Conversion through inequality: the transformation of the French social model

Florence Jany-Catrice and Michel Lallement

After the economic crisis at the end of the 2000s cost the French economy dear. The number of people employed in the private sector – not including agriculture – fell by 187,000 between the start of 2008 and the end of 2009. Never in the past 40 years had job losses been so high and the situation has not improved in the meantime. However, this crisis is not confined to a loss of jobs or a decline and continuing weakness in economic growth. It is also rooted partly in economic and social inequality, while French policy in response to the crisis has only exacerbated this inequality. The outcome is the crumbling of the basis of the welfare state and, generally, of the French model.

In order to show this we shall first look at how this model developed before the crisis. Secondly, we shall examine how France has responded to the crisis, especially with regard to the labour market. Finally, we shall attempt, more than five years after the onset of the crisis, to identify what it has to teach us and to describe the consequences. The upshot is that France must find the strength to bid farewell to a number of economic dogmas.

1. The transformation of the French model before the crisis

France was no more immune to the neoliberal wave of the 1990s and 2000s than other Western countries. The country long had the reputation of maintaining so-called ‘Jacobin’ or ‘statist’ traditions, but today it looks very different from how it was at the end of the twentieth century. From a state-controlled capitalism a state-promoted capitalism has emerged (Berrebi-Hoffmann 2009). A number of factors have contributed to this transformation.
The first factor involves turning away from a system of company financing based largely on banks. In the 1970s 92 per cent of all investments were financed by banks. In 1994 bank loans still represented 55 per cent of the financial resources available to economic actors (besides resort to the financial markets and self-financing). Between 2000 and just before the onset of the crisis in 2007 the figure had fallen to 40 per cent. France has become one of the most financialised countries in the world, ranking just below tax and regulatory havens Luxembourg, Ireland and the United Kingdom. Before the crisis the value of the securities traded on the financial markets in France grew less rapidly than in the English-speaking countries, but the growth rate was striking nevertheless: in 2000 market capitalisation made up 112.7 per cent of French GDP, but by 2006 this had risen to 149 per cent. A series of developments contributed directly to this trend: the emergence of so-called ‘financial innovations’, securitisations (an instrument with whose help non-liquid assets can be traded on the market) and the increasingly important role played by institutional investors, such as investment companies, pension funds and insurance companies. As a consequence of this financialisation the stock exchange has relentlessly gained ground at the expense of the real economy. On top of that, borrowers are in a less happy situation than previously because the financial system has made loan arrangements more tenuous. The financial markets have thus come to play a more important role in the French economy.

Meshing with these changes in the financial system the upheavals in the production system constitute the second aspect of the current transformation of the French economy. In the 1990s an extensive concentration of capital and enterprises took place, manifested in mergers and takeovers in numerous sectors. Under the aegis of a focus on core business, cost cutting and cultivation of economies of scale were deployed to step up the profitability of capital investments. Against the background of wage moderation the merger strategy – which bombed spectacularly in many instances – aggravated the fault lines in the labour market. Above all, the phalanx of employees in poverty, who are not in a position to maintain subsistence with their wages alone, point to the growing significance of a ‘precariat’ among French wage-earners (Castel 2003). The French trade union movement, as divided as ever and continuing to suffer from low membership, was as poorly prepared as many others to address this problem. Collective bargaining had been decentralised and much more than in the past flexibility with regard to employment and working conditions became a bargaining chip, which did not make it any easier to organise broad-based social protest. Sometimes these protests were instigated by
a new breed of civil society networks, such as the farmers’ association or tenant movements. These groups normally act alongside traditional trade unions and not in cahoots with them.

Thirdly, the French model has long benefited from a large proportion of public companies, but here too there were massive upheavals: since 1987, in various privatisation waves – even by left-wing governments – the number of firms with a majority state holding was reduced by around half (Figure 1).

Furthermore, since the late 1980s many ‘reforms’ had been introduced with the declared aim of reducing the debts of public companies and increasing the ‘efficiency’ of public spending, which often amounted to the withdrawal of the state and job cuts in the public sector. Other aims included closer control of such companies, internal restructuring (such as the establishment of independent company managements), the switching of certain tasks to the responsibility of municipal authorities and the simplification and improvement of relations between the citizenry and the administration (for example, based on the principle of ‘everything under one roof’). Expenditure ceilings and the so-called ‘asymmetric transferability rule’, in accordance with which items of staff expenditure

Figure 1  Number of firms with a majority state holding, 1985–2011

![Graph showing the number of firms with a majority state holding, 1985–2011.](image)

Source: INSEE.
can be used for other purposes, while the reverse is not permitted, options for public sector job creation were narrowed. Although these measures were in part introduced before the economic crisis of 2007/2008 their effects were aggravated by the measures taken to combat it.

### 2. The response to the crisis since 2008

In 2008 France’s macroeconomic indicators turned to red – just like everywhere else. According to the Institut national de la statistique et des études économiques (INSEE) GDP fell by 2.7 per cent between 2007 and 2009 (against an EU average of 3.2); investment fell by 8 per cent, imports by 8 per cent and exports by almost 11 per cent (Table 1). The unemployment rate rose by 3 percentage points during the same period.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Changes in GDP and its components (%)</th>
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<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>GDP</td>
<td>2.5</td>
</tr>
<tr>
<td>Imports</td>
<td>5.1</td>
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<tr>
<td>Gross fixed capital formation (investment)</td>
<td>4.0</td>
</tr>
<tr>
<td>Exports</td>
<td>5.2</td>
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</tbody>
</table>

*Source: National Accounts – Basis 2005, INSEE.*

However, France was not among the countries hit hardest by the crisis. In fact, in comparison with the previous recession in the early 1990s, the country appeared to be holding up better, at least as regards jobs. While in 1992/1993 value creation in the private sector (not including agriculture) fell by 1.9 per cent and employment by 2.1 per cent, the fall in employment in 2008/2009, despite a collapse in GDP of 5.3 per cent, was ‘only’ 2.5 per cent. The labour market thus did not shrink so dramatically in comparison with the economy as in the early 1990s.

There are several reasons for this development. In contrast to Germany wages had largely kept pace with productivity in the preceding years, so that the domestic market had maintained its comparative significance for economic growth, which continued during the crisis (Table 2).
On top of this came the relatively high household savings rate (around 15 per cent), which also prevented a collapse in consumption during the economic crisis. Another important factor, which explains the relative stability of the French economy during this period, was state investments (Figure 2). These short-term developments were part of a struc-

Table 2  Germany and France compared: development of selected indicators (average annual growth rates, adjusted for prices)

<table>
<thead>
<tr>
<th></th>
<th>GDP</th>
<th>Private consumption</th>
<th>Government consumption</th>
<th>Gross fixed capital formation</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999–2007</td>
<td>1.7</td>
<td>2.2</td>
<td>0.9</td>
<td>2.7</td>
<td>0.8</td>
<td>1.6</td>
</tr>
<tr>
<td>2008</td>
<td>1.3</td>
<td>0.4</td>
<td>0.4</td>
<td>1.0</td>
<td>2.1</td>
<td>1.2</td>
</tr>
<tr>
<td>2009</td>
<td>–5.0</td>
<td>–2.2</td>
<td>0.2</td>
<td>0.8</td>
<td>3.0</td>
<td>1.5</td>
</tr>
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Figure 2  Development of private and public investment, France, 2008–2010 (%)
A cultural trend that enabled France to fare better than eternal rival Germany with regard to economic growth, investments and consumption since the 1990s (Horn et al. 2010). Its more sustainable – in comparison with Germany – domestic demand enabled France to make up for weaker exports and thus to weather the global recession more successfully. This support from the public sector formed part of a recovery plan in the amount of 34 billion euros for 2009 and 2010. Even though the plan has not met all expectations it has undoubtedly helped to limit the number of bankruptcies and to improve companies’ liquidity. However, it once more revealed the inclination of the Sarkozy government to put the interests of companies above those of employees.

Companies reacted largely along the same lines as during previous crises (Liégey 2009). In accordance with the logic of internal labour markets large French companies began to protect their skilled employees by means of short-time working.1 In this crisis this instrument was utilised much more than in earlier recessions. The number of employees with regard to whom short-time working was authorised had fallen by 82 per cent between 1996 and 2005, that is, from 1.7 million to 300,000 (Calavrez et al. 2009). In 2008, however, the scheme was revised, enabling companies to extend working time reductions imposed on employees over a longer period. The economic crisis accelerated resort to this new device. Thus, for example, in the first quarter of 2009 more than 10 per cent of employees in the automotive industry were put on short-time working (Conseil d’analyse stratégique 2009).

French companies passed on the costs of the crisis to their least secure employees. In a little over a year the number of temporary employees fell by a third. A similar strategy could be observed in 2012 when after a brief recovery the economy cooled once again. As if we need to be reminded, the data show how important temporary employment is as an instrument of flexibility (Figure 3).

While the collapse in temporary work in 2009 occurred largely in industry the service sector reduced employment by cutting fixed-time working. Other instruments – such as reducing overtime, collective holidays and further training measures – were deployed only to a limited extent. Working hours were varied only slightly during the crisis. The flexibili-

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1. By contrast, small companies scarcely used this option, which explains another difference with Germany, which resorted to such arrangements on a much larger scale.
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Divisive integration. The triumph of failed ideas in Europe – revisited

sation measures that had been agreed in the course of introducing the 35-hour week at the end of the 1990s, the early 2000s and subsequently were not therefore used to counteract the effects of the crisis.

Overall, in the short term French companies resorted primarily to internal flexibility, as they had always done in previous decades. In the medium term, however, external flexibility has gained ground. The background to that is not only that 14 per cent of dependent employees in France are in precarious employment – fixed-term, temporary, internship – but protection of employees by means of permanent contracts has receded. The crisis was both a shock and a pretext for reducing the importance of internal workforce flexibility in favour of external flexibility and for increasing inequality between employees (for example, between permanent well qualified white-collar employees or skilled workers in the public sector, on one hand, and precarious employees on the other). The French state can scarcely offer an example for companies to follow in this instance: in 2008, 873,000 workplaces in various public institutions – administration, hospitals, local authorities – making up 16.5 per cent of all workplaces in the public service, were occupied by precarious employees, in contrast to 664,000 in 1998.

The mainly cyclical adjustments conceal a difficult structural situation, both economically and socially. Up to 2013 the unemployment rate per-
sisted at a high 10 per cent, with long-term unemployment reaching 3.7 per cent (according to INSEE). This had last been observed in the early 1990s. The consolidation of high unemployment retards wage growth and weakens effective demand; in other words, the very factors that had stabilised the French economy in the years leading up to the crisis.

There is another element that has helped to stymie economic recovery since the shock of 2008: the rise in public debt. As in other European countries the French government has imposed a restrictive budgetary policy, which has acted as a stumbling block for a demand-driven upturn. Even François Hollande did not deviate from this after coming to power. Box 1 provides an overview of the main labour market and social policy measures.

Box 1 The French government's main labour market and social policy measures since 2012

Youth unemployment
Jobs for the future: The law creating 150,000 ‘jobs for the future’ was one of the first measures adopted by the Hollande presidency. Support is to be given to young people, especially from deprived areas, by making available full-time jobs for a maximum of five years. The jobs are paid at the minimum wage (SMIC) and financed up to 75 per cent by the state. The remaining 25 per cent has to be found by the municipal authorities, associations, foundations or companies that provide the jobs.
Intergenerational contracts: the idea is to stimulate company schemes by means of state support in which older employees – 55 years of age or over – show new permanent young employees (below 30 years of age) the ropes and mentor them. The companies concerned will be exempt from all social security contributions for the young employees and from the employer’s contribution to unemployment insurance for the older employees for five years. The target is to introduce up to 500,000 such contracts, but according to initial estimates (taking into account deadweight effects) 100,000 additional jobs are to be anticipated (OFCE 2012).

Pension reforms
Pension reforms represent a radical shift in the social security system. Hollande’s policy does not deviate from that of his predecessor. First of all, retirement two years early was made possible for those entering the labour market below 20 years of age. At the same time, a heated public debate commenced on the financial sustainability of the pension system. Against the background of more
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recent analyses by the European Commission, however, some economists have pointed out that, given France’s demographic development, its pension system faces fewer problems than, for example, Germany’s, although the statutory retirement age in France is substantially lower (Cornilleau/Sterdyniak 2012). They also point out that because of France’s more dynamic demographic development its public debt will be more sustainable in the long term than that of Germany. Thus it is also crucial for the funding of the pension system to sort out family policy (financial assistance, expanding public child care provision and expanding care services in general).

**Housing policy**

The housing act of 2013 is intended to halt rent increases in 38 large cities in France, which in recent years have exerted considerable downward pressure on living standards, especially in the poorest households.

**‘Flexicurity’**

In early 2013 the peak organisations of the employers and three trade union federations (CFDT, CFE-CGC and CFTC – CGT refused to sign) signed a ‘national framework agreement on flexicurity’, which was then adopted into law (Lallement 2013). It extends the options for reaching agreement at enterprise level on securing employment in exchange for wage cuts or working time measures and, at the same time, makes it easier to lay off workers for economic reasons on the basis of enterprise agreements. Although it gives employees some new guarantees, to date there is no evidence that this arrangement could form the basis for a new model that would be both economically efficient and socially just.

**The ‘responsibility and solidarity pact’**

At the beginning of 2014 President Hollande proposed a pact whose basic idea he summarised as follows: ‘lower taxes and other levies on labour, lower impediments on entrepreneurial activities in exchange for more new hires and more social dialogue’. The aim is to simplify bureaucratic procedures and to reduce labour costs by means of a ‘tax credit for competitiveness and employment’ (CICE), as well as other tax concessions for companies. At the same time, the net wages of low income employees (less than 1,500 euros net per month) will be raised by reducing social contributions; employees on less than 1,250 euros shall also receive additional tax concessions and social benefits for those in poverty will be improved. This pact is controversial, being framed in terms of liberal supply-side economics. Particular criticisms have accrued to the fact that it remains unclear what evidence will be accepted for the retention or creation of jobs, in return for which companies will enjoy lower labour costs, as well as the fact that the pact will be paid for by further cuts in public spending.
3. Interim results and future prospects

How do things stand more than five years after the crisis of 2008? At this point we cannot give an exhaustive answer, but we take the view that the French model has not emerged from the recent economic upheavals unscathed. This can be seen in terms of three problems that concern the core of the model and each of which represents a major challenge.

Productivity development and competitiveness

A first consequence of the crisis concerns productivity development. Per capita labour productivity fell between the 1980s and the early 1990s, but by 2007 it had risen again (Berrebi et al. 2009). The ensuing collapse in productivity in 2008 was scarcely surprising as a consequence of measures to safeguard employment implemented in the midst of a deep recession. Many economists, however, have diagnosed an attenuation of longer term trends in productivity growth. According to this view, tertiarisation explains more than half the weaker productivity growth trend since the 1990s. However, since the early 2000s productivity development has also slowed down in other sectors, including industry (Argouarc’h et al. 2010; Schreiber/Vicard 2011). The current crisis has thus brought to the surface deeper lying structural problems. Thus – according to Eurostat figures – the share of manufacturing in France’s GDP fell from 15 per cent to 10 per cent between 2000 and 2010, while in Germany it remains between 22 per cent and 23 per cent.

Competitiveness plays a key role in the public debate on this problem. Although competitiveness is often taken to be an indicator of the health of an economy, this applies – if at all – only to sectors exposed to international competition. In particular, however, it is frequently overlooked that competitiveness can be due both to favourable cost and price development by international comparison (with regard to which the development of costs and prices in turn determines profits) and to the superior quality of the product, which is of course difficult to measure. Furthermore, there is no systematic connection between competitiveness and growth. If, for example, price competitiveness is largely achieved by means of wage cuts and not by improving productivity this will be counterproductive in the medium term with regard to the economy and growth.
Critical economists point to a fundamental lack of innovation on the part of French industry, as evidenced by a lack of products whose sales do not depend primarily on price developments. A significant indicator in this context is the fact that in French companies an increasing proportion of net profits is being distributed to the shareholders. If one compares this with spending on research and development a dismaying picture emerges: in 1992 research and development spending in corporations amounted to 45 per cent of dividends; by 2011 this had plummeted to around 25 per cent (Coutrot et al. 2012).

The debate in France, however, remains focused on price competitiveness. Recent reports commissioned by the French government – in particular the Attali report – show how much neoliberal dogma on labour cost reduction has sidelined the issue of competitiveness based on quality. This should be borne in mind when considering the following data. According to the IMF, French exports in 2011 made up 3.5 per cent of world trade in comparison with Germany’s 8.2 per cent. In France these exports made up 29 per cent of GDP. In the French public debate this is linked to the unfavourable development of unit wage costs in comparison with those of Germany (on this see chapter on Germany in this volume). This gives impetus to political demands to emulate the policies of Schröder and Merkel. Apart from the fact that the gap between the two countries in terms of unit wage costs has not widened in the past five years, one must question a logic fraught with so many dangers (such as wage cuts and threats to health and the environment). It would be better to pursue new economic development strategies that ‘break with destructive consumerism’ (Coutrot et al. 2012) and are directed towards environmental transformation, social services and reducing social inequality (Coutrot/Gadrey 2012). germane to this purpose would be utilisation and reinforcement of existing potential in terms of regional economic cooperation, especially small and medium-sized companies.²

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² So-called Pôles Territorial de Coopération Economique (PTCE) (‘Territorial hubs of economic cooperation’) could serve as a model for this, in which small and medium-sized companies, local authorities, research and training institutions and other networks develop joint initiatives and innovations to promote sustainable economic development in a region.
Territorial and social inequality

Up to the 1980s in France a strong government, enjoying high tax revenues, was regarded as part of a ‘Jacobin’ and social tradition that the state claimed as its own. In the course of the past decade, however, along with a fall in tax revenues (in relation to GDP) decentralisation has been implemented as a result of which competences, especially with regard to social security and education, have been transferred to the regions and the Départements (Aurissergues 2010; Champsaur and Cotis 2010).

While decentralisation is based on the logic of territorial proximity – dealing with local situations in terms of local needs – and subsidiarity it has also heightened territorial inequalities of access to public services, a new development in the French tradition of equal rights. It is becoming increasingly clear that there are substantial differences between the French regions. For example, although the region of Nord-Pas de Calais has had some partial successes with regard to structural change and has been able to heal many of the scars of nineteenth-century industrialisation, it suffers from a high level of poverty. Regional GDP is just over half the average for the Ile de France region; the proportion of people without qualifications (beyond the school leaving certificate) is 36 per cent, which is 10 percentage points higher than in the Ile de France; and life expectancy is four years lower.

Territorial and social inequality are closely intertwined. Since 2008 income inequality has become a permanent issue in French politics. This may surprise some because inequality rose only slightly in France between the mid-1990s and the eve of the crisis or – depending on how it is measured – even fell slightly (ONPES 2010). However, the biggest inequalities are to be found at the two ends of the income and wealth spectrum. In fact, before the crisis the income growth of the richest households in France was spectacular; according to INSEE, the annual income of the richest 0.01 per cent of the population rose by 40 per cent in only three years (2004–2007), in contrast to a 6 per cent increase among the poorest decile. The crisis has exacerbated this inequality: according to Eurostat, the poorest 5 per cent of French households have lost 0.3 per cent of their nominal average income, while the richest percentile have gained 9.7 per cent.

Wealth inequality is even more striking. In 2003 the highest decile owned almost half of all the wealth in France. Due to various tax con-
cessions on wealth (with regard to inheritance and wealth taxation, as well as capital gains) ‘inheritance capitalism’ was consolidated (Philippon 2007). These tax concessions are emblematic of a policy ‘catering for rich people’, but contributed to imbalances in the public budget and reduced the scope for social measures needed to help the poorest.

Poverty: the crisis and a new social problem

As a result of the economic crisis rising poverty, the working poor and the economic policy that is responsible for such rents in the social fabric have become the centre of attention. The crisis is not the sole cause of precarity and poverty, but it has exacerbated the problems. As already mentioned the crisis was not the only reason for rising unemployment, but it did extend its scope. For example, in spring 2013, according to the estimates of the research department of the labour ministry (DARES), there were 3.2 million unemployed in category A (people without a job, but actively looking for one), but taking into account various forms of underemployment, as well as labour market policy measures, the figure was closer to 4.7 million. The proportion of people in involuntary part-time work alone was estimated at 5 per cent (INSEE). The rise in unemployment is concentrated in certain population groups, such as young people, whose unemployment rate rose by a quarter between 2008 and 2010 and by 2013 had reached more than 25 per cent (young people available for work). Against this background the economic crisis exacerbated the trend towards a weakening of regular employment: in 2010 almost 80 per cent of all new hires were on the basis of atypical contracts.

All in all, these developments could lead to an increase in the number of working poor, a notion and a social reality that are still very new to France, in contrast to the United States. Based on a threshold of 60 per cent of average income the number of employees on low wages rose from around 150,000 in 2003 to 1.925 million in 2010. The self-employed are overrepresented in this category and one-fifth of the working poor are part-time employees (OPNES 2010).

Hitherto, poverty in France has primarily affected jobless people living alone. In 2008 there were around 8 million people in households with incomes below 60 per cent of the average. However, without the social security net this would be 25 per cent of all households. This difference
between poverty before and after transfers ranks France alongside Sweden among countries with the most robust protection mechanisms.

This social system undoubtedly did much to counteract the economic crisis of 2008. However, two caveats apply given how things have developed in the meantime. First, the priority with regard to employment policy is workfare, as in the English-speaking countries, so that as social benefits and services are scaled back the number of working poor is likely to increase (Ponthieux 2009). Secondly, young people below 25 years of age are not only harder hit by unemployment, but also less protected against possible income cuts. The reason for this is that government social protection programmes are much less generous for young people (Zemmour 2010).

Finally, it is important to note that the problem of poverty cannot be addressed adequately without taking gender into consideration. There are two reasons for that: first, active labour market policy measures can confer the status of occupation on some typically female activities – such as ancillary work in day nurseries, the household or in care – in order to make them worthy of support. Such activities, generally carried out in the household or in social organisations are characterised by low income and poor working conditions. Secondly, part-time work is the main cause of low monthly wages. Because the female share in part-time working is 82 per cent it is not surprising that 75 per cent of employees in the low wage segment are women.

**Summary**

The economic crisis of 2008 cannot be regarded as a random event in France any more than anywhere else. The crisis took various forms depending on the national economic and social model, but it gave rise to upheavals in current capitalism, in the first instance arising from the financialisation of the economy. For a number of reasons, which we have elucidated in this chapter, France fared better in the crisis than other countries, at least in the short term. From this perspective the strategy of immediate government intervention – long a feature of the French model (Berrebi et al. 2009) – can explain positive developments in France, by European comparison. However, the French government no longer plays the role familiar from 20 years ago, and its policy of public sector ‘modernisation’ has given the helm over to new actors from the public and the private sector, who approach employment issues from a differ-
ent – sometimes less favourable – perspective. However, the capacity to implement centralised plans in order to combat an economic downturn has not been lost; even if that does not involve conducting proper negotiations with political and social actors. The crisis of 2008 provides considerable evidence of that, but at the same time it revealed and accelerated some fundamental changes, in particular social inequality, which we have looked at.

The structural trend towards more inequality and poverty testifies to the transformation of the French model. Social solidarity has gradually crumbled due to various reforms over the past three decades. The increase in the number of working poor has brought to light a new social problem. Ultimately, the crisis, by exacerbating inequality and acting as a pretext for further neoliberal social adjustments, has served to justify this medium-term development. Thus despite the satisfaction with the fact that France fared pretty well, at least in the short term, after the economic shock in 2008 there is every reason not to be particularly optimistic with regard to the next few years.

This is also indicated by the various measures implemented in response to the crisis in the euro zone. They have confirmed and reinforced the liberal orientation pursued by economic policy in France for many years now. This also applies to the abovementioned ‘National Framework for Flexicurity’. The basic weakness of all these arrangements is that they are based on the idea that unemployment is ultimately due to a lack of labour market flexibility.

The French economy is in crisis, but what we are seeing is primarily a crisis of the ‘software’ of the economy and economics, which refuse to recognise the crisis’s structural bases: inequality (and thus the constriction of aggregate demand) and the destruction of natural resources.

References


