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FROM PERMACRISIS TO REAL CRISIS IN FRENCH SOCIAL SECURITY
AN ESSAY ON THE LIMITS TO NORMAL POLITICS

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For Robert L. Gaudino, our teacher

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Growth creates stress; stress, reform; and reform averts crisis and sustains permacrisis. While the fate of the Critical Intellectual has often been likened to Prometheus, the role of the rationalizer-planner in this "normal politics" view seems better to resemble the labors of Hercules in the Augean Stables.

French social security is big and growing bigger. It transfers over 20% of disposable income, mostly through three programs; health insurance, family allowances and old age pensions. It is growing faster than GNP, faster than wages, faster than the government budget. Only the rate of efforts to reform it grows faster.

Though the subject of this essay is the French social security system, the theme is methodological: how can we make sense out of a perfectly ordinary political process such as efforts to reform social security? The method is to contrast, concretely, the understanding that comes out of a "normal politics" approach with that derived from an alternative approach. As this is not a demonstration of the Rashomon effect -- an exercise in the multiplicity of views and the ambiguity of perceived truth -- normal politics is found to provide an incomplete, and hence distorted, analysis when compared to the alternative approach.

The term "normal politics" is used to designate the mode of political analysis that has become dominant in American social science. More like the system of the modern American economy than the poor little match girl, it really doesn't have a name; sometimes Pluralism is used, occasionally, Liberal Pluralism. It is well represented by such authors as

Arthur Bentley, David Truman, Robert Dahl, David Braybrooke, Nelson Polsby and Aaron Wildavsky. Normal politics sees political change in terms of marginal adjustments. "The decision," its unit of analysis, is determined by the vector sum of competing forces. The budgetary process, its view of how the public purse is opened, is an endless saga of compromise among competing groups. It is endless because as compromise engenders stop-gap, and fundamental choices are continually postponed, new cracks appear in the structure and new compromises are necessary. It is marginal change because the rules are known; the players, though not completely equal, all hang in. Nobody dominates the game; nobody wins. Groups, not classes, are the relevant units. Bargaining among them -- not domination of the essentials -- is the important dynamic. The game goes on. The structures get bigger and bigger, and sometimes rather funny looking, like Victorian houses. But the structures do not change. If anything should lend itself well to explanation through this approach, it is French social security -- especially efforts to reform it.

The awesome size of French social security is nicely complemented by its labyrinthine complexity. J.J. Dupeyroux, the leading academic expert on the subject, finds that the system is built of some 25,000 rules and regulations.¹ No one has questioned his count. As complexity itself is a favorite theme of normal politics, we can take it as an appropriate starting point.

Origins and Compromise

The system is a wonderfully Weberian bureaucracy, laboring to express through rigid rules and regulations a moving balance of political forces and social strains. That is one major reasons for the system's

¹cited in Le Monde, 20 September 1972, p. 33.

complexity. It is trajectory of political compromise.

The social security system was created in the very special political climate of 1944-45 when social and economic crisis -- present, past and anticipated -- plus political truce forged compromise decisions on major questions of how to rebuild France. A double compromise was at the origin of social security.² The first was an organizational compromise between the universal, egalitarian and unified system proposed in the Laroque report, and the existing structures of restricted, unequal and categorical funds -- one for civil servants, one for railway workers, etc. A Regime General was created, embodying those basic principles of the Laroque report. But the critical integration of the existing categorical funds was postponed, and the creation of still more categorical (or complementary) funds was pretty much assured by the adoption of a ceiling on assessed wages.

On a deeper level, the system represented a political compromise between the two major parties of the 1944 government: the Communists (with the labor unions behind them) and the Gaullists (with business huddled in their camp); the Socialists and Radicals, representing among others, important elements of the civil servant class, kept compromise from being too neat.

For the Communists, the creation of an extensive system of social security represented an extension of concessions won from the employers during the period of the Popular Front. Social protection had become a right; social security a mechanism for organizing it under workers'

²The following paragraphs draw upon H.C. Galant, Histoire Politique de la Sécurité Sociale Française, 1955. Written by an American, it is the basic work on the politics of setting up the social security system, especially the key period through 1947. See also: the decree of 4 October 1944, the cornerstone legislation, and law of 17 January 1948, the keystone legislation; Pierre Laroque, the "Father of French social security", "La Sécurité Sociale de 1944 à 1951," Revue Française des Affaires Sociales, avril-juin, 1971, pp. 11-15; Jacques Doublet, Sécurité Sociale, 4e édition, 1967, pp. 31-39.

control (until 1967 unions had 75% of the seats on the governing boards of the social security funds). Many Gaullists -- conservative but enlightened and fervently nationalistic -- were concerned with the demographic decline of France, for them a major cause of the French military humiliation. They saw the new system as a means of rebuilding the Nation and increasing its productive and military potential. They also perceived social security as a means of maintaining social peace and stability, first as a cushion against the full impact of fluctuations in economic activity, and second as an example of the association between Capital and Labor -- the ideal form of social organization in Gaullist ideology. Furthermore, those Gaullists who did not see it in positive terms, at least recognized social security as a political necessity: going back on that key piece of the Resistance promise would be politically impossible. At the same time they did not want a fully socialized system, and they also had to think about its impact on labor costs. Hence, for example, no steps were taken toward nationalizing the health industry. The Socialists and the Radicals had important class distinctions to preserve for their white collar supporters, so categorical funds were maintained and the ceiling on assessed wages was instituted.

Solidarity

The existence of an ideology for social security to which the major parties could subscribe -- the ideology of solidarity -- further facilitated the convergence. Ideology may, or may not be the driving force behind the actions of "madmen in power," but it certainly provides constraints on them and defines the boundaries of permissible conduct and utterance. The persistence of Social Darwinism plays an important

role in the success of the welfare-baiting and "blaming the victim" rhetoric of U.S. politicians; the broad, public acceptance of the ideology of solidarity helps make similar statements very rare in France.

Solidarity is not an ethic of redistribution, of providing income or assistance to the poor. The latter is grounded in a liberal vision of the State and in the so-called voluntary exchange theory of public finance, which postulates the separation of the allocative and distributive branches of the economy, and only minimal State intervention. Solidarity is grounded in an organic vision of the State, in theories of general interest (which is not the sum of individual interests), and in an ideology of nationalism. Solidarity is an egalitarian, unifying concept, blurring -- sometimes desperately -- social divisions and distinctions and emphasizing instead the unity of the Nation. It stresses the sharing rather than the transferring aspects of social protection.³

In the framework of solidarity, social protection is a constitutional right: the Constitution of 1946 states in its preamble (reasserted in the Constitution of 1958):

The Nation assures the necessary conditions for the development of an individual and a family. It guarantees to everybody, especially to a child, a mother and an older worker, health protection, material security, rest and leisure. Every human being who, because of his age, mental and physical condition, or economic situation is unable to work, has a right to obtain from the community, appropriate means of existence.

³For a somewhat different and very brief discussion of this concept, see Alvin Schoor, Social Security and Social Services in France, U.S. Social Security Administration, 1965, pp. 2ff. For a laboured history of the concept, there is J.E.S. Hayward, "Solidarity: The Social History of the Idea..." International of Social History, IV, 1959, Part II, pp. 261-284. See also, Pierre Drouin's articles in Le Monde, 10 April 1967 and 18 September 1969.

Solidarity thus charges the public authorities with responsibility for the social protection of the disadvantaged. However, the main thrust of social protection lies elsewhere. Its goal is not to compensate ex-post inequalities generated by the allocative process, but to contribute to regenerate, upgrade and develop the Nation's human capital. The labor force is the focus of the social security system. Healthier workers and more children guarantee a bigger and better working population, a bigger and better army and a greater France; health insurance and retirement pensions, plus a sharing of social risks such as disability and unemployment assure a greater sense of social cohesion and interdependence. To the extent that human capital is an essential guarantor of national independence and grandeur, and a well-developed system of social security a necessary ingredient of social peace, the ultimate beneficiaries of social security are the Nation and the State. Stressing national unity and strength, and also the values of work and large families, solidarity rings the familiar tune of enlightened, conservative sozial politik in the tradition of Bismarck and LePlay.

But solidarity also emphasizes equality of social protection, shared protection against social risks, the right of citizens to adequate health care, and to proper means of existence, and those themes are attractive to labor unions and left-wing parties. Thus solidarity was a broad enough concept (perhaps one should say vague enough) to provide common ground for differing views of what social security should be. It has been, and still is, the official ideology of the system, even if, in the changing context of societal development, diverging interpretations of what solidarity really means have emerged. Solidarity is being qualified now. It becomes class solidarity for labor unions opposing proposals

to have social security pick up the deficit of health insurance for the self-employed; it becomes horizontal solidarity for the family allowance lobby fighting attempts to link family allowances to levels of income.⁴ It may also become categorical solidarity (within a social category) in the government's proposals for a social security fund for self-employed workers in which the young and well-to-do, self-employed would have to support their aging and poorer colleagues. And this proposal could be vehemently and at times violently resisted by large factions of self-employed in the name of national solidarity. Thus the French are increasingly asking: is solidarity national, professional, proper to an industrial sector, a group, a class -- without being able (or willing) to fully answer the question.⁵ However, despite this semantic evolution which reflects the conflicting positions of different social groups, and which also takes us a bit ahead of ourselves, the basic tenets of solidarity as an ideology -- equality of service and social security as a right -- remain firmly entrenched, and no one dares to attack them frontally.

Growth and Stress

The motor, or perhaps merely the most immediately nerve-wracking manifestation, of the permacrisis of social security is the system's

⁴Horizontal solidarity means the redistribution of resources from those who do not have children to those who have them. It is rooted in a clear vision of some families taking on the socially necessary burden of producing and raising children. It is therefore only right that the financial burden of this effort in the general interest be shared by the Nation. Horizontal solidarity is the legitimating ideology of the nationalist family allowance system, and the battle cry of the family lobby, in whose hands it assumes-away questions of income differentials and concentrates exclusively upon burden sharing by family size.

⁵French Report on the Efficacy of Social Security to European Institute of Social Security, Hague, November 1969, p. 28.

rapid growth compounding away upon its fearful size. Extrapolations read as though they were taken from a pop-ecology article: towards the end of the 1980's, if recent trends continue, social security will absorb all of GNP!⁶ Such extrapolations are at least good for one thing. They point to the distinct possibility that normal politics -- as both a phenomenon and as a method of political analysis -- cannot tell the whole story.⁷

First, some dimensions of the problem. During the 10 years, 1959-69, social security expenditures increased by 345%, faster than prices, faster than GNP. Social security benefits rose far faster than primary income (wages and salary) so that the percentage of total household resources coming from social security transfers rose from 15.1% in 1959 to 19.5% in 1969.⁸ And the trend is continuing. From 1969-70, social security expenditures rose by 12%; from 1970-71 by 13%; from 1971-72 by 11.6%⁹ while GNP rose by about half that rate and the State's General

⁶No less an extrapolator than President Pompidou declared in his press conference of 22 September 1969: "In 19 years, it will absorb our entire national product!"

⁷Aaron Wildavsky's The Budgetary Process, 1964, is an excellent example -- indeed, it has become an exemplar -- of the normal politics approach to analyzing budgeting. It demonstrates the profoundly political -- as opposed to any non-political or, technical nature -- of how public money is allocated. As do all true exemplars, the book also illustrates the defects of its virtues. It demonstrates that the central political process is all about marginal movements rather than structural changes. The moral of the story is that despite the well-willed efforts of Structural Reformers, in the budgetary process the most likely outcome is much like what has prevailed in the past plus a few percent. But in this particular case, such an outcome is impossible. So the most likely is impossible; therefore, something less likely is more likely, or else normal politics has its limits. It can deal with only part of the process of political change, and the easy part at that.

⁸Marguerite Perrot, "Salaires, Prestations Sociales et Pouvoir d'Achat..." Les Collections de l'INSEE, Series M (Menages), #9, Table 26. Total household resources are primary revenues (salaries, wages, etc., plus transfers). Social security transfers as a percentage of primary incomes (income before transfers) are 24.2%, ibid.

⁹Annuaire Statistique, 1973, p. 550.

Budget rose by 9%. In 1972, the social security budget became the biggest thing in France: it was larger than the State's General Budget.¹⁰

The Composition of Growth

The growth of social security expenditures has been uneven among the different funds. Galloping increases in health and pensions, the two largest items, have dominated at the relative expense of family allowances which have barely kept even with price index; as a result the composition of social security benefits has slowly changed.

Between 1959 and 1969,

- health insurance expenditures grew by 470% (in current francs)
- pensions rose by 376%
- but family allowances, the third largest component of social security transfers rose by only 234% (about half the rate of health).

So that by 1969,

- health benefits accounted for 29% of all social security transfers; in 1959, health represented 21%.
- pensions equaled 43% of social security transfers in 1969; in 1959, 39%.
- and family allowances fell to 19% of social security transfers in 1969, from 28% in 1958.
- None of the other social security categories (including unemployment) accounted for more than 5% of the total in either year.¹¹

¹⁰ See 1972 Budget, p. 66 and p. 69.

¹¹ All data from Perrot, *op. cit.*, table 27. See Liasons Sociales, 16 June 1969, for slightly different data based on different sampling techniques. An additional social transfer program called Assistance (or Aide Sociale) is not part of the social security budget; it provides aid for the down and out, and has been studied at times by Americans as somehow analagous to our Welfare system. In 1965 assistance was about 5% of social security budget and about the same in 1969. See Cindy Stevens, A Study of Public Assistance and Allied Benefits in France, NYU under HUD 05-69-94 for a very monographic description in English of the program, or Ministère de la Santé et de la Sécurité Sociale, Statistiques Sociales, Supplément D 2, décembre 1969, p. 47 for Assistance data.

The growth of the social security system can also be seen by looking at data on the number of persons covered. Coverage varies somewhat among funds. For health insurance, our information shows that in 1960, 75.8% of the total population was covered; by 1972 it had risen to 98%, and coverage has been extended since.¹²

These are numbers. But behind them there are structural phenomena which give the growth process its momentum, its potential for creating conflict, and its meaning.

The Sources of Growth

The growth of social security does not take place all by itself in a static, ceteris paribus world. It is not pure, self-contained growth, whatever that may be. It cannot be isolated and then analyzed; it must be situated -- in its political-economic context -- in order to be understood. It is a corollary, a by-product of the overall reorganization of the French economy which, since the end of World War II, has been growing at the average real rate of about 5% per year. This growth entailed a profound and traumatic transformation of the French economic and social fabric: sectoral shifts away from agriculture (from 36% in agriculture in 1946 to under 13% in 1968)¹³ and away from small, family-owned and operated shops and businesses, to giant corporations and supermarket chains; shifts in ways of life: the Paris region in 1946 had a population of about 6 millions, and now it counts over 10 millions,¹⁴ of which over 7-1/2 millions are in the suburbs!

¹²P. Pezant's 1960 estimate, "La populations couverte par les assurances sociales," Consommation, #1, 1963; 1972 estimate from J. Brunet-Jailly, Essai sur l'économie Générale de la Santé, Paris, Cujas, 1971; INSEE estimates for 1971 48 million covered out of a population of 51 million. See Annuaire Statistique, 1973, pp. 551 and 14.

¹³Annuaire Statistique, 1966, p. 107; 1973, p. 60.

¹⁴Schéma Directeur de la Région Parisienne, p. 14.

The Losers

Schumpeter has characterized economic development as a process of creative destruction. And indeed, development in France has been destructive. GNP has grown mightily, but blood has been spilled all over the place: agricultural workers too old to migrate barely make a living; peasants watch their world being destroyed: small shopkeepers and artisans get wiped out by the sweep of industrial and commercial concentration.¹⁵

Rapid growth exacerbates inequalities, for its logic is to encourage and reward the already strong and resourceful. But at the same time, it generates rising expectations and thus increases pressures for greater equality. Disparities and privations passively accepted in a static context are now perceived as unbearable. Peasants demand institutional guarantees of parity of income with industrial workers. The self-employed want social protection that offers the same coverage as salaried workers. These demands cannot be ignored, especially when a rapid growth policy is promoted by a politically conservative government, as in France. Here, the losers of the creative destruction game -- the peasants, small shopkeepers and artisans -- still constitute one of the main blocks of the Gaullist electorate. Something has to be done for them and done quickly, before they stop the whole growth machine.¹⁶

¹⁵ See E. Malinvaud, et. al., La Croissance Francaise, pp. 218, 229-31, and 232-235 for a statistical picture.

¹⁶ The dangers that these groups present to the all-out growth strategy are clear. However, whether the Gaullists whom they support are necessarily more responsive to their demands than any other likely governing group is highly problematical. One could just as well -- on the same basis, political wisdom -- argue the opposite. And political statistics won't help either. They show that the Gaullists wipe them out, and the Social Democrats too. Perhaps the important point is the way they get wiped out.

Providing social services and transfer payments is one obvious thing that can be done. Thus, the law of 25 January 1961 extended the benefits of health insurance to the agricultural population. Another law of 12 July 1966 extended social security benefits to the self-employed.¹⁷

The Non-Losers

It is easy to see why the economically by-passed -- the losers -- made desperate demands on social security. But theirs were not the only new claims on the system generated by the economic transformation. The winners, or more accurately, those employed in the mainstream of economic growth (because the real winners don't have to worry about social security benefits) also made new claims on the system. Industrial workers detached from the social protection provided by a now wiped-out peasant and shop-keeper society turn towards its new rationalized, bureaucratized successor for pensions and social protection because for them, in the new economic system, there is no accumulated savings in the form of economic capital nor in the soft capital of family or social structures to guarantee survival in old age and care in the face of misfortune.

The non-losers demand that social security not merely replace the social protection lost in the passing of the old society, but that it provide compensation for the failings, the frustrations and the disillusionments of the new society. White collar workers -- very new to white

¹⁷The implementation of this law, which began in 1969 was an immediate cause of wide-spread disturbances by shopkeepers, artisans, etc., which forced the government to reconsider the onerous contribution rates the special fund created for the self-employed who managed to stay in business. These disturbances clearly put in evidence the vehement sensitivity of the self-employed to the issues of social protection and security. See Le Monde, 13 January 1967, 24 June 1969, 5 August 1969, 23 August 1969, 4 September 1969, 1 November 1969, and 4 December 1969.

collar status¹⁸ -- find bitter disappointment in the realization that they are, despite their new social mobility, still "proletarians"; sometimes that disillusionment is expressed dramatically,¹⁹ but it always generates increasing claims on retirement benefits, on health benefits, and on the preservation of differentials with whatever the working class has won. The working class increasingly focuses on "getting out quick." Lowering the age of retirement has become a top-priority trade union demand, one that is vigorously pushed by the rank and file.²⁰ And the new form of French society seems to generate a very high income elasticity of demand for health services and pharmaceutical products -- though, fortunately, not necessarily such a high rate of sickness. Thus between 1959 and 1969 health expenditures grew at a rate almost double that of household expenditures. As a result, the percentage of health expenditures in household expenditures increased from 8.3% in 1959 to 11.8% in 1969, to 12.8% in 1971.²¹

The final force on the demand side is demographic. The arithmetic is simple. Recently, France has been stuck with a small and stable working age population supporting rapidly growing numbers of old people and young people. In 1946, people 64 years or older represented 11% of the population; in 1972 they represented 13%. On the other end, total population rose from 40.1 million in 1946 to 50 million in 1968, while at

¹⁸See S. Cohen and J. Dyckman, *Evolution de Services et Amenagement du Territoire*, 1975, Service Regional de "Equipement de la Regun Parisienne."

¹⁹As in the recent Bank strike which centered on these themes.

²⁰See *Année Politique*, 1971, p. 180.

²¹*Tableaux de l'Economie Francaise*, INSEE, 1970, p. 289 and *Annuaire Statistique*, 1973, p. 569. See also Comm. du Plan, *Depense du Secteur Sante*, 1960-67, (Sixth Plan).

the same time the "active population" barely increased: from 19.4 to 20 million.²² The heavy burden of this demographic situation -- an additional 10 million dependents, all of whom receive medical insurance plus either family allowances or old age pensions -- is most keenly felt in the social security system which is financed out of payroll taxes on the same 20 million working population.

Along with these different and powerful forces pushing for the growth of social security expenditures there is the compounding problem of an apparent inability to realize any economies of scale on the supply side. Unit costs in health just don't seem to decrease,²³ while pensions and family allowances are straightforward cash transfers.

All these forces together translate into one basic political-economic fact: an increasing absorption of national resources into the social security sector -- a movement which, as we shall see, runs counter to the basic direction chosen for French economic development. It provokes, therefore, vigorous and determined (if not very effective) responses from those responsible for the overall direction of the French economy.

The Logic of France's Economic Development

Each form of development has its own logic. And the logic of the rapid French development -- what they have taken to calling the "industrial imperative" -- provides the backbone for opposition to growth in social security expenditures just as it generates claims for more and

²² See Malinvaud, et. al., op. cit., pp. 58-80 and Annuaire Statistique, 1966 and 1973; also Pezant, op. cit.

²³ See below, pp. 35-41.

bigger expenditures. It is a simple logic, but powerful. And it is consistently put forward by big business, the Gaullist political class, and the technocrats of the State and of big business. In their present form, the argument goes, social security expenditures are labor costs. Higher labor costs mean reduced competition in international markets. The French economy is locked into a serious competitive struggle which it has entered on a weak footing compared to its principal competitors, the awesome Germans. It cannot afford to increase its burdens relative to the competition.

The policy implications are quite as clear: (1) hold down increases in expenditures, and (2) what cannot be held down should be reformed to serve, as well as possible, the end of increasing productivity. The problem, of course, is that these simple economic imperatives must pass through the complex mediation of the political system which doesn't always obey the "obvious logic of development." Indeed, the lack of a smooth fit between the imperatives of the economic system and the necessities of the political system is the key to understanding the contradictions of social security -- and much more in modern France. It might be useful, therefore, to step back for a moment, and examine the recent evolution of this tension.

Economic Imperative and Political Power

In place of the general Malthusianism of the pre-war economy, the post-war economy, before, during and after DeGaulle, has been increasingly dominated by a central core of large, modern, rapidly-growing firms and a still-powerful, still-interventionist but now growth oriented State bureaucracy. The Plan has come to symbolize this new economy -- the modernizing partnership of the technocrats of big business and of the State.

This partnership has reshaped France since the war. But it is important to see how this was done. It reshaped the economy primarily through long-term actions on the supply side, e.g., through the restructuring of an industry from many small, high-cost, low-growth non-competitive firms into a modernizing oligopoly. In reshaping the structures of industry, it has, over twenty-five years, also reshaped the economic, social and even political landscape of France. But it has been on the supply side through "industrial policy" where the power of this group (or sub-system) has been directly exercised: the potent impacts on every other aspect of French life have been second round, or indirect effects of the industrial policy.²⁴

It is important to an understanding of the political process to see where, and how and why it has been able to change things directly, and where its influence has been felt, has resulted in profound change but only through indirect impacts; finally it is necessary to understand

²⁴On this theme, see Stephen Cohen, Modern Capitalist Planning, 2nd Edition, University of California Press, 1976, especially p. 112ff.

The agricultural program of the first plans constitute a perfect example. The "agricultural problem" of marginal producers, Byzantine subsidies, medieval land tenure (all kept alive in a hothouse of infinitely complicated protectionism) was an economic rationalizer's dream-playground. But a direct assault on the structures of the agricultural sector -- on land tenure, and on the subsidy system -- was beyond the political capabilities of the political sub-system that controlled investment. Recognizing this blatant fact, the Plan chose not to attack agriculture directly. Instead, the early plans, after devoting pages and pages to the complexities of the agricultural problem, limited its agricultural program entirely to the construction of more tractor factories and more fertilizer plants. They let the tractors fight the peasants. There are other possible explanations to the Plan's approach to rationalizing agriculture. None, however, seems so simple and so satisfactory. It clearly highlights the basic political fact -- that power to build a tractor factory is different from that needed to change subsidy systems, and that the political-economic sub-system that controlled investment (our partnership between the technocrats of big business and of the State) could not hope to control farm subsidies. That belonged to a much broader political system: the traditional political arena.

what permitted the relative independence of that political sub-system, and what is limiting that independence. For participation in the "industrial policy" approach, which has shaped so much of French life, has been as narrow as its direct objectives. When you restructure an industry, you need only the managers of that industry, the State (to organize, to provide the goodies, and sometimes to prod), and then you need merely the passive acquiescence of the trade unions. Nothing else, and crucially, no one else, is needed. Indeed, broader participation could only endanger things. The nature of their direct objectives (industrial modernization) permitted the State big business partnership to concentrate on the supply side (and there only in certain areas), and the nature of their political power (strong in just those areas, weak in direct confrontations with broad based political movements) kept them far away from the active concerns of the major political groups and even further from the machinery of day-to-day, broad participation politics. The big business-technocrats partnership which is the Plan in its day to day operations is essentially a device to keep the State actively involved in the management of the industrial core of the economy while keeping broad participation politics out.

Thus despite their enormous power in one vital area, the big business-technocrat partnership has never been able to control such vital, direct concerns of traditional politics as short term, demand-side policy, agricultural subsidies and social security benefits.²⁵ The absence of a strong

²⁵The general problem of incoherent economic policy -- of short term demand policy differing from longer term supply side policy -- illustrates this situation rather well. Many reasons have been offered to explain the disparities between the targets of the successive plans and actual results: econometric errors and the youth of that rapidly developing science; the impossibility of planning several years ahead in a market

government (prior to 1958) further increased the tendency for industrial policy to have a certain independence. It left almost all long term policy (especially that on the supply side) to the stewardship of the technocrats.²⁶ The semi-closed nature of the pre-Common Market French economy helped even more; it left open the alternative of relative inflation, which was an important factor in insulating industrial policy from more general economic and social policy.²⁷

The opening of the French economy into the Common Market has been the principal external pressure for big business "doing something" about what they see as the heavy and growing burden of social transfers. The Common Market is many things, but it is well to remember that it is a liberal (small "L") Common Market: goods and money move

based economy; a series of unique, exogenous forces which intervened, etc. There is something to each of these explanations, but the partial insights each offers comes at a high price: they lead nowhere. The simplest answer takes one furthest into an understanding of the political process that is the plan. One big reason that the plan's targets were not in fact realized is that short term demand policy was never exercised with the realization of the plans' targets as a principal objective. The two were never coordinated. Successive governments simply did not follow the plan. They inflated, and deflated, increased or held back on pensions, subsidies and defense expenditures and toyed with interest rates with a general disregard for the targets of the plan. The reason they repeatedly did this is also simple. They were neither too stupid to appreciate the complex tool that was the plan, nor were they particularly at odds with its objectives. It is just that the Plan was the product of a rather small political sub-system -- largely the one we have been describing -- whereas the exercise of demand side policy is the focus of broad participation, conflicting interest politics. The incongruence of these two political systems is the principal reason for the complete failure to coordinate short-term demand side policy with the longer term supply side programs of the plan, c.f. *ibid*, pp. 152-175 and 96-103.

²⁶ Later, under Gaullist governments, for different reasons, the technocrats were to have their greatest moment, which now seems to be threatened by the new Giscard d'Estaing-Poniatowski Government.

²⁷ See Projet de Rapport sur les Principales Options du Ve Plan, J.O. Lois et Decrets, 24 December 1964; and J. Benard, "Le Marche Commun et Avenir de la Planification Francaise," Revue Economique, No. 5, 1964.

fastest across borders; laws and harmonization of social policy more slowly. The implications for business are simple and direct. When the union asks Lucy (president of Lucy's Lemonade Lounges) for a raise, she replies, "Gee, persons, I'd love to, but if I gave you the extra 7-1/2¢ an hour, the competition would drive me out." And she's not lying. French business now has to compete with its Common Market partners (especially Germany). And this fact dominates all. They can now say, "I'd love to, but if we do, the Germans will clobber us. So why don't you get German business to increase what it pays for family allowances (and the Dutch and Italians too, while you're at it), and then we'd be delighted to go along with it."²⁸

They can say that, and they do, pretty much in those words. The Sixth Plan provides some excellent examples. It includes an impressive report on social transfers, some 200 pages (plus reams of annexed materials) which present all the good ideas. Absolutely all of them: aid to new-born babies, to the lame, the blind, the halt, the bored; day care

²⁸Each time a major move for reform of social transfers gets underway (e.g., 1967, 1969, 1971, etc.) it is blurred by a flurry of speeches and reports proving that the burden of transfers on French business is greater (or lesser, depending upon which side is talking) than elsewhere. In general, French public spending is not appreciably higher than among its principal trading partners (U.S. and Sweden are highest, but U.S. is heavily military). Straight social transfers do not seem to be higher in France than in Germany (nor does the "burden on business" seem higher, whatever that means). France does have the highest rate of social budget paid directly by business firms and employees (Germany has a higher proportion of its social budget paid out of the general tax till (see EEC, Social Accounts, 1962-65). But "social expenses" were 21.9% of GNP in Germany, and only 19.3% in France, and 17.1% in Italy (*ibid*). All in all the problem with this game is that it is the wrong game. The argument over absolute amounts is not crucial. In competitive economics it is the change -- the direction and amount of the disturbance to the going equilibrium -- that matters. (For vintage examples of great debate on how much we French pay compared with the Germans, see Le Monde, 23-24 July 1967; 7 August 1969, 10 September 1969, and 27 May 1969.)

centers; at home services for the old; electronic aids to add comfort to troubled lives; new professions to absorb the new professionals the last Plan's educational reform is now producing. The trouble is that it is a very long document. If hurried one can turn instead to the Plan's Finance Committee's report. They boil the whole social program down to a manageable seven pages, and still find time in their busy lives, and space in their crowded pages, to acknowledge that the Social Action report was a splendid document, and represented a fine piece of work, and that its authors (and there were many) ought to be congratulated. Then, after the congratulatory paragraphs and the inspirational opening, the Finance Committee breaks the news -- under the heading Les Limites de la Solidarité:

The drive for international, competitiveness brings things into question...for policies derived from the idea of solidarité there is a new imperative...The opening of the economy necessitates that the burdens on the French economy not be heavier than those of its principal trading partners, especially those in the Common Market...Doubtlessly the burden of salaries and social charges is not heavier in France than in other Common Market countries. But the total of obligatory payments is reaching one of the highest rates. It is true that, following a similar line of reasoning, each of the member states of the EEC could only be apprehensive at the prospect of granting new social benefits. Hence the idea of the Plan's Commission on the General Economy and Finance, that NO REAL PROGRESS CAN BE MADE IN THIS DIRECTION BY INDIVIDUAL STATES, and that it is only by concerted action, going beyond the idea of harmonisation, which in practice is very limited, that the European countries can begin to give a new dynamism to their social policy. (Page 41) (Emphasis added.)

The Plan then goes on to proclaim the new social policy: What is really and truly in the interest of each and all is to increase productivity, and the principal and overwhelmingly most important means of social redistribution is to better "develop the earning ability of each person....enhance the capacity of each individual to increase his personal gain." (P. 42.)

By the mid-Sixties, the limited industrial policy of the technocrats of the Plan and big business, had overflowed the boundaries of their own political sub-system and had become the dominant economic policy of the whole government: the industrial imperative of adopting the whole French economy -- and society -- to the requirements of all-out international competition.

Many reasons lay behind this movement so loudly trumpeted by the Fifth and Sixth Plans. The most important was the internal dynamic of the successful industrial policy. The industrial core of the economy had become quite modernized: GNP had grown at 4.8% per year between 1959 and 1964 and labor productivity had grown even quicker -- at an annual rate of 5.1%.²⁹ The critical economic problem no longer concerned the reorganization of the industrial core. It now centered about extending the breadth of the rationalization process to new sectors (such as distribution) and in maintaining overall economic balance and price competitiveness. Both politicians and planners alike feared the newly acquired economic vitality to be fragile. For one thing, inflation -- the perennial foe of the French economy -- was still alive and well. From September 1958 to June 1963, French prices rose by 24% while German prices rose by about half that rate.³⁰ The economic logic was clear: a more general economic policy -- to increase productivity -- would have to replace the narrow, but deep investment and restructuring policy of the old plans. The political system would have to accommodate that new

²⁹A. Vasconcellos and B. Kiker, "The Performance of the French Economy Under Planning, 1959-64," Economics of Planning, No. 3, 1968.

³⁰L. Stoleru, L'equilibre et la Croissance Economique, Dunod, 1967, 199ff.

orientation. Much had changed in the political system. Years of stable Gaullist rule had strengthened the hand of the political class. Ministers could expect to be in office long enough to act. More important, perhaps, the new economic strength of big business was rapidly translating into a realization that they no longer needed so much tutelage and interference from the state. The pre-crisis Giscard d'Estaing presented himself as the mighty sword of France's very minor flirtation with neo-liberalism -- with small disengagements of the State from its ubiquitous involvement in the economy in favor of greater selectivity in its economic intervention. In particular, the State should cease its draining of savings and diverse liquidities from the private sector and from banking circuits and let those structures play a more normal role in channeling investment funds -- as befits a healthy capitalist economy. Important efforts were made in this direction.³¹ Similarly, the tax burden, of "fiscal pressure," was to be reduced.³² An all-out attack on non-productive uses of national resources would follow, and social security along with education and farm subsidies, would be the prime targets. Efforts to hold down social security expenditures and to rationalize the system so as to serve better the end of productivity became more numerous and more serious but not, apparently, more successful.

Reforms of Social Security

At first glance it would seem as though normal politics -- as both a phenomenon and as a method of political analysis -- beautifully captures these efforts to reform social security.

³¹See Parodi, l'Economie et la Société Française, 1945-70, Paris, 1971, pp. 53-60 for an introductory discussion of this process.

³²See below, pp. 32 ff.

The offensive began in earnest in late 1966. But the infrastructure for the operations began to be constructed in the early Sixties with pre-stressed reports by official commissions on different aspects of the social security system. Some of the more important were the:

- Commission Prigent on Family Allowances, 1960
- Commission Laroque on Problems of Old Age, 1961
- Commission Canivet on Health Insurance, 1964
- Commission Friedel, on the whole system, 1964
- Commission Bordaz on Social Transfers, 1965

These blue-ribbon commission reports were purely advisory; their recommendations were not binding. But they provided important political ammunition: expertise, objectivity, technicity. Apart from any specific recommendations, they legitimated the basic idea of reforming the social security system.³³

Normal politics tells us that the increased intensity of government action was triggered by the financial situation of the General Regime. From a surplus through 1962 to quasi-equilibrium in 1963, the budget of the General Regime went into the red by 584 million francs in 1965, and ran a 1.5 billion franc deficit in 1966. The projected deficit for 1968 was 4 billion francs and prospects for still further growth were frightening.

³³The Canivet, Friedel and Bordaz reports were especially helpful. As to specific recommendations, those which could be used by the government to support its own projects were used or "enacted." the others were buried, e.g., the Bordaz recommendations for increasing workers' contributions (taxes) to health insurance and for having the patient pay a higher share of medical costs were accepted; recommendations for having the state budget, instead of the social security budget pay housing allowances (Friedel), and recommendations for major increases in pre-natal and maternity benefits (Prigent) were rejected.

Thus in late 1966 and early 1967, armed with a budget crisis and a ream of advisory reports, the Minister of Social Affairs, Jeanneney, and the Prime Minister, Pompidou, proclaimed the need for urgent and truly fundamental reform. On 27 September 1966 Pompidou declared, "The reform of social security is a fundamental problem. It demands a very large debate, for which the Deputies will be perfectly informed." Three days later M. Jeanneney told the National Assembly to prepare for the "opening of a great debate" on social security reform. And M. Bourges, representing the Government before the Senate, proclaimed on 14 December 1966, "The reform will be of such magnitude, that it cannot be carried outside the Parliament."³⁴

While the government was preparing its campaign, the opposition also got to work. And it had a big advantage -- an election. When the legislative elections were over in March 1967, the government and its allies were still in power but with a much reduced majority. Several groups, including the Communists, the trade unions, the white collar unions, the doctors, the family lobby, and the shopkeepers were opposing the reform of social security. Anticipated reforms had something to alarm everybody. The government became increasingly reluctant to open so explosive a dossier. Thus began the semantic retreat. The "very large debate" (in Parliament!) which Pompidou had announced in the Fall, had become by the Spring "a question which will be treated comprehensively."³⁵ The government then asked Parliament for the power to legislate by

³⁴Quotations from Le Monde, 28 March 1967, p. 21 and 14-15 May 1967, p. 9. For the build-up on the Great Debate, see Le Monde of 19 April 1967, 20 May 1967, 14-15 May 1967, 27 April 1967, and 3 June 1967.

³⁵Pompidou's speech to the National Assembly, 19 April 1967.

executive decree to bypass Parliament because the question was too political. Arguing that further liberalization of the Common Market was scheduled to take effect in 1968, the Executive asked for power to legislate by decree until 31 October in order to solve the urgent economic problems facing the nation, among which the social security budget figured prominently. After a heated debate, the majority held and the special legislative power was voted on 12 June 1967.

The Communist Party claimed that "the dismantling of the social security system is on the agenda."³⁶ The left wing unions organized a day of protest for 27 July against the anticipated government projects and cautioned the faithful "despite the vacation period, to keep vigilant and prepare to act."³⁷ Opposition to the anticipated reforms did not only come from the Left. The white collar union (CGC) expressed its categorical opposition to any attempt, no matter how small, to raise the ceiling on contributions. The professional association of doctors expressed their alarm that some of the anticipated reforms would threaten the basic principle of liberal medicine.³⁸

The executive decrees on social security reform were adopted by the Cabinet on 31 July 1967, the traditional day for political nasties; the first day of vacation, a tough day for successful street demonstrations. By the time everyone has returned from his month of camping, the storm is over and forgotten and there is a new crisis. There is no need to enter into detailed analysis of the reforms. No one could possibly

³⁶ See, l'Humanité, 29 March 1967, 23, 24, and 27 July 1967.

³⁷ Le Monde, 23-24 July 1967.

³⁸ On the opposition build up, see Le Monde, 28 March, 14-15 May, 12, 13, 14, 21, 23, 28 and 29 June 1967.

detect in them anything like a fundamental reform of the system. They constituted a set of expedients geared towards reestablishing the short-run financial equilibrium of the system. Thus, "medical care was made a little less free," as the out-of-pocket participation by the patient (le ticket-moderateur) was increased from 20% to 40%.³⁹ Contribution rates for workers were raised from 6% to 6.5% and the ceiling for health contributions was raised.⁴⁰ The Government promised to participate in the financing of certain special funds, especially the miners' fund, until then entirely supported by the Regime General. And following the recommendations of the Friedel and Canivet Commissions, as well as the persistent and vehement demands of the family lobby, a separate management of risks was instituted with three basic funds: health, family allowances and old age benefits. The practice of "perequations" (shifting resources from surplus to deficit funds) was to be definitely and definitively abandoned.⁴¹

The decrees did not succeed in even beginning any process of fundamental reform, let alone in implementing any such thing. The compromise actions did not even succeed in achieving a ceasefire on the social security front; in their own modest way the social security reforms contributed to May 1968.

³⁹Following the "Events of May '68" it was lowered to 25%.

⁴⁰From 1968 to 1969 the ceiling on wages assessed for social security contributions was raised from 11,400 francs to 16,320 francs, a hike of 13.3%. This may look like a sizable raise. But it should be pointed out that by law (decree of 29 August 1962) the ceiling is indexed to the progress of hourly wage rate. In 1968 (a very special year) those rose by 15.8%. Thus the ceiling fell behind the progression of hourly wages, and behind the legislated index. The lag was obtained by pressure from big business (the CNPF). As Le Monde put it: "The public authority fixed this number (13.3%) half-way between the demands of the CNPF and the 15.8% required by law (1 October 1969; see also, 17 December 1969).

⁴¹On these decrees see Le Monde, 28 May, 14 May, 29 July 1967 and 3, 4, and 5 March 1970.

Even the most explicit goal, the financial equilibrium, was achieved only for a very short time -- exactly one year until the next "crisis" budget. For 1968, the general regime had a surplus of 600 million francs, but in 1969 the new Minister of Health and Social Security announced that the deficit would be 1.5 billion francs in 1970.⁴² The policy of separate management of risks so earnestly affirmed in 1967 was quietly abandoned two years later.⁴³ Le Monde, reviewing the great reform wave of 1967 from the vantage point of the beginning of the 1970 round of reforms, summed up the 1967 effort as finally resulting, not in any fundamental reforms, but rather in "a vague papering-over."⁴⁴

The 1967 reforms -- which seem to provide a classic illustration of normal politics in action -- were followed by the 1969, the 1970 and the 1971, etc. reforms, which seem to further confirm the soundness of that approach, so rooted in political experience and empirical observation. Nothing is more normal than a social security budget crisis leading to solemn calls for drastic budget cuts and programs of fundamental reforms. Thus, for 1970, the Government announces, "It is no longer a question of retouching a facade: important choices must be taken."⁴⁵ The Sixth Plan (for 1971-75) issued its call to battle cited above, and M. Boulin, head of Social Security, rhetorically asks the National Assembly, "Expenditures on social security represent 19.5% of National Product [sic] -- the highest level in the Common Market. Can the Nation afford almost 20% of its product for social spending?"⁴⁶ And nothing is more normal than the

⁴² Le Monde, 7 November 1969.

⁴³ See below, p. 33.

⁴⁴ "replatrage," Le Monde, 3-5 March 1970.

⁴⁵ Ibid.

⁴⁶ Le Monde, 23-24 November 1969.

unrelenting growth of spending (up 12% for 1970) and the absorption of those fundamental reforms into a patchwork of expedient stop-gaps, shaped by the interaction of the different political vectors that converge on the social security budget process. As choices are continually postponed, new cracks appear in the structures and new compromises are necessary. The pluralist vision of normal politics -- an endless soap-opera of mock-crisis and compromise, repeating itself round and round with an awesome stability and predictability -- seems to fit this most ordinary of political processes. The budgetary process is a game of marginal movements. The rules are known. The players, though not completely equal, all hang in. Nobody dominates the game; nobody wins. Bargaining -- not domination of the essentials -- is the important dynamic. The budget grows. The structures do not change.

We can stop here with a summary conclusion that because of the balance of political forces, reform efforts are ineffective: one more case study showing the staying power of liberal pluralist, normal politics.

One problem (among many others) with such an approach is that it is very uninteresting. Like econometric models, it has its uses, especially as long as the ceteris paribus conditions don't move. But like those models, normal politics has absolutely nothing to say about what our econometrician friends call "inflection points." Such an approach precludes inquiry into how -- and why -- structures change. And sometimes structures do change. Normal politics deals with only one part of the political cycle, and the easy part at that. Yet the simple arithmetic of social security expenditures points to the distinct likelihood of some kind of inflection point, some kind of structural change, because the spending curve simply cannot continue along the same trajectory.

Perhaps we can take the summary conclusion of blocked reform and use it as a point of departure. After all, given the strength and stability of the Fifth Republic, given the publicity and frequency of the government's stated intentions to restructure the system, and given the economic logic behind those intentions, the political equilibrium sustaining the present arrangements could change. And actions could be aimed at changing it.

Let us then look a bit closer at these responses to the growth of the system. There are three major kinds of responses. First, simple stop-gap expedients of the kind we have been discussing. Second, "rationalization" -- reforms to contain cost increases and bring the service closer into line with the perceived demands of the economy. And third, reorganization -- fundamental changes in structure and function.

All three responses come through the mediation of the political system. But each generally has its own sub-logic, its own mode of operation and its own group of primary "change agents." Each influences the other. And it is impossible to make sense of the whole process of reform without seeing all of these pieces and how they interact.

In order to see the full dimensions of the three-front war, let us examine three different pieces of the social security system: First, the problem of "undue charges," a pure case of expedient window dressing; second, the dynamic of health expenditures, a classic case of blocked reorganization; and third, the story of the reform of the salaire-unique (the single wage earner allowance), an example of successful rationalization.

Undue Charges

The government loads the social security budget with items that many feel should be charged to the State budget. As a result, estimates of these "undue charges" vary greatly, depending upon what one considers undue. In 1970, for example, the Plan put the estimate at 1.3 billion francs, while the left-wing unions estimated them at 6 billion francs. In 1972, the CGT put the bill at 12 billion francs.⁴⁷ Some items commonly cited include medical education, medical research and hospital buildings. Other lists include as well expenditures for the elderly who never contributed to retirement funds and special funds for declining professions.

Undue charges present more than purely accounting interest. They are the eminent domain of normal politics, and make sense only in its terms. They also help to make sense of normal politics. For by itself, the category undue charges makes no sense at all. They are not economic questions, merely accounting questions. But they highlight the symbolic dimension of the apparently pragmatic response of normal politics, and symbolic responses can be serious. Symbolic political acts are tools for ideological reform, and ideological reform -- not hard-headed budget cutting -- is the key to the long-term reorganization of social security.

The dispute over undue charges is rooted in two particular symbolic factors. First, the peculiar constitution of French social

⁴⁷ For Bordaz Commission estimates see Le Monde, 28 March 1967, p. 21; ibid. 5 July 1967 provides a summary of the Cour des Comptes' findings on the subject. The CGT prepared a brochure, "Les Charges Indues et les Transferts. 1974" which states their position and their estimates. See also CGT, Courrier Confederal #310, 30 Dec 1971, pp. 18-19 and #333, 9 May 1972, pp. 29-30. The CFDT presented their views and estimates at a press conference of 24 May 1972, p. 3. See also Le Monde, 5 March 1970.

security and its symbolic value to different parties; and second, the important ideological and therefore practical dimension of neo-liberal symbolic acts to recent governments.

One peculiarity of the French system of social security is its hybrid constitutional status: semi-mutualistic, semi-public. Officially, the general regime is not a public institution, not part of the state, but rather a mutualistic association of salaried workers and employers.⁴⁸ This means that spending on social security does not count as official public spending; it is not part of the Budget. Social security expenditures are not voted by the Parliament; from a public expenditure viewpoint, the social security budget (so long as it is in balance) is invisible.⁴⁹

We have already noted (p. 21-22) that the all-out industrial policy to which the government turned in the '60s included a determined effort to channel resources through the banking and financial circuits into private investment at the expense of a relative withdrawal of the State from its heavy domination of savings and financing sources. This approach obviously implied serious efforts to limit public spending -- especially in areas that would not serve as "infrastructure investment." Limiting public expenditures and reprivatizing control of a greater portion of savings funds are concrete means to transfer real resources towards the

⁴⁸ See, J. Doublet's standard juridical manual on social security, op. cit. "les Caisses de sécurité sociale...doivent être considérées comme des organismes privés gérant un service public..." La formule qui tend à se répandre désormais est différente en ce sens que la création de l'organisme auquel est confiée la gestion du service public est généralement l'oeuvre du législateur, bien que l'organisme reste de nature privée et que les rapports entre la personne privée et l'administration soient d'ordre réglementaire. pp. 261-262.

⁴⁹ The general regime is included in a document called "The Social Budget," but the latter is only a purely informational accounting document, having no binding value.

private sector. But symbolic acts are also necessary in pursuit of such a policy, necessary both to create a climate in which such real transfers become possible, and also necessary sometimes to compensate with expectation for failures to achieve substantial real results. The imagery and rhetoric of holding down spending and of preserving or attaining balanced budgets are an integral part of such an overall economic policy.

Thus the old neo-liberal theme of dismantling the state's grip on the economy and especially of "lowering the fiscal pressure" on both individuals and business has been making a strong comeback. Valéry Giscard d'Estaing, beginning with his Stabilization Plan in 1963 and continuing on through his stronghold over the economy as Minister of Finance and now as President, has been the acknowledged champion of this neo-liberal approach. One of his greatest claims has been that (contrary to trends in other competing countries) he has arrested the steady increase of fiscal pressure, and even turned the tide from 24% of GDP in 1962 to 23.8% in 1970.⁵⁰

Whatever its political worth, this stability of public spending and fiscal pressure is more apparent than real. Thanks to "debudgetization," important items do not appear in the budget. Social security is one of them. Social security spending, as we know, has been growing

⁵⁰See "The Principal Options of the 6th Plan" where reducing fiscal pressure and increasing the share of private financing is presented as an absolutely top priority. The Government's success in this domaine -- compared to other nations -- is trumpeted in such documents as Ambassade de France, Service de Presse et d'Information, France 1959-66, Main Developments in the Administrative, Social and Economic Fields, p. 3. One sees the effects in various places, such as Peter Coffey's, The Social Economy of France, 1973, table 40 which shows the national budget as a declining percentage of GNP.

faster than GDP; in 1962, social security payments represented 13.9% of GDP; in 1970, 16.5%.⁵¹ If this spending and its "fiscal pressure" were to be included in official presentations and discussions of public spending, the picture of the latter would conform much less to the image the Ministry of Finance is seeking to project.

This pattern of loading social programs onto the social security budget seems to have become a systematic policy since 1962.⁵² It permits the government to respond to social demands it cannot repress, and take political credit for the response, while preserving the illusion of fiscal soundness politics, and keeping the State budget for what it considers more productive uses. Every now and then, when the accumulation of "undue charges" on top of other expenditures brings about a major social security budget crisis, the government admits that some charges are indeed, undue, and accepts to include them in the general budget. This happened in 1967. However, the pattern reasserts itself quickly: thus in 1971, the deficit for the special fund for railway workers was transferred to the general regime (412 million francs). As recently as Fall 1972, the government announced with a maximum of publicity a series of social measures concerning the aged and lagging regions. The cost of those measures was put at 2.5 billion francs. When asked about their financing, Prime Minister Messmer responded that this is a "complex problem." However, in a few days it became apparent that the measure was to be financed almost entirely by the surplus accumulated in the family allowance fund.⁵³

⁵¹From P. Martel, et al., "Le Modele de Projections des opérations de la Sécurité Sociale," Statistiques et Etudes Financières, 1972/6, p. 8.

⁵²See "French Report" op. cit.; and CGT, Les Charges Inclues, op. cit.

⁵³Le Monde, 6, 7, 9 September 1972.

The real question about all this is, so what? Who cares if they finance it out of social security taxes or out of general taxes -- unless the incidence is radically different.

The left-wing unions care. And they care for two different reasons. The first, is the easier to see, but the less important: defense of their constituency, the working classes. The general regime is financed out of payroll taxes; it is paid for out of the wages of working people.⁵⁴ Were it not for undue charges, workers would be getting better social protection for their money -- better medical care, higher pensions, and especially, higher family allowances.

The second basis for their opposition is ideological. It is somewhat more difficult to understand, but it is more important and takes us an important step closer to understanding the real dynamic of social security reform.

For the trade unions, social protection is a right. It represents a hard won victory of the working class against capitalism and it must be constantly defended. Social security is a mechanism for organizing it under working class control. It is emphatically not a device to smooth over the contradictions of capitalist economic relations. It is not "an automatic stabilizer!" It is not to be co-opted to conform to the rationality of the capitalist system. Social security is rooted in the ideology of solidarity as the Left understands it and emphatically not in any voluntary exchange notion of public finance. Its unique function is social protection. It is not supposed to

⁵⁴Even mainstream U.S. economics generally treats payroll taxes such as Social Security as a wage cost. See, for example, the Brookings Bulletin, Vol. 9, No. 4, 1972.

compensate for the malfunctioning of the allocation system. If the allocation system malfunctions, one should get a better allocation system, and failing that (i.e., while waiting for more revolutionary change), the burdens of compensating for the inhumanity and irrationality of the allocation system should be placed on the back of the existing allocation system -- especially on those who most benefit from it. It is the responsibility of the government, and not of the mutualistic, social protection scheme to make that compensation. Thus, if the twisted logic of capitalist development creates masses of human debris in the form of wiped-out shopkeepers and farmers, the government has to find a way to take care of these victims of creative destruction. The trade unions must resist attempts to push those costs onto the social protection scheme. Similarly, because the allocation system is so unjust and irrational, it creates poor people. The answer is not compensatory social benefits out of the workers' wages, it is higher wages in the first place for those people! The ultimate integration of the social security system into the logic of the neo-capitalist state would be to means-test all social payments -- thus using social security benefits as the balance wheel for the injustices and irrationalities of capitalism, and doing so in such a manner as to get the most social payoff per buck while dividing the working classes. Undue charges is merely one small step down the fatal path.

Health Care

Health care lies at the heart of the permacrisis of social security. Containing rising costs (health expenditures have been increasing almost twice as fast as GNP)⁵⁵ is the main problem. But the need to

⁵⁵Martel, op. cit., p. 8.

maintain standards of quality while preserving inequality of service complicate the problem dramatically,⁵⁶

Unlike pensions and family allowances, the other main components of the social security budget, health insurance is not a simple transfer payment; it is not merely the provision of a cheque. It is basically, the provision of a complex service. Reform of health insurance confronts therefore, not only the relatively simple, though impossible, problem of what size cheques to sent out to how many people, and where to get the money for those cheques, but also the complex and substantive matter of organizing, or rather reorganizing, a major sector of economic activity. And it is a big sector, several times bigger than say, the steel industry. It is a sector that has, over the past ten years, created more new jobs by itself than all of industry combined. It is the sector that more than any other major sector -- except possibly education -- has contributed to inflation, to rising taxes, to rising tempers, and to rising the rate of reforms.

There is no room in this short paper for any analysis of the causes of that growth nor of the responses it has triggered.⁵⁷ Suffice it to say that in France, like the United States, there is no fully satisfying, single explanation for the rapid growth. The usual factors making for cost increases are eminently present:

⁵⁶ See Robert Alford, Health Care Politics, 1975, on this important theme.

⁵⁷ This question is treated in Stephen S. Cohen, The Permacrisis of the Service Sector, to be published at UC Press in 1976.

- 1) a high income elasticity of demand for health services.⁵⁸
- 2) increasing factor inputs -- both capital and labor. Unlike most sectors of the economy a large percentage of cost increases in health seem to be, especially in the hospital segment, due to increases of factor inputs per day of hospital care.⁵⁹
- 3) increased costs of those factor inputs.

These headings include such diverse phenomena as new, very high cost medical technologies (kidney dialysis machines, open-heart surgery units, heart-lung machines, etc.), which reflect advanced, albeit expensive, methods of prolonging life, and thus the necessary price to pay for improved care, as well as inefficient use of expensive facilities, monumentally wasteful fee-for-service billing to third party payers, and rapacious proprietary hospitals, lab and pharmaceuticals. In brief, they are descriptive economic categories: they are causal only in the econometric sense but not in any serious way.⁶⁰

Limited space precludes discussion of these categories which means avoiding serious discussion of why costs rise so much and simply pointing to the existence of all these "usual" expenditure generators and confining our brief remarks on factors peculiar to the French health system and of those, to the factors which are most germane to the theme of this essay.

Were we to ask a class of young systems designers to model an inflation maximizing health care system, the better projects would integrate

⁵⁸ Karen Davis, "Rising Hospital Costs: Possible Causes and Cures," Brooking Reprint #262, provides a clear and simple review of the major usual factors making for cost increases. As do the Canivet commission report; Bordaz Commission report, but in a less concise form.

⁵⁹ See Waldman, S. The Effect of Changing Technology on Hospital Costs, 1972, US Social Security Administration, and Canivet Commission.

⁶⁰ M.S. Feldstein, "Hospital Cost Inflation" Am. Economic R., 1971, for demand side oriented econometric analysis, also Waldman, op. cit.

the essential architecture of the French system -- public payment and private provision. The outstanding projects would add the critical details: fee-for-service payment and supplementary insurance benefits for certain large groups.

It is the mismatch of these two conflicting modes of economic organization -- on the one hand socialized demand and on the other what Le Monde's J. Dumont calls "the flourishing industry" of health care:⁶¹ liberal medicine, private hospitals, laboratories and pharmaceuticals which are all connected through third party, fee-for-service payment -- that motors the spiral of expenditures and reduces all reforms and efforts at "rationalization" to relative impotence.

To be sure, there is omnipresent State control and regulation aimed at preventing abuse. But this certainly does not prevent costs from soaring, nor does it prevent funny things from happening. For example, an agreement is periodically contracted between the health insurance fund and the doctors' union setting maximum-level fees per medical act that doctors can charge and still be paid by social security; but this cannot control the number of medical acts a doctor deems necessary for the treatment of an illness. Similarly, there are price controls on pharmaceutical products, but the pharmaceutical industry seems to be particularly inventive in France and comes out with new products which differ only slightly, if at all, from the old product almost as fast as the government comes out with new controlled prices.⁶² The day rate in private hospitals is indexed on the cost of a day in the public hospitals, but the private hospitals cream the surgery market, leaving the real

⁶¹In Le Monde, 3-5 March 1970.

⁶²In constant prices, medical spending doubled between 1950 and 1960; spending on pharmaceuticals quadrupled: J. Doublet, op. cit., p. 547.

costly and messy jobs to the public system. This has the immediate effect of keeping their real costs down while pushing up the costs in the public hospitals, and hence the per day rate of reimbursement from social security.⁶³

The result is that, according to the Bordaz Commission of the sixth plan, it is in France and in Belgium where the mixed system of health care delivery (public payment, private provision) operates, that the average cost of health care per protected person is by far the highest in the Common Market. According to the Commission, this cost was 440 francs in France against 320 francs in Italy and 281 francs in Germany, which also provides better coverage and better care.⁶⁴

The normal politics approach to containing health care costs becomes ever more difficult. On the demand side, for the reasons given above, more and more of the population has had to be included in the insurance system despite the actuarial unsoundness of bringing them in. Now coverage is pretty much universal, and it is simply out of the question to try to kick any major group out. The government tried to make the consumer pay a greater share of each bill hoping thereby to reduce the number of medical acts as well as its own outlay per act. This reform was passed in 1967, and in May 1968 as a major part of the Grenelle agreements, the trade unions reversed it and made it perfectly clear that they would not tolerate any major moves in that direction. All that remains, therefore, is a steady increase in "contributions" (social security taxes) whether through higher rates or higher ceilings. But higher social security taxes are

⁶³ See the article of Dr. Bernard, "La Surconsommation Medicale" in Le Monde, 3 Jan. 1970 for similar practices, or else see any of the numerous analyses of common "abuses" of Medicare in the US, for medical incorporates the same basic structural defects of the French system -- with similar results.

⁶⁴ Quoted in Le Monde, 3 March 1970, p. 24.

ever more fiercely resisted by both the labor unions and the middle class unions, and also counters the government's basic policy not to see still more of national resources pulled out of productive use and eaten up in the health system.

As a result, there are recurrent spasms of rationalization and reform on the supply side: more computers, more paramedical personnel, new health administrators and new administrative technologies (program budgeting, better cost controls, facilities location models, etc.). But the thrust of these reforms and rationalizations is quickly lost in the structural flaw at the heart of the system and costs continue to climb.

Real reform, such as an end to fee-for-service, is viewed by all players as a system change. It is not a marginal question to be resolved through a liberal-pluralist compromise. It is a victory for one side (or at least a wipe out for one side): it goes beyond normal politics.⁶⁵

Thus the margin for political manoeuvre is narrow. Alternatives look all too clear, and therefore unpalatable. The system -- politics as usual -- struggles on. Contribution rates go up; so do ceilings. In 1968 a 2.5% tax is slapped on pharmacy profits; in 1970 it is "re-negotiated." Computers are mobilized to establish a "medical profile" which is supposed to curtail abuse by doctors of their power to determine which and how many medical acts are needed.

Behind this patch-work of pragmatic, incremental intervention -- the outputs of normal politics -- there appears to loom a definite, although weak, strategy aimed at imposing self-discipline on the runaway sector. The government declares its desire to preserve the present

⁶⁵For how doctors view the end of fee-for-service, see Le Monde, 24 June 67 and 30 June 67.

system, but threatens that if present trends continue it won't be able to. M. Jeanneney, Minister of Health was very explicit:

I desire ardently that we succeed in saving our liberal medicine, but its fate is entirely in the hands of doctors themselves. If they know how to impose over their whole profession a discipline such that their expenditures represent the necessary, without the superfluous, then the nation will be able to carry the burden...if not, one day or another, liberal medicine will disappear.⁶⁶

This unusually blunt statement drew indignant outcries from the medical associations, but similar statements continue to be made. M. Boulin, Jeanneney's successor, also stated that "the survival of liberal medicine implies that doctors closely control health consumption expenditures."⁶⁷ (Emphasis added.)

The Commission Bordaz of the Sixth Plan stated: "It is impossible to reconcile a liberal organization of health delivery, whatever its merits may be, with collective, compulsory insurance, without significant increases in costs." The Commission's decision to consider "offering clear choices...between the maintenance of the present system with the cost it implies...and a study of a new mechanism" can also be considered a part of this strategy.⁶⁸

Thus all players persevere, trying desperately to preserve the permacrisis of health care and to push-off the necessity of making it into a real crisis.

⁶⁶Le Monde, 20 Juin 67. Speech to "Congres National des Classes Moyennes."

⁶⁷Le Monde, 29 Jan. 70.

⁶⁸See Sixth Plan, Commission des Prestations Sociales (Bordaz) Subcommittee report on health insurance systems in Europe, of Le Monde's detailed summary, 5 March 70.

Salaire Unique

The family allowance program is the weakest of the three major social security programs,⁶⁹ and the salaire unique is the weakest piece of the family allowance package. As the name "single-wage earner allowance" indicates, the program distributes money to families with only one wage earner, presumably the husband.⁷⁰

According to official sources, the program originated in the natalist framework of family allowances. Its initial purpose was to compensate mothers who were performing an important, though unpaid, task for the nation: staying home and having children. According to others -- especially Keynesian economists and feminist sociologists -- it was designed essentially as an incentive program to keep women out of the labor force and in the kitchen. According to all, its effects are very weak, if not negligible. The amount (about \$20-25 a month on the average) is too small to offset a second income, so the program fails as both an incentive and a compensation. Its net effect is simply to pass along a small sum of money to families where the wife would not be working in any case.

Furthermore, though a relative small program (by social security standards), the sums of money spent are not at all negligible: about \$1 billion per year.⁷¹ It is clear then why, for the past 15 years, the salaire unique has been the favorite target of reformers. But though it fills no economic or social function, the form through which it fails

⁶⁹As its steadily declining share of total social security expenditures indicates: See above, p. 9.

⁷⁰The equivalent program for non-salary incomes was called the mere-aufoyer allowance!

⁷¹Unofficial estimate for 1970 provided by the Commissariat du Plan; about 4% of social security expenditures.

to fulfill those functions has important political characteristics: it is a cheque sent out each month to almost four million families. As a result proposals for reforming the salaire unique have become familiar ruins on the political landscape. The scenario rarely changes. A blue-ribbon commission demonstrates the uselessness of the program. A Minister announces a thoroughgoing reform, usually consisting either of the total suppression of the program, or else a plan to means-test it either directly or indirectly by including the payment in taxable income. The Prime Minister backs him resolutely. Then the family lobby swings into action. The Prime Minister abandons the Minister, who in turn abandons the reform. The 1969 round provides a perfect illustration, but the 1960, 1964, 1966 and 1967 rounds were almost as good.⁷²

In January 1969, a new crop of commission reports appeared demonstrating the necessity of basic reforms.⁷³ In August 1969, just after Pompidou's decisive victory in the presidential elections, the Minister of Labor, Fontanet, declared that the salaire unique was to be fundamentally reformed.⁷⁴ In September, the Prime Minister officially proposed the reform as part of a major declaration of policy, constituting a "Plan de Redressement." He said that the "salaire unique will be significantly increased for low-income families, but correspondingly reduced for better-off families and even suppressed for those who do not need it."⁷⁵ At the conclusion of the Parliamentary debate, the

⁷²See Le Monde, 2 Feb. 64 for a careful analysis of the imminent, basic reform of the salaire unique; ibid., 24 March 64 reports on a similar reform package, as does 29 July 67; see also Rapport Prigent, op. cit. 1960, concluding paragraph.

⁷³Le Monde, 4 Jan 69, and 19-20 Jan. 69.

⁷⁴Le Monde, 27 August 69.

⁷⁵Le Monde, 17 Sept. 69.

government demanded a vote of confidence. The new program was scheduled to go into effect in 1970. At that point, the family lobby (which is also the backbone of the Gaullist parliamentary party) mobilized against this serious threat to the core principle of "solidarite." By 26 September 1969 (ten days after the Prime Minister's resolute words and vote-of-confidence grandstanding) the CGC (the white collar union) had obtained a public retreat from the Prime Minister who declared to the union's officials that the reform of the salaire unique would not be enacted "precipitously," but would instead, be submitted to "a profound examination."⁷⁶

The rationalizers went back to their drawing boards and came back with a true masterpiece, in time for the successful 1972 effort at reform. The reform was voted on 3 January 1972 and decrees of application were published June 29. The reform exhibits all the finesse of 15 years of accumulated technocratic expertise at preparing reforms for the salaire unique plus an absolutely devastating dosage of political compromise. The old salaire unique allowance is not suppressed; it is maintained at its old level. On top of it, a new, increased allowance is added for families with lower incomes. But a ceiling of resources (an eligibility requirement) is established for the old allowance. Its effect will be to exclude 700,000 families out of an estimated 4 1/2 million who would have received the allowance under the old system. But an additional 1,800,000 families will receive the new supplementary allowance (all numbers for 1973). The net additional cost of the reform for the first year was estimated at 1 1/4 billion francs -- to be, of course, paid out of surpluses in the family allowance fund.⁷⁷ But the real ingenuity

⁷⁶ Le Monde, 29 Sept. 69.

⁷⁷ All data in this paragraph from unofficial estimates by Commissariat du Plan.

of the reform lies in expectation of future developments. The ceiling on income for eligibility will stay fixed. Thus inflation will effectively kill-off the old allowance program as money incomes rise, and successive cohorts earning more, but lighter francs, rise through the trapdoor in the ceiling.

The difficulties of reforming the *salaire unique*, the weakest piece of the weakest social security program, would seem to indicate that the road to reform of the major programs will be extremely long and extremely rough. It also seems to bare out the wisdom of normal politics: influence vectors converge on compromise which begets further compromise and only marginal change.

In our opinion, that is not the only moral of the story. Once again, the symbolic, or ideological, dimension provides the key. The real problem of the *salaire unique* was not one of the efficiency of budgetary allocation. The government paid too high a price -- 1 1/4 billion francs per year plus a guarantee of massive increases in administrative costs -- to purchase the possibility, and it is only a possibility to increase the efficiency of budgetary allocation (or to save some money) several years down the road.⁷⁸

The real reform was not about improving the efficiency of budget allocations -- in the limited sense of getting better use of the *salaire unique* money. The real reform was not in the sphere of short-term allocation policy, but rather in the ideological sphere. It consisted of transforming the ideology underlying the attribution of the allowance.

⁷⁸Savings of about \$5 billion francs per year, assumes a steady inflation (a safe assumption), but also the power to hold the ceiling on the old allowance; if they would be able to hold the ceiling on the old allowance in the face of inflation, they might almost as well be able to hold its rate -- and save 1 1/4 billion francs per year right from the outset.

The crucial success of the reform is this: the old allowance was not related to income; the new one, in its convoluted way, is. The old allowance was an expression of the ideology of solidarity; the new allowance is rooted in an ideology of compensation and assistance. This is the critical shift -- the one the government was willing to pay so high a price to get. If assistance and compensation -- and means-testing is their ultimate expression -- become the prevailing principles of social security, that is, if the social actors accept them as such, it would pave the way for a major rationalization of the social security system. An attempt to achieve such an ideological shift is the crucial element behind the government's persistent efforts to reform social security. It is what gives the disparate elements their coherence. It explains the peculiar compromises they are willing to accept and translates an apparent drift-course through the vagaries of normal politics into a strategy aimed at transcending that arena and producing a structural change in the role of social security in French society.

The transformation of social security from a universalistic system of mutual social protection to a selective system of compensation for injustices and inequalities created by the allocation system is not an easy task. It requires considerable political skill, continuous pressure, and time, especially so when the prevailing view is backed by an impressive array of entrenched social forces. It also requires a strong faith in the worthwhileness, the ultimate superiority, perhaps even the inevitability, of the new approach. One must believe that the new ideology is more "rational." Fighting for fundamental changes in ideology is no game for cynics -- even in France.

Distribution

A campaign to shift discussion of social security towards the realm of assistance and compensation would have little difficulty showing that the giant transfer system is not playing a very major role in redistributing income from richer to poorer. But as a major effort by the government to show how social security taxes and expenditures are distributed risks creating greater problems than those it already has to contend with, there are few official studies of the full redistributive effects. Indeed, there seems to be none. In official documents, there is rarely a serious discussion of the redistributive impact of social security transfers despite the fact that the system transfers about 22% of disposable income.⁷⁹ A few semi-official and unofficial studies exist, but none is complete. None analyzes the redistributive effects of the total system on meaningful categories.⁸⁰ One of the few partial analyses prepared for the INSEE on the basis of new household survey data⁸¹ deals only with the benefit side. It does not include tax incidence. And it does not include retirement pensions, nor does it fully take into account family size.

Using this data, if we look at benefit distribution by social-occupational category in terms of percentages of primary household revenue, we find no surprises. Income from transfers represents a greater

⁷⁹ INSEE, Annuaire Statistique, 1973, estimates 1970 disposable income at 553 billion and social security payments at 121 billion. Page 632.

⁸⁰ A brief article signed "A.R.N.," "Reflexions sur les transferts économiques" Problemes Economiques, 8 Avril, 1971, remarks "le sujet est pratiquement vierge en ce qui concerne l'approche globale," p. 6. See also French Report, op. cit., pp.26-27.

⁸¹ Hélène Roze, "Prestations Sociales, impôt direct et échelle des revenus," Economie et Statistique, INSEE, February 1971.

proportion of total income for the lower social categories and a lesser proportion for the upper groups.

- For agricultural workers (the lowest group), social security transfers equal 42.5% of primary income (i.e., add 42.5% to what the average agricultural worker's family earns and you get their total income).
- For industrial workers (no breakdown between skilled and unskilled), the percentage declines to 38.6%.
- For cadres moyens (middle white collar) the percentage of primary income accounted for by transfers declines still further to 22.7%.
- And finally, for cadres superieurs (upper white collar and executive, the highest occupation group), transfers represent only 10.6% of primary income.⁸²

Thus far we get the comfortable feeling that this is how it ought to look. But then, when you get upset at using percentage numbers and begin to search around for some absolute amounts, a very different story begins to come out of the same numbers. Just as the percentage of primary income represented by transfers gets bigger as you go down the socio-economic ladder and a warm glow of distributive justice sets in, so, when you go to the absolute numbers does the scale of benefits do the opposite. It goes up with social group, and the warm glow gets replaced by that (really) more reassuring feeling of indignation. These same social security transfer payments per family when measured in absolute amounts for 1969 come to:

for <u>cadres superieurs</u> (upper white collar and executive)	6,145 francs
for <u>cadres moyens</u> (middle white collar)	6,106 francs
for <u>ouvriers</u> (industrial workers)	5,720 francs

⁸²
Roze, op. cit., table 4.

for <u>employés</u> (low clerical and white collar)	4,880 francs
for <u>personnels de service</u> (domestics, menial services, etc.)	3,973 francs (or 65% of trans- fers given to a <u>cadre superieur</u>)

In brief, when you examine the distribution of benefits in real cash, you find that they are distributed inversely with "need" (or at least what appears to be need to your sociological intuition).⁸³

Now while these results are disturbing, they are not complete for they do not consider social security contributions (taxes).⁸⁴ The basic social security contribution (tax) paid out of wages (part by worker, part by employer) and subject to a ceiling is outright regressive. As one's income rises way above the ceiling on assessed income, one pays a dramatically lower proportion of total income to social security than does a worker whose entire salary is below the ceiling.⁸⁵

The foremost French academic authority on social security, J.J. Dupeyroux, provides an example of how the ceiling works. Suppose we have two families with identical composition: father, mother, and four children. In the first family only father is employed as a cadre superieur

⁸³ Ibid, table 5. Your "sociological intuition" can be verified by multiplying the two tables to get absolute income levels in order to show correlation of these socio-economic categories with income. The estimates of total income are totally unreliable for the highest brackets -- very understated. Data for self-employed are omitted, because income data for self-employed in France are simply not to be taken seriously.

⁸⁴ Nor, it is important to remember, do they include old-age pensions.

⁸⁵ Both parts -- employer contribution and worker's contribution -- can be treated, for economic analysis, as coming out of wages. This is even done by such true-blue economists as the Brookings Institution: See Brookings Bulletin, Vol. 9, No. 4, 1972, p. 2.

at 5000 francs a month. He would pay 655 francs in contribution to social security. In the second family four persons work: the father earning 1,300 francs, the mother 800, and two children, 800 and 700 francs respectively. Their total social security contributions would be 1,667 francs per month, two and a half times (1,012 francs) more than the first family even if their total income is 1000 francs less.⁸⁶ Dupeyroux also noticed that this counter-redistributive effect of the ceiling becomes more pronounced as the ceiling rises slower than the salaries. Thus between 1963 and 1969, the average salary rose by 60.2%, but the ceiling by only 56.3%. A study by the CFDT shows that as income rises, the percent of social security contributions decline. A bachelor earning 6000 francs per year will pay 6.9% in contribution to the social security (this is his direct contribution; when the employer part is also considered, he will pay 44.3% of his total wage to social security, but if he earns 50,000 francs per year he will pay only 2.6% of it to social security (14.8% if the employer's part is included).⁸⁷

It is difficult to compare these results to those of Roze, for the breakdown is different in the two studies (Roze used socioprofessional categories and the CFDT uses incomes). An attempt to globally assess the distribution effect has been made by B. Mourre who analyzed the distribution of transfers in function both of household income and family size.⁸⁸ But among transfers he included family allowances, health insurance (but not pensions) and he also added education and all taxes, direct and indirect (not just social security taxes). On the basis of

⁸⁶J.J. Dupeyroux, Sécurité Sociale, Dalloz, 1971, p. 676.

⁸⁷Etudes Economiques de la CFDT, No. 58, April 1970.

⁸⁸B. Mourre, "Repartition de Certains Transferts Sociaux, Suivant la Taille et le Revenu Des Ménages Salariés," Statistiques et Etudes Financières, No. 5, 1972.

the data Mourre provides we established a table indicating combined redistributive effect of family allowances, health insurance and contributions to social security.

household income	single	childless couple	couple 1 child	couple 2 children	couple 3 children	couple 4 children	couple 5 children	
6000/year Francs	1	-	-	372	2959	5607	7343	9110
	2	781	1484	1570	1968	2070	2343	2624
	3	-417	-417	-417	-417	-417	-417	-417
	4	364 (-1535)	1067 (-762)	1525 (-324)	4510 (2681)	7260 (5431)	9269 (7440)	11317 (9488)
12000/year	1	-	-	235	1518	5013	6801	9110
	2	802	1524	1612	2021	2125	2406	2624
	3	-834	-834	-834	-834	-834	-834	-834
	4	-32 (-3626)	690 (-2968)	1007 (-2651)	2995 (-673)	6304 (2646)	8373 (4715)	10471 (6813)
20000/year	1	-	-	130	2080	4037	6050	7848
	2	864	1642	1737	2177	2290	2592	2903
	3	1002	-1193	-1188	-1108	-1078	-1053	-1028
	4	-138 (-4374)	640 (-4509)	679 (-4448)	3149 (-1595)	5519 (1081)	7589 (3115)	9723 (5362)
30000/year	1	-	-	113	1894	4051	5757	7507
	2	1004	1908	2018	2530	2661	3012	3373
	3	1103	1450	1392	1303	-1213	1167	-1192
	4	-93 (-4531)	805 (-5297)	739 (-5083)	3121 (-2273)	5509 (545)	7602 (2857)	9688 (4817)
50000/year	1	-	-	129	1913	4001	5656	7373
	2	1194	2269	2400	3009	3164	2582	4012
	3	-1305	-1535	-1548	-1439	-1493	-1425	-1305
	4	-106 (-4948)	964 (-4982)	981 (-5028)	3483 (-1999)	5672 (-70)	6823 (1406)	9934 (4381)

Notes:

1. Total of family allowances (average).
2. Health insurance
3. Contributions to the social security (employee part)
4. The balance (in parenthesis: balance includes employer contributions to social security)

* All data from Mourre, op. cit., tables A-G, pp. 51, 54.

It is not easy to interpret these results. The main reason for the difficulty is their inconclusiveness. If we hold family size constant, we can claim that there is a redistribution of income from the richest to the poorest, albeit very little. Thus, for each family size, a household with an annual income of 50,000 francs receives a smaller absolute amount of transfers than a household with the income of 6,000 francs.

On the other hand, if we take, for example, the category households with one child, all income levels pay in more than they get out. But the highest income level is paying in a smaller percentage of its income than any other level. In that sense it is regressive. The same is true for all levels of single person households, and childless couples. It is also true for all but the very lowest income level of the category two child households.

But the true nature of the system only becomes apparent when one begins to compare across family sizes. We see, for example, that a couple with two children and an annual revenue of 50,000 francs receives bigger absolute amounts of transfer payments than a couple with one child and an income of 6,000 francs per year. This can mean only one thing: that the horizontal redistribution, that is redistribution which transfers resources from smaller families to larger families, is much stronger in the system than the vertical redistribution of income, that is from the richer to the poorer.⁸⁹

⁸⁹The horizontal redistribution effect of family allowances is compounded by the regressive vertical distribution of health insurance. Here, the pattern is extremely clear: the higher the income, the higher the absolute amount of health insurance transfers (even if the relative amount is declining). This finding is corroborated by a wealth of studies and even by official data. The table below shows health expenditures by socioprofessional category in 1967.*

- <u>cadres superieurs</u>	1633 francs (724 francs for pharmaceuticals)
- <u>cadres moyens</u>	1319 francs (502 francs for pharmaceuticals)

The Left and the Reform of Social Security

If we shift discussion of the social security system into the terms of compensation and assistance, even a cursory analysis of its distributional effects provides powerful justification for major reforms to make the system favor the needs of the disadvantaged. And once that shift is made -- a shift that assumes away the big question -- the normal politics explanation of the positions of the various competing groups has a solid ring of realism to it.

From this perspective, the government's reform efforts appear to be laudable in terms of "equity" as well as understandable in terms of "efficiency." One can also easily understand that the CGC -- the white collar union -- staunchly defends the status quo against efforts to use social security for vertical income redistribution. After all, they hardly ever miss an opportunity to take a stand against equalization of revenues, whether through wages or through transfers. Similarly, one is not surprised to find the UNAF -- the Union Nationale des Allocations Familiales -- the organized arm of the family lobby, coming out vigorously against the introduction of means testing. Means-testing would threaten the whole rationale of family allowances, the benefits of its constituents and the existence of the Union Nationale. It is a bit more difficult,

- <u>agriculteurs</u>	940 francs (444 francs) - the average
- <u>employés</u>	935 francs (463 francs)
- <u>ouvriers</u>	866 francs (396 francs)
- <u>inactifs</u>	811 francs (456 francs)
- <u>professions</u> independantes	768 francs (374 francs)

* In Tableaux: Santé et Sécurité Sociale, 1970-71, p. 380. For similar findings more extensively discussed, see C. Michel La Consommation Médicale des Français, Documentation Française, 1969.

however, to explain the opposition of the left wing unions such as the CFDT and the CGT to the "most disadvantaged first" thrust of the proposed reforms -- but only a bit. Within a normal politics framework one explains their behavior as traditional interest group activity despite their class politics rhetoric. Thus, one accuses them of either the higher cynicism or the lesser cynicism. The higher cynicism indictment would hold that they are really rather like American labor unions -- interested overwhelmingly in the interests of their membership "organized labor" -- and not in the welfare of any underclass. Were this the case, their opposition to the social security reforms would need no further explanation, just documentation to show a consistent pattern of behavior. The second alternative, the lesser cynicism, finds that the labor unions do try to represent, as they claim, a working class movement and not just "organized labor." But the exigencies of day-to-day politics -- especially the need to make and hold political alliances -- forces them to this "anti-progressive" position. This force -- the logic of their role in a political system and not their ideological claims, however sincere -- becomes the primary determinant of their behavior. There is much to recommend this interpretation; it explains a good deal, convincingly.

Certainly the labor unions' opposition is motivated by the demands of day-to-day politics. The left wing unions are associated, more or less formally, with the left-wing political opposition to the present regime: the CGT, the largest union, very strongly and closely with the Communist Party; the CFDT, more loosely and informally, with the non-communist but radical left. The unions are rivals: they compete for membership and for influence. But they are also allies; they must act together if any successful labor action is to succeed. And they are close allies at the

political level in an ever tenuous united left coalition which aims at assembling an electoral majority: over 50%. In the last election the left coalition got 49.3% of the vote! The electoral route to power means that divisiveness must be avoided. The left is painfully aware of the growing importance of white collar workers in the work force and of their even greater importance in the electorate: the four million foreigners, unofficially estimated to be working in France at blue collar or menial service jobs do not vote. Traditionally very solidly based in blue collar workers and voters, the Left must enlarge its constituency if it is to conserve its power and conquer new leverage. But white collar workers are better paid, and they also frequently benefit from complementary social insurance schemes assessed on that portion of wages above the social security ceiling. To press for greater progressivity in the social security system risks antagonizing this much sought-after constituency. Thus normal politics has its own dictates which the unions must follow.

The CGT tries especially hard to attract white collar workers, in line with the Communist Party's strategy of unifying all working people against the domination of monopoly capital. Sometimes their willingness to please white collar workers carries them amazingly far. Thus, the UGIC, the small white collar union affiliated with the CGT, asserts that the reduction of wage differentials will not improve the fate of disadvantaged categories. Instead, "any real salary improvement can only be made at the expense of capitalist profits, and for the public and nationalized sector, by reducing massive and unproductive state expenditures such as the nuclear striking force."⁹⁰

⁹⁰Le Monde, 7 December 1966. For a simple presentation of the CGT's position, see CGT, Courrier Confederal, No. 310, December 1971 and No. 333, May, 1972.

Given their need for a unifying, rather than a divisive strategy, it is much wiser to emphasize the need to extend the system, than to dwell upon the modalities of reducing benefits. They demand larger benefits: pensions at 60, better health protection, bigger family allowances, greater influence for working people in the decision making process of social security. And these larger benefits are for everyone -- including the disadvantaged. They find no need to reduce workers' benefits or to increase their "contributions" in order to finance these extended benefits, let alone to maintain present benefit levels. For them there is no financial crisis in social security. Better benefits should be paid not out of workers' wages, but rather out of monopoly profits, out of the massive public spending that is undertaken purely to support those profits, and out of undue charges which create the illusion of deficit and provide the government with a pretext for trying to steal back what the working people won through struggle and for trying to divide the left.

There is nothing false in this normal politics interpretation of the Left's position, and certainly the factors it illuminates cannot be ignored in any solid analysis of the problem. Only it is incomplete, and an incomplete analysis is a distorted analysis. Its partial, though solid truths, do not lead to an understanding of what the whole battle over social security is all about. It fails to elucidate the more fundamental basis for the labor unions opposition or for the economic rationalizers' persistent initiatives. It even fails to explain such concrete anomalies as the government's willingness to pay so high a price to reform the *salaire unique*.

The unions consider the present regime as their adversary, as basically inimical to their interests, the interests of the working class.

They disagree with its neo-liberal philosophy, of which the social security reforms are just one faithful expression. And they a priori distrust its actions. But beyond their instinctive distrust of the present regime, and the tactical necessities of alliance with the white collar workers, there looms a more profound disagreement.

The unions do not perceive the problems in government terms. They do not see social security as an either/or dilemma: either the disadvantaged or the middle class. There is no industrial imperative for them. Nor is there a prejudice against expanding the public sector or increasing "fiscal pressures." Nationalizations and socializations are not only perfectly acceptable to them, they are desirable. There is, for them, no reason why social security should not be able to provide higher benefits for its contributors and their families. The justice in the system should be reestablished not by cutting benefits for those better off, but by increasing benefits for all -- and by financing those new benefits out of profits or out of the vast sums the state spends trying to shore up an irrational economic system, and not out of the wages of the worker. As for the health sector and the health industry, they should be socialized. There are some differences as to the extent of the socialization. Both unions favor nationalization of the high profit, high price pharmaceutical industry, but they diverge on their strategy towards doctors. The CFDT advocates far-reaching reforms, in particular the suppression of the principle that doctors should be paid per medical act, which for supporters of liberal medicine represents the keystone of the present system. Following its United Front line, the CGT is more conservative here.

The unions view social security and income redistribution as two different problems. It is not the role of social security to compensate

for inequalities of income generated by the present irrational allocation system; it should not have to pick up the human debris of the system's creative destruction. These "problems" derive from the allocation system and should be handled at that level. The best place to start is with the fiscal system. It is through higher taxes, especially on capital gains and unearned incomes, that major inequalities should be corrected.

The problem of distribution is that of redistributing from capital to labor, not from workers' wages to the poor. The problem of public spending is its inhumane irrationality: to stop spending the ever growing amounts of money needed to keep the neo-capitalist system afloat and to spend that money on the needs of the system's victims. Monopoly capital must be made to pay the full social costs of its activity. This is the form of redistribution that they are willing to accept through social security reform, yes! But what to reform first is a big -- perhaps the big -- political question, one that theorists of normal politics do not seem to address.

The unions reject not only the government's concrete proposals, but also the vision of social security they feel sustains those proposals. For them the issue does not concern giving a little more to the poor and a little less to the middle. The reforms are not about marginal adjustments: they are about structural changes. They are about changing the organizing principles of social security from *solidarité* to assistance, and this they reject. Assistance means means-testing of some kind, and that implies a loss of dignity; it means abandoning a right for a dole. It can also mean long-term reductions in benefits to workers by opening the gates to skillful manipulation of indices and ceilings by creating more and more categories and granting increases to some categories and

not to others until the coalition supporting benefits is shattered. Most important, means-testing is invidious: it means pitting the disadvantaged against the workers, the workers against the white collars, the better off workers against the worse off, and so on through splintering differences. Indeed, this is the critical problem for the unions -- and the big attraction of the system, as the unions see it, for the government. It could splinter the united movement of working people against capital, and divert it into factional squabbles among working people for the crumbs being dished out by the dole. The specter of the American welfare backlash reinforces their misgivings about assistance and means-testing. To the unions, means-testing represents a big step towards the end of the Left.

Conclusion

The complex history of efforts to reform social security is not a drift course within the confines of normal politics, but rather a slow development towards fundamental reform. Within the tangle of budgetary compromise and the feverish but stalemated motion of normal politics, we can see one marginal change that is unlikely to remain marginal: it is the thin end of the wedge of structural change. The important methodological problem is to be able to see why some changes stay marginal and others grow to be structural. Normal politics is unable to aid that critical determination. Though it focuses on movement, it cannot deal with change.

We have already examined the forces shaping that structural change and discussed its substantive character. The permacrisis of social security is the result of the impasse between the imperatives of the economic system and the necessities of the political system which mediates economically imperative reform. It is a transient state. The social

security spending curve cannot continue along the same trajectory. Some kind of structural change -- either in social security or in the general orientation of the economy -- is necessary.

The long-run functional objective of reform is to make social security better serve the ends of the newly modernized economy, to "rationalize" it. In ideological terms the goal is to shift from solidarity to assistance and compensation. The chief instrument is means-testing.

From the economic rationalizer's view, the ultimate integration of social security into the logic of the neo-capitalist economy is to means-test all social payments. The force of social security spending would then be directed at compensating for failures of the allocation system. In that way it serves the rationality objective of helping the neo-capitalist economy to run ever faster. It also serves the equity objective of helping those who most need help. And it meets the efficiency criterion of achieving those ends with the greatest pay-off per buck (or per franc), while at the same time providing the extra bonus of serving to divide the working class.

The path towards this end will be long and difficult. Small victories must be won and accumulated, and there is the ever present risk of big defeats -- such as the sustained crisis that began in the depression and ended in 1947 which first established social security, or the smaller crisis of May '68 which reversed many of the 1967 reforms. Nothing is sure. But precedents can be accumulated. First is the ideological level: cultural hegemony must be won. Means-testing must gain legitimacy and familiarity. Hence the importance of the salaire unique victory. Then, one at a time, others can be added to the list; aids to the

handicapped are now on the agenda along with housing allowances. Conquests must be made a step at a time, but that does not mean that they are made mindlessly: the gains accumulate. No conspiracy is needed to generate the consistent long-range strategy: that is the function of the logic of a form of development; how well the strategy is pursued is the measure of the ability of those leading the economy along its development path.

Normal politics will continue to dominate the day-to-day scene. The stalemate will continue; a focus on the dynamic of structural change does not imply visions of imminent catastrophe or impossible pressures. Some pressures on the system might even relent. As almost everyone is now in the system, there will be no new influx to accommodate; one major source of growth in the past is thereby eliminated for the future. Demographic pressures might also relent. The birth rate is falling suddenly, and the post-war baby boom is now entering the labor force. The proportion of the population in the labor force will likely rise before it again shrinks. On the other hand, some pressures might intensify. Unemployment benefits which until now have been trivial⁹¹ might rise hitting the financial equilibrium from both ends by dramatically increasing the outgo while simultaneously cutting the income. Similarly, the large number of foreign workers (somewhere between 2-1/2 and 4 million) might shrink, and that might increase the financial pressure on the system.⁹² Social security will not suddenly explode and be rebuilt from

⁹¹See page 9 above.

⁹²The role of foreign workers in social security and in the social transfers system in general is very complex, quite unexplored, and in many essentials, unprovable. All pay full social security taxes. All enjoy full coverage. That much is simple. Then the complexity begins. Their dependency ratio (dependents per worker) is much lower than that of the

scratch. The permacrisis will continue. And so will the conquest of structural reform. At some future date, an analyst will look back on the system and explain how the whole thing had become quite different -- quite naturally, quite imperceptably through the smooth sum of marginal movements and, perhaps, a few decisive environmental changes (population, etc.).

Along with means-testing (the ideal tool) comes the proliferation of complementary funds (both public and private). The growth of complementary funds, which take as their floor the social security ceiling, generates inequalities. By slicing the population into more categories and smaller groups (by income and by industry) it weakens the overall solidarity created by the general fund. The wedge cuts two ways: into the economic problem, but also into the political problem. It divides the political forces that have thus far blocked social security reform. It goes even further: in its own modest way it helps to splinter the left coalition in general.

If ultimately successful this strategy will bring about a dual system. One part will increasingly serve the poor, the crippled, the by-passed -- all those left out of the benefit stream of the new economy;

rest of the work force. Second, they are not permanent residents; it is expected that most will return home. Third, a web of special treaties between France and the supplier states defines their position vis-à-vis social security benefits -- and those treaties are still being made and amended. Finally, since very few, if any, have reached the age to qualify for old-age pensions -- and so many things can change before they do -- it is extremely imprudent to speculate on their long-term impact on the system. Even short-term impacts need very careful study. Several basic points would include: 1) the use of health insurance by relatively young foreign workers without families who fear losing their right to stay in the country if they stop working for very long, and 2) the arrangements actually in course for sending family allowances back home which vary from country to country and change from time to time. In the short-run it would seem that they pay-in more than they take out.

both the force of economic development and the stronger force of manipulating the ceiling on means-testing will isolate them as a distinct minority. The other part will be a set of funds, both public and private, serving -- at carefully differentiated rates -- those in the mainstream of the economy.

French has no word for "policy analysis." What you see depends upon how you look at things, on your approach, or method, or as one too often hears, "your methodology." Normal politics traces the drift course of budgeting within the permacrisis. It spotlights the marginal adjustments that come about through the complex interactions of competing interests resulting in compromise which creates stop-gap which leads to further and more complex compromise. It is all reminiscent of classical economics with its fixation on marginal price competition generating marginal adjustments which oscillate around an equilibrium path. The resemblance is not purely coincidental.

The alternative view presented here provides a different understanding. Movement through the permacrisis is not a drift course. It leads to change, and not by the simple accumulation of marginal gains. It shapes the permacrisis into a real crisis, into structural, not marginal change. The marginal budgetary movements keep score for the game of competing interests; they are real, important and quotidian. But if we may continue our analogy to economics, they give as distorted a picture of political reality -- especially the crucial element political change -- as do marginal movements among competing corner grocery stores when a supermarket moves in. To use Schumpeter's phrase, "the powerful lever is made of other stuff."