THE FRENCH WELFARE STATE AND SOCIAL WAGE: ECONOMIC AND IDEOLOGICAL CHALLENGES

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Abstract

This paper concentrates on the recent development of the welfare state and social wage in France. On the empirical level, our study is concerned with the net benefits or net social wage received by the French working population. Net social wage is the difference between these two categories. This measurement will enable us to find out whether the working population has received a net gain (or net social wage) and whether this net gain has expanded over time. The paper offers a comparative study of the trends of the "social wage" in France in the last decades before the Great Recession. It addresses two major questions. The first question is whether the expansion of social expenditures has posed any drag on capital accumulation and economic growth in this country. The second question is whether the increasing ideological challenges from the right and the competitive pressures of globalization have led to retrenchment of the French welfare states in the recent decades.

Keywords: *Welfare State, Social Wage, Economic Growth, Government Expenditures, Taxes*

JEL classification: B55, C88, E01, E24, E69, H50, H53

This study concentrates on the development of the welfare state and social wage in the last decades before the Great Recession of 2008. The Great Recession may have caused some disruption on the trends of social expenditures. In fact, France was unprepared to withstand the blow of the great

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recession. economic reform was associated with the expansion of social rights, particularly, income support.

As a result, today, the French welfare state looks more comprehensive than it was before the crisis (1). In fact, the recent indications show that the ranking of Italy in terms of public and social expenditures has not significantly changed. A more careful evaluation of the possible changes in the trends of social expenditures and social wage requires a separate study.

Pontusson (2005) leaves France and Italy out of his classification of “Liberal” and Social Market Economies”. For comparison between "liberal market economies" and "social market economies" he looks at three main characteristics of the "social market economy": corporate financial structure and governance that he calls "organized business," high level of institutionalized collective bargaining, and extensive provision of public goods and services. Unionization is relatively low for these countries, 10 percent for France, 35 percent for Italy, and 22 percent for Japan.

Even though, the French unions organize a much smaller percentage of the workers than those in other European SMEs, collective bargaining coverage is large (90 percent of the labor force), the welfare state offers a broader social protection than many other SMEs. Pontusson does not categorize France as a social market economy due to her weak unions and relatively more fragmented and adversarial employer-union relationship. But what is not well-known is that during 1960s and 1970s, France developed one of the most advanced welfare states in the world (Ambler 1991: vii).

While center-left governments consolidated the French welfare state after World War II, the conservative governments expanded social benefits during 1960s and 1970s. The idea behind the development of social welfare programs was an older concept of social solidarity, which was shared by both conservatives and socialist/liberals (Ambler 1991: viii). For the purpose of our study, we may call France as a “semi-social market economy,” because there are substantial similarities between the French and other SMEs welfare states. The same goes for Italy. The Italian unionization (35 percent) and collective bargaining (80 percent) is a better match for the social market model. But her level of social spending as a percentage of GDP (23.9 percent) is at the lower end of the SMEs and its effect on income redistribution is significantly lower than many other SMEs.

One major question is why in France, mandatory social insurance programs were adopted more than 40 years after Germany and about 20 years after Great Britain. Some authors suggest this happened because French industrialization and urbanization lagged behind Britain. But this argument can not explain the development of social welfare programs in Germany in the 1880's, when Germany was just beginning her industrial development. Ambler argues that in France, the employers were small independent entrepreneurs and landlords, the foremost class enemy of the welfare state. In contrast to France, large scale employers in Britain and Germany tended (even though reluctantly, particularly in Britain) to accept mandatory social insurance programs as a means of improvinh labor-management relations and relieving themselves of taking care of low wage or unemployed workers (Ambler 1991: page 7).

In addition, the French socioeconomic system is based on dirigism (from French *diriger*, meaning 'to direct'), an economic system in which the state plays a directive role, rather than a regulatory role, over a capitalist market economy. Dirigisme is an economic doctrine, which is considered to be the opposite to laissez-faire, relying on a positive role for state intervention in productive inefficiencies and market failure. Dirigiste policies often include indicative planning, state-directed investment, and the use of market instruments (taxes and subsidies).

France is the fifth largest economy in the world in nominal terms, behind the United States, China, Japan and Germany (World Bank 2010) and the eighth largest by purchasing power parity. It is the second largest economy in Europe behind Germany in nominal terms and fourth largest behind Germany, United Kingdom and Russia by PPP. (CIA 2010)

France is known for its ambitious and very successful agenda of modernization through its program of *dirigisme*, a high state role in economic management and coordination. This path was particularly adopted by left-wing governments, entailing the state control of certain (key) industries concerned with infrastructure such as transportation, energy and telecommunication well as various incentives to direct private corporations to engage in certain projects.

However, *dirigisme* has been highly contested since then (in fact from 1983, the 2nd year of the administration of the socialist president François Mitterrand) and this strategy has now significantly receded. In spite of the liberalization policy, still the government continues to be a major share holder in transportation and communication, automobile, energy production and banking. The government continues to regulate wages and the labor conditions.

In 2008, the share of government expenditures in GDP was higher than all OECD countries except for Sweden. The Recent OECD data shows the total public spending was 52.9 percent of GDP in France as compared to 45.8 percent in Germany, 43.9 percent in the United Kingdom, and only 36.7 percent in the

United States. This ratio was almost as high in Denmark (52.5 percent) and somewhat higher in Sweden, 54.4 percent. (Dewan and Ettlinger 2009) thus, France ranked 2nd among OECD countries according to its total government spending as a share of GDP, while ranking 6th in terms of per capita GDP. On the other hand, Sweden ranked 1st in terms of its spending as a share of GDP, while ranking 3rd in terms of per capita GDP. This is, of course, because GDP per capita is significantly higher in Sweden than France. The country with the highest government spending in terms of per capita GDP was Luxemburg, while it ranked 18th according to its total spending as a share of GDP (Dewan and Ettlinger 2009: Table 2).

This is not surprising, since Luxemburg as a country is ranked number one in the world in terms of GDP per capita, both in terms of nominal and PPP measurement of GDP.

The share of public expenditures has continued to be one of the highest among OECD countries. With a share of public expenditures at 56.5% of GDP in 2016, France has maintained its position as number one country in terms of levels of government expenditures between 2007 and 2016 among OECD countries, whose average public expenditures has been 40.9% of GDP.(Statista 2019)

Currently, France's social spending as a proportion of GDP is the highest in all the developed world. As Drees (the Directorate for Research, Studies, Assessment, and Statistics) reports, "France is the champion of Europe, and probably of the world, when it comes to social welfare,". (The Local 2019) The recent increase is in response to "yellow vest" or *"gilets jaunes"* protests. Expenditure on healthcare, pensions and other social services reached 32 percent of GDP in 2018, based on a report by the OECD, a Paris-based inter-governmental research institution. This trend is in line with the expansion of social expenditures in other advanced countries, reflecting the development of more generous welfare and higher pension spending as the life expectancy of the population is rising (The Local 2019).

But France's social expenditures are well above the current average of 20.5 percent of GDP for all 36 OECD member countries, with pensions making up a large chunk of the cash benefits paid out every month in all countries. In Germany whose economy is the strongest among European countries, social spending is just 25 percent of GDP, while in the US it is only about 19 percent of GDP. French social expenditures have risen sharply since 1990, when they represented just under 25 percent of GDP, and are now triple of their level of roughly 12 percent of GDP in 1960 (The Local 2019).

In 2007, France experienced a budget deficit of 2.7 percent of GDP as compared with a budget deficit of only 0.2 percent of GDP in Germany. This ratio was the same for the United Kingdom and slightly higher in United States (2.9 percent of GDP). The interesting fact is that the Nordic SMEs, all experienced a budget surplus, the highest being in Norway, 17.7 percent of GDP. (Dewan and Ettlinger 2009: Figure 1) In terms of the total public debt (general government net financial liabilities), France stands close to the middle among the OECD countries. Its public debt was 44.3 percent of GDP, slightly above the OECD total of 43.3 percent in 2008. The German public debt was 45 percent of its GDP, while the comparable number for the U.S and the U.K were 47 percent and 32.8 percent. The highest levels of general government net financial liabilities belonged to Italy at 89.9 percent and Japan at 94.9 percent. (OECD Economic Outlook 2010: Annex Table 33) Italy's high public debt is no surprise, since it is consistent with its background.

However Japan's sharp increase in public debt starts with its long-lasting recession starting from 1990. The public debt ratios have increased for most of the OECD countries in 2009 and 2010, due to the recent financial crisis. As IMF Staff Position Note (2010) indicates, major contributors to the public debt increase in the G-7 Economies between 2008 and 2010 are the loss of government revenue (11.5 percent) and interest growth dynamics (8.2 percent), while the shares of financial sector support and fiscal stimulus have been 3.4 percent and 4.4 percent correspondingly.

The state expenditures have increased from 49 percent in 1990 to 55 percent of GDP in 2003 and have stayed between 52 percent and 54 percent up to 2006. Social wage has remained rather stable relative to GDP, fluctuating between 33 and 35 percent (See Figure 1). The state expenditures ratios were the 2nd highest among the OECD nations after Sweden. The social Wage ratio has also been high with European standards (moderately higher than the share of social expenditures in GDP for some Continental SMEs such as Germany, Austria, and the Netherlands); albeit not as high as the overall state expenditures.

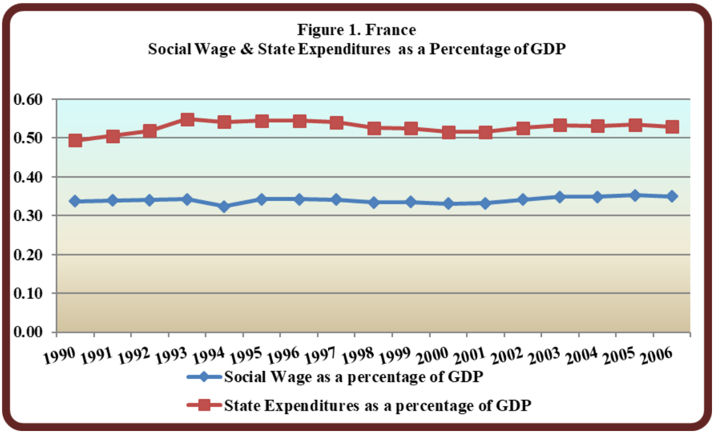


Figure 1. France
Social Wage & State Expenditures as a Percentage of GDP
0.60
0.50
0.40
0.30
0.20
0.10
0.00
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006
Social Wage as a percentage of GDP
State Expenditures as a percentage of GDP

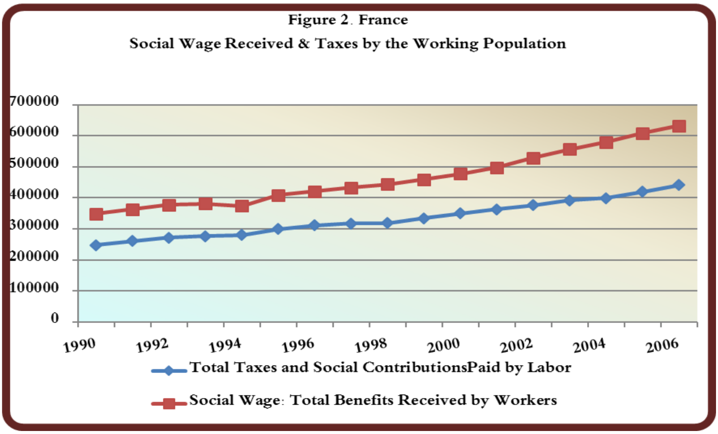


Figure 2. France
Social Wage Received & Taxes by the Working Population
700000
600000
500000
400000
300000
200000
100000
0
1990 1992 1994 1996 1998 2000 2002 2004 2006
Total Taxes and Social ContributionsPaid by Labor
Social Wage: Total Benefits Received by Workers

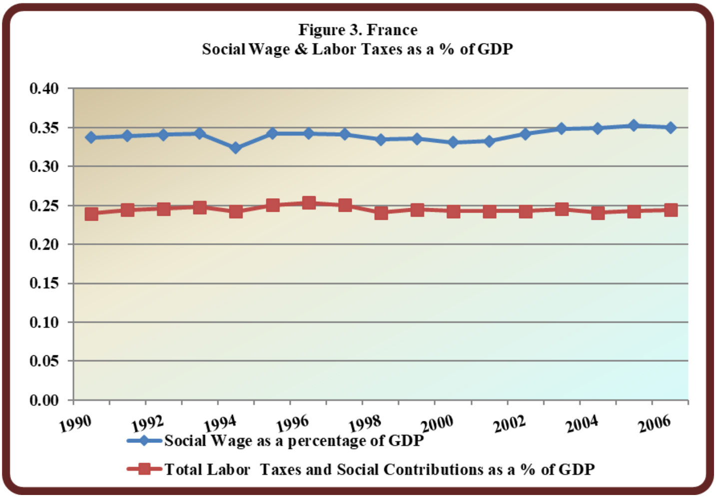


Figure 3. France
Social Wage & Labor Taxes as a % of GDP

As Figure 3 shows, social wage and labor taxes (taxes paid by the working population) have remained relatively stable relative to GDP, both moving in an almost parallel manner. The share of the net social wage in GDP has fluctuated between 9 and 11 percent in all years, except for 1994 during which it was 8 percent. (See Figure 5)

Figure 4. France
Social Wage & Net Social Wage as a % Labor Income

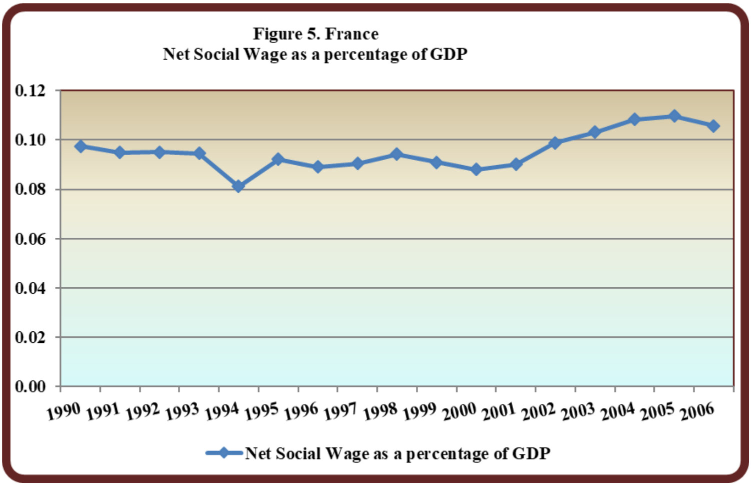
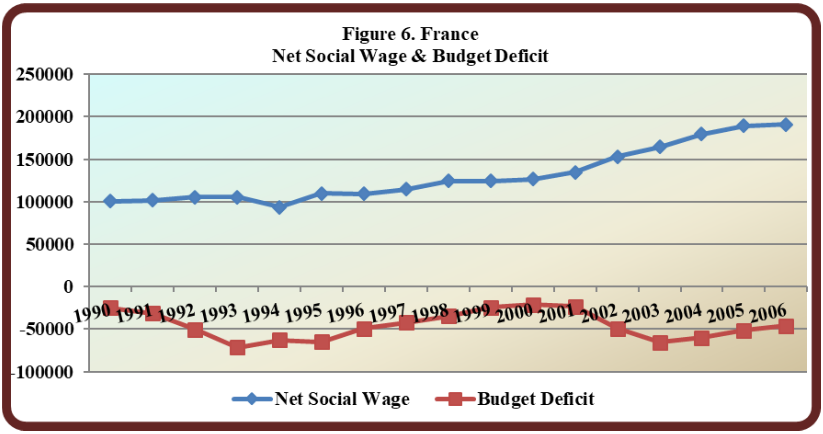
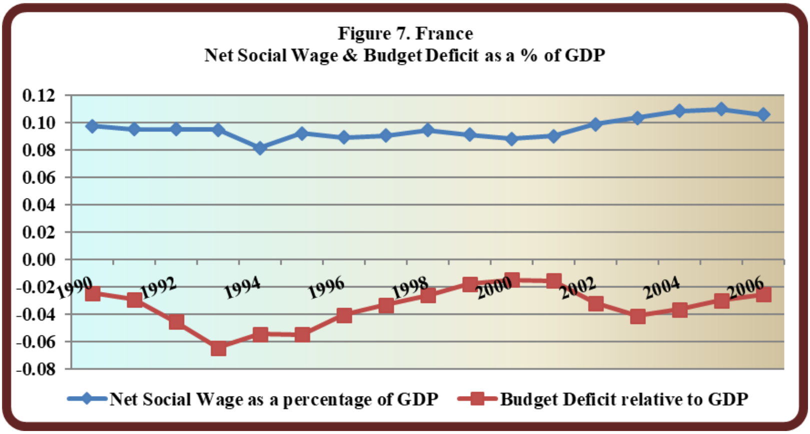


Figure 4 shows that social wage has accounted for a large share of the working population's compensations (and consumption), fluctuating between 64 and 68 percent, except for 1994, during which it was 62 percent. The French ratio of social wage to labor income has been slightly higher than comparable values for some major Continental SMEs such as Germany, Austria and the Netherlands. The share of the net social wage in labor's earning has varied between 17 percent and 21 percent except for 1994 in which this ratio was 16 percent. Again this ratio was higher than the ones for the Continental SMEs such as Germany, Austria, and the Netherlands.

The French state social policy has contributed to a more egalitarian income distribution. In the mid-1880s, the pre-taxes and transfers Gini Coefficient was 0.52, while the after taxes and transfers Gini Coefficient was 0.31. In the mid-1990s, the pre-taxes and transfers Gini Coefficient declined to 0.42, while the after taxes and transfers Gini Coefficient declined to 0.28. (See OECD Stat. Extracts 2010) Thus the state tax and social policies have effectively contributed to maintain a rather equitable income distribution by the international and European standards. Once again, the French role of social policy has been as effective as or even more effective than the major Continental SMEs.





Both Figures 6 and 7 reflect a partial correlation between net social wage and the budget deficit, in absolute terms and as the proportions of the GDP. There is a clear association between net social wage ratio and the budget deficit as a proportion of GDP after 1990. On the other hand, the budget deficit increases relative to GDP from 1990 to 1993 and gradually declines up to 1990, while the net social wage ratio remains stable. But from 1990 to 1993, the share of state expenditures in GDP has increased from 49 percent to 55 percent.

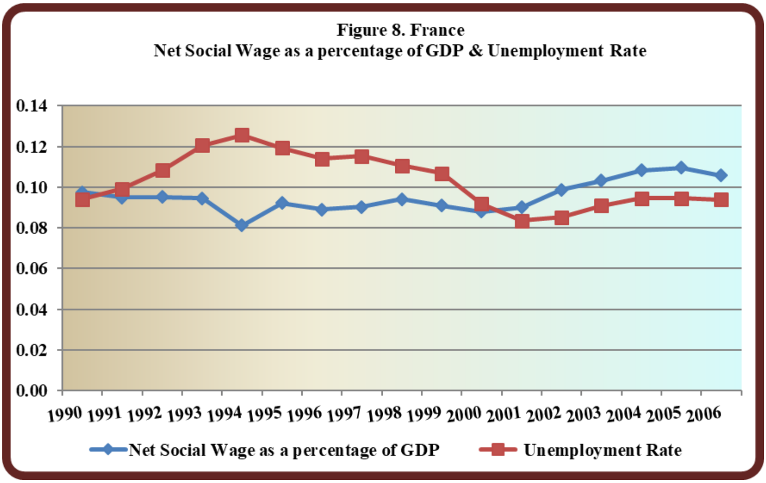
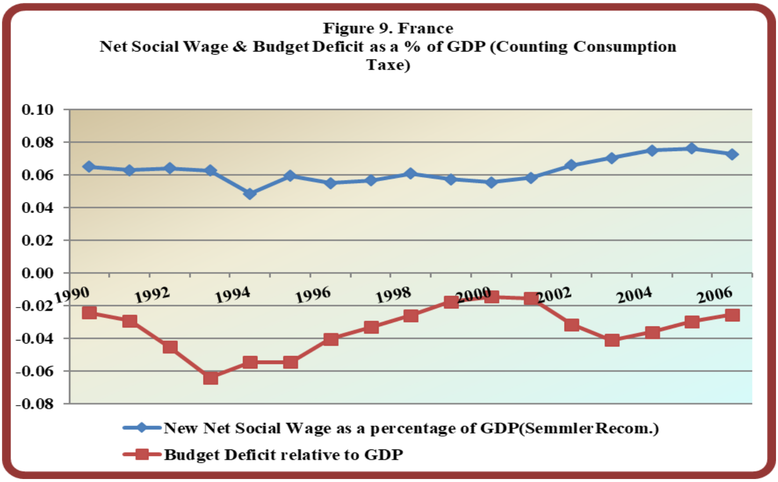


Figure 8 does not show significant association between the variations of the unemployment rate and the net social wage ratio. The unemployment rate rises in the first half of the 1990s, while the state expenditures and the budget deficit, both increase relative to GDP.

This trend reflects the state policy to curb the recessionary pressure through increased deficit spending. In 1997, due to a parliamentary victory of the socialists, Jacque Chirac was forced to accept a period of cohabitation. The socialist prime minister, Lionel Jospin reduced the domestic role of Jacques Chirac for the next 5 years.

As the Prime Minister, he was able to control the domestic policy of the country. Jospin's more popular and efficient economic policy led to a significant reduction in the unemployment rate from 12 percent in 1997 to 8 percent in 2001. During this period, the net social wage remained stable in terms of GDP, despite the decline of the unemployment rate.

In the presidential election of 2002, Jacque Chirac defeated Lionel Jospin and consolidated his power with the appointment of a more conservative prime minister, Jean-Pierre Raffarin. While the rate of unemployment increased only by 1 percent, the net social wage ratio increased from 9 percent in 2002 to 11 percent in 2006.



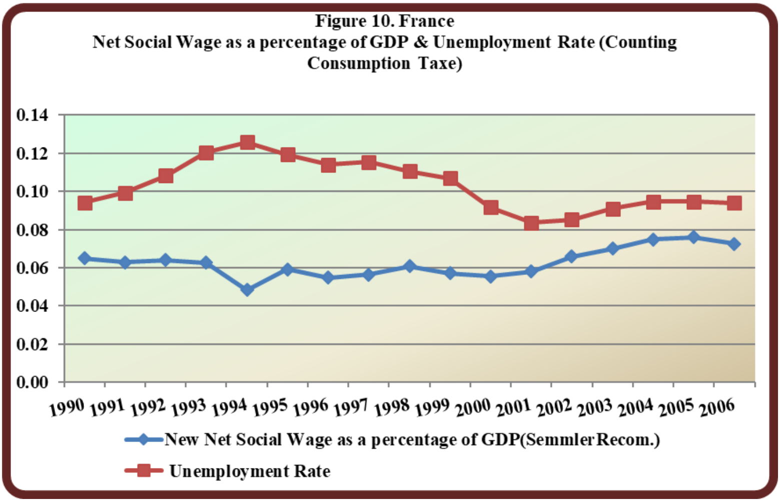


Figure 9 displays the association between the net social wage ratio and budget deficit and Figure 10 between net social wage ratio and unemployment rate. These two figures are based on the second assumption of production tax incidence.

Figures 9 and 10 confirm our earlier discussion based on Figures 7 and 8 assuming no production tax incidence for the working population. In fact, OECD Stat. Extracts 2010 Figure 10 shows that the variations in the unemployment rate have often been more distinct than the changes in the net social wage ratio.

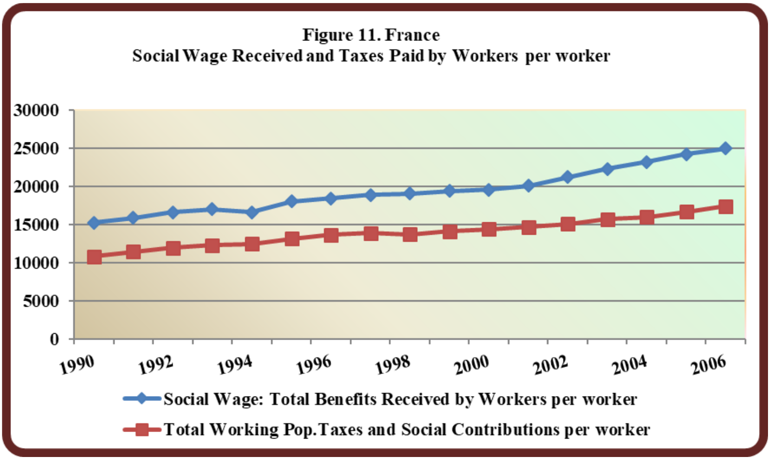


Figure 11. France
Social Wage Received and Taxes Paid by Workers per worker

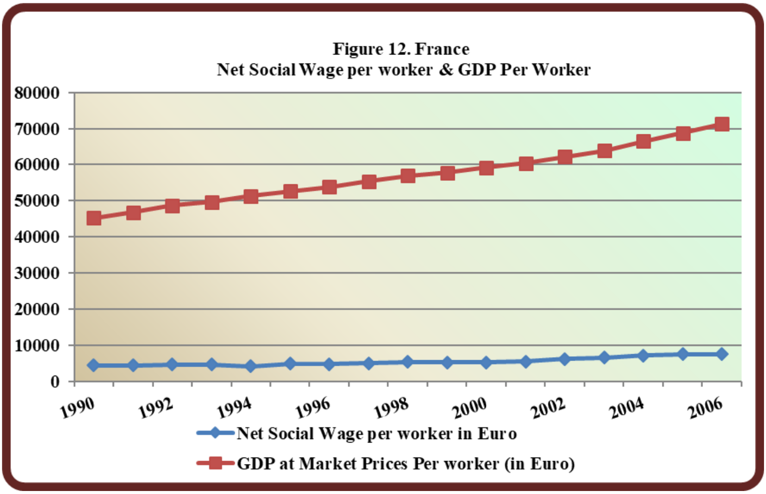


Figure 12. France
Net Social Wage per worker & GDP Per Worker

Figure 12 shows that while GDP per worker has been increasing at a reasonable rate, the net social wage per worker has remained stable. Thus, the growth of the net social wage has remained well within the productive capacity of the French economy and has not been a barrier to economic growth.

Conclusion

In comparative analysis, the recent development of the European welfare state has been characterized as a set-back compared to the preceding decades, described as the end of ‘the golden age of the European welfare state’ and the emergence of a ‘neo-conservative turning-point’.

Bob Jessop explains this pattern as the outcome of the economic crisis, starting from the 1970’s and the loss of social consensus on the ‘Fordist’ growth model, which had supposedly described the earlier decades after the Second World War. In his view, the recent decades can be characterized as the ‘erosion of the nation state’ and the gradual displacement of the ‘Keynesian welfare state’ by a new model that he identifies as the ‘Schumpeterian workfare regime’. (see Talos and Fink 2005: P131)

On the other hand, the evidence shows that retrenchment policies have not strongly undermined the provision of social welfare programs in France and other continental welfare states. The results of our study confirm that neither the conservative challenges and nor the forces of globalization have succeeded to dismantle the French welfare state.

We should, however, indicate that social spending as a share of GDP has stagnated or has been growing at a slower rate than the earlier decades. “Ever since the postwar economic boom ended in the early 1970s, however, social programs have faced mounting political challenges. Questions of expansion have long since given way to an acknowledgment of the limits to welfare state growth and the prospect for extended austerity.” (Pierson 1996)

In reality, the politics of social policy retrenchment has not posed a major challenge to the existing welfare state programs. As Figures 3 and 4 confirm, both social wages received and taxes paid by the working population have constituted a stable share of both GDP and the working population’s income. As Figures 11 shows, social wage per worker has been matched by taxes paid per worker in the earlier period. However, in the recent decade, a worker, in average, has received slightly more benefits than what (s)he has paid in taxes.

And as Figure 12 shows, net social wage per worker has slightly, but steadily, increased in the recent decade, while GDP per worker has remained stable. “International comparative research still underlines the substantial stability of the welfare state, and that earlier growth has given way to stagnation of a relatively high level of social security." (Talos and Fink 2005: P132)

The other question is to what extent, the current and future development of the French welfare state depends on the European trends of social policy. The European political system, which many scholars expected to be an incipient form of European national state, is now, yet, struggling to move beyond the postwar national state. Since European national state lacks its own well-established institutional heritage of a national state character, the European political system also tends to draw on real national states to acquire its legitimacy. Whether it can break out of such paradoxes by developing a new European 'social contract' remains to be seen.

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