EPOG
POLICY BRIEF
#9 JUNE 2020

EPOG INTERNATIONAL MASTER'S COURSES

EPOG STUDENTS AND ALUMNI ASSOCIATION

Protecting people or finance? On the need to free social policies from financial markets during and after crises

Ana Carolina Cordilha

EPOG 2016

Through the French case, this policy brief uncovers the promises and perils of making social policies dependent on financial markets, especially during crises. It offers alternatives that are better suited for fostering social wellbeing and economic stability in the long run.

INTRODUCTION

The coronavirus outbreak, one of the greatest social and economic challenges of our times, has brought concerns over the deteriorating state of public health systems and social safety nets to center stage. Such policies still account for a significant share of governments' budgets, yet they seem ever less capable of meeting basic needs and smoothing economic cycles. How can this trend be explained? Perhaps more importantly, is it possible to trace a different path?

The answers to these questions must consider how governments are financing social policies under financialized capitalism. Several countries are finding ways to replace traditional sources of funds, such as taxes and public credit, by alternatives provided by the financial sector. By "financial sector" we mean banks, investment firms, insurance companies, and other players with the power of "making money from money" (Appadurai, 2015) by lending, investing, and speculating. These companies are now lending funds to the public sector that serve to finance public health care services, social benefits, housing subsidies, and unemployment insurance, to cite a few. While the degree and methods for incorporating financial capital vary from country to country[1], financialized strategies seem to have the common impact of shaping public decisions in a way that prioritizes the interests of investors and financial companies over those of the population.

The present crisis makes it urgent to uncover the promises and perils of resorting to financial capital to finance social policies. Identifying their drawbacks is a crucial step to devise alternatives that are better suited for fostering social wellbeing and economic stability. The French case offers a clear case for debate.

FUNDING SOCIAL POLICIES WITH FINANCIAL CAPITAL: THE FRENCH EXPERIENCE

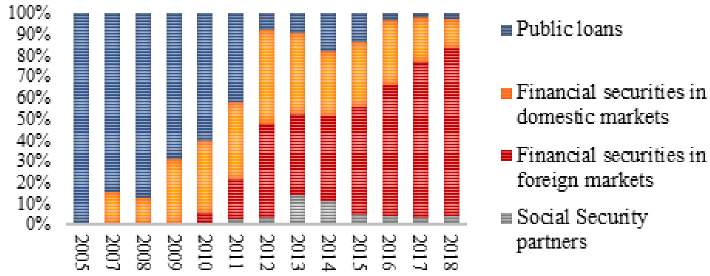
Social Security" – la Sécurité Sociale – is the system responsible for public health care, pensions, and social benefits in France[2]. Most of its funds come from tax revenues, especially contributions on wages and other types of income. When it needed additional funds, Social Security used to borrow from public banks, which subjected funding decisions to democratic debate. Today, the new creditors are mostly foreign financial investors and companies, who therefore influence the conditions and accountability of public services. The French method to borrow financial capital was by allowing public agencies to raise funds directly in the financial markets, through the issuance of "financial securities". Securities work as a form of credit, in the sense that agencies create and sell them to investors, receive money in return, and repay the buyers with interests in the future. Social Security raises capital for two main reasons: financing current expenditures and refinancing long-term debts.

FINANCING CURRENT EXPENDITURES

Current expenditures include health care reimbursements, retirement pensions, family allowances, transfers to hospitals, and all other payments that Social Security makes on a regular basis. It is often the case that Social Security needs to make the pay-outs before having received a sufficient amount of revenues necessary to do so[3]. This prompts the system to borrow funds from elsewhere to pay for the benefits maturing soon.

Up to 2005, Social Security borrowed from a public bank, the Caisse des Dépôts et Consignations (CDC). Things changed in the second half of the decade, when the government authorized the Central Agency of Social Security – l'Agence Centrale des Organismes de Sécurité Sociale (ACOSS) – to issue short-term securities. Figure 1 shows the evolution of Social Security's short-term financing since then. Public loans, which provided virtually all the funds in the past, account for less than 5% of the average borrowing today. Financial securities, in turn, became the chief source of funds – over 90% in 2018. Securities issued in external markets predominate, meaning that the vast majority of the money comes from foreign capital. To give an idea of the magnitude of this practice, the agency sold around two trillion euros in securities from 2007 to 2018, and became the world's second largest issuer of foreign-based instruments in recent years (ACOSS, 2017-2019b, 2019)[4].

Figure 1. France, Central Agency of Social Security, short-term borrowing by source (% of average amounts borrowed)



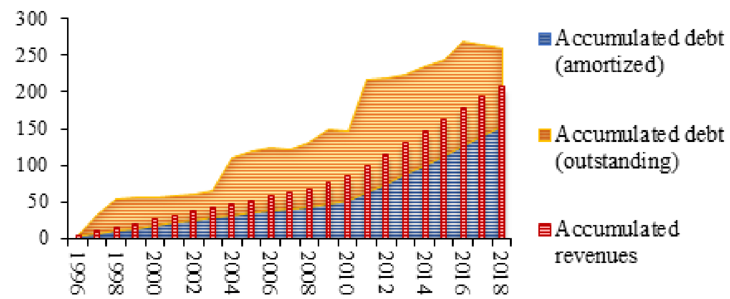
Source: own elaboration based on ACOSS (2007-2019) and Securité Sociale (2019). For methodology, see Cordilha (2020).

REFINANCING THE "SOCIAL SECURITY DEBT"

Social Security also faces a debt, the "social debt", which stems from the accumulation of deficits in its accounts – years when total expenditures exceed revenues[5]. To refinance this debt, the system traditionally resorted to long-term loans from the CDC (the same public bank from the previous case). The State could also intervene and assume part of this debt, as it did in 1993.

The shift from public to market debt refinancing came with the creation of an external agency in 1996 to issue long-term securities for the system. This was the Social Debt Amortization Fund – Caisse d'Amortissement de la Dette Sociale (CADES). CADES absorbs the debt accumulated in the Central Agency, transforms it into its own debt, and diminishes it by injecting funds coming from financial securities. It amortizes this debt over time using public funds to reimburse the investors. Figure 2 shows that, from 1996 to 2018, CADES absorbed approximately 260.5 billion euros of the social debt, from which slightly more than half (59%) was amortized[6]. In the meanwhile, the agency received around 210 billion euros to cover the costs of the securities.

Figure 2. France, Social Debt Amortization Fund (CADES), accumulated debt and revenues (€ billions as of 2018)



Source: own elaboration based on CADES (2019). The decrease in 2018 is due to the use of preliminary values estimated by the agency. For methodology, see Cordilha (2020).

There is little information on the identity of Social Security's investors. However, CADES' data can give an idea of their nature: the main actors buying its securities are large commercial banks, followed by Central Banks and investment companies. The vast majority of these investors are not from France: in 2016, 90% of CADES' financing came from other countries, almost a third from Asia alone (CADES, 2016). Besides investors, financial intermediaries also become decisive for Social Security financing. Intermediaries include, first, large commercial banks such as BNP Paribas, Citigroup, and HSBC, responsible for creating and selling the securities. It also involves the "giants" of the rating industry – Fitch Ratings, Moody's, and Standard & Poor's, who grade these instruments. Finally, there are the "clearing houses" that settle the transactions, headquartered in Belgium and Luxembourg (acknowledged fiscal heavens).

The money to pay investors and intermediaries comes from public funds, most notably from tax revenues. The Central Agency specifies neither the amount nor the sources of funds for interest payments; nevertheless, they forcefully come from the agency's revenues, based on the taxation of wages and other types of personal income. CADES receives stable streams of revenues from taxes on activity income (wages), followed by taxes on social benefits (pensions, family allowances, unemployment insurance benefits, housing subsidies), and transfers from the Pension Reserve Fund[7].

WHO OWNS THE MONEY MAKES THE RULES

Putting Social Security in the hands of international financial capital seems to bring at least two main types of costs for society. First, there are those costs that are easier to see and measure: the amount of public funds channelled to the financial sector in the form of interests and fees. While the Central Agency does not disclose its figures, CADES' numbers alone can give an idea of their amount: from 1996 to 2018, the agency paid around 61 billion euros to creditors and banks in interests and commissions. In 2017, this cost 2.2 billion euros, more than the Social Security "deficit" in that year[8]. But financialized strategies also bring adverse impacts that cannot be readily measured. Besides heightened volatility in Social Security financing (Cour des Comptes, 2019), they contribute to concentrate income (Cordilha, 2020) and change the balance of powers between citizens and financial players, favoring the latter.

These problems become ever more pressing in times of crisis. Social Security has a unique capacity to preserve people's wellbeing and buffering economic downturns. It can do so by expanding the scope and scale of transfers to individuals and public institutions, such as hospitals. However, this means increased spending and likely "deficits" in Social Security accounts. Investors and rating firms see higher expenditures as higher risks, as public agencies may not have the money to service their debts. As market expectations determine the costs and the availability of financial capital, Social Security agencies are caught into a trap: to keep the system running, they must prioritize financial equilibrium at all times, even if this goes against the population's needs[9].

The financialization of social policies is directly related to austerity. It represents a new form of policy response that attempts to conciliate public provision with the political paradigm resistant to social spending, adding to other "solutions" such as privatization and cost-containment measures. In France, this brought disastrous consequences: the public hospital budget lost approximately 12 billion euros over the last decade (Petit, 2020), and the number of long-term hospital beds fell by more than 50,000 since 2003 (DREES, 2019). It is inconceivable to imagine that these cutbacks had no impact on the fight against the coronavirus outbreak.

CHANGING PATHS

Financial capital is inherently volatile and devoid of moral commitments. Making social policies dependent on it compromises social wellbeing, economic stability, and transparency in the use of public money. Many of the proposals to devise more progressive alternatives are not new, such as taxing the wealthiest individuals and corporations; in times of financialized capitalism, however, these measures alone may not suffice. It is crucial to reach the locus of global

1 Here we focus on the French case, but empirical evidence for other countries can be found in Cussedu (2011), Hall and Fine (2012), Bayliss (2016), and Andreu (2018), among many others.

2 This refers to the General Regime of Social Security, which covers more than 90% of the population.

3 These "cash needs" are normal events that occur, for example, because part of benefits and transfers are due during the first half of the month, while contributions on earnings usually arrive later.

4 Real values as of 2018. Once the Central Agency can only borrow in the short-run, its securities are continually maturing and new ones are issued in their place, which explains the high values of total emissions.

5 We adopt the terms "deficit" and "debt" to align with the public debate, but their legitimacy is highly contested (see Duval, 2007 and Da Silva, 2017).

6 When the principal and interests are paid, that debt is considered amortized.

7 The *Fonds de Réserve pour les Retraites* (FRR) was created in 2001 to support the financing of public pensions.

8 Real values as of 2018.

9 The fact that public agencies started reaping profits by borrowing at negative interest rates only deepens the problems of market dependency.

wealth today, the financial sector. This requires taxing financial institutions and transactions, recovering the billions in undeclared taxes in fiscal heavens, and creating mechanisms for international coordination.

Implementing these measures is far from easy, but can be achieved with massive conscientization, mobilization, and political support for policymakers willing to implement them. One of the greatest obstacles is ideological: governments and the mainstream media tend to adopt a biased discourse pointing to a supposed tendency for excessive spending in social policies, without considering the slowdown in revenues and the costs of new financing schemes. By doing so, they keep progressive measures away from the public debate. Once again, France illustrates this point, as the government hardly questioned the effects of two decades of austerity measures in the discussions related to the COVID crisis (Petit, 2020). In fact, some of the government's proposals to deal with it rely even more on private, financialized actors (Maudit and Orange, 2020).

Closer scrutiny of financialized strategies reveals that financial investors and institutions, rather than the population, have been the true beneficiaries of the changes in Social Security over the last decades. Taking this into consideration, should we be afraid of taking another path?

EPOG POLICY BRIEFS

jointly with

EPOG ECONOMIC POLICIES FOR THE GLOBAL TRANSITION

EPOG2

REFERENCES

ACOSS (2007-2019) Rapports Thématiques Conjoncture et Financement.

ACOSS (2019) Web page "Investisseurs" (www.acoss.fr/home/investisseurs.html).

Andreu, M. (2018) *A Responsibility to Profit?* New Political Science v. 40, n. 4.

Appadurai, A. (2015) *Banking on Words*. University of Chicago Press.

Bayliss, K. (2016) *The Financialization of Health in England*. FESSUD Working Papers 131.

CADES (2016) Conférence de Presse 12/2016.

CADES (2017) États Financiers 2017.

Cordilha, A. C. (2020) *How Financialization Reshapes Public Health Care Systems – The Case of Assurance Maladie.* CEPN Working Papers 2020-03.

Cour des Comptes (2019) *La Dette des Entités Publiques - Périmètre et risques*.

Cussedu, V. (2011) *La Cartolarizzazione e l'Esplosione della Crisi Finanziaria.* FCRE.

Da Silva, N. (2017) *Le Mythe du Trou de la Sécu à l'Aune des Débats Parlementaires de 1949.* In: Carole et al., Économie Sociale et Économie Politique. P. U. de Louvain.

Direction de la Recherche, des Études, de l'Évaluation et des Statistiques – DREES (2019). *Les Établissements de Santé.*

Duval, J. (2007) *Le Mythe du Trou de la Sécu.* Raisons d'agir.

Hall, D.; Fine, B. (2012) *Terrains of Neoliberalism*. In: MacDonald, D.; Ruiters, G. Alternatives to Privatization. London, Routledge.

Maudit, L.; Orange, M. (2020) *Hôpital Public: La Note Explosive de La Caisse des Dépôts*. Mediapart.

Petit, P. (2020) *Understanding the Endogenous Nature of This Health Crisis.* Open Democracy.

Securité Sociale (2019) Rapport de Financement du PQE PLFSS.

RECENT PUBLICATIONS BY THE EPOG ALUMNI

- **Luise Wimmler** (2020), "The coronavirus pandemic ant the guardians of capitalism", Policy brief #8

- **Joel Rabinovich** (2020), "The Investment-Profit puzzle(s). The good, the bad and the ugly solutions", Policy brief #7

- **Louis Daumas** (2019), "No-Deal Brexit: Trick or Treat(y) Uncertainty and the Future of the UK Economy", Policy brief #6

The Policy Briefs are available on :
www.epog.eu/students-and-alumni/alumni/
For any question or information about the Policy Briefs :
contact.policybriefs@epog.eu