

Louise Lartigot-Hervier – Sciences Po Paris / LIEPP

louise.lartigothervier@sciencespo.fr

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From “social democracy” to state steering in Bismarckian Health Insurances

Abstract:

Historically, political deciders entrusted the funding and management of Bismarckian social security to its beneficiaries. This meant that in France and Germany the establishment of these welfare systems was underpinned by the following logic: those who finance manage. French and German employers' representatives and trade unions thus agreed on excluding the State from these sectors – a situation which lasted to a large degree until the 1990s.

In the context of the neoliberal turn, this historical and neo-corporatist compromise was breached in France and Germany, thereby enabling the State to increase funding by taxation. As the system of joint management was undermined, the State was able to regain control over these sectors in both countries.

This political choice had several consequences as it reinforced the State's (legislative but above all executive) power with regard to funding, management and decision-making. It also overlapped with a social choice: the labour world and its traditional representatives (unions and employers) no longer seemed to be the legitimate guardians of social security. The employers' influence furthermore made it an economic choice as well, for they advocated the necessity to reduce "social charges" to boost firms' competitiveness.

This trend informs us on significant public policy changes. Contrary to many other sectors, the State has not withdrawn from social security. In fact it has strengthened its prerogatives in this respect, and has resorted to funding by taxation to circumvent the veto players.

Keywords:

Funding social security by taxation; France – Germany comparison; legitimacy of social partners; veto players; transformation of the State.

Introduction

Bismarkian or conservative-corporatist systems of social security (Esping-Andersen 1990) are characterized by the fact of being financed by social contributions (not taxes) and managed by employees' and employers' representatives (not the State). This is what is called "joint management" ("*gestion paritaire*"). Since the 1990s these two basic characteristics in terms of funding and management have however changed in France and Germany, two countries where the social partners were considered as veto players, that is, actors capable of blocking change (Tsebelis 2002; Bonoli and Palier 1996; Ebbinghaus 2010; Palier 1999; Streeck and Trampusch 2005).

This article contributes to answering the following question: to what extent does the choice or refusal of using tax for funding determine the State's role? From this point of view, it focuses specifically on an analysis of the structuring link between the mode of funding and the modes of management and decision-making in the social security sector. We will see that certain actors actively refused funding through taxes when the social security system was first created in the late 19th and early 20th centuries in France and Germany. Due to that opposition and to path dependency on the earliest forms of welfare that existed prior to that, the solution of funding by social contributions was adopted. Beneficiaries' and employers' representatives consequently demanded the management of these systems, based on the idea that whoever pays should manage and therefore that those who contributed should have the right to manage the system. The social partners were in agreement on the fact that the State should be excluded from funding and running social security. This is what we have termed "joint consensus" ("*consensus paritaire*") (Lartigot-Hervier 2012). I show here that exactly the opposite process was embarked on in the 1990s: in a new context with a new paradigm, funding through taxes, first introduced only marginally, became increasingly prevalent. The State used this trend to deligitimize joint management and to remove the social partners' management rights, thus ultimately introducing major changes in the Bismarckian systems. These changes, among others, can be explained by the departure from the "joint consensus" that characterized the early period. In both countries the social partners no longer agree on the fact that the State should be excluded from the funding and management of social security.

My contribution is therefore articulated around these two symmetrical sequences: first, the construction of social security around the logic of "funding by social contributions + management and decisions by the social partners", a logic that was to prevail until the 1990s; and second, the "deconstruction" of this logic from the end of the 20th century, with the gradual introduction of funding by taxes and continuous strengthening of the State's role in

management and decision making.

From a methodological point of view, this analysis is based on research undertaken for a PhD in political science, which seeks to establish how the actors known as veto players allowed reforms to be made that weakened them in the health insurance and unemployment sectors in both France and Germany. The following qualitative methods have been used: interviews with State officials and partners in the joint management system; and analysis of archives, the press and grey literature.

The comparison of France and Germany is justified by the fact that these two countries, which have similar social security systems, have been undergoing similar changes in terms of state control, to the detriment of the social partners who are thus losing their management and decision-making prerogatives. On both sides of the Rhine, measures can now be taken despite these players' opposition. In this article we will see that the choices governing the growth of funding of social security by taxes have been decisive in this process. Understanding this phenomenon by way of the question of funding is a relevant point of entry through which to examine the processes of public policy construction and deconstruction. Funding by taxes is useful to "reveal relations of power and competition between social and economic groups and between decision-makers" (Bezes & Siné, 2013: 17; see also 56 and following).

I. Construction of social security: excluding funding by taxes and management by the State

I will first consider the logic underpinning French and German social security funding and management, and will show that the fact of refusing funding by taxes caused the State to be excluded. This will enable me then to highlight the opposite process that has been underway in the past two decades: the increasing use of taxation in overall funding of social security has strengthened the State and entailed the social partners' eviction.

1.1. The German case: Selbstverwaltung and social harmony

Why was the German social security system built according to a corporatist model? Initially, due to the crucial importance of the industrialization of labour in 19th century German society, social security was organized on the basis of occupations (*beruf*) and not of individuals' condition. This reference to occupations, for the organization of the system, resulted in the creation of *Berufsgenossenschaften*. Chancellor Bismarck also saw this as a way of curbing the threat of growing labour movements (Abelshauser 1996: 126; Alber 1986:

5; Hassenteufel 1997: 65; Hentschel 1989: 795; Kott 1995: 98; Merrien 1990: 51; Nullmeier & Rüb 1993: 18; Reidegeld 1996; Wehler 1985: 133; 2003: 136). It was furthermore hoped that corporatist management, shared between employers and employees, would be a source of social harmony within occupations themselves (Kott 1996: 45). Through its management, German social policy was thus expected to serve to overcome social conflicts and to secure social peace by forcing dialogue between the interests of capital and labour (Catrice-Lorey 1995: 65; Kott 1995: 211).

From the outset, during the *Kaiserreich*, it was thus assumed that the joint management of social security funds would make it possible to overcome conflicts between capital and labour. It was seen as an instrument of integration and establishment of labour unionization. That is why the first two funds (health and accidents) were organized on the basis of self-management (*Selbstverwaltung*) and communities of occupations (*Berufsgenossenschaftliches Prinzip*). The obligation to belong to the fund (from 1883 for health insurance, from 1884 for accident insurance, and from 1889 for old age-invalidity insurance) was linked to an occupational status. The community reference was decisive, while the State's role was weak compared to that of the representatives of labour and capital (Lartigot-Hervier 2012: Chapter I). Initially the German State only set a limited number of rules (compulsory insurance, institutional rules, the extension of rights) and took up the role of guarantor as a last resort. Contrary to Bismarck's wishes, the State found itself forced to delegate the management and implementation of the system to employers and employees, which was a correlate of funding by contributions (Hentschel 1983: 16). This modest role of the State in the first social security laws can be explained in terms of path dependency. In the late 19th century the various actors (political parties, firms, workers) had preferred to maintain the same kind of management of the first social security systems initiated by non-State actors outside the State.

Almost a century after it was coined, the term "corporatist management" was used in the neo-corporatist analysis literature (Schmitter 1989; Schmitter & Lehbruch 1979). This literature focused on the economic and social mode of regulation that was based on dialogue between the State and the social partners, in which the latter secured a near monopoly on the legitimate representation of interests and a highly institutionalized role. We find this mode of regulation in the social sector, with the same initial objectives of social peace, subsidiarity and institutionalized participation of the social partners. As P. Hassenteufel and M. Döhler point out in their definition of *Selbstverwaltung*: "the central role of self-administration in social security stems partly from the idea of social self-regulation outside the State, which in

Germany is linked to the highly prevalent principle of subsidiarity, and partly from the concept of parity which, through employers' and unions' affiliation with a 'centre of institutionalized integration', contributes to social order" (Döhler & Hassenteufel in Abelshauser et al. 1996: 275). Thus, at the heart of *Selbstverwaltung* lies the idea of bringing to the table the interests of labour and of capital, in order to achieve social peace by avoiding conflicts. This is at the heart of neo-corporatist analyses and is therefore an ideal case study. It corresponds to the meaning that H.-G. Hockerts (1980: 142) gave *Selbstverwaltung*, when he qualified it as a 'centre of institutionalized integration' (*institutionalisiertes Integrationszentrum*). Likewise, after defining social *Selbstverwaltung* as "the management of the social security system in para-fiscal organizations with the participation of those concerned", T. Klenk, P. Weyrauch, A. Haarmann and F. Nullmeier note that it was also an expression of particular relations between the State and interest groups: "the representation of the beneficiaries' interests in the social security fund is ensured by interest groups. Through the integration of interest groups in politico-administrative institutions, social conflicts have to be pacified and social structures stabilized" (Klenk et al. 2012: 10; our translation). Hence, employers' and workers' organizations had a quasi-monopoly in social security institutions, both at the end of the 19th century, when the Welfare State was established, and after WWII, when it was restructured (*ibid.*).

The case of France has never been qualified as "neo-corporatist" in this literature, although there has been reference to "sectoral corporatism" (Jobert and Muller 1987), and we are going to see that French social security has characteristics close to the objectives and characteristics of *Selbstverwaltung* defined above.

1.2. Several terms for an objective: French joint management as a means to achieve social peace between labour and capital

In France, "workers' management" ("*gestion ouvrière*"), "mutualized management" ("*gestion mutualiste*") and "strictly joint management" ("*gestion strictement paritaire*") are all terms that relate to the management of Bismarckian and conservative-corporatist social security systems, as opposed to universal and liberal systems (Esping-Andersen 1990). The "management by those concerned" ("*gestion par les intéressés*") that was promoted in 1945 reflected the refusal of management by employers that had prevailed before WWII, and of private and state management. From a positive point of view, it also corresponded to a real political project (Palier 1999: 209): "for the promoters of management by those concerned,

the power given to trade unions was rooted in the mediation mission that had been entrusted to them for the beneficiaries" and aimed to institute "a renewal of social relations" by forcing an inversion of the balance of power between capital and labour, to the workers' benefit (Catrice-Lorey 1995: 54-65). While this idea of "rebalancing" the power between employers and employees was not necessarily visible in *Selbstverwaltung*, management by those concerned and *Selbstverwaltung* have the same objective of social peace: "Joint management is a concept that contrasts with that of the Marxist-Leninist class struggle. The system is managed jointly, between people who otherwise disagree" (André Bergeron, *Les échos*, 26 June 1995: 46)¹. It was for this objective of limiting State intervention and redistributing power democratically in the social sector that management by those concerned was initially qualified as "social democracy".

Historically, the wish to be as close as possible to the beneficiaries and to enable them to participate in the system was also based on funding through social contributions. Associated with management entrusted primarily to workers' representatives, this type of funding caused the concept of "delayed wages" or "management of the socialized part of wages" (Friot 1997) to be entrenched. Both employees' and employers' contributions were actually a levy on employee's salaries, that would be repaid to them later in the form of social benefits.

1.3. The structural link between funding, management and decision making in France and Germany

We are now going to consider more closely this mechanism common to the French and German cases, at the heart of this article. The underlying idea is that funding based on social contributions legitimized the trade unions' participation in the management of social security. My argument is that this involvement in the management of the system contributed to the unions' *political power*. It therefore followed that a change in the mode of funding and the mode of management would affect their political power.

a. The link between funding and management

In Germany (1.) and in France (2.), funding by social contributions went hand in hand with self-administration.

1. In Germany this correlation was evident in most of our interviews with trade unionists.

¹ André Bergeron was a key figure in French trade unionism. General Secretary of Force Ouvrière from 1963 to 1989, he advocated the independence of trade unionism from politics.

Here the principle of subsidiarity, that is, the State's intervention as a last resort, underpins the social security system. The corollary of this principle, "*Selbstverwaltung*", based on a corporatist logic, relies on funding from wages: "employers and employees manage the system themselves, in the framework of institutions where they are represented according to their financial participation. The absence of the State within these institutions is justified by its financial non-participation" (Kott 1995: 20). Employers and employees participate in the system's management in accordance with their contributions (Hentschel 1983: 16; Hockerts 1980: 132). As a consequence of funding by social contributions, the social security budget is separate from the State's budget, and the funds are managed by semi-autonomous institutions – unlike welfare benefits funded by taxes, which fall under the State (Klenk et al. 2012: 40). The principle of presence according to funding is found in the creation of the German workman's compensation fund (only employers' contribute, and are therefore the only ones managing the fund) and health insurance (workers occupy two-thirds of the seats, which corresponds strictly to their two-thirds participation in the funding). In contrast, from the outset the State was involved in financing the retirement fund, and therefore in its management.

2. In France, even before the Second World War, tripartite administration reflected funding, and the State's participation was directly related to its participation in funding. From the 1920s, "joint administration by the beneficiaries, their employers and the State's representatives, gradually appeared as a counterpart to compulsory registration. It was presented as the logical consequence of the three sources of funding of these institutions: those that bore the financial burden of social security administered it" (Renard & Pollet 1995: 551). After 1945 the social partners' legitimacy in intervening in social security remained linked to funding by social contributions. Those who pay, manage: this was the principle of "management by those concerned", which also implied that their representatives participate in decision making and in the management of social security (Catrice-Lorey 1982; Friot 1998; Palier 1999; Renard & Pollet 1995; Valat 2001). The legitimacy of trade unions in intervening in this domain was therefore clearly based on the mode of funding.

For a long time the unions saw this funding-management tandem as a historically secured right and as a model characterized from the outset by "a strong and lasting ideological meaning" (Catrice-Lorey 1995: 64). In France, Force Ouvrière (FO)² has remained the

² FO is a French trade union founded in 1948 from the scission between the moderate and the communist fractions of the Confédération Générale du Travail (CGT). It was the successive governments' preferred

advocate of this concept of "delayed wages". It is on this perception of social contributions as a delayed wage that the workers' unions base their arguments to defend "social rights" secured in the past ("*acquis sociaux*") (Palier 1999: 202)³.

This perception of delayed wages was a way of connecting the social security system to the world of work, and it legitimized the fact that representatives of the unions managed the system. This was clearly expressed by an interviewee, a member of FO who explained that if resources were from taxes, "we wouldn't be able to keep the current system of governance. This system was built like that, because its funding was from contributions. It was normal that it was managed by the social partners, because it was a form of delayed wages" (interview in France, 24 March 2010, member of FO). Moreover, funding by contributions seems highly legitimate in French public opinion. French people see increases in social contributions as both less visible and more legitimate than tax increases (Palier 1999, Chapter 6).

Historically, in both France and Germany, it was therefore funding by contributions that made the social partners legitimate managers of the system. Since the 1990s, however, reforms have affected the most basic characteristics of our social security systems with regard to funding and management, that is, "delayed wages" and "management by those concerned", despite opposition by the unions: "Most of the workers' unions refuse the reforms because they imply a reduction (or even a disappearance) of their place within the social security system [...] On the other hand, many advocate reforms to the mode of funding and management in order to eliminate the unions from the social security world" (Palier 1999: 503). There is thus a link between the mode of management and influence in decision making.

interlocutor from 1950 to 1984, before adopting a more anti-establishment stance in the 1990s. The Confédération Française Démocratique du Travail (CFDT) was founded in 1964 from a movement that severed all ties with religion (secularization). It was created by a fraction of the Confédération Française des Travailleurs Chrétiens (CFTC), a union born in 1919 in the tradition of social Catholicism. From 1966 to 1978, the CFDT and the CGT were united to some extent in their action. The CFDT then recentred its position, in 1978, and became more reformist. It was subsequently the government's main negotiating partner, especially with the arrival of Nicole Notat at its head and the acceptance of the Juppé Plan in 1995.

³ Note that this conception of delayed wages contrasts with that, for example, of P. Rosanvallon, for whom there is no fundamental difference between social contributions and taxes, as the former are "financially speaking virtual taxes" (Rosanvallon 1993: 190). This view is shared by a member of the CFDT that we interviewed: "what legitimizes the role of social partners and trade union organizations [in the social security system] is the fact that it concerns employees, retirees or the unemployed. Whether it is funded by wages or by taxes is merely a technical detail. But even if it were funded by taxes, I think we are legitimate in managing the system if the workers are concerned" (interview in France on 13 April 2010 with a member of the CFDT).

b. Link between management and decision making

Behind the conflict between the actors over management rights, there lies an issue of "control the future of the system". What is at stake is "the balance of power that enables the unions to impose the conceptions and ideological demands of the system" and allows employers to use the process to weight on national economic policy" (Catrice-Lorey 1982: 75-76). It was from their management role, based on funding by social contributions, that the unions gradually built up the right to veto, and thus political power. *Selbstverwaltung* and joint management in social security entrusted the unions and employers with a privileged place to assert their interests, to participate in decision making (Klenk et al. 2012: 41), and thus to have the power to veto. To make reforms, the government had to reach a compromise with them. Consequently, and at least until the 1990s, these legitimate representatives of the social security system "were able to successfully defend the social security institutions against the government's attempts to reform the system – reforms presented as challenges to the *acquis sociaux*. On several occasions the unions, despite the poor rate of membership, showed their ability to mobilize workers on social security issues (1951-53, 1959-60, partially in 1968, etc. The strength of such mobilization was found during the 1980s and 1990s)" (Palier 1999: 301).

Path dependency means that the "initial choice of institutional design [has] long-term implications for economic and political performance" (Pierson 1993: 608). In our case study, the institutional arrangements adopted initially were based on the financial and managerial participation of employers and employees (that is, on funding by social contributions and management by those concerned), stemming from the first forms of social welfare, which originally developed outside of the State apparatus. This initial choice remained decisive until the 1990s, when the funding of social security by taxes, at first incremental, was gradually reinforced. A change of path finally became possible through this fiscal choice and transformation of funding.

II. "Deconstruction"? Funding by taxes and strengthening of the State

Before analysing the changes in health insurance and then in unemployment insurance in France and Germany, we will first present the contextual elements that are common to these two sectors and to both countries: the new paradigms reflected notably in the shift from adjustment measures to cost control, and the funding of social security by taxes.

2.1. New context, new socio-economic paradigms

From the end of the 1980s, new macro-economic policies were progressively generalized in Europe. The objectives were budgetary control, wage moderation, monetarism, and firms' competitiveness. Employment for all was no longer the immediate goal, for it was seen as a future result of virtuous circles triggered by these new policies⁴. The Single Market was created to facilitate free competition between European firms and to enable them to grow to an optimal size to meet the demands of the global market. The criteria of the Maastricht Treaty, followed by the Stability and Growth Pact, aimed for the reduction of the public debt and deficit, limited inflation, and fixed exchange rates. These trends reflected the collective adoption of a new economic model that departed from Keynesian policies (Palier 1999, 2005, 2010).

In both France and Germany this new socio-economic context caused the actors in charge of social security to no longer accept the relative status quo that had characterized the previous decade. Exogenous economic changes (globalization, the establishment of the single market, recession in 1993, the preparation of a single currency) accelerated in the early 1990s and the Maastricht criteria demanded a reduction of employers' contributions. In this new context, these contributions were seen as a "charge" weighing heavily on labour costs and eroding firms' competitiveness within the single market. It therefore seemed essential to contain them. Public expenditures and especially social expenditures were no longer seen as drivers of job creation. Many economists emphasized the excessive weight of the State and social expenditures, and their contribution to increasing unemployment and to the mechanisms of "stagflation" (i.e. inflation and economic stagnation). Social expenditures were henceforth considered as a cost rather than a factor of economic growth and political and social stability. The representation of the social security system's contribution to the economy and to the social pact had thus changed. The end of Keynesian policies consecrated the divorce between the economic and the social, between employers and unions. The economic

⁴ The slowing down of price and wage increases was expected to improve firms' competitiveness and productivity, while the increase in their profit margins not redistributed in the form of wages was to lead to investments and thereby to the creation of jobs.

logic, henceforth centred on the supply, demanded that labour costs and social security deficits be cut. These demands were conveyed by the employers, in both France and Germany. The social logic, on the other hand, tended to want to preserve the "*acquis sociaux*", the social rights secured in the past, and refused any challenge to the social security system. This was the position of the trade unions, or at least of a majority of them.

2.2. Change in funding: increasing funding by taxes

As explained above, the type of funding – either by social contributions or by taxes – was likely to have consequences on the legitimacy of the social partners to manage the social security system. I will now show that funding by taxes has increased in both countries analysed, and that this has served to deligitimize self-administration.

2.2.1. Increase in the funding of social security by taxes in both countries

From the early 1990s, the French and German governments sought to introduce measures to control the increasing costs of social security and thus to limit the growth of social contributions. It was in this context that the funding of social security by taxes was stepped up in the 1990s and 2000s in both France and Germany. As the tables and graphs below show, even though these two countries do not match the level of State contributions in liberal systems (here, the UK) or social-democratic ones (here, Sweden), they have experienced a significant increase in the State's participation in funding. This has in turn impacted on the system's management by the social partners. Historically and ideologically, modes of funding and management are inter-related. They are the foundations of a political power, a form of influence on the decision-making process and on the orientation of the system. Indirectly, the increase in funding by taxes challenges the legitimacy of the social partners in managing the money derived from taxes.

Table 1: Overall trend in the State's contribution to funding social security 1995-2005, in % of total receipts, France, Germany, Sweden, United Kingdom (Eurostat, Database of Living Conditions and Welfare, Social Protection Receipts, Receipts by Type, 2008)

	General government contribution		
	1995	2000	2005
France	21.5	30.3	30.6
Germany	28.3	31.8	35.6
Sweden	49.8	45.8	48
United Kingdom	50.5	46.4	50.5

Figure 1: Trend in the State's participation in the funding of social security 1990-2008, in % of the total receipts (Eurostat, Database of Living Conditions and Welfare, Social Protection Receipts, Receipts by Type, 2008)

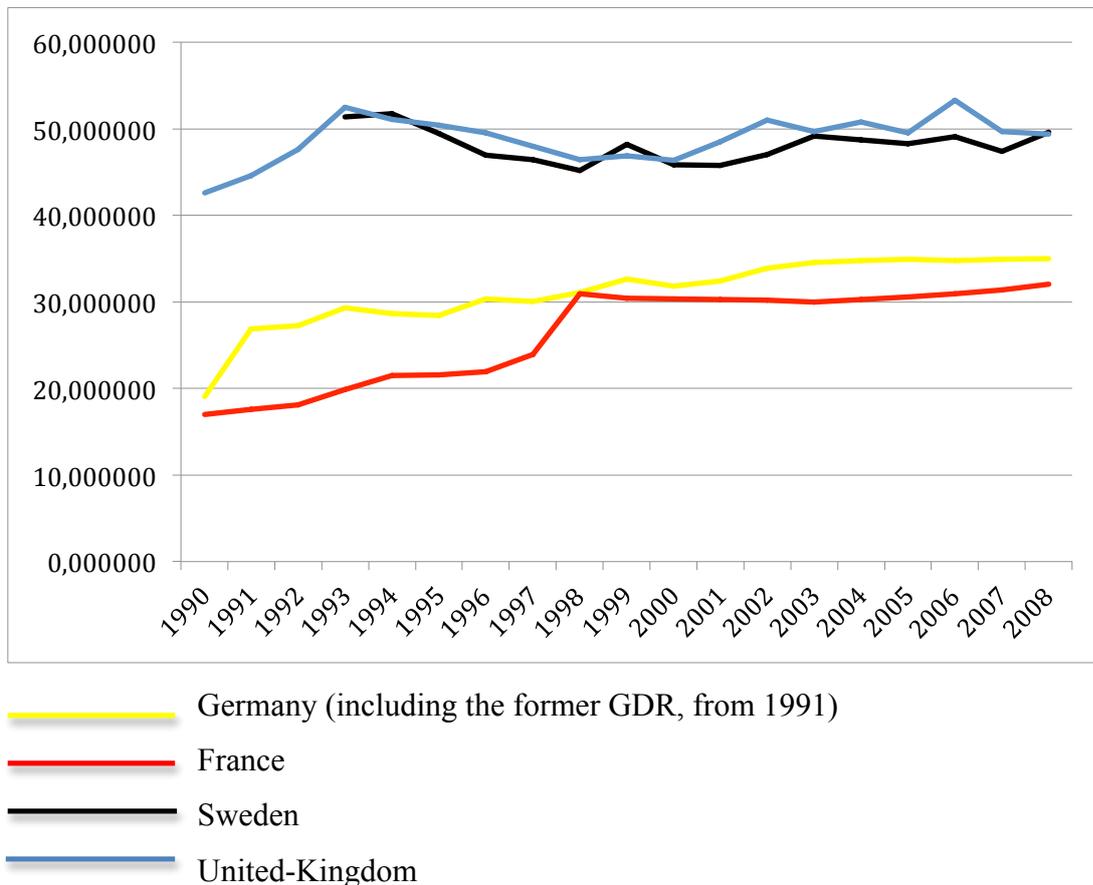
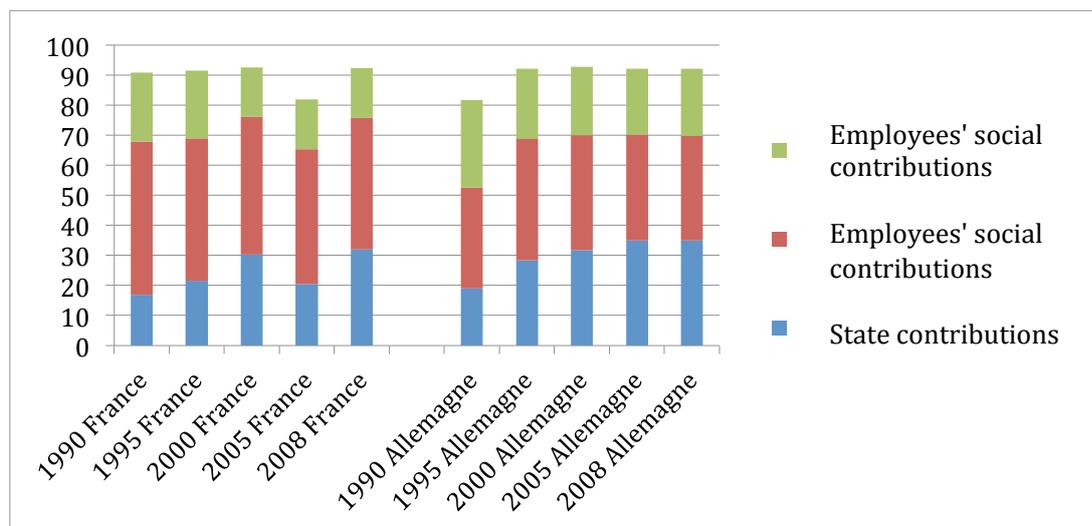


Table 2: General trend in the distribution of social contributions between employers and employees, France, Germany, Sweden, United Kingdom, 1995-2005 (Eurostat, Database of Living Conditions and Welfare, Social Protection Receipts, Receipts by Type, 2008)

	Total			Employers			Protected individuals		
	1995	2000	2005	1995	2000	2005	1995	2000	2005
France	74.9	65.9	65.6	47.4	46	44.7	27.5	19.9	20.9
Germany	69.2	66.1	62.7	40.5	38.5	35	28.7	27.6	27.7
Sweden	42.3	49.9	49.8	37	40.5	41	5.3	9.4	8.8
UK	47.9	52.4	47.9	25.4	29.9	32.4	23.3	22.5	15.5

Figure 2: General trend of the various sources of funding of social protection in France and Germany, 1995-2005 (Eurostat, Database of Living Conditions and Welfare, Social Protection Receipts, Receipts by Type, 2008)



2.2.2. France: increase in funding by taxation with the introduction of the Contribution Sociale Généralisée (CSG)

In Germany the funding of social security by taxes was not implemented through multisectoral measures. Instead, it resulted from successive measures in the various sectors, for instance, the law passed in 2003 on the modernization of health insurance, and the Hartz 4 reform that strengthened the State's participation in the funding of an allowance for the long-term unemployed. In France, on the other hand, a single reform institutionalized the increasing funding of social security by taxes: the CSG (*Contribution Sociale Généralisée*). This generalized social contribution is actually a form of income tax, which was initially used to fund the family branch of social security. It was later enlarged to the social security in general. The Rocard government created it under the Finance Law in 1991. It was a new type of funding, a new form of compulsory contribution in so far as it concerned all the income of households (income from work, transfers, inheritance, and investments) – unlike social contributions which concern only the income from work. It has the advantage, in the context mentioned above, of not weighing financially on firms. By contrast, the French system of compulsory contributions was characterized by a largely preponderant proportion of social contributions compared to funding by taxes (as in Germany). It was situated in a context where the "legitimacy of funding by social contribution was challenged, especially by policies to reduce social charges. This invalidation of past methods was to allow for a gradual introduction of new tax resources in the social security system, that were sufficiently weak to

be acceptable" (Palier 1999: 479). Initially "symbolic" (*ibid.*: 491), the CSG was to grow steadily in the following years. For example, in March 2004 the CFDT estimated that the CSG contributed €64 billion to health insurance, which amounted to 36% of the fund's income (*Syndicalisme Hebdo*, n° 2974, 25.03.2004, p.8). This originally marginal reform ultimately became very significant, for the share of CSG in the total funding has increased substantially since its introduction: from 1.1% in 1991, it was increased in 1993 by the Balladur government to 2.4%, then 3.4% by the Juppé Plan, and to 7.5% by the Jospin government in 1998. In the end, "the revenues collected from CSG increased eleven-fold" between 1991 and 1998, to finally account for 20% of the social security system's income in 1998 (Palier 1999: 501).

The reform furthermore anticipated the strengthening of parliament's role – which was confirmed by the Juppé Plan in 1995 – since parliament was to decide on the rate and basis of contributions. With the CSG, the government thus put an end to funding by social contributions only, and departed from a logic of social security linked only to a professional activity. As a senior official interviewed put it, "symbolically it was quite a significant change". He explained this as follows:

The CSG, that is still sometimes called a '*cotisation*' (contribution) wrongly referred to. Some social partners pretended not to have understood that was something of a very different nature, because the law sets its constitution, base and rate. ... But debates around the introduction of the CSG, with FO that was clearly opposing it with all its might, and the CFDT that was highly favourable but called it the '*cotisation sociale généralisée*', was not contradictory to a certain logic of a relation to work; it's clearly something highly structuring, because with this parliament found itself in a situation of having to decide on the rate and base for deductions, which was broader and fairer than *cotisations*, and so potentially more dynamic, so the main lever was passed on to parliament. Whereas parliament did not set the rate of contributions, it was the government that did so. And secondly, when all types of income are taxed in this way, not only income from work but also income-replacement and inheritance and investments, one clearly sees that this is not a logic of delayed wages, and therefore not one of occupational social security. It becomes a national social security, everyone is covered and everyone contributes. Without explicitly making this known... And at first the CSG had a low rate, it was presented as a funding reform that was fairer than just contributions on their own, but it clearly induced a change in the whole system. And it's not very surprising that in 1995-96, the LFSS (*lois de financement de la sécurité sociale*) were introduced. And that in 1996-97 the universal health insurance was put in place, which legally disconnects the right to benefits from a professional activity" (interview in France, 3 May 2010, senior government official).

The CSG thus relates to the link between the mode of financing and governance, between funding by social contributions and the social partners' involvement in the management of

social security. On this point, the division between FO and the CFDT was clear. For FO, there was no doubt as to this link: when the funding was based on social contributions, it was normal for the system to be managed by the social partners, as it was a matter of delayed wages (social contributions were taken from the employee's salary and would be paid back later; cf. above). A member of FO commented that "the change of governance is a consequence of the change in the funding, and this corresponds to the State's desire to control the entire system" (interview in France, 17 March 2010, member of FO). From this point of view, FO defended the historico-institutional logic against the broadening of the funding of social security, which it claimed would "cut the branch on which the social partners were sitting" (interview in France, 3 May 2010, senior official). Faced with these arguments, and also to convince the other unions hostile to the CSG, its supporters argued that it was intended to finance the « *charges indues* »⁵, that is, that which was a matter of national solidarity and not insurance. The unions had been calling for this clarification for a long time (Palier 1999: 497)⁶.

This explains the FO's virulent criticism of the CFDT, which was highly favourable to the introduction of the CSG in the name of social justice. The CFDT can thus be seen as having "struck the first blow" at their view of joint management (interview in France, 13 April 2010, CFDT member), which marked the beginning of State control. The leaders of the CFDT did not use this link between funding and management as an argument to maintain their management prerogatives, because they saw "taxes and contributions as much the same thing. What was considered important and as the basis for legitimacy was to build the law, elaborate the rights (as in unemployment insurance and complementary retirement insurance). As this link [between social contributions and joint management] existed in the insurance funds created in the 19th century, having this perspective meant considering current insurance systems as a continuation of the earlier period's paternalism. At the CFDT the idea was rather that joint management was justified by the fact that it interested the employees" (interview in France, 13 April 2010, CFDT member).

The introduction of the CSG clearly impacted on the management of the system by the social partners. It "enabled a shift in the financing structure of the welfare system towards

⁵ The « *charges indues* » are what the State should have paid for the social security exemptions but did not have paid to the system.

⁶ This clarification was also demanded by the employers, as attested for example by Yvon Chotard (employer, vice-president of social affairs of the CNPF, from 1972 to 1986, and first vice-president from 1982 to 1986), in his book *Comment sauver la sécurité sociale*. Knowing "where responsibilities lie, that is the first condition for rigorous management. It also enables one to know which source of funding to draw on" (Chotard 1989: 82).

more state taxation [...] the shift reduces the legitimacy of participation by the social partners in the decision-making and management of provision which is now financed through general taxation. The shift in financing is likely to increase government influence over the system. This development corresponds to more important political changes in the distribution of power within the system, which have occurred since the mid-1990s" (Palier 2001: 69).

Conclusion of Section 2

As we have seen, in France the question of funding by taxes (as opposed to social contributions) has divided the social partners. Whereas most of the trade unions perceive it as a delegitimization of their role, employers strive to reduce the "social charges" weighing on labour costs. In Germany the trade union confederation, the *Deutsche Gewerkschaftsbund* (DGB)⁷, is more favourable to the broadening of the funding base than are the French unions (except for the CFDT). A member of the DGB affirmed in an interview that the growing financial participation of the State was necessary to fund benefits for which there were no contributions. On the other hand, an employer explained the concern that the State, as an increasingly powerful player in German health insurance since the 2003 reform, may disrupt the twosome of *Selbstverwaltung* (interview in Germany, 4 November 2009 (n°2), BDA member).

The risk inherent in a change of the mode of funding was anticipated by the unions, which considered that the legitimacy of their participation stemmed from their contribution to the funding. That was why they were opposed to all plans to fund social security by taxes, which could lead to a State monopoly on decision-making (Friot 1998: 203). In both France and Germany the social partners pressed for the tax funding of benefits, which lacked contribution-funding (*versicherungsfremde Leistungen* in Germany), with the aim of preserving the traditional mode of funding and management for benefits for which there were contributions. In the new context of the 1980s, where social security was seen as a drain on the economy and no longer as a factor contributing to economic growth (the Keynesian paradigm), the unions supported plans to use taxes to fund benefits for which there were no contributions. The employers and workers' unions were divided over the extension of this tax funding to other benefits (for which there were contributions). Those who were opposed to it feared seeing their management authority reduced. And indeed, in both countries the governments used ever-increasing funding by taxes to undermine the legitimacy of the social

⁷ Since 2002 the DGB, founded in 1949, has consisted of eight unions, organized by sector of employment.

partners who were managing the system, and to legitimize the State as a regulator (Lartigot-Hervier 2012).

Conclusion

Tax-related decisions are tied up with political, economic and social choices, which in turn relate to questions of social justice, redistribution and economic efficiency (Leroy, 2010). It is therefore relevant to analyse social policies in France and Germany in relation to their funding and in particular the choice of funding by taxation or not.

Through this French and German case study we have seen that in the early years (from the creation of social insurance at the end of the 19th and the beginning of the 20th centuries, until the 1980s), the social partners' refusal of funding of the social security systems by taxation excluded the State from both the funding and the management of these systems. This consensus between the social partners ensured them a crucial management role, from which they derived political power enabling them to strongly influence decisions in this sector.

From the 1980s and 1990s, the joint-management consensus (in which the State had had to remain excluded from funding and managing social welfare) broke down in France and Germany. This enabled the State to introduce a greater degree of funding by taxation. As joint management was challenged at the same time, it was also able to retrieve control over the social security sector in both countries.

This political choice had strong implications: the strengthening of the State's power (legislative but mainly executive) with regard to funding, management and decisions. The employers' influence also made it an economic choice: it was necessary to reduce the "social charges" to boost firms' competitiveness. The political choice furthermore overlapped with a social choice: the world of work and its traditional representatives (unions and employers) no longer appeared to be the legitimate guardians of social security.

This evolution also informs us on public policy changes. Unlike many other sectors, the State has not withdrawn from social security. On the contrary, it has strengthened its prerogatives and has used funding by taxation to bypass the veto players.

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