1 The misunderstood French welfare state

> Globalization and the intensified competition in every market in every country are used as all-purpose justifications: for the fall in real wages, the dismantling of social welfare systems, spiralling unemployment, generalized job insecurity, deteriorating working conditions, and so on. We are told these things are inevitable and natural.
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> Sociologist André Gorz, in *Misères du présent, richesse du possible* (1997).[1]

> The American social model threatens Europe . . . the exportation by the United States of its distinct model of deregulated capitalism constitutes a threat to European nations.
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> Emmanuel Todd, *Après l'Empire: Essai sur la décomposition du système américain* (2002), a best-selling book in France in 2002–03.[2]

> The French social model rests at the heart of the European social model. People from other continents expect that France will maintain the flame of this [great] social model.
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> Centrist labor leader Nicole Notat, in Jean de Belot, ed., *Quelle ambition pour la France?* (2002).[3]

The supporters of France's current social and economic model argue that the high levels of unemployment and inequality, and declining job security which have characterized the nation since the late 1970s are dangerous imports which should be stopped at the border with a social democratic Maginot Line. This book argues that these problems are made in France, the product of good intentions, bad policies, and vested interests.

Among rich Western European and North American nations, France has the poorest record of job creation and the most dramatic increase in unemployment during the last quarter of the twentieth century – but the most impressive social-spending record, the most impressive record of labor-law innovations, and the second highest level of pension increases. French government spending increased from 46% of Gross Domestic Product (GDP) in 1980 to over 54% in 1998 – but poverty increased, income inequality remained high, and unemployment shot up from 1.50 million to 3.55 million, peaking, officially, at 12.6% in 1995. The labor-force participation rate fell faster than anywhere else in the rich world.[4] Youth unemployment reached 30% (officially) and youth *under*employment was, by some accounts, 75%.[5] By 2000, there were officially 4.5 million poor people in a nation of 60 million and there were another 5 million people living on the threshold of the poverty line.[6] The "big" state in the French style is not necessarily a "socialist" state. A socialistic society spreads costs and benefits, burdens and responsibilities, in a more equitable fashion than this. France was a more socialist nation in 1980 than it was in 2000.

Such a statement might seem counter-intuitive. After all, since the Second World War the French have constructed the world's third most expensive cradle-to-grave health and welfare system. Socialist governments ruled France for fifteen years between 1981 and 2002. Social spending increased by over 8% of GDP during these years. In 2000, the World Health Organization rated the French health-care system the best in the world and many French people would apply that ranking to the entire range of their social services.[7] Today, the French are firmly committed to the idea of the big welfare state; without it, they believe, social "exclusion" will increase, as it has in the United States.[8] Just as many Americans see a tax cut as a sure device to boost job creation and economic growth, most French people believe, as an article of faith, that increased "social" spending translates into an increase in solidarity and a decrease in inequality.

Like Canadians, a majority of French people will define themselves by contrasting their social security system with a negative vision of the American system.[9] Under the Socialist Prime Minister Lionel Jospin (1997–2002), the French state itself posed as a guiding light in a dark world threatened by "neoliberal"[10] politicians, the International Monetary Fund, and the World Trade Organization. This book argues that by linking France's problems to the challenge of "globalization," French politicians like Jospin encouraged French citizens to seek the culprits beyond their borders.[11] Partly as a result of this, France is psychologically and institutionally locked into inaction.

With rising crime and an unassimilated immigrant population rejected by the state and the market alike, France is in a state of crisis. In the 2002 presidential election, five million people cast ballots for Jean-Marie Le Pen, the leader of the xenophobic National Front party.[12] Almost three million people voted for Trotskyite and other far-Left fringe party leaders vehemently opposed to globalization.[13] Many French people believe that the nation is in need of immediate social, political, and economic reform.[14] Apart from the tendency to blame external forces for France's problems, why has reform proven so difficult? A key reason is that so many comfortable people resist change.

Crisis, what crisis?

From the outside looking in, the problems appear obvious and the solutions are readily visible. Of course the situation is not so cut and dried. There are millions and millions of people – the "insiders" – who are content and see no need for radical reform. If one focuses exclusively on the roughly 60% of French adults who have secure, life-long jobs and generous pensions, one will find overwhelming support for the French model. Despite a recent spate of alarmist books announcing France's imminent demise, France is not yet in terminal decline. The French private sector is still productive (though it has slipped in recent years), still vibrant enough to support the large tax base which makes the nation such a pleasant place for a majority of the population.[15] In certain areas, France has shown that it is capable of sweeping changes: the French private sector is far more dynamic and far less constrained by statism than it was twenty years ago. And certain French social policies are undoubtedly great successes, with lessons to teach other nations.

The French welfare state generally succeeds in securing the majority of French people against the risks of modern life – losing one's job, suffering financially from a serious illness or workplace accident, falling into poverty during old age, and so on. This is no small feat. Private insurance can never provide the sorts of financial guarantees that can come only from the state – Americans who pay large medical insurance co-payment fees can surely attest to this.

Full-time salaried jobs in France are well protected by labor laws which make arbitrary dismissal virtually impossible: surely this is a fundamental advance over the bad old days when workers with several years of experience could be dismissed in the blink of an eye.[16] If you are well educated, well paid, forty years old or older, and married with children, France is a super place to live – perhaps the best place in the world. Chances are, you have a job guaranteed for life and you enjoy three or four times as many paid vacation days as your North American counterparts.[17] Even as 2.5 million of your compatriots are without work, if you hold a salaried job you receive an extra 180 hours (a full month) of vacation per year but with no pay reduction, thanks to the 35-hour work-week law phased in during 2000–02.[18] Your children go, or will have gone, to an excellent state-funded daycare facility.[19] With the exception of the universities, public institutions are well funded. You can hop on a publicly subsidized high-speed train and traverse the country at 300 km/hour, from Lille to Marseille, in just four hours. You can take the regional express train and traverse Paris in forty minutes for two dollars; in London this takes twice as long and costs twice as much.

In France you have access to the world's best system of museums and you can also stroll through beautiful, well-preserved cities. You benefit from substantial tax breaks for having a large family (defined in France as three children and more). Your health-care coverage is also excellent and at times lavish; you can still seek a 'cure' at the spa at Social Security's expense. Most of your pharmaceuticals are covered at 75 to 100%, and you consume more than twice as many of them as your British counterparts (only the Japanese consume more pharmaceuticals than the French). The hospitals are well equipped – not quite up to the lavish standards of many US hospitals, but luxurious compared with Britain's aging, overstressed facilities. Unlike in Britain and Canada, there are very few waiting lists for surgeries. Most doctors are grossly underpaid by North American standards but they are equally well trained, and they still make house calls, covered by Social Security (the "Sécu"), even on Sunday nights. You see the doctor more often than your counterparts in other large European nations – seven times per year versus five to six times. At 9 to 10% of Gross National Product (GNP), French health-care spending puts it neck and neck with Canada, Switzerland, Germany, and Luxembourg as the runner-up to the USA in the health-care spending race.

Other popular social benefits include family allowances, daycare centers, and a wide array of housing subsidies and direct housing provision which benefit over one-third of the population. French housing subsidies are surely one of the most successful social programs in the West, and have been emulated by others. (Direct provision of housing in the form of high-rise towers is another matter altogether.) One-fifth of the housing stock in France has been built using public monies; in Canada and the US this figure has never reached 1%. Virtually free higher education (of varied quality) is available to two million people. If you are one of the lucky 135,000 people enrolled in the elite *grandes écoles* and other graduate schools independent of the overcrowded general university system, you may receive a stipend for attending and upon graduation a good job-for-life awaits you in the upper echelons of the civil service or the upper ranks of France's leading corporations. Public pensions are among the most generous in the world. Most middle-aged people do not have to worry about their retired parents' finances, and surely this is a good thing. Those who survive to the age of 58.5, which is the average age of retirement, can expect to live another twenty years (men) to twenty-four years (women) on large pensions financed by current workers' payroll taxes and through the general tax system.

Outside of Paris, with its high rents, the minimum wage (SMIC) approaches a living wage for a single person; this is obviously a good thing for those who benefit from it. During the mid 1990s the minimum wage of France was over 60% of the median wage; in the USA it was only 39% and in Japan it was just over 30%. In Britain there was no minimum wage until a few years ago and in North America, during the past three decades, the minimum wage has been increased once in every five or ten years, hence its value has been eroded substantially by inflation. In France, by contrast, the SMIC is usually raised every year to offset inflation, and top-ups ("coups de pouce") are not uncommon – in election years they are *de rigueur*.[20] Working life is generally less hectic in France than in the USA, with a shorter work week and stronger legal protections against abusive or unreasonable employers. In the USA, as it is said, people live to work. In France, people work to live – and the majority live quite well.

On the whole, the French economy is, like the US economy, a success story. Just as a study of those "excluded" from the fruits of the US economy would have to acknowledge that it serves the majority of the population very well, this study of the "excluded" from the French economy and social-welfare system acknowledges that the system works very well for the majority. But the majority's comfort rests on the strained shoulders of a less fortunate (and rather large) minority. In the US, the chief source of the discomfort is the market and its apologists in government; in France, the chief source of unemployment, poverty, and inequality are problematic public policies and the nation's very system of "solidarity." Most social benefits go to the richest half of society. Nevertheless, almost everyone receives *something*, and, it would appear, everyone wants more.[21] This is one of the keys to the persisting popular support for the high-taxing, high-spending French state. Many of the people who are comfortable willfully ignore the fact that their benefits come at the expense of the needy.

Responsibility for this state of affairs rests squarely on the shoulders of French politicians. During his five-year premiership, Lionel Jospin told the public that his chief mission was to *preserve* the "social market economy" and to resist the global pressures to adopt a "market society." He vowed to fight the onslaught of US-style "jungle capitalism."[22] Jospin said nothing about homegrown policy failures; that is, he said nothing about those things he had the power to change.

The USA is indeed home to a ruthless strain of capitalism and alarming income inequality, but much of France simply "isn't working." French leaders proclaimed their wish to resist the advent of US-style "McJobs," but did it follow, then, that a "social market economy" existed already in France? In the definition I use throughout this book, a "social market economy" is a full-employment economy (unemployment no higher than 5%, with very little long-term, structural unemployment, with a labor-force participation rate of around 70%). The term "social market economy" conjures up images of a dynamic, full-employment Western Europe during the 1960s or Scandinavia today. A "social market economy" is one in which the "social" and the "economy" are not in conflict.

France has not enjoyed full employment since the late 1970s. But France has a striking record of social policy innovations, and this is one of the reasons why most French people see their polity as something fundamentally different from and unquestionably superior to the US and British models. The large majority of the French population wants more state intervention in social and economic life. Two-thirds of French citizens fear that globalization threatens the French economic and social model – and perhaps this is because during the 1990s and early 2000s both main political parties told them precisely this, arguing that globalization needed to be "mastered" by states lest it destroy the European social democratic contract.[23]

But France's problems, like the USA's problems, are for the most part homegrown. Certain French public policies are failures caught in their own contradictions, collapsing under their own weight. To be sure, most French people – perhaps up to 60% of the entire adult population – are financially comfortable and well served by the economy or the pension system. Roughly two-thirds of the French labor force – those who work full time in permanent, well-protected jobs – is better protected against the vagaries of the market than in most nations. But since only 59% of the working-age population of France actually works, in fact only about 38% of the entire working-age population, aged eighteen to sixty-four, has a well-protected job. Their benefits, coupled with the benefits of retirees, who make up another 20% of the population, have come to define the essence of the French character. Their benefits are equated with "solidarity," with the French model itself. Up to 40% of the working-age population, however, is either poor, unemployed, or underemployed with access to limited social benefits, and this is no accident. French social policy is not geared towards the interests of those stuck in poverty and the 2.5 million unemployed (officially, over 9.5% of the labor force).[24]

Where does the money go? The vast majority goes to the rich and to the middle class, to the comfortably employed "insiders" (most of them middle-aged men); very little of it goes to the "outsiders" (the unemployed, low-income workers, the poor, youth, immigrants).[25] In addition, French retirees are the richest in the world (relative to current workers) and they retire much earlier than their counterparts in other major Western nations. *They* form the core of the welfare state's supporters, and since 1980 their wishes – not those of the 1.7 million working poor, single parents, the unemployed children of immigrants, the handicapped,

Cambridge University Press
0521605202 - France in Crisis: Welfare, Inequality, and Globalization since 1980
Timothy B. Smith
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struggling young families faced with high rents and low incomes – have driven the social policy agenda.

The USA and Canada have serious income inequality problems, nonexistent or at best weak government support for low-wage families, a growing army of working poor, and poor public services such as transportation. To be sure, North America appears to be a "winner-take-all" market society, dominated by business elites and their political allies. France, by contrast, has a loser-suffer-all labor market and a winner-take-all welfare state.

The winners are vocal and skilled in the defense of their ideals and benefits. Only 9% of the French workforce is unionized (the lowest rate in the OECD), but unions have power far beyond their numbers since their representatives have, since 1945, been firmly entrenched, by law, in the nation's dozens of publicly supported, occupation-based (corporatist), social insurance funds. And union wage settlements are usually used as the template for collective bargaining in non-unionized settings, so the vast majority of the nation's non-unionized workers have their work done for them by proxy.[26]

Roughly one-quarter of the French public sector is unionized, and these men and women have learned that they have the power to stall social security reform by paralyzing the nation with political strikes. The worst possible punishment for these strikes (which, as non-wage related strikes and unconnected to a collective bargaining session, would be illegal in many nations) is the docking of a day's pay, but this is not an automatic penalty, since governments "negotiate" this with the unions after the fact. When union leaders take to the streets – as they do so frequently – they are armed with a powerful ideology, "solidarity."

Solidarity for everyone?

Solidarity was an idea born during the egalitarian phase of the French Revolution, when legislators proclaimed they had a responsibility – a "sacred debt" – to eliminate extreme poverty. France invented the idea of a *bienfaisant* state, committed to the introduction of old-age pensions, wage supplements, widespread access to primary education, and the guarantee of a "right to work," even if this meant digging ditches. The Revolution failed to deliver on these promises, and a more traditional and fatalistic view towards poverty resurfaced during the Restoration. In 1848, in the midst of yet another political upheaval in Paris, workers seized the state and tried to honor the Revolution's anti-poverty agenda and, most ambitiously, they put the "right to work" at the top of their priorities, only to fail once again.

Solidarity finally took root during the last decade of the nineteenth century, when the first social legislation, targeted at the poor, was introduced. In its late nineteenth-century formulation, solidarity was simply another word for redistribution: from the rich to the poor, from the able-bodied to the infirm, from wealthier regions to poorer regions.[27] The final goal was to create a level playing field for men, to create equality of opportunity (again, for men only), and to help those who were not in a position to help themselves. The original definition of "solidarity" stressed the *obligations* of the comfortable and the privileged to their less fortunate compatriots – not the *rights* of the comfortable themselves. The early solidarists viewed society as an interlocking series of webs binding individuals to families, their fellow citizens, and the state.

A country which practices solidarity would, in my definition (and in the traditional French definition), require regular sacrifice for the common good. A solidaristic society is one which redistributes wealth to low-wage earners and opens up the doors of social mobility. A solidaristic society pays the price for its solidarity in the here and now, instead of leaving the bill to future generations. A solidaristic society spreads risk (and jobs) equitably, instead of allowing risk, poverty, and unemployment to fall almost exclusively on the shoulders of one or two social or demographic groups.[28]

Solidarity requires trust, transparency, and civic-mindedness. Solidarity requires trade-offs and the politics of pragmatism. Solidarity, in the Swedish, Dutch, or Danish sense of the word, has been the product of slow, deliberate, civil discussions, negotiations, and compromises. Solidarity has required a certain amount of income redistribution, and, as in the Netherlands, Canada, and Sweden, periods of wage restraint in the name of job creation.[29] In a solidaristic society, citizens would pay their taxes willingly, and the tax system would be highly progressive, taking much more from the rich than from the poor. Income taxes on the super-wealthy would be high but not so high as to kill incentives. Taxes would be higher on unearned wealth, and monetary policy would not reward rentiers as a matter of course, but there would be tax breaks for venture capitalists who deliver jobs, as there are in Sweden. Tax evasion would not be commonplace, and the penalties for it would be severe – as in Finland. There would be a relatively egalitarian distribution of wealth. There would be very few poor people.

In a solidaristic nation, one segment of society (the retired and the elderly, or those aged fifty-nine and over) would not consume over 70% of all "social" spending – as they do in France. There would be something approaching equality of opportunity, and an open, meritocratic system of elite selection. Job opportunities for all age groups would abound.

Neither politicians nor the general public would allow unemployment to hover around 10% (officially) for over twenty years. Indeed, the gainfully employed would *demand* that the state put an end to this, even at the expense of sacrificing a little bit themselves. An open, dynamic labor market would permit people with unusual career paths to ascend the corporate ladder later in life – say, beginning in their thirties or even in their forties. There would not be a narrow process of selecting the nation's upper civil servants, and they would not be consecrated with "noble" status, held above the laws of merit, efficiency, and responsibility.[30] The sons and daughters of professionals and civil servants would not have their elevated *état* confirmed by the state itself, their good fortunes fixed in stone and sealed with the wax of a diploma from an elite, state-run finishing school. The graduates of said schools would not be hard-wired into the commanding heights of the market and the bureaucracy as a matter of state policy, at the tender age of twenty-five, even as the general youth unemployment rate has been 20 to 30% since 1980. The state, in short, would not train an aristocracy hiding behind a veil of meritocracy.

This definition of soldarity outlined above does not vary too much from the vision put forth by the French Socialists themselves during the 1970s and early 1980s.[31] But today, on every score, France (plus Italy and Spain and, in some ways, Belgium, Germany, Greece, and Portugal) would fail the test of solidarity. Of course, few nations would measure up, but some – Denmark, Sweden, the Netherlands, Canada, Britain, Australia – would meet some or several criteria. And yet . . . why is it that in Canada, the USA and in the UK, many people on the Left seem to have an image of France which is at odds with reality? Why do we characterize France as a solidaristic society? More importantly, why do most French people believe that they live in such a society?[32]

To a certain extent, because they have absorbed the solidaristic catechism; they have taken the hegemonic, mythic rhetoric of "solidarity" at face value. Politicians may rename the social affairs ministry the Ministry of National Solidarity, ex-cabinet ministers such as Elisabeth Guigou may declare her steadfast support for "solidarity" as she marches in the streets to defend the public sector's unfunded pensions (as she did in November 2002), and even the chameleon Jacques Chirac may declare the issue of "la fracture sociale" to be a key concern of his government (as he did during the 1995 presidential election and once again in October 2003), but this does not necessarily mean that "solidarity" is practiced.

Today the most vocal defenders of "solidarity" are public-sector workers and the members of the "special" pension funds (discussed in Chapter 2). The language of "solidarity" has been appropriated by the comfortably employed "insiders" – the very people who oppose reforms which might make a space for the outsiders. "Solidarity" talk bears little resemblance to its original nineteenth-century formulation and it does not correspond with the rhetoric and goals of the early 1980s.

Today solidarity usually means "security." Continued security, that is, for the one-quarter of the workforce (state employees) which has lifelong job security and "special" social benefits financed by the general, regressive tax system. From roughly 1980 to 2000, people seeking jobs lived in a Depression-style world, whereas gainfully employed people enjoyed comfortable raises, longer vacations, and a degree of job security most people can only dream of.[33] Since jobs became so well protected during the 1980s, employers found it easier to squeeze more productivity out of existing workers than to hire additional ones. This involved raising the drawbridge and digging a moat around those already in employment. Until recently, healthy economic growth was not translated into job creation.

French "solidarity" is better understood as state-mandated job protection and insurance. This is an entirely different thing than the redistribution of wealth. The post-transfer poverty rate in the EU in 2000 was highest in France, Britain, and Ireland, but job security in France was much higher than in these nations.[34] Job security, of course, is a great thing – provided that it can be delivered to the vast majority of people and provided it does not come at the expense of the very people who do not enjoy it. There is a trade-off, but it is seldom discussed by French intellectuals and politicians. French leaders have not been candid with the populace about the costs, by-products, and unintended consequences of "solidaristic" social policy.

The crisis of long-term unemployment and youth unemployment

The key unintended consequence of French social and economic policy is high unemployment. Long-term unemployment (a bout of joblessness lasting over one year) is an overlooked but key source of inequality. The scope of the problem is staggering.[35] In 1995, the French long-term unemployment rate was 45% (meaning that 45% of the unemployed had been so for at least one year), or six to nine times the Canadian and US rates of 8 and 5%, respectively.[36] Between 1985 and 1995, more than twenty percent of the unemployed of France had been out of work for a period of more than two years.[37] In North America, long-term unemployment has not exceeded 20% (of the unemployed population) since the Great Depression of the 1930s. Long-term unemployment of the French sort would be politically unacceptable in Canada, the USA,