

The problem with pensions in France

France has lived through three attempts to reform its pension system over the last quarter century. Would it make sense to try a new approach? As Alfredo Pastor observes, not all issues on the negotiating table are economic in nature.



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France was once again the scene of a mass strike in December 2019 in response to President Emmanuel Macron's pension reform plan. The protest, which began in the public transport system before spreading to other sectors, offers several useful lessons for the future.

Preferential provisions

The protest centered primarily on measures related to special retirement plans, which affect more than a million French pensioners. These regimes apply to a range of professions, from marine workers to notary publics.

Given its number of affiliates and strategic significance, the pension plan in place for the French railway system, SNCF (*Société Nationale des Chemins de Fer Français*), is particularly important, followed by that of the Paris subway system, energy enterprises, state-owned organizations, military personnel and the national police. Members of parliament and senators also enjoy a special regime.

In general, special retirement regimes include provisions (minimum contribution period, base salary, replacement ratio, revaluation and retirement age) that are more favorable than those in the general regime.

These special retirement plans originally aimed to protect employees who worked in hazardous or unhealthy conditions or carried out exceptionally physically demanding jobs, although these justifications no longer seem as relevant today.

Naturally, France's special regimes differ from corporate pension plans since their benefits, to a greater or lesser extent, are covered by public funds. In 2006, these contributions totaled nearly 15 million euros and formed part of the state deficit in compliance with EU budgetary regulations.

Three chapters in a latent conflict

Attempts to reform the French pension system over the past quarter century have sparked similar mobilizations. All three reform plans have created a battlefield, with the government and labor unions on opposite sides and no room for intermediate positions.

The first incident led to the strike of 1995 in response to the so-called Juppé Plan, which proposed raising the retirement age as one measure to reduce the public deficit from 5% to 3% and comply with Maastricht criteria. For Alain Juppé, the country's prime minister at the time, the mandate was non-negotiable, since under no circumstances did he want France to be outside of European Union rules.

Trade unions -- whose influence had been declining since the 1970s -- did their utmost to remain relevant and did not appear to give much weight to EU demands.

In the end, the unions claimed victory: the plan was dropped and France breached the EU deficit criteria, although it managed to downplay this detail. The confrontation strategy did not yield the desired outcome for the government. That said, it did stop Juppé from potentially taking over the presidency.

The second chapter began in November 2007 in reaction to another proposal to push back the retirement age. Having expressed his intent to limit the power of trade unions, President Sarkozy saw the issue of retirement plans as a symbol of his resolve. National strikes ensued, starting in public transport and extending to the educational sector and public administration, which eventually bent the will of the government. The government withdrew the plan while doing its best to avoid making it seem like a defeat.

The latest chapter is in reaction to President Macron's plan, which has a different scope compared with predecessors' plans. The proposal is not so much a matter of delaying the retirement age or reducing the overall deficit, which according to estimates, could reach between 8-17 billion euros in 2025. Rather, it aims to eliminate special regimes and introduce a more harmonized and less discriminatory point-based system for those with lapses in their contribution periods.

An alternative approach

Considering the failures of 1995 and 2007, could there be a better way forward to address pension reforms? It was precisely in 2007 when economists Jacques Delpla and Charles Wyplosz published a study titled "*La Fin des Privilèges: Payer Pour Réformer*" (The End of Privileges: Paying to Reform), which today's politicians might find useful.

Their approach was quite straightforward: to start with, they considered it somewhat inflammatory to label special-regime provisions as "privileges," since they formed part of the affiliates' labor contracts. Asking them to simply relinquish them in the name of national interests was impossible. Nonetheless, these provisions consisted of future income flows in a distant and therefore uncertain future. For its part, the state had the power to try to use some hard cash that could cancel a larger future debt.

Consider this case: a 40-year-old SNCF employee with a life expectancy of 82 and an average annual salary of 20,000 euros was entitled to 75% of his or her salary upon reaching the age of 52. In other words, 15,000 euros per year for 30 years, or 450,000 euros of future debt for the state.

However, the present value of this pension, discounted at 5%, was only slightly more than

100,000 euros. The state could reduce its debt by more than 300,000 euros by paying the present value in cash if the employee accepted the deal.

The power of public opinion

Should Nicolas Sarkozy have followed the method outlined in the study? Considering President Macron's impeccable economic education, would we advise him to follow Delpla's and Wyplosz's advice? In my view, an affirmative response depends on a shaky premise and overlooks a non-economic yet critical factor.

The shaky premise assumes that the typical trade unionist -- the average SNCF employee -- is the quintessential *homo oeconomicus* whose sole motivation is a cold monetary calculation. History gives us reason to be skeptical: in previous chapters of the pension saga -- and possibly in this one, too -- trade unions had a lot more at stake than economic improvements.

The non-economic, yet clearly defining factor is the state of public opinion: in the three aforementioned episodes, the French people by and large seemed to support the strikers, despite the undeniable inconveniences caused by their actions. In this most recent chapter, the sum of those who strongly support their demands and those sympathetic to their cause is slightly over 50%. The sum of determined trade unions and an adverse public opinion is probably more than a government can bear.

French public opinion on pension reform is a reflection of something deeper than economic unrest: when it favorably views those who assert what they consider to be their rights, outside the channels established by law, something deeper is at play than a simple question of money. This is what any present-day government leader really needs to address.

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