unlike income tax in France, CSG is strictly proportional and ear-marked for non-contributory welfare programmes. In the early 1990’s, the CSG appeared to play a marginal role in the system. When it was introduced, the CSG was levied at 1.1% of all incomes. In 1993, The Balladur government has increased the CSG to 2.4% of incomes. In 1995, the Juppé plan set it at 3.4% of all income, and since 1998, the rate is now at 7.5%, replacing most of the health care contribution paid by the employees. In 1999, CSG provided more than 20 % of all social protection resources and represented 35% of the health care system’s resources (Palier, 2000).

The introduction of this ear-marked tax has enabled a shift in the financing structure of the system towards more state taxation. This new instrument has two main general consequences, which means a partial change in the logic of the system. First, since financing does not come only from the working population, the CSG breaks the link between employment and entitlement. Access to CSG-financed benefits cannot be limited to any particular section of society. The shift in financing is thus creating the conditions for the establishment of citizenship-based social rights, especially in health care. Meanwhile, it weakens the strong legitimacy of the financing mechanism, as well as the expenses associated with it. It may be that through this reform, it will be less possible to raise up the resources of the system, and more necessary to reduce the expenses. Second, this shift means less legitimacy for the social partners to participate in the decision and the management of the provision financed through general taxation since in France, there is a fairly strong normative perception according to which joint management of employers and employees is only acceptable if schemes are financed through employment-related contributions. In this respect, a shift towards taxation constitutes a pressure for a transfer of control from the social partners to the state. This
evolution corresponds to more important political changes occurred since the mid 1990’s in the distribution of power within the system.

Structural Changes in the Distribution of Power

The difficulties to contain social expenditure are partly interpreted by French politicians and civil servants as a consequence of the lack of state control over the system. Therefore, some reforms have been implemented in order to empower the state within the system, at the expenses of social partners’ position. New instruments have been invented to reinforce the autonomy of the State within the system. These reforms have mainly been implemented after the Juppé Plan of 1995. This plan had mainly three objectives. First, as a traditional plan for balancing Sécurité sociale budget, imposing some savings and increasing resources\textsuperscript{10}. Second, it planned to reform the old age insurance for the public sector and public companies, applying to it the same rules as the ones decided in the 1993 for the private sector. This was one of the key measures against which the mass protest of December 1995 was directed and Prime minister Juppé had to remove this measure. Third, a number of the proposed measures were meant to modify the organisational structure of the social insurance system.

New institutions have been created to achieve this third goal. The health care system has been restructured through the creation of regional bodies in charge with the planning of health care provision and budgets. Half of the members of these Agences Régionales de l’Hospitalisation are representatives of the State. State representatives are also present in the new Unions Régionales des Caisses d'Assurance Maladie, in charge with co-ordinating and harmonising health care policies of the different social insurance funds. More generally, each social insurance fund is now supervised by a Conseil de Surveillance, composed essentially by MPs and state representatives, in charge with controlling the good implementation of the agreements on objectives and management decided each year between the state and the social partners. The composition of the governing board of each social insurance Fund has been changed, giving the same number of representatives to employers and to employees and involving more state representatives. The nomination of each director of each Fund is more controlled by the Ministry of Social Affairs. These changes do not mean that the system has gone from a corporatist to a statist one, but that the state has more disposable instruments for controlling the expenses evolution.

The most important reform is the vote of a constitutional amendment (in February 1996) obliging the Parliament to vote every year a social security budget. For the first time in France, the parliament is taking part in the debate on the Sécurité sociale budget, which before was seen as not being part of the State budget. Every year, the Parliament decides what should be the total amount of resources and of expenses of the Sécurité sociale in a loi de financement de la Sécurité sociale. The use of the new Parliamentary competence helps the government to control the social policy agenda. Instead of having always to legitimise their intervention in a field originally belonging to the realm of labour and employers, with the institutionalisation of a parliamentary vote, they are now able to regularly plan adaptation

\textsuperscript{10} Family benefits have been frozen in 1996, and it was planned to make them taxable in 1997 and means-tested in 1998 (the Jospin government has means-tested them in 1998, but removed the measure for 1999); Resources have been raised up through the increase in health insurance contributions for unemployed and retired people by 2.4% in 1996; and the introduction of a new tax, levied at the rate of 0.5% on all revenues, earmarked for the repayment of the debt accumulated by the social security system.
measures, especially cost-containment ones\textsuperscript{11}. This new instrument introduces also a new logic of intervention. Instead of trying to find resources to finance social expenditure which are driven by insured persons’ demand, the vote of a \textit{loi de financement} imply that a limited budget should be allocated for social expenditure. As most of the social benefits are still contributory, it is impossible to totally define \textit{a priori} a limited budget, but governments are entering this new logic, and the parliament vote new instruments aimed at this purpose, such as limited global budgets for the hospitals and for ambulatory doctors, ceilings and rate of growth for social expenditure.

WHEN POLICIES CHANGE HISTORICAL PATHS

These structural reforms all contribute to change the original Bismarckian nature of the French social security system, and move towards state-run, tax-financed logic and practices, at least in the area of health care, family benefits and poverty alleviation, which were alien to the French post-war tradition of welfare. The traditional way of providing social protection in France has been fiercely criticised and destabilised in its basics, the new instruments aimed at coping with the structural difficulties of the French social system belong to another logic that the Bismarckian/Christian democratic one. After several years of implementation, one can see that these reforms are not marginal, but concern an important proportion of the population, an important share of the financing and has given the state more possibilities to intervene within the system. Whereas the landscape seemed absolutely frozen in the 1980’s in France, the conclusion must be less categorical at the end of the 1990s.

One question remains open: how did these structural changes occurred? There is no room enough here to detail the political processes of each reform\textsuperscript{12}, but it is possible to characterise the general patterns of adoption of these reforms, their political condition of possibility.

First, two important changes in the context seem essential: the end of Keynesianism in the late 1970’s-early 1980’s and the new European constraints. Through Jacques Chirac’s failure in 1974-1976 and Pierre Mauroy’s one in 1981-1982, the Keynesian use of social benefits have been definitely delegitimised for both left and right governments\textsuperscript{13}. The economic role of social protection could not be thought in the same way anymore, and this has been very important for the development of the critics of social insurance mechanisms: they appeared to be a cost and not a social investment any more. The second contextual element, European constraints and commitments, are also important to understand the change in perception of social protection in France: lowering ‘social charges’ appeared necessary in order to render French companies competitive within the single market, retrenching social expenditure had be included in the strategy of reducing public expenditure and public deficits in order to meet the Maastricht criteria.

Second, an important political change has been the new position of one of the trade union during the late 1980’s. The CFDT was out of the management of social insurance funds since 1967, it made a change in its economic and social position. This trade union has been one of

\textsuperscript{11} As this has been done regularly in fall 1997, 1998 and 1999.
\textsuperscript{12} See B. Palier \textit{Réformer la Sécurité sociale} PhD Thesis (IEP de Paris, 1999).
\textsuperscript{13} In both case, these Prime ministers tried to raise up social benefits in order to boost private consumption and then economic activities. They both ended with important public deficit, negative trade balance and increase in interest rate. Either in 1976 or in 1982, their economic policies had to be switched into an opposite, restrictive and monetarist one.
the most active proponent of re-insertion policies, and above all of CSG (and nowadays 35 working hours). On the contrary, FO or CGT\textsuperscript{14} appeared to remain on a very defensive position, opposing any kind of reform proposal. After 1995, the head of each social insurance Fund has changed, FO has lost all its important position (especially at the head of the National Health Care Insurance Fund) to the benefit of CFDT, who made alliance with the employers representative. It is probable that the change in at least one employees representative position is one of the most important political condition for policy changes in a ‘corporatist-conservative’ social insurance system.

Third, a large majority of the actors concerned by social protection problems were agreeing on the new measure (RMI, CSG, Parliamentary vote). Like Pierson (1998), we find that a very large majority of the actors is necessary to allow welfare change. However, the precise analyse of the different position of the actors towards the new measures described above show that the reason why they agree on the measure are very different, and sometimes contradictory\textsuperscript{15}. An important element seems to be the capacity of the new measure to aggregate different - even contradictory - interests, through different - even contradictory - interpretation of it. This lead to the conclusion that structural changes are made through ambiguous measures rather than via a clear ideological orientation.

Finally, these changes have been introduced very progressively, as if they were very marginal, before they happen to play a major role within the core of the social protection system. It is probably because they are seen as marginal that few analyses focus on these changes and that the common analyses on welfare state changes (and especially on continental welfare systems) are emphasising path dependency and continuity. These latter analyses focus on the processes of adaptation of the welfare states. They are closed to an evolutionary perspective, emphasising the inertia of internal dynamic of institutions. They do not credit public policies with having much structural impact. Yet, the recent developments of the social protection systems are not only due to their own evolutionary dynamic, but also to the implementation of public policies. Therefore, the analysis should also focus on the impact of public policies, which is sometimes structural.

\textsuperscript{14} Force Ouvrière, Confédération Générale du Travail.

\textsuperscript{15} All these reforms have been made in the name of the distinction between insurance and assistance (called ‘national solidarity’ in French). Trade Unions wanted this rationalisation in order to preserve their realm of social insurance whereas governments and civil servants expected more responsibilities in social protection through these changes. RMI was seen by the left as a means to propose money and social help (vocational training for instance) through the contract, when the right advocated for the RMI since it was money given against an effort made by the contracting beneficiary. The left was supporting CSG because it was a fairer tax than social contribution for the employees, whereas the right supported this means to lower social charges for the employers; civil servants supported CSG because it was leading to state control over the expenses financed by this new tax, whereas employers and CFDT argued that it would allow the social partners to preserve the purity of social insurance, non-contributory benefits being financed by taxes.
References:


