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France

# The "pact of responsibility": from austerity to the liquidation of the Social Security system

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**On December 31, 2013, in his New Year greetings, French Socialist president Francois Hollande proposed: “a pact of responsibility to businesses. It is based on a simple principle: reduced labour costs, fewer constraints on their activities and, in return, more hiring and more social dialogue.” This was a direct response to the demands made by the MEDEF, the main French employers’ organization, and its president Pierre Gattaz.**

In a press conference a few days later, Hollande went into more details about the content of this pact: Every year, €30 billion of exemption from social security contributions [1] for the employers, underwritten by a cut of €50 billion in public spending over three years. An unprecedented austerity plan.

As for the famous "in return" the employers quickly made it known that it was out of the question for them to undertake any binding commitment, especially in terms of job creation.

Following the electoral collapse of the Socialist Party in the municipal elections in March 2014, Hollande changed his Prime Minister. He did not, however, change his policies. Instead he appointed Manuel Valls, one of the most right-wing and liberal leaders of the Socialist Party (PS) as Prime Minister, to implement "more quickly" and "more strongly" the pact of responsibility, which has become the backbone of the economic and social policy of the Socialist government.

Despite the protests - without any consequences – of a minority of Socialist MPs, the new prime minister won a vote of confidence in Parliament on the pact of responsibility. This pact will, from 2014, come into force in the form of two laws that will "rectify" the budgets of the state and of the Social Security system, laws that were adopted in early July.

## A social-democratic turning point?

The pact of responsibility has often been presented as a "social-democratic turning point" [2] in the five-year term of François Holland. They forget that the liberal dogma of "lowering the cost of labour" in order to ensure an economic "stimulus" has been the guiding line of the PS/Green government ever since the presidential election. From autumn 2012, the government announced a "pact for competitiveness" in the form of tax credits: a handout of €20 billion paid, without any conditions, to businesses. Those €20 billion were offset by an increase in the tax burden, falling primarily on the working classes (in particular VAT) and by reductions in public spending.

The pact of responsibility in 2014 is therefore a continuation of the CICE (Competitiveness and Employment Tax Credit), which it will gradually replace. However, the new plan differs from its predecessor on two points:

• The scale of the attack against public spending (public and social expenses).

• The "pact" operates a decisive shift towards the liquidation of the social protection introduced in 1945.

## An unprecedented austerity plan

The pact of responsibility is primarily an austerity plan, on an unprecedented scale. It is underwritten by €50 billion of cuts in public and social spending over three years, distributed as follows: €19 billion will be taken out of the state budget, €10 billion from local authorities and €21 billion from spending on social security (€11 billion coming from pensions and social benefits and €10 billion from the health service).

Public services, already under strain because of earlier liberal counter-reforms, will be subjected to a veritable financial strangulation and replaced with a minimum service called "general interest" (according to the wishes of the European Union) with bits and pieces of public service without any real means, precarious associative set-ups and the participation of private companies wherever profits are possible.

The closures, consolidations and privatization of public institutions will continue, along with job cuts for civil servants. The path has been traced in a report by the Court of Auditors, which recommends the annual suppression of 10,000 government jobs over three years, accompanied by an increase in the number of hours worked. The first effects of this "pact", whose stated goal is "employment" will therefore be the elimination of thousands of public sector jobs [3]. Civil service wages, which have not been upgraded since 2010, will remain frozen until 2017. Finally, pensions and various benefits will be frozen until October 2015, except for those on the lowest incomes, with a resulting decline in purchasing power.

## €30 billion a year of "lowering labour costs

This "effort", of which the working class will bear the brunt, will make it possible to reduce labour costs for employers by €30 billion a year.

For the year 2014, to the €20 billion already granted in the form of tax credits will be added:

€ The elimination of all social contributions paid on wages at the minimum wage level and their reduction on wages up to 1.6 times the minimum wage (€4.5 billion);

€ A reduction of family allowances on wages up to 3.5 times the minimum wage - which concerns 90 per cent of wages (€4.5 billion)

€ A reduction of family allowances for the self-employed and tradespeople (€1 billion)

By 2017, the (temporary) mechanism of the tax credit will be replaced by the (definitive) annual elimination of €30 billion in social security contributions, in addition to the €32 billion already granted 20 years ago to the bosses.

Holland and Valls have added as a bonus a reduction in company tax:

€ Abolition of the "social solidarity contribution on companies" (€6 billion);

€ Abolition of the surtax on companies and reduction in company tax (which will be reduced from 33 per cent to 28 per cent) (€5 billion);

â€¢ Abolition of various small taxes paid by businesses.

A final component of the pact of responsibility will make it possible to free companies from the administrative "constraints" that "burden" them, in particular from the Labour Code which guarantees the recognition of employees' rights and sets limits to employers' arbitrary powers. In short: more flexibility and precariousness.

In an attempt to sell its reform, the government had completed the pact by a measure which is supposed to ensure its social character, pompously entitled "solidarity pact", but which is just smoke and mirrors. The lowest wages were supposed to benefit from a reduction in employers' contributions defined as "payroll" [4], supposedly to restore "purchasing power". This was nothing but a confidence trick; it consisted of a transfer of part of the indirect wage to the direct wage with no impact on profits. Once the Constitutional Council had annulled it, this fig leaf for austerity disappeared.

## The social wage as the defining issue of the class struggle?

The struggle by the employers for the abolition of social contributions is in no sense an ideological whim: these contributions represent over 40 per cent of their payroll. Their reduction and their eventual eradication are therefore a key issue for the reduction of labour costs and the defence of the rate of profit.

In 2010 in France, â‚¬633 billion, or nearly one third of gross domestic product (GDP), was spent on social protection, of which 64 per cent (â‚¬400 billion) consisted of social contributions [5] or one and half times the entire state budget, (which amounted to â‚¬275 billion that year). In comparison the taxes paid to the state by businesses appear ridiculous: in that year, company tax brought in â‚¬34 billion and the solidarity tax on wealth â‚¬4.5 billion!

The allergy of employers to the system of social security has another fundamental root. Social security not only alters the distribution of wealth in favour of employees, it prefigures (partially) a non-capitalist way of sharing wealth between producers: no longer to each according to the quantity of individual labour that they provide, but "to each according to their needs" [6].

## Towards the fiscalization of social security

Michel Rocard, Socialist Prime Minister from May 1988 to May 1991, initiated the offensive against social contributions. He began the massive fiscalization [7] of the funding of social protection by creating the CSG [8], a new tax for funding social security and the RMI [9], a survival allowance, financed by the state and by local governments in place of unemployment benefits paid from employers' contributions.

Since then all governments of right and left have continued along this road.

In the name of job creation or application of the 35-hour week, employers were exempted from â‚¬32 billion of contributions, which were offset primarily by the state.

The result is enlightening: in 1980, 96.9 per cent of the social security system was financed by social contributions. In 2012 this share was only 58.4 per cent. Over the same period, the share paid from taxes has risen from 2 per cent to

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13 per cent, to which must be added the 6.3 per cent paid by the state as compensation for employers' exemptions from contributions. But especially the CSG - a tax that is "pre-assigned" [10], established in 1990 - now contributes 20.4 per cent of the funding of social security (35.4 per cent for the sickness branch).

In 2012, Hollande's predecessor Nicolas Sarkozy wanted to move to a new stage by dealing with the financing of the family branch of social security. He decided to replace the 6 billion of employers' contributions to this branch by an increase in VAT, a tax on consumption, the most unjust of all. Hollande, who had denounced the measure at the time, repealed it in the first weeks of his term of office... But today he is going much further than Sarkozy, by abolishing over three years the equivalent of the entire 30 billion of employers' contributions to the family branch. Just like Sarkozy, in the name of "lower labour costs" it is not only the level of social contributions that he is challenging, but their very principle. According to him, there is no legitimate reason for employers to finance family policy today.

Tomorrow this reasoning can be extended to the sickness branch. Thus a note of the "Council of Economic Analysis," a body placed under the responsibility of the Prime Minister, advocates the complete abolition of public health insurance and the establishment of a "regulated" competitive system between decentralized regional public funds or between private insurance companies. If we add in pensions, which have been the victim of multiple counter-reforms since 1993, it is all the branches of social security that are threatened.

The pact of responsibility accelerates the replacement of the system of social security as an institution independent from the state, and still mainly financed by contributions from employers (the social wage), by a minimum coverage financed by taxes, and incorporated into the state budget. This should then be completed, depending on individuals' situations, by personal and/or collective insurance, in the form of the "three pillars" approach advocated by the European Union [11].

The "fiscalization" of the funding of social security is therefore in no way a "technical" measure. It is the means by which the reduction of the socialized part of wages and the disengagement of employers from financing social protection are being achieved.

Fighting against it should be self-evident, even elementary, for a class-struggle trade unionism. This is unfortunately far from being the case.

## **A workers' movement that is paralyzed and on the defensive**

The vote of confidence in the government Valls over the pact of responsibility took place without even a national day of strikes and demonstrations, and it was only on June 26, just before the holidays, that part of the trade-union movement called for a day of action "against austerity" without even putting forward clearly the demand for the scrapping of the pact of responsibility.

The scenario that had been seen in 2013 over pensions was thus repeated.

However, over the past 30 years the offensives against the system of social security have been the cause of all the great social movements that the country has seen, demonstrating the acute sensitivity that workers had to this question. In 1995, 2003 and 2010 millions of them went on strike and took to the streets for several weeks to defend their social protection (pensions, sickness benefit).

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In order to understand the lack of response to the pact of responsibility, we must take into account the deep disillusionment that exists today among the majority of workers. The defeat of the movement on pensions in 2010 left its mark. But above all it is bitterness and despair that dominate, faced with the austerity policies of a pseudo-left government that is continuing and accentuating the attacks of its predecessors. For the lack of any perspective, anger is expressed primarily in negative form by the massive level of abstention and the vote for the far-right in elections.

Passivity and a wait-and-see attitude are reinforced by the strategy of the union leaderships, which are engaged, without any mobilization, in a "social dialogue" with the government and the employers, and their renunciation of any sort of large-scale action against austerity.

The part of the union leaderships that is most poisoned with liberalism, whose main component is the leadership of the CFDT, fully supports the dogma of lower labour costs and supports the "pact". It is favourable to the abolition of social security contributions and to fiscalization through the CSG. At most, it seeks to negotiate some symbolic "counterparties" in exchange for its support for the employers' projects.

Another part of the union leaderships, where we find the CGT, FO and the FSU [\[12\]](#) criticize the policy of austerity and the "pact" but are an integral part of the masquerade of "social dialogue" established by the Socialist government. The government organizes lengthy "cold" negotiations with the "social partners", whose main function is to paralyze social mobilization and whose only issue is the negotiation of some crumbs in exchange for the acceptance of reforms.

Only the most combative wing, though very much a minority, represented by the Solidarity Union Federation (Solidaires) has remained critical of this comedy.

In addition, almost all the leaderships of the workers' movement have dropped the reference to social contributions as a part of wages that should fund the social security system as an institution that is independent of the state and big business.

The CFDT has lined up in support of the employers' point of view, denouncing social contributions as a "charge" that "weighs down on labour". The others - CGT, FO, FSU - defend the maintenance of social security as an autonomous institution and its financing by social contributions. But they believe that reform is needed and that other resources should be found by "taxing profits." They put the emphasis on these alternative sources of funding, not on the maintenance and extension of social contributions. They therefore place themselves within the logic of negotiations to make the plans of the government and the employers "fairer", rather than on mobilizing to defeat them. This line of argument is even largely taken up by the most radical wing of the trade-union movement, represented by Solidaires [\[13\]](#), as well as by the main components of the Left Front and also by some people in ATTAC and the Fondation Copernic think-tank.

## Towards a change in the social climate?

The present social paralysis in the face of the pact of responsibility may however be thrown into question in the coming months under the double impact of the deepening economic crisis in Europe as a whole and the failure of a discredited government.

After announcing two years ago that "the rising curve of unemployment would be reversed," Hollande must now

recognize that the goal is not in sight. The Prime Minister himself has announced a difficult autumn, while deflation threatens and the sacrifices demanded by the pact will become reality. Without any alternative policy, the government is in a dead-end, heavily criticized within its own majority.

In such a climate, the state of mind of workers can change rapidly, opening up the possibility of social remobilization. There are signs that seem to indicate this.

Under pressure from their base, the CGT and FO confederations have had to cancel, at the last moment, their participation in the annual social conference, the high mass of the government's "social dialogue".

In recent months social conflicts have increased, including the recent two week-long railway strike, the long and difficult conflicts in the postal service, and significant struggles in the public and private hospital sectors, which are directly concerned by the "pact of responsibility."

## A large-scale offensive against health insurance and the public hospital system

Of the €50 billion "pact of responsibility" cuts, €10 billion concern the health sector. It is all very well for Marisol Touraine, Minister of Social Security and Health, to state that "we will make €10 billion of savings without that leading to a 'low cost', health system": who can believe that such a "purge" will be without consequences?

It is actually the acceleration of the policy of privatizing the health system and the destruction of the system of public hospitals that is on the agenda.

The increase in health expenditure reimbursed by social security will be limited to 2.1 per cent in 2015, 2 per cent in 2016 and 1.9 per cent in 2017 in order to reach the target of €10 billion of cuts. The immediate consequence will be an increase in the part of health care whose cost must be borne by patients and by their supplementary health insurance. The amount of such supplementary insurance continues to grow, putting a little more strain on the purchasing power of workers and pensioners. Access to care for those who have the lowest incomes and cannot afford good insurance will be further reduced.

A significant part of the restrictions on health (€3 billion euros over three years) will fall on public hospitals. These restrictions will be added to nearly €1 billion euros of cuts already made in 2013-2014. Again, the soothing words of the minister, who claims to be reducing hospital expenditure through the development of ambulatory surgery and improvements in hospital purchasing, do not fool anyone. Hospital managers, through the voice of their employers' federation, the Hospital Federation of France, have not hesitated to say so clearly. In their opinion, it will be necessary to take on the workforce, which represents 70 to 80 per cent of hospital spending, make cuts in staffing, go on the attack over the number of hours worked and working conditions. They have also, without qualms, volunteered for this task.

The minister herself is so little convinced by her own words that she is preparing a bill called "Public Health" that extends and deepens one entitled "Hospital, Patients, Health and Territories (HPST)" adopted by Nicolas Sarkozy in order to impose hospital restructuring. This law, which should be adopted in early 2015, provides for mandatory consolidation of all health institutions in the same region, encourages the transfer to the private sector (liberal, voluntary and commercial) of part of the functions of the public service, ensures the strengthening of the "strong arm" of austerity in health that is represented by the Regional Health Agencies.

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These measures come after ten years of attacks which have had dramatic consequences. They have resulted in the development of the private sector to the detriment of the public, but have also forced public hospitals to operate according to the criteria of productivity and profitability of private enterprises (pricing reforms and "governance") . . . Hospital managements apply and generalize the management methods of private business establishments. Thus the CGT of Toulouse CHU (University Hospital Centre) [14] denounces the introduction of "lean management", directly inspired by the "lean production" of Toyota. An infernal work rate, time and motion methods, but also "self-policing" of workers, resulting in the harassment of those who do not keep up with the pace by management or by their colleagues themselves.

In all workplaces the unions are denouncing the increase in suffering at work. This is related not only to the working conditions, but also to the dissatisfaction of doing a job that is subjected to demands which pervert it. Burnout and suicide attempts are the most visible signs.

This situation, which has been endured over a decade, has today reached a critical point. There has been in recent months a renaissance of struggles. All categories of institutions have been affected: major hospitals like the CHUs, large psychiatric institutions that have been especially targeted through reductions in appropriations, local hospitals subject to restructuring, retirement homes, private clinics [15]. But these movements have remained isolated, none of the three main trade union confederations (CGT, CFDT, FO) envisaging even the slightest coordinated action.

Only the mobilization of a particular category of workers, such as the midwives, has been able to take a national dimension.

## “Convergence of hospitals fighting against austerity”

It is in this context that the CGT and SUD unions of a public psychiatric facility (the EPSM of Caen in Normandy) took the initiative of a "general assembly of hospitals".

After having twice defeated the austerity plan that the management of the hospital wanted to impose on them, they circulated an appeal for a meeting on April 4 in Caen: "Everywhere - said the appeal - hospitals suffer the same problems, the same financial difficulties, and managements impose the same remedies: suppression of [days of] RTT [reduction of working time] job losses, bed closures. (...) Today, it is no longer enough just to fight back hospital by hospital (...) it is time to provide a national response to a national problem ".

This appeal had a large echo, since hundreds of activists - representing mainly SUD unions (which are part of Solidaires) and CGT unions - met in Caen. After having assessed the situation, they decided to create an instrument for coordinating struggles. A new and larger meeting was held in Nanterre in the Parisian region on May 22.

An appeal was adopted there reiterating the demands: "The general assembly demands the cancellation of the debt, the repeal of the HPST law, the abolition of pricing activity, increased wages, permanent contracts for temporary workers, hiring of more staff..." It traced the perspective of preparing a national mobilization to defeat the austerity policies in the health sector, in the spirit of the "White Tides" in Spain.

A first initiative was decided for June 18 in Caen against "hostility" [16] and the criminalization that is accompanying the rise of mobilizations in hospitals. Managements of public hospitals, with the support of their employers' federation and the government, now often behave like hardnosed bosses to get their austerity policies through. They do not hesitate to call in the police, to take union officials to court, to obtain convictions against staff involved in combative actions.



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This first demonstration was attended by over 600 people, mainly from the region, but there were also delegations from other regions and from Paris.

In the afternoon, 69 health institutions (including 7 CHUs) represented by about 250 activists, for the most part members of the CGT and SUD, but also the UFAS [17], the Nurses' Coordination and activists from the CFDT met in a general assembly. The National Coordination of Local Hospitals and Maternity Homes [18] was also present. Messages of support were sent by institutions that could not come.

It was decided to move to a higher level of mobilization and to start preparing now a national demonstration in Paris on September 23. A calendar of initiatives was drawn up, an organizing team designated and a name given to this regroupment: the "convergence of hospitals fighting against hosterity".

## The "convergence", a new and promising instrument

The appearance of such an instrument is a new and promising factor in the French social and trade-union movement. For the first time, even before a struggle has begun, activists from rank-and-file trade-union structures and representatives belonging to different unions, are coming together in a spirit of unity, with a common goal, to make struggles converge and to win satisfaction for our demands.

Although the SUD Health and Social Services Federation supports the initiative, the leadership of the CGT federation is very hostile and tries to discourage by all means its unions from participating.

Despite this, many CGT unions, exasperated by the passivity of their federation, have decided to defy it, and not merely to express their dissatisfaction adoring congresses.

As for the other union federations, they are also doing everything to preserve their monopoly of inaction and "social dialogue", without any struggles with the government.

The potential importance of the "convergence" has been further demonstrated by the recent struggle of railway workers: a very combative strike, organized on the terrain by general assemblies, primarily coordinated by teams of CGT and SUD activists, ran up against the absence of a democratic instrument for coordinating and controlling the movement.

The outcome of this strike could have been quite different if those teams of activists had previously begun to meet and act together.

It is still too early to know whether a major struggle will take place in the autumn in the hospital sector and whether the "convergence" will have managed to build itself sufficiently to make possible a democratic coordination of this struggle. But what is certain is that everything must be done to move in this direction. [19].

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[1] These contributions, a component part of a workers' wage, must be paid by employers to social security funds in order to finance the different branches of social security (family allowances, health, pensions and sickness pay) and to the Employment Pole, which provides unemployment

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benefit.

[2] In other words, a falling into line with the "uninhibited" liberal positions of the other big social-democratic parties, for example the German and British parties

[3] Socialist MP Valerie Rabault, a supporter of the government who introduced the budget, did not hesitate to declare that the pact "would have a negative impact on growth of 0.7 per cent per annum on average between 2015 and 2017, and could result in the suppression of 250,000 jobs by 2017 "(*Les Echos* June 23, 2014)

[4] What are called "payroll" contributions are deducted on the pay slip from "gross" wages unlike what are called "employers'" contributions. In reality it is just a question of presentation, since "employers'" and "payroll" contributions are compulsorily paid by employers to social security funds.

[5] Including a -255 billion for the various social security funds.

[6] To pay a work force which produces surplus value, depending on the amount of work done, is a necessary evil for the capitalist, but to finance compulsorily, through wages, a labour force that is "out of work" (because it has not yet entered into production, because it is sick or on maternity leave, because it is unemployed or retired), is really, in a capitalist logic, and in the words of the president of the MEDEF, an "absurdity". Here we find the origin of the reactionary litanies on "laziness" and "handouts" that are supposedly the result of social protection.

[7] That is to say funding through taxation.

[8] Generalized Social Contribution, a tax whose role was to finance spending on social security, of which 80 per cent was paid by active and retired workers.

[9] Minimum Insertion Income, now called RSA, Active Solidarity Income.

[10] It can only be used to finance social security.

[11] A limited public "pillar", tax-funded, a second "pillar" composed of insurance paid by companies, completed by a third "pillar" of individual insurance.

[12] Unitary Trade-Union Federation, which organizes especially teachers, among whom it is the majority union.

[13] At its last congress, held in June 2014, only the federation of health workers and the unions of the social protection sector demonstrated what was at stake in the attack on social contributions. They were violently opposed by SUD-Public Finances, the biggest union in Solidaires. Finally, no position was adopted, even though the congress came out in favour of fighting the "pact" and austerity.

[14] See the website of the CGT of Toulouse CHU: [www.cgtchutoulouse.fr](http://www.cgtchutoulouse.fr)

[15] These clinics, called EPADs, cater for dependent elderly patients

[16] In French, *hostérité*, a play on the words "hospital" and "austerity"

[17] An association of auxiliary nurses

[18] This is a very dynamic association of users of the health service, which coordinates opposition to closures of local hospitals.

[19] To keep up with the latest news on these questions, visit the website of the Health and Social Security Commission of the NPA: [www.sante-secu-social.npa2009.org](http://www.sante-secu-social.npa2009.org)