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**Institutions, Politics and Industrial
Policy in France**

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John Zysman**

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INSTITUTIONS, POLITICS AND INDUSTRIAL POLICY IN FRANCE*

"The issue is not whether France's economy will be directed or not. The only choice is between an indecisive direction implemented by a number of pilots each of whom follows his track, and direction under the authority of a single and good pilot."

Michel Debré, 1938

"The political change of 1981 has had at least one positive effect: a large majority of Frenchmen now agrees to criticize the excesses of state power and to demand more individual responsibility."

Raymond Barre, 1983

The perception that France is a strong state, one which can exert industrial leadership, is widespread. It is also accurate. Since 1945 France can legitimately be called a strong state, one that has decided to be "permanently involved" in the conduct of economic affairs, and that has created the adequate tools to make this involvement possible. This goes much beyond the traditional mix of quotas, subsidies, and cartels; the government has become a marketplace player. That system hinges on a very specific set of institutional arrangements. The executive branch has been freed from detailed microintervention by

* This essay draws heavily on Stephen Cohen, Modern Capitalist Planning, and John Zysman, Governments, Markets, and Growth.

parliament. The elite administration is a self-contained system, almost a social caste, with considerable discretion in implementing its purposes or those set by the party in power. Administrative discretion is combined with a set of instruments that permit it to allocate funds within the economy. Those interventionist instruments are rooted in a credit-based administered price financial system.

Many believe this to result from "etatism," some unfathomable yet still permanent feature of French society and character.¹ The understanding, though common, is misplaced. The French state has, no doubt, played a continuing role from Louis XIV to Francois Mitterrand, but when it came to industrial action this role has only occasionally been a commanding one. Interventionism in recent years has grown along as powerful and practical justifications have made it compelling. Were the pressures to intervene to lose some of their power and the institutional framework some of its effectiveness, the statist consensus would no longer be assured.

These interventionist elements result from the perceived need to face a situation of backwardness and to muster the instruments of an economic take-off. France's ideology and institutions have not been built on the logic of anglo-saxon laissez-faire.

The mixed economic performance of the French strengthened state under socialist tenure, has led to some unravelling of the "dirigiste" consensus. The particular significance of the recent socialist nationalizations had little to do with the desire to increase state control as

¹ ____.

a means to face a crisis situation, a crisis to which the left believed economic liberalism offered no acceptable answers. The nationalizations took place in the context of an existing and sophisticated apparatus to conduct industrial policy that gave the state great power. By acquiring ownership of companies and banks it could already control, the state ripped asunder the shadowy world in which it had operated beforehand. It thereby transformed its intervention into a public issue. The unlikely outcome of socialist nationalizations may then well have been the destruction of a general—though recent and unspoken--consensus around the notion of a state managed economy. What is most interesting at the moment then, are not the institutions of intervention, but the politics swirling around the institutions.

(I)

Before 1981 every significant thrust toward an increased role of the state in the economy was closely associated with the perception of a failure of economic liberalism. Often there were quite serious problems, dramatized by a major economic disruption or a political collapse. Indeed, France's strong state was set up in the 20th century to change the nation's production profile. Capitalist development had been slow and uneven. An interventionist ideology grew not from some intellectually compelling theory but because the practical alternatives were limited. The state hardly ever stepped in to redistribute the wealth produced by private companies; it intervened after World War II to recreate a wealth that had disappeared, to build industries which were in shambles, to restore a nation which had been defeated.

The mythology of a French economy continuously dominated by the state notwithstanding, the entanglements of industry and state at the turn of the century were limited. The demands of a protracted World War I illuminated the inadequacies of French industry. The end of the war and, more important, its successful outcome, led to a "return to normalcy": the prewar status quo was vindicated and then consolidated by the eventual victory of France's might. At the time, economic liberalism was called the "orthodoxy of the Republic,"² a republic rooted in the countryside, the small town, and small business. French bureaucrats were trained in a private school, and the French state had few tools and little desire to intervene systematically and continuously in the economy.

The Great Depression of 1930, the Great Humiliation of 1940, and the Great Destructions of World War II, dramatically challenged this "orthodoxy." Beginning in 1932, French intellectual elites took notice of a growing backwardness of France's economy vis-à-vis other nations, especially Germany. Entangled in the sibling ideologies of smallness and stability, France was becoming a caricature of Malthusianism: a declining and aging population, tiny agricultural plots and industrial units, protection against the winds of change. Stuck in its preference for craft over industry, snuggled behind a "Maginot Line" against German invasions, the electric power of which came from Germany, France was asking for the humiliation that was soon to follow. It is symbolic of the strength of this liberal, yet still pre-modern, consensus that the

² Richard Kuisel, Capitalism and State in France. Cambridge University Press, 1981, Ch. 1.

Great Depression was not enough to shatter it. Even the leftist "Popular Front" which took power in 1936 did not dare to nationalize any substantial portion of French industry. It only applied some stimulus which today would be called Keynesian to an economy ill-fitted to respond.

When the World War II broke out, it did so on what De Gaulle called a "hopelessly laggard economy." Within five weeks, the French superpower was unequivocally trounced and its armies had capitulated in disgrace. At this juncture, two vastly different options could be contemplated. Neither advocated a continuation of past economic policies so thoroughly discredited by the extreme weakness they had brought upon the country. The first path was a truly reactionary one, blaming the defeat not on the lack of modernization but, rather, on its very existence. Modernization had supposedly destroyed French fiber and its sturdy set of traditional values. France, it was argued, had to be punished for its industrial arrogance and brought back where it belonged: the small plot of land with its family farm, its plow and its cow. The state should be strengthened to see to it that no disruptive force could again challenge this enjoyable paralysis. Philippe Petain, a senile leader of 84, proud of his bygone military glory, became, symbolically enough, the head of that state. His huge popularity at the time said a great deal about the deep longings of the French: security, sedateness, and sleep.

This whole strategy collapsed when servitude to Germany became part of the package. Resistance fighters had no trouble pointing out that Petain's choices led him to accept the subservience of France to a stronger Nazi Germany.

For the Resistance, embodied by de Gaulle, France had to catch up instead of blissfully slipping further backwards on the road to modernity. It had to make the right choice between industrialization and oblivion. The humiliation of 1940 had doomed the pre-war mix of French style liberalism (which bore little resemblance to the British version, except in name) and stability; the disgrace of Vichy's collaboration with Hitler excluded any reactionary path and discredited conservative parties and institutions (church, business community) whose attitude during the war had been objectionable at best. In the face of the collapse of past ideologies and elites, the opportunity was great for a determined young elite to recast the French economic and political landscape. Given the strength of the left at this time, given the scope of the reconstruction task, given the bitterness of past experiences emphasizing stability or gradualism, it is hardly surprising that 1944 saw an unprecedented attempt to centralize if not socialize economic power and to awaken French society.

Without the defeat of 1940, such a shift would have been inconceivable. The interventionist temptation was at last acted upon because of the elimination of those who would have resisted it. A policy of development and growth would be initiated with the belief that only the state could secure and sustain its momentum. In the eyes of the modernizers, the magnitude of the reconstruction task at hand and the absence of any other alternative entrepreneurs meant there were no choices. There is some need to emphasize this point because it says much about the difference between the wave of nationalizations of 1945 and that of 1982. When François Mitterrand decided, in his words, to "complete the unfinished process opened by Charles de Gaulle" the challenge to be

faced appeared less dramatic, the resistance to nationalization was greater, and alternatives existed. In 1945 the consensus around an ideology of state activism was broad and lasting; in 1982 it was narrower and quickly evaporated.

(II)

The thirty years that followed World War II witnessed an unprecedented economic prosperity ("les Trente Glorieuses") as well as the ebb and flow of state intervention. But the ebb was high and the flow low. French economic policy since the war has been marked by a statist mode of policy making. It may be less visible when a booming economy no longer requires close direction, it may be more apparent when a cyclical downturn pushes some companies to bankruptcy thereby increasing state leverage to reorganize ailing industries; it is always there. Elsewhere we have reconstructed the political process which built this system, the story in which the state gains the opportunity to pursue its ideology and the instruments to implement its ambitions. Let us examine the prevailing situation as it existed in 1981 before French socialists decided to substantially increase the vast powers of the state. The economic institutions of 1945 were not identical to those of 1980; a thirty year evolution of tinkering and construction had taken place. But we do indeed believe that the continuity is real, notwithstanding major political transformations. In contrast, as we shall see later, the nationalizations of 1982 represent such a strengthening of direct state control that they reduce the sophistication of the interventionist system and release the oppositions to a dirigiste industrial policy which had successfully been contained beforehand.

Up to the oil crisis of 1973, France's economy underwent major transformations and witnessed a spectacular expansion. Broadly speaking, these changes can be ascribed to an institutional and ideological revolution. Ideologically, the elite consensus around a "stalemate society" had been broken after 1945 and replaced among those responsible in the government with a born-again fervor for economic modernization. Institutionally, the state stopped being the referee of a sluggish game, becoming instead the coach, player, and ball. Needless to say, these two evolutions are closely interrelated. Without a new ideology, the institutions of "dirigisme" would not have appeared; without these institutions, the ideology would not have prevailed. And the list of problems which had to be addressed during those years being quite spectacular, without a strong state, a successful resolution of the stalemate--the defeat of those who supported a traditional economy and traditional approaches to managing it--would have been remote. Entrenched special interests, an outdated network of distribution, cartels and lack of competition, a backward agriculture, timid businessmen, subsidized inefficiency; everywhere, everybody was in search of a profit without risk in the womb of a protected environment. Many of these people understood a strengthening of the state to mean more effective protection, when in fact the stronger state forced them to change or to disappear. There was nothing unfortunate about this misunderstanding for those who engineered it; by the time the truth became clear it was too late for its victims.

The institutional and cultural transformations that took place after 1945 were held together by the junction of three major evolutions--the attribution to the state of vastly increased economic

responsibilities, the appearance of new political and economic institutions, and the emergence of a younger generation of leaders. A statist ideology pervaded the bureaucracy and gave it the desire to transform French society, a new set of institutions enabled the executive to shelter its bureaucracy from conservative interest group pressures, a sophisticated set of instruments for state control of the economy offered the bureaucracy the tools it needed to act: ideology motivated the action, politics weakened the opposition, institutions permitted the implementation.

It is difficult to overestimate the major ideological transformation France underwent after WWII, from the previous "republican orthodoxy" of small villages and a seasonal pace of life, to the inception of a thematic of modernity and change. The interventionist attitude played a dominant role only because it alone seemed able to rid France of the shackles of her backwardness. The marriage of modernization and state intervention seemed obvious at the time; it was not, however, cast in concrete forever. Today's loss of confidence of French society in an economic progress brought upon by the state and the resurgence of an ideology of private entrepreneurship amply demonstrate that fact. But in 1945, there was no entrepreneurial spirit to speak of and a lot of enterprise to show. Blessed with its crushing humiliation, France had the opportunity to change everything that had made her weak. And, in addition to the desire and the opportunity, it had the elites which modernization required. After a few years, it was thought, modernity would trickle down into the life of the average Frenchman who remained more stunned than excited by the change. As Jean Monnet, a paramount leader of French planning, once said, "Behind a tractor, a farmer will

never think again as he used to when he was behind a horse."³ French farmers got a lot of tractors for thought.

Still, in the process of fundamentally transforming France, farmers, as most Frenchmen, were pushed more often than they jumped. The pushers were part of this new generation which suddenly came to occupy an overwhelming position of power in French society after the old elites had gone underground, discredited by their unquestionable failures before the war and by their questionable behavior during the war. Besides youth, what these new elites were bringing with them was a Saint Simonian fascination with industrialization and scientific progress, an unconcealed hostility towards political parties tied to specific clienteles and, more generally, a devotion to the idea of "public interest." According to them, this "public interest" could best be served by a dirigiste system adroitly mixing rationality and elitism—that is, the cult of elites which, like them, knew what this "public interest" was. These men and their ideological successors, trained in the schools from which they were recruited for state service and later in which they taught, have been in power ever since 1945. To make sure that the ideas these elites held so dearly were not going to fade away, a heavily ideological school was set up and given a lock on the recruitment of whoever was expected to count in French society. Although the National School of Administration (E.N.A.) graduates fewer than two hundred students a year, its alumni include the current prime minister, both leaders of the opposition, and nine of the twenty managers named by the left to head nationalized companies. Until 1945, a private institution, "l'École

³ J. Monnet, Memoires, pp. 305-306.

Libre des Sciences Politiques" was responsible for grooming French elites in the idea that state intervention always meant the defense of narrow societal interest at the expense of the average taxpayer. After 1945 the E.N.A. taught the supremacy of technocracy and state-led growth over economic liberalism and the ineptness of a generally Malthusian business community. The shift did not lead to any democratization of the elites, but the ideology with which they pervaded state and society could hardly have been more different.

The modernizing elite, trained in common schools, found its base in the state administration, the civil service. The elite positions were filled from within the privileged corps, the Grands Corps d'Etat. Entry into these Corps—crosses between unions and gentlemen's clubs—came upon graduation from E.N.A. and a second school, Polytechnique. Those new bureaucratic elites, however, would not have found their nationalist fervor very useful were it not for a constitutional battle that removed from the arena of effective policy making their major competitor: French legislators. Because of the parliamentary nature of the French system, before 1958 state intervention essentially meant the allocation of subsidies to electoral lobbies. Likewise ministries represented specific constituencies (officers by the Ministry of Defense, farmers by the Ministry of Agriculture, etc.) more than they were agents of a coordinated state intervention. The turn toward a presidential system only took place in 1958; it has been accentuated ever since. The decline of parliamentary power over economic policies, however, long preceded that turn. Because, if parliamentarians had the nominal power to supervise the growing entanglement of the state in the economy, they were not even close to having the expertise and the staff to actually control what was

taking place. As new economic institutions mushroomed and gained power, this handicap became formidable.

In 1958, a new Constitution inspired by Charles de Gaulle accentuated the power of the executive by stripping away from the parliament its nominal power and relegating deputies and senators into positions of virtual impotence. For our purpose, there is little need to detail and describe the devices which achieved such a result; it is enough to say that the legislature completely lacks the institutional power and the technical expertise to exert any influence on the day-to-day operations of French economic policy. When, in 1978, the French government de facto nationalized the steel industry, the parliament was not even consulted; five years later when the executive completely reorganized the electronics industry, deputies kept on debating what seems to be in France an eternal subject of vain controversy: the rights and obligations of religious schools. Examples of that kind could be endlessly recounted. This insulation from parliamentary pressure and influence has at least two advantages for the French bureaucracy. First, not having to take into account the micropolitics of interest group demands to which parliaments are usually responsive, bureaucrats can discriminate against a politically powerful segment of the population. Second, because decisions are made in executive offices and not after roll calls, the state can intervene without always provoking a national political debate. Economic policies therefore are removed from the public realm and keep a low visibility.

Having a purpose, having a team, and being free from outside interference, is not enough, however, to permit effective intervention.

A specific set of tools of intervention were put in place. Like other countries, France used the instruments of taxes, public spending, and price controls. In each case, it must be noted, the use of these instruments for purposes of economic policy was somewhat new despite the assertions of those who claimed an anthropology of constant intervention in France. It took World War I for the country to introduce an income tax; it took the Depression and World War II before it used public spending for other purposes than the mere payment of the debt and of the essential missions of defense, justice, and education. At any rate, these instruments are fairly common in all countries and do not require a detailed explanation, with the possible exception of price controls which can mobilize the equivalent of a real army controlling 200,000 stores and verifying five million price tags in less than a week.⁴ Still the role of all these traditional devices has remained fairly constant in French economic policy.

What does need to be explained because of its specificity and its importance in the conduct of French industrial policy is the institution of indicative planning and the organization of the financial system. Both have played decisive--and twin--roles. Though the glory of planning essentially belongs to the past, the role of finance still looms enormously large.

Planning can be the epitome of the bureaucratic dream. At first, however, (late 1940s, early 1950s), it was to express the agenda of the nation through a process of collective research and proposition

⁴ "Le Blocage des prix et des Salaries," in La Lettre de Matignon, Juin 1982.

organized democratically. But, when the first Plan was set up, it had less to do with social experimentation than it did with distributing limited resources (mostly American aid) to a devastated economy. In theory, planning was indicative. In conformity with the rationalist orientation of the French bureaucracy, planners believed that if they could only justify their priorities, everybody would follow them. As Monnet said, "our plan will not impose anything on anybody." In fact, the indications carried a considerable weight thanks to the funds to which they were attached in a country starving for credit. The alliance between the Planning Commission and the Treasury probably did more for the implementation of the Plan than any pedagogy of modernity. But gradually planning lost its power. First, a substantial economic growth reduced the Commission's opportunities to restructure ailing industries. Second, France's growing entanglement in the world economy and the sophistication of a booming market made long term predictions more difficult because of the number of variables planners could no longer control. "Managing the unpredictable" is more difficult a task than organizing a closed system. The VIth Plan could not forecast the quadrupling of oil prices which completely reshuffled French economic data any better than the VIIth and the IXth Plans could anticipate the fact that the value of the dollar--the currency with which France has to pay 40 percent of its imports--was to increase by an average of 20 percent every year between 1980 and 1984.

In 1965 the preamble to the Vth Plan addressed the issue squarely: "Is planning useful in an economy where, after a period of war and reconstruction, the mechanisms of market and competition have found a new vigor? Is a Plan still possible?"⁵ Upon its arrival to power, the

⁵ Richard Kuisel: *Capitalism and State in France*, op. cit.

Left tried to revive the old magic and did in fact elaborate a new, decentralized Plan. Planning rhetoric flowed endlessly to the general indifference of the public. But two facts spoke louder than words. François Mitterrand named his arch-rival Michel Rocard Minister of Planning and, in July 1984, offered the job to the Communist Party, which was so little flattered that it turned it down.

Whereas the Plan was publically discussed and sometimes (less and less) executed, the decisions of a state-controlled financial system remained clouded in the shadows of executive secrecy and carried a lot of weight. As a matter of fact, one can argue that state-led industrial intervention has essentially depended on the selective allocation of credit made possible by a credit based, price administered system. This influence of the state was certainly facilitated by its ownership, following the nationalizations of 1945, of the three major banks. State control, however, extended beyond the banks it owned to the credit system in its entirety and, through credit, to the economy as a whole. The interventionist capacities of the French state rested as much on financial as on administrative arrangements.

Because of the various degrees of self-financing of investments from industry to industry, the extent to which determining the credit policies of financial institutions mattered was bound to vary. Still, the existence of a very narrow securities market compelled every major industry facing economic difficulties or undergoing a program of improving its capital equipment to turn to banks for the funds they needed. Through banks, they were once again meeting the state and its priorities. Located in the Ministry of Finance, the Treasury (Trésor), made

of a select group of elite bureaucrats trained by the E.N.A., not only controlled the money supply but, in addition to that, the allocation of credit, capital markets and investments in general. By using the banks it owned or controlled as an intermediary step between itself and private companies, the "Trésor" could influence industrial policies without appearing in command. Of course, the state could act directly by using the large pool of funds it controlled to map the industrial strategy it, along with the Planning Commission in years following World War II, had selected. Increasingly, however, this direct interventionism was replaced with a more sophisticated type of influence relying on banks and parapublic institutions.

Whenever necessity arose, the "Trésor" could assemble the pool of funds required to restructure an industry by urging the cooperation of banks either nationalized or not. As one official said: "the funds are always there." Echoing his cocksureness, a banker confirmed "they do not ask all the time but, when they do, it is difficult to refuse." One instance when there was no refusal took place in 1978 during the rescue of the steel industry. The "Trésor" urged parapublic institutions to buy shares of this very lame duck and thereby was able to put together a package of \$2 billion, temporarily keeping the industry alive. The end result of this was that steel ended up de facto nationalized at a time when a rhetoric of economic liberalism was in full swing. It is important to emphasize that the arm-twisting policy of the "Trésor" was in no way confined to parapublic institutions; it extended to private banks.

After 1945 the Ministry of Finance had become the center of French economic policy, endowed with powers going far beyond its traditional

prerogatives of taxation and budget allocation. By a loose control of the money supply, it was in a position to use inflation as a tool to dissolve political conflict; by its use of the fear of inflation it was able to scale down programs implemented by other ministries; by its command of credit allocation it had "moved from the position of banker of the budget to that of banker of the economy."⁶ And, to handle all of these responsibilities, it had been given a staff whose technical expertise nobody could match.

Overall, these state policies (ownership, control, influence) had been quite successful. Nationalized companies such as Renault, Air France, and E.D.F. were largely responsible for the technological innovation that took place. The state proved to be a remarkably gutsy entrepreneur, willing and able to undertake large, high risk investments. The outcomes that were achieved would have been unlikely without its intervention. No less important, private businessmen began to emerge from their self-destructive Malthusian cocoon. They increasingly chose expansion over extinction, impressed with the successes of public companies and enticed by the subsidies the state had to offer.

It is also true, nonetheless, that many of the industrial projects undertaken in insulation from both participatory policies and market forces failed. From "Concorde" to Fos, from "Le France" to "La Villette," the list represents a significant amount of wasted money. Stuck with what Alain Touraine recently called a "railway vision of modernization," the French state often believed that "any good engine would carry

⁶ F. Bloch-Laine, Profession Fonctionnaire, Paris, 1976, p. 103.

any train, anywhere, at any speed."⁷ Because they created industrial sectors which did not grow on the basis of their competitiveness, interventionist tools worked best only when addressing activities where competition was limited, returns from the investment slow, and markets controlled by the state (nuclear power, energy, space). When, however, the state has dealt with sectors dominated by fast-changing markets, intense competition, and endless lines of products, the results proved to be mediocre at best (electronics). Here, bureaucratic controls proved too heavy, too rigid, too slow. In other words, success had less to do with the tools French authorities decided to use, than it had with the adequacy of these tools to the task.

Let us summarize the interventionist apparatus as it stood in 1981. At the core of the system is a State administration, substantially insulated from detailed parliamentary influence and a credit-based administered price financial system dominated by the administration. The Plan which once held a privileged position in the structure was the home base of a group of young modernizers who altered the purposes and ideological premises of French state action. It has not survived but the system endured and served the varied purposes of conservative governments in the quarter century from de Gaulle's return to power in 1958 to Mitterrand's victory in 1981.

By gambling that, in 1982, the tasks at hand required more and not less of the kind of state intervention that had brought France back from industrial insignificance after 1945, the French left made a very daring

⁷ Alain Touraine, "L'Avant 1986," Intervention No. 3, p. 15.

move.

(III)

Following the election of François Mitterrand as President of France, the left implemented a very large program of nationalizations. It constantly referred to the precedent of de Gaulle's nationalizations after World War II and pointed to what it perceived to be their successful economic outcome to justify the move. But, no matter how negatively one assessed the economic legacy of Raymond Barre, it was difficult to argue that it had much in common with the rubble of 1944 and that it thus required the same medicines. However, the justifications given to the nationalizations of 1982 were to be nearly identical to those stressed to explain the same process thirty years before, desire to punish the companies which had collaborated with the Nazis aside. Importantly, in 1981 the French state, commanding the economic tools it did not possess immediately following World War II, had the option of using them instead of creating new, maybe superfluous, and therefore very expensive ones.

Political victory of the left aside, the analogy between 1944 and 1981 was dubious indeed. In the first case, progressive forces had the opportunity to dramatize an economic disaster and to take advantage of the collapse of economic liberalism. In contrast, not only would "economic disaster" sound grossly hyperbolic in 1981, but also, and more importantly, the ideology of economic liberalism was on the upswing, bolstered by the tradition of French elites to equate modernity with the imitation of the trends developing in the United States. This surge of

popularity for economic liberalism was somewhat concealed by the electoral triumph of the left, but as soon as the honeymoon of the new socialist president came to an end, this ideology reasserted itself with a vengeance. Socialists were in no position to afford many mistakes lest the interventionist consensus disintegrate. Newly nationalized companies were challenged to perform successfully and to be managed flawlessly. Results fell far short of these expectations.

In February 1982, nine major industrial companies and all thirty-five banks with assets above one billion francs were officially nationalized. The state was now exercising direct control over 30 percent of the sales, 24 percent of the industrial labor force, and 50 percent of the investments. The move marked the very height of state influence in the economy.

Though the real explanation of these new nationalizations was political, the reasons advanced to justify them were essentially economic. According to the left, French private companies had demonstrated their inability to prevent the deepening of the economic crisis and the deindustrialization of the country. To react against this trend, the state had the responsibility to stand up for the revival of France through the revival of industrial investment and economic growth. The first part of the argument was not a difficult one to make given the relative mediocrity of the French economic performance at the time. Unemployment was at an historic high, industrial jobs were disappearing at an annual rate of 100,000, and overall investment levels were sustained only because of the steady pace of capital expenditure in public companies (essentially due to the hugely costly nuclear program). Unsurprisingly,

the left derived from this grim assessment the indictment of a conservative government and its laissez-faire policies. In response to this passivity, French socialists opposed a program of activism and optimism based on a strong state leading the way to an industrial renaissance. The leftist government wanted to nationalize so that it could use the powers of the state, from salesmen to researchers, from financiers to customers, as a means to energize a lagging industrial base. Nationalizations were construed as "an electroshock and not a tranquilizer."⁸ In a substantially different context, all this was a near perfect repeat of the thematic of 1944. Industrial machismo was in full swing.

The nationalization of the banks that were still privately owned was part of the same project. Bankers, it was argued, kept favoring short term profitability and real estate investments instead of lending industry the credits it needed to modernize. Being state owned would supposedly insure the banks' compliance with the expansionary objectives of the state. Here, one has to point out that the argument was somewhat lame. Given the extent to which banks, even privately owned, were controlled by the state, it is difficult to see what prevented the political executive from having them discriminate between various demand for funds in accordance with the objectives of the Nation, as those objectives were defined by the "Trésor." Moreover, the biggest banks were already nationalized and did not seem to have adopted a credit policy so markedly different from that for which private financial institutions were blamed.

⁸ Jean Le Garrec, Le Nouvel Observateur, October 10, 1981.

A purely defensive rationale for nationalization was maybe less attractive than the dynamic, forward looking one that was popularized, but it was also more real. The "de facto" nationalization of steel, three years before the left came into power, was only one example of a series of conservative industrial interventions. The companies had to be subsidized to survive, but the subsidies were so large that they could only be justified or organized by nationalization. The conservative government of Giscard gave the reorganization a different label, but it was nationalization. Seen in that light, the move of 1982 represented what Mitterrand called "a weapon to defend French production."⁹ Nationalizations simplified the process of rationalization which could prove necessary whenever a company had to be restructured. Equally, from the left, could the state continue to bail out ailing companies and offer them the funds to modernize, while excluding itself from the future profits stemming from these investments? Nationalizations at least offered a reasonable answer to that problem. They were also thought to be indispensable if the socialist ambition to move away from an industrial strategy of "crêneau" (market niche) to one of "filière" (vertically integrated sectors) was ever to take place.

Still, it would have been odd for a leftist government not to give a social content to its most significant policy decision. This was done in two ways. First, nationalizations were to guarantee social protection against economic disturbances. According to the left, by putting the burdens of adjustment on workers and the poor, the market was demonstrating its inadequacies and threatening social cohesion and social

⁹ F. Mitterrand: Press Conference, October 1981.

peace. Second, nationalizations were expected to strengthen the weakest labor movement in western Europe. This assumption was based on the evidence of a greater rate of union membership in nationalized companies. Also, and more importantly, the inclusion of unions on the board of nationalized companies--where representatives of the state always hold a majority--would empower them through the access to information. In itself this labor reform was very mild by European standards, but it was significant in a country where labor unions had consistently been refused any responsibility and been granted an unusually limited number of rights.

Here, the social breakthrough was not without ulterior motives. Because labor unions favored the principle of nationalizations, they were expected to do their best to see them succeed economically. If that meant moderation in wage demands, the left would certainly find nothing wrong with that.

When all else was said, however, a very pragmatic argument settled the discussion: "In France nationalizations work. Look at Renault, look at the banks: out of the ten biggest in the world, three are French and have been nationalized for the last thirty years."¹⁰ Because they worked, nationalizations could be multiplied.

However, compelling as they were, these economic justifications provide a very poor insight into the decision of 1982. In fact, the explanation of the decision is essentially political. Throughout its tumultuous history, the French left had asserted its commitment to

¹⁰ F. Mitterrand, Press Conference, October 1981.

change, and formed the common ground between its feuding parties (communist and socialist) by stressing in a symbolically potent way its desire for structural reforms. Nationalizations represented this very symbol of a break with the past, of that much desired "rupture avec le capitalisme" (break with capitalism). Without them, "le changement" would not be much of a change, and France's "new model of development" would not materialize. In sum, the Socialist party thought it had to nationalize to simply prove that it was the "true" left and not just another kind of social democratic force. The economic explanation was sketched after the political decision had been made.

Nationalizations were political symbols. Given the extraordinary interventionist capacity built up and refined by the conservatives, there was no technical need for the move. It was a substantial gamble. The economic policy of the left, a mixture of Keynesianism and nationalizations, was from the very onset premised on a French expansion in the context of a worldwide recovery. Both were expected to lead to improving profit margins throughout the country. These would, in turn, permit industrial investments, the modernization of the economy, and added social benefits for French workers. Without the anticipated growth, everything would be much more difficult, including the demonstration that "nationalizations work."

According to a governmental newsletter, to be successful nationalizations required that two conditions be met: "financial profitability before the end of 1985" and "the type of management autonomy required by an industrial environment in which quick decisions have to be made." It was difficult to express more eloquently the problems of the new

interventionist policy than by juxtaposing those two conditions. "Autonomous managers" were required to eliminate financial losses by the end of the year, which just happened to immediately precede major elections in which nationalizations were to be a major campaign issue. The requirement was far from being simply rhetorical. There was one simple way to make sure that managers would not construe their "autonomy" too literally: 1985 was also the year when the terms of these managers had to be renewed. The decision to set a deadline for profitability was also surprising to the extent that the left had repeatedly condemned in the past the objective of short term profitability as a mistaken concept. A mistaken concept which, incidentally, nationalizations were supposed to remedy.

But, mistaken or not, it was difficult not to understand the impatience of French socialists to see it implemented. Nationalized companies were absorbing money at an alarming rate. The state had paid thirty-five billion francs in compensations to expropriated shareholders merely to gain the right to absorb a flow of red ink totalling no less than fifty billion over three years. Many of these firms, it should be emphasized, were functionally bankrupt before the nationalizations. They were propped up by disguised intervention before the election. Indeed, the real winners from nationalizations were the stockholders, whose holdings in several companies that might have been considered bankrupt would have been worthless. Had the steel industries been nationalized after the election rather than before, many private fortunes would have been preserved. The conservatives--not needing to prove that they did not intend to eliminate private property--could be tougher brokers.

The nationalizations, moreover, changed the politics of intervention by bringing what was once private into the open. The game had been a closely guarded one, one in which state purposes were shrouded and an effort was made to isolate companies to prevent a collective political response.

Nationalizations, of course, gave no direction or strategy to intervention. At first, the industrial policy was multidirectional, asserting as it was that "there is no doomed sector, there are only outdated technologies."¹¹ This principle was soon to be abandoned when the till of the state could no longer afford financial largesse toward hopelessly lame ducks. The resources expected from economic growth never appeared as a sputtering recovery had to be doused by an austerity program made necessary because of growing trade and budget imbalances. Given the limited resources of the state, given the large amount of funds which had to be sunk into the skyrocketing deficits of public companies, the original commitment to invest in the "industries of the future" could not be met. In 1984, offsetting the losses of the steel industry alone drew over a third of the capital resources the government could allocate to nationalized companies. That was more than what the whole "filière électronique" received despite the fact that it had been dubbed "the number one priority of the industrial policy." The assistance for development had largely been devoted to subsidy. When he was asked to assess the wisdom of the 1982 nationalizations, Jacques Delors, then finance minister, answered, "they have brought into companies lacking resources a strong and responsible shareholder."¹² In short, it is

¹¹ J.-P. Chevènement, Le Point, June 1982.

the state which now pays the bills.

For their part, critics of the move lost no time theorizing once again that public subsidies were in fact dampening incentives to move out of declining sectors into expanding ones. What would have been left of French industries had all the "declining" ones been phased out was of course a question to which everyone knew the answer: not much. Therefore, once again, the state played its role of industrial Red Cross.

The financial difficulties of newly nationalized companies were all the more important insofar as they threatened to translate into a structural shift, reenforcing the interventionist nature of French industrial policy. Beginning with financial losses, the traditional cycle led to state subsidies allowing struggling companies to survive and then, logically, ended with state controls to supervise this use of public funds. Despite the claims of conservative critics, the cycle was not premeditated and the ways to break it hard to implement. Cutting subsidies would have meant accepting the collapse of critical industries and the loss of a very large number of jobs, a situation likely to tear apart the French social fabric. Subsidizing without control implied enabling private and public managers to count on an unrestrained access to the very limited funds of the public treasury.

However, high flying rhetoric of the conservative opposition aside, the left could not be exonerated from some responsibility for the beginning of the cycle: the fact that companies were losing money. To the extent that the companies (especially those in the public sector) were

¹² J. Delors, Le Nouvel Observateur, May 1984.

asked, even by the conservatives, to perform a number of functions, the economic rationality of which was debatable, then financial losses were not totally self inflicted. If it could be demonstrated that the difficulties companies were facing were, in fact, caused by the large number of costly obligations--generally with a social purpose--they were expected to meet, then the terms of the debate would significantly be altered. As one (fired) manager argued, "the state demands too much from companies to enable them to live alone; it gives them enough to let them survive. Therein lies the logic of an administered economy."¹³

In theory, there were no "state demands." Maybe to erase the powerful image of managers of nationalized companies named after a cabinet meeting, socialist officials stated and reaffirmed their commitment to managerial autonomy. From the minister of economic planning's statement that "state owned does not mean state controlled,"¹⁴ to the industrial advisor at Matignon's contention that "the main strategy is to have no strategy, to let the managers decide what they want,"¹⁵ reassurances abounded. They were capped by the much publicized presidential warning to a minister of Industry he would eventually fire because of excessive interventionism: "the demand of a coherent industrial policy is incompatible with a meddling bureaucracy." But even official statements included a hedging line to this proclaimed "full autonomy." It had to be "compatible with the objectives of French industrial policy,"¹⁶ which, among other things, included employment and the "reconquest of domestic

¹³ A. Chalandon, "Denationaliser pourquoi?" Le Monde, July 12, 1984.

¹⁴ M. Hocard, Business Week, January 10, 1983.

¹⁵ C. Mandil, Business Week, January 10, 1983.

markets." The nationalization bill of 1982 was even more straightforward: "the mission of public companies is the achievement of the economic and social objectives of the government." If it were otherwise, one must acknowledge, the meaning of nationalizations would be completely lost. The state could not be expected to buy--at an expensive price--exclusive or majority control of major companies just to let them operate freely. Therefore, the promise of full autonomy--which even private companies had rarely enjoyed in the French system--sounded hollow from the very beginning.

Just because control was logical does not mean that it was necessarily healthy. It was definitely not healthy when some nationalized companies saw their profits confiscated so that the budget deficit could be reduced, when they were forced to use these profits to acquire politically sensitive debt-ridden businesses, or when they were required to make a profit in order to bolster the case of an embattled government before an election. Unfortunately, all these things have taken place. In 1982 banks were required to alleviate the pressure on the Treasury by using their profits to lend six billion francs (at 7 percent interest) to ailing companies. The previous year, Laurent Fabius, then budget director and now prime minister, channelled the earnings of the telecommunications sector into the general budget. In 1985 Albin Chaladon was fired by Fabius, then minister of the Industry, when he refused to spend Elf's profits to buy two money-losing chemical companies. CGE was hardly luckier; it too had to acquire a couple of lame ducks in order to save jobs. Except for contributions to the deficit, none of this of

¹⁵ P. Dreyfus, Le Point, February 22, 1982.

course, was new.

Both the state control of enterprises never quite free to manage themselves and the politically motivated expenditures of public funds to rescue unprofitable companies and stem unemployment predate the election of 1981. What nationalizations have made possible is the correlation of the two moves, the use of public industries for the purpose of achieving centrally defined societal goals. Given the context of a stagnant economy, this could not but reflect negatively on the successful image nationalizations had maintained and inflate the perception that there was not much truth in the saying that "nationalizations work."

When it came to banks, the point of knowing whether "nationalizations work" or not did not make much sense. It would have been difficult to see significant change from the addition of the last 10 percent of deposits that were outside state-owned institutions but not outside state control. Opposition leaders charged that the move had facilitated discrimination against the credit requests of private businesses crowded out of the market by the priority given to the financial needs of public companies. The criticism ignored the fact that such a complaint had repeatedly been made by small businesses in the past and was part of the litany of recriminations French patrons were ritually making including "les charges écrasantes" (high taxes) whenever they were about to lobby for a protection or for a subsidy. With respect to banks, "the change" was the absence of change. François Mitterrand himself acknowledged the fact. After having watched a report on a small company forced into bankruptcy because a nationalized bank had refused a loan, the French president reacted by noting wearily: "Private banks were doing the same

before; nationalizations have made no difference."¹⁷

What Mitterrand was saying was not entirely accurate, however. The decision to transform into public ownership the public control the state already exercised over banks introduced a politically potent issue for the opposition: the fear of "creeping nationalizations." Whenever a bank was requesting a stake in a company it would rescue, the government was accused of seeking to expand its control through its banks. The case of "Creusot Loire" demonstrates how this could lead to cynical charges. The private company had lost money in thirteen of its fourteen years of existence. When, again, it requested financial aid, the formerly private Suez Bank logically asked for an equity position in the company as a condition for help. It probably in the French system, would have done so as a private bank. Creusot Loire used the fact that Suez had been nationalized to, at first, reject any compensation for the loan equating it with "creeping nationalization." Nothing could better illustrate the bind in which the government had locked itself. Either its nationalized banks acted to protect their investments and the State was accused of economic hegemonism, or they did nothing of the kind, and it was blamed for imposing an irresponsible business attitude to its banks.

On the one hand, the politically motivated argument of "creeping nationalization" made it difficult for nationalized companies to expand. On the other hand, legal impediments against public divestitures prevented them from selling unnecessary subsidiaries as a means to

¹⁷ F. Mitterrand, "7 Sur 7" (T.V. program), January 1984.

improve their capital base, a necessary move given the difficulties the state had in coming through with its promises for funds. Without "breathing room," the public sector was threatened with a difficult survival in a closed and stagnant world. To make matters even worse, France's European neighbors, generally committed to economic liberalism, were skeptical about any close cooperation with a country known for its nationalized companies and its penchant for bureaucratically constructed industrial policies.

(IV)

In 1983 it became clear that the financial revenues of economic growth, which were expected to smooth out all the creaking mechanisms of state control, would not be forthcoming. Advocates of the "French model of development" could have blamed macroeconomic problems for the failure of nationalizations and expected that, were growth to surge, their strategy would eventually be vindicated. Most of them, however, did not choose this easy way out. Gradually the realization dawned on the left that industrial difficulties could not simply be ascribed to a sluggish pace of economic growth. The mixture of centralization, voluntarism, and bigness which for so long characterized the "French model" of development and pulled the country out of oblivion had finally met its limits.

Reacting to what it perceived to be the latest stalemate in French society, a "new" ideology invaded political speeches and flooded economic analysis. French elites competed with one another in the quest for the mantle of thoroughbred liberalism. Economic Darwinism, whose

chilly winds were supposed to rejuvenate a stagnant society, was dutifully advocated; denationalization became a synonym of courage, functionalization a symbol of cowardice. Beyond the clutter, something significant was happening. Economically, state intervention had not succeeded; ideologically, it was collapsing. French socialists were paying the price of their mistakes. Three of them can be easily identified. Each one compounded the other, any one of them would have sufficed to sink the strategy of 1981.

In the 1950s and 1960s economic modernization meant the displacement of farmers and small shopkeepers; in the 1980s it implied the shedding of labor in traditional industries. During the 1950s and 1960s the political right was in power; in the 1980s, the left was. In each case, the ruling coalition had to modernize against its social base. But, whereas the first modernization took place with the twin advantages of a booming economic growth and an industrial backwardness mapping the way to the future, the current transformation lacks both these assets. Now nothing smooths the transition, little indicates where it will lead, and the oppositions are substantial. This much the left could have anticipated even before it began to stumble. Given that, from the very onset, a policy of stringent protectionism was rejected, the necessary adjustments to an environment of international competition could neither be prevented nor postponed. It was wishful thinking to expect that they would not involve pain. If they did, as they did, political wisdom pointed to the necessity of keeping the hand, closing plants and laying off workers invisible. Instead, the left transformed every industrial choice into a public issue, a subject for open debate even though the outcome of this discussion was known long before it had started.

Nationalizations may have been candid insofar as they disclosed the--somewhat hidden beforehand--magnitude of the state control over the economy. In troubled economic times, that type of candor is hardly politically shrewd.

The second mistake has to do with the issue of an unsteady control. Increasing governmental supervision of the economy was certainly bad politics, although it could conceivably have been good economics. But, then, the government had to know what it wanted instead of swinging from one priority to another when it was not simultaneously asserting contradictory objectives. In three years, France was given five ministers of Industry and at least three different policies. One day, unemployment was the target, and inflation the price to pay to reduce it; another day, the fight against inflation became the number one priority and rising unemployment an accepted risk. One day, businesses have their prices frozen and the Treasury making up for lost revenues; another day, reducing taxes becomes the objective, and, to slash budget subsidies, companies are allowed to charge their real costs. One day, failures are blamed on foot dragging--when simply not sabotage--by the business community; another day, the culprit becomes a "meddlesome bureaucracy" stifling managerial initiatives.

No policy, no matter how competent its implementers, would have resisted this indecisive leadership, this succession of shifts. This was all the more the case because, no matter what it did, the French left, suspected by its conservative opposition of being inept at handling the economy, had to constantly convey the impression that it was logical in its approach and consistent in its strategy. Put to such a

test past conservative governments would not have faced very well. Fortunately for them, their economic competence was often more a matter of trust than one of record. The Mitterrand administration would not be so fortunate and, to that extent, any mistake it did or shift it undertook quickly became magnified. The so-called conversion of French socialists to supply-side economics was therefore bound to significantly erode their credibility -- a lot more, at any rate, than would former Prime Minister Raymond Barre's economic "liberalism" be derided after a de-facto nationalization of the steel industry or, in another country, a conservative president be weakened by an economic recovery generated and sustained by the public deficits he once vowed to eliminate before he actually quadrupled them. Instead of a lopsided scrutiny, had such a leniency been applied to French socialists, their policy and their contradictions would have met with more understanding.

The third mistake we wish to identify relates to the understanding socialists had of what was to be their industrial goals, insofar as some of them have remained constant. The emphasis on bigness and the attempt to imitate a misunderstood Japanese industrial strategy immediately come to mind. If one has been corrected, the other has yet to be recognized. Clinging to a vision of industry borrowed from "Modern Times," the French left, and the right before it, have long equated modernity and bigness, cottage industry and survival of the past. Today, we can conceptually grasp why this is not necessarily the case.¹⁸ But statistics speak louder than insights. Since 1974, in terms of job creation,

¹⁸ Sabel, The Division of Labor, Cambridge University Press, 1982.

growth, profitability, and investments, small and medium-sized companies have consistently outperformed larger units.¹⁹ They adjust better, and they appear--and disappear--faster. The lessons are unambiguous and demonstrate that no unemployment policy will succeed without small businesses hiring the surplus labor shed by larger companies. Either the government will have to encourage the creation of small businesses, or it will be required to take into account what has made them successful and expand the cottage model of management to big units. Given that this model includes a number of characteristics anathema to labor unions (lower pay, lesser job stability) such a choice could involve a significant cost for the left. Simply put, compounding the transition from "traditional" to "modern," the shift from big to small would seriously undermine the already narrow electoral base of the left. The temptation of bigness therefore remains, and with it the usual tendency of the French bureaucracy to nationalize along the lines "one skill per company, one company per industry." This would supposedly structure French industry in such a way to make it internationally competitive. Single national "champions" such as "Telecommunications de France" (OTE), "Electronique de France" (Thomson) were set up as there already was one "Electricite de France." Wasn't that the lesson of the Japanese experience? Unfortunately the French left in our view misread the Japanese experience. They saw a very similar set of administrative and financial institutions. They noted extensive set intervention in pursuit of economic development and industrial competitiveness. The conclusion that they drew was that the tactics the Japanese used were similar in

¹⁹ M. Delattre, Economie et Statistique, October 1982.

character to the tactics that the French state had employed. When the French state had intervened in the Gaullist years in pursuit of detailed objectives it had used administrative power to shape a series of national champions, one or at most two French companies in a sector that could be internationally competitive. The champion would be protected at home to be competitive abroad. The core of the notion was to use political power to OVERRIDE market developments and push them in a different direction. The Japanese in fact used internal competition, a form of controlled competition, as a policy instrument. They shaped and structured the domestic competition and used international market signals to guide their choices. The Japanese tried to ride with the market, to navigate the waters of competition. The contrast in tactics could not have been greater.

CONCLUSION

The failure of the socialist industrial strategy did not only leave open to challenge the structural transformations they had enacted; it threatened the very existence of an interventionist economic policy which had merely been dramatized by the additional nationalizations of 1982. Today, France is the scene of a keen competition for the crown of "most dedicated liberal." Socialists, including François Mitterrand himself, have joined the fray looking for ways "to rid France of this interventionism Frenchmen live with since their very birth."²⁰ Still the competition mostly opposes conservative leaders each of whom wants to be

²⁰ F. Mitterrand, Liberation, May 10, 1984.

seen as the greatest "denationalizer."

From the minimalist position advocating the sole denationalization of the banks acquired in 1982 to the maximalist stand of those who, at last count, wanted to privatize the unemployment agency, the gap is significant. The debate, however, is not particularly enlightening, as it carefully avoids the major issues which will have to be addressed. For instance, who will purchase these companies sold by the state? Either they continue to lose money, and then public opinion presses for the sale but no buyer volunteers, or they start to make profits, in which case buyers are found but the public no longer wants to sell. In other words, unless conservatives elaborate their position, French voters are unlikely to be persuaded by a platform according to which will be sold what works and kept what does not.

There should also be a lot of skepticism regarding the conservative theory now equating economic crisis to an excess of state intervention stifling the activities of private businesses.²¹ In France, rather than preventing entrepreneurial initiative by its action, the state has often intervened to compensate the absence of such initiatives. The unpopularity of socialist economic policies may be warranted, but it should not be such that it allows analyses which bear little relation to the facts made plain by history.

When conservatives were in power, the French left was embroiled in ideological and often esoteric economic arguments. They did not help when 1981 came and, with it, the responsibility to actually manage the

²¹ J. Chirac, Le Figaro Magazine, April 14, 1984, p. 105.

economy. Now that the left is governing the country, conservatives seem to have occupied the ground of ideological futility. Talks of denationalization have replaced discussions of increased state control. But, today like before, the same deafening silence strikes whomever wants to shift the terms of debate from the form to the substance. Unfortunately, structural religiosity is a poor substitute for an informed discussion on the objectives of French industrial policy.