

AVOIDING WELFARE STATE RETRENCHMENT IN FRANCE

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Abstract¹

France has successfully resisted pressures to retrench its high levels of pension transfers, especially during the financial crisis of the 1970s and the creation of the European Monetary Union in the 1990s and can continue to resist with new labor activation reform. This article classifies France as a Bismarckian welfare state within the parameters of Esping-Andersen's studies, but a Bismarckian welfare state that has proven capable of reform to maintain the basic structure of its system. It analyzes the viability of the pay-as-you-go funding for the pension system and offers solutions on how to keep the current system with the introduction of labor activation policies that include traditionally-excluded segments of the population like immigrants, the elderly, women and youth.

1. Introduction

France's expensive pension system has repeatedly withstood pressure to reduce its high transfer payments and will continue to do so if certain measures are taken to lower the contribution burden on the working population. Many countries in the same European bloc responded to financial crises during the 1970s and 1990s by undergoing retrenchment policies such as cutting down on services offered or reducing its level of pension transfer payments but France offers a case-study where retrenchment has been successfully resisted and shows no signs of beginning on a large scale. In all of Europe, France is second only to Sweden in the percentage of GDP allotted to social protection expenditure.²

1 The author would like to thank Dr. John Stephens and two anonymous reviewers of the CEU PSJ for their helpful comments.

2 Eurostat, *European Social Statistics* (Luxembourg: Office for Official Publications of the European Communities, European Commission, 2008).

The French system must change in order to ease the strain on the current working population, but from the past examples that will be explained in depth, it is clear that if there is change it will occur on the supply-side of employment rather than lessening the demand for high transfer payments.

This research will show why retrenchment is still very difficult to accomplish in France despite external pressures. First, occupational groups and labor unions hold a substantial amount of power in organizing the public, who is fairly educated on these matters. The French government must convince these groups that new reform is beneficial to them. Second, cutting back on social protection expenditure like pension transfer payments is unfair to the elderly currently on pensions who have contributed to the system their entire working career and expect to receive their contributions back when they can no longer work. There are measures that France and potentially other countries in similar positions can avoid retrenchment.

I will begin by explaining France's history within the Bismarckian welfare system beginning in the late 1800s and the focus on protecting the traditional worker. In the same section, I will show how France incorporating Beveridgean policy after World War II in the 1940s did not completely permanently rid France of its Bismarckian heritage. For example, the financial crisis of the 1970s led France to create policies that protected the traditional worker like lowering the retirement age. I will then move on to discussing pressures in the 1990s that led some European countries to retrenchment. In France, the result was not a retrenchment of the system but an increase in the role of the government to provide a cushion in the economic crisis. Finally, I will suggest increasing the labor supply as the most practical and feasible solution for a country like France that seeks to avoid retrenchment but has an rapidly diminishing working population. The key approach is to synthesize prominent work in the field of Bismarckian welfare systems and demographic and social expenditure statistics into a comprehensive analysis of the French pension system.

2. France as a “Bismarckian” Welfare State:

France’s current welfare system can be best understood by looking back into its creation. According to Esping-Andersen’s³ categorization of the welfare state, France falls into the category of the (geographically) Continental European state with more specifically a Bismarckian welfare system. The original aim of a Bismarckian system is to provide access to jobs and income security for male industrial workers through a “family wage,” which is an income sufficient to support the needs of a nuclear family.⁴ Benefits are usually earnings-related and based on work and contribution record. This is a description of the Bismarckian countries that group Germany, France, Belgium, Austria and the Netherlands together as having a common background and helps one to understand the context in dealing with French retrenchment policy and more current reforms.

2.1. Creation

The late 1800s brought the introduction of the Bismarckian welfare system, which still exists in France despite the introduction of the policies that introduced more of a universal welfare system in the 1940s. The pay-as-you-go pension system and tiered occupational insurance schemes that still exist are proof of the dependence on the Bismarckian welfare system.

According to Palier, workers in Continental European countries faced similar situations during the period of industrialization (late 1800s).⁵ Previously, the family was the source of aid in times of instability, but because of urbanization and the mobility of workers, families were no longer as easily accessible to support workers in times of trouble and increasing number of work-

3 Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990).

4 Karl Hinrichs, “A Social Insurance State Withers Away. Welfare State Reforms in Germany – or: Attempts to Turn around in a Cul-de-sac,” in *A Long Goodbye to Bismarck. The Politics of Welfare Reform in Central Europe*, ed. Bruno Palier. (Amsterdam: University of Amsterdam Press, 2006), 4.

5 Bruno Palier, “Continental Western Europe – the “Bismarckian” welfare systems,” in *Oxford Handbook on Comparative Welfare States*, ed. H. Obinger, C. Pierson, F. Castles, and J. Lewis. (Forthcoming), 3-7.

related accidents. Thus, workers organized in occupational groups that could provide some of the basic needs or pressure employers to take the place of the family. In France, these groups were called the "*Société de secours mutuelles*", which were traditionally funded by *Caisses*, a not-for-profit mélange of private and public social insurance bodies. Funding and organizational efforts of the *Caisses* relied more on organizational groups of employers and employees than on the market or the state as was the practice in Liberal and Nordic welfare states. These organizational groups were able to maintain the goal of providing job and income security for the predominately male industrial workers who ran the organizations. In current-day France the *Caisse d'allocations familiales* (CAF) still exists under the Social Security system in a confusing network of public insurance schemes still mostly financed by employee/employer contributions. There are currently 123 different *caisses d'allocations familiales* to choose from, depending on the region one lives in.⁶ The government delegates much of the control of social welfare to a semi-private/semi-public sphere while and it requires that everyone be covered by some social insurance scheme.

As a response to the instability of the period of industrialization, Germany spearheaded the move towards increased coverage for previously-employed workers under the rule of Otto von Bismarck (1862-1890). In 1883, 1884 and 1889 he proposed bills on health insurance, accident insurance and old age and disability insurance respectively. These bills were passed, and they began a system of protection for social insurance that was comparatively large and today is at the basis of modern Bismarckian welfare policy. In 1884 he wrote,

The actual complaint of the worker is the insecurity of his existence; he is unsure if he will always have work, he is unsure if he will always be healthy and he can predict that he will reach old age and be unable to work. If he falls into poverty, and be that only through prolonged illness, he will find himself totally helpless being on his own, and society currently does not accept any

⁶ See the CAF website www.caf.fr/wps/portal/ for more information.

responsibility towards him beyond the usual provisions for the poor, even if he has been working all the time ever so diligently and faithfully.⁷

He helped create the prototype of a transfer-heavy welfare state to protect the worker who has been responsibly giving contributions throughout his career.

Bismarck was of a Christian background and that influenced Bismarckian policy to encourage the Church's doctrine of "subsidiary" in the promotion of the family as the basic source of welfare. If one looks at the pillar system of family, market and state, Bismarckian welfare policy tends to put the family on a pedestal and rejects heavy reliance on the market as it tends to be in the Liberal welfare system or on the government as it tends to be in the Nordic welfare system. The best way to follow the subsidiary doctrine was to encourage direct employer-employee relationships and to only provide further aid in more extreme cases. Another result of the subsidiary doctrine is that the entitlements given to a displaced worker assumed that there was one male breadwinner and the transfer payments must cover what the family is used to having him bring into the home. This monetary transfer payment decreased the need for female participation in the workforce and furthermore, the lack of any other sort of welfare like childcare or elderly care forced females to stay out of the workforce.⁸

Directly after World War II, there was a shift in focus in Western Europe to providing a more universalistic welfare policy that affected the Bismarckian countries as well. The *Conseil National de la Résistance* (CNR) was a French resistance group during WWII that coordinated the efforts of French political parties, labor unions and regional resistance groups, with a strong Communist influence.⁹ To appease the Communist Party presence, the

7 To read his entire speech in German, go to:

www.reichstagsprotokolle.de/en_Blatt3_k5_bsb00018445_00000.html (accessed November 30, 2009).

8 Hinrichs, "A Social Insurance State Withers Away. Welfare State Reforms in Germany – or: Attempts to Turn around in a Cul-de-sac," 4.

9 See www.musee-resistance.com/ for more information.

government compiled a plan to create a universal social security program to cover all citizens, regardless of sickness or injury. The French welfare revisions were also influenced by the Beveridge Report that was introduced to the British House of Commons on June 10, 1941. The Beveridge Report concluded that,

Existing provisions were inadequate and unequal. Several of the more serious risks of life were either not insured at all or were, as in the case of funeral expenses, unsatisfactorily insured. Large segments of the population were altogether excluded from the existing social insurance. The period of benefit-payment was in many cases too short and benefits often stopped when the need for them was greatest. In the lower income groups the larger the family the greater was the pressure on subsistence.¹⁰

The Beveridge Report emphasized the importance of meeting the needs of the entire population without discrimination. The results influenced the social security policy in post-war France.

While the Beveridge Report led to an awareness of the need for universal healthcare and pensions, the actual implementation of social insurance schemes was reliant on separate regional occupational or company-based insurance funds. Palier says that in the late 1980s in France there were over 600 basic pension schemes and more than 6000 complementary pension schemes.¹¹ Although there was a desire for a more universal and equal pension scheme, it was difficult to move away from different levels within the universal scheme that gave options to people in different occupational groups.

During this time, financing for pension programs in France came over 80% from social contributions through employers and employees, primarily through pay-as-you-go (PAYG) contributions because of the desire (based on subsidiary doctrine) to keep the state out of the picture in the form of direct taxes. The fact that in France pension benefits were known as "deferred wages" emphasizes the point that one earns and contributes his own

10 Wolman, Leo, "The Beveridge Report," *Political Science Quarterly* 58 (1943):1-10.

11 Palier, "Continental Western Europe – the "Bismarckian" welfare systems."

wages, it is income-related and if one contributed money while working, one deserves to receive it back later.

A PAYG system operates when the money saved through contributions goes directly towards the current individuals who receive benefits checks like the retired or disabled. To make the concept clearer, Krieger compares the most basic PAYG system to the family.¹² The parents share their earnings with their children who are unable to work, and then when the children become old enough to work, they share with their parents when the parents are retired and unable to work. This was the source of the majority of the revenue for social insurance policy.

2.2. Fiscal Tensions of the 1970s

The unemployment problem in France was exacerbated by a high dependency on PAYG contributions which are employment-related (because only those obtaining a regular income can contribute). By the mid-1970s there was an economic crisis due to rising oil prices which resulted in a rise in unemployment and the need for a balanced budget. Unemployment more than doubled from 4.1% of the active population in 1974 to 10.5% by 1987.¹³

The diagnosis was not that of Liberal retrenchment or Nordic activation but to save the industry, and by helping enterprises, the traditionally *male* French workers would be able to find employment easier and could contribute more generously into the PAYG system. The diagnosis was labor supply reduction in order to protect the traditional male worker and ensure him a job that could provide for an entire family. The French government increased the amounts of contributions put into the system in order to balance the budget and avoid welfare benefit retrenchment. The opposite of welfare retrenchment occurred:

12 Tim Krieger, *Public Pensions and Immigration: a public choice approach* (Northampton, MA, 2005).

13 Bruno Palier, *A Long Goodbye to Bismarck. The Politics of Welfare Reform in Central Europe*. (Amsterdam: University of Amsterdam Press, Forthcoming), 11.

there was instead an increase of social protection expenditure in GDP which grew from 19.4% in 1974 to 27.3% in 1985.¹⁴

In an attempt to solve the crisis caused by the economic downturn in France in the 1970s, France looked to ways of implementing early exit strategies (labor-shedding) especially in the form of earlier retirement to increase profitable employment opportunities for the active younger citizens. The government both lowered the age of retirement and enabled employees to begin receiving some of their retirement benefits earlier according to this policy.¹⁵

The policies created to address the growing unemployment of the 1970s did not focus on lowering the amount of welfare pensions received to stabilize the budget but mainly focused on protecting traditional employees through job protection strategies and ensuring a source of revenue through social contributions. The retirement policy was extremely successful: 84,000 people retired early in 1975; 159,000 in 1979; 317,000 in 1981 and 705,000 in 1983.¹⁶ As **Table 1** shows, the employment rate for people 65 years old and older is very small, at 1.3% for French citizens compared to 52.3% for those 15 years old and older. In some Bismarckian welfare states like Germany, the numbers of immigrants allowed into the country were restricted for the same reasons, to protect already-employed citizens in the country and to permit them easier access to jobs.

France has evolved along the same dimensions as the rest of the Bismarckian welfare states like Germany, Belgium, Austria and the Netherlands. They have a shared history, especially the Christian doctrine of subsidiary and similar governmental structures that give veto points, or places in the legislative

14 From the French Ministry of Social Affairs' Service of Statistical Studies and Information Systems, "Comptes de la protection sociale."

15 Palier, *A Long Goodbye to Bismarck. The Politics of Welfare Reform in Central Europe*, 7.

16 J. Bichot, *Les politiques sociales en France au 20ème siècle* (Paris: Armand Colin, 1997), 132.

Table 1. Employed Population in France according to nationality and age in 2009¹⁷

	<i>French</i>	<i>Other Nationalities</i>
Population (in thousands)		
15 years old and older	24,565	1,348
65 years old and older	117	--
Employment rate		
15 years old and older	52.3%	47.9%
65 years old and older	1.3%	--

process where legislation has the opportunity to be contested and blocked by labor unions and employment organizations. These countries created policies based on the Bismarckian method of providing aid to workers in case of an emergency and eventually added Beveridgean policies of universality to provide basic aid to all groups regardless of contributions. Through the 1970s the Bismarckian welfare states all moved into a policy of increased protection for the average worker to enable him to provide for the family. The main method was through labor shedding, or a reduction in the number of low-productivity workers through the means of early retirement, discouraging mothers from working through the lack of extensive service welfare like daycares, and discouragement of immigration.

3. Europeanization and the Need to Converge

The 1990s brought about fiscal tension which also threatened to push the Bismarckian countries towards retrenchment. The main factor was the creation of the European Single Market in 1992 and new stipulations for joining the European Economic and Monetary Union (EMU) that pushed countries to control the public debt. This was especially a problem for France, a country with a long-lasting problem of debt because of its generous welfare transfers.¹⁸ It seemed as though France had to change its generous welfare payments in order to qualify for participation in the EMU. A country's annual budget deficits could not exceed 3%

¹⁷ Data taken from the statistics website of Insee.fr. Updated November, 2009.

¹⁸ Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State* (Chicago: University of Chicago Press, 2001), 206.

of gross domestic product (GDP) and public debt had to be less than 60% of GDP in order to be qualified for the EMU. While France was initially allowed into the EMU, it still has difficulty keeping its budget deficits under 3% of GDP. In 1993 the general budget deficit was 6% of GDP (OECD 2001). According to a 2007 memo by the Council of the European Union entitled "France's government deficit back below 3% of GDP: Council closes procedure" France has been under an "excessive debt procedure" that was opened in 2003 because of a 3.2% debt in 2002 that rose to 4.2% in 2003.¹⁹ Within the Bismarckian welfare states, France consistently has the highest percentage of its budget allotted to social protection expenditure, at 30.6% in 1996 and 30.5% in 2007 (See **Table 2**).

Table 2. Total Expenditures on Social Protection²⁰ (as percentage of the nation's GDP).

	1996	2007
European Union (27 countries)	n/a	26.2
France (Continental welfare state)	30.6	30.5
United Kingdom (Liberal welfare state)	27.4	25.3
Denmark (Nordic welfare state)	31.2	28.9

The first reform made by most countries was to work towards controlling the budget and lowering the amount of welfare distributed in the form of pensions. In France this type of reform was made possible with shifting power in the *Caisses* from private organizations to the State. Any increase in the role of the government generally means easier access to tightening the budget. But Pierson of the *Politics of Retrenchment* would point out that throughout the period of retrenchment France has been able to adjust its social insurance arrangement without compromising its dedication to providing basic social welfare.²¹ He says that,

19 See Europa website: www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/misc/92583.pdf

20 Total expenditures on social protection as % of GDP. Found on the Eurostat website.

21 Paul Pierson, *Dismantling the Welfare State? : Reagan, Thatcher, and the politics of retrenchment* (New York: Cambridge University Press, 1996).

There is little evidence for broad propositions about the centrality of strong states or left power resources to retrenchment outcomes. The unpopularity of retrenchment makes major cutbacks unlikely except under conditions of budgetary crisis, and radical restructuring is unlikely even then. For the same reason, governments generally seek to negotiate consensus packages rather than to impose reforms unilaterally, which further diminishes the potential for radical reform. And far from creating a self-reinforcing dynamic, cutbacks tend to replenish support for the welfare state.²²

Pierson suggests that any budgetary cutbacks in times of a financial crisis will only be temporary because of their unpopularity in a country like France where high welfare transfers like pension payments are standard. Once the system has already been in place, it is very difficult to reverse.

Rather than cutting down on transfer payments offered or transforming the contribution method, French policy increased welfare contributions. According to Martin Schludi, there existed significant concern within the government about the need to reform cost containment measures.²³ The government published worrisome projections about the financial viability of the current PAYG system. It was not a lack of information within the government but the public's strong attachment to pension payments that made it difficult for any large-scale reform. In 1988 the then-Mayor of Paris Jacques Chirac had published reports on the need for reform in financing the French pension system in 1987 but by 1995 when he was running in the presidential elections, he knew to avoid such issues because of strong unpopularity. Because the importance of the pension system had been previously well-established in France, there are "large core constituencies for the welfare state [that] have a concentrated interest in the maintenance of social provision."²⁴ It

22 Pierson, *Dismantling the Welfare State? : Reagan, Thatcher, and the politics of retrenchment*, 156.

23 Martin Schludi, *The Reform of Bismarckian Pension Systems: a comparison of pension politics in Austria, France, Germany, Italy and Sweden* (Amsterdam: Amsterdam University Press, 2005).

24 Paul Pierson, "Coping with Permanent Austerity," in *The New Politics of the Welfare State* ed. Paul Pierson. (Oxford, England: Oxford University Press, 2001).

is easier to fight to sustain currently-existing pension benefits than to fight for a reduction.

France relies on cooperation from the affected interest groups that are invested in the social insurance programs and institutional structure of the French pension system and have strong influence over the voters' preferences. As Vail states, "because the state's insularity has discouraged meaningful negotiation before reforms become law, retrenchment has depended upon elites' legitimization of policies by managing conflict in the public arena."²⁵ It is necessary for lawmakers to be able to convince interest groups involved that it will not negatively affect them especially in the short-term. There are the medical union groups like the very important *Confédération des syndicats médicaux français* (CSMF) that are successfully able to block legislation that is unappealing because of their almost universal participation by French doctors. The *Caisses* mentioned earlier work closely with the medical union groups and are co-governed by union representatives and business leaders.

The 1993 French Prime Minister Edouard Balladur was the exception. He led a center-right coalition and was able to push forward in the area of reform and retrenchment although far from levels present in Liberal welfare states. This was due to few parliamentary obstacles due to his coalition government, a division that had occurred between doctors' unions and interest groups, a slow diffusion of goals through time, and the appearance of full cooperation with physicians' groups.²⁶ He was able to pass pension and health reform in 1993, most notably increasing the retirement age to 65, increase in calculation period of pension benefits from 10 to 25 years (this lowers the amount of welfare payments received because it takes the average contribution rates of a wider range of years, including those that are not the most high paid), and trim hospital expenditures. These successes depended on a series of favorable conditions in 1993 and cunning strategy to weaken the opposition.

25 Mark Vail, "The Politics of French Welfare Reform," *Journal of European Social Policy* 9(1999): 311-329.

26 Vail, "The Politics of French Welfare Reform," 315.

Overall, the pressure in the 1990s to control the French social protection budget was not able to convince the general public that the state needed to drastically change expenditure rates. Once there is already a system of high pension transfers in place, it is very difficult to cut back. By 1993 the government was able to pass some reform due to the success of a coalition government, but the most significant reform was in the area of labor activation and not retrenchment.

4. Employment Activation for Immigrants as a Response to Decreased Funds

Even with the reforms of the 1990s there is still mounting tension on current workers to provide pension transfers for an ever-growing ageing population. Balladur's attempt to raise the retirement age was able to lower contribution rates for an increased number of workers without having to decrease pension transfers. There are other policies that can achieve the same effect such as encouraging immigration and lowering the minimum wage to encourage employers to hire less experienced workers.

Pierson first lists the need to expand employment opportunities, especially in the area of service employment, as an important way of reform for Bismarckian welfare states.²⁷ This would take the focus away from a rise in contributions or tax-raised revenue especially in a time of financial crisis and focus more on creating a wide base of active participation by all possible members of the economy. This solution avoids reducing the social insurance expenditures which as mentioned earlier, would be very difficult to do once it is already under full swing in the French system. Today's economic crisis renders employment activation policies more important than ever. Pierson also says that reform is made possible when key actors like labor unions and associations are convinced that the current social insurance policy cannot be sustained. One such way of "social learning" is through events such as a financial crisis when reforms are being explored by administrations in many different European countries.

²⁷ Pierson, "Coping with Permanent Austerity," 447.

Demographic changes such as an increase of single-parent families and immigration and a decrease of fertility rates also led a push towards transforming the pension system. Families are less and less likely to be able to rely on one male breadwinner. It is thus necessary to inject these categories of workers (youth, mothers, immigrants, elderly, etc.) into the overall employment. The main pressure for activation comes from the inability of the PAYG system to sustain itself. Tim Krieger says that the PAYG system is turning into an "unfunded pension."²⁸ His reasoning is that as fertility rates continue to fall in Europe, the active labor-force will not be able to sustain the pension benefits to the ageing that were once available. Fertility rates are relatively high in France compared to most other Western European countries, but they have been consistently below replacement levels for the past few decades while coming closer to the replacement level more recently. A solution must be found in the supply-side of employment.

It is difficult to reform the PAYG system in France because the older generation receiving retirement payments has contributed their entire working-lives. As the fertility rates decrease within France, it will become harder to keep up the rates that the retired generation expects from the contributions they have been making. Another option is the full-funded system which reinvests contributions and returns them in the form of pension transfers to the same worker who contributed. It is an expensive transition for the state to go from pay-as-you-go to the fully-funded system because the currently retired workers need to receive their transfer payments.

4.1. Positive Aspects of the Immigration Solution

Increasing incentives for immigration could potentially reduce the debt of the PAYG system with minimal expenses. According to Krieger, new immigrants who are fully assimilated by the host country have the value of a new-born child in that without having previously received pension payments, they are willing during

28 Krieger, *Public Pensions and Immigration: a public choice approach*, 19-49.

their working lifetime in France to provide contributions.²⁹ This could dramatically reduce the debt, and lead to a reduction of contribution rates when there are more employed workers contributing to the system. On top of that, it has been observed in France that immigrants tend to have more children on average than French citizens, so the fertility rate should also increase. In 1999 the fertility rates of foreign women raised the French fertility rate by 0.07.

In a recent paper published by Anton Hemerijck and Werner Eichorst emphasizing the need for activation of all people of working age, they said that

Priority should be given to problems of participation and integration of migrant groups, whose rates of unemployment in the EU are, on average, twice that of nationals. Integration and immigration policy should have a central place in our discussion about the future of the Continental welfare state, something we failed to do in the past.³⁰

If properly integrated, immigrants to France could provide a large increase in contributions to the current pension system. France has already incorporated high levels of immigration as one of its policies of labor activation and resisting an ageing trend, which has resulted in a comparatively successful total fertility rate thus far. France has taken its demographic changes very seriously in its adaptation of policy to counteract the ageing dilemma. Although it is not legal to take ask people their country of origin in a French census, *l'Institut national de la statistique et des études économiques* (Insee) shows a dramatic increase in immigration even just from 1982 at 2.6% of the population acquiring French citizenship after birth compared to 2006 at 4.3%.³¹

29 Krieger, *Public Pensions and Immigration: a public choice approach*.

30 Werner Eichorst and Anton Hemerijck, *Whatever Happened to the Bismarckian Welfare State? From Labor Shedding to Employment-Friendly Reforms* (Discussion Paper No. 4085 for the Institute for the Study of Labor, 2009) [database online]; available at <ftp://iza.org/dp4085.pdf>, 32.

31 Found at Insee's website: www.insee.fr/fr/themes/tableau.asp?reg_id=0&ref_id=NATTEF02131 .

4.2. Objections to Increasing Immigration as a Solution

One of the major objections to encouraging immigration is that it could cause social dis cohesion.³² Traditionally, immigration from culturally and linguistically similar countries is the most accepted by members of the host countries. Results can be increased xenophobia, communication barriers, and fear of job competition. There will need to be an increased emphasis on integration of immigrants.

Another negative result of encouraging immigration is the reaction of many governments to practice "return migration."³³ Germany in the 60s and 70s adopted the immigration policy of bringing in large numbers of workers from Southern European countries to boost the economy and it was credited for the boost in population size at the time. Conversely, policies in Germany encouraging return migration soon afterwards could be blamed for the immediate decline in population of the country. France already knows the importance of immigrant labor: in the 1920s when replacement rates were getting very low there was an increase in immigration. Immigration plays a large role in the economy, welfare system, and total fertility rates of a country.

Some opponents of immigration as a solution (Grant, Hoorens, Sivadasan, van het Loo, DaVanzo, Hale, Gibson and Butz) believe that increasing the focus on immigration policy as a type of population policy would slow down the ageing of a population but not necessarily stop it.³⁴

32 D.A. Coleman, "International migration: demographic and socioeconomic consequences in the United Kingdom and Europe," *International Migration Review* 1(1995): 155–206.

33 C. Hohn, "Population policies in advanced societies: pronatalist and migration strategies," *European Journal of Population* 3(1988): 459–81.

34 Jonathan Grant, Stijn Hoorens, Suja Sivadasan, Mirjan van het Loo, Julie DaVanzo, Lauren Hale, Shawna Gibson, and William Butz, *Low Fertility and Population Ageing: Causes, Consequences, and Policy Options* (Santa Monica, CA: RAND Corporation, 2004), 140.

4.3. Other Solutions

The French welfare system could also go in two other major directions: that of the Liberal and Nordic welfare states. But both would be challenging and unnecessary paths to follow especially after decades of following a Bismarckian path. The Liberal system would reduce the transfer payments and encourage more individual savings. As we have previously seen from Pierson's work, this sort of retrenchment is very unpopular and difficult to accomplish. Change of this level would either require currently retired workers to forgo the expected return on their contributions or give the state the financial burden of paying for that generation's welfare payments. The Nordic system is another option. In this case the high transfer payments would be sustained, but there would be less of a focus on the traditional male breadwinner and more women working.

First of all, France has made significant progress in the realm of pro-female participation. Although it falls in the traditional Bismarckian system, it has encouraged female activation through the creation of *crèches*, high levels of paid parental leave, low numbers of work-week hours and many other incentives for both parents to work. Hohn says that the determinants of fertility do not simply rely on the mobility of women and the availability of free day-care and education.³⁵ In many cases providing more benefits and material goods towards pro-natalist measures actually depress the desire to have children. It leads to a wealthier population as both parents are capable of working but it does not necessarily guarantee a population that wants to spend money on having more children. Promotion of female participation is positive in adding a higher number of people into the contribution system, but can come into conflict with pro-natalist policy. Krieger argues that raising fertility rates as a solution is a very slow process that puts a lot of financial investment into the young child and into helping the family nurture the child.³⁶ Immigration policy on the other hand does not involve providing

35 Hohn, "Population policies in advanced societies: pronatalist and migration strategies."

36 Krieger, *Public Pensions and Immigration: a public choice approach*.

high amounts of material goods but rather a moderate amount spent on integration.

5. Conclusion

The objective of this research was to show through France's example that retrenchment of pension benefits in the Bismarckian welfare system is not desired or necessary. The problem remains that the funding for the pension system is becoming depleted with scarcer resources while at the same time financial and European-wide pressures (such as stipulations for joining the EMU) constantly push France towards decreasing its social protection budget. The first part of the article discussed why retrenchment is not desired by the general public. Once a welfare system has introduced high levels of pension transfers, there are interest groups that can activate the population to fight against the removal or reduction of these transfers. In France's case, these groups are very powerful.

The second part of the article discussed why retrenchment is not necessary. Activation policies can reform the current Bismarckian system by encouraging the traditionally excluded populations such as immigrants, youth, elderly and mothers to participate in the workforce. Immigrants that are well integrated into the society provide the greatest source of contribution into the welfare state. With this type of activation policy, the state must make a large effort to integrate and support this group. The OECD in 2009 published three other recommendations for France: to lower the minimum wage, raise the retirement age to keep the experienced working longer, and to loosen government restrictions on hiring/firing.³⁷ It is logical to assume that lowering the minimum wage and loosening up on restrictions on firing employees will encourage businesses to hire more youth and immigrants who tend to be less experienced and marketable.

France is an interesting case-study because it has been able to withstand financial crises and Europeanization efforts without

37 OECD, "How to raise the employment rates of youth and older workers." Available at: www.oecd.org/dataoecd/20/32/42655601.pdf,

significant retrenchment. From France's example we can see that if Bismarckian welfare states could follow similar labor activation measures, they can keep their higher transfer payments and avoid major retrenchment. As shown, it is possible for politicians to have the right atmosphere to pass broader retrenchment reform, but it is quite rare and it is more likely that with certain measures the current system will continue to exist indefinitely. It is important now for politicians and researchers to focus on integrating the traditionally-excluded population into the workforce.

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