July 25th, 2000

N° 2000 - 07

THE FRENCH WELFARE

An institutional and historical analysis in European perspective

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Paper prepared for the conference "***The role of private and Public sector in the Social Security System***" organized by Shuzo Nishimura and Toshiaki Tachibanaki, Kyoto University, Japan, August 28-29, 2000.

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Abstract

The paper proposes a theoretical investigation of the impact of welfare on the growth regimes, inspired by new growth theory and recent advances in institutional analysis. It shows the complementarity of Welfare State with the Fordist growth pattern and discusses the reasons of the "Welfare State crisis" (technological change, globalization, shift in political alliances, or alarmist discourses on the inefficiency of social security), against the evidence brought by systematic international comparisons. The French welfare system appears less statist than paritarist, i.e. jointly managed by firms and unions. This historical pattern explains many contemporary features (the large bulk of the financing by the firms, the segmentation of the regimes, the absence of a tax or social contribution revolts from the citizens) and the move towards an hybridization of a basic Bismarckian financing system along with some Beveridgian principles. Recent evolutions do not point out towards privatization but on the contrary the State has implemented a form of health care planning and created a new social tax in order to sustain an unabated demand for welfare. The paper provides too a taxonomy for contemporary Welfare State, a series of scenarios, both for France and European countries.

La couverture sociale en France : une analyse institutionnelle et historique en perspective européenne.

Robert BOYER

Résumé

Un système de couverture sociale n'affecte pas seulement la formation des coûts dans un modèle de court terme mais peut aussi contribuer au régime de croissance, conformément aux enseignements de la croissance endogène et des analyses institutionnalistes. Sont discutées les sources de l'érosion de la complémentarité avec le régime de croissance fordiste (changement technique, internationalisation, changement des alliances politiques et impact du discours sur la crise de la couverture sociale) à la lumière de comparaisons internationales. Finalement le système français est moins étatiste que paritaire. Ce trait explique la plupart des spécificités contemporaines (importance du financement par les firmes, segmentation des régimes, ou encore absence de révolte fiscale), comme le mouvement d'hybridation entre un système de financement initialement bismarckien et des réformes d'inspiration beveridgienne. Les évolutions récentes n'indiquent pas un mouvement vers la privatisation puisque l'Etat institue au contraire une forme de planification du système de santé et crée la CSG pour répondre à la croissance de la demande de couverture sociale. Sont aussi proposés une taxonomie des systèmes contemporains ainsi que divers scénarios tant pour la France que pour les économies européennes.

Key Words : Welfare State taxonomy – International comparisons – History of French Welfare State – European integration – Social justice – New growth theory – "Régulation" theory.

Mots clés : Classification des systèmes de couverture sociale – Comparaisons internationales – Histoire du système français de couverture sociale – Intégration européenne –Justice Sociale – Théorie de la croissance endogène – Théorie de la Régulation.

J.E.L. Classification : B15 – H23 – H51 – H53 – H55 – I18 – I28 – I3 – O11 – 031.

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Synopsis

The paper first stresses the need for an adequate theoretical framework for assessing the impact of modern Welfare State. The typical competitive equilibrium approach is not satisfactory since it assumes perfect information and the absence of any externality. Thus, welfare is always a cost incurred for fulfilling the objective of social justice via redistribution. When a full account of the externalities associated to welfare is plugged into an endogenous growth theory type model, such components as education, health, minimum wage may have a long run positive impact on dynamic efficiency. This is not a purely theoretical possibility, since actually the configuration of Scandinavian countries shows that the dynamism of innovations may go along with an extended universal welfare coverage.

The history of modern Welfare Systems delivers quite interesting hypotheses and hints. The institutionalization of wage formation as well as the building of a complete welfare coverage have replaced the insurance traditionally provided by the family and enhanced the diffusion of mass consumption, via the reduction of income inequalities among wage earners. But in the early 70s, discussions about the crisis of the Welfare State point out the inability of the past configuration to cope with the strengthening of international competition and the emergence of new technologies and productive methods. Paradoxically, the empirical observations do not fully support this vision and one may consider along with Tony Atkinson that "*Calls by economists for rolling back the Welfare State are themselves part of the political process*". The conventional debate opposes the rigidity of a bureaucratic organization of welfare on one side to the flexibility and efficiency of market mechanisms on the other side, drastically over simplifies the difficulties in the management of complex social security systems that display contrasted configurations, combining in varied proportions firms centered welfare (Japan), market led logic (US), family solidarity (Southern Europe) and society wide solidarity organized by the State (Sweden). Thus the issue is not the choice between State and market but the ability of social partners and governments to reform the highly interdependent components of each National Welfare System, largely path and past dependent.

The specificity of the French case can then be made explicit and explained. The emergence of welfare does not derive from the perception of a series of market failures affecting health, education or labor, but it is the direct outcome of (sometime violent) social and political conflicts between wage earners and managers. Thus, the financing of the French system is largely Bismarckian, the firms traditionally assuming the large bulk of social welfare contributions, along with the workers themselves. The share of the burden varies according to the bargaining power observed within each historical period. Another consequence is that the welfare regimes are highly segmented according to the professions, the industries, the belonging to the private or public sectors. Consequently, even if the management of each separate social risk is bipartite, the State has to step in, in order to coordinate this complex system and organize society wide solidarity and so justify the conception of an unified "*Sécurité Sociale*".

The major extension of social transfers takes place between 1974 and 1983 and is not the outcome of an explicit strategy but the consequence of the unexpected growth slow-down, the built in inertia of welfare spending and its counter-cyclical role and a late perception by political elite that the epoch of a fast growth and easy financing of welfare was over. During the 90s, an unprecedented deficit calls for a series of marginal reforms and innovations, but the surprising result is that the share welfare in GDP is only stabilized. Since French citizens have proved to be ready to pay more taxes and accept income moderation as a counterpart of the permanence of the broad principles of social security. But given the large unemployment and the internationalization of firms, the financing is shifted from the social contribution by the firms to a general tax on income paid by households. Thus, the Bismarckian principles of insurance among wage earners are hybridized with a dose of Beveridgian society wide solidarity, via general taxation. The Europeanization of some benchmarking of the national employment and social policies is a factor that facilitates this transition. Furthermore, in order to comply with the Amsterdam Treaty, the government is held responsible for the total deficit of the public budget and social welfare and the Parliament has the new function to control the evolution of spending welfare. Hence the post WW II principle of "*paritarisme*", i.e. bilateral management by business and unions representatives is significantly challenged.

The configuration of the present French system is therefore significantly altered by a series of reforms initially perceived as marginal (new policy for the minimum wage (SMIC), creation of the equivalent of citizen income (RMI), and a new share of welfare funding between general taxation and social contribution (CSG)). But surprisingly enough, whereas the rhetoric of privatization of welfare is very present in the international debate, the French system does not seem to follow the British or American tracks. The more stringent conditions for the access to unemployment benefit has not prevented a dramatic surge of unemployment. The larger payment of health care costs by patients has not moderated so much the expenditures of the sickness regime. Paradoxically, since the 90s, some planning mechanisms have been implemented in order to try to curb down hospital costs as well as expenditures for doctors, even if they are now decentralized by region and try to promote some form of competition between health care suppliers. Clearly, the contemporary health care systems are so complex than they cannot be run according to the simple and unique logic, let it be public or private. The issue is about the design of a complex architecture of checks and balances between the insurers, the buyers, the health care providers and of course health care users themselves.

Finally the paper diagnoses three structural factors that are shaping the current transformations of the French welfare system. The diversification of employment contracts make more difficult an unified regulatory framework. The rise of information and communication technologies puts at the forefront the issue of a new educational divide. Furthermore the drastic changes affecting contemporary family (gender equality, more instability, single parent family, child poverty, the coexistence of four generations due to longer life expectancy) define new priorities for modern welfare systems. As far as France is concerned, the next new frontier for welfare strategy might well be the issue of a full and really implemented democratization of education, given the role that the level of education plays upon the ability to use efficiently the various components of the welfare.

A brief conclusion stresses the contradictory forces that will govern the redesign of the French configuration. What will be the exact balance between the re-nationalization of welfare policies in accordance with the subsidiarity principles and the consequences of the benchmarking of social policy at the European level? Will France stay any longer as an exception to the general trends towards privatization of pensions, specially if the existing pay-as-you-go system cannot be reformed? Last but not least, will "*refondation sociale*", i.e. the strategy of the business association and some wage earner unions to pull the State out of the conception and management of the unemployment insurance, succeed…or will the State be back in as a guardian of macroeconomic equilibrium and society wide solidarity? The future is somehow open.

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Robert BOYER

Contents

TABLES AND FIGURES

ANNEX

INTRODUCTION

The organization of welfare is again at the center of discussions among developed countries policy makers and manifests a striking paradox. US and UK that had been experiencing the more severe rolling back of their Welfare System are now concerned by the allocation of the budgetary surplus generated by the dynamism of growth and some politicians do propose to develop health care and education as well as general infrastructures, all items that had been severely neglected during the conservative backlash (The Economist, 2000a-b). By contrast, many continental European countries still have on top on their agenda the slimming down and rationalization of their highly developed Welfare System, that is frequently assumed to be the main culprit in the lagging adoption of Information and Communication Technologies (ICT).

This paper is devoted to the search for some explanations for such a contrast. Clearly, the contemporary Welfare Systems that have been developing themselves over more than a century have become highly complex and are difficult to capture and analyze within the very clear, but quite abstract model of pure and perfect competition. If one adopts naïvely such a framework, there is necessarily a trade off between social justice and economic efficiency. It is thus quite difficult to understand why social democratic countries such as Sweden have been able to work out a modern innovation system within the context of a highly developed universal welfare coverage. The first aim of this paper is to propose a rather simple framework but rich enough to capture the multifaceted impact of welfare and work out some configurations within which economic performance and social justice are not anymore necessarily contradictory. Borrowing to the endogenous growth theory, it is argued that Welfare Systems may introduce some short term inefficiency but simultaneously may trigger some endogenous innovations promoting dynamic efficiency.

The origin, nature and significance of the so-called *Welfare State crisis* can thus be investigated more efficiently, within an analysis complex enough to deliver either good socio-economic performance or poor achievements according to the evolution of some structural features of modern societies: the degree of internationalization, the shift in the technological system or the nature of political coalitions that had built and supported the constitution of Beveridgian or Bismarckian Welfare States. A second objective is to test these alternative hypotheses against the empirical evidence delivered by a comparison of the evolution of the Welfare States mainly in Europe, but with some references to North America and Japan. A more detailed analysis focuses upon the French experience, but the related configuration has no legitimacy for representing an *European model*, given the large and persisting diversity observed until the most recent years.

A third question can then be addressed: is the issue at stake the *privatization* of major components of the Welfare Systems such as health or pension? Or is it the introduction of *quasi market mechanisms* among a majority of non profit organizations that are actually delivering the vast bulk of welfare supply? Various pieces of empirical evidence are gathered and deliver a much more subtle message. The French case is quite enlightening indeed: conservative governments initially impressed by the British and American achievements in the redesign of Welfare States, are finally adopted a quite centralized and State led strategy in order to enhance efficiency without impairing so much social justice objectives. This is an opportunity to present a taxonomy about the respective role of the family, the large firms, society wide solidarity and ultimately market mechanisms in the design and the efficiency of contemporary Welfare States.

Finally, a more prospective approach tries to diagnose the major structural factors that are shaping the future of the French Welfare State. Again, the frequent hypothesis about the convergence towards a market led system is quite challenged by the analysis of continental Europe countries. Many contradictory factors are inter-playing: the re-nationalization of solidarity as a response to the Europeanization of monetary policy and competition; the impact of the social policies benchmarking instituted by the Luxembourg summit; the backlash of social partners against the taking of control of welfare reforms by the State. Not to forget the new social demands that originate from the deep transformations in gender equality, the nature of the family, the aging of many European populations. Of course, some powerful private actors are marketing a market approach to welfare, but it is only one of the forces operating and they might not have the same convincing power than in North America or United Kingdom.

A major conclusion of this essay is tentatively the following: the hybridization between Bismarckian financing systems based on wage earner solidarity, and Beveridgian ones, built upon society wide citizenship, is more likely than a strong and typical commodification of in health, pension, education, and family social security.

IN SEARCH FOR AN ANALYTICAL FRAMEWORK

The literature on Welfare State is split along a clear dividing line. On one side, the theoreticians, specially the economists, tend to refer to a perfectly organized society with full information and insurance and compare this ideal with actually existing Welfare States, of course highly imperfect. Consequently, there is a strong temptation to state that the existing Welfare State is the main cause of unemployment, poverty, and social exclusion that should not exist in the pure theory of a market economy governed by democratic principles. On the other side, the specialists of the domain do analyze carefully the inner working of each system, the diversity of the strategies of the actors involved and finally the variety of organizations observed all over the world with no clear and nor absolute superiority of any single configuration. Roughly speaking, each society finally inherit from a Welfare State that is coherent with its system of values, political organization and economic specialization.

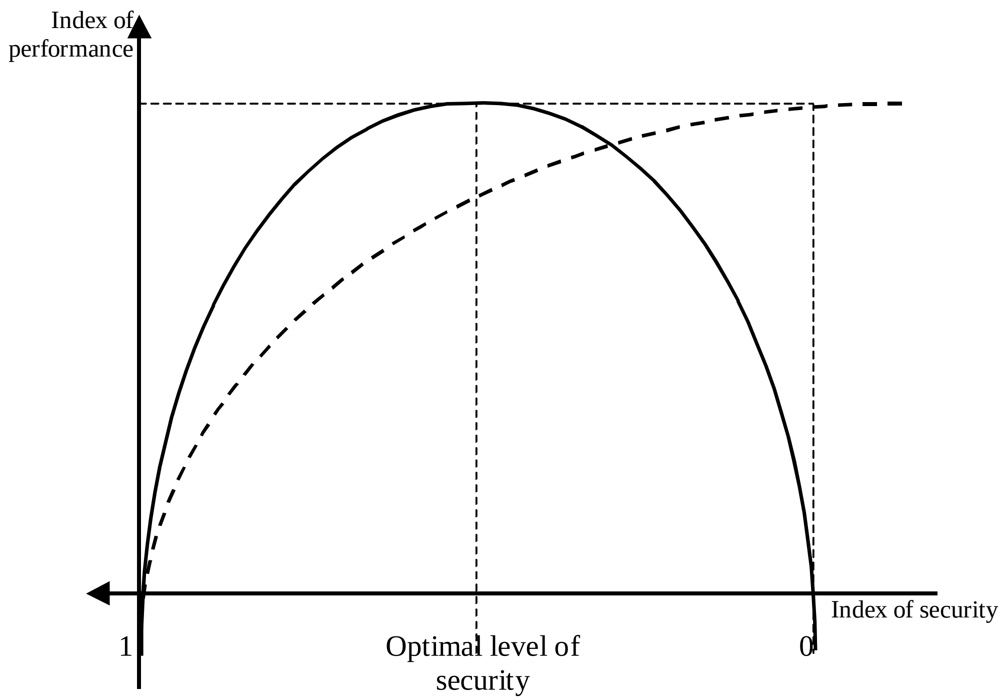
Actually few frameworks take into account both the theoretical and empirical size of Welfare System and analysis the long run impact of social security. By chance, the renewed interest for growth theory and the recent concern for institutional analysis entitles a third way, that this paper tries to follow.

The inadequacy of a pure competitive model in assessing the impact of the welfare state

After the second World War, the issue of social security used to be analyzed within a macroeconomic framework, put forward by the Keynesian breakthrough: in a sense, the

Beveridge plan was conceived as a complement to a full employment program. Nowadays the intellectual scheme governing economic policy decisions is strongly embedded into a micro economic analysis of the rational choice off agents facing a system of prices, incentives and uncertainties (Council of Economic Advisers, 1998). Thus, implicitly at least, Partial or General Equilibrium Theory is frequently used to assess the impact of the social benefits and collective coverage of risk typical of welfare. If one adopts the old microeconomic theory where information is perfect and no externality is existing, then ineluctably any Welfare System will introduce a distortion departing from a pure and perfect competition equilibrium, that is simultaneously a Pareto optimum. This is specially so if one considers some forms of collective control over employment or collective coverage of individual risk. Under this framework, any welfare measure is always costly in terms of economic efficiency: this trade off should be arbitrated by the democratic system, but the economist is clearly on the side of efficiency and efficacy. (Figure 1)..

FIGURE 1 – WHY THE COMPETITIVE EQUILIBRIUM THEORY IS NOT SUITED FOR ASSESSING THE IMPACT OF THE SECURITY BROUGHT BY WELFARE SYSTEMS



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

The institutionalist view :

- Full security may be contradictory with the requirement of a capitalist economy.
- No security at all may create instability in the employment relation and institutional equilibrium.
- In between, some security may be optimum for economic performance as well as for welfare.

Such an approach is largely unsatisfactory and in some instances erroneous. First of all, modern economic theory does not confirm the generality of the convergence of a "tâtonnement" process toward an equilibrium. It has been argued convincingly that the two welfare theorems actually relate to a perfectly planned economy and not at all a fully decentralized market economy (Benassy, 1982). If then information is made imperfect and the economy submitted to stochastic disturbances, it has been proved that a fully rational economic agent who would react instantaneously to the price signals exhibited by the market would be worse off than a prudent agent that would adjust its strategy smoothly (Heiner, 1988). Of course, not adjusting at all would lead quasi certainly to the bankruptcy of the agent: the maximum speed of adjustment is not optimum any more. This is a first and quite general rationale for the inverse U shaped performance curve of figure 1.

Many other models suggest a similar result about the optimality of *an intermediate level of adjustment and of security*. For instance, a very simple multi-sectoral model describing income distribution and effective demand formation shows that the same inverse U-shaped curve is observed with respect to the speed of adjustment of employment to its (neo-classical) efficient level (Boyer, Mistral 1982). The reason is simple: that is gained at the micro level in terms of productive efficiency can be lost at the aggregate level by a negative impact upon effective demand. More general models inspired by modern classical theory put forward the role of the correction of various disequilibria (on the product market via the inventories, on the labor market via hiring and on the financial market via investment) in the convergence respectively towards a short term, medium term and finally long period equilibrium. Nevertheless, if the speed of reaction of the firms is too high, one observes a bifurcation point generating two equilibria. In between there is the equivalent of a crisis, in the sense of a brusque shift of one equilibrium to another (Dumenil, Lévy, 1993). Again, the maximum speed of adjustment is adverse to the economic performance and even to the existence of a market equilibrium. Such a property is finally very general and concerns too financial markets themselves: up to a threshold, too fast capital mobility in reaction to profit rate differentials may propitiate a period of fast growth and then an abrupt crisis. This pattern is explained by lack of productive diversity in order to cope with new type of disturbances or stochastic shocks (Eliasson, 1984).

These general results are specially important for the assessment of Welfare Systems since they basically deliver a form of insurance and a smoothing of adverse events. From a theoretical point of view they may (or may not…but this is an empirical issue) contribute to macroeconomic performance.

The need to take into account the externalities associated to Welfare Systems

The previous reasoning was questioning the hypothesis of full information in an uncertain world and was claiming that a form of insurance and smoothing of disturbances might improve macroeconomic performance. But there is a second justification for extended welfare and public intervention, i.e. the existence of positive or negative externalities that cannot be internalized via private insurance or incentives directed towards the private sector (WHO, 2000: 55). The argument can be developed, made more specific and closely stick to the various domains of social protection (Figure 2).

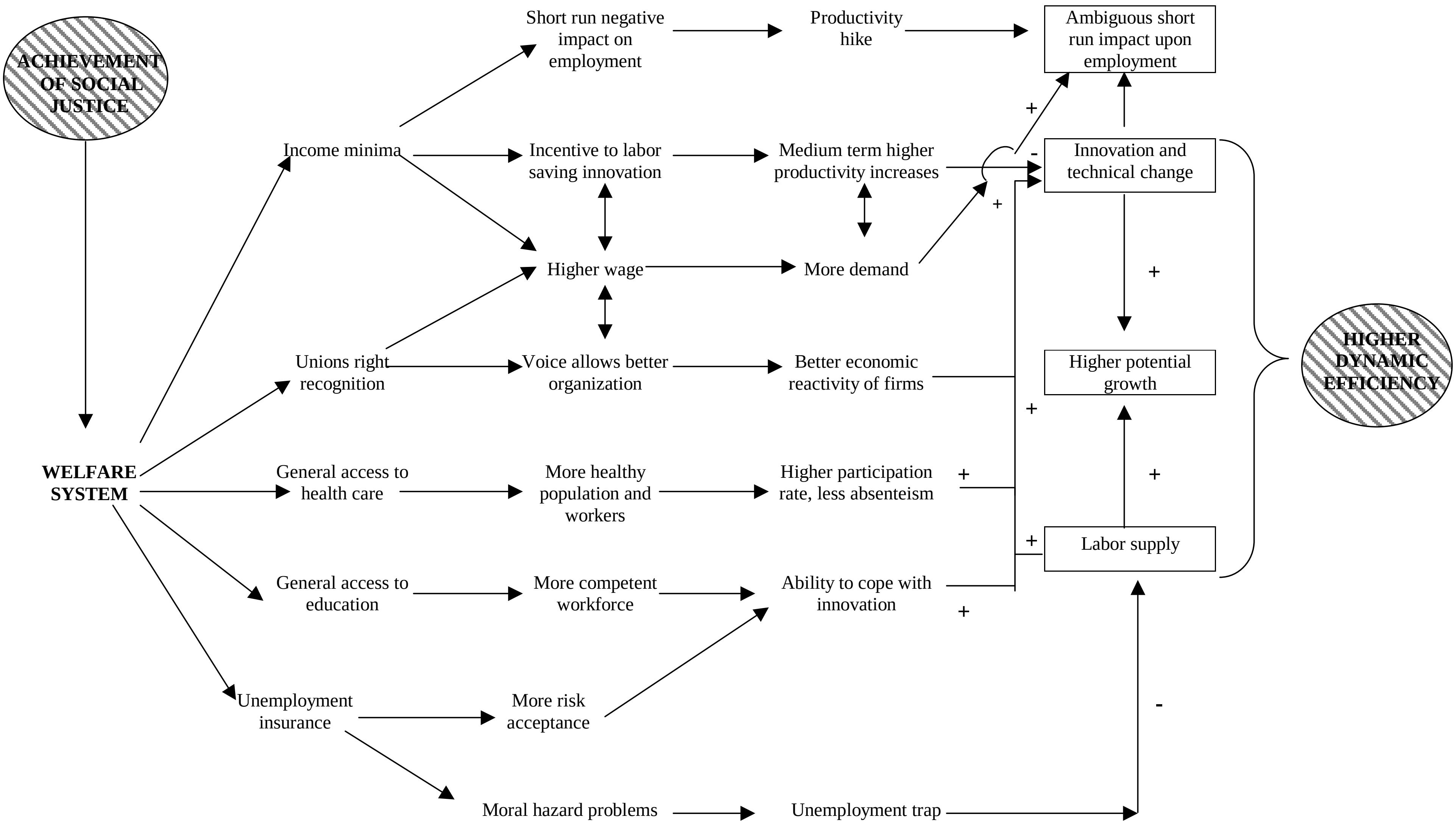
- Traditionally, public authorities may impose *minimum wage or income* in reaction to the adverse outcome of a pure market logic upon poverty and social inequalities. If the intervention is effective and the minimum wage binding, then conventional micro theory concludes that the less paid workers will be priced out of the market, provoking then unemployment. But it is only a partial equilibrium result since such a measure has a global impact upon the total wage bill, hence the level of effective demand. Have not recent careful studies concluded that the recent hikes in American minimum wage have finally benefited to employment, contrary to the expectation of a typical neo-classical analysis? This short medium term impact might be completed in the long run by the incentive that the absence of a downward flexibility of wage exerts upon the direction and intensity of labor saving innovations. On aggregate, the impact might be positive…and has actually been during the Golden Age (see next section).

- The collective rights granted to *unions* for representing workers and negotiate with firms have the same dual impact. On one side, a form of oligopolistic power is thus introduced into the functioning of labor market, that may create a negative effect upon the level of employment in compensation of higher wage. But on the other side, the voice given to representatives of the workers may enhance commitment and the ability to introduce new technologies or redesign the organization of the firm for the mutual benefit of the entrepreneurs and the workers (Freeman, Medoff, 1984). The German and Japanese configurations of the 80s gave a good image of this kind of complementarity between social rights and economic performance linked to the quality of product or the high productivity in the production of standardized goods, brought by “good” industrial relations.

- It is now more and more admitted, specially by the theoreticians of economic development (Chenery, Srinivasan, 1988) that the *level of health* is an important factor in the quality and size of labor supply and by extension the productivity of workers. Even for developed countries, the welfare gains associated to the extension of life expectation and the reduction of morbidity may have overcome the gains as they are measured by conventional national accounting methods (Foundation Albert and Mary Lasker, 2000). It is well known that significant externalities are operating within the health care sector (fight against infectious diseases, increasing returns to scale associated to vaccines and pharmaceutical research,….). Clearly, at the world level, the role of Welfare State in the provision of an adequate level of health care is more essential than ever (WHO, 2000).

- In the same spirit, *education* is more and more recognized as a key factor in endogenous technical change (Lucas, 1988; 1993) and in social stratification (Bénabou, 1996). The externalities are multifaceted: the educational system delivers higher competence of production workers, develops the ability to learn along the whole spectrum of the life cycle, detects and trains the innovators able to invent new products and processes and so on…. All these gains cannot be internalized by market mechanisms and it is why many educational systems are public or subsidized and that a minimum level of education is generally compulsory. Thus even if education is not formally included into the strict definition of a Welfare State, it is important to address this issuen quite relevant for the discussion of the role of public interventions in contemporary world.

FIGURE 2 – HOW (SOME) WELFARE EXPENDITURES MAY ENHANCE DYNAMIC EFFICIENCY



- *The unemployment insurance system* has also some impact upon the speed of adoption of technological and organizational change. Whereas most of the analysts focus upon the negative side of the social contribution associated to the payment of unemployment benefits, i.e. less employment, a medium long term view allows to introduce a positive factor: when workers are sure to be somehow compensated from the job destruction associated to technical change, the related restructuring is more easily accepted. Some European comparisons made during the early 80s, confirm this hint (Boyer, 1988) Conversely, when such a compensation is absent (in contemporary Russia (Touffut, 1999) for instance), the benefits from technical change are not clearly perceived by the workers, who tend to protect the existing technologies, closely associated to the conservation of their jobs. Thus macro solidarity is better than micro egoism for the diffusion of innovations.

According to this framework based on a realistic appraisal of information problems and externalities in decentralized economies, the achievement of more social justice is *not always* detrimental to economic efficiency. In some special cases, a synergy could emerge between a well designed Welfare State and the dynamism of innovations. A very simple model can be sketched in order to capture the core of the argument (Figure 3.A). Let us imagine that a tax is levied in order to finance a society wide training system. Two distinct effects are operating and should be considered simultaneously.

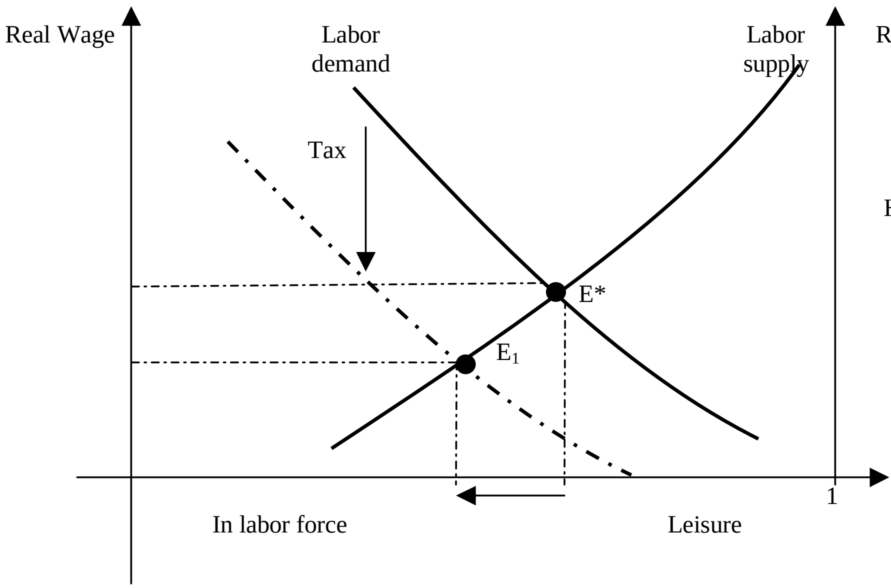
- Of course, the related *tax* has to be paid, for instance by the firms, and therefore their demand of labor is shifting *adversely*, in such a manner that in the short term the equilibrium real wage is lower therefore induces a shift from employment to leisure. Frequently, the reasoning stops here and the analysts conclude that the measure is finally counter productive: a society without Welfare State would deliver a better welfare for citizens, quite a paradox indeed !

- But, the social tax is not only a cost since it delivers a *benefit* and is supposed to contribute for instance to the financing of more *education and training*. Therefore, the productivity of the labor force is higher than it would be within an economy devoid of such a welfare system. Consequently, productive employment is lower but the fraction of the population that is on training increases at the long term equilibrium. Within an endogenous technical change model, total factor productivity increases are linearly linked to the stock of human capital. If so, the steady growth path is higher than previously and finally this compensates the lost of productive output during the first phase of implementation of the measure. Therefore, for a sufficiently low actualization rate, the economy finally benefits from the collective financing of more training and education.

To sum up, the contribution to social security may affect negatively the short run equilibrium but may induce decisions and investments that promote innovations and growth. Such a framework, even if relatively simple, allows a rigorous assessment of the pro and con of any component of the Welfare State, without concluding ex ante that it is always detrimental (this is the quasi general conclusion from typical neo-classical research) or always good (that is sometimes the propensity of the defenders of existing Welfare States). Consequently, the assessment of contemporary Welfare States is not a pure theoretical issue but above all a matter of careful empirical studies (Atkinson, 1999; Tachibanaki, 2000; achibanaki, Hiroshi, Kuroda, 2000).

FIGURE 3.A - A RECONCILIATION OF TWO OPPOSED VISIONS OF THE IMPACT OF WELFARE

A DISTURBANCE INTO PERFECT COMPETITIVE EQUILIBRIUM



Accordingly to the ***first vision***, welfare financing by a tax on firm reduces both real wage and employment…

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

A (POSSIBLE) CONTRIBUTION TO POSITIVE EXTERNALITIES WITHIN AN ENDOGENOUS GROWTH MODEL

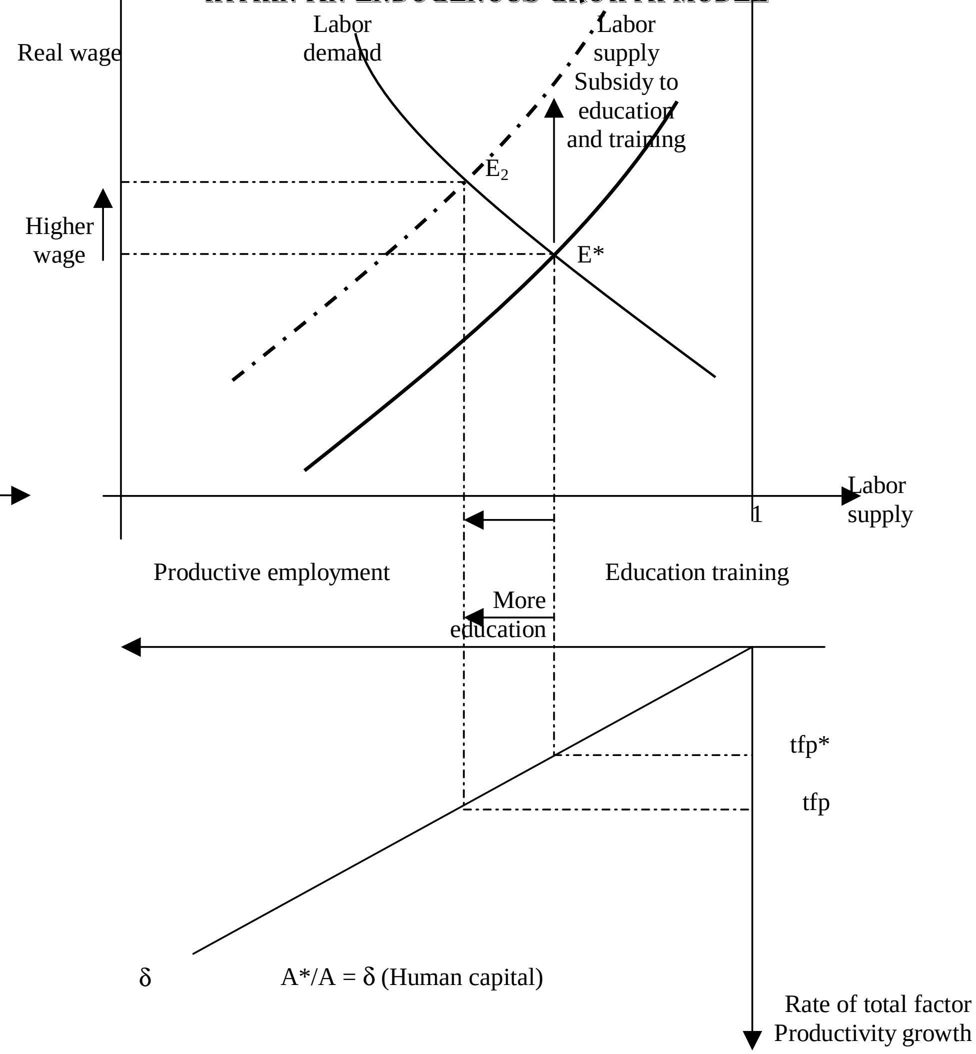
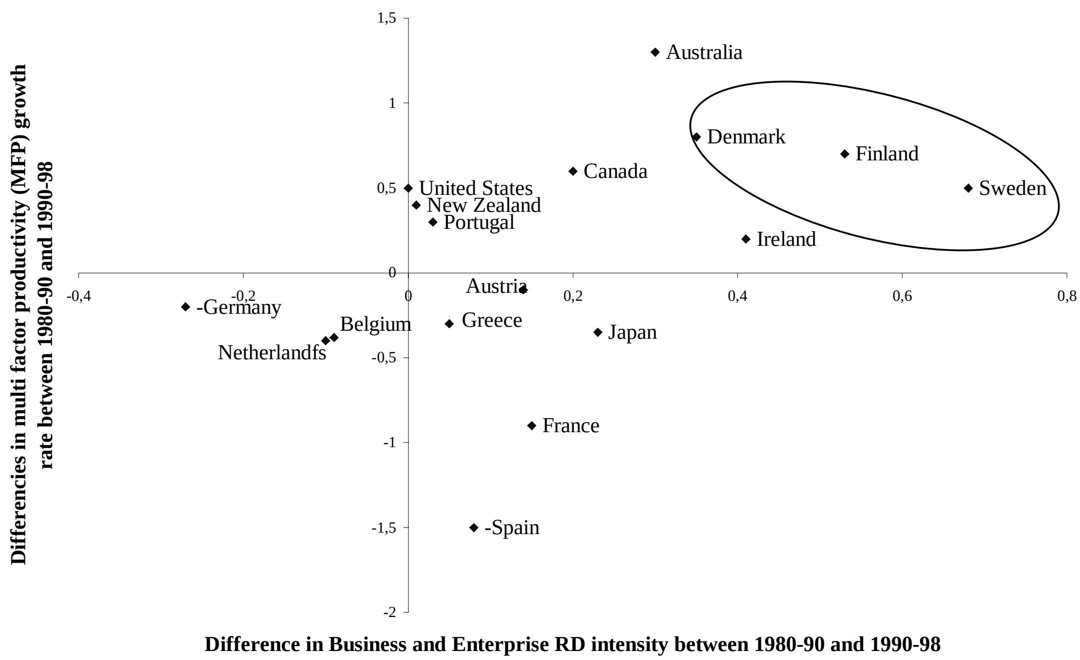


FIGURE 3.B – CHANGED IN MFP GROWTH AND CHANGE IN BUSINESS R&D INTENSITY



Source: Bassanini A., Scarpetta S., Visco I. (2000: 27)

It is out of the scope of the present paper to provide such an assessment. Its objective is far more modest: to deliver a survey of the literature according to this eclectic vision of the Welfare State. Let us provide a very crude evidence about the inadequacy of the conventional vision that puts forward only the costs and neither the benefits of Welfare Systems. One should expect that the economies with the most intensive redistribution via welfare should be lagging in terms of macroeconomic performance. Quite on the contrary, it is surprising to find out that the countries with the leaner welfare benefits are not necessarily at the forefront of technological innovation and that most of the small open economies with an extensive welfare have been faring quite well during the last decade (Denmark, Finland, Sweden,…), with total factor productivity increases rivaling with the so-admired American “New Economy” (Figure 3.B). The recent research undertaken the aegis of OECD in order to explain why do growth rates differ so much during the 90s has exhibited that these European economies are already operating under the virtuous circle that is assumed to be typical of a Knowledge Based Economy (KBE) (Bassani, Scarpetta, Visco, 2000; OCDE, 1999; Guellec, 2000).

But of course, the relationship between technical change and welfare is not that simple: it is not sufficient to spend a lot in health and education to ripe better benefits from RD expenditures (Figure 3.C). The synergy between these three components is a matter of *institutional complementarity* (Aoki, 2001), i.e. the adequacy of the constraints and opportunities associated to each of the two spheres the social systems of innovation (Amable, Barré, Boyer, 1997) and systems of social protection (Barbier, Théret, 2000). By the way, this synergy may change through time. Thus a short historical retrospect is required to understand the very specific sequencing of the discussions on the future of the Welfare State: highly accepted and diffusing during the Golden Age of fast growth, challenged, eroded and rationalized during the 80s and 90s.

FIGURE 4 – THE WELFARE SYSTEM AND THE EMERGENCE OF THE FORDIST GROWTH REGIME IN FRANCE

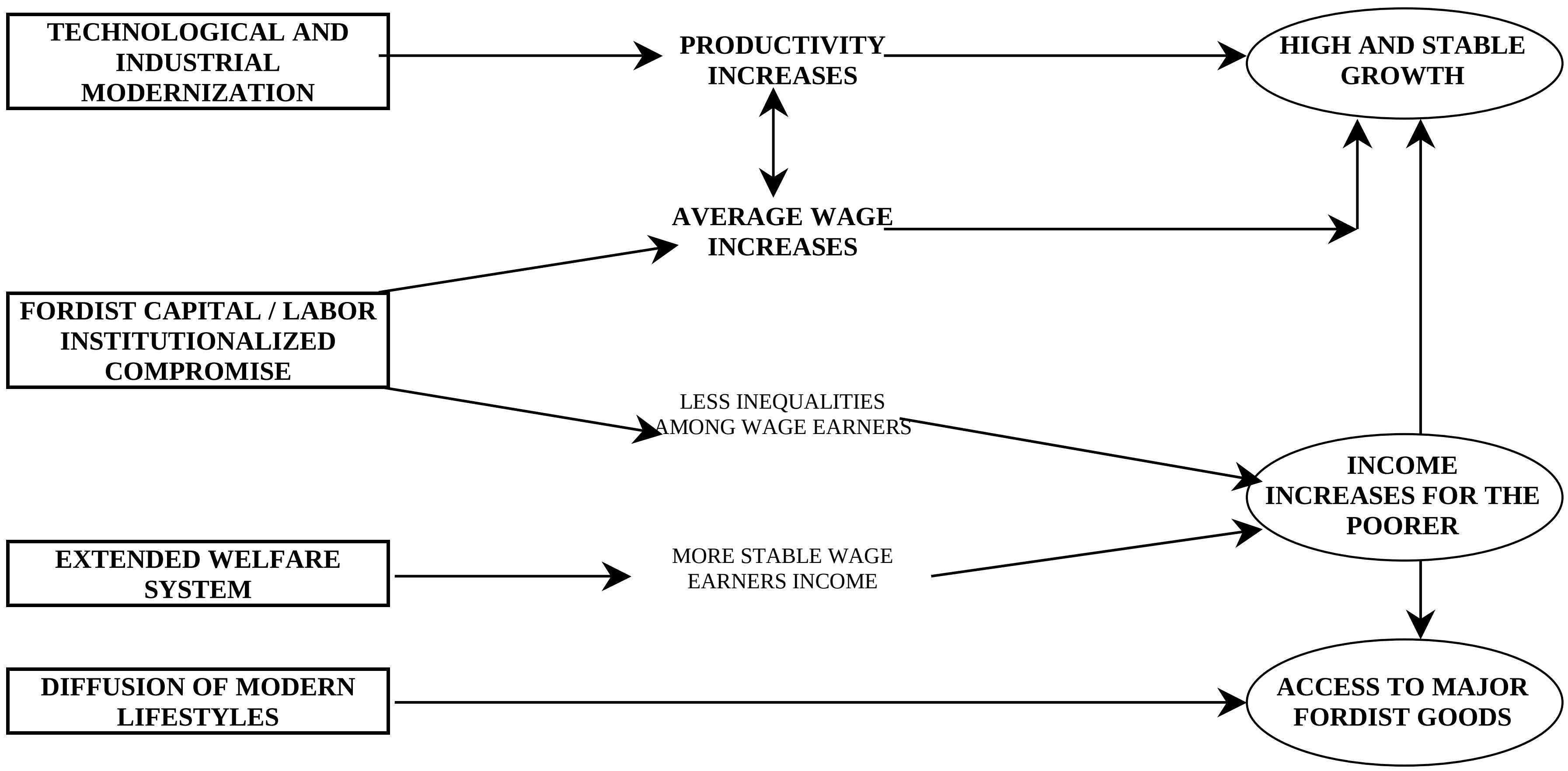


FIGURE 3.C - THE RELATIONSHIP BETWEEN TOTAL PUBLIC TRANSFERS (1995) AND MULTI FACTOR PRODUCTIVITY INCREASES (1990-1998)

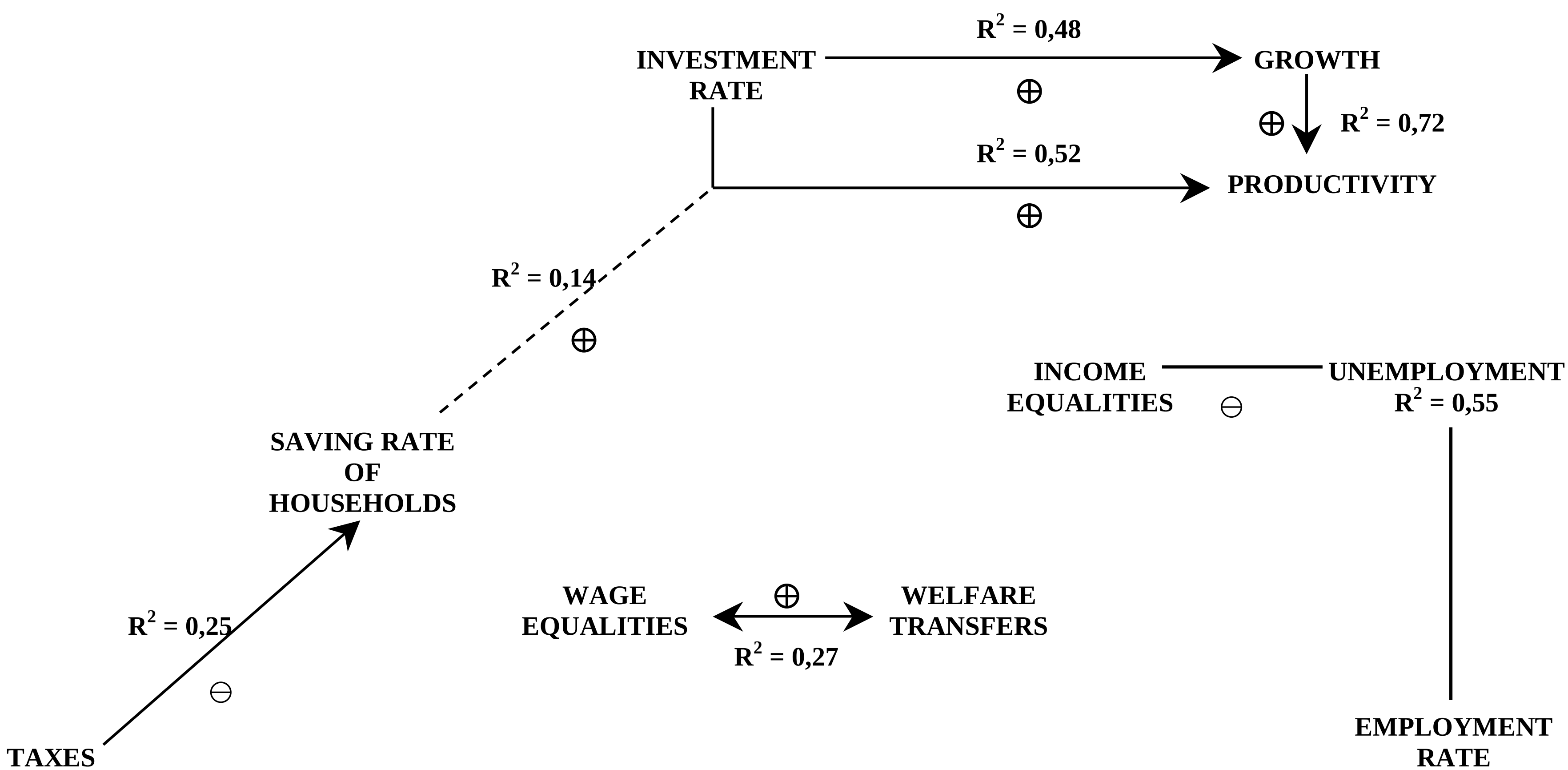
Source: Computed from OECD *Economic outlook*, December 1999, Statistical Appendix

Welfare Systems have been helpful, or at least not detrimental, to the growth performance of the Golden Age

The interpretation of the origins of the fast and rather stable growth observed from the early 50s until the mid-70s has fed a vast literature, the majority of which stresses the role of catching up of Europe and Japan with respect to the American productivity and life style standards. But this interpretation poses as automatic the catching-up process and neglects the fact that some countries such as United-Kingdom or Argentina, not to speak about the majority of poor countries, have been unable to initiate and follow such a modernization process. The "régulation" theory has been built in order to interpret both the changing pattern of development strategies across board historical periods, and the diversity of institutional architectures and "*régulation*" modes at a given period of time (Aglietta, 1982; Boyer, 1990; Boyer, Saillard, 2000). One major conclusion is that the Welfare State is the logical complement of the Fordist capital labor institutionalized compromise (Figure 4). Three mechanisms explain the unprecedently fast and stable growth.

- First of all, wage is no more a pure market determined variable but largely an *institutionalized* one via explicit procedures of cost of living adjustment (COLA) and a sharing of expected productivity increases. This is the major reason for the synchronization of mass production along with mass-consumption, that had been the missing link during the interwar period.

FIGURE 5 – BEFORE 1973: THE TRANSFERS ASSOCIATED TO WELFARE DO NOT HINDER NATIONAL GROWTH



Period : 1968-1973 – 17 OECD Countries

Source : Boyer R. (1991) Justice Sociale et performance économique, *Couverture Orange CEPREMAP*, n° 9135.

- From the 50s until the mid-70s, an *active minimum wage policy* is pursued thus reducing and then stabilizing wage earner income differentials. Given the common expectation by firms that real wage is bound to augment at the significant rate, innovations are directed toward labor saving devices in order to sustain both collective agreements and welfare requirements. Thus, even the poorer workers finally get access to the typical Fordist goods such as cars urban housing, electrical equipment.

- But there is a more *structural and essential role of welfare*. Whereas solidarity was still mainly warranted within the circle of an extended family in the early beginning of the 20th century, after the second World War, the drastic social changes provoked by the decay of traditional agriculture, the surge of industrialization and urbanization call for a collective coverage of the solidarity previously fulfilled within the orbit of the family. This allows the access to education, to health care, to a decent lodging, to old age pension that was previously nearly non existing for the vast majority of the workers. Simultaneously, women participation rate is increasing in line with the rise of the service economy and the subsidies provided by the special family regime of the welfare is helpful in promoting such a structural change in the relation between the economic and domestic spheres.

From a theoretical point of view, most of the components of the Welfare State were complementary to the Fordist growth regime. Thus far from being an impediment to growth, the constitution of an universal Welfare State seems to have been quite instrumental in the social acceptance of the drastic transformation of working and urban life that took place in the 50s (Boyer, 1991). Some simple statistical tests seem to confirm that during the period 1968-1973, i.e. the heyday of this regime, the investment rate was the key factor explaining growth and productivity differentials across OECD countries (Figure 5). The negative impact of social welfare contribution and taxes covering public expenditures seems to have been far milder than expected according to typical neo-classical models. At that period, income equality had a positive influence upon the reduction of unemployment. Last but not least, the intensity of welfare transfers was associated to a reduction in wage earners income inequalities. In other words, the development of Welfare Systems has *not been detrimental* to macroeconomic performance, quite on the contrary.

From a political and social point of view, it can be argued that these systems have been quite instrumental in the acceptation by workers of the post WW II regime, even if there is no direct correlation between the intensity of welfare transfers and productivity performance. A extended and recent review of the literature concludes that there is no clear evidence of any positive nor negative impact of the welfare on the major macroeconomic indexes such as growth or productivity (Atkinson, 2000: 21-53). The absence of any clearly defined link at the macroeconomic level is not necessarily a surprise since the specific organization of each welfare component plays a key role in the economic outcome, and this cannot be assessed by simply considering the total size of welfare expenditures.

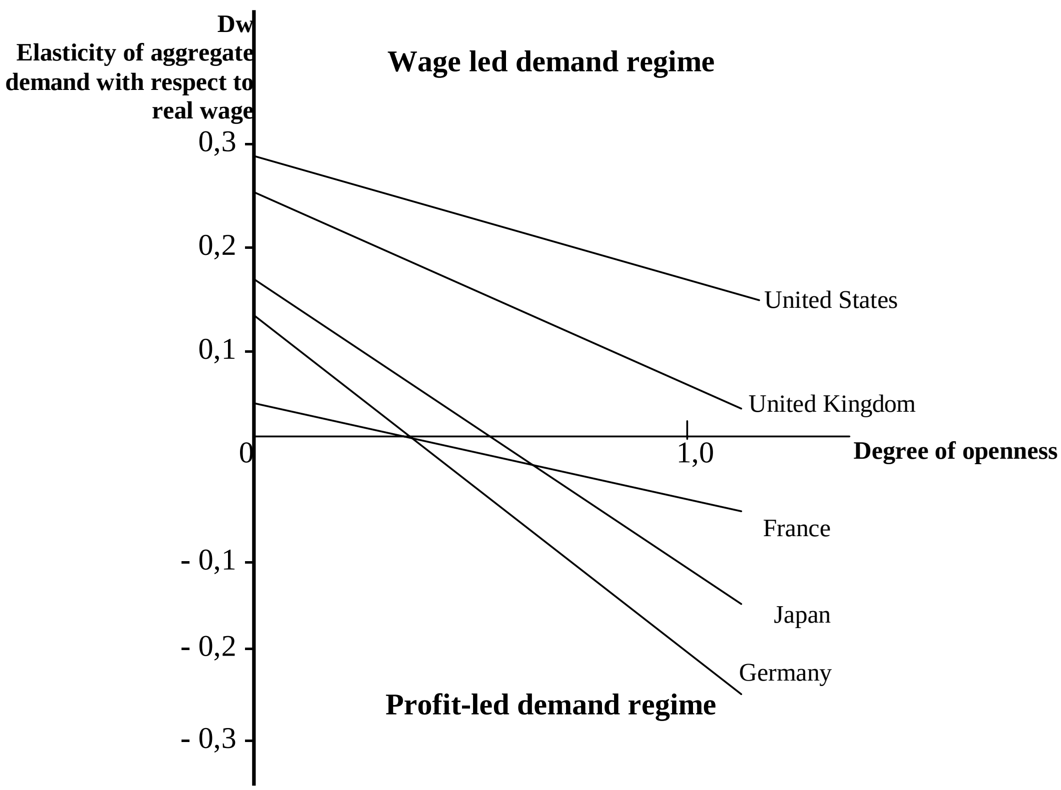
The crisis of modern Welfare State: the reality and the rhetoric

The challenge is then to explain why such a coherence between a technological paradigm, a macroeconomic regime and a Welfare System has been eroded or at least has lost the legitimacy that was observed across OECD countries until the early 70s. A vast literature has proposed many explanatory factors that range from structural irreversible transformations to the role of purely ideological debates, and the victory of conservative discourses (Mishra, 1986; Greve, 1996; Svallfors, Taylor-Gooby, 1999; Dixon, 1998). The contemporary socio-economic systems are so complex and closely integrated that it is hard to diagnose and disentangle the respective role of each of structural factors invoked by the literature. Nevertheless, some research inspired by regulationist and radical theories tend to challenge conventional wisdom.

International trade and Globalization?

One of the key feature of the Fordist regime was its organization largely within the domestic boundaries of moderately opened economies. But since the mid-60s, international trade has grown faster than domestic markets, as the result of the strategy of firms to find abroad the sources for prolonging the increasing returns to scale initially built upon the domestic market. Consequently, at the end of the 70s, many firms and governments have considered that real wage increases that used to stimulate domestic demand had now a negative impact upon competitiveness and external trade. Consequently, it is generally observed that wage moderation and correlatively the strategies for curbing down welfare expenditures have been undertaken in response to the internationalization of trade, and subsequently of production, investment and finance.

FIGURE 6 – THE ROLE OF INTERNATIONAL OPENNESS IN THE DEMAND REGIME FROM CONSUMPTION-LED TO EXPORT-LED



Source : S. BOWLES, R. BOYER (1990).

Such a widely accepted interpretation does not necessarily fit with some empirical studies that have estimated the consequence of the degree of openness upon the demand regime of some major OECD countries (Bowles, Boyer, 1990). On one side, it is clear that the opening of the economy is restricting the probability of a wage led regime i.e. the existence of a positive multiplier of aggregate total demand with respect to an exogenous real wage increase (Figure 6). But on the other side, actual estimations for the 80s, a crucial period in the so-called emerging crisis of the Welfare State, would suggest that even for France and Germany, the multiplier had not become significantly negative. Surprisingly enough given the strength of the conservative backlash against the Welfare State in these two countries, both the US and UK would still exhibit a wage led demand regime. Of course, the related econometric results are not necessarily robust…but other evidences (Figure 13.C, infra) suggest that the common vision that Welfare States have been strongly challenged by the pressures of foreign competition may be somehow *a simplification* of a much more complex set of interrelated factors. The diffusion and general acceptance that nowadays a competitiveness led regime is severely restricting the degree of freedom in the organization of the Welfare State should be questioned more frequently.

A productive paradigm shift?

The fate of all industrial revolutions has been to exhaust its impact and come to an end after two or three decades. This is precisely the trajectory followed by the mass production model typical of Fordism. The productivity slowdown is first observed in the US after 1967 and has been diffusing to the rest of the developed world after 1973 and no consensus explanation has yet emerged from the numerous research made by macroeconomists and econometricians. Nevertheless, it is clear that the drastic slowing down of labor and total productivity has had a negative impact upon the financing of the welfare regimes. After all the theme of the crisis of social solidarity comes first out of the observation of severe deficits, mainly caused by the slow-down of the tax and social contribution basis to welfare regimes.

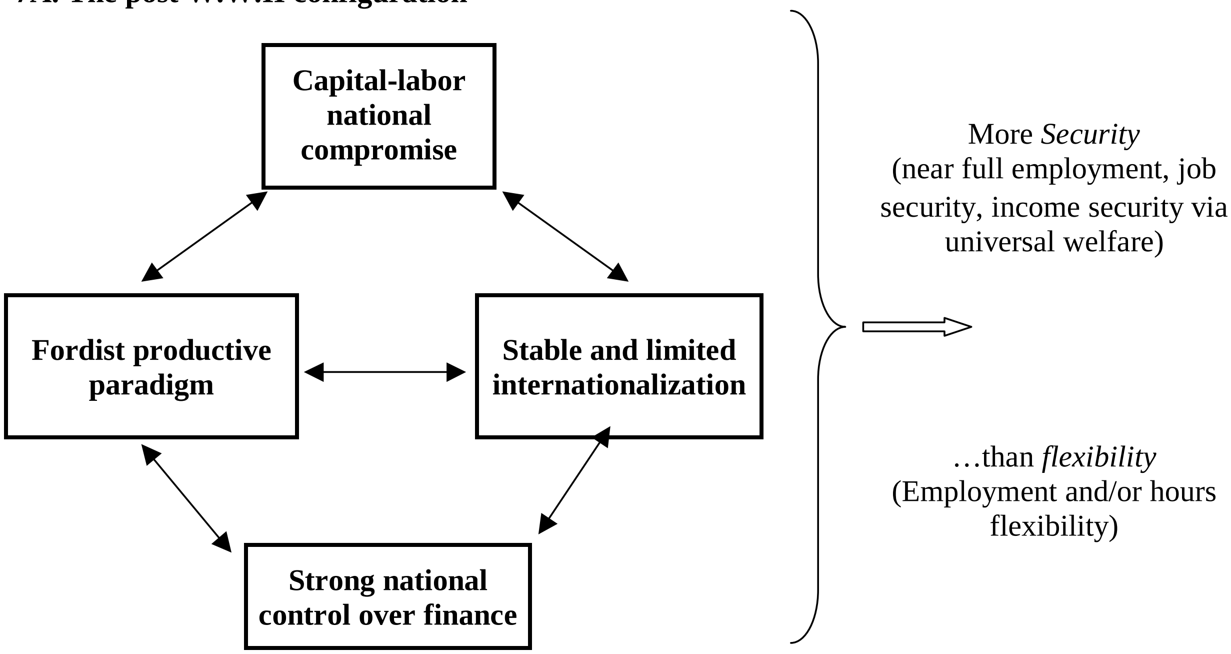
But there is a more structural analysis that stresses that the emerging productive paradigm, built upon the intensive use of ICT brings more individualized competence, i.e. the erosion of the relative homogeneity that was supposed to govern the previous Fordist division of labor. The weakening of the Welfare State would partially derive from the segmentation and new social stratification among wage earners (Figure 7). No doubt that this structural change has some impact in the difficulties encountered in the reform of Welfare States, specially when social partners are weak and unable to agree upon the redesign of the core principles of a social security adapted to the context of contemporary world. This is for example the case in France (see Figures 17 and 18 later). But again, the trajectory of some largely open social democratic countries suggests that the breaking down of welfare is not a fatality: well organized social partners may negotiate alternative principles and implement them (Esping-Andersen, 2000). Remember the good position of Finland, Denmark and Sweden in the use of ICT and the improvement of total factor productivity: they go along with significant reforms undertaken in order to cope with the economic crisis and the financial deficit of welfare.

A clear shift in political alliances, from pro labor to pro business governments.

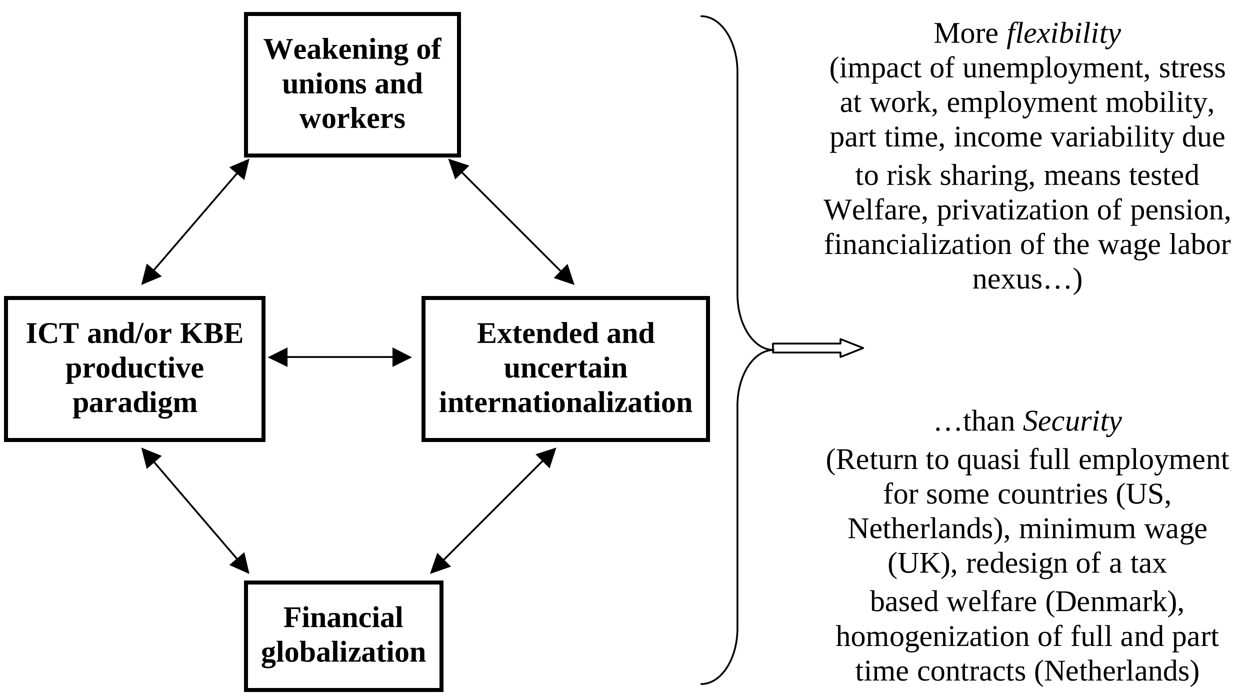
A third explanation is somehow neglected and relates to the functioning of the political system. It has to be remembered that any Welfare State is implemented by a political process, even if it leads to a move toward a market based supply of welfare services. Therefore, the political environment is crucial in understanding the contemporary transformations of social security. Basically, back in the 60s, most governments declared to be Keynesian and social democrats. This was the expression of a political coalition allying large firms, wage earners and a majority of citizens. Nowadays, the multinationals have allied with the international financial community and the core wage earners that support and sustain the competitiveness of the firm, but no more develp a solidarity with the majority of the domestic wage earners.

FIGURE 7 – THE FOUR FACTORS AFFECTING THE TRANSFORMATION OF WELFARE

7A. The post W.W.II configuration



7B. The early 2000s



Thus, a *Schumpeterian work* fare seems to have replaced the Keynesian - Beveridgian alliance (Jessop, 1996). Actually, most if not all State interventions are aiming at the structural competitiveness of the Nation via a light taxation of capital, incentives to RD, easy entrepreneurship and access to direct finance. Given the large unemployment that had been prevailing during the 80s, active employment policies promoting the access to a job (back to work seems to be the motto) have replaced the simple income maintenance of unemployed workers. This drastic political shift explains simultaneously three major evolutions of Welfare Systems: the relentless efforts to trim down the costs, the shift of the financial burden from firms to wage earners and finally the changes in the objective and the style of the welfare itself..

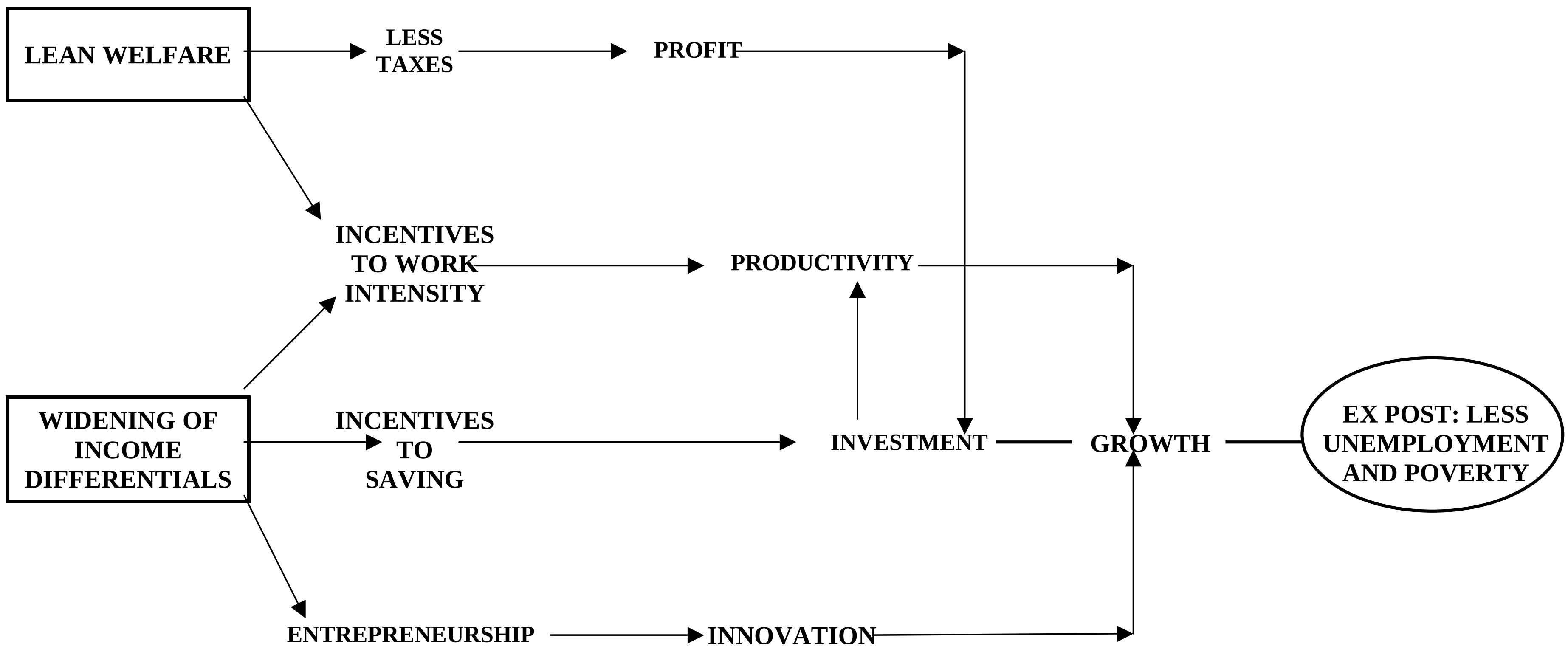
Basically, if any viable employment relation and welfare system should combine some zones of security in compensation of degrees of adaptation and flexibility, the last decade has experienced a general move toward more flexibility. Only few advances in terms of security have been observed, the more so the nearest full-employment and the reconstitution of some bargaining power by the unions and workers.

The crisis of welfare as a rhetorical device to reform the existing systems.

This shift of political alliances has been associated with new discourses about the coming welfare crisis and the alarms originating from intellectuals and think tanks. The long march of the *conservative think tanks* has aimed at challenging and replacing the Keynesian conceptions about macroeconomic stabilization policies on one side, at contesting the achievement of the Welfare State in terms of equality of opportunities on the other side (Dixon, 1998). Even political parties that used to represent workers have embarked into similar criticisms about the reasons of the obsolescence of contemporary Welfare Systems (Dixon, 2000). In a sense, the conservative rhetoric was digging into a long intellectual tradition that surfaced again at the end of the 70s in US and UK (Hirschmann, 1977). For instance, the threat brought by the aging of European and Japanese populations has been put forward quite early by intellectuals, sometimes linked to private insurance companies, in order to push to drastic reforms into the pay-as-you-go systems that still were operating rather or quite well (Béland, 2000).

Nolens volens, some neo-classical analyses that use a conventional partial equilibrium approach might have been instrumental in weakening the intellectual legitimacy of the welfare systems. The warning comes from one of the well known expert in taxation and welfare issues: “It may be that there has been a shift in the balance of administrative power with agencies acquiring greater power and civil servants less, or there may be reduced political influence exercised by pressures groups representing beneficiaries. The dynamics of the welfare state may have been fundamentally changed by the alarms raised about the feasibility of its continuance. *Calls by economists for rolling back the welfare state are themselves part of the political process*.” (Atkinson, 2000: 187).

FIGURE 8 – THE ANTI-EGALITARIAN PARADIGM SHIFT OF THE 1980'S



A new anti-egalitarian paradigm?

These intellectual efforts have finally worked out a new conventional wisdom about what is a good economic policy and what should be a fair and efficient welfare system. It is built upon the premise that *firms are the core institution of the society*, that entrepreneurs have in charge the engineering of technical change and that the opportunistic behavior of wage earners is a permanent threat to the viability of any Welfare State and the efficiency of present economic systems (Sellière, 2000). The suggested macroeconomic regime is at odds the past Fordist one (Figure 8).

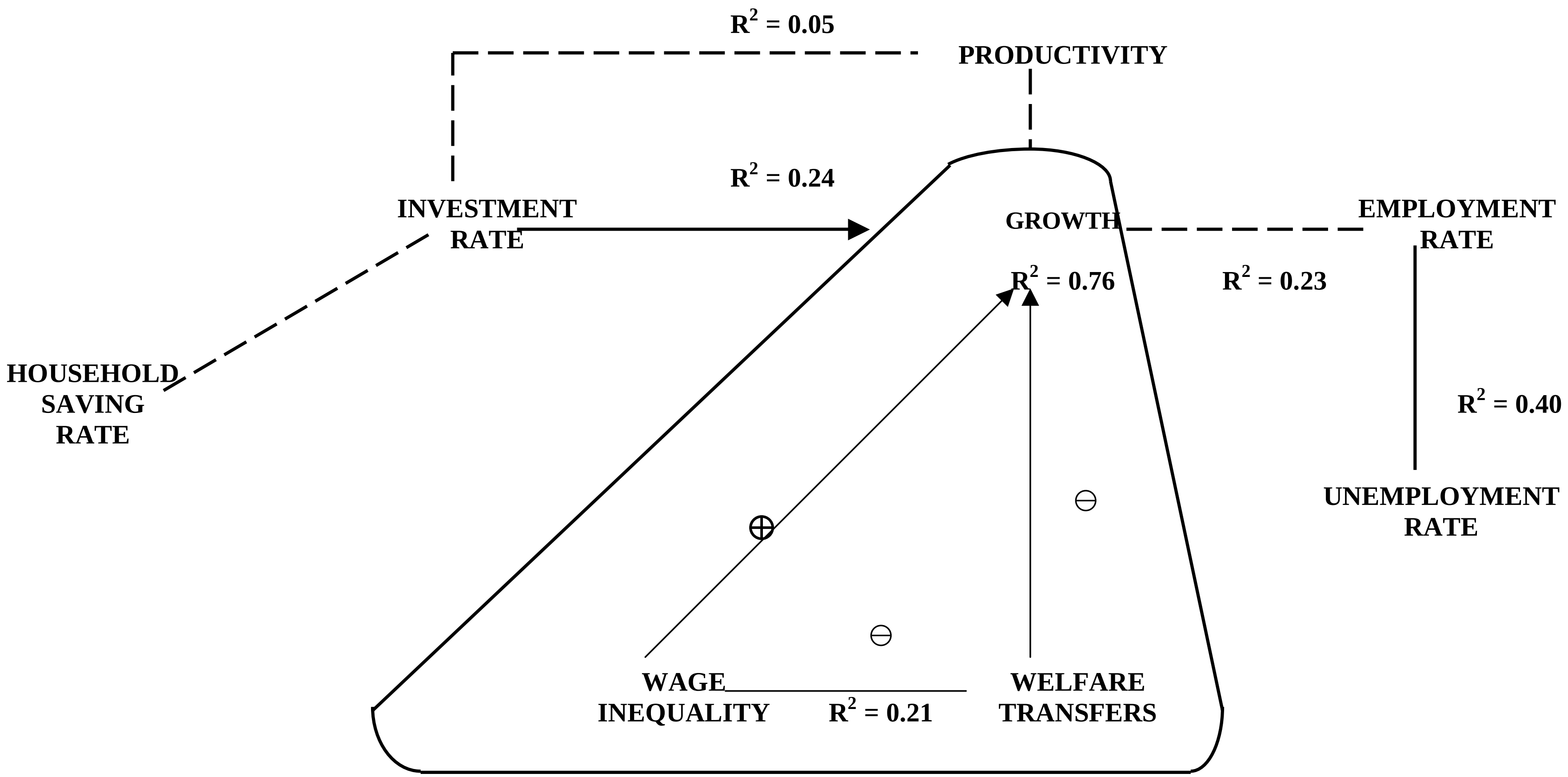
- The *welfare has to be lean* in order to alleviate the taxation of profit, sustain the income of the most innovative individuals and this maintain strong work incentives. Ideally any welfare compensation should be means tested and the control in the use of welfare funding very strict in order to curb down any opportunistic behavior. For instance has gained legitimacy the view that the complexity and inadequacy of the Welfare Systems themselves have generated poverty traps, that would be pure institutional artefacts.

- The *widening of income differentials* is perceived as fair as soon as it corresponds to the remuneration of competence and talents: the ideal of equality in the outcome is replaced by the equality of opportunities, a quite different conception indeed of social justice (Sen, 1998). Furthermore, the rich are richer but have a higher propensity to save and consequently the investment rate should be higher within society with a frugal Welfare State. Similarly the widening of income differentials becomes the major incentive to investment in human capital, commitment and intensity of work, another ingredient that is assumed to foster faster productivity. Finally, a very low or non existing taxation of capital and financial gains via for instance stock options, preferential tax treatment, would propitiate the risk prone individuals to become entrepreneurs and look for breakthrough innovations that would make them rich and thus create many jobs for the poors. By the way, this reminds strongly a typical 19th century ideology.

Thus ex post, the widening of inequalities and the slimming down of welfare would benefit to the less privileged, i.e. the poor and the currently unemployed. In accordance with a now widely accepted conception, this would be favorable to social justice (Rawls, 1971). Has this ironical prognosis been fulfilled by some conservative governments?

The puzzling observation is that the growth differentials observed between OECD countries during the 80s are not any more explained by the same factors that prevailed before 1973 (compare Figure 9 with Figure 5 supra). On the one hand, the Fordist virtuous circle associating investment, productivity and growth does not seem operating any more. On the other hand, the unequal growth performance seems better when wage inequality is high and welfare transfers are modest, a quite significant change indeed with respect to the 1968-1973 years. Actually, the countries where welfare was the most developed have experienced more problems than in US, Japan, i.e. countries featuring a much more modest role of social transfers. But of course, the results are not to be extrapolated from growth to technical change that seems to continue to be more dynamic in small social democratic countries (see Figure 3.B, supra).

FIGURE 9 – THE UNEQUALITARIAN COUNTRIES SEEM TO GROW FASTER : THE 1980'S A CONSEQUENCE OF THE DEMISE OF THE FORDIST REGIME



Period : 1979-1989 – 17 OECD Countries

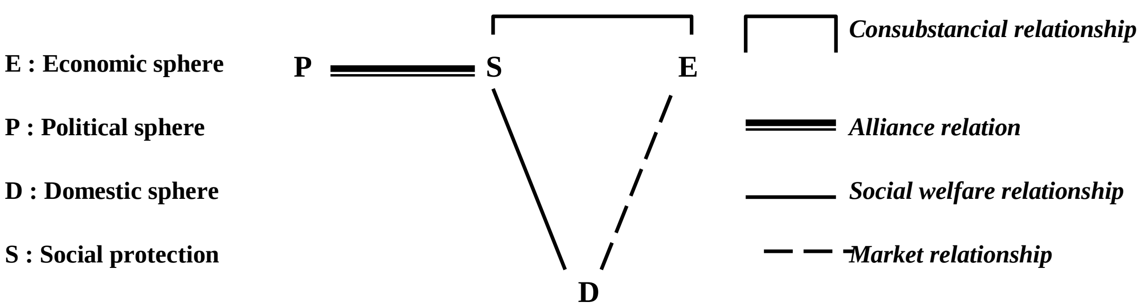
Source : Boyer R. (1991) Justice sociale et performance économique, *Couverture Orange CEPREMAP*, n° 9135.

Given this conjunction of intellectual debates and macroeconomic performance indexes, the appeal of the American and to some extend the British models in the redesign of Welfare States is not really surprising. Many observers have thus concluded that nowadays more and more role should be allocated to market mechanisms in the provision of health care, pensions and other components of social security. Do comparative welfare analysis confirm this appraisal of the superiority of market led regimes?

Some structural reasons for the diversity of welfare State systems

Scholars have long ago recognized the complexity of Welfare State, that is a social construct produced through a long historical process that has seen the emergence of salaried work and labor markets as a key component of a market economy. Simultaneously, the rise of industrial capitalism has transformed the nature of family structure, from an agrarian base to an industrial and urban configuration. Last but not least, the economic crises and social conflicts have put at the forefront the issue of the security of workers facing the new risks associated to the process of industrialization. In a sense, all Welfare States derive from the conjunction of these *three elements*: the responsibility of the *firms* concerning some industrial risks, the persisting role of *family* structures in providing some solidarity among members, and finally a political recognition of some *social rights*. Therefore, the structure of welfare can be analyzed through the lenses of structuralist theory (Théret, 1997:214). Then, each social protection system (S) is represented by the equivalent of a molecule combining the economic sphere (E), the political sphere (P), and the domestic sphere (D) (Figure 10.A).

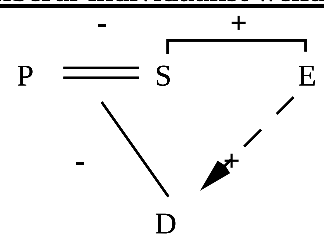
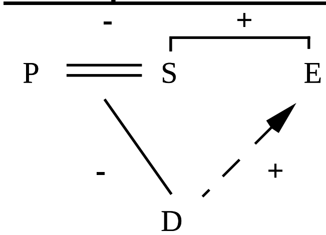
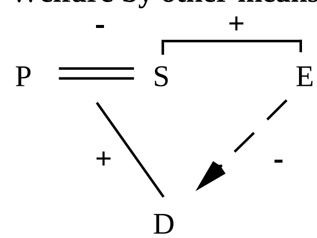
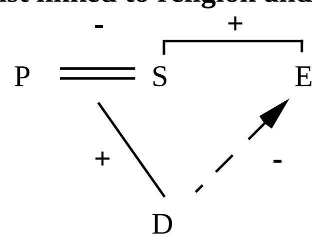
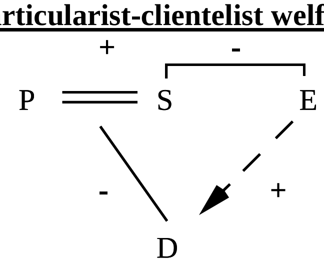
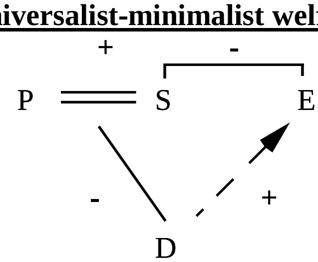
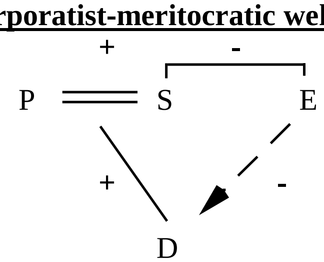
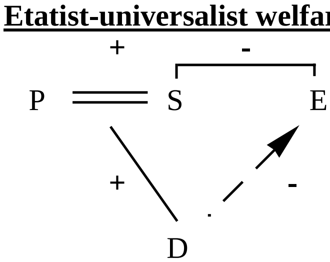
FIGURE 10.A – THE COMPOSITE STRUCTURE OF WELFARE



Source : Théret B. (1997: 214) “Méthodologie des comparaisons internationales, approches de l'effet sociétal et de la régulation : une lecture structuraliste des systèmes nationaux de protection sociale”, *Année de la Régulation 1997*, vol. 1, La Découverte Paris.

The structural relationship between these three elements can be analyzed according to the intensity of the links and the nature of the causality from one sphere to another. The existing welfare systems can be thus easily mapped into a new taxonomy, given the numerous information available from a large number of international comparisons (Flora, 1986; Esping-Andersen, 1990; Bonoli, Palier, 1995; Greve, 1996; Palier, 1998). Bruno Théret has proposed the taxonomy summarized by Figure 10.B. Its merit is to provide a more detailed analysis than previous ones. For instance, the American and Japanese systems that are frequently put into the same category considering the weak intervention of society wide solidarity, can be distinguished. In the American case, the economic logic of the firm is redesigning the role of the domestic sphere and imposing for example a dependence of social benefits from the

FIGURE 10.B – IDEAL TYPES FOR SOCIAL WELFARE

Society with identity, individualist: meritocratic	*Community link, holist and primacy of need*
Liberal-individualist welfare  **USA**	**Liberal-paternalist welfare**  **JAPAN**
Welfare by other means  **AUSTRALIA**	**Clientelist linked to religion and party**  **NETHERLANDS**
Particularist-clientelist welfare  **ITALY**	**Universalist-minimalist welfare**  **UNITED KINGDOM**
Corporatist-meritocratic welfare  **GERMANY**	**Etatist-universalist welfare**  **SWEDEN**

Source : Théret B. (1997: 214) "Méthodologie des comparaisons internationales, approches de l'effet sociétal et de la régulation : une lecture structuraliste des systèmes nationaux de protection sociale", *Année de la Régulation 1997*, vol. 1, La Découverte Paris.

competitiveness of the firm. In the Japanese configuration, the firm has to take into account a significant fraction of the social welfare, as required by the family structure. The first can be labeled as a liberal-individualist welfare, whereas the second would be liberal but paternalistic.

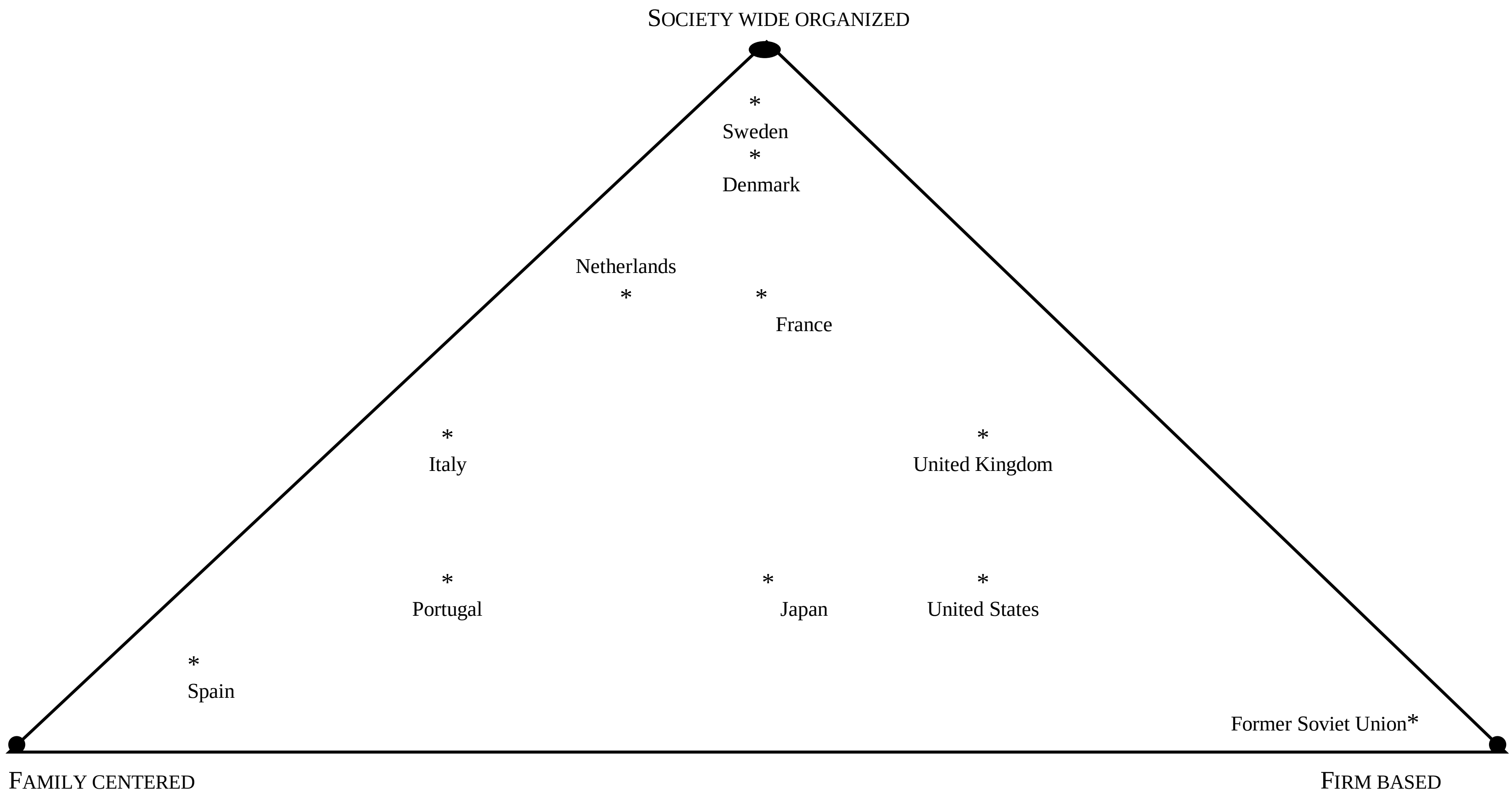
Similarly, the German and Swedish systems appear different: family policy is the outcome of a meritocratic welfare in Germany, whereas in Sweden a much more universalist conception is developed by imposing to the firm strong constraints about the nature of gender relations. There are still other configurations such as the Italian clientelist welfare or the universalist but minimalist British welfare. Still other configurations may exist: France could well belong to an hybridization of the German meritocratic welfare for the majority of social risks, along with the Swedish universalist welfare for the family regime. The core issue is thus the viability of each of these configurations, facing the same challenges represented by the new technologies, internationalization and the pressures of some powerful interest groups in favor of market competition for the supply of welfare.

In order to deal with the issue of privatization, the previous framework is simplified into an other graphical representation (Figure 11.A). The central idea is to map the previous "molecules" into the structure of the costs and benefits associated with each of the three spheres. Each national system is defined by the share of welfare fulfilled within families (domestic order), within large firms (corporatist or paternalistic strategy) or across the whole society via State interventions (citizenship as a basis for collective solidarity). One gets the following description of social security systems.

- Some countries exhibit a clear domination of a leading sphere. Former Soviet Union was a good example of a *firm based welfare*, since a majority of the benefits used to be provided by the firm, be they under a monetary payment or by direct provision of health, education leisure. By contrast, Sweden and Denmark are emblematic of a *society wide organized welfare*, with universalistic values and a financing by general taxation. Southern Europe is a good example of the lasting role of *family centered solidarity*. The idea put forward by New Labor in UK would suggest that this is not necessarily an archaism (Giddens, 1998) when the solidarity is extended from the family to the community and civil society supposed to manufacture trust and security (Fukuyama, 1997).

- But generally speaking, most systems *combine the three sources of solidarity*. In Japan for instance, a firm based social welfare goes along with an important role of the family, as well as a residual role of a minimalist society wide welfare. In France, the ideal of "Securité Sociale" i.e. society wide welfare is mitigated by the fact that the financing and in some case the supply of many components are provided by the firms. In the US, the provision of welfare is largely attached to the labor contract negotiated between the workers and the firms, with some limited examples of society wide welfare for specific categories of population. Under this respect, *most Welfare States are hydrid*.

FIGURE 11.A – A SIMPLIFIED PRESENTATION OF THE THREE LOGIC AND ORGANIZING PRINCIPLES OF WELFARE STATES: THE STRUCTURE OF FINANCING.



"Commodification" is not the only future of welfare systems.

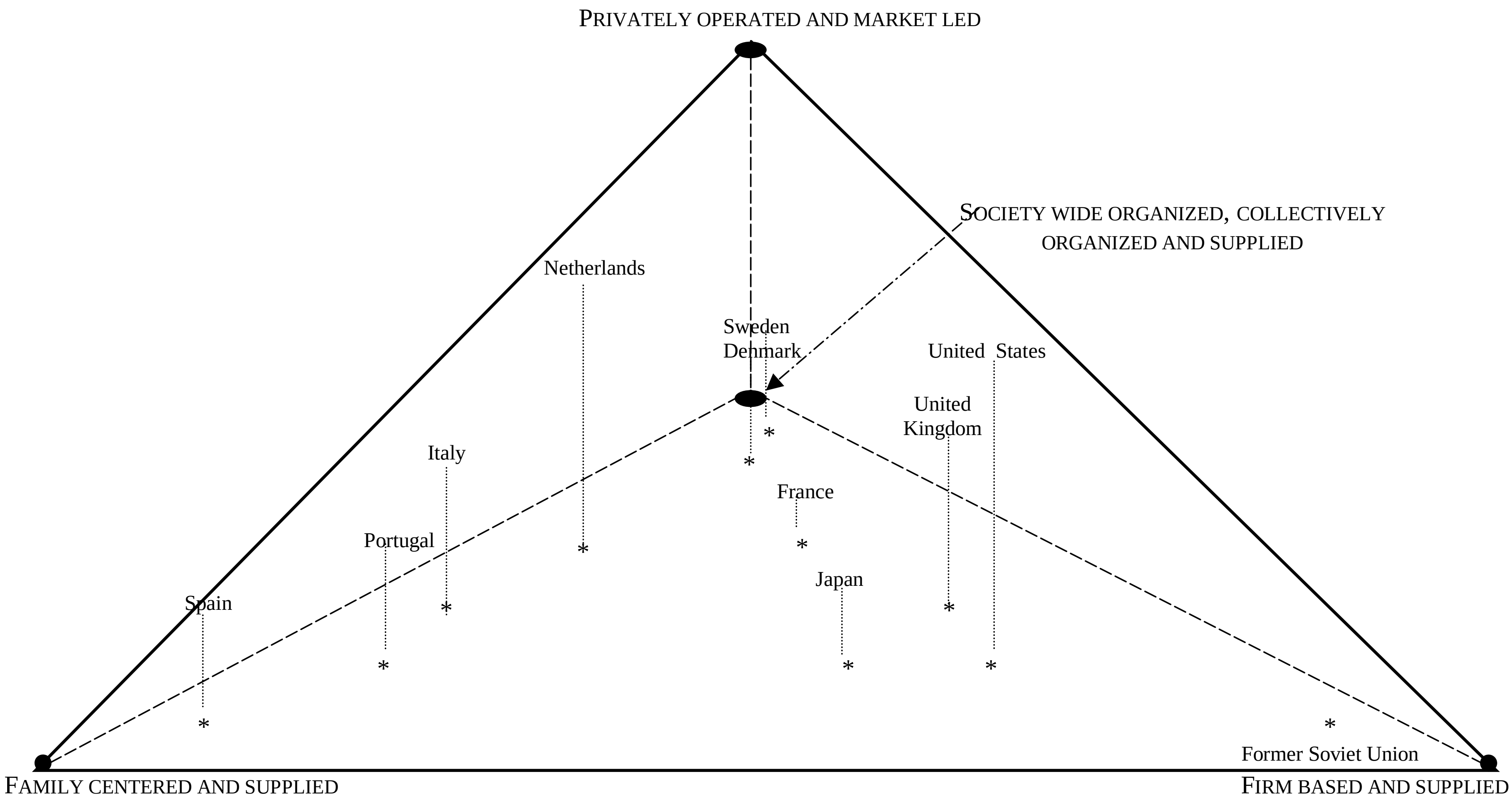
The contemporary issue, widely discussed, about the role that should be attributed to privatization and market competition (Le Grand, Bartlett, 1993; Esping-Andersen, 1996; Myles, Pierson, 2000) is thus largely redefined (Figure 11.B). Basically, each society manifest a strong path dependency that is not due to pure historical accidents or circumstances but the very nature of social protection (Bonoli, Palier, 1999; Palier, Bonoli, 2000). The major issue, and the French case is quite enlightening under this respect, is the evolution within the triangle (State, family, firm). For instance, catching-up countries might need to replace domestic solidarity by society wide organization and this is the case for Spain and Portugal. Other societies, such as the German and the French ones, might call for a progressive shift from a typical Bismarckian system, i.e. largely firm based, toward more Beveridgian, Scandinavian type configuration.

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

Therefore the choice is not between a *purely public* welfare or a *totally privatized* one, but governments and social partners are facing the tricky problem of *reforming* rather idiosyncratic configurations, that manifest strong path dependence and combine various logic and regimes for welfare provision (Figure 11.C). At least four forces shape the contemporary transformations.

- The *privatization strategy* is strengthened by the emergence of a finance led regime (Boyer, 2000) that develop so quickly stock markets that the old pay-as-you go- systems are presented as inefficient and even unfair, since workers do not get their share of the increased financial wealth (Orléan, 2000). But many obstacles prevent the implementation of market mechanisms in the other welfare regimes, such as family, unemployment or sickness. Even the constitution of *quasi markets* between independent, generally non profit, institutions competing from the supply of welfare benefit is not so easy given the inertia and localization of the supply, the difficult of entry, the poor assessment of quality, the large transaction costs associated to the management of this competition by regional public bodies. Furthermore, if strict rules are not set by public authorities such as block contracts, private firms could cream skim the market and let the most severe risks to the public welfare (Le Grand, Bartlett, 1993). Not to forget that the Chilean and American cases show a clear increase in inequality in the access to wellfare, as a consequence of privatization.

FIGURE 11.B – THE RELATIVE IMPORTANCE OF PRIVATIZATION AND MARKET MECHANISMS IN WELFARE STATES: A FOURTH DIMENSION.

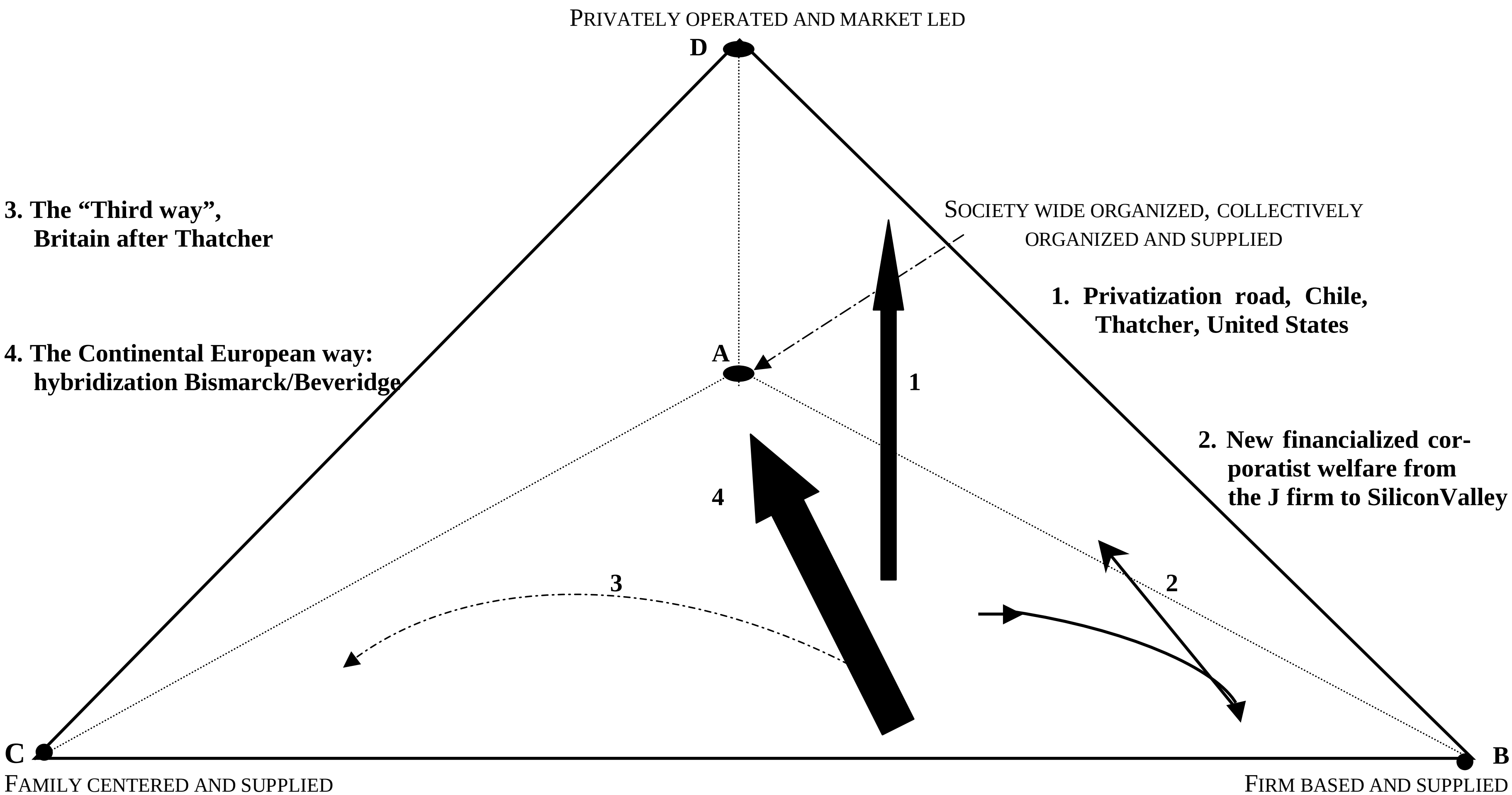


- A *new financialized corporatist welfare* is also emerging in the most dynamic industries or regions. In a sense it is an updating of the so-called Japanese model. Actually, until the early 90s, the Japanese employment system had been perceived as quite efficient and the industrial welfare provided by the large firm was conceived as complementing the internal labor market (Hanada, Hirano, 2000). This system is now under strain due to the poor macroeconomic performance of the Japanese economy and the difficulty for firms to provide the expected amount of welfare, specially pensions, given the low profit and the tiny real return of financial assets. But the management of some ICT American firms, for instance in the Silicon Valley, is in fact updating this model. First, the Japanese profit sharing is replaced by the diffusion of stock options and some components of welfare are idiosyncratically adjusted to the needs of each employees, in order to prevent him(her) to move to another company or even launch his(her) own start-up. Such an implicit welfare model cannot pretend to be universal, since it concerns mainly high level professionals, holders of scarce competence in high demand on the international market.

- A *community based welfare* is too an updating of the family centered welfare typical of some contemporary economies, such as the Asian NICs. Actually, even in Europe, the mass unemployment hitting specially the young workers and the early retired employees has put forward the solidarity organized within the family and this still is a typical pattern for Southern Europe. Statistical surveys do show an increase in intergenerational transfers, largely a compensating mechanism for deficient society wide welfare. In a sense, the New Labor is theorizing this process and trying to extend the solidarity from the domestic circle to the community wider scale. It remains to be seen that will be the actual consequences of these theoretical conceptions upon the management of the British welfare. In any case, such a model cannot pretend to be the dominant one for many reasons. First, the family structure is transforming itself toward a two sources of income and gender neutral configuration, that calls for a redesign of universal welfare as a precondition for its viability (Majnoni d'Intignano, 1999a; Esping-Andersen, 2000; Théret, 2000). Second, the same family or community pattern cannot generally prevail in Europe given the diversity of the national trajectories since one century. Third, from a theoretical point of view, the internationalization and financialization of modern economy propagate new risks that can only be insured at a wider level than the family or the community.

- A *modernization of universal welfare* is far from defining an obsolete model. From a conceptual point of view, this is one of the best responses to globalization and it is not an accident if small open economies are at the forefront in the redesign of such a welfare model. By the way, it has to be remember that Sweden, Finland, Denmark experience a very good record in terms of technological advances and the insertion into the ICT revolution, while preserving the society wide character of their Welfare State. If institutionally the losers are sure to be compensated by the winners, then the speed of technical change can be enhanced, national competitiveness preserved, thus reconciling dynamic efficiency with social justice. Contrary to a widely held belief, the negotiation by social partners of social pacts that set new rules for wage formation and welfare reforms is as efficient, or even more, than a typical market led strategy (Fitoussi, Passet, 2000). Under this respect, the Dutch model is now widely recognized as one way quite different from the "*Third way*" but no less attractive (Visser, Hemerijck, 1997).

FIGURE 11.C – FOUR STRATEGIES FOR REFORMING THE WELFARE STATES: CONTRASTED NATIONAL TRAJECTORIES.



This reminds that welfare systems do *co-evolve* along with national conceptions about *social justice*, *political institutions* that convert them into specific tax systems and social security regimes, and *economic specialization*. Given the present comparative evidence, it would be an *overstatement to conclude that there is a single best way for organizing welfare*, be it market-led, firm based, community centered or Society wide and collectively organized. A more detailed analysis of the transformations of the French Welfare and a comparison with other European systems give some credibility to such a conclusion.

WHAT CAN BE LEARNT FROM THE FRENCH WELFARE HISTORY?

The purpose is to understand the forces that have shaped this Welfare State that has emerged at the end of the 19^{th} century. These historical circumstances can still be recognized within the contemporary configuration, but of course some changes have taken place since the mid-80s but they have to be analyzed in historical retrospect.

Back to history: the Welfare System emerges out of recurring and violent conflicts between firms and workers

The French system was never planned out of a rational calculus about the best methods for delivering social security. It emerged from the conflicts between workers and entrepreneurs during the industrialization process. The French revolution had forbidden any business or workers association because they were assumed to be bad for competition and consumers' welfare. Therefore, the industrial workers had to struggle hard in order to get the recognition of their social rights. This took place during the 1890s when simultaneously the formation of unions was made legal and the responsibility of firms in industrial accidents made explicit: this event gave birth to a new domain for law and jurisprudence. Actually, social law (in French “Droit social”) progressively separates from “common law” or more precisely “Droit civil”. This founding act is quite important. On one side, the firms are recognized responsible for industrial accident even in the absence of a clear mismanagement or mistake from managers. Social law was thus recognizing “responsibility without mistake”. On the other side, the firms had to pay a compensation to workers via the social contribution to a mutual fund devoted to the insurance of this specific risk. This was the early germ for the French Welfare State.

The subsequent struggles have been following the same pattern: any success of the workers was associated to an extended responsibility of the firms and the creation of special funds in order to cover the related risks. Since the conflicts were localized in the mining sector, the steel industry, railways, mechanical industries, the inspiration of the Welfare State was largely paternalistic in the sense that the firm owners have been using the social benefits in order to stabilize labor and to elicit commitment and quality of work. The French system could have been *liberal paternalistic*, on the model of contemporary Japan.

But the social and political evolution of French workers unions has not converged toward enterprise and local unions but toward the constitution of large confederations gathering a whole spectrum of industrial unions. The debate on welfare thus became highly politicized, left wing unions struggling against conservative “bourgeois” governments. The hope for a paternalistic welfare burst out and was replaced by a major role of the *State as a referee* in the recurring labor conflicts, since nor the leftist unions, nor the quite conservative business association wanted to compromise independently from any public legislation.

From the financial point of view, the French system is thus very close to the Bismarckian principles, in the sense that social security is mainly a matter and issue to be dealt with in the context of *industrial relations* and not so much *citizenship*, at least until the mid of the 20th century. A good evidence of this pattern is given by the chronology of the major advances or events in labor legislation and Welfare State: 1919, 1936, 1945, 1968, 1981, 1995. One has recognized the dates of major political and social up-rises: end of the two World Wars, arrival to power of leftist governments, mass protest of June 36 and May 68…and December 1995, even if this last protest was generally perceived as highly defensive…that is not necessarily the case (Dehove, Théret, 1996). In each case, new social rights were recognized or preserved and most of them are embedded into either social legislation (minimum wage, legal working hours) or a specific welfare regime (industrial accidents, sickness insurance, family allowances, unemployment insurance, professional training fund, subsidy to housing….).

Thus if the configuration is largely Bismarckian, the recurring inability of firms and unions to agree upon labor legislation calls for a State initiative and supervision in the “*paritarisme*”, i.e. the equal representation and formal parity of employers' associations and labor unions in the management of each welfare regime. Ironically, many outsiders and foreign analysts do imagine a statist welfare, built upon the model of a well ordered French garden, whereas the reality is closer of the burgeoning and blossoming of an English garden!

For Welfare State, history matters. The French system is highly typical and this historical legacy still explains many of the contemporary features.

The French Welfare System thus displays significant specificity

This century long trajectory has had an impact upon the structure of financing, the coexistence of specialized regimes, the segmentation of these regimes by industries and status of the workers, the frequent overlapping regimes and finally the endogenous dynamics of the entire Welfare State.

The financing is shared between employers and employees and varies with their respective bargaining power, with traditionally few contribution for general taxation.

The bulk of the financing is fulfilled by employers’ contributions that represented more than 55,2 % of total welfare expenditures in 1981 (Table 1). Of course, this share has been declining with the loss of bargaining power of the workers due to the high level of unemployment and the challenge posed by the internationalization of many large firms. Correlatively, until 1997, the employees’contributions have increased but more moderately that would imply the exact compensation of the decline of firms’contributions. Surprisingly enough, general taxation has not compensated the reduced financing by social partners, since the share of the taxes is nearly constant over the last two decades.

TABLE 1 – THE STRUCTURE OF FINANCING OF FRENCH WELFARE

(in percent, except last line)

	1981	1985	1989	1993	1994	1995	1996	1997	1998
Employers' contributions	55,2	52,4	52	49,9	49,5	47,2	46,6	46,2	46,7
Current						37,9	37,3	37,2	37,9
Reconstituted						9,1	9,2	8,9	8,8
Employees' contributions	18,4	19,4	22,4	22,5	22,3	22,4	22,6	21,3	16,1
Individual Workers' Contributions	5,1	4,8	5,2	4,9	4,7	4	4,2	3,9	3,4
Contributions on Benefits	0,1	0,7	0,7	0,7	0,7	0,7	0,9	0,9	0,1
Total social contributions (1)	78,8	77,3	80,3	78	77,2	74,3	74,3	72,3	66,3
Special Taxes (2)	2,3	3,2	3,1	5,7	4,5	7,1	7,2	9,2	15,8
Total Ratio (1+2)	81,1	80,5	83,4	83,7	81,7	81,4	81,5	81,5	82,1
State Budget Contribution	15,7	16,4	14,2	14,1	16,1	15,1	15,3	15,3	14,8
Total Taxes	18	19,6	17,3	19,8	20,6	22,2	22,5	24,5	30,6
Other resources	3,2	3,1	2,4	2,2	2,2	3,5	3,2	3,2	3,1
TOTAL	100	100	100	100	100	100	100	100	100
French francs (Billions)	852,8	1386	1730	2119	2189	2355	2459	2539	2640

Source *: Barbier J.-C., Théret B. (2000), The French Social Protection System: Path Dependencies and Societal Coherence, Mimeograph presented at the ISSA International Research Conference, Helsinki, September 25-27, 2000 (provisional version May 2000, p. 11.*

The complement comes from a special tax called Generalized Social Contribution, i.e. in French "*Contribution Sociale Généralisée* (*CSG*)" that was instituted in 1991. The households are paying it on top of the normal income tax but the receipts are affected to specific welfare regime (family, health care, old age pensions). Basically, the social contribution previously paid by firms and workers is now replaced by a general taxation of all sources of income, including rents, dividends, interests, financial benefits. One recognizes here a largely Bismarckian financing system, only marginally and recently transformed by the rise of CSG. It is important to note that State is only financing less than 15 % of total welfare expenditures. This is a significant difference both with the British and Swedish Welfare States.

A series of specialized regimes that result from different "*institutionalized compromises*"

The piecemal and progressive recognition of various social risks has a clear consequence upon the structuring of the French Welfare State. In spite of recurring efforts in order to reform and rationalize the system, the everyday management is still linked to the historical origin of each regime. Out of the political and social process, emerges some legislation or welfare rights that exerts a significant influence upon the evolution of spending and the direction opened for reforms, i.e. acceptable by the social partners. The notion of *institutionalized compromise* initially worked out to interpret long term public spending (Delorme, André, 1983; André, Delorme, 1983) has been extended to the case of the Welfare State (André, 1984; 1997; 2000). This helps in understanding why the various regimes follow different tracks: the social and economic alliances differ from one regime to another and show up in the structure of spending (Table 2 and Table 5, infra).

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

TABLE 2 – A SERIES OF SPECIALIZED REGIMES : SICKNESS AND OLD AGE PENSIONS ARE THE MORE IMPORTANT

(Shares in per cent)

% TOTAL	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Total health care	**34.9**	**34.4**	**34.1**	**34.3**	**33.8**	**34.4**	**34.1**	**34.3**	**34.7**	**35.0**	**34.2**	**34.7**	**34.4**	**34.1**	**33.6**	**33.6**	**33.2**	**33.4**
Sickness	25,8	25,6	25,1	25,8	25,4	25,9	25,5	25,7	26,3	26,6	26	26,7	26,5	26,6	26.8	26.6	26.4	26.6
Disability	5,95	6,11	6,37	5,9	5,88	6,3	6,37	6,42	6,11	6,08	5,95	5,78	5,84	5,86	5.1	5.2	5.2	5.2
Industrial Accidents	3,17	2,67	2,62	2,58	2,57	2,22	2,25	2,26	2,29	2,28	2,23	2,17	2,06	1,72	1.8	1.7	1.7	1.6
Old Age Pensions	**41,7**	**40,8**	**40,8**	**41**	**41,5**	**41,5**	**41,9**	**42,3**	**42,4**	**42,6**	**42,8**	**42,6**	**42,3**	**42,8**	**43**	**43,1**	**43,2**	**43,5**
Family	12,3	12,2	12	11,4	11	10,7	10,5	10,6	10,3	9,89	9,67	9,39	9,62	9,66	10,2	10,1	10,5	10,3
Housing	1,98	2,29	2,62	2,58	2,57	2,59	2,62	2,64	2,67	3,04	2,97	2,89	3,09	3,1	3,07	3,03	3,38	3,42
Family – Housing	**14,3**	**14,5**	**14,6**	**14**	**13,6**	**13,3**	**13,1**	**13,2**	**13**	**12,9**	**12,6**	**12,3**	**12,7**	**12,8**	**13,3**	**13,1**	**13,9**	**13,7**
Early retirement	1,98	2,67	4,12	4,06	4,41	3,7	3,37	2,64	2,29	1,9	1,49	1,08	1,03	1,03				
Employment	6,35	6,87	5,62	5,9	5,88	6,3	6,74	6,79	6,49	6,46	7,43	7,94	8,25	7,59				
Employment/Early retirement	**8,33**	**9,54**	**9,74**	**9,96**	**10,3**	**10**	**10,1**	**9,43**	**8,78**	**8,37**	**8,92**	**9,03**	**9,28**	**8,62**	**8,87**	**8,75**	**8,45**	**8,22**
Poverty – “Social exclusion”	0,79	0,76	0,75	0,74	0,74	0,74	0,75	0,75	1,15	1,14	1,49	1,44	1,37	1,72	1,37	1,35	1,35	1,37
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source : SESI-DREES extract from : Barbier J.-C., Théret B. (2000:7) (*ibid Table 1*)

- The *old age pension regime* is built upon a quite different compromise. Basically, active wage earners accept to pay out of their income a contribution for sustaining contemporary retirees, since the issue of pension is generally perceived as expressing the *inter-temporal solidarity among wage earners* without any reference to an accumulation of assets via financial markets. The general legislation set by the State is de facto recognizing this conception (Dehove, Theret, 1996). Under this respect, the collectivity of French wage earners does not share the same conception as their American counterparts or financial market experts (Bourdelais, 1996; Davanne, Pujol, 1997).

- The *family regime* exhibits still another configuration of interests built upon a *pro-child compromise*. Basically since one century, the French governments have been very eager to sustain the birth rate by significant incentives that have been maintained in spite of drastic changes in the nature of family and the emergence of gender equality as a central issue. Of course, the outcome does not correspond necessarily to the expectations, specially during the most recent period marked by the generalization of a two sources of income family (Majnoni d'Intignano, 1999a).

- The *unemployment insurance regime* was mainly conceived to cope with frictional and transitory unemployment, typical of the Golden Age of high growth period. When unemployment rose to unprecedented level and has become a long term unemployment for aging workers, it became clear that the related compromise was really weak. This explain the growth of unemployment and early retirement benefits until the early 80s and then the slow erosion of this welfare spending in spite of the only recent and very modest retreat of unemployment in 1998-1999 (See Figure 15, infra). The system was never conceived to deal with mass, structural and long lasting unemployment.

- The minimalist share of spending for *poverty*, recently relabeled as "Social exclusion" and its very modest increase in spite of the emergence of new forms of poverty (the homeless), clearly shows that the French Welfare State institutes a solidarity among employed wage earners, quite distinct thus from *typical Beveridgian system*. The creation of an Insertion Minimum Income, in French "*Revenu Minimum d'Insertion* (*RMI*)" in 1988 takes into account this discrepancy between minimum wage policy (SMIC, i.e. "*Salaire Minimum Interprofessionnel de Croissance*") and the objective of warranting a decent living for people unable to find a job or unwilling to get one.

The superposition of all these regimes is generating a very complex system of income redistribution, that combines many objectives and procedures. Therefore it may appear ex post somehow irrational and very costly, just to maintain a near stability of income differentials (Bourguignon, 1998; Bourguignon, Bureau, 1999). No doubt that an economist may conceive a much more rational system, for example in shifting employers social contribution to Value Added Tax (VAT) (Malinvaud, 1999). But the problem is to convince social partners and civil servants that this system is better for them and this is a tricky task, since welfare institutionalized compromises are long lasting. But there is another source of heterogeneity within the French Social Security System, still more puzzling.

Given the same social risk, the welfare regime is highly segmented due to the historical origin of a industrial or professional solidarity: the example of old age pension.

Within the same regime, the historical legacy of social and political struggles has left a large number of different treatments. The system of old age pensions is consequently fragmented into ten major active different regimes, not to speak about the twenty-six regimes that sometimes gather less than 20.000 subscribers (Charpin, 1999:20). The dividing lines concern the opposition between the public and private workers, the nature of the industrial activity and in some instances, the professions (Table 3). The apparent heterogeneity of the structure of financing is amazing. Clearly, the strong unions in the public sector get better financial conditions than the wage earners of the private sectors. Managers, farmers and doctors have their own regime. The individual contributions vary from 99 % for electricity and Gas workers to only 13,1 % for farmers and 15,8 % for civil servants.

TABLE 3 – AN EXAMPLE OF THE SEGMENTATION OF THE FRENCH WELFARE : THE FINANCING OF PENSIONS VARIES DRASTICALLY ACROSS THE PROFESSION AND SECTORS : 1996

Sources of financing / Profession	Compensation	National Solidarity Fund	Individual contributions	State contributions	Other	Deficit	TOTAL
State civil servants	0	0	15.8	84.2	0	0	100
Local civil servants	0	0	97.7	0	2.3	0	100
Railways employees	17.8	0.1	34.0	48.1	0.1	0	100
Parisian subway workers	3.6	0	34.7	61.0	0.7	0	100
Electricity and Gas workers	0	0	99.0	1.0	0	0	100
Wage earners of the private sector	0	19.7	75.8	0.8	1.6	2.2	100
Complementary pension system	0	0	97.2	0.2	2.6	0	100
MANAGERS COMPLEMENTARY PENSION SYSTEM	0	0	92.6	0.4	4.9	2.2	100
Farmers	50.9	12.0	13.1	24.0	0	0	100
Complementary pensions for doctors	0	0	94.1	0	5.9	0	100

Source : Charpin J.-M. (1999 : 127) *L'avenir de nos retraites,* La Documentation Française, Paris.

Nevertheless, there is too a significant heterogeneity in the computation of the level of pensions: for instance the bonus of the civil servants is not included into the determination of the pension. Therefore, it is not that sure that the discrepancy across the regimes is as high as would suggest the rough figures provided by Table 3. A closer examination of the ratio of pension to net wage after taxes provides a much more balanced view, since the replacement ratio would only oscillate between 60 and 67 % (André, 2000: Appendix, p. 12).

Furthermore, equity concerns explain that some compensating mechanisms have been elaborated, first to correct the demographic unbalances typical of some regimes where the number of employees is drastically declining, second, to take into account some society wide solidarity, concerning for instance the pensioners that have been unable to make sufficient contribution to their pensions. But these devices are not sufficient to fully overcome the large diversity inherited from industrial and social trajectories for each regime for instance in terms of retirement age.

A trend to the superposition and overlapping of various regimes, that calls for State coordination and transfers.

The last two decades have brought severe strains into this complex system and have somehow blurred the boundaries between the various regimes. For instance, early retirement measures are taking place and are de facto shared between the unemployment insurance and old age pension regimes. Similarly, the unemployed have been exempted from diverse social contributions to health care, old age pension, family allowance and so on. These cross subsidies between the unemployment regime and other components of social security have made the system quite difficult to master. This has been an incentive to some reforms in order to simplify the tax basis of the Welfare State and try to disentangle between the domain of society wide solidarity among citizen, the sphere of collective or private insurance.

This task could not be fulfilled by social partners since most of them strongly defend the status quo that gives them a say in the management of the Welfare State. By contrast, the traditional role of the State is precisely to overcome these segmented interests and try to organize the compatibility and relative fairness of these different regimes, unified via the broad concept of "social security", actually hard to implement. During the last decade, the State has been back into the design and management of welfare, frequently violating the principle of "*paritarisme*".

Through time an endogenous increase of welfare redistribution and a relative containment of poverty

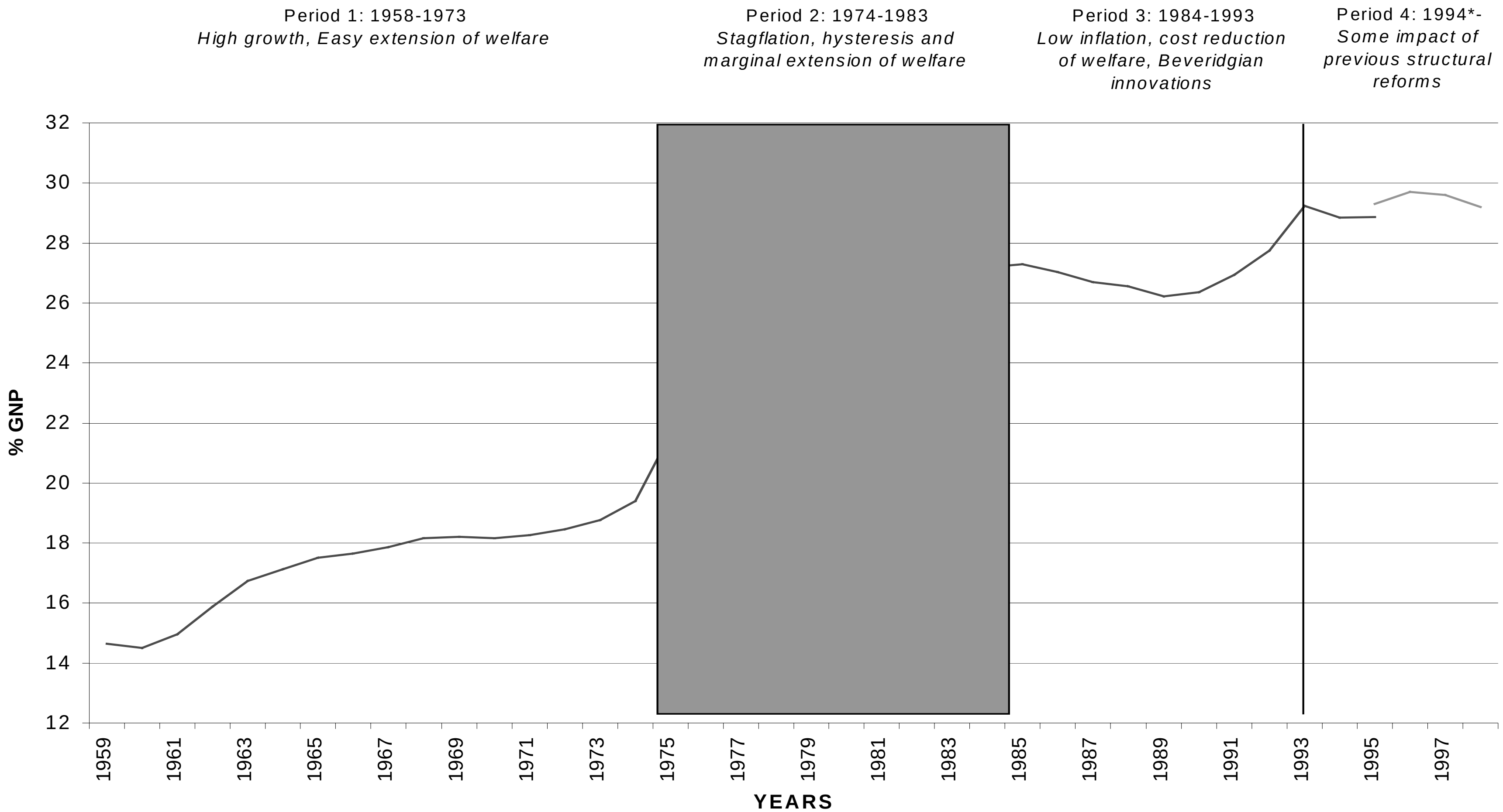
Often, the financial problems and deficits of the Welfare State are attributed to a mismanagement that could be easily corrected by the introduction of more vigorous market incentives. The simplest analysis of the chronology of events strongly contradicts this vision. Actually, four phases have been observed in the evolution of French Welfare State (Figure 12) and they cannot be explained by the variation in the intensity of market competition in the delivery of welfare.

- The *period of high growth* (*1958-1973*) allows an easy extension of the welfare: rapid productivity increases can be shared between wages andprofits, while financing the universalization of social security coverage, without any significant increase in the share of social benefits in total GNP. At that time, few voices dared to challenge the legitimacy and global efficacy of the Welfare State.

- The *sharp increase in the share of social transfers* takes place during the second period (*1974-1983*). It is not at all the consequence of a drastic extension of the welfare but simply the negative outcome of the demise of the fast growth regime, that reduces the basis for social contribution to the financing of welfare. This introduces a recurring gap between the trends of the social expenditures and the receipts of the welfare regimes. Of course, some extensions of social benefits take place but they are quite marginal and are embedded into the strong belief that the crisis is only transitory and that the Golden Age could be back again. The program of the leftist government of 1981 was unfortunately built upon this strong and erroneous hypothesis.

- The turning point occurs in *1983-1984*: the previous Keynesian policies are reversed into an *austerity program* that aims to restore French competitiveness via the search for low inflation in order to keep a constant French Deutsche Mark exchange rate. The years 1988 to 1992 experience *a series of innovations in the financing and management of nearly every single regime* (see Table 5, infra for more precision). But these reforms do not prevent the new surge of unemployment benefits when the recession of the early 90s reduces again the tax and social contribution basis.

FIGURE 12 – THE LONG TERM EVOLUTION OF SOCIAL BENEFITS IN FRANCE: 1959-1998



* Change in the accounting methods

Source: Built from Barbier J.-C., Théret B. (2000: Fig1) (*Ibid Table 1*)

- The period beginning in 1994 is featuring *a near stabilization* of the share of social benefits in GNP. Of course, the impact of the previous reforms brings some reduction of the costs and simultaneously the return to a higher growth in 1998-1999 helps in moderating the financial difficulties of the Welfare State. Clearly, the related ratio is counter cyclical over the whole period 1958-1998. But, it is too early to conclude that the reforms have succeeded. A definite assessment is made still more difficult by the changing accounting methods after 1990.

From this short summary, three conclusions can be derive.

- First, whatever the *imperfection* of the system they are *not the cause* of the financial crisis of the welfare that become serious only when the Fordist growth regime comes to an end. There is a co-evolution of the growth regime and the welfare system. The crisis cannot be attributed unilaterally to the Welfare State.

- Second, contrary to that is observed in the United States for instance, the French wage earners have *accepted* to finance the increase of welfare costs via higher tax or social contributions. It would thus be an overstatement to think that the system has totally lost its legitimacy.

- Third, compared with the European countries, the French welfare and tax systems have had a positive impact in *reducing inequalities* at the lower end of income distribution. Thus, the extreme poverty has been contained more efficiently than in most other European countries (Table 4).

TABLE 4 – AN ACTUAL ROLE IN MODERATING INEQUALITY: AN EUROPEAN COMPARISON

Country 1995	Threshold[1]	Distribution of individuals (in per cent)							
		Income before transfers[2]				*Income after transfers*			
		1	2	3	4	1	2	3	4
Germany	7433	24	31	24	21	18	32	26	24
France	7025	28	29	21	22	16	34	25	25
UK	6720	34	22	19	26	20	30	22	28
Italy	5232	21	31	21	26	19	31	23	27
EU 13	6352	26	29	21	24	18	32	24	26

1. PPPS (purchasing power parity standards) are a conversion of national currencies; each unit corresponding to an identical quantity of goods and services in the different countries.
[2]. (1) Less than 60% of the national income median; (2) 60 to 100%; (3) 100 to 140%; (4) 140% and over.

Source: Eurostat, 1999

extract from : Barbier J.-C., Théret B. (2000:19) (*ibid Table 1*)

Of course, many economists consider that too much social redistribution is operating for getting this favorable result and that more rational welfare schemes could be designed and would be cost saving and/or Pareto improving (Atkinson, 1998; Bourguignon, 1998; Caussat, Hel-Thelier, 1998; Bourguignon, Bureau, 1999).

FIGURE 13.A – A REACTION TO AN EXCESSIVE SHARE OF GNP… OR A CATCHING-UP OF LAGGING COUNTRIES ?

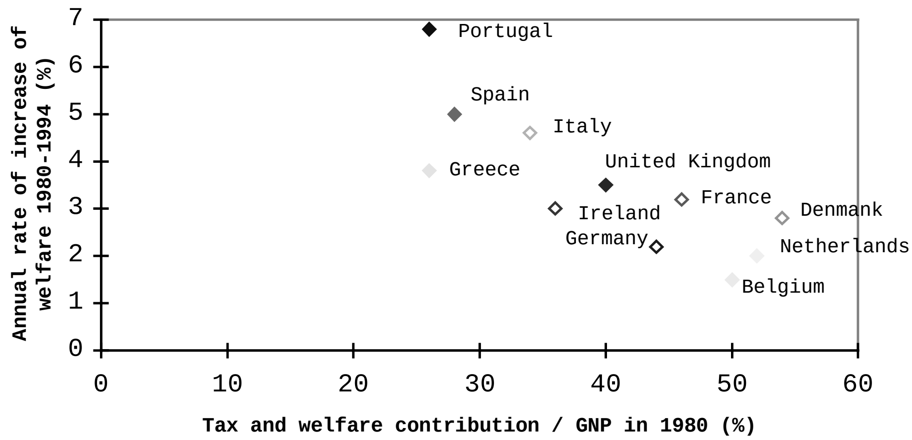


FIGURE 13.B - A RESPONSE TO EXCESSIVE PUBLIC DEBT?

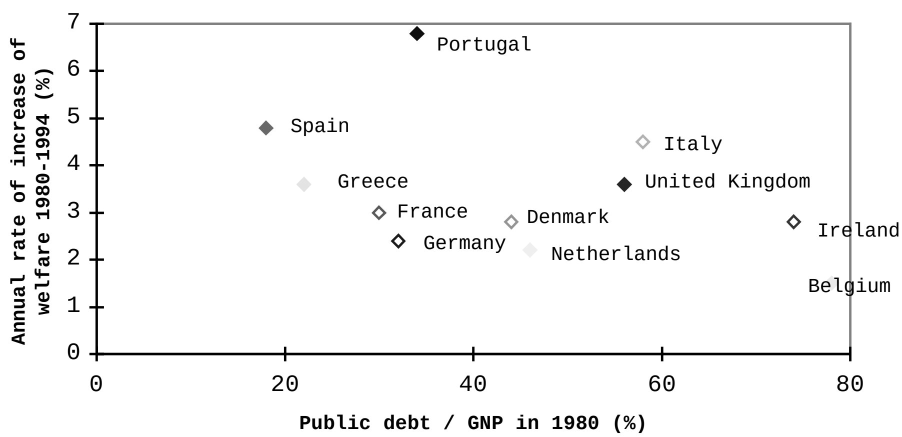
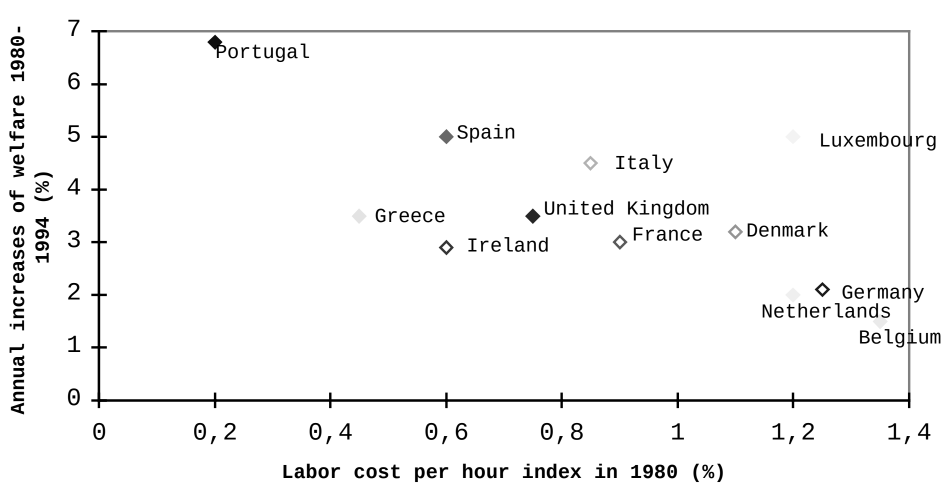


FIGURE 13.C – A DETRIMENTAL IMPACT UPON LABOR COSTS ?



Source: André Ch. (1997)

Major changes since the mid-80s

This short historical retrospect suggests that the French Welfare State has undergone significant transformations during the last two decades. This is a first argument against the current conception that states that only privatization and the introduction of market competition are able to cope with the adaptation of welfare to the present context. Some European governments have been able to propose, negotiate and finally implement significant changes in the Welfare State, in accordance with an adequate policy mix and thus reduce drastically unemployment…without necessarily introducing more market competition in the supply of welfare (Fitoussi, Passet, 2000).

A second controversy deals with the structural factors underlying the so-called "*Welfare State crisis*". Many analysts stress the role of globalization and/or technical change as key destabilizing factors. Nevertheless it can be argued that the problems encountered are largely the consequence of the inner developments of the configuration progressively elaborated after the World War II. In a sense, many welfare systems suffer from their own success and not necessarily their intrinsic and structural failure. The case of the old age pension is a good example. Back to the 50s, the French retirees used to be among the poorer fraction of the population. During 90s they experience the same standard of living than active wage earners, and this is quite an achievement. Similarly, with the lengthening of life expectation, more pensions are paid to the retirees. All these factors, that derive from the very fulfillment of the objective of welfare, explain the recurring deficit of the old age pension regimes and the need, but also the acceptance by the majority of workers, to increase the related social contribution.

The empirical relevance derived from international comparisons does not contradict this interpretation.

The size reached by social transfers calls for reforms and innovations able to slown-down cost increases.

Within the European Union, the period 1980-1994 shows a rather clear negative correlation between the initial size of welfare redistribution and its extension during the last 15 years (Figure 13.A). Two different explanations can be given of this pattern. First, it is interesting to note that the growth of welfare expenditures has been higher in Southern Europe: Portugal, Spain, Greece and Italy have been catching-up the level of social redistribution that used to characterize the most advanced countries. All the countries seem to converge toward nearly 65 % of total GNP allocated to tax and welfare transfers, quite a high figure indeed. This is precisely the starting point of a second interpretation: the more advanced Welfare States (Netherlands, Denmark, Belgium and to some extend France) were facing severe financial problems. Thus, an endogenous innovation process took place in order to redesign the existing system. The Dutch economy and more generally the small open social democratic countries have been the first to implement these reforms….and simultaneously to experience an early curbing down of unemployment. The precise organization of welfare has become more important than its extension and its reform appears as a condition to the reversal of the adverse trends observed during the 70s and 80s.

FIGURE 14 – THE 90S : A SEEMINGLY UNPRECEDENTED DEFICIT OF WELFARE

Balance of social protection accounts in proportion of total expenditures (%)

Source: Extract from Barbier J.-C., Théret B. (2000: Fig1) (*Ibid Table 1*)

The rise of deficits and public debt is inducing a rationalization and curbing down of welfare

Governments rarely undertake ambitious welfare reforms when the macroeconomic context and specific financial conditions of the welfare are good. On the contrary, crisis situations that derive from the explosion of deficits or social up-rise develop strong incentives for a reappraisal of the functioning of the system and the acceptance by public opinion of new conceptions and structural reforms. Under this respect, during the period 1984-1993, high public deficits and large real interest rates have constrained the ability to continue the previous trends in welfare spending. Generally speaking, one observes a *crowding out effect of interest payments* on the public debt upon public and welfare spending (André, 1997:41; Barbier, Théret, 2000:8-14). Actually, one observes a mild negative correlation between the size of the public debt relative to the GNP in the early 80s and the subsequent welfare spending increases during the period 1980-1994 (Figure 13.B).

In the case of France, the financial problems have become very acute in the early 90s (Figure 14), since the deficits of the welfare have been cumulative and called for State interventions in two directions: a shift from social contribution to a special tax (CSG) on one side, the need for an overall collective control over the evolutions of segmented and spending prone welfare regimes. The density of welfare reforms seems closely related to the dramatization triggered by large deficits. The reader may compare the sequence of deficits (Figure 14) along with the chronology of major reforms (the gray rectangles in Table 5).

A French paradox: a vast majority of citizens vote for maintaining a highly developed welfare…but want others to pay for it !

Public opinion surveys in France, recurrently give the following puzzling results. On the one hand, nearly 70 % of the population declare to support the present welfare system, a majority of them being satisfied with its current organization. On the other hand, only a small minority is ready to pay more in order to sustain the viability of the Welfare State: other social groups should pay for it. How to explain this apparent schizophrenia? A possible interpretation starts from the observation that the total labor costs differentials across European economies do not seem to be attributed so much to the increase in Welfare State contribution (Figure 13.C). This is quite contrary to the current and widely held idea of a detrimental impact of welfare on competitiveness. But it may be coherent with the previous findings that few OECD countries are governed by a profit/competitive-led regime (see supra Figure 6). Furthermore the French wage earners have generally accepted a moderation of direct wage increases in order to leave some room for social contribution increases. Such a finding is coherent with the vision of some welfare specialists that consider that social security is an issue that concerns uniquely the solidarity among wage earners who organize an internal redistribution of the total wage bill (Friot, 1998).

The fear of a negative impact over competitiveness triggers a shift from the welfare contribution of the firms to a general taxation of households

In spite of this mitigated evidence about the intensity of a strong external competitiveness constraint, the official discourses have recurrently pointed out the need for welfare reforms in order to cope with the internationalization or more precisely the Europeanization of the French economy. This vision, however might be its relevance, has been widely accepted and made possible the *restructuring of financing* along two major objectives. First, a series of

TABLE 5 – THE KEY REFORMS OF THE FRENCH WELFARE STATE: 1974-2000

Welfare System Date	Financing	Wage Legislation	Old Age Pensions	Health Care	Family Housing	Education Training	Unemployment	Employment
1974	Periodic increases in social contributions by firms and employees	Periodic increases of minimum wage (SMIC)		• Inflationist coalition (CNAM administrators, unions, employers association) • Resources adjusted to spending			Increases in employment benefits	
1975					Benefit from disabled			
1976					Single parent benefit API			Subsidy to part time employment
1977-1980							States takes the control of the statute of the unemployed	
1981		National pact for employment			Increases of benefits			
1982			Legal retirement age from 65 to 60 years	Increases in patients charges		Reform in order to generalize the access to "baccalauréa"t"		
1983	Call for a retreat of tax and welfare contribution / GDP %	Moderation in SMIC increases						
1984						Collective agreement on dual training system	Splitting between unemploy-ment insurance and solidarity benefits (ASS and AI)	Creation of collective utility jobs (TUC)
1985								Subsidies to youth employment
1986-1987								
1988		Creation of RMI (*Revenu Minimum d'Insertion*)						
1989		A growth pact is proposed				Credit for young workers training		• Back to work incentive contracts • Subsidies for new hirees
1990								
1991	A new tax (1.1%) on all incomes (CSG) replace pay roll contribution of firms			Reform of hospitals (caps on annual funding) (*Dotation globale*)	CSG tax is attributed to family regime			Tax breaks on the wage of low skilled workers (less than 1.8 SMIC)
1992						More training for the unemployed	• Restricted eligibility to ASS and AI • Decreasing benefits after 6 months	
1993	CSG raised at 2.4 %		• 1.3 % of CSG for pension fund • Longer period for pension of the private section (Balladur reform)	More financing by patients (30 %) (*Forfait hospitalier*)		More link of secondary school with the professions required by the labor market		Decrease of the social contribution of firms to promote employment
1994		Periodic but moderate increases in SMIC and RMI						
1995	• Principle of annual approval by Parliament of Social Security Bill • Social Security debt taken over by the State			Return to more planning, universalism under State control		Incentives to short duration university tracks preparing to the job market	• Eligibility more difficult • Diversification and reduction of replacement levels • *December* – Social movement of unemployed	
1996			Ability to join pension funds (Thomas Act) – not implemented	Decentralization of the control and distribution of maximum hospital spending				
1997	CSG raised at 3.4 %			1 % CSG given to health care fund	Benefit to cater for people over 60 years			
1998	CSG at 7.5 %			Resources of CSG allow further drop in social contribution	Child benefits become "income tested" for few months			
1999		The negotiation on 35 hours a week deal with wage moderation	Creation of a reserve fund in order to cope with the demographic shocks	*July* – Universal medical coverage (CMU)		Law organizing interaction between University and Firms		Law on 35 hours a week, presented as pro-employment
2000	Near equilibrium of general Social Security regime		*March* – Discussions about the reform of pay-as-you-go of principle			Law on life long training	*June* – Social partners propose a reform, with strong back to work incentives	

Source: Compiled from *OECD Annual Surveys on France* (1976 to 1999) and Barbier J.-Cl, Théret B. (2000)

reforms have been alleviating the welfare costs for the firms in order to promote an export led recovery. Second, the welfare contribution have been re-profiled among wage earners in order to develop incentives to job creation for the low skilled workers. As a consequence, the general public budget has taken in charge by a special tax a fraction of the contribution to welfare that used to be paid by the firms. From a conceptual point of view, this means that the French system is evolving in the direction of a *more Beveridgian system*, that recognizes the society wide aspects of some components of the Welfare State (Bonoli, Palier, 1995; Barbier, Théret, 2000). Simultaneously, some perverse effects of the tax system have been removed and allowed to cope with the challenge of the new Information and Communication Technologies and the shift toward a Knowledge Based Economy

The pressure of Europeanization, even far milder for social policy than for monetary and fiscal issues, exerts some role in the French reforms

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

First, the compliance with the Excessive Public Deficit clause of the Maastricht and Amsterdam treaties calls for the *global responsibility of each national State* for the deficit of central government, regional and local authorities and social security regimes. Therefore, a law has been voted in order to entitle the French Parliament to approve each year the funding of the welfare, that in turn calls for institutional and administrative reforms in the management of the system. This is a form of "*Etatisation*" of welfare under the cover of Europeanization, since the State takes the initiative over the social partners and significantly alter the ideal of "*paritarisme*".

But there is a second and countervailing force. The speed of monetary integration has put on top on the agenda the issue the building of a *social Europe*, just to comply with the demands of social democratic governments and workers unions. The Luxembourg European summit has thus adopted the principles of a *benchmarking* of employment policies and by extension of many components of social policies (gender equality, younth unemployment, life long learning, equal opportunity,…). Some scenarios do contemplate the possibility of an *Europeanization of welfare* (Maurice, 1999) and experts in European constitutional issues (Quermone, 1999) recognize that is could help in the forging of an European citizenship, so necessary for the long run viability of monetary integration (Boyer, 2000).

THE CONTEMPORARY FRENCH WELFARE SYSTEM: BETWEEN BISMARCK AND BEVERIDGE

The chronology of the reforms undertaken from 1974 to 2000 clearly shows a concentration during the 90s and some systematic features (Table 5). Quasi all regimes have been affected by more or less ambitious changes with the possible exception of family and housing.

- The *structure of financing* now includes a special social taxes (CSG), that tended to preserve the competitiveness of firms and benefits to the employment of low skilled workers.

- The *minimum wage policy* has no more the central role it used to exert during the Golden Age, since the government is moderating the corresponding hikes. Simultaneously, a form of *citizen wage* (RMI) is added to the intervention of the State upon direct wage formation (public sector wage setting, on top of the SMIC).

- The government and a significant fraction of social partners are convinced that the management of *old age pension system* has to be adapted if not totally transformed by the adoption of private pension funds.

- The *sickness insurance regime* expenditures are now under the control of government and the supervision of regional agencies in charge to spur the efficiency of health care delivery.

- After a failed attempt to introduce a means tested system, the *family regime* is kept largely unchanged.

- The concern of the State has shifted from the democratization of the *access to general education* ("*Baccalauréat*" supposed to be obtained by 80 % of each age cohort) to the incentives for professional training and *life long learning*.

- The *unemployment insurance* has experienced a clarification between two components: on the one hand the unemployment insurance strictly speaking paid by workers and firms, on the other hand national solidarity via the general tax system.

- Many devices for developing *employment* have been tried, from direct public job creation to the re-profiling of welfare contributions, not to forget significant subsidies given to firms to hire low skilled workers or long term unemployed. The most recent decisions relates to the reduction of legal working hours from 39 to 35 hours per week. The hope of the Ministry of Labor was to develop social dialogue at the firms level and, to some extent, to increase total employment.

Consequently, nowadays, the French Welfare States exhibit *seven distinctive features* that were not so present back in the early 70s.

More State legislative interventions in order to control social partners profligacy

A rather common characteristic is now present in the contemporary configuration: a form of control of welfare expenditures by the central State. This is in contradiction with the founding principle of "*paritarisme*", according which business and workers representatives jointly manage the various regimes. Given the large decentralization of welfare management, as well as the multiplicity of actors involved and the long lasting inertia in representations and vested interests, this is not an easy task. Thus, the State is constrained to be involved more and more in the reforms of the welfare, in order to complement a top down approach, based upon the control of welfare spending. Until now, this strategy has delivered mitigated results as far as health is concerned (Mougeot, 1999).

Beveridgian innovations within a still Bismarckian system.

This control of expenditures by the State is the counterpart of an extended role on the financing side. The recurring deficits and the lack of consensus among social partners about the share of the extra burden has brought the State back in. Progressively, a new doctrine is emerging about what should be covered by social contributions and what is up to society wide solidarity. In nearly all the regimes, this clarification is taking place. In practical terms, a new type of State intervention is associated to this move in the welfare paradigm. One observes a shift in the financing of welfare, from social contribution of the firms to general *taxation of all incomes* in the name of a society wide solidarity for *health, pensions and family allowances*. The institutional chronology (see Table 5) does correspond to the inflexions diagnosed by the national account series (Table 1 supra).

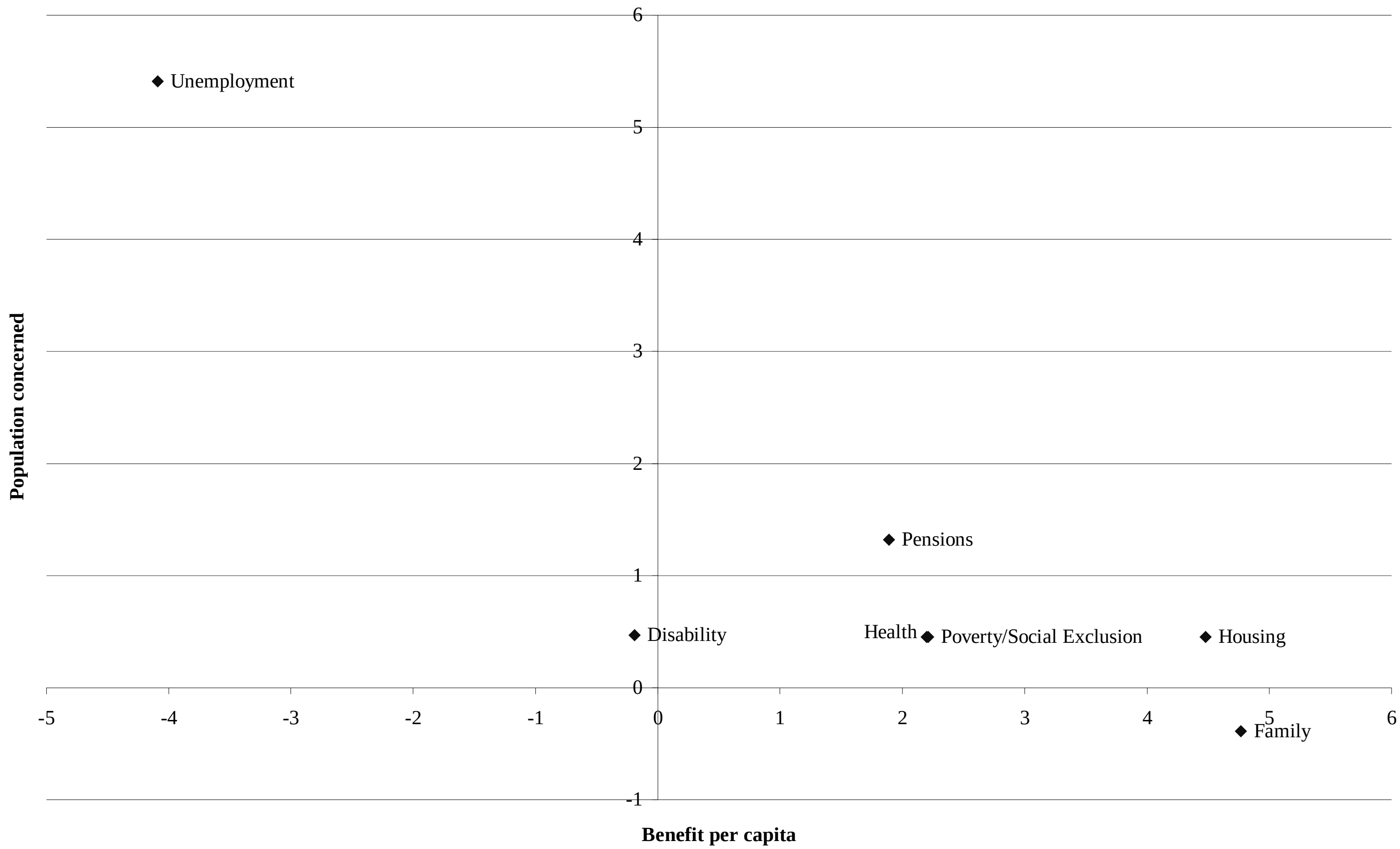
From a theoretical point of view, this is a quite important change. Even if the shift is modest in strictly quantitative terms, it implies that the French welfare is no more a typical and pure Bismarckian system. Some doses of Beveridgian features are introduced as exemplified by the creation of CSG (Generalized Social Contribution) in 1991 and its rapid growth. The French, and by extension the Continental European Welfare States, are frequently perceived as sclerotic and unable to cope with the geopolitical and technological changes that require a large labor market flexibility and mobility (Greenspan, 1999). These innovations do hybridize two logic, previously opposed and considered as antithetic. This is a rather general principle in the evolution of private productive organizations (Boyer, Charrron, Jürgens, Tolliday, 1998). Some experts think that hybrid welfare systems might be more flexible and reactive than pure ideal types (Barbier, Théret, 2000). Furthermore, this could close the gap between Scandinavian and German conceptions of the welfare, if not provoke a possible convergence towards a common European model, at least in the very long run (Maurice, 1999).

The Parliament discusses the funding of welfare: towards an integration of fiscal and social policies

The current policy mix in Europe is somehow unbalanced. On top on the hierarchy of policy makers, the European Central Bank is deciding unilaterally the common monetary policy via its action upon short term interest rate. Then, the eleven Ministers of Finance mmmembers of the Euro have to adjust each national budget, under the constraints of the Excessive Public Deficits clause of the European Treaties, in accordance with what is required by the domestic macroeconomic context. Ultimately, the Ministers of Labor have to deal with the unemployment that results from this process and to limits social inequality by adequate legislations and reorganization of their limited budget. The primacy of monetary and fiscal conditions may lead to rather unsatisfactory macroeconomic outcomes (Boyer, 2000d). The fact that since 1995 the French Parliament has to deliberate jointly upon the public and the social budget might be good news: at the national level, some new trade offs could emerge from the ongoing learning process. If some welfare components actually contribute to innovation and growth, better solutions could be found and a more coherent financing system would emerge and overcome the possible contradiction between the Bismarckian and Beveridgian features of the present system.

FIGURE 15 - GENEROSITY OF WELFARE AND EXTENSION OF VARIOUS COMPONENTS

Average annual rate 1990-1997 (%)



Source : Computed from André Ch. (2000) Les évolutions contemporaines des Etats-providence en Europe, Mimeograph CEPREMAP, Annexe, p. 4-5.

More stringent conditions for welfare, at odds with the previous inflationary bias

The issue of moral hazard and adverse selection is frequently invoked for explaining the rise of welfare costs. For instance, a too generous replacement income for unemployed would be at the origin of the rising European (Layard, Nickell, Jackman, 1991) and French unemployment by generalizing unemployment traps (Bourguignon, 1998). The French case seems to be a good counter example that drastically downplays the importance of such factors: they may exist for a fraction of the population but do not explain the major trends observed during the 90s (Figure 15).

- If the opportunistic behavior of welfare recipients was the core determinant of the evolution of expenditures, then the drastic reduction of *unemployment benefits,* new and severe conditions put to the payment of these benefits and finally the implementation of a decreasing replacement ratio as time elapses, should imply an equivalent reduction of unemployment. The converse is observed and this means that other macroeconomic (slow growth) and probably structural (changing pattern of technical change and firms organizations) factors have to be put into the picture.

- Conversely, more generous benefits for *other social risks* have not prompted an opportunistic behavior from potential beneficiaries. This is the case for health care, poverty and still more housing and family regimes. Probably the reason of such an erroneous prognosis from standard microeconomic theory derives from the irrelevance of its hypotheses concerning the rationality of agents and the existence of a Walrasian equilibrium, in which the price system conveys all the relevant information.

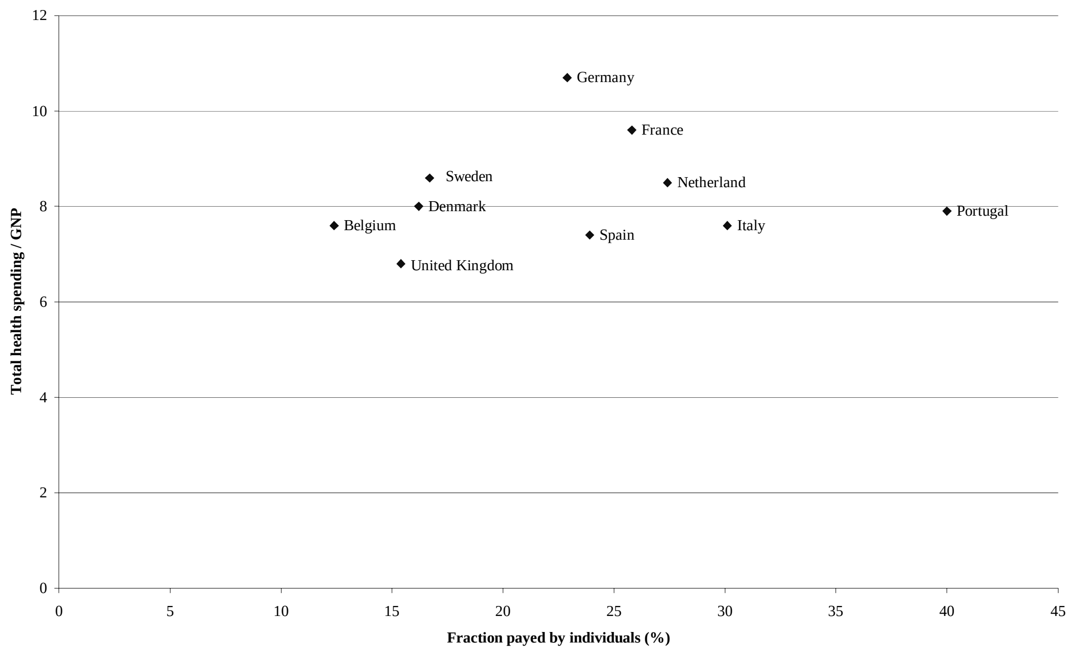
Nevertheless, the general direction of the policy of the successive governments has been to slim down the benefits, to make access to the welfare more difficult and to try to directly control total welfare expenditures. In the French case, State intervention has replaced the market in rationing welfare expenditures. By parenthesis, the case of health care suggests that the first method may be more efficient than the second, even if most theoreticians usually develop the opposite conclusion. This puzzling finding deserves some more detailed analyses.

The limits of market incentives: drastic reforms of the health care system but few inflexions in cost evolution

The surge of health care expenditures is frequently attributed to the lack of market mechanisms within the sector (Mougeot, 1999; Henriet, Rochet, 1999; Majnoni d'Intignano, 1999b). Do international comparisons and a more precise analysis of the French evolutions confirm this interpretation? Simple observations somehow contradict this conventional wisdom.

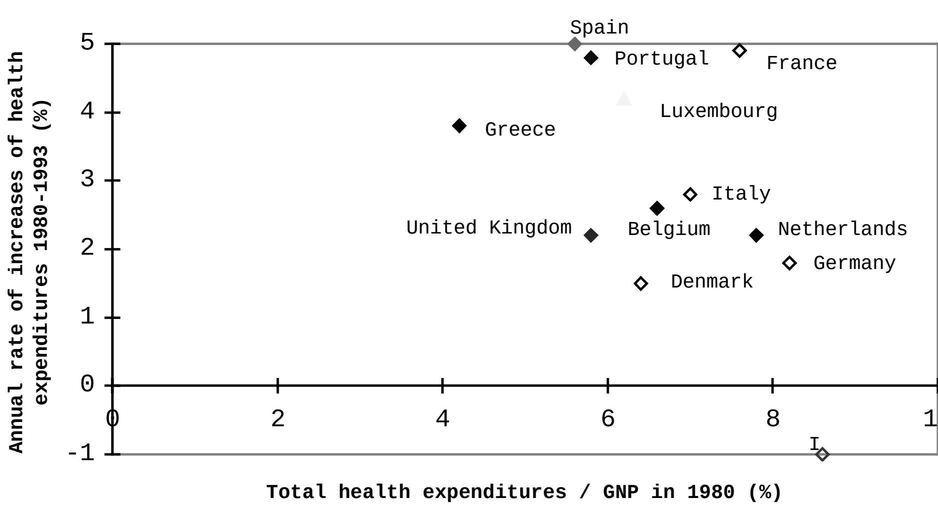
HOW TO EXPLAIN THE SURGE OF HEALTH CARE EXPENDITURES?

FIGURE 16.A - WHEN INDIVIDUALS PAY MORE FOR HEALTH CARE, ARE THE COSTS LOWER? AN EUROPEAN COMPARISON (1997)



Source : Computed from André Ch. (2000) Les évolutions contemporaines des États-providence en Europe, Mimeograph CEPREMAP, Annexe p. 6.

FIGURE 16.B – THE CATCHING-UP OF HEALTH EXPENDITURES BY LAGGING COUNTRIES



Source: André Ch. (1997)

THE FOLLOWING FIGURES 16.C TO J ARE GIVEN IN THE ANNEX P. 77-79.

- When the patients pay a larger fraction of the health care bill, given the large diffusion of similar medical technology across European health care systems, one should observe a smaller size of the spending for in health care in total GNP. On the contrary, comes out a quasi independence (Figure 16.A). The costs paid by the patient *do not exert* the expected moderating effect. Of course, differences in standards of living and the organizational structure of health care supply are to be introduced in order to assess the impact of the pricing system upon the demand for health care (see Insert 2.D infra). A significant factor seems to be the catching-up of the lagging countries (Figure 16.B). Actually Southern European countries are modernizing their hospitals and health organizations, whereas the more advanced countries try to innovate in order to moderate cost increases. A similar phenomenon had been observed at the level of the total welfare benefits (see Figure 13.A supra). Nevertheless, a large discrepancy still prevails, since for instance France experiences high increase in health expenditures but already has one of the most important share of health care in total GNP. This observation usually suggests to analysts that the French system is badly managed (Conseil d'Analyse Economique, 1999; Commissariat Général du Plan, 2000).

- A closer look at the French case may explain simultaneously why the reduction in health care reimbursement has not stopped demand and why this country spend so much for this kind of welfare expenditures. In between the public and the private sectors, some "*mutuelles*" are compensating the decrease of the coverage by social security (Table 6). Actually, on a voluntary basis, a large majority of the population adheres to such a *non profit insurance*. They represent more than the double of private insurance that still represents a modest share, only 3 % in 1998 versus 1.5 % in 1980, i.e. a rather modest trend towards privatization. This is an indirect evidence that the private insurance sector is not overwhelmingly more efficient that social security and "*mutuelles*". In any case, this confirms that the French households are ready to pay more to get better reimbursement and to have access to the best health care facilities. Under this respect, one of the reasons of the continuous increase of sickness insurance expenditures is that, within rich societies, the search for well being and good health become essential and thus health care expenditures manifest an income elasticity superior to one.

TABLE 6 – HEALTH CARE: A COMPENSATING MECHANISM BETWEEN SOCIAL SECURITY AND "*MUTUELLE*"

(Share of each source of funding in per cent of the total)

Total Healthcare Financing	**1975**	**1980**	**1985**	**1990**	**1993**	**1996**	**1997**	**1990 nb[1]**	**1995 nb**	**1998 nb**
Social Security	73.2	76.5	75.5	74.0	73.9			76.0	75.5	75.5
State	4.1	2.9	2.3	1.1	0.9			1.1	1.0	1.1
Total Public	**77.3**	**79.4**	**77.8**	**75.1**	**74.8**	**74.4**	**73.9**	**77.1**	**76.5**	**76.6**
"*Mutuelles*"	4.8	5.0	5.1	6.1	6.3			6.1	6.8	7.1
"Socialised" Spending	**82.1**	**84.4**	**82.9**	**81.2**	**81.1**			**83.2**	**83.3**	**83.7**
Private Insurances		1.5		3.1	3.6			2.6	3.1	3.0
Households share		14.1		15.7	15.3			14.2	13.6	13.3

1. New 1995 basis of social protection accounts.

Sources: Lancry, 1995; Rochaix, 1995; Rupprecht, 1999a; Geffroy et Lenseigne, 1999.

Extract from : Barbier J.-C., Théret B. (2000:25) (*ibid Table 1*)

- After two decades, during which French governments have tried to call for the responsibility of patients in the control health care increases, a radical turning point took place in 1991, still reinforced by the program of Prime Minister Alain Juppé (Insert 1).

INSERT 1 – THE "JUPPÉ" PLAN FOR HEALTHCARE

- Parliament is constitutionally empowered to fix annual spending limits with the imposition of penalties on doctors who exceed these ceilings (maintained but not fully implemented so far). An 1996 constitutional amendment and organic laws organise an annual Parliament vote of a "Social Security Financing Bill" (LFSS). LFSS fixes national spending targets and a national objective for healthcare funds (ONDAM) (the first such objective was passed for 1997).   *- Healthcare funds managing boards are restructured. Against the paritariste tradition, the government nominates fund executives and qualified experts are introduced (maintained).*   *- A universal health-insurance regime is created, encompassing the nineteen existing regimes. The work (or work related) conditions for benefits are substituted by residence requirements (adapted through CMU).*   *- Funding principles are altered. State contribution is increased through CSG (see section 1). Health social contributions are extended to taxable pensioners and the unemployed whose benefits exceed the minimum wage. Additional taxes are imposed on the pharmaceutical industry and "generic" drugs' use is encouraged. Family benefits become taxable (not implemented).*   *- Healthcare cost management procedures are introduced (maintained). An individual healthcare file is created to restrict patients' "nomadism" and access to specialist practitioners (not implemented).*   *- Regional administration agencies are created to administer hospitals; evaluation procedures are extended as well as co-ordination between public and private sectors (maintained).*

Extract from : Barbier J.-C., Théret B. (2000:27) (*ibid Table 1*)

Basically, the equivalent of *an indicative central planning* is decided in order to try to curb down the continuous increase of health care expenditures, faster than forecast. A target for maximum increases is fixed each year by the government, qualified experts nominated by the government are appointed in the health care funds managing boards, and this, again, runs against the tradition of "*paritatisme*". A *universal health insurance* is created, regrouping the 19 existing regimes. Simultaneously, the State, via CSG, now contributes to the funding of the health regime. Additional taxes are put on pharmaceutical products. An health care file is created to trace the behavior of the patients. Finally, regional bodies are created in order to assess the efficiency of hospitals, to allocate the funding among them, and to reorganize the supply on a cost saving basis. Even if the procedures have been decentralized, the emphasis is put upon the control by government, not so much the role of market mechanisms. Actually, in the past, the alliance of patients with medical staff had on the contrary pushed the costs up, since the competition among suppliers was an incentive to more costly treatments just to attract the patients.

- Some rough international comparisons confirm this surprising French evolution, i.e. the shift from a market incentive strategy to a *direct control by the State*. Actually, the share of health care expenditures in total GNP is negatively correlated with the share of public financing (Figure 16.C). On a qualitative basis, the countries with a national health care system are most cost saving than other systems (Insert 2.B). Furthermore, the structure of health care financing is correlated with the size of the general redistribution of income operated in order to reduce poverty (Figure 16.D). Again, one finds a form of synergy between a society wide solidarity, based on public financing, and the efficiency of the delivery of welfare benefits.

- An evident objection is frequently addressed to the *national health care systems*: they would limit the free access to health facilities, ration demand and would be detrimental to the very objective of welfare, i.e. low morbidity and long life expectation. This common appraisal is contradicted by the most recent and ambitious assessment of the organization and the efficiency of the health care systems (WHO, 2000:152-155). If one considers 9 developed countries, the level of health is directly correlated to the share of public funding in total health care expenditure (Figure 16.E). Furthermore, public financing contributes to the fairness in health care distribution (Figure 16.F): market led regimes, such as the US, suffer from large inequalities and Chile, the innovator in private health organizations, is not an exception. Another surprising result is that the overall health care performance seems positively linked to the importance of public funding (Figure 16.G). But of course, the American health care system is simultaneously largely privately financed and at the scientific frontier of medical research. It is thus difficult to disentangle the specific contribution of the private financing, not to speak about the methodological problems associated with the measurement of quality.

The paradox of French health care: poorly considered by French experts, surprisingly efficient according to the World Health Organization

These international comparisons are shedding a quite unconventional vision of the French case.

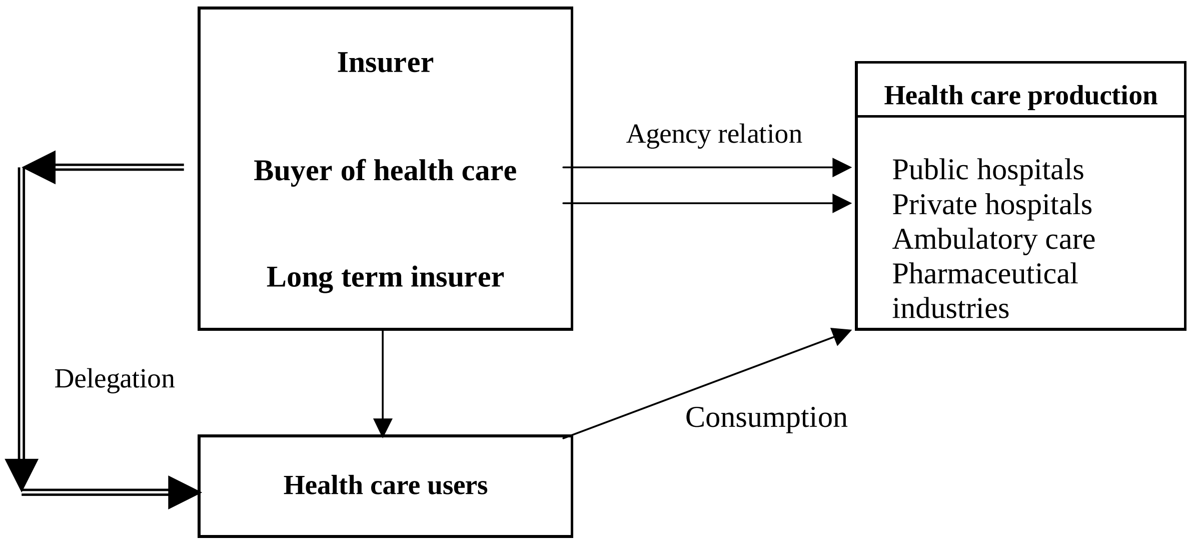
- Actually *France and Italy* display an *exceptionally good* performance and this is paradoxical since these two countries are frequently criticized for their poor efficiency. The majority of French scholars blame the inability of this country to eradicate some basic diseases (Majnoni d'Intignano, 1999b) and are very concerned by the many static inefficiencies present into the system (Mougeot, 1999). The indexes built and selected by the World Health Organization, more synthetic, provide a much more positive appraisal.

- Any cross section analysis is very sensitive to the choice of the countries. In order to check the importance of this factor, the same analysis has been reiterated for 15 countries and a more recent period 1997, rather than 1990. The conclusions are finally quite similar. The importance of *public funding* seems to definitely contribute to *the fairness* in the access to health care (Figure 16.I). Note that the position of the US is in line with the linear relationship that emerges from the whole sample of developed countries. This result is crucial since the very objective of any welfare system is precisely to fight against inequality, be it at the cost of some loss in efficiency. But again this is not the case: for Northern European countries and North America, both the health care level (Figure 16.H) and the overall performance of the system (Figure 16.J) are positively correlated to the share of public funding. *Equity and efficiency* seem to be jointly reached by the best health care systems.

- The group of out layer countries is now extended to the whole sample of Southern European countries (Figure 16. H and Figure 16.J). This means that many social economic and environmental factors shape the level of health that is only partially affected by the level and quality of health care. By parenthesis this means that many societal and organization features exert some externalities upon health care (industrial and road accidents, pollution, nature of the diet, alcoholism, level of stress, violent crimes). This raises a major issue for any policy that would try to optimize the welfare associated to health: a conventional estimate states that medical expenditures contribute for only 20 % to the health level (Foundation Albert & Mary Lasker, 2000).

INSERT 2 – THE COMPLEX ARCHITECTURE OF HEALTH CARE SYSTEMS

A. The theoretical architecture



Source: Adapted from Henriet D., Rochet J.-Ch. (1999: 22)

B. A multiplicity of configurations in Europe

Countries	Belgium	Denmark	Germany	France	Italy	Netherlands	Portugal	Spain	Sweden	United Kingdom
Nature of the system										
• **National Health Care System**		X			X		X	X	X	X
• **Reimbursement System**	X			X						
• **Contractual System**			X			X				
Leading financing source	Social Security	Tax	Social Security	Social Security	Social Security + Tax	Social Security + Private regime	Tax	Tax	Tax + Social Security	Tax

C. An evolving structure of health care consumption

	1970	1975	1980	1985	1990	1995
Public Hospital	30.7	35.2	41.3	39.4	36.4	37.0
Private Hospital	11.6	12.2	11.6	11.6	11.2	11.2
Doctors	29.0	27.6	26.3	27.3	29.4	27.7
Pharmaceutical	25.8	22.1	17.5	17.5	18.2	18.5
Others	2.9	3.0	3.1	4.1	4.8	5.5
TOTAL	100	100	100	100	100	100

Source: Bureau D., Caussat L. (1999: 133)

D. The consequence of a socialized demand and technical change: few impact of competition

Evolution 1970-1995 (%) and share in total

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

Source: L'Horty, Quinet, Rupprecht (1997) in Rupprechet F. (1999: 157)

Thus, the best organization of health care does not seem to derive from the maximum use of market mechanisms. This is not a real surprise since the complex architecture of any modern health care system (Insert 2.A) does not fit with the simplistic representation of competition on typical goods markets. Many functions and actors have to be considered and the nature of their interrelations finally sets the nature of the performance, both in medical and economic terms. It is difficult to contemplate a single best way since generally the available solutions are second or third best. Actually, configurations differ drastically across Europe, both in terms of monitoring of the supply and financing of the demand (Insert 2.B). Furthermore, there is some competition between alternative care providers and the evolution of their respective shares show that some readjusting mechanisms are operating in order, for instance in France, to reduce the importance of hospitals (Insert 2.C).

But the most difficult issue is the *interplay of the supply and demand sides* in the rapid evolution of health care expenditures. Some specific econometric studies run for French households (L'Horty, Quinet, Rupprecht, 1997) suggest that previous policies might have been inefficient, because they assumed an erroneous model of the determinants of health care. Actually, the level of collective coverage seems to explain only 6 % of total increases and the relative price effects 23 %. By contrast, two other factors govern the dynamics of health (Insert 2.D).

- Since richer individuals spend more for health, the very development of modern societies brings a more rapid demand for health than for average goods or services. This income effect explains 41 % of the observed increases over the period 1970-1995.

- The *availability* of doctors, hospitals and other facilities and *the technical change* that they induce by their activity would explain 23 % of the related expenditures. Contrary to that is observed in typical manufacturing industries, in the medical sphere, technical change would be quality and therefore cost enhancing. By parenthesis, this explains why the country that is at the medical frontier, i.e. the United-States, finally spends much more than the rest of the world. This factor could well transcend the conventional choice between private and public funding of welfare. What kind of medical innovation does each society need to improve general health?

International pressures for pension funds versus national institutional complementarity

The last decade has developed significant pressures in favor of the reform of the financing and organization of the old age pensions. First, the related payments have represented a slightly but continuously increasing share of total welfare expenditures, from 41,7 % in 1981 to 43,5 %. Second and importantly, the regularity of this trend is reinforced by the expectations about an aging French population during the first decades of this century. But there is a third and important economic reason: since 1984 and until the mid-90s, the wage share in total income has steadily decreased. As the pensions used to be financed by a social contribution raised upon the wage bill, this structural macroeconomic evolution has had an adverse effects on the continuation of the pay-as-you-go system on an unchanged basis. Finally, many international organizations such as the World Bank, OECD, have strongly recommended and popularized the idea of a shift towards pension funds (Béland, 2000). Furthermore, American pension funds have been active on the French stock market, therefore showing the desirability of an equivalent organization for the French capitalism.

INSERT 3 – FUNDING VERSUS PAY-AS-YOU-GO SYSTEMS: THE FRENCH DEBATE ABOUT PENSIONS

Three main economic arguments are used to support the replacement of pay-as-you-go systems by pension funds (Blanchet, 1998; Concialdi, 2000).

1/The demographic argument: pension funding is supposed to allow adjustment to the increasing costs of an ageing population. However, just as pay-as-you-go schemes, funding schemes need additional resources out of the current GDP inasmuch as life expectancy increases. The difference between both systems only relates to the ways resources are allocated. Moreover, ageing is not the only socio-demographic problem. Intergenerational transfers for the non active and transfers among the active population should also be taken into account (Masson, 1999; Concialdi, 2000). This accounts for alternative measures of dependency ratios (as seen in section 2).

2/The savings argument: capitalisation is deemed better because it increases savings and consequently investments and stronger growth. This argument may have some consistency in the US context where saving ratios for households are very low. However in the French case (as in Japan and continental Europe), saving ratios are totally different. Moreover there is not shortage of capital, but a problem of assets allocation (Legros, 2000).

3/The rate of return argument: pensions funds would yield better returns. But capitalisation schemes have short and middle term transitory costs that are not compensated by long term gains. Moreover management costs are much higher for pensions funds than for pay-as-you-go schemes. Finally, if large capitalisation schemes extend to all developed countries, rates of return will be lower and financial instability higher, both risks incompatible with long term balance necessary to manage structural changes in the pension field.

Efficiency arguments in favour of capitalisation schemes thus do not compensate for the risk of structural change. Economic equity arguments clearly converge. Economic justifications have then given place to more directly political arguments.

1/The growth argument: According to pension funds supporters, increasing social contributions' burden on production is unsustainable and it is necessary to rely more on voluntary savings. But the present distribution of savings is very unequal among employees. Universal access to pension funds would then only be attained by making it compulsory, which would entail additional contributions (Balligand and de Foucault, 2000).

2/The leftist argument: trade unions would wield new powers as shareholders able to control firms' economic policies. On the contrary, recent research shows that experiments of pensions funds controlled by trade-unions in the US invalidate this idea and demonstrate that the financial logic hold the sway over the labour logic (O'Sullivan, 2000; Pernot and Sauviat, 2000).

3/The nationalist argument: For France and other continental European countries, it would be necessary to develop national pension funds to counter American and British funds' hegemony. However France, as most other European Union member states harbours large trade balance surpluses and is exporting massive amounts of capital towards other parts of the developed world. Here again the problem of assets' allocation is not directly related to pension funding.

Extract from : Barbier J.-C., Théret B. (2000:31) (*ibid Table 1*)

Nevertheless, interest groups and economists have not yet developed a common understanding of the current issues (Insert 3), probably because this issue relates to many other reforms of economic institutions.

- For some experts, the present system will *not be viable* and has to be reformed significantly along the same broad principles (Charpin, 1999) or to be progressively completed by private pension funds (Davanne, 1998). But others point out that *the same measures* taken during the last fifteen years (acceptance by workers of a shift from direct wage to welfare payment, revision of the procedure of pension indexing from nominal wage to inflation, funding by the State of the solidaristic part of the pension funds system,…) are sufficient to cope with the emerging demographic disequilibria of the next two decades (Sterdyniak, Dupont, Dantec, 1999). By parenthesis, the debate is highly technical due to the complexity of the various pension regimes and the uncertainties about the determinants of long term growth.

- For the proponents of pension funds, the century long historical record would show that the capitalization of the contribution of workers would have delivered *better results* than the redistribution via the Welfare State, because the average rate of return of shares and bonds has overcome the trends of labor productivity increases (Davanne, 1998). But of course, this argument is challenged because during the last decade the real rate of returns of financial assets has been exceptional. Still more seriously, overlapping generations models suggest that the *same macroeconomic constraint* as for a pay-as –you- go system will prevail when present generations will retire and sell their portfolio to a less numerous cohort (Blanchet, 1998). For some analysts, the movement towards pension funds would largely be the result of strong financial actors selling the idea to a badly informed public opinion…and wage earners unconscious of their own interests and unable to express their solidarity via a new compromise between active workers and retirees (Friot, 1998).

- From the point of view of *social justice*, it can be argued that the strict preservation of the present pension system is good for the present generation but very unfair for the next one who will have to pay both for the retirees and for themselves by privately contributing to the saving required by their old age, given the “unfunded” character of the public welfare at that horizon. It might well be that the French governments have in the past privileged the insider workers and mature firms, but neglected the young unemployed and the entrepreneurs of the sunrise industries. But the issue is not that simple: the possible fairness of a pension fund system from the point of view of intergenerational equity has to be balanced against the horizontal inequality created by the juxtaposition of a minimal public pension system and private pension funds. The quasi totality of literature available concludes that this second form of inequality has been increasing every where when have been introduced private pensions: in Chile (Andrianjafy, 2000) in UK (William & alii, 2000) and of course in the US (O’Sullivan, 2000). This contradictory impact of pension fund upon inequalities may partly explain the difficulty of the French government formed in 1997 to make a decision on this issue.

- Some leftists do favor the constitution of pension funds because they would be *a tool given to the workers* in order to regain some bargaining power and control over firms management, capital allocation and more generally the style of development (Aglietta, 1998). This prophecy, that reminds some Rudolf Hilferding’s ideas about a soft transition from financial capitalism to a form of socialist society, does not correspond to the trends observed in countries where pension funds are important. The managers of these funds ask for a stable and high return on equity, let it be at the cost of downsizing, more intensity of work and stress, or innovation and market power. For the time being, this shift in the financing of pensions has not been associated with the emergence of a pro-labor development mode, quite on the contrary. Not to forget that a typically finance-led economic regime is not necessarily viable nor stable in the long run (Boyer, 2000b). By contrast, the previous public system exerted a positive and counter cyclical impact upon macroeconomic evolutions.

- A last argument in favor of private pension funds stresses that they are necessary for the development of deep financial markets within the dosmestic boundaries, that would challenge the American and British hegemony in world financial inter-mediation. But the argument is not made only by nationalists, since the assets of the subscribers should and could be used in order to increase investment rate, the adoption of ICT, innovation in such a manner that the steady rate of growth would be higher than in conventional old age welfare systems (Balligand, de Foucauld, 2000). The reasoning can easily be challenged. It assumes that domestic savings are the key determinant of investment and this neglects the globalization of finance and the fact that the interest rate tend to be set internationally. Furthermore, the abundance of saving can on the contrary trigger deflationary pressures if the firms hold pessimistic views about the future: the Japanese economy during the lost decade is a good example of this divorce between saving and investment.

Thus it is no surprise if the French government has been recurrently asking for *White Papers* assessing the future of the pension system…and if these reports have not converged toward an integrated analysis and consensus proposal. The *Council of Economic Analysis* report was pointing toward the strong interest of a capitalization of the contribution to old age pensions (Davanne, 1998). The next report, elaborated by the *Head of the Planning Institute* (Commissariat Général du Plan) pushed the government to a rather drastic and quick reform of the existing system and the need to homogenize the diverse and segmented regimes under the aegis of a common State regulation (Charpin, 1999). Then, another report was asked to the *Economic and Social Council* (Conseil Economique et Social). It developed a quite optimistic conclusion: the return to a higher growth during the next two decades (3,5 % per year) would allow a rather easy financing of the existing pension system only marginally reformed (Teulade, 2000). Still another report was asked to the *Council of Economic Analysis*: was then explored the possibility of a *flexible and chosen retirement*, "*à la carte*". Under the condition of complete actuarial neutrality, and the cancellation of the subsidies to early retirement this flexibility would facilitate the absorption of demographic shock expected for the end of this decade (Taddei, 1999).

The lack of political will is not necessarily to be blamed. Actually, the old age pension system is *deeply embedded* into a series of *institutional forms* (Dehove, Théret, 1996) and *economic representations* (Bourdelais, 1996). They should be simultaneously transformed and it is not an easy task. Basically, the 90s have experienced a paradigm shift in the conception and organization of pensions. Until the 70s, pensions were conceived as the intergenerational debt among wage earners and this debt was warranted, directly or indirectly, by the State, responsible of the financial equilibrium of the system (Friot, 1998). Since the mid-80s, the rise of the power of finance over governments (due to their large public debt) and then corporations (due to the crisis of banking system and the invention of new tools for direct finance) has propagated a totally different conception: each individual should save and eventually pool the management of its assets in order to build his/her own pension via an active use of booming financial markets (Orléan, 2000).

This paradigmatic shift draws upon the building of a coherent and largely diffused vision of the world that stresses the rationality and equity brought by private pension funds. This discourse, internationally quite homogenous, may give the impression of converging economic systems. A more careful analysis suggests that only specific societal and political conditions have entitled the emergence of such pension funds in the United-States (Montagne, 2000): weaker and weaker unions, active strategies of the firms in order to erode collective bargaining, dynamism of financial markets and meager tradition of society wide welfare, not to forget the federalist nature of the American political system. All these conditions are not necessarily met abroad, but they might call for the search for functional equivalents. But if a strong tradition of social democratic polity is present, it is difficult for financial markets to impose the same governance structures as in more individualistic and segmented societies (Roe, 2000). In turn, this environment shapes the economic representations and expectations about the financing of old age pension.

In more abstract terms, many institutional forms have spill-over effects upon the welfare regime and conversely the welfare exerts both positive and negative externalities on most of other spheres of economic activity. This is another example of institutional complementarity (Aoki, 2001). In such a context, it is not totally unexpected that social partners tend to block a partial reform that challenges the whole architecture of the system.

Rather easy reform of the private sector pension, but deadlock for the public sector

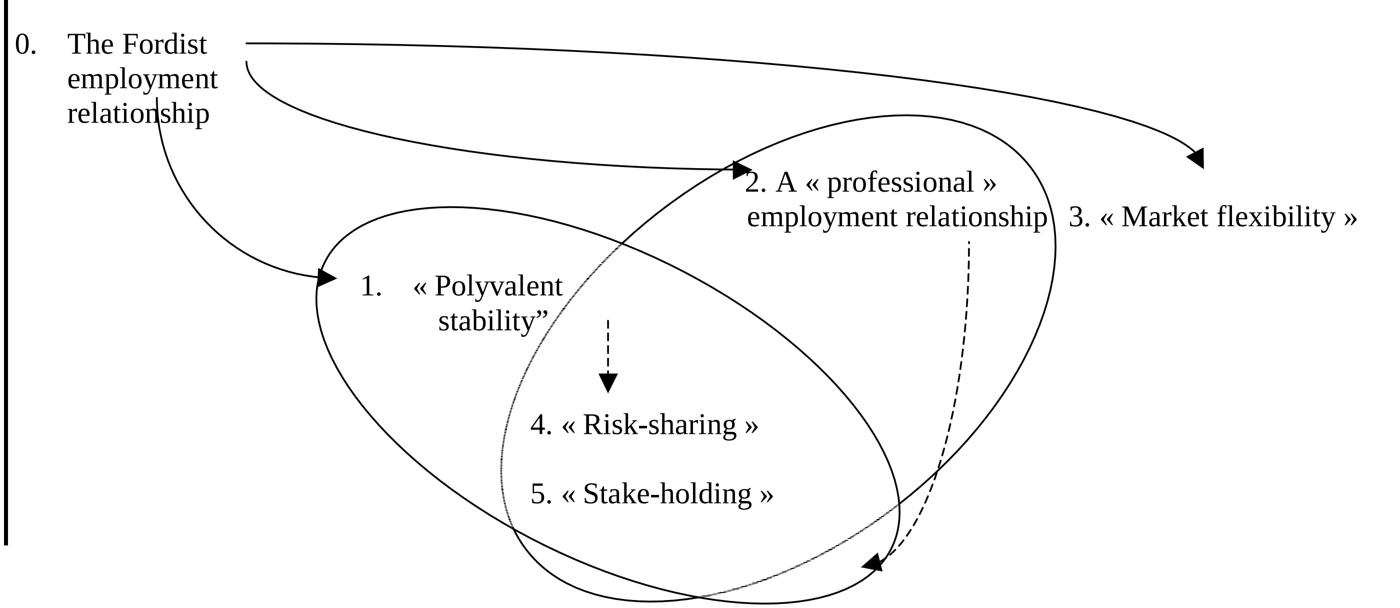
This framework helps in understanding what may appear as a paradox to the observers of the French system. Many foreign experts would bet that given its statist and "Colbertist" tradition, it has been easy to reform civil servants and nationalized firms employees pension systems. The reverse is observed (Table 5, supra): in 1993, the conservative government led by Edouard Balladur decides and implement a rather significant restriction of the access to retirement for the employees of the private sector. At that time, the unemployment is so high and the power of unions so weak that the workers cannot block the reform, that had been negotiated carefully with some minor concessions such as the replacement of a fraction of social contributions by CSG. When the following conservative government, run by Alain Juppé, decided in 1995 equivalent measures for the public sector, the relatively well organized public unions actively mobilized employees and public opinion. After a 6 weeks general strike in the public sector, the government had to cancel the reform.

This outcome is coherent with the analytical framework previously presented by this paper. The French welfare is more governed by *localized and industry specific compromises* rather than by rational planning and decisions by central State. A second teaching is that it is easier to introduce marginal transformations and modest innovations than to decide breakthroughs that alter the logic of the existing system. Remember the invention of CSG and the hybridization of a typical Bismarckian system by some elements of Beveridgian solidarity. Two more casual observations should be added about the issue of pension reforms. On the one hand, no clear demand for private pension funds has been voiced by wage earners and unions, with the possible exception of the small minority of professionals or highly skilled workers of the large corporations. On the other hand, the generous tax treatment of life insurance seems to provide an attractive alternative to typical pension funds. Thus the extension of the former seems the solution preferred by the French Ministry of Finance.

TABLE 7 – A MAJOR CHALLENGE FOR CONTEMPORARY WELFARE SYSTEMS : THE DIFFERENTIATION OF EMPLOYMENT RELATIONS

Organization of work / Remuneration Is determined by:	Polarization – but job specifications are still complementary	Job-specific skills - employment is stabilized	Skills are essential to one company, but can also be transferred to another	Little competence involved – high degree of transferability

- **Collective agreements**
- **« Market price »**
- **Individualization of pay systems**
- **Profit-sharing**
- **Income from company profit plans**



Note : The numbers represent *unadulterated theoretical models*
The groupings comprised by the elliptical shapes correspond to the combinations of *characteristics* observed in the case studies.

Source: Beffa J.-L., Boyer R., Touffut J.-Ph. (1999) *Employment relationships in France. The State, the Firms, and the Financial Markets,* Notes de la Fondation Saint Simon, n° 107, Juin, Paris.

Clearly, the past and path dependency of welfare systems is not a myth, but this does not mean that they are unable to transform themselves: the contemporary French configuration has significantly evolved by comparison with the 60s. This opens upon more prospective views.

SOME STRUCTURAL FACTORS AFFECTING THE REDESIGN OF WELFARE

Since any welfare system has to respond to the diversity of forces affecting technology, social organization, political choices and of course internationalization, it is important to diagnose some of the most relevant factors that seem to govern the French trajectory, and possibly some other European countries, but with a different intensity.

The increasing diversification of job status and competence, enhanced by Information and Communication Technologies

Historically, thepurpose of Welfare States has been to build some common solidarity among heterogeneous workers, who differ according to competence, localization, industries,…. This homogeneizing role was very present in the Golden Age era, when the ideal of the Fordist employment relationship was permeating quite all industries and was complemented by the reduction of inequalities associated with the institution of social security. The last quarter century has experienced a progressive re-composition of this system and a new stage of the division of labor has been reached. Furthermore, the restructuring has been quite unequal according to the nature of foreign competition, the intensity of technical change, and the strategies followed by the social partners in coping with these structural transformations. Nowadays, the ideal of a single labor contract, common to all, seems to have been vanishing. Actually it has be replaced by three contrasted labor contracts respectively for polyvalent stability, professionals and market flexibility (Beffa, Boyer, Touffut, 1999).

Each of them differ according to two dimensions. The first relates to the formation, level, scarcity and the diffusion of the competence required by modern firms: firm specific for employment stability, transferable and high for professionals, transferable but low for the employees undergoing market flexibility. The second dimension captures the way wage earner incomes is set: collective agreements become rare whereas market mechanisms govern both the market flexibility case and the professional employment relationship; polyvalence stability is generally associated with a significant individualization of the pay system in order to nurture the commitment of employees and their long term relations with the firm (Table 7). Each of them displays specific wage formation, employment / hours management.

Consequently, each employment relationship calls for rather different Welfare Systems (Table 8).

TABLE 8 – EACH EMPLOYMENT RELATIONSHIP CALLS FOR A DIFFERENT WELFARE SYSTEM

Welfare System / Employment Relationship	Leading Actors	COMPONENTS						
		Wage Legislation	**Old Age Pensions**	**Health Care**	**Family Housing**	**Education Training**	**Unemployme nt**	**Employment**
Polyvalent Stability	The firm and enterprise union	Incentive to wage negotiation within the firm	Possible complementary scheme subsidized by the firm	Firm specific health care provision	Male bread winner conception of family welfare	Enterprise finances on the job training	Low frequency of unemployment spells	Large stability due to idiosyncratic competence formation
Profession	Private suppliers for welfare benefits: private insurance, pension funds	not all necessary	Pension funds and private saving	Possible private insurance	Call for gender equality	Individual's choice of competence upgrading	Choice between activity and leisure	Voluntary mobility
Market Flexibility	State regulation about minimal welfare standards	Needed to protect the less skilled	Role of welfare in setting minimal pensions	Interest for a universal medical coverage	Importance of public welfare provision	Interest for minimal individual rights to life long training	Public benefit improves the bargaining power of workers	Need for rules governing hiring and firing

- *Polyvalent* stability is in tune with *a firm based welfare* at least for some components such as retirement, family, and possibly health (see Figure 11.C, supra, first part of arrow 2).

- On the contrary, the *professionals* who are currently in high demand, do not need the protection of any collective welfare to bilaterally negotiate the social benefits they think more essential at each period of their life cycle. Most of them, generally opt for private insurance, direct management of saving and capital assets and adopt a quite individualistic approach concerning the age of retirement. If this category came to represent the majority of the population, this would push toward a *privately operated and market led welfare* (see Figure 11.C, supra, arrow 1).

- From of the point of view of the workers that are under a *market flexibility* logic, a society wide solidarity is welcome since it gives some minimal social rights that can be exerted in spite of the generally weak bargaining power of individuals at the shop floor level. If one takes into account that they represent a large fraction of working population, if not the majority, this calls for a significant redesign of *universal Welfare States collectively organized* (Figure 11.C, arrow 4).

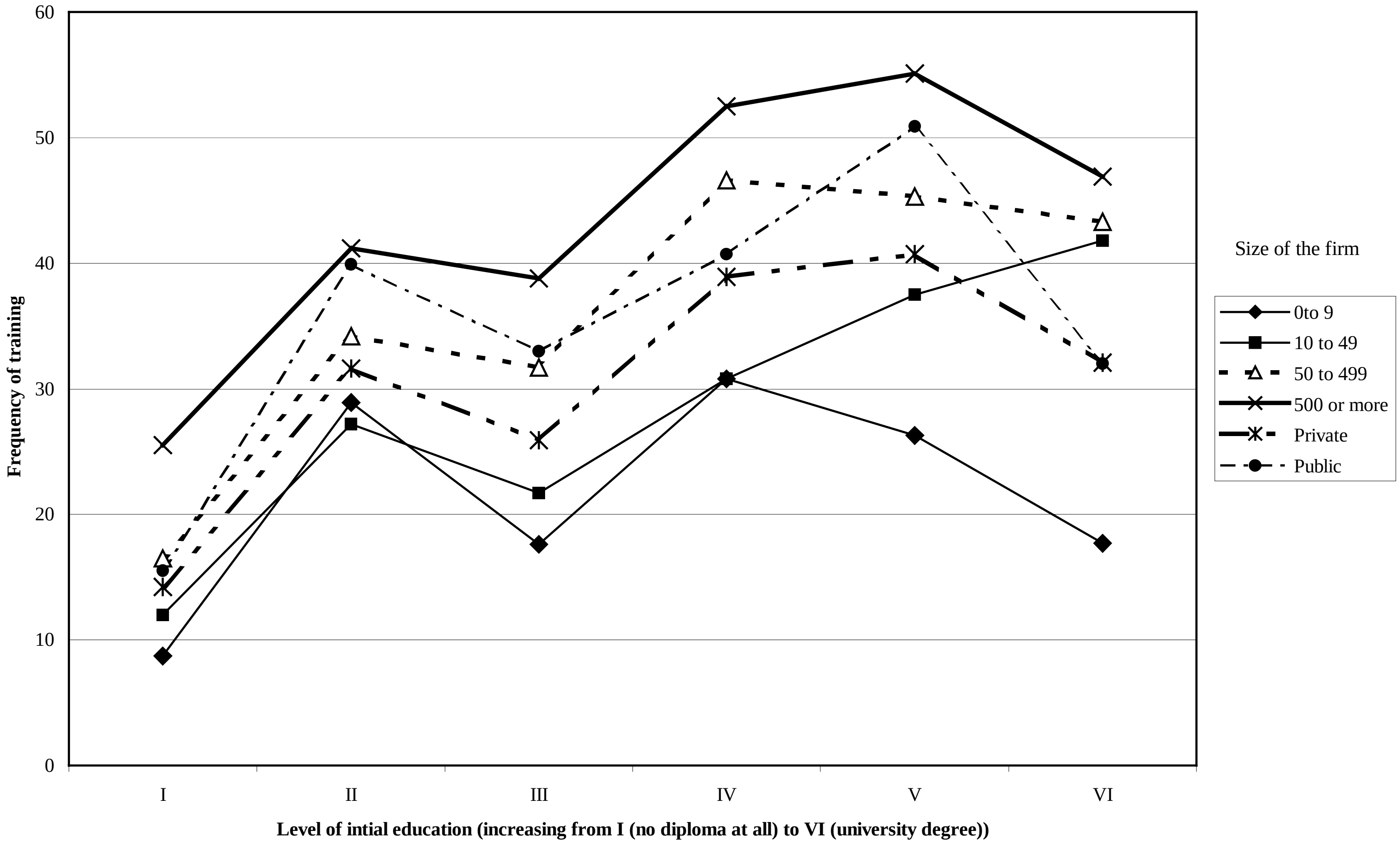
To sum up the heterogeneity of contemporary labor contracts severely challenges most Welfare States. If social partners and governments are unable to reform them, specially to protect the most vulnerable fraction of the population, then there is a risk that the route of privatization would be followed. This would be a solution by default of alternatives and would not fulfill the demand of the majority of the population. This scenario, for the time being, is rather unlikely, at least in Northern Europe.

A possible new social divide via Information and Communications Technologies: the key role of education and life long learning

The first section of this paper has argued that technological forces are not directly shaping the nature of the welfare system. Nevertheless, if one includes education and training into the picture, the emergence of the ICT is not without risk for the ideal of limited social inequalities typical of the French society. To cope with this emerging "*social more than digital divide*", professional training and on the job up grading of skills would be ideal methods for fighting against this new risk, that is also an opportunity for living standards improvement and satisfaction of new needs.

Unfortunately, this points to one major weakness of the French system: professional training is not compensating the deficiencies of the educational system, quite on the contrary it is exacerbating initial differences in terms of school achievements (Figure 17). Similarly, technicians, managers and engineers get more continuous training than low skilled blue collar workers (Figure 18). This can be proved to be detrimental both to social justice and business efficiency (Boyer, 2000c).

FIGURE 17 – PROFESSIONAL TRAINING EXACERBATES THE INITIAL DIFFERENCES IN EDUCATIONAL LEVEL



Source: Figure made from the statistics of Secrétariat d'État aux Droits des Femmes (1999) *La formation professionnelle*, p. 113.

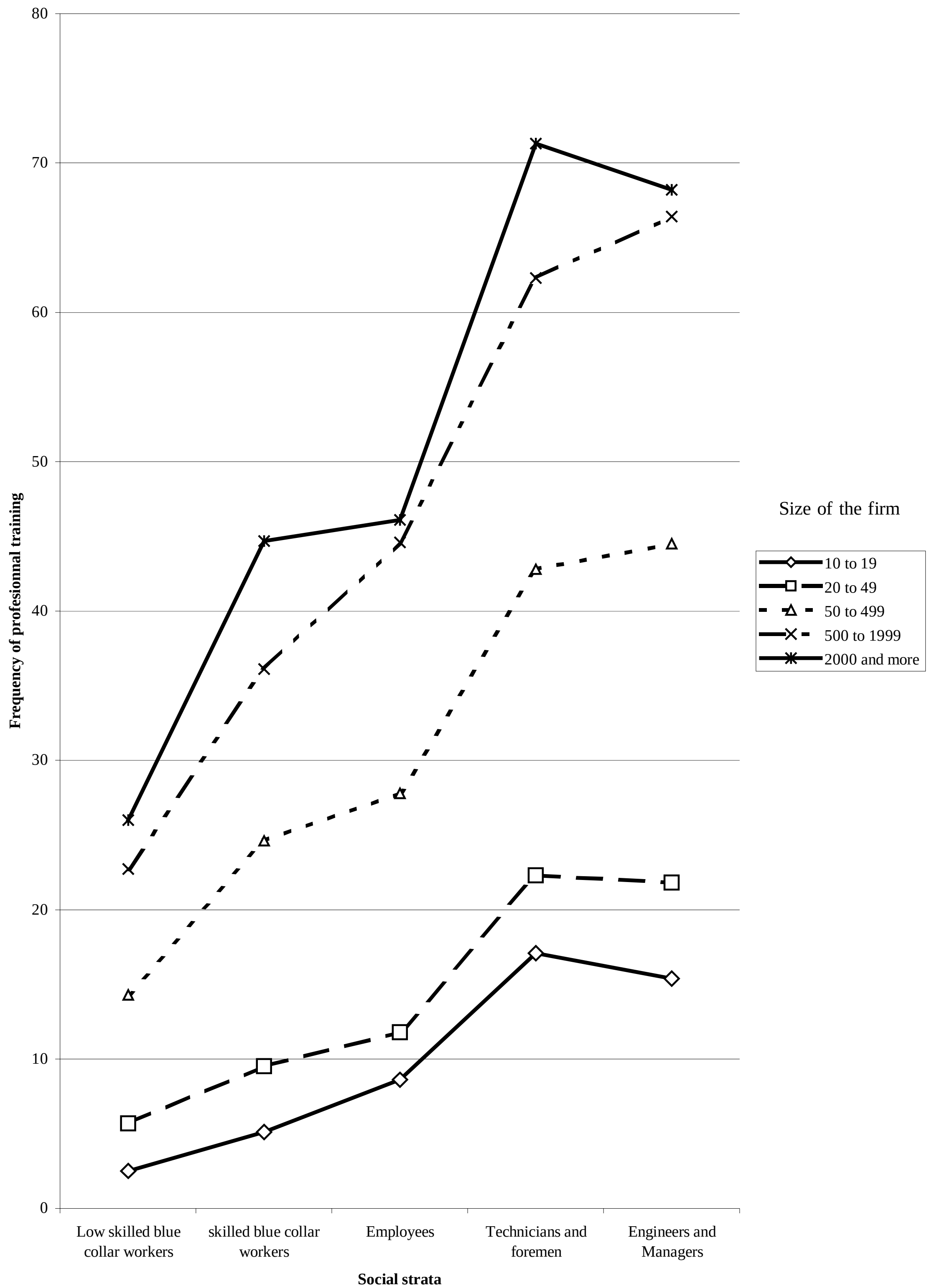
Conscious of this clear shortcoming of the French system, the government has recently drafted a law in order to reform the conditions of access to professional training in order to induce a more equal distribution among employees. In accordance with one of the central thesis of this paper, clever redesign of welfare may contribute to the strengthening of an emerging growth regime, built upon the synergy of dynamic efficiency along with social justice. This strategy is now widely discussed in Europe. Put forward by the New Labor, but already largely implemented in the German dual training system, the recognition of a social right to life long training has nearly gained European recognition at the Lisbon summit of the European Unions held in March 2000.

This is an opportunity to underline one of the unnoticed innovation in the process of European integration. Given the limitation of the European budget, the common policies have to take another road than the constitution of an European Welfare State, even if such a configuration can be contemplated in the very long run (Maurice, 1999). The Luxembourg summit has launched a procedure of *benchmarking of employment and social policies*. The idea is to fix common objectives, to diagnose the best practices observed in Europe, and try to implement equivalent procedures in other countries, without necessarily mimicking the best practices. Consequently a *social Europe of the procedures* would be a substitute to a *missing welfare federalism*. On the other side, the full mobility of capital within in Europe exerts some competitive pressures upon the various tax and welfare regimes. One may contemplate that these two forces will harmonize, or at least make compatible, the diverse European welfare systems. But of course, everything is up to the capacity of social partners and political actors to negotiate new institutional compromises that are compatible with the contemporary forms of competition and the mastering of the emerging new technological paradigm.

A real democratization of education, a crucial issue and a new frontier for welfare policy

In a sense, any welfare system displays a form of institutional complementarity or hierarchy between the various regimes and tools for social policy: leading role of finance and external labor mobility in the United-States, centrality of the large corporation and internal labor markets in Japan (Aoki, 2001). In the French case, the central institution for social stratification is probably the education system. Traditionally, this society has been selecting elite via the screening of the educational system. Many studies confirm that the *social capital* inherited by each family is transmitted to the next generation by a clever itinerary into the *educational system*. In turn, the level of education seems a quite essential factor for an efficient use of the services provided by the Welfare System: better and early access to health care, favorable entry into the labor market, employment stability or voluntary mobility, larger attention paid to children education (Figure 19). Thus, the educational system could well be the matrix of most *intergenerational inequalities*. Even if formally not part of the welfare State, school is a key component in the redesign of social stratification, thus of society wide solidarity.

FIGURE 18 – PROFESSIONAL TRAINING EXACERBATES INEQUALITIES OF EMPLOYMENT STATUS



Source : Figure made from the statistics of Secrétariat d'État aux Droits des Femmes (1999) *La formation professionnelle*, p. 113.

FIGURE 19 – A NEW FRONTIER FOR THE FRENCH WELFARE SYSTEM : CORRECT THE INTERGENERATIONAL INEQUALITIES LINKED TO EDUCATION

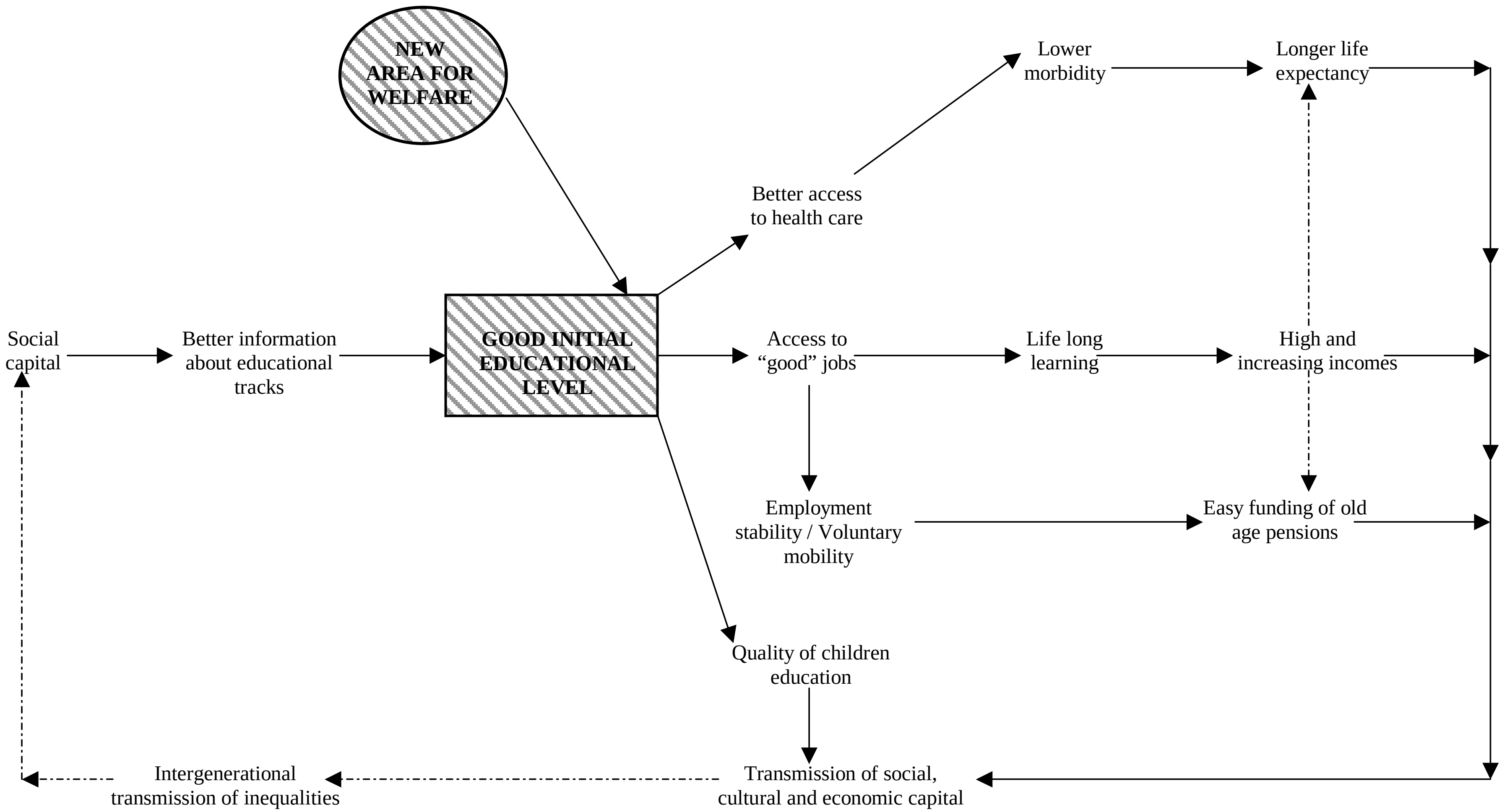


FIGURE 20 – AN EUROPEAN STRATEGY: GENDER EQUALITY AND RESPONSES TO AGING AS THE SOURCE OF A NEW SERVICE LED GROWTH

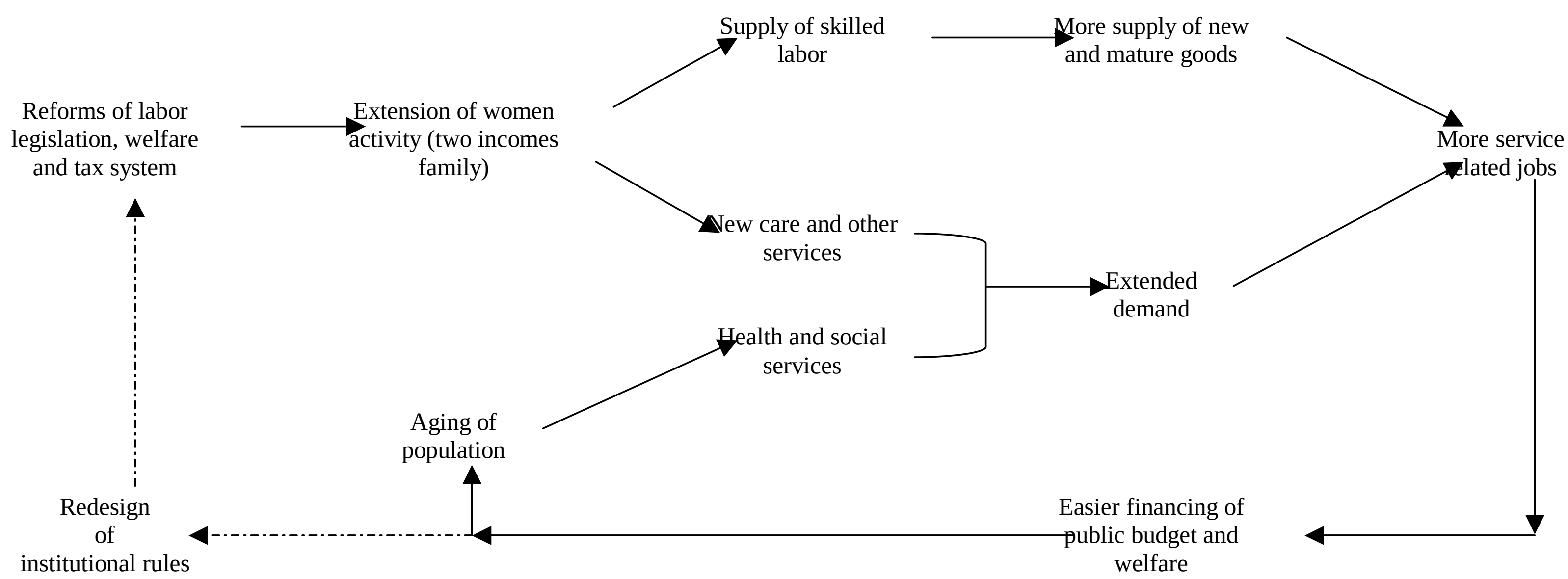


TABLE 9 – THE INSTITUTIONAL SETTING FOR STRATEGY THREE

	European level	National level	Decentralization
Wage labor nexus	Promotion of gender equality	• Life long cycle of activity • Extension of retirement age	
Form of competition	Facilitation of new services	Tax reduction for the services sheltered from international competition	
Monetary regime			
State/Society relations		Complete redesign welfare for a two incomes family	
Insertion into the international regime	Relative autonomy of a welfare based growth regime		

This is probably why nearly each French Minister of Education undertakes a reform of some part (or the totality) of the education system. A leading trend since fifteen years has been to try to close the gap between colleges, universities and enterprises, via a professionalization of various tracks in order to facilitate the entry into the job market (Table 5 supra, column 7). But with the ICT and KBE, it becomes more essential to learn how to learn and to develop the capacity of abstraction, instead of inculcating narrowly defined professional competence. In conjunction with social capital, this is the discriminating factor to the access of the various jobs and simultaneously to the efficient use of the existing welfare system. A real democratization of education is not an easy task, but a quite necessary one. The institutions of social solidarity could then be significantly redesigned.

The transformation of family and the move towards gender equality: a powerful factor shaping contemporary Welfare Systems

The Europeanization of some directives about social policies has recently introduced various innovations into the French system (Commissariat au Plan, 2000). The Scandinavian countries have put on top of the European agenda the objective of *full gender equality*, as an imperative to any welfare reform. Clearly this affects the structure of social contributions, taxation, family allowances, the distribution of part time and full-time labor contracts among men and women. This issue has for instance triggered an ambitious reform of the Dutch Welfare State and generated an unprecedented growth in women activity rate, while converging towards a quasi-full-employment.

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

The major interest of such a vision is to possibly overcome a *recurring contradiction* in the strategies followed by most European governments. On one side they declare that their public opinion is highly attached to the preservation and extension of social solidarity. But on the other side, when they decide general economic policy, they look at the American growth model and implicitly recognize that the extended welfare coverage in Europe is a cost and a possible hindrance to the breakthrough innovations that are typical of the emerging ICT paradigm. Instead of looking for such an exotic model, Europeans should look more carefully how to better exploit their trumps and clearly the welfare States are part of them. An ambitious reform of the Welfare State along the two objectives of gender equality and the full account of aging could generate a genuine growth regime, typical of European tradition and deliver a new synergy between social justice and dynamic efficiency (Figure 20). The content in modern technologies could be no inferior to these deployed by ICT and thus the Europeans could anticipate to the next “anthroponomic” model of development.

Incidentally, this is a subtle form of Europeanization (Table 9). At the European Community level, some principles, objectives and indicators are defined and the responsibility of the national authorities is to find out relevant methods, adapted to the national context, in order to fulfil this commonly agreed agenda. The diversity of welfare organizations across Europe could thus be preserved, even after the implementation of these reforms.

CONCLUSION

The theoretical analyses, as well as the historical retrospect of the transformations of the French welfare, allow to overcome some of the simplistic "clichés" about the Welfare State, be they the irreversible crisis of social security, the antagonism of extended solidarity with technological innovation and globalization, or the necessity of market led redesign of welfare organization…. The contemporary systems are integrating various logic of welfare and therefore display much more complex features than generally assumed in the literature inspired by neo-classical economic theory.

The previous analyses have already elaborated a set of scenarios about the general transformations of welfare in developed countries. The precision brought by a more detailed analysis of the French case allows to show the influence of a series of factors that, more specifically, shape the redesign of the French configuration.

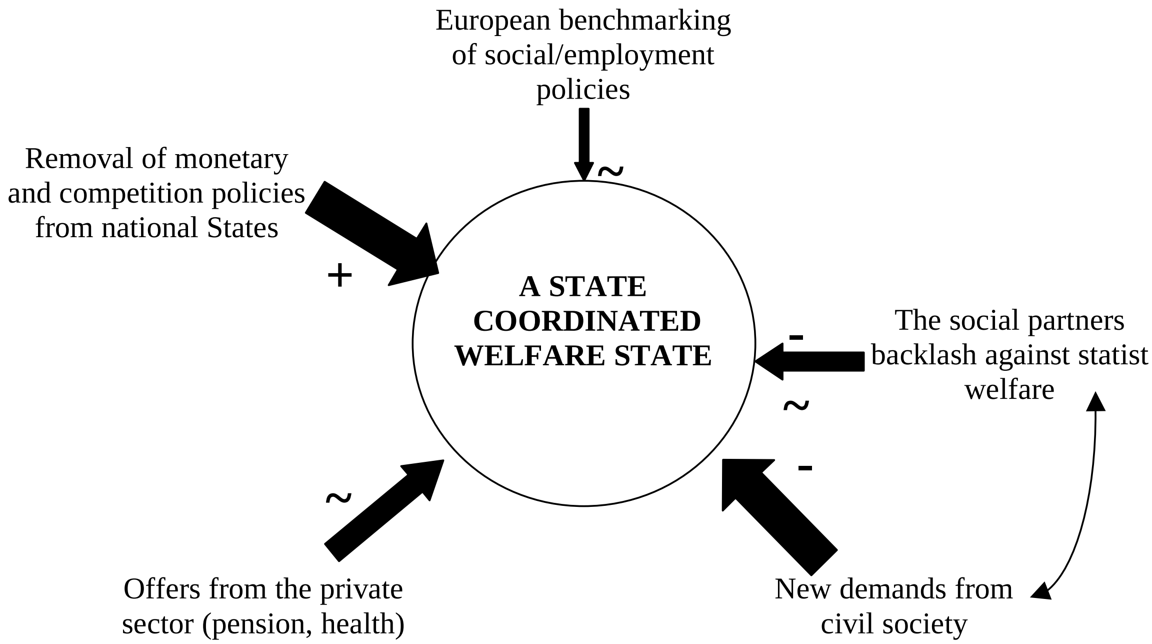
The five forces affecting the future of the French welfare State

These forces range from the consequences of the present state of European integration to the transformations of contemporary societies, not to forget the strategy of potential private welfare suppliers (Figure 21).

- *The launching of the Euro* and the new impulse given to the Single Market and financial integration drastically affect the formation of national economic policies in Europe (Boyer, 2000a; 2000d). Similarly, taxation policy is partially constrained by the mobility of capital across Europe and all over the world. Consequently, the *social policy* recovers an unprecedented importance both in terms of political legitimacy – currently social citizenship is only expressed at the national level – and of economic efficiency: how to nurturer structural competitiveness and the adaptation to the technological and economic new context? The design or redesign of the various components of the Welfare State might be *a long term attribute of the national European States*. In the case of France, this means probably the continuation of the hybridization of Bismarckian and Beveridgian financing principles.

- A countervailing force might originate from the *European benchmarking* of employment and social policies instituted by the Luxembourg summit. Some unions and political parties may use these devices in order to call for the construction of a social Europe, perceived as a countervailing power to the European monetary and competition policies. This second factor may exert some influence in the very long term, but does not necessarily imply the convergence towards a totally homogenous Welfare State across the member countries. In any case, the *common principles* put forward at the European level might be embedded into quite *different institutional mechanisms* according to the legacy and the national preferences about the design of each Welfare State.

FIGURE 21 – FIVE FORCES AFFECTING THE FUTURE OF THE FRENCH WELFARE STATE



Convention :

the thickness of the arrow is proportional to the intensity of the impact.

+ means that the related factor extends the role of the State in welfare
~ means that the issue is about the redesign, not the much the size of the welfare.

- Or course, the impact of the Washington consensus about the introduction of market competition into Welfare State cannot be ignored, since most of the research is geared by this implicit or explicit political program. In France too, the *private sector* has already offered to compete with the current organization in the *provision of some welfare services* such as pension and health care. It is already the case for life insurance companies that propose successfully to upper middle class members quasi substitutes for private pension funds. As far as health insurance is concerned, the precedent created by the policy followed by the French leading group AXA has cast some doubts about the desirability of an extension of private insurance. Facing an unexpected lengthening of life expectation of disabled children, the managers of AXA have been prone to cancel unilaterally the previous insurance contracts with the families concerned. This has been interpreted by the majority of experts as the recognition that, within a privatized system, the most severe risks will be left to the public welfare and that privatization is not a real and complete alternative to the present organization. The French configuration may be somehow atypical but the structural and ethical problems that have emerged are quite general and give a *low probability* of a massive privatization that would diffuse all over Europe.

- A more important factor derives from the *large social transformations* that took place and will continue to take place within the French society: affirmation of *gender* issues in all the domains of collective life, deepening of the risks of *social exclusion* deriving from inadequate housing and urban policies as well as the lack of relevance educative methods, high demand for a democratic access to *health care*, long run consequence of the *aging* of the population, not to forget the integration of *migrant workers*. These trends are common to most European societies but they are specially strong in France, may be because the official motto of the Republic is no less than "Liberty, Equality, Fraternity". Taking at face value these three objectives could define *a totally new welfare system*. Furthermore, the new technologies and the leading role of finance generate new risks that should be addressed either by private insurance or more likely, if the risks turn to be systemic, via a collective social insurance. The citizens are the leading actors of this process and may become vocal in demanding the coverage of these *new social risks*. Last but not least, the democratization of the entire educational system is still on top of the agenda with possible strong externalities in the direction of the Welfare State.

- The last factor is more paradoxical. The chronology of the transformation of the French welfare suggests a creeping but potentially strong grip of the State over the design and management of the Welfare State regimes, in order to curb down the cost inflation and comply with the new responsibility attributed to central governments by the Amsterdam Treaty. But in June 2000, the business association and some workers unions have rebelled against this "*étatisation*" of welfare and decided to *negotiate bilaterally new principles* for unemployment insurance. They hope to prolong this breakthrough and negotiate reforms of the other welfare regimes. It is too early to assess if it is only an interlude, a parenthesis, into the slow process of tri-partite management of welfare or if this agreement means an epochal change in the French long term trajectory. Let us recall that the State is back into the Welfare State even in the most Bismarckian regimes such as Germany. This is a warning about excessive hopes put by some social partners upon the French social re-foundation ("*refondation sociale*"). The return to pure and exclusive *bipartite agreements* has few probabilities to conquest the whole sphere of social solidarity, at least in France. Basically, the social partners are too weak and insufficiently organized to play the same role as their counterparts in small open social democratic countries.

Some scenarios

To conclude, let us propose three scenarios, just to stimulate the own thinking of the readers. They do not pretend to be the more likely, but they explicit some of the themes currently discussed in France.

- *The first scenario* is built upon an *Europeanization of welfare*. It is backed by some national unions but of course this path is strongly opposed by the European business associations: they fear that Brussels should reconstitute a rigid system that has been drastically flexibilized at the national level. The Maastricht and Amsterdam treaties recognize the subsidiarity principle, specially concerning employment and social policies and this is an argument against this scenario. Some Keynesian macroeconomists reply that an explicit coordination of wage formation and welfare design could help to the quality of the European policy-mix...but this opinion is not shared by the majority of economists specially those working for financial institutions !

- *The second scenario* considers that the quasi-full-employment reached by many small European economies is a good argument in favor of the negotiations of *social pacts*. This could emulate the social partners of medium size countries, specially France and Germany.

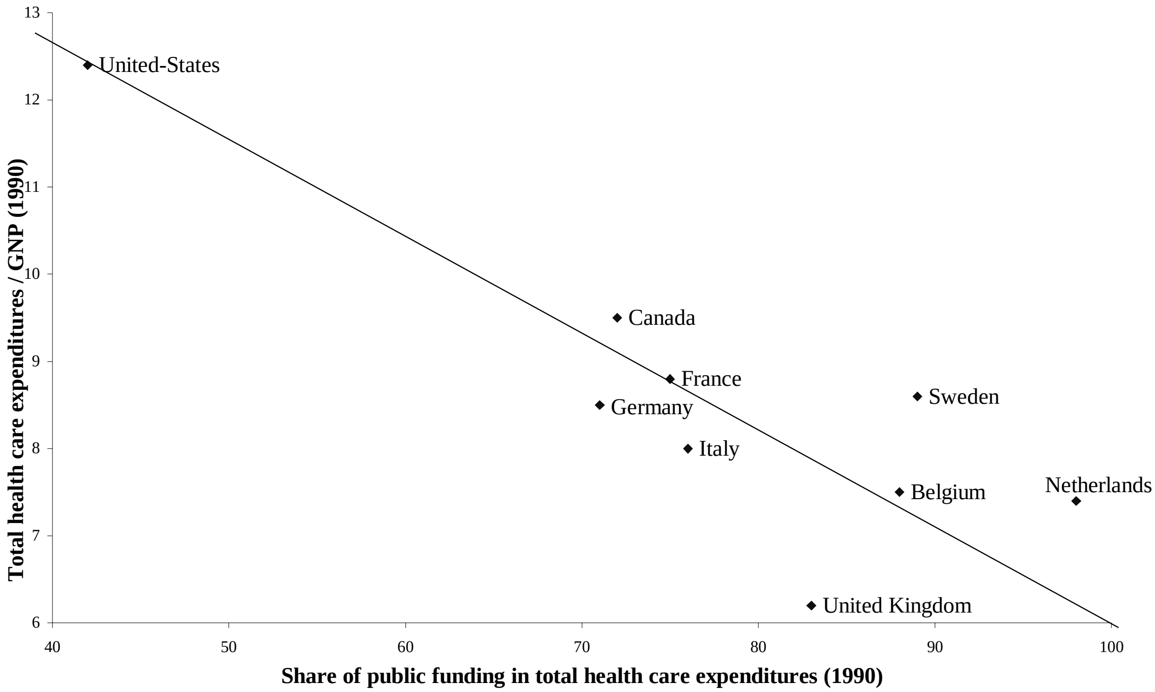
The hollowing out of the responsibility of the State, both toward the supranational level (Euro, European competition law enforcement) and toward the regional level (emergence of productive political alliances at the local or regional level) gives some room of maneuver to business and unions in order to take over some components of the Welfare State. It as to be recalled that this would be a quite exceptional move given the French tradition of State supervision of the welfare.

- Many arguments of the present paper point out toward *a third scenario*. Marginal and progressive reforms of the financing of the French welfare would continue the *hybridization* of the previous *Bismarckian* configuration along with principles borrowed to *Beveridge*. This would be coherent with the last quarter of century history of the French system and equivalent movements could take place in European countries. That would make possible in the long run the de facto convergence toward an European style for welfare, possibly rather or quite different from the North American or Asian trajectories. The process of European integration would confort the previous co-evolution between economic specialization and an extended conception of welfare. Finally it would be coherent too with the objective, put forward by economists, to disentangle between society wide solidarity based on citizenship and wage earners solidarity built upon industrial relations and collective bargaining. Furthermore, the exact mix between family, firm and collective solidarity could be left to the political choices made within each European nation, still the territory of social solidarity.

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

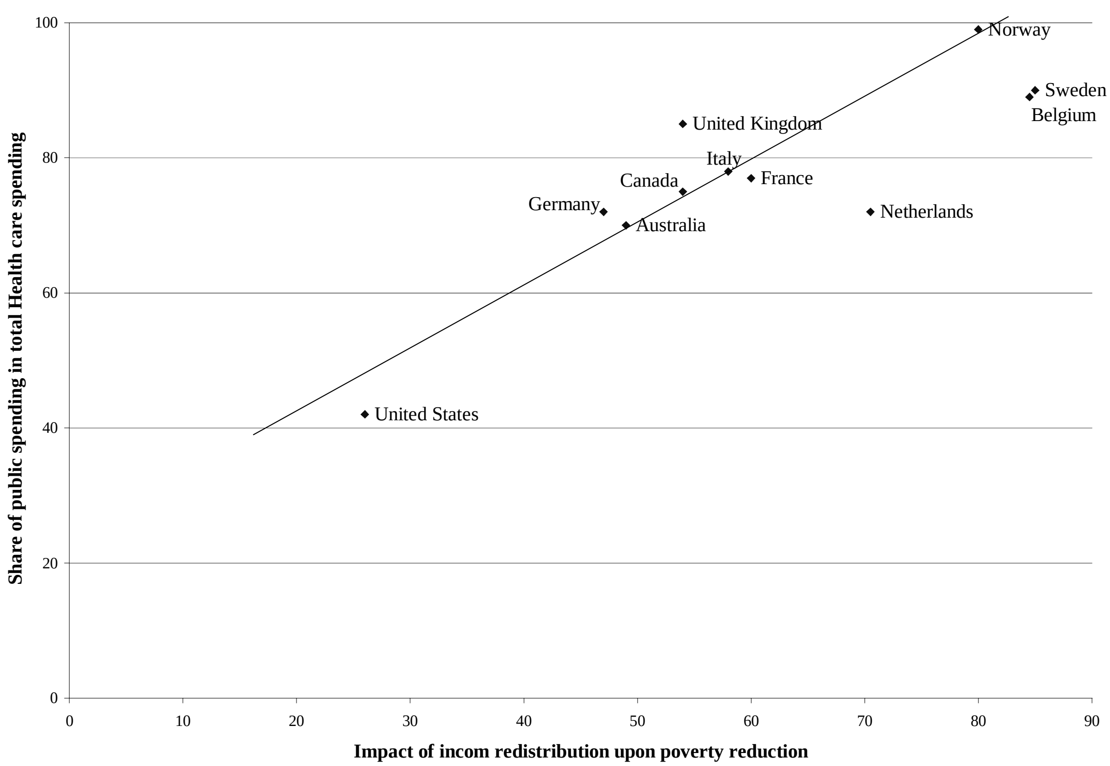
A N N E X

FIGURE 16.C - PUBLIC FINANCING AND SHARE OF HEALTH EXPENDITURES / GNP



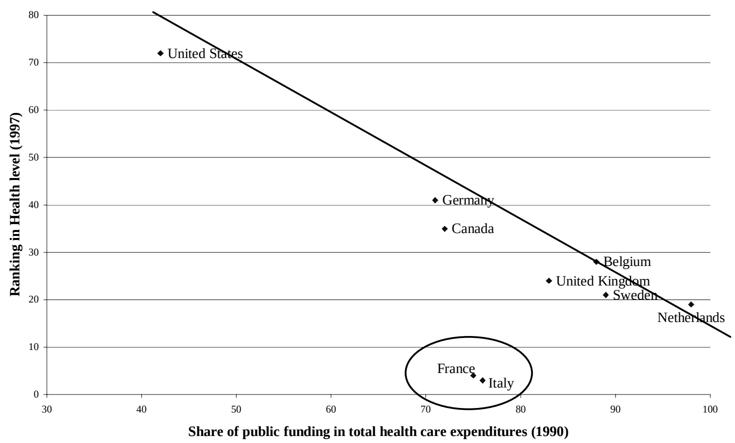
Source : CREDES. Extracted from Henriet D., Rochet J.-Ch. (1999 :117)

FIGURE 16.D - A STRONG ASSOCIATION BETWEEN POVERTY REDUCTION BY PUBLIC TRANSFERS AND PUBLIC FINANCING OF HEALTH CARE



Source : OCDE. Extracted from Henriet D., Rochet J.-Ch. (1999 :119).

FIGURE 16.E - THE RELATIONSHIP BETWEEN PUBLIC FINANCING AND HEALTH LEVEL* (9 COUNTRIES)



* Note : The health level is the better, the smaller, the ranking of the country.

FIGURE 16.F - THE RELATIONSHIP BETWEEN PUBLIC FINANCING AND FAIRNESS IN HEALTH CARE DISTRIBUTION (9 COUNTRIES)

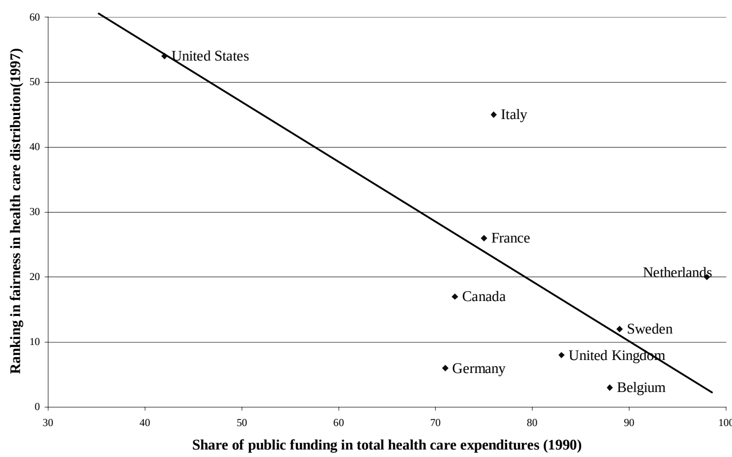
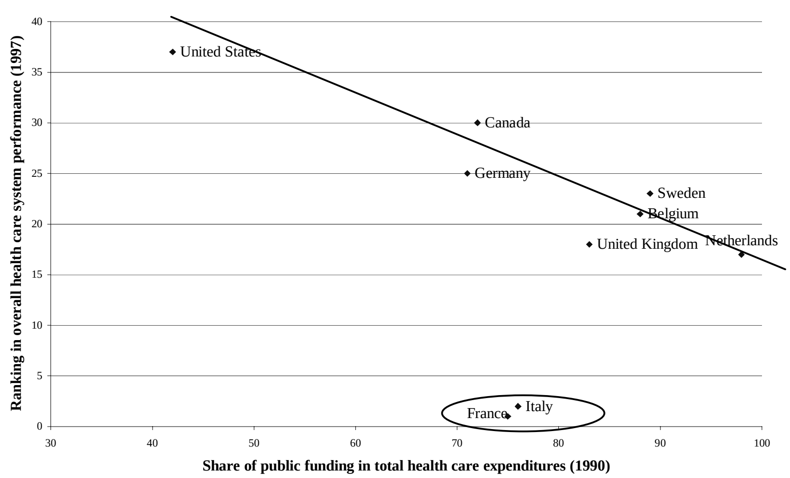


FIGURE 16.G - THE RELATIONSHIP BETWEEN FINANCING AND OVERALL HEALTH CARE SYSTEM PERFORMANCE (9 COUNTRIES)



Source : Computed from Henriet D., Rochet J.-CH. (1999 :117,119) and World Health Organization (2000 :152-155)

FIGURE 16.H - THE RELATIONSHIP BETWEEN PUBLIC FINANCING AND HEALTH LEVEL (15 COUNTRIES)

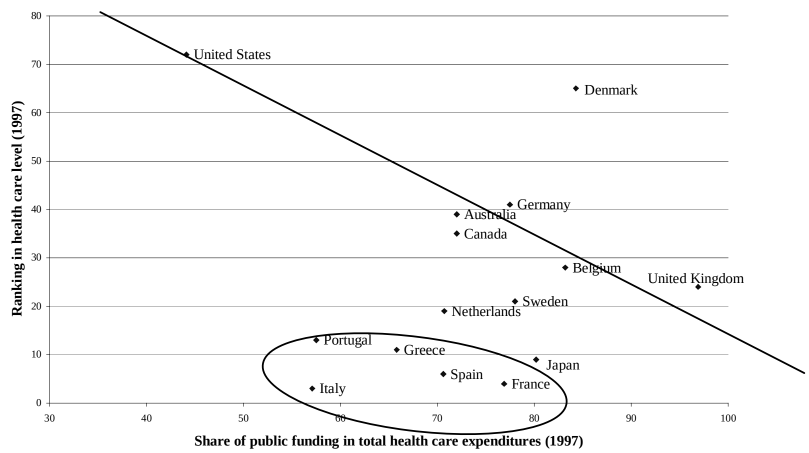


FIGURE 16.I - THE RELATIONSHIP BETWEEN PUBLIC FINANCING AND FAIRNESS IN HEALTH CARE DISTRIBUTION (15 COUNTRIES)

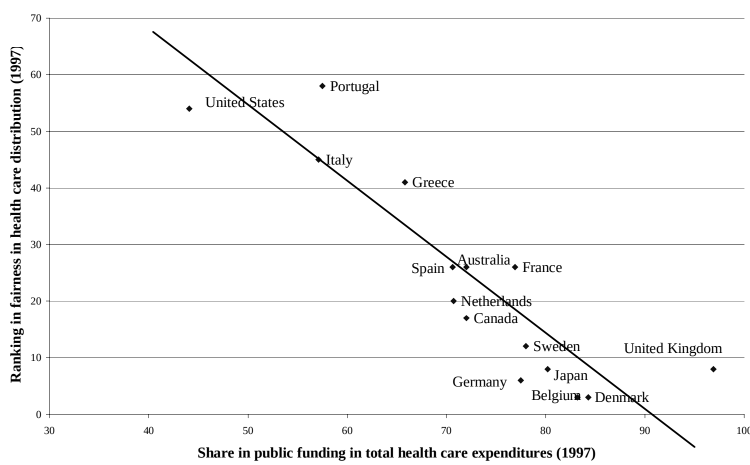
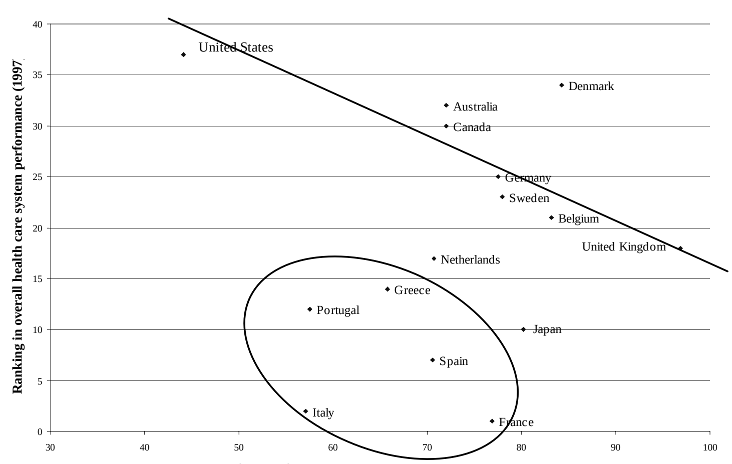


FIGURE 16.J - THE RELATIONSHIP BETWEEN FINANCING AND OVERALL HEALTH CARE SYSTEM PERFORMANCE (15 COUNTRIES)



Source : Computed from World Health Organization (2000 :152-155)

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